

CKGSB BCI

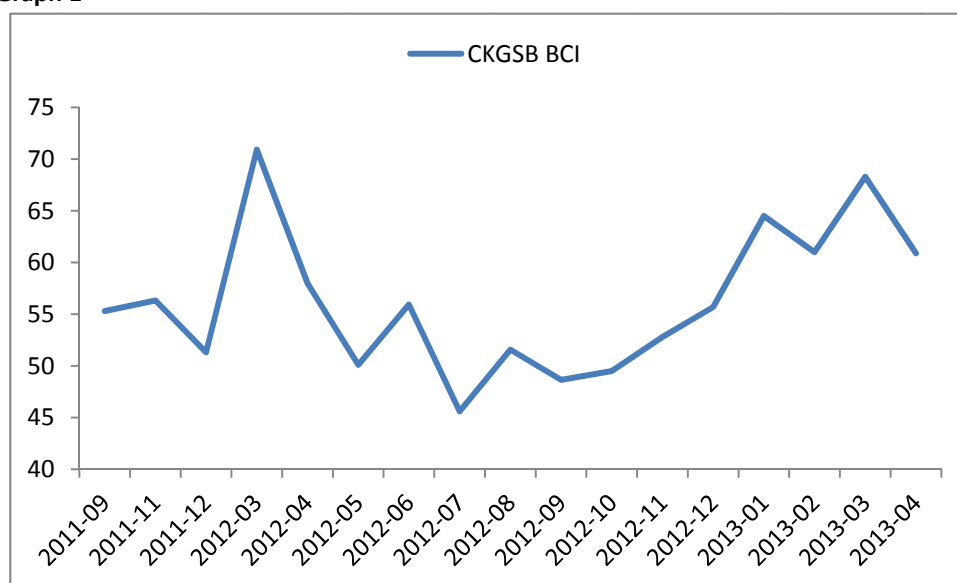
April 2013

28 April 2013

CKGSB Case Center and Center for Economic Research

In April, the Business Conditions Index (CKGSB BCI), calculated on the basis of a survey of leading executives in China, dropped from its March figure of 68.3 to 60.9 (see Graph 1). This indicates that the macroeconomic outlook for China is in a state of flux.

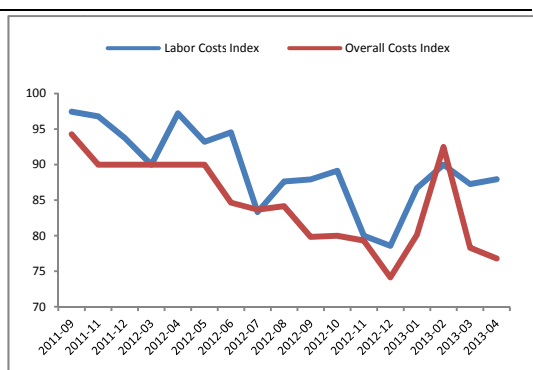
Graph 1



Source: CKGSB Case Center and Center for Economic Research

In April, the CKGSB BCI indices for operating costs displayed a mixed message. The index measuring labor costs rose from 87.3 to 87.9, while the overall business cost index fell from 78.3 to 76.8 (Graph 2). The index measuring business demand for labor weakened slightly from 68.7 to 68.3 (Graph 3).

Graph 2



Graph 2

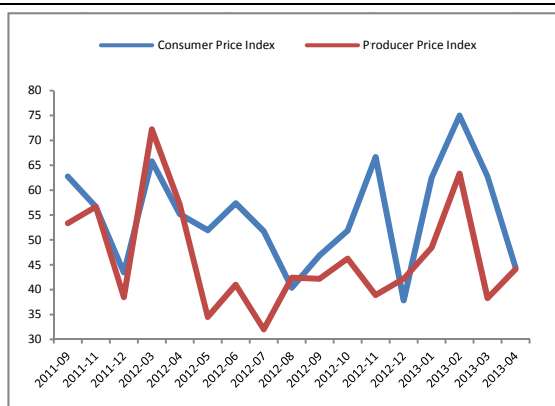


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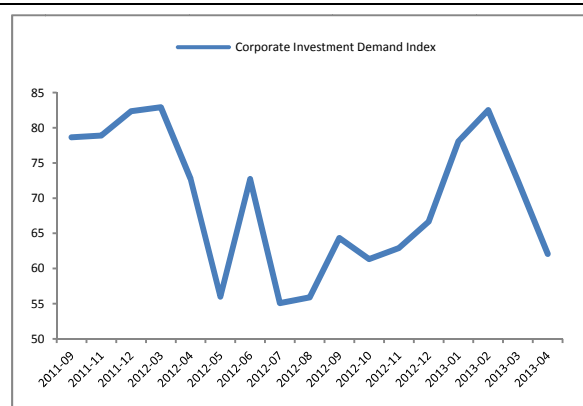
In April's index, price forecasts showed both positive and negative shifts. The index measuring consumer prices dropped significantly from 62.7 to 44.4, while the producer price index rose from 38.3 to 44.1 (Graph 4). The sharp fall in the consumer price index may be due to changes in sample composition. However, to see if this is the case, we need to wait for the next few months' data. April's index also shows that corporate investment demand has weakened from 72.4 to 62.1 (Graph 5).

Graph 3



Source: CKGSB Case Center and Center for Economic Research

Graph 4



Source: CKGSB Case Center and Center for Economic Research

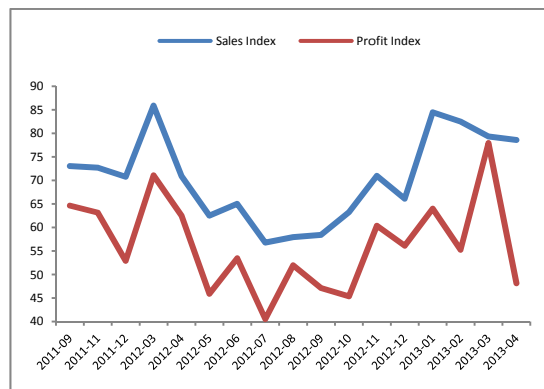
While the overall index indicates that China's economy has already experienced a soft landing, conditions remain unstable. Labor costs are expected to rise slightly while overall costs are expected to drop, and a small dip is apparent in the recruitment index. Changes in these three indices are not large, and, remaining above 60, they show a degree of optimism. But they show that firms face cost pressure yet continue to recruit. The corporate investment index dropped considerably in April but still stands at 62.1, meaning that companies continue to make investments. This is in line with the corporate recruitment trend. Consumer product predictions need further investigation over coming months, but the index measuring producer prices appears to show that overcapacity is still an issue.

The CKGSB BCI comprises four sub-indices. The sales index changed from 79.3 in March to 78.6 in April, and the profit index made a considerable drop from 77.9 to 48.1 (Graph 6). While corporate sales registered a small drop, the profits index was more remarkable, which cannot be easily understood by changes in general forecasts. We believe this drop is related to sampling issues, and will continue to watch this index for further anomalies.

Furthermore, corporate financing environment prospects dropped from 58.1 to 51.9, but remain above the threshold value of 50. Because our sample consists predominantly of private firms, this index mainly reflects the financing environment for private firms. At the same time, the inventory index shows a slight drop from 54.7 to 52.6, meaning that most companies do not anticipate increasing inventory stocks in the next 6 months compared with the same time last year (Graph 7).

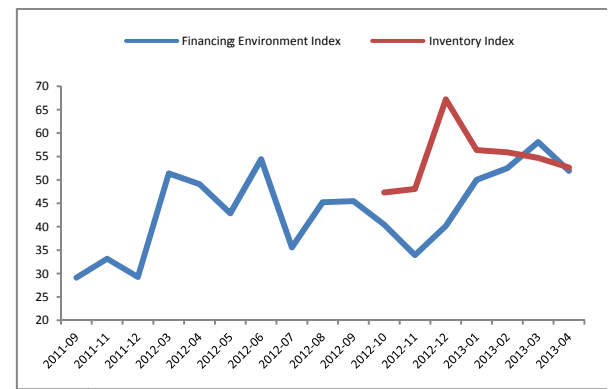
7).

Graph 5



Source: CKGSB Case Center and Center for Economic Research

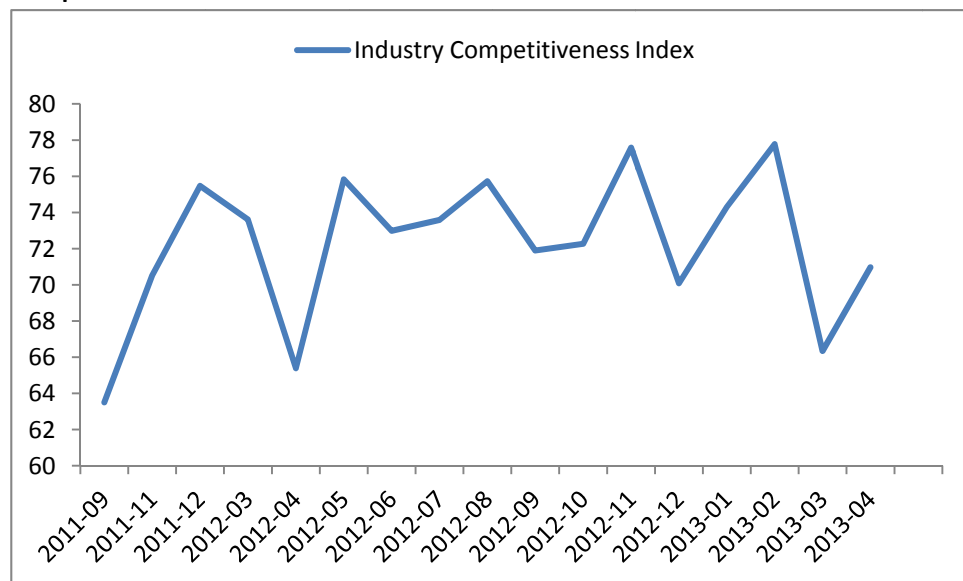
Graph 6



Source: CKGSB Case Center and Center for Economic Research

Lastly, 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 are studying or have studied at CKGSB. Consequently, most firms are in a relatively strong competitive position in their respective industries (see Graph 8).

Graph 7



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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