ASEAN+3 Regional Economic Outlook

October 2023 Update

Allen Ng

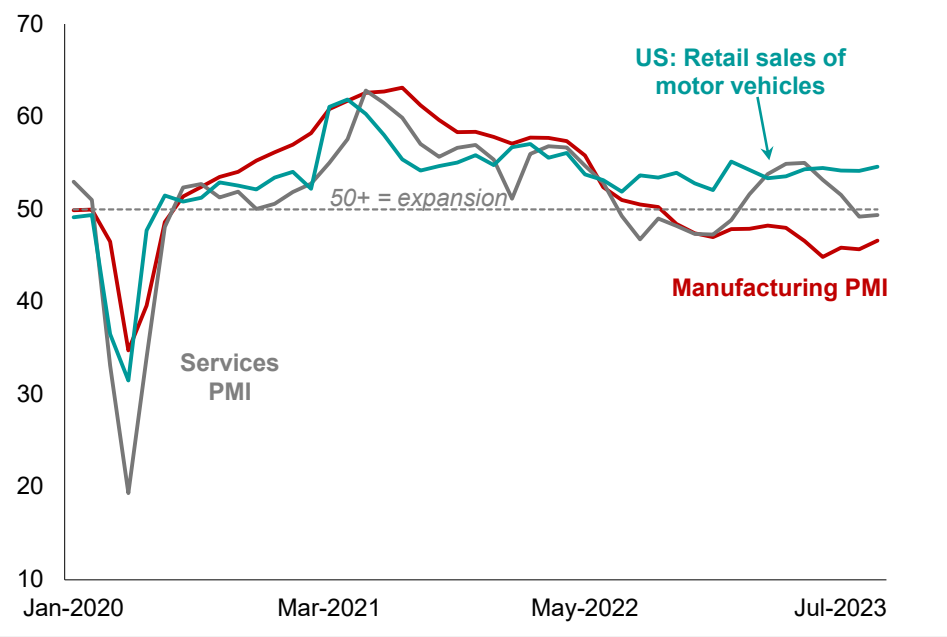
November 1, 2023

AMRO
ASEAN +3 MACROECONOMIC RESEARCH OFFICE

Growth in the US and euro area remain resilient

Spending on durables has picked up, offsetting the moderating demand for services

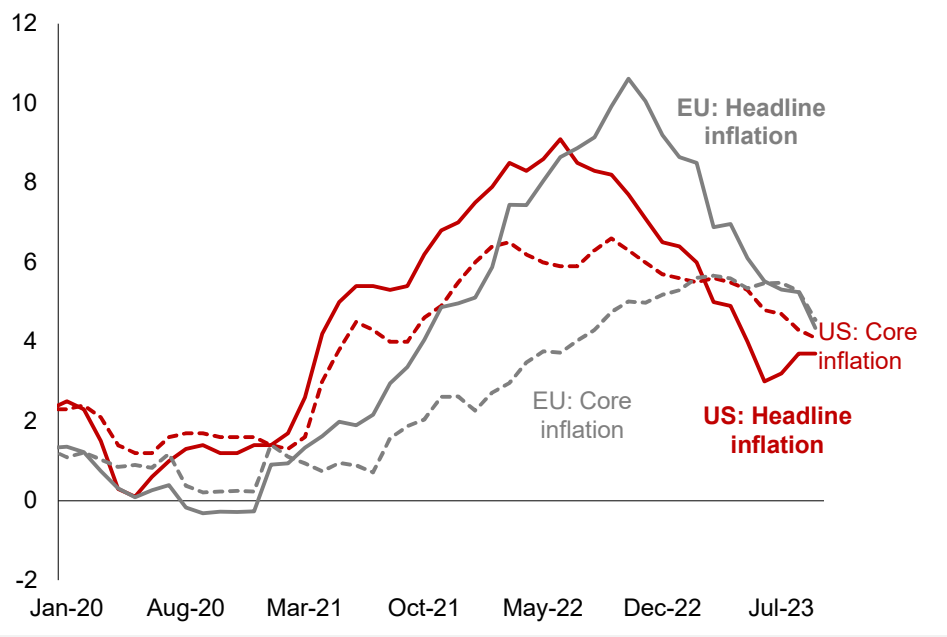
United States and euro area: Manufacturing and Services PMI, and US Retail Sales of Motor Vehicles
(Index, seasonally adjusted)



Source: S&P Global and US Bureau of Economic Analysis via Haver Analytics, and AMRO staff calculations.
Note: A reading above 50 indicates an expansion in activities, while a reading below 50 indicates a contraction. Reading represents the simple average of PMI for US and euro area. Retail sales of motor vehicles is indexed to average monthly sales in 2019.

Core inflation continues to moderate, while headline inflation picked up following higher global commodity prices

United States and Euro Area: CPI Inflation
(Percent, year-on-year)

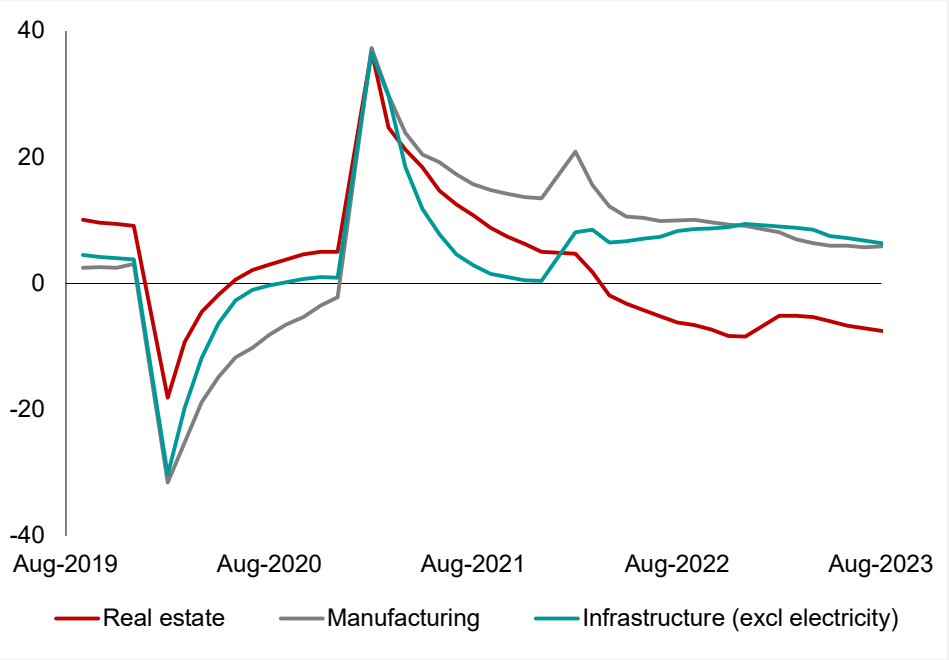


Source: National authorities via Haver Analytics.

Distressed real estate sector weighed on China's growth

Except real estate, fixed asset investment continued to expand

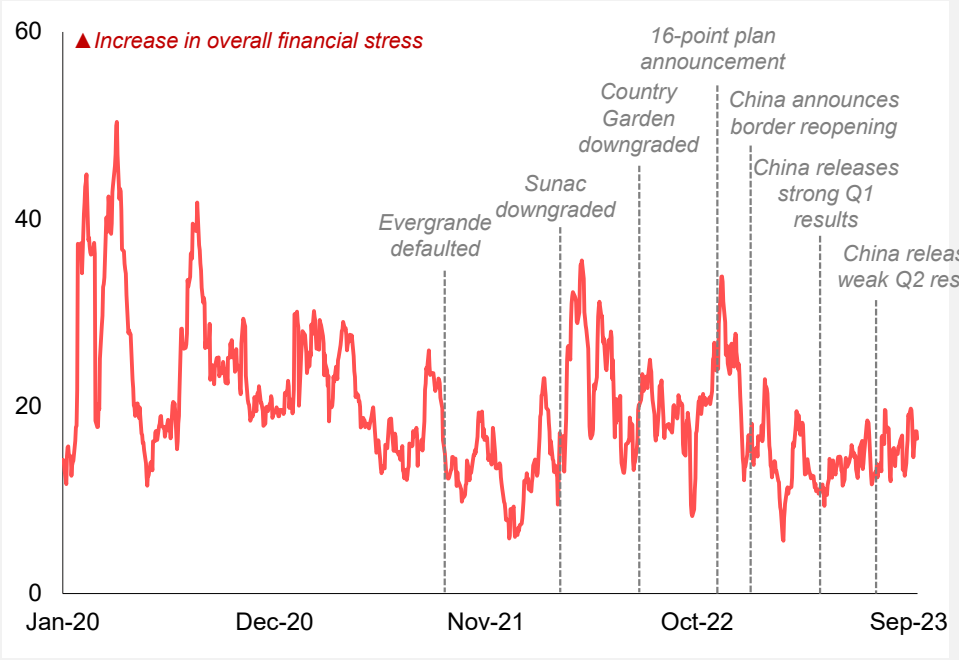
China: Fixed Asset Investment
(Percent, year-on-year)



Source: National authorities via Haver Analytics.

Swift announcement of wide-ranging government policies has eased financial market uncertainty

China: Daily Financial Stress Index
(z-score)

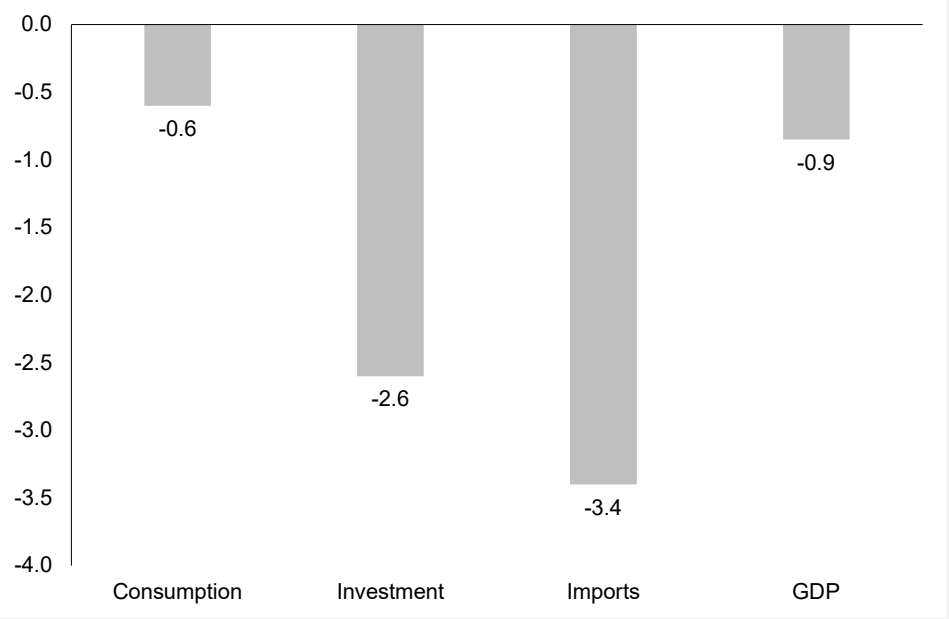


Source: National University of Singapore Credit Research Initiative and AMRO staff estimates.

Further deterioration in China's property sector could weigh its real sector and, hence, on regional growth

However, even under a more adverse scenario, the negative impact on the overall economy is expected to be moderate…

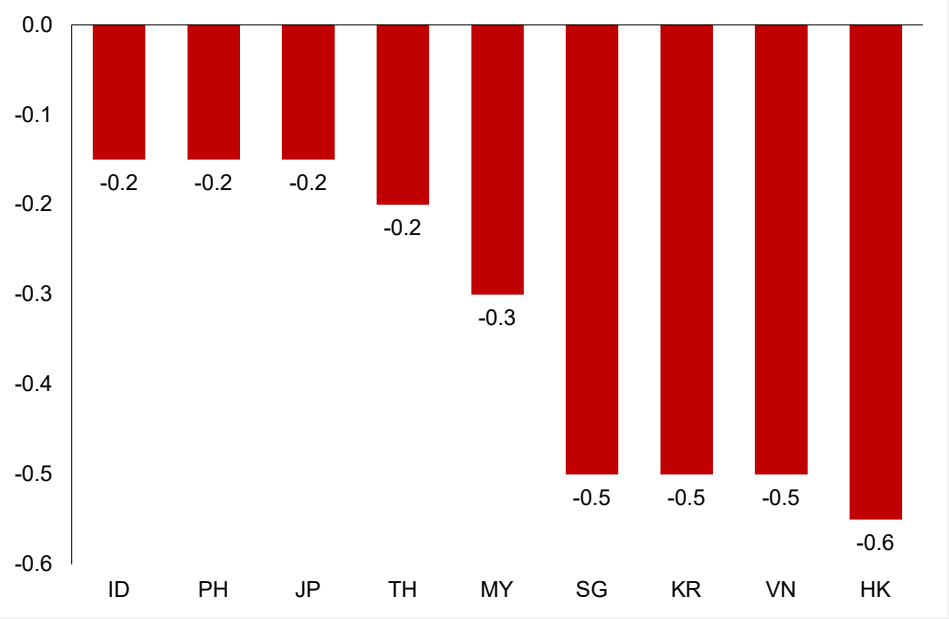
China: Impact of 20 percent contraction in real estate investment on Domestic GDP and GDP Components
(Percentage points)



Sources: Oxford Economics Global Economics Model; and AMRO staff estimates.

… and the real channel spillover to the rest of the regional is varied, but modest overall.

Selected ASEAN+3: Impact of 20 percent contraction in China's real estate investment on GDP
(Percentage points)

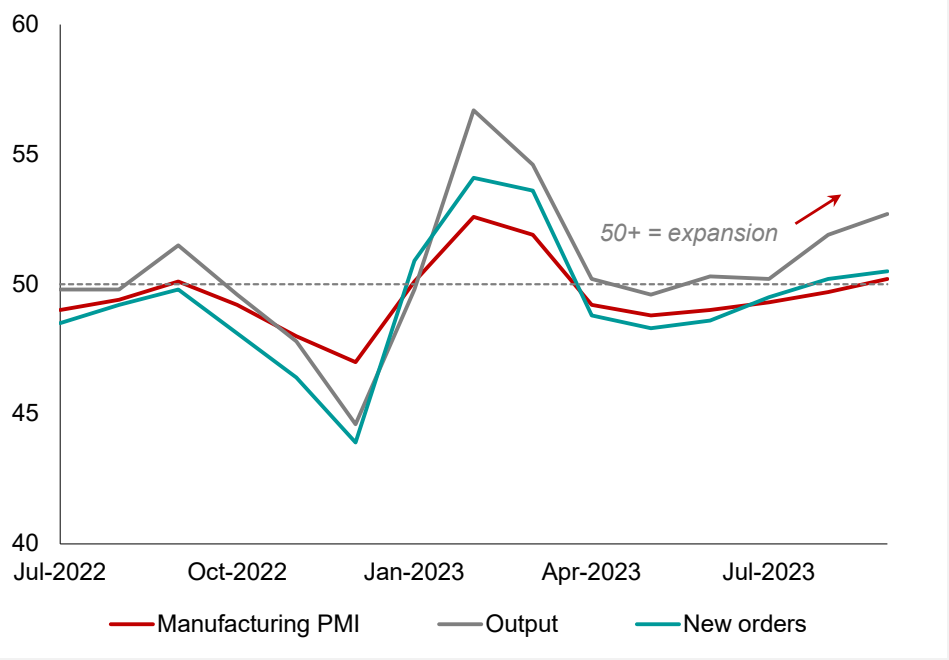


Sources: Oxford Economics Global Economics Model; and AMRO staff estimates.
Note: HK = Hong Kong; ID = Indonesia; JP = Japan; KR = Korea; MY = Malaysia; PH = the Philippines; SG = Singapore; TH = Thailand; VN = Vietnam. Brunei Darussalam, Cambodia, Lao PDR and Myanmar are omitted because of data unavailability.

However, gradual improvement in manufacturing activities and firm consumer spending would support growth in China

Manufacturing production is improving

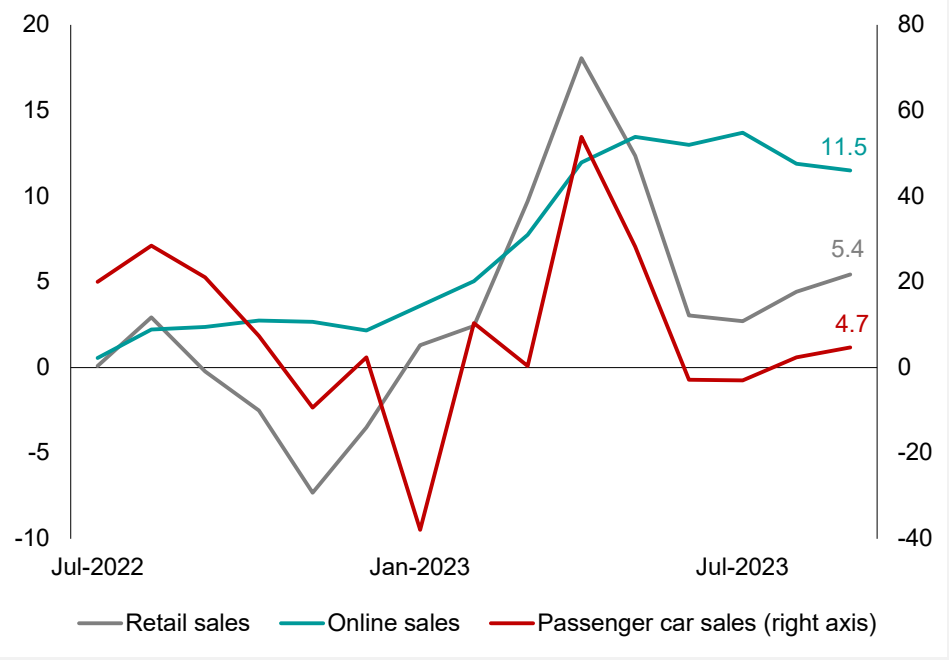
China: Manufacturing PMI
(Index, seasonally adjusted; 50+ = expansion)



Source: National authorities via Haver Analytics.
Note: A reading above 50 indicates an expansion in activities, while a reading below 50 indicates a contraction.

Consumer spending for durable goods and retail products remain firm

China: Real Consumer Spending
(Percent year-on-year)

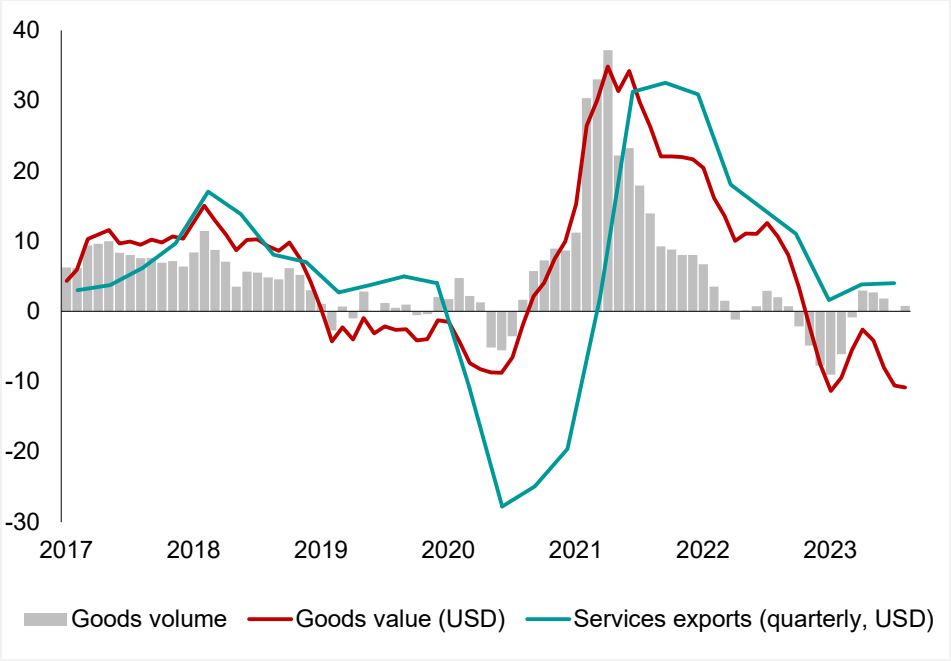


Source: National authorities via Haver Analytics.
Note: Real retail sales and online sales are estimated by deflating nominal sales with the consumer price index. Passenger car sales refer to units of passenger cars sold.

The worst may soon be over for ASEAN+3 goods exports

Export contraction is gradually easing

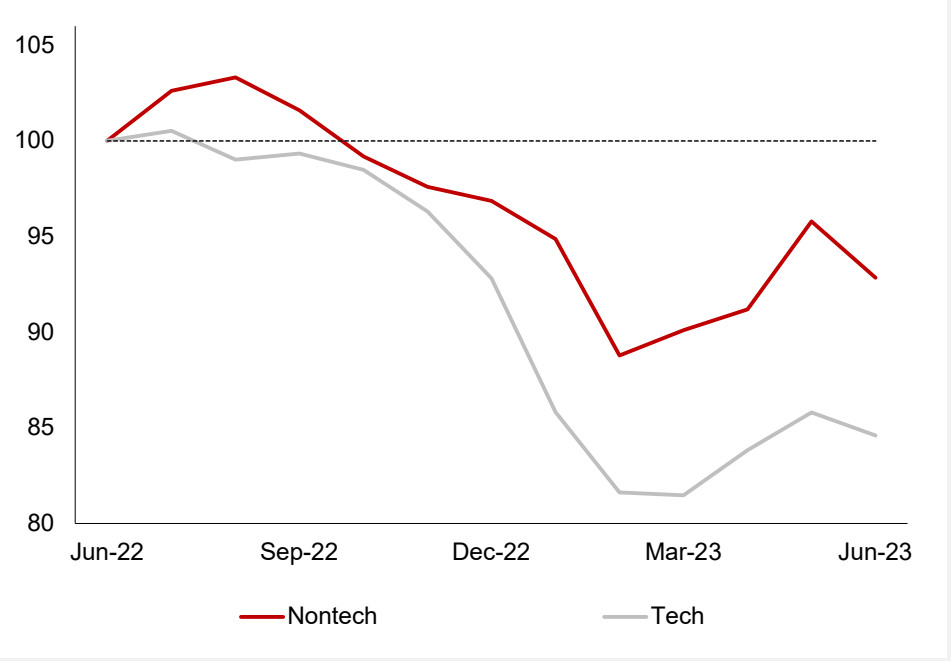
Selected ASEAN+3: Export Growth
(Percent, year-on-year)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: Goods exports data are up to August 2023 and are 3-month moving averages; services exports data (quarterly) are up to Q2 2023.

Lower contraction in non-tech exports mitigate the weakness in chips-related exports

Selected ASEAN+3: Export Growth, by Product Type
(Index, Q2 2022 = 100)

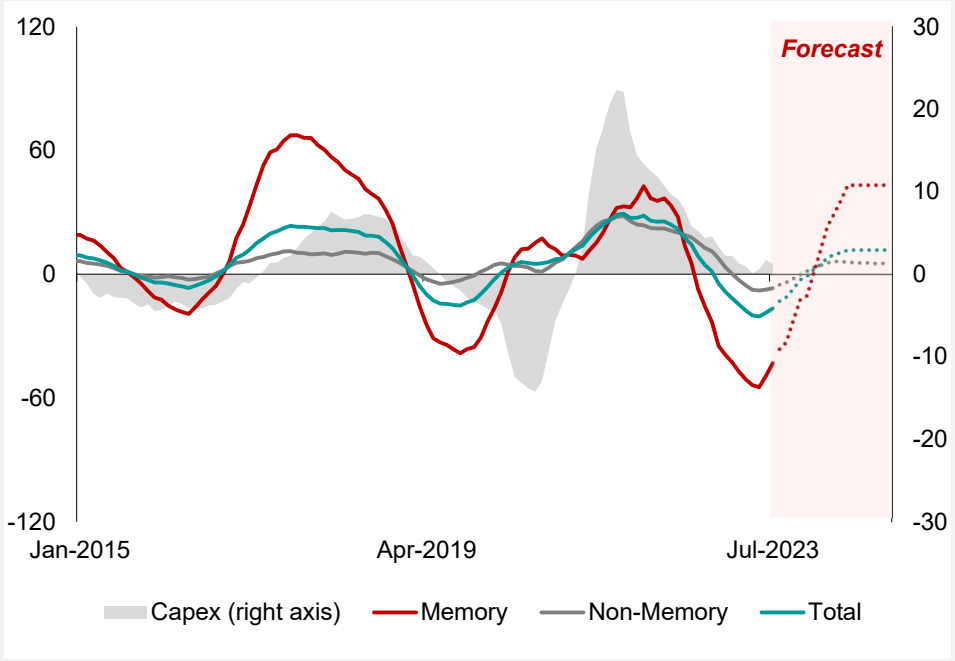


Source: IHS Markit; and AMRO staff calculations.
Note: Data refers to export values in US dollars. "Tech" covers goods that fall under HS codes 8541–42 and 8486 (all semiconductor-related). Data excludes Cambodia, Myanmar, and Lao PDR.

Exports will benefit from the expected turnaround in the global tech cycle amid continued recovery in tourism

Chips exports should be an additional growth driver next year as the global semiconductor cycle gradually improves

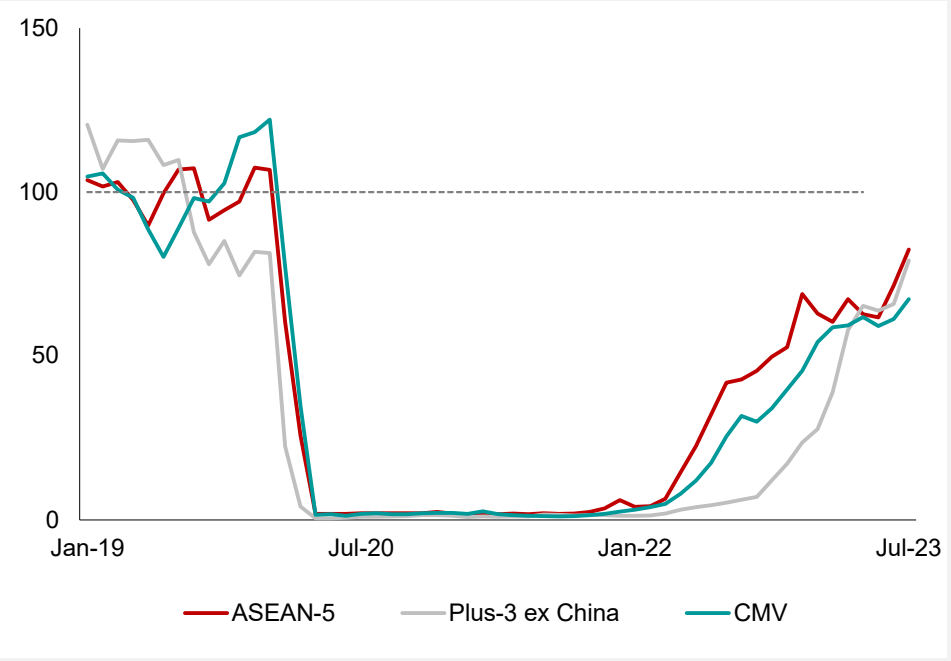
Global Semiconductor and Capital Expenditure (Capex) Cycles
(Percent, year-over-year, 6-month moving average)



Source: Haver Analytics; WSTS Inc.; and AMRO staff estimates.
Note: Semiconductor data represent actual global billings up to July 2023 and estimated monthly billings next year using WSTS forecasts. Capex data are for the Germany (as proxy for euro area), Japan, and the United States.

Brisk tourism activity continues to lift the region's service exports

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

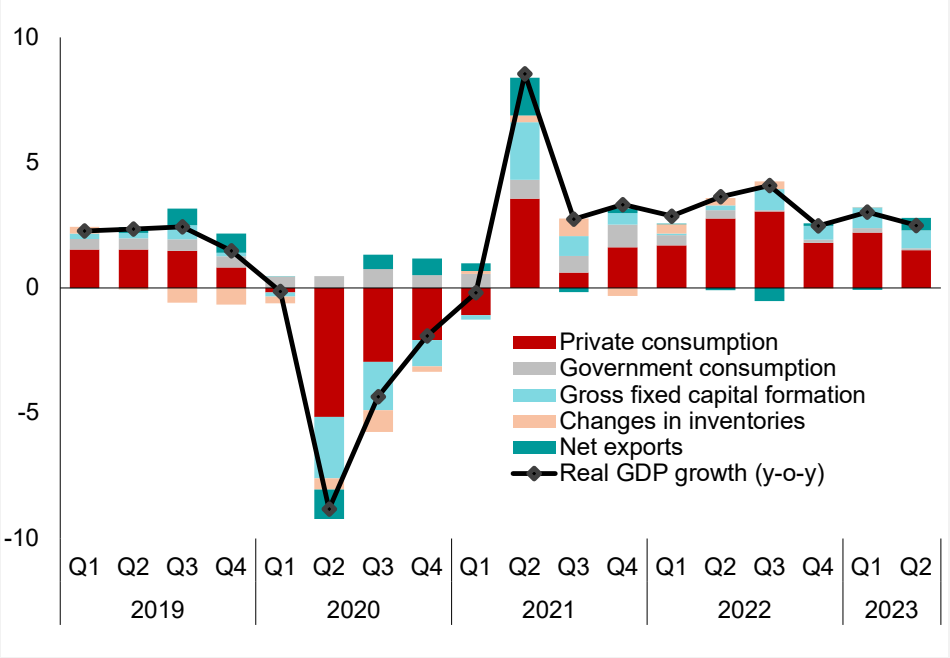


Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: Excludes Lao PDR due to data unavailability. ASEAN-5 = Indonesia, Malaysia, Philippines, Singapore and Thailand. CMV = Cambodia, Myanmar and Vietnam. June-July 2023 arrivals data for Malaysia and Myanmar are AMRO staff estimates.

Domestic demand remains the main engine of growth

Firm household spending was underpinned by strong employment conditions and improving household income

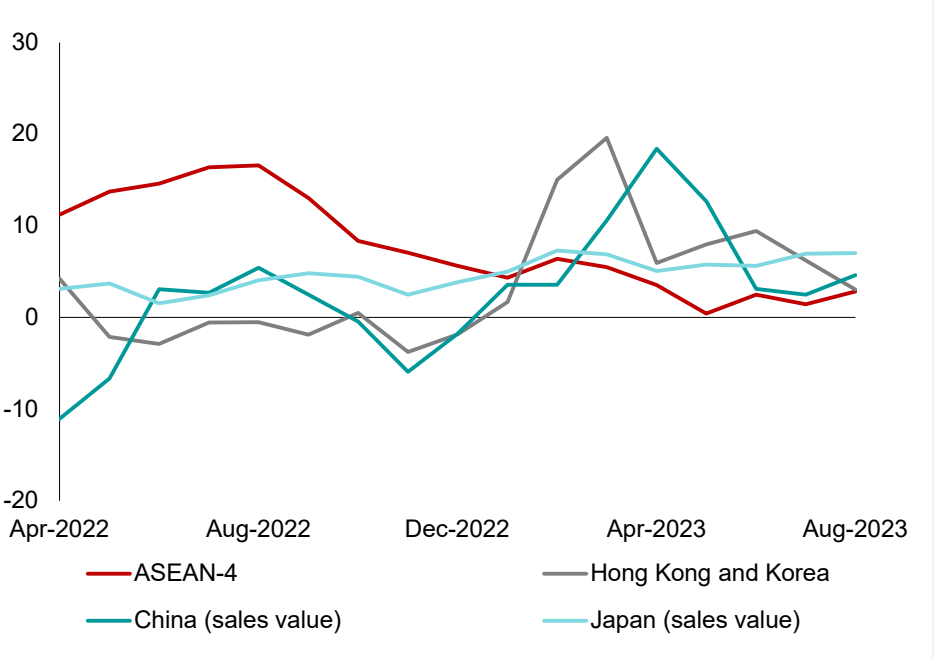
Selected ASEAN+3: Contribution to Real GDP Growth
(Percent, year-on-year)



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.

Retail sales has also been bolstered by the robust recovery in travel and tourism

Selected ASEAN+3: Retail Sales Volume
(Percent, year-on-year)

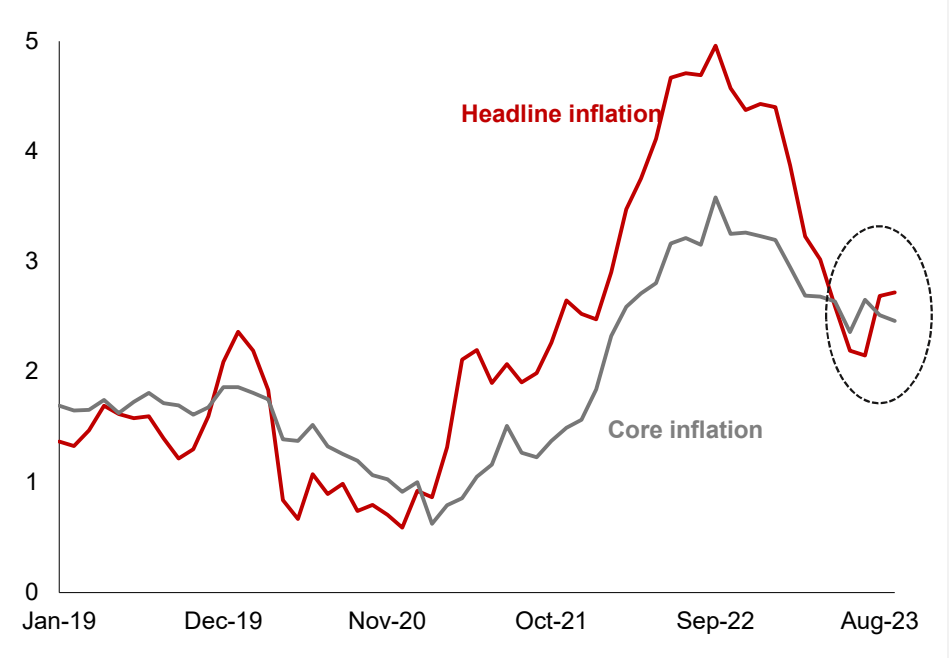


Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: ASEAN-4 includes Indonesia, Malaysia, Singapore, and Thailand.

Headline inflation rose recently following the increase in global commodity prices

Inflation across the region rose towards the end of the third quarter…

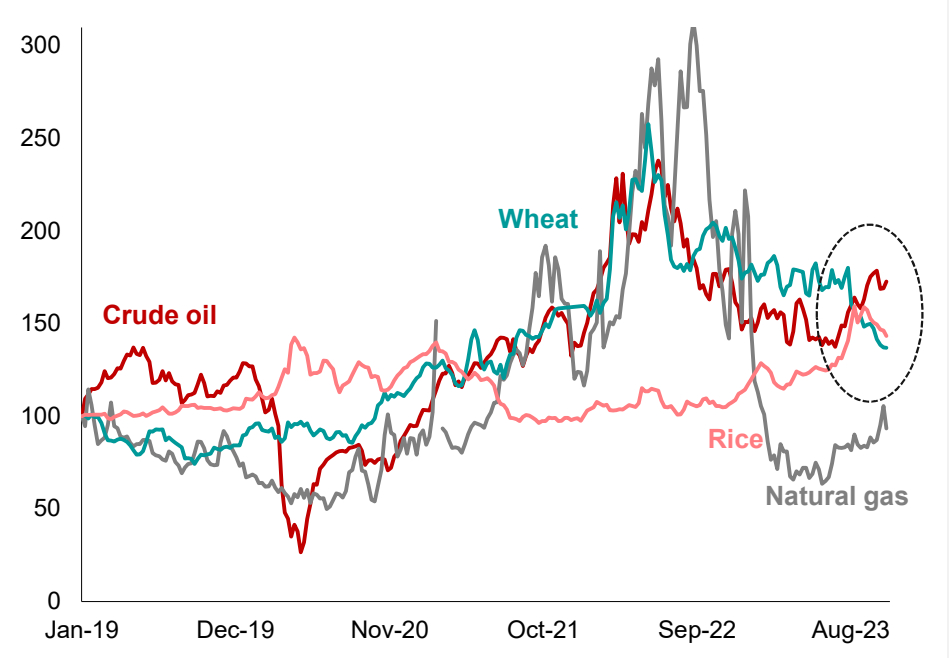
ASEAN+3: Average Headline and Core Inflation
(Percent, year-on-year)



Source: National authorities via Haver Analytics; AMRO staff calculation.
Note: Core inflation excludes food and energy. For Singapore, core inflation refers to the MAS core inflation. Data excludes Lao PDR and Myanmar, are up to September 2023, except Brunei and Cambodia (up to June 2023).

…driven mainly by higher energy and food prices

World: Commodity Prices
(Index, 4 January 2019 = 100)

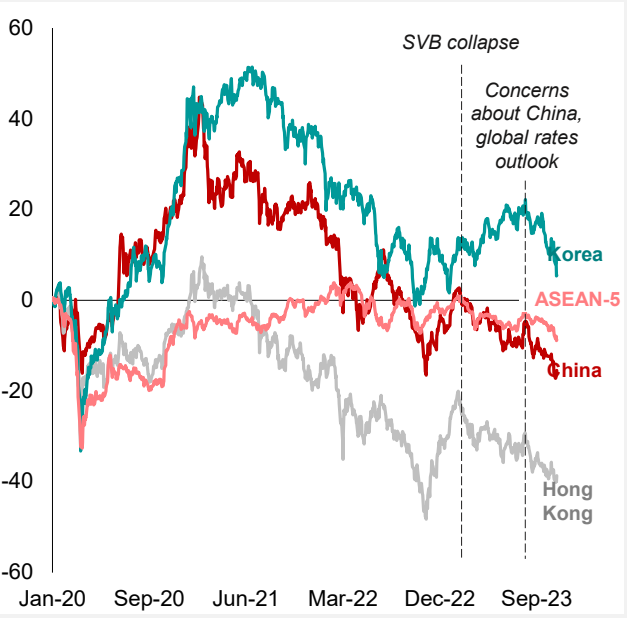


Source: Energy Information Administration; Wall Street Journal; Thai Rice Exporters Association, via Haver Analytics; AMRO staff calculations.

Regional markets have come under renewed pressure on concerns about China and the global interest rate outlook

Equity markets weakened amid fears of a systemic crisis in China

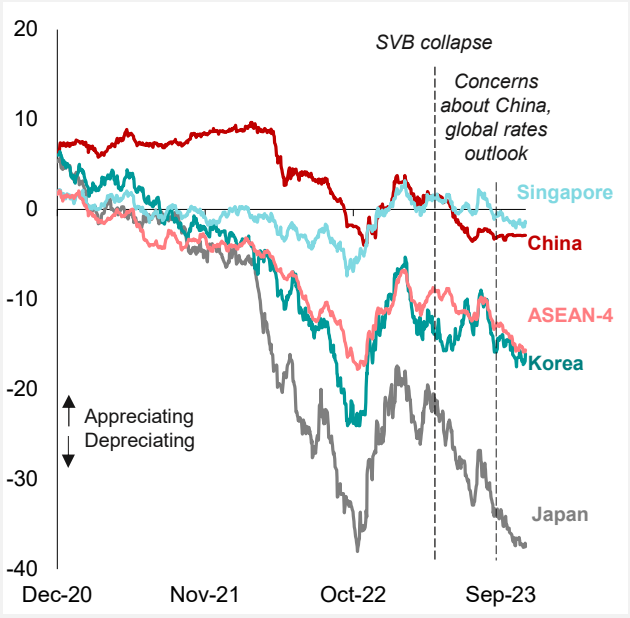
Selected ASEAN+3: Equity Market Indices
(Change in index from Dec 31, 2019)



Source: National authorities via Haver Analytics and AMRO staff calculations.
Note: ASEAN-5 (average) is simple mean of returns since December 31, 2019 in benchmark equity indices of Indonesia, Philippines, Malaysia, Thailand and Singapore. Data as of October 30, 2023.

Most regional currencies depreciated against a strong US dollar

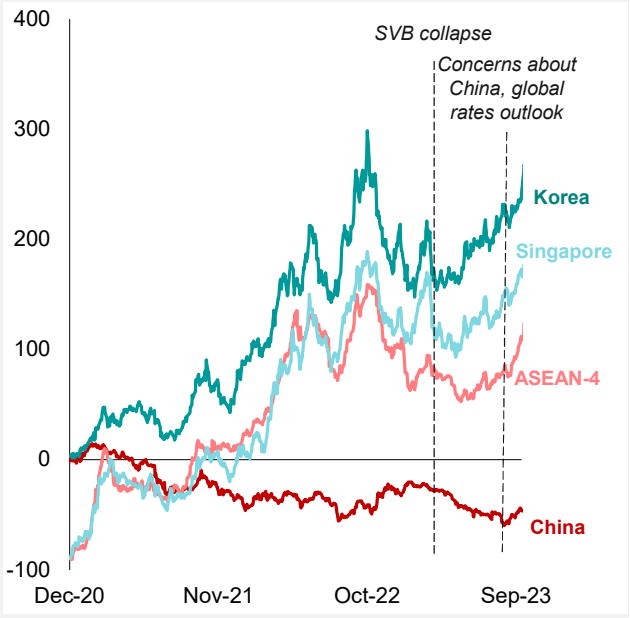
Selected ASEAN+3: Currencies against USD
(Percentage change from Dec 31, 2019)



Source: National authorities via Haver Analytics and AMRO staff calculations.
Note: ASEAN-4 (average) is the simple mean of changes in bilateral exchange rate against the US dollar of Indonesia, Malaysia, the Philippines, and Thailand. Data as of October 30, 2023.

Bond yields increased following interest rate hikes in advanced economies

Selected ASEAN+3: 10-year Government Bond Yields
(Basis point change from Dec 31, 2019)



Source: National authorities via Haver Analytics and AMRO staff calculations.
Note: ASEAN-4 (average) is the simple mean of changes for Indonesia, Philippines, Malaysia, and Thailand. Data as of September 28, 2023.

Growth will strengthen in 2024

AMRO Staff Baseline Growth Estimates and Forecasts, 2023–24

Economy	Gross Domestic Product (Percent year-on-year)				
	2022e	AREO 2023 Quarterly Update (July 2023)		AREO 2023 Quarterly Update (October 2023)	
		2023e	2024f	2023e	2024f
ASEAN+3	**3.2**	**4.6**	**4.5**	**4.3**	**4.5**
Plus-3	**2.6**	**4.6**	**4.3**	**4.3**	**4.4**
China	3.0	5.5	5.2	5.0	5.3
Hong Kong, China	–3.5	5.2	3.0	4.7	3.3
Japan	1.0	1.4	1.1	1.9	1.1
Korea	2.6	1.4	2.3	1.3	2.4
ASEAN	**5.6**	**4.5**	**5.1**	**4.4**	**5.0**
Brunei Darussalam	–1.6	1.0	2.2	1.1	2.0
Cambodia	5.2	5.7	6.2	5.3	6.2
Indonesia	5.3	5.0	5.3	5.0	5.2
Lao PDR	4.4	4.8	5.0	4.8	5.0
Malaysia	8.7	4.2	5.2	4.2	5.2
Myanmar	1.2	2.2	2.8	2.2	2.8
Philippines	7.6	6.2	6.5	5.9	6.5
Singapore	3.6	1.3	2.9	1.0	2.9
Thailand	2.6	3.9	4.0	3.5	3.9
Vietnam	8.0	4.4	6.4	4.7	6.0

Revised upwards from July Revised downwards from July Maintained from July

Source: AMRO staff estimates.
Notes: e = estimates, f = forecast. Regional aggregates for growth are estimated using the weighted average of 2022 GDP on purchasing power parity basis. 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.

Inflation is expected to be slightly higher next year

AMRO Staff Baseline Inflation Estimates and Forecasts, 2023–24

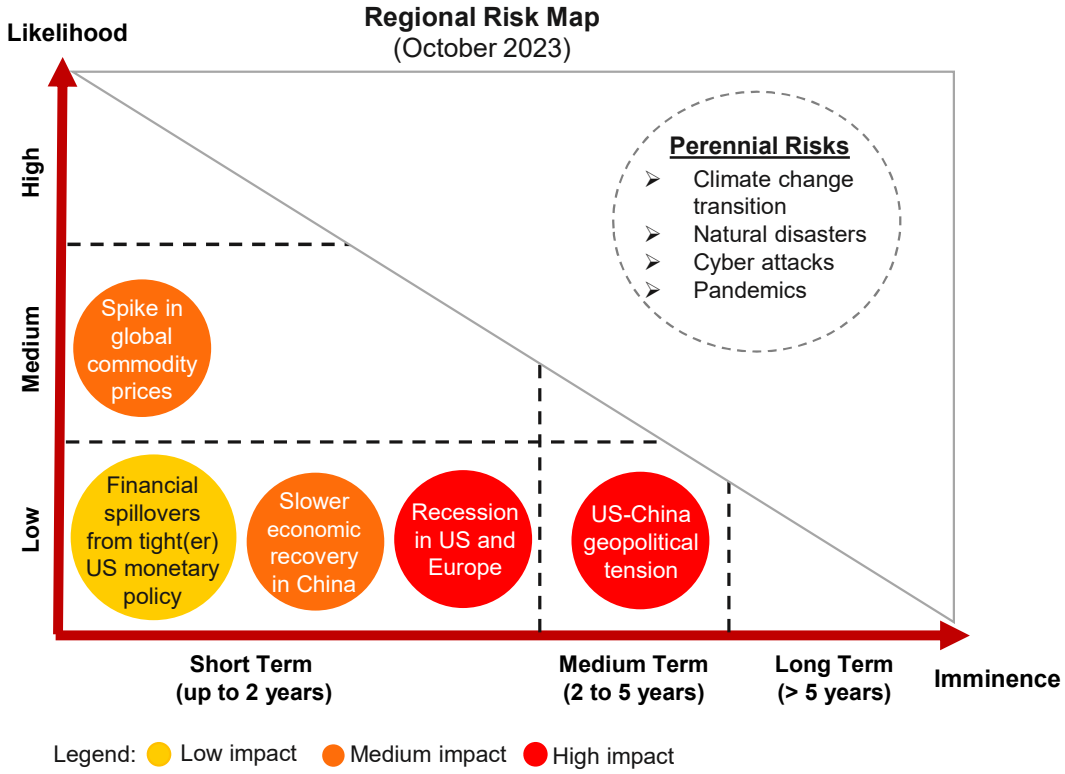
Economy	Inflation (Percent year-on-year)				
	2022e	AREO 2023 Quarterly Update (July 2023)		AREO 2023 Quarterly Update (October 2023)	
		2023e	2024f	2023e	2024f
ASEAN+3	**6.5**	**6.3**	**3.4**	**6.5**	**3.8**
ASEAN+3 ex. LA and MM	4.1	3.0	2.4	2.9	2.6
Plus-3	**2.9**	**2.4**	**2.0**	**2.4**	**2.0**
China	2.0	1.2	1.8	0.6	1.4
Hong Kong, China	1.9	2.3	2.5	2.3	2.5
Japan	2.5	2.9	1.6	3.1	1.9
Korea	5.1	3.2	2.2	3.4	2.3
ASEAN	**7.9**	**7.8**	**4.0**	**8.2**	**4.5**
ASEAN ex. LA and MM	4.7	3.3	2.6	3.2	2.8
Brunei Darussalam	3.7	0.9	0.7	1.0	1.1
Cambodia	5.4	2.8	3.0	2.3	2.7
Indonesia	4.2	3.9	2.8	3.8	2.8
Lao PDR	23.0	25.7	8.0	30.0	11.2
Malaysia	3.3	3.1	2.6	3.1	2.6
Myanmar	18.2	26.0	11.0	26.0	11.0
Philippines	5.8	5.9	3.8	5.5	3.8
Singapore	6.1	5.4	3.6	5.2	4.1
Thailand	6.1	1.9	1.8	1.6	2.0
Vietnam	3.2	2.9	2.7	3.3	3.4

Revised upwards from July Revised downwards from July Maintained from July

Source: AMRO staff estimates.
Notes: e = estimates, f = forecast. 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.

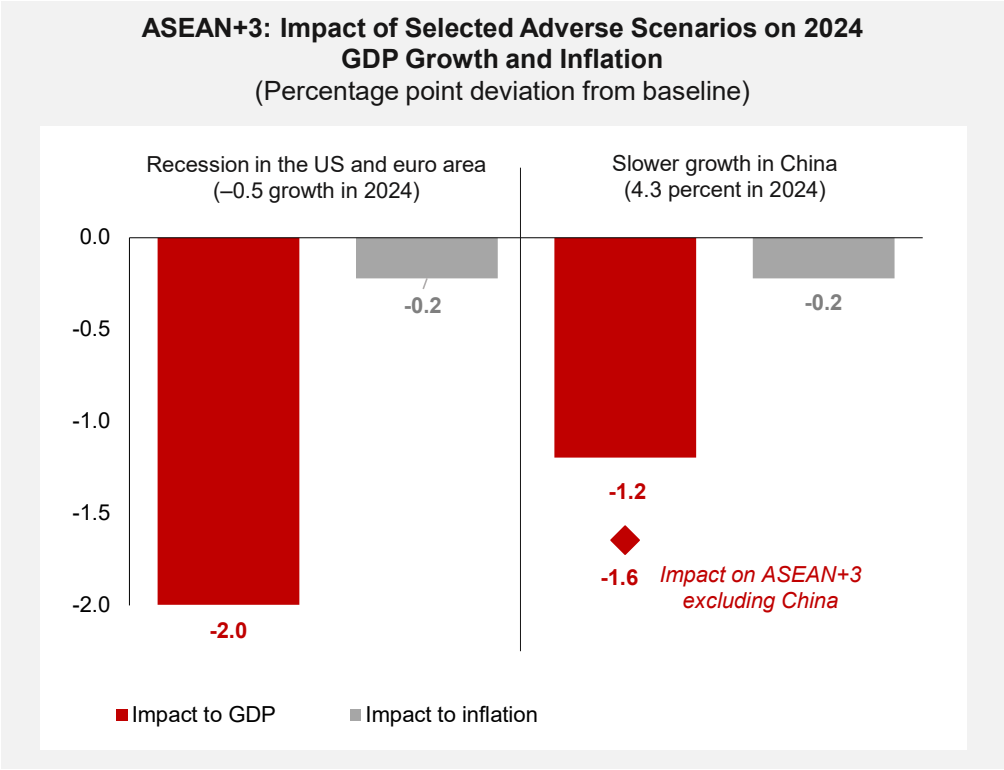
Some risks could impact the 2023–24 baseline forecasts

Slower growth in major trading partners and spike in commodity prices could impact growth and inflation



Source: AMRO staff.

GDP for ASEAN+3 could dip below 3 percent—lowest in two decades outside pandemic slowdown—if major adverse risks materialize



Source: Oxford Economics Global Economics Model, and AMRO staff estimates.
Note: Selected ASEAN+3 refers to Plus-3 and ASEAN-5. Other economies are omitted due to data unavailability. Impact to GDP is presented as the 2022 PPP-weighted average while impact to inflation is a simple average of the selected economies.

Key messages

- Growth for ASEAN+3 is weighed down by weak manufacturing exports in 2023 but is expected to strengthen in 2024, underpinned by resilient domestic demand and a recovery in the manufacturing sector.

- Growth in China should gain momentum as domestic activities stabilize and recently announced policy support measures gain traction.

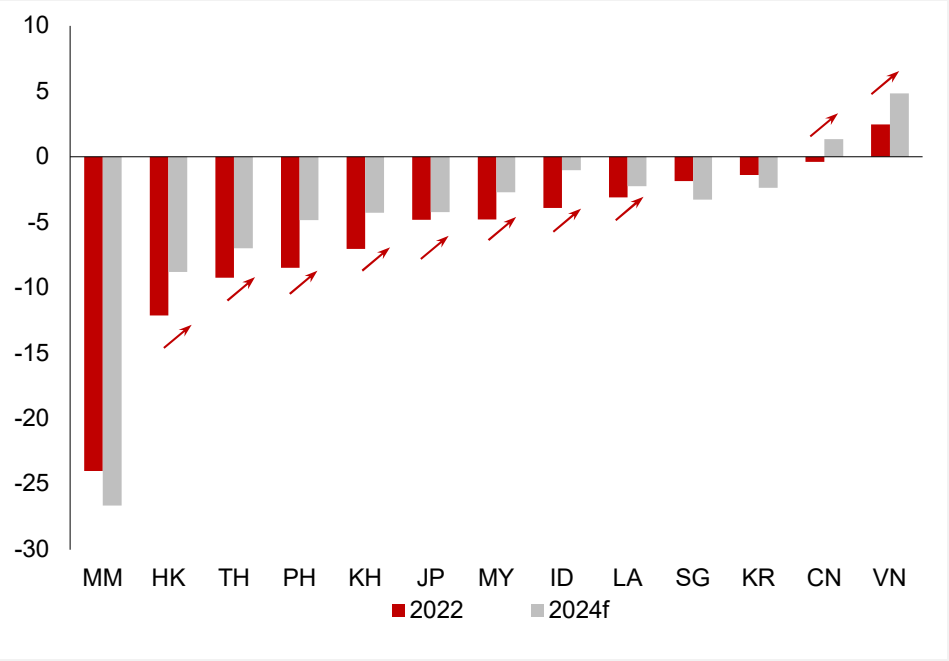
- Export growth—which has been supported by tourism recovery thus far—will be further lifted by the expected turnaround in goods exports.

- Downside risks remain, with the risk of higher inflation becoming more salient.

Secular perspective: growth, interrupted

Output have not returned to pre-pandemic trend for most ASEAN+3 economies…

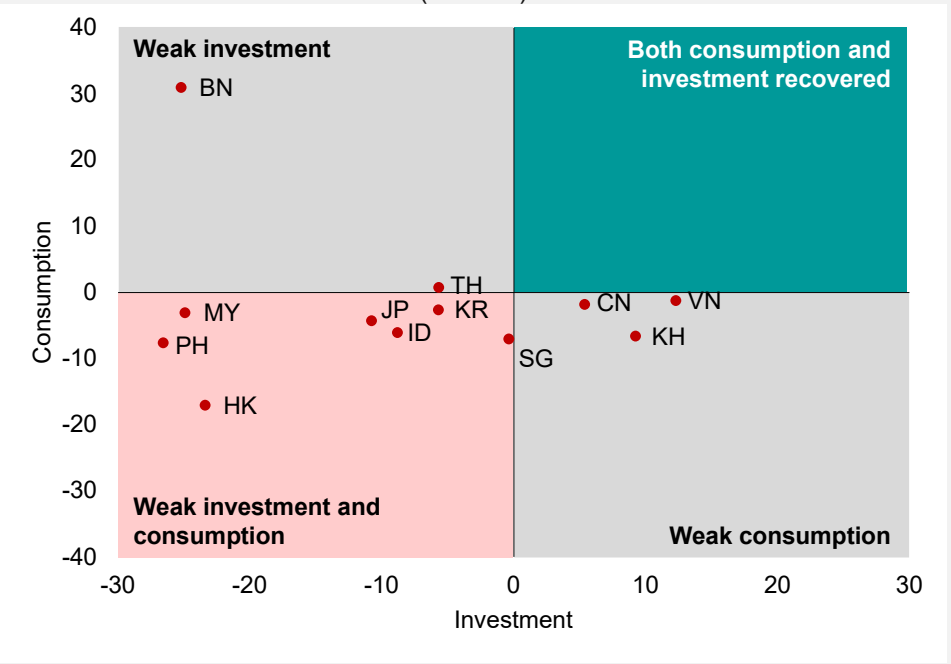
ASEAN+3: GDP deviation from pre-pandemic trend
(Percent)



Source: National authorities via Haver Analytics and AMRO estimates

…due mainly to continued weakness in both consumption and investment

ASEAN+3: Consumption and Investment deviations from pre-pandemic trend
(Percent)

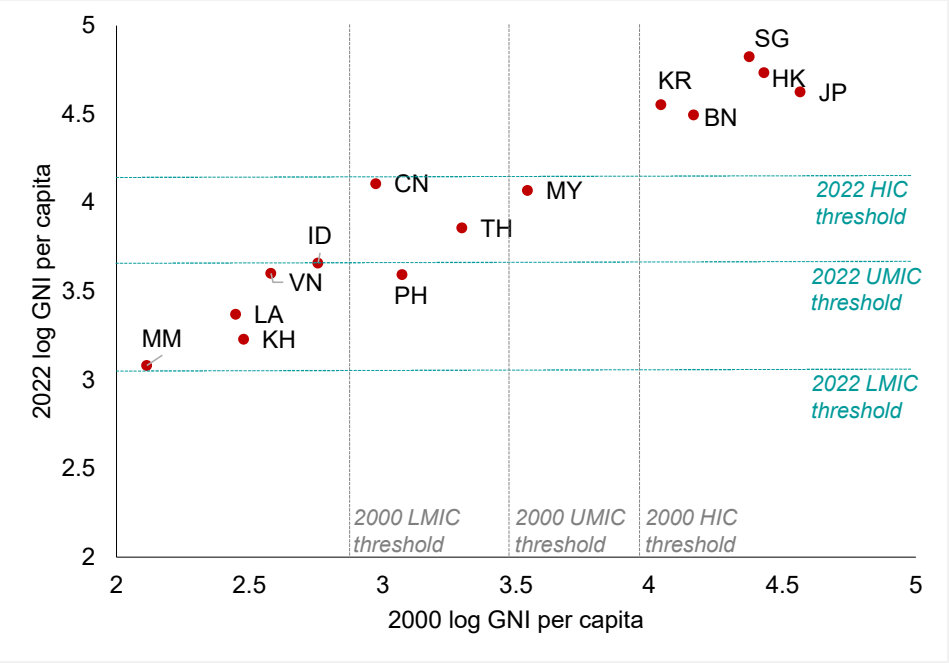


Source: National authorities via Haver Analytics and AMRO estimates

Secular perspective: the need to navigate structural challenges

The region's robust climb towards high-income status, as seen in the past two decades…

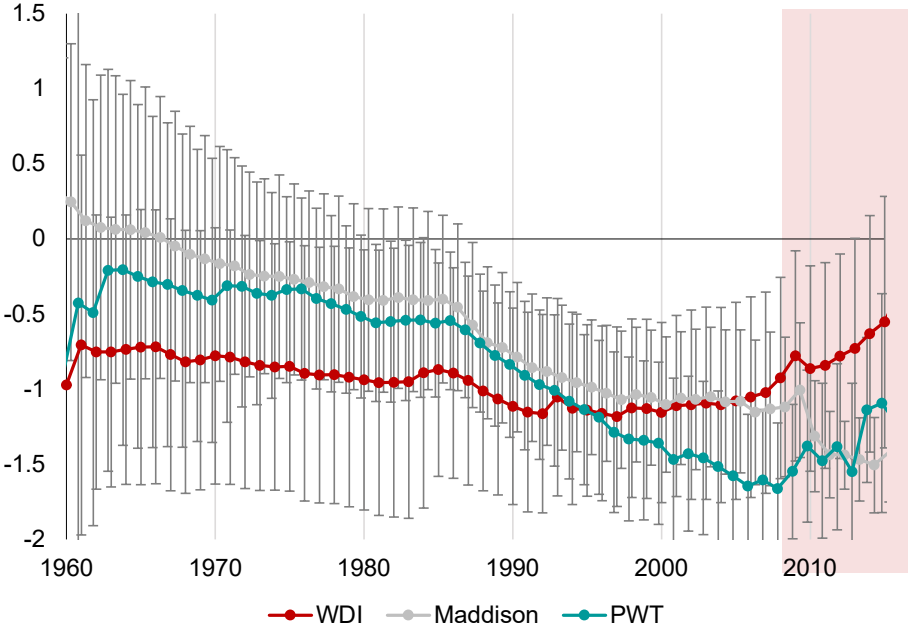
ASEAN+3: Log GNI per Capita
(Dollars, Atlas method)



Source: World Bank.
Note: LMIC = Lower Middle-Income class; UMIC = Upper Middle-Income class; HIC = High-Income class.

…could be at risk of deceleration, given weakness in global environment and the confluence of structural challenges

ASEAN+3: β-coefficient of Unconditional Convergence



Source: World Bank; Penn World Table; Maddison Project Database; AMRO staff calculations.
Note: Each point represents the coefficient from a separate, bivariate regression. The dependent variable is the real GDP per capita growth rate from the year listed until the most recent data. The independent variable is the log of real GDP per capita in the base year.

Thank you

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EGM Session 3: Chapter 1

Some thoughts

Allen Ng

November 1, 2023

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Development and Outlook

Caveat: comments are from the ASEAN+3 perspective

- **A more balanced articulation?**
  - On development, the focus seems to be on headwinds, but could benefit from what are continuing to support growth? (For eg, resilient domestic demand, labour market conditions in the region)
  - The region remains the fastest growing one in the world

- **Cyclical vs secular trends in trade**
  - Discussion combines cyclical (for eg, semiconductor cycle) and secular (for eg, trade reconfiguration); former explains the current performance/development, while the latter is longer term and more gradual.
  - Will be clearer to distinguish them

- **More than just downsides to trade reconfigurations**
  - "Re-industrialization" for the region ex China?
  - Final demand for regional trade?
  - Policy discussion?

Macro-stability Policies

Caveat: comments are from the ASEAN+3 perspective

- **Monetary policy for price stability**
  - Most central banks in the region put price stability as the ultimate/primary objective
  - Tightening bias; other policies for other objectives

- **Financial stability discussion separate from monetary policy?**
  - Discussion on indebtedness and financial fragilities could benefit from being discussed separately from monetary policy
  - Macro-financial/prudential policies could be included

- **External stability discussion to be more nuanced**
  - Exchange rate flexibility is a shock absorber
  - Interventions to prevent disorderly conditions, not to prevent fundamental adjustment
  - External positions of the region remain healthy for most

Thank you



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