

Thursday, 02 September 2010

## Assessing GDP Growth In Asia

Major Asian economies have already reported their 2Q10 GDP data which saw most outperforming consensus expectation. However, the data showed that y/y growth has already peaked in 1Q/2Q this year and we are expecting further moderation in the growth rates in 2H10, partly due to the wearing off of the favourable base effect as well as the easing inventory cycle ahead.

GDP growth in Asia (including China) averaged around 10% y/y in 1H10. Besides the mainstay private consumption particularly in the large economies, the strong growth arose from sharp recovery in inventory post-recession. On average, inventory accounted for a third of the growth in Asia during the first half. The contribution from inventory building was most significant in Hong Kong, Malaysia and Thailand. Fixed investment was also boosted by the strong production growth which saw the manufacturing capacity utilisation recovering to pre-crisis levels. This was evident in Taiwan and the Philippines.

### After A Robust 1H10, What's Next?

With a weak US growth recovery, external uncertainties and waning base effect, we expect Asian GDP growth to nearly halve in 2H10 from the 10% expansion in 1H10. The strong inventory cycle is also unlikely to be sustainable into 2011 unless we see more demand recovery in the developed economies. So far, July exports and production data in Asia-ex Japan have remained firm despite some moderation in the headline growth.

In Singapore, more than half of its supercharged expansion in 1H10 came from net exports, which was in turn driven by the volatile pharmaceutical sector. The government has warned that the robust performance in the pharmaceutical sector is unlikely to be repeated in 2H10 due to maintenance shutdowns at some of the production facilities.

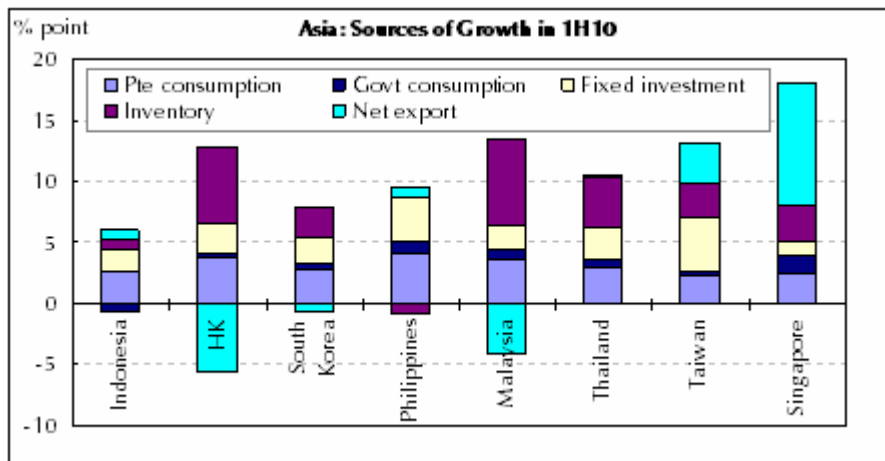
Despite the expected growth moderation ahead, the prognosis for 2011 still appears healthy with growth rates in Asia likely to be above 4%.

### 2Q10 GDP Growth Vs Forecast: Some Upside Surprises

y/y % chg	2Q10F	2Q10 Actual
China	10.5	10.3
Hong Kong	6.3	6.5
Indonesia	6.0	6.2
Malaysia	8.4	8.9
Philippines	6.3	7.9
Singapore	19.3	18.8
South Korea	6.9	7.2
Taiwan	10.2	12.5
Thailand	8.0	9.1

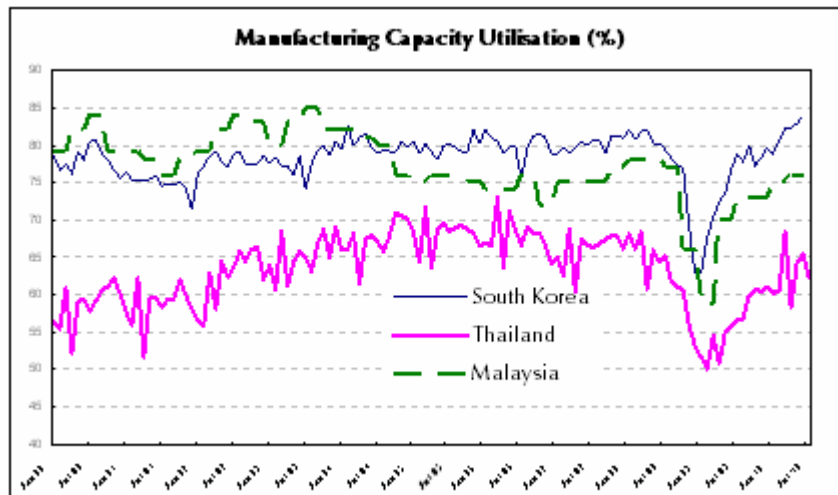
Source: Bloomberg

### Inventory Building Was One Of The Key Drivers In 1H10



Source: CEIC, UOB Treasury-Economic Research

### Manufacturing Capacity Utilisation Has Rebounded To Pre-Crisis Levels



Source: CEIC

### Growth Moderation Trend

y/y % change	2009	2010F	2011F	3Q09	4Q09	1Q10	2Q10	3Q10F	4Q10F
China	9.1	10.0	8.3	9.1	10.7	11.9	10.3	9.5	9.0
Hong Kong	-2.8	5.5	4.5	-2.4	2.5	8.0	6.5	4.2	3.5
Indonesia	4.5	6.0	6.2	4.2	5.4	5.7	6.2	5.9	6.3
Malaysia	-1.7	6.8	5.1	-1.2	4.4	10.1	8.9	5.2	4.0
Philippines	0.9	5.3	4.6	0.2	2.1	7.8	7.9	4.9	4.2
Singapore	-1.3	13.8	5.0	1.8	3.8	16.9	18.8	9.6	10.4
South Korea	0.2	6.2	4.3	1.0	6.0	8.1	7.2	4.6	5.0
Taiwan	-1.9	8.8	4.6	-1.0	9.1	13.7	12.5	5.7	4.6
Thailand	-2.2	5.5	4.7	-2.7	5.9	12.0	9.1	3.9	1.0

Source: Bloomberg, CEIC, UOB Treasury-Economic Research

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