

CKGSB BCI

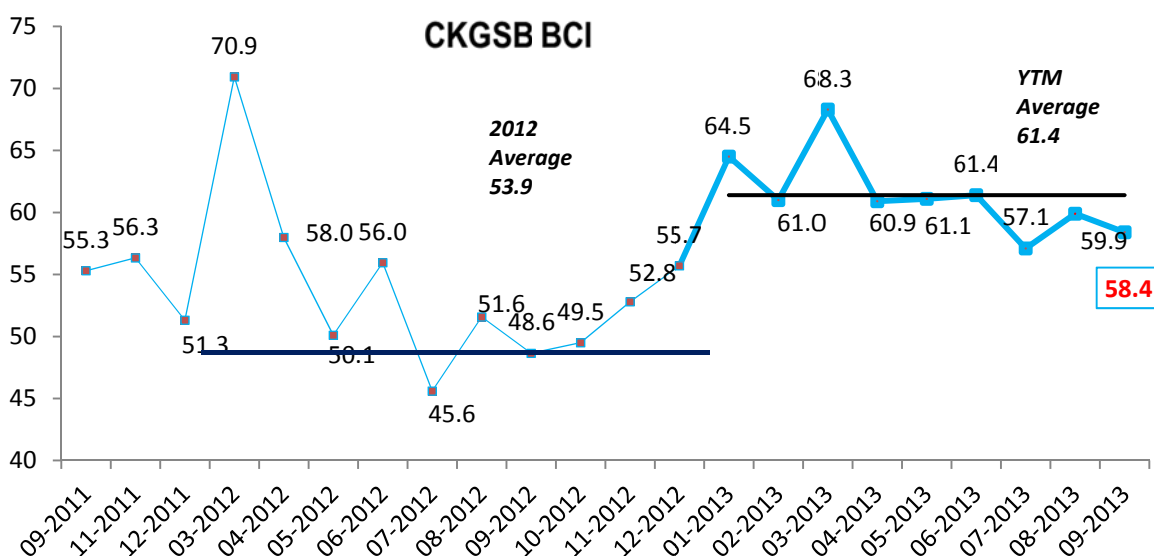
September 2013

1 October 2013

CKGSB Case Center and Center for Economic Research

The CKGSB Business Conditions Composite Index for September 2013, reporting 58.4, fell slightly on August's reading of 59.9 (see Graph 1). Since 50 is the threshold between a positive and negative outlook, the recent index of nearly 60 and 2013 average of 61.4 (8 points higher than the same time last year), shows that the majority of our sample of comparatively successful business leaders operating in China remain optimistic about business conditions over the next six months, and despite a slight fall in the index value, China is expected to maintain its modest growth.

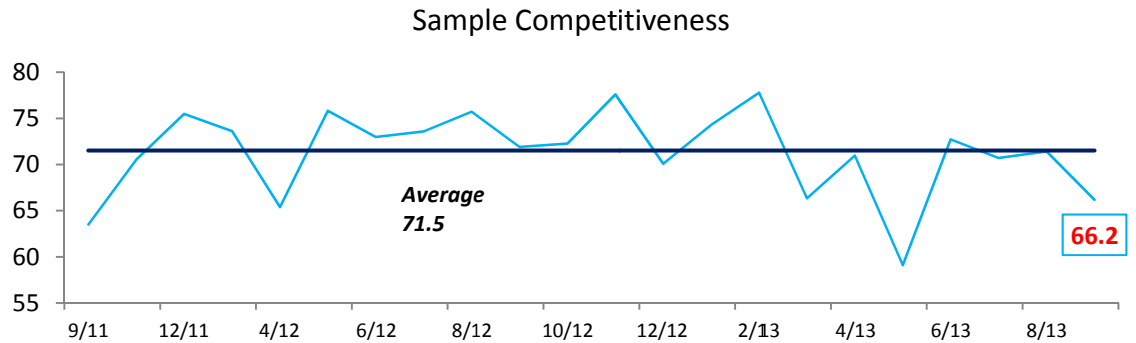
Graph 1



Source: CKGSB Case Center and Center for Economic Research

It is important to note that 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 help them forecast trends in the Chinese economy.

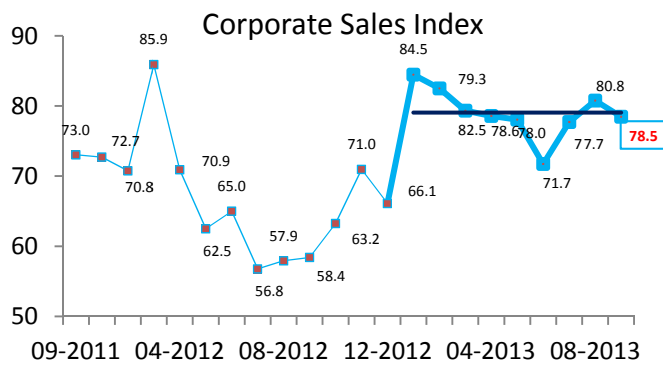
Graph 2



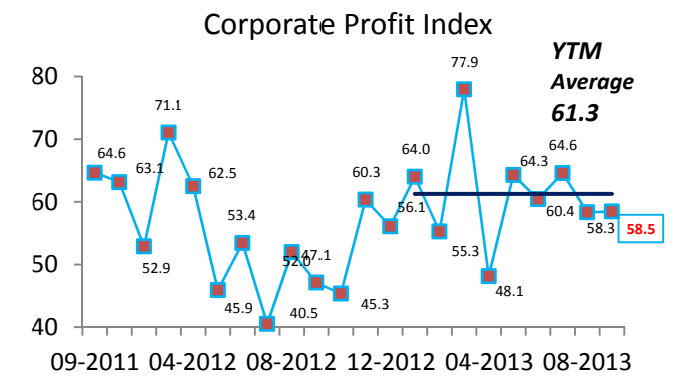
Source: CKGSB Case Center and Center for Economic Research

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

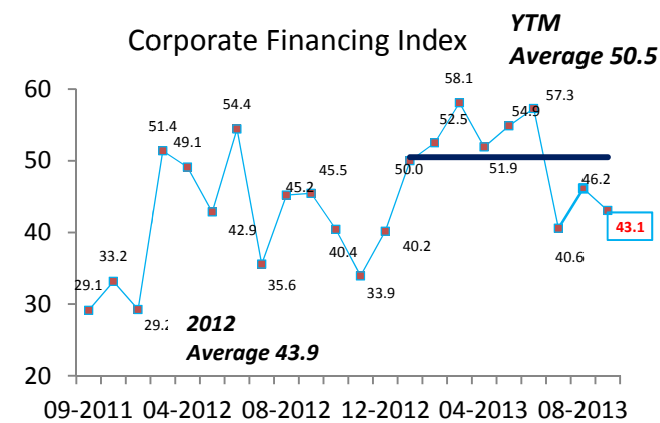
Graph 3



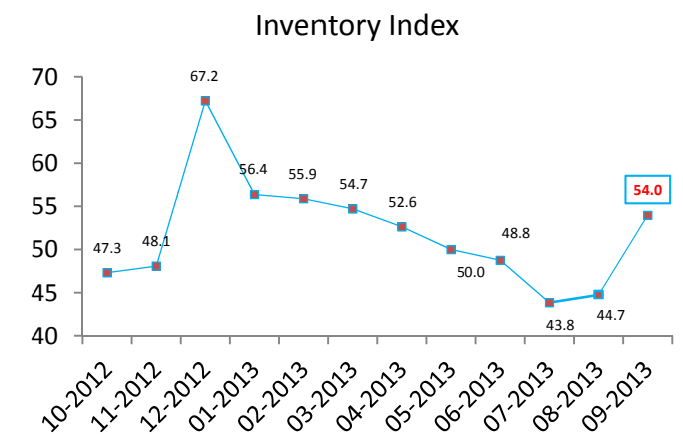
Graph 4



Graph 5



Graph 6



Source: CKGSB Case Center and Center for Economic Research

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The corporate sales index remains high at 78.5 despite a drop of 2.3 points on last month's index of 80.8 (see Graph 3). This year's rebound for this index over the summer came to an end in

September. The corporate profit index is 58.5, basically remaining the same as last month (see Graph 4). These two indices show that firms are not pessimistic about prospects for the next six months.

The corporate financing environment index has fallen from 46.2 to 43.1 (see Graph 5), making it the third month this index has registered a figure under the confidence threshold of 50. This indicates that the majority of our sampled companies still face financing issues. As the majority of our sample comes from private firms, this mainly reflects the financing situation for the private sector.

The index measuring inventory levels has risen from 44.7 to 54.0, crossing the confidence threshold. As CKGSB BCI sample companies this month work mainly in industries such as sales, telecommunications and pharmaceuticals with good sales records and no major overstocking issues, inventory growth does not represent a cause for concern (see Graph 6).

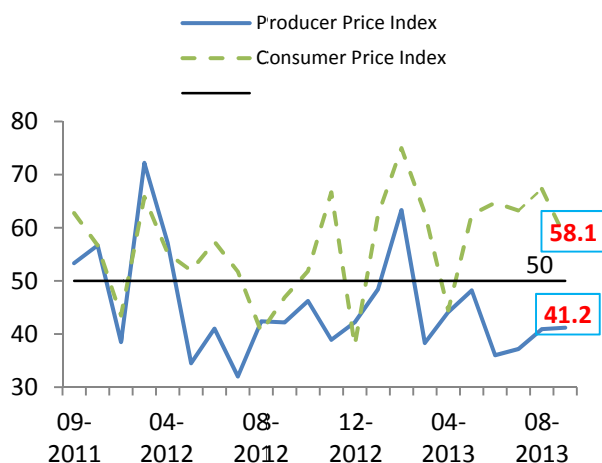
Besides the main BCI indices, we also surveyed respondents on forecasted costs, prices, investment plans and employment conditions, to form a supplementary set of indices. In September, costs rose for our sample companies. The labor cost index rose from 85.2 to 89.7 and the overall cost index rose from 80.4 to 89.7 (see Graph 7). With both costs indices at 87.9, the majority of sample firms anticipate costs rising on last year. The prices indices however show significant changes (see Graph 8), with the consumer prices index dropping from 67.3 to 58.1 and the producer prices index rising from 40.9 to 41.2, in keeping with national CPI and PPI indices.

Graph 7



Source: CKGSB Case Center and Center for Economic Research

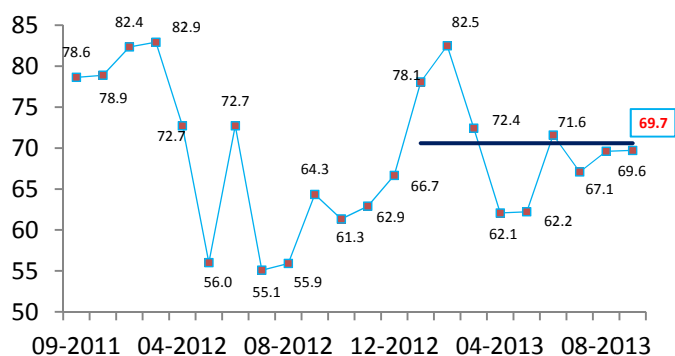
Graph 8



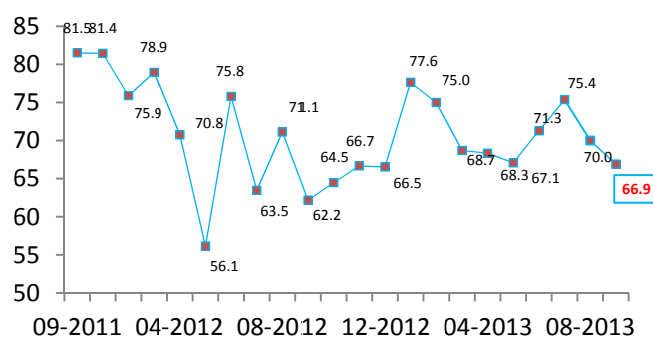
Source: CKGSB Case Center and Center for Economic Research

The corporate investment demand index registers 69.7, holding steady on last month's figure and showing that the majority of firms are planning to gain fixed assets in the next six months (see Graph 9). In terms of labor demand, the index dropped from 70 to 66.9 (see Graph 10). Although this reading is lower than for August, it remains above 60, showing that the majority of companies plan to recruit in the next six months.

Overall, China's macroeconomic trend remains relatively stable, but uncertainty means continued attention to future indices is advised. Although our sample firms remain optimistic, they anticipate continued cost pressures. The narrowing gap between indices for consumer and producer prices has not taken away the risk of inflation, and overcapacity in certain industries remains serious. In short, the bulk of China's economic restructuring has yet to be tackled.

Graph 9
Corporate Investment Demand


Source: CKGSB Case Center and Center for Economic Research

Graph 10
Labor Demand Index


Source: CKGSB Case Center and Center for Economic Research

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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