

Asia Exports: A Protracted Decline Ahead

- Exports data in key Asian countries continue to deteriorate in the current global recession. Given the importance of exports to Asia, one concern is how long and deep this export downturn would be.
- As bad as the January data so far from South Korea, Taiwan, China, and Singapore, our assessment suggests that more difficult days are still ahead for Asian exporters.
- Firstly, the “fewer working days” or “seasonal effect” argument for Jan-Feb data has only a small role, meaning that the latest set of January data largely reflects the disintegration in end-demand. Secondly, the current declines in export highlight a reversal to trend growth that is now under way, therefore the deterioration is likely to last through this year at the minimum. Finally, China has become a key market for a number of Asian exporters and the collapse in China’s imports demand add further pressure to non-China Asian exporters.
- Based on the reversion to trend growth, we estimate conservatively that most key Asian countries face the prospects of an unprecedented 10%-20% decline in their exports in 2009. In a pessimistic scenario, the extent of exports slump could be as much as 20% to 40% this year.
- Looking at individual countries, our full year real GDP forecast of -4% for Singapore has factored in a 24% drop in non-oil domestic exports (NODX) this year. Similarly for Taiwan, a similar 25% fall for Taiwan’s exports is built in to our recently revised -3.5% growth forecast. For China, we expect exports to slide by 18% this year.

January Data: More Than Just Seasonal Factors

January exports data released so far from South Korea, Taiwan, China, and Singapore reaffirmed that the downward spiral in the months ahead are expected to be severe. For instance, Singapore earlier reported a record 35%/y drop in its NODX (non-oil domestic exports), Taiwan’s exports for January slumped 44%/y, after a 42%/y drop in December, and South Korea’s exports declined nearly 33%/y in January. China also reported a falloff for the third month in January.

One popular argument is that seasonal/calendar factors are responsible for the poor January readings and make interpretation of the data difficult for the first two months of the year (e.g. Chinese New Year holidays were in January this year and in February in 2008).

However, a quick analysis of past data suggests there is actually little significant impact from Chinese New Year holidays on external trade, as the table below on CNY effect shows. For example, over the past 15 years, China’s exports in Jan and Feb averaged more than 20%/y growth, and even Taiwan saw high single digits increase in those holiday-affected months. In addition, the worst months in the past 15 years (except for China) clustered around 1998/99 and 2002, which were the years of Asian financial crisis and the internet bubble collapse.

Asia's Exports : Sharp Drops in January								
y/y% change	CN	TW	TH	HK	MY	ID	KR	SG*
Jan-08	26.6	11.9	36.3	15.8	10.4	34.5	14.9	2.8
Feb-08	6.4	18.6	18.8	7.6	14.5	28.7	18.9	6.3
Mar-08	30.6	23.1	16.5	7.6	5.5	32.5	18.4	-5.9
Apr-08	21.8	15.0	30.1	14.5	20.9	22.5	26.4	5.3
May-08	28.1	20.9	24.7	10.3	22.9	31.6	26.9	-10.5
Jun-08	17.7	21.3	30.4	-0.6	18.6	34.1	16.4	-10.6
Jul-08	26.9	8.0	47.4	11.1	25.3	24.8	35.6	-5.8
Aug-08	21.1	18.0	17.7	1.9	10.7	29.9	18.1	-13.9
Sep-08	21.3	-1.7	22.7	3.6	15.0	30.2	27.6	-5.8
Oct-08	19.1	-8.1	5.2	9.4	-2.6	4.9	7.8	-15.5
Nov-08	-2.2	-23.9	-17.7	-5.3	-4.9	-2.1	-19.4	-17.5
Dec-08	-2.9	-42.2	-15.7	-11.4	-14.9	-20.0	-17.9	-20.8
2007 Average	26.7	10.1	17.3	9.4	2.8	13.3	14.3	2.3
9M08 Average	22.3	15.0	27.2	8.0	16.0	29.9	22.6	-4.2
4Q08 Avearge	4.7	-24.8	-9.4	-2.4	-7.5	-5.7	-9.9	-17.9
Jan-09	-17.5	-44.5	-	-	-	-	-32.8	-33.8

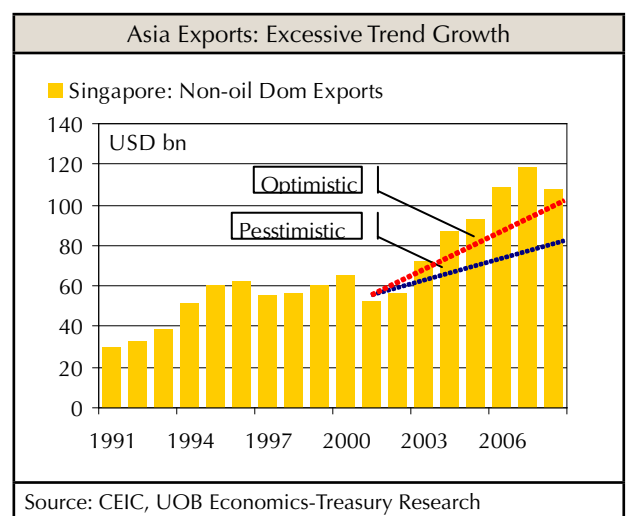
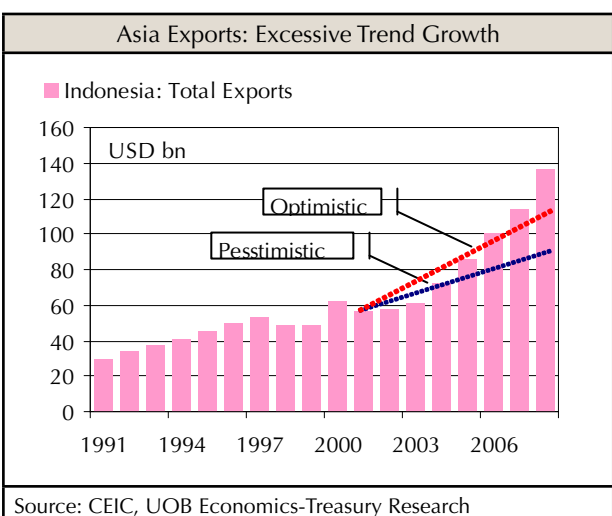
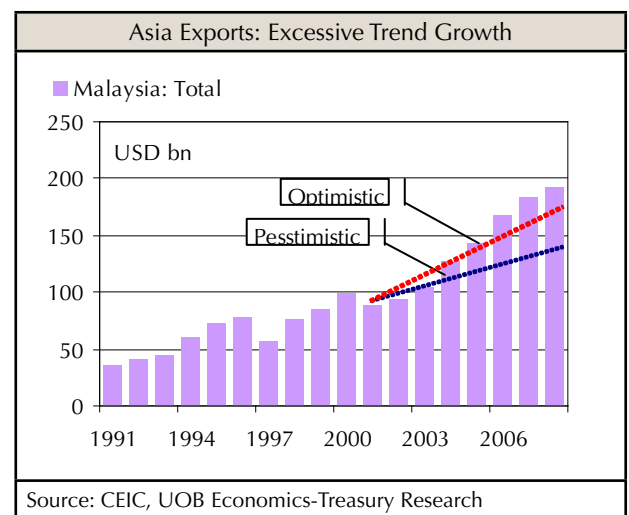
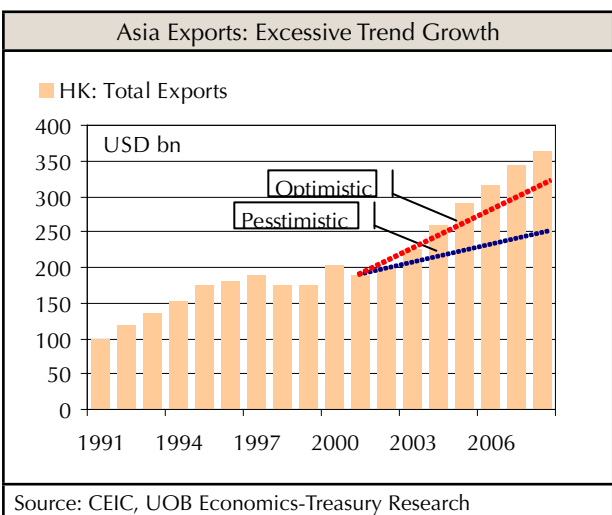
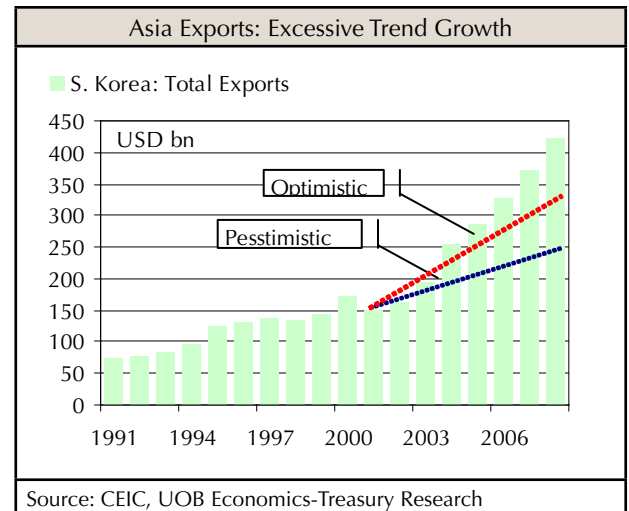
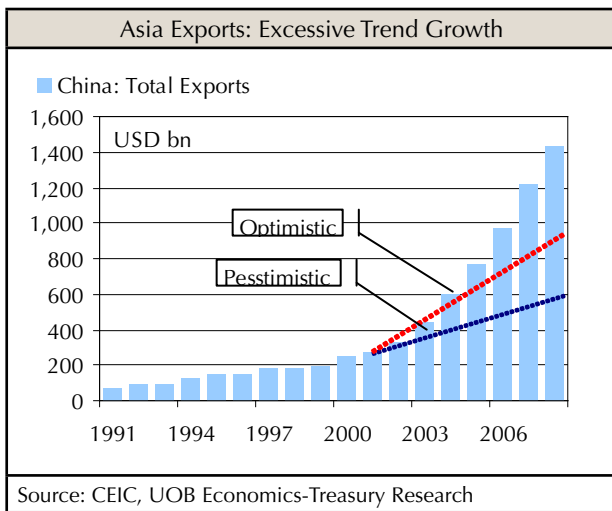
Source: CEIC, UOB Economics-Treasury Research estimates; *Non-oil domestic exports

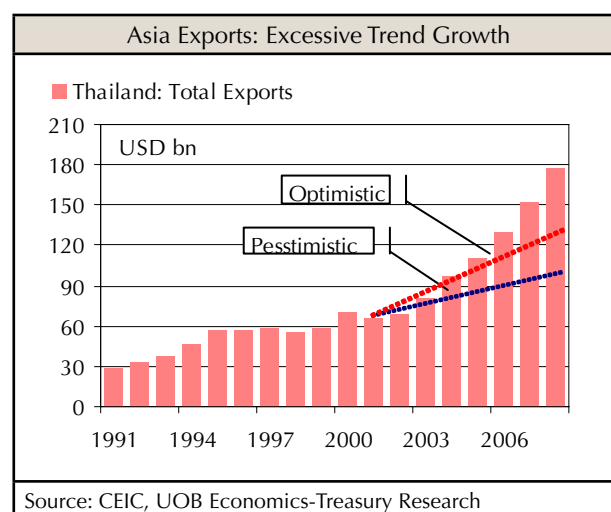
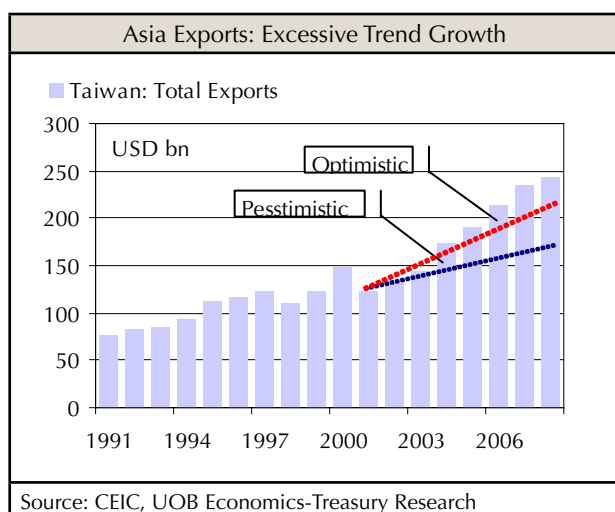
As such, sharp declines in the latest batch of January figures could not be due to the typical seasonal effect, in view of the extent (high double digits), and consecutive nature (nine months for NODX) of the declines. The extent of the current deterioration also exceeded those in earlier crisis years. As such, these sharp falls in Asia's exports were most directly related to the collapse in end demand from the US and Europe.

Examining the CNY Effect (1993-2008)			
y/y% change	January*	February*	Worst (Month/Year)
Exports			
China	25.4	21.1	-15.9 (01/93)
HK (Total)	10.7	7.2	-12.2 (01/02)
Taiwan	8.7	9.2	-26.4 (01/98)
S. Korea	12.7	12.7	-17.5 (02/02)
SG (NODX)	9.3	10.0	-23.4 (02/02)
Imports			
China	25.9	21.5	-12.9 (01/98)
Hong Kong	10.7	8.4	-24.9 (02/99)
Taiwan	9.3	12.0	-29.9 (02/99)
S. Korea	13.2	13.0	-40.2 (01/98)
*Avearge for the month over 1993-2008			
Source: CEIC, UOB Economics-Treasury Research estimates			

Asia Exports: Trend Reversal in Progress

If the strong growth in external trade in the past several years is any indication, the sharp drops in recent exports are only just the beginning of the downtrend. For a number of Asian countries, the period of 2002-2008 is characterized by one common factor: excessive above-trend growth, as the charts below show. This timeframe also coincides with the credit bubble and wealth effect of housing boom in the US.





It is startling the extent of above-trend growth if one were just to draw simple trend lines over these data, as the charts show. The trend starts from 2001 at the trough of the export cycle for most countries as the internet bubble burst.

Even with the optimistic trend, a reversion to trend is likely to imply substantial declines over the next 1 to 2 years. Indeed, a quick calculation shows that total exports for most Asian countries are likely to face 10% to 20% contractions in 2009. If exports were to fall towards the pessimistic trend, that would entail a 20% to 40% drop.

China's Import Demand: Adding Further Pressure on Asia

China has become a key market for a number of Asian exporters. The recent collapse in China's imports demand adds further pressure to non-China Asian exporters.

As the table below shows, China has become a key export market for many Asian countries since 2000. This is reflected in both China's share of total exports pie and also the growth in the share. For instance, China's share in Singapore's exports has more than doubled from 3.9% in 2000 to 9.2% in 2008. Other countries have also become more dependent on China, accounting for more than 1/5 of South Korea's exports.

Exports to China				
(As % of total exports)	2000	2005	2008	% chg 2000-08
SG	3.9	8.6	9.2	135.6%
MY	3.1	6.6	9.5	206.5%
TH	4.1	8.3	9.1	122.8%
ID*	4.5	7.8	8.7	93.3%
PH	1.7	9.9	11.2	540.8%
KR	10.7	21.8	21.7	102.8%
HK	34.5	45.0	48.5	40.5%
TW**	17.0	39.0	42.0	147.1%
Note: *Jan-Oct 2008 **Computed based on official releases from China				
Source: CEIC, UOB Economics-Treasury Research estimates				

What is the source of this increase in China's share in various Asian countries' exports? As expected the driver of Asia's exports stems from end-demand from the US and other advance economies. This can be examined through correlations between China's exports to the US/Europe and China's imports from various Asian countries. As it turns out, the correlations have become closer over time, comparing pre- and post-2001 periods.

The table below tabulates the correlations between two periods: The top table shows data from 2001-2008 and the bottom one for 1994-2000. The figures of interest are the two highlighted columns.

For instance in recent years, the correlation between China's exports to North America and China's imports from Asia was 0.68, almost doubled from 0.38 in pre-2001 period. Another example is correlation of China's exports to North America and China's imports from Singapore was 0.62, vs. just 0.12 in earlier period.

Correlations Between China's Exports to North America/Europe and China's Imports from Asia (2001-2008)									
	To Europe	To N.America	From Asia	From TW	From ID	From MY	From SG	From JP	From SK
To Europe	1.00								
To N.America	0.75	1.00							
From Asia	0.63	0.68	1.00						
From TW	0.39	0.54	0.86	1.00					
From ID	0.51	0.44	0.68	0.53	1.00				
From MY	0.38	0.47	0.83	0.82	0.54	1.00			
From SG	0.47	0.62	0.85	0.69	0.45	0.79	1.00		
From JP	0.55	0.55	0.94	0.77	0.61	0.83	0.81	1.00	
From SK	0.69	0.73	0.94	0.75	0.64	0.71	0.79	0.84	1.00
Correlations Between China's Exports to North America/Europe and China's Imports from Asia (1994-2000)									
	To Europe	To N.America	From Asia	From TW	From ID	From MY	From SG	From JP	From SK
To Europe	1.00								
To N.America	0.73	1.00							
From Asia	0.51	0.38	1.00						
From TW	0.45	0.52	0.86	1.00					
From ID	0.26	0.22	0.53	0.39	1.00				
From MY	0.34	0.44	0.53	0.50	0.25	1.00			
From SG	0.21	0.12	0.39	0.24	0.28	0.27	1.00		
From JP	0.37	0.31	0.88	0.76	0.46	0.50	0.33	1.00	
From SK	0.48	0.38	0.75	0.59	0.42	0.53	0.39	0.79	1.00

Source: CEIC, UOB Economics-Treasury Research Estimates

With China's exports to North America and Europe starting to shrink since November, and on track for a protracted decline, this would further pressure Asia's exports outlook given the close interactions. China's imports collapse in the past two months, in reaction to the fall in exports, is another indication of the difficult environment. As a recap, China's total imports fell 43%/y/y in January, more than doubling the 21% drop in December 2008, with imports from Asia down more than 20% in each of the two months.

Conclusion

As bad as the January data are so far from South Korea, Taiwan, China, and Singapore, our assessment of the data earlier suggests that Chinese New Year holidays play a relatively small role in the outsized declines in the latest data. This means that more difficult days are still ahead for Asian exporters.

Based on the reversion to trend growth and the interactions of China's exports/imports with the rest of the world, we estimate conservatively that most key Asian countries face the prospects of an unprecedented 10%-20% decline in their exports in 2009. In a pessimistic scenario, the extent of exports contraction could be as much as 20% to 40% this year. (Note that the highly uncertain and unprecedented nature of this global recession and the impact on Asia, the confidence level of most forecasts, be it economic or financial variables is extremely wide. The same is true for outlook for Asia's exports.)

Looking at individual countries, our full year real GDP forecast of -4% for Singapore has factored in a 24% drop in non-oil domestic exports (NODX) this year. Similarly for Taiwan, a similar 25% fall for Taiwan's exports is built in to our recently revised -3.5% growth forecast. For China, we expect exports to decline around 18% this year.

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