

Asia Forecast Book Q2 2017 Forecasts to 2022

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The **Asia Forecast Book** is designed to assist strategic planners look beyond the current cyclical pattern to likely structural changes in Asian markets over the next five years. The analysis draws on regular monthly discussions with clients operating in each market. It also extends the brief 18-month outlook provided in the monthly **Asia Pacific Executive Brief**. The forecasts are reviewed each quarter with clients operating in each of the Asian markets.

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PREVIEW

Introduction

Outlook to 2022

The **Asia Forecast Book** focuses on market growth potential. Rather than looking at quarters or years, we prefer to look at growth in five-year blocks, which highlight trends and force us to be clear about the main changes we expect in a market. We provide annual forecasts for the outlook to 2022. The annual forecasts sit within our trend forecast to 2022, which is built in five-year blocks. IMA Asia also provides a one-page snapshot of the short-term outlook for each of the 14 main Asia Pac markets in the monthly **Asia Pacific Executive Brief (Asia Brief)**. The **Asia Brief** helps clients track changes to the outlook on a monthly basis.

The quarterly and monthly update cycle

Complete forecast rewrites are done in Q2 (June) and Q4 (December). The Q1 update, done in late February, aims to put actual (as opposed to estimated) data for the year just finished and updates the Q4 text where needed. The Q3 update, done in July/August, has sufficient data to sharpen the focus on current year growth and amends both the data and text where needed. Each month our economists and country associates update the 2-year outlook in the **Asia Brief**. Each month we place a monthly update of the Excel workbook for the 5-year forecast in the **Asia Forecast Book** on the web site for use by clients.

Our forecasting process

Our quarterly forecasting process starts with a review of ideas about the outlook with clients at our Asia Forecast Update sessions. These are held in five to eight cities each quarter. Based on the feedback from clients, and input from our country associates across Asia, we then revise our forecasts.

Excel workbook with data and charts

Clients can access an **Asia Forecast Book - Excel Workbook** containing these forecasts on our website. The 16 pages of the workbook contain hundreds of lines of data from 1991 to 2022 as well as some 200 charts that companies can adapt for their own use in internal documents and presentations. Adobe copies of the **Asia Forecast Book** are also available in the Members' Area of our website.

ASIA FORECAST UPDATE SCHEDULE

Our annual schedule is being built around quarterly forecasting conferences in Shanghai, Hong Kong, Singapore, Sydney, and Melbourne. For more information on these and other events, please contact service@imaasia.com

Why forecast this way?

No one knows the future and there are no models that can produce reasonably accurate economic forecasts (demographic trends are the surest). Joining a debate of the forecast has four great benefits over simply publishing a finished forecast:

Corporate review	The forecasts are reviewed with several hundred companies operating in Asia. Many of these companies have been running large operations in Asian markets for decades and have a good feel for market opportunities and problems. Debating the forecast with them improves our own understanding of the outlook.
Analyst debate	We are fortunate to work with some of the best country analysts in Asia (the country directors contributing to the Asia Brief). The forecast sessions provide an opportunity for face-to-face debate about the outlook.
Peer group exchange	The forecast review sessions are a great opportunity for senior executives to listen to executives from other industries talk about market performance.
Integration into planning	Our programs are structured to enable companies to participate in forecasting across Asia. This makes our forecasts easier to integrate into in-house planning as executives across Asia get to debate our forecasts.

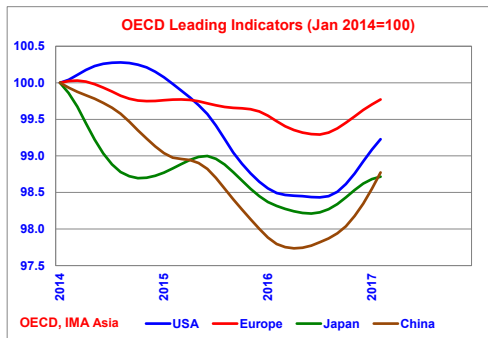
Charts versus presentation slides

In the forecasting conferences we use a diverse array of overhead slides to highlight key trends driving change in each country. The forecasting slides are worth looking at if you were unable to make the meeting; they are available in Adobe format in the members' area of our website. Clients can request PowerPoint copies from our offices.

Global & US Charts

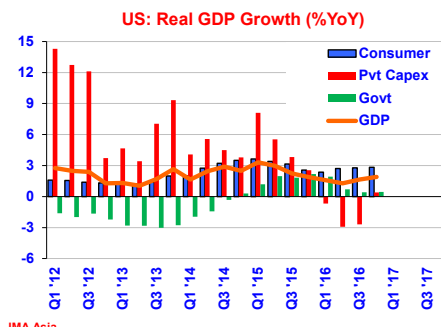
1. A synchronized global upturn

The world's major economies turned up decisively in Q4'16. Conditions look good for firmer global demand in 2017.



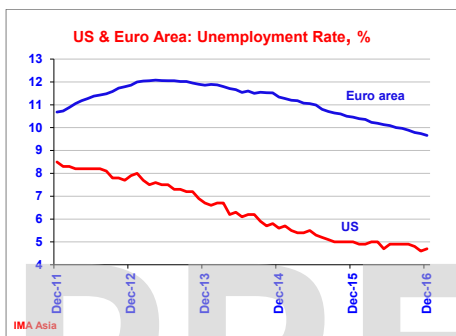
2. A brighter US economic outlook

After a three-quarter dip, US growth improved in Q4'16. GDP growth should lift from the 1.6% posted in 2016.



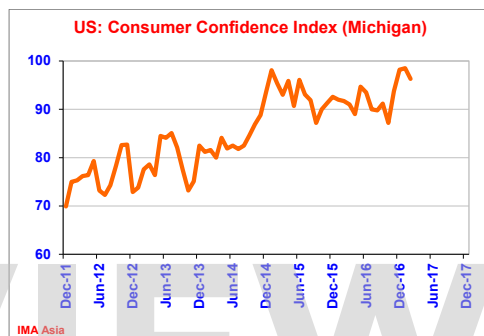
3. US & Euro Area labour markets steadily improving

The unemployment rate in the US and Euro Area are at or near multi-year lows, lifting consumer demand.



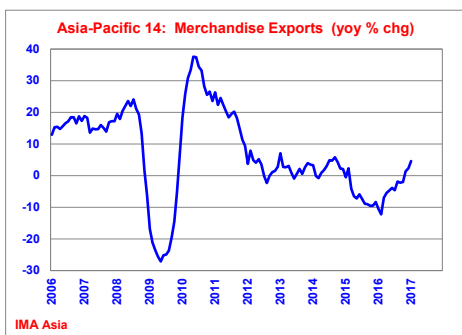
4. US consumer confidence remains positive

With the labour market improving, US consumer confidence is quite upbeat.



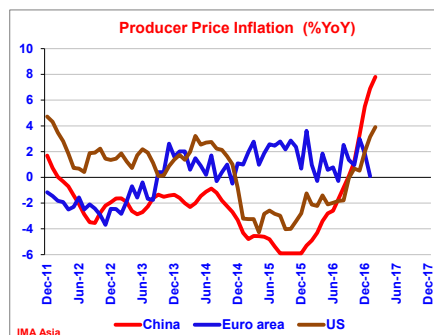
5. A mild export recovery for Asia

Global changes to consumption and sourcing will limit the upturn of Asia's manufactured exports.



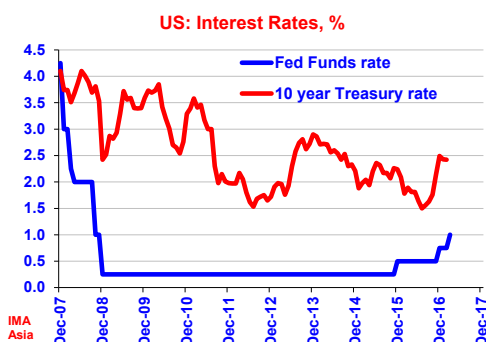
6. Watch inflation

A jump in hard commodity prices has pushed up producer prices. But excess capacity should limit consumer price inflation, at least in 2017.



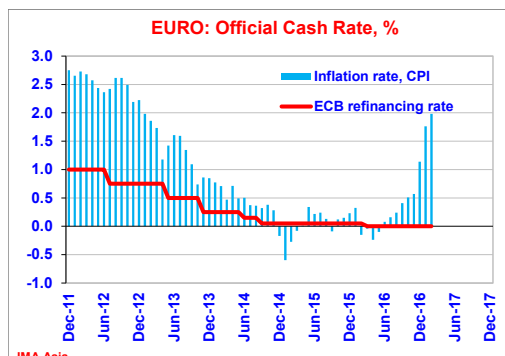
7. Three cautious US rate hikes for 2017

After three Fed rate hikes this year (to 1.50%), more rate hikes are likely to be needed in 2018.



8. Euro area rate hikes will lag the US

Euro area inflation has turned up, but the ECB will stick with its zero policy rate well into 2017 to help the zone's recovery.



Global Outlook

Despite many risks, a global recovery is underway in 2017

Since Q4'16, an array of global demand indicators—ranging from PMIs through to industrial production indices and shipping measures—have been surprising on the upside. That's particularly the case in Europe and for emerging markets outside of Asia. China could also play a bigger role in the demand recovery in 2017, after its imports jumped 26%yoy for the first two months of 2017, following falls of 5% in 2016 and 14% in 2015. Two characteristics of the upturn suggest it should weather an array of big risks this year (see the following risk page) and extend into 2018. The first is that the demand recovery is widespread across advanced and emerging markets, and that's critical to clearing global oversupply in manufacturing and some sectors that have been hammered in the last few years, like shipping. The second is that demand is rising because of meaningful gains in balance sheet repair for corporates, households, banks, and government some 8-10 years after the global financial crisis swept across the US and Europe. Better balance sheets underpin better demand. The combined result of a synchronised global upturn and better balance sheets is improved resilience for the global economy. While that means the recovery should be sustainable, it's unlikely to see the world return to the strong growth patterns of the pre-2008 period, as advanced country consumers are older (more inclined to save than spend), and debt levels remain high as interest rates edge up from record lows. Moreover, demand from Q4'16 to Q2'17 likely reflects a brief rebound from inventory building, as companies that have run ultra-low inventories over the last five years play catch-up with a recovery in demand. That inventory-led rebound should start fading from Q2'17, so the pace of the recovery will ease in 2H'17.

Expect more inflation, particularly from 2018

While hard commodity prices have jumped (see below), the impact on consumer price inflation is likely to be muted this year, as there's considerable excess capacity in production and labour markets. Moreover, price rises for key foods have been limited. That's good news, as it should allow central banks to opt for mild tightening that will allow demand recoveries to build in both advanced and emerging markets in 2017. Next year, inflation is likely to accelerate, particularly in the US, where an expected lift in an already strong construction market triggers wage-push inflation. After three rate hikes this year (to 1.50% by year end), we expect the US Fed will need to make 4-5 rate hikes in 2018 (to 3%) to get ahead of inflation (our forecast remains well above consensus forecasts). That will keep upward pressure on the US\$ through 2018, with 2-3% annual rises on its trade weighted index and the Euro.

Asia's trade recovery – good for commodities, and improving for manufacturers

For 50 years, global upturns have generally ignited a surge in Asian exports, particularly of manufactured goods, with annual growth rates rising to 15-20% (US\$ basis). We don't expect such a rebound this time, with total merchandise exports for the A/P 14 expected to grow by around 8% this year and 6% next year after contracting by an average 0.7%pa over the prior five years. Commodity exporters like Australia and Indonesia will do well thanks to the recent surge in key commodity prices (by March 2017, iron ore was up 51%yoy and Australian coal up 55%). That feeds through into better growth outlooks for both economies and keeps Australia on track for a record 26-year expansion. By contrast, the recovery in export manufacturing has been muted, particularly for China, where exports for the first two months of 2017 were flat year-on-year after a 6% fall in 2016 and a 3% fall in 2015. Lots of factors are at work here, ranging from a shift in Western consumer demand towards services over goods, to "near" or "reshoring" of manufacturing in the developed world driven more by technology and supply chain issues than protectionism. However, we may have underestimated the recovery in export manufacturing. We'll watch this closely, and adjust our forecasts in 2017 as trends develop. In this issue of the Asia Forecast Book, we've lifted our 2017 export growth forecast for the A/P 14 to 8% from 4% forecast in the Q1'17 issue.

Consumers underpin Asia's growth; policy & capex set the speed limit

Traditionally, Western MNCs viewed Asia's growth through the paradigm of exports, at first of commodities and then of manufactured goods. Over the last few decades, growth has increasingly been defined by domestic demand, particularly from consumers. Consumers now dominate in Asia's growth outlook, but the story varies enormously by country. Japan presents companies with static incomes for a declining population, requiring strategies to cope with fewer consumers every year. In China, workforce growth has halted, but income growth remains strong and households are adjusting their preferences for savings and debt to support rising consumption. In Australia, consumer debt levels, particularly for housing, have exploded, with households at risk from rising interest rates. Despite the diversity in Asia's consumer story, it is the aggregate rise in Asia's consumer demand that underpins regional growth and ensures the region takes global market share from all other regions. By contrast, the upper limit to Asia's growth is determined by the region's politicians, their policies, and the impact that both have on fixed investment. India and Indonesia could add two percentage points to their growth if PM Modi and President Jokowi could quicken the delivery of pro-market reforms that encourage stronger capex. Vietnam and the Philippines have already moved in that direction, and their trend growth rates have risen as a result. In this issue of the Asia Forecast Book we ask whether Thailand is about to do the same under a military-backed government.

Global & US – Historical Data

	2011	2012	2013	2014	2015	2016
GLOBAL ECONOMY						
Global real growth, % (<i>IMF & IMA</i>)	4.2	3.5	3.3	3.4	3.1	3.1
- Asia/Pacific 14 (<i>IMA Asia</i>)	4.6	4.5	4.7	4.3	4.4	4.6
- Developing Asia (<i>IMA Asia</i>)	8.3	7.1	7.1	6.7	6.6	6.5
- ASEAN 6 (<i>IMA Asia</i>)	4.8	5.9	5.0	4.5	4.4	4.5
- Euro Area (<i>IMF & ECB</i>)	1.6	-0.9	-0.3	0.9	1.6	1.7
GDP world, current value, US\$bn	72,910	74,172	76,258	78,071	73,694	75,137
- Asia/Pacific (14) share, %	29.1	30.3	29.8	30.1	31.6	32.5
- US share, %	21.3	21.8	21.9	22.3	24.5	24.7
- Euro area share, %	18.7	17.1	17.3	17.2	15.7	16.0
World Trade, vol growth, % (<i>IMF</i>)	7.1	2.8	3.4	3.5	2.8	2.3
US ECONOMY						
REAL GROWTH, %						
GDP	1.6	2.2	1.7	2.4	2.6	1.6
Personal consumption	2.3	1.5	1.5	2.9	3.2	2.7
Government consumption	-2.6	-0.9	-2.4	-0.7	1.7	0.8
Gross fixed capital expenditure	3.7	6.4	3.1	4.3	3.7	0.8
Exports	6.9	3.4	3.5	4.3	0.1	0.4
Imports	5.5	2.2	1.1	4.4	4.6	1.1
Manufacturing	0.3	0.3	1.5	1.6	1.3	0.6
Construction	-0.5	3.8	2.6	0.9	5.0	2.0
SHARE OF GDP, %						
Personal consumption	68.3	67.8	67.7	68.0	68.4	69.1
Government consumption	15.8	15.4	14.8	14.3	14.2	14.1
Gross fixed capital expenditure	18.7	19.4	19.7	20.1	20.3	20.1
Exports	12.6	12.8	13.0	13.3	12.9	12.8
Imports	15.7	15.7	15.6	15.9	16.2	16.1
Net Exports	-3.1	-2.9	-2.6	-2.7	-3.3	-3.4
Manufacturing	12.1	11.9	11.9	11.8	11.7	11.6
Construction	3.7	3.7	3.7	3.7	3.8	3.8
GDP CURRENT PRICES						
GDP US\$bn	15,518	16,155	16,692	17,393	18,037	18,567
GDP/capita, US\$	49,725	51,386	52,705	54,502	56,084	57,247
MARKET INDICATORS						
US\$ Trade Weighted Index, % chg	-5.8	3.6	3.4	3.2	16.2	0.5
Yen to US\$1	80	80	98	106	121	109
US\$ to 1 Euro	1.39	1.29	1.33	1.33	1.11	1.11
Yuan to US\$1	6.46	6.31	6.15	6.16	6.28	6.64
Population, year avg, millions	312	314	317	319	322	324
- population growth rate, %	0.7	0.7	0.7	0.8	0.8	0.8
Unemployment rate %	8.9	8.1	7.4	6.2	5.3	4.9
Manufacturing wage US\$/hour	18.93	19.07	19.29	19.56	19.92	20.39
Inflation, CPI, yr avg, % change	3.1	2.1	1.5	1.6	0.1	1.3
Fed Target Rate (top), YE, %	0.25	0.25	0.25	0.25	0.50	0.75
BALANCE OF PAYMENTS						
Export growth, %	14.2	4.4	3.5	3.2	-5.2	-0.5
Import growth, %	13.9	2.7	0.3	3.8	-3.0	-1.9
Trade Balance, US\$bn	-560	-540	-472	-504	-539	-498
Current account balance, % of GDP	-2.9	-2.8	-2.3	-2.2	-2.7	-2.6
GENERAL GOVT, % of GDP						
Revenues	29.4	29.4	31.6	31.4	31.6	31.4
Expenditure	39.0	37.3	36.0	35.5	35.0	35.5
Balance	-9.6	-7.9	-4.4	-4.2	-3.5	-4.1
Gross debt	99.0	102.5	104.6	104.6	105.2	108.2
Net debt	75.9	79.4	80.8	80.3	79.8	82.2

Sources: CEIC, national statistics offices, IMF. **Our accompanying Excel workbook has another 50 lines of data.**

Global & US - Forecast Data

	FORECAST					
	2017	2018	2019	2020	2021	2022
GLOBAL ECONOMY						
Global real growth, % (IMF & IMA)						
- Asia/Pacific 14 (IMA Asia)						
- Developing Asia (IMA Asia)						
- ASEAN 6 (IMA Asia)						
- Euro Area (IMF & ECB)						
GDP world, current value, US\$bn						
- Asia/Pacific (14) share, %						
- US share, %						
- Euro area share, %						
World Trade, vol growth, % (IMF)						
US ECONOMY						
REAL GROWTH, %						
GDP						
Personal consumption						
Government consumption						
Gross fixed capital expenditure						
Exports						
Imports						
Manufacturing						
Construction						
SHARE OF GDP, %						
Personal consumption						
Government consumption						
Gross fixed capital expenditure						
Exports						
Imports						
Net Exports						
Manufacturing						
Construction						
GDP CURRENT PRICES						
GDP US\$bn						
GDP/capita, US\$						
MARKET INDICATORS						
US\$ Trade Weighted Index, % chg						
Yen to US\$1						
US\$ to 1 Euro						
Yuan to US\$1						
Population, year avg, millions						
- population growth rate, %						
Unemployment rate %						
Manufacturing wage US\$/hour						
Inflation, CPI, yr avg, % change						
Fed Target Rate (top), YE, %						
BALANCE OF PAYMENTS						
Export growth, %						
Import growth, %						
Trade Balance, US\$bn						
Current account balance, % of GDP						
GENERAL GOVT, % of GDP						
Revenues						
Expenditure						
Balance						
Gross debt						
Net debt						

Sources: CEIC, national statistics offices, IMF. **Our accompanying Excel workbook has another 50 lines of data.**