

ECONOMY

# TRADE AND GROWTH FEARS HIT SENTIMENT

Confidence among small firms in HK falls to its lowest levels since 2016 despite recent optimism over tariff talks and yuan outlook, survey finds

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Sentiment among owners of small and medium-sized enterprises (SMEs) in Hong Kong fell to its lowest level in nearly three years, fuelled by concerns over slowing global growth and lingering trade tensions between the United States and China, according to a new survey.

Confidence among employers for the first quarter dropped 2.6 points to 40.4 on a quarter-on-quarter basis in the Standard Chartered Hong Kong SME Leading Business Index. That matched a low set in the second quarter of 2016 and was the second consecutive quarterly decline.

Despite recent optimism in the financial markets that the US and China would strike a deal on trade, 81 per cent of businesses surveyed said they were not hopeful about negotiations between the world's two biggest economies, the Hong Kong Productivity Council and Standard Chartered said yesterday.

"Our survey confirms that the

Hong Kong economy is probably facing one of the weakest starts to a year in a decade. It also shows that the slowdown is widespread in nature," said Kelvin Lau, senior economist for Greater China at Standard Chartered.

"While we take comfort from the recent rebound in sentiment towards the outlook of the [yuan] and the prospect of reopening of upcoming US-China trade negotiations, persistent headwinds from slowing global growth should keep weighing on local sentiment."

The survey was conducted in late December and interviewed 820 SMEs in the city.

The waning confidence comes as a trade war has raged between Washington and Beijing since early last year, with US President Donald Trump putting tariffs on nearly half of the products imported from China.

The two sides called a 90-day truce that will expire on March 1.

If the countries cannot reach a trade deal, the US is set to increase tariffs on about US\$200 billion in Chinese goods from 10 per cent to 25 per cent.

US Treasury Secretary Steven Mnuchin said on Monday he expected to make "significant progress" during talks this week in Washington, but added the issues being discussed were complicated.

The trade tensions also have weighed on Hong Kong's economy, which grew at its slowest quarterly pace in two years in the third quarter. Gross domestic product grew at 2.9 per cent in the quarter, its lowest level since 2016.

The city is expected to release its official fourth-quarter GDP numbers next month.

In the government's own business expectation survey released earlier this month, 21 per cent of companies predicted their situa-

tion to be worse in the first quarter than the previous three months. That compared with 12 per cent of businesses that responded negatively in the fourth quarter.

In the Standard Chartered index, 38 per cent of respondents said they expected the trade war between the US and China would negatively affect their business volumes. That is up from 24 per cent in the fourth quarter.

About half the manufacturers, as well as 42 per cent of retailers and import, export and wholesale businesses, said they had already seen their sales hit by the rising trade tensions last year.

Just over half said they expected the business environment to stabilise or improve as a result of a reprieve in trade tensions.

Nearly a quarter of respondents said they were considering exploring markets in Southeast Asia to avoid the trade dispute.

"The market starts to see the impact from the international trade tension recently, spreading from the imports and exports industry to other industries as well," said Gordon Lo Siu-chung, director of business management at the Hong Kong Productivity Council. "Although the tension is expected to turn milder, the fluctuating market still shakes SMEs' business confidence."

