SEB

Press release

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SEB's China Financial Index: Significant uptick in new orders for Nordic companies in China

- **Strong sales increase despite uncertainties**
- **Material costs now a key concern**
- **Pickup in salary levels and hiring**
- **Chinese yuan seen depreciating further**

Survey results from our Nordic and German corporates continue to deliver a positive business outlook for China, increasing further in terms of staffing, investments and sales. However, profits are unchanged from the last survey. SEB's China Financial Index increases in March to 61.6 from 58.6 in September and 56.2 one year ago. As expected, the gap continues to widen between manufacturing and service sectors, with the service sector still more optimistic. Recent economic data from China supports this divergence. The official manufacturer purchasing manager index (PMI) came in at 51.7 in February, which is up from 51.0 in January and sharply higher from a year ago. The most recent PMI index for the service sector was also strong.

Sales and profits seen higher, despite demand and material cost concerns

Three out of four in our survey expect sales to improve in the coming six months. At the same time, profit expectations are unchanged 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. A key finding which stands out in this edition is the increasing concern of material costs for our corporates. One in four indicated this as their main concern, up from very low levels from the last edition and a year ago. This could perhaps be explained by increasing commodity prices during the last few months, specifically in petroleum, copper and iron ore. Hence, sourcing could be contributing to creating profit pressure.

"In this edition, we observe substantially improved business confidence for our Nordic and German companies in China. It's still a bit surprising given uncertainties such as a high leverage, currency volatility and increased regulations. Expected sales, hiring and investments are all up, but profits stay flat. As noticed in previous editions as well, we continue to see that industries are coping differently, with manufacturing struggling and the service sector outperforming," says **Niina Äikäs, General Manager of SEB Shanghai.**

"A surprising finding - and opposing the previous survey - is the higher salary levels and hiring. Corporates looking at increasing hiring slightly or significantly is up to 50% from around 30%. At the same time fewer corporates are looking at decreasing staff. Moreover, our respondents are indicating higher salary growth levels with roughly half saying they will increase salaries by 5-6%, up from one in five. These results of increasing salaries and material costs are in line with recent data showing higher inflation in China. The inflation rate has been creeping up the last few years and SEB expects it to reach 2.5% in 2017. If inflation pushes up interest rates that could make debt levels in China difficult to handle and cause financial instability."

Investments for the coming 6 months increased somewhat, with close to 50% of our responding corporates indicating that they plan making new investments, mostly modest. Responses show that the need for hedging is significantly down, with almost 50% indicating no need for hedging their trade exposures. This is slightly surprising, as the volatility of the RMB increased significantly. Almost 75% of respondents expect the RMB to weaken further against the USD.

“Our responding corporates are still very optimistic about China, but the recent uncertainties have somewhat hampered new investments and growth plans. There are some potential signs of increasing inflation as evidenced by higher commodity prices and higher salary growth. In addition, material costs are becoming a greater concern. However, companies we speak to continue to hold the view that the Chinese market has high strategic importance, and they remain committed on a long term basis.” says Niina Äikäs.

This is the seventeenth edition of SEB’s China Financial Index, a unique semi-annual survey. The purpose is to mirror changes in expectations among Nordic and German companies in China, in order to facilitate understanding of economic and financial development in the country. The survey was carried out between February 13 and February 26, 2017 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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