



McKinsey & Company

# ASEAN Insights: Regional trends

March 2018



# 1. Global trends

## BUSINESS AND CONSUMER CONFIDENCE ROBUST; US FED HIKES RATES; EQUITY MARKETS FALL

The global economic environment remained positive this month. Global purchasing managers indexes (PMIs) for manufacturing remained robust, with the global manufacturing PMI recorded at 54.2 in February, while the services PMI went up from 54.1 in January to 54.8 in February. Consumer confidence improved in the US, but fell in the Eurozone. Retail sales growth remained positive, picking up slightly in both the US and Eurozone.

World trade volumes rose by 4.5 percent year on year in December, with growth coming from both advanced and emerging economies.

Unemployment rates were steady in December, with unemployment rate in the United States and Eurozone remaining at 4.1 percent and 8.7 percent respectively in January.

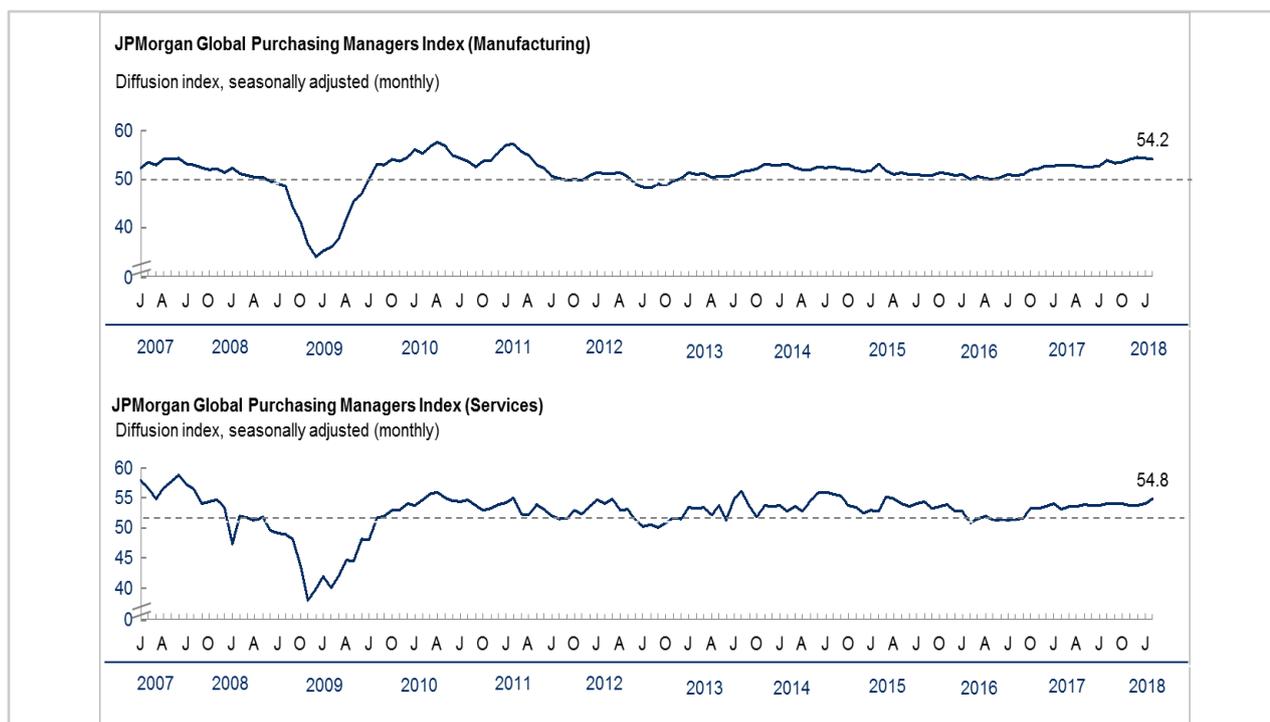
Inflation in the United States edged up 2.2 percent year on year in February, in line with market expectations. On the other hand, inflation in the Eurozone moderated to 1.1 percent year on year in February, below the 1.3 percent figure in the previous month.

The US Federal Reserve lifted short-term interest rates by 25 basis points in March, with the target range for the federal funds rate now at 1.5 to 1.75 percent. Furthermore, the Fed forecast that rates will rise higher than previously expected in the coming years, as the economic outlook continues to strengthen.

Global equities performed poorly this month, with investor sentiment negatively affected by fears over trade barriers, the Federal Reserve interest rate hike and a data privacy incident involving Facebook.

Citing national security concerns, the US announced tariffs on aluminum (10%) and steel (25%) imports. In the days following the announcement, the US announced a number of exceptions, including Mexico and Canada—it remains unclear whether and how many other countries will receive exemptions.

### Both manufacturing and services PMIs remain firmly expansionary

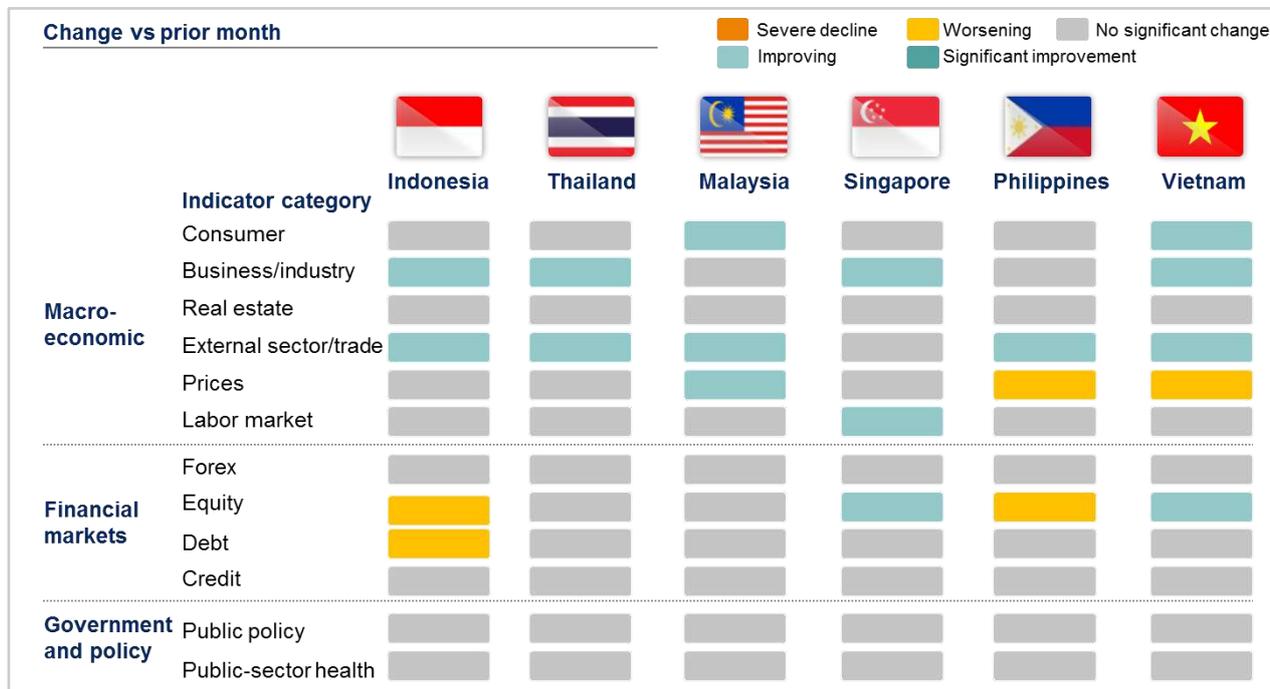


Note: A reading above 50.0 indicates expansionary conditions, while a reading under 50.0 indicates contractionary conditions.

## 2. Regional trends: ASEAN

### TRADE VOLUMES CONTINUED TO SURGE; INDUSTRIAL PRODUCTION GREW STRONGLY, WHILE INFLATION OUTCOMES WERE MIXED

Leading indicators show positive sentiment; Singapore's labor market shows improvement in Q4 2017; equities mixed; Malaysian central bank holds rates



#### Macroeconomic trends

External trade volumes in ASEAN maintained a strong performance last year, with many countries recording double-digit export growth. Exports from Indonesia rose by 11.8 percent year on year in February, with sales of non-oil and gas products rising strongly. Meanwhile, exports from Thailand and Malaysia rose by 17.6 percent and 17.9 percent year on year respectively in January, with the growth rate in Thailand the fastest in more than five years. The exception to the strong trade performance was Singapore, which saw non-oil domestic exports falling by 5.9 percent year on year in February. However, this was due to base effects resulting from the Chinese New Year holiday, which fell in February this year but January in 2017.

Reflecting the positive trade conditions, industrial production output was robust, with all countries seeing a rise in industrial production growth. Notably, industrial production in the Philippines surged 20.4 percent year on year in January, the highest since April 2010. Industrial production growth also rose in Thailand, Malaysia, and Singapore, while remaining robust at 8.0 percent year on year in February was Vietnam.

Headline inflation outcomes were mixed. Inflation moderated in Indonesia, Thailand, Malaysia, and Singapore but accelerated in the Philippines and Vietnam.

SOURCE: CEIC; McKinsey Global Economics Intelligence analysis

PMI indicators were positive this month. For ASEAN as a whole, the PMI rose to 50.7 in February, from 50.2 in January. All countries are in the expansionary zone, with the exception being Malaysia. Malaysia's manufacturing PMI fell to 49.9 in February, from 50.5 a month earlier. On the other hand, Indonesia's PMI surged to 51.4 in February, from 49.9 in January.

Singapore's labor market improved in Q4 2017, after struggling recently. The seasonally adjusted unemployment rate for Singaporeans fell to 3.0 percent in Q4, from 3.1 percent in Q3, while the ratio of job vacancies to unemployed persons rose.

#### Financial markets

Equity markets were mixed this month. Equity markets in Indonesia and the Philippines fell, with sentiment affected by the US announcing trade barriers. Markets in Thailand and Malaysia were mostly flat, while Vietnam's stock market continued to rally. Sentiment in Vietnamese equities has been boosted by the partial privatization of state-owned companies such as Vinafood II.

#### Government policy

The Malaysian central bank, Bank Negara Malaysia (BNM), left its benchmark interest rate (the overnight policy rate) unchanged at 3.25 percent this month.

# 3. ASEAN Insights: Country analysis

## THE REGION AT A GLANCE

### MYANMAR

- Myanmar's manufacturing PMI for February rose to its highest level in ten months. The PMI was recorded at 52.6 in February, up from 51.7 in January.

### THAILAND

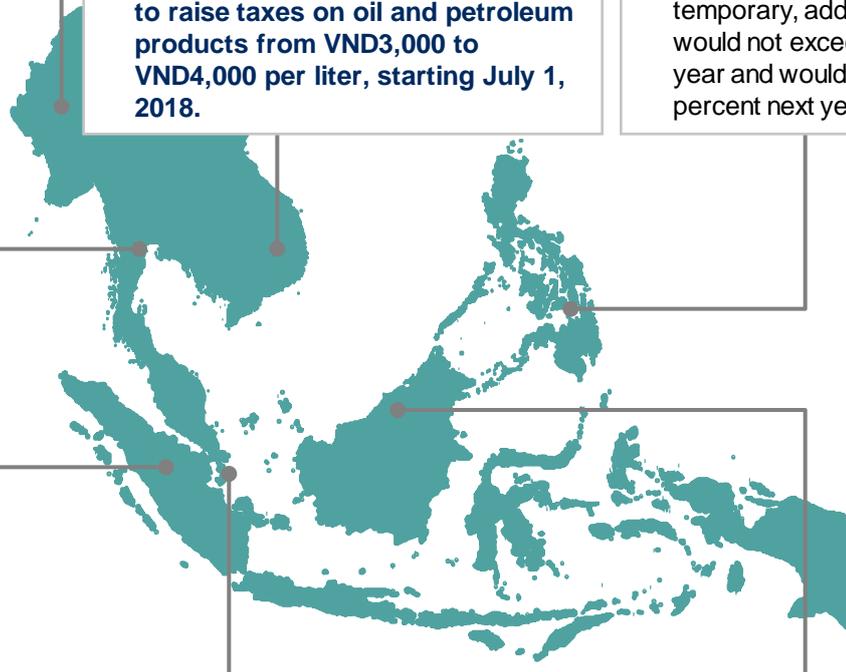
- Exports surged by 17.6 percent year on year in January, while imports spiked by 24.3 percent. The growth in exports was the fastest in more than five years, as global demand remained robust.
- The manufacturing PMI rose to 50.9 in February, from 50.6 a month ago. This was the fourth consecutive month of expansion in manufacturing activity, and the highest recorded since the PMI survey began in December 2015.

### VIETNAM

- Inflation accelerated to 3.2 percent year on year in February, from 2.7 percent in January. Inflation was affected by base effects related to the Tet holiday (Lunar New Year), which fell on February this year and January last year.
- Vietnamese equities rallied this month. Sentiment was boosted by the biggest private equity deal ever in Vietnam.
- The Ministry of Finance is planning to raise taxes on oil and petroleum products from VND3,000 to VND4,000 per liter, starting July 1, 2018.

### PHILIPPINES

- Industrial production rebounded in January, surging by 20.4 percent year on year. This reversed a 9.8 percent fall in December.
- Consumer prices rose by 3.9 percent year on year in February, after a 3.4 percent rise a month earlier. Central bank governor, Nestor Espenilla Jr. said the rise in inflation over the past two months was temporary, adding that inflation would not exceed 5 percent this year and would come down to 3.5 percent next year.



### INDONESIA

- Indonesian trade volumes grew strongly, with exports and imports rising by double digits in February.
- The manufacturing PMI in Indonesia rose to 51.1 in February, a 20-month high. This improvement was led by an expansion in both output and new orders.
- Inflation moderated slightly, with consumer prices rising by 3.2 percent year on year in February, easing from 3.3 percent the preceding month.
- The benchmark equity index, the Jakarta Composite Index, fell around 4 percent month on month in March, with sentiment affected by news related to US tariffs on steel and aluminum.

### SINGAPORE

- Economic data was significantly affected by the Chinese New Year holiday, which happened in February this year instead of January last year.
- Singapore's labor market saw an improvement in Q4 2017. The unemployment rate for Singaporean residents declined to 3.0 percent, while the ratio of job vacancies to unemployed persons rose, indicating more jobs available to job-seekers.

### MALAYSIA

- Malaysian exports and imports grew by double-digits. Exports went up by 17.9 percent year on year in January. Export sales were supported by strong growth in electronics and oil-related products.
- The manufacturing PMI declined to 49.9 in February, from 50.5 in January. Malaysia is currently the only country in ASEAN with the PMI figure not in the expansionary zone.
- The Malaysian central bank, the Bank Negara Malaysia (BNM), held its benchmark interest rate, the overnight policy rate, steady at 3.25 percent this month.

## TRADE VOLUMES CONTINUE TO RISE; PMI HIGHEST SINCE JUNE 2016; EQUITIES FALL

Indonesian trade volumes continued their buoyant start to 2018, with exports and imports rising by double digits in February. Exports rose by 11.8 percent year on year, while imports went up by 25.2 percent. Export sales were driven by both oil-related and non-oil related products.

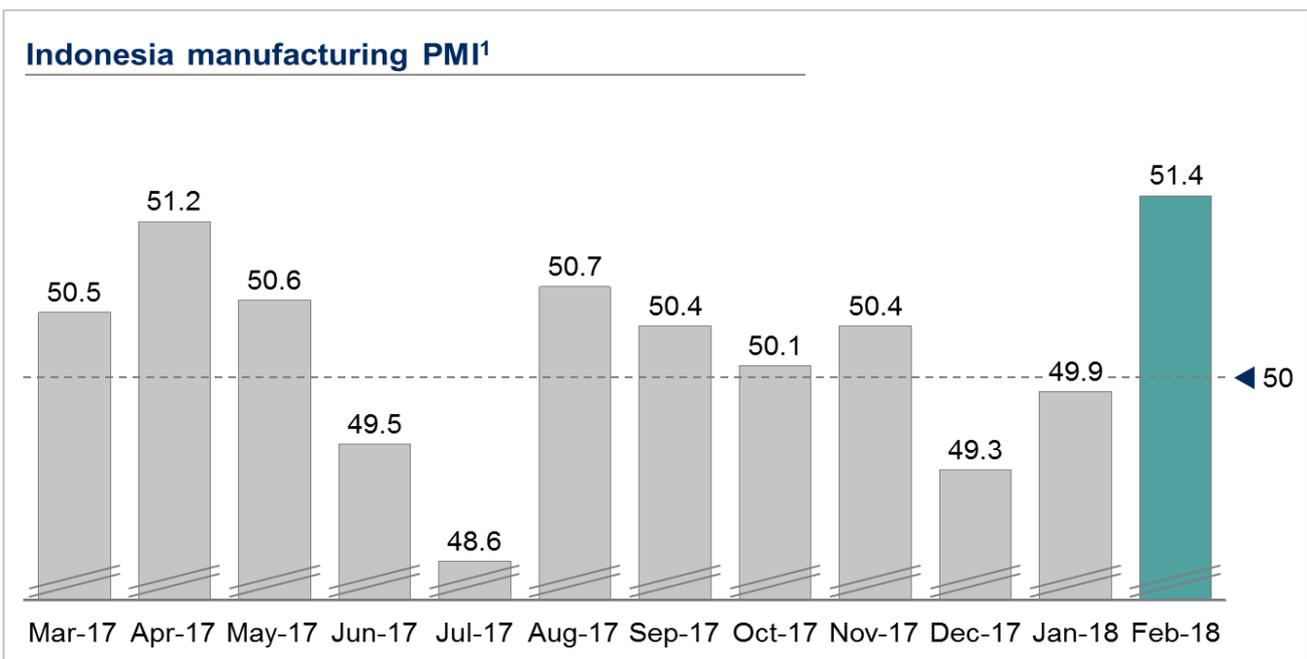
The manufacturing PMI in Indonesia rose to 51.1 in February, a 20-month high. This improvement was led by an expansion in both output and new orders. Notably, as a result of the greater production, manufacturers increased employment for the first time in 17 months, with the rate of employment growth the second-strongest recorded in the series history.

Inflation moderated slightly, with consumer prices rising by 3.2 percent year on year in February, easing from the 3.3 percent in the preceding month. This was the lowest since December 2016, as price increases for housing and transport rose at a slower pace.

The Indonesian government announced plans to keep administered electricity and fuel prices unchanged for the next two years, after three small increases in electricity tariffs last year.

On the financial market front, Indonesian equity markets fell this month. The benchmark equity index, the Jakarta Composite Index, fell around 4 percent month on month in March, with sentiment affected by news related to US tariffs on steel and aluminum.

### Indonesia's manufacturing PMI rose to the highest since June 2016



<sup>1</sup> A reading above 50 indicates an expansion of the manufacturing sector compared with the previous month; below 50 represents a contraction; while 50 indicates no change.



# Thailand

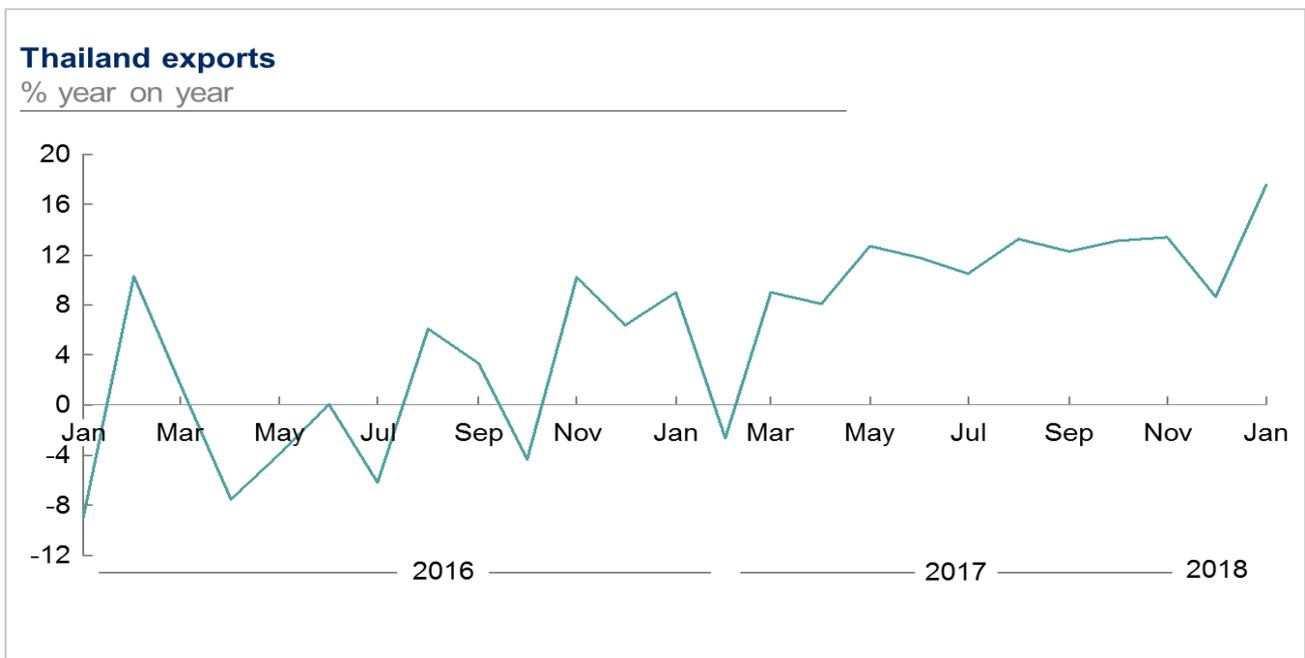
## EXPORTS RISE BY DOUBLE DIGITS; LEADING INDICATORS BUOYANT; INFLATION EASES

Exports and imports in Thailand had a buoyant start to 2018. Exports surged by 17.6 percent year on year in January, while imports spiked by 24.3 percent. The growth in exports was the fastest in more than five years, as global demand remained robust.

The strong trade figures were reflected in an improvement in leading indicators. The manufacturing PMI in Thailand rose to 50.9 in February, from 50.6 a month ago. This was the fourth consecutive month of expansion in manufacturing activity, and the highest recorded since the PMI survey began in December 2015. Growth was broad-based, with output, new export orders, and new orders strengthening.

Inflation moderated to 0.4 percent in February, after a 0.7 percent figure in January. This was the third consecutive month of slowing inflation, and was mainly attributable to food prices. The Thai central bank governor Veerathai Santiprabhob said this month that, with inflationary pressure remaining soft, Thailand's monetary policy will need to remain accommodative to aid the country's economic recovery. The Bank of Thailand has left its policy interest rate unchanged at 1.50 percent, near record lows, since April 2015.

### Thai exports grew strongly





# Malaysia

## EXPORT GROWTH REMAINS STRONG; INFLATION LOWEST SINCE END-2016 AS CENTRAL BANK HOLDS RATES STEADY

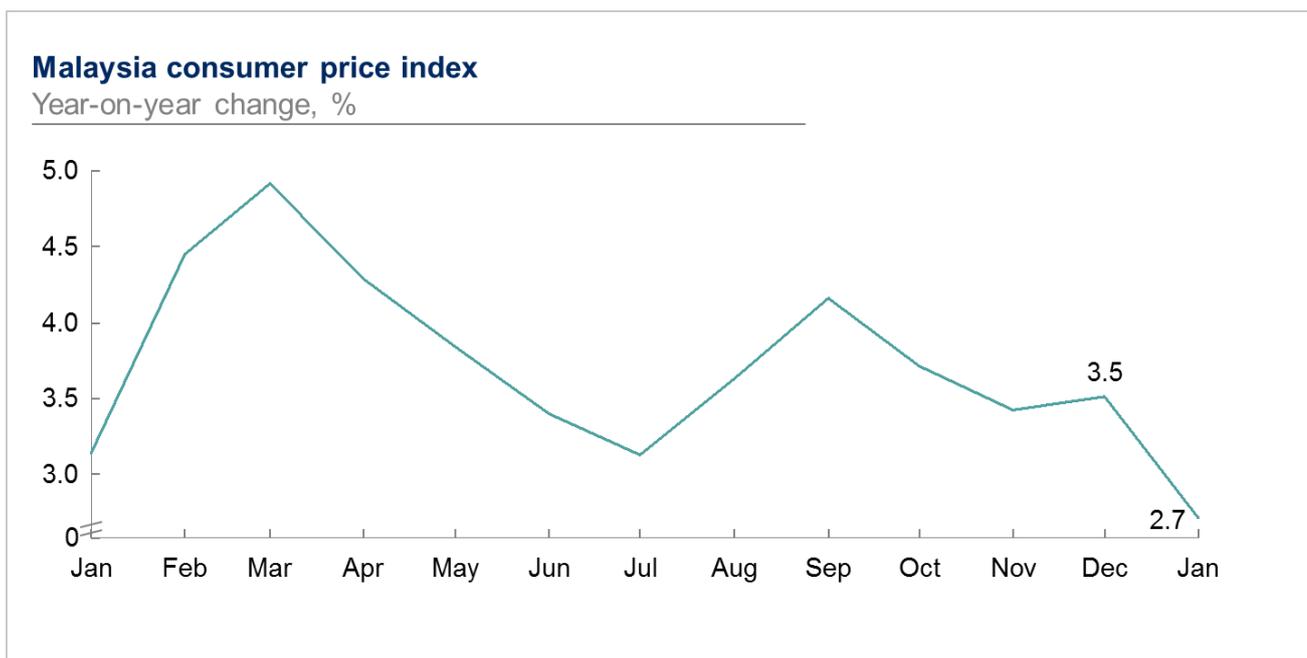
In line with the strong trade figures recorded in the rest of the region, Malaysian exports and imports grew by double digits. Exports went up by 17.9 percent year on year in January, while imports rose by 11.6 percent. Export sales were supported by strong growth in electronics and oil-related products.

However, despite the strong export figures, the manufacturing PMI declined to 49.9 in February, from 50.5 a month earlier. Malaysia is currently the only country in ASEAN with the PMI figure not in the expansionary zone.

Consumer price inflation came down significantly in January. Consumer prices rose by 2.7 percent in January, below the 3.5 percent of the previous month. This was the lowest inflation rate since December 2016, as growth in transport costs moderated.

The Malaysian central bank, the Bank Negara Malaysia (BNM) held its benchmark interest rate, the overnight policy rate, steady at 3.25 percent this month. This came after the BNM increased rates by 25 basis points at its last meeting in January. The BNM explained that “the degree of monetary accommodativeness is consistent with the policy stance to ensure that the domestic economy continues on a steady growth path amid lower inflation.”

### Malaysia’s inflation came down significantly





# Philippines

## INDUSTRIAL PRODUCTION REBOUNDS; INFLATION RISES AGAIN; EQUITIES DECLINE

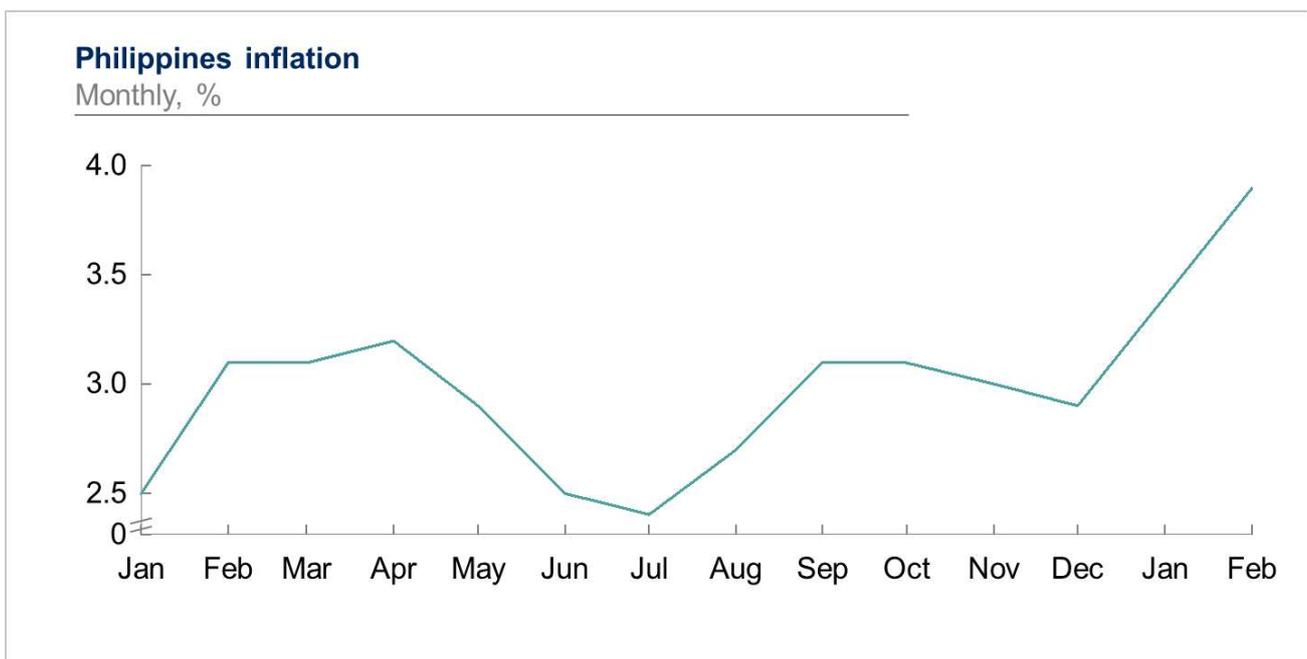
Industrial production rebounded in January, surging by 20.4 percent year on year. This reversed a 9.8 percent fall in December and was the strongest since April 2010, as output went up sharply for chemicals and electronics.

The Philippine Statistics Authority rebased the consumer price index to 2012 this month, from 2006 previously. Under the rebased index, consumer prices rose by 3.9 percent year on year in February, after a 3.4 percent rise a month earlier. The spike in inflation was attributable to the effects of the tax reform law in the Philippines, with higher taxes on sugar-sweetened beverages, fuel, and tobacco. Higher global oil prices and a weak peso have also added to inflationary pressures.

Inflation is now near the upper limit of the Philippine central bank's inflation target of 2–4 percent. The central bank governor, Nestor Espenilla Jr. said that the rise in inflation during the past two months was temporary. He added that the inflation rate would not exceed 5 percent this year and would come down to 3.5 percent next year.

The benchmark Philippines stock index, the Philippines Stock Exchange index (PSEi) fell by around 5 percent this month. Investor sentiment was affected by news related to US tariffs on steel and aluminum.

### Inflation rose again in February



## ECONOMIC TRENDS AND DATA AFFECTED BY CHINESE NEW YEAR HOLIDAY; LABOR MARKET IMPROVES

Economic data was significantly affected by the Chinese New Year holiday, which fell on January last year but February this year.

Retail sales fell by 8.4 percent year on year in January, while manufacturing production jumped by 17.9 percent in the same month. This was due to the Chinese New Year holiday, a period of strong retail sales and when many companies in Singapore shut down for up to two weeks.

As a result, non-oil domestic exports (NODX) was affected, with the NODX falling by 5.9 percent in February after a 12.9 percent rise in the previous month. Averaging the two month's export volumes, NODX rose by 3.6 percent year on year for the period January–February.

Consumer price inflation was recorded at zero for January, following a 0.4 percent growth in the preceding month. This was again attributable to the Chinese New Year holiday, where prices of many goods and services spike seasonally.

Singapore's labor market saw an improvement in Q4 2017. The unemployment rate for Singaporean residents declined to 3.0 percent, while the ratio of job vacancies to unemployed persons rose, indicating more jobs available to job-seekers. The seasonally adjusted ratio of job vacancies to unemployed persons increased from 89 job vacancies per 100 unemployed persons in September 2017, to 92 in December 2017.

### Singapore's unemployment rate fell, while the vacancies-to-unemployed ratio rose





## INFLATION GOES UP; EQUITIES CONTINUE TO RALLY; ENVIRONMENT PROTECTION TAXES PROPOSED

Inflation accelerated to 3.2 percent year on year in February, from 2.7 percent in January. Inflation was affected by base effects related to the Tet holiday (Lunar New Year), which fell on February this year and January last year. Food prices usually spike in Vietnam during this period. However, there were some signals that the rise in inflation was more than just base effects. Core inflation, which excludes food and energy prices in Vietnam, rose to 1.5 percent year on year, a ten-month high. Meanwhile, the Vietnamese PMI survey found that a further steep rise in input costs was recorded in February, with the rate of inflation only slightly slower than January's 81-month high. Survey respondents mainly attributed the higher input prices to rises in raw material costs.

The PMI survey also found that the PMI rose marginally to 53.5 in February, from 53.4 a month earlier. Industrial production growth remained robust at 8.0 percent year on year in February.

Vietnamese equities continued to rally this month. Sentiment was boosted by the biggest private equity deal ever in Vietnam, with Warburg Pincus announcing that it had agreed to invest more than US \$370 million in Vietnam Technological and Commercial Joint Stock Bank.

The Vietnamese Ministry of Finance is planning to raise environmental protection taxes on oil and petroleum products from VND3,000 to VND4,000 per liter, starting July 1, 2018. Tax rates on diesel would be increased from VND1,500 to VND2,000 per liter.

### Vietnamese equities continued to do well



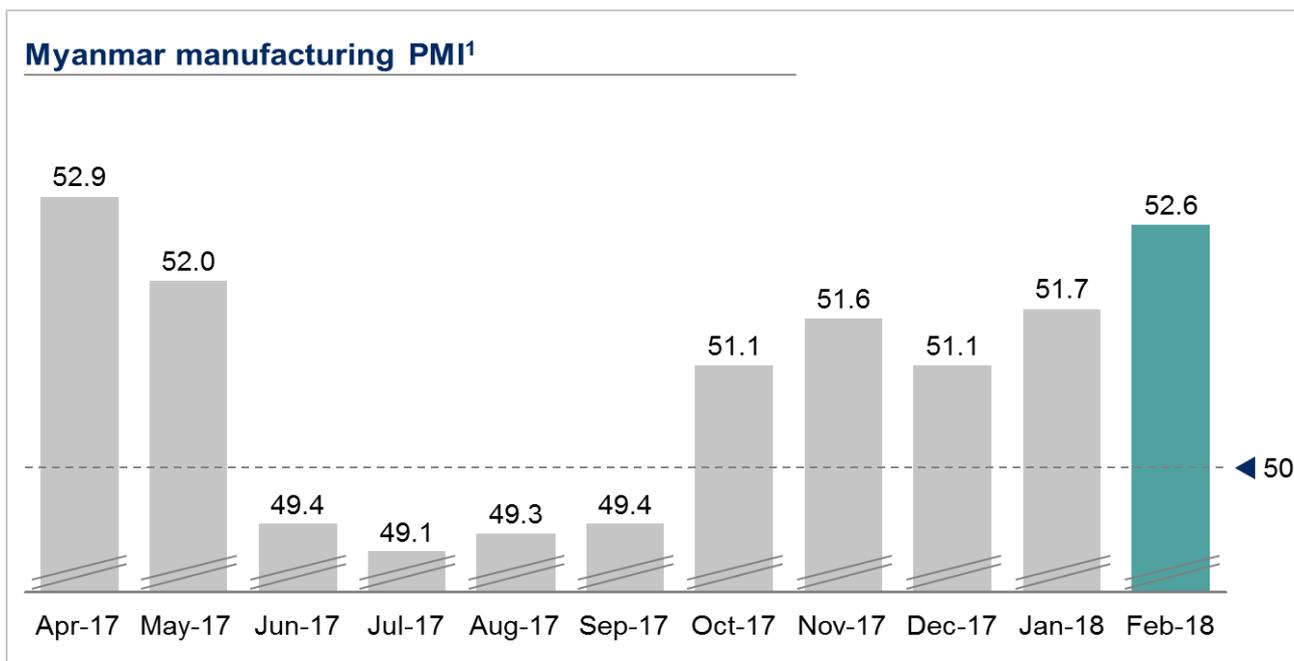
## PMI RISES TO TEN-MONTH HIGH; INFLATIONARY PRESSURES PERSIST

Myanmar’s manufacturing PMI for February rose to its highest level in ten months. The PMI was recorded at 52.6 in February, up from 51.7 in January. Overall growth was supported by a robust rise in production levels, while the expansion in new orders was at its highest in over two years.

The PMI survey found that cost burdens continued to rise. Survey respondents linked the rise in cost pressures to supplier shortages and greater global demand.

Despite the improvement in PMI, business confidence remained low, with output expectations continuing to be subdued.

### Business conditions improve



<sup>1</sup> A reading above 50 indicates an expansion of the manufacturing sector compared with the previous month; below 50 represents a contraction, while 50 indicates no change.

