29 June 2022

ASEAN in Focus

Economics
ASEAN

Bouncing back but inflation looms

- ASEAN GDP growth rebounded strongly in Q1 2022, helped by economies reopening and resilient exports
- But inflation pressures continue to build in most markets, with the rising cost of food an especially acute challenge
- Central bankers across ASEAN face a tough balancing act, leaving most to deliver a relatively limited tightening cycle

Indonesia is riding the commodities boom, but amid strong growth it may not take too long for price pressures to punch through. Here, too, monetary tightening will be needed. **Thailand** is now welcoming back visitors, which helps growth but not inflation. **Malaysia**'s diversified economy may continue to weather global turbulence better than many of its peers, while **the Philippines** is finally 'getting back to business' after two severely disrupted pandemic years. **Singapore**, after reopening earlier than others, is reaping the benefits, but must also contend with stubborn price pressures. And **Vietnam** is bouncing back, and may potentially be able to ride out faltering global trade with its customary energy.

Economy profiles

Indonesia | *Malaysia* | *Philippines* | *Singapore* | *Thailand* | *Vietnam*

Key upcoming events

Date	Event
1 Jul	**Indonesia** PMI, inflation
1 Jul	**Vietnam** manufacturing PMI
5 Jul	**Philippines** inflation
6 Jul	**Malaysia** interest rate announcement
11-14 Jul	**Singapore** GDP
21 Jul	**Indonesia** interest rate announcement
10 Aug	**Thailand** interest rate announcement
15 Aug	**Thailand** GDP
18 Aug	**Philippines** interest rate announcement

Source: HSBC

HSBC

Indonesia

A fine act of balance

Recoveries in domestic demand and the external sector have boosted GDP

Despite persistent risks from global uncertainties, Indonesia has not faltered from its recovery path. The economy has recorded 5% y-o-y growth for two quarters back to back, thanks to an **unwavering recovery in domestic demand and a supportive external sector**. Pandemic-related disruptions are fading and mobility data is well above the pre-pandemic baseline. Consumer sentiment has picked up swiftly, too, and is now back at its end-2019 level. This should help to sustain the domestic demand recovery, even if the labour market is yet to fully recover. The reopening of borders and the return of international tourism should help boost employment.

Indonesia is benefiting from robust FDI flows…

Another strength for the economy has been investment. **The robust inflow of foreign domestic investment (FDI) has continued through the pandemic and the trend is likely to continue.** Favourable government policies have also spurred significant investment into processing industries. Indonesia has the world's largest nickel reserves, a key component for EV batteries. After it banned exports of nickel ores in 2020 to develop its downstream industry, Indonesia has now emerged as a key player in battery-grade chemicals. Recently, President Joko Widodo stated that Indonesia will go ahead with its plan to stop exports of other raw materials, including bauxite, to help downstream processing industries (like aluminium) to grow (Bloomberg, 8 June).

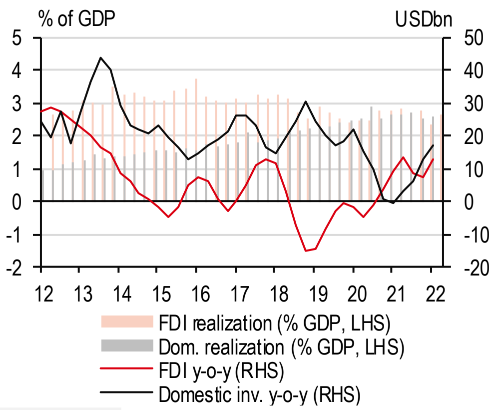
…and higher commodity prices

Exports are likely to benefit from this development as it climbs up the value chain. For now, as a major commodity exporter, **the country is gaining from surging prices of coal, palm oil, nickel, and natural gas, among others**. This helps to offset higher crude oil import costs. But, as domestic demand continues to pick up, we expect sustained growth in imports. Still, the gains in commodity prices should help curb its current account deficit at 0.5% of GDP in 2022, with solid FDI inflows helping to finance the shortfall. Thus, the balance of payments remains far better anchored compared to previous episodes of global financial market volatility.

CPI inflation should rise on higher food prices

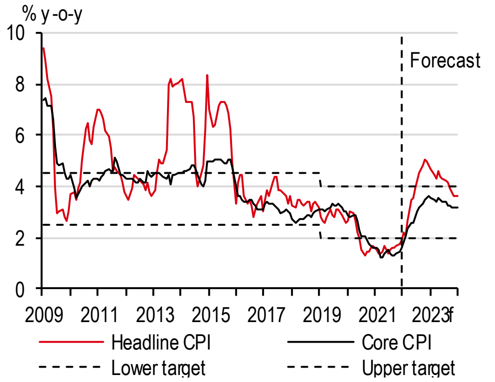
Headline CPI is running close to the upper bound of Bank Indonesia's inflation target (2-4%). **We expect price pressures to keep building from high food and fuel prices and headline CPI is likely to breach the target in Q3 2022.** Price controls helped contain energy prices partly, but food prices are still at risk from global supply shortages and rising trade restrictions. As the domestic recovery becomes more entrenched and the labour market tightens, core CPI should gain momentum.

Higher commodity prices and ongoing FDI inflows help to offset external risks



Source: CEIC, HSBC

Headline CPI should continue to rise from elevated food and fuel prices



Source: CEIC, HSBC

Malaysia

Some risks, many opportunities

Malaysia is set for a robust recovery

After two years of struggle with pandemic woes, **Malaysia is set for a robust recovery**. Headline GDP growth was back to its pre-pandemic pace of 5% y-o-y in Q1 2022. Relative to its peers, Malaysia enjoys a well-diversified export base, even if geopolitical tensions and global trade slowdown pose headwinds for the external sector. For one, the country will benefit as Asia's only major net oil & gas exporter and the world's second largest palm oil exporter. **Soaring commodity prices should help offset some downside risks from supply-chain disruptions** (new natural gas fields are expected to come online in 2022 along with key pipelines). Moreover, on the manufacturing side, rapid capacity expansion, including for semiconductors, should allow Malaysia to increase global market share.

Investment growth has been strong…

Meanwhile, investment growth has remained robust. Net inflows of FDI nearly tripled to MYR54.9bn in 2021. Malaysia remains a key beneficiary of supply chain diversification into ASEAN, especially in the electronics space. Not only does the FDI 'crowd-in' more capital expenditure spending by local firms, but it should further add to export capacity over time.

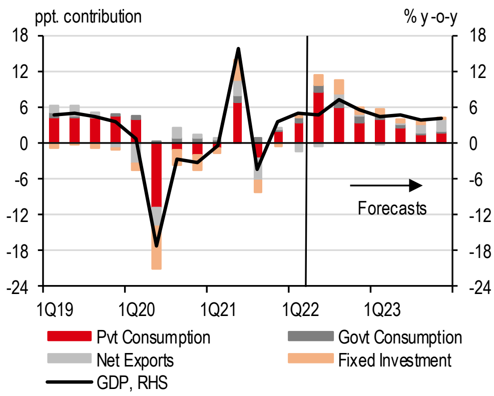
…and the labour market is recovering

On the domestic front, Malaysia transitioned to the "endemic" phase on 1 April. Most pandemic-related restrictions have been pulled back amid a high vaccination rate. **The labour market is recovering gradually**, although the unemployment rate is not yet back to its pre-pandemic level (3.3%). The reopening of Malaysia's borders should help revive the tourism industry and further boost domestic recovery prospects.

CPI should pick up in H2 2022

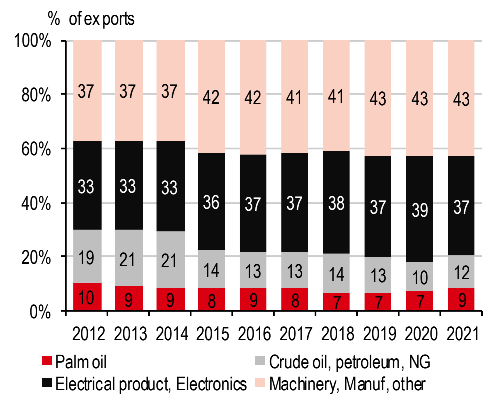
Inflationary pressure in Malaysia is still not as acute as many of its peers, but the high base effect from 2021 has almost waned. **We expect headline CPI to pick up sharply in H2 2022.** The government has provided some cushion to consumers in the form of food and fuel subsidies. Malaysia also banned the export of chicken to tame rising domestic prices. However, the government has signalled that it will make subsidies more targeted, implying more inflationary pressure. We expect core price pressures to intensify too as the labour market tightens and elevated commodity prices trigger second-round effects. The minimum wage in Malaysia was hiked by 25-36% from 1 May, which may put further pressure on core inflation.

The economy is benefitting from a robust recovery in domestic demand…



Source: CEIC, HSBC

…while a very diverse export base should remain supportive of the external sector



Source: CEIC, HSBC

Philippines

Hitting the ground running

GDP growth was the fastest in ASEAN in Q1 2022

After the Omicron-led surge in January, the Philippine economy has gone into a full sprint. From having the largest GDP contraction in ASEAN back in 2020, **GDP growth in the Philippines was the fastest in the region in Q1 2022 at 8.3% y-o-y**, even beating expectations by a sizeable margin. Fuelling the engine was the re-opening of the economy, both locally and globally. **Personal consumption rebounded with a vengeance** as mobility in the nation's capital became higher than it was pre-pandemic **and overseas remittances steadily picked up,** with more workers going back abroad. And there's more left in the tank. Face-to-face schooling is set to begin in August while the government is looking into ways to bring tourism back onto its feet. Infrastructure projects that were recently approved will also help support growth once shovels begin hitting the ground. All said, the Philippine economy has the horsepower it needs domestically to accelerate.

Economic policy should see a continuation

The new administration does not change the general outlook. Ferdinand Marcos Jr. (Bongbong) is set to replace Rodrigo Duterte as President beginning 30 June 2022. The economy's robust fundamentals are likely to be largely preserved due to the **continuity of economic policies across administrations**. The Marcos camp has made its intention to continue this legacy very clear by appointing the same technocrats from previous administrations as economic managers.

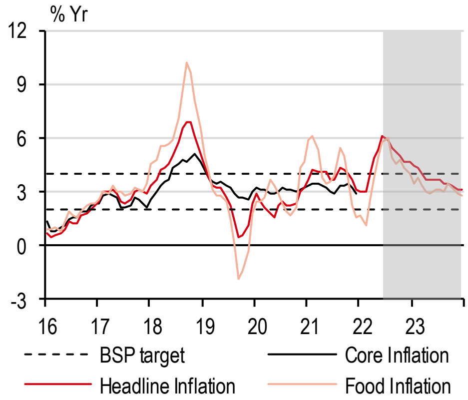
Higher food and oil prices have pushed up inflation

But speed isn't all about acceleration. It's also about sustainability. There are strong headwinds from abroad that will eventually slow the country's GDP growth and keep the current account balance negative. **Elevated oil and global food prices have already pushed up local prices substantially.** Inflation breached the central bank's 2-4% target range in April 2022 and is expected to rise even further in the months ahead. This will lead to tighter household budgets, limiting the potential of personal consumption in driving growth. The economic slowdown in the United States and mainland China will also likely be a drag on GDP growth inasmuch as demand from the top two importers of Filipino goods and services decreases.

The central bank has lifted interest rates

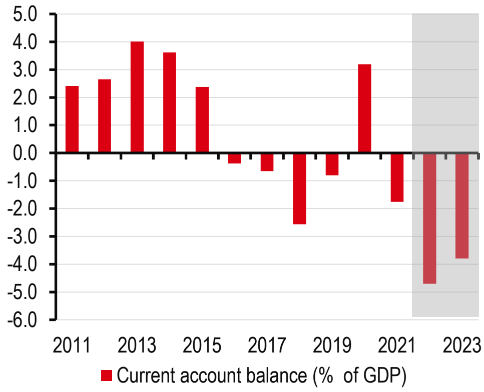
Nonetheless, the momentum from the re-opening of the economy remains significant. Due to the faster-than-expected growth, the **Bangko Sentral ng Pilipinas (BSP) has started the normalisation of its monetary policy, beginning with a 25bp (to 2.25%) hike in May**.

Inflation is likely to remain above target in 2022 and return within target by mid-2023



Note: Shaded region is HSBC forecast.
Source: CEIC, HSBC

The current account is likely to remain negative throughout 2022 and 2023



Source: CEIC, HSBC

Singapore

Growth broadens out

Q1 GDP growth was strong, boosted by manufacturing…

After robust GDP growth of 7.6% in 2021, Singapore's momentum has continued in 2022. Without flattering base effects, **the economy grew by a still strong pace of 3.7% y-o-y in Q1 2022, thanks to a broad-based recovery**. For one, manufacturing, the key growth engine during the pandemic, remains resilient. Although output saw a small decline, it was a marginal pull-back from its record-high level in Q4 2021. This is partly due to Singapore's well-diversified industrial production, which continues to benefit from an extended tech upswing, even though there are early signs of moderation.

…and a rebound in services

But, it is more than just manufacturing. Singapore's determination to relax both local curbs and border restrictions has helped broaden the recovery out to sectors that were previously lagging. Once again, **services resumed to lead growth**. In particular, travel and tourism-related services, normally accounting for c10% of GDP, have seen improvements. This is largely driven by a sharp pick-up in visitors, especially from ASEAN, as many regional economies fully re-opened their borders from March. On the domestic front, 'food & beverage' services continued to gather pace while real estate services reflect Singapore's strong property market.

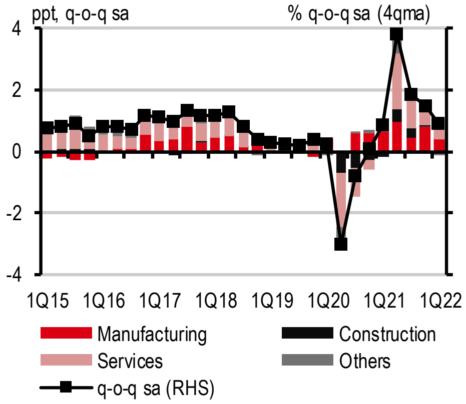
A labour market recovery will support consumption

Despite lingering social distancing measures in Q1 2022, private consumption saw a significant jump. Consumption remained 2% below its pre-pandemic level, but **strong growth prospects and the ongoing recovery in the labour market will further boost household confidence and support consumption**. Indeed, in part thanks to the government's generous and timely fiscal support, Singapore's labour market has seen one of the quickest recoveries in Asia. The resident unemployment rate dropped below its pre-pandemic level in Q1 2022, while wage growth has been running well above the historical average, at almost 8%. Unlike the previous two years, a domestic recovery will largely drive Singapore's robust growth in 2022.

Inflation may stay elevated leading to tighter policy

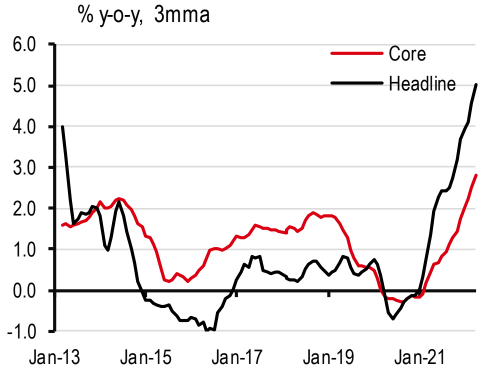
Meanwhile, core inflation continues to gain pace, rising to a 10-year high of 3.3% y-o-y in April. Unlike other ASEAN countries, price acceleration is due to both imported inflation and demand-side pressure. Coupled with elevated global commodity prices, a tight labour market and the removal/phase-out of administrative subsidies, **we expect Singapore's core inflation to stay elevated**. As such, we believe sticky inflation will warrant continued tightening moves by the Monetary Authority of Singapore.

Singapore remains on track for robust growth, thanks to recovering services



Source: CEIC, HSBC

Inflation has been more acute, driven by both demand- and supply-side factors



Source: CEIC, HSBC

Thailand

Time to join the pack

Private consumption and tourism bolstered GDP growth

While the Omicron wave hit Thailand at the start of 2022, high vaccination rates have allowed the country to stick to its strategy of "co-living with the virus". **In 1Q22 the economy grew steadily 2.2% y-o-y, thanks to broad-based recovery across sectors.** In particular, private consumption and tourism, two traditional growth pillars, continue to gain traction.

The key policy change came after Thailand further eased its entry requirements for tourists from 1 May. Over 1m tourists have flocked to the Kingdom so far, with more to follow. Despite being disrupted by the Omicron wave, it is fair to assume that **Thailand is likely to see a modest return in tourism**. Our 2022 baseline forecast is for 8.5m tourists (20% of 2019's level), potentially reaching 10m tourists (25%), as more ASEAN tourists are likely to return.

Soaring energy prices are weighing on the recovery

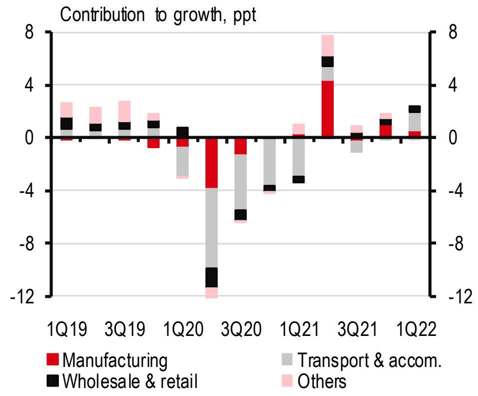
That said, Thailand's recovery path will continue to be slow, lagging behind regional peers. For one, the short-term economic boost from tourism may be limited this year, given the absence of mainland Chinese tourists, who accounted for close to 30% of pre-pandemic arrivals. Meanwhile, **soaring energy prices remain the biggest headwind to Thailand's recovery**, dragging down real incomes, particularly when the labour market is in an early stage of recovery. They have also raised Thailand's import bill, weighing on Thailand's terms of trade.

As such, we think Thailand's GDP will likely return to the pre-pandemic level only by Q4 2022; **however, growth is likely to pick up in 2023 up on the back of a more meaningful tourism rebound**.

Price increases could broaden to more items

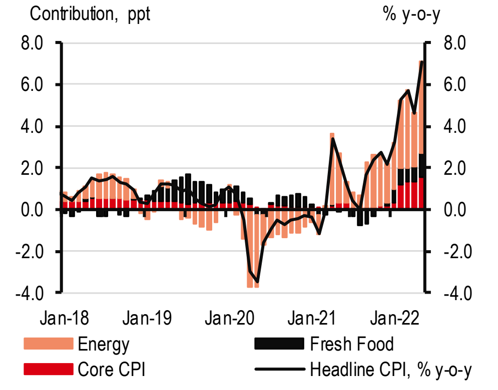
In addition, Thailand has been facing acute price pressures. Headline inflation surged to over 7% y-o-y in May, well above the Bank of Thailand's (BoT) 1-3% inflation target. Undoubtedly, elevated energy costs are the main culprit, but a surge in food prices has also put more upward pressure on prices. While core inflation remains manageable for now, **there are signs of price increases broadening out to more items**. Amid rising inflation, we believe the BoT's reaction function has also changed, shifting to a more hawkish stance.

Tourism-related services start to show early signs of recovery from 1Q22



Source: CEIC, HSBC

But inflation has been soaring well beyond the BoT's 1-3% inflation target



Source: CEIC, HSBC

Vietnam

Back to work

Vietnam GDP growth rebounded to 5% y-o-y in Q1

While the Omicron wave hit Vietnam at the start of 2022, the country continues to push for a sustainable economic reopening, partly thanks to its accelerated vaccination drive. The efforts have paid off: **Vietnam's 1Q22 GDP rose 5% y-o-y, thanks to broad-based growth**.

Export growth was a strong driver…

Ever since Vietnam embarked on its reopening, the external engine has been roaring back. **Export growth rose 15% y-o-y in 1Q22, before accelerating to 20% y-o-y in April and May.** This strength has been driven by strong electronics shipments, which benefitted from a prolonged tech cycle. The strong performance has also been seen in other sectors, such as textiles, footwear, machinery, and wooden products, as Vietnam's manufacturing picked up.

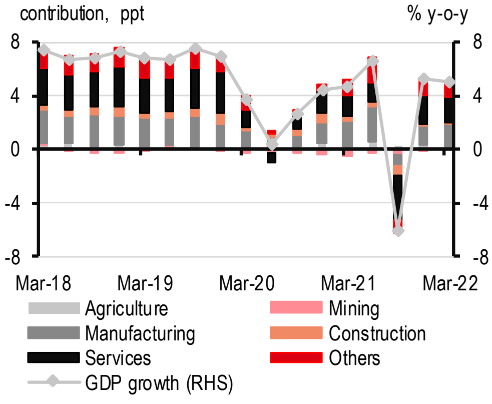
…while domestic demand is set to accelerate

Apart from exports, Vietnam's **domestic demand is also on a steady footing**. Despite lagging exports, high frequency data paints a rosy picture of consumption recovery. After removing most local restrictions, mobility indicators have quickly rebounded to above pre-pandemic levels, pushing up retail sales and domestic travel. Meanwhile, Vietnam has seen a notable uptick in tourist arrivals, after fully reopening its border on 15 March. This will lift Vietnam's tourism-related services, generate more tourism receipts, and boost its labour market prospects. All signs point to a clear direction: Vietnam remains firmly on track for a steady recovery.

Inflation is manageable now but high oil prices pose a risk

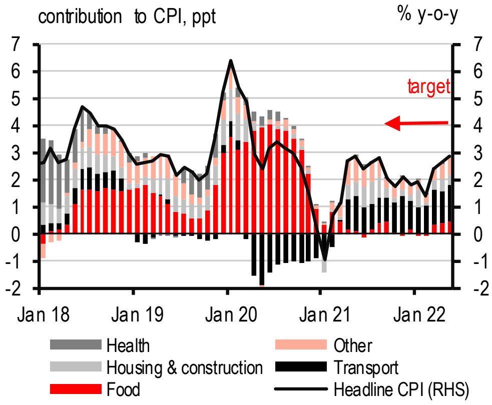
On inflation, **Vietnam's price pressures look manageable for now**, with prices rising only 2.3% y-o-y on average as of May. However, energy inflation continues to gain pace, pushing domestic petrol prices to new highs. Given elevated global oil prices, **we expect the trend to persist, putting upward pressure on inflatio**n. That being said, despite high energy costs, moderate food inflation – given relatively stable local production – has so far helped to curtail headline inflation. However, we expect the impact of elevated oil prices to persist over the near term.

Vietnam's GDP has steadily recovered, thanks to broad-based growth



Source: CEIC, HSBC

Energy inflation continues to push prices higher, but partly offset by food inflation



Source: CEIC, HSBC

Disclosure appendix

1 This report is dated as at 29 June 2022.
2 All market data included in this report are dated as at close 28 June 2022, unless a different date and/or a specific time of day is indicated in the report.
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