



CHINA/JAPAN/INDIA/AUSTRALIA/SOUTH KOREA/INDONESIA/TAIWAN/THAILAND/MALAYSIA/SINGAPORE/PHILIPPINES

Q3

2 0 1 8

- Sentiment index 58 in Q3 vs 74 in Q2
- Companies cite trade war as chief risk to six-month outlook
- Thai firms most positive, Chinese least
- Metals and chemicals sector most positive, real estate least

Thomson Reuters/INSEAD Asian Business Sentiment Survey

Asian firms' confidence sinks to near 3-year low on trade war fears



A construction worker walks with an Ofo shared bike near the China Central Television (CCTV) building (behind) in Beijing's central business district, China August 16, 2018. **REUTERS/JASON LEE**

BY GAYATRI SUROYO

Confidence among Asian companies slumped to the weakest in almost three years in the third quarter as businesses feared blowback from a worsening global trade war, a Thomson Reuters/INSEAD survey showed.

Representing the six-month outlook of 104 firms, the Thomson Reuters/INSEAD Asian Business Sentiment Index fell to 58 for the July-September quarter, its lowest since the fourth quarter of 2015, from 74 three months before.

It was a second straight quarter-on-quarter decline for the index and the pace of

the fall was the steepest recorded since the survey began in 2009. A reading above 50 indicates a positive outlook.

"The fall in the index could be a strong signal of an economic slowdown," said Antonio Fatas, a Singapore-based economics professor at global business school INSEAD, adding that the survey results had historically correlated well with changes in economic growth in Asia Pacific.

"We have witnessed a cyclical upturn in the world economy that had to come to an end. We see the end of the cycle in advanced economies as well as emerging markets. This survey confirms that these fears are real," he said.

A global trade war was cited as the chief business risk by respondents, while the second most identified risks were a China economic slowdown and currency fluctuations. The survey was conducted from Aug. 31 through Sept. 14.

U.S. President Donald Trump escalated his trade war with China on Monday, imposing 10 percent tariffs on about \$200 billion worth of Chinese imports and warning of further tariffs if China takes retaliatory action. China responded by adding \$60 billion of U.S. products to its import tariff list.

Analysts say a trade war between the world's two biggest economies may only

modestly impact growth in both countries, but will have far reaching implications on others due to global value chains, especially with much of Asia depending on China for trade.

Nevertheless, the subindex for China nosedived to 25 from 63, representing the lowest reading ever and its first negative outlook. Japanese companies also turned pessimistic.

“Because China has become the main target for the U.S., there is increasing uncertainty about the Chinese economy,” Fatas said.

EMERGING MARKETS SUFFER

The souring Sino-U.S. relationship has also reduced investors’ risk appetite and exacerbated outflows from emerging markets, which have also been hit by rising U.S. interest rates and fear of contagion from financial crises in Turkey and Argentina.

Battered by outflows, the Indian rupee,

the Indonesian rupiah and the Philippine peso have been emerging Asia’s biggest currency decliners so far this year. Delhi, Jakarta and Manila have raised interest rates to support their currencies, among other measures.

Despite these developments, the survey’s subindexes showed firms in Indonesia and India were the most optimistic after Thailand.

Some in the Philippines were losing confidence, with its subindex sliding to 61 from 94. But survey participant Metropolitan Bank and Trust remained upbeat, citing the government’s infrastructure push and steps to contain inflation as the main reasons for the view.

“Any infrastructure expenditure is good for the economy. This creates economic activity. This will help grow businesses of all sizes,” Anna Dominique Cudia, from the bank’s investor relations department, said in an email.

In Indonesia, a perceived lower trade

risk for Southeast Asia’s largest economy compared to some other countries supported business confidence, said Shinta Widjaja Kamdani, deputy chairwoman of the chamber of business and commerce.

“Even though we’re optimistic, we are very cautious in our expansion because we factor in external risks,” she said, referring to Indonesian businesses.

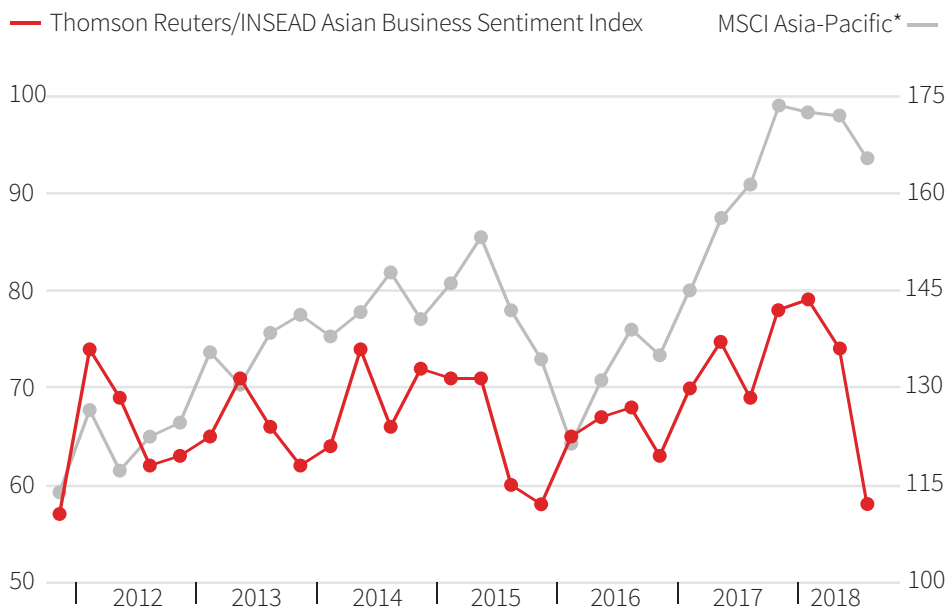
By industry, construction and engineering was among the weakest with its subindex at 45, the lowest since 2012. Auto and real estate firms were the most pessimistic, but the number of respondents for each of those sectors was low at three companies.

Firms in metals and chemicals were the most upbeat.

Respondents to the survey included Oil Search, Reliance Industries, Suzuki Motor, Asahi Group, Canon, Central Plaza Hotel and Delta Electronics.

Note: Companies surveyed can change from

Business sentiment index

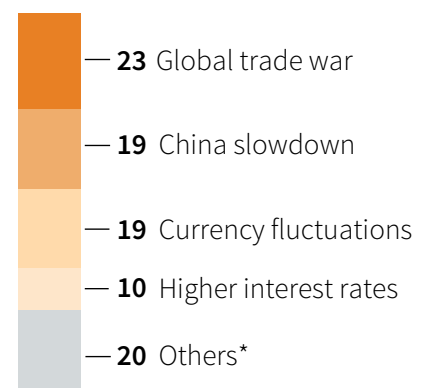


Source: Thomson Reuters/INSEAD

*MSCI International All Country Asia Pacific Price Index USD monthly

Biggest perceived risks to business outlook

By number of responses



Note: Total no. of valid responses = 91. Poll conducted Aug. 31-Sept. 14.

*Includes oil prices, competition, government policy, etc.

Source: Thomson Reuters/INSEAD

Links

Previous surveys



Q3
2017

- Sentiment index 69 in Q3 vs 74 in Q2
- Regional trade & diplomatic tensions seem as main risk
- Indonesia firms most positive; S. Korea least
- Retail & leisure sector most positive; autos least

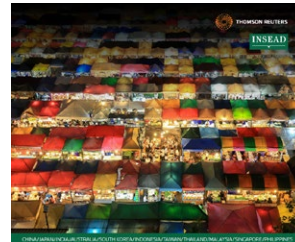
Thomson Reuters/INSEAD
Asian Business Sentiment Survey



Q4
2017

- Sentiment index 78 vs 69 in Q3; highest since Q1 2011
- Sudden asset price correction cited as chief risk
- Australia, Indonesia firms most positive
- Household, F&B sector most positive

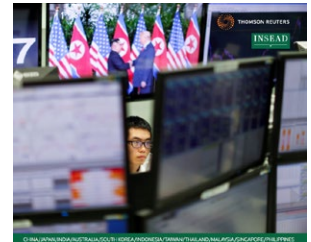
Thomson Reuters/INSEAD
Asian Business Sentiment Survey



Q1
2018

- Sentiment index 79 in Q1 vs 78 in Q4; highest since Q1 2011
- Companies cite increasing trade friction as chief risk
- Thailand firms most positive; S. Korea least
- Autos, retail & leisure firms most positive; real estate least

Thomson Reuters/INSEAD
Asian Business Sentiment Survey



Q2
2018

- Sentiment index 74 in Q2 vs 79 in Q1
- First drop since September 2017
- Companies cite mounting trade friction as chief risk
- Retail & leisure sector most positive

Thomson Reuters/INSEAD
Asian Business Sentiment Survey

September 2017

December 2017

March 2018

June 2018

FOR MORE INFORMATION, PLEASE CONTACT:

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COVER PHOTO: Vendors sit under umbrellas
inside a wholesale flower market in
Bengaluru, India, April 12, 2018.

REUTERS/ABHISHEK N. CHINNAPPA



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