29 March 2023

ASEAN in Focus

Economics
ASEAN

China's recovery to support growth

- Slowing exports and global financial jitters stiffen headwinds to growth…
- …but China's recovery and cooling inflation pressures will provide much-needed relief…
- …while inflation pressures should cool bringing the tightening cycle closer to the end

Indonesia may see growth slow at the margin this year but remains better placed than many of its peers to ride out sagging growth elsewhere. **The Philippines** still grapples with stubborn inflation, though this year should bring some relief. In **Thailand**, returning tourists will offer a handy buffer to weaker exports, keeping the central bank on a tightening path in the third quarter. **Malaysia** is gaining global market share in export, like **Vietnam**, even if both economies can't escape the trade downturn entirely. **Singapore** may lose a little steam: a welcome damper to price pressures.

Economy profiles

Indonesia | Malaysia | Philippines | Singapore | Thailand | Vietnam

Key upcoming events

Date	Event
3 Apr	**Indonesia** inflation
3 Apr	**Vietnam** Manufacturing PMI
5 Apr	**Philippines** inflation
7 Apr	**ASEAN** Overall Comprehensive Risk
14 Apr	**Singapore** GDP
18 Apr	**Indonesia** interest rate announcement
29 Apr	**Vietnam** activity data
3 May	**Malaysia** interest rate announcement
12 May	**Malaysia** GDP
18 May	**Philippines** interest rate announcement
25 May	**Indonesia** interest rate announcement
31 May	**Thailand** interest rate announcement

Source: HSBC

HSBC

Indonesia

More stable than you think

Indonesia's pandemic recovery has been gradual

Indonesia's GDP growth softened y-o-y in Q4 but increased sequentially, led by stronger household consumption and still-elevated exports. However, even though the country has been recovering from the pandemic, it has been a tad gradual: GDP is 7.4% above pre-pandemic levels but 7.2% below the pre-pandemic trend. **China's re-opening will likely provide a boost to the economy**, across three channels: higher commodity prices, tourism and foreign direct investment (FDI). Nonetheless, the overall slowdown in global trade, pent-up domestic consumption demand petering off, and replacement capital expenditure running its course **are likely to be a drag on the economy**. We expect GDP growth at 4.6% y-o-y in 2023, above our previous 4.3% forecast on the back of China's re-opening but below potential growth of around 5.2%.

Coal prices have peaked

There have been two important turning points in Indonesia of late. After rising sharply in the pandemic period, **coal prices seem to have peaked for now** and have fallen 50% since the start of 2023. This development is important for Indonesia, which is an exporter of commodities. In fact, it was on the back of the high prices for coal and palm oil that the country became an oasis of macro stability against a volatile global backdrop. Does that mean challenging times ahead?

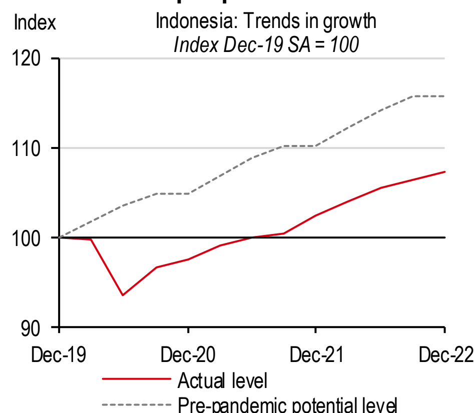
The falling credit-to-deposit ratio may help macro stability

Here is where the other turning point comes into play. After rising gently, **the credit-to-deposit ratio has begun to fall again**. We believe weak credit growth may allow Indonesia to maintain macro stability for longer, even as some of the benefits from high coal prices end: One, low credit growth means that much of the banking sector's excess liquidity remains captive, and does not spill out into the real economy, stoking inflation. Two, low credit growth means higher 'net' household saving, keeping the current account balance (Saving - Investment) strong. Three, low credit growth means that banks don't have to scramble for liquidity, thereby keeping deposit rates low; in fact, keeping deposit rates lower than bond yields has incentivised domestic bond buying. Tricky times, but the hard work done in the form of policy rate hikes and its nascent weakening impact on the credit cycle may, after all, **help preserve macro stability for longer**.

Medium-term growth potential remains strong

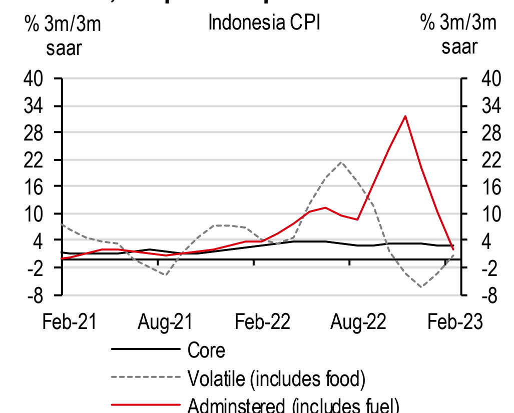
Even as growth may slow in the short run, we think Indonesia's **medium-term growth potential is strong**. The country is witnessing an investment boom in its downstream commodity sector, in particular the nickel supply chain. It is now the world's largest stainless steel exporter and may eventually become a producer of electric vehicle batteries. Government support for manufacturing and infrastructure (via the Omnibus Law and the sovereign wealth fund) is also compelling.

GDP is 7.4% above pre-pandemic levels but 7.2% below the pre-pandemic trend



Source: CEIC, HSBC

Falling food prices helped keep a lid on inflation, despite fuel price hikes



Source: CEIC, HSBC

Malaysia

Subsidies at heart

The recovery was swift, but downside risks are present

Despite recession risks in 2022, Malaysia became Asia's growth champion, **recovering by an impressive pace of 8.7%**, the highest in more than two decades. That said, even for an outperformer, **the downside risks have materialised fast**. The sequential contraction of 2.6% q-o-q in 4Q22 was a perfect reflection of the increasing challenges Malaysia faces in 2023.

Malaysia's trade surplus has remained resilient

Thanks to its well-diversified mix of exports with electronics and commodities, Malaysia saw a delayed hit from a slowing global trade cycle. When trade headwinds started to bite from 4Q22, unlike its peers, Malaysia's trade largely remained resilient, maintaining a high level of trade surplus. Part of the success was due to still-elevated commodity prices (e.g. oil and LNG), while the other part was thanks to Malaysia's favourable position as a large producer of automotive chips, demand for which has shown more resilience than that for consumer electronics. However, Malaysia is not insulated from trade headwinds. In fact, high frequency trade data have already pointed to a notable slowdown in exports, **though the trade surplus remained resilient as imports have moderated sharply**.

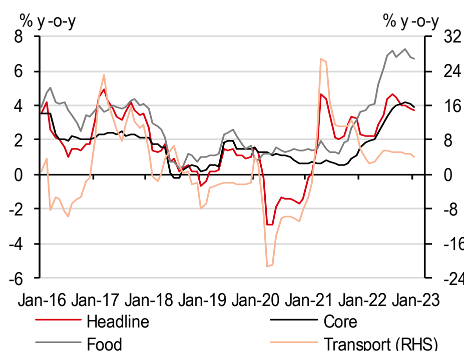
China's reopening could boost Malaysia's growth

Despite external weakness, domestic resilience can come to the partial rescue. After all, Malaysia has been leading ASEAN in the recovery of retail sales, with double-digit growth in spending. Tourism-related services have also continued to rebound, boosting transport and accommodation sectors. However, there is no time for complacency, as signs are starting to indicate fading re-opening tailwinds. **China's re-opening is one of the biggest variables for Malaysia's growth**, as it will provide some much-needed support through tourism, trade and FDI channels. In particular, an influx of tourists will accelerate Malaysia's labour market recovery, providing prolonged support to private consumption.

We expect slower, steady GDP growth

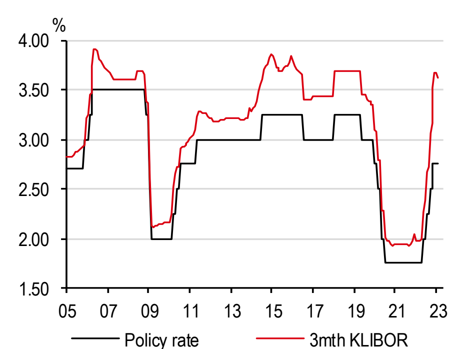
While we expect growth headwinds to materialise on both external and domestic fronts, this does not mean Malaysia will enter a recession. **We maintain our 2023 growth at 4.0% – slower but steady.** In addition, Malaysia's inflation was the second lowest in ASEAN in 2022, thanks to generous subsidies. Encouragingly, inflation has started to ease, albeit gradually. After the announcement of the revised 2023 budget, it is increasingly clear that more subsidies will likely continue to keep a lid on inflation. That said, high food prices and sticky core inflation need a close watch. We maintain our core inflation forecast at 3.0% for 2023. We believe a benign inflation trajectory is the main reason why Bank Negara Malaysia (BNM) kept its policy rate on hold twice, though upside risks linger.

While headline inflation peaked, food inflation remains notably high



Source: CEIC, HSBC

Malaysia's monetary tightening led to a swift jump in interbank rates



Source: CEIC, HSBC

Philippines

GDP growth surged to a 46-year high

Holding up

Despite inflation being the highest and latest to peak in ASEAN, the Philippine economy had some good surprises. GDP grew significantly in 4Q22 (7.2% y-o-y, 2.4% q-o-q), **bringing full-year 2022 growth to a 46-year high of 7.6%**. Overseas remittances surged in 4Q after underperforming in the previous two quarters, which helped keep household consumption intact. And, semiconductor exports surprisingly bucked the global down-cycle and brought overall real export growth to 8.4% y-o-y in 4Q. While, a big chunk of growth may be due to base effects from the lockdowns in 2021, it is still clear from the sheer magnitude of growth that the Philippine economy is holding up.

Inflationary pressures remain high

Nevertheless, unlike the rest of ASEAN, the Philippines finds itself deep in its inflation woes. The situation intensified post the January 2023 CPI release. Contrary to expectations of a decline, CPI surged by a full percentage point (to 8.7% y-o-y), **setting a higher-than-anticipated trajectory for inflation for the rest of the year**. Although inflation slightly eased in February (8.6%), policymakers are still kept on their toes with core inflation surging to a 23-year high of 7.8% y-o-y.

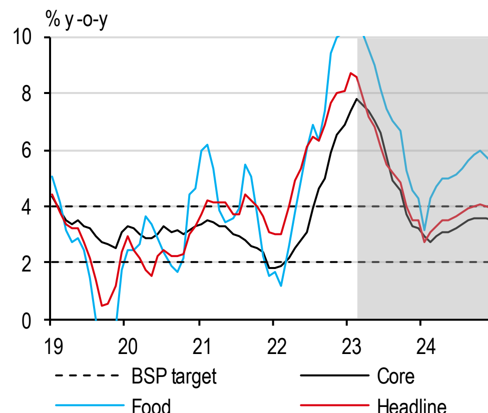
Inflation may hit domestic demand soon

Domestic demand is holding up, but should eventually feel the brunt of inflation soon. Households are dipping into their savings to sustain consumption but will eventually need to build their savings back up. In fact, the whole economy may go through some internal adjustments. The national investment rate has returned to pre-pandemic levels, but the economy-wide saving rate only moved sideways. And this gap between investment and saving is widening the current account deficit to levels last seen during the Asian Financial Crisis. We don't expect household consumption nor overall growth to disastrously fall, but growth will likely grow below trend amid the process of bringing back domestic and external balance.

Interest rates are likely to move higher

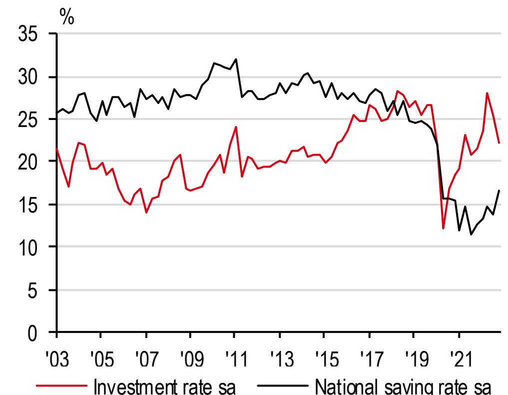
To guide this process, and to tame inflation expectations from increasing further, the Bangko Sentral ng Pilipinas (BSP) continued its aggressive pace and hiked the policy rate to the highest it has been since 2007 at 6.25%. And, considering that both growth and inflation are currently high, **we think there is room to nudge rates up even further**. We expect the BSP to hike by 25bp in the next rate-setting meeting to bring the policy rate to 6.50% and then pause the tightening cycle. Further hikes will be data-dependent, but the BSP will likely hold this rate for a year until introducing its first cut in 3Q24, a quarter after the Fed does its first cut, in our view.

Further stoked by high food prices, inflation will likely only return to target by 4Q23



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

Unlike investment, the national saving rate did not return to pre-pandemic levels



Source: CEIC, HSBC. 2022 to 2024 are HSBC forecasts.

Singapore

Rebuilding travel resilience

After seeing a punchy recovery of 8.9% in 2021, **Singapore still registered decent growth of 3.6% in 2022**. Granted, 2023 will likely be a challenging year and risks have started to materialise from 4Q22. That said, there are still pockets of resilience in Singapore's economy.

Exports have been under pressure

Alas, **external weakness has been intensifying**, putting Singapore on the frontline of a notable global trade slowdown. In the past three months, Singapore's non-oil domestic exports (NODX) plunged by over 20% y-o-y on average. In particular, semiconductor shipments suffered the most, falling off a cliff by almost 30% y-o-y. While high frequency indicators, such as PMIs, are pointing to some initial stabilisation, underlying conditions do not suggest the tide will turn anytime soon.

Retail sales supported by a tight jobs market

Despite trade challenges, there is still some momentum in the domestic economy. For one, **robust growth in retail sales shows that re-opening tailwinds continue**, albeit at a slower pace. This is in part thanks to Singapore's tighter labour market, despite its early recovery. That said, this lift will ultimately fade away, though some fiscal relief from the FY2023 budget will likely offer partial support.

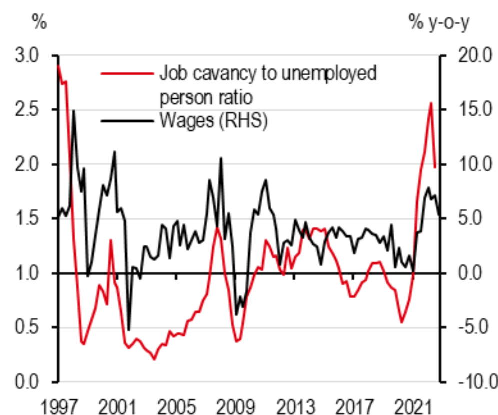
Travel and tourism may continue to lead growth

Meanwhile, the **travel and tourism sectors will likely continue to lead growth**. While international traffic recovered to 80% of 2019 levels, the main drag came from a lack of Chinese visitors. But, this is beginning to change with China's re-opening. Singapore is one of the first 20 countries that China has resumed its group tours to, leading to direct flights more than doubling to 25% of the pre-pandemic level in February. All in all, we maintain our growth forecast at 2.1% for 2023.

We expect gradual tightening given elevated inflation

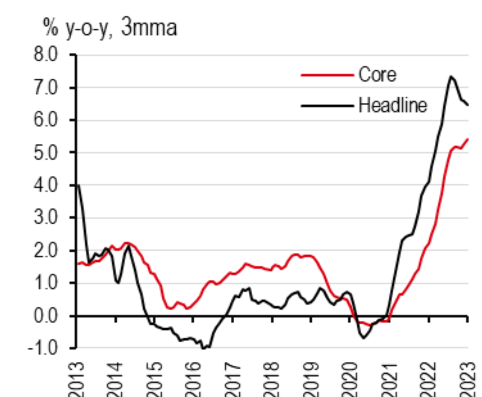
In addition, Singapore's CPI started 2023 on a more reassuring note, as January and February inflation moderated faster than expected, even after the 1ppt GST hike took effect from 1 January. While this should give some relief to policymakers, prices remain elevated. In fact, core inflation momentum remains strong. As such, **we expect the pace of moderation to be gradual**. We recently raised our core CPI forecast slightly to 4.1% (previously: 4.0%) for 2023. Therefore, we expect the Monetary Authority of Singapore (MAS) to continue tightening monetary policy in April.

Despite external weakness, the labour market remains supportive of consumption



Source: CEIC, HSBC

Although headline inflation peaked last September, core inflation remains high



Source: CEIC, HSBC

Thailand

Recovering tourism boosted jobs and consumption

Goods exports dragged on growth

Returning Chinese tourists may buffer against slower global growth

Growth should pick up in 2023

2023 inflation may stay within the target band

Roll out the welcome mat

Even without mainland Chinese tourists, the tourism recovery in 4Q22 was remarkable: 5.5 million tourists visited the *Land of Smiles*, 53% of pre-pandemic levels. This was enough to bring the total number of arrivals for 2022 beyond the government target of 10 million (they came in at 11.4 million). **Riding the tourism wave were jobs and consumption, both of which came in strong**.

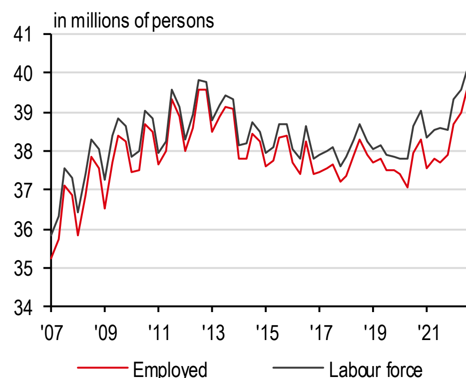
Unfortunately, despite a strong recovery in tourism, GDP in Thailand underperformed in the quarter. **Growth came in well below expectations at 1.4% y-o-y** and the economy still finds itself with overall GDP remaining below pre-pandemic levels. **Goods exports dragged down growth**, falling much more than expected, down 10.4% y-o-y. This just goes to show that, despite Thailand benefiting from global demand shifting from goods to services, the dip in goods demand can still hurt.

However, help is under way in the form of even more tourists. Mainland China re-opened its borders earlier and faster than most expected. And not only were Chinese tourists the biggest in numbers before the pandemic, but they were also the largest per capita spenders. We previously raised our tourist arrival forecast to 29.5 million from 24.0 million in the expectation that Chinese tourists will start arriving in bulk by 2Q23. With more visitors arriving with pockets stuffed with pent-up demand, **tourism will likely cushion the impact of the global slowdown**.

Therefore, it comes as no surprise that Thailand is rolling out the welcome mat in anticipation of even more tourists in 2023. As of 4Q22, 1.5 million Thais entered the workforce, boosting labour supply to its highest level ever recorded. And the market has responded favourably by hiring 1.7 million people and demanding even more. With jobs back, consumption, too, will likely come in strong in 2023. That said, **we think Thailand will be one of the few economies in Asia that will grow faster in 2023 than in 2022**.

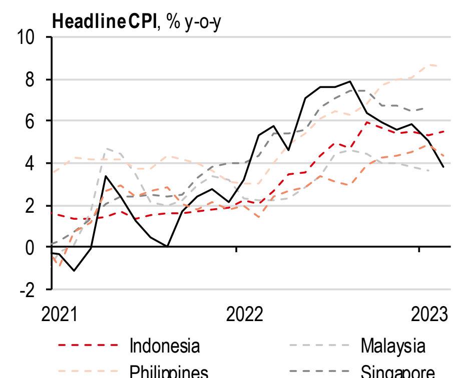
Thailand also stands out when it comes to inflation. After having the highest inflation rate in ASEAN at one point, inflation in Thailand is easing faster than many had expected. It seems inflation in Thailand is proving to be less sticky with core inflation in February dropping back to well within the Bank of Thailand's (BoT) target band of 1-3%. Although demand-side pressures should arise once tourism is nearing its full recovery, we expect both **headline and core inflation for the full-year 2023 to be within the upper end of the BoT's target band**.

Bucking the trend, labour supply in 4Q22 was the highest level ever recorded



Source: CEIC, HSBC

Across ASEAN, inflation in Thailand is easing the fastest



Source: CEIC, HSBC

Vietnam

GDP growth outperformed in 2022 but risks have arisen

Waiting for the tide to turn

Vietnam ended 2022 as one of the outperformers in Asia, **with an impressive GDP growth of 8.0%**. That said, there is no room for complacency, as **downside risks have materialised**.

Exports are under pressure

After growing 10% in 2022, **Vietnam's exports slumped sharply** by the same magnitude in the first two months of 2023. The weakness was mostly broad-based, although seasonality with Samsung's launch cycle provided some support. Encouragingly, **some leading indicators are pointing to initial stabilisation** amid intensifying trade headwinds, but the tide is unlikely to turn quickly in the near term. That said, Vietnam's attractiveness as a favourable FDI destination remains intact, despite tighter liquidity conditions globally. This should offer some optimism for its long-term trade prospects.

International tourism is a bright spot

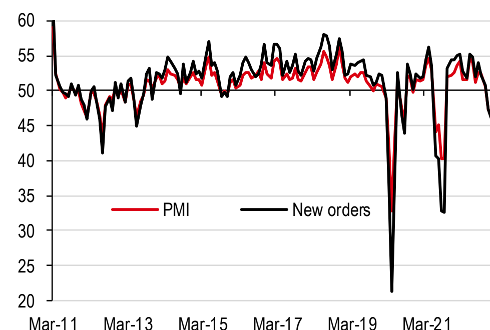
Despite near-term trade headwinds, **international tourism has emerged as a source of growth** to mitigate some challenges. Although Vietnam re-opened one year ago, international tourism only recovered to 60% of 2019's level year-to-date. The main elephant in the room is a lack of Chinese tourists, which accounted for roughly 30% of total tourists pre-pandemic. However, this will soon change. Following its re-opening on 8 January, China recently has resumed group tours to Vietnam from 15 March, leading to airlines reportedly adding more flight capacity. Despite a tepid start, we believe there are good reasons to expect a more meaningful recovery, with a 50-80% return of Chinese tourists achievable (relative to 2019).

Alas, 2023 will not be easy to weather. Despite challenges, opportunities remain. All in all, we maintain our 2023 GDP forecast at 5.8%.

Inflation pressures remain but have softened lately

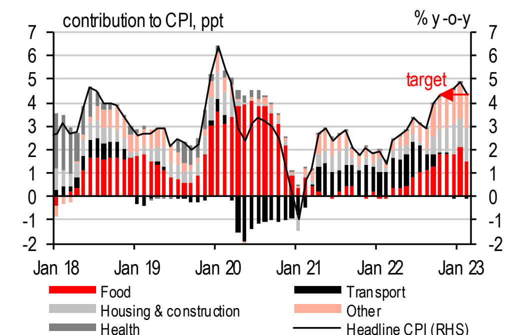
Meanwhile, Vietnam continues to see strong inflation pressures. **While recent headline inflation has moderated, core inflation remained strong** at 5.0% y-o-y, still breaching the State Bank of Vietnam's (SBV) 4.5% ceiling for 2023. We, therefore, remain cautious on how fast inflation will moderate and, as such, maintain our 2023 average forecast at 4.0%.

Manufacturing PMI returned to above 50 for the first time in four months (index)



Source: S&P Global, HSBC

Inflation has moderated to 4.3% y-o-y in February, under the SBV's 4.5% ceiling



Source: CEIC, HSBC

Disclosure appendix

Important disclosures

Additional disclosures

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2. All market data included in this report are dated as at close 29 March 2023, unless a different date and/or a specific time of day is indicated in the report.
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