Economic Preview: Week of 14 September 2020

Publication date: 11 September 2020

Week Ahead Economic Preview

Global overview

- **US, UK and Japan monetary policy meetings**
- **Industrial production data for the US, China and eurozone, plus key trade data updates**
- **Retail sales release in the US and China**

The coming week sees monetary policy meetings at the Federal Reserve, Bank of England and Bank of Japan, all of which are struggling to gauge the shape of economic recoveries from COVID-19 lockdowns. The latest business surveys indicated a further rebound of global business activity in August but also raised concerns about the resilience of national upturns given worries over fresh waves of infections. The meetings will be especially important in assessing the degree to which policymakers are prepared to tolerate higher price pressures in order to sustain recoveries.

At the recent Jackson Hole symposium, US Fed chair Powell already announced a new framework which allows an overshoot of the inflation target to help ensure a robust recovery. The FOMC's latest decision will be framed by updates to key indicators of economic health in August in the form of retail sales and industrial production. Both have seen growth rates fade from initial rebounds in recent months, so policymakers will be eager to see signs of sustained expansion. The US also publishes updated trade data, the deficit of which has recently ballooned to the highest since the global financial crisis (page 3).

In the UK, growth surged in August according to the PMI surveys but many of the Bank of England's rate setters are likely to be concerned by the labour market: the surveys also showed the rate of job losses accelerating in August and the government's furlough scheme is ending in October. Unemployment therefore looks set to rise sharply which, alongside renewed lockdown measures, adds to the risk of the recovery fading sharply. Eurozone watchers will meanwhile eye trade and production data (page 4).

In Asia Pacific, no major change in policy is expected in Japan, though markets will be eager to assess the Bank of Japan's view of the strength of the upturn. News of Shinzo Abe's replacement will also be eagerly awaited. Meanwhile, China watchers will seek confirmation of recent survey data, showing China's economic recovery sustaining robust momentum, from fixed asset investment, industrial production, retail sales and employment numbers (page 5).

Special reports

Asia Pacific supply chains: A look at the impact of COVID-19 on supply chains and how the pandemic is leading to new reshoring initiatives (**page 6**).

Upcoming PMI releases

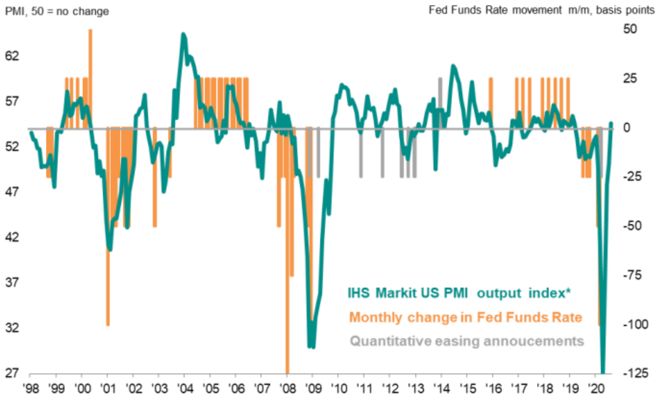
23rd September: Flash PMIs (US, UK, Eurozone, Japan & Australia)

1st October Final Global Manufacturing PMIs

5th October: Final Global Services PMIs

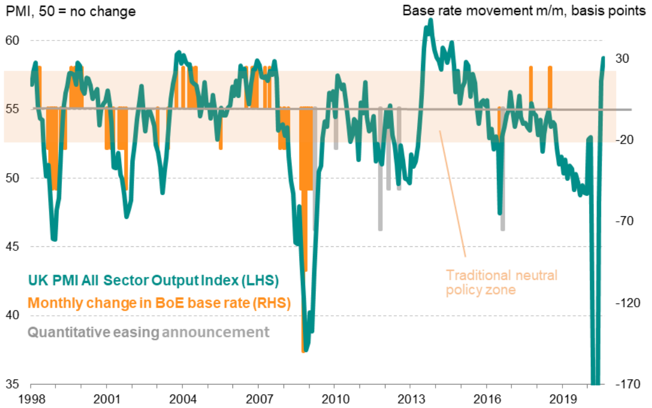
6th October: Detailed global sector PMIs

The FOMC meets to set interest rates amid signs of an economic rebound, but also has a new policy framework



Sources: PMI uses IHS Markit post-2007 and ISM pre-crisis, Federal Reserve.

Bank of England policymakers will likely be split on the sustainability of the UK's economic rebound



Sources: IHS Markit, Bank of England.

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Key diary events (UTC)

Monday 14 September

China house price index (Aug)
Singapore unemployment rate (Final, Q2)
Japan industrial output (Final, Jul)
India WPI and CPI (Aug)
Euro area industrial output (Jul)
China vehicle sales, FDI (Aug)
Japan LDP leadership vote

Tuesday 15 September

RBA meeting minutes (1 Sep)
China fixed asset investment, industrial output, retail sales, unemployment rate (Aug)
Indonesia trade (Aug), business confidence (Q2)
UK employment change (Jun), jobless rate, average earnings (Jul), claimant count change (Aug)
France and Italy inflation (Final, Aug)
Euro area and Germany ZEW survey (Sep)
India trade balance
US industrial output (Aug), NY Empire state manufacturing index (Sep)
Japan trade (Aug) 23:50 UTC
75th session of UN General Assembly (15-22 Sep)

Wednesday 16 September

Australia new home sales (Aug)
UK inflation, retail price index (Aug)
Euro area trade balance (Jul)
US retail sales (Aug), business inventories (Jul)
US NAHB housing market index (Sep)
FOMC and quarterly economic projections
Brazil interest rate decision
New Zealand GDP (Q2)

Thursday 17 September

Singapore non-oil exports and trade balance (Aug)
Australia jobless rate, employment change (Aug)
BoJ interest rate decision
Indonesia and Taiwan monetary policy decision
BoE interest rate decision
Hong Kong unemployment rate (Aug)
Italy trade balance (Jul)
Euro area inflation (Final, Aug)
US housing starts, building permits (Aug), Philly Fed manufacturing index (Sep), jobless claims (12-Sep)
Japan inflation (Aug) 23:30 UTC

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Friday 18 September

Germany wholesale prices (Aug)
UK retail sales (Aug)
Russia GDP (Aug), interest rate decision
US current account (Q2), University of Michigan consumer confidence survey (prelim, Sep)

Saturday-Sunday 19-20 September

20/9: Taiwan export orders (Aug)

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United States Week Ahead

FOMC meets under new policy framework

By Chris Williamson

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The highlight of the week is the FOMC meeting, accompanied by updates to industrial production, retail sales, the housing market, the current account and consumer confidence.

FOMC meeting under new target

The FOMC meets for the first time since chair Powell announced a new framework for monetary policy that commits the Fed to ensuring inflation averages 2% “over time”, allowing inflation to overshoot the target in the short term. From the minutes of the last meeting, it’s also clear that the Fed remains committed to maintaining a highly accommodative monetary stance, likely keeping the target for the federal funds rate at 0% to ¼% for several years. The meeting, which ends on the 16th, will be all the more important as it will hopefully not only add more colour to the new policy framework but also includes an update to the ‘dot plot’ of interest rate expectations plus projections for the economy into 2023.

Factory and retail updates, trade deficit

Policymakers will have two key new data sets to help understand the strength of the economic recovery, with both industrial production and retail sales expected to have continued to increase in August.

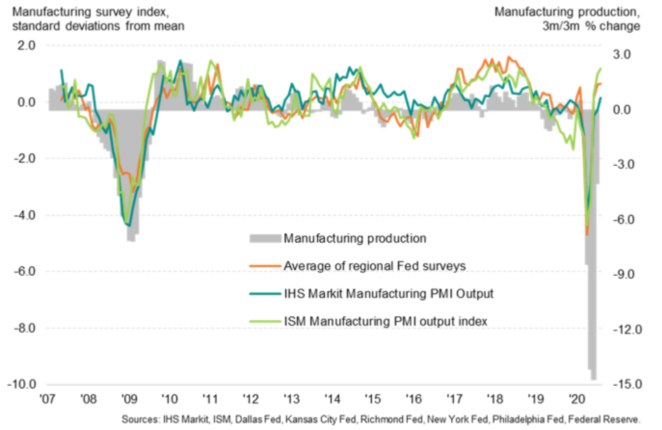
Recent surveys such as the PMIs have indicated that the manufacturing rebound persisted into August, and analysts are pencilling-in another rise to build on gains seen in the prior three months, albeit with the main thrust of the rebound having lost some momentum. However, it’s important to note that output remained some 7.7% below levels of a year ago in July.

Similarly, retail sales are expected to rise, but the increase is expected to be similar to the relatively modest 1.2% gain recorded in July as the main impetus of the rebound from the lockdown lows fades.

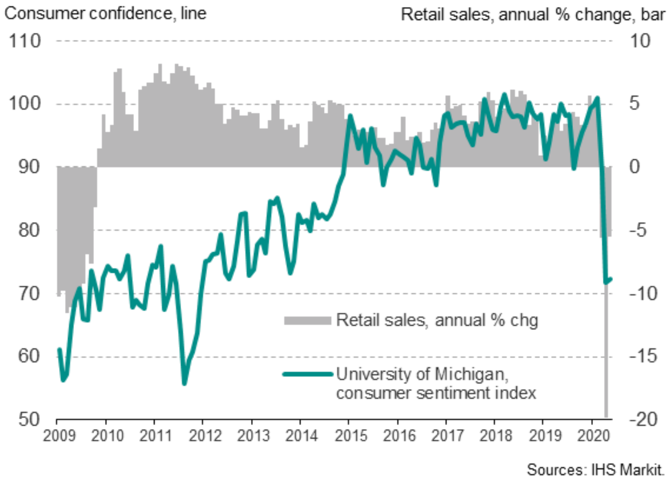
Consumer confidence – updated on Friday – meanwhile remains very subdued by historical standards amid ongoing concerns over COVID-19, and especially its impact on jobs and incomes.

Finally, current account data will also be eagerly awaited after the trade deficit widened in the three months to July to the highest since 2008.

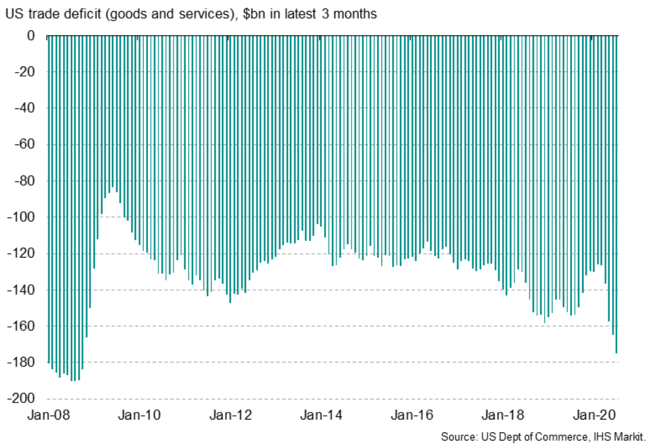
US manufacturing output data should show the underlying trend continuing to improve in August



Retail sales were 2.7% up on a year ago in July but consumer confidence remains extremely weak



The US trade deficit has widened to the highest since 2008 since the pandemic struck



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Europe Week Ahead

Employment and inflation data, plus BoE decision, pushes UK into focus

By Paul Smith

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The UK will be the principal focus in European economics this week, with official employment, inflation and retail sales data all slated for release ahead of the latest Bank of England monetary policy decision. Industrial production and trade figures in the eurozone are released, as well as final August inflation data for the region and several member nations.

UK BoE, employment, and inflation

The Bank of England will meet against the backdrop of an economy expanding at its strongest rate since mid-2014 and retail sales volumes already back above their pre-pandemic levels ahead of next week's August's update from the nation's statistics office.

However, growth has been in part supported by various government schemes and, as these are withdrawn, the Bank will be keen to ensure monetary conditions remains supportive – especially with a further rise of joblessness set to be reported in next week's official labour market report.

Indeed, the UK employment situation will be crucial in determining the Bank's outlook for both output and inflation. Evidence from the PMI surveys of firms cutting jobs at an accelerated rate during August will have been noted in Threadneedle Street, and the Bank will also have an eye on the effect on joblessness from the withdrawal of the government's furlough scheme in late October.

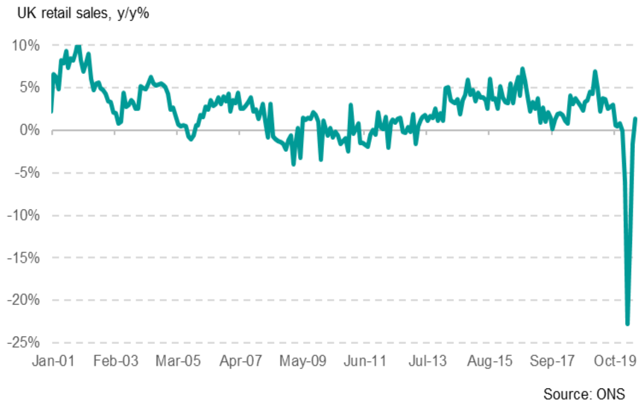
Whilst price pressures have risen recently – and PMI figures imply a further acceleration over the summer – August's inflation numbers are subsequently likely to be of little concern to policymakers.

Eurozone industrial production

Over in the eurozone, a crucial piece of 'hard' data on tracking the third quarter growth recovery will be provided by July industrial production figures.

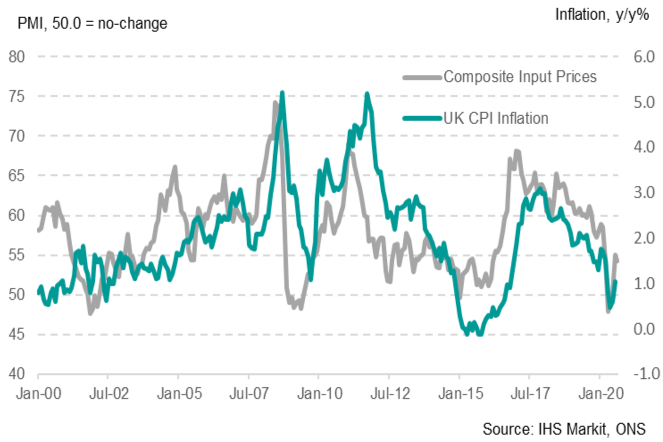
Whilst monthly growth should be expected, equivalent German data indicating a loss of momentum in its industrial sector during July casts doubts on the outlook, especially in the context of the recent appreciation of the euro. There are fears that the stronger currency will damage the competitiveness of exports at a crucial stage in region's recovery.

UK retail sales have shown a decent recovery following the easing of COVID-19 measures



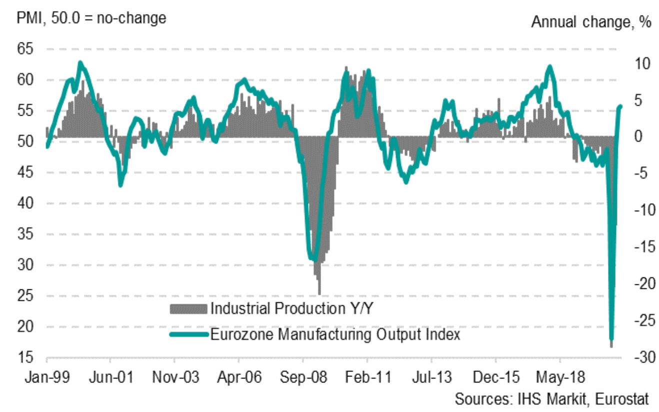
Source: ONS

UK inflation has edged higher recently but remains well below the Bank of England's 2% target



Source: IHS Markit, ONS

Eurozone industrial production has been on a positive recovery path in recent months but any sign of a loss of momentum will raise concerns about the outlook



Sources: IHS Markit, Eurostat

Asia Pacific Week Ahead

China data, central bank meetings, Asia trade, Japan LDP vote

By Bernard Aw

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Central bank meetings will be in the spotlight next week, with markets focusing on the FOMC, but Japan, Indonesia and Taiwan will also decide on monetary policy. Confirmation of further recovery in China for the third quarter will be sought from official economic data after PMI surveys showed strengthening growth momentum. Trade numbers for a number of Asian economies are likewise eagerly anticipated for signs of improvement in regional trade conditions. GDP data for New Zealand are meanwhile expected to confirm second quarter woes, and in Japan the Liberal Democratic Party will elect a new leader following the resignation of party president and PM Shinzo Abe.

Other key Asian data highlights include job figures for Singapore, Australia, mainland China and Hong Kong SAR, as well as inflation numbers for Japan and India. Minutes of the RBA latest meeting will also be watched.

Monetary policy

The Bank of Japan is meeting to set monetary policy, though no major changes are expected. The central bank may extend its purchasing of commercial paper to continue keeping borrowing costs low for firms amid weak economic conditions, especially after the latest PMI data indicated that Japan's economic recovery is lacking momentum.

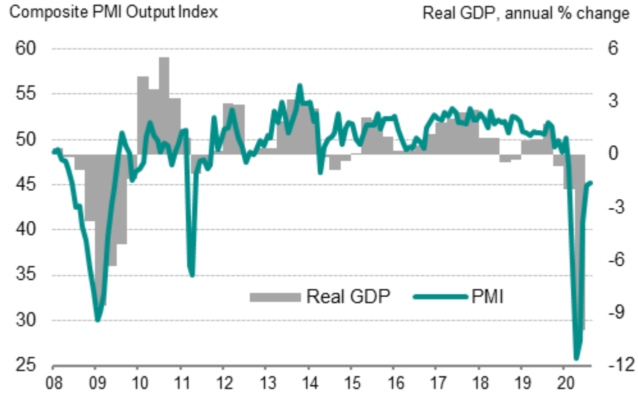
Indonesia is also expected to keep monetary policy unchanged amid a weakening rupiah due to domestic concerns, including debt monetisation and a proposed change to the central bank's charter. Markets will instead focus on developments of the draft bill to assess if such changes are seen as a dilution of Bank Indonesia's independence.

China data and Asia trade

After signs from the latest Caixin surveys that China's recovery gained pace in August, analysts will seek confirmation of the strengthening economic momentum from a number of data releases, including fixed asset investment, industrial production, retail sales and employment numbers.

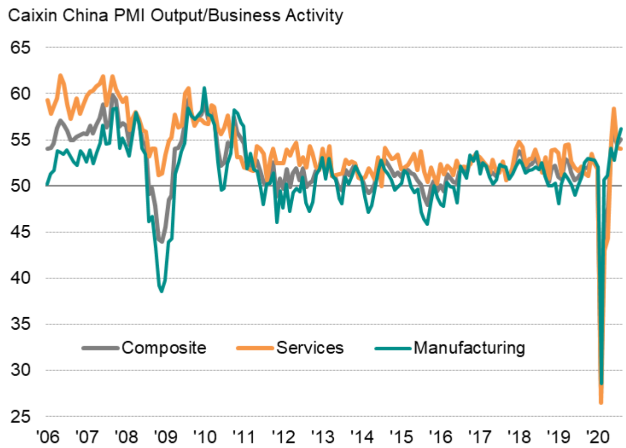
Trade figures published for Japan, Singapore, Taiwan, Indonesia and India will also be in particular focus as the sustainability of the region's recovery is dependent on trade flows picking up.

August au Jibun Bank PMI surveys indicate Japan remain in a downturn



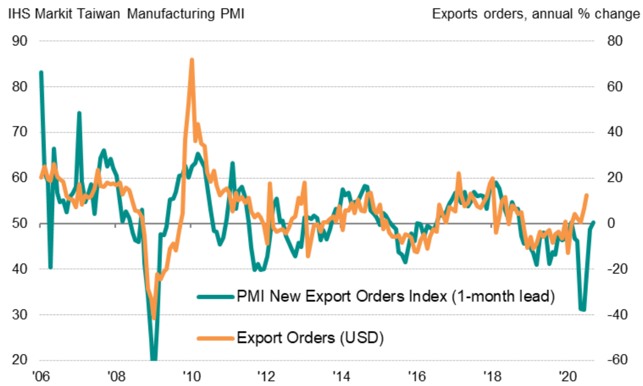
Sources: IHS Markit, au Jibun Bank, Cabinet Office

Caixin PMI surveys signalled accelerated Chinese manufacturing output growth, but the service sector lost momentum



Sources: IHS Markit, Caixin

Taiwan PMI and export growth



Source: IHS Markit, DGBAS

APAC
Special Focus

COVID-19: The Impact of Asia-Pacific Supply Chain Disruptions and Reshoring Initiatives

By Rajiv Biswas
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The COVID-19 pandemic has created tremendous disruption to global and Asia-Pacific supply chains due to the impact of lockdowns in many major industrial economies. China, the EU and the US suffered extended periods of lockdown as authorities tried to control the spread of the pandemic, which resulted in disruption of industrial production, impacting on global supply chains.

The global COVID-19 pandemic has also disrupted industrial production in many other Asian economies, including India, Malaysia, Philippines and Indonesia. Due to these disruptions caused by the global pandemic, companies and governments are reshaping their supply chains for critical raw materials and manufactures to reduce their vulnerability to future supply shocks. A number of Asia-Pacific governments have already announced initiatives for supply chain diversification to reduce vulnerability to future supply chain shocks.

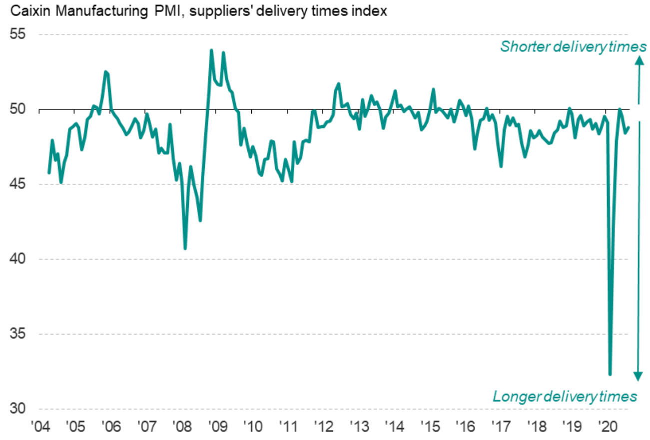
Global lockdowns disrupt manufacturing supply chains

As the COVID-19 pandemic escalated globally during the first half of 2020, it has created severe disruptions of industrial production due to the lockdowns imposed by many of the world's largest industrial nations. In particular, the normal annual shutdown of China's industrial production during the Chinese New Year holiday period, which occurred in late-January, was followed by a national lockdown that extended until mid-February.

This created widespread global shocks to supply chains as exports of industrial materials, intermediate goods and finished products from the world's largest manufacturing hub came to a halt for many weeks. Quarantine restrictions on the movement of workers within China also created further delays to the process of restarting factories once the lockdown was gradually lifted. The industrial sectors of Japan, South Korea and the ASEAN region were impacted by supply chain disruptions due to the shutdown of Chinese industrial production.

China's manufacturing suppliers' delivery times increased sharply during February and March due to the extended shutdown of industrial production, resulting in global supply chain disruptions. However as Chinese factories ramped up output during the second and third quarters of 2020, the situation improved significantly, helping to largely eliminate supply chain disruptions attributable to Chinese output shortages. Indeed, due to the recovery of China's industrial capacity while other major industrial economies in the EU and North America were still facing lockdown conditions, some diversion of supply chain orders has helped to boost new export orders for China's manufacturing sector in recent months.

China manufacturing supplier delivery times

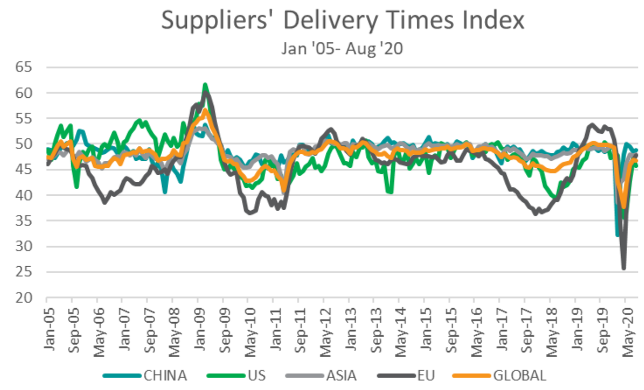


Sources: IHS Markit, Caixin

However, as the pandemic escalated worldwide, many other Asia-Pacific economies have also experienced significant disruptions to industrial production due to their own lockdowns, including India, Malaysia, Indonesia and Vietnam. Lockdowns across Europe and the US also further intensified the global supply chain disruptions during the second quarter of 2020, as inventories plummeted and delivery times increased sharply due to escalating factory shutdowns.

However, the situation has gradually improved in recent months, led by China in the second quarter of 2020, as it was the earliest to ease lockdown conditions. In the US and EU, the rebound in suppliers' delivery times has been more recent, with a significant improvement during June followed by sustained recovery during the third quarter of 2020.

Global Manufacturing PMI



Asian auto manufacturing disruptions

A key industrial sector that was badly hit by the delayed restart of China's manufacturing production in February and March was the automotive sector. Supply chain disruptions due to the extended closure of Chinese plants producing auto parts impacted upon auto production in other countries. For example, Hyundai Motor Co temporarily closed some car production lines in South Korea, and Nissan temporarily closed its operations in Kyushu, Japan, because of supply chain disruptions of auto parts from China. This highlighted supply chain vulnerabilities for Japanese and South Korean companies, as well as raising concerns for the Japanese and South Korean governments about national vulnerability to such supply chain disruptions.

Subsequently, Chinese auto production has rebounded strongly since May 2020. Sales in China's light-vehicle (LV) market, made up of passenger cars and light commercial vehicles, rose by 14.3% y/y to 1,951,045 units in July, according to IHS Markit Automotive.

In India, the national lockdown that began on 25th March resulted in the Indian automotive industry having largely shut down when the lockdown commenced. Large automakers as well as two-wheeler makers temporarily closed their plants for most of April before lockdown conditions started to be gradually eased. Firms manufacturing auto components also had shut down temporarily due to the lockdown. The Society of Indian Automobile Manufacturers (SIAM) have estimated that the daily turnover lost for India's auto manufacturing sector for each day of closure amount to around USD 300 million per day.

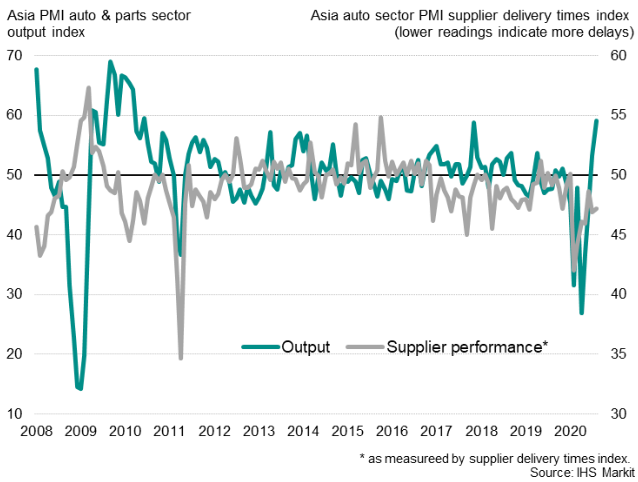
According to IHS Markit Automotive analysis, Indian vehicle plants remained idled for more than a month, with automakers reporting zero production and sales in April. Under the new risk-based pandemic zoning system announced by the Indian government, automakers outside of the red zones were able to restart production in a phased manner.

By July, the situation had improved considerably. Indian automakers dispatched 182,779 passenger vehicles during July – including passenger cars, utility vehicles, and vans – a fall of 3.8% y/y. Although still negative, IHS Markit Automotive assess that the latest vehicle sales figures for July signal that the automotive industry in India continues to move towards normalcy and has benefitted from the government's easing of the lockdown restrictions, pent-up demand, and a recovery in domestic consumption.

Overall, the pandemic and severe lockdown conditions have resulted in an overall decline of Indian auto production in the first seven months of 2020 by around 43% y/y.

Despite the recent rebound in auto sales, the Indian auto manufacturing sector will record a severe contraction in output for calendar year 2020. India's auto manufacturing industry had already experienced severe conditions in 2019, with a 12.7% y/y decline in passenger vehicle sales, while commercial vehicle sales were down by 15.0% y/y.

Asia auto sector output and supplier performance



* as measureed by supplier delivery times index.
Source: IHS Markit

Electronics sector disruptions

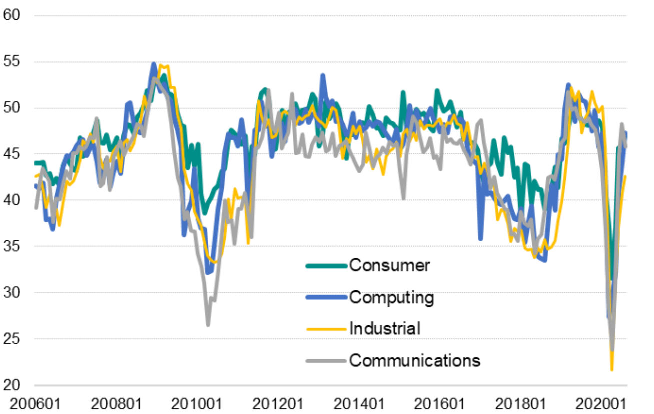
The electronics manufacturing sector is an important part of the manufacturing export sector for many East Asian economies, including China, South Korea, Taiwan, Malaysia, Singapore, Philippines, Thailand and Vietnam. However, the electronics supply chain is highly integrated across different economies, with China being an important supplier of intermediate electronics parts for a number of Southeast Asian electronics sectors. The complete shutdown of Chinese industrial production for a protracted period consequently created significant supply chain disruptions to the electronics manufacturing sector in many Southeast Asian economies during February and March.

As the impact of the pandemic widened in the Asian region during April, the headline IHS Markit Global Electronics PMI fell to 43.3 in April, down from 48.6 in March, to signal a sharp deterioration in business conditions faced by electronics manufacturers. The April reading pointed to the fastest decline since April 2009, with many businesses temporarily closed amid the global COVID-19 outbreak.

Due to the extensive disruption of manufacturing output in many leading electronics manufacturing hubs due to the pandemic, the situation in April reflected severe supply-side problems in electronics supply chains. April survey data pointed to input delivery times lengthening drastically. In fact, the rate at which vendor performance deteriorated in April to set a new survey record. During April, companies widely cited difficulties in obtaining inputs, particularly from the US, Europe and China.

However, since April, there has been a considerable rebound in the global electronics PMI, which rose to 49.7 in August, while the electronics suppliers' delivery times index rose from a low of 25.2 in April to 46.0 by July. A number of Asian economies have reported strong growth in electronics exports in the second and third quarters of 2020, as the global shift towards working from home and ecommerce retailing resulted in surging demand for laptops and smartphones from companies, governments, and households.

IHS Markit Global Electronics PMI, supply delays by product category



Source: IHS Markit

Medical equipment supply disruptions

According to export data from the World Trade Organization (WTO), trade in medical products assessed to be critical and in severe short supply in the COVID-19 crisis totalled about USD 600 billion in 2019, which amounted to around 1.7% of total world trade. Many governments have imposed export restrictions on medical equipment exports during the COVID-19 pandemic, in order to ensure sufficient supply for their domestic healthcare and essential services.

WTO trade data showed that the top three exporters of protective products, which include face masks, hand soap, sanitizer and protective spectacles, were China, Germany and the US, which together accounted for 40% of total world exports of these products. An estimated 17% of total exports of protective products came from China, the top exporter, followed by Germany and the US.

The WTO trade data showed that China supplied 25% world exports of face masks in 2019, and that China, Germany and the US together accounted for around half of world exports of face masks in 2019.

In the Asia-Pacific region, only China and Japan were ranked among the world's top ten exporters of protective products according to the WTO trade data, highlighting supply chain vulnerabilities for medical products in the rest of the Asia-Pacific region, particularly given the large size of population in many other Asian countries such as India and Indonesia.

Consequently, during the pandemic, a number of Asia-Pacific governments have taken industrial policy initiatives to increase domestic production capacity of essential medical equipment. For example, at the beginning of 2020, India was still importing all of its Personal Protective Equipment (PPE) kits, but the Indian government worked with Indian industry to certify 600 domestic manufacturing firms for manufacturing PPE kits. As a result, Indian domestic production of PPE suits reached 500,000 per day by mid-2020, sufficient to permit some exports of PPE kits to other countries. India has also ramped up domestic production of hospital ventilators. The Singapore government has also worked with Singapore's manufacturing industry to ramp up domestic production capacity in Singapore for manufacturing medical face masks during 2020 as a result of surging pandemic-related demand.

Commodities supply disruptions

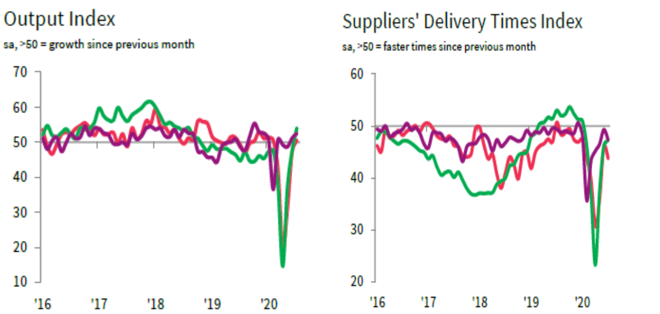
Amongst mineral commodities, disruptions to global iron ore production and exports due to the COVID-19 pandemic have helped to push iron ore prices up to around USD 130 per ton by the end of August and early September, as the escalating COVID-19 pandemic disrupted iron ore production in various key iron ore exporters, notably Brazil.

In Brazil, production at some key iron ore mines has been temporarily impacted by COVID-19 cases. However these supply disruptions have eased, with IHS Markit's Commodities at Sea shipments data showing that Brazil iron ore and pellet shipments during August 2020 were at 36.4 million tons (mt) (30-day pace of 35.2 mt) compared with 27.8 mt (30-Day basis) a month before and around 22 mt per month during the first quarter of 2020.

While surging iron ore prices have also been helped by the recovery in Chinese demand for steel, the impact of rising Chinese demand on prices had been mitigated by weakening steel demand in other key steel markets, notably the US and EU, as lockdowns hit industrial raw materials demand in the second quarter of 2020. However, with lockdowns rolled back in the EU and US since June, rebounding industrial production has added to global steel demand.

IHS Markit Steel Users PMI

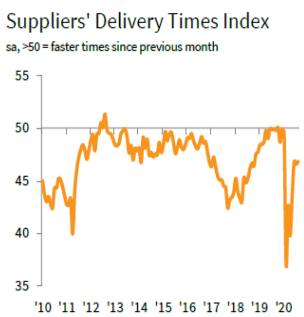
Europe / USA / Asia



Source: IHS Markit.

The pandemic also led to a further sharp decline in supplier performance at copper users. Two of the world's largest exporters of copper, Chile and Peru, have experienced supply disruptions due to the impact of the COVID-19 pandemic on copper production. Vendors were reportedly impacted by slower freight activity and lockdown measures. Combined with lower input buying, this led to a steeper drop in inventories of raw materials items. Stocks of finished goods also fell solidly due to slower production. The IHS Markit Copper Users PMI for July reflected continued supply chain difficulties for vendors, although the extent of the delays has moderated significantly since May.

IHS Markit Copper PMI



COVID-19: reshaping supply chains

The protracted disruption of industrial production in China during early 2020 has further intensified pressures on companies to diversify their supply chains to reduce vulnerability to China. This process of diversification of manufacturing production away from China has already been underway over the past decade, initially driven by rapidly rising manufacturing wage costs in coastal provinces of China. The escalating US-China trade war since 2018 has further intensified this process of supply chain diversification, as firms shifted some production of manufacturing exports for the US market away from mainland China in order to mitigate the impact of US tariff measures. The COVID-19 pandemic has become a further driver for this supply chain diversification process.

Due to the COVID-19 pandemic, governments in many countries worldwide are responding to vulnerabilities exposed in their supply chains for critical medical equipment as well as key pharmaceutical products. The disruption to production of key medical equipment in China, which is a leading global supplier of many critical products such as surgical masks, respirator masks and protective clothing, as well as surging global demand, have highlighted supply chain vulnerabilities. In response, governments in some countries have taken emergency measures to establish domestic manufacturing capacity for critical equipment, as well as to create or increase domestic production facilities for essential pharmaceutical products.

In order to help reduce supply chain vulnerabilities for Japanese firms, the Japanese government has created a Yen 23.5 billion (USD 220 million) fund in May 2020 to help Japanese companies to diversify their supply chains by increasing their production capacity by either reshoring back to Japan or shifting production to the ASEAN region. This fund was created in response to significant supply chain disruptions for Japanese firms that occurred during the extended manufacturing production shutdown in China in February as a result of the pandemic.

The first round of allocations to companies was announced in July 2020, when the Japanese government approved 57 applications by companies for financial support with supply chain diversification to reshore back to Japan, with another 30 firms receiving assistance to shift supply chains to ASEAN countries. In the second round, 1,670 applications have been made, with the government decision on which companies have been successful expected to be made in October 2020. The second round will also allow applications by firms planning to shift supply chains to India and Bangladesh to be considered for financial assistance.

In early September 2020, the trade ministers of Australia, India and Japan agreed on a new trilateral initiative to establish more resilient supply chains, and government officials have been tasked to work on the details of the initiative which will be launched later in 2020.

The US government has also signaled that it is considering incentives to attract US firms to reshore their supply chains back to the US, with various measures under consideration. In June 2020, the US Department of Defense signed an agreement with the US International Development Finance Corporation to provide loans from a USD 100 million funding facility for projects that restore domestic industrial capacity in response to COVID-19. Domestic manufacture of PPE equipment is a high priority due to considerable shortages of PPE equipment in the US during the peak of the pandemic.

US multinationals have already been diversifying their supply chains away from China over the past decade, in response to rising Chinese wage costs as well as the impact of the US punitive tariffs imposed on Chinese products during the US-China trade war. Southeast Asia has been a significant beneficiary from this supply chain diversification process, with significant diversion of US export orders away from China to Vietnam in 2019.

In South Korea, recent trade frictions between Japan and South Korea during 2019 had already triggered some reconfiguration of supply chains for South Korean multinationals, to reduce their vulnerability to Japanese intermediate materials and components. Disruptions to industrial production in China due to the COVID-19 pandemic has put further pressure on South Korean manufacturers to continue the process of diversifying their supply chains over the medium-term.

The South Korean government have passed the amended Act on Support for Reshoring Companies which took effect from March 2020. Under the act, manufacturing firms as well as knowledge-related and IT companies will be eligible for substantial tax breaks for the business activities that are reshored.

Taiwanese firms have also been increasingly diversifying their supply chains away from mainland China, with the US-China trade war having accelerated this process during 2018-19, as Taiwanese firms switched production back to plants in Taiwan or Southeast Asian factories to avoid punitive US tariff measures on mainland Chinese exports to the US. The protracted supply disruptions in mainland China during Q1 2020 have reinforced the importance of diversifying supply chains to reduce vulnerability to excessive concentration of production in mainland China. The latest US technology sanctions against China may also further accelerate this process of supply chain diversification by Taiwan’s manufacturing sector.

Outlook

As lockdowns have been lifted by many countries in the Asia-Pacific, Europe and North America, the supply chain disruptions caused by the pandemic have gradually been easing. However, for many multinationals worldwide, significant supply chain vulnerabilities have been exposed by the protracted disruption of industrial production in China as well as some other major global manufacturing hubs during the COVID-19 lockdowns.

Many governments in the Asia-Pacific region are also giving heightened policy focus to supply chain diversification to reduce national vulnerability to supply chain disruptions for critical manufactures.

This will drive the reshaping of manufacturing supply chains over the medium term, as firms try to reduce their vulnerability to such extreme supply chain disruptions. With US-China trade tensions continuing to escalate, particularly in the technology sector, this is likely to be a further driver for reconfiguring of supply chains for high technology products.

A key beneficiary of the shift in global manufacturing supply chains will be the ASEAN region, with Southeast Asian manufacturing hubs such as Vietnam, Thailand, Indonesia, Myanmar and Philippines likely to benefit from the greater diversification of supply chains. South Asian countries, notably India and Bangladesh, are also expected to be winners from this process of supply chain diversification.