Asia's Export Engine Slowing Down

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Outlook & Commentary

Christiaan Tuntono, Senior Economist for Asia Pacific at Allianz Global Investors highlights the main factors affecting the demand for Asian exports and which Asian economies are highly sensitive to weakening global demand.

Summary

As global goods demand fizzles and progresses more towards services, we expect Asia's merchandise trade growth to weaken further. There are two forces at play: (1) weakening developed market demand; and (2) a payback for the over-drafted demand for Asian exports during the pandemic.

The recent weakness in Taiwan's new export orders suggest further slowdown in Asian exports which are tech heavy. That said, slowing global demand is likely to impact Asian economies to a varying degree, contingent upon the export composition of each.

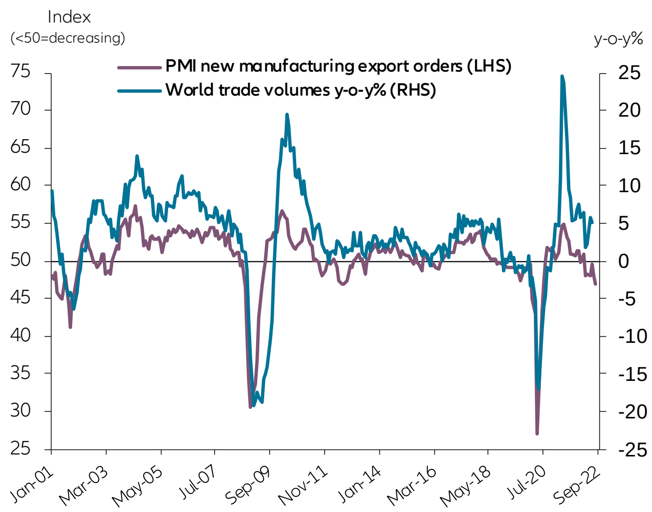
In terms of export growth sensitivity, we found that Australia's exports are the most sensitive to global demand change, while those from China is the least. In terms of GDP growth sensitivity, we found that small-open economies like Singapore, Hong Kong and Taiwan are more sensitive to the final demand of the world's major markets vis-a-vis the big-terrestrial economies like China, Indonesia, Japan and India.

Besides external trade, weaker exports are also expected to weight on the domestic demand of the Asian economies, slowing down growth recovery.

Falling trade and export growth

As global goods demand fizzles and progresses more towards services, we expect Asia's merchandise trade growth to weaken further. The world's PMI new manufacturing export orders has drop below the 50-mark into the contractionary territory (see Figure 1 below). This suggests that world's trade volume growth is likely to drop further from the current 5% yoy pace into the contractionary territory soon.

Figure 1: Falling global new orders and trade growth



Source: CEIC, Markit, AllianzGI Economics & Strategy, as of November 2022.

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Geographically, Asian export to China has already turned contractionary, dragged down by the very weak domestic demand condition under Zero-Covid Policy. Demand from the US and EU remained elevated so far. However, we expect rising recession risk in the developed markets (DM) are likely to weaken their demand for Asian exports (Figure 2).

Besides weakening DM demand, we also expect a payback for the over-drafted demand for Asian exports during the pandemic. Bolstered by the hefty pandemic-era stimulus, DM demand for Asian goods imports have overshot its trend, in our view. This is likely to mean a period of payback as consumers found that the laptops and flat-screen TVs they bought are going to last for a while.

In the US, as demand slowdown, new orders drop, and inventories rise. As measured by the Institute for Supply Management (ISM), the sharp plunge in US ISM new orders minus ISM inventory suggests Asian nominal export growth is likely to see further correction (Figure 3).

The recent weakness in Taiwan's new export orders shows further slowdown in Asian exports (Figure 4), which are tech heavy. The export orders placed with Taiwanese companies, both in Taiwan and other Asian economies such as Mainland China and Vietnam, is a useful bellwether for shipments from the entire region. This reflects the key position of Taiwanese companies in the regional supply chains, notably in the tech sector.

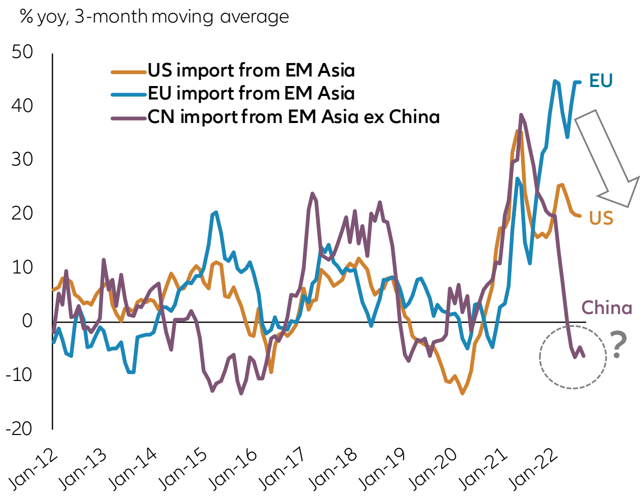
Globally, new orders for electronics have plunged to a level previously only seen during major disruptions, like the tech bust in the early 2000s, the Global Financial Crisis, and the depth of the pandemic. New orders have also fallen relative to inventory, as the latter has started to rise.

Export growth sensitivity

Slowing global demand is likely to impact Asian economies to a varying degree, contingent upon the export composition of each. Data from the United Nations Conference on Trade and Development (UNCTAD) show growth sensitivity (a.k.a. "beta") of the major export product genres in Asia.

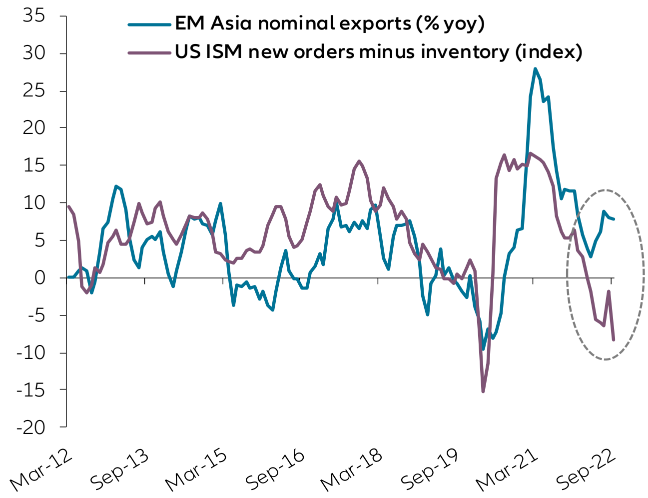
As depicted in Figure 5, for a one percentage point change in global demand, the export growth of stone and mineral products changes the most (by 4.9pp) while those of textile changes the least (by 1.7pp). The sensitivity of other export product genres such as electronics (2.2pp), vehicle and machinery (2.5pp) and services (2.5pp) are in the mid-stream.

Figure 2: Emerging Asian markets exports by destination



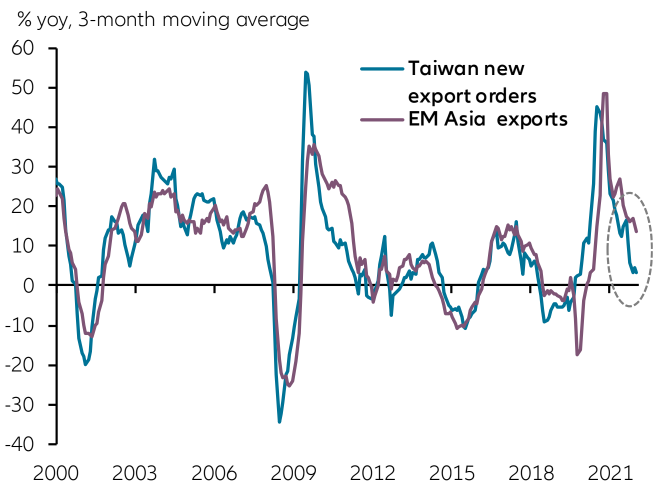
Source: CEIC, Markit, AllianzGI Economics & Strategy, as of November 2022.

Figure 3: US new orders and Asian export growth



Source: Bloomberg, CEIC, Haver Analytics, AllianzGI Economics & Strategy, as of November 2022.

Figure 4: Taiwan new export orders and EM Asian exports



Source: CEIC, Markit, AllianzGI Economics & Strategy, as of November 2022.

We found that Australia's exports are the most sensitive to global demand change, while those from China is the least. Australia's exports have the highest "beta" to global demand volatility, stemming from the high percentage (49.5%) of the volatile stone and minerals exports in its export product mix. China's exports are the least sensitive, on the other hand, given the low composition of the volatile stone and mineral exports in its product mix and a balanced composition in other export product genres.

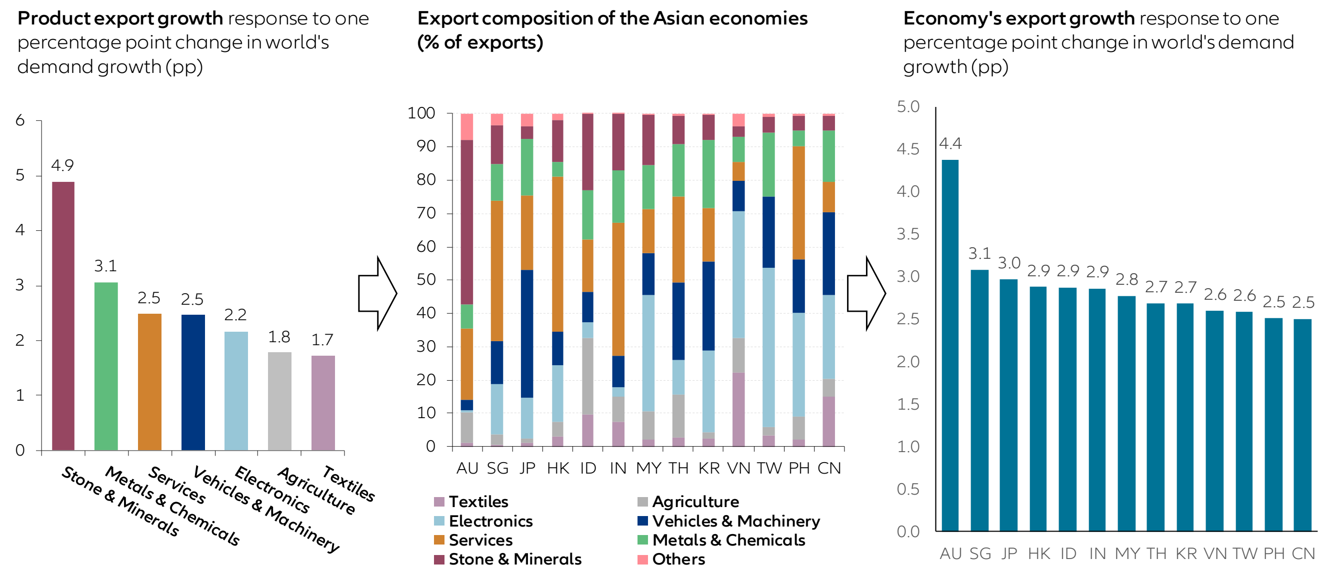
GDP growth sensitivity

As shown in Figure 6, the GDP growth of small-open economies are more sensitive to the final demand of the world's major markets vis-a-vis the big-terrestrial economies. Although Australia's exports have the highest "beta" to global demand, the sensitivity of its GDP growth is not as its trade exposure (i.e., total trade as a percentage of GDP) is not the highest in the region.

Small-open economies like Singapore, Hong Kong and Taiwan are the most trade exposed and hence their GDP growth are most sensitive to the changes in the final demand of the world's major export markets like China, the US and EU. Likewise, big-terrestrial economies such as China, Indonesia, Japan, and India are the least sensitive to the changes in G3 demand condition given their limited trade exposure to the world's markets.

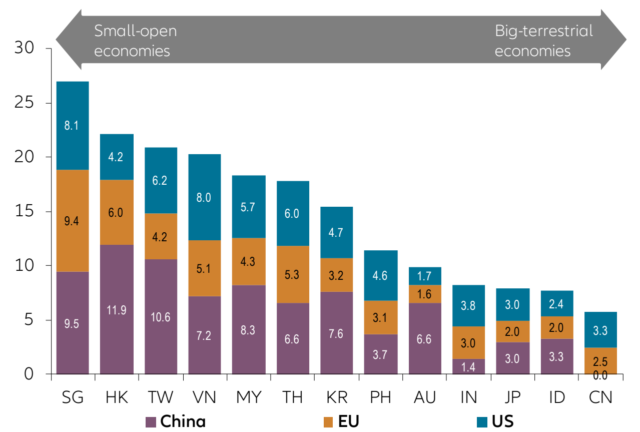
Besides external trade, weaker exports are also expected to weight on the domestic demand of the Asian economies, slowing down growth recovery. Figure 7 shows the growth response of real consumption and investment spending to a one percentage point slowdown in export growth. Real investments tend to react more sensitively than real consumption through the foreign direct investment (FDI) and capital expenditure channels, though the responses are largely equal in Korea and Japan given their developed market status.

Figure 5: How weaker global demand impact the export growth of Asian economies?



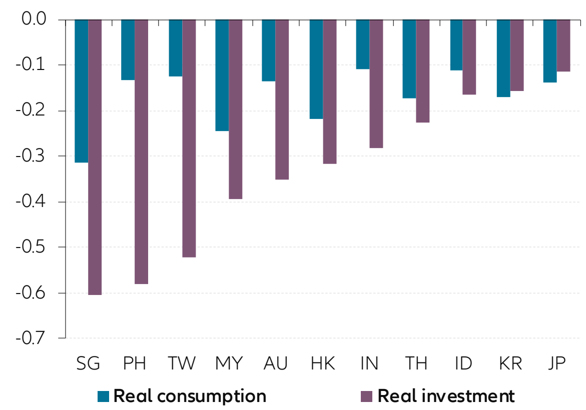
Source: UNCTAD, CEIC, AllianzGI Economics & Strategy, as of November 2022.

Figure 6: Asia's export exposure to the final demand of China, the US and Europe (% of GDP)



Source: OECD-WTO TiVA Database, CEIC, AllianzGI Economics & Strategy, as of November 2022.

Figure 7: Response of Asia's consumption and investment growth to one percentage point slowdown in export growth (pp)



Source: OECD-WTO TiVA Database, CEIC, AllianzGI Economics & Strategy, as of November 2022

To view more market insights from Christiaan Tuntono, visit **Market & Model QuickUpdate** at **ap.allianzgi.com**

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