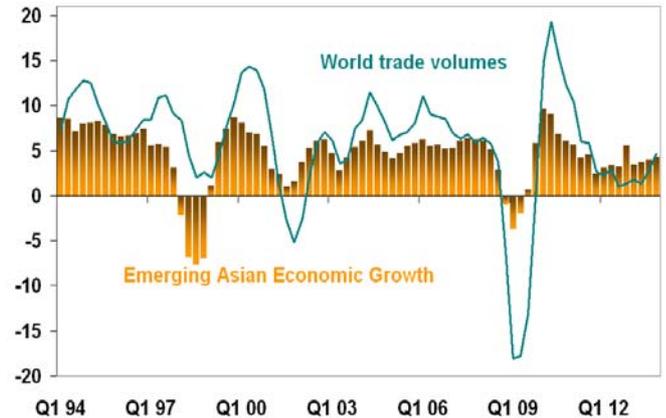


Asian Emerging Economies Update

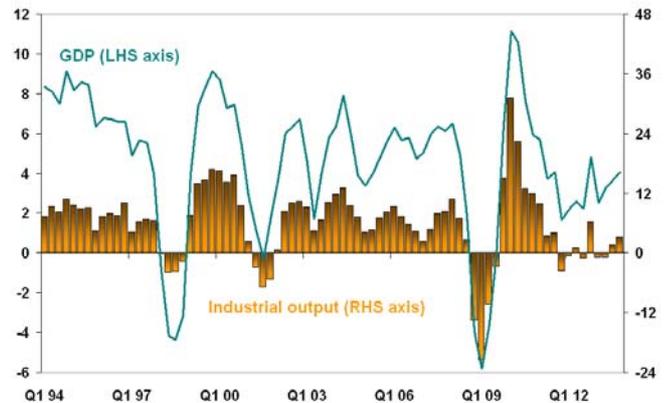


- Moderate economic growth continues across the emerging market economies of East Asia (ASEAN, HK, South Korea and Taiwan) with the pace of regional growth quickening from just under 4% yoy in September quarter to 4.3% yoy in December. The export-driven economies of Taiwan and South Korea accounted for most of the acceleration as ASEAN growth was held down by political tensions in Thailand and financial/inflation issues in Indonesia. We expect growth of 4.1% this year and 4.4% in 2015.
- The pace of expansion in domestic demand remained fairly flat around the region and the growth pick-up was driven by exports, reflecting a modest lift in the growth of world trade through the latter half of last year. The rate of growth in regional consumer spending and fixed investment remained little changed, but export growth lifted from around 4% yoy to 5¼% yoy through the latter half of 2013.
- Regional indicators that anticipate the future pace of economic growth are not pointing to any sudden acceleration in activity. Regional business surveys show their usual divergence between individual economies but none of them show a ramping up in expectations. Leading indicators of export demand are not highlighting much better conditions either.
- The moderate pace of growth in the Asian emerging economies has contributed to the levelling out in export values to the region from Australia and New Zealand. That lacklustre trade record contrasts with the continuing surge in shipments to China, which has displaced Australia to become New Zealand's biggest market for merchandise exports.

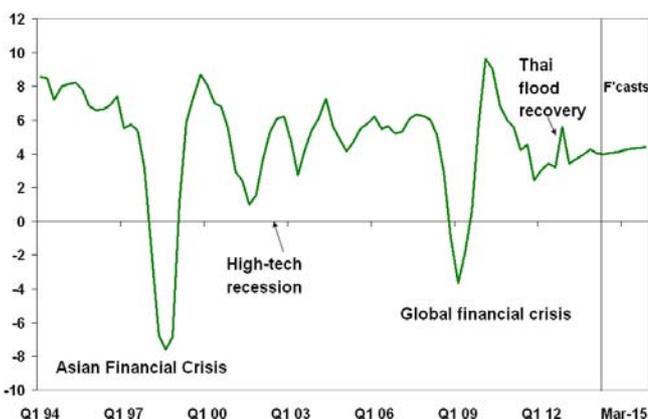
Emerging Asian Growth and exports (% change yoy)



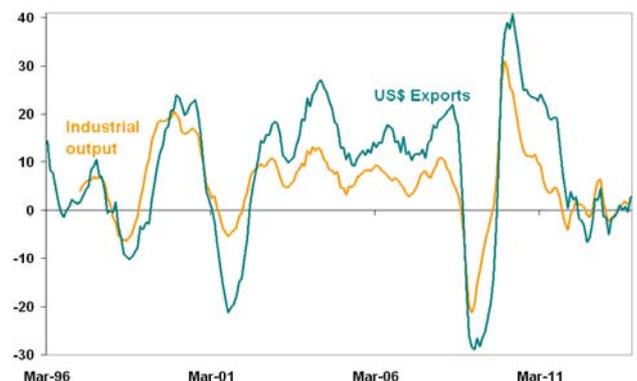
Asian GDP and industrial output (% change year on year)



Emerging Asian GDP (% change year on year)



Asian US\$ Exports and industry output (% change yoy)



Tom Taylor Group Economics 86341883

Moderate growth continues

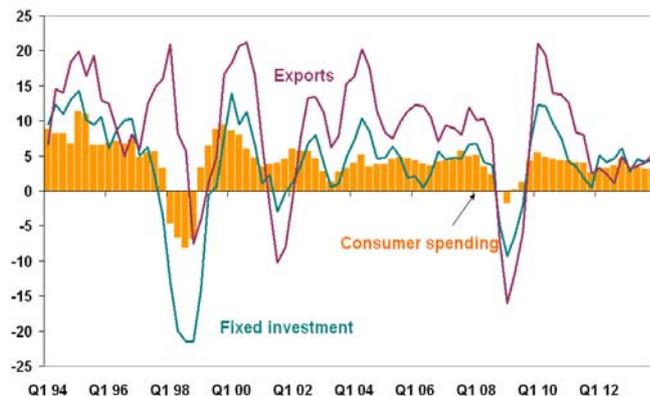
The pace of growth in world trade accelerated through most of 2013, before levelling off in the closing months of the year, and this fed into higher exports from the very open trading economies of East Asia. Global export volume growth picked up from under 2% yoy in the first half of last year to around 4% yoy by the closing months of 2013. This was reflected in the various measures of trade across East Asia with the national accounts showing export growth of 3.1%, 3.6%, 4.0% and 5.2% yoy through each of the four quarters of last year. The monthly data shows the strongest lift in exports was in Malaysia and South Korea. The upturn in exports was reflected in faster growth in industrial output and imports.

While the trade data shows an upturn, domestic demand growth remains fairly flat at the regional level. Consumer spending growth remains around 3% yoy, growth in retail trade volumes has picked up only slightly in December month, regional fixed investment growth remained range-bound between 4% yoy and 4½% yoy through the three last quarters of 2013 and the fragmentary monthly country-level data shows a mixed picture (South Korea up, Thailand down).

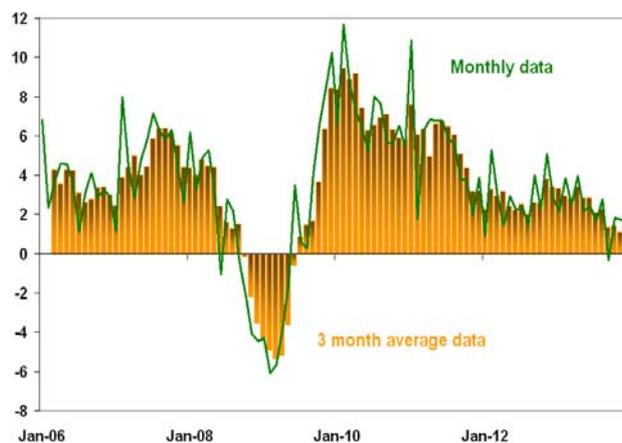
Emerging Asian exports and world trade (% change yoy)



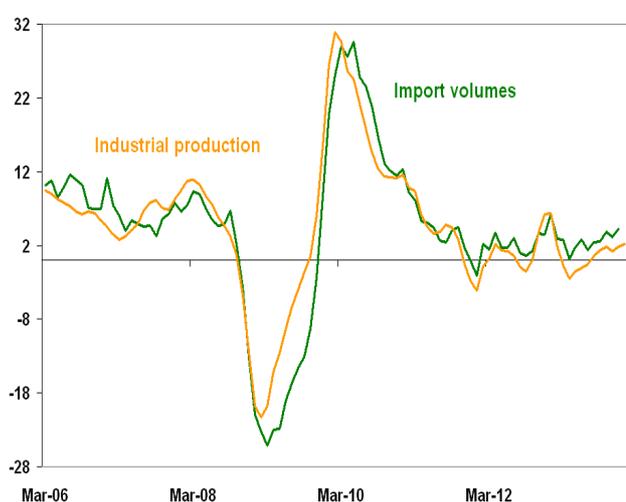
Components of Real GDP in Emerging Asia (% change yoy)



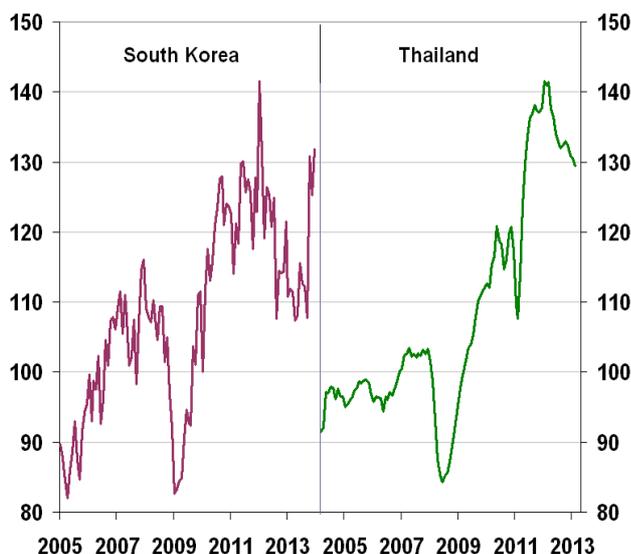
Retail trade spending volumes(% change yoy)



Emerging Asian import volumes and industry output % yoy



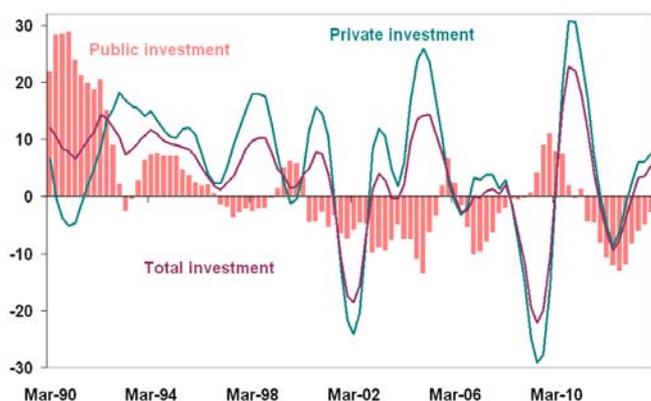
Monthly investment activity indicator Jan 2010=100 index



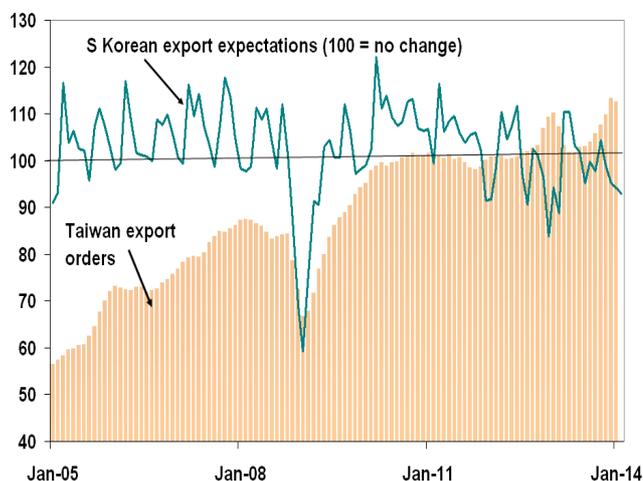
While investment growth has been lacklustre across the region, this is a better outcome than seen after previous periods of marked slowdowns in export growth. During prior business cycles, a fall in exports or even a substantial slowing in its pace of growth triggered less buoyant capital spending as firms cut back their investment plans. The pattern has been different this time as governments around the region used their budgets to boost public investment, offsetting some of the collapse in private investment seen a few years ago. More recently, however, countries like Malaysia that used counter-cyclical public investment to help smooth out the business cycle seem to have been cutting back – offsetting some of the boost to overall investment spending that came from higher private investment spending.

The business surveys and other leading indicators of regional activity are not pointing to any marked acceleration in the pace of growth. Exports were the key driver of the end 2013 upturn in growth and neither Taiwan industry export order data or the South Korean business surveys are pointing to much more acceleration in that segment of demand. Broader measures of sentiment across industry in Taiwan, South Korea, Indonesia and Thailand are not showing much lift in recent months- consistent with growth at around recent levels.

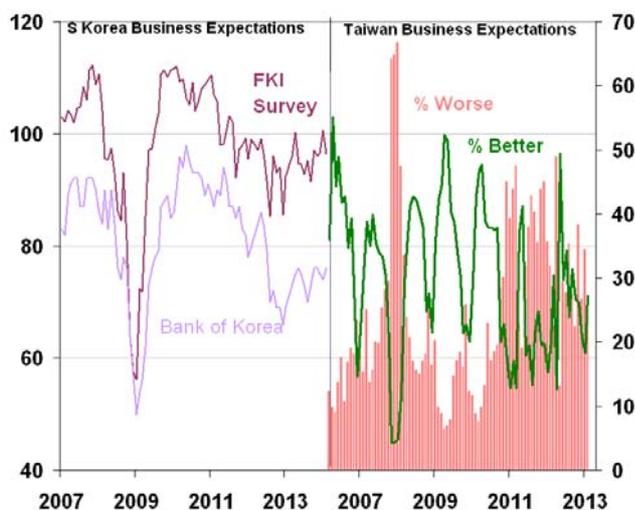
Taiwan investment spending (% change yoy) Smoothed



Export orders (Taiwan) and business sentiment (S Korea)



Business Survey readings- Emerging Asia



Business Survey Readings – Emerging Asia



Emerging Asia Forecasts

NAB Forecasts

	Average annual growth in GDP (%)		
	2013	2014	2015
Hong Kong	3.0	3.4	3.6
Indonesia	5.8	5.4	5.5
Singapore	3.6	4.1	4.4
Taiwan	2.1	3.1	3.4
Thailand	2.8	3.2	4.1
Malaysia	4.7	4.9	5.2
S Korea	2.8	3.6	3.8
Philippines	7.2	6.4	5.8
Total	3.9	4.1	4.4

Australasian Trade with Emerging East Asia

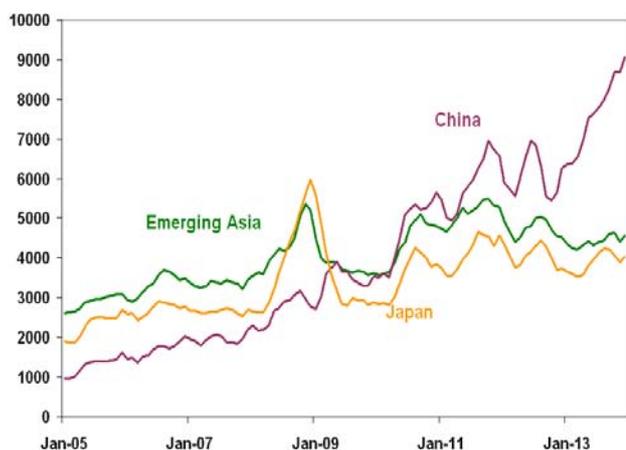
East Asia is a crucial export market for Australia and New Zealand, buying around 75% of Australian merchandise exports and 50% of New Zealand's (which rises to almost 70% if Australia is included). Higher commodity prices have largely underpinned the run-up in both countries export earnings, but total export volumes have been growing strongly recently in Australia – explaining the wedge between aggregate export values and commodity price trends in recent months.

Both countries show the same ramping up in exports to China which contrasts with the flatness of their export values to Japan and the East Asian emerging markets. Consequently, the growing integration on both economies into their wider region has recently been driven by closer trade links with China, not the other big regional economic powers.

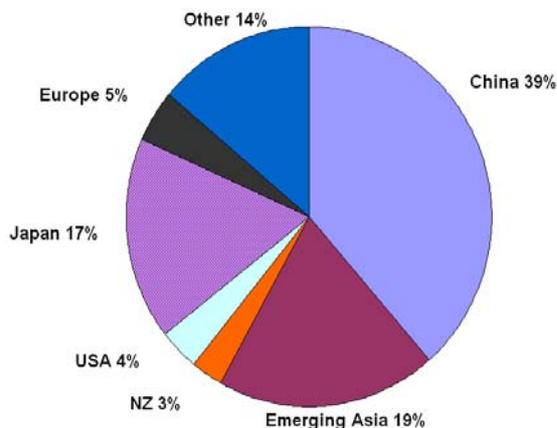
Australian and NZ Export and Commodity Price Indices



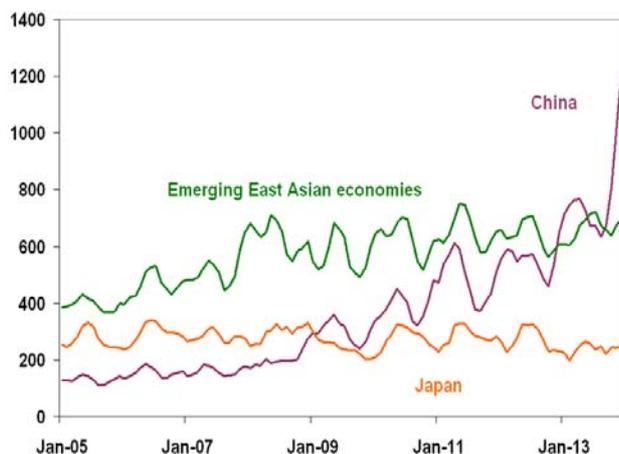
Australian exports to East Asia \$Million/month



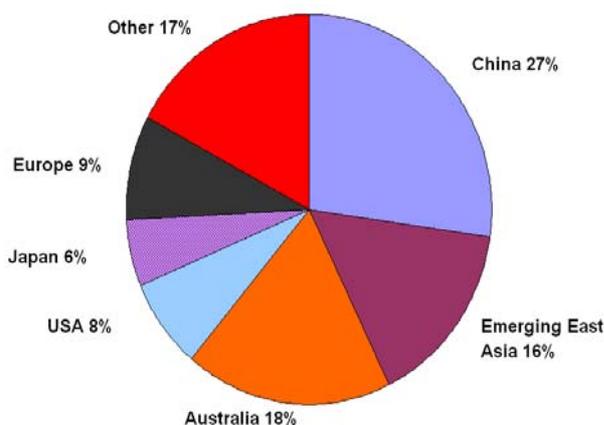
Australia - Distribution of merchandise exports Dec qtr 2013



New Zealand exports to East Asia \$Million/monthly 3MMA



NZ – Distribution of merchandise exports Dec qtr 2013



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