



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

**Quarterly Economy Tracker
(Oct-Dec 2021) & 2022 Outlook**

Managing “Pandexit” Recovery

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Outline



The Global Economy Faces Headwinds in 2022



Can Malaysia Deliver on Growth Expectation?



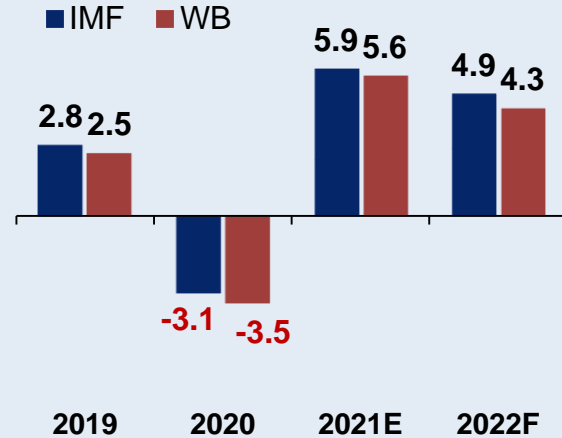
Investment and Business Opportunities Themes

From Pandemic to Endemic – A Careful Balancing Act



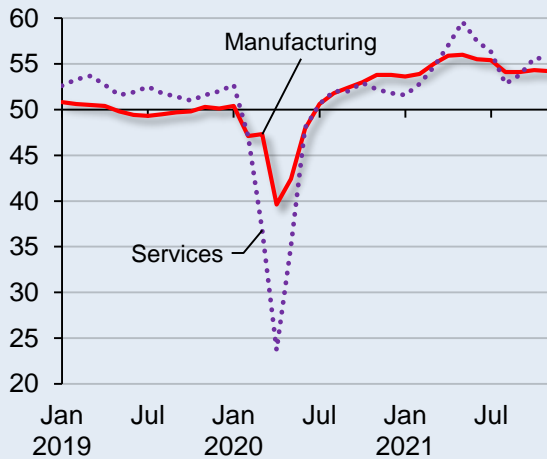
Global growth will slow as reality sets in after an initial post-COVID boost

Global GDP growth %

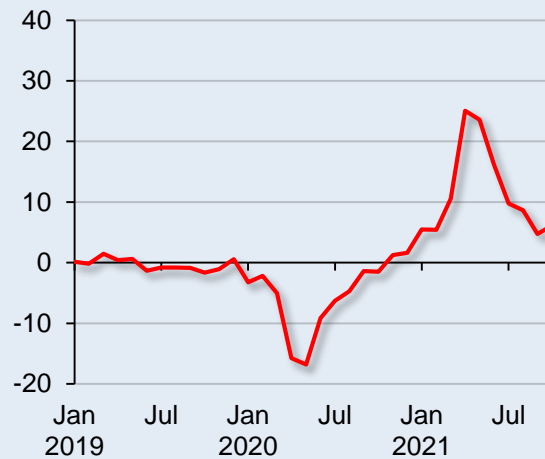


- **All eyes on China (17.5% of global GDP).** Deleveraging in the real estate sector and new security data law on technology companies.
- **The US growth settling into normal phase.** High inflation; reduced scale of fiscal spending; the Fed's faster tapering; and higher interest rate hikes.
- **Could inflation turn to stagflation?** Inflation is rising. Supply-side costs and logistics issues persist.
- **Central banks more hawkish.** Expectations for stubborn inflationary pressures would place additional pressure on hawkish central banks to tighten more aggressively -- tighter financial conditions and capital flows volatility could weigh on global growth.

Global manufacturing and services PMI 50=threshold



Global trade % YoY



Global semiconductor sales % YoY



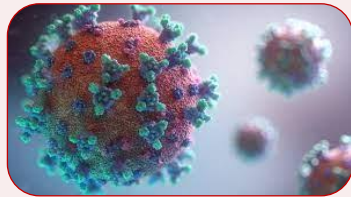
Source: International Monetary Fund (IMF); World Bank (WB); Markit; CPB Netherlands; Semiconductor Industry Association (SIA)

Five risks to watch for global economy and financial markets in 2022

Central banks do not have the space to keep monetary policy loose and interest rates low

1

The COVID contortions



- Omicron variant
- Dent confident and sentiment
- Cautious spending and investment
- Reimposed Restricted mobility

2

Stubbornly costs and price pressures



- Weigh on business cost, margins and profitability
- Lower consumer purchasing power
- Demand increases in real wages
- Stagflation concerns

3

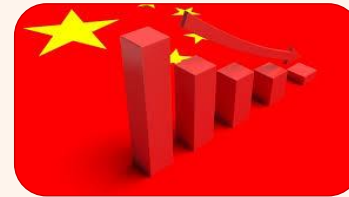
Central banks more hawkish



- Aggressive hikes in interest rates
- Tighter liquidity conditions
- Volatility in financial markets and large swings in capital flows

4

China's economic slowdown



- China's economy is resuming a long-term deceleration
- Highly indebted property woes
- Trade and technology conflict with the US and EU

5

Political risks and disruptions



- The US-China relations/EU-China relations
- Russia-Ukraine
- Deglobalisation and supply chain re-organisation

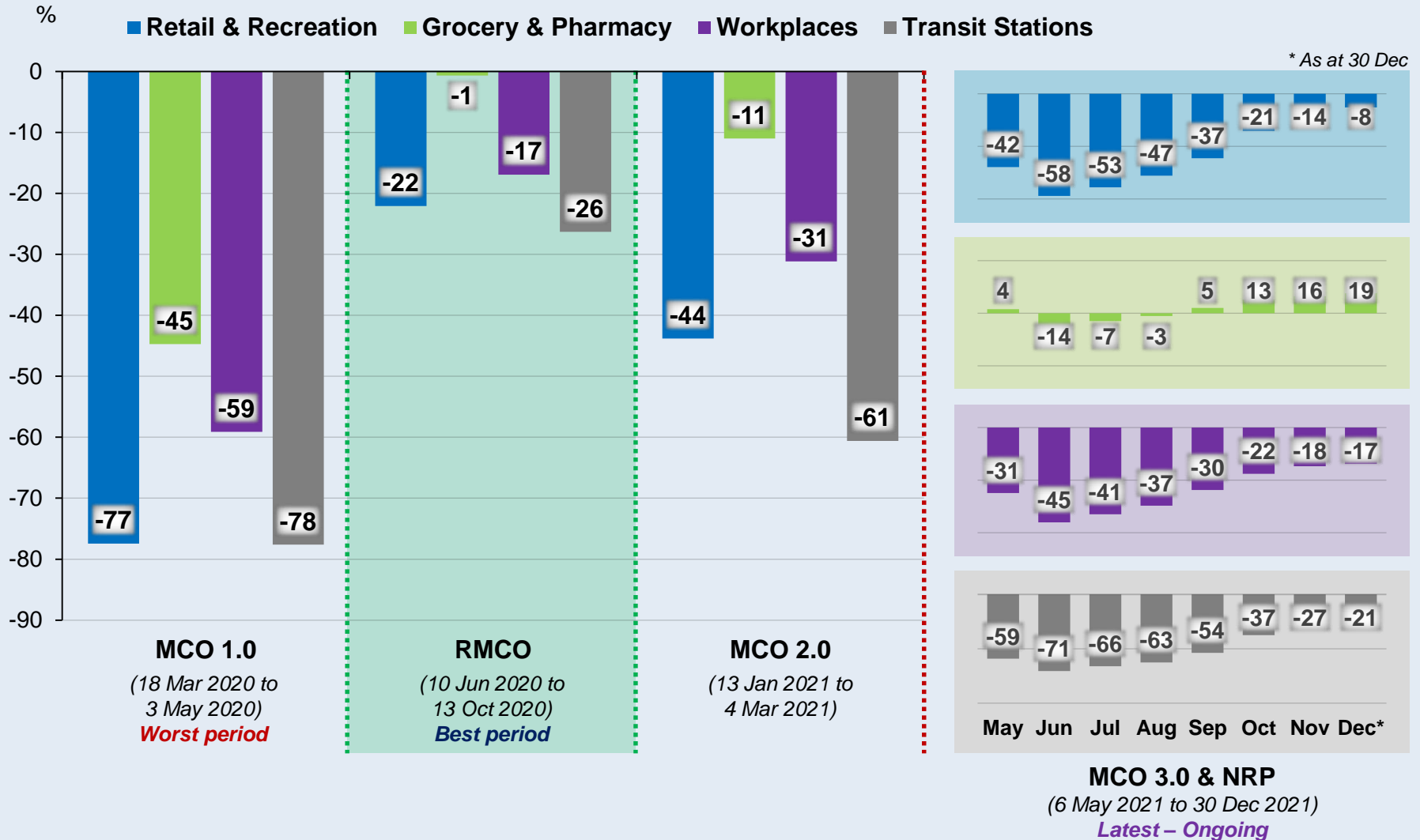
Malaysia's recovery path is contingent on ...

- **UNINTERRUPTED TRANSITION** towards reopening
- **SUSTAINED** revival in **DOMESTIC DEMAND**
- Timely implementation of **FISCAL IMPULSE**
- No major drag from **EXPORTS**



People mobility and traffic indicators show signs of revival

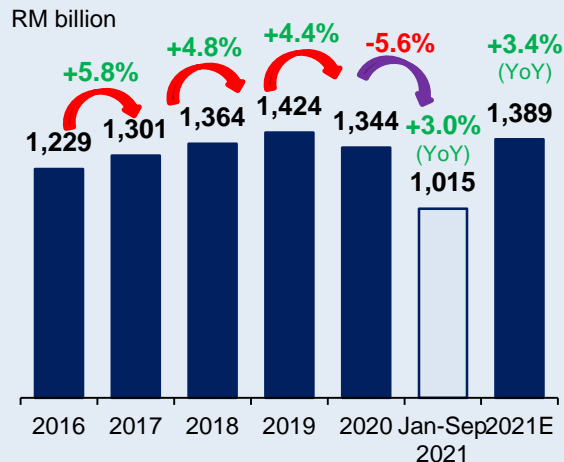
Average % change vs. baseline (median value for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020)



Source: Google Mobility

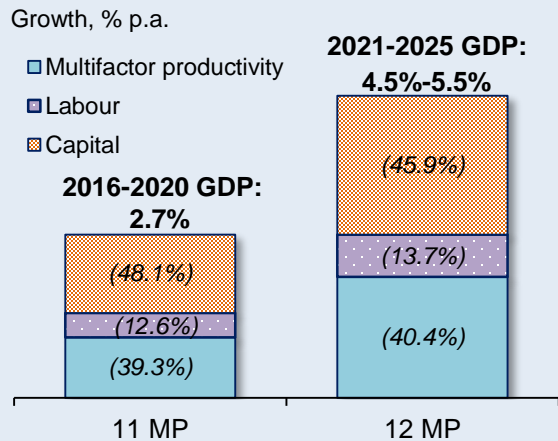
Malaysia's potential output growth hitting speedbump

GDP value and growth



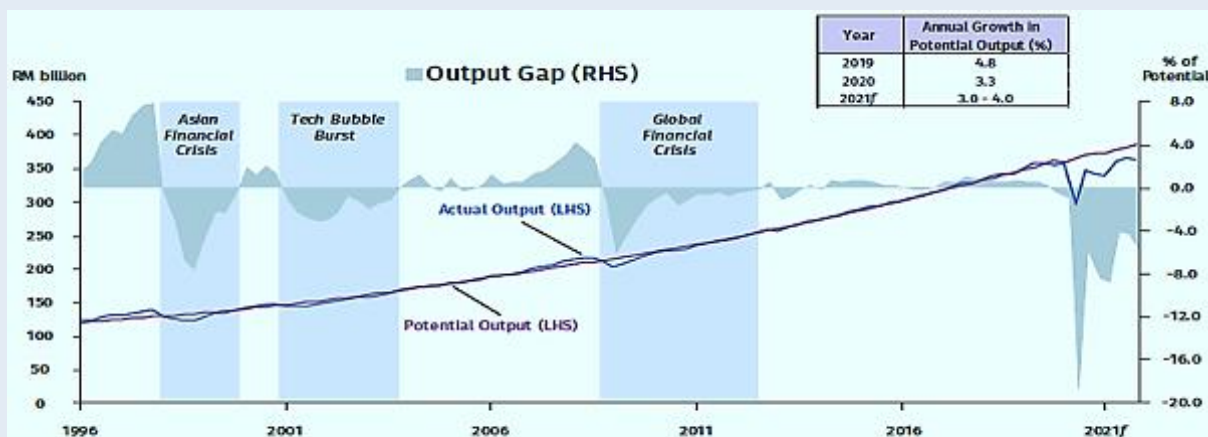
Source: DOSM; 12th Malaysia Plan

Total Factor Productivity (TFP) contribution to GDP growth

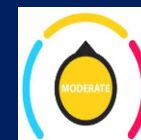


Note: % in parenthesis refers to share to GDP growth

Malaysia's Actual vs. Potential Output



Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates



Potential output growth has been moderating to 3.3% in 2020; 3-4% in 2021 (2019: 4.8%, 2011-2019 average: 4.9%)



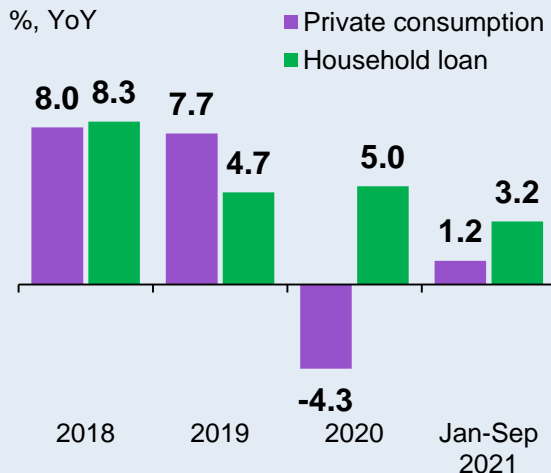
Slowing labour productivity growth (1.1% pa in 2016-2020); lower utilisation of productive capital stock and effective utilisation of resources



Quality investment, high technology adoption, digitalisation, and skilled manpower

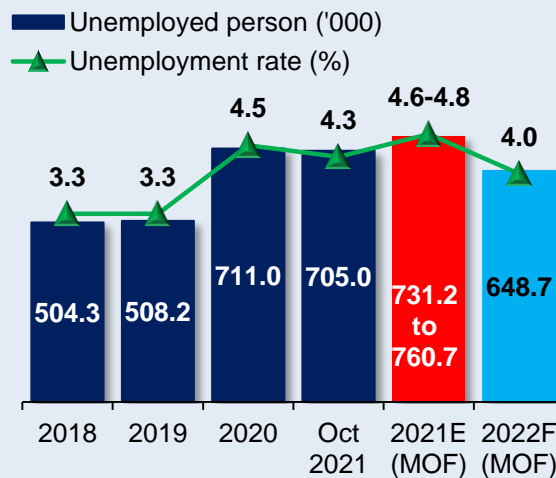
Domestic demand will shape the recovery

Private consumption vs. household loan growth

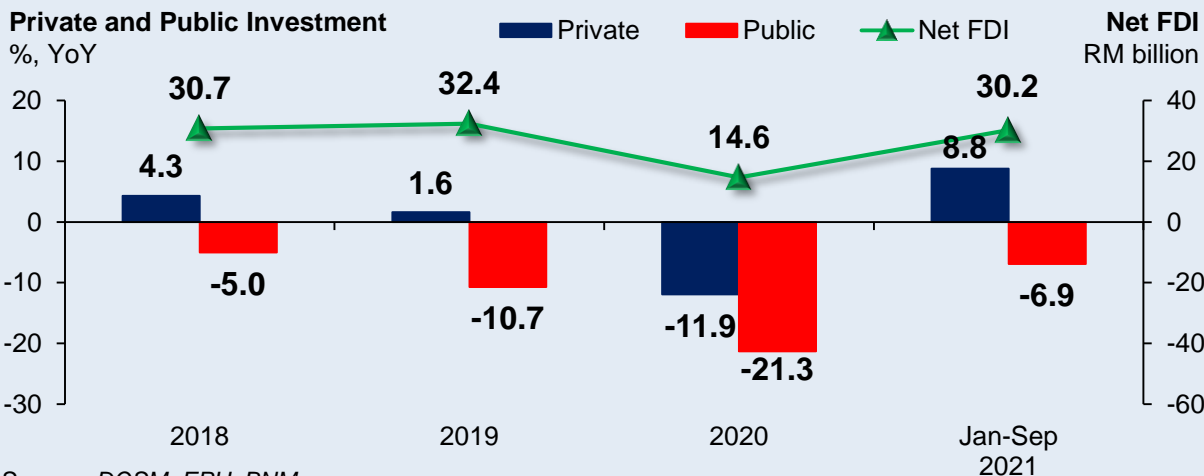


Note: Household outstanding loan as at end-period

Labour market conditions will improve



Private investment set to rebound; Public investment to support the recovery; FDI inflows will improve



Source: DOSM; EPU; BNM



Rebuild and sustain both consumers and businesses confidence



Supportive targeted fiscal assistance and monetary condition

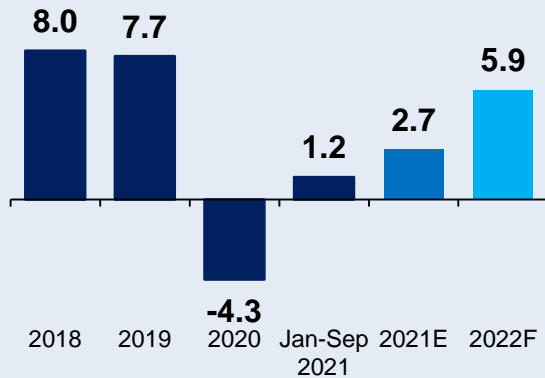


Reviving private investment and FDI are crucial to boost economic growth, create high income jobs and expand exports

What can hold back consumer spending?

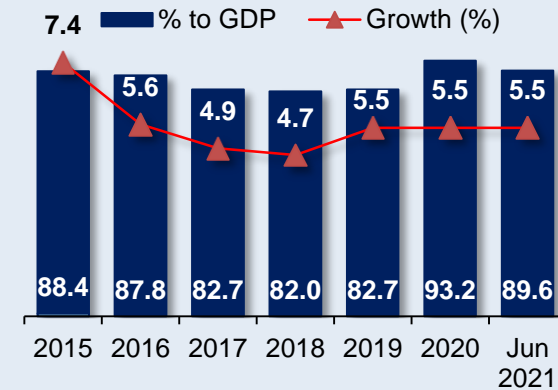
Private consumption growth

%, YoY



Household debt

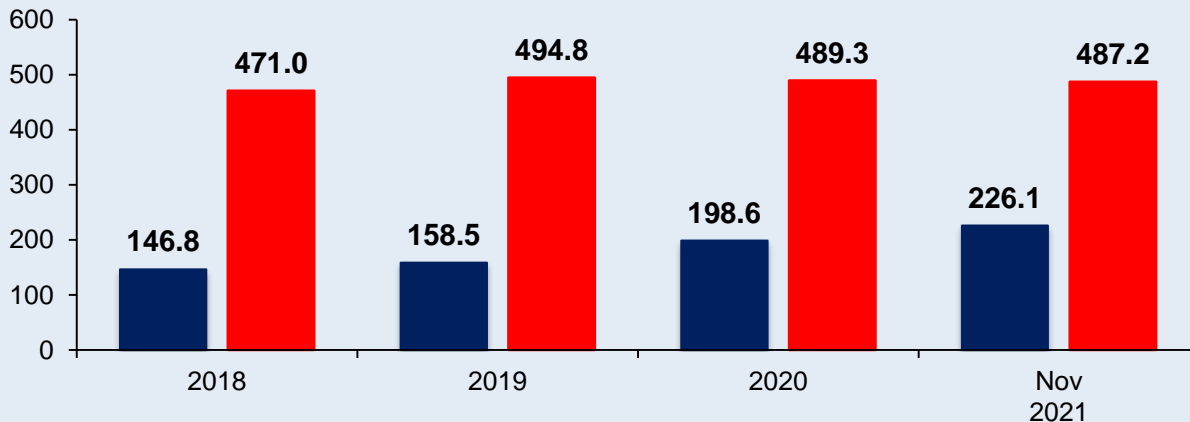
Household debt-to-GDP-ratio (%)



Individuals' savings and fixed deposit

RM billion

■ Savings ■ Fixed Deposits



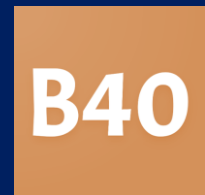
Source: BNM; MOF; SERC estimates and forecast



Rising inflation and cost of living; households **repair balance sheet** and **rebuild savings** (precautionary and contingency)



Wage level is gradually restored; repayment moratorium ends



B40

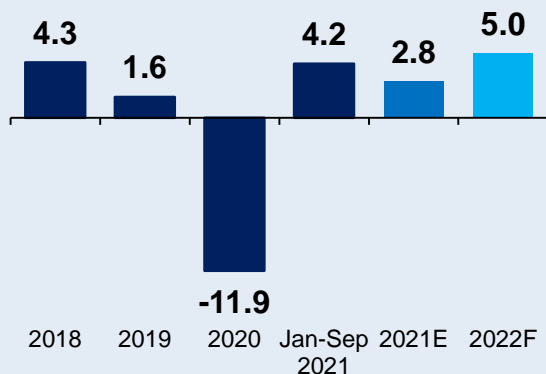
The **absolute poverty rate** had also risen to 8.4% in 2020 from 5.6% in 2019

580,000 M40 households (20% of households) slipped to B40

Private investment prospects – Cautious stance

Private investment growth

%, YoY



Approved FDI and DDI

RM billion

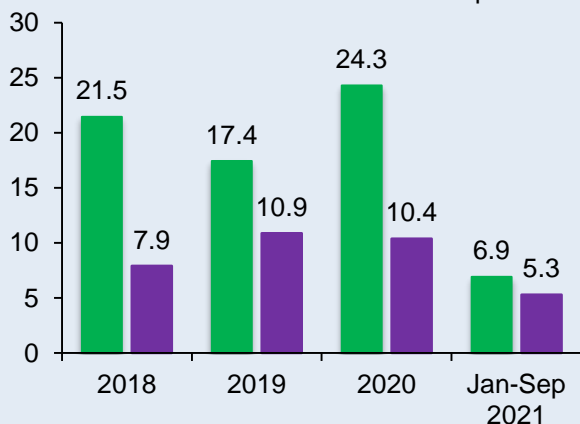
■ DDI ■ FDI



Approved manufacturing investment (New vs. Expansion)

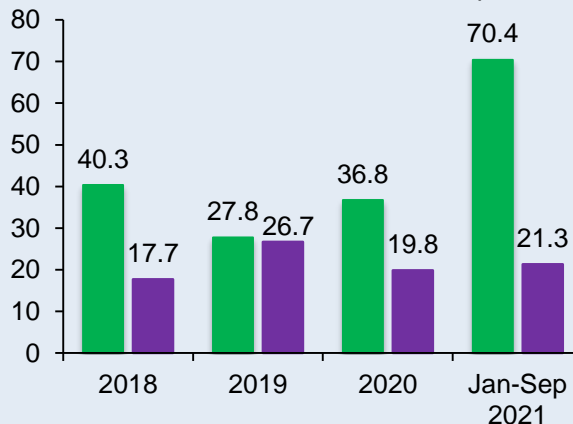
DDI (RM billion)

■ New ■ Expansion



FDI (RM billion)

■ New ■ Expansion



Source: MIDA; MOF; EPU; SERC estimates and forecast



Post-pandemic rebuild should kickstart a virtuous cycle of business investment




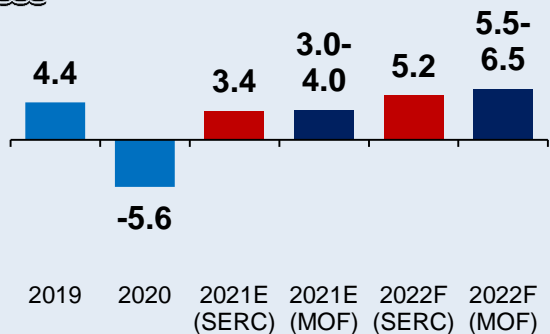
Uneven across sectors: Electronics and electrical products will see higher expansion; construction sector spurred by on-going and new projects; tourism related services take a longer time

Supply headwinds: Shortage of workers; supply bottleneck; rising cost of materials; the withdrawal of pandemic relief; tiered-levy and minimum wage increases

Political event: Lingering uncertainty about the timing of GE15

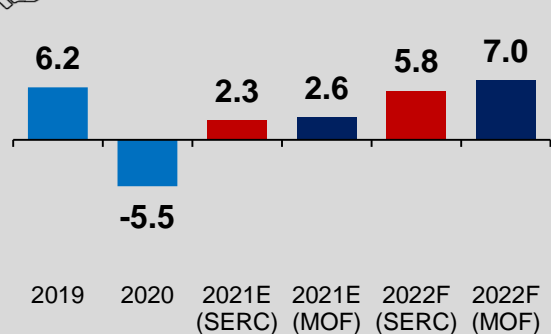
SERC's estimates: Malaysia's economic prospect in 2022

 Overall GDP (%)




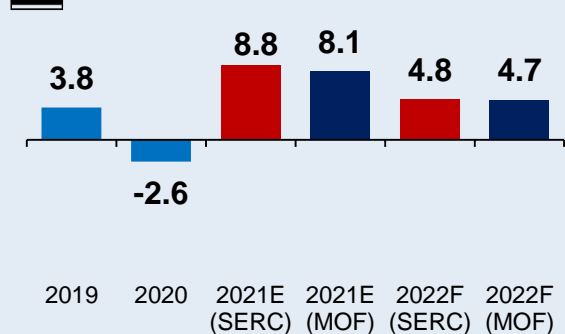
- Reopening of economic and social sectors expedite the recovery process amid COVID contortions
- Domestic demand calls the shots

 Services (%) [57.7% of GDP]




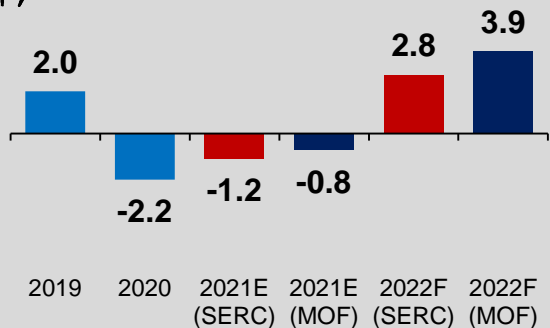
- Pent-up consumer spending helps retail businesses
- Revived economic and business activities

 Manufacturing (%) [23.0% of GDP]




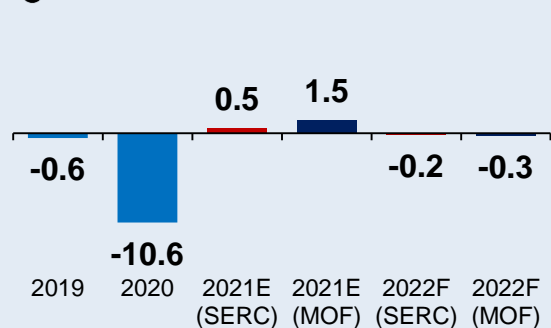
- Export-oriented industries remained the key support
- Domestic-oriented industries still on the mend

 Agriculture (%) [7.4% of GDP]




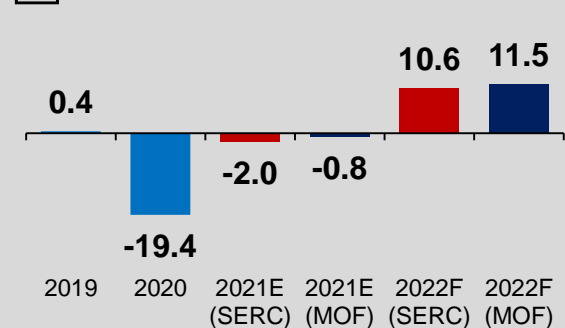
- Supported by production of palm oil, rubber and fisheries sector
- Shortage of workers, increased prices of fertilizers and animal feed

 Mining and quarrying (%) [6.8% of GDP]



- Lower crude oil and condensates production, following the scheduled shut down of oil and gas plants and facilities for maintenance

 Construction (%) [4.0% of GDP]

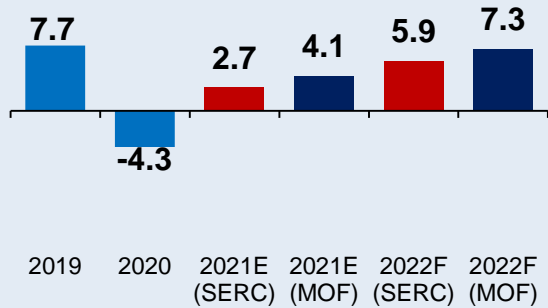


- Continuation of existing public infrastructure projects and the implementation of new projects

Note: Figure in parenthesis [] indicates share of GDP in 2020
Source: DOSM; MOF; SERC

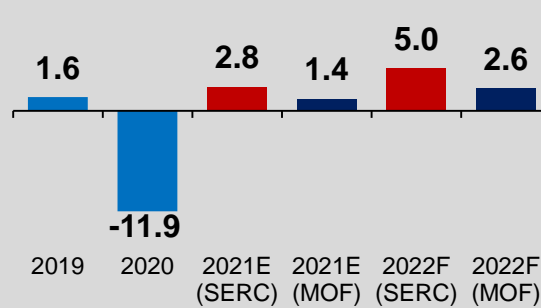
SERC's estimates: Malaysia's economic prospect in 2022

 **Private Consumption (%)** [59.5% of GDP]



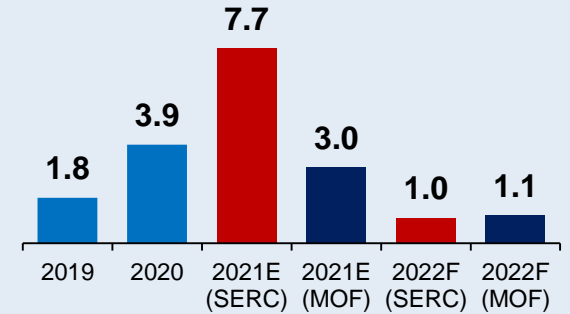
- Revival of consumer spending; pent-up demand amid Omicron variant
- Gradual improvement in the labour market condition

 **Private Investment (%)** [15.7% of GDP]




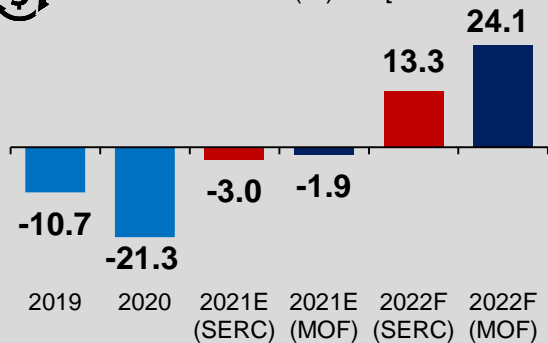
- Tempered by supply bottlenecks; shortage of workers; rising cost of raw materials amid the winding down of pandemic stimulus and policy changes

 **Public Consumption (%)** [13.4% of GDP]




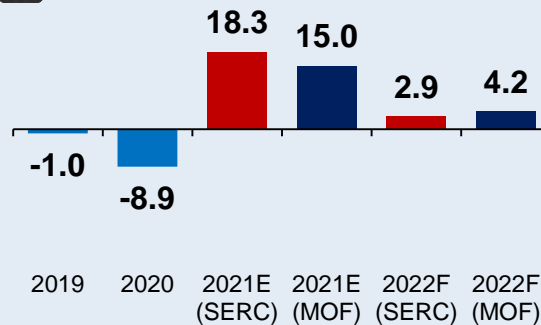
- Spending optimisation and prudent financial management
- Improve public services delivery and facilitate economic activities

 **Public Investment (%)** [5.2% of GDP]




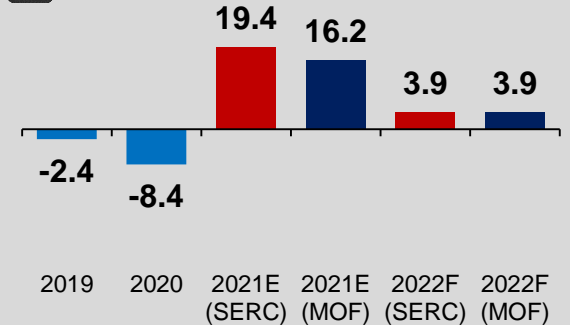
- Strong turnaround in public investment, lifted by higher development expenditure of RM75.6 billion. Weak implementation capacity remains the key risk

 **Real Exports (%)** [61.6% of GDP]



- Exports growth to moderate in 2022 from the high base in 2021; restrained by the supply disruptions; worker shortages and slower global growth

 **Real Imports (%)** [55.1% of GDP]



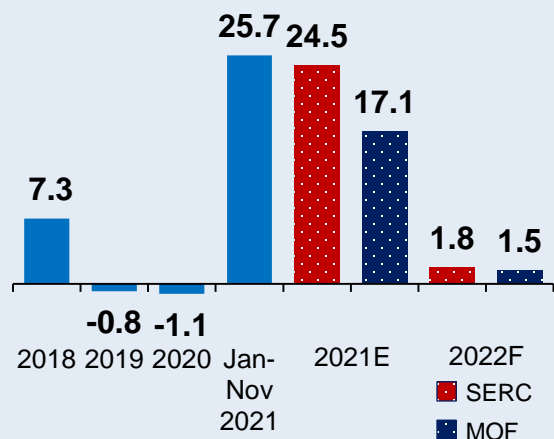
- Recovery in domestic demand and investment activities will increase imports of intermediate and capital goods

Note: Figure in parenthesis [] indicates share of GDP in 2020
Source: DOSM; MOF; SERC

Exports still growing, albeit normalising to long-term trend

Exports growth set to normalise

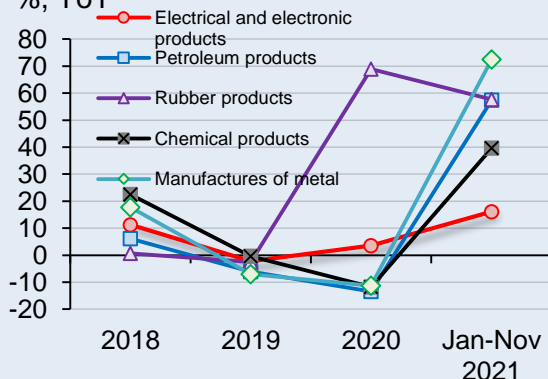
%, YoY



Major export products group

Selected export products

%, YoY



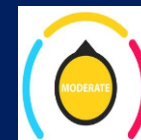
Long-term trend of exports

Exports Growth

%, YoY



Source: DOSM; MOF; SERC estimates and forecast



Growth should moderate as trade approaches its pre-pandemic long-run trend



Supply-side issues such as semiconductor scarcity and port backlogs may strain supply chains and weigh on trade in particular areas



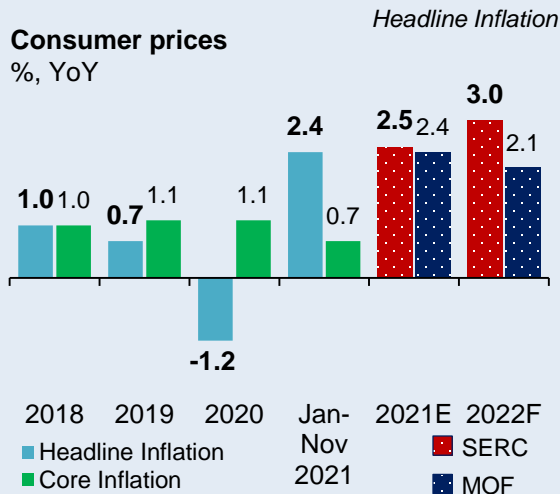
RCEP & CPTPP



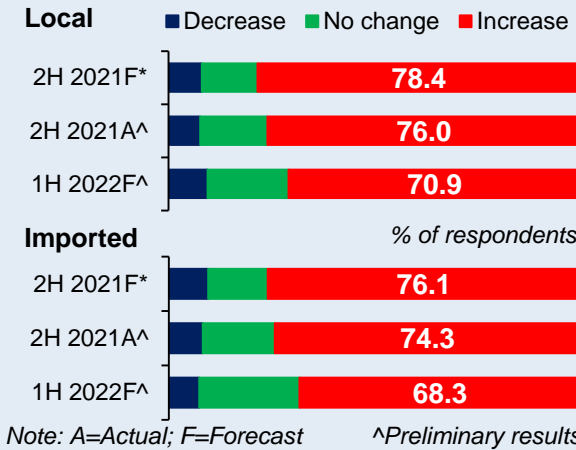
Green investment and exports

Costs and price pressures forcing on consumers and businesses

Headline and core inflation

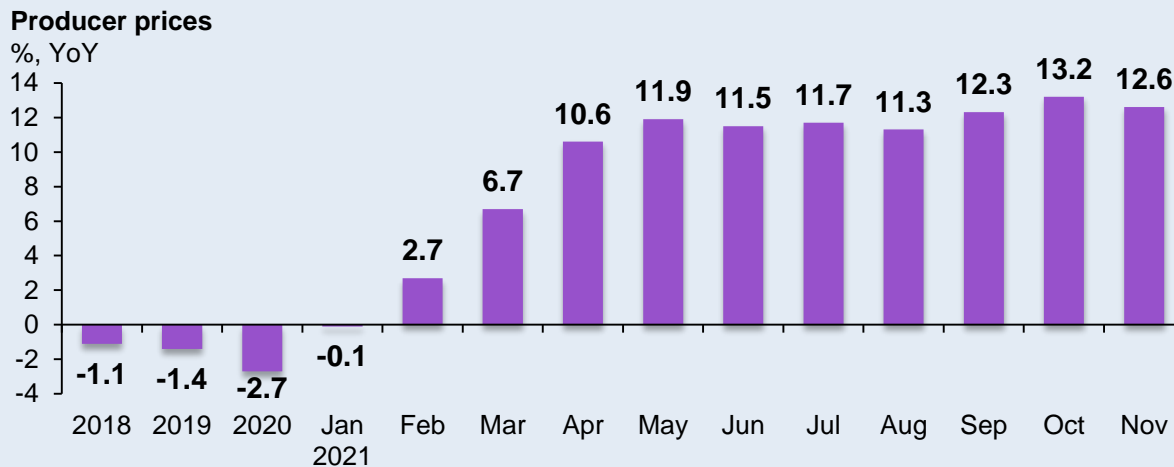


ACCCIM survey indicated persistent price increases in domestic and imported raw materials



* The results of 2H 2021F were from previous survey (M-BECS 1H 2021 and 2H 2021F).

Producer price indices



Source: DOSM; MOF; ACCCIM M-BECS; SERC estimates and forecast



Cost pressures are top of concern for business and consumers. Sustained high costs will inevitably be passed onto consumers



Producer price indices are trending high, suggesting the start of a period of sustained high prices



The energy transition could also drive up prices in the long term. Future driver: Carbon taxes and the cost of complying with new regulations will increase the cost of supply, and, again, it is consumers who will pay

High inflation and cost of living hurt households' purchasing power

Products price increase

No	Items	Increase in Prices (RM/%)
1	Bakery products: Gardenia bread	RM0.05 – RM0.40 (15% – 21%)
2	Bakery products: Massimo bread	RM0.09 – RM0.70 (12% – 16%)
3	Condensed milk (per box)	RM27 – RM30 (28% – 31%)
4	Cooking oil	140%
5	Eco-shop products	RM0.10 (4% – 5%)
6	Evaporated milk (per box)	RM20 – RM26 (20% – 26%)
7	Flour (25kg)	RM5 (10%)
8	Sauce	10% - 30%
9	Soy bean	20% - 40%
10	Sugar, wheat grain and salt	20%
11	Tube ice	RM0.50 per pack (20%)
12	Vegetables	40% - 150%
13	Animal feeds (Chicken)	50% - 100%
14	Car tyres	5% - 30%
15	Disposable plastic lunch box	30% - 40%
16	Glass bottle; Plastic bottle	5% - 10%; 20% - 30%
17	Paper box	30%
18	Rental (Cameron Highlands)	400%
19	Shipping container	300%
20	Transportation cost	500%

Source: Various news media

Demand-Driven



Pent-up demand on reopening of economy after the prolonged lockdown



Increase in consumer confidence that spurs consumer spending



Imbalances between market supply and demand

Cost-Driven



Shortage of foreign workers and rising cost of raw materials



Increased cost of production and operating costs such as shipping freight, raw materials (higher global fertiliser price)



Climate Change



Ringgit's Depreciation

Interest rate normalisation must be appropriately timed

Bank Negara Malaysia's statement on 3 November 2021:

- The stance of monetary policy to be **appropriate and accommodative**
- The stance of monetary policy **will continue to be determined by new data and information** and their implications on the overall outlook for inflation and domestic growth



Global monetary path

- Fed signals an imminent doubling of bond-buying tapering; three possible interest rate hikes in 2022
- Dovish tapers and monetary now dominate central bankers' and markets' thinking

Uncertainty in global monetary path induces volatility in both financial and foreign exchange markets

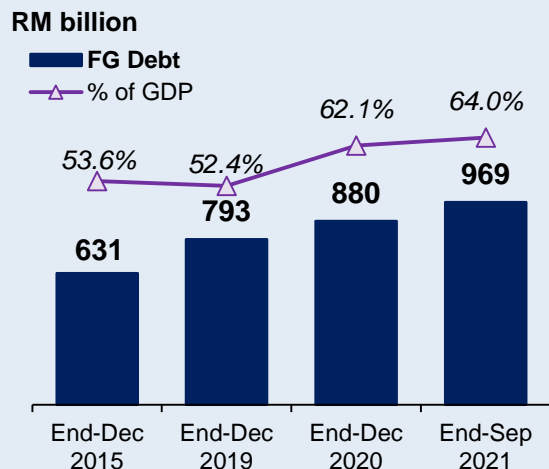


Bank Negara Malaysia set to raise interest rate in 2H 2022

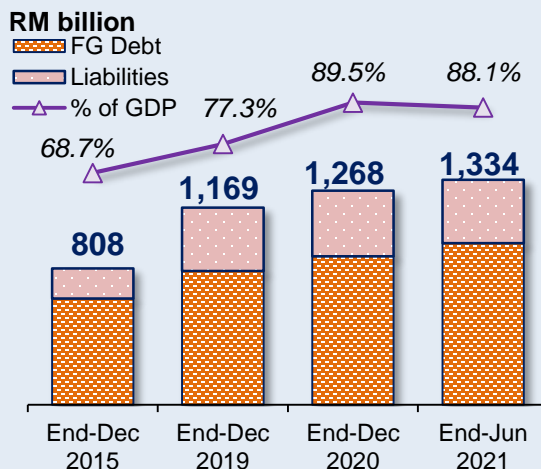
- Remove accommodation to rebuild buffer
- Anchor inflation expectations
- Prolonged period of low interest rates can induce financial imbalances by reducing risk aversion of banks and other investors
- Baby step and not successive hikes so as not to temper the economic recovery path
- We expect the Overnight Policy Rate to increase by 25-50 basis points to 2.00%-2.25% in 2H 2022

How worried should we be about Federal deficit and debt?

Federal Government (FG)'s debt



Debt and liabilities



Note: Liabilities in 2015 cover government guarantee only.

Debt burden thresholds and benchmarks under the DSF

Debt burden thresholds and benchmarks	PV of external debt in percent of		External debt service in percent of		PV of total public debt in % of
	GDP	Exports	Exports	Revenue	GDP
Weak	30	140	10	14	35
Medium	40	180	15	18	55
Strong	50	240	21	23	70
	<i>Current level</i>		<i>Current level</i>		<i>Current level</i>
Malaysia (End-Dec 2020)	67.6 (>Strong)	97.4 (<Weak)	12.2 (Weak-Medium)	53.3 (>Strong)	62.1 (Medium-Strong)

Note: Malaysia's current level is the actual level, not present value

Source: BNM; MOF

DSF=Debt Sustainability Framework

PV=Present value

- The Debt Sustainability Analysis framework simulation demonstrates **increased Government's debt vulnerabilities** in the event if any **shocks**, thus limiting the fiscal space and the ability to raise additional borrowing for counter-cyclical responses. Debt service charges had increased by 9% pa in 2018-2022 to reach RM43.1 billion in 2022, making up 18.4% of total revenue. This means that for every RM1 revenue collected, 18.4 cents go to service payment of domestic and external loans.

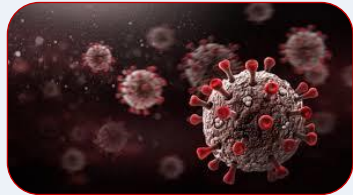
- Rebuild fiscal space and restore fiscal and debt stability:

- (1) An expansion of revenue base (reforming the tax system, and strengthening tax collection efforts);
- (2) Rationalisation and prioritisation of expenditure; and
- (3) Increases in economic output outpace increases in public debt levels.

Malaysia Outlook 2022: Five Risks to Watch

1

The COVID contortions



- Fast spreading Omicron variant
- May reimpose restrictive movements
- Temper the overall global recovery picture
- Impact on Malaysia's external sector

2

The Fed policy headwinds



- Rising inflation risks; signalled three rate hikes in 2022
- Spillover to Malaysia's shore via financial channel and weaker ringgit against the US dollar

3

China's economic slowdown



- Struggling with real estate woes and fallout from sporadic COVID-19 lockdowns
- Dampen demand for mineral and commodities
- 1% decline GDP could shave Malaysia's growth by 0.3-0.5% pts

4

Price pressures



- Higher input costs, supply constraints and shortage of workers
- Higher cost of living; a gradual recovery in the labour market condition and improvement in nominal wages

5

Winding down domestic relief measures and policy changes headwinds



- Prosperity Tax rate - downside risk to corporate earnings and reduce dividend payments or payouts
- Rental tax rebate; electricity discount; proposed higher minimum wage and multi-tier foreign levy

Malaysia's macro and investment outlook in 2022-2023: Strategies, Drivers and Pertinent Risks

The Malaysian economy is at an inflection point that marks the start of a new recovery growth cycle post the COVID-19 pandemic

Strategies, Drivers and Pertinent Risks

2020-2021	2022	2023
Highly supportive fiscal policy	Targeted approach	Fiscal consolidation to set in
Highly accommodative stance	Gradual removal of monetary accommodation	Restrictive monetary policy
Managing pandemic and economic scarring effects	<ul style="list-style-type: none"> 12th Malaysia Plan JENDELA digital plan 2022 Budget 	<ul style="list-style-type: none"> 12th Malaysia Plan JENDELA digital plan 2023 Budget
	<p>Changes in government policies:</p> <ul style="list-style-type: none"> Multi-tier foreign levy market-based system Carbon tax Review of minimum wage Digital tax Green agenda ESG Ratification of RCEP Ratification of CPTPP? Stringent compliance of Workers' Minimum Standards of Housing and Amenities Act 1990 (Act 446) 	<p>Changes in government policies:</p> <ul style="list-style-type: none"> New tax structures Green agenda ESG

Malaysia's macro and investment outlook in 2022-2023: Strategies, Drivers and Pertinent Risks (cont.)

The Malaysian economy is at an inflection point that marks the start of a new recovery growth cycle post the COVID-19 pandemic

Strategies, Drivers and Pertinent Risks

2020-2021	2022	2023
Cost pressures building up	Cost pressures persist; consumer inflation	
Targeted loan repayment assistance	<ul style="list-style-type: none"> Targeted loan repayment assistance may end for less distressed borrowers High incidence of bad loans Restructuring of zombies' business and borrowers, including individuals 	
Political development	<ul style="list-style-type: none"> Possible GE15 before due in 2023 Note that one of the agreed items underlined in the Memorandum of Understanding (MoU) between the ruling government and PH is for the Parliament not to be dissolved from now until July 31, 2022 	<ul style="list-style-type: none"> GE15 is scheduled to be held on or before July 2023



Appendix: Price increases on the ground

Items	Sources
Flour	<ul style="list-style-type: none"> • https://www.orientaldaily.com.my/news/nation/2021/12/30/459129
Cooking Oil	<ul style="list-style-type: none"> • https://guangming.com.my/本地食油價漲140-料新年前還會再飆升
Condensed milk; Evaporated milk	<ul style="list-style-type: none"> • https://www.orientaldaily.com.my/news/central/2022/01/01/459481
Car Tyres	<ul style="list-style-type: none"> • https://www.sinchew.com.my/?p=3440639
Eco-shop	<ul style="list-style-type: none"> • https://www.chinapress.com.my/20211116/rm2-10商店eco-shop-货品全面漲10仙/
Animal feeds (Chicken)	<ul style="list-style-type: none"> • http://perak.chinapress.com.my/?p=90224
Transportation Cost	<ul style="list-style-type: none"> • https://www.chinapress.com.my/20211121/货柜短缺%EF%BC%8E船期减少-运费飙漲-年货起价/ • https://www.chinapress.com.my/20211123/百物涨价主要祸源-运输成本飙80/
Vegetables	<ul style="list-style-type: none"> • https://consumer.org.my/stop-indiscriminate-increase-of-price-of-vegetables/ • https://www.orientaldaily.com.my/news/nation/2021/11/25/452128
Bakery products: Gardenia bread	<ul style="list-style-type: none"> • https://www.freemalaysiatoday.com/category/nation/2021/11/25/consumers-to-pay-more-for-gardenia-bread-bakery-products/
Bakery products: Massimo bread	<ul style="list-style-type: none"> • https://www.freemalaysiatoday.com/category/nation/2022/01/02/after-gardenia-prices-of-massimo-bread-also-rise/
Rental (Cameron Highlands)	<ul style="list-style-type: none"> • https://www.orientaldaily.com.my/news/east/2021/11/26/452252
Tube Ice	<ul style="list-style-type: none"> • https://www.sinchew.com.my/?p=3447581
Disposable plastic lunch box	<ul style="list-style-type: none"> • https://www.sinchew.com.my/20211127/(古城封面主文)塑料饭盒起价货源吃紧·业者面/
Sauce, Soy Bean, Sugar, Wheat grain and Salt; Glass Bottle, Plastic Bottle and Paper Box; Shipping Container	<ul style="list-style-type: none"> • https://www.chinapress.com.my/20211128/成本狂飙-涨价30-再-酱-下去-吃不起/



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谢谢
THANK YOU

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