

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

ASEAN+3 Macroeconomic Research Office (AMRO)

Singapore

July 2023

This report was co-authored by Megan Chong, Marthe M. Hinojales, Catharine Kho, and Anthony Tan (lead), under the supervision of Ling Hui Tan and Allen Ng (all Regional Surveillance), with contributions from AMRO country desk economists. The report was reviewed by AMRO Senior Management and approved by Hoe Ee Khor (Chief Economist).

Unless otherwise indicated, the analysis in this report is based on information available up to 10 July 2023. For brevity, “Brunei Darussalam” is referred to as “Brunei”, and “Hong Kong, China” is referred to as “Hong Kong” in the text and figures.

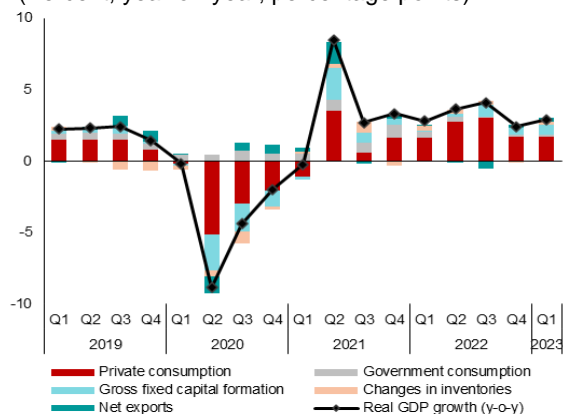
Highlights

- Growth in ASEAN+3 is supported by resilient domestic demand, while headline inflation has moderated across most of the region's economies.
- Growth forecast for the ASEAN+3 region remains unchanged from the April AREO2023. Headline inflation for most regional economies is projected to ease further.
- Downside risks have receded slightly mainly on account of better-than-expected improvement in the global economy.

Regional Economic Developments since AREO2023 in April

Domestic demand in the ASEAN+3 region remained resilient in the first quarter of 2023. Private consumption growth stayed firm in most economies, sustained by steady recovery in the labor market and easing inflation (Figure 1). In China, economic activities rebounded strongly in the first quarter of 2023 after the post-pandemic reopening late last year. Investment activities, previously disrupted by pandemic restrictions, also picked up pace.

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

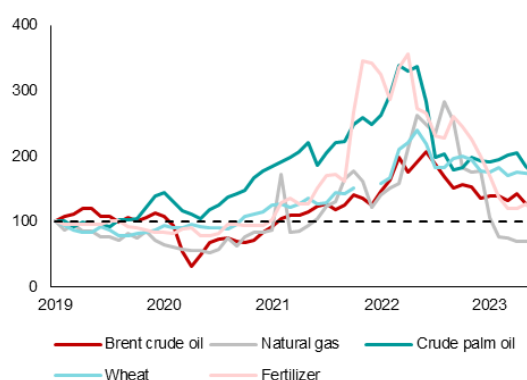


Source: National authorities via Haver Analytics; AMRO calculations. Note: Statistical discrepancies are not shown. Excludes Cambodia, China, Lao PDR, Myanmar, and Vietnam due to data unavailability.

Headline inflation moderated across most of the region, thanks to easing global commodity prices (Figure 2) and normalization of supply chains. Headline inflation remained relatively elevated in the Philippines and Singapore due mainly to supply constraints in various sectors. Core inflation (which excludes food and energy prices) has been relatively sticky, especially

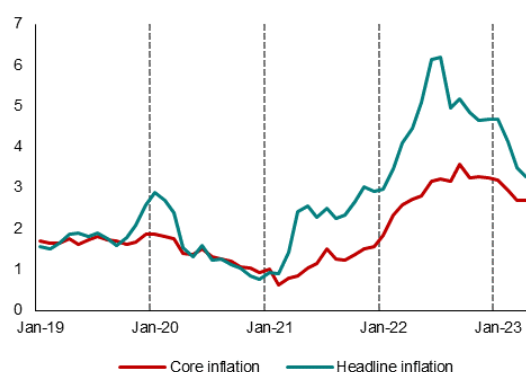
in those economies where demand conditions were strong (Figure 3).

Figure 2. World: Commodity Prices
(Index, 2019 = 100)



Source: Bank Negara Malaysia, Financial Times, US Energy Information Administration, Wall Street Journal, and World Bank, via Haver Analytics. Note: Wheat price refers to Kansas City wheat, natural gas refers to Henry Hub Natural Gas.

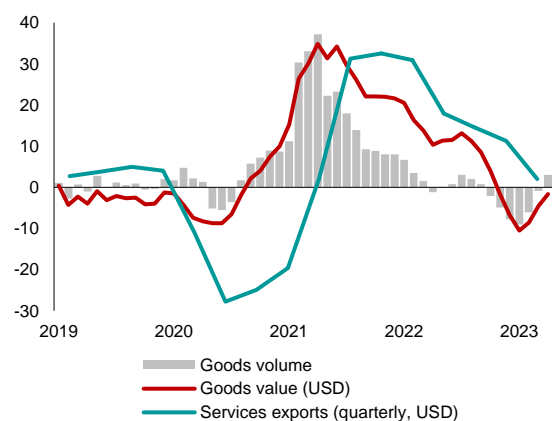
Figure 3. ASEAN+3: Average Headline and Core Inflation
(Percent, year-on-year)



National authorities via Haver Analytics; AMRO staff calculation. Note: Average headline and core inflation refer to the respective trim means, which exclude outliers. Core inflation excludes food and energy. For Singapore, core inflation refers to the MAS core inflation. Data are up to June 2023, except Malaysia, Singapore, China, Japan, and Hong Kong (up to May 2023), Brunei and Cambodia (up to April 2023), and Myanmar (up to July 2022).

Weak global demand depressed ASEAN+3 goods exports in the first half of 2023, but signs of a turnaround are emerging. The drag on exports was particularly acute for highly-open ASEAN+3 economies. While goods export growth remained negative at -1.6 percent (year on year, 3-month moving average) in April 2023, it is an improvement compared to -10 percent in January amid continued softening in global economic activity and the cyclical downturn in the semiconductor sector (Figure 4). In volume terms, goods export growth turned positive in April after six consecutive months of contraction, in part due to improving demand in the United States and China. Purchasing Managers' Index (PMI) indicators for new orders of key regional export products including machinery and automobiles, point to a gradual improvement over the next few quarters. In addition, global demand for semiconductors is forecast to rebound in 2024, which should give further lift to the region's exports.

Figure 4. Selected ASEAN+3: Export Growth (Percent, year-on-year; Index, 2019=100)

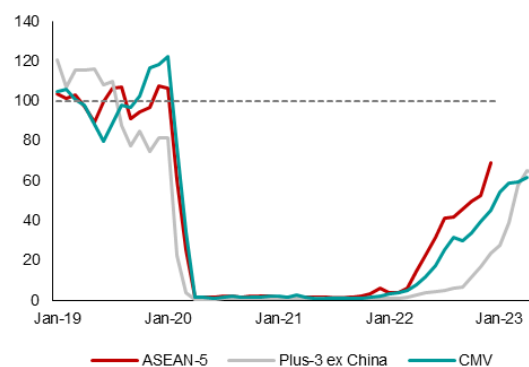


Source: National authorities via Haver Analytics; AMRO staff calculations.
 Note: Goods exports data are up to April 2023; services exports data (quarterly) are up to Q4 2022, and exclude Brunei and Myanmar.

In the meantime, services exports—particularly tourism—are posting a rapid recovery. Tourist arrivals into the Plus-3 and CMV economies exceeded 50 percent of the pre-pandemic level in the first quarter of 2023 (Figure 5), and the steady return of Chinese visitors is poised to boost the

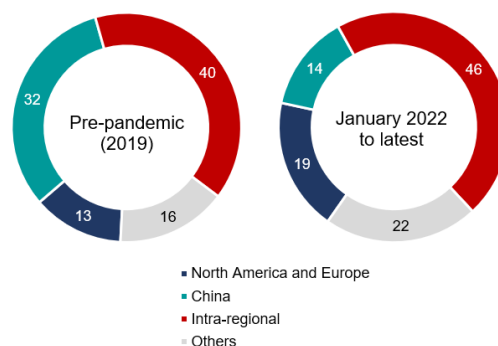
sector further. Intra-regional tourism has been particularly robust, offsetting the slow return of tourists from China thus far due to the late reopening of borders (Figure 6).

Figure 5. Selected ASEAN+3: Tourist Arrivals (Index, 2019 = 100)



Source: National authorities via Haver Analytics; AMRO staff calculations.
 Note: Excludes Lao PDR due to data unavailability. ASEAN-5 = Indonesia, Malaysia, Philippines, Singapore and Thailand. CMV = Cambodia, Myanmar and Vietnam. Data are up to May 2023 for the Plus-3 (excluding China), up to April 2023 for CMV, and up to December 2022 for ASEAN-5.

Figure 6. Selected ASEAN+3: Composition of Tourist Arrivals by Source Country/Region (Percent)



Source: National authorities via Haver Analytics; AMRO staff calculations.
 Note: Selected ASEAN+3 refers to Hong Kong, Japan, Korea, Malaysia, Philippines, Singapore, Thailand and Vietnam. Latest data are up to May 2023, except Japan and Korea (to up April 2023) and Malaysia and Philippines (up to December 2022).

Financial markets in the region remain volatile. The increase in market risk aversion since March—following banking sector distress in the United States and Europe, signs of weakness in China's recovery, and threat of US debt default—has put downward pressure on many of the region's currencies and equity markets (Figure 7). On the other hand, bond yields have fallen across the region—mainly reflecting easing inflation pressures and the

consequent slowdown in monetary tightening by ASEAN+3 central banks and the US Federal Reserve. However, lingering uncertainty over the pace and end of the US Federal Reserve's tightening cycle may continue to dampen demand for emerging market assets.

Figure 7. Selected ASEAN+3: Currencies and Equity Market Performance

	Benchmark equity		Currency (vs USD)		10yr yield (bp)	
	1 Jan-28 Feb	1 Mar-6 Jul	1 Jan-28 Feb	1 Mar-6 Jul	1 Jan-28 Feb	1 Mar-6 Jul
CN	6.2%	2.4%	-0.5%	-4.4%	7.7	-27.3
HK	0.0%	-7.0%	-0.5%	0.3%	17.4	-3.4
JP	5.2%	18.0%	-4.1%	-5.4%	8.7	-6.2
KR	8.4%	4.7%	-3.9%	1.3%	19.5	-11.3
ID	-0.1%	-1.6%	2.1%	0.7%	-3.6	-64.3
MY	-2.8%	-4.9%	-1.9%	-4.0%	-12.2	-1.1
PH	-0.2%	-2.5%	0.7%	-0.4%	-67.2	33.5
SG	0.3%	-3.8%	-0.5%	-0.3%	25.5	-16.2
TH	-2.8%	-3.0%	-2.2%	0.3%	-5.1	-2.0
VN	1.7%	10.2%	-0.7%	0.5%	-54.0	168.0

Source: Haver Analytics.

Regional Economic Outlook

Our 2023–24 growth forecasts for ASEAN+3 economies are largely unchanged from the April AREO2023. The ASEAN+3 region is still expected to grow by 4.6 percent in 2023 (Table 1). The growth forecast for the Plus-3 economies has been raised slightly to 4.6 percent from 4.5 percent in AREO 2023, reflecting the stronger inbound tourism and domestic demand in Hong Kong and Japan. At the same time, the growth forecast for ASEAN has been revised downward to 4.5 percent from 4.9 percent in April, reflecting the impact of weaker external demand on Singapore and Vietnam. In 2024, ASEAN+3 is expected to grow by 4.5 percent.

Our 2023–24 headline inflation forecasts for the 12 ASEAN+3 economies (excluding Lao PDR and Myanmar)¹ are

revised downward from AREO2023. Headline inflation for the 12 ASEAN+3 economies is now expected to moderate to 3.0 percent in 2023 from 4.1 percent in 2022. However, some of these economies, such as the Philippines and Singapore, will continue to see headline inflation above 5 percent this year due mainly to higher domestic costs pressures. In 2024, headline inflation for the 12 ASEAN+3 economies is expected to moderate further to 2.4 percent. In contrast, headline inflation in Lao PDR and Myanmar have been revised upward to around 25 percent to reflect the lingering effects of sharp currency depreciation in both economies.

Downside risks to the growth outlook for the region have, on balance, receded since AREO2023. This is mainly due to the following factors: economic activity in the advanced economies have been quite resilient, stress in the global banking system has eased since March 2023, and commodity prices have been lower-than-expected. The main risks currently on the horizon are the following (Figure 8).

- **Recession in the United States and Europe.** Persistently high inflation in the United States and Europe would compel the US Federal Reserve and the European Central Bank to keep borrowing costs high(er) for an extended period of time. Restoring price stability could come at the cost of inducing an economic recession, which would mean weaker external demand for the region's manufacturing and export sectors.
- **Faltering economic growth in China.** Despite the initial burst of economic activity post-reopening, the projected robust recovery may not materialize if households become more cautious in

¹ Inflation in both economies rose sharply to double digit level due to sharp depreciation of the exchange rates.

spending, real estate weakens further, and export demand remains sluggish. If China's growth falls short of expectations, the region would suffer negative spillovers via trade, investment, and tourism.

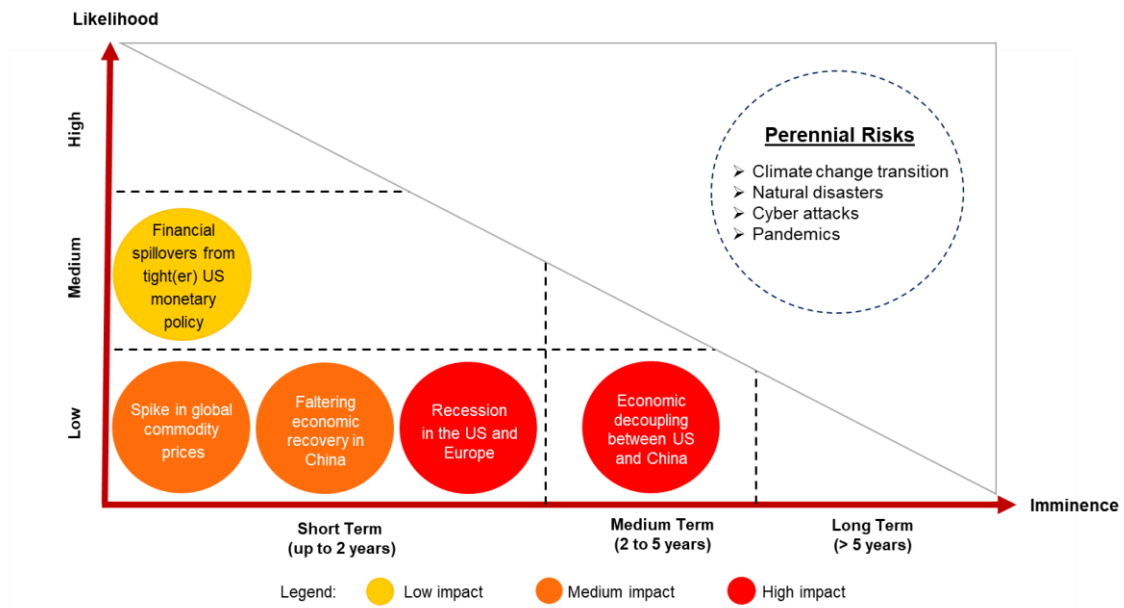
- **Financial spillovers from tight(er) US monetary policy.** Sustained high(er) borrowing costs in the United States could precipitate another episode of financial stress, as demonstrated by the collapse of Silicon Valley Bank and Signature Bank. Tight(er) US monetary policy could put pressure on the commercial real estate and other highly leveraged sector, which could then threaten financial stability through the interconnectedness of the financial system. Another bout of financial stress in the United States could heighten global risk aversion, with negative spillovers to ASEAN+3 in the form of higher risk premia and refinancing costs, and capital outflows—particularly in economies with high non-resident portfolio investments.
- **Spike in global commodity prices.** Ongoing geopolitical developments will continue to drive supply dynamics, despite the easing of global commodity prices since last year. Global energy and food prices could spike again as the Ukraine crisis continues to unfold with the potential for dangerous escalation.

Agriculture supply chains could be disrupted by a looming El Niño weather pattern this year, leading to heatwaves and droughts, and threatening food supply in the region.

- **Economic decoupling of the United States and China.** The current high-tech war between the United States and China could escalate and turn into a more radical separation of the world into two economic blocs leading to a severance of the existing trade and investment linkages in the region, which would have a devastating impact on growth prospects for ASEAN+3 region.

ASEAN+3 also continue to face overlapping sets of perennial risks to macrofinancial stability. Of note, extreme weather events arising from climate change—along with global policy efforts to rapidly mitigate greenhouse gas emissions—pose short- and long-term risks to many economies in the region, and these could exact a large toll on fiscal health and financial system stability. While the near-term risk from COVID-19 has receded, health experts warn of the possible emergence of new infectious diseases globally. Such a scenario could inflict additional economic scars across the ASEAN+3 region.

Figure 8. Regional Risk Map, July 2023



Source: AMRO staff estimates.

Table 1. ASEAN+3: AMRO Growth and Inflation Projections, 2023–24

Economy	Gross Domestic Product (Percent year-on-year)					Consumer Price Index (Percent year-on-year)				
	2022 (Actual)	AREO 2023 (April 2023)		AREO 2023 Quarterly Update (July 2023)		2022 (Actual)	AREO 2023 (April 2023)		AREO 2023 Quarterly Update (July 2023)	
		2023 ^p	2024 ^f	2023 ^p	2024 ^f		2023 ^p	2024 ^f	2023 ^p	2024 ^f
ASEAN+3	3.2	4.6	4.5	4.6	4.5	6.5	4.7	3.0	6.3	3.4
ASEAN+3 (ex. Lao PDR and Myanmar)	-	-	-	-	-	4.1	3.4	2.5	3.0	2.4
Plus-3	2.6	4.5	4.3	4.6	4.3	2.9	2.3	2.1	2.4	2.0
China	3.0	5.5	5.2	5.5	5.2	2.0	2.0	2.5	1.2	1.8
Hong Kong, China	-3.5	4.3	3.0	5.2	3.0	1.9	2.3	2.5	2.3	2.5
Japan	1.0	1.2	1.1	1.4	1.1	2.5	1.5	1.1	2.9	1.6
Korea	2.6	1.7	2.3	1.4	2.3	5.1	3.3	2.2	3.2	2.2
ASEAN	5.6	4.9	5.2	4.5	5.1	7.9	5.7	3.4	7.8	4.0
Brunei Darussalam	-1.6	2.8	2.6	1.0	2.2	3.7	2.5	1.7	0.9	0.7
Cambodia	5.2	5.9	6.7	5.7	6.2	5.4	3.3	3.1	2.8	3.0
Indonesia	5.3	5.0	5.3	5.0	5.3	4.2	4.6	3.0	3.9	2.8
Lao PDR	4.4	4.1	5.0	4.8	5.0	23.0	11.4	4.2	25.7	8.0
Malaysia	8.7	4.2	5.2	4.2	5.2	3.3	3.2	1.9	3.1	2.6
Myanmar	1.2	2.2	2.8	2.2	2.8	18.2	14.0	8.0	26.0	11.0
The Philippines	7.6	6.2	6.5	6.2	6.5	5.8	5.9	3.8	5.9	3.8
Singapore	3.6	2.0	2.6	1.3	2.9	6.1	5.8	3.7	5.4	3.6
Thailand	2.6	4.1	4.3	3.9	4.0	6.1	2.8	2.1	1.9	1.8
Vietnam	8.0	6.8	7.1	4.4	6.4	3.2	3.0	2.5	2.9	2.7

Source: National authorities via Haver Analytics and 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 2022 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.