Press release
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SEB's China Financial Index: Surprising bounce-back in business confidence

- **More than half of corporates surveyed expect order intake to increase during the next 6 months**
- **Hiring and profits are up but expansion plans remain flat**
- **Companies view customer demand and competition as biggest concerns**
- **Lower salary level increases**
- **Clear majority of respondents expect Chinese yuan to continue depreciating**

Survey results from our Nordic and German corporates unexpectedly delivered a positive business outlook for China, rebounding in terms of staffing, profits and sales from the last survey. SEB's China Financial Index increases in September to 58.6 from 56.2 in March and 57.1 one year ago. Apparent in this edition is the widening gap between the manufacturing and service sectors, with the service sector coming out on top. Recent economic data from China supports this divergence. The official manufacturer purchasing manager index (PMI) came in at 50.0 in August, which is down from 50.6 in July but sharply higher from a year ago. The same index services rose to 52.1 from 51.7 in July.

More than half of the companies in our survey expect sales to improve in the coming six months. At the same time, profit expectations have recovered from six months ago. A majority of corporates expect increased profits, especially within service- and consumer-related companies. Customer demand continues to be the main concern for surveyed companies, and roughly one in four views competition as its biggest worry. New to this survey is a question on customer payment collection. Companies are increasingly worried about customer payment capabilities, and 12% of respondents chose this as their main concern.

"We are observing in this edition a resurgence in business confidence for our Nordic and German companies in China. It's unexpected given underlying problems such as a slowing economy, increasing debt and capital outflows. Sales, hiring and profits are all up, but investments remain unchanged. We see clearly that industries are coping differently, with manufacturing struggling and the service sector outperforming," says Niina Äikäs, General Manager in SEB Shanghai.

"What stands out in this survey is the lower salary levels, with 38% of respondents indicating less than 2% salary growth, up from 14% in the last edition. It remains to be seen if this trend continues, but only a year and a half ago no one in our survey indicated a salary increase of less than 2%. However, at the same time, 20% are still expecting 7-8% salary increases. Results indicate that it really comes down to industry specifics. China is struggling with the same phenoma as Europe. Supply and demand of the workforce do not match. Shifting from a manufacturing-based economy to service and consumer-led economy requires new skills from the workforce."

Major investments plans are still on hold, which is a trend that remains from the previous survey. 56% of respondents have no plans to invest. Regarding hiring new staff, 50% expect no changes and 13% are planning to reduce staff.

“Results are improving from the last survey in March and from one year ago. This is possibly due to a correction after the stock exchange plummet last summer and the fact that China has contiuned to support the economy with fiscal policy. However, debt is piling up in the Chinese economy and not showing any signs of cooling down. Recent published data is warning of record-high debt as a percentage of GDP, and an extremely high level compared to other developing economies. There is clear concern about how this debt will be reduced, but restructuring of state-owned enterprises and the banking sector is needed. Unofficial estimates of non-performing loans in the Chinese banking sector indicate soaring levels ranging from 20-30% of all loans. There is a clear risk that this situation will become unsustainable once the stimulus ends, real growth slows and corporates have much smaller incomes and can't service their debt.” says Niina Äikäs.

This is the sixteenth edition of SEB’s China Financial Index, a unique semi-annual survey. The purpose is to mirror changes in expectations among Nordic and Germancompanies in China, in order to facilitate understanding of economic and financial development in the country. The survey was carried out between August 29 and September 11 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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