SEB

Press release

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SEB's China Financial Index: Mixed picture in companies' view of China's growth. Almost half of companies see better order intake while one third see falling sales.

Northern European companies have a less positive view on the business climate. SEB's China Financial Index in September falls to 57.1 from 62.6 in February. Over half of the companies saw sales increase in the first six months of the year, but are slightly less optimistic about the remainder of the year. Less than half of the companies think that sales will increase in the coming six months and profit expactations also fell slightly in this survey. One third of companies saw falling sales figures in the first six months of the year and roughly the same number of companies expect sales to fall further in the coming six months. Investment plans remained relatively unaffected while more companies that previously cut down on recruitment plans. Salary increases fell significantly in this survey.

Economic data from China have been worrying lately. The official GDP figure landed at 7% but a fresh string of data show that growth is currently losing steam. Leading purchasing managers indexes fell in August to the lowest levels seen in 16 months and imports, calculated in Chinese yuan, fell by 14.3% the same month while exports fell by 8.9% in July and 6.1% in August compared to the same months last year. China's devaluation and the stock market crash of over 40% have scared financial markets around the world and hardly a day goes by without headlines in international media warning of a looming crash in the Chinese economy.

Top managers of Nordic and German subsidiaries in China confirm the picture of a slowed down economy in SEB's latest China Financial Index, but the pictures varies between companies and industries. Only one in four companies has a neutral view of the the business climate the coming six months while more companies are positive than those that have a negative view.
Expansion plans are only marginally affected: Over half of companies plan for further investments and the rest are not investing at the moment. Recruitment plans fell slightly. One third of companies will continue to add employees in China while half of the companies keep the current staff number. Fifteen percent of respondents say they will cut down on staff in China.

More companies than previously, over half, view lower customer demand as the largest concern in this survey. Other companies view competition, foreign exchange risks and salary levels as the major concern.

"The result of this survey confirms two important conclusions: First of all, in line with other indexes our survey shows that economic activity in China is falling and the prospects look gloomier than six months ago. On the other hand, a second equally important conclusion is that things don't look as bad as the impression may be when reading news around the world lately" says **Fredrik Hähnel**, Head of SEB in Chinaand author of the report.

"Yes, one third of our clients say that they saw declining sales in the first six months. That is a worrying sign that cannot be ignored. However, it is not really anything we didn't know already. Industrial companies in China have seen a decline coming for quite some time and many of them are acting in segments of the Chinese's economy that don't seem to grow at the moment. But the fact remains that over half of our clients said their sales increased this year and almost as many expect the order books to develop well for the remainder of the year. The golden years of rapid growth may be over for certain industrial companies in China. But for a very large number of companies

selling consumer goods, professional services, medical equipment etc. sales seem to hold up well and if anything, these companies will be investing more in China. And for them and all other companies out there, the potential to work on the cost structure and keep up profitability is not to be underestimated.

The Chinese Central Bank, PBOC, has cut rates five times in the last year and also lowered the reserve requirements for banks. In August, PBOC devalued the Chinese Yuan by 3% and analysts expect that this will be followed by more fiscal stimulus packages with more investments in infrastructure for example.The inflation has continued to fall but rose in August to 2%, mainly due to higher food prices. The Chinese producers prices fell 5.9% in August and have now fallen for 42 consecutive months as a result of industrial overcapacity, falling raw material prices and a strong Chinese currency. This has also led to more companies adjusting their staff structure in China and lowering the salary increases.

"Companies keep investing according to earlier plans but more than previously cut down on recruitment plans. Some companies even plan to reduce their staff in China**. However, the absolutely most dramatic change in this survey is that salary increases fall so rapidly**. Only six months ago, half of the companies expected salary increases to be 7-8% or higher and no companies planned for salary increases below 3%. Today, only one of five companies plans to increase salaries by 7-8% or higher. One third of companies plans a salary increase of 5-6%, one of four says 3-4% while one of four companies will only increase salaries by less than 3%. Fredrik Hahnel continues.

"I think there will be a very large focus on costs and efficiency improvements among North European subsidiaries in China going forward. Previously, companies grew so fast that it didn't matter if costs increased but we see a trendshift in discussions with our clients at the moment, especially among industrial companies. Global management and financial analysts will put a high pressure on the subsidiaries to control their costs. Especially if sales growth continues to be subdued"

Seven out of ten companies expect the renminbi to weaken against the US dollar in the coming six months while 25% think the exchange rate will be stable. Financing needs continue to fall among the companies and only one in ten expects increasing financing needs. One out of four companies uses the CNY as their trading currency for import and export flows and four of ten companies are not planning to hedge their currency risks inspite of the recent volatility in the currency market.

This is the fourteenth edition of SEB's China Financial Index, an 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 26th August – 9th September, 2015, and includes a total of 13 questions related to business climate, investment plans, recruitment plans and views on currencies. An index level over 50 signals overall positive sentiment. The full report can be downloaded from: www.sebgroup.com\press.

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