# Information to media

Stockholm 29 February 2012

# SEB's China Financial Index- North European companies less optimistic in China

**Managers at North European companies in China are worried about the impact of slower global growth on business prospects there, as well as effects from China's relatively restrictive monetary policies, SEB's latest China Financial Index shows. The index, which measures business confidence in the country, is conducted twice each year based on interviews with senior managers at 50 subsidiaries of major Nordic and German companies in China. This survey was conducted between 2–15 February and included 12 questions related to the business climate, investment plans, recruitment plans and the view of currencies and interest rates. The index falls to 61 in February from 63.4 in September last year and 70 a year ago.**

Most companies plan further expansion in China, but they are now holding back slightly compared to last year. One-third now say that they are not planning any further investments in the coming six months, up from less than one-fifth in September. 25 per cent of the responding companies still plan significant investments and two-thirds have at least modest investment plans in China.

Six out of 10 companies plan to add new staff but fewer than before project significant additions. The managers' main concern is lower customer demand followed by fierce competition.

The Chinese economy grew by 9.3 per cent in 2011 and China continues to outperform all other major markets in the world. Growth has fallen in the last quarters however, and both China's manufacturing index and trade figures have been down in the last couple of months. Most data indicates that the country can avoid a hard landing and that China can maintain strong growth also in the coming years. In 2012, SEB expects the Chinese economy to grow by 8.7 per cent.

The combination of continued monetary tightening, and increased concern over how the faltering global economy will impact China, means large North European companies are more cautious in terms of sales and profit expectations in China. 50 per cent of the companies have a positive view of market prospects but the number of companies being very positive has now fallen to five per cent. Among the companies, 10 per cent are now negative. Only one-third of the companies expect increasing profit in the coming six months and 10 per cent expect a fall in profit.

"Sentiment has continued to fall and companies are indicating a lower need for working capital financing which is also a sign of lower economic activity. It should be pointed out, however, that half of the companies still are positive while only one out of 10 has a negative view of the business climate," says **Fredrik Hähnel**, Head of SEB in Shanghai and author of the report,

The survey shows that North European companies continue to expand in China even though the number of companies planning increased investments has decreased.

"It is natural that companies get more cautious when the economic outlook is less stable. But on the other hand, many companies do not see any better alternatives than to invest in high growth markets and China is still number one there," Hähnel continues. " Two-thirds of companies plan for continued investments and the majority plan for further staff additions in the country."

"Chinas political leaders will do everything they can to keep growth up with more stimulus packages and expansive monetary policies and one should not forget that we only a year ago experienced overheating in the Chinese economy. China's most important purchase manager index, which fell in the last months of 2011, actually rebounded in January and very few signs point to a hard landing of the Chinese economy", Hähnel says, adding that companies in general continue to be optimistic.

"In business meetings with our clients, most of them are very optimistic in the mid and long term. One should not over interpret the results in our survey or other economic data. The underlying momentum in China's economy is still very strong,"

Seven out of 10 companies expect the Chinese currency, the yuan, to continue appreciating. Six out of 10 expect falling interest rates and around half of the companies believe their market shares will increase in China, according to the survey.

This is the seventh time SEB publishes the China Financial Index, a unique survey published semi-annually. The purpose is to mirror changes in expectations among North European companies in China to facilitate the understanding of the economic and financial development in the country. The full report can be downloaded from: www.sebgroup.com\press.

**For further information, please contact**
Fredrik Hähnel, head SEB in Shanghai
+86 1381 680 99 77
fredrik.hahnel@seb.se

**Press contact**
Elisabeth Lennhede
+46 70 763 99 16
elisabeth.lennhede@seb.se