SO, HOW'S BUSINESS AT YOUR END ?

In an informal meeting with the chairman of an electronics manufacturer, producing low-tech, fairly basic electronic products, such as buzzers, motion detectors, magnetic contacts, etc, **TARGET** () asked, off the cuff:

'How's business?'

The answer, without the chairman, looking up from tying his shoe laces:

'So-so.'

Pushed for an extrapolation of the *'so-so'*, the chairman turned to this reporter and asked:

> *'What is your opinion of the economic situation in the US and Europe? It does not look very healthy to me … compared with the number and value of orders that we are* ***not*** *receiving.'*

Without giving very much away about the extent of the faltering business of this ageing gentleman's company, he made the comment that he had had time, over the past month or so, to take two rather long trips abroad in order to meet his relatives in the antipodes.

The chairman's company has a rather large, manufacturing facility in Guangdong, in the south of the People's Republic of China (PRC), producing goods on an OEM (**O**riginal **E**quipment **M**anufacturer) and ODM (**O**riginal **D**esign **M**anufacturer) basis for its customers, most of whom are based in Europe.

The problems, facing the 40-year history of this company, are not too dissimilar from the problems, facing much larger, manufacturing facilities in the PRC and in many other parts of Asia.

As the statutory minimum wages of workers in large parts of Asia continue to hit one high after another, down the road, these increases in workers' wages will result in helping to promote higher operating costs, thus assisting in fanning the flames of inflation – in many parts of North America and in Europe.

Many Asian factories have found it exceedingly difficult to pass on additional manufacturing costs to customers because consumers would prefer to go without, rather than stretch budgets any further, any further, that is, than they are already stretched.

And, with the price of crude oil, continuing to rise, or remain firmly over the $US100 per-barrel level, so international transportation costs, by sea, by air and by land, have all risen, proportionately. This is forcing transportation companies to pass on the higher operating costs to its customers.

This adds more fuel to the already smoldering embers of higher operating costs that Asian manufacturers are experiencing.

With Asian manufacturers, feeling the brunt of these higher operating costs, so consumers of the Western World, staring at higher High Street prices for the same products that they had been buying only a short time ago at considerably lower retail prices, are faced with prospect of *'take it or leave it'*.

In only too many cases, shoppers on Western High Streets are leaving it – with a huff and a puff.

Asia, today, is, indirectly, feeling the reaction of Western consumers' resistance to increased retail prices in High Street shops, without question.

Orders from North American and European importers are becoming few and far between, and, even when orders are received, demands are being made for lower prices, lower than manufactured prices … if you please.

As one manufacturer remarked to this medium:

'What happened to Christmas orders?'

Asia is, still, the tailor shop of the world, the centre of manufacturing for basic household items, from microwave ovens to electric razors, to electronic items, such as iPads, iPhones and Personal Computers, to furniture, to broadloom carpets, to condoms.

If the export prices of these, and other items, continue to rise, it must, eventually, raise global prices as well.

It is only a matter of time before the full force of the price roundabout strikes home.

Increased operating costs have been responsible, inter alia, for rapid increases in inflation.

They will continue to have a direct bearing on inflation.

In Singapore, in the month of February, inflation was tracked at 4.90 percent. This compared with the past decade when inflation was running at about 2.60 percent on average.

In the Hongkong Special Administrative Region (HKSAR) of the PRC, on July 22, 2013, the Government's Census and Statistics Department announced:

> *'Overall consumer prices rose 4.1% in June over the same month a year earlier, slightly higher than the corresponding increase (3.9%) in May …*
>
> *'Netting out the effects of the Government's one-off relief measures, the year-on-year rate of increase in the Composite Consumer Price Index, the underlying inflation rate in June was 4%, also slightly larger than that in May (3.8%).*
>
> *'The department said the increase was due to the increases in the prices of fresh vegetables and private housing rents.*
>
> *'Year-on-year increases in prices were recorded for electricity, gas and water (6.7%); housing (6.3%); food (excluding meals bought away from home) (4.3%); meals bought away from home (4.2%), miscellaneous services (3.5%); miscellaneous goods (2.4%); alcohol and tobacco (2%); transport (2%); and, clothing and footwear (1.1%).*
>
> *'The department said inflation is still subject to modest upside risks in the coming months as the lagged effects of the rise in private housing rents last year will continue to feed through.'*

According to the HKSAR Government's Economic Analysis Division, Economic Analysis and Business Facilitation Unit, Financial Secretary's Office, in its Half-Yearly Economic Report, published last month, it is stated at Page 20:

> *'Total exports of goods*
>
> *'The sluggish external environment continued to pose significant challenges to Hong Kong's trading sector. Merchandise exports (comprising re-exports and domestic exports) expanded*

modestly by 2.4% in real terms) in the second quarter of 2013 over a year earlier, somewhat slower than the 4.0% growth in the first quarter of 2013. Furthermore, the year-on-year rates of change in exports fluctuated considerably during the quarter, starting from a notable year-on-year rise in April, followed by a slight year-on-year decline in May and a marginal increase in June. On a seasonally adjusted quarter-to-quarter comparison, merchandise exports, after a modest 1.5% contraction in the first quarter, shrank further by 2.9% in the second quarter.'

Turning to exports to the US and Europe, the Economic Analysis Division went on record, stating:

'Exports to the US and the EU remained the weak spots in the second quarter of 2013. Despite continued revival in the US housing market, the relatively high unemployment rate and the restrictive fiscal measures further weighed on import demand. As a result, total exports to the US suffered another visible decline in the second quarter from a year earlier. Meanwhile, exports to the EU stayed on a downtrend in the second quarter, amid the subdued final demand and ongoing austerity measures in the eurozone.'

And, in the World's Fourth, Most-Populous Country

While manufacturers in Singapore, the PRC, Proper, being separate and distinct from the HKSAR of the PRC, might well be smarting at the rapid increase in manufacturing costs, in Indonesia, the situation is much worse.

In Djakarta, the Capital City of Indonesia, the Governor approved a 44-percent increase in the minimum monthly wage for workers in 2012.

The National Government of Indonesia is, today, considering extending Governor Joko Widodo's minimum monthly wage increase across the entire country.

Indonesia's human population is 251.61 million, men, women and children, representing the fourth, most-populous country in the world, after the PRC, India and the United States.

And so it goes on, one Asian country after another, playing follow-the-leader as statutory minimum wages continue to increase – with most Asian governments, being fearful that if they procrastinate too long, it could lead to social unrest.

The currencies of many parts of Asia have all seen rapid appreciations vis-à-vis the US dollar since 2009 and this situation is putting further strains on export prices, shipped to North America and Europe.

In most cases, the currency increases have been 16 percent and more, but the PRC's renminbi (RMB) has kept its increase down to about 10 percent.

Even at a10-percent increase, the weakened RMB means that prices of its manufactured products for export are bound to rise, further.

The biggest markets for most of Asia are Europe and North America and there is no way to replace these huge marketplaces.

Since Asia's exports are running at about $US6 trillion (about $HK46.80 trillion), annually, an increase of just 10 percent will hit consumers of the North America and Europe very hard, right where it hurts the most: In their pockets.

And there is little that they can do about this situation.

For More About The Subjects, Covered In This Report, And Other Aligned Subjects,

Please Refer To The Following **TARGET** Reports:

TARGET Intelligence Report, Volume XV, Number 163,
Published On August 30, 2013,
Headlined:

'*INFLATION IN THE HONGKONG SPECIAL ADMINISTRATIVE REGION: PLEASE, CHIEF EXECUTIVE LEUNG, STOP BLAMING IT, ALL, ON INCREASES IN PRIVATE HOUSING RENTALS*'

TARGET Intelligence Report, Volume XV, Number 166,
Published On September 4. 2013,
Headlined:

'*THE ETERNAL WAGE WAR*'

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