

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 1 July 2022. For brevity, “Hong Kong, China” is referred to as “Hong Kong” in the text and figures.

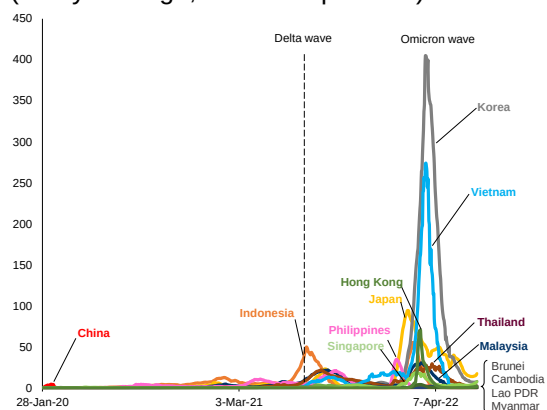
Highlights

- The ASEAN+3 region may have finally gained some ground in the long battle against COVID-19.
- However, the war in Ukraine is expected to be protracted and sanctions will remain for some time. Supply disruptions are expected to continue and commodity prices will remain high.
- Global financial conditions have tightened reflecting a faster pace of monetary policy tightening by the US Fed. As a result, fear of a recession in the US has heightened and risk aversion has spiked.
- The region's baseline growth forecast has been revised downwards (+4.3%), and the inflation forecast has been revised upwards (+5.2%) for 2022. In 2023, growth is expected to strengthen to about 5 percent, with inflation moderating to about 3 percent.

Global and Regional Economic Developments since AREO2022

After more than two years, it appears that the region may have finally gained some ground in the long battle against COVID-19. Thanks to growing vaccine availability, improved therapies, and testing and tracing, daily new cases have declined sharply and the highly infectious Delta and Omicron waves have subsided across the region. The total caseload plunged from 838,800 in mid-March to about 44,000 in early July (Figure 1). The region's high vaccination rates continue to provide effective protection against severe illness, hospitalization, and death.

Figure 1. ASEAN+3: Daily COVID-19 Cases
(7-day average, thousand persons)



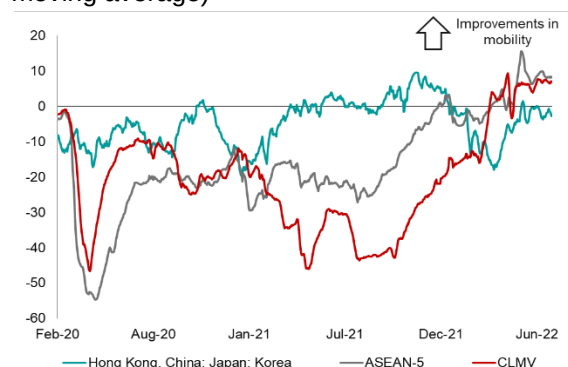
Source: Our World in Data via Haver Analytics; and AMRO staff calculations.

Strict pandemic control measures have contained the recent outbreak of the virus in China. Shanghai—which reported

a surge of infections in end-March—was locked down for about two months. Beijing also saw partial lockdowns amid sporadic outbreaks. Since June, China has kept case counts under control and the economy is almost back to normal.

With COVID-19 receding in the region, more economies have begun treating it as endemic, further relaxing restrictions and allowing a fuller resumption of economic activities. Borders have been progressively re-opened and international travel has resumed. In the past few months, mobility indicators in ASEAN+3 economies have finally recovered to their pre-pandemic level (Figure 2).

Figure 2. Selected ASEAN+3: Aggregate Non-Residential Mobility
(Percentage change from baseline; 5-day moving average)

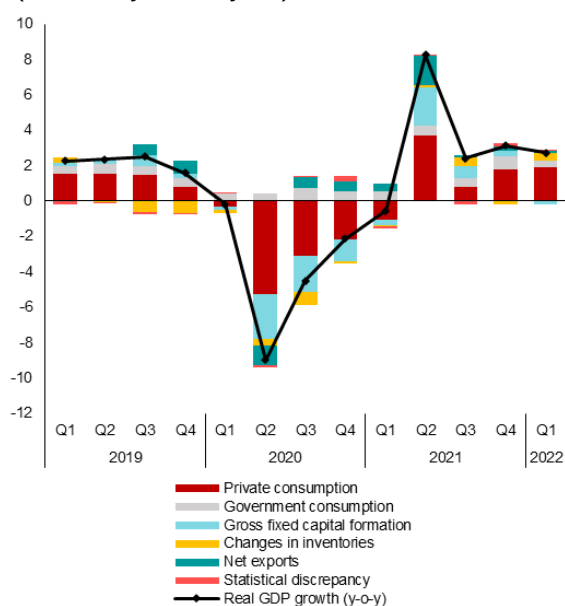


Source: Google COVID-19 Community Mobility reports via Haver Analytics; and AMRO staff calculations.

Notes: Baseline refers to the median value of the corresponding day in the period 3 January–6 February 2020. Non-residential mobility refers to mobility data to and from places such as groceries and pharmacies, retail and recreation facilities, transit stations, and workplaces. ASEAN-5 refers to Indonesia, Malaysia, Philippines, Thailand, and Singapore. CLMV refers to Cambodia, Lao PDR, Myanmar, and Vietnam.

GDP data releases for Q1 2022 point to uneven growth momentum across the region. The Plus-3 economies—not just China, but also Hong Kong, Japan, and Korea—saw flare-ups of COVID-19 infections and attendant restrictions that weighed on growth in the first quarter of 2022. Growth was relatively stronger in ASEAN, as economic re-opening gained further traction (Figure 3).

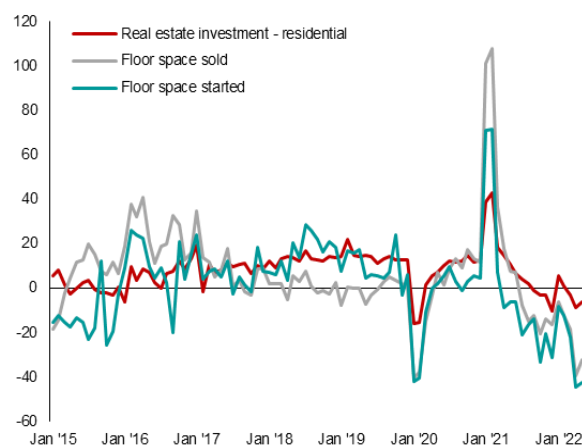
Figure 3. Selected ASEAN+3: Contribution to Real GDP Growth
(Percent, year-on-year)



Source: National authorities via Haver Analytics; and AMRO calculations.
Note: Excludes Cambodia, China, Lao PDR, Myanmar, and Vietnam due to data unavailability.

In China, real estate activities have decelerated further. China's property sector has slowed since early 2021, partly as a result of the authorities' "three red lines" policy to curb overleverage in the property companies. Despite recent adjustments to policies on property financing, key indicators of activity, such as sales and new construction starts, continued to register large contractions in May (Figure 4), and the unsold stock of housing has increased.

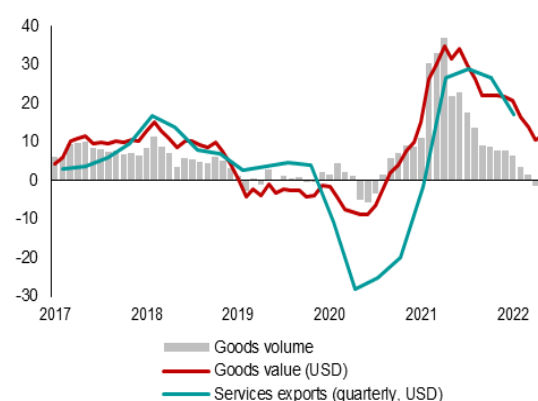
Figure 4. China: Selected Real Estate Activity Indicators
(Percent, year-on-year)



Source: National authorities via Haver Analytics.

Global supply chain disruptions continue to have an impact on trade and economic activities. Airspace and shipping lane closures resulting from the war in Ukraine have exacerbated pandemic-era supply-chain disruptions. The recent lockdowns in China have compounded the pressure by constricting port activity and limiting the production of intermediate goods. According to the latest trade data, the region's exports have slowed in both value and volume terms (Figure 5).

Figure 5. Selected ASEAN+3: Exports
(Percent, year-on-year)

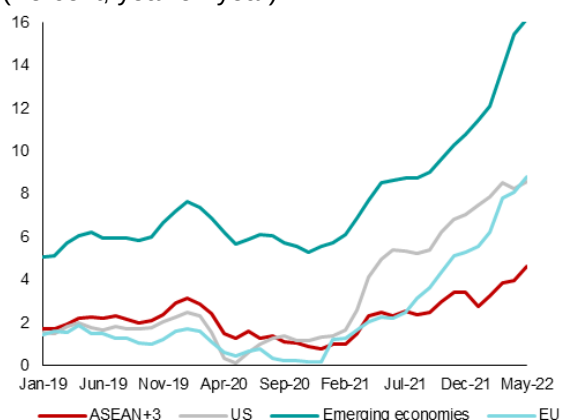


Source: National authorities; and AMRO staff calculations.
Note: Services exports data for Q1 2022 excludes Brunei and Myanmar.

The war in Ukraine and sanctions on Russia have pushed up commodity prices and world inflation (Figure 6). Higher prices of energy (crude oil, coal, and gas) have led to higher transportation and utility costs. Rising prices of grains, edible oils, and fertilizers due to war-related supply disruptions have led to a surge in food prices. As a result, inflation in May jumped to an average of about 16 percent in emerging economies around the world, and nearly 9 percent in the United States (US) and the European Union.

Figure 6. ASEAN+3 and Selected Economies: Headline Consumer Price Inflation

(Percent, year-on-year)



Source: National authorities, and AMRO staff calculations.

Note: CPI data for Myanmar January to May, Brunei March to May, and Cambodia April to May are not available, and thus not included in the calculation of ASEAN+3 average CPI.

Inflation has also trended higher for most ASEAN+3 economies in recent months, but it is still lower than in other parts of the world. Headline inflation readings across ASEAN+3 economies were one to three times higher in March–May compared to the first two months of the year. In May, average inflation in ASEAN+3 stood at 4.7 percent. Inflationary pressures are mainly coming from rising energy and food prices, the same as in other parts of the world. In addition to cost-push factors, firming domestic demand is also putting upward pressure on inflation in some economies such as Korea and Singapore.

In the US, persistent high inflation has led to a sharper and more frontloaded policy tightening by the US Federal Reserve (Fed). The recent more-aggressive rate hikes by the US Fed to rein in inflation have triggered a sharp re-pricing of risk assets and fueled financial market volatility. Significant market sell-offs followed the Fed's decision to raise its benchmark federal-funds rate in May (by 50 basis points) and in June (by 75 basis points), driven by fears of higher borrowing costs and a sharp slowdown in the US economy.

Regional Economic Outlook

The 2022 baseline growth forecast for ASEAN+3 is revised downwards from the AREO2022 projection in April. The region is now expected to grow at a slower pace of 4.3 percent this year (April projection: +4.7 percent). This reflects mainly downgrades in growth forecasts for the Plus-3 economies (+4.1 percent; April: +4.6 percent). The downward revisions were underpinned by the sharp stepdown in growth during the first half of the year, notably in China and Hong Kong. The slowdown in China and key trading partners has, in turn, weighed on growth in Japan and Korea. The 2022 growth forecast for ASEAN, on the other hand, remains unchanged from April's projections. ASEAN is poised to expand strongly by 5.1 percent, after last year's setback due to the outbreak of the Delta COVID variant. In 2023, growth for the whole ASEAN+3 region is expected to strengthen to 4.9 percent (April: +4.6 percent).

The 2022 inflation forecast for the region is revised upwards. Relentless cost-push pressures and firming domestic demand in some economies are driving headline inflation higher this year (+5.2 percent; April: +3.5 percent). Elevated prices for fertilizer and feedstock will continue to push up food prices through this year and into

the next. For economies where the growth momentum is strengthening, such as Singapore, the narrowing output gap and tight labor market are adding to inflation pressure. In 2023, inflation is expected to moderate to 2.8 percent (April: +2.3 percent).

Risks to the growth outlook for the ASEAN+3 region have increased since AMRO's last assessment in April. The likelihood of a quick resolution to the war in Ukraine has all but evaporated in the last three months. This will amplify existing risks to the region's outlook as commodity prices stay elevated and supply chains continue to experience disruptions.

- As ASEAN+3 economies are mostly net oil and gas importers, a sustained increase in energy prices is an adverse terms of trade shock that will raise import prices and drive up inflation. Similar considerations apply to food prices in the region which are being battered by knock-on effects of war-related grain, sunseed-oil, and fertilizer shortages.
- High shipping costs and long delays are likely to persist as supply chains and trade routes are reconfigured in response to evolving sanctions on and by Russia. This will weigh on the region's exports, which will risk setting back the recovery.

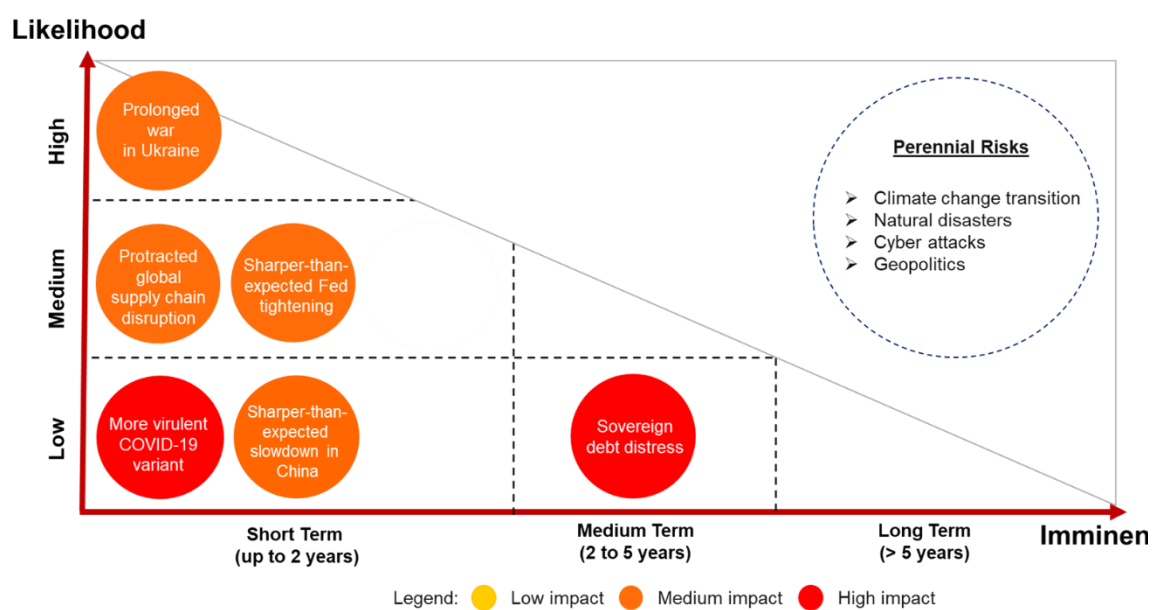
A sharper-than-expected slowdown in China is also among the list of downside risks confronting the region. While the authorities have successfully contained the recent surge in infections, the repeated lockdowns have slowed production and dampened domestic demand. A sharper deceleration in China's consumption and real estate activities would be a significant

drag on the economy, with spillovers that would further undermine the region's growth outlook.

Monetary policy tightening in the US has become more aggressive now than in April. Tighter financial conditions have roiled markets and led to a spike in risk aversion and capital outflows from the region, pushing up borrowing costs. The risk of excessive capital outflows, weaker exchange rates, and higher inflation is putting pressure on the region's central banks to tighten monetary policy. Several ASEAN+3 economies (e.g., Korea, Malaysia, the Philippines, and Singapore) have already started to normalize their accommodative monetary policy stance accordingly.

While the pandemic appears to have receded, the emergence of more vaccine resistant and transmissible strains of COVID-19 remains a tail risk. New Omicron sub-variants like BA.4 and BA.5, which are reportedly more transmissible but still mild, are growing more prevalent globally. As global immunity from repeated vaccinations and infection builds, the frequency of new COVID waves is expected to slow down—although the emergence of a more virulent variant cannot be ruled out. If ASEAN+3 economies have to re-impose pandemic containment measures, their economic recovery would certainly be derailed, putting more businesses and individuals in greater financial distress. The resultant need for renewed fiscal support could intensify the risk of sovereign debt distress in the region's more vulnerable economies in the longer term.

Figure 7. Regional Risk Map, July 2022



Source: AMRO staff estimates.

Table 1. ASEAN+3: AMRO Growth and Inflation Projections, 2022–23

Economy	Gross Domestic Product (Percent year-on-year)					Consumer Price Index (Percent year-on-year)				
	2021 (Actual)	AREO 2022 Update (April 2022)		AREO 2022 Quarterly Update (July 2022)		2021 (Actual)	AREO 2022 Update (April 2022)		AREO 2022 Quarterly Update (July 2022)	
		2022 ^p	2023 ^f	2022 ^p	2023 ^f		2022 ^p	2023 ^f	2022 ^p	2023 ^f
ASEAN+3	6.0	4.7	4.6	4.3	4.9	2.1	3.5	2.3	5.2	2.8
Plus-3	6.8	4.6	4.4	4.1	4.9	1.2	2.1	1.7	2.7	2.0
China	8.1	5.2	5.3	4.8	5.7	0.9	2.2	2.0	2.2	2.0
Hong Kong, China	6.4	2.8	3.2	1.1	3.7	1.6	2.0	2.3	2.0	2.3
Japan	1.6	2.9	1.2	1.8	2.0	−0.3	1.1	0.5	1.8	1.0
Korea	4.1	3.0	2.6	2.5	2.6	2.5	2.9	2.1	4.6	2.6
ASEAN	3.1	5.1	5.2	5.1	5.2	2.5	4.1	2.6	6.2	3.2
Brunei Darussalam	−1.6	4.1	2.3	3.0	3.9	1.7	1.3	1.3	3.2	1.8
Cambodia	3.0	5.2	6.1	4.9	5.8	2.9	5.0	3.7	6.4	4.4
Indonesia	3.7	5.2	5.3	5.1	5.4	1.6	2.8	3.0	3.4	3.6
Lao PDR	2.6	3.9	5.9	3.5	4.9	3.8	5.0	3.5	14.3	4.6
Malaysia	3.1	6.0	5.0	6.0	5.0	2.5	2.7	2.0	3.0	2.2
Myanmar	−18.7	1.5	–	1.5	–	3.6	9.5	–	12.0	–
The Philippines	5.6	6.5	6.5	6.9	6.5	3.9	4.1	3.5	4.4	3.8
Singapore	7.6	4.0	2.6	3.9	2.4	2.3	3.3	2.0	5.2	3.7
Thailand	1.6	3.4	5.2	3.2	4.9	1.2	4.2	1.8	6.3	1.2
Vietnam	2.6	6.5	7.0	6.3	6.5	1.8	3.4	3.0	3.5	3.3

Source: AMRO staff estimates.

Note: AREO = ASEAN+3 Regional Economic Outlook report. p = projection, f = forecast. Regional aggregates for growth are estimated using the weighted average of 2021 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 October 1 of the previous year to September 30 of the current year.