



SERC

社会经济研究中心

**SOCIO-ECONOMIC
RESEARCH CENTRE**

By the numbers: Economy on Solid Ground

13 April 2018

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Key Messages



FIRMING GLOBAL GROWTH – CYCLICAL OR STRUCTURAL



BALANCED RISKS TO GLOBAL OUTLOOK



MALAYSIA: FIRM ON GROUND



UNLOCKING E-COMMERCE POTENTIAL

Global growth **UPSWING** to continue in 2018



Global economic growth is **BROADLY BASED** and **SUSTAINED** in 2018. Better growth estimates for the US.



More **POSITIVE PERSPECTIVES** for emerging Asia -sustained domestic demand and firm commodity prices



GLOBAL TRADE is showing strong growth momentum (4.6% in 2018; 4.4% in 2019 (4.7% in 2017). **GLOBAL TRADE TO GDP RATIO** bounced back to 1.3% in 2017 (0.8% in 2015-16)



CAUTION IN FINANCIAL MARKETS. Expectations of **LESS GLOBAL LIQUIDITY** can reduce flows to emerging markets

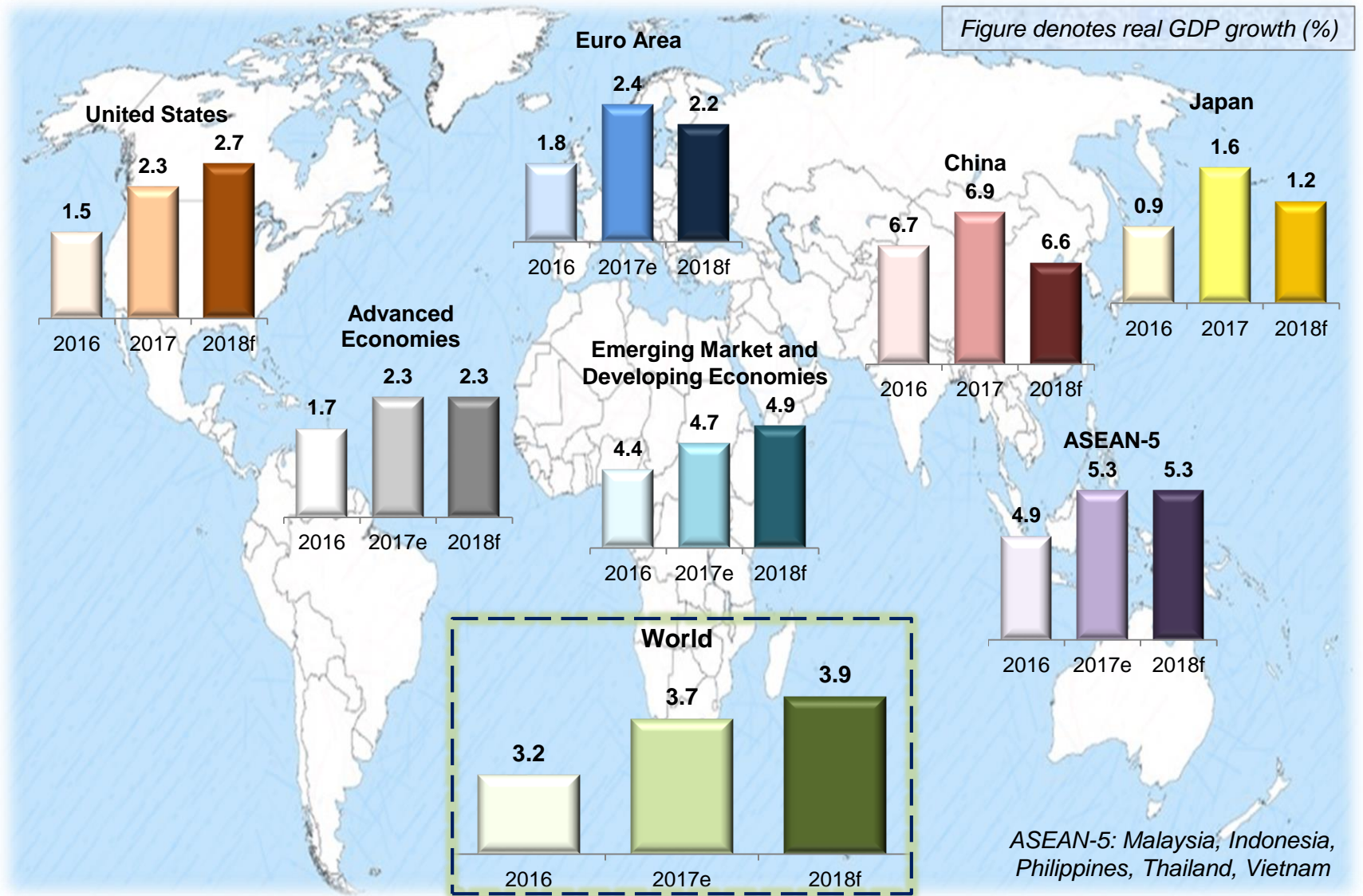


CENTRAL BANKS continue to make progress towards **INTEREST RATE** normalization



GLOBAL RISKS – rich market valuations; rising trade tensions; aggressive interest rate hikes; and bloated debt

GDP GROWTH estimates in advanced and emerging economies



Source: Officials; IMF (WEO Update, January 2018)

Reasons to remain **POSITIVE** on Malaysian economy in 2018



POSITIVE ON THE GROWTH MOMENTUM. Amid optimism, the **HIGH BASE EFFECT** last year would weigh on this year's growth. **SERC REVISED HIGHER** this year's economic growth to 5.5% from 5.1% previously, mainly to reflect higher domestic demand and exports.



FIRES ON ALL CYLINDERS. It is a more balanced growth. Strengthening global growth to support **EXPORTS**, albeit slower (2018E: 7.5% vs. 18.9% in 2017). **DOMESTIC DEMAND** continued to anchor growth, thanks to supportive Budget measures and accommodative interest rates.

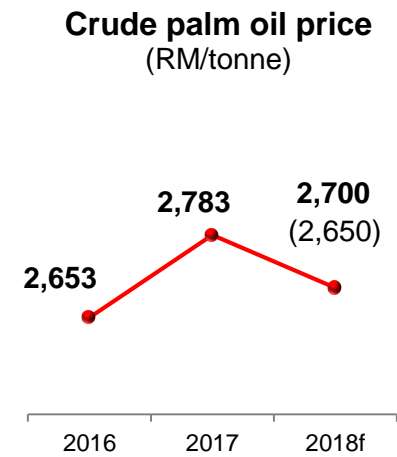
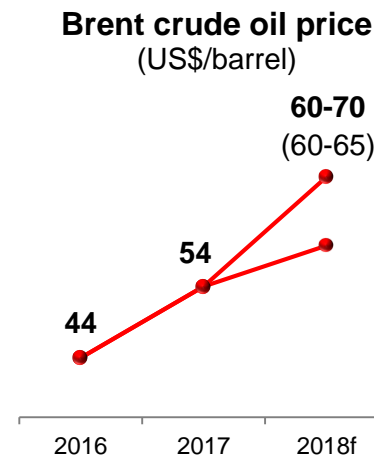
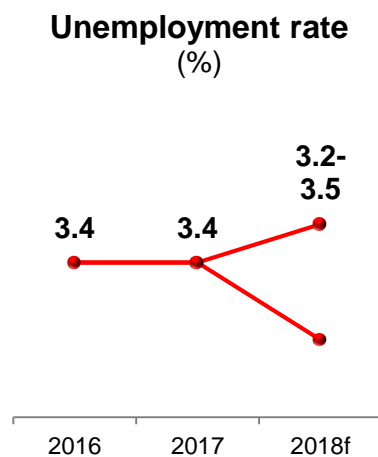
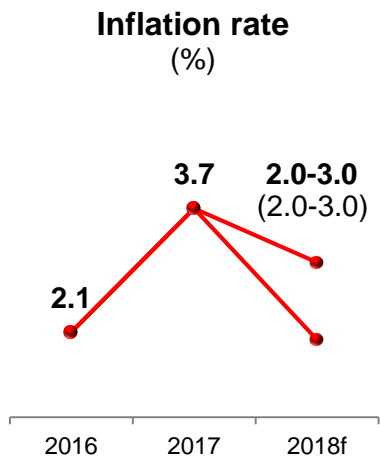
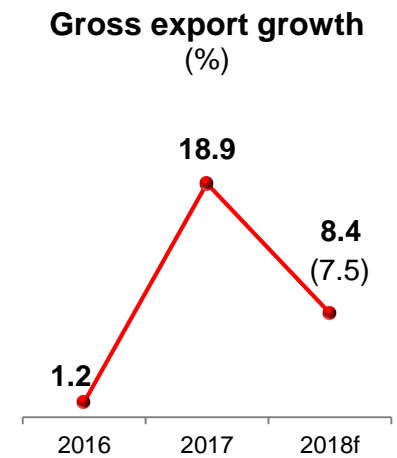
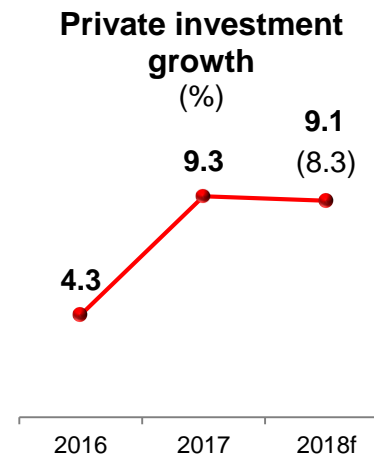
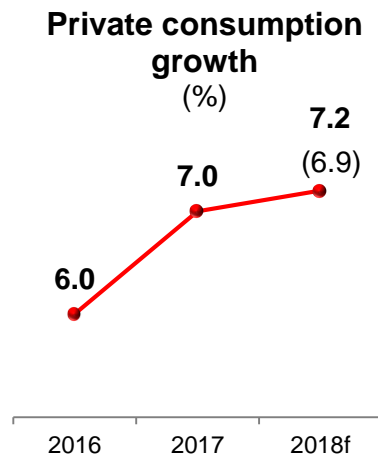
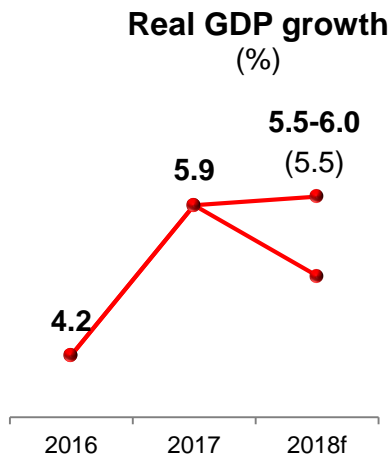


PRIVATE CONSUMPTION is estimated to increase at a sustained pace (2018E: 6.9% vs. 7.0% in 2017), underpinned by steady growth in **EMPLOYMENT AND INCOME** amid **CAUTIOUS SENTIMENT**. Cash handouts, special financial payment and personal income tax rate cut also helps consumption. Consumer spending has been proven resilience despite coping with high cost of living and inflation.



PRIVATE INVESTMENT growth will expand at slower rate of 8.3% in 2018 (9.3% in 2017), supported by ongoing and new capital spending in both the manufacturing and services sectors amid continued positive business sentiments.

Malaysia's key ECONOMIC INDICATORS



Source: DOS, Malaysia; BNM; EIA; MPOB; SERC
 Figure in parenthesis denotes SERC's estimate.

Sectoral outlook: Positive, BROAD-BASED EXPANSION

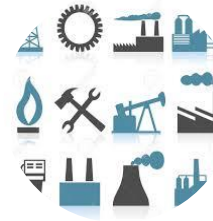


Services

2018F: 6.1% (SERC: 6.0%)

2017: 6.2%; % share of GDP: 54.4

- Sustained domestic spending, higher tourist arrivals, logistic services and financial services
- Higher growth in wholesale and retail trade, F&B, information and communication, transport and storage as well as finance and insurance subsectors



Manufacturing

2018F: 5.9% (SERC: 5.7%)

2017: 6.0%; % share of GDP: 23.0

- Export-oriented industries: sustained demand for electronics and electrical products, refined petroleum and wood products
- Domestic-market oriented: construction-related building materials, food products and transport equipment



Agriculture

2018F: 3.6% (SERC: 3.8%)

2017: 7.2%; % share of GDP: 8.2

- Slower rise in CPO production and rubber output
- Livestock, fruits and vegetables



Construction

2018F: 7.3% (SERC: 8.0%)

2017: 6.7%; % share of GDP: 4.6

- On-going large new and existing civil engineering infrastructure projects such ECRL, MRT SSP line, Electrified Double Track Gemas-Johore Bahru, SPE, Pan Borneo Highway and Bokor Central Processing Platform
- Property overhang glut – slow growth in commercial development



Mining

2018F: 1.8% (SERC: 1.5%)

2017: 1.1%; % share of GDP: 8.4

- Higher natural gas output
- Malaysia agreed to extend oil output cuts until end-2018
- Brent price to average US\$60-65 per barrel in 2018 vs 2018 Budget's US\$52

RISKS and CONCERNS to domestic economic outlook



Externally, investors should not become **TOO COMPLACENT** after a long bull run in the stock market as unanticipated market surprises or event shocks would cause a risk repricing. External risks are **DISRUPTIVE MONETARY POLICY SHIFTS** in the **US, ESCALATING TRADE TENSIONS** between the US and its major trading partners could weigh down market confidence, dampen global trade and economic activity.



Domestic risks are the **SLOWDOWN OF STRUCTURAL REFORMS** to increase **PRODUCTIVITY GROWTH** and the lack of **QUALITY INVESTMENT** to raise the potential growth. **STRUCTURAL UNEMPLOYMENT** arising from the technology disruption could dampen consumer spending; increasing cost of doing business and compliance cost that weigh on businesses, especially SMEs.



RISING COSTS OF LIVING and **HOUSING AFFORDABILITY** are growing pains for low and middle-income households.



COST PRESSURES remain a concern for businesses. These include the implementation of the Employer Mandatory Commitment (EMC), which was postponed for implementation in 2017 (Under the EMC, the employers would be disallowed from deducting the levy from the wages of their workers); the Employment Insurance System (EIS); higher gas prices; probable review of new minimum wage in 2018 and new foreign workers' levy structure in 2019.

Tit-for-tat US-China TRADE WAR: Unintended consequences



GLOBAL REPERCUSSIONS highly disruptive and damaging on global economic growth via trade and financial channels. Trade – curtail trade activity; Asian supply chains disrupted and dampen global growth. Financial – share prices of affected companies/industries will be rered on earnings concern



On the US - SHORT-TERM GAIN, LONG-TERM PAIN. US consumers bear the brunt of the immediate damage in the form of inflation. Consumer spending dampened; businesses and retailing affected. China's tariffs on US\$50 billion of imports from the US makes up 38.4% of US's export to China and 3.2% of US's total exports



On China, MODEST IMPACT on Chinese consumers as the US is not a major source of consumer goods import. China can relatively easier than the US to find substitute sources of supply for the affected imports. US's tariffs on US\$50 billion of imports from China makes up 2.2% of China's total exports and 11.6% China's export to the US.



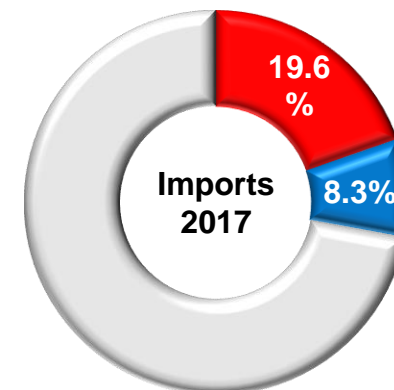
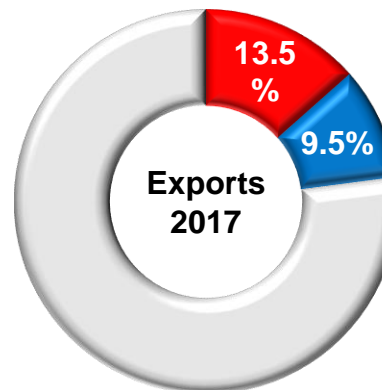
On Asia, Asian's HIGH LEVELS OF INTEGRATION OF SUPPLY CHAINS that are likely to be disrupted. A wide network of value chains that feed components, sub-components and materials into Chinese manufacturing and assembly



On Malaysia, the impact on trade and industries via the supply chains will be minimal if the trade retaliation is limited in scope and not prolonged. **NEGATIVE** for electronics and electrical industry and industrial equipment. **POSITIVE** for palm oil

Malaysia's exports to the US and China

Ranking	Exports	Imports
	2	1
	3	3



■ China ■ United States

Major export products to China in 2017	RM mil	% share*
E&E products	50,386	39.9
- <i>Semiconductor</i>	36,332	28.8
Chemical and related products (excl. non-primary plastics)	14,449	11.5
Petroleum products	13,312	10.6
Liquefied Natural Gas	5,798	4.6
Manufactures of metal	4,529	3.6
Palm Oil	4,027	3.2
Total	126,150	

Major export products to US in 2017	RM mil	% share*
E&E products	49,148	55.4
- <i>Semiconductor</i>	16,034	18.1
Optical & scientific equipment	5,562	6.3
Rubber gloves	5,502	6.2
Furniture and parts	3,604	4.1
Machinery, equipment & parts	3,271	3.7
Chemical and related products (excl. non-primary plastics)	3,243	3.7
Total	88,693	

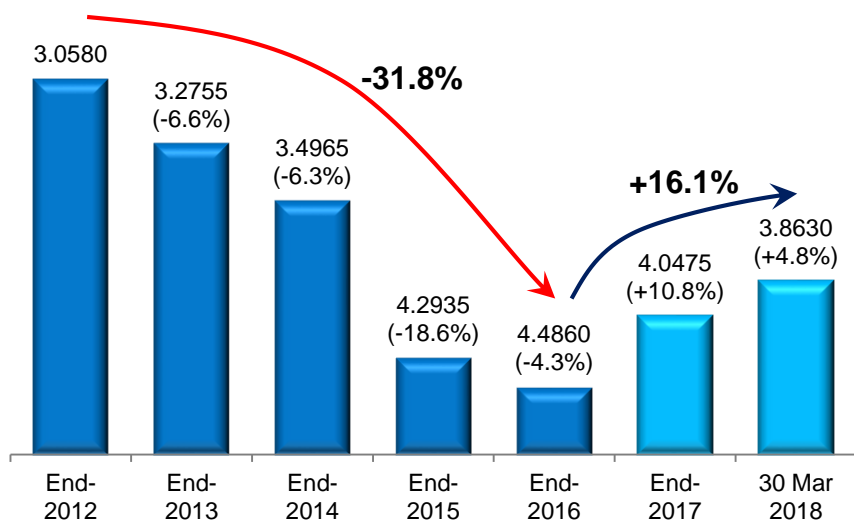
Source: DOS, Malaysia

* % share to total exports to respective country

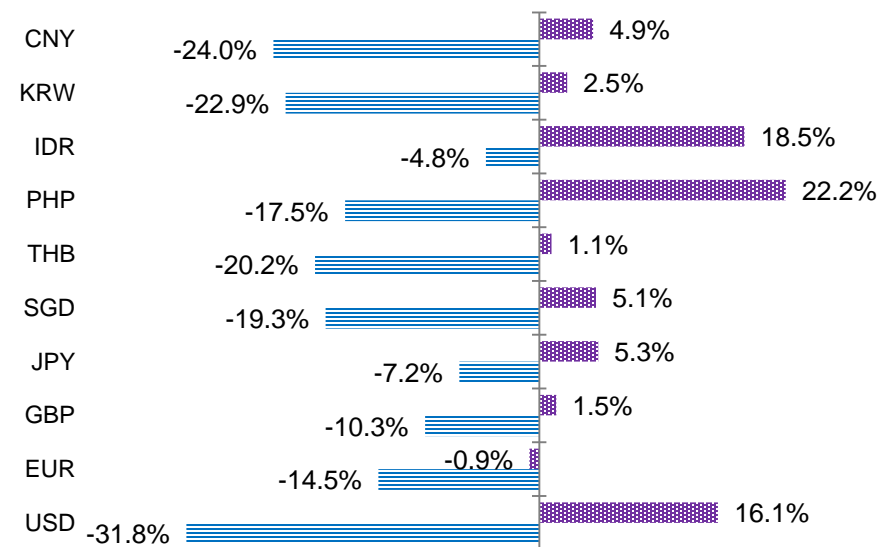
The ringgit is correcting towards its **FUNDAMENTAL** value

- **POSITIVE FUNDAMENTALS:** Brightening economic growth prospects, firming commodity prices, the onshore ringgit stabilization measures, prospect of domestic interest rate normalization, continued current account surplus, accumulation of foreign reserves.
- **COUNTERACT DAMPENING FACTORS:** Strong US dollar, higher US interest rates and yields, flows into the US dollar assets, geopolitical risks and developments in global financial markets.
- SERC's estimate of RM/US\$: End-2018F: RM3.80-3.90/US\$1

Ringgit movement against USD



Ringgit performance



Source: BNM



All EYES ON FOR THE NEXT E-COMMERCE BOOM



How do Malaysians shop online and what are they buying?

CONSUMER CONFIDENCE IS ON THE RISE



136%
Mobile penetration in 2016



47%
Use their smartphone to shop online



APPROX.
7 million
Shop online every month



11
39%
Purchase daily necessities like health & beauty, FMCG, grocery, kitchenware



23%
Buy fashion and accessories



20%
Like to buy unusual or hard to find items

Source: Consumer Barometer by Google / Statista / 2016 Bain Brief



All EYES ON FOR THE NEXT E-COMMERCE BOOM



2017: THE YEAR OF THE INTERNET ECONOMY

Why the future's bright for Malaysian e-commerce ?



2016: **RM74.6 billion**
"CAGR 2011-16: 12%"
6.1% share of GDP



US\$3.8 billion
Expected e-commerce
market growth in 2017



20 million "Digital population"



30% E-commerce transactions in
Southeast Asia are from
Malaysia



Access to
625 million
people

Ideally positioned in the
ASEAN region

DFTZ
**Digital Free
Trade Zone**
launch to double
e-commerce
growth by 2020



**Economic Transformation
Program (ETP)**



Government heavily promotes
and subsidizes e-commerce

Source: Consumer barometer by Google, Statista



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谢谢
THANK YOU

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