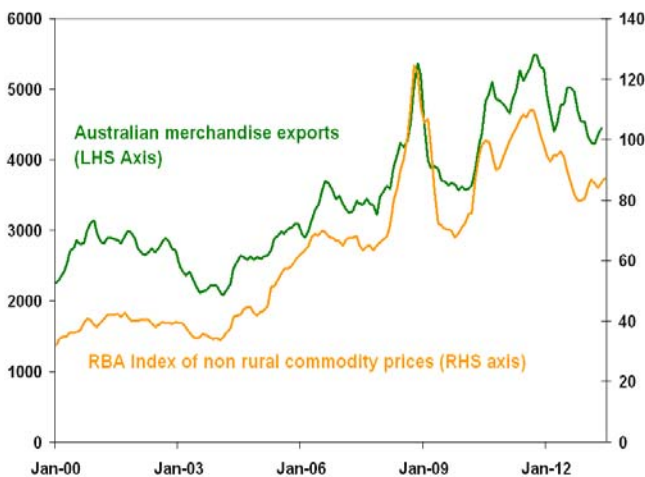


Emerging Asian Economies Update

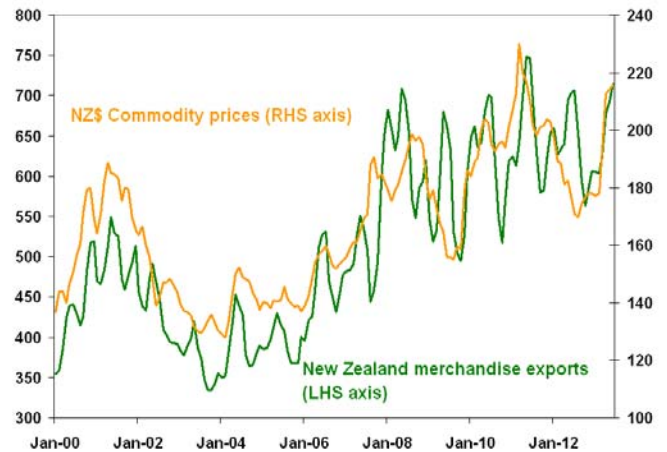


- Exports from Australia to the emerging economies of Asia (ASEAN, S Korea, Taiwan, HK) remain below their 2011 peak, largely because of lower commodity prices. Dairy is 40% of New Zealand exports to these economies and higher dairy prices have driven a rebound in its earnings from the region. These economies represent crucial markets for Australasian exporters accounting for around 20% of goods exports from Australia and New Zealand.
- 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 Emerging Asia 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. Emerging Asian economic growth peaked at almost 10% yoy in early 2010 but by early 2013 it was down to around 3½%.
- Governments around the region are counting on an upturn in world trade to help kick-start faster growth in the traditional way, while continued growth in consumer spending and infrastructure projects 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 Emerging Asia of around 3¾% and 4¼% is predicted for 2013 and 2014.

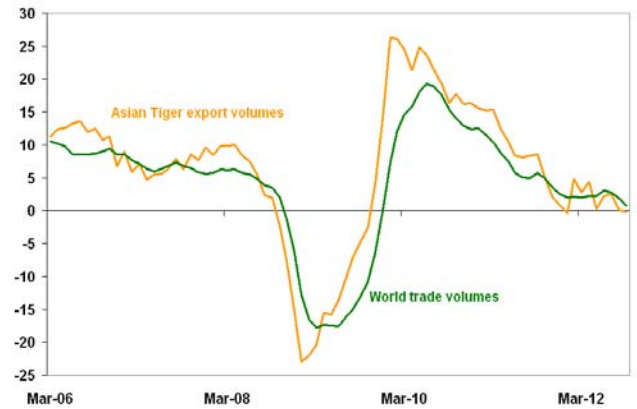
Australian Monthly exports to Asian Tigers \$ Mill 3MMA & prices



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



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



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



Tom Taylor Group Economics 86341883

Growth settles at 3½% since early 2012

The pace of expansion has slowed considerably across the East Asian Emerging economies. Growth exceeded 9% yoy in the first half of 2010 but it fell to between 3 and 3½% through most of 2012. Growth did accelerate to 5½% yoy last 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 in late 2012 and that pace of growth has continued into the first half of 2013.

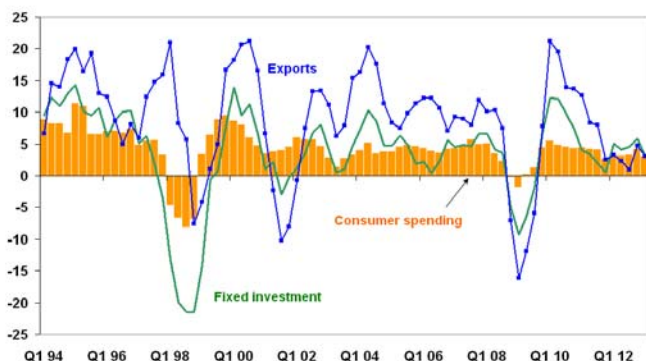
The softening in growth is not really surprising – the region is very open economically, highly trade dependant and its business cycles often mirror those in the big advanced economies that traditionally have bought many of its exports. This time, the slowing in Chinese growth has also impacted on all of East Asia by eroding its import demand. With world trade growth slipping from around 20% yoy in mid-2010 to under 2% yoy by early 2013, it is no wonder that export growth from these economies also slowed from 20% yoy in the first half of 2010 to less than 5% in the first half of 2013. Malaysia, Taiwan and Singapore non-oil domestic export volumes have been well below year-earlier levels, Indonesia and South Korea have fared better but the latter should be increasingly hit by the weaker yen helping its Japanese competitors.

Given this softness in world trade, output has held up surprisingly well across the region. Previously export-led downturns flowed into much weaker investment and consumption suffered as well. This time both have slowed but not turned negative, ensuring that domestic demand has stabilised overall economic activity.

Growth in retail spending volumes across emerging Asia has averaged out at 2 or 3% over the last year, consumer spending growth has been around 3% and June quarter national accounts show modest growth in household spending in Taiwan and South Korea and a still solid 5% rise in Indonesia. Investment trends have been more mixed with weakness in parts of the Korean and Taiwan economies whereas Malaysia, Thailand and Indonesian spending has been supported by their governments.

Policy deserves credit for the softer landing this time around with central banks adopting easier monetary policy and regional Governments implementing stimulus programmes to support investment in sectors like infrastructure (Malaysia,) or boost household spending by increasing demand for housing (South Korea) or cars (Thailand).

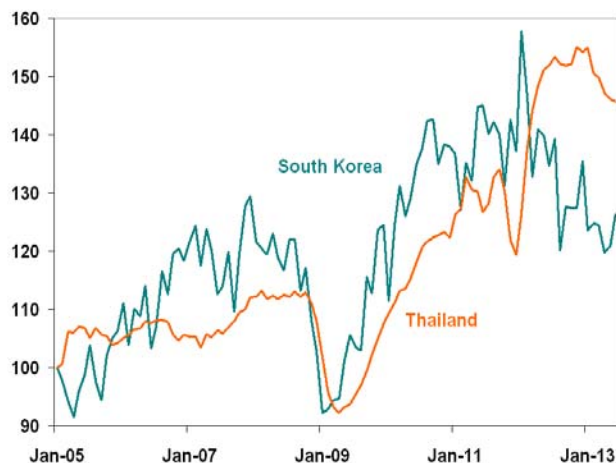
Asian Tigers Private demand volumes (% change yoy)



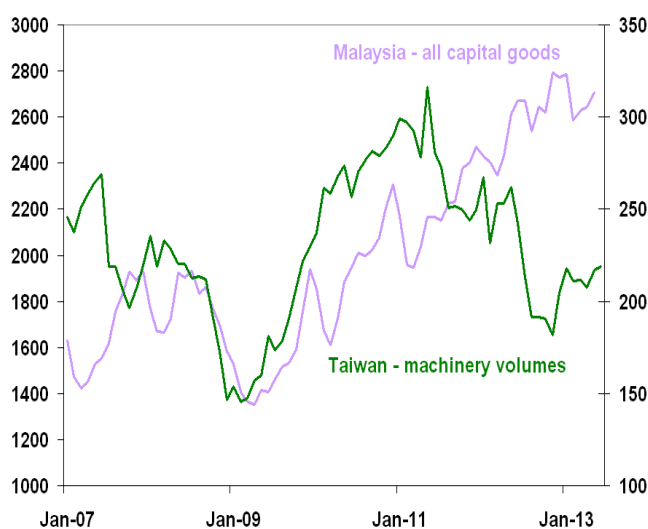
Asian Tigers Retail trade volumes (% change yoy)



Investment spending index January 2005=100



Capital goods imports indicators



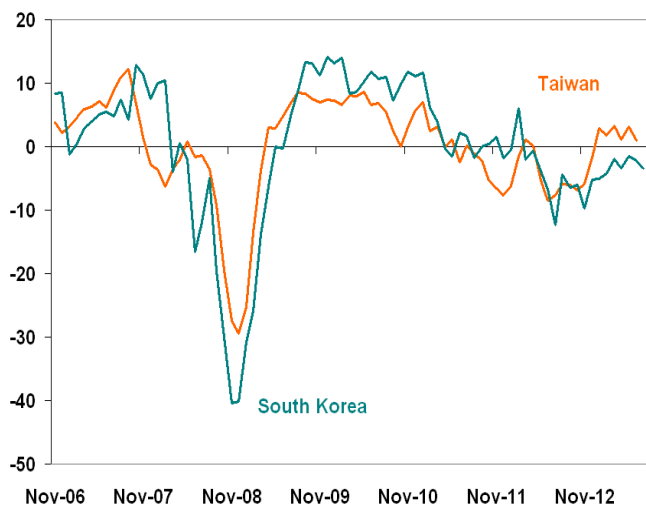
Business survey results around the region remain mixed and suggest that activity levels are not likely to slip much from here, but nor are they likely to markedly improve. Singapore's very export-oriented manufacturing sector offers one of the best bellwethers of trading conditions facing regional producers and, although its order books and output have been looking brighter in the last few months, the improvement is not very marked.

Elsewhere in SE Asia, neither the latest Bank of Thailand nor the Thai Commerce Ministry business surveys show any sign of an imminent improvement in output or order. The various MIER-linked surveys of Malaysian business generally do show conditions improving in the first half of the year with expectations that the upturn should continue. Both the central bank and purchasing manager surveys had shown better conditions in Indonesia through the early months of the year but the mood of optimism has been dented by the upsurge in inflation and interest rates in the wake of the rise in fuel prices as well as still subdued global trade hitting exports.

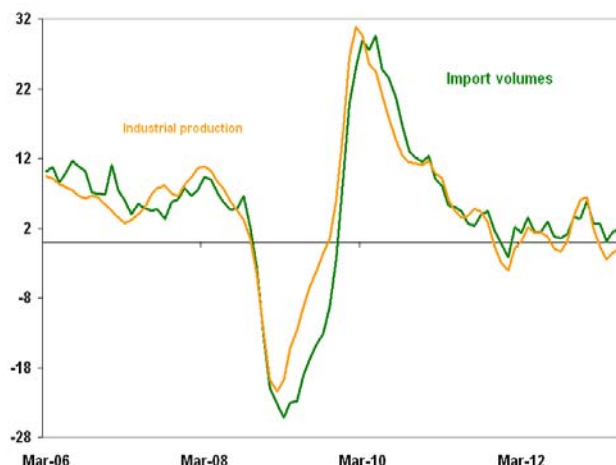
Conditions to the north, however, look more difficult. The purchasing manager indices that track economic conditions in both Taiwan and South Korea were weak in July with South Korea reporting its third consecutive monthly decline and Taiwanese manufacturing output showing a similar trend. Turning to the other surveys, the Taiwan Institute's quarterly index fell for manufacturing, which fits in with the lack of much upward momentum in its export orders seen since mid-2012, while both the Bank of Korea and Industry Federation surveys do not show any sign of an improvement soon in S. Korea.

Given our outlook for only a modest upturn in the global economy and a continued slowing in China, the key growth engine for the region, we expect emerging Asia to continue to under-perform its long run average growth. A moderate upturn is expected to take growth from its current 3½% yoy pace to 4% by mid-2014, on the back of public investment projects and stronger export demand in the advanced economies. The ASEAN economies should continue to out-perform the more export-reliant industrial machines of South Korea and Taiwan with infrastructure investment and rising consumer spending driving the better forecast growth outcomes for Malaysia, Thailand and Indonesia.

Business expectations – ratio to LR average result



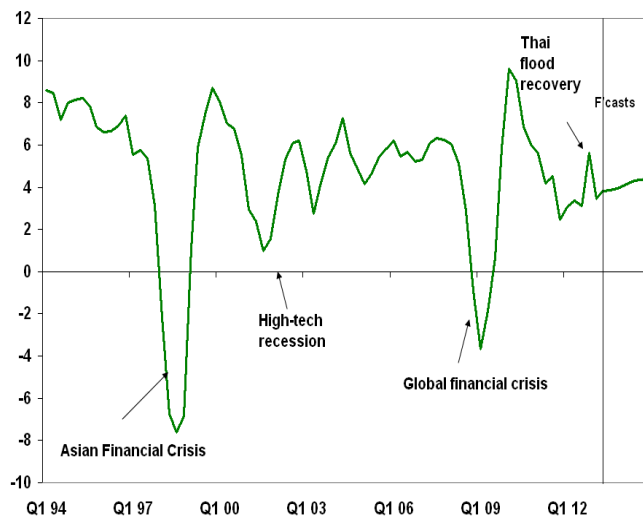
Import volumes and output % year on year



Country economic growth forecasts

	Average annual growth in GDP (%)			
	2011	2012	2013	2014
Hong Kong	4.9	1.5	2.7	3.6
Indonesia	6.5	6.2	5.9	5.9
Singapore	5.2	1.3	2.5	3.6
Taiwan	4.1	1.3	2.3	3.3
Thailand	0.1	6.8	4.6	4.8
Malaysia	5.1	5.6	4.7	5.5
S Korea	3.7	2.0	2.2	3.2
Philippines	3.6	6.8	6.3	5.1
Emerging Asia	4.2	3.8	3.7	4.3

Emerging Asian economic growth % yoy



A closer look – Exports to China

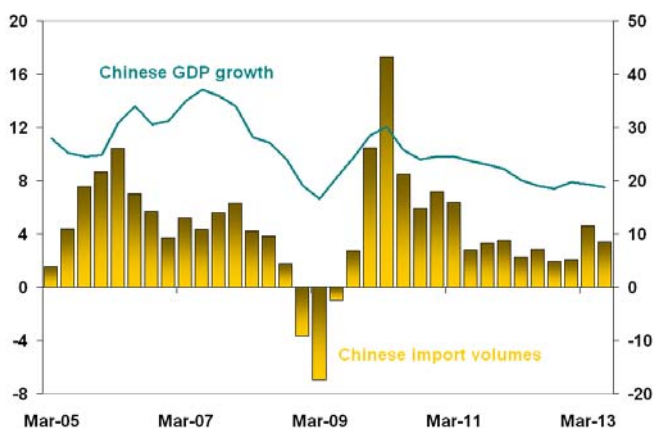
The slowing in Chinese economic growth has fed into a slowdown in the pace of expansion of import demand. The monthly data is very volatile but using a 3-month average to smooth the numbers shows the \$US value of Chinese imports growing by around 25% yoy in mid-2011 but, by mid-2013, that growth was down to only 5% yoy. Given that import prices have been falling slightly in \$US terms, this implies a big slowdown in the growth rate of import volumes.

The softening in import purchases has been seen across all sorts of Chinese business types. Both state-owned and foreign funded enterprises have reported a levelling out in \$US import purchases in the last few years, partly due to a stagnation or even slight fall in the \$US value of their exports.

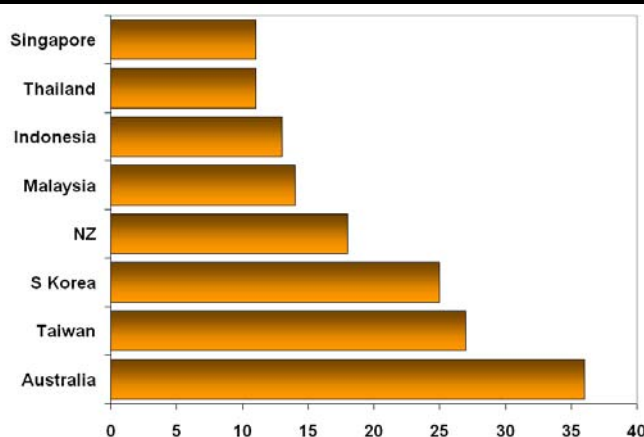
The easing in Chinese growth Industrial growth has had a particularly severe impact on global commodity markets as, besides the slower growth in product volumes required to feed its industrial machine, China is such a big market that its purchases can drive world commodity prices. China has also pulled in raw materials from across emerging Asia in the same way as it has lifted Australian exports of coal and iron ore. China is the world's biggest consumer of natural rubber and the second largest buyer of palm oil, key SE Asian export commodities, and it has been a big buyer of Indonesian steaming coal.

Industrial exporters across SE Asia have also become much more reliant on the Chinese market with around 20% of Malaysian exports of electronics and chemicals going to China. Taiwanese industry depends heavily on the mainland market with around \$US3 Billion of its \$US7 Billion total monthly bilateral exports consisting of machinery and electronics, much of it electronic components destined for further processing in China. The pace of growth in this electronics processing trade slowed considerably between mid-2010 and late 2011 and, after a period of outright decline through much of 2012, has become modestly positive again. China is also a crucial market for South Korean industry and although the steel trade gets a lot of attention, it is machinery trade that dominates with around \$7½ Billion in monthly exports and that trade has levelled off in the last few months.

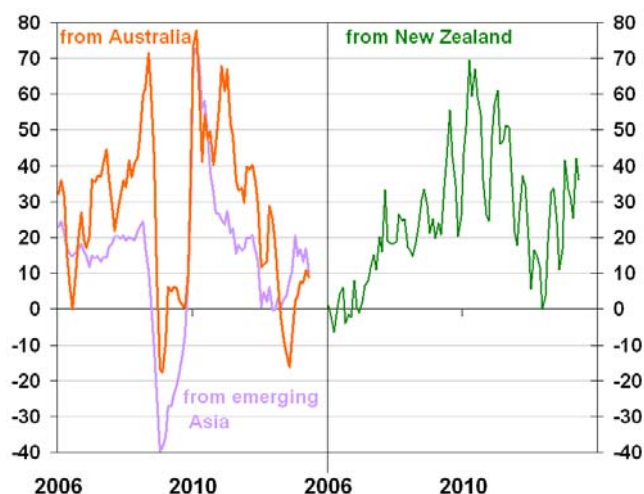
Chinese – economic growth and % change in import volumes



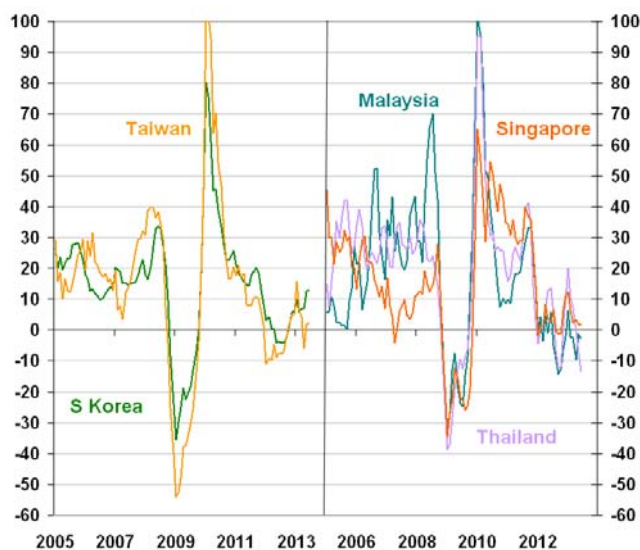
Share of China in goods exports % Mid-2013 data



Chinese imports by supplying area % year on year 3MMA



US\$ Exports to China from East Asian economies % change



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