

Economic Letter From Asia: Current Affairs

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Written by Tian Yong Woon

In this week's letter, we explore recent developments in India, China, and advanced Asian economies. We observe ongoing disparities across Asian economies in their recent growth figures, but we also note a big uptick in their latest inflation readings. Economically, India remains on a solid footing heading into its general elections, while China is showing signs of stabilization following its latest official PMI prints. The divergence extends to advanced Asia's industrial complex, with February readings indicating continued growth in South Korean production, while Taiwan's and Japan's contract for idiosyncratic reasons. Nonetheless, South Korea and Taiwan continue to experience an increased share in semiconductor-related goods production, reaping continued benefits from the upswing in chip demand.

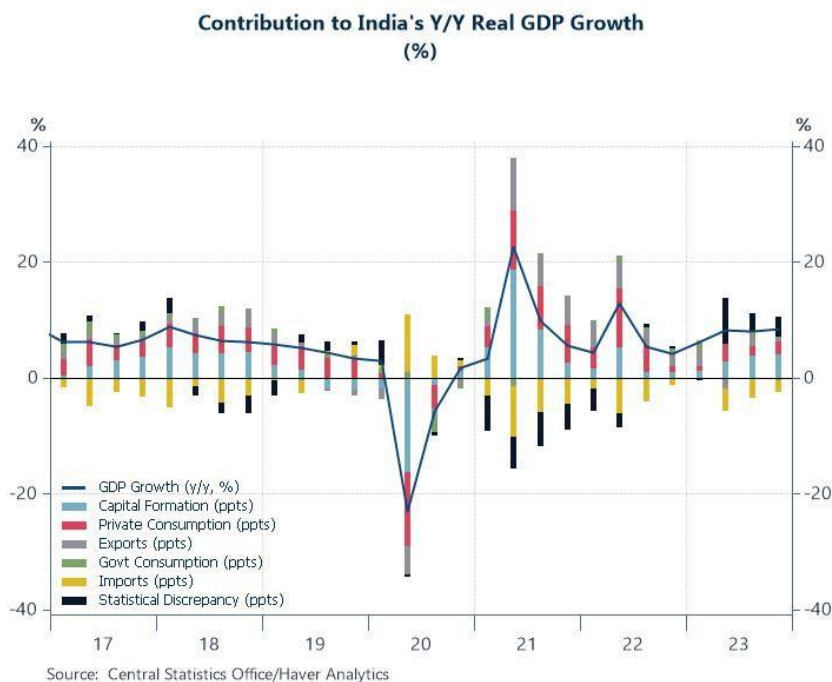
Setting aside these divergences, we also examine recent financial market developments, with a specific focus on India. We note the interim rebound in small and mid-cap equities following recent steep selloffs. Additionally, we look into the Indian rupee, which has appreciated slightly against several currencies but weakened considerably against the US dollar.

Developments in India

Elections are increasingly at the forefront of attention for India watchers, as the country gears up to head to the polls from April 19. The elections will be the largest in the world, involving about 960 million voters and spanning seven phases over 44 days. India's current Prime Minister Modi seeks to secure a third term, with his political coalition poised to compete against one led by the Indian National Congress. Heading towards the polls, the Indian economy has benefited from a robust foundation and strong growth. India's real GDP growth accelerated to 8.4% y/y in fiscal Q3 (October-December), far outpacing growth seen in several other emerging Asian economies. Nearly half of India's growth over the period was driven by

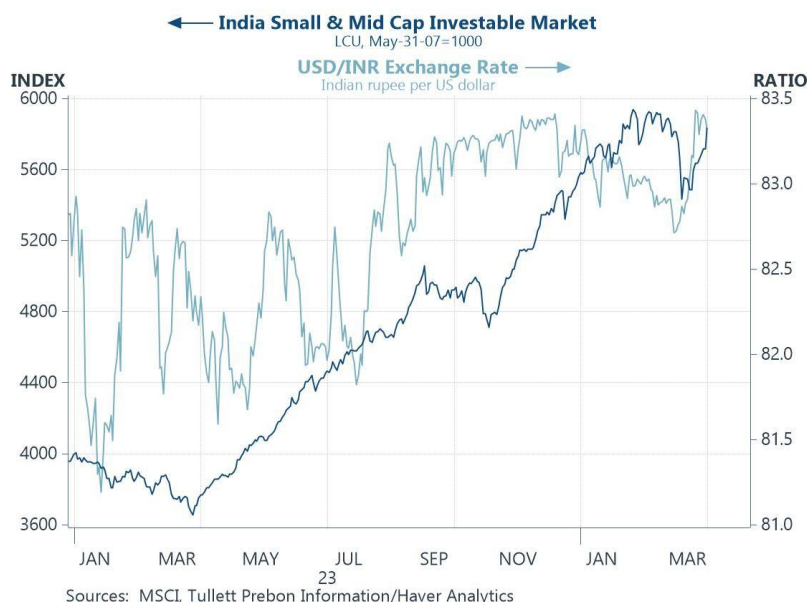
capital formation (Chart 1), which logged double-digit growth in fiscal Q2 and Q3. India's rapid expansion in capital investment can be partly traced to the government's push for more infrastructure and manufacturing investment.

Chart 1: Contributions to India GDP growth



Recent developments in India's financial market developments have been less encouraging. The rupee has been on the back foot when measured against the US dollar, having weakened to record levels amidst generic weakness in Asian currencies (Chart 2). The currency has, however, been appreciating – on aggregate – against those of India's trading partners, with trade-weighted measures of the rupee indicating some strengthening since late-2023. Within domestic markets, we recently saw steep selloffs in small and mid-cap Indian equities, driven by concerns about potential regulatory steps to rein in exuberance in the segment. The selloffs seem to have abated, at least in the interim, supported by recent strong buying activity by domestic institutional investors.

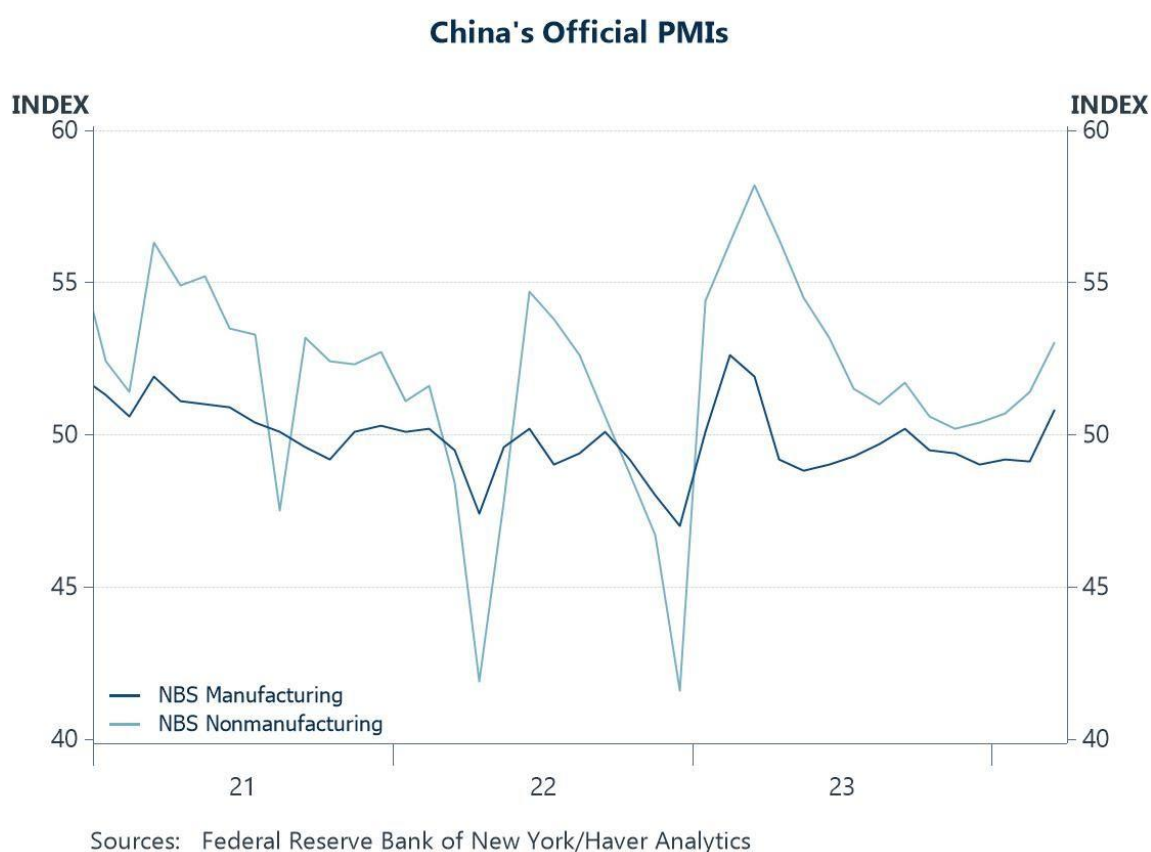
Chart 2: India small and mid-cap stocks and the rupee



China's latest PMI readings

China saw more positive news emerge over the weekend with the release of its latest official PMI readings for March. The readings significantly exceeded expectations, with the manufacturing gauge now back in expansionary territory after six months of contractionary readings (Chart 3). Additionally, the non-manufacturing gauge now signals an accelerated pace of expansion. The news followed the recent spate of encouraging data releases coming out of China for February. These include, among others, a return to growth in industrial profits, and consensus-beating growth in industrial production and retail sales. If such encouraging growth persists, China's narrative of economic stabilization will likely move beyond the nascent stage to become more firmly established. However, concerns about the underlying drivers of growth and longer-term challenges, such as those relating to debt sustainability and demographical shifts, will likely persist.

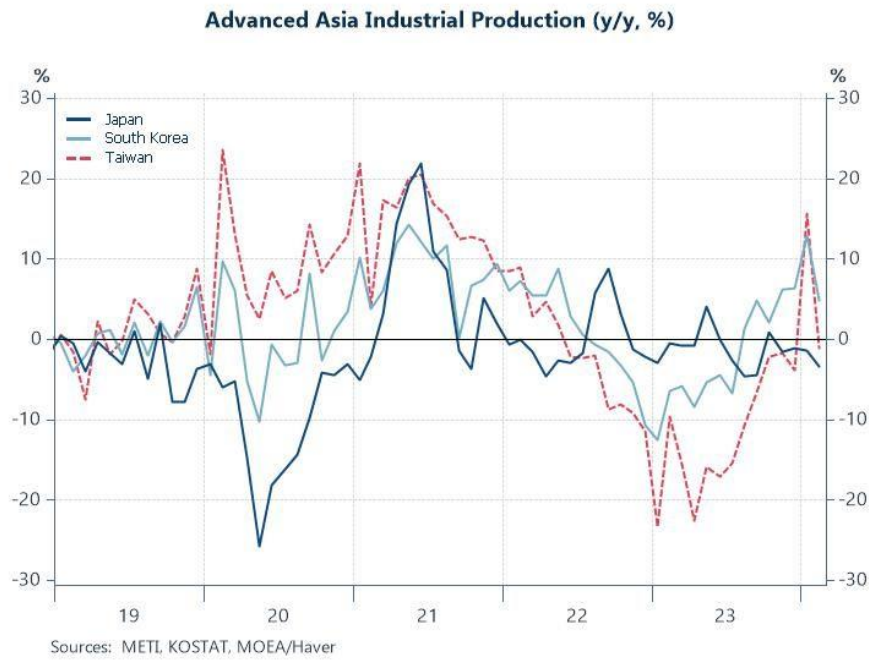
Chart 3: China's official PMIs



Advanced Asia's industrial complex

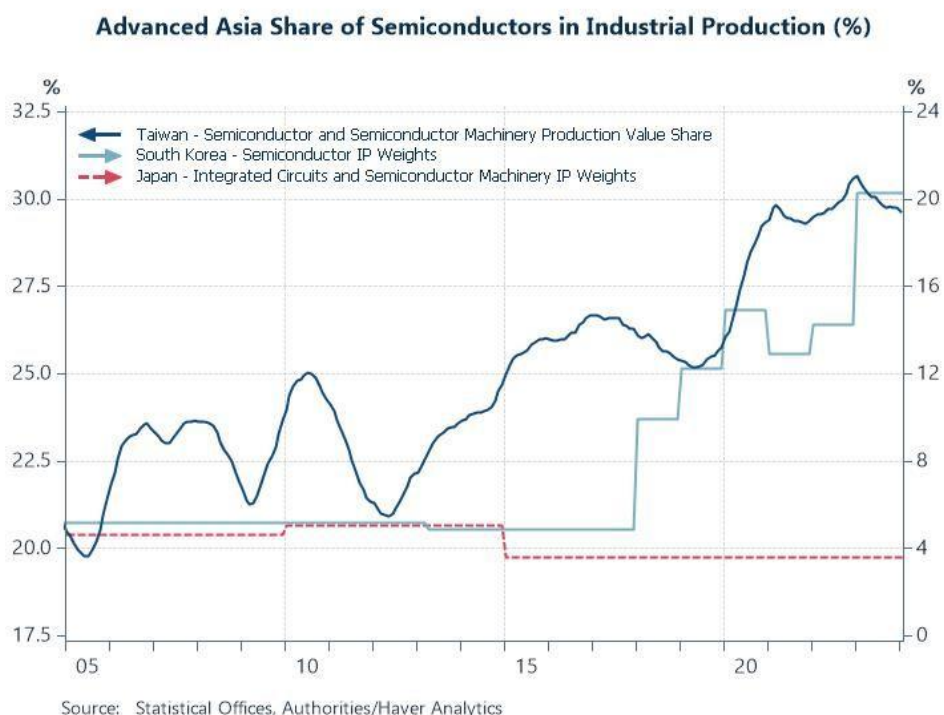
The performance of Advanced Asia's industrial sector has been more mixed in February (Chart 4). South Korea logged continued production growth for the month, supported in large part by the output of semiconductor goods. In contrast, Taiwan production fell 1.1% y/y, as greatly reduced work days due to Chinese New Year celebrations dragged on output. Additionally, Japan production unexpectedly contracted further, by 3.4%, with declines stemming from motor vehicles and production machinery (including those for semiconductors) among other goods.

Chart 4: Advanced Asia industrial production



Looking at broader trends, we see a gradual increase in the proportion of semiconductor-related goods in the industrial production mix of South Korea and Taiwan. In terms of figures, the value share of Taiwan's semiconductor and related machinery peaked at about 30.7% of industrial production in January 2023 but has tapered off since (Chart 5). In South Korea, the assigned weight for semiconductors in industrial production was increased to 20.2% in January 2023, highlighting the increased importance of the good in its industrial complex. In Japan, however, the assigned weight to integrated circuits and semiconductor machinery has remained below 10%.

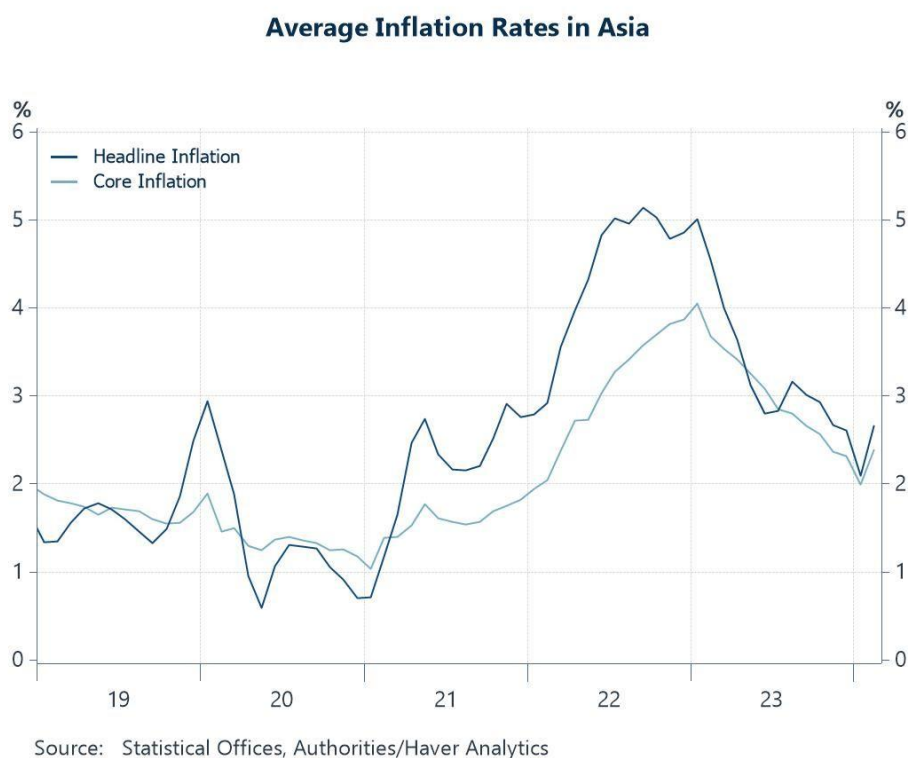
Chart 5: Advanced Asia share of semiconductors in industrial production



Regional inflation

Turning to price-related developments, we note a recent uptick in both headline and core inflation across Asia, as illustrated in Chart 6. The increase in price pressures was especially pronounced in Mainland China and Taiwan, likely driven by increased demand during the Chinese New Year holidays. Mild inflation increases were seen in Vietnam and the Philippines as well, driven primarily by soaring food prices. Some regional central banks may find themselves pressured to assume a more hawkish stance should the recent inflation uptick prove to be more than temporary. With that said, hawkish inclinations due to some reflation are unlikely to materialize anytime soon in economies like China and Thailand. This is because, despite the recent intensification of price pressures, they remain relatively subdued against a fragile domestic growth backdrop.

Chart 6: Average inflation rates in Asia



About the author



Haver Analytics is pleased to bring [Tian Yong Woon's](#) commentaries on the state of the global economy to its clients.

Tian Yong joined Haver Analytics as an Economist in 2023. Previously, Tian Yong worked as an Economist with Deutsche Bank, covering Emerging Asian economies while also writing on thematic issues within the broader Asia region. Prior to his work with Deutsche Bank, he worked as an Economic Analyst with the International Monetary Fund, where he contributed to Article IV consultations with Singapore and Malaysia, and to the regular surveillance of financial stability issues in the Asia Pacific region. Tian Yong holds a Master of Science in Quantitative Finance from the Singapore Management University, and a Bachelor of Science in Banking and Finance from the University of London.

Data featured in this commentary:

Chart 1: Contributions to India GDP growth

Series 1: Q534NGDT@EMERGEPR [India: Real Gross Domestic Product at Market Prices: Year/Year % Change (NSA, %)]

Series 2: Q534NFBT@EMERGEPR [India: Capital Formation: Contribution to Y/Y% Chg in Real GDP (NSA, %Pt)]

Series 3: Q534NCPT@EMERGEPR [India: Contrib to Y/Y% Chg in Real GDP: Private Consumption: (NSA, %Pt)]

Series 4: Q534NXT@EMERGEPR [India: Contrib to Y/Y% Chg in Real GDP: Exports of Goods & Services (NSA, %Pt)]

Series 5: Q534NCGT@EMERGEPR [India: Contrib to Y/Y% Chg in Real GDP: Govt Consumption: (NSA, %Pt)]

Series 6: (-1 * Q534NMT@EMERGEPR) -1 [India: Contrib to Y/Y% Chg in Real GDP: Imports of Goods & Services (NSA, %Pt)]

Series 7: Q534NSDT@EMERGEPR [India: Contrib to Y/Y% Chg in Real GDP: Statistical Discrepancy (NSA, %Pt)]

Chart 2: India small and mid-cap stocks and the rupee

Series 1: INCL@MSCID [India: Small+Mid Cap (LCU, May-31-07=1000)]

Series 2: XUSINSB@INTDAILY [INR Per USD Spot Mid Exchange Rate at 7 AM ET (INR/USD)]

Chart 3: China's official PMIs

Series 1: S924VM@EMERGEPR [China: PMI: Manufacturing (SA, 50+=Expansion)]

Series 2: S924VNG@EMERGEPR [China: PMI: Nonmanufacturing Business Activity (SA, 50+=Expansion)]

Chart 4: Advanced Asia industrial production

Series 1: yryr%(JPNIIP@JAPAN) [Japan: IP: Mining and Manufacturing (NSA, 2020=100)]

Series 2: yryr%(N542D@EMERGEPR) [South Korea: IP Industry excl Construction (NSA, 2020=100)]

Series 3: yryr%(N528D@EMERGEPR) [Taiwan: IP Industry excl Building Construction (NSA, 2021=100)]

Chart 5: Advanced Asia share of semiconductors in industrial production

*For more details on this chart data please email sales@haver.com

Chart 6: Average inflation rates in Asia

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