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Editor: Richard Martin (richard.martin@imaasia.com)

Analysis: Wei Sheng Wan (wei-sheng.wan@imaasia.com)

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This report summarises the current business environment analysis and short-term forecasts of country directors running executive briefing programs across Asia. The Asia Pacific Executive Brief is owned and produced by International Market Assessment Asia Pty Ltd (IMA Asia).

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Global Outlook

A 2nd straight year of weak growth in 2020

… due to COVID-19

The COVID-19 outbreak is a headwind for global growth in 2020. Under our first virus scenario (see the next page – we expect a 3-week shutdown in China with limited contagion elsewhere) there are two challenges. The first is China's prominence in the global growth calculation, as it accounts for 17% of the global economy (up from 5% during SARS in 2003) and has delivered 20-30% of global growth in recent years. The second is the knock-on impact on global manufacturing and tourism. Manufacturing may see a weak H1'20 with some recovery in H2'20, but tourism likely faces a tough 2020. In January, the IMF trimmed its global growth outlook from 3.4% to 3.3%. When it releases its April update, we expect global growth to drop towards 3% due to the virus outbreak. That will make 2020 the second weak year in a row for the global economy.

Subdued growth for most sectors & countries

… & problems for those with lots of debt

Most advanced countries and a lot of Asia can cope with a second weak year of global demand. The challenge will be for a small number of consumers, companies, sectors, and countries that have loaded up on cheap debt over the last few years and face a fall in income to service that debt. The "high debt/weak demand" combination will be hard on the tourism and luxury goods sectors, putting weaker firms under pressure. A rise in US credit card delinquencies suggests a pull back by US consumers is not that far ahead (see below). Finally, it may well trigger another bout of "risk-off" for emerging markets (EM), particularly those with high levels of corporate and sovereign debt. Yield hungry investors have loved such debt over the last year but may face trouble selling out as the market turns. That usually means a spike in interest rates and sharp depreciation for the EM involved. As always, India, Indonesia, and the Philippines are the ones to watch in Asia.

Steady 2% growth in the US

… led by consumers

… but watch for a debt-driven retreat in 2021

The US economy should sustain 2% growth in 2020 before slowing to 1.7% in 2021. Consumer demand is expected to grow 2.5% this year, in line with the 2.6% reported for 2019. Low unemployment (currently 3.6% and expected to remain under 4%), low inflation (2.3% for Dec'19 and expected to remain near 2%), and a lift in wage growth to 2.9% last year will help households. Strong consumer confidence has seen household debt reach a new peak of $14.2tr at the end of 2019 with strong growth in mortgages and credit card debt. The expected slowdown in 2021 will mostly be due to consumers pulling back. Credit card delinquencies, an early sign of such a retreat, are edging up. The weaker parts of the economy will be fixed investment (particularly as frackers pull back due to a low oil price) and exports, which will suffer from a strong US$ and weak overseas demand.

The Euro area suffers from weak export manufacturing

Euro area GDP growth almost halved to 1% in 2019, although weaker growth didn't stop a steady fall in the unemployment rate from a 12% peak in early 2013 to a new post-crisis low of 7.45% at December. Thanks to a better employment market, consumer demand growth has remained steady near 1.5%. The slowdown has been due to weaker growth in exports, manufacturing, and fixed investment in plant and equipment.

Falling oil prices and low interest rates

The COVID-19 outbreak has hit a soft oil price, triggering a bear market (a 25% price fall from this year's peak). It's unlikely that OPEC and Russia can cut enough to lift prices significantly this year. That means lower inflation and little need for an interest rate hike by most central banks.

IMA Asia's forecasts	2017	2018	2019	2020	2021
World – Real GDP growth (IMF), %	3.8	3.6	2.9	3.3	3.4
- US (IMF)	2.4	2.9	2.3	2.0	1.7
- Euro area	2.5	1.9	1.0	1.3	1.4
- Asia/Pacific (14) by IMA Asia	5.0	4.6	4.2	4.1	4.3
- NICs (4)	3.3	2.8	1.5	1.8	2.5
- Developing or "EM" Asia (7)	6.6	6.5	5.7	5.5	5.6
- ASEAN (6)	5.1	5.0	4.2	4.3	4.7
World goods & services trade volume, % growth	5.7	3.6	1.1	3.2	3.8
US Fed policy rate, top of band, year-end, %	1.50	2.50	1.75	1.50	1.50
Inflation, CPI, US, year average, %	2.2	2.4	2.3	2.1	1.8
Inflation, CPI, Euro area, year average, %	1.5	1.8	1.2	1.4	1.5
Crude oil, average of 3 spot crudes, US$	53	68	62	58	55
EUR/USD, year average rate	1.13	1.18	1.12	1.08	1.10
USD/JPY, year average rate	112	110	109	110	108

The Asia/Pacific 14 = the countries on the forecast summary page. NICs are the newly industrialised countries = Korea, Taiwan, HK, Singapore. The ASEAN 6 = Indonesia, Thailand, Malaysia, Philippines, Vietnam, + Singapore. Dev Asia = ASEAN 5 + China and India. IMA Asia forecasts.

Richard Martin, IMA Asia ♦ Email: richard.martin@imaasia.com

The COVID-19 Impact

COVID-19

… triggers a big containment effort

… which halts business

Communities and corporate teams in Asia have confronted virus outbreaks that threaten to become pandemics in 2003 (SARS) and with several of the more severe outbreaks of avian flu, which occur every few years. There is, as a result, a high level of preparedness in countries such as China, which tends to be an epicentre, and in many large firms. What is striking in the COVID-19 outbreak is the speed and scale of the response by governments, organisations, and many firms. In part, that reflects the lessons learned from prior virus outbreaks, and in part it reflects a more developed internet that spreads information and supports fast action. The WHO's website has the latest information and comprehensive advice on appropriate action. So far, it is the implementation of the response rather than the virus itself that has had the biggest impact on markets.

Our first virus scenario

… China is closed for three weeks over CNY

… followed by a slow restart

This issue of the Asia Brief looks at the early impact on markets, with some suggestions about likely developments. We've adjusted our outlook based on a few assumptions about the escalation and then de-escalation of containment efforts and the time required to return to normal activity. The containment effort has been extensive, particularly in China. As China is now a major supplier of demand (including tourists) and goods to other countries, our assessment is largely a review of what happens when China is closed for three weeks rather than one week over Chinese New Year (CNY, the closed period is Jan 24 to Feb 9 – 17 days). The restart from Feb 10 has been slow as firms wait for a web of restrictions at all levels of administration to be eased. School closures until the end of February (meaning one parent needs to stay home) and shortages of drivers are typical problems that slow a re-start. It may take until mid-March for 90%+ of China to return to normal operations. A further month (to mid-April) may be needed for inventory and shipment levels to recover. If a rapid virus spread starts outside of China, then our next forecast update will need to build on a second and more damaging virus scenario.

Two variables to watch in the rest of Asia

… dependence on China

As there is endless complexity in assessing the impact of shutting down China for three weeks, we've focused on two basic issues: how dependent is each country on China for demand (i.e. exports and tourists) or supplies (imports); and how resilient is each country. A table on the following page summarises the China trade and tourism dependency across Asia. Since SARS in 2003, that dependency has jumped. China is now the main export destination for just about every country in Asia and the biggest supplier (India is an exception). Our forecasts include estimates of lost exports to China and lost industrial production due to shortages of components and materials from China. Some of what's lost in H1'20 will be regained in H2'20. The tourism hit is likely to be just as big and demand in this sector may take longer to recover.

… & resilience

How much damage China dependency does will depend on the resilience of each country, which is an issue we often examine in the Asia Brief (it is also an issue the credit rating agencies assess in awarding their sovereign bond ratings). Resilience has many facets ranging from effective political systems through domestic demand cycles to national savings. Resilience is generally good across Asia, thus 13 of the 14 counties have investment grade sovereign ratings (Vietnam is the exception and its resilience is improving so that it may get an investment grade rating in a few years).

What should companies do?

First, all firms should have implemented their business continuity plans (BCPs), as there is no doubt that a BCP can protect staff, customers, operations, and profits. Our forum members have shared several other insights in the last few weeks:

- **Don't panic.** Some alarming phone calls from HQ have been fielded. While the concern is appreciated, a good BCP gives the China team a high degree of security and underpins a measured response that contains risk and protects operations.
- **Limit expat evacuation and help your local community.** The worst response is to evacuate all expat managers, leaving the local staff to fend for themselves. No one forgets that. Ask the expat managers who will stay; you'll likely be surprised. The company should look for ways to step up help to the local community.
- **Don't lose sight of the rest of the agenda.** Many companies have essential programs underway to transform their operations (e.g. digitalisation). These need to be continued and might even be accelerated under a BCP.
- **Spring back.** Some forum members recalled how SARS decimated their businesses for several quarters in 2003 before they managed a rapid rebound that recouped lost business and helped them gain market share. Planning the recovery is just as important as containing the risk.

China Dependency Table

	% of tourists from China		% of exports to China		% of imports from China	
	2015	**2019**	**2015**	**2019**	**2015**	**2019**
Japan	25.3	30.1	17.5	19.1	24.8	23.5
Hong Kong	77.3	78.5	43.7	42.9	49.0	46.6
Taiwan	40.1	24.3	25.8	27.9	19.1	20.1
South Korea	45.2	34.4	26.0	25.1	20.7	21.3
Indonesia	12.0	13.1	10.0	16.5	20.6	26.1
Malaysia	6.5	12.0	13.1	14.0	18.9	20.6
Philippines	9.2	21.7	10.5	13.6	16.1	22.7
Singapore	13.8	19.3	13.1	13.6	13.7	13.7
Thailand	26.5	27.6	11.1	11.8	20.3	21.3
Vietnam	21.6	30.6	10.6	15.7	29.9	29.8
India	2.6	2.7	3.6	5.3	15.5	14.2
Australia	13.9	15.8	30.1	38.2	23.1	25.8
New Zealand	11.4	11.0	18.4	28.8	19.5	20.1

Regional outlook

Summary of forecasts in this month's Asia Brief

GDP (Expenditure), real growth, %	2017	2018	2019	2020	2021
Japan	2.2	0.3	0.7	0.2	0.2
China	6.8	6.6	6.1	5.7	5.6
Hong Kong	3.8	3.0	-1.8	-2.4	0.1
Taiwan	3.3	2.7	2.7	3.2	3.2
South Korea	3.2	2.7	2.0	2.1	2.8
Indonesia	5.1	5.2	5.0	5.2	5.4
Malaysia	5.7	4.7	4.2	3.9	4.9
Philippines	6.7	6.2	5.9	6.3	6.3
Singapore	3.7	3.1	0.6	2.1	2.5
Thailand	4.1	4.1	2.0	1.8	2.3
Vietnam	6.8	7.1	7.0	6.1	6.6
India (CY)	6.9	7.4	4.9	5.1	6.3
Australia	2.5	2.7	1.7	2.2	2.8
New Zealand	2.6	2.8	2.2	2.8	3.0

Inflation, CPI year average, %	2017	2018	2019	2020	2021
Japan	0.5	1.0	0.6	0.9	0.6
China	1.6	2.1	2.9	2.4	2.8
Hong Kong (composite CPI)	1.5	2.4	2.9	2.4	2.2
Taiwan	0.6	1.4	0.6	0.9	0.9
South Korea	1.9	1.6	0.4	0.6	1.2
Indonesia	3.2	3.9	3.0	3.5	3.8
Malaysia	3.7	1.0	0.7	0.5	1.0
Philippines	2.9	5.2	2.5	2.0	3.3
Singapore	0.6	0.4	0.6	0.4	0.7
Thailand	0.7	1.1	0.7	0.3	0.9
Vietnam	3.5	3.6	2.8	4.1	3.5
India (CY CPI urban non-manual workers)	3.3	4.0	3.7	3.7	4.8
Australia	1.9	1.9	1.4	1.2	1.5
New Zealand	1.9	1.6	1.6	1.3	1.5

Exchange rate to US$1, year avg.	2017	2018	2019	2020	2021
Japan	112	110	109	110	108
China	6.76	6.61	6.91	6.99	7.02
Hong Kong	7.79	7.84	7.84	7.85	7.80
Taiwan	30.4	30.1	30.9	30.4	30.0
South Korea	1,129	1,100	1,165	1,159	1,142
Indonesia	13,381	14,238	14,148	14,488	14,859
Malaysia	4.30	4.03	4.14	4.22	4.22
Philippines	50.4	52.7	51.8	50.7	51.3
Singapore	1.38	1.35	1.36	1.39	1.37
Thailand	33.9	32.3	31.0	29.8	29.8
Vietnam	22,370	22,602	23,051	23,525	24,005
India (FY)	65.1	68.4	70.4	72.3	74.9
Australia	1.30	1.34	1.43	1.47	1.51
New Zealand	1.41	1.44	1.52	1.54	1.52

Sources: CEIC, central banks, and national statistics offices. Forecasts are by IMA Asia.

Regional outlook

Political & policy issues to watch

The politics & geopolitics of COVID-19

We expect President Xi in China to be strengthened by his handling of COVID-19 despite some adverse social media and critical foreign press reports. By contrast, leaders in HK and Thailand have fumbled their responses, which will weaken their positions. Across the region, locals are also unhappy about the flood of PRC tourists over the last few years and this year's virus risk. Countries with traditional uneasy relations with China, like Vietnam and Indonesia, will need to keep a lid on anti-Chinese sentiment.

A problematic US - China trade deal

… which won't halt decoupling

We don't expect the Phase 1 US-China trade deal to halt decoupling although it will add the complexity of government-mandated trade, particularly for commodities. The main losers will be the commodity exporters like Australia, NZ, Brazil, and Indonesia. There's no sign yet how they will respond. We also don't expect a US-China trade deal to stop decoupling. China will continue to welcome all foreign investors, but a growing number will want to ring-fence China operations and reduce supply chain reliance. That's a plus for alternative production sites in NE and SE Asia.

No end to HK's political problems

HK's decline in 2019 shows no sign of ending in 2020 as its administration struggles to bridge a chasm between Beijing's push to end the 1 country/2 systems formula, which was meant to run to 2049, and a preference among most residents to retain it. COVID-19 has widened the chasm. HK will undoubtedly step up fiscal stimulus and housing construction, but unrest and protests that turn off tourists and foreign firms will continue.

Taiwan tacks away from China

Taiwan's January election was a watershed, bringing a decisive tack away from China. That has annoyed China and it likely means that Beijing will look for ways to step up pressure on Taiwan to tack back towards China. Taiwanese companies have a lot at stake in this contest, and foreign firms dealing with Taiwan may also come under pressure.

Malaysia's leader-ship mess

The contest for the leadership of the Pakatan Harapan coalition government is likely to come to a head in the next six months with PM Mahathir reneging on a deal to hand power to Anwar Ibrahim by May. The leadership confusion is hurting confidence and investment.

Outlook for the market

COVID-19 means weaker growth in 2020

… led by China and countries linked to China

In December, we forecast that growth for the A/P 14 markets covered by the Asia Brief would lift to 4.4% in 2020 from 4.3% in 2019. Under our first COVID-19 scenario (see the prior page), we've cut 2020 growth to 4.1%. Our outlook for 2021 has also dropped from 4.6% to 4.3%. Most of the cut is due to China's forecast being lowered from 6.0% to 5.7% for 2020 and from 5.8% to 5.6% for 2021. The linkages by trade and tourism into most other A/P markets led us to trim growth in manufacturing and services in these countries. The region's export growth has also been cut to 1.9% for 2020 from a prior 3.4% (nominal US$ basis). We are still expecting a global electronics recovery to lift Asia's exports this year after a 1.9% fall in 2019.

Rising local demand will help ANZ & Indonesia

All countries have had their 2020 GDP growth rates reduced with three exceptions. One is Australia, where we've nudged up the 2020 forecast to 2.2% (prior 1.9%) as a housing recovery is underway. Much the same is going on in NZ, where we now expect 2.8% (prior 2.6%). The third is Indonesia, where the growth rate is unchanged at 5.2%, as a recovery in government spending is expected and reliance on China is low.

While big export manufacturers will slow

Most of the big cuts to our forecasts are for countries with close trade, manufacturing and tourism links with China. Japan's 2020 GDP growth rate halves to 0.2% (prior 0.4%), Vietnam's drops to 6.1% (prior 6.9%), Singapore drops to 2.1% (prior 2.4%), and Thailand drops to 1.8% (prior 2.4%).

Unique problems for HK & India

Two countries have big forecast reductions for 2020 due to domestic problems. We expected a bigger recession in HK with GDP to fall 2.4% (prior -1%) as political and economic problems are exacerbated by the virus. India's balance sheet recession got much worse at the close of 2019, so the 2020 forecast has been cut to 5.1% (prior 6%).

Low inflation & rising EM currency risk

A big fall in oil prices generally means lower inflation across Asia, even though a few prices will jump due to shortages from China. That means continued low interest rates. EM currencies need watching for risk-off triggered by the virus or an EM bond collapse.

Richard Martin, IMA Asia ♦ Email: richard.martin@imaasia.com

Japan

Political & policy issues to watch

PM Abe's post-Games options

… an early election or a new cabinet

When the Tokyo Olympics & Paralympics finish on September 6, PM Abe will face two options. He could call a snap election at the halfway point of the lower house's current 4-year term and, provided the LDP does well, open up the possibility of a fourth 3-year term as LDP head (and thereby PM) by another change to party rules. He has recently become Japan's longest serving PM (in a post that dates from the 1880s), with some arguing that the stability he provides is essential during a period of geopolitical instability. Alternatively, he could carry out a cabinet reshuffle and lock in place the next LDP leader before his 3rd term ends in September 2021. He'll pick the option that gives him the best chance of launching a referendum to amend Japan's constitution to allow offshore military operations.

The challenge of declining growth

The main concern for business is what the government will do to support growth after the Olympics, as population ageing and industrial offshoring push growth towards zero. Moreover, COVID-19 will undermine some of the Olympic Games lift this year and will likely require yet another stimulus package by Tokyo. Bigger reforms to lift growth by freeing up migration, labour markets, and land are needed but are unlikely at present.

Outlook for the market

Dependence on China is high

… with low resilience

In 2019, China took 19% of exports (from 18% in 2015) and supplied 24% of imports (from 25% in 2015). China's 3-week closure will likely cut exports from 2-3% growth in 2020 to a drop of 1-2%. The import hit will be particularly damaging, as a lot will be components and materials for Japan's factories. Tourism dependence is also big, reaching 30% in 2019 from 25% in 2015. We expect PRC arrivals to fall 30-40% this year, other arrivals to rise 10-15% (boosted by the Olympics), and total arrivals to be flat for 2020, taking away quite a lot of the Olympics boost. As can be seen in our comments below, resilience is weak.

A brief Q3'19 lift before the sales tax hike

… but trend growth is sliding

Growth rose to 1.7%yoy in Q3'19 as consumers and firms bought goods ahead to the October sales tax hike. In Q4'19, the economy likely contracted in the shadow of the tax hike. Beyond the tax spike & slump, the outlook is dimming despite the approaching Olympics. Export manufacturing is in steep decline, with exports falling 4.4%yoy for Q4'19 (US$ basis), industrial production down 6.3%yoy, and the manufacturing PMI in contraction territory at 48.4 for December. Add in COVID-19 and our forecast GDP growth is halved to 0.2% for 2020 (prior 0.4%) with 2021 also at 0.2%.

Manufacturing contracts

Manufacturing on the industrial production measure fell 2.8% in 2019 after a 3% rebound in 2017 and 1% growth in 2018. We expect falls of 2.5% this year and 0.7% in 2021. On the GDP measure, we expect manufacturing to fall 2.5% in 2020 (prior +1%) from an estimated fall of 2% in 2019 and average growth of 3.2%pa over the rebound years of 2017 and 2018. Forward looking business sentiment for manufacturers plunged for Q1'20 in the latest Bank of Japan (BOJ) tankan survey and will surely get worse in the next survey.

… & consumers pull back, while tourism stalls

Real growth in consumer spending likely rose to 0.6% in 2019 from zero in 2018, with 0.5% growth expected this year followed by 0.2% in 2021 (our prior forecasts were 0.6% and 0.4% respectively). Retail sales were flat in 2019 from growth of 1.9% in 2017 and 1.7% in 2018. Prior to the virus outbreak, we'd expected a 3-4% retail sales lift in 2020 on strong Olympics-related tourism. We now expect a fall of 2-3% in 2020.

Stuck with low inflation and a range bound Yen

Headline inflation edged up to 0.8%yoy in December but given weak demand and falling oil prices, inflation will stay below 1%. Along with the virus outbreak, that makes it certain that the BOJ will stick with quantitative easing and a negative policy rate through 2021. The Yen has been range bound around 110=US$1 over the last few years, which likely reflects few carry trade opportunities as global interest rates slip towards zero.

	2017	2018	2019	2020	2021
GDP, real growth (2005p), %	2.2	0.3	0.7	0.2	0.2
CPI, year average, %	0.5	1.0	0.6	0.9	0.6
Overnight call rate, year-end, %	-0.06	-0.06	-0.06	-0.06	-0.03
USD/JPY, year average	112	110	109	110	108

Sources: 2017-2018 data from the BOJ and government sources; 2019-2021 forecast by IMA Asia

The above forecast is by IMA Asia. Companies seeking local advice should contact:

Dan Slater, Director, The Delphi Network
Mob: +81 80 205 70 609♦ Email: dan@thedelphinetwork.com

China

Political & policy issues to watch

A dominant President Xi

… which means a continued drive for reform & restructuring

Despite setbacks like weaker growth, a trade war, and COVID-19, President Xi Jinping remains dominant. At the end of 2019, he was given the new title of "people's leader", which only Mao had held before, with the party saying that a powerful leader is needed at times of stress. Xi will continue pushing major reforms in the party, in government, and in the economy. 2020 will be an important year as the party prepares for its centenary in 2021 and the current 5-year plan ends with an array of growth goals to be met (prior to the virus outbreak they would mostly have been met by our calculation). Apart from extinguishing COVID-19 other priorities will remain reducing finance sector risk, curbing a housing bubble, restructuring local government finances, rapid industrial evolution, and pushing the offshore Belt & Road Initiative (BRI).

The US trade deal will help China in 2020

… but don't expect it to last

We give the Phase 1 US-China trade deal a 50% chance of lasting one year and a 25% chance of lasting two years. Government mandated trade flows rarely work, and the dispute adjudication process is weak. Still, some cut in tariffs, better IP protection, and market opening will lift exports and capex in China, while also helping industrial upgrading and productivity. The deal won't stop decoupling, with supply chain restructuring and the separation of US and China technology set to continue. A Phase 2 deal is unlikely.

Policy impact of COVID-19

Despite some glitches, China has moved quickly to contain the virus with extensive restrictions on movements and gatherings (including the operation of offices and factories). That has had a big impact on activity, extending a one-week CNY holiday to three weeks, followed by an easing of restrictions from Feb 10 with some extending well into March.

Outlook for the market

Weak growth in H1'20

… strong growth in H2'20

The 2020 outlook hinges on how fast Beijing lifts its stimulus and eases restrictions. Those restrictions, not the virus, have slowed growth, and our outlook assumes they are eased from mid-February with almost all gone by end-March. We expect quick action on the stimulus, leading to a recovery that builds in H2'20 and supports 2021 growth. We've cut our prior 2020 GDP growth forecast from 6% to 5.7%, with growth in Q1 expected to slow to 4.5%yoy, followed by 5% in Q2'20, and a lift above 6%yoy for H2'20.

A big cut to consumer growth

Our biggest cut to 2020 is for consumer demand, now forecast at 5% for 2020 (prior 6.5%) from an estimated 6.5% in 2019 and an actual 9.1% in 2018. While spending on necessities will likely have been stable, it will have plunged on luxuries, travel, and most other services. A recovery may take 2-3 months with online sales helping. Consumer sentiment should recover, with the government halting any lift in unemployment, ensuring normal or better income growth, and encouraging spending. We expect 5.8% in 2021.

Manufacturing also gets cut

… but a lift for construction

We've cut our export and import forecasts for 2020 along with the manufacturing forecast. Real growth for manufacturing GDP was 5.7% last year, down from 6.1% in 2018 and a decade average to 2017 of 8.7%pa. We expect that to drop to around 4% in Q1'20 and to finish 2020 with 5% annual growth before lifting to 5.6% in 2021. Construction should do better thanks to stimulus. We expect a lift from 5.6% last year to 6.0% this year and 6.3% in 2021 (the decade average to 2017 was 10%pa).

Services gets a big cut too as tourism falls

Services growth slowed to 6.9% in 2019 from 8.0% in 2018 and a decade average to 2017 of 8.9%. We expect it to slow to 6% this year before a return to 6.6% in 2021. Big falls are likely in all travel related areas. Last year, domestic tourism slowed to 4.7% growth from a decade average to 2018 of 12.5%pa. Outbound tourists fell by 6.5% last year to 140m. In 2020, we expect domestic tourism to fall 5-10% and outbound to drop by 20-30%.

Monetary easing and a weak yuan

Surging pork prices lifted inflation to 4.5% for December and 2.9% for the year. The surge should abate in the next 3-4 months allowing the central bank to continue monetary easing to support a lift in local demand. Currency provisions in the US trade deal suggests that the Yuan will stay in a 6.8-7.0 band and with COVID-19 we'd expect closer to 7.

	2017	2018	2019	2020	2021
GDP, real growth, %	6.8	6.6	6.1	6.0	5.8
CPI, year average, %	1.6	2.1	2.9	2.4	2.8
PBOC 1-year loan, at Dec., %	4.35	4.35	4.25	4.00	4.00
USD/CNY, year average	6.76	6.61	6.91	6.90	6.93

Sources: 2017-18 data from CEIC and government agencies; 2019-21 forecasts by IMA Asia

Hong Kong

Political & policy issues to watch

HK's winter of discontent

Protests continue in HK and have recently included strike action by medical staff over a failure by local officials to close the border to prevent the spread of COVID-19. The administration led by Chief Executive Carrie Lam has also failed to address the political and economic concerns that triggered the political unrest in 2019, let alone respond to calls for an independent commission of inquiry. The absence of a policy response has seen Moody's join Fitch in downgrading HK's sovereign bond rating.

Beijing appoints a new shadow leadership for HK

While the Chief Executive and her ministers and advisors have resisted widespread calls to step down, the leadership of China's Liaison Office in HK has changed. The new director is Luo Huining, a veteran provincial party chief with an economics PhD. While he lacks international and HK experience, he may cope better with HK's challenges.

Fiscal policy eases

… with a focus on welfare

Fiscal policy is easing in the face of a recession. Financial Secretary Paul Chan will table the 2020-21 budget this month. His forecast deficit of at least HK$80bn, only the second in 15 years, reflects a drop in land sales and a series of measures to help an economy hit by political unrest and the China-US trade war. With COVID-19 set to slash growth there are calls for more to be spent. HK has no net public debt and financial reserves are currently HK$1.1tr (about 180% of annual spending).

Outlook for the market

Dependence on China is high with low resilience

As a Special Administrative Region (SAR) of China and a leading financial centre and port for the mainland, HK has a very high dependence on China. Port operations and logistics are key revenue generators with China taking 55% of total exports (virtually all re-exports). Tourism is even bigger in terms of its impact on the HK economy and the dependence on China with 79% of arrivals from the mainland in 2019. HK is traditionally resilient, with high net public savings and good support from Beijing (notably after the 2003 SARS crisis). That resilience is reduced in 2020 by political unrest and a weak outlook for tourism.

A second year of recession

… and an uncertain future

Reduced resilience means that HK's recession is likely to deepen this year, with the economy contracting by 2-3% after an estimated fall of 1.8% in 2019. Provided there's some easing in HK's political crisis, and COVID-19 is contained, then weak growth should return in 2021. Until last year, we'd expected HK to play a major role in China's planned Greater Bay Area (GBA, with 70m people and US$1.6tr in GDP). That looks less certain today, which suggests weaker long-term growth.

Tourism plunges & households retreat

Visitor arrivals fell 14% in 2019 (PRC arrivals also fell 14%) as political unrest deterred tourists. That saw retail sales fall 11% after 9% growth in 2018 (when visitor arrivals rose by 11%). Households have also pulled back with Q3'19 seeing a 3.4% fall in consumer demand after 0.8% growth in H1'19 and 5.5% growth in 2018. We expect consumer demand to fall 2.5% this year from an estimated 1.2% fall in 2019.

Strong growth in financial services

… & construction should lift

Finance (18% of GDP) is one area where we expect resilience. Equity and debt funds raised grew 17% to HK$1.9tr (US$236bn) in 2019, the third highest on record. HK also retained its global IPO lead, with the US$40bn raised lifting the capitalisation of main board stocks by 28%. Turnover on the stock and bond interconnects with China also grew. With plans to boost housing construction should also swing from an estimated fall of 5% last year to 2-3% growth in 2020.

The HK$ peg is expected to stay

Despite pork prices soaring 87%yoy in H2'19, consumer inflation was a mild 2.9%yoy in December. With the economy in recession and pork prices set to fall, we expect continued low inflation. As often occurs during a crisis, there is speculation about a change to the HK$ peg to the US$ (at 7.75-7.85). We don't expect a change.

	2017	2018	2019	2020	2021
GDP, real growth, %	3.8	3.0	-1.8	-2.4	0.1
Composite CPI (14/15), year average, %	1.5	2.4	2.9	2.4	2.2
Discount window base rate, % year end	1.75	2.75	2.00	1.25	1.00
USD/HKD, year average	7.79	7.84	7.84	7.85	7.80

Sources: 2017-2018 from Censtat, HKMA, and CEIC; 2019-2021 forecasts by IMA Asia.

Dr Mark Michelson, Chairman, Asia CEO Forum (Hong Kong)
Tel: (852) 2530-1115 ♦ Fax: (852) 2530-1125 ♦ Email: mark.michelson@imaasia.com

Taiwan

Political & policy issues to watch

The 2020 election

… Taiwan edges away from China

The term "a watershed election" could aptly be applied to Taiwan's January poll, which returned President Tsai Ing-wen for a second 4-year term (with a 2-term limit). Since free elections were allowed in the 1990s, the contest has been a two-party affair that mostly focused on a single issue. The KMT, which ruled Taiwan from 1949, favoured close ties with China (with the possibility of reunification) while the DPP, Tsai's party, favoured independence. Voters made a decisive swing for independence in the 2020 poll. The trigger was Beijing's poor handling of Hong Kong, but that built on a generational change in Taiwan's voters (older voters favouring the KMT and younger voters the DPP).

Looking for a new growth path as geopolitics realigns

The election is also likely to change the geopolitical risk that has been prominent since the island split from the mainland in 1949. In the past, the KMT has done best at lowering such risk, and thereby driving Taiwan's growth. Yet, the 2020 election shifted views on the DPP's ability to curb risk and help growth, as Tsai's support for reshoring factories looked good for the economy and a sensible risk mitigation step for industry.

The other big policy challenges

The 2020 budget has just been approved with a 5.5% lift in spending, which looked enough to support growth prior to COVID-19. In her first term, Tsai recast energy policy, curbing nuclear power and triggering a wave of investment in renewable power. Stable power supply is a risk and needs more work. She'll also need to push for further pension reform.

Outlook for the market

A high China dependence

… but strong resilience

In 2019, China took 28% of Taiwan's exports and supplied 20% of Taiwan's imports. The manufacturing dependency is bigger that the trade data implies, as 52% of export orders received by Taiwanese firms in 2019 were fulfilled overseas, with most of that in China. The peak year was 2015 when the overseas production ratio averaged 55%, so some reshoring is underway. Mainland visitor arrivals were 24% of total in 2019. Balanced against this, Taiwan has good resilience thanks to a global electronics upturn.

Watch for a strong 2020 upturn

Taiwan is set to benefit from two trends in the next few years: the reshoring of some production from China and a sustained lift in the global electronics cycle. Both had an impact in 2019, helping lift fixed investment by 7.3%ytd in the first three quarters and pushing full 2019 GDP growth to match 2018's 2.7%. We've kept our 3.2% forecast for 2020 (above the government's current 2.7% forecast, which we expect to be upgraded) with 2021 forecast at 2.9%.

Driven by a lift in electronics

Exports fell 1.4% in 2019 (US$ basis) but with export orders rising in December for the first time in 13 months we expect 2020 export growth of 7-8% with 5-6% in 2021 as demand rises for a new generation of electronic devices. That should lift manufacturing GDP growth from an estimated 1% in 2019 to 3-4% in 2020 and 2021.

… & supported by consumers

Consumer confidence spiked up in December but will likely soften in Q1'20 due to COVID-19. Retail sales growth accelerated from 0.2% in 2018 to 1.3%yoy for H1'19 and 2.5% for full 2019. We expect real growth in consumer demand to lift to around 2.5% this year and 2021 from an estimated 2.0% in 2019. That should support growth in retail sales by value of around 3% through 2021.

Inflation will lift, and so will the NT$

Consumer inflation rose to 1.1%yoy in December driven by rises in food (3%) and fuel (4.3%). With production accelerating in 2020, we expect a 25-basis point lift in the central bank's policy rate this year and in 2021. After falling 2.5% on the US$ in 2019, we expect a rise of 1.5-2% for the NT$ in 2020 and 2021 on investment inflows and a trade surplus.

	2017	2018	2019	2020	2021
GDP, real growth, %	3.3	2.7	2.7	3.2	3.2
CPI, year average, %	0.6	1.4	0.6	0.9	0.9
Official discount rate, year-end, %	1.38	1.38	1.38	1.63	1.88
USD/TWD, year average	30.4	30.1	30.9	30.4	30.0

Sources: 2017-2018 government data and CEIC; 2019-2021 forecasts by IMA Asia.

The above forecast is by IMA Asia. Companies seeking local advice and forecasts should contact:

Michael Boyden, Managing Director, Taiwan Asia Strategy Consulting
Tel: (886 2) 8789 0978♦ Fax: (886 2) 8789 0877 ♦ Email: michael@economist.com.tw

South Korea

Political & policy issues to watch

The April 15 elections

… could make President Moon a lame duck

Korea's April 15 legislative election comes at the end of the third year of President Moon Jae-in's single 5-year term. His party, the Democratic Party of Korea (DPK), has a narrow hold on the legislature with 44% of the seats to 37% for the Liberty Korea Party (LKP), the main opposition party representing the conservative arm of politics. Moon has used the power of the presidency and support from minor parties to push through some policies, but others have been blocked. The LPK aims to unite conservative parties in winning control of the assembly and turning Moon into a lame-duck president for his final two years. The latest opinion polls suggest it will be a close contest.

A big fiscal stimulus is underway

Moon's early policies included a big lift in minimum pay, laws to curb family-run chaebol, and restrictions on real estate to curb a surge in household debt. As all hurt growth in the 2019 global downturn, he has reversed direction in 2020. This year's minimum pay hike was kept to 2.9% after hikes of 10.9% last year and 16.4% in 2018. Fiscal policy has swung to strong expansion with spending to last November up 12.4%ytd (including an 18% jump in capex). The 2020 budget has a 9.4% lift in spending while revenue lifts just 1.2% and the budget deficit rises from 1.9% of GDP in 2019 to 3.6% in 2020.

Outlook for the market

Dependency on China is high

… better resilience in 2020

China accounts for 25% of exports and supplies 21% of imports. Some 60% of exports are semiconductors, chemicals, and machinery, giving Korea a strong link into China's factory base. While that suggests a slump for Korean export manufacturing in Q1'20, some of what is lost should be regained in Q2'20 and as an expected stimulus kicks in across China in H2'20. The tourism recovery will likely be slower: China accounted for some 35% of tourists in 2019, up from 18% in 2009. Korea's resilience is helped by the Moon government's swing to stimulus and an emerging global upturn in electronics demand.

Watch for a broad recovery

2019 growth came in at 2.0% after a big lift in government consumption and a 11% jump in government capex, which cushioned a 6% fall in private capex. Despite a weak won in 2019, exports fell 10.3% (US$ basis) as the global downturn and trade wars hurt demand. We had planned to lift our 2020 GDP forecast to 2.6% on strong fiscal stimulus, better export growth, a recovery in fixed investment, and better consumer demand. However, with the COVID-19 outbreak we've cut 2020 GDP growth to 2.1% (prior 2.2%).

Consumers will spend more after a 2019 slump

Real growth in consumer spending slowed to 1.9% in 2019 from 2.8% in 2018 and a decade average to 2018 of 2.3%pa. With unemployment steady at 3.8% in December and employment growth edging up to 1.1% consumer growth should lift to 2.0% this year and 2.5% in 2021 with support from the fiscal stimulus and a recovery in export manufacturing.

A lift in export manufacturing

… and an end to a 2-year slide in construction

After a 10.3% fall last year, we expect exports to return to 4-5%pa growth in 2020 and 2010 as trade wars ease and the global electronics cycle recovers. Manufacturing GDP growth slumped to 1.4% last year from 3.4% in 2018 and a decade average of 3.5%pa. It should recover to 1.7% in 2020 and 3% 2021. Construction GDP fell 3.2% last year after a 4% fall in 2018. As 2019 closed, a fall in houses sales was ending and housing starts were trending up to 450,000 units for 2019 after a precipitous fall from a peak 716,759 in 2015. A lift towards the decade annual trend of 480,000 units is likely this year and along with public spending on civil works, construction should lift by 1% this year and 2% in 2021.

Low inflation and a firmer won

While inflation should lift as demand recovers it will remain well beneath the Bank of Korea's 2% target rate. Strong growth and an easing in trade wars should see the won start to regain ground on the US$ in 2020 after an unusual 5.6% fall last year (for the decade to 2019 it gained an average 1%pa on the US$).

	2017	2018	2019	2020	2021
GDP growth, %	3.2	2.7	2.0	2.1	2.8
CPI, year average, %	1.9	1.6	0.4	0.6	1.2
BOK Base rate, year-end, %	1.50	1.75	1.25	1.25	1.25
USD/KRW, year average	1,129	1,100	1,165	1,159	1,142

Sources: 2017-2018 government data (NSO, BOK) and CEIC; 2019-2021 forecasts by IMA Asia.

The above forecast is by IMA Asia. Companies seeking local advice and forecasts should contact:

Tony Michell, Managing Director, Korea Associates Business Consultancy Ltd
Tel: (82 2) 335 7854/2614 ♦ Fax: (82 2) 323 4262 ♦ Email: tonymichell@kabcltd.com

Indonesia

Political & policy issues to watch

Pres. Jokowi's 2nd term

… starts with strong support

… but faces an inward-looking elite uninterested in change or FDI

President Joko Widodo (Jokowi) is three months into his second (and last) 5-year term. His goal in 2020 is to push through legislation to lift growth above the 5%pa average of his first term (growth for the decade before he took office was 5.7%pa). Two barriers stand in his way. First, despite leading a 6-party coalition with 74% of the legislative seats, passing bills is slow work with lots of compromises, as there's little party discipline. Second, almost all politicians, including the president, prefer state-owned enterprises, question foreign investment, and believe in trade barriers to protect local industry. They also detest the anti-corruption bureau (KPK), as it has jailed many politicians. Jokowi obligingly supported a bill in 2019 to reduce its power. Indonesia's investment agency (BKPM) is a lone voice supporting foreign investment and is ignored by the rest of government.

Can Jokowi bring change?

… watch the bills on labour, tax, finance, & relocating the capital

Whether Jokowi can improve Indonesia's operating environment is the key question. The government has listed 50 major bills for the first legislative session, including four omnibus bills, which sweep many minor bills into a single package. They include a labour bill, which aims to ease the onerous rules on hiring and firing employees. It is opposed by unions and its passage will test government unity. Tax reform get its own omnibus bill with the goal of cutting and simplifying corporate taxes. Finance reform is also listed and urgently needed, as the poorly regulated insurance sector faces the collapse of a large SOE insurer. Finally, there is an omnibus bill to relocate the national capital, which would underpin a two-decade lift in construction.

Outlook for the market

Local demand should lift in 2020

While last year's 5% GDP growth looks in line with the two prior years there was a big fall in domestic demand growth to 3.9% in 2019 from 6.2% in 2018 and 5% in 2017. That was mostly because government spending and project approvals slowed in the six months between the April election and the new government taking office. Consumer demand was steady at 5% growth. Even with better government spending this year we've kept our 2020 GDP forecast at 5.2% because of COVID-19 while 2021 is forecast at 5.4% as government spending programs and construction should be stronger.

Little exposure to China for export earnings

… but watch for stalled imports from China

Indonesia is one of Asia's least exposed countries to China for export earnings, with 16% of exports to China and 13% of tourists from China at Q3'19. Under our first coronavirus scenario, we expect slightly weaker growth in export earnings in 2020, which will be offset by stronger local demand as public spending and construction lift. Indonesia's import exposure is bigger, with China supplying 26% of imports at Q3'19. While the inflation impact may be mild as oil prices fall, shortages of consumer goods and equipment from China may trigger some price rises.

A modest lift for fixed investment, construction, & manufacturing

Fixed investment growth slowed to 4.4% in 2019 from an average 6.4%pa in the prior two years. It should return to 5.3% this year and 6% in 2021, and in the process lift construction real growth from 5.8% last year to 6.5% in 2020 and 2021. Manufacturing, which is mostly for local demand (including construction), should lift from 3.8% growth last year to 4.5% this year and 5.5% in 2021 (the decade average to 2019 is 4.7%pa).

One more rate cut is likely

… + a 2-3% fall for the rupiah

Inflation slowed to 2.7%yoy in December. With stronger growth and some China shortages, we expect it to lift to 3.5% in 2020 and 3.8% next year. Despite that, we've added one more rate cut in 2020 as the central bank aims to bolster local demand. The rupiah was surprisingly strong in 2019, rising 0.6% on the US$ as foreign investors bought high yielding government bonds. It will likely weaken 2-3% this year in a bout of global risk-off due to COVID-19.

	2017	2018	2019	2020	2021
GDP, real growth, %	5.1	5.2	5.0	5.2	5.4
CPI, year average, (2012=100), %	3.2	3.9	3.0	3.5	3.8
Central bank rate (7-day RR) at Dec %	4.25	6.00	5.00	4.75	4.75
USD/IDR, year average	13,381	14,238	14,148	14,488	14,859

Sources: 2017-2018 government data (BPS, BI) and CEIC; 2019-2021 forecasts by IMA Asia

The above forecast is by IMA Asia. Companies seeking local advice and forecasts should contact:

James Castle, Chairman, CastleAsia
Tel: (62 21) 2902 1641 ♦ Fax: (62 21) 2902 1648 ♦ Email: castle@castleasia.com

Malaysia

Political & policy issues to watch

A year of leader-ship confusion ahead

… which won't help growth

Prior to the May 2018 election, Mahathir (94 and PM since the election) told Anwar Ibrahim (72), leader of the largest party in the winning Pakatan Harapan coalition, that he'd step aside for him by May this year. In the last year, Mahathir has backed away from the deal, creating confusion. A nasty clash is also brewing between the supporters of both politicians, and as it escalates it will weaken business and consumer sentiment. Mahathir's plan may be to hand over to Anwar's deputy, Azmin Ali, on the belief that he'll be more acceptable to ethnic Malay voters. That group will be crucial to the outcome of the 2023 election. Meanwhile, UMNO, which lost power in 2018 under a cloud of corruption, is rebuilding its hold on Malay voters, as is PAS, an Islamic party. This could see another realignment in politics by 2023, which may put PAS in a more prominent position.

Watch for some projects to start after a 2-year stall

Assuming the COVID-19 outbreak is quickly contained, the key policy issue for Malaysia is lifting project approvals, which have stalled under PM Mahathir as he set about ending corruption, halting some over-priced projects, and renegotiating terms on others. That saw real growth in construction on the GDP measure slide from 6.7% in 2017 to 4.2% in 2018 and -0.3%ytd by Q3'19. Growth should lift this year to 3% as some rescoped projects start. That includes a decision in the next month on a high-speed rail link to Singapore, which will likely be approved but at a slower speed and lower cost.

Outlook for the market

A mild upturn is trimmed by COVID-19

Prior to COVID-19, we were preparing to lift Malaysian GDP growth to 4.5% in 2020 from an estimated 4.2% for 2019 as exports lifted and some big projects got underway. Under our new coronavirus scenario (see page 2), we've trimmed growth in consumer spending, tourism, and exports on the demand side and growth for manufacturing and services on the supply side. The outcome is 3.9% growth this year with the economy remaining on a recovery path that should produce 4.9% growth in 2021.

Low reliance on China demand

… but higher reliance on supply from China

Malaysia's exposure to China on the demand side is low, with exports to China accounting for 14% of total at Q3'19 and China tourists at 11% of total. Dependence is much higher on the supply side at 20% of imports, with over half of that being capital goods and a quarter being chemicals and other manufactured goods. A lot of those imports would go to Malaysia's big export manufacturing sector, particularly electronics, so as shortages in supply from China emerge by in February, manufacturing will slow.

A mild lift in manufacturing for export

Exports fell by an estimated 5% in 2019 (US$ basis) after a 2-year rebound at 14%pa. In 2020, we expect 3-4% growth rising to 6-7% in 2021. Manufacturing GDP growth likely slowed to 3.7% in 2019 from an average 5.5%pa over the prior two years. We expect growth of 3.5% this year and 4.5% in 2021. Despite relatively high wages, Malaysia is gaining some factory orders relocating from China as it has a well-established electronics sector. Some 80,000 jobs have been added in manufacturing since the start of 2017.

Steady consumer growth at 6%

Real growth in consumer spending likely slowed to 7.2% last year from an exceptional 8% in 2018 (the decade average to 2017 was 6.4%pa). We expect around 5.4%pa this year and 5.8% in 2021. Retail sales growth slow to 7.7%ytd by Q3'19 from above 11% in 2018 and 2017 while growth in new vehicle sales slowed to 1% last year from 3.8% in 2018.

Low inflation, rate cuts, and a mildly weaker M$

Inflation was stable at 0.7%yoy in December with fuel prices down 6% in 2019. That allowed the central bank to cut its policy rate by 25bps in January to 2.75%. We expect one more rate in 2020 as inflation eases on falling energy prices. While the traditional M$ link to the global oil prices has weakened falling oil prices will likely see the M$ ease 1-2% on the US$ in 2020 before running flat in 2021.

	2017	2018	2019	2020	2021
GDP, real growth, %	5.7	4.7	4.2	3.9	4.9
CPI, year average (2010=100), %	3.7	1.0	0.7	0.5	1.0
Central bank overnight policy rate, Dec, %	3.00	3.25	3.00	2.50	2.50
USD/MYR, year average	4.30	4.03	4.14	4.22	4.22

Sources: 2017-2018 data from the government, Bank Negara, & CEIC; 2019-2021 forecasts by IMA Asia.

The above forecast is by IMA Asia. Companies seeking local advice and forecasts should contact:

Datuk Paddy Bowie, Managing Director, Paddy Schubert Sdn. Bhd.
Tel: (60 3) 2078 4031 ♦ Fax: (60 3) 2078 7034 ♦ Email: pshubet@paddyschubert.net

Philippines

Political & policy issues to watch

Pres. Duterte is in a strong position

… supported by a capable cabinet

President Duterte is in a strong position as be approaches the final two years of his single 6-year term. His party, PDP-Laban, did well in mid-term elections in 2019, and he has the support of some 65% of lower house legislators and backing from most of the powerful 24-seat senate. Net satisfaction with his performance climbed to a record high +72 in the Q4'19 survey by SWS. Finance Secretary Carlos "Sunny" Domínguez leads an effective cabinet while Benjamin Diokno runs a good central bank. Good leadership at the national level has helped lift trend growth and has improved management of natural disasters.

Pushing ahead on infrastructure

… and fiscal reforms

Duterte will focus on continuing an infrastructure surge and the second phase of tax reform in his final two years. The first phase of tax reform is producing results, with 2019 taxes hitting a 22-year high of 15.1% of GDP. Further tax reforms and improvements on collections support a strong bond rating (lowering the cost of funds) and ensuring money for projects. The government has kicked off 2020 with approval for P548bn (US$10.7bn) in projects. Provided there is effective quarantining of COVID-19 there are few policy adjustments needed to support a lift in growth in 2020.

Outlook for the market

Growth should lift in 2020 thanks to local demand

… and growth in offshore income

Philippines growth is largely determined by domestic demand drivers, although income from offshore Filipino workers (OFWs) and business process outsourcing (BPO) provide critical external support. Those two drivers grew by an estimated 4% (to US$30bn) and 5% (to $23bn) respectively in 2019 and should continue with 2-4%pa growth for the next two years. The outlook for domestic demand is good, with a rebound to around 6.7% growth this year and in 2021 from a slump to 4.5% in 2019 (mostly due to delayed government spending). Real GDP growth will lift by 6.3%pa this year and in 2021.

China tourists & imports are vital

… exports to China less so

Philippine dependence on China has since grown quickly since 2012. By 2018, China supplied took 20% of imports (up from 11% in 2012) and 18% of foreign tourists (up from 6%). By contrast, China took just 13% of exports in 2018, up from 12% in 2012. China tourist arrivals will virtually halt for several months, pulling down retail sales, F&B, and hotel revenues. Some shortages of equipment from China may delay some construction work.

Fixed investment & construction should lift

A delayed government budget in 2019 saw fixed investment growth slump to 1.5% from 12.9% in 2018 as projects reliant on government funding stalled. Congress approved the 2020 budget in early December and Duterte signed it into law on January 6. With that, we expect fixed investment growth to lift to 5.5% this year and near 10% in 2021 as Duterte pushes for projects to complete before he steps down in 2022.

Strong consumer sentiment

… but tourism will slump

Consumer demand grew by 5.8% last year, up from 5.6% in 2018. This year we expect 6.2% followed by 6% in 2021. Better sentiment and rising employment in construction and manufacturing will help. The Q4'19 SWS survey of consumer welfare found a "very high" net positive score of 18. However, retailing, F&B and tourism will also have to cope with a tourism slump. We've assumed a full year drop of 25% for China arrivals in 2020, which would see total arrivals fall 1% this year after 16% growth in 2019.

More rate cuts and a steady peso

An 8% jump in fuel prices in December pushed the consumer price index (CPI) up by 3.1%yoy. Fuel prices fell in January and inflation will likely stay near 1-2% in H1'20 before lifting to 2-3% in H2'20. The central bank aims to continue easing with one 25bp rate cut likely by March. COVID-19 will likely prompt a second cut. The peso rose 1.6% last year and will likely rise 1-2% again in 2020 as stronger growth emerges.

	2017	2018	2019	2020	2021
GDP growth, %	6.7	6.2	5.9	6.3	6.3
CPI, annual average, %	2.9	5.2	2.5	2.0	3.3
Central bank reverse rep. rate, year end	3.00	4.75	4.00	3.50	3.25
USD/PHP, annual average	50.4	52.7	51.8	50.7	51.3

Sources: 2017-2018 data from BSP and CEIC; 2019-2021 forecasts by IMA Asia.

The above forecast is by IMA Asia. Companies seeking local advice and forecasts should contact:

Peter Wallace, Managing Director, The Wallace Business Forum
Tel: (63 2) 810 9606 ♦ Fax 810 9610 ♦ Email: pwallace@wbf.ph

Singapore

Political & policy issues to watch

Plans for an early election will be postponed

Singapore is waiting for an election, which could be called anytime from now until the end of the current parliamentary term in April 2021. The PAP, in power since independence 61 years ago, is certain to win and will aim for, and likely get, 65%+ of the vote. Prior to the poll, the government has tightened up on policy implementation to show voters it is responding to their interests. One outcome has been a clamp down on permits for foreign workers, particularly from India. May was a possible date after the February budget, but with the uncertainty of COVID-19, it will likely be pushed into H2'20. At some point after the election, PM Lee Hsien Loong (68, and PM from 2004) will step aside with his likely replacement being Deputy PM and Finance Minister Heng Swee Keat (58).

Watch the budget on Feb 18 for extra stimulus

As a regional trade, tourism, and services hub, Singapore is preparing for a significant impact from COVID-19. By early February, 43 cases were confirmed, with all being recent arrivals from China. On Jan 31, the government stopped entry of visitors from China (except those with permits) and travellers who had visited China in the last 14 days. The main aid to businesses is expected in the February 18 budget. The government has large net savings and was quick to support firms during SARS in 2003. Support will be structured to prevent a rise in unemployment.

Outlook for the market

The virus means a weaker recovery

Prior to COVID-19, 2020 GDP growth was expected to lift to 2.4% thanks to a recovery in global manufacturing, a related rise in trade, steady tourism growth, and pre-election spending by the government. Under our first virus scenario (no major outbreak outside of China), we've cut our 2020 forecast to 2.1% as tourism, trade, and manufacturing suffer from weaker China demand and supply. A mild lift in global manufacturing and trade will support growth, as will government stimulus measures.

Dependence on China

… mostly a negative but some gains are likely

Singapore factories are closely linked to China, with 17% of non-oil domestic exports (NODX) heading there and 15% of non-oil imports from China in 2019. Production will be hit, and supply chain issues will emerge. Yet, some firms might get a boost from replacing production lost by factory closures in China. Trade has a similar picture, as the rest of exports (re-exports and oil related) are double the value of NODX. Some regional trade will slump, but Singapore may also gain from trade diversion from HK and China. Tourism will suffer as China accounted for 19% of arrivals in 2019, up from 14% in 2012.

A big fall for tourism will hit retail sales

Monthly visitor arrivals from China will plummet from a 2019 monthly average of 299,349 to some 5,000 for February and possibly March. Falls in visitors from other origins can be expected as well, with full year arrivals likely to fall 14-19% (in 2003 they fell 19%). Retail sales (x-vehicles) likely fell 1.3% in 2019 and may fall 3-5% this year.

A weaker lift for manufacturing

Total exports fell 5.2% last year (US$ basis) while NODX fell 10.2% after averaging 7.8%pa growth over 2017-18. Manufacturing on the GDP measures likely fell 1.9% in 2019 after averaging 8.7%pa growth over 2017-18. We now expect NODX growth of 2-3% this year and 3-4% in 2021, with manufacturing growth of 1.1% in 2020 and 2.5% in 2021.

Watch for a lift in housing and civil works

Construction is a swing factor in Singapore's growth. In the GDP measure, it fell for three years to 2018 (a total fall of 15.3%) as the government and central bank deflated a residential property bubble. Oversupply has fallen for three years and 2019 saw starts rise by 48%, which likely lifted construction by 2.6% last year with 3% expected in 2020 and 2021 as the government accelerates civil work to counter the negative virus impact.

A weaker S$ in 2020

Given the weak demand outlook, inflation is likely to remain low through 2021. The start of the virus outbreak has taken the wind out of the S$, which had climbed on the US$ through Q4'19 to reach a recent high of 1.347 at the end of December. It has since fallen and will likely continue to drop through 2020 before returning to a mild rise on the US$ in 2021.

	2017	2018	2019	2020	2021
GDP, real growth, %	3.7	3.1	0.6	2.1	2.5
CPI, year average, %	0.6	0.4	0.6	0.4	0.7
3-month interbank interest rate, Dec, %	1.50	1.89	1.77	1.37	1.37
USD/SGD, year average	1.38	1.35	1.36	1.39	1.37

Sources: 2017-2018 data from government, MAS and CEIC; forecasts for 2019-2021 by IMA Asia

Thailand

Political & policy issues to watch

Political risk remains a problem

Of the six main ASEAN states, Thailand has the least capable political system for coping with COVID-19. Its government, which effectually remains a military dictatorship, has little popular support. As a result, it is being challenged on the street by demonstrators and it is struggling to push legislation though a parliament where it can barely muster support. While some capable ministers are attempting to support growth and reform, its approach to a crisis tends to be dogmatic. Thais suspect their government will be slow to act in a crisis, and when it does the policy response will be weak.

A 4-month stall in public spending may reverse from February

… with faster progress on the EEC rail project

Parliament has just passed the 2020 budget for a fiscal year that started last October. The four-month delay was due to the government's fragile lower house majority after last March's election. The planned 6.7% lift in spending is the biggest rise in four years but is unlikely to halt a slump in growth even though Deputy PM Somkid, who heads the economics team, has promised a surge in spending from February. Extra spending will have to be announced in Q2'20 to address COVID-19. CP Group has finally signed off on a B225bn (US$7.4bn) rail project to link Bangkok and Eastern Economic Corridor airports after the government guaranteed to expropriate and deliver all land. That's an important shift on infrastructure policy and suggests faster construction from Q3'20.

Outlook for the market

Growth stalled at the end of 2019

… as exports crashed & local demand slowed

Thailand's economy stalled in Q4'19 as domestic and export demand collapsed. The auto sector was particularly hard hit with production at Thai factories down 2%ytd by Q3'19 before a 22%yoy plunge in the first two months of Q4'19. Our estimate of 2019 GDP growth drops to 2% (prior 2.7%), with most of that coming from involuntary stock build up. Our 2020 forecast drops to 1.8% (prior 2.4%), which depends on a lift in public spending and construction offsetting a collapse in tourism and local consumer demand. Provided political stability is maintained, GDP growth should climb to 2.3% in 2021.

A high China dependence for goods & tourists

While China takes just 12% of Thailand's exports in 2019 (about the same as in 2012), it supplied 21% of imports (up from 15% in 2012) and 28% of tourists (up from 13% in 2012). Some 36% of the imports from China are capital goods while 34% are raw materials, which suggests Thai factories will run into major supply challenges over the next few months. Tourism, F&B, and retailing face a big hit from lost business.

Local demand will be weak

… & tourism will fall 15-20% this year

The GDP growth number flatters Thailand as we expect a rise net exports to boost GDP growth while domestic demand growth falls from 7.3% in 2018 to 2.9% in 2019 and 0.9% this year before a lift to 2% growth in 2021. Much of that is due to a slide in consumer demand growth after consumer sentiment crashed in December (due to political risk). We expect real growth in consumer demand to drop from 4.6% in 2018 to 3.9% in 2019, 2.2% this year, and 2.4% next year. We expect China tourist arrivals to fall some 60% this year (to 4.6m) and total arrivals to drop 15-20% (to 32m).

Manufacturing & construction face mild growth

A strong baht and weak global demand will limit manufacturing growth to 1% this year and 2-3% in 2021 after an estimated 1% fall in 2019 and 3% growth in 2018. Construction should do better, with around 3% growth this year and in 2021 after an estimated 2.6% in 2019 and 2.7% in 2018.

Little inflation and a firm baht

Inflation slid to 0.4%yoy in Q4'19 as demand collapsed and is expected to remain weak before a mild lift in 2021. The central bank cut its policy rate by 50 basis points in 2019 and will likely do the same in 2020, although that won't do much to lift local demand or halt the baht's rise, which is under upward pressure from a rising trade surplus.

	2017	2018	2019	2020	2021
GDP, real growth, %	4.1	4.1	2.0	1.8	2.3
CPI (2015 index), year average, %	0.7	1.1	0.7	0.3	0.9
Central bank, policy rate, year end, %	1.50	1.75	1.25	0.75	0.75
USD/THB, year average	33.9	32.3	31.0	29.8	29.8

Source: 2017-2018 data from BOT and CEIC; 2019-2021 forecasts by IMA Asia.

The above forecast is by IMA Asia. Companies seeking local advice and forecasts should contact:

Christopher Bruton, Executive Director, Dataconsult Ltd
Tel: (66 2) 233 5606/7 ♦ Fax: (66 2) 236 8143 ♦ Email: chris@dataconsult.co.th

Vietnam

Political & policy issues to watch

Stable politics and administration

Political stability and gradual pro-market reform are expected to continue in Vietnam over the next two years. President Nguyen Phu Trong (75) is in an unusually dominant position as head of the party, the government, and the military. He is due to step down when his second 5-year term as party chief ends in 2021. There's no sign of infighting over who leads next, with Trong expected to work on a smooth transition. The economy is being capably managed by PM Nguyen Xuan Phuc who will continue in his role until 2021.

… but tricky relations with China

COVID-19 is a significant political challenge given massive supply chain links into China and the traditional ethnic animosity (and occasional border war) between the two countries. The government declared a pandemic on Feb 1 with 236 suspect cases and eight confirmed. On Feb 3, a 14-day quarantine was imposed on all arrivals from China.

Will free trade unions be set up?

As part of signing onto two big trade deals – the CPTTP and the European FTA - Vietnam has had to pass legislation to allow for independent trade unions. If workers do try to set them up, then foreign firms will be their first choice.

Outlook for the market

The virus brings a big cut in growth in 2020

With the COVID-19 outbreak we've cut our 2020 forecast to 6.1% (prior 6.9%) with 2021 forecast at 6.6%. Assuming limited contagion outside China (our current scenario), the main headwinds will be slightly weaker global demand, disruption to production and construction due to missing supplies and workers from China, and a big fall in China tourists. We still expect manufacturing to get a lift from a cyclical upturn in the global electronics cycle and from production relocation from China.

Tied into the China supply chain & hooked on PRC tourists

Vietnam has a high exposure to COVID-19 in China due to two factors. The first is rapid growth in supply chain linkages into China's economy via relocating production from China. There are thousands of Chinese managers and engineers in Vietnamese factories and on construction sites (like Hanoi's metro line). The second is a shared lunar new year holiday (Tet in Vietnam), so that many of the Chinese workers in Vietnam went home for the holiday and are now stranded in China (Hanoi is trying to work out how to bring them back while keeping its border closed to other Chinese travellers). China accounted for 16% of exports in 2019 (up from 11% in 2012) and delivered a massive 30% of imports (from 26% in 2012), highlighting the supply chain linkage. China also accounted for 32% of arrivals (mostly tourists) in 2019 (5.8m or 16,000/day), up from 21% in 2012.

The rush of new export factories into Vietnam continues

Exports grew 8.4% in 2019 from 13.3% in 2018 and are expected to grow 6.4% this year before recovering to 8.5% in 2021 as global demand improves and new production comes on stream (implemented total FDI into Vietnam grew 6.7% last year to US$20.4bn while applications for FDI in manufacturing soared 48% to $24.6bn). Manufacturing GDP grew 11.3% last year from 13% in 2018 and is expected to cool to around 9% this year before lifting to 10% growth in 2021. Forum comments suggest that factories in Vietnam are chasing export orders that China may lose due to the COVID-19 shutdown.

Expect a big fall in tourism

Retail sales rose 11.2%yoy in January from 12.2% in full 2019 but we expect the pace to drop to 7-10% through 2020 as tourism falls and consumer turn cautious. Visitor arrivals rose 16% in 2019 to 18m but may fall 10-15% this year led by a 60% drop in PRC visitors before a rebound (hopefully) in 2021. We've trimmed our consumer GDP forecast to 6% growth in 2020 with 6.4% in 2021 from an estimated 7.5% in 2019.

Mild inflation and a 2%pa fall for the dong

Inflation surged to 6.4%yoy for January as pork shortages and Tet combined to lift food prices 10.9%yoy. We expect food prices to ease through H1'20. After last September's 25 basis point cut by the central bank policy rate, we don't expect another cut through to 2021 as local demand growth will be strong. The dong is expected to continue with a 2%pa slide on the US$. In 2019, it fell 1.9% and its decade average fall is 2.9%pa.

	2017	2018	2019	2020	2021
GDP, real growth, %	6.8	7.1	7.0	6.1	6.6
CPI, year-average, % (2014=100)	3.5	3.6	2.8	4.1	3.5
Central bank refinancing rate, year-end, %	6.25	6.25	6.00	6.00	6.25
USD/VND, year average	22,370	22,602	23,051	23,381	23,858

Source: 2017-2018 data from the IMF and CEIC; 2019-2021 forecasts by IMA Asia

India

Political & policy issues to watch

Despite some unease, PM Modi is in a strong position with four years to run

By May, PM Modi will have been in office for six years and will have four years to run in his second 5-year term. His party, the BJP, won the 2019 election by a landslide, giving Modi a large lower house majority. However, he is some 10 votes short of a majority in the upper house, where he must negotiate with minor parties to pass bills, which can lead to delays and extensive modification. While there is popular unease over weak growth and Modi's Hindu nationalism, he is in a strong position and he'll likely let parliament run its full term before seeking re-election for a third term in 2024 (there is no term limit).

A financial crisis has slashed growth

… can Modi deliver the needed reforms?

India is struggling with a financial crisis, which has throttled lending. Credit growth to the commercial sector slowed to 8%yoy by November from 13%pa for the decade to 2018. Fixing that will require years of reform along with repairing balance sheets at financial institutions and improving distressed asset markets. Whether Modi's government can deliver such reforms will determine whether India's trend growth lifts to 7-8% or sticks at 5-6%. Business wants faster help but was disappointed by the budget speech, which lifted spending by 13% for FY2020/21 but failed to outline a major stimulus. The government also lifted import tariffs on an array of consumer products (food, toys, appliances, furniture and kitchenware) in the belief that high tariffs will help local manufacturing.

Outlook for the market

A balance sheet downturn

… with a slow recovery

India's financial crisis worsened in Q4'19 (Dec Q), so we've cut out estimated growth for 2019 to 4.9% (prior 5.2%) with the 2020 forecast cut to 5.1% (prior 6%), as there's no sign that India will quickly restore bank and corporate balance sheets and thereby lift credit growth. Recoveries from such "balance sheet" downturns typically take 3-5 years in most countries. The key variables to watch are progress on lowering bank non-performing loans, credit growth, business confidence, and fixed investment growth.

India is isolated from China's virus problems

India has a low dependence on China due to import barriers and a weak export sector. In 2019, China accounted for 5.3% of India's exports and 14% of imports. India's factories may face a slight disruption in obtaining some capital goods and components. Sales by India's large IT and BPO sector are bigger but may not be disrupted. International tourism is minor in India (total 11m in 2019), with PRC arrivals just 3% of the 2018 total.

Construction has stalled

Construction has been hit hard by the financial crisis. Growth in production of steel and cement fell to zero in Q4'19 (Dec Q), suggesting that construction grew 4% in 2019 from 8.6% in 2018 and a decade average to 2017 of 5.5%. Total fixed investment likely fell in Q4'19 as the financial crisis accelerated. For full 2019, we estimated fixed investment growth around 2.5%, down from 12.2% in 2018 and a decade average to 2017 of 6.4%pa. This year should see 3-4% growth in fixed investment with 5-6% in 2021.

… so has manufacturing as vehicle sales plunge

Manufacturing has been hit almost as hard. The RBI's survey of industrial activity shows a collapse in December that is close to the 2008-09 global financial crisis. The financial crisis has also hurt households, contributing to a 10.4% fall in new passenger vehicles sales in 2019, which translated into a 10.9% fall in passenger vehicle production (to 3.6m units). Manufacturing growth likely fell below 1% in 2019 from 8.7% in 2018 and a decade average to 2017 of 6.9%pa. Growth should lift to 3-4% in 2021.

No room for more rate cuts & a steady slide for the rupee

Inflation jumped to 7.4%yoy in December as food prices spiked by 14%yoy. While inflation should ebb in the next few months to 3-4%yoy, there's little room for more than one rate cut by the RBI after it cut its policy rate by 135 basis points in 2019. Despite the financial crisis the rupee has stayed in a 71-72 range on the US$ from September. We expect a 2-4%pa fall this year and in 2021 after a 2.8% drop in 2019.

Calendar year starting January	2017	2018	2019	2020	2021
GDP (MP, 2011-12), real growth, %	6.9	7.4	4.9	5.1	6.3
Inflation – CPI, %	3.3	4.0	3.7	3.7	4.8
RBI repo rate, December, %	6.00	6.50	5.15	4.90	5.65
USD/INR, year average	65.1	68.4	70.4	72.3	74.9

Sources: 2017-2018 data from the government (NCI, RBI) and CEIC. 2019-2021 forecasts by IMA Asia.

The above forecast is by IMA Asia. Companies seeking local advice and forecasts should contact:

Adit Jain, Chairman, IMA India
Tel: (91 124) 459 1200 ♦ Fax: (91 124) 459 1250 ♦ Email: aditjain@ima-india.com

Australia

Political & policy issues to watch

The tangled politics of climate change

… means little preparation for bush fires and drought

Australia is suffering from a record bushfire season and a 4-year drought that may just be breaking. The bad weather trend has emerged over the last two decades, with the 2008 Garnaut Climate Change Review warning that "…fire seasons will start earlier, end slightly later, and generally be more intense. This effect increases over time but should be directly observable by 2020." Climate change presents a conundrum for the Liberal-National Coalition government, and particularly for PM Scott Morrison, who won his position with the support of climate change sceptics in the Liberals who toppled PM Turnbull in 2018. The opposition Labor Party has said little on climate change. Like the Coalition, it favours coal mining in the hope that blue collar coal miners will help it win back Queensland (a conservative state with big coal mining plans) in the next election (due by Sept 2022).

PM Morrison will still downplay climate change

… as voters are sceptical

The battle over climate change has played a key role in Australian politics for a decade. It saw the ditching of Labor's carbon trading scheme, which operated over 2011-14, has played a central role in the Liberal's leadership battles, and has left government out of step with corporates, markets, and even regulators. It is unlikely, however, that the disasters will lead to a significant change in politics or policy. After a decade of the Murdoch press and radio shock jocks denouncing climate change as fake news, voters remain sceptical. PM Morrison has an even chance of leading the Coalition to victory in the next election.

Little fiscal stimulus so far

… & no lift from the 2019 tax cuts

Morrison's economic policies are based on promises to return the budget to surplus in FY2019-20 and delivery of personal income tax cuts to FY2023-24. The first tranche of tax cuts reached consumers from last July but did little to reverse a slump in retail sales. The Reserve Bank (RBA) and businesses have called for a lift in fiscal stimulus (faster tax cuts or extra infrastructure spending). A small amount of extra spending tied to the bushfires has been announced but no bigger stimulus is planned yet.

Outlook for the market

A mild 2020 recovery from a 2019 slump

… as stimulus lifts and housing recovers

The bushfire impact on short-term GDP growth will be limited as lost consumption is offset by emergency spending and the RBA continues interest rate cuts. The severity of the fires will, however, change the land and may have a long-term impact on some rural industries and possibly tourism. Growth had already slumped before the bushfires, with the Q3'19 annual rate slipping to 1.8%. China's coronavirus will also hurt short-term growth but that may reverse by Q3'20 as Beijing lifts its stimulus. We estimate GDP growth of 1.7% for calendar 2019 (prior 1.6%). With a housing recovery and an easing trade war our 2020 forecast lifts to 2.2% (prior 1.9%) with a new forecast for 2021 at 2.8%.

A high export dependence on China may be a plus by late 2020

Australia has a high trade dependence on China, which took 38% of 2019 exports (mainly iron ore, coal and foods) and delivered 26% of imports. While export growth will weaken in Q1'20 it may accelerate from Q2 as Beijing roles out a stimulus for construction. Food exports will also fall in Q1 but should recover lost ground over Q2-Q4. China arrivals were 15% of short-term arrivals for the year to November and will likely halt until April.

A slump in consumer demand should ease

Consumer demand growth should improve as the 2020 recovery broadens. Nominal retail sales growth slid to 2.1%sa for October from a decade average to 2017 of 3.8%pa. Consumer sentiment has also plunged. While migrant inflow and employment growth have been firm, wage growth has slowed to around 2% recently, home prices fell from Q4'17 to Q3'19, and consumer debt is uncomfortably high. A rebound in house prices from Q4'19 should help lift growth in consumer demand to around 2%pa in 2020 and 2021 from 1.5% estimated for 2019 and a decade average to 2018 of 2.6%pa.

Another rate cut and a weak A$

Given the slump in capex and consumer growth in 2019, the RBA is likely to cut its policy rate to 0.50% in February. Four rate cuts since last June suggests a continued weak A$ after a 6.8% fall on the US$ in 2019. The A$ remains Asia's most volatile currency.

Year ending December 31	2017	2018	2019	2020	2021
GDP, real growth, %	2.5	2.7	1.7	2.2	2.8
CPI, year average, %	1.9	1.9	1.4	1.2	1.5
RBA cash rate, year-end, %	1.50	1.50	0.75	0.50	0.75
USD/AUD, year average	1.30	1.34	1.43	1.47	1.51
AUD/USD, year average	0.77	0.75	0.70	0.68	0.66

Source: 2017-2018 data from the ABS, RBA and CEIC; 2019-2021 forecasts by IMA Asia

New Zealand

Political & policy issues to watch

Election have been called for Sept 19th

… PM Ardern and Labour will seek another three years

PM Jacinta Ardern has called an election for 19th September, three years after her surprise win as head of a coalition between her Labour Party (46 seats) and the small New Zealand First Party (9 seats) led by Winston Peters (now Deputy PM) with support from the Greens (8 seats). That gave her 63 of parliament's 120 seats. Labour and the Greens have always operated together while NZ First aims to be a kingmaker by aligning with either side of politics in order to gain a share of power. Ardern has proved adept at managing her government, although NZ First has derailed some policies, including introduction of a capital gains tax. The opposition National Party (55 seats) aims to win back office by guaranteeing it won't cut a deal with NZ First, thereby ending its kingmaker status and hopefully drawing enough of its supporters to the Nationals camp for a majority. While the Nationals lead in opinion polls, its leader, Simon Bridges, scores well below Ardern in popularity, suggesting he may be replaced before the poll. The government has listed two referendum questions with the election: whether to allow recreational marijuana use; and whether to allow euthanasia. Those issues may help Labour mobilise pro-reform voters, lifting total turnout and Labour's vote.

A big swing to fiscal stimulus via construction

Ardern won office in 2017 campaigning on three commitments: fixing a housing crisis, reducing child poverty, and making the country carbon-neutral by 2050. She's shifted her ground for 2020 with the promise of a NZ$12bn infrastructure package. Roads will get $5.7bn while rail gets $1.1bn and most of the rest goes to schools and hospitals.

Outlook for the market

Watch for a lift in local demand in 2020

Despite the coronavirus outbreak we've nudged up our 2020 GDP forecast for NZ to 2.8% (prior 2.6%) due to a strong rise in domestic demand as housing lifts and the government's fiscal stimulus supports growth. Any loss in commodity exports to China in H1'20 will likely be recovered in H2'20. Tourism is the one area likely to lag. Manufacturing should benefit from stronger construction and a quick rebound in dairy exports to China.

A brief setback from a high China dependence

… with a recovery by H2'20

Like Australia, NZ has a high and rising dependence on China, which took 29% of exports in 2019 (from 18% in 2015) and delivered 20% of imports (about the same share as in 2015). Exports to China are mostly dairy goods sold through food stores, which have mostly remained in operation, and by delivery. The drop in sales should be mild with a quick recovery as the virus recedes. China tourist arrivals have doubled their share of all arrivals to a stable 11% over the four years to 2018 (0.5m) from 5% in 2010.

A strong labour market will help consumers

The consumer outlook benefits from a favourable labour market. The unemployment rate has trended down since late 2012 and was stable through 2019 around the 4% rate announced for Q4'19. Meanwhile, wage growth has gradually lifted from 2% in Q4'18 to 2.6% for Q4'19, the strongest reading in a decade. With improving labour market data, we've lifted our consumer real growth forecast to 3% for 2020 and about the same in 2021 from an estimated 2.8% in 2019 and a decade average to 2017 of 2.9%pa.

Construction lifts on record home building

… & a lift in civil work

Construction is also on an upswing, with national housing consents at a record 22,384 in 2019. Auckland, where the population has doubled in the last 15 years to 1.6m people, dominates with three quarters of the apartment consents and half the consents for townhouse, flats, and units. Along with PM Ardern's promise of a major infrastructure program, that should keep construction growth near the 5% we estimate for 2019.

No more rate cuts & a firmer NZ$

Inflation edged up to 1.9%yoy for Q4'19 but should ease through Q1'20 as global oil prices fall. That leaves little pressure on the RBNZ to lift or cut its policy rate from the current 1%. A 4.5% fall for the NZ$ on the US$ in 2019 should ease to 1-2% in 2020 and 2021.

Calendar years	2017	2018	2019	2020	2021
GDP(Expenditure), real growth, %	2.6	2.8	2.2	2.8	3.0
GDP(Production), real growth, %	3.1	2.8	2.5	2.9	2.9
CPI, year average, %	1.9	1.6	1.6	1.3	1.5
Official cash rate, year-end, %	1.75	1.75	1.00	1.00	1.00
NZD/USD, year average	0.71	0.69	0.66	0.65	0.66
USD/NZD, year average	1.41	1.44	1.52	1.54	1.52
AUD/NZD, year average	1.08	1.08	1.06	1.05	1.00

Source: 2017-2018 data from Statistics NZ and NZRB; 2019-2021 forecasts by IMA Asia

Asia Brief contributors

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Asia & Global	***Singapore:*** Richard Martin, Managing Director, IMA Asia ♦ Web: www.imaasia.com Mob: (65) 9023 9642 ♦ Email: richard.martin@imaasia.com
Australia	***Sydney:*** Richard Martin, Managing Director, IMA Asia ♦ Web: www.imaasia.com Tel: (61 2) 9252 4336 ♦ Fax: (61 2) 9252 4339 ♦ Email: richard.martin@imaasia.com
China	***Shanghai:*** James Loudon, China Representative, IMA Asia Tel: (86) 186 2153 7602 ♦ Email: james.loudon@imaasia.com
Hong Kong	***Hong Kong:*** Mark Michelson, Chairman, Asia CEO Forum, Hong Kong Tel: (852) 2530 1115 ♦ Fax: (852) 2530 1125 ♦ Email: mark.michelson@imaasia.com
India	***New Delhi:*** Adit Jain, Chairman, IMA India ♦ Web: www.ima-india.com Tel: (91124) 459 1251 ♦ Fax: (91124) 459 1250 ♦ Email: aditjain@ima-india.com
Indonesia	***Jakarta:*** James Castle, Chairman, CastleAsia♦ Web: www.castleasia.com Tel: (62 21) 2902 1641 ♦ Fax: (62 21) 2902 1648 ♦ Email: castle@castleasia.com
Japan	***Tokyo:*** Dan Slater, Director, The Delphi Network, Tel: (8180) 205 70 609 ♦ Email: dan@thedelphinetwork.com
Malaysia	***Kuala Lumpur:*** Datuk Paddy Bowie, Managing Director, Paddy Schubert Sdn. Bhd. Tel: (60 3) 2078 4031 ♦ Fax: (60 3) 2078 7034 ♦ Email: pshubet@paddyschubert.net
Pakistan	***Karachi:*** Babar Ayaz, Managing Director, Mediators (Pvt) Ltd Tel: (92 21) 565 6113 ♦ Fax: (92 21) 565 6112 ♦ Email: mediator@cyber.net.pk
Philippines	***Manila:*** Peter Wallace, President, The Wallace Business Forum ♦ Fax: (63 2) 810 9610 ♦ Web: www.wallacebusinessforum.com Tel: (63 2) 810 9606 ♦ Email: pwallace@wbf.ph
South Korea	***Seoul:*** Tony Michell, Managing Director, Korea Associates Business Consultancy Tel: (82 2) 335 2614 ♦ Fax: (82 2) 323 4262 ♦ Web: www.kabcltd.com Email: tonymichell@kabcltd.com
Singapore	***Singapore:*** Richard Martin, Managing Director, IMA Asia ♦ Web: www.imaasia.com Tel: (65) 6332 0166 ♦ Fax: (65) 6332 0170 ♦ Email: richard.martin@imaasia.com
Taiwan	***Taipei:*** Michael Boyden, Managing Director, TASC Taiwan Asia Strategy Consulting Tel: (886 2) 8789 0978 ♦ Email: michael@economist.com.tw ♦ Web: www.tasc-taiwanasia.com
Thailand	***Bangkok:*** Christopher Bruton, Executive Director, Dataconsult Ltd Tel: (66 2) 233 5606/7 ♦ Fax: (66 2) 236 8143 ♦ Email: chris@dataconsult.co.th
Vietnam	***Bangkok:*** Christopher Bruton, Executive Director, Dataconsult Ltd Tel: (66 2) 233 5606/7 ♦ Fax: (66 2) 236 8143 ♦ Email: chris@dataconsult.co.th