

Outlook for China, other Asian Economies and Australia

ECONOMIC RESEARCH OFFICE

22 December 2021 (original Japanese version released on 3rd December)

Asian and the Australian Economies: Overview

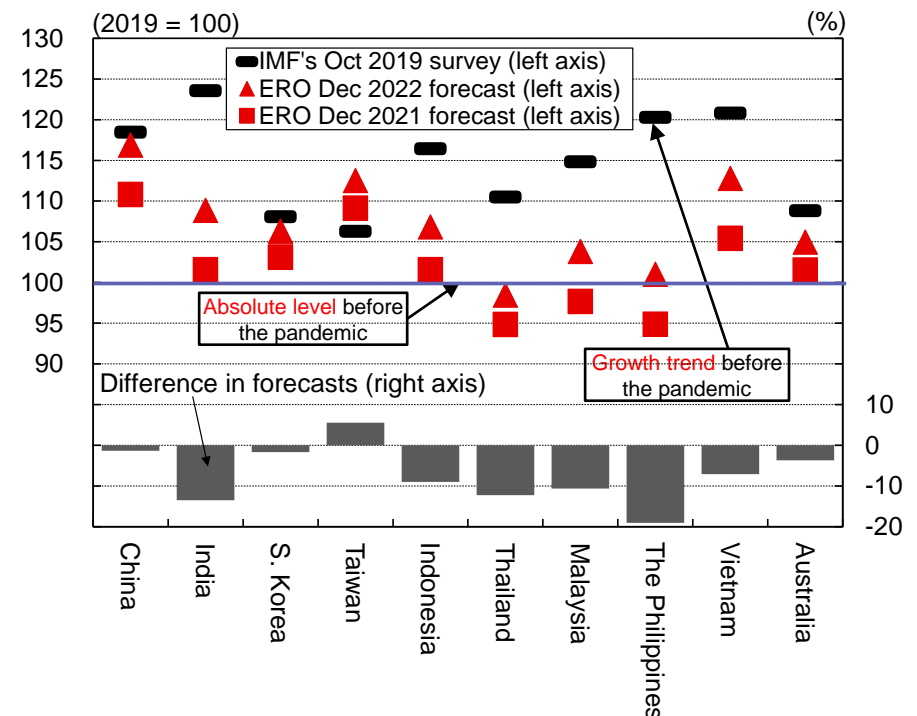
- China has curbed the spread of infection with its continued, strict “zero COVID” policies, but this has also but downward pressure on its economy. Slow growth of the real estate market, natural disasters and supply constraints have also been sources of downward pressure, and there are concerns of tightened control over the economy. Nevertheless, overall growth is expected to remain firm thanks the government introducing policies with economic stability in mind.
- NIEs have been relatively successful in both curbing the spread of infection and maintaining economic activities up until now, and, given the reasonable progress made with vaccinations already and the robust growth of exports due to increased global demand for semiconductors, the stable economic recoveries are forecast to continue. ASEAN economies had to suddenly apply the brakes when they tried to re-start economic activities in around May due to the spread of COVID-19 variants, and economic recoveries are expected to fall behind. That being said, ASEAN economies have finally overcome the worst period of the COVID-19 pandemic and are expected to follow a clear trend of recovery next year.
- The Australian economy's recovery turned negative in the third quarter due to the on-again, off-again introduction of stringent restrictions on movement in many states. However, restrictions are being eased and the economy is forecast to start to recover again at a gradual pace.

Outlook for Asian and the Australian Economies

	Real GDP growth rate (%)			Consumer Price Index (%)		
	2020	2021	2022	2020	2021	2022
	(Actual)	(Forecast)	(Forecast)	(Actual)	(Forecast)	(Forecast)
Asia (11 countries/regions)	-0.8	6.9	5.5	2.9	2.2	2.7
China	2.3	7.9	5.3	2.5	1.0	2.2
India (FY basis)	-7.3	9.5	7.2	6.2	5.5	4.8
NIEs	-0.8	5.0	3.2	0.2	2.0	1.6
South Korea	-0.9	4.0	3.1	0.5	2.2	1.7
Taiwan	3.1	5.9	3.1	-0.2	1.7	1.4
Hong Kong	-6.1	6.3	3.0	0.3	1.7	2.0
Singapore	-5.4	6.3	4.0	-0.2	1.8	1.5
ASEAN 5	-3.4	3.2	5.5	1.4	2.2	2.6
Indonesia	-2.1	3.7	5.2	2.0	1.8	2.9
Thailand	-6.1	1.0	3.8	-0.8	1.1	1.2
Malaysia	-5.6	3.5	6.3	-1.1	2.5	1.8
The Philippines	-9.6	4.9	6.5	2.6	4.3	3.1
Vietnam	2.9	2.4	7.0	3.1	2.5	3.5
Australia	-2.4	4.0	3.4	0.8	2.5	2.1

Source: National statistics of each country, MUFG Bank Economic Research Office

Change in the Forecasts for Major Asian Economies (Comparison of IMF's Pre-Pandemic and ERO's August Outlooks)



Note: Forecast calculated using the IMF's forecast made in October 2019 and assumptions about the level of real GDP based on the trend of growth since the start of the COVID-19 pandemic

Source: IMF, MUFG Bank Economic Research Office



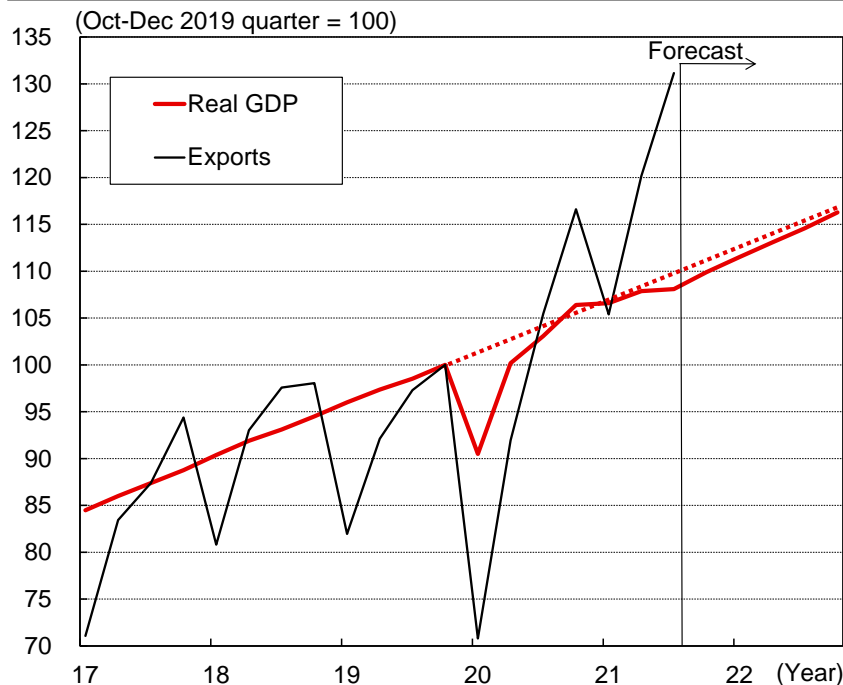
Asian and the Australian Economies: China – Overview

- China's real GDP growth rate slowed to 4.9% YoY in the July-September quarter and the level of GDP was below the average trend established before the pandemic (2017~2019). From around August, there has been some weakness, particularly in face-to-face services, owing to a tightening of the stringent restrictions on movement not seen in other countries in response to sporadic outbreaks of the Delta variant. In addition, a decrease in automobile production and sales due to the semiconductor shortage, along with natural disasters and an electricity shortage have also been sources of downward pressure on the economy.

While there have been some COVID-19 cases in some areas, the number remains low in general, reflecting the stringent restrictions on movement.

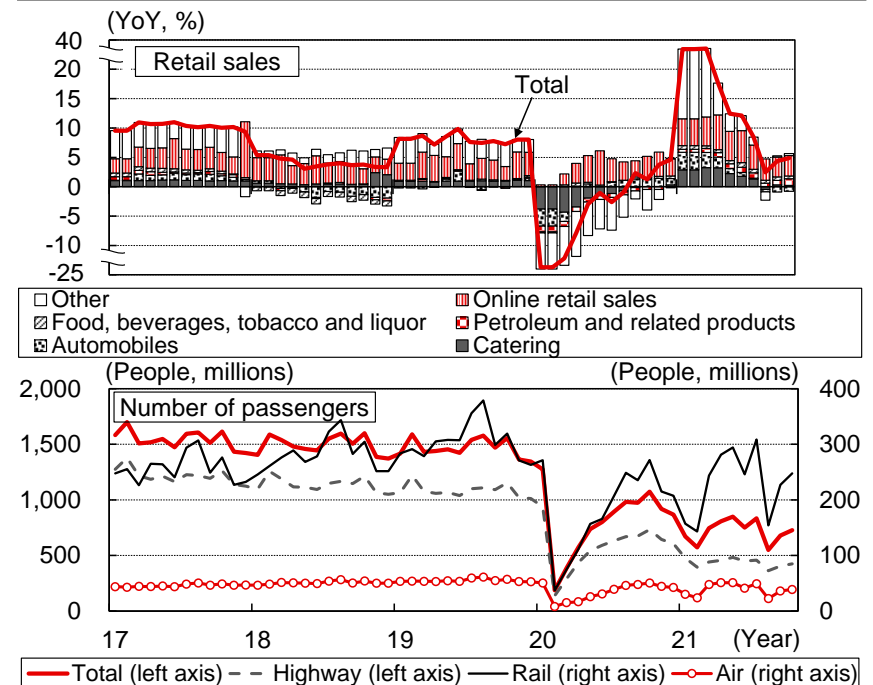
- The continued, strict zero-COVID policies are putting downward pressure on the economy and there are still concerns over the cooling real estate market and tighter economic controls. Although exports are strong and remain at a high level, they are likely to slow in the future as global demand for goods falls and demand shifts to services.
- It appears that supply constraints, such as the impact of the semiconductor shortage on automobile production and the electricity shortage, are starting to be resolved. The government has introduced policies that take into account economic stability, including "investment in new infrastructure". As a result, growth is forecast to remain on a trend of expansion, despite some deceleration. The real GDP growth rate is forecast at 7.9% YoY in 2021 and 5.3% YoY in 2022 – just lower than the growth rate established before the pandemic.

China's Real GDP and Exports



Note: The red line shows the trend of "Real GDP" from 2017 to 2019
Source: National Bureau of Statistics of China, MUFG Bank Economic Research Office

China's Retail Sales and Number of Passengers



Note: "Retail sales" for January and February are the total of both months divided by two
Source: National Bureau of Statistics of China, MUFG Bank Economic Research Office

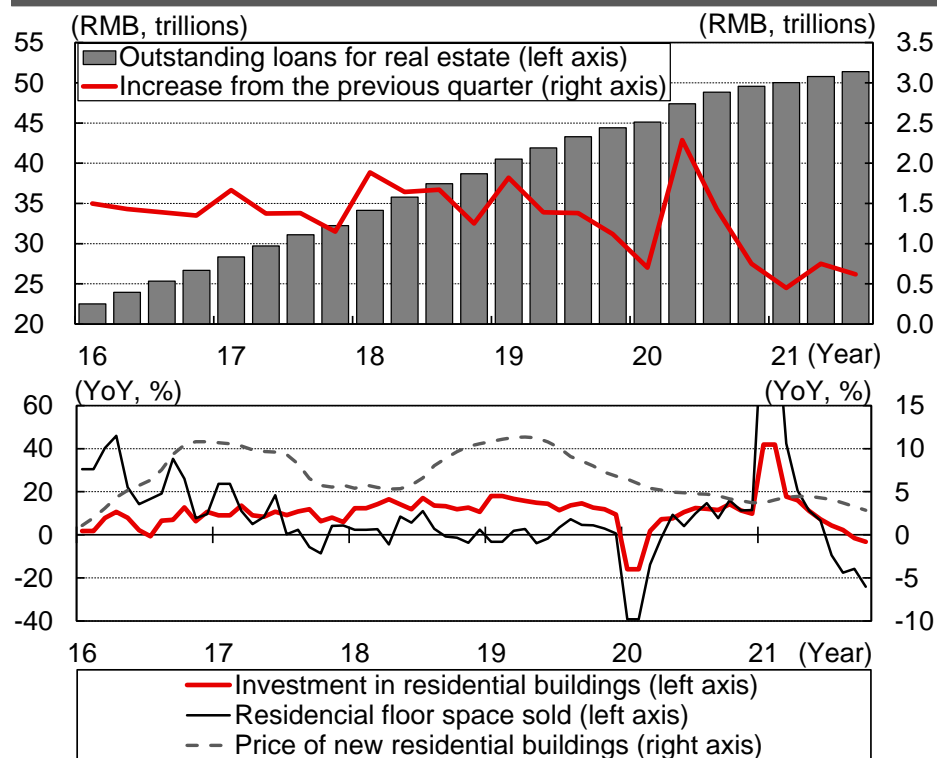
Asian and the Australian Economies: China – Real Estate

- The slowdown in China's real estate market is increasingly garnering attention, triggered by Evergrande's debt crisis. The reason for this is the continued tightening of regulations since August focused on the financial stability of property firms since August to prevent property prices rocketing, which led to a deceleration in the growth of real estate lending. Along with a deterioration of consumer sentiment, growth of investment in residential buildings and residential floor space sold has been sluggish (October indicators show they fell 3.2% YoY and 24.1% YoY respectively).
- Although the regulatory environment surrounding investment in residential buildings is forecast to be tough for the time being, there is still potential demand for residential property due to demographics and urbanisation rates, and the government has stated it will protect sound developments in the real estate market*. Therefore, the real estate market is forecast to start to pick up in the latter half of 2022 in terms of prices, investment and sales.

* The People's Bank of China said it "will work to safeguard the healthy development of the real-estate market and protect home buyers' lawful rights" at its Monetary Policy Committee meeting on 27th September,

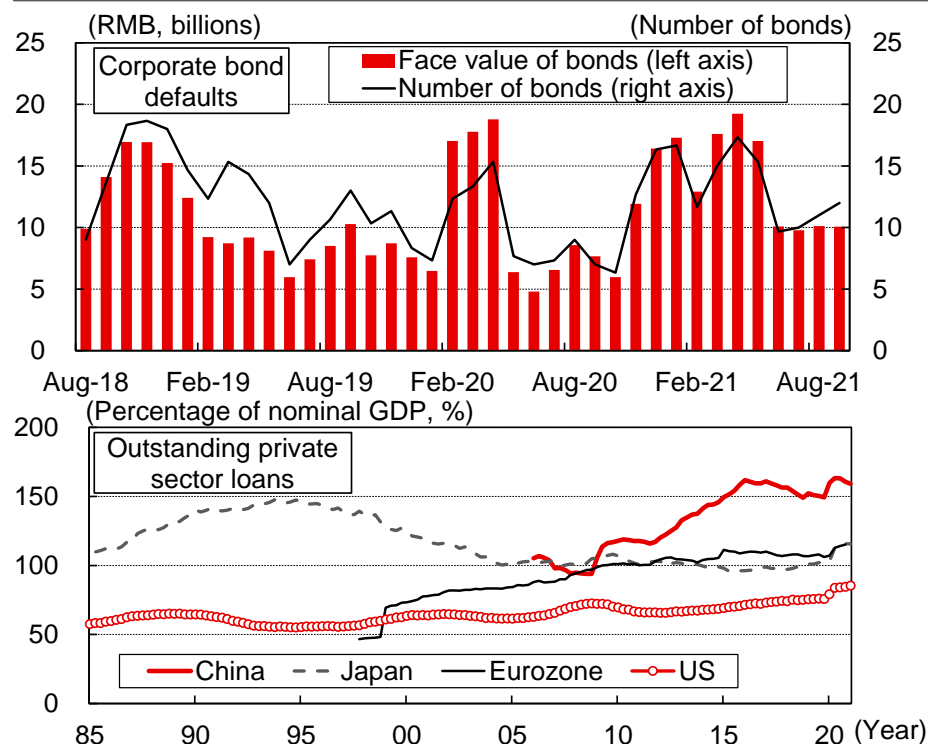
- The level of outstanding debt in China's private sector is at an all time high, and it will be important to keep an eye on this in the future.

China's Real Estate Lending and Property-Related Indicators



Source: National Bureau of Statistics of China, MUFG Bank Economic Research Office

Corporate Bond Defaults and Private Sector Debt by Country/Region

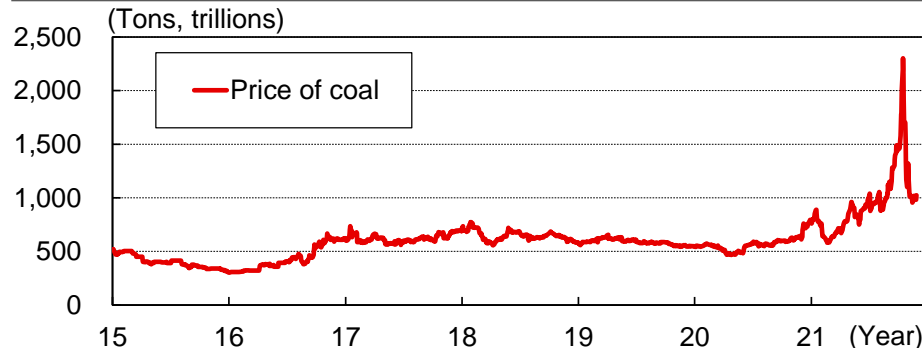


Note: "Number and face value of corporate bond defaults" uses three-month moving average
 Source: China Central Depository & Clearing Co. Ltd, BIS, MUFG Bank Economic Research Office

Asian and the Australian Economies: China – Policy

- While coal prices have rocketed in China, it is uncertain if China will achieve its target of “reducing energy intensity” (energy use per unit of economic output) in 2021 by 3% YoY” set at the National People’s Congress in March due to an increase in demand for electricity on the back of strong exports. There were power shortages in August and September as local governments adopted policies to curb power usage as part of the plan set forth by the central government.
- Although the power shortage has mostly been resolved thanks to a fall in coal prices, the government maintains its stance on pushing for decarbonisation, which means it will be important to keep an eye on the risk of power shortages in the future.
- There are concerns that the tightening of restrictions for corporations and sectors will hinder their growth and create a headwind for the Chinese economy (particularly platform companies). In his recent essay, Vice Premier Liu He raised “common prosperity” as an objective while emphasising that that this did not mean economic egalitarianism, yet it appears the government is aware that the business world has concerns.
- At the sixth plenary session of the 19th CPC Central Committee in November, a “historical resolution” was passed by President Xi Jinping for the first time in forty years, and his administration looks set for a third term.

China’s Coal Prices



Source: Zhengzhou Commodity Exchange, MUFG Bank Economic Research Office

Progress to Achieve Energy Consumption Targets (August 2021)

	Energy intensity	Volume of energy consumption
"First-level pre-warning" (Very strict)	Qinghai, Ningxia, Guangxi, Guangdong, Fujian, Xinjiang, Yunnan, Shaanxi, Jiangsu	Qinghai, Ningxia, Guangxi, Guangdong, Fujian, Yunnan, Jiangsu, Hubei
"Second-level pre-warning" (Strict)	Zhejiang, Henan, Gansu, Sichuan, Anhui, Guizhou, Shanxi, Heilongjiang, Liaoning, Jiangxi	Xinjiang, Shaanxi, Zhejiang, Sichuan, Anhui
"Third-level pre-warning" (Target achieved)	11 areas including Shanghai, Chongqing, Beijing, Tianjin, Hunan, Shandong, Jilin, Hainan	17 areas including Henan, Gansu, Guizhou, Shanxi, Heilongjiang, Liaoning, Shanghai

Source: Various news reports, MUFG Bank Economic Research Office

China’s Tightening of Various Restrictions

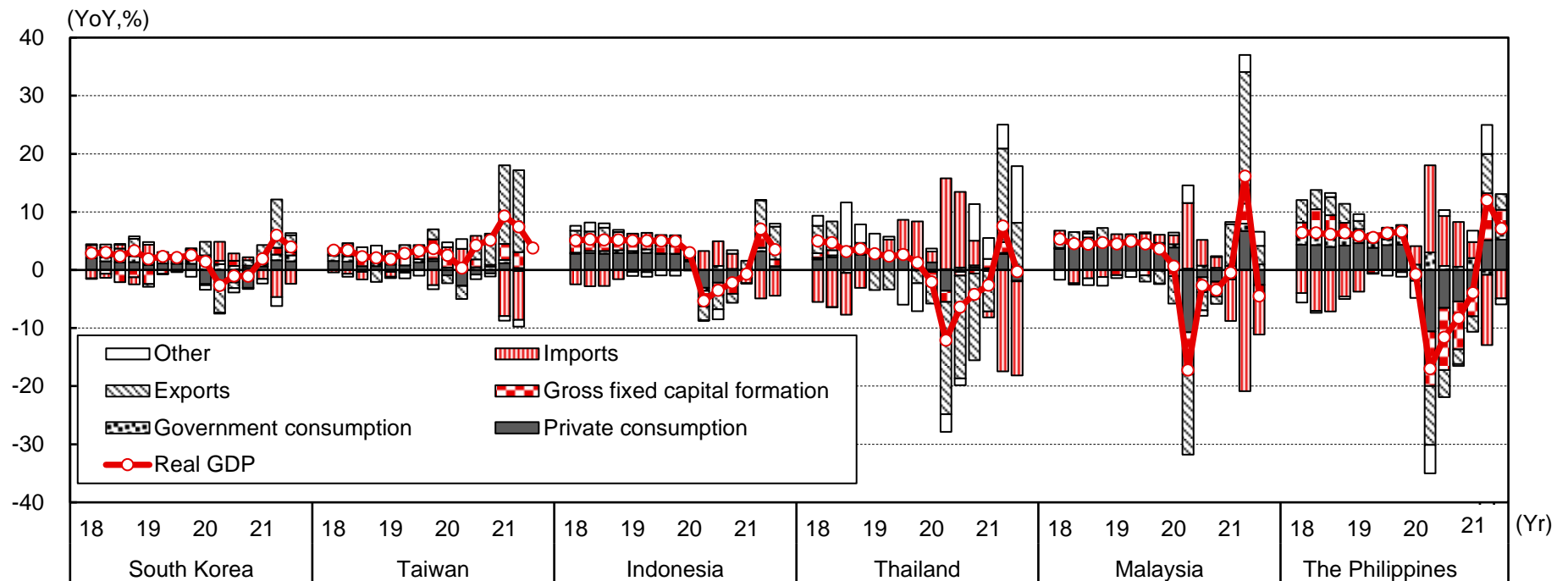
Date	Details
Feb	• Antitrust Guidelines for the Platform Economy enacted.
Mar	• The government announced it was considering plans to achieve "common prosperity" within Chinese society at the 13th National People's Congress.
Apr	• The State Administration for Market Regulation held an administrative guidance meeting with 34 Chinese platform businesses.
Jun	• General Office of the State Council released its detailed Legislative Work Plan for this year which includes revisions to the Antimonopoly Law.
Jul	• The Chinese government ordered a major US-listed Chinese ride-hailing service business to suspend app downloads in accordance with the Network Security Law. • China's State Council cabinet and the Communist Party's General Secretary plans to strengthen management for confidentiality related to listing on overseas markets. • The government banned the establishment of new tutoring institutions aimed at primary and middle school students and decided that existing institutions should be registered as non-profit groups.
Aug	• Law which bans unfair competition on the internet was announced. • State-owned media fiercely criticised online games. • China's National Press and Publication Administration published a notice on "preventing minors from becoming addicted to online games."
Sep	• The National Radio and TV Administration announced it will ban the broadcast of some entertainment programmes. • The government said it will rigidly enforce new regulations on online game companies.
Oct	• The government announces a new "Negative List" for private companies entering the news service sector.
Nov	• The government tightens regulations on online information about entertainers.

Source: Various news reports, MUFG Bank Economic Research Office

Asian and the Australian Economies: Other Asian Economies – Overview

- The real GDP growth of NIEs and ASEAN (5 member states) for the July-September quarter was 4.4% YoY and 0.9% YoY respectively.
- Although growth in NIEs generally slowed from the April-June quarter as the rebound wore off, it remained firm. Growth continued to be led by exports, particularly exports of semiconductors, for which demand is still strong. However, a point to keep in mind is the number of COVID-19 cases in some regions, which remain at high levels.
- Meanwhile, growth in ASEAN economies slowed considerably and is lower than the level recorded last year owing to the increased severity of the COVID-19 situation caused by the spread of variants. Growth remained positive in the Philippines and Indonesia, where restrictions on economic activities were relatively limited. On the other hand, growth was negative in Malaysia and Vietnam – where stringent restrictions were imposed on corporate activities, such as a shutdown of factories – and also in Thailand, where the halt of tourism continues to weigh on the economy.
- The real GDP growth rates of NIEs and ASEAN economies are forecast to be 5.0% YoY and 3.2% YoY in 2021, and 3.2% YoY and 5.5% YoY in 2022, respectively. NIEs are forecast to record stable recoveries in the future as they strike a balance between controlling the spread of infection with economic activities. In ASEAN economies, where recovery has been slow up until now owing to the effects of COVID-19, the number of cases is forecast to peak and a clear recovery trend will be established in 2022.

Real GDP of Major Asian Economies

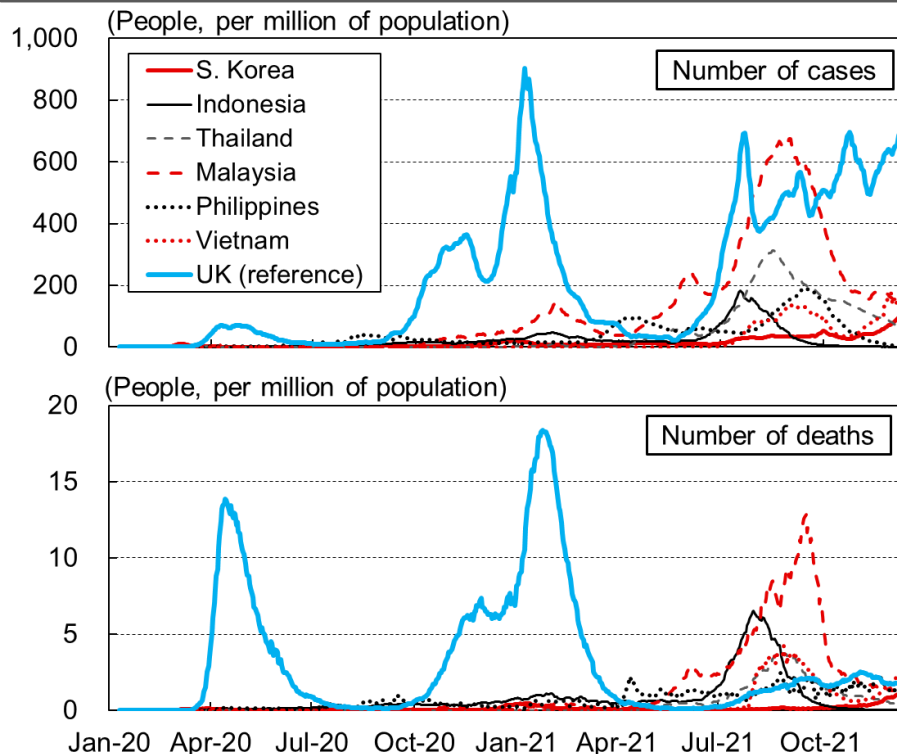


Source: National statistics of each country/region, MUFG Bank Economic Research Office

Asian and the Australian Economies: Other Asian Economies – Situation Surrounding the Pandemic

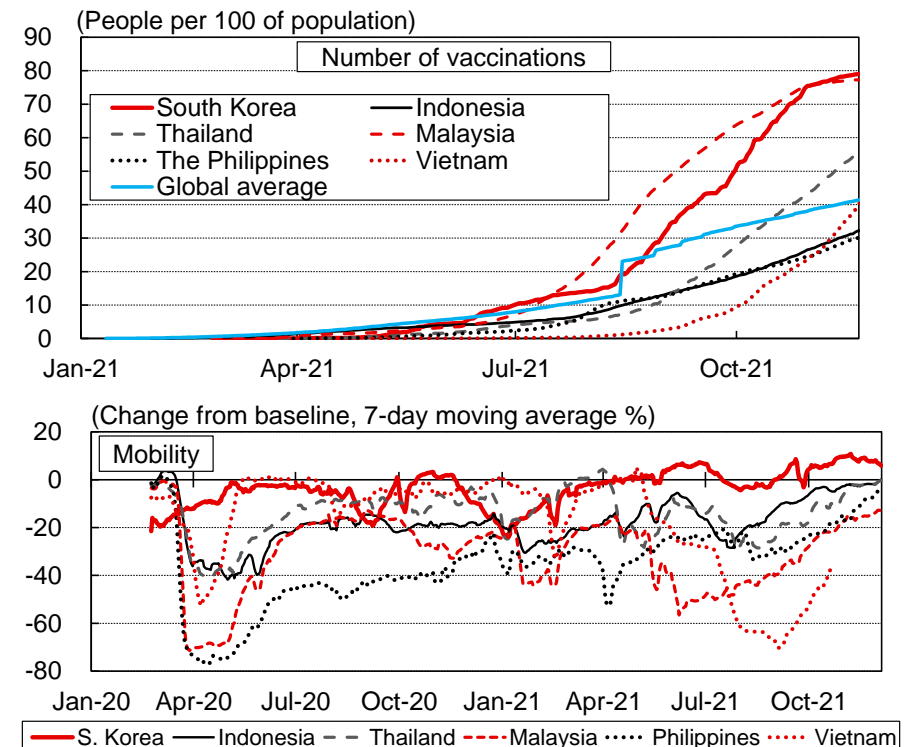
- With the exception of some countries, the spread of COVID-19 in Asia was limited until mid-2021 compared with other regions in the world. Cases in ASEAN member states rose sharply in the middle of 2021 owing to the spread of variants, and there was a significant impact on member states' economies. However, the number of cases has now peaked.
- Singapore and South Korea have finished administering vaccines for the most part. Even ASEAN member states, which were decidedly slow to distribute vaccines, have accelerate their pace of vaccination. However, there are countries which still fall below the global average, and it is expected to take until around mid-2022 before they reach the levels of vaccination seen in developed countries.
- It appears some countries in Asia tightened restrictions on movement from the middle of the year, but they started to ease them alongside other countries from September once the number of cases had peaked. After decreasing considerably for some time, there is now a sharp increase in mobility. However, there are some countries where vaccination has been insufficient, and it is likely that any increase in mobility would lead to another rise in cases.

Daily COVID-19 Cases and Deaths in Major Asian Economies



Source: World Health Organization, MUFG Bank Economic Research Office

Mobility in Major Asian Economies



Note: 1. "Vaccinations" are the number of people who have completed a course of vaccination as prescribed

2. The baseline is calculated using data from 3 Jan~6 Feb '20

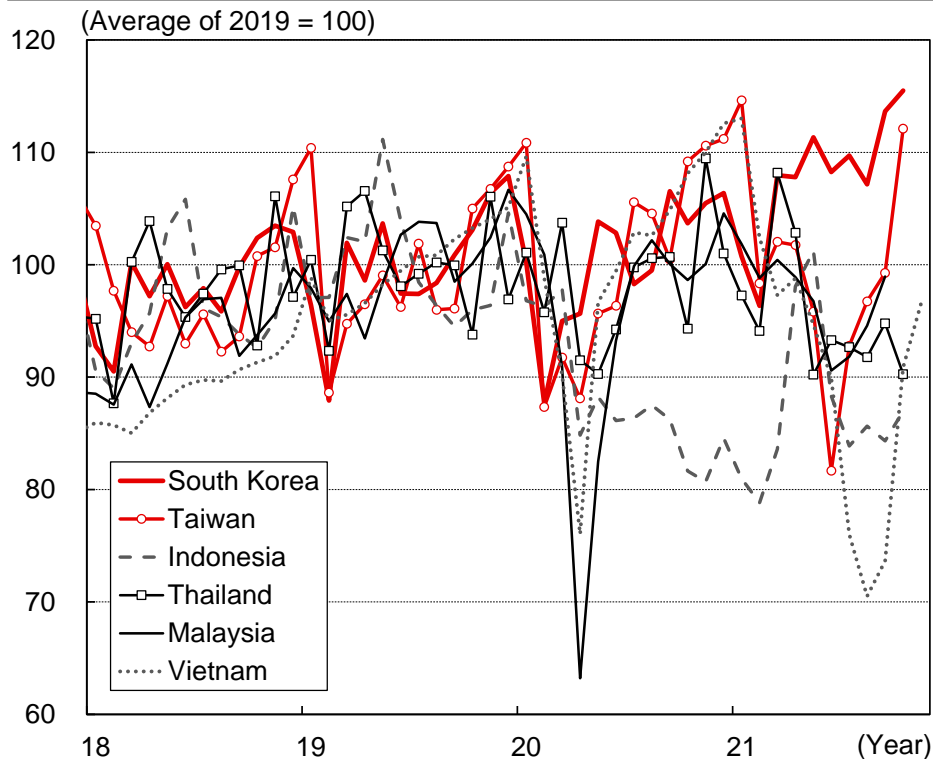
Source: "Our World in Data" website run by Oxford University, MUFG Bank Economic Research Office



Asian and the Australian Economies: Other Asian Economies – Private Consumption

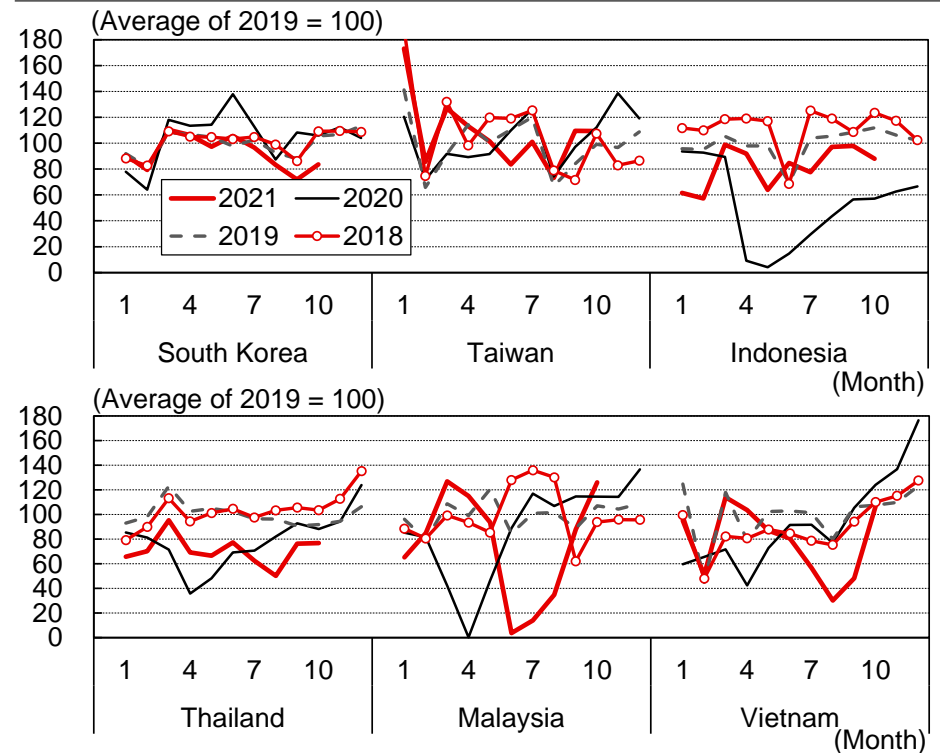
- It appears there were significant falls in retail sales and motor vehicle sales – indicators of private consumption activities – during the first wave of infection in 2020 and the spread of the delta variant in mid-2021. However, the number of cases were limited during the first wave with the exception of some countries, and the fall in sales was due to preventative and cautious restrictions on movement as people refrained from going outside. On the other hand, the slump during 2021 was caused by a full-fledged rise in cases.
- Currently, the number of cases has peaked and countries are easing their restrictions on movement in stages, which has caused private consumption to start to pick up, and it is thought that this recovery will continue at a gradual pace. Motor vehicle sales have experienced downward pressure due to the shortage of semiconductors in South Korea and other countries. However, supply constraints are expected to be resolved as the COVID-19 situations calms.

Retail Sales in Major Asian Economies



Note: Data for Thailand shows its Private Consumption Index.
Source: National statistics of each country, MUFG Bank Economic Research Office

Number of Motor Vehicle Sales in Major Asian Economies

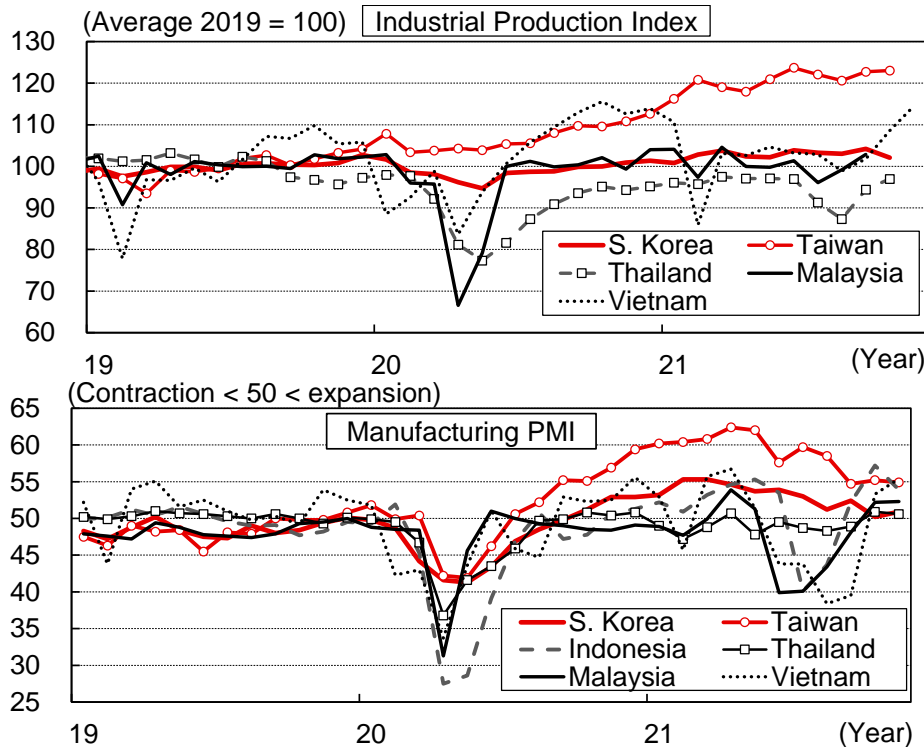


Source: National statistics of each economy, MUFG Bank Economic Research Office

Asian and the Australian Economies: Other Asian Economies – Production and Exports

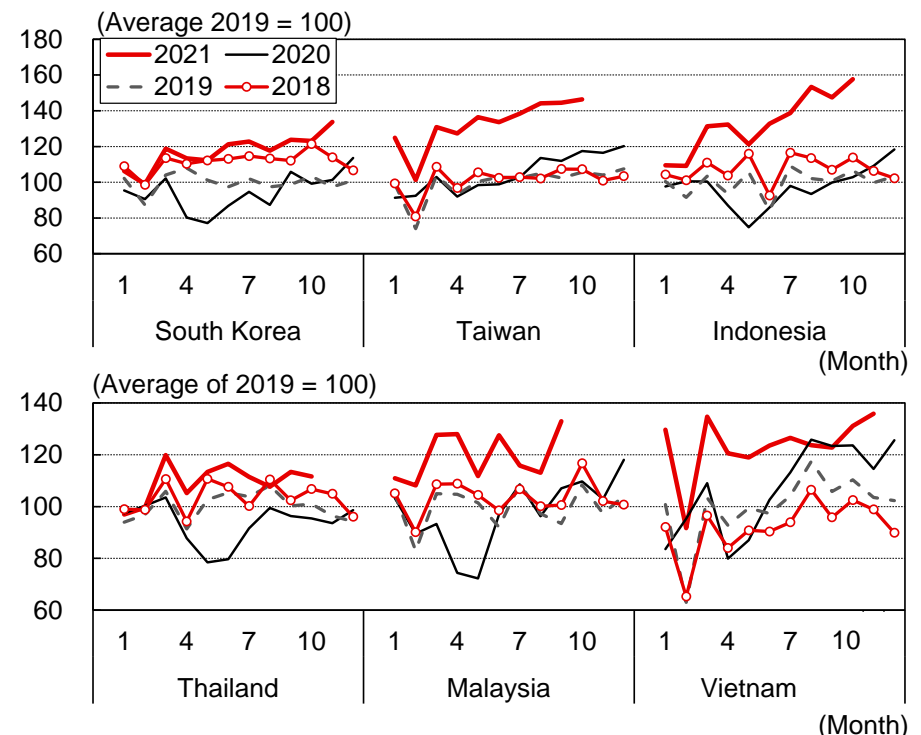
- The spread of variants since around May has had a considerable impact on corporations' production activities, and there has been large decreases in Asian economies' Industrial Production Indices and Manufacturing PMIs. However, restrictions have been eased since the number of COVID-19 cases peaked, and both Indices have started to rise.
- Exports remain firm as overseas economies recover. In addition to continued high levels of demand for semiconductors and machinery, the increase in demand for resources globally has acted as a tailwind for resource-rich countries like Indonesia and Malaysia.
- Restrictions on business operations have been eased in ASEAN economies. Even in Vietnam and Malaysia, where the impact of these restrictions was particularly serious, production is forecast to recover in the future as business operations restart in stages. Although there are concerns related to demand, such as a deceleration of the Chinese economy, the gradual increase in exports is expected to continue as the supply side recovers.

Industrial Production of Major Asian Economies



Source: National statistics of each economy, MUFG Bank Economic Research Office

Exports of Major Asian Economies

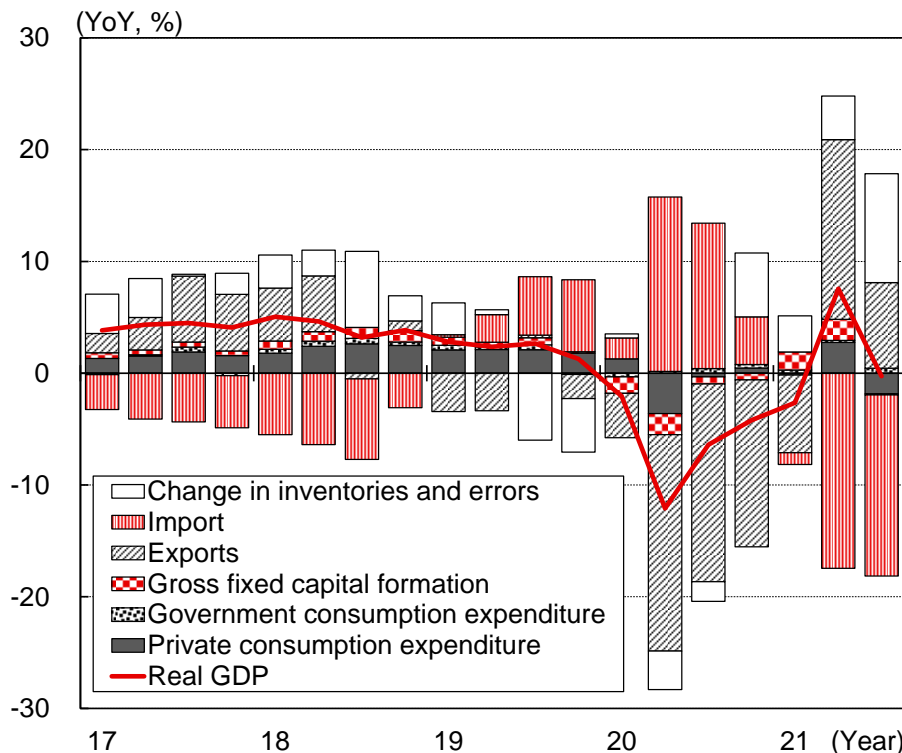


Source: National statistics of each economy, MUFG Bank Economic Research Office

Asian and the Australian Economies: Other Asian Economies – Thailand

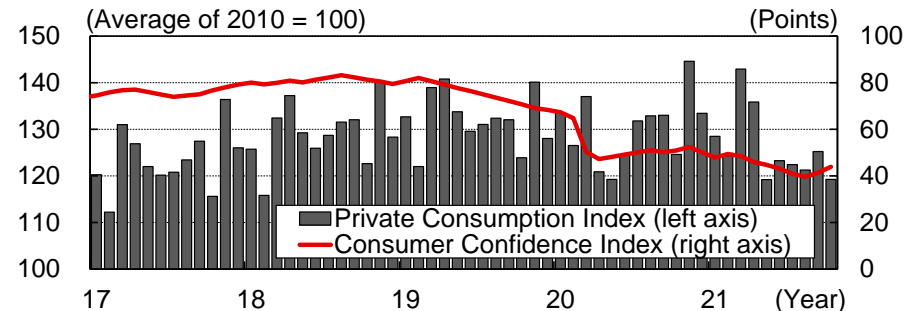
- Thailand's real GDP growth rate for the July-September quarter turned negative for the first time in two quarters, falling 0.3% YoY. Private consumption decreased 3.2% YoY owing to the spread of COVID-19. This, along with a fall in net exports resulting from a deceleration in the growth of exports, put downward pressure on overall growth.
- Restrictions on movement were adopted in response to the third wave of cases from around April, the impact of which is continued weakness in private consumption, which fell below the level it recorded for the same months in 2019 before the pandemic. In addition, the number of foreign visitors to Thailand remains close to zero. Meanwhile, exports of goods remain firm.
- The number of cases is improving at present, and the government is slowly easing restrictions on movement. Vaccines are being administered at a quick pace, which is thought will trigger a gradual recovery in private consumption in the future. Although it is still difficult to predict when the tourism industry will start to recover in earnest, exports of goods will grow at a firm pace on the back of the global economic recovery. The real GDP growth rate will be 1.0% YoY for 2021 and will then accelerate to 3.8% YoY in 2022. The level of real GDP in 2022 is predicted to still fall below the level it was at in 2019 before the pandemic.

Thailand's Real GDP



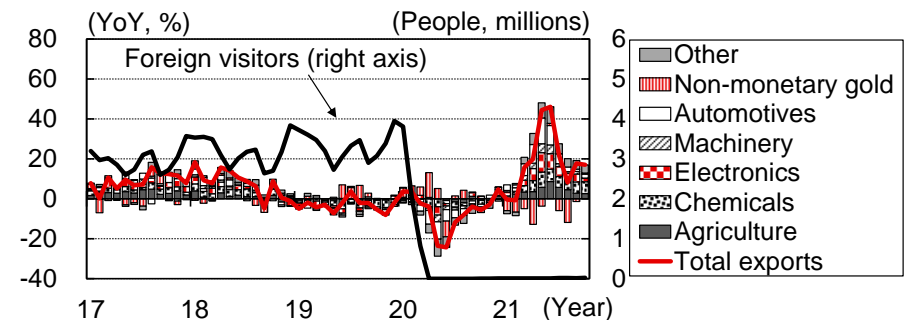
Source: Thailand's Office of the National Economic and Social Development Council, MUFG Economic Research Office

Thailand's Private Consumption and Consumer Confidence Indices



Source: Bank of Thailand, MUFG Bank Economic Research Office

Thailand's Exports and Number of International Visitors

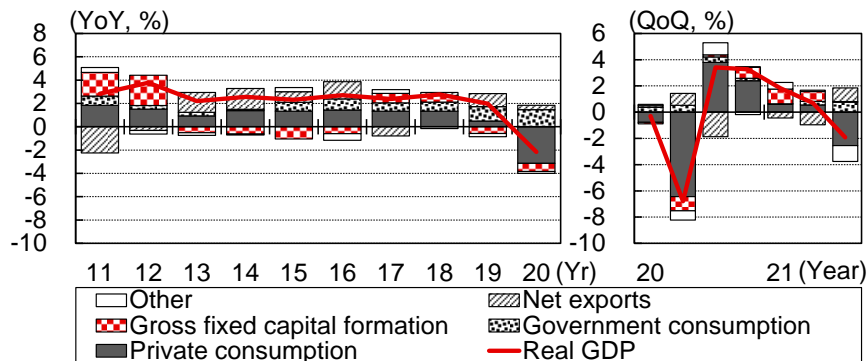


Source: Ministry of Commerce of Thailand, Ministry of Tourism and Sport, MUFG Bank Economic Research Office

Asian and the Australian Economies: Australia

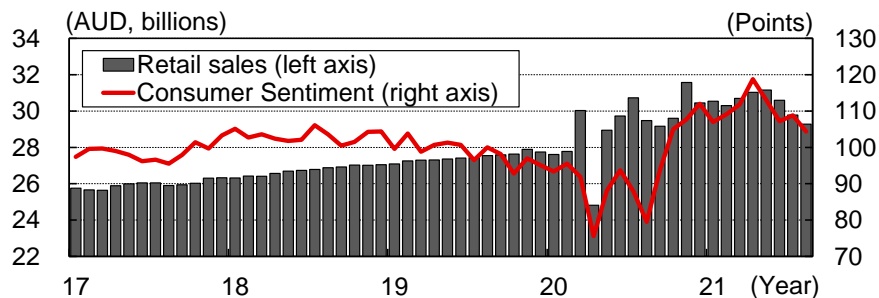
- Australia's real GDP growth rate for the July-September quarter was -1.9% QoQ – the first negative growth in five quarters. Intermittent lockdowns in major cities in response to the spread of COVID-19 variants put downward pressure on private consumption.
- Retail sales had been robust since last spring, yet they have been on a downward trend since around June when the number of cases increased again, and Consumer Sentiment is also falling. In terms of foreign demand, the number of foreign visitors is still close to zero and the tourism industry's recovery has been delayed, which in turn has led to a deceleration in the recovery of service exports. On the other hand, exports of goods remain strong, particularly those to countries in Asia, which are experiencing a tailwind from an increase in global demand for resources.
- Currently, lockdowns in many states have been lifted and growth of exports is robust due to strong demand for resources globally. As a result of these factors, it is thought the economy will start to gradually recover again. The recovery from the COVID-19 pandemic faltered a little due to another rise in cases in the middle of the year, and the real GDP growth rate is forecast to be 4.0% YoY in 2021 and 3.4% YoY in 2022.

Australia's Real GDP



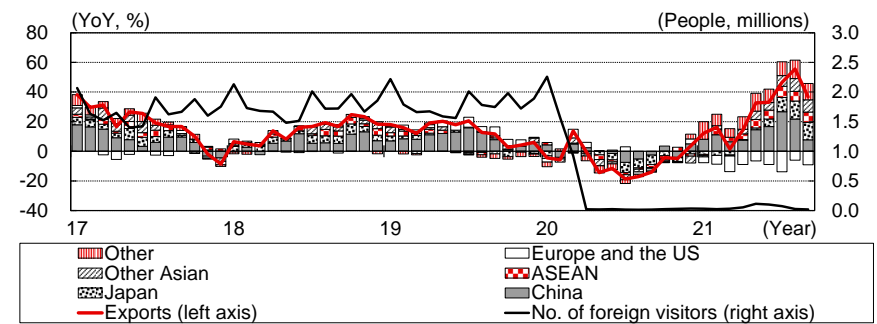
Source: Australian Bureau of Statistics, MUFG Bank Economic Research Office

Australia's Retail Sales and Consumer Sentiment



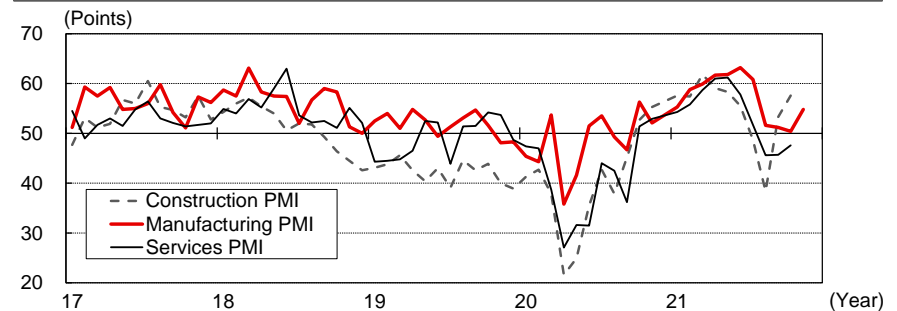
Source: Australian Bureau of Statistics, MUFG Bank Economic Research Office

Australia's Exports and Number of Foreign Visitors



Source: Australian Bureau of Statistics, MUFG Bank Economic Research Office

Australia's PMI



Source: The Australian Industry Group, MUFG Bank Economic Research Office

Appendix: Global Economic Outlook

Forecast for the Global Economy

		World (weighted average of nominal GDP)					Japan (FY)	Americas					Europe				
		Developed countries	Emerging countries	Other	US	Central and South America (6 countries)			Eurozone (19 countries)				UK	Russia			
						Brazil		Mexico	Argentina	Germany	France	Italy					
Nominal GDP (2019)	USD trillions	142.0	51.1	52.8	38.1	5.3	20.9	8.1	3.2	2.4	0.9	15.9	4.5	3.0	2.5	3.0	4.1
	Japan = 100	2,673	961	995	717	100	393	153	59	46	18	300	85	57	46	56	77
Real GDP (YoY, %)	2020 Actual	-3.1	-4.6	-1.9	-3.0	-4.4	-3.4	-6.7	-4.1	-8.2	-9.9	-6.5	-4.8	-8.0	-8.9	-9.8	-3.0
	2021 Forecast	5.7	5.0	6.7	5.1	2.8	5.5	6.2	4.5	6.0	7.5	5.0	2.6	6.4	6.1	6.9	4.2
	2022 Forecast	4.5	3.9	5.0	4.7	3.6	4.2	2.6	2.0	3.0	2.5	3.7	4.0	3.4	3.9	4.5	2.2
CPI (YoY, %)	2020 Actual	3.2	0.7	3.8	5.6	-0.5	1.2	7.1	3.2	3.4	42.0	0.3	0.4	0.5	-0.1	0.9	3.4
	2021 Forecast	4.4	2.9	3.9	7.2	0.0	4.3	10.6	8.0	5.0	50.0	2.4	3.1	1.9	1.8	2.4	6.8
	2022 Forecast	3.7	2.1	3.8	5.8	0.5	2.5	8.2	5.5	4.0	40.0	2.1	2.1	2.0	2.0	3.1	4.4

		Asia and Oceania														
		Asia (11 countries and regions)													Australia	
		China	India (FY)	NIEs (4 countries and regions)				ASEAN (5 countries)								
S. Korea	Taiwan			Hong Kong	Singapore	Indonesia	Thailand	Malaysia	Philippines	Vietnam						
Nominal GDP (2019)	USD trillions	45.3	24.2	9.0	4.6	2.3	1.3	0.4	0.6	7.5	3.3	1.3	0.9	0.9	1.1	1.3
	Japan = 100	852	455	169	87	44	25	8	11	140	62	24	17	17	20	25
Real GDP (YoY, %)	2020 Actual	-0.8	2.3	-7.3	-0.8	-0.9	3.1	-6.1	-5.4	-3.4	-2.1	-6.1	-5.6	-9.6	2.9	-2.4
	2021 Forecast	6.9	7.9	9.5	5.0	4.0	5.9	6.3	6.3	3.2	3.7	1.0	3.5	4.9	2.4	4.0
	2022 Forecast	5.5	5.3	7.2	3.2	3.1	3.1	3.0	4.0	5.5	5.2	3.8	6.3	6.5	7.0	3.4
CPI (YoY, %)	2020 Actual	2.9	2.5	6.2	0.2	0.5	-0.2	0.3	-0.2	1.4	2.0	-0.8	-1.1	2.6	3.1	0.8
	2021 Forecast	2.2	1.0	5.5	2.0	2.2	1.7	1.7	1.8	2.2	1.8	1.1	2.5	4.3	2.5	2.5
	2022 Forecast	2.7	2.2	4.8	1.6	1.7	1.4	2.0	1.5	2.6	2.9	1.2	1.8	3.1	3.5	2.1

Note: 1. "Nominal GDP" is based on purchasing power parity

2. For "CPI", Japan is composite figure excluding fresh food, Eurozone and the UK are the EU standardised inflation rate (HICP)

3. Figures for Japan and India based on their financial years (April to following March) except Japan's nominal GDP

4. "World", "developed countries", "emerging countries" calculated using Japan data based on the calendar year, India data based on the fiscal year for nominal GDP only and other countries' data based on the calendar year

5. "Developed countries" is a total of Japan, NIEs (4 countries and regions), Australia, US, Eurozone (19 countries) and the UK. "Emerging countries" is a total of China, India, ASEAN (5 countries), Central and South America (6 countries) and Russia

6. "Central and South America (6 countries)" is a total of Brazil, Mexico, Argentina, Colombia, Chile and Peru

Source: National statistics of each country, MUFG Bank Economic Research Office

-
- **This report is intended for information purposes only and shall not be construed as solicitation to take any action. In taking any action, each reader is requested to do so on the basis of their own judgment.**
 - **This report is based on information believed to be reliable, but we do not guarantee its accuracy. The contents of the report may be revised without advance notice.**
 - **This report is a literary work protected by the copyright act. No part of this report may be reproduced in any form without express statement of its source.**

Contact Information

MUFG Bank, Economic Research Office

**Authors: Shohei Takase (Asia and Australia)
Yohei Nose (Asia and Australia)**

**e-mail: shiyuhei_takase@mufg.jp
e-mail: youhei_nose@mufg.jp**

Translators: Elizabeth Foster (Tokyo)