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Asia Economics | Asia Pacific

The Viewpoint: Can Consumers Weather Higher Energy Prices?

Higher energy prices will crimp purchasing power and affect the consumption recovery observed prior to present geopolitical tensions. But if tensions ease soon, a reacceleration of the industrial cycle would support capex, job creation and lead to a resumption of stronger consumption growth.

Key Takeaways

- Prior to geopolitical tensions, consumption growth was improving. The recovering industrial cycle had pushed wage growth higher, driving this improvement.
- In the near term, the higher energy prices will weigh on real disposable incomes but a dip in saving and policy measures may cushion the drag on consumption.
- High frequency indicators are suggesting that confidence measures have dipped. But the hard data is holding up better.
- Duration is key. If physical delivery prices fall in next 3-4 months (<$90/bbl), a reacceleration of the industrial cycle would support capex, jobs, consumption
- But if oil prices sustain at US$120/bbl, the drag on consumption could become more pronounced as fuel prices move higher and consumers adjust spending patterns.

In this report, we assess the trends in consumption spending both prior to and post the energy shock, with a focus on the high frequency indicators that we are tracking by economy.

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Summary

The consumer was staging a nascent recovery prior to geopolitical tensions: Retail sales – the most widely available indicator to track consumption activity across the region – had been picking up since January. In February, retail sales grew at 3.2%Y – an eight-month high for Asia ex India. This recovery was even more pronounced for ex China and India economies. If we consider the retail sales growth for Asia ex China and India for the month of February, it would be at a two-year high.

Consumer spending was starting to rise because the economic recovery was broadening in the last few months of 2025, driven by the recovery in the industrial and capex cycle. PMIs had risen to a four-and-a-half-year high, industrial production was firming, and export growth and the capex cycle (proxied by capital goods imports) were strong. This meant that wage growth in Asia was also improving, rising to a 7-quarter high in Dec-25.

Higher energy prices will dent consumer purchasing power in the near term: The onset of geopolitical tensions has injected volatility and uncertainty into the outlook for consumer spending, considering that fuel-related items account for ~5.5% of household spending. In other words, for every 10% increase in the blended oil and gas prices, real disposable incomes will be hit by ~50bps. This measures only the direct hit to disposable incomes. There will be indirect, second-round effects that would arise too from higher prices of goods and services as a result of higher energy prices.

But the actual drag on household spending will hinge on policy measures and saving behaviour: As we have highlighted before, households are not bearing the full brunt of the rise in energy prices as policy makers are absorbing part of the burden. In local currency terms, Asia's oil prices rose to a peak of 57% and are currently at 40% since the start of geopolitical tensions, but domestic fuel prices have only risen by 19% on a nominal GDP-weighted basis (with prices having risen by a range of 0% to 81%). Moreover, policy makers in select economies like Korea, Singapore and Thailand have unveiled support measures for households such as the provision of vouchers and, tilted more towards low income households, provided subsidies for gig economy workers and putting in place discounts for essential items to help defray the increase in the cost of living. In the near term, there may also be a tendency for households to dip into savings to preserve consumption spending. However, these cushioning effects will fade if energy prices stay higher for longer. For instance, policy makers may have to allow domestic fuel prices to rise more and households may then be more inclined to adjust their spending patterns in light of higher domestic fuel prices.

What high frequency indicators are telling us: So far, we have seen a modest drag on consumption spending in March and early April as a result of the initial rise in energy prices. Soft indicators like consumer confidence and services PMI have declined rather sharply but hard data points like car sales have moderated to a lesser extent relative to the drop in the soft indicators; for more details, please see respective sections:

Asia

China

India

Japan

Korea

Australia India

ASEAN

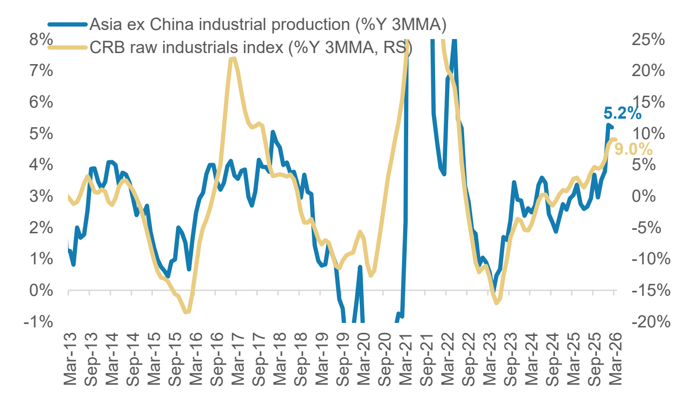
The outlook for consumption spending will be dependent on the path of oil prices:

1) If geopolitical tensions ease: Oil (futures) prices have moved lower recently, and futures are indicating that oil prices will move below US$90/bbl in the coming 4-5 months. If physical delivery prices follow suit, we think this could lead to a quick resurgence of the industrial cycle, which would translate into stronger capex, job creation and consumption activity (see Sunday Start: The Face-Off for Asia: Energy Prices v Industrial Cycle, Apr 5, 2026 and The Viewpoint: Asia's industrial cycle is inflecting, Feb 3, 2026 for more details).

2) If oil prices move higher: However, if oil (futures) prices were to be sustained around US$120/bbl (and physical delivery prices would most likely be higher than that), the drag on the consumer will become more pronounced. As we highlighted earlier, policy makers may have to pass on more of the price increases, and consumers may adjust their spending patterns more in this scenario, which will then lead to a sharper slowdown in consumption spending. While there will be more measures to support lower income households, we believe the aggregate effect will still be that households pull back on consumption.

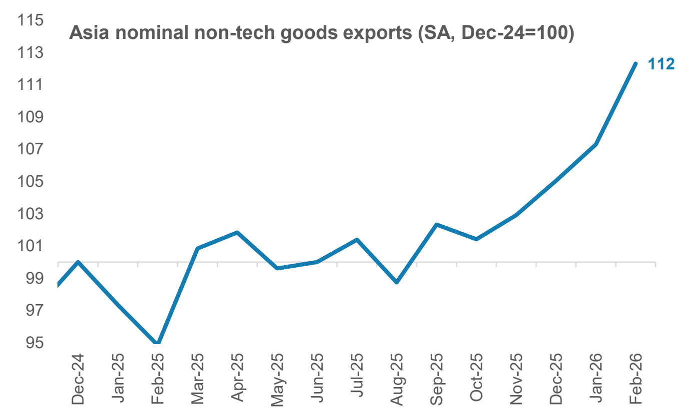
To assess the implications of the energy shock on trends in consumption spending, we provide a set of high frequency indicators that we are tracking by economy.

Exhibit 1: Industrial production growth had hit a four-year high for Asia ex China



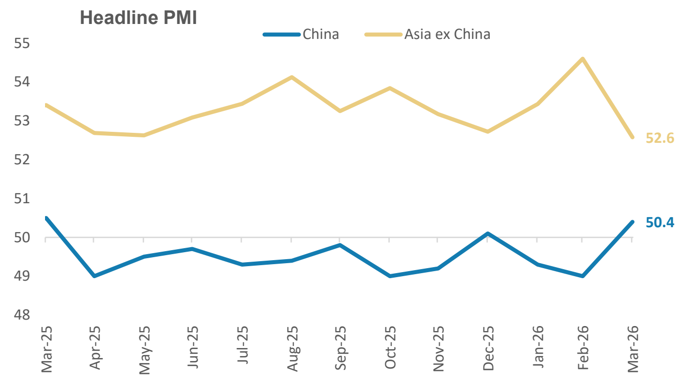
Source: Bloomberg, CEIC, Haver, Morgan Stanley Research

Exhibit 2: Asia's non-tech exports had inflected higher in recent months before geopolitical tensions



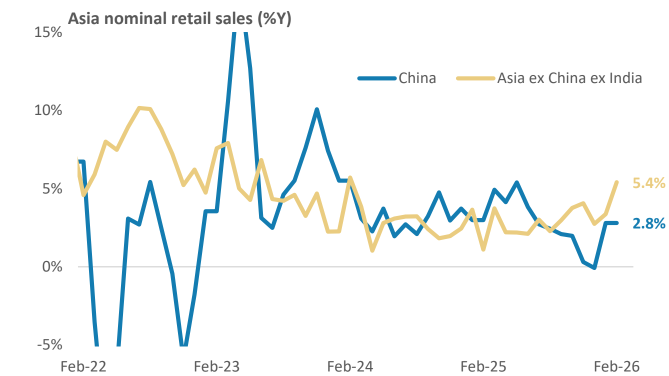
Source: CEIC, Haver, Morgan Stanley Research

Exhibit 3: Asia ex-China PMI fell 2pt in March, to 52.6, showing initial signs of drag from geopolitical tensions



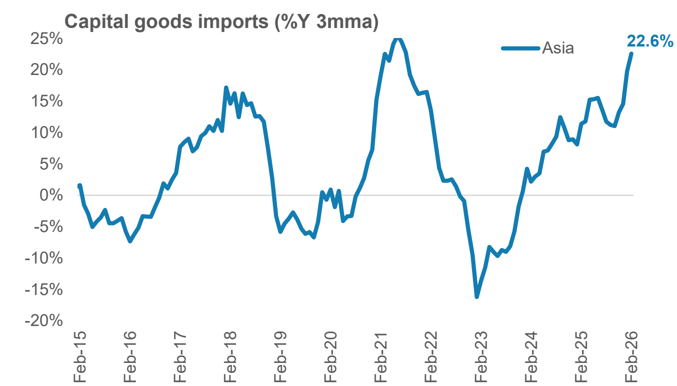
Source: CEIC, Haver, Morgan Stanley Research

Exhibit 4: Retail sales had been picking up prior to geopolitical tensions



Source: CEIC, Haver, Morgan Stanley Research

Exhibit 5: Asia's imports of capital goods have been rising sharply



Source: CEIC, Haver, Morgan Stanley Research

Exhibit 6: Why we are bullish on Asia's industrial cycle – Three structural tailwinds

Structural tailwinds
Rise in AI infrastructure-related spending
Rise in energy and energy transition related spending
Increase to defense spending

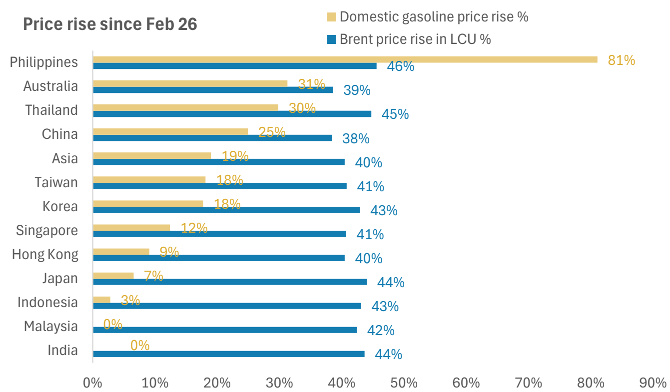
Source: Morgan Stanley Research

Asia

Chetan Ahya, Derrick Kam, Jonathan Cheung, Kelly Wang, Sudhanshu Agarwal

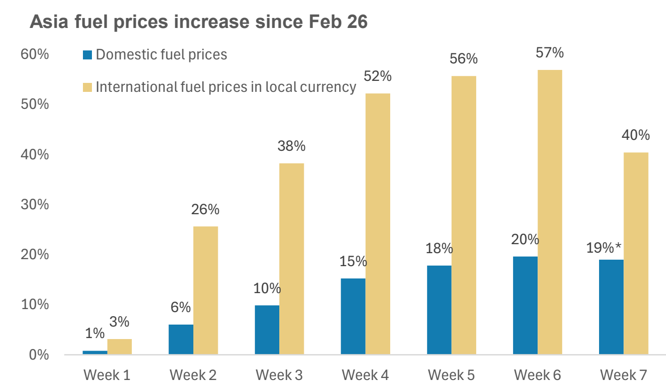
High frequency data suggests modest damage so far: Available March-April hard data have largely shown only modest damage to Asia's private consumption. Instead, soft data such as consumer confidence and services PMIs have shown a larger step down. The modest damage may reflect policy makers' efforts to limit the pass-through to domestic fuel prices so far, with the pass-through rate stabilizing at just one-third of the rise in international oil prices.

Exhibit 7: Pass-through to domestic fuel prices has been limited so far...



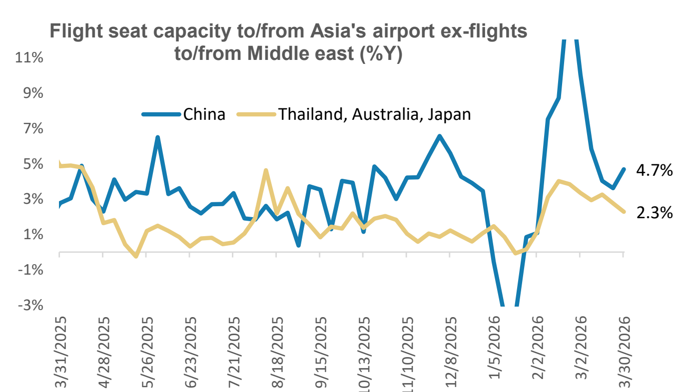
Source: CEIC, Haver, GlobalPetrolPrice, Taiwan CPC Corporation, Morgan Stanley Research estimates; Note: Latest domestic fuel price data is as of April 13 for Korea, Taiwan and Philippines, April 12 for Australia, April 10 for China, April 6 for the rest.

Exhibit 8: ...though economies may allow domestic prices to rise if Brent stays above US$110/bbl for longer



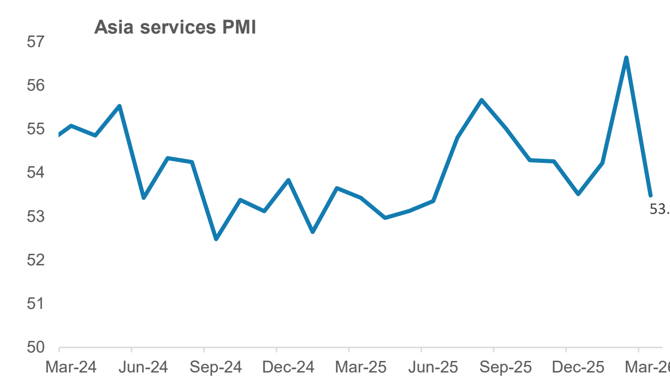
Source: CEIC, Haver, GlobalPetrolPrice, Taiwan CPC Corporation, Morgan Stanley Research estimates; Note: *For week 7, latest domestic fuel price data is as of April 13 for Korea, Taiwan and Philippines, April 12 for Australia, April 10 for China, April 6 for the rest.

Exhibit 9: Flights moderated at the margin on a YoY basis for Asia ex China



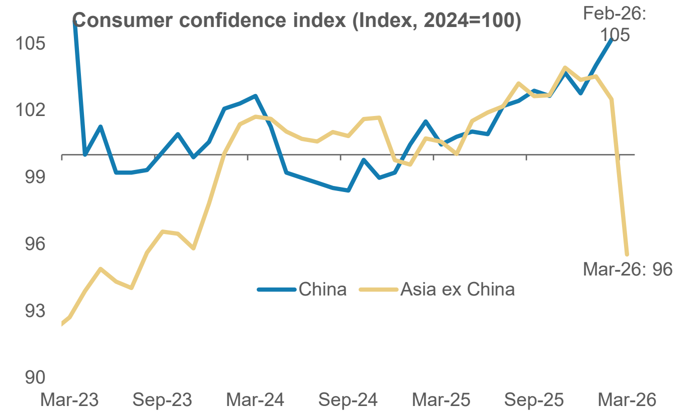
Source: OAG, Morgan Stanley Research

Exhibit 10: Select Asian economies' services PMI slipped to a three-month low



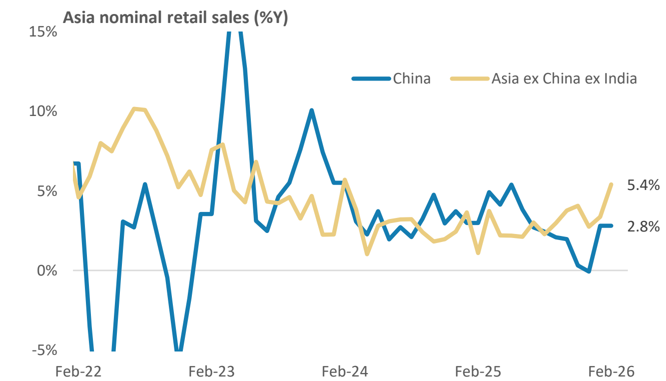
Source: Haver, Morgan Stanley Research; Note: Includes China ratingdog PMI, India, Australia and Japan

Exhibit 11: Consumer confidence for March has moderated sharply to 2023 lows



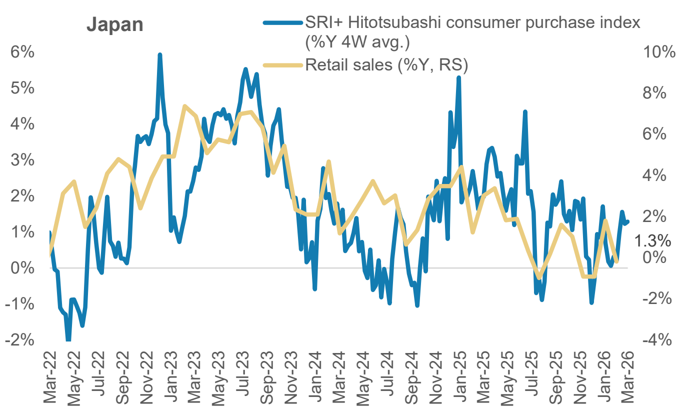
Source: Haver, CEIC, Morgan Stanley Research

Exhibit 12: Retail sales data suggests Asia's consumption momentum was on a nascent recovery path in February ahead of the energy shock



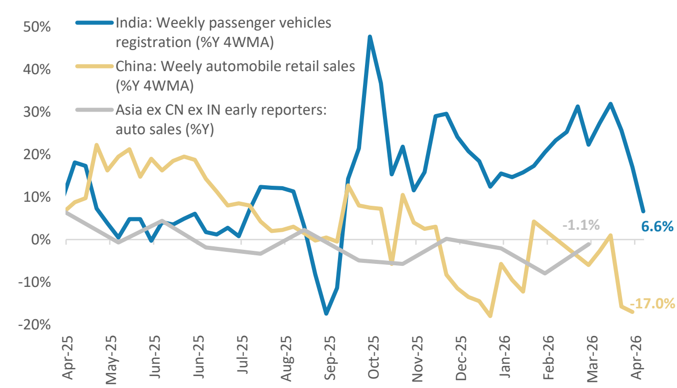
Source: Haver, Morgan Stanley Research

Exhibit 13: High frequency retail sales data suggests consumption momentum did not deteriorate in March



Source: Haver, Morgan Stanley Research

Exhibit 14: Auto sales remained soft in March; India and China saw declines in early April



Source: CEIC, Haver, Morgan Stanley Research

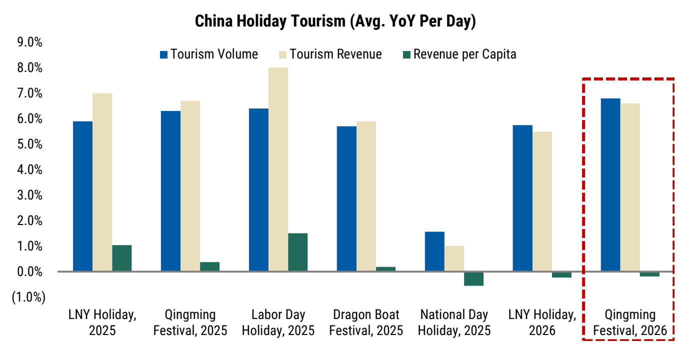
China

Robin Xing, Jenny Zheng, Zhipeng Cai, Harry Zhao

Modest improvement in consumption momentum ahead of oil shock: Ahead of the geopolitical tensions, private consumption in China was showing modest improvement from weak levels in 4Q. Retail sales growth edged up from a Nov-Dec average of 1.1%Y to 2.8% in Jan-Feb, though the fading effectiveness of the consumer goods trade-in program has weighed on segments such as autos and home appliances. Since the geopolitical tensions, incoming data suggests growth in trade-in programme related segments has continued to decelerate. However, services/domestic travel indicators such as holiday tourism revenue and volumes during the Qingming festival have shown incremental improvement, continuing the improvement trend since the LNY holidays.

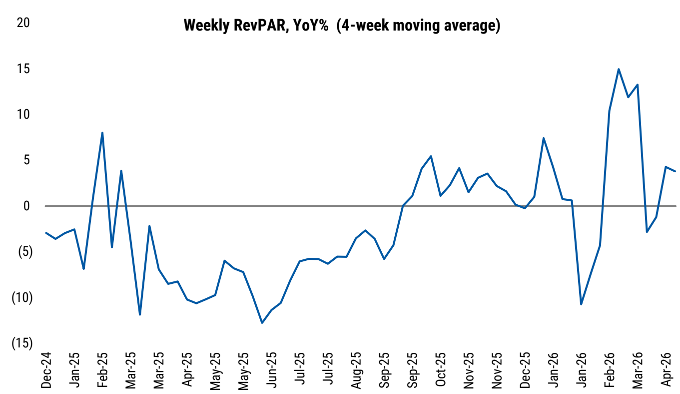
China is relatively less exposed but some downside is likely: In our view, the direct drag of higher energy prices on household consumption could be limited, given China's relatively lower reliance on energy imports, lower starting point of inflation and administered fuel pricing. That said, higher input costs may compress downstream corporate margins and exert a drag on wage growth and employment. This would in turn weigh on consumption, especially given the relatively softer starting point of wage growth.

Exhibit 15: Holiday tourism: Improvement in volume and revenue



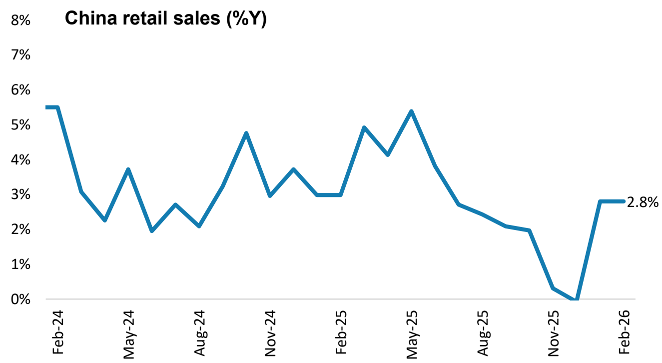
Source: Ministry of Culture and Tourism, Morgan Stanley Research

Exhibit 16: Hotel RevPAR growth recording moderate growth



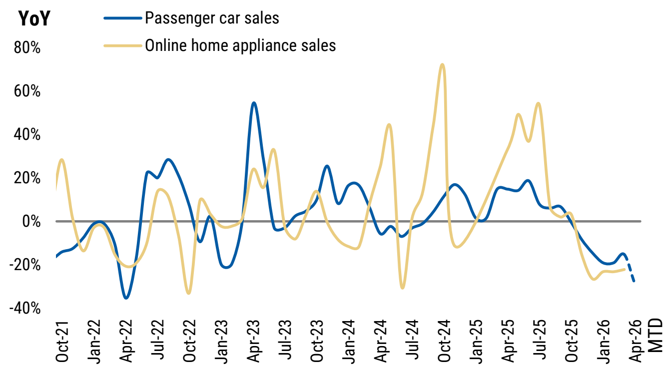
Source: STR, Morgan Stanley Research

Exhibit 17: Retail sales growth modestly improved in Jan-Feb...



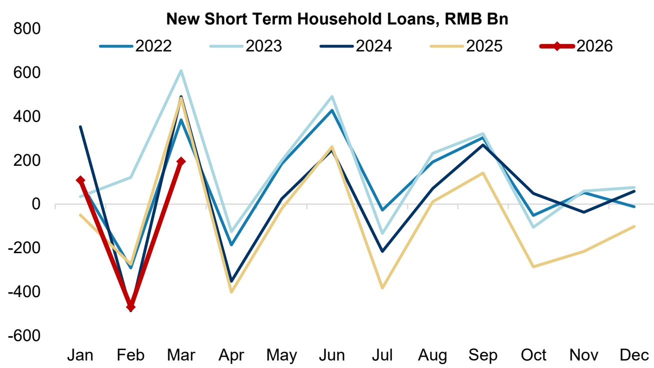
Source: CEIC, Morgan Stanley Research

Exhibit 18: ...though fading effectiveness of consumption trade-in programme has weighed on segments such as auto and home appliance sales



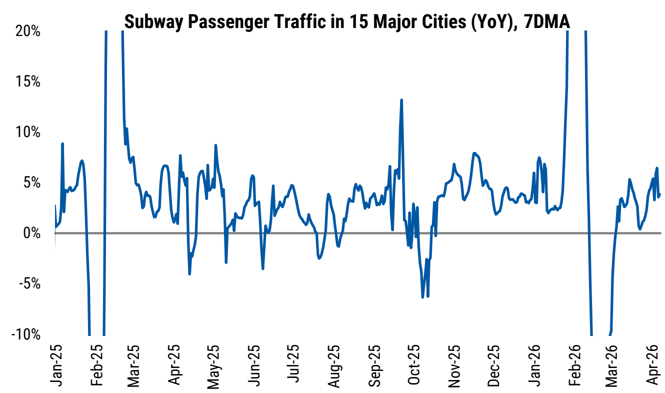
Source: CMM, CPCA, Morgan Stanley Research. Note: online home appliance includes air conditioners, refrigerators and washing machines.

Exhibit 19: New short-term household loans remained weak



Source: CEIC, Morgan Stanley Research

Exhibit 20: Resilient subway traffic



Source: Wind, Morgan Stanley Research

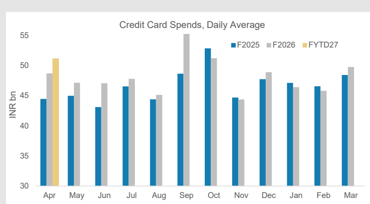
India

Upasana Chachra, Bani Gambhir

Some moderation in consumption to still robust levels: The incoming high-frequency data for March and April (month to date) suggests that consumption momentum is moderating, but to still robust levels. In April so far, the more energy exposed segments have moderated by a greater extent. Vehicle registrations have moderated for both two-wheelers (13.3%) and passenger vehicles (10.3%), weaker than the trend in March, and air traffic dipped further in early April. But, growth in overall credit card spend has maintained a robust pace of growth in both April MTD and March. For the month of March, GST and credit growth was strong but services PMI softened to 57.5 in March from 58.1 in Feb, its weakest pace of expansion in 14 months.

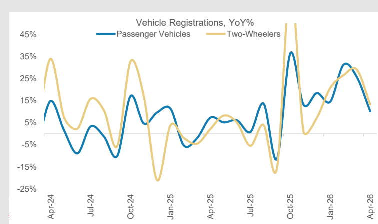
Elevated global commodity prices will affect rural consumption to a greater extent than urban: Higher inflation due to a rise in commodity prices will hurt consumer purchasing power, and thus weigh on private consumption across both rural and urban areas. Urban demand, particularly in discretionary segments, will likely weaken due to lower real income growth and softer job creation. But rural demand will be more affected. First, there will be headwinds from worsening rural terms of trade, as higher cost of agriculture production (fertiliser and fuel) will affect farm profitability. Moreover, as food is a crucial component of the rural consumption basket, elevated food prices will compress non-food demand. Apart from energy and fertilizer-related disruption, emerging concerns of a potential El Nino during the monsoon (Jun-Sep) period also adds to headwinds for rural demand.

Exhibit 21: Daily average credit card spending has edged higher, in line with seasonality



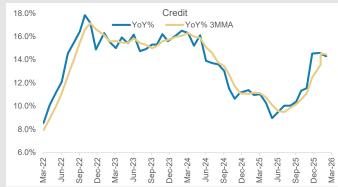
Source: RBI, Morgan Stanley Research. Note: The daily spending data series from RBI is provisional and accounts for about 70-80% of the final data. Data for April is as of Apr 10

Exhibit 22: Vehicle registration growth has softened MTD but remains at relatively robust levels



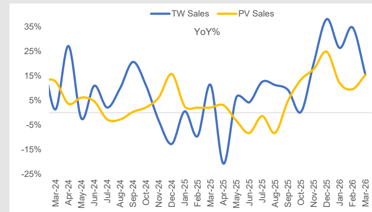
Source: CEIC, Morgan Stanley Research. Note: Data can at times be lumpy, leading to volatility in the growth rate. Data for April is as of Apr 10.

Exhibit 23: Credit growth has held up



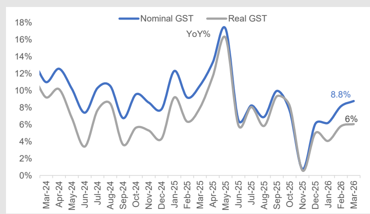
Source; CEIC, Morgan Stanley Research. Note: Month end data since Dec-25 is impacted by change in reporting practises, Data for March is as of Mar 15

Exhibit 24: Monthly two-wheeler and passenger vehicle sales growing at a healthy clip



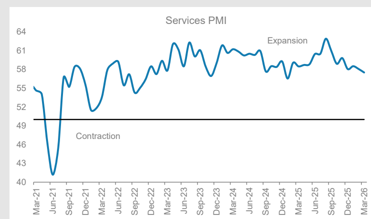
Source: MS Autos Team, Morgan Stanley Research.

Exhibit 25: Improving growth rate in GST collections



Source: Ministry of Finance, Morgan Stanley Research. Note: GST data is adjusted for cess.

Exhibit 26: Services PMI moderated in March



Source: Haver, Morgan Stanley Research.

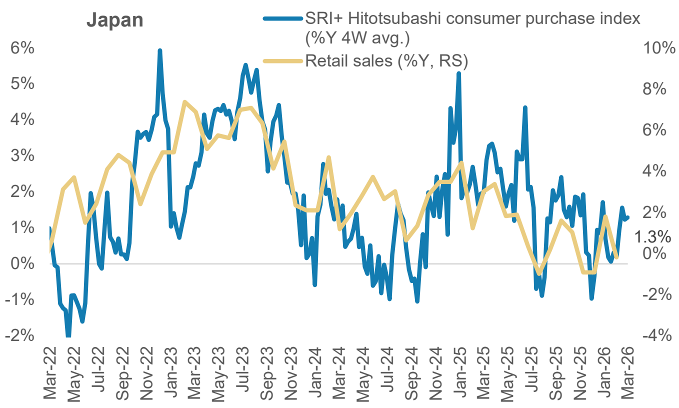
Japan

Takeshi Yamaguchi, Masayuki Inui

Higher energy prices risk extending weakness in consumption: Prior to the recent energy shock, the gradual improvement in Japan's real wage growth amid receding headline inflation meant we were expecting sequential momentum in private consumption to improve in 2Q26. However, despite real wage growth now turning positive, higher energy prices mean we now expect headline inflation to exceed 2% from June onwards. As such, the decline in real incomes would likely delay the pickup in real private consumption momentum (to an estimated -0.6%QoQ SAAR in 2Q, vs. an estimated 1.1% in 1Q). There is also a possibility that subsidies for fuels such as gasoline could be reduced in 2Q (see Japan Economics: Higher Oil Prices, Lower Growth: GDP and CPI Forecast Revisions, Apr 6, 2026 for more details).

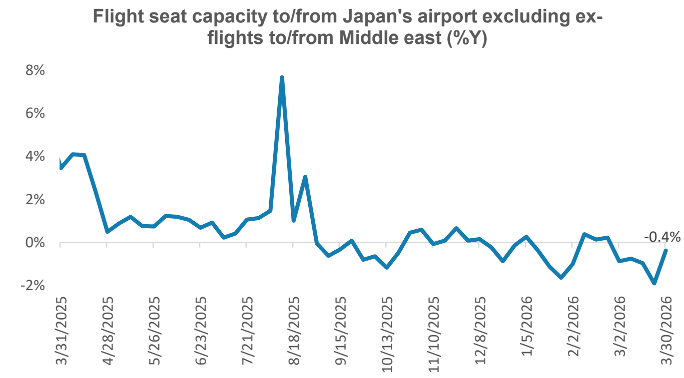
High frequency data not yet showing significant damage: High frequency data including the weekly consumer purchase index – which tracks monthly retail sales growth – suggest that Japan's consumption momentum did not yet show signs of significant deterioration in March. Sentiment indicators exhibited more mixed trends. While March services PMI only modestly softened at the margin and remained in expansionary territory, soft data such as the Consumer Confidence Index and the Economy Watchers Outlook DI deteriorated sharply in the month (Japan Economics: Deterioration in Leading Indicators Signals Caution: Sharp Declines in Consumer Confidence and Economy Watchers Indices, Apr 9, 2026).

Exhibit 29: Both consumer confidence...
Exhibit 27: High frequency retail sales data suggests consumption momentum did not deteriorate yet in March



Source: Haver, Morgan Stanley Research

Exhibit 30: ...and the Economy Watchers Outlook DI slipped
Exhibit 28: Japan flight seat capacity growth softened

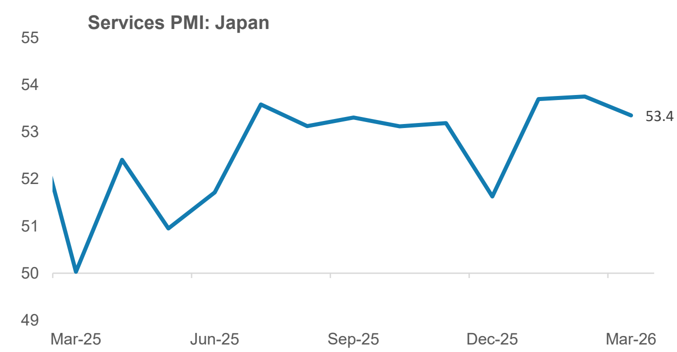


Source: OAG, Morgan Stanley Research

Source: Cabinet Office, Morgan Stanley Research. Note: Shaded bars indicate recession periods by the Cabinet Office

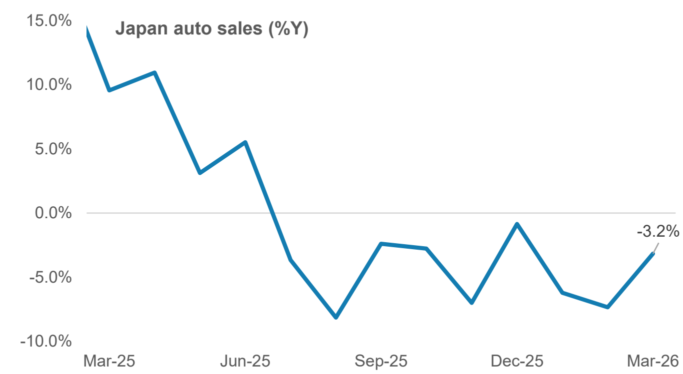
Source: Cabinet Office, Morgan Stanley Research. Note: Shaded bars indicate recession periods by the Cabinet Office

Exhibit 31: Japan services PMI declined marginally in March



Source: Haver, Morgan Stanley Research

Exhibit 32: Japan auto sales growth has been contracting



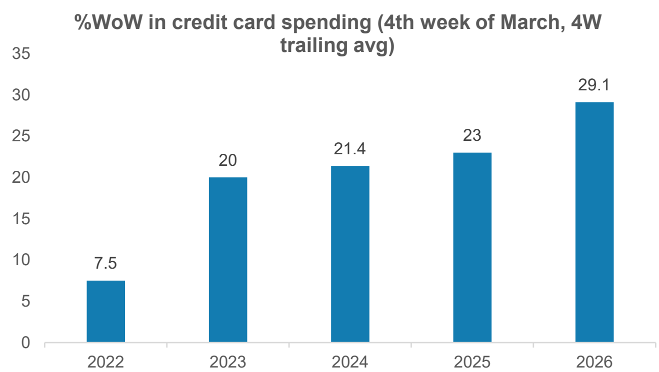
Source: CEIC, Morgan Stanley Research

Korea

Kathleen Oh

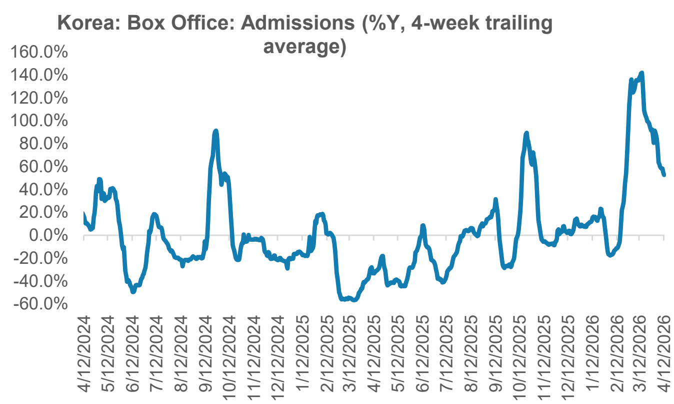
Fiscal measures to provide an offset despite higher oil prices: We believe the consumption recovery that began last year is intact. Although high frequency consumption-related indicators showed some incremental softening in March, the impact from higher energy prices looks marginal in 1Q26 as the government has put a hard cap on retail oil prices. Going forward, we see a slower recovery as a result of higher inflation, driven by higher energy prices first and later by the second-round effects on services inflation (see South Korea: Reflecting Reset in Prices, Apr 6, 2026). Fiscal policy would likely provide some offset, with the first round of supplementary budget providing direct transfers to households worth KRW10.1tn (0.4% of GDP). We also see the possibility of a second supplementary budget in 2H.

Exhibit 33: March credit card spending growth held up compared to previous years



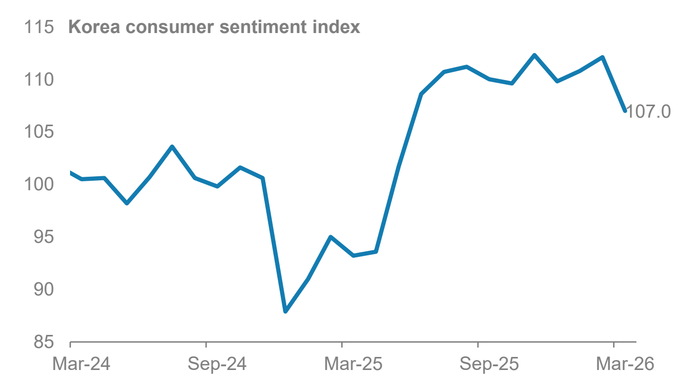
Source: Statistics Korea, Morgan Stanley Research

Exhibit 34: Daily box office admissions softening from elevated levels



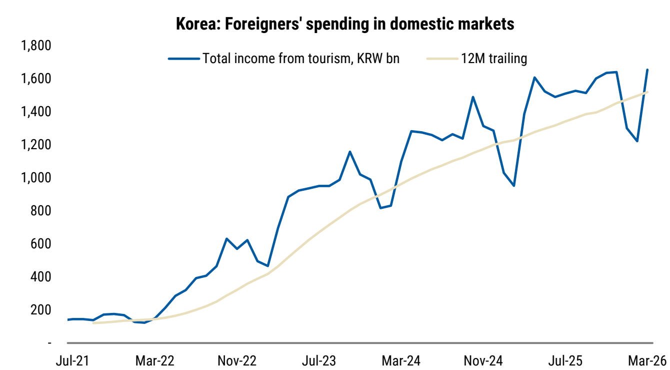
Source: CEIC, Korea Film Council, Morgan Stanley Research

Exhibit 35: BOK consumer sentiment index moderated in March but stayed above the benchmark of 100



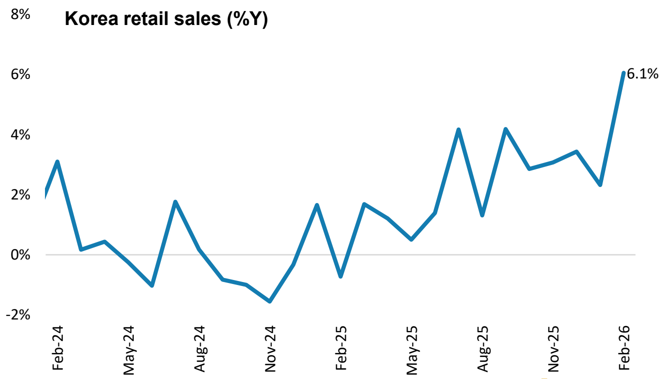
Source: CEIC, BOK, Morgan Stanley Research

Exhibit 36: As the number of visitors to Korea jumps, their spending is also rising



Source: Korea tourism organization, Morgan Stanley Research

Exhibit 37: Retail sales growth was improving, notwithstanding favourable base effects



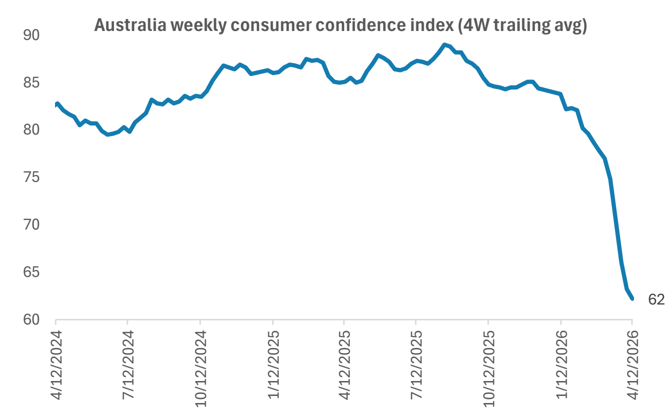
Source: Haver, CEIC, Morgan Stanley Research

Australia

Chris Read

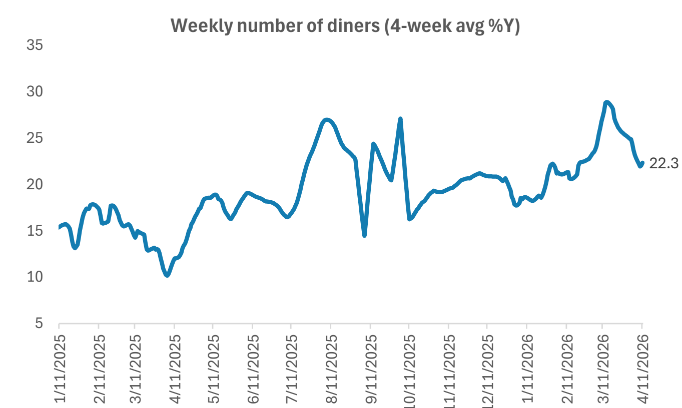
High frequency data suggests softening momentum: While February household spending growth still tracked at a healthy 4.6%Y ahead of the energy shock (see Australia Macro+ Data Pulse: Household Spending Steady, Apr 7, 2026), high frequency indicators as well as sentiment data suggest that consumption momentum likely moderated in March and early April. This likely reflects the drag on households from energy supply disruptions and relatively stronger pass-through to domestic fuel prices. Both weekly consumer confidence and no. of diners softened on a YoY basis, while March services PMI also fell sharply into contraction territory. Looking ahead, we believe policy support will be slow to materialize. We believe RBA would need to see more evidence of demand weakness to conclude that inflation is transitory. The government is also set to proceed with its tax reform agenda. This suggests headwinds for the household sector (see Australia Macro+ Forecast Update: Shocking Supply, Apr 6, 2026).

Exhibit 38: Weekly consumer confidence slipped as the energy shock emerged



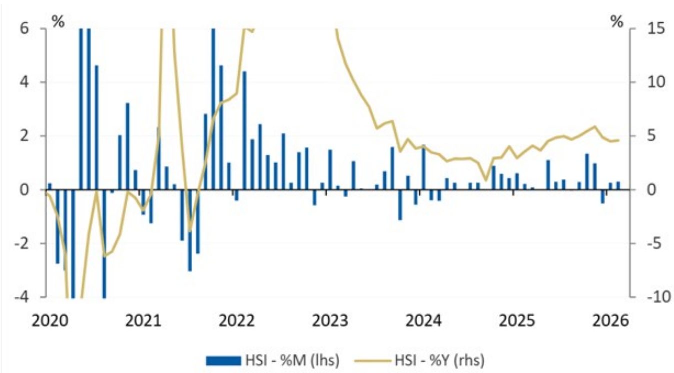
Source: CEIC, Morgan Stanley Research

Exhibit 39: No. of diners has softened on %Y basis against a low base



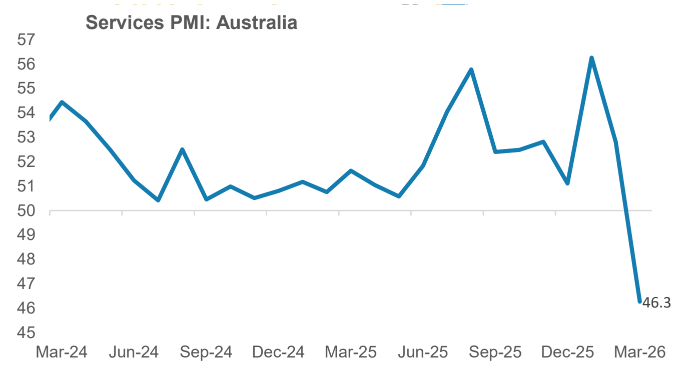
Source: CEIC, Morgan Stanley Research

Exhibit 40: Household spending indicator was holding up ahead of the energy shock



Source: Haver, Morgan Stanley Research

Exhibit 41: Services PMI slipped into contraction in March



Source: Haver, Morgan Stanley Research

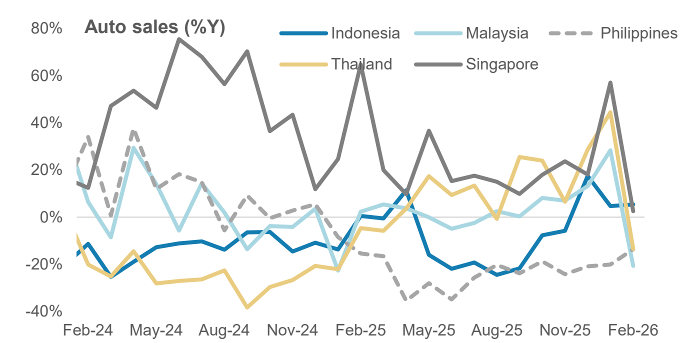
ASEAN

Derrick Kam

Consumption momentum was on a recovery trend: Across ASEAN, retail sales growth and private consumption index growth have been on an improving trend since 4Q25 – in part helped by fiscal support measures such as the co-payment scheme in Thailand and cash handouts/ household support measures in Indonesia. Auto sales growth was also on a broad uptrend, notwithstanding idiosyncratic drivers leading to softer growth in February such as base effects, shift in timing of festive season, and the expiry of the EV subsidy programme in Thailand in December.

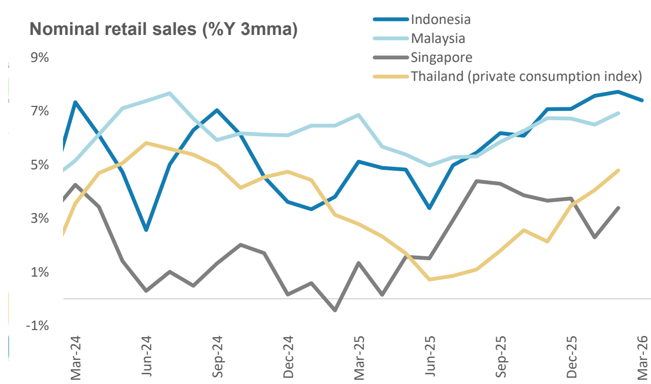
Looking ahead, we see several ASEAN economies such as Thailand and the Philippines as more exposed to the energy shock given higher oil and gas import reliance. As it relates to consumers, both Thailand and the Philippines are also economies where we have seen greater pass-through to domestic fuel prices. For Indonesia, where policy makers have committed to keep domestic fuel prices unchanged for 2026 and also reaffirmed commitment to the 3% fiscal deficit target rule, this also implies public expenditure cuts elsewhere. This will likely weigh on the growth cycle.

Exhibit 42: ASEAN: Auto Sales



Source: CEIC, Morgan Stanley Research; Note: New registration of passenger cars used for Singapore.

Exhibit 43: ASEAN: Retail Sales



Source: CEIC, Morgan Stanley Research; Note: Thailand nominal private consumption is estimated based on private consumption index and CPI. Indonesia's nominal retail sales is estimated based on retail sales index and its core CPI.

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(as of March 31, 2026)

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Equal-weight/Hold	1573	43%	372	40%	24%	716	44%
Not-Rated/Hold	4	0%	1	0%	25%	1	0%
Underweight/Sell	568	15%	89	10%	16%	209	13%
Total	3,679		923			1624	

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