

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

ASEAN+3 Macroeconomic Research Office (AMRO)

Singapore

March 2019

This Monthly Update of the AREO was prepared by Anthony Tan, Vanne Khut and Edmond Choo (Regional Surveillance team), reviewed by Li Lian Ong (Group Head) and approved by Hoe Ee Khor (Chief Economist).

Unless otherwise indicated, the analysis in this report is based on information available up to 8 March 2019. For the sake of brevity, “Hong Kong, China” will be referred to as “Hong Kong” in the text and figures.

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Global Economic Developments

Global markets rebounded, with volatility continuing to recede going into March.

The rally and the decline in the VIX are attributable to growing optimism surrounding the U.S.–China trade deal (Figure 1). In the wake of weaker-than-expected jobs data and expectations of slowing consumer inflation, the U.S. dollar index fell (Figure 1), while the 10-year U.S. treasury yield also edged down to 2.62 percent in mid-March, from 2.72 percent as of end-February.

U.S. employment growth fell sharply in February, signaling a slowdown in economic activity in the first quarter.

The economy created only 20,000 jobs in February, down from 311,000 jobs in January (Figure 2). Meanwhile, inflation continued to edge down to 1.5 percent in February, from 1.6 percent in January, contributing to Fed’s reluctance to raise rates.

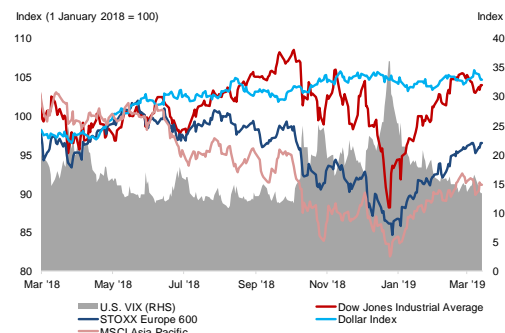
The U.S. Q4 GDP growth beat market expectations, albeit lower than that of the previous quarter (Figure 3).

The economy expanded at a slower pace in the final quarter, at 2.6 percent qoq, down from 3.4 percent qoq in Q3. Private consumption continued to be the biggest growth driver, followed by private domestic investment.

The latest PMI and retail sales data point to a softer outlook for the U.S. economy going into Q1 2019.

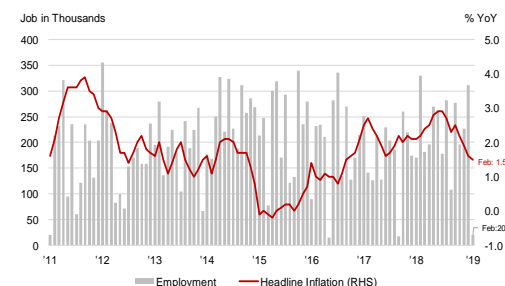
The U.S. ISM PMI composite index reported a drop in February to 54.2, down from 56.6 in January, amid slower expansion in output and new orders (Figure 4). Growth in retail sales continued to fall in late-2018, from 4.6 percent yoy in November to 1.6 percent in December.

Figure 1. Global Stock Markets, U.S. Volatility and Dollar Index



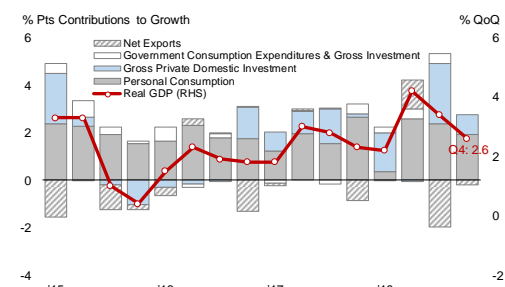
Source: Haver Analytics.

Figure 2. United States: Employment and Inflation



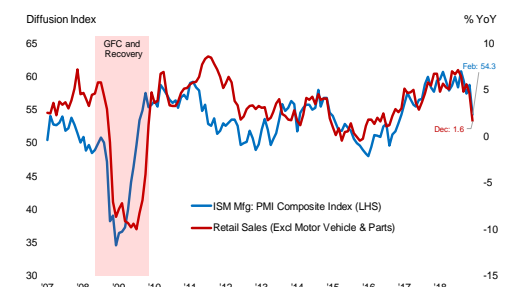
Source: Haver Analytics.

Figure 3. United States: Real GDP Growth and Contribution to Growth



Source: U.S. Bureau of Economic Analysis (BEA).

Figure 4. United States: ISM Manufacturing PMI and Retail Sales



Sources: Institute for Supply Management; Haver Analytics.

Economic prospects in the Eurozone is expected to deteriorate as manufacturing activity continues to weaken. The region's manufacturing PMI fell to 49.3 in February, down from 50.5 in January (Annex 1). In Germany, the threat of U.S. tariffs on European cars and car parts are casting a large shadow over the industry. The ECB cut its growth and inflation forecasts for the Eurozone significantly in March (Figure 5). The overall Sentix economic index remained negative in March, at -2.2, albeit an improvement from -3.7 in February.

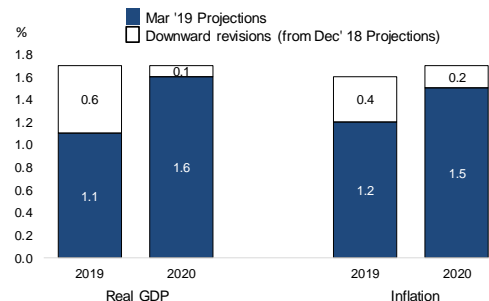
The UK government lowered its 2019 growth forecast from 1.6 percent to 1.2 percent, amid Brexit chaos and a slowing global economy. The no-Brexit deal was rejected by the parliament on 13 March, and continuing uncertainty over Brexit will remain a drag on the economy. Business investment continued to decline (Figure 6), while car production for exports also tumbled in January, by a massive 21.4 percent yoy, compared to growth of 1.5 percent during the corresponding period in 2018.

In commodity markets, crude oil prices edged higher going into mid-March. The move from from USD 66 per barrel at end-February to USD 67.6 per barrel in mid-march was mainly attributable to OPEC's supply cuts and supply disruptions in Venezuela (Figure 7). Meanwhile, palm oil prices are expected to fall further on the back of slowing demand in the EU and China, and rising domestic oil seed supplies in India.

Regional Economic Developments

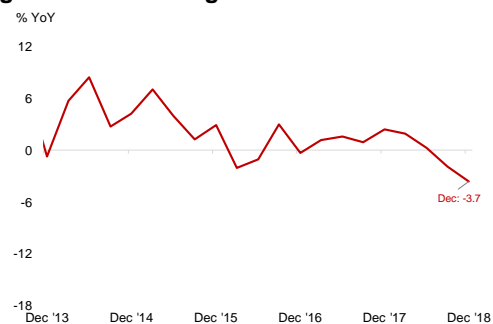
China's persistently weak manufacturing activity signals slower growth going into 2019. Its manufacturing PMI remained below 50 for three consecutive months, albeit rising slightly to 49.9 in February (Annex 1). Although January's exports picked up, the continuing decline in new export orders heralds softer external demand in the coming months (Figure 8).

Figure 5. Eurozone: Latest ECB's Growth and Inflation Projections



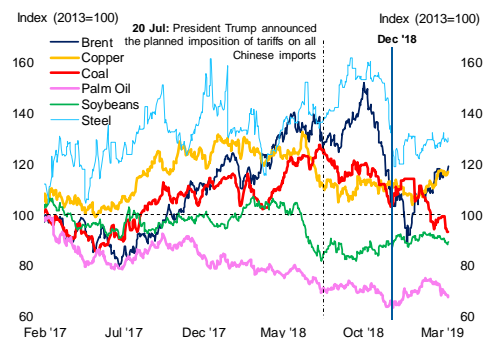
Sources: Haver Analytics.

Figure 6. United Kingdom: Business Investment



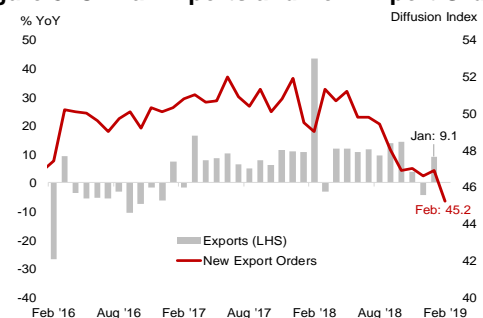
Sources: U.K. Office for National Statistics; GfK NOP (U.K.).

Figure 7. Global Commodities Prices



Source: Haver Analytics.

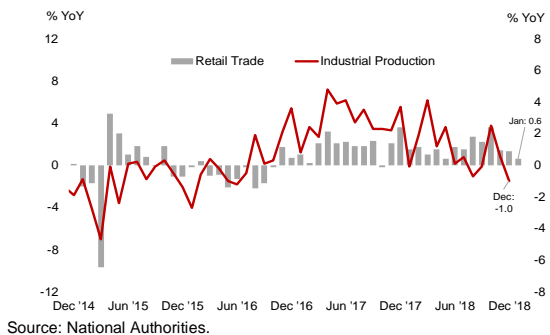
Figure 8. China: Exports and New Export Orders



Source: National Authorities.

Japan's domestic demand and industrial production continued to fall along with contracting exports. Retail sales grew a miserly 0.6 percent yoy in January, down from 1.3 percent in December (Figure 9), largely driven by sluggish sales at online retailers and department stores. Export values registered a contraction of -6.8 percent yoy (Annex 3). Other regional economies, with the exception of Vietnam, also witnessed a contraction in growth of export values, in parallel with weak manufacturing activity.

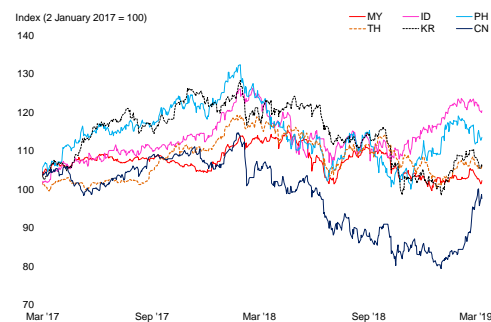
Figure 9. Japan: Industrial Production and Retail Trade



Source: National Authorities.

Despite downward pressures in recent days, regional stock markets rose by 0.9 percent between 15 February and 13 March, led by China (Figure 10). The early buoyancy was attributable to reported progress in the U.S.–China trade talks. However, other markets slipped slightly going into mid-March, after stalled U.S. employment data ignited concerns over the strength of the global economy.

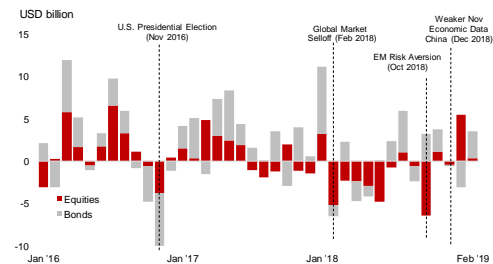
Figure 10. Equity Markets (ASEAN-4, China and Korea)



Source: Haver Analytics.

Regional emerging markets posted net capital inflows in February, mainly into Indonesia (Annex 4). The region received net inflows of USD 3.6 billion, of which USD 3.2 billion were allocated to bond markets (Figure 11). The jump in market inflows into Indonesia in February was attributable to investor interest in the high real yields offered by the country's bonds.

Figure 11. Capital Flows into Regional EM Equity and Bond Markets



Notes: Equity markets include ASEAN-4, Korea and Vietnam. Bond markets include ASEAN-4 and Korea. February bond data is not available for Thailand. Source: National Authorities.

Regional currencies continued to appreciate in early-March. The IDR has appreciated the most since the episode of risk aversion towards EMs last summer (Figure 12). That said, the THB has depreciated since late February, amid fund outflows from its equity markets and its three-month streak of yoy export value and volume contraction up to January (Annex 3).

Figure 12. Regional EM Currencies



Source: Haver Analytics.

Annex 1: Global Manufacturing PMI Heatmap

| Economies | 2015 | | | | 2016 | | | | 2017 | | | | 2018 | | | | | | | | | | | | 2019 | | Change from Prev Month | Trend (with min and max pts) |
|--------------------------|-----------------|-----|-----|-----|------|-----|-----|-----|------|-----|-----|-----|------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|------|-----|---------------------------|------------------------------------|
| | Mar | Jun | Sep | Dec | Mar | Jun | Sep | Dec | Mar | Jun | Sep | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | | |
| Global | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↓ -0.1 | [Trend line] |
| Developed Markets | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↓ -1.4 | [Trend line] |
| U.S. | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↓ -2.0 | [Trend line] |
| U.K. | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↓ -0.6 | [Trend line] |
| Eurozone | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↓ -1.2 | [Trend line] |
| Austria | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↓ -1.0 | [Trend line] |
| France | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↑ 0.3 | [Trend line] |
| Germany | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↓ -2.1 | [Trend line] |
| Greece | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↑ 0.5 | [Trend line] |
| Ireland | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↑ 1.4 | [Trend line] |
| Italy | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↓ 0.0 | [Trend line] |
| Netherlands | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↓ -2.4 | [Trend line] |
| Spain | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↓ -2.5 | [Trend line] |
| Emerging Markets | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↑ 1.1 | [Trend line] |
| Brazil | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↑ 0.8 | [Trend line] |
| India | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↑ 0.4 | [Trend line] |
| Russia | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↓ -0.8 | [Trend line] |
| South Africa* | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↑ 0.7 | [Trend line] |
| China | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↑ 1.6 | [Trend line] |
| Hong Kong* | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↑ 0.2 | [Trend line] |
| Japan | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↓ -1.4 | [Trend line] |
| Korea | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↓ -1.1 | [Trend line] |
| ASEAN | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↓ 0.0 | [Trend line] |
| Indonesia | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↑ 0.2 | [Trend line] |
| Malaysia | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↓ -0.3 | [Trend line] |
| Philippines | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↓ -0.4 | [Trend line] |
| Singapore* | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↓ -0.3 | [Trend line] |
| Thailand | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↓ -0.3 | [Trend line] |
| Myanmar | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↑ 1.2 | [Trend line] |
| Vietnam | [Heatmap cells] | | | | | | | | | | | | | | | | | | | | | | | | | | ↓ -0.7 | [Trend line] |

Notes: These seasonally adjusted PMI readings are coded by colors:

- Darker shades of red in the reading denote readings further below (< 45) the diffusion level of 50; conversely, greener shades in the readings denote readings further above (> 55) the diffusion level of 50.
- The trend lines shown in the right-most column represent the PMI readings since January 2015, the red dots denote minimum and maximum points in that period.
- Global PMI is as aggregated by JP Morgan. China's PMI refers to Caixin/ Markit PMI.
- (*) denotes whole economy PMI.

Sources: IHS Markit; JPMorgan.

Annex 2: GDP Growth and Inflation for Selected ASEAN+3 Economies

| % year-on-year | 2016 | 2017 | 2018 | | | |
|-------------------------------|------|------|-------|-------|-------|-------|
| | | | Q1'18 | Q2'18 | Q3'18 | Q4'18 |
| Brunei Darussalam | | | | | | |
| Real GDP Growth | -2.5 | 1.3 | 2.6 | -2.8 | -1.2 | - |
| Inflation | -0.7 | -0.2 | 0.1 | 0.2 | 0.2 | 0.1 |
| Cambodia | | | | | | |
| Real GDP Growth | 7.0 | 7.0 | NA | NA | NA | NA |
| Inflation | 3.0 | 2.9 | 2.2 | 2.7 | 2.5 | 2.4 |
| China | | | | | | |
| Real GDP Growth | 6.7 | 6.9 | 6.8 | 6.7 | 6.5 | 6.4 |
| Inflation | 2.0 | 1.6 | 2.2 | 1.8 | 2.3 | 2.2 |
| Hong Kong, China | | | | | | |
| Real GDP Growth | 2.2 | 3.8 | 4.6 | 3.5 | 2.8 | 1.3 |
| Inflation | 2.4 | 1.5 | 2.4 | 2.1 | 2.5 | 2.6 |
| Indonesia | | | | | | |
| Real GDP Growth | 5.0 | 5.1 | 5.1 | 5.3 | 5.2 | 5.2 |
| Inflation | 3.0 | 3.6 | 3.3 | 3.3 | 3.1 | 3.2 |
| Japan | | | | | | |
| Real GDP Growth (Fiscal Year) | 1.2 | 1.6 | 1.3 | 1.5 | 0.1 | 0.5 |
| Inflation (Fiscal Year) | -0.1 | 0.7 | 1.3 | 0.6 | 1.1 | 0.9 |
| Korea | | | | | | |
| Real GDP Growth | 2.9 | 3.1 | 2.8 | 2.8 | 2.0 | 3.1 |
| Inflation | 1.0 | 1.9 | 1.1 | 1.5 | 1.5 | 1.8 |
| Lao PDR | | | | | | |
| Real GDP Growth (Fiscal Year) | 7.0 | 6.9 | NA | NA | NA | NA |
| Inflation | 1.6 | 0.8 | 1.5 | 2.0 | 2.7 | 1.9 |
| Malaysia | | | | | | |
| Real GDP Growth | 4.2 | 5.9 | 5.4 | 4.5 | 4.4 | 4.7 |
| Inflation | 2.1 | 3.8 | 1.8 | 1.3 | 0.5 | 0.3 |
| Myanmar | | | | | | |
| Real GDP Growth (Fiscal Year) | 5.9 | 6.8 | NA | NA | NA | NA |
| Inflation | 6.8 | 4.0 | 5.3 | 6.1 | 8.1 | 8.0 |
| The Philippines | | | | | | |
| Real GDP Growth (Fiscal Year) | 6.9 | 6.7 | 6.6 | 6.2 | 6.0 | 6.1 |
| Inflation | 1.3 | 2.9 | 3.9 | 4.8 | 6.2 | 5.9 |
| Singapore | | | | | | |
| Real GDP Growth | 2.4 | 3.6 | 4.5 | 4.1 | 2.3 | 2.2 |
| Inflation | -0.5 | 0.6 | 0.2 | 0.3 | 0.7 | 0.5 |
| Thailand | | | | | | |
| Real GDP Growth | 3.3 | 3.9 | 5.0 | 4.7 | 3.2 | 3.7 |
| Inflation | 0.2 | 0.7 | 0.6 | 1.3 | 1.5 | 0.8 |
| Vietnam | | | | | | |
| Real GDP Growth | 6.2 | 6.8 | 7.5 | 6.7 | 6.9 | 7.3 |
| Inflation | 2.7 | 3.5 | 2.8 | 3.8 | 4.1 | 3.4 |

Notes: GDP Growth: refers to calendar year, unless otherwise stated. Inflation: refers to period average headline inflation; in calendar year unless otherwise indicated. For Myanmar, 2018 annual fiscal year refers to new fiscal year starting from October 2018 – September 2019.

Sources: National authorities; AMRO staff estimates and projections.

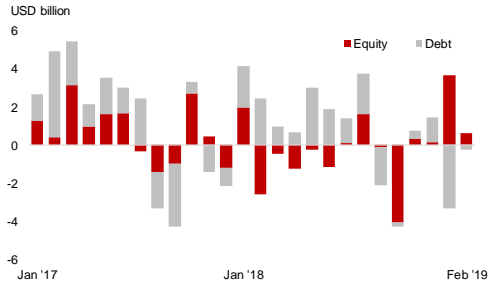
Annex 3: Regional Exports

| Volume, Monthly Growth (% YoY) | 2018 | | | | | | | | | | | | 2019 |
|--------------------------------|-------|-------|-------|-------|-------|------|-------|-------|-------|------|------|-------|------|
| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan |
| China | 5.4 | 38.9 | 12.9 | 27.7 | 2.5 | 2.6 | 5.0 | 3.7 | 9.4 | 9.8 | 2.6 | -4.9 | 10.3 |
| Hong Kong | 15.7 | -0.4 | 5.3 | 5.4 | 12.9 | 0.7 | 7.4 | 10.4 | 2.0 | 11.8 | -2.8 | -7.5 | 1.4 |
| Korea | 14.8 | -1.1 | 3.4 | 6.9 | 13.0 | 8.1 | 12.4 | 11.1 | -4.9 | 25.7 | 2.5 | 0.0 | 0.5 |
| Japan | 9.0 | 1.8 | 2.7 | 8.9 | 2.7 | 2.6 | 1.6 | 1.4 | -0.3 | 4.1 | -2.6 | 0.0 | -6.8 |
| Malaysia | 17.4 | -1.5 | 2.6 | 14.9 | 2.9 | 5.4 | 6.0 | -3.4 | 3.0 | 13.9 | -1.4 | 2.3 | 1.7 |
| Singapore | 9.3 | -0.7 | -2.4 | 7.7 | 4.0 | 0.8 | 5.7 | 5.6 | 3.1 | 9.5 | 2.4 | -2.9 | 1.9 |
| Thailand | 14.2 | 5.7 | 3.8 | 11.1 | 10.1 | 7.5 | 4.4 | 2.8 | -7.7 | 5.7 | -1.2 | -2.3 | -4.9 |
| Philippines | -58.3 | -4.5 | -24.8 | -20.3 | -10.1 | 7.3 | -11.7 | -12.4 | -31.3 | -3.8 | 20.7 | - | - |
| Indonesia | 10.6 | 22.9 | 9.5 | 7.5 | 17.4 | 24.5 | 20.9 | 2.1 | 4.3 | 11.6 | 6.9 | 7.5 | 13.6 |
| Vietnam | 76.0 | -11.4 | 17.8 | 26.9 | 24.3 | 11.1 | 10.9 | 3.8 | -6.2 | 15.9 | 6.3 | -2.3 | 14.2 |
| Value, Monthly Growth (% YoY) | 2018 | | | | | | | | | | | | 2019 |
| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan |
| China | 10.7 | 43.6 | -3.0 | 11.9 | 11.9 | 10.7 | 11.6 | 9.5 | 13.9 | 14.3 | 3.9 | -4.6 | 9.1 |
| Hong Kong | 17.2 | 0.9 | 7.0 | 7.1 | 15.0 | 2.7 | 9.4 | 12.7 | 4.2 | 14.1 | -1.1 | -5.8 | -0.7 |
| Korea | 22.3 | 3.1 | 5.5 | -2.0 | 12.8 | -0.4 | 6.1 | 8.7 | -8.1 | 22.5 | 3.6 | -1.7 | -5.9 |
| Japan | 16.3 | 6.5 | 8.8 | 10.2 | 10.6 | 7.6 | 4.7 | 5.5 | -2.5 | 8.4 | -0.3 | -3.2 | -6.8 |
| Malaysia | 32.8 | 11.0 | 15.9 | 28.6 | 13.0 | 15.5 | 15.9 | 4.4 | 8.3 | 19.7 | 1.3 | 2.8 | -1.0 |
| Singapore | 18.0 | 6.0 | 5.8 | 16.9 | 14.6 | 10.8 | 14.0 | 12.8 | 9.6 | 16.4 | 4.6 | -4.2 | -1.5 |
| Thailand | 19.2 | 10.6 | 7.9 | 11.5 | 9.5 | 5.7 | 5.5 | 6.8 | -4.6 | 8.3 | -2.6 | -1.5 | -5.4 |
| Philippines | -4.0 | -5.5 | -6.8 | -4.9 | -1.8 | 2.8 | 0.3 | 3.4 | 0.8 | 5.5 | -0.3 | -12.3 | - |
| Indonesia | 8.6 | 12.0 | 5.9 | 9.6 | 13.1 | 11.3 | 19.7 | 4.5 | 2.4 | 4.2 | -2.8 | -3.6 | -4.7 |
| Vietnam | 40.2 | 8.6 | 22.3 | 4.5 | 11.3 | 12.1 | 14.8 | 18.5 | 9.5 | 10.8 | 8.5 | -0.4 | 9.2 |

Source: National Authorities.

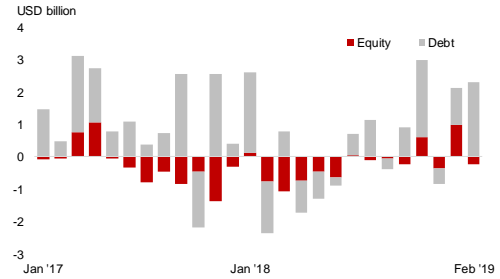
Annex 4: Capital Flows into Regional Equity and Bond Markets, Selected ASEAN+3 Economies

Korea



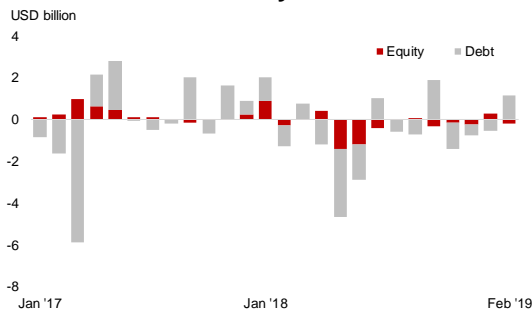
Source: National Authorities.

Indonesia



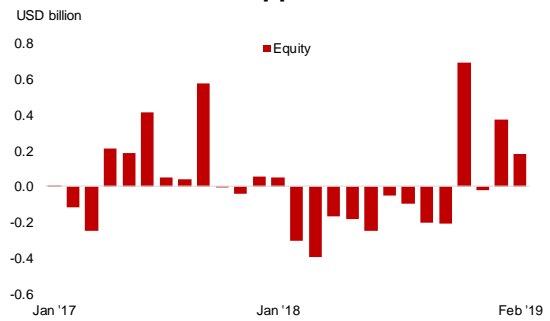
Source: National Authorities.

Malaysia



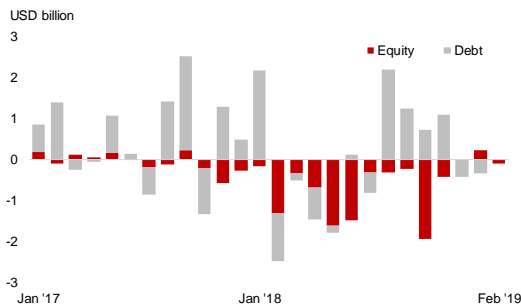
Source: National Authorities.

Philippines



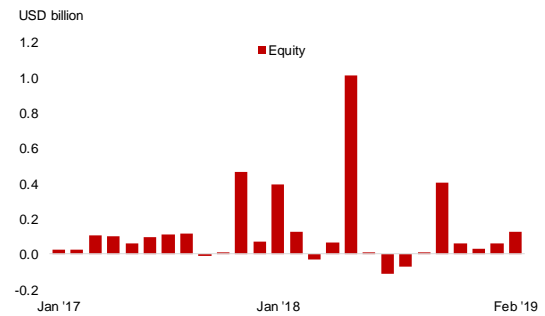
Source: National Authorities.

Thailand



Source: National Authorities.

Vietnam



Source: National Authorities.

Annex 5: Major Policy Developments (15 February – 15 March 2019)

| | |
|------------------|---|
| China | <p>[02 March 2019] China Securities Regulatory Commission (CSRC) released regulations on the science and technology innovation board, which pilots registration-based initial public offerings (IPO) system, a major reform step for China's capital market. The new sci-tech board in the Shanghai Stock Exchange (SSE) focuses on companies in high-tech and strategically emerging sectors such as new generation information technology, advanced equipment, new materials and energy, and biomedicine. Under the pilot registration system, eligible companies can become listed by filing required documents.</p> <p>[05 March 2019] The Ministry of Finance raised 2019 budget deficit target on promises of tax cuts and infrastructure spending. Deficit target raised to 2.8 per cent of gross domestic product from 2.6 per cent in 2018, providing more fiscal leeway for government spending. Business and personal taxes to be cut by 1.3 trillion yuan, more than the 1.1 trillion yuan in cuts in 2018. The government will cut the value-added tax rate for manufacturing firms from 16 per cent to 13 per cent and reduce the rate for transport and construction firms from 10 per cent to 9 per cent. To help small technology businesses, the threshold for application of the value-added tax (VAT) will be raised to 100,000 yuan from 30,000 yuan. China will also cut the contribution rate for government pension insurance that employers must pay for each worker to 16 per cent from the current range of between 19 and 20 percent.</p> |
| Hong Kong | <p>[21 February 2019] The Hong Kong Government expressed its strong support for the Greater Bay Area development plan released by Mainland China, and said it was looking forward to playing its role as a key hub for transport, logistics and financial services.</p> <p>[27 February 2019] The Hong Kong Government announced its FY 2019/2020 budget, with a range of measures to provide relief for businesses and individuals in a year where economic growth is expected to slow markedly. The budget surplus is expected to narrow but fiscal reserves will continue growing from healthy levels.</p> |
| Japan | <p>[15 March 2019] The Policy Board of the Bank of Japan decided to maintain the policy rates and the guidelines for asset purchases unchanged.</p> |
| Korea | <p>[28 February 2019] The Monetary Policy Board of the Bank of Korea decided to maintain the base rate at 1.75 percent.</p> |
| Indonesia | <p>[21 February 2019] The BI Board of Governors agreed on 20th and 21st February 2019 to hold the BI 7-Day Reverse Repo Rate at 6.00 percent, while also maintaining the Deposit Facility (DF) and Lending Facility (LF) rates at 5.25 percent and 6.75 percent, respectively.</p> |
| Lao PDR | <p>[12 February 2019] The Bank of the Lao PDR has issued the Agreement No. 140/BOL in removing the Interest Rate Ceiling to allow the Commercial Banks to determine the interest rate of Deposit and Lending depending on the market. This agreement aims to boost the credit growth in the economy, especially to enable SMEs to access more finance.</p> |
| Malaysia | <p>[05 March 2019] The Monetary Policy Committee of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3.25 percent.</p> |

Source: National Authorities.