



IHS Markit™

Asia PMI

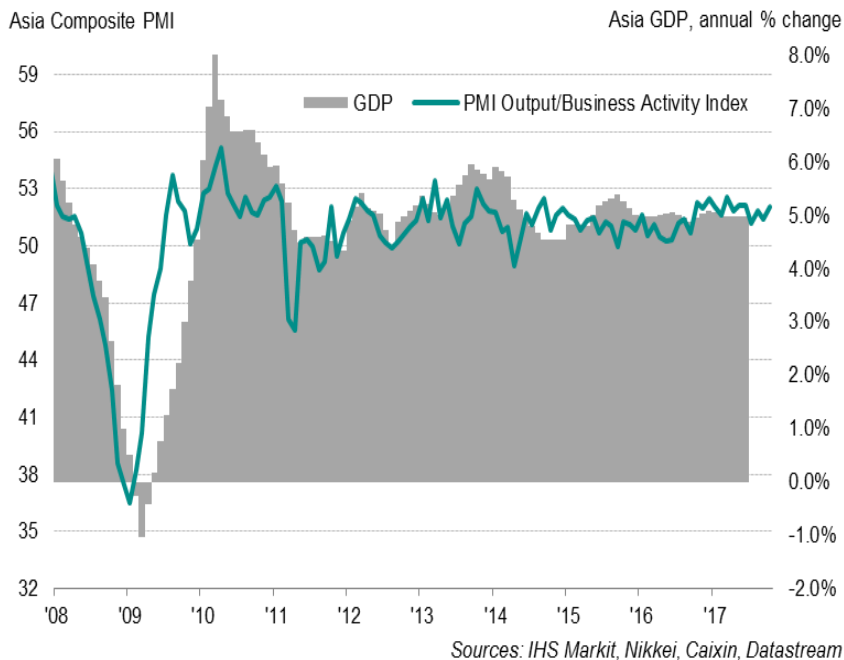
Asia economy gains ground in October, setting the scene for a solid finish to 2017

November 2017

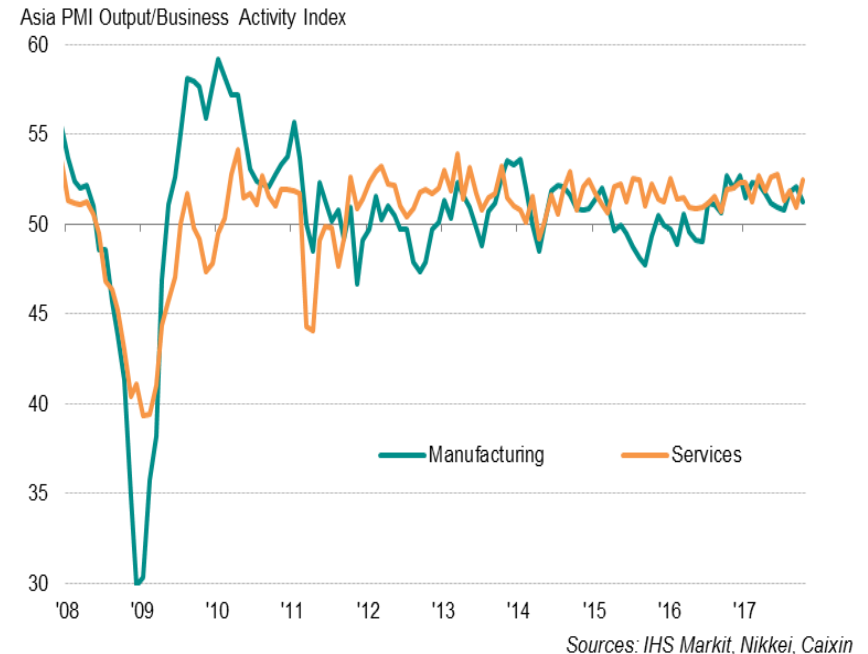
Asia growth picks up at start of fourth quarter

- Asian economic growth picked up speed in October, linked to higher demand. The Asia Composite PMI™ Output Index, compiled by IHS Markit, rose from 51.4 in September to 52.1 in October, reaching a four-month high. The latest PMI survey indicates that the Asian economy is rising at an annual rate of just over 5.0% at the start of the closing quarter of 2017.
- The pick-up in the improvement of business conditions across the region raises the prospect of stronger growth in the final quarter of 2017, having slowed to a one-year low on average in the third quarter. Overall, Asian growth remained well-balanced, with similar rates of expansion seen in both manufacturing and services sectors since the second half of 2016, suggesting that the current upturn has more room to go.

Asia PMI & economic growth



Asian manufacturing and services

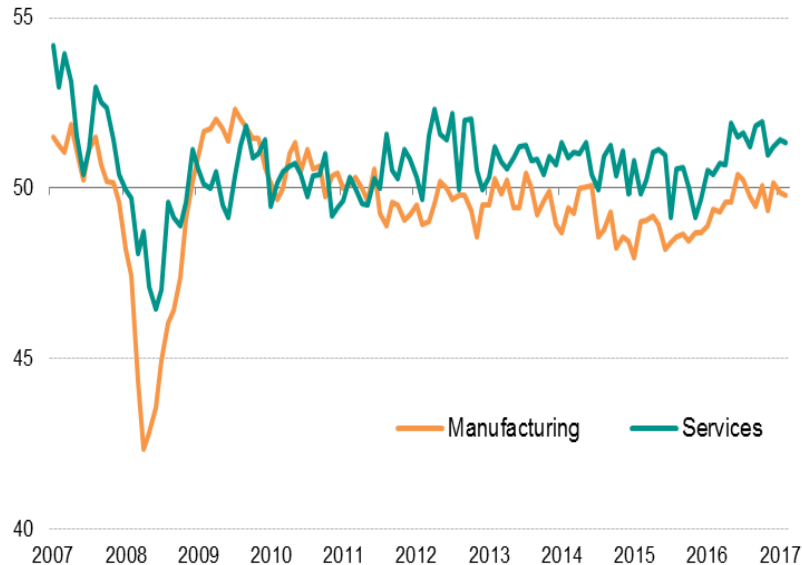


Despite growth, manufacturing employment remains stagnant

- While growth of business activity and new sales volumes for manufacturing and services have risen in tandem this year, employment trends have not been in sync. Hiring in the service sector remained positive, and continues to run above the average seen in the past four years or so, reflecting a steady improvement in business conditions in the sector.
- By contrast, staffing numbers at goods producers remained broadly unchanged in October. Employment in the manufacturing sector, in fact, has tended to fall over past six years, due in part to restructuring efforts in Chinese manufacturing. Nevertheless, recent readings signal some stabilisation and, as such, represent a change from the net job losses seen in the manufacturing sector throughout much of 2015 and 2016.

Asia employment

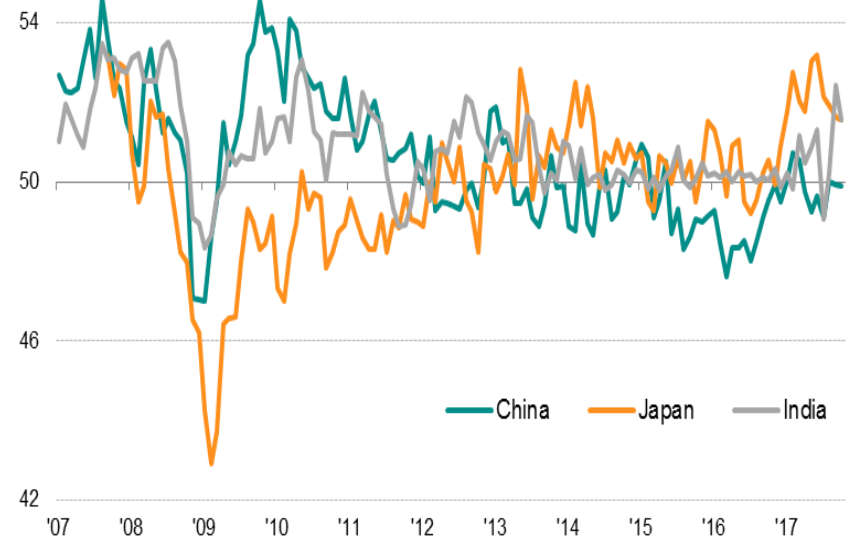
Asia PMI Employment Index



Sources: IHS Markit, Nikkei, Caixin

Employment in major Asian economies

Asia PMI Employment Index



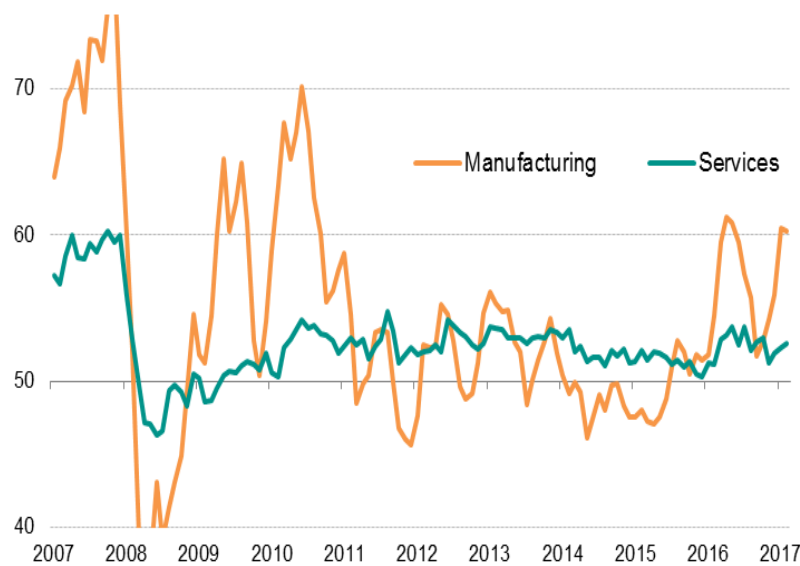
Sources: IHS Markit, Nikkei, Caixin

Rising manufacturing costs, driven by supply shortages

- A strong divergence was also seen in cost trends. Manufacturers reported one of the steepest increases in input prices so far this year in October, whereas service providers continued to see modest input cost inflation, as has been the case since the global financial crisis. Price rises were generally associated with suppliers being busier, as indicated by delivery times lengthening to the second-greatest extent for just shy of 6½ years, but raw material shortages added to the current situation. There were reports of a lack of industrial metals and paper in particular.
- The rate at which delivery times are lengthening exceeded that of output growth, suggesting that some of the current input cost inflation was not demand-driven. Survey respondents often attributed supply problems to Chinese regulations related to cutting pollution, implying that overcoming supply shortages will not be quick – or easy.

Manufacturing costs remain elevated

Asia PMI Input Price Index

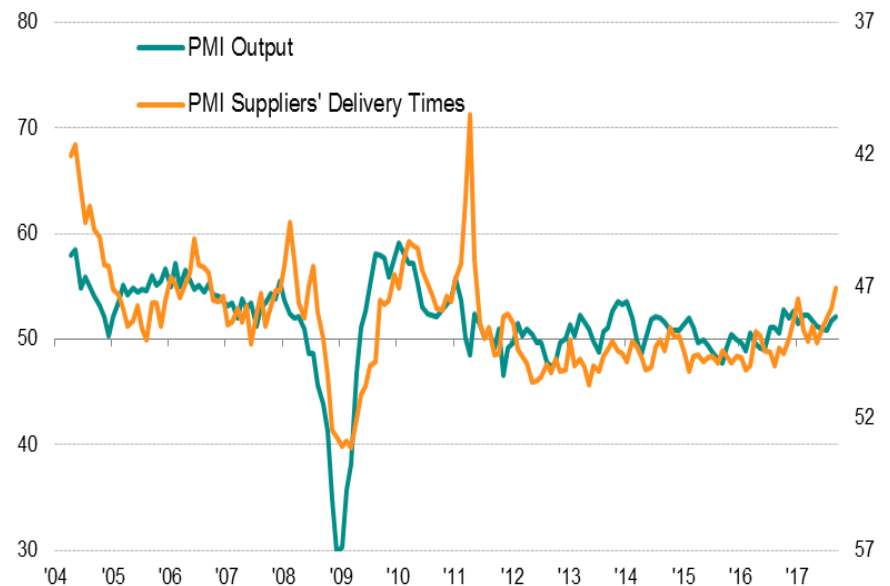


Sources: IHS Markit, Nikkei, Caixin

Rising selling prices

Asia Manufacturing PMI Output

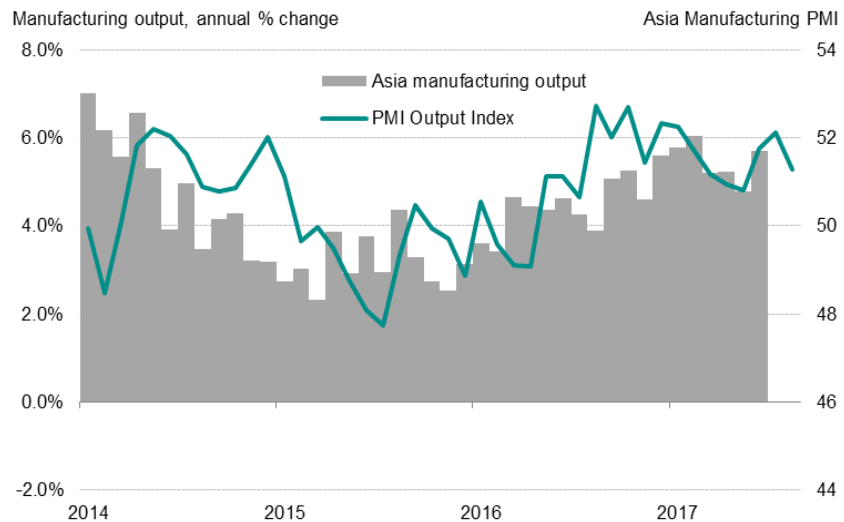
Asia Manufacturing PMI Suppliers' Delivery Times



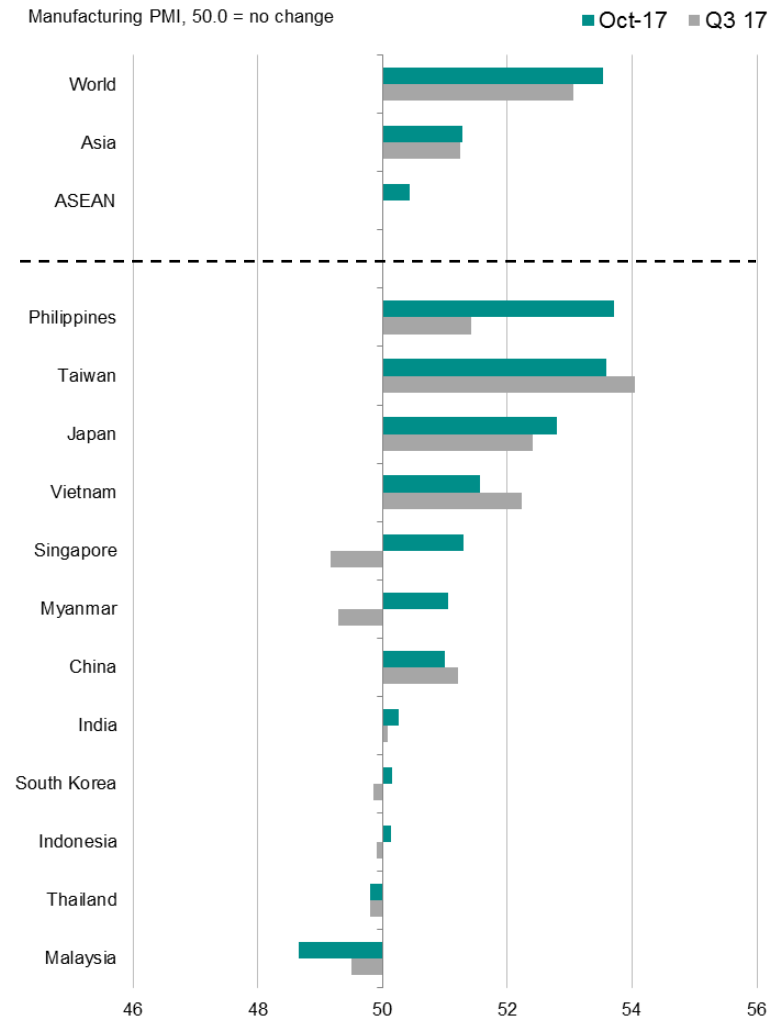
Sources: IHS Markit, Nikkei, Caixin

Asia manufacturing still lags global trends

- Manufacturing survey data compiled by IHS Markit showed the Asia manufacturing sector started the fourth quarter on a positive footing, though still lagged behind global manufacturing. The vast majority of countries recorded an improvement in manufacturing conditions during October, with only two of the 12 countries covered by IHS Markit's PMI data seeing a deterioration: Malaysia and Thailand.
- The Philippines overtook Taiwan to lead the Asian manufacturing rankings, with Japan taking third spot.
- The manufacturing sectors in Singapore and Myanmar meanwhile showed welcome returns to growth.



Sources: IHS Markit, Nikkei, Caixin, Datastream

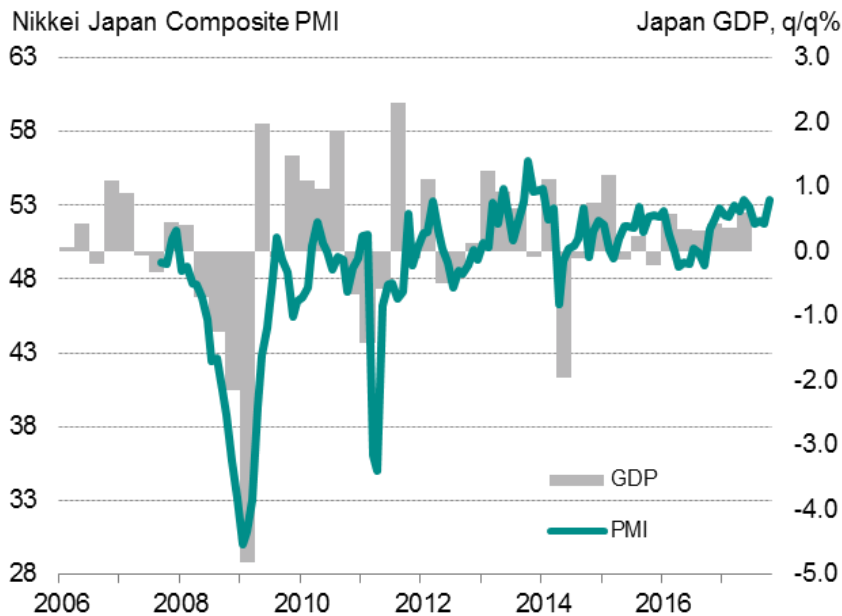


Sources: IHS Markit, Nikkei, Caixin, JPMorgan.

Japan PMI hits second-highest level in four years

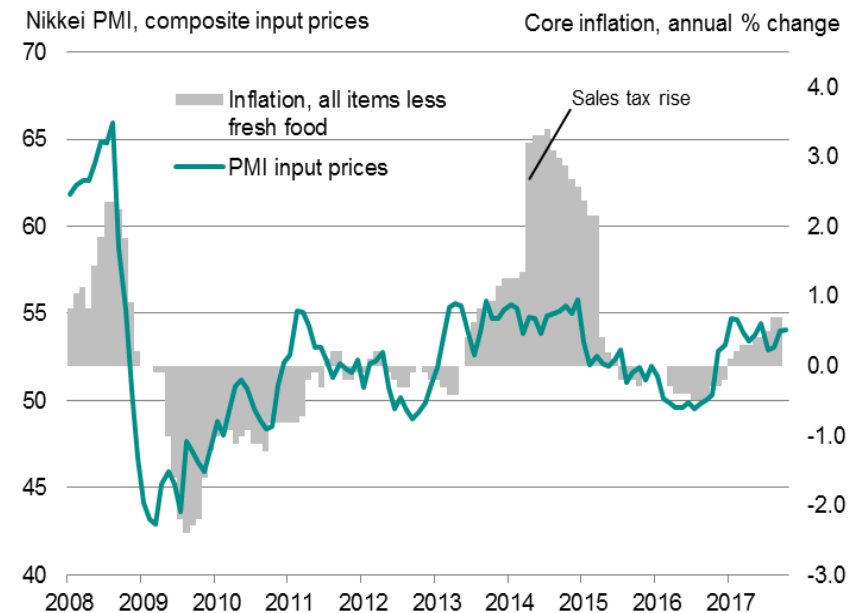
- In Japan, the composite Nikkei PMI jumped to its second-highest level in 48 months in October. Service sector growth accelerated to broadly match that seen for manufacturing, where exports continued to help drive expansion. The rise in the PMI for Japan suggests GDP growth has accelerated again, having slowed in the third quarter after a surprisingly strong second quarter.
- Average prices for goods and services rose further in October. The increase was due to a combination of rising global commodity prices as well as higher wages given greater competition for employees amid tight labour market conditions. However, the overall rate of input cost inflation remained only modest and broadly consistent with consumer price inflation of just 0.5%.

Japan economic growth and the PMI*



Sources: IHS Markit, Nikkei, Japan Cabinet Office

Japan inflation



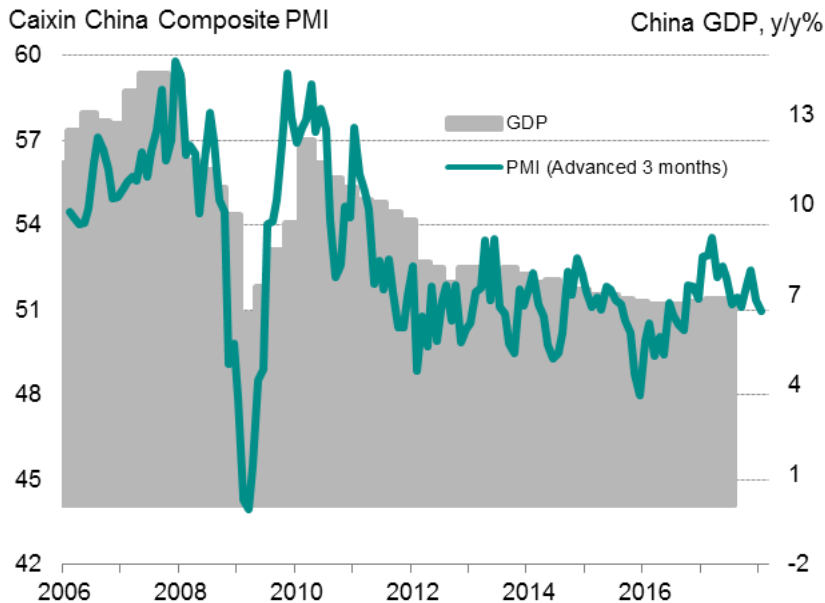
Sources: IHS Markit, Nikkei, Thomson Reuters Datastream.

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

China PMI surveys signal slower growth but rising prices

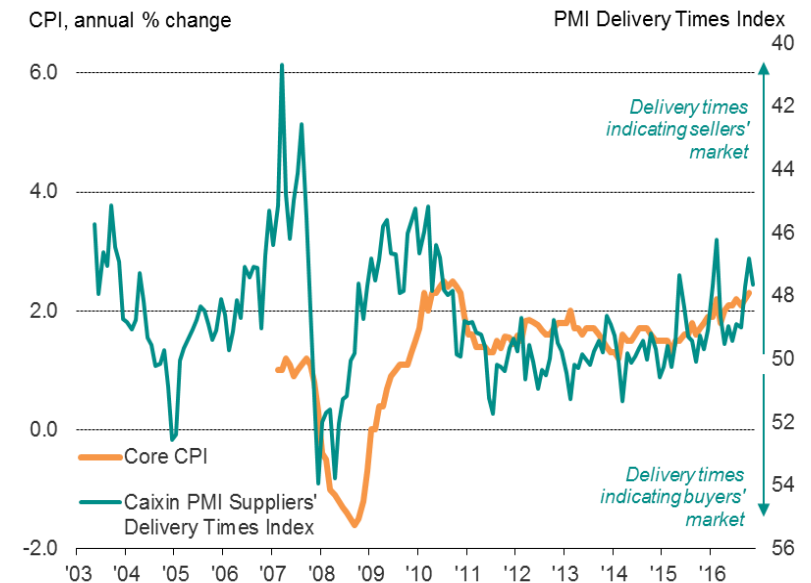
- Growth also disappointed in China, with the Caixin PMI down to its weakest since June of last year thanks to a drop in factory output growth and still-modest service sector growth. The headline Caixin PMI Composite Output Index edged down to 51.0 in October from 51.4 in September, signalling a marginal deterioration in growth compared to that seen over Q3.
- Chinese employment was little-changed from the prior month, as a rise in services payrolls was insufficient to offset manufacturing job losses.
- Input prices rose at one of the sharpest rates so far this year amid reports of stretched supply chains. Low stock levels at suppliers and environmental inspection policies were cited as reasons behind longer delivery times, which lengthened to one of the greatest extents for over six years, pointing to rising core inflationary pressures.

China PMI* & economic growth



Sources: IHS Markit, Caixin, NBS.

China delivery times and inflation



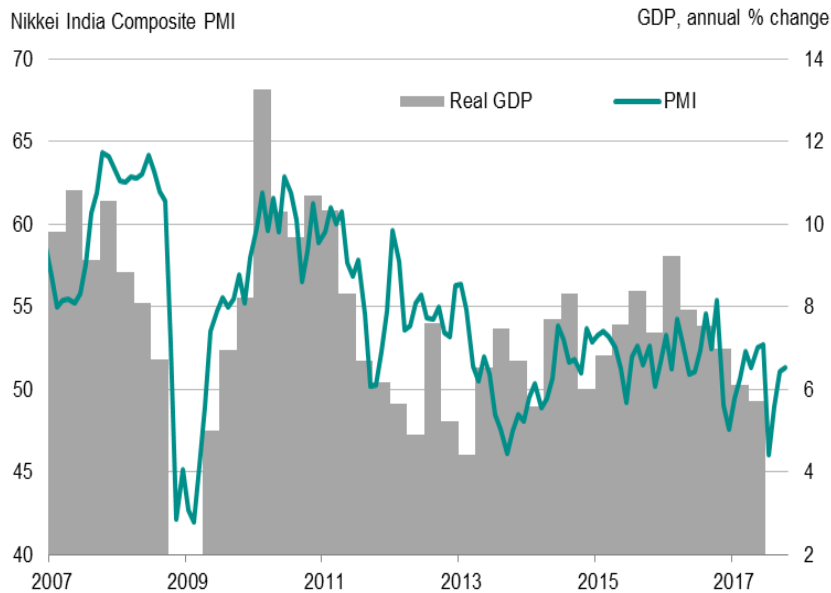
Sources: IHS Markit, Caixin.

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

Indian growth remains subdued, as manufacturing slows

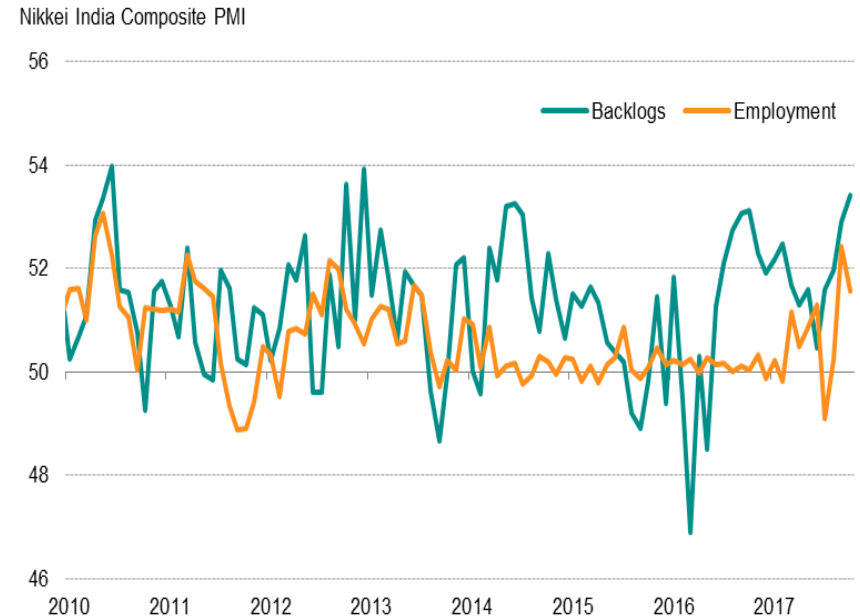
- Modest growth was seen in India, where the Nikkei PMI signalled a second month of expansion after the downturns seen in July and August, when demand took a hit from the implementation of a new consumption tax. However, overall growth remained disappointingly subdued in October, suggesting an ongoing dampening effect from the sales levy.
- More concerning was the broadly stagnant manufacturing activity. India’s manufacturing sector was quick to recover in the aftermath of the GST introduction, but firms are now worrying over lingering negative tax effects. Nevertheless, a bright spot was provided by a further rise in overall employment, while backlogs of work increased to the greatest extent in nearly five years during October.

India PMI & economic growth



Sources: IHS Markit, Nikkei, CSO

Higher employment

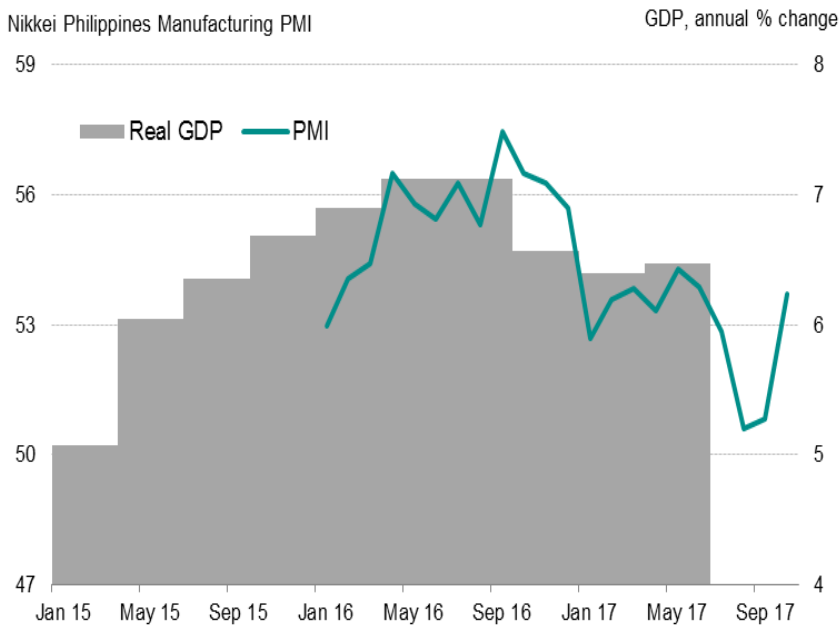


Sources: IHS Markit, Nikkei

Philippines growth picks up, as do costs

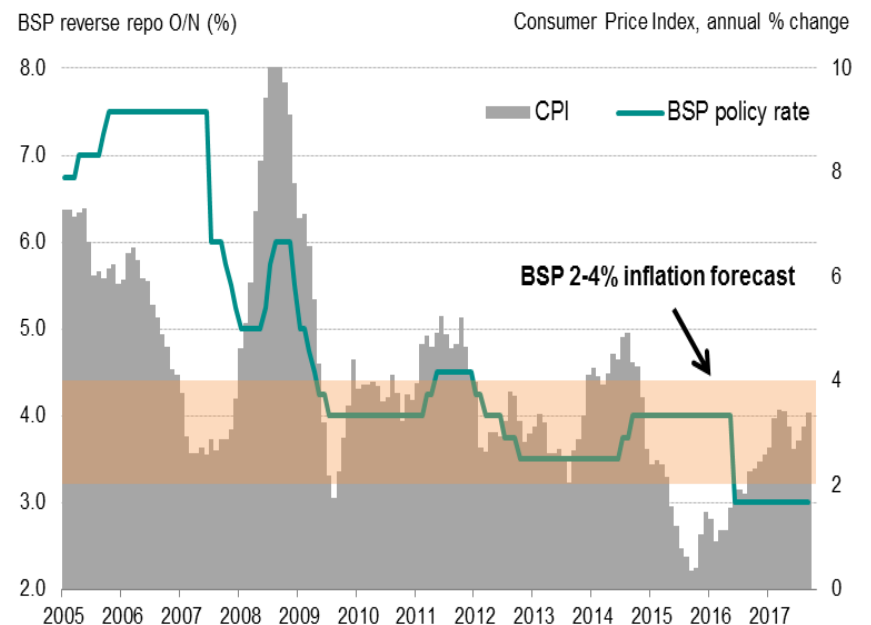
- Business conditions in the Philippines manufacturing sector improved markedly in October. The rate of growth in new orders hit a five-month high which contributed to the sharpest rise in production since June.
- The upturn, however, was accompanied by rising cost pressures associated with the recent weakening of the peso. Input cost inflation picked up sharply, reaching a seven-month high. The latest survey price indices provided further evidence that inflation is building in the country which poses an upside risk to the central bank’s inflation range, thereby adding to expectations for a tighter monetary policy.

Philippines PMI & economic growth



Sources: IHS Markit, Nikkei, PSA

Rising inflation

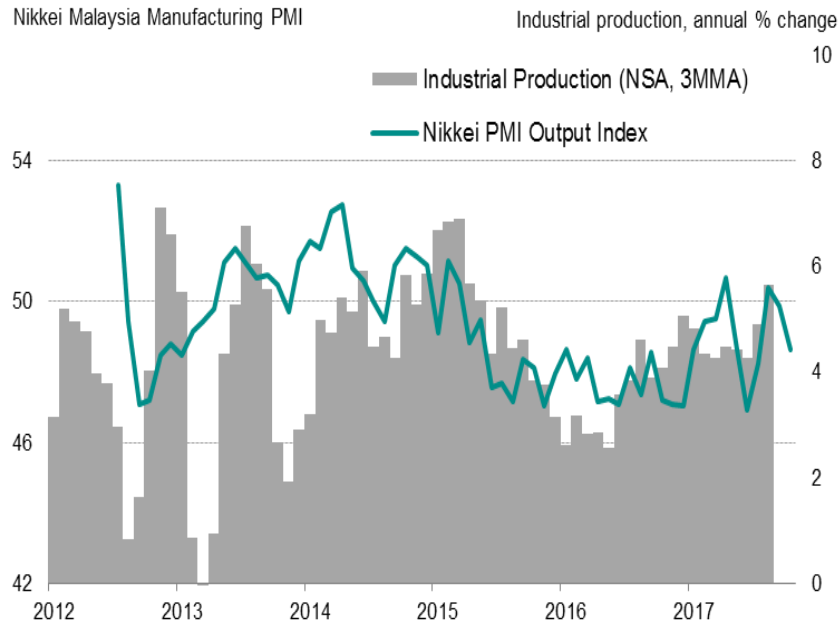


Sources: IHS Markit, Nikkei, PSA, BSP

Malaysia manufacturing remains weak

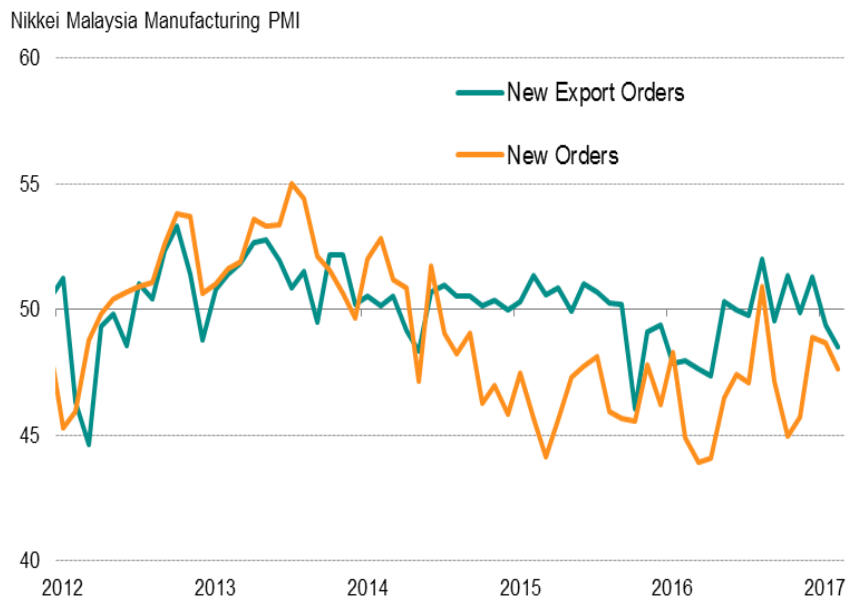
- Business conditions in Malaysia’s manufacturing sector deteriorated for a second successive month in October, according to the Nikkei PMI. The decline was driven by the sharpest fall in new orders since July, which in turn led to weaker output growth. The survey raises the prospect of industrial production growth slowing from the near 2½-year high of 6.8% annual rate seen in August to below 6.0% at the start of the fourth quarter.
- Staffing numbers also fell in October, thereby reversing the upward trend that had been observed in the previous three months. A drop in purchasing activity hints at further weakness in production in coming months, while business confidence dipped to a five-month low.

Malaysia PMI & industrial output



Sources: IHS Markit, Nikkei, DoS

Falling order book volumes



Sources: IHS Markit, Nikkei

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