Asia PMI

Asia economic growth regains momentum in March, improving to near three-and-a-half year high

April 2017
Asia growth gains momentum

- After slowing in the opening two months of the year, Asia economic growth regained some momentum in March, buoyed by the quickest service sector expansion in 2½ years. The Asia Composite PMI, compiled by Markit from its various national surveys, rose from February’s five-month low of 51.6 to 52.6 in March, its highest in nearly 3½ years.

- March’s upturn meant the average PMI reading for Q1 was the second-strongest since the final quarter of 2013, just behind Q4 2016. Historical comparisons with official GDP data shows the PMI is consistent with Asia’s GDP growing at an annual rate of around 5.5% in the first quarter of 2017.

- Manufacturing output growth was unchanged since February, with the rate of expansion across Q1 as a whole broadly in line with services.

Asia PMI & economic growth

Sources: IHS Markit, Nikkei, Caixin, Thomson Reuters Datastream.
Asia services PMI at 30-month high

- After a dip in February, the Asia services PMI rebounded to the highest since September 2014. The faster upturn in services activity coincided with an improvement in business confidence to the strongest in over 1½ years.
- Japan’s services economy recorded the fastest rate of expansion among the major Asian economies, with growth at a 19-month high. India meanwhile saw a further recovery in its service sector following the disruption caused by demonetisation. China’s services growth eased for a third straight month, though remained solid overall, according to the Caixin PMI.

### Asia services PMI

![Graph showing Asia services PMI from 2008 to 2017](image)

### Major Asian economies

![Graph showing PMI business activity index for Japan, China, and India from 2008 to 2017](image)

Sources: IHS Markit, Nikkei, Caixin
Brighter prospects marred by cost pressures

• Forward-looking indicators suggest that the strengthening of Asia growth is poised to extend into the second quarter. Growth in new business accelerated to a 28-month high in March, rounding off the best quarter for nearly seven years.

• Business optimism meanwhile reached the highest since May 2015. Greater capacity pressures saw Asia’s rate of jobs growth stay at a 3½ year high, though still modest overall.

• However, cost pressures remained elevated, with manufacturers in particular seeing another sharp (albeit slower) increase in input costs, linked to higher global commodity prices and, in some cases, weaker domestic currencies.

**Business expectations**

**Asia margins indicator***

* The Asia PMI Margins Indicator is derived from the difference between the PMI Input Price Indices and Output Price Indices.
Taiwan leads Asia manufacturing rankings

• The Asia Manufacturing PMI held broadly steady at 51.5 in March, down slightly from 51.7 in February. Nevertheless, its average in Q1 was the best in just over three years. The vast majority of Asian economies monitored saw an improvement in manufacturing operating conditions.

• **Taiwan** held the top place in the Asia manufacturing PMI rankings for the fourth month running, followed by **Vietnam** and the **Philippines**.

• **South Korea** saw the steepest deterioration, followed by Malaysia, though in both cases the rate of decline eased.
Japan’s PMI climbs to 19-month high

- Japan saw growth accelerate to a 19-month high, according to the Nikkei PMI surveys, buoyed by the fastest service sector expansion for just over one-and-a-half years as well as an export-related boost to manufacturing.

- Overall, the PMI data are consistent with nominal GDP rising at an annual rate of 2.5% in Q1.

- The survey data showed elevated price pressures, especially in manufacturing. Factory input cost inflation was the second-highest in just over two years, reflecting higher global commodity prices, particularly energy costs, and yen-related import price inflation. However, rising cost burdens have so far been mostly absorbed by Japanese companies, as evidenced by only mild increases in charges for Japanese goods and services, suggesting profit margins are being squeezed.

Japan economic growth*

Japan economic growth*  

Sources: IHS Markit, Nikkei, Japan Cabinet Office

Japanese manufacturing exports

Sources: IHS Markit, Nikkei, Thomson Reuters Datastream.  
* PMI shown above is a GDP weighted average of the survey output indices.
China PMI buoyed by manufacturing and exports

- The upturn in the Chinese economy lost some momentum at the end of Q1. The headline Caixin China Composite Output Index, compiled by Markit, fell to a six-month low of 52.1. That was nevertheless the second-best quarter in four years and is a significant improvement on this time last year, highlighting how China’s economy has picked up momentum.

- Much of the recent upturn in growth is attributable to manufacturing. Goods exports returned to growth in Q1 after almost two years of largely declining, supported by the depreciation in the yuan and improving demand in key markets.

- A strengthening jobs market underscores the recent health of the economy. Overall employment rose for the second month in a row during March, albeit only slightly, contrasting with job losses seen through much of the past few years.

China PMI* & economic growth

China sector output

Sources: IHS Markit, Caixin, NBS.

* PMI shown above is a GDP weighted average of the survey output indices.
India economy sees further recovery after recent disruption

- PMI data indicated that India’s economic recovery gathered pace during March, buoyed by faster growth in manufacturing and service sectors. The headline Nikkei India Composite Output Index, compiled by Markit, rose to a five-month high of 52.3, up from 50.7 in February.

- The stronger upturn seen across both sectors was accompanied by jobs growth. Overall employment rose at the fastest rate in just over 3½ years having been largely stagnant for the past few years.

- However, cost burdens continued to increase. India’s service providers saw the fastest increase in input costs for nine months, whereas manufacturers reported a slower rise in costs than in February.

* India PMI* v GDP

* Chart uses composite PMI covering both manufacturing and services. Sources: IHS Markit, Nikkei, MOSPI
Malaysia factory output increases despite weak sales

• Latest PMI data indicated a further deterioration in Malaysia manufacturing business conditions, although the rate of decline was the slowest since May 2015, according to the Nikkei Malaysia Manufacturing PMI.

• Reflecting back-to-back increases in output in the past two months, the headline PMI recorded its highest quarterly average for two years in Q1.

• However, business expectations weakened, undermined by worries about underwhelming economic conditions, alongside a sustained decline in new business. Employment was meanwhile broadly unchanged amid ongoing strong cost pressures, linked to a weak ringgit and higher commodity prices.

Malaysia PMI & economic growth

Inflationary pressures

Sources: IHS Markit, Nikkei, Malaysia Department of Statistics.
ASEAN manufacturing ends Q1 in growth territory

• ASEAN manufacturing business conditions improved to the greatest extent for nine months in March, according to the Nikkei ASEAN PMI, supported by stronger expansions in both output and new orders. Furthermore, of the nations monitored only Malaysia saw a deterioration, albeit marginal.

• Vietnam was the strongest performer in March and across Q1 as a whole, followed by the Philippines. Indonesia and Singapore both indicated a return to growth, although the respective upturns were only slight.

• The survey data showed cost increases across the region, although there were significant variations in the rates of cost inflation. Malaysia saw the steepest rise in input prices, while the increases in Singapore and Thailand were only marginal.

Asia v ASEAN manufacturing growth

Input cost inflation
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