



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

CGS-CIMB Malaysia Investor Corporate Day

3Rs: Russia, Rate, and Recession

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19 July 2022

Agenda



US Recession Fears Darken Outlook For Global Growth



Malaysia Is Not Immune To A Global Recession



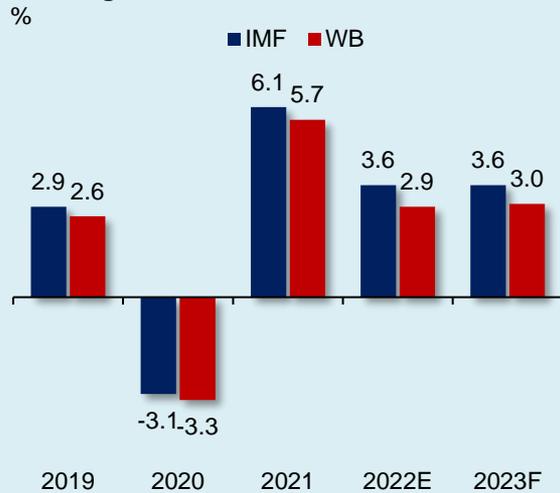
What's The Policy Landscape Ahead?

Global Economic Outlook

- **Three Rs – Russia, Rate and Recession**
- **The risks of a global recession trifecta are rising by the day...**

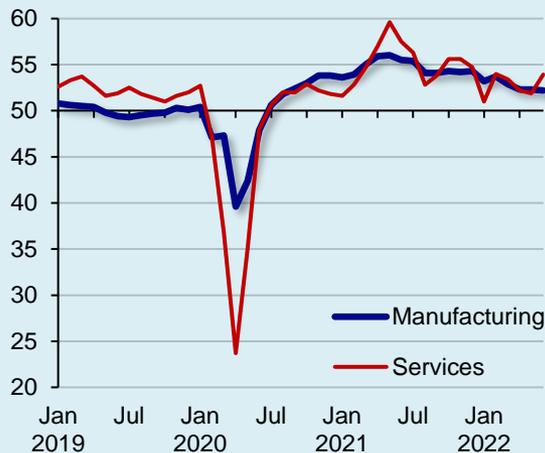
The growing threat of global recession

Global growth estimates

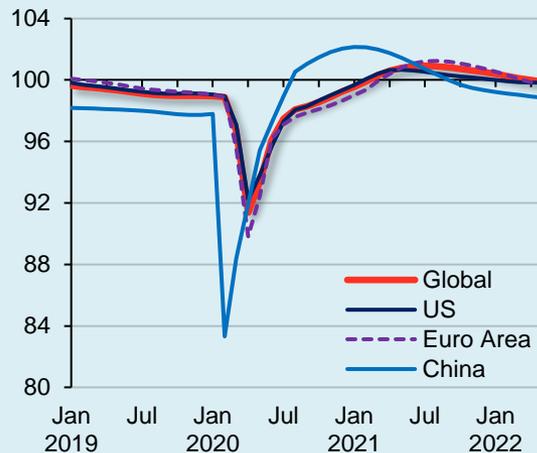


- Global growth has been revised lower in 2022-2023, primarily shaken by the war in Ukraine.
- The World Bank warns that the global economy may suffer 1970s-style stagflation. The IMF does not rule out the risk of a global recession in 2023.
- Prospects for a soft landing in the US economy for fighting inflation without denting growth look increasingly remote.
- China is finding it increasingly difficult to sustain growth in the face of draconian zero COVID-19 strategies.

Global PMI for manufacturing & services
50=Threshold



OECD Composite Leading Indicators (CLI)
100=Long-term average



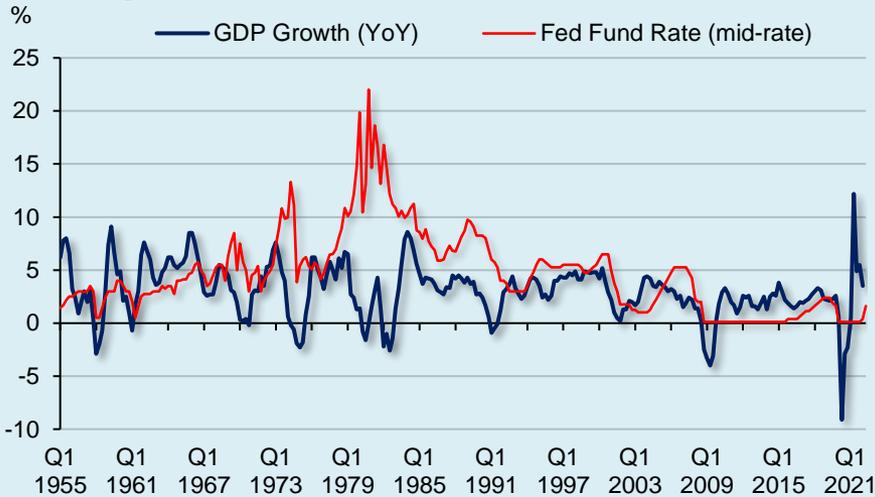
Global semiconductor sales
%, YoY



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

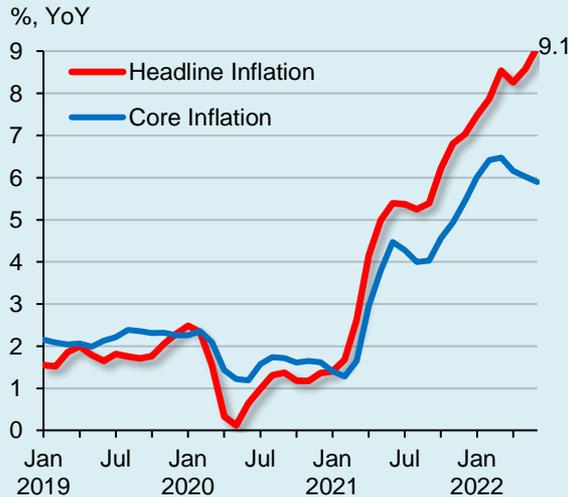
The risk of a US recession has surely soared, with the main uncertainties now being its timing and severity

US GDP growth vs. Fed Fund Rate

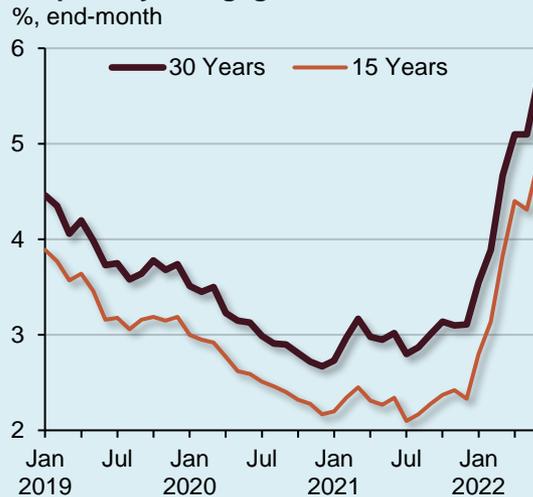


- Inflation vs. Recession – The Fed is walking on a tight rope.
- Soaring energy prices and inflation, a spike in interest rates; and Quantitative Tightening (QT) are the main causes that would trigger a recession.
- Negative dampening effect on consumer demand and real activity.
- Estimated US GDP : 1.7% in 2022; 0.50% in 2023

US headline & core inflation



US primary mortgage rate



US IPI

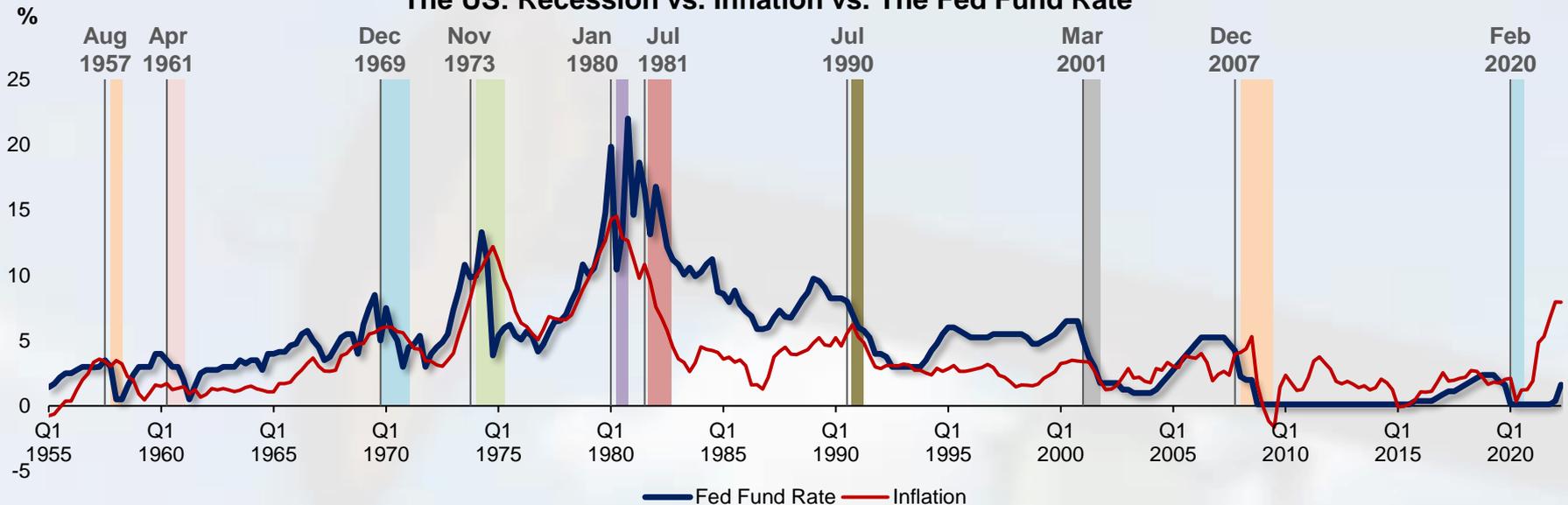


Source: US Bureau of Labour Statistics (BLS); US Bureau of Economic Analysis (BEA); Freddie Mac; US Census Bureau

Recession in the US: Depth and Duration

Note: Vertical line indicates the business cycle peak
Bar indicates the economic recession period

The US: Recession vs. Inflation vs. The Fed Fund Rate



Cycle Peak	Cycle Trough [^]	Recession Period*	Worst Contraction*	Related Event
Aug 1957	Apr 1958 (8 mths)	Q4 1957 – Q1 1958	-10.0% (Q1 1958)	Asian Flu; Eisenhower Recession
Apr 1960	Feb 1961 (10 mths)	Q2 1960 – Q4 1960	-5.0% (Q4 1960)	Rate Hike
Dec 1969	Nov 1970 (11 mths)	Q4 1969 – Q4 1970	-4.2% (Q4 1970)	Vietnam War; Rate Hike
Nov 1973	Mar 1975 (16 mths)	Q1 1974 – Q1 1975	-4.8% (Q1 1975)	The Oil Embargo; Rate Hike
Jan 1980	Jul 1980 (6 mths)	Q2 1980 – Q3 1980	-8.0% (Q2 1980)	Iranian Revolution; Rate Hike
Jul 1981	Nov 1982 (16 mths)	Q4 1981 – Q3 1982	-6.1% (Q1 1982)	Iran-Iraq War; Rate Hike
Jul 1990	Mar 1991 (8 mths)	Q4 1990 – Q1 1991	-3.6% (Q4 1990)	Persian Gulf War
Mar 2001	Nov 2001 (8 mths)	Q1 2001 – Q3 2001	-1.6% (Q3 2001)	Dot-com Bubble
Dec 2007	Jun 2009 (18 mths)	Q1 2008 – Q2 2009	-8.5% (Q4 2008)	Global Financial Crisis
Feb 2020	Apr 2020 (2 mths)	Q1 2020 – Q2 2020	-31.2% (Q2 2020)	COVID-19 Pandemic

Source: US BLS; US Federal Reserve; US BEA; National Bureau of Economic Research (Cycle peak & trough)

[^] Number of months in parenthesis indicates months from peak to trough

* Contraction based on annualised qoq basis, which included growing quarter within the related event

A battle of persistent inflation across most advanced and emerging economies

Inflation – Advanced economies

%, YoY



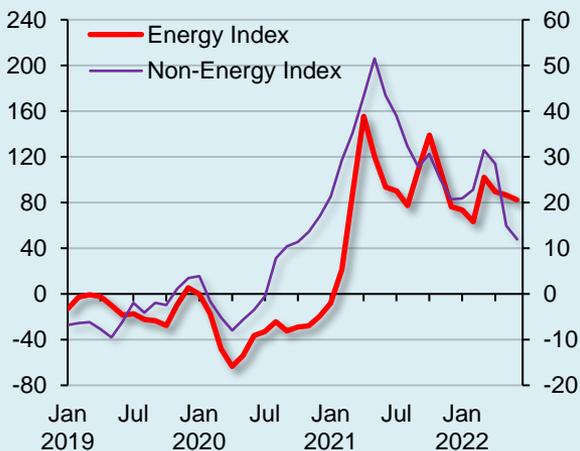
- **Headline inflation remains high and stays longer.**
- **Supply constraints and cost shock inflation to wage-price spiral due to tight labour market conditions and rising wage pressure.**
- **Some governments have resisted consumer price pressures through subsidies, price ceilings, export restrictions and tariff reduction.**
- **Many central banks had already moved toward tightening monetary policy.**

Energy index

%, YoY

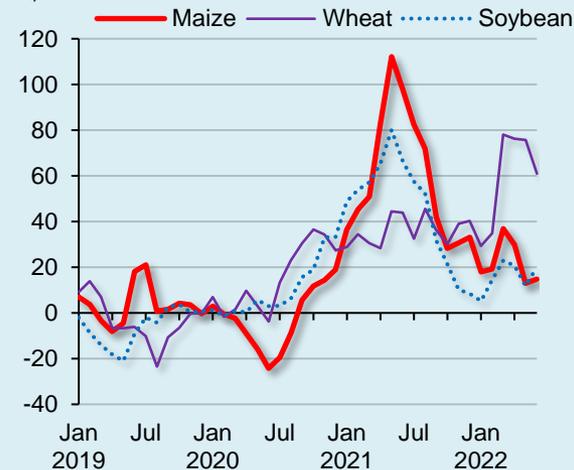
Non-energy index

%, YoY



Selected global food prices

%, YoY



Inflation – Selected ASEAN economies

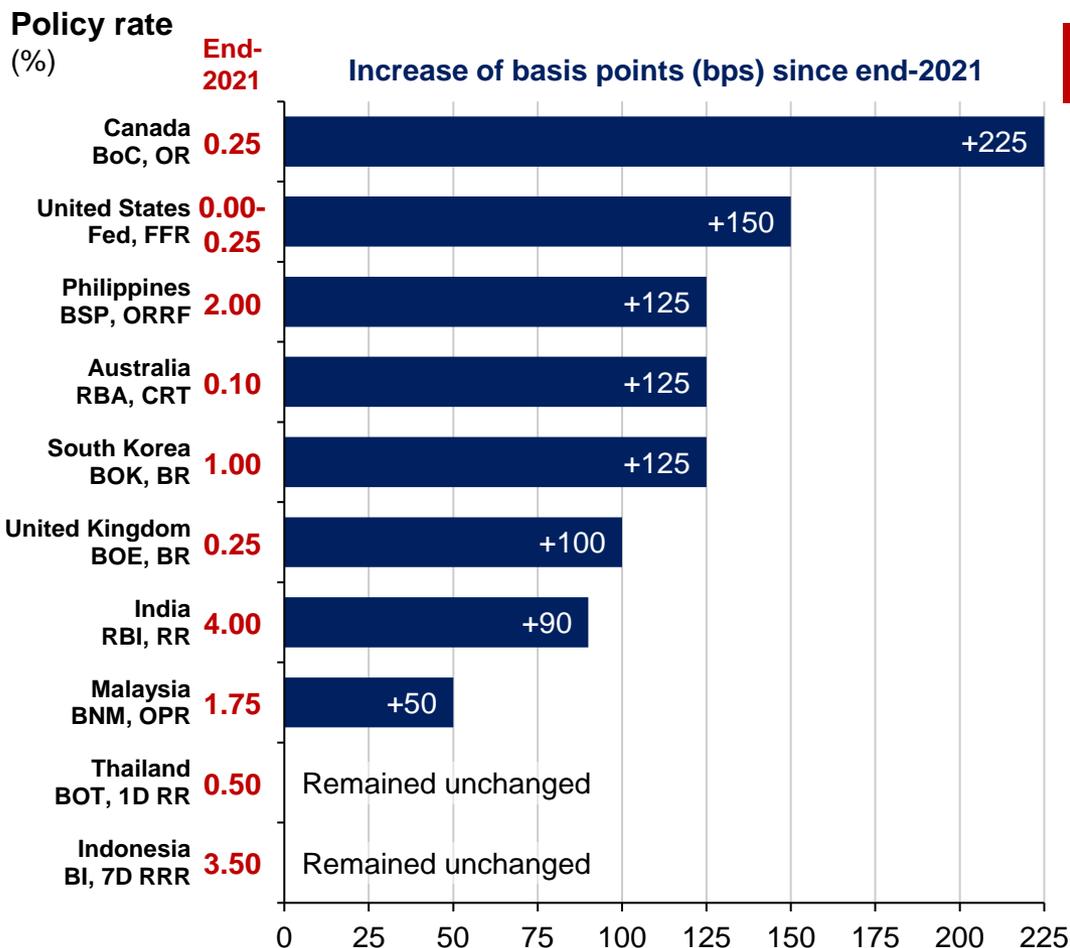
%, YoY



Source: World Bank; Various official for inflation data

Central banks race to increase their policy rates

The pace of rate hike is accelerating and more broadly ...



As of 15 Jul	Jan	Feb	Mar	Apr	May	Jun	By Mid-Jul
2.50			+0.25 2/3	+0.50 13/4		+0.50 1/6	+1.00 13/7
1.50-1.75			+0.25 16/3		+0.50 4/5	+0.75 15/6	
3.25					+0.25 19/5	+0.25 23/6	+0.75 14/7**
1.35					+0.25 3/5	+0.50 7/6	+0.50 5/7
2.25	+0.25 14/1			+0.25 14/4	+0.25 26/5		+0.50 13/7
1.25		+0.25 3/2	+0.25 17/3		+0.25 5/5	+0.25 16/6	
4.90					+0.40 4/5**	+0.50 8/6	
2.25					+0.25 11/5		+0.25 6/7
0.50							
3.50							

** Policy made in off-cycle meeting

Do you know?

- The United Kingdom (BOE) hiked rate for five consecutive times in Jun since Dec 2021.
- South Korea (BOK) hiked 50bps for the first time on record in July.
- Reserve Bank of Australia (RBA) hiked rate since Nov 2010 in May.

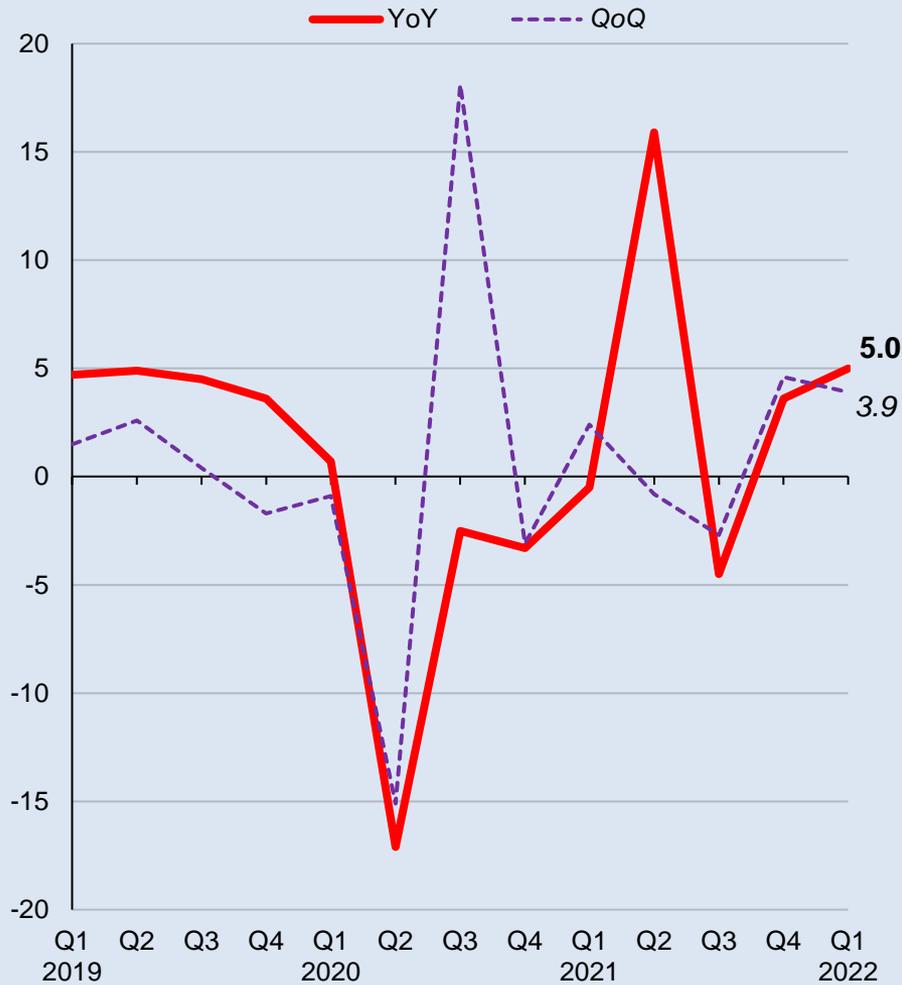
Source: Various officials

Malaysia's recovery is hitting a soft patch in 2H 2022 ...

- **WEAKENING** global growth in 2H 2022 and in 2023
- **RISING INFLATION AND COST OF LIVING** bite into consumption
- **INCREASED COSTS AND WORKER SHORTAGES** affect productivity and output
- **SYNCHRONISED GLOBAL MONETARY TIGHTENING** induced capital flows and exchange rate volatility

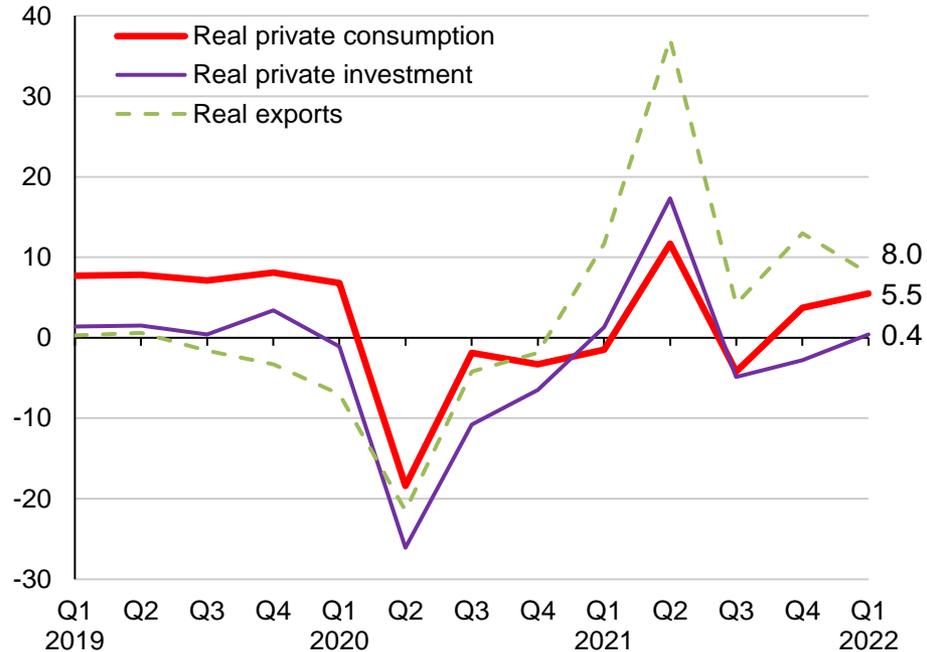
Higher GDP growth in 1H 2022; slower pace in 2H 2022 (2022E: +5.2%; 2023F: +4.1%)

Malaysia's real GDP growth
%



- Expect real GDP to grow by 4.5%-5.0% in 2H vs. 5.0%-6.5% in 1H 2022
- Restrained by weakening domestic demand, cautious sentiment and spending, rising inflation and high cost of living
- Dissipating consumer spending stimulus (the resumption of EPF rate contribution, higher loan repayment)

GDP growth – Domestic demand and exports
%, YoY



Source: Department of Statistics, Malaysia (DOSM)

Malaysia's economic growth: 1H vs. 2H 2022 and in 2023

1H 2022



- Ukraine war in Feb inflicted new price and supply shocks
- Soaring inflation compelled a synchronization of interest rate hikes



- Reopening of domestic economy and international borders
- Revived consumer spending (EPF withdrawal; festive celebration)



- Supply chain disruptions; shortage of workers; increased costs



- Consumer inflation pressures started to build up, leading to high cost of living

Drivers and Risks

2H 2022 and 2023



Weakening global growth – Global stagflation risk, continued Russia-Ukraine military conflicts, more aggressive monetary tightening, rising recession risk in the US economy



Domestic demand – Continued higher inflation and cost of living as well as rate increases crimp consumer spending power

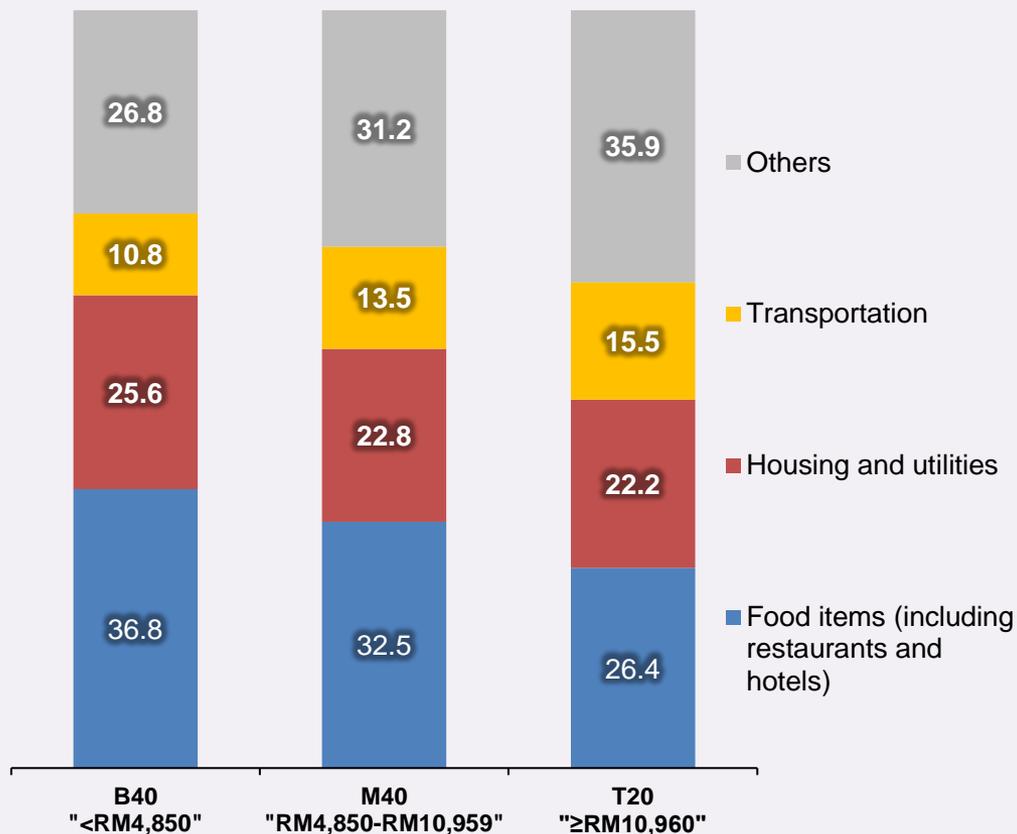
Private investment remains cautious on increased costs, shortage of workers, external uncertainties and political uncertainty



External sector – Moderate due to weakening global demand; easing prices of energy and commodities

Household expenditure by income class

Share of household expenditure by category (%)



Source: DOSM

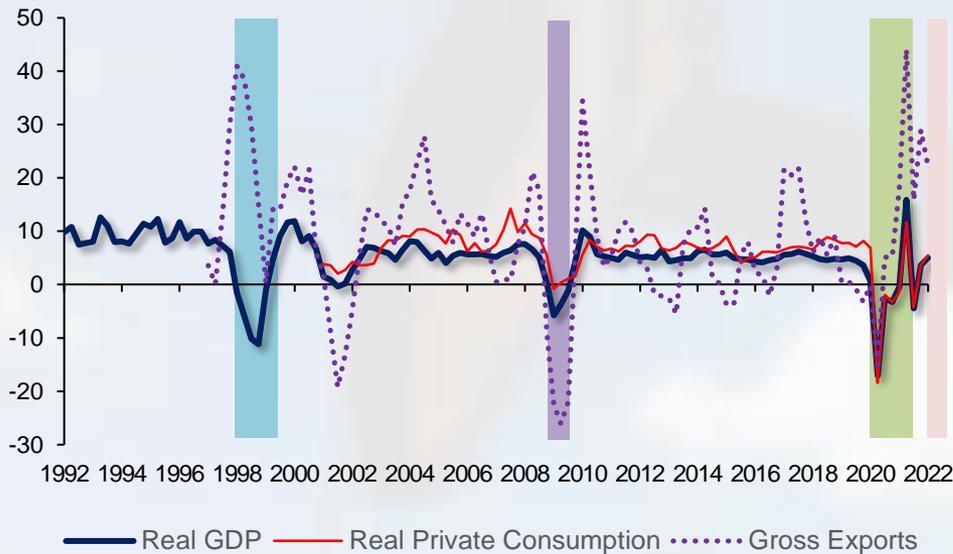
- Lower-income households are often facing **slow income growth and financial difficulties** in meeting basic necessities to catch up with rising cost of living.
- 2019 Household Expenditure Survey showed that:
 - **31.0% of the household's total consumption expenditures** were spent on **food items, including restaurants and hotels**; and
 - **23.2% on housing and utilities**; **13.7% on transport**
- **B40 households allocate more than half of their expenditure (52.4%)** on basic necessities (food at home, clothing, housing and utilities).

Malaysia is not immune to a deep global recession

Growth

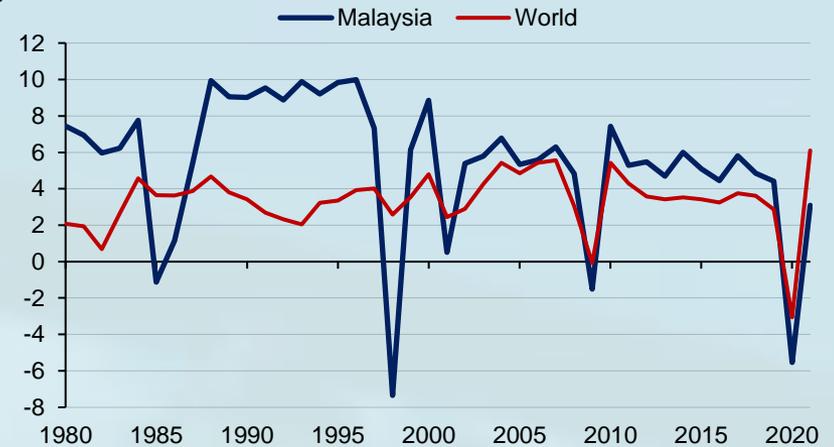
% YoY

Note: Bar indicates the economic recession period



Malaysia vs. World

%



Recession Period*	Worst Contraction*	Related Event
Q1 1998 - Q1 1999 (5 quarters)	-11.2% (Q4 1998)	Asian Financial Crisis
Q1 2009 - Q3 2009 (3 quarters)	-5.8% (Q1 2009)	Global Financial Crisis
Q2 2020 – Q3 2021 (6 quarters)	-17.1% (Q2 2020)	COVID-19 Pandemic
2023?		War in Ukraine; Energy and commodity shocks; Recession risk in the US; the Fed's aggressive rate hikes

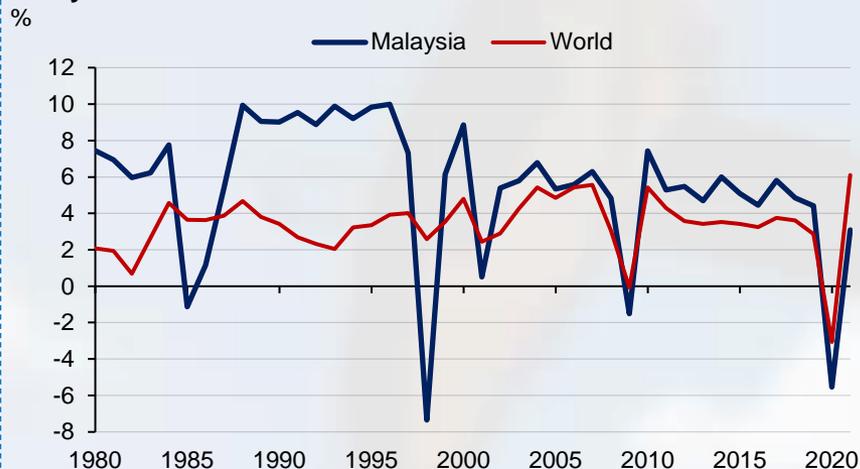
* Contraction based on yoy basis, which included growing quarter within the related event

Source: Economic Planning Unit (EPU); BNM

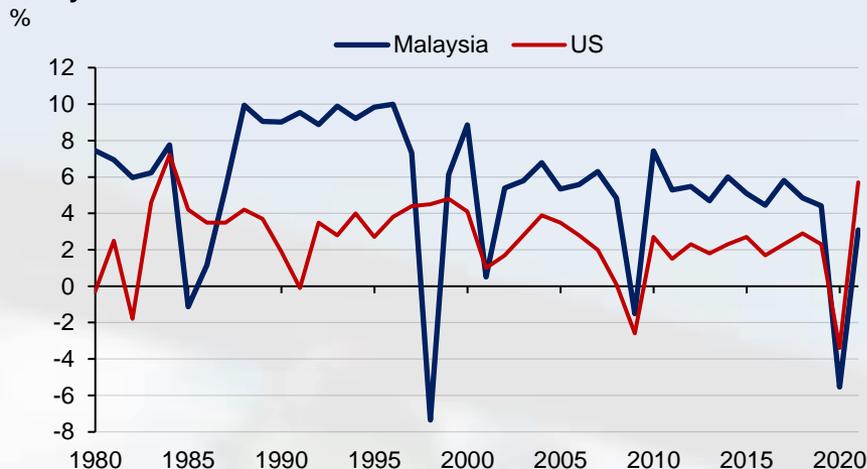
Malaysia's growth interdependent with the rest of the world

The growth correlation between Malaysia and global economy as well as major economies is getting stronger ...

Malaysia vs. World



Malaysia vs. the United States



Growth correlation between Malaysia and...

Economy	Period	Value
World	1980 - 2021	0.43 (Moderate)
	2011 - 2021	0.85 (Very Strong)
The United States	1980 - 2021	0.29 (Weak)
	2011 - 2021	0.73 (Strong)
China	1980 - 2021	0.28 (Weak)
	2011 - 2021	0.84 (Very Strong)

Malaysia vs. China

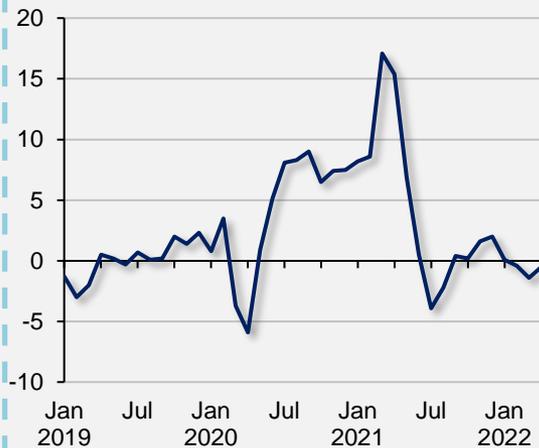


Source: Economic Planning Unit (EPU); IMF; US BEA; NBS China

Malaysia: Leading and current economic indicators

Leading indicators

%, YoY



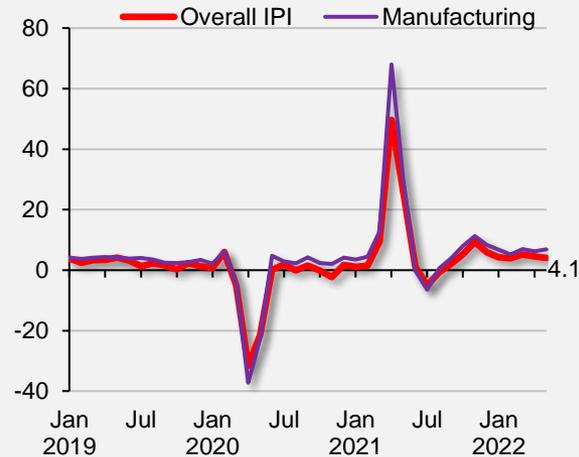
Purchasing Managers' Index (PMI)

50=Threshold



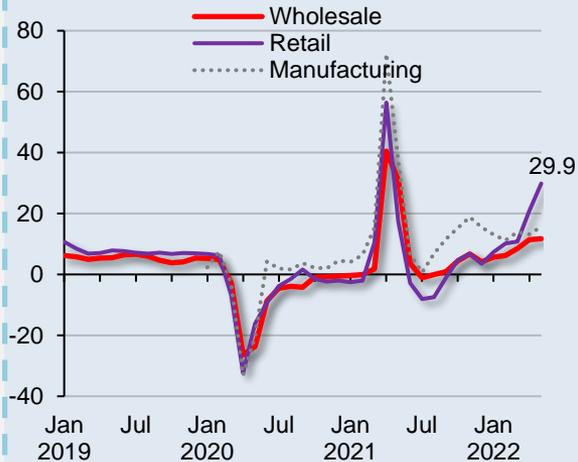
Industrial production index (IPI)

%, YoY



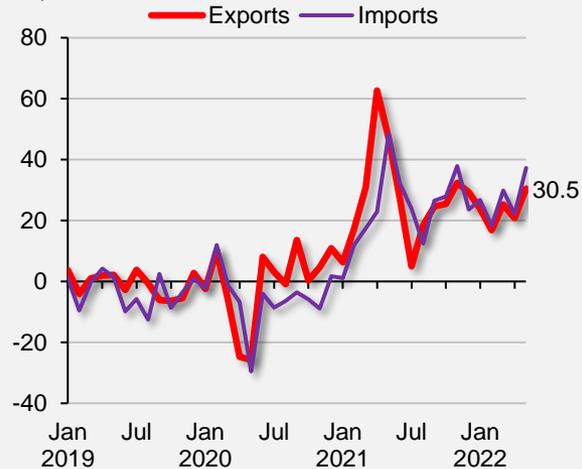
Wholesale, retail & manufacturing sales

%, YoY



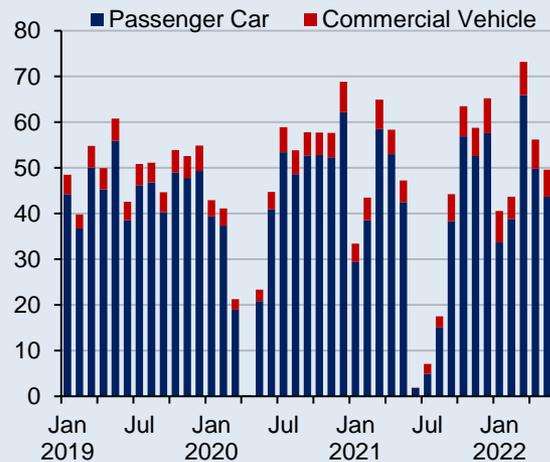
External trade

%, YoY



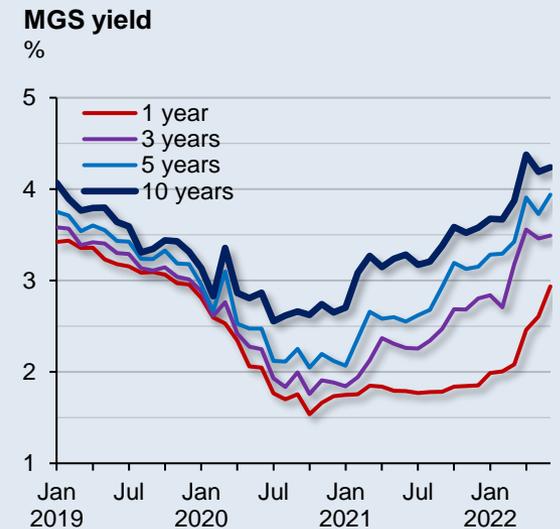
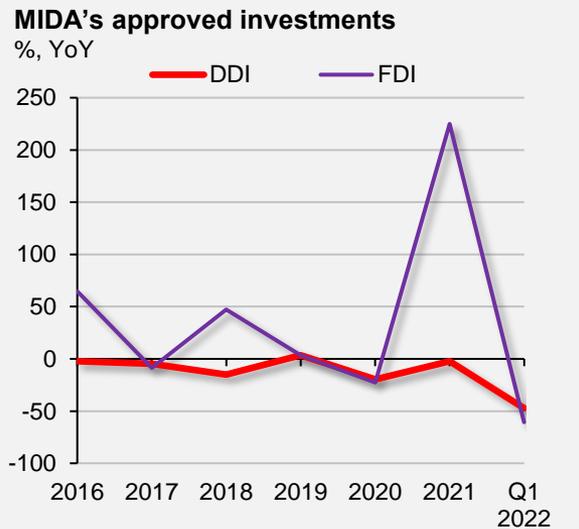
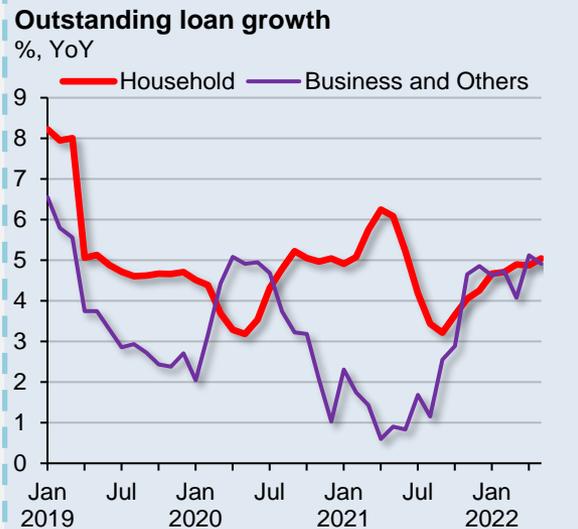
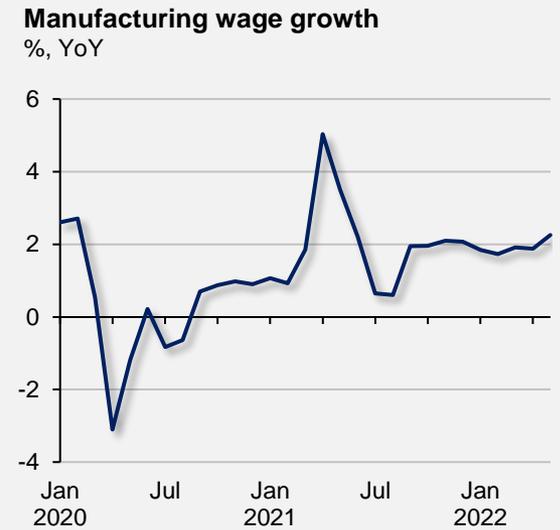
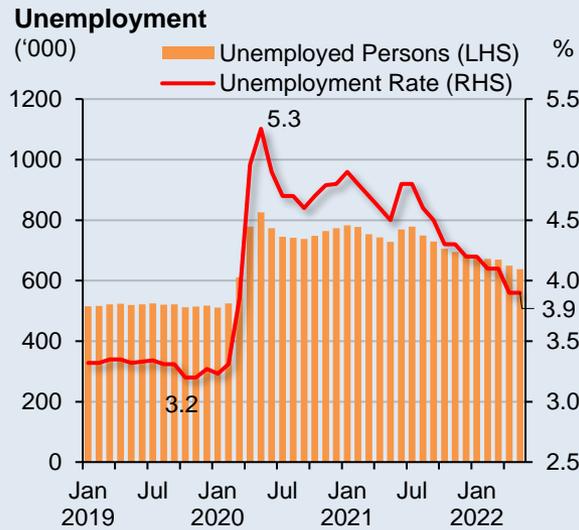
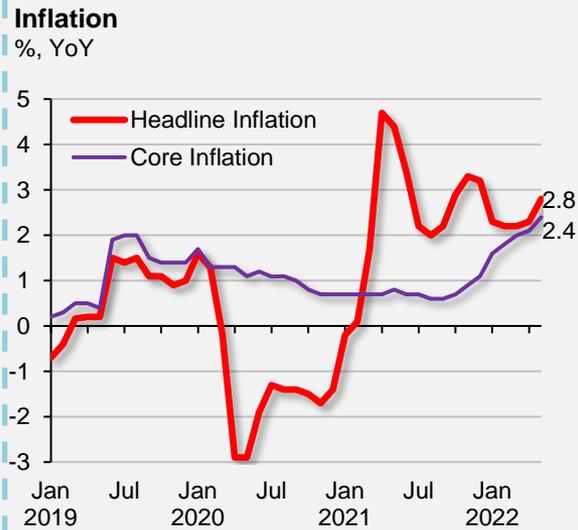
Sale of passenger & commercial vehicles

Thousand units



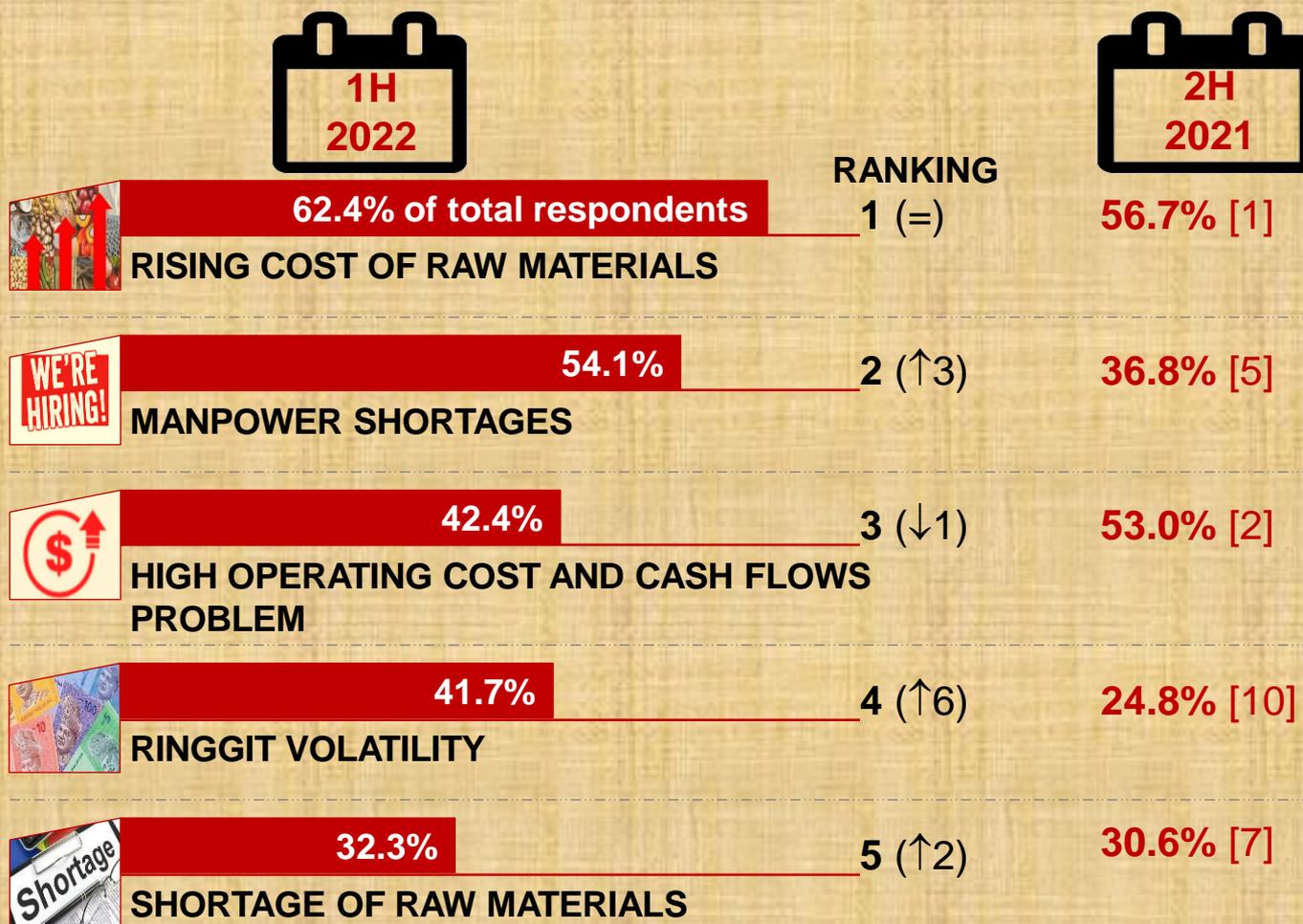
Source: Bank Negara Malaysia (BNM); Markit; DOSM; Malaysian Automotive Association (MAA)

Malaysia: Leading and current economic indicators (cont.)



Source: DOSM; BNM; MIDA

ACCIM M-BECS: Factors influencing business performance

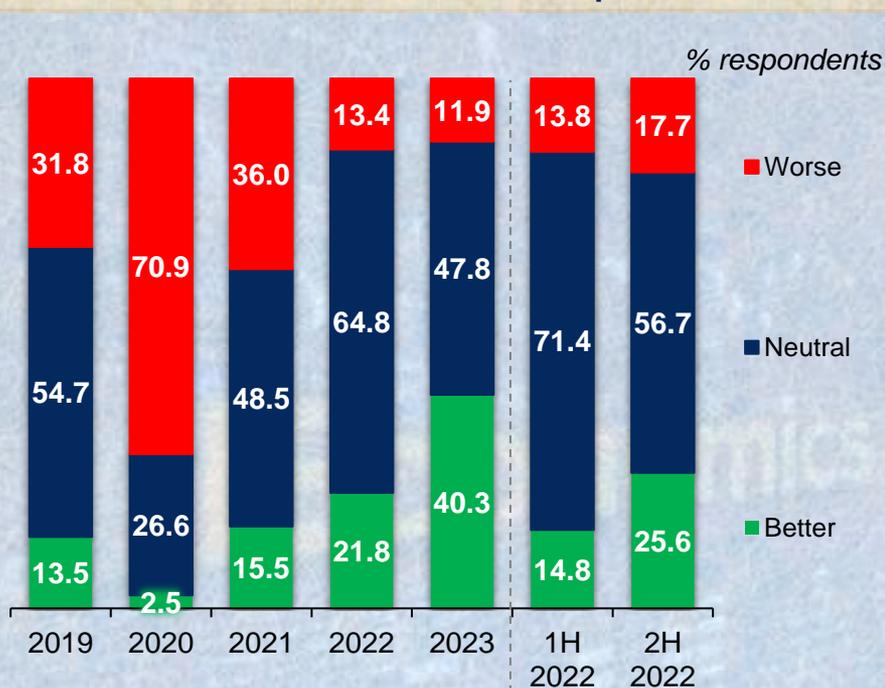


Note: Figure in [] indicates the ranking in 2H 2021.

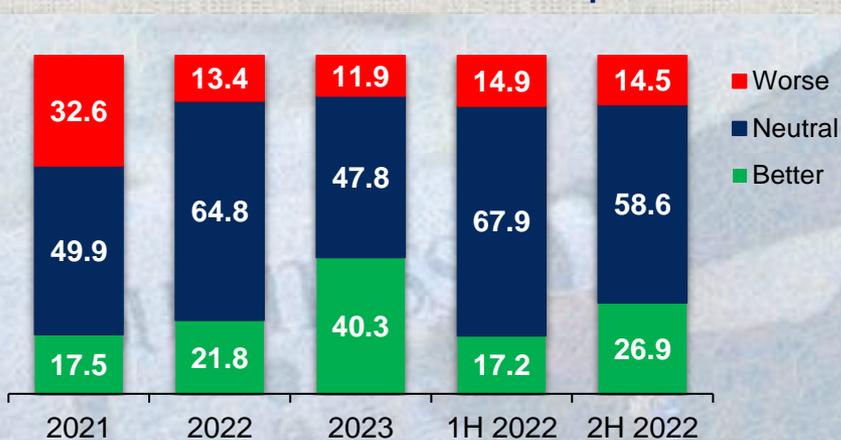
Businesses expect still challenging economic recovery

Preliminary results of ACCCIM M-BECS, 1H 2022 and 2H 2022F

Current Condition and Economic Prospects



Current Condition and Business Prospects



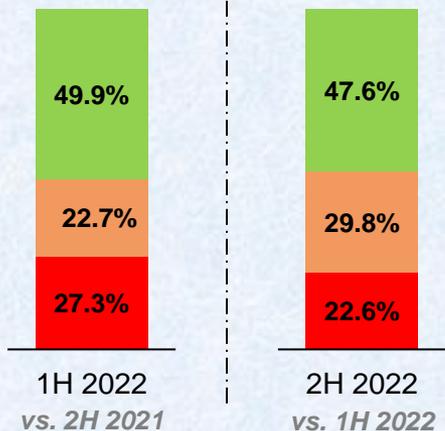
Cash Flow Conditions



While the sales performance have improved...

Overall Sales

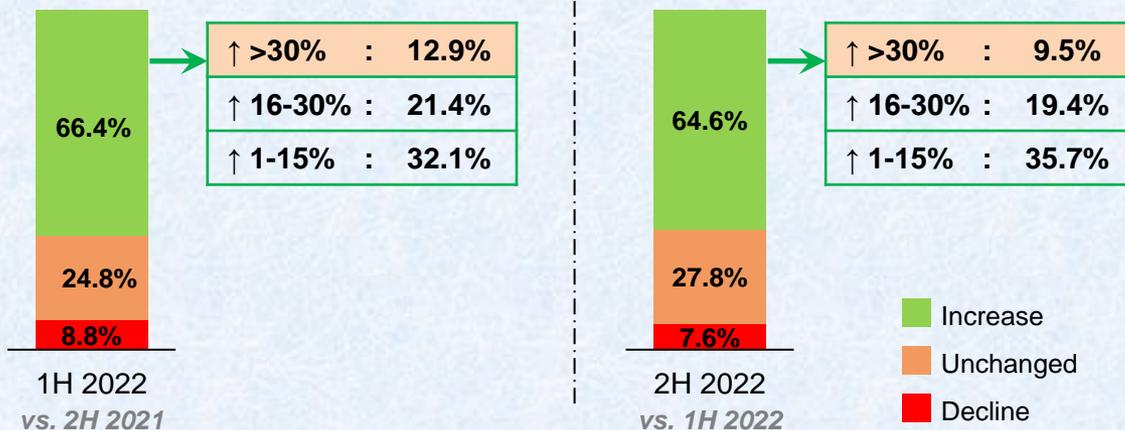
% respondents



- ✓ Recovering domestic demand
- ✓ Increased in sales also due to **price effect**
- ✓ Increased costs have squeezed profit margin due to partial price pass-through

Domestic Sales Price

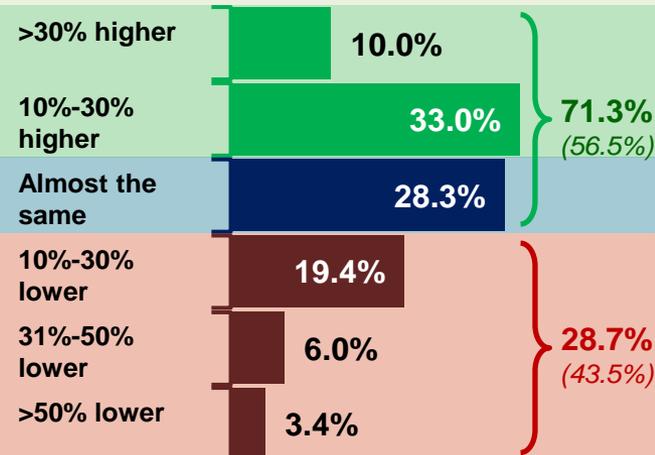
% respondents



Business recovery process continues, albeit unevenly

Sales Performance

Compared to pre-pandemic % respondents



Notes: Figure in bracket refers to sales in 2H 2021

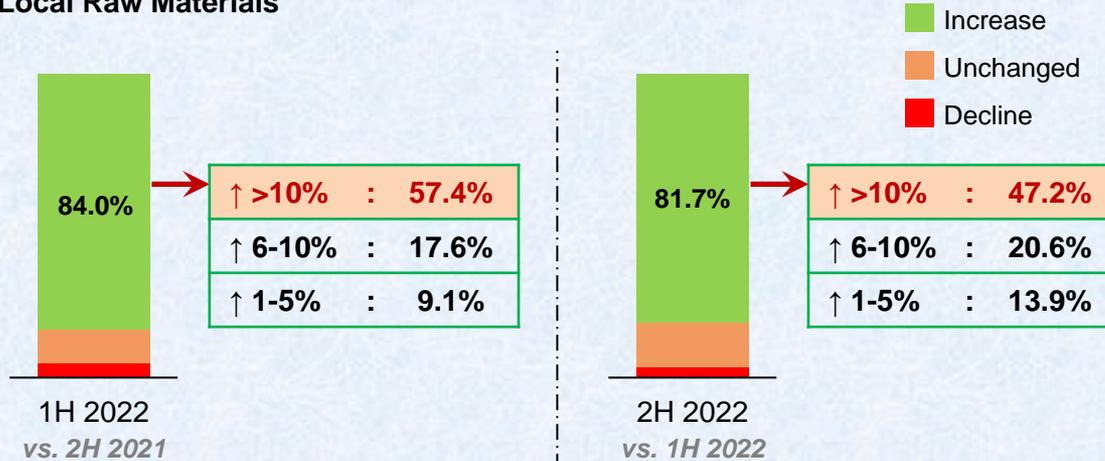


Cost of raw materials has increased substantially

Expect raw materials prices to increase further in 2H 2022, albeit at slower rate

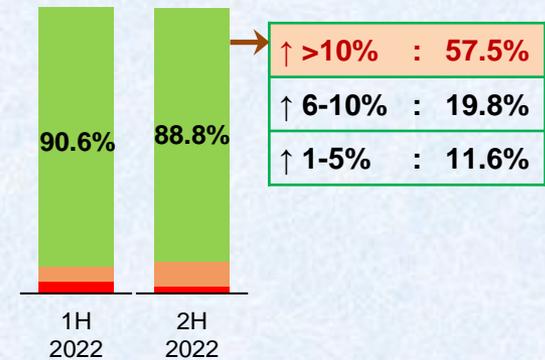
% respondents

Local Raw Materials



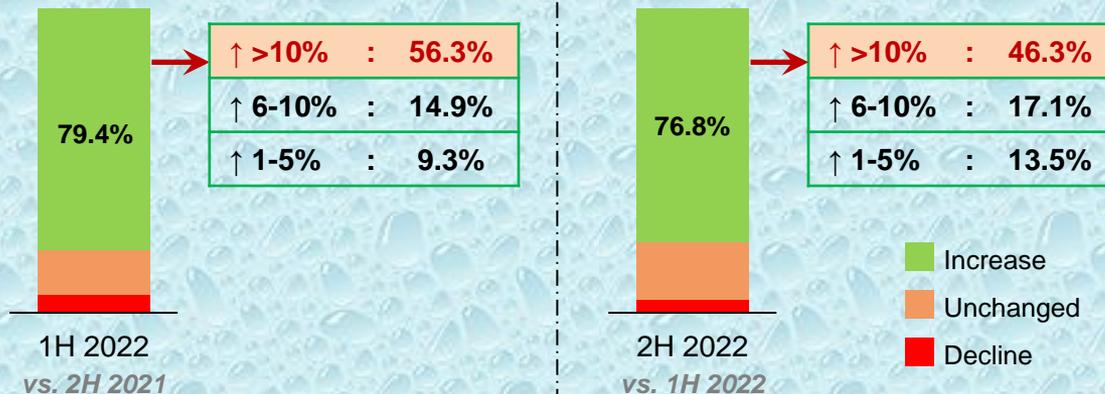
Manufacturing and construction sectors most affected

Manufacturing Sector

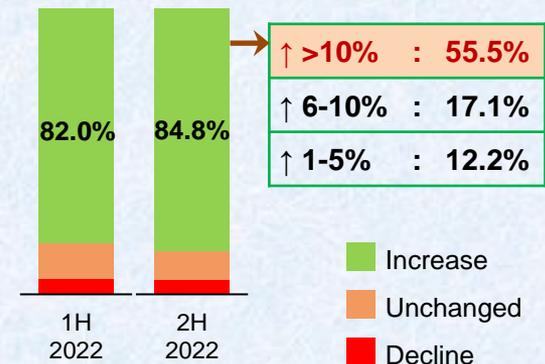


Imported Raw Materials

% respondents

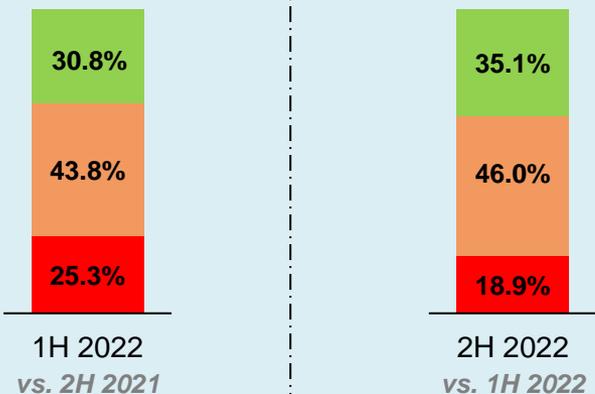


Construction Sector

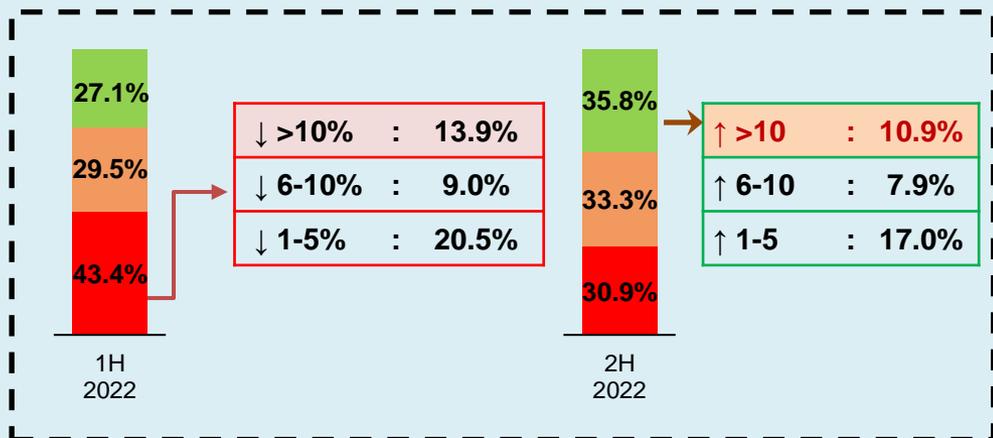


Stable employment and wage conditions

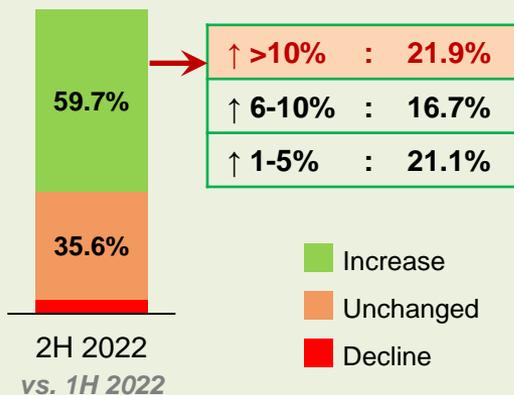
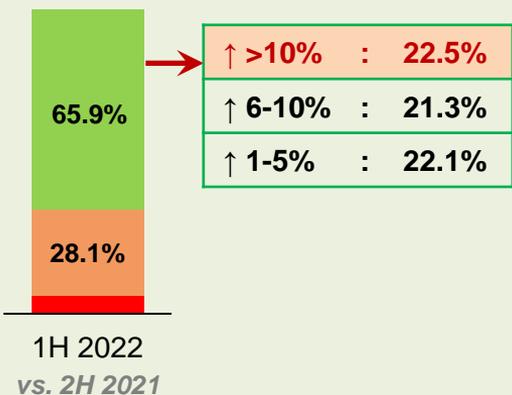
Number of employees



Manufacturing Sector



Salary increment

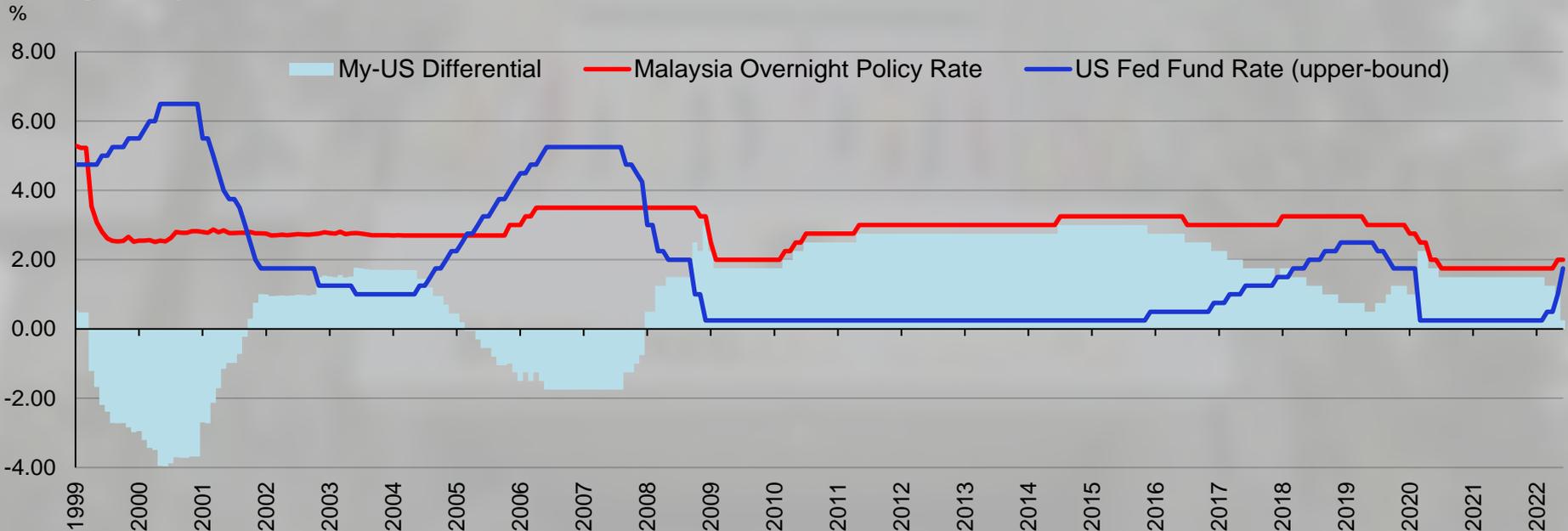




How high will interest rates go?

- ✓ Balance between growth and inflation
- ✓ Remove accommodation to rebuild the buffer
- ✓ Anchor inflation expectations
- ✓ Prolonged period of low-interest rates can induce financial imbalances by reducing risk aversion of banks and other investors as well as borrowers
- ✓ Narrow monetary divergence on a synchronised global monetary tightening
- ✓ Baby step and not successive hikes so as not to temper the economic recovery path
- ✓ **Expect BNM's overnight policy rate (OPR) to reach 2.50% in 2022 and 3.00% in 2023**

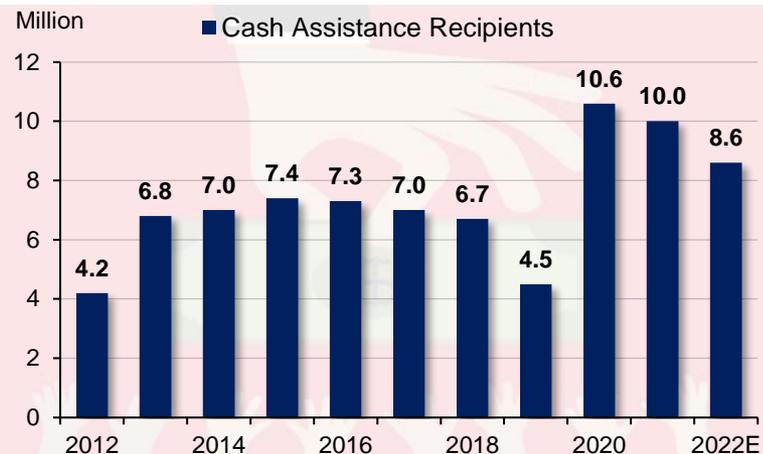
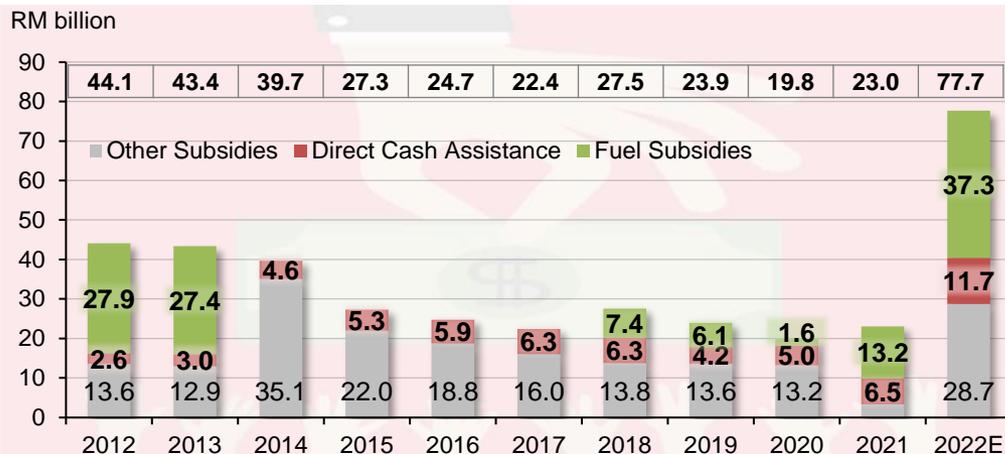
Overnight Policy Rate vs. Fed Fund Rate



Source: BNM; Federal Reserve

Note: BNM adopted Overnight Policy Rate (OPR) as policy rate since 2004.

Bloated subsidies raise concern about fiscal sustainability



Year	% of Operating Expenditure (OE)	% of Total Revenue	% of GDP	Year	% of Operating Expenditure (OE)	% of Total Revenue	% of GDP
2012	21.4 (1.3)	21.2 (1.3)	4.5 (0.3)	2020	8.8 (2.2)	8.8 (2.2)	1.4 (0.4)
2013	20.5 (1.4)	20.3 (1.4)	4.3 (0.3)	2021	10.0 (2.8)	9.9 (2.8)	1.5 (0.4)
2014	18.1 (2.1)	18.0 (2.1)	3.6 (0.4)	2022*	26.4 (2.7)	31.2 (3.2)	4.6 (0.5)
2015	12.6 (2.4)	12.4 (2.4)	2.3 (0.5)				
2016	11.7 (2.8)	11.6 (2.8)	2.0 (0.5)				
2017	10.3 (2.9)	10.1 (2.9)	1.6 (0.5)				
2018	11.9 (2.7)	11.8 (2.7)	1.9 (0.4)				
2019	9.1 (1.6)	9.0 (1.6)	1.6 (0.3)				

Note:
 Direct cash assistance schemes as per announcement made in the Budget for 2020-2021, excluding other cash assistance schemes.
 Figure in parenthesis refer to % share of direct cash assistance over total operating expenditure (OE), total revenue and GDP.
 * Adjusted OE upward by RM60,348 million as a result of higher subsidies (RM77.7 billion – budgeted RM17.4 billion); adjusted total revenue upward by RM15,000 million on potential additional petroleum-related revenue

Source: Ministry of Finance (MOF); Inland Revenue Board (IRB); BNM; Various news

2023 Budget: Sustainable & Structural Reforms

The 2023 Budget and fiscal strategies must take a balanced approach to reinforce the recovery, and grow the economy sustainably through strengthening economic and financial resilience and radical structural reforms.



Can the Government afford another year of “**WOW**” Budget?



“Rebalancing and Reordering” Budget – Fiscal deficit at 5.6%-5.8% of GDP in 2023B (2022E: -6.2% of GDP; 2021:-6.4% of GDP)



Resume fiscal rules to carefully manage **deficit, debt and expenditure** while planning for the future.



Rebuild fiscal space for responding to future shocks.

What's potentially next after GE 15? In 4Q 2022 or 1Q 2023?



Malaysia needs a **BIG RESET BUTTON**; **NO TIME TO WASTE**;
NOTHING IS IMPOSSIBLE
IF THERE IS A STRONG POLITICAL WILL



Business operating environment



Electricity (subsidy 11.81 cts/kWj: 51.76 market price vs. subsidised price 39.95) and gas prices



Wage pressure – tight labour market



Fuel subsidy rationalization (transportation cost)
RON 95: Subsidy RM2.70/litre (Market price of RM4.75 vs. RM2.05)

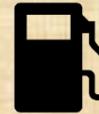


Multi-tier levy system (The original date of implementation on July 2022 has been deferred)

Consumer inflation pressures



Electricity and gas



Subsidy rationalisation starting with fuel



GST – One-off? GST rate of 4%; implementation in 2024; at least 6-12 months preparation



Food inflation; transportation; services





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谢谢
THANK YOU

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