SEB

Press release

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SEB's China Financial Index rises: Northern European companies see better business climate, higher profits and accelerated expansion plans

All parameters in SEB's China Financial Index – business climate, profit expectations, investment plans and recruitment plans – are higher, and the index climbs to 61.4 in March from 58 in September.

China's economy continued to slow during 2013. GDP growth lost momentum in last year's the fourth quarter, and both export figures and confidence indices have started this year pointing to lower economic activity. However, Nordic and German business leaders continue to stay bullish, according to SEB's latest China Financial Index. Around half of the top managers surveyed expect a positive business climate and higher profits in the coming six months. Only 6% have a negative view while less than half expect business conditions and profits to remain the same. More companies than previously (over a half) are planning further investments and recruitments.

The number of companies that see lower customer demand as a main concern continues to fall to 27 percent, down from 38 percent since the last survey in September. Meanwhile, one out of four companies view competition as their largest worry, which is the same as in the last survey. One of five companies now finds lack of competent staff as its biggest headache.

"Companies have gained optimism since the last survey, even if changes are fairly modest. What surprises me most is that fewer companies now view deteriorating customer demand as their main worry. Every parameter in the survey is up, which indicates an improving business climate in China. A key reason our index may move in the opposite direction to other surveys is that we only do it every six months. This means it captures more medium-term sentiment," 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 10 out of the last 12 quarters. Growth for the fourth quarter 2013 ended up at 7.7 percent, down from 7.8 percent in the third quarter. China's official purchasing managers' index hit an eight-month low in February at 50.2, adding signs of a slowing economy. The new political leadership has met plenty of challenges during its first year in power, with fast credit growth, falling capital allocation efficiency, severe environmental problems and an urgent need to reform the financial sector. At the party congress in Beijing last week, Prime Minister Li Keqiang repeated a GDP target of 7.5 percent for 2014 and reiterated that reforms will accelerate.

"Many are concerned with China's overcapacity and fast credit growth. However, these factors have obviously not changed Northern European companies view of the market. On the contrary, half of the companies expect business to improve in 2014, and they continue to invest," says Fredrik Hähnel.

One-fourth of the companies view a fall in customer demand as the biggest concern, which is lower than in the last survey. Another quarter view competition as the main worry while one-fifth now say their biggest concern is to find qualified staff. One-third of companies expect salary increases of 5-6 percent, while one of four companies expect it to be 7-8 percent during 2014. One of five companies believe salary increases will be 9-10 percent and one of ten says it will be above 10 percent.

“The picture is consistent with what we hear in discussions with clients in China. There is no big change in sentiment but companies are positive. In general, business leaders believe that 2014 will be a better year than 2013, even if for example industrial companies must begin getting used to a lower growth rate than previously. More companies are starting to be concerned with cost development in China, as costs continue to increase rapidly. As productivity is not improving at the same pace, China risks losing competiveness over time. As of today, it is very uncommon for companies to set up new manufacturing entirely for exports out of China. The focus is now on the domestic market,” says Fredrik Hähnel

Half of respondents believe that the renmimbi will appreciate against the US dollar in the coming six months, while four of ten think it will be unchanged. Four of ten companies also anticipate higher interest rates, while more than half think they will remain the same.

This is the eleventh 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 13 February to 4 March, and includes a total of 12 questions related to business climate, investment plans, recruitment plans and views on 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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