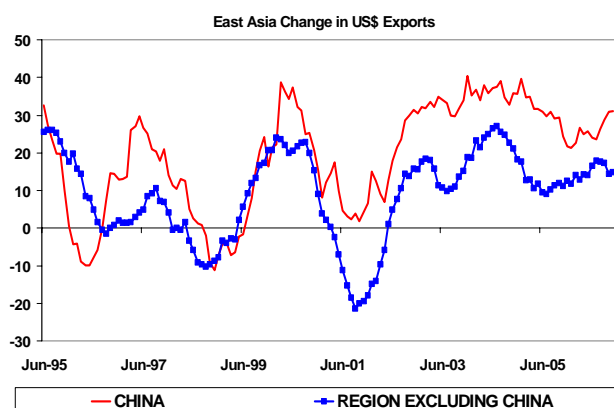
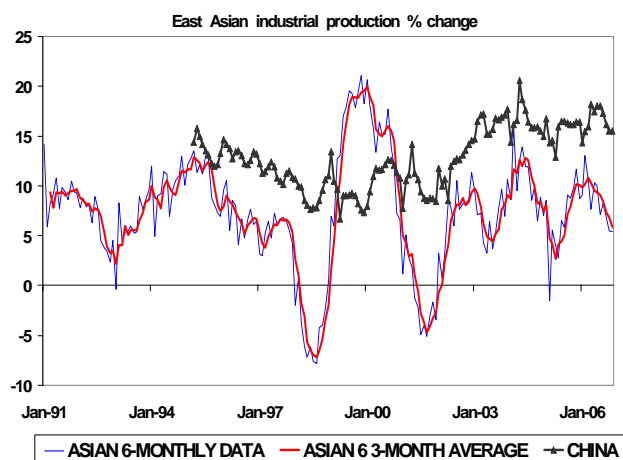


# East Asian Economic Round-up January 2007

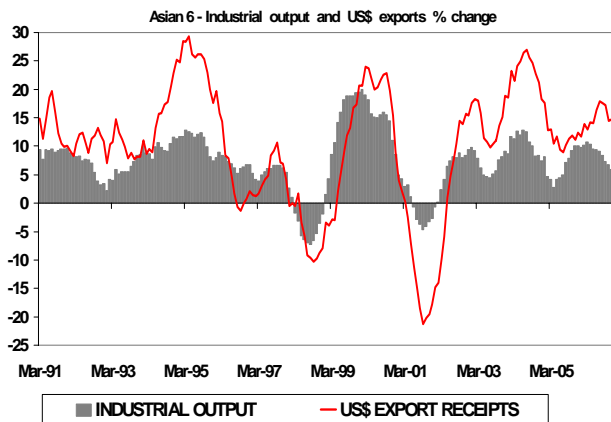
## Key trends

- Industrial growth seems to be slowing in the emerging economies of East Asia, particularly outside China.** In the emerging market economies outside China industrial growth peaked at 11% yoy in March 2006 but it was down to around 6% yoy by November. Chinese industrial growth is slowing less rapidly.
- Recent export trends have diverged within the region.** Chinese export growth was trending down until early 2006 but it then accelerated before flattening out at a high rate late in the year. Elsewhere in the region US\$ export growth had been accelerating but recently it has slowed.
- There has also been a marked divide between China and the other economies when it comes to the strength of domestic spending.** Chinese investment spending has been exceptionally strong for years while it has been persistently low across the rest of the region. Much the same holds for growth in retail spending.
- A combination of rising input costs and persistent growth has ended deflation in the region.** Chinese industrial output prices for export type goods are rising slowly and trade flows through Hong Kong show an end to Chinese deflation as well.



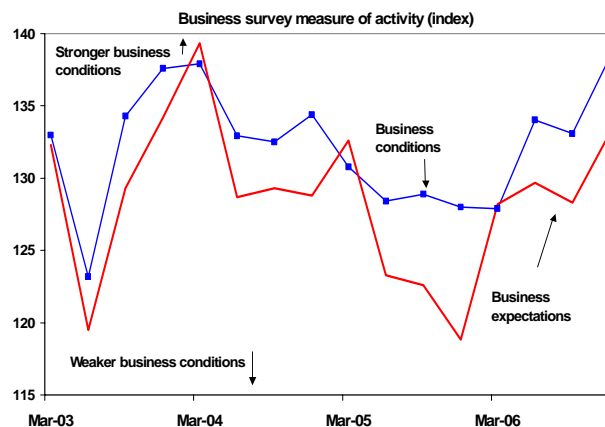
## Industrial slowdown under way

The emerging market economies of East Asia are generally export driven but there was an unusual divergence between their export and industrial growth through much of 2006. Industrial growth in the Asian 6 economies (Malaysia, Thailand, Taiwan, Singapore, the Philippines and South Korea) has been slowing since March 2006 (when it reached almost 11%). By November the 3-month rate of growth in industrial output was down to 6% yoy. US\$ export growth, by contrast, trended up until recently but some of this could have reflected weakness in the US\$ rather than volume gains in exports.

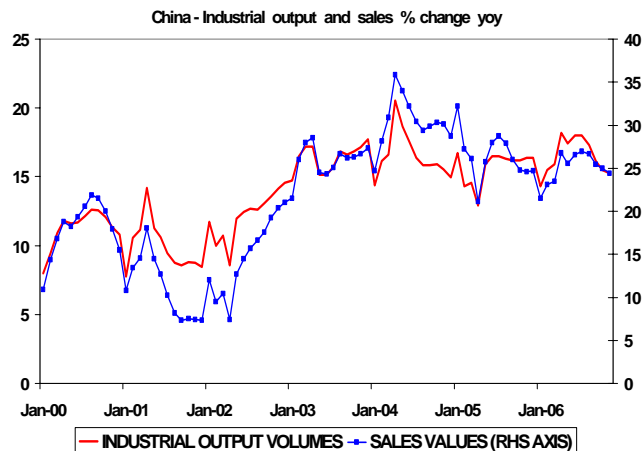


The picture for Chinese industrial growth is more mixed with various business surveys giving differing pictures of economic strength. The business surveys still show strong trading conditions. The December quarter surveys of business trading conditions and business expectations were surprisingly strong and showed - if anything - a lift in expectations along with a particularly buoyant level of activity in the closing months of the year. By contrast, the monthly purchasing manager's index of industrial activity fell in December from a high base in November. Growth in new orders and output is still solid but slower than before, finished goods inventories are a little more plentiful (but

still in short supply) and higher raw materials costs are still plaguing Chinese industry.

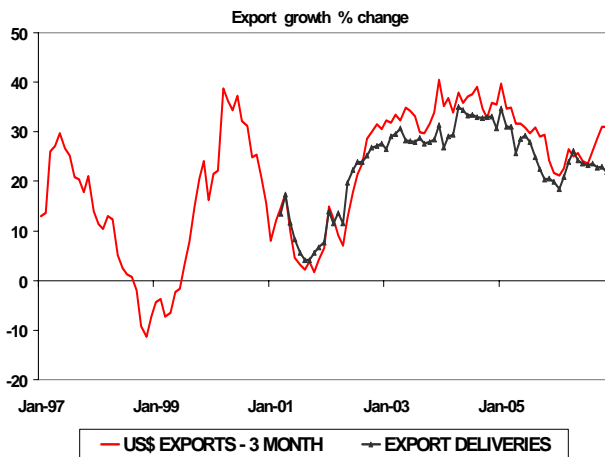


The monthly data on the value of sales and volume of industrial output show a more consistent picture of slowing growth. Growth in 3-month output peaked at around 18% yoy between April and July but it was down to 15¼% yoy by November. The sales data shows a broadly similar pattern with growth dropping from 27% yoy in July to 24% yoy in November.



While trend growth rates for Chinese industrial output seem to be slowing, this is not still the case for US\$ export receipts. Using a 3-month average to smooth out some of the data volatility shows a slowing in export growth from

around 35% yoy in 2004 and early 2005 to around 20% yoy in early 2006. Since then, however, the trade figures show export growth accelerating back up and growing at to just over 30% yoy in November. The recent trend in yuan industrial export deliveries has gone the other way. Here the slowdown has continued unabated with recent growth rates for delivery values settling at around 22% yoy.

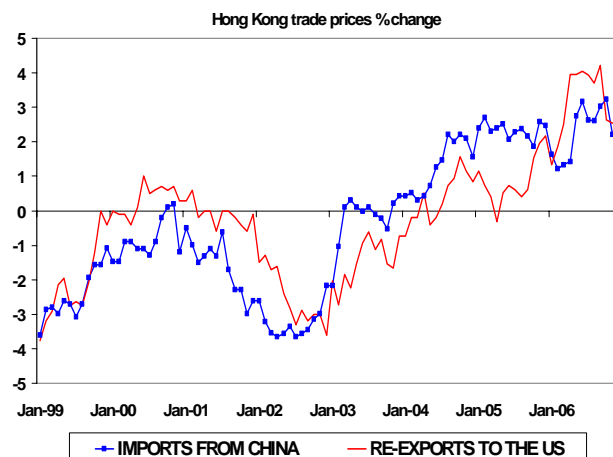


Appreciation of the renminbi has further boosted the rate of inflation faced by overseas purchasers of Chinese goods. Although Chinese suppliers have tried to hold down their costs and squeezed margins to avoid passing on higher prices to foreign customers, Hong Kong data shows Chinese export prices steadily rising. Goods imported into Hong Kong from China were rising by 2 to 3% yoy in late 2006 while products shipped to the US were up by 2½ to 4% yoy.

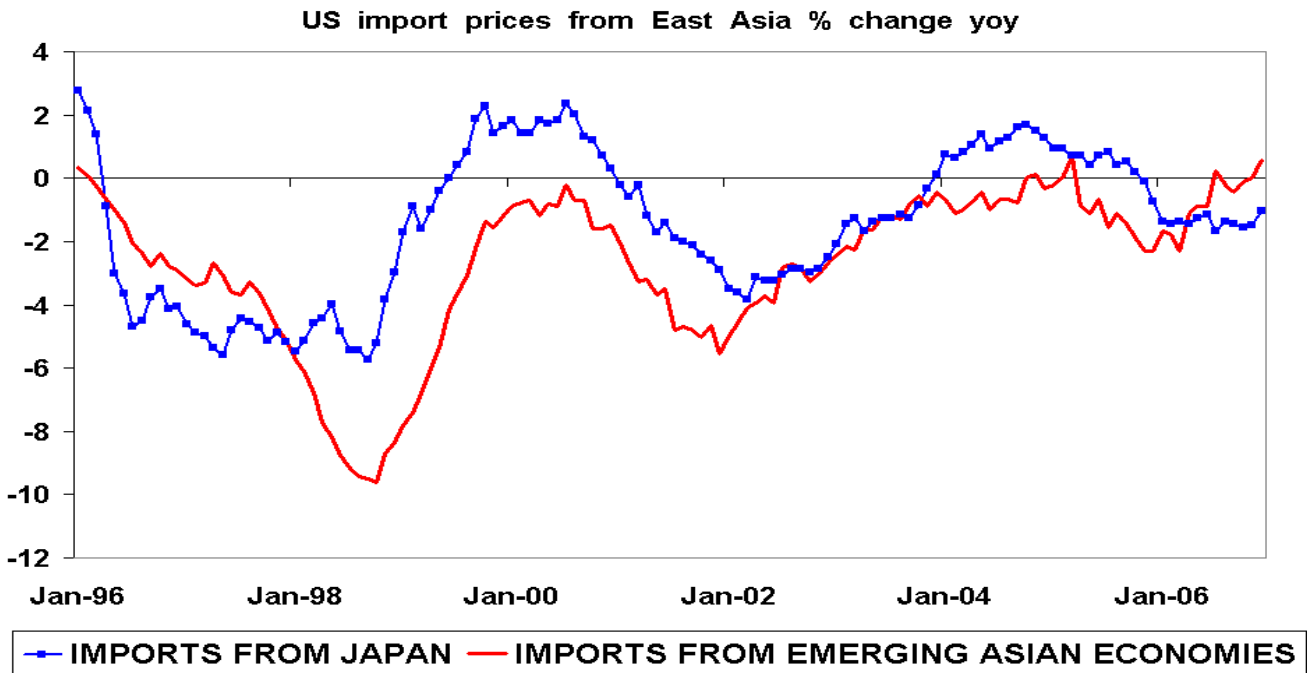
### Regional export prices

After being one of the main sources of global deflationary pressure a few years ago, East Asia is no longer “exporting deflation” to the rest of the world in the form of falling export prices.

China, in particular, has been the price setter for many manufactured products in global markets. Its output prices for the light industrial products and consumer goods that tend to dominate its export mix fell up to the end of 2003 and then turned modestly positive. Recently we have seen a lift in these goods output price inflation to around 1 to 1¼% yoy. This is still a very low rate of inflation, well below the 3% or so annual inflation for all industrial goods (a rate that has been boosted by the 4 to 5% yoy inflation recorded for heavy industry output).



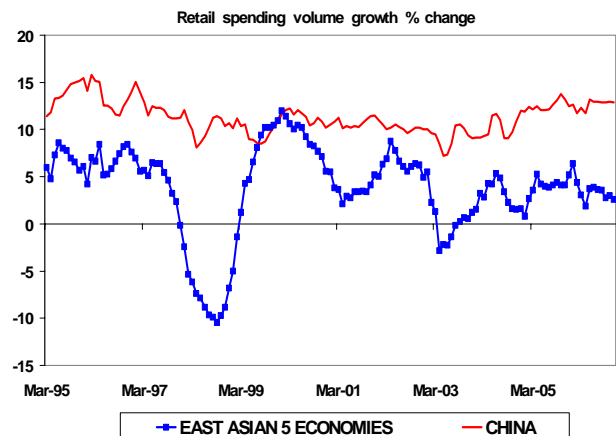
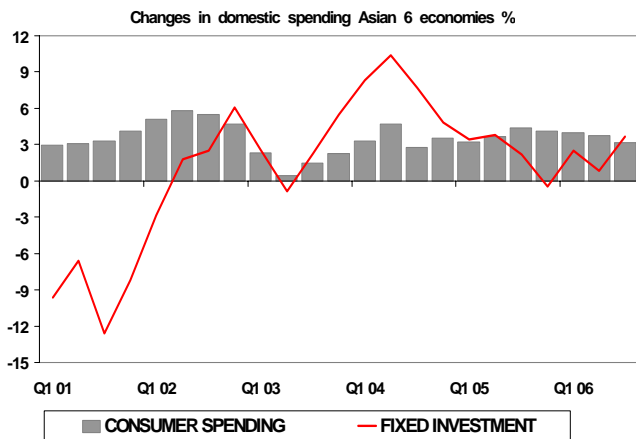
US\$ export prices from the other emerging market economies of East Asia are also rising now with South Korean export prices up by almost 8% yoy and Taiwan by 5% yoy. US import prices for goods from the area are rising too after falling steadily for most of the last 10 years.



### No acceleration in spending

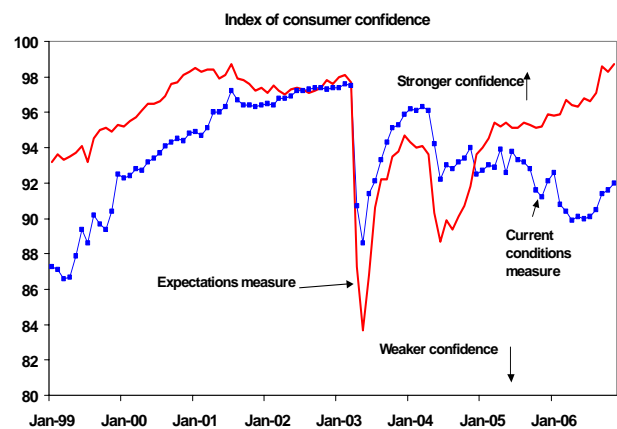
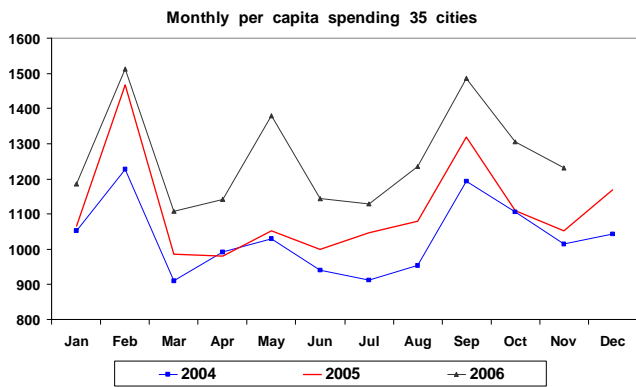
There is still little sign of a convincing acceleration in the pace of growth in domestic spending. We now have the full national accounts for the East Asian 6 economies for September quarter and they show volume growth in consumer spending running at only 3% yoy. Fixed investment spending has quickened but at 3½% yoy regional investment growth is still far from impressive.

Monthly retail sales give a more timely readout on consumer spending. These still show very solid growth in Chinese retail spending but slow growth across the other regional economies. Retail sales values in China are up by around 14% yoy. After allowing for retail inflation of 1½% yoy, that means volume growth of around 12½% - a high but not accelerating growth rate. Elsewhere retail spending growth averages out at under 3% yoy in volume terms.

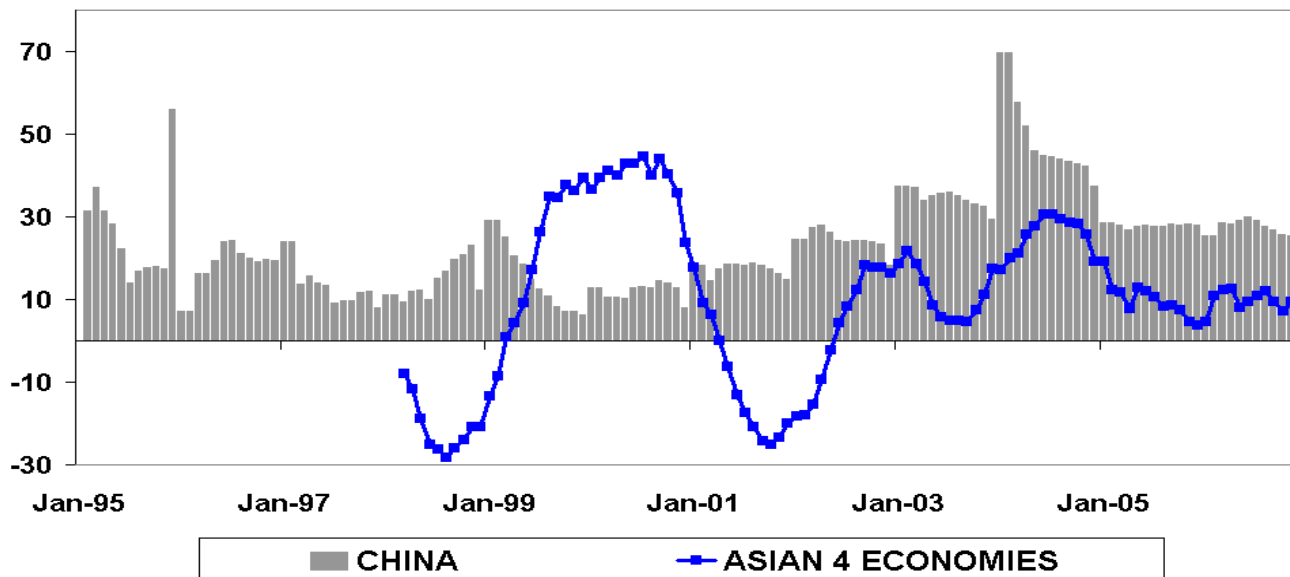


The other monthly measure of Chinese consumer demand looks at monthly per capita spending in the big cities. It also shows very strong growth through 2006 with the value of this spending up by an average of around 14% yoy from the previous year's level.

According to the consumer confidence index there should be further strong growth in retail trade as the expectations measure of consumer confidence returns to record levels. Fixed investment spending growth remains rapid in China (around 25% yoy) but sluggish elsewhere.



Investment growth in East Asian emerging economies % change



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