



IHS Markit™

Asia PMI

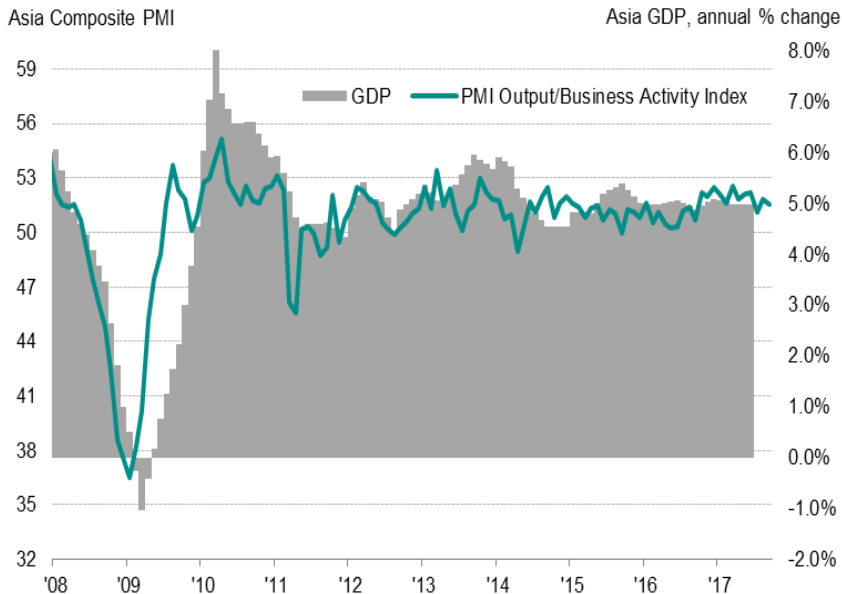
Asia economy expands at weakest pace for a year in Q3
amid rising cost pressures

October 2017

Asia growth sees weakest quarter for a year

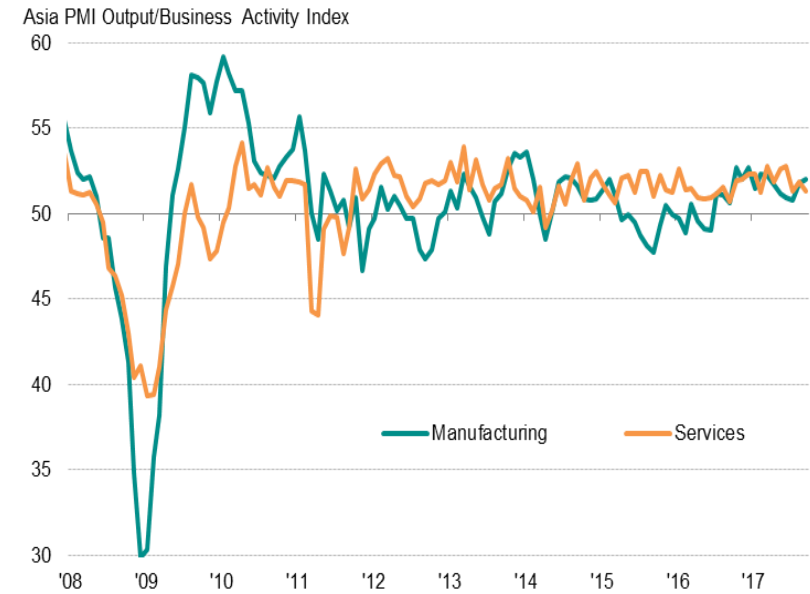
- The Asian economy expanded at a modest pace in September, according to PMI data. At 51.5, the Asia Composite PMI Output Index was close to the 51.8 reading seen in August. However, the latest figure rounded off the weakest quarter for a year, with historical comparisons indicating an annual GDP growth rate of just below 5.0% for the third quarter.
- Asia’s economic growth has seen some loss of momentum in recent months, as a slowdown in the manufacturing sector in the second quarter was followed by an easing in services activity growth at the start of Q3. This contrasted with a solid end to 2016, when the economy was lifted by rising business activity across both manufacturing and service sectors.

Asia PMI & economic growth



Sources: IHS Markit, Nikkei, Caixin, Datastream

Asian manufacturing and services

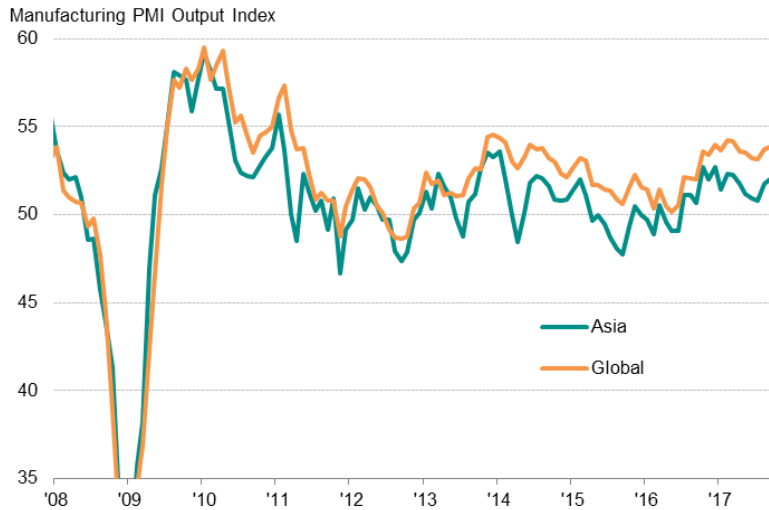


Sources: IHS Markit, Nikkei, Caixin

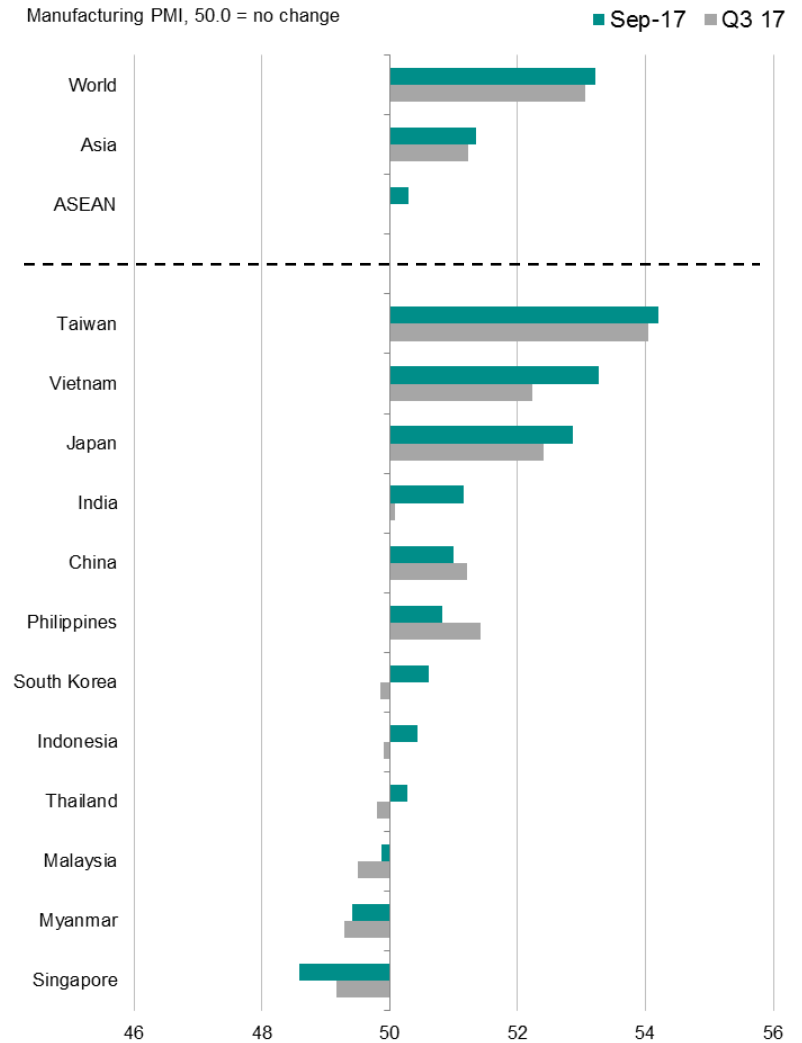
Asia manufacturing still lags global trends

- The latest headline Asia Manufacturing PMI was close to August’s five-month high but continued to underperform global manufacturing trends, reflecting the uneven performance across the region. Of the 12 economies monitored, only half showed improved manufacturing conditions during the third quarter.
- In September, Taiwan led the PMI rankings across the region for a third month running, followed by Vietnam and Japan. Outside the top three, the rest recorded either moderate expansions or declines. Notably, the Philippines saw another weak performance, contrasting with strong growth seen in 2016 and during the first half of 2017.

Manufacturing trends: Global v Asia



Source: IHS Markit



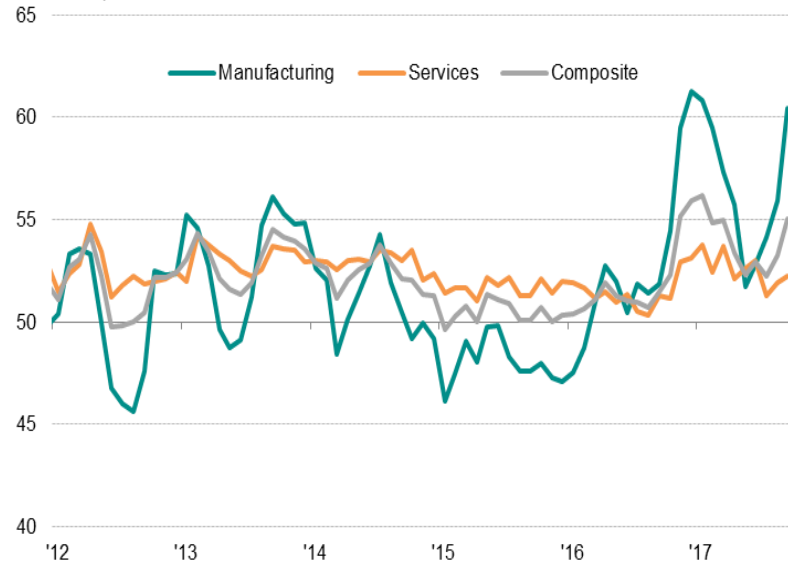
Sources: IHS Markit, Nikkei, Caixin, JPMorgan.

Growth slows but costs mount

- Latest survey data showed that firms across Asia not only grappled with a slowdown in overall activity growth, but also rising prices. Input cost inflation accelerated to the sharpest for eight months, registering one of the steepest rises in over six years — a trend that has also been observed worldwide. Much of the cost increase was centered on the manufacturing sector amid reports of higher prices for raw materials as well as supply shortfalls.
- Higher costs pushed companies to raise selling prices in order to protect profit margins: average charges for Asian goods and services rose at the steepest rate since February 2011. Not surprisingly, manufacturing saw a stronger rate of output price inflation than services, consistent with the input cost trends seen in both sectors. Prices charged for goods showed the largest monthly rise since last November.

Rising cost pressures led to...

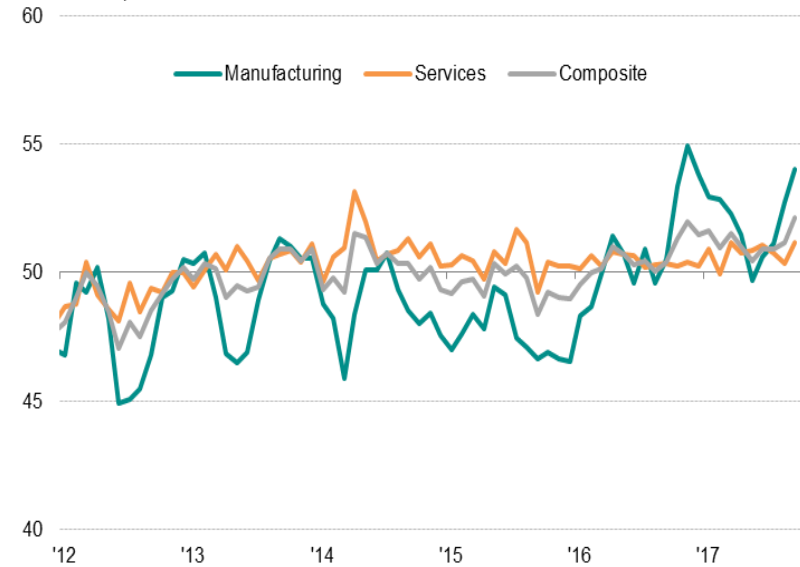
Asia PMI Input Costs Index



Sources: IHS Markit, Nikkei, Caixin

...firms raising selling prices

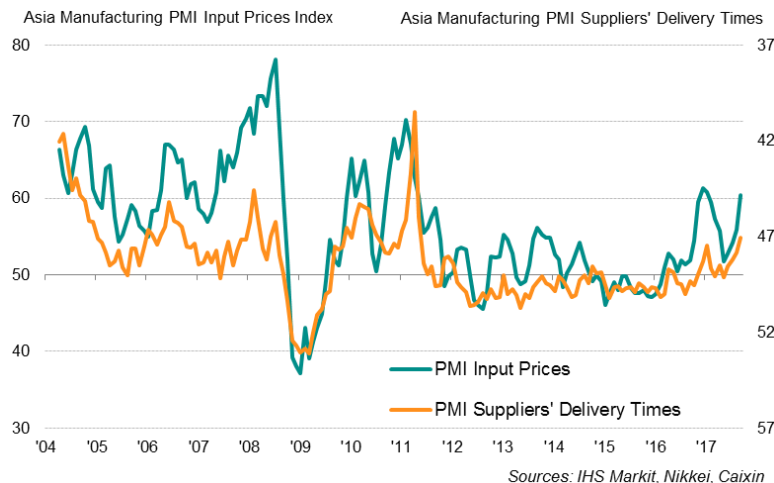
Asia PMI Output Costs Index



Sources: IHS Markit, Nikkei, Caixin

Uneven supply-chain constraints across Asia

- Anecdotal evidence pointed towards supply shortages for raw materials, such as industrial metals, as the key reason for the growing incidence of delivery delays in September, which in turn often pushed up prices.
- Weaker exchange rates, in some cases, were also cited as contributing to higher costs for imports.
- However, only a few countries suffered noticeable delivery delays at the end of the third quarter. Supplier performance in fact improved in both Singapore and Malaysia.
- Taiwan reported the worst deterioration in vendor performance, followed by Japan and China.



Manufacturing PMI Suppliers' Delivery Times Index, 50.0 = no change (September 2017)

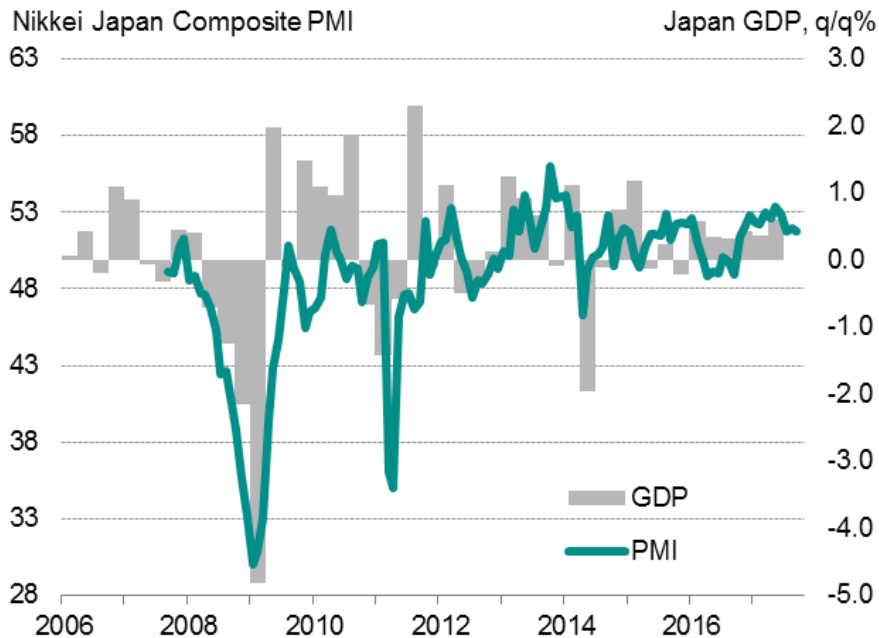


Sources: IHS Markit, Nikkei, Caixin, JPMorgan.

Japan sees sustained solid Q3 growth and rising prices

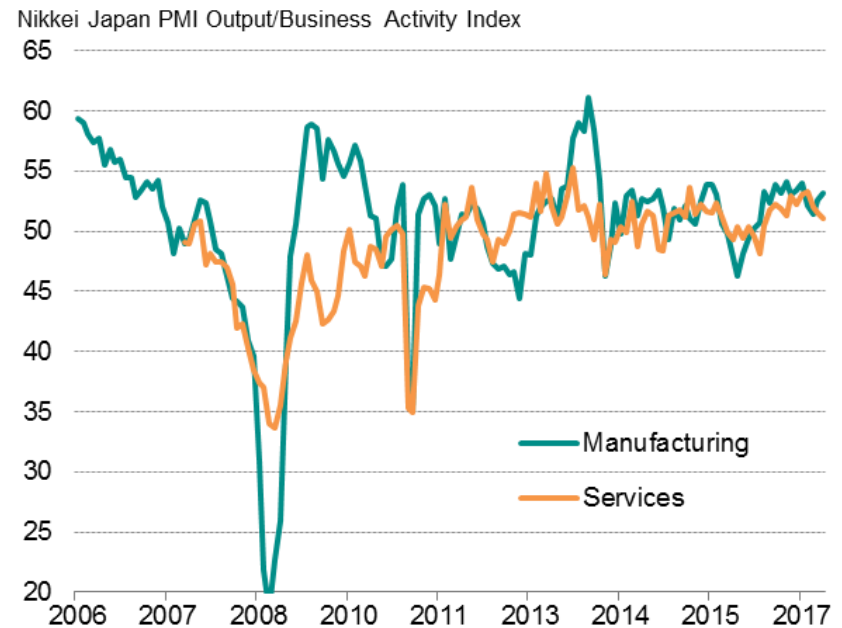
- The Nikkei Japan Composite PMI slipped to 51.7 in September from 51.9 in August, showing the weakest pace of growth for nearly a year. However, historical comparisons of the PMI with GDP suggest that the survey data indicate the economy grew at a solid quarterly rate of approximately 0.5% in Q3, down only slightly from 0.6% in Q2.
- The service sector, which has shown solid expansion throughout much of the year, saw momentum wane in September, leaving manufacturing as the main growth driver, the latter buoyed by the fastest rise in export sales since February.
- Prices charged for Japanese goods and services meanwhile rose to the greatest extent in over two years, suggesting sustained growth is continuing to ward off deflationary pressures and underscoring an improvement in domestic demand.

Japan economic growth*



Sources: IHS Markit, Nikkei, Japan Cabinet Office

Japan manufacturing and services



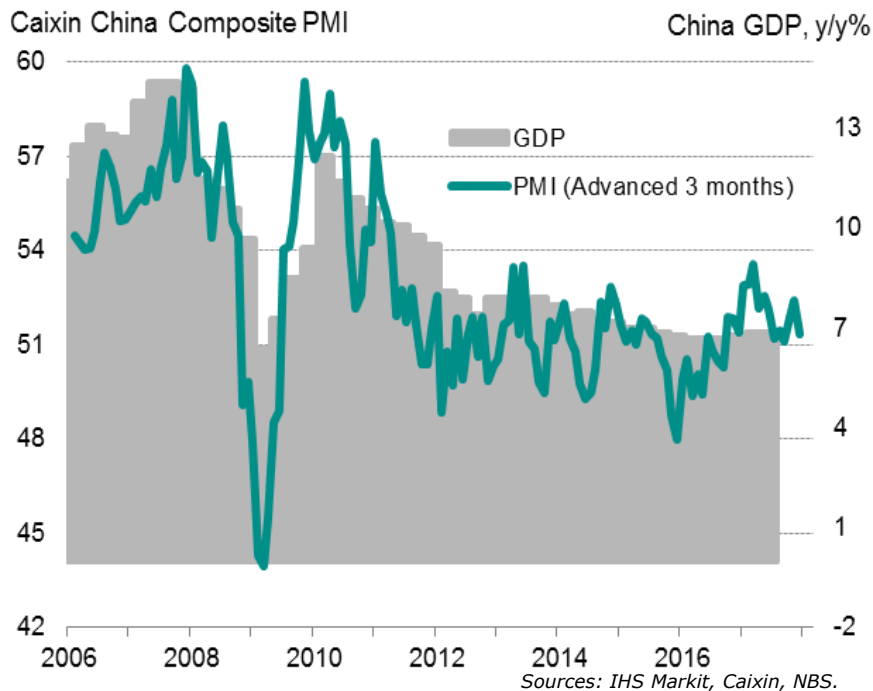
Sources: IHS Markit, Nikkei, Thomson Reuters Datastream.

* PMI shown above is a GDP weighted average of the survey output indices.

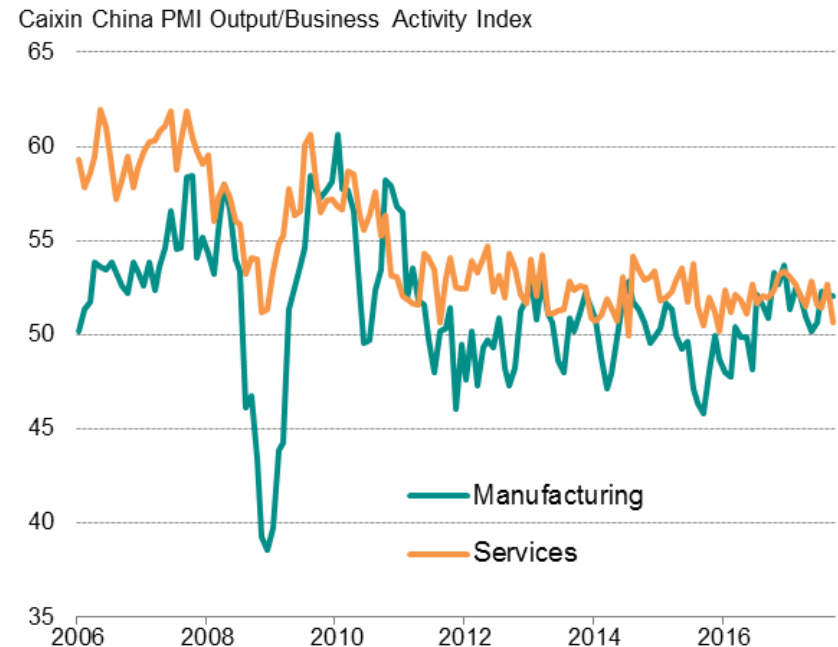
China PMI ends Q3 on softer note, but prices jump higher

- The Chinese economy ended Q3 on a softer note, with survey data showing a weaker pace of growth in September. The Caixin Composite PMI fell to 51.4, its lowest for three months and one of the weakest readings seen over the past year. Service sector activity grew at its slowest rate since December 2015, though manufacturing growth remained relatively elevated by recent standards, albeit still only modest.
- The September surveys were also marred by a lack of employment growth as manufacturing continued to shed workers. Meanwhile, cost pressures intensified considerably — notably in the manufacturing sector — pushing selling prices higher, which points towards higher consumer price inflation in coming months.

China PMI* & economic growth



China sector trends

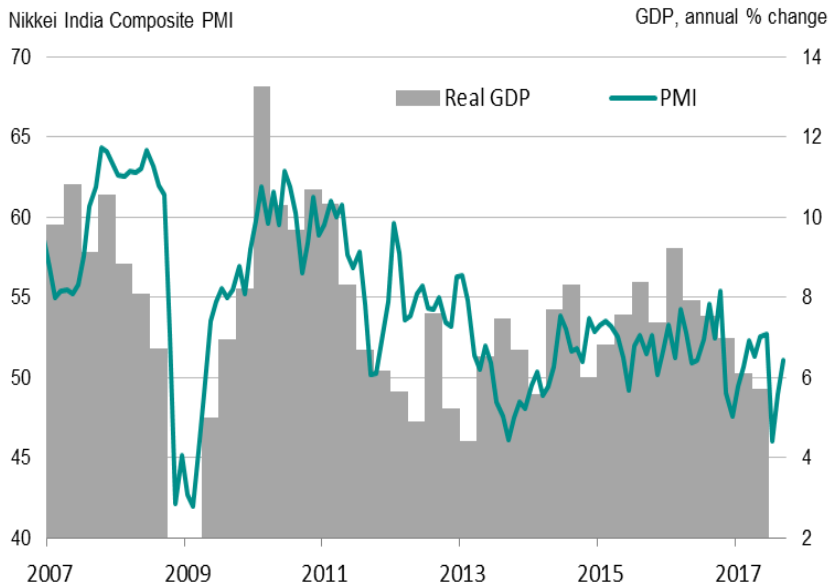


* PMI shown above is a GDP weighted average of the survey output indices.

India returns to growth after GST rollout disrupts activity

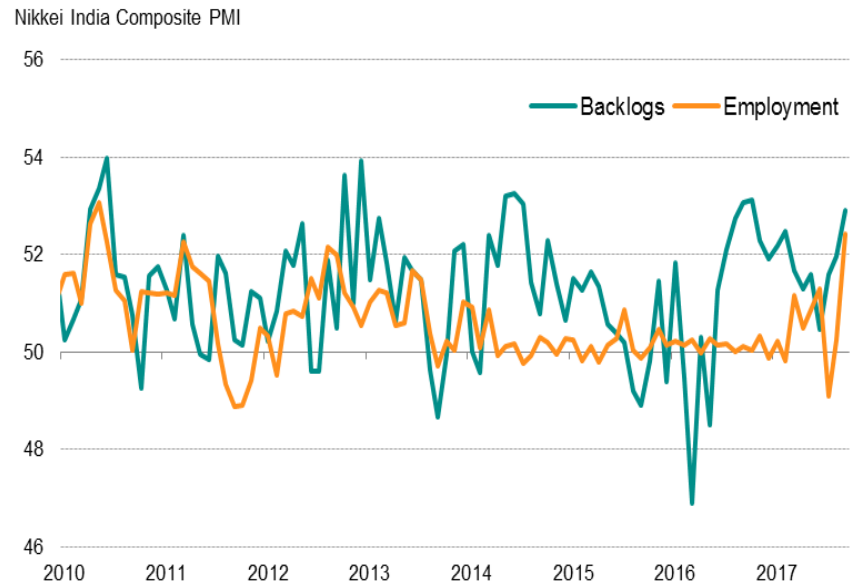
- India's economy returned to growth for the first time in three months in September, recovering from the hit to demand from the new sales tax, according to the Nikkei PMI surveys. Notably, services activity rose in the latest survey period, following two months of declines, matching a revival in growth of new business. In a sign of renewed confidence among businesses, jobs were created at the fastest rate since May 2010.
- Increasing workloads, particularly in services, encouraged firms to boost hiring. Backlogs rose at the fastest rate for nearly a year. Business optimism for the third quarter was the highest since Q3 2016. Meanwhile, inflationary pressures remained relatively subdued.

India PMI & economic growth



Sources: IHS Markit, Nikkei, CSO

India employment and backlogs

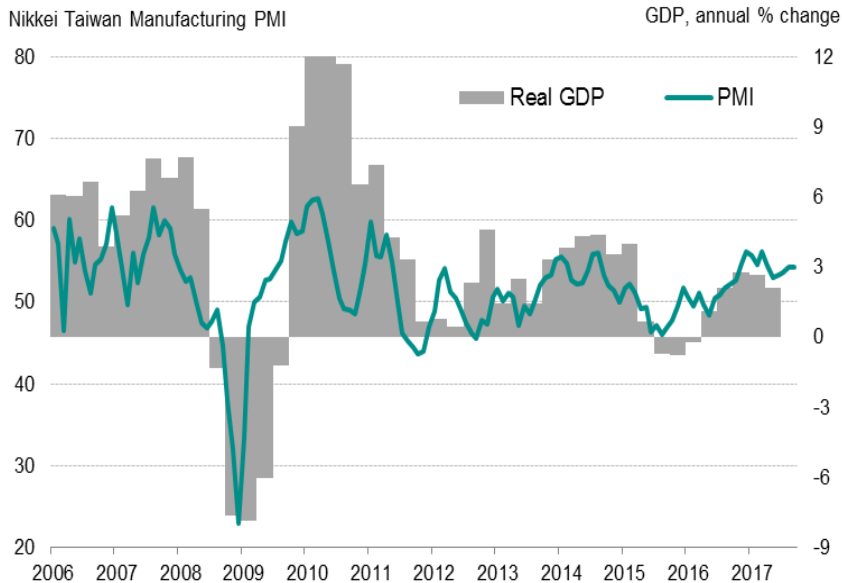


Sources: IHS Markit, Nikkei

Supply shortages lift Taiwanese manufacturing costs

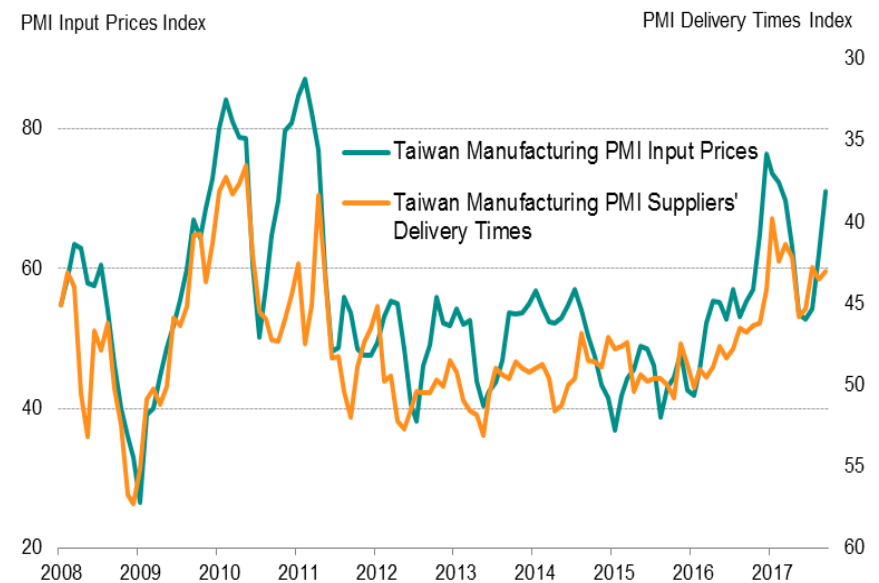
- While Taiwan’s manufacturing economy enjoyed another solid expansion in September, the rate of growth remained below those seen at the turn of the year, as production was again held back in part by raw material shortages. Backlogs of work continued to increase markedly, reflecting signs of capacity constraints.
- Robust demand — from both the domestic market and abroad — also put significant strain on supply chains, with average lead times lengthening for the twentieth month in a row. Longer delivery times are commonly associated with higher prices as a sellers’ market develops when demand exceeds supply. Input cost inflation picked up in September and was close to the recent highs seen earlier in the year, which in turn led increasing numbers of firms to raise charges.

Taiwan PMI & economic growth



Sources: IHS Markit, Nikkei, DGBAS

Taiwan manufacturing price pressures

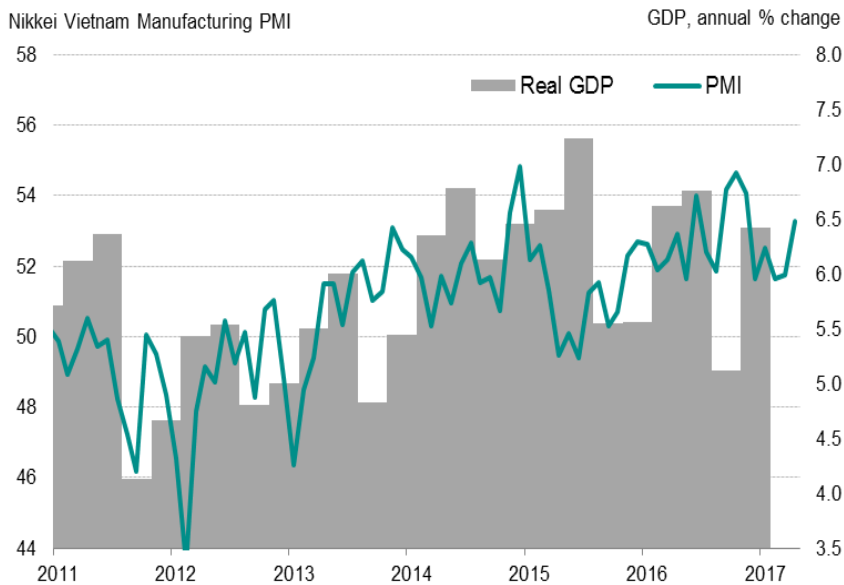


Sources: IHS Markit, Nikkei

Vietnam manufacturing growth strengthens despite rising costs

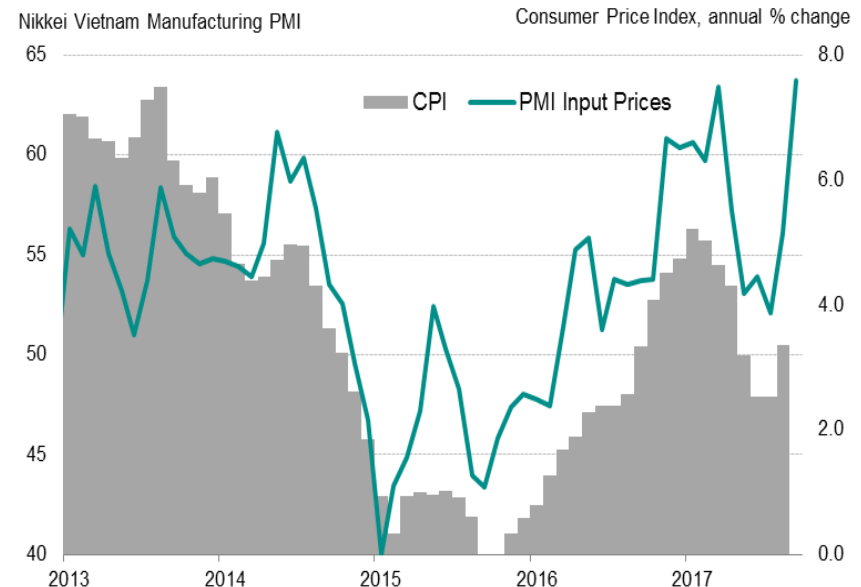
- The Vietnamese manufacturing sector ended the third quarter on a strong footing, with the headline PMI rising to a five-month high of 53.3 in September, according to Nikkei survey data. A strong and accelerated upturn in sales fed through to a faster expansion of output. And busier production schedules saw firms hiring at the fastest rate since March. Manufacturers also entered the final quarter in a buoyant mood with regards to future performance.
- However, the re-emergence of strong inflationary pressures sounded a cautionary note. Cost inflation was the highest in over six years amid reports of raw material shortages. That in turn led firms to raise prices charged for the first time since April in order to protect profit margins.

Vietnam PMI & economic growth



Sources: IHS Markit, Nikkei, General Statistics Office of Vietnam

Price pressures



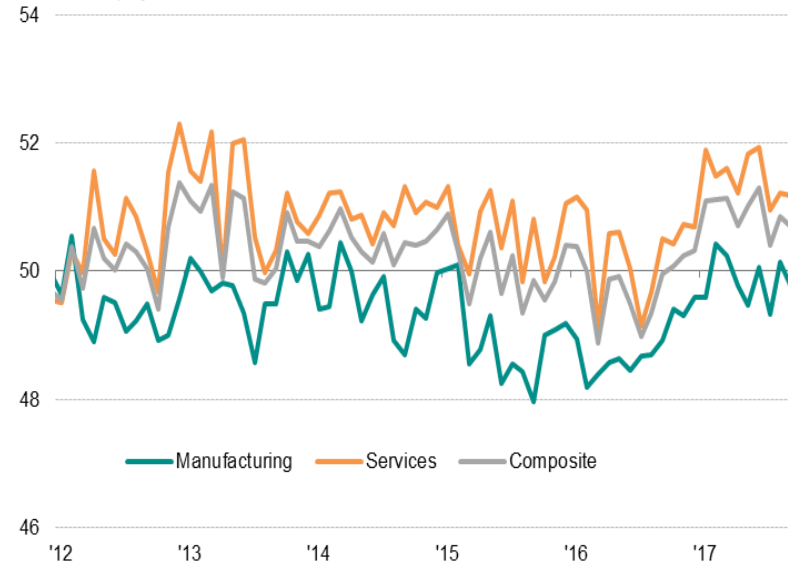
Sources: IHS Markit, Nikkei, General Statistics Office of Vietnam

Wide variation in Asia employment trends

- With the modest growth in business activity leading to only mild pressure on capacity and resources, firms remained prudent on hiring. The average employment growth for the third quarter was the weakest since the closing quarter of 2016. While there was a steady increase in service sector jobs, manufacturing employment remained relatively stagnant, mostly due to ongoing job losses in China’s goods-producing sector.
- India reported another marginal employment gain (on average) during the third quarter, although there were signs of a pick-up in September as firms recovered from the hit to economic activity from the sales tax rollout. Meanwhile, Japanese employment growth continued to ease from the near decade-high rates seen in the second quarter.

Asia employment

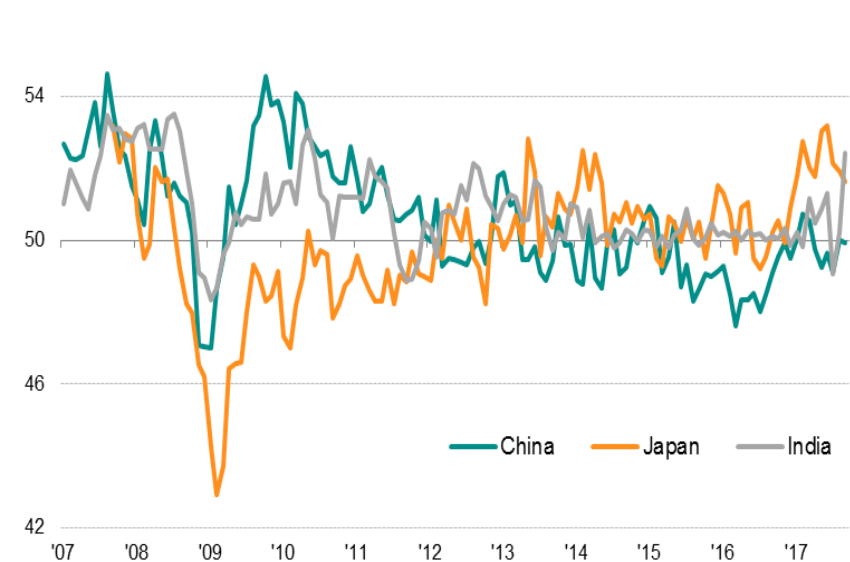
Asia PMI Employment Index



Sources: IHS Markit, Nikkei, Caixin

Employment in major Asian economies

Asia PMI Employment Index



Sources: IHS Markit, Nikkei, Caixin

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