



Socio-Economic Research Centre

Quarterly Economy Tracker

Jul-Sep 2021

Recovery, Resilience and Reform

7 October 2021





A Careful Balancing Act

- **Still uneven global recovery.** With the vaccinations continuing and the resumption of economic activities underway amid still lurking virus risk, **the global economy is continued growing in 2H 2021 though the recovery remains uneven.** The uneven pace of recovery is due to the large differences in vaccination rates between countries, and adding to the divergent recovery is the renewed spread of Delta strain has forced some countries to continue restrict activities and movements.
- **Global indicators point to easing activities ahead.** With the favourable base effects in 1H 2021 diminishing, both manufacturing and service sectors have seen easing growth on resurgence of new cases worldwide in between 2Q and 3Q, impeded by sustained supply-side constraints. Supply bottlenecks are curbing the rate of output expansion amid continued consumer demand. Data showed that the supply chain disruptions for semiconductors are getting worse. While output or employment have recovered to pre-pandemic levels in some countries, but jobs and incomes still falling short of the levels. Strong pent-up demand is seen normalising.

The cost-driven and supply constraints-induced inflationary pressures and inflation risks are real, and if the wage demand rises faster (due to a recovery in labour market and labour shortages for some industries), reinforcing cost-induced and wage-demand inflation.

- **Beginning of the end of easy money.** Inflation concerns amid the economic recovery have shifted the tone at the Federal Reserve and some central banks elsewhere. The Federal Reserve said it will likely begin reducing its monthly bond purchases as soon as November this year and signalled interest rate increases may follow more quickly than expected as the post pandemic recovery gains momentum. The unexpected large monetary moves could induce large global financial market volatility due to the capital reversals from the emerging markets.
- **Risks to the outlook are broadly balanced.** We caution that the counter COVID-19 pandemic crisis fiscal stimulus and highly accommodative monetary policy must be carefully unwind to ensure a sustainable recovery and revitalizing of private demand. Pandemic-related uncertainty remains high. Amid higher vaccination rates but still at differing pace between countries, virus mutations will raise the risk of renewed lockdowns and temper the uneven recovery. The Fed's tapering of asset purchases-induced tighter financial conditions or a larger step of interest rate normalization could undermine the recovery and increase private and public sector vulnerabilities.



Recovery, Resilience and Reform

- **A cautious recovery in 2H 2021.** After growing by an average annual growth of 7.1% yoy in 1H 2022 (+16.1% in 2Q and -0.5% in 1Q), the uneven recovery was tempered by renewed virus outbreaks, forcing the re-implementation of restricted lockdown beginning in mid-May as well as the Phase 1 under the National Recovery Plan (NRP) in early June, resulting in demand curtailment and supply disruptions. At this point of writing, more reopening of economic and social sectors is underway, subject to the Standard Operating Procedures (SOP).
- **Deeper economic scarring effects in 3Q.** The shape of economic recovery depends critically on the second half-year performance, especially in the third quarter (Jul-Sep), which holds the key to a gradual resumption of economic and business activities as we move into the phases of more reopening of economic and social sectors. While the increasing level of vaccinations will support the normalcy of activities, the virus risk still lurking to threaten life and economy, and hence, continued pandemic mitigation and surveillance, including SOP are a must to ensure a sustained revival in economic and business conditions.
- A slew of key economic data (namely, exports, industrial output, wholesale and retail sales as well as banks' loan demand) for the month of July-August has generally shown either a sharp pull back in growth or reverted a decline in consumer spending, reflecting the scarring economic effects from the MCO 3.0 restricted containment measures. The uptick in unemployment rate to 4.8% in July also weighed on consumer sentiment. Indications are that overall economic output, as measured by the GDP would be subdued or may decline in 3Q 2021 before recovering to positive decent positive growth in 4Q. **We are still keeping our full-year 2021's GDP growth estimate of 4.0% amid considerable uncertainties.**
 - a) **Malaysia's Leading Index (LI)**, a predictive tool to anticipate economic upturns and downturns in an average of four to six months ahead, has declined by 4.0% yoy in July 2021 (+11.3% in 1Q and +7.7% in 2Q). This suggests a pullback in growth ahead. Already, GDP in June had declined by 4.4% due to the impact of MCO 3.0.
 - b) **Industrial Production Index (IPI)** fell 5.2% yoy in July (+1.4% in June), marking its first decline in eight months amid contraction seen in the output of manufacturing and electricity. Domestic-oriented industries of the manufacturing sector plunged by 24.7% while the export-oriented industry grew by 1.9%.
 - c) **Wholesale and retail trade** continued to decline by double-digit for two consecutive months (-14.7% in July and -10.3% in June), consumer demand was curtailed during the lockdown amid worsening the COVID-19 cases. Retail trade dropped by 8.1% in July, with declines in all specialized and non-specialized stores.
 - d) **Unemployment rate** remained the same at 4.8% (778,200 persons) in July from 1Q-2Q, as the renewed lockdown has caused firms to lay off their employees amid slow hiring. Throughout the pandemic (March 2020 to July 2021), 1,246 companies forced to wind down while 10,317 individuals registered for bankruptcy. With a full reopening of the economy expected by end-year, and more businesses resume their operation, **we expect unemployment rate to improve slightly to 4.7% at end-December 2021.**

e) **Gross exports** increased strongly by 18.4% yoy in August (5.0% in July; 44.0% in 2Q), partly aided by a lower base a year ago. In August, most major exports products such as electronics and electrical products, electrical machinery and equipment, palm oil and palm oil-based products, refined petroleum products. Exports to major markets also increased. While we expect exports to continue growing, underpinned by the recovery in our major trading partners, the annual growth will be paced smaller at estimated 8.0% in 2H due to the waning effect of low base compared to 30.2% in 1H 2021, **taking our full-year estimate to 18.2% in 2021** (-1.1% in 2020).

f) **Banking system's loan growth** continued to moderate for two months in a row (Aug: 2.5% yoy; Jul: 3.4% yoy). The household sector's loan growth also slowed from 5.7% in 1Q 2021 to 3.4% at end-Aug. Mortgage loan for residential property is gradually slowing while that of passenger cars pulled back sharply in August 2021.

- **Headline inflation softens but real price pressure remains.** Inflation, as measured by the Consumer Price Index eased further to a 5-month low of 2.0% yoy in August (2.2% in July and 4.2% in 2Q). The price moderation was broad-based: food, transport, housing, utilities etc. Inflation will stay relative stable in the remaining months of this year, **taking the full-year estimate to 2.5% in 2021.**

Though the CPI index measurement shows a slower rate of change due to “technical” base comparison, price levels for some goods and services have generally experienced increases due to rising cost of raw materials and supply disruptions. The cost pass-through effect on consumer inflation is unavoidable if cost increases have eaten into businesses' profit margin. Producer Price Index (PPI) for local production has been increasing at double-digit rates in recent months (11.3% in August; 11.7% in July; 11.3% in 2Q), mainly pushed up by higher increases in prices paid for crude materials for further processing as well as intermediate materials, supplies and components.

- **Interest rates to stay unchanged at 1.75% until 1H 2022.** We expect Bank Negara Malaysia to keep the Overnight Policy Rate (OPR) at 1.75% until mid-2022 to support a firmer revival in domestic demand. The continued low interest rate complements the targeted fiscal support to secure a sustainable recovery path. The overall economic growth and inflation outlook as well as financial stability risk will be carefully assessed in a balancing act to time the starting of interest rates normalization.

The uncertainty of monetary path in some advanced economies and potential induced financial volatility in the financial and foreign exchange markets will also be one of the key aspects under the central bank's monetary management.

- **2022 Budget - Revive and Recharge the economy.** Policymakers must figure out how to fix a shattered economy, rebuild from the damage of the pandemic to become more resilient and to safeguard it against the next catastrophe. The 2022 Budget marks the second year of the 12th Malaysia Plan (2021-2025).

- **Fiscal policy support is still needed as long as the outlook is uncertain and employment has not yet recovered fully**, but clear guidance is called upon from policymakers to minimize risks to growth ahead. Immediate priority is to **craft a swift economic recovery plan for generating growth, enhancing economic resilience, revitalizing private investment, creating jobs, reskilling and upskilling of manpower**.
 - The **immediate priorities** are to **rebuild and sustain public confidence and trust**.
 - **Next, to facilitate and secure the economic and business recovery** with more emphasis on broader fiscal and financial supports for affected households and firms, supporting the reallocation of labour and capital to growing sectors through targeted hiring subsidies, jobs creation and retraining as well as financing mechanisms.
 - **Finally, to invest in the future**, by accelerating digitalisation and technology and automation, boosting productive capacity and productivity as well as competitiveness, accelerating the transition towards green and environmental growth as well as ESG best practices, and ensuring the economic gains are equitably shared as outlined in the Shared Prosperity Vision 2030.
- **Risks to the growth outlook in 2021-2022.** There remain external and domestic factors that would continue exerting downside risks to the domestic economy. These include a weaker-than-expected global growth recovery, and hence dampens exports demand; a slower revival in domestic demand due to weak job and income growth. Private investment takes some time to regain strength on still cautious approach about the momentum of economic and business recovery.

Real GDP growth (% YoY)

Economic Sector [% share to GDP in 2020]	2019	2020	2021 1Q	2021 2Q	2021 1H	2021e (SERC)
By kind of economic activity						
Agriculture [7.4%]	2.0	-2.2	0.2	-1.5	-0.7	-0.8
Mining & Quarrying [6.8%]	-0.6	-10.6	-5.0	13.9	3.5	4.0
Manufacturing [23.0%]	3.8	-2.6	6.6	26.6	15.8	8.9
Construction [4.0%]	0.4	-19.4	-10.4	40.3	8.3	7.0
Services [57.7%]	6.2	-5.5	-2.3	13.4	4.8	2.0
By type of expenditure						
Private Consumption [59.5%]	7.7	-4.3	-1.5	11.6	4.3	2.8
Public Consumption [13.4%]	1.8	3.9	5.9	9.0	7.5	5.0
Private Investment [15.7%]	1.6	-11.9	1.3	17.4	8.8	5.8
Public Investment [5.2%]	-10.7	-21.3	-18.6	12.0	-6.9	3.1
Exports of Goods and Services [61.6%]	-1.0	-8.9	11.9	37.4	23.5	18.3
Imports of Goods and Services [55.1%]	-2.4	-8.4	13.0	37.6	24.3	19.4
Overall GDP	4.4	-5.6	-0.5	16.1	7.1	4.0

Source: Department of Statistics, Malaysia (DOSM); SERC

Global Economic and Monetary Conditions

Real GDP growth (% , YoY)

	2019	2020	2021 Q1	2021 Q2	2021f (IMF)	2021f (WB)	2021f (IMF)	2021f (WB)
World	2.8	-3.2	N/A	N/A	6.0	5.6	4.9	4.3
United States	2.3	-3.4	0.5	12.2	7.0	6.8	4.9	4.2
Euro Area	1.5	-6.3	-1.2	14.3	4.6	4.0	4.3	4.4
China	6.1	2.3	18.3	7.9	8.1	8.5	5.7	5.4
Japan	0.0	-4.6	-1.3	7.6	2.8	2.9	3.0	2.6
India	4.0	-7.3	1.6	20.1	9.5	8.3	8.5	7.5
Malaysia	4.4	-5.6	-0.5	16.1	4.7	6.0	6.0	4.2
Singapore	1.3	-5.4	1.5	14.7	5.2	N/A	3.2	N/A
Indonesia	5.0	-2.1	-0.7	7.1	3.9	4.4	5.9	5.0
Thailand	2.3	-6.1	-2.6	7.5	2.1	2.2	6.1	5.1
Philippines	6.1	-9.6	-3.9	11.8	5.4	4.7	7.0	5.9
Vietnam	7.0	2.9	4.5	6.6	6.5	6.6	7.2	6.5

Note: World GDP growth for 2019 and 2020 by IMF; Annual GDP for India is on fiscal year basis; N/A = Not applicable or not available

Source: Officials (unadjusted data except quarterly GDP for Euro Area); IMF (World Economic Outlook (WEO), Apr 2021; WEO Update, Jul 2021); World Bank (Global Economic Prospects, Jun 2021)

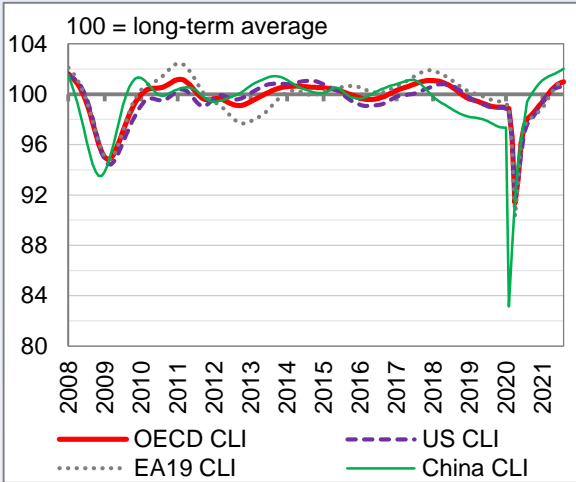
Policy rate (%)

End-period of	2008	2009	2010	2011	2012	2016	2017	2018	2019	2020	2021 (Sep)	2021f
US, Fed Federal Funds Rate	0.00- 0.25	0.00- 0.25	0.00- 0.25	0.00- 0.25	0.00- 0.25	0.50- 0.75	1.25- 1.50	2.25- 2.50	1.50- 1.75	0.00- 0.25	0.00- 0.25	0.00- 0.25
Euro Area, ECB Deposit Facility	2.00	0.25	0.25	0.25	0.00	-0.40	-0.40	-0.40	-0.50	-0.50	-0.50	-0.50
Japan, BOJ Short-term Policy I/R	0.10	0.10	0.00- 0.10	0.00- 0.10	0.00- 0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
China, PBC 1-Year Loan Prime Rate	5.31	5.31	5.81	6.56	6.00	4.35	4.35	4.35	4.15	3.85	3.85	3.85
India, RBI Policy Repo Rate (LAF)	6.50	4.75	6.25	8.50	8.00	6.25	6.00	6.50	5.15	4.00	4.00	4.00
Korea, BOK Base Rate	3.00	2.00	2.50	3.25	2.75	1.25	1.50	1.75	1.25	0.50	0.75	0.75
Malaysia, BNM Overnight Policy Rate	3.25	2.00	2.75	3.00	3.00	3.00	3.00	3.25	3.00	1.75	1.75	1.75
Indonesia, BI 7-Day RR Rate	9.25	6.50	6.50	6.50	5.75	4.75	4.25	6.00	5.00	3.75	3.50	3.50
Thailand, BOT 1-Day Repurchase Rate	2.75	1.25	2.00	3.25	2.75	1.50	1.50	1.75	1.25	0.50	0.50	0.50
Philippines, BSP Overnight RR Facility	5.50	4.00	4.00	4.50	3.50	3.00	3.00	4.75	4.00	2.00	2.00	2.00

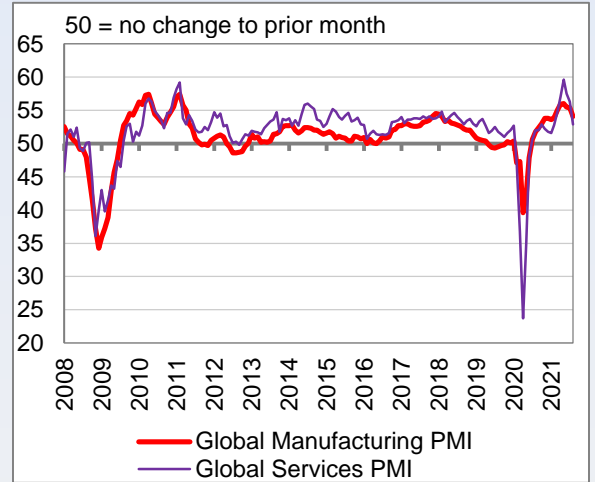
Source: Officials; SERC

Global Current and Forward Indicators

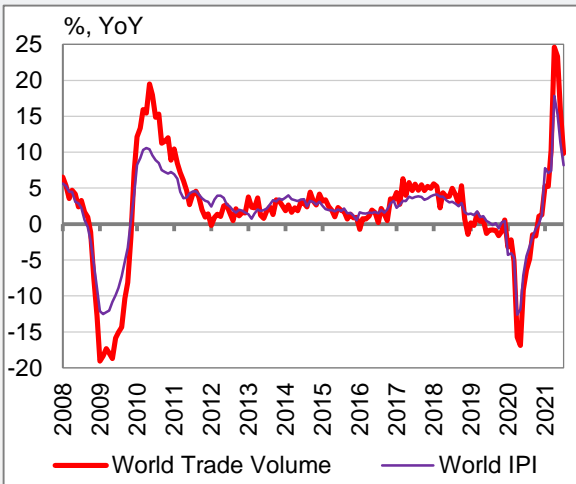
Composite Leading Indicators (CLIs) point to moderating growth ahead



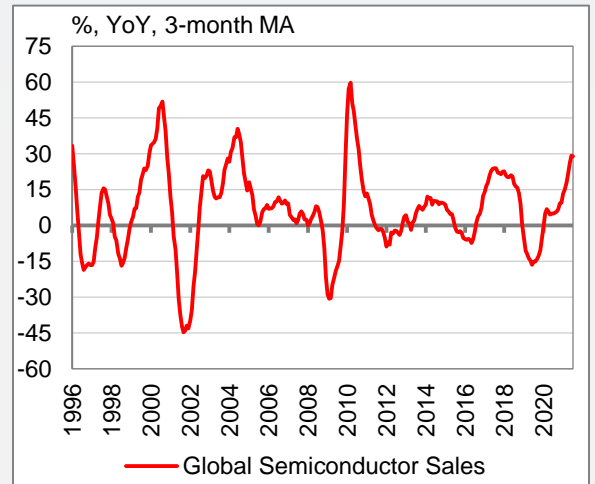
Global economic expansion slows as growth eases in both manufacturing and services sectors



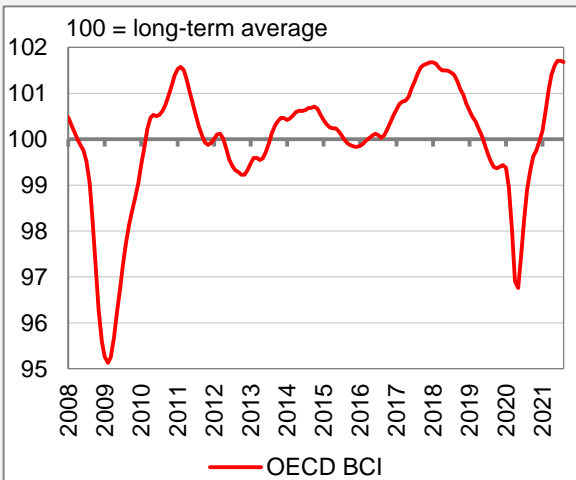
World trade volume eases as low base effect is fading



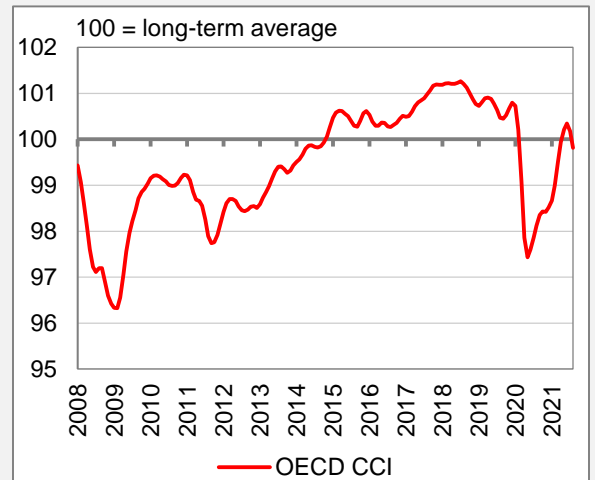
Global chips shortage disrupt the technology upcycle trend, particularly in auto segment



Organisation for Economic Co-operation and Development (OECD) Business Confidence Index

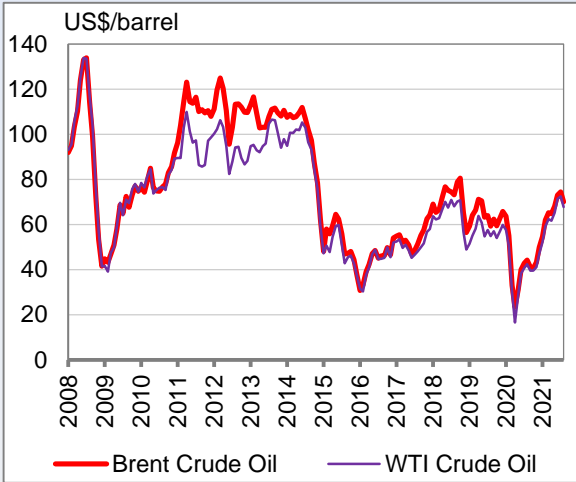


Organisation for Economic Co-operation and Development (OECD) Consumer Confidence Index

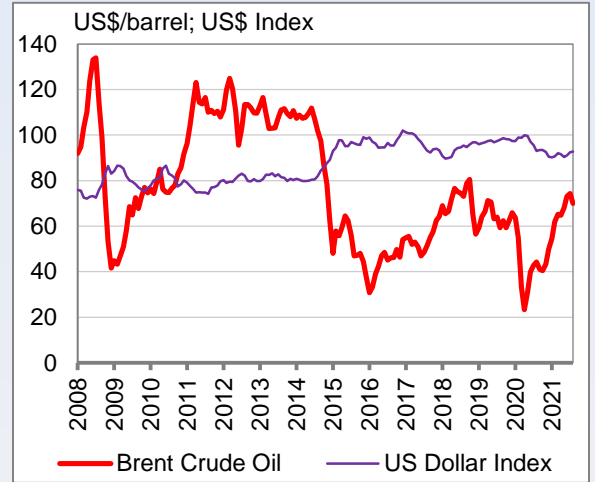


Global Current and Forward Indicators (cont.)

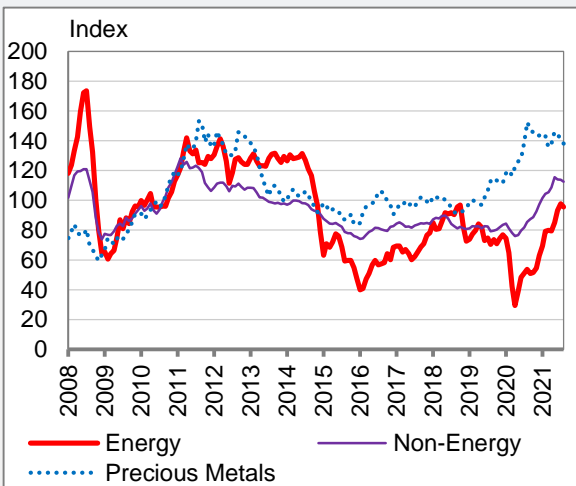
Crude oil prices steady higher on sustaining demand amid lower production



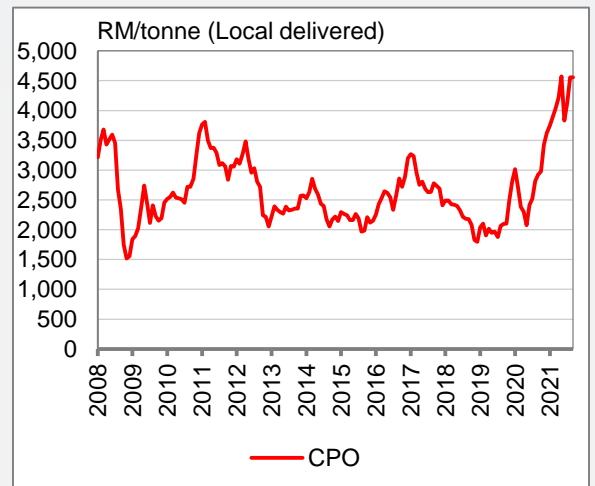
Brent crude oil price vs. the US dollar index



Rising commodity prices have retreated a little in Aug 2021



Crude palm oil prices still going strong



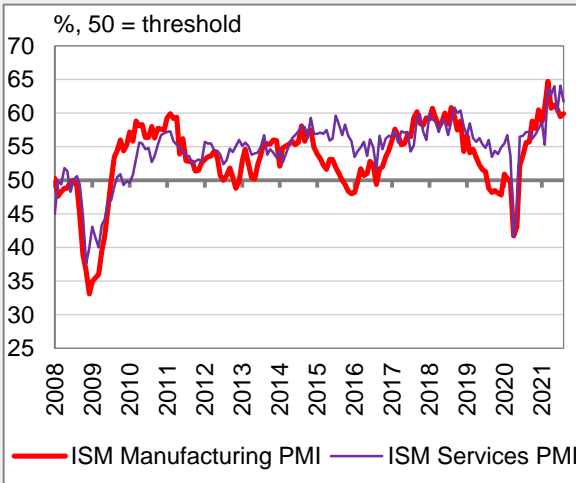
Source: Organisation for Economic Co-operation and Development (OECD); Markit; CPB Netherlands Bureau for Economic Policy Analysis; Semiconductor Industry Association (SIA); World Bank; The Wall Street Journal; Malaysian Palm Oil Board (MPOB)



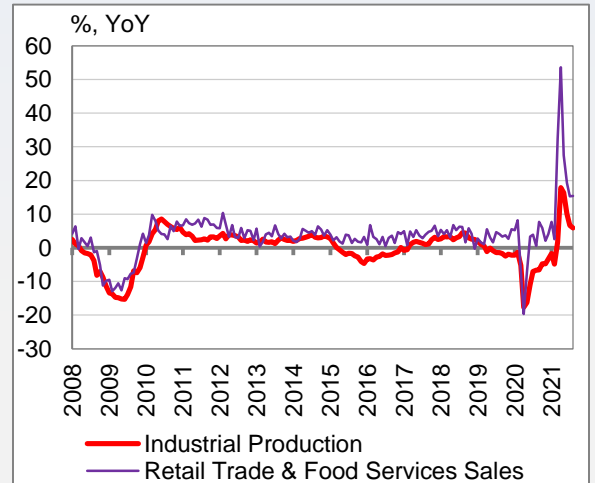
Major Economies – The United States

- GDP growth increased 6.7% annualised qoq in 2Q 2021, marking the fourth consecutive quarters of expansion
- Industrial production has returned to pre-pandemic level, though the momentum is easing
- Retail sales had grown for 15 continuous months
- While total non-farm employment added 17.0 million jobs in May 2020 till Aug 2021, it has yet to recoup employment loss in Mar-Apr 2020 (-22.4 million job losses)
- Global financial markets' lingering concerns on earlier-than-expected Fed's tapering of assets purchase and a normalisation of short-term interest rate

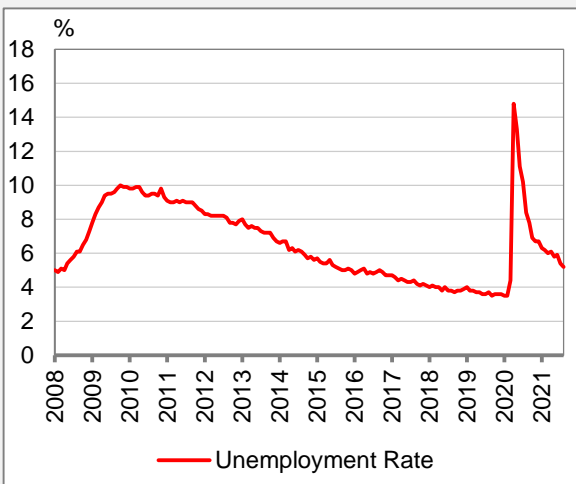
Both manufacturing and services sectors are growing robustly



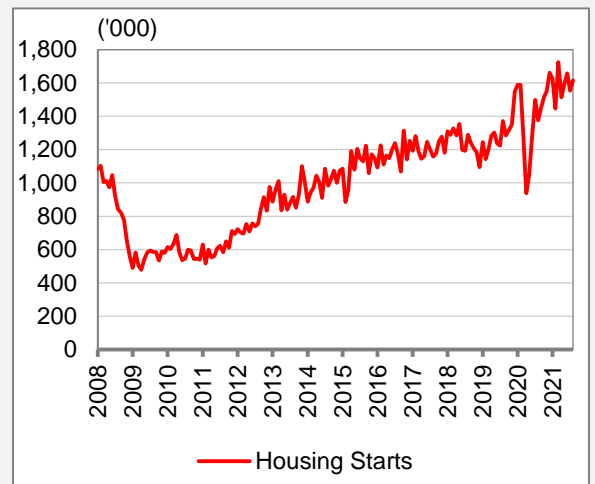
Industrial production growth eases; retail activities still strong



Unemployment rate continues to improve



Housing starts stay at high side

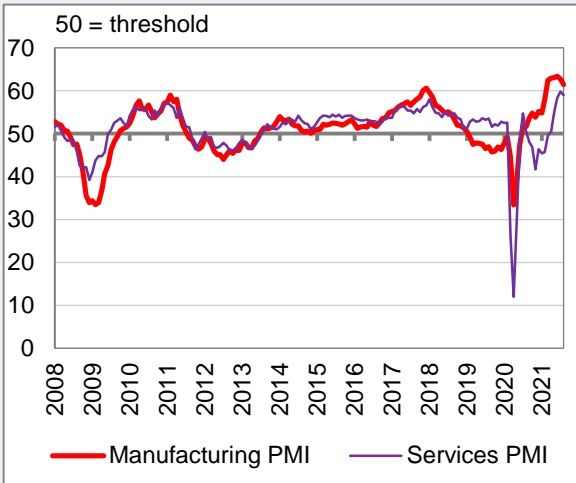


Source: Institute for Supply Management (ISM); Federal Reserve System; US Census Bureau; US Bureau of Labor Statistics

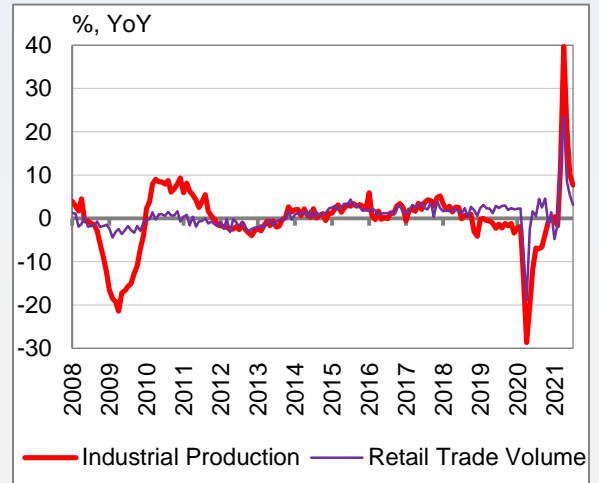
Major Economies – Euro Area

- GDP growth turned around to +2.0% qoq in 2Q after two consecutive quarters of contraction
- Economic indicators point to softening of the direction of growth
- Following months of deflation in Aug-Dec 2020, headline inflation will stay high for the remaining months of 2021
- The European Central Bank (ECB) will continue to conduct net asset purchases under the Pandemic emergency purchase programme (PEPP) with a total envelope of €1,850 billion until at least end-March 2022

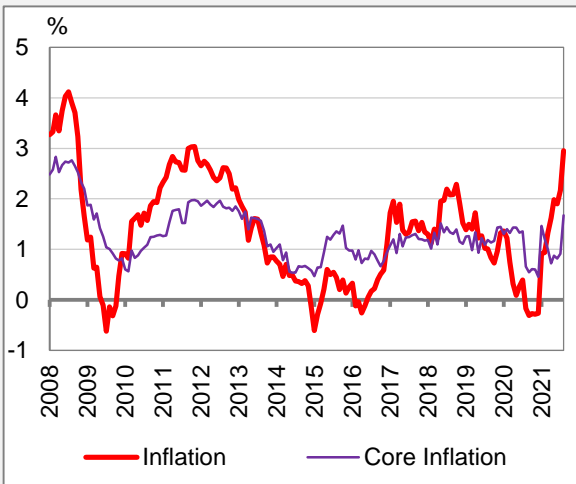
Both manufacturing and services sectors still growing, albeit not as strong as in 2Q



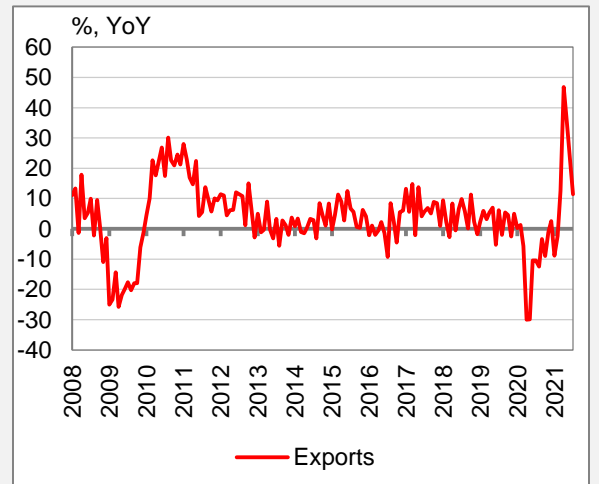
Both industrial production and retail trade growth eased sharply as low base effect fades



Headline inflation climbing high; core inflation also jumped to the level in 2013



Exports registered double-digit growth for the fifth consecutive month

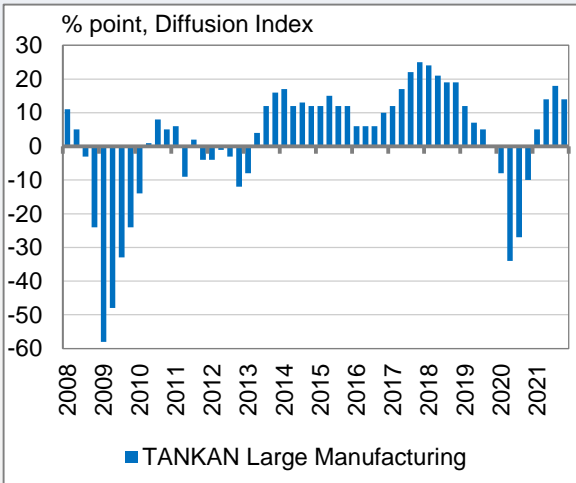


Source: Markit; Eurostat

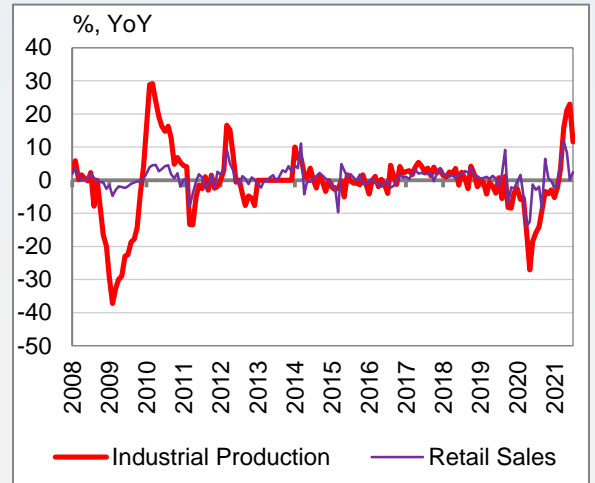
Major Economies – Japan

- The Japanese economy expanded by 0.5% qoq in 2Q (-1.1% in 1Q), mainly helped by private consumption and investment
- Services PMI dropped below the threshold since Feb 2020
- Trade surplus has accumulated JPY780.8 billion in Jan-Aug 2021, the highest level since 2017
- The 2021 Japanese General Election is scheduled to be held on 31 Oct 2021, and it may bring new policy direction for the economy

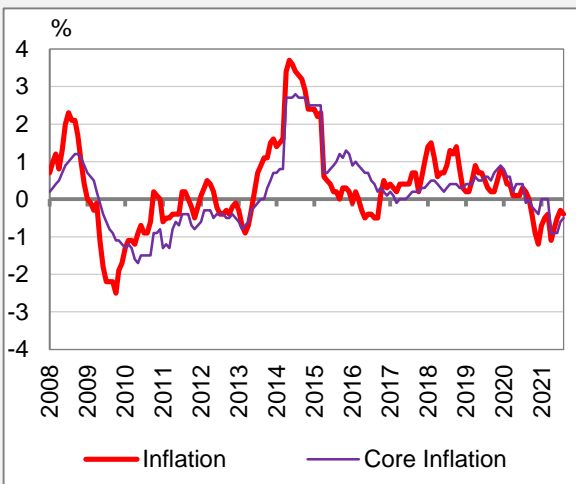
TANKAN suggests an expansionary manufacturing activities ahead



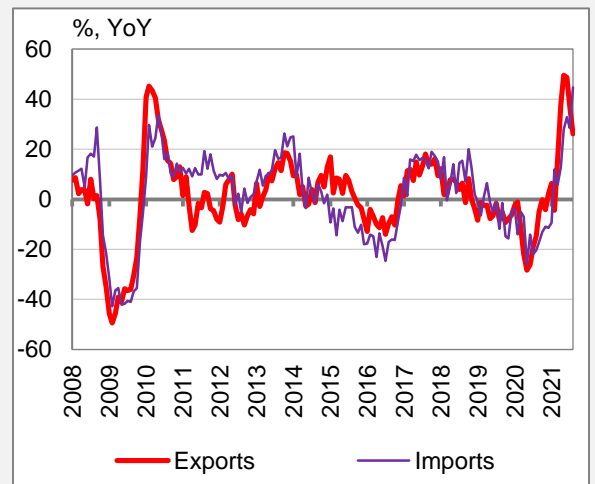
Both industrial production and retail trade growth were weighed down by the ebbing of low base effect



Price deflation for eleven straight months in Aug 2021



Robust trade performance

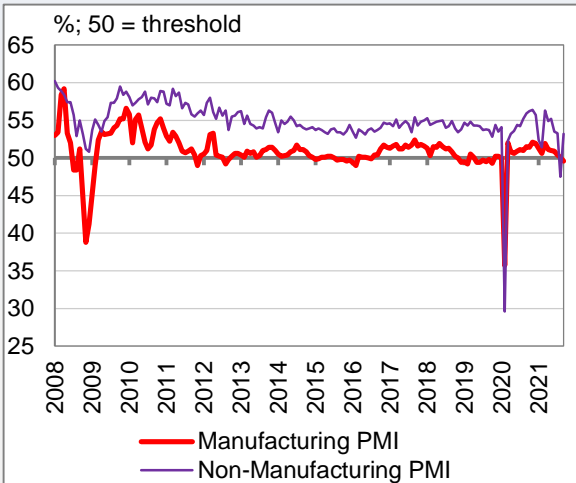


Source: Bank of Japan (BOJ); Ministry of Economy, Trade and Industry (METI), Japan; Japan Customs; Statistics Bureau, Japan

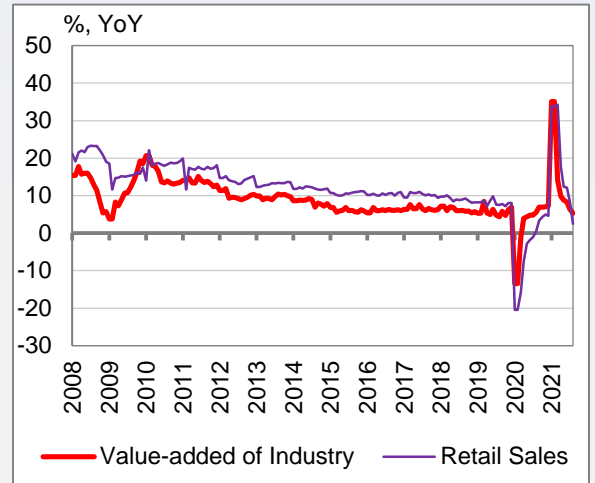
Major Economies – China

- China's GDP continued to expand by 7.9% yoy in 2Q, supported by both domestic and external demand
- Notwithstanding this, incoming high frequency data suggests the economic performance in 3Q will be more moderate, posing a risk to still-uneven pace of global recovery
- The Evergrande's debt crisis heightens the risk of threatening the stability of China's real estate sector; banking sector; and overall economy if it is not promptly addressed to prevent systemic risk

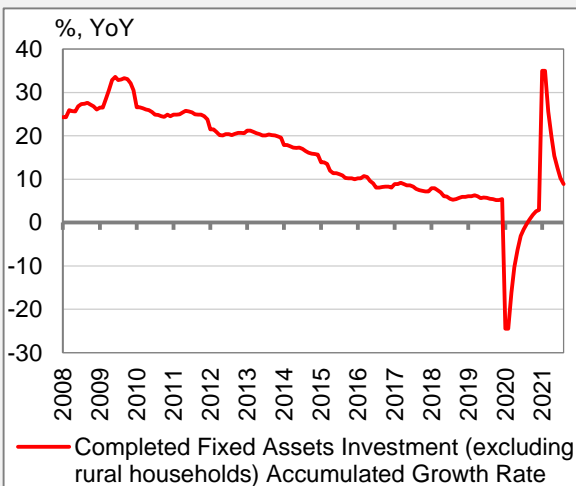
Manufacturing PMI dropped below threshold in Sep 2021 since the pandemic in Feb 2020



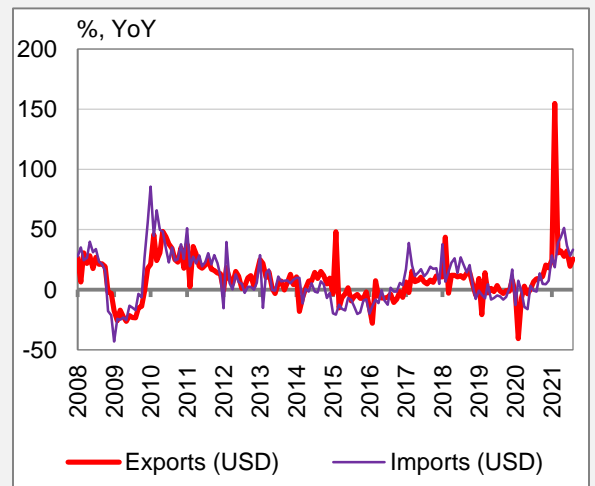
Industrial production growth eases to pre-pandemic level; retail sales growth pulled back sharply



Fixed investment growth continued to moderate



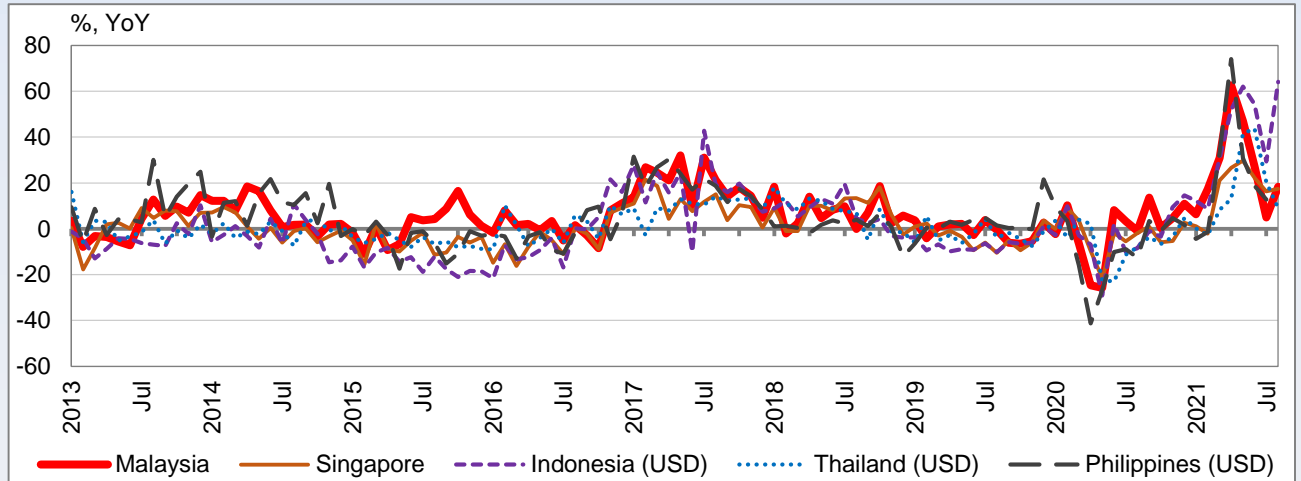
Exports expanded strongly



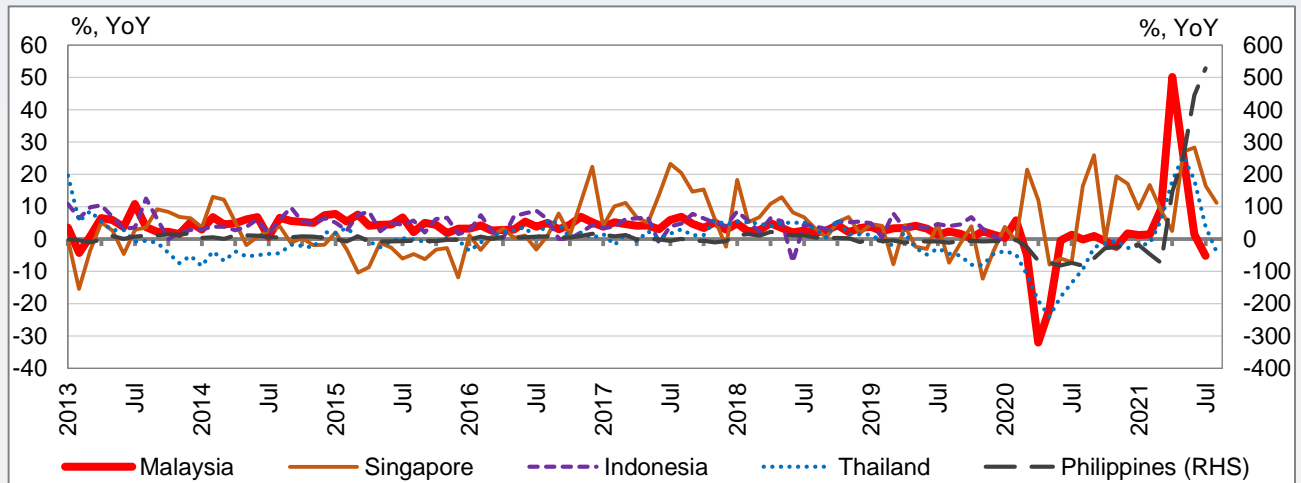
Source: National Bureau of Statistics of China; General Administration of Customs, China

ASEAN Economies

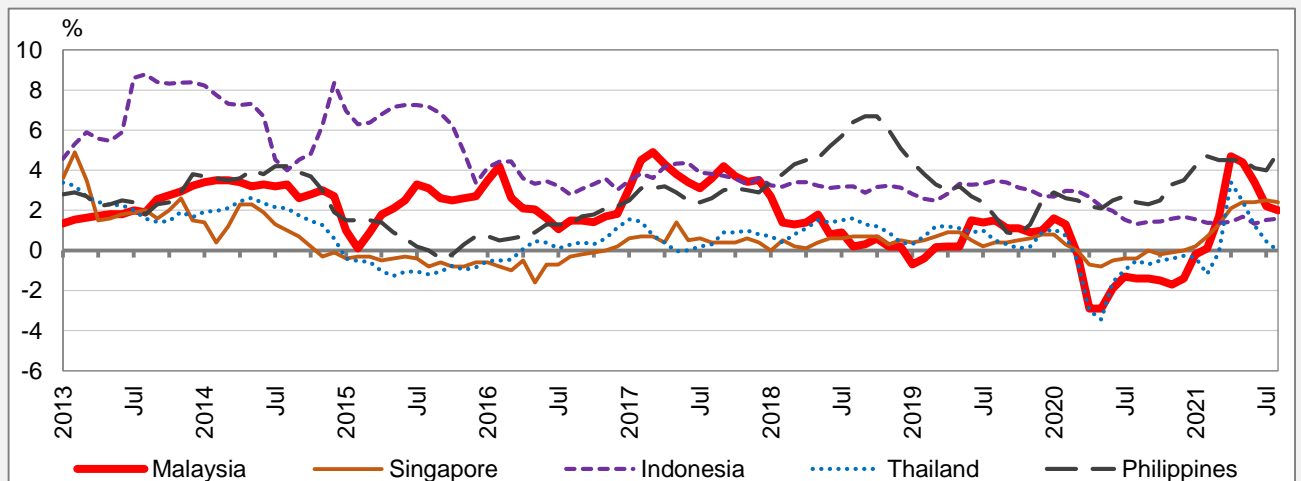
Export growth trend



Industrial production growth trend



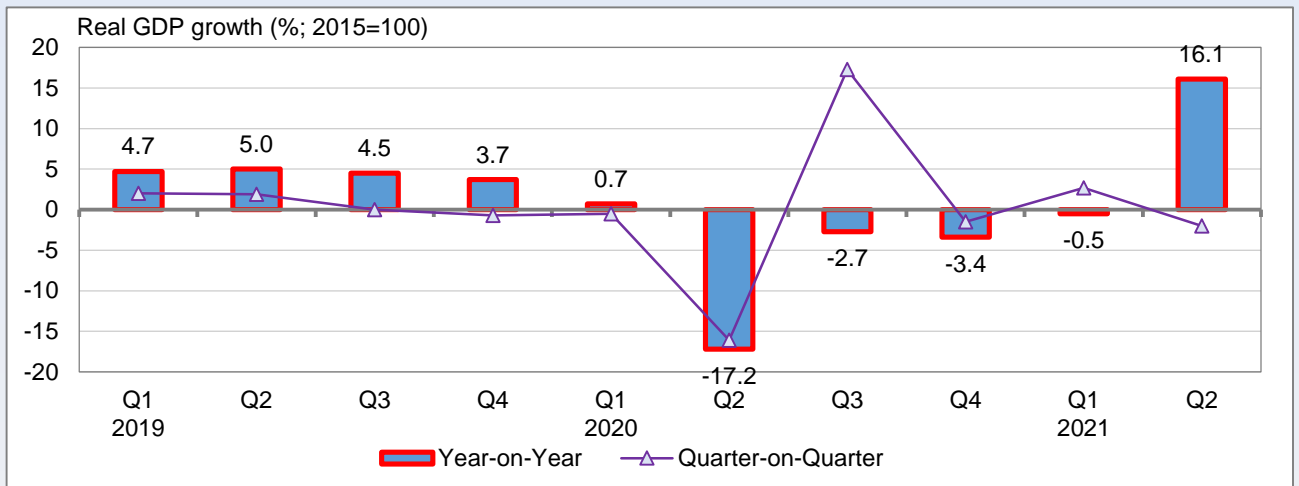
Inflation trend



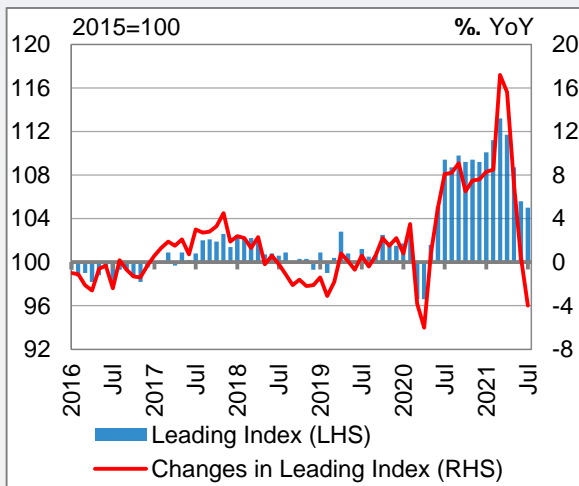
Source: Department of Statistics, Malaysia; Singapore Department of Statistics; Statistics Indonesia; Bank Indonesia; Bank of Thailand; Office of Industrial Economics, Thailand; Ministry of Commerce, Thailand; Philippine Statistics Authority

Spotlights on the Malaysian Economy

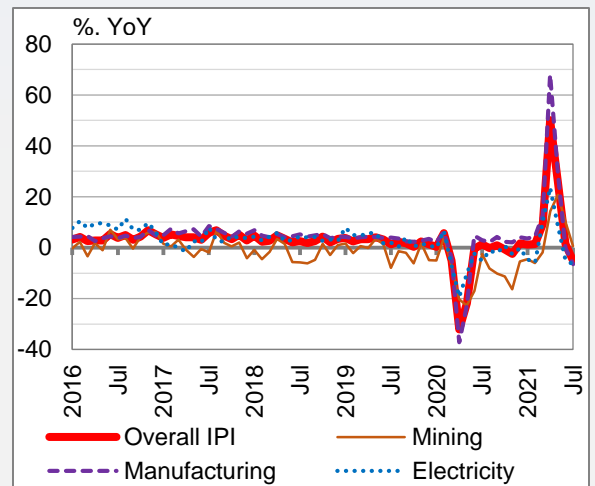
Real Sector



Prolonged restricted movement disruptions affected the performance of the Leading Index (LI)

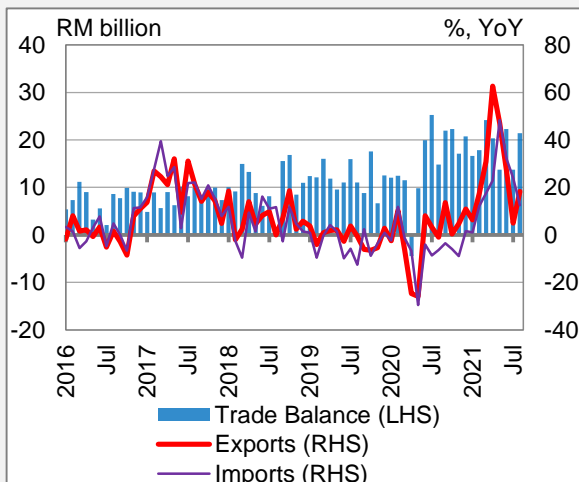


Industrial production contracted in July due largely to domestic-market oriented manufacturing industries

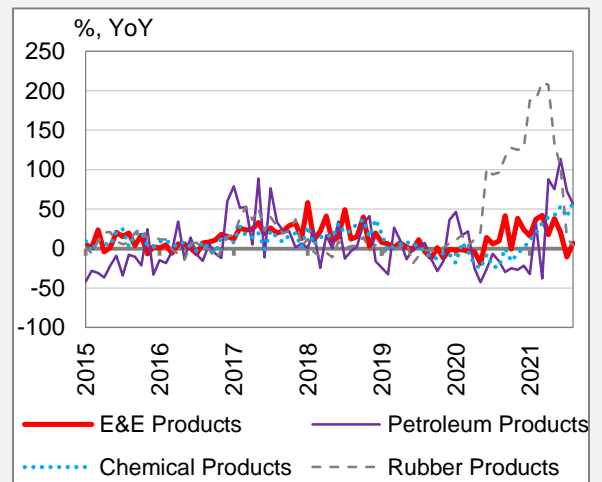


External Sector

Exports expansion continue in 2H, albeit slower compared to 1H 2021



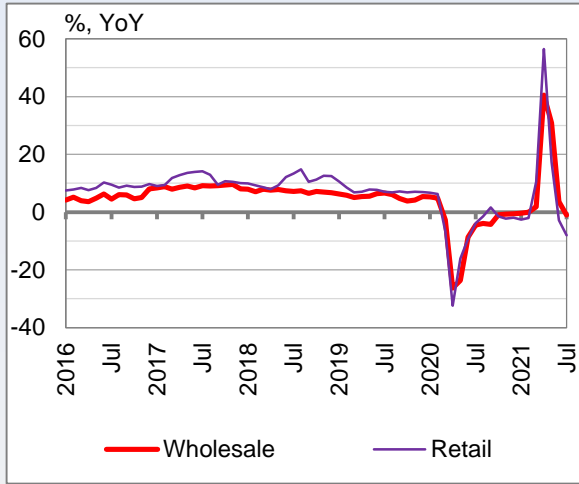
Exports by major products



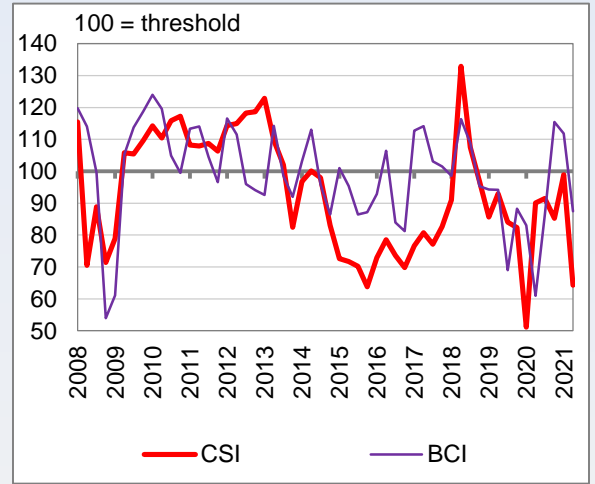
Spotlights on the Malaysian Economy (cont.)

Domestic Demand

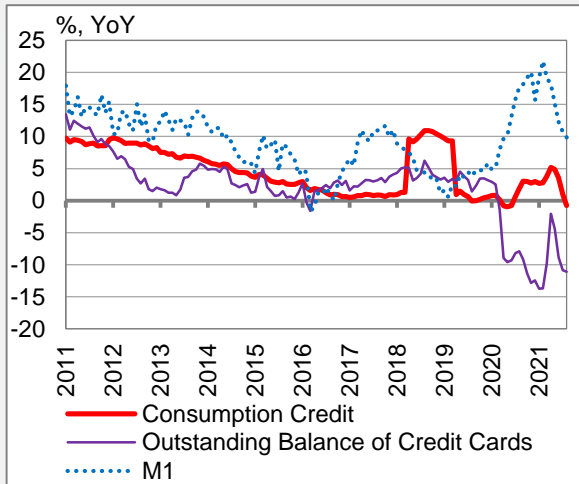
Distributive trade retreated to contraction in all segments



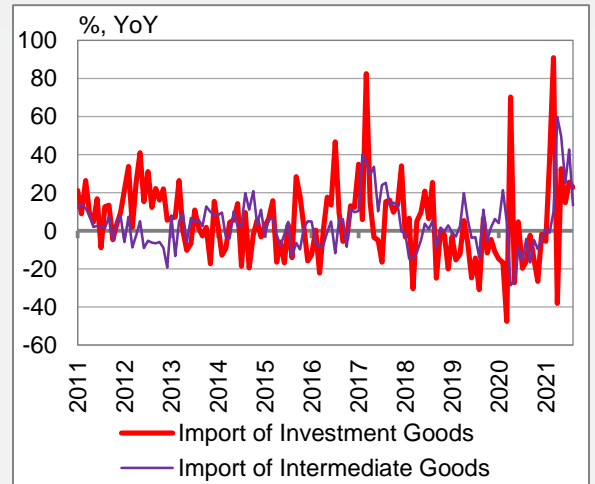
MIER's Consumer Sentiments Index (CSI) and Business Conditions Index (BCI)



Selected private consumption indicators



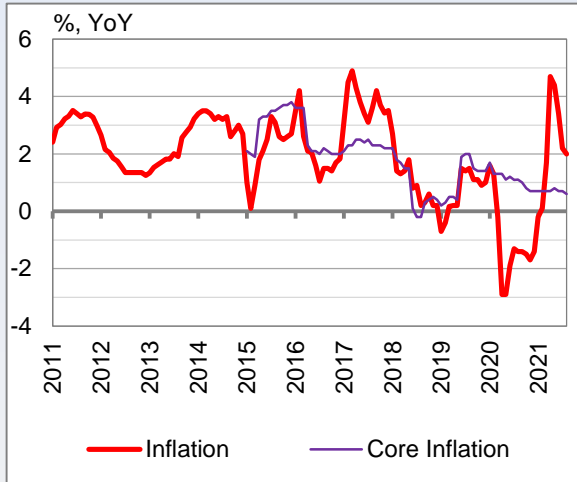
Selected private investment indicators



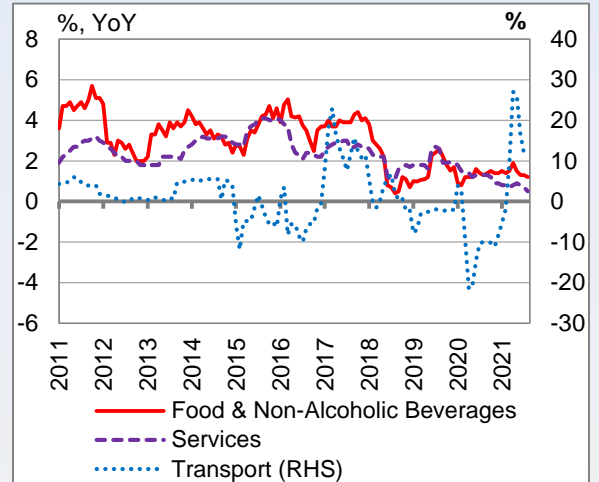
Spotlights on the Malaysian Economy (cont.)

Price Indicators and Labour Market

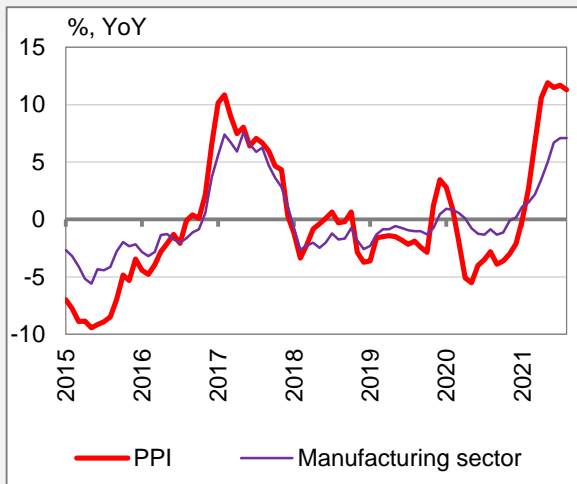
Headline inflation eases; core inflation remained broadly stable



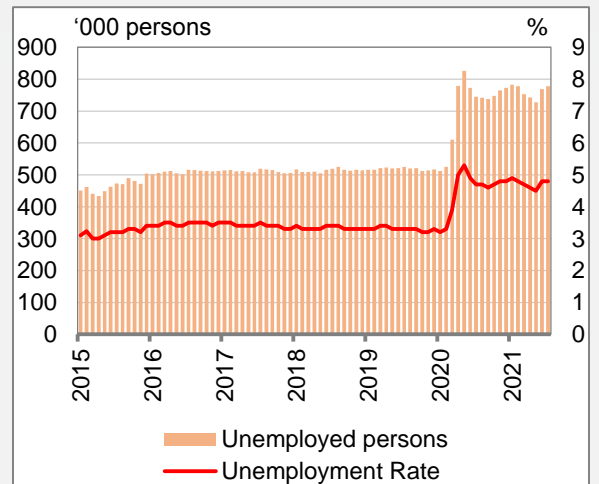
Food prices inflated mildly; transport prices under control



Producer Price Index (PPI) continued to increase higher



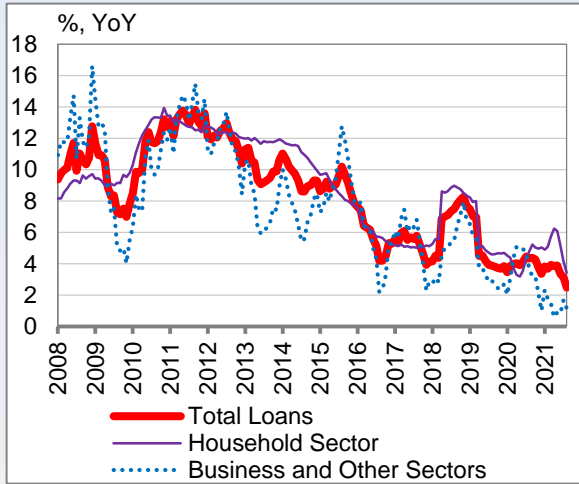
Labour market condition remains weak amid slow hiring



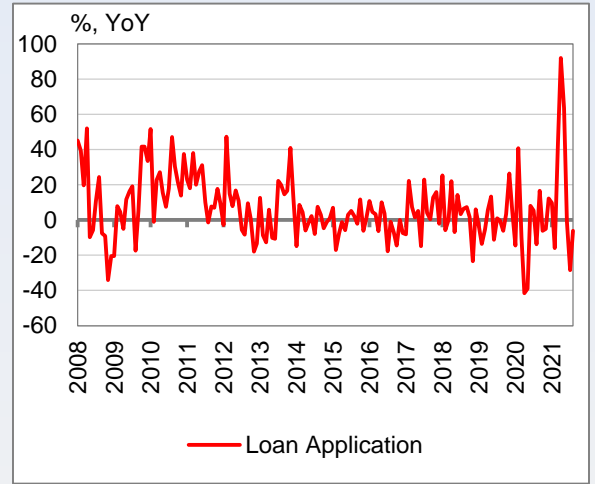
Spotlights on the Malaysian Economy (cont.)

Banking and Financial Indicators

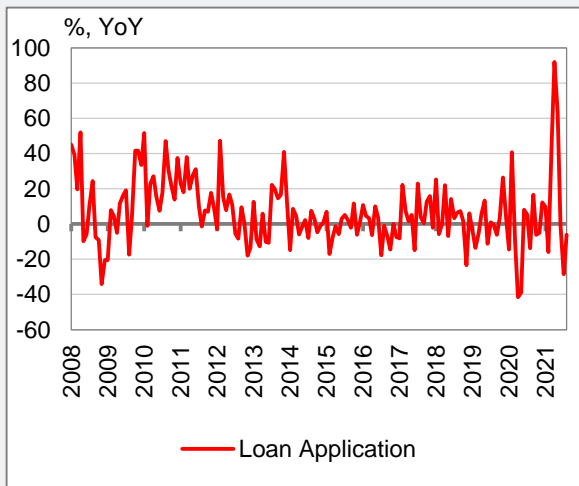
Loan growth eases to 2.5% in August on a pullback in household demand and sluggish business loans



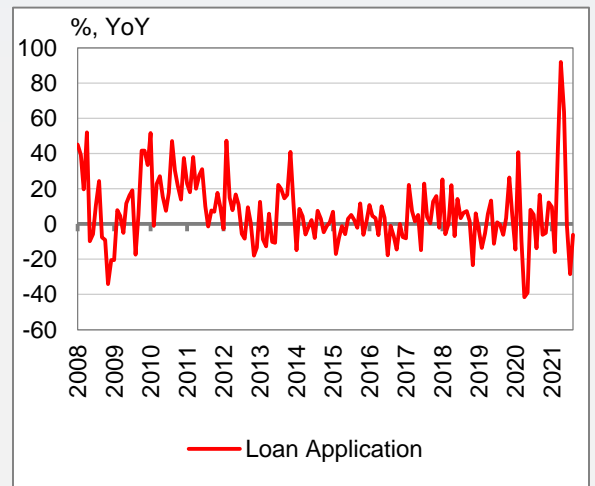
Loan applications growth



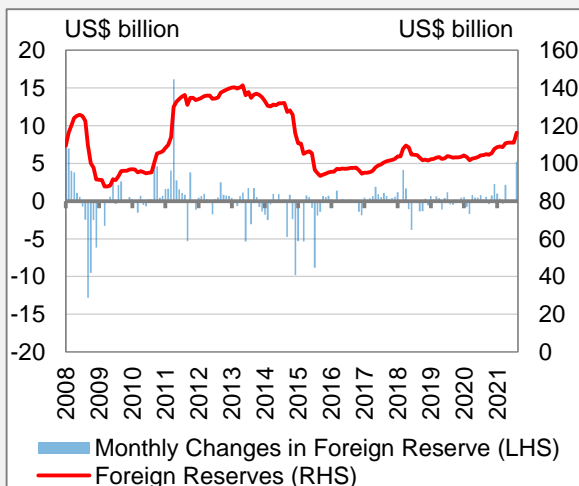
Loan approvals growth



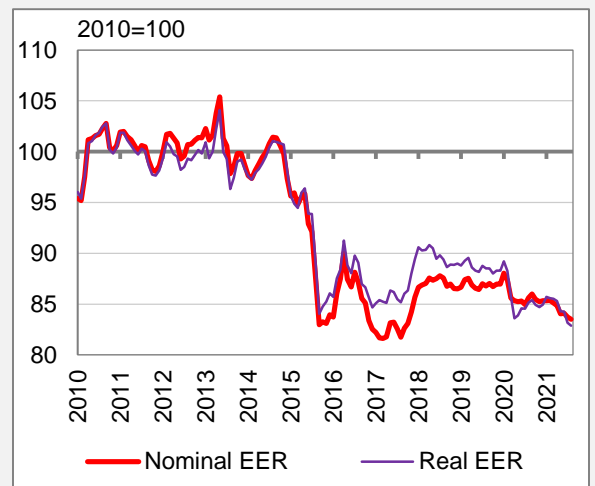
Loan disbursements growth



Higher foreign reserves reflects an additional allocation of Special Drawing Rights (SDR) to Malaysia



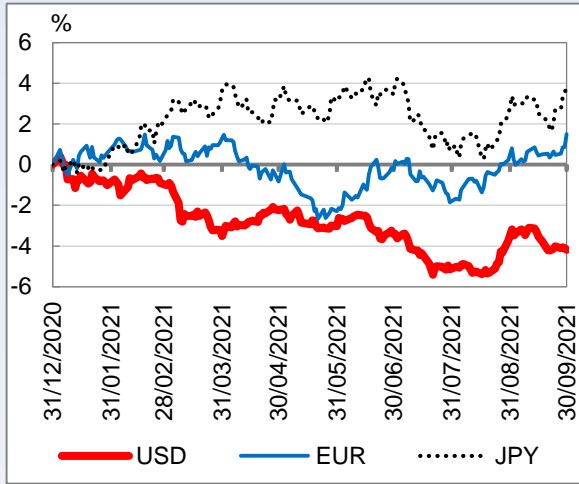
Ringgit's Effective Exchange Rate (EER)



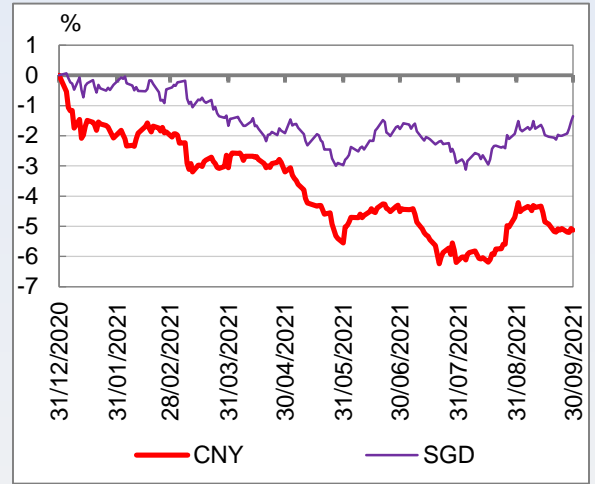
Spotlights on the Malaysian Economy (cont.)

Banking and Financial Indicators (cont.)

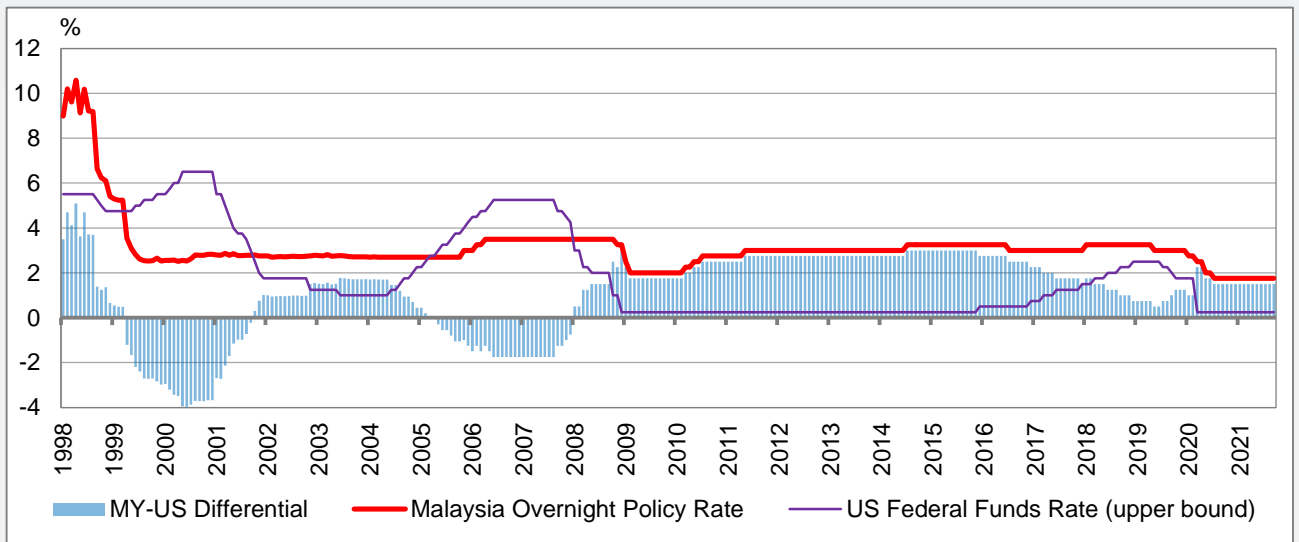
Ringgit against the US dollar, euro and Japanese yen



Ringgit against the Chinese renminbi and Singapore dollar



Malaysia-US's interest rate differentials



Source: Department of Statistics, Malaysia (DOSM); Malaysian Institute of Economic Research (MIER); Bank Negara Malaysia (BNM); Bank for International Settlements; Federal Reserve

About SERC

The Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM)'s Socio-Economic Research Centre (SERC Sdn. Bhd.) was established as an independent and non-profit think tank on 19 October 2010. Officiated by YAB Prime Minister on 28 April 2011, SERC is funded by ACCCIM SERC Trust.

SERC is tasked with carrying out in-depth research and analysis on a wide range of economic, business and social issues in support of the formulation of public policies to shape Malaysia's national socio-economic and industrial development agenda.

The organization will identify and explore issues and future trends that impact domestic economic and business environments. It will also focus on sharing knowledge and promoting public understanding of socio-economic issues of national importance.

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