Economics

Chart of the Week: Weak trade figures will persist, but don't worry

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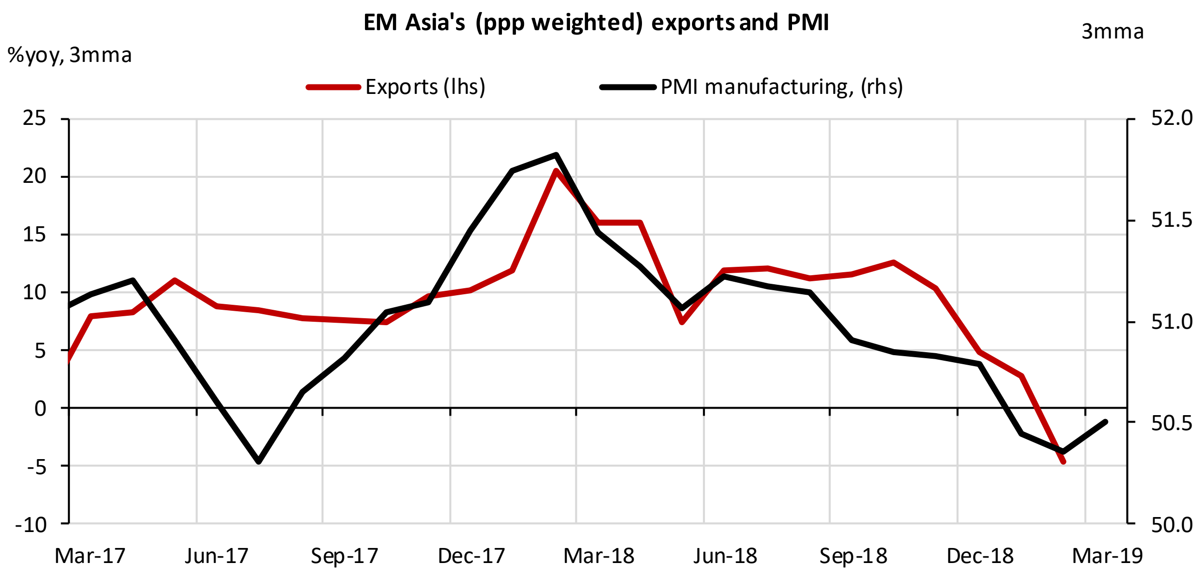
Key Events:

- *Eurozone's 1Q19 GDP growth is likely to slow to 1.1% YoY from 1.2% in the prior quarter due to a challenging external sector.*
- *The Hong Kong real GDP growth should have stabilized from 1.1% in 4Q18 to 1.8% YoY in 1Q19, with retail sales and trade performance are expected to improve somewhat in Mar.*
- *The manufacturing PMI of China is projected to edge down to 50.4 in Apr from 50.5 in Mar due to the usual season effect.*

Chart of the Week: PMIs suggest the worst is over, but weak trade numbers won't disappear soon

Barring a few exceptions, trade figures remain dismal. On a three-month moving average basis, exports growth in March was not only negative but worsening in Indonesia, Singapore, South Korea, Taiwan, and Thailand. While China surprised with a strong March outturn, thereby taking its corresponding figure to positive territory, it is way too early to call a bottom in regional exports. Not that weak exports are something to be alarmed about. First, there is a strong base effect at play as exports soared in the first half of last year, perhaps reflecting some advancing of trade ahead of US tariffs on Chinese exports. Second, there have been many instances of negative exports growth in the region during this decade, and hardly any one of them signalled a lasting downturn ahead.



Source: CEIC, DBS Group Research

Event	Consensus	DBS	Previous
Apr 29 (Mon)			
Hong Kong: trade balance (Mar)	-HKD48.5bn	-HKD51.2bn	-HKD48.8bn
-- exports	-2.6% y/y	1.8% y/y	-6.9% y/y
-- imports	-4.3% y/y	0.5% y/y	-3.8% y/y
Apr 30 (Tue)			
China: manufacturing PMI (Apr)	50.5	50.4	50.5
Eurozone: unemployment rate (Mar)	7.8%	7.8%	7.8%
Eurozone: GDP (1Q, A)	1.1% y/y	1.0% y/y	1.1% y/y
Taiwan: GDP (1Q, P)	1.4% y/y	1.0% y/y	1.8% y/y
South Korea: industrial production (Mar)	-1.0% y/y	0.6% y/y	-2.7% y/y
May 1 (Wed)			
US: ISM manufacturing (Mar)	55.0	55.5	55.3
Thailand: CPI (Apr)	1.2% y/y	1.3% y/y	1.2% y/y
South Korea: trade balance (Mar)	USD3676mn	USD5770mn	USD5206mn
-- exports	-6.0% y/y	-4.7% y/y	-8.2% y/y
-- imports	-1.0% y/y	-4.4% y/y	-6.7% y/y
May 2 (Thu)			
US: FOMC rate decision (upper bound)	2.5%	2.5%	2.5%
Hong Kong: GDP (1Q)	1.9%	1.8%	1.3% y/y
South Korea: CPI (Mar)	0.4% y/y	0.4% y/y	0.4% y/y
Indonesia: CPI (Apr)	2.6% y/y	2.5% y/y	2.5% y/y
May 3 (Fri)			
Eurozone: CPI (Apr)	1.6% y/y	1.6% y/y	1.4% y/y
Hong Kong: retail sales (Value; Mar)	3.0% y/y	-5.0% y/y	-10.1% y/y
Hong Kong: retail sales (Volume; Mar)	2.3% y/y	-5.3% y/y	-10.4% y/y
Malaysia: trade balance (Mar)	MYR 13.2bn	MYR 11.8bn	MYR11.1bn
-- exports	-4.5% y/y	-7.7% y/y	-5.3% y/y
-- imports	-3.7% y/y	-5.3% y/y	-9.4% y/y

China: The manufacturing PMI is projected to edge down to 50.4 in Apr from 50.5 in Mar due to the usual season effect, where the high base Mar data was partly distorted by the Chinese New Year. In fact, the PMI went down for three times in April in the past five years. Among all, the new export order component should have stayed in contraction territory for the 11th consecutive month due to weakening global demand. Yet, it is expected to improve against the backdrop of softening trade tension. Also, a recovering domestic economy will help keeping the PMI in expansionary zone. Retail sales, industrial production and fixed asset investment bounced back to 8.7%, 8.5%, and 6.3% in Mar from 8.3%, 5.3%, and 6.1% in Jan-Feb on the back of sufficient liquidity (aggregate financing grew by 10.6% in Mar, compared to 10.2% in Jan-Feb). We believe the Chinese economy has entered a stage of stabilization.

Hong Kong: Both the domestic and external sectors should have improved somewhat in Mar. On consumption front, retail sales value is expected to record a 5.5% YoY decline in Mar, compared to 10.2% decline in Feb. This is somewhat due to the positive wealth effect from the buoyant equity market. Recover in inbound tourism (visitor arrival increased by 17.0% YoY in Feb (3mma)) will also render some support to the retail sector alongside a stabilizing CNY exchange rate. Externally, trade figures should have improved somewhat amid trade war optimism. Outward and inward shipment growth are forecasted to bounce back to 1.8% and 0.5% in Mar from -6.9% and -3.8% respectively. This should largely mirror the recent rebound in China's export performance. These positive developments are expected to stabilize the economic growth engine in the quarters ahead. However, external uncertainties such as Brexit and moderating global demand should continue to warrant concern. The Hong Kong real GDP growth is forecasted to improve slightly from 1.1% in 4Q18 to 1.8% YoY in 1Q19. Yet, this is way below the 10-year trend growth of 2.8%. The seemingly modest expansion, however, is partly a result of the high base comparison of 1Q18, where the Easter holiday fell in Mar last year. We expect the Hong Kong economy will recover further and grow by 2.5% for FY2019.

Taiwan: GDP growth is expected to have fallen sharply to 1.0% YoY in 1Q19, down from 1.8% in 4Q18. On the QoQ (saar) basis, a small contraction of about -1% could be expected. Exports deteriorated last quarter amid the faltering tech cycle and sluggish demand from major economies. This has triggered a rapid process of inventory destocking, as evidenced by the plunge in industrial production in 1Q (-4.6% YoY). The weaker-than-expected 1Q will pose downside risks to our 2019 GDP growth forecast of 1.9%, which already stands below the consensus and official estimates. Thankfully, the early indicators including PMI, capital goods imports and consumer confidence suggest that the worst might be behind us. We don’t fully rule out the case of a technical recession (two consecutive quarters of negative QoQ GDP growth), but believe that a real recession can be avoided and the economy will regain some momentum in the later part of this year.

South Korea: The trade and inflation data out this week will likely show that growth has stayed weak and price pressure has remained muted at the start of 2Q. According to the preliminary figures, exports continued to contract markedly by -9.4% YoY in the first 20 days of April, not very different compared to the average of -10.4% during the same periods of January-March. Despite the upside surprise in China’s economic data, it will still take time for the recovery in Chinese demand to be translated into inventory restocking and an increase in imports. Domestic demand may not pick up quickly as well, given that the size of the proposed supplementary budget is not large (KRW6.7tn) and implementation will be concentrated in 2H. The lingering weakness in aggregate demand is expected to keep inflation at bay. We expect April CPI to stay unchanged from the previous month, at 0.4% YoY.

Indonesia: We expect April inflation to stay at 2.5% on the back of stable rice price and fuel price. In addition, high base effect from January to June 2018 also affected inflation. We have seen core inflation stayed above 3% since 3Q18 as capital flows returned and somewhat ease financial condition. We expect core inflation to stay at 3.04% in Apr19. Higher oil price will finally put pressure on Indonesia’s inflation especially if domestic fuel price needs to be adjusted, yet even if both fuel and electricity prices are adjusted this year, we remain to see less risk of inflation increasing beyond 3.6%.

Malaysia: Trade data (Mar19) is on tap this week. Export growth for the month is likely to register an even deeper decline of 7.7% YoY, down from an already paltry -5.3% in the previous month. While a high base is at work, weak external demand and lag effect of the trade war have further weighed down on the headline figure. But positive signs are emerging from the trade talk between the US and China. This is expected to lift sentiments, which could potentially boost export performance going forward. Imports are expected to dip by 5.3%, which should then deliver a trade surplus of MYR 11.8bn.

Thailand: After the uptick in March inflation to 1.2%, April’s reading is expected to rise 1.3% YoY as the impact of higher fuel prices filter through the service segments, along with higher food costs. Despite this rise, inflation is still at the lower end of the BOT target and thereby not a catalyst for policy action. Policymakers, nonetheless, continue to make a case to tighten policy conditions with a view of financial stability, but we reckon action is not imminent given risks to growth and a relatively firm currency. Resolution of political uncertainty is, meanwhile, a bigger watch factor than economic data at this juncture. Thailand’s Election Commission expressed confidence that it was on course to certify the results of the March 24 general election by the previously set deadline of May 9, but the overhang of a delay remains.

Eurozone: We head into a busy week for data releases from the currency bloc. 1Q19 GDP growth is likely to set the stage for a weak start to the year, where activity likely slowed to 1.1% YoY from 1.2% in the prior quarter. Apart from a tumble in sentiment indices, manufacturing activity (including PMIs) slowed due to a challenging external sector. Despite recent signs of optimism in data out of China, it remains to be seen if that translates into better numbers for rest of the region and G7 countries. Outside of the industrial sector, retail sales and a falling unemployment rate suggest that consumption likely contributed positively to growth. Inflation in April likely hastened to 1.6% YoY from March’s 1.4% month before. Uptick in global energy prices is likely to support prices, along with Easter-related spending. Core is likely to remain stable within 1.0-1.1% range. Unemployment rate is likely to stay low at 7.8%, underpinning wage pressures.

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).