

ECONOMY

Asia factory output slumps as costs rise and demand falls

Bloomberg

Manufacturing activity in Asia slumped again in October as conflict in the Middle East drove oil prices higher, costs rose and global demand remained under pressure.

Most countries across the region reported pressures from cost inflation, shrinking output and new orders, according to manufacturing purchasing managers' indices published yesterday by S&P Global and Jibun Bank. Japan and South Korea remained in contraction at 48.7 and 49.8, respectively, little changed from the prior month.

A reading above 50 indicates

an expansion in activity, while anything below suggests contraction.

"The rate of inflation was robust and the strongest seen in the year to date amid reports of higher raw material prices, notably those linked to oil," said Usamah Bhatti, economist at S&P Global Market Intelligence, in a statement accompanying the South Korean data.

Bhatti also noted that firms had mentioned unfavourable exchange rates as their currencies came under pressure, leading to higher input costs.

The latest data are a discouraging sign for a global economy that has been trying to recover from the worst of its downturn. Asia –

which makes much of the world's goods – has struggled to ramp up production this year amid patchy demand from economies including the US, Europe and China.

While oil prices are beginning to cool again, the conflict between Israel and Hamas led to volatility in crude over the month – just as many Asian factories had begun to see cooling inflation and widening profit margins. Crude costs may surge further this quarter if a broader conflict erupts in the Middle East. Elevated interest rates – or ones that climb even higher – would crimp any plans to expand manufacturing activity.

Most of Southeast Asia – which has typically been able to rely on the strength of its domestic mar-

kets to power growth – was in contraction in October. PMIs for Vietnam, Myanmar and Thailand deteriorated, while Malaysia was unchanged. Only Indonesia managed to expand in October from the prior month, though the rate of growth was slower.

Trade bellwether Taiwan – which has seen PMI contract for more than a year – recorded a reading of 47.6 in October. The best reading in seven months suggested the decline in activity in the economy is becoming less severe. The stop-start recovery is also evident in China, where an official gauge this week showed factory activity had shrunk in October, reversing September's return to expansion.