

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

ASEAN+3 Macroeconomic Research Office (AMRO)

Singapore

January 2022

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Unless otherwise indicated, the analysis in this report is based on information available up to January 24, 2022. For the sake of brevity, “Hong Kong, China” is referred to as “Hong Kong” in the text and figures.

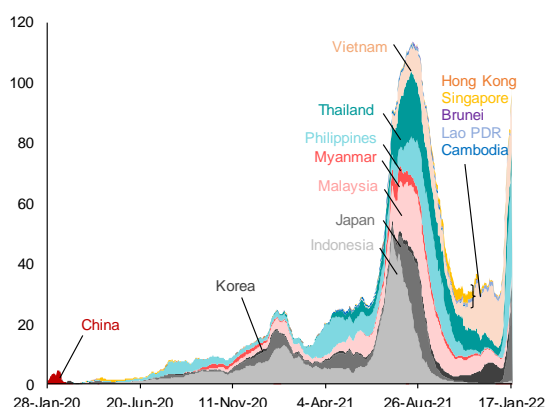
Highlights

- Recovery momentum in 2021 was interrupted by the surge of the Delta variant, persistent supply chain disruptions, and rising global inflation.
- The emergence of the more infectious Omicron variant is a threat to the continuing recovery of the region in 2022 but high vaccination rates have mitigated the risk.
- ASEAN+3's growth for 2022 is forecast to remain relatively robust at around 5 percent.
- Risks to the growth outlook are tilted to the downside.

Global and Regional Economic Developments since the October 2021 AREO Update

The emergence of the new and highly transmissible Omicron variant of COVID-19 has led to a resurgence in infections towards the end of 2021. Globally, COVID-19 cases have risen rapidly, with daily caseloads breaching previous record highs in the new year. In the region, caseloads began to climb shortly after the surge due to the Delta variant subsided in September (Figure 1). The total caseload tripled to more than 99,000 daily cases in a span of about two weeks, less than half the time it took to reach similar levels during the Delta surge.

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

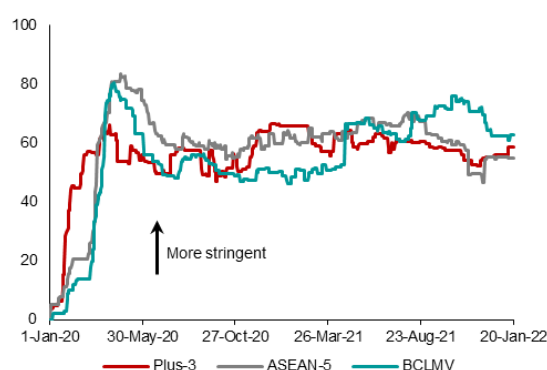


Sources: Our World in Data via Haver Analytics; and AMRO staff calculations.

The surge in COVID-19 cases has put a damper on economic reopening. Border restrictions around the world were retightened when Omicron was first classified as a variant of concern at end-November (Figure 2). Most

ASEAN+3 economies implemented travel bans and/or rescinded vaccine-differentiated travel arrangements; almost all reintroduced domestic containment measures including mobility curbs, restricted operating hours for businesses, school and workplace closures, and attendance caps on gatherings in public places. On 22 December 2021, China sealed off the city of Xi'an in the most sweeping lockdown since Wuhan in 2020. The need for booster doses of COVID-19 vaccines to protect against the Omicron variant has also set back some of the progress made by the region on the vaccination front.

Figure 2. ASEAN+3: Government Stringency Index
(0 = No restrictions, 100 = Tightest restrictions)

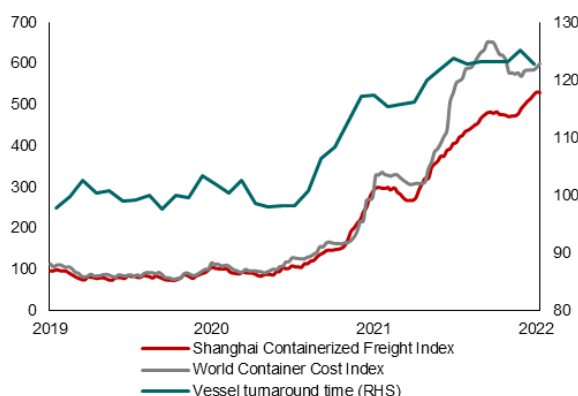


Sources: Our World in Data via Haver Analytics; and AMRO staff calculations. Note: Plus-3 refers to China, Hong Kong, Japan and Korea; ASEAN-5 refers to Indonesia, Malaysia, Philippines, Singapore and Thailand; BCLMV refers to Brunei Darussalam, Cambodia, Lao PDR, Myanmar and Vietnam.

Disruptions in global supply chains have continued to impact economic activity. Congestion in major global ports persisted into the second half of 2021 due to a confluence of factors including continuing local labor shortages and capacity

constraints. The resulting shipping delays have exacerbated the supply shortages of final and intermediate goods caused by earlier production stoppages in the region (Figure 3).

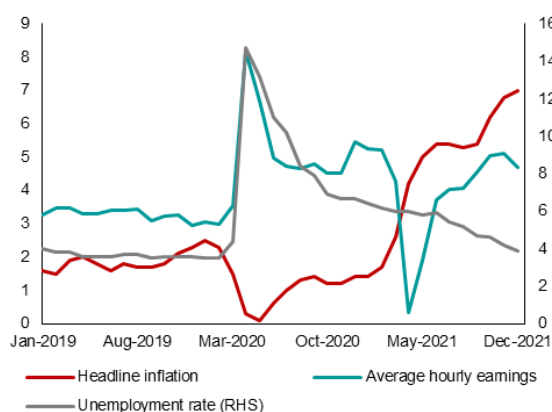
Figure 3. World: Shipping Costs and Vessel Turnaround Time
(December 27, 2019 = 100; 2019 = 100)



Sources: Bloomberg Finance LP; MarineTraffic and AMRO staff calculations.
Note: The Shanghai Containerized Freight Index reflects the spot shipping rates for 15 major container trade routes coming out of Shanghai. The World Container Index is a weighted average by volume of the spot container freight rates for eight major East-West trade routes. The two series are presented in weekly frequency, with January 21, 2022 as latest observation. The vessel turnaround time refers to the median turnaround time for container ships with a carrying capacity of more than 2,000 Twenty-foot Equivalent Units (TEU).

The rise in global inflation has proven to be more persistent than expected. Inflation in advanced economies, particularly the United States, rose to record highs in recent months, reflecting the clash of strong demand due to massive fiscal stimulus and the reopening of the economy, against production bottlenecks, supply chain disruptions, and labor shortages (Figure 4).

Figure 4. United States: Headline Inflation and Labor Market Conditions
(Percent year-on-year)

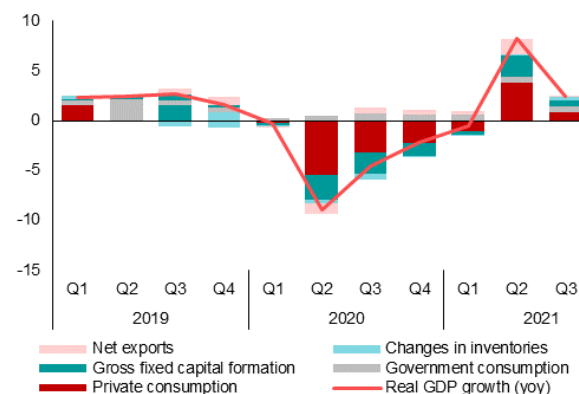


Source: National authority via Haver Analytics.

Regional Economic Outlook

Economic data released after the October 2021 AREO Update suggest weaker-than-expected momentum across the region in 2021. After a significant moderation in the third quarter of the year (Figure 5), economic growth in 2021 is estimated to come in at 5.9 percent, down by 0.2 percentage point from last October’s forecast. The revision was driven by weaker-than-expected growth in Japan, where economic activity in the third quarter was significantly curtailed with the resurgence of infections across the country, and in China, due to the softening of the property market as a result of stricter measures on leverage of property developers. ASEAN’s GDP growth in 2021 is expected to come in slightly higher than projected in the last Update, thanks to stronger pick-ups in economic activity in Singapore, the Philippines, Cambodia, and Thailand, which were helped by rapid vaccination progress and robust exports in the last quarter of the year (Figures 6 and 7). The region’s consumer price inflation in 2021 is now projected at 2.2 percent (compared to 2.4 percent last October), reflecting lower-than-expected food price increases in China, Cambodia, Lao PDR, Myanmar, and Vietnam.

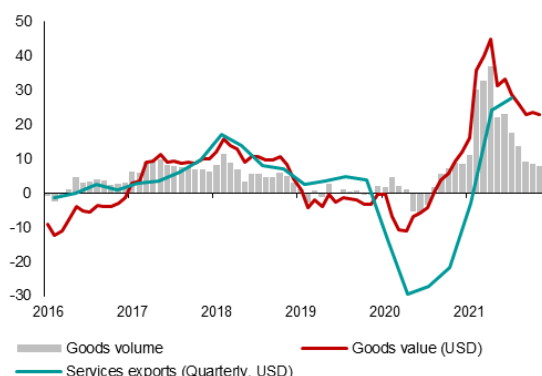
Figure 5. Selected ASEAN+3: Contribution to Real GDP Growth
(Percent year-on-year)



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

Figure 6. ASEAN+3: Exports of Goods and Services

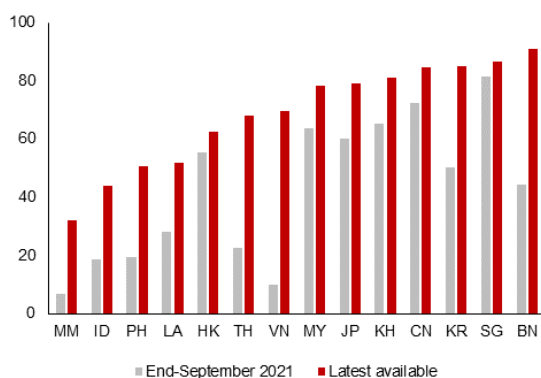
(Percent year-on-year, 3-month moving average)



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

Figure 7. ASEAN+3: Fully Vaccinated Population

(Percent of population)



Source: Our World in Data via Haver Analytics.
 Note: Percent of fully vaccinated population shows the number of people who received all doses prescribed by the vaccination protocol (e.g. one dose of a single-dose vaccine, or two doses of a two-dose vaccine).

Our baseline 2022 GDP growth forecast for the region assumes continued improvement in the global economy, albeit at a slower pace due to the Omicron variant. In tandem with the improvement in the global economy, major advanced economies are expected to unwind fiscal and monetary policy support by the second half of 2022. Global supply chain disruptions are assumed to have peaked in the fourth quarter of 2021 and to ease in 2022. However, high costs and burdensome protocols will limit the scale of

resumption in travel activities, particularly in the first half of 2022, and international tourism is not expected to return to pre-Covid levels until mid-2023.

The 2022 growth forecast for the Plus-3 as a group remains broadly unchanged from the last Update. Japan's economy is expected to grow more strongly than previous forecast, driven by the strong recovery in private consumption and business investment. On the other hand, Hong Kong is projected to expand at a slower rate as the reopening of borders with Mainland China is likely to be postponed following the recent spread of local COVID-19 infections in both economies.

2022 growth forecasts for most ASEAN economies have been revised downward (Table 1) as the spread of the highly transmissible Omicron variant at the beginning of the year necessitated the reimposition of containment measures, including a retightening of border controls. The need for booster doses is also expected to delay further economic reopening. These factors, in addition to the continued spread of the Delta variant, account for the downward adjustment to the growth forecasts for Indonesia, Malaysia, Philippines, Cambodia, Lao PDR and Thailand.

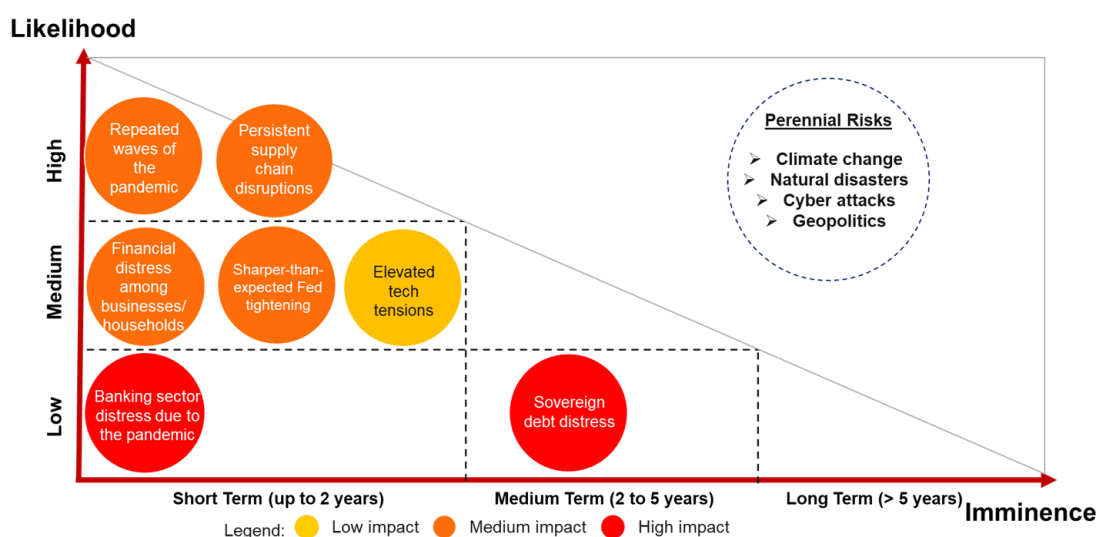
The forecast for consumer price inflation in 2022 is slightly higher for the ASEAN+3 economies (excluding Myanmar), but inflation is still relatively low compared to the other regions in the world. The upward revision relative to the October 2021 Update is mainly on account of higher cost pressures for food, energy and raw materials amid the global increase in prices, although these pressures are expected to ease by mid-year.

Risks to the outlook are tilted to the downside. Prime among them are

developments surrounding the pandemic—including resurgence of infections caused by new variants and delays in the availability of effective vaccines and antiviral treatments—which could cause further economic disruptions (Figure 8). Moreover, if supply chain holdups in the advanced economies persist further into 2022, this could weigh on the region’s export growth and exacerbate cost pressures globally. An acceleration of global inflation could prompt major advanced economies to roll back extraordinary monetary support more

quickly and/or more sharply than currently anticipated, leading to higher interest rates, capital outflows, and financial market volatility in the region. Also, as some of the region’s economies gradually withdraw policy support this year, hidden vulnerabilities, such as weak private sector balance sheets that are currently masked by regulatory forbearance, would need to be addressed without unduly posing a drag on growth.

Figure 8. Global Risk Map, January 2022



Source: AMRO staff estimates.

Table 1. ASEAN+3: AMRO Growth and Inflation Projections, 2021–22

Economy	Gross Domestic Product (Percent year-on-year)					Consumer Price Index (Percent year-on-year)				
	2020 (Actual)	AREO 2021 Update (October 2021)		AREO 2021 Quarterly Update (January 2022)		2020 (Actual)	AREO 2021 Update (October 2021)		AREO 2021 Quarterly Update (January 2022)	
		2021 ^p	2022 ^f	2021 ^p	2022 ^f		2021 ^p	2022 ^f	2021 ^p	2022 ^f
ASEAN+3	0.0	6.1	5.0	5.9	4.9	1.8	2.4	2.9	2.2	2.9
Plus-3	0.8	6.9	4.8	6.7	4.9	0.8	1.1	1.6	1.2	1.8
China	2.3	8.2	5.5	8.1	5.5	2.5	1.3	2.0	0.9	2.5
Hong Kong, China	-6.1	6.5	4.0	6.5	3.6	0.3	1.6	2.0	1.7	2.0
Japan	-4.5	2.6	2.4	1.8	2.9	0.0	-0.5	0.4	-0.3	0.7
Korea	-0.9	3.9	3.0	4.0	3.0	0.5	1.9	1.9	2.5	2.1
ASEAN	-3.3	2.7	5.8	2.8	5.2	2.1	3.0	3.5	2.6	3.4
Brunei Darussalam	1.1	2.1	3.2	0.2	4.1	1.9	1.6	1.0	1.7	1.3
Cambodia	-3.1	2.8	6.6	2.9	5.2	2.9	3.3	2.3	2.8	2.4
Indonesia	-2.1	3.8	5.6	3.8	5.2	2.0	1.6	2.7	1.6	2.8
Lao PDR	3.3	2.9	5.0	2.6	3.9	5.1	4.0	5.2	3.8	5.2
Malaysia	-5.6	4.1	6.7	3.5	6.0	-1.1	2.5	2.2	2.5	2.4
Myanmar	3.2	-18.7	0.0	-18.7	0.0	5.8	6.7	12.4	3.6	9.5
The Philippines	-9.6	4.3	6.7	4.9	6.2	2.6	4.3	3.2	4.5	3.3
Singapore	-5.4	6.3	4.0	7.2	4.0	-0.2	1.6	1.3	2.2	1.9
Thailand	-6.1	0.8	5.8	1.1	3.6	-0.8	0.8	1.0	1.2	1.6
Vietnam	2.9	2.6	7.5	2.6	7.5	3.2	3.2	3.2	1.8	3.4

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 2020 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.