



McKinsey&Company

# ASEAN Insights: Regional trends

December 2017



# 1. Global trends

## CONSUMER AND BUSINESS CONFIDENCE ROBUST; UNEMPLOYMENT RATE FALLS WHILE INFLATION EDGES UP

The global economic environment continued on its recent upward trajectory, with both consumer and business confidence remaining robust.

Consumer confidence picked up in the US, Eurozone and China, with particularly strong gains seen in the US.

Global purchasing managers indexes (PMIs) for manufacturing improved as business sentiment picked up. The global manufacturing PMI rose to the highest since May 2011, while the services PMI moderated slightly after recording a two-and-a-half-year high the previous month. Nonetheless, the services PMI remains firmly in expansionary territory.

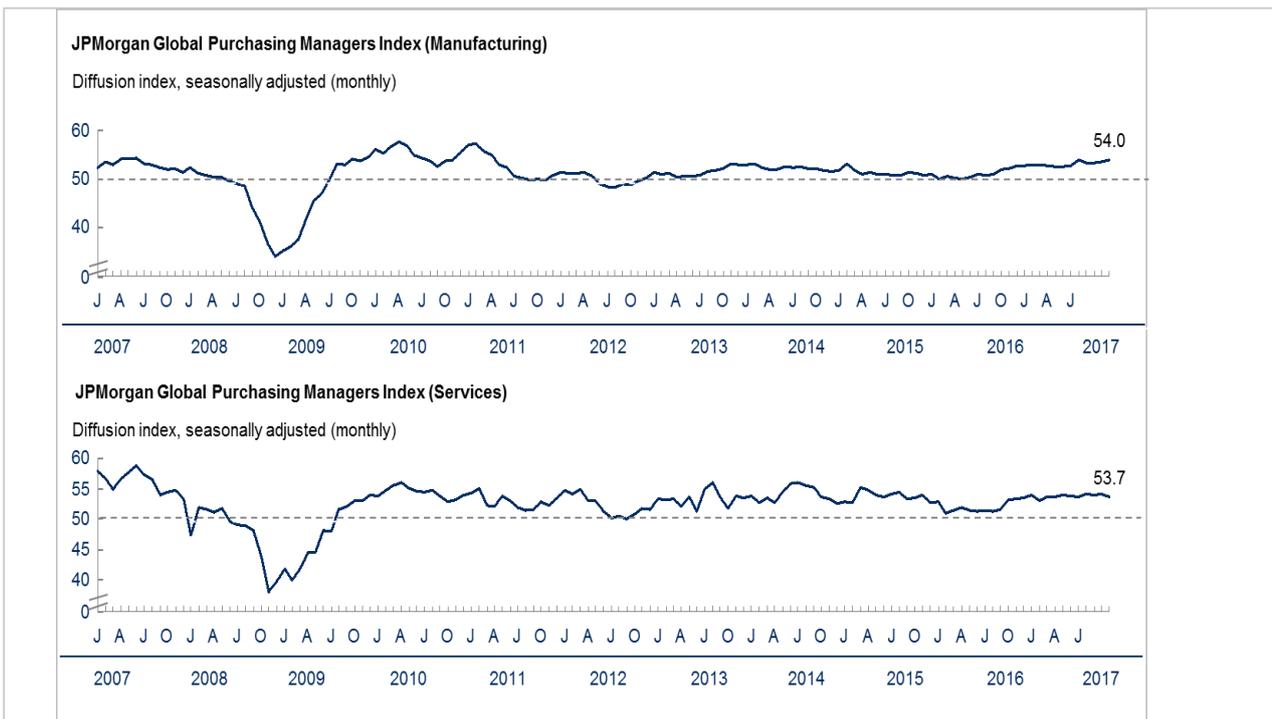
The unemployment rate in the US and Eurozone continued to fall. Unemployment rate in the US was recorded at 4.1 percent in October, down from 4.2 percent in September and 4.4 percent in August. Meanwhile, the unemployment rate in the Eurozone edged down to 8.8 percent in October, from 8.9 percent in the preceding month.

Inflation ticked up slightly in the US and Eurozone. US consumer price inflation went up to 2.2 percent year on year in November, from 2 percent in October. However, core inflation in the US (excluding food and energy prices) moderated to 1.7 percent from 1.8 percent.

Equities in the US did well this month. The S&P 500 and Dow hit new record highs, led by a rally in tech and energy companies.

On the government policy front, the Federal Reserve raised interest rates by 25 basis points to 1.25 – 1.5 percent, in a widely expected move. Policymakers also forecast another three quarter-point increases in 2018 and two in 2019.

### Both manufacturing and services PMIs remain firmly in expansionary territory

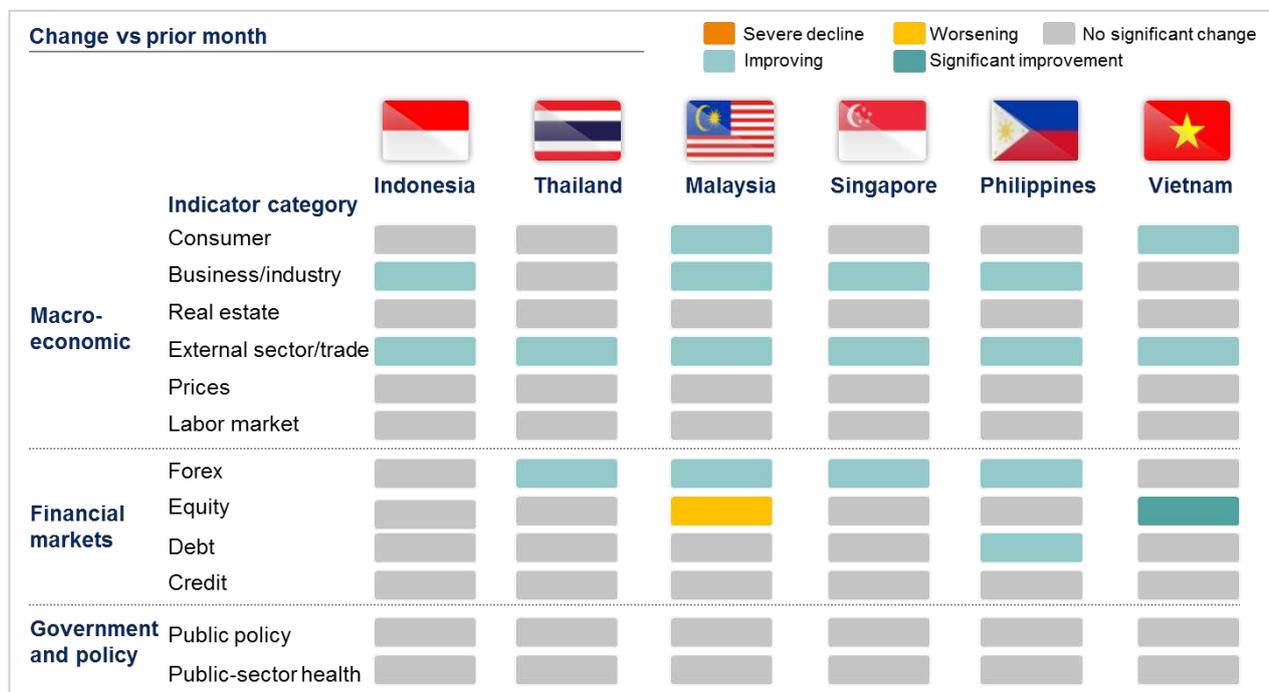


Note: A reading above 50.0 indicates expansionary conditions, while a reading under 50.0 indicates contractionary conditions.

## 2. Regional trends: ASEAN

### ECONOMIC GROWTH IMPROVES FOR ALL ASEAN COUNTRIES IN Q3; TRADE VOLUMES MAINTAIN MOMENTUM

Leading indicators for all ASEAN countries in expansionary territory; currencies rise against the US dollar



#### Macroeconomic trends

Economic conditions in the ASEAN countries picked up in Q3, with GDP growth for all ASEAN countries improving over the previous quarter. Many ASEAN countries recorded highest growth rates in recent years, driven by strong performance of the trade sector. Final GDP estimates for Singapore showed that the economy grew by 5.2 percent year on year in Q3, higher than preliminary estimates of 4.6 percent and the 2.9 percent recorded in Q2. This was the biggest expansion since the last quarter of 2013, led by a sharp acceleration in manufacturing output.

Meanwhile, Malaysia's Q3 GDP rose 6.2 percent year on year, compared with a 5.8 percent growth in Q2, the strongest growth rate since Q2 2014. The Thai economy's growth was the highest since Q2 2013: GDP growth in Q3 came in at 4.3 percent year on year, higher than the 3.8 percent of the previous quarter.

External trade volumes in ASEAN have grown strongly over the past few months, supported by robust global demand. Many ASEAN countries continue to record double-digit growth in exports. Exports in Thailand rose by 13.1 percent year on year in October, while Malaysian exports surged by 18.9 percent year on year. Export sales were supported by growth in oil and gas products, as well as electronics.

SOURCE: CEIC; McKinsey Global Economics Intelligence analysis

Headline inflation moderated slightly in most ASEAN countries. Consumer prices in Vietnam rose by 2.6 percent year on year in November, down from 3.0 percent in October, as transport and housing costs increased at a slower pace. Inflation in Indonesia was 3.3 percent in November, the lowest in 2017.

Recent buoyant economic conditions were reflected in the PMI indicators this month. All ASEAN indicators recorded a positive PMI figure, with Malaysia's PMI surging from 48.6 in October to 52.0 in November. This was the strongest PMI reading since April 2014, driven by output, new orders, and new export orders. As a whole, the PMI for ASEAN manufacturing rose from 50.4 in October to 50.8 in November.

#### Financial markets

Most ASEAN currencies rose against the dollar, with the Malaysian ringgit performing particularly well. Equities rose by nearly 10 percent month on month in Vietnam. Sentiment was boosted by Singapore-listed Jardine Matheson acquiring a 10 percent stake in Vinamilk (Vietnam's largest listed company) in late November.

#### Government policy

The Philippine President Rodrigo Duterte offered China the "privilege" to be his country's third telecoms operator in late November, in an effort to break a longstanding duopoly in the sector.

# 3. ASEAN Insights: Country analysis

## THE REGION AT A GLANCE

### MYANMAR

- The manufacturing PMI for November showed a continued improvement in the manufacturing sector. **The PMI reading came in at 51.6 in November, up from 51.1 in October.**

### THAILAND

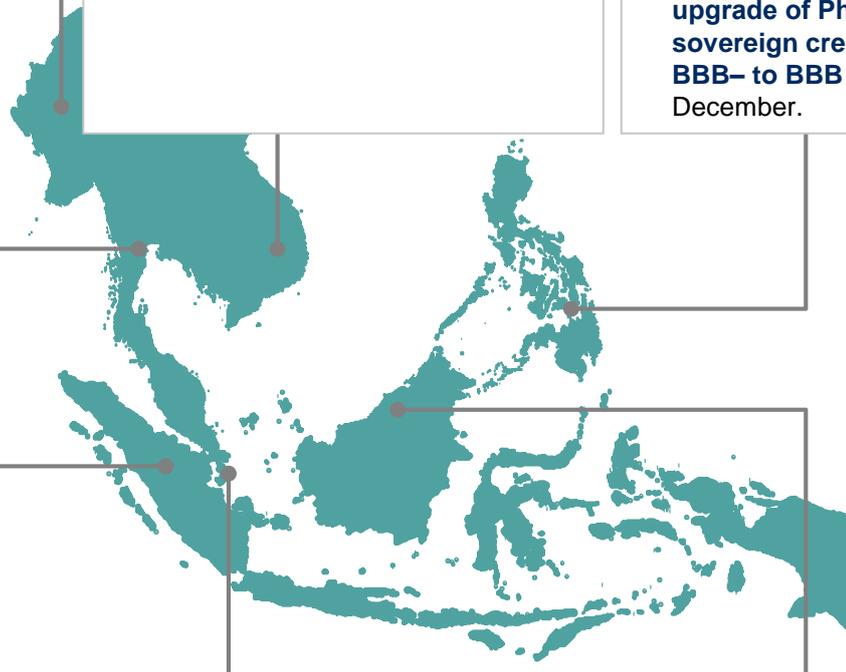
- **Thailand's economy grew by 4.3 percent year on year in Q3, compared with 3.8 percent in the previous quarter.** This beat market estimates of a 3.8 percent growth rate and was the strongest growth in over four years.
- **Exports surged by 13.1 percent year on year in October,** the eighth straight month of growth in exports, while imports went up by 13.5 percent.

### VIETNAM

- **Inflation moderated to 2.6 percent in November, from 3.0 percent in October.** Prices rose at a slower pace for transport and housing.
- **Vietnam's benchmark equity index, the VN Index, rallied strongly this month.** The stock market rally was underpinned by foreign investors, amid an improving growth outlook for Vietnam.

### PHILIPPINES

- **The manufacturing PMI in Philippines jumped to 54.8 in November,** from 53.7 the previous month. This was the highest figure in a year.
- The benchmark Philippines stock index, the Philippines Stock Exchange index (PSEi), fell early this month. However, the PSEi picked up nearer the middle of December, with sentiment boosted by an **upgrade of Philippines' sovereign credit rating from BBB- to BBB** on 11 December.



### INDONESIA

- **Indonesia's inflation moderated to 3.3 percent year on year in November,** down from 3.6 percent the previous month. This was the lowest inflation rate recorded so far in 2017, as prices went up more slowly for food and transport.
- **The PMI for Indonesia improved to 50.4 in November,** from 50.1 in October, the fourth consecutive month of expansion in the manufacturing sector.

### SINGAPORE

- **Final GDP estimates for Singapore showed the economy grew by 5.2 percent year on year in Q3,** higher than earlier estimates of 4.6 percent and the 2.9 percent recorded in Q2. This was the biggest expansion since the last quarter of 2013, led by a sharp acceleration in manufacturing output.
- This strong manufacturing performance was further reflected in the PMI figures. **The manufacturing PMI rose to 52.9 in November, up from 52.6 in October—the fastest pace of expansion since December 2009,** boosted mainly by the electronics sector.

### MALAYSIA

- **Exports and imports went up by 18.9 percent and 20.9 percent year on year respectively in October.**
- **The manufacturing PMI in Malaysia surged to 52.0 in November,** from 48.6 in October. This was the first expansion in manufacturing activity since August and was the highest PMI reading recorded since April 2014.
- **Inflation edged down to 3.7 percent in October,** from 4.3 percent the preceding month. This slowdown came as a result of slower price increases for food and transport costs.

# Indonesia

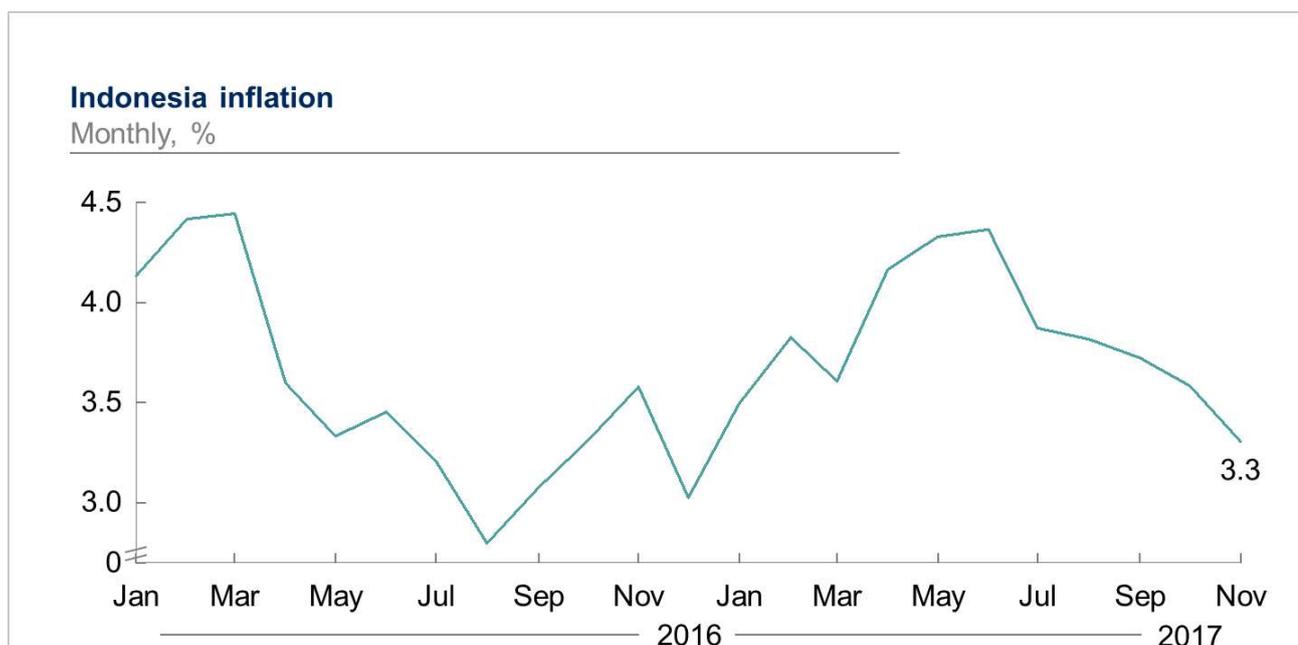
## INFLATION MODERATES TO LOWEST LEVEL SO FAR THIS YEAR; PMI IMPROVES

Indonesia's inflation moderated to 3.3 percent year on year in November, down from 3.6 percent the previous month. This was the lowest inflation rate recorded so far in 2017, as prices went up more slowly for food and transport.

The PMI for Indonesia improved to 50.4 in November, from 50.1 in October—the fourth consecutive month of expansion in the manufacturing sector. Output, new export orders, and new orders all expanded, while confidence reached its highest level in three months.

Indonesia's benchmark equity index, the Jakarta Composite Index moderated slightly in December, after recording multiple consecutive record highs over the past few months.

### Inflation moderates to lowest level so far in 2017.





# Thailand

## Q3 GDP GROWTH BEATS EXPECTATIONS SIGNIFICANTLY; PMI EXITS CONTRACTIONARY ZONE MARGINALLY

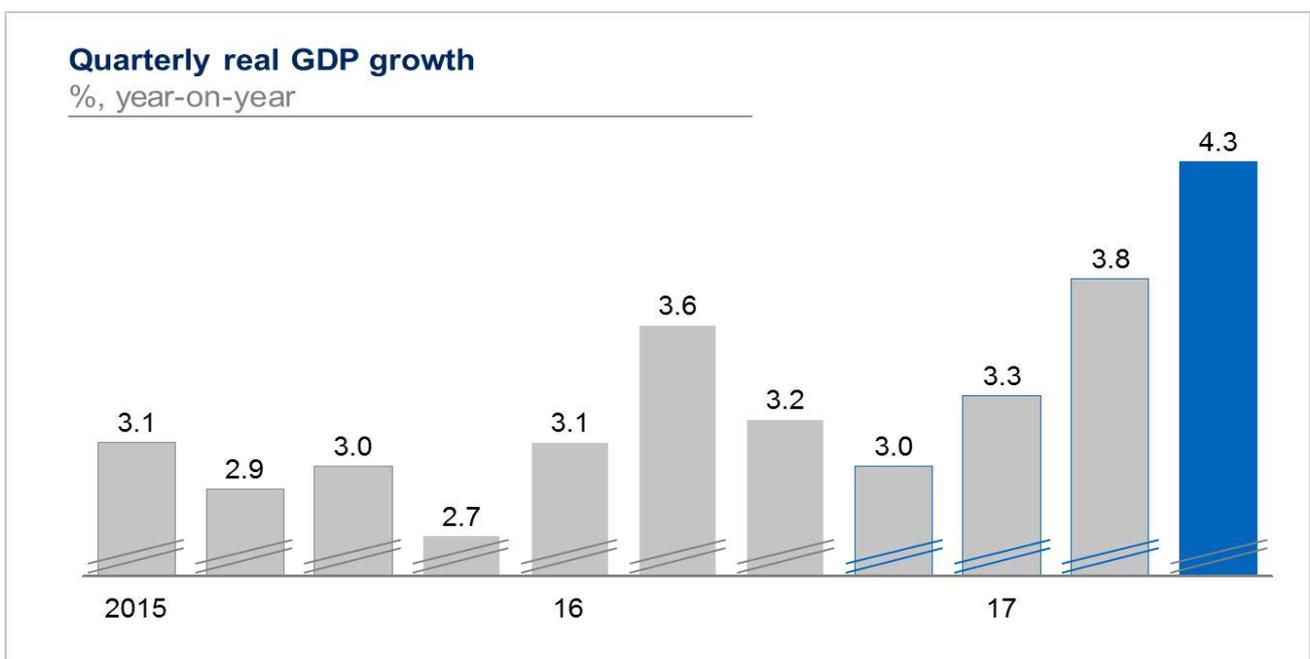
The Thailand economy grew by 4.3 percent year on year in Q3, compared with 3.8 percent in the prior quarter. This beat market estimates of a 3.8 percent growth and was the strongest growth rate in over four years. Growth was mainly driven by the recent strong performance in exports, led by a pickup in global demand.

The robust export figures continued in October. Exports surged by 13.1 percent year on year in October, the eighth straight month of growth in exports, while imports went up by 13.5 percent. Imports were underpinned by purchases of raw materials, which are generally assembled into completed goods and exported.

However, despite this strong economic environment, industrial production fell by 0.2 percent year on year in October, after three consecutive months of positive outcomes. Analysts suggested that the manufacturing output was affected by the cremation ceremony of the late King Bhumibol Adulyadej on October 26, which was declared a national holiday. The mourning period before and after the cremation date may have affected manufacturing activity.

In a further indication that the fall in industrial production may be temporary, the manufacturing PMI rose to 50.0 in November, up from 49.8 the previous month.

### Q3 GDP growth beats expectations.





# Malaysia

## EXPORTS CONTINUE TO SURGE; PMI HIGHEST SINCE APRIL 2014; OIL PRODUCTION CUTS EXTENDED

Malaysian exports and imports continued their recent streak of double-digit growth. Exports and imports went up by 18.9 percent and 20.9 percent year on year respectively in October. The strong export figures were led by electronics and oil-related products. On a geographic basis, sales increases were broad-based, led mostly by China, the United States, and the European Union.

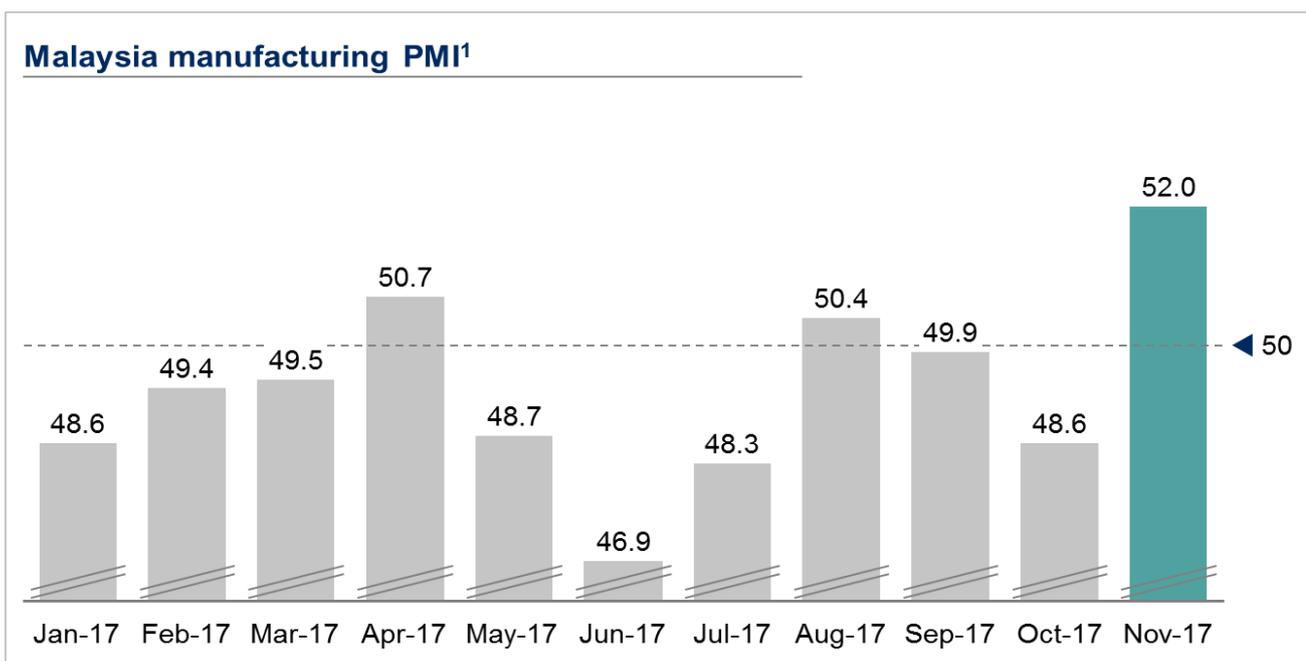
The manufacturing PMI in Malaysia surged to 52.0 in November, up from 48.6 in October. This was the first expansion in manufacturing activity since August and was the highest PMI reading recorded since April 2014. Output and new orders rose sharply, while new export orders rose at their fastest pace since the series began in mid-2012.

Inflation edged down to 3.7 percent in October, from 4.3 percent the preceding month. This slowdown came as a result of slower price increases for food and transport.

The Malaysian government announced that it would extend its current oil production cuts until end-2018. The original oil production cuts were a result of an agreement between OPEC and non-OPEC exporters at the end of 2016 to take joint action to support oil prices, with Malaysia cutting production by 20,000 barrels per day.

Bank Negara Malaysia's Governor Muhammad Ibrahim said this month that any adjustment to its monetary policy would be a "normalization" rather than tightening, as the central bank hints that it may be ready to raise interest rates.

### Malaysia's PMI reading surges into expansionary territory.



1 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.



# Philippines

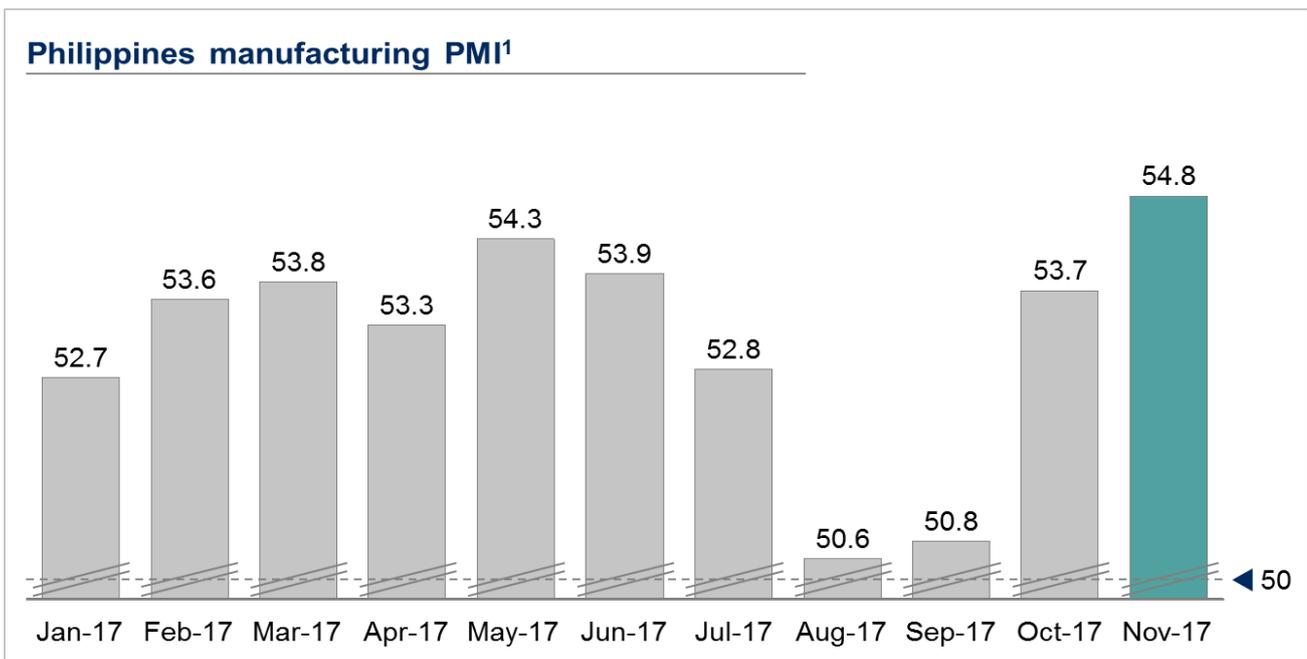
## PMI REACHES HIGHEST LEVEL IN 2017; FITCH RAISES SOVEREIGN CREDIT RATING

In line with positive economic conditions seen in the rest of the region, the manufacturing PMI in the Philippines jumped to 54.8 in November, from 53.7 the previous month. This was the highest figure in a year, mainly driven by a strong improvement in new orders.

Consumer confidence remained upbeat, with the Bangko Sentral ng Pilipinas' Consumer Expectations Survey showing that sentiment continued to be positive in Q4 2017, with respondents mentioning that their positive expectations were "on account of additional family income and higher salary, and availability of more jobs leading to an increase in the number of employed family members."

The benchmark Philippines stock index, the Philippines Stock Exchange index (PSEi) fell early in December. However, the PSEi picked up nearer the middle of the month, with sentiment boosted by an upgrade of Philippines' sovereign credit rating from BBB- to BBB on 11 December. Fitch mentioned that "strong and consistent macroeconomic performance has continued, underpinned by sound policies that are supporting high and sustainable growth rates. Investor sentiment has also remained strong, which is evident from solid domestic demand and inflows of foreign direct investment."

### PMI jumps to the highest so far this year.



<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.

## Q3 GDP GROWTH HIGHEST SINCE LATE 2013; PMI STRONGEST SINCE 2009

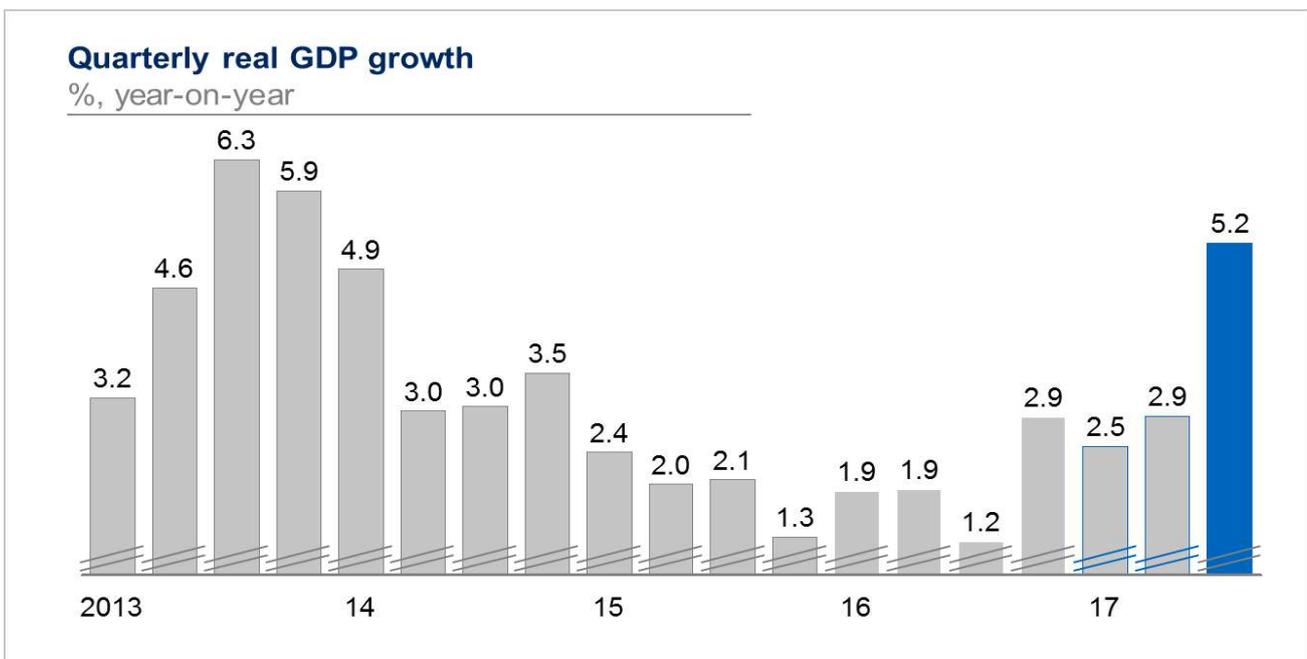
Final GDP estimates for Singapore showed that the economy grew by 5.2 percent year on year in Q3, higher than preliminary estimates of 4.6 percent and the 2.9 percent recorded in Q2. This was the biggest expansion since the last quarter of 2013, led by a sharp acceleration in manufacturing output.

Manufacturing output rose by 18.4 percent year on year in Q3, as compared with an 8.4 percent growth in the preceding quarter. With the strong GDP outcome in Q3, the Singapore government raised the full-year forecast for 2017 to 3 – 3.5 percent, from 2 to 3 percent previously.

The strong manufacturing performance was further reflected in the PMI figures. The manufacturing PMI rose to 52.9 in November, up from 52.6 in October. This was the fastest pace of expansion since December 2009, boosted mainly by the electronics sector.

Meanwhile, inflation was steady at 0.4 percent in October, remaining at the lowest rate since April and below market expectations of a 0.5 percent increase in prices.

### Singapore's GDP growth in Q3 surged.



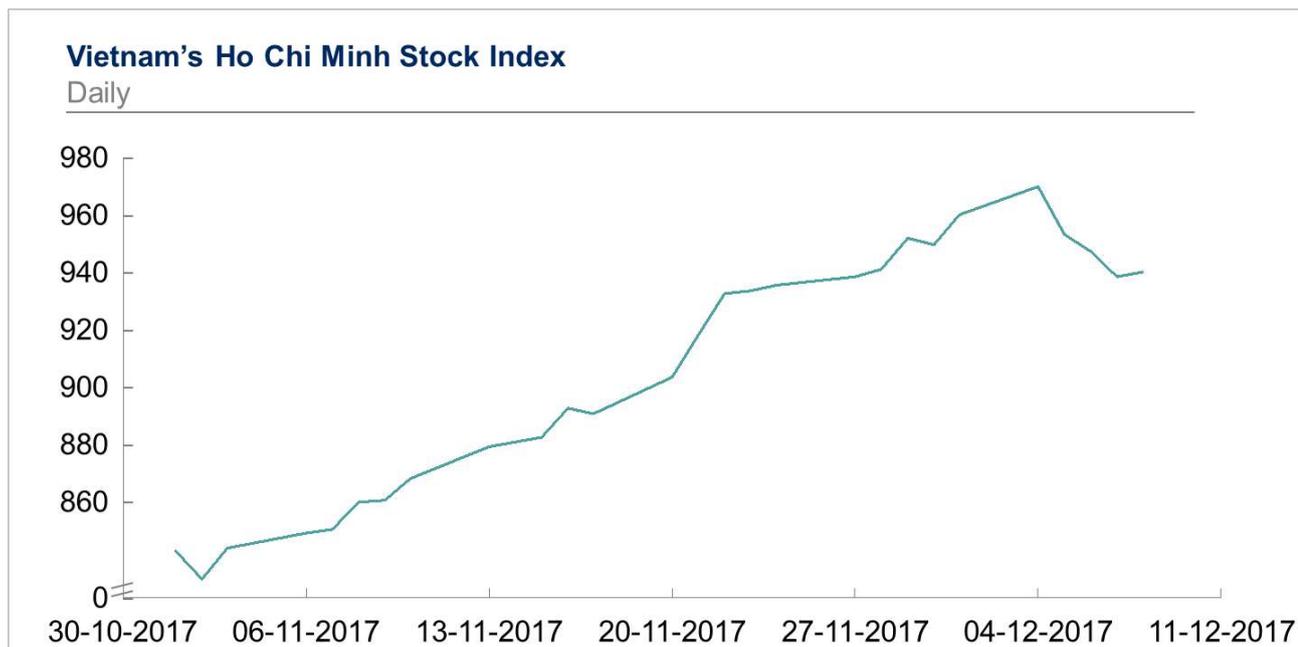
## INFLATION MODERATES; EQUITY MARKETS CONTINUE TO RALLY

Consumer sentiment was positive this month, with retail sales continuing to grow by double digits. Retail sales in Vietnam rose 11.7 percent year on year in November, slightly below the 12.1 percent increase during the previous month. Retail sales have been supported by strong tourist arrival figures this year.

Inflation moderated to 2.6 percent in November, from 3.0 percent in October. Prices rose at a slower pace for transport and housing.

Vietnam's benchmark equity index, the VN Index, rallied strongly this month. The stock market rally was underpinned by foreign investors, amid an improving growth outlook for Vietnam. Foreign investor sentiment was substantially boosted by stock purchases of Vinamilk (Vietnam's largest listed company). Jardine Cycle & Carriage, a Singapore-listed company, made a number of purchases of Vinamilk stock in November, accumulating a 10 percent stake in total.

### Vietnam's equity markets performed strongly.



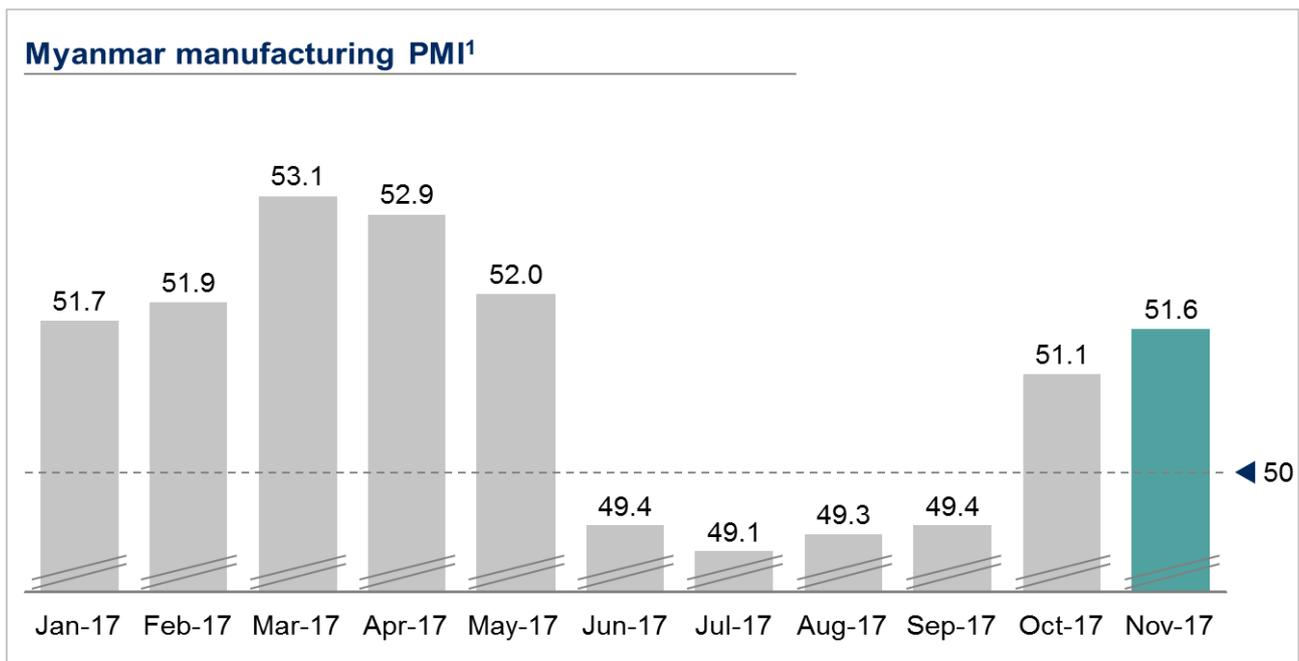
## PMI IMPROVES AGAIN; BUSINESS CONFIDENCE RISES

The manufacturing PMI in Myanmar for November indicated continued improvement in the manufacturing sector. The PMI reading came in at 51.6 in November, up from 51.1 in October. Growth was supported by a solid upturn in output and the fastest rise in new orders since April.

The PMI survey found that the cost burdens continued to increase in November, with firms noting that inflation was attributable to higher raw material prices and supplier shortages.

Business confidence regarding future output rose in November. The PMI report stated that “manufacturers in Myanmar reported the highest degree of optimism since January, stemming from planned investment and greater expansion into new markets.”

### Business conditions continue to 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.

