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Asia Update: Exports and Production Data Still Weak

- Asia's exports data to April continue to show substantial declines, which is not surprising given the extent of headline growth contractions seen in key markets such as US and Europe. On average, Asia's exports declined 24%/y in April vs. 24.6%/y in 1Q09.
- Manufacturing sector in Asia has fared better/"less bad" over the past few months, likely to be due to inventory rebuilding activities and in response to demand from China which has helped buffer some of the declines in Asia's exports.
- China's imports have indeed picked up from the trough in January as its fiscal stimulus package turns into demand. Given the rising share of China's demand, Korea, Taiwan, Japan and most of Southeast Asia have benefited from the increased demand.
- However, final demand from key consumer countries is still the main factor in Asia's growth recovery story. This means that Asia's exports remain on track for at least a 10-20% contraction this year. We are still expecting headline growth declines in key Asian exporters (Singapore: -7.5%; South Korea: -4.0%; Malaysia: -4.0%; and Taiwan: -3.5%), before returning to positive growth in 2010.

Asia's Exports Figures Still Dismal

Continuing on the trend that started from second half of 2008, Asia's exports data YTD to April remain depressed. This is not surprising given that key markets such as US and Europe are reporting sharp contractions in headline growth figures. On average in April, exports declined by about 24%/y in the 8 Asian countries we monitor. This is just slightly

Asia's Exports : Declines Continue								
y/y% change	CN	TW	TH	HK	MY	ID	KR	SG*
Jun-08	17.7	21.3	30.5	-0.6	18.6	34.1	16.4	-10.6
Jul-08	26.9	8.0	47.4	11.1	25.3	24.8	35.6	-5.8
Aug-08	21.1	18.0	17.7	1.9	10.7	29.9	18.1	-13.9
Sep-08	21.3	-1.7	22.7	3.6	15.0	30.2	27.6	-5.8
Oct-08	19.1	-8.1	5.2	9.4	-2.6	4.9	7.8	-15.5
Nov-08	-2.2	-23.9	-17.7	-5.3	-4.9	-2.1	-19.5	-17.5
Dec-08	-2.9	-42.2	-14.6	-11.4	-14.9	-20.0	-17.9	-20.8
2007 Average	26.7	10.1	17.3	9.4	2.8	13.3	14.3	2.3
9M08 Average	22.3	15.0	27.2	8.0	16.0	29.9	22.6	-4.2
4Q08 Average	4.7	-24.8	-9.0	-2.4	-7.5	-5.7	-9.9	-17.9
Jan-09	-17.5	-44.5	-24.6	-21.8	-27.9	-35.0	-34.2	-34.9
Feb-09	-25.7	-29.2	-6.6	-23.0	-16.0	-32.4	-18.5	-23.8
Mar-09	-17.1	-36.2	-16.6	-21.2	-15.7	-28.3	-22.1	-17.3
Apr-09	-22.6	-34.8	-26.1	-18.2	-26.3	-22.6	-19.6	-19.2
May-09	-	-32.1	-	-	-	-	-28.3	-

Source: CEIC, UOB Economics-Treasury Research estimates; *Non-oil domestic exports

better than the average 24.6% decline in the 1Q09, the part of the year that is normally affected by Chinese New Year holidays and other seasonal effects. Data for May from South Korea and Taiwan are far from reassuring.

Further along the supply chain, Asia's production has improved somewhat from the trough in January, as the "second derivative" turned positive on the back of inventory rebuilding activities and possibly in response to increased demand from China. On average, Asia's manufacturing output declined 6%/y/y in April, far slower compared to the record decline of 23%/y/y in January.

While output has stabilized, final demand is still the key factor in Asia's growth recovery story. This means that the data are tracking our forecast of a 10-20% fall in Asia's exports for this year (or 20-40% decline in a pessimistic scenario). There are still no visible trend changes at least for Asia's exports sector despite all the talk about recovery.

China Helps Support Asia's Exports

One bright spot is that China's demand is buffering some



Exports to China (China's share as % of total exports)					
	2000	2005	2008	YTD 2009	% chg 2000-08
SG	3.9	8.6	9.2	9.6	135.6%
MY	3.1	6.6	9.5	10.8	206.5%
TH	4.1	8.3	9.1	9.5	122.8%
ID	4.5	7.8	8.5	8.6	88.9%
PH	1.7	9.9	11.2	9.3	540.8%
KR	10.7	21.8	21.7	17.6	102.8%
HK	34.5	45.0	48.5	49.1	40.5%
TW*	16.8	37.6	40.4	38.2	140.8%

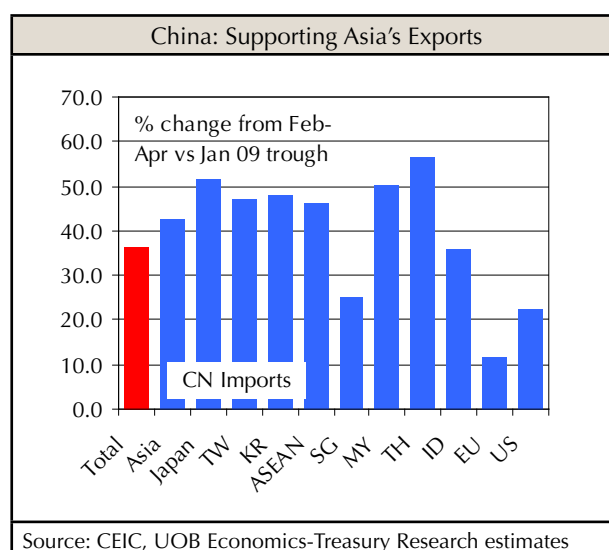
Note: * Based on China's official releases

Source: CEIC, UOB Economics-Treasury Research estimates

of Asia's export declines in recent months. Given the rising share of China's market, the situation for Asia could have been worse had it not been for China's fiscal stimulus package.

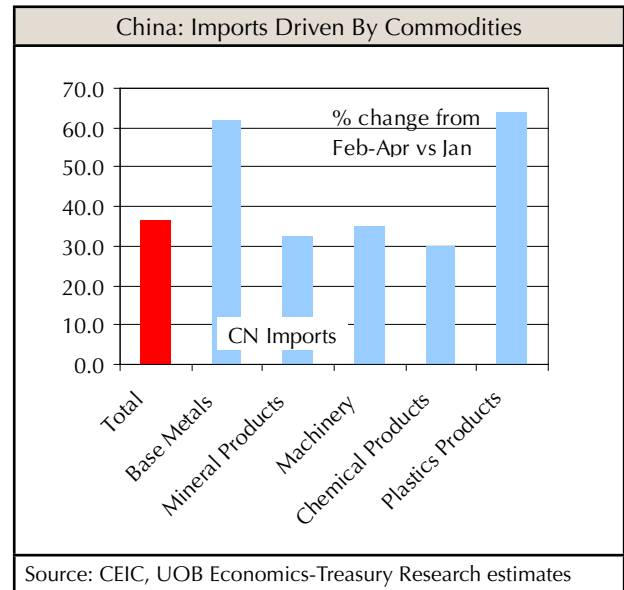
As the chart below shows, China's imports have rebounded 37% from the trough in January, but imports from most Asian countries have risen much faster and at the expense of imports from the US and Europe. This has certainly helped contained the declines in Asia's exports.

Data so far suggest that China is ramping up its imports as the fiscal stimulus spending gets to work. However the increased spending is not likely to make up for the loss in key markets given the relative size of China's economy. It should be noted that key areas of China's increased import demand are in minerals and metals, which saw rebounds in recent months,



as the chart below shows. It remains to be seen the strength and duration of the Chinese demand, as China's imports value is fast approaching the levels seen in late 2007 when exports demand was going into full swing.

Overall for Asia it is a still a somewhat downbeat picture for the exports sector. The trend reversal for Asia's exports is still in progress to revert to levels seen in 2005/2006, after several years of excessive above-trend growth. End demand from US and Europe was the key drag factor that has been depressing exports performance, although China is now emerging as a key destination for other Asian trade partners. However, it would be difficult to fill in the gaps left by US and Europe given the size of China's economy and the Chinese consumers' lower propensity to consume. This means that a 10-20% fall in exports (or 20-40% decline in a pessimistic scenario) for Asian exporters this year is still very much on track. In terms of topline growth, we are still expecting key Asian exporters to contract this year (Singapore: -7.5%; South Korea: -4.0%; Malaysia: -4.0%; and Taiwan: -3.5%), before returning to positive growth in 2010.



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