Asia's export pulse weakens, policy support persists

Export growth across Asia is showing signs of strain, particularly in shipments to the US, while domestic demand and investment continue to provide support in several economies. Inflation remains subdued across most of the region, and monetary easing remains likely across much of Asia, except for Japan, as real rates stay elevated

India has made tax changes to stimulate domestic demand

Export headwinds are beginning to emerge

After Asia's GDP growth surprised to the upside in the first half of the year, signs of softening export momentum are beginning to emerge. Exports to the US fell 8% YoY in August, reversing the 3% YoY growth seen cumulatively from April to July. In contrast, exports to the rest of the world (excluding the US) rose a robust 9% YoY in August and 10% YoY over the prior four months. The diversification away from the US is primarily driven by intra-Asia trade and Europe. Overall, we expect slower Asia export growth in the near-term as global demand slows down.

Robust consumption and capex are offsetting external headwinds in key Asian markets

Domestic consumption is helping offset some of the drag from weaker export growth, particularly in demand-driven economies such as India and the Philippines, as well as in Australia and Malaysia, where resilient labour markets continue to support spending. Fiscal measures are also contributing to consumption growth in several economies, including India, Korea, and Indonesia, with rising prospects of additional stimulus in Japan and China.

In a bold move to stimulate domestic demand and promote tax equity, India has overhauled its Goods and Services Tax (GST) structure. Taxes on essential items, such as food products, basic household goods, consumer electronics, and small motor vehicles, have been significantly reduced. Meanwhile, life-saving drugs and health and life insurance have been made entirely tax-free. These reforms are designed to directly boost consumption, particularly among middle and lower-income households.

Investment growth has remained resilient in several Asian economies. Taiwan and Malaysia stand out, likely benefiting from continued capital expenditure in the tech sector. However, business sentiment around future investment is turning cautious, as reflected in recent surveys, amid signs of a slowdown in global trade.

Subdued inflation across Asia, with Australia as an outlier

Inflation remains subdued across most of Asia, driven by overcapacity in several sectors in China and easing food and fuel price pressures. While recent typhoons may temporarily lift food prices, improved rainfall conditions expected in the fourth quarter should help mitigate the impact. Softer global oil price inflation in 2026 is also likely to support a benign inflation outlook.

Australia stands out as an exception. The August CPI spike to 3% YoY raises questions about whether this is a temporary blip or the start of more persistent inflationary pressures. Notably, housing-related components, such as rents and the cost of new dwellings, showed renewed strength, suggesting the sector may already be responding to earlier rate cuts. Additionally, services prices, including holidays, travel, and insurance, rose sharply (1.5–3% QoQ), pointing to a rebound in consumption demand. On the growth front, stronger-than-expected GDP in the first half of the year was driven by robust consumer spending. As a result, the likelihood of a rate cut at the November meeting has meaningfully diminished.

Monetary policy outlook: easing bias persists

Overall, we expect most Asian economies under our coverage, except Japan, to remain on track to ease monetary policy further, particularly as real interest rates remain elevated, especially in Southeast Asia.

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