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Modest Macroeconomic Momentum For Asia-Pacific Heading Into The Last Quarter

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SINGAPORE (S&P Global Ratings) Oct. 11, 2016--S&P Global Ratings continue to see a reasonably firm pick-up in Asia-Pacific's macro momentum indicators, according to a report published today titled, "Asia-Pacific Steadies While China Goes Silent."

Retail sales offer the clearest sign of pickup and is currently above trend in most of the region's economies. This stems from rising incomes, which, in turn, is part of the region's evolving growth dynamics, with consumption playing a larger role.

Trade momentum--both exports and imports--is rising as well, although this is in our view due more to prices than volumes as last year's price declines wash out of the data. On the flipside, despite decent growth and relatively easy monetary conditions, there is little or no evidence of price pressure in the region.

Credit growth is broadly contained in the region despite concerns about the effects of record-low interest rates. Given the region can still generate decent domestic demand-led growth with only moderate credit expansion offers some degree of comfort in light of a number of high-profile credit-fueled excess investment episodes.

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"We are broadly unchanged from the previous quarter in our GDP growth forecasts and our views on risks," said Paul Gruenwald, S&P Global Ratings' Asia-Pacific chief economist. "China has been nudged up, but that isn't necessarily a ringing endorsement. We have raised our China GDP growth forecasts by about ¼ percentage point in 2016 and 2017 to 6.6% and 6.4%, respectively, and have kept our 2018 forecast roughly unchanged at 6.1%."

"Our change in China's growth forecasts is not because we think that the performance or growth potential of the economy has improved. Rather, it reflects the view that the authorities' tolerance for the 'extend and pretend' model is greater than we previously thought," Mr. Gruenwald said.

Japan's second-quarter outturn was weaker than we had expected and our 0.7% GDP growth forecast for 2016 looks like a mild stretch at this point. But we are sticking with that number as well as our 1.0% forecast for 2017, while projecting growth of 0.7% for 2018.

India's GST passage gives us additional conviction around our 8%-ish GDP growth forecast over the next few years. The GST passage is arguably the most important structural reform to date by the Modi government, and will improve efficiency, cross-state trade, and tax buoyancy.