Spring 2023

China Financial Index

July 3, 2023

Confidence gradually picking up

- The SEB China Financial Index for spring 2023 recovered to **57.8,** a steady improvement from 55.8 in the previous survey conducted in December 2022 and 54.9 posted one year ago during the COVID lockdown.
- Although Northern European companies are more optimistic about order intake and profitability over the next six months, new investments and staffing in China are expected to decline.
- Customer demand, competition and geopolitics are the top 3 concerns in the survey.

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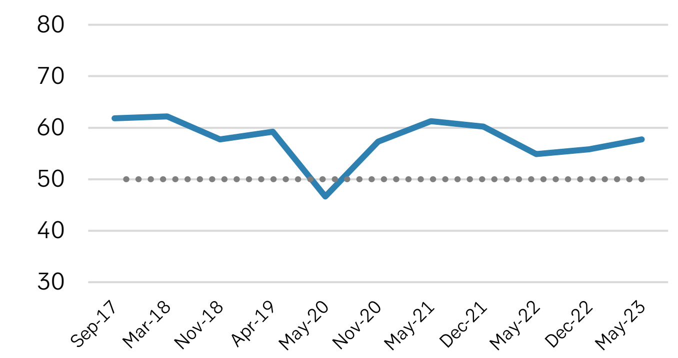
In the spring edition of the China financial index (CFI), the index value improved to 57.8 based on the survey conducted between 4 and 26 May. This compares with the survey in December 2022, where the CFI came in at 55.8, and reflects a bottoming out from the depths during the Shanghai lockdown a year ago when the CFI index was only 54.9 (the second lowest CFI level in the past 10 years, with the lowest being in May 2020 at below 50). Overall, sentiment among Northern European corporates doing business in China has turned more optimistic.

Historical development of the CFI



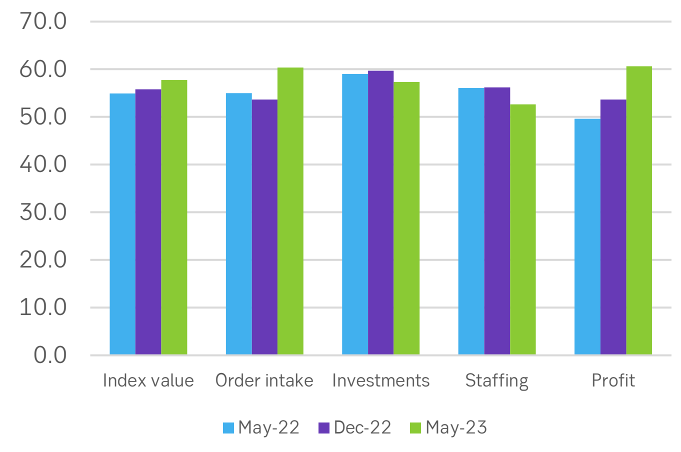
Source: SEB

This is our first survey since China officially lifted almost all of the COVID containment measures. With China's borders opening up after three years, in Q1 China's GDP growth rate improved to 4.5% y/y. The official GDP growth target this year is set at around 5%, and with a good start to the year, **SEB's forecast for GDP growth in 2023 is still at 5.9%.**

Looking at the overall changes to the index components, we see positive trends for "order intake" and "profit", with both indices improving by seven points in the latest survey. Half of our respondents expect +5% to +20% sales growth over the next six months, while six months ago 53% of the companies expected -/+5% development on the top line.

Profitability follows the same trend: those companies previously expecting -/+5% profit growth changed their view during this survey, with 43% of the respondents now expecting +5 to +20% profit growth. On the other hand, the investment and staffing indices are lower, and companies are worried about customer demand, competition and geopolitical risk, which has halted decision-making at the headquarters about new investments in China and expansion in terms of new staff hires.

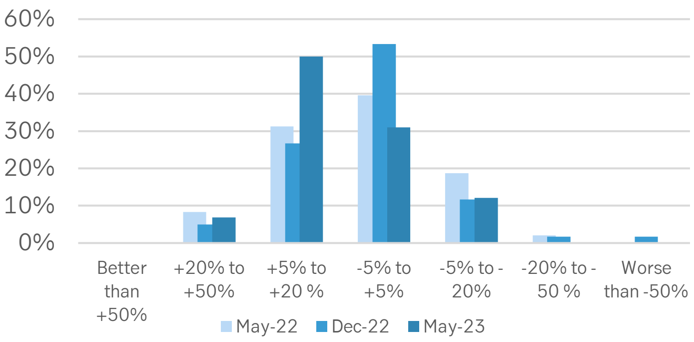
Index values



Source: SEB

Sales figures, year over year, remain broadly positive, as 51% of respondents reported sales growth above 5% as compared to the second half of 2022. And 31% of respondents reported -/+5% sales growth. However, there is an uptick in corporates (19%) finding themselves in negative territory with sales growth worse than -5%, compared to six months ago, and more companies experienced a drop in sales in the first half of 2023. Meanwhile, in terms of expected order intake among respondents in the next six months, we see a clear shift from -/+5% growth in the previous survey to +5-20% now, reflecting a restoration of companies' confidence given China's positive economic development in 2023.

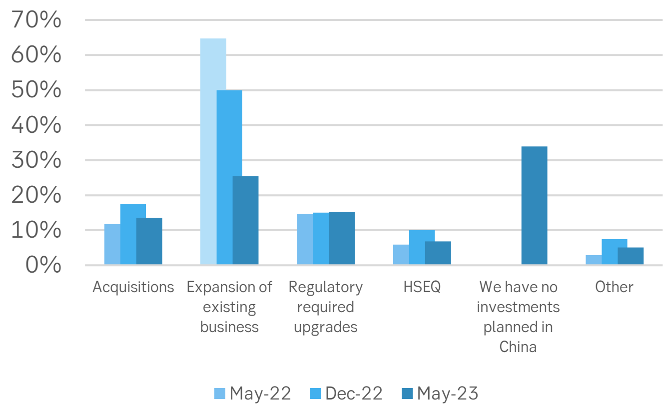
Expected order intake over the next six months



Source: SEB

New investments are expected to slow down. Some 60% of respondents expect investments to remain unchanged, and 33% report "modest investment plans". It's also interesting to see that the number of "major investments" and "divestment part of current holdings" have the same percentages at 3%, reflecting a divergence of strategies in China. Overall the *Investment index* is lagging compared to the previous survey, which we find understandable given the closure of China's borders for the past three years or more. With no on-site visits and only online meetings, foreign companies were unable to make decisions about new investments. Geopolitical developments in the past three years may have also impacted their investment decisions negatively, in our view.

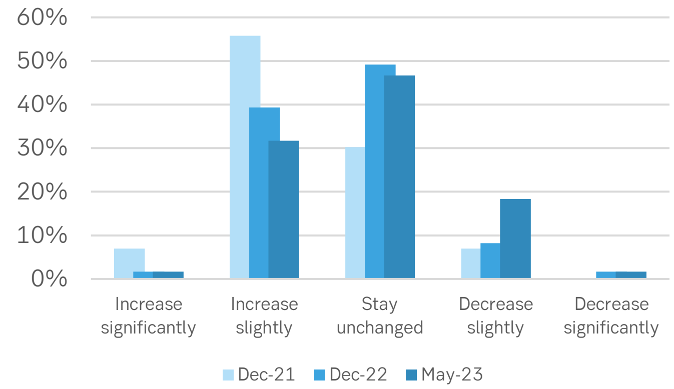
Nature of investments



Source: SEB

For those companies that have investment plans, one-fourth of respondents gave expansion of existing business as their first choice for investment plans, acquisitions and regulatory required upgrades sum up to 30%. On the staffing side, 47% of respondents plan to keep their existing staff numbers unchanged, while the number of companies planning slight increases to staffing over the next six months continued to drop, and 18% of respondents expect to cut staff numbers. This result is in line with companies' plans to halt new investments in China. Overall the index component *Staffing* decreased from the survey in December last year (from 56.2 to 52.7).

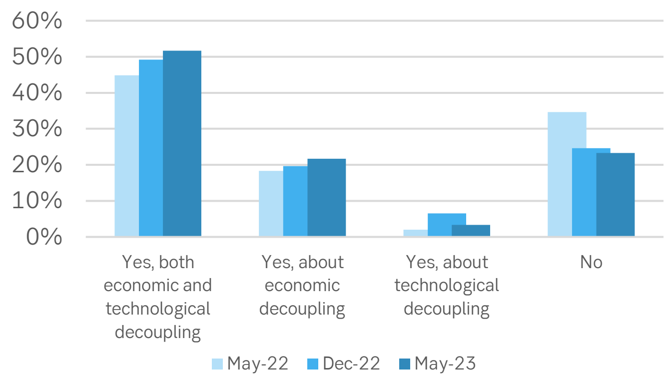
Staffing Outlook



Source: SEB

The 'trade war' since 2018 and the strict COVID policy in China since 2020 have led to European companies becoming increasingly concerned about a decoupling between China and the West. There is an increasingly negative sentiment and anxiety among foreign executives. Overall 77% of respondents are worried about either an economic or a technological decoupling. This is mirrored in the clear decline in the number of respondents stating they are not worried about a decoupling. With decoupling as a likely scenario, it seems the strategy of "in-China-for-China", where the China operations are more self-sufficient, is gaining traction. Meanwhile, Chinese government officials have been busy meeting with senior executives from multinational corporates. In early June, the CEOs of Tesla, Starbucks, and JPMorgan met separately with senior Communist Party officials. In April, French President Emmanuel Macron took CEOs from Airbus, L'Oréal and Alstom with him to visit China. Previously, German Chancellor Olaf Scholz brought executives from Volkswagen, Siemens, Adidas to China in November last year, when China still had the zero-COVID regime. All of these visits resulted in fruitful orders. There is a hope in the local market that the ice will gradually melt when people start to meet face to face and talk to each other.

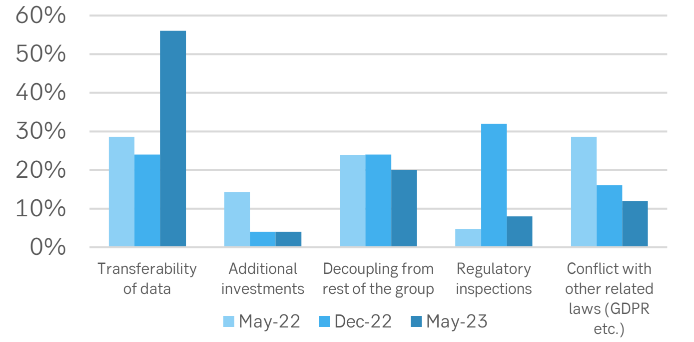
Are you worried about decoupling?



Source: SEB

Apart from a decoupling, it seems evident that respondents are concerned to a larger extent about the state of data and cyber-security requirements in China. With the implementation of China's Data Security Law in 2021, we started to ask our clients if corporates are worried about the state of data and cyber-security requirements. Some 52% responded "Yes" in the latest survey, which is an increase from 35% one year ago and 40% six months ago. Most of the concerns are related to the "transferability of data" (56%) and "decoupling of data from the rest of the group" (20%). The word "decouple" appears again, revealing the concerns among foreign corporates over access to data in China.

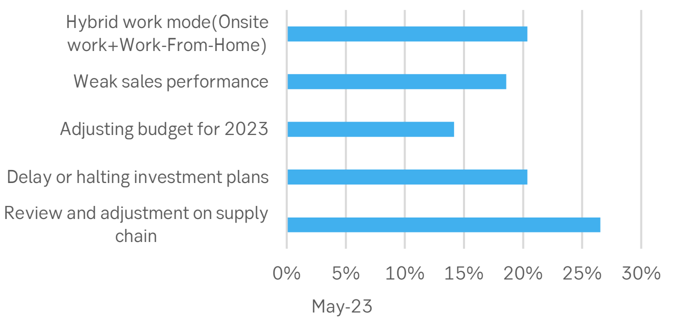
State of data and cyber-security requirements – Main concern



Source: SEB

COVID remains an inevitable question, although we have passed the peak wave and the tight controls have eased. With the second wave of COVID-19 surging in China recently, people here are less concerned. COVID affected our respondents mostly in terms of needing to make supply chain adjustments – 27% of respondents said they had reviewed and adjusted their supply chains. The second biggest impact of COVID is the way people work: companies in China tend to follow the global model of hybrid working, with onsite plus work-from-home becoming more popular. However, this hybrid model is only applicable to white collar workers. For industrial companies with machines running continuously, this model does not work. Also, the hybrid work model is not common among state owned or privately owned companies in China. The third effect of COVID, which accounts for 20% of the responses, is "delay or halting investment plans", and this result is in line with our survey on investment items. COVID restrictions in China and geopolitical developments have impacted investment decisions at the companies' headquarters negatively.

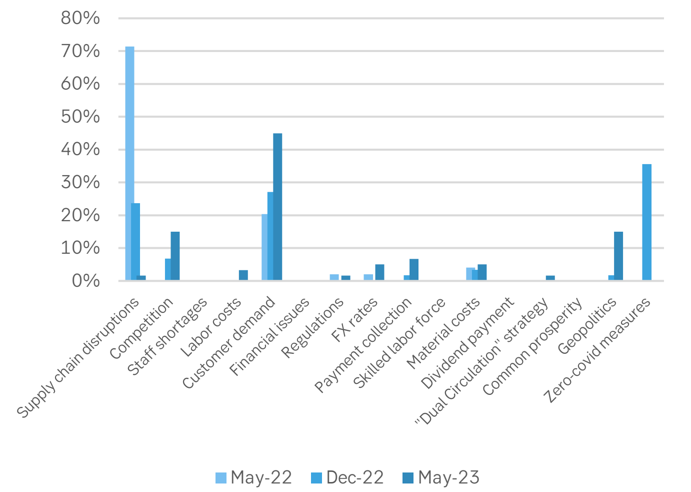
How has the past 3-year COVID outbreak changed your business model in 2023?



Source: SEB

Customer demand is now the main concern among corporates over the next six months. Some 45% of respondents replied that customer demand is their top concern in the next six months, while competition and geopolitics each account for 15%, showing the more longer-term nature of these worries. After the opening up, companies' concerns over supply chain disruption have normalised and have decreased significantly since we did our survey 12 months ago during Shanghai's severe COVID controls. Chinese household savings accumulated to a peak during the COVID outbreak but the habit of consumption seems to need more time to recover. As for the second biggest concern, one-fourth of the companies chose "staff shortages". This may be due to the departure of foreign expats during the COVID lockdowns and the difficulty in replacing them. The halting of new investments and subsequent freeze on headcounts and budgets are also likely explanations, in our view.

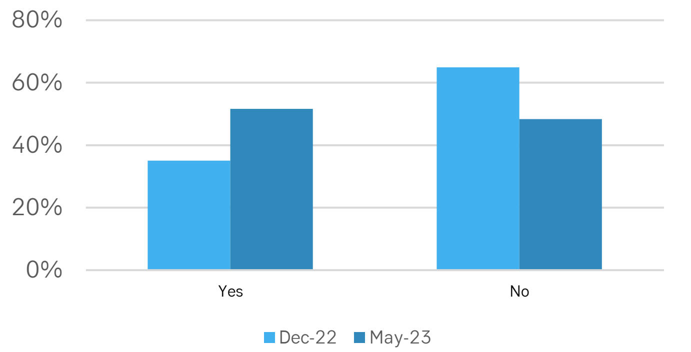
What is your main concern over the next six months?



Source: SEB

Concerns over geopolitical risk have picked up in the past 6-12 months. In December 2022, we started asking respondents about changes in their views on the political/geopolitical risk. Some 52% of the respondents replied "yes", indicating increasing concern among executives living in China.

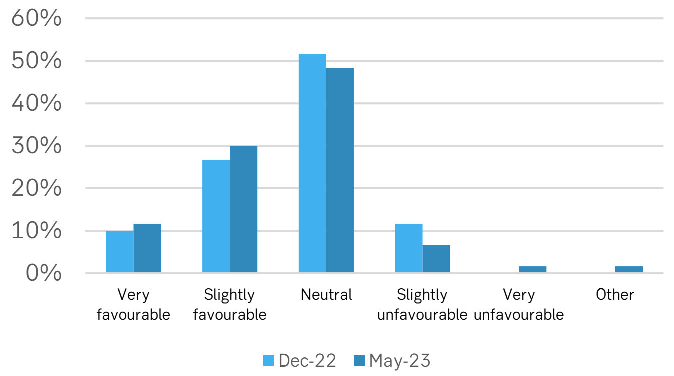
Have you changed your view on the political/geopolitical risk operating in China?



Source: SEB

Since December 2022 we have been asking our customers about the topic of ESG. Overall 42% of our respondents view that ESG has had a very favourable or slightly favourable impact on their business, which is consistent with the Chinese government's focus on decarbonisation. It's interesting to see that one respondent chose "other" and commented that "it's a benefit from a long-term perspective, but short-term wise, investment is required".

Have ESG standards on a group/local level had any impact on your business in China?



Source: SEB

Our conclusions

The survey results show an overall improvement in sentiment, especially for the outlook in the next six months. Companies' confidence in new orders and profitability pushed up the index value, while concerns about geopolitics and COVID disruptions weighed on new investments and staffing, dragging down the index value.

Information about the survey

SEB's China Financial Index was first launched in 2007 and is based on input, in this edition, from CEOs, CFOs or Treasurers at 60 subsidiaries of major Swedish, Finnish, Norwegian, Danish, German, British and Swiss companies. Most of the surveyed companies have a global turnover above EUR 500m. The survey is web based and confidential and was carried out from 4 May to 26 May 2023.

China Financial Index – composition

SEB's China Financial Index in the spring of 2023 displayed a value of 57.8, indicating a recovery in optimism sentiment in the business environment compared with the survey in December 2022. A value of 50 indicates a neutral view. The index is based on four components with the following ranking in the survey: Order Intake 60.3, Profit Expectations 60.7, Investment Plans 57.3 and Employment Plans 52.7.

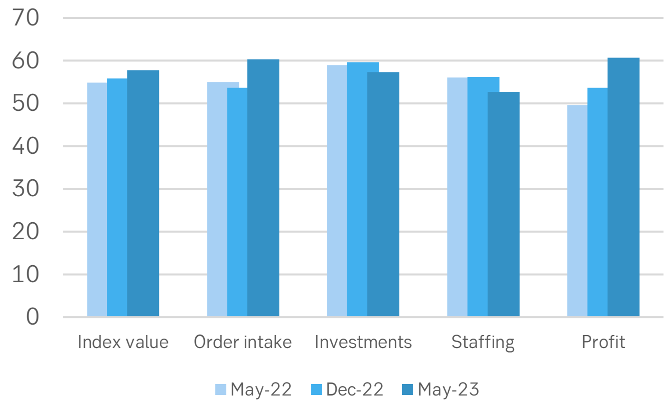
Forecasts – Real GDP, % y/y

	2022	2023	2024
China	3.0	**5.9**	**4.9**
India	6.7	**5.3**	**6.5**
Indonesia	5.3	**5.5**	**5.0**
Malaysia	8.7	**4.0**	**4.5**
Philippines	7.6	**6.2**	**5.2**
Singapore	3.7	**0.4**	**2.7**
South Korea	2.6	**1.2**	**2.0**
US	2.1	**0.7**	**0.9**
Eurozone	3.6	**0.6**	**1.6**
Japan	1.0	**1.5**	**1.3**

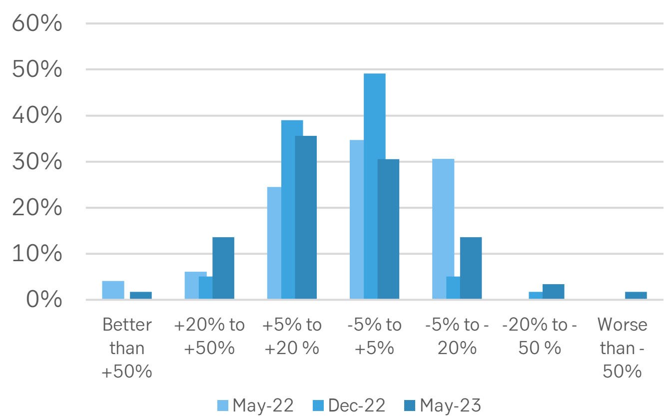
Source: Bloomberg, CEIC, SEB

Please note: The following graphs are all produced by SEB and represent all the questions in the latest China Financial Index, as well as historical surveys (if applicable).

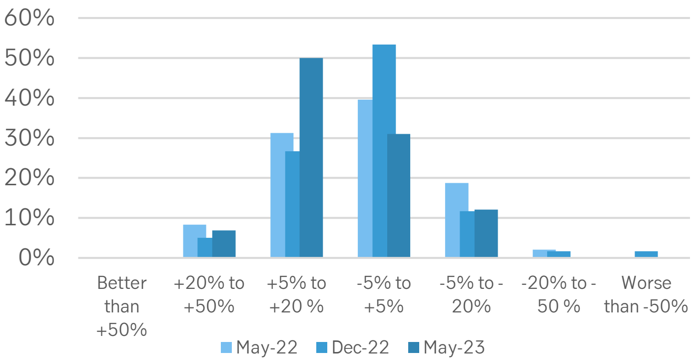
1 – Index values



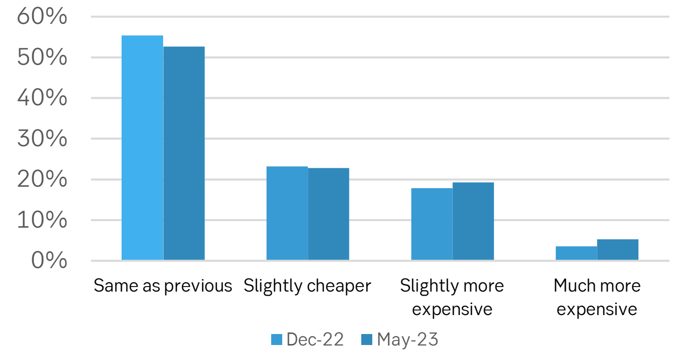
2 – Y/y sales development (H1/23 vs H1/22)



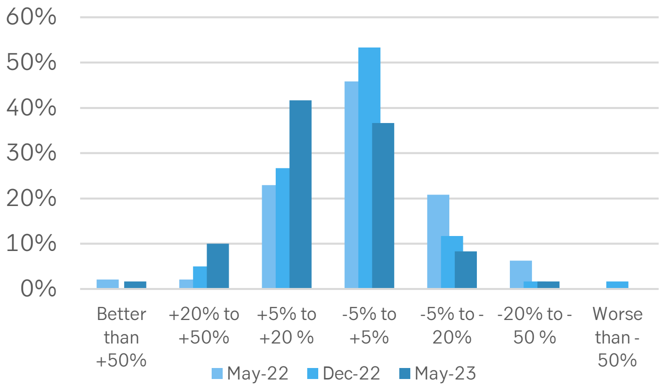
3 – Sales outlook (next six months)



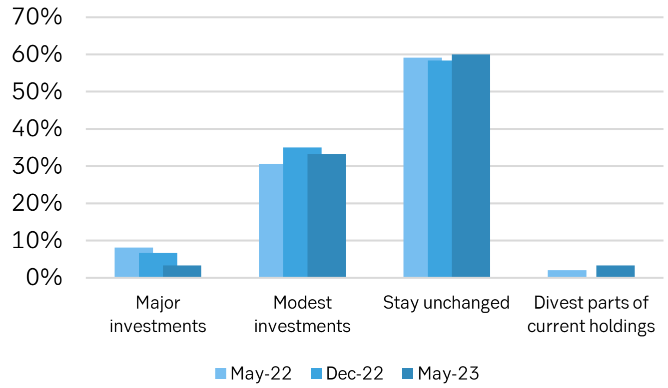
7 – Borrowing Cost



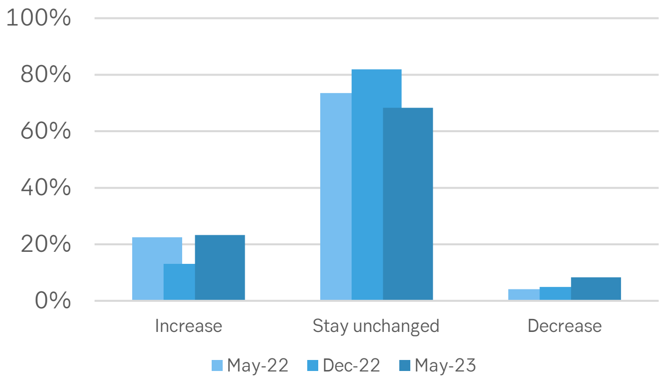
4 – Profit outlook (next six months)



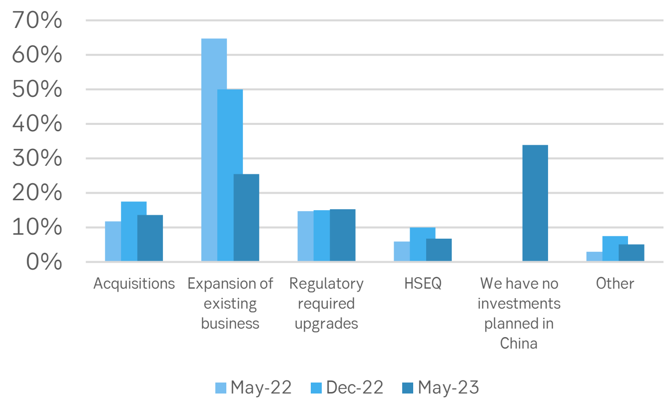
8 – Investment plans



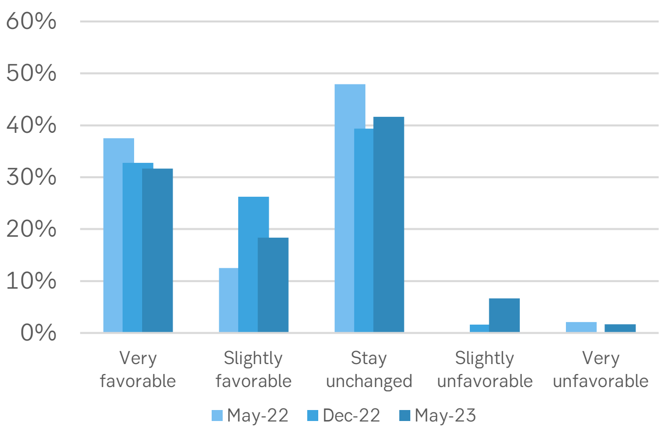
5 – Borrowing outlook (next six months)



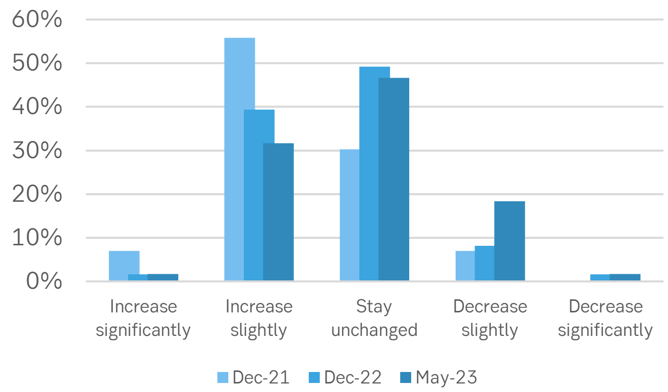
9 – Type of investment



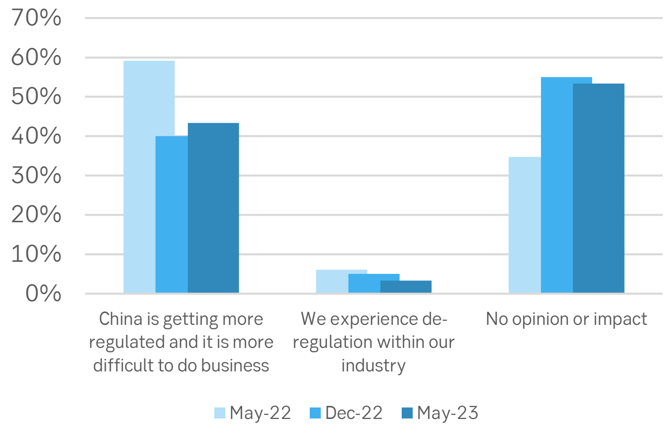
6 – Banks' lending attitude



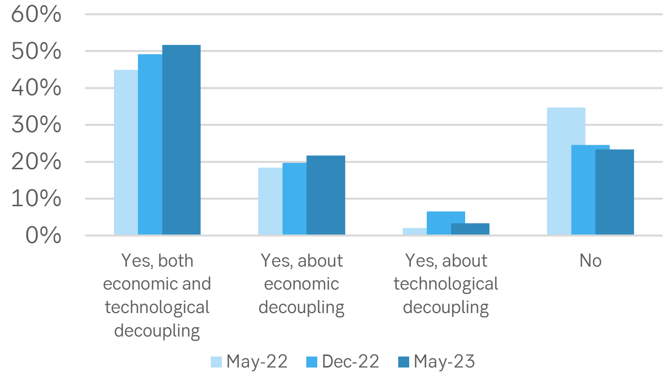
10 – Staffing development



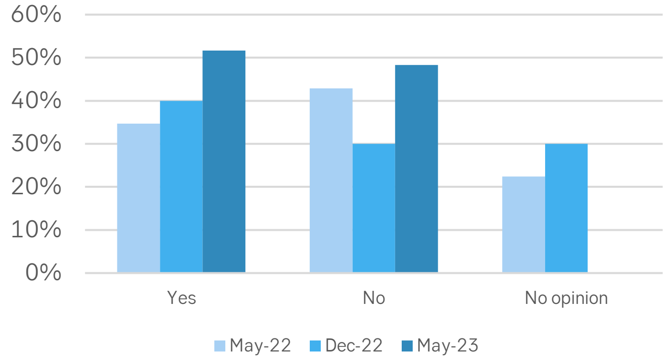
11 – Regulatory development in China



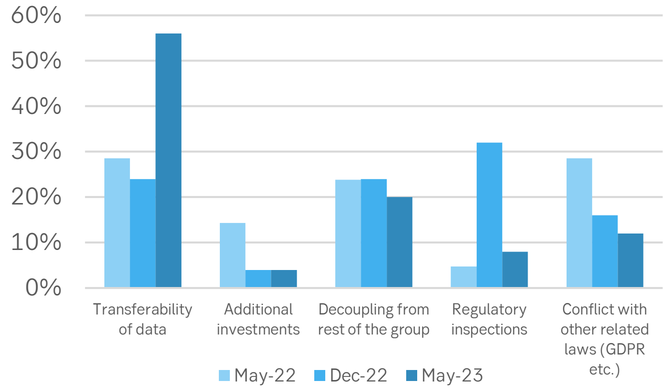
12 – Worried about decoupling?



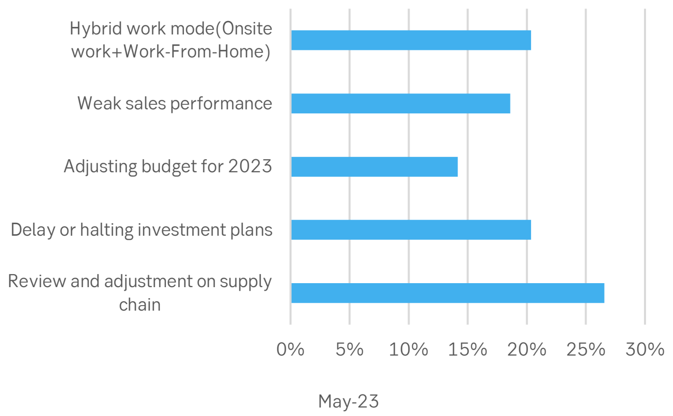
13 – Worried about data/cyber security?



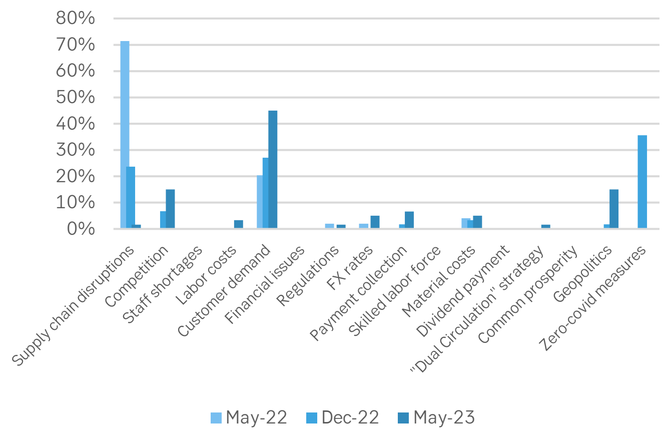
14 – Main concern regarding data/cyber security



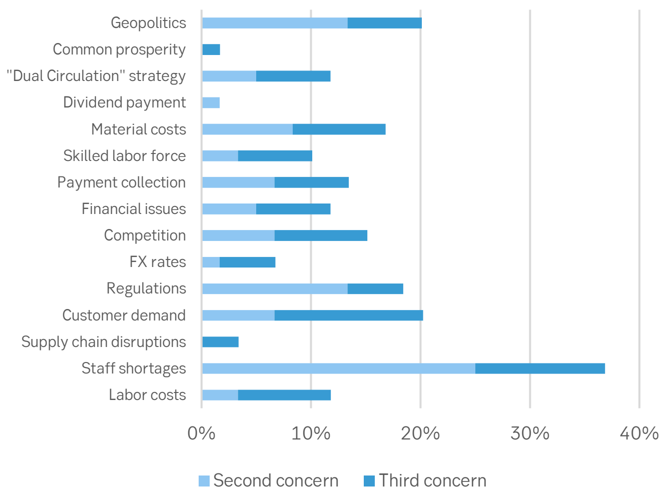
15 – Impact of COVID on business mode



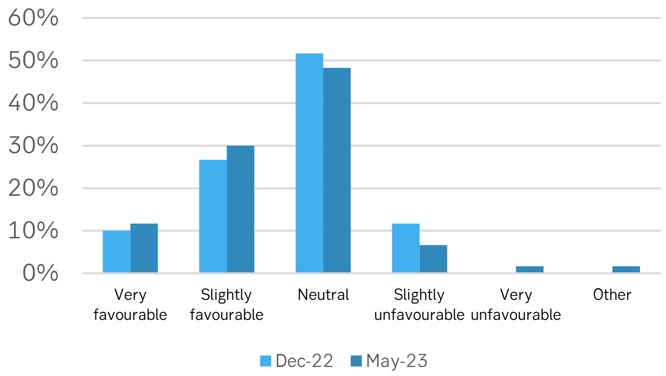
16 – Main concern over the next six months



Second and third concern over the next six months



17 – ESG impact



18 – Changed view on geopolitical risk