



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

**Malaysian Timber Council (MTC)'s
Economic Affairs Talk**

**How The Timber Industry Survives The
COVID-19 Crisis?**

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Executive Director
8 October 2020

STAGES
OF RECOVERY



Three Phases of Global Recovery



The Economic Recovery Tracker of Malaysia's Major Export Markets



Post COVID-19: What Opportunities Lie Ahead?

Predictions for the Global Economy

As the global economy emerges from COVID-19 pandemic, governments are grappling with policies:

- *How to move forward, how to recover growth?*
- *How much structural adjustment to make?*
- *How long to maintain the fiscal and financial support?*



Global Economic and Financial Conditions

- *Global real economic activity*
- *Global mobility tracker*
- *Global inflation and interest rates*



A global recovery is underway; risks still prevalent

Global recovery is slowing emerging

- 👍 **Signs of recovery, albeit unevenly** though the path ahead still full of uncertainty
- 👍 **OECD leading indicators** signal the pace of rebound in the world's leading economies still slow but off the lows
- 👍 **Global PMIs** show a **revived expansion track in manufacturing and services**
- 👍 **Retail spending** has picked up, supported by improving **labour market conditions**
- 👍 **Global trade volume** though continues to decline but at a smaller magnitude

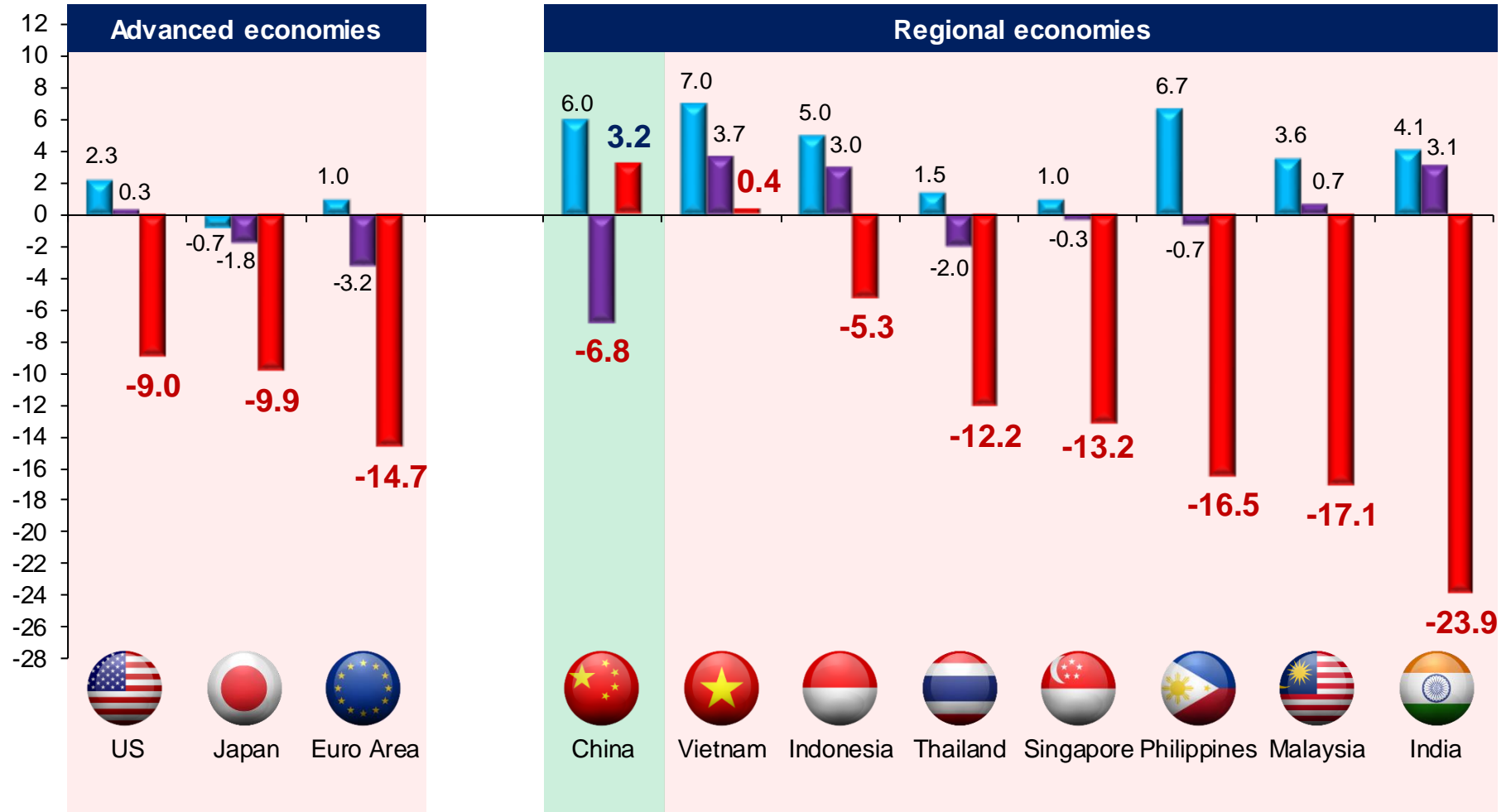
Risks to recovery

- 👎 The pace and strength of recovery is critically dependent on the **future path of virus and vaccines development**, which is anticipated to be available in 2021
- 👎 **Confidence about the virus containment and vaccination** are needed for a full recovery

Global outlook – Worst may be over in 2Q 2020, but recovery far from certain

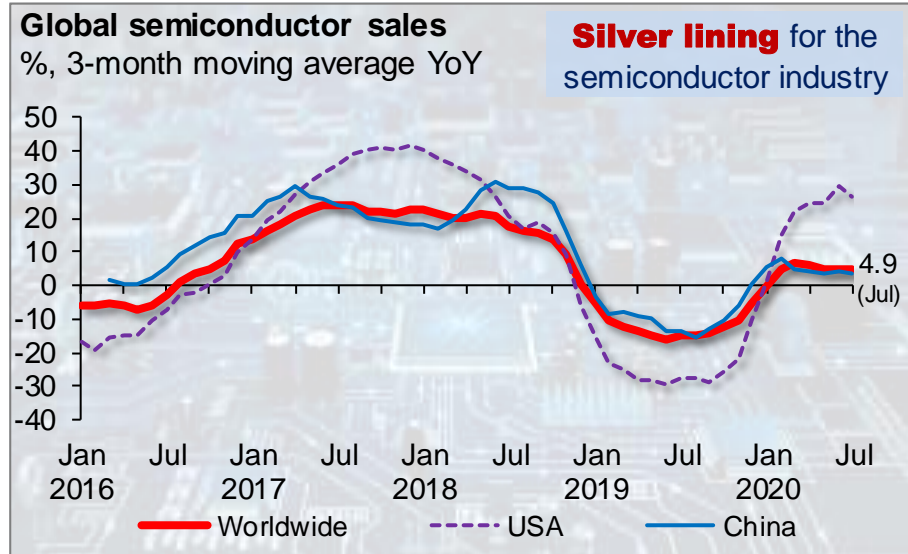
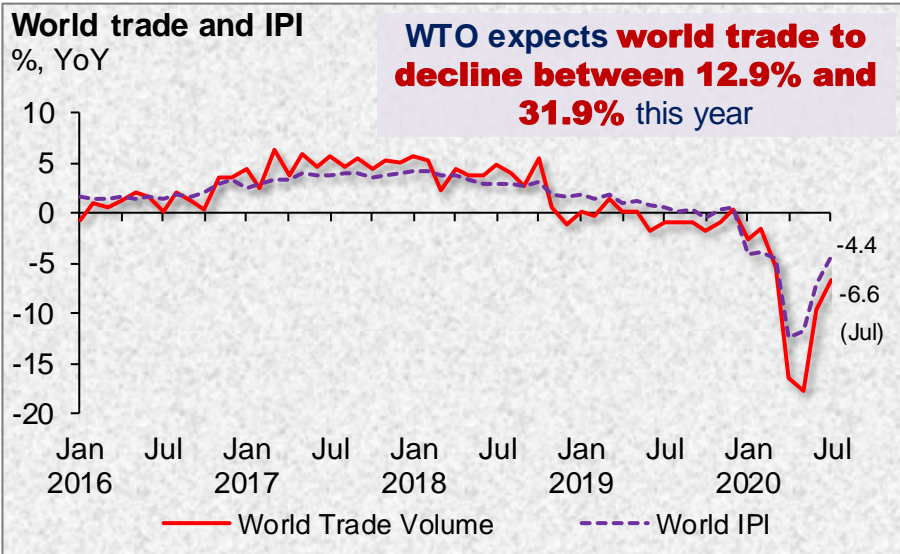
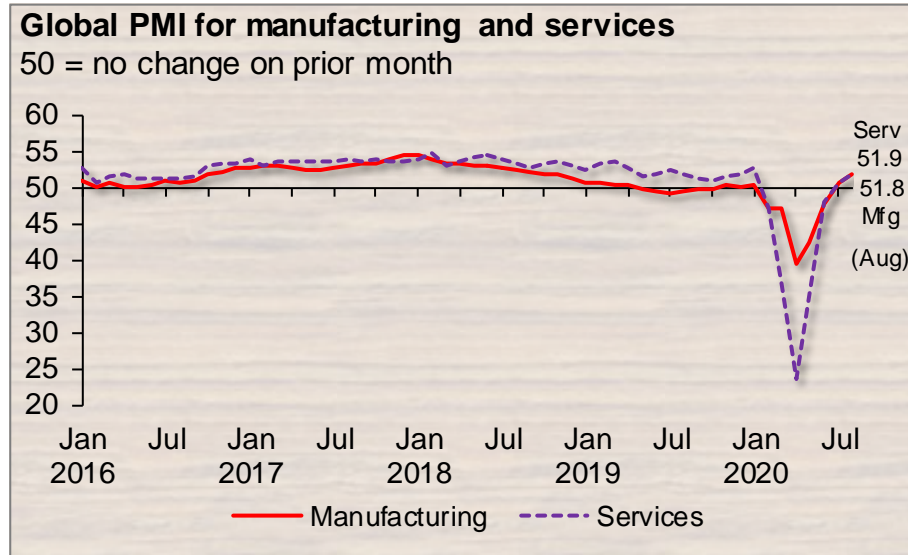
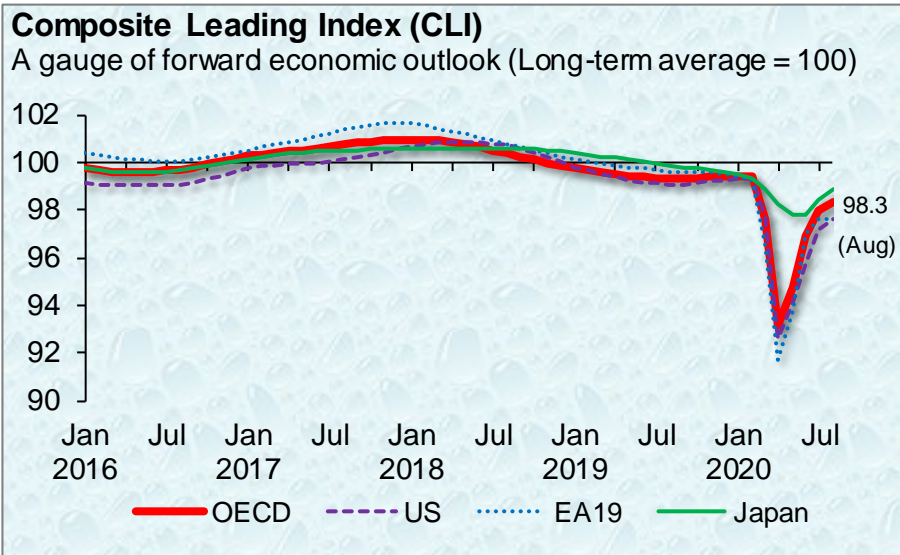
Real GDP growth (% YoY)

2019 Q4 2020 Q1 2020 Q2



Source: Officials (unadjusted data except Euro Area)

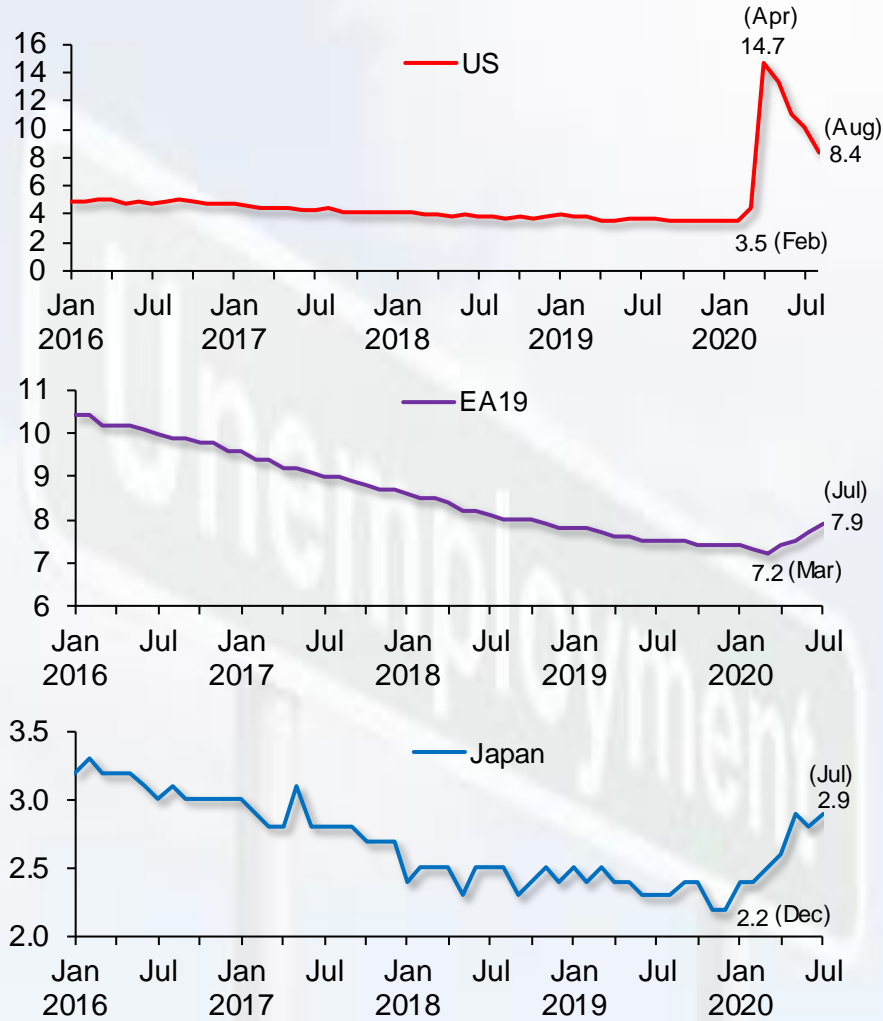
Economic data continued to recover from the historic slump



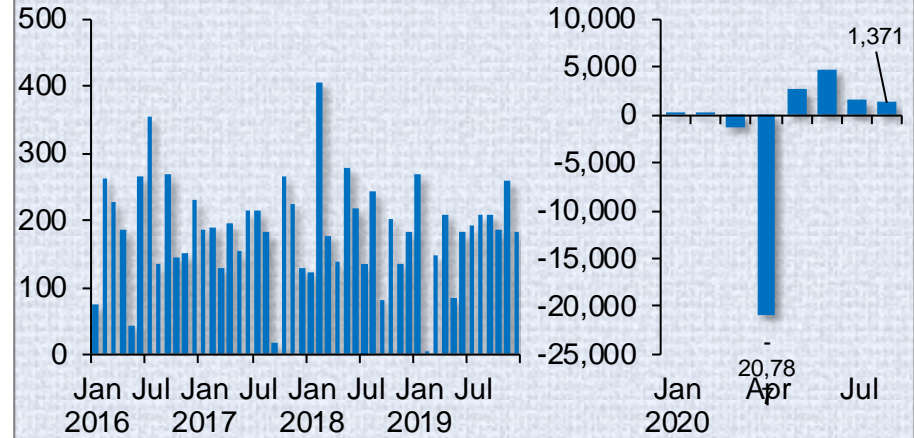
Source: OECD; IHS Markit; SIA

The labour market conditions

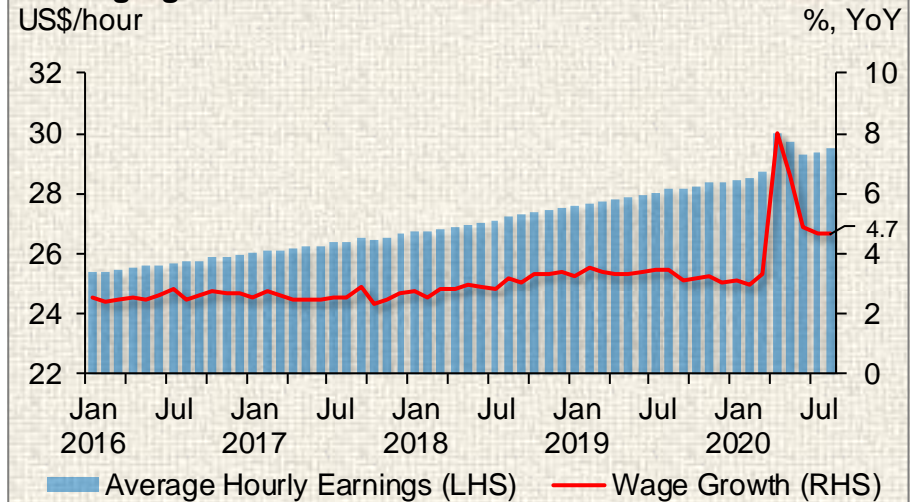
Unemployment rate shows mixed trends



US non-farm payroll
Monthly net change, '000



US wage growth
US\$/hour



Source: US Bureau of Labor Statistics; Eurostat; Statistics Bureau of Japan

Post-Great Lockdown: Global mobility tracker

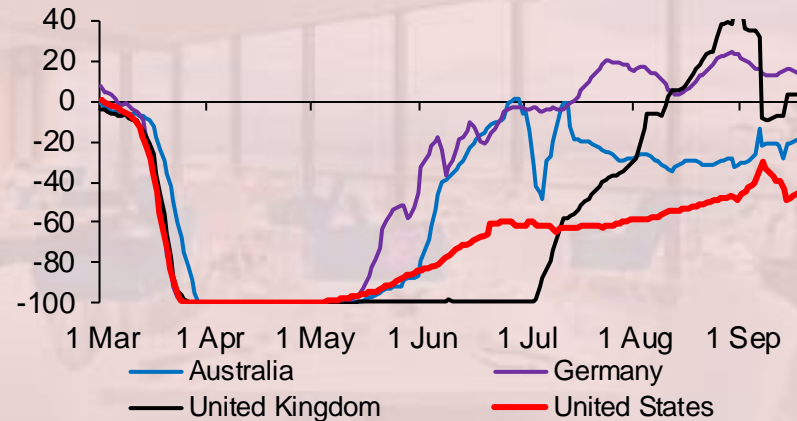
Global flights tracking

'000, 7-day moving average



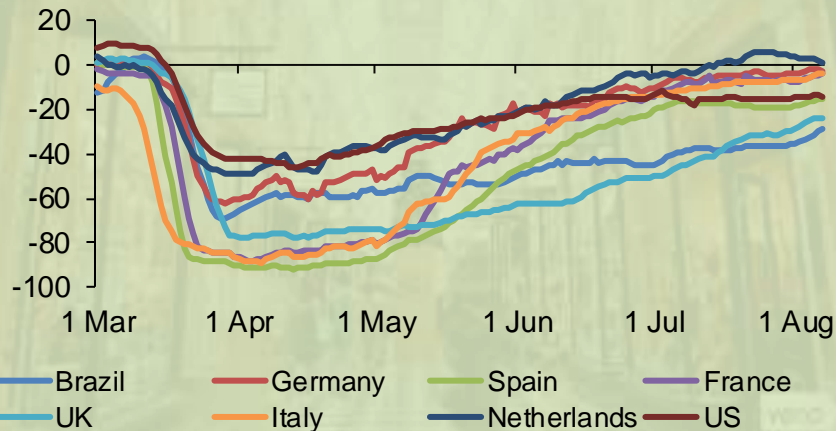
Restaurant bookings

%, 7-day moving average vs. same day of same week one year ago



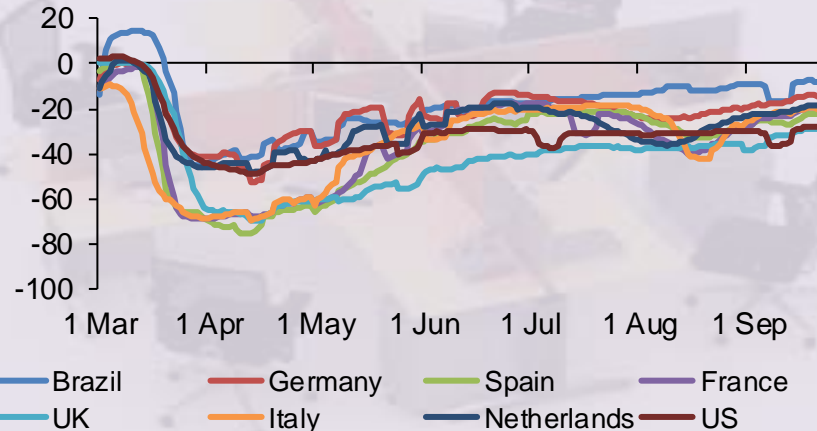
Time spent in retail and recreation

%, 7-day moving average vs. baseline



Time spent in workplaces

%, 7-day moving average, vs. baseline

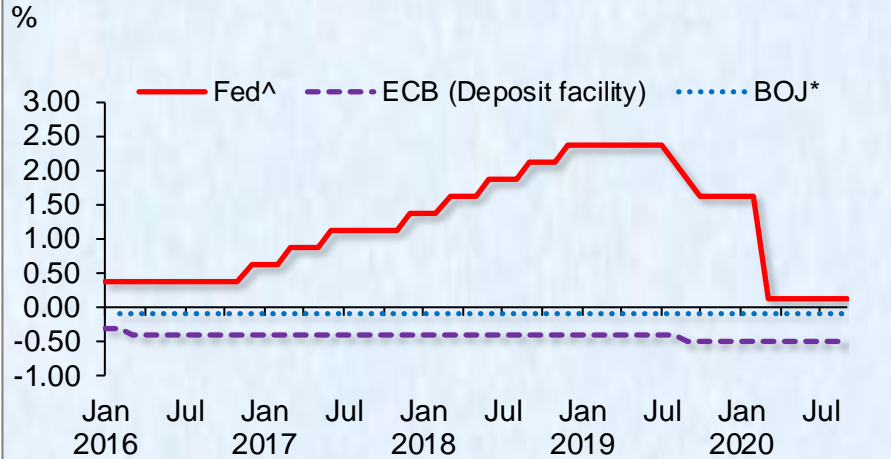


Note: Update for retail and recreation category is temporarily suspended from 17 Aug.

Source: Flightradar24; OpenTable; Google Mobility (baseline = median value for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020)

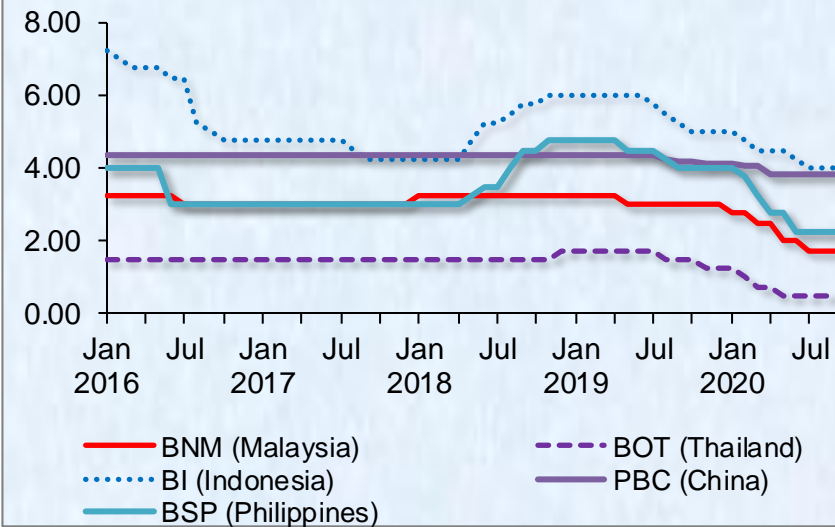
Global inflation and interest rates

Policy rate

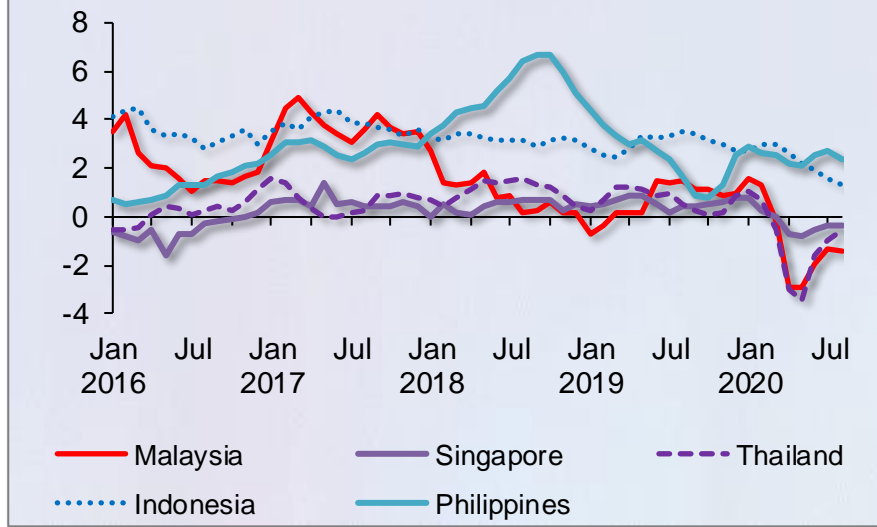
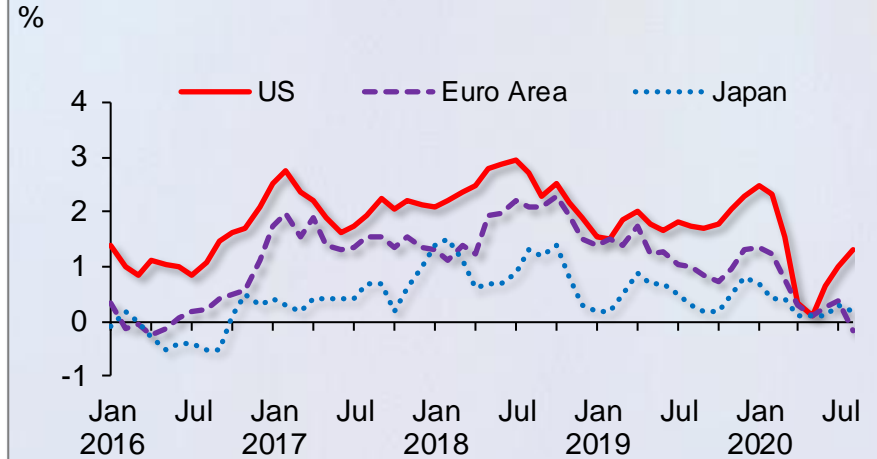


^ Mid-range of upper-lower bound

* Adopted -0.10% since Feb 2016



Inflation rate



Source: Various officials; BIS

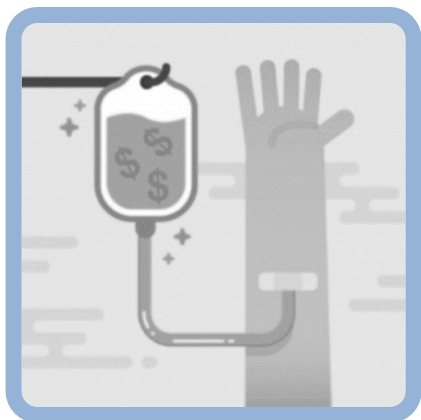
Three Phases of Global Recovery

Aggressive policy responses to limit economic repercussions

- *Phase 1: Stabilisation and Rebound*
- *Phase 2: New Normal Adjustment*
- *Phase 3: Structural Transformation and Policy Normalisation*



Phase 1 (March till end-2020): Stabilisation and Rebound



- Extraordinary fiscal stimulus, monetary easing, liquidity support and financial relief
- Unprecedented cash transfers and subsidies to households and businesses
- Worst economic data followed by stabilisation and a rapid rebound (V-shaped)
- Release of pent-up demand to support the retail sector but capacity still constrained by social distancing
- Unemployment is a lagging indicator

Risk factors



- ! A rise in COVID-19 infections or a second/third wave; delay in vaccines availability
- ! The US Presidential Elections outcome on 3 November 2020
- ! Worsening of the US-China's tensions on trade & technology
- ! Geopolitical risks

Phase 2 (2021): New Normal Adjustment



- Waning effect due to the end of fiscal transfer and financial relief programs
- Reduced operating capacity due to social distancing requirements hurt business income
- Unemployment takes time to ease; jobs displacement accelerates
- Offline/physical businesses dampened or edged out by the online players

Risk factors



- ! Lingering risk of COVID-19 infections or a second/third wave
- ! Vaccines for COVID-19 become broadly available later than expected
- ! Worsening of the US-China tensions on trade and technology
- ! A premature withdrawal of fiscal and monetary easing support
- ! Geopolitical risks

Phase 3 (2022): Structural Transformation & Policy Normalisation



- Firmer global growth revival in 2022
- Structural changes amplified by the COVID-19 pandemic
- Gradual normalisation of the fiscal and monetary policy

Risk factors



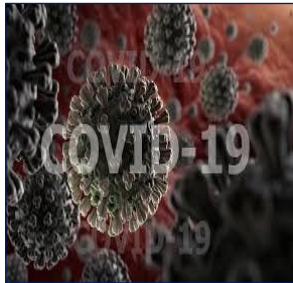
- ! Lack of decisive reforms to address structural weaknesses
- ! Worsening of the US-China's tensions on trade and technology



- ! Too aggressive monetary tightening
- ! Geopolitical risks

Top five risks that may temper the global recovery

The US Presidential Election on 3 November is the key upcoming event and the main political uncertainty until year-end



1



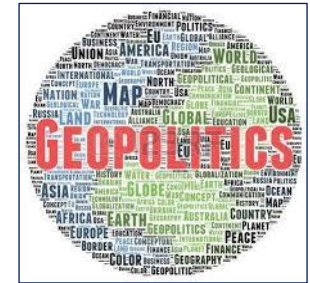
2



3



4



5

New lockdowns to control a sharp spike in infection cases (a second wave or a third wave) may threaten the global recovery; the longer- than-expected vaccines availability would dampen confidence

Premature withdrawal of fiscal stimulus and monetary accommodation. Central banks are expected to remain in accommodative mode for some time. Fiscal stimulus is still needed as a reduction of public-sector demand would trigger a renewed contraction of the economy

A sudden reversal of investors' positive optimism towards the stock markets on worries about the worsening economic outlook, could trigger sharp capital outflows and the tightening of global financial conditions volatility

Lingering uncertainties about the US-China tensions on trade and technology as well as political relations

Geopolitical events, including political events

Economic Prospects of Major Economies

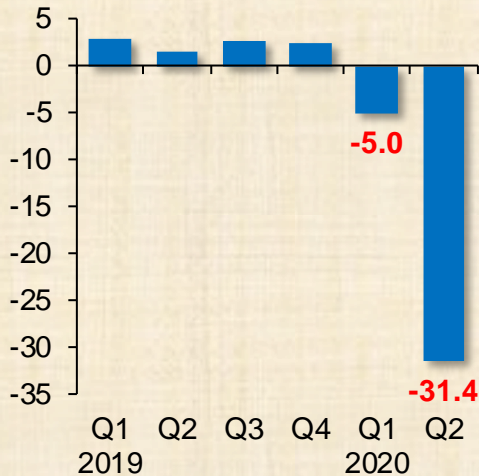
"In most economies, the level of output at the end of 2021 is projected to remain below that at the end of 2019" - OECD

- *A recovery is slowly under way following the easing of strict confinement measures and the reopening of businesses*
- *But, uncertainty remains high and consumer and business sentiment still cautious*

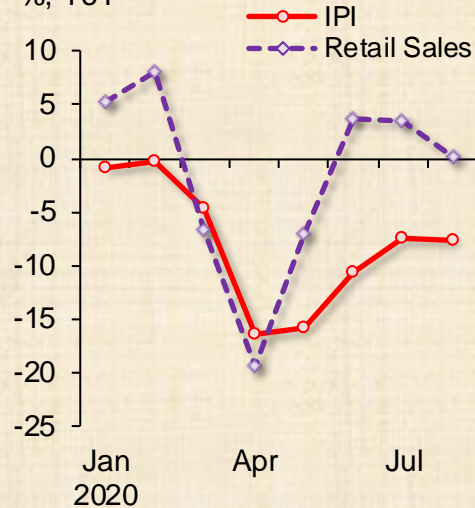


The US: Recovery continues but risks still prevalent

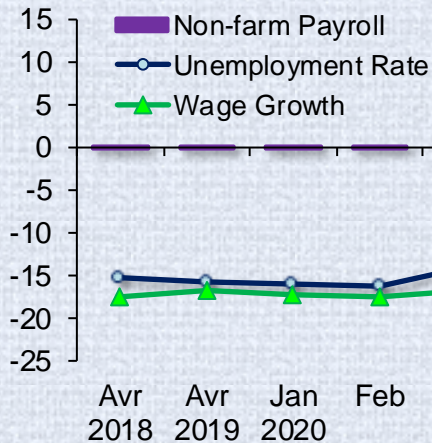
Real GDP growth
%, annualised QoQ



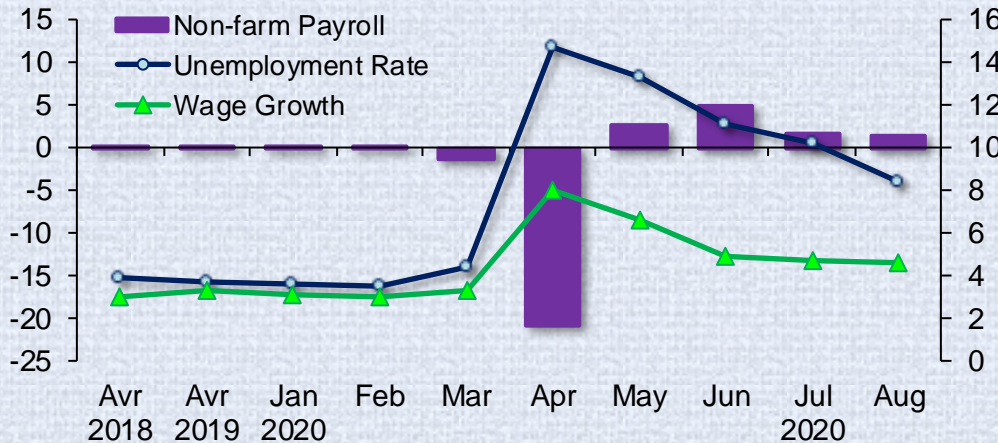
IPI and retail sales
%, YoY



Non-farm payroll
Monthly net change, million



Unemployment rate (%)
Wage growth (%) YoY



Real GDP (%)

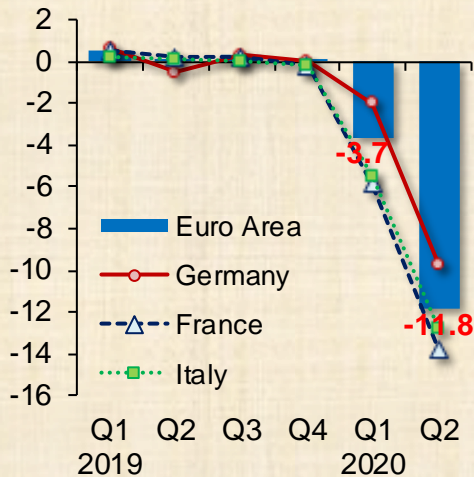
2019	2020E	2021F
2.2	-8.0 (↓)	4.5 (↑)

- Economic slump has bottomed out in 2Q
- Recovery still gradual amid lingering risk about rising number of coronavirus cases
- Counting on the US lawmakers to approve another stimulus package worth up to US\$1.5 trillion this fall
- The US Presidential Elections on 3 November 2020 could spring negative or positive surprises
- Political and trade tensions between the US and China

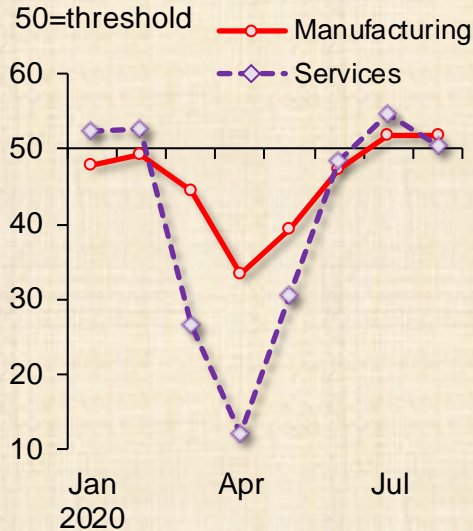
Source: Bureau of Economic Analysis; Federal Reserve System; U.S. Census Bureau; U.S. Bureau of Labor Statistics; IMF

Euro area: Cautious two-speed recovery

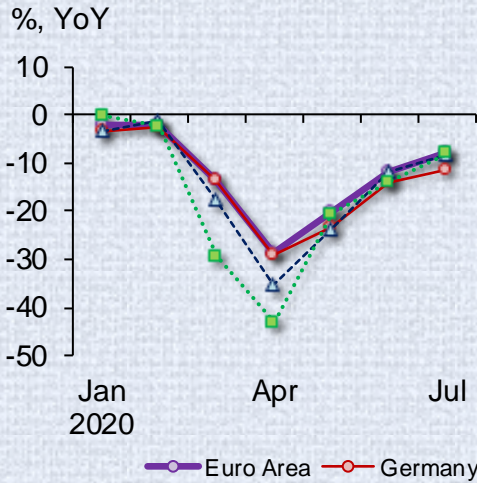
Real GDP growth
%, QoQ



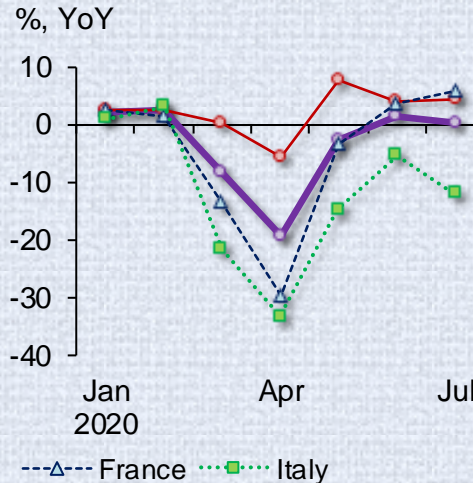
Eurozone PMI



IPI



Retail sales



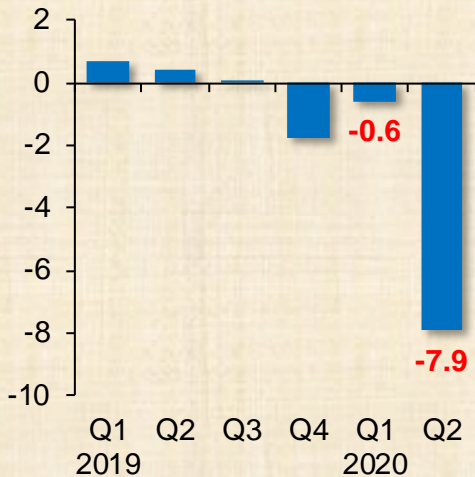
Real GDP (%)		
2019	2020E	2021F
1.3	-10.2 (↓)	6.0 (↑)

- Economic and business activities will firm up gradually, carries through from 2H 2020
- Uneven and non-uniform recovery across the euro area; renewed fear of lockdown
- Germany and the Netherlands will recover much sooner than countries with weaker fundamentals (Italy, Spain)
- 750 billion euro pandemic recovery fund kicks in
- Trade tensions between the US and Europe continued to linger

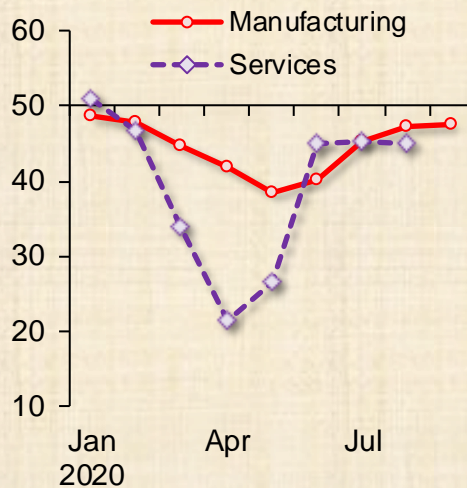
Source: Eurostat; IHS Markit; IMF

Japan: Painful recovery

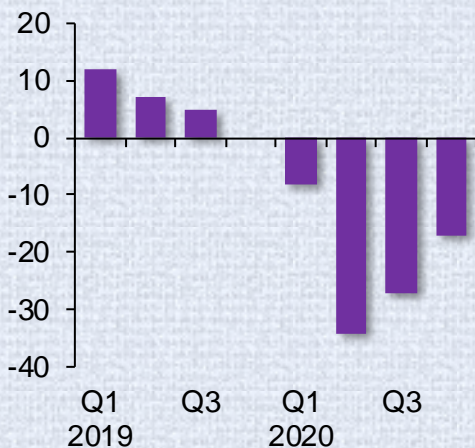
Real GDP growth
%, QoQ



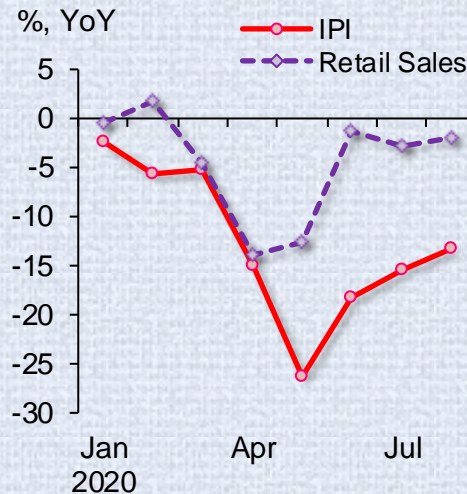
Japan PMI
50=threshold



TANKAN large manufacturing
% point, Diffusion Index



IPI and retail sales



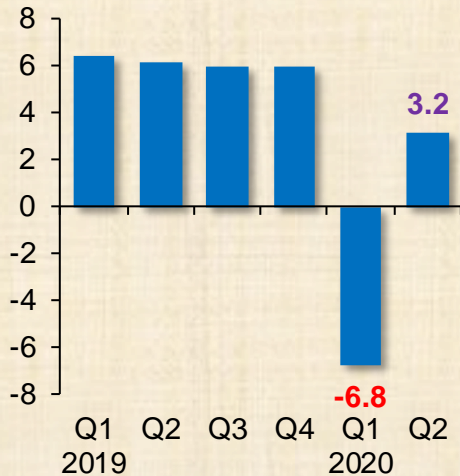
Real GDP (%)		
2019	2020E	2021F
0.7	-5.8 (↓)	2.4 (↑)

- The Covid-19 crisis weighs on consumption and investment as well as reduces exports
- Tokyo Olympic Games have been postponed until next year
- Huge and coordinated fiscal and monetary policy stimulus should limit the downturn
- Bank of Japan pledges to take additional easing measures with no hesitation if necessary
- New political leadership unlikely to see major policy shift

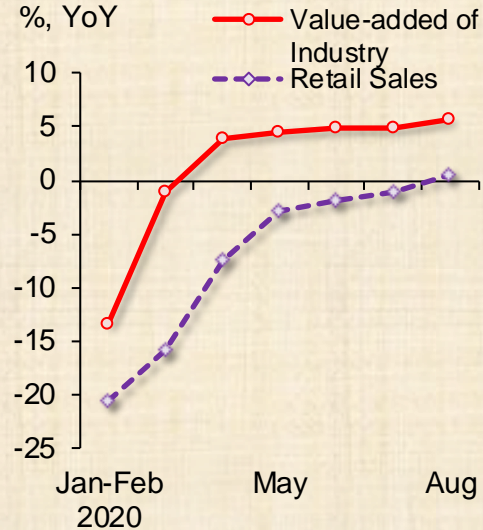
Source: Economic and Social Research Institute, Japan; IHS Markit; Bank of Japan (BOJ); Ministry of Economy, Trade and Industry (METI), Japan; IMF

China: First to reopen, growth rebounding strongly in 2021

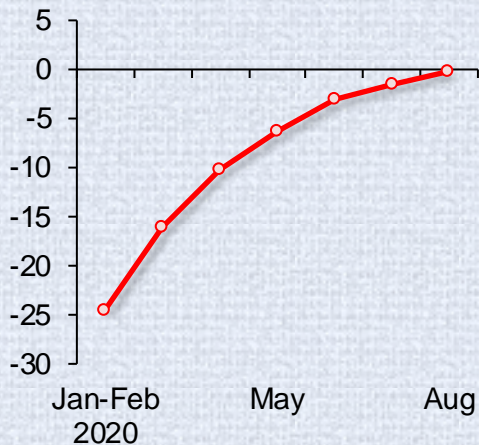
Real GDP growth
%, YoY



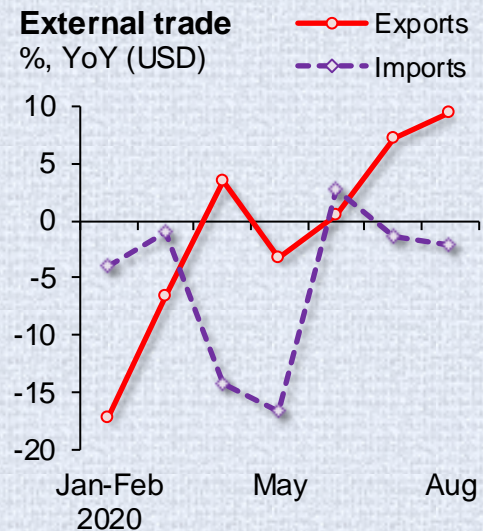
IPI and retail sales
%, YoY



Fixed assets investment accumulated growth (% YoY)



External trade
%, YoY (USD)



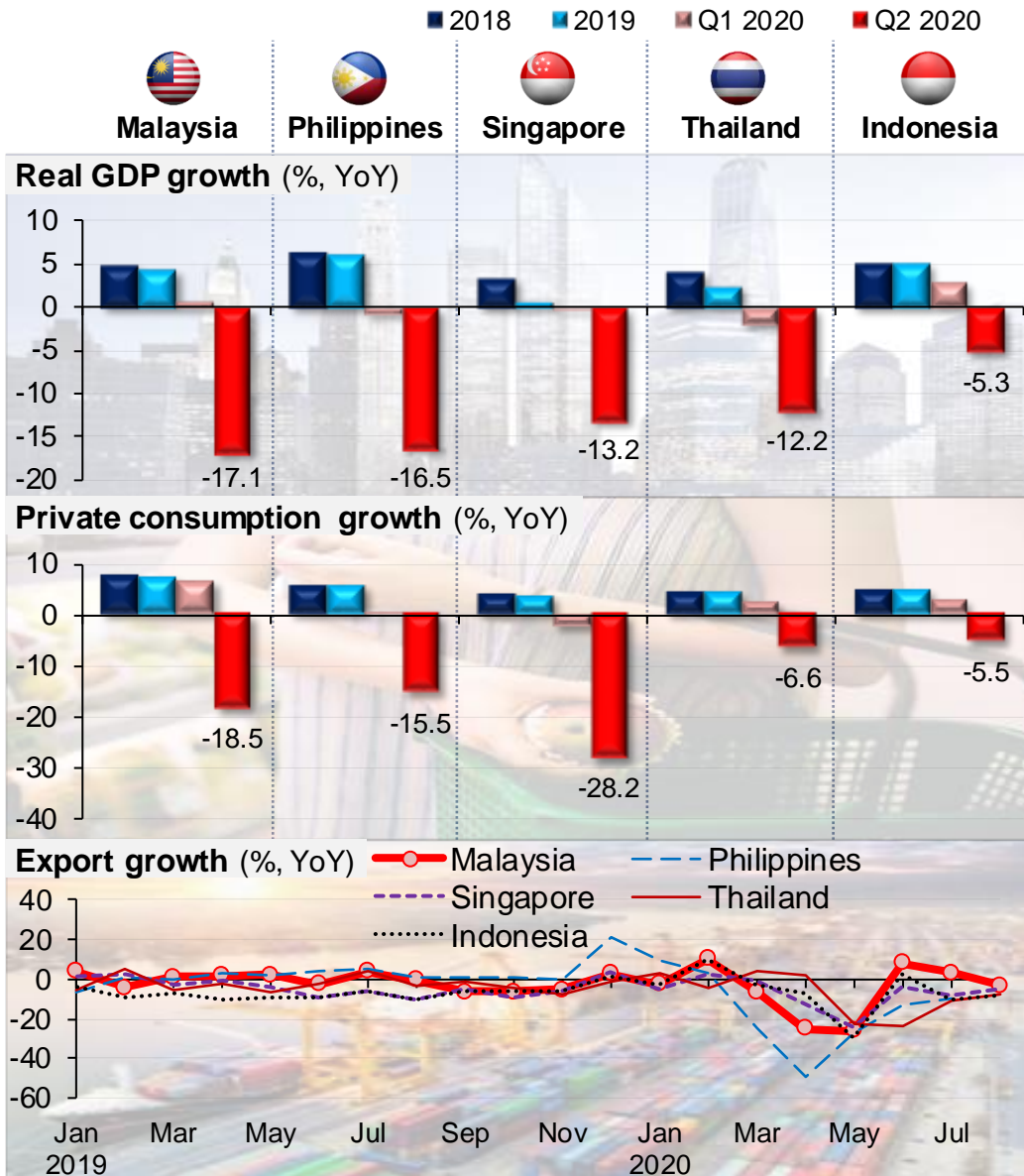
Real GDP (%)

2019	2020E	2021F
6.1	1.0 (↓)	8.2 (↑)

- “First in, first out”, China is the only G20 country that will register positive growth in 2020
- Continued targeted fiscal stimulus and easy monetary conditions to ensure stronger economic revival in 2021
- Long-term investments are in various fields including automation and robotics, digital transformation, medical technology, gene therapy, food revolution and warehousing
- Political and trade as well as technology tensions with the US remains the key risk

Source: National Bureau of Statistics of China; General Administration of Customs, China; IMF






ASEAN: Riding on global recovery & mending domestic demand



- Extraordinary monetary easing and fiscal support
- ASEAN is pivotal – backed by a large population and continued rise in income per capita
- Vietnam, Indonesia and Philippine have greater economic potential
- The Regional Comprehensive Economic Partnership (RCEP) will boost the trade and business investment in the region
- Political and trade tensions between the US and China remain the key risk

Source: Officials

ASEAN: Real GDP, interest rate, inflation and exchange rate

		 Malaysia	 Indonesia	 Singapore ¹	 Thailand	 Philippines
GDP Growth (%)	2019	4.3	5.0	0.7	2.4	6.0
	2020E	-3.0 to -4.0	-0.3	-3.5	-7.7	-3.6
	2021F	5.5	6.1	3.0	5.0	6.8
Policy Rate (%)	2019	3.00	5.00	-	1.25	4.00
	2020E	1.75	3.75	-	0.50	2.25
	2Q2021F	1.75	3.50	-	0.50	2.25
Inflation Rate (%)	2019	0.7	3.0	0.6	0.7	2.5
	2020E	-1.0	2.9	-0.2	-1.1	1.7
	2021F	1.5-2.0	2.9	0.5	0.6	2.9
Exchange Rate ² (per US dollar)	30 Sep 2019	4.16	14,905	1.37	31.69	48.41
	2020E	4.13	14,800	1.35	31.30	48.50
	2Q2021F	4.10	14,500	1.34	31.50	48.00

Note: 1. IMF did not provide GDP projections for Singapore in June's WEO Update; 2. Exchange rate as per end-period and BNM cross rate is applied for 2019

Source: Officials; IMF; UOB; SERC for Malaysia




Malaysia's Economic Recovery Tracker

The worst of economic contraction in 2Q 2020 is behind us

- *From stabilisation to recovery*
- *Green shoots are slowly emerging, albeit unevenly*
- *Supportive fiscal and accommodative monetary policy are still needed*



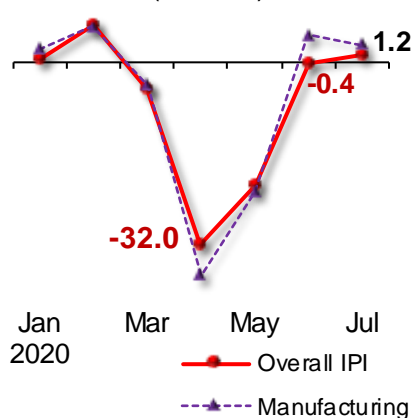
Malaysia's economic growth scenarios for 2020-2021*

Scenario		Projected GDP growth in 2020	Projected GDP growth in 2021
Upside 	<ul style="list-style-type: none"> • Global growth stabilisation and recovery • COVID-19 outbreak is contained in 1H 2020. Hopeful for a vaccine in 2021 • Monetary and fiscal stimulus help to cushion the dampening impact 	-1.5%	6.5%
Base Case 	<ul style="list-style-type: none"> • A prolonged COVID-19 outbreak disrupted supply chains and dampened domestic demand • Financial turbulence • Fiscal and monetary stimulus help to ease the magnitude of impact 	-4.0%	5.0%
Downside 	<ul style="list-style-type: none"> • Deeper global recession • Deepening impact from a prolonged COVID-19 outbreak • Sharp correction in equities and commodities market • Ineffective monetary and fiscal stimulus 	-4.5 to -5.0%	2.0%

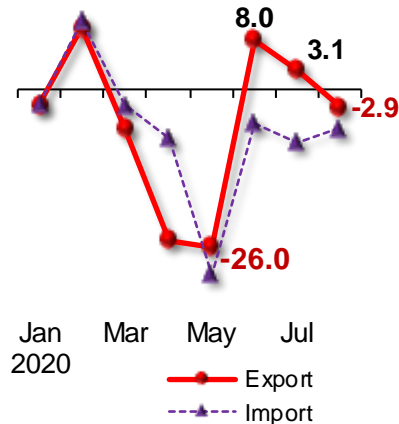
* SERC's estimates

Malaysia's economic recovery tracker

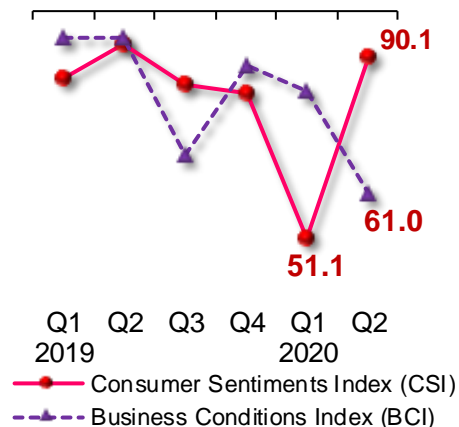
Industrial Production Index (IPI)
(%, YoY)



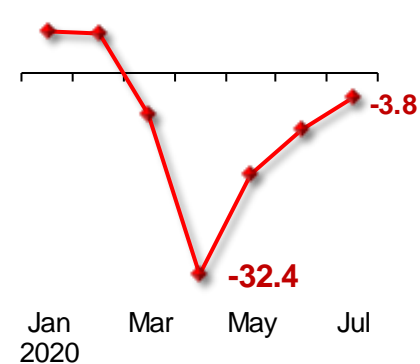
Exports and Imports
(%, YoY)



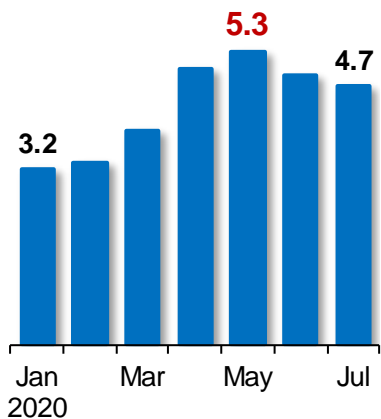
MIER CSI and BCI
(100=optimism threshold)



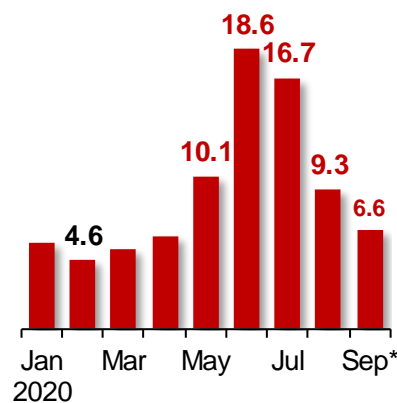
Retail Sales
(%, YoY)



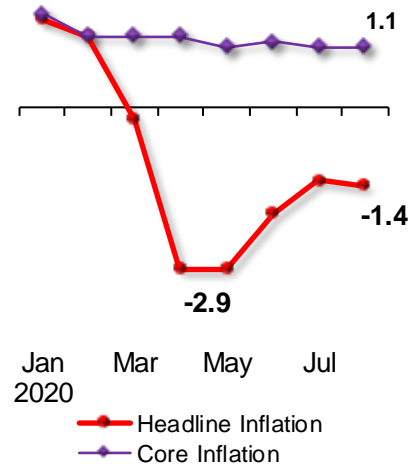
Unemployment Rate
(%)



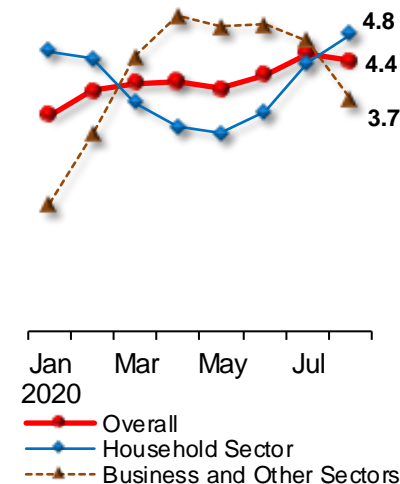
EIS Loss of Employment
('000 person)



Inflation Rate
(%)



Loan Growth
(%, YoY)

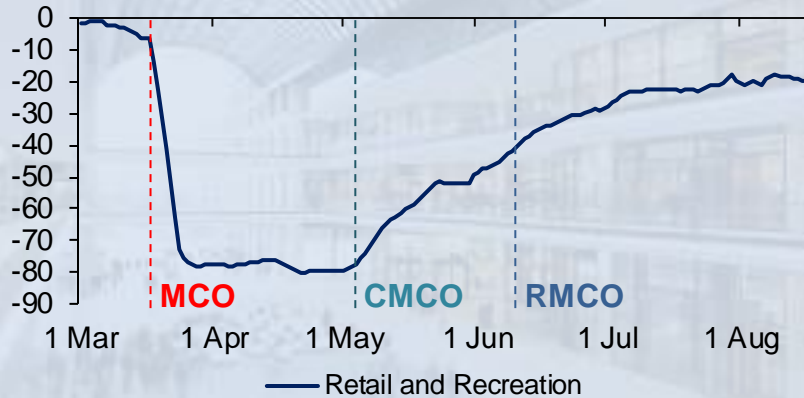


Source: DOSM; MIER; PERKESO; BNM

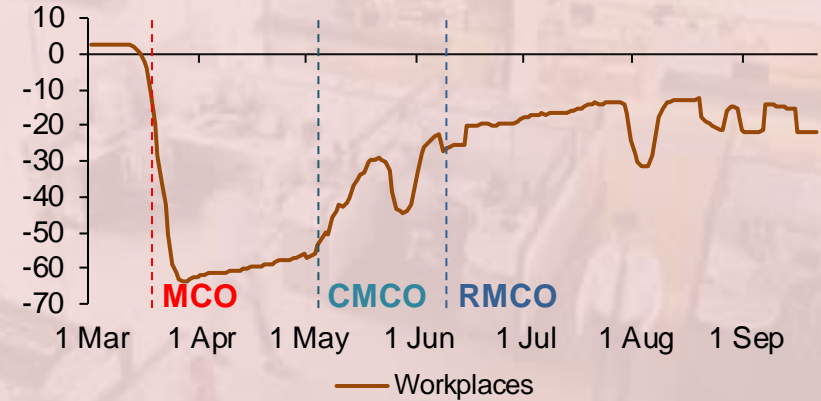
* 1-27 Sep

Reopening economy: Malaysia's mobility tracker

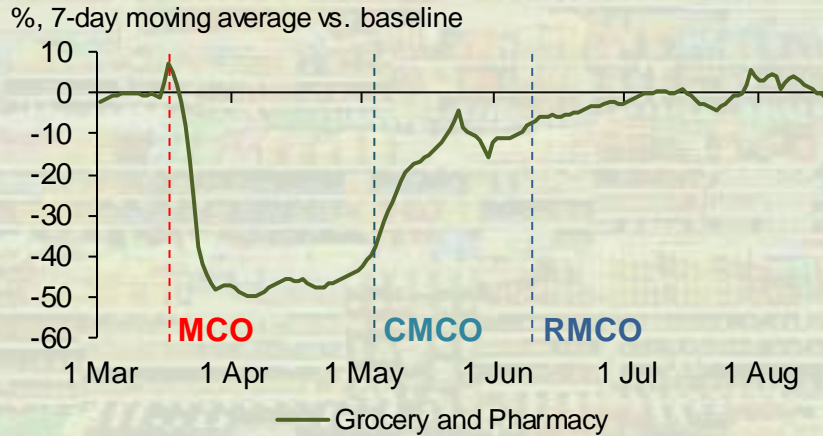
Time spent in retail and recreation



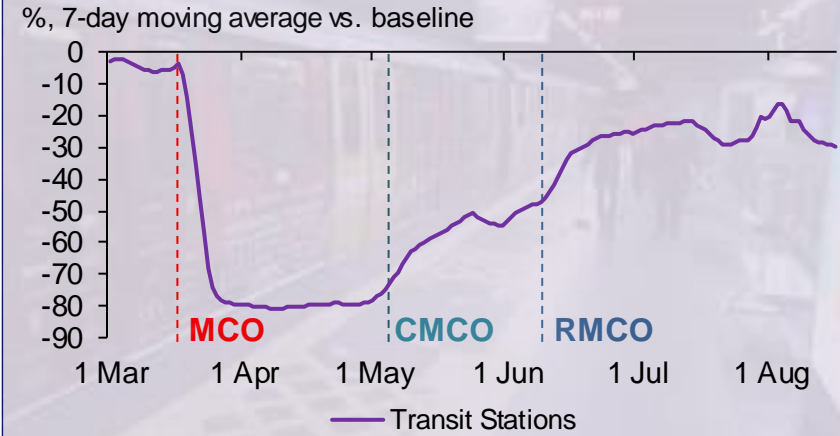
Time spent in workplaces



Time spent in grocery and pharmacy



Time spent in transit stations



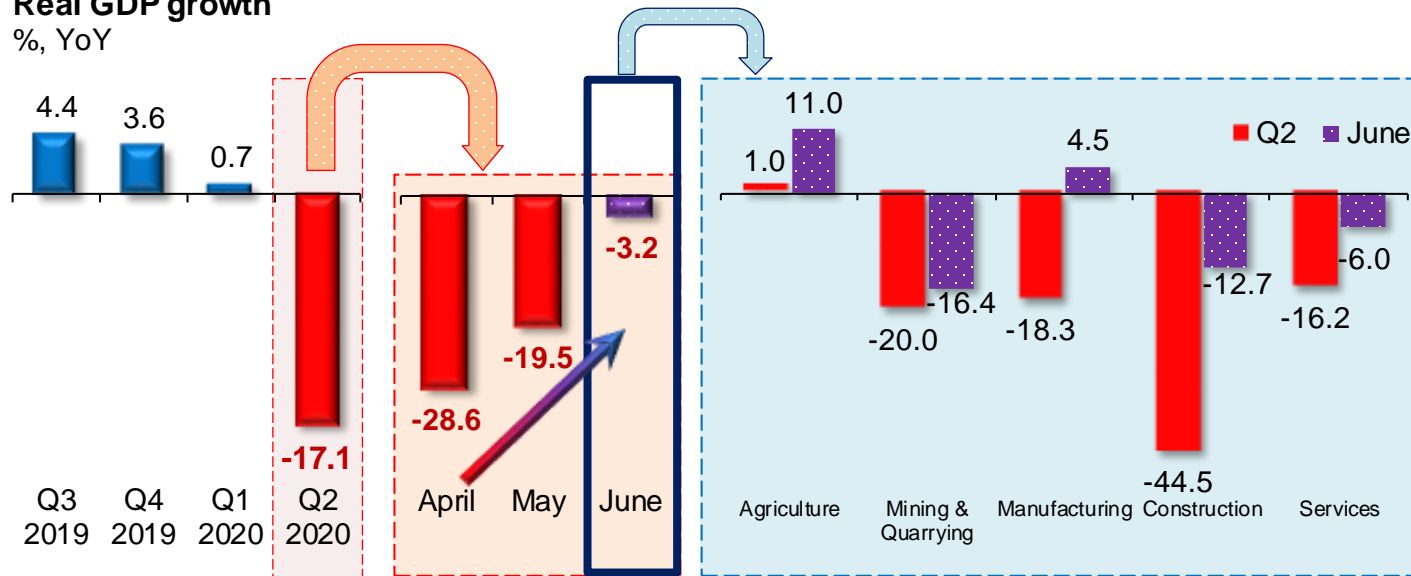
Note: Update (except workplace category) is temporarily suspended from 17 Aug.

Source: Google Mobility (baseline = median value for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020)

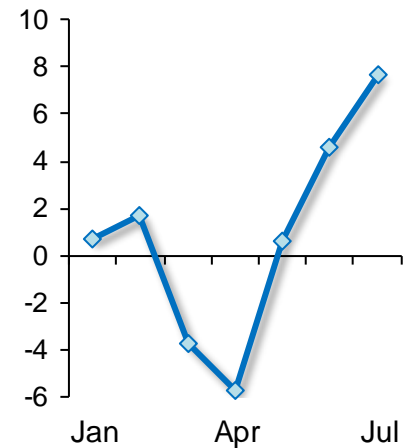
In a nutshell, the economic slump has off the lows since June

- Based on DOSM's monthly GDP estimates, the sharp declines in economic output (GDP) in April (-28.6% yoy) and May (-19.5%) have narrowed sharply to -3.2% in June following the implementation of CMCO and RMCO.

Real GDP growth
%, YoY



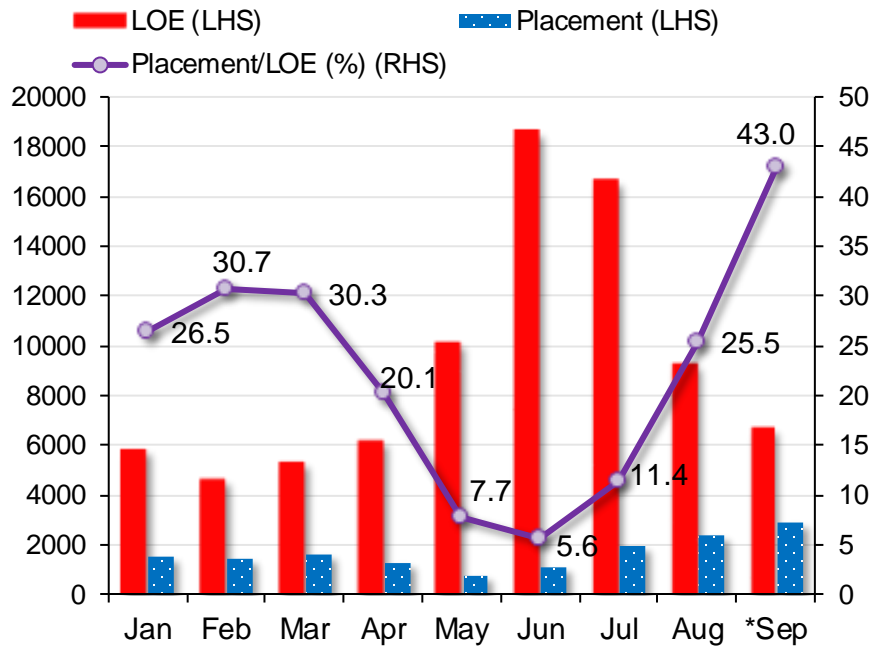
Malaysia's leading index
%, YoY



Source: DOSM

Loss of employment vs. Job placement

- Placement referred to unemployment benefit recipients who have submitted early re-employment allowance
- **Job placement over loss of employment (LOE) ratio** has improved since June

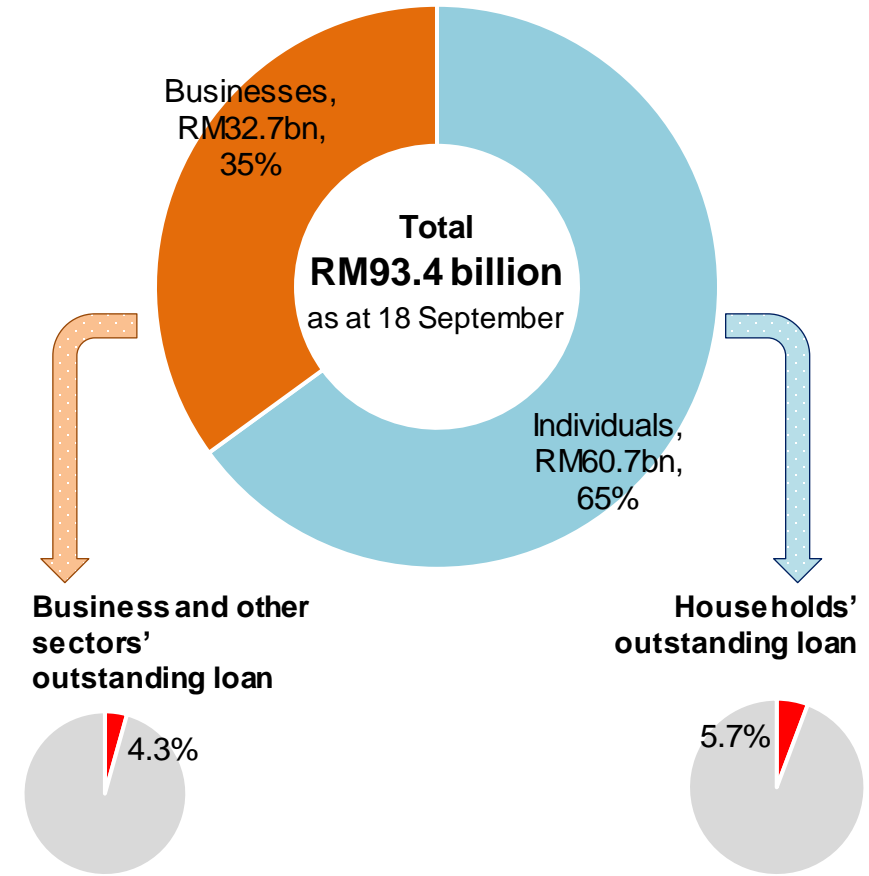


Source: PERKESO; LAKSANA

* As of 28 Sep, 4pm

Loan moratorium

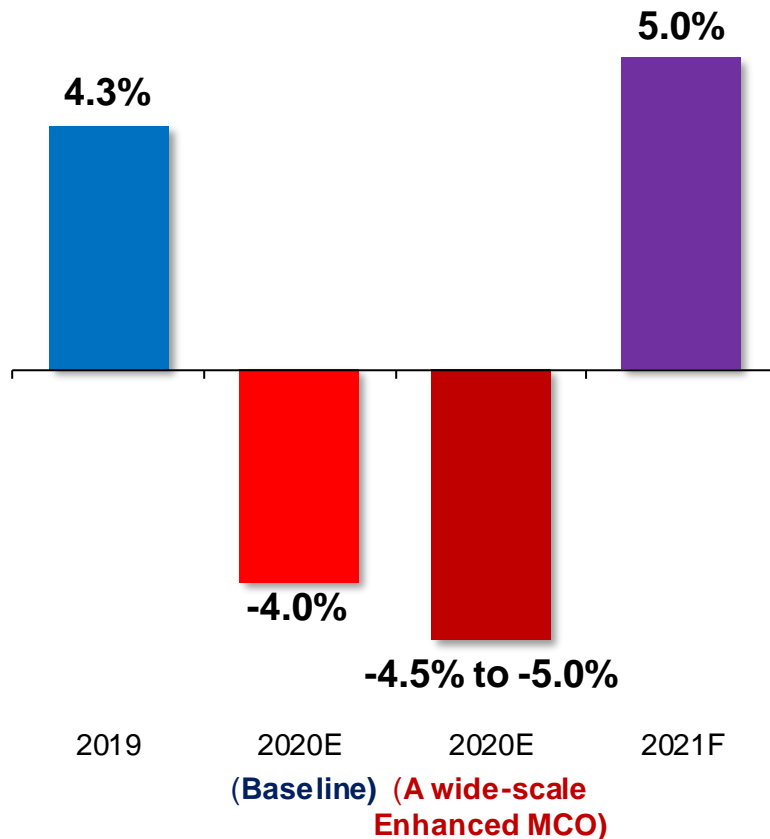
98% of about 500,000 borrowers were approved for targeted extension of loan moratorium as at 11 September



Blanket moratorium had benefitted 7.7 million individuals (or 93% of individual borrowers) and 243,000 SME borrowers (or 95% of total SME borrowers)

Malaysia is well positioned to recover but risks remain

Real GDP Growth
%



Source: DOSM; SERC

Positive Outlook

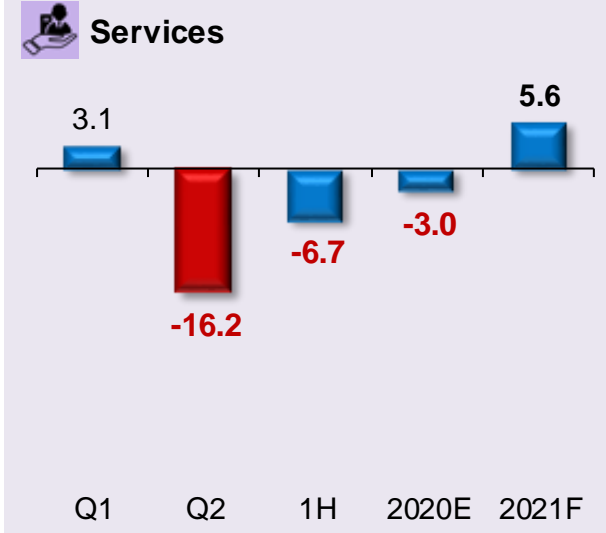
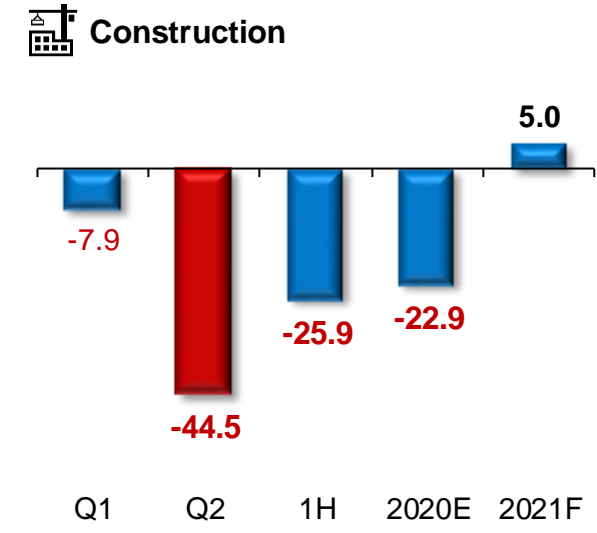
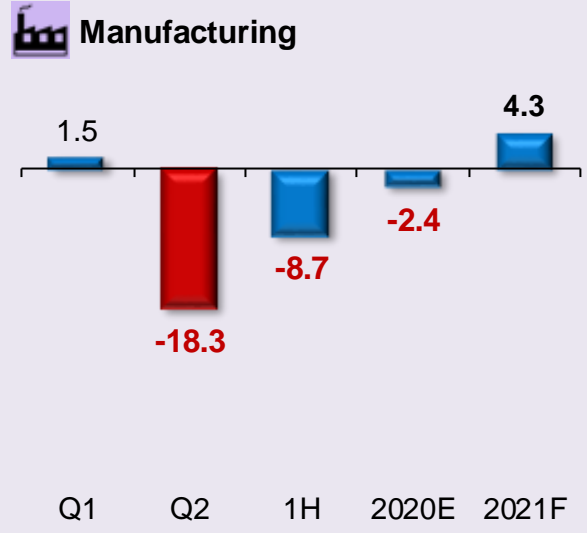
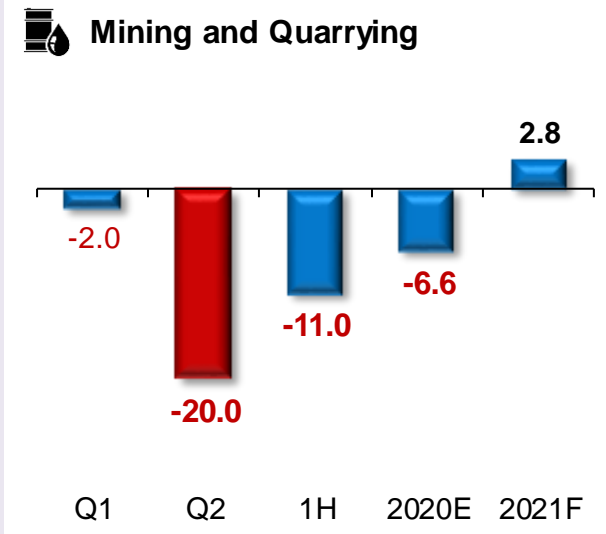
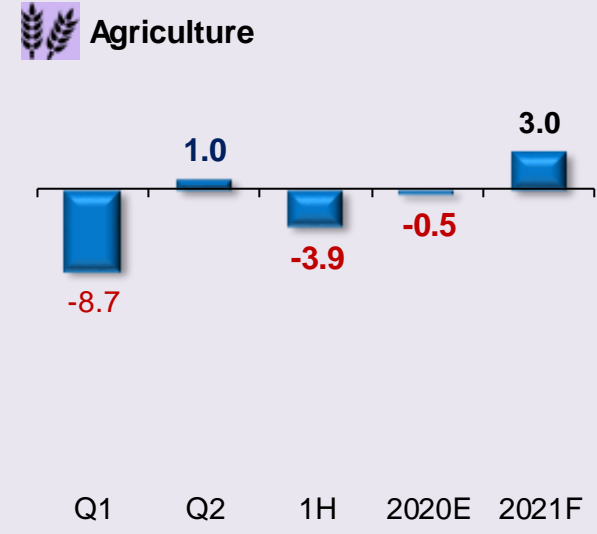
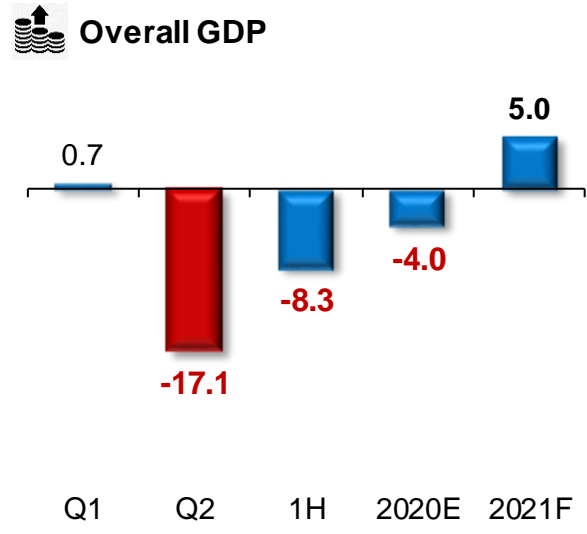
- 👍 “Sudden stop” in activity in 2020 will normalise in 2021 amid some permanent loss in output
- 👍 Technical base comparison sees a “sharp” bounce in annual growth comparison in 2021
- 👍 Services and tourism-related sectors will be revitalised as tourist arrivals resume gradually
- 👍 Construction: Supported by on-going public infrastructure projects and new projects
- 👍 Exports will rebound as global trade picks up

Risks to outlook

- 👎 Uncertainty about the future path of virus & vaccines availability
- 👎 A wide-scale Enhanced MCO
- 👎 A prolonged drag in global recovery
- 👎 Longer time for some domestic sectors to repair damage
- 👎 Households repair balance sheet & rebuild savings
- 👎 Slow recovery in jobs market

SERC's estimates and projections (2020E and 2021F)

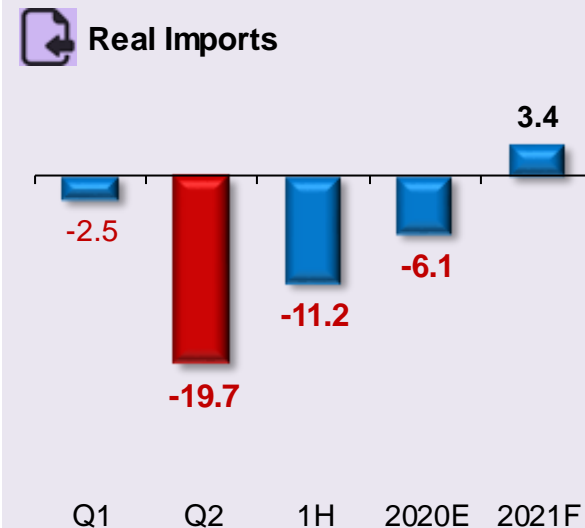
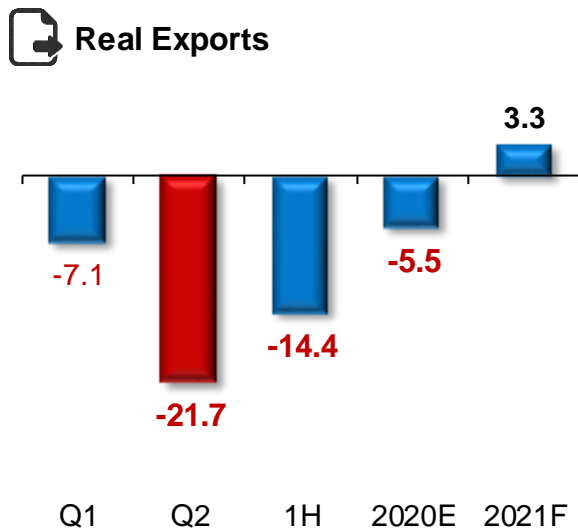
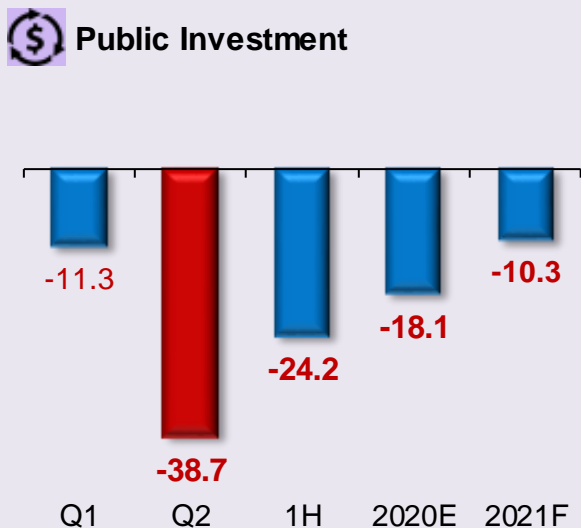
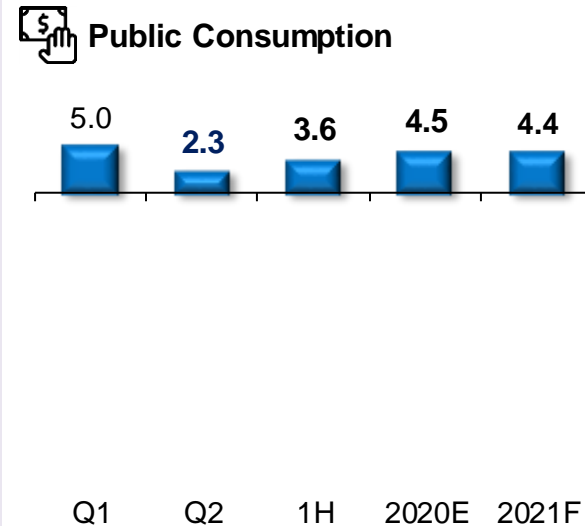
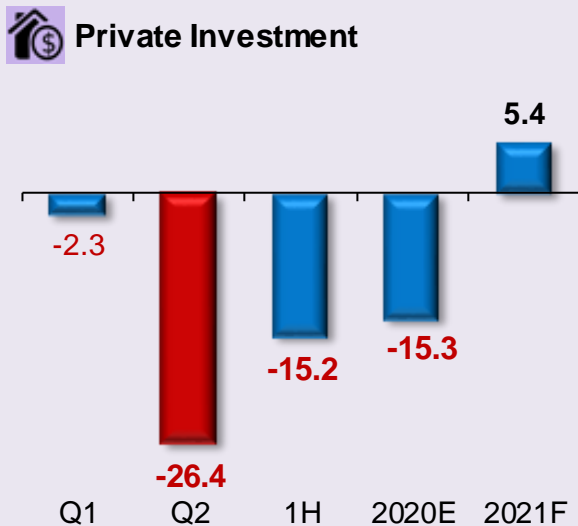
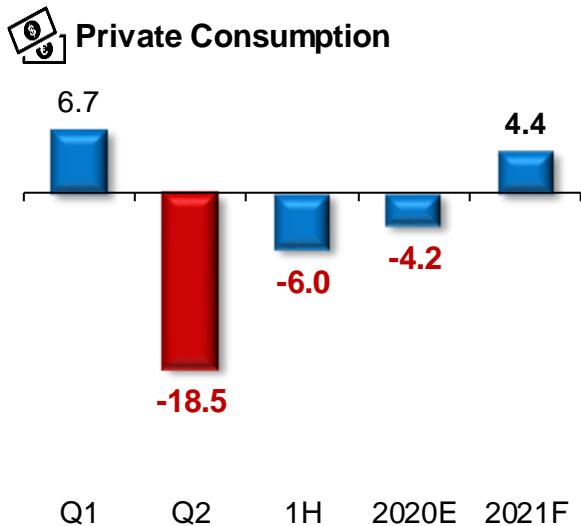
%, YoY



Source: DOSM; SERC

SERC's estimates and projections (2020E and 2021F) (cont.)

%, YoY



Source: DOSM; SERC

What opportunities lie ahead?

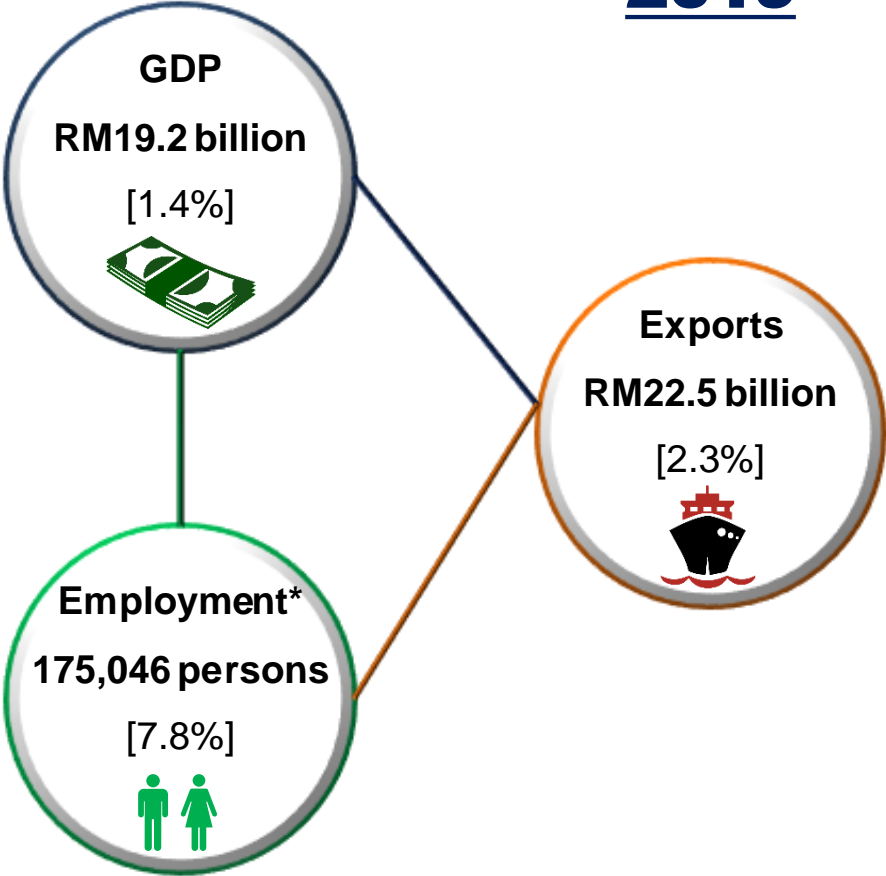
Post COVID-19 impact on the timber industry: How to respond?

- *Relatively unscratched impact during the MCO*
- *Effect on production and consumption patterns*
- *Opportunities ahead*



Timber and timber products industry's contribution to overall economy

2019



Wooden Furniture
RM9.1 billion
 [0.9%]

Plywood
RM3.4 billion
 [0.4%]

Sawn timber
RM3.4 billion
 [0.3%]

Others
(Veneer, logs and etc.)
RM6.6 billion
 [0.7%]

Source: DOSM; MTIB

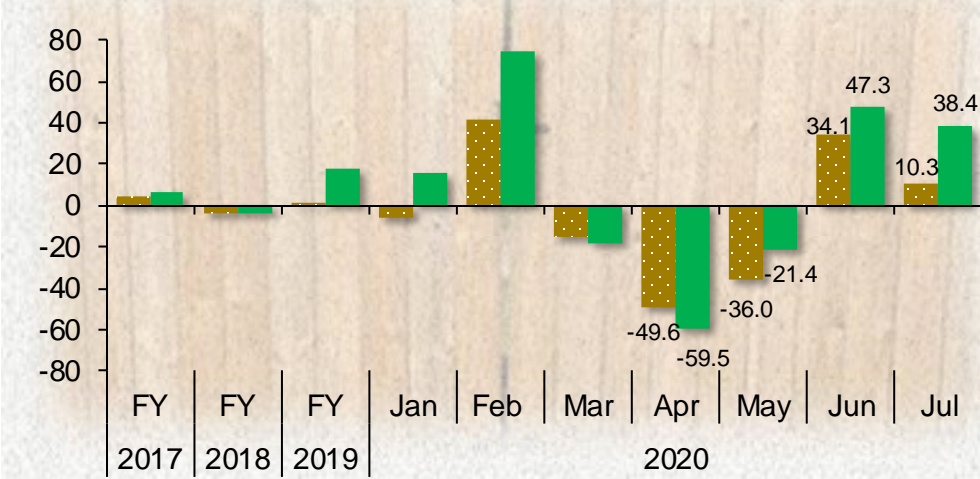
* Includes employment in wood products and furniture of the manufacturing sector; **Due to rounding off numbers, the percentage may not reflect the absolute figures

Timber industry has recovered from the lockdown disruptions

Production index (% YoY)



Exports (% YoY)

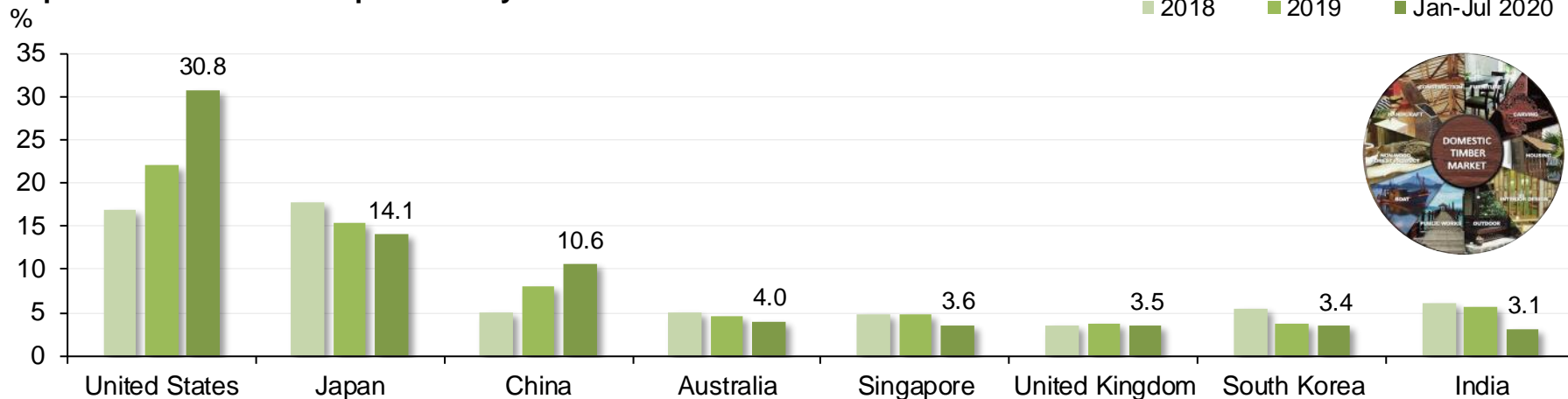


- The timber sector has been literally up and running during the MCO and CMCO
- 90% of manufacturers having resumed operations and more than 60% had begun exporting their products

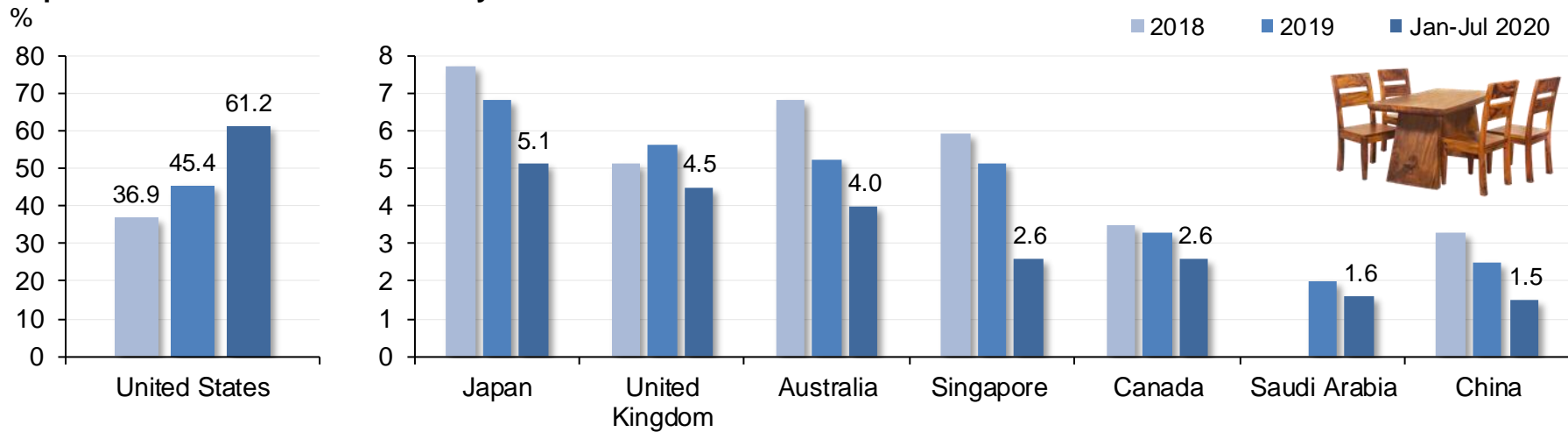
Source: DOSM; MTIB

The United States – Major customer of timber products

Export share of all timber products by destination



Export share of wooden furniture by destination

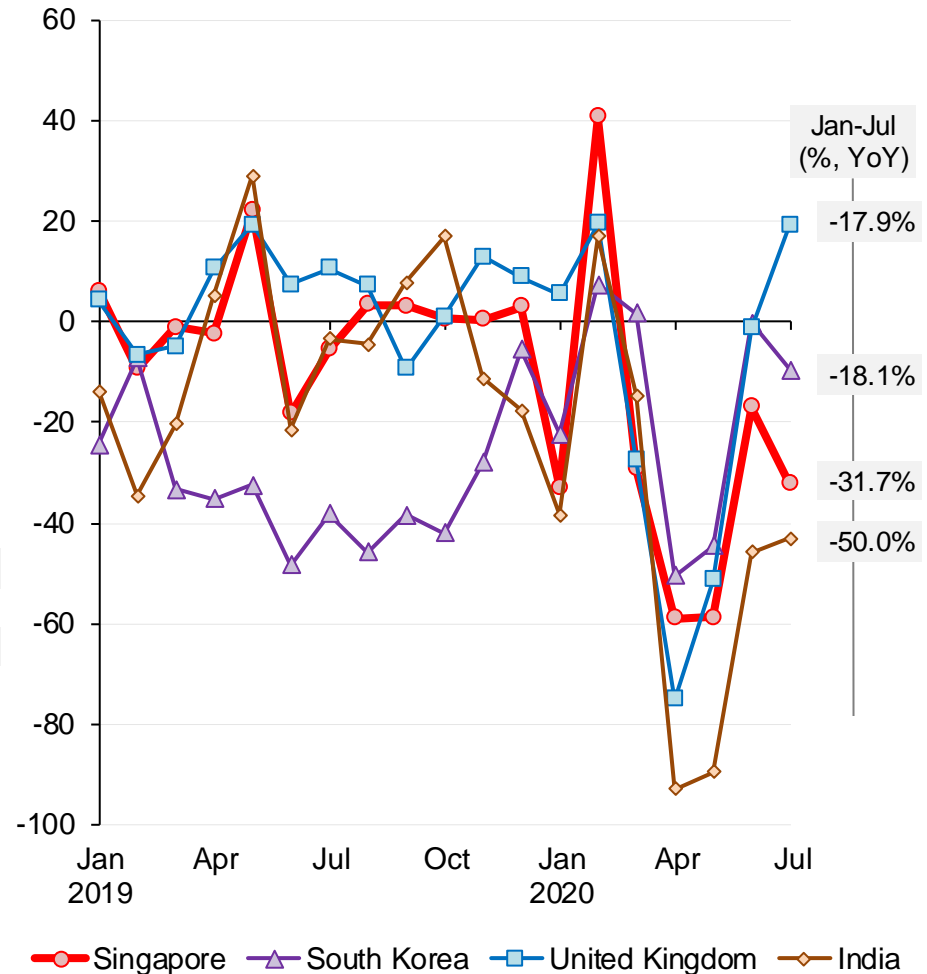
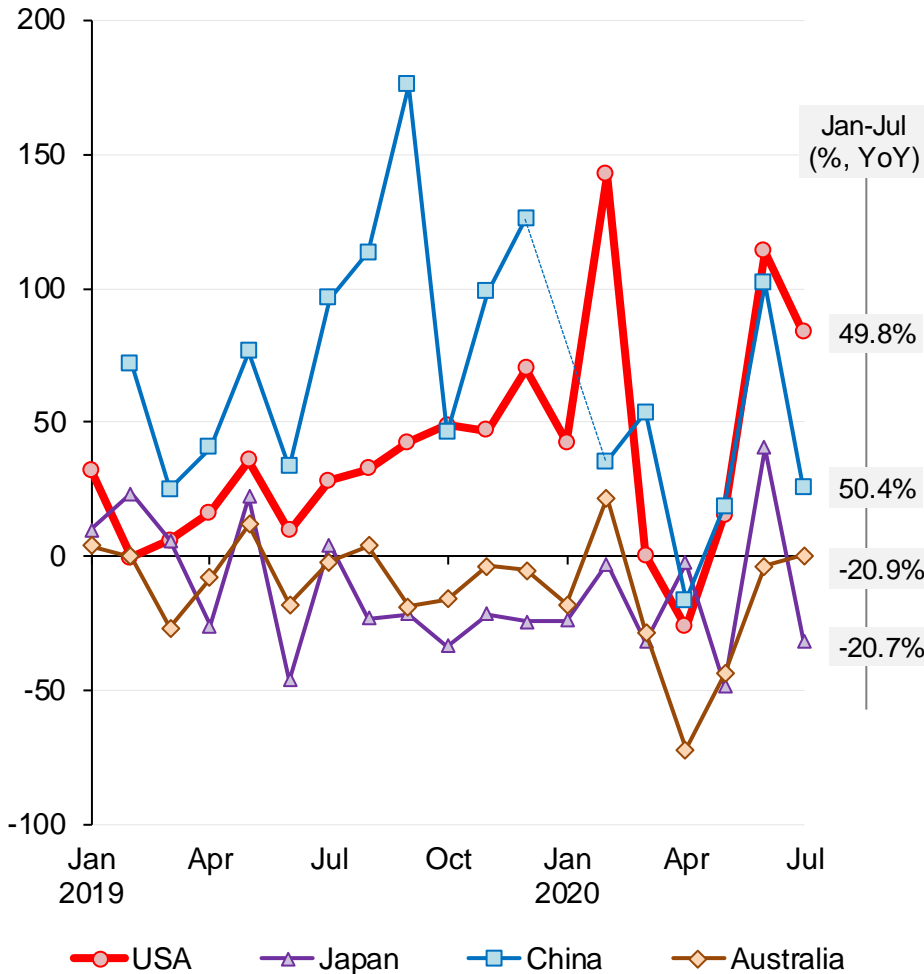


Source: MTIB

Note: Export data for Saudi Arabia in 2018 is not available

The export trend of major timber customers

Export growth of major timber products by destination
%, YoY



Source: MTIB

Note: Export value for China in Jan 2019 is not available

Effect on production and consumption pattern



The COVID-19's dampening impact on households' income and businesses' revenue affect the demand of furniture and fixture products;



The consequential of slowing demand, resulting in some places in stockpiles of export products being built up;



Limited demand in typically strong markets such as the US, Australia and UK as some countries would take a longer time to recover from the pandemic; and



A decrease in export incomes in developing countries due to plummeting export volumes of roundwood and other wood products.

Post COVID-19: Opportunities lie ahead



Timber products, including non-wood forest products continue to support livelihoods while delivering essential items such as hygiene and sanitary products, biomass for heating, ethanol for sanitizer, respirator paper and packaging for parcels.



Pay more attention on sustainable forestry management, use and conservation of forests in securing livelihoods and making progress towards achieving climate change.



Turn the crisis into an opportunity to promote more legal and sustainable products and nature based solutions to counter any short and longer-term shocks to the industry.



Increase economic incentives for the legal and sustainable production of timber to mitigate the potential effects of reduced prices in this commodity market caused by an influx of illegal products.



Promote the use of digital innovations to improve data access and Big Data analytics for decision makers, including market exchange platforms and logistics along value chains for legal and sustainable products.

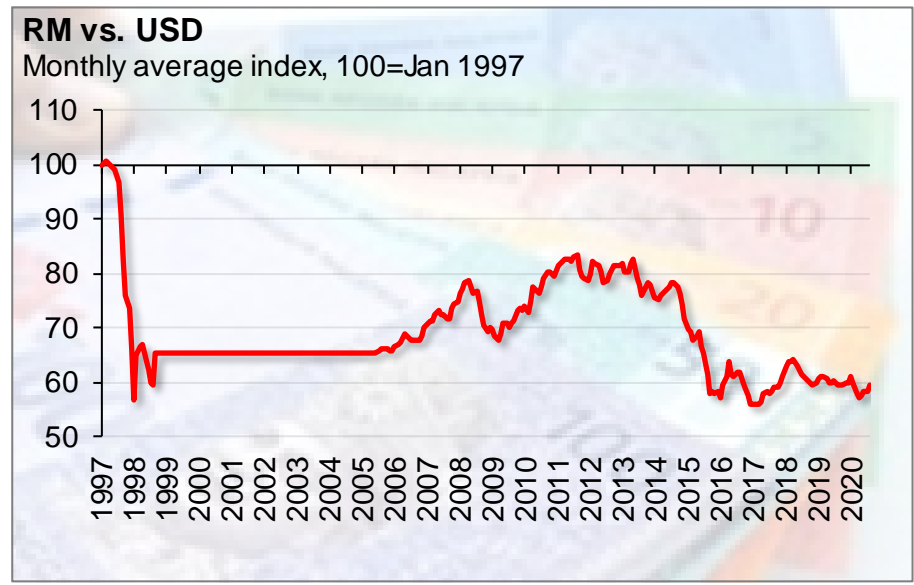
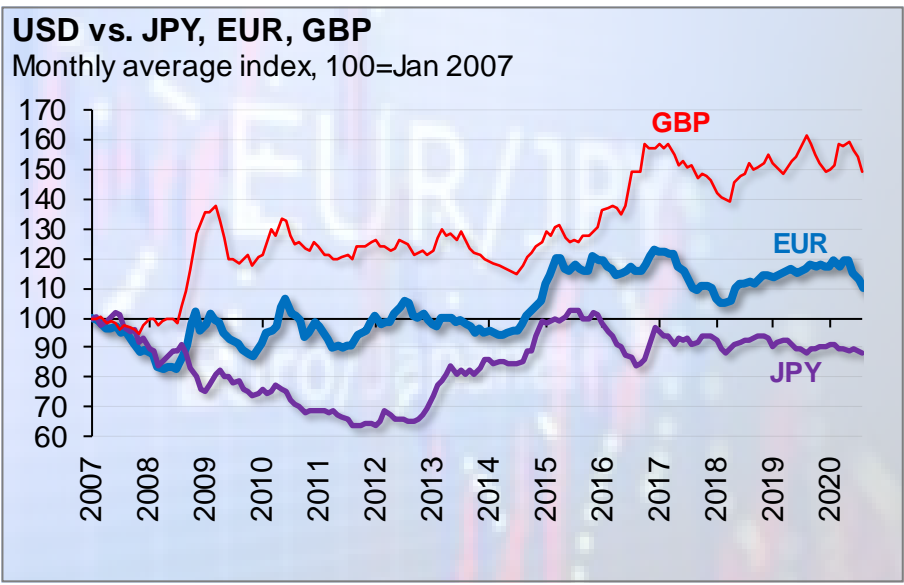
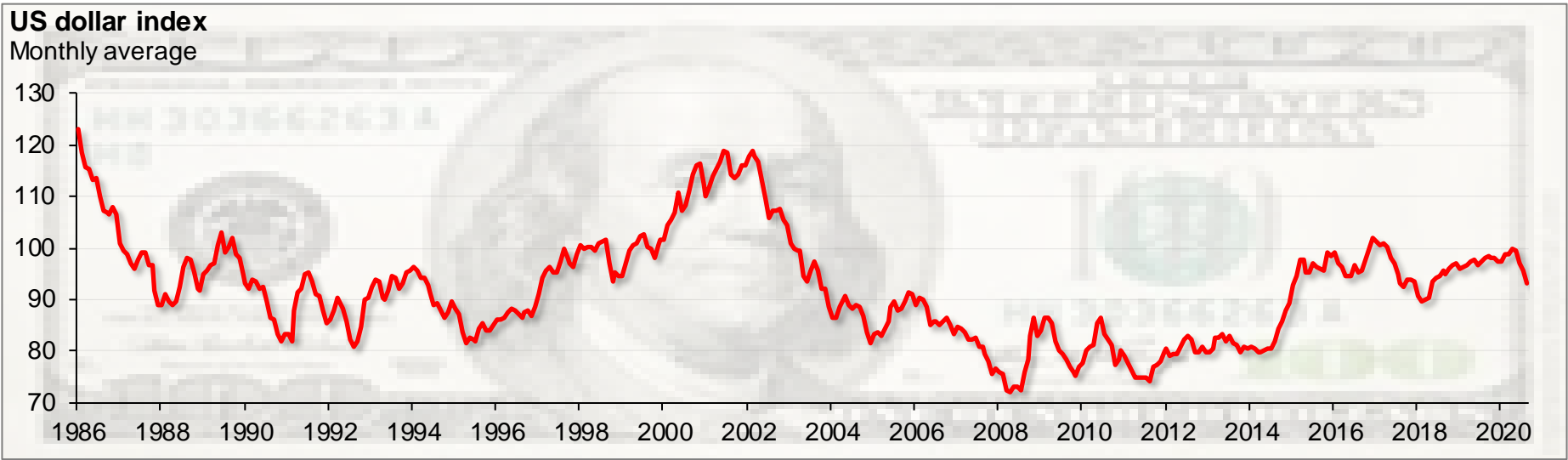
The path of the US dollar: Looking forward

The US dollar's exchange rate is critical in shaping financial flows and financial asset returns for investors around the globe.

It has a major impact on US inflation and interest rates, powerfully impacts global commodity prices and is a key determinant of international investments. So where is the dollar going?



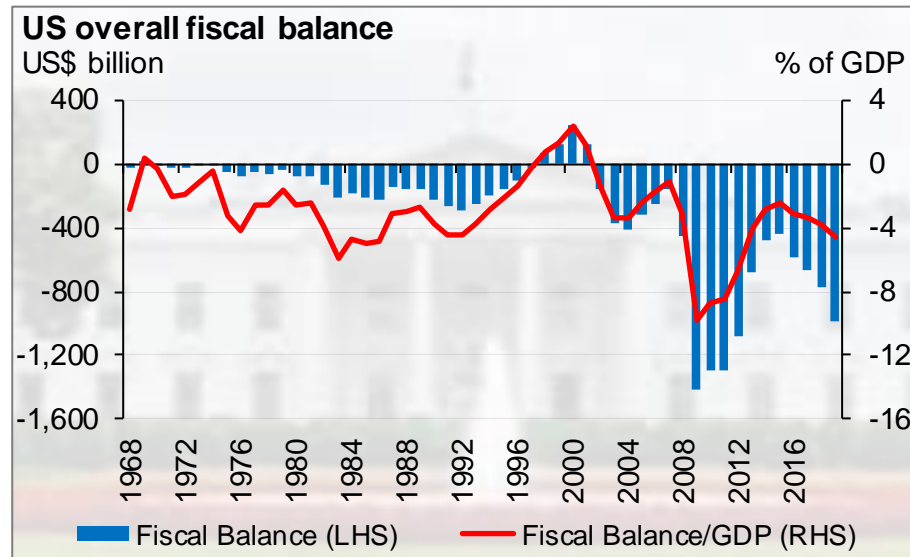
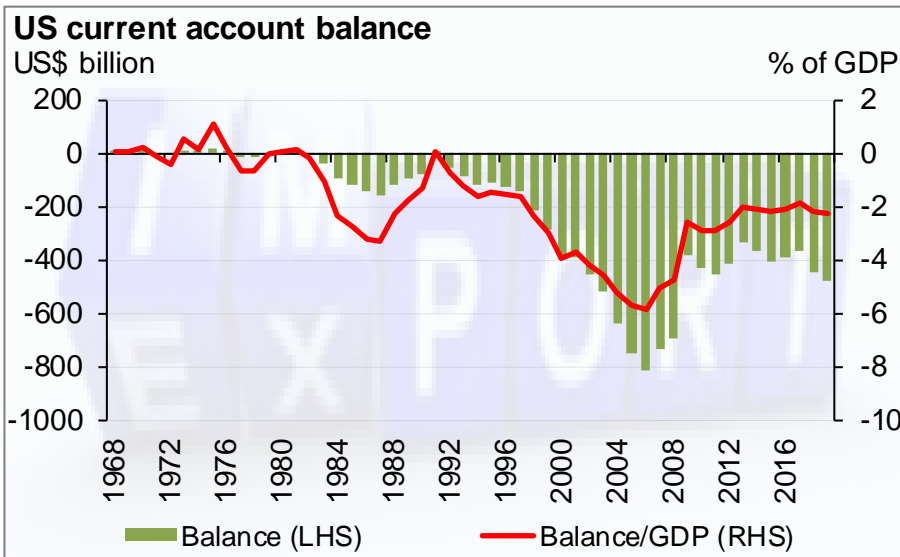
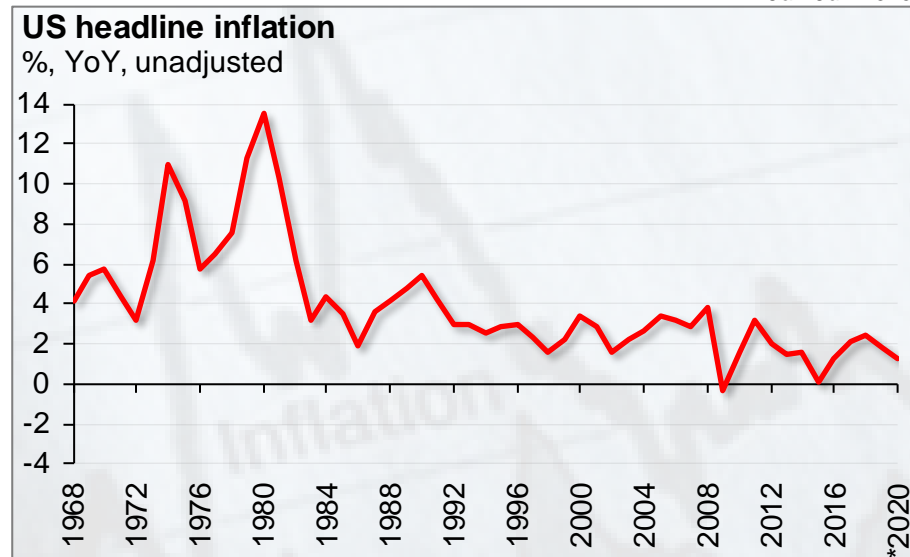
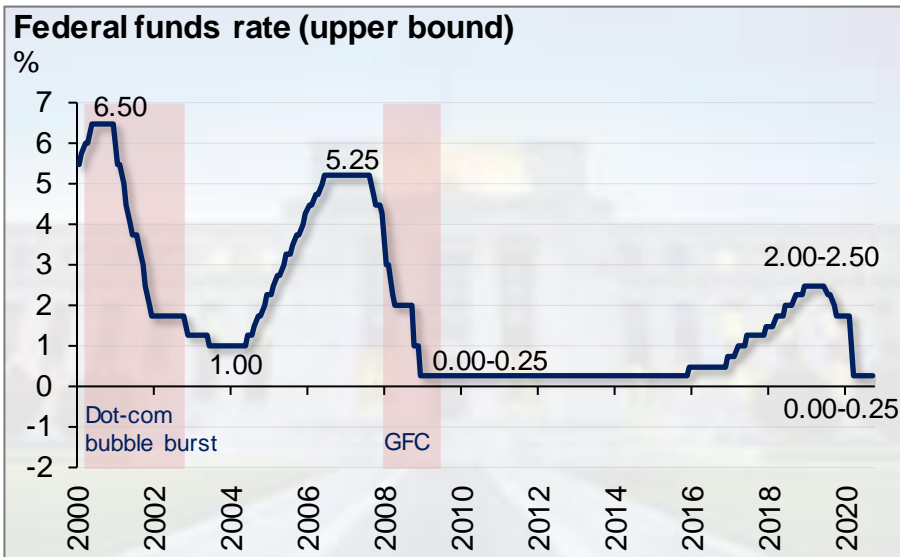
The US dollar cycle could be in a decade-long decline...



Source: WSJ.com; BNM

Four fundamentals long-term negative for the US dollar

* Jan-Jun 2020



Source: Fed; Bureau of Economic Analysis (BEA); Congressional Budget Office.(CBO)

The USD forecast against ...



The Fed's ultra monetary policies will undermine the dollar support. The compression of real yields has taken the shine away from the US dollar, especially relative to the euro.



Neutral for the euro. Driven by expectations that the eurozone economy will perform unevenly, the ECB backstop to be intact; the European break-up risk remains low; a strengthening of Italian political stability.



Bearish view on the yen primarily due to capital outflows from Japan, especially given the relative attractiveness of overseas assets.



Pound Sterling optimism to fade quickly. Maintains a negative view over the medium term, especially as the substantial fiscal spending will eventually require financing and the UK also runs a substantial current account deficit. BoE to introduce negative rates and expands more QE.



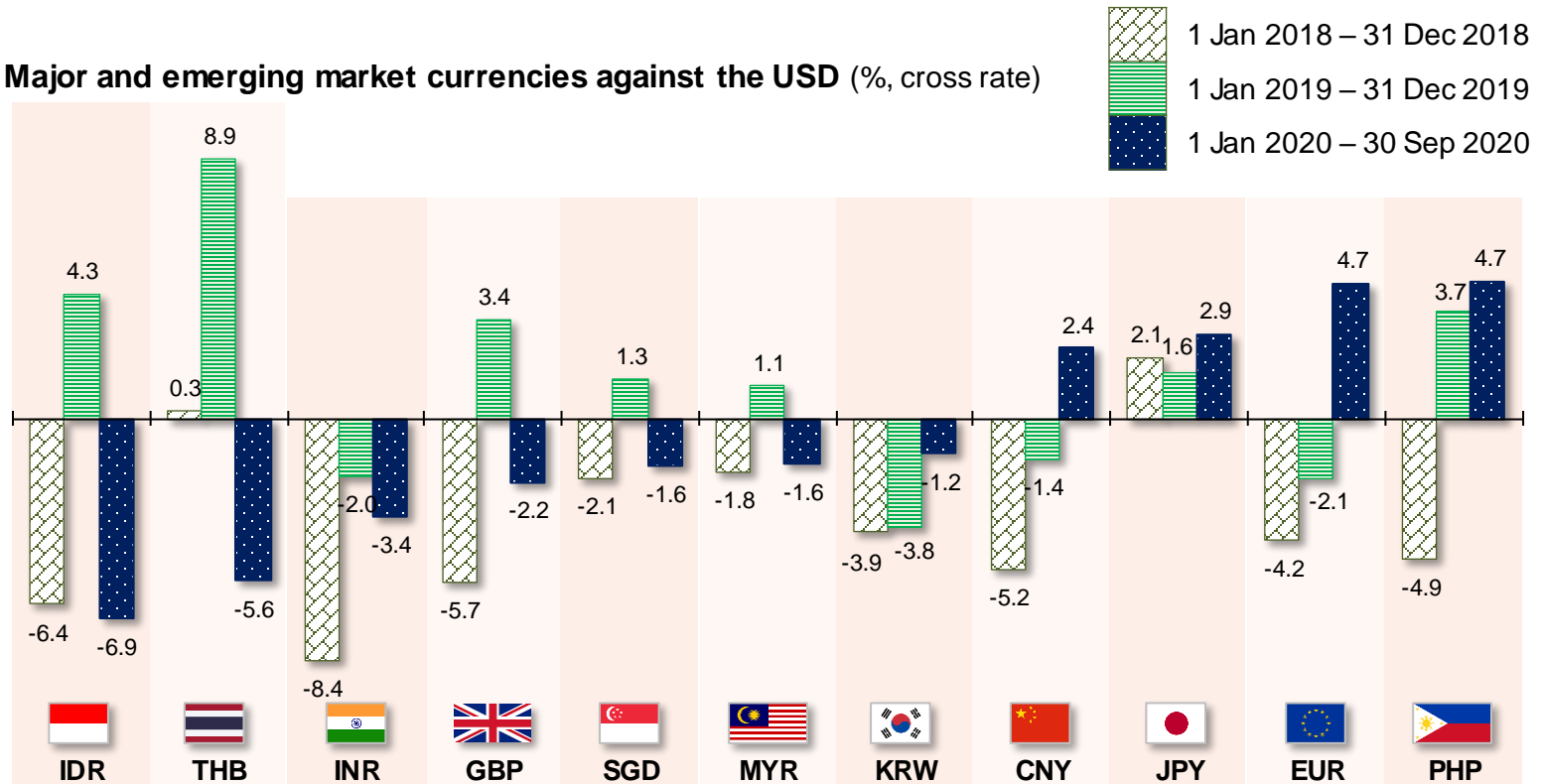
Equity gains to boost Australian and Canadian dollars. Bullish on commodity currencies amid expectations of global economic recovery and strong equities.



The Ringgit weakening bias remains. The strength of economic recovery; Budget deficit and debt outlook; a prolonged low interest rate; the yield compression.

The USD performance

Major and emerging market currencies against the USD (% change, cross rate)

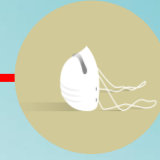


30 Sep 2020[^]	14,905	31.69	73.76	1.28	1.37	4.16	1,170	6.81	106	1.17	48.41
4Q2020F	14,800	31.30	74.50	1.32	1.35	4.13	1,170	6.78	104	1.21	48.50
1Q2021F	14,700	31.50	75.00	1.30	1.34	4.10	1,160	6.75	103	1.22	48.00
2Q2021F	14,500	31.50	75.50	1.30	1.34	4.10	1,160	6.75	103	1.22	48.00

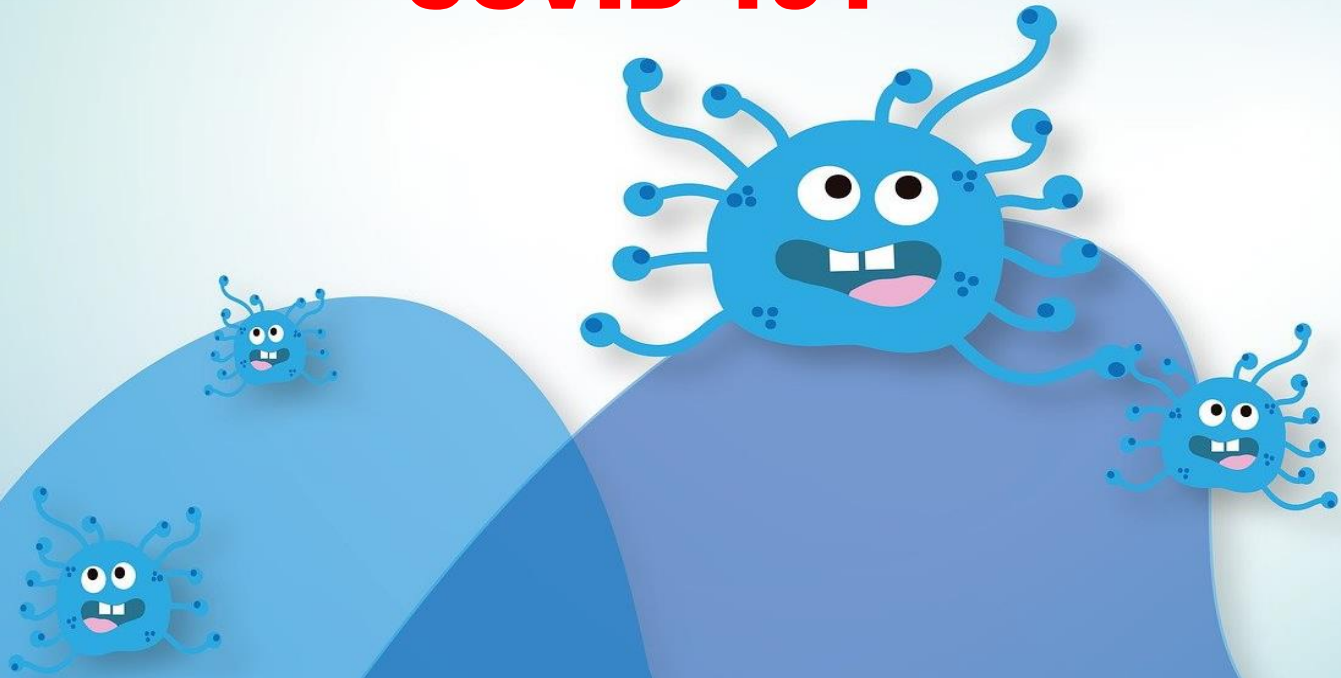
[^] BNM cross rate
Forecast as per UOB

Note: For GBP and EUR; exchange rate quoted as US dollar vs. 1 unit of GBP/EUR

Source: BNM



**Wearing mask and social distancing
are the most powerful tool to fight the
COVID-19 !**







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