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MUFG Bank, Ltd.
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Asia PMIs: August PMIs signal broadening growth across Asia

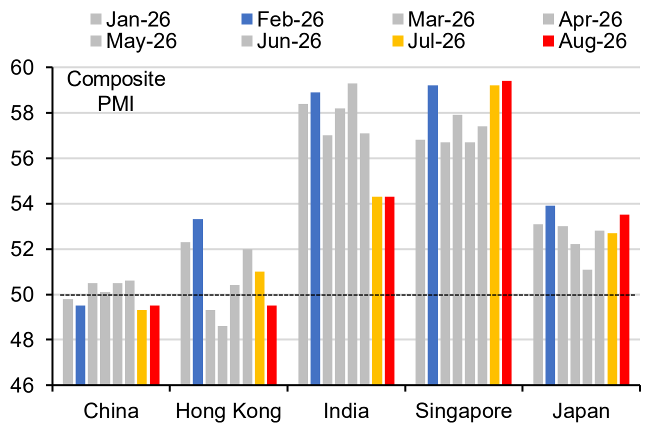
Key Points

- *August PMIs suggest Asia's growth remained resilient and became more broad-based, with AI- and technology-related demand increasingly driving regional manufacturing outperformance.*
- *China's recovery remained uneven, with modest manufacturing stabilization contrasting with weakness in services, construction and domestic demand. Temporary weather-related disruptions in August may provide some scope for a near-term rebound in activity.*
- *August PMIs are supportive for Asian FX, particularly technology- and export-linked currencies such as KRW, TWD, SGD and CNY, however China's still-uneven recovery is likely to continue capping broader Asia FX upside.*

August PMIs highlighted a gradual broadening of growth across the region

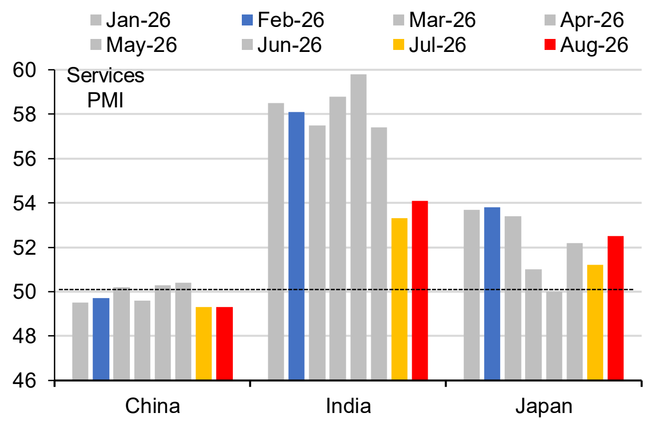
August PMI surveys suggested a gradual broadening of growth across Asia, with composite PMIs remaining firmly in expansionary territory in service-dominated economies such as India, Singapore and Japan, while manufacturing activity strengthened across much of the region. In China, manufacturing activity improved marginally, with the official composite PMI rising to 49.8 and the RatingDog composite PMI advancing to 51.5, alongside a rebound in both new orders and export orders that points to improving underlying demand. Meanwhile, technology-driven economies such as Taiwan and South Korea continued to outperform, underscoring ongoing support from semiconductor and electronics cycle. Taken together, the August surveys suggested Asia's growth momentum remained intact in August, supported by resilient domestic demand, firming external demand and a still-favorable technology cycle.

EXPANSION ACROSS MAJOR ASIAN ECONOMIES



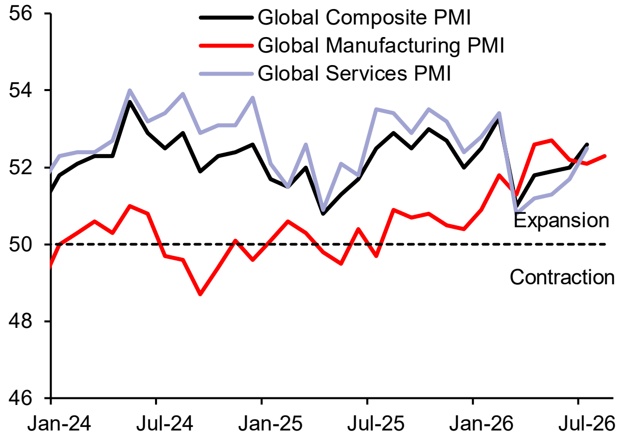
Source: CEIC, Bloomberg, MUFG GMR. Note: For China, NBS PMI is used. For Hong Kong and Singapore, the PMIs refer to "whole economy"

STRONGER SERVICES PMIS IN INDIA AND JAPAN



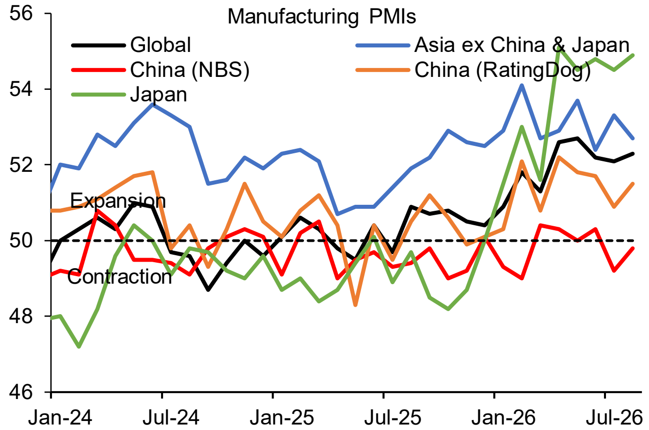
Source: CEIC, Bloomberg, MUFG GMR. Note: For China, NBS PMI is used.

GLOBAL ACTIVITY RECOVERS FROM THE RECENT DOWNTURN IN MARCH CAUSED BY US-IRAN WAR



Source: CEIC, Bloomberg, MUFG GMR

APART FROM CHINA, REST OF ASIA MANUFACTURING PMIs ARE OUTPERFORMING THE GLOBAL



Source: CEIC, Bloomberg, MUFG GMR

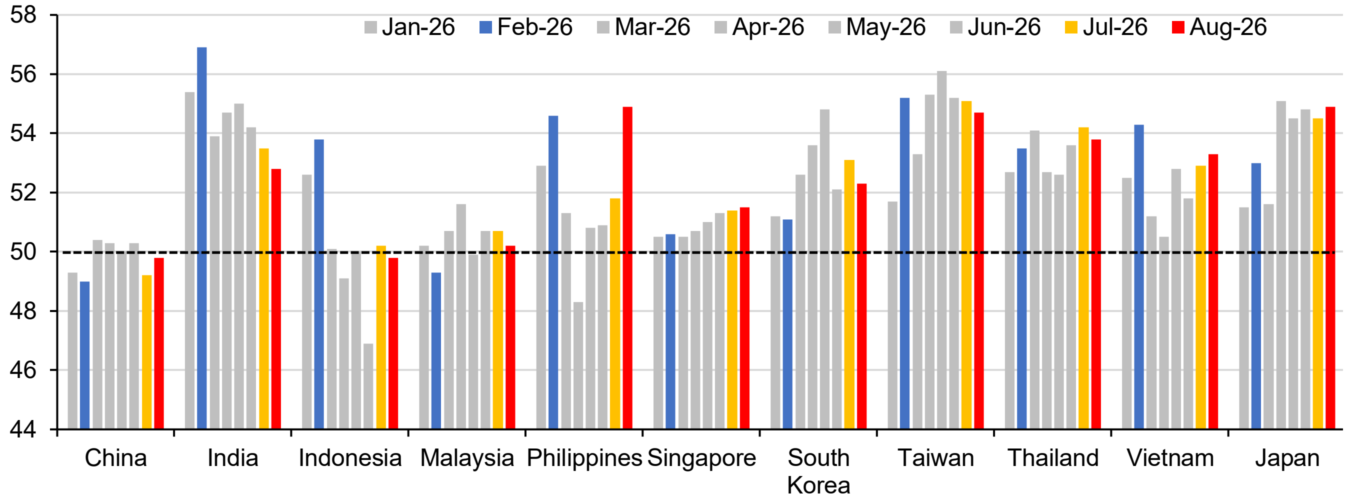
August PMIs highlighted resilient Asian manufacturing beyond China

August manufacturing PMIs pointed to resilient regional manufacturing momentum in Asia. Most Asian economies' manufacturing PMIs remained above the 50-expansion threshold in August, signalling continued strength in regional manufacturing activity. Taiwan, Japan, South Korea, Thailand, the Philippines and India remained among the strongest performers, while Indonesia, Malaysia and China continued to lag. Importantly, the broad-based resilience across much of Asia suggests that regional manufacturing growth is no longer solely dependent on Chinese demand, with domestic demand, supply chain diversification and technology-related exports providing additional support.

AI-driven technology demand/investment remained the key pillar of North Asia's outperformance. Taiwan, South Korea and Japan continued to benefit disproportionately from strong semiconductor, electronics and AI-related supply chains. This reinforces our view that the current regional recovery is increasingly being driven by the global AI investment cycle rather than by traditional China-led manufacturing demand. Robust AI infrastructure spending, data center buildouts and semiconductor investment continue to underpin technology exports across North Asia, positioning the region as one of the primary beneficiaries of the ongoing global AI capex super cycle.

The Philippines manufacturing PMI was a notable upside surprise, jumping to 54.9, the fastest manufacturing expansion in almost a decade. The survey indicated that output rose substantially as new orders increased at a fast pace in six months, supported by new product and model launches, repeat business and a broader improvement in demand conditions.

ASIAN MANUFACTURING PMIs SIGNAL BROAD-BASED EXPANSION

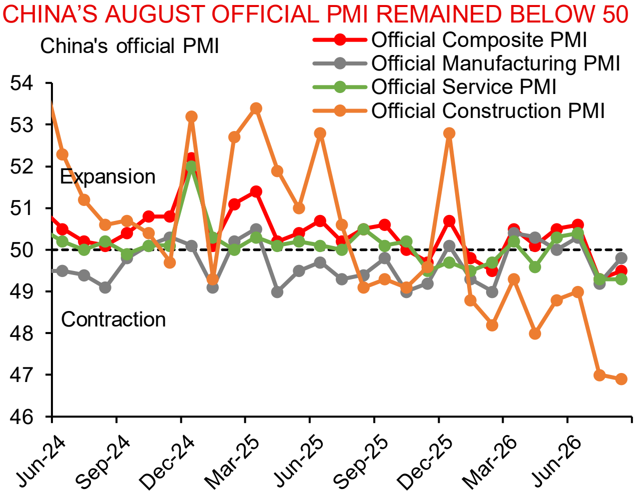


Source: Bloomberg, MUFG GMR. Note: For China, NBS PMI is used.

China NBS PMIs indicated a continued K-shaped growth pattern in August

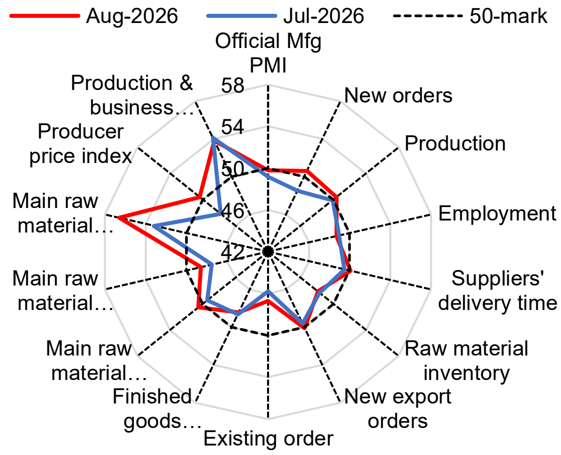
China's official NBS Composite PMI index edged up to 49.5 in August from 49.3 in July, but remained below the 50-threshold, indicating that overall economic activity continued to contract modestly. The improvement was driven entirely by a rebound in manufacturing activity, while non-manufacturing conditions remained weak. Manufacturing PMI increased by 0.6 points, whereas the non-manufacturing PMI was unchanged at 49.0, missing expectations for a second consecutive month. Within non-manufacturing, both the services PMI (49.3) and construction PMI (46.9) were broadly unchanged from July, signalling persistently subdued domestic demand and construction activity. Overall, the August PMI data pointed to a still-soft Chinese economy, with manufacturing showing tentative signs of stabilization but insufficient to offset weakness in services and construction. Note that, adverse weather conditions, including heavy rainfall and typhoons in several regions, likely weighed on activities, particularly in construction and some service sectors, although the nationwide impact appeared less severe than in July.

CHINA'S AUGUST OFFICIAL PMI REMAINED BELOW 50



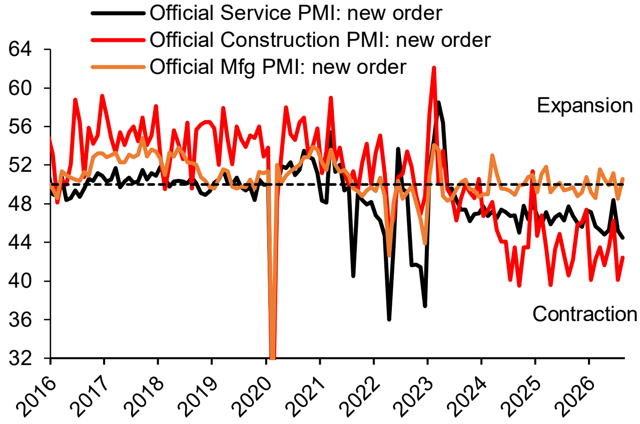
Source: CEIC, Bloomberg, MUFG GMR

BOTH MANUFACTURING NEW ORDERS AND PRODUCTION REBOUNDED TO ABOVE 50



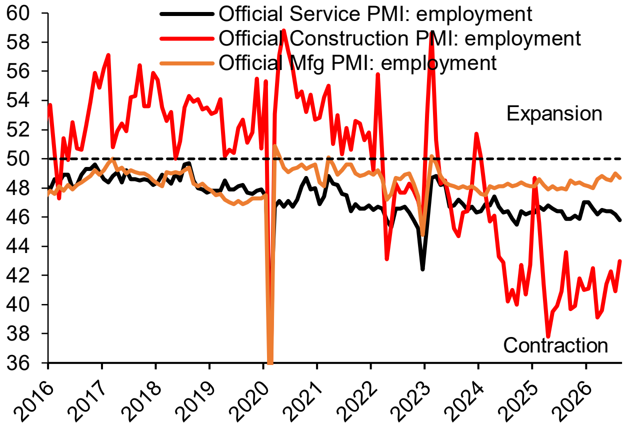
Source: CEIC, Bloomberg, MUFG GMR

CHINA'S DEMAND RECOVERY REMAINS UNEVEN ACROSS SECTORS



Source: CEIC, Bloomberg, MUFG GMR

EMPLOYMENT CHALLENGES PERSIST



Source: CEIC, Bloomberg, MUFG GMR

High-tech industries continued to lead China's manufacturing cycle

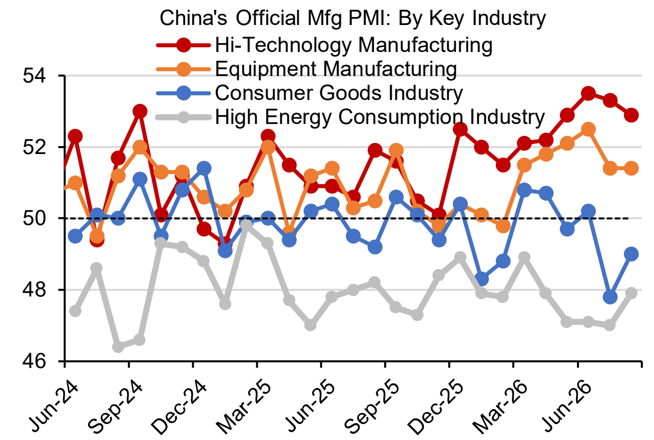
China's official manufacturing PMI edged up to 49.8 in August from 49.2 in July, beating expectations but remaining below the 50-threshold for a second consecutive month, indicating continued albeit moderating contraction in manufacturing activity. The improvement was driven by a rebound in production and demand, with both the new orders and new export orders indices returning to expansion territory. Meanwhile, high-tech (52.9) and equipment manufacturing (51.4) continued to outperform, while the consumer goods sector remained in contraction at 49.0, highlighting persistent softness in domestic demand.

Weak construction PMI reflective of sluggish property sector and adverse weather impact

A reading of 46.9 for construction sector PMI in August meant more construction firms reported a decline in activity than an increase versus the previous month. This suggested that housing construction remained under pressure from the prolonged property downturn as private developers were still reluctant to launch new projects, and local government investment/infrastructure investment has not yet fully offset the weakness in residential construction.

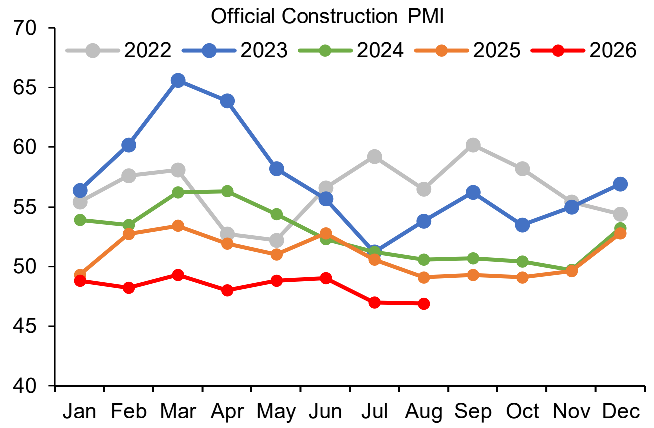
Heavy rain, flooding and typhoons in several regions, also pressured on August economic activity, and NBS specifically attributed some of the weakness to bad weather in those affected regions including construction work progress, material deliveries and etc. Meanwhile, forward-looking PMI business expectation sub-index for the sector was still soft, relative to historical values. New orders sub-index of service sector PMI worsened by 0.7ppts to 44.5, implying no quick turnaround in near future.

TECH-DRIVEN INDUSTRIES CONTINUE TO LEAD CHINA'S MANUFACTURING RECOVERY



Source: CEIC, Bloomberg, MUFG GMR

CHINA'S CONSTRUCTION PMI REMAINS STUCK IN CONTRACTION



Source: CEIC, Bloomberg, MUFG GMR

Soft Services PMI signaled persistent demand weakness due to sluggish labour market and continued property price decline

China's official services PMI was unchanged at 49.3 in August, indicating a continued contraction in services activity. By sector, the business activity indices for industries such as postal services, telecommunications, broadcasting, television and satellite transmission, and internet software and information technology services all exceeded 55, with relevant enterprises maintaining rapid growth in business volume; meanwhile, the indices for wholesale, retail, and capital market services fell below the 50-threshold, indicating weaker business performance. The business activity expectation index for the service sector stood at 55.5, but relatively low compared with historical values, consisting with the 0.7points decline in new orders sub-index of service sector PMI to 44.5.

Large firms outperformed as SMEs continued to lag

The divergence across enterprise sizes remained significant. Large enterprises returned to expansion territory, with PMI rising to 50.6 from 49.5 in July, supported by stronger production and orders. In contrast, medium-sized enterprises edged down to 49.4 from 49.7, remaining slightly below the 50-threshold, while small enterprises improved to 47.9 from 47.4 but stayed firmly in contraction territory. The data suggest that China's manufacturing recovery remained concentrated among larger firms which might benefit more from policy support, whereas smaller businesses continued to face headwinds from weak domestic demand and competitive pressures.

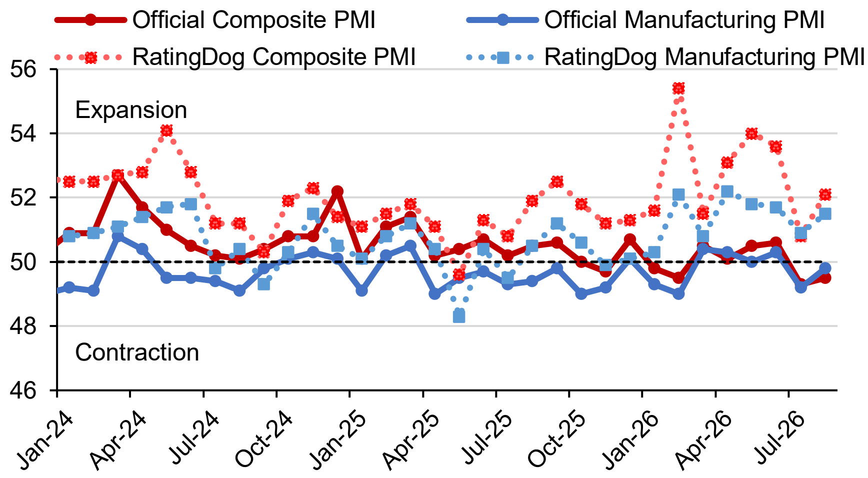
More upbeat RatingDog PMIs suggested that export-oriented private sector firms outperformed the broader economy in August

RatingDog (Caixin) PMIs pointed to a stronger-than-expected improvement in private-sector activity in August. The manufacturing PMI rose to 51.5 from 50.9, while the services PMI increased to 51.4 from 50.4, signalling firmer demand conditions. Key sub-indices, including output, new orders and new export orders, all improved. However, business confidence eased to a seven-month low, and manufacturers resumed cutting selling prices amid intense competition, suggesting that concerns over underlying domestic demand remain.

Overall, the survey indicated that export-oriented and private-sector firms outperformed the broader economy in August, contrasting with the more subdued picture painted by the official NBS PMI. Several factors likely explain the divergence:

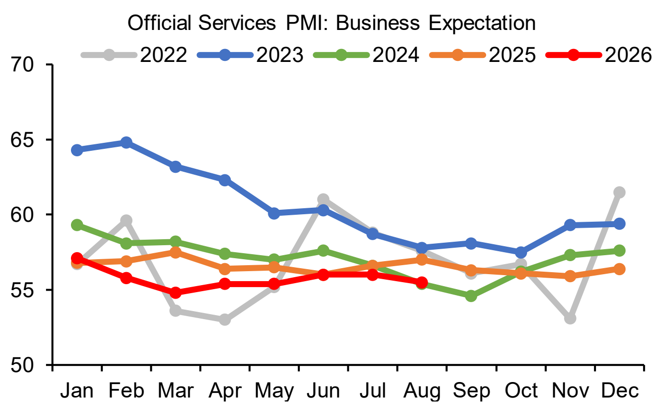
- Greater private-sector and export exposure: RatingDog PMIs have a greater representation of private enterprises, exporters and small and micro sized enterprises, while NBS is more concentrated towards large and state-owned firms.
- More benefitting from resilient external demand: large increase in new export order sub-index of RatingDog PMI implied that export-oriented private manufacturers benefitted from resilient external demand. And firms in construction, property and heavy industry are less represented in the RatingDog surveys.
- Regional effect: participants of RatingDog survey are more concentrated in Guangdong, Jiangsu and Zhejiang regions, where more exposed to global trade demand.

RATINGDOG PMIs ARE OUTPERFORMING THE OFFICIAL PMIs RECENTLY



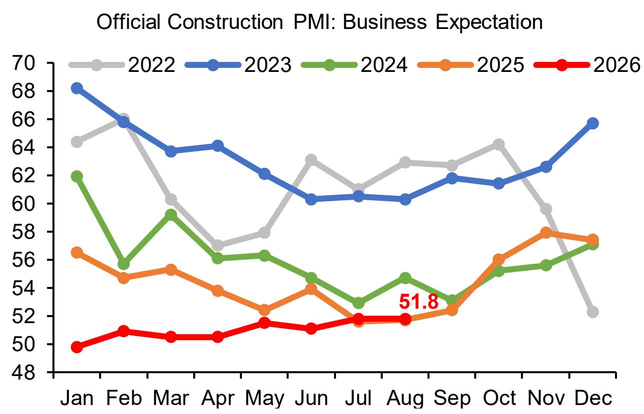
Source: CEIC, Bloomberg, MUFG GMR

SERVICES BUSINESS EXPECTATION REMAINED RELATIVELY SOFT



Source: CEIC, Bloomberg, MUFG GMR

CONSTRUCTION BUSINESS EXPECTATION IMPROVED SLIGHTLY BUT REMAINED RELATIVELY WEAK



Source: CEIC, Bloomberg, MUFG GMR

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