Information to media

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SEB's China Financial Index: Rebound for North European companies. Increased demand and higher profit expectations

China's economy bottomed out during the second half of 2012, and an increasing number of indicators now point to improved business conditions. Government-led stimulus packages, relatively loose monetary conditions and positive export figures have contributed to an improved business climate. Half of top managers at North European companies in China now have a positive view on the market and profit expectations in the region. After three consecutive surveys with falling sentiment, SEB's China Financial Index in March increases to 60.8 from 56.1 in September.

The percentage of surveyed companies that see lower customer demand as a main concern has fallen from 70 per cent to just above 40 per cent. Companies have increased expansion plans slightly in China, and two out of three respondents plan further investments. 15 per cent of companies plan significant investments, which is the same number as in September. A bit more than half of the companies plan further recruitment, which is higher than the last survey.

"Optimism among companies has increased since the last survey, and it is evident that order books are looking better than in September. Investment plans are also increasing albeit only marginally, as some manufacturing companies still have overcapacity in China and are awaiting more signs of a robust rebound in the economy. Furthermore, companies did not slow investment plans much last year, despite negative economic signals," says **Fredrik Hähnel**, Head of SEB in Shanghai and author of the report.

The Chinese economy grew by 7.9 per cent during the fourth quarter 2012 compared to 7.4 per cent for the third quarter. Several indicators in China now point in the direction of a modestly rebounding economy, and full-year growth for 2013 looks to be better than in 2012. During 2013, SEB economists expect China to grow by 8.1 per cent.

Increasingly positive signals in China make North European companies more optimistic about the future in the region. Around half of respondents now have a positive view of the coming six months, whereas the number of companies with a negative view has fallen from one-third to only ten per cent. The remaining forty per cent have a neutral view. Slightly less than half of the companies expect profits to increase, which is an increase from the last survey. Very few companies believe that profits will fall in the coming six months.

"Regardless of whether you believe the current Chinese growth model is sustainable or not, it is obvious that governernment stimulus for infrastructure and other projects at the end of last year is having a positive effect on business conditions for industrial companies. Meanwhile, private consumption should increase in China for many years to come, which is why companies selling directly to Chinese consumers are generally more positive than industrial companies," says Hähnel.

44 per cent of respondents see lower customer demand as a main concern, which is down from 70 per cent in the last survey. 16 per cent view competition as their largest concern. Other important issues are a complex regulatory system and lack of qualified staff.

"That fewer companies worry about a fall in customer demand further strengthens the picture that the order book is improving. It is also obvious from the survey that there is a shift towards more concern over increasing competition, as foreign investors see an increasing number of Chinese competitors moving up the value chain and taking market share," says Hähnel.

Half of respondents believe that the renminbi will strenthen against the US dollar. Seven out of ten companies anticipate higher interest rates. One-third of the companies also expect salaries to increase by 7-8 per cent in 2013 while four out of ten companies calculate with a salary increase of 9-10 per cent or more – a rate well above the 2 per cent annual inflation level in China in January.

"The competition for competence is fierce, and employees are still faster-moving when it comes to recruitment compared to most developed markets," says Hähnel.

This is the ninth edition of SEB's 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 18-22 February, and includes a total of 12 questions related to the business climate, investment plans, recruitment plans and the view of currencies and interest rates. An index level over 50 signals overall positive sentiment. The full report can be downloaded from: www.sebgroup.com\press.

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