

But for the China stumble

Free to View -
Economics

What the latest manufacturing PMIs mean for Asia

Asia

- Decent bounce in regional manufacturing last month – if it wasn't for the growth stumble in mainland China, that is. Given the tailwind from local 'reopening' and still full order books, most economies saw a strong start to the second quarter. But challenges in China are likely to ripple through the region in the next few months: not only because they knock out demand in the most important export market, but because manufacturers across Asia are highly reliant on Chinese components. A swift rebound in China, of course, could brighten the picture. Still, there are also tentative signs of things starting to wobble elsewhere. The risks to growth are building all around.

Frederic Neumann
Co-Head Global Research Asia
and Asian Economics
The Hongkong and Shanghai
Banking Corporation Limited

Not a bad start to the second quarter, all considered. Turn to our first heatmap. With the exception of mainland China, all manufacturing PMIs are in expansion territory, with quite a few picking up steam last month. In most economies, local 'reopening' after the earlier Omicron wave is providing tailwinds, while exports have remained resilient so far, too.

Chart 1: Headline manufacturing PMIs (index)

	PMI				New orders			
	Apr 22	Mar 22	Feb 22	12m avg.	Apr 22	Mar 22	Feb 22	12m avg.
Australia	58.5	55.7	53.2	55.4				60.5
New Zealand		53.8	53.6	55.0				58.5
China Caixin	46.0	48.1	50.4	49.8				49.4
China NBS	47.4	49.5	50.2	49.9				49.3
India	54.7	54.0	54.9	53.9				55.8
Indonesia	51.9	51.3	51.2	51.7				52.5
Japan	53.5	54.1	52.7	53.4				51.9
Korea	52.1	51.2	53.8	52.1				52.4
Malaysia	51.6	49.6	50.9	48.6				46.8
Philippines	54.3	53.2	52.8	51.1				50.3
Singapore	50.3	50.1	50.2	50.6				51.1
Taiwan	51.7	54.1	54.3	56.1				55.3
Thailand	51.9	51.8	52.5	50.2				48.6
Vietnam	51.7	51.7	54.3	49.7				48.7
ASEAN	52.8	51.7	52.5	50.8				50.5
Global	52.2	52.9	53.7	54.2				53.6
US (ISM)	55.4	57.1	58.6	60.3				63.7
US (Markit)	59.2	58.8	57.3	59.6				59.8
UK	55.8	55.2	58.0	59.0				56.3
Germany	54.6	56.9	58.4	59.9				58.3
France	55.7	54.7	57.2	56.4				53.3
Eurozone	55.5	56.5	58.2	59.4				57.7

Source: Markit, CEIC, HSBC; NB: CH refers to mainland China

It's a different story, though, in mainland China. For the second month in a row, the manufacturing sector has been contracting, pummeled by various lockdowns and logistics bottlenecks. New orders in China are also under water, suggesting weakness may persist.

This is a Free to View version of a report by the same title published on 6-May-22. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

Disclosures & Disclaimer: This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it.

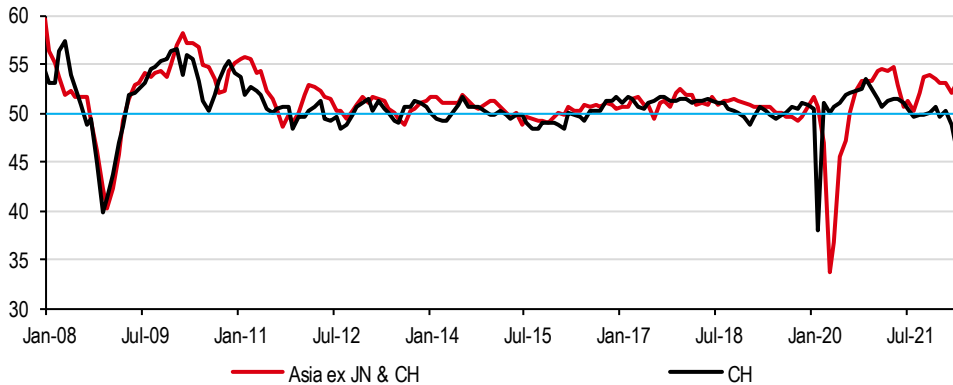
Issuer of report: The Hongkong and Shanghai Banking Corporation Limited

View HSBC Global Research at: <https://www.research.hsbc.com>

Ongoing production and logistics challenges in mainland China will eventually ripple through the region, putting a damper on growth elsewhere. The pullback in Taiwan’s manufacturing PMI may already signal spill-over of disruptions (note that new orders in Taiwan contracted), as does the weaker reading for Japan.

Our first Chart highlights the divergence in manufacturing PMIs between mainland China and the rest of emerging Asia. The latter ticked up on average (if slightly) last month, holding well above its pre-pandemic average. By contrast, the former, the average of China’s two headline measures, slid to its lowest since February 2020.

Chart 1: Headline manufacturing PMIs (index)

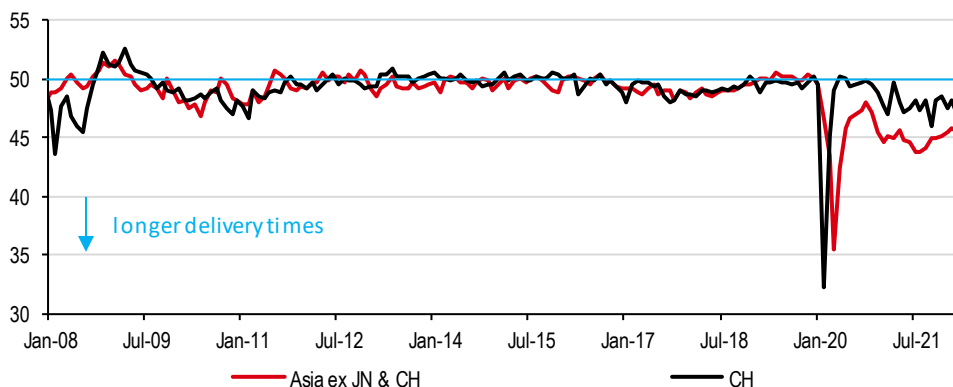


Source: Markit, CEIC, HSBC; NB: CH refers to mainland China

If challenges in China persist, there are growing risks of spill-overs to the rest of the region. For one, China is now, by quite a margin, the biggest export market on average for other Asian economies. In addition, China is, again by quite a margin, the largest provider of manufacturing components to other economies.

Regarding the latter, Chart 2 shows the potential for disruptions. Delivery times by Chinese manufacturers have lengthened sharply over the past month as they struggle with output and logistics disruptions. As the delivery of key components is delayed, this is bound to affect producers over time along regional supply chains.

Chart 2: Manufacturing PMIs delivery times (index)

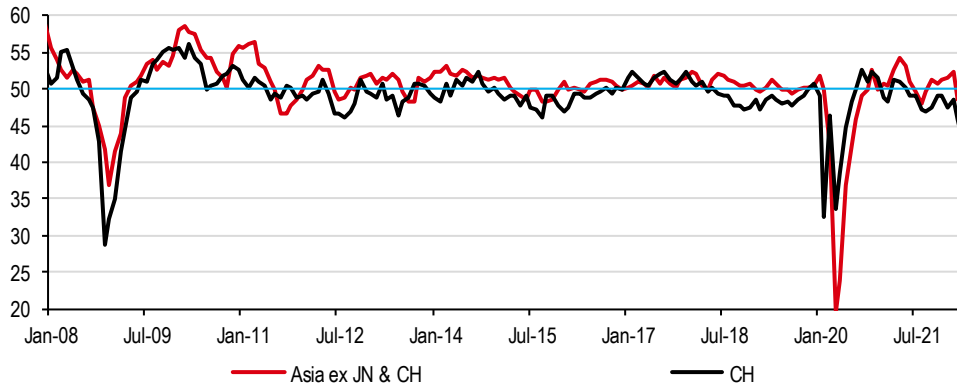


Source: Markit, CEIC, HSBC; NB: CH refers to mainland China

So far, challenges in China don’t seem to have disrupted exports from other parts of the region. Some economies, like Malaysia, may even have seen shipments pick up as overseas buyers look for alternative suppliers. In fact, Chart 3 shows the divergence between new export orders between China and the rest of the region.

However, over time, the disruption of component supplies from mainland China, as well as weaker Chinese demand, is bound to weigh heavily on exports from other economies. Note that for emerging Asia excluding mainland China new export orders, while ticking up, are barely above the waterline. Taiwan's new export orders, a key bellwether, contracted for a second month in April.

Chart 3: Manufacturing PMIs new export orders (index)



Source: Markit, CEIC, HSBC; NB: CH refers to mainland China

Our second heatmap shows the breakdown of new export orders and the employment component of manufacturing PMIs. With the exceptions of mainland China and Taiwan, the readings in Asia improved last month compared to March. But outside of India, the improvement has been marginal (in fact, emerging Asia excluding China and India, saw its new export orders contract again on average in April).

Heatmap 2: Manufacturing PMIs new export orders and employment (index)

	New Export Orders				Employment			
	Apr 22	Mar 22	Feb 22	12m avg.	Apr 22	Mar 22	Feb 22	12m avg.
Australia	47.7	58.3	42.6	50.4				51.7
New Zealand								52.9
China Caixin	43.1	44.5	48.3	48.2				49.4
China NBS	41.6	47.2	49.0	47.2				48.9
India	54.2	48.4	51.6	51.7				49.7
Indonesia	52.9	52.2	52.9	48.1				49.1
Japan	47.1	46.5	50.6	50.8				52.1
Korea	46.2	45.8	53.2	50.2				50.9
Malaysia	50.3	48.8	50.6	48.5				49.3
Philippines	48.0	47.2	50.8	49.1				48.5
Singapore	50.9	50.7	50.6	51.1				50.6
Taiwan	48.7	49.0	55.1	55.6				52.4
Thailand	50.0	48.1	48.2	49.7				48.7
Vietnam	52.3	53.0	55.7	49.0				47.1
ASEAN	50.0	49.3	51.6	48.4				48.7
Global	48.2	48.1	51.0	51.1				51.8
US (ISM)	52.7	53.2	57.1	55.0				52.8
US (Markit)	56.4	54.9	53.4	53.6				53.1
UK	47.7	49.4	49.1	51.4				57.0
Germany	47.1	49.1	56.4	56.6				57.2
France	46.5	45.8	52.4	51.9				53.0
Eurozone	49.0	49.7	55.0	55.9				56.3
	expanding + stronger		expanding but weaker		contracting + weaker		contracting but improving	

Source: Markit, CEIC, HSBC; NB: CH refers to mainland China

Encouragingly, employment appears to be holding up in much of the region, although challenges remain in mainland China, Malaysia, and the Philippines.

Decent enough picture, then, for much of Asia...but beware the ripples that are bound to wash through the region in the wake of China's growth stumble.

Disclaimer

The following analyst(s), who is(are) primarily responsible for this document, certifies(y) that the opinion(s), views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Frederic Neumann

This document has been issued by The Hongkong and Shanghai Banking Corporation Limited, which has based this document on information obtained from sources it believes to be reliable but which it has not independently verified. Neither The Hongkong and Shanghai Banking Corporation Limited nor any member of its group companies ("HSBC") make any guarantee, representation or warranty nor accept any responsibility or liability as to the accuracy or completeness of this document and is not responsible for errors of transmission of factual or analytical data, nor is HSBC liable for damages arising out of any person's reliance on this information. The information and opinions contained within the report are based upon publicly available information at the time of publication, represent the present judgment of HSBC and are subject to change without notice.

This document is not and should not be construed as an offer to sell or solicitation of an offer to purchase or subscribe for any investment or other investment products mentioned in it and/or to participate in any trading strategy. It does not constitute a prospectus or other offering document. Information in this document is general and should not be construed as personal advice, given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on it, consider the appropriateness of the information, having regard to their objectives, financial situation and needs. If necessary, seek professional investment and tax advice.

The decision and responsibility on whether or not to purchase, subscribe or sell (as applicable) must be taken by the investor. In no event will any member of the HSBC group be liable to the recipient for any direct or indirect or any other damages of any kind arising from or in connection with reliance on any information and materials herein.

Past performance is not necessarily a guide to future performance. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price or income of that investment. In case of investments for which there is no recognised market it may be difficult for investors to sell their investments or to obtain reliable information about its value or the extent of the risk to which it is exposed. Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors.

This document is for information purposes only and may not be redistributed or passed on, directly or indirectly, to any other person, in whole or in part, for any purpose. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. By accepting this report, you agree to be bound by the foregoing instructions. If this report is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. The document is intended to be distributed in its entirety. Unless governing law permits otherwise, you must contact a HSBC Group member in your home jurisdiction if you wish to use HSBC Group services in effecting a transaction in any investment mentioned in this document.

Certain investment products mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors. Investors should consult with their HSBC representative regarding the suitability of the investment products mentioned in this document.

HSBC and/or its officers, directors and employees may have positions in any securities in companies mentioned in this document. HSBC may act as market maker or may have assumed an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell or buy securities and may also perform or seek to perform investment banking

or underwriting services for or relating to those companies and may also be represented on the supervisory board or any other committee of those companies.

HSBC will from time to time sell to and buy from customers the securities/instruments (including derivatives) of companies covered in HSBC Research on a principal or agency basis.

From time to time research analysts conduct site visits of covered issuers. HSBC policies prohibit research analysts from accepting payment or reimbursement for travel expenses from the issuer for such visits.

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking, sales & trading, and principal trading revenues.

Whether, or in what time frame, an update of this analysis will be published is not determined in advance.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at www.hsbcnet.com/research.

The Hongkong and Shanghai Banking Corporation Limited is regulated by the Hong Kong Monetary Authority. If it is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate.

Additional disclosures

- 1 This report is dated as at 06 May 2022..
- 2 All market data included in this report are dated as at close 05 May 2022., unless a different date and/or a specific time of day is indicated in the report.
- 3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking, Principal Trading, and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.
- 4 You are not permitted to use, for reference, any data in this document for the purpose of (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments, (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument, and/or (iii) measuring the performance of a financial instrument or of an investment fund.

© Copyright 2022, The Hongkong and Shanghai Banking Corporation Limited, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of insert issuing entity name. MCI (P) 037/01/2022, MCI (P) 017/10/2021

[1192275]