



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

**QUARTERLY ECONOMY
TRACKER (OCT-DEC 2016)**



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2017 Macroeconomic outlook

2

Issues and challenges ahead

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Conclusion

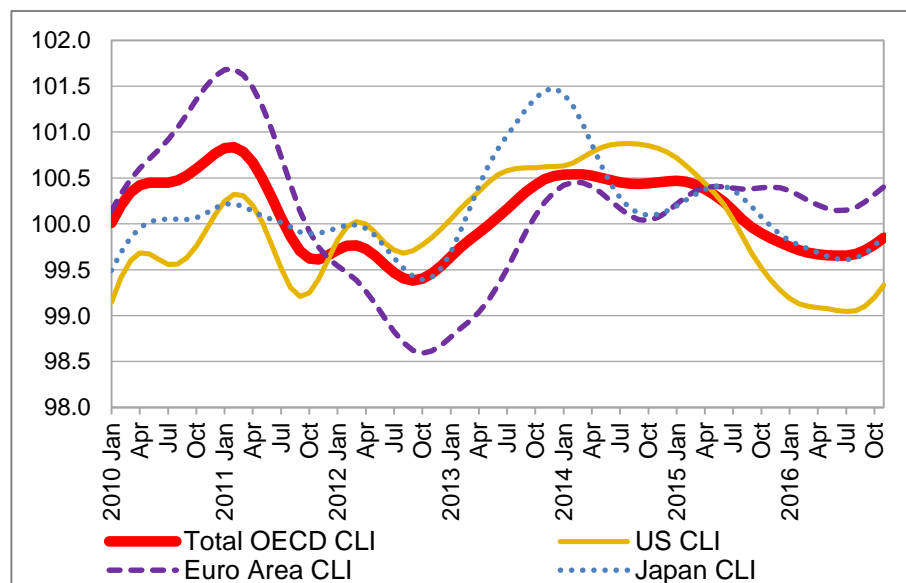
Still challenging external environment...



THE GLOBAL ECONOMY IS MUDDLING THROUGH...

- Global growth hovers around 3.1% in 2016 and 3.4% in 2017
- Slight acceleration of growth in the US; a modest recovery in eurozone and Japan
- China's growth reassuring amid growing worries about high debt risk

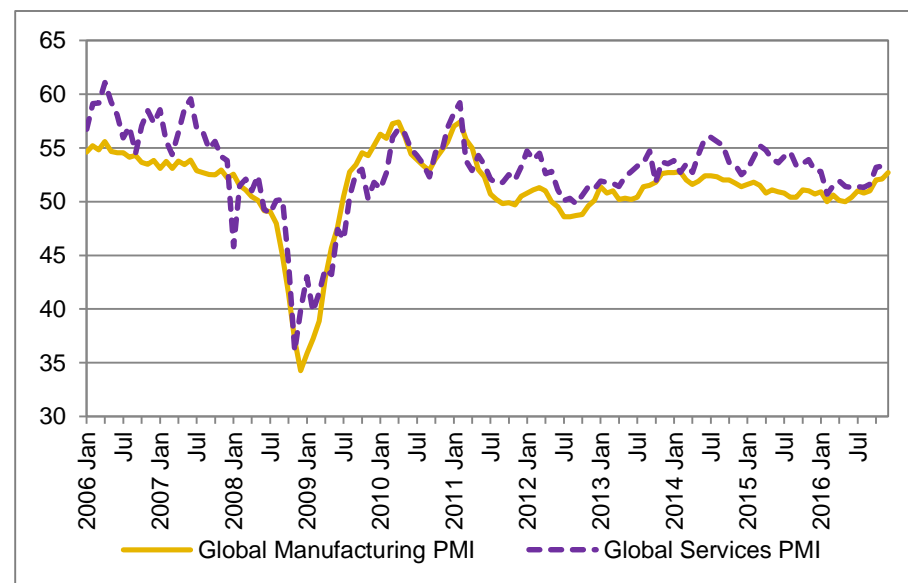
OECD CLI points to picking up global growth momentum



Source: OECD

CLI = Composite Leading Indicators

Global PMI for manufacturing and services showed continued expansion



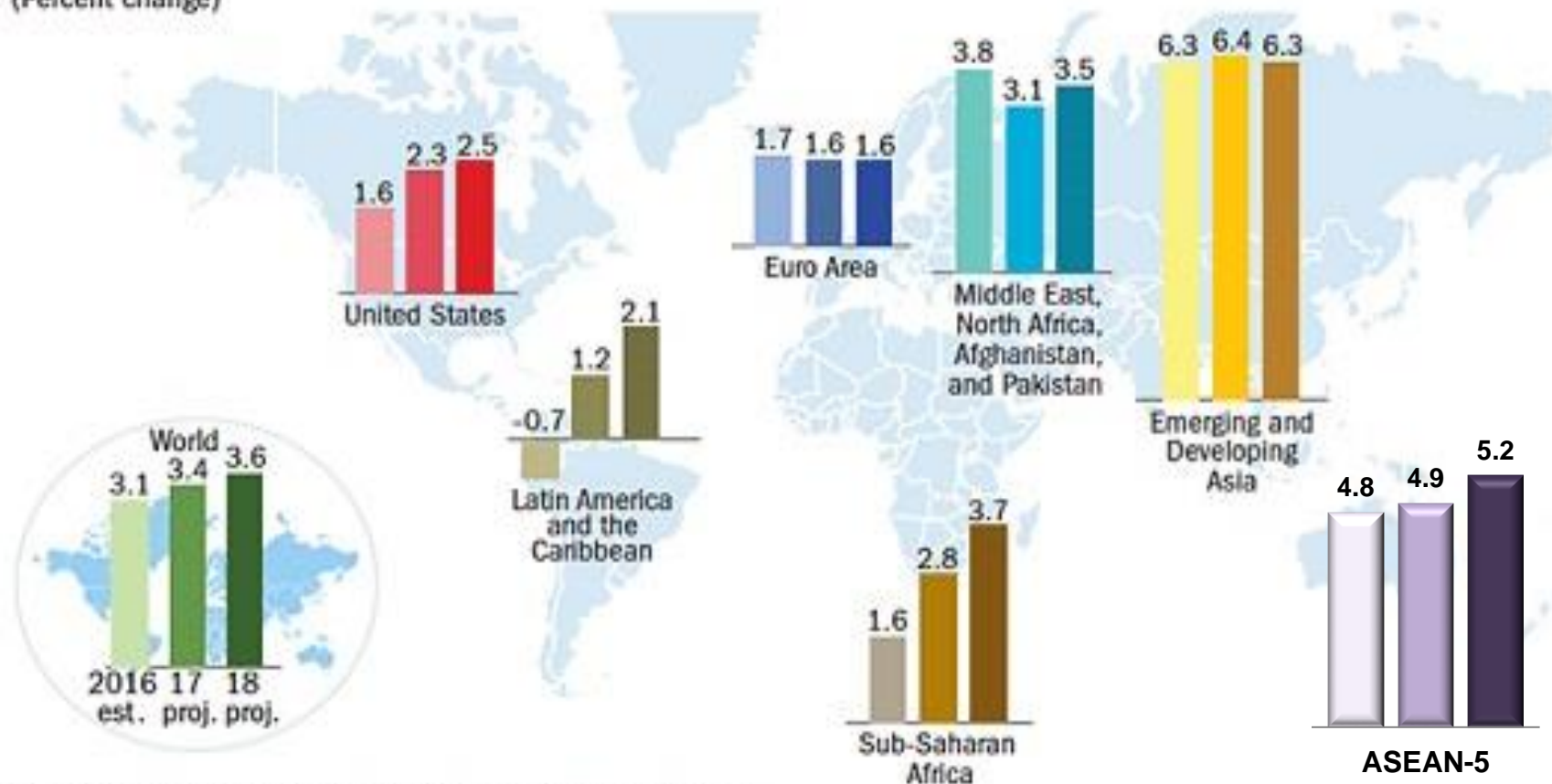
Source: Markit

PMI = Purchasing Managers' Index

Latest growth projections

Global economic activity is set to pick up in 2017-18

(Percent change)



Source: IMF, January 2017 *World Economic Outlook* update.

Note: Order of bars for each group indicates (left to right): 2016 estimate, 2017 projections, and 2018 projections.

Real GDP Growth (% YoY)

	2014	2015	2016 Q1	2016 Q2	2016 Q3	2016e (IMF)	2016e (WB)	2017f (IMF)	2017f (WB)
United States	2.4	2.6	1.6	1.3	1.7	1.6	1.6	2.3	2.2
Euro Area	1.2	2.0	1.7	2.3	1.5	1.7	1.6	1.6	1.5
China	7.3	6.9	6.7	6.7	6.7	6.7	6.7	6.5	6.5
Japan	0.3	1.2	0.4	0.9	1.1	0.9	1.0	0.8	0.9
India¹	7.2	7.6	7.9	7.1	7.3	6.6	7.0	7.2	7.6
Malaysia	6.0	5.0	4.2	4.0	4.3	4.2	4.2	4.5	4.3
Singapore	3.3	2.0	2.1	2.1	1.2	1.7	-	2.2	-
Indonesia	5.0	4.8	4.9	5.2	5.0	5.0	5.1	5.1	5.3
Thailand	0.8	2.8	3.2	3.5	3.2	3.2	3.1	3.3	3.2
Philippines	6.2	5.9	6.8	7.0	7.1	6.4	6.8	6.7	6.9
Vietnam	6.0	6.7	5.5	5.8	6.6	6.1	6.0	6.2	6.3

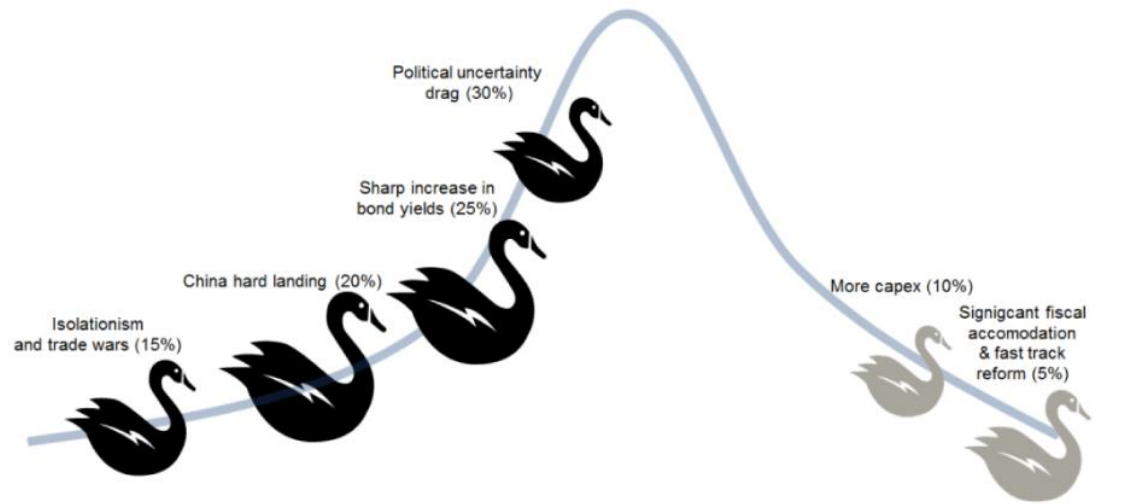
Source: Officials; IMF (World Economic Outlook, October 2016 & January 2017, Recent Article IV Mission Reports); World Bank (Global Economic Prospects, January 2017)

Note 1: Annual GDP for India is on fiscal year basis, as per reporting practice of the country

WHAT ARE THE RISKS FACING THE GLOBAL ECONOMY?



SG Swan Chart



Downside risks to the growth outlook

Upside risks to the growth outlook

The y-axis gives an indication of how probable we consider a risk factor to be. The size of the swans gives an indication of how important the impact of that event materialising would be in terms of its upside or downside shock to the outlook.

Source: SG Cross Asset Research/Economics

... MORE RISKS TO THE DOWNSIDE THAN TO THE UPSIDE

- ✓ **The Trump factor** - shaping of economic plans; how will it impact the US and world economy?
- ✓ **The Fed's call** – Gradual path or more aggressive?
- ✓ **Unresolved issues related to post Brexit**
- ✓ **Political outcomes** in France, Germany and Netherland that will be having their national or Presidential elections
- ✓ **China Watch** - high debt risks; Renminbi's devaluation risk?
- ✓ **Geopolitical risks**

The challenge is policymakers are prepared, willing and able to take control to boost economic growth and address the risks

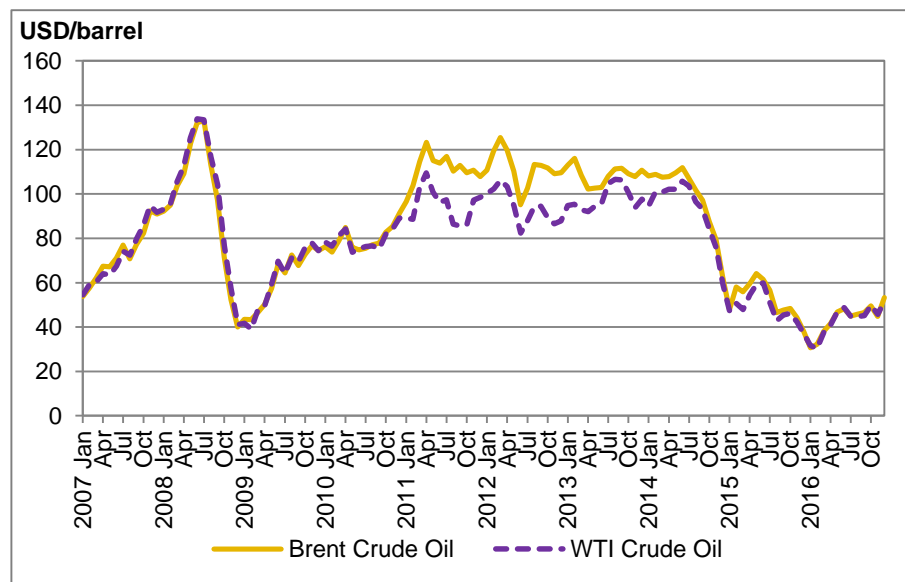
TRUMP, REFLATION & DOLLAR WILL DEFINE THE YEAR

- A **much more aggressive run of rate increases** can cause more uncertainty in markets
- **Financial and exchange rate volatility will continue** as the prospects of higher US interest rates and a stronger dollar will spur more capital outflows due to a compressed yields differential
- Many **emerging market currencies are already under pressure** due to decreasing prospects for growth, low commodity prices, declining productivity and a stronger dollar
- Emerging markets with **dollar-denominated debt will face a hard time paying off high cost** of servicing dollar debt
- **Weakening Asian currencies** will probably **deter** regional central banks from **easing monetary policies**

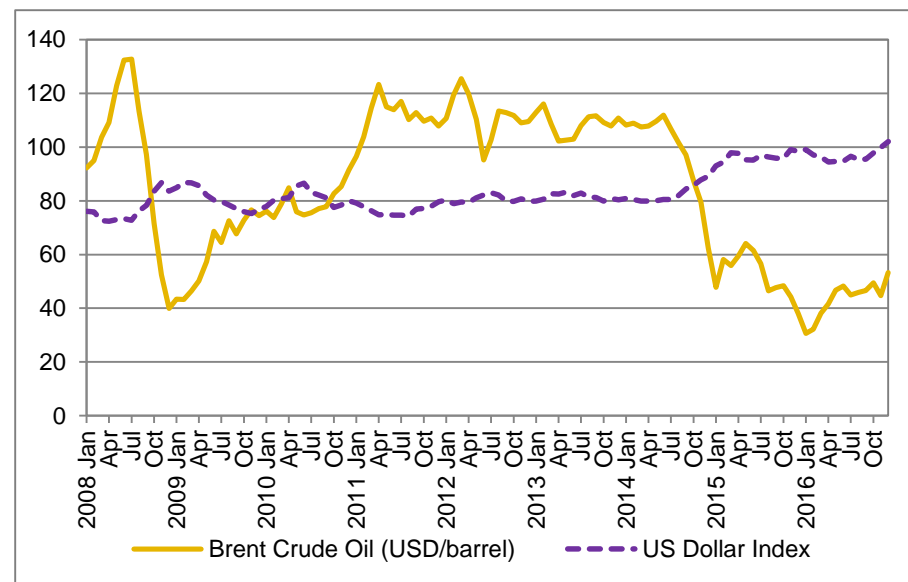
IS THE WORST OVER FOR CRUDE OIL?

- Oil prices should continue to grow modestly in 2017(estimated US\$50-60 per barrel)
- What could derail the oil markets balance: 1) a high degree of compliance among OPEC members; 2) weak global demand; 3) high oil price incentivizes the US shale producers to increase production; and 4) strong US dollar

OPEC's oil cut deal helps to boost oil prices



Oil prices vs the dollar index



Source: US Energy Information Administration; The Wall Street Journal

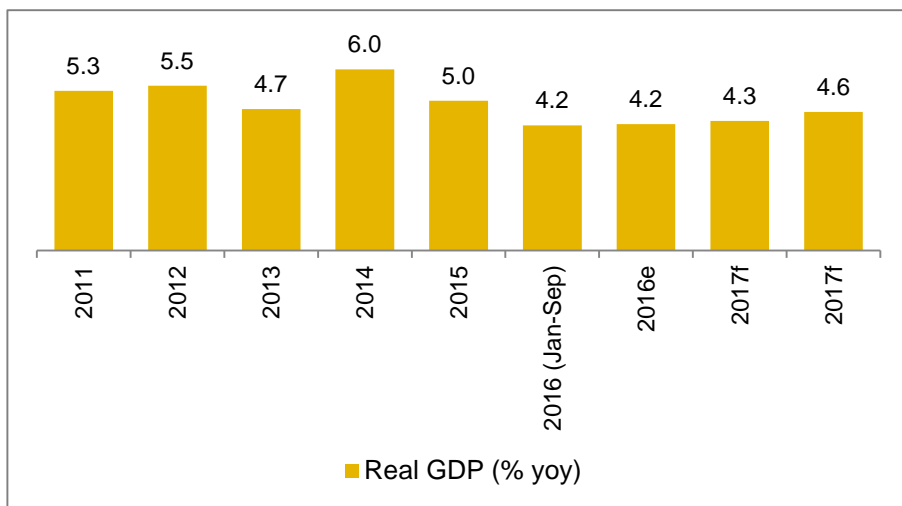
Malaysia: Be prepared to face looming challenges



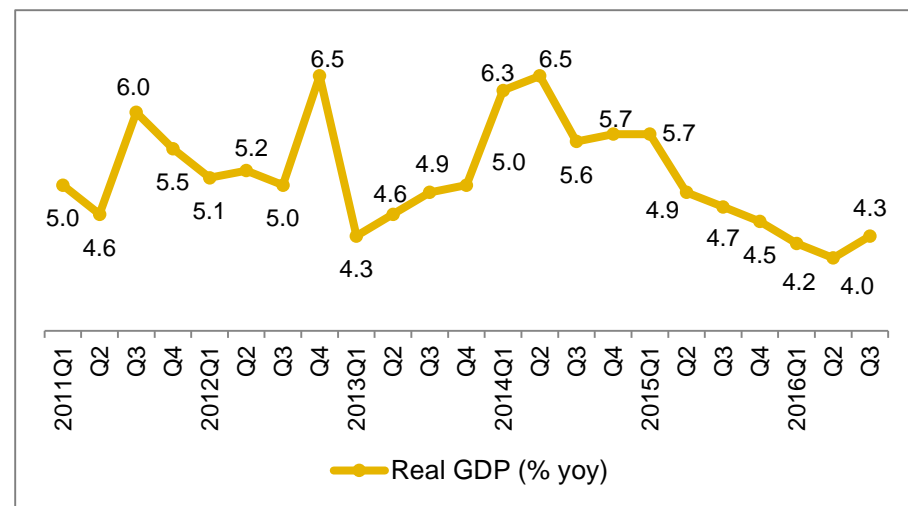
MALAYSIA: IS THE SLOWDOWN HERE TO STAY?

- **2017's growth outlook** shows a **cautiously positive trend of 4.3%** (estimated 4.2% in 2016 and 5.0% in 2015)
- What could possibly lift economic growth higher? **Stronger domestic demand and firmer external demand** if higher energy and commodity prices provide a small tailwind
- Is the latest ringgit volatility symptomatic of more perfect storm to come?
- What can the policy makers do to withstand the volatility?
- What should our policies focus on to prepare the country for the coming years?

Still positive growth trajectory (% YoY)



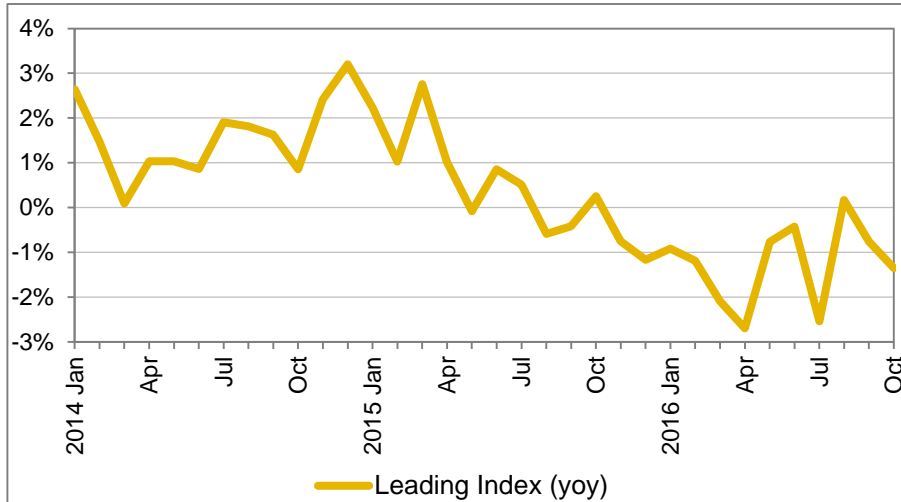
Deceleration in GDP growth has bottomed out



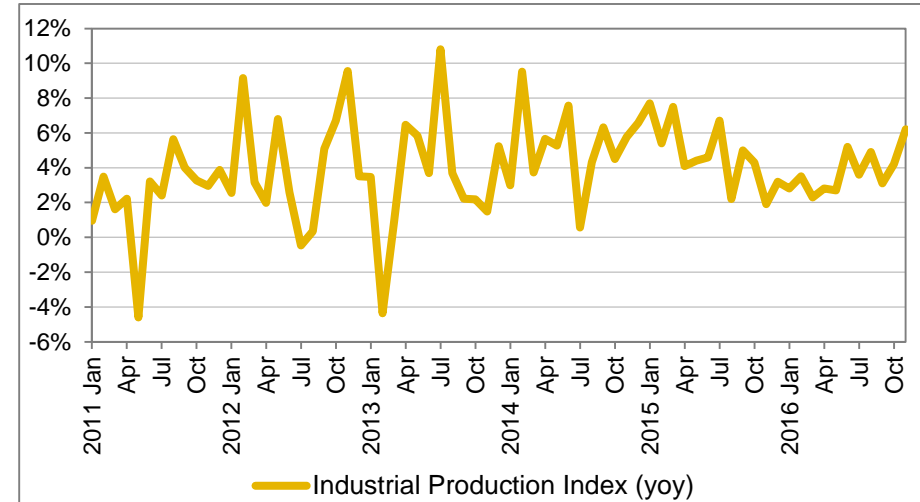
Source: Department of Statistics, Malaysia; SERC estimate and forecast

REAL ECONOMIC INDICATORS SHOW MIXED TRENDS

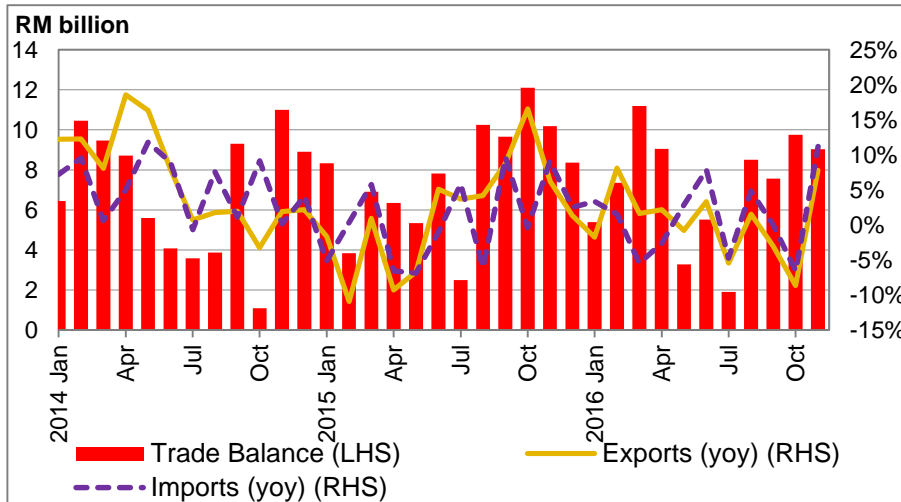
Leading index suggests moderate growth ahead



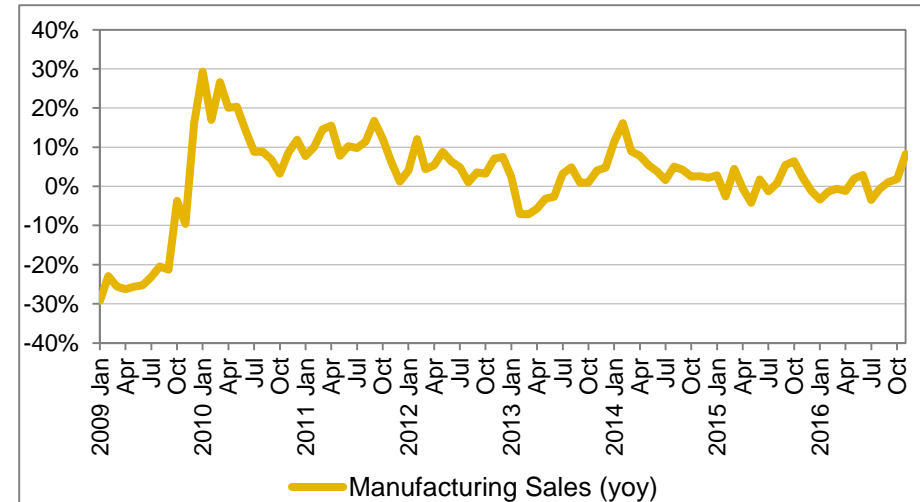
Industrial production grew steadily



Uneven export growth



Manufacturing sales continue to expand

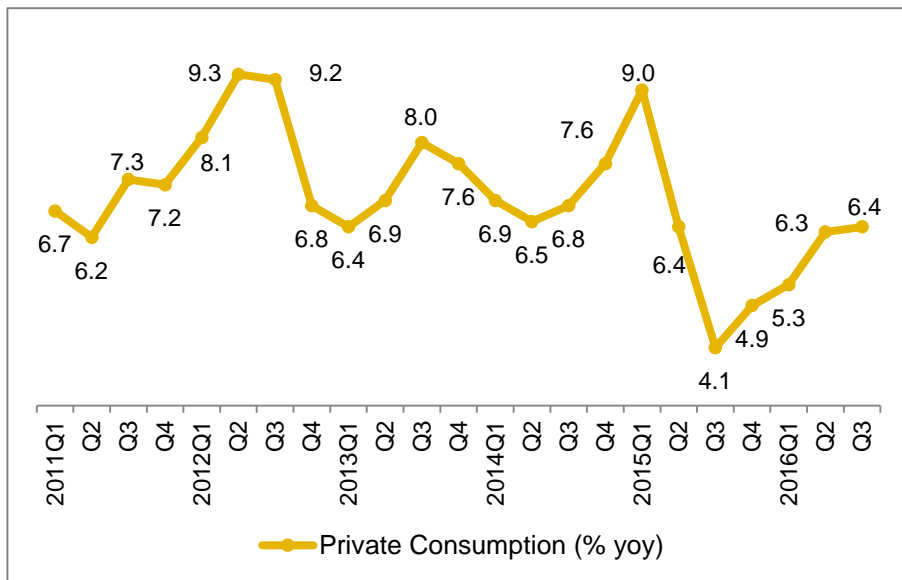


Source: Department of Statistics, Malaysia

DOMESTIC DEMAND STILL CALLING THE SHOTS

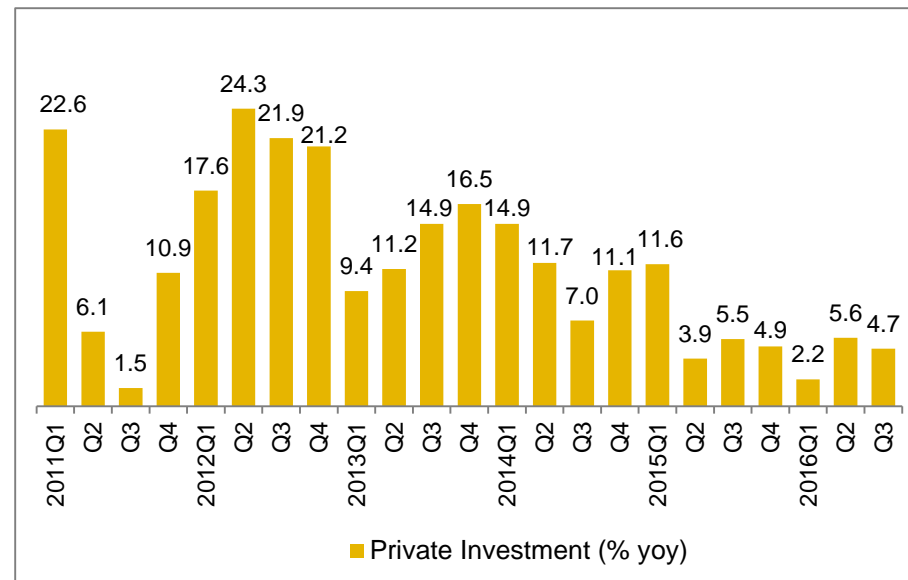
- **Discretionary consumer spending** (estimated private consumption growth of 5.3% in 2017 vs. est. 5.9% in 2016 and an average of 7.1% pa in 2011-15)
- **Private investment continues but not robust** (estimated 5.2% in 2017 vs. est. 4.2% in 2016 and an average growth of 12.1% pa in 2011-15)
- Some form of **trade-offs and substitutions** have to be made due to the ringgit's depreciation

Concerns about the strength of consumer spending



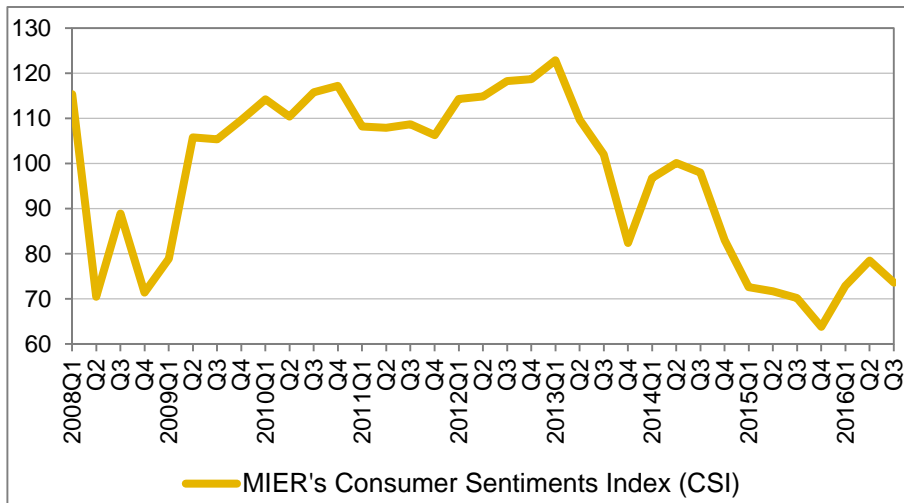
Source: Bank Negara Malaysia

Private investment growth remains uneven

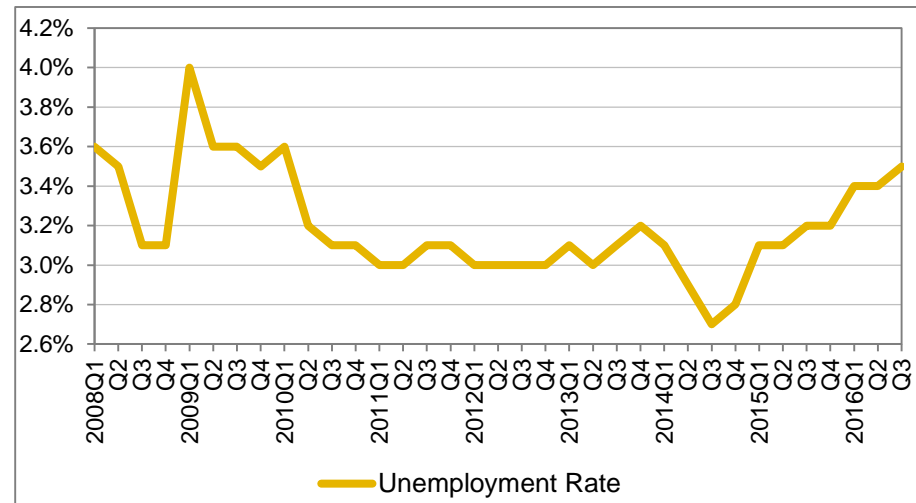


DISCRETIONARY CONSUMER SPENDING

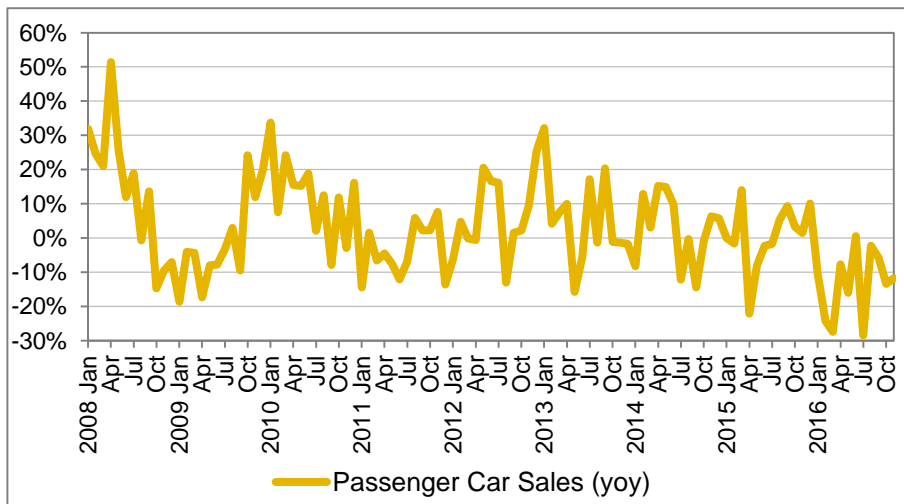
Consumer sentiments remain cautious



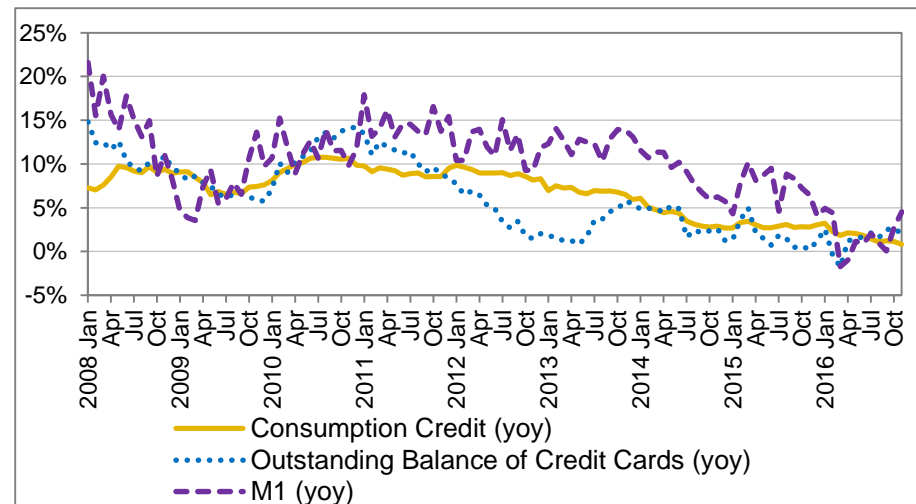
Jobless rate of 3.5% (3Q'16) highest since 2Q'10



New models provide a lift to demand



Still soft private consumption indicators

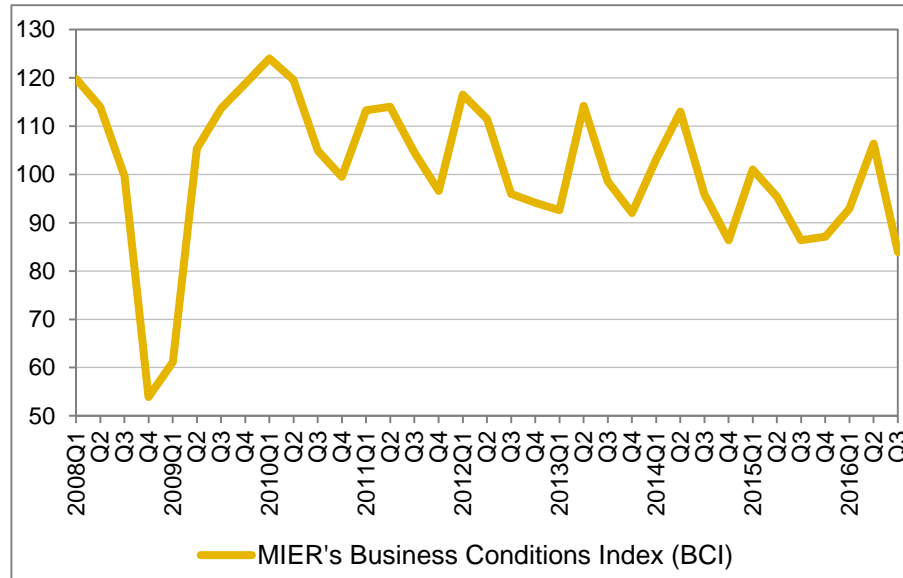


Source: Department of Statistics, Malaysia; Bank Negara Malaysia; Malaysian Institute of Economic Research (MIER)

PRIVATE INVESTMENT GROWING ALBEIT MODERATELY

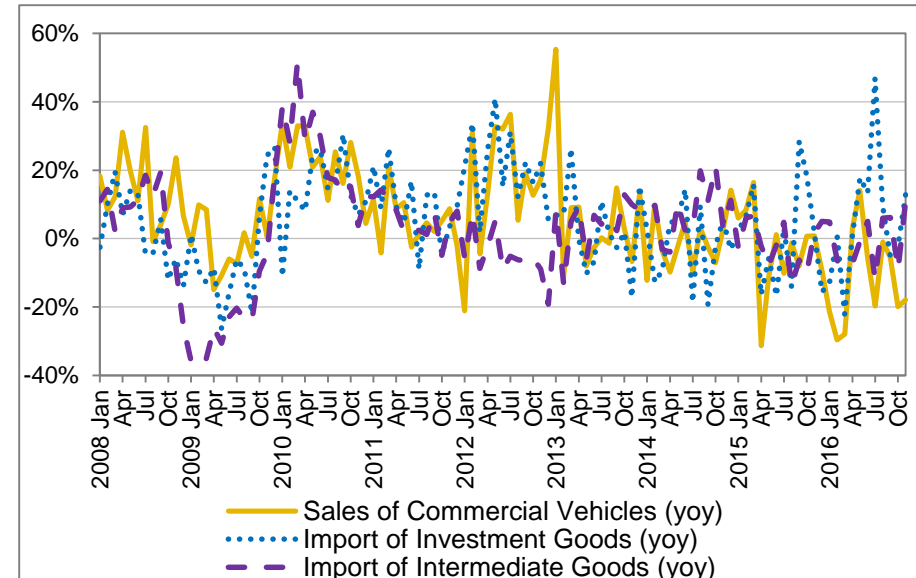
- **Cautious investment approach** by considering global and domestic economic conditions
- **Uncertainty associated with Trump's reflationary policies, weakening ringgit and rising cost pressures** will pose challenges to businesses
- The on-going implementation of public transportation-related infrastructure projects and continued investments in manufacturing and services should help private investment

Business confidence slips on slowdown in overall sales and production



Source: Malaysian Institute of Economic Research (MIER)

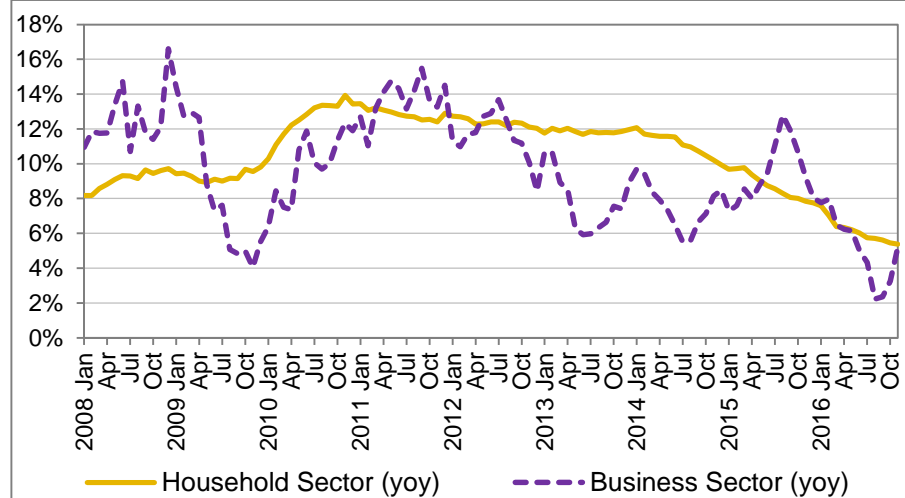
Private investment indicators show mixed outcomes



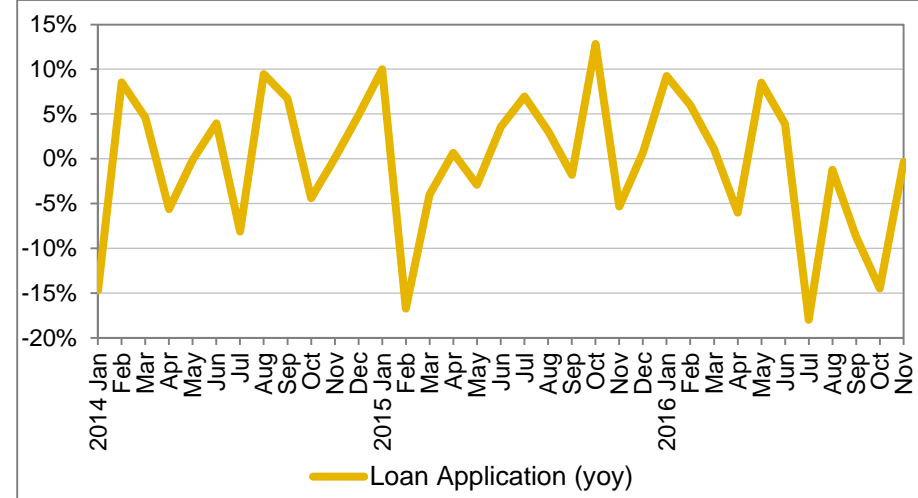
Source: Department of Statistics, Malaysia; Bank Negara Malaysia

MODERATED HOUSEHOLDS AND BUSINESS LOAN GROWTH

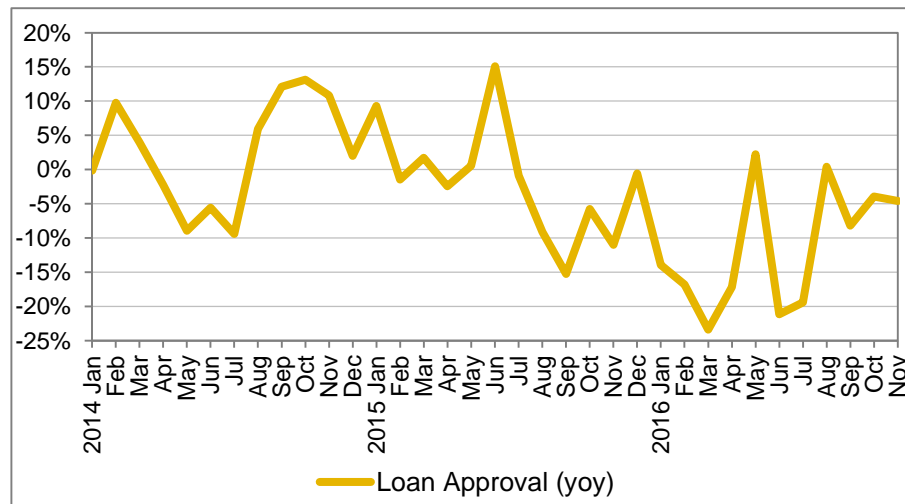
Business loans growth edged higher while household loans stable



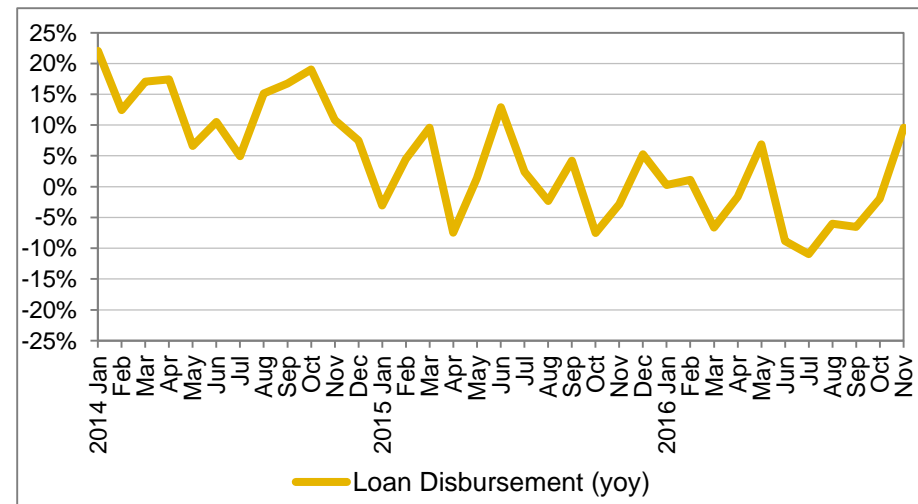
Loan applications declined for five consecutive months



Loan approvals remained low



Loan disbursements turned positive in November

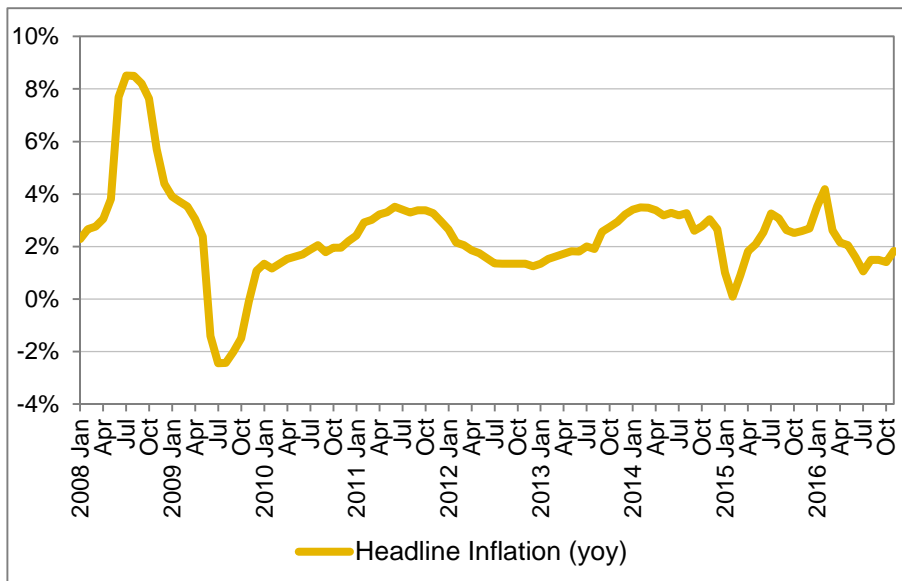


Source: Bank Negara Malaysia

BANK NEGARA MALAYSIA IN HORNS OF A DILEMMA

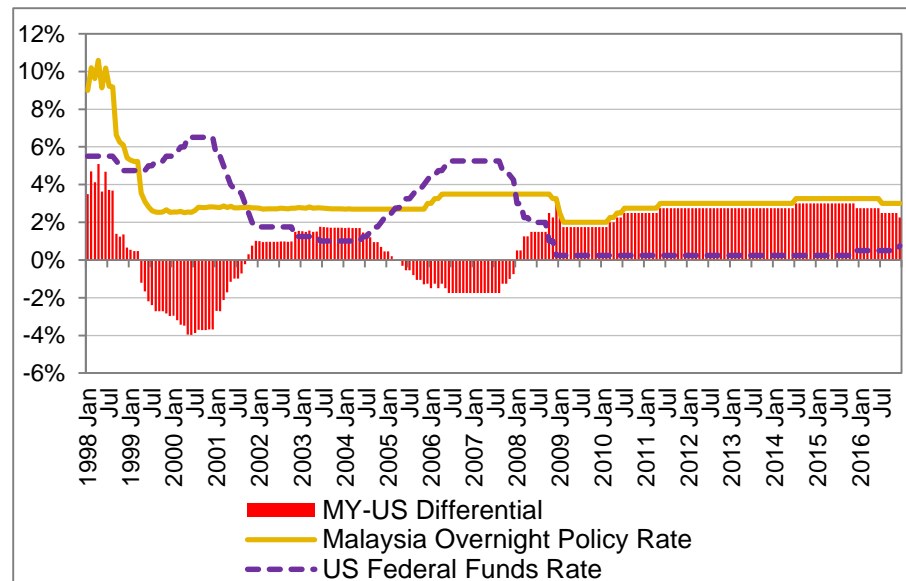
- **Supportive interest rates** to anchor growth and inflation expectations
- **Higher US rate and weaker ringgit** places a constrain on monetary easing
- The decisive factors: **GDP momentum and the ringgit's stability**
- **But, if the GDP growth is seriously under threat slipping below 4%**, Bank Negara Malaysia may compel to cut interest rates even at the expense of much weaker ringgit
- For now, we expect **BNM to keep the overnight policy rate (OPR) status quo at 3.0% for 2017**

Inflation will rise higher
(est. 2.5% in 2017 vs. 2.1% in 2016)



Source: Department of Statistics, Malaysia

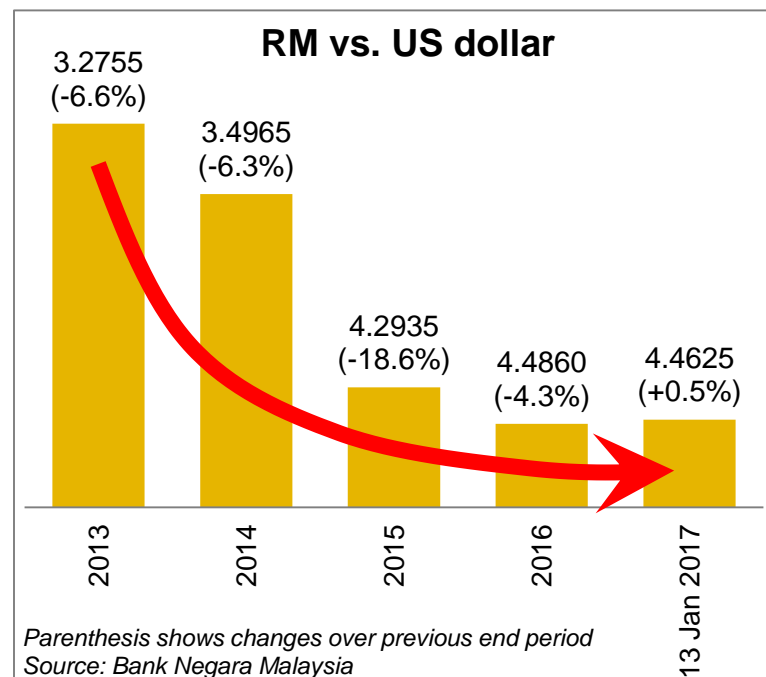
Malaysia-US interest rate differential narrows



Source: Bank Negara Malaysia; Federal Reserve

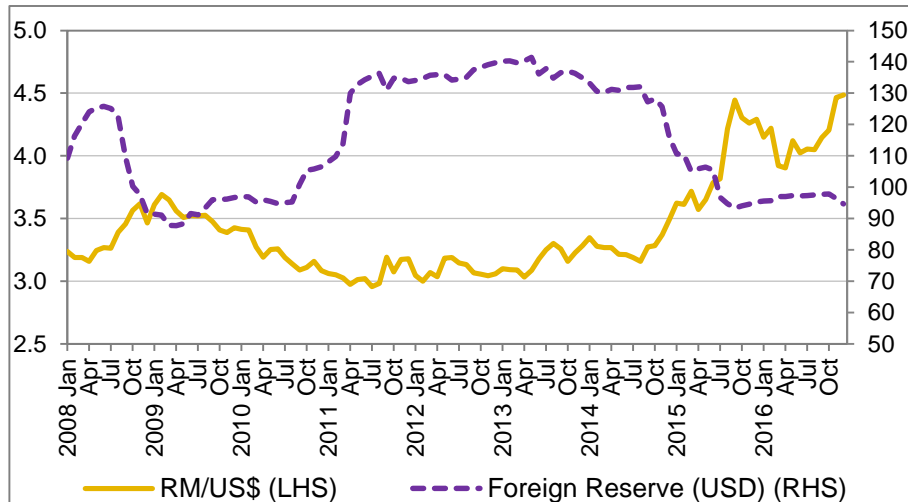
THE RINGGIT CONUNDRUM

- In times of extreme uncertainty, **one should not be fixated by the level of exchange rate**; the ringgit's stability remains the outmost priority
- The ringgit is not reflective of its fundamental value; **external headwinds as well as negative sentiments and perceptions** drag down the ringgit
- The ringgit will continue to remain under pressure - capital flows volatility, the prospect of higher US interest rates, domestic interest rate policy and inflation outlook
- BNM's assertive measures to contain the influence of non-deliverable forward market on the ringgit, deepen the onshore ringgit market as well as capping the retention of export proceeds in foreign currency account will help to enhance demand for ringgit
- We project **the ringgit to be around RM4.20-4.40 against USD by end-2017** (RM4.4860 at end-2016)

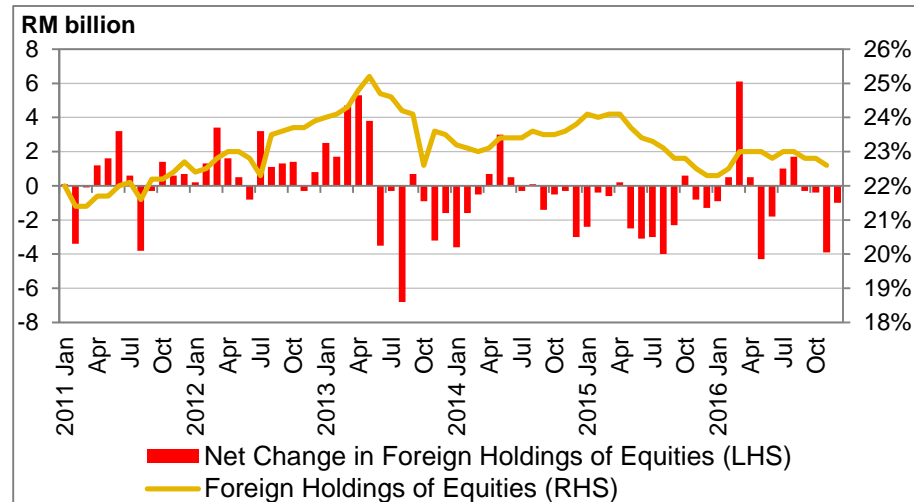


RINGGIT REMAINS VULNERABLE

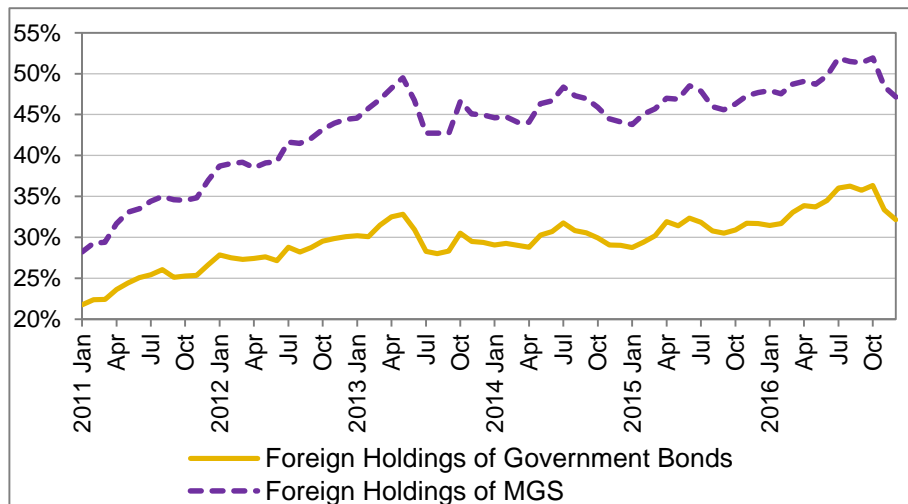
RM/US\$ vs. foreign reserves



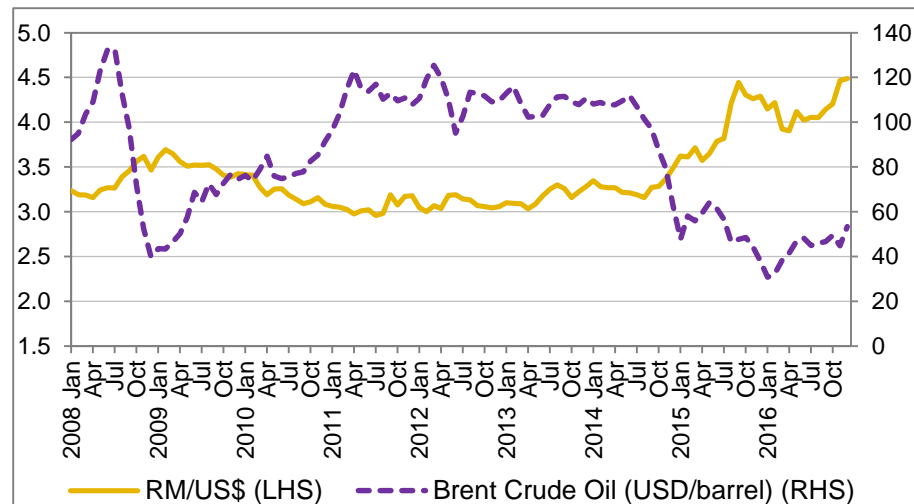
Foreign holdings of Malaysian equities



Foreign holdings of MGS and bonds



RM/US\$ vs. oil price

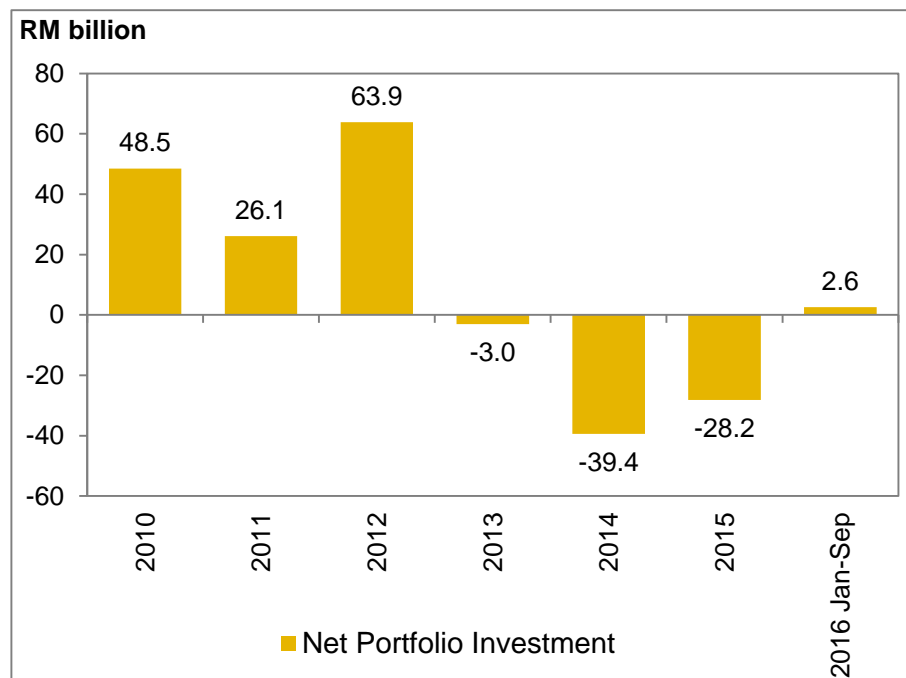


Source: Bank Negara Malaysia; US Energy Information Administration; Bloomberg; Bursa Malaysia

CAPITAL FLOWS VOLATILITY AND RINGGIT

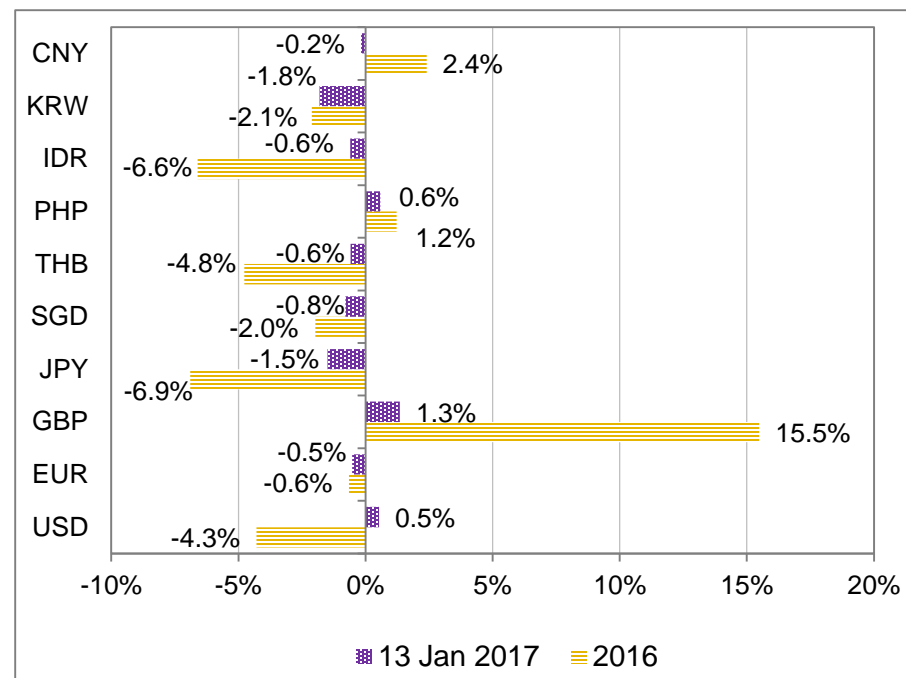
- Portfolio investment recorded net inflows of RM2.6 billion in first nine months of 2016, dragged by four consecutive months of equities outflows and a large-scale of bond market sell-off
- The ringgit down against the US dollar for four years in a row. It offs to a weak start in early weeks of January 2017

Portfolio investment trend



Source: Bank Negara Malaysia

Ringgit depreciated against most currencies in 2016



Source: Bank Negara Malaysia

MALAYSIA: GDP GROWTH ESTIMATES (DEMAND & SUPPLY)

GDP by Demand Component (% YoY)

Demand Component [% share to GDP in 2017*]	2014	2015	2016 Q1	2016 Q2	2016 Q3	2016e (MOF)	2016e (SERC)	2017b (MOF)	2017f (SERC)
Private Consumption [54.2%]	7.0	6.0	5.3	6.3	6.4	6.1	5.9	6.3	5.3
Public Consumption [12.4%]	4.3	4.4	3.8	6.5	3.1	0.2	4.3	0.4	0.9
Private Investment [17.2%]	11.1	6.4	2.2	5.6	4.7	5.3	4.2	5.8	5.2
Public Investment [8.4%]	-4.7	-1.0	-4.5	7.5	-3.8	1.7	-0.3	1.1	2.2
Exports of Goods and Services [69.0%]	5.0	0.6	-0.5	1.0	-1.3	0.7	-0.3	2.5	1.3
Imports of Goods and Services [61.3%]	4.0	1.2	1.3	2.0	-2.3	1.4	0.4	2.6	2.2
Overall GDP	6.0	5.0	4.2	4.0	4.3	4.0-4.5	4.2	4.0-5.0	4.3

GDP by Economic Sector (% YoY)

Economic Sector [% share to GDP in 2017*]	2014	2015	2016 Q1	2016 Q2	2016 Q3	2016e (MOF)	2016e (SERC)	2017b (MOF)	2017f (SERC)
Agriculture [8.0%]	2.1	1.2	-3.8	-7.9	-5.9	-3.3	-5.0	1.5	1.0
Mining & Quarrying [8.4%]	3.5	4.7	0.3	2.6	3.6	1.1	1.8	1.4	2.0
Manufacturing [22.8%]	6.2	4.9	4.5	4.1	4.2	4.0	4.2	4.1	4.2
Construction [4.7%]	11.7	8.2	7.9	8.8	7.9	8.7	8.5	8.3	8.8
Services [54.8%]	6.6	5.1	5.1	5.7	6.1	5.6	5.6	5.7	5.0
Overall GDP	6.0	5.0	4.2	4.0	4.3	4.0-4.5	4.2	4.0-5.0	4.3

Source: Department of Statistics, Malaysia; Bank Negara Malaysia (Annual Report 2015)

* % Share to GDP of 2017b by MOF

WHAT NEEDS TO BE DONE?

- Must take all necessary actions and initiatives to strengthen our **economic fundamentals, restore confidence and address the growing public trust deficit**
- Policy makers must remain vigilant, holding tight the reins on **credible economic and financial management policies** to keep the economy going
- **Confidence is the key to stemming the ringgit's slide.** While external factors were held responsible for the falling value of RM/US\$, **a conducive and stable ecosystem is equally vital** to encourage domestic investors (residents) and foreign investors to increase as well as retain their investments (money) in the country
- **Increased transparency and enhanced communication** are essential ingredients of an effective implementation of policies. Good communication can enhance policy effectiveness by influencing expectations and by reducing uncertainty

WHAT NEEDS TO BE DONE?

- **Fiscal consolidation path** should continue to reduce deficits and debt accumulations. Focus on reforms to achieve spending efficiency and productive outcomes with zero tolerance of wastage and leakage
- Continue to address **domestic constraints such as slow productivity, lack of innovation, haphazard regulatory reforms** as well as outmoded legislation and the heavy weight of administration-oriented rules to uplift the country's economic growth and investment potential. The policy makers must catch-up opportunities related to creativity, innovation and digitalization
- **Corrective measures to strengthen the shrinking current account surplus** via exports enhancing, ports and insurance services expansion, boosting tourism and imports substitution
- Swiftly **advancing structural reforms in the labour market and innovation** that can boost productivity and unleash Malaysia's growth potential

**Press Conference on
SERC's Quarterly Economy Tracker
Fourth Quarter of 2016**

Q & A



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

谢谢
THANK YOU

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

