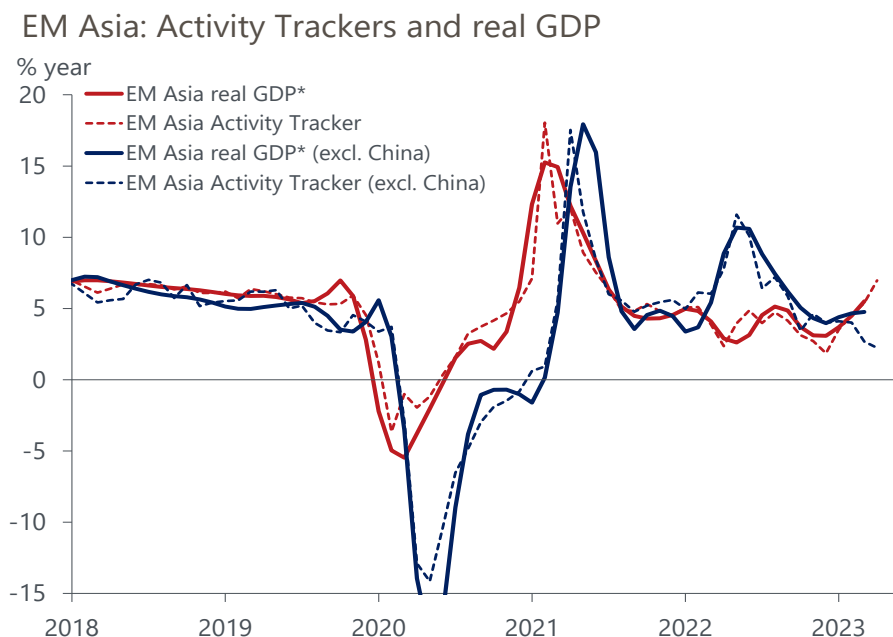


Research Briefing | Asia Pacific

New Activity Trackers suggest momentum waning in Q2

- After a choppy first quarter of GDP data, our novel Activity Trackers (which incorporate proprietary daily sentiment data from Penta) suggest that economic momentum in EM Asia is on a softer trend in Q2 (at least outside of China) supporting our view of easing underlying inflationary pressures and diminishing appetite for further rate hikes.
- A late reopening in Asia, with tourism rebounding, supply chains easing, and pent-up demand being released, has coincided with a sharp tightening in monetary policy, both at home and abroad, and a tight reversal in external goods demand. This confluence of push and pull factors makes gauging economic momentum a difficult task.
- To help, Oxford Economics have developed new Activity Trackers, combining traditional inputs of timely activity data with daily sentiment data constructed using natural language processing.
- They show that China's post-reopening momentum continued in the past few months, although there are initial signs of the rebound losing steam in May. Elsewhere, some of the resilience of Q1 is fading. Indonesia and Thailand are holding up better, but slowdowns are more pronounced in the rest of Southeast Asia and in India.
- That is generally supportive of our forecast that growth will struggle for momentum from here in many places, as external headwinds drag on longer than any reopening tailwinds.
- With our model suggesting economic data will disappoint any hopes of a turnaround off the back of the Q1 GDP figures, policymakers are likely to remain in wait and see mode, rather than carrying on or resuming their hiking cycles.

Chart 1: Divergent paths between China and the rest



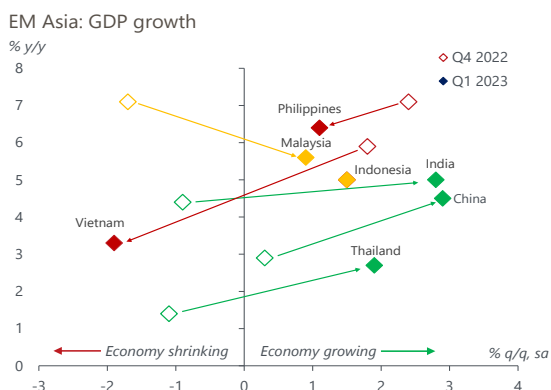
Source: Oxford Economics/Haver Analytics. *Monthly interpolation

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A very mixed bag

Q1 GDP data for EM Asia were a mixed bag (Chart 2), but there were a couple of common themes. First, private consumption generally surprised to the upside, showing greater resilience than we had anticipated. While this trend is most pronounced in China, it is also clear in ASEAN too (Chart 3). Evidently, the tailwinds from reopening were still blowing into early 2023.

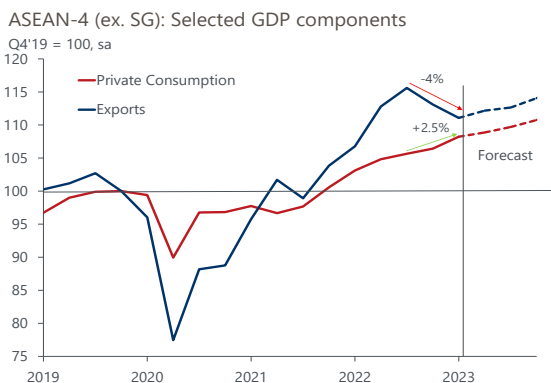
Chart 2: GDP growth by no means synchronised



Source: Oxford Economics/Haver Analytics *Q1 forecast for India

Second, external sectors continued to perform poorly, indeed outturns were mostly even worse than our downbeat expectations.

Chart 3: Consumption rising, exports falling



Source: Oxford Economics/Haver Analytics

In countries where exports are a large % of GDP, external and domestic demand can't trend in opposite directions perpetually. Export earnings feed through to investment, as well as hiring decisions, which affect consumer confidence, incomes and, ultimately, consumption. Given our view that external weakness is here to stay, as [global growth softens further in H2](#), we expect domestic demand to lose its lustre too. But there

are several boons to consumption which are still at play. These include to varying extents; revenge spending and running down excess savings; a tourism rebound; and the further easing of supply chain issues (which is supporting auto sales, for instance).

The speed at which these boosts fade will govern how long domestic demand can continue to help offset external weakness. That has implications for underlying inflationary pressures and monetary policymakers' next moves.

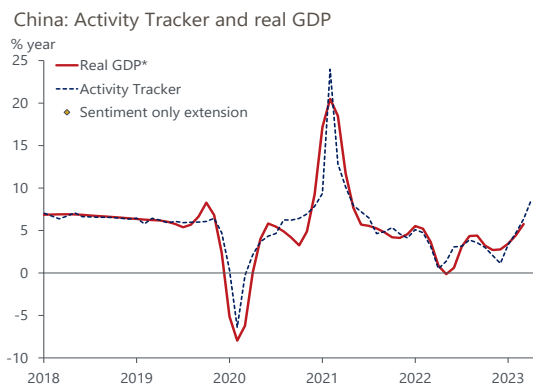
Enter the new OE Activity Trackers

Our timely activity trackers (or nowcasting models) add some clarity to the murky picture painted by GDP data. These indicators are at a higher frequency and timelier than GDP data, allowing finer analysis of economic momentum, both within Q1 and into the following quarter.

The models are constructed using activity data and the new addition of [proprietary sentiment data developed in collaboration with Penta](#) (constructed by natural language processing of 400,000 daily online texts). The advantages of this addition are twofold. First, we have found the inclusion of sentiment data improves the fit of the models, making them more accurate. Second, the data's daily frequency allows the models to be extended to the present, allowing us to peek at an extra month. (For more, see the [Appendix](#).)

China: Headline growth picking up strongly, but underlying momentum uneven. Activity and sentiment data suggest that China's economic rebound continued more recently, with our Tracker touching 9% y/y in April, compared to [4.5% growth in Q1](#) (Chart 4).

Chart 4: Rebound continues



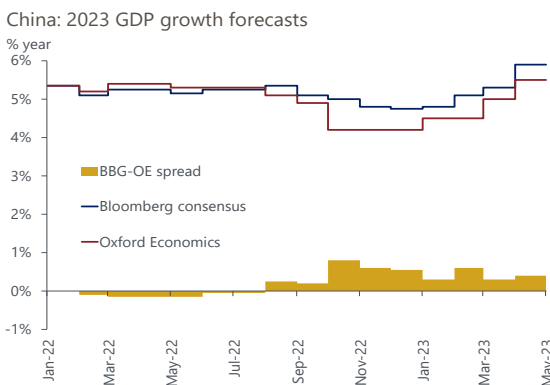
Source: Oxford Economics/Haver Analytics *Monthly interpolation

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But we urge some caution. First, annual comparisons are increasingly flattered by the low base caused by Omicron-related lockdowns in Q2 of last year. Second, the underlying data are uneven, with a stark divergence between services and manufacturing. (For more on this, [see here](#).)

Third, while services output is robust, the extension of our Tracker using only sentiment data suggests it is losing some steam in May. Overall, the Tracker corroborates our slightly more cautious than the consensus view of 5.5% GDP growth this year (Chart 5).

Chart 5: Below consensus on China

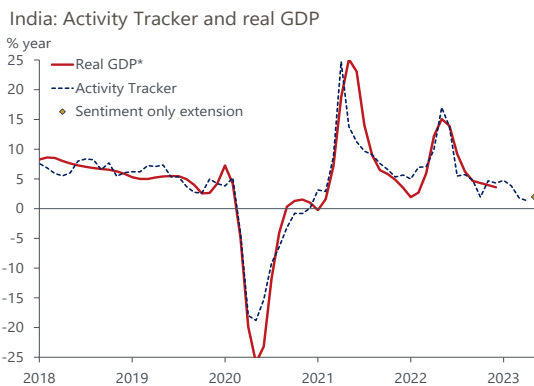


Source: Oxford Economics/Haver Analytics

India: Q1 pickup will likely prove temporary.

National accounts data, due 31 May, are likely to show that GDP growth picked up somewhat last quarter, from 4.4% y/y in Q4 2022. But our Activity Tracker points to momentum waning again at the end of Q1 and into Q2 (Chart 6), in line with our forecast. Soft economic momentum adds weight to the view that stubbornly sticky core inflation will eventually ease.

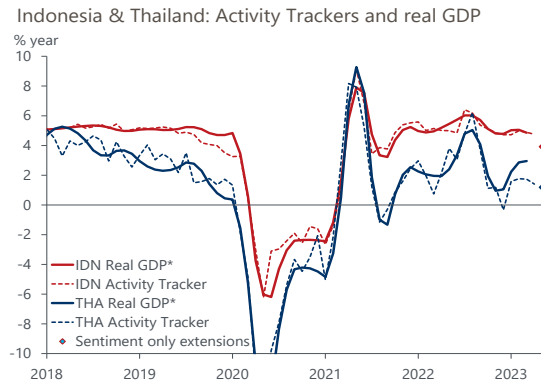
Chart 6: Only a brief bounce



Source: Oxford Economics/Haver Analytics *Monthly interpolation

ASEAN: Some steady, some softening. The brighter spots of the region are Indonesia and Thailand. In the former, activity looks to be growing steadily, around the usual pre-pandemic pace of 5% (Chart 7).

Chart 7: Steady as she goes

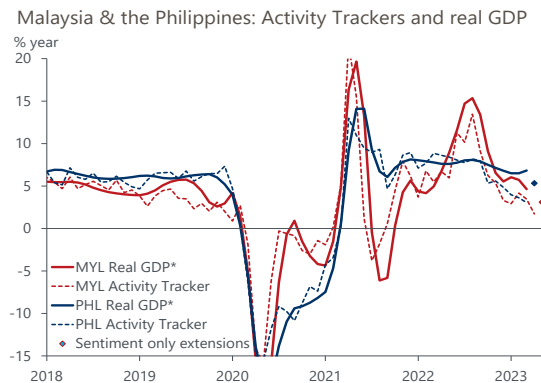


Source: Oxford Economics/Haver Analytics *Monthly interpolation

In Thailand, our model has underestimated growth in the past few quarters, likely because it doesn't fully account for the outsized importance of tourism. But the level of the Tracker in April is not much changed from Q1, suggesting the recovery maintained momentum after [decent growth last quarter](#), albeit at a touch slower pace.

Elsewhere the story is less upbeat (Chart 8). While GDP data from the Philippines [beat our expectations in Q1](#), our Tracker continues to soften pointing to a significant weakening in growth. That's consistent with the headwinds faced from a poor export performance and the delayed impact of a sharp monetary tightening.

Chart 8: Momentum firmly downwards



Source: Oxford Economics/Haver Analytics *Monthly interpolation

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In Malaysia, the picture is gloomier. The external environment is weighing heavily, with recent April trade data particularly bad. Our model points to a renewed downturn after [a little bounce in Q1](#).

Finally, Vietnam's economy looks to have continued struggling. Our Tracker point to growth of <3% – a poor showing for a country that in pre-pandemic years regularly grew at 7%.

What economic momentum means for policy

Upside surprises in the Q1 GDP data make policymakers' decisions less-than-clear cut. Some residual strength in consumption will keep alive worries of underlying price pressures from robust domestic demand.

But our activity trackers generally reassure us of our view that any residual strength in Q1 will mostly prove short lived, with the negative impact of external headwinds likely to drag on longer than the positive tailwinds from reopening. With economic data set to remain on the soft side in the coming months, that should persuade policymakers to remain on hold.

We think the [surprise hike](#) from Bank Negara Malaysia early this month after a long pause was a final adjustment. Bangko Sentral Philipinas is likely to be finished after [pausing for the first time last week](#). Similarly, we expect the Bank of Thailand to bring its tightening cycle to an end at its 31 May meeting. And the Reserve Bank of India is likely to remain on hold early next month.

China is of course at a different phase of its reopening cycle, with economic momentum still robust. But our relatively cautious view on the strength of the rebound from here, as well as the weakness of prices, means we think tightening is unlikely. Indeed, some minor targeted easing to keep the recovery going is our baseline assumption.

Technical Appendix: EM Activity Trackers

We have developed novel Activity Trackers to monitor economic activity in emerging market economies. In contrast to relying on official GDP estimates, our Activity Trackers allow us to monitor activity in a timelier fashion and at a higher frequency.

Our Activity Trackers for each country are constructed as a first principal component from a variety of monthly indicators (both hard economic data and soft survey data) covering all activity areas and sectors. Each dataset is tailored to the country it monitors, paying attention to any country-specific characteristics (such as large tourism sector or commodity exports). We address the so-called "jagged edges" – missing observations at the end of the dataset due to asynchronous data releases – using a multivariate filter. This allows us to track activity with minimal lag, compared to the 2-3 month release lag for GDP data.

Our nowcasting framework is based on a combination of linear and non-linear models (the latter address structural breaks in the data caused mainly by the Covid pandemic). Our preferred nowcasting method then averages out across these models, limiting the potential adverse impact of any outlier predictions or overfitting.

As an extension to our Activity Trackers, we augment our nowcasting models with our proprietary sentiment data developed in collaboration with Penta. These sentiment indicators, based on natural language processing of the sentiment around a variety of economic topics from 400,000 daily online texts in 123 languages, further enhance the timeliness of our Activity Trackers – they are available in near-real time and on daily frequency. What's more, we find their inclusion improves our nowcasting models' accuracy, particularly for EM Asia countries. And their timeliness allows us to produce an accurate first nowcast estimate for a given month long before even any survey data are released.