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Insight beyond information

For members of IMA's CEO Forum

Asia Macroeconomic Update: Growth and Policy Outlook

Tuesday August 17, 2021 9:00 AM to 10:30 AM

As and when Asia emerges from the shadow of Covid-19, there will be significant disparities in economic performance across the region. Some markets will come out stronger, others weaker. Amidst the economic rebalancing happening in the region, what are the medium-term economic prospects for India, China and the Asia Pacific in the aftermath?

Richard Martin

Founder and Managing Director, IMA Asia

Global Outlook

The second half of 2021

… a widening gap between the vaccinated

… and the unvaccinated

The outlook for the next six months is dominated by the contest between COVID-19 variants, such as the highly transmissible Delta, and rising vaccination levels. The outcome will vary by country, accentuating the gap between those doing well and those suffering. The path for each country is determined by their ability to suppress the virus, the scale of stimulus, and the speed of vaccination, with two out of those three being sufficient for success. Wealthy countries with capable bureaucracies and good vaccine supplies have an advantage that few emerging markets can match (China being one that can). That fortunate group account for 60% of global demand, and as they move to herd immunity in H2'21, their growth is lifting and so is global growth. Pent-up savings and left-over stimulus should deliver a strong 2022 for them. By contrast, many emerging markets are struggling with the Delta variant, with their growth rates being cut. Weaker growth for these markets could continue for many years due to the cost of "long-covid", a fall in savings, and a loss of attractiveness (whether for tourists, export factories, or global capital).

A multi-year threat from new virus variants

… requiring global firms to adapt

Average daily new cases for the world almost halved to 382,363 in June from 634,734 in May before the rate lifted to 419,377/day in the first eight days of July due to the rapid spread of the Delta variant, particularly in Africa. Global new cases are likely to rise over the next few months but driven this time by the poorest countries rather than some advanced countries with poor leaders. That means more variants with some that may be more dangerous than Delta. Vaccines, such as the mRNA ones and AstraZeneca, effectively counter Delta and should do well against other variants, although booster shots may be required. The continued emergence of new variants means that containing virus risk will remain a high priority for all governments and global firms for several more years.

Forecasts lift for the US

In the US (24% of global demand), average daily new cases fell to 13,246 in June from 29,572 in May before edging up to 15,692/day in early July due to Delta's spread in some states. The nation's full vaccination rate reached 47% on July 8 (55% with at least one shot), putting the US on track for herd immunity by Q4'21. In June, the US Federal Reserve raised its GDP forecast to 7% for this year (prior 6.5%) and 3.3% in 2022 (unchanged). We expect QE to taper from late 2021 with a Fed rate hike in 2022, which will lift the US$.

The EU outlook lifts too

… while China stays on track

In the EU (18% of demand), average daily new cases fell to 17,906 in June from 57,303 in May before jumping to 27,775/day in early July due to Delta's spread in Spain and Portugal. The EU's full vaccination rate reached 38% on July 8 (with 53% having at least one shot), putting the EU on track for herd immunity by Q4'21. On July 8, the EU Commission lifted its GDP forecast to 4.8% this year (prior 4.3%) and 4.5% next year (prior 4.4%). Our forecast for China (18% of global demand) remains at 8.5% for 2021 followed by 6.2% in 2022.

Operating in two very different worlds

Different business environments will emerge for those countries approaching herd immunity. The focus will move from virus suppression via mass testing, masks, and restrictions to no local restrictions, monitoring of hospital cases, and international travel for fully vaccinated people between countries with high vaccination rates. By contrast, many emerging markets will need to continue with rigorous virus suppression and mostly closed borders until they get enough vaccines to inoculate 60-80% of their population. For some that might be late 2022.

IMA Asia's forecasts	**2018**	**2019**	**2020**	**2021**	**2022**
World – Real GDP growth, %	3.6	2.8	-3.3	6.7	4.4
- US	3.0	2.2	-3.5	7.0	3.5
- Euro area	1.9	1.3	-6.6	4.8	4.5
- Asia/Pacific (14)	4.8	4.2	-0.9	6.5	5.1
- NIEs (4)	2.9	1.8	-1.2	5.1	4.0
- Developing or "EM" Asia (7)	6.6	5.8	0.2	7.7	6.1
- ASEAN (6)	5.0	4.4	-4.2	3.8	4.9
World goods & services trade volume, % growth	3.9	0.9	-8.5	9.5	6.8
US Fed policy rate, top of band, year-end, %	2.50	1.75	0.25	0.25	0.75
Inflation, CPI, US, year average, %	2.4	1.8	1.3	4.8	3.8
Inflation, CPI, Euro area, year average, %	1.8	1.2	0.3	1.5	2.0
Crude oil, average of 3 spot crudes, US$	68	61	41	68	72
EUR/USD, year average rate	1.18	1.12	1.14	1.14	1.09
USD/JPY, year average rate	110	109	107	111	113

The Asia/Pacific 14 = the countries on the forecast summary page. NICs are the newly industrialised countries = Korea, Taiwan, HK, Singapore. The ASEAN 6 = Indonesia, Thailand, Malaysia, Philippines, Vietnam, + Singapore. Dev Asia = ASEAN 5 + China and India. IMA Asia forecasts.

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Regional Outlook

Summary of forecasts in this month's Asia Brief

GDP (Expenditure), real growth, %	2018	2019	2020	2021	2022
Japan	0.6	0.0	-4.7	2.3	1.6
China	6.7	6.1	2.3	8.5	6.2
Hong Kong	2.8	-1.7	-6.1	4.9	4.0
Taiwan	2.8	3.0	3.1	6.5	4.6
South Korea	2.9	2.2	-0.9	4.6	3.6
Indonesia	5.2	5.0	-2.1	3.0	4.3
Malaysia	4.8	4.4	-5.6	4.5	6.6
Philippines	6.3	6.1	-9.6	4.6	4.7
Singapore	3.5	1.3	-5.4	5.6	5.0
Thailand	4.1	2.3	-6.1	2.4	3.8
Vietnam	7.1	7.0	2.9	5.3	7.0
India (CY)	7.3	4.8	-7.0	7.2	6.9
Australia	2.8	1.9	-2.4	5.8	3.4
New Zealand	4.3	3.0	-1.2	4.5	3.7

Inflation, CPI year average, %	2018	2019	2020	2021	2022
Japan	1.0	0.5	0.0	0.4	1.3
China	2.1	2.9	2.5	2.4	2.1
Hong Kong (composite CPI)	2.4	2.9	0.4	0.8	1.5
Taiwan	1.3	0.6	-0.2	1.7	1.8
South Korea	1.6	0.4	0.5	2.4	2.0
Indonesia	3.2	2.8	2.0	1.7	3.5
Malaysia	1.0	0.7	-1.1	3.6	3.5
Philippines	5.2	2.5	2.6	4.5	4.0
Singapore	0.4	0.6	-0.2	2.0	2.4
Thailand	1.1	0.7	-0.8	2.0	2.8
Vietnam	3.5	2.8	3.2	2.6	5.0
India (CY CPI urban non-manual workers)	4.0	3.7	6.7	5.4	6.0
Australia	1.9	1.6	0.9	1.8	2.8
New Zealand	1.6	1.6	1.7	1.9	2.5

Exchange rate to US$1, year avg.	2018	2019	2020	2021	2022
Japan	110	109	107	111	113
China	6.61	6.91	6.90	6.47	6.34
Hong Kong	7.84	7.84	7.76	7.80	7.80
Taiwan	30.1	30.9	29.5	27.8	27.4
South Korea	1,100	1,165	1,180	1,124	1,159
Indonesia	14,238	14,148	14,582	14,698	15,153
Malaysia	4.03	4.14	4.20	4.21	4.38
Philippines	52.7	51.8	49.6	49.0	50.9
Singapore	1.35	1.36	1.38	1.32	1.36
Thailand	32.3	31.0	31.3	31.5	32.5
Vietnam	22,602	23,051	23,208	23,581	24,136
India (FY)	68.4	70.4	74.1	72.0	74.6
Australia	1.34	1.44	1.45	1.33	1.38
New Zealand	1.44	1.52	1.54	1.42	1.47

Sources: CEIC, central banks, and national statistics offices. Forecasts are by IMA Asia.

Regional Outlook

Political & policy issues to watch

China, India, & Indonesia

… continued stable leadership despite some policy missteps

The bane of emerging markets is political instability (Haiti being this month's case in point). This is particularly true during an economic crisis or a pandemic. In this regard, it is important to note what hasn't happened over the last year in Asia's three big emerging markets, which contain 40% of the world's population. There has been little political instability and no loss of authority, even though the governments in India and Indonesia fumbled their pandemic strategies. In China, President Xi Jinping is lining up a third 5-year term in late 2022 and continues to drive campaigns to reform and deleverage the economy. In India, PM Modi has carried out a major cabinet reshuffle, which is aimed as much at revitalising reform as winning a third 5-year term in 2024. In Indonesia, poor policies leave President Widodo facing a pandemic crisis but there is no challenge to his authority, and a stable leadership change is expected in the 2024 election. COVID-19 is changing the growth outlook for all three, but at least they have remained stable.

Watch for a change in leaders in Japan & Korea

… & instability in Malaysia

Leadership changes are expected in Japan (PM Suga is likely to be dropped but the LDP retains power in the 2021 election) and South Korea (an opposition win is likely in the March 2022 election) with no adverse impact on policy or their economies expected. ASEAN has unstable governments (Malaysia is in a slow-moving political crisis) but the five main states have good central banks and finance ministries, so they have kept stable investment grade ratings for government bonds, which is critical to paying for pandemic relief and continued funding of development plans. Vietnam, the 6th main ASEAN state, has even won an improved outlook for its non-investment grade bonds this year. Quite a feat in a pandemic.

Outlook for the market

The widening gap in growth rates across Asia

The widening gap in market performance at a global level is readily apparent in the Asia/Pacific region. Our 2021 forecast for Asia's newly industrialised economies (NIEs, Korea, Taiwan, HK, and Singapore) lifts to 5.1% this month (4.8% in May) as strong global demand lifts export manufacturing. By contrast, our forecast for the ASEAN-6, which also includes Singapore, drops to 3.8% for 2021 (prior 4.5%) with 2022 cut to 4.9% (prior 5.1%). Indonesia, the Philippines, Malaysia, and Thailand are struggling with the Delta variant of COVID-19. Our forecast for India has lifted this month to 7.2% for CY2021 (prior 5.8%) as it has slashed new COVID-19 cases after May's surge. However, this gain needs watching as new virus variants emerge.

Big lifts for export manufacturers

… and those with big stimulus measures

Most of the strong A/P markets got GDP upgrades this month as the latest data points to strong growth in Q2'21. In our commentary, we've used 3-month average rates compared to average monthly annual rates for 2020 and 2019 to highlight the lift. On that metric, Taiwan's June exports are 26% above 2020 and 33% above 2019, while Australia's retail sales are 6% up on 2020 and 13% above 2019 as fiscal stimulus flowed into consumer's pockets. A good question is whether these surges simply pulled demand forward, which implies a slump in 2022. At present, 2022 looks like a second strong year, but we'll need to watch this.

While savings are run down in weaker emerging markets

For the weak A/P markets the issue is not just a cut in 2021 growth but the risk that long-term growth has been undermined. Households in the Philippines, Indonesia, and India appear to have run down their savings to cope with COVID-19. As their governments lack the financial resources to cushion them it will take 5-7 years for consumers to rebuild savings, and that process will slow consumer demand growth. Fortunately, as noted above, these three countries are politically stable with well-supported governments. That is essential to balance sheet rebuilding.

PPI inflation squeezes factory margins in Asia

… but less for exports to the US

In Q2'21, most of Asia faced an 8-10%yoy jump in factory prices (usually the producer price index or PPI). For a few, this was mostly due to oil prices, with June's West Texas Intermediate price of US$71.38 up 86%yoy while the lift for the year to June was 11%. But for many export manufacturers the cost rise was 15-30% across all materials and components. That will squeeze margins, as there are few Asian markets where it is easy to lift prices, as consumer inflation is 2% or less. By contrast, inflation is being passed onto US consumers, with the US CPI rising 5.4%yoy in June. We note that China's export prices were up 16%yoy in June after falling 1.4% in 2020.

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Japan

Political & policy issues to watch

Struggling to contain the Delta variant

… leading to a 4th lockdown for Tokyo

Japan cut average daily new COVID-19 cases to 1,771 in June from 4,965 in May using restrictions. With the Delta variant spreading, and new cases rising in July, Tokyo has been put under a 4th state of emergency from July 12 to August 22nd and spectators have been banned from Olympic events in Tokyo and major centres. By July 8, 17% of the population was fully vaccinated and 29% had at least one dose. Vaccinations reached the government's target rate of 1m/day on June 7 and peaked at 1.2m/day in late June before slipping to 1.1m on July 8 as shortages emerged and plans for company-led vaccination campaigns halted. Shortages may continue, as Japan's contracted supply of the Pfizer vaccine is due to drop to 70m doses in Q3 from 100m in Q2. The government aims to have all eligible adults inoculated by November.

Plans for a vaccine passport

Japan plans to introduce a vaccine passport from July 26, hoping that some countries will admit Japanese travellers without requiring quarantine (but not offering to reciprocate). Keidanren is calling for the passports to be used domestically for events and restaurants.

The LDP should win the 2021 poll

… but Suga may be dropped

Japan must hold an election by October 22. While support for PM Suga's cabinet has dropped to 37%, the LDP should win as support for the leading opposition party, the CPDJ, is just 10%. The issue is whether Suga will still lead the LDP after the party's election in September. He had hoped that a successful Games and a good pandemic strategy would boost his support but popular criticism in both these areas is growing. If Suga goes, there will be a wider cabinet reshuffle but little change in policy.

Outlook for the market

Trimming the 2021 recovery

Our forecast for Japan's GDP growth in 2021 has been cut to 2.3% (prior 2.8%) while 2022 drops to 1.6% (prior 1.9%) after a 4.7% fall in 2020 and a decade average to 2019 of 1.2%pa. Net exports are on track to deliver almost half this year's growth but the rebound in consumer demand is expected to weaken in H2'21.

… weaker consumers in H2'21

With the Olympics in lockdown there's little chance of a boost to consumer sentiment, which by June remained just below the 2019 level. Massive stimulus over the last year helped lift the annual rate for retail sales by May some 2% above the 2020 average and 3% above 2019 (after decade average growth of 0.9%pa to 2019) but with the new lockdown we've cut the 2021 recovery in consumer demand to 1.7% after a 5.9% fall in 2020 with 1% expected in 2022 after a decade average to 2019 of 0.6%pa.

While exports lift manufacturing

Strong global demand has revived exports. By May, the 3-month average for exports (US$ basis) was 19% above the 2020 average and 8% above 2019. That has lifted the trade balance into surplus from 2020, supporting GDP growth. For the first five months of 2021, export growth was across the board with general machinery up 22%ytd (after -11% for full 2020), electrical machinery up 17% (-1%), vehicles up 25% (-18%), and IT goods up 8% (-4%). But with weak local demand, the 3-month average for factory output by May remained just below 2019 even though it was 8% up on 2020. The recovery in the manufacturing PMI for Japan peaked at 53.0 in May and eased to 52.4 in June. We expect manufacturing GDP growth of 5.5% this year after an estimated fall of 10% last year with growth of 3% in 2022 following a decade average to 2019 of 2.7%pa.

PPI inflation squeezes firms while the yen slips

May consumer inflation of -0.1%yoy will be painful for Japanese industry as producer prices soared 5.1%yoy, which will compress margins. Consumer inflation should lift in 2022 as global prices rise but not enough to stop QE by the BOJ. The yen has been sliding on a rising USD since a recent high of 104 in January and that slide is likely to continue.

	2018	2019	2020	2021	2022
GDP, real growth (2015p),	0.6	0.0	-4.7	2.3	1.6
CPI, year average, %	1.0	0.5	0.0	0.4	1.3
Overnight call rate, year-end, %	-0.06	-0.07	-0.03	-0.03	-0.03
USD/JPY, year average	110	109	107	111	113

Sources: 2018-2020 data from the BOJ and government sources; 2021-2022 forecast by IMA Asia

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China

Political & policy issues to watch

Few COVID-19 cases

… a surge in vaccinations

… preparing for long-term border controls

Small outbreaks in Guangdong lifted China's average new case rate to 22/day in June from 15/day in May but were quickly controlled, and most recent cases are arrivals from overseas in quarantine. China is preparing for mass quarantine of arrivals as it opens its borders in the next year with construction of a centre with capacity for 5,000 arrivals. While small local lockdowns still take place, activity is close to pre-pandemic levels. Vaccination is running at 10-20m doses a day and with 1.39bn doses given by July 12, China should reach herd immunity by Q4'21. Four local vaccines are approved with a combined production capacity of 5.7bn doses for 2021. 500m doses were shipped overseas to 112 countries in H1'21 (over half of all global donations) while local production also started in several countries, including Indonesia and Malaysia. The efficacy level of China vaccines may be lower with the Delta variant, so a booster shot may be needed in 2022.

Pressure on everyone to stay in line

With the 100th anniversary of China's Communist Party celebrated on July 1, the country has entered a political season that runs to late 2022, when Xi Jinping is expected to get an unusual third 5-year term. There is intense pressure for everyone to toe the line with no questioning of policy or the leadership in this period.

Lots of reforms to improve use of capital and market operations

On policy, Xi remains a man in a hurry. Far reaching reforms are being introduced at a rapid pace to improve the use of capital and the functioning of markets. They range from better management of debt and welcoming foreign financial firms to reining in China's ecommerce giants over concerns about data protection and market dominance. While lowering risk and improving long-term growth prospects, these moves have a cost to short-term growth and can be disconcerting for investors and the firms involved. Little change on foreign policy is likely, with Xi waiting for the US to make the first more on reducing tariffs (we continue to expect that in H2'21 as a move to curb inflation in the US).

Outlook for the market

Strong exports and moderate local demand

China's outlook comes down to a contest between continued strong exports and milder domestic demand, due either to consumer caution or the reform drive. Credit growth is a bit weaker than expected with growth in total finance (excluding equity) slowing to 10.8%yoy in June, leading to a PBOC decision to cut the reserve requirement ratio for banks by 50 basis points. More fine-tuning steps should keep the recovery on track and our GDP forecast remains unchanged from May at 8.5% this year and 6.2% in 2022.

Good growth in manufacturing

… shortages & strong capex

By June, the 3-month average for exports was 25% above the 2020 level and 29% above 2019, with the annual trade surplus running above the last three years, which supports GDP growth and the yuan. The PMI for June edged down to 51.3 in June from 52.0 in May due to the brief pandemic restrictions in southern China and supply shortages. China's value added for industry was up 18%ytd by May while fixed asset investment in manufacturing was up 20%ytd (ahead of total FAI growth of 15%). We expect manufacturing to lead GDP growth with a 10% lift this year followed by 6.5% in 2022.

Consumers hold back

After a steady recovery from mid-2020 there have been growing reports of weaker consumer growth from early Q2'21. Passenger vehicle sales have weakened with a 3-month average at June simply matching 2019 and down 8% from 2019. We expect consumer demand growth of 6.8% this year after an estimated 1.8% in 2020 followed by 6.5% in 2022, which follows 8.3%pa for the decade to 2019.

Inflation trends squeeze margins

…& a briefly weaker yuan

Factory inflation (PPI) eased to 8.8%yoy in June while consumer price growth (CPI) edged down to 1.1%. Unlike the US, where consumer inflation is rising, the big PPI/CPI gap in China puts margin pressure on firms facing big cost increases but with little ability to lift their prices. That may have inclined Beijing to allow the yuan to slip from a recent high of 6.37 on the US$ in late May to 6.48 on July 13. Beijing may be comfortable with that level for a while, but we expect the yuan to edge up on the US$ over the next year due to strong demand for the currency from exporters and inbound investors.

	2018	2019	2020	2021	2022
GDP, real growth, %	6.7	6.1	2.3	8.5	6.2
CPI, year average, %	2.1	2.9	2.5	2.4	2.1
PBOC 1-year loan, at Dec., %	4.35	4.25	4.25	4.50	4.75
USD/CNY, year average	6.61	6.91	6.90	6.47	6.34

Sources: 2018-20 data from CEIC and government agencies; 2021-22 forecasts by IMA Asia

Hong Kong

Political & policy issues to watch

Strict controls to halt COVID-19

… on track for herd immunity by Q4'21

After a brief rise to 10 new COVID-19 cases/day in April the rate fell to 3/day from May with all those being arrivals in quarantine. Authorities will impose local lockdowns (at the building or block level) to halt any outbreak. While Beijing administers HK as tightly as any other mainland city (see below), it has yet to allow quarantine-free travel into China for fully vaccinated HK residents (here). HK's full vaccination rate reached 23% on July 8 with 34% having at least one jab using either the Pfizer vaccine (distributed via China's Fosun Pharma) or Sinovac. Most adults should be fully vaccinated by Q4'21.

Tighter mainland control over HK

… ending opposition and earning US ire

A surprise cabinet reshuffle in June put security officials at the top of the government, led by new Chief Secretary John Lee, a career police officer promoted from Secretary of Security and now a leading prospect to replace Carrie Lam as Chief Executive next March. Later in July, around half of the 479 members of local District Councils may be disqualified under a new law designed to remove 'unpatriotic' office holders. Around 125 councillors have already resigned. None of this impresses the US, with the Biden administration warning US firms of the growing risks of operating in HK. Pending legislation that would make IT companies and their staff liable for "doxxing" on their platforms is one of a series of policy changes that may raise risk for foreign firms.

While IPOs on the stock market surge

HK's importance as a capital gateway to China is steadily increasing as Chinese firms find US listing less easy (as much due to Beijing's various concerns as to US regulators asking Chinese firms to meet US reporting standards) and China allows greater inbound and outbound capital flows. Some expats and foreign firms may be leaving HK but their place is being taken by other foreign and mainland firms involved in capital markets. KPMG reports that HK's 46 IPOs in H1'21 raised a record HK$213bn (US$27bn) led by China's technology and logistics firms.

Outlook for the market

Finance and trade lift HK in 2021

HK's growth rebounded by 7.9%yoy in Q1'21 after six straight quarterly falls, underscoring that the economy's troubles started in 2019 as tourism dropped (-14.2% in 2019) and exports fell (-4.1% in 2019). Despite the continued absence of tourists, 2021 is witnessing a return to growth thanks to a lift in trade and surging financial services. Our GDP forecast remains at 4.9% for 2021 and 4% in 2022 while the HK administration maintained its 2021 forecast of 3.5-5.5% in a May statement.

Record capital raising in 2021

… and a lift in sea and air cargo

The finance and insurance sector is by far HK's largest activity, accounting for 23% of GDP last year and with a growth rate more than double that of GDP over the last decade. Q1'21 saw growth of 7.3% after 3.7% in 2020 when it was one of only two activities to grow (the other being communications). With equity raisings doubling in H1'21 on last year (and debt raised up 17%yoy), the sector should see double digit growth in 2021, which will lift GDP. While HK's role as a port has diminished, the surge in global trade this year is providing a lift, with container throughput up 3%ytd by May after falling for eight of the last 10 years. By May, air cargo was up 13%ytd.

A muted consumer lift as the jobs market improves

The jobs market is in recovery, with the unemployment rate easing to 6% for May from a recent high of 6.8% in Feb'21 and a 3-month moving average for employment returning to growth for the first time since Jun'19. Yet with median household income falling 7.4% last year and by 7.8%yoy in Q1'21 the consumer demand recovery is muted with a 1.6%yoy lift in Q1'21 after a 9.9% fall in 2020. For full 2021, we expect 3.0% growth followed by 5-6% in 2022 after a decade average to 2019 of 4.3%pa.

Following the US Fed rate hikes

Consumer prices slipped 0.1%yoy in May. While a mild rise is likely into 2022, the HKMA's policy interest rate will follow the US Fed with an expected 50 basis point lift next year.

	2018	2019	2020	2021	2022
GDP, real growth, %	2.8	-1.7	-6.1	4.9	4.0
Composite CPI (14/15), year average, %	2.4	2.9	0.4	0.8	1.5
Discount window base rate, % year end	2.75	2.49	0.50	0.50	1.00
USD/HKD, year average	7.84	7.84	7.76	7.80	7.80

Sources: 2018-2020 from Censtat, HKMA, and CEIC; 2021-2022 forecasts by IMA Asia.

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Taiwan

Political & policy issues to watch

Restrictions halt a Delta variant outbreak

… while vaccine supply gradually improves

New COVID-19 cases driven by the Delta variant surged to 238/day in May from 3/day in April before easing to 39/day in the first 12 days of July as restrictions, testing, and tracing ramped up. Just 0.3% of the 24m population were fully vaccinated by July 12 with 15% having at least one shot. Taiwan has struggled to obtain vaccines, but supply should improve in Q3. On order are 10m doses from AstraZeneca and 5.1m doses from Moderna, with 4.8m doses expected from the UN's COVAX program. Donations are also on their way from the US and Japan while local IT giants TSMC and Foxconn have donated 10m doses of the BioNTech vaccine for delivery from Germany in September. Two local vaccines may be ready for use in Q4'21 and a deal may be reached with Moderna for local production as Taiwan builds its local vaccine capacity.

Manoeuvring with China

… but positions remain stable

The last six months has seen rising media commentary about the potential for military action by China to retake Taiwan at some future point. While China has increased air and naval activity around Taiwan, and the US has nudged relations with Taipei up a notch, both Beijing and Taipei have kept to their established positions. That includes President Xi Jinping's call on the July 1 anniversary of the Chinese Communist Party for "peaceful reunification" based on the one-China principle and the "1992 consensus".

Outlook for the market

Strong exports and capex lift 2021 and 2022

Given strong exports and investment in H1'21 we've raised this year's forecast to 6.5% (prior 5.0%) with 2022 now at 4.6% (prior 4.2%) after 3.1% last year and a decade average to 2019 of 3.6%pa. The government's budget office has lifted its forecast to 5.5% (prior 4.6%). Even without COVID-19, growth would have lifted from 2020 as TSMC started production of the latest leading-edge chips and lifted investment in the next generation. One question is whether COVID-19 led to stronger growth due to pulling demand forward or a step change in demand. The latter looks more likely, as there is a strong outlook for leading-edge chips as many industries and activities digitalise. By contrast, some consumer IT products may face a slump as workers return to offices.

Leading-edge chips drive up exports

… with strong capex in new capacity

By June, a 3-month average for export earnings had climbed 26% above the 2020 level and 33% above the 2019 level as Taiwan benefited from surging global demand for electronics. The annual trade surplus reached a record US$69bn in June, pushing up GDP growth and supporting the NT$. Strong exports lifted a 3-month average for manufacturing (IPI) to 12% above the 2020 average and 20% above 2019. Demand looks strong through 2022, with a surge in semiconductor capex expected to lift overall fixed investment by 8.4% this year and 5.7% in 2022 after growth of 5% last year and a decade average to 2019 of 4.6%pa. Manufacturing GDP is expected to lift by 10% this year and 6% in 2022 after 6.3% in 2020 and a decade average to 2019 of 6.4%pa.

A subdued consumer

The labour market has yet to benefit from strong export manufacturing, with unemployment lifting to 4.2% in May from 3.7% in April while employment fell 0.6%yoy. As a result, the consumer confidence index reading of 70.5 at June was 4% lower than the 2020 average and 14% down on 2019. Retail sales haven't been hurt (the 3-month average at May rising 4% above 2020 and 5% over 2019) although car sales at June were down 4% on an unusually strong 2020. We expect consumer demand growth of 2.8% this year and 2.6% in 2020 after a fall of 2.4% last year and a decade average to 2019 of 2.7%pa.

Factory inflation peaks while the NT$ edges up

By May, factory inflation (WPI manufacturing) had surged to 9.7%yoy from -10.2% in May last year before easing to 8.9% for June. Most of this was due to the oil price. Consumer inflation was 2.2% in Q2'21 but should ease if oil prices don't jump. A 2-year rise for the NT$ on the US$ is likely to continue as strong exports lift demand for the NT$.

	2018	2019	2020	2021	2022
GDP, real growth, %	2.8	3.0	3.1	6.5	4.6
CPI, year average, %	1.3	0.6	-0.2	1.7	1.8
Official discount rate, year-end, %	1.375	1.375	1.125	1.125	1.375
USD/TWD, year average	30.1	30.9	29.5	27.8	27.4

Sources: 2018-2020 government data and CEIC; 2021-2022 forecasts by IMA Asia.

The above forecast is by IMA Asia. Companies seeking local advice and forecasts should contact:

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South Korea

Political & policy issues to watch

Korea tackles a new COVID-19 wave

… with level 4 restrictions for greater Seoul

Mild activity restrictions over the last few months did little to halt a rise in new COVID-19 cases as the Delta variant established itself as the dominant strain. With new cases over 1,200/day for the four days to July 8, the government lifted activity restrictions for greater Seoul to the highest level for two weeks from July 12. The level 4 restrictions are much milder than the lockdowns in cities such as Singapore and Sydney, suggesting that Korea is underestimating Delta's threat. Vaccinations started in late February but have moved slowly, with 10.9% of the population fully vaccinated and 30.0% having at least one shot by July 8. The pace needs to lift if Korea is to get to its goal of 70% vaccinated by September and herd immunity by November this year.

More cash to help households

Korea plans to distribute US$220 per person to the bottom 80% of households by income as part of a 33tr won (US$29bn or 1.6% of GDP) fiscal package announced in early July. The cash handout element is 10tr won, while 12.6tr won will help regional economies, and the rest will go to support for small businesses, the vaccine rollout, and job training.

A change in government next March

President Moon Jae-in's single 5-year term ends next March. A slide in support for Moon and his left-of-center Democratic Party gives the right-wing People Power Party a good chance of winning the 2022 election under Lee Jun-seok, its new 36-year-old leader. Moon's botched housing policy and poor pandemic management will be key issues.

Outlook for the market

New restrictions will limit the gains from surging exports

Prior to the latest restrictions, we intended to lift our 2021 GDP forecast based on strong exports. Yet we must now anticipate weaker local demand in Q3'21, so our forecast remains at 4.6%. The economy gathered speed in Q2'21 after 1.9%yoy growth in Q1'21. Exports and imports surged 42%yoy and 37%yoy respectively in Q2, with the annual trade surplus rising to $52bn in June from $31bn a year earlier. That pushed foreign reserves to record levels and supported the won.

A broad lift for manufacturing

Thanks to exports, manufacturing grew 4.1%yoy in Q1'21 with the pace likely quickening in Q2. The June factory PMI rose to 53.9 from 53.7 in May while a 3-month average for the manufacturing IPI at May was 8.5% above the 2019 level. The export lift was across Korean industry from electronics to chemicals, ships, and cars. Manufacturing should grow 7.6% in 2021 and 4% in 2022 after averaging 3.9%pa in the decade to 2019.

A consumer recovery in H1'21 will cool in Q3'21

With 828,000 jobs created in the year to May, the consumer confidence index rose to 110.3 in June from 83.7 a year earlier. That helped lift retail sales (ex-cars) by 10.9%yoy. The July restrictions will hurt demand in Q3'21 but a mild recovery should emerge in Q4 as vaccination rates rise. That should deliver around 1% growth in consumer demand this year with 2.8% in 2022, after a 4.9% fall in 2020 and a decade average to 2019 of 2.4%pa.

Big capex in plant

… construction also lifts

After falling in 2018 and 2019, fixed investment grew 2.6% in 2020 thanks to a 6.8% rise in machinery & equipment capex. Such capex is set to grow 7-9% in 2021 and together with construction, that should lift total fixed investment by 5% this year and 4.7% in 2022. The value of construction orders surged 29.2%yoy in the year to May, while capital goods imports grew 23.8%yoy in April-May after rising 23%yoy in Q1'21 (US$ basis).

The won eases on the US$ as a rate hike is delayed

Given the hit to local demand from the latest virus outbreak, the Bank of Korea will be under no pressure to tighten its monetary policy well into 2022. The won stabilised in H1'21 after climbing 12% against the US$ over May-Dec 2020 but will likely retreat against a rising US$ into 2022 as the US Fed tightens monetary policy.

	2018	2019	2020	2021	2022
GDP growth, %	2.9	2.2	-0.9	4.6	3.6
CPI, year average, %	1.6	0.4	0.5	2.4	2.0
BOK Base rate, year-end, %	1.75	1.25	0.50	0.75	1.25
USD/KRW, year average	1,100	1,165	1,180	1,124	1,159

Sources: 2018-2020 government data (NSO, BOK) and CEIC; 2021-2022 forecasts by IMA Asia.

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Indonesia

Political & policy issues to watch

Indonesia faces a COVID-19 crisis

… as Delta drives a surge in new cases

… overwhelming hospitals

… with limited vaccines

Average daily new COVID-19 cases jumped to 29,940 for the first eight days of July from 11,886 for June and 4,946 for May. The hospital system is being overwhelmed, oxygen is running out, and emergency aid is being sought from overseas. With the Delta variant becoming dominant, the next few weeks will be critical with the risk of daily cases numbers surging over 50,000. Strict activity restrictions imposed on Java and Bali for two weeks from July 3 were extended to Sumatra, Kalimantan, Papua, and Lombok from July 12. Malls and restaurants have been closed and employees in non-essential sectors must work from home. By July 8, 5% of the 274m population were fully vaccinated with 13% having at least one dose. Vaccine supply is a major constraint with heavy reliance so far on China's Sinovac, although there is uncertainty about its efficacy with Delta. AstraZeneca and Sinopharm are also approved. Officials are scouring the world for vaccines with limited success. The government aims to inoculate a total of 182m people by early 2022. The German chamber of commerce provides useful updates here.

Pres. Widodo firmly in control until 2024

… plans for higher taxes in 2021

While Indonesia's next election isn't due until February 2024 manoeuvring is well underway as President Joko Widodo ("Jokowi") must step down at the end of his two 5-year terms. The lead candidates at this early stage are ex-general Prabowo Subianto (who ran and lost in 2014 and 2019), Central Java Governor Ganjar Pranowo, and Jakarta Governor Anies Baswedan. None of this appears to have hurt Jokowi's standing. Meanwhile, Finance Minister Sri Mulyani Indrawati tabled a major tax overhaul at the end of June aimed at lifting revenue via increasing the VAT rate to 12% (from 10%), removing exemptions, lifting the top personal income tax rate, and imposing a carbon tax. Jokowi has the backing of 70% of parliament so some of this package is likely to be legislated.

Outlook for the market

A good H1'21 recovery plus strong exports

… gets knocked back in H2'21 by COVID-21

In her mid-year outlook, Finance Minister Mulyani trimmed the 2021 GDP forecast to 3.7 to 4.5% (prior 4.5-5.3%) depending on the length of anti-virus restrictions. Our forecast slows to 3% this year (prior 4%) and 4.3% in 2022 (prior 4.6%) with downside risk given the virus surge in the last week. Strong exports will be the one positive in H2'21. By May, the 3-month trend export value was 28% above the 2019 level with hard and soft commodities plus manufactured goods all contributing. That helped the manufacturing PMI for May reach an all-time high of 55.3 before easing to 53.5 in June. Manufacturing GDP fell 1.4%yoy in Q1'21 but likely recovered to 2-3%yoy in Q2 with 3.1% expect for full 2021 and 4.7% in 2022 after a decade average to 2019 of 4.7%pa.

Consumers will pull back in H2'21

The challenge in H2'21 lies in domestic demand, both consumer and capex. Consumer confidence and sales of vehicles and motorcycles were recovering in H1'21 and would have finished 2021 matching or bettering 2019. Yet with country wide restrictions being imposed from July, we expect the consumer demand lift to slow to 1.3% this year after a 2.6% fall in 2020, with 3.5% next year following a decade average to 2019 of 5.1%.

Less money for capex

President Jokowi is keen to revive infrastructure, yet we expect public funds will be drained in Q3 and private investors disconcerted. We expect fixed investment to lift 3.4% this year after a 4.9% fall in 2020 with 5.7% in 2022 following a decade average to 2019 of 6.3%.

The rupiah's 1-year rise on the USD reverses

With inflation of 1.3%yoy in June and local demand weak through H2'21 there is no pressure on Bank Indonesia to lift its policy rate from the current record low of 3.50%. Along with the new virus wave that will see less support for the rupiah, which rose on a weaker USD for a year to this March before starting to slip as the USD recovered.

	2018	2019	2020	2021	2022
GDP, real growth, %	5.2	5.0	-2.1	3.0	4.3
CPI, year average, (2012=100), %	3.2	2.8	2.0	1.7	3.5
Central bank rate (7-day RR) at Dec %	6.00	5.00	3.75	3.50	4.00
USD/IDR, year average	14,238	14,148	14,582	14,698	15,153

Sources: 2018-2020 government data (BPS, BI) and CEIC; 2021-2022 forecasts by IMA Asia

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Malaysia

Political & policy issues to watch

Battling a bad COVID-19 wave

… a lockdown undermines activity

Malaysia announced a strict lockdown on June 1 to counter a major COVID-19 wave, which saw new cases reach 6,830/day in the first week of July from 1,443/day in March. Under the government's 4-stage Covid exit plan, the lockdown will not be lifted until daily new cases fall below 4,000. Economic activity and local mobility have plummeted, with a July 3 Google report showing retail & recreation 62% below pre-covid levels, public transport at -71% and workplaces at -37%. Immunisation started in late February with 10% of the population fully vaccinated and 21.9% with at least one dose by July 8. Registration rates are high in most states and the government aims to vaccinate 80% of the 33m population by early 2022. Q3'21 will be critical, with major vaccine deliveries scheduled.

Rising political tension

… as the government teeters

Political uncertainty has undermined government policy and business confidence for over a year. A crisis is approaching for PM Muhyiddin's government with UMNO, the biggest party in the ruling coalition, withdrawing its support, although it is divided on this move. Hoping to retain UMNO, Muhyiddin has promoted two UMNO MPs: Ismail Sabri Yaakob to Deputy PM and Hishammuddin Hussein to Senior Minister for Foreign Affairs. Whether this works will be tested by a confidence vote when parliament reopens on July 26. If the Muhyiddin government falls, another equally fragile government is likely to be concocted via backroom deals (here). Meanwhile, voters are tiring of the endless battles that have hamstrung government and community tension is rising (see the black flag movement).

A bit more stimulus

In late June, the government announced an RM150bn (US$36bn) fiscal stimulus, the 8th set of measures since the start of the pandemic. Key spending areas include cash handouts to individuals, wage subsidies and discounts for household electricity bills.

Outlook for the market

A good start to 2021

… is stopped by COVID-19

The fall in GDP eased to 0.5%yoy in Q1'21 from -5.6% in 2020, but the latest Covid wave will slow the recovery despite strong exports. The 12-month trade surplus soared to US$57bn in May from US$31bn a year earlier, as exports rose 36%ytd following a 2.6% fall in 2020. However, the manufacturing PMI fell to 39.9 in June from 51.3 in May as the latest lockdown curbed factory activity. We have cut our 2021 GDP forecast to 4.5% (prior 5%) and kept 2022 unchanged at 6.6%. There is downside risk to the forecast.

Manufacturing should lift after the lockdown

Prior to the June PMI, manufacturing was on track for a strong year, with the 3-month average for the industrial production index (IPI) 7% above the 2020 average and 4% above the 2019 average thanks to a surging electronics sector (up 22%ytd by April after 2.2% growth in 2020 and 3% in 2019). Despite covid damage in Q2 and Q3, we expect manufacturing GDP to lift 5.3% this year and 6.5% in 2020 after -2.6% in 2020.

But consumer demand will be weak until 2022

After a 4.3% fall in 2020, consumer demand faces a weak 3.2% lift in 2021 due to the latest lockdown. The recovery should be stronger in 2022, with a 6.3% lift likely if high vaccination levels allow normal activity to return. We'll need to watch household debt, which reached a record high 93.3% of GDP in Q4'20, and housing and stock prices.

A big hole for construction

Bad politics, the lockdown, and an oversupplied housing market weaken the construction outlook with a weak 4% rise likely this year followed by 7% in 2022 after a 19.4% drop in 2020 as the first lockdown closed down projects.

A weaker M$ on a rising US$

While CPI inflation rose to 4.5%yoy in May we don't expect Bank Negara to lift its policy rate until 2022 given weak local demand. That leaves a weaker M$ against the US$. We expect the M$ to average 4.38 on the US$ in 2022 from 4.17 currently.

	2018	2019	2020	2021	2022
GDP, real growth, %	4.8	4.4	-5.6	4.5	6.6
CPI, year average (2010=100), %	1.0	0.7	-1.1	3.6	3.5
Central bank overnight policy rate, Dec, %	3.25	3.00	1.75	1.75	2.25
USD/MYR, year average	4.03	4.14	4.20	4.21	4.38

Sources: 2018-2020 data from the government, Bank Negara, & CEIC; 2021-2022 forecasts by IMA Asia.

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Philippines

Political & policy issues to watch

A high risk of a new COVID-19 wave

… low & slow vaccination

New COVID-19 cases of 6,362/day in June were down from a peak 9,672/day in April but made no gain on May. Only a few cases of the Delta variant have been reported, but it is likely Delta is spreading. Local lockdowns have kept the policy stringency index at 70 (out of 100) while Google's July 12 mobility report shows workplaces down 20% and retail & recreation 25% below pre-covid levels while transit stations are down 39%. Only 3% of the 110m population was vaccinated by July 8 with 9% having at least one dose. Challenges with supply, distribution, and vaccine hesitancy suggest that the goal of vaccinating 70m adults by the end of 2021 is unattainable. Mid to late 2022 seems more likely.

May 2022 election

… hopefully leads to another good cabinet

Next May will see elections for the president, vice-president, half the senate, and the entire lower house of Congress. Duterte's single 6-year term as president will end but given his popularity there are calls for him to join the next administration, possibly as VP. The main contenders for the presidency are his daughter, Sara (27% support and currently the mayor of Davao City), Ferdinand "Bongbong" Marcos Jr (13%, son of the late dictator), and world boxing champion Senator Manny Pacquiao (11%). Populist campaigns and elite families have determined prior elections, but Duterte's hold on the media may be decisive in 2022 (opposition media have been closed). The key issue is the composition of the next cabinet. The current cabinet is well regarded for good management and steady reform. The Dutertes would likely push for a similar cabinet.

Outlook for the market

A good Q1 recovery is knocked over by COVID-19 from Q2'21

The latest COVID-19 wave has halted an emerging recovery with the fall in GDP easing to 6.4%yoy in Q1'21 from -9.6% in 2020. By April, the 3-month moving averages for imports and exports were close to the 2019 rates, suggesting a good rebound this year. Vehicle sales were on a strong uptrend, with the 3-month average reaching 25,735 units before fading to 20,202 in May as consumers lost confidence. We've cut our 2021 forecast to 4.6% (prior 5%) while 2022 drops to 4.7% (prior 5.8%) with downside risk for both years.

A brief jump for construction

… the funding challenge

Duterte is keen to get his "Build, Build, Build" infrastructure program back on track, which saw public infrastructure capex doubling YoY to P78.9bn (US$1.6bn) in May. Yet, a new virus wave may halt that lift. Construction GDP plunged 27.5% in 2020 with Q1'21's –24.2%yoy barely better. For full 2021, we expect a 5.6% lift followed by 4.5% in 2022 after a decade average to 2019 of 10.8%pa. The government's balance sheet and borrowing capacity will be weaker and so will project cash flows, which limits funding.

Consumers will pull back

… weakened balance sheets

Unemployment dropped from a 17.6% peak in April 2020 to 8.7% by April this year but could return to the mid-teens in the next quarter. The first year of COVID-19 saw the share of households with savings fall to 24% by Q4'20 from 38% a year earlier. Another wave in H2'21 will do more damage to household balance sheets thereby weakening consumer demand for 5-7 years. We expect a 2.4% lift in consumer demand this year followed by 3.0% in 2020 after a 7.9% drop in 2020 and a decade average to 2019 of 5.9%pa. Manufacturing, which is driven by consumers and construction, faces a similar weak outlook with 3-4% growth in 2021 and 2022 after a 9.8% fall in 2020.

Low inflation & a weaker peso but no downgrade yet

Weak demand means little inflation, even though oil and import prices are jumping. The central bank can avoid a rate hike until late 2022. That leaves the peso slipping on the US$ as the Fed tightens US monetary policy from later this year. There's no talk yet of a sovereign rating downgrade for the Philippines thanks to capable fiscal and monetary management, but that may be an issue by Q4'21 if a new COVID-19 wave soars.

	2018	2019	2020	2021	2022
GDP growth, %	6.3	6.1	-9.6	4.6	4.7
CPI, annual average, %	5.2	2.5	2.6	4.5	4.0
Central bank reverse rep. rate, year end	4.75	4.00	2.00	2.00	2.25
USD/PHP, annual average	52.7	51.8	49.6	49.0	50.9

Sources: 2018-2020 data from BSP and CEIC; 2021-2022 forecasts by IMA Asia.

The above forecast is by IMA Asia. Companies seeking local advice and forecasts should contact:

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Singapore

Political & policy issues to watch

Planning for the post-covid "new normal"

Singapore has reduced new community cases of COVID-19 to around 10/day allowing it to ease social distancing restrictions on June 22 and again on July 12 as part of a 3-step plan to re-opening as vaccination rates lift. The next easing is expected by National Day (August 9), when two-thirds of residents should be inoculated. The goal is a gradual transition to a new normal where Covid-19 will be managed like other endemic diseases. Towards year end, travel restrictions should ease with countries that have similarly high levels of vaccination. That won't include any of Singapore's ASEAN neighbours, but it will cover the US, EU, and some others. Singapore's vaccination rollout is well ahead of its neighbours, with 39.8% fully vaccinated and 68.3% receiving one dose by July 9.

… but big events remain on hold

While Singapore is ahead of most countries in planning for a "new normal" it is still bound by global COVID-19 concerns. A lift in new virus cases in May and June saw plans for a travel bubble with HK shelved and events like the Shangri-La Dialogue (June), the World Economic Forum (August), and the Formula One Grand Prix (October) cancelled.

Expats have left

… but more will come back

There is also discussion about the departure of foreign workers, whether from factories, services, or offices. In the year to April, some 21,600 employment pass holders left as executives and their families rebalanced their priorities and companies restructured (in 2020 there were 177,000 EP holders). The fall should reverse in 2022 as Singapore's safety as a hub for regional business stands out. There is community pressure to cut the number of foreigners, but a pool of foreign talent is integral to the national growth plan.

Outlook for the market

Surging exports & a local demand recovery

GDP grew 1.3%yoy in Q1'21 as strong exports offset a 4.6%yoy drop in domestic demand. From Q2'21 onwards, local demand should revive, lifting GDP growth to 5.6% in 2021 and 5% in 2022 from -5.4% in 2020 and 5%pa for the decade to 2019. The government has kept its 2021 forecast at 4-6%.

A broad lift in manufacturing

By May, a 3-month average for domestic non-oil exports was 17% above the 2020 average and 21% above 2019, with the annual trade surplus reaching a record US$52bn. That helped manufacturing lift by 10.7%yoy in Q1'21 after 7.3% growth in 2020. Last year's growth was driven by the biomedical sector, which surged 24% on the IPI measure before falling by 1.5%ytd by May 2021. This year, the lead has been taken by electronics (up 25%ytd by May after 13% in 2020) and precision engineering (up 26%ytd from 10% in 2020). We expect manufacturing GDP to grow 8.3% in 2021 and 5% in 2022.

Tourists are missing

… but locals are starting to spend

By May, a 3-month average for retail sales (ex-cars) was up 6.5% on the 2020 average but down 10% on 2019, mostly due to missing tourists. While arrivals won't return to 2019's 19m for five or more years, we think 2022 should see a lift to 2-4m from an annual rate of 0.2m at June 2021 (Singapore's plans are here). Local consumer demand should also lift on an improving jobs market, rising home prices (up 7.3%yoy in Q2'21), and cashed-up households (deposits up 6.2% in Q1'21). We expect consumer demand growth of 5% in 2021 and 4% in 2022 after 3.7%pa for the decade to 2019.

Business and public works to lift capex growth

Net investment commitments in manufacturing and services grew 13.1% in 2020 and 39.6% in 2019. Implementation of these commitments and public works such as the Jurong East Integrated Transport Hub, the Jurong Region Line, and the Cross Island Line, should result in capex growth of 3.7% in 2021 and 4.8% in 2022 after last year's 13.7% slump.

Oil lifts inflation while the SGD eases

Factory inflation (PPI) surged above 9%yoy in April and stayed there in May mostly due to higher oil prices (excluding oil, the PPI rise was a moderate 2.9%). Consumer inflation jumped to 2.4%yoy in May from 0.8% in Q1'21 with oil again the culprit (petrol rose 21%). As the inflation push is narrowly based (oil), the MAS is unlikely to move from its current monetary settings, which suggests a weaker SGD on a rising USD into 2022.

	2018	2019	2020	2021	2022
GDP, real growth, %	3.5	1.3	-5.4	5.6	5.0
CPI, year average, %	0.4	0.6	-0.2	2.0	2.4
3-month interbank interest rate, Dec, %	1.89	1.77	0.41	0.76	1.40
USD/SGD, year average	1.35	1.36	1.38	1.32	1.36

Sources: 2018-2020 data from government, MAS and CEIC; forecasts for 2021-2022 by IMA Asia

Thailand

Political & policy issues to watch

Rising COVID-19 risk

… due to poor management

… and slow vaccination

Thailand is battling its 3rd COVID-19 wave, which lifted new cases from 91/day in March to 2,800/day in June, with the more infectious Delta strain appearing. Bangkok and 10 provinces started a one-month lockdown on June 28, including the confinement of workers in thousands of constructions camps (on July 4, some essential projects were allowed to re-open). The abrupt lockdown likely backfired, with thousands of workers fleeing the camps and taking COVID-19 to their home provinces. Meanwhile, vaccination is moving slowly with just 5% of the 68m population fully vaccinated by July 8 with at least 13% with one dose. Despite PM Prayuth promising in mid-June to re-open Thailand within 120 days, Thailand more likely faces a rising virus wave with more restrictions.

An unpopular military-run government

… which is unlikely to be toppled

Bungling the vaccine rollout has led to rising criticism of PM Prayuth as the head of a military-backed government comprised of nine parties and nine independent MPs. He can ignore his critics and hold his wobbly coalition together thanks to powers granted under an emergency decree, which has been extended 12 times (now to July 28). While parliament's 4-year term runs to March 2023, Prayuth may call a snap election in H1'22 in the hope that a good win would bolster his rule once emergency powers and COVID-19 come to an end. Extra stimulus, mostly as cash handouts to households, will inject 473bn baht (US$15bn) into the economy in H2'21 setting the stage for a quick election campaign. Yet any election is likely to be a hollow affair, with opponents jailed. The only likely change in 2022 would be if the military and the elite decide to back another military leader.

Outlook for the market

A good start to 2021

… knocked over by COVID-19 from May

GDP fell 2.5%yoy in Q1'21. The fall masked a local recovery, as domestic demand (including strong restocking) grew 4.1%yoy. The GDP fall came about as imports jumped on the local demand recovery while exports remained weak, and the weaker net trade outcome pushed GDP down. So, the Thai outlook comes down to two questions: will the local demand recovery continue, and will an export recovery emerge to lift GDP growth rather than subtracting? Trade account results for April-May were positive on both points, as exports jumped 26%yoy (after 2% growth in Q1'21) while imports surged 45%yoy (after 9.4% in Q1). In our March forecast update, we felt a local demand recovery and better exports would lead to 4.3% growth in 2021. But by May we had cut 2021 growth to 2.4% as virus cases surged. We can see no reason to change that forecast.

Manufacturing & construction face delayed upturns

The June PMI shows a second straight month of manufacturing contraction at 49.5 from 47.8 in May as covid issues hurt production (a score below 50 is a contraction). Covid-related disruption is likely into Q3'21 before easing in Q4. That leaves Thailand with a mild 4.6% manufacturing lift in 2021 after a 5.7% drop in 2020 with 3.5% estimated for 2022 compared to a decade average to 2019 of 2.5%pa. Construction faces similar challenges so a 12.7%yoy surge in Q1'21 will likely give way to 5.6% for full 2021 following a 2.3% lift in 2020. Growth of 4% is expected in 2022 after a decade average to 2019 of 3.5%pa.

Weak consumer spending

Consumer demand fell 0.5%yoy in Q1'21 after a 1% drop in 2020. Households started spending in early 2021 with help from government handouts. Consumer goods imports jumped 31.2%yoy for April-May after a 9.5% lift in Q1'21 and an 8.4% drop in 2020. But the May consumer confidence index was the lowest since data started in October 1998. At most, we expect a mild lift in consumer demand to 1.9% growth in 2021 and followed by 3.3% in 2022, in line with the decade average to 2019 of 3.3%pa.

A weaker baht & a bit more inflation

13 months of deflation have ended with the CPI rising 3.4%yoy in April and 2.4%yoy in May. But given weak demand, the BOT is unlikely to lift its policy interest rate this year. That should leave the baht slipping on a rising US$.

	2018	2019	2020	2021	2022
GDP, real growth, %	4.1	2.3	-6.1	2.4	3.8
CPI (2015 index), year average, %	1.1	0.7	-0.8	2.0	2.8
Central bank, policy rate, year-end, %	1.75	1.25	0.50	0.50	1.00
USD/THB, year average	32.3	31.0	31.3	31.5	32.5

Source: 2018-2020 data from BOT and CEIC; 2021-2022 forecasts by IMA Asia.

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Vietnam

Political & policy issues to watch

Battling a surge in COVID-19

… with few vaccines until late 2021

Vietnam's success in suppressing COVID-19 in 2020 has ended with new cases averaging 852/day in the first week of July (driven by the Delta variant) from 5/day in March. Strict social distancing rules from May 31 have disrupted activity with Google's mobility report showing retail & recreation 41% below pre-covid levels on July 7, transit stations down 47%, and workplaces down 16%. By July 8, only 0.3% of the 99m population was fully vaccinated and at least 3.9% with one dose. While 170m vaccine doses have been ordered, only 6m have arrived with the rest due in late 2021 or 2022. Trials are underway for a local vaccine (Nanocovax), which Hanoi hopes will be available by December.

A better credit rating outlook

Vietnam is the only country with a credit outlook upgrade by the three main bond rating agencies since the start of the pandemic. S&P was the latest to lift its credit outlook from Stable to Positive for a BB rating. That's still two notches below investment grade but it will reassure markets and investors. It should also encourage the government to lift its fiscal stimulus in H2'21, a step the IMF recommended in its excellent March country review.

Outlook for the market

After a strong start to 2021

… COVID-19 dampens growth in H2'21

GDP growth lifted to 6.6%yoy in Q2'21, which put H1'21 up 5.6%. Growth was led by manufacturing, with an 11.4%yoy rise in H1'21, with construction up 5.6%, and services growing 4%. Faster Q2 growth on the GDP measure contrasts with media reports of economic disruption from the latest covid wave, which was also reflected in the manufacturing PMI sliding to 44.1 in June from 53.1 in May due to falls in output, new orders, employment, and business confidence. Samsung Electronics and Foxconn reported plant closures in north Vietnam over a month ago, but shutdowns are now being reported in the south around HCM City. Last year's kick to growth from net exports is also fading, as imports jumped 36%yoy in H1'21 on the local demand recovery while exports grew a milder 28%. Given the factory disruption, we have cut out 2021 GDP growth forecast to 5.3% (prior 6.8%), while 2022 drops to 7% (prior 7.2%).

Milder growth for consumers

We have also cut our 2021 forecast for consumer demand growth to 4.5% (prior 6.2%). Retail sales growth slowed to 4.4%yoy in Q2'21 from 4.7%yoy in Q1'21 and 7.3%yoy in Q4'20 as activity restrictions came into force. Moreover, employment is falling, with 5.1m jobs lost from a pre-covid peak in Q4'19. For 2022, we expect consumer demand to recover to 6.5% growth, close to the 6.7%pa pace of 2010-19.

Plenty of capex for civil works

… despite delays in HCM due to a purge

Fixed investment growth slowed to 4.5% in 2020 from 9.3%pa for the five years to 2019. We expect growth of 6% this year and 9% in 2022 led by infrastructure, which should benefit from a new law on public-private partnerships (PPP). Major works currently underway include the North-South Expressway, National Highway 19 to connect the central highlands with the central coast, and the eastern belt road in the central highlands. Meanwhile projects in HCM have been delayed after Hanoi launched a major crackdown on corruption in the city (a great report by Asia Sentinel here). While the pandemic cut foreign direct investment (FDI) approvals by 25% in 2020, funds from earlier approvals are still flowing in, with implemented FDI up 6.8%yoy in H1'21.

The dong slips on a rising USD

CPI inflation rose to 2.7%yoy in Q2'21 from 0.3%yoy in Q1'21, but with a new wave of COVID-19 undermining demand, the central bank is unlikely to lift its policy rate until well into 2022. That will likely quicken the dong's fall on a rising USD to 2.3% in 2022 from 1.6% in 2021 and 0.7% in 2020.

	2018	2019	2020	2021	2022
GDP, real growth, %	7.1	7.0	2.9	5.3	7.0
CPI, year-average, % (2019=100)	3.5	2.8	3.2	2.6	5.0
Central bank refinancing rate, year-end, %	6.25	6.00	4.00	4.00	5.50
USD/VND, year average	22,602	23,051	23,208	23,581	24,136

Source: 2018-2020 data from the IMF and CEIC; 2021-2022 forecasts by IMA Asia

India

Political & policy issues to watch

The May surge in COVID-19 cases eases

… vaccination will jump in H2'21

India's average daily new virus cases surged to 290,648 in May from 12,665 in February before easing to 74,553 in June and 42,076/day in the first 11 days of July. As happens with a large virus pool, new variants are emerging although there is no sign that any are as dangerous as the Delta variant that appeared in last October. Strict local lockdowns led to sharp drops in the purchasing manager indices (PMIs) for June, with manufacturing at 48.1 from 50.8 in May (a score below 50 indicates a contraction) while services fell to 41.2 from 50.8 in May. By July 8, 5% of the 1.38bn population were fully vaccinated with at least 22% with one jab. From June 21, free vaccinations have been offered to all adults with the goal of inoculating the entire adult population of 940m by December. India is now racing to lift vaccine production, with output of 1.35bn doses expected from August to December. If all goes well, 70% of adults should be inoculated by year end.

A big cabinet reshuffle

… as Mr Modi aims to improve policy & win elections

On July 7, Prime Minister Narendra Modi carried out his biggest cabinet reshuffle since taking office in 2014, with 12 cabinet ministers resigning and 43 new ministers being sworn in, taking the total to 77 ministers from 52. The reshuffle indirectly acknowledged the criticism to the management of the pandemic (Health Minister, Harsh Vardhan resigned) but swept across an array of important ministries, including IT and communications, suggesting that Mr Modi wants to reboot reforms before the 2024 elections. He remains a front runner for a third 5-year term, and the policy foundation for that term should be laid in the next 18 months. The enlarged cabinet also makes room for defectors from the opposition Congress party and politicians who can help with the key Uttar Pradesh poll (Feb-Mar 2022).

Outlook for the market

Growth slumps from May

… better growth is likely in late 2021

In March, India was set for a strong recovery in 2021 with some forecasts going up to 12-13% growth. As new virus cases surged, the forecasts were cut. The recent fall in new cases and a likely surge in vaccinations over the next six months lay the ground for a better finish to 2021. Key issues to watch include whether another virus wave is avoided (at present that looks possible but there are risks to monitor), the monsoon's progress (mixed so far), and the gain from strong exports. The RBI's June report forecasts growth at 9.5% for FY22, though IMA India's expectation is more cautious, at 8.5%. For 2022-26, we peg growth at 6.3%pa, below the IMF's 6.7% as there are signs that COVID-19 has undermined household balance sheets, leading to slower long-term consumer growth.

While factories slowed in June

… exports have jumped

While the June manufacturing PMI slumped (see above), month average exports in the June quarter reached US$32bn, 19% above the monthly average for 2019 of $27bn. The lift appears to be across the board from commodities through textiles and clothing to auto parts and electronics. We expect strong exports to continue into 2022, lowering the trade deficit, which will nudge up GDP growth. Provided restrictions stop impeding factory activity by August, manufacturing should lift by 8-9% this year after a 10% fall in 2020, with growth of 6% in 2022 from a decade average to 2019 of 6.8%.

Consumers are retreating

… with weaker growth ahead

Last year, a good monsoon cushioned households during a lockdown that saw GDP fall 22%yoy in Q2'20. Agriculture, which supports half the population, grew 3.5%yoy in Q2'20 and finished 2020 up 4.6%. The monsoon started well this year but is now late in key rural areas. Households also appear weaker, with the 3-month average for all new vehicle sales at May 17% below the 2020 level and 38% below 2019 (2-wheeler sales were down about the same). We expect consumer demand to lift 6-7% this year after a 9.4% fall in 2020 with 6.2% in 2022 following a decade average to 2019 of 7.4%.

Moderate inflation and a weaker rupee in 2022

Manufacturing wholesales prices surged 10.8%yoy in May from 1.2% over 2020 in line with global trends. CPI inflation of 6.3% was in line with the last 12 months so the RBI is under little pressure to lift its policy rate from the current record low of 4%. The rupee has edged up on the USD since last April, helped by a strong stock market and portfolio inflows. A stronger USD is likely into 2022 with the rupee slipping 3-4% next year.

Fiscal year starting 1 April	2017-18	2018-19	2019-20	2020-21	2021-22
GDP mp (FY12 series), real growth, %	7.0	6.1	4.2	-7.3	8.5
Inflation - CPI, yr avg (FY12 series), %	3.6	3.4	4.5	6.2	5.0
RBI lending (repo) rate, yr-end, %	6.00	6.25	4.40	4.00	4.00
Rupee to US$1, RBI Ref Rate, yr-end	65.0	68.6	75.4	73.5	76.0

Sources: 2018-2020 data from the government (NCI, RBI) and CEIC. 2021-2022 are forecasts.

Australia

Political & policy issues to watch

COVID-19 puts Sydney into a new lockdown

After being largely virus free in H1'21 (12 cases/day being mostly overseas arrivals in quarantine), a Delta variant cluster emerged in Sydney in late June triggering an escalating lockdown for the city from June 26, which has been extended to July 16 (details here). Immunisation has been slow due to poor planning but should accelerate in Q3 as local production of AstraZeneca's vaccine lifts and more imports of the Pfizer vaccine are obtained (here). By July 8, 8.3% of the population were fully vaccinated and 26% had received at least one dose. Most adults should be fully vaccinated by the end of 2021.

Popular support for closed borders

Federal and state governments have provided copious amounts of financial support during past lockdowns with more on offer for Sydney's latest lockdown. That has bolstered growth and limited long-term damage. Despite some mistakes, there is strong popular support for lockdowns and border closures by state governments and for the federal government's tight restrictions on international travel. The next federal election is likely in Nov/Dec this year or March and then May 2022 (here). The latest polls suggest that PM Scott Morrison's right-wing Coalition government has an even chance of beating the opposition Labor Party.

Uncomfortable policies on climate & China

Morrison's government, which is backed by the Murdoch press, is a supporter of carbon-based energy and an opponent of China. Both policies are uncomfortable for local industry and have a long-term cost but play well enough with voters. In June, Morrison backed a proposed gas-fuelled power plant in NSW hoping to use this as a wedge issue with regional voters. The debate over climate policy is likely to be central to the next election.

Outlook for the market

Surging local demand

… as exports also jump

GDP rose 1.1%yoy in Q1'21 after three negative quarters. Indicators suggest that Q2 saw a strong rebound from the first fall in Q2 last year (-6.3%yoy). Jobs surged 8.1%yoy in May with employment now 130,000 above the pre-covid peak set last February (unemployment has dropped to 5.1% from a 7.4% peak of mid-2020). Exports have soared, with a 3-month average at May 37% above the 2020 average and 26% above the 2019 average (US$ basis). The retail story is also strong, with 3-month average sales at May 6% above the 2020 average and 13% above 2019 thanks to a wave of government money for households. While Sydney's new lockdown will have a cost, we've lifted our 2021 GDP forecast to 5.8% (prior 5%) while 2022 stays at 3.4% after a decade average to 2019 of 2.6%pa.

Labor shortages support strong consumers

The strong labour market cushioned households from the end of the JobKeeper wage subsidy in March. Job adds have soared with employers reporting worker shortages, especially in mining and agriculture. Aided by record high home and stock prices, consumer confidence remains high. We expect consumer demand to grow 6% in 2021 and 3% in 2022 after a 5.8% drop in 2020 and a decade average to 2019 of 2.5%pa.

Capex growth lifts well above prior weak trends

Housing has also gained from the massive stimulus, with the 3-month moving average for approvals at May soaring 47% above the 2020 average and 67% above 2019. The May annual rate of 144,827 units is a record for the series starting in June 1984. Meanwhile, the June NAB business survey shows capex intentions hitting a new record in May before easing in June as Sydney's new lockdown trimmed high levels of business confidence. We expect 5% growth in fixed investment in 2021 and 3.7% in 2022 after a 3% fall in 2020 and a decade average to 2019 of 1.4%pa.

A dovish RBA weakens the A$

Despite surging home prices (13.5%yoy in June), the RBA will keep its policy interest rate at 0.1% until CPI inflation stabilises in a 2-3% target range from 1.1%yoy in Q1'21. The dovish RBA stance is weakening the A$ after it gained 25% on the US$ over May'21-Mar'20. If inflation remains weak, the A$ could retreat to 72 US cents (year-avg) next year from 75 US cents in 2021.

Year ending December 31	**2018**	**2019**	**2020**	**2021**	**2022**
GDP, real growth, %	2.8	1.9	-2.4	5.8	3.4
CPI, year average, %	1.9	1.6	0.9	1.8	2.8
RBA cash rate, year-end, %	1.50	0.75	0.01	0.01	0.01
USD/AUD, year average	1.34	1.44	1.45	1.33	1.38
AUD/USD, year average	0.75	0.70	0.69	0.75	0.72

Source: 2018-2020 data from the ABS, RBA and CEIC; 2021-2022 forecasts by IMA Asia.

New Zealand

Political & policy issues to watch

COVID-19 free

… with a slow but well-run vaccination program

A remote location and good policies have kept new COVID-19 cases in NZ down to an average 3/day (almost all in quarantine) since May 2020. That led to a swift recovery in local demand and it vaulted Auckland to the top of EIU's list of the world's most liveable cities. NZ is one of the few places in Asia where Google's mobility report shows activity above pre-pandemic levels, with retail & recreation up 10% and workplaces up 11%. However, a closed international border – except for parts of Australia - leaves the public transport score 26% below pre-covid levels. Vaccinations using Pfizer started in late February and, while slow, the program is better managed than in Australia. By July 6, 10% of the 5.1m population was fully vaccinated with at least 16% with one shot. NZ is on track for its goal of herd immunity by the end of this year.

Skyrocketing home prices

… mean more lending curbs and more building

COVID-19 slashed migrant inflow to 5,401 in Q1'21 from 90,250 in Q1'20. As a result, population growth has more than halved to 1%yoy from 2.2% a year earlier. That didn't stop home prices surging by 32%yoy in May, the fastest growth on record. The central bank (RBNZ) is under intense pressure to curb rising house prices given already high levels of unaffordability and homelessness. The rules on mortgages have been tightened and a debt-to-income limit is about to be added. Yet record low interest rates and severe housing shortages look set to continue driving up prices. The government is also under pressure to accelerate its home building program with a new NZ$3.8bn fund and extra support to first-home buyers.

Outlook for the market

A strong 2021 recovery

… led by local demand

… exports to join from 2022

With COVID-19 quickly tamed, GDP growth climbed to 3.6%yoy Q1'21 from 2% in H2'20 and a 4.5% fall in H1'20. The Q1 upturn was driven by a 7.3%yoy surge in domestic demand that included strong inventory building, which offset weak exports. The recovery ran into Q2'21 with imports surging 52.8%yoy for April-May (US$ basis), much faster than a 25% rise in exports (which included record high prices for NZ commodities). The surge in imports pushed the trade account into a small deficit by May from a recent peak surplus of US$2bn last November. Domestic activity should remain the main driver of growth in H2'21 before an expected lift in external demand in 2022. This should deliver GDP growth of 4.5% in 2021 and 3.7% next year.

Plentiful jobs lift consumer demand

Private consumption was up 7.3%yoy in Q1'21 from 0.8%yoy growth in H2'20. Strong demand growth likely continued through Q2 as the Westpac consumer confidence index hit a post-covid high of 107.1 in Q2'21 from 97.2 a year earlier. Improved confidence reflects a strong jobs market (SEEK job ads surged 193%yoy in May and 355% in April), along with buoyant housing and stock markets. We expect consumer demand to grow 5.5% in 2021 and 3.5% in 2022 following a 2% drop in 2020 and growth of 3.9%pa over 2010-19.

Capex rising with home building and business investment

A 19.3%yoy surge in construction helped lift fixed investment 8.2%yoy in Q1'21 after a 1.8%yoy fall in H2'20. Home building and business investment will power capex activity this year and next. The value of residential approvals rose 46.6%yoy in Apr-May and 20.2%yoy in Q1'21, while the ANZ business survey shows investment intentions rising to 25.5 in June from 18.9 in May. We expect capex to grow 7.5% in 2021 and 4% in 2022 after a 7.5% decline in 2020 and 5.3%pa growth in the decade to 2019.

A softer NZ$ in 2022

The NZ$ paused in H1'21 after a steep 21% climb on the US$ from Apr'20 to Feb'21. We expect it to ease to 68 US cents (year-avg) in 2022 from 71 US cents in 2021 as commodity prices ease and US monetary policy tightens ahead of any RBNZ move.

Calendar years	2018	2019	2020	2021	2022
GDP(Expenditure), real growth, %	4.3	3.0	-1.2	4.5	3.7
GDP(Production), real growth, %	3.4	2.4	-2.9	4.1	3.4
CPI, year average, %	1.6	1.6	1.7	1.9	2.5
Official cash rate, year-end, %	1.75	1.00	0.25	0.25	0.75
NZD/USD, year average	0.69	0.66	0.65	0.71	0.68
USD/NZD, year average	1.44	1.52	1.54	1.42	1.47
AUD/NZD, year average	1.08	1.05	1.07	1.01	1.08

Source: 2018-2020 data from Statistics NZ and NZRB; 2021-2022 forecasts by IMA Asia

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The Asia Pacific Executive Brief is produced by a unique network of in-country experts who run briefing and advisory programs that are designed to help senior executives monitor and anticipate critical business developments through timely insights and analysis. Further information on the markets and the peer group briefing programs is available from the Country Directors listed below.

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