

Asia Transportation

Slowdown in Asia transport business activity at end of Q1

- Asia transport sector PMI shows strongest quarterly growth in the survey history...
- ... but with March data highlighting a loss of momentum heading into Q2
- Easing cost pressures help firms keep selling prices stable

Asia's transport sector enjoyed its best quarterly growth in business activity since data collection started in late-2007, according to PMI survey data. However, the latest figures raised doubts about whether the strong performance seen in the first two months of 2018 could continue into the second quarter.

Weak end to first quarter

Business activity across the Asia transportation industry¹ was largely unchanged in March, marking a sharp slowdown from the survey-record growth in February, according to the **Nikkei Asia Sector PMI™**, compiled by IHS Markit.

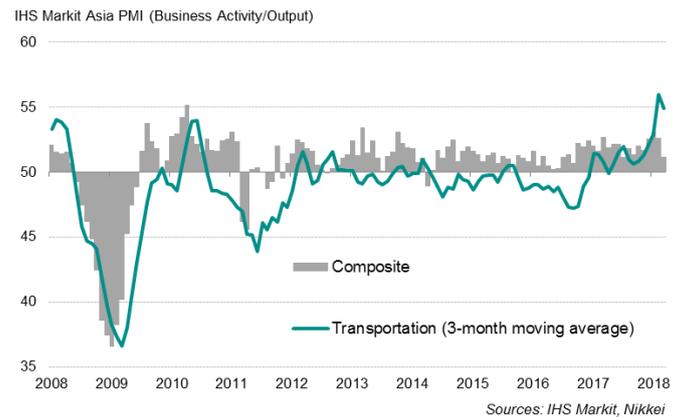
The resulting average PMI Output Index reading for the first quarter was the highest in the survey history, seemingly building on the robust performance registered in 2017 after overcapacity and weak demand saw annual declines during the previous four years. However, the lacklustre end to the first quarter of 2018 suggests the sector has lost momentum moving into the second quarter.

Mixed outlook

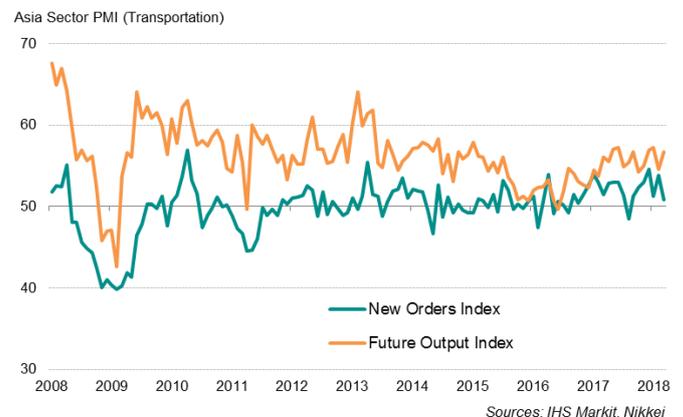
While the Asian transport sector started 2018 on a solid footing, March data revealed signs of slowing momentum in business activity. The survey data also indicated waning demand for transportation services in March. Growth in new orders was the weakest for seven months. March also saw a second straight monthly decline in employment. While marginal, the rate of decrease was the steepest since December 2016.

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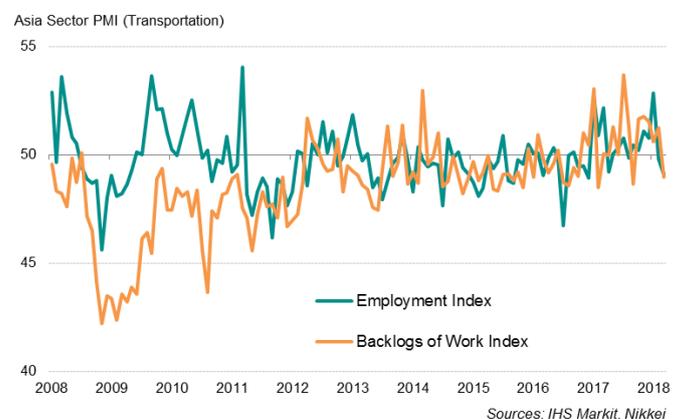
Asia Sector PMI: transportation v all-sectors



Forward-looking indicators



Backlogs of work and employment



Furthermore, emerging signs of spare capacity in the sector, as evidenced by lower backlogs of work, suggest that firms will likely avoid taking on more workers in coming months, unless sales improve significantly.

While confidence improved from February, optimism remained around the historical average.

The cooling performance in the Asia transport sector bodes ill for earnings, dividends and share price movements of Asian transport service providers. A comparison between the PMI New Orders Index for the Asia Transportation sector and DAXGlobal Asia Infrastructure/Transport Index reveals a positive relationship, and points to a lack of upside for equities.

Cooling cost pressures

After several months of sharp input cost increases, Asian transport service providers reported an easing of inflationary pressures in March. Input price inflation was at its weakest in nearly one-and-a-half years.

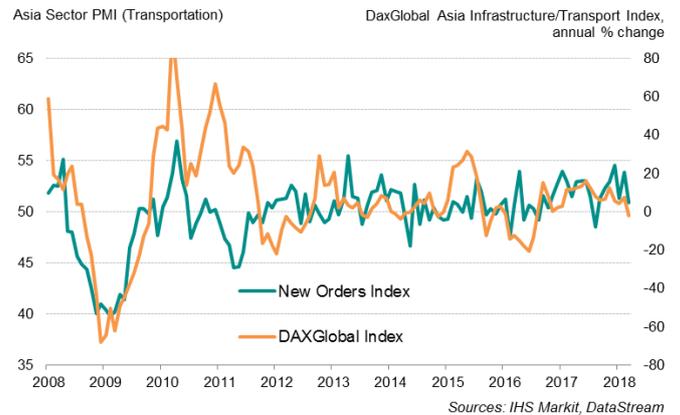
The modest rise in input costs enabled transport firms to keep selling prices broadly stable at the end of the first quarter.

¹The Asia transport sector PMI data are derived from surveys of companies in the land, water and air transport as well as supporting transport activities. Sector PMI data are generated from the same questionnaire responses as national PMI data and mapped to IHS Markit's sector classification structure using SIC codes.

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IHS Markit PMI v transport share performance



Cooling inflationary pressures

