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Divergent inflation is an unprecedented setup for Asia

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*“U.S. employers continue to complain of widespread labor shortages, **with twice as many available positions as there are unemployed Americans**, according to the Labor Department. As a result, employers are having to go to greater lengths to attract and keep workers of all ages.”*

Washington Post, May 2022



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Labour shortage threatens Australia's post-pandemic resurgence

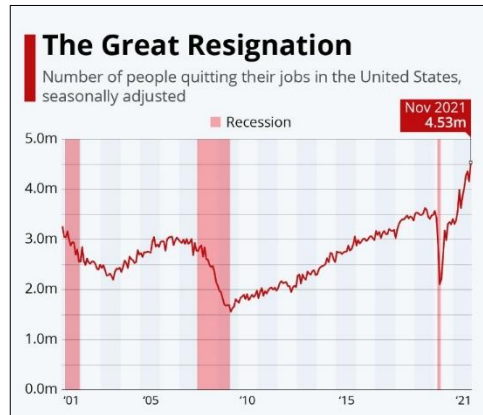
Unemployment has hit a near 50-year low but companies are struggling to find workers



Source: The Washington Post, FT, SU Independent, The Western Australian, Los Angeles Times as of 5 May 2022, 19 July 2022 and 9 October 2021 (for right image), 30 April 2021 (for left image), 4 August 2022 and 11 May 2022, respectively.

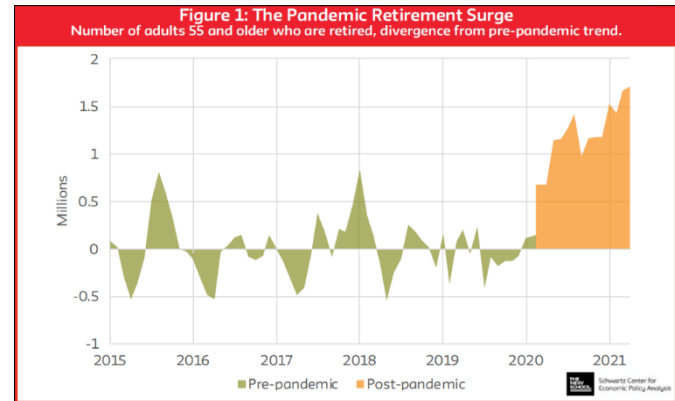


One-third of Australians workers willing to get paid less for better work experience: LinkedIn



Nearly 80 million Americans have fled their positions since the Great Resignation began last year. Prompted by the COVID-19 pandemic to re-evaluate their priorities in life, employees have been heading for greener pastures, demanding higher salaries, better working conditions, improved work-life balance and more opportunities to advance their career. As a result, the scales have tipped in favor of labor, with employers having to bend over backward to attract and retain talent.

Now you can get \$750 per week from Centrelink if your work is affected by Covid-19



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ECONOMY

China's college grads despair over worst job market in decades

Youth unemployment hits record levels in COVID-hit economy



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This Week in Asia / Economics

Optimism in Indonesia as youth prospects improve amid economic recovery

- 'Half my friends have full-time work, which makes me optimistic'; youth make up about 42 per cent of the 8.4 million people out of work
- Experts say nation 'on track to recovery' post Covid and doing better than other countries, with controlled inflation and subsidies to poorest citizens

Amy Chow [+ FOLLOW](#)
Published: 8:30am, 13 Jun, 2022

Why you can trust SCMP

Tech factories latest to leave China for SE Asia

Meanwhile fresh Chinese college grads taking minimum wage factory jobs due to lack of other gainful employment

By JEFF PAO
JULY 5, 2022



Wealthy countries have had the means to support people with cash through social protection programmes



Source: Oxfam, <https://reliefweb.int/sites/reliefweb.int/files/resources/bp-social-protection-covid-19-151220-en.pdf>



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Unemployment rate in India rises to 7.8% in June; rural unemployment rate climbs to 8.03%

The unemployment rate in the rural areas climbed to 8.03 per cent from 6.62 per cent in May, due to uneven monsoon rains. The other hand, has come down to 7.30 per cent during the same period from 8.21 per cent a month ago.

ET Now Digital | Updated Jul 5, 2022 | 04:41 PM IST

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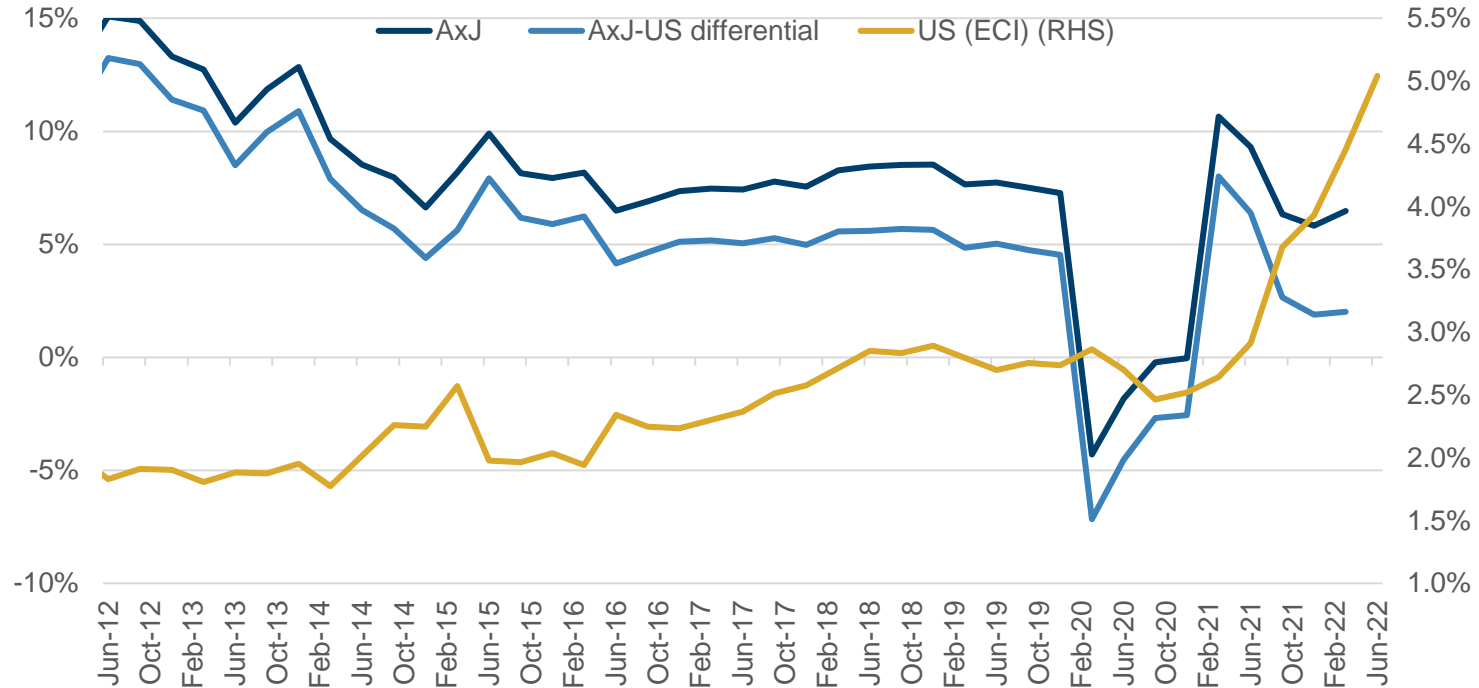
1 Unemployment rate in India rises to 7.8% in June; rural



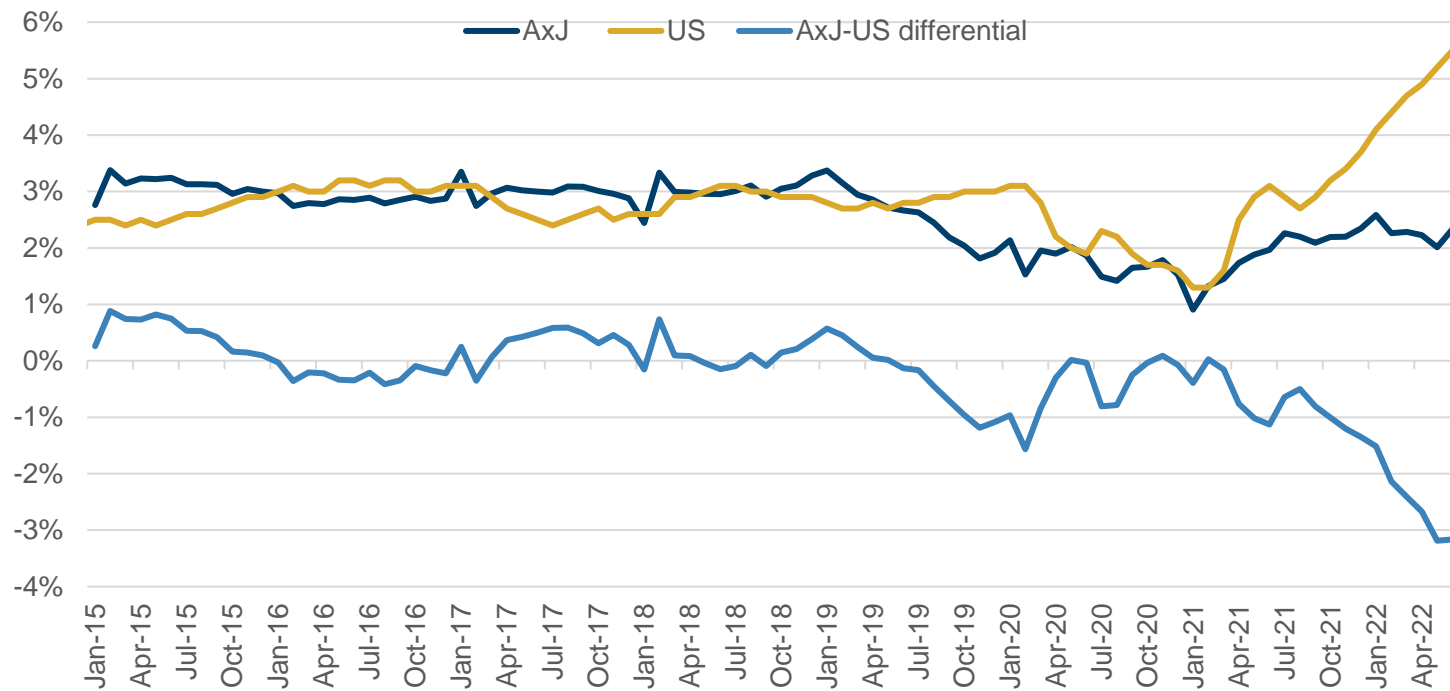


Labour market slack in Asia has meant muted wage growth, while DM Wages surge

Wage growth (%Y)

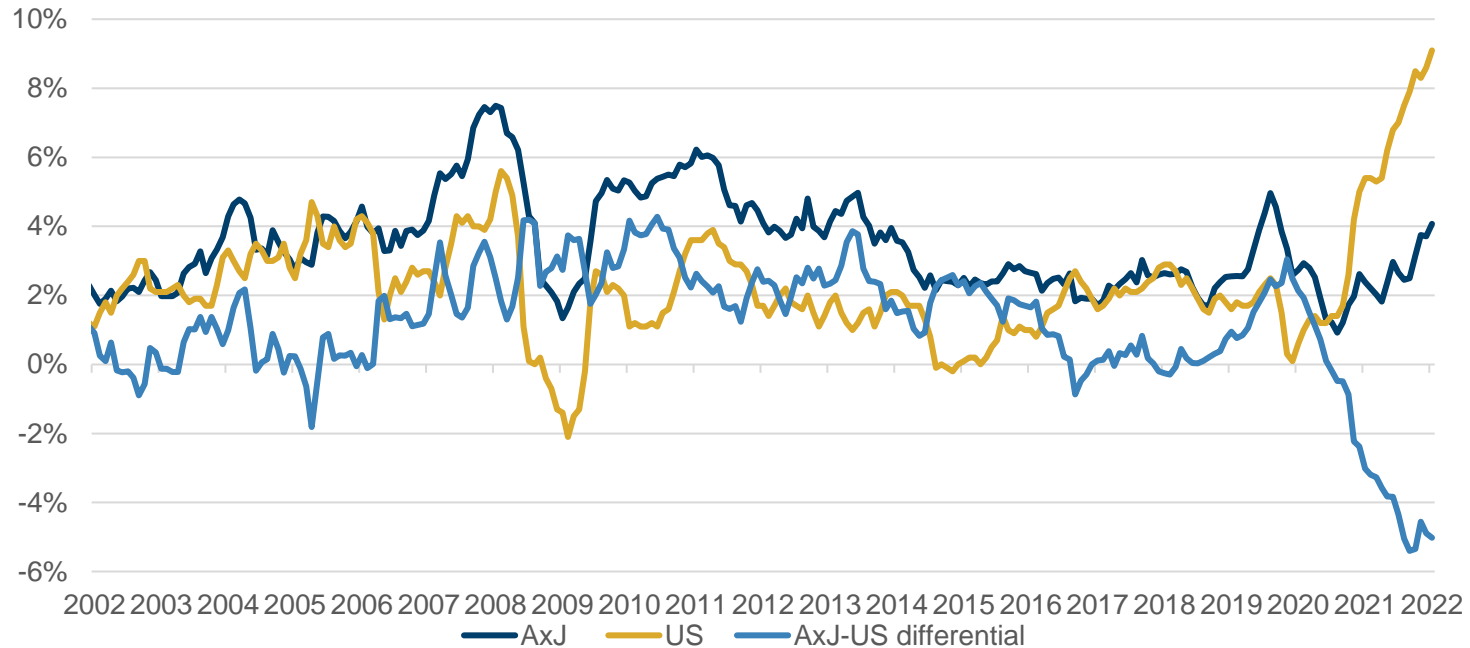


Core services CPI (%Y)

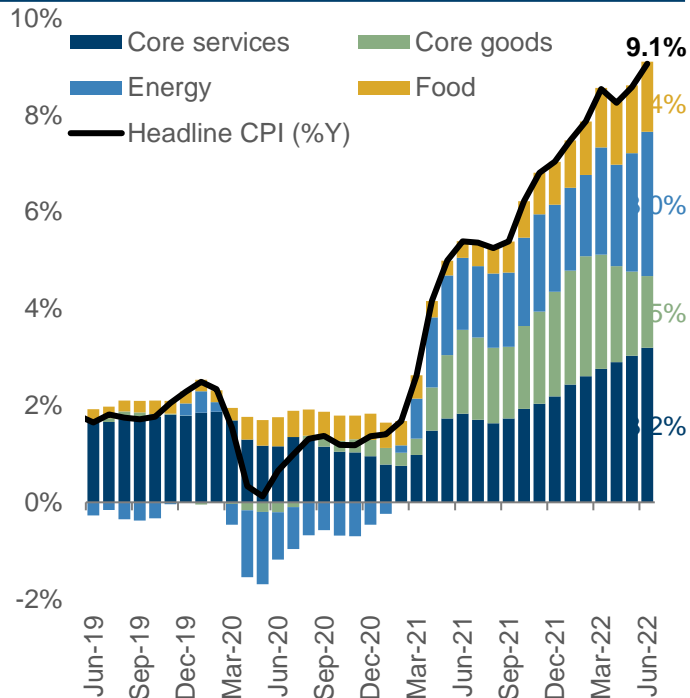


Inflation in Asia well behaved both relative to history and rest of the world

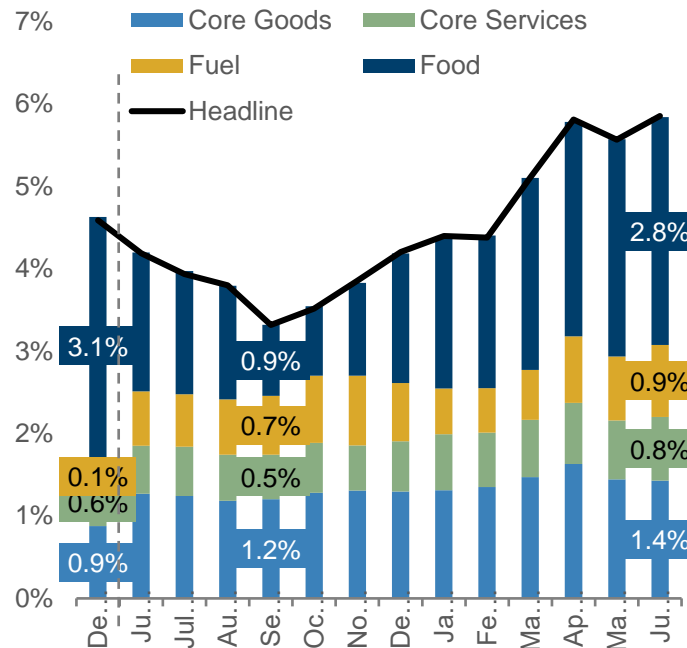
Headline CPI (%Y)



US CPI %Y, %pt contribution

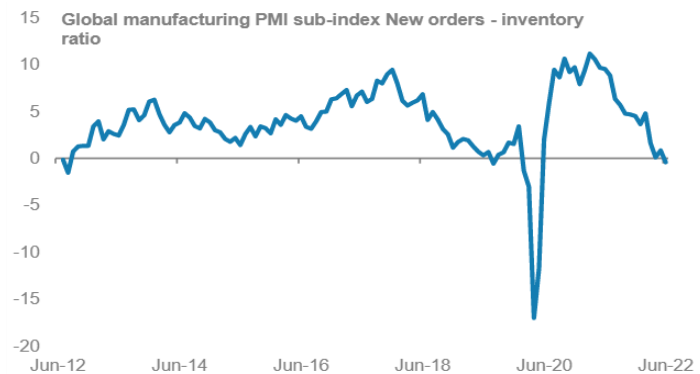
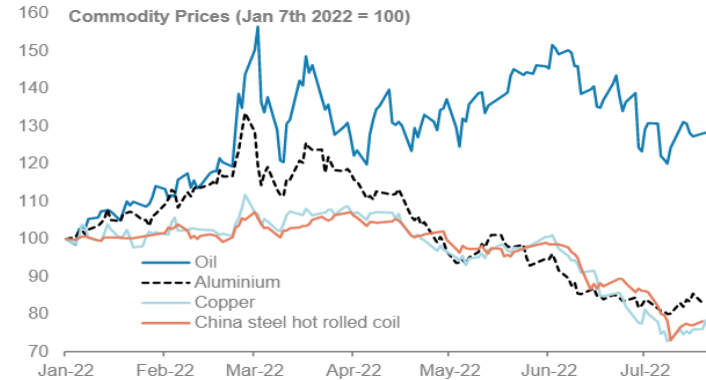
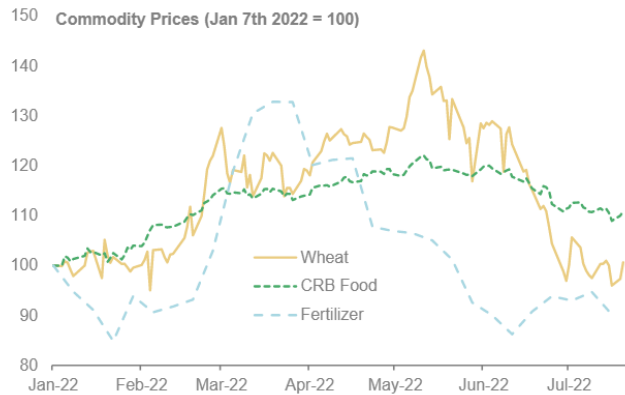


AxJ ex-China key component contribution to headline inflation %Y



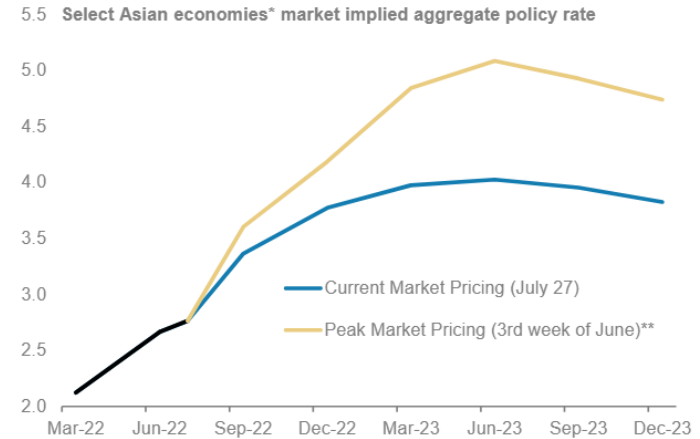
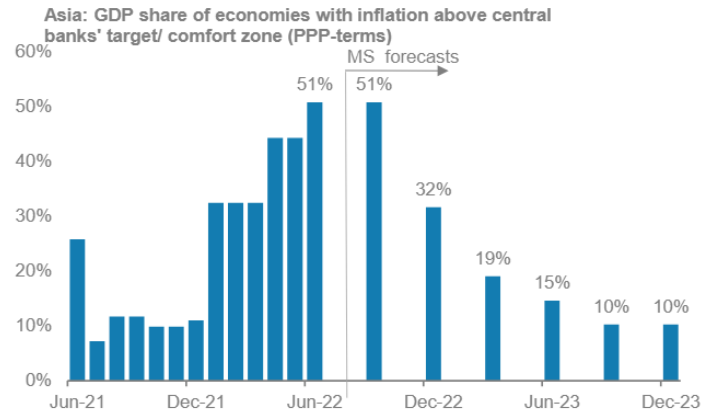
Source: Haver, Morgan Stanley Research (LHS) and Haver, CEIC, Morgan Stanley Research (RHS). Note: India CPI data details for Mar-20-May-20 are not disclosed due to data collection issues during the pandemic, and Indonesia data experiences data break between 2019 and 2020 and MS adjustments have been made for historical data continuity. As a result, AxJ ex-China aggregate and India and Indonesia contribution data for 2020 and 1H21 are omitted and only Dec-19 data is provided. Data for China and Thailand are omitted due to the lack of detailed CPI weights that enable for breakdown into core goods vs. core services components.

Asian inflation has been more goods/commodities based and this is now improving



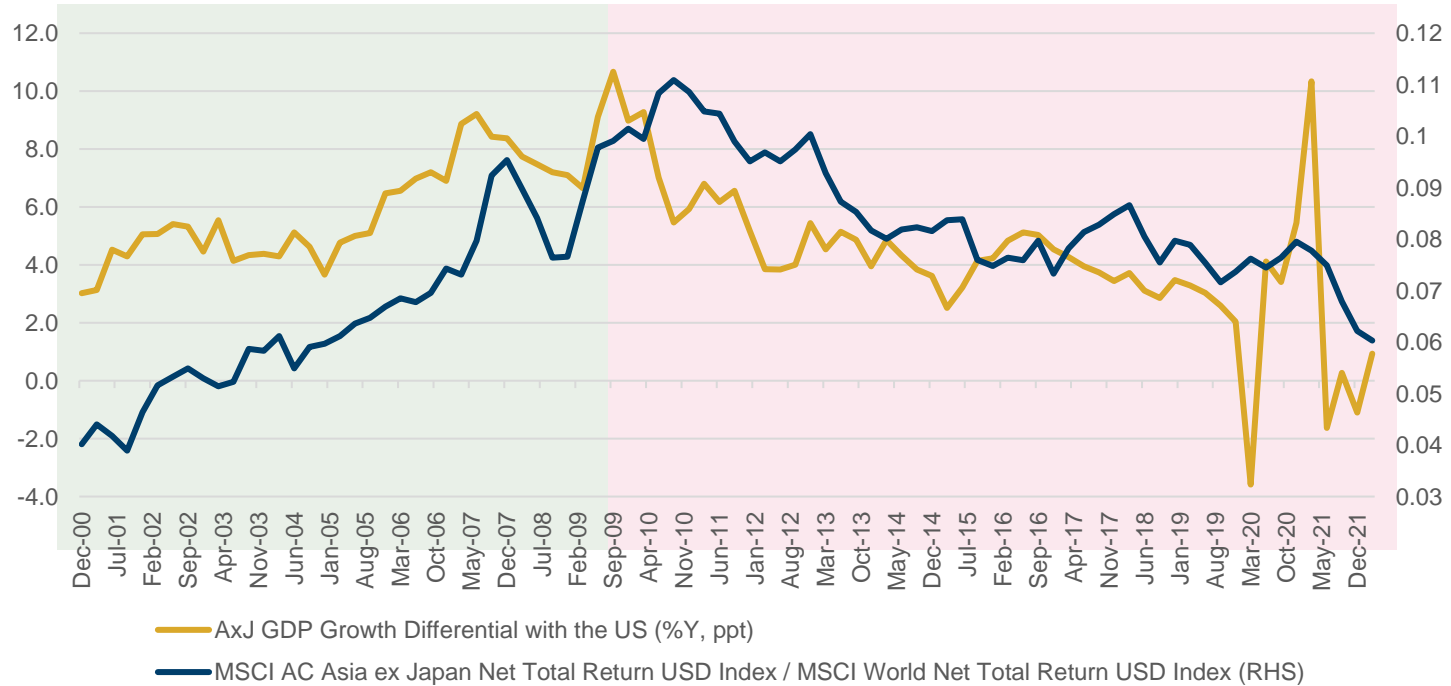
Source: Bloomberg, Haver, Morgan Stanley Research; Note: China is excluded due to lack of detailed CPI weights for breakdown of core inflation into core goods and core services components.

Asian inflation to soon be below Central Bank targets and the market is to price a more moderate rate environment

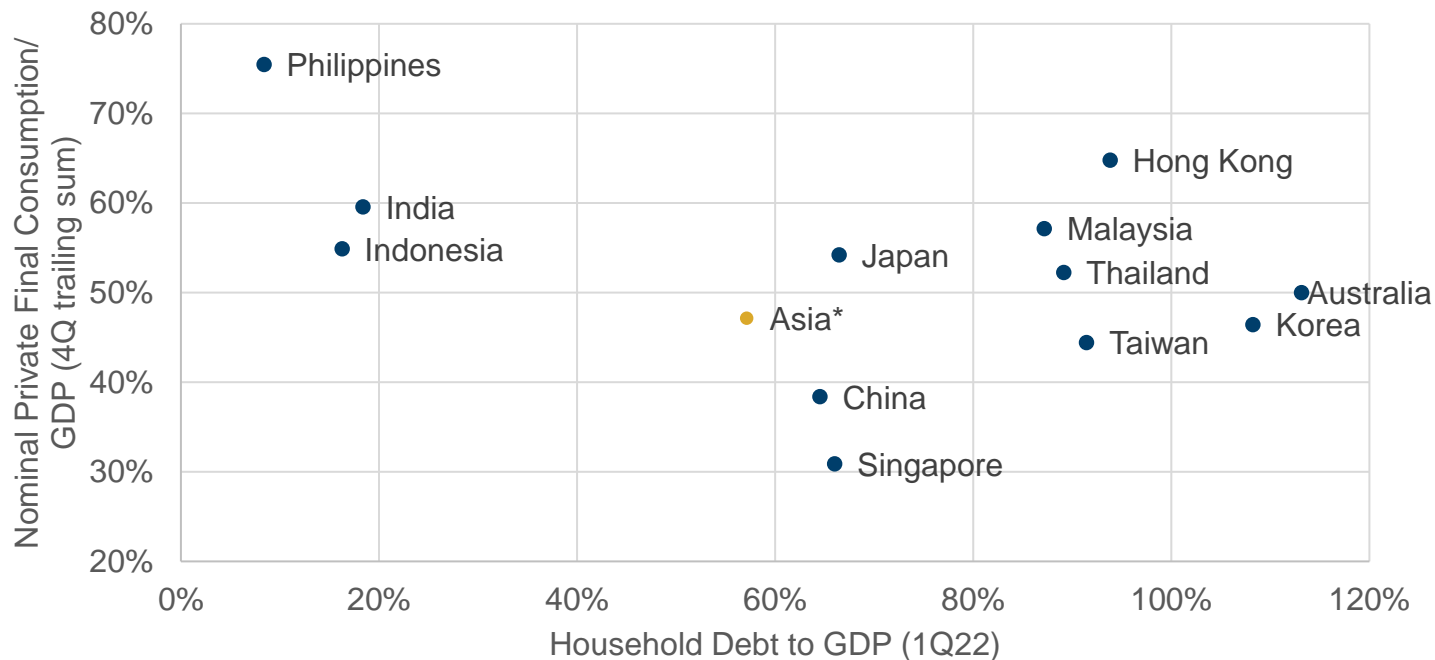


Source: Haver, Bloomberg, Morgan Stanley Research; Note: *Select Asian economies include India, Korea, Malaysia, Thailand, Australia and Japan. **Peak market pricing dates range from Jun 14-21 for the above economies.

Improving absolute and relative growth differentials to driver Asian equities?



Relative winners with low debt and high domestic demand?



Note: Haver, CEIC, WIND, Morgan Stanley Research. Latest print is as of 1Q22 for all individual economies except China. For China, the ratio is for 2021 as the data is annual. *Asia aggregate excludes India and Philippines for real retail sales and excludes Singapore and Hong Kong for Auto sales.

- Covid has created a **scarcity of labour across developed markets** (great resignation, early retirement, work/life balance). **Asia does not have this problem.**
- The **scarcity of DM labour is driving higher wage, service and general inflation** in DM. **Asia has an abundance of labour** and all forms of inflation are well contained.
- **Interest rates are rising rapidly in DM** to combat inflationary pressures driven by scarcity of labour. **Asian rate increases have been modest** and have the potential to fall.
- This is an **unprecedented setup as Asia is normally high beta to the global economy**. Asia does not have capital flow issues, deficit driven or speculative price bubbles that need to be addressed.
- As a result, **the outlook for economic growth in Asia is improving**, which should drive better returns for the region both absolute and relative to developed markets.



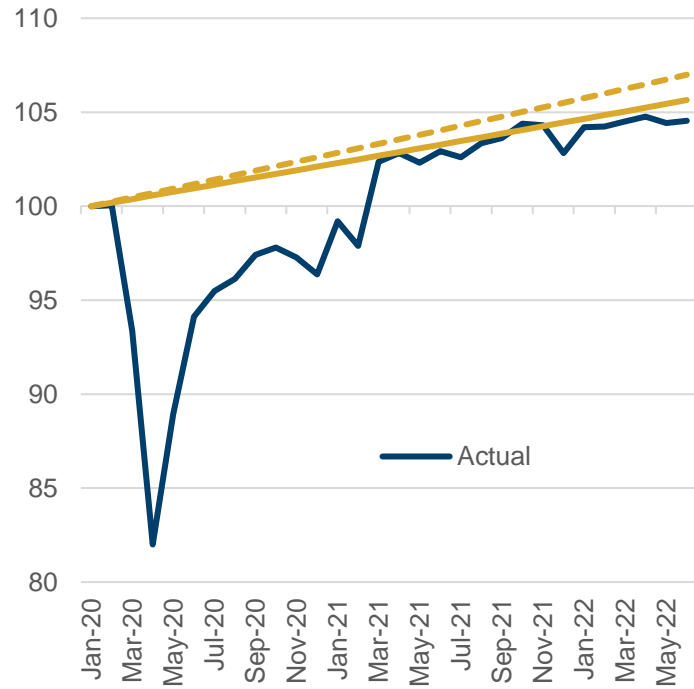
Q&A



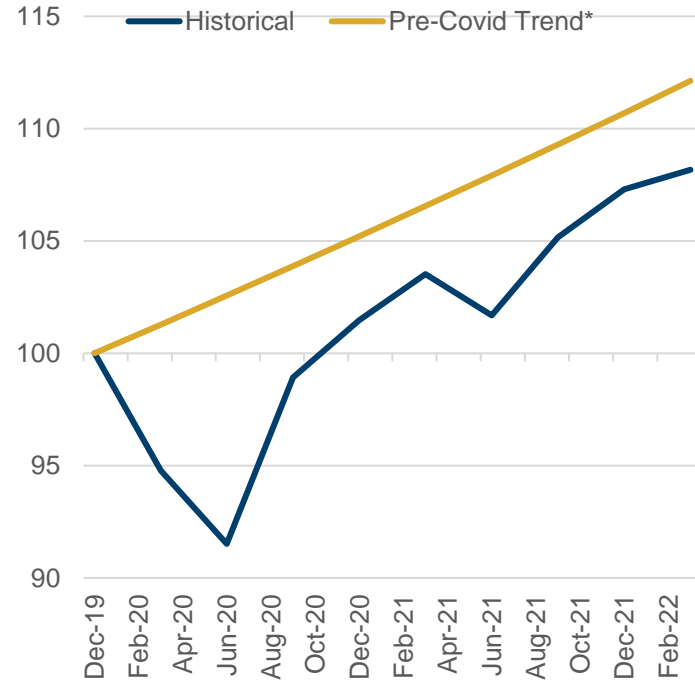
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Appendix

US Real Personal Consumption Expenditure (Jan-20=100)

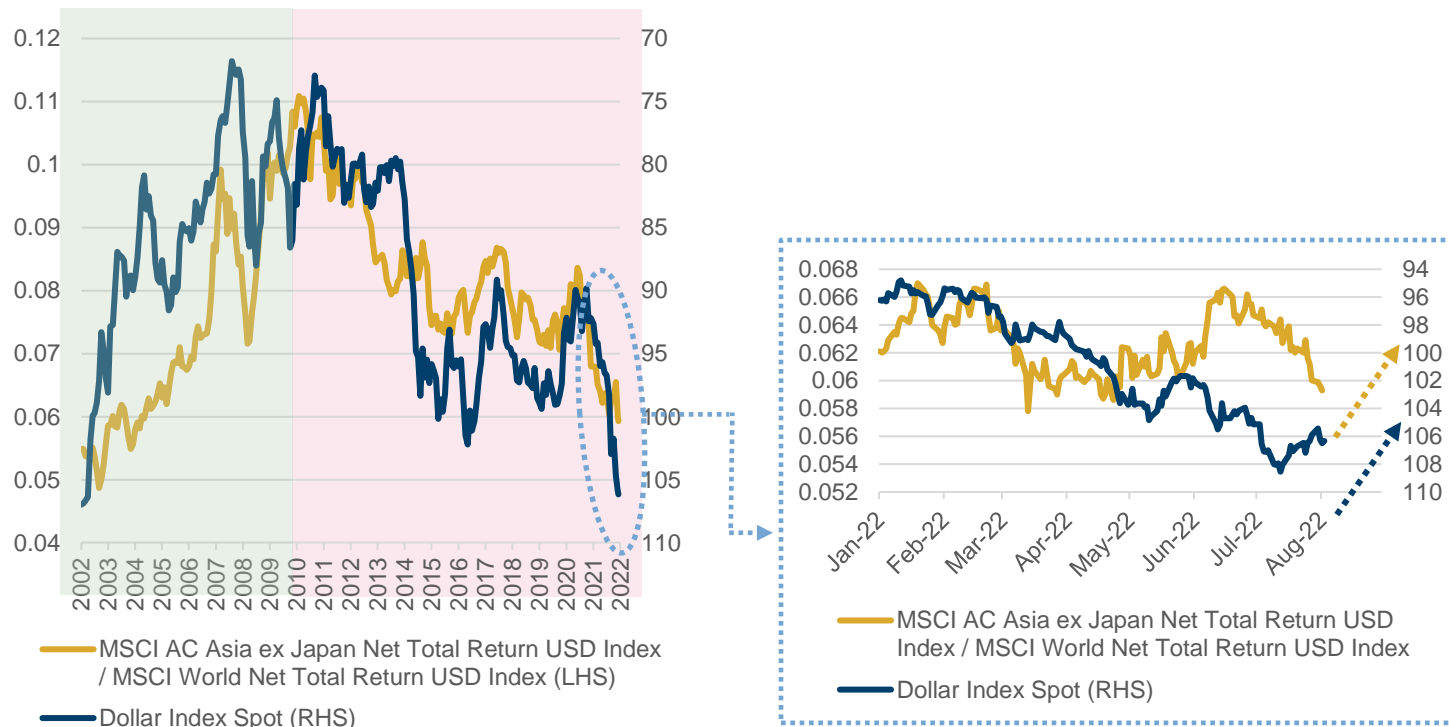


AxJ Real Personal Consumption (4Q19=100)

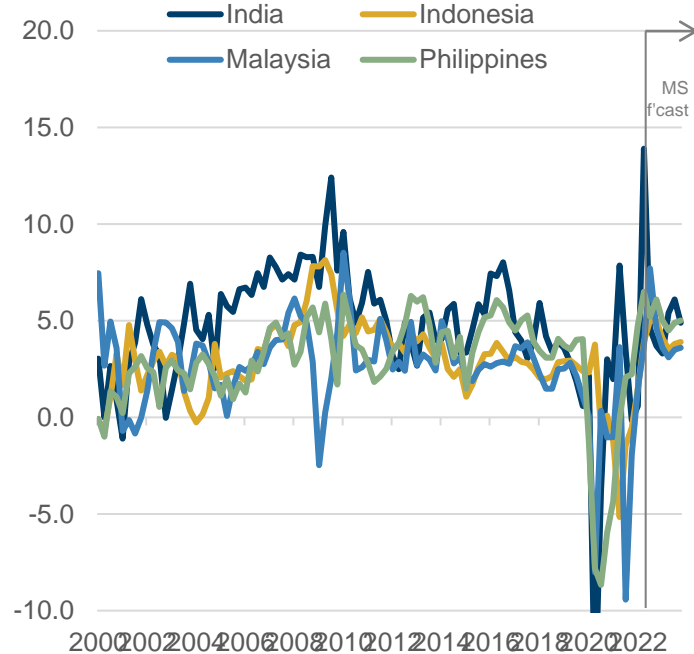


Relative outperformance of Asian equities on dollar weakness

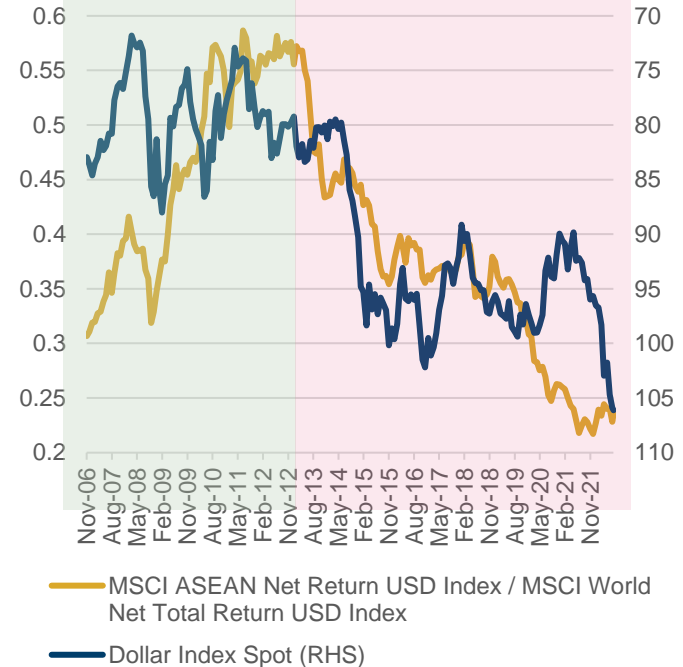
MSCI Asia ex Japan / MSCI World vs. Dollar Spot Rate



Growth Differential with the US (%Y, ppt)



MSCI ASEAN / MSCI World vs. Dollar Spot Rate



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