China's factory activity falls in January as virus fears grow

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The coronavirus spreading across China is forecast to hit manufacturing

China's manufacturing activity slipped in January, official data released Friday showed, as the country grapples with a new virus that has claimed more than 200 lives.

The Purchasing Managers' Index (PMI), an early gauge of factory activity, came in at 50, down slightly from 50.2 the month before.

A reading above 50 indicates the sector is expanding while below that number shows contraction.

The figure comes as China battles the spread of a coronavirus that has triggered an unprecedented shutdown of transport and business in Hubei province—the centre of the outbreak.

However, the National Bureau of Statistics said the survey was conducted before January 20 so "the impact of pneumonia caused by the new coronavirus has not yet fully manifested".

The first patients were taken ill in early December but many of the restrictions only came into effect over the last week.

Non-manufacturing activity stood at 54.1, an improvement from 53.5 in December.

Higher demand ahead of the Lunar New Year holiday was said to have contributed to December's expansion after a tough year for China amid its bruising trade war with the United States.

United Overseas Bank economist Ho Woei Chen told AFP that Friday's numbers do not reflect the full impact of the virus.

"The first-order impact is on tourism and transportation," she said. "This will have a direct and immediate impact on private consumption and industrial activities in China, with many companies extending their closures and residents being quarantined."

In the longer run, supply chains in Asia could take a hit, she added.

But Ho was optimistic that if the outbreak is contained within the first half of the year, the economy could improve in the second half –- given the rebound seen after the 2003 outbreak in China of Severe Acute Respiratory Syndrome (SARS).

'Short, sharp shocks'

For now, analysts at Goldman Sachs are looking at "short, sharp shocks to economic output"—as seen with past viral outbreaks—and are projecting lower growth for China in 2020 of 5.5 percent, down from 5.9 percent.

"A more prolonged outbreak could lower full-year growth to 5 percent or even below," analysts said in a note.

The world's second-largest economy grew by 6.1

percent last year.

Chinese holidaymakers have been staying home this Lunar New Year after authorities closed attractions, cancelled major events and urged people to avoid large gatherings.

Cinemas have also closed during what is usually a prime period for blockbuster releases.

Other nations have told their citizens to avoid travel to China and airlines have trimmed their schedules for flights to the country.

Manufacturers too are not taking any chances, with Taiwanese tech giant Foxconn closing its Chinese factories until mid-February.

Toyota, IKEA, Starbucks, Tesla, McDonald's and Volkswagen are among corporate giants temporarily freezing production or shuttering large numbers of outlets in China.

The public holiday period may mean there is little immediate impact on car manufacturers, but there is growing concern about the virus's longer-term effects.