

CKGSB BCI

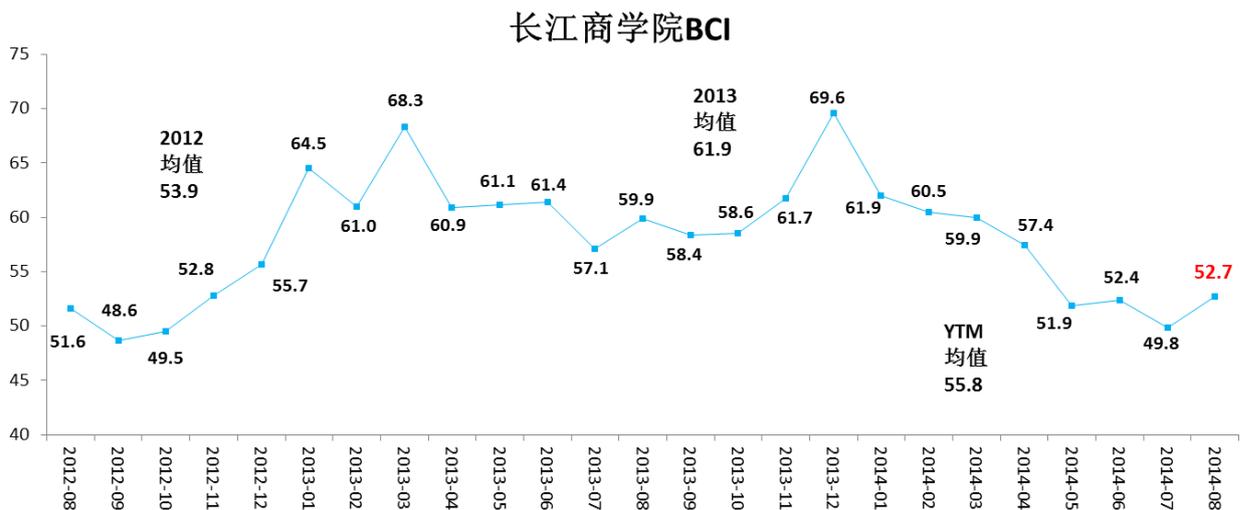
August 2014

21 August 2014

CKGSB Case Center and Center for Economic Research

The CKGSB Business Conditions Index reads 52.7 in August, higher than last month and above the confidence threshold of 50 (Graph 1). This shows that our sample of comparatively successful business leaders is feeling relatively positive about the macroeconomic environment. However, this year's overall downward trend shows that firms are feeling pressure and operational challenges and difficulties remain.

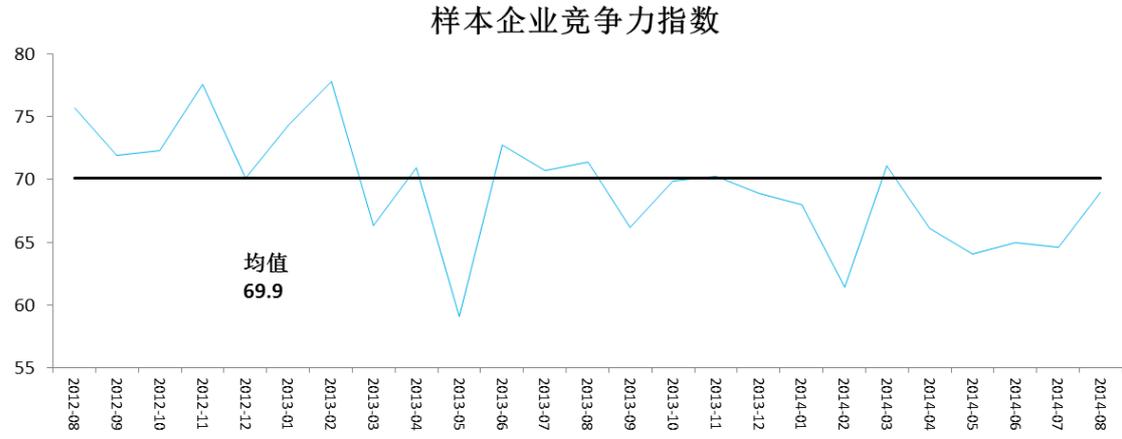
Graph 1



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.

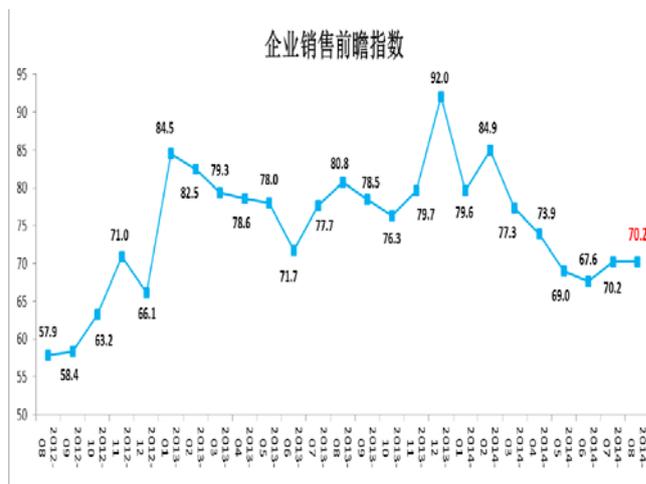
Graph 2. Industry Competitiveness



Source: CKGSB Case Center and Center for Economic Research

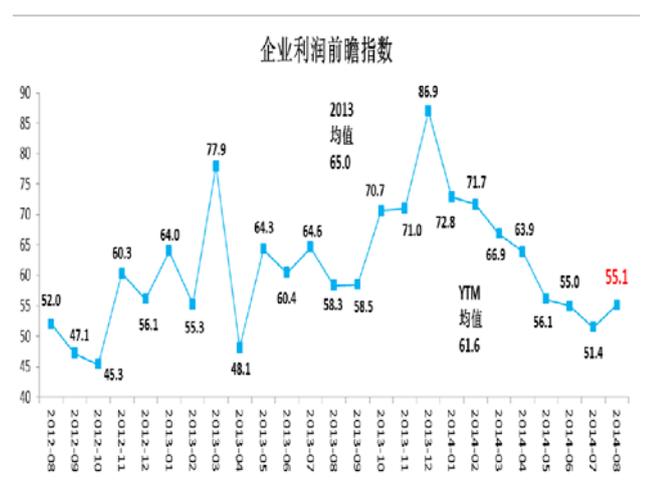
The CKGSB BCI comprises four sub-indices that are forwarding-looking indicators for corporate sales, corporate profits, corporate financing environment, and inventory levels.

Graph 3. Sales

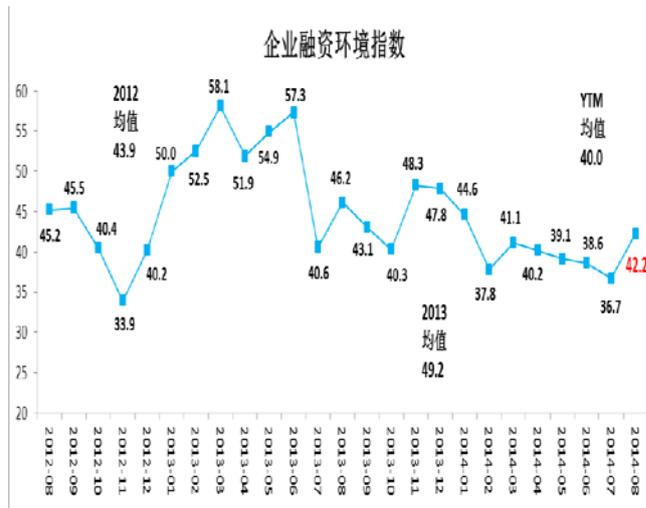


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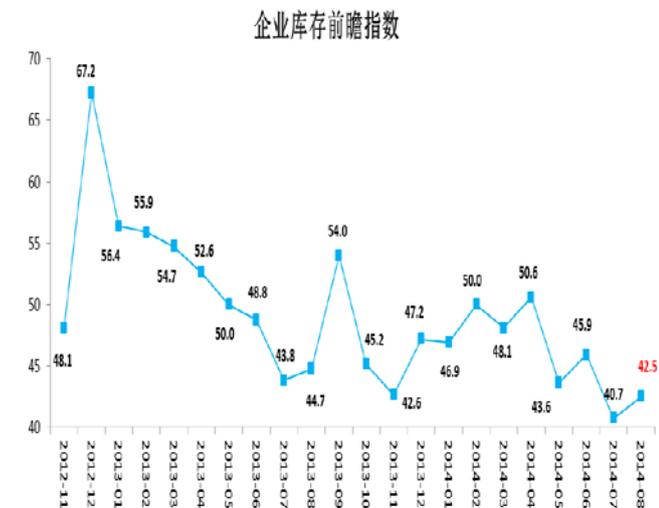
Graph 4. Profit



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, the same as last month (Graph 3), and the profit index registers 51.1, slightly higher than last month (Graph 4). Both currently register higher than 50, showing a degree of optimism about prospects over the next six months. While sales expectations have stabilized, profits continue to be put under pressure by financing, inventory and cost concerns, and although this month has seen an upturn in the profits index, it is too early to say how this should be read.

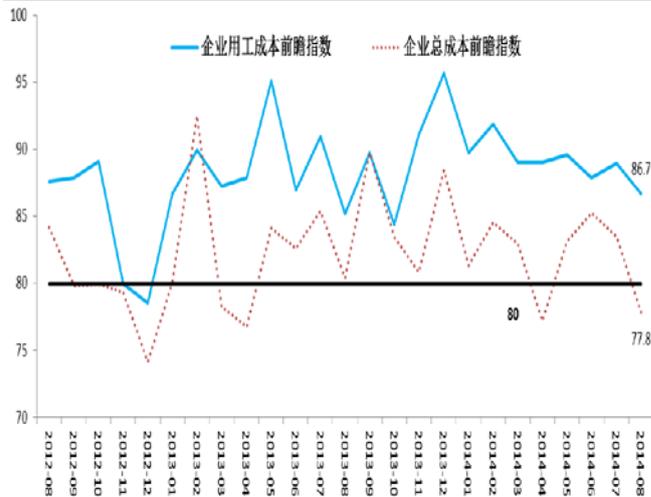
The corporate financing environment index reads 42.2 in August, following an index of 36.7 in July (Graph 5), well below the confidence threshold. This indicates that compared with the same period last year, the financing outlook for the next six months is not good. Since the majority of our sample are private firms (especially SMEs), our data show that firms in the private sector face particularly challenging financing and operational pressures.

The index measuring inventory levels registered 42.5 which is a little higher than last month's index of 40.7 but still well 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. High inventory levels will continue to be of concern.

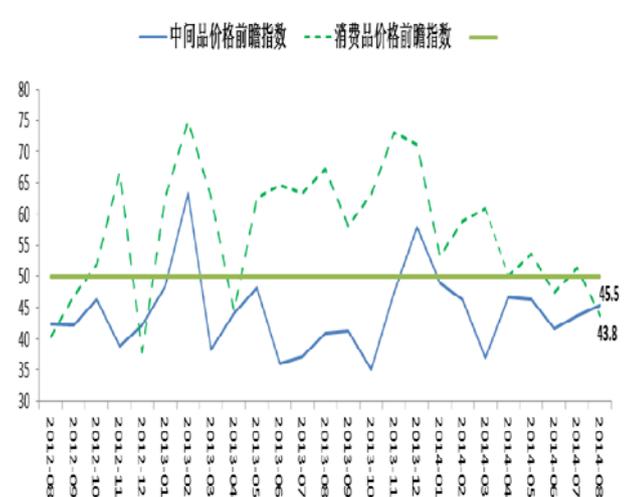
Besides the main indices, we also surveyed respondents on forecasted costs, prices, investment plans and employment conditions, to form a supplementary set of indices.

In August, labor costs and overall costs registered indices of 77.8 and 86.7 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 43.8 in August from 51.3 in July (Graph 8) and producer prices registered 45.5, up from July's figure of 43.8. From the reduction in volatility since the beginning of 2014, it appears that domestic price levels are stabilizing, and the fall in producer prices will become more moderate.

Graph 7. Labor costs and overall costs


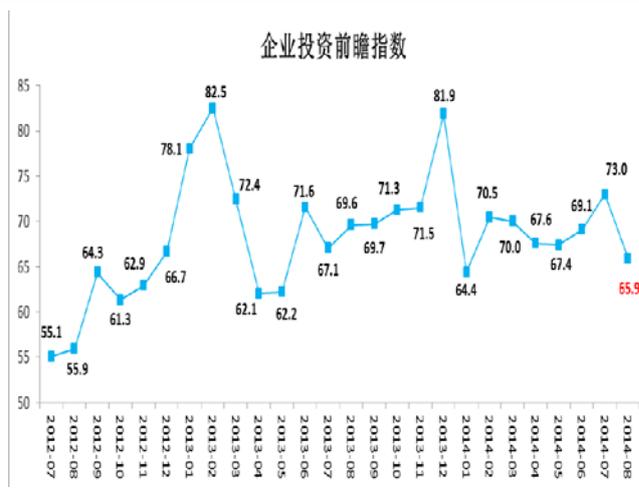
Source: CKGSB Case Center and Center for Economic Research

Graph 8. Producer prices and consumer prices


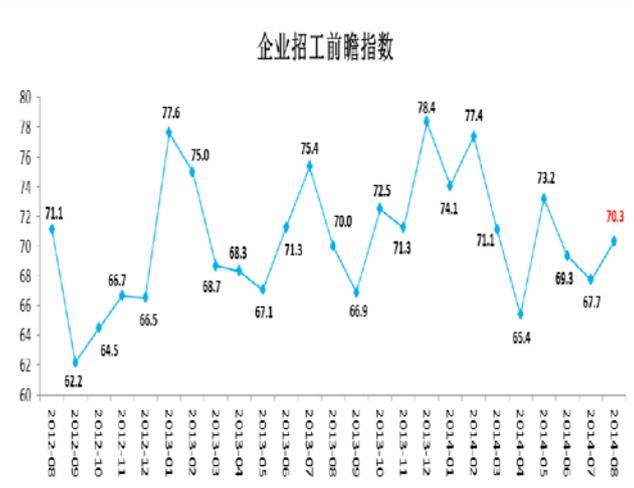
Source: CKGSB Case Center and Center for Economic Research

The corporate investment demand index fell to 65.9 in August from 73 in July (Graph 9), registering above the confidence threshold of 50. This index shows that the majority of sampled firms still plan to invest in fixed assets in the next six months.

In terms of labor demand, the August index is at 70.3, up from July's index of 67.7 (Graph 10). This shows that a majority of companies sampled aims to expand their workforce in the next six months. Corporate investment and labor demand indices are important factors in production output and optimism here shows that while increasing output levels has an important role in growing the economy, a smooth transition will rely more on economic efficiency.

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

Overall, the 2014 business forecast of China's macroeconomic conditions has continued to deteriorate. Financing troubles, an inability to reduce inventory levels and stubbornly high costs continue to present a huge challenge to operational efficiency for China's private businesses. Companies should actively prepare for tough times ahead, increase production efficiency and consumer services transformations, respond to trends when making investments,

make contingency plans for operational risks, and be ready to react to the government's new economic policies as they are implemented.

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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