The Infofax

CLSA ASIA-PACIFIC MARKETS

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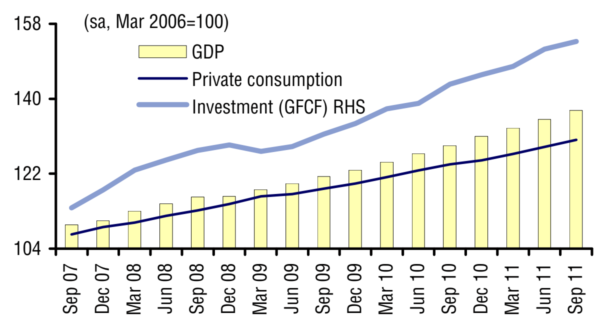
ECONOMICS RESEARCH

1. INDONESIA GDP – Resilient, but disappointing capex

Indonesian real GDP growth was sustained at 6.5% YoY in 3Q11, matching the growth rate in 2Q11. In seasonally adjusted QoQ terms too, GDP growth was sustained at 6.5% annualised in 3Q11, same as in 2Q11. This contrasts with the other emerging Asean economies for which the monthly indicators have signalled slowing QoQ growth in 3Q11. Indonesian resilience was the theme of the Viewpoint section in our 4Q11 *Eye on Asian Economies*, **Arise Indonesia**.

That said, we were disappointed by slowing real investment growth to 5% QoQ annualised, from 12% in 2Q11. Public investment had been expected to remain weak with the disbursement rate for capital expenditure in the 2011 budget reaching only 26% after the first eight months of the year. We had hoped for a stronger offset from private investment growth. Instead, private consumption, with growth above 5% QoQ annualised for the third consecutive quarter (first chart) and exports were the key drivers.

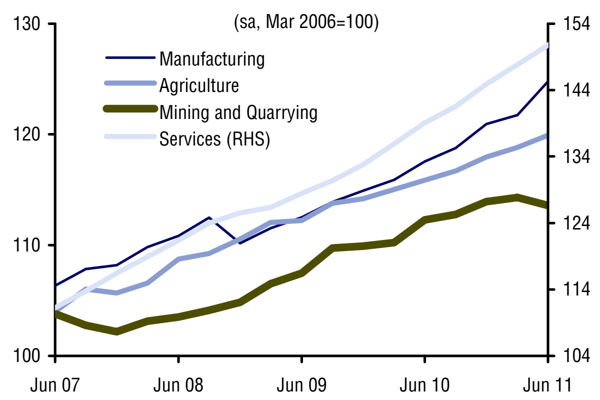
Real GDP, consumption and investment (s.a. levels)



Source: CEIC, CLSA Asia-Pacific Markets

Services was the strongest growing sector in 3Q11 (second chart) at 12% QoQ annualised. Along with firm construction and manufacturing growth, albeit slowing from 2Q11, this offset soft growth in the mining and agricultural sectors.

Real GDP sector breakdown (s.a. levels)



Source: CEIC, CLSA Asia-Pacific Markets

The 3Q11 release keeps our 2011 real GDP forecast on track for 6.5%. Moreover, we expect Indonesia's resilience to sustain 6.5% real GDP growth in 2012. The 3Q11 data have provided no compelling reason for BI to cut at this week's policy meeting (10 November). Domestic demand has remained robust (even though we had hoped for stronger investment). The output gap has widened further with the 6.5% growth in 3Q11. CPI inflation continued its decline to 4.4% in October but the rise in the GDP deflator to 8.2% in 3Q11 from 7.4% in 2Q11 was a reminder that inflation risks should not be downplayed.

There is no urgency for BI to hike again this week. While Bank Indonesia said there is room for further rate cuts it qualified this statement saying 'that does not mean we will do it right away'. Holding interest rates steady would send a more reassuring signal on mitigating inflation risk by maintaining a strong exchange rate stance.

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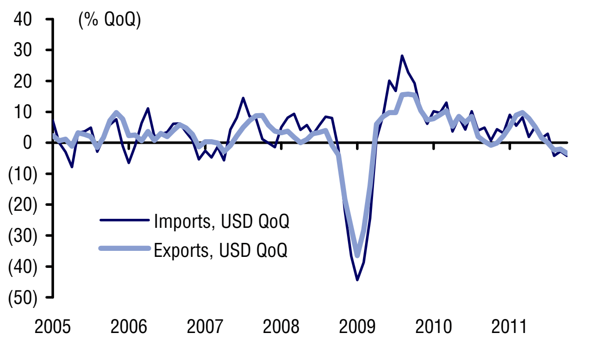
2. TAIWAN EXPORTS – Weaker trend under monthly volatility

Taiwan exports appeared to stage a recovery in October, up 5.7% MoM (in seasonally adjusted, USD terms). But following two months of big falls, October's better than expected result is not enough to rescue a declining, negative trend. The one consolation is that imports are contracting at around the same pace (see figure below) lessening the net trade hit to GDP.

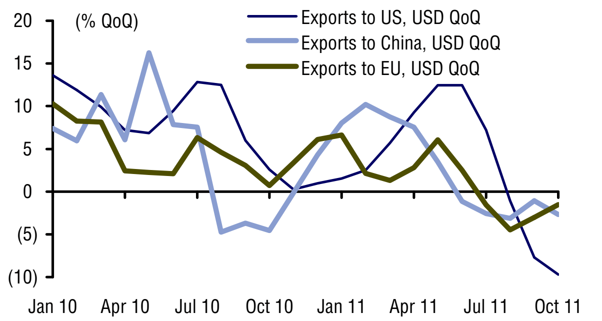
Taiwan merchandise trade, QoQ



Source: DataStream, CLSA Asia-Pacific Markets

Month-on-month volatility renders looking at October's data at the country level worthless. Trends are telling, however. Quarter-on-quarter, exports to China/HK, the US and the EU – Taiwan's three biggest export markets, collectively accounting for around two-thirds of Taiwan's exports – were all down heavily.

Taiwan exports, select markets, QoQ



Source: DataStream, CLSA Asia-Pacific Markets

If there is salvation ahead for Taiwan exporters, it is most likely to come from China. US growth has been decent in recent months but this clearly has not translated into a pick-up in demand for Taiwanese goods. And at best the US economy is likely to limp along in coming quarters and thus unlikely to prove a reliably robust source of export demand. EU prospects are much worse given austerity at the periphery and collapsing demand at the core.

Though Chinese demand for Taiwan exports is still falling, the chart above shows that the rate of decline has been stable for some months. We have no reason to believe the situation will deteriorate from here; indeed, a relaxation of mainland credit availability and measures to boost consumer spending will provide valuable support to Taiwan exporters. Unfortunately neither of these steps is likely to occur in a significant way before the end of this year, meaning Taiwan merchandise trade will remain under pressure in 4Q.

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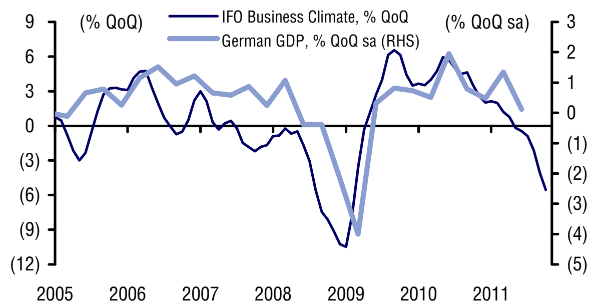
3. EU GROWTH – Crumbling core

Political tensions in Italy and Greece shouldn't be downplayed – how they are resolved will be crucial for market perceptions of respective government's credit-worthiness – but they are serving to overshadow a weakening in German growth. September monthly economic indicators from Germany have been universally soft and while monthly data can be volatile, underlying trends are poor.

Weakening German outcomes have been predicted for some time by IFO's business sentiment indicator. Two points stand out from the figure below. The first is that the IFO indicator is a good lead on GDP; 3Q11 GDP will struggle to match even the 0.1% QoQ recorded in 2Q, a hugely disappointing result at the time. The second observation is that German growth probably continued to deteriorate into 4Q (the last data point in the IFO series is for October).

German business sentiment and GDP



Source: DataStream, CLSA Asia-Pacific Markets

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