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## Mainland firms worry about outlook as trade war bites

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Mainland manufacturing and service industry firms were more gloomy about the business outlook last month, official data showed, pointing to problems ahead for the economy as the US-China trade war heats up.

According to the official purchasing managers' index released yesterday, the manufacturing industry sentiment index dropped to 50.2 from 50.8 a month earlier. The reading was its lowest in more than two years and barely above the 50 threshold that separates expansion from contraction.

New export orders contracted for the fifth consecutive month to 46.9 from 48 in September. Imports also shrank for a fourth

straight month, while non-manufacturing activity slowed, with the index dropping a full point to 53.9.

The figures were the first gauges of the trade war's impact since the United States levied 10 per cent tariffs on US\$200 billion worth of Chinese goods in late September.

While the index overall still indicated a healthy level of activity, the size of the drop could be a sign of a sharp slowdown ahead.

"The economic conditions facing China's private sector are much worse than the headline figure suggests, in our view," analysts at ANZ said in a report.

US President Donald Trump said again on Monday that tariffs on a further US\$267 billion worth of Chinese imports, which would make virtually all Chinese goods subject to tariffs, were ready if

there was no trade progress. That could compound the economic slowdown, prompting further action by the government to prop up growth.

"We expect a worse growth slowdown in spring 2019 for several reasons," said Ting Lu, chief China economist at Nomura. "Beijing's policy focus so far has been on containing a credit freeze. If our more cautious views prove to be valid, growth is likely to slow to such a worrying pace in spring 2019 that Beijing may have to greatly ramp up its easing and stimulus measures."

While the direct impact of US tariffs on the Chinese economy was limited, the impact on business and consumer sentiment, and so the economic outlook, could be much larger, other analysts said.

"There would be much more uncertainty that would tend to slow the pace of investment and consumption," said Steven Cochrane, chief Asia-Pacific economist at Moody's Analytics.

"Consumers are [already] feeling uncertain about next year, so they are going to pull back."

The data for last month also reinforced the picture that small and medium-sized companies were struggling, with indices for both groups falling further into contraction. In contrast, the index for large companies fell but remained in positive territory.

A separate PMI survey by mainland media outlet Caixin, which better reflects sentiment among smaller firms, is due to be released today.