

China Financial Index



January 16, 2024

Long-term optimism weakens

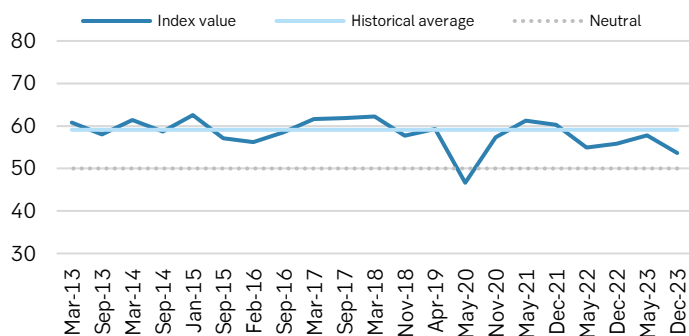
- The SEB China Financial Index for the autumn settled at **53.6**, a notable drop from 57.8 in the previous survey conducted in May and an index value of 55.8 posted one year ago after the lifting of Covid restrictions.
- More than half of the respondents rank customer demand as the main concern – a steady increase to 53%, from 45% recorded in May 2023. Meanwhile, geopolitics worries are receiving less attention.
- Long-term optimism among Northern European companies weakens, as an increasing number of respondents anticipate lower growth prospects over the next six months.

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The second half year of the China Financial Index (CFI) suggests that confidence is waning, as the index dropped to 53.6, based on the survey conducted between 11-24 November. The half-year survey reflects growing market uncertainty, and the index value is its lowest since the CFI results in May 2020 (which were largely affected by the widespread Covid outbreak). However, the decrease in the index value is aligned with our expectations, given that earlier forecasts for an economic recovery never materialised. Consequently, Northern European companies are more cautious in their growth projections. The Autumn Survey 2023 mirrors the current business climate and challenges facing China, as 'customer demand' is highlighted as the primary concern among the participants. Despite notable parallels between Northern European entities and the general economic state in China, the survey results are widely polarised, presenting a scattered picture of the business landscape for our corporate client base operating in the Chinese market.

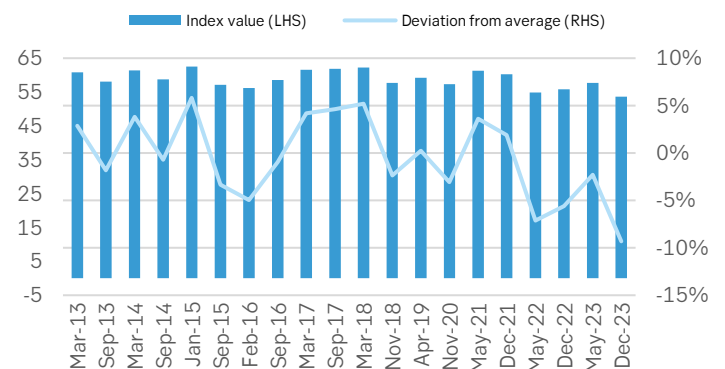
Historical performance of the CFI



Source: SEB

We have observed a positivity bias from respondents when analysing historical data of the index, as the index value tends to be higher than 50 (neutral) except for in May 2020 (due to Covid). Given the positivity bias, the deviation from the historical average is more interesting than the absolute value of the index. The historical average since March 2013 (excluding May 2020) is 59.1, with a standard deviation of 2.34. Looking at the index score for December 2023, **the current deviation from the historical average is -9%, a notable difference from previous results.**

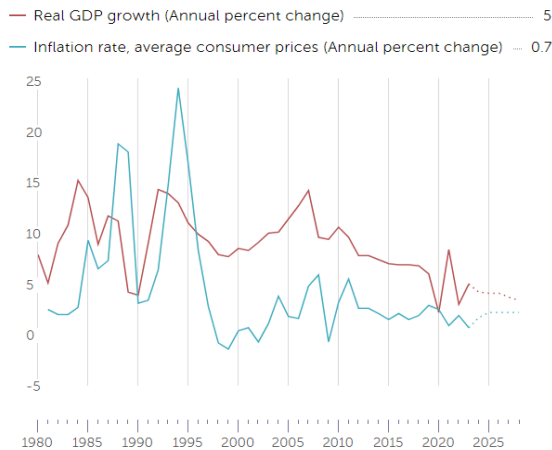
Deviation from the historical average



Strong post-Covid recovery

Since its reopening and the lifting of Covid lockdowns, China has garnered global attention, with its economic progress closely scrutinised. The world has observed China grappling with decelerating growth and a real estate crisis. Despite those headwinds, China is on track to meet its GDP growth target of 5% in 2023, and the growth forecast was raised to 5.4% by the

International Monetary Fund as recently as November 2023. **SEB's forecast for GDP growth in 2023 remains at 5.2%, the same as projected in August 2023.**



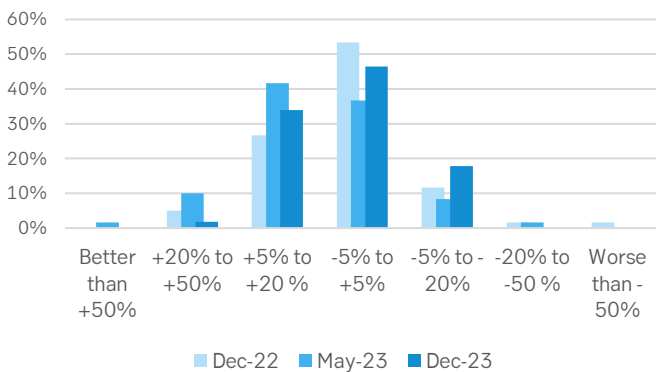
Source: IMF

Confidence is waning

The index components score lower on all accounts, and we notice a general downward trend in growth projections. Compared to the first half-year survey, carried out in May 2023, expectations for sales and profit are deteriorating. 46% of companies expect 'order intake' and 'profit' to be between +/-5% in the coming six months, an increase from the 37% reported in the May figures. However, on a year-on-year comparison, companies are more optimistic in their growth forecasts, suggesting that predictions six months ago were overly optimistic.

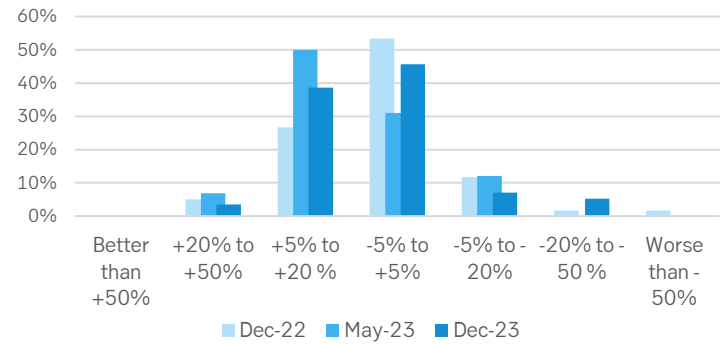
More respondents project an increase of between +5% and +20% in 'order intake' and 'profit', an improvement of 12 and 7 percentage points respectively compared to December last year. Similarly, fewer respondents expect sales to drop below -5%, a 4-percentage point shift compared to the previous year, while the percentage is on par with May 2023 results.

Profit outlook



Source: SEB

Sales outlook



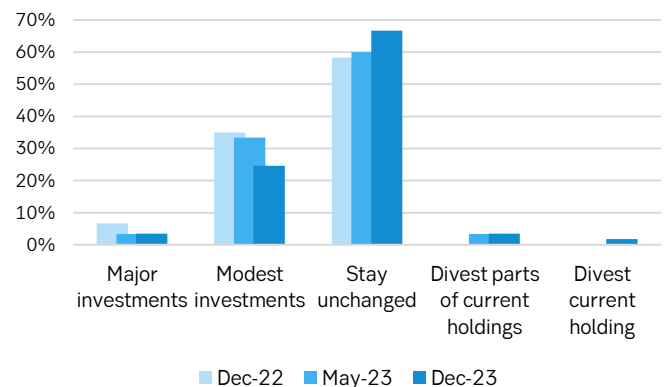
Source: SEB

Investment levels and staff recruitment have halted, a trend already observed in the May 2023 report. Corporates approach investments with greater caution, awaiting market developments before committing, as indicated by 67% of the respondents stating that investment plans remain unchanged – an upswing from 60%, six months prior.

We notice that fewer companies are planning new investments compared to the May 2023 and December 2023 figures, while the number of companies intending to liquidate their holdings has increased. However, companies reporting divestment plans are still a minority.

In total, 29% of respondents will undertake new investments, of which 25% are modest and 4% major, a consistent downwards movement from December 2022. Looking at the decline over a full-year timeframe, companies that made investments in December 2022 are not likely to have any new investment needs. Conversely, 6% of respondents indicate plans for divestment, of which 4% stated they will divest 'parts' of their holdings and 2% stated they will fully divest their holdings, a consecutive increase from the year-on-year results. Despite the notable dip in investment patterns, China remains a vital market for numerous corporates, as we have noted from our daily interactions with our clients, and we deem the prospect of those companies exiting the market to be very slim.

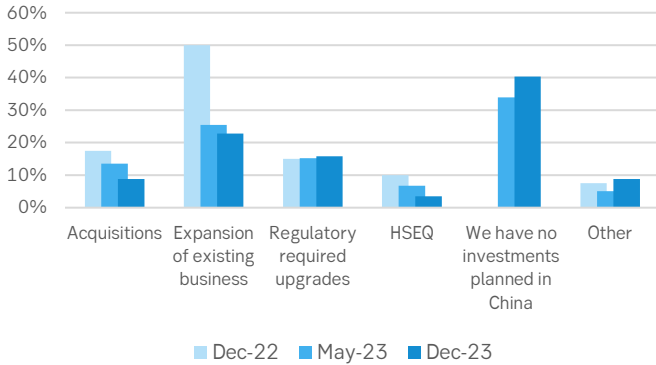
Investment plans



Source: SEB

Out of the respondents who plan to undertake new investments, 23% plan to direct them towards the expansion of existing business, 16% state that the nature of the investment is due to regulatory required upgrades, 9% is acquisitions, 9% is other, and 4% is for health, safety, environment, and quality (HSEQ).

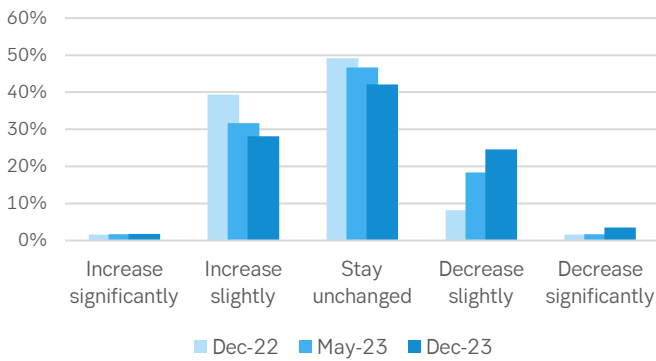
Investment nature



Source: SEB

Workforce planning continues to dwindle, as 25% report staffing will 'decline slightly', a surge from 18% posted in May 2023, while 4% expect staffing to 'decline significantly' in the next six months, marking a two percentage point increase from May 2023. While staffing can be correlated with market confidence, the ongoing exodus of foreign nationals can also play a role in the continued decline in the hiring new employees.

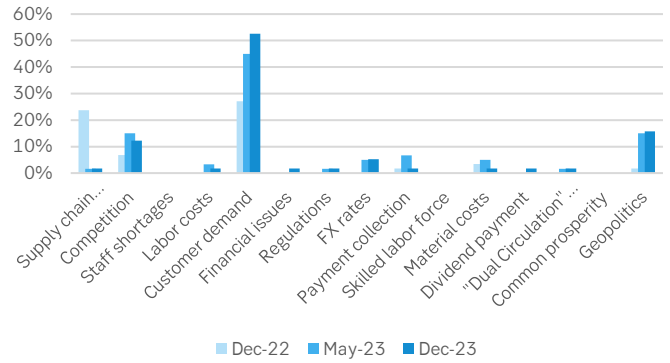
Staffing outlook



Source: SEB

Customer demand is the most pressing concern. An increasing number of respondents voiced elevated concerns about customer demand, as indicated by more than half of respondents. The half-year report in December 2023 demonstrates a consistent increase from 45% to 53% over the past six months. Companies identified geopolitics and competition as the second and third largest concerns respectively (accounting for 16% and 12%). In the past three years, competition in China has intensified, leading to declining profit margins across the board. While fears during Covid were concentrated on supply chain disruptions, the number has now plummeted by 22 percentage points year-on-year.

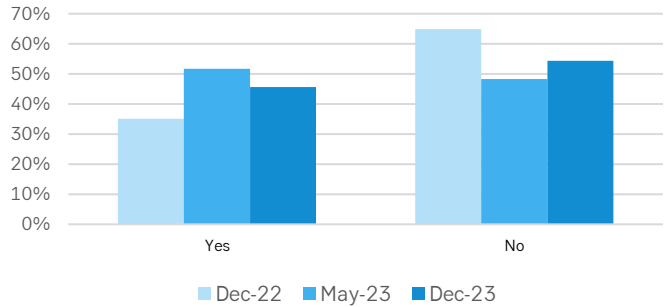
What is your main concern over the next six months?



Source: SEB

The perception of risk appears to have stabilised, as fewer participants experienced changes in their own or their organisation's view on the political and geopolitical risk of operating in China. The latest survey indicates a decline to 46%, from 52% in the preceding six months. Among those who affirmed this change, 65% noted a 'slight impact' on their operations, 27% reported a 'large impact', and 8% observed 'no impact'.

Have you or your company changed their view on the political/geopolitical risk of operating in China?

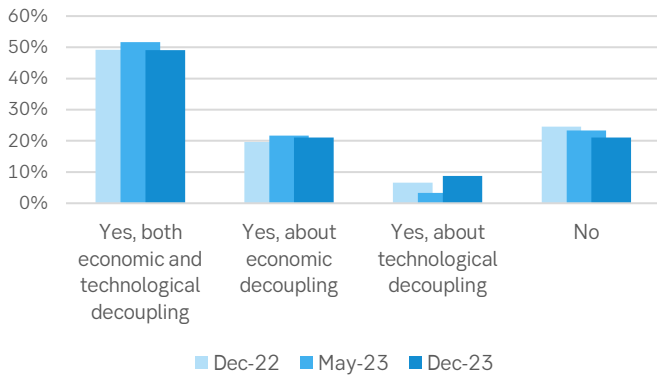


Source: SEB

China's regulatory landscape continues to be a source of worry, with 48% of surveyed companies expressing concern, an uptick from 43% in May.

Decoupling remains an issue for Northern European companies, with 49% concerned about economic and technical decoupling, which is on a par with year-on-year measures. However, 'technological decoupling' is becoming a growing worry, singled out by 9% of respondents for a notable rise from the 3% recorded in the first-half-year survey 2023.

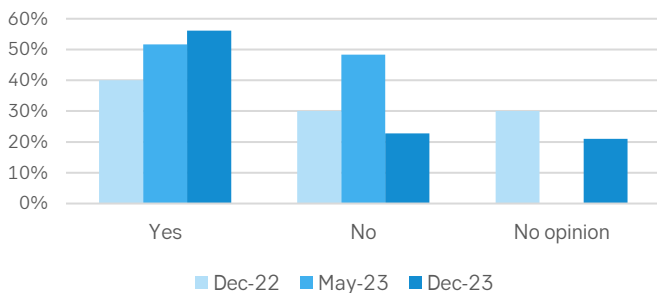
Are you worried about decoupling?



Source: SEB

As China’s regulatory environment is becoming more stringent, so are developments in the data and cyber security space. The latest survey shows that 56% of respondents expressed concern about the state of cybersecurity in China, an increase from 52% six months ago.

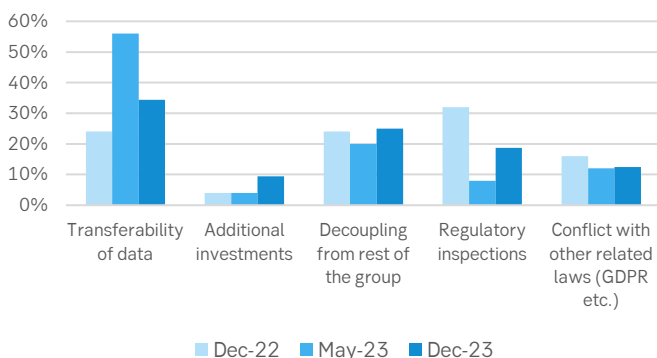
Are you concerned about the state of data and cyber security?



Source: SEB

Of these 56%, the main reasons behind their concerns relate to the transferability of data (34%), decoupling from the rest of the group (25%), and regulatory inspections (19%). The heightened implementation of data security laws has prompted concern among businesses.

Main concern regarding data/cyber security?



Source: SEB

Our conclusions

The latest survey shows a pattern of growing uncertainty, mostly related to customer demand. Concerns regarding China’s regulatory landscape and cybersecurity have intensified. Despite weaker business sentiment and a dampened growth outlook among companies surveyed, there is little indication that Northern European companies are planning to exit. Instead, companies are adopting a more cautious approach, awaiting the next market developments in China.

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 57 subsidiaries of major Swedish, Finnish, Norwegian, Danish, German, British and Swiss companies. Most of the surveyed companies have global turnover above EUR 500m. The survey is web-based, confidential and was carried out between 11 November and 24 November 2023.

China Financial Index – composition

SEB’s China Financial Index in the autumn of 2023 displayed a value of 53.6, indicating weakened long-term optimism in the business environment compared with the survey conducted in May 2023. A value of 50 indicates a neutral view. The index is based on four components with the following ranking in the survey: order intake 55.6, profit expectations 53.9, investment plans 54.9, and employment plans 50.0. Due to a tendency for positivity bias among respondents, the deviation from the historical average serves as a better indication of business sentiment.

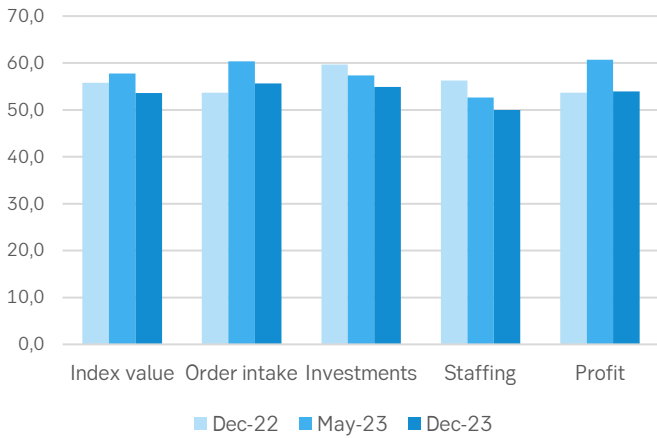
Forecasts: Global GDP growth, % y/y

	2023	2024	2025
China	5.2	4.6	4.5
Japan	1.8	1.2	0.9
United States	2.3	1.1	1.8
Germany	-0.2	0.5	2.0
Sweden	-1.0	-0.4	2.5
United Kingdom	0.4	0.5	1.7
Euro area	0.5	0.7	2.0
Nordic countries	0.2	0.5	2.3
Baltics	-0.7	1.5	2.9
Emerging markets	4.1	4.0	4.1
OECD	1.6	1.2	2.0
World PPP*	3.0	2.8	3.2

Source: SEB, OECD, IMF *PPP= purchasing power parities

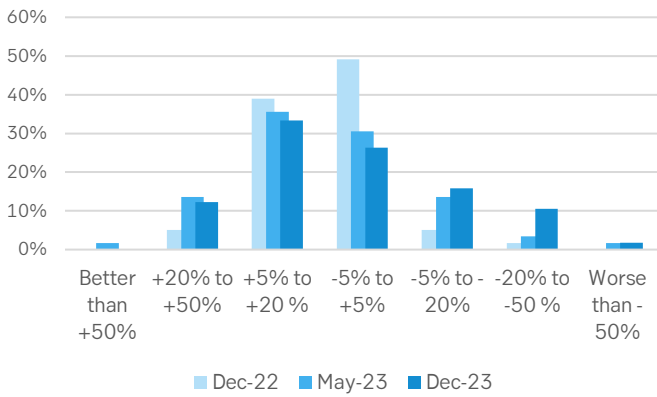
Please note: The following graphs are all produced by SEB and represent all the questions in the latest China Financial Index, as well as historical surveys (if applicable).

1 – Index values



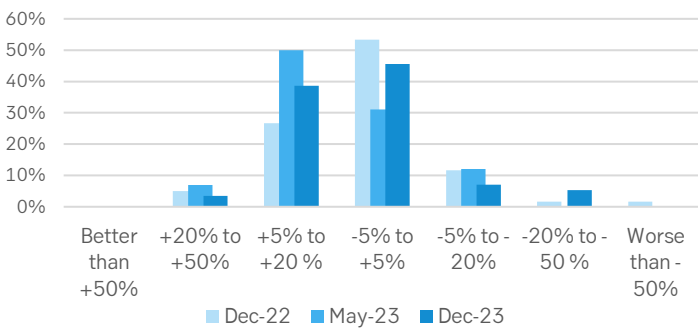
Source: SEB

2 – Y/y sales development (H2/23 vs H2/22)



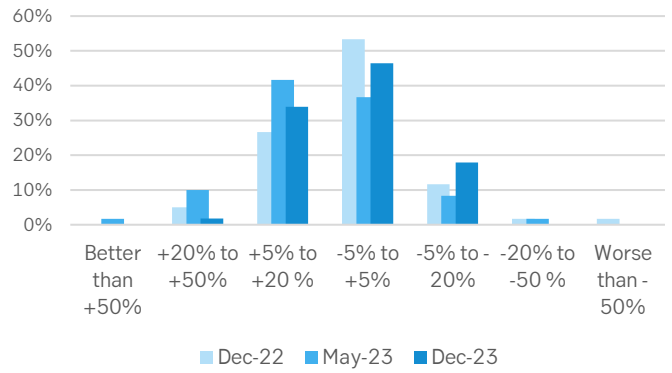
Source: SEB

3 – Sales outlook (next six months)



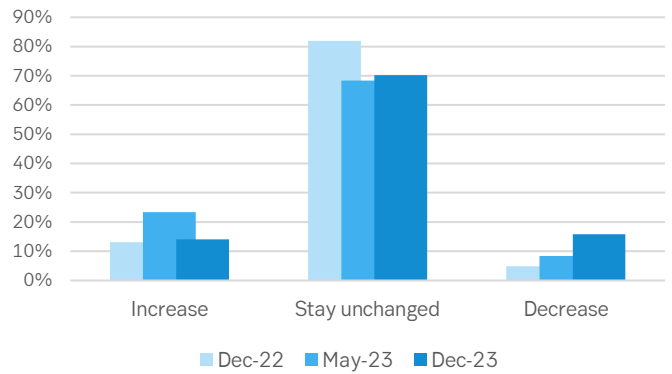
Source: SEB

4 – Profit outlook (next six months)



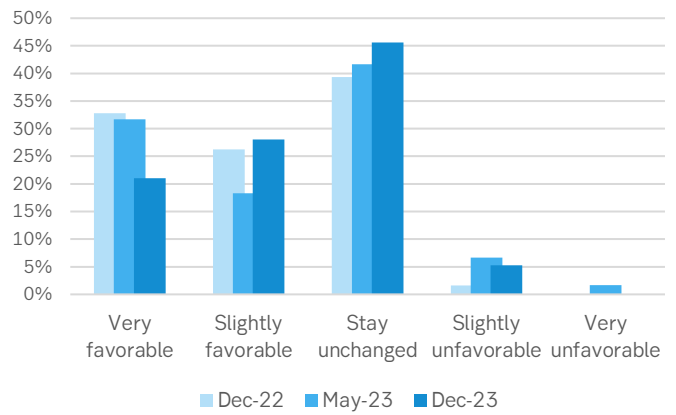
Source: SEB

5 – Borrowing outlook (next six months)

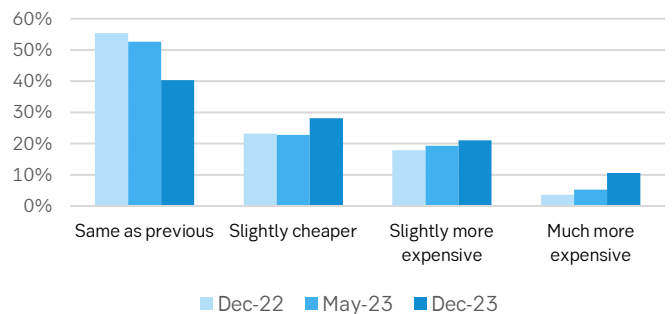


Source: SEB

6 – Banks' lending attitude

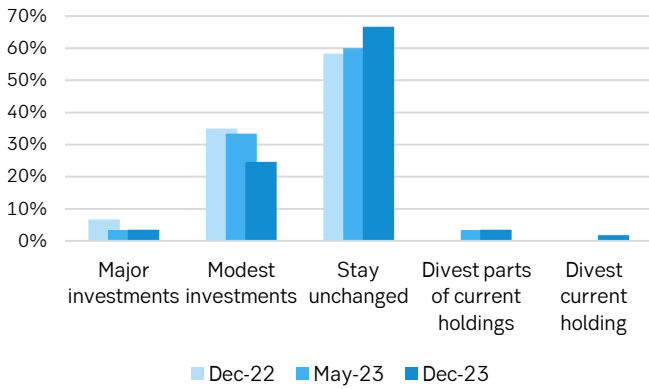


7 – Borrowing Cost



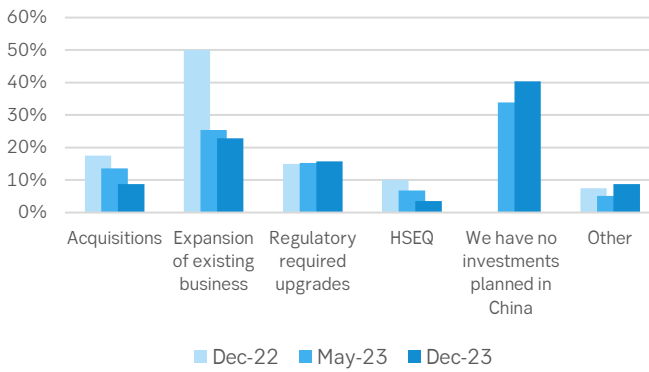
Source: SEB

8 – Investment plans



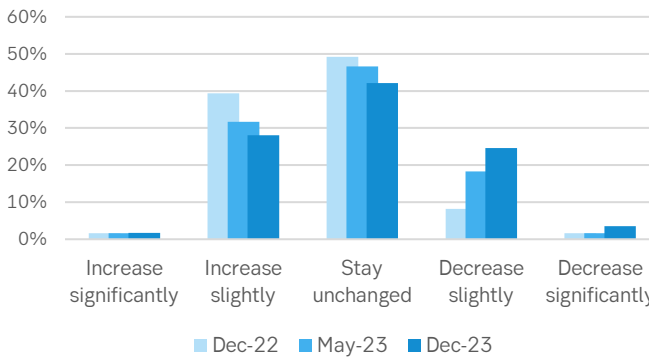
Source: SEB

9 – Type of investment



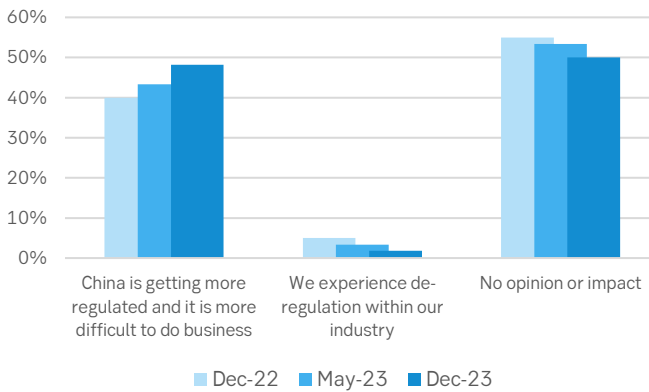
Source: SEB

10 – Staffing outlook



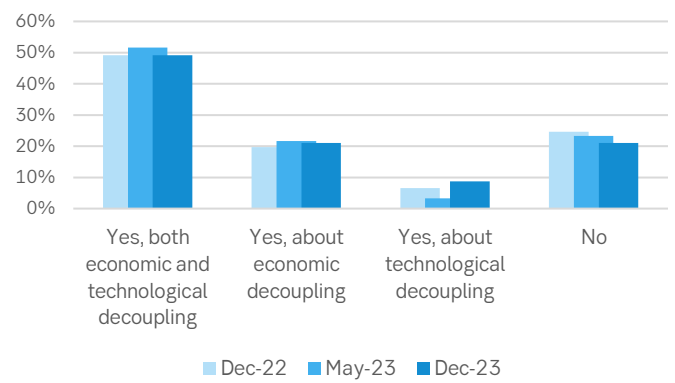
Source: SEB

11 – Regulatory development in China



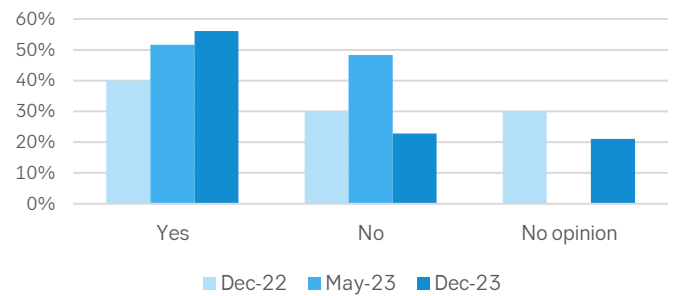
Source: SEB

12 – Concerned about decoupling?



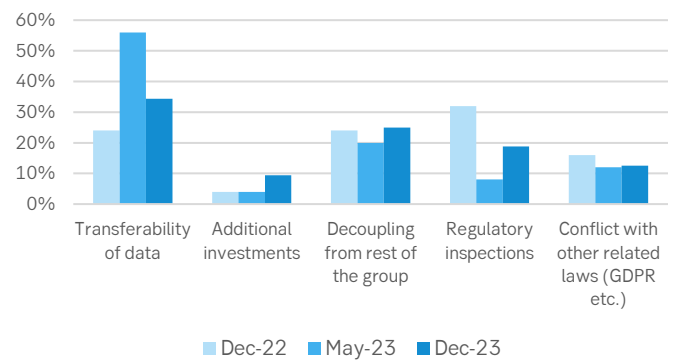
Source: SEB

13 – Concerned about data/cyber security?



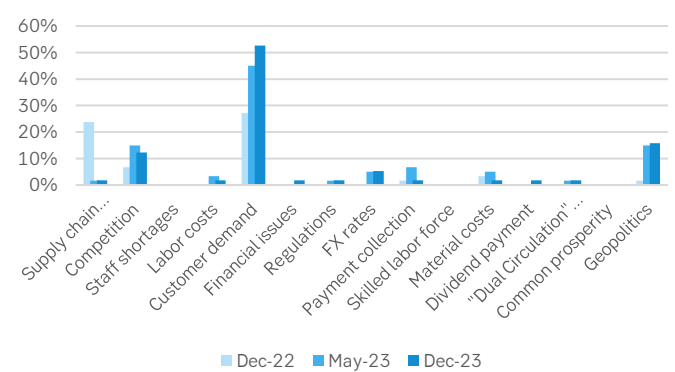
Source: SEB

14 – Main concern regarding data/cyber security



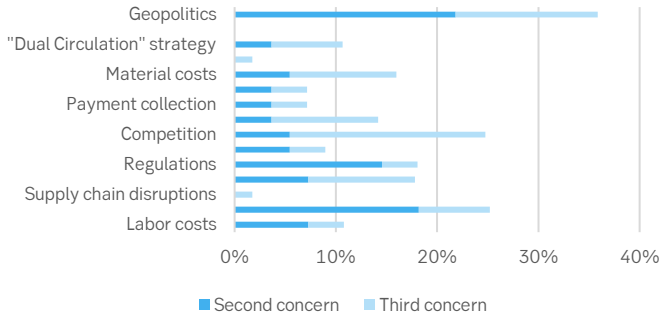
Source: SEB

15 – Main concern over the next six months



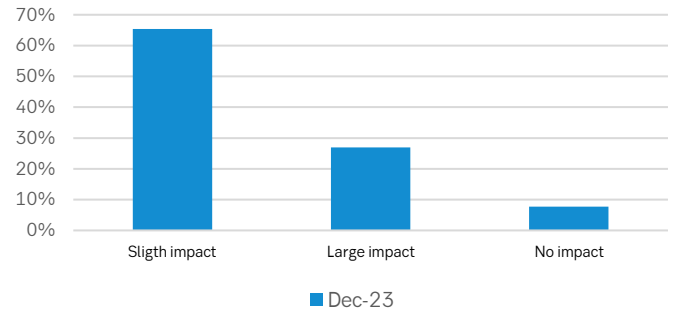
Source: SEB

Second and third concern over the next six months



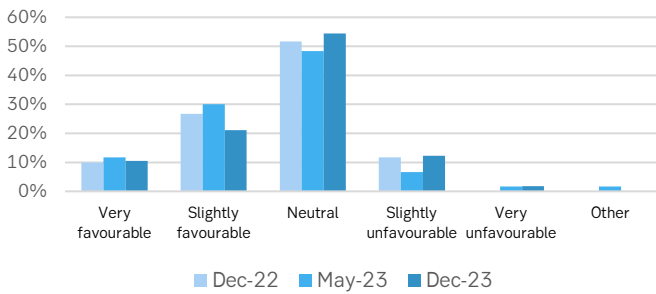
Source: SEB

18 – To what extent has the changed view affected your operations in China?



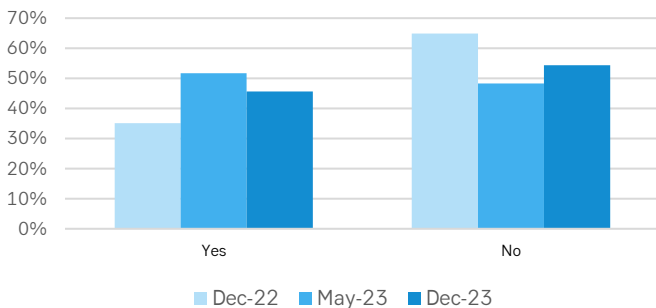
Source: SEB

16 – ESG impact



Source: SEB

17 – Changed view on geopolitical risk



Source: SEB

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