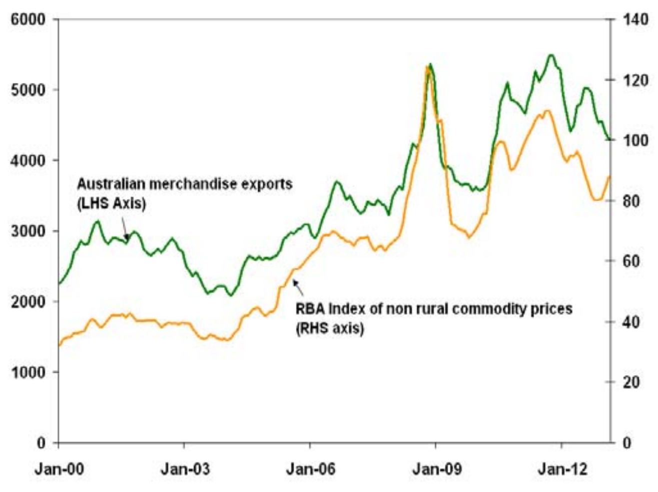
Asian Tigers Economic Update

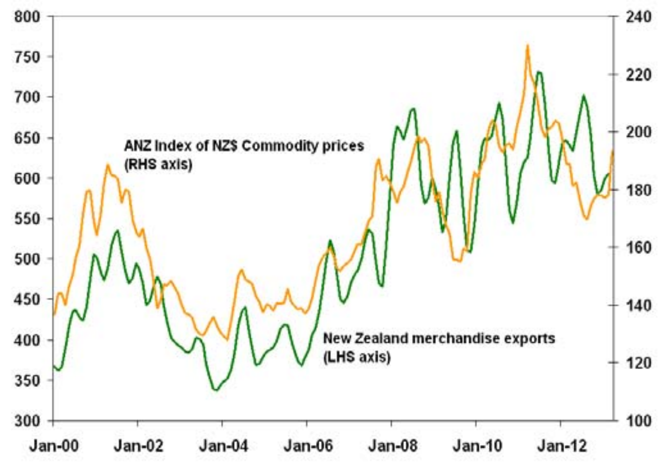
National Australia Bank

- **Exports from both Australia and New Zealand to the Asian Tiger economies (ASEAN, S Korea, HK and Taiwan) remain below their previous peaks, largely reflecting lower prices for key export commodities. The latest data shows a modest pick up in New Zealand exports and commodity prices but that is not the case for Australia, although prices have started rising again. So the long-running process of closer integration with this region has stalled recently.**
- **This disappointing export record also reflects the slower growth that has been seen across the region- which is heavily reliant on world trade. Export growth from the Tigers to the rest of the world has slowed sharply through the last few years, in line with the profile of world trade.**
- **This export slowing has fed into much weaker growth in industrial output and, more generally, to a softening in the pace of GDP growth. Tiger economic growth peaked at almost 10% yoy in early 2010 but by late 2012 it was down to an underlying rate of 3 to 4%.**
- **Governments around the region are counting on an upturn in world trade to help kick-start faster growth in the traditional way, while low interest rates and public spending increases provide a boost to domestic demand.**
- **We are expecting a fairly modest upturn in growth, partly reflecting the absence of a prior recession to bounce back from. Growth across the Tigers of around 3¾% and 4¼% is predicted for 2013 and 2014.**

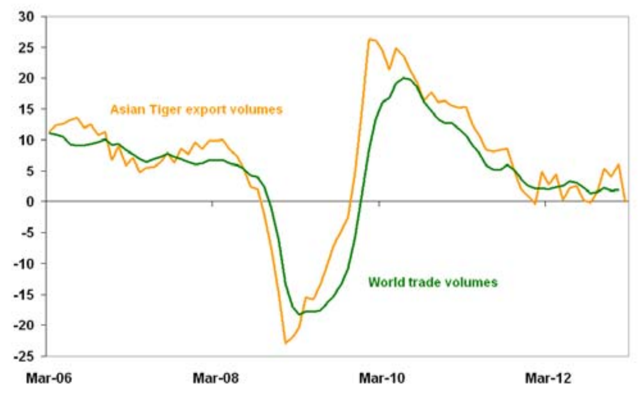
Australian Monthly exports to Asian Tigers $ Mill 3MMA & prices



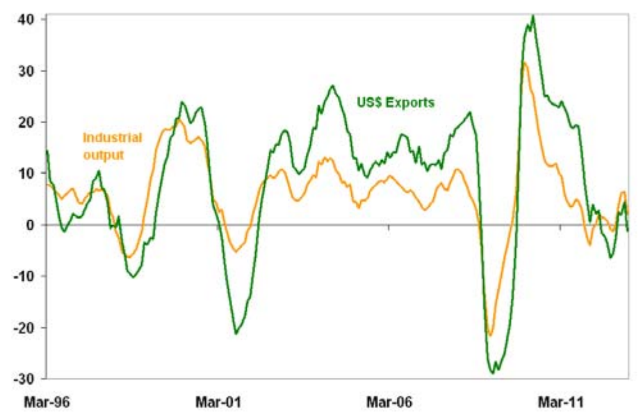
NZ Monthly exports to Asian Tigers $ Mill 3MMA & prices



World trade and Asian Tiger export volumes (% year on year



Asian Tiger $US exports and industrial output (% Change yoy)



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Growth slows but holidays distort the data

The pace of growth has slowed considerably across the East Asian Tiger economies through the last few years. Growth exceeded 9% yoy in the first half of 2010 but it fell to between 3 and 3½% through most of last year. Growth did accelerate to 5½% yoy in the December quarter but that reflected the bounce-back from the late 2011 floods that caused so much disruption in Thailand. Abstracting from the flood recovery effect, growth remained around 3½% yoy.

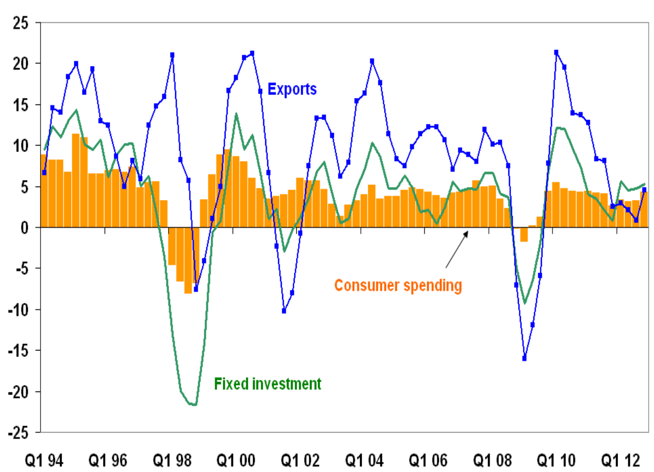
The softening in Tiger growth is not really surprising – the region is very open economically, highly trade dependant and its business cycles often mirror those in the big advanced economies that traditionally have bought many of its exports (either directly or indirectly via other East Asian suppliers to the global trade system, notably China). With world trade growth slipping from around 20% yoy in the first half of 2010 to under 5% yoy by 2012, it is no wonder that export growth from the Tiger economies slowed from 20% yoy in the first half of 2010 to less than 5% yoy in late 2011 and 2012.

Economic activity has been better maintained than in previous export-driven downturns in the Asian Tigers – business investment and consumer spending slowed but did not fall as export growth stalled. Domestic demand, therefore, provided more ballast to aggregate economic activity than was the case in the downturns of 1997/98, the early 2000s and the 2008 global recession.

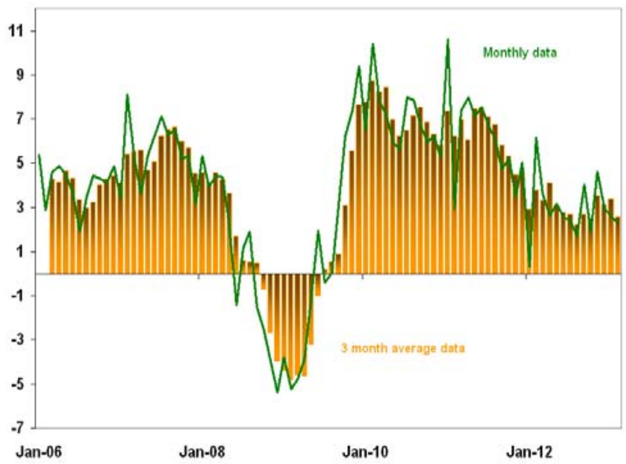
As a result of activity being better maintained, there is less room for a bounce-back in output in the recovery phase that should operate through the global economy later this year. There is not much sign yet of a strong pick-up in activity with retail sales growth staying sluggish and business investment indicators in South Korea and Thailand levelling out.

The regional business surveys are not pointing to a marked upturn in conditions either. Across SE Asia, the latest survey results from Thailand, Malaysia and Indonesia do not show any recent upturn in sentiment in the business sector or that a major acceleration in growth is at hand. However, some of these surveys are also very volatile - notably the Indonesian results – which limits their usefulness.

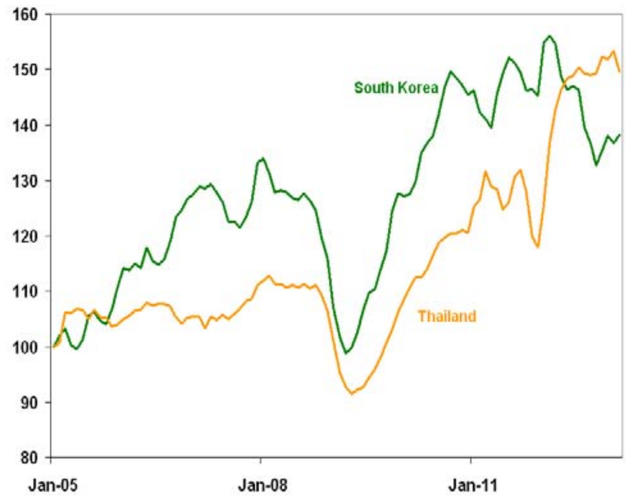
Asian Tigers Private demand volumes (% change yoy)



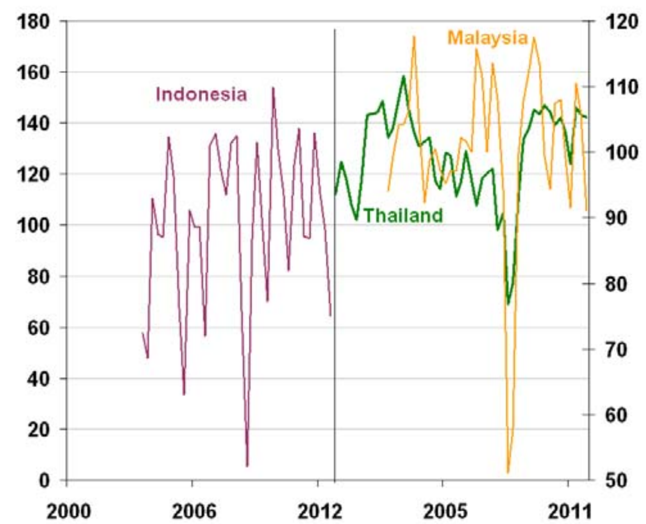
Asian Tigers Retail trade volumes (% change yoy)



Investment spending index January 2005=100



SE Asian business expectations – ratio to LR average results



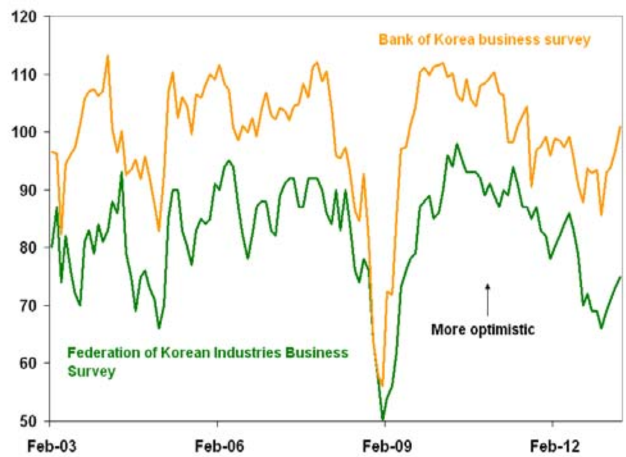
Business survey results from South Korea and Taiwan are a bit more positive than those in SE Asia. Taiwanese business sentiment lifted noticeably in the early months of this year, but that could well be seasonal and the new export orders data for Taiwanese exporters has turned down recently. South Korean business confidence on future trading conditions has improved in recent months but the recent depreciation in the Yen is likely to hit South Korean industry quite hard, the government has introduced extra pump priming to boost demand and growth forecasts have been cut as incoming data turns out to be weak.

The slowdown in the growth of activity across the Tigers is paralleled by movements in the volume of their imports. As with so much other regional data, changes in the timing of the Chinese New Year holiday have distorted year on year comparisons of the numbers but the underlying trend still looks soft for imports. This has fed into a moderation in the growth of demand for products from Australia and New Zealand, adding to the downward pressure on their export earnings that was already coming from lower commodity prices.

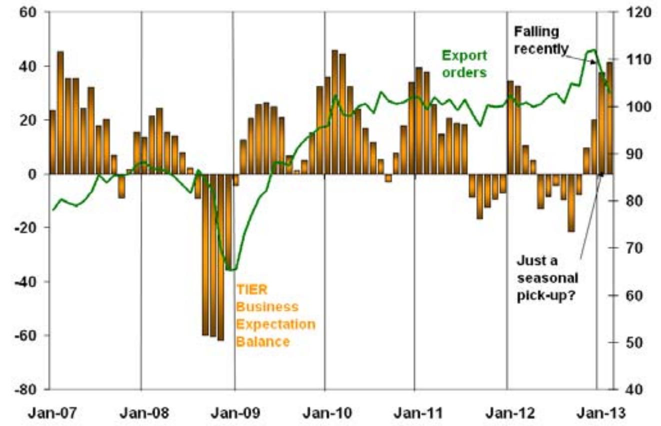
We are forecasting a comparatively modest growth outlook for the Tiger economies, especially for a recovery period. Monetary policy is already very stimulative with quite low interest rates around the region so there is not much scope to do a lot more there. The Yen's weakness will hit competing industry in South Korea and Taiwan hard. Growth has been well maintained in Indonesia, where activity is less reliant on exports as the economy is more closed and domestic spending is the key driver of business cycles. Malaysian growth has also been well maintained because of high rates of private and public investment in infrastructure and resource projects. Policy stimulus has also boosted activity in Thailand where the central bank has recently revised its growth forecasts for 2013 and 2014 up to around 5%.

Our forecast is for Tiger GDP growth to start accelerating through the latter half of the year but full-year growth stays about the same as in 2012. By 2014 the pace of growth in the Tigers should have accelerated to 4¼% with growth ramping up through the course of the year to around 4½% by its close.

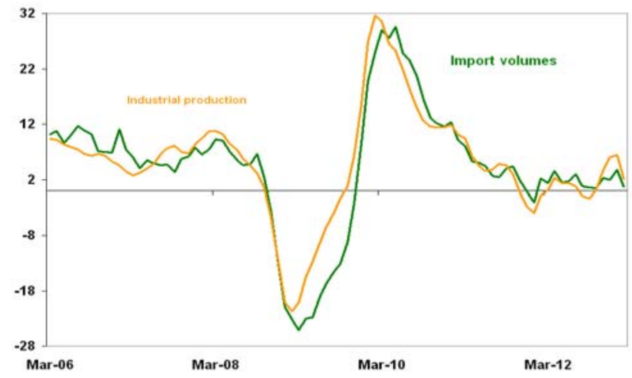
South Korean business expectations – ratio to LR average result



Taiwan – Survey expectations balance and export order index



Import volumes and output % year on year

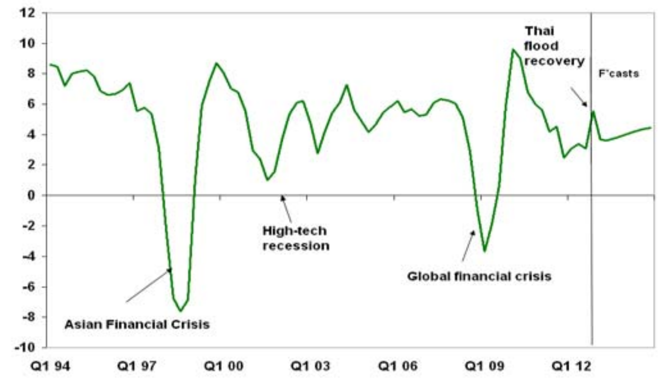


Country economic growth forecasts

Average annual growth in GDP (%)

	2011	2012	2013	2014
Hong Kong	4.9	1.4	2.7	3.6
Indonesia	6.5	6.2	6.2	5.9
Singapore	5.2	1.3	2.3	3.6
Taiwan	4.1	1.2	3.3	4
Thailand	0	6.8	4.6	5
Malaysia	5.1	5.6	5.4	5.6
S Korea	3.7	2.0	1.8	2.8
Philippines	3.9	6.6	4.4	4.8
Tigers	**4.2**	**3.8**	**3.7**	**4.3**

Asian Tiger economic growth % yoy



A closer look – The drivers of economic growth in the region

Although there is a great deal of diversity between the Asian Tiger economies when it comes to their size, structures and level of development, there are often parallels in the performance of these regional neighbours. This is because they tend to be hit by the same global shocks and trade between them is growing strongly transmitting economic impulses across the region.

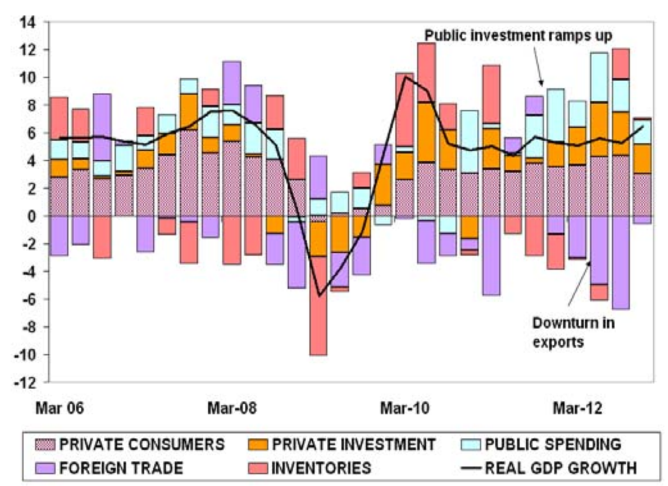
These common trends are especially evident in the way that trends in foreign trade cut output across many of the region's economies after 2010. Negative contributions from net exports were evident across Indonesia, Malaysia and Thailand – despite their many differences in economic structure.

The extent to which domestic economic policy reacted to this external shock by trying to pump up domestic demand varied considerably between economies. There was an especially marked upturn in public spending in Malaysia, which lifted its contribution to economic growth. In the case of Thailand, however, both net exports and public demand turned negative in 2011 (partly due to flood disruption affecting the latter) and public spending made a surprisingly small contribution to growth in 2012.

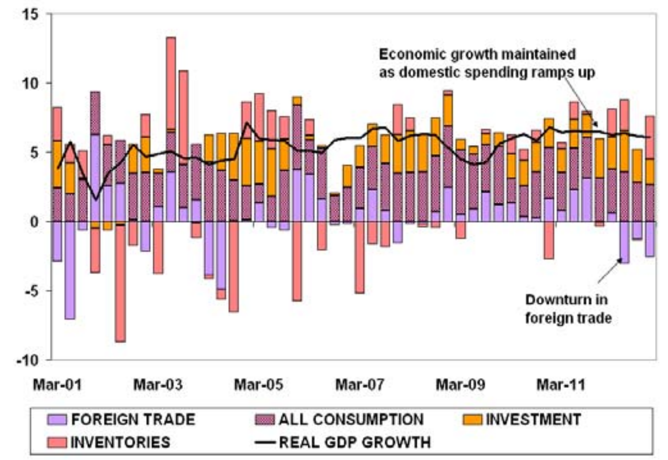
Accordingly, we can see considerable public sector stabilisation of the Malaysian economy through its external shock but much less in Thailand. Indonesia was also hit by negative net exports but managed to maintain a solid pace of growth through 2011 and 2012 – unfortunately the data is not detailed enough to identify the contributions of public as opposed to private demand in supporting growth.

The situation in South Korea is different again – here there has been a broad-based slowing in growth but no export shock as South Korean exporters used the weak Won rate against the dollar that prevailed through 2011 and 2012 to boost exports. Consequently net exports kept boosting activity all through the slowing in global trade and a softening in Chinese demand for South Korean exports in the fist half of 2012. Weak business investment has been a major driver of slower growth in South Korea and the offsetting contribution of public spending to stabilise activity has been modest.

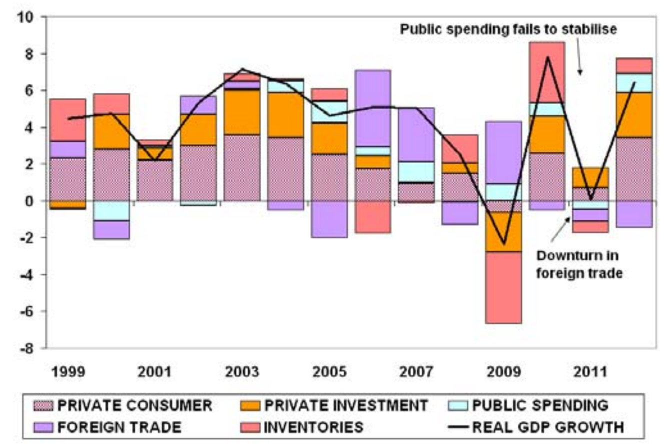
Malaysia – composition of economic growth (ppts)



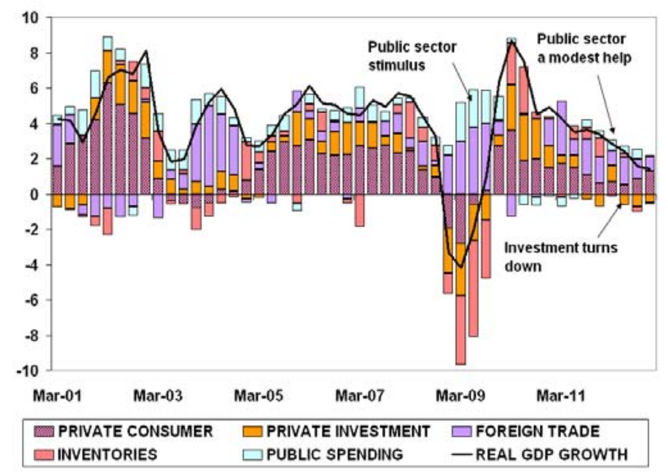
Indonesia – composition of economic growth (ppts)



Thailand – floods disrupt domestic spending, economy stalls



South Korea – composition of economic growth (ppts)



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Important Notices