MERICS ECONOMIC INDICATORS

Quarterly analysis of economic trends in China

Q4/2018:

Losing steam: China's economy shows signs of weakness

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MERICS Q4 analysis

Chinese economy faces pessimistic outlook for 2019

Slowing economic growth in the second half of 2018 has subdued optimism in China's economy. It is becoming evident that the government is struggling to sustain GDP growth of between 6 and 6.5 percent. The previous, unusually stable period of economic growth under Xi Jinping is coming to an end. The transition towards a more sustainable growth model while maintaining moderately high GDP growth appears to be less smooth. A slowdown would coincide with preparations for the centennial anniversary of the CCP in 2021, when the country plans to celebrate its strength. Making matters worse, it would come at a time when major international trading partners begin to reassess their economic relationships with China.

Expanding at 6.6 percent, GDP growth was in line with the official growth target. But with growth falling to 6.4 in the last quarter, the Chinese economy is entering 2019 on much weaker ground. Deteriorating business sentiment is beginning to affect economic activity of private companies and households. The government is attempting to address these problems before growth slows too fast. Several measures designed to support growth were announced at the Central Economic Work Conference at the end of December while the term stimulus was carefully avoided.

Fiscal support including various tax breaks, programs by local governments, and new infrastructure spending, were announced. Monetary policy is being fine-tuned with more targeted easing aimed at SMEs.

A more hostile external environment is adding to the concerns. Regardless of the outcome of the trade negotiations with the United States, the strategic rivalry between the two countries will increase in the future. Compared to previous decades, China's major trading partners are likely to be less accommodating towards its development model and become more assertive.

Further complicating things is the increasing interest rate differential between the United States and China. The Fed's interest rate hikes are increasing the returns on US financial assets compared to Chinese ones. This will heighten the risk of capital outflow, something China has struggled with in the past. Additionally, higher foreign borrowing costs will increase refinancing costs for China' growing external debt.

China's labor market will be a key area to watch in 2019. As the economy has slowed in the past years, so has wage growth. Employment however has remained resilient with demand for labor higher than supply. But as concerns about the state of the economy spread, hiring might slow and there could be layoffs. A number of provincial governments have already announced new support measures for labor markets.

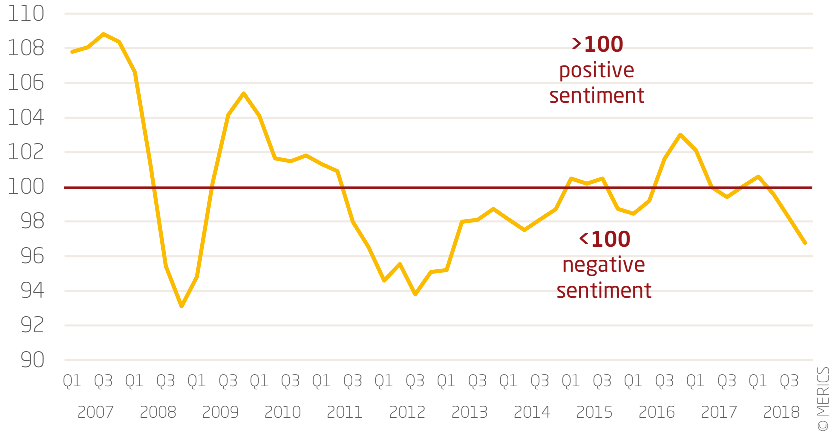
In 2019, state intervention focused on ensuring stability will increase. The government is particularly concerned about social instability. Despite the difficulties, an economic crisis is not imminent as the government has sufficient tools it can deploy should growth fall too sharply. But the downside of increasing stimulus is that it would come at the expense of establishing a more sustainable development path. As the global economy is likely to face a slowdown, China looks unlikely to be the engine of growth it was during past crises, nor can it rely on global markets for recovery. 2019 will be a critical year for China's economy.

The MERICS China Confidence Index (MCCI)

The MERICS China Confidence Index measures households' and businesses' confidence in future income and revenues. The index is weighted between household and business indicators. It includes the following indicators: stock market turnover, future income confidence, international air travel, new manufacturing orders, new business in the service sector, urban households' house purchase plans, venture capital investments, private fixed asset investments and households' consumption share of disposable income. All components have been tested for trends and seasonality.

The MCCI was first developed in Q1 2017.

Dim outlook on economy
MERICS China Confidence Index



Focus topic: The limits of monetary policy

Charting a risky course: The People's Bank of China's further eases monetary policy

By Maximilian Kärnfelt

In response to slowing economic growth, falling producer prices, and peak bond repayments the People's Bank of China has begun easing monetary policy. On January 15, the PBOC lowered banks' required reserve ratio (RRR) by half a percentage point to 14 percent. It will be reduced by another half point on January 25. The central bank governor, Yi Gang, has said that there is room for further reductions and the cuts will be paired with policies that incentivize lending to small and micro enterprises. Yi also said he expects the cuts to release 1.5 trillion CNY into the banking system.

This round of monetary easing can only generate long-term positive benefits if two conditions are met: state banks must allocate a large enough proportion of the released funds to the relevant companies. Second, strong outflow restrictions which can insulate the Chinese economy sufficiently from US rate hikes are necessary. Otherwise, the easing could lead to an even bigger accumulation of bad debt by state-owned companies and could result in damaging capital outflows.

State banks must be incentivized to lend to the private sector

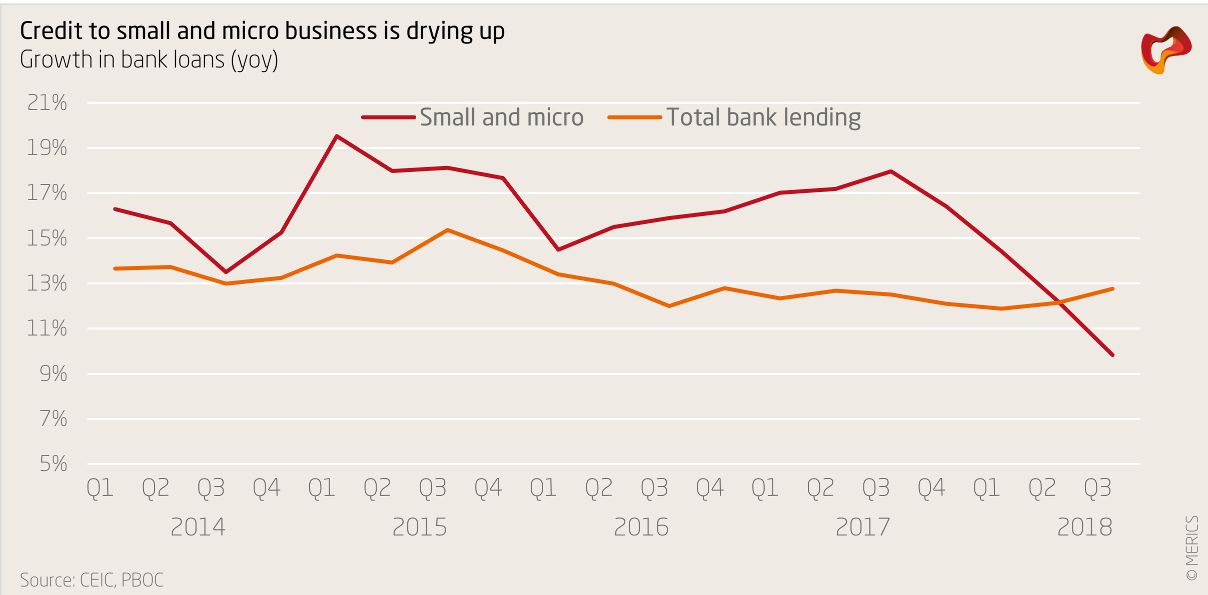
With peak amounts of debt maturing in 2019, providing liquidity is necessary to protect big corporates with weak cash flows from default. But for the easing to also generate growth in the real economy it must reach credit-starved sectors. If not, the easing will only postpone an urgently needed resolution of problems in the financial sector without strengthening the economy's ability to service debt.

The Chinese financial system allocates a disproportionate amount of new lending to unproductive investments. This becomes visible by looking at the relationship between new credit and GDP, the second of which is consistently smaller, meaning that debt is increasing at a faster pace than the ability to service it.

Domestic debt levels have risen steeply across all sectors of China's economy – in 2018, total credit to non-financials exceeded 250 percent of GDP, compared to 150 percent before the global financial crisis struck a decade ago.

Since the beginning of 2017, the government has waged a partially successful deleveraging campaign. Positive achievements include moving off-balance-sheet shadow finance products back on to banks' balance sheets. This is now clearly visible in credit data; the growth of bank lending is increasingly outpacing that of off-balance sheet financial products. Yet, the overall campaign has yet to see credit growth fall below nominal GDP growth.

See MERICS blog: Policy in China still puts growth before deleveraging



For small and micro enterprises, which already were neglected by the financial system, the deleveraging campaign brought about more difficulties in accessing financial opportunities. Under pressure to contain risks, banks directed the lion's share of their lending to larger entities which are perceived to be more reliable when it comes to repayment. In the first quarter of 2018, outstanding bank loans to small and micro enterprises grew at 14.4 percent. By the third quarter, growth had fallen to 9.8 percent. Meanwhile, overall bank lending remained almost unchanged, growing at 12.9 percent.

This sector is an important factor in the Chinese economy. Tightening credit conditions in the sector limit the abilities of potentially lucrative smaller businesses to take off or expand, which will hamper the growth potential of the economy. By injecting credit into the sector, the Chinese government tries to reduce the pressure. The PBOC now incentivizes state bank lending to the private sector by giving banks that lend sufficiently to smaller enterprises more room to set their own interest rates. This will be very difficult to accomplish as large institutions difficult to reform.

Capital controls are necessary

Interest rates in the United States and China have decoupled, and the rapidly increasing US rates are a very serious problem for China. The success of the easing program therefore also rests on heavy-handed restrictions of capital flows.
The US Federal Reserve has been raising interest rates, which are now close to China's central bank rates. The US Fed's December 2018 rate hike took its benchmark funds rate to 2.4 percent, further hikes are possible.

The return on some financial assets is now greater in the United States than in China. One example is the one-year treasury rate. Additionally, perceived lower risk is driving investors to the United States. and away from China. The CNY/USD exchange rate, which the PBOC manages, appreciated by 5 percent in 2018, indicating lower demand for the Chinese currency. As the interest rate differential expands, the CNY will come under further pressure. This in turn increases the risk of capital flight, as investors try to move their wealth out of China to seek higher returns.

Capital flight is a self-reinforcing herd phenomenon, which means that the initial wave of outflow increases the incentive for further capital movement. This could result in more money leaving the country than the PBOC initially injected, which could severely destabilize the economy. Unless capital controls are strong enough, the risk of this scenario will increase as monetary policy becomes looser.

Success hinges on policy alignment

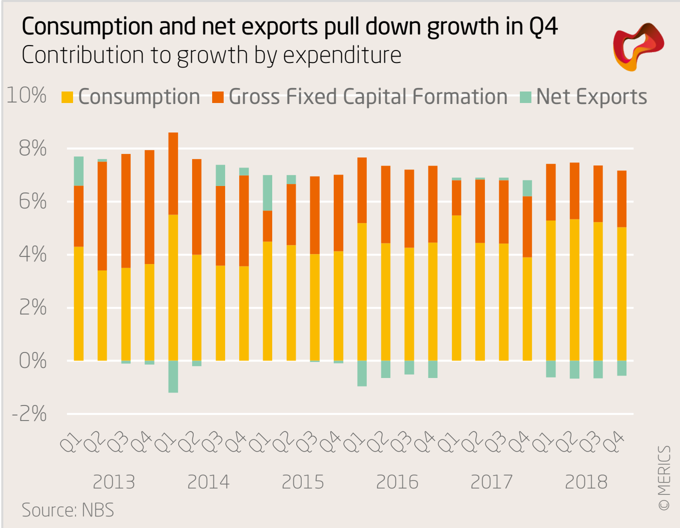
The Chinese economy faces a large amount of separate problems, many of which the central bank is tasked with solving. The biggest issues on the central bank's agenda are growth, financial stability, price stability and the value of the currency. The problem with being faced with so many difficulties at once is that when the central bank targets one variable, another is bound to be adversely affected.

To make monetary policy implementation effective in this difficult environment, other government agencies must align their policies with those of the central bank. State banks' lending practices must change to prioritize lending to SMEs, and various government entities need to be involved in restricting cross-border financial flows. If coordination fails, the risk is that the monetary easing will be downright counterproductive, leading to further credit build-up and capital flight.

Macroeconomics

Economic growth drops to lowest level in decades

- Real GDP growth drops to 6.6 percent in 2018
- Trade war still not visible in economic indicators



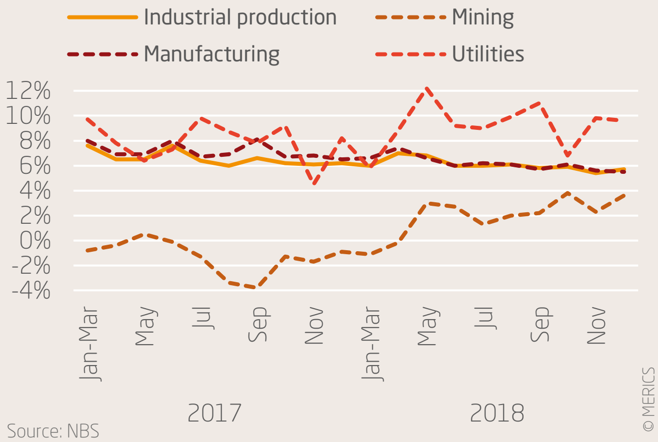
- Economic growth in China continued its downward trend: real GDP grew by 6.6 percent in 2018, the lowest annual growth figure since 1990. The pace of the slowdown is, however, mild: in Q4 GDP grew by 6.4 percent, down from 6.5 in the previous quarter.
- Nominal GDP growth figures convey a clearer picture of the scope of the slowdown: it grew by merely 9.1 percent, down from 10.3 percent in the first quarter of 2018. Nominal GDP thus expanded at a slower pace than total credit growth, which increased by 9.8 percent despite the government's deleveraging efforts.
- A look at real GDP by industry shows that the tertiary sector (services) was particularly affected by the cooling economy, with growth slowing down from 7.9 to 7.4 percent. The secondary industry (incl. manufacturing) experienced growth rates from 5.3 to 5.8 percent. The primary industry (agriculture) remained stable at 3.5 percent.
- In Q4, consumption contributed five percentage points to real GDP growth, down from 5.2 points in Q3. Gross Fixed Capital Formation remained stable at 2.1 points. Net exports pulled GDP growth down every quarter of 2018. In the last quarter it lowered GDP growth by 0.6 points.
- Newspaper reports citing unknown official claims that a real GDP growth target of 6 to 6.5 percent will be set for 2019. The government has launched several new stimulus measures to boost investment and consumption: income tax cuts, reduction of banks' required reserve ratios to encourage lending, supportive open market operations, and large investments in infrastructure have been announced. It seems likely that the growth target can be achieved even if exports contract.

Business

Mild slowdown in manufacturing, but troubled automotive production

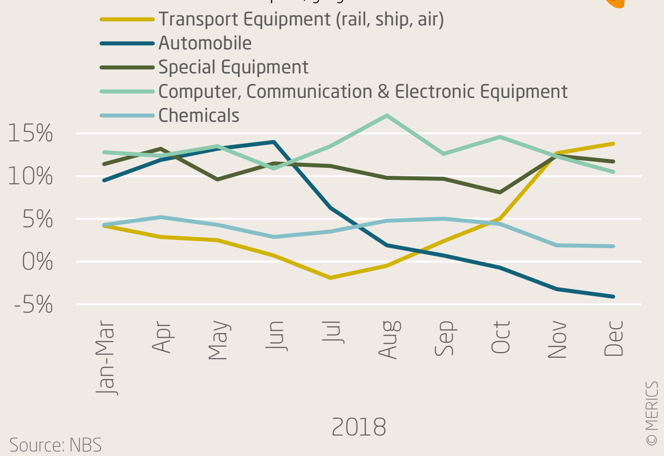
- Service sector remains optimistic
- Government takes measures in support of private businesses

Manufacturing growth continues to slow down
Value-added industrial output, yoy



Source: NBS

Automobile production takes a hit
Value-added industrial output, yoy



Source: NBS

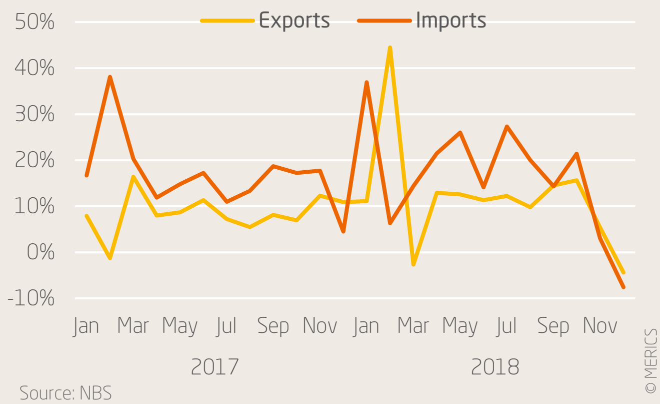
- Industrial production recorded a slight uptick in December to 5.7 percent after falling to 5.4 percent in November. For the year 2018, growth eased slightly to 6.2 percent compared to 6.6 in 2017.
- A rather stable growth in value-added industrial output was supported by improved production in mining, water, gas and electricity. Manufacturing growth continued to drop over the year, falling to 5.4 percent in December. Manufacturing growth fell to 6.5 percent in 2018, down from 7.2 percent in 2017.
- Production of automobiles contracted by 4.1 percent in 2018. The slowdown was caused by weaker consumer demand and incentives to boost new energy vehicles. Output of new energy vehicles accounted for 7.6 percent of the total automobile production. In 2018, output of e-vehicles increased by 40.1 percent, although growth also slowed to 15.5 percent in December.
- Growth in consumer electronics, which also has a high export share, eased throughout the year. But the sector still expanded by 13.1 percent. The growth rate of textile production tumbled to 1 percent in 2018, down from 4 percent in the previous years. The ongoing shift of labor-intensive industries out of China is likely to be accelerated by the increasing trade frictions with the United States as suppliers reassess the risk exposure of their supply lines.
- Manufacturing of transportation equipment, including rail, ship and aircraft, picked up considerably in the last quarter. Backed by new announcements for expanded infrastructure spending, the sector's growth accelerated to 13.8 percent in December, while annual growth was 5.3 percent.
- The service sector remained optimistic: the Purchasing Managers' Index for services rebound to 53.8, after hitting a two-year low in November (values above 50 indicate expansion). More subdued consumer-spending, however, could likely weigh on growth in this sector.
- Pressure on companies will increase in 2019 with the State Administration of Taxation rolling out improved methods for tax collection. The changes will particularly affect small private companies. In an attempt to relieve the situation, the Ministry of Finance has announced large scale tax cuts especially targeted at small and micro businesses and offered options for delaying tax payments.
- The government has been keen on expressing its support for private enterprises. Anxiety in the private sector became more pronounced as sentiment has deteriorated, financing has become more difficult and the Communist Party continues its push to establish Party cells in companies.

International trade and investment

Foreign and domestic demand fall amid rising uncertainty

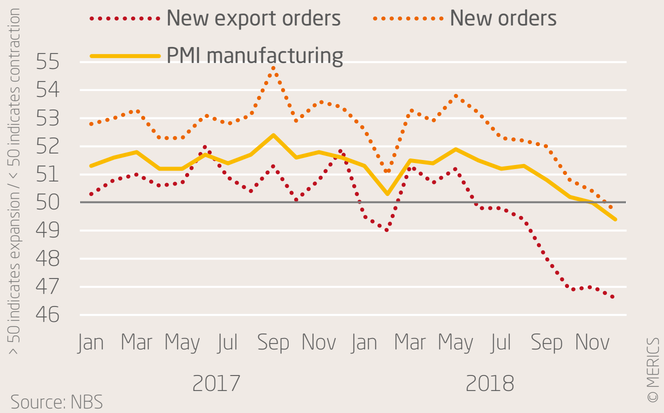
- Foreign trade likely to pull down GDP growth in 2019
- Restrictions for foreign investors reduced in effort to demonstrate greater market access

Foreign trade reflecting internal and external weakeness
Growth of exports and imports (yoy, valued in USD)



Source: NBS

Falling sentiment in manufacturing sets stage for slower growth in 2019
Purchasing Manager Index and sub-categories



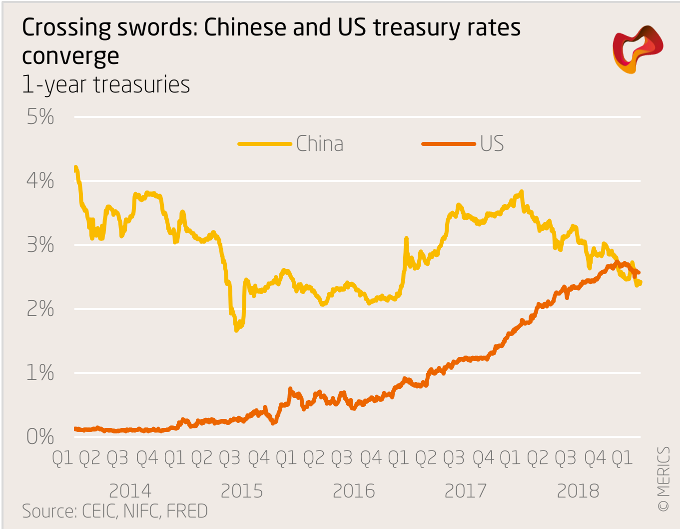
Source: NBS

- Trade negotiations between China and the United States continued after a deadline for a decision on further tariff increases was extended to March 1st. Despite some uplifting reports suggesting a possible agreement before that date, much uncertainty remains. As the strategic rivalry between both countries becomes more pronounced, the risk of future conflict is likely to increase regardless of the outcome of trade negotiations.
- China reduced tariffs on US-made cars to 15 percent, resumed imports of soybeans and liquified gas, and lifted restrictions on imports of genetically modified crops. Despite these attempts to show good will, the Trump Administration continues to pressure China by considering new measures to tighten exports of technologies essential for China's high-tech sector and innovative fields like robotics and AI.
- In 2018, exports and imports expanded by 9.9 percent and 15.8 percent respectively in USD terms. However, the changing external environment and weaker domestic demand started to affect China's foreign trade over the past quarter. In December, both exports (-4.4 percent) and imports (-7.6 percent) contracted.
- Annual exports to the United States, the EU, and ASEAN expanded by 11.3 percent, 9.8 percent and 14.2 percent respectively, while imports from the same countries expanded by 0.7 percent, 11.7 percent and 13.8 percent.
- The decline in new export orders, captured by the sub-category of the Purchasing Managers' Index, indicates considerably weaker foreign demand. Uncertainty surrounding the trade conflict and a potential slowdown in global growth make a further slowdown in external demand likely in 2019. Falling sentiment of business and weaker consumer spending are likely to weigh down on import demand.
- China's outbound investment is facing greater scrutiny with the EU approving stricter investment screening in areas related to national security. Continuing tensions with the United States are also likely to contribute to a decrease of Chinese acquisitions of foreign technology companies.
- Inbound foreign direct investment expanded by three percent in 2018 (134.9 billion USD). Investment in manufacturing expanded 20.1 percent. In order to attract more foreign investment China further reduced restrictions. Greater access was granted to international finance and insurance companies. On December 25th, the National Development and Reform Commission published a new unified negative list, which reduces the number of sectors that are still off limits for foreign business.
- Since the beginning of 2019, the CNY/USD exchange rate has stabilized around 6.8, well within the comfort zone of the Peoples' Bank of China. For the moment, concerns about a depreciation and rising capital outflow pressure have subsided.

Financial markets

Central bank loosens monetary policy amid growth slowdown

- Banks' reserve requirements reduced twice in January
- US treasuries' returns now higher than Chinese ones

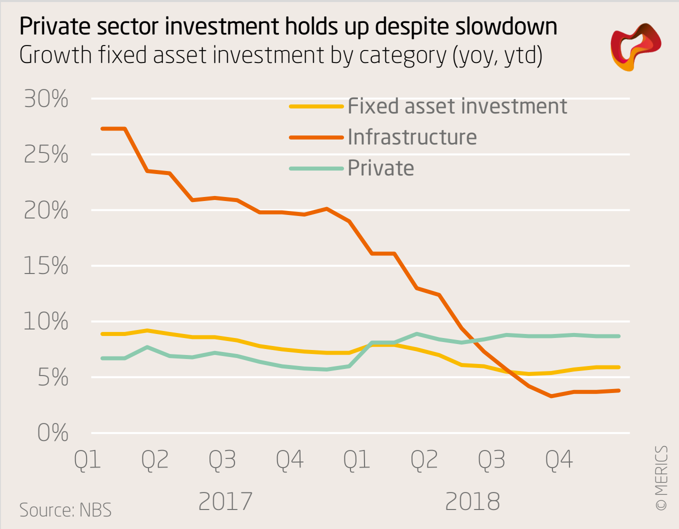


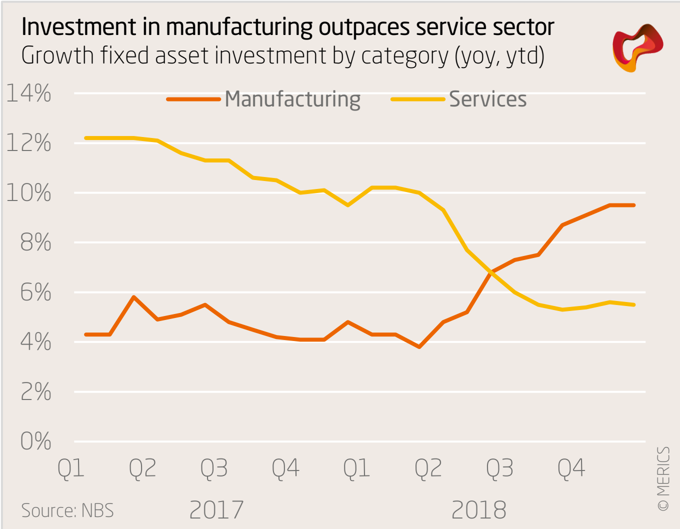
- Pressure on economic growth has led the People's Bank of China (PBOC) to loosen monetary policy by further reducing the reserve requirements ratio (RRR) for lending institutions. These were set at 14 percent on January 17th and will be reduced by another half percentage point on the 25th. According to statements by the central bank governor Yi Gang, there might be more cuts in the future. He expects the cuts to release 1.5 trillion CNY into the market.
- In the past months, increased regulation as part of the government's deleveraging campaign resulted in reduced lending to private enterprises. If unaddressed, this is likely to negatively impact private investments. In response regulatory incentives are being introduced by financial regulators to make sure the liquidity released by RRR cuts will find its way to SMEs.
- To improve liquidity, on January 17th, the PBOC also injected the record amount of 560 billion CNY into the banking system through reverse repurchase agreements. The central bank will need to ensure sufficient liquidity prior to Chinese New Year. Managing liquidity will also be essential in the near future as a peak amount of bonds is set to mature in 2019 and 2020.
- US and Chinese monetary policy are increasingly decoupled. The US Fed raised interest rates several times in 2018 and might proceed on this path. China, however, has not responded with interest rate hikes. Interest rates in the two countries first converged, and now 1-year treasuries return more in the United States than in China. If this trend persists, it might lead to capital flight from China. The CNY has recently appreciated against the dollar, so capital account restrictions on the Chinese side appear to be working so far.
- The deleveraging campaign has successfully contributed to move bank assets on balance sheet. This becomes visible when comparing the growth rates of bank loans and Total Social Financing, the government's own credit measure which also captures shadow banking elements: the latter grew at an average monthly rate of 10 percent in Q4, whereas bank lending grew at 13 percent.
- 2018 has been marked by new efforts to open China's financial market. Next to greater access for foreign banks and insurance companies, foreign investors' access to the A-share stock market has been expanded as the annual quota of the Qualified Institutional Investors (QFII) program was doubled to 300 billion USD. The moves also reflect a greater need for China to attract foreign capital. But difficulties remain: the applications of credit card companies Mastercard and Visa for access to the Chinese market have been delayed indefinitely.
- 2018 was a difficult year for investors in the domestic stock market. The Shanghai composite stock index fell by 26.4 percent. The Shenzhen index dipped 34.5 percent. The 380 index, which includes many smaller companies, went down 33 percent.

Investment

Infrastructure investment set to increase amid stimulus measures

- Private sector investments face tighter credit conditions
- Manufacturing sector picks up rapidly, boosted by industrial policies



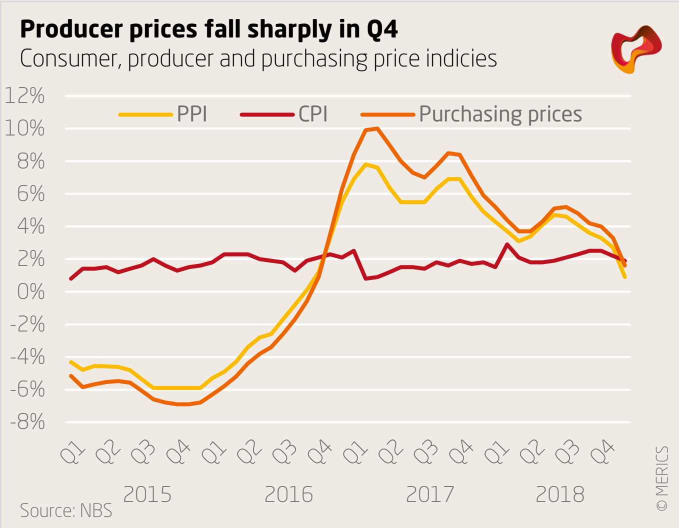


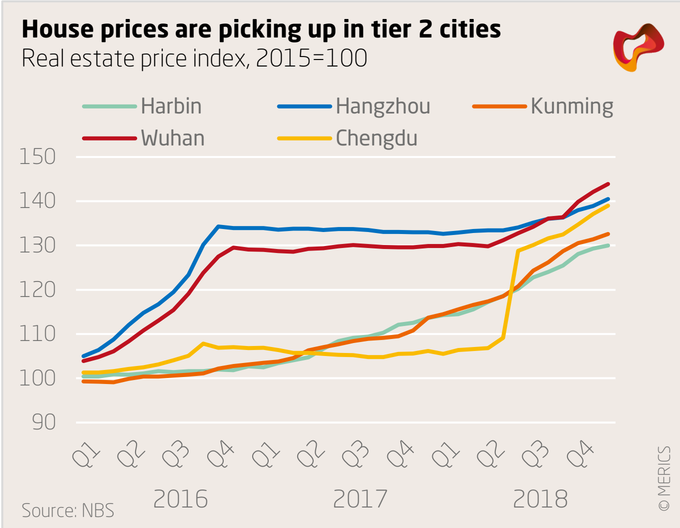
- On average, fixed asset investment grew at 5.8 percent in Q4, slightly picking up from the record low in the previous quarter. Investment growth for the year was 5.9 percent, lower than the previous year and lower than GDP growth. Despite the recent uptick investment growth has been in gradual decline for over a decade. Slowing economic growth, tighter domestic credit conditions, regulation, and weak investment sentiment all contributed to this downward trend.
- Efforts to reign in leverage has caused state driven investment to decline since the beginning of 2017. However, it is set to rebound in 2019. In 2018, investments in infrastructure and State-owned enterprises grew at 3.8 and 1.9 percent, respectively. These are some of the lowest growth rates ever recorded.
- The Chinese government is launching a fiscal stimulus package to stimulate economic growth. New funds are provided for infrastructure upgrading: for instance, new investments in expanding the country's railway network worth 860 billion CNY have been approved by the National Development and Reform Commission (NDRC).
- The government will need to walk a fine line in rolling out stimulus measures as those might threaten advances in reducing financial risks associated with excessive credit build-up. Compared to the previous slowdown in 2008/09, boosting GDP growth through infrastructure spending has become much more difficult as the economy is considerably bigger a decade later.
- Investments by private companies have remained stable over the course of the year. However, the government is increasingly concerned about lack of credit for future investments.
- As is evident from the sharp fall in loan growth to SMEs, smaller private businesses face difficulties in securing sufficient financing due to tighter credit conditions. Larger private corporates appear to have largely contributed to private investment growth. Private investment grew at an average of 8.7 percent in both Q4 and the whole year.
- The real estate market remains a key area for investments despite the government's concerns about a potential bubble developing: the sector grew by 9.6 percent in Q4, down slightly from the previous quarter. Over the year, it reached a growth rate of roughly 10 percent.
- For the first time since 2012, investments in the secondary sector (6 %), which contains manufacturing, are expanding at a higher pace than in the tertiary, the service sector (3.7 %). The shift started in beginning 2018, when the growth rates of the two sectors began moving in opposite directions. One reason for this trend lies in a build-up of manufacturing capacity in industries which are part of the Made in China 2025 industrial strategy.

Price levels

Price growth slows in fourth quarter

- Producer and purchasing prices nearing deflationary territory
- Real estate price increasing in tier 2 and 3 cities



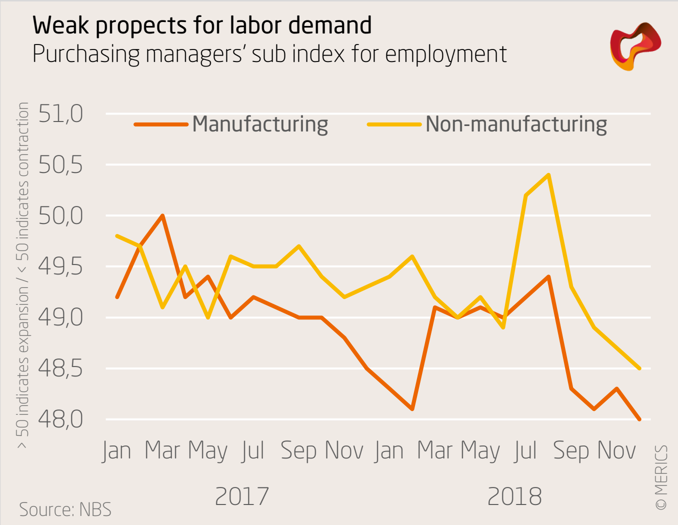


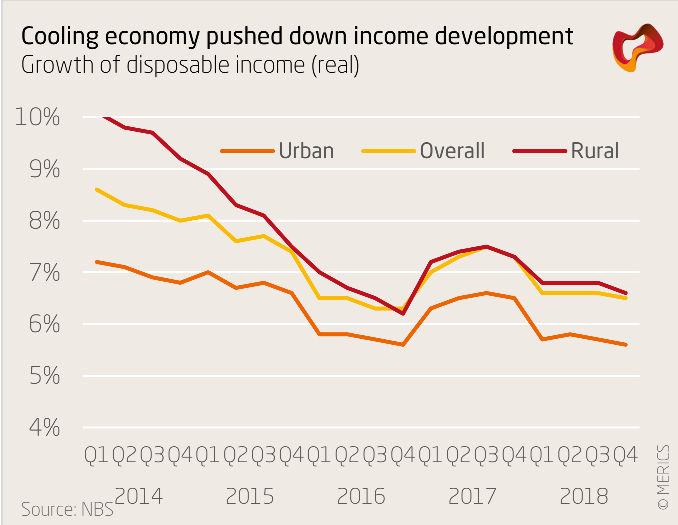
- Consumer prices increased 2.1 percent in 2018. Price growth accelerated during the first half of the year, but due to slowing consumption growth, December price growth slowed to 1.9 percent.
- Despite looser monetary policy, consumer price growth was below the central bank's three percent inflation target. Unless a major stimulus is launched by the government, consumer inflation is likely to remain below the target in 2019.
- Year-end producer price growth (PPI) decreased sharply from 6.3 percent in 2017 to 3.5 percent in 2018. Purchasing price growth went down from 8 to 4.1 percent, but it remained above producer prices.
- By the end of the year both producer and purchasing prices were approaching deflation. Price growth cooled the most in the last quarter as the economic slowdown became more visible. In December, producer and purchasing prices grew at 0.9 and 1.6 percent, respectively. A further slump in price growth will potentially hurt companies' profits, which could cause considerable difficulties as Chinese corporates' bond payments are set to peak in 2019 and 2020.
- Prices for building materials, energy, ferrous metals, and chemicals increased above average for most of the year. However, in Q4, only building materials (8.9 %), energy (7 %), and ferrous metals (4.5 %) grew above average. Chemicals (2.9 %), textiles (2.3 %), timber (1.9 %), industrial raw materials (1 %), and agricultural products (0.1 %) grew below average. Non-ferrous metals contracted by 1.9 percent.
- The government has made controlling housing price levels and fighting against real estate speculation a top priority. This policy proved effective in the biggest cities, but the data show increasing prices elsewhere. In tier 1 cities, house prices remained stable for most of the year but began picking up in Q4. Sharp price increases were apparent in most tier 2 and 3 cities: In Kunming, the provincial capital of Yunnan province, average house prices were 14.5 percent higher than 2015 levels at the beginning of 2018. By the end of the year they were 32.6 percent higher.

Labor market

Maintaining stable employment will be key challenge in 2019

- Government launches programs to support labor market
- Cooling economy affects income and wage growth expectations





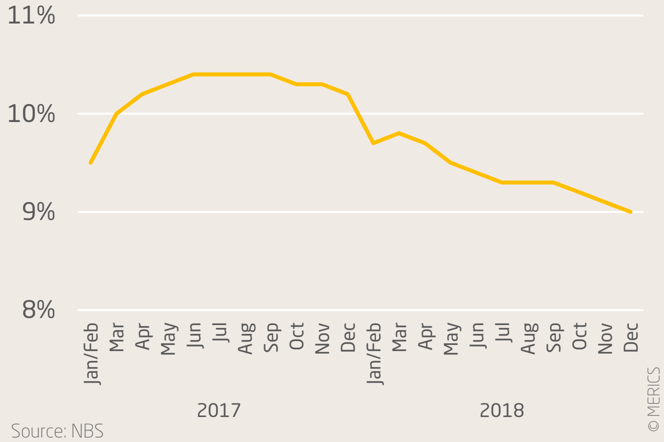
- In 2018, China's labor market performed well: 13.6 million new urban jobs were created, easily surpassing the government target of ten million. However, reports or slowing labor demand and layoffs over the last quarter show that there may be changes ahead.
- The labor demand-to-supply ratio compiled by the NBS picked up to 1.27 in Q4 compared to 1.25 in the previous quarter. There are still more job vacancies than applicants. However, the Purchasing Managers' Index has sunk below 50, indicating demand for new workers is beginning to shrink.
- In an increasingly difficult economic environment, companies may be more hesitant to hire new staff or even consider layoffs. Pressure on the labor market might increase as the government expects 15 million new job seekers in urban areas. The situation might be further aggravated by a record number of 8.3 million university graduates coming onto the labor market in 2019.
- Starting in 2019, social security related taxes will be collected by the National Tax Bureau (no longer by local authorities). This move to improve efficiency of tax collection will increase labor costs for companies – a big challenge particularly for small and medium enterprises with small margins.
- Both the central and local governments have introduced measures to stabilize the labor market. The Ministry of Human Resources and Social Security (MHRSS) announced training opportunities for unemployed persons. In addition, 50 percent of the unemployment insurance paid in 2018 will be returned to companies that are willing to reduce planned job cuts. New incentives for unemployed people to start a business were also launched. 20 provincial and municipal governments announced separate support measures to stabilize employment.
- Faced with a less optimistic outlook for the business environment, income growth slowed down in 2018. Adjusted for price increases, disposable income grew by 6.5 percent, down from 7.3 percent in 2017. Disposable income in rural areas expanded by 6.6. percent compared to 5.6 percent in urban areas.

Retail

Consumption growth slowdown makes government nervous

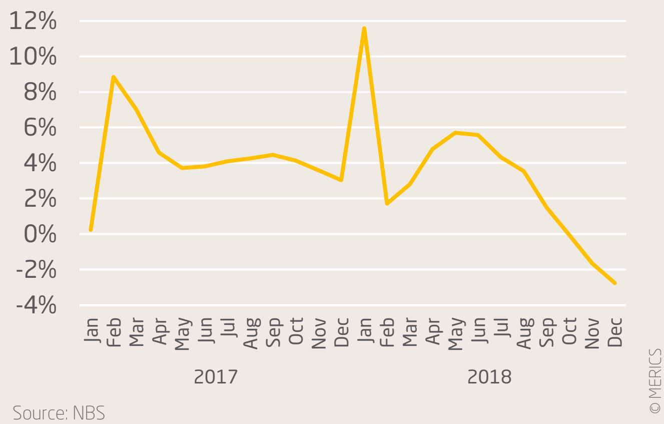
- Most categories of retail sales slow significantly
- Government launches wide variety of policies to support consumption

Hesitant consumers hold back on spending
Growth in retail sales, yoy, ytd



Source: NBS

Car market faces bleak outlook in 2019
Growth in Automobile sales, yoy, ytd



Source: NBS

- In 2018, retail sales grew by nine percent, down from 10.2 percent the year before. The sector expanded rapidly over the past years, therefore the gradual slowdown is not necessarily directly linked to weakening economic growth. However, retail used to be a pillar for growth in recent years. The slowdown comes at an inconvenient time.
- Despite the slowdown in GDP growth consumer confidence is rising according to the NBS's index that increased for the third consecutive month in December. However, the government is concerned that the mood could soon deteriorate.
- The government launched several policies to directly and indirectly support consumption growth: income tax cuts, incentives aimed at boosting purchases of consumer goods, property price controls, and development of the rental market for housing.
- Growing at 10.1 and 8.8 percent respectively, retail growth in rural areas kept outpacing cities. Year-end retail growth was the highest in poorer provinces such as Tibet and Shaanxi. In Beijing growth was only three percent.
- Annual sales of food (10.2 %), daily necessities (13.7 %), furniture (10.1 %), and fuels (13.3 %,), expanded above average.
- Automobile sales in 2018 were slower than in the previous year, contracting by 2.8 percent. The situation was particularly critical in the 4th quarter, when monthly sales were consistently more than ten percent lower than in the previous year.
- Sales of communication equipment grew by 7.1 percent in 2018 altogether but contracted by 0.9 percent in December. Especially a drop in mobile phone sales contributed to this development.
- E-commerce sales expanded by 23.9 percent, down sharply from 32.2 percent the year before. The government has rolled out several measures regulating the e-commerce sector. Some, like the crackdown on overseas shoppers, are likely to boost online shopping. The new e-commerce law is likely to affect smaller online traders which will struggle to with the increased liability.