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 25 September 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.

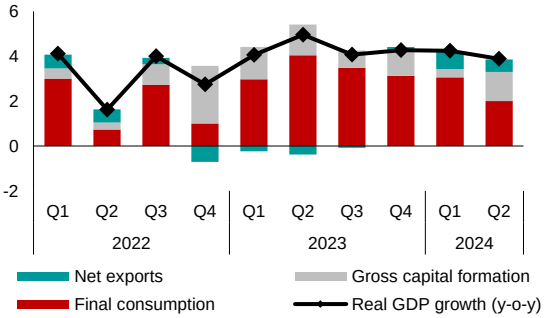
Highlights

- *ASEAN+3 economies maintained solid growth in the first half of 2024, with inflation remaining well-contained.*
- *Nonetheless, regional growth is forecast to be slightly lower at 4.2 percent in 2024 due to country-specific factors, but to improve to 4.4 percent in 2025.*
- *Inflation for the region is on track to ease further to 1.9 percent in 2024, a slight downward revision from July 2024 AREO Update. Inflation is expected to increase slightly to 2.3 percent in 2025.*
- *Key risks to the outlook include growth uncertainties in a few major economies, possible sharp increase in financial market volatility, and potential escalation of protectionist policy following the US presidential election.*

Regional Economic Developments since the *July 2024 AREO Update*

Growth of ASEAN+3 economies remained solid in the first half of 2024, driven by firm domestic demand and an upturn in exports. Private consumption remained robust in most ASEAN economies, supported by favorable employment conditions and moderating inflation, while the Plus-3 experienced more subdued momentum. Domestic investment showed resilience, with most regional economies reporting stronger investments in the second quarter (Figure 1). This trend, alongside strengthening external demand, boosted industrial activity, with most regional economies seeing improved manufacturing Purchasing Managers' Index (PMI).

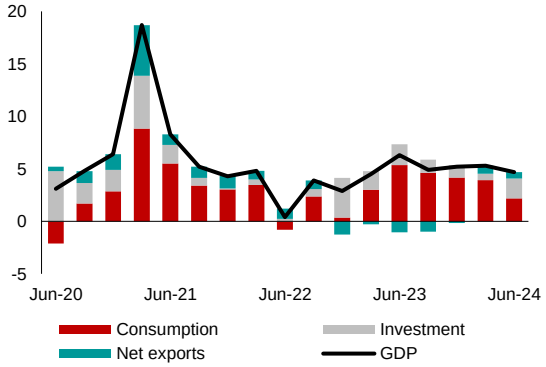
Figure 1. Selected ASEAN+3: Contribution to Real GDP Growth
(Percent, year-on-year; percentage points)



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

China's economic recovery remains on track. The economy grew at 5.0 percent year-on-year in the first half of 2024, following a 5.2 percent expansion in 2023, in line with the government's 5 percent full-year target. While second quarter data underperformed market expectations due to weaker consumption and ongoing property sector drag, manufacturing investment and exports showed resilience. Policy measures to support the housing market are expected to cushion the property sector's correction and facilitate its recovery moving forward. In addition, the broad set of stimulus measures announced in late September will provide further lift for the economy.

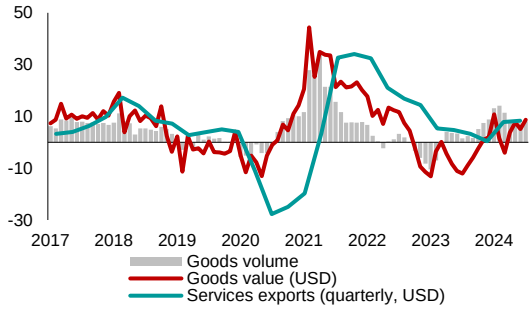
Figure 2. China: Contribution to Real GDP Growth
(Percent, year-on-year; percentage points)



Source: China National Bureau of Statistics (NBS); Wind.

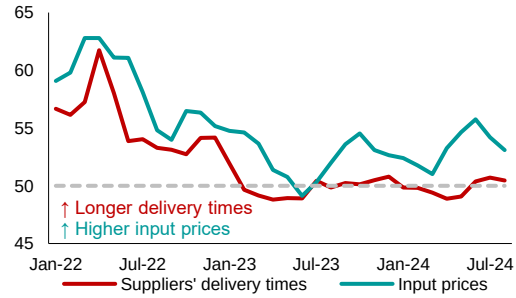
The recovery in goods exports continued to gain ground. ASEAN+3 exports grew 4 percent year-on-year in the first half of 2024, buoyed by improving global outlook and strong tech exports (Figure 2). The second quarter saw most ASEAN+3 economies registering higher export values than the first quarter. August PMI data indicates continued exporter optimism, especially in the automotive and tech sectors. Cost pressure has eased since July as global freight rates stabilized, following capacity increases in key shipping routes amid robust trade demand (Figure 3).

Figure 2. 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 2024. Volume growth is a 3-month moving average; services exports data (quarterly) are up to Q1 2024.

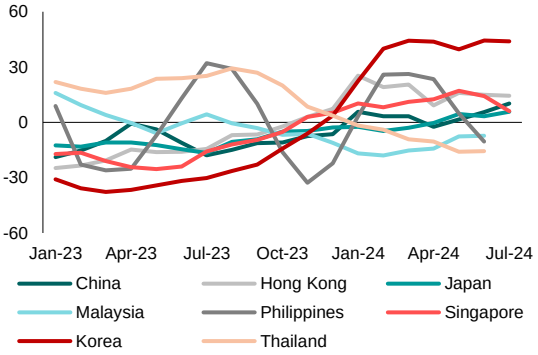
Figure 3. Asia Sector PMI: Suppliers' Delivery Times and Manufacturers' Input Prices
(Index; 50 = threshold)



Source: S&P Global via Haver Analytics; AMRO staff calculations.
Note: Suppliers' delivery times are "inverted" versions of original PMI data. Data represents simple average of delivery PMIs across four manufacturing sectors: basic materials, industrial goods, consumer goods, and technology equipment.

The artificial intelligence (AI)-fueled global semiconductor upcycle continued to bolster the region's export performance. Driven by surging demand for AI-related chips, global chip market grew by 18.3 percent year-on-year in the second quarter of 2024, up from 17.8 percent in the first quarter and 11.6 percent in the fourth quarter of 2023[1]. This uptrend boosted semiconductor exports across many regional economies in the first half of the year (Figure 4). Global pick-up in capital expenditure, especially in AI-related technologies and infrastructure, further supports the region's export momentum. Leading indicators also suggest sustained demand for a wide range of manufactured goods beyond semiconductors, indicating a broad-based export recovery in the region.

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

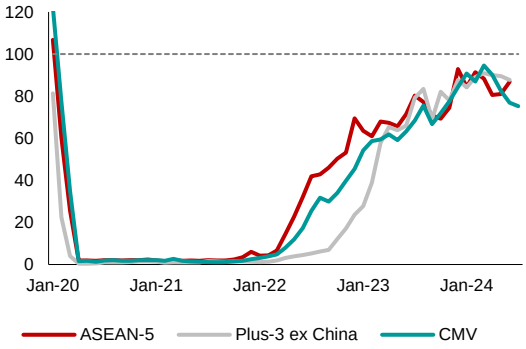


Source: IHS Markit; AMRO staff calculations.
Note: Data refers to export values in US dollars, covering goods that fall under HS codes 8541–42.

Tourism recovery continued, with substantial potential ahead. Tourist arrivals in ASEAN+3 have rebounded to 90 percent of pre-pandemic levels (Figure 5). Visitors from China, a key origination market, are at 66 percent of pre-pandemic levels, indicating room for continued expansion. Per-capita tourist spending, still lagging arrival recovery, also presents untapped revenue opportunities. Services exports continued to benefit from tourism recovery, growing 8.4 percent in the first quarter of 2024.

[1] According to sales data compiled by the World Semiconductor Trade Statistics (WSTS) organization.

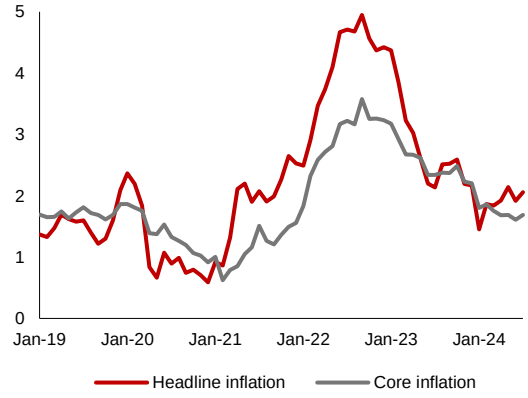
Figure 5. Selected ASEAN+3: Tourist Arrivals
(Index, 2019 = 100)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: Excludes Brunei and 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 July 2024, except ASEAN-5 (June 2024).

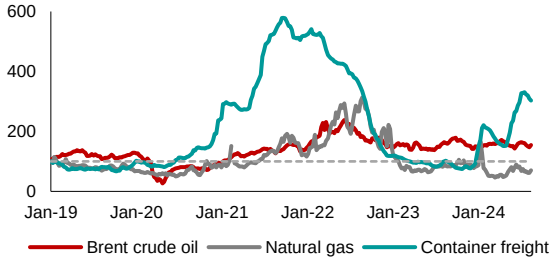
Core inflation broadly moderated, while the decline in headline inflation was interrupted by supply shocks. Core inflation continued to ease across most regional economies, with well-anchored inflation expectations (Figure 6). However, headline inflation's steady decline since 2022 was interrupted by spikes in global energy and transportation prices. These shocks have abated recently, with energy and freight costs retreating from their peaks (Figure 7). Strengthening regional currencies have further dampened imported inflation pressures (Figure 9).

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: Excludes Lao PDR and Myanmar due to data unavailability.

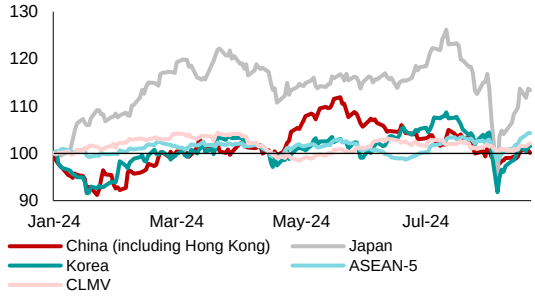
Figure 7. World: Energy and Transportation Costs
(Index, 4 Jan 2019 = 100)



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.

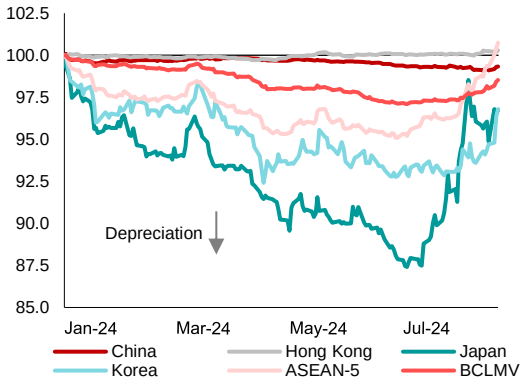
Improvement in regional financial conditions was tempered by the August market turbulence. Financial conditions were improving prior to August, characterized by increased capital inflows, appreciating currencies, and stable asset prices for many regional economies. However, early August saw significant market volatility, triggered by a confluence of factors including weaker-than-expected US labor data and the unwinding of carry trades following the Bank of Japan's monetary policy adjustment. This led to a sharp but short-lived market adjustment, with regional stock indices plunging 5–25 percent from mid-July peaks (Figure 8). Concurrently, most regional currencies, especially the yen, appreciated sharply against the USD (Figure 9). While markets have largely rebounded and stabilized, this episode underscores the potential risk of abrupt adjustments to regional macro-financial stability.

Figure 8. Selected ASEAN+3: Equity Market Indices
(Index, 29 December 2023 = 100)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: ASEAN-5 is the simple mean of returns in the benchmark equity indices of Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Data as of 21 August 2024.

Figure 9. ASEAN+3: Exchange Rates against the US dollar
(Index, 29 December 2023 = 100)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: ASEAN-5 and BCLMV are the simple mean of the changes in bilateral exchange rate against the US dollar of member economies within the group. Data as of 21 August 2024.

Most central banks in ASEAN+3 maintained their monetary policy stance with some exceptions. Most regional central banks held steady on policy rates in view of continued resilience in domestic demand conditions. A few central banks, however, have adjusted monetary policy in response to country specific economic conditions. After raising its policy rate in March, Japan raised its policy rate again in July with Bank of Japan judging that the price stability target of 2 percent could be achieved in a sustainable and stable manner. Meanwhile, China lowered interest rate in July amid weak domestic consumption. The Philippines also eased policy in August following subdued household consumption and declining inflation trend, while Indonesia cut its policy rate in September to support the economy amid well-anchored inflation and strengthened exchange rate.

Regional Economic Outlook

The ASEAN+3 region is forecast to grow by 4.2 percent in 2024. This is a slight downward revision from the *July 2024 AREO Update* forecast of 4.4 percent, primarily due to adjustments for China and Vietnam. Nevertheless, Plus-3 economies are still projected to grow robustly at 4.1 percent, while ASEAN is expected to expand by 4.7 percent in 2024. Growth for the region will be driven by continued recovery in external trade, resilient domestic demand, and a boost in tourism due to relaxed visa policies in some economies.

Regional growth is expected to improve to 4.4 percent in 2025. Higher growth is projected in 10 out of 14 economies in 2025 compared to 2024, aligning with expectations of stable global growth momentum amid easier financial conditions and resilient domestic demand. Plus-3 economies and ASEAN are projected to grow by 4.3 and 4.9 percent respectively in 2025.

Headline inflation for the region[2] is projected to ease further to 1.9 percent this year before increasing slightly to 2.3 percent in 2025. The moderation in inflation in 2024 reflects the continuing impact of tight monetary policy, softer food prices, and lower imported inflation. However, a slight uptick to 2.3 percent is expected in 2025, primarily driven by higher inflation in China, Hong Kong, Brunei, Cambodia, Malaysia, and Thailand (Table

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

2). This increase is attributable to the strengthening growth outlook alongside various supply-side factors (e.g., reduction in energy subsidies) in these economies. Overall, inflationary pressure remains well contained in the region, in line with the baseline expectation of normalization of global inflationary trend (Box 1 explores the synchronization and co-movement of regional inflation with external prices).

External uncertainties have continued to evolve in the past months, shifting the key risks to the outlook compared to the assessment in July. Risks to the outlook have been fast evolving in 2024. Early in the year, resilient US economic data and inflation uptick raised concerns about inflation stickiness and "higher-for-longer" interest rate in the US. China's growth in the first quarter also outperformed market expectations. However, recent developments (since the *July 2024 AREO Update*) have shifted the risk landscape of the region. Key factors include weaker-than-expected US employment data, slower growth in China in the second quarter, August's global financial markets turbulence, and the shifting dynamics in the upcoming US presidential election.

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

- **Sharp growth slowdown in the US and Europe.** Weaker-than-expected US labor market data in July and PMI data in August has sparked concerns about a US growth slowdown, potentially weighing on the region's exports recovery. Meanwhile, Europe's fragile recovery faces risks from escalating global trade tensions and possible energy and freight cost spikes due to geopolitical conflicts.

- **Slower economic growth in China.** A protracted adjustment in China's property sector could impede the country's broader economic growth prospects. Slower growth in China, if continued, could adversely impact the broader region through lower trade, investment, and tourism.

- **Sharp increase in financial market volatility.** The sharp but short-lived global market swings in early August highlighted the region's vulnerability to financial volatility shocks. Looking ahead, uncertainties surrounding US monetary policy trajectories, the upcoming presidential election, and the potential for further unwinding of large financial positions could affect market functioning and amplify financial stresses. This could trigger further disorderly market conditions, impacting the region's macro-financial stability.

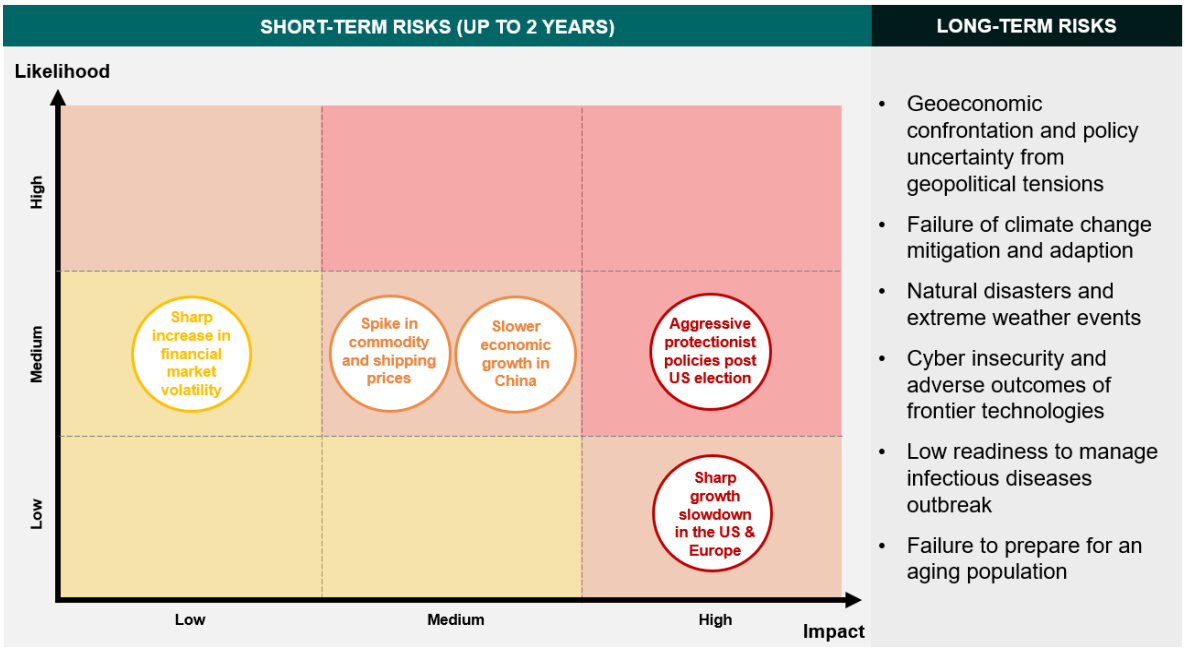
- **A spike in global commodity and shipping prices.** Unpredictable La Niña conditions could disrupt food supply, while escalating geopolitical conflicts may drive up global energy and freight costs. These potential spikes in commodity and shipping prices may impede the region's export recovery and reignite inflationary pressures.

- **Aggressive protectionist policies post-US presidential election.** The November election results will have major ramifications for the region's economic outlook, especially if it points to a sharp escalation in US-China trade tensions. Increased tariffs could substantially dampen regional growth prospects to varying degrees, depending on the magnitude of the increases, and the response from the affected economies. Based on AMRO staff estimates, a severe escalation of protectionist measures by the US, such as the implementation of universal

tariffs on imports, could lower the region's growth by almost 1 percentage point—resulting in the lowest regional growth since the Asian Financial Crisis, with the exception of the pandemic years of 2020 and 2022 (Table 1).

In the longer term, the region also faces significant internal and external growth headwinds. Beyond the near-term risks of escalating protectionism tied to the US election, the broader trend of geoeconomic fragmentation and continued geopolitical tensions will likely negatively affect the longer-term growth of the region, especially for the trade-dependent economies. An aging population poses socioeconomic challenges, potentially undermining long-term prospects and social stability. Failure to address climate change could lead to extreme weather events that have catastrophic impact on the economies.

Figure 10. Regional Risk Map, October 2024



Source: AMRO staff.

Table 1. ASEAN+3: Real GDP Growth in 2025 Under Various Scenarios of US Trade Policy Escalations
(Percent, year-on-year)

Scenarios	Real GDP Growth (Percentage point deviation from baseline)		
	ASEAN+3	Plus-3	ASEAN
Moderate escalation *US implements 25 percent tariffs on steel, aluminium and motor vehicle imports from Europe, and 25 percent tariffs on machinery, electronics and chemical imports from China. Affected economies retaliate proportionately.*	4.4 (–0.01)	4.3 (–0.01)	4.9 (0.00)
Substantial escalation *US implements 60 percent tariffs on imports from China, and 10 percent tariff on imports from all other economies. Affected economies do not retaliate.*	4.2 (–0.3)	4.0 (–0.3)	4.7 (–0.2)
Severe escalation *US implements 60 percent tariffs on imports from China, and 10 percent tariff on imports from all other economies. Affected economies retaliate proportionately.*	3.6 (–0.8)	3.4 (–0.9)	4.5 (–0.5)

Source: Oxford Economics Global Economic Model; AMRO staff estimates.
Note: Estimates for ASEAN+3 refer to the impact on Plus-3 and ASEAN-6 economies, which account for 99 percent of ASEAN+3's GDP in 2023 (purchasing power parity basis). ASEAN-6 = Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam. Remaining economies are omitted due to data unavailability. Figures in parentheses refer to the percentage point deviation from AMRO staff baseline forecast. Numbers may not sum up due to rounding error. Estimates do not take into account the indirect impact(s) that could arise from the tariff measures such as those from adverse sentiments channel etc.

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 July Update		AREO 2024 October Update		2023 *(Actual)*	AREO 2024 July Update		AREO 2024 October Update	
		2024[f]	2025[f]	2024[f]	2025[f]		2024[f]	2025[f]	2024[f]	2025[f]
ASEAN+3	**4.3**	**4.4**	**4.3**	**4.2**	**4.4**	**6.6**	**5.0**	**3.7**	**4.9**	**4.1**
ex. Lao PDR and Myanmar	**–**	**—**	**—**	**–**	**–**	**2.8**	**2.1**	**2.3**	**1.9**	**2.3**
Plus-3	**4.4**	**4.4**	**4.1**	**4.1**	**4.3**	**2.3**	**1.9**	**2.0**	**1.8**	**2.0**
China	5.2	5.3	4.9	5.0	5.1	0.2	0.8	1.4	0.5	1.3
Hong Kong, China	3.3	3.5	3.0	3.3	3.0	2.1	1.9	2.3	1.9	2.3
Japan	1.7	0.5	1.4	0.5	1.4	3.3	2.4	2.2	2.4	2.2
Korea	1.4	2.5	2.0	2.5	2.0	3.6	2.4	2.0	2.4	2.0
ASEAN	**4.1**	**4.8**	**4.8**	**4.7**	**4.9**	**8.3**	**6.3**	**4.4**	**6.1**	**4.9**
Ex. Lao PDR and Myanmar	**–**	**—**	**—**	**–**	**–**	**3.0**	**2.3**	**2.5**	**2.0**	**2.4**
Brunei Darussalam	1.4	4.0	2.1	4.0	2.1	0.4	0.1	0.7	0.1	0.7
Cambodia	5.0	5.6	5.9	5.6	5.9	2.1	2.5	2.6	0.4	2.3
Indonesia	5.0	5.2	5.2	5.1	5.2	3.7	2.7	2.5	2.7	2.5
Lao PDR	4.2	4.5	4.6	4.5	4.6	31.2	25.0	15.0	25.0	15.0
Malaysia	3.6	4.7	4.9	4.7	4.9	2.5	2.3	3.6	2.3	3.6
Myanmar	3.4	1.8	2.0	1.8	2.0	27.5	20.0	9.4	20.0	15.0
The Philippines	5.5	6.1	6.3	6.1	6.3	6.0	3.3	3.1	3.3	3.1
Singapore	1.1	2.4	2.0	2.4	2.0	4.8	2.8	2.5	2.8	2.5
Thailand	1.9	2.7	3.0	2.8	3.3	1.2	0.7	1.4	0.7	1.5
Vietnam	5.0	6.3	6.5	6.2	6.6	3.3	3.8	3.3	3.9	3.3

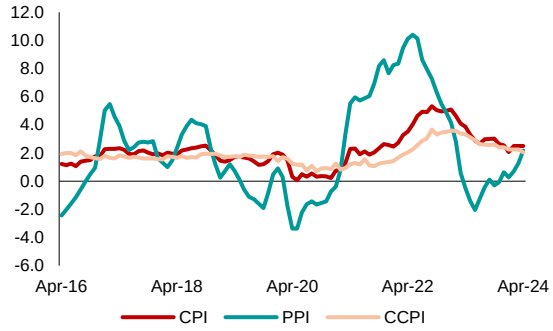
Revised upwards from July Revised downwards from July Maintained from July

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 2023 GDP on purchasing power parity basis; regional aggregates for inflation are computed using simple averaging. Myanmar's GDP and inflation figures are based on its fiscal year, which runs from April 1 of the reference year to March 31 of the following year.

Box 1. The Evolving Impact of US and China Trade Prices on ASEAN+3 Inflation[3]

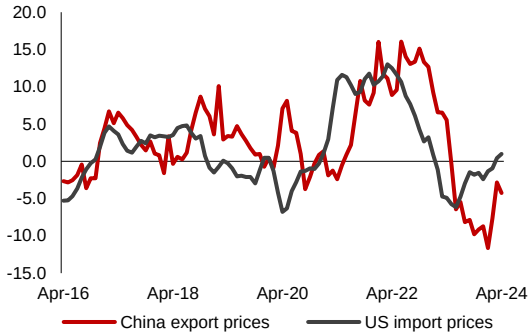
Inflation dynamics in many ASEAN+3 economies are significantly influenced by external factors. Following the pandemic, the global economy witnessed large movements in inflation, partly due to massive demand-side stimulus—particularly in the United States—combined with pandemic-related supply constraints. The ASEAN+3 region saw a similar trend, with inflation peaking at end-2022 (Figure 1.1). Inflation moderated subsequently, coinciding with a sharp decline in China's export prices (Figure 1.2). These developments raise an important question: apart from domestic determinants such as output gap and interest rate, to what extent are inflation rates in the region affected by external factors, specifically those originating from the United States and China? This study examines regional inflation trends and their relationship with US import prices and China export prices, proxies for external consumer and producer price dynamics respectively. It is worth noting that China is the primary import source for other economies in the region, accounting for about 30 percent of total imports, while the US is the leading export destination, receiving around 17 percent of exports from the region.

Figure 1.1. Selected ASEAN+3: Average Inflation
(Percent, year-on-year)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: CPI=Consumer Price Index, PPI = Producer Price Index, CCPI = Core Consumer Price Index. Excludes Brunei, Cambodia, Lao PDR and Myanmar due to data unavailability.

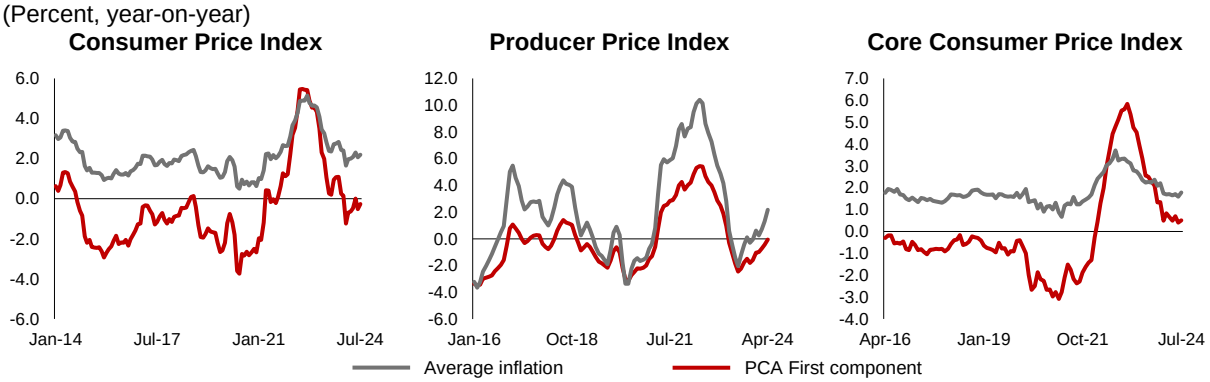
Figure 1.2. China and US Trade Prices
(Percent, year-on-year)



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

Principal component analysis suggests a strong common trend among the region's various measures of inflation. The common factor explains an average of 60 percent of the variation in local producer price (PPI) inflation among sample countries for the period since 2014, with Korea, Singapore, and Thailand showing the strongest co-movement with regional trend. For consumer price (CPI) inflation and core CPI inflation, the common factors explain an average of about 40 percent. The strong synchronization of regional inflation measures, particularly PPI inflation, is likely due to the region's deep integration in the highly interlinked global production network (Figure 1.3). However, the prevalence of this common factor for domestic prices varies across regional economies, reflecting the differing extent of each economy's participation in the global value chain and its economic structure (Table 1.1).

Figure 1.3. Selected ASEAN+3: PCA First Component vs Average Inflation
(Percent, year-on-year)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: PCA is performed on the price indices of regional economies to derive the first principal component. China is excluded for subsequent analysis with China export prices. PCA on PPI excludes Brunei, Cambodia, Lao PDR and Myanmar due to data unavailability.

[3] This box was written by Haobin Wang and Yuhong Wu (both Regional Surveillance Group),

Table 1.1. Share of Local Inflation Explained by First Component

Economy	CPI First Component 2014-2024	PPI First Component 2014-2024	Core CPI First Component 2014-2024
Hong Kong	0.01	0.06	0.00
Indonesia	0.04	0.01	0.08
Japan	0.60	0.77	0.83
Korea	0.82	0.96	0.74
Malaysia	0.34	0.67	0.32
The Philippines	0.67	0.57	0.50
Singapore	0.84	0.88	0.87
Thailand	0.72	0.88	0.51
Vietnam	0.22	0.61	0.71

Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: The table shows the R2 of the regression of each economy's inflation on PCA first component. The first principal components are derived from the PCA on the prices indices of Hong Kong, Indonesia, Korea, Japan, Malaysia, the Philippines, Singapore, Thailand and Vietnam. China is excluded for subsequent analysis with China export prices. Brunei, Cambodia, Myanmar and Lao PDR are excluded due to data unavailability.

The regional common factor strongly co-moves with both US import and China export prices, with US prices being more dominant pre-pandemic. This finding aligns with Auer and others[4] (2024) which identified US price dynamics as a proxy for global inflation. In 2014-2019, the correlation of US import prices with regional PPI and CPI inflation is more than 1.4 times higher than the correlation with China export prices (Table 1.2). Regional core CPI inflation, however, does not correlate strongly with either US or China's trade price.

Regional prices co-move with China export prices more closely after the pandemic, particularly from 2022 onward. Since 2020, regional PPI inflation continued to co-move strongly with both US import prices and China export prices. However, the correlation of regional inflation with China export prices surpassed US import prices after 2022. This shift coincided with a sharp decline in China export prices beginning around September 2022.

Table 1.2. Selected ASEAN+3: Correlation between PCA First Component and China Export Prices, and US Import Prices

Period	CPI First Component		PPI First Component		CCPI First Component	
	China Export Prices	US Import Prices	China Export Prices	US Import Prices	China Export Prices	US Import Prices
Full sample	0.41	0.49	0.70	0.92	0.18	-0.11
2014-2019	0.33	0.78	0.65	0.96	-0.54	-0.59
2020-2024	0.40	0.24	0.72	0.86	0.21	-0.20
2022-2024	0.71	0.21	0.92	0.89	0.41	-0.23

Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: PCA is performed on the prices indices of Hong Kong, Indonesia, Korea, Japan, Malaysia, the Philippines, Singapore, Thailand and Vietnam to derive the first principal component. China is excluded for subsequent analysis with China export prices. Brunei, Cambodia, Myanmar and Lao PDR are excluded due to data unavailability. The estimation periods for PPI and core consumer price index (CCPI) cover the longest available period between 2016 to 2024.

Pandemic-related disruptions, trade shifts, and growing ASEAN+3 interlinkages may have strengthened the correlation between China export prices and regional inflation, especially post-pandemic. Other factors potentially influencing this relationship include the timing of China economic recovery, shifts in global supply chains, and regional policy responses. This correlational study shows regional inflation rates are highly synchronized and potentially influenced by price trends from major trading partners. However, this complex dynamic requires further investigation. Further research using more disaggregated data could provide deeper insights into the nuanced relationship between China export prices and regional inflation trends.

[4] Auer, Raphael, Pedemonte, and Schoenle. 2024. Sixty years of global inflation: a post GFC update. BIS Working Papers No 1189. https://www.bis.org/publ/work1189.htm