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 12 July 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

- *Favorable export prospects will help lift ASEAN+3 growth this year and the next, alongside solid domestic demand and continued recovery in tourism.*
- *The region's growth is forecast to remain robust at 4.4 percent in 2024 and 4.3 percent in 2025—broadly unchanged from AMRO's April assessment.*
- *Inflation is expected to moderate at a faster pace this year, before increasing slightly in 2025.*
- *The overall balance of risks to the outlook has improved, but downside risks remain—especially with regards to inflation and tighter-than-expected US monetary policy.*

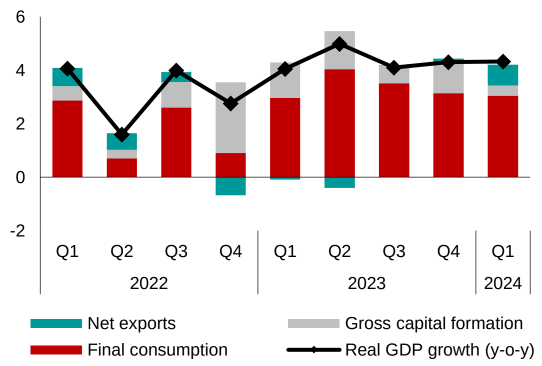
Regional Economic Developments since *AREO 2024* in April

The growth momentum continued to strengthen across ASEAN+3. Private consumption in the region remained resilient, supported by strong employment conditions and stable prices (Figure 1). The sustained recovery in travel and tourism is also providing a strong lift to domestic spending. This, along with improving prospects in key export markets, has helped bolster business sentiment in recent months: factory activity continues to strengthen across ASEAN+3. However, lingering economic uncertainty has weighed on investment growth in most economies.

China is on course to achieve its growth target. The economy grew by 5.0 percent in the first half of the year—in line with authorities' full-year target of around 5 percent. Steady growth in both industry and services is helping offset the lingering weakness in the property market. Outside of real estate, investment continues to expand, especially in high-tech manufacturing, amid the more tepid improvement in consumer sentiment (Figure 2). Recently announced support measures should continue to reduce the property sector's drag on growth for the rest of the year.

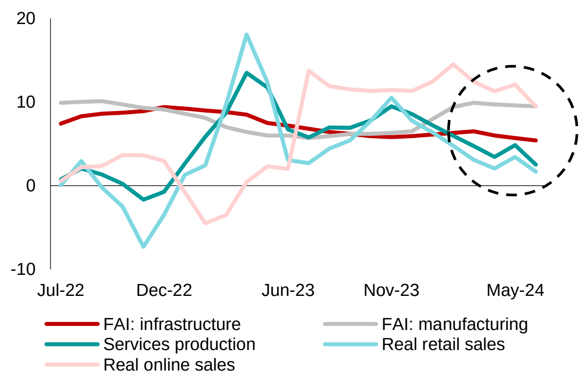
Recovery is underway for ASEAN+3 goods exports. Barring the sharp decline in March—mostly from base effects, especially in China—demand for the region's exports have held up since the start of the year (Figure 3). Year-to-date, 12 of the region's economies are already seeing higher export growths relative to 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
(Percent, year-on-year)



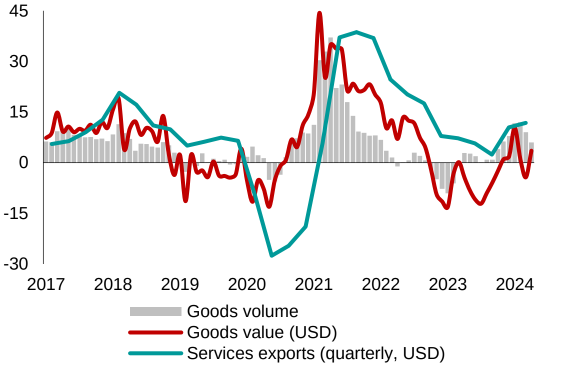
Source: National authorities via Haver Analytics.
Note: FAI = fixed asset investment. Real sales are estimated by deflating nominal sales with the consumer price index.

preceding period in 2023, buoyed by improving demand from key overseas markets and favorable export prices. AMRO staff's analysis suggests that momentum is expected to continue in the next few months, as the global economy finds firmer footing (Box 1). Despite concerns about the sharp increase in global shipping prices due to disruptions in the Red Sea, the April–June Purchasing Managers' Index indicators continue to suggest confidence among ASEAN+3 exporters.

The upturn in global electronics is now being felt more broadly across the region. The effect of the turnaround in the global semiconductor cycle—which began in the last quarter of 2023—has broadened from bellwether markets, like Korea, to more economies in ASEAN+3 (Figure 4). Leading indicators likewise suggest healthy demand for products outside of the highly advanced segments, which still comprise the bulk of the region's electronics exports. Higher capital spending in advanced economies—in response to robust technology demand—would also provide an additional lift to ASEAN+3 exports in the near term.[1]

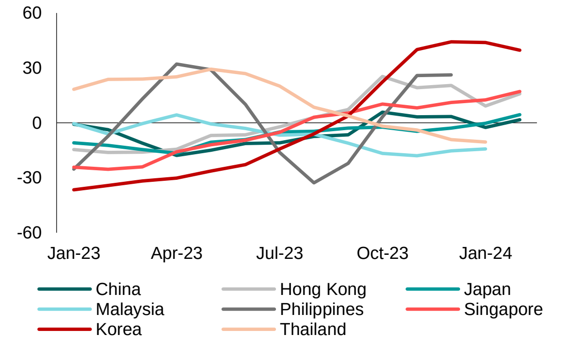
Travel and tourism are approaching pre-pandemic levels. Early this year, four economies—Cambodia, Japan, Korea, and Vietnam—saw their tourist arrivals exceed their respective pre-pandemic averages. Favorable visa policies have also helped encourage a stronger return of Chinese tourists, and total ASEAN+3 arrivals are near 90 percent of their 2019 levels (Figure 5). Service earnings in all economies have exceeded their 2019 values, except in Thailand and Cambodia—at around 70 percent—given their larger reliance on the tourism sector, coupled with the slower recovery in per capita tourist spending.

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



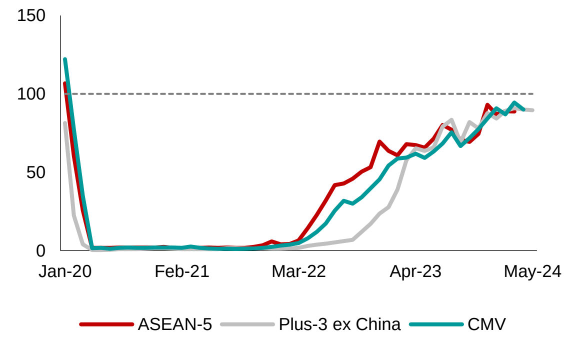
Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: Goods exports data are up to May 2024. Volume growth is a 3-month moving average; services exports data (quarterly) are up to Q4 2023.

Figure 4. Selected ASEAN+3: Semiconductor Exports
(Percent, year-on-year, three-month moving average)



Source: IHS Markit; and AMRO staff calculations.
Note: Data refers to export values in US dollars, covering goods that fall under HS codes 8541–42.

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; Plus-3 ex China = Hong Kong, Japan, and Korea. Data up to March 2024 (ASEAN-5), April 2024 (CMV), and May 2024 (Plus-3 ex China). Data for Malaysia for January–March 2024 are AMRO staff estimates.

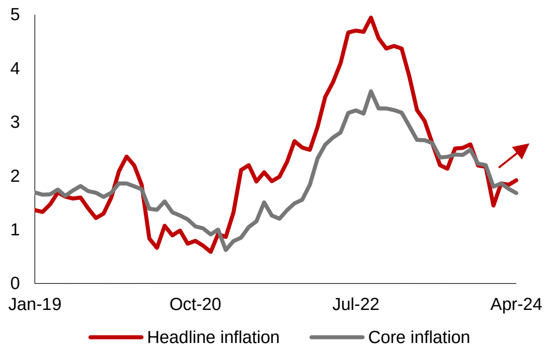
[1] See Box 1 of AMRO (2023) for staff analysis on the relation between global semiconductor and capital expenditure cycles.

Inflation across the region has picked up slightly since the April AREO assessment. Climbing global energy and transportation prices halted the broad decline in headline inflation (Figure 6). Crude oil prices increased sharply in April on the escalating conflict in the Middle East and rose again in June, following OPEC+'s decision to extend their oil production cuts well into 2025. Rising international freight prices, due to disruptions to shipping in the Red Sea, are also contributing somewhat to cost pressures (Figure 7). Nevertheless, inflation across ASEAN+3 remains largely contained, even with strong domestic demand keeping core inflation elevated in some economies.

Uncertainty around US interest rates has weighed on ASEAN+3 financial markets. In June, the Federal Reserve signaled the possibility of just one rate cut this year—from three cuts initially communicated in March. Higher-for-longer interest rate expectations saw ASEAN+3 bond yields rise in the second half of June, alongside more subdued activity in several equity markets. Most regional currencies continue to weaken against the US dollar, albeit at a more modest pace than at the start of the year—except for Japan (Figure 8). Some central banks, including Indonesia and Vietnam, had stepped into the foreign exchange markets to stem depreciation pressures.

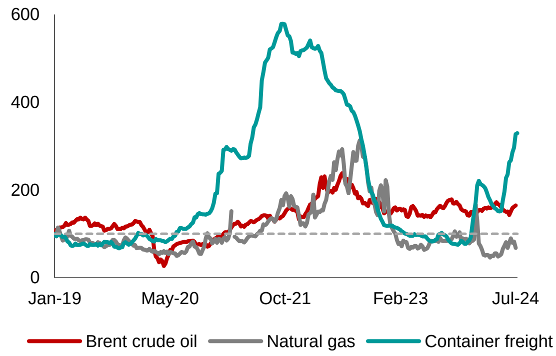
Most central banks in ASEAN+3 have stood pat in terms of monetary policy. The prospect of delayed rate cuts in the United States—as well as resilient domestic demand in the first quarter—has kept rate adjustments in the region to a minimum. Since the April release of *AREO 2024*, only Indonesia has adjusted its policy rate: in April, the central bank hiked its benchmark interest rate in a surprise move to help stabilize the rupiah. Elsewhere in the region, monetary policy was kept tight as inflationary pressures remained salient.

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



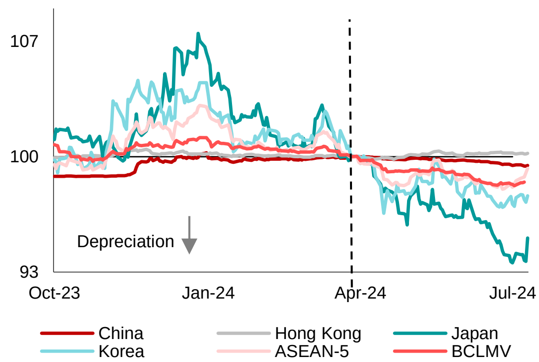
Source: National authorities, via Haver Analytics; AMRO staff calculations.
Note: Data excludes Lao PDR and Myanmar due to data unavailability.

Figure 7. World: Energy and Freight Costs
(Index, January 4, 2019 = 100)



Source: Energy Information Administration; Drewry Shipping Consultants Ltd, via Haver Analytics; AMRO staff calculations.
Note: Freight costs refer to the Drewry Composite Freight Rate for 40-foot containers.

Figure 8. Selected ASEAN+3: Currencies against US Dollar
(Index, April 1, 2024 = 100)



Note: Data for ASEAN-5 and BCLMV are the simple mean of changes in bilateral exchange rate against the US dollar of member economies within the group. ASEAN-5 = Indonesia, Malaysia, the Philippines, Singapore, and Thailand; BCLMV = Brunei, Cambodia, Lao PDR, Myanmar, and Vietnam. Data as of July 12, 2024.

Regional Economic Outlook

The ASEAN+3 region is on track to grow 4.4 percent this year. Aggregate growth in the Plus-3 and ASEAN are forecast at 4.4 percent and 4.8 percent, respectively. External trade is set to return to positive territory this year, which will supplement strong domestic consumption and the continuing recovery in tourism. Brighter global demand prospects are reflected in the upward growth revisions for Vietnam and Korea, which helped offset the half-percentage point cut for Japan. Idiosyncratic factors, including high borrowing costs, have prompted downward adjustments in some ASEAN economies (Table 1).

The growth forecast for 2025 also remains broadly unchanged. Growth in the ASEAN+3 region is projected at 4.3 percent next year, as the global economy continues to stabilize and monetary easing in major economies resume. The recovery in China is also anticipated to normalize next year, with the help of targeted policy interventions to steer the property sector into a more sustainable growth trajectory. Tourist volumes should be back to pre-pandemic levels by next year for most economies, alongside a stronger pick up in manufacturing exports.

Inflation for the 12 ASEAN+3 economies[2] this year is revised downwards. Inflation is expected to ease to 2.1 percent in 2024—down from the initial projection of 2.5 percent—due to softer-than-expected food prices in several economies and lower imported inflation. Compared to April, 11 of 14 economies are now expected to see lower inflation rates this year. Higher cost pressures could emerge in 2025 as economic momentum gains traction, but these are unlikely to trigger a large spike in ASEAN+3 inflation under the baseline scenario.

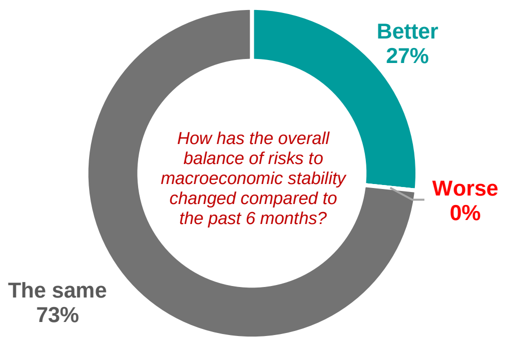
The overall balance of risk to the outlook has become more positive. While the trigger factors have largely remained the same since *AREO 2024***,** their underlying risks to growth and inflation have somewhat receded (Figure 9). This also aligns with the results of *June 2024 AREO Survey*, which suggest improving sentiment across ASEAN+3 authorities with regards to recent economic conditions (Figure 10).

Five main risks could impact the 2024–25 baseline forecasts. These include:

- **Spike in commodity and shipping prices.** Inflation risks remain salient: supply shocks from La Niña weather conditions later this year could once again trigger heightened food price volatility. The upward trend in global energy and freight costs could continue unabated, especially if geopolitical conflicts worsen existing supply chain bottlenecks. Weaker regional currencies vis-à-vis the US dollar would further amplify overall price shocks to the ASEAN+3 region.

- **Tighter-than-expected US monetary policy.** The US Fed's cautious rhetoric has brought this new risk to the fore. Higher US interest rates could

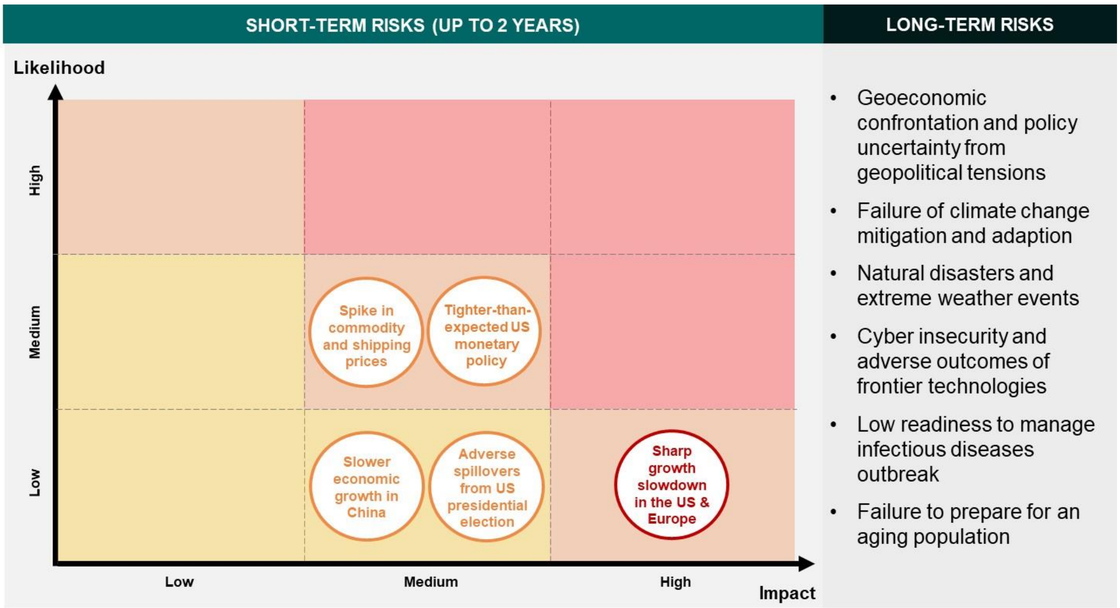
Figure 10. June 2024 AREO Survey: Members' Perception on the Overall Balance of Risks to Growth
(Percent of total responses)



Source: AMRO staff.
Note: Information based on the June 2024 survey circulated to all ASEAN+3 member authorities.

[2] Excludes Lao PDR and Myanmar, where inflation dynamics are being compounded by currency depreciation.

Figure 9. Regional Risk Map, July 2024



Source: AMRO staff.

intensify capital outflows, exacerbate currency depreciation pressures, and lead to tighter overall financial conditions in the region. AMRO staff analysis suggests higher-for-longer US interest rates could prolong the contractionary phase of the ASEAN+3 regional financial cycle and delay the onset of recovery (Box 2).

- **Adverse spillovers from US presidential election.** Some of the risks—such as higher market volatility—associated with the potential change in US leadership have now moved to baseline. The run-up to the November elections can bring about sharper fluctuations in ASEAN+3 markets, especially if the likely outcome points to a further escalation in US–China trade tensions. Heightened trade policy uncertainty would especially affect regional economies that are highly exposed to both markets.

- **Slower economic growth in China.** This risk has receded since April—helped by swift policy interventions to support the property sector. Yet, a protracted or less-than-orderly adjustment in the latter could set back China's overall growth trajectory, with spillover effects to the rest of ASEAN+3 through lower tourism and trade.

- **Sharp growth slowdown in the US and Europe**. Recession risks in both markets have also waned, but stubborn inflation could necessitate sustained higher interest rates. This could amplify financial distress in vulnerable sectors—and if this propagates more broadly to other industries—could lead to sharp slowdown in these two economies.

Further into the risk horizon, geopolitical tensions are becoming more pertinent for ASEAN+3 economies. The threat of geoeconomic fragmentation continues to rear its head as more economies announce trade controls or protectionist measures, following recent US tariff action against China. The ongoing shifts in global trade—including longer supply chains—can exacerbate the negative impact of these trade frictions, especially for ASEAN+3 economies, which are highly integrated in global trade.

Table 1. ASEAN+3: AMRO Growth and Inflation Projections, 2024–25

Economy	Gross Domestic Product (Percent year-on-year)					Consumer Price Index (Percent year-on-year)				
	2023 *(Actual)*	AREO 2024		AREO 2024 July Update		2023 *(Actual)*	AREO 2024		AREO 2024 July Update	
		2024f	2025f	2024f	2025f		2024f	2025f	2024f	2025f
ASEAN+3	**4.4**	**4.5**	**4.2**	**4.4**	**4.3**	**6.3**	**4.3**	**3.7**	**5.0**	**3.7**
ex. Lao PDR and Myanmar	**—**	**—**	**—**	**—**	**—**	**2.8**	**2.5**	**2.3**	**2.1**	**2.3**
Plus-3	**4.4**	**4.4**	**4.1**	**4.4**	**4.1**	**2.3**	**2.1**	**2.0**	**1.9**	**2.0**
China	5.2	5.3	4.9	5.3	4.9	0.2	1.0	1.6	0.8	1.4
Hong Kong, China	3.3	3.5	3.0	3.5	3.0	2.1	2.5	2.3	1.9	2.3
Japan	1.8	1.1	1.0	0.5	1.4	3.3	2.5	2.1	2.4	2.2
Korea	1.4	2.3	2.1	2.5	2.0	3.6	2.5	2.0	2.4	2.0
ASEAN	**4.2**	**4.8**	**4.9**	**4.8**	**4.8**	**8.0**	**5.2**	**4.4**	**6.3**	**4.4**
Ex. Lao PDR and Myanmar	**—**	**—**	**—**	**—**	**—**	**3.0**	**2.7**	**2.4**	**2.3**	**2.5**
Brunei Darussalam	1.4	2.7	2.9	4.0	2.1	0.4	1.4	1.0	0.1	0.7
Cambodia	5.0	6.2	6.4	5.6	5.9	2.1	3.1	2.8	2.5	2.6
Indonesia	5.0	5.2	5.2	5.2	5.2	3.7	2.8	2.5	2.7	2.5
Lao PDR	4.2	4.7	4.9	4.5	4.6	31.2	14.3	9.3	25.0	15.0
Malaysia	3.6	5.0	4.7	4.7	4.9	2.5	2.5	3.0	2.3	3.6
Myanmar	3.4	3.2	3.2	1.8	2.0	24.4	16.1	15.8	20.0	9.4
The Philippines	5.6	6.3	6.5	6.1	6.3	6.0	3.6	2.9	3.3	3.1
Singapore	1.1	2.6	1.9	2.4	2.0	4.8	3.0	2.5	2.8	2.5
Thailand	1.9	2.9	3.1	2.7	3.0	1.2	1.2	1.9	0.7	1.4
Vietnam	5.1	6.0	6.5	6.3	6.5	3.3	3.6	2.7	3.8	3.3

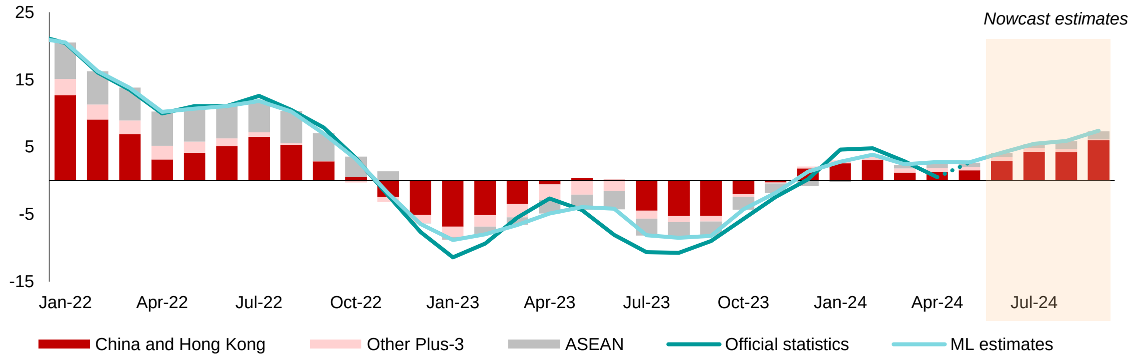
Revised upwards from April   Revised downwards from April   Maintained from April

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 2023 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 April 1 to March 31.

Box 1. The Near-term Outlook for ASEAN+3 Exports—According to Machine Learning Models[1]

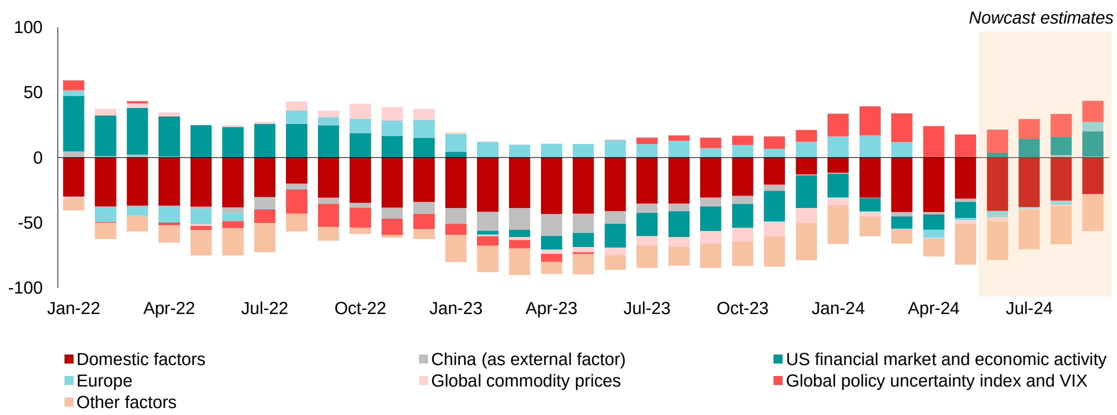
AMRO's machine learning (ML) models point to a continued recovery in ASEAN+3 exports through the third quarter of this year. After reverting to expansionary territory in late-2023 and achieving steady growth in the second quarter of 2024, the region's exports are estimated to accelerate in the current quarter (Figure 1.1). The "nowcast" estimates indicate that the pick-up in ASEAN+3 exports will be supported by the robust economic and financial activity in the United States as well as diminished uncertainty surrounding the global economic outlook (Figure 1.2).[2] These findings are aligned with general market expectations of solid export growth in the near term—particularly electronics—on the back of a robust US economy and a global shift in demand from services, back to goods.[3]

Figure 1.1. ASEAN+3 Export Growth: Actual versus ML-based Estimates
(Percent year-on-year, three-month moving average)



Source: MarineTraffic; national authorities via Haver Analytics; and AMRO staff calculations.
Note: Data refers to export values in US dollars. Nowcast estimates from January 2023 are out-of-sample to illustrate model performance. Bars represent ML-estimate by economy grouping. Data excludes Lao PDR and Myanmar, while data for Brunei and the Philippines only up to April 2024.

Figure 1.2. ASEAN+3: Variable Drivers of ML-based Export Growth
(Percent contribution to growth estimate)

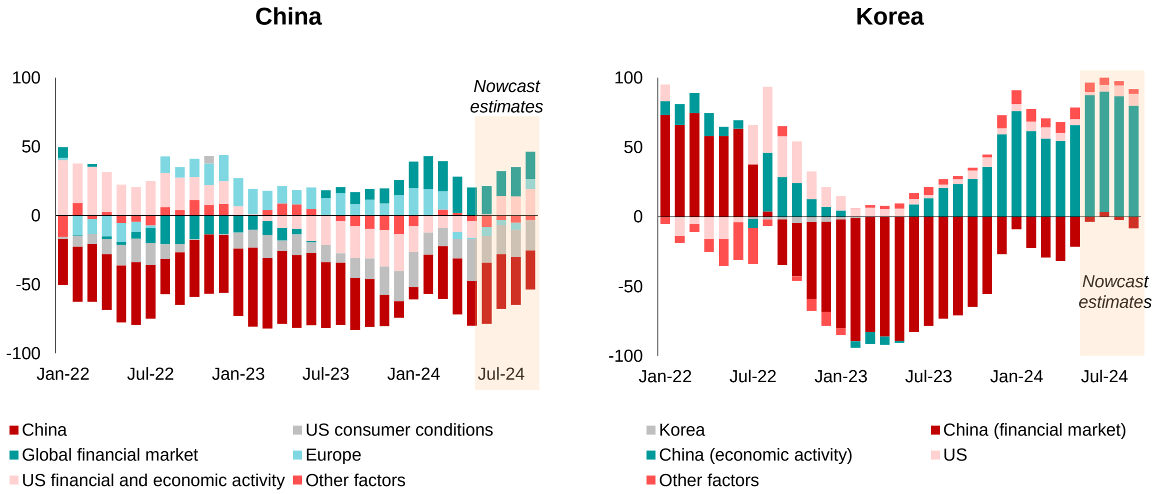


Source: MarineTraffic; Haver Analytics; and AMRO staff calculations.
Note: The contribution of each variable is derived from Shapley values, which are additive in terms of the difference between the model's prediction and the average prediction across multiple scenarios; thus, the sum may differ from the model prediction. Absolute values of all variables at any period = 100. See del Rosario, Quach, and Wynn (2024) for the full list of indicators under each category.

[1] This box was written by Quách Toàn Long and Diana del Rosario and (both Macro-Financial Research Group), based on findings in del Rosario, Quach, and Wynn (2024): *Nowcasting ASEAN+3 Goods Exports: Bridge and Machine Learning Models and Shipping "Big Data."*
[2] For example, the economic policy uncertainty index and the market volatility index have returned to the 2019 level since 2024.
[3] See, for example, Business Times (2024) and Ong (2024).

This projected near-term acceleration for the region will be driven by strengthening exports from China. Its external sector is set to benefit from the strong financial and economic activity in the United States and Europe (Figure 1.3). This buoyant outlook for China's exports would also have positive spillovers to the rest of the ASEAN+3. For example, China is the largest export market for Korea, and the latter's export prospects would benefit from more robust trade activity in China. That said, results from the ML models also indicate that waning consumer sentiment in the US and subdued activity in China could weigh on ASEAN+3's export outlook.

Figure 1.3. China and Korea: Variable Drivers of ML-based Export Growth
(Percent contribution to growth estimate)



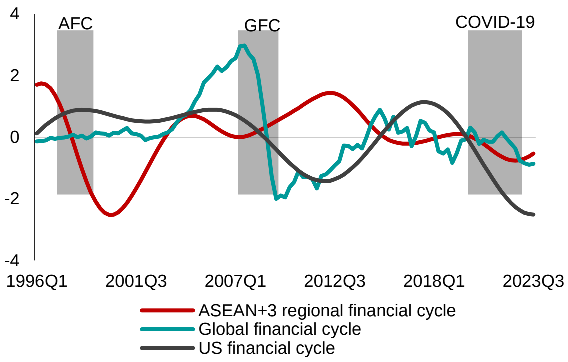
Source: MarineTraffic; Haver Analytics; and AMRO staff estimates.
Note: The contribution of each variable is derived from Shapley values. Absolute values of all variables at any period = 100. See del Rosario, Quach, and Wynn (2024) for the full list of indicators under each category.

Box 2. What Drives ASEAN+3's Financial Cycles?[1]

Analysis of financial cycles can provide a broad indication of emerging macro-financial risks in the ASEAN+3 region. The future path of US monetary policy and ongoing geopolitical developments have introduced uncertainties in the near-term outlook for ASEAN+3 economies, with potentially important implications for monetary policy and financial stability. Against this context, financial cycle estimation—and identification of their underlying drivers—could be a useful monitoring tool for ASEAN+3 policymakers to assess macro-financial conditions in their respective economies. AMRO staff estimated the financial cycles for 10 of the region's economies, utilizing the finite sample approach in the frequency domain developed by Corbae and Ouliaris (2006), and with private non-financial credit—as percent of GDP—as the main indicator.[2,3] The regional financial cycle is derived from the first principal component of the estimated cycles for the individual economies. On the other hand, the global financial cycle refers to the first principal component of the gross capital flows of 31 economies, as in Aldasoro and others (2023).[4] The two cycles, along with that of the United States, appear to be moving more in tandem since the start of the COVID-19 pandemic, when compared to past crisis episodes (Figure 2.1).

Looking at various factors that could affect ASEAN+3 financial cycles, AMRO staff finds that both global and domestic factors do matter. Results from the random effects panel regression per each economy, using quarterly data from 1996 to 2023, carry important policy implications (Table 2.1). For *global* factors, the negative coefficient of the US Fed funds rate implies that a scenario of higher-for-longer interest rates could prolong the downward, or contractionary phase, of ASEAN+3 financial cycles. On the other hand, US dollar-denominated credit to nonbanks outside the United States has a positive coefficient. This suggests that lower US dollar liquidity in the global financial system could also act as a drag on the ASEAN+3's financial cycles. For *domestic* factors, the region's financial cycles appear to be inversely associated with domestic interest rates, while positively with real effective exchange rates. These results suggest that domestic policy action can play a key role in managing the impact of adverse global developments. In other words, ASEAN+3 economies have available levers to help dampen the effects of unfavorable global dynamics on their financial cycles—by engineering a stronger degree of resilience through appropriate macro-financial policy actions.

Figure 2.1. Selected ASEAN+3, Global, and United States: Financial Cycles
(Standard deviation)



Source: Fermo and Wu (forthcoming).
Note: AFC = Asian financial crisis; GFC = global financial crisis.

Table 2.1. Selected ASEAN+3: Factors Affecting Financial Cycles
(Results of random effects panel regression)

Selected Indicators	Coefficient
Lagged financial cycle *(estimated financial cycle using Corbae-Ouliaris, lagged one period)*	0.998*** (0.007)
US Fed funds fate	–0.002*** (0.001)
US dollar-denominated credit to nonbanks outside the United States	0.007*** (0.002)
Lagged real interest rate	–0.001** (0.000)
Real effective exchange rate	0.000** (0.000)
Lagged GDP growth	0.003 (0.008)

Source: Fermo and Wu (forthcoming).
Note: * = significance of 10 percent, ** = 5 percent, and *** = 1 percent. Figures in parenthesis are standard errors.

[1] This box was written by Laura Britt-Fermo (Macro-Financial Research Group) and Yuhong Wu (Regional Surveillance, respectively), based on Fermo and Wu (forthcoming), *ASEAN+3 Financial Cycles—Evolution, Drivers and Synchronization.*
[2] The coverage includes 10 regional economies: China, Hong Kong, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. Other economies are omitted due to data constraints.
[3] Corbae, Dean and Ouliaris. 2006. "Extracting Cycles from Nonstationary Data." Econometric Theory and Practice: 167-177.
[4] Aldasoro, Borio, and others. 2023. "Global and Domestic Financial Cycles: Variations on a Theme." BIS Working Paper No. 864. Bank for International Settlements.