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 29 September 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

- *Resilient domestic demand and robust tourism flows are supporting economic activity across the ASEAN+3 region, amid continued weakness in external demand.*
- *Despite the anticipated weakness in the global economy next year, the region's growth is forecast to remain robust at 4.5 percent—in view of the expected turnaround in trade and improving growth momentum in China.*
- *Inflation in the region is expected to moderate in 2024, but at a higher rate than previously expected given elevated commodity prices and still-high core inflation. The risk of higher inflation has also increased.*

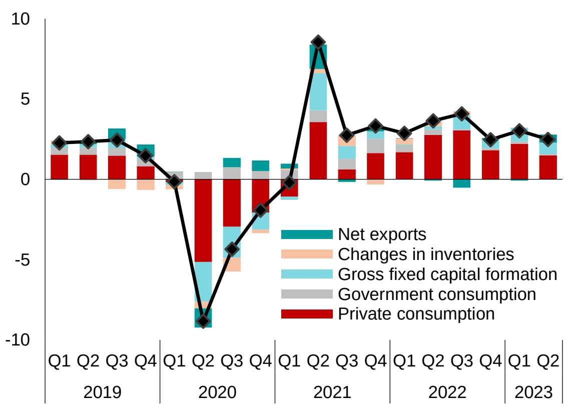
Regional Economic Developments since the *July 2023 AREO Update*

Domestic demand remains the main engine of ASEAN+3 growth. Strong employment conditions and improving household incomes continued to underpin the strength of private consumption (Figure 1). Activities in domestic-oriented sectors—such as retail trade and food and beverage—have also been bolstered by the robust recovery in travel and tourism. Strong consumer spending, in turn, has helped improve business sentiment across the region despite external headwinds, and investment activity has steadily expanded in several economies.

However, economic recovery in China has not been as strong as expected. After the initial boost of growth post-reopening, China weakened in the second quarter. The already-distressed real estate sector faced additional shocks in recent months, which has weighed down on overall investment and consumer sentiment. Nevertheless, outside of the real estate sector, signs of recovery are emerging in investment and manufacturing (Figure 2). Recent policy support measures should further boost these positive signs.

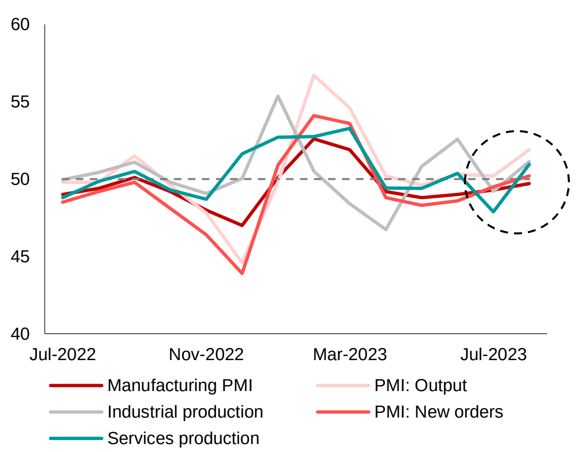
The worst may soon be over for ASEAN+3 goods exports. With muted demand from major trading partners and the downcycle of the global electronics sector, ASEAN+3 goods exports remained weak (Figure 3). The initial pick-up in export volumes—beginning April 2023—has stalled in July, reflecting the drag on China's exports. Nevertheless, the contraction appears to be easing across the

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.

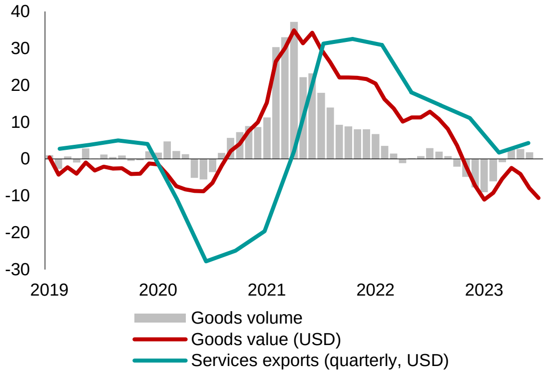
Figure 2. China: Selected Activity Indicators
(Index, 50 and above = expansion)



Source: National authorities via Haver Analytics; AMRO staff estimates.
Note: A reading above 50 indicates an expansion in activities, while a reading below 50 indicates a contraction.

region: 7 out of 10 economies have seen improving export volumes in the last three months compared to their January–April averages. The July–August Purchasing Managers' Index indicators on future export orders likewise point to less pessimism among ASEAN+3 exporters.

Figure 3. Selected ASEAN+3: Export Growth
(Percent, year-on-year)

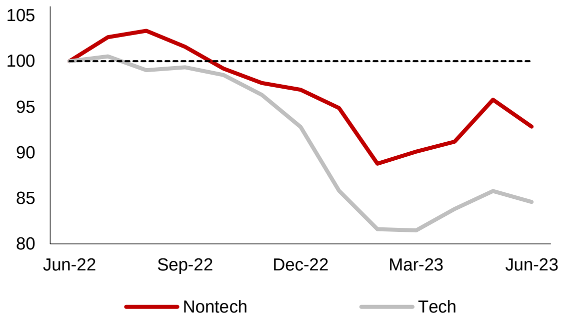


Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: Goods exports data are up to July 2023 and are 3-month moving averages; services exports data (quarterly) are up to Q1 2023.

Non-tech exports are contracting less, providing some counterbalance against the sharp weakness in chips-related exports (Figure 4). The value of ASEAN+3 auto exports in the first half of 2023 grew about 50 percent year-on-year, in part reflecting the ongoing pick-up in demand for durable goods in the United States. The latter will be supportive of the region's short-term export outlook, despite signs of (services-led) moderation in overall US economic activity (Figure 5). Meanwhile, chips exports should be an additional growth driver next year as the global semiconductor cycle gradually moves upward (Box 1).

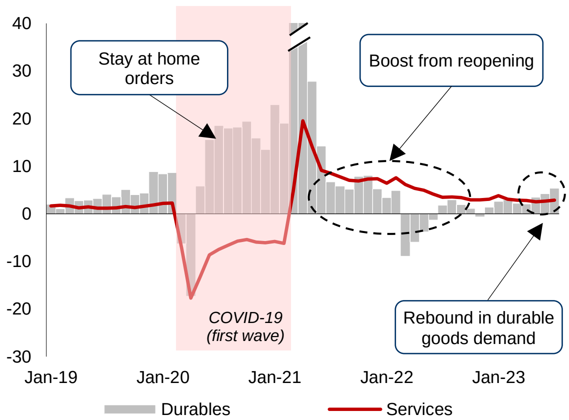
Brisk tourism activity continues to lift the region's service exports. ASEAN+3 tourist arrivals, on average, have exceeded 70 percent of their pre-pandemic level in the second quarter of 2023 (Figure 6). Service exports across most economies are at about 80 percent of their 2019 values, except in Thailand and Cambodia—around 60 percent—given their big tourism sectors and exposure to Chinese tourists. ASEAN+3 tourist volume is expected to fully return to its pre-pandemic level next year, as outbound Chinese tourism picks up pace.

Figure 4. Selected ASEAN+3: Export Growth, by Product Type
(Index, Q2 2022 = 100)



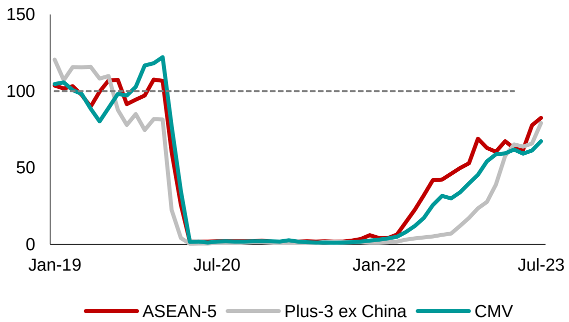
Source: IHS Markit; and AMRO staff calculations.
Note: Data refers to export values in US dollars. "Tech" covers goods that fall under HS codes 8541–42 and 8486 (all semiconductor-related). Data excludes Cambodia, Myanmar, and Lao PDR.

Figure 5. United States: Growth in Private Consumption
(Percent, year-on-year)



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

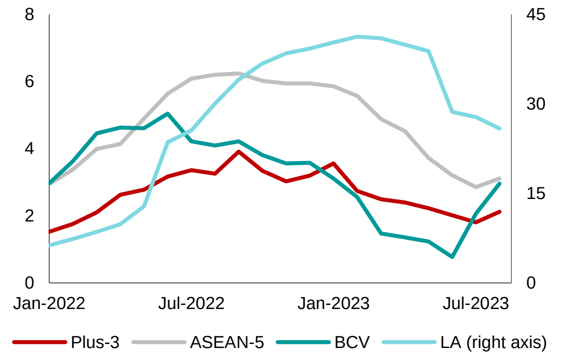
Figure 6. Selected ASEAN+3: Tourist Arrivals
(Index, 2019 = 100)



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. June-July 2023 arrivals data for Malaysia and Myanmar are AMRO staff estimates.

Inflation across the region rose towards the end of the third quarter, driven by higher energy and food prices (Figure 7). In September, crude oil prices hit their highest since the start of 2023, following Saudi Arabia and Russia's decision to extend their oil production cuts until the end of this year. Meanwhile, the unexpectedly dry weather conditions due to El Niño, compounded by export restrictions by key producers, has disrupted agricultural supply and led to the spike in food prices. Core inflation remained higher than headline inflation in some economies, mainly reflecting strong demand pressures.

Figure 7. ASEAN+3: Headline Consumer Inflation
(Percent, year-on-year)

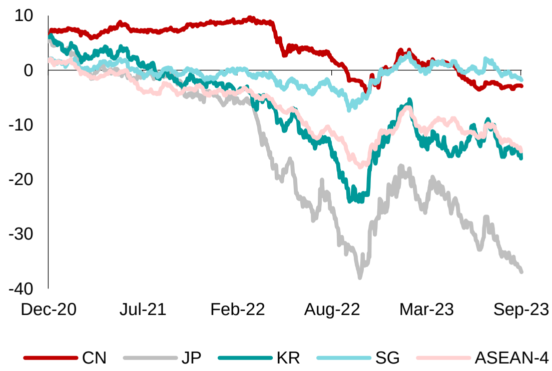


Source: National authorities via Haver Analytics.
Note: ASEAN-5 = Indonesia, Malaysia, Philippines, Singapore, and Thailand; BCV = Brunei, Cambodia, and Vietnam; LA = Lao PDR.

ASEAN+3 financial markets came under renewed pressure in the third quarter following concerns over China's growth prospects and the global interest rate outlook. Equity markets across the region weakened in August as the default of another large property developer in China sparked concerns over the likelihood of a systemic crisis. Meanwhile, continued interest rate increases in advanced economies have pushed up ASEAN+3 bond yields while putting downward pressure on many of the region's currencies (Figure 8).

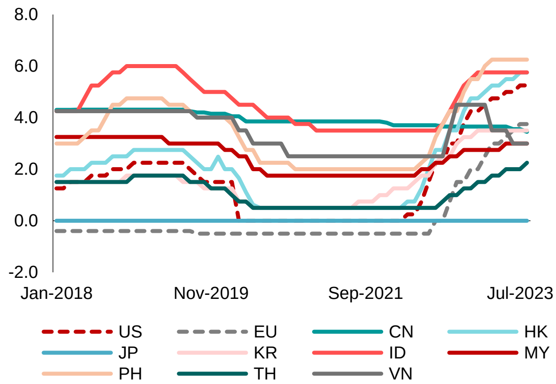
Monetary policy remains tight in most ASEAN+3 economies. Since the *July 2023 AREO Update*, two economies have raised their policy rates: Hong Kong in July, in line with the increase in the US Federal Funds rate, and Thailand in August and September, given expectation of continued economic recovery. In contrast, China reduced its one-year prime lending rate by an additional 10 basis points in August—following a similar move in June—in order to boost domestic demand. Elsewhere in the region, policy rates remained unchanged, with central banks maintaining a tight monetary policy stance amid continued inflationary pressures (Figure 9).

Figure 8. Selected ASEAN+3: Exchange Rates Against the US Dollar
(Change from 31 Dec 2019, percentage points)



Source: National authorities via Haver Analytics.
Note: Data are up to August 2023. ASEAN-4 is the simple mean of changes since December 31, 2019 in bilateral exchange rate of Indonesia, Malaysia, Philippines and Thailand against the US dollar. CN = China; JP = Japan; KR = Korea; SG = Singapore.

Figure 9. Selected Economies: Policy Interest Rates
(Percent)



Source: National authorities via Haver Analytics.
Note: Data are up to August 2023. Policy rates refer to one-year prime lending rate (China, CN); seven-day reverse repo rate (Indonesia, ID); the target rate for the 10-year government bond yield (Japan, JP); base rate (Hong Kong, HK; Korea, KR); overnight policy rate (Malaysia, MY); overnight reverse repo rate (the Philippines, PH); one-day repurchase rate (Thailand, TH); refinancing rate (Vietnam, VN); federal funds rate (upper range) (United States, US); and deposit facility rate (euro area, EU).

Regional Economic Outlook

The region's 2023 growth estimate is revised downwards from the *July 2023 AREO Update*. Full-year growth is expected to come in at 4.3 percent, from 4.6 percent previously. This mainly reflects the downward adjustment for China to reflect its actual outturn in the second quarter, which in turn offset the forecast upgrade for Japan (Table 1). Nevertheless, ASEAN's aggregate growth estimate for 2023 remains largely unchanged, buttressed in part by strong private sector spending and continuing recovery in tourism.

The growth forecast for 2024 is maintained from July. The ASEAN+3 region is still expected to grow by 4.5 percent in 2024—despite a less sanguine outlook for the global economy—as the effect of China's policy support measures will be felt increasingly next year. Gradual adjustment in its property sector should help augment growth in China, with positive spillover effects across the ASEAN+3. Stronger tourism flows will be supplemented by the expected pick-up in manufacturing exports. However, the weaker pace in global growth will keep a lid on the speed of the region's expansion.

Next year's headline inflation forecast for the 12 ASEAN+3 economies[1] is revised upwards. This year's inflation is forecast at 2.9 percent, taking into account softer-than-expected food and energy prices earlier this year. In 2024, headline inflation is still expected to moderate, but to a higher rate than previously anticipated. Half of the ASEAN+3 region is now expected to see higher inflation rates in 2024 compared to the July assessment, given the upward trend in global commodity prices and still-elevated core inflation in several economies.

The overall balance of risk to the outlook has shifted, with the risk of higher inflation becoming more salient. While the risk of financial spillovers from tighter US monetary policy has subsided somewhat since the *July 2023 AREO Update*, the risk of a surge in global energy and food prices has heightened (Figure 10). Broadly, the 4 main risks that could impact the 2023–24 baseline forecasts include:

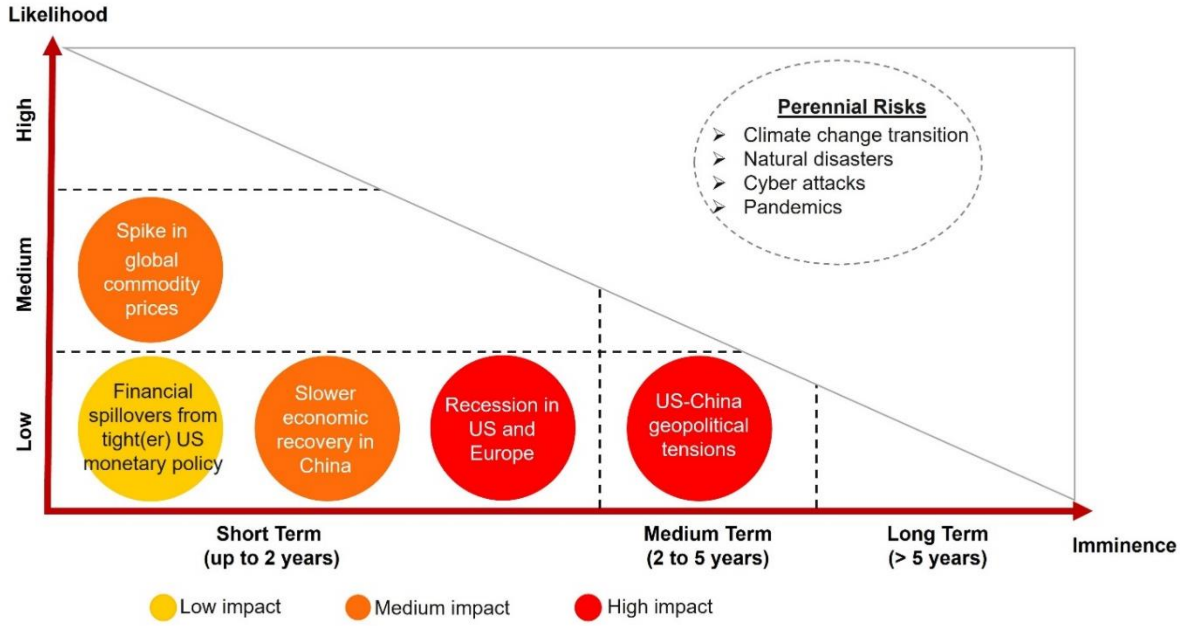
- **Spike in global commodity prices.** Worse-than-expected El Niño conditions and additional export restrictions on food staples could further push up prices in the global market, while further extensions of oil supply cuts into next year would keep energy prices elevated for longer. The negative impact on the region will be sharper if the Ukraine crisis escalates in tandem. Weaker regional currencies vis-à-vis the US dollar would further amplify any terms-of-trade shock.

- **Recession in the United States and Europe.** While fears of recession in advanced economies have diminished in recent months, it cannot be fully discounted—especially if interest rates in the United States and Europe remain high(er) for an extended period. In an alternative scenario where both the United States and Europe fall into recession in 2024, ASEAN+3 growth could dip to below 3 percent—the weakest growth since 1998 outside of the pandemic-induced slowdown in 2020 (Figure 11).

- **Slower-than-expected economic recovery in China.** The weakness in China's property sector could worsen, which in turn could translate to broader risks to the financial system (Box 2). Local governments' fiscal strains

[1] This excludes Lao PDR and Myanmar. Inflation dynamics in both economies are being compounded by the depreciation of their respective exchange rates.

Figure 10. Regional Risk Map, October 2023



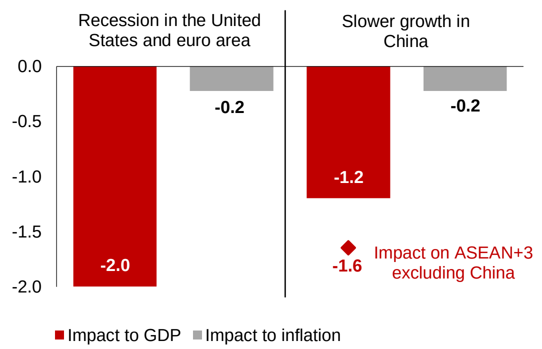
Source: AMRO staff.

could also impinge on the growth outlook. If China's economy slows to 4.3 percent next year—or a full percentage point below the baseline forecast—aggregate growth for other ASEAN+3 economies could be 1.6 percentage points lower—resulting from the decrease in trade, investment, and tourism (see Figure 11).

- **Financial spillovers from tight(er) US monetary policy**. Inflation has eased in the United States, but it remains elevated. The resurgence in global commodity prices has cast into question the expected pause in US monetary policy tightening. Sustained higher interest rates will amplify the risk of financial distress across the US economy. The negative impact on ASEAN+3 will manifest through higher domestic interest rates and, as risk aversion heightens, greater volatility in financial markets and capital flows.

Further into the risk horizon, US-China geopolitical tensions remain most pertinent to ASEAN+3 growth prospects. Tensions between China and the United States surrounding trade and technology remain high. Further escalation, through additional or broader restrictions on either side, would adversely impact existing ASEAN+3 trade and investment flows, given the interconnectedness in the global supply chains. In the longer term, chronic climate changes, the emergence of new infectious diseases—especially in the context of the region's aging population—and growing cyber threats are the key risks confronting the ASEAN+3 region.

Figure 11. ASEAN+3: Impact of Selected Adverse Scenarios on 2024 GDP Growth and Inflation
(Percentage points)



Source: Oxford Economics and AMRO staff estimates.
Note: Recession scenario assumes that both the US and euro area contract by 0.5 percent in 2024. Estimates refer to the impact on Plus-3 and ASEAN-5 economies, which account for 96 percent of ASEAN+3's GDP in 2022 (purchasing power parity basis). Aggregate for inflation is computed using simple averaging. Remaining economies are omitted due to data unavailability.

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 Quarterly Update				2022 *(Actual)*	AREO 2023 Quarterly Update			
		July 2023		*October 2023*			*July 2023*		*October 2023*	
		2023[e]	2024[f]	2023[e]	2024[f]		2023[e]	2024[f]	2023[e]	2024[f]
ASEAN+3	**3.2**	**4.6**	**4.5**	**4.3**	**4.5**	**6.5**	**6.3**	**3.4**	**6.5**	**3.8**
ex. Lao PDR and Myanmar	**—**	**—**	**—**	**—**	**—**	**4.1**	**3.0**	**2.4**	**2.9**	**2.6**
Plus-3	**2.6**	**4.6**	**4.3**	**4.3**	**4.4**	**2.9**	**2.4**	**2.0**	**2.4**	**2.0**
China	3.0	5.5	5.2	5.0	5.3	2.0	1.2	1.8	0.6	1.4
Hong Kong, China	-3.5	5.2	3.0	4.7	3.3	1.9	2.3	2.5	2.3	2.5
Japan	1.0	1.4	1.1	1.9	1.1	2.5	2.9	1.6	3.1	1.9
Korea	2.6	1.4	2.3	1.3	2.4	5.1	3.2	2.2	3.4	2.3
ASEAN	**5.6**	**4.5**	**5.1**	**4.4**	**5.0**	**7.9**	**7.8**	**4.0**	**8.2**	**4.5**
Brunei Darussalam	-1.6	1.0	2.2	1.1	2.0	3.7	0.9	0.7	1.0	1.1
Cambodia	5.2	5.7	6.2	5.3	6.2	5.4	2.8	3.0	2.3	2.7
Indonesia	5.3	5.0	5.3	5.0	5.2	4.2	3.9	2.8	3.8	2.8
Lao PDR	4.4	4.8	5.0	4.8	5.0	23.0	25.7	8.0	30.0	11.2
Malaysia	8.7	4.2	5.2	4.2	5.2	3.3	3.1	2.6	3.1	2.6
Myanmar	1.2	2.2	2.8	2.2	2.8	18.2	26.0	11.0	26.0	11.0
The Philippines	7.6	6.2	6.5	5.9	6.5	5.8	5.9	3.8	5.5	3.8
Singapore	3.6	1.3	2.9	1.0	2.9	6.1	5.4	3.6	5.2	4.1
Thailand	2.6	3.9	4.0	3.5	3.9	6.1	1.9	1.8	1.6	2.0
Vietnam	8.0	4.4	6.4	4.7	6.0	3.2	2.9	2.7	3.3	3.4

Revised upwards from July   Revised downwards from July   Maintained from July

Source: National authorities via Haver Analytics and AMRO staff estimates.
Note: AREO = ASEAN+3 Regional Economic Outlook report. e = estimate, 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 (old) fiscal year which runs from October 1 of the previous year to September 30 of the current year.

Box 1. Can ASEAN+3 Trade Look Forward to the Global Electronics Upcycle?[1]

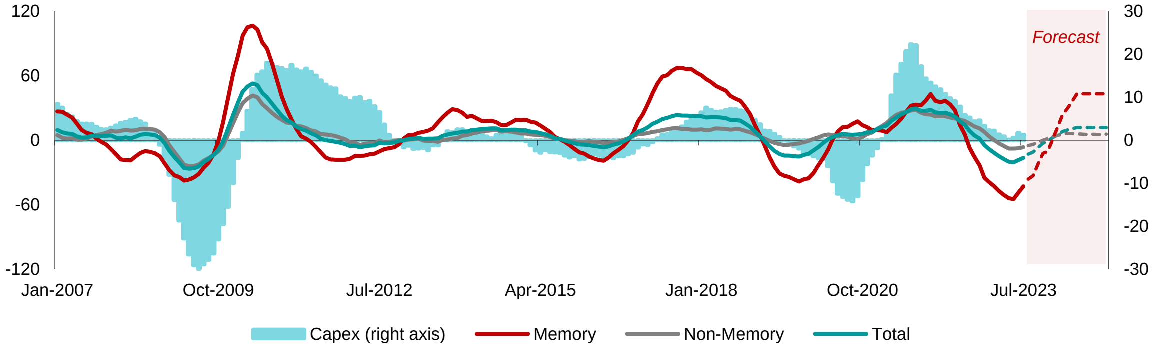
With electronics accounting for a large share of the ASEAN+3's manufacturing base, the boom-bust cycles that affect the global semiconductor sector have significant consequences on the region's export performance. The weakness in ASEAN+3 manufacturing activity in 2022 had been, in part, exacerbated by the sector's cyclical downturn: the chips shortage triggered by COVID-19 turned into supply glut as manufacturers, who had stockpiled chips to build inventories, were hit by a decline in final demand as the global economy slowed.

AMRO's analysis of the global semiconductor cycles points to an initial recovering outlook by year-end (Figure A1). For some devices, the "replacement cycle"—or the time it takes to replace an old unit—suggests that demand is due to pick up soon, to replace those bought during COVID-19.[2] The impact across the region will vary in speed and timing. The non-memory segment is likely to return to expansionary territory first, which should help support manufacturing in China and Japan. The recovery in memory chips—which comprise bulk of ASEAN+3 chip exports, driven by Korea—is likely to materialize later in 2024, coming from its second-deepest trough since the 2000s. This should have positive spillovers to others in the region that are involved in outsourced semiconductor activity (e.g., assembly and testing), like Malaysia, Singapore, and the Philippines.

There is another driver of export demand on the horizon: the eventual recovery in capital spending globally. Recovery in the demand for technology has historically led new capital expenditure (capex), based on empirical data. The correlation between the semiconductor cycle and the capex cycle is about 0.60, slightly higher for non-memory at 0.65.[3] Barring new shocks, the replacement cycle should help drive the "first wave" of demand for ASEAN+3 exports, with the "second wave" from capex. This is also in line with our expectations that business fixed investment, especially in the United States, and to a certain extent, China, will start to firm up by late next year.

US-China tensions over high technology, however, is a downside risk. AMRO's initial analysis of US–China semiconductor-related trade show that about two-thirds fall under what the United States considers "advanced technology." Nevertheless, these goods comprise less than 5 percent of China's total semiconductor-related imports. With China a key driver of global demand for chips, this should limit the impact of *current* US tech restrictions on short-term prospects. Growth in China's demand for US *non-advanced* semiconductor goods has been positive since March 2023.[4]

Figure A1. Global Semiconductor and Capital Expenditure (Capex) Cycles
(Percent, year-over-year, 6-month moving average)



Sources: Haver Analytics; WSTS Inc.; and AMRO staff estimates.
Note: See Box 1.9 in AMRO (2020) for the methodology. Underlying data represent actual global billings up to July 2023 and estimated monthly billings next year using WSTS forecasts. Capex data are for the Germany (as proxy for euro area), Japan, and the United States.

[1] This box was written by Marthe M. Hinojales (Regional Surveillance).
[2] The replacement cycle in the United States, for consumer smartphones, for example, is about 33 months.
[3] Correlations calculated between January 2005 to July 2023.
[4] "Advanced semiconductors" refer to the 39 HS codes in the 2022 "Advanced Technology Products" list by the US Census Bureau that begin with 8541, 8542, and 8486. The value for "non-advanced" semiconductors is calculated as the total value of HS codes 8541–42 and 8486, less that of "advanced semiconductors." China's imports of advanced semiconductors are mirrored using US trade data.

Box 2. Assessing the Risks from China's Property Sector[1]

Problems in China's property sector have raised concerns about systemic risks in the ASEAN+3 region. Market-based risk indicators show that financial conditions have improved since authorities' announcement of the 16-point rescue plan in November 2022. Prior to that, a financial stress index constructed for China had reached levels not seen since the COVID-19 pandemic, driven by the property sector's troubles. However, financial pressures abated shortly after the plan's announcement (Figure A2.1). Other indicators also show that risk has moderated. The 1-year to 1-month probability of default (PD) ratio hit a 10-year low following the downgrade of three major developers in November but has since rebounded, as near-term default concerns eased.[2] The PD distribution spread, while still volatile, has tightened.[3] The share of assets under stress fell to 13 percent in July 2023 from 50 percent in October 2022 (Figure A2.2). While the debt-at-risk in three industries related to the property sector also increased in 2022, liquidity buffers are sufficient to cover short-term loans (Figure A2.3).

Spillover analyses suggest that even if property sector risks were to manifest in Hong Kong and China's financial sectors, the impact on the financial systems in the ASEAN+3 region is likely to be limited (Table A2.1). Thus, spillovers are likely to be transmitted via the real channel, through slower growth in China and its demand for imports. AMRO analysis suggests that a 20 percent contraction in real estate investment in China could lead to GDP growth reduction in 9 ASEAN+3 economies next year by about 0.2 to 0.6 percentage points.[4]

Figure A2.1. China: Daily Financial Stress Index
(z-score)

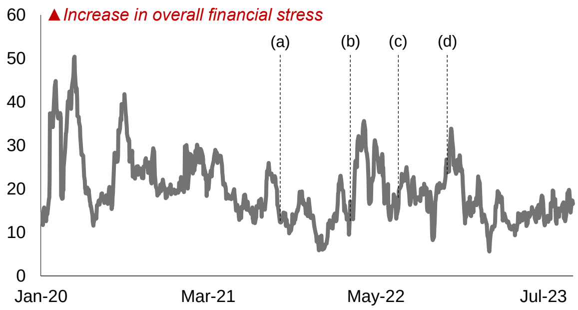
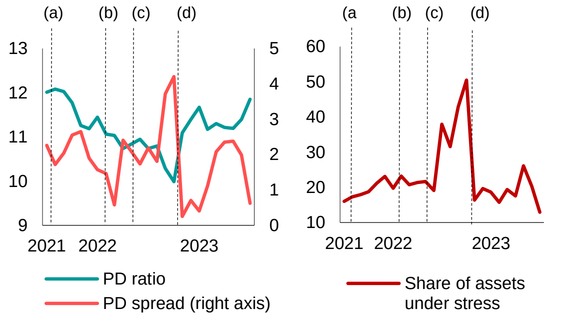
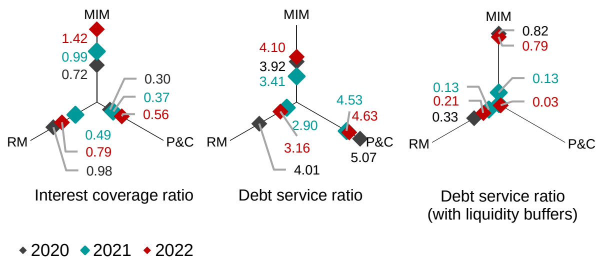


Figure A2.2. China: Monthly Property Sector Risk Indicators



Source: Haver Analytics; National University of Singapore Credit Research Initiative; and AMRO staff estimates.
Note: (a) = September 2021: Evergrande missed payment deadline; (b) = March 2022: Sunac's credit rating is downgraded; (c) = June 2022: Country Garden's credit rating is downgraded; (d) = November 2022: China's announces 16-point plan; PD = probability of default.

Figure A2.3. China: Debt-at-Risk Indicators, Selected Sectors
(Percent of GDP)



Source: Orbis, and AMRO staff (forthcoming 2023).
Note: Data covers firms with interest coverage ratio less than 1.25 and debt service ratio less than 1.0 as in Ong and Ho (2022). liquidity buffers = cash or cash equivalents; MIM = manufacturing, industrial, and machinery; P&C = property & construction; RM = raw materials.

Table A2.1. Selected ASEAN+3: Estimated Impact of Spillovers from China and Hong Kong
(Percent of variance)

FROM: / TO:	Hong Kong financial sector			China financial system			China property sector		
	2008-09	2021-22	2023	2008-09	2021-22	2023	2008-09	2021-22	2023
China	17	17	20				5	14	15
Hong Kong				17	19	20	4	5	10
Indonesia	9	4	3	8	4	2	2	1	1
Japan	8	4	3	8	4	4	1	1	1
Korea	10	7	6	10	8	8	1	3	3
Malaysia	8	3	3	8	3	5	2	1	2
Philippines	8	2	1	8	2	2	1	1	0
Singapore	12	8	7	11	6	6	2	2	2
Thailand	10	5	5	10	5	6	2	1	3

Source: Bloomberg Finance L.P.; and AMRO staff estimates.
Note: Spillovers are proportional to the contribution of the property stock price index (China) and banking sector stock price indices (China and Hong Kong) to explain the forecast variance of regional banking indices, as in Antonokakis and others (2020).

[1] This box was written by Jorge Chan-Lau and Michael Wynn (both Macro-Financial Research Group), summarizing the findings in Ong and others (2023), *The RISK from China's Property Sector*.
[2] The PD ratio declines in stress periods as near-term default risk rises faster than medium-term default risk.
[3] The PD distribution spread is the difference between the average PD of the riskiest and safest quartiles in the PD distribution of property companies. It widens during stress periods due to faster increases in default risk among less creditworthy firms.
[4] Analysis excludes Brunei Darussalam, Cambodia, Lao PDR, and Myanmar due to data unavailability.