

CKGSB BCI

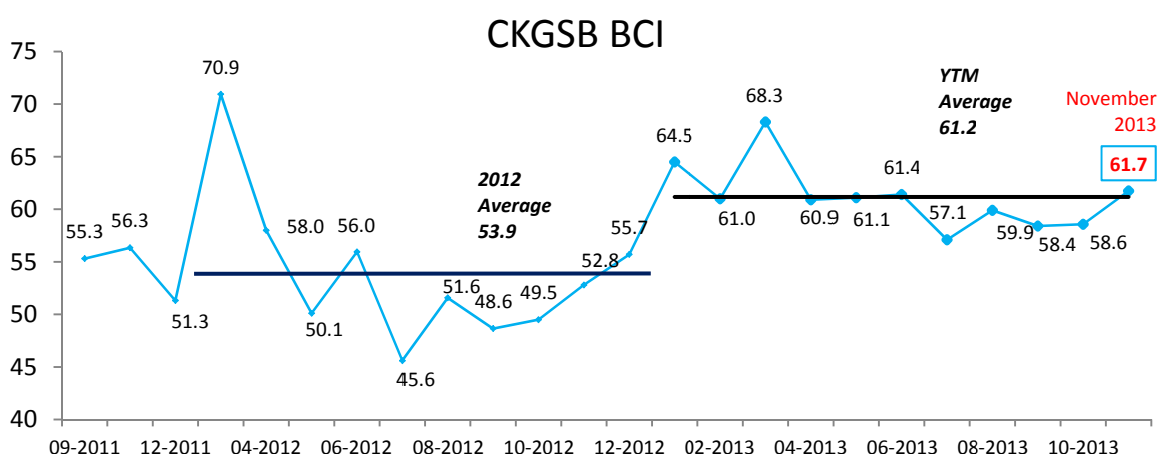
November 2013

27 November 2013

CKGSB Case Center and Center for Economic Research

The CKGSB Business Conditions Index for November 2013 shows a positive reading of 61.7, which is 3 points higher than last month's figure of 58.6 (see Graph 1). As 50 is the threshold between a positive and negative outlook, the 2013 average of 61.2 (7.3 points higher than this time last year), demonstrates that most of our sample of comparatively successful business leaders is optimistic about conditions for business over the next six months, and that overall macro-economic conditions in China have stabilized.

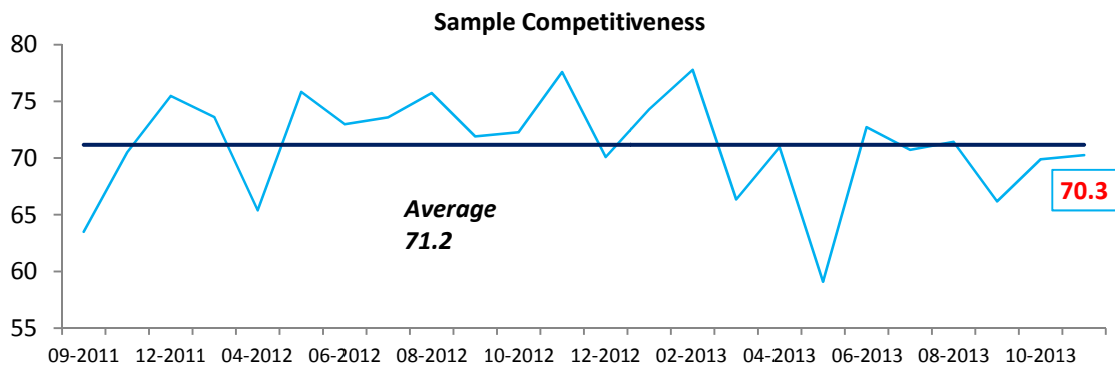
Graph 1



Source: CKGSB Case Center and Center for Economic Research

The CKGSB Business Conditions Index is generated wholly on the basis of statistics gathered from leading enterprises whose executives have studied or are studying at Cheung Kong Graduate School of Business. In the questionnaire we ask respondents to indicate whether their firm is more, the same, or less, competitive than the industry average, and from this we derive a sample competitiveness index (see Graph 2). Consequently, as our sample firms are in a relatively strong competitive position in their respective industries, the CKGSB BCI indices are higher than government and industry PMI indices. Users of the CKGSB BCI index may therefore focus on data changes over time to forecast trends in the Chinese economy.

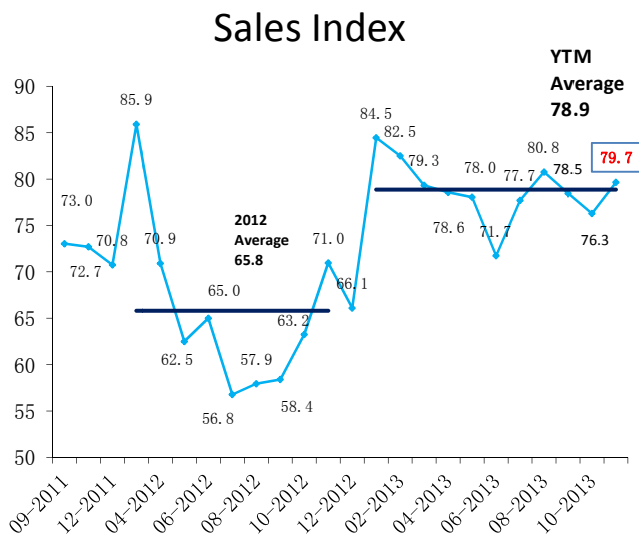
Graph 2



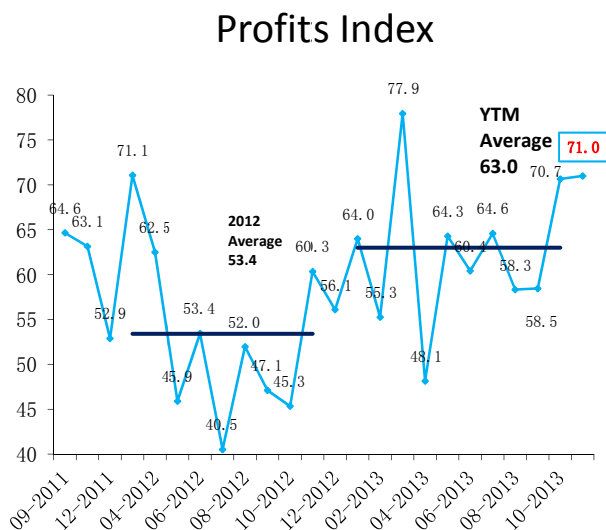
Source: CKGSB Case Center and Center for Economic Research

The CKGSB BCI comprises four sub-indices that are forwarding-looking indicators for corporate sales, corporate profits, corporate financing environment, and inventory levels.

Graph 3

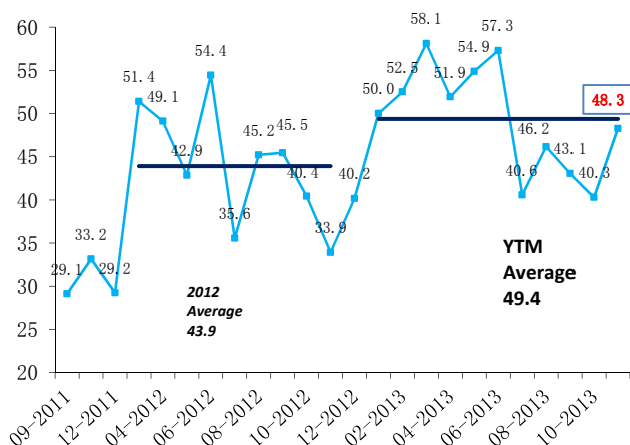


Graph 4



Graph 5

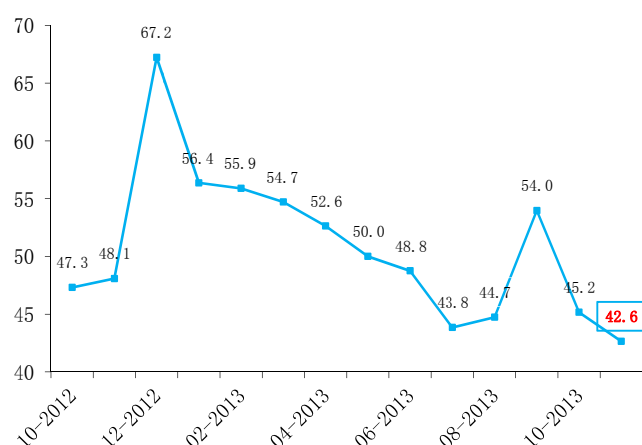
Corporate Financing Index



Source: CKGSB Case Center and Center for Economic Research

Graph 6

Inventory Index



Source: CKGSB Case Center and Center for Economic Research

The corporate sales index rose 3.4 points from 76.3 to 79.7 (see Graph 3). However, because cost pressures are comparatively high, the expectation of higher sales has only led to an increase in the corporate profit index of 0.3 points to 71.0 (see Graph 4), already a high index reading. Together these two indices show that firms are comparatively optimistic about business prospects over the next six months.

The corporate financing environment index reads 48.3 in November which is under the confidence threshold of 50 but 8 points higher than last year (see Graph 5), indicating that our sample believes the next half a year will see improvement in financing opportunities. Positive expectations for finance reforms stemming from the government's recent Third Plenum meeting are not unrelated to this reading. As the majority of our sample run private firms, this mainly reflects financing in the non-state sector.

The index measuring inventory levels registered 42.6 in November, reflecting manufacturing firms' larger inventories compared with the same time last year and continuing on last month's negative trajectory (See Graph 6).

Besides the main BCI indices, we also surveyed respondents on forecasted costs, prices, investment plans and employment conditions, to form a supplementary set of indices.

In October, costs rose considerably for the majority of our sample companies. The labor cost index increased from 84.4 to 91.1 while the overall cost index decreased from 83.5 to 80.9 (see Graph 7). With both costs indices at a high level, it appears that the majority of sample firms anticipate costs rising on last year.

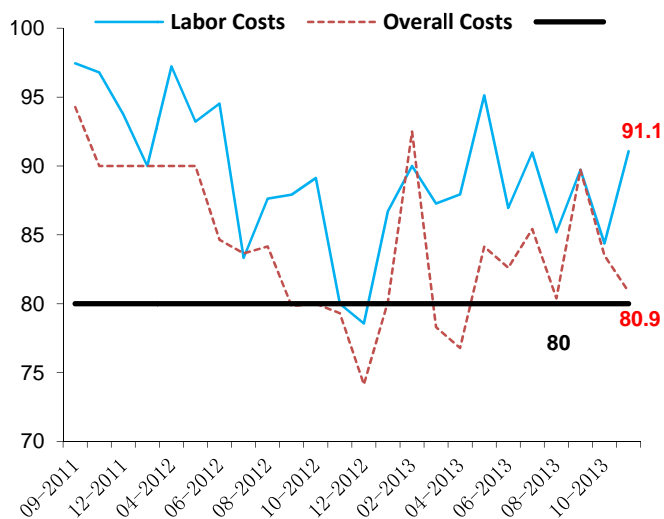
The prices indices widened their exposure in October (see Graph 8), with the consumer prices

index rising 9.8 points from 63.2 to 73.0 (See Graph 8). The producer prices index rose 12.4 points to 47.4, a reduction in exposure on last month. Despite this exposure narrowing, the rebound in producer prices has given rise to the possibility of export inflation next month.

The corporate investment demand index registers 71.5, which is slightly higher than last month's figure. This shows that the majority of firms sampled plans to invest in fixed assets within the next six months (see Graph 9).

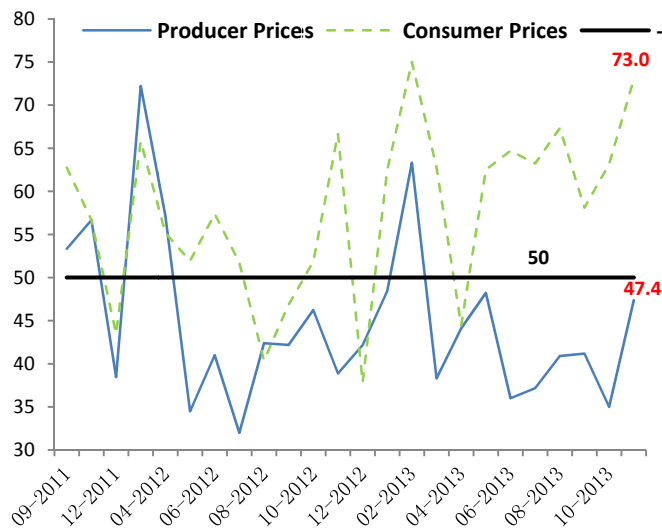
In terms of labor demand, the index registered 71.3 (see Graph 10). This shows that a majority of companies aims to expand their workforces in the next six months. However, because of the high cost of labor, it is likely that either corporate profit will be squeezed or costs will be passed on in the form of export inflation.

Graph 7



Source: CKGSB Case Center and Center for Economic Research

Graph 8



Source: CKGSB Case Center and Center for Economic Research

Overall, China's macroeconomic conditions are on course to become increasingly stable. However, high manufacturing costs and the possibility that these costs will be passed on to consumers via price increases are risks that will impact on people's livelihoods. Moreover, long term obstacles faced by small companies in obtaining financing, and the slow progress made by those dealing with inventory excesses remain challenges on the route to economic reform. While the Chinese government's recent Third Plenary Session offers hope for the policy reform agenda, this index shows that national macroeconomic restructuring still has a long way to go.

Notes:

CKGSB BCI Introduction

In June 2011, CKGSB Case Center and Center for Economic Research initiated a project to gauge the business sentiment of executives about the macro-economic environment in China – called an index of business conditions.

Under the direction of Professor Li Wei, in July 2011, the two research centers designed and tested the BCI survey. In September 2011, the first surveys were distributed and results computed. Since May 2012, the research team has published monthly BCI survey reports.

Explanation of the Index

The CKGSB Business Conditions Index (CKBCI) is a set of forward-looking, diffusion indices. The index takes 50 as its threshold, so an index value above 50 means that the variable that the index measures is expected to increase, while an index value below 50 means that the variable is expected to fall. The CKGSB BCI thus uses the same methodology as the PMI index.

The survey asks senior executives of companies whether their main products are for consumers or non-consumers, and then asks how they think product prices will change in the next six months. Based on survey responses, we have been able to report expectant changes in consumer and producer prices.

We ask companies for information pertaining to their relative competitive positions in their respective industries. Based on survey responses, we compute a competitiveness index for our sample. The higher the competitiveness index, the more competitive our sample firms are in their respective industries.

Method of Calculation

During each survey, respondents are asked to indicate whether certain aspects of their business (e.g., sales) are expected to increase, remain unchanged, or decrease over the forthcoming six months as compared to the same time period last year. The diffusion index is calculated by summing the percentage of "increase" responses and half of the "remain unchanged" responses.

Of all the indices measured for the CKGSB BCI, the overall business conditions index is an aggregate index, which has been calculated, since December 2012, by averaging its four constituent indices of sales, profit, financing environment and inventory. The aggregate BCI index before December 2012 uses a different composition of constituent indices, and is therefore not directly comparable to the current BCI index.



About Cheung Kong Graduate School of Business

Education for a New Era of Global Business

Established in Beijing in November, 2002 with generous support from the Li Ka Shing Foundation, CKGSB is a private, non-profit, independent educational institution and the only business school in China with faculty governance. The school offers innovative MBA, Finance MBA, Executive MBA and Executive Education programs. In addition to its main campus in the center of Beijing, it has campuses in Shanghai and Shenzhen and offices in Hong Kong, London and New York.

Thought Leaders on Business in China

CKGSB faculty, through their on-the-ground research and close relationships with leading domestic executives, provide global thought leadership on both the theory and the practical reality of real-life business in China. They consistently generate important insights into areas that are poorly understood outside of China, such as the globalization strategies of Chinese companies and competition and collaboration among state-owned enterprises, private businesses and multinationals.

World-Class Faculty with a Global Perspective

CKGSB is the only business school in China with the reputation and resources to attract faculty from top business schools such as Wharton, Stanford, NYU, and INSEAD. The majority of CKGSB faculty members were born and raised in China before leaving to study and teach abroad. Their bicultural backgrounds have endowed them with a valuable capacity to interpret global business in the context of both China and the West.

Disclaimer

This report is based on public information and field research carried out by CKGSB Case Center and CKGSB Center for Economic Research. Sources of these data are deemed reliable, but the two Centers do not guarantee their accuracy and completeness. Opinions expressed in this report reflect only the judgment of the researchers in the two Centers on the day when the report is released, and are subject to change without prior notice. CKGSB holds no liability for any loss that might be brought about by using this report. Readers are advised to use their own discretion and to consider whether any comment or suggestion given in this report is suitable for their personal situation.

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