



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

**QUARTERLY ECONOMY TRACKER
(JAN-MAR 2021)**

Malaysia: Uneven Climb to Recovery

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Executive Director

6 May 2021

Outline



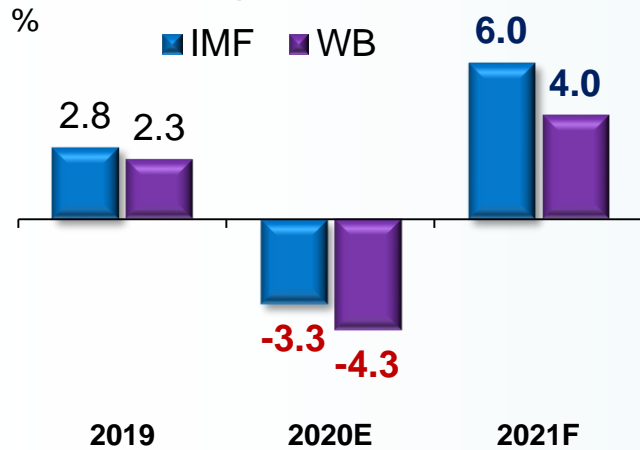
Global Economy Rebounds in 2021

- **Global recovery continues amid uncertainty**
- **A different pace of vaccination across the globe, leading to a growth divergent between advanced and developing economies**



Global economy will return to pre-pandemic level in 2021

Global GDP growth



Global economy has rebounded but divergent growth



Rollout of vaccines



Gradual returning of economic normalcy



Revived consumer spending and investment

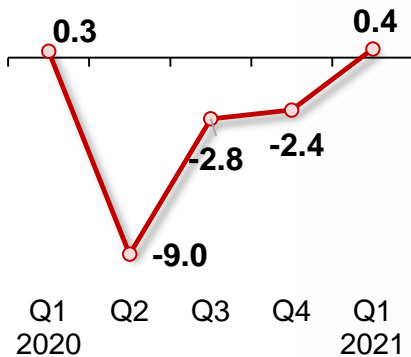


Continued fiscal and monetary support

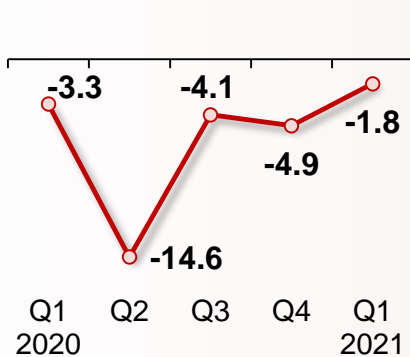
GDP growth for major economies

%, YoY

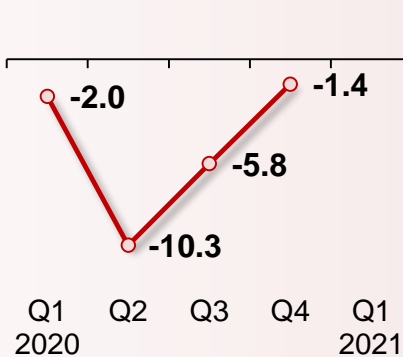
United States



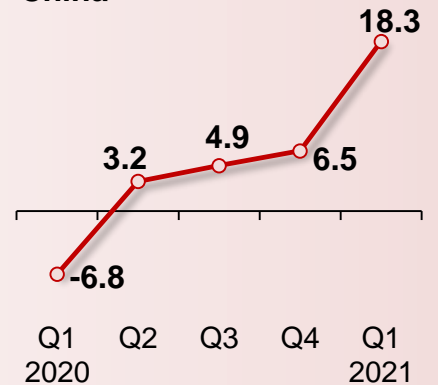
Euro area



Japan



China

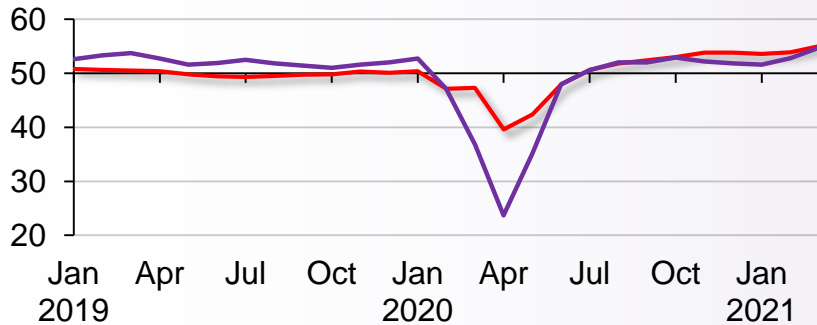


Source: Officials; IMF; World Bank

Note: 2021F for major economies by IMF

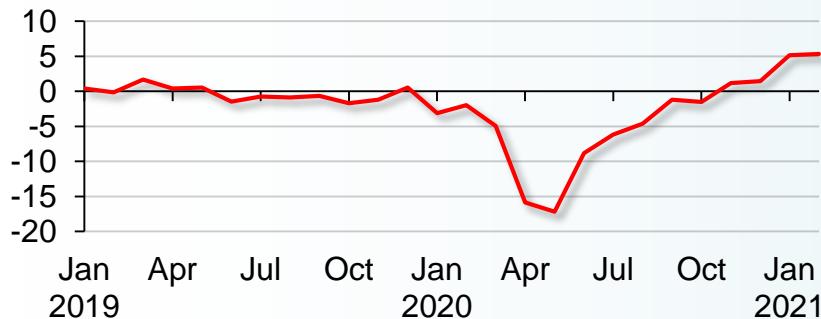
High frequency data confirms the global recovery on track

Global manufacturing and services PMI (50=threshold)



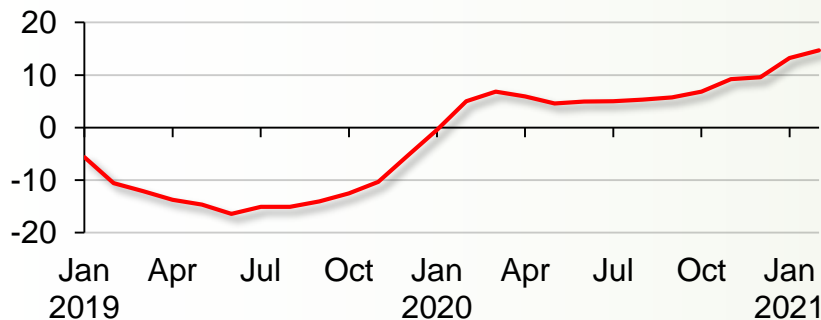
- Rebounding activities, higher trade demand
- Reopening of the services sector
- Industrial production has rebounded

Global trade growth (% YoY)



- Global recovery and revived external demand
- Robust international trade
- Firming commodity prices

Global semiconductor sales growth (% YoY)



- Increasing demand of digitalisation, data solutions and sensors, analog and logic products, and 5G technology development
- The World Semiconductor Trade Statistics (WSTS) projects semiconductor sales to grow robustly by 10.9% in 2021 (6.8% in 2020)

Source: Markit; CPB Netherlands; SIA

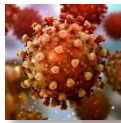
Attendant risks to temper global recovery



1 Pre-mature withdrawal of fiscal and monetary support measures



3 Renewed trade and technology frictions between the US and China

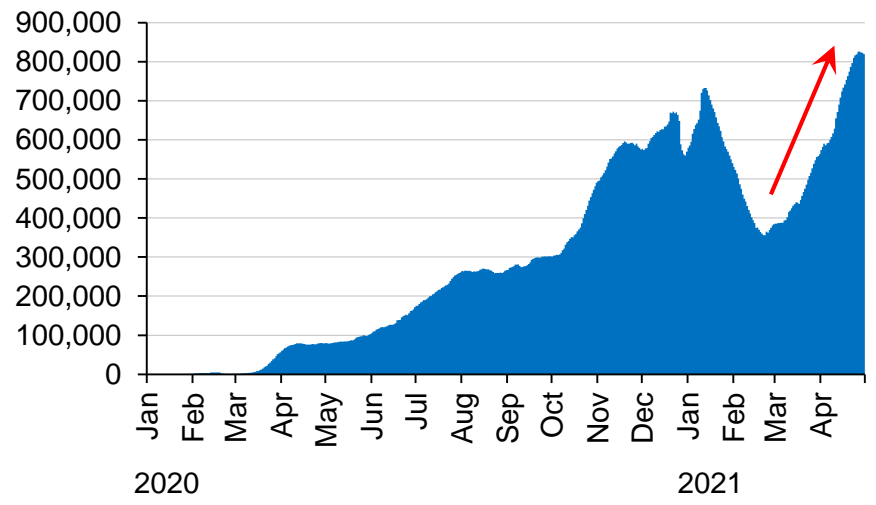


2 New virus mutations could spark another wave of infections during the vaccination campaign or even prove resistant to the vaccines currently deployed



4 The unexpected rise in the US interest rate could pose financial risks, especially in emerging economies having high foreign currencies debt burden

Global daily new COVID-19 cases
7-day moving average



5 Sustained higher inflation due to the cost-push and demand-pull, compelling sooner-than-expected rise in policy interest rates



6 Volatility in commodity prices



7 Geo-political tensions

Source: WHO

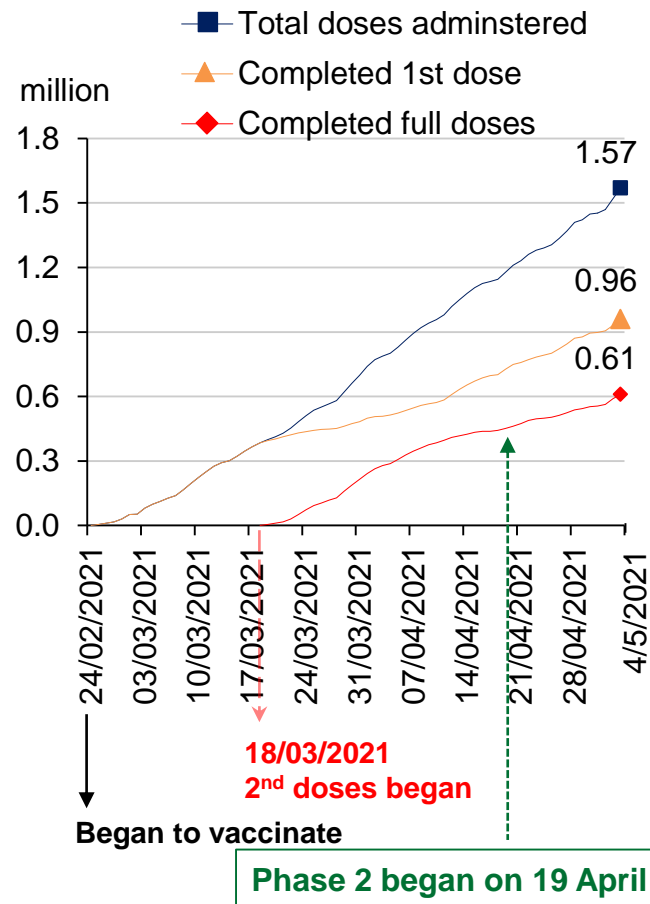
Malaysia's Recovery on Track but Growth is Uneven

- The on-going national immunisation program holds the key, albeit at a slow pace
- Continued lingering scarring effects
- Domestic demand is recovering
- Uneven growth in economic sectors
- Exports gain strong traction

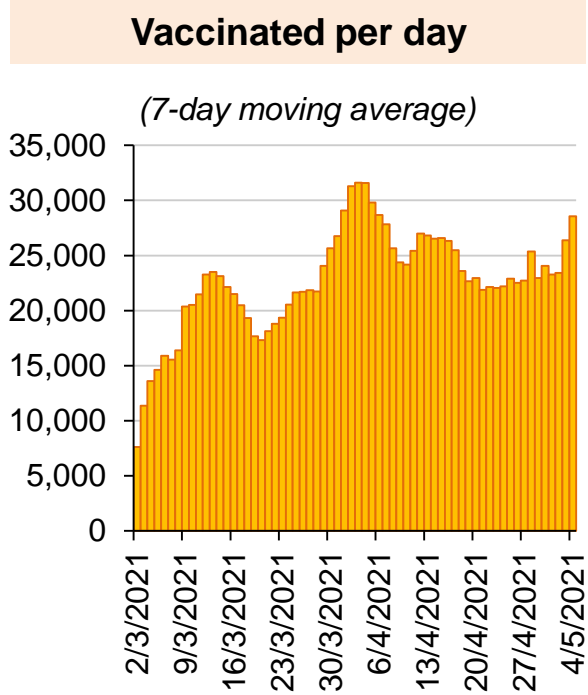


Slow pace of shots put the recovery at risk

1.9% of Malaysian population have completed two doses



The number of administered vaccination per day has started to pick up...



As of 1 May 2021

Malaysia has **1.98 million vaccines doses**

Utilisation Rate = **73.4%**

En. Khairy Jamaluddin
Minister of MOSTI

4 MAY 2021

TOTAL REGISTRATIONS

9,803,586

NATIONAL PROGRESS **40.40%**

Vaccine facility in Malaysia
(as of 24 April 2021)

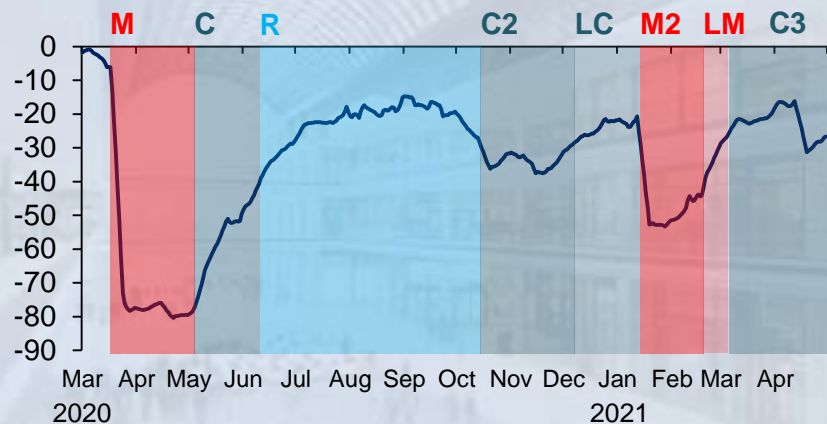
- 605** Vaccination Administration Centres (VACs)
- 54** Vaccine storage Centres (VSCs)

Source: JKJAV; Malay Mail

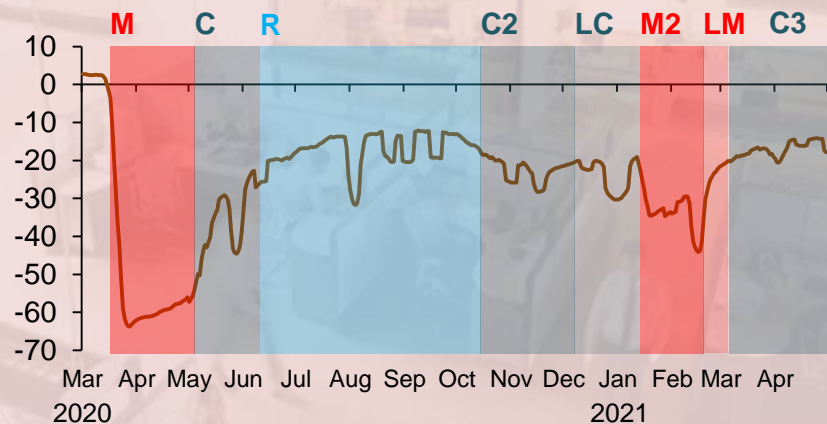
Malaysia's mobility tracker (Mar 2020 – Apr 2021)

%, 7-day moving average vs. baseline

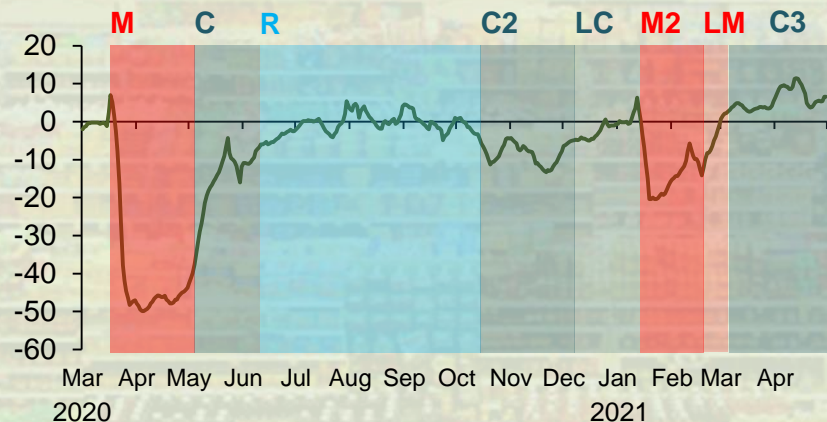
Time spent in retail and recreation



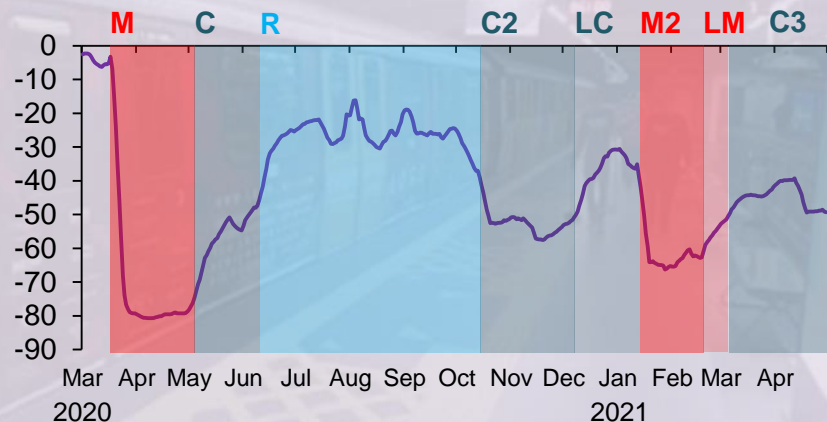
Time spent in workplaces



Time spent in grocery and pharmacy



Time spent in transit stations



M=MCO; C=CMCO; R=RMCO; C2=CMCO by phases; LC=Loosened CMCO with interstate travelling allowed

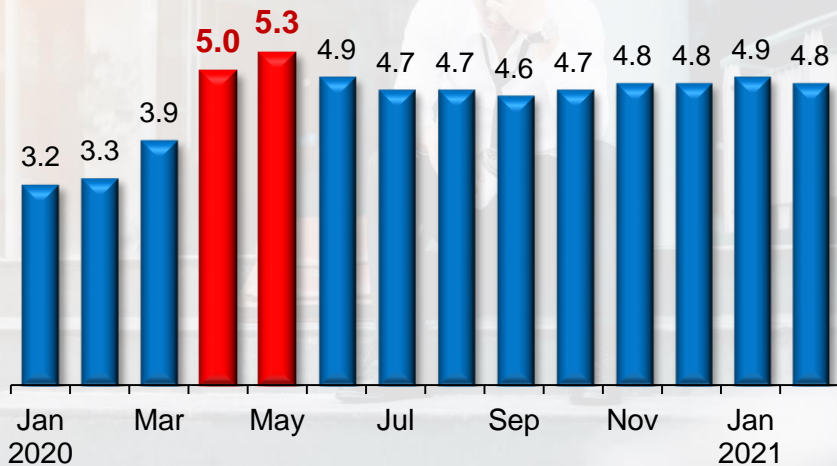
M2=MCO 2.0; LM=Lifting of MCO 2.0 in most states; C3=CMCO in most states

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

Slow recovery seen in the labour market

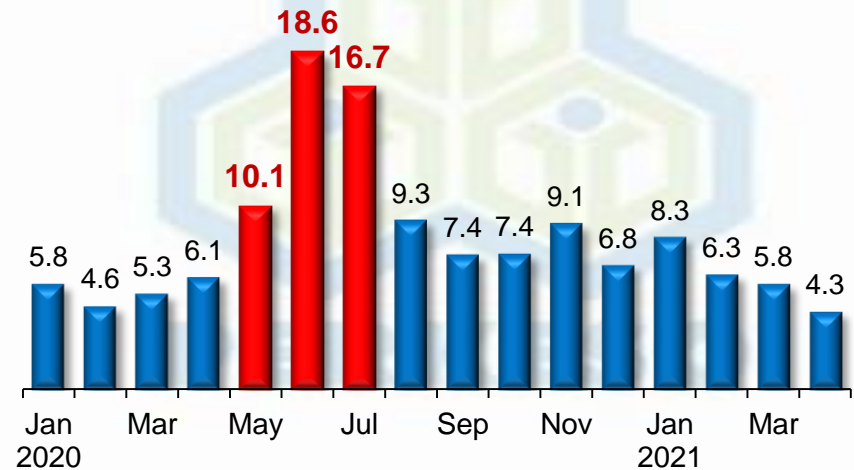
Job market

Unemployment Rate
%



Loss of Employment (LOE)
('000)

Note: As of 25 Apr 2021



- A more tempered outlook for employment. Unemployment rate still hovering between 4.8% and 4.9% in January-February 2021.
- The Employment Insurance System's (EIS) registered loss of employment (LOE) also cautions against over-exuberance. A total of 24,688 loss employment as of 25 Apr 2021 (107,024 in 2020 and 40,084 in 2019).
- The unemployment rate will gradually improve to an **estimated 4.5% at end-Dec 2021**, translating a near 720,000 unemployed persons, about 40% higher than nearly 520,000 unemployed persons pre-COVID-19.

Source: DOSM; PERKESO

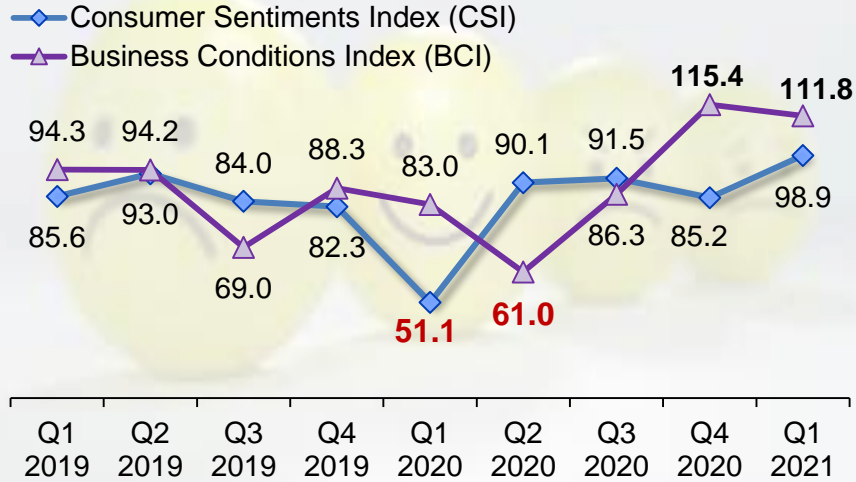
Unemployment claims under Employment Insurance System (EIS)

Consumer sentiment lifted, discretionary spending to improve

Sentiment indicators

MIER CSI & BCI

Optimism Threshold = 100



Retail Sales Performance

%, YoY



- The pace of vaccination holds the key to ensure a sustained revival in sentiment.
- **CSI improved in 1Q 2021** given better job and income prospects though still below the 100-pt optimism threshold.
- Pent-up demand and consumption booster measures such as the EPF withdrawals, cash handouts as well as the drawdown of savings that were unspent.
- **BCI declined a little** due to lower domestic and external sales.

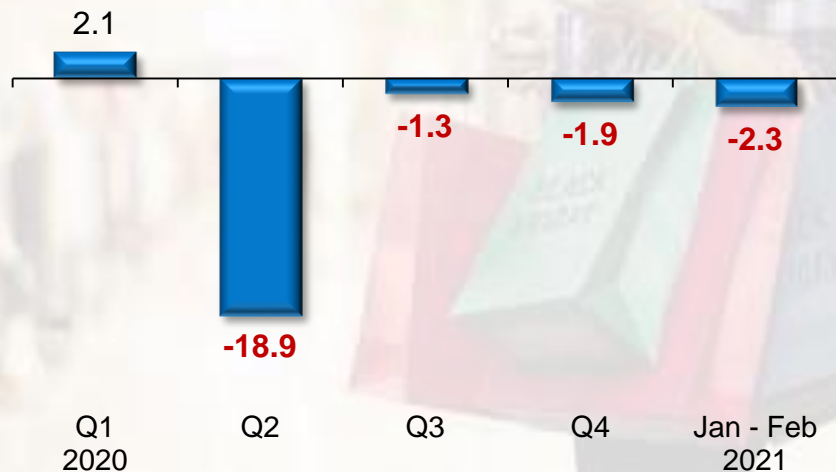
Source: MIER; DOSM

Cautiously retail spending; wholesale trade on the mend

Shopping at retailers

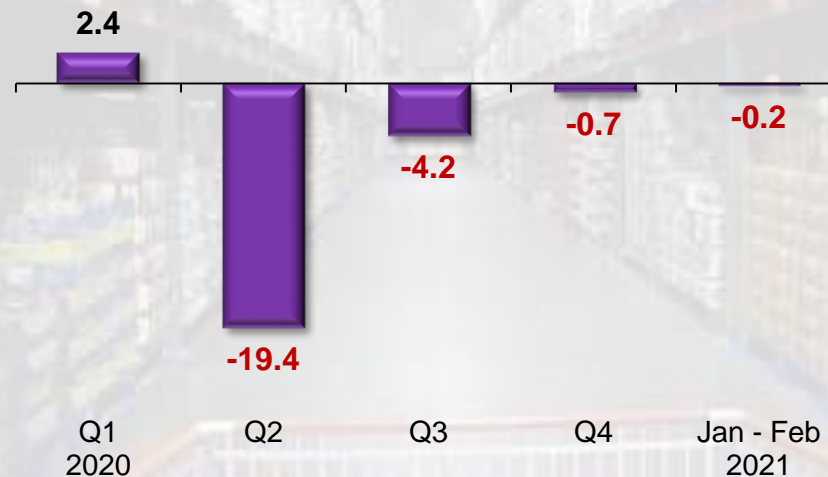
Retail Sales Performance

%, YoY



Wholesale Trade Performance

%, YoY



- **Retail sales continued its contraction trend** since Oct 2020 on the re-imposition of CMCO and MCO.
- Sales have declined in all types of specialised retail stores, except specialised store for food, beverages and tobacco and information and communication equipment.
- Channel checks show sales still some 20-30% below pre-pandemic level.

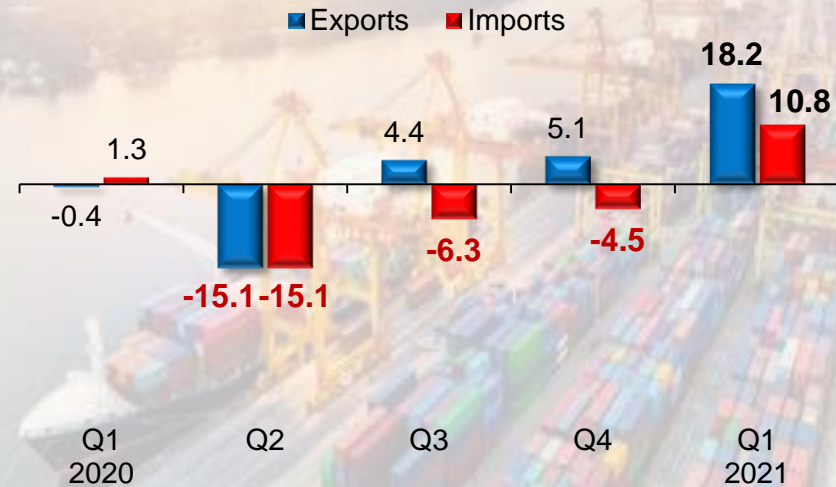
Source: DOSM

Exports still going strong to be the prime mover of GDP

External trade

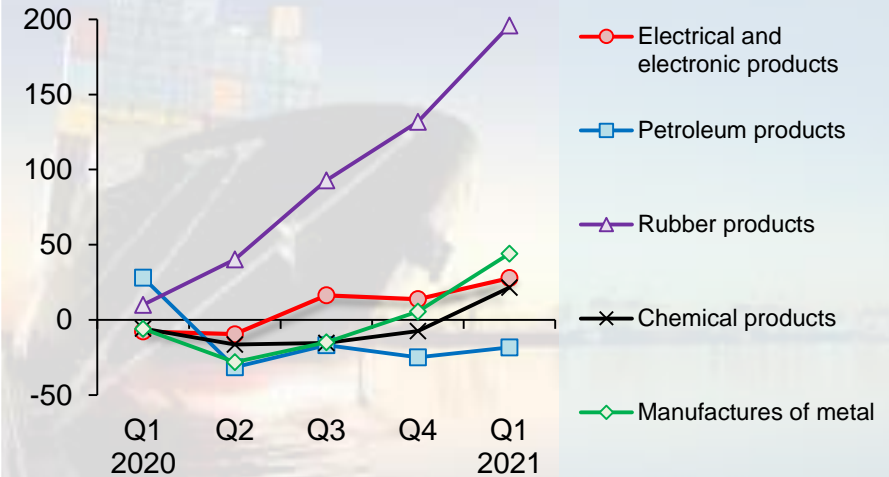
External Trade

%, YoY



Selected Export Products

%, YoY



- Exports continued to charge ahead, buoyed by increased global demand of electrical and electronic (E&E) products, rubber-based products, palm oil and palm based products as well as manufactures of metal.
- Low base effect in 2Q 2020 will boost high double-digit rates in 2Q 2021.
- **Exports are expected to grow by 9.0% in 2021 (2020: -1.4%)** in tandem with a global recovery and firmer commodity prices.

Source: DOSM

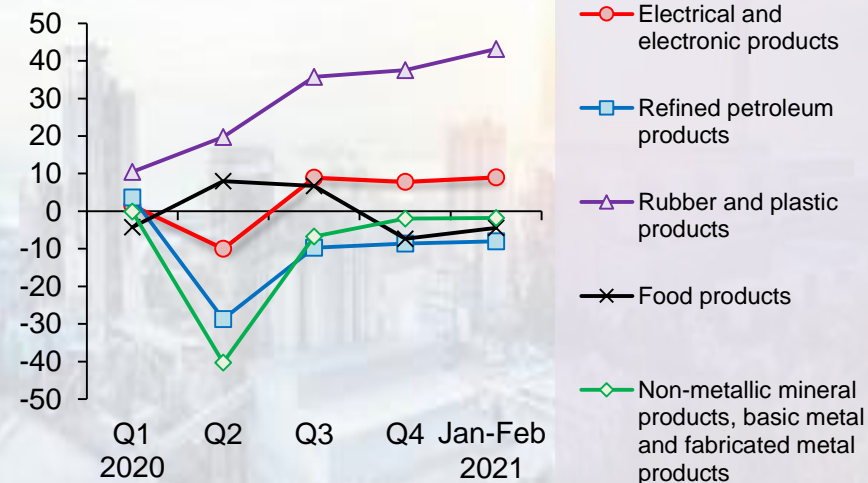
Industrial sector is recovering but at uneven pace

Industrial production & manufacturing sales

Industrial Production and Manufacturing Sales:
%, YoY



Selected Manufacturing Production
%, YoY



- Industrial production was underpinned by the manufacturing sector, mainly export-oriented industries.
- Mining and electricity output remains a drag.
- Manufacturing sales expanded steadily since Jun 2020, helped by strong external demand.

Source: DOSM

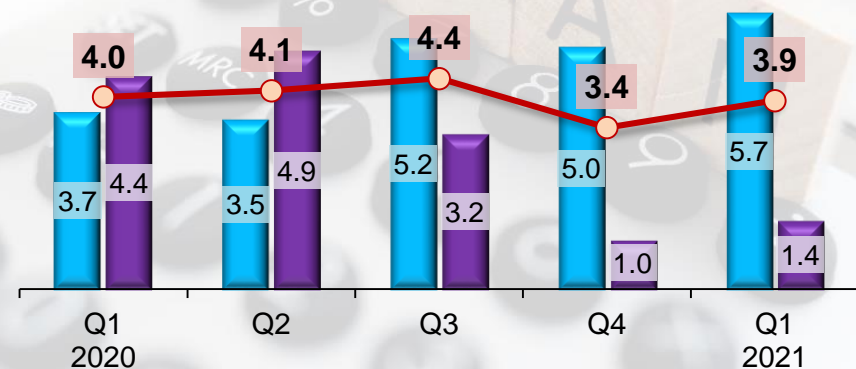
Still slow recovery in overall loan demand

Loan financing

Loan Outstanding by Sector

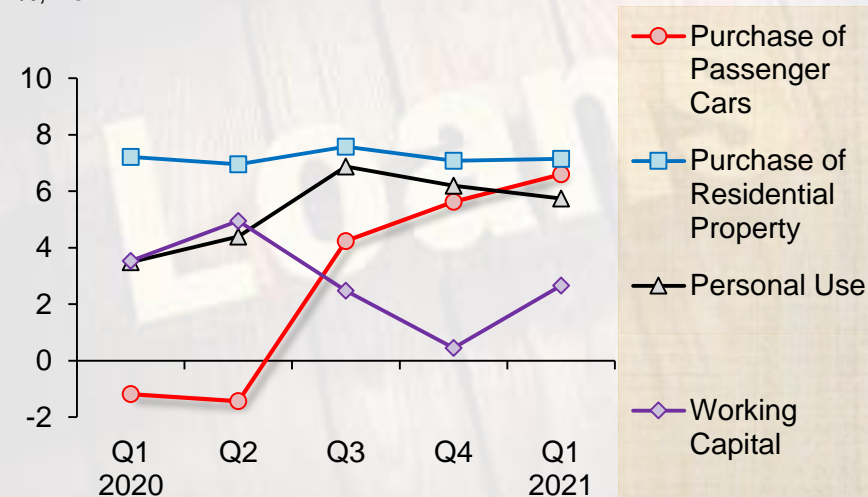
%, YoY

Household Sector Business and Other Sectors Total



Loan Outstanding by Purpose

%, YoY



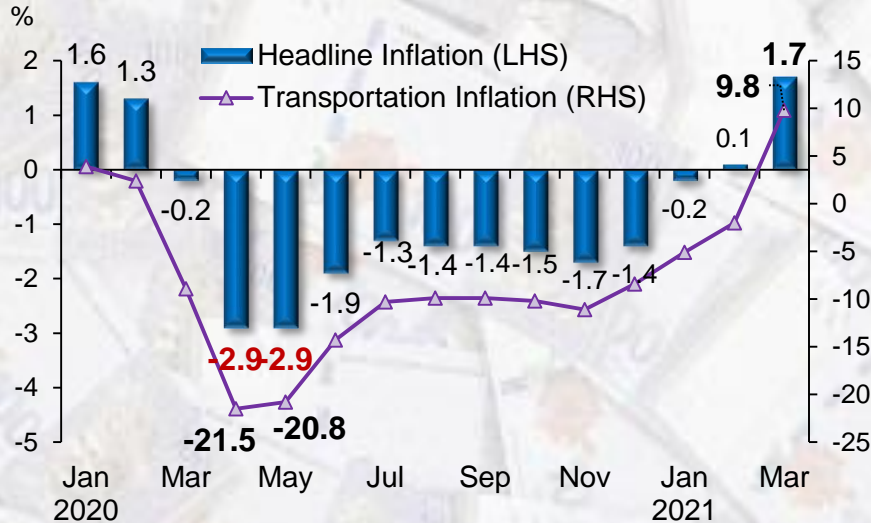
- **Overall loan growth** is recovering, held up by the household sector. Business loans remained lacklustre.
- Households loan demand is growing, supported by purchases of passenger cars and residential properties.
- **Outstanding loan for working capital picked up slightly**, supported by high loan demand in the wholesale and retail sector while slow demand in the manufacturing and construction sectors and muted loan growth in the agriculture, mining and real estate sectors.

Source: BNM

From deflation to cost-push inflation in 2021

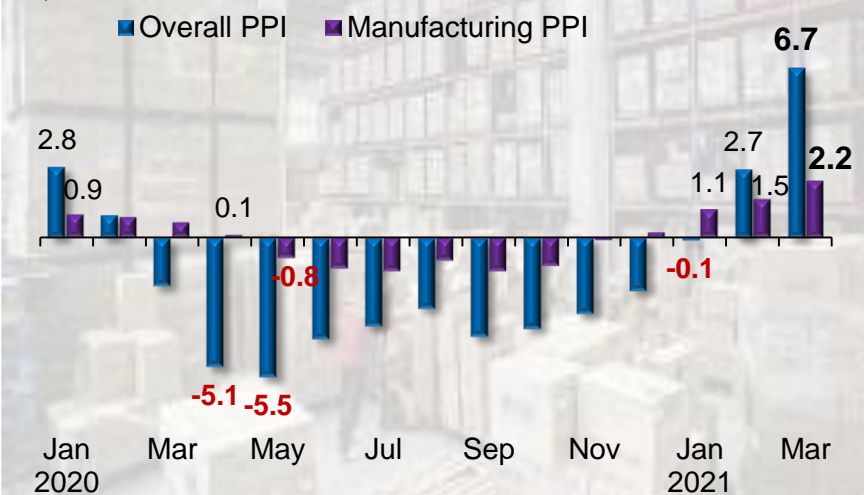
Consumer Price Index (CPI)

Inflation by Selected Components



Producer Price Index (PPI)

Growth % YoY



- Cost-push inflation will be calling the shots in 2021 amid still mending domestic demand.
- Headline consumer price index (CPI) will be getting normal from a depressed base in 2020.
- Higher producer price index may presage more increased cost pass-through.
- SERC estimates inflation to increase by 3.0%-4.0% in 2021 (-1.2% in 2020).

Source: DOSM

Understanding the factors that impact inflation in 1Q 2021

Price index (2015=100)



Headline CPI

2019

2020

121.5

120.1

-1.2%
(vs. FY2019)

Selected key driving factors:



Food & non-alcoholic beverages (29.5% of CPI)

133.1

134.8

+1.3%



Rental charges (18.1% of CPI)

125.2

126.9

+1.4%



Electricity prices (2.7% of CPI)

107.4

80.6

-25.0%



Fuel prices (8.5% of CPI)

113.6

92.4

-18.7%

In 2020:

- Deflation caused by **lower fuel prices** (RON95: RM1.67/litre in 2020 vs. RM2.06/litre in 2019), **tiered electricity rebate** in Apr-Dec 2020 and **moderating inflation for rental charges** (from 2.2% in Jan to 0.6% in Dec)

- Core inflation trending low** to 0.7% in Dec (FY: 1.1%)

- Constant inflationary factors:** Food items; repair & maintenance of personal transport

- Spiking prices:** Personal goods (precious stone); air transport

1Q 2021

vs.
1Q 2020

vs.
FY2020

vs.
FY2019

122.5

+0.5%

+2.0%

+0.8%

136.1

+1.5%

+1.0%

+2.3%

127.3

+0.4%

+0.3%

+1.7%

96.4

-10.2%

+19.6%

-10.2%

107.7

-0.1%

+16.6%

-5.2%

In 1Q 2021:

- Core inflation remained subdued** at 0.7%



- Spiking prices:** Furniture and furnishings in March

- Some prices are moderating:** Jewellery rings & precious stones (171.4 in March from peak's 187.1); air transport (116.2 in March from peak's 140.6)

Source: DOSM

Inflation could get downright hot, even if temporary

- **The anticipated rise in inflation goes beyond low base effect.** Real price pressures have increased amid a recovering economy and consumer demand, albeit unevenly. The drivers behind the inflation number lies in the behaviour of the prices of oil and food as well as intermediate inputs and raw materials, which can push prices more.
- **Signs of inflation are already showing up in the goods side of the economy.** Strong recovery in commodity prices and oil prices (the pump prices (RON95) were averaged RM1.58 per litre in Apr-Dec 2020 versus a subsidized cap price at RM2.05 per litre this year) is putting upward pressure on inflation.

Key categories	Changes in price level:	Inflation in Apr 2021	Point contribution to overall inflation rate in Apr 2021
 Fuel prices (8.5% of CPI)	RM2.05/litre vs. RM1.27/litre in Apr 2020 for RON95	61.4%	+5.2%
 Electricity prices (2.7% of CPI)	Price index of 96.4 vs. 71.6 in Apr 2020	34.6%	+0.9%
 Food & non-alcoholic beverages (29.5% of CPI)	Assume same price index of 136.1 in Jan-Mar 2021 for Apr 2021 vs. 133.9 in Apr 2020	1.6%	+0.5%
		Combined ≈ +6.6%	

Inflation could get downright hot, even if temporary (cont.)



Some menu food prices in restaurants and food hawkers operating in coffee shops in some locations have increased prices by between 5-10%. Prices of basic necessities and fresh food in markets, such as chicken, eggs and vegetables have increased due to inflation and other factors, including transport and animal feed costs. For consumer durables, the prices of furniture and mattress also increased by at least 10%.



Companies have already been dealing with a range of rising prices of raw materials (metals, including iron and steel, and copper) in addition to rising shipping costs have led to higher imported cost of goods. Rising raw materials and intermediate inputs put upward pressure on consumer prices if they cannot absorb the increasing costs, forcing to pass-through to consumers to preserve profit margin. Businesses also had difficulty finding workers, which could suggest a rise in wages in addition to other costs.



Goods inflation will eventually spill over to services inflation as the economy adjusts to increased demand. The revival in consumer spending on pent-up demand should start sending prices higher like airfare, public transportation, hotels, dining out, and rental cars as more people feel comfortable leaving their homes amid a steady progress in the vaccination program.



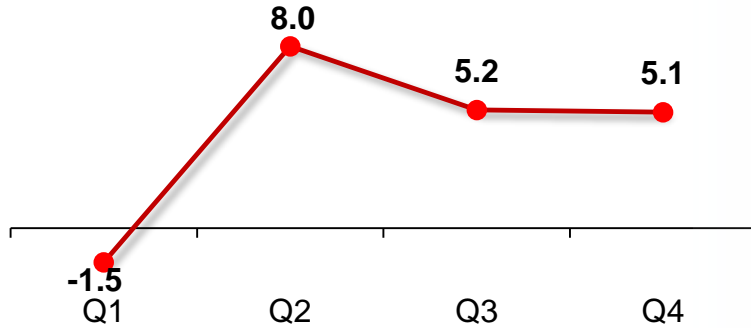
Some supply-side bottlenecks that manifest in price increases as demand rises. Businesses, manufacturers and suppliers have failed and exited the industry, high unemployment and workers and capital will need to be reallocated as the economy recovers. This will act to further restrain supply as demand rises.

Growth to peak in 2Q as low base effect wears off in 2H 2021

Base case

4.0% growth in 2021

Estimated GDP growth in 2021
%, YoY



Slow pace of vaccination and rising infection cases



Cautious discretionary spending

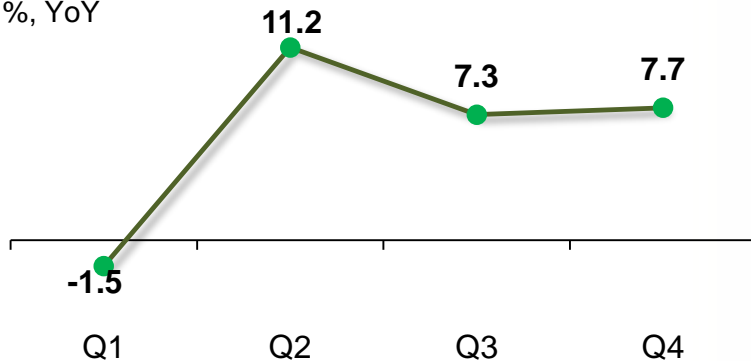


Gradual reopening of international border and lifting of inter-state travel ban

Upside scenario

6.0% growth in 2021

Estimated GDP growth in 2021
%, YoY



Accelerated containment of virus spread and vaccination



Pent-up consumer demand unleashed



A robust rebound in services with the resumption of international travel

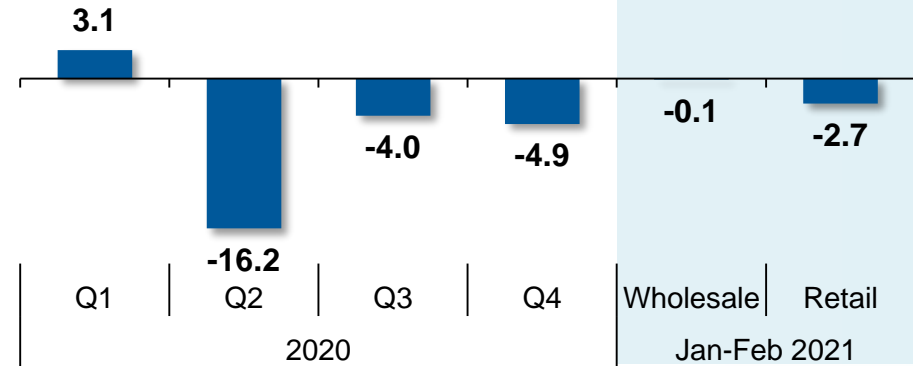
Source: SERC's estimates

Services and manufacturing sectors in 1Q 2021

Services (57.7% of GDP)

Services GDP growth

%, YoY



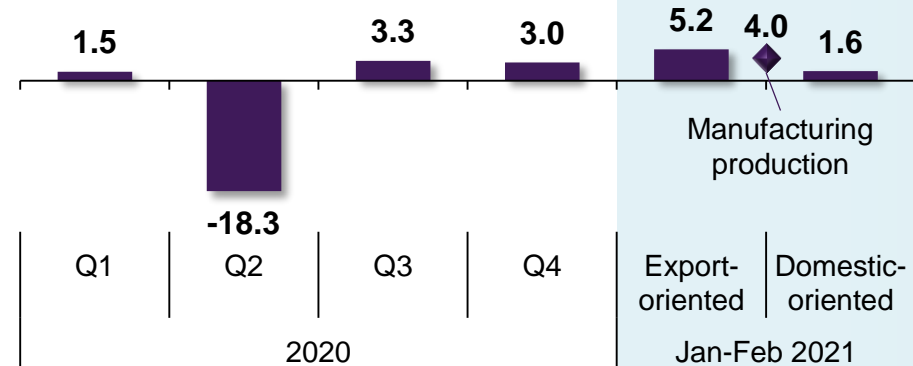
Uneven growth

- Recovering discretionary spending
- Gradual reopening of international border and lifting of inter-state travel ban dampens tourism, travel and related sub-sectors

Manufacturing (23.0% of GDP)

Manufacturing GDP growth

%, YoY



Export-oriented industries

- Sustained exports of electronics and electrical products
- Food products and transport equipment
- But, moderate output growth of construction –related building materials

Source: DOSM

Note: Share of GDP refers to share of GDP in 2020

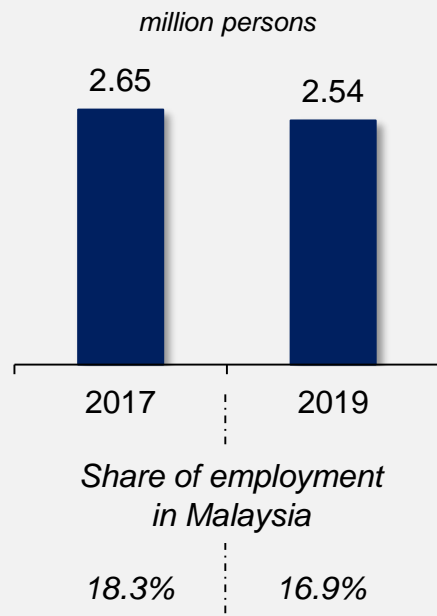
Building Back Better: Workers in the Informal Sector

- **Unregistered, unregulated and unprotected, informal workers in Malaysia have been disproportionately affected by the economic repercussions of the COVID-19 pandemic**
- **The informal sector is often linked to vulnerable employment and unstable income**
- **Risks and vulnerabilities appear in proportion to the scale of informal employment**

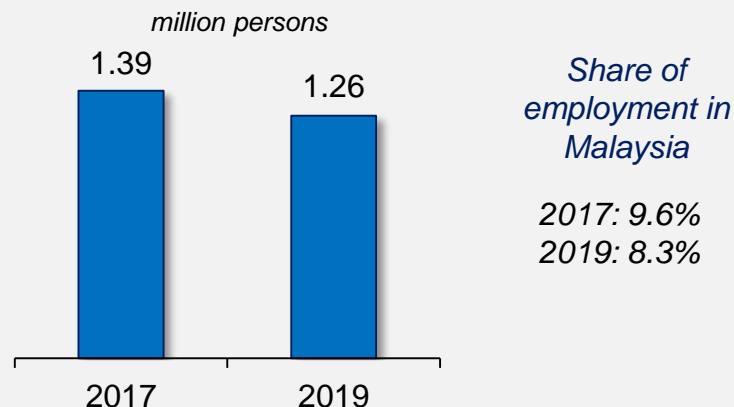


Informal employment in Malaysia

Informal employment



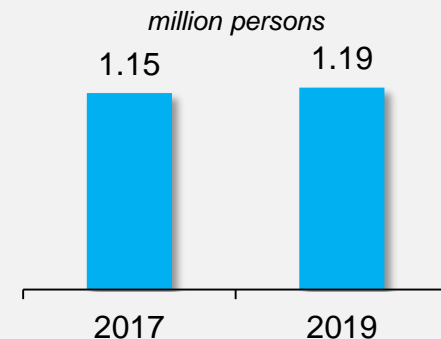
Informal employment in the informal sector



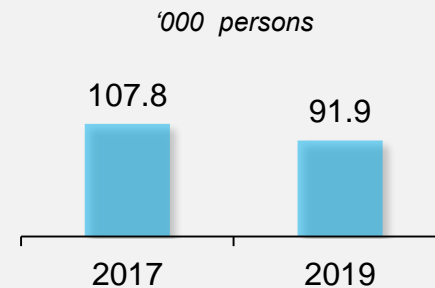
Informal employment in the non-informal sector

2019: 1.28 million people (8.4% share of employment in Malaysia)
 2017: 1.26 million people (8.7% share of employment in Malaysia)

Number of informal employment in the formal sector



Number of informal employment in household*

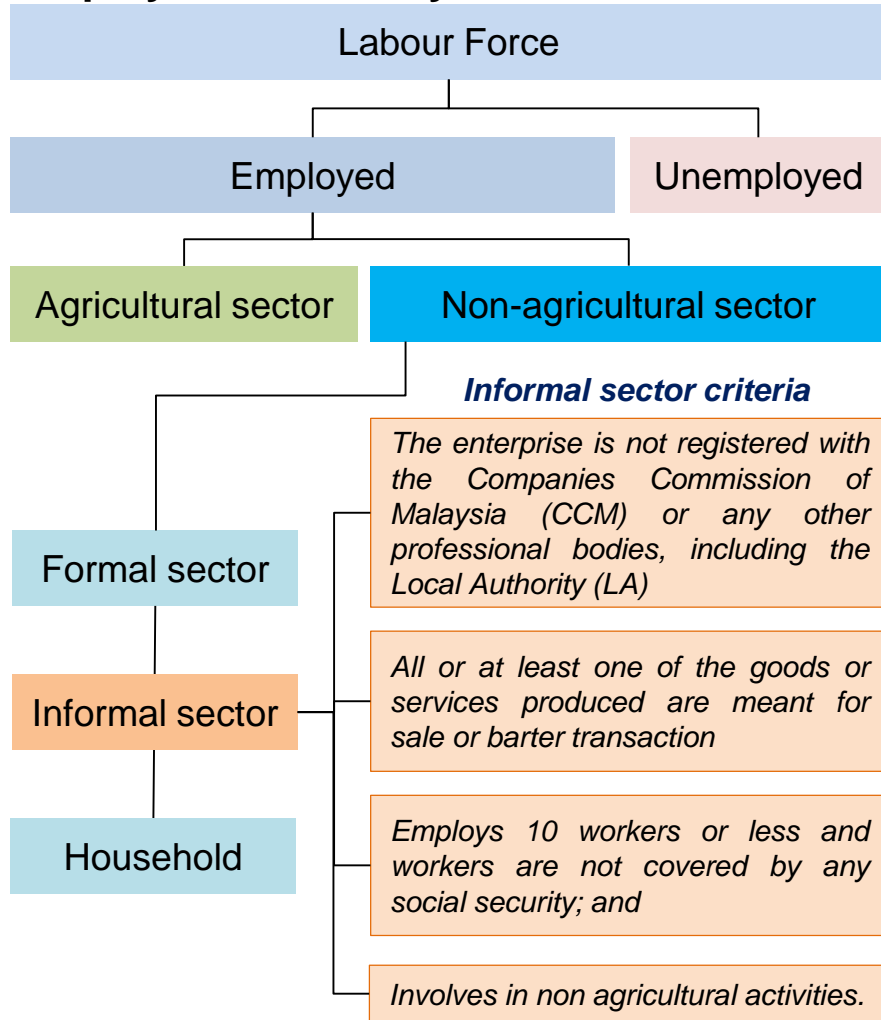


Note:
 Workers in the agricultural sector are not counted among informal employment workers.
 *households producing goods exclusively for their own final use and households employing paid domestic workers

Source: DOSM

The informal sector in Malaysia – Who are they?

Conceptual framework of informal employment in Malaysia



Jobs in the informal sector refer to ...

Food stall or hawker Small retailers

in

- Pasar pagi
- Pasar malam
- Flea market
- Roadside

Employees are paid daily

- Coach (Gym, Martial art, Sport)
- Helper



Employees are paid per task

- Assembly job
- Construction job (e.g. painting or wire pullers)



Commission based jobs



E-commerce business

Self-employed

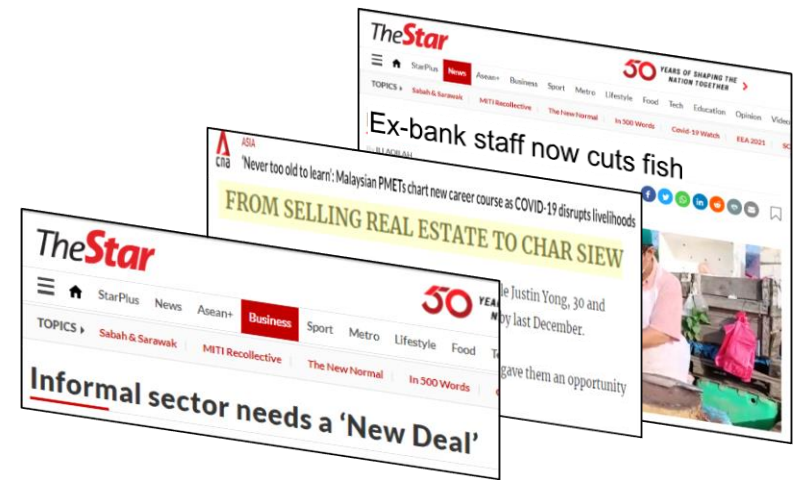
- Employers
- Informal drivers
- Motorentrepreneur
- Key opinion leader (KOL)

Unpaid family workers

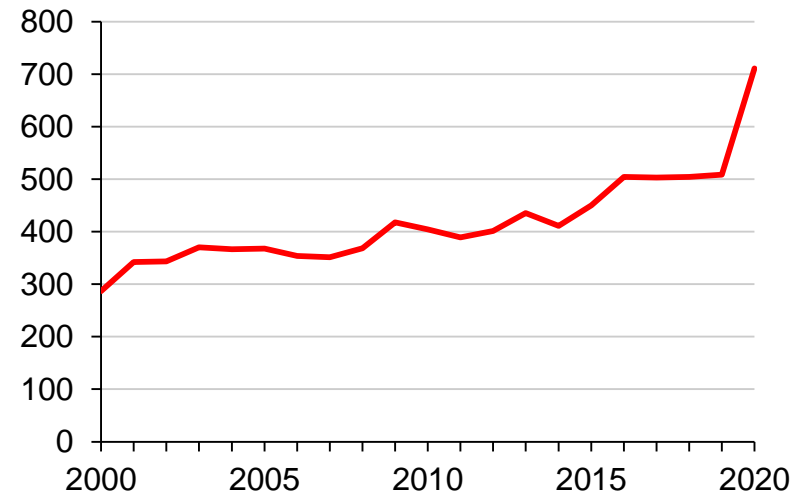
Source: DOSM

High unemployment is high, informal sector is in shambles

- The pandemic has severely disrupted supply and demand, causing high unemployment.
 - In 2020, unemployed persons recorded 711,000 persons with **4.5% unemployment rate, highest since 1993**. Loss of employment increased by 267% from 40,084 in 2019 to 107,024 in 2020.
- **Digital transformation will lead to jobs being lost and replaced.** The World Bank estimated that 50% of jobs in Malaysia are potentially be replaced or reshaped by automation in near future. High-risk category involve mainly routine tasks.
- A tendency for an increase in the supply of informal workforce during a crisis due to a decrease in demand for formal workers and an increase in unemployment. **Many of the formal workers turn to informal workers as an alternative strategy to survive during the crisis.**
- The informal sector should not be used as a secondary sector in sustaining the national economy.



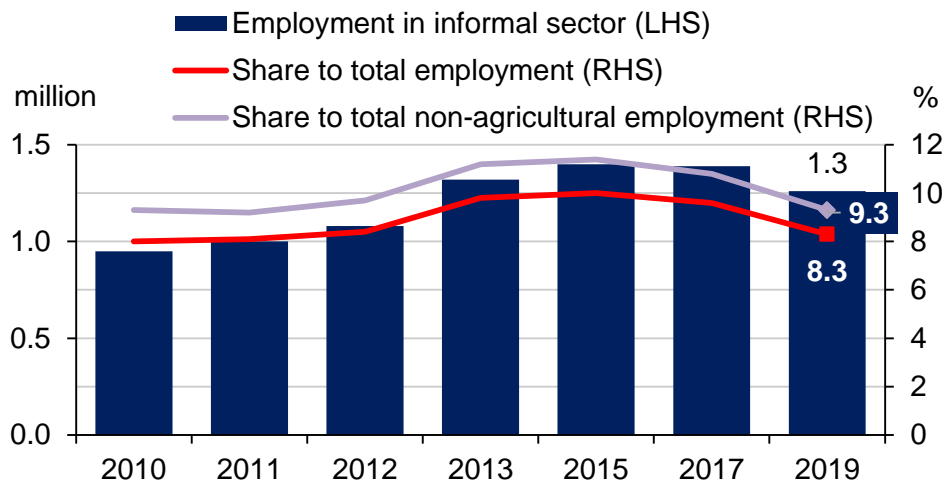
Unemployed persons ('000)



Source: DOSM

Employment in the informal sector

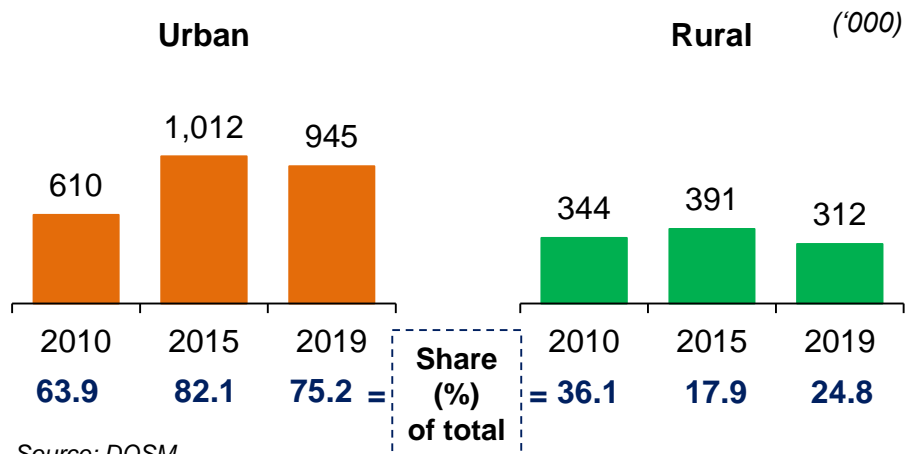
Own account worker contributed 71.7% of employment in the informal sector, followed by employees (17.1%)



Women participation in the informal sector is increasing

Employment in the informal sector by gender						
	Male	2017	2019	Female	2017	2019
Employed persons ('000)		850.4	707.2	536.0	548.9	↑
Share of total (%)		61.3	56.3	38.7	43.7	↑
Share from the total male employment (%)		9.5	7.7	9.6	9.4	

Employment in the informal sector by strata



Source: DOSM

Top 5 states with highest "share to total employment in informal sector" (2019)

	Selangor	16.6%
	Sabah	12.3%
	Johor	10.5%
	Kelantan	10.4%
	Kedah	8.5%

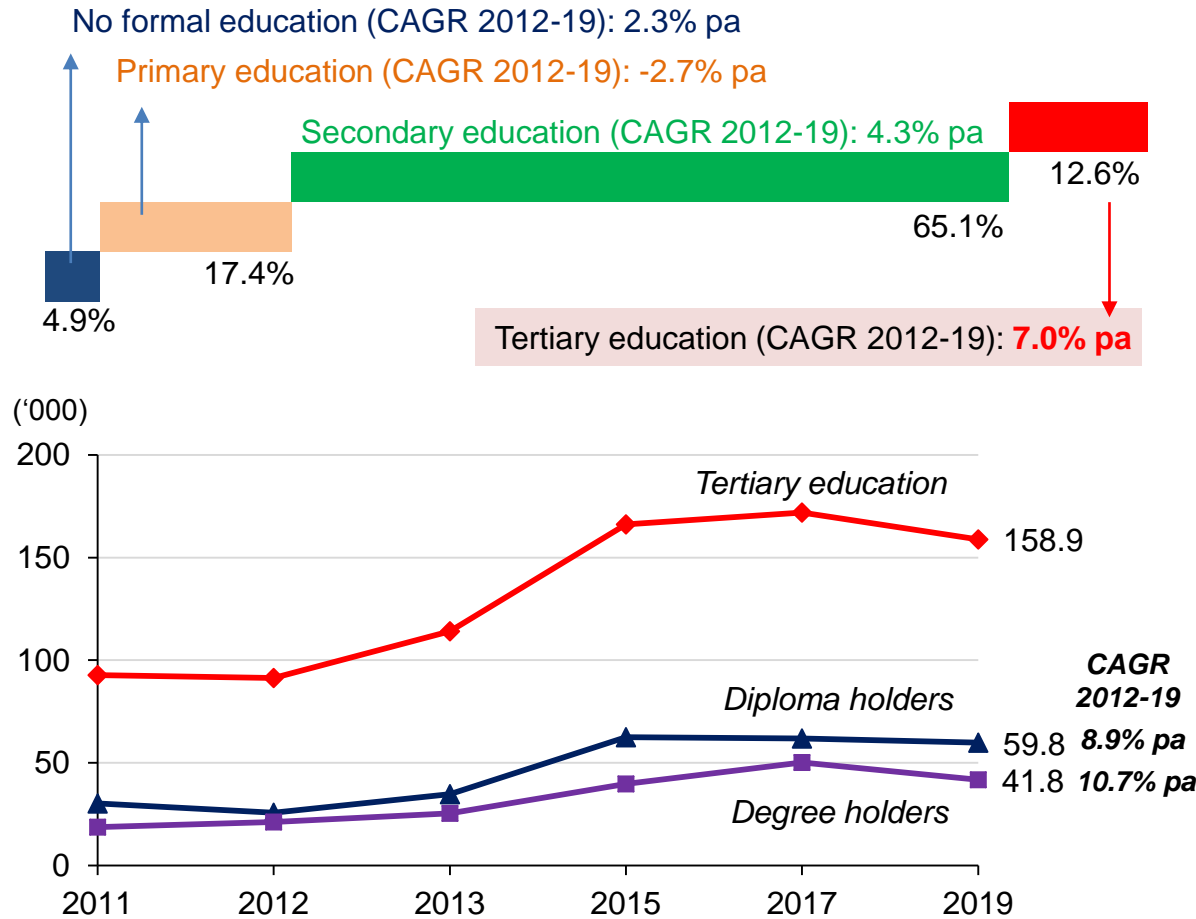
Top 5 states with highest "employment in informal sector share to state employment" (2019)

	Kelantan	19.2%
	Terengganu	19.0%
	Kedah	11.6%
	Perlis	11.0%
	Perak	9.2%

Workers with tertiary qualification in the informal sector is growing rapidly

Mainly have attained only secondary education

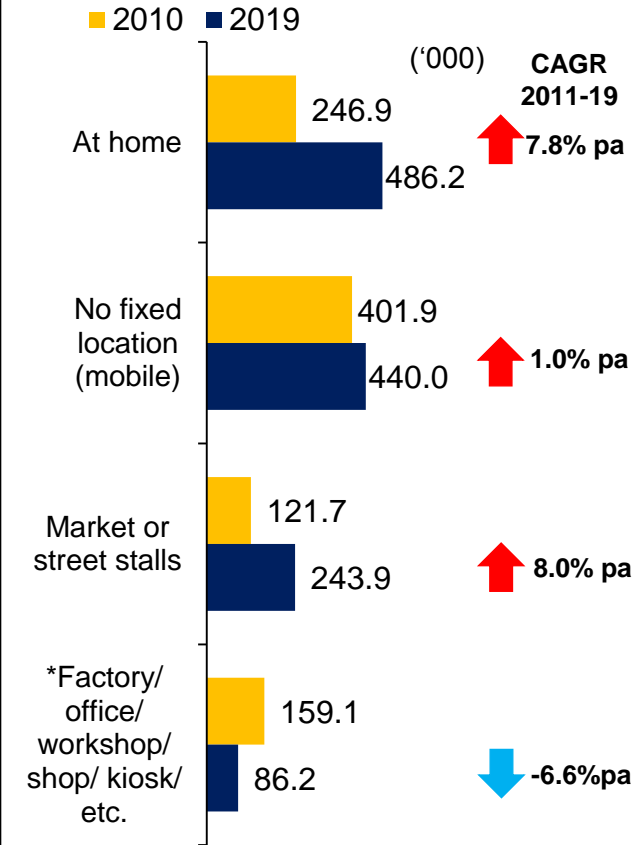
Share by educational attainment (2019)



Source: DOSM

More people engaged in market or street stalls and work at home

By type of workplace



* independent from home
 Source: DOSM

Risks and Vulnerabilities in the Informal Sector

- **Despite representing a majority of workforce and supporting the economy**
- **The contribution of informal workers to society is not well recognised or understood**
- **Making their inclusion as beneficiaries of tax financed government programmes**
- **Build social protection system, skills upgrading and increasing productivity as well as facilitating the transition to the formal sector to increase formal employment opportunities**



Risks and vulnerabilities of workers in the informal sector



High occupational risks. Poor safety and health working conditions. Absence of social protection arrangements



Old-age retirement coverage is lower. Lack of familiarity with pension schemes or lack of trust may lead to reluctance to contribute to a retirement benefits scheme



Falling out of government's relief programs due to eligibility and qualification rules; little data on beneficiaries; undocumented, identification and targeting are challenging



Faced **constraints to access credit facilities** due to insufficient supporting documents and stable income



Unknowingly involved in illegal activities due to unaware about the job scope, particularly for the part-timer



Lower levels of education and poor skills acquisition due to the lack of technical and vocational education and training (TVET)

Policy recommendations

- As the economy moves towards recovery, it is imperative to have **supportive policies and regulatory environment that is inclusive and responsive to the needs of all** workers regardless of their working arrangements and employment relationships.
- The policy challenge is to recognise the size and significance of the informal sector as well as facilitate the transitions of workers across sectors and geographies in the changing world of work.



(A) IMPLEMENT A NATIONAL DATABASE TO ENSURE TARGETED SUPPORT

- Better and comprehensive data to track not only their identity but also their economic activity as well as to integrate informal workers into the formal regulatory environment
- Having a consolidated ID system and formally registering all individuals in the system will make it much easier to design and deliver support measures to those working in the informal sector

Policy recommendations (cont.)



(B) REDEPLOYMENT OF INFORMAL WORKERS INTO NEW ROLES

- Better data allows the mapping and redeployment of informal workers to new roles
- Partnering with private organisations and community to map out informal workers' skills and qualifications, and matching them with market demand



(C) REVIEW THE LABOUR REGULATIONS & LAWS FOR ALL TYPES OF INFORMAL WORK

- Better policy planning based on their economic and social needs
- Evaluating their skill set training requirement and the coverage of safety nets



(D) POLICY REGULATIONS TO PROTECT THE PLATFORM-BASED WORK (GIG ECONOMY)

- Design supporting policies that protect workers while at the same time providing business certainty to customers and respecting the flexibility that some platforms enable

Policy recommendations (cont.)



(E) RETHINKING SOCIAL PROTECTION SYSTEM FOR ALL

- Operational and regulatory costs outweigh the benefits of receiving protection. There is not a great enough incentive to be registered
- Consider **basic social safety net provisions that are expansive, inclusive and can reach people who are at risk in quick and efficient ways**
- Enhance awareness of information to reach the targeted workers
 - ✓ ***Extend the existing coverage of social protection programmes to informal workers and informal employment (e.g. part-timer or freelancer) in Malaysia shall contribute to SOSCO on a mandatory basis.***
 - ✓ ***Increase the awareness of information about “self-employment social security scheme” which has been extended to 19 other sectors (effective from 1 January 2020) in addition to passenger transport industry previously.***
 - ✓ ***Increase the awareness and participation of EPF’s i-Saraan. As of 2019, only 120,738 informal workers have registered for this programme (9.6% share of total employment in the informal sector). It is proposed that to extend at least another five years for government’s contribution in i-Saraan (2023-2027), which will be expired in 2022.***
 - ✓ ***Provide tax relief for husband who contribute to wife’s/housewives’ EPF account***

Policy recommendations (cont.)



(F) SKILL SET UPGRADING TO ENHANCE EMPLOYABILITY

- Generally, education and skill levels are lower for people employed in the informal sector
- Development of relevant skills and knowledge can open doors to more economically and socially rewarding jobs, better earnings and working conditions
- Challenges and barriers for informal sector workers to accessing and participating in skills and lifelong learning opportunities: lower levels of foundational skills to formal educational entry requirements, costs of training and opportunity costs such as foregone income, and location- and gender specific-factors such women shouldering family responsibility
- Promote the employability and income opportunities. Innovations to facilitate outreach, the recognition of prior learning or digital solutions are highly needed, requiring new financing models and partnerships with employers and workers' organizations
- Allocate funds to establish training programs for upskilling or reskilling workers in the informal sector





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