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Asia's factory activity grows but Ukraine crisis cloud outlook

Strong international sanctions against Russia in response to its invasion of Ukraine have jolted markets and boosted oil prices

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Investors monitor stock price movements at a securities company in Shanghai. Credit: AFP Photo

Asia's factories sustained a brisk recovery in February amid signs the coronavirus was having less of an impact on business, but the Ukraine crisis has rapidly emerged as a fresh risk that could disrupt supply chains and worsen cost pressures.

Strong international sanctions against Russia in response to its invasion of Ukraine have jolted markets and boosted oil prices, adding to headaches for Asian economies and businesses already reeling from rising input costs.

Chinese factory indicators, both official and private sector, showed activity remaining in expansionary territory, pointing to resilience in the world's second-largest economy despite cost pressures. Manufacturing activity also expanded in Malaysia, Vietnam and the Philippines as they gradually re-opened their economies even as Omicron infections continued their spread, surveys showed.

But Japan's factory activity growth slowed to a five-month low in February on continued Covid-19 curbs and rising input costs. The expansion in activity also slowed in Taiwan and Indonesia in a sign of the lingering impact of supply chain disruptions caused by the pandemic.

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The surveys indicate the fragile state of Asia's recovery even before the Ukraine crisis.

"The most immediate hit from the crisis will come from rising oil prices, which will deal a severe blow to many Asian economies," said Toru Nishihama, chief economist at Dai-ichi Life Research Institute in Tokyo. "Russia is a big exporter of gas, rare metals and other goods critical for chip production. That means the crisis could aggravate supply chain disruptions, which would be bad news for countries like Japan, South Korea and Taiwan."

China's factory activity returned to growth in February on rising new orders, a private survey showed on Tuesday, although employment remained mired in contraction. Separately, China's official manufacturing Purchasing Manager's Index (PMI) rose to 50.2 in February, remaining above the 50-point mark that separates growth from contraction. It picked up a reading of 50.1 in January and confounded analysts' estimate of a slowdown to 49.9.

Japan's PMI slipped to 52.7 in February from 55.4 in January, marking the slowest expansion since September last year.

"Significant supply chain disruption which dampened output and demand in the latest survey period was attributed to severe material shortages and delivery delays," said Usamah Bhatti, economist IHS Markit, which compiles the survey.

Taiwan's PMI fell to 54.3 from 55.1 in January, while that for Indonesia slipped to 51.2 from 53.7, the surveys showed. The index for Malaysia rose to 50.9 in February from 50.5, while that for Vietnam stood at 54.3, up from 53.7 in January.