

ECONOMICS: ASIAN PERSPECTIVES—JUNE 4, 2010

# We Raise Our Asia Growth Forecast, Despite Headwinds Blowing from Europe

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Asia's year-on-year recovery momentum remains extraordinarily robust. Even if we factor into our forecasts a rapid normalization of sequential growth, we still see the region's GDP ending the year stronger than most expect.

While the euro-area debt crisis has increased fears of a relapse in global growth, we remain confident about Asia's prospects; indeed, we have further raised our GDP projections for the region for the coming year. In our view, the global backdrop presents little cause for concern: growth outside the peripheral European Union (EU) states remains solid and appears capable of overcoming the headwinds those countries' problems have created.

In fact, Asia's recovery momentum remains extraordinarily robust and activity growth across the region has significantly outperformed consensus expectations. Skeptics may argue that the strong performance in the first few months of this year should be viewed as nothing more than history. We believe, however, that even if we factor a rapid normalization of sequential growth into our forecasts (following last year's staggering pace of expansion during Asia's initial phase of recovery), the region's GDP will end the year stronger than most expect.

## Further Upward Revisions

**Displays 1 and 2** show our latest GDP forecasts for the region. At 8.7% for Asia excluding Japan in 2010, our latest forecast is 40 basis points higher than last month's projection and 70 basis points above the forecast we made in January 2010. Interestingly, the consensus forecast has also risen, from last month's 8% to 8.3% currently. For 2011 our initial forecast is 7.1%, which implies a slowdown to around trend level but still represents a very robust growth environment.

We have also raised our Japan forecast. We now expect GDP growth of 3.1% in 2010—up from our previous forecast of 2.6%—given the higher-than-expected GDP level in the first quarter. We remain cautious that Japan's current cyclical recovery will not last long, however, and expect the economy will once again slip back to below trend in 2011 at 1.9%.

## Powerful Recovery

**Display 3, next page,** breaks out Asia's extraordinary first-quarter GDP growth. In

Display 1  
Strong Growth Continues

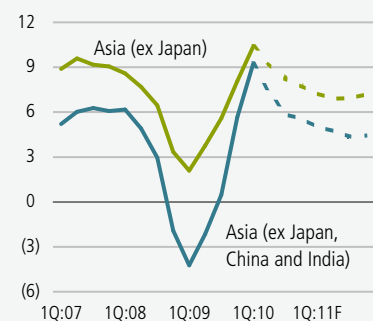
GDP & Inflation Forecasts

	Real GDP Growth			Inflation		
	09	10F	11F	09	10F	11F
China	8.7	10.4	9.1	(0.7)	3.5	2.5
Hong Kong	(2.8)	6.8	5.2	0.5	2.8	3.0
India	6.4	7.8	7.0	1.3	8.0	6.0
Indonesia	4.5	5.7	5.0	4.8	5.0	4.0
Korea	0.2	6.5	4.5	2.7	2.8	2.5
Malaysia	(1.7)	6.7	4.2	0.6	2.5	2.2
Philippines	0.9	5.3	3.4	3.3	4.8	4.0
Singapore	(1.3)	10.2	6.5	0.3	2.8	2.5
Taiwan	(1.9)	9.1	5.3	(0.9)	2.2	1.8
Thailand	(2.2)	6.4	2.8	(1.0)	3.8	3.5
Asia Total	5.0	8.7	7.1	0.5	4.0	3.1
Asia Total (ex China & India)	0.0	6.9	4.6	1.8	3.2	2.8
Japan	(5.2)	3.1	1.9	(1.4)	(0.3)	(0.4)

Source: CEIC Data and AllianceBernstein forecasts

Display 2  
Growth Outlook Is Robust

Quarterly GDP Forecasts  
YoY % Change



Source: CEIC Data and AllianceBernstein forecasts

each case, the pace has bounced back markedly from fourth-quarter 2009 levels and, in some instances, is in double digits—a rate of expansion that those countries have not seen for several years. The major economies are still riding the upswing of their industrial production cycle—a frenetic 30%–50% year on year in April (**Displays 4–5**). This has been helped by the export recovery across the region which, at 30%–40% year on year, is still powerful.

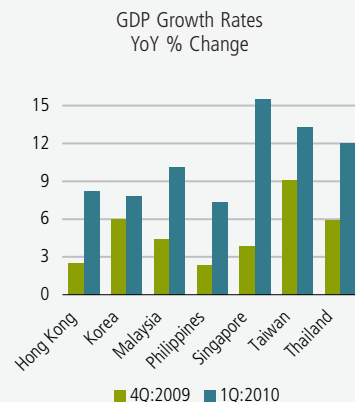
In sequential terms, however, there have been signs in recent months that momentum has begun to moderate. We would be cautious about viewing this as a possible turning point leading to a double dip in growth, however. Instead, we see the slowdown as the natural normalization of sequential momentum following the unprecedented pace of recovery achieved during Asia's initial rebound from the global crisis. Indeed, Korea's May export data—the first and, at the time of writing, only May export data available in the region—reinforce our optimism: they surged 42% year on year from 20% in April. We estimate that sequential growth eased but remained strong at 30% annualized compared with 48% in April. More importantly, Korea's shipments to all markets were extremely robust in May, and the continued strength in emerging-market demand is particularly encouraging at a time of growing concern about a slackening in European demand. Korean exports to BRIC (Brazil, Russia, India and China) increased 62% year on year while to Latin America (including Brazil) they were up 66%, Middle East 123% and ASEAN 67%. Exports to developed markets were also strong, especially shipments to the US, which rose 62%, and the EU, up 38%.

### Accommodative Policy

Another growth-supportive development, in our view, is that most Asian policymakers will further soften their stances on policy tightening as long as the European sovereign debt crisis persists. As we have argued in previous *Asian Perspectives*, the much tamer-than-expected inflation risk in Asia has already resulted in delays to interest-rate increases across the region. We now think that most Asian central banks will probably increase their policy rates by one or, at most, two 25 basis point increments before the year-end and that, in the near term, they will all allow their currencies, weakened by the recent sell-offs, to buttress their export recoveries. The recent softening of global commodity prices—and, in particular, crude oil prices staying below US\$80 per barrel—will give great comfort to policymakers in this commodity price-sensitive region.

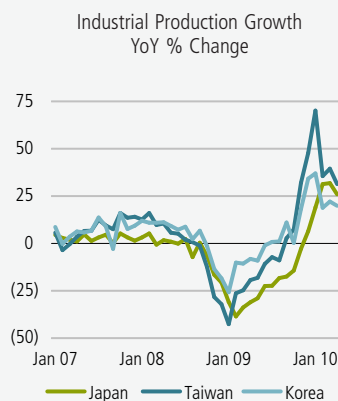
The only country we think still requires a relatively hawkish monetary stance is India, where growth acceleration has further constrained economic capacity. Among other major Asian countries, we expect that China will probably concentrate on property tightening and liquidity sterilization through further increases in banks' reserve requirement ratio, while the much-awaited increase in the lending rate is unlikely until the final quarter. We think the drastic fall in the renminbi one-year forward rate to less than 1% against the US dollar is reasonable. In Korea, Taiwan and Indonesia, we now expect rate rises to be pushed out to late this year. Rising political risk in the Korean peninsula is another reason for the Bank of Korea to be accommodative, while lingering political uncertainty in Thailand makes a rate rise this year look increasingly unlikely. ■

Display 3  
Performances Beat Consensus Expectations



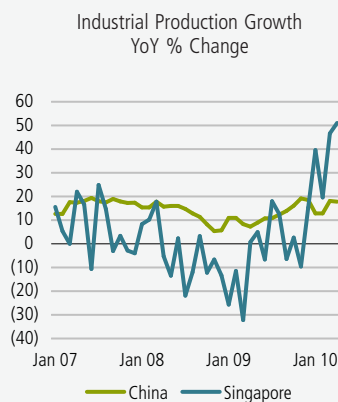
Source: CEIC Data and AllianceBernstein estimates

Display 4  
Industrial Upswing Strikes Frenetic Pace (1)



Through April 2010  
Source: CEIC Data and AllianceBernstein estimates

Display 5  
Industrial Upswing Strikes Frenetic Pace (2)



Through April 2010  
Source: CEIC Data and AllianceBernstein estimates

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