Press release

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SEB's China Financial Index: Company business climate views detoriorate, but the picture is mixed. Almost half of surveyed companies see better order intake while more companies expect falling profits.

- **Investment plans fall slightly compared to the last survey six months ago**
- **Almost seven of ten companies view customer demand as their biggest worry**
- **Many more companies plan to cut staff in China**
- **Lower salary increases**
- **The majority of companies expect the Chinese yuan to continue depreciating**

Northern European companies continue to revise their forecasts in China downward, and more companies than previously adjust their investment plans and cut down on recruitments. SEB's China Financial Index in March falls to 56.2 from 57.1 in September. One year ago, the index was at 62.6.

Economic data from China continue to indicate lower activity. Official GDP growth for 2015 landed at 6.9 percent, but exports and imports continued to fall in the first two months of 2016, and a fresh string of industry data suggest that economic growth has continued to lose steam.

Roughly half of the companies in our survey expect sales to improve in the coming six months. Meanwhile, profit expectations continue to fall somewhat. Close to half of the companies believe that profits will improve, but more than previously expect falling profits. A record number of companies are concerned about a fall in customer demand. Close to seven out of ten companies view demand as their biggest concern, while one of ten say currency risks are their biggest concern and roughly the same number worry about competition.

"There's both good and bad news in this survey. Responses differ a lot between companies and industries. Some companies talk about double-digit growth for the first part of 2016 while others see how sales figures are now going down. But overall, we don't see any general signs of a hard landing in China in our survey", says **Fredrik Hähnel, Head of SEB in Greater China**. "Half of the companies expect an increase in sales in the coming six months, which is a slight improvement from the last survey. At the same time, every fourth company expects lower order intake, and a record high of 30 percent of the companies that participated in the survey say that their profits will fall in the coming six months in China. This is clearly a worrying sign".

Expansion plans continue to fall. Only four out of ten companies plan further investments in the coming six months, and a majority of those companies only plan for modest investments. More companies than previously (20 percent) will reduce their number of staff in China, and around half of respondents do not plan any changes in the number of employees.

"In earlier surveys, our conclusion has been that companies were not too concerned with the economic slowdown and therefore didn't revise their expansion plans in China. However, in the last two surveys we see a very clear change of trend. Six out of ten companies don't plan any investments at all in the near future, and two out of ten even plan to reduce the number of staff. All in all, this is a clear indication that an increasing number of companies don't see the economic slowdown as temporary anymore but rather expect the economic climate to have changed more permanently", says Fredrik Hahnel. "Meanwhile, one-third do have plans to expand in China, which is related to what industry the companies are active in. From discussions with our clients, we know that service and consumer-oriented companies continue to grow while companies in sectors like cement or steel have a very dark view of the business climate and are dealing with over-capacity and falling margins".

Uncertainty as a result of the weakening of the Chinese yuan during the second half of last year, and renewed volatility during the start of this year, have led to further concerns about the Chinese economy. Chinese authorities are struggling to cope with over-capacity and have communicated plans to lay off as many as twenty million people in state-owned industrial companies. Profitability pressure and a cooler labour market have led Northern European companies to dramatically reduce salary increases in 2016.

"One year ago, half of the companies were planning for salary increases of 7-8 percent. The average in this survey is closer to 4-5 percent, and many companies are even planning increases of 1-2 percent. There are large variations between companies and industries", says Fredrik Hahnel.

After the devaluation of the Chinese currency against the US dollar in August last year, the yuan continued to depreciate during the fall of 2015. This also continued into the start of 2016, but the currency has now stabilised at a slightly stronger level. People's Bank of China (PBOC), the country's central bank, has made clear that it aims to keep the Chinese currency stable against a basket of currencies rather than pegged against the US dollar. However, the majority of companies in the survey expect further depreciation of the yuan, and more than half plan to hedge their currency exposure.

A record number of companies worry about customer demand. Close to seven out of ten companies view customer demand as their biggest concern. One out of ten view currency risks as the most important worry, and an equal number say competition is their main concern.

The need for financing does not change much in this survey, as less than one out of five companies expect financing needs in China to increase in the coming six months.

This is the fifteenth 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 16 – 28 February 2016 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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