Information to media

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SEB's China Financial Index: North European companies less optimistic about the future. Lower customer demand the biggest worry.

China's economy has slowed during the second and third quarter. Problems in the US and Europe now have an apparent influence on China, leading to lower export growth and falling foreign direct investment. One-third of top managers at North European companies in China now have a negative view on the market expectations in the region. SEB's China Financial Index falls to 56.1 from 61 in February and 63.4 one year ago.

A majority of surveyed companies see lower customer demand as a main concern. However, companies continue to expand in China, and two out of three respondents plan further investments. The number of companies that plan significant investments has fallen from around one-fourth in February to 15 per cent in September. A bit less than half of the companies plan further recruitment, which is lower than before.

The Chinese economy grew by 7.6 per cent during the second quarter 2012 compared to 9.2 per cent for the full year of 2011. Although China continues to outperform all other major markets in the world, many indicators in China now point in the direction of a cooling economy. However, most data indicate that the country can avoid a hard landing and that China can keep up growth in the coming years. During 2013, SEB expects China to grow by 8 per cent.

Falling exports and lower growth in China make North European companies less optimistic about the future in the region. Around one-third of respondents now have a negative view of the coming six months, whereas an equal number of companies, around one-third, are still positive. The remaining third have a neutral view on the future. Slightly less than every fifth company expects profits to fall, which is an increase from the last survey. One-third still believe that profits will go up in the coming six months.

"Sentiment has fallen further since the last survey, but we are still above levels seen in March 2009, just after the financial crisis took hold. The fact that 70 per cent view customer demand as the biggest worry is another sign that sales are down in China. However, based on discussions with our clients, we do see large differences between business sectors. Generally speaking, industrial companies are more pessimistic than companies exposed directly to the Chinese consumer market," says **Fredrik Hähnel**, Head of SEB in Shanghai and author of the report,

"Many companies are now expecting further stimuli from the government in the form of infrastructure investments, which could boost growth. We already see signs of this, but I still believe many companies in general must be prepared for slower growth in China, as the economy transitions from being investment-driven to consumer-driven."

Roughly half of respondents believe that the RMB will be stable against the USD. Seven out of ten companies believe in falling interest rates and half of the companies believe their market share will increase in the coming six months. Half of the companies also expect salaries to increase by 7-8 per cent in 2013. About one-third expect them to increase at an even faster pace.

“If the companies in our survey are correct in their expectations, many subsidiaries will become less profitable when demand for their products fall while costs continue to increase. But if you share our view that we are seeing a soft landing, it is important not to start scaling down too fast. In China, things can change very quickly, and prospects can turn brighter sooner than you think,” says Hähnel.

That is a conclusion most companies in the survey also seem to derive. Many continue to expand in China, but the speed at which they expand has fallen further since the last survey. Two-thirds of respondents plan for further investments, just as in our last survey six months ago. However, the number of companies planning significant investments has fallen. More companies are postponing recruitment plans as well, but still almost half of the respondents plan further recruitment.

“China is still growing much faster than other major economies. What we are witnessing is slower growth, not a hard landing, and China is still a very attractive growth market for many companies ,” Hähnel concludes.

This is the eigth time SEB publishes the China Financial Index, a unique semi-annual survey. The purpose is to mirror changes in expectations among North European companies in China, in order to facilitate understanding of economic and financial development in the country. The survey was carried out from 2 September to 10 September, and includes a total of 12 questions related to the business climate, investment plans, recruitment plans and the view of currencies and interest rates. The full report can be downloaded from: www.sebgroup.com\press.

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