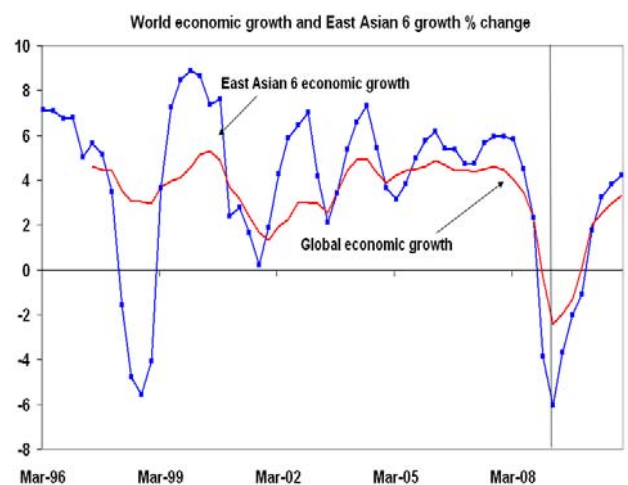
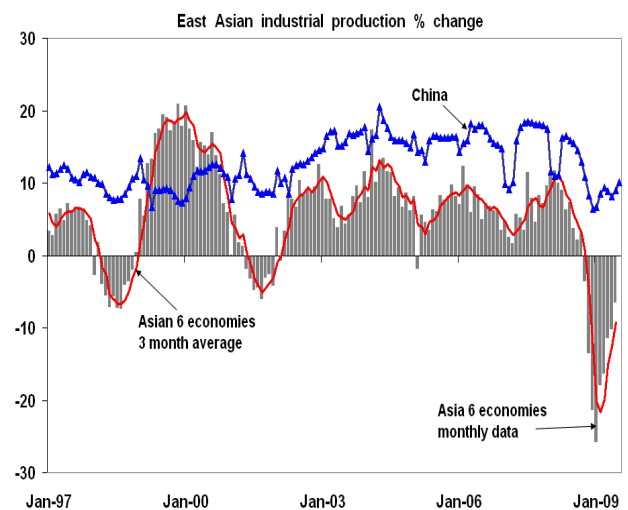


# Economic activity recovering in East Asia

## Key trends

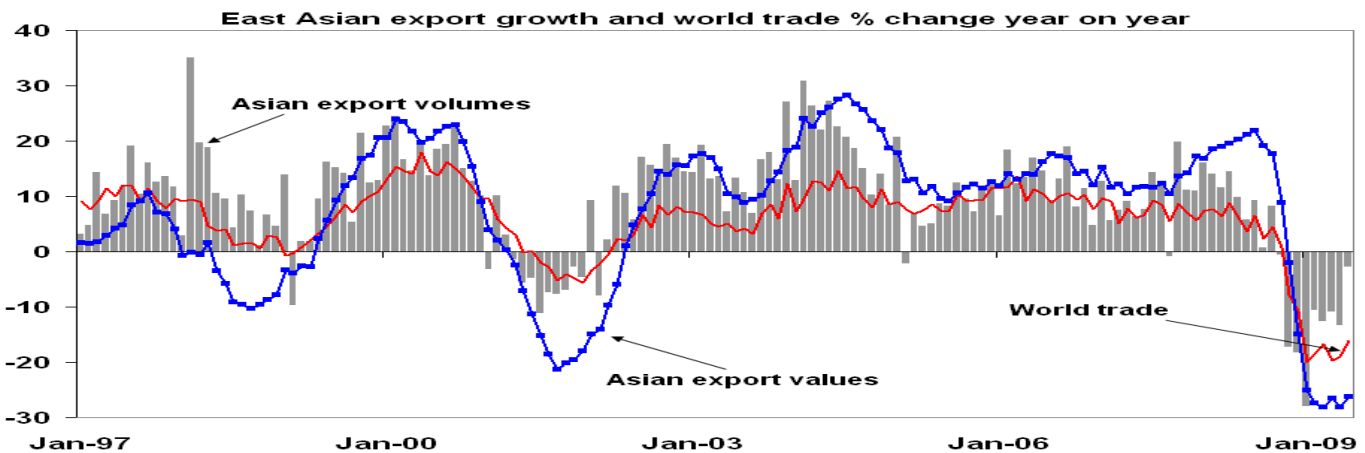
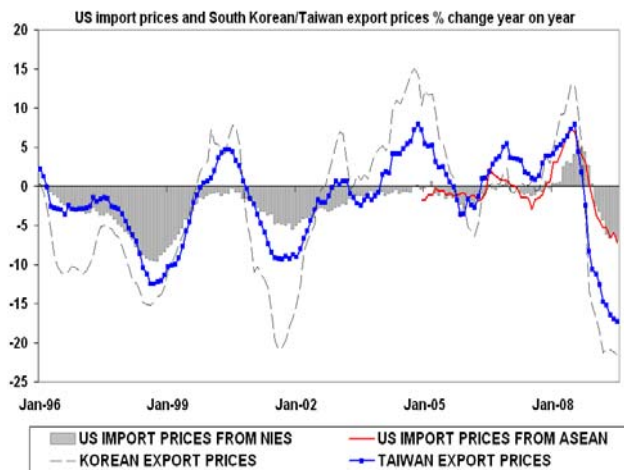
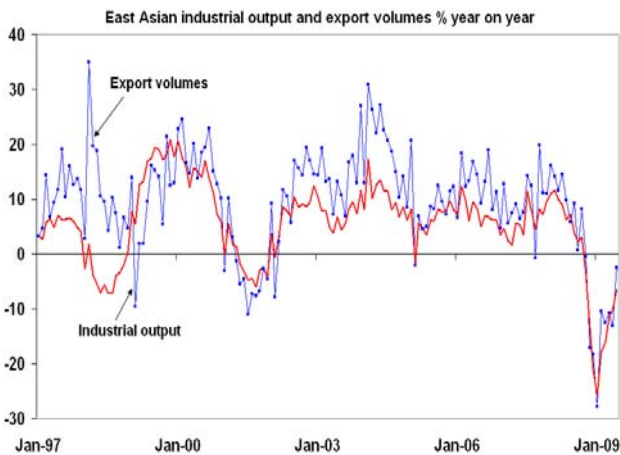
- Although industrial output in the emerging economies of East Asia outside China is still running below year-earlier levels, there has been some upturn in production levels in recent months. We track monthly industrial output across 6 key emerging economies in East Asia (South Korea, Taiwan, Thailand, Philippines, Malaysia and Singapore) as that tends to give the earliest indications of shifts in the regional economic cycle. Industrial output in the Asian 6 fell by a quarter through the latter half of 2008 but the rate of decline has slipped from 26% yoy in January to 6% yoy in June.
- The sharp decline in East Asian output was ended by a combination of a stabilisation in global trade and Government efforts to support demand. World trade is no longer falling sharply - after declining by 7% in late 2008 and 11% in early 2009, it fell by under 1% in June quarter - putting a floor under regional exports. As in the developed economies, interest rates have been cut aggressively across East Asia and budget deficits have been allowed to widen.
- Although the recession across the Asian 6 looks just as deep as in the late 1990s "Asian crisis" we are expecting a fairly rapid and V-shaped profile for the return to growth. GDP in the Asian 6 is expected to fall by around 2½% in 2009 followed by a return to growth of almost 3½% next year. This represents an upward revision to our previous forecast, based mainly on the better outcomes for the South Korean economy.



## Export driven recession unwinds

East Asia has long been an export driven region with a series of economies having high export/GDP ratios and a tradition of industrial export-led economic development. Monthly export volume data is available for 4 of the 6 East Asian economies whose industrial output can be monitored monthly (South Korea, Taiwan, Singapore and Thailand) and the clear correlation between export shipments and industrial output is shown in the chart below. Export volumes fell by almost 30% between October 2008 and January 2009 and industrial output declined by almost a quarter. Since early 2009 output has recovered around three-quarters of its earlier losses, reflecting a comparable recovery in export volumes.

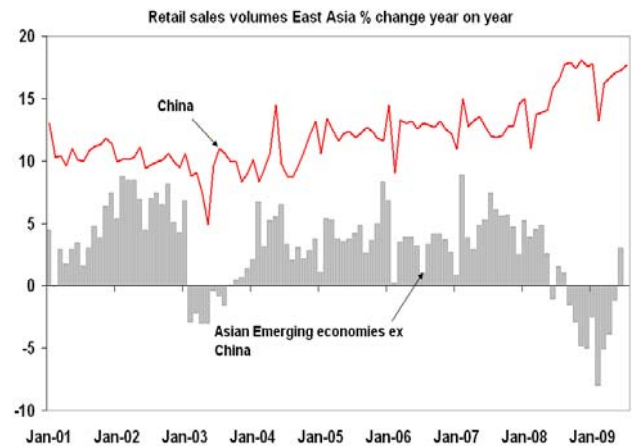
While export volumes are recovering quite rapidly from the severe downturn seen through late 2008 and early 2009, export prices have been falling sharply. South Korean export prices in US\$ terms were down by over 20% yoy in mid-2009 and the drop in Taiwanese US\$ export prices was over 17% yoy in early July. US import prices show the return of deflation in the US\$ prices of goods coming from both the Asian newly industrialising economies (NIEs) and from the South-East Asian group of ASEAN nations. The combination of recovering export volumes with falling export prices means that US\$ export receipts from the region have not risen much - they were still down by over 20% yoy in June and show no evidence of the V-shaped profile evident for regional export volumes. As shown in the chart below, regional export volumes seem to be out-performing world trade where the upturn is milder.



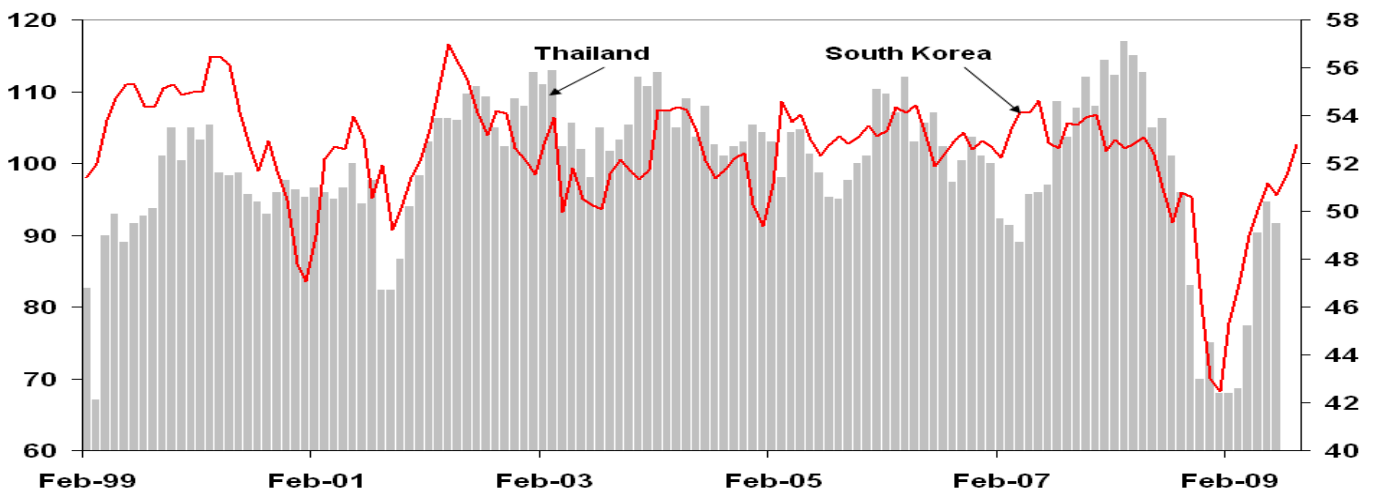
## Demand seems to be stabilising

The recessions across East Asia have not just been driven by exports as domestic spending has weakened as well. Consumer spending across the Asian 6 economies fell substantially through late 2008 and early 2009. Consumer spending was still growing by 4% yoy in early 2008 but it was down by ½% yoy by the end of the year and by March quarter 2009 the rate of decline had accelerated to 2½% yoy before falling back to ¾% yoy in June quarter. Fixed investment spending has fallen sharply through the last year - it was down by 16% yoy in March quarter but the pace of decline had slowed to 10½% yoy by June quarter 2009.

The monthly indicators support the view that the worst is over for domestic spending. Monthly retail sales volume figures are available for several important regional economies (South Korea, Taiwan, HK, Singapore, Thailand) and these can be aggregated to give a region-wide estimate. This shows that retail sales volumes started falling heavily through late 2008 and early 2009 so that by February they were down by almost 8% yoy. The recovery since then has been quite rapid with sales volumes up by 3% yoy by June. The contrast with Chinese retail sales volumes is quite marked - these kept growing all through the financial crisis. The indicators of trends in investment spending are more fragmentary but they suggest that conditions have bottomed as well.



### Investment intentions - business survey readings



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