

Asia Manufacturing

Manufacturing growth in Asia falls further from peak in November, but national divergences widen

PMI data showed that Asian manufacturers continued to record growth of output in November. Supported by higher levels of new orders, both from at home and abroad, production in the region has now risen for seven successive months, pointing to a sustained recovery following the severe contraction seen at the height of the financial crisis earlier in the year.

The composite Output PMI for the region – a weighted index based on manufacturing PMI data for China, India, Japan, Singapore, South Korea, Taiwan, and Turkey – has tracked the downturn in equivalent official data well, highlighting in advance the dramatic decline in output during the second half of 2008 and the subsequent recovery. Annual output growth on the official measure should return in the near-term (data for September showed output was -3.4% lower on the year according to our estimates).

The latest PMI data, however, suggest that the recovery is losing some momentum, with output growth falling for a third successive month in November from August's five-year high. Given the leading role in which Asian manufacturing has played in this year's global recovery story, this will raise fears that the improvement of the world manufacturing sector as a whole may lose some steam in 2010 if other economies fail to take up the growth baton.

China only nation to record stronger growth in November

Looking at national level data shows that output growth has weakened across all Asian countries covered by PMIs with the exception of China, where the rate of expansion picked up slightly.

Moreover, the latest PMI data highlighted a growing divergence between Japan and China. Both countries enjoyed strong rebounds in rates of growth over the summer, but the Nomura/JMMA PMI showed that manufacturing growth slowed in Japan for a second successive month in November, hitting a five-month

Chart 1: Asian manufacturing output

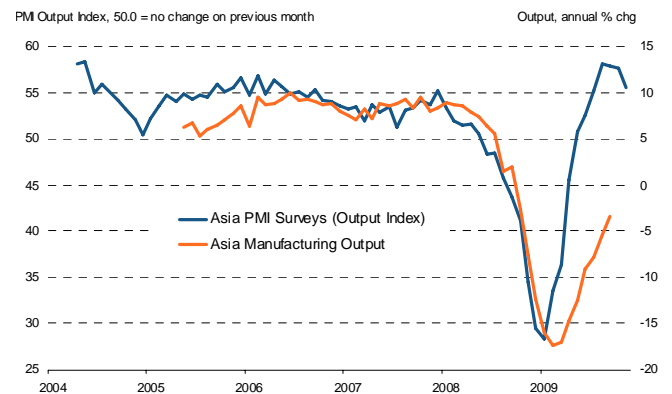


Chart 2: Asia and global manufacturing output

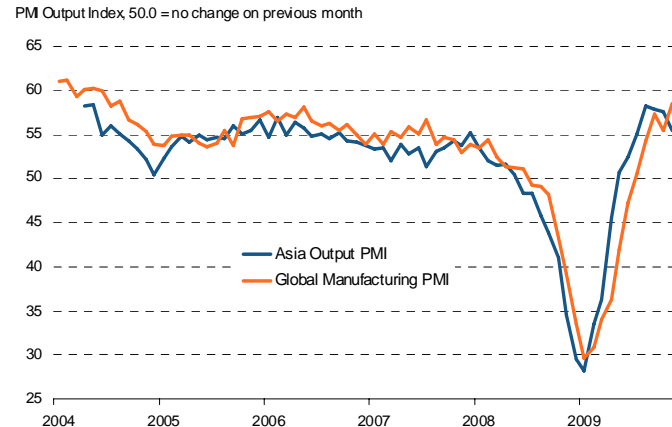
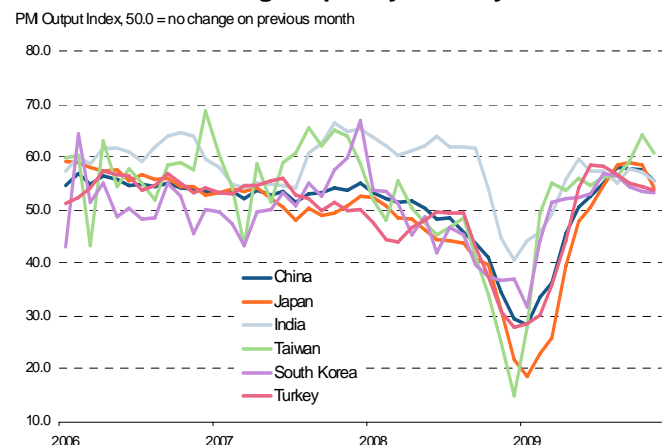


Chart 3: Manufacturing output by country



Sources: Markit, Ecwin.

low. In contrast, the HSBC China PMI indicated that output not only expanded for an eighth successive month in November but at the joint-second fastest pace in just over two years.

Contrasting fortunes reflect in part an over-reliance in Japan on exports, particularly given the continued underperformance of domestic demand (for example, the Nomura Japanese Services PMI continued to show contraction in services business activity up to October). November data indicated that Japanese manufacturing exports rose for a fifth month in a row, but at a much slower rate than in the preceding survey periods. The strength of the yen may be playing a role in undermining Japanese competitiveness, while there could be an element of cost consciousness amongst Western consumers for (relatively expensive) high quality Japanese manufactured goods.

In contrast, Chinese export growth in November was the steepest since March 2005, partly reflective of China's ability to produce relatively cheaper products than other Asian exporters. China provided key support to Asian manufacturing export growth overall in

November, with South Korea the only other nation to enjoy a stronger improvement in foreign manufacturing trade.

Moreover, China has enjoyed some success in re-balancing its economy away from exports this year, as monetary and fiscal stimulus have supported domestic demand. These policies have also had positive spill-over effects in other areas of the region (and the global economy as a whole). Anecdotal evidence from PMI surveys in neighbouring Asian trade partners continued to highlight China as a key source of their own new export growth in November.

Paul Smith

Senior Economist

Markit

Tel: +44 1491 461 038

Email: paul.smith@markit.com

For further information, please visit www.markit.com

The intellectual property rights to this report provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.