

CKGSB BCI

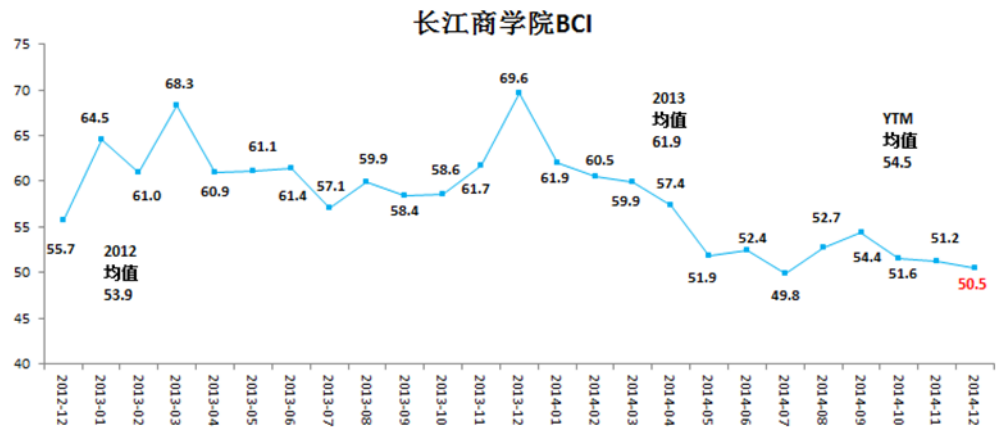
December 2014

27 December 2014

CKGSB Case Center and Center for Economic Research

The CKGSB Business Conditions Index (BCI) registered 50.5 in December, slightly lower than November's index of 51.2, but still above the confidence threshold of 50. However, this low reading means that the BCI is still in a trough, as can be seen in Figure 1. The BCI's sample of relatively successful private firms plan to exercise caution in their upcoming business decisions, as they recognize that the risk of an economic downturn in China remains high.

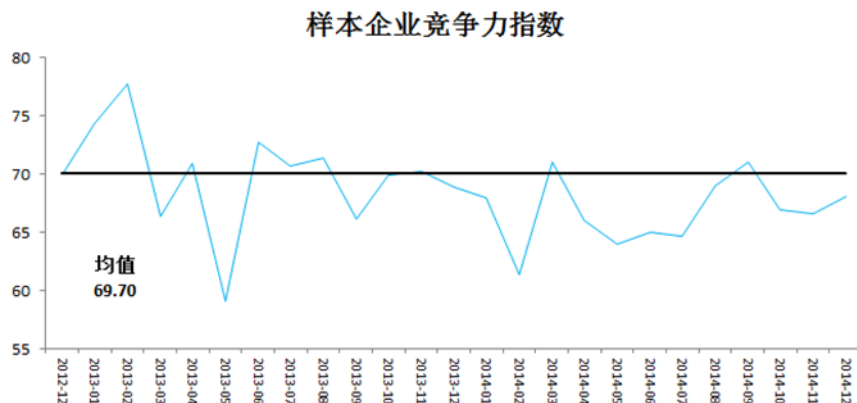
Figure 1 CKGSB BCI



Source: CKGSB Case Center and Center for Economic Research

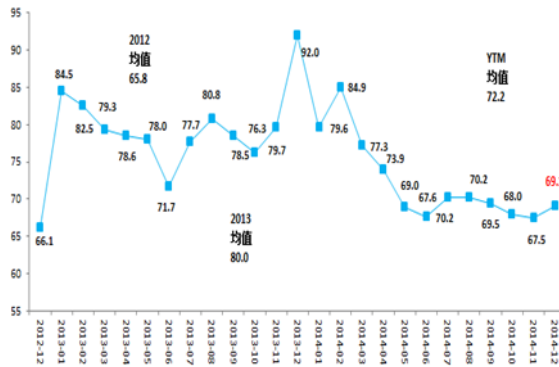
The BCI is generated wholly on the basis of statistics gathered from leading enterprises whose executives have studied or are studying at Cheung Kong Graduate School of Business. In the questionnaire we ask respondents to indicate whether their firm is more, the same, or less, competitive than the industry 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

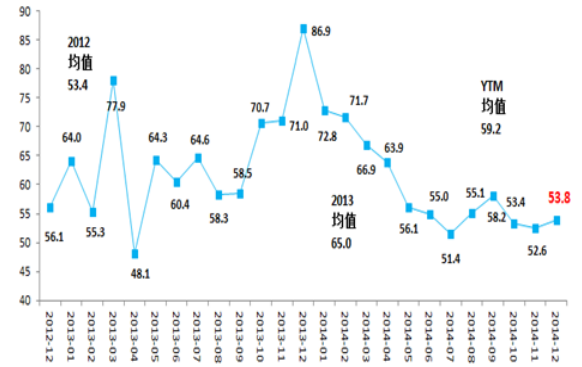


Source: CKGSB Case Center and Center for Economic Research

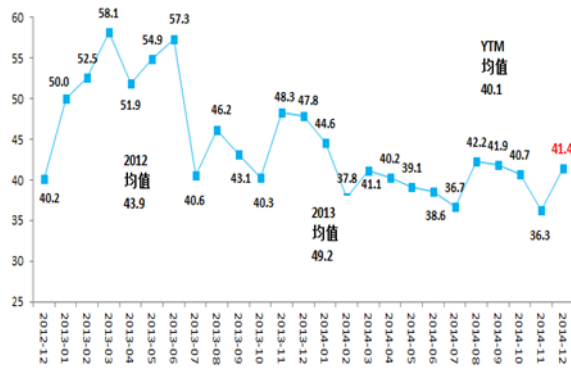
The CKGSB BCI comprises four sub-indices that are forwarding-looking indicators for corporate sales, corporate profits, corporate financing environment, and inventory levels.

Figure 3. Sales


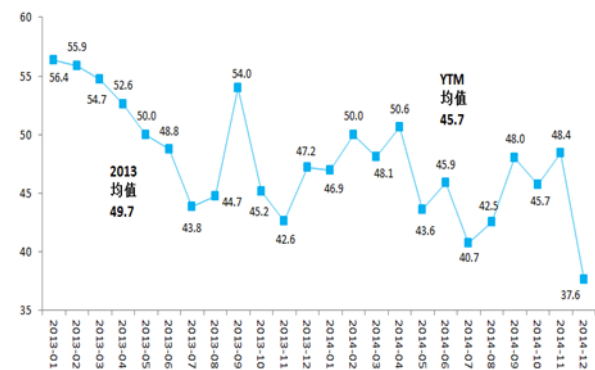
Source: CKGSB Case Center and Center for Economic Research

Figure 4. Profit


Source: CKGSB Case Center and Center for Economic Research

Figure 5. Financing


Source: CKGSB Case Center and Center for Economic Research

Figure 6. Inventory


Source: CKGSB Case Center and Center for Economic Research

The corporate sales index registered 69.1 in December, slightly higher than November's index of 67.5 (Figure 3), showing a degree of optimism about prospects of the next six months. The profit index registers 53.8, a slight increase on last month's index of 52.6 (Figure 4). Although this is above 50, the trend suggests companies' continued caution in forecasting profit margins.

The corporate financing environment index reads 41.4 in December, an increase on November's reading of 36.3 (Figure 5), and 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, this data show that firms in the private sector face particularly challenging financing pressures.

The index measuring inventory levels registered 37.6, lower than last month's index of 48.4 and under the confidence level (Figure 6). On the back of macro-economic risks, companies expect inventory levels to drop but backlogs will continue to be of concern.

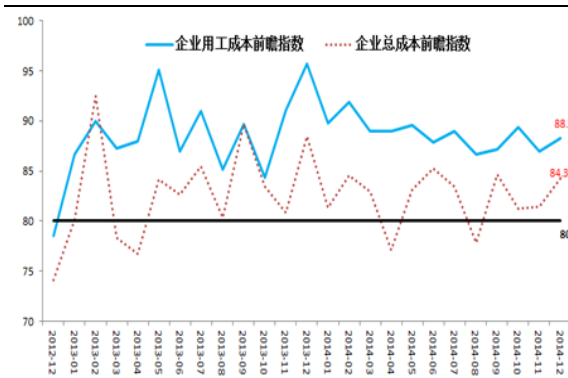
Besides the main indices, we also surveyed respondents on forecasted costs, prices, investment plans and employment conditions, to form a supplementary set of indices.

In December, labor costs and overall costs registered indices of 88.3 and 84.3 respectively (Figure 7), both at a high level. These two costs indices are predictions of change in the upcoming six months, and show that

most sampled firms expect costs to increase compared with this time last year.

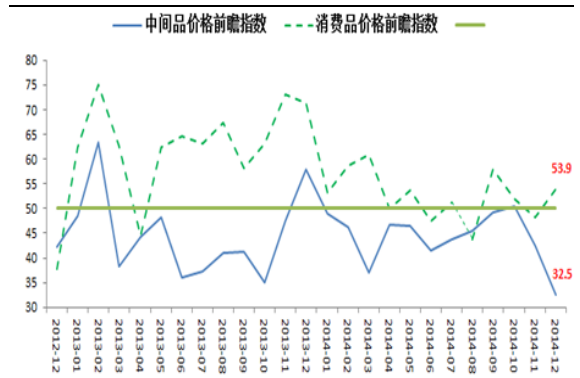
The consumer prices index registered 53.9 in December, from 48.3 in November (Figure 8) and producer prices registered 32.5, down from November's figure of 42.6. Deflationary risks have been mitigated by government efforts to cut rates and release liquidity. Producer prices have dropped considerably, showing that industry conditions are far from optimal. Both indices have fallen considerably this month. As our figures are in line with the official CPI and PPI indices, they show that China is experiencing an increased risk of deflation.

Figure 7. Costs



Source: CKGSB Case Center and Center for Economic Research

Figure 8. Prices

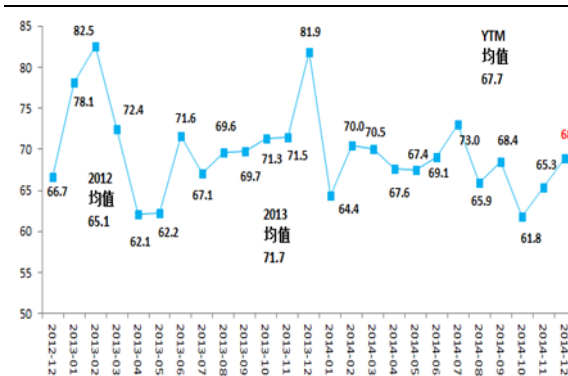


Source: CKGSB Case Center and Center for Economic Research

The corporate investment demand index rose from 65.3 in November to 68.9 in December (Figure 9), 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.

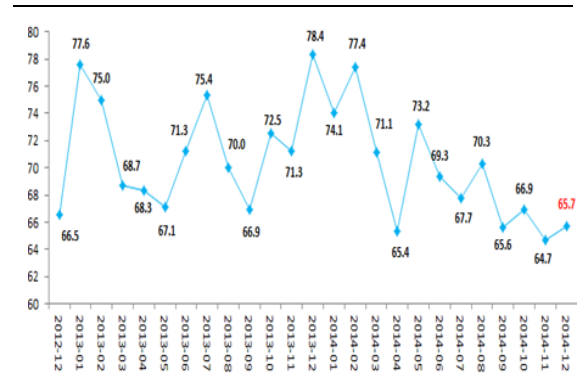
In terms of labor demand, the December index shows 65.7 (Figure 10), higher the confidence threshold. This shows that a majority of companies sampled aims to expand their workforce in the next six months, showing belief in future growth. Corporate investment and labor demand indices are important factors in production output. From these two indices, we can see that companies have clear intentions to invest and hire new staff. This shows a continued confidence in future economic developments.

Figure 9. Investment



Source: CKGSB Case Center and Center for Economic Research

Figure 10. Labor Demand



Source: CKGSB Case Center and Center for Economic Research

Overall, the CKGSB BCI shows that the risk of an economic downturn remains in China. For private companies and SMEs, as growth slows, financing, inventory and costs are major operational challenges. The central bank's loosening of interest rates will reduce financing pressures and the risk of deflation, having a

positive impact on the real economy, but for companies themselves, they should leverage the situation to bring into play greater efficiencies in production and consumer service transformation. Investments should be considered very carefully, and timely responses to the government's continued implementation of economic reforms should be planned for.

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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