

# Asia Pacific 2022 Economic Outlook



## Convergence on vaccination, divergence on fundamentals

The foundations for the 2022 economic outlook were firmly laid over the second half of 2021 with the Asia region scaling up its vaccination progress while continuing to manage mobility more tightly. Declining case counts and higher vaccination rates have allowed some economies in Asia to look at a slightly less restrictive re-opening mix.

### Vaccination parity will not equal nominal consumption parity

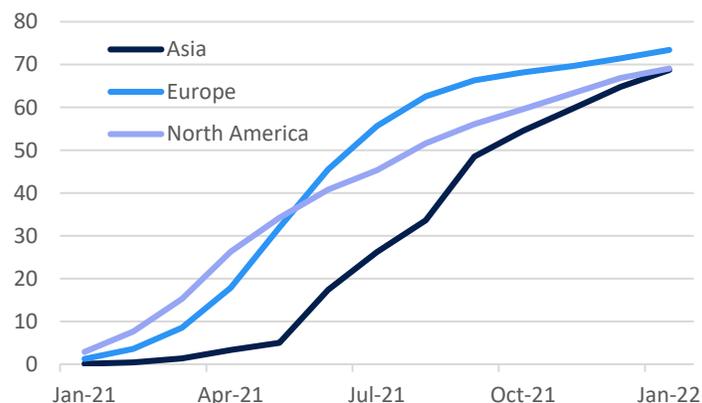
Over 2022, we believe the absolute and relative economic performance of Asia will be driven by a continued narrowing in the vaccination gap between the Asian region and high-income western economies and ongoing caution around internal and external mobility.

The sum of these dynamics is a necessary but not sufficient condition to resolve:

- Supply chain and logistics congestion
- Underperformance of international tourism
- Structurally and cyclically lower inflation

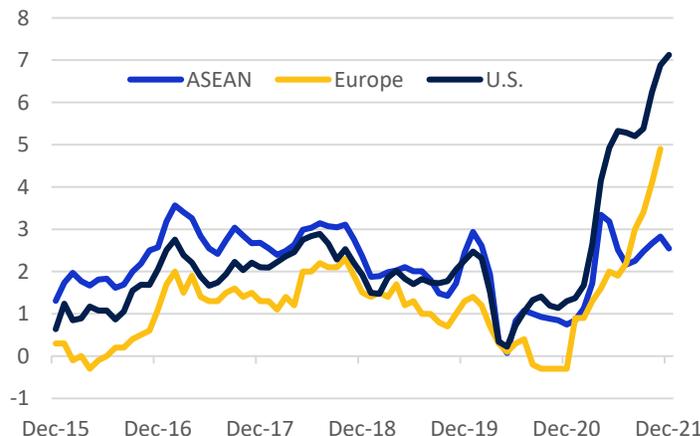
Overall, nominal consumption and payments growth in Asia is likely to underperform other major regional geographies in 2022 and possibly 2023.

**Fig. 1: Asia's vaccination gap closed sharply in H2-2021,** Vaccinations per 100 people



Source: CEIC Data and Visa Business and Economic Insights analysis

**Fig. 2: Asia is experiencing more benign inflation**  
Regional inflation differences are very different



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### Key Points:

 Vaccination rates are likely to converge to global rates

 Economic divergences may become more apparent

 In particular, inflation and services spend could be weaker

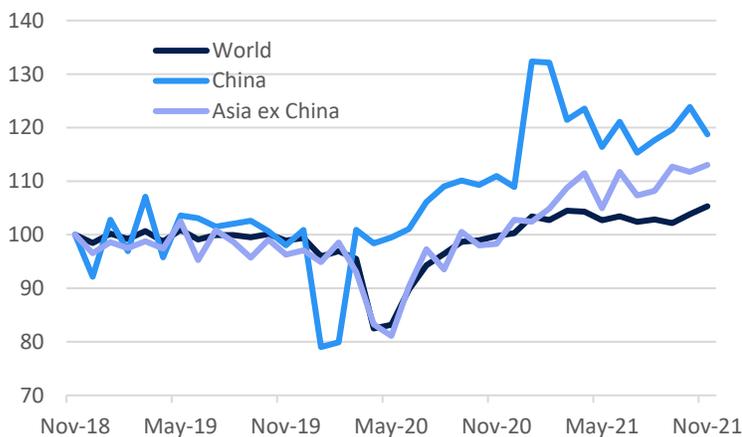


# Asia's gain in global trade share has oddly not been accompanied by the same supply chain stresses

Global goods trade (volume) data reveals the dynamics of consumer spending being restricted to goods on Asia's exports and production. Global trade picked up dramatically through the second half of 2020 and rose to a level around 5 percent higher than its pre-COVID peak. Underneath this modest increase, more dramatic changes in the market share of suppliers have occurred.

**Fig. 3: The dramatic change in Asia's trade share**

Index of Real Exports (2019 = 100) - strong trade rebound in China and the rest of Asia



CEIC Data and Visa Business and Economic Insights analysis

Chinese exports at the start of 2021 were around 60 percent higher than they were in the first quarter of 2020 and 30 percent higher than their pre-COVID peak. This outperformance reflects one thing: an astonishing shift in market share and a demand environment that supported both "made-in-China" and "make-for-China." The common factors that underpinned this dramatic shift in market share and reliance on China as a supplier are China's dominant position and comparative advantage in the manufacturing of the IT products that were essential to work-from-home and the digitalization of business, as well as an almost monopolistic position in the production of medical personal protective equipment.

From a trade perspective, Asia is likely to stage more of a recovery on the supply side rather than the demand side in 2022, which will suggest that the consumption recovery and inflation shock will be lower in Asia than elsewhere. Together, nominal consumption is likely to be considerably softer than outsized double-digit nominal consumption growth in other regions.



# China has created excess capacity elsewhere in Asia

**Two widely held fears around consumption have not materialized.** First, that as soon as high-touch services re-opened, demand for goods consumption would collapse. Second, that households would retreat from consuming durable goods having already made all the purchases required for hybrid working and living. Neither fear has materialized.

Still, compared to exports and production cycles, the consumption cycles have been more pronounced. Consumption weakened first and recovered first, though not evenly to pre-COVID levels. This uneven recovery geographically and across sectors has had clear implications for Asian exports and production. Outside of Asia, the geographical recovery in consumption has been stronger. Asia is not experiencing the same supply side constraints and is simply not generating inflation from the supply side like in other geographies.

**Fig. 4: Industrial production has followed a similar recovery profile to exports**

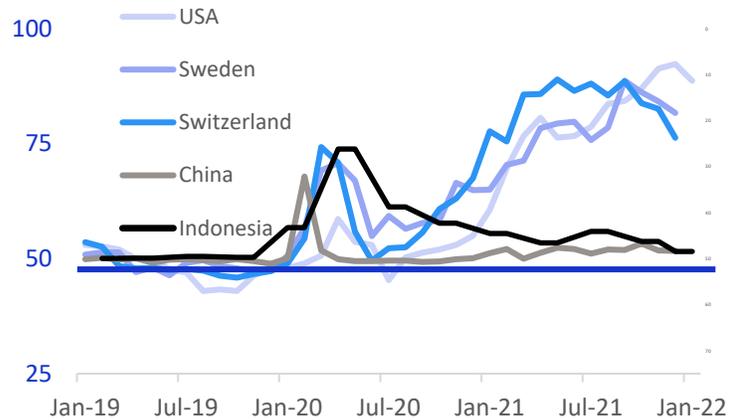
Real Production Index (2019 = 100) - stronger industrial production performance in China



Source: CEIC Data and Visa Business and Economic Insights analysis

Though 2020 and 2021 were characterized by solid household demand for durable goods and strong growth in capital goods demand, industrial output growth remained basically flat at the global level through 2021 despite recovering in 2020. It may seem that the supply side of the Asian economy is constrained given the strength of production and exports. However, this is not the case. Starting with the 2016 trade tensions, China has increasingly produced more technology goods and investment goods domestically, giving it the ability to increase market share for exports solely from its own production.

**Fig. 5: Supplier delivery times in Asia not as severe**  
Diffusion index of monthly supplier delivery times. > 50 reflects longer delivery times



Source: CEIC Data and Visa Business and Economic Insights analysis

This has created the absence of two fundamental dynamics that are driving inflation elsewhere.

First, as the chart above shows, supplier delivery times have not become as stretched. In response to geopolitical trade dynamics since 2016, China has largely vertically integrated domestically its suppliers and production networks.

Second, China's dramatic gains in export and production share have not created excess capacity elsewhere in Asia's production chains. Thailand, for example, is well integrated in Asian supply chains and continues to demonstrate considerable excess capacity.

**Fig. 6: Factories outside China, such as Thailand, are not running at full capacity**

Thailand capacity utilization as % of full capacity. (Horizontal lines represent the yearly averages)



Source: CEIC Data and Visa Business and Economic Insights analysis



# Output gaps and supply side slack point to lower inflation

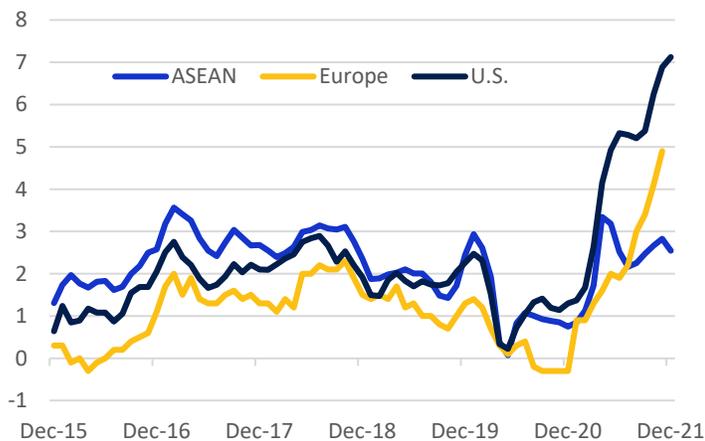
**Inflation is the key economic difference that has emerged between Asia and the rest of the world over the past year.** Asia has simply not experienced the same price pressures evident in the rest of the world. There are three key reasons for this:

- First, the subdued recovery in local demand has deprived firms of pricing power.
- Two, the massive supply chain disruptions that squeezed goods prices higher in the West were not as pronounced within Asia.
- Three, labor markets stayed comparatively soft, dampening wage pressures.

The recovery in external demand triggered by faster vaccinations and a rotation towards higher value-added spending presents upside risks to the Asian and global economic outlook.

However, with the China economy slowing, price pressures would have to be much more extreme at the commodity and producer price level and domestic demand for locally produced goods would have to be much stronger for those price increases to be passed on. For that reason, we expect a more benign outlook for inflation in Asia compared to Europe and North America in 2022.

**Fig. 7: Asian inflation typically higher than U.S., E.U.**  
CPI YoY % - inflation was faster in Europe and the U.S through 2021 relative to Asia



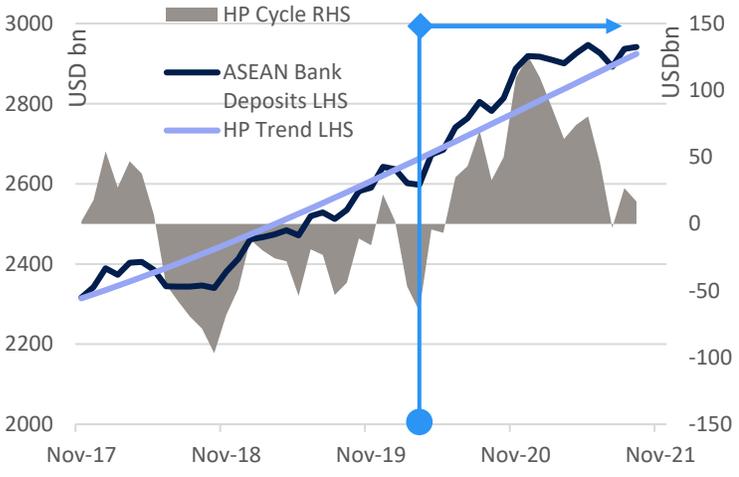
Sources: CEIC Data and Visa Business and Economic Insights analysis



# Asian consumption expected to be stronger in 2022 but will not get an inflation dividend

**Fig. 8: Savings have stabilized in the ASEAN economies**

Bank deposit growth (USDbn) has returned to its pre-COVID trend rate of growth



Source: CEIC Data and Visa Business and Economic Insights analysis



Over the next two years around 40 percent of U.S. and U.K. nominal consumption will be accounted for by inflation. For Asia, nominal consumption will get a smaller boost (around 25 percent) from inflation.



**There is a clear foundation for Asian consumption to continue recovering over the course of 2022.**

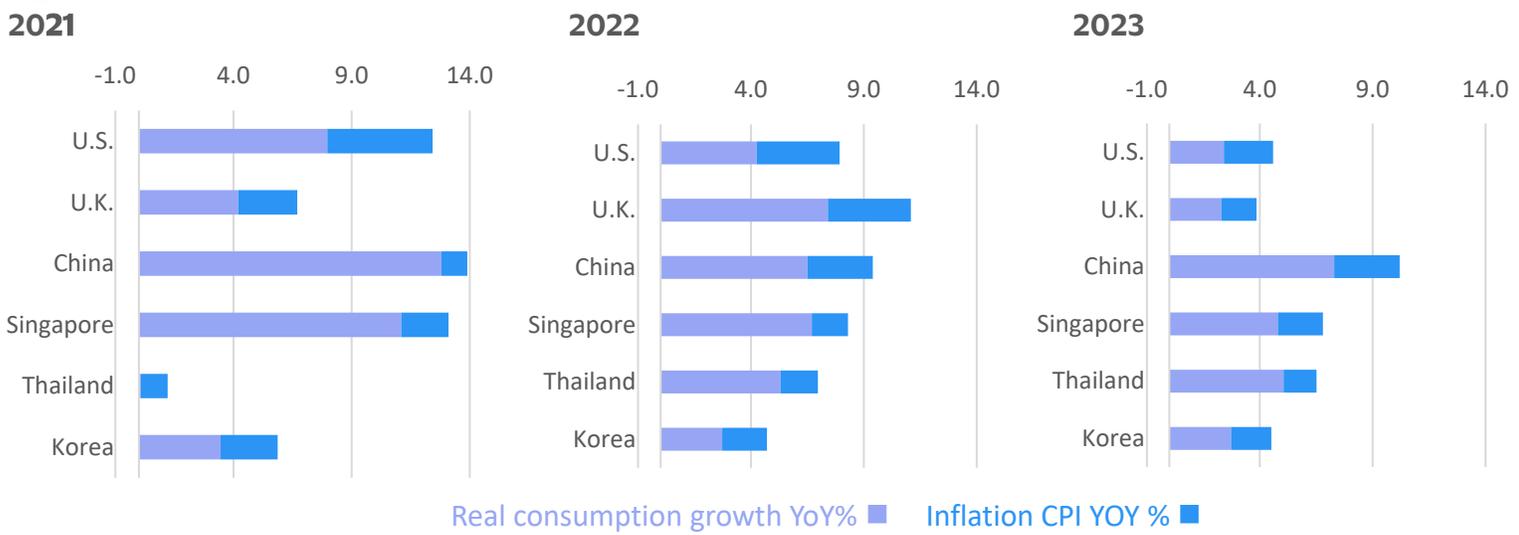
From a soft-data perspective, surveys point to a strong willingness and pent-up demand for high touch services, particularly international travel.

From a hard data perspective, the latest bank deposit data across the ASEAN economies shows that the extreme caution and uncertainty of 2020 has yielded to a less precautionary consumer. Savings, as proxied by bank deposits growth has returned to its pre-COVID

trend. Based on relative opportunities to spend, it is unlikely that the slowdown in savings is the result of financing current consumption. From a stock perspective, Asia has accumulated considerable savings to underpin future consumption when economies are more open and populations more mobile.

Until that time, Asia's nominal consumption, and by extension, payments volume in the region, will likely underperform other regions in 2022 and possibly 2023.

**Fig. 9: "Inflation" of nominal consumption likely more pronounced in Western Hemisphere than Asia**



Source: CEIC Data and Visa Business and Economic Insights analysis



# What does this mean for you?

1

**Asia vaccination rates are converging to U.S. and European levels**

Consumers are displaying more cautious behavior

2

**With the concentration of goods, exports and production have shifted further to China**

This concentration of production in and exports from China has resulted in excess capacity elsewhere in Asia

3

**A solid foundation for consumer spending is in place**

Consumers have indicated a willingness to spend on services when economies reopen and have accumulated savings to fund this

4

**As the current fundamentals align, Asia is not generating inflation from either the supply or the demand side**

As a result, Asia will likely experience relatively weaker nominal consumption and payments volumes





## Accessibility Notes

**Fig. 1:** A line chart showing vaccinations per 100 people in Asia ranging from 0.08 in Jan-2021 to 17.38 in Jun-2021 and 68.71 in Jan-2022, while in Europe vaccinations ranged from 1.23 to 45.51 and 73.42, respectively, and in North America the vaccination rates ranged from 2.88 to 40.77 and 69.07, respectively.

**Fig. 2:** A line chart showing inflation in Europe ranging from 0.3 in Dec-2015 to 2.20 in Jul-2018, -0.30 in Dec-2020 and 4.90 in Nov-2021. In comparison, inflation in the U.S. ranged from 0.64, to 2.89, 1.30 and 6.88, respectively, while in the ASEAN region, inflation ranged from 1.31 to 3.14, 0.75 and 2.83, respectively.

**Fig. 3:** A line chart showing real exports worldwide, indexed to 100 in Nov-2018 and reaching a low of 82.5 in Apr-2020, then recovering to 104.5 in Mar-2021 and reaching 105.3 in Nov-2021. In comparison, China's real exports ranged from 100 to 98.4, 121.4, and 118.7, respectively, while in the rest of Asia excluding China real exports ranged from 100 to 83.3, 108.8, and 113.0., respectively.

**Fig. 4:** A line chart showing real production worldwide, indexed to 100 in Nov-2018 and reaching a low of 84.8 in Apr-2020, then recovering to 103.5 in Jun-2021 and reaching 104 in Nov-2021. In comparison, China's real exports ranged from 100 to 107.5, 116.6, and 117.6, respectively, while in the rest of Asia excluding China real exports ranged from 100 to 62.2, 102.3, and 99.7, respectively.

**Fig. 5:** A line chart showing a comparison of indexed supplier delivery times in five countries. In the U.S., indexed delivery times ranged from 53.0 in Jan-2019 to a low of 43.0 in August and September 2019, a high of 92.3 in Dec-2021 and 84.0 in Mar-2022, with greater than 50 reflecting longer delivery times. In Sweden, indexed delivery times ranged from 50.9 in Jan-2019 to a low of 46.4 in Jun-2019, a high of 88.7 in Sep-2021 and 81.7 in Dec-2021. In China, indexed delivery times ranged from 50.1 in Jan-2019 to a high of 51.1 in Dec-2019, a low of 32.1 in Feb-2020, and finishing 2021 at 48.3. In Indonesia, indexed delivery times ranged from 44.6 in Jan-2019 to a high of 49.9 in Mar-2019, a low of 26.2 in Jun-2020, and reaching 48.2 in Mar-2022. In Switzerland, indexed delivery times ranged from 53.6 in Jan-2019 to a low of 45.9 in Oct-2019, a high of 89.0 in May-2021 and finishing 2021 at 76.3.

**Fig. 6:** Thailand capacity utilization ranged from 68.5% of full capacity in Jan-2018 to a low of 51.6% in May-2020 and finished 2021 at 66.5% of full capacity. The yearly average was 69% in 2018, 66% in 2019, 60% in 2020, and 63% in 2021.

**Fig. 7:** A line chart showing ASEAN CPI at 1.7% year-over-year (YoY) in Jan-2016, reaching a high of 3.6% in Feb-2017, a low of 0.2% in May-2020, and finishing 2021 at 2.6% CPI YoY. In comparison, Europe's CPI ranged from 0.3% in Jan-2016 to 2.2% in Nov-2018 to a low of -0.3% in Dec-2020, and reaching 4.9% in Nov-2021, while the U.S. CPI ranged from 1.2% in Jan-2016 to a low of 0.2% in May-2020 and reaching a high of 7.1% in Dec-2021.

**Fig. 8:** Line chart showing ASEAN bank deposits in the first line following the long-term trend line of the second line and ranging from \$2.3T in Nov-2017 to \$2.6T in Dec-2019 and reaching \$2.9T in Sept-2021.

**Fig. 9:** A bar chart showing a comparison of real consumption growth to inflation in six countries. In the U.S., real consumption growth and the CPI were 8% YoY and 4.5% YoY respectively in 2021, and were expected to reach 4.3% and 3.7% respectively in 2022, and 2.4% and 2.2% respectively in 2023. In the U.K., real consumption growth and the CPI were 4.2% YoY and 2.5% YoY respectively in 2021, and were expected to reach 7.4% and 3.7% respectively in 2022, and 2.3% and 1.6% respectively in 2023. In China, real consumption growth and the CPI were 12.8% YoY and 1.1% YoY respectively in 2021, and were expected to reach 6.5% and 2.9% respectively in 2022, and 7.3% and 2.9% respectively in 2023. In Singapore, real consumption growth and the CPI were 11.1% YoY and 2.0% YoY respectively in 2021, and were expected to reach 6.7% and 1.6% respectively in 2022, and 4.8% and 2.0% respectively in 2023. In Thailand, real consumption growth and the CPI were 0.1% YoY and 1.1% YoY respectively in 2021, and were expected to reach 5.3% and 1.7% respectively in 2022, and 5.1% and 1.5% respectively in 2023. In Korea, real consumption growth and the CPI were 3.5% YoY and 2.4% YoY respectively in 2021, and were expected to reach 2.7% and 2.0% respectively in 2022, and 2.7% and 1.8% respectively in 2023.

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