

COMMENTARY

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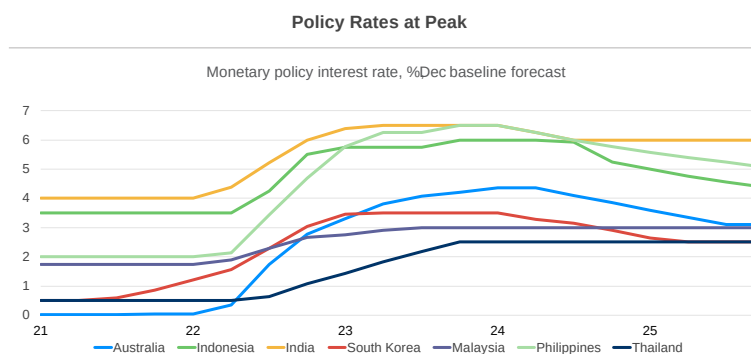
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APAC Outlook 2024: Normalization and—Hopefully—Fewer Surprises

Improving global conditions by the second half of the year will boost most Asia-Pacific economies.

- The coming year will be characterized by normalization as most central banks will lower interest rates as inflation eases.
- Normalization will also come from improved global trade.
- An expected upturn in demand for semiconductors and electronics will add to the second-half improvement.

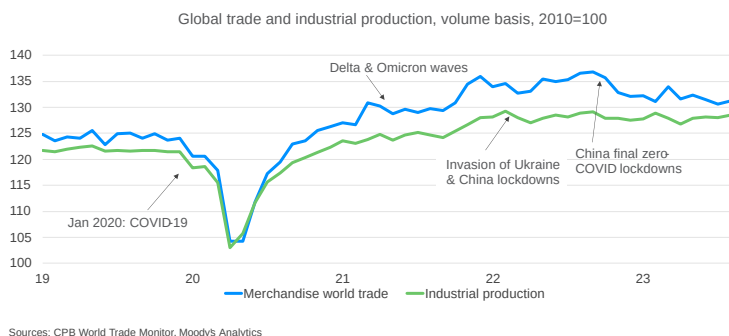
The coming year will be characterized by normalization. This relates mostly to monetary policy where central banks globally and within the region have largely reached peak policy interest rates and simply await the certainty of their impact on inflation.



Source: Moody's Analytics

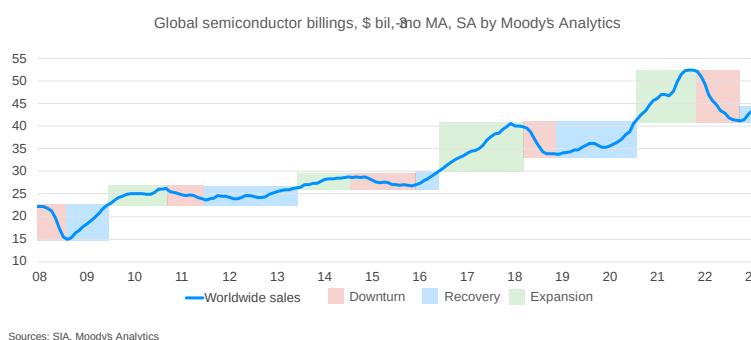
Normalization should also come in the form of more vigorous global trade flows, even if trade does not return to pre-pandemic patterns. This would also include an acceleration of global travel and tourism, particularly between China and the rest of the world.

Still Below Peak, but Global Trade and IP Are Improving



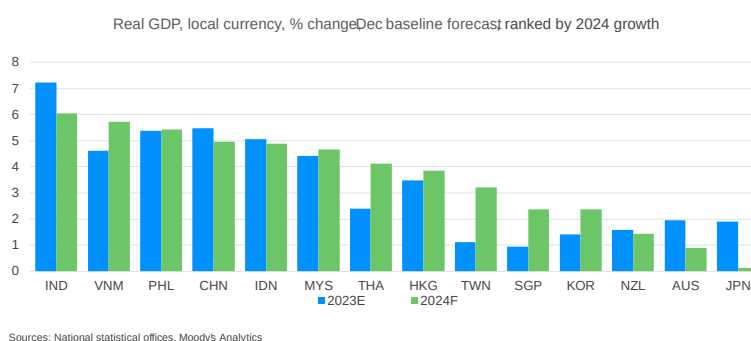
A third aspect of normalization is the expected upturn in the global demand cycle for semiconductors and electronic equipment.

Global Electronics Cycle Is Turning Around



This note varies somewhat from our usual monthly outlook articles for the Asia-Pacific economy. So as not to ignore some of the smaller countries of the region, we look at the economies of the region one at a time.

A Heterogeneous Bunch



This quick review is followed by a discussion of the most important risks to watch out for in the coming year.

Review and outlook

The past year for Asia has been full of surprises, enough to humble any forecaster. The biggest surprise in Asia was the lack of vitality in [China's](#) economy. The economy had shown some ability to rebound quickly in mid-2020 following China's first COVID-19 infections in and around Wuhan. Similarly there was a surge of activity in early 2023, after China opened up following the late-2022 zero-COVID pandemic lockdowns. But then we saw a downshift as China tried to climb the multiple pathways that seemed only to gain elevation as the year progressed—pathways toward generating stronger consumer demand, righting the export-based

industries, bringing solvency to the property development industry, and creating jobs for the army of fresh university graduates.

Only at the end of this year has Chinese industrial production, trade and consumer spending shown signs of life, and then only after considerable stimulus has been added to the economy via bank lending and monetary policy. The housing market, however, has proved intractable, creating a lingering weight on the economy due to its broad set of impacts across industry, households, financial services and local government. Indeed, house prices fell at an accelerating pace in November, with 59 of the 70 cities tracked by the National Bureau of Statistics facing price declines for new homes. Prices for existing homes declined in all but one of the 70 cities. Stability of the housing market will be one of the primary economic issues in China in 2024.

[India](#), on the other hand, has had a stellar year with surprises to the upside on the pace of infrastructure spending, foreign investment, consumer spending and service exports. India has shown broad-based growth throughout 2023, although a key aspect—government spending—is not likely to remain so strong following India's parliamentary elections, likely to occur in March or April. Thus, the pace of growth can be expected to slow in the coming year, moving closer to its longer-term potential.

[Japan](#)'s modest performance in 2023 should be the least surprising story. Its economy is growing slowly with modest domestic consumer demand, cautious fiscal policy, modest export growth, and little impact from the Bank of Japan's negative interest rate and yield curve control policies. Japan's economy received a small bump up this year simply because of recovery from COVID-19 restrictions and the return of international tourists. But that has largely played out, and the economy is expected to slow to less than 0.5% growth next year.

[South Korea](#), the Asia-Pacific region's fourth-largest economy, had a tough year in 2023 as export demand for technology-related goods weakened and consumer confidence faltered. High household debt loads caused household spending to slow considerably and the housing market was quite weak. Recently, however, it appears that Korea is poised for some renewed growth as global demand for semiconductors and electronics has begun to rebound from its downturn that began in 2022. Combined with an expected improvement in global auto sales in the second half of next year, South Korea's economy will accelerate in 2024.

[Taiwan](#) will follow a similar pattern, for similar reasons. Taiwan's industrial base is narrower than South Korea's massive industrial conglomerates, but it is even more directly driven by the semiconductor industry cycle. High-end graphic processing units designed by NVIDIA, Intel and AMD for use in artificial intelligence equipment are all produced by TSMC or other foundries in Taiwan. The supply of chips for AI purposes is a structural shift in the chip-production industry that should benefit Taiwan for some time to come.

The [Hong Kong](#) economy suffered from its links with the weak Chinese mainland economy but has now gained strength on the back of renewed visitor spending from China and from overseas visitors. A weakened housing market, however, as indicated by a 14% decline in Hong Kong's house price index in 2022 followed by an additional 3% loss this year, weighs on the economy, as does the downturn this year in Hong Kong's equity market as investors shy away from Chinese and Hong Kong equities.

Aside from India, many of the Southeast Asian economies have been among the strongest performers this year and will continue to lead in the coming year. One must continue to expect some volatility, but at least the worst impact of weak global trade for these trade-dependent countries is over. Trade is no longer falling, and in some cases is beginning to rise over the year once again. No economy within this region is expected to suffer recession in the coming year.

[Indonesia](#), the largest economy of Southeast Asia, has been one of its strongest performers this year with a stable outlook for 2024. As in much of the region, foreign investment is bringing Indonesia closer links to global supply chains, particularly in industries such as auto parts and nickel batteries. While Indonesia seeks to reduce its annual fiscal deficit to approach 3% of GDP, it remains committed to large infrastructure projects, including the development of Nusantara, the planned new national capital in East Kalimantan province.

Within Southeast Asia, [Thailand](#) suffered the most this year. As the most tourist-dependent economy in the region, it felt the slow recovery of tourist arrivals from China and elsewhere more than any other economy in the region. While exports are finally improving for manufactured goods such as autos and electronics, the travel industry will continue its slow turnaround, depending partly on expanded capacity of the global airline industry. There is some upside potential if fiscal stimulus under debate is approved for next year. However, there is little room to use monetary policy as a stimulus. Thailand was slow to raise rates and has only hiked a cumulative 200 basis points. This has led to a widened interest rate differential with U.S. rates and depreciation of the baht. While the baht has recovered and stabilized, it remains weaker than pre-pandemic values. For Thailand,

policy normalization will come from reducing the rate spread, which will occur if the Bank of Thailand holds rates steady as the U.S. Fed cuts the federal funds rate.

Fiscal spending and service exports brought the [Philippines](#) economy back to life after a slow start in the first half of 2023. When all data for the year are available, they will likely show that the Philippines' real GDP growth led all of Southeast and East Asia. Only India fared better. As with Indonesia, growth is expected to remain stable in the coming year partly because of strong fiscal policy measures and improved export trade and a continued rebound in consumer spending. More than any other economy in Southeast Asia, the Philippines will depend on stable fiscal spending to maintain the lagged recovery following its long and deep downturn during the pandemic years.

[Singapore](#)'s export-dependent economy suffered greatly this year with real GDP growth of less than 1%, the slowest across the entire APAC region. However, nonoil domestic exports finally managed a net gain over the year in November. But the picture remains mixed as a continued decline of electronics goods exports was offset by a gain in non-electronics. Nevertheless, overall industrial production has picked up and investment is flowing into Singapore from China and Hong Kong, indicating a better year to come in 2024.

[Malaysia](#)'s resilient domestic economy has outweighed weakness in external-facing industries. Consumption and capital investment remain quite strong. Malaysia's exports of electronics, which are further down the value chain than in South Korea or Taiwan, have not yet stabilized. Trade, however, is expected to contribute to growth at least by the second half of next year, adding to consumer spending and supportive fiscal policy that will help the economy to accelerate into 2024. Malaysia's monetary policy interest rate of 3% remains below its previous 2019 peak of 3.25%. Bank Negara Malaysia, the central bank, is therefore unlikely to cut rates further. The BNM target rate in the past has been between 3% and 3.25%. As with the Thai currency, the Malaysia ringgit remains relatively weak and cutting rates would widen the interest rate differential with the U.S. If there is any risk to the current outlook, it would be that BNM raises rates to protect the value of the ringgit.

[Vietnam](#) struggled to gain traction last year with little vitality in late 2022 and the first quarter of 2023. Business investment slowed this year following the launch of an anti-graft campaign that created strict measures for credit markets. This was then followed by an easing of interest rates to revitalize credit markets once again. Along with increased infrastructure investment and an expected improvement in trade and foreign investment, conditions bode well for 2024. Industrial production has been accelerating since September and tourists are arriving once again from China and Korea. Proximity to these two markets gives it an advantage over other destinations more distant from China.

[Australia](#) and [New Zealand](#) are two of the most interest-rate-sensitive economies of the Asia-Pacific region. Neither economy will be able to accelerate measurably in the coming year until monetary policy eases considerably. Housing markets in both economies adjust quickly to the rise and fall of interest rates thanks to flexible mortgage rate structures. And high debt service burdens limit consumer spending. Australia has the advantage of strong immigration that adds to aggregate domestic demand for housing, goods and services, and China has eased restrictions on some import goods from Australia. But the impact will be modest in the coming year.

Risks to the outlook

While risks to the outlook appear less severe than this time last year, several uncertainties could work against the economic outlook for 2024. Supply-chain risks are rising quickly as the conflict between Israel and Hamas continues and some disruptions of shipping are occurring on the Red Sea approach to the Suez Canal. Should these disruptions not be contained and ships between Europe and Asia are redirected around the Cape of Good Hope, shipping costs will rise and global trade will slow. And a more direct risk to the inflation outlook would arise if shipments of crude oil to Asia were disrupted.

Monetary and fiscal policy also create some risk to the outlook. Inflation is slowing across the entire APAC region. Indeed, China is fighting outright deflation. But any resurgence of inflation due to higher energy prices or supply-chain constraints could cause central banks to delay the start of policy normalization, even if cost pressures are caused by external supply constraints rather than internal demand. Monetary policy in Japan poses uncertain risks as well, as it very gradually shifts away from its negative interest rate policy and yield curve control. Given the weak state of domestic consumer demand and the limited vitality of exports that is restricted primarily to autos, a rapid shift in policy could derail what is already a slow pace of economic growth.

Fiscal policy will play a strong role, particularly in Southeast Asia and India, where infrastructure needs

improvement. If policymakers are not able to deliver on funding for signature projects—such as the new capital in Indonesia; schools, roads and bridges in the Philippines; or outright support of consumer spending in Thailand or China—GDP growth could disappoint in the coming year.

A stronger outlook for the region in 2024 depends considerably on improved demand for goods and services from North America and Europe. The U.S. economy, in particular, appears to be on track for continuous growth, even if it too will be hindered by high interest rates through the first half of the year. Europe shows less vitality in terms of consumer spending and private investment, which brings with it a higher chance of Europe falling into recession in the next 12 to 18 months.

China's role as the largest economy in the APAC region and a driver of intraregional trade is at some risk if the multiple imbalances in China's economy are not soon righted. The baseline forecast assumes that further stimulus will come following the “two-sessions” policy meetings scheduled for March. But there is no certainty in this. Most important is finding a way to put a floor under the housing market, and stabilizing the property development sector and house prices across China. Second is revitalizing private-sector investment, which has stagnated over the past year. And third is to find a way to lower the high youth unemployment rate. Without success on most of these issues, and particularly the housing market, growth in China would underperform and trade with the rest of the region would disappoint.

There is some potential for acceleration of decoupling between China and the U.S. economy. Already, net investment flows turned negative for China in the third quarter. This should not hurt priority industries such as semiconductors and electric vehicles that policymakers are promoting, but it could hinder expansion of other industries. But this does create some opportunities where foreign investment is accelerating at this time. These economies include Vietnam, Indonesia and India.

Upcoming elections this year in India, Indonesia, South Korea and Taiwan create some uncertainty for shifts in fiscal policy, but the risks seem small as policy continuity is likely if ruling parties remain in power, which is a high probability at least in India and Indonesia. Even in Taiwan, where policy toward relations with Mainland China is a more significant election issue than fiscal policy, any change in the relationship with Mainland China would likely occur slowly. Policy risks in South Korea are low.

APAC Forecast Summary												
Forecast as of 12/11/2023												
	GDP, annualized % change				Inflation, % change				Unemployment rate, %			
	2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025
Australia	3.8	1.9	0.9	1.9	6.6	5.6	3.5	2.7	3.7	3.7	4.3	4.6
China	2.9	5.5	4.9	4.9	1.9	0.4	1.7	2.6	4.3	4.2	4.1	4.0
Hong Kong	-3.5	3.5	3.8	3.3	1.9	2.1	2.9	2.6	4.3	2.9	3.0	3.0
India	6.8	7.2	6.0	5.2	6.7	5.5	5.1	4.7	7.6	6.9	7.3	7.3
Indonesia	5.3	5.1	4.9	4.6	4.2	3.7	3.2	3.4	5.8	5.6	5.5	5.5
Japan	0.9	1.9	0.1	1.1	2.5	3.2	2.2	0.5	2.6	2.6	2.6	2.5
Malaysia	8.7	4.4	4.7	4.0	3.4	2.6	2.4	2.3	3.9	3.4	3.2	3.2
New Zealand	2.3	1.6	1.4	2.3	7.2	5.8	3.5	2.1	3.3	3.8	4.6	4.7
Philippines	7.6	5.4	5.4	5.7	5.8	6.0	3.2	2.7	5.4	4.6	5.1	5.1
Singapore	3.6	0.9	2.4	1.9	6.1	4.9	3.2	2.2	2.1	1.9	2.1	2.1
South Korea	2.6	1.4	2.4	2.3	5.1	3.6	2.5	2.0	2.9	2.6	2.9	3.2
Taiwan	2.6	1.1	3.2	1.9	3.0	2.4	1.5	1.3	3.7	3.5	3.4	3.5
Thailand	2.6	2.4	4.1	3.8	6.1	1.3	2.0	2.4	1.3	1.0	1.1	1.2
Vietnam	8.1	4.6	5.7	5.6	3.2	3.2	3.3	2.5	2.1	2.1	2.0	2.0

	Retail sales, % change				Home Price Index, %			
	2022	2023	2024	2025	2022	2023	2024	2025
Australia	5.4	-1.0	0.5	2.2	7.5	-0.1	1.4	1.3
China	-1.9	6.2	2.3	4.1	-1.7	-2.6	-1.7	0.0
Hong Kong	-3.4	15.6	3.7	3.4	-5.8	-7.7	-1.4	4.7
India	8.4	2.1	4.6	3.4	3.1	6.6	7.0	3.3
Indonesia	6.0	1.5	4.7	7.9	1.8	2.0	3.5	4.3
Japan	0.1	2.9	0.4	0.5	8.4	3.3	2.5	0.1
Malaysia	19.2	6.7	7.1	5.0	3.5	2.4	3.1	2.7
New Zealand	-0.2	-3.2	2.2	3.9	0.6	-7.0	2.1	3.9
Philippines	6.2	6.1	5.5	3.8	5.7	9.5	3.5	3.6
Singapore	7.1	-5.9	8.1	3.9	10.2	6.7	2.0	2.1
South Korea	-0.2	-1.1	1.9	2.1	3.4	-6.9	4.7	4.9
Taiwan	3.9	5.6	0.3	-0.7	12.9	5.2	5.3	3.2
Thailand	10.4	2.0	3.9	2.4	4.4	3.6	6.4	5.4
Vietnam	13.8	5.2	9.6	8.7	na	na	na	na

Source: Moody's Analytics

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