Business activity rebounds after two sluggish months: PMI

Manufacturing and construction rebound, while services return to growth

STAR BUSINESS REPORT

After two consecutive months of slowdown, Bangladesh's economic activity rebounded in October, as manufacturing, construction and services returned to expansion, according to the latest Purchasing Managers' Index (PMI).

The headline PMI had declined for two consecutive months, hitting its lowest level since August 2024 in September. However, it rebounded by 3.2 points month-on-month to 51.8 in October.

The index, jointly developed by the Metropolitan Chamber of Commerce and Industry (MCCI) and Policy Exchange Bangladesh (PEB), showed that all four key economic sectors recorded expansion in the report released on Sunday.

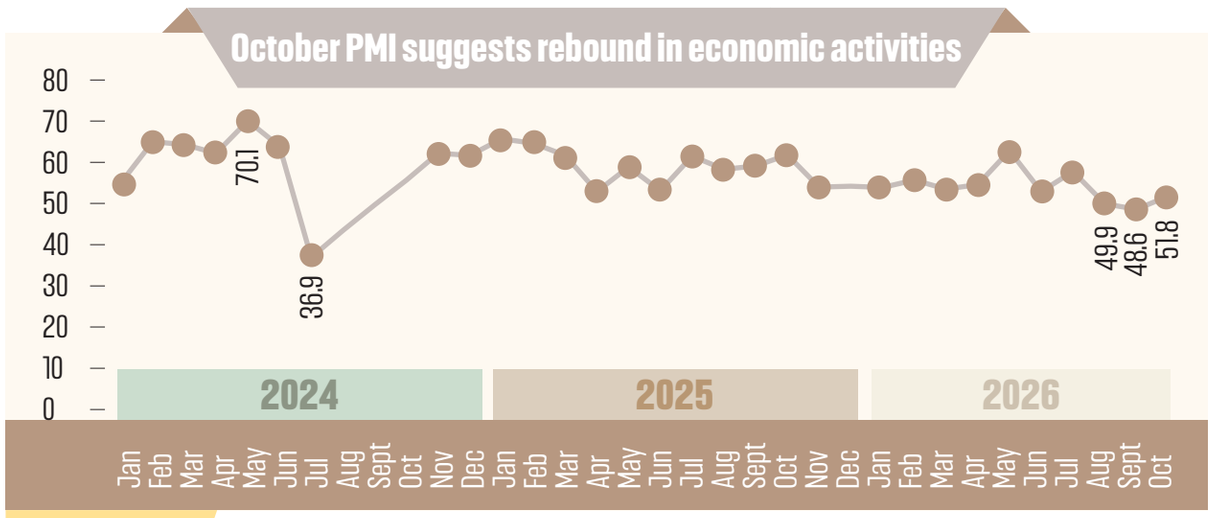
The PMI is a monthly indicator of whether businesses across the economy are growing or shrinking. It is based on a survey of purchasing managers at more than 500 private firms. A score above 50 signals growth, while a reading below 50 indicates contraction. The further the reading moves from 50, the faster the pace of change.

The agriculture sector recorded its 14th consecutive month of expansion, with the pace of growth accelerating by 6.0 points to 61.2, the report said.

The indexes of new business, business activity and employment continued to expand, while order backlogs returned to expansion. The input costs index also remained in expansion.

Meanwhile, the manufacturing sector returned to expansion, rising by 6.1 points to 50.9.

The sector had led July's expansion, jumping 16.6 points to 65.4, the strongest turnaround in the survey's history. However, it reversed sharply in August, falling 18.0 points to 47.4.



SOURCE: MCCI & PEB

Stocks of input purchases, stocks of finished goods and imports returned to expansion, while employment and supplier deliveries remained in expansion.

However, new orders, new export orders and factory output continued to contract. Input prices recorded strong expansion, while order backlogs remained in sharp contraction, the report said. The construction sector also returned to expansion, gaining 2.5 points to reach 51.0.

The sector had remained marginally in contraction throughout July at 49.3 before moving into expansion in August, reaching 52.4. However, it slipped back to 48.5 in September.

Employment in the construction sector returned to expansion after remaining unchanged in September, while order backlogs continued to expand.

However, new business and construction activity remained in contraction, while input costs recorded strong expansion, the report said.

The services sector, which had recorded two consecutive months of contraction, also returned to expansion in October. Its index rose by 1.3 points to 50.3. Employment returned to expansion, while new business, business activity and order backlogs continued to contract. The input costs index also continued to record strong expansion, the report added.

The Future Business Index recorded expansion across all four sectors, indicating positive expectations about business conditions.

"The October PMI reading marks a small but positive development as it expands after two difficult months, supported particularly by stronger agricultural and export performance," PEB Chairman and CEO M Masrur Reaz said in his assessment of the latest PMI readings.

However, the recovery remains fragile, he warned.

"New orders and business activity are still shrinking across manufacturing, construction and services, while input costs remain elevated."

"This divergence suggests that the return to expansion has yet to translate into a broad-based strengthening of demand. Ensuring reliable energy supplies, easing working-capital constraints and containing further elevation in business costs will be critical to sustaining recovery," Masrur added.

"Positive expectations for future business offer some encouragement, but translating confidence into investment and production requires more predictable operating conditions."

Raise garment wages, but don't gamble with jobs

ATONU RABBANI

For the past fortnight, garment workers have blocked roads in Mirpur, Gazipur and Savar, demanding a minimum wage of Tk 30,000. On November 1, the government formed a new wage board. The current minimum of Tk 12,500 was set in late 2023, while inflation has outpaced wage growth for years. A worker on the minimum today is poorer than when the last board sat. The question is not whether wages should rise, but by how much and how the increase is structured. The board should weigh evidence, not opening positions. Studies from the United States, Britain and Germany find moderate minimum-wage increases raise pay with small effects on employment. Germany's first national minimum wage, introduced in 2015, was predicted to cost up to 900,000 jobs. Instead, it raised low wages without reducing employment. US studies that find job losses show them concentrated among the least skilled.

But the literature carries a warning for Bangladesh. Hungary's 60 percent minimum-wage rise in 2001 caused modest job losses because firms passed costs on to consumers. Exporters could not do so against foreign rivals, and lost more jobs. Firms employing only minimum-wage workers had about 10 percent fewer jobs. Developing country studies find job losses clearest where the minimum wage binds, is enforced and covers formal sector workers. That describes our export garment factories. Our factories compete for orders with Vietnam, India and Cambodia.



Job losses are clearest where minimum wages bind, are enforced and cover formal-sector workers. That describes Bangladesh's garment factories

Margins are thin: one costing put a Bangladeshi polo shirt manufacturer's profit at about 10 percent. In the first four months of this year, the average price of our apparel in the EU fell from €15.59 to €13.96 per kilogram, and our market share from 24.4 to 21.9 percent. BGMEA says around 400 factories have closed in three years. Political upheaval, banking stress and weak demand also contributed, but the figures show how little room the sector has.

Labour accounts for a seventh of the factory gate price. Restoring the 2023 wage's real value, estimated at Tk 17,500, would raise that price by perhaps 5 percent; a rise to Tk 30,000 by around 20 percent. The first is within what the industry has absorbed before: the 2013 and 2018 boards raised wages by 76 and 51 percent respectively. The second is beyond the evidence for an export sector competing on basic products.

What should the board do? First, restore lost purchasing power in full. Workers did not cause the inflation that eroded their pay. Second, end long freezes followed by large jumps. An annual review, as Cambodia has adopted, would protect workers without shocking factories. Third, link further real gains to productivity and higher-value products, for which buyers pay more. Fourth, buyers must pay for what they demand. After Rana Plaza, brands required costly safety upgrades, but factory owners paid for most while the prices brands paid fell. Now they demand green buildings, solar panels, wastewater treatment, carbon data, duplicated audits and EU due-diligence reporting. A certified green factory can cost 20 to 30 percent more to build; Bangladesh has more than 200. When standards rise and prices fall, wages bear the pressure.

Brands that champion fair wages and sustainability should price those costs into orders, accept equivalent audits instead of duplicating them, and offer longer contracts to make investment bankable. Finally, decisions must be based on evidence. Bangladesh has no rigorous study of how past wage increases affected jobs. The government should collect anonymised payroll and employment data from factories and commission independent research, so the next board knows what this one did. Workers deserve a raise. They also deserve not to be priced out of the jobs that pay it.

The writer is a researcher at Bangladesh Institute of Development Studies (BIDS)

Nvidia shares slide as chip giant probes CEO over spy claims

REUTERS, *Seoul/Sydney*

Nvidia shares fell sharply on Monday after an internal investigation into whether CEO Jensen Huang had been targeted by a foreign intelligence effort put his future at the AI chipmaker under scrutiny.

The internal probe followed a media report that Huang had a close relationship with a Chinese businesswoman who allegedly passed information to Beijing. Huang told Nvidia's employees that he had been unfaithful to his wife, without disclosing details of the relationship.

The investigation, announced on Sunday, has put a spotlight on Huang's future given Nvidia's status as the world's most valuable chipmaker and the CEO's role as the most prolific salesman of the AI boom.

The leather-jacketed Huang enjoys rock-star status worldwide, particularly in Asia, where he often mingles freely with fans, taking selfies and signing autographs for his devoted followers.



Nvidia CEO Jensen Huang

The fallout from the probe extended to South Korea, where Madison Huang, Huang's daughter and an Nvidia executive, cancelled a planned visit to Seoul for an Nvidia conference that was set to begin on Monday, according to companies she had been scheduled to meet.

Nvidia's shares tumbled more than 6 percent in Frankfurt trading, extending last week's selloff and pushing the stock to fresh multi-month lows. At those levels, the chipmaker stood to lose about $270 billion from its closing price on Friday, according to LSEG Datastream.

"The market's probably telling you now this does no favours to the stock whatsoever in a time when there's a lot of conjecture as to the build-out of data centres," said Chris Weston, head of research at brokerage Pepperstone in Melbourne. But Weston said he did not think Huang, whom he described as the "godfather of AI", would be replaced.

"If we genuinely thought he was going to step down ... the stock would be down — it would be an absolute bloodbath, to be honest," he said.

The New York Times reported last month that Huang had a relationship with Alice Huang, an unrelated former executive of Singapore-based company Megaspeed, who US authorities investigated and concluded was a Chinese intelligence asset.

"The so-called Chinese spy narrative is purely a groundless accusation, slander, and a smear," Chinese Foreign Ministry spokesperson Guo Jiakun told reporters in Beijing.

Fed hike bets support dollar

REUTERS, *Tokyo*

The US dollar held near a 1-1/2-year high versus the euro on Monday after posting its biggest gain in nearly six months on Friday as robust US jobs data pushed up bets for higher interest rates.

The risk-sensitive Australian and New Zealand dollars rallied as a rebound in AI-related stocks buoyed market sentiment.

The Aussie rose 0.4 percent to $0.68875 as of 0517 GMT, rebounding from a more than seven-month low at $0.6855 from Friday, when it tumbled more than 1 percent.

New Zealand's kiwi jumped 0.8 percent to $0.5589, bouncing back after hitting a low of $0.5529 at the end of last week. Japan's tech-heavy Nikkei share average gained 2.8 percent, while Taiwan's Taiex rallied 5.3 percent and South Korea's KOSPI added 0.4 percent.

"With the dust now settling a bit, investors are starting to ease back into risk assets," said Kyle Rodda, senior financial market analyst at Capital.com. "The Aussie is trading with its typical correlation to risk."

China extends suspensions of 24% tariff on US goods

REUTERS, *Beijing*

China on Monday extended the suspension of its additional tariff of 24 percent on US imports and the suspension of special port fees on US-linked ships for two months.

The 24 percent additional tariff on US imports will continue to be suspended for two months from 1:01 p.m. (0501 GMT) on Tuesday, but a tariff of 10 percent will remain, its state council, or cabinet, said

The suspension of special port fees on US-linked vessels will be extended until January 10, 2027, China's transport ministry said in a statement

China is also continuing to suspend a probe into shipping and shipbuilding supply chain security, the ministry said.

After September's Washington summit of their leaders, both sides proposed a $60-billion package of reciprocal tariff cuts, including roughly $17 billion worth of US farm goods that China imported in 2024, though the plan has yet to be finalised

China is extending the tariff suspensions to implement the "outcomes and consensus reached at the Washington meeting between the heads of state of China and the United States", the council's tariffs panel said in a statement

China has "noted that the US side has repeatedly stated that it intends to use Section 301 tariffs to replace the tariffs imposed under the International Emergency Economic Powers Act (IEEPA) that have been held invalid by judicial rulings," it said.

Middle East oil price war heralds post-conflict glut

REUTERS, *London*

Middle East oil producers are slashing prices to attract buyers as a sharp recovery in flows through the Strait of Hormuz tips the global crude market toward oversupply – a preview of the crowded, hyper-competitive oil market that the Iran war may leave in its wake.

Global benchmark Brent crude tumbled more than 17 percent last week to around $97 a barrel, its steepest weekly decline since the 2020 pandemic.

The slump followed the electoral rout of US President Donald Trump's Republican Party in the US midterm elections, which raised expectations that Washington could swiftly de-escalate the war that has upended energy markets since February 28.

Regardless of whether Washington and Tehran secure a durable peace deal in the coming weeks, the market faces the prospect of a crude oil glut – a surprising outcome at the end of a year that has featured one of the biggest energy supply shocks in modern history.

Yet even though crude is flowing out of the Gulf, the global oil market is far from its pre-war normal. Demand remains constrained by elevated prices and limited refining capacity, while global inventories are depleted.

Oil exports through Hormuz have recovered sharply since September, as Gulf producers can now navigate the narrow waterway using tanker convoys protected by the US Navy.

Crude exports through the strait averaged 10.3 million barrels per day in October, up from virtually zero in the first month of the war, excluding Iranian shipments. That compares with a pre-war average of 13.5 million bpd, according to Kpler data.



Employees of Aramco oil company work in Saudi Arabia's Khurais oil processing plant. Oil exports through Hormuz have recovered sharply since September, as Gulf producers can now navigate using tanker convoys protected by the US Navy. PHOTO: AFP/FILE

The recovery looks even more striking when alternative export routes through Saudi Arabia's Red Sea port of Yanbu and the United Arab Emirates' Fujairah terminal are included. Total regional crude exports reached 16.6 million bpd in October, just shy of the pre-war average of 17 million bpd, Kpler data showed.

At the same time, producers outside the Middle East have responded to the wartime supply shock by increasing output, particularly in the US, Brazil and Canada.

Global crude production reached 85 million bpd in October. That's not only the highest since the start of the war, but also above the five-year average of 83 million bpd, according to consultancy Energy Aspects. By almost any measure, the world is set to be awash in crude.

Price signals certainly point to oversupply. Saudi Arabia cut the December price of its flagship Arab Light crude for Asian customers by $2 a barrel from November, pushing the discount against the Oman/Dubai average to $6.50 a barrel, the lowest since the pandemic in May 2020.

Spot premiums for Middle Eastern crude benchmarks have also collapsed. Oman's premium to the Dubai benchmark dropped from $34 a barrel in mid-September to just 95 cents last Tuesday, its weakest since July, before recovering slightly to $1.76 on Thursday, Reuters data showed. The sharp discounts have several drivers, including compensation for elevated freight costs.

Iranian attacks on vessels transiting Hormuz continue on a near-daily basis, despite US escorts, forcing many producers to resort to expensive ship-to-ship transfers in the Gulf of Oman. This has sent tanker freight rates soaring, with shipping costs now averaging around $30 a barrel, compared with roughly $5 before the war.

But the steep discounts Gulf producers are offering also reflect growing competition to attract a limited number of buyers. Global refining capacity has declined significantly this year due to damage in the Middle East and Ukrainian strikes on Russian energy infrastructure.

This, in turn, has reduced refiners' ability to turn much of the recovering crude supply into gasoline, diesel and other fuels. Refiners now have a much wider choice of feedstocks, but their demand remains depressed.

In normal times, such an imbalance would force producers to cut output or push surplus barrels into storage. But storing oil is uneconomical. Continued uncertainty surrounding the Middle East conflict has kept prompt Brent prices at a sharp premium to future-dated contracts, a market structure known as backwardation.