Summer 2009

BDO Stoy Hayward

# Manufacturing Monitor

## An inside look at global trends

BDO Stoy Hayward

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## About BDO Stoy Hayward

BDO Stoy Hayward is the award-winning UK Member Firm of BDO International, the world's fifth largest accountancy network, with more than 1,000 offices in over 100 countries.* We operate from 14 offices in the UK with some 3000 partners and staff. We believe that clients want an adviser they can trust, one who understands them and their objectives. One way we do this is by continually building our sector related expertise, and applying this to the way we do business.

Most manufacturing clients are now active internationally. So are we and in regions that are important to manufacturing. Most are involved in acquisitions, public offerings and major capital projects. We have great experience in these areas. Our manufacturing clients have regulatory, reporting and legislative issues. We bring sector expertise and a proactive approach to assist. Our clients want to mitigate and manage tax liabilities globally. Our international specialist teams have the skills to assist.

Manufacturing remains one of the key industries of the UK economy. We are delighted to be able to play an active role in supporting the businesses that operate in this vibrant, changing and challenging sector.

To talk about any issues your manufacturing business may be facing please contact Tom Lawton, Head of Manufacturing at BDO Stoy Hayward, on 0121 352 6200 or 07778 343346 or email tom.lawton@bdo.co.uk

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# Summary

Welcome to the latest edition of our quarterly report on the state of manufacturing, prepared by BDO Stoy Hayward in partnership with EEF, the manufacturers' organisation.

At the time of our last edition the UK economy and manufacturing were feeling the full force of the global recession. Authorities across the world were taking significant actions to prevent the downturn deepening. In the three months since, the activity indicators from across the economy have been varied to say the least. Survey data from across manufacturing suggest that conditions have started to stabilise and that the worst effects of the recession may now be behind us. However, factors that impact on the sector, such as exchange rates and commodity prices, have been more volatile.

Across the wider economy, housing market data appear to point in different directions from month to month, and the picture on lending conditions is hazy at best. On the consumer side, rising unemployment and flat wage growth are likely to keep household spending in check for some time to come. The variability in data over the past quarter means that we are some way from a consensus on when we might see clearer signs of a recovery in economic activity. The broad spread of views on the likely path of GDP growth over the next 18 months highlights the uncertainty facing businesses across the country.

In the short-term, manufacturers will continue to deal with a number of issues – aside from the lack of demand in key markets. The signs so far are that there has been little improvement in either the cost or availability of credit for the sector. Equally important has been the widespread withdrawal of credit insurance, which places additional risks on businesses seeking to fulfil orders. The steps that have been taken by government to top up insurance where it has been reduced has been of some help, but the next step must be to look at credit insurance for export markets.

Looking beyond the immediate concerns, the recovery in activity across the world is likely to be fragile. However, rising budget deficits in both developed and emerging markets will put pressure on governments to withdraw the fiscal stimulus packages that have been put in place. There are clear risks to removing this support before economies are ready to stand on their own two feet. Similarly, past experience suggests a high possibility of monetary policy mistakes.

Clearly there is still work to be done to steer the economy safely out of this economic storm. The question then is what kind of economy does the UK need in order to be competitive in a 21st century global marketplace? There are lessons that policymakers need to learn from the current recession as well as from our over-reliance on a narrow base for growth over the past decade. We should not wait until the recovery has firmly taken root to build a consensus on how we can move towards a more diverse and durable economy that is better equipped to withstand global economic shocks. Manufacturing should be placed at the centre of this diverse and durable economy. We also consider that the Government should establish a sustainable manufacturing strategy to support this key sector, as a matter of urgency.

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# Manufacturing monitor

- Manufacturing output contracted by 5.5 per cent in 2009Q1.
- Input prices lower than a year ago.
- Manufacturing PMIs highest since autumn 2008.
- EEF survey shows firms more optimistic about the future.

## UK manufacturing

**Output.** The sharp downturn in manufacturing output that started at the end of last year continued into the first half of this year. According to official statistics, the pace of decline accelerated. The latest data shows a decline in manufacturing output by 13.1 per cent in the three months to May, compared with the same period a year ago. Engineering output fared considerably worse, contracting by almost 20 per cent over the same period. Metals and motor vehicles were significant contributors to the decline.

**Prices.** Input prices fell in March compared with a year ago. The latest figures show that input price inflation fell by 9.4 per cent in May, the largest fall since November 2001. This was largely driven by lower crude oil prices which were 12 per cent lower than a year ago. The effects were felt further down the supply chain as output inflation slowed in May, although at 1.2 per cent it remained positive. However, the recent upward swing in the price of oil may well start to impact next quarter's movement in prices.

**Average earnings.** EEF's Pay Bulletin showed that manufacturing pay growth continued to trend downwards as the average settlement fell to a record low of 0.8 per cent in the three months to May. Official figures are more volatile as the latest data showed that earnings growth, both across the whole economy and in manufacturing, increased in the three months to April, due to volatility in private sector bonuses. However, at 0.8 per cent and 1.2 per cent respectively, pay growth across the whole economy and in manufacturing is still significantly down on the start of the year.

**Productivity and unit wage costs.** Since manufacturers have cut output significantly but done their utmost to retain skilled workers, it comes as no surprise that productivity has declined. It fell for the first time in more than six years in 2008Q1 and the decline gathered momentum in the first quarter of 2009 after manufacturing productivity fell by 2.4 per cent from -1.6 per cent in 2008Q4. Meanwhile, manufacturing unit wage costs – defined as wage cost per unit of output – grew by 10.1 per cent in the first quarter, reaching double-digit growth for the first time since 1985.

**Jobs.** Despite manufacturers trying to avoid redundancies by adopting strategies such as introducing short-time working and cutting or freezing pay, companies continued to shed labour in the first quarter of the year. Manufacturing workforce jobs were 6.7 per cent lower in 2009Q1 than in the same period a year ago. As manufacturers look to reduce costs further as weak demand weighs on orders, more job cuts in manufacturing are expected.

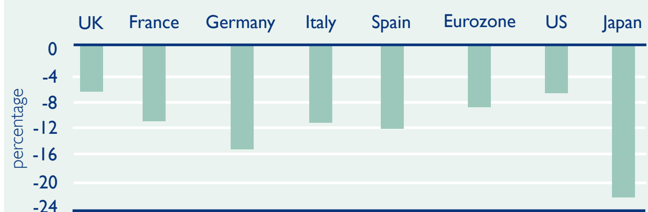
**Investment.** Business investment in manufacturing fell by 4.4 per cent in 2009Q1, compared to the previous quarter. The decline was underpinned by a 49.2 per cent contraction in investment in the vehicles sector. Investment by businesses in the metals sector fell by 5.3 per cent, after growing by 2.2 per cent in 2008Q4.

**Sectors.** Although overall manufacturing declined by 5.5 per cent in the first quarter, the pace of decline in nine of the 21 manufacturing sectors eased. There was some output growth in food and drink, leather, and coke and refining in the first three months of the year. These positive effects were outweighed by significant declines in the transport equipment and electrical equipment sectors which contracted by 23.5 per cent and 14.5 per cent respectively. Further significant declines in output were also reported in the basic metals and mechanical equipment sectors.

## International manufacturing

**Chart 1 Global downturn in manufacturing recession deepens**

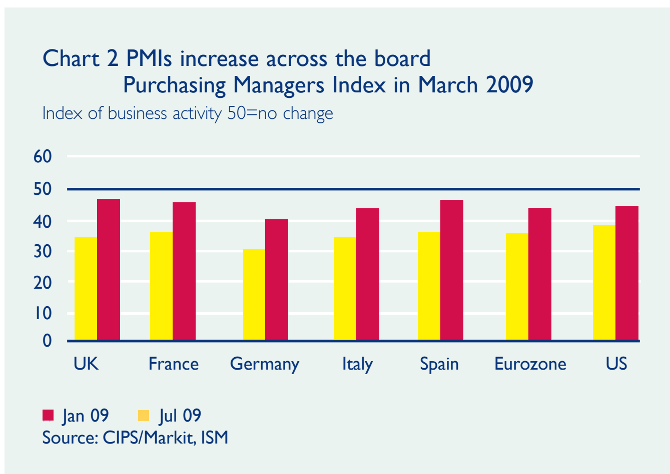
Percentage quarter-on-quarter change in manufacturing output, 2009Q1




Source: OECD, National Statistics

As expected, the downturn in global manufacturing gathered pace in the early months of the year as the global recession deepened. The contraction in manufacturing output accelerated in all the major advanced economies. The largest contraction was felt in Japan, as the pace of decline doubled from 11.3 per cent in 2008Q4 to 22.2 per cent in 2009Q1. The concentration of consumer-facing sectors, such as

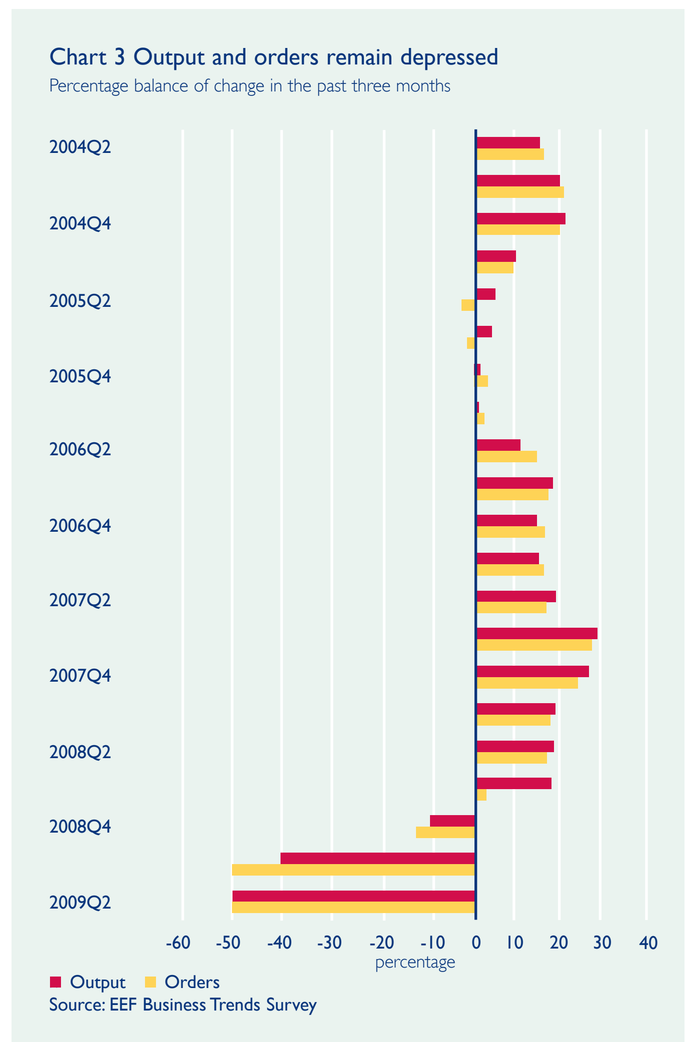
automotive and electronics, has pushed down new orders. A similar deterioration was reported in Germany where output declined by nearly 14 per cent. The decline in these two economies has been particularly marked as growth in the sector is heavily dependent on exports, which have been hit significantly by the fall off in global demand.




Manufacturing activity is still contracting in the major advanced economies, but the pace of decline has eased in recent months. Although the manufacturing PMI figures remained below 50 in June – indicating ongoing contraction in activity – they posted gains across the board.

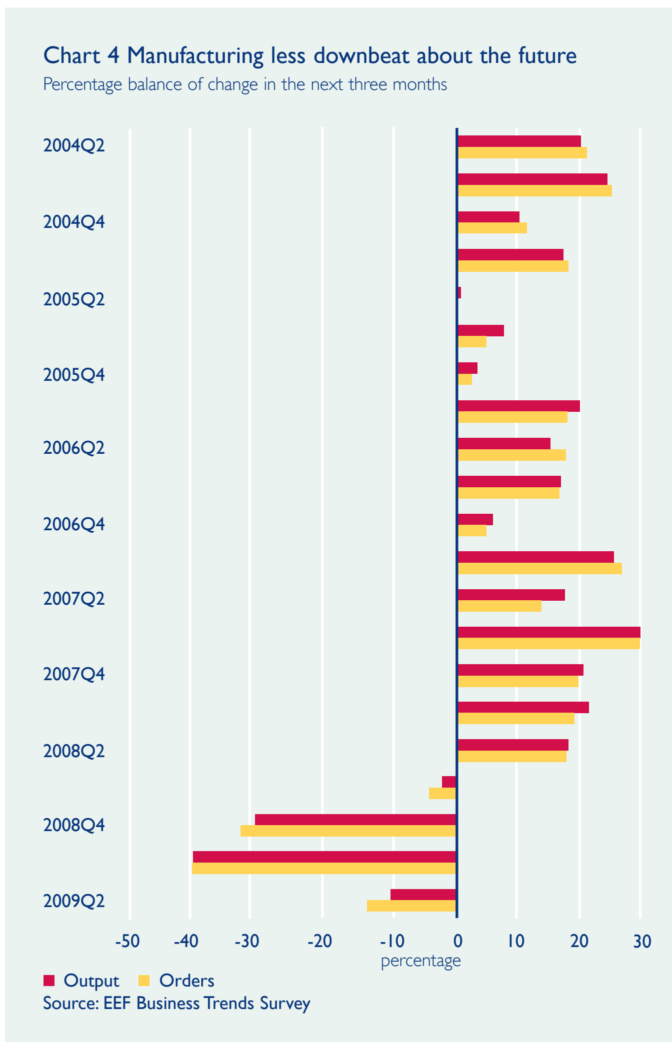
The PMI for the four major eurozone economies – Germany, France, Spain and Italy – all rose to levels seen before the collapse in global demand last autumn. Overall, in the eurozone, the PMI rose to 42.6 from 40.7 in May. This was largely driven by a three point increase in the Italian PMI which climbed to 42.8 – the highest since May 2008. In France the index rose to 45.9, the strongest index in the region. The increase in the largest European economy, Germany, was less marked as it rose from 39.6 to 40.9.

After hitting a record low of 30 in March, the Italian PMI rose to 42.7 in June as the new orders subcomponent increased. The strongest PMI of the major European economies was recorded in the UK, as the headline index climbed to 47. For the first time since March 2008, the output subcomponent rose above 50, indicating that manufacturing output was higher in June than in May. Finally, in the US, the PMI climbed to 44.8, reaching the highest in 10 months.



EEF's 2009Q2 Business Trends Survey showed that the weak global economy continued to weigh on trading conditions. Both output and orders balances remained in double-digit negative territory for the third consecutive quarter. The output balance fell to 52 per cent while the new orders balance stabilised and improved slightly to 52 per cent. Continued weakness in global trade and exchange rate volatility continued to blunt the potential boost from a weaker pound. As a result, export orders remained unchanged. However, the domestic orders balance showed a modest improvement to 50 per cent. Although rising from a very low base, output balances in both basic metals and motor vehicles increased for the first time in six months. The improvement suggests that these two sectors are working through the inventory cycle and that the worst of the fall in output may now be behind them.

Looking to the next three months, the proportion of companies expecting trading conditions to improve has risen from last quarter's lows. A balance of 13 per cent of companies expect further output cuts next quarter, compared with 41 per cent in the first quarter. Companies are also predicating that the pace of decline in new orders from both domestic and overseas customers will ease in the next three months. However, given the large degree of uncertainty around the economic outlook, firms are still reluctant to invest as the capital expenditure balance remained at the lowest level in the history of the series at 45 per cent.



## Table 1 Latest manufacturing surveys

Percentage balance of change (except where stated)

| | CBI | | Bank of England | | BCC | | PMI |
|---|---|---|---|---|---|---|---|
| | Output past three months | Output next three months | Domestic sales score (range -5 to +5) | Export sales score (range -5 to +5) | Total sales | Total orders | Index of activity |
| 2007Q1 | +6 | +18 | 2 | 3 | 47 | 43 | 54.3 |
| 2007Q2 | +3 | +10 | 2 | 3 | 61 | 55 | 54.4 |
| 2007Q3 | +1 | +10 | 2 | 3 | 68 | 56 | 55.7 |
| 2007Q4 | +8 | +9 | 2 | 3 | 54 | 46 | 53.4 |
| 2008Q1 | -3 | 0 | 1 | 3 | 28 | 24 | 51.1 |
| 2008Q2 | -1 | -7 | 0 | 3 | 25 | 17 | 48.7 |
| 2008Q3 | -29 | -31 | 0 | 2 | -10 | -21 | 43.5 |
| 2008Q4 | -33 | -43 | -2 | 1 | -50 | -67 | 36.7 |
| 2009Q1 | -53 | -32 | -3 | -1 | -82 | -80 | 36.7 |
| 2009Q2 | - | - | - | - | -53 | -45 | 45.1 |

Source: CBI Industrial Trends Survey, Bank of England, British Chambers of Commerce (BCC) Quarterly Economic Survey and CIPS/Markit Purchasing Managers Index (PMI)

Private sector surveys across manufacturing paint a consistent picture. Record low output balances were also reported in the CBI's latest Industrial Trends Survey, where the balance fell to 53 per cent – the lowest since records began in 1975. In line with EEF's survey results, the Bank of England's Agents reported that the rate of decline in activity had begun to ease. In addition, the Agents' report highlighted significantly weak demand in the automotive sector and that growth in the aerospace and defence sectors was starting to ease. Stronger balances were also reported in the BCC's Quarterly Economic Survey, where both total manufacturing sales and orders balances improved in 2009Q2. The 35 point increase in the total orders balance to 45 per cent was particularly marked.

Although the manufacturing PMI remained below 50 in 2009Q2, indicating a contraction in activity, it increased significantly from the previous quarter. As other private surveys have reported, this indicates a deceleration in the pace of the decline in activity. The latest figures showed that the PMI rose to 47.0, the highest in more than a year. Encouragingly, the output balance rose above 50 for the first time since March 2008, although this is coming back from very low levels.

Other surveys also pointed to more optimistic conditions for the future. The CBI Industrial Trends Survey showed that, for the first time in seven quarters, business sentiment fell at a slower rate as the forward-looking output balance rose to 32 per cent from 43 per cent in 2008Q4.

Both manufacturing profitability confidence and turnover confidence rose 40 points in 2009Q2, according to the latest BCC survey. The latter turned positive for the first time since 2008Q3.

# Economic environment

## UK developments

- Largest contraction in GDP in more than 50 years in 2009Q1.
- Household spending to decline further in the coming months.
- Business investment intentions remain at record lows.
- UK trade unlikely to pick up until 2010.
- Clear, credible plan needed for correcting soaring budget.

Table 2 Key UK economic forecasts
Annual percentage change

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| GDP | 0.7 | -4.1 | 0.1 |
| Private consumption | 1.4 | -3.8 | -1.1 |
| Investment | -3.1 | -11.4 | -2.9 |
| Government spending | 3.4 | 2.7 | 0.8 |
| Headline inflation | 4.0 | -1.2 | 1.1 |

Source: Oxford Economics and EEF

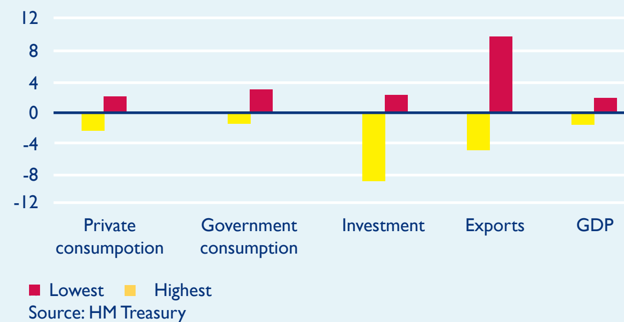
## UK economic overview

The latest figures from National Statistics show that the contraction in the UK economy in the first quarter was greater than first thought. GDP fell by 2.4 per cent, the fastest rate in more than 50 years. However, economic indicators in the past few months have been mixed, to say the least. Speculation on the timing and the strength of the recovery has been similarly varied, with some commentators expecting to see a significant easing in the pace of contraction in the second quarter and others predicting a double-dip in the economy.

This is illustrated by the enormous variation in forecasts for growth in 2010. HM Treasury collates the views of city and independent forecasters on a monthly basis. The latest set of figures shows growth forecasts ranging from a gloomy 1.3 per cent to a rather optimistic 2 per cent (see chart 6). There are clearly a number of very wide-ranging uncertainties – from stabilisation in the financial system and the policy responses of governments and central banks to the pace of recovery in export markets and a rebound in consumer confidence.

In the UK, the Bank of England acted swiftly to lower interest rates and to get credit flowing again with its asset purchase programme. On the fiscal side, the Government's stimulus package has been in place since last autumn. The key risks are

Chart 5 Growth outlook varies widely
Percentage change on a year ago, 2010

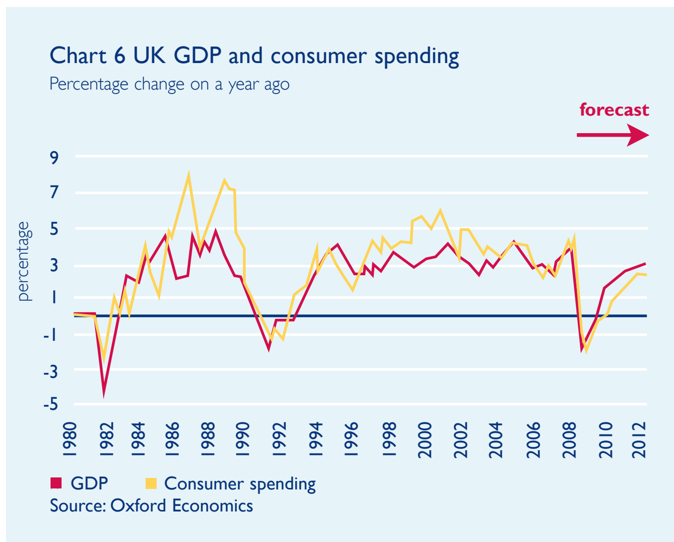



Source: HM Treasury

that these supporting measures will be withdrawn before the green shoots of recovery have taken root. The political battle lines are now being drawn in the run up to an election, which will most likely take place next year. The debate on tax and spending is set to intensify in the coming months, as will the pressure to claw back the support measures that have been put in place.

In this edition of Manufacturing Monitor we look at how some of the components of growth are likely to evolve over the coming year and what they will mean for the timing of an upturn in the economy. Overall, we expect modest growth to return in the first three months of next year, but the recovery will only start to gain momentum in the second half of the year.

## Consumer spending




Consumer spending, the biggest component of UK GDP, fell by 1.3 per cent in the first quarter – the largest decline since 1980. Retail sales, which had been holding up at the beginning of the year, have gone into reverse according to both the official data and private sector surveys. Growth in households' disposable income has declined as wage growth has flatlined since the beginning of the year, and low levels of consumer confidence and credit restrictions have held down retail spending. These factors are unlikely to improve in the short term. We therefore expect consumer spending to continue to drag on GDP in the second quarter. Our forecasts suggest that spending will fall at the faster rate of 1.6 per cent.

Looking further ahead, unemployment looks set to rise well into 2010. Uncertainty about the economy and the labour market outlook will continue to weigh on consumer confidence and will also push up households' precautionary savings. Although trends in the housing market do not determine households' disposable income, they do affect consumer confidence. In recent months house prices have shown signs of stabilising, but it remains to be seen whether recovery in house prices is sustainable, as low mortgage availability and rising unemployment will continue to depress the housing market.

In addition, stimulus measures from government, such as the VAT reduction and the car scrappage scheme, will come to an end next year and tax increases on higher earners are planned in 2011. Combined, these could dampen an eventual recovery in household spending.

## Business investment

As demand collapsed last autumn and firms coped with their inventory overhang, business investment fell sharply. The latest official figures show that business investment fell by 7.6 per cent in the first three months of the year compared to the previous quarter. Lack of confidence and significant pressure on cash flow have led many companies to scale back investment plans.

Evidence suggests that retained profits and group finance are most commonly used to finance capital investment in manufacturing. EEF's credit conditions survey has shown that parent companies have been tightening the purse strings in recent months, delaying investment plans. In addition, difficulties surrounding credit availability will have hindered investment for some companies.

Over the next 12 months the demand outlook will be a critical factor in companies' confidence to invest. For some, the dust will need to settle on the global recession before they look strategically at future market opportunities and where investment will be needed to exploit those in the best way possible. We do not therefore envisage a recovery in manufacturing investment until 2011.

## Trade

The slump in global demand has hit UK exporters hard. Despite the weak pound making UK exports relatively cheaper, UK export volumes declined by 6.9 per cent in the first quarter, compared to 2008Q4. Demand from the UK's main export markets – the eurozone and the US – has been weak as their economies contracted by 2.5 per cent and 1.5 per cent respectively in 2009Q1. Pressures on business and household budgets as well as higher import prices underpinned a 6.7 per cent decline in import volumes in 2009Q1.

A raft of positive indicators pointing to signs of 'green shoots' have pushed sterling higher against both the dollar and the euro. Last month sterling appreciated by 6 per cent against the dollar and by 3 per cent against the euro. We expect the pound to continue to strengthen gradually over the next 12 months. This should provide a boost to exporters, who should remain relatively competitive when demand picks up. However, the recent volatility in the exchange rate brings its own problems. A recent EEF survey showed that the uncertainty it brings could pose a challenge to companies as they prepare for the upturn. Nevertheless, as the economy comes out of recession, we expect the pace of decline in both exports and imports to ease before growing again in 2010.

## Government spending

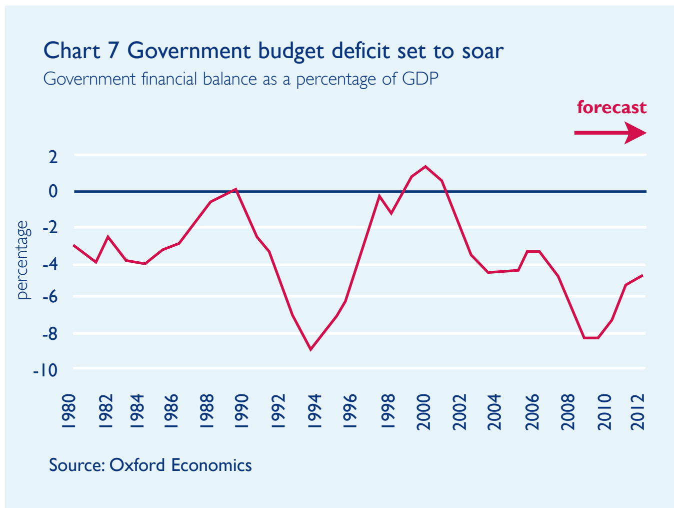



Chart 7 Government budget deficit set to soar

Government financial balance as a percentage of GDP

Source: Oxford Economics

In addition to the increase in spending from greater social security payments and debt interest commitments, last autumn the UK Government announced an economic package of increased spending. At the same time, the Government's tax receipts have been falling as receipts from income and corporation tax decline. As a result, public finances have deteriorated significantly and the Chancellor predicts that the UK budget deficit will reach £175m next year (five times the average of the last five years). Other forecasts, including that of the European Commission, have deemed this too optimistic.

A month after April's Budget forecast ballooning government borrowing, S&P downgraded the UK's sovereign debt rating from stable to negative. The downgrade reflected S&P's view that the timing and strength of a recovery in the UK is still very uncertain and that the next government needs to develop a credible plan to get the public finances in order. Losing the AAA rating would trigger a loss in confidence in the UK economy. Already, interest rates on government bonds are rising, dragging fixed mortgage rates higher and putting pressure on already strained households. The OECD recently added its voice to the call for the UK to put forward measures to get the public finances back on track. While the boom in government spending, particularly in areas such as health and education, has made a positive contribution to growth in recent years, this cannot be expected to continue over the next spending review period from 2011.

## International economy

- Activity indicators show pace of decline slowing.
- OECD revised up US and China forecast.
- Commodity prices have picked up.
- Debate grows on shape of recovery.

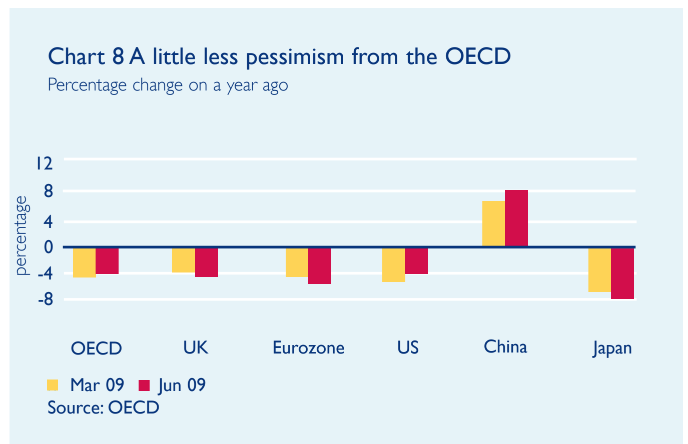



Chart 8 A little less pessimism from the OECD

Percentage change on a year ago

Source: OECD

Similar to the UK, other developed economies have started to see improvement in activity indicators and confidence levels. Importantly, these are only improving from historically low levels and are now at levels we might expect during a 'normal' recession. In emerging economies, however, the news has been somewhat better. The stimulus packages that have been implemented have provided something of a boost to domestic consumption and have, to some extent, offset the impact of the collapse in external demand. Whether or not this is a long-term shift has yet to be seen. Many emerging markets will need to rebalance their economies and depend less on consumers in the developed world.

For this year at least the OECD has become a little more optimistic about growth prospects in emerging markets and last quarter upped it forecast for China. Its view of prospects in the US economy are also somewhat less downbeat than they were last quarter, with the contraction now expected to be a less marked 2.8 per cent. In contrast, the forecasts for other developed economies have become gloomier. In the eurozone the OECD highlights the different combinations of factors, from bursting housing bubbles, sharp falls in exports and damaged financial sectors along with very weak labour market prospects, that will lead the recession to drag on.

However, like the UK, these forecasts are fraught with uncertainties. Debate about the shape of the recovery in key

economies rages on – will it be U-, V- or W-shaped? The upturn in the stock cycle could well provide a much-needed boost to activity in the short term, but if demand remains weak it may fail to pick up the slack once this process comes to an end. This could lead to an undesirable double-dip or W-shaped recovery. Given the work that remains to bring stability to the financial sector and the ongoing pressure on households, the road to recovery across the developed world is set to be a long and uncertain one.

**Table 3 Key international forecasts**

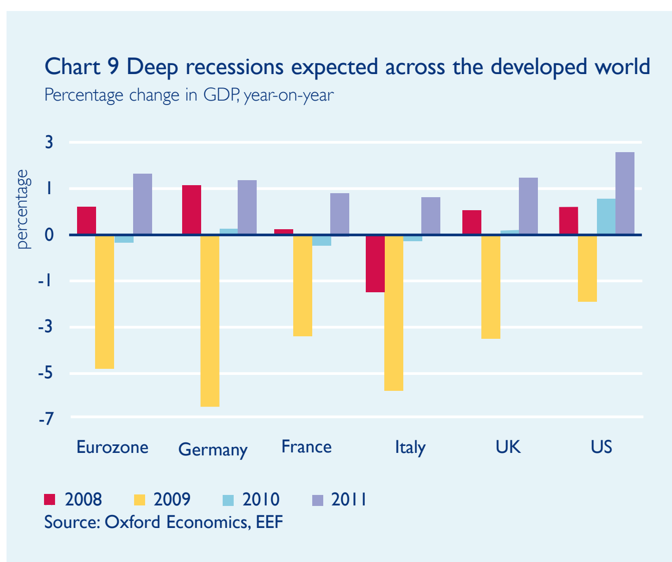
| | 2008 | 2009 | 2010 |
|---|---|---|---|
| Exchange rate €/£ | 1.26 | 1.13 | 1.17 |
| Exchange rate $/£ | 1.85 | 1.53 | 1.64 |
| Oil price $ | 97.7 | 59.9 | 73.6 |
| World trade index (per cent change) | 3.5 | -13.0 | 5.5 |

Source: Oxford Economics

## Advanced economies

### GDP growth

**Chart 9 Deep recessions expected across the developed world**
Percentage change in GDP, year-on-year




Source: Oxford Economics, EEF

Over the past quarter there have been clear signs that the pace of contraction across global economies is beginning to slow. Surveys have shown that business and consumer confidence in particular have begun to turn around, but many still show signs of contracting activity or weak sentiment.

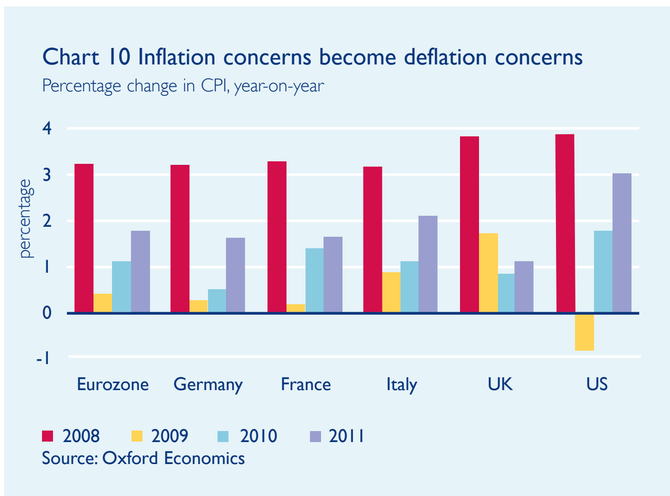
It is also clear that much of the recent improvement in the manufacturing sector relates to the end of a short, sharp phase of destocking. While this could provide short-term support for growth, there is a danger that final demand will be unable to take up the slack once this process comes to an end.

In the US, output fell by 1.5 per cent in the first quarter of 2009. A slower decline in fixed investment, a reduced rate of destocking, and the government stimulus spending should allow the economy to rebound in 2010. After falling by 3.0 per cent this year, US GDP should grow by 1.7 per cent next year.

Official figures show that the UK economy contracted by a sharp 2.4 per cent in the first quarter – the biggest drop since 1958. Output is expected to fall by 4.1 per cent through 2009 and recover weakly to grow by just 0.1 per cent in 2010.

The outlook in Europe worsened in the first quarter as eurozone output fell by 2.5 per cent. Despite being hit hard by a 15.5 per cent year-on-year fall in exports and a 10.4 per cent annual decline in investment, there are some glimmers of optimism in forward-looking surveys. Still, output in 2009 is forecast to fall by 4.7 per cent before returning to meagre quarter-on-quarter growth in 2010.

## Inflation




Consumer price inflation continues to fall as the global recession remains entrenched. Fears of a surge in inflation, as expressed by some commentators recently, look overstated. Even with the Federal Reserve and the Bank of England taking unconventional measures, money supply growth remains modest. Inflationary expectations and wage growth have also remained subdued – and even turned negative in some countries – as labour market pressures have yet to ease. However, a recent surge in commodity prices led by oil hitting $70 per barrel could pose a risk to any nascent recovery.

**Table 4 Emerging market forecasts**
Percentage change in GDP

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| China | 8.9 | 6.5 | 8.8 |
| India | 7.5 | 5.0 | 6.5 |
| Malaysia | 4.6 | -4.2 | 2.5 |
| Thailand | 2.6 | -5.9 | 2.0 |
| Brazil | 5.1 | -1.5 | 3.8 |
| Turkey | 1.1 | -5.2 | 3.6 |
| Russia | 5.6 | -7.6 | 0.4 |
| Poland | 4.9 | -0.5 | 1.2 |
| Indonesia | 6.1 | 2.5 | 4.0 |

Source: Oxford Economics

In the US, annual consumer price inflation was just 0.1 per cent in May and is set to fall by 0.6 per cent this year before rising with the economy to 1.7 per cent in 2010. Initial estimates suggest that consumer price inflation in the eurozone fell by 0.1 per cent in June. Inflation in the eurozone is forecast to increase by only 0.2 per cent in 2009 before picking up to just 1.0 per cent in 2010. CPI inflation in the UK will continue to fall below the Bank of England's target rate of 2 per cent in June and remain there this year and next. A weak economic recovery will mean that consumer prices will grow by 1.8 per cent in 2009 and just 0.4 per cent in 2010.

## Emerging economies

China, India and Indonesia remain the only countries for which positive growth is forecast this year. Growth in China's central, western and north eastern regions continues – Anhui registered growth of 11.6 per cent and Sichuan 10.8 per cent. However, according to the National Bureau of Statistics, growth in many of the nation's formerly booming coastal areas is some way from the rates recorded in recent years. Annualised GDP growth in Guangdong province sank to 5.6 per cent in the first quarter of this year, the lowest level in 20 years.

Asia has not escaped the slump in global demand. China's exports were down 26.4 per cent in May, the seventh consecutive month of decline. Indonesia's exports in April also contracted and were down 22.5 per cent from the previous year. While emerging Asia remains heavily reliant on exports, it is consuming an increasing amount of its own production. In 2001, private consumption in emerging Asia was a quarter of the US level. In 2008 it had risen to 38 per cent. The stimulus packages put in place by countries appear to be having some effect and continue to be announced across Asia.

Despite the fall in external demand, Chinese industrial production rose by almost 10 per cent in May – a result of direct government spending through stimulus packages. The Thai government has sought Senate approval for plans to finance part of a 1.43trn baht ($61.2bn) stimulus package. Known as 'Strong Thailand 2012', the package will cover more than 6,000 development projects. Thailand's Finance Minister said that the program could lift economic growth by 1.5 per cent per year.

In India, manufacturing activity also continues to grow. May's PMI came in at 55.7, slightly higher than the 53.3 seen in April. The improved figures come from the new orders index, again carried by domestic demand as exports continue to fall. Industrial production was up 1.4 per cent year-on-year in April.

The recent election result, which was well received, is likely to increase capital flows to India, including foreign direct investment.

In Eastern Europe, the outlook remains less positive. The central bank of Poland cut interest rates to an all time low of 3.5 per cent in June, down 250 basis points since last November. The PMI remained well into contractionary territory at 42.5 in May, up very slightly from April's figure.

## BRICs summit

On 16 June, the first meeting of the heads of state of Brazil, Russia, India and China took place. The BRIC countries are four of the world's largest emerging economies, representing 40 per cent of the world's population, 15 per cent of global GDP and average annual economic growth of 10.7 per cent from 2006 to 2008. Goldman Sachs, which created the acronym BRIC, say that they have contributed one-third of the world's growth since 2000.

The group discussed topics such as reforming the IMF, their demand for more say in global policymaking and, in the case of all but India, a plan to switch some of their foreign-currency reserves from dollars into IMF bonds. However, the meeting did not conclude with any firm decisions or concrete resolutions; they pledged to work together on political and economic issues such as energy and food security and set out plans to cooperate on policies for tackling the global economic crisis. Cooperation in science and education would promote 'fundamental research and the development of advanced technologies.'

The lack of firm decisions perhaps comes as no surprise. The countries involved are very different to one another. First of all they are competing for influence in different geographical areas, eg Russia and China in Central Asia, India and China in the Indian Ocean. They also have differing views on topics – for example, India is sceptical of the Doha trade round whilst China is a supporter. A research fellow at Egmont Royal Institute for International Relations said 'The term BRIC wrongly implies that they are actually a bloc in any concrete way. They are more of an informal group within the international forums who meet sometimes to exchange their points of view and who, when they reach common agreement, will defend their position. But while they have many things that unite them, there is also a lot that divides them.'

The Shanghai Co-operation Organisation (SCO) also met at the same time in Yekaterinburg. The SCO comprises Russia, China and the Central Asian states of Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. Iran, Pakistan, India and Mongolia have observer status and the President of Afghanistan attended the summit as a guest. China has pledged $10bn in loans to Central Asian countries struggling in the global economic crisis, adding financial strength to its primary role in the SCO. Russia and China regard the organisation as a means to restrict US influence in their Central Asian backyard. At the ninth summit, the presidents of Russia and China signed an agreement for energy cooperation – Russian energy giant Gazprom will receive financial support from China to deliver fuel supplies.

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