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Press release

Stockholm 11 September 2013

SEB's China Financial Index: Slightly worsened business climate and lower profit expectations – but expansion plans remain

China's economy has continued to slow down during the first half of 2013. New political leaders in Beijing have communicated that they will accept lower but more qualitative growth than previously, driven to a greater degree by consumption and less by investments and exports. In July and August, economic data indicated a bottoming out of the Chinese downturn. Only one-third of top managers at North European companies in China have a positive view of the market and profit expectations in the region, while slightly more companies than previously, around 15 percent, have a negative view on the coming six months. All parameters in SEB's China Financial Index – business climate, profit expectations, investment plans and recruitment plans – are slightly lower, and the index falls to 58 in September from 60.8 in March.

The percentage of surveyed companies that see lower customer demand as a main concern has fallen to just below 40 percent. Meanwhile, one out of three companies view competition as their largest worry, double the number in the previous survey in March. Expansion plans in China have fallen slightly, but companies continue to invest. Six out of ten respondents plan further investments. 15 percent of companies plan significant investments, which is the same number as in March. Four out of ten companies plan further recruitments, which is slightly lower than in the last survey. Ten percent of the companies plan to decrease the number of staff in China.

"Optimism among companies has fallen slightly since the last survey, but the index is still stronger than it was one year ago. It is evident however that forecasts have become less certain than in March. Expansion plans are still offensive, but more companies than previously are choosing to wait with further investments. Many manufacturing companies suffer from over-capacity in China and are taking the oppurtunity to make their organisations more cost-efficient, which is probably why more companies are waiting with further recruitments or, in certain cases, are even cutting down the number of employees. We do see large differences between industries however," says **Fredrik Hähnel**, Head of SEB in Shanghai and author of the report.

Even if the Chinese economy grew faster than other leading economies, the country has experienced slowing growth in nine out of the last ten quarters. Growth for the second quarter 2013 ended at 7.5 percent, a bit lower than the 7.7 percent rate in the first quarter. However, economic signals like industrial production, exports and purchasing manager indices have been improving in July and August, indicating that the economy is turning upward.

Mixed signals in China make North European companies slightly less optimistic about the future in the region. Around one-third of respondents now have a positive view of the coming six months, whereas the number of companies with a negative view has gone up from 10 percent to 15 percent. Half of the companies have a neutral view. Slightly less than half of the companies expect profits to increase, which is a marginal decrease from the last survey. Very few companies believe that profits will fall in the coming six months.

"The picture is very much in line with what we experience in discussions with clients. This is by no means a dramatic change but rather a gradual adjustment of expectations as more companies realise that China's growth will be lower than what we have been used to in the last couple of decades. Generally speaking, companies are positive about the future in China, expecially those selling to the Chinese consumer market. At the same time, it can be concluded that certain industrial companies are witnessing flat sales, or in some cases even lower sales in 2013 compared to the previous year," says Fredrik Hähnel.

Thirty-three percent of respondents see lower customer demand as a main concern, which is slightly lower than in the last survey. Around one-third view competition as their largest concern, which is twice the number seen six months ago. Other important issues are a complex regulatory system and lack of qualified staff.

"When growth in many industries is not as high as previously, the competition for market share becomes increasingly important. Particularly in sectors with over-capacity, we will see pressure on margins for a foreseeable future, and among Chinese companies there will be consolidation," says Fredrik Hähnel.

Half of respondents believe that the renmimbi will remain unchanged against the US dollar. Six out of ten companies anticipate stable interest rates. Salary increases are down. One-third of the companies expect salaries to increase by 5-6 percent in 2013 while only two out of ten companies calculate with a salary increase of 9-10 percent or more.

"A slightly less certain business climate combined with low inflation mean that companies see an opportunity to hold down salary increases in their Chinese subsidiaries. It remains to be seen, however, if it will be possible to hold down salary increases in reality without losing staff, as many Chinese employees have gotten used to large annual salary increases," says Fredrik Hähnel.

This is the tenth 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 26 August - 5 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. An index level over 50 signals overall positive sentiment. The full report can be downloaded from: www.sebgroup.com\press.

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