ASEAN FOCUS II

The COVID-19 Recession, Restart And Recovery

- Asian economies have generally moved past the worst of the slump in economic activities seen in 1H20, as many governments are loosening gradually and cautiously the stringent COVID-19 lockdown measures.
- Based on high frequency data, there are signs of tentative recovery in Asia starting from 3Q20. However, the pace is likely to be patchy and bumpy due to the uneven flattening of the COVID-19 curves across Asia and the world, while recessionary conditions remain evident in sectors related to tourism and travel.
- Assuming this tentative recovery is able to hold and not disrupted by another wave of COVID-19 infections, we expect overall economic growth in Asia to return to positive in 2021. ASEAN's economy is likely to rebound to a 5.6% expansion in 2021, from a 3.5% decline expected in 2020. However, economic activities are unlikely to return to pre-COVID-19 levels at least until 2022 at the earliest, even if a safe and effective vaccine is available sometime end of this year or early 2021, as the logistics of production and distribution will be a significant challenge.

Pulse Check: Leaving Behind The Worst Economic Declines On Record

With the COVID-19 pandemic coming under control in a number of Asian economies after going through various degree of lockdown/safe distancing/movement control measures, it is time to take stock of the tumultuous first half of 2020, and where these economies will be headed next.

The COVID-19 has caused tremendous hardships to lives and livelihoods around the world and continues to ravage in a number of countries which have not been able to effectively control the spread. In Europe, some countries are also experiencing another wave of infections, and this will be worrying especially during the winter months. This heightened vigilance by consumers and businesses, in the absence of an effective vaccine for the virus, will constrain activities and thus limit any recovery momentum.

Nevertheless, the worst of economic declines seen in the first half of 2020 are likely to be over, and high frequency data suggest a rebound has been emerging since 3Q20. However, the recovery pace is likely to remain patchy and bumpy due to the uneven flattening of the COVID-19 curves across Asian and the world.

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COVID-19 Curves Have Flattened In Some Parts Of Asia

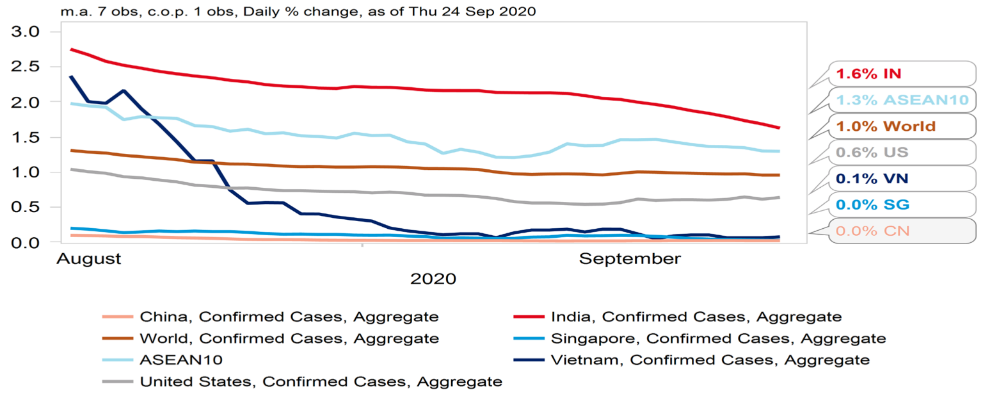
After taking stringent measures to contain the COVID-19 pandemic, most of the Asian economies are seeing rate of infections trending down, although some continue to see relative fast pace of new case increases.

India, Indonesia, and the Philippines continue to outpace the rate of global increases of confirmed cases. Others have more successes including Malaysia, Thailand, Vietnam, and Singapore. China has managed to keep COVID-19 infections under control by 2Q20 and life has largely returned to normal in that country. The mixed picture suggests that there is still a long way before returning to normal given that this is a global health crisis.

As new infections increase, fatalities in general rise in tandem as medical and health care resources come under further strain. This is evident in India, Indonesia and the Philippines, which continue to surpass the rate of global increases in COVID-19 death cases.

COVID-19: Confirmed Cases, Moving Average (daily % change)

Source: Bloomberg, UOB Global Economics & Markets Research



Is the Worst Of Economic Slump Over?

The large number of infections and loss of lives have direct impact on livelihoods, due to the loss in output and productivity from lockdowns and other safe distancing and movement restriction measures taken by the governments to "flatten the curves".

In general, the quicker a government could get the COVID-19 outbreak under control, the faster "normal" activities could resume. Those economies which could contain COVID-19 in general stand a much better chance to return to normal earlier.

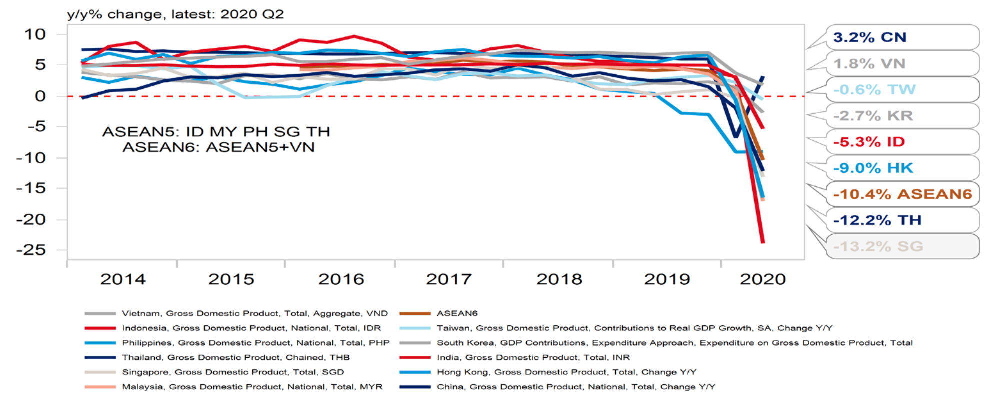
China is the prime example of this, which began restarting in 2Q20 and saw its economic growth returning to positive in that quarter, while the rest of the world was still struggling under the weights of COVID-19 lockdown measures.

The other example is Vietnam which was able to get a grip of the disease at a very early stage, although that effort was thwarted when a streak of new local infections emerged in the central city of Danang in early August.

As a result, both China and Vietnam reported positive GDP growth in 2Q20, while the rest of the world continued to struggle, with ASEAN seeing a 10.4%y/y decline in 2Q20.

ASEAN: Real GDP Growth Rates (Quarterly)

Source: Bloomberg, UOB Global Economics & Markets Research



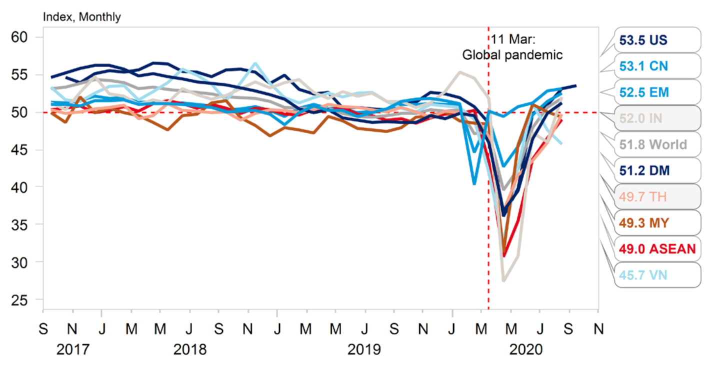
What Are Recent Data Showing?

While recent data suggests that the worst of the economic slump is likely to be over, the pace of recovery remains weak and tentative due to 1) uneven COVID-19 curve flattening in the region and elsewhere; 2) overall demand and foreign trade resumption is still being hampered by disruptions of regular lives and businesses; and 3) cross-border movements restrictions continue to weigh on those economies that have relatively large exposures to in-bound tourism.

Following the sharp economic contractions in April and May at the depth of the COVID-19 lockdowns and movement restrictions, some data showed that the rebound in ASEAN is much sharper (V-shaped) this time round compared to that in the 2008/09 global financial crisis period.

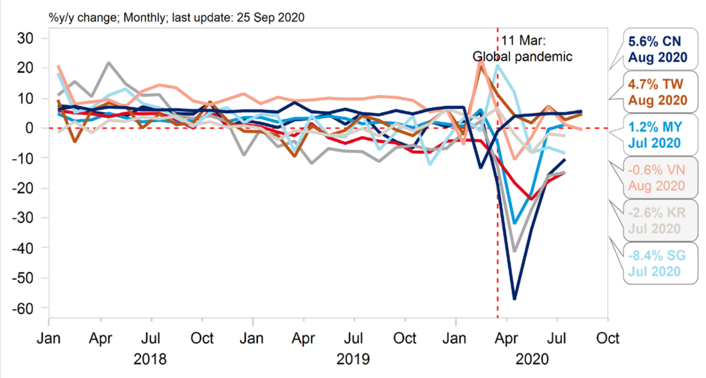
Purchasing managers index (PMI) and production: V-shaped rebound

World Markit Manufacturing PMI, SA



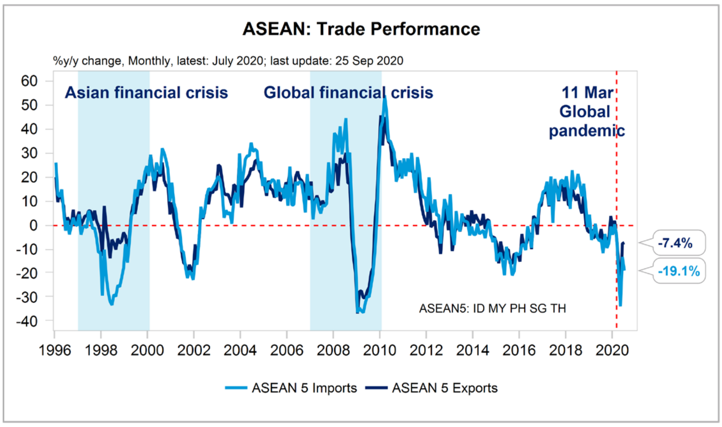
Manufacturing PMI indexes have rebounded sharply in a V-shape from the lows in March/April, though the PMI index for ASEAN has yet to cross above the 50 mark.

Asia: Industrial Production Index, Monthly



Production activities in general have rebounded off the slump earlier this year and some have already turned positive, led by China and Taiwan. However, with the uneven flattening of COVID-19 curves across Asia and globally, it remains to be seen if there is enough momentum for the rebound to be sustained.

External Trade: Moving off from lows



Unlike the long drawn trade slumps in previous crises, a rapid rebound in exports from the deep declines in April was seen across most markets. However, the weakness in imports suggests poor domestic demand given the uncertainty in income and employment.

Asia: Trade Balance (Monthly)

USD, billion

	Latest	1M ago	Avg 2015-19
ASEAN6	16 billion	11 billion	4.9 billion
ASEAN5	14 billion	9.6 billion	4.6 billion
Malaysia	5.9 billion	4.9 billion	2.2 billion
Vietnam	5 billion	2.8 billion	300 million
Singapore	4.3 billion	2.8 billion	3.6 billion
Thailand	3.3 billion	1.6 billion	1 billion
Indonesia	2.3 billion	3.2 billion	274 million
Philippines	-1.8 billion	-1.4 billion	-2.5 billion
India	-6.8 billion	-4.8 billion	-12 billion

ASEAN5: ID MY PH SG TH; ASEAN6: ASEAN5+VN; last update: 25 Sep 2020
■ Latest ▲ 1Y ago

Trade balances have improved in ASEAN (except for the Philippines), which help to strengthen external balances.

Asia: Exports Performance (Monthly)

y/y% change, Monthly

	Latest	Prior mth	1Y ago	2009
China	9.5	7.2	-3.2	17.7
Vietnam	7.0	8.2	10.7	n/a
Malaysia	0.3	4.2	-3.0	22.6
Singapore	-2.8	-8.2	-6.3	26.5
ASEAN 6	-4.4	-5.2	-3.8	n/a
ASEAN 5	-7.4	-7.8	-7.1	29.1
Indonesia	-8.4	-10.1	-5.7	50.0
Philippines	-9.6	-12.5	1.4	24.2
Thailand	-11.4	-23.2	-3.8	26.0
India	-12.7	-9.9	-6.6	n/a
HK	-16.9	-11.8	4.3	-7.2

ASEAN5: ID MY PH SG TH; ASEAN6: ASEAN5+VN; last update: 25 Sep 2020
■ Latest ▲ 1Y ago

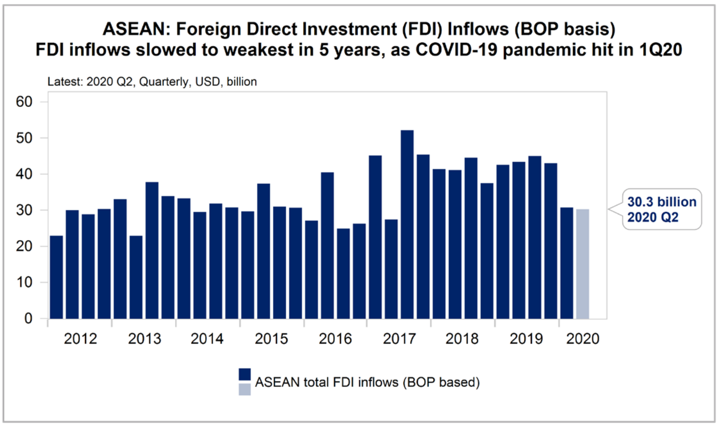
Asia: Imports Performance (Monthly)

y/y% change, Monthly

	Latest	Prior mth	1Y ago	2009
Vietnam	1.2	-3.7	11.8	n/a
China	-2.1	-1.4	-8.5	55.9
HK	-4.6	-2.4	-10.4	18.5
Singapore	-7.5	-10.1	-5.9	18.9
Malaysia	-11.2	-8.9	-14.6	24.5
ASEAN 6	-16.1	-9.6	-8.7	n/a
ASEAN 5	-19.1	-13.3	-11.8	24.1
Indonesia	-24.2	-32.6	-2.4	33.0
Philippines	-24.4	-23.1	-5.2	19.2
India	-26.0	-29.6	-12.0	n/a
Thailand	-26.4	-18.1	-15.1	28.2

ASEAN5: ID MY PH SG TH; ASEAN6: ASEAN5+VN; last update: 25 Sep 2020
■ Latest ▲ 1Y ago

Foreign direct investment (FDI) inflows – Lower but stabilising



While foreign direct investment (FDI) inflows to ASEAN have slowed in response to the global pandemic, it has stabilised at 29% of the average inflows in 2019.

ASEAN: Foreign Direct Investment (FDI) Inflows (BOP basis)

Quarterly, USD, billion

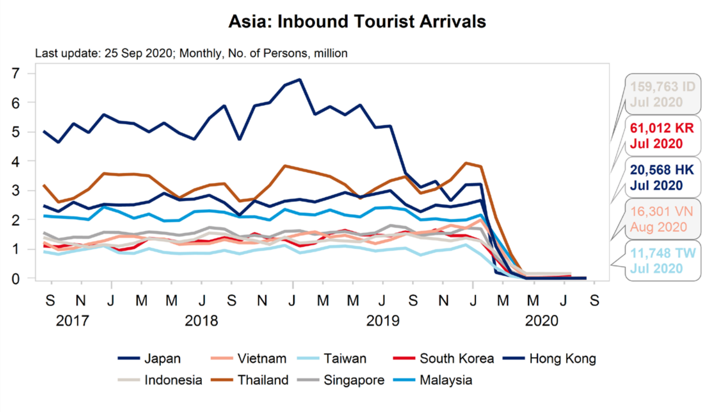
	Latest quarter	1Q20	2019 avg
ASEAN	30.3 billion	30.7 billion	43.4 billion
Singapore	18.4 billion	14.4 billion	26.5 billion
Indonesia	4.07 billion	5 billion	5.56 billion
Vietnam	3.74 billion	3.02 billion	4.03 billion
Thailand	1.26 billion	3.52 billion	1.54 billion
Philippines	1.2 billion	1.8 billion	1.92 billion
Cambodia	960 million	960 million	916 million
Burma (Myanmar)	414 million	414 million	573 million
Laos	171 million	369 million	139 million
Malaysia	38.3 million	1.2 billion	2.29 billion

Last update: 25 Sep 2020

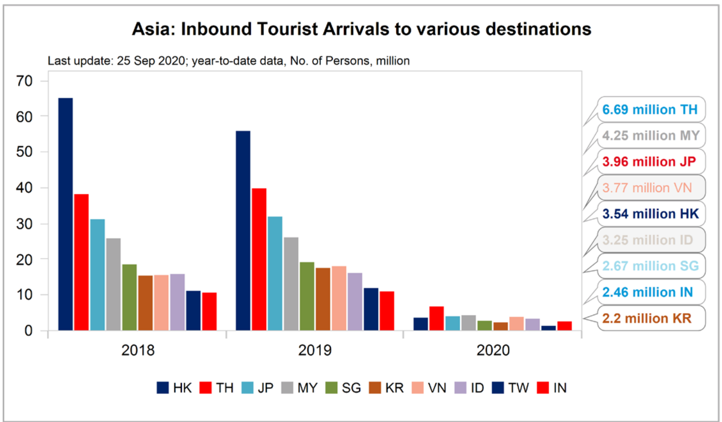
■ Latest ▲ 2015-19 avg

The drop in FDI inflows to ASEAN is largely due to sharply lower flows to Singapore, which fell 30% from 2019 average level, as well as Malaysia (-73%), although Vietnam and Cambodia fared relatively well in 1H20.

Travel and tourism: Where are the tourists?



Cross-border travel and tourism activities have essentially ground to a halt for most parts of 2020 due to lockdown measures to contain the spread of the COVID-19 pandemic. These activities are unlikely to resume anytime soon, or at least not before a safe and effective vaccine can be made available.



The collapse in tourism business is most evident in Thailand, which reported the fourth executive month (including July) of zero inbound tourists. Other popular Asian destinations reported sharply lower YTD inbound visitor figures compared to last year, with no signs of turning around anytime soon.

Tourism Revenue (Annual, USD)

Annual, USD, billion

	Latest	2010	2003
Thailand	62.3 billion	18.7 billion	n/a
Hong Kong	41.9 billion	27.2 billion	9 billion
South Korea	34.8 billion	20.8 billion	11.1 billion
Vietnam	32.5 billion	5.03 billion	1.42 billion
Japan	28.1 billion	39.3 billion	36.5 billion
India	25.8 billion	10.5 billion	4.39 billion
Singapore	25.3 billion	18.7 billion	8.38 billion
Malaysia	20.8 billion	17.5 billion	5.6 billion
Indonesia	15.6 billion	7.62 billion	4.46 billion
Taiwan	14.4 billion	8.72 billion	2.98 billion
Philippines	6.92 billion	2.49 billion	1.52 billion

■ Latest ▲ 2010 ■ 2003

Thailand is most dependent on inbound visitors among the Asian economies, with tourism revenue of US$62 billion in 2019, or nearly 12% of Thailand's GDP, thus underscoring the severe impact of COVID-19 on Thailand.

Tourism Revenue (% of GDP)

% of GDP, Annual

	Latest	2010	2003
Vietnam	12.4	4.5	3.6
Thailand	11.8	5.5	n/a
Hong Kong	11.5	11.9	5.6
Singapore	7.0	7.8	8.6
Malaysia	5.7	6.8	4.7
Taiwan	2.5	2.0	0.9
Philippines	2.1	1.2	1.8
South Korea	2.0	1.8	1.6
Indonesia	1.5	1.0	1.7
India	0.9	0.6	0.7
Japan	0.6	0.7	0.8

■ Latest ▲ 2003 ■ 2010

With a relatively large share of tourism (>5% of GDP), Thailand, Hong Kong, Vietnam, Singapore and Malaysia will find it challenging to achieve the full potential in the course of their recovery.

Swift fiscal and monetary policy responses offset some losses

Fiscal Response to COVID-19 (US dollars)

	US dollars, trillion	Total
United States		2.79 trillion
Japan		2.23 trillion
EU		632 billion
China		529 billion
ASEAN		328 billion
India		272 billion
Australia		151 billion
Indonesia		85.2 billion
Thailand		76.4 billion
Malaysia		72.5 billion
Singapore		66.8 billion
South Korea		50.8 billion
New Zealand		39.6 billion
Hong Kong		37.1 billion
Taiwan		36.1 billion
Vietnam		13.4 billion
Philippines		12.3 billion
Burma (Myanmar)		1.01 billion

Governments and central banks have reacted swiftly to cushion the fallout from the sudden shocks to their respective economies, especially during the most severe phase in 2Q20. Broadly, fiscal policy measures generally take the forms of direct cash handouts, support to workers' wages, costs reductions for businesses, and low-cost financing/loan payment moratoriums of consumers and businesses' loans.

Fiscal Response to COVID-19 (% of GDP)

	% of GDP	Total
Japan		41.2
Malaysia		19.0
New Zealand		18.3
Singapore		18.1
Thailand		13.7
United States		12.5
Australia		11.0
ASEAN		10.1
Hong Kong		9.6
India		8.5
Indonesia		7.1
Taiwan		6.0
Vietnam		4.7
China		3.5
EU		3.4
Philippines		3.2
South Korea		3.1
Burma (Myanmar)		1.4

Those governments that are able to afford, take the most aggressive approach, ranging from low of 1% of GDP to Japan's 40% of GDP. Most other governments' support packages came in around 10 to 20% of GDP, balancing the need to ensure social stability, and fiscal constraints. Collectively, ASEAN member states have pumped in more than USD300bn of fiscal support, or 10% of ASEAN's GDP.

Central Bank Dashboard - Policy Rates

	Latest	End 2019	YTD Change bps
Advanced Economies			
Australia	0.25%	0.75%	-50 bps
Canada	0.25%	1.75%	-150 bps
Euro Area (MRO rate)	0.00%	0.00%	0 bps
Japan	-0.10%	-0.10%	0 bps
New Zealand	0.25%	1.00%	-75 bps
United Kingdom	0.10%	0.75%	-65 bps
United States (FFR)	0.25%	1.75%	-150 bps
US 3m LIBOR	0.23%	1.91%	-168 bps
Developing Economies			
Brazil	2.00%	4.50%	-250 bps
China (1Y LPR)	3.75%	4.15%	-30 bps
HK SAR (3m HIBOR)	0.63%	2.43%	-180 bps
India	4.00%	5.15%	-115 bps
Indonesia	4.00%	5.00%	-100 bps
Malaysia	1.75%	3.00%	-125 bps
Mexico	4.25%	7.25%	-300 bps
Philippines	2.25%	4.00%	-175 bps
Russia	4.25%	6.25%	-200 bps
Saudi Arabia	1.00%	2.25%	-125 bps
Singapore (3m SOR)	0.18%	1.54%	-137 bps
South Africa	3.50%	6.50%	-300 bps
South Korea	0.50%	1.25%	-75 bps
Taiwan	1.13%	1.38%	-25 bps
Thailand	0.50%	1.25%	-75 bps
Turkey	10.25%	12.00%	-175 bps
Vietnam	4.50%	6.00%	-150 bps

Central banks have been very responsive in cushioning the economic impact from COVID-19, cutting interest rates vigorously in 1H20. However, the pace of rate cuts has slowed or even ended, as policy rates approach the zero bound, and there are signs that the worst of the downturn is over.

Positive growth in 2021 after the losses in 2020

Real GDP Growth Rate (Annual)

	2018	2019	2020F	2021F
World	3.6	2.9	**-4.9**	**5.4**
US (q/q saar)	2.5	2.3	**-4.5**	**2.8**
UK	1.3	1.5	**-10.1**	**4.9**
Euro Area	1.9	1.3	**-8.0**	**5.2**
Japan	0.3	0.7	**-6.0**	**3.0**
Australia	2.8	1.8	**-4.2**	**2.2**
New Zealand	3.2	2.2	**-5.0**	**3.9**
China	6.8	6.2	**1.8**	**8.2**
HK	2.9	-1.2	**-6.5**	**7.0**
Taiwan	2.8	2.7	**1.5**	**3.7**
South Korea	2.9	2.0	**-1.3**	**3.5**
India	6.8	4.9	**-7.0**	**7.5**
ASEAN6	5.2	4.2	**-3.5**	**5.6**
Indonesia	5.2	5.0	**-1.1**	**3.8**
Malaysia	4.8	4.3	**-3.5**	**5.5**
Philippines	6.3	6.0	**-5.5**	**7.0**
Singapore	3.5	0.7	**-5.0**	**4.5**
Thailand	4.1	2.4	**-7.5**	**6.0**
Vietnam	7.1	7.0	**2.8**	**7.1**

y/y% change: -12.5 -7.5 -2.5 2.5 7.5

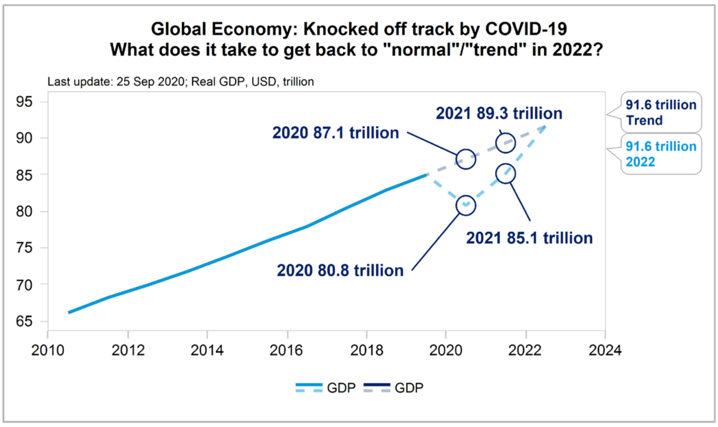
2020F 2021F 2019

With the exception of China, Vietnam, and Taiwan, Asia will see a dismal year of shrinking output in 2020 under the weight of COVID-19 pandemic.

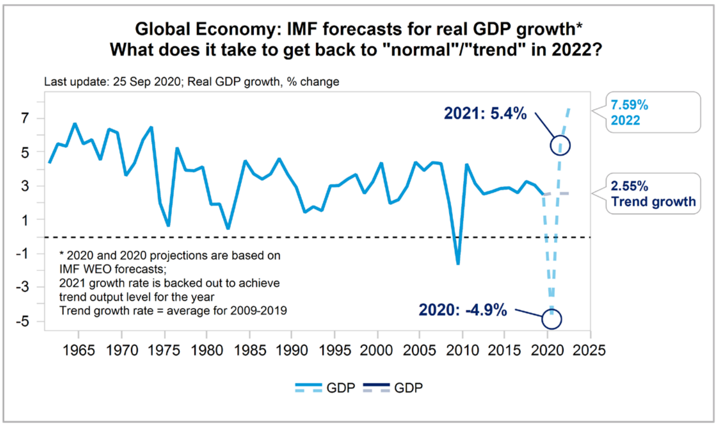
As lockdown restrictions are eased and life gradually moving towards normal, real GDP growth is expected to return to positive across the world.

Note that, the average growth rate of 2020 and 2021 will still be far below trend for most economies.

When can we get back to pre-pandemic output levels?



Based on IMF's projections for 2020/2021, real output losses (i.e. deviation from trend output) globally could cost at least USD10 trillion in these two years. This is equivalent to output destruction in excess of USD400 billion a month, or the loss of the entire Norway's GDP every month in 2020 and 2021.



In order for global output to return to trend levels in 2022, global real growth rate would have to reach 7.6%, which is a tall order. Based on current conditions, it would be at least 2022 at the earliest for regional economic activities to recover sufficiently and return to the pre-pandemic levels.

Source: Macrobond, UOB Global Economics & Markets Research