

Asia's PMIs paint grim picture for manufacturing

Asian PMI indices mostly didn't follow in the direction of yesterday's official Chinese numbers and some highlight the economic cost of lockdowns in saving lives



Source: Shutterstock

Numbers generally fell, some more than others.

Asia's PMI indices were generally lower and moved further into contraction territory. Though there were some outliers and some notable exceptions to this generalization.

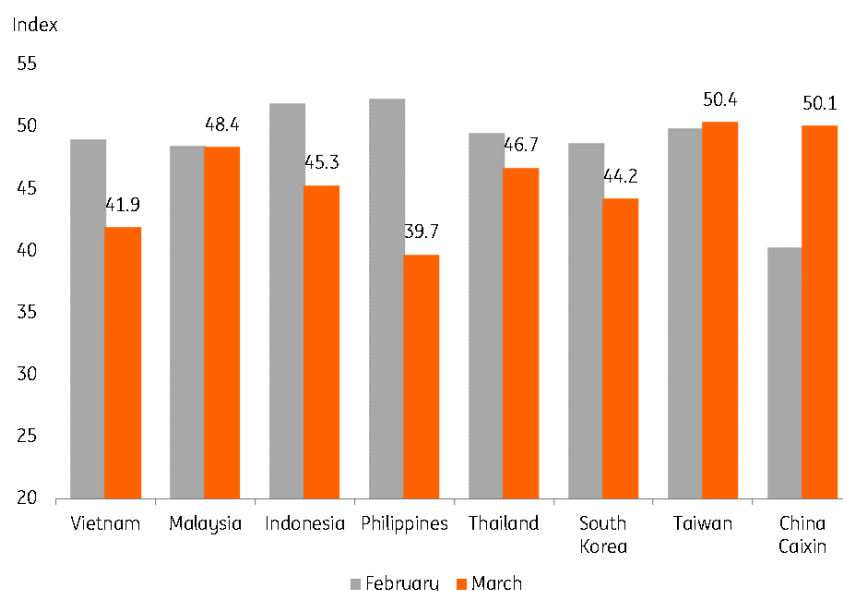
Seven Market PMIs and Caixin for China

As we noted in our note on the official China figures yesterday, purchasing manager indices (PMIs) are comparative statistics, though they are often incorrectly viewed as outright measures of activity, as they do often correlate well with other measures such as GDP or industrial production.

In other words, if the PMI rises, it means that more firms view conditions as better (or the same) than the previous month. If the previous month was already terrible, then this may still leave conditions in an awful state, even if 100% of firms believe things are no longer getting worse. The fixation with the 50-level as indicative of contraction or expansion is a bit misleading in this respect. In normal times, when indices tend to hover a bit above or a bit below the 50-mark, then this isn't a bad approximation to reality. But in the current environment, we need to be a bit more careful about how we interpret these numbers.

In the following block, we outline the main conclusions for the reporting countries. Note especially the conclusion for China.

PMIs - March vs Feb



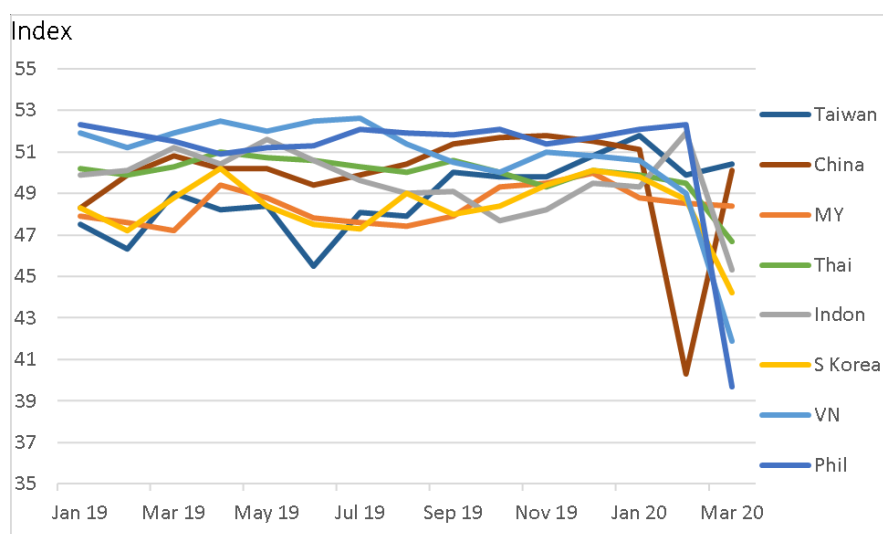
Source: Bloomberg, ING
Asian PMI indices

Country details

- **South Korea:** 44.2 is worse than any reading during the tech slump or trade war and suggests that recent figures for Korea paint too rosy a picture of manufacturing strength.
- **Thailand:** 46.7 is an all-time low and its third straight reading below 50. This suggests a GDP contraction in the first quarter of the year (was 0.2%QoQ in 4Q19).
- **Philippines:** The Philippines saw the most severe pullback in activity with both output and new orders stalling and with the index posting its lowest level ever (39.7). The enhanced community quarantine implemented in mid-March may be one of the main culprits for the stark drop-off with curfews in place and businesses shutdown with citizens asked to shelter in place.

- **Indonesia:** Big drop to 45.3 indicates sharp slowdown even before full lockdown implemented. Could imply further slowdown ahead.
- **Malaysia:** Still below 50, but steady. Recent restrictions on movement not yet impacting the numbers. Not a great predictor of economic strength though.
- **Vietnam:** 41.9 is another all-time low. And shows that even though China may be returning to work, it is not business as usual for the countries in China's supply chains.
- **Taiwan:** The sole exception posting an above-50 reading (50.4 up from 49.9) and increase in the index, which may attest to recent moves to repatriate productive capacity from Mainland China
- **China:** bounce back to 50.1 indicates that firms see things as almost exactly as bad as in February, just fractionally better. This is not a V-shaped recovery!

Asian PMI time series



Source: Bloomberg, ING
Asian PMI time series

What next?

Today's readings, plus those for Singapore and India that follow shortly, are likely to confirm a grim picture for the manufacturing sectors of Asia's economies, with the possible exception of Taiwan, as they head into the second quarter.

In our view, though we may see bouncing PMI indices (as in China), as "bad" conditions "normalize", the prospect for most economies' manufacturing sectors as they head into 2Q20 is for even more weakness, exacerbated where lockdown measures are newly enacted or tightened.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.