



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

QUARTERLY ECONOMY TRACKER
(JUL-SEP 2020)

Recovery is underway; risks still prevalent

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6 October 2020



A global recovery is underway; risks still prevalent

Global recovery is slowing emerging

- 👍 **Signs of recovery, albeit unevenly** though the path ahead still full of uncertainty
- 👍 **OECD leading indicators** signal the pace of rebound in the world's leading economies still slow but off the lows
- 👍 **Global PMIs** show a **revived expansion track in manufacturing and services**
- 👍 **Retail spending** has picked up, supported by improving **labour market conditions**
- 👍 **Global trade volume** though continues to decline but at a smaller magnitude

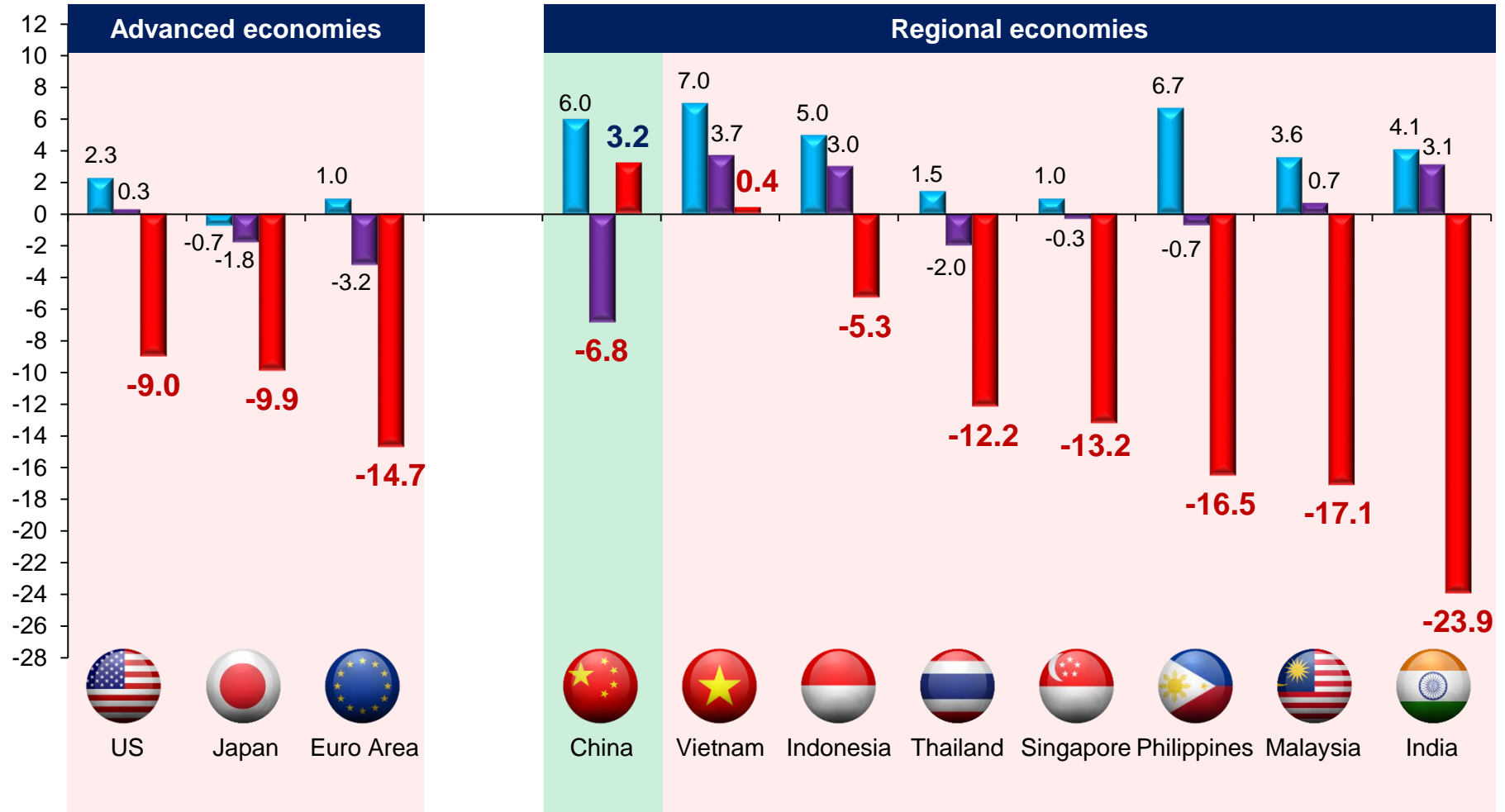
Risks to recovery

- 👎 The pace and strength of recovery is critically dependent on the **future path of virus and vaccines development**, which is anticipated to be available in 2021
- 👎 **Confidence about the virus containment and vaccination** are needed for a full recovery

Global outlook – Worst may be over in 2Q 2020, but recovery far from certain

Real GDP growth (% YoY)

■ 2019 Q4 ■ 2020 Q1 ■ 2020 Q2

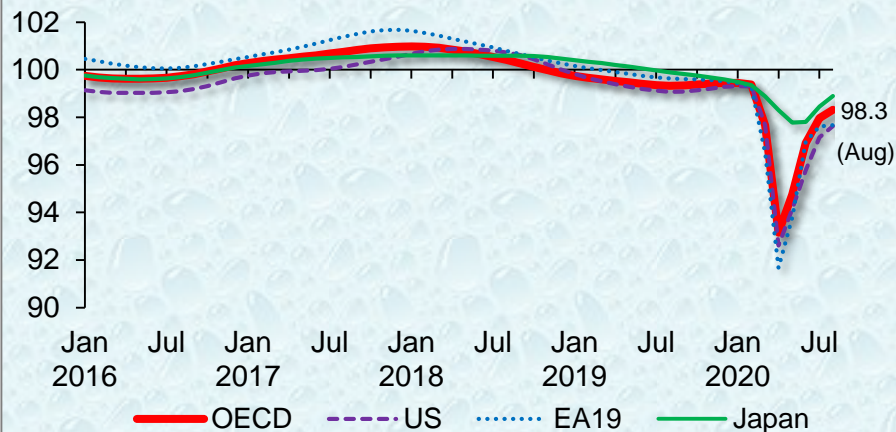


Source: Officials (unadjusted data except Euro Area)

Economic data continued to recover from the historic slump

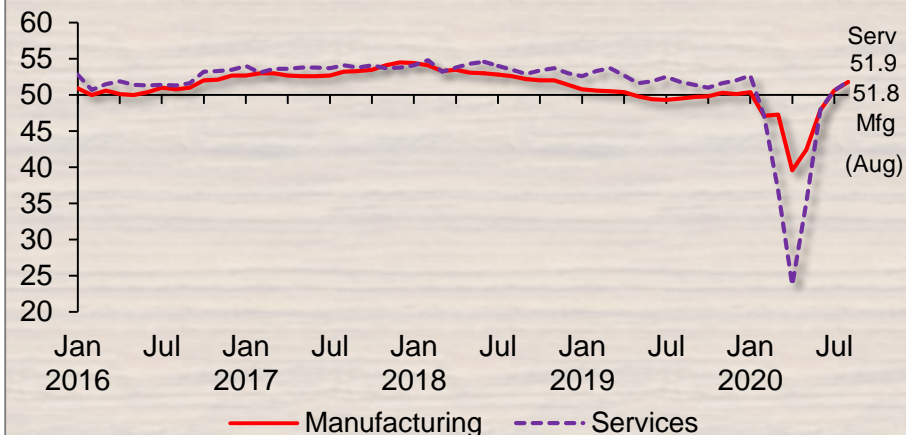
Composite Leading Index (CLI)

A gauge of forward economic outlook (Long-term average = 100)



Global PMI for manufacturing and services

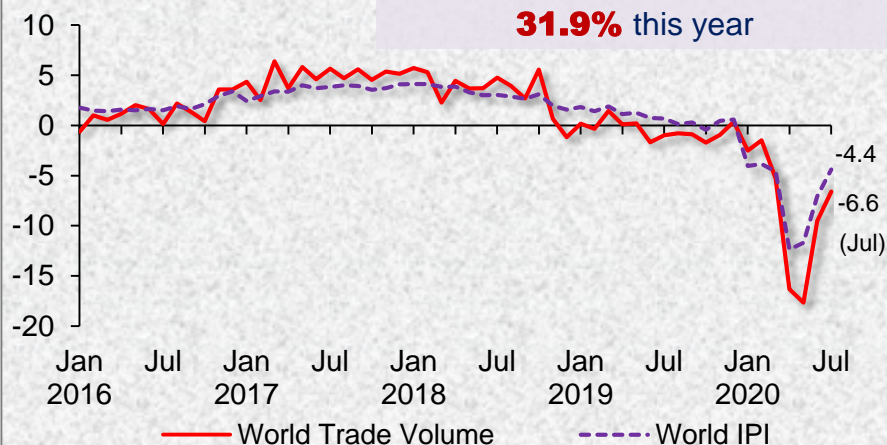
50 = no change on prior month



World trade and IPI

%, YoY

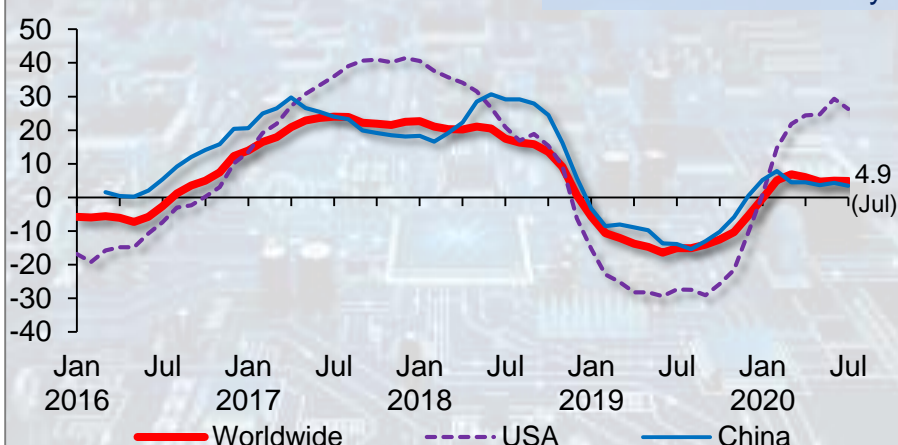
WTO expects world trade to decline between 12.9% and 31.9% this year



Global semiconductor sales

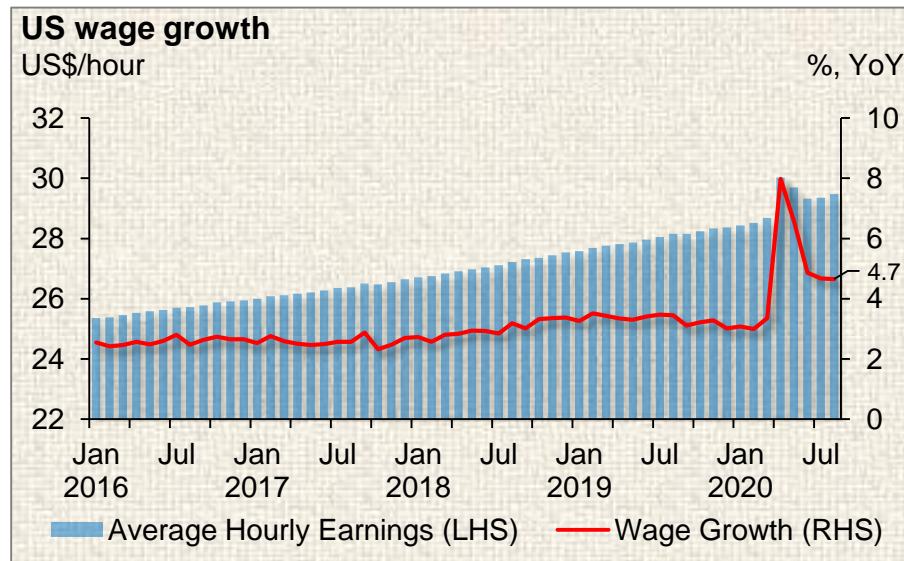
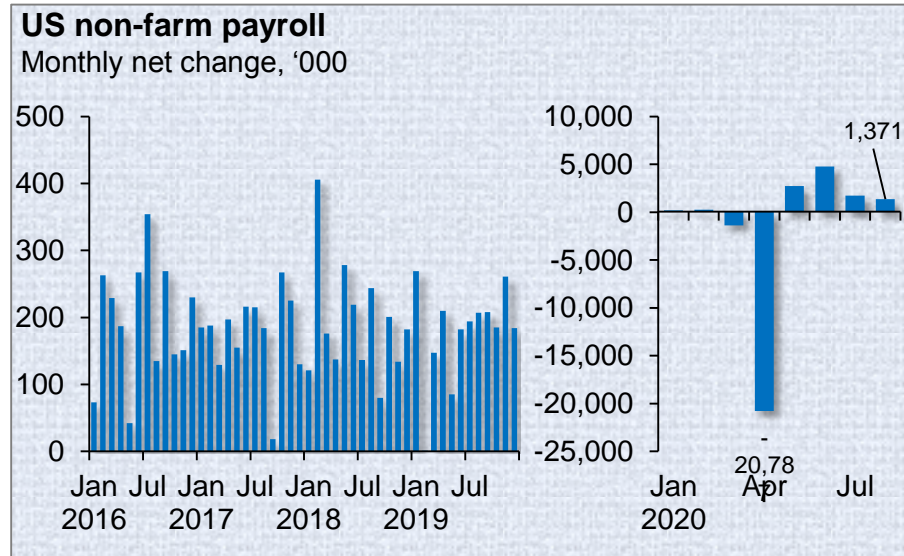
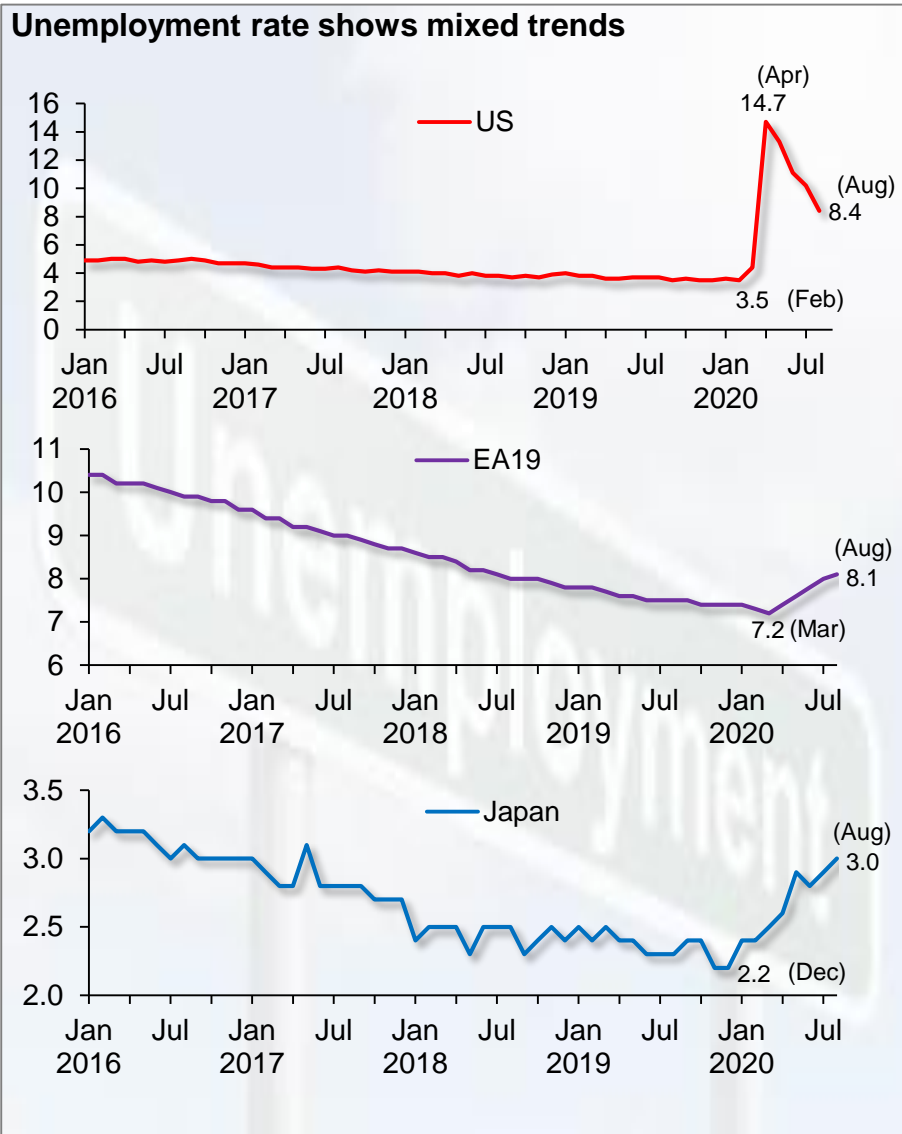
%, 3-month moving average YoY

Silver lining for the semiconductor industry



Source: OECD; IHS Markit; SIA

The labour market conditions

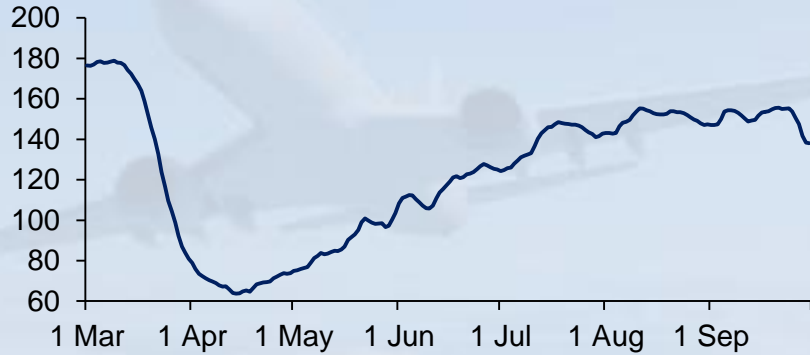


Source: US Bureau of Labor Statistics; Eurostat; Statistics Bureau of Japan

Post-Great Lockdown: Global mobility tracker

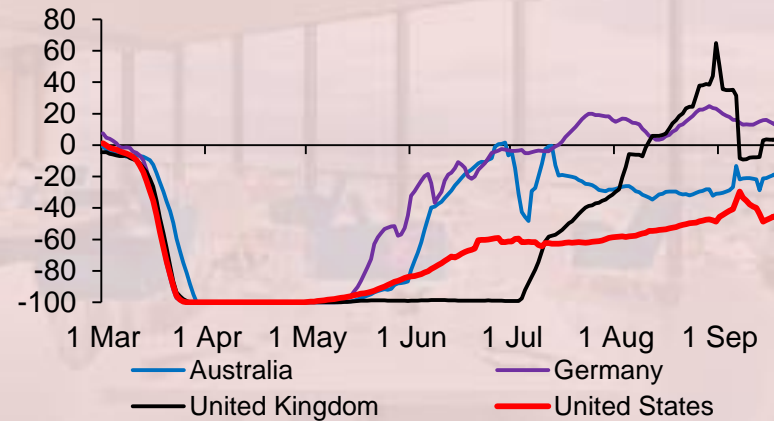
Global flights tracking

'000, 7-day moving average



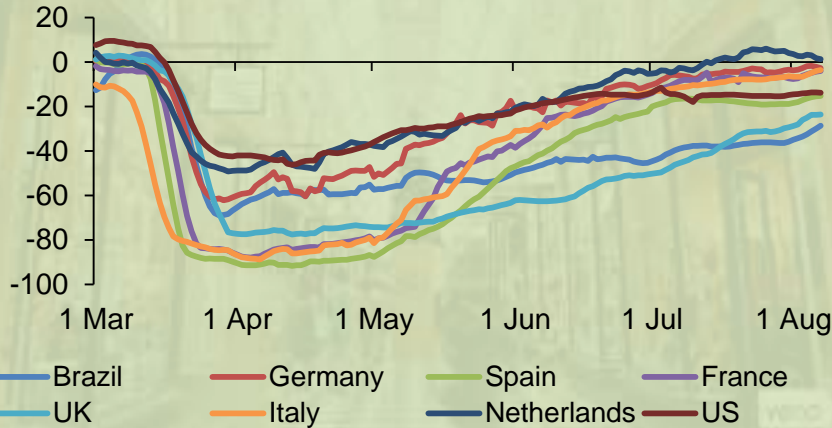
Restaurant bookings

%, 7-day moving average vs. same day of same week one year ago



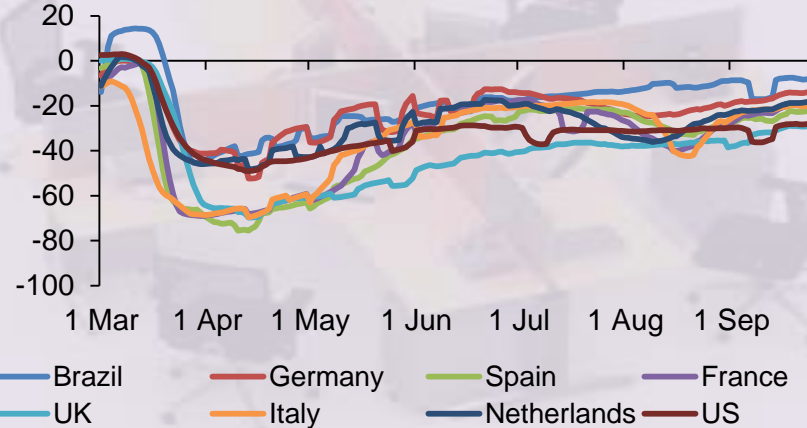
Time spent in retail and recreation

%, 7-day moving average vs. baseline



Time spent in workplaces

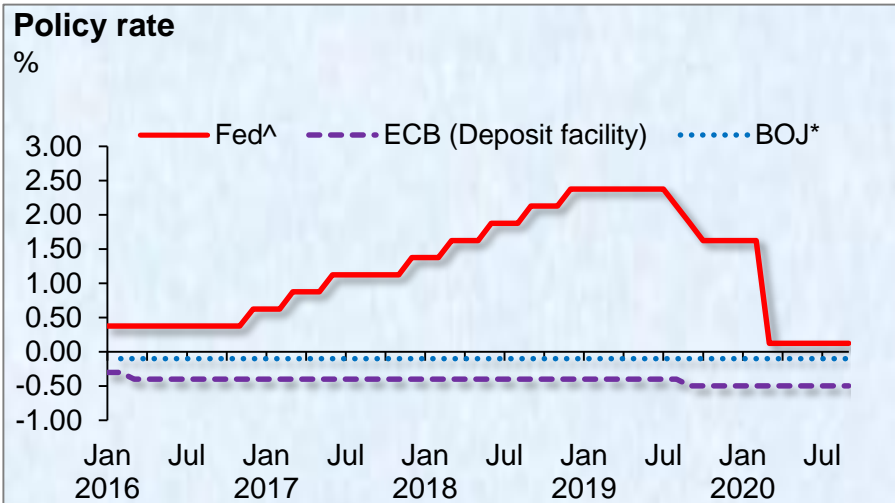
%, 7-day moving average, vs. baseline



Note: Update for retail and recreation category is temporarily suspended from 17 Aug.

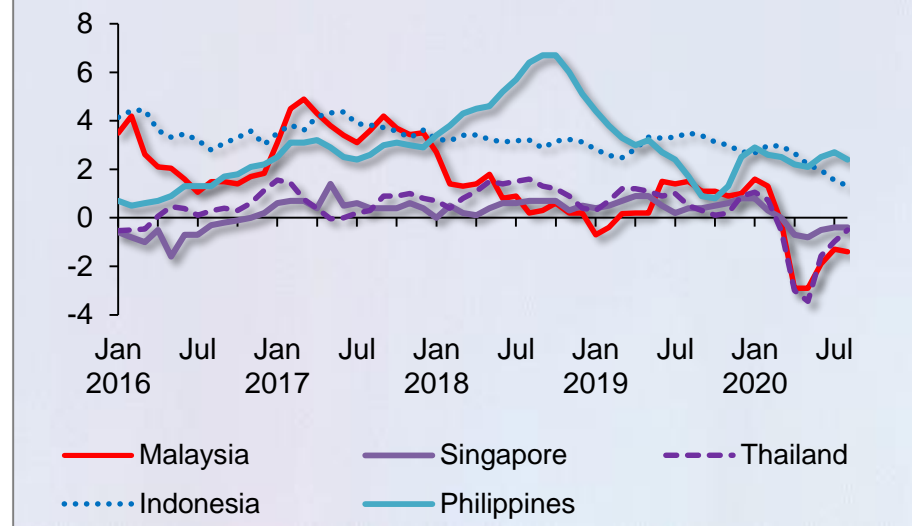
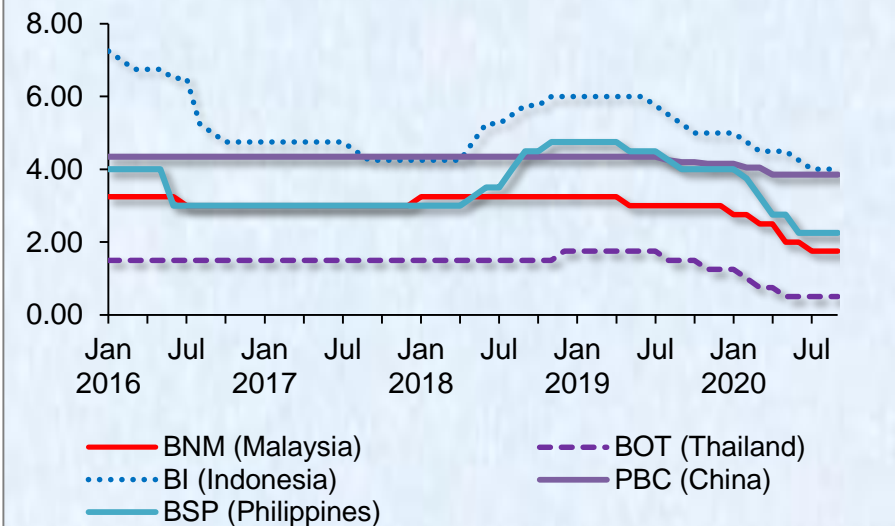
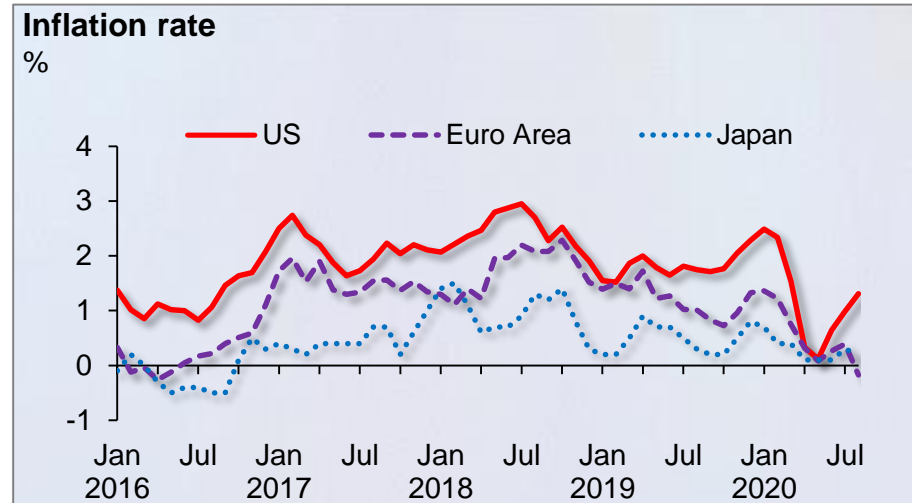
Source: Flightradar24; OpenTable; Google Mobility (baseline = median value for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020)

Global inflation and interest rates






[^] Mid-range of upper-lower bound

* Adopted -0.10% since Feb 2016



Source: Various officials; BIS

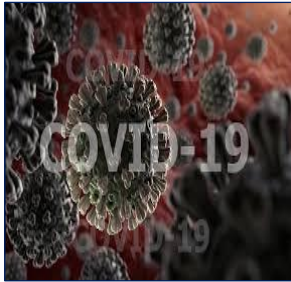
Global growth scenarios for 2020-2021*

Scenario	Projected global GDP growth in 2020	Projected global GDP growth in 2021
<p>Upside</p>  <ul style="list-style-type: none"> • Global growth stabilisation and recovery. Disruptions from pandemic fade in 2H • COVID-19 outbreak is contained in 2H 2020. Hopeful vaccine will be found in 2021 • Monetary and fiscal stimulus are working 	0.5%	5.0%
<p>Base Case</p>  <ul style="list-style-type: none"> • Global stabilisation and moderate recovery in 2H 2020 • A prolonged COVID-19 outbreak, disrupted supply chains, financial turbulence; geopolitical shocks • Monetary and fiscal stimulus are working 	-3.0%	4.5%
<p>Downside</p>  <ul style="list-style-type: none"> • Deeper global recession • Deepening impact from a prolonged COVID-19 outbreak • Ineffective monetary and fiscal policy stimulus • Sharp correction in global equities and commodities market 	-5.0%	2.0%

* SERC's estimates

Top five risks that may temper the global recovery

The US Presidential Election on 3 November is the key upcoming event and the main political uncertainty until year-end



1

New lockdowns to control a sharp spike in infection cases (a second wave or a third wave) may threaten the global recovery; the longer- than-expected vaccines availability would dampen confidence



2

Premature withdrawal of fiscal stimulus and monetary accommodation. Central banks are expected to remain in accommodative mode for some time. Fiscal stimulus is still needed as a reduction of public-sector demand would trigger a renewed contraction of the economy



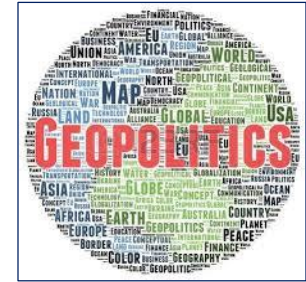
3

A sudden reversal of investors' positive optimism towards the stock markets on worries about the worsening economic outlook, could trigger sharp capital outflows and the tightening of global financial conditions volatility



4

Lingering uncertainties about the US-China tensions on trade and technology as well as political relations



5

Geopolitical events, including political events

Malaysia's Economic Recovery Tracker

The worst of economic contraction in 2Q 2020 is behind us

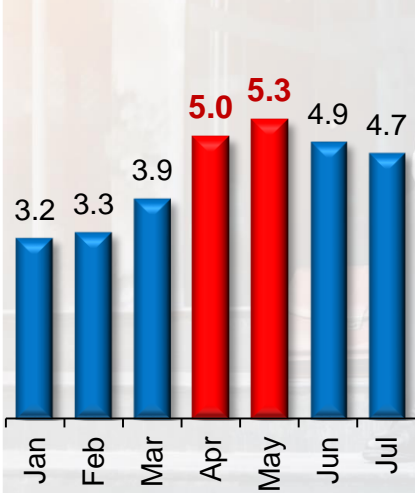
- *From stabilisation to recovery*
- *Green shoots are slowly emerging, albeit unevenly*
- *Supportive fiscal and accommodative monetary policy are still needed*



Labour market rebounding moderately – Policy support still needed

Unemployment

Unemployment Rate
%, YoY



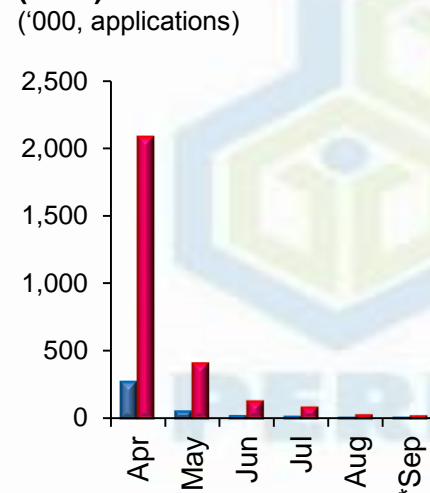
Loss of Employment
(‘000)



2020

Job savings program

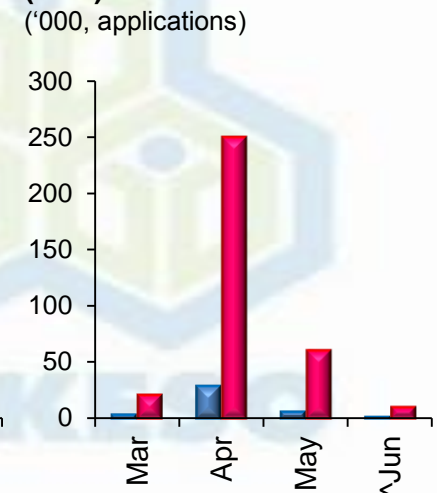
Wage Subsidy Program
(WSP)
(‘000, applications)



2020

■ Employers ■ Employees

Employment Retention Program
(ERP)
(‘000, applications)



2020

- Unemployment rate has eased for two consecutive months to 4.7% in July and 4.9% in June from a record 5.3% in May.
- EIS's loss of employment off the peak. 1-27 Sep 2020: 6,561 persons vs. 18,579 persons in June.#
- Job losses may ease as business activities are gradually on the mend.

* As of 27 Sep

- 3.0 million jobs saved (2.7m via WSP; 0.3m via ERP).
- The number of employers applied and employees benefited from WSP moderated sharply from May onwards.
- ERP (wage subsidy on no pay leave) may presage the potential loss of employment.

* As of 27 Sep

^ As of 21 Jun

Source: DOSM; PERKESO

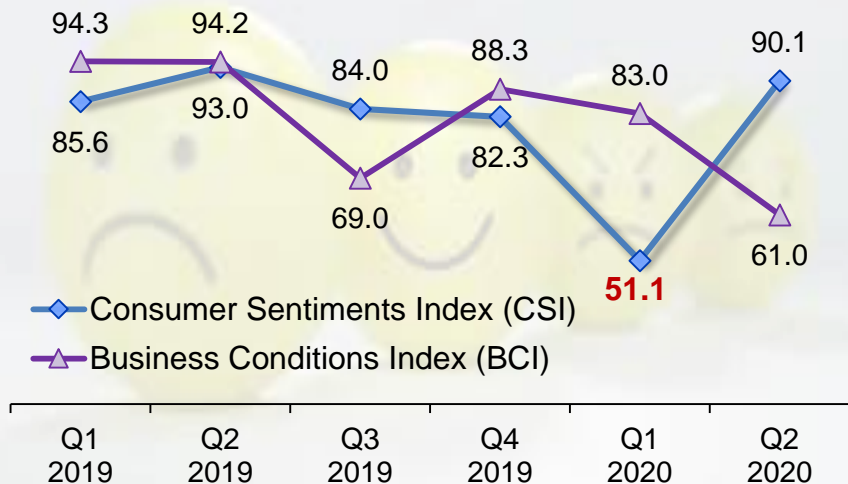
Unemployment claims under Employment Insurance System (EIS)

Consumer sentiment improving; weak business confidence

Consumer sentiment

MIER CSI & BCI

Optimism Threshold = 100



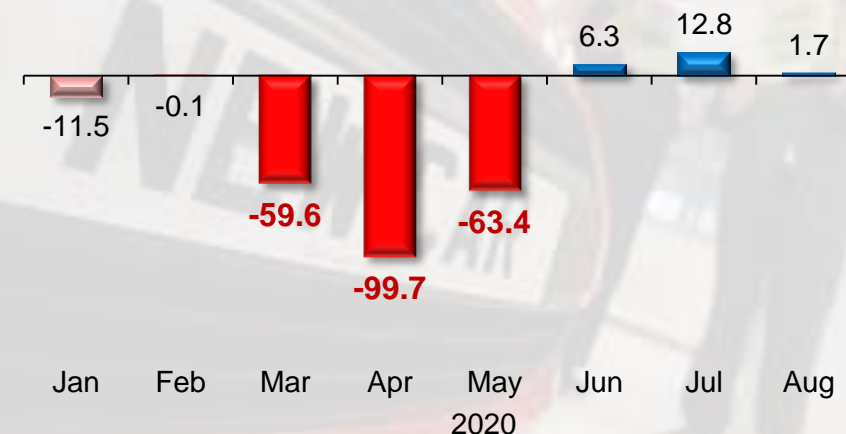
- **Consumers' sentiment index** though rebounded strongly in 2Q, but still remained below 100-pt optimism threshold.
- **Business confidence** remains highly cautious.
- **Consumers' and businesses' confidence on the virus containment are needed for a full recovery.**
- **The improved labour market and income** would aid household spending.

Source: MIER; BNM

Buying a car

Passenger Car Sales (Volume)

%, YoY



- **Low interest rate** helps to spur domestic demand, backed by secured job and stable income.
- **PENJANA:** (a) **Exempts sales tax** on passenger cars (100% for locally assembled (CKD) and 50% for imported (CBU)) till end-2020; (b) **Incentives for property sector** - Home Ownership Campaign (HOC), stamp duty exemption, instrument of transfer, 70% margin of financing for third house (>RM600k) and RPGT exemption. Timeline is between June 2020 to 31 Dec 2021.

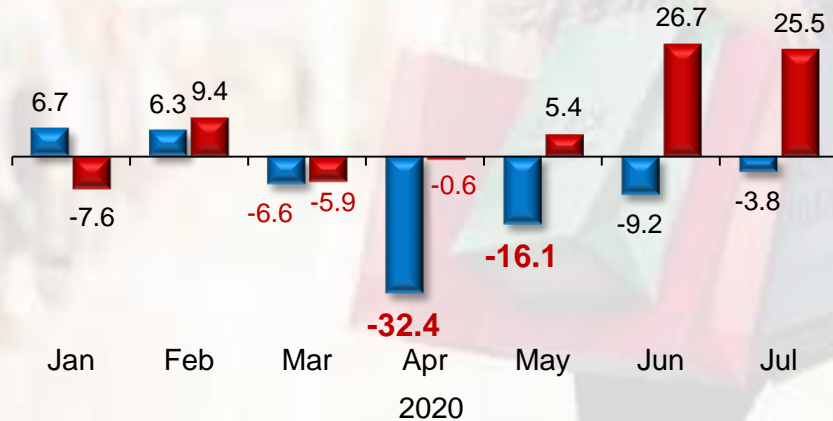
Retail spending continued to recover from the historic slump

Shopping at retailers

Sales Performance

%, YoY

- Retail Sales
- Manufacturing Sales of Food Products and Beverages

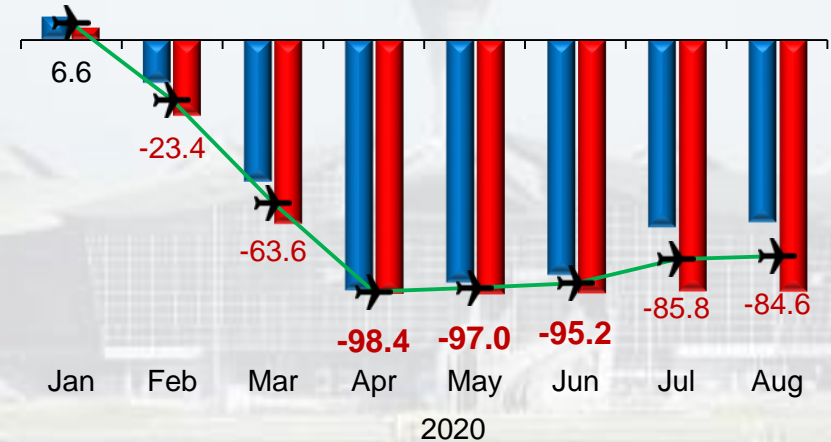


Daily flying passengers

Growth

%, YoY

- Domestic
- International
- Total



- **Retailers' sales uneven** (90% of retailers having 60%-70% sales; 10% with 100% sales) prior to the rising number of infection cases.
- **Footfall up to 90% in major shopping malls and sales about 50%** before the recent spike in the number of infection cases.
- **Hotels' occupancy rates** averaging 45.4% in August (35.4% in July) compared to between 8.3% and 16.4% in Apr-Jun.

- Following the opening of inter-state travel, the aviation and travel industry has been gradually on the mend.
- Airline passenger traffic numbers tripled in July from June and continued to improve in August, largely due to **increases in domestic travel**. However, it is still far from the much needed recovery and is expected to remain weak till end-year.

Source: DOSM; MAHB

The external sector & industrial production recovering gradually

External trade

External Trade

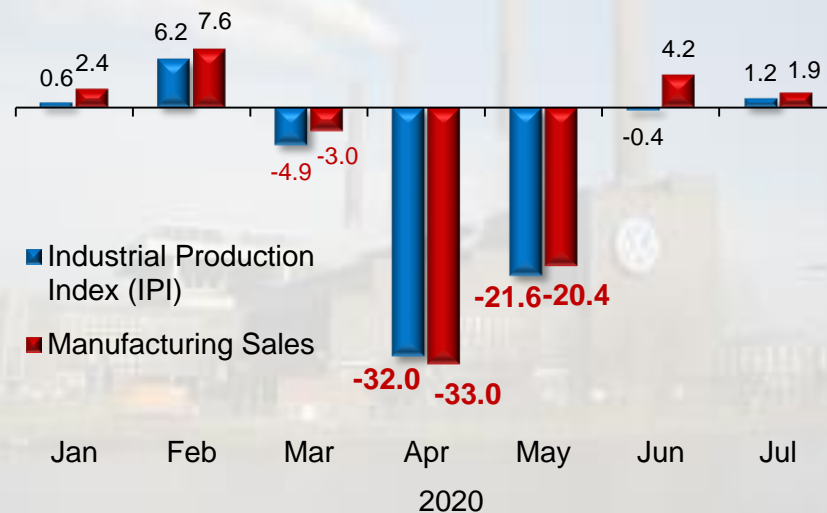
%, YoY



Production & manufacturing sales

Industrial Production and Manufacturing Sales

%, YoY



- **Exports** have reverted to decline by 2.9% yoy in August after rebounded in June and July. The main supports were E&E, palm oil, optical and scientific equipment, furniture and rubber gloves.
- **The pace and strength of economic recovery of Malaysia's major trading partners** in 2H 2020 and 2021 would help to lift export growth and support the economy.

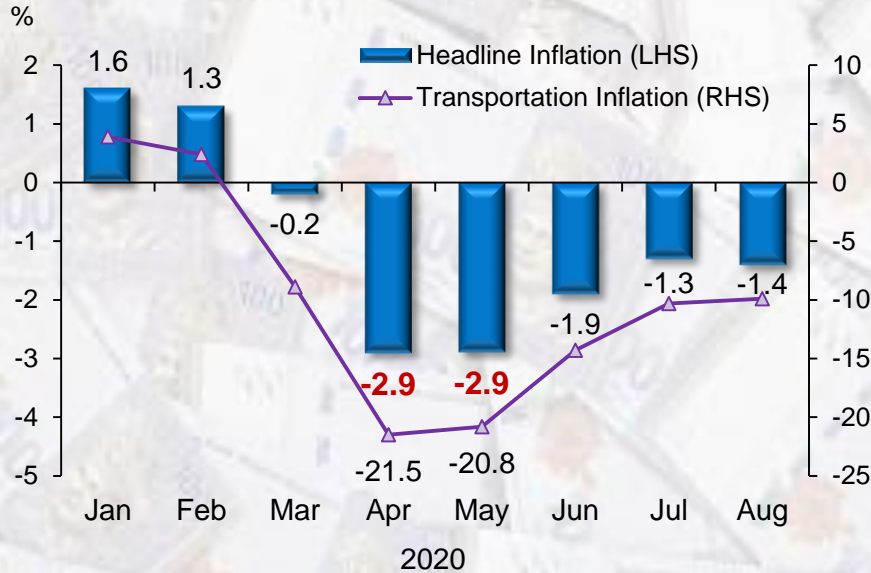
- **Manufacturing capacity has gradually restored back to 80%** and 90%-100% for some strong-demand products industries (still low around 30%-50% for wearing apparels).
- **Industrial production and manufacturing sales** continued to gradually recoup lost ground.

Source: DOSM

Deflationary pressures and falling producer prices easing

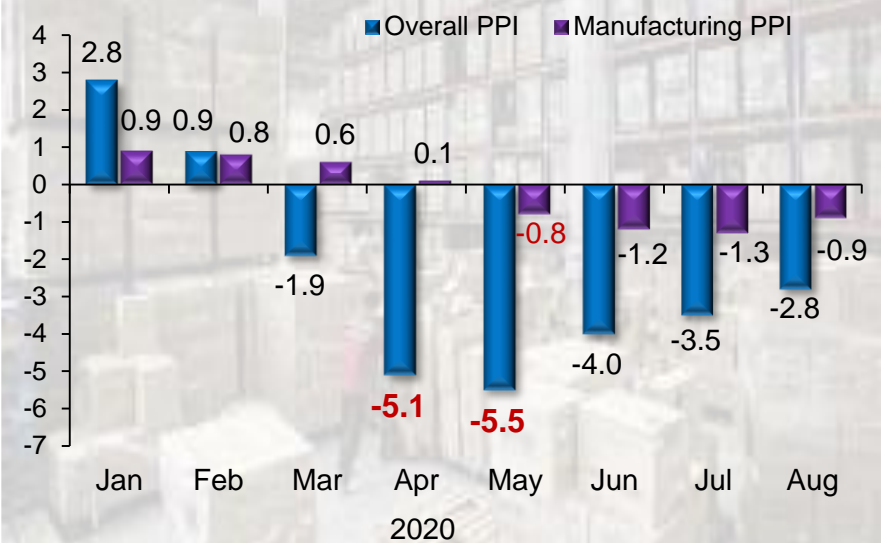
Consumer Price Index (CPI)

Inflation by Selected Components



Producer Price Index (PPI)

Growth % YoY



- **Deflation rate** has narrowed and will continue to ease as the decline in transportation prices (fuel) has eased.
- **32.7% of goods in the CPI basket** (by sub-groups) saw decreases in prices in Jan-Aug 2020.
- Deflation will end in 2021 due to the normalisation of base effect and a gradual improvement in domestic demand.

- **Producer Price Index (PPI)**, a measurement of average selling prices received by domestic producers declined by smaller magnitude.
- **Manufacturing production saw a moderate decline in prices** while mining output prices declined larger. Prices for agriculture, forestry & fishing continued to increase for 11 straight months.

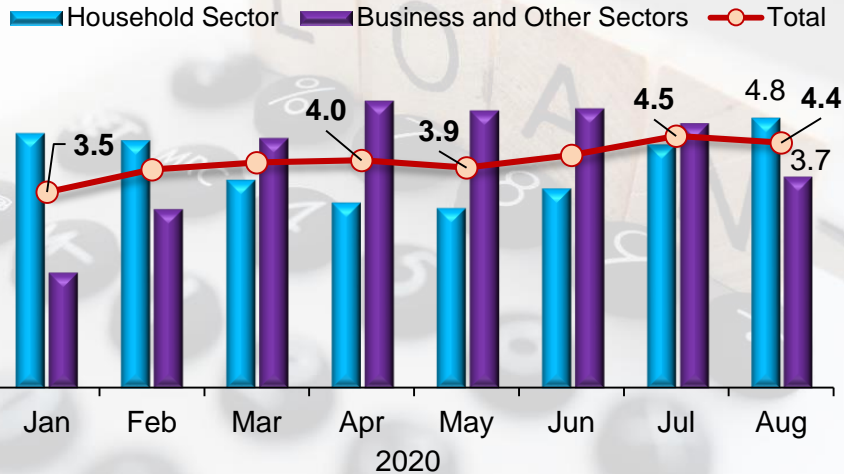
Source: DOSM

Households' loan demand is picking up; moderate business loan

Loan financing

Loan Outstanding by Sector

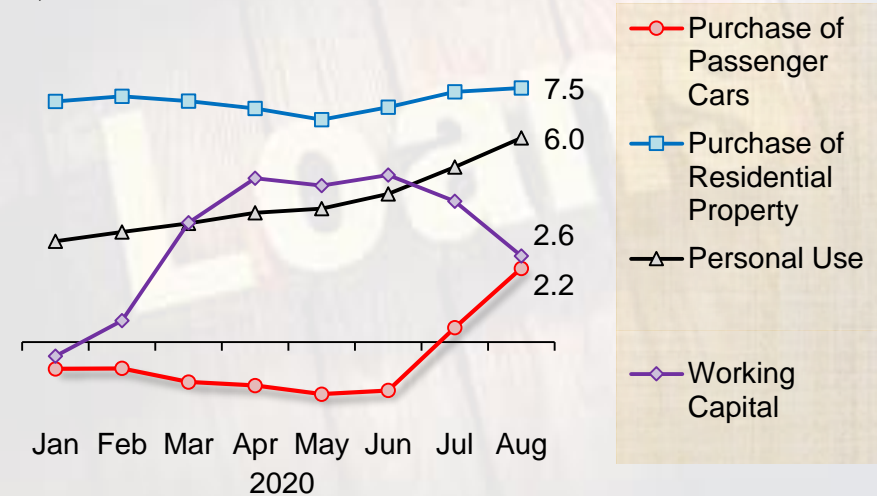
%, YoY



- **Business loan** growth (3.3% yoy in August, 3.9% in July) continued to ease while households' loan demand are picking up.
- As of 18 September, total **loan moratorium amounted to RM93.4 billion** (RM60.7 billion for individuals and RM32.7 billion for businesses).
- Real test is **the expiry of loan moratorium in September.**

Loan Outstanding by Purpose

%, YoY

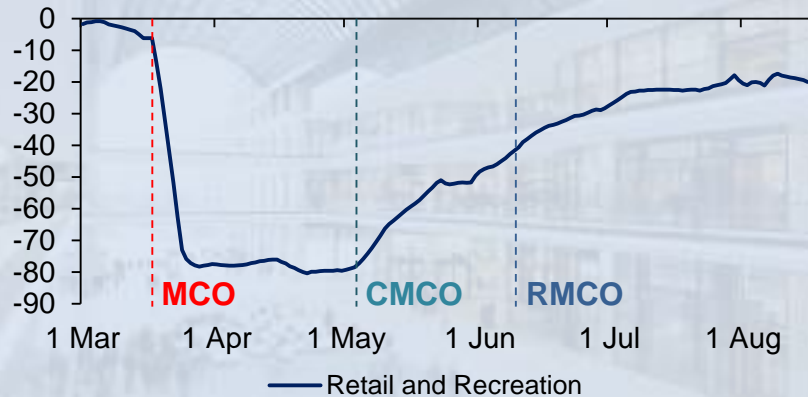


- An increases in **loan demand for the purchased of passenger cars and residential property** as well as **for personal use.**
- In contrast, outstanding loan for working capital eases on slower growth in the manufacturing sector and a contraction in the construction sector.

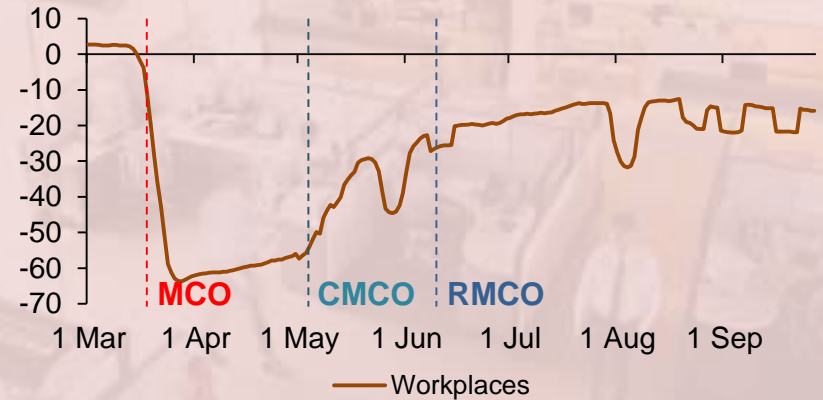
Source: BNM

Malaysia's mobility tracker under RMCO

Time spent in retail and recreation

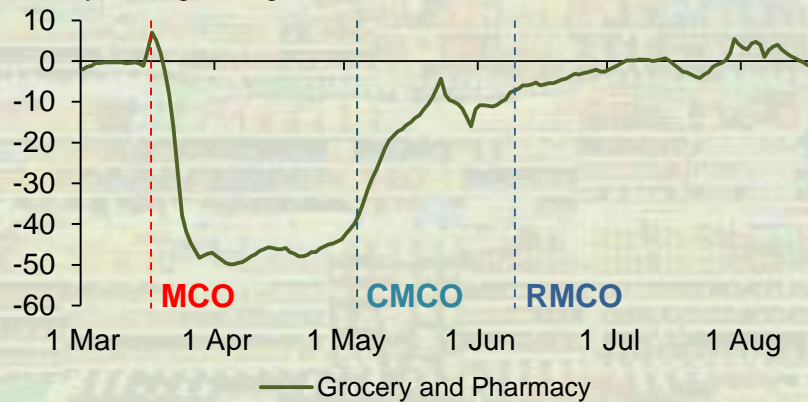


Time spent in workplaces



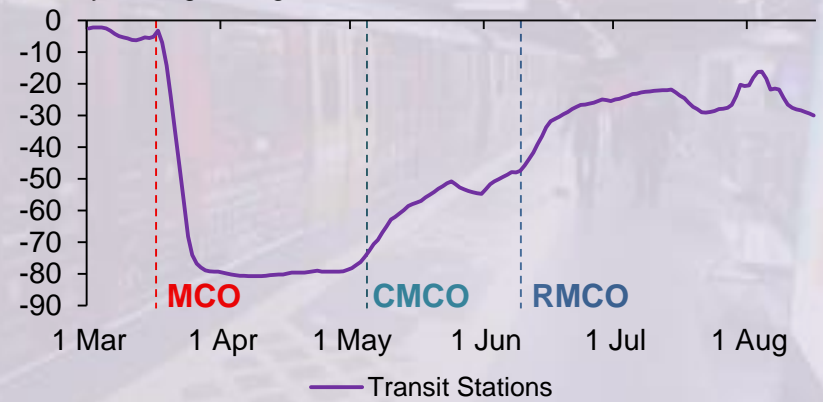
Time spent in grocery and pharmacy

%, 7-day moving average vs. baseline



Time spent in transit stations

%, 7-day moving average vs. baseline



Note: Update (except workplace category) is temporarily suspended from 17 Aug.

Source: Google Mobility (baseline = median value for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020)

The Malaysian Economy




Prospects in 2020-2021 – What might the recovery look like?

ACCIM's M-BECS (1H-2H 2020 and prospects of 2021), covering 828 respondents.

- (a) **46.6% of respondents expect the economy to recover in 1H 2021** while the travel and tourism industry anticipate the recovery in 2H 2021.
- (b) **Almost 50% expect a “U-shaped” recovery** – a gradual pace.
- (c) **68.4% of businesses would take at least 4-12 months** for their business to get back on track.



Malaysia's economic growth scenarios for 2020-2021*

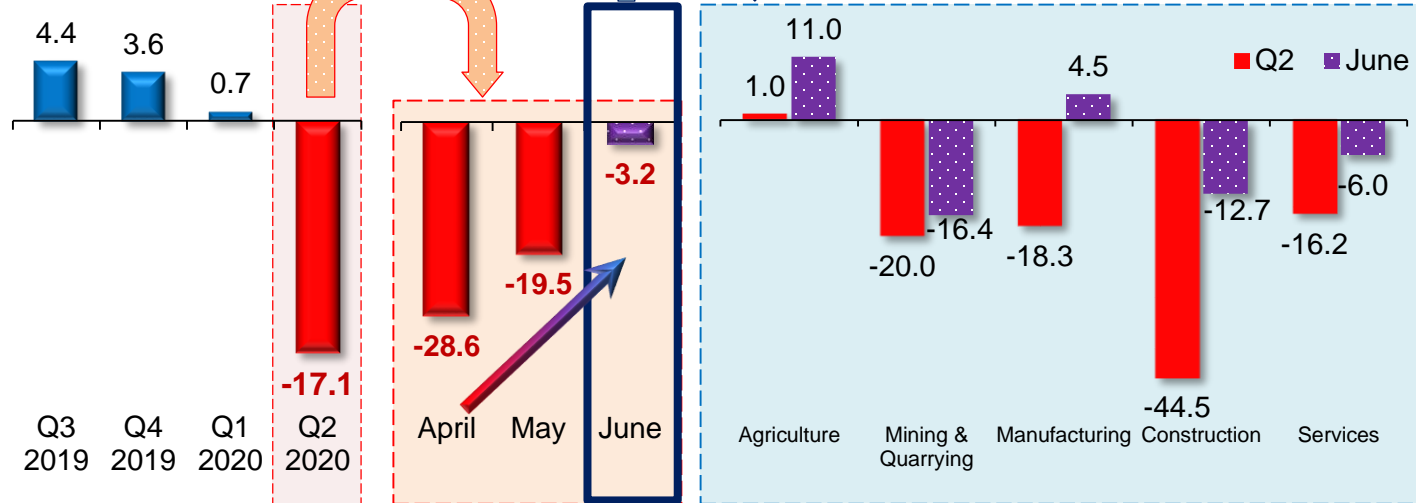
Scenario		Projected GDP growth in 2020	Projected GDP growth in 2021
Upside 	<ul style="list-style-type: none"> • Global growth stabilisation and recovery • COVID-19 outbreak is contained in 1H 2020. Hopeful for a vaccine in 2021 • Monetary and fiscal stimulus help to cushion the dampening impact 	-1.5%	6.5%
Base Case 	<ul style="list-style-type: none"> • A prolonged COVID-19 outbreak disrupted supply chains and dampened domestic demand • Financial turbulence • Fiscal and monetary stimulus help to ease the magnitude of impact 	-4.0%	5.0%
Downside 	<ul style="list-style-type: none"> • Deeper global recession • Deepening impact from a prolonged COVID-19 outbreak • Sharp correction in equities and commodities market • Ineffective monetary and fiscal stimulus 	-4.5 to -5.0%	2.0%

* SERC's estimates

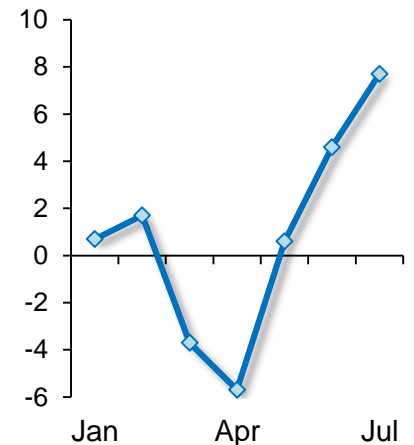
In a nutshell, the economic slump has off the lows since June

- Based on DOSM's monthly GDP estimates, the sharp declines in economic output (GDP) in April (-28.6% yoy) and May (-19.5%) have narrowed sharply to -3.2% in June following the implementation of CMCO and RMCO.

Real GDP growth
%, YoY



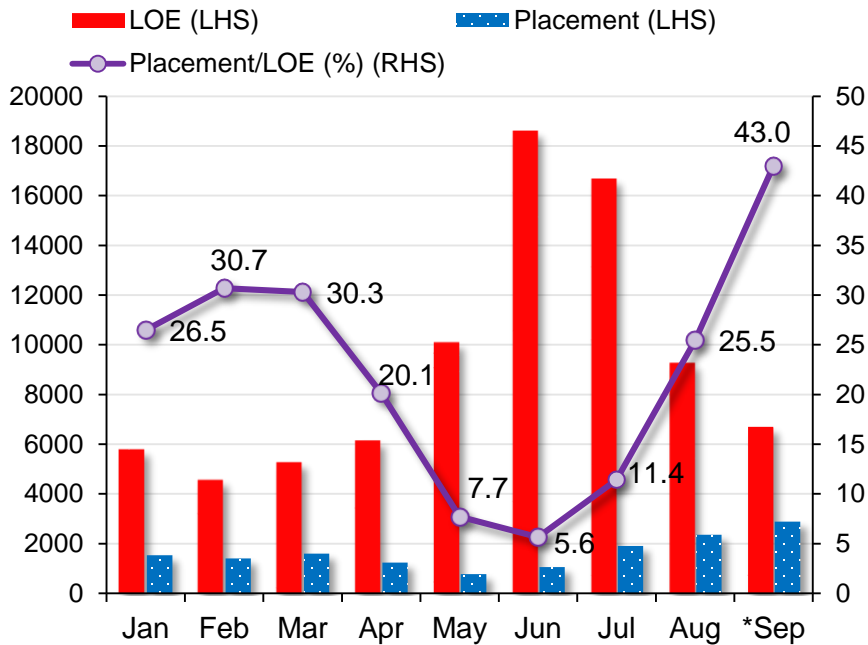
Malaysia's leading index
%, YoY



Source: DOSM

Loss of employment vs. Job placement

- Placement referred to unemployment benefit recipients who have submitted early re-employment allowance
- **Job placement over loss of employment (LOE) ratio** has improved since reaching bottom in June

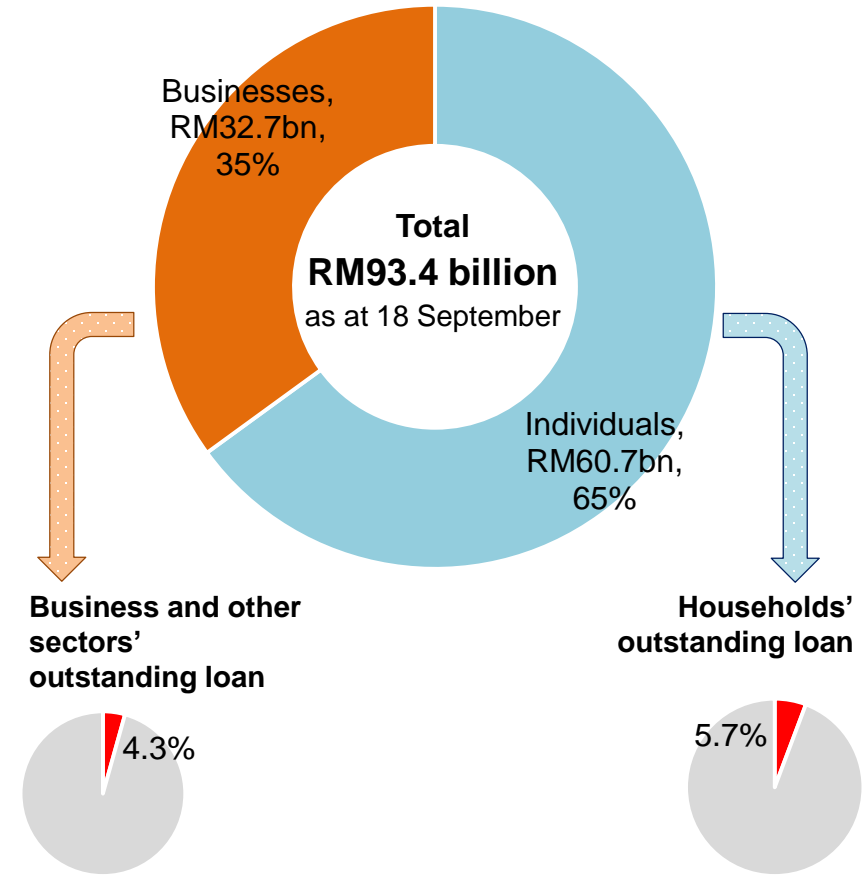


Source: PERKESO; LAKSANA

* As of 28 Sep, 4pm

Loan moratorium

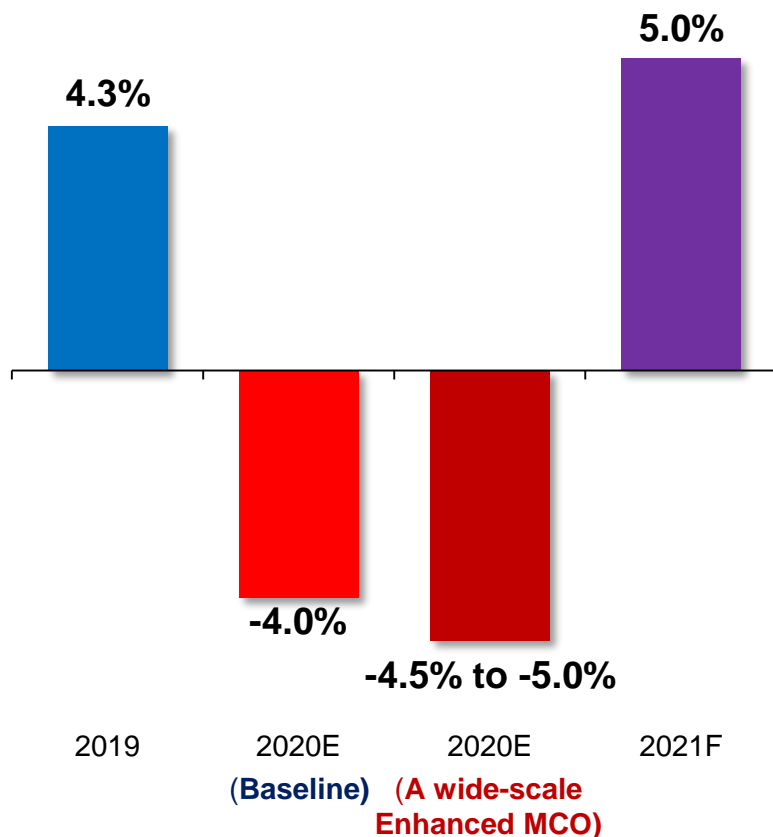
98% of about 500,000 borrowers were approved for targeted extension of loan moratorium as at 11 September



Blanket moratorium had benefitted 7.7 million individuals (or 93% of individual borrowers) and 243,000 SME borrowers (or 95% of total SME borrowers)

Malaysia is well positioned to recover but risks remain

Real GDP Growth



Source: DOSM; SERC

Positive Outlook

- 👍 “Sudden stop” in activity in 2020 will normalise in 2021 amid some permanent loss in output
- 👍 Technical base comparison sees a “sharp” bounce in annual growth comparison in 2021
- 👍 Services and tourism-related sectors will be revitalised as tourist arrivals resume gradually
- 👍 Construction: Supported by on-going public infrastructure projects and new projects
- 👍 Exports will rebound as global trade picks up

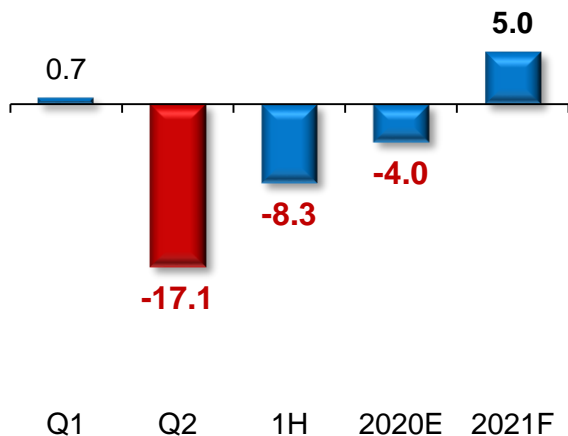
Risks to outlook

- 👎 Uncertainty about the future path of virus & vaccines availability
- 👎 A wide-scale Enhanced MCO
- 👎 A prolonged drag in global recovery
- 👎 Longer time for some domestic sectors to repair damage
- 👎 Households repair balance sheet & rebuild savings
- 👎 Slow recovery in jobs market

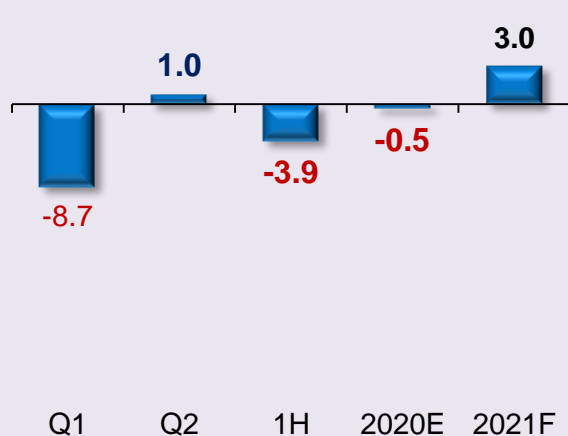
SERC's estimates and projections (2020E and 2021F)

%, YoY

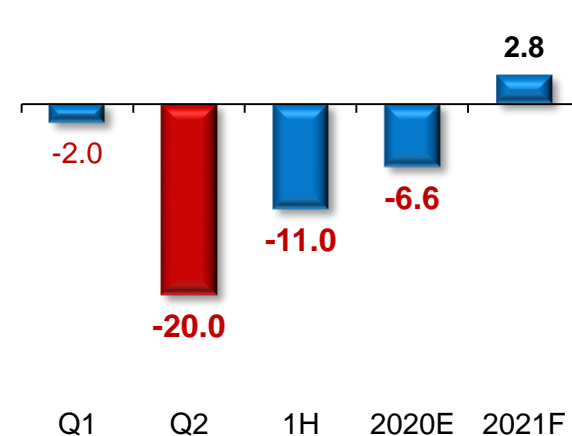
 Overall GDP



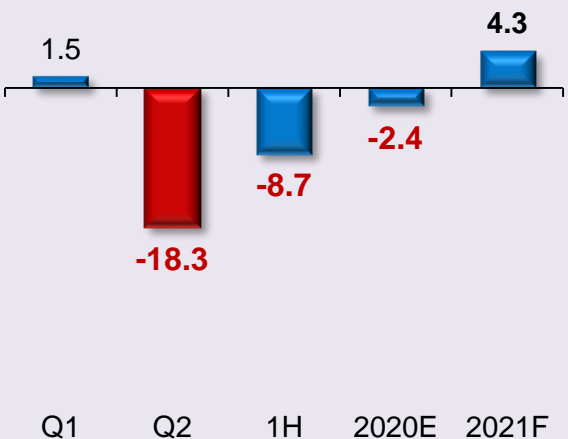
 Agriculture



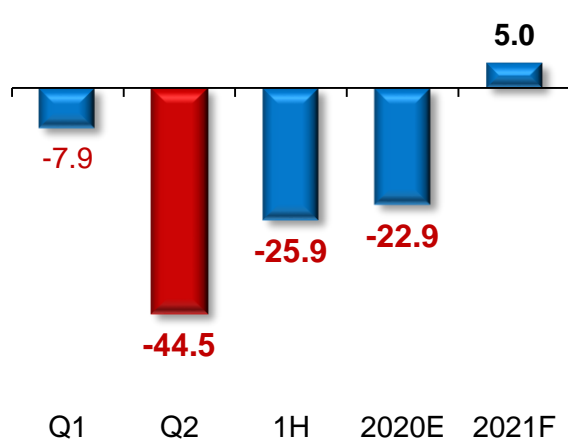
 Mining and Quarrying




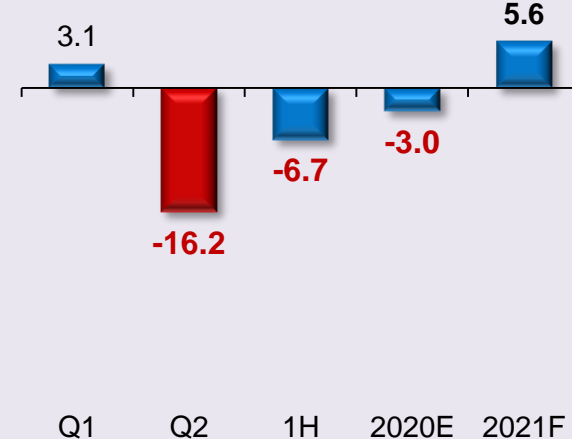
 Manufacturing



 Construction



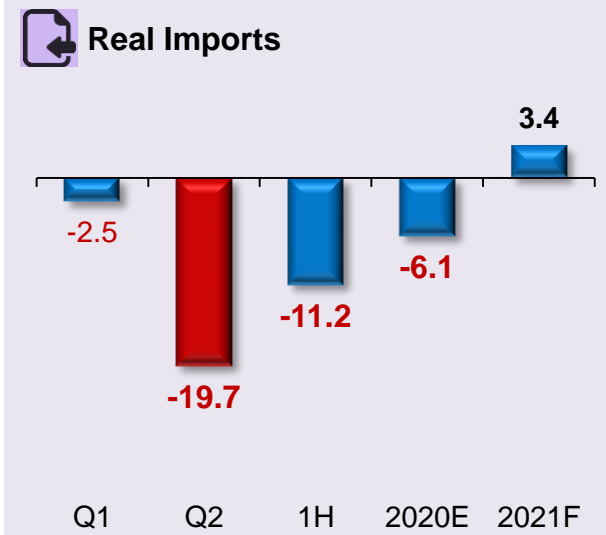
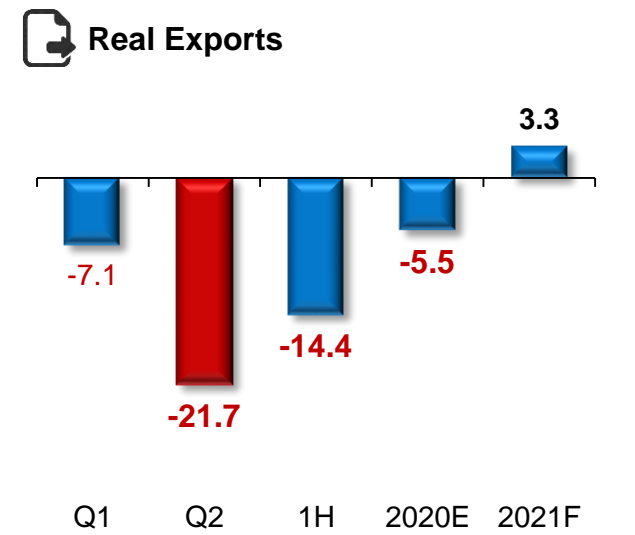
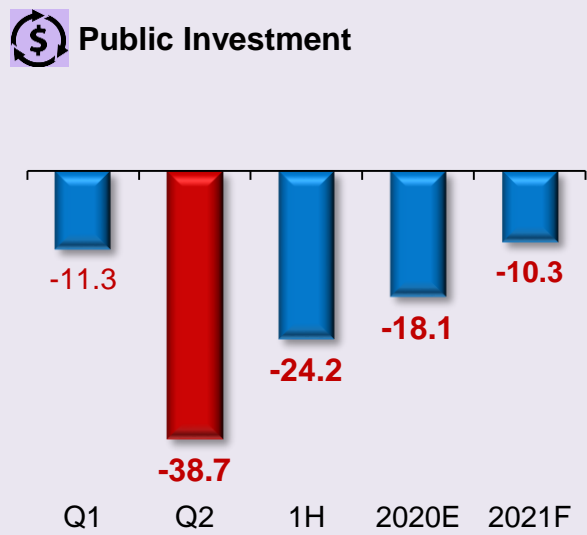
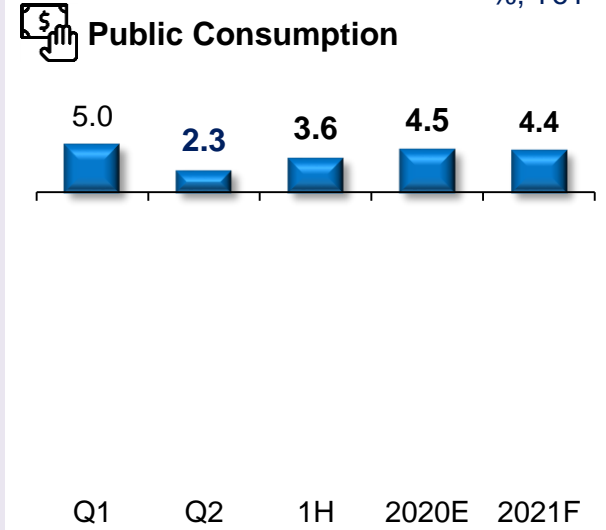
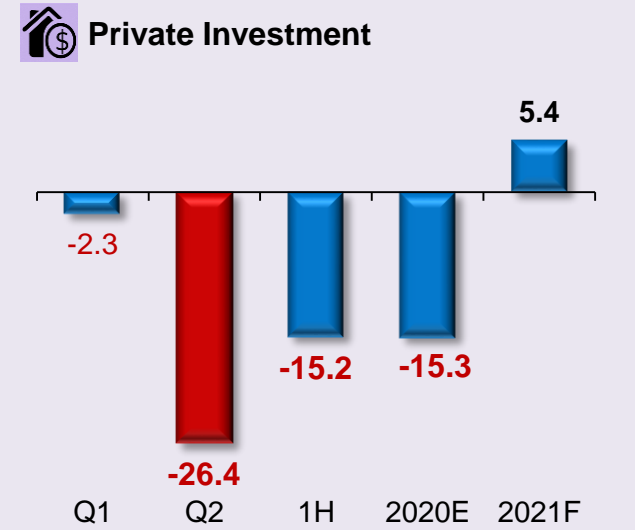
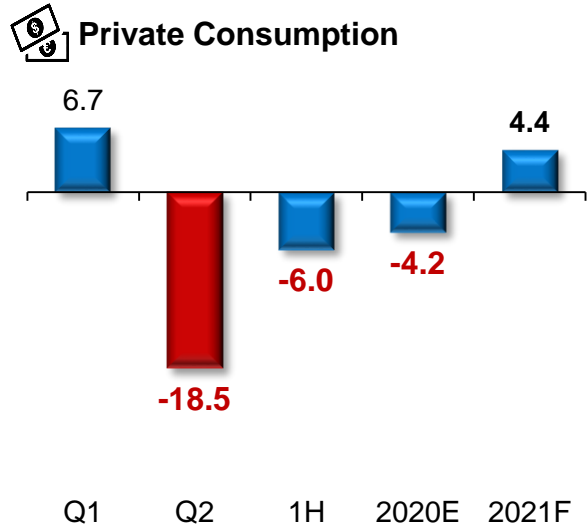
 Services



Source: DOSM; SERC

SERC's estimates and projections (2020E and 2021F) (cont.)

%, YoY



Source: DOSM; SERC

The 2021 Budget – Targeted fiscal expansionary stance

- *Targeted expansionary budget to sustain stronger economic revival amid uncertainty about the virus path*
- *Government spending should be prioritized for programs that protecting B40 households, boost purchasing power, attract investment and create more jobs as well reskilling and upskilling*
- *Priority programs on digitalisation, healthcare, industrial development, agriculture and entrepreneurship (youth and women empowerment)*



Targeted fiscal support still needed

Domestic economy at an early stage of uneven recovery

- **Fiscal support is incredibly important** to ensure the recovery will not turn anaemic amid increasing concerns about an occurrence of a second wave of virus.
- **A pullback or reduction in public spending** would trigger a renewed economic contraction if the private sector has not recovered to take up the slack.
- It's not about only getting the right macro and growth narrative; the **impactful policies implementation must be in focus.**

Three key emerging trends

1. Retooling economic policies to improve cost competitiveness and strengthen economic resilience

2. Identifying new sources of economic growth and value creation industries, focusing on the deployment of digital technologies and digital transformation

3. Aligning on new targets for economic performance and socio-economic development in conformity with **Sustainable Development Goals (SDG)**

Targeted fiscal support still needed ... (cont.)

A fiscal lever is needed to facilitate and sustain the recovery resilience



The raising of the **self-imposed statutory debt ceiling** from 55% to 60% of GDP through 2022 gives the Federal Government the capacity to borrow an **additional RM70.0 billion to RM75.0 billion**, based on a nominal GDP value of between RM1.4 trillion and RM1.5 trillion.



It's now up to the Federal Government to flex its fiscal spending power. How much budget deficit spending and debt it willing to commit in the tabling of 2021 Budget on 6 November 2020?



We expect the **Federal Government to plan a budget deficit of 5.5%-6.0% of GDP for 2021** (estimated 6.0%-6.5% of GDP in 2020).



The 2021 Budget is being formulated under the Recovery MCO to **cement early signs of recovery are firmly entrenched** amid concerns about an occurrence of a second wave of virus and uncertainty on the availability of vaccines.



A. SPENDING ON PRODUCTIVE CAPACITY EXPANSION PROJECTS/PROGRAMS

- (i) **Expedite the implementation of small socio-economic and community projects as well as on-going and new public infrastructure projects** (such as MRT2, Pan Borneo Highway, LRT3, Gemas-Johor Bahru Double Track, ECRL, and Singapore-Johor Bahru RTS); and
- (ii) **Focusing on investing in “new smart infrastructure” used for high-tech, digitalisation and sustainable purposes (renewable energy, climate change, eco-green).** These include, big data centres, 5G infrastructure, and charging stations for new energy vehicles (NEVs), solar energy, healthcare.

B. SUSTAINING CONSUMER SPENDING

- (i) **Extension of a voluntary reduction in EPF’s employee contribution rate** for 2021; **EPF i-Lestari withdrawal of RM500/month** from Apr – Dec 2021;
- (ii) **Tax free holiday for individuals** (chargeable income between RM100K and RM150k below); or **Reduction in personal income tax rate** for middle-income earners;
- (iii) **RM100 e-wallet spending voucher for annual income below RM100,000.** The on-line stores and participating merchants to provide a match in a form of discount vouchers, that have to be spent in a stipulated time;
- (iv) **Extension of RM30 public transport subsidy** for another year to December 2021; and
- (v) **Allow personal relief of RM500 for the cost incurred to purchase PPE** (mask, sanitiser, etc.).

Our proposals ... (cont.)

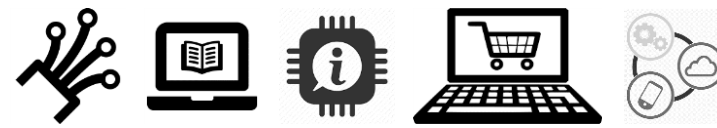


- C. CREATE JOBS AND SKILL ENHANCEMENT.** Continue to support jobs; create new ones; and provide better information flow to workers to new opportunities
- (i) **Extend reskilling and upskilling programmes** to end-Dec 2021;
 - (ii) **Extend hiring and training as well as assistance for business** to end-Dec 2021;
 - (iii) **Promote job search through both public and private sectors' jobs portal.** Propose a screening to distinguish between people who may be relative job ready and those who have more substantial impediments to employment; and
 - (iv) **Encourage youth involvement in agro-food industry and agriculture** through high interest subsidy on agriculture loans and credit facilities; technical support on agricultural production.



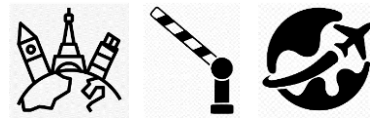
D. EASING COST OF DOING BUSINESS & REVIVING PRIVATE INVESTMENT

- (i) **Enhance a conducive investment climate.** Sustain Maintain a competitive tax structure and cost of doing business, transparent and liberal investment policies/guidelines;
- (ii) Consider to **extend wage subsidy program to end-June 2021**;
- (iii) **A suspension of foreign workers levy in 2021 or a 50% reduction in foreign levy**;
- (iv) **Extend the electricity tariffs discount**;
- (v) **Extend the special tax deduction on reduction of rental for another 6 months from Oct 2020 to end-Mar 2021.** This tax rental deduction is also eligible for rental payment reduction given to large companies' tenant;
- (vi) **Review of company income tax rate:** (a) Reduce company income tax rate to 22% from 24% for corporates in YA 2021 and further to 20% for YA 2022; (b) Reduce company tax rate to 15% from 17% for SMEs in YA 2021; (c) Provide tax rebate of 25% on corporate income tax payable up to RM15,000 to RM20,000 for YA 2020-2021; and
- (vii) **Design a “Reconstruct, Resilience, Reimagine Package” for micro and SMEs.** The package comprises fiscal, monetary, financial, marketing, technology, digitalisation and automation, technical advisory, product and market development as well as human capital development.



E. DIGITALISATION AND E-COMMERCE

- (i) **Expedite the implementation of RM21.6 billion National Fibreisation and Connectivity Plan (NFCP)** to improve broadband quality and coverage, reduce broadband prices and provide Internet access across all spectrums of society;
- (ii) Provide **double tax deductions for investment in upskilling and reskilling of employees in ICT**;
- (iii) Provide **100% capital allowance on purchase information and technology (ICT) equipment for YA 2020 and 2021**;
- (iv) Provide a **double-tax deduction on developing e-commerce's website or mobile apps**;
- (v) **Soft grants for digital marketing and training services online**; incentives for employers to conduct online learning and e-learning;
- (vi) For **Point-of-Sale terminal, no charge for the first 1,000 transactions**; **lower the merchant Discount Rate (MDR) to 0.1%**; Market Development Fund to fund the deployment of Point-of-Sale terminals; and
- (vii) **Lower MDR rates charged by e-wallet.**



F. SECTORS FOCUS

Tourism sector

- (i) **Further extension of tax incentives for the tourism sector:** (a) **Tourism tax and service tax exemption** from 1 July 2020 to 30 June 2021 to another one year from July 2021 to June 2022; (b) **Increase income tax relief** to RM2,000 from 1,000 for tourism expenses and extend the period of relief from 31 December 2021 to June 2022; and (c) **Extend the period of deferment of tax instalment payment** from 31 December 2020 to 31 December 2021;
- (ii) **Assist the industry operators and tours agencies to adopt digital technologies and digital solutions** to create 'live remote' tourism and/or virtual tourism experiences;
- (iii) **Continue to explore the implementation of the “Travel Bubbles” and identify green zones in the region** to help revive the return of international tourists;
- (iv) **Getting the industry prepared for the eventual border re-opening.** Travellers will need to be reassured on the safety of travelling to restore travellers' confidence and stimulating demand; and
- (v) **Collaborate with the private sector to put in place new standards in terms of safety, hygiene, testing, and procedures.** These include the sharing of updated information within the business and provide clear communication about the guidelines on keeping the tourist destinations safe to visit; introduce safe and clean labels to reassure visitors that it is safe to travel in Malaysia.



F. SECTORS FOCUS (cont.)

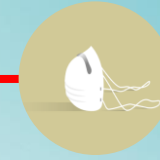
Agriculture sector

- (i) The Federal Government, in collaboration with State governments to **open up more land for agricultural production**;
- (ii) The Federal Government can consider to **set up KPI for State Governments to allocate 5,000 to 20,000 hectares of land each for agricultural purposes**, depending on the size of each state;
- (iii) For commercial viability, **a 30-year period lease is the minimum period for reasonable investment return**; and
- (iv) **Establish a land bank database for idle land** through the cooperation of Ministries and state land offices. These lands will be leased to farmers and corporation for agricultural ventures.

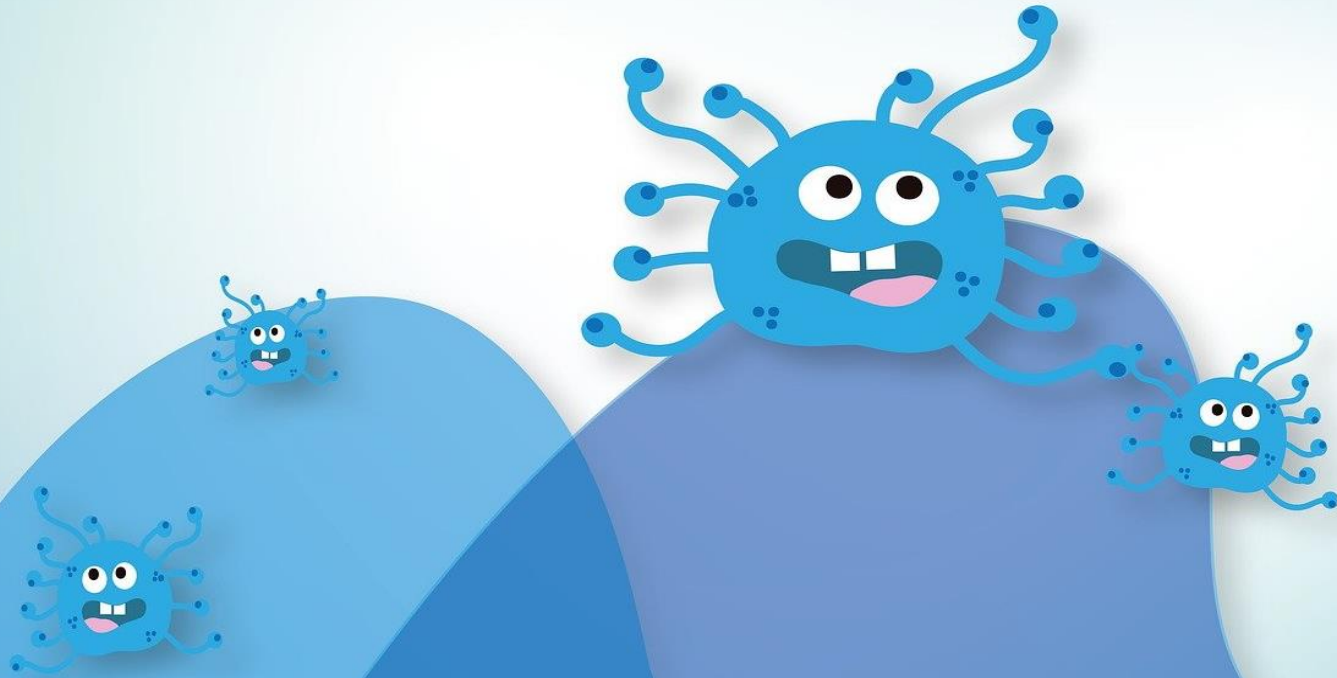
F. SECTORS FOCUS (cont.)

Halal Industry

- (i) The Government and relevant agencies must **disclose sufficient content of information and consistently update market players** about the development status of halal hub
- (ii) Enhance **monitoring mechanism for companies to comply with halal certification**
- (iii) The Islamic authorities in different states **should harmonise the regulations in micro perspective to avoid different standards in the certification's requirement**
- (iv) For renewal processes, the authorities should **design an easier procedure to quicken and streamline the approval processes** given that they are lacking of manpower to conduct site auditing
- (v) The Islamic authorities should have **certain levels of commercial-oriented mindset to help businesses in obtaining halal certificate** instead of giving the perception of trying to set roadblock for getting the certification
- (vi) **Expedite the harmonization of halal certification with the Indonesian Government**



Wearing mask and SOP are the most powerful tool to fight the COVID-19 !







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谢谢
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