

EMERGING ASIA ECONOMICS UPDATE

4th Jan. 2012

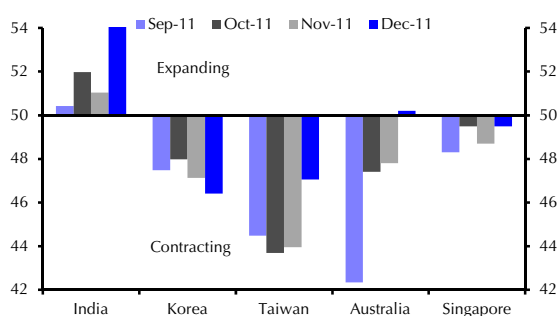


Asia PMIs paint mixed picture

- December PMIs for Asia paint a mixed picture. The surveys suggest manufacturing output returned to growth in Australia, while in contrast to the weakness of recent data, factory output rebounded strongly in India. However, production looks to have declined in Taiwan, Singapore and Korea. With concern over the global outlook increasing, policy loosening is only a matter of time in most countries.
- The biggest increase in the PMIs was recorded by India, whose headline PMI jumped to 54.2. (See Chart 1.) However, this positive reading follows a string of disappointing figures, including for industrial production, exports and auto production, and it does not alter our view that GDP growth is likely to remain below 7% y/y in the first half of 2012. Meanwhile the PMI readings for both input and output prices in India remain elevated, which suggest that inflation will only fall slowly. Nonetheless, with growth set to remain weak we expect the central bank to start cutting interest rates in Q1.
- Australia's headline PMI also staged a strong recovery, increasing to 50.2 up from 47.8 in November, and the first reading above 50 since June. The recovery has come despite the sustained strength of the Australian dollar, which has undermined the competitiveness of the manufacturing sector. Despite the pick-up, **manufacturing in Australia (which accounts for less than 10% of GDP) will continue to decline in importance as the economy continues to restructure towards the resources sector.**
- Korea's headline PMI weakened further, and at 46.4 (the lowest since February 2009) it has now been below 50 for five consecutive months.** Although headline inflation remains above the central bank's 2-4% target, we expect consumer price inflation to ease this year, and for economic growth to slow. This will open the door for the central bank to cut its policy rate in H1.
- Taiwan's headline PMI rose to a six-month high. However, at 47.1, it remained below the level which separates contraction from expansion. **Taiwan is one of Asia's most trade-dependent economies, and the continued weakness of the new export order sub-component (which was just 42.8) is therefore especially worrying.** (See Chart 2.) Although the central bank kept interest rates on hold at its most recent meeting in late December, with inflation low and growth set to remain weak, interest rates cuts are likely at the end of the current quarter.
- Finally, although the headline PMI rebounded slightly in Singapore to 49.5, it has now been below 50 for six consecutive months. The poor PMI in Singapore follows on from recent preliminary data showing that GDP contracted by an annualised 4.9% q/q in Q4. **The weak data reinforce our view that Singapore faces a tough 2012 and that more monetary policy loosening is likely when the Monetary Authority of Singapore has its next bi-annual meeting in April.**
- Despite the improvement in India, the latest PMIs provide more evidence that weaker global growth is causing activity in the region to slow. However, healthy economic fundamentals, as well as the likelihood of further significant policy loosening, mean that although growth in emerging Asia will slow this year, it will not collapse.**

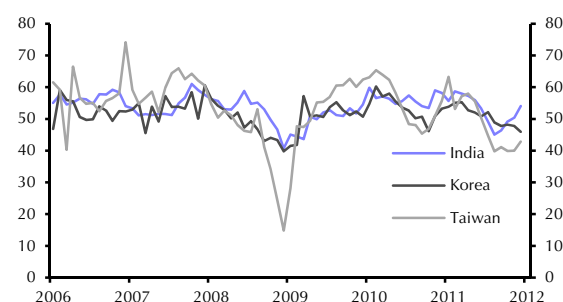
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Chart 1: Manufacturing PMIs – Headline



Source – Markit

Chart 2: Manufacturing PMIs – New Export Orders



Source – Markit