

# China Financial Index



January 8, 2025

## Gloomy year-end

The December 2024 SEB China Financial Index dropped to its lowest since November 2020, marking a clear deterioration in market sentiment.

- **Customer demand, geopolitics and competition** remain the top three concerns for a fourth consecutive time. Also, more companies are concerned about labour costs.
- **Profit growth is challenging.** Among respondents, more than half expect breakeven profit in the following six months. Those expecting growth of over 5% dropped to 23% (from 36%). More companies expect lower profit growth.
- Even though the respondents are Northern European companies, attention on the **US-China trade relationship** has taken over the EU-China relationship as a major worry.

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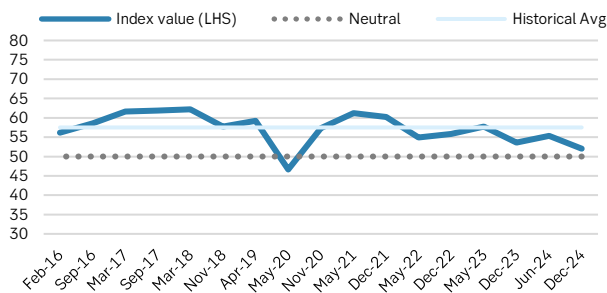
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### China Financial Index (CFI) for the second half of 2024 reflects significantly weakened sentiment among Northern European companies in China.

The half-year result is the lowest since May 2020, when the Covid crisis first hit China. All four components of the index (order intake outlook, investment outlook, staffing outlook, and profit outlook) weakened compared to six months ago. The index is 9.5% below its historical average, the worst negative deviation since May 2020.

The mild upswing in sentiment in the June survey this year descended rapidly, reflecting disappointment in economic performance, as policy announcements disappointed market participants.

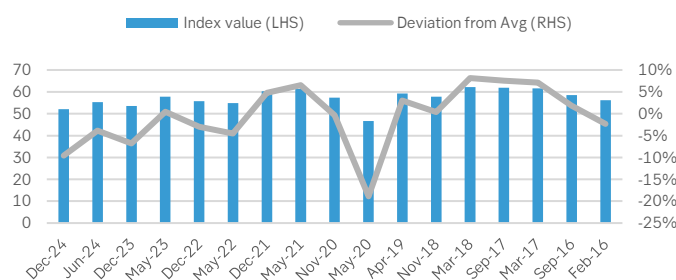
#### Historical trends in the CFI



Source: SEB

Even though the index value remains positive (i.e. over 50), the deviation from the average widened to -9.5%, which is much higher than in the previous survey. The historical average of the index value since February 2016 is 57.7 with a standard deviation of 4.03.

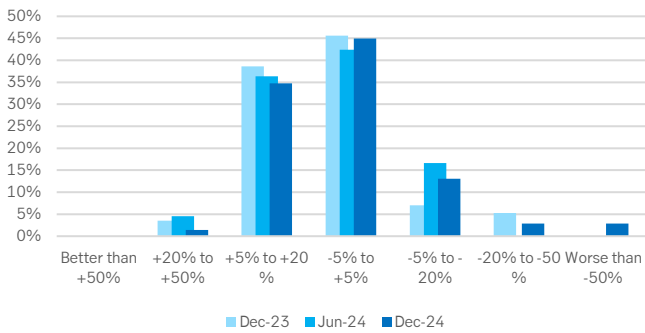
#### Deviation from the historical average



Source: SEB

Sales performance worsened in 2024. 45% of respondents expect sales growth to hover around +/- 5%. The share of respondents that expect 5-20% sales growth decreased to 35% and those expecting over 20% sales growth decreased to only 1%. Around 19% of respondents expect sales to fall more than 5%.

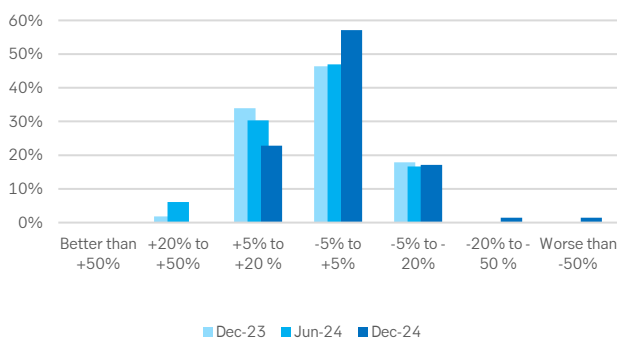
**Sales growth outlook**



Source: SEB

In line with anecdotal observations, profitability has been a challenge for foreign companies in China. The majority of survey respondents (57%) expect profit growth to be around +/- 5%; in other words, about break-even. The share of respondents expecting profit growth of 5-20% dropped to 23% (from 30%), and none expects profit growth of over 20%. Those expecting shrinking profit also increased to a total of 19%, from 17% six months ago. For the first time in the past three surveys, 2% of total respondents expect profit to decrease by more than 50%.

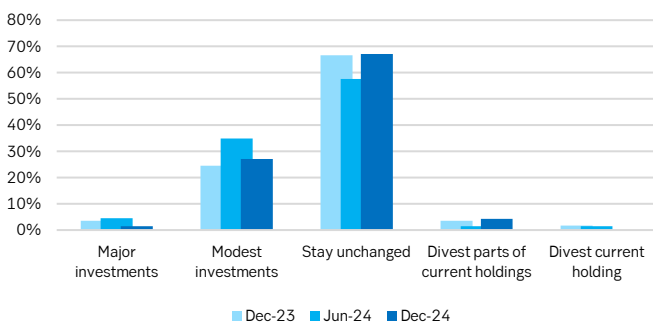
**Profit growth outlook**



Source: SEB

Investment plans remain unchanged for most survey respondents (67%), in line with results last year and national statistics for foreign direct investment. Around 28% of respondents expect modest investments. Though lower than the previous survey (35%), it is slightly higher than the same period in 2023, thus showing a stabilisation in the investment trend.

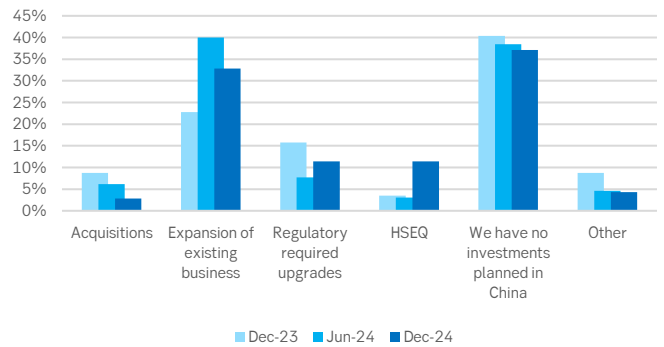
**Investment plans**



Source: SEB

Among companies planning to invest, 56% plan to expand an existing business while 19.5% will invest because of regulatory requirements. The share of respondents that will invest increased to 11% (from 8%). Meanwhile, the share of respondents reporting acquisitions is 4.8%. Around 37% of respondents indicate no plans to invest in China, roughly the same proportion as the previous period.

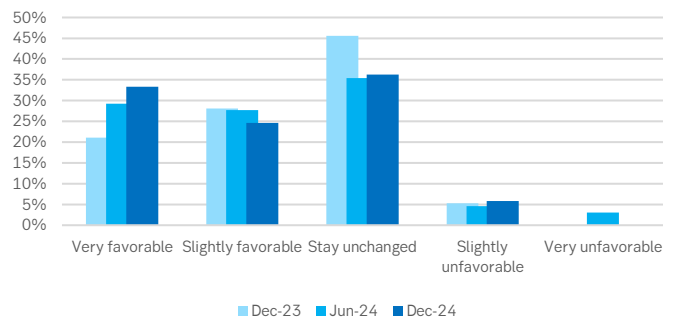
**Nature of investments**



Source: SEB

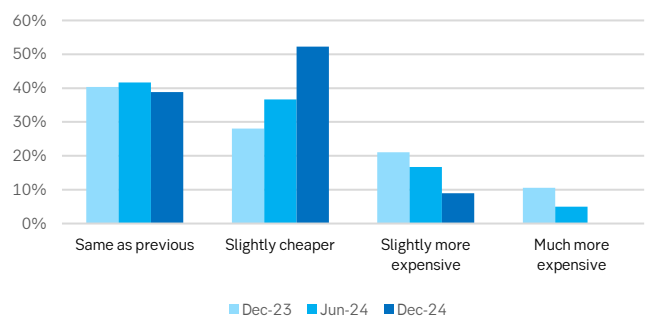
The survey result shows that loose monetary policy in China created favourable financing conditions for companies. Around 58% of respondents view lending conditions as either slightly or very favourable, with the share of those viewing conditions as very favourable steadily increasing. Only 9% of respondents reported an increase in the cost of funding, which is a large decrease from 22%. More than half of respondents report a slightly cheaper cost of funding (from 37%).

**Lending attitudes**



Source: SEB

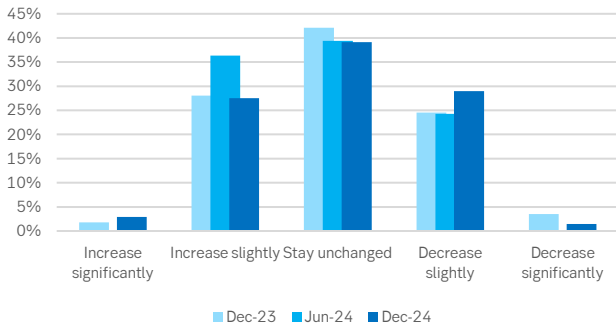
**Borrowing costs**



Source: SEB

The staffing outlook has weakened. The share of respondents expecting to increase headcount fell back to roughly comparable rates a year ago, to 30% (from 36%). Companies with plans to decrease staffing requirements rose to 30% (from 24%). The result is unsurprising considering the overall performance of companies in terms of weak sales and profit growth outlooks. It is also in line with the general employment situation in China.

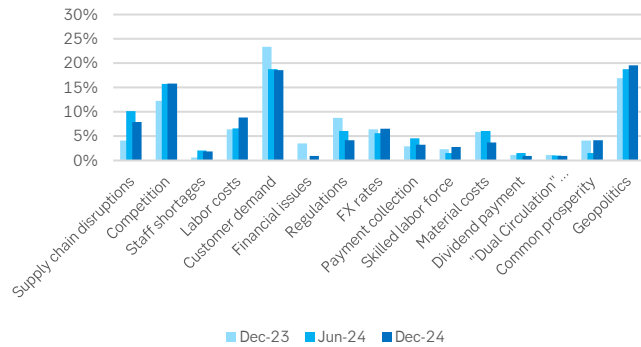
**Staffing outlook**



Source: SEB

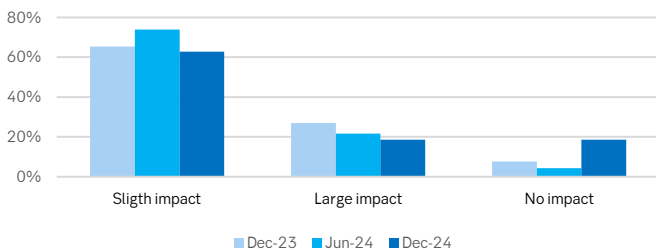
As in previous survey, the top three concerns of respondents remain competition, customer demand and geopolitics. However, for the first time, geopolitics (20%) outweighs customer demand (19%) to become the top concern, partly explained by the US election result and its much-feared impact on US-China trade relations. Interestingly, a few other concerns, such as labour costs and volatile foreign exchange rates, surfaced compared to previous surveys.

**What is your main concern over the next six months?**



Source: SEB

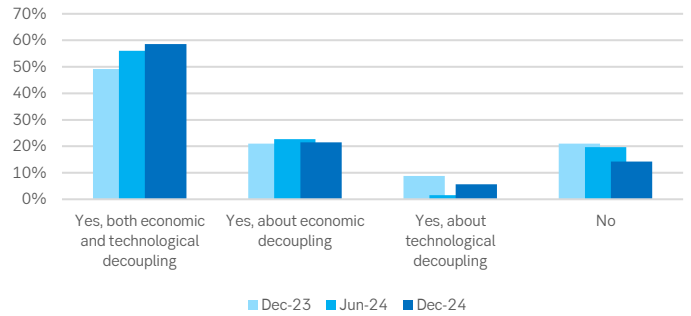
Giving rising concerns about geopolitics, 81% of respondents indicated that the concern would impact company business decisions.



Source: SEB

Among the companies surveyed, the share of respondents worried about economic and technological decoupling continued to rise, to 59%. Concerns about economic decoupling notably outweigh concerns about technological decoupling.

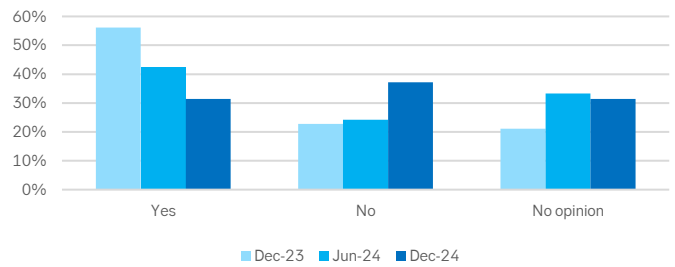
**Are you worried about decoupling?**



Source: SEB

Interestingly, companies that are worried about data and cyber security are substantially fewer (31%) this time compared to the last survey (42%). It stood at 56% in the December 2023 survey. Laws and regulations on data and cyber security were only enacted in recent years and before concrete reporting /application processes were in place. Uncertainty in reporting requirements at the onset could have created confusion at that time.

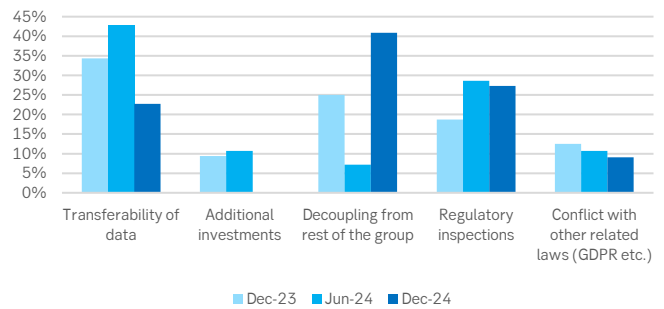
**Are you concerned about the state of data and cyber security?**



Source: SEB

Among respondents who are concerned about data and cyber security, the biggest worry is decoupling from the rest of the group. Concerns about transferability of data decreased to 23%, from 43% in the last survey, indicating some clarity in regulations. Concerns regarding regulatory inspection remain roughly the same as in the previous period, at 27% (previously 29%).

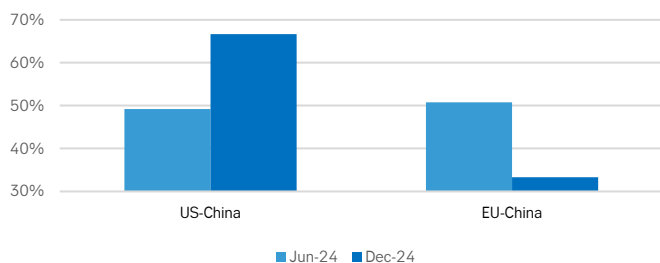
**Main concern regarding data/cyber security?**



Source: SEB

Interestingly, even though our respondents are Northern European companies, more are concerned about the US-China relationship than the EU-China relationship. The share of respondents concerned about the US-China relationship increased to 67%, from 49% last time, indicating an unfavourable interpretation of the US election outcome.

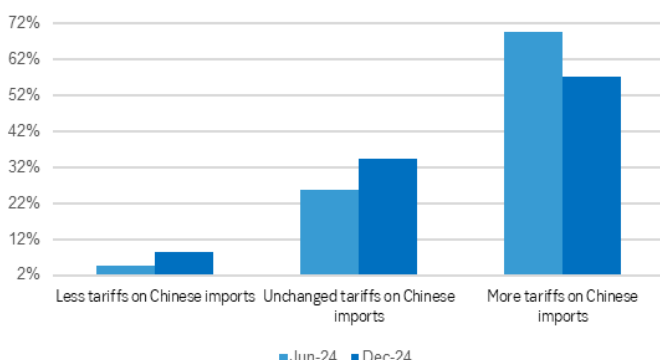
**Which trade relationship will have a greater negative impact over the next 12-18 months?**



Source: SEB

Over 50% of respondents expect EU-China tariffs to increase within 12-18 months. The weak sales and profit expectations in this survey likely reflect companies' expectations of the negative impact of increased tariffs on overall demand.

**How do you see the EU-China tariffs evolving in the coming 12-18 months?**



**Our conclusions**

The latest survey shows renewed pessimism, given a historically low index value. Geopolitical risk concerns in general and the US-China relationship in particular gained traction again on the back of the US presidential election result. Customer demand, geopolitical risk and competition remain the main concerns for surveyed Northern European companies in China. The Chinese market has lost its glory in terms of profitability and revenue growth, but it is still important enough for Northern European companies to maintain their operations in China. Some have modest investment plans as part of their China strategy. Meanwhile, the financing environment has improved on the back of a continued easing in monetary policy, which offers local companies favourable financing costs.

**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 70 subsidiaries of major Swedish, Finnish, Norwegian, Danish, German, British and Swiss companies. Most of the companies surveyed have a global turnover above EUR 500m. The survey is web-based, confidential and was carried out between 11 November and 6 December 2024.

**China Financial Index – composition**

SEB's China Financial Index displayed a value of 52.0 in autumn 2024, indicating a disappointing macro environment compared with the survey conducted in summer 2024. A value of 50 indicates a neutral view. The index is based on four components, with the following ranking in the survey: order intake at 52.6, profit expectations at 50.0, investment plans at 55.1, and employment plans at 50.3. Due to a tendency of positivity bias from the respondents, the deviation from the historical average serves as a better indication of business sentiment.

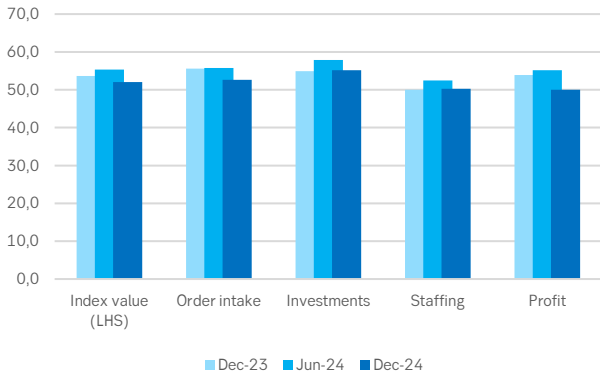
**Forecasts: Global GDP growth, %**

	2023	2024	2025
China	5.2	5.0	4.5
Japan	1.7	0.4	1.0
United States	2.9	2.7	2.0
Germany	-0.3	-0.1	0.8
Sweden	-0.3	0.5	2.2
United Kingdom	0.3	1.0	1.4
Euro area	0.4	0.8	1.3
Nordic economies	0.4	1.1	2.2
Baltics economies	0.0	0.9	2.4
Emerging markets	4.4	4.4	4.1
OECD	1.7	1.8	1.9
<b>World PPP*</b>	<b>3.2</b>	<b>3.2</b>	<b>3.1</b>

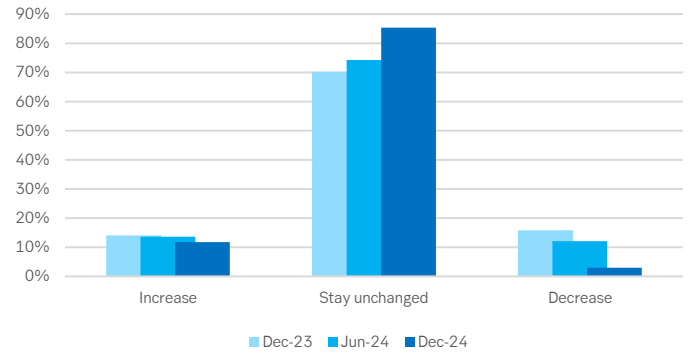
Source: SEB, OECD, IMF \*PPP= purchasing power parities

**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).

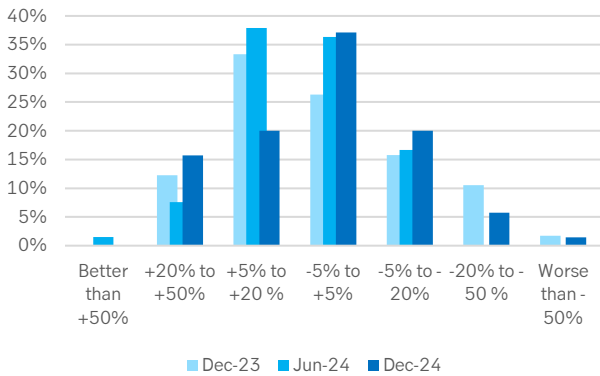
**1 – Index values**



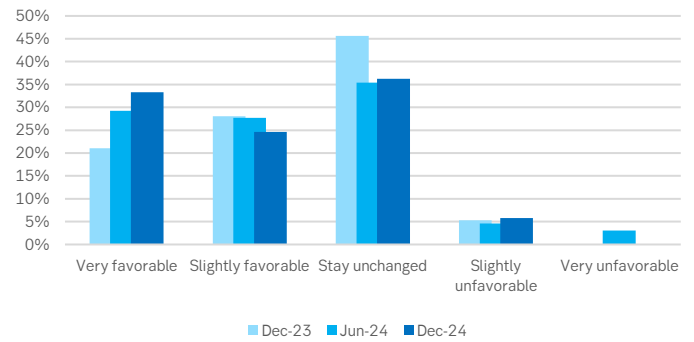
**5 – Borrowing outlook (next six months)**



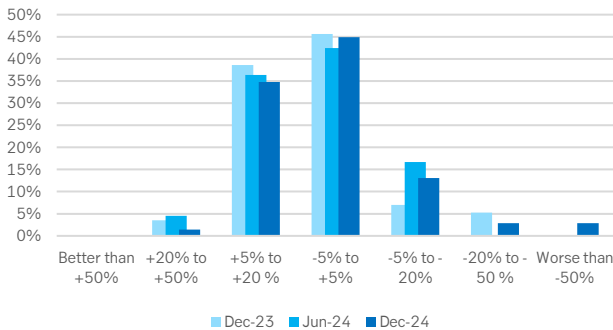
**2 – Y/y sales trend (H2/24 vs H2/23)**



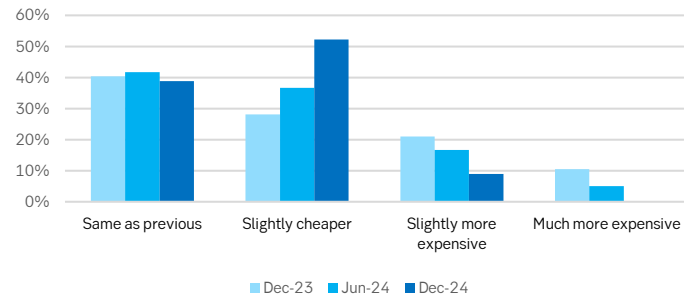
**6 – Banks' lending attitude**



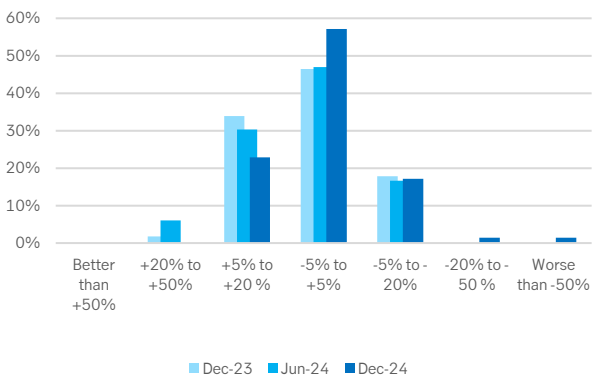
**3 – Sales outlook (next six months)**



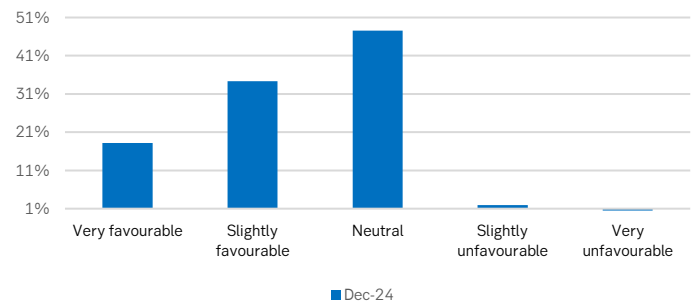
**7 – Borrowing costs**



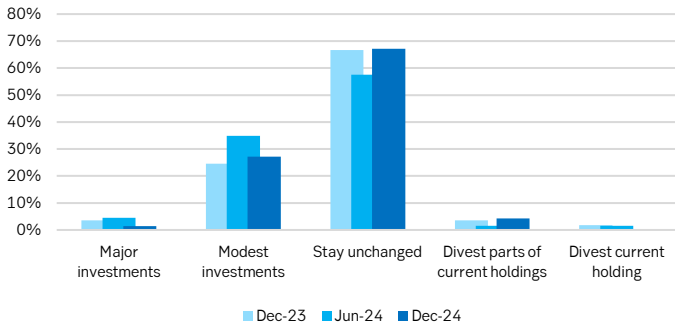
**4 – Profit outlook (next six months)**



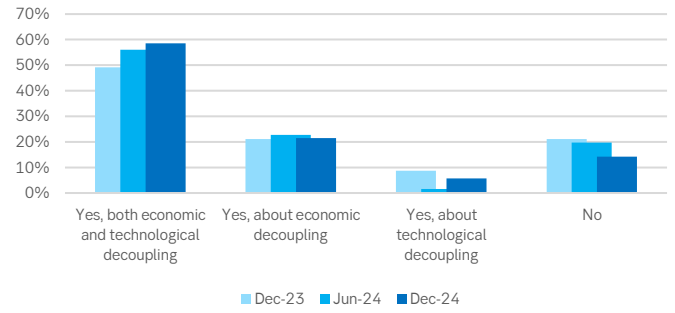
**8 – Borrowing environment outlook**



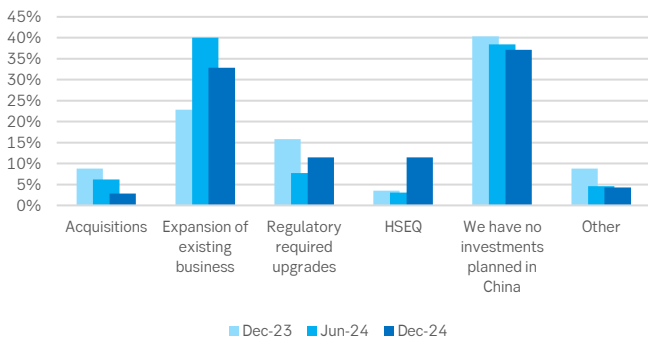
**9 – Investment plans**



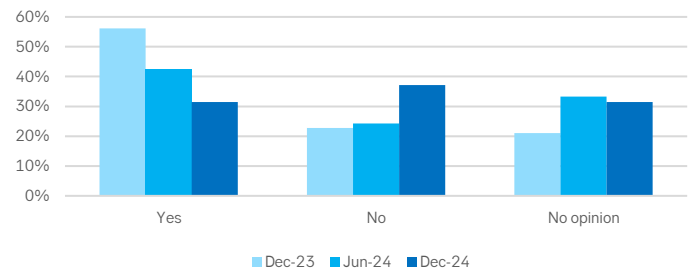
**13 – Concerned about decoupling?**



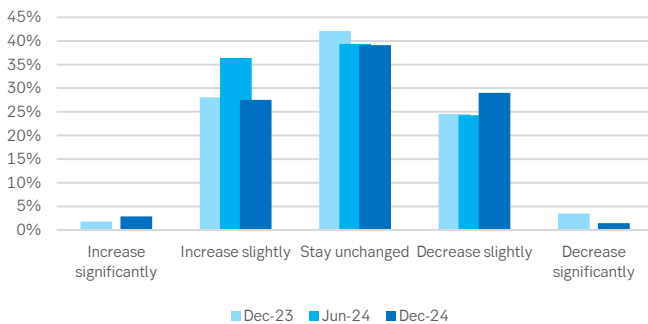
**10 – Type of investment**



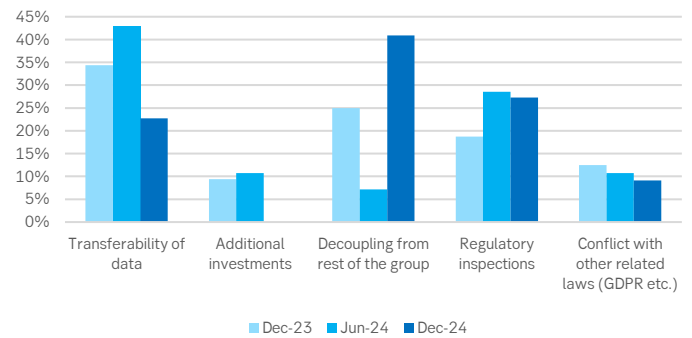
**14 – Concerned about data/cyber security?**



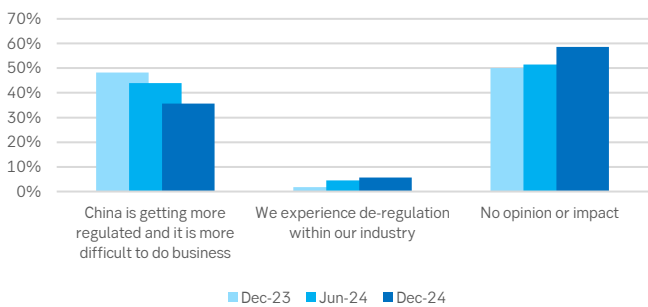
**11 – Staffing outlook**



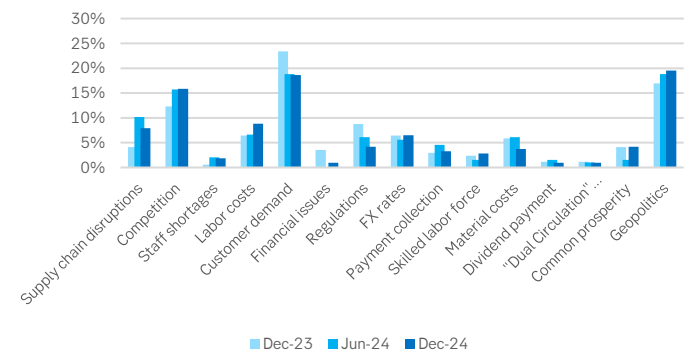
**15 – Main concern regarding data/cyber security**



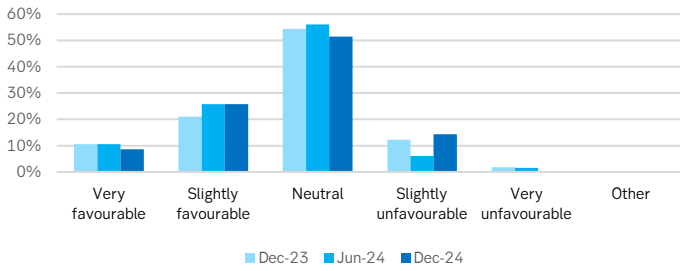
**12 – Regulatory development in China**



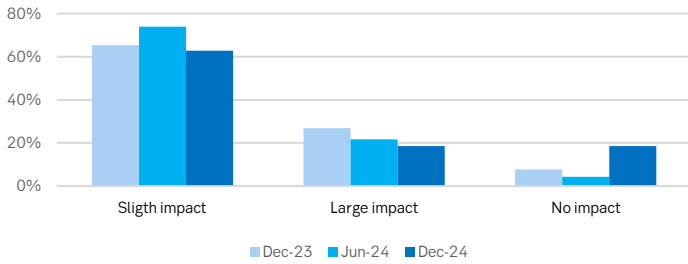
**16 – Main concern over the next six months**



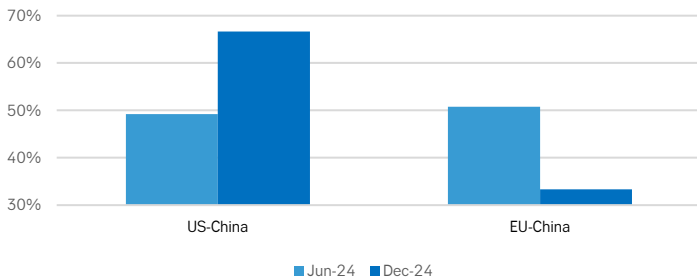
**17 – ESG impact**



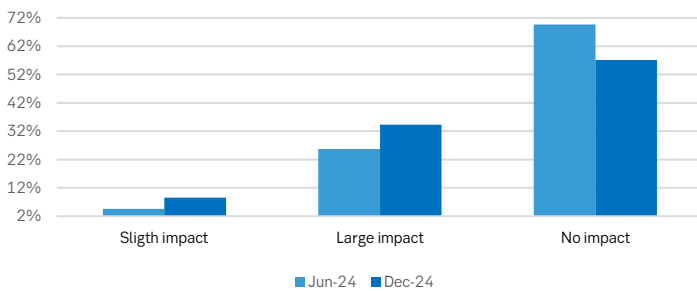
**18 – To what extent has the changed view affected your operations in China?**



**19- Which trade relationship will have a greater negative impact over the next 12-18 months?**



**20- View on EU-China tariffs evolving in the coming 12-18 months**



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