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This report summarises the current business environment analysis and short-term forecasts of country directors running executive briefing programs across Asia. The Asia Pacific Executive Brief is owned and produced by International Market Assessment Asia Pty Ltd (IMA Asia).

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Insight beyond information

IMA's CEO & CMO Forum members

Business Lessons from a Successful Start-up: The Udaan Story

Sujeet Kumar,

Co-Founder, Udaan

15th April from 5:00 pm to 6:30 pm

Covid-19 has accelerated the digital-led evolution of the highly fragmented and unorganised Indian retail industry. But B2B e-commerce has remained to be a tough nut to crack. A large section of the trade has been resistant to digital transactions as a result of which, a number of start-ups in this space have folded or failed to scale up.

Global Outlook

Diverging markets in 2021

… and supply chain challenges

It is not trade wars or lockdowns that will mark 2021 but starkly different trends in growth in the second year of COVID-19. That is the message in the IMF's World Economic Outlook (WEO), and it is readily apparent to most companies in their 2021 planning, which will add to the complexity of global operations this year. Manufacturers face two extra challenges. Demand is surging in many sectors as stimulus measures, pent up demand, and supply chain glitches trigger acute shortages and surging prices for inputs. In our Q1 forecasting round, we argued this will get worse each quarter to the end of 2021. The second challenge – as always in a rebound – is aligning inventory and capex plans. As one forum member commented in our April sessions on capacity planning "…we've always talked with suppliers about next year; now we are talking about the next four years."

The US & China drive demand

… lifting export manufacturers in Asia

In April, the IMF lifted its WEO forecast for global growth in 2021 to 6% from 5.5% forecast in Jan'21. 2022 has been lifted to 4.4% (prior 4.2%) against a decade average to 2019 of 3.7%pa. The recovery is lopsided with two countries driving it, other countries riding up on their coattails, and some stalled or falling as they struggle with COVID-19. The IMF forecast for the US has been lifted to 6.4% for 2021 (5.1% in Jan'21) and 3.5% in 2020 (2.5% in Jan'21). China is the other driver, with the IMF now expecting 8.4% growth in 2021 (from 8.1% in Jan'21) and 5.6% in 2022 (unchanged). As this Asia Brief argues, all of Asia/Pac's export manufacturers will gain from this, as will the region's big commodity exporters. The IMF's forecast also points to a fast realignment of global market share, with China rising to 20% of global demand by 2026 from 16% in 2019 and 9% in 2010.

COVID-19 risk remains high

… delaying a return to normal

… another global virus wave is possible

Against this buoyant outlook for some stands a renewed COVID-19 surge in other countries caused by more dangerous virus variants (a risk flagged from the start of the pandemic but ignored by many politicians). Last September, we highlighted the "at risk" three in Asia (India, Indonesia, and the Philippines) due to their weak suppression strategies. This year, a second key metric has emerged, vaccination capacity. As Bloomberg's writers note "… 40% of the Covid-19 vaccines administered globally have gone to people in 27 wealthy nations that represent 11% of the global population. Countries making up the least-wealthy 11% have gotten just 1.6% of Covid-19 vaccines administered so far …". This is a global challenge, as there is no return to normality if a large portion of the world's population struggles with COVID-19 for several more years. Moreover, there is the risk of new variants being generated that may overcome current vaccines. We continue to recommend that companies keep a 20% scenario in planning for another global COVID-19 wave.

Watch our for more inflation

Ranking second to the demand puzzle in planning for 2021 is inflation and pricing uncertainty. The latest consumer inflation numbers remain near record lows and central banks, led by the US Fed, say they'll keep record low policy rates for several more years. Yet, in our forum sessions since February, the surge in supply chain prices has been a constant topic, with many manufacturers lifting prices on their finished goods by 10% or more. In this Asia Brief, you'll see higher inflation forecasts for 2021.

The US$ heads back up

Last year, we expected a slide in the US$, which started in May, to run for several years as global capital reweighted after years of success in the US. But with a surprisingly strong US recovery emerging in Q1'21, the US$ has swung back to appreciation.

IMA Asia's forecasts	2018	2019	2020	2021	2022
World – Real GDP growth, %	3.6	2.8	-3.3	6.0	4.4
- US	3.0	2.2	-3.5	5.4	4.8
- Euro area	1.9	1.3	-6.6	4.4	3.8
- Asia/Pacific (14)	4.7	4.2	-0.9	6.9	5.2
- NIEs (4)	2.9	1.8	-1.2	5.1	3.9
- Developing or "EM" Asia (7)	6.5	5.7	0.2	8.2	6.2
- ASEAN (6)	5.0	4.3	-4.2	5.2	5.2
World goods & services trade volume, % growth	3.9	0.9	-8.5	8.4	6.5
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	2.0	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	59	55
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	0.3	-4.8	3.0	2.2
China	6.7	6.1	2.3	8.5	6.2
Hong Kong	2.8	-1.2	-6.1	4.9	4.0
Taiwan	2.8	3.0	3.1	5.8	4.2
South Korea	2.9	2.0	-1.0	4.6	3.5
Indonesia	5.2	5.0	-2.1	4.5	4.6
Malaysia	4.8	4.3	-5.6	6.0	5.5
Philippines	6.3	6.0	-9.5	5.1	5.9
Singapore	3.5	1.3	-5.4	6.5	5.0
Thailand	4.1	2.3	-6.1	4.3	4.6
Vietnam	7.1	7.0	2.9	6.8	7.2
India (CY)	6.7	4.7	-7.0	9.3	7.2
Australia	2.8	1.9	-2.4	4.8	3.4
New Zealand	4.3	3.0	-1.2	4.2	3.6

Inflation, CPI year average, %	2018	2019	2020	2021	2022
Japan	1.0	0.5	0.0	0.8	1.3
China	2.1	2.9	2.5	2.5	5.0
Hong Kong (composite CPI)	2.4	2.9	0.4	1.5	3.0
Taiwan	1.3	0.6	-0.2	1.7	2.5
South Korea	1.6	0.4	0.5	2.5	3.5
Indonesia	3.2	2.8	2.0	3.5	5.5
Malaysia	1.0	0.7	-1.1	0.8	2.0
Philippines	5.2	2.5	2.6	4.5	3.8
Singapore	0.4	0.6	-0.2	1.2	1.8
Thailand	1.1	0.7	-0.8	1.5	2.8
Vietnam	3.5	2.8	3.2	1.7	5.5
India (CY CPI urban non-manual workers)	4.0	3.7	6.7	5.4	4.5
Australia	1.9	1.6	0.9	1.9	3.2
New Zealand	1.6	1.6	1.7	1.7	1.8

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	6.63	6.73
Hong Kong	7.84	7.84	7.76	7.80	7.80
Taiwan	30.1	30.9	29.5	28.0	27.6
South Korea	1,100	1,165	1,180	1,158	1,176
Indonesia	14,238	14,148	14,582	15,033	15,498
Malaysia	4.03	4.14	4.20	4.23	4.29
Philippines	52.7	51.8	49.6	50.3	53.0
Singapore	1.35	1.36	1.38	1.36	1.38
Thailand	32.3	31.0	31.3	32.4	33.1
Vietnam	22,602	23,051	23,208	23,602	24,084
India (FY)	68.4	70.4	74.1	75.0	78.5
Australia	1.34	1.44	1.45	1.37	1.42
New Zealand	1.44	1.52	1.54	1.49	1.52

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

Regional Outlook

Political & policy issues to watch

A hardening of political fault lines in Asia

… leading MNCs to restructure

… and keep their heads down

A key challenge for many MNCs will be responding to a hardening in Asia's main geopolitical fault line, which runs between China and the US. It will force some MNCs into uncomfortable strategies to secure their growth in China while others will need to amend their supply chains to lower geopolitical risk. It will help some countries that are alternative export manufacturing locations (like Vietnam) or can counterbalance over-dependence on the China market (potentially India). A pivotal shift in US-China relations occurred during the Trump administration as decade-long trends in both countries coalesced into a trade war. Significant changes in course are unlikely. The Biden administration's focus on coalition building will put pressure on countries to align with one side or the other. Companies will need strategies that lower the risk of becoming pawns in this contest.

Mitigating Taiwan risk

There have been many reports in the last month of a rise in geopolitical risk for Taiwan as China ramps up flights around the island and the US increases arms sales. As Taiwan is arguably the lynchpin for the global IT supply chain this has global ramifications across all industries, including services. While few expect a military confrontation this decade, China may try restricting some types of commerce. This may be the start of an era in which firms – Taiwanese and others – amend their expansion plans to mitigate this risk.

Myanmar's rise is over for now

A recent forum discussion on steps to secure Myanmar operations left a glum outlook that comes down to three scenarios. The main scenario (70%) is for a fast deterioration in the economy followed by a decade of stagnation, characterised by an obdurate but unified military supported by China, the generals ruling Thailand, and Russia with sanctions by the West achieving little apart from forcing Western firms to leave Myanmar. The main alternative (at 20%) is a split in the military that topples the coup leaders and returns the elected government to office. The third scenario (at 10%) is for the coup leaders to relinquish power in the face of popular protests and Western sanctions.

Outlook for the market

Our A/P forecast rises to 6.9% in 2021

… as a broad recovery in export manufacturing takes hold

Like the IMF, our forecasts have risen. For the Asia/Pac 14, we now expect 6.9% growth in 2021 (from 6% in Feb'21). Our forecast for the export-driven newly industrialised economies (NIEs, S Korea, Taiwan, HK, and Singapore) rises to 5.1% (prior 4%) while China goes to 8.5% this year (prior 8.2%). India is unchanged at 9.3% while the ASEAN-6 lift to 5.2% (prior 4.5%). Unlike 2020, when the export surge was narrowly based (PPE, digital products, and pharma), the 2021 export lift will be broad based, running from chemicals and metals through to cars and capital goods. That should drive the recoveries in Japan, South Korea, Singapore, Malaysia, and Thailand. HK and Singapore, both hubs for trade and business services, could see particularly fast recoveries. We expect the growth surge to run into H1'22 before a reversion to pre-pandemic trend growth.

The 3 "at risk" markets still need watching

While our forecast for the ASEAN-6 as a group goes up, the Philippines drops to 5.1% in 2021 (from 6.3% forecast in Feb'21) as new COVID-19 cases have surged in the last month. That follows a 9.5% plunge in 2020, the biggest drop in Asia, which suggests that a weak recovery this year will lead into several more years of weak growth as the country struggles with renewed lockdowns, weakened balance sheets, and slow vaccination. India also faces a renewed COVID-19 surge, and we may need to cut our 2021 forecast as new local lockdowns are imposed. Indonesia's new cases continue to trend down, but it is exposed to the type of resurgence that has hit the Philippines and India.

The challenge from producer price inflation

While the IMF expects the global lift in consumer price index (CPI) inflation to be modest (from 3.2% in 2020 to 3.5% in 2021), a much bigger rise in producer price index (PPI) inflation is underway, with producers paying 40-60%yoy more for raw materials and 10-30% more for components. Final prices from manufacturing into the distribution channels are likely to rise by 10%+ this year.

Asia's currencies give ground on a rising US$

In Feb'21 we changed our US$ forecast from falling on its trade weighted index through 2021 and 2022 to rising, as a change in direction had emerged in Jan'21 and rapid upgrade to US growth forecasts suggested a rising US$ would persist for 18-24 months. This month, we've amended all our A/P currency forecasts to show a drop on the US$ from 2021 to 2022 with the exception of Taiwan, where we expect strong growth and surging exports to force the NT$ up on a rising US$.

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Japan

Political & policy issues to watch

A 3rd COVID-19 wave eases

… while a slow vaccination drive gathers speed

PM Suga's preference for mild activity restrictions has left Japan struggling through a third COVID-19 wave. Average daily new cases spiked to 5,145 in January before dropping to 1,373/day in March as curbs were tightened in Tokyo and other areas. Japan has been slow in rolling out its vaccination program with only 1.1m of its 125m people vaccinated by April 9. Currently, it is reliant on limited imports of the Pfizer vaccine, although PM Suga has promised to have sufficient doses for all citizens by June, just ahead of the July 23 start of the Olympic Games. AstraZeneca and Moderna vaccines are awaiting approval. There is no local production, which puts the vaccination goal at risk.

Massive fiscal stimulus

Spending in the initial budget for FY2021/22 (starting April) rises 3.8% to Yen 106.6tr (US$1tr). The extra stimulus in FY2020/21 reached US$3tr (a massive 60% of GDP) and focused on cushioning the impact of COVID-19 on households and companies.

Despite poor polling, PM Suga looks secure

… as his opponents fail

… and he finds new supporters

Opinion poll support for PM Suga's cabinet plunged to 43% in late January from 74% when he took office last September. As he lacks a factional base in the ruling LDP that suggests he might be toppled before the party's leadership race in late September and a general election, which must be called by October 22. However, his two main challengers – Fumio Kishida and Shigeru Ishiba, both former ministers and prominent LDP leaders – have gained little traction. Meanwhile, Suga has promoted the younger duo of Taro Kono (who heads the COVID-19 campaign), and Shinjiro Koizumi (heading climate change) into prominent roles that buttress his position. Suga, Kono, and Koizumi are often seen in conversation with other MPs from Kanagawa Prefecture at the dormitory for lower house members, where Suga is staying at present rather than at the PM's residence.

Outlook for the market

Watch for a lift in manufacturing to lead GDP up

Japan's 2021 growth depends on a hand-off from the massive 2020 stimulus, which tails over into 2021, to an export-led recovery this year as demand from the US and China rises. Our GDP forecast is unchanged from the Q1 presentation and the February Asia Brief, although we've substantially weakened our yen outlook.

Strong China demand from 2020

… & rising US demand in 2021

After falling 13.3%ytd over Q1-Q3 2020 (US$ basis), exports recovered to 3.3%yoy growth in Q4'20 followed by a 5.4%yoy lift for Jan-Feb 2021 thanks to strong demand from China. We export exports to China to grow 10-15% growth while exports to the US lift into the same range as the US recovery accelerates. The result should be a broad industrial recovery from chemicals and materials to cars and consumer goods. Industrial production fell 10% in 2020 following a 3% fall in 2019. This year, we expect a 6% lift followed by 4% in 2022 after a decade average to 2019 of 1.5%pa.

A recovery for consumers from Q2'21

Government funding for corporate furlough schemes limited the lift in unemployment to a year average 2.8% in 2020 from 2.4% in 2019. Jan'21 saw a slight lift improvement in the jobs market as the ratio of job offers to applicants edged up to 1.1. We expect the labour market to continue improving as services and consumer gear up for the Olympic Games (locals only). Consumer demand fell 5.9% in 2020 with a soft 3.3% recovery expect this year followed by 2.2% in 2022 as COVID-19 finally wanes. That follows 0.6%pa for the decade to 2019. Growth for 2023-25 will return to around 0.5%pa.

Deflation should end

…while the yen slips on the US$

Feb'21 was the fifth month of falling consumer prices, down 0.4%yoy. Massive quantitative easing by the BOJ has boosted money supply growth to 9.7%yoy by Feb'21 from 3.1% a year earlier and producer prices look set to turn positive in March after falling for a year. That should lift CPI inflation to lift to 0.8% this year and 1.3% in 2022. As the BOJ will keep interest rates lower and QE longer than the US Fed, the yen has slid from a high of 103 in early Jan'21 to 110 in late Mar'21. The slide on a rising USD will continue into 2022.

	2018	2019	2020	2021	2022
GDP, real growth (2015p),	0.6	0.3	-4.8	3.0	2.2
CPI, year average, %	1.0	0.5	0.0	0.8	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

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

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China

Political & policy issues to watch

COVID-19 success

… vaccination to herd immunity by Q1'22

By the end of March 2020, China had beaten COVID-19 by effective suppression. One year later, China's vaccination campaign is on track to reach 65% of the population by the end of 2021 and a high level of herd immunity in early 2022. By April 5, 143m vaccinations had been given (9.9% of the population) with an average 4.8m vaccinations each day in the latest week. Four locally developed vaccines are in use while 100m doses of the BioNTech vaccine are held in China by local distributor Fosun but not yet approved (it is supplying them to HK and Macau).

Beijing's 2021 target

… deleveraging rather than growth

China entered 2021 tapping on the brake to slow its economy. Beijing's priority this year is deleveraging the economy, particularly in real estate development, local government, and fintech credit for consumers. As a result, the big property developers expect weaker growth this year and young consumers (particularly students) will find their access to credit via ecommerce platforms sharply reduced or ended. Strong underlying growth provides the opportunity to accelerate such growth-negative reforms.

Time to align with the wind in China

2021 is a big year for China with the 14th 5-year plan launched, the 100th anniversary of the Communist Party in July, and President Xi Jinping laying the ground for an exceptional third 5-year term in late 2022. Domestic and foreign policy objectives are locked in place as Beijing trumpets a "rising China" message that is very popular with citizens. All companies need to align with the wind and foreign governments face more lectures.

Outlook for the market

Growth of 8-9% in 2021

… as services growth takes off

While Beijing's 2021 growth target is "about 6%" and deleveraging policies have priority, the risk is on the upside. Demand recovered steadily in H2'20 and appears to have surged in Q1'21. With COVID-19 suppressed, vaccination accelerating, and strong demand from the US, analysts such as UBS are forecasting 9% growth this year. The March PMI suggests that manufacturing cooled last month, but we think this is temporary (see below). Meanwhile, the services sector PMIs accelerated in March with scores of 54.3 (Caixin, prior month 51.5) and 55.2 (NBS, prior month 50.8) as companies hired more people and lifted their prices. We've raised our 2021 GDP forecast to 8.5% (8.2%, Feb'21) with 2022 at 6.2% (unchanged). In April, the IMF lifted its 2021 forecast to 8.4% (8.1% in Jan'21) with 5.6% for 2022 (unchanged).

Manufacturing faces softer local demand

… but surging exports

The 50.6 March PMI for manufacturing from Caixin/IHS was still in expansion territory but was the lowest score in 11 months. Respondents to the survey reported slightly softer local demand, rising export demand, and surging prices. Exports for Jan-Feb measured against the same two months in 2019 (not 2020) were up 33% with shipments to the US up 36%. We expect full year exports to rise 18% in 2021 and 12% in 2022 after 3.6% growth in 2020 and a decade average to 2019 of 8.1%pa. That will help offset softer local demand and should lift manufacturing by 10.6% this year and 6% in 2020 after 2.3% in 2020.

A steady lift in consumer demand

Retail sales by Feb'21 unsurprisingly jumped 34%ytd although the yuan data suggests a modest rise of 5.5% on Jan-Feb 2019. We expect the pace to lift as the employment market is tightening, wage growth will rise, and policies will encourage consumption (but not with debt). We expect 8% consumer demand growth this year and 6.5% in 2022 after an estimated 1.8% in 2020 and an average 8.3%pa for the decade to 2019.

Watch out for more inflation

… our yuan outlook switches to a mild fall on a rising US$

Watch for a quick rise in inflation through Q2'21, an issue discussed in our February Tracker call with China forum members. While the consumer price index (CPI) was up just 0.4%yoy in March, the producer price index (PPI) jumped by 4.4%yoy as fast rising prices for commodities, materials, and components pushed up prices on goods leaving factories. We expect PPI inflation to average 5.9% this year from -1.8% in 2020 while CPI inflation averages 2.5%, which is up from 0.1%yoy in Q4'20 but in line with the average for 2020. The yuan has joined other Asian currencies in easing on a rising US$. This reflects global capital buying into a US upturn and Beijing easing restrictions on capital outflows. We've changed our forecast from mild yuan appreciation to mild depreciation on the US$.

	2018	2019	2020	2021	2022
GDP, real growth, %	6.6	6.1	2.3	8.5	6.2
CPI, year average, %	2.1	2.9	2.5	2.5	5.0
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	6.63	6.73

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

Hong Kong

Political & policy issues to watch

COVID-19 cases fall & restrictions ease

New cases of COVID-19 fell to 10-20 a day in March allowing activity restrictions to be eased on April 1. Business meetings are capped at 20 people and schools can run at two-thirds capacity after Easter. By March 31, 505,099 people in the 7.5m population had been vaccinated at least once using the two vaccines currently approved, Sinovac and Pfizer.

Beijing imposes direct control

… ending HK's limited democracy

Beijing is ending limited democracy in HK, with all facets of the political system to be controlled by China. The courts, for the moment, remain independent. The city's Election Committee will expand from 1,200 to 1,500 members chosen from government-appointed and Beijing-aligned organisations. The committee selects the Chief Executive and 40 members in the Legislative Council (LegCo). The council increases to 90 seats (from 70) while directly elected seats fall to 20 from 35. The Election Committee chair, probably former Chief Executive CY Leung, will rank above Chief Executive Carrie Lam and may become a new power centre. All candidates for LegCo's December election will be vetted by the government, which suggests that even moderate democrats will be blocked.

The risk of an exodus of talent

The new system ends the "one country, two systems" formula that China agreed with the UK would run to 2047. From Beijing's perspective the change ends the democratic drift in HK politics and halts disruptive public protests. Judicial independence remains as that is essential to HK's role as a hub for global finance, which is valuable to China. The downside is that many Hongkongers may chose to leave in the next few years.

Outlook for the market

A global upturn will lift HK in 2021

As a global trade and services hub, HK should see a good recovery in 2021 as global demand rises. The missing piece will be tourism, which contributed 10.3% to GDP in 2019 according to the WTTC. Our forecast of 4.9% GDP growth this year is unchanged while 2022 has been trimmed to 4% (4.7% in Feb'21). In April, the IMF updated its forecast to 4.3% for 2021 (from 3.7% forecast Oct'20) and 3.8% in 2022 (prior 3.4%).

… strong growth in trade from Q1'21

As COVID-19 halted China's economy in Feb'20 it is not surprising that HK's exports for the first two months of 2022 jumped 38%ytd after a 0.5% drop in 2020 while imports surged 28.4%ytd from -2.3% in full 2020 (all US$ basis). Benchmarked to the first two months of 2019, which is a better guide to true expansion, exports were up a strong 22.5% in 2021 while imports grew 17.5%. We expect exports to grow 12% this year and 8% in 2022 after average growth in the decade to 2019 of 5%pa.

The finance sector leads growth

HK's finance sector did well in Q1'21 with a quarterly record of HK$117bn (US$15bn) raised by IPOs across 13 deals, putting HK second to Nasdaq in terms of funds raised in Q1'21. The finance and insurance sector was the strongest part of the economy in 2020 with 3.9% real growth. It is now the biggest activity contributing to GDP with a 22% share. That will help offset the weak tourism outlook. Arrivals plunged to 3.6m in 2020 from 55.9m in 2019. We expect 6m arrivals in 2021 (mostly in Q4'21) and 10m in 2022. A return to the 65m arrivals of 2018 (78% from China), is unlikely in the next five years.

Consumers may remain cautious

Consumer demand fell 10.1% last year and a rebound of about that magnitude might be expected this year as COVID-19 fades. Yet unemployment rose to a new decade high of 6.8% in Feb'21 as the large tourism sector remains dormant and political changes may slow the recovery in consumer sentiment. We expect a 7.5% lift this year followed by 4.3% in 2022 after a decade average to 2019 of 4.3%pa.

Inflation lifts in 2021 & interest rates rise in 2022

Inflation edged up to 1.1% for the first two months of 2021 due to a jump in housing costs. Rising global prices, particularly from China, will push inflation higher over the next 18 months. A similar lift in inflation in the US will see the US Fed pull forward plans for a lift in its policy rate, which guides the HK policy rate, to 2022.

	2018	2019	2020	2021	2022
GDP, real growth, %	2.8	-1.2	-6.1	4.9	4.0
Composite CPI (14/15), year average, %	2.4	2.9	0.4	1.5	3.0
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

Quick COVID-19 suppression

… with little need for stimulus

… & a slow start to vaccination

Taiwan's effective suppression of COVID-19 continued through March with an average two new cases a day (mostly returning travellers). That has allowed businesses to operate as normal, although international travel has stopped. Quick COVID-19 suppression and surging exports meant that Taiwan needed little fiscal stimulus. Vaccination is moving slowly, however, with 316,200 doses arriving so far and 14,400 vaccinations by the end of March for a population of 24m. Contracts are in place for 10m AstraZeneca doses, 5.05m Moderna doses, and 4.76m other shots through the COVAX programme. We expect the vaccination campaign to be completed in 2021 despite the slow start.

Drought creates supply chain risk

A bigger challenge in 2021 may be running out of water, particularly for the electronics sector, which already faces supply chain challenges. Water rationing in parts of the island started on March 24 as the island faced its worst drought in 56 years.

President Tsai is well placed

President Tsai Ing-wen's government may need a reshuffle if Premier Su Tseng-chang is forced to follow the transport minister in resigning after a deadly train crash in early April. However, success in managing COVID-19 and a strong economy leaves her government well placed for the 2022 mid-term elections and the 2024 election when she steps down.

Geopolitical risk is moderate but needs watching

A hardening in China-US competition could hurt Taiwan if the island becomes a point of contention due to domestic politics in both super-powers (rising nationalism in China and anti-China sentiment in the US). So far, President Tsai has steered a safe course between both, and a military clash seems unlikely in the next few years even though China has increased military flights around Taiwan and the US has increased arms sales to Taiwan.

Outlook for the market

Surging growth meets supply constraints

The surge in demand for Taiwan's IT exports in H2'20 is expected to continue through 2021 while growth broadens to more industries thanks to a strong rise in consumer demand and capex. In our Q1 forecasts in mid-March, we lifted Taiwan's 2021 GDP forecast to 5.8% (from 5% Feb'21) and 2022 to 4.2% (prior 3.2%). The main challenge will be supply chain constraints, from materials (including water – see above) to skilled staff and shipping containers.

The PMI hits record territory

… as material prices soar

The PMI for March captures the exports manufacturing surge. The 62.7 score was the fifth straight month over 60 (where 50 is the divide between expansion and contraction). The sub-index covering the outlook for the next six months soared to 78.8, the highest score since the index started in July 2012. The sub-index on raw material prices broke through 90 for the first time on record to hit 91.6. We expect manufacturing GDP growth of 7.9% this year and 6% in 2022 from 6.3% for 2019 and a decade average to 2019 of 6.4%.

Strong capex on plant, less on houses

… + a strong lift for consumers

Capex on plant and equipment will likely rise 12-13% this year and 9% in 2022 from 4.6% in 2020 and a decade average to 2019 of 6.4% as factories scramble to lift capacity. Capex in construction is expected to growth 5.5% this year and 2% in 2022 from 5.9% in 2020 following more restrictions to curb excess investment in fast rising house prices. Consumers will gain from all this activity with unemployment expected to drop to a year average 3% this year and 2.8% in 2022 from 3.9% in 2020. That should see consumer demand growth lift to 2.3% in 2021 and 3.5% in 2022 from -2.4% in 2020.

A rise in inflation while the TWD tracks the USD

Seasonally adjusted inflation rose to 0.6%yoy in Feb'21, its strongest pace in a year. We expect surging growth to push the 2021 year-average rate to 1.7% with 2.5% possible in 2022. The TWD is one of the few currencies that will mostly follow the expected USD rise through 2022. Our 2021 year-average forecast of 28 is near the current USD rate.

	2018	**2019**	**2020**	**2021**	**2022**
GDP, real growth, %	2.8	3.0	3.1	5.8	4.2
CPI, year average, %	1.3	0.6	-0.2	1.7	2.5
Official discount rate, year-end, %	1.375	1.375	1.125	1.375	2.125
USD/TWD, year average	30.1	30.9	29.5	28.0	27.6

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

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South Korea

Political & policy issues to watch

More COVID-19 outbreaks and a slow start to vaccination

South Korea is struggling with a small wave of COVID-19 that emerged last November, with new cases averaging 439/day in March (little changed from Feb'21). New activity restrictions are possible in April if new cases rise from the current level after the arrival of COVID-19 variants from the UK, South Africa, and Brazil. Vaccination has started slowly, partly due to delays in delivery of vaccines. The government still aims to immunise 12m people by June and reach herd immunity for the 52m population by November. We don't expect this to hinder Korea's 2021 recovery, but it needs watching.

Extra stimulus to lift demand in 2021

A fifth extra budget since the pandemic started was announced in early March to support employment and small businesses and accelerate vaccination. That brings the extra stimulus this year to KRW 19.5tr (US$17bn or 1% of GDP).

Support for Pres. Moon wanes

Despite good management of COVID-19, President Park's Democratic Party is expected to lose the mayoral elections in Seoul and Busan, Korea's two biggest cities, in early April. The left-of-centre voters who support his party have been put off by corruption scandals and the soaring cost of housing in Seoul. The conservative People Power Party could win next year's presidential race simply due to voters tiring of the liberals.

Outlook for the market

Exports will lead a 2021 recovery

Korea's two big growth engines – consumer demand and exports – both fell last year but a broad recovery across the export manufacturing sector emerged in Q1'21 and that should feed into a strong consumer recovery as demand for labour rises. Assuming the current COVID-19 outbreak is suppressed, the main constraint is likely to be shortages of materials and skilled labour. At Q1 forecasting in mid-March, we raised our growth forecast to 4.6% for 2021 (prior 3.5%). We now lift 2022 to 3.5% (prior 3.1%).

A broad upturn in manufacturing

Exports rose 12.7%yoy in Q1'21 to reach US$147bn, which is more than any quarter since the start of 2019. The Q1'21 recovery was across all industries. Vessel exports grew 28.6%yoy after a 2% drop in 2020 while ship builders booked 10 times the orders in Q1'21 that they took in all of 2020. Wireless communication products (including mobile phones) rose 21.7%yoy in Q1'21 after a 6.4% drop in 2020, petrochemicals grew 26.6%yoy after -16.4% in 2020, and vehicles by value grew 31.5%yoy after -13.1% in 2020. We expect exports to grow by 11% this year and 8% next year after a 5.5% fall in 2020. That should lift manufacturing GDP by 6.5% this year and 4% in 2022 after a 1% fall in 2020.

… lifting capex

The rebound in export manufacturing should deliver real growth of 7-8%pa in capex for plant and equipment in 2021 and 2022. That follows 6.8% growth in 2020 as Korean firms invested in new plant even as exports fell. Capex for construction is expected to grow by 3-4%pa in 2021 and 2022 as the government accelerates home construction. Total capex should lift by around 5%pa this year and 2022 after 2.6% in 2020.

Consumers will also gain

The consumer sentiment index jumped to 100.5 in March, its first time above 100 since last January, while the seasonally adjusted unemployment rate fell to 4% in Feb'21 from 5.4% the prior month. After a 4.9% fall in 2020, we expect a 3.3% real lift in consumer demand in 2021 and 2.8% in 2022.

Mild inflation as the won slips on a rising USD

Better demand and rising commodity prices lifted CPI inflation to 1.1% in Q1'21. As demand exceeds supply into 2022 inflation is likely to rise to 2.5% this year and 3.5% in 2022 forcing the central bank to lift its policy rate in late 2021 or early 2022. The won has joined other currencies in sliding on a rising USD from early 2021.

	2018	**2019**	**2020**	**2021**	**2022**
GDP growth, %	2.9	2.0	-1.0	4.6	3.5
CPI, year average, %	1.6	0.4	0.5	2.5	3.5
BOK Base rate, year-end, %	1.75	1.25	0.50	0.75	2.25
USD/KRW, year average	1,100	1,165	1,180	1,158	1,176

Sources: 2018-2020 government data (NSO, BOK) 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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Indonesia

Political & policy issues to watch

Better COVID-19 suppression

… & aiming for herd immunity by March 2022

New COVID-19 cases peak at 10,810/day in Jan'21 before tighter activity curbs brought the rate down to 5,712/day in March. Variants from South Africa and Brazil have arrived, bringing the risk of a renewed surge. Vaccination started in Jan'21 with the aim to covering 181m people (66% of 272m population) by Mar'22. 8m people had at least one shot by the end of March. Supply of the AstraZeneca vaccine has been curtailed by India's export ban, so Indonesia will increase use of the Sinovac vaccine. Local level activity restrictions have been extended to 20 provinces and will run to April 19 with an extension possible. Google's April 4 mobility report shows retail and recreation down 12% on pre-pandemic levels, with -15% for transit stations, and -12% for workplaces.

Continued fiscal stimulus

… to lift loan growth & boost consumers

The government has stepped up fiscal support with the aim of lifting consumer demand and reversing a 2%yoy fall in loan growth in Jan'21. A government guarantee for bank loans has been broadened to include firms with a minimum 50-100 staff (previously 300), a maturity of three years (previously one), and a minimum size of Rph5bn (US$345,000; previously Rph10bn). Meanwhile, the March 1 tax break for buying a new car lifted from models up to 1,500cc to models up to 2,500cc from April 1. That is better aligned with middle class spending power. Taxes have also been cut on buying homes from Mar'21 to Aug'21 with the aim of clearing excess inventory.

Big political moves boost Pres. Widodo

The last month has seen several big political developments. President Widodo's chief of staff, Moeldoko led a group attempting to take over Partai Demokrat, but was blocked by the courts. PD is one of only two opposition parties. Parliament also decided that all local election must coincide with the 2024 presidential poll, which means that the many provincial and city leaders who retire as their terms end in 2022 and 2023 will be replaced by President Widodo's appointees. Both developments point to a consolidation of power under President Widodo, giving him the authority to push through policies and an ability to shape the next administration in 2024.

Outlook for the market

A mild 2021 recovery reliant of local demand

Forecasts for Indonesia have coalesced around 2021 being a weak recovery followed by a firmer recovery in 2022. At Q1 forecasting in mid-March, we nudged up our 2021 forecast to 4.5% (prior 3.8%) with 2022 raised to 4.6% (prior 4.4%). Meanwhile, the IMF's April forecast cuts 2021 to 4.3% (from 6.1% forecast last October) with 2022 lifted to 5.8% (prior 5.3%). Indonesia does little export manufacturing, so the 2021-22 global recovery is little help. The key is reviving local demand from consumers and businesses.

A weak start to 2021 for consumers

Consumers had a weak start to 2021, with retail sales falling 16.4%ytd by Feb'21 after an 11.9% drop in 2020 while light vehicle sales fell 41.5%ytd by Feb'21 after a 50.5% drop in 2020. The annual pace for light vehicle sales of 338,320 units in Feb'21 is back at the 2009 level. Consumer demand on the GDP measure fell 2.6% last year. This year, we expect a lift of 2.7% followed by 4.3% in 2022 after a decade average to 2019 of 5.1%pa.

A mild capex recovery

Fixed investment fell 4.9% last year. This year we expect a weak 3.6% lift strengthening to 4.9% in 2022 after a decade average to 2019 of 6.3%pa. Construction accounts for some 75% of all capex with the main challenge being funding public and private work.

Inflation should lift as the rupiah slips on the US$

Inflation was steady at 1.4%yoy in Mar'21. Despite weak demand it is likely to lift to a 3.5% average this year due to rising import prices, particularly for fuels. We expect Bank Indonesia to start lifting its policy rate in late 2021 as much to defend the rupiah as to curb inflation. The rupiah has joined most other Asian currencies in slipping on a rising USD from Jan'21. We expect a year average fall of 3%pa for 2021 and 2022.

	2018	2019	2020	2021	2022
GDP, real growth, %	5.2	5.0	-2.1	4.5	4.6
CPI, year average, (2012=100), %	3.2	2.8	2.0	3.5	5.5
Central bank rate (7-day RR) at Dec %	6.00	5.00	3.75	4.50	5.50
USD/IDR, year average	14,238	14,148	14,582	15,033	15,498

Sources: 2018-2020 government data (BPS, BI) 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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Malaysia

Political & policy issues to watch

Still struggling to curb COVID-19

… vaccination has started

Malaysia is grappling with its largest COVID-19 wave, which started in late October, peaked at average daily new cases of 3,289 in January, and eased to 1,443/day in March. A March 21, Google's mobility report showed retail & recreation 21% below pre-covid levels, public transport at -46%, and workplaces at -15%. Vaccination started in February using Pfizer's shot, with the Sputnik V, Sinovac, and AstraZeneca vaccines on order. By April, 0.6m people had been vaccinated out of a population of 33m. A target of 80% vaccinated for herd immunity has been set for Feb'22.

Political battles distract the government

With the parliament suspended from January, the minority government of PM Muhyiddin is governing via emergency decrees until August, supposedly to help counter COVID-19. Muhyiddin, whose BERSATU party is backed by UMNO and PAS, has promised an election after the emergency. That would likely lead to another unstable coalition, as UMNO and PRK, the two largest parties in parliament, are riven by internal disputes.

More fiscal stimulus in 2021

… helped by a rising oil price

Malaysia has announced an extra M$20bn (US$4.9bn) stimulus in late March, which will lift the 2021 budget deficit to 6% of GDP (the FY starts in January). This follows extra spending packages of M$15bn in January and M$55bn announced last year (with M$38bn for 2020 and the rest for 2021). Last year, the government lifted its statutory debt ceiling by five percentage points to 60% of GDP to cover extra spending and weaker revenues. A rising oil price will help, as the budget assumed a US$45-55/bbl price and Malaysian crude is currently at $64. Oil and gas can deliver 15-25% of budget revenues.

Outlook for the market

Exports & fiscal stimulus to lift GDP in 2021

Malaysia's export engine should kick into high gear this year thanks to strong demand and rising prices for both commodities and manufactured goods. However, the recovery in local demand will be milder despite a strong fiscal stimulus as the two big drivers of private sector demand face headwinds. Consumers (59% of demand) enter 2021 with a lot of debt and a preference for deleveraging. Meanwhile, fixed investment (21% of demand) is likely to be constrained by political uncertainty. Our 2021 GDP forecast of 6% is unchanged from Feb'21, while 2022 has been lifted to 5.5% (prior 5.1%).

A broad recovery for manufacturing

After a 2.6% fall in 2020, exports rose 13.9%yoy for Jan-Feb'21 (US$ basis). Commodities and energy exports fell by 12% in 2020 but should lift by 12-15% this year. The large electronics and electrical sector should see an export lift of 10-15% this year after 2.3% growth in 2020. Total exports should rise by 10-15% in 2021 and 8-10% next year. Manufacturing GDP fell 2.6% last year but with strong exports and a mild local recovery should growth 6-7% this year and 5-6% in 2022.

A mild recovery for consumers and capex

A rise in manufacturing should prompt an 8-10% lift in capex on plant and equipment in 2021 after falls of 8.6% last year and 5.5% in 2019. Capex in construction, which fell 18.3% in 2020, should also rise by 8-10% this year with a stronger recovery held back by an oversupplied housing market and slow progress on major projects. Meanwhile, consumer demand, which fell 4.3% in 2020, is likely to be limited to a 6.2% rise in 2021 and 5.5% in 2022, which is well below the 7.1%pa pace of 2010-19. Household debt reached a high 72% of GDP in Q2'20 prompting households to halve growth in borrowing to 4.3% in 2020 after growth of 8.7%pa over 2010-19.

A bit more inflation & a weaker M$

We expect a mild pickup in inflation up to 0.8% in 2021 and 2% in 2022 after a year of deflation (-1.1%) in 2020 as economic activity recovers. A broadly rising US$ should lower the M$ towards the weaker side of the narrow 3.90-4.45 range it has been trading since 2016. This should lead to (year-average) M$ declines of 0.6% in 2021 and 1.5% in 2022.

	2018	2019	2020	2021	2022
GDP, real growth, %	4.8	4.3	-5.6	6.0	5.5
CPI, year average (2010=100), %	1.0	0.7	-1.1	0.8	2.0
Central bank overnight policy rate, Dec, %	3.25	3.00	1.75	1.75	2.00
USD/MYR, year average	4.03	4.14	4.20	4.23	4.29

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

Struggling with COVID-19

… a slow vaccine rollout

The Philippines is struggling to contain COVID-19 with a jump in new cases to 9,000/day at the end of March from 1,812/day in February. Most of the cases are in Metro-Manila (13m people and 40% of GDP) where a new lockdown occurred over Easter. By March 24, 0.5m people had been vaccinated in a population of 110m. Mass vaccination is to start in May and the government says it will vaccinate 70m adults by the end of 2021, although we think vaccination to herd immunity levels will take two years.

RISK: a credit rating downgrade

To preserve its investment-grade credit rating, the government limited last year's fiscal stimulus to 4% of GDP, which put full year spending up 11.3%. The initial budget for 2021 includes a modest 4.7% lift in spending, although that could rise if a 420bn peso (US$8.7bn) pandemic relief bill, which includes tax cuts, is passed. Finance Minister Dominguez will need to be careful, as ratings agency Moody's has warned that higher spending, weaker revenues, and an unchecked pandemic could undermine fiscal stability. Its current Philippines' rating is Baa2/stable, two notches above junk.

The Dutertes prepare for 2022

… & a final drive on infrastructure, possibly

Politics will move into high gear as the May 2022 elections approach. President Duterte (76) must retire as he faces a single 6-year term limit. Yet he remains very popular, and his supporters are urging him to run for vice president. Front runner for the presidency remains his daughter, Sara Duterte-Carpio, who is currently governor of Davao (the president's prior role for 22 years). President Duterte is expected to push for a strong finish to his signature "Build, Build, Build" infrastructure program. Whether that is possible given financial constraints and COVID-19 will become apparent in the next few months.

Outlook for the market

COVID-19 delays a recovery

… and puts of foreign tourists until 2023

With rapid growth in COVID-19 cases in March, the opportunity for a V-shaped recovery in 2021 from last year's 9.5% plunge is fading. January saw bank lending drop 2%yoy, imports fall 14.9%yoy, and exports slide 5.2%yoy. Industrial production was hammered, with a 16.7%yoy fall in January after a 38.2%fall in 2020. Given the pandemic surge and a weak start to the year, we have trimmed our 2021 GDP growth forecast to 5.1% (from 6.3%), with 2022 now at 5.9% (from 6.6% in Feb'21). The 2-year average pace for 2020-21 is -2.2%pa and it is not until 2023 that the economy clearly exceeds its real value in 2019. A prolonged pandemic puts off any chance of a tourism recovery until 2023.

A limited upturn for consumers

Consumers have been hit by a weak jobs market and falling remittances from overseas workers (-1.7%yoy in Jan from -0.8% in 2020 and 4%pa over 2015-19). Unemployment peaked at 17.6% in April 2020 before recovering to 8.7% by October 2020. However, the January survey showed the rate still stuck at 8.7%, well above the 5.4%pa average for 2016-19. We expect a weak 2.1% lift in consumer spending this year after a 7.9% drop in 2020, followed by 4% in 2022. That follows a decade average to 2019 of 5.9%pa.

A weak recovery in capex for public works

Fixed investment surged by 11.8%pa over 2012-19 as Presidents Aquino and then Duterte focused on infrastructure. 2020 saw a 27.5% plunge and undoubtedly President Duterte would like this fully reversed before he steps down in May'22. But given more lockdowns and a rise in funding challenges, we think the recovery will be limited to 8-10% this year and 6-8% in 2022. This is a major loss in impetus for the Philippines.

Higher inflation and a weaker peso

Inflation and the currency will be challenges in 2021. A 7%yoy jump in food prices in February pushed consumer inflation up by 4.7%. The central bank hopes this will ebb soon, and no rate hike will be needed. However, we think rate hikes will be needed, as much to slow a fall in the peso as to curb inflation, which we think is heading higher.

	2018	2019	2020	2021	2022
GDP growth, %	6.3	6.0	-9.5	5.1	5.9
CPI, annual average, %	5.2	2.5	2.6	4.5	3.8
Central bank reverse rep. rate, year end	4.75	4.00	2.00	2.75	3.25
USD/PHP, annual average	52.7	51.8	49.6	50.3	53.0

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

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Singapore

Political & policy issues to watch

COVID-safe and fully vaccinated by the end of 2021

… restrictions ease from April 5

With very little community transmission of COVID-19 (most of the new cases over the last six months have been travellers in quarantine), restrictions on office attendance will ease from April 5, allowing most firms to return to a semblance of normal operations. Singapore is also keen to establish travel bubbles with other covid-safe countries. However, finding partners who don't have renewed outbreaks is difficult (the latest news is here). Vaccination using the Pfizer and Moderna vaccines started in late December with the aim of fully vaccinating the entire 5.7m population by the end of this year.

Households & firms cushioned by fiscal support

Singapore delivered a big fiscal stimulus in FY2020/21 (ending March), with spending up 24.8% while revenue fell 13%. Households and businesses were comprehensively cushioned from the impact of activity restrictions and demand should quickly recover as restrictions ease and sentiment improves. An 8.8% lift in spending is planned for FY21/22.

Going green fast

… in bonds too

Singapore is stepping up plans to ban diesel-powered cars and taxis (but not trucks and buses) from 2025, five years earlier than previously scheduled. Aiming to encourage the use of electric vehicles (EV), 60,000 charging stations will be installed by 2030. Some S$19bn (US$14.2bn) in green projects, such as the Tuas Nexus integrated water and solid waste treatment facility, which will be financed by green bonds, which will help establish a S$ green bond market.

More curbs on home prices?

A lift in residential prices may lead to new cooling measures in the housing market for the first time since 2018. The lift in prices is despite falling rents and rising vacancies.

Outlook for the market

Global upswing to boost growth

Singapore's recovery is underway with the private sector PMI climbing to 54.9 in February from 52.9 in January on rising output, new orders, and business confidence. The recovery is driven by external demand, with non-oil domestic exports (NODX) jumping 12%yoy for the first two months of 2021 after 3.1% growth in 2020. We expect NODX growth, which reflects the large local manufacturing sector (22% of GDP), to grow 12% this year and 9% in 2022 after average growth of 2.8%pa for the decade to 2019. That should deliver GDP growth of 6.5% this year and 5% in 2022.

Consumers to lift spending

… as the jobs market improves

Employment took a hit from COVID-19 in 2020 with employment falling 4.8% (mostly in construction and manufacturing) even though the unemployment rate stayed in a 2.2-3.8% range through the year. Despite a weak jobs market average monthly earnings for households rose 1.4% in 2020 thanks to government wage subsidies and cash handouts. Last year's record 14.1% drop in consumer demand was mostly due to activity restrictions rather than financial constraints (savings in banks jumped 19.4% last year). The upswing exports and a restart of construction should revive job creation and lift consumer demand by 6.7% this year and 4% in 2022.

Industry and infrastructure to drive capex growth

A 13.2% rise in business investment commitments to S$17.3bn in 2020 was well above the long-term target of S$8-10bn a year. That bodes well for a capex recovery following a 13.7% fall in 2020. Together with increased spending on public works - such as the Jurong East Integrated Transport Hub, the Jurong Region Line, and the Cross Island Line - should lift fixed investment by 4.7% this year and 4% in 2022.

A softer S$ as inflation lifts

The strong global recovery is set to lift Singapore's inflation to 1.2% in 2021 and 1.8% in 2020 from -0.2% in 2020. We expect the S$ to ease on the US$ towards the middle of the 1.30-1.45 range it established since 2015, as the US$ gains against most world currencies.

	2018	2019	2020	2021	2022
GDP, real growth, %	3.5	1.3	-5.4	6.5	5.0
CPI, year average, %	0.4	0.6	-0.2	1.2	1.8
3-month interbank interest rate, Dec, %	1.89	1.77	0.41	0.90	1.70
USD/SGD, year average	1.35	1.36	1.38	1.36	1.38

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

Thailand

Political & policy issues to watch

Thailand races to curb COVID-19

… with mass vaccination from May

… targeting a small tourism restart in July

Thailand is scrambling to suppress the latest wave of COVID-19, which peaked at 402 new cases/day in January before slowing to 98/day in the first 26 days of March. Meanwhile, vaccination is being ramped up. 61m doses were initially ordered from AstraZeneca (with local production by Siam Biosciences) and 2m from Sinovac. Orders for another 5m have been placed with both, bringing the total to 73m, enough to cover 55% of the 67m population. J&J's vaccine has also just been approved. Vaccination is underway but a mass campaign won't start until May, when some 10m doses a month become available. The government says vaccination will be completed this year, but we think reaching 50% this year will be challenging with 75% reached in H1'22. Meanwhile, tourism authorities are pushing for 70% vaccination levels on tourist islands like Phuket to enable a July 1 re-opening for foreign tourists who can prove they are vaccinated.

2021 starts with more stimulus for consumers

While Thailand did well in suppressing COVID-19 in 2020 its economy was hit by a collapse in tourist arrivals to 6.7m last year from 40m in 2019. That tipped some 1.5m workers out of their jobs and was a major contributor to a 6.1% fall in GDP in 2020. A US$1.7bn stimulus was announced in Q4'20 as the new COVID-19 wave hit and a further $7bn in cash handouts to low-income workers was made in Q1'21. The handouts, worth baht 3,500/person/month, ran to March. They may be extended into Q2'21.

Stuck with bad politics

Street protests against the army-run government have died down as protest leaders have been jailed. A push to revise the latest constitution, drafted under military guidance, has also stalled. PM Prayut's military-backed government appears stable for now.

Outlook for the market

We expect export manufacturing to lift GDP in 2021

… but other don't

In our Q1 forecast we lifted Thailand's GDP growth for this year to 4.3% (prior 2.3%) just as several Thai institutions cut their forecasts. The Bank of Thailand (BOT) has cut its 2021 forecast to 3% (3.2% forecast last December) while the finance ministry's Fiscal Policy Office forecasts 2.8%. Both are worried about slow progress on vaccinations, weak local demand, and missing tourists. By contrast, we expect a recovery in export manufacturing driven by strong demand from China and the US. In our Thailand Outlook (March 2021), we argued that the recovery could run to 2025, as there is a need for factory capacity outside of China for labour cost, supply chain, and geopolitical reasons.

The prospect of a strong and broad export recovery

There's little sign yet of a strong lift in exports. After a 6% fall in 2020 (US$ basis) the first two months of 2021 saw a 2.6%yoy drop. We expect exports to lift by 9% this year and 7% in 2022 from a decade average to 2019 of 5.3%pa. In place of narrow global demand in 2020 (for IT goods, PPE, and pharma), this year should see broad demand for industrial and consumer goods. Manufacturing GDP fell 5.7% in 2020. This year we expect 5-6% growth followed by 4-5% in 2022 after a decade average to 2019 of 2.5%pa.

… lifting capex in plant

Manufacturers should lift fixed investment in plant and equipment by 7-8% this year and 5% in 2022 after a 5.2% drop in 2020. Construction capex will be weak in housing but stronger in civil works. Total capex should lift by 5.5% this year after -4.8% in 2020.

A slower recovery for consumers

2020 saw retail sales fall 10.5% and personal vehicles sales plunge 31% as consumer demand fell 1%. We expect consumer demand to lift by 2.6% this year and 3.3% in 2022 after a decade average to 2019 of 3.9%pa.

Inflation returns & the baht slips on a rising USD

Consumer prices fell 1.2%yoy in Feb'21 after a 0.8% drop in 2020. The fall was mostly due to weaker energy prices (-7.5% in Feb), which will reverse soon, lifting inflation to 1.5% in 2021. The baht has joined other currencies in slipping on a rising USD from January.

	2018	2019	2020	2021	2022
GDP, real growth, %	4.1	2.3	-6.1	4.3	4.6
CPI (2015 index), year average, %	1.1	0.7	-0.8	1.5	2.8
Central bank, policy rate, year-end, %	1.75	1.25	0.50	0.75	1.25
USD/THB, year average	32.3	31.0	31.3	32.4	33.1

Source: 2018-2020 data from BOT 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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Vietnam

Political & policy issues to watch

Few COVID-19 cases

… & vaccination is underway

Vietnam remains a leader in suppressing the Covid-19 pandemic, with only 2,572 cases and 35 deaths among its 98m people. A recent mild pick up was quickly reversed with average cases falling to 6/day in March from 23/day in February. International borders remain closed to most visitors, but domestic mobility has improved. Vaccination started in early March with AstraZeneca vaccines. There are plans to develop a locally produced vaccine by Q3'21 and acquire shots from Pfizer, Moderna, J&J, and Sputnik V. As foreign vaccine deliveries have been delayed, we don't expect herd immunity until H1'22.

Little need for stimulus

… good fiscal policy may bring a ratings upgrade

With COVID-19 effectively suppressed from Feb-20 and strong exports, Vietnam has not needed a big stimulus. Government revenue fell 14.7% last year and spending dropped 3.5% (a mild stimulus). This year the plan is for fiscal consolidation with revenues expected to fall 11.2% and spending down 3.4%. The IMF's latest country report outlines the country's export-driven success and the strengthening of its banking system and build-up of foreign reserves. Moody's has affirmed its Ba3 credit rating for Vietnam's government debt and lifted its outlook to Positive from Negative.

Political stability and pro-market policies continue

Political stability and pro-market reforms are expected to continue after the unexpected reappointment of party head Nguyen Phu Trong (76) to a third 5-year term. Age and poor health may stop him serving the whole term, but more time was needed for the party to agree on a successor. Trong is also good at dealing with China, which is essential given the traditional tension between the two neighbours and the massive supply chain for export manufacturing that links them together.

Outlook for the market

Raising our growth forecast

… as exports accelerate

2021 has started well for Vietnam, with Q1'21 exports surging 22%yoy. Import growth was even stronger at 26.3%yoy reflecting as much strong local demand as the component demands of the export sector. GDP grew 4.5%yoy in Q1'21, as a strong 9.5%yoy rise in manufacturing was partly offset by slower growth in construction (at 5.2%) and services (3.3%). Vietnam's export-oriented economy is well placed to benefit from a swift rebound in global demand as the pandemic recedes. We have lifted our GDP growth forecast to 6.8% for 2021 and 7.2% for 2021 (from 6.3% and 6.8% prior).

Watch for a better jobs market

… which should lift consumers

Vietnam's job market has yet to reflect a recovery. Employment continued to slide in Q1'21, resulting in the loss of 5m jobs from a pre-covid peak in Q4'19. Average monthly earnings fell 0.5% in 2020 after averaging growth of 8.5%pa over 2015-19. That contributed to slip in retail sales growth to 5.2%yoy in Q1'21 from 7.3%yoy in Q4'20 and 4.4%yoy in Q3'20. A firmer job market should emerge in the next few months, and that should help lift consumer demand by 6% in 2021 and 6.5% in 2022 from 0.6% in 2020 and a decade average to 2019 of 6.7%pa.

A surge in FDI

… but a shortage of managers & skilled workers

We expect capex to grow 6.5% this year and 9% in 2022 after its growth eased to 4.5% in 2020 from a fast 9.3%pa expansion over 2015-19. Registered manufacturing foreign direct investment (FDI) surged 72.3%ytd by Feb'21 after a 44.6% drop in 2020, while realised FDI was up 2%ytd following a 2% decline in 2020. However, a desired FDI shift towards higher value-added activities could be held back by skill shortages. Capital intensive exports such as mobile phones & electrical products have decisively overtaken traditional exports such as garments & footwear, but companies find it increasingly difficult to hire managers and skilled workers. Chinese firms that have relocated production to Vietnam rely on a large contingent of commuting Chinese managers to run local operations.

A bit more inflation and a weaker dong

Rising inflation should lead to higher interest rates next year. While the dong has held onto a rising US$ over the last month more than most currencies a drop of 1-2% is likely over 2021 and 2022 as a surge in US growth pushes the US$ up.

	2018	2019	2020	2021	2022
GDP, real growth, %	7.1	7.0	2.9	6.8	7.2
CPI, year-average, % (2019=100)	3.5	2.8	3.2	1.7	5.5
Central bank refinancing rate, year-end, %	6.25	6.00	4.00	4.00	5.75
USD/VND, year average	22,602	23,051	23,208	23,602	24,084

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

India

Political & policy issues to watch

COVID-19 surges

… requiring more lockdowns

April is a critical month for India as it will either finish it with its recovery story intact or be weakened by a new wave of COVID-19. New cases have jumped from 15,837/day in January to above 150,000/day in April. Vaccination has started using two domestically made vaccines (one being AstraZeneca and the other indigenous) with some 3.5 million people a day receiving a shot and 7.6% of the 1.3bn population covered by the first week of April. Yet it is activity restrictions that must work in April if COVID-19 is to be contained.

India's funding challenge in 2021

… for the government

… and for industry

GDP plunged 24.4% in last year's June quarter as a national lockdown was imposed. To help a recovery, the government lifted spending by 28.4% in FY20/21 (to March) while revenue fell 7.7% and the fiscal deficit doubled. Thanks to good work by the Reserve Bank of India (RBI), a record Rs13.5tr (US$184bn or 7% of GDP) in borrowing – all local – went smoothly, with the 10-year bond yield finishing FY20/21 steady at 6.18%. Two challenges lie ahead. Borrowing in FY21/22 is put at a still high Rs12tr. That could crowd out private borrowers in a recovery and might trigger a downgrade to junk status for the government's bond. Second, banks have yet to reveal the damage done by a moratorium on loan repayments in 2020. They may have little capacity to fund a lift in growth in 2021.

Watch polls in Assam and West Bengal

… as the BJP's hold on India grows

Key elections are underway in four states and one union territory. Two polls are closely watched: Assam in the northeast, narrowly held by Narendra Modi's BJP, and West Bengal in the east, where Chief Minister Mamata Banerjee of the Trinamool Congress seeks a third term by stitching together an anti-BJP alliance. Wins in both for the BJP would confirm that it has pushed out of India's Hindu heartland into culturally distinctive regions with significant Muslim populations. Such victories may encourage Mr Modi to continue his reform push, including a firm stand against farmers protesting his agricultural reforms.

Outlook for the market

Optimism on a strong demand recovery

As demand has recovered, institutions have lifted their forecasts for FY22. Positive indicators to March included six months of strong passenger vehicle sales and four months of strong GST collections. As a result, the RBI has raised its GDP forecast to 10.5%, the World Bank lifted its to 10.1% (prior 5.5%), and the OECD lifted its to 12.6% (prior 7.9%). However, the key uncertainty is the June quarter when we expect a strong rebound from the -24.4% in the same quarter last year. Renewed lockdowns from late March could undermine that forecast.

… lifting manufacturing

The manufacturing PMI eased to a 7-month low of 55.4 in March, although that was still above the long-run average, thanks to firm orders and production gains. Manufacturing measured on the industrial production index recovered with 1.5%yoy growth in the December 2020 quarter after a 17.5%ytd fall in the previous one. This year, we expect growth of 10.5% followed by 7% in 2022, compared to a decade average of 3.7%pa.

… helped by a consumer lift from late 2020

Passenger car sales rebounded by 11.7%yoy in H2 of calendar 2020 followed by 14.5%yoy for the first two months of 2021 while 2-wheeler sales lifted by 6.4%yoy in H2'20 and then 8.4%yoy for Jan-Feb'21, pointing to a broad consumer recovery. We expect consumer demand growth of 10-12% this year and 5-6% in 2022 after a 9.1% fall in 2020.

Mild inflation and a weaker rupee

Inflation rose to 5%yoy in Feb'21 but remains within the RBI's 2-6% target band. While it may briefly move above the band, the RBI will try to avoid a lift in its policy rate from the current 4%pa well into 2022. Alongside other Asia currencies, the rupee climbed on a weaker USD from May'20 to Jan'21 but has since eased on a recovering USD. That should continue through 2022 as global capital returns to a strong US economy.

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	-7.5	10.5
Inflation - CPI, yr avg (FY12 series), %	3.6	3.4	4.5	7.5	5.5
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	72.4	76.0

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

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Australia

Political & policy issues to watch

COVID-19 is suppressed

… but a slow vaccine rollout

Fast action by state premiers in suppressing COVID-19 has cut new cases to 12/day since October (mostly returning travellers in quarantine). That has allowed schools and many businesses to operate mostly as normal over the last 6-9 months. Vaccination using Pfizer and AstraZeneca shots started in February but has moved slowly as the EU blocked shipments to Australia (justified by Australia's effective suppression of COVID-19). At the end of March, 1% of the 26m population had received at least one dose. Australia was banking on local production of the AstraZeneca vaccine for most inoculations but that is now in doubt due to concerns over blood clotting.

A strong upturn should preserve the AAA credit rating

Meanwhile, the federal government rolled out a massive stimulus to cushion households and businesses. By December, federal spending was 25% above Q4'19 with A$150bn of a promised A$250bn (US$173bn or 12.4% of GDP) stimulus spent. Most of the remainder went in Q1'21 under the JobKeeper subsidy, which flowed to 1.5m workers, lowering unemployment to 6.4% in January from 7.5% in mid-2020. The wage subsidy ended in March, and Q2'21 may see softer consumer demand as a result. So far, Australia has kept its coveted AAA credit rating by Moody's, S&P, and Fitch (one of only 11 countries with a top rating from all three). A downgrade is possible this year as the budget deficit jumps to 9-10% of GDP, but that is seen as an acceptable cost for countering COVID-19.

Government stumbles

Despite a good stimulus, support for PM Morrison's LNP government is sliding as its ministers and MPs are caught in an endless series of sexual antics and misogynistic behaviour. That may close off the opportunity for an early election in Q4'21 (one must be held by 3 Sept'22). Morrison's inept management of relations with China has cost food, wine, and coal exporters dearly. While the US and some European allies have recently backed Australia, that may further the deterioration in relations with China.

Outlook for the market

Global economic upswing to keep Australian recovery on truck

A swift H2'20 recovery saw the fall in GDP slow to -1.1%yoy in Q4'20 from -6.3%yoy in Q2'20. 2021 has started well with low unemployment, retail sales up 9.1%yoy in Jan-Feb, and exports surging 30%yoy in Jan-Feb (US$ basis) despite China's efforts to punish Australian exporters. In part, China can't do without Australian iron ore (up 21% in 2020 to all destinations and soaring 95%yoy for Jan-Feb off the collapse in Feb'20). In part, a broad global recovery is helping replace lost shipments to China. Imports also jumped by 16%yoy for the first two months as local demand revived. We have lifted our 2021 GDP growth forecasts to 4.8% (from 4.3%) and that for 2022 to 3.4% (from 3%).

A strong job rebound lifts consumer confidence

We expect consumer demand to grow 5% in 2021 and 3% in 2022 after a 5.8% fall in 2020. A firm jobs market (online job ads via SEEK were up 12.4%yoy in February) plus a strong housing market should cushion the negative impact of ending JobKeeper in March. Consumer confidence recovered from late 2020 with the Westpac consumer sentiment index surging to a 10-year high 111.8 in March from 109.1 in February.

Capex growth resumes after falling for two years

Fixed investment is set to grow 3.8% in 2021 and 3.5% in 2020 after posting declines of 3% in 2020 and 2.4% in 2019. Public works, business investment and residential construction will lead the capex upturn. The NAB business survey shows business confidence climbing to its highest level since early 2010 (to 16 in Feb from 12 in Jan and 6 in Dec), while housing approvals (units) grew 19.7%yoy in Jan-Feb and 19.8%yoy in Q4'20.

Higher inflation and a weaker A$

Ignoring the swift economic rebound, the RBA plans to keep its policy interest rate at the current 0.01% until the labour market tightens enough to lift inflation and wage growth. The A$ stalled after surging 25% on the US$ from March 2020. An emerging US$ broad uptrend should weaken the A$ to 70 US cents in 2022 (year-average) from the current 76 US cents.

Year ending December 31	**2018**	**2019**	**2020**	**2021**	**2022**
GDP, real growth, %	2.8	1.9	-2.4	4.8	3.4
CPI, year average, %	1.9	1.6	0.9	1.9	3.2
RBA cash rate, year-end, %	1.50	0.75	0.01	0.01	1.51
USD/AUD, year average	1.34	1.44	1.45	1.37	1.42
AUD/USD, year average	0.75	0.70	0.69	0.73	0.70

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

New Zealand

Political & policy issues to watch

Covid-free and vaccination to finish this year

A remote location and strict lockdowns helped NZ to limit COVID-19 cases to 2,482 and deaths to 26 among its 5.1m population. Mobility has been mostly restored, with a March 23 Google report showing retail & recreation 2% above pre-covid levels, workplaces 5% above, but public transport 24% below, as borders remain closed to tourists and other visitors. Except for a travel bubble with Australia, opening borders to international visitors is unlikely for the rest of this year. Vaccinations started on February 20. NZ has secured 10m covid Pfizer-BioNTech vaccines to immunise its entire population by the end of this year.

Limited fiscal stimulus

… leading to a credit rating lift

In mid-March, the government announced a NZ$31bn (US$22.4bn) transport infrastructure program for Auckland, NZ's largest city, to be rolled out over the next ten years. This is on top of the NZ$61.2bn (19.2% of GDP) fiscal stimulus for the period to FY2024-25 announced last year. Successful suppression of COVID-19 means that some of the stimulus funds will not be spent. This prompted S&P to upgrade its NZ credit rating to AA+ for foreign currency debt from AA.

New measures to cool NZ's runaway housing market

NZ housing has become the OECD's least affordable after home prices shot up 22.8%yoy in February and 90% over the past decade. Record high homelessness has forced the government to announce a raft of new measures designed to cool the runaway residential market. These include tighter lending rules for house purchases, investors will need to hold a property for 10 instead of 5 years to avoid paying tax, investors will no longer be able to offset interest on mortgages as an expense against rental income for tax purposes, income caps for first-time homebuyers eligible for government financial assistance for will be raised, and the construction of public housing will accelerate with a new NZ$3.8bn (US$2.7bn) fund.

Outlook for the market

Strong local demand boost imports

… which trims GDP growth

NZ's economic recovery lost steam in Q4'20 with GDP growth easing to 1.2%yoy from 3.1% in Q3'20 following a 9.2% fall in Q2'20. The slower pace reflects reduced contribution from external demand, as a previously large growth gap between export and import volumes vanished in Q4'20. The realignment of external and domestic demand spilled over into early 2021 with the growth of imports overtaking that of exports (10.5%yoy vs 0.6%yoy in Jan-Feb, US$ basis). This reduced the annual trade surplus to US$1.3bn in Feb from a US$2bn multi-year high in Nov 2020. Fast rising imports in response to stronger domestic demand should limit 2021 GDP growth to 4.2% (prior 4.5%). For 2022, we expect GDP to grow 3.6% (prior 3.4%).

Migration halt to weaken consumer growth

… construction & businesses drive capex up

Private consumption fell 1.8% in 2020 as large wage subsidies and cash handouts to households offset a national lockdown that started in late March 2020 and was phased out from late April to early June. The stimulus limited unemployment to 4.6% in 2020 from 4.1% in 2019 and delivered 1.4% employment growth. The Westpac consumer confidence index eased to 105.2 in Q1'21 from 106.0 in Q4'20 but stayed well above the recent 95.1 low of Q3'20. We expect consumer real growth of 3.7% this year and 3.5% in 2022, slower than the 4.7%pa pace of 2015-19. The latter was boosted by large migrant inflows which will be mostly absent in 2021-22. The 4.5%pa capex expansion of 2015-19 gave way to a steep 7.5% decline in 2020. Housing construction and business investment should lift capex by 6% in 2021 and 4% in 2022. Housing approvals (units) were up 17.1%yoy in Q4'20 and business investment intentions rebounded strongly in Q1'21 from a 1H'20 slump.

The NZ$ upswing is over

The recovering NZ economy and its hot housing market will put the RBNZ's expansionary monetary policy on hold. This should not prevent the NZ$ from sliding to 66 US cents in 2022 (year-average) from the current 70 US cents, as the US$ enters a broad uptrend.

Calendar years	2018	2019	2020	2021	2022
GDP(Expenditure), real growth, %	4.3	3.0	-1.2	4.2	3.6
GDP(Production), real growth, %	3.4	2.4	-3.0	4.5	3.4
CPI, year average, %	1.6	1.6	1.7	1.7	1.8
Official cash rate, year-end, %	1.75	1.00	0.25	0.25	0.50
NZD/USD, year average	0.69	0.66	0.65	0.67	0.66
USD/NZD, year average	1.44	1.52	1.54	1.49	1.52
AUD/NZD, year average	1.08	1.05	1.07	1.07	1.12

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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