

Asia Outlook Q2 2010: Client Insights

Discussion Summary

This paper is based on the discussions held at the Q2 Asia Forecast Updates in Melbourne, Sydney, Shanghai, Hong Kong and Singapore during June 2010.

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Glenn Levine, Regional Economist, IMA Asia

We've just finished travelling through Asia for the Q2'10 forecasting meetings, speaking with clients and listening to their insights and concerns about the outlook for Asia at mid 2010. In the following week Richard Martin extended the trip to meetings with local firms in Jakarta, Kuala Lumpur, and Bangkok. The points raised in these discussions help to shape our forecasts. Here's our summary of our clients' insights into current trends and the outlook.

Summary

- 1. A good 1H'10 with guarded optimism on 2H'10.** Demand across Asia was strong in 1H'10 and most clients are upbeat about the second half of the year, although there is concern about the outlook in the advanced economies and how this might blow back on Asia. The exceptions are Australia (a weak consumer as interest rates have risen and the fiscal stimulus has ended), Thailand (while export manufacturing has been strong and the consumer sector good, bad politics has put investment on hold), and Japan (sales are contracting for most firms).
- 2. Lack of visibility into 2H'10 in some industrial sectors.** Traditional seasonal demand patterns have failed to appear in 2010 as other forces continue to override the market. Massive restocking characterised 1H'10 and across most sectors there's a feeling this is over but what comes next is unclear. In some sectors (automotive in China, the global IT sector) overstocking may be occurring in the pipeline but has yet to be confirmed in the data. This could accentuate a slowdown in the industrial sector in Q3'10.
- 3. Good 2H'10 orders for services firms.** Our services firms – ranging from construction, through engineering, IT and HR – believe demand will be stable or even stronger through 2H'10. Requests for quotes have lifted and order books are full through year end. This appears to confirm a strong investment intention across the region despite some softness in consumer demand and the export manufacturing sector in 2H'10.
- 4. Consumer downshifting.** While demand growth has been good, consumers are buying smaller packages at lower price points in many markets. A sustained change in consumer habits is emerging with a greater focus on value. Some of our FMCG clients who have followed this downshift (for example, by moving to smaller packet sizes) have achieved strong growth, partly as the lower price points have also picked up steady demand growth in lower household income brackets.
- 5. Inflation needs watching (& explaining this to HQ).** Raw materials costs are rising quickly, particularly in the food sector. Added to this, shipping costs, rents and wages are also rising sharply. Much of this is likely to be peculiar to Asia and HQ may be unaware of the challenges in this area (so making them aware is a priority).
- 6. Lifting prices is hard, with margins suffering.** While input costs are heading up, firms have very little pricing power due to intense competition. Margins are suffering. This problem is apparent in most Asian markets as it's a global phenomenon.