

**Market Monitor – Asia**
**Japan's economy contracted in Q1**

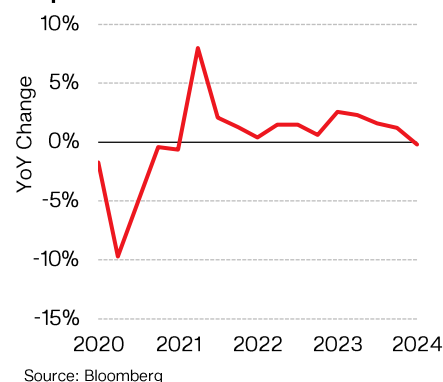

- Weak consumption and a one-off disruption to exports led to a contraction for Japan's economy in Q1, while emerging Asian economies grew steadily.
- Demand for tech-related products continued to bolster export performance.
- Asian currencies stabilised with a slight appreciation in May.

**Japan's economy contracted in Q1, while emerging Asian economies grew steadily**
**Japan's economy contracted in Q1, dragged by falling consumption and exports.**

In Q1 2024, Japan's gross domestic product (GDP) contracted by 0.5% quarter-on-quarter (QoQ), following zero growth in Q4 2023. On a year-on-year (YoY) basis, Japan's economy also declined by 0.2% in Q1 2024, after a growth of 1.2% in Q4 2023. Among the major expenditure components, private consumption declined by 0.7% QoQ as negative real wage growth has eroded households' purchasing power. Meanwhile, exports of goods & services dropped by 5.0% QoQ, reflecting the impacts of an earthquake in early 2024 and an auto production halt by Toyota's subsidiary (Daihatsu). That said, these were only one-off events that would not have a sustained impact on the economy. In early Q2, automobile production gradually resumed, with automobile exports accelerating from 7.1% YoY in March to 17.8% in April. Besides, the result of annual wage negotiations in spring saw a significant rise in wages (from 3.58% for 2023 to 5.28% for 2024), which would support a steady recovery in private consumption.

**Indonesia's, Philippines and Thailand's economies maintained a steady recovery in Q1.**

In Q1 2024, Indonesia's and the Philippines' GDP expanded by 5.1% YoY and 5.7%, up from 5.0% and 5.5% in Q4 2023, respectively. The uptick in Indonesia's GDP growth was probably driven by one-off factors like the presidential elections held in February and earlier-than-usual holiday festivities, leading to strong growth in government expenditure (+19.9% YoY) and private consumption (+4.9%). Regarding the Philippines, exports and government expenditure turned a corner, up from -2.5% YoY in Q4 2023 to 7.5% in Q1 2024 and from -1.0% to 1.7%,

**Japan's Economic Growth**


## Economic Research

respectively, serving as the two major factors for a pickup in overall economic growth. Meanwhile, the Philippines' private consumption grew steadily by 4.6% YoY in Q1. In Thailand, economic growth beat market consensus, even though it slowed from 1.7% YoY in Q4 2023 to 1.5% in Q1 2024. Private consumption and services exports grew strongly, up by 6.9% YoY and 24.8%, respectively.

### Asia's exports grew solidly, driven by tech goods

**Advanced Asian economies' exports expanded further.** Japan's exports rose by 8.3% YoY in May, following a 7.3% growth in April. Among Japan's major export products, double-digit growth was seen in chip-making machines (+28.2% YoY in April), chips (+20.4%) and motor vehicles (+17.8%). South Korea's exports increased for the eighth month, up by 11.7% in May. This reflected strong demand from a booming artificial intelligence industry, as South Korea's chip exports surged by 54.5% YoY in May. Taiwan's exports also grew, but at a slower pace, from 18.9% YoY in March to 4.3% YoY in April, which was dragged by base metals (-10.2%) and machinery (-13.1%), while its exports of information, communication & audio-video products rose notably by 114.6%.

**ASEAN economies generally saw improving exports.** Vietnam's exports surged by 15.8% YoY in May, up from 10.6% in April and the third month of double-digit growth in a row. Indonesia, Thailand and Malaysia also posted faster export growth at 1.7% YoY, 6.8% and 9.1%, respectively. Singapore's non-oil domestic exports declined by 9.3% YoY in May, a narrower contraction from a 20.8% drop in April. ASEAN manufacturing PMI in May stayed in expansion territory (rising from 51.0 to 51.7), which signalled a positive outlook for industrial production and exports ahead. Overall, a turnaround in exports and related manufacturing activity would sustain the steady growth of ASEAN economies in Q2.

### Asian central banks stayed put, with inflation easing further

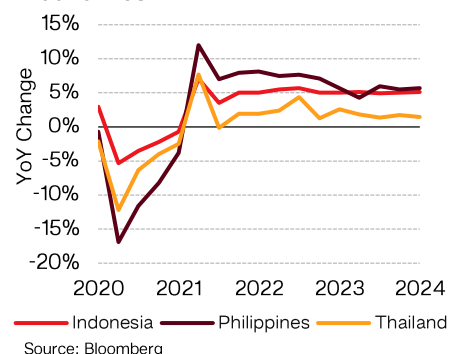
**Inflation in advanced Asian economies cooled.** Japan's headline and core CPI inflation eased to 2.5% YoY and 2.2% in April, respectively. That said, Japan's inflation outlook would regain pace given a scheduled end of utility subsidies in May and a gradual pass-through of wage hikes to prices. In South Korea, headline and core CPI inflation slowed to 2.7% YoY and 2.2%, respectively, in May. Taiwan's headline and core CPI inflation also eased slightly to 2.0% YoY and 1.8% in April. Unlike Japan, inflation trends in South Korea and Taiwan pointed to a closer step towards their central bank's policy targets, paving the way to exit their restrictive monetary policies ahead.

**Inflation in ASEAN economies remained stable.** In May, CPI inflation in Indonesia, the Philippines and Vietnam was largely stable at 2.8% YoY, 3.9% and 4.4%, respectively. The Philippines announced tariff cuts on rice, which could suppress inflationary pressure going forward. As for Singapore and Malaysia, their CPI inflation readings were unchanged at 2.7% and 1.8% in April. Besides, Thailand's CPI inflation turned positive at 0.2% YoY in April, following six months of negative prints from October 2023 to March 2024. This was led by the Thai Government's approval for oil retailers to raise diesel prices as well as a faster rise in food prices.

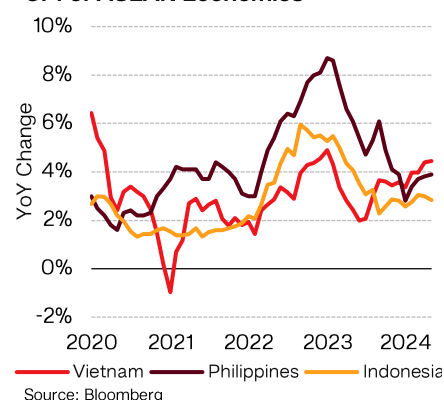
**Central banks in Asia stayed put in May.** While the Bank of Japan (BoJ) did not have any monetary meetings in May, the BoJ's offer to buy a smaller amount of

June 2024

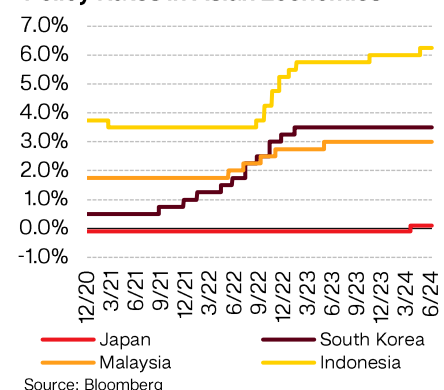
#### Economic Growth of Asian Emerging Economies



#### CPI of ASEAN Economies



#### Policy Rates in Asian Economies



## Economic Research

Japanese government bonds in a regular operation in mid-May has fuelled rising speculation that further rate hikes are on the table ahead. Elsewhere, the Bank of Korea (BoK) kept its policy rate at 3.5% after the monetary policy meeting in May and signalled that rate cuts were not likely to be seen in the near term, citing upside risks to inflation. The BoK also raised its growth forecast for 2024 from 2.1% to 2.5%. Other central banks, including Bank Indonesia, Banko Sentral ng Pilipinas and Bank Negara Malaysia, also held monetary meetings in May and decided to keep their policy rates unchanged. While the US Fed is yet to begin its rate cut cycle, central banks in Asia are expected to remain cautious in proceeding with their rate cuts in order to maintain stable rate spreads, currency movements and capital flows.

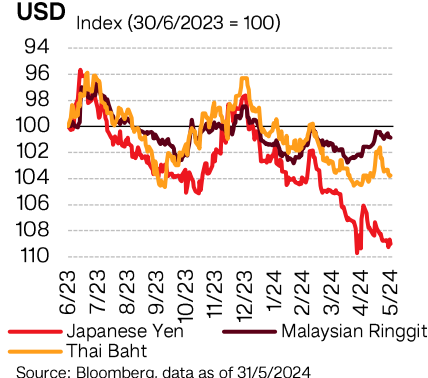
### Asian currencies showed signs of stabilisation

**Asian currencies stabilised with a slight appreciation against the US dollar in May.** Softening labour market conditions and easing inflation in the US drove a resurgence of rate cut expectations by the Fed, leading the US dollar and US treasury bond yields to fall in May, reducing pressures on most Asian currencies. By end-May, Asian currencies such as the Japanese Yen, Singaporean dollar and Malaysian Ringgit appreciated against the US dollar in a range of 0.3% - 1.4%.

**Asian stock market performance was mixed.** Equity markets in Taiwan posted gains of 3.8% and both Malaysia's and Singapore's rose by 1.3% by end-May. Japan's stock market was nearly flat, rising by 0.2% in May after dropping in April. However, other Asian markets in the Philippines, Thailand, Indonesia and South Korea continued to decline by around 1.6% - 4.0% in May.

**June 2024**

#### Selected Asian Currencies against USD



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