Press release

Stockholm 13 November 2017

SEB's latest China Financial Index indicates positive view on China continues among corporates

- Good momentum, but 14 per cent expect order intake to weaken in the next six months
- Despite a positive outlook, major expansion plans are still on hold in China, while the majority of companies still plan to increase the number of staff
- Customer demand and competition remain key concerns for doing business in China
- The latest SEB Financial Index stands at 61.9, up from 61.6 in March 2017 and 58.6 a year ago

Companies that participated in our survey maintain positive a view on doing business in China, with two-thirds expecting an increase in profits. The outcome is in line with data released by the Chinese National Bureau of Statistics (NBS), which revealed that in August profits of China's industrial companies jumped 24 per cent year-on-year, while in September growth was 7.7 per cent year-on-year. Despite the positive results, the change in expectations is almost flat from the last survey six months ago. Good momentum is expected to hold, but growth is levelling off.

The majority of corporates expect to expand their order intake, but the momentum is cooling off, indicating the ongoing trend in China that growth is being partly generated from the surge in producer prices rather than exclusively in volumes. This year producer prices for the industrial sector have been peaking. The Producer Price Index (PPI), released by NBS, was up 6.9 per cent year-on-year in September, and this year it has increased by an average of 6.5 per cent year-on-year. Therefore it is relevant to conclude that the PPI has been a factor that has driven the increase in manufacturers' profits. "*The results of our China Financial Index survey reveal that the pressure in rising material costs is of a lesser concern for corporates compared to the last survey in March. This indicates that companies have been able to pass some costs along to customers,*" says Niina Äikäs, General Manager of SEB Shanghai.

The survey suggests that a number of issues remain challenging in China. The market situation is causing the most concern for corporates. Six out of ten firms answered that customer demand or competition is their greatest concern. However, payment collection from customers is now less of a concern for firms compared to the previous survey conducted in February this year. This is good news, as publicly available data indicates the number of bad loans to be still rising in China.

Even though firms report to be blooming in China, it seems that in the long term, the outlook is more cautious and conservative. Only some firms are investing significantly in the country. With GPD expected to grow 6.7 per cent this year, SEB has projected GDP to maintain the annual growth rate over 6 per cent in the coming two years. "*The historical data reveals that the shift from an investing to a maintaining mode started in early 2015. There are many reasons why this is the case. Talking with corporates, it seems that higher costs, particularly rising salaries, as well as overcapacity issues, more intense local competition and the recent regulatory environment are making companies more cautious,*" says Niina Äikäs.

Most of the corporates surveyed are manufacturers, representing what is known as "the old China", while less than 10 per cent of respondents are from the service sector. It is not surprising that the few corporates that are part of the service sector are much more confident and growing faster by every measure in China, reflecting the country's attempt to restructure toward a service-based economy. The tertiary sector made up 51.6 per cent of the country's GDP in 2016; China is aiming to increase this to 70-80 per cent, in line with the average for advanced countries. Aside from the service industry, firms in the chemical, plastics and paper industries are scoring above the survey's average, reporting growing confidence and investing more.

This is the eighteenth 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 7 September 7 and 27 September 2017 and includes a total of 14 questions related to the 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.

For further information, please contact
Niina Äikäs, General Manager, SEB Shanghai
+ 86 21 2052 1888
niina.aikas@seb.se

Press contact
Frank Hojem, press officer
+46 70-763 99 47
frank.hojem@seb.se