

AT A GLANCE | Emerging Asia Economies

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Business Sentiment in Major Asian Countries

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Amid China's lackluster economic growth, business confidence in other major Asian economies is also slowing, particularly those that have been doing well. Many countries, however, have recently begun to recover from weak economic conditions.

Countries That Have Been Faring Well

Figure 1 shows the changes in business confidence in each country based on standardized Purchasing Managers' Index (PMI) values for major Asian countries since 2022.

Figure 1: Business Sentiment Heat Map of Major Asian Economies (Z-Score)¹

	Manufacturing PMI (Z-Score) (Unit: σ)											
	2022/11	2022/12	2023/1	2023/2	2023/3	2023/4	2023/5	2023/6	2023/7	2023/8	2023/9	2023/10
Japan	-0.6	-0.6	-0.6	-1.0	-0.5	-0.4	0.0	-0.3	-0.4	-0.4	-0.7	-0.7
China	-1.2	-1.8	-0.1	1.2	0.9	-0.6	-0.8	-0.7	-0.5	-0.3	0.0	-0.4
Hong Kong	0.1	0.3	0.7	1.4	1.3	1.0	0.6	0.5	0.3	0.4	0.3	0.2
South Korea	-0.2	-0.6	-0.5	-0.5	-0.8	-0.6	-0.5	-0.8	-0.1	-0.3	0.1	0.1
Taiwan	-2.0	-1.4	-1.4	-0.5	-0.6	-0.9	-1.4	-1.3	-1.5	-1.4	-1.0	-0.8
Thailand	0.4	0.9	1.6	1.7	1.1	3.8	3.0	1.1	0.2	-0.4	-0.8	-1.0
Malaysia	-0.2	-0.3	-0.7	0.0	0.1	0.1	-0.3	-0.3	-0.3	-0.3	-0.6	-0.6
Indonesia	0.1	0.2	0.3	0.3	0.5	0.6	0.1	0.6	0.8	0.9	0.5	0.4
Philippines	0.3	0.4	0.5	0.3	0.2	-0.1	0.1	-0.3	0.0	-0.6	-0.4	0.2
Vietnam	-0.9	-1.2	-0.9	0.1	-0.9	-1.1	-1.5	-1.3	-0.6	-0.1	-0.3	-0.3
Singapore	-0.4	-0.5	-0.4	-0.3	-0.4	-0.5	-0.7	-0.5	-0.4	-0.4	-0.2	-0.2
India	0.6	1.1	0.6	0.5	0.8	1.0	1.3	1.1	1.1	1.3	1.0	0.6

Sources: NBSC, SIPMM, Markit, Bloomberg, SMBC

In the first half of 2022, South Korea, Taiwan, and Vietnam were in a strong position, benefiting from the robust external demand of the previous year, and Thailand was doing well on the back of the transition to economies coexisting with the COVID-19 virus, mainly in highly developed Western countries, and the recovery of automobile demand. India, which continues to see a rebound in domestic demand, also accelerated its pace of recovery. Other Association of Southeast Asian Nations (ASEAN) countries were also recovering from the economic devastation caused by the delta variant of the COVID -19 virus in the July-September 2021 period, showing a pickup in business confidence.

In the second half of 2022, business confidence in South Korea and Taiwan began to slow down against the backdrop of an overabundance of semiconductor inventories, and business confidence in China began to

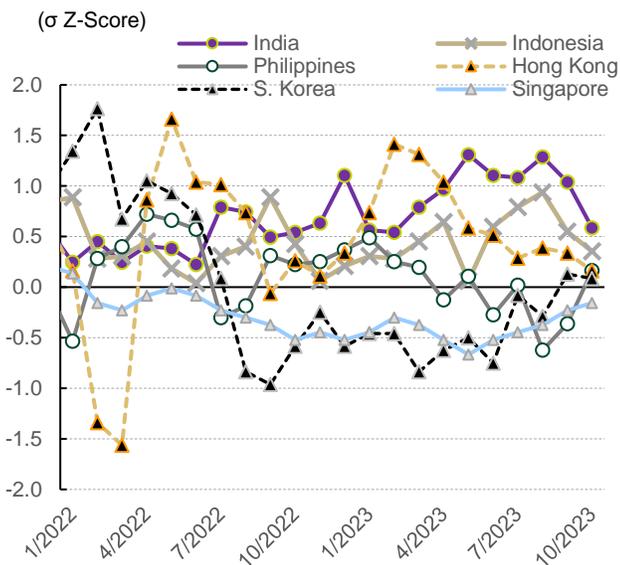
¹ The Z-Score is the standardized value obtained by subtracting the mean value of the data sample from the value and dividing by the standard deviation. In order to compare the business sentiment of each country, we standardized the data using the data of each country since 2016.

slow down against the backdrop of the spread of domestic infections. Sentiment in Singapore also worsened due to higher prices and slower consumption. In addition, business confidence in Vietnam slowed toward the end of 2022, as domestic interest rates soared due to currency intervention in response to the depreciation of the domestic currency. On the other hand, the rest of ASEAN remained generally strong, while India's growth accelerated.

In the first half of 2023, China briefly picked up on hopes of transitioning to an economy that would coexist with the COVID-19 virus, but it quickly stalled, while South Korea and Taiwan continued to languish. Vietnam also showed a slight recovery, but remained weak. However, other ASEAN countries remained strong.

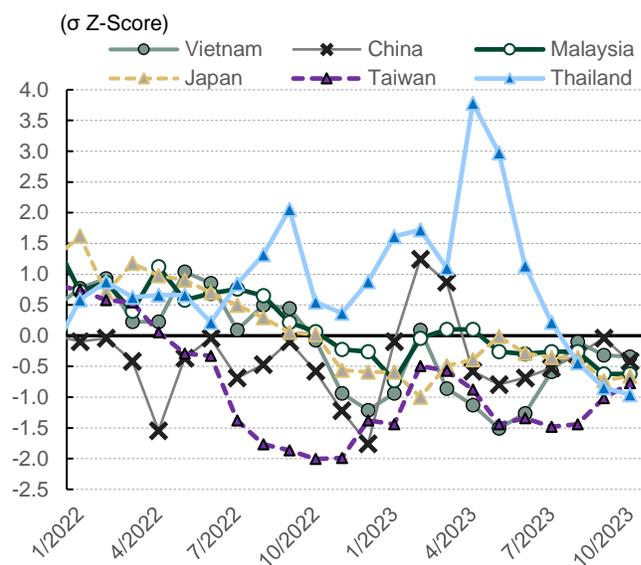
In the second half of 2023, ASEAN countries, which had been strong until that point, began to slow down, partly because of the reaction. Meanwhile, China, Taiwan, South Korea and Vietnam have started to pick up, albeit slowly. As a result, the difference in business confidence between East Asia and Southeast Asia is being corrected (Figures 2, 3).

Figure 2: Major Asian Countries (Z-Score)



Sources: SIPMM, Markit, Bloomberg, SMBC

Figure 3: Major Asian Countries Relatively Soft (Z-Score)



Sources: NBSC, Markit, Bloomberg, SMBC

If we look at major Asian economies from a broader perspective, however, we can see that the pace of economic expansion is slowing, reflecting a weak Chinese economy and sluggish consumption of goods in developed Western countries.

There is a trend between major Asian countries and developed countries in which Southeast Asia is responsible for the production of raw materials, East Asia for the processing, and developed Western countries and parts of China for the final consumption. Therefore, major Asian economies tend to be driven by the expansion and reproduction of global consumption of goods.

However, given the consumption trends in Europe and the United States, which have shifted their focus to service consumption since the COVID-19 pandemic, and the Chinese economy, which has been plagued by a shortage of domestic demand, the current slowdown in economic sentiment in major Asian countries is not surprising.

Outlook for Asian Economies

When will business confidence in Asia recover? The economy will pick up relatively quickly in East Asia, where it has already begun to recover.

Global semiconductor sales have already bottomed out (Figure 4). This fact can also be confirmed in Asia by the export data of South Korea, Taiwan and the Philippines (Figures 5, 6, 7). These products and exports will underpin the economies of the countries. Although Malaysia’s semiconductor production, which has a relatively large number of semiconductors for automobiles, did not show a further acceleration in 2023, there was no significant decline in 2022. Therefore, this production is already at a high level, indicating strong demand (Figure 8).

Meanwhile, business confidence in China, Asia’s biggest market, is recovering at a slower pace. The country’s PMI shows that the recovery seen since June 2023 paused in October.

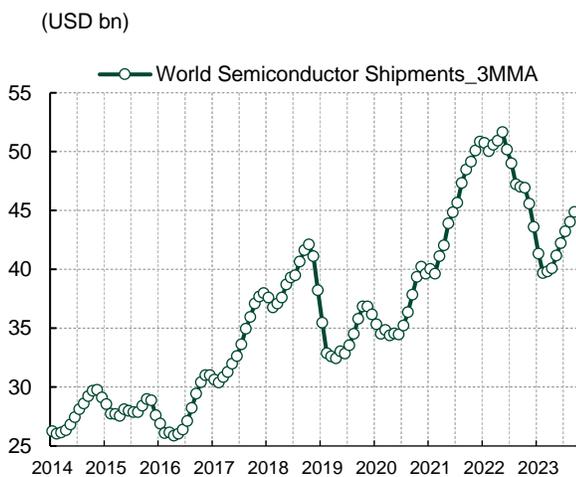
Countries that are likely to be affected by China are those in East Asia, such as South Korea, Taiwan, and Japan, as well as Singapore. The PMIs of these countries are relatively highly correlated with that of China, and are roughly three months ahead of the PMI of China (Figure 9). It is therefore likely that the recovery in business confidence will take a breather between December 2023 and January 2024 in these countries.

If China’s PMI signals a slowdown in economic growth beyond November, the slowdown in ASEAN countries, which has already occurred, will cause a recession in Asia as a whole.

However, an additional 1 trillion yuan of fiscal stimulus was announced in late October, and this is hardly reflected in China’s business confidence data from the period of the survey. Considering the timing of budget execution, it is expected that this policy effect will be clearly observed in the January-March period of 2024.

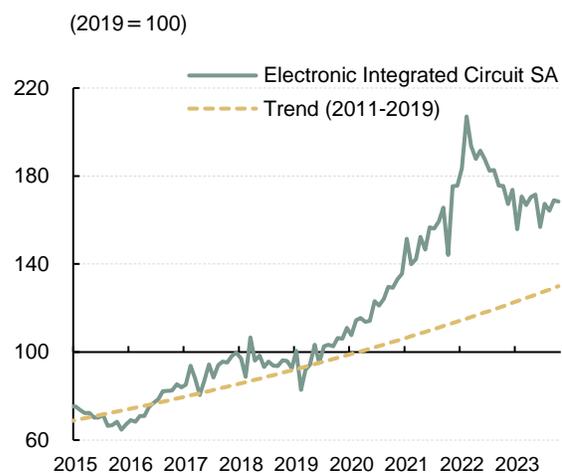
Expectations of increased demand following fiscal stimulus may therefore boost the PMI in November 2023 and provide sustained support for the economy over the years. Therefore, it is hasty to be pessimistic about the future of the Asian economy at this point. It will not be too late to confirm whether East Asia’s recovery will continue after China’s PMI in November.

Figure 4: Global Semiconductor Shipments (3-month moving average)



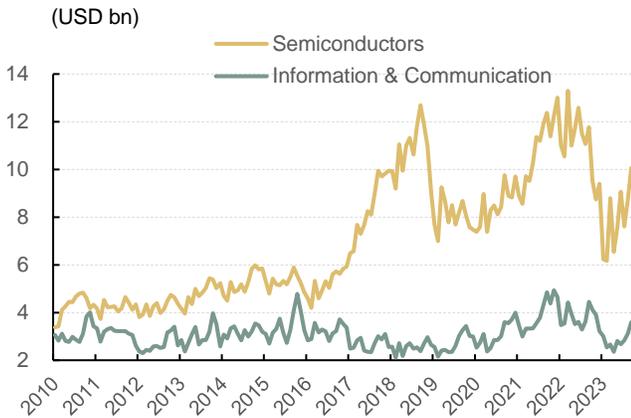
Sources: CEIC, SMBC

Figure 5: Taiwan’s Semiconductor Exports (2019=100, seasonally adjusted)



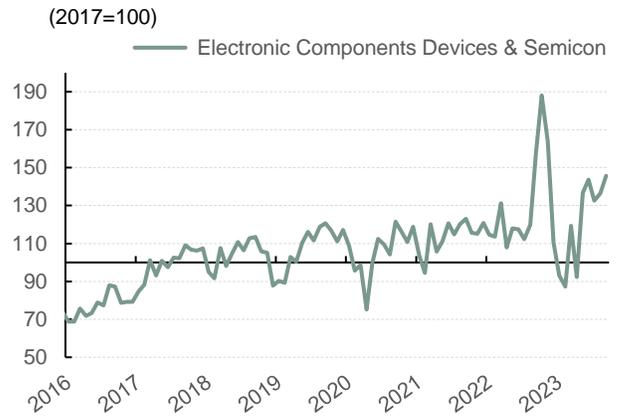
Sources: MOF, CEIC, SMBC

Figure 6: South Korea's Electronics Exports (semiconductors and information communication)



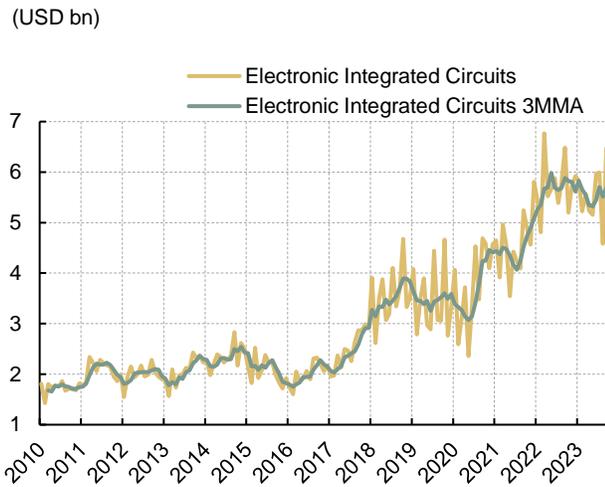
Sources: KCS, CEIC, SMBC

Figure 7: Philippines Exports (2017=100, electronic devices/semiconductors)



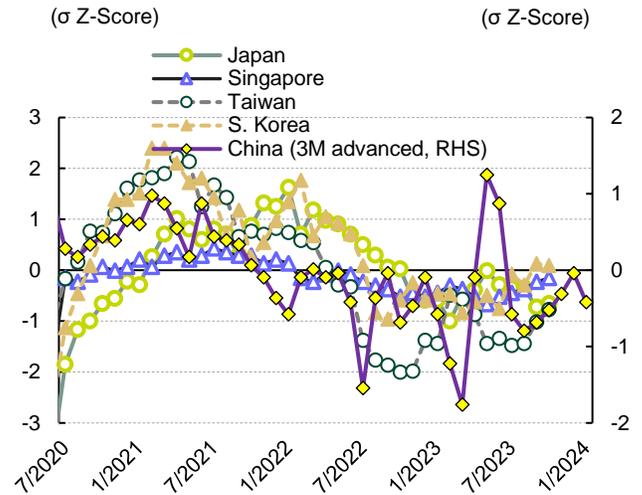
Sources: PSA, CEIC, SMBC

Figure 8: Malaysia's Semiconductor Exports



Sources: DOS, CEIC, SMBC

Figure 9: Countries With a High Correlation Between Economic Sentiment and China



Sources: NBSC, SIPMM, Markit, Bloomberg, SMBC

Economic Outlook: 2023-2024 Forecast

Figure 1: Forecasts for Economic Growth, Inflation, and Unemployment Rates

		2022			2023				2024				2021	2022	2023	2024
		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
US	Real GDP	-0.6	2.7	2.6	2.2	2.1	4.9	1.2	0.6	1.0	1.2	1.7	5.9	2.1	2.4	1.3
	Inflation	5.2	5.2	5.1	4.8	4.6	3.9	3.6	3.0	2.7	2.6	2.5	3.6	5.2	4.2	2.7
	Unemployment	3.6	3.6	3.6	3.5	3.6	3.7	3.9	4.2	4.4	4.4	4.5	5.4	3.7	3.7	4.4
Euro Area	Real GDP	0.8	0.3	0.0	0.0	0.2	-0.1	0.1	0.2	0.2	0.3	0.4	5.9	3.4	0.5	0.7
	Inflation	8.0	9.3	10.0	8.0	6.2	4.9	3.2	3.4	3.3	3.2	2.8	2.6	8.4	5.6	3.2
	Unemployment	6.7	6.7	6.7	6.6	6.5	6.5	6.6	6.7	6.8	6.8	6.8	7.7	6.7	6.6	6.8
Japan	Real GDP	4.7	-0.4	-0.2	3.7	4.5	-2.1	1.1	0.9	0.9	1.1	1.1	2.2	1.0	1.7	0.8
	Inflation	2.1	2.7	3.8	3.5	3.2	3.0	2.5	2.5	2.7	2.7	2.4	-0.2	2.3	3.0	2.6
	Unemployment	2.6	2.5	2.5	2.6	2.5	2.4	2.4	2.3	2.3	2.3	2.3	2.8	2.6	2.4	2.3
China	Real GDP	0.4	3.9	2.9	4.5	6.3	4.9	5.2	4.7	5.5	5.4	5.5	8.4	3.0	5.2	5.3
	Inflation	2.2	2.8	1.8	1.3	0.2	0.0	0.6	1.1	1.5	1.8	2.0	0.8	1.7	0.5	1.6
	Unemployment	5.8	5.4	5.6	5.5	5.2	5.2	5.1	5.1	5.0	5.0	5.0	5.1	5.1	5.2	5.0

Real GDP growth is in QoQ annualized for U.S. and Japan, QoQ for euro area and YoY for China and India. Inflation rate is in YoY%. Inflation rate is YoY, % of core index (ex. fresh food) for Japan, YoY % of PCE deflator for U.S., and total YoY% for the rest.

Figure 2: Forecast for Rates

Interest rate		2022	2023				2024				2022	2023	2024
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
US	Policy rate	4.25 ~ 4.50	4.75 ~ 5.00	5.00 ~ 5.25	5.25 ~ 5.50	5.25 ~ 5.50	5.25 ~ 5.50	5.00 ~ 5.25	5.00 ~ 5.25	4.75 ~ 5.00	4.25 ~ 4.50	5.25 ~ 5.50	4.75 ~ 5.00
	2yr	4.43	4.03	4.90	5.04	5.00	5.00	4.75	4.75	4.75	4.43	5.00	4.75
	10yr	3.87	3.47	3.84	4.57	4.30	4.00	3.90	4.00	4.00	3.87	4.30	4.00
Germany	Policy rate	2.50	3.50	4.00	4.50	4.50	4.50	4.50	4.25	4.00	2.50	4.50	4.00
	Deposit rate	2.00	3.00	3.50	4.00	4.00	4.00	4.00	3.75	3.50	2.00	4.00	3.50
	2yr	2.50	2.68	3.20	3.20	3.00	2.80	2.60	2.40	2.30	2.50	3.00	2.30
Japan	Policy rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.10	0.10	0.10	-0.10	-0.10	0.10
	2yr	0.04	-0.06	-0.07	0.06	0.15	0.20	0.30	0.30	0.30	0.04	0.15	0.30
	10yr	0.42	0.35	0.40	0.77	0.95	1.00	1.00	1.00	1.00	0.42	0.95	1.00
China	Policy rate	2.75	2.75	2.65	2.50	2.50	2.50	2.50	2.50	2.50	2.75	2.50	2.50
	2yr	2.39	2.41	2.11	2.26	2.37	2.43	2.48	2.57	2.60	2.39	2.37	2.60
	10yr	2.83	2.85	2.64	2.67	2.72	2.78	2.83	2.87	2.90	2.83	2.72	2.90

Figure 3: Forecast for FX and Oil Price

		2022	2023				2024				2022	2023	2024
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
USD/JPY	Range	130.58 ~ 151.95	127.23 ~ 137.91	130.64 ~ 145.07	137.25 ~ 149.71	138.00 ~ 154.00	133.00 ~ 147.00	126.00 ~ 142.00	128.00 ~ 142.00	128.00 ~ 142.00	113.47 ~ 151.95	127.23 ~ 154.00	126.00 ~ 147.00
	End of quarter	131.12	132.86	144.31	149.37	145.00	140.00	133.00	135.00	135.00	131.12	145.00	135.00
EUR/USD	Range	0.9633 ~ 1.0735	1.0806 ~ 1.1033	1.0635 ~ 1.1095	1.0488 ~ 1.1276	1.0200 ~ 1.1200	1.0100 ~ 1.1100	1.0100 ~ 1.1100	1.0100 ~ 1.1100	1.0200 ~ 1.1200	0.9536 ~ 1.1495	1.0200 ~ 1.1276	1.0100 ~ 1.1200
	End of quarter	1.0705	1.0839	1.0909	1.0573	1.0600	1.0500	1.0500	1.0600	1.0600	1.0705	1.0600	1.0600
EUR/JPY	Range	138.81 ~ 148.40	124.40 ~ 145.67	142.55 ~ 158.00	151.42 ~ 159.76	152.00 ~ 166.00	145.00 ~ 159.00	135.00 ~ 149.00	136.00 ~ 150.00	136.00 ~ 150.00	124.40 ~ 150.00	137.39 ~ 166.00	135.00 ~ 159.00
	End of quarter	140.41	144.01	157.43	157.93	153.70	147.00	139.65	143.10	143.10	140.41	153.70	143.10
Crude Oil Prices (WTI)		82.64	75.99	73.67	82.22	89.50	85.50	79.50	80.50	80.00	98.74	80.35	81.38

※ Crude oil prices are averages for each period. Source: SMBC.

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