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Press release

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SEB's China Financial Index: Despite weaker outlook, companies see better sales and profits in 2015

Northern European companies are defying the bearish macro data published in China recently and have a more positive view of sales prospects in 2015. SEB's China Financial Index in February increases to 62.6 from 58.7 in September. A majority of companies expect increased sales, and more companies expect profits to increase in the coming six months. However, investment plans fall slightly in this survey.

China's economy continues to lose steam, but corporate optimism does not. GDP growth in China fell in the fourth quarter to 7.3%, and China's official purchase manager index dropped in January to 49.8, which is the lowest figure since September 2012. Still, North European managers participating in SEB's latest China Financial Index expect 2015 to start on a positive note. Three of four companies expect sales growth in the coming six months, and slightly more than half expect increasing profits. However, expansion plans have fallen, with around half of the companies not planning further investments in the coming six months, and only five percent planning for significant investments. Around half of surveyed companies plan to increase staff in China, while four of ten see keeping the number of staff unchanged and around ten percent will reduce staff.

More companies than previously, slightly less than half, see the risk of falling customer demand as the largest concern in this surveycompared to around one-third a year ago. Almost one of five companies view competition as the major concern, while more companies than earlier worry about raw material costs and foreign exchange risks.

"Our survey is forward looking, and we ask clients what they think about the coming six months. It is of course encouraging to see that so many companies expect better sales in 2015. I think our clients are over optimistic, however. When we look at sales development in 2014, only slightly more than half saw an increase in sales and profits. Lower investment plans are also proof that companies are more cautious in reality. We continue to see sales growth among companies selling to consumers, the automotive industry, the healthcare sector and for infrastructure projects such as railways and power distriubution. Other industries, such as steel, mining, pulp & paper and shipping, are seeing less growth," says **Fredrik Hähnel**, Head of SEB in Shanghai and author of the report.

Even if the Chinese economy continued to slow in 2014, there are several bright spots in recently statistics . Industrial production, for example, increased by 7.9% in December compared to 7.2% in November, and retail sales were up by 11.9% in the same month, beating market forecasts. Exports also increased at a faster-than-expected 9.7% rate in December. Inflation continued to be subdued at 1.5% in the same month. China'sa central bank lowered interest rates in November, and an increasing number of forecasters expect more accommodative monetary policy in 2015, with further interest rate cuts and reduced deposit reserve requirement ratio for banks in order to boost lending.

"So far, the political leadership in Beijing seems comfortable with the soft landing of China's economy as they continue their rebalancing act. Over half of China's growth in 2014 came from consumption, and if we do not experience large shifts in sentiment, China's consumer market may very well overtake that of the US in 2016. If we, on the other hand, see a faster downturn, I believe we can expect more aggressive measures to stimulate the economy. Already in January, the National Development and Reform Commission announced fast-tracked approvals of pre-planned infrastructure projects at a value of seven trillion renminbi, to be carried out in 2015," says Fredrik Hähnel.

In the survey, around half of companies view a possible fall in customer demand as the biggest threat to their positive outlook. One of five companies view competition as the main worry, and one of ten say foreign exchange rate risks are the biggest concern. Half of companies plan for salary increases of 7-8%, while less than one-third plan for 5-6% salary increases. Roughly the same number, one-third, expect salary increases of 3-4%.

"We do see some seasonality in our survey, with companies more optimistic at the beginning of the year. If we are correct, and companies adjust their business forecasts during the year at the same time as inflation continues to fall, I think 2015 will be the year when companies seriously look into lowering salary increase levels and generally cutting costs in China. Costs are currently at a point where a continued cost increase from levels we have seen to date would be unsustainable without affecting both profitability and competitiveness," says Fredrik Hähnel.

One out of five companies already use, or are planning to use, the renminbi as invoicing currency for all export and import flows in China. Four of ten are planning to change some of their flows to renminbi. Fifty percent of respondents think that their banks in China have a positive lending attitude towards their company. Four of ten companies see their inventories increasing in the coming months while 30% expect inventories to be unchanged and another 30% expect them to decrease.

This is the thirteenth 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. The survey was carried out January 13-28, 2015, 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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