

Asian manufacturing

Asian export boom shows signs of peaking

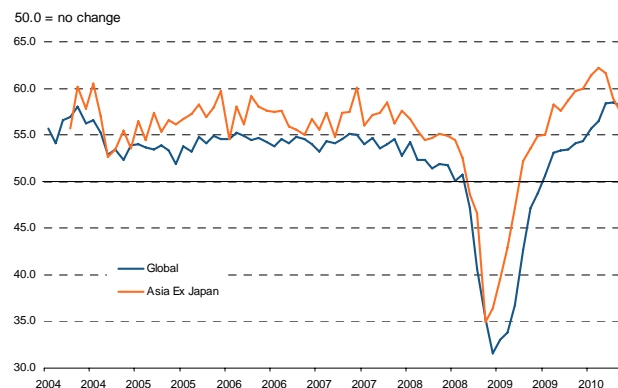
Asia ex-Japan export growth slows

Back in March we reported¹ how Asia ex-Japan had led the global business cycle. According to PMI data, the region's export growth started to falter before that of overall global exports, with the ultimate contraction hitting a peak in November 2008. One month following, the Global PMI signalled the sharpest decline in worldwide export sales.

The region's exports then led the global recovery, and our March report noted that the rate of growth of Asia ex-Japan exports had reached a new record by some margin in February 2010 (data were first available for the region in early-2004).

Since then, the rate of growth of new export orders placed at Asia ex-Japan manufacturers has slowed sharply. The May PMI surveys showed that the rate of expansion in new business received from overseas markets eased for the third successive month, down to the weakest since July of last year. Growth of production in the region has slowed substantially in response, dropping to the weakest since June 2009.

Manufacturing new export orders



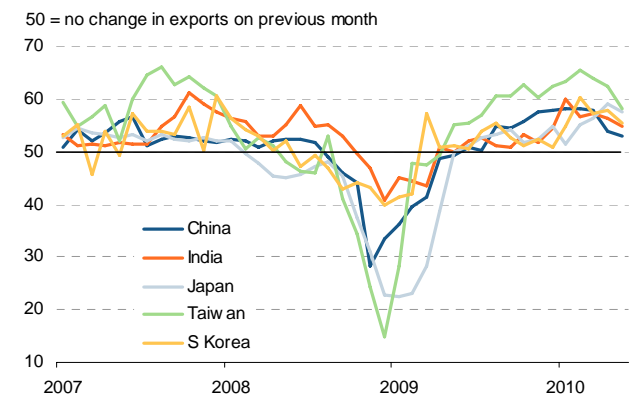
Sources: Markit, HSBC, ISM, JPMorgan.

¹ http://www.markit.com/assets/en/docs/commentary/markit-economics/2010/mar/Asia_Manu_10-03-11.pdf

Slowdown in new export orders broad-based in Asia

Export growth in China has slowed sharply since the start of the year, with the increase in foreign sales easing for the third month running in May to the weakest for ten months. Similarly, Taiwan's exports, which have seen the strongest growth in the recovery, expanded at the slowest pace in ten months. Export growth meanwhile eased for a fourth consecutive month in India, dropping to a five-month low, and slowed for a third month in South Korea to the weakest since January.

Manufacturing exports by country



Sources: Markit, Nomura, HSBC.

Japan's exports have fared less well than Asian neighbours throughout much of the recession and subsequent global recovery. However, in recent months, demand from overseas for Japan's goods has shown renewed strength, with PMI data for April indicating the fastest rise in exports in the series history. This growth weakened marginally in May, although remained strong by the historical standards of the survey.

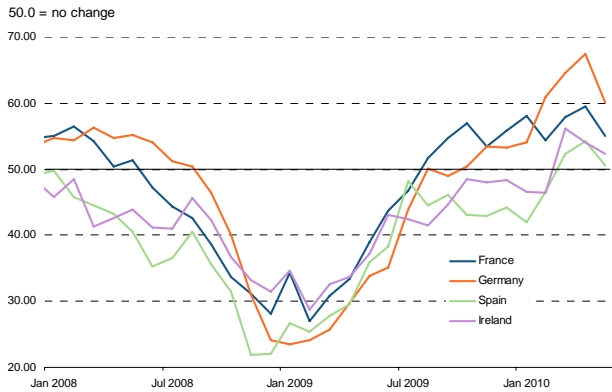
Slowdown linked to inventory cycle

PMI sub-indices help throw some light of the cause of this broad-based easing in export sales across Asia.

First, Eurozone manufacturers started to rein in their growth of input buying in May, much of which is

sourced from Asia, as domestic demand cooled within the region. This appears to have been caused to some extent by uncertainty generated by the debt crisis.

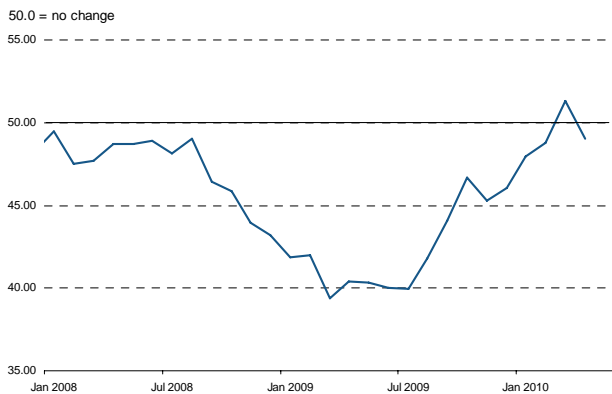
Eurozone Manufacturing Purchasing Activity



Sources: Markit.

Second, the global trade surge that followed the recession has been boosted by the rebuilding of inventories by manufacturers around the world. Stocks of inputs rose at the fastest rate in the 12-year history of the Global PMI survey in March. Growth of stocks has since slowed, suggesting a peaking in the inventory cycle.

Global Manufacturing Stocks of Purchases

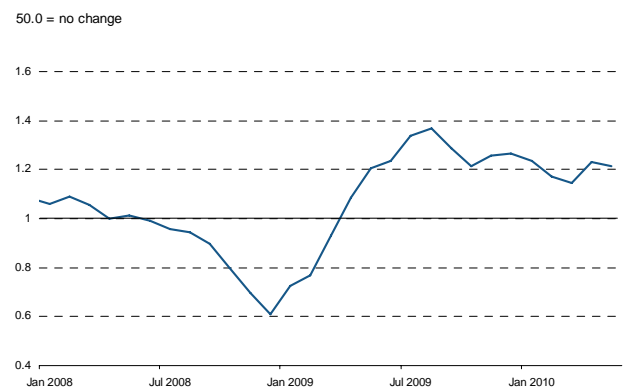


Sources: Markit, JP Morgan.

The likely impact of the inventory cycle is illustrated by the ratio of global manufacturing new orders to

inventories. As this ratio provides an indication of the shortfall/surplus of warehouse stock to order inflows, it tends to give an advance indication of production trends. The ratio peaked at a record high last August and has since trended downwards, albeit with some volatility. This therefore suggests that global manufacturing output growth is likely to weaken in coming months.

Global Manufacturing New Orders : Inventories



Sources: Markit, JP Morgan.

Slower growth ahead?

However, the orders:inventory ratio remains well above its long run average. This suggests that, while growth of worldwide manufacturing output, and therefore exports from Asia, may have peaked, an ongoing expansion should be supported as we move into the second half of 2010, providing growth is not derailed by any worsening of the European debt crisis.

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