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

ASEAN+3 Macroeconomic Research Office (AMRO)

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Unless otherwise indicated, the analysis in this report is based on information available up to 17 January 2024. For brevity, “Brunei Darussalam” is referred to as “Brunei”, and “Hong Kong, China” is referred to as “Hong Kong” in the text and figures.

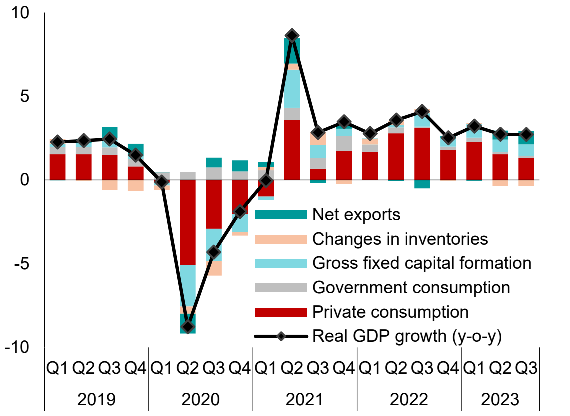
Highlights

- *Better-than-expected economic performance for ASEAN+3 in 2023 following exports turnaround and moderating inflation. Domestic demand remained the anchor of growth.*
- *ASEAN+3 is forecast to expand by 4.5 percent in 2024, as the improving external sector lends further support to resilient domestic demand.*
- *Headline inflation to continue to moderate in 2024, consistent with moderating global commodity prices and tighter monetary conditions. However, upside risks to inflation remain salient.*

Regional Economic Developments since the *October 2023 AREO Update*

Robust domestic demand continues to underpin growth in ASEAN+3. Private consumption remained firm, driven by favorable labor market conditions amid lower inflation (Figure 1). Retail sales and spending on services continued to be robust, benefiting from the ongoing recovery in travel and tourism. Investment activity picked up pace for ASEAN economies in line with increases in investment approvals. On the other hand, capital expenditure in machinery and equipment in Japan and Korea remained weak amid modest exports performance.

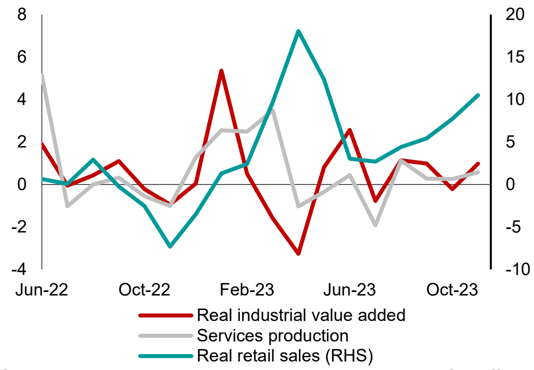
Figure 1. Selected ASEAN+3: Contribution to Real GDP Growth
(Percent, year-on-year; percentage points)



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.

Economic activities in China appear to be stabilizing. Industrial production has rebounded to expand at the fastest rate since February 2022, while the services sector has continued to grow in the final quarter of 2023 (Figure 2). Private consumption remains robust, with retail spending strengthening. Additional policy support to boost infrastructure investment, such as the rebuilding of natural disaster-hit areas, are expected to bolster China's near-term growth momentum.

Figure 2. China: Selected Activity Indicators
(Percent, year-on-year)

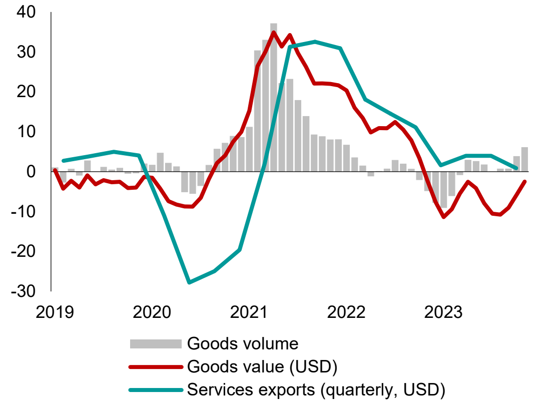


Source: National authorities via Haver Analytics; AMRO staff estimates.
Note: Real retail sales is obtained by deflating nominal retail sales with the consumer price index.

ASEAN+3 goods exports gradually improving. The region's exports value has been contracting at a slower pace since the second quarter of 2023 (Figure 3). Nine out of 13 economies registered improving export performance between August–October, compared to the three months prior. Nevertheless, the pace of recovery varies widely across economies. The rebound in global chips cycle—especially in advanced semiconductors—has benefitted exports of the Plus-3 economies, particularly Korea (Figure 4). Meanwhile, exports from ASEAN economies were dampened by lower global commodity prices and weak demand for non-tech products, such as textiles. The normalization of goods demand from the

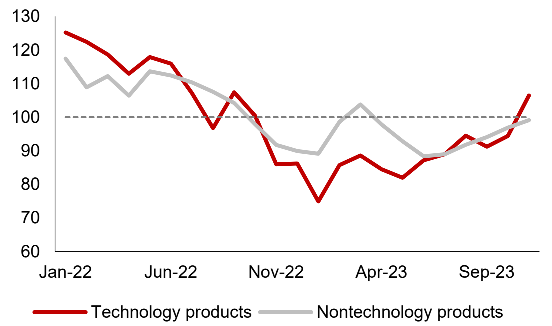
United States could also have lingering impact on exports demand for the region (Box 1).

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 November 2023 and are 3-month moving averages; services exports data (quarterly) are up to Q3 2023.

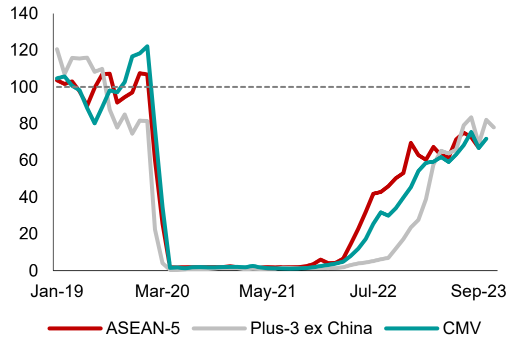
Figure 4. Selected ASEAN+3: Export Growth, by Product Type
(Index, Corresponding month in previous year = 100)



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

Tourism continues to lift ASEAN+3 service exports. Reflecting seasonal factors as well as the gradual return of Chinese tourists, ASEAN+3 visitor arrivals have stabilized at around 80 percent of their pre-pandemic levels between September to November (Figure 5). As of Q3 2023, service exports across most ASEAN+3 economies (in balance-of-payment terms) have already exceeded end-2019 values, except for a few economies such as Thailand and Cambodia—at around 65 percent—given their large reliance on tourism sector. Holiday travel is expected to provide a further lift to tourist arrivals for the whole of 2023, and a full recovery to pre-COVID-19 levels is anticipated to materialize later in 2024.

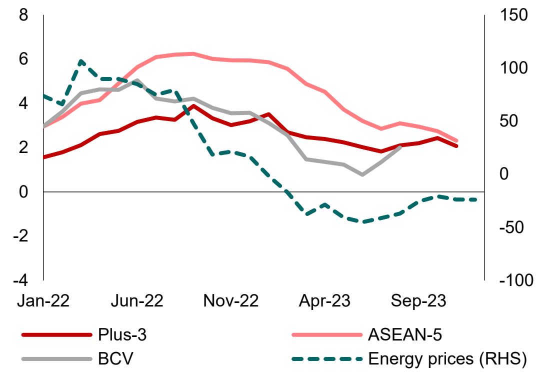
Figure 5. Selected ASEAN+3: Tourist Arrivals
(Index, 2019 = 100)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: Excludes Lao PDR due to data unavailability. Plus-3 ex China = Hong Kong, Japan, and Korea. ASEAN-5 = Indonesia, Malaysia, Philippines, Singapore and Thailand. CMV = Cambodia, Myanmar and Vietnam. Data are up to September 2023 (ASEAN-5), October 2023 (CMV) and November 2023 (Plus-3).

Headline inflation moderated further in the fourth quarter of 2023. Inflation trended downwards in tandem with global commodity prices (Figure 6). Global energy prices declined further due mainly to weaker global demand and high inventory levels. At the same time, food prices for most staples, excluding rice, also declined due mainly to bumper crop production. Core inflation remains elevated for most regional economies, reflecting firm domestic demand conditions.

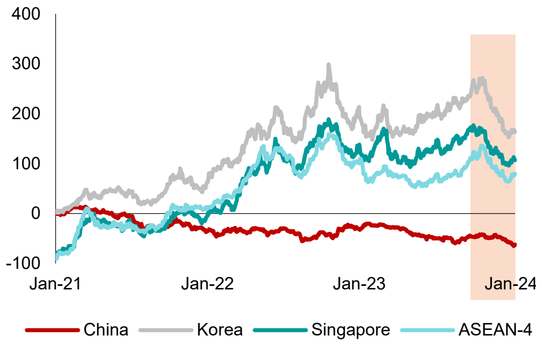
Figure 6. World and ASEAN+3: Headline Consumer Inflation and Energy Prices
(Percent, year-on-year)



Source: National authorities, and World Bank Commodity Price Index via Haver Analytics.
Note: Plus-3 = China, Hong Kong, Japan, and Korea. ASEAN-5 = Indonesia, Malaysia, Philippines, Singapore, and Thailand; BCV = Brunei, Cambodia, and Vietnam; Energy prices refer to the World Bank's Commodity Price Index.

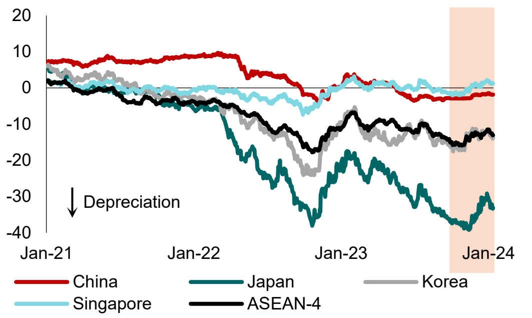
Regional financial markets rebounded in the last two months of 2023, tracking the strong rally in global stock and bond markets. Interest rate expectations shifted after inflation fell faster than expected in major western economies. Market participants no longer anticipate further rate increases by the Federal Reserves, giving stock markets a major boost, with positive spillovers to ASEAN+3. Regional bond markets also benefited from the global bond market rally, with yields across regional sovereign bond markets falling roughly to the level where it started in 2023, tracking developments in US Treasuries (Figure 7). Similarly, currencies in the region have also strengthened against the US dollar during this period (Figure 8).

Figure 7. Selected ASEAN+3: 10-year Government Bond Yields
(Basis point change from December 31, 2019)



Source: National authorities via Haver Analytics, and AMRO staff calculations.
Note: ASEAN-4 (average) is the simple mean of changes for Indonesia, Philippines, Malaysia, and Thailand. Data as of January 15, 2024.

Figure 8. Selected ASEAN+3: Currencies against USD
(Percentage change from December 31, 2019)



Source: National authorities via Haver Analytics.
Note: ASEAN-4 (average) is the simple mean of changes in bilateral exchange rate against the US dollar of Indonesia, Malaysia, the Philippines, and Thailand. Data as of January 15, 2024.

Regional Economic Outlook

Growth for ASEAN+3 in 2023 is slightly higher than expected in the *October 2023 AREO Update*. The upward revision to 4.4 percent, from 4.3 percent previously, mainly reflects the turnaround in exports amid robust domestic demand. The stabilization in economic activities in China also provided some lift to the region's aggregate growth (Table 1).

The outlook for 2024 is unchanged from October. The ASEAN+3 region is expected to grow by 4.5 percent, underpinned by improving external demand amid resilient domestic demand. The gradual recovery of China's property sector and the anticipated return of tourism to pre-pandemic levels would also support growth in the region. Nevertheless, the moderation of growth in the United States and the euro area is likely to limit the extent of the improvement in regional exports. Regional exporters' subdued optimism on future orders as reflected in recent Purchasing Managers' Index surveys highlights the continued uncertainty surrounding the outlook for trade.

Inflation forecast for the 12 ASEAN+3 economies[1] for 2023 is revised slightly downward. Headline inflation for 2023 is expected to be marginally lower at 2.8 percent, mainly reflecting the continued moderation in global food and energy prices. In 2024, headline inflation is likely to remain on a moderating trend in line with the continued normalization of global commodity prices. The upward revision in inflation forecast for several ASEAN+3 economies primarily reflect the persistently high core inflation in those economies.

The overall balance of risk remains tilted to the downside. Since the *October 2023 AREO Update,* the risk of financial spillovers

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

from tighter US monetary policy has receded further. Adverse spillovers from the run-up to the US presidential election in November this year have emerged as a new risk. The major risks that could impact the 2023–24 baseline forecasts are:

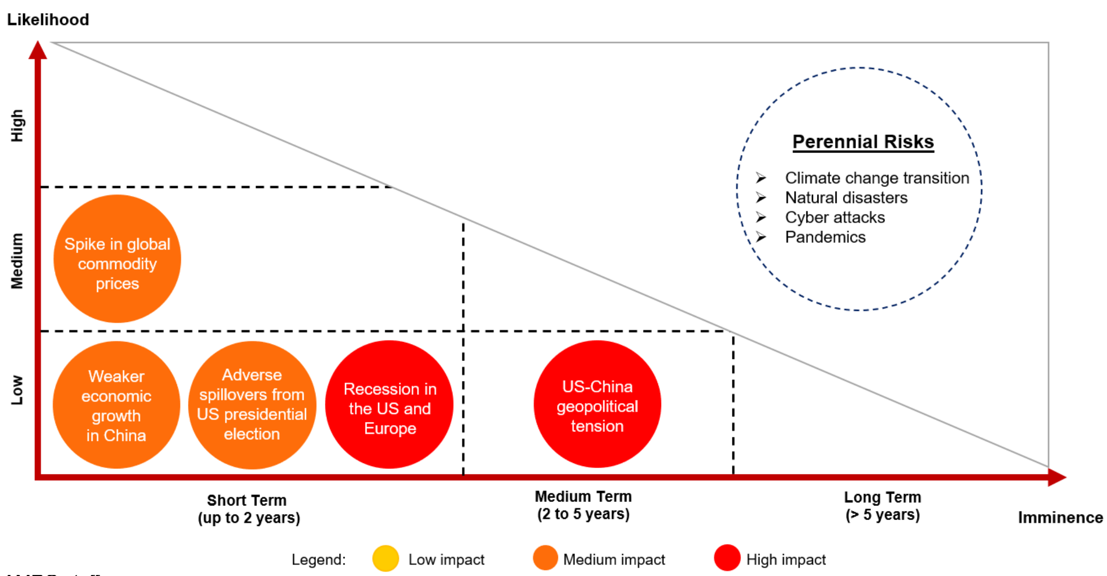
- **Spike in global commodity prices.** Global food prices could increase further if agriculture supplies are impacted by adverse El-Niño weather conditions and protectionist measures on exports. Global energy and transportation prices could also see a resurgence if the conflicts in the Middle East and Europe, and major sea routes disruptions were to escalate. A spike in global commodity prices would further lead to a resurgence in inflation and cause central banks to tighten policies.

- **Adverse spillovers from US presidential election.** Heated populist debates during the election campaign could lead to heightening of protectionist sentiments and measures, resulting in turbulent financial markets and volatile capital flows for the region. Increased financial market uncertainties following potential changes in policy directions and/or geopolitical shifts could trigger swift and unpredictable market reactions, leading to sharp fluctuations in asset prices.

- **Recession in the United States and Europe.** Although headline Inflation across the United States and Europe has moderated, consumer prices remain elevated. Interest rates also remain high. If the United States and Europe were to fall into a recession in 2024, ASEAN+3 growth could be almost halved—the weakest growth since 1998 apart from the pandemic-induced flat growth in 2020 (Figure 10).[2]

- **Weaker economic growth in China.** Given the sizable share of the real estate sector in the economy, a deepening or broadening of the property sector weakness could impact financial sector stability. Weak external demand poses additional headwinds for growth. Local governments' fiscal strains could also

Figure 9. Regional Risk Map, January 2024

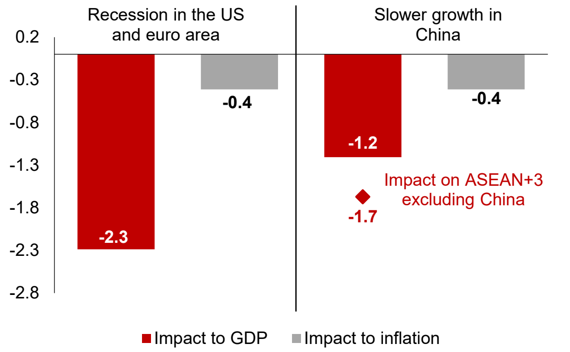


Source: AMRO staff

[2] Updated alternative scenario estimate from *October 2023 AREO Update*, incorporating latest available data and updated baseline assumptions.

limit the extent of policy support to prop up growth. Should China's economy slow to 4.3 percent this year—or a full percentage point below the baseline forecast—aggregate growth for other ASEAN+3 economies could be 1.7 percentage points lower—resulting from the decrease in trade, investment, and tourism.

Figure 10. 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.

In the medium-term, geopolitical tensions between the United States and China continues to be the main risk factor for the region. Further escalation of US-China tensions would adversely impact existing trade and investment flows in the region and dampen overall regional economic activity. In the longer-term, climate change, natural disasters, the emergence of new infectious diseases, and growing cyber threats are major risks confronting the ASEAN+3 region.

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			
		October 2023		January 2024			October 2023		January 2024	
		2023^e	2024^f	2023^e	2024^f		2023^e	2024^f	2023^e	2024^f
ASEAN+3	**3.2**	**4.3**	**4.5**	**4.4**	**4.5**	**6.5**	**6.5**	**3.8**	**6.6**	**4.4**
ex. Lao PDR and Myanmar	**—**	**—**	**—**	**—**	**—**	**4.1**	**2.9**	**2.6**	**2.8**	**2.6**
Plus-3	**2.6**	**4.3**	**4.4**	**4.4**	**4.4**	**2.9**	**2.4**	**2.0**	**2.3**	**2.2**
China	3.0	5.0	5.3	5.2	5.3	2.0	0.6	1.4	0.3	1.4
Hong Kong, China	-3.5	4.7	3.3	3.6	3.5	1.9	2.3	2.5	2.0	2.5
Japan	1.0	1.9	1.1	1.9	1.1	2.5	3.1	1.9	3.1	2.5
Korea	2.6	1.3	2.4	1.3	2.3	5.1	3.4	2.3	3.6	2.5
ASEAN	**5.6**	**4.4**	**5.0**	**4.3**	**4.9**	**7.9**	**8.2**	**4.5**	**8.3**	**5.3**
Brunei Darussalam	-1.6	1.1	2.0	0.2	2.4	3.7	1.0	1.1	0.3	1.4
Cambodia	5.2	5.3	6.2	5.3	6.2	5.4	2.3	2.7	2.6	3.1
Indonesia	5.3	5.0	5.2	5.0	5.2	4.2	3.8	2.8	3.7	2.8
Lao PDR	4.4	4.8	5.0	4.3	4.7	23.0	30.0	11.2	31.2	14.3
Malaysia	8.7	4.2	5.2	4.2	5.0	3.3	3.1	2.6	2.6	2.5
Myanmar	1.2	2.2	2.8	3.4	3.2	18.2	26.0	11.0	27.2	16.1
The Philippines	7.6	5.9	6.5	5.6	6.3	5.8	5.5	3.8	6.0	3.6
Singapore	3.6	1.0	2.9	1.2	2.6	6.1	5.2	4.1	5.0	3.8
Thailand	2.6	3.5	3.9	2.7	3.3	6.1	1.6	2.0	1.3	2.0
Vietnam	8.0	4.7	6.0	5.1	6.0	3.2	3.3	3.4	3.3	3.1

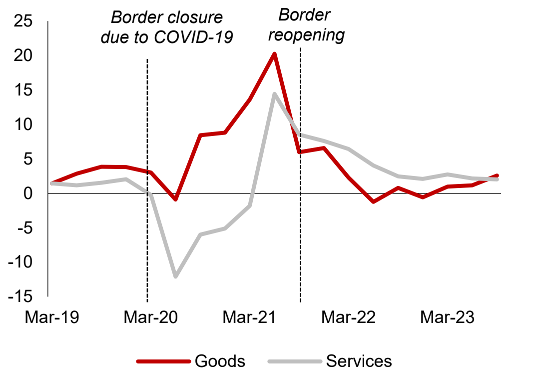
Revised upwards from October Revised downwards from October Maintained from October

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 new fiscal year which runs from April 1 of the previous year to March 31 of the current year. However, forecasts from the October Update are based on the old fiscal year, which runs from October 1 of the previous year to September 30 of the current year.

Box 1. Will the Shift from Goods to Services in the United States Continue and How Might It Affect ASEAN+3 Exports?[1]

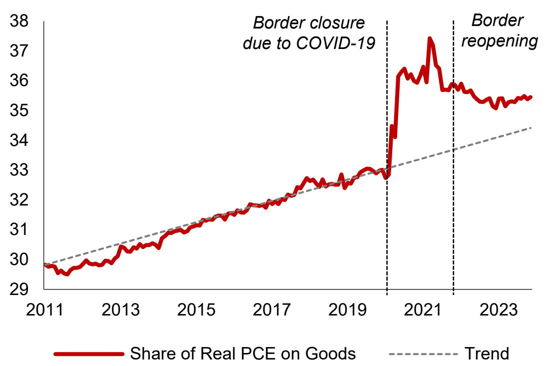
Consumption of services in the United States has grown faster than goods for most of the past two years, sparking concerns over the persistence of such a shift and its potential implications on US imports from ASEAN+3. Since emerging from the lockdowns and social distancing measures, the US economy has witnessed a swift rotation in consumer spending from goods to services. Growth of services consumption outpaced that of goods consumption from Q3 2021 to Q2 2023 (Figure 1.1), raising concerns on whether such an adjustment will persist and ultimately affect US' imports from the region—approximately 90 percent of which are goods.[2]

Figure 1.1. United States: Growth of Real Personal Consumption Expenditure
(Percent, year-on-year)



Source: US Bureau of Economic Analysis via Haver Analytics and AMRO staff estimates.

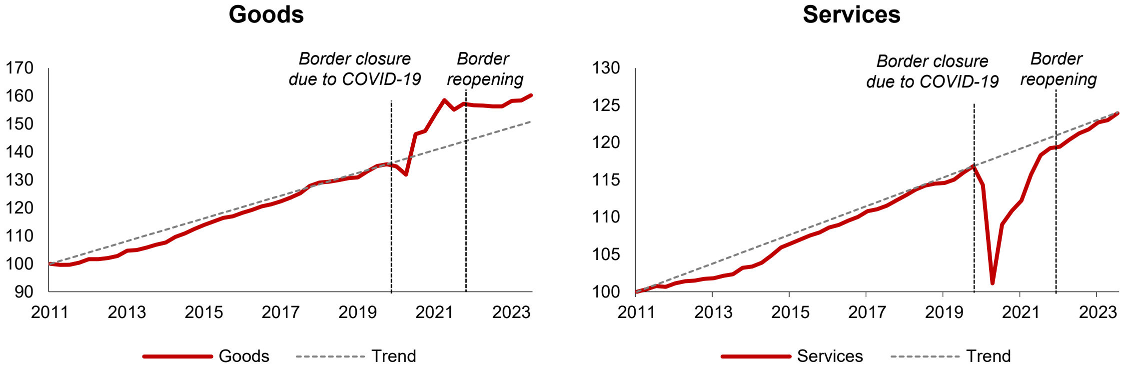
Figure 1.2. United States: Goods Share in Real Private Consumption Expenditure
(Percent share of total)



Source: US Bureau of Economic Analysis and AMRO staff estimates.
Note: Trend refers to the linear trend from Q1 2011 to Q4 2019.

Broad level analysis over a longer horizon suggests that the consumption rotation reflects a normalization of goods demand from a pandemic-driven surge toward its pre-pandemic trend. The early episodes of the pandemic witnessed a notable increase in both the absolute and relative demand for goods, driven in part by large-scale policy support for households. Demand for goods was further boosted by increased spending on durable goods due to remote working, and limited ability to consume services due to COVID-19 containment measures. The share of real personal consumption expenditure (PCE) on goods consequently rose from 33 percent in the second quarter of 2020 to 37 percent in the first quarter of 2021. This shift later reversed to trend and gradually declined to 35 percent in the first quarter of 2023 as the pandemic-induced goods demand subsided and services consumption concurrently recovered (Figure 1.2, Figure 1.3).

Figure 1.3. United States: Real Personal Consumption
(Index, Q1 2011 = 100)



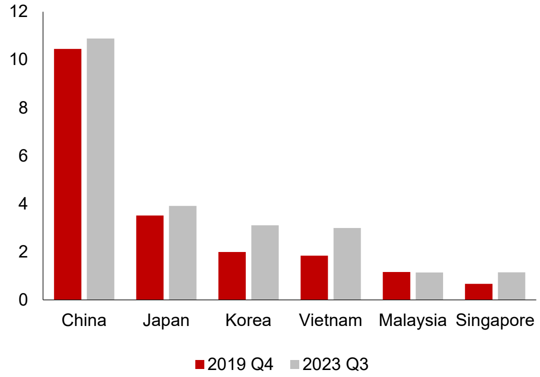
Source: National authority via Haver Analytics, and AMRO staff estimates.
Note: Trend refers to the linear trend from Q1 2011 to Q4 2019.

[1] This box was written by Haobin Wang (Regional Surveillance).
[2] AMRO staff estimates based on US imports from China, Hong Kong, Japan, Korea, Malaysia, Singapore, and Vietnam.

Demand rotation from goods to services will likely continue to moderate. From a statistical perspective, while the share of real PCE on goods remains above trend, additional space for trend-reversion appears limited as the gap increasingly narrows.[3] In addition, goods consumption grew by 2.5 percent year-over-year in the third quarter of 2023, outpacing the growth of services consumption for the first time since the third quarter of 2021, suggesting that the share of spending on goods could potentially rebound. Finally, declining goods inflation would raise real income and boost spending on goods. Services inflation has also remained persistently higher than goods inflation since Q4 2022, lending further support to the relative demand for goods.

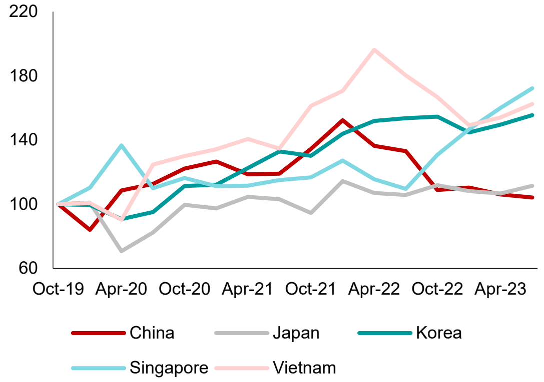
With ASEAN+3 being one of its major sources of imports, robust US goods consumption will benefit the region's exports. Notwithstanding the ongoing trade and tech-tensions, China remains a major trading partner for the United States. China, along with Japan, Korea, Vietnam, Malaysia, and Singapore accounted for almost a quarter of the US' goods imports in Q3 2023, similar to pre-pandemic shares (Figure 1.4). Goods imports accounted for around 90 percent of total US imports from regional economies, with the remaining share in services. Strong goods consumption in the United States would therefore boost goods exports from the region (Figure 1.5).

Figure 1.4. United States: Source of Goods Imports
(Percent of total imports)



Source: US Bureau of Economic Analysis and AMRO staff estimates.

Figure 1.5. United States: Import of Goods from Selected ASEAN+3 Countries
(Index, Q4 2019 = 100)



Source: US Bureau of Economic Analysis and AMRO staff estimates.

Going forward, real PCE growth rather than its compositional changes (i.e. rotation from goods to services) will be key in driving goods demand in the United States, leading to import demand from the region. The share of real PCE on goods is expected to remain stable or increase slightly. However, the prospect for real PCE growth remains somewhat mixed. On the one hand, US consumers may be constrained by diminished excess saving, flattening wage gains, and weakening labor market. On the other hand, continued disinflation may strengthen real purchasing power and boost consumer confidence, while market expectation of an interest rate cut may create more favorable financial conditions for consumer spending.

[3] O'Trakoun, John (2023), "Is the Goods-to-Services Rotation Over?", Federal Reserve Bank of Richmond, Macro Minute.