

CKGSB BCI

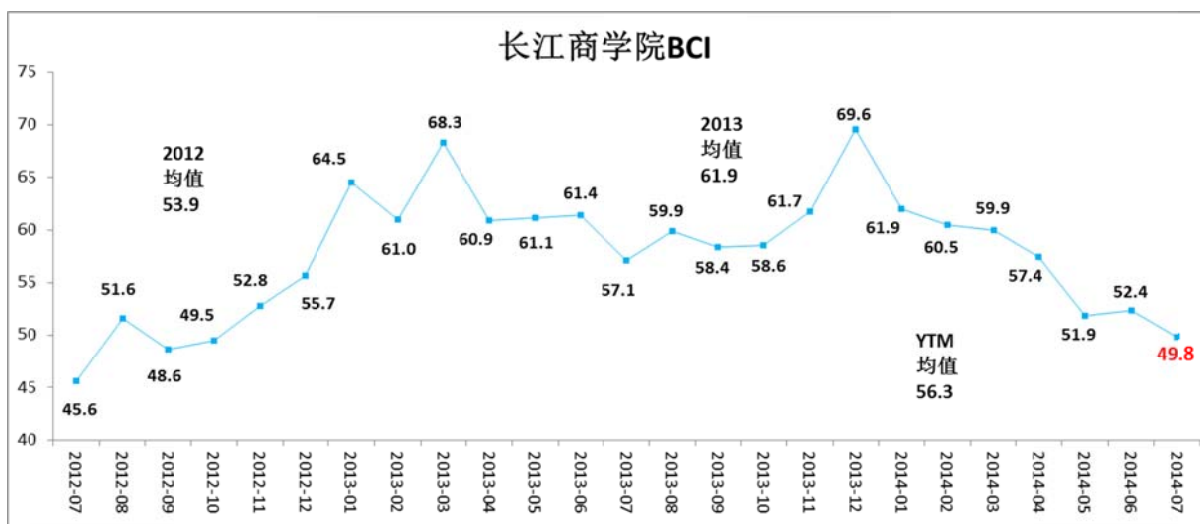
July 2014

28 July 2014

CKGSB Case Center and Center for Economic Research

The CKGSB Business Conditions Index reads 49.8 in July, lower than June's index and below the confidence threshold of 50 (Graph 1). This shows that our sample of comparatively successful business leaders is feeling pressure from the macroeconomic environment, and business operations face challenges and difficulties going forward.

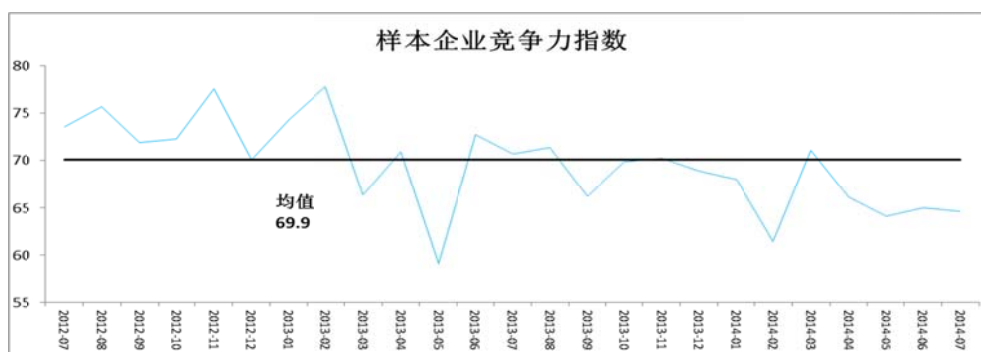
Graph 1



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 (50), and from this we derive a sample competitiveness index (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.

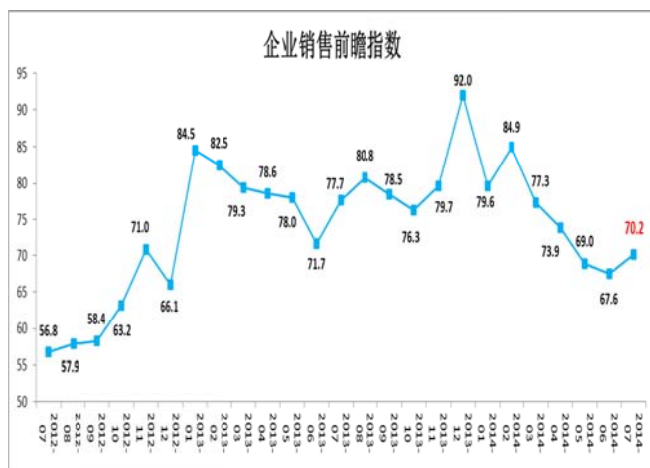
Graph 2. Industry Competitiveness



Source: CKGSB Case Center and Center for Economic Research

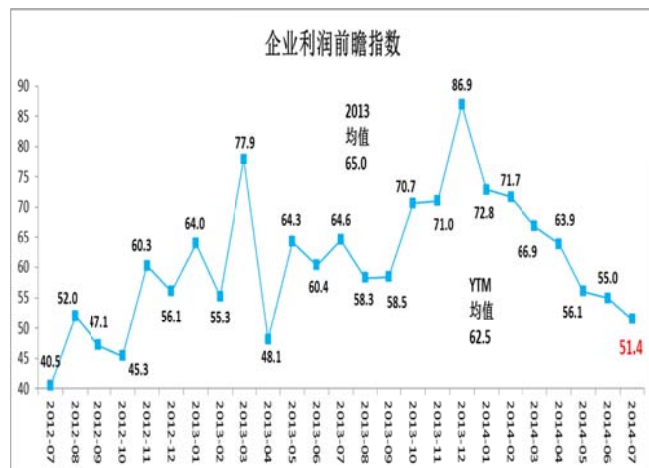
The CKGSB BCI comprises four sub-indices that are forwarding-looking indicators for corporate sales, corporate profits, corporate financing environment, and inventory levels.

Graph 3. Sales



Source: CKGSB Case Center and Center for Economic Research

Graph 4. Profit



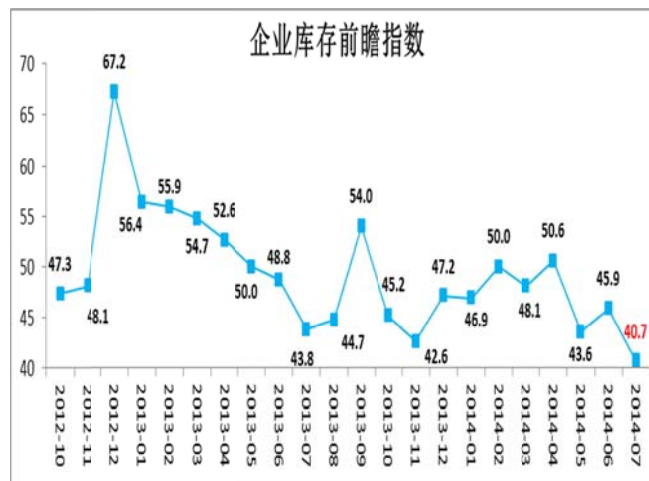
Source: CKGSB Case Center and Center for Economic Research

Graph 5. Financing



Source: CKGSB Case Center and Center for Economic Research

Graph 6. Inventory



Source: CKGSB Case Center and Center for Economic Research

The corporate sales index registers 70.2, slightly up on last month (Graph 3), and the profit index registers 51.4, slightly lower than last month's 55 (Graph 4). Both currently register higher than 50, showing a degree of optimism about prospects over the next six months. Although the sales index has risen, the downward trend for profits indicates the impact of pressure from financing, inventory and costs and the continuing need to improve access to financing.

The corporate financing environment index reads 36.7 in July following an index of 38.6 in June (Graph 5), well below the confidence threshold. This indicates that the financing outlook for the next six months is not good compared with last year. As the majority of our sample run private firms (especially SMEs), this mainly largely

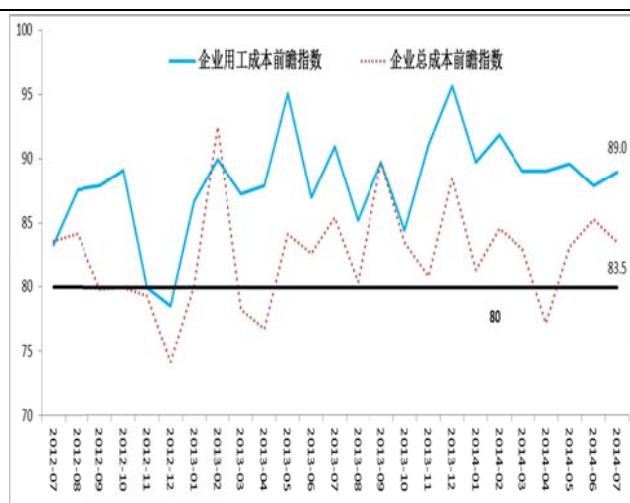
reflects financing issues in the private sector. This deterioration of financing conditions makes company transformation and operational efficiency even more of a challenge.

The index measuring inventory levels registered 40.7 which is lower than last month's index of 45.9 and under the confidence threshold (Graph 6). In fact, the inventory backlog over the last two years has been caused by over-investment, and has still not improved to any significant degree. Inventory levels will continue to be of concern.

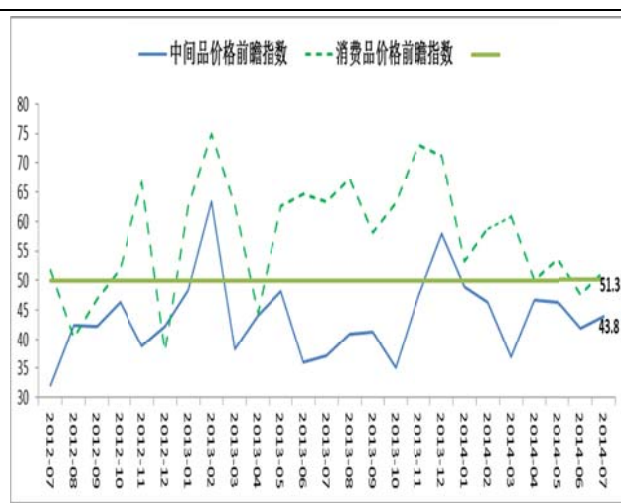
Besides the main indices, we also surveyed respondents on forecasted costs, prices, investment plans and employment conditions, to form a supplementary set of indices.

In June, labor costs and overall costs registered indices of 89 and 83.5 respectively (Graph 7), both at a high level. These two costs indices are predictions of change in the upcoming six months, and show that the majority of sample firms expect costs to increase compared with this time last year.

The consumer prices index registered 51.3 in July (Graph 8) and producer prices registered 43.8, up from June's figure of 41.6. From the reduction in volatility since the beginning of 2014, it appears that domestic Chinese prices have stabilized, and the downward trajectory of producer prices has slowed.

Graph 7. Labor costs and overall costs


Source: CKGSB Case Center and Center for Economic Research

Graph 8. Producer prices and consumer prices


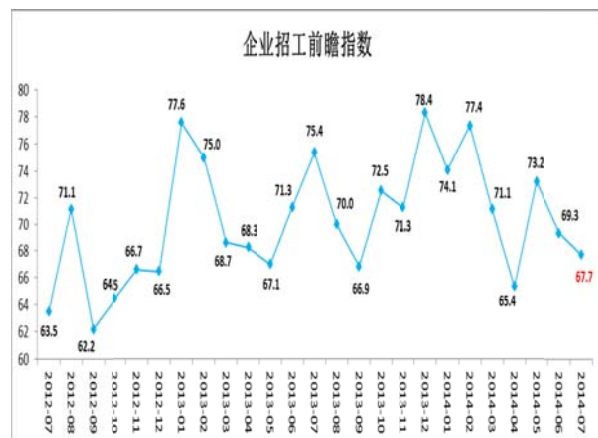
Source: CKGSB Case Center and Center for Economic Research

The corporate investment demand index rose from 69.1 to 73.6 in July (Graph 9), above the threshold of 50. This index shows that the majority of sampled firms still plan to invest in fixed assets in the next six months. The upward trend for investment has been positively influenced by macroeconomic policy changes. However, given slowing profits, the output efficiency of investments must be taken seriously.

In terms of labor demand, the June index is at 67.7, up from June's index of 69.3 (Graph 10). This shows that a majority of companies sampled aims to expand their workforce in the next six months. Investment and labor are important factors in the composition of output from these two optimistic indices' perspective. However, maintaining economic efficiency is the main focus of a smooth transition.

Graph 9. Investment


Source: CKGSB Case Center and Center for Economic Research

Graph 10. Labor demand


Source: CKGSB Case Center and Center for Economic Research

The 2014 forecast of China's macroeconomic conditions has continued to deteriorate. Financing troubles, an inability to reduce inventory levels and stubbornly high costs present a huge challenge to operational efficiency among China's private businesses. Companies should prepare for tough times ahead, accelerate business transformations and be ready to react to economic policies being implemented this year.

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.

The Research Team

Wei Li

CKGSB Economics Professor

Director, CKGSB Case Center and Center for Economic Research

+86 10 8518 8858 ext.3235

wli@ckgsb.edu.cn

Yi Zhou

Assistant Director, CKGSB Case Center and Center for Economic Research

+86 10 8518 8858 ext. 3915

yzhou@ckgsb.edu.cn

Chongqing Gu

Senior Researcher, CKGSB Case Center and Center for Economic Research

+86 10 8518 8858 ext. 3336

cqgu@ckgsb.edu.cn

Yan Yang

Senior Researcher, CKGSB Case Center and Center for Economic Research

+86 10 8518 8858 ext. 8479

cqgu@ckgsb.edu.cn

Guchuan Yang

Assistant Researcher, CKGSB Case Center and Center for Economic Research

+86 10 8518 8858 ext. 3318

gcyang@ckgsb.edu.cn

Heather Mowbray

Researcher, CKGSB Case Center and Center for Economic Research

+86 10 8518 8858 ext. 3716

heathermowbray@ckgsb.edu.cn