

Quarterly Update of the ASEAN+3 Regional Economic Outlook (AREO)

ASEAN+3 Macroeconomic Research Office (AMRO)

Singapore

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Unless otherwise indicated, the analysis in this report is based on information available up to 30 September 2022. For brevity, Brunei Darussalam is referred to as Brunei and Hong Kong, China is referred to as Hong Kong in the text and figures.

Highlights

- *External headwinds have intensified since AMRO’s July 2022 assessment, slowing down the region’s growth momentum. The downturn in the property sector is a drag on China’s economy.*
- *Global oil and food prices have declined from their earlier peaks, but inflation is still rising in the region, reflecting fuller pass-through of high import prices and weaker exchange rates.*
- *The 2022 baseline growth forecast for ASEAN+3 has been revised down to 3.7 percent, and the inflation forecast revised up to 6.2 percent.*
- *For 2023, the region’s growth is expected to increase to 4.6 percent as China’s economy picks up, with inflation moderating to about 3.4 percent.*

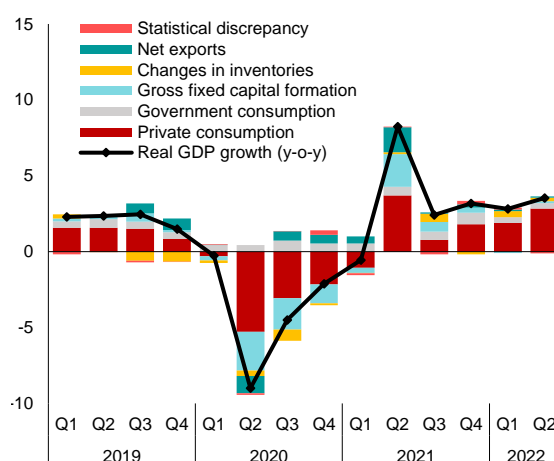
Global and Regional Economic Developments since the July 2022 AREO Update

The ASEAN+3 region’s growth in Q2 2022 was driven mainly by recovery in domestic demand. Widespread lifting of containment measures further facilitated a pick-up in private consumption (Figure 1). Recovery was stronger in the ASEAN economies than in the Plus-3, where it was interrupted by flare-ups in COVID-19 infections. China’s growth, in particular, weakened sharply in Q2 as lockdown policies to contain infections—especially in key cities Shanghai and Shenzhen—crippled economic activity.

Economic reopening gained further traction in Q3 2022, despite a brief surge in new infections in July. The surge was mostly in Japan and Korea (Figure 2). Daily new cases in the region have fallen to about 65,000 in early October, after a peak of over 440,000 in mid-August. Cases of severe illnesses and deaths have remained relatively low, thanks to high rates of vaccination and access to antiviral treatments. Mobility levels have continued to trend upward across the region.

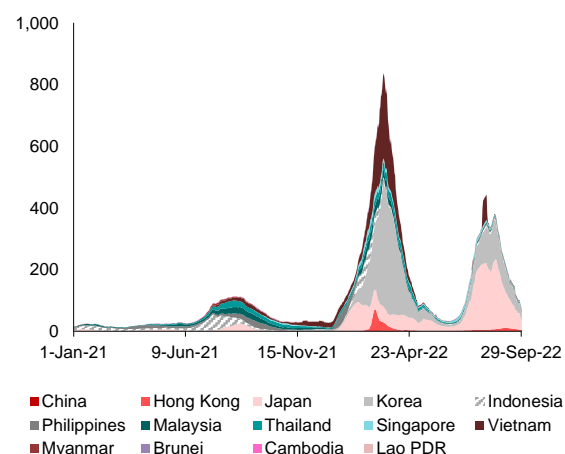
The slowdown in China’s real estate sector is a drag on the wider economy. Despite the authorities’ recent measures to prop up the market, new home

Figure 1. Selected ASEAN+3: Contribution to Real GDP Growth
(Percent, year-on-year)



Source: National authorities via Haver Analytics; AMRO calculations. Note: Excludes Cambodia, China, Lao PDR, Myanmar, and Vietnam due to data unavailability.

Figure 2. ASEAN+3: Daily COVID-19 Cases
(7-day average, thousand persons)



Source: Our World in Data via Haver Analytics; AMRO staff calculations.

prices fell to multi-year lows in August, and new construction and land sales contracted further (Figure 3). With homeowners halting payments for unbuilt homes and several developers suspending housing projects due to liquidity constraints, the stress in the property sector is already being felt in slowing activity in related sectors like steel and cement manufacturing.

Outside the region, growth is weakening.

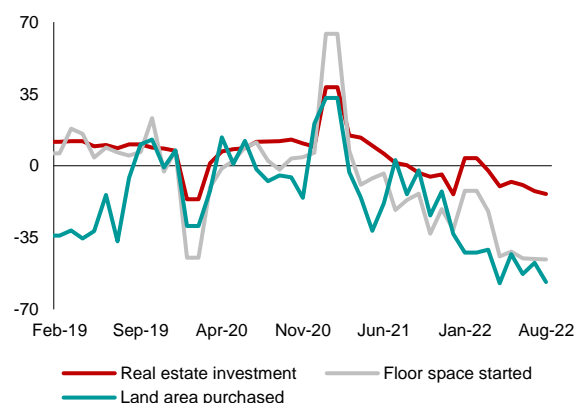
The prolonged war in Ukraine—now in its eighth month—is deepening Europe’s energy crisis, pushing it closer to recession as energy shortages and soaring prices hit economic activities. In the United States, aggressive monetary tightening to fight stubbornly high inflation—the US Federal Reserve hiked its benchmark rate by 75 basis points in July and again in September, for a total of 150 basis points—is intensifying fears of a hard landing.

ASEAN+3 exports have held up well so far, but face strong headwinds. The region’s exports have expanded somewhat since April, helped by easing global supply chain disruptions and favorable prices for its goods (particularly commodities) (Figure 4). However, weakening demand in the United States and Europe, as well as in China, is likely to hold back the pace of expansion. The July–August Purchasing Managers’ Index for new export orders points to a softening in global demand for key exports like electronics, automobiles and auto parts, and machinery and equipment.

Global food and crude oil prices have fallen from their peaks earlier this year. World food prices declined for the fifth consecutive month in August, helped by the resumption of wheat exports from Ukraine, improved cereal production prospects in North America and Russia, and higher supply of edible oils (especially palm oil). Still, food prices are about 8 percent higher compared to a year ago.

Figure 3. China: Selected Real Estate Activity Indicators

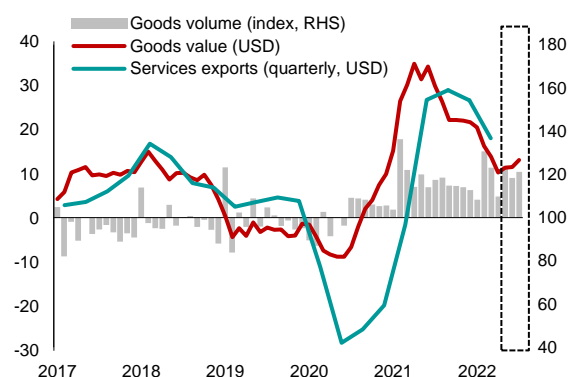
(Percent, year-on-year)



Source: National authorities via Haver Analytics.

Figure 4. Selected ASEAN+3: Export Growth

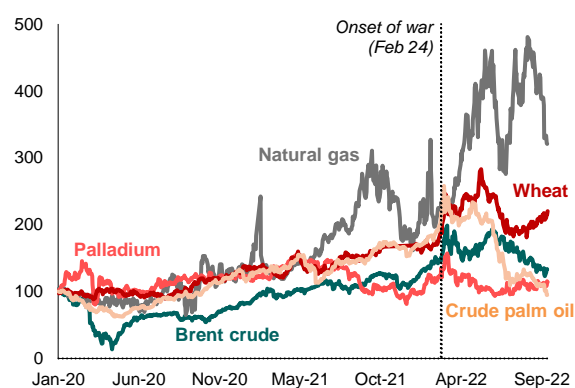
(Percent, year-on-year; Index, 2019 = 100)



Source: National authorities; AMRO staff calculations. Note: Services exports data for Q2 2022 exclude Brunei and Myanmar.

Figure 5. Selected Energy, Mining and Agricultural Products

(Index, 2 Jan 2020 = 100)



Source: Bank Negara Malaysia, Financial Times, Johnson Matthey, US Energy Information Administration, Wall Street Journal, and World Bank, via Haver Analytics. Notes: Palladium price refers to the Johnson Matthey base price. Wheat price refers to Kansas City wheat.

Similarly, the price of crude oil, despite having dropped by 30 percent from its peak in March, remains 10 percent higher than it was at the beginning of the year (Figure 5).

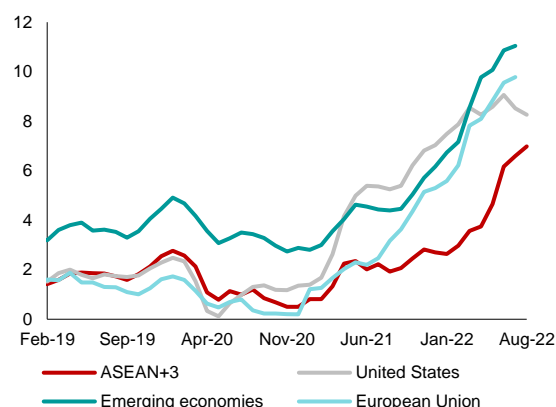
But inflation is still accelerating across the region. ASEAN+3 headline inflation rose to about 6.8 percent in July-August, from 4.9 percent in Q2 2022. Fuller pass-through from still-elevated global food and fuel prices, subsidy cuts in some economies, and weaker currencies have pushed overall costs higher. Higher wages, reflecting tight labor markets, are also exerting upward pressure on inflation in Korea and Singapore. All told, however, inflation in ASEAN+3 remains lower than in other parts of the world (Figure 6).

ASEAN+3 central banks are tightening monetary policy to curb inflation and support their currencies. Following the US Federal Reserve's September rate hike, several central banks in the region followed suit, pushing up rates by 50–100 basis points to curb inflationary pressure and help ease downward pressure on their currencies (Figures 7 and 8). The Bank of Japan intervened in the market for the first time in more than two decades to prop up the yen.

Regional Economic Outlook

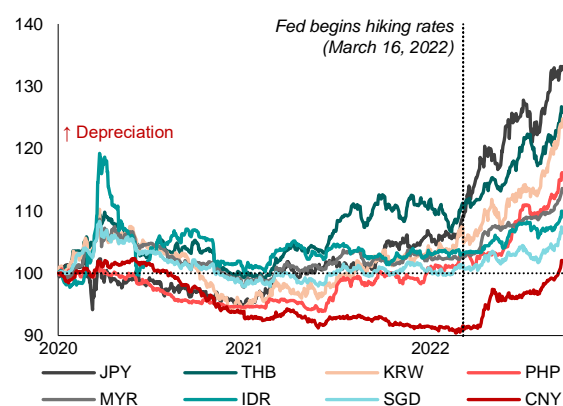
The region's 2022 baseline growth forecasts are revised downwards from the July 2022 AREO Update. ASEAN+3 is now expected to grow at a rate of 3.7 percent this year (July: +4.3 percent), reflecting gloomier prospects for the Plus-3 (Table 1). China's recovery remains constrained by strict COVID-19 containment measures and weakness in the property sector. This, along with weaker growth in other advanced economies and the recent surge in COVID-19 infections, weighed on growth in Japan and Korea. By contrast, ASEAN's growth outlook for 2022 is better as reopening has continued apace.

Figure 6. ASEAN+3 and Selected Economies: Headline Consumer Price Inflation
(Percent, year-on-year)



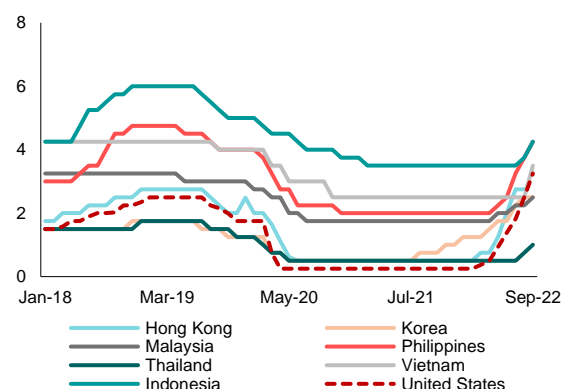
Source: National authorities; AMRO staff calculations.
Note: ASEAN+3 average excludes Brunei, Cambodia, and Myanmar due to unavailability of recent months' data.

Figure 7. Selected ASEAN+3 Economies: Exchange Rate against USD
(Index, 1 Jan 2020 = 100)



Source: National authorities via Haver Analytics; AMRO staff calculations.

Figure 8. Selected ASEAN+3 Economies and United States: Policy Rate
(Percent)



Source: National authorities via Haver Analytics.
Note: Data up to September 2022 except for Hong Kong, Korea, and Thailand (up to August 2022). Data for the United States refers to the upper limit of the federal funds rate.

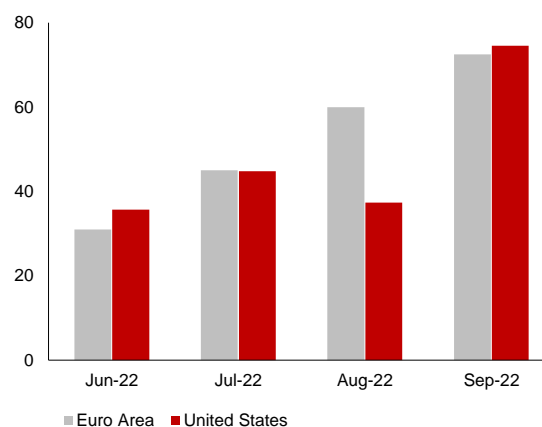
The growth outlook for 2023 is dimmer now than what it was in July. The energy crisis in Europe and the US Federal Reserve’s more hawkish stance on inflation are raising the specter of global recession (Figure 9). Weaker global demand means that exports are likely to slow down, while tighter monetary conditions at home will dampen domestic demand. Overall, ASEAN+3 is expected to grow at a slower pace of 4.6 percent next year than previously forecast (July: +4.9 percent).

Inflation forecasts for 2022 and 2023 are revised upwards. The region’s inflation forecast for 2022 has been raised to 6.2 percent, due to persistent cost-push factors, weaker exchange rates, and the more robust recovery in domestic demand, especially in ASEAN. Price pressures are expected to ebb across the region next year, as global oil and agricultural commodity prices continue to moderate and supply chain bottlenecks continue to unwind. Inflation is forecast at 3.4 percent for 2023 (July: +2.8 percent).

Various negative risks highlight the precariousness of the baseline forecasts (Figure 10):

- **The slowdown in major global economies could be sharper than currently expected.** Simultaneous full-blown recessions in Europe and the United States—both key trading partners of ASEAN+3—would hit the region hard in terms of trade, investment, and tourism. A worse-than-anticipated slowdown in China would compound the impact, especially on the region’s manufacturing and export sectors.
- **More aggressive monetary tightening could be implemented in the United States.** Persistently high inflation could force the US Federal Reserve to hike

Figure 9. US and Euro Area: Probability of Recession in the Next 12–18 Months (Percent)



Source: Bloomberg.
 Notes: Probabilities for the United States (US) are taken from Bloomberg Economics’ US recession model, which uses a range of financial-market, real-economy, and economic-imbalance indicators to gauge the risk of recession in the next 18 months. Probabilities for the euro area are based on Bloomberg surveys to assess the chance of a downturn in the next 12 months.

interest rates (even) more sharply and/or over a prolonged period. This could have negative spillovers to the region in the form of capital outflows, currency depreciations, and higher refinancing risks, especially where private sector external debt has risen sharply due to the pandemic. ASEAN+3 central banks could be pressed to match the tightening pace, meaning borrowing costs in the region would remain higher for longer, further discouraging spending and investment and jeopardizing the full recovery from the pandemic.

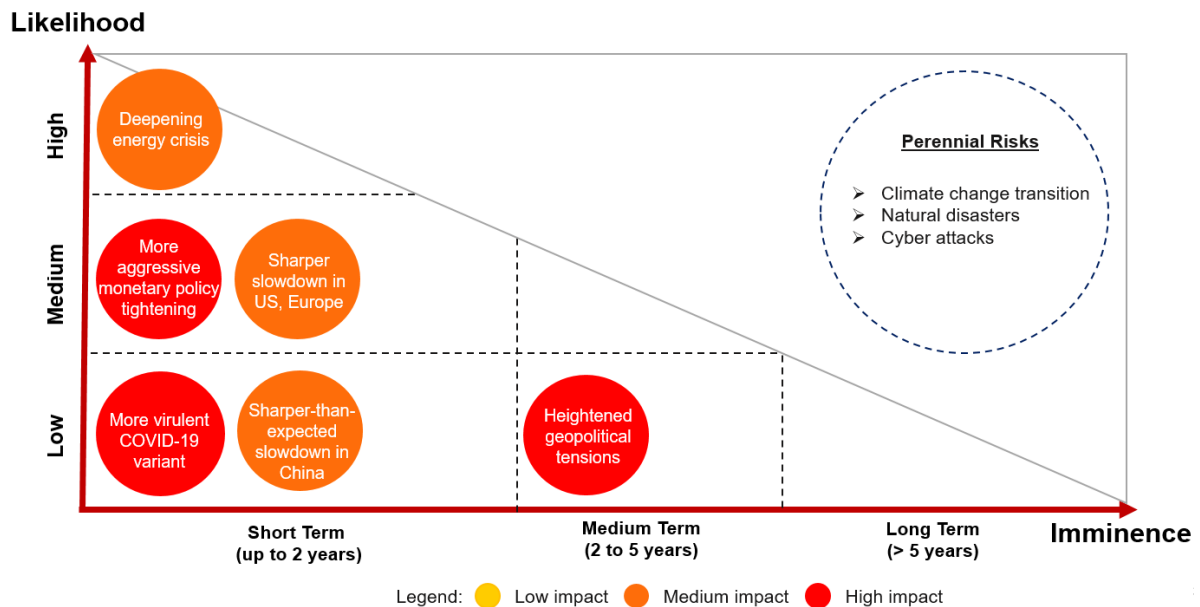
- **A deeper global energy crisis cannot be ruled out.** Russia’s indefinite shutdown of natural gas flows through the key Nord Stream I pipeline has Europe scrambling for alternatives. Surging liquefied natural gas (LNG) prices are already pushing up power costs in the region and this could worsen if further supply risks materialize in the already-tight global LNG market. While oil prices have recently moderated on expectations of a slowing

global economy, supply is also tight and a further escalation of sanctions on Russia and/or production constraints in other key oil exporters could send prices soaring again.

- **A further escalation of the strategic rivalry between the United States and China and the appearance of more virulent COVID-19 strains are tail risks.** A further escalation in US-China strategic rivalry could lead to a broader

decoupling beyond advanced technology to other manufacturing products and services, which could upend existing global value chains and imperil the region’s longstanding growth strategy. As for COVID-19, while the end of the pandemic might now be in sight, according to the World Health Organization, a new wave of deadly sub-variants would be a huge blow to the region’s economies still scarred by the virus.

Figure 10. Regional Risk Map, October 2022



Source: AMRO staff estimates.

Table 1. ASEAN+3: AMRO Growth and Inflation Projections, 2022–23

Economy	Gross Domestic Product (Percent year-on-year)					Consumer Price Index (Percent year-on-year)				
	2021 (Actual)	AREO 2022 Quarterly Update (July 2022)		AREO 2022 Quarterly Update (October 2022)		2021 (Actual)	AREO 2022 Quarterly Update (July 2022)		AREO 2022 Quarterly Update (October 2022)	
		2022 ^p	2023 ^f	2022 ^p	2023 ^f		2022 ^p	2023 ^f	2022 ^p	2023 ^f
ASEAN+3	6.0	4.3	4.9	3.7	4.6	2.1	5.2	2.8	6.2	3.4
Plus-3	6.8	4.1	4.9	3.3	4.5	1.2	2.7	2.0	2.8	2.1
China	8.1	4.8	5.7	3.8	5.3	0.9	2.2	2.0	2.2	2.0
Hong Kong, China	6.4	1.1	3.7	0.3	3.9	1.6	2.0	2.3	2.0	2.3
Japan	1.7	1.8	2.0	1.6	1.6	-0.3	1.8	1.0	2.1	1.1
Korea	4.1	2.5	2.6	2.4	2.3	2.5	4.6	2.6	5.0	3.0
ASEAN	3.1	5.1	5.2	5.3	4.9	2.5	6.2	3.2	7.6	4.0
Brunei Darussalam	-1.6	3.0	3.9	0.7	3.0	1.7	3.2	1.8	3.5	2.0
Cambodia	3.0	4.9	5.8	5.0	5.4	2.9	6.4	4.4	5.3	3.0
Indonesia	3.7	5.1	5.4	5.2	5.1	1.6	3.4	3.6	4.4	5.0
Lao PDR	2.6	3.5	4.9	4.0	3.9	3.8	14.3	4.6	20.2	9.7
Malaysia	3.1	6.0	5.0	7.3	4.2	2.5	3.0	2.2	3.5	2.5
Myanmar	-18.7	1.5	-	1.2	-	3.6	12.0	-	18.0	-
The Philippines	5.7	6.9	6.5	6.9	6.3	3.9	4.4	3.8	5.1	4.0
Singapore	7.6	3.9	2.4	3.1	2.0	2.3	5.2	3.7	5.9	4.1
Thailand	1.6	3.2	4.9	3.2	4.8	1.2	6.3	1.2	6.3	2.5
Vietnam	2.6	6.3	6.5	7.0	6.5	1.8	3.5	3.3	3.5	3.3

Source: AMRO staff estimates.

Note: AREO = ASEAN+3 Regional Economic Outlook report. p = projection, f = forecast. Regional aggregates for growth are estimated using the weighted average of 2021 GDP on purchasing power parity basis; regional aggregates for inflation are computed using simple averaging. Myanmar's numbers are based on its fiscal year which runs from October 1 of the previous year to September 30 of the current year.