



社会经济研究中心
SOCIO-ECONOMIC
RESEARCH CENTRE

Quarterly Economy Tracker
(Jan-Mar 2018)

9 April 2018

Key Messages



FIRMING GLOBAL GROWTH – CYCLICAL OR STRUCTURAL



BALANCED RISKS TO GLOBAL OUTLOOK



MALAYSIA: FIRM ON GROUND



SMEs SLOW READINESS OF ICT

Global growth **UPSWING** to continue in 2018



Global economic growth is **BROADLY BASED** and **SUSTAINED** in 2018. Better growth estimates for the US.



More **POSITIVE PERSPECTIVES** for emerging Asia -sustained domestic demand and firm commodity prices



GLOBAL TRADE is showing strong growth momentum (4.6% in 2018; 4.4% in 2019 vs. 4.7% in 2017). **GLOBAL TRADE TO GDP RATIO** bounced back to 1.3% in 2017 (0.8% in 2015-16)



CAUTION IN FINANCIAL MARKETS. POLICY RISKS can cause market instability; expectations of **LESS GLOBAL LIQUIDITY** can reduce flows to emerging markets

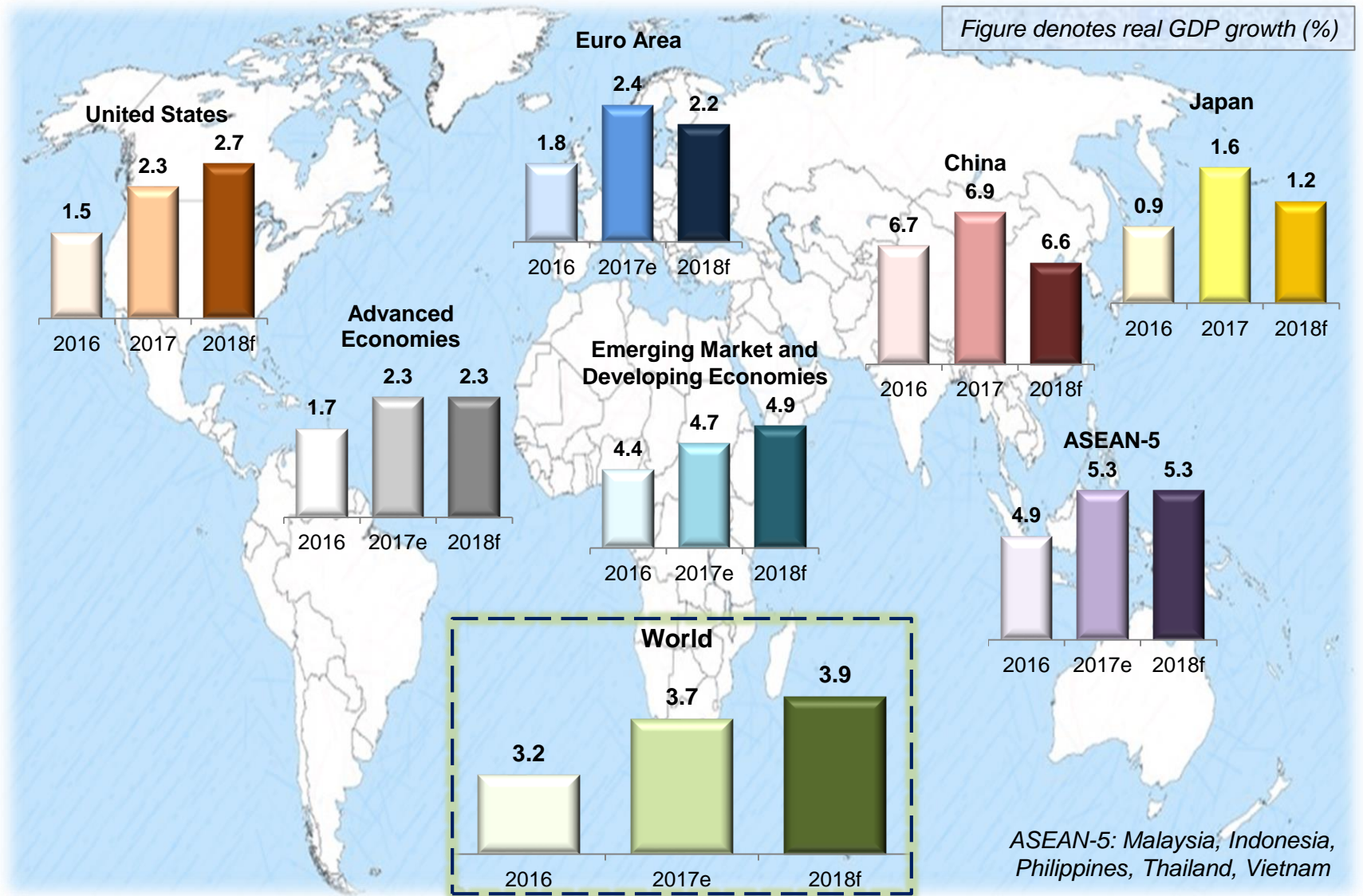


CENTRAL BANKS continue to make progress towards **INTEREST RATE** normalization



GLOBAL RISKS – rich market valuations; rising trade tensions; aggressive interest rate hikes; and bloated debt

GDP GROWTH estimates in advanced and emerging economies

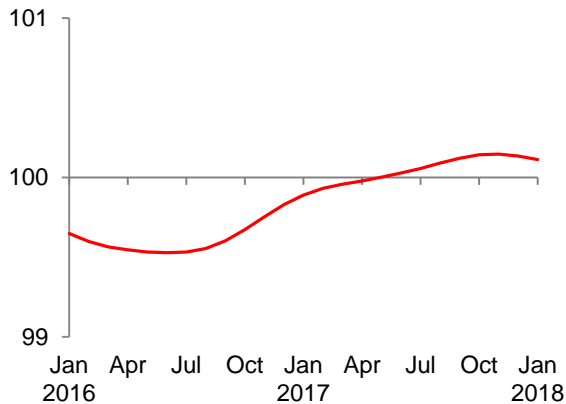


Source: Officials; IMF (WEO Update, January 2018)

GLOBAL INDICATORS point to firming global growth

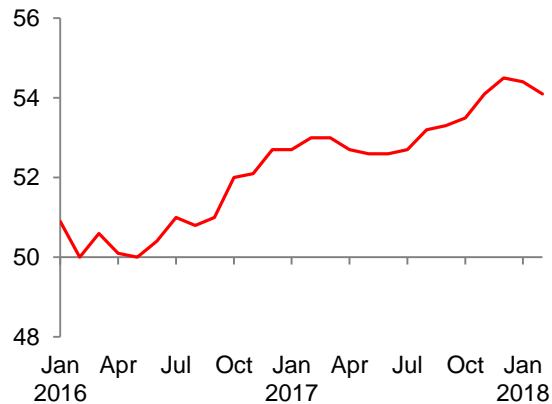
OECD CLI

(Long-term average = 100)



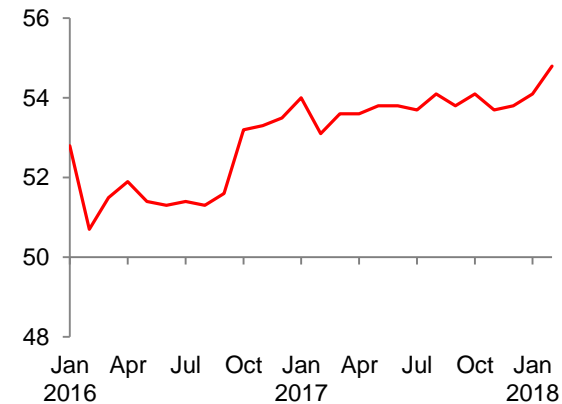
Manufacturing PMI

(50 = no change on prior month)



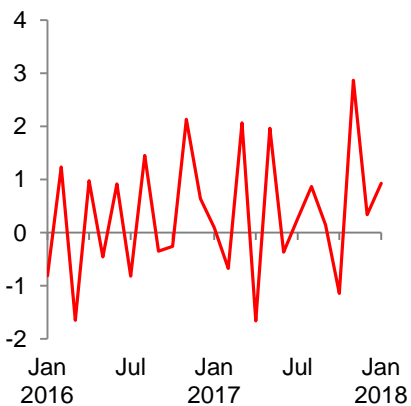
Services PMI

(50 = no change on prior month)



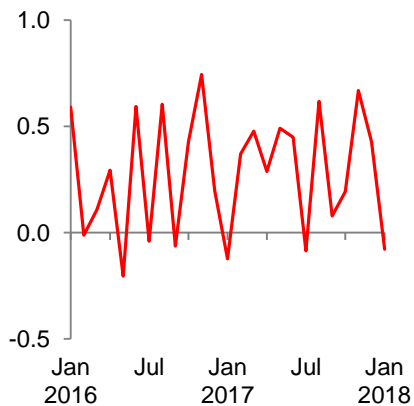
Global trade growth

(%, MoM)



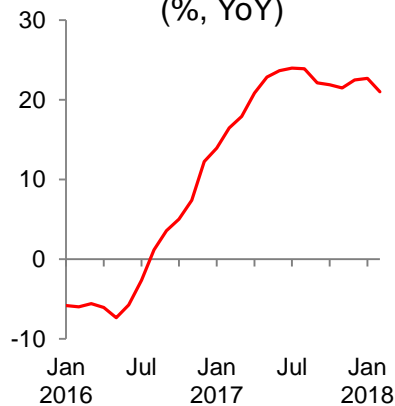
Industrial production

(%, MoM)



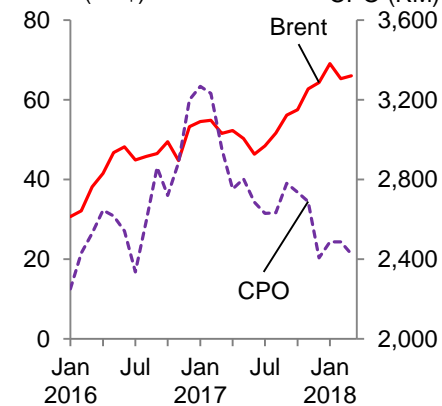
Global semiconductor sales

(%, YoY)



Brent crude oil vs. CPO

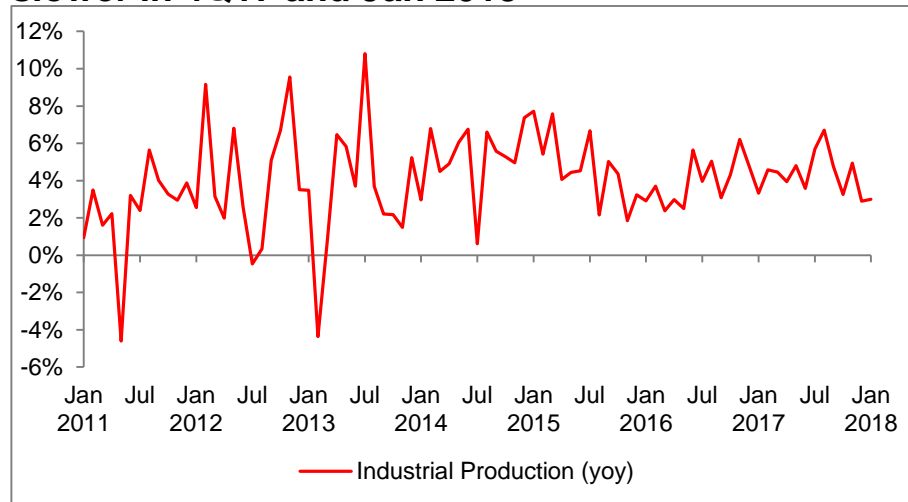
Brent (US\$) vs. CPO (RM)



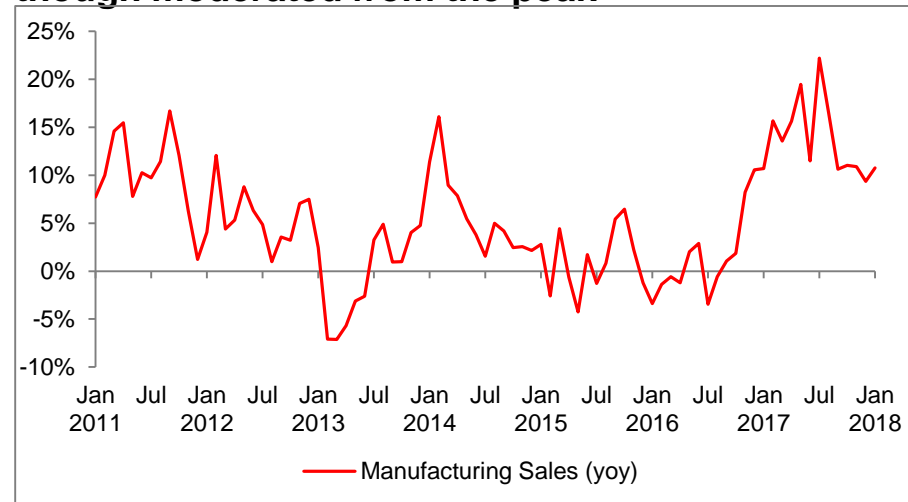
Source: OECD; Markit; CPB; SIA; EIA; MPOB

Malaysia: Activity indicators point to continued growth in 1Q18

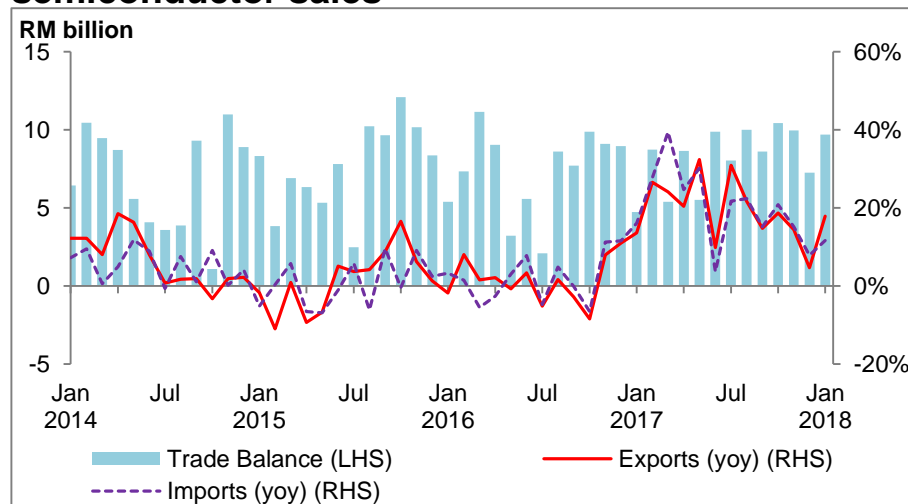
Industrial production continues to grow, albeit slower in 4Q17 and Jan 2018



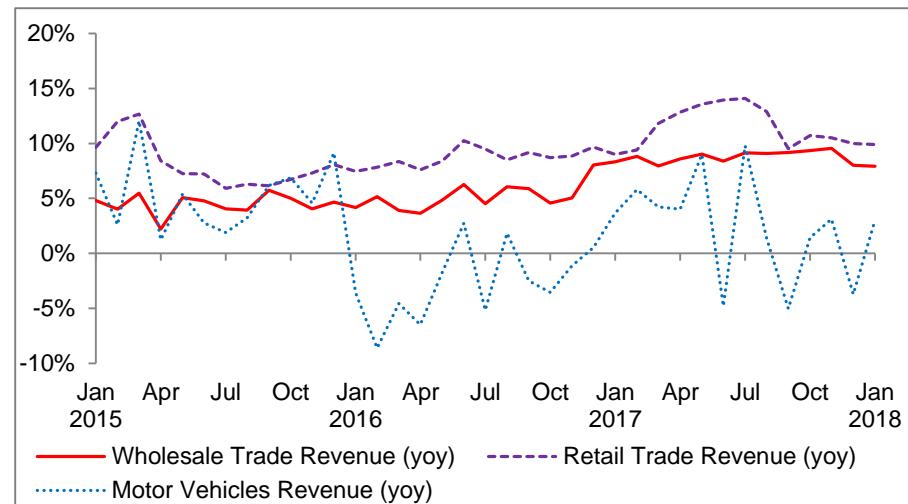
Manufacturing sales growth remained strong though moderated from the peak



Export growth still solid, driven by strong semiconductor sales



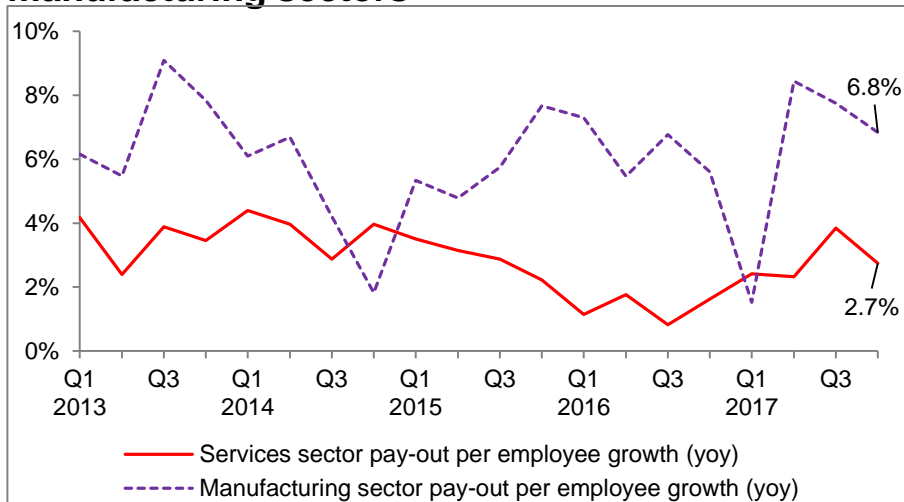
Wholesale and retail sales grew steadily



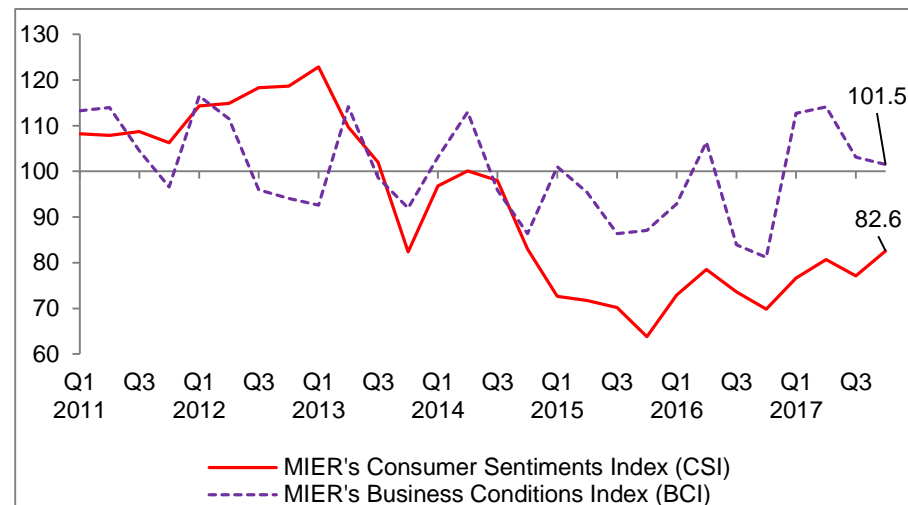
Source: DOS, Malaysia

But, SENTIMENTS move in opposite direction

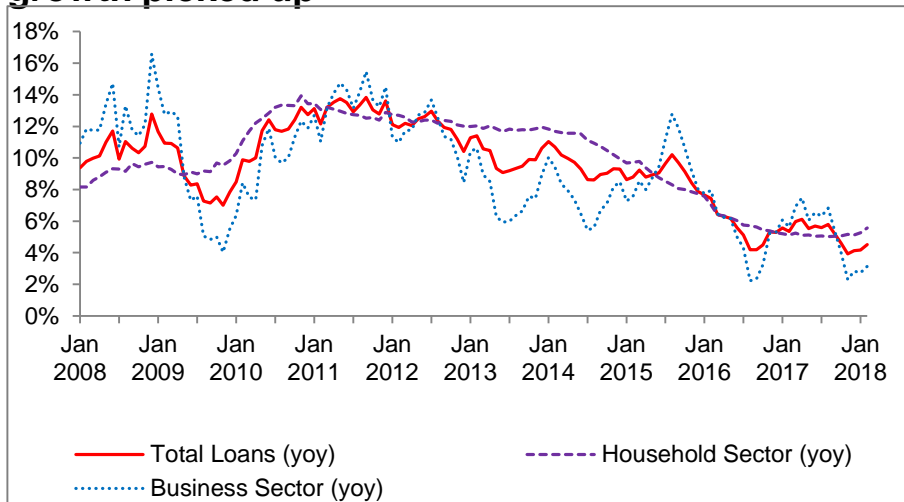
Wage growth per employee in services and manufacturing sectors



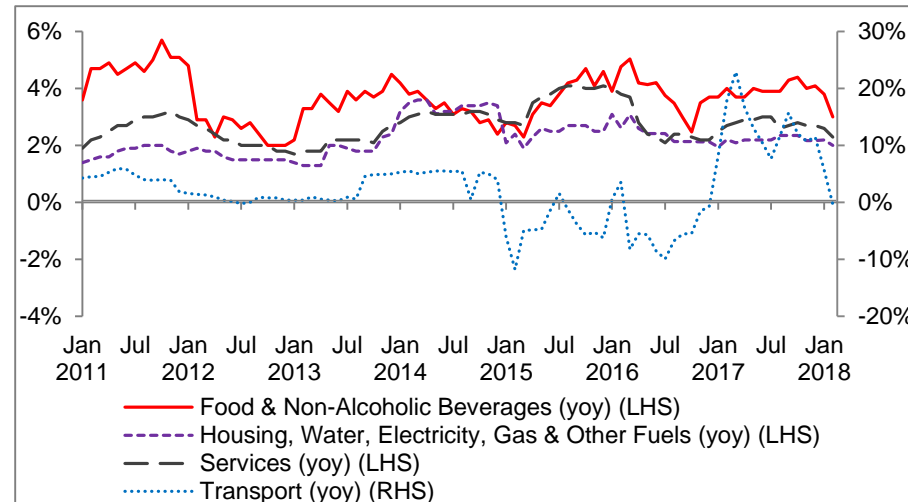
Cautious business and consumer sentiment



Household loan held steady; business loan growth picked up

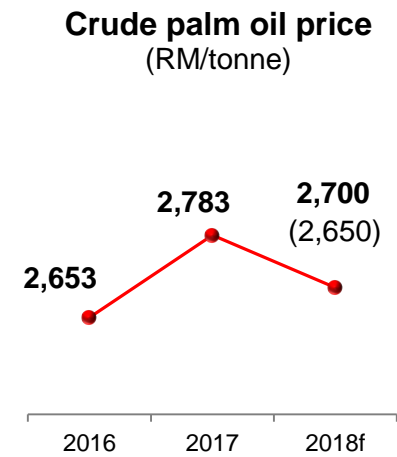
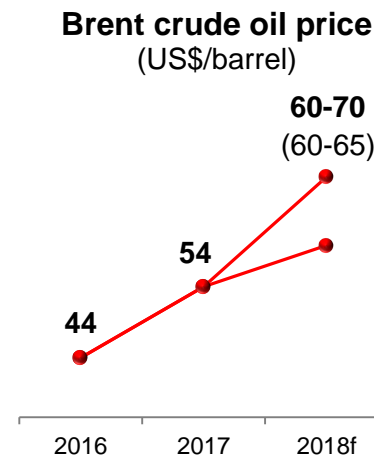
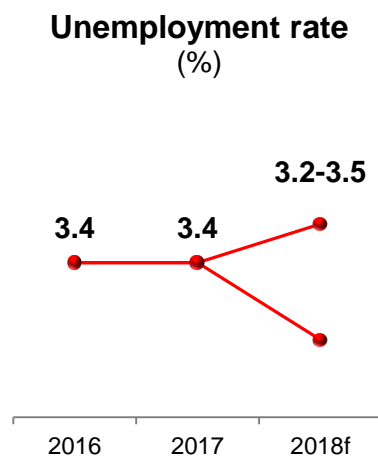
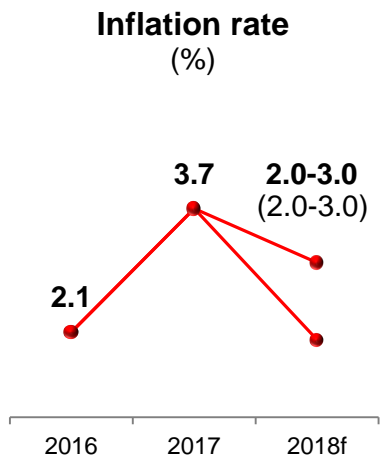
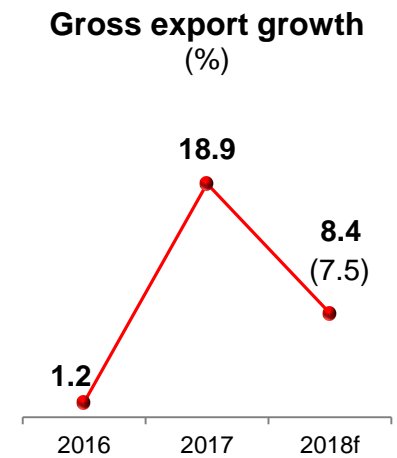
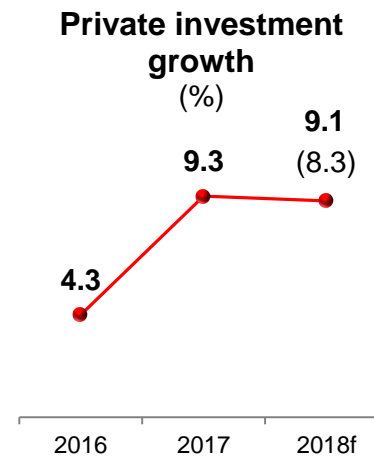
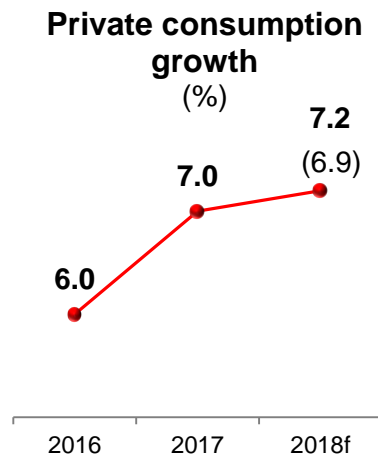
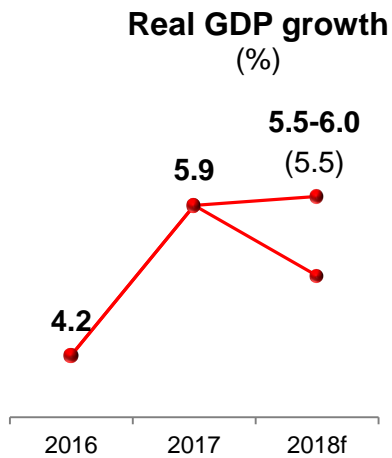


Food and fuel prices moderating



Source: DOS, Malaysia; MIER; BNM

Malaysia's key ECONOMIC INDICATORS



Source: DOS, Malaysia; BNM; EIA; MPOB; SERC
 Figure in parenthesis denotes SERC's estimate.

Reasons to remain **POSITIVE** on economy in 2018



POSITIVE ON THE GROWTH MOMENTUM. Amid optimism, the **HIGH BASE EFFECT** last year would weigh on this year's growth. **SERC REVISED HIGHER** this year's economic growth to 5.5% from 5.1% previously, mainly to reflect higher domestic demand and exports.



FIRES ON ALL CYLINDERS. It is a more balanced growth. Strengthening global growth to support **EXPORTS**, albeit slower (2018E: 7.5% vs. 18.9% in 2017). **DOMESTIC DEMAND** continued to anchor growth, thanks to supportive Budget measures and accommodative interest rates.



PRIVATE CONSUMPTION is estimated to increase at a sustained pace (2018E: 6.9% vs. 7.0% in 2017), underpinned by steady growth in **EMPLOYMENT AND INCOME** amid **CAUTIOUS SENTIMENT**. Cash handouts, special financial payment and personal income tax rate cut also helps consumption. Consumer spending has been proven resilience despite coping with high cost of living and inflation.



PRIVATE INVESTMENT growth will expand at slower rate of 8.3% in 2018 (9.3% in 2017), supported by ongoing and new capital spending in both the manufacturing and services sectors amid continued positive business sentiments.

RISKS and CONCERNS to domestic economic outlook



Externally, investors should not become **TOO COMPLACENT** after a long bull run in the stock market as unanticipated market surprises or event shocks would cause a risk repricing. External risks are **DISRUPTIVE MONETARY POLICY SHIFTS** in the **US**, **ESCALATING TRADE TENSIONS** between the US and its major trading partners could weigh down market confidence, dampen global trade and economic activity.



Domestic risks are the **SLOWDOWN OF STRUCTURAL REFORMS** to increase **PRODUCTIVITY GROWTH** and the lack of **QUALITY INVESTMENT** to raise the potential growth. **STRUCTURAL UNEMPLOYMENT** arising from the technology disruption could dampen consumer spending; increasing cost of doing business and compliance cost that weigh on businesses, especially SMEs.



RISING COSTS OF LIVING and **HOUSING AFFORDABILITY** are growing pains for low and middle-income households.



COST PRESSURES remain a concern for businesses. These include the implementation of the Employer Mandatory Commitment (EMC), which was postponed for implementation in 2017 (Under the EMC, the employers would be disallowed from deducting the levy from the wages of their workers); the Employment Insurance System (EIS); higher gas prices; probable review of new minimum wage in 2018 and new foreign workers' levy structure in 2019.

BROADENING base of output expansion

- Strong growth momentum; broad-based growth; resilient private sector activity

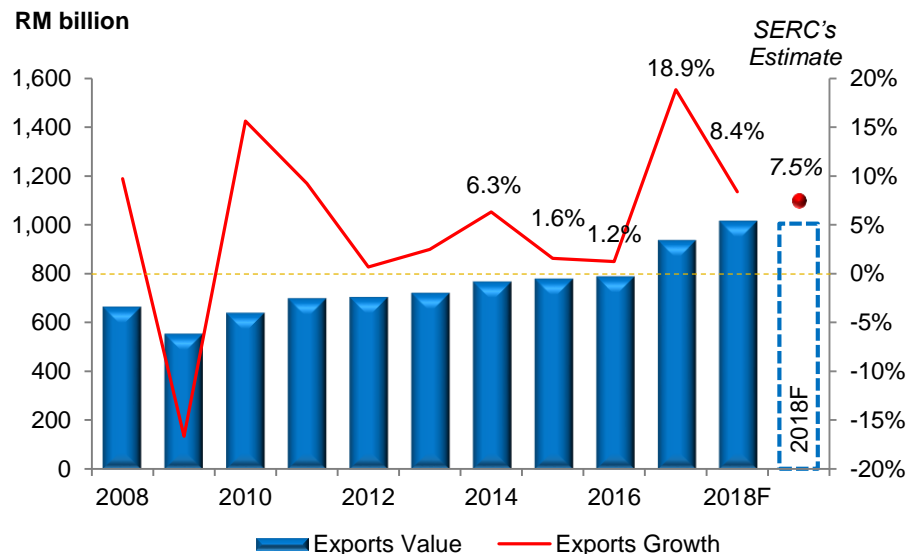
<i>% change, 2010=100</i>	2015	2016	2017	2018f (BNM)	2018f (SERC)
GDP by demand component					
Private consumption (53.7%)	6.0	6.0	7.0	7.2	6.9
Private investment (17.4%)	6.3	4.3	9.3	9.1	8.3
Public consumption (13.0%)	4.4	0.9	5.4	0.6	1.0
Public investment (8.0%)	-1.1	-0.5	0.1	-3.2	-1.5
Exports of goods and services (72.9%)	0.3	1.1	9.6	8.8	7.9
Imports of goods and services (65.1%)	0.8	1.1	11.0	9.1	8.8
GDP by economic sector					
Agriculture (8.2%)	1.3	-5.1	7.2	3.6	3.8
Mining & quarrying (8.4%)	5.3	2.2	1.1	1.8	1.5
Manufacturing (23.0%)	4.9	4.4	6.0	5.9	5.7
Construction (4.6%)	8.2	7.4	6.7	7.3	8.0
Services (54.4%)	5.1	5.6	6.2	6.1	6.0
Overall GDP	5.0	4.2	5.9	5.5-6.0	5.5

Figure in parenthesis indicates % share to GDP in 2017

Source: DOS, Malaysia; BNM; SERC

Will EXPORTS surprise on the upside?

Exports surged to fastest pace in 2017 ...



... reflecting broad-based expansion

Major export products [% Share]	RM billion	% Growth
E&E products [36.7%]	343.0	19.2
Petroleum product [7.7%]	72.0	31.7
Palm oil [4.9%]	46.1	11.3
LNG [4.3%]	40.5	23.7
Machinery & equipment [4.3%]	40.2	7.2
Metals [4.1%]	38.0	13.9
Optical & scientific equipment [3.5%]	32.4	12.8
Crude Petroleum [3.0%]	28.0	25.3

Figure in parenthesis indicates % share of gross exports in 2017

- We expect overall exports to rise at a more moderate pace throughout 2018 as the exceptionally high average export levels of about RM80.0 billion per month in 2017 would challenge the year-on-year growth.
- The **DRIVERS** of exports are 1) still growing global economy; 2) a moderate pace of global semiconductor sales estimated 7-8% this year (23.1% in 2017); 3) slower CPO prices; 4) diminishing favourable ringgit exchange rate valuation gains; and 5) brewing trade tensions between the US and its major trading partners.

Source: DOS, Malaysia

Tit-for-tat US-China TRADE WAR: Unintended consequences



GLOBAL REPERCUSSIONS highly disruptive and damaging on global economic growth via trade and financial channels. Trade – curtail trade activity; Asian supply chains disrupted and dampen global growth. Financial – share prices of affected companies/industries will be rered on earnings concern



On the US - SHORT-TERM GAIN, LONG-TERM PAIN. US consumers bear the brunt of the immediate damage in the form of inflation. Consumer spending dampened; businesses and retailing affected. China's tariffs on US\$50bil of imports from the US makes up 38.4% of US's export to China and 3.2% of US's total exports.



On China, MODEST IMPACT on Chinese consumers as the US is not a major source of consumer goods import. China can relatively easier than the US to find substitute sources of supply for the affected imports. US's tariffs on US\$50 billion of imports from China makes up 2.2% of China's total exports and 11.6% China's export to the US.



On Asia, Asian's HIGH LEVELS OF INTEGRATION OF SUPPLY CHAINS that are likely to be disrupted. A wide network of value chains that feed components, sub-components and materials into Chinese manufacturing and assembly.

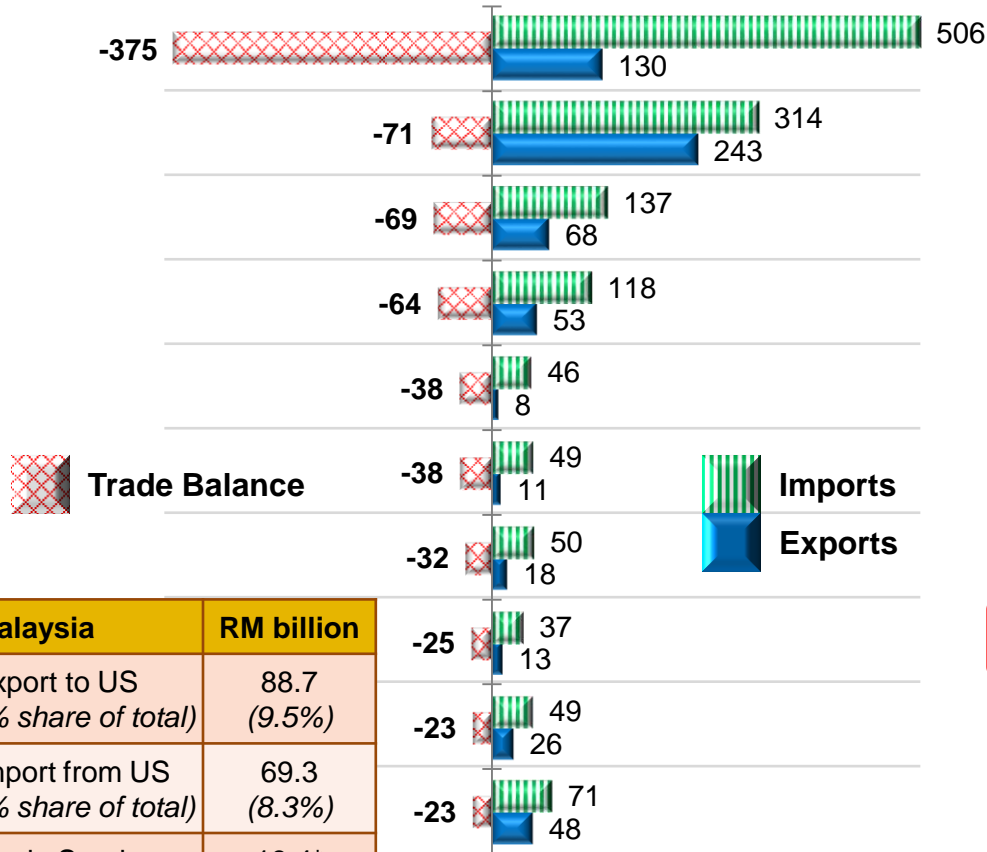


On Malaysia, the impact on trade and industries via the supply chains will be minimal if the trade retaliation is limited in scope and not prolonged. **NEGATIVE** for electronics and electrical industry and industrial equipment. **POSITIVE** for palm oil.

Countries having LARGE TRADE IMBALANCES with the US

Ranking of country which the US incurred trade deficit with in 2017

US\$ billion



Malaysia	RM billion
Export to US (% share of total)	88.7 (9.5%)
Import from US (% share of total)	69.3 (8.3%)
Trade Surplus	19.4*

	% of Total	Exports	Imports	Trade
1 China		8.4	21.6	16.4
2 Mexico		15.7	13.4	14.3
3 Japan		4.4	5.8	5.3
4 Germany		3.5	5.0	4.4
5 Vietnam		0.5	2.0	1.4
6 Ireland		0.7	2.1	1.5
7 Italy		1.2	2.1	1.8
8 Malaysia		0.8	1.6	1.3
9 India		1.7	2.1	1.9
10 South Korea		3.1	3.0	3.1

* With average exchange rate of RM4.3008/US\$1: ≈US\$4.5billion

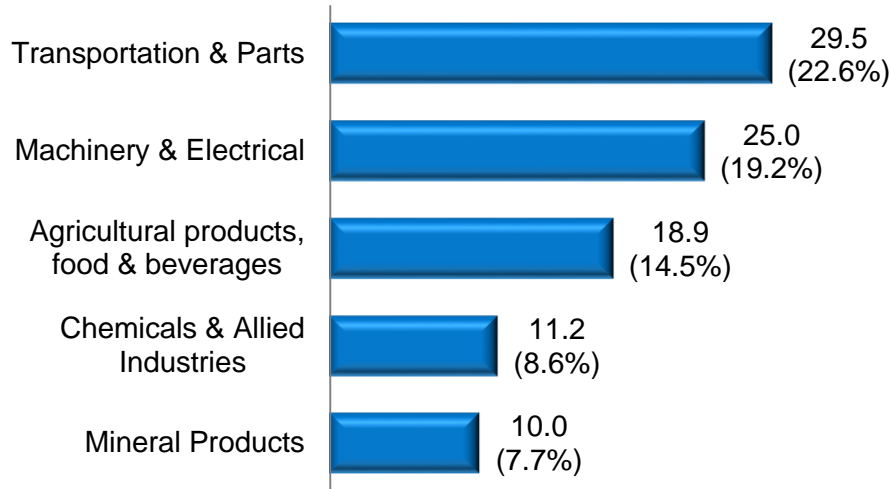
Source: US Census Bureau; DOS, Malaysia

The industries most AT RISK in US-China trade war

The US industries most at risk in a trade war with China

Leading export categories by HS code

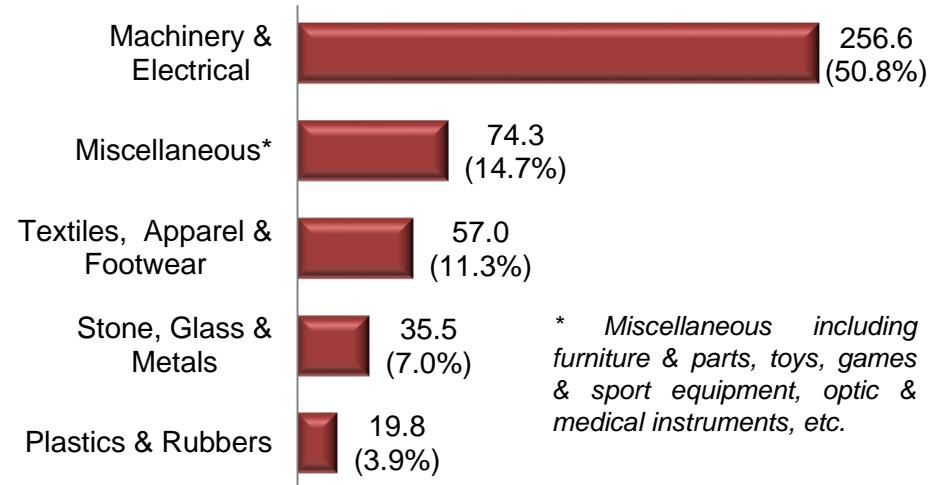
United States to China in 2017 (US\$ billion)



The Chinese industries most at risk in a trade war with US

Leading export categories by HS code

China to United States in 2017 (US\$ billion)



* Miscellaneous including furniture & parts, toys, games & sport equipment, optic & medical instruments, etc.

Figure in parenthesis indicates % share of gross exports in 2017

Exposure to the value chain (%)

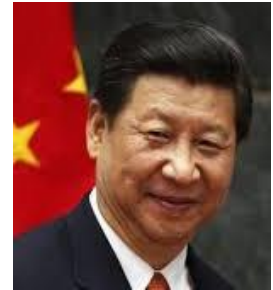
	Indonesia	Malaysia	Singapore	Thailand		Indonesia	Malaysia	Singapore	Thailand
Wood & products	0.1	0.0	0.0	0.1	Textiles	1.1	0.6	0.3	0.7
Food products	0.2	0.1	0.0	0.1	Machinery	1.1	0.7	0.4	0.5
Electronics	3.4	6.6	2.7	3.0	Motor vehicles	0.1	0.0	0.0	0.0
Paper & products	0.1	0.0	0.0	0.0	Other transport	0.1	0.1	0.0	0.0
Chemicals	1.0	0.5	0.2	0.4	Basic metals	0.9	0.3	0.1	0.1
Electrical machinery	2.8	2.5	1.1	1.8	Total	10.9	11.4	5.0	6.8

Source: US Census Bureau; Oxford Economics

The proposed list of products hit by HIGHER TARIFF



US\$50 billion



- 38.4% of US's export to China
- 3.2% of US's total exports

- 11.6% of China's export to US
- 2.2% of China's total exports

China's products in US hit list



Machinery



E&E products



Furniture



Aerospace



Motor vehicle

US's products in China hit list



Soybean



Motor vehicle



Chemical products



Propane LPG

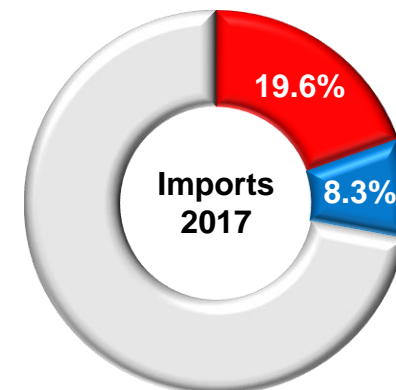
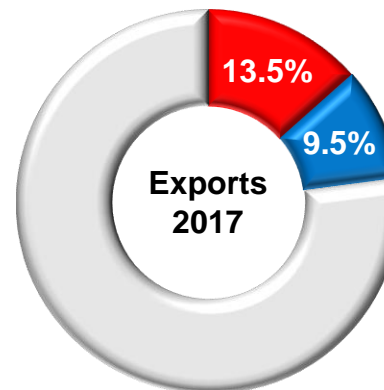


Raw cotton

Source: US Census Bureau; National Bureau of Statistics of China

Malaysia's exports to the US and CHINA

Ranking	Exports	Imports
	2	1
	3	3



 China  United States

Major export products to China in 2017	RM mil	% share*
E&E products	50,386	39.9
- <i>Semiconductor</i>	36,332	28.8
Chemical & related products (excl. non-primary plastics)	14,449	11.5
Petroleum products	13,312	10.6
Liquefied Natural Gas	5,798	4.6
Manufactures of metal	4,529	3.6
Palm Oil	4,027	3.2
Total	126,150	

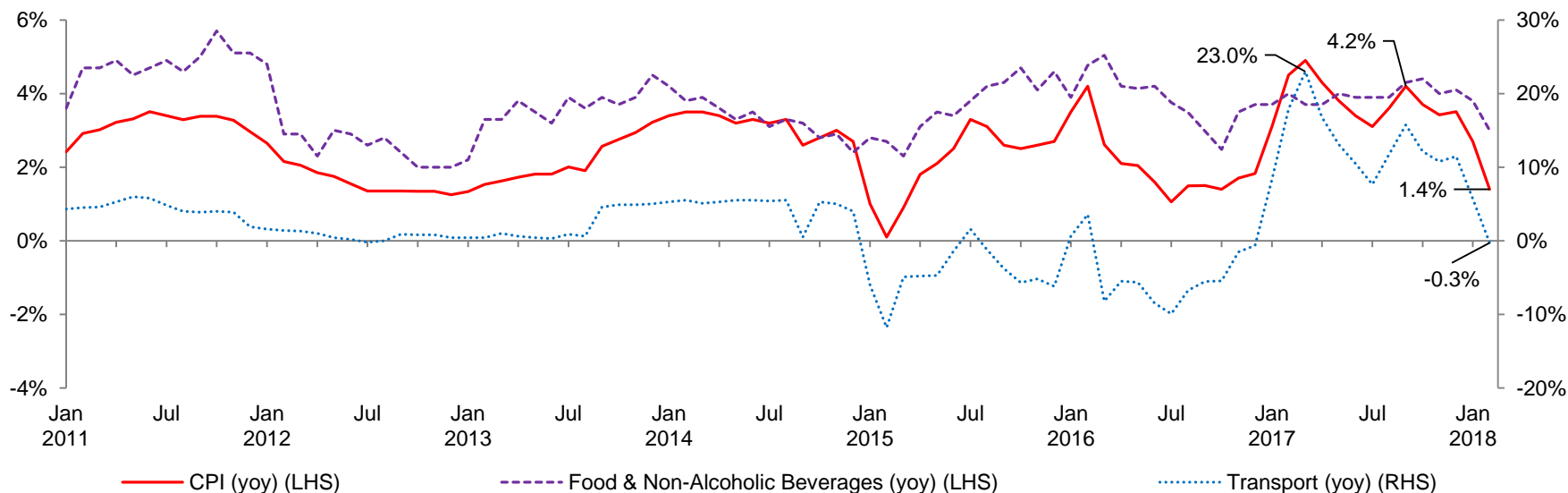
Major export products to United States in 2017	RM mil	% share*
E&E products	49,148	55.4
- <i>Semiconductor</i>	16,034	18.1
Optical & scientific equipment	5,562	6.3
Rubber gloves	5,502	6.2
Furniture & parts	3,604	4.1
Machinery, equipment & parts	3,271	3.7
Chemical & related products (excl. non-primary plastics)	3,243	3.7
Total	88,693	

Source: DOS, Malaysia

* % share to total exports to respective country

PRICE PRESSURES seen easing ...

- February's CPI (1.4% yoy) is the fifth consecutive month in which an easing of inflationary pressures has been recorded since September 2017 (4.2%), thanks to lower prices of transportation (fuel prices) and moderating food prices.
- We have **lowered our 2018's CPI growth estimate to 2.0-3.0%** from 3.0-3.5% previously, mainly to reflect moderated food prices amid the variation of fuel prices, which remain a wild card. Other potential drivers of inflation are utility cost, wage growth and firm demand fuelling demand inflation. Higher technical base effects in 1H17 (4.2% in 1Q17; 3.8% in 2Q vs. 3.6% in 3Q and 3.5% in 4Q) also play a part.

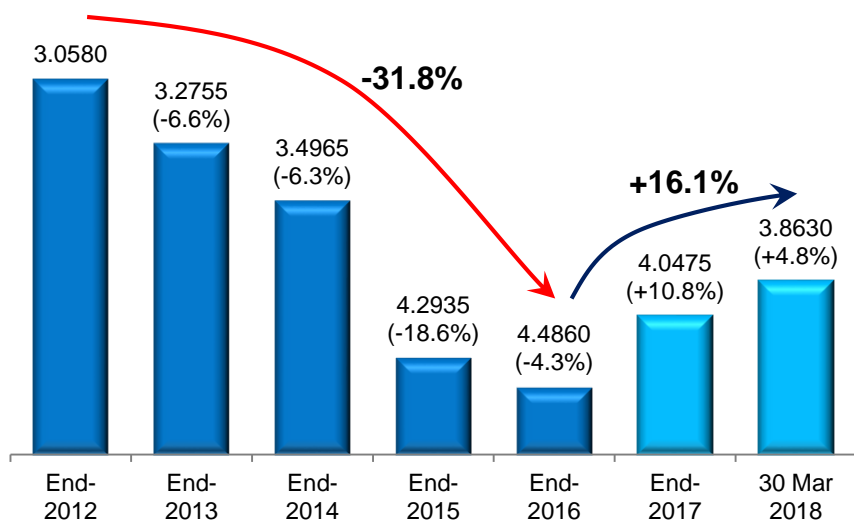


Source: DOS, Malaysia

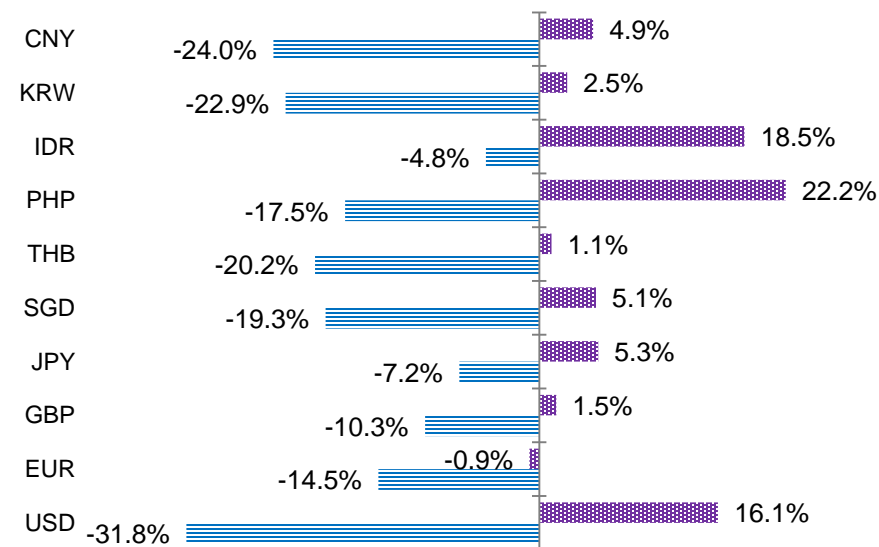
The ringgit is trending towards **FUNDAMENTAL** value

- **POSITIVE FUNDAMENTALS:** Brightening economic growth prospects, firming commodity prices, the onshore ringgit stabilization measures, prospect of domestic interest rate normalization, continued current account surplus, accumulation of foreign reserves.
- **COUNTERACT DAMPENING FACTORS:** Strong US dollar, higher US interest rates and yields, flows into the US dollar assets, geopolitical risks and developments in global financial markets.
- SERC's estimate of RM/US\$: End-2018F: RM3.80-3.90/US\$1

Ringgit movement against USD



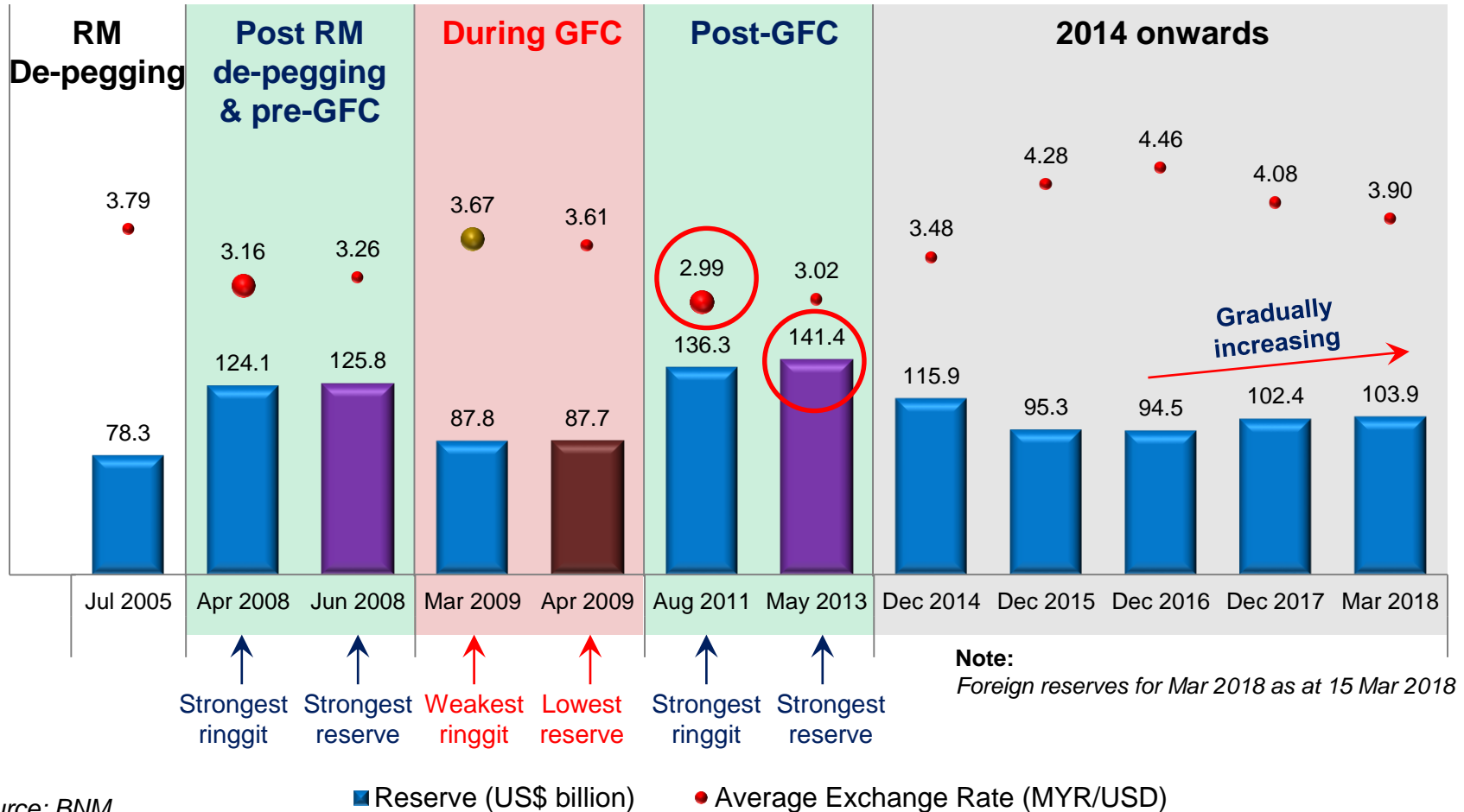
Ringgit performance



Source: BNM

INTERNATIONAL RESERVE and RINGGIT movement

- Foreign reserves accumulation a precursor of the ringgit strength



Source: BNM

More INTEREST RATE HIKES to come in 2018?

- **BNM raised OPR by 25 bps to 3.25%** in January this year after keeping it unchanged at 3.00% since July 2015. The market must prepare for further rise in rates if the following conditions are met throughout the year 2018:

- 1) If the global growth and domestic economy continues to sustain at strong levels, supported by domestic demand;
- 2) To anchor inflation expectations should headline and core inflation continue to remain at elevated levels as oil prices remain a wild card. BNM needs to stay ahead of the inflation curve; and
- 3) To balance the yield gaps should the Fed hike rates aggressively.

	2007	2008	2009	2010	2016	2017	2018F
OPR	3.50% =	3.25% ↓	2.00% ↓	2.75% ↑	3.00% ↓	3.00% =	3.25-3.50% ↑
GDP	6.3% ↑	4.8% ↓	-1.5% ↓	7.4% ↑	4.2% ↓	5.9% ↑	5.5% ↓
Inflation	2.0% ↓	5.4% ↑	0.6% ↓	1.7% ↑	2.1% =	3.7% ↑	2.0-3.0% ↓
RM/US\$1 (end-period)	3.3115 ↑	3.4675 ↓	3.4265 ↑	3.0855 ↑	4.4860 ↓	4.0475 ↑	3.80-3.90 ↑

**ARE YOU PREPARED FOR
RISING INTEREST RATES?**



Source: BNM; DOS, Malaysia

ICT and Digital Adoption: E-Readiness of Malaysian SMEs



SMEs: Increasing CONNECTIVITY with ICT

SERC survey
SMEs (2017)

79.2%

71.4%

64.9%

31.8%

Physical access to ICT devices and tools



Computer



Internet



Web presence



Intranet

Economic Census**
SMEs (2015)

73.1%

56.5%

20.1%

26.7%

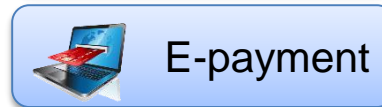
Usage of ICT applications



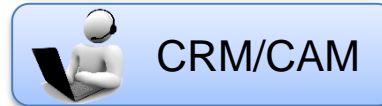
Email



Social Media



E-payment



CRM/CAM

71.2%

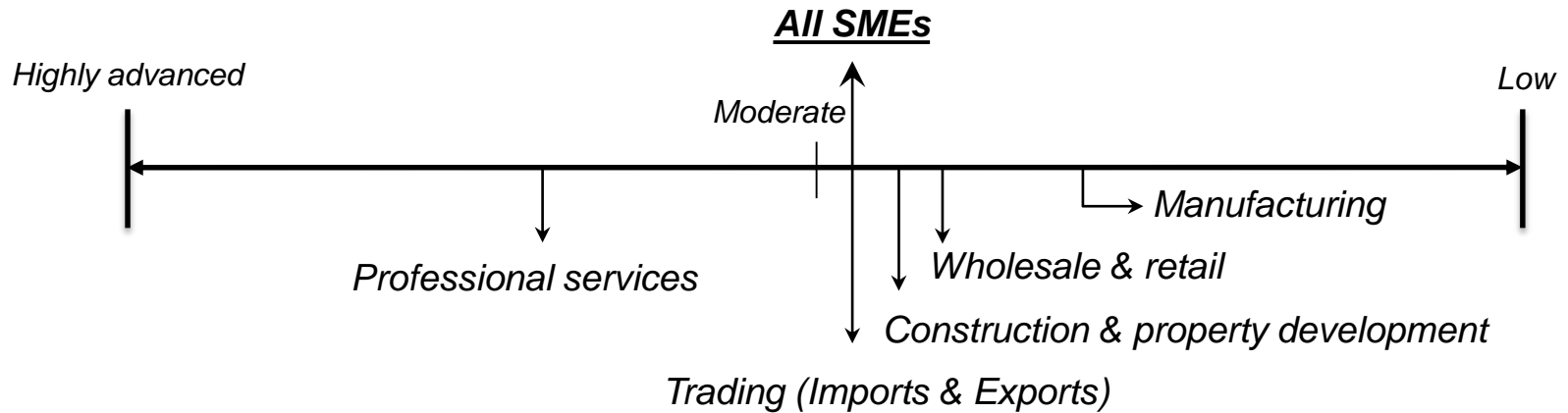
36.9%

41.2%

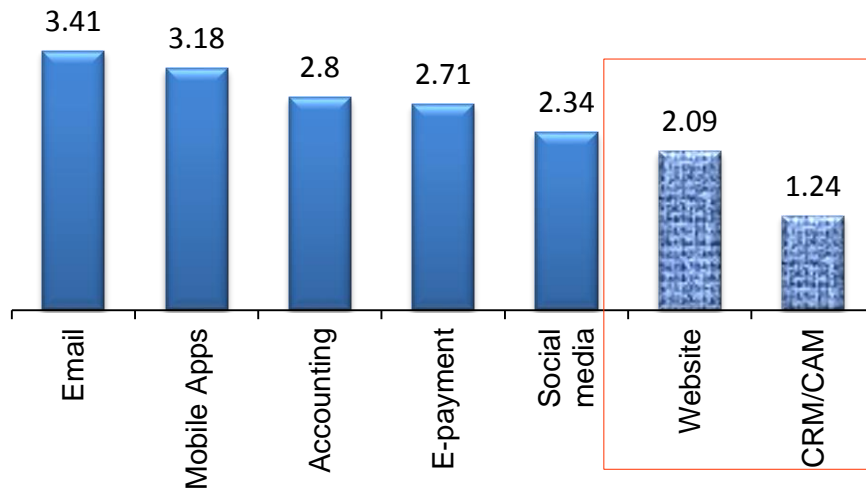
10.0%

Source: DOS, Malaysia; SERC

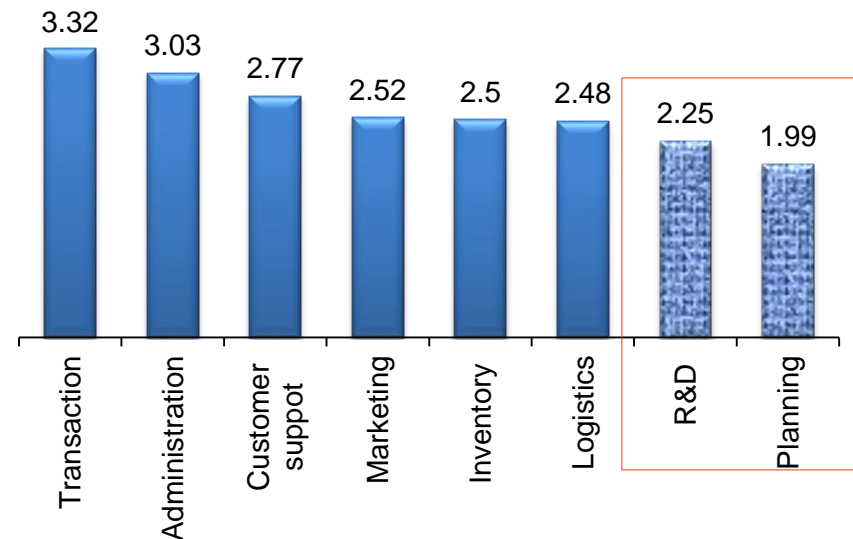
SMEs: “Moderate” level of ICT adoption



SMEs may not have the needed resources to continuously maintaining ICT applications



Digital technology is “least or never used” in planning and R&D relative to other operations

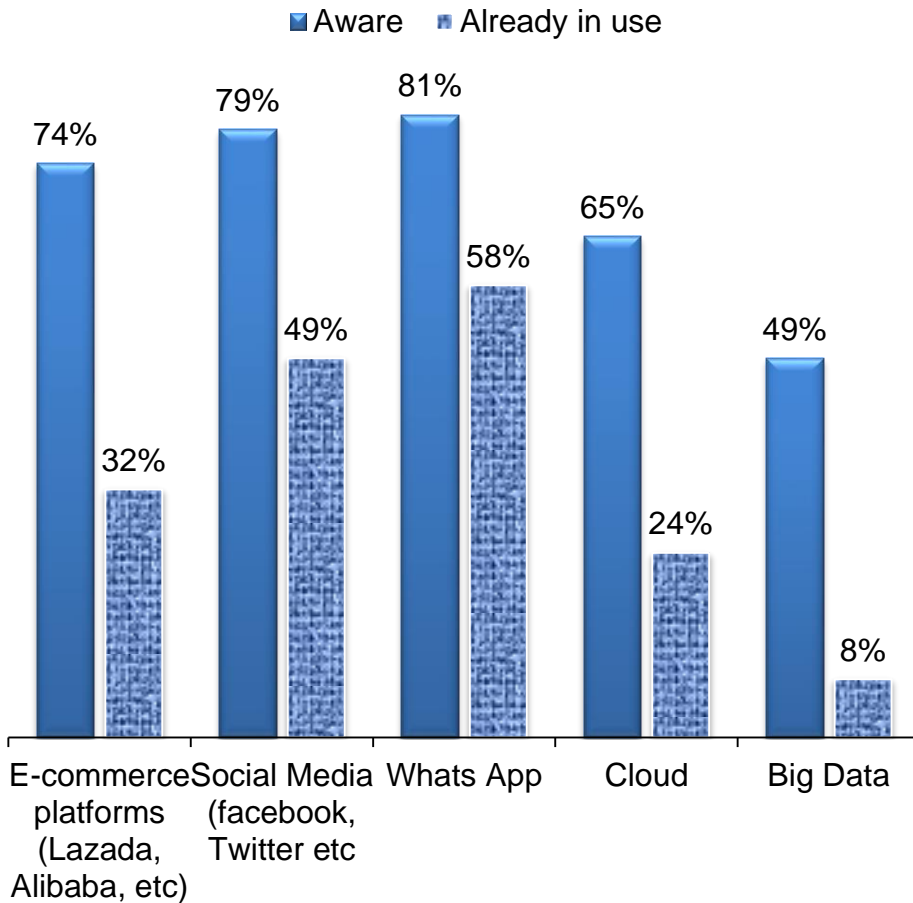


Source: SERC

Note: 1=Never use; 2=Seldom use; 3=Moderate used; 4=Widely used; 5=Most widely used

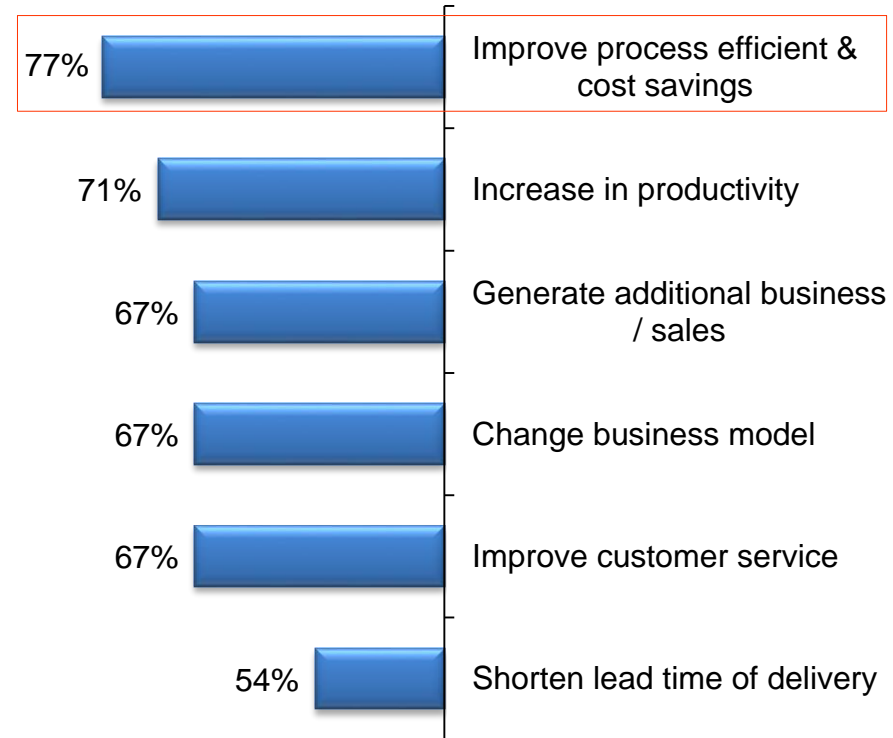
SMEs have yet to fully EMBRACE newer technologies

High awareness about mobile technologies but low adoption rate



SMEs rated ICT helps to improve process efficiency; cost savings; drive higher productivity and generate higher sales for SMEs

Impact of ICT adoption



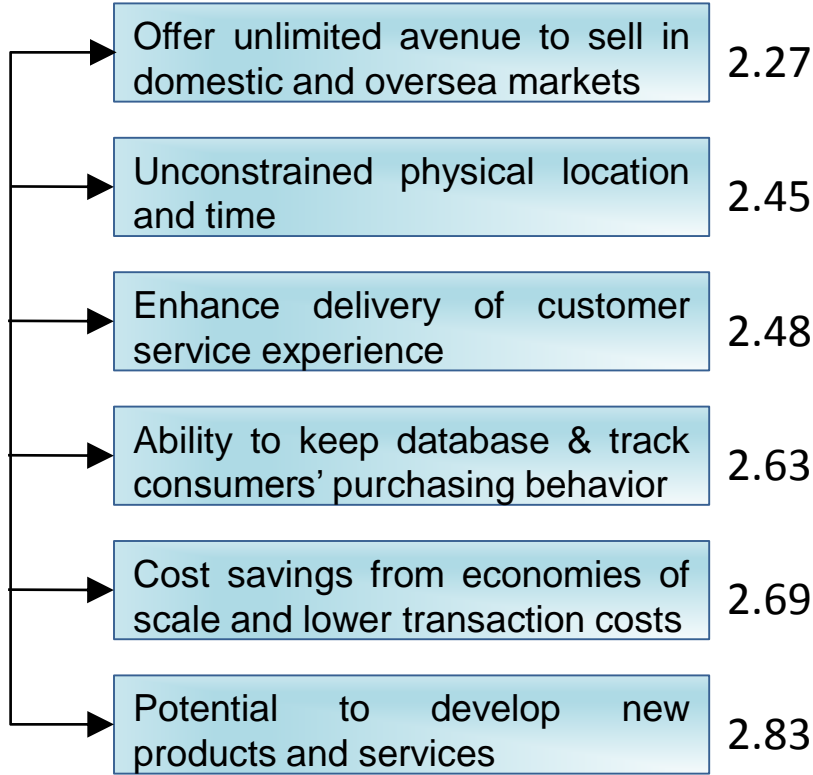
Source: SERC

Problems of FINANCING investment in the digital market

SMEs acknowledged that E-commerce offers enormous business opportunity

High cost of technology investment poses barrier for SME's growth

Strategic benefits of E-commerce:



1=Extremely important 2=Very important
 3=Moderately important 4=Somewhat important
 5=Least important 6=No benefit/Not relevant

2.0
Very Important

2.27

2.45

2.48

2.63

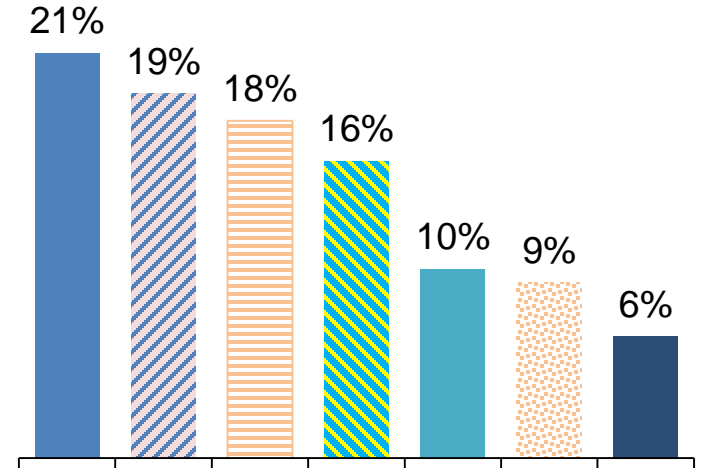
2.69

2.83

3.0

Moderately Important

Extremely challenging

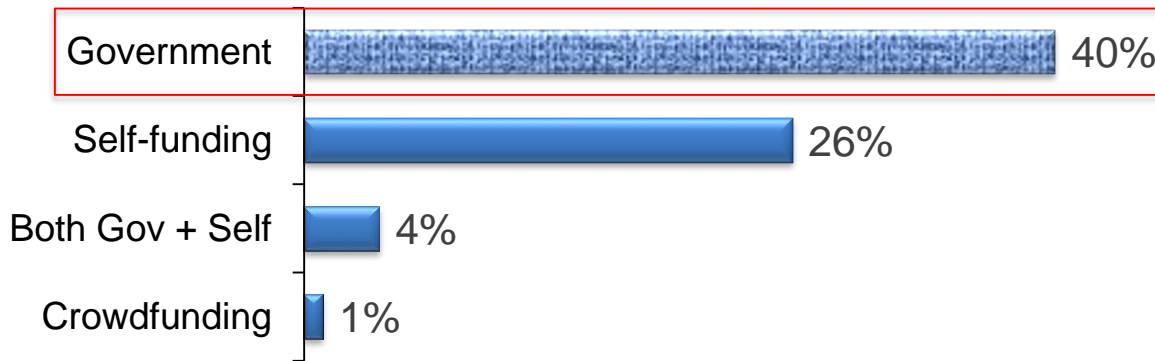


- High fixed cost
- ▨ Internet Speed
- ▨ Payment Insecurity & privacy
- ▨ Lack of IT technicians
- Lack of know-how
- ▨ Cash flow for maintenance
- Too small for e-commerce

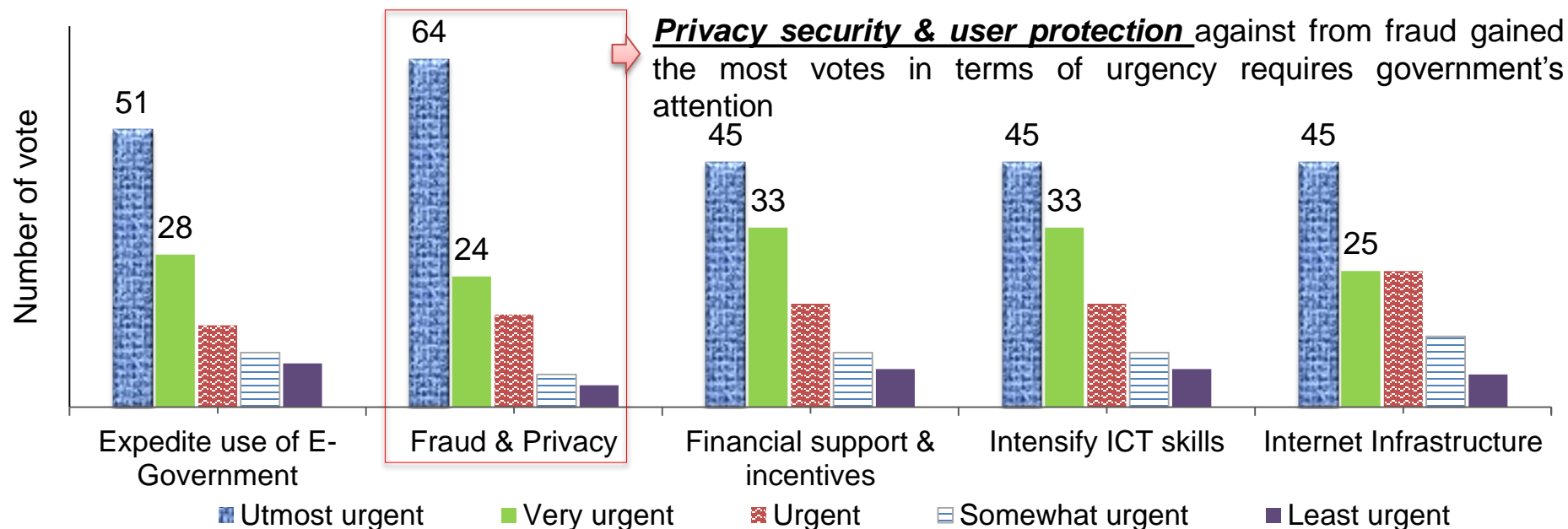
Source: SERC

Government FUNDING AND ASSISTANCE is needed

Sources of funding for e-commerce's adoption or expansion



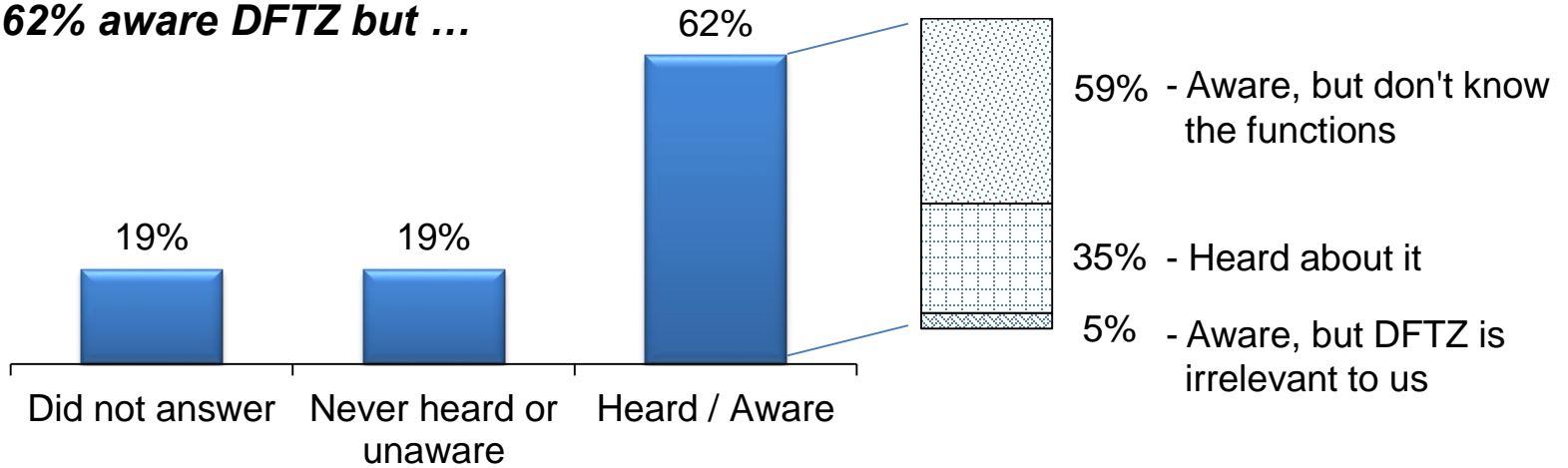
Initiatives expected from the Government



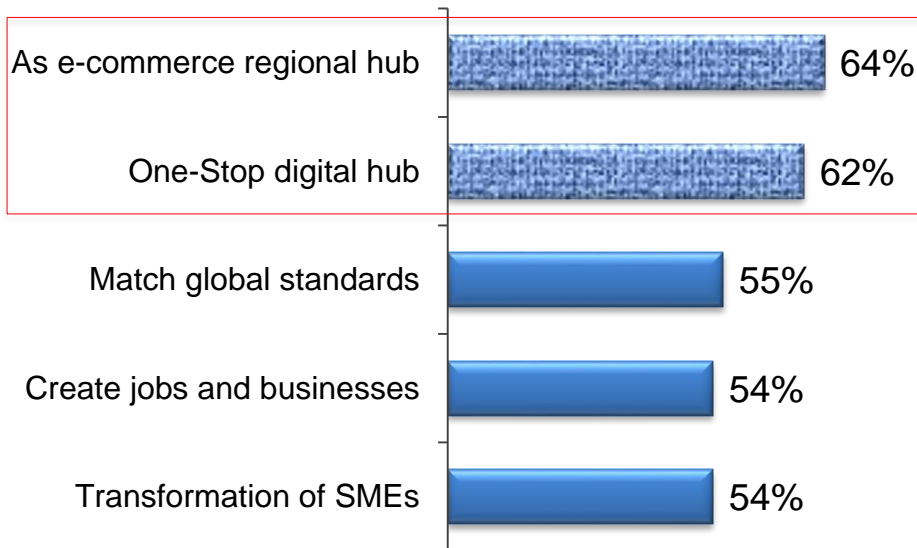
Source: SERC

DFTZ could be a **DOUBLE-EDGED** sword for SMEs

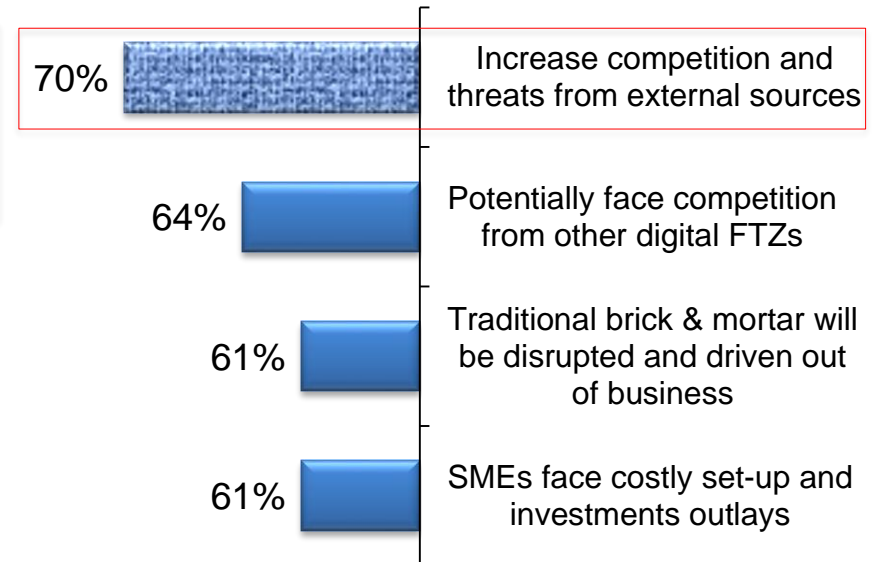
62% aware DFTZ but ...



Perceived impact of DFTZ*



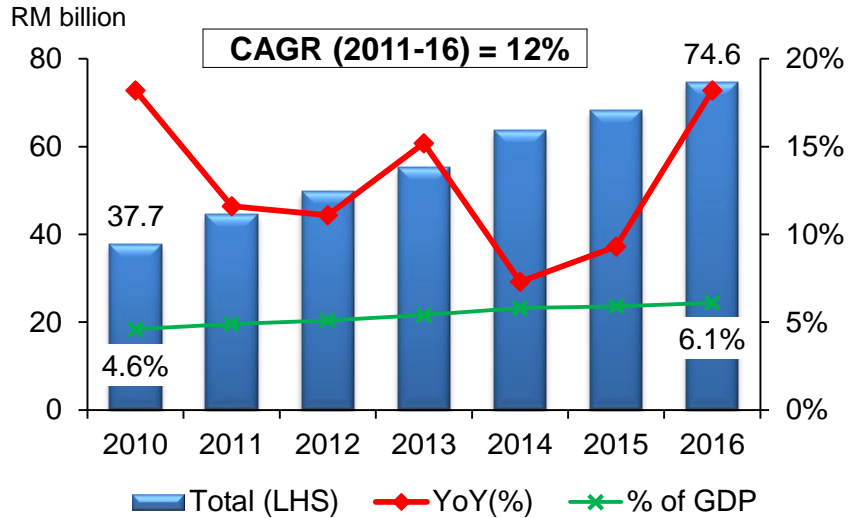
Challenge from DFTZ*



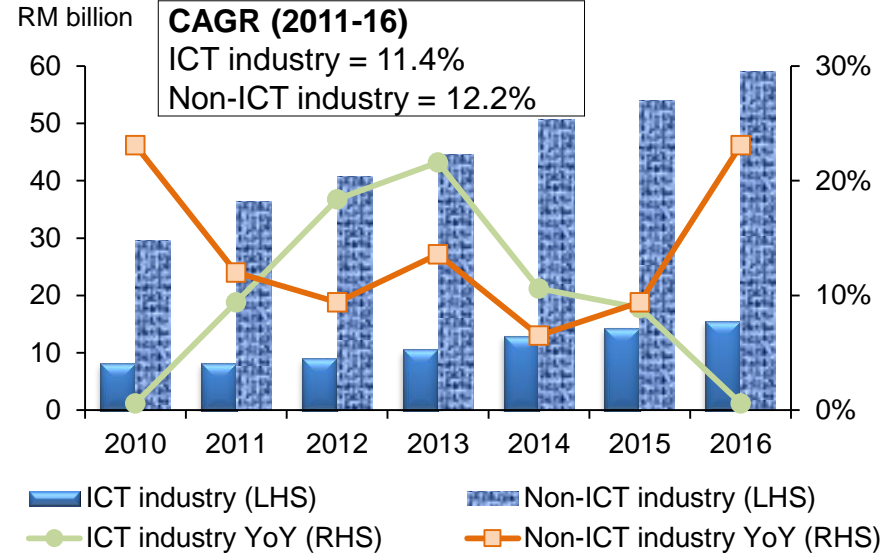
Source: SERC

BOOMING Malaysia's E-commerce

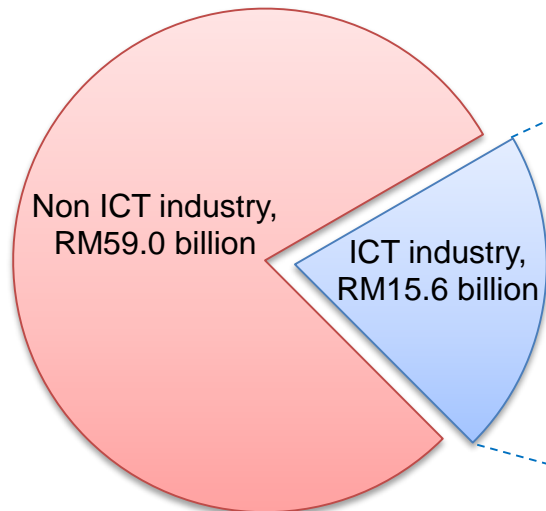
Malaysia's E-commerce is growing steadily



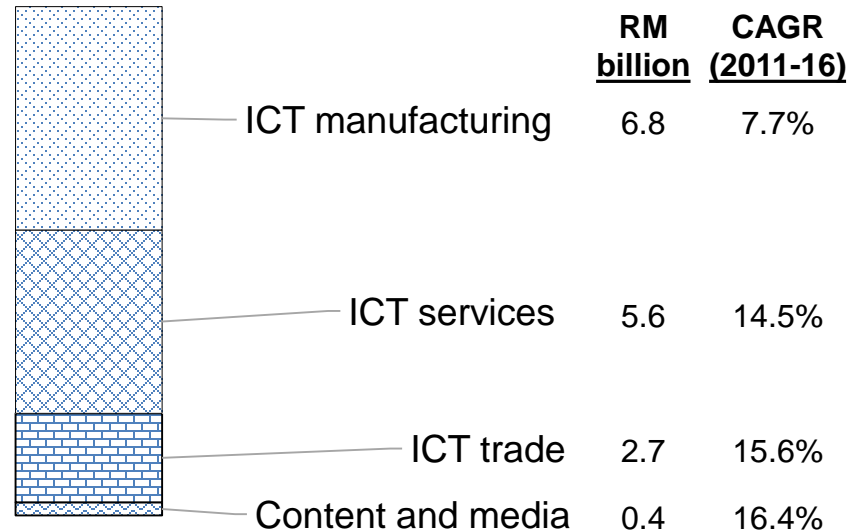
Non-ICT industry drives the Malaysia's E-commerce



E-commerce gross value added (2016)



By sector



Source: DOS, Malaysia

BOOMING Malaysia's E-commerce

E-commerce gross value added by industry		2010	2011	2012	2013	2014	2015	2016	CAGR (2011-16)
ICT industry	RM billion	8.15	8.19	8.97	10.62	12.91	14.28	15.55	11.4%
	YoY (%)	0.6	9.4	18.4	21.6	10.6	8.9	0.6	
ICT manufacturing	RM billion	4.36	3.78	3.96	4.51	5.64	6.31	6.82	7.7%
	YoY (%)	-13.3	4.7	14.1	24.9	11.8	8.2	-13.3	
ICT trade	RM billion	1.13	1.43	1.57	1.96	2.22	2.46	2.71	15.6%
	YoY (%)	25.6	10.2	24.9	15.1	8.9	10.1	25.6	
ICT services	RM billion	2.48	2.77	3.18	3.84	4.65	5.12	5.60	14.5%
	YoY (%)	11.5	14.9	20.6	21.1	10.2	9.4	11.5	
Content & media	RM billion	0.16	0.21	0.25	0.28	0.34	0.37	0.40	16.4%
	YoY (%)	29.8	18.1	15.8	20.1	8.2	7.7	29.8	
Non ICT industry	RM billion	29.57	36.40	40.78	44.64	50.72	53.99	59.04	12.2%
	YoY (%)	23.1	12.0	9.4	13.6	6.5	9.4	23.1	
Total	RM billion	37.72	44.60	49.76	55.26	63.63	68.28	74.60	12.0%
	YoY (%)	18.2	11.6	11.1	15.2	7.3	9.3	18.2	
	% share of GDP	4.6	4.9	5.1	5.4	5.8	5.9	6.1	

Source: DOS, Malaysia



All EYES ON FOR THE NEXT E-COMMERCE BOOM



2017: THE YEAR OF THE INTERNET ECONOMY

Why the future's bright for Malaysian e-commerce ?



2016: **RM74.6 billion**
"CAGR2011-16: **12%**"
6.1% share of GDP



20 million "Digital population"



US\$3.8 billion
Expected e-commerce market growth in 2017



30% E-commerce transactions in Southeast Asia are from Malaysia



Access to **625 million people**

DFTZ
Digital Free Trade Zone
launch to double e-commerce growth by 2020



Economic Transformation Program (ETP)

Ideally positioned in the ASEAN region



Government heavily promotes and subsidizes e-commerce

Source: Consumer barometer by Google, Statista

Highlights of survey findings

Connectivity

- The gaps between awareness and actual adoption level are apparent
- SMEs have yet to fully embrace newer technologies

Capability

- The size and business activity influences the level of adoption
- The government need to look into providing incentives or grants to expedite the growth of digital technologies

Confidence

- Despite ICT raising productivity and sales, SMEs remained skeptical about data privacy and protection security
- Create more awareness about DFTZ, getting Malaysian SMEs prepared to come onboard this game changer

Policy recommendations

- Enhance ICT infrastructures and ICT policies for innovation
- Create a favorable ecosystem for the ICT industry
- Keep low entry barriers to promote rapid innovation and competitive charges
- Intensify public-private collaboration to reduce ICT skill gaps
- Develop a structured ICT readiness enhancement program for SMEs
- Introducing tailored easy-to-use e-commerce solutions for SMEs
- Credible legal framework to enhance customer protection
- Capital and equipment allowances to ease the upfront cost of ICT investment
- Accelerate the driving of e-commerce growth via effective execution of Malaysia's National e-Commerce Strategic Roadmap
- Expand digital outreach program to help micro enterprises



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谢谢
THANK YOU

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