



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

**Quarterly Economy Tracker**  
**(Jan-Mar 2022)**

**Is Malaysia in Multitude Shocks?**

**Lee Heng Guie**  
**Executive Director**

12 April 2022

# Outline



**Global economy started 2022 on a weaker position**



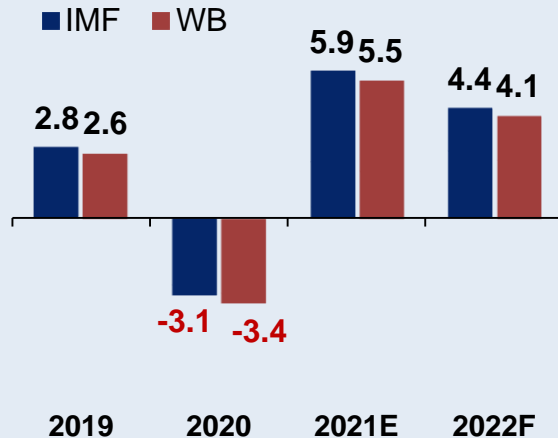
**Is Malaysia in multitude shocks?**



**Reforms beyond pandemic**

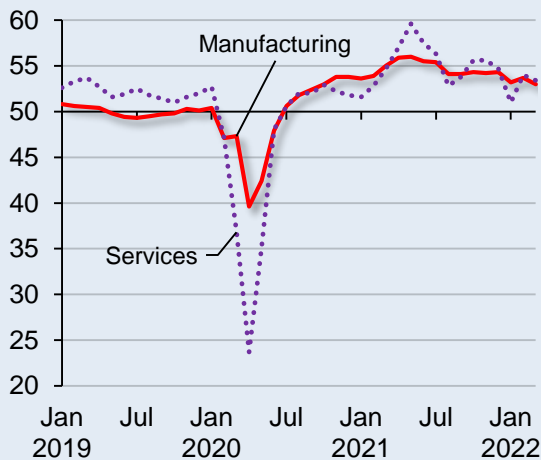
# A disrupted global recovery, war-induced shocks and higher inflation

Global GDP growth  
%



- Barometer Q1 2022 suggests slowing momentum
- Prolonged supply chain disruptions were further worsened by Russia's invasion of Ukraine-induced massive negative supply and price shocks
- Persistent high inflation and oil price shocks represent a double-blow to the world economy
- A sharp slowdown in China could dampen regional exports
- Global stagflation pressures are now a serious risk

Global manufacturing and services PMI  
50=threshold



Global trade  
%, YoY



Global semiconductor sales  
%, YoY



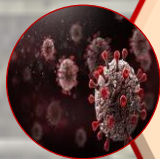
Source: International Monetary Fund (IMF); World Bank (WB); Markit; CPB Netherlands; Semiconductor Industry Association (SIA)

# New negative supply shocks layered on top old shocks

## IMPACT

### 1. Soaring energy and commodity prices

- Prices oil, gas, wheat, soya bean, maize as well as industrial metals surged on supply uncertainty, harsh sanctions and supply disruptions



### 2. Inflationary pressures

- Higher and longer inflation
- Supply chain disruptions and rebound in demand post pandemic



### 4. Financial markets

- The war uncertainty causes financial flows volatility
- Investors flight to safety assets (bonds, gold and hard currencies)



### 3. Increasing business costs

- Cascading price effects on raw materials and inputs
- Logistic costs and shipping rates higher



### 5. Central banks to act hard on inflation risk

- The US Fed has began its interest rate normalization journey
- Other central banks also on High Alert



# Russia-Ukraine conflicts induced shocks to the world economy

## GLOBAL ECONOMY



Russia: 1.8% of world GDP

- **Negative supply and oil shocks are a double-blow to the global economy**
- **Harsh sanctions may hit the European countries**  
(Nearly 25% of crude oil and 40% of gas imported from Russia)<sup>1</sup>



Oil and gas; wheat; corn;  
soybean; industrial materials



Worsen global supply chain disruptions  
such as semiconductor grade neon,  
palladium



**Higher business costs and consumer inflation**



**Crude oil**



**Russian oil<sup>2</sup>**

- Third largest oil producer
- Largest exporter of oil and petroleum products
- Second largest crude oil exporter



**Wheat**



World's largest  
supplier (~18%)

Nearly **1/4** Global exports<sup>3</sup>



**Fertilizer**

Russia (~13%)<sup>4</sup>



**Sunflower oil**

Ukraine (~50%)<sup>4</sup>

**Persistent volatility**

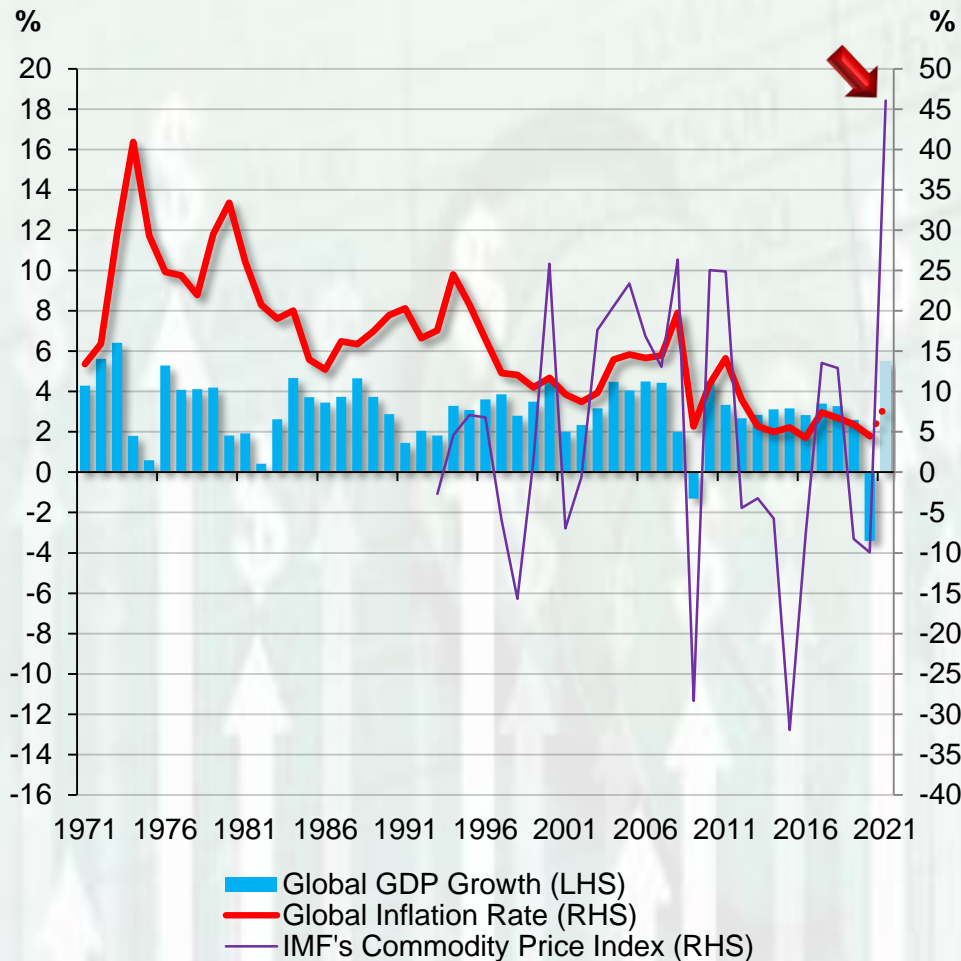


Global financial and  
foreign exchange markets



Energy and  
commodities market

# Stagflationary pressures are now a serious risk



Source: World Bank; International Monetary Fund (IMF)



## Globally...

- High and longer inflation in advanced economies (US: 40-year high at 7.9% in Feb; Eurozone: record high at 7.5% in Mar)
- New supply shock layered on top of old supply shock
- The US Fed embarks on interest rate tightening
- The risk of monetary policy mistake could cause the next recession in the US



## Malaysia ...

- Core inflation trending up
- First round price increases; second round may ensue from higher minimum wage and also if fuel subsidy rationalisation kicks in
- BNM's monetary stance: Balance between supporting growth and anchor inflation expectations

## Malaysia's economic recovery remains on track

- Stronger revival in domestic demand
- Rebound in services and construction sectors
- Headline and core inflation will move higher



# How's Malaysia affected by Russia-Ukraine war and oil shock

## THE MALAYSIAN ECONOMY



Russia-Ukraine's war on **external trade**

**Muted direct impact**



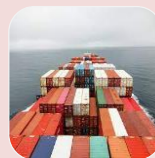
*Malaysia-Russia: Total external trade at 0.4%  
(Exports: 0.3%; Imports: 0.5%)*

*Malaysia-Ukraine: Total external trade at 0.1%*

**Indirect impact could be disrupting**



Higher prices on wheat, corn and chemical fertilisers → **costlier animal feed, fertilisers, pesticides, flour and other raw materials etc.**



Shipping route disrupted, resulted a heavy build-up of vessels waiting → **higher shipping charges and freight rates**



**Higher oil-related revenue** will be **offsetting by bloated fuel subsidies** and possibly other subsidies



**EU may purchase more palm oil** as a result of shortages in rapeseed and sunflower oil from Ukraine

### Financial market



Spillover transmission through global financial markets



**Domestic financial market may experience volatility**



Flight to quality as investors lighten their portfolio



**Ringgit to remain weak**



# Direct and indirect impact on business and consumer

## The COVID-19 pandemic-induced impact



Supply chain disruptions



Logistic and shipping rates  
Input and raw material costs



Increased business costs, including  
electricity tariff surcharge



Shortage of manpower



Rising inflation risk



Consumer demand is  
on the mend

## Post the COVID-19 pandemic with Russia's invasion in Ukraine-inflicted shocks



Worsen supply chain disruptions



- Possibly further increases in logistic and shipping rates
- Input and raw material costs



Still rising business costs; dampen  
production and margin



Still manpower shortages



Second round of inflationary  
pressures

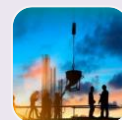


Higher cost of living crimps  
households' disposable income  
(purchasing power)

New cost  
drivers



New minimum wage



Multi-tier levy



Act 446



Higher interest rate

# What are the impact on industries?

## Export-oriented industries



External demand will slow if the global economy tanks



Higher freight and container rate and logistic costs (such as warehousing, forwarding, haulage and landside charges) hit cost



Supply chain disruptions



**Plantation sector** – workers shortage, higher cost of fertilizers and pesticides

- EU may force to buy more palm oil due to the shortage of sunflower and rapeseed oils

## Domestic market-oriented industries



**Services sector** (tourism, retail, transport and aviation) – Benefit from pent-up demand, borders reopening amid increased operating costs



**Construction sector** – Higher prices of building materials may cause delay/postpone/stalling of projects



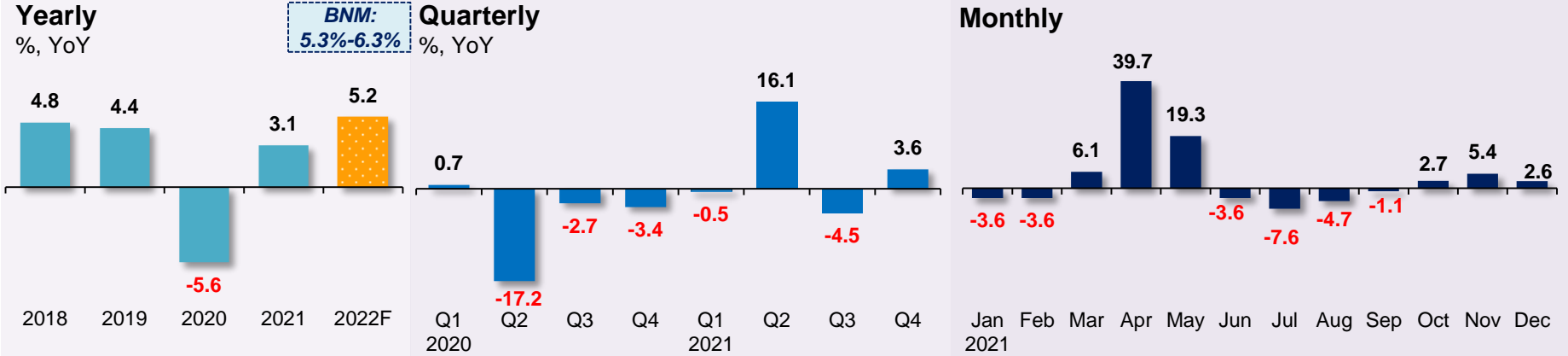
**Agriculture and livestock** – Higher cost of fertilizers, pesticides and animal feed; shortage of workers, minimum wage



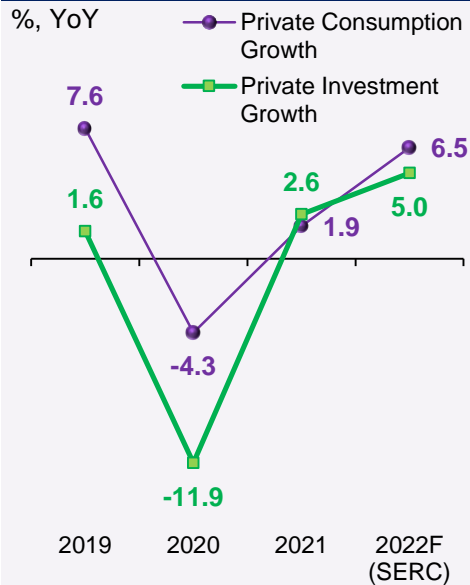
**Manufacturing sector** – Higher minimum wage, raw material costs, shortage of workers, logistic cost

# Malaysia's economic recovery continues but downside risks remain

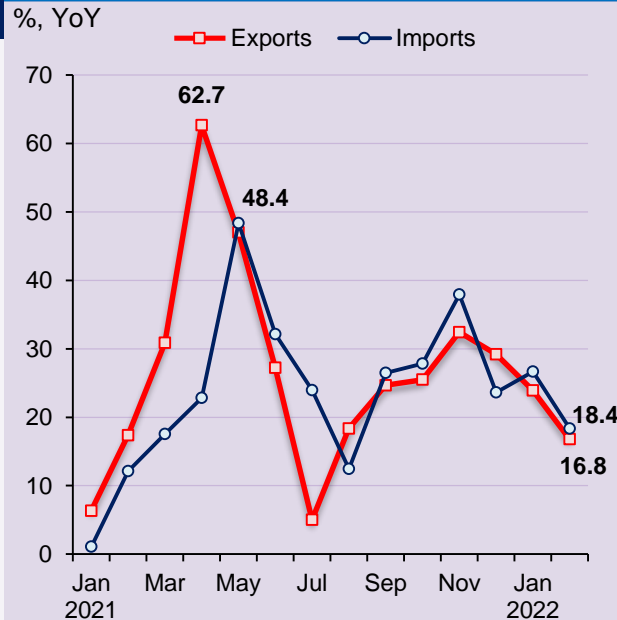
## Real GDP growth



## Private consumption and investment growth



## Gross export and import growth



## Cautious optimism transitioning into endemic phase

Transition from pandemic to endemic phase

Reopening of international borders



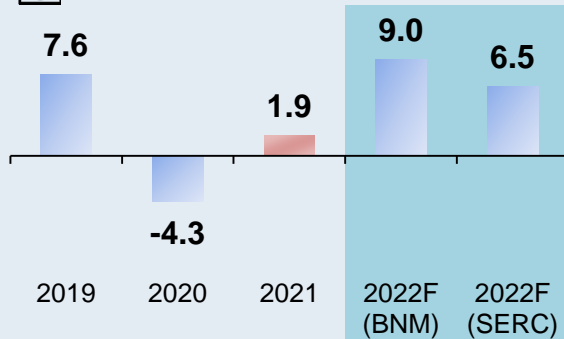
Recovery in the tourism-related services sectors

**Risks: Global monetary tightening; trade friction; stagflation; climate change; geopolitical tensions**

Source: DOSM; SERC estimates

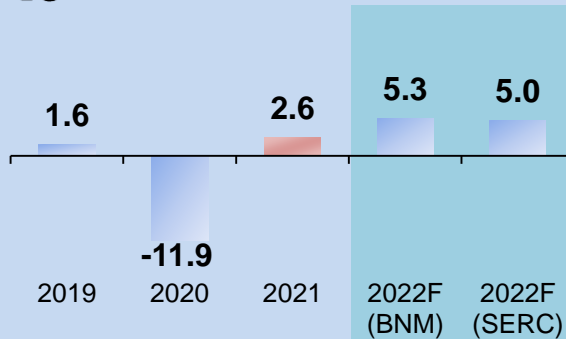
# Revived domestic demand to spearhead growth

Private Consumption (%) [58.8% of GDP]



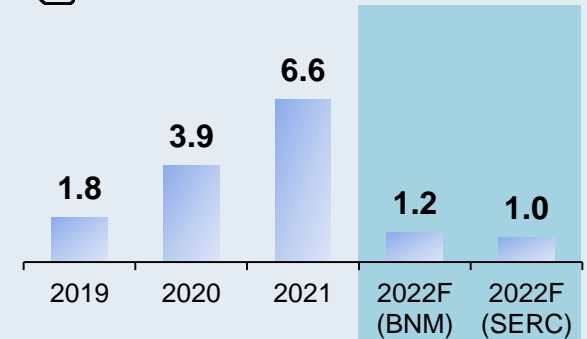
- Pent-up demand, cash handouts and EPF withdrawal
- Recovery in income and employment
- Inflation and living cost concerns dampen consumer sentiments

Private Investment (%) [15.6% of GDP]



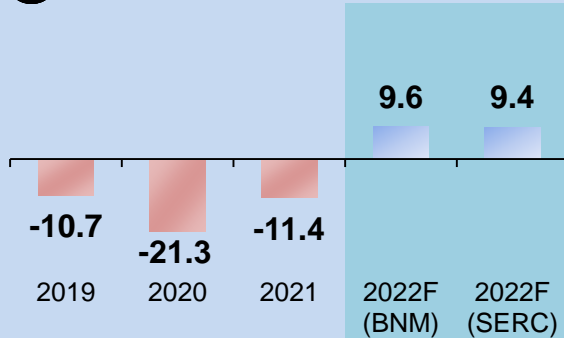
- Resumption of existing projects and commencement of new capital spending by businesses
- Increased costs, manpower shortages and external uncertainty

Public Consumption (%) [13.8% of GDP]



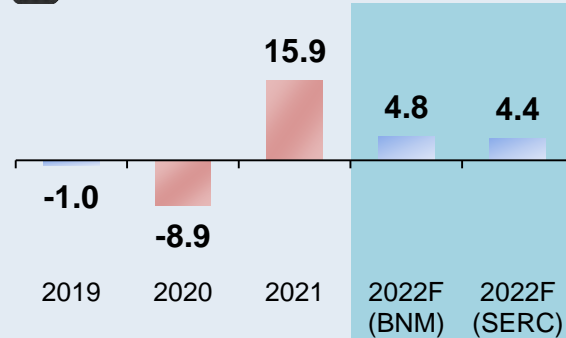
- Slower growth in emoluments
- Contraction in supplies and services expenditure
- Supported by COVID-related spending
- Allocation for small projects

Public Investment (%) [4.5% of GDP]



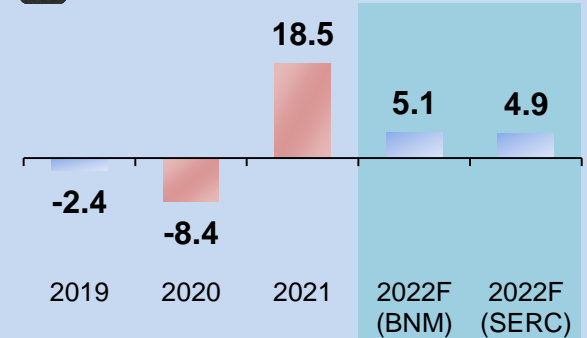
- Increase in fixed assets spending on transportation, public utilities, healthcare and education

Real Exports (%) [69.2% of GDP]



- Continued external demand from key trade partners
- Strong global demand for E&E products
- Improvement in commodity production

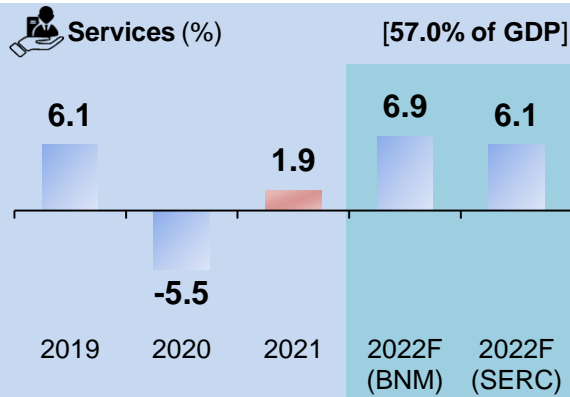
Real Imports (%) [63.2% of GDP]



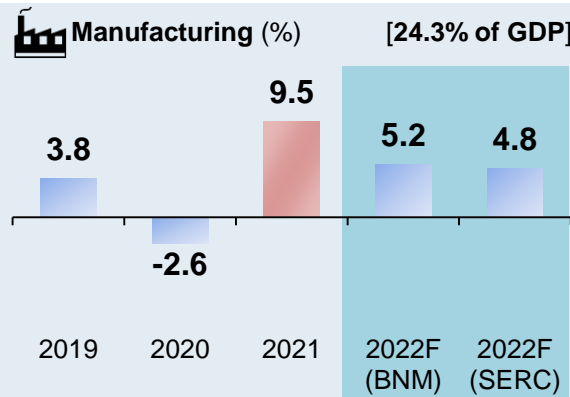
- Continued expansion of manufactured exports
- Improvement in domestic demand

Note: Figure in parenthesis [ ] indicates share of GDP in 2021  
Source: DOSM; BNM; SERC

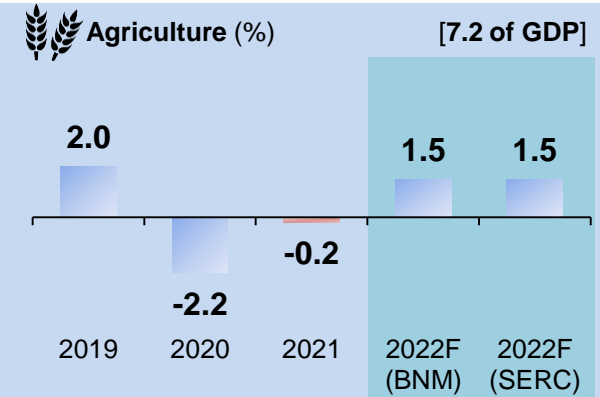
# Faster growth expected in services and construction sectors



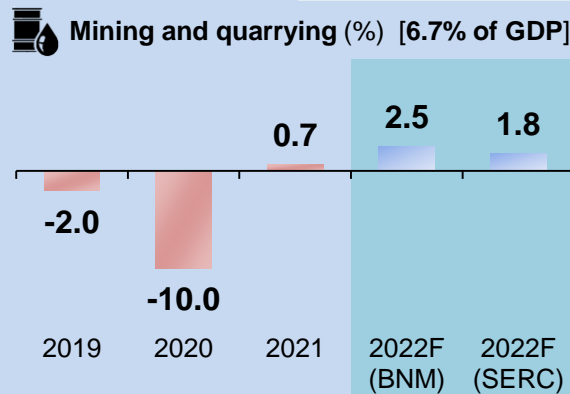
- Lifting of nationwide containment measures
- A gradual recovery in tourist arrivals
- Demand for data services



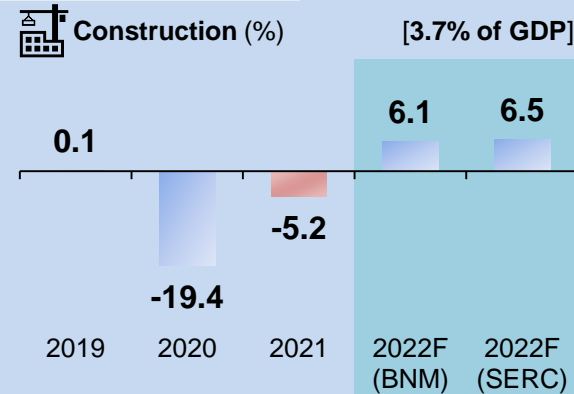
- Strong order books in the E&E sector
- Growing production in the construction-related and consumer-related manufacturing clusters



- Higher oil palm production
- Continued strong expansion in livestock and other agriculture subsectors



- Operationalisation of new facilities and higher production in existing facilities
- End of OPEC+ oil output cut agreement

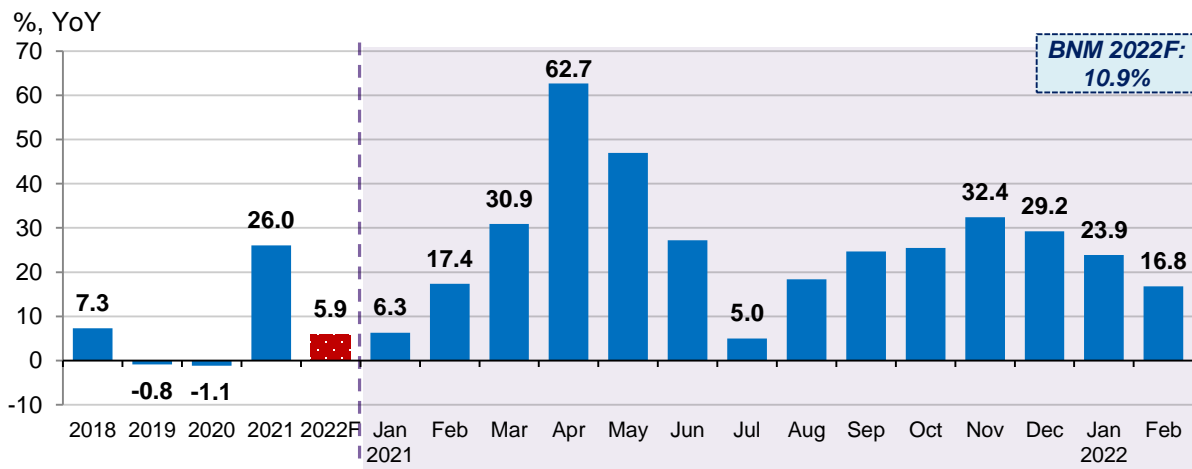


- Ongoing large infrastructure projects and small-scale projects
- New housing projects and launches
- Existing and new commercial and industrial projects

Note: Figure in parenthesis [ ] indicates share of GDP in 2021  
 Source: DOSM; BNM; SERC

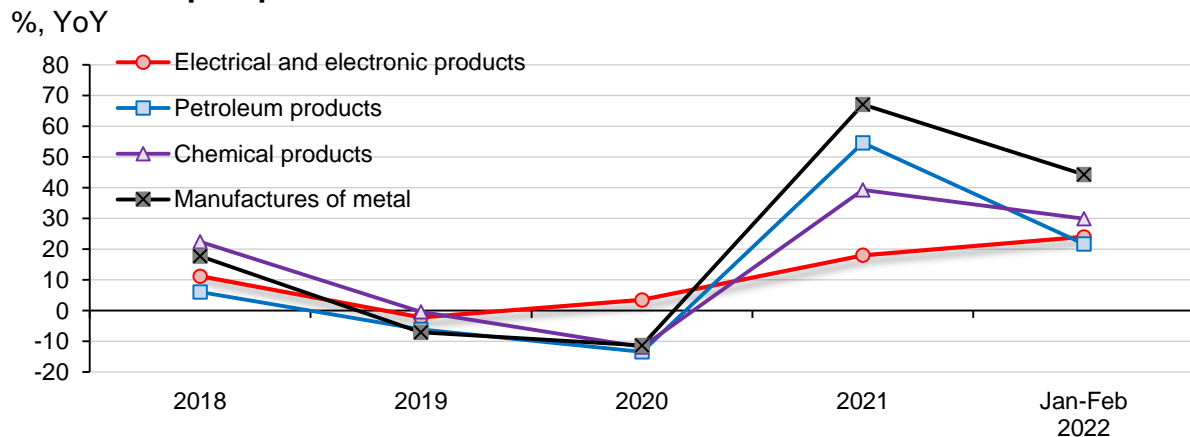
# Exports still growing, albeit normalising to long-term trend

## Exports



## Major export products group

### Selected export products



Source: DOSM; MOF; SERC estimates



**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

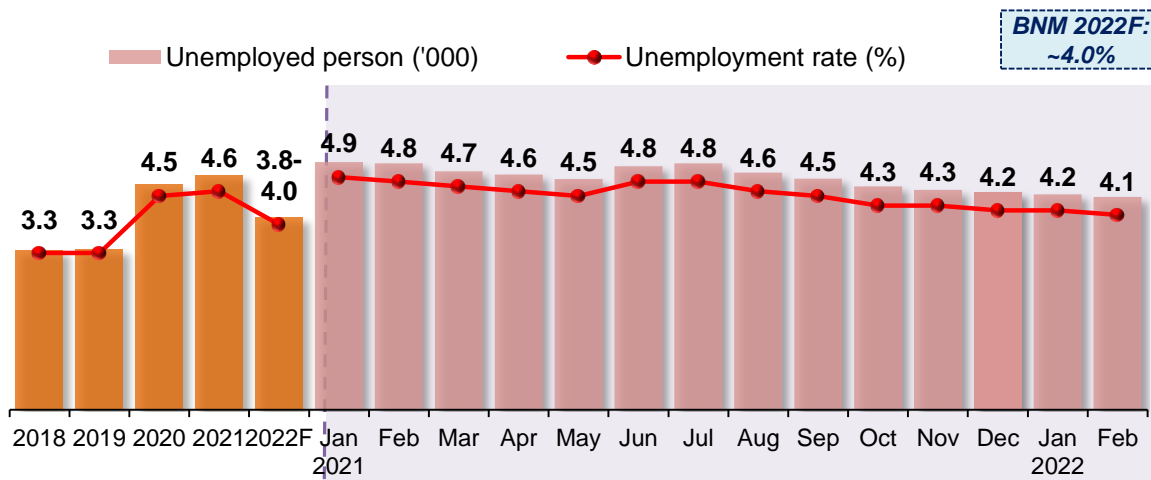


**RCEP came into force for Malaysia on 18 March 2022**

**Malaysia aims to ratify CPTPP by 3Q 2022**

# Labour market is gradually recovering

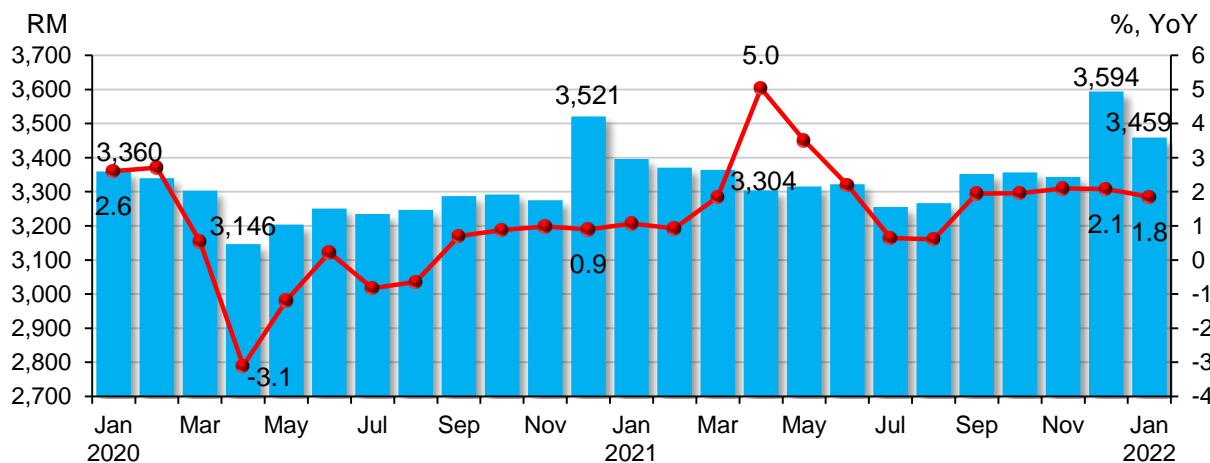
## Labour market conditions and prospects



**Unemployment rate** has eased from the highest rate of 5.3% in May 2020 to 4.2% in Feb 2022

However, **skill-related underemployment** stood high at **37.5%** of employed persons with tertiary education; **time-related underemployment** at 1.9% in 4Q of 2021

## Average salaries and wages per manufacturing employees



**Revived economic and business activities** will strengthen manpower demand, helping a steady recovery in the labour market

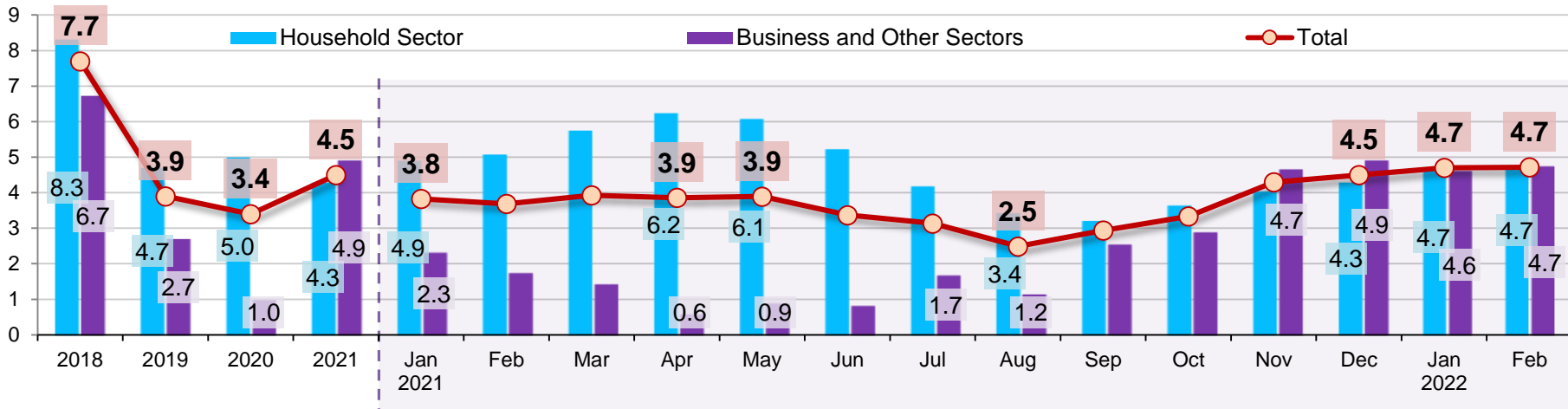
**Caution:** Uneven state of recovery in some sectors (travel, retail and aviation) as well as the continued labour displacement by digital technology disruptions

Source: DOSM; SERC estimates

# Business and household loan demand is picking up

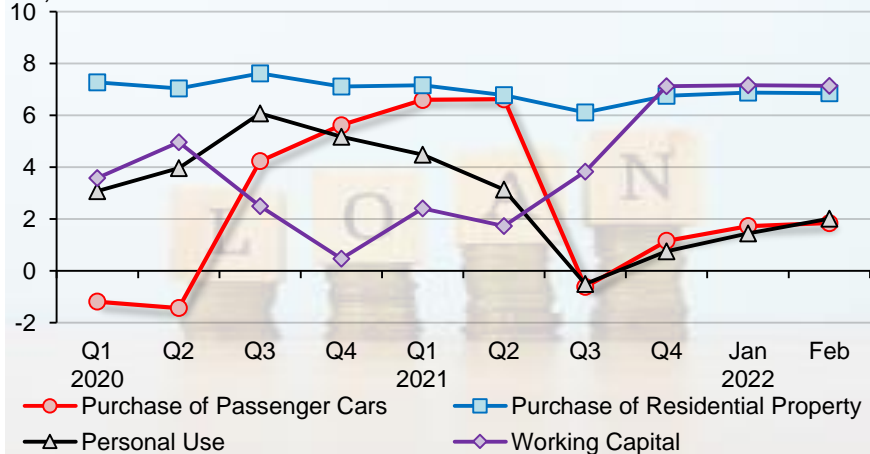
## Loan outstanding by sector

%, YoY



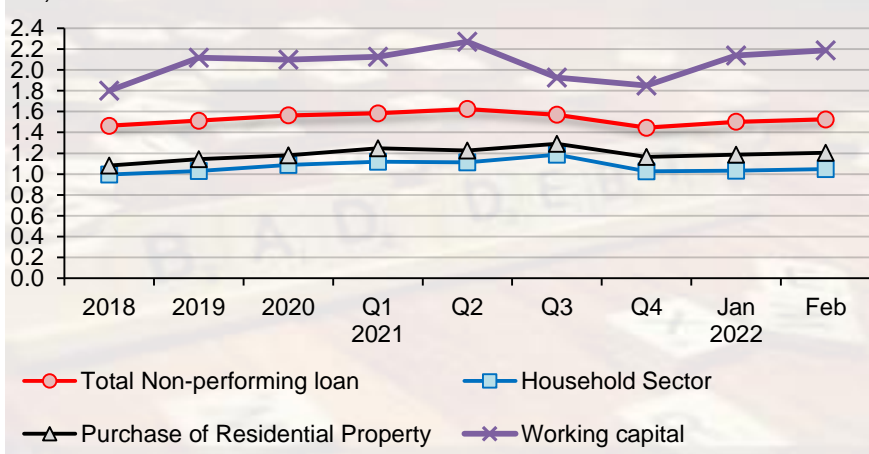
## Loan outstanding by purpose

%, YoY



## Non-performing loan ratio

%, YoY



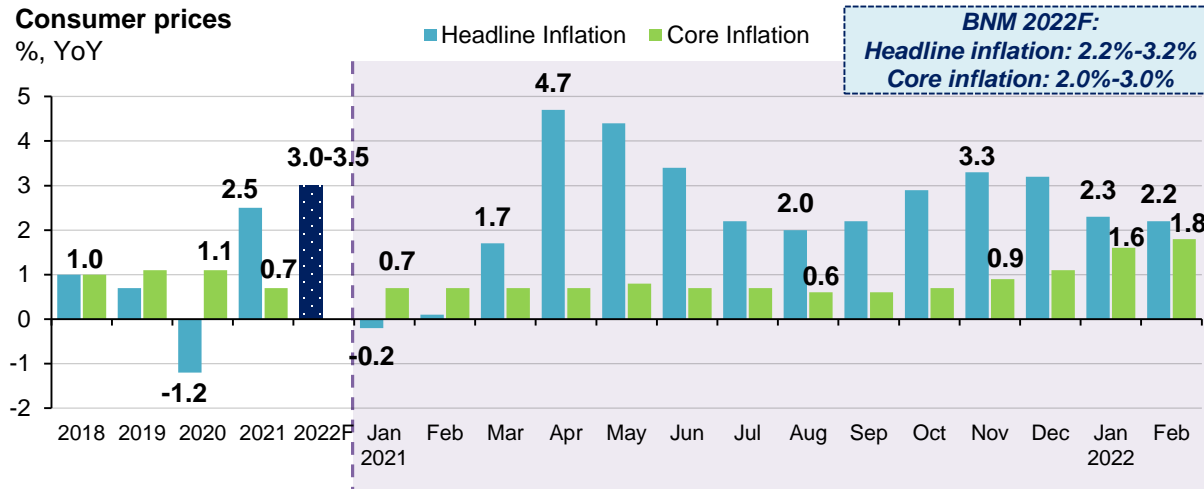
Source: BNM



# Rising energy and non-energy prices as well as supply disruptions have resulted in higher and longer inflation

## Headline and core inflation

Consumer prices  
%, YoY



**Price and cost pressures** are top of concern for consumers and businesses. Sustained high costs will inevitably feed through onto consumers



**Elevated producer prices** suggest a sustained pass-through of increased costs onto consumers

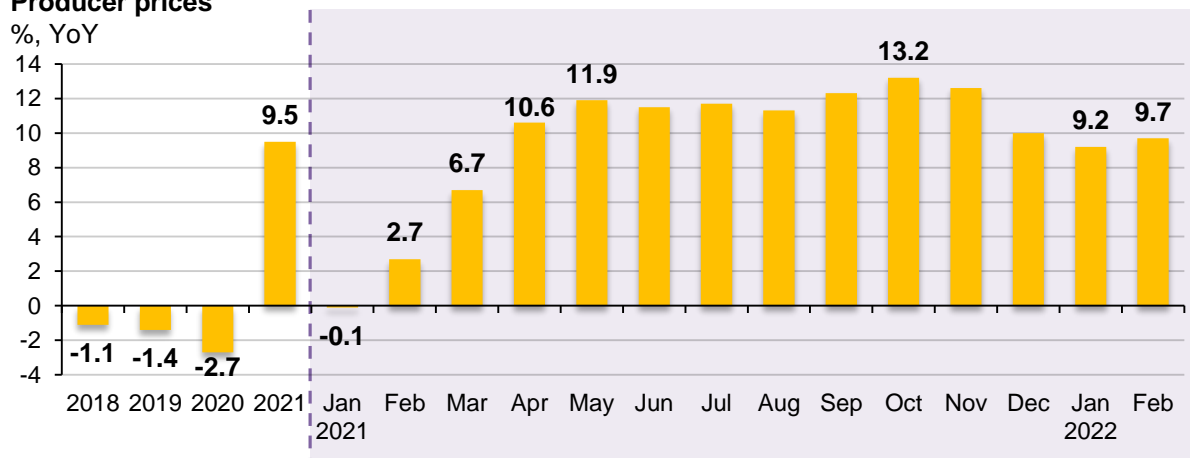


The energy transition could also drive up prices in the long term.

**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

## Producer prices

Producer prices  
%, YoY



Source: DOSM; MOF; SERC estimates

# Brace for further price hikes in 2022

## Selected common consumer goods



Prices have increased...

Malaysia (average RM)	Dec 2019	Dec 2021	Feb 2022
Mustard flowers (choy sum) (kg)	7.12	8.09 ↑	8.17 ↑
Tomatoes (kg)	5.19	5.83 ↑	6.78 ↑
Papaya (kg)	3.38	3.92 ↑	3.96 ↑
Egg (Grade A) 10 units	3.89	4.45 ↑	4.44
Indian mackerel (kg)	15.29	16.31 ↑	16.58 ↑
Chicken (kg)	8.03	9.54 ↑	9.46
Beef (kg)	31.95	35.53 ↑	35.76 ↑
Prawns (8 – 12 cm) (kg)	30.18	32.79 ↑	34.06 ↑
Milo (cup)	1.99	2.09 ↑	2.15 ↑
Sweetened creamer milk (500g)	2.82	3.06 ↑	3.19 ↑
Cooking oil (5kg)	20.98	29.57 ↑	29.54
Fish in tomato sauce (425g)	7.60	7.98 ↑	8.13 ↑
Refrigerator (2-door, 280-300L)	1,381	1,439 ↑	1,451 ↑
Men's hair cut (each)	10.78	12.83 ↑	13.08 ↑

Source: DOSM

## Malaysia's shipping freight rates

USD Route	Pre-pandemic		Pandemic		Current	
	20ft	40ft	20ft	40ft	20ft	40ft
Europe	2,000	4,000	11,000	22,000	8,500	17,000
China	200	400	1,200	1,800	1,200	1,800
North America	6,000	11,400	22,000	41,000	15,000	28,500

Note: Pre-pandemic: Prior to March 2020; Pandemic: March 2020 – 2021; Current: March 2022

Source: MNSC

## Building materials

- All concrete products** ↑ RM35/m<sup>3</sup> or around 15.6% on all grades
- Cements rebate** ↓ RM70/mt or *indirect increase* of 25.5%
- Sand** ↑ RM20/tonne
- Different materials made bricks** ↑ 10-20 sen per piece (50%-100% increase)
- PVC pipes** ↑ 100%-250% from RM20-30 to RM60-70 for 6 meters PVC pipe

Source: Various

	31 Dec 2021	1 Apr 2022
<b>Billets</b>	2,600-2,700	3,200-3,300
<b>Steel bars</b>	2,950-3,100	3,450-3,600

Source: MITI

# Supply-side and monetary measures to contain inflation and anchor inflation expectations

## 1. Gradual and Measured Pace of Interest Rate Increases

- Cost-push pressures on core inflation
- An area of policy concern - input cost pressures that could rapidly be transmitted to retail inflation as demand strengthens

## 3. Staggered Price Increases

- Fuel subsidy rationalisation be implemented on a gradual and measured pace
- Moral suasion businesses and manufacturers to announce price increases on a stagger manner to avoid bunching prices increase
- Price surveillance, enforcement and check on price manipulators

## 2. Government's Policy Interventions

- Reduction in duties and tariffs
- Temporary price ceiling and controls. But, price controls distort the working of the market and can exacerbate price increases
- Ease imports restriction to augment existing supplies
- Subsidies on essentials – food, energy and transportation
- Buy “Made in Malaysia” products

## 4. Supply-sides Policies (medium- to long-term)

- Supply-side policies through freer market entry and deregulation would make firms more productive and competitive
- Reduce high imports dependency on agricultural commodities: Imports Dependency Ratio (IDR) exceeding 50.0%: cuttlefish (52.2%), fresh milk (53.5%), round cabbage (63.6%), chilli (72.4%), beef (78.1%), ginger (81.5%), mango (86.2%) and mutton (90.4%)
- For example, smart technology farming and large scale food production as well as downstream processing to reduce food imports
- Agricultural logistics and delivery system along the whole supply chains should be strengthened to curtail the influence of the middlemen

## Enhance Economic and Financial Resilience for Future Shocks

- **Be more prepared to withstand future financial, economic and non-economic shocks** such as health, geopolitical tensions and climate change
- Reflect on current structural issues and constraints; recalibrate and **undertake politically feasible reforms to deliver a more inclusive, resilient, and sustainable future**



### Leaner Government and Rebuild Public Savings

- Rebuild large fiscal space - get leaner and rebuild savings for rainy days
- Spending on operating and development expenditures must be closely scrutinized and prioritized to ensure that they are productive
- Targeted fuel subsidy and cash assistance
- Unsustainable deficits and public debt would have negative effect on households' savings and private investment



### Politically Feasible Tax System Reforms

- Tax system must reward greater work efforts and productivity
- Relying less on labour and capital income taxes
- More on consumption taxes would encourage household savings



### Reduce Compliance and Regulatory Costs

- Policy certainty, transparent and good governance
- Too many taxes, regulatory and compliance costs raise costs and discourage reinvestment
- Reforming regulations with high compliance costs, not simply reducing the number of regulations



## Gaps in the Education Sector

- Improving the delivery and quality of online education
- Enhance manpower quality with appropriate skills through better enhancement framework of TVET



## Inadequacies in the Healthcare Sector

- Increase expenditure in public healthcare (4.7% of GDP in 2020)
- A universal healthcare system must be given priority
- A leaner, efficient and capable healthcare administrative structure to maintain the quality of access and affordable healthcare services



## Gaps in Social Protection System

- Social assistance schemes rose from 95 in 2012 to 137 in 2020
- Fragmentation and duplication of programs
- Streamlined, better targeting, and strengthened administration mechanism and effective delivery to the beneficiaries using digital technologies



## Aged Care Reforms and Retirement Savings

- In 2020, 10.3% of total population (3.4 million persons) aged 60 vs. 7.9% in 2010
- Ageing impact on labour participation and productivity; fiscal budget – healthcare and revenue
- Adequate social safety net to protect as well as supplement for the essential needs for needy elderly (public healthcare, housing, transportation, long life learning program and community care centres for the elderly)
- Maintain a clear focus on the long-term best interests of EPF members to ensure that consistent better dividend payment while preserving contributors' savings and safeguard their interests and retirement.
- Proper financial planning awareness; develop more retirement investment financial products; and provide tax concessions to incentivise more voluntary retirement savings



## Reset Agriculture and Rural Farming

- Climate change and a risk of food scarcity (food security) necessitates total fundamental transformation of agriculture
- Modern and smart farming for increased productivity via digitalised technology, and developing robust supply chain for agricultural products
- Bolder farm land reforms (longer land leasing) to improve the efficiency of land allocation
- Agricultural logistics and delivery system along the whole supply chains should be strengthened to curtail the influence of the middlemen
- Focus on R&D in agricultural products to increase high value-added food production and export potential
- Launching of programs such as One Village, One Product or One District, One Product could create local employment and rejuvenate rural economies



## Invest in Sustainable Future

- Trade complexity, climate change, healthcare and ageing population
- Accelerating digitalisation and technology and automation
- Accelerating the transition towards green investment and growth
- Environmental, Social and Governance (ESG)





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**谢谢**  
**THANK YOU**

**Address** : 6<sup>th</sup> Floor, Wisma Chinese Chamber,  
258, Jalan Ampang, 50450 Kuala Lumpur, Malaysia.  
**Tel** : 603 - 4260 3116 / 3119  
**Fax** : 603 - 4260 3118  
**Email** : [serc@accimserc.com](mailto:serc@accimserc.com)  
**Website** : <http://www.accimserc.com>