



社会经济研究中心
**SOCIO-ECONOMIC
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**REHDA Annual Property Developers
Conference CEO Series**

**Malaysia's Sectors Outlook for 2022 –
Trend and Opportunities**

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Five Key Risks to Watch in 2022



Can Malaysia Deliver on its Growth Expectation?

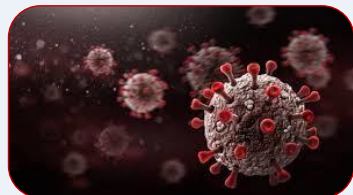


Post COVID-19 recovery: Sectors' Outlook in 2022

Malaysia's Economic Outlook 2022: Five Risks to Watch

1

The COVID contortions



- Highly transmissible Omicron variant
- Dent consumer and business sentiment
- May reimpose restricted movements
- Temper overall global recovery picture; impact on Malaysia's external sector

2

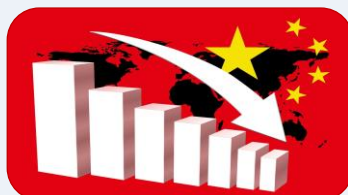
The Fed policy headwinds



- Rising inflation risks; signalling possible three rate hikes in 2022
- More central banks turning hawkish
- Financial volatility and capital flows spillover to Malaysia's financial and foreign exchange markets

3

China's economic slowdown



- Struggling with real estate woes and fallout from sporadic COVID-19 lockdowns
- Dampen demand for mineral and commodities
- 1% decline in GDP could shave Malaysia's economic growth by 0.3%-0.5% pts

4

Costs and inflation pressures



- High commodity prices, higher input costs, supply constraints and shortage of workers
- Higher cost of living; a gradual recovery in the labour market condition and improvement in nominal wages

5

Winding down domestic relief measures and policy changes headwinds



- Prosperity Tax rate - downside risk to corporate earnings and reduce dividend payments or payouts
- Rental tax rebate; electricity discount etc; proposed higher minimum wage and multi-tier foreign levy

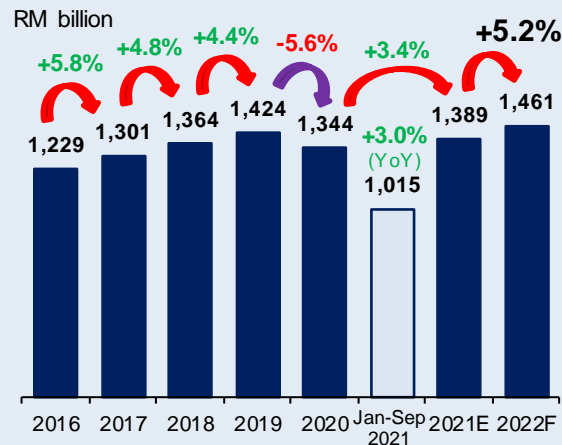
Malaysia's recovery path is contingent on ...

- **UNINTERRUPTED TRANSITION** towards reopening
- **SUSTAINED** revival in **DOMESTIC DEMAND**
- Timely implementation of **FISCAL IMPULSE**
- No major drag from **EXPORTS**



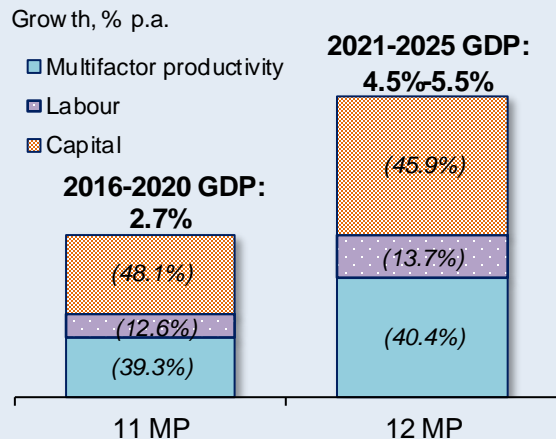
Malaysia's potential output growth hitting speedbump

Real GDP value and growth



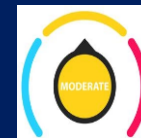
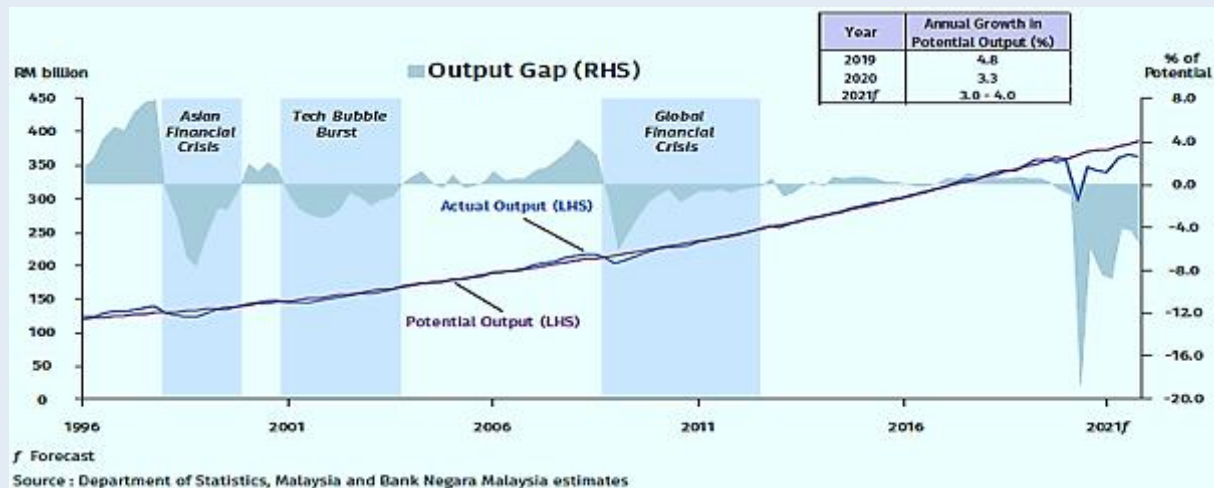
Source: DOSM; 12th Malaysia Plan

Total Factor Productivity (TFP) contribution to GDP growth



Note: % in parenthesis refers to share to GDP growth

Malaysia's Actual vs. Potential Output



Potential output growth has been moderating to 3.3% in 2020; 3-4% in 2021 (2019: 4.8%, 2011-2019 average: 4.9%)



Slowing labour productivity growth (1.1% pa in 2016-2020); lower utilisation of productive capital stock and effective utilisation of resources

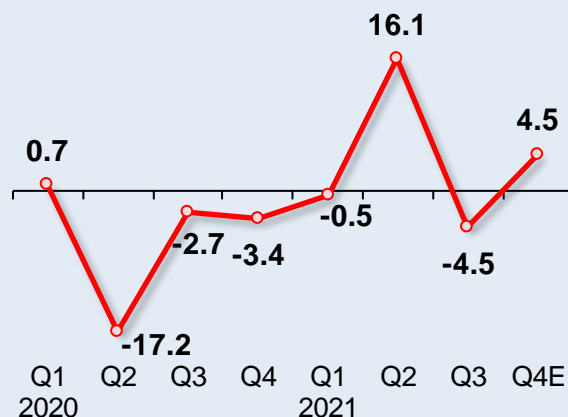


Quality investment, technology adoption, digitalisation, and skilled manpower

Economy hitting the trough; Recovery is in sight but uneven

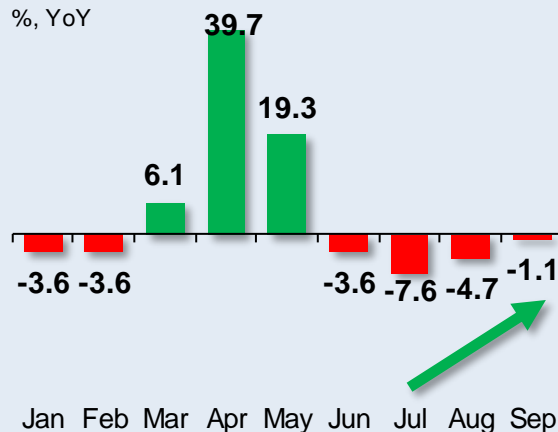
Quarterly GDP growth

%, YoY



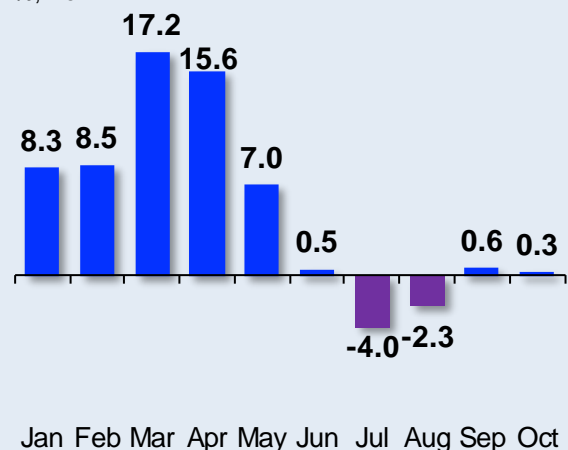
GDP growth by month in 2021

%, YoY



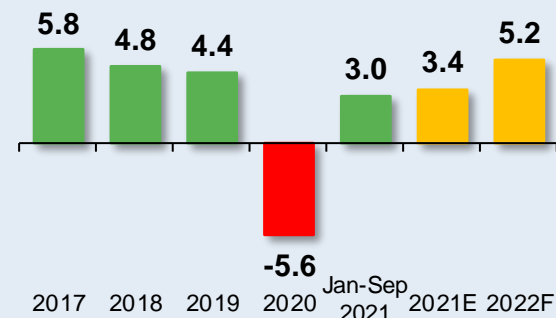
Leading index signals recovery

%, YoY



GDP outlook in 2022

%, YoY



Source: DOSM; SERC estimates and forecast



Malaysia's **GDP hit the trough in 3Q 2021**, and has turned around unevenly in 4Q



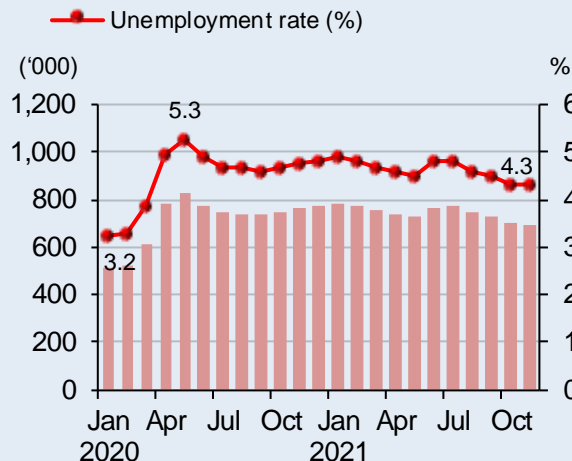
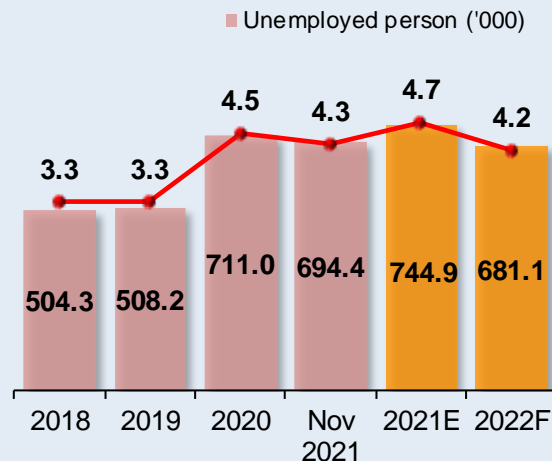
The **reopening of economic and social sectors** expedite the recovery process amid the Omicron variant



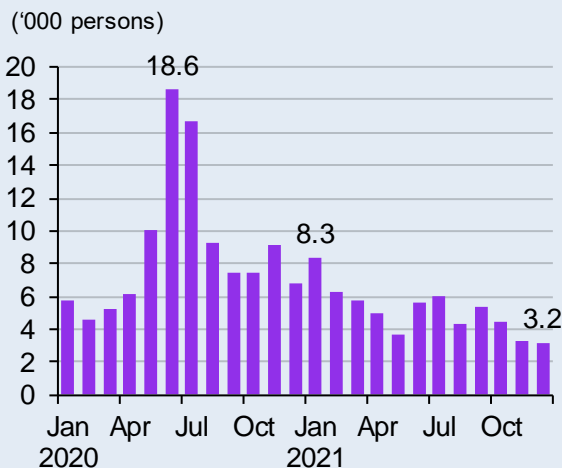
Revived domestic demand, supported by Improvement in the labour market, continued fiscal support via higher public investment

Labour market remains well short of normal

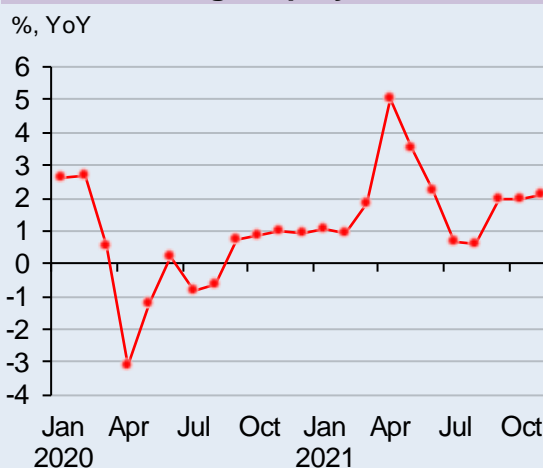
Labour market conditions and prospects



EIS's loss of employment (LOE)



Average salaries and wages per manufacturing employees



Source: DOSM; PERKESO; SERC estimates and forecast



Unemployment rate has eased from the highest rate (5.3% in May 2020) to 4.3% in Nov 2021

But, **skill-related underemployment** stood high at 37.7% of employed persons with tertiary education; **time-related underemployment** at 2.1% in 3Q of 2021



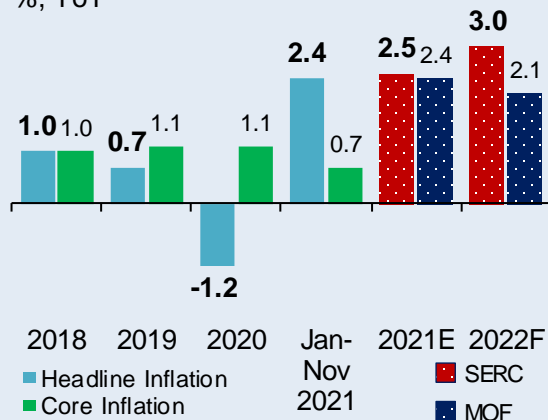
Revived economic and business activities will strengthen manpower demand, helping a steady recovery in the labour market

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

Costs and price pressures forcing on businesses and consumers

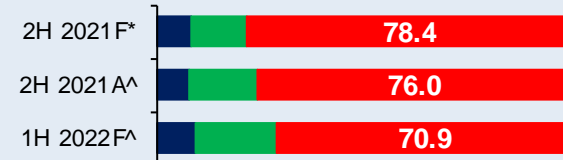
Headline and core inflation

Consumer prices
%, YoY



ACCCIM survey indicated persistent price increases in domestic and imported raw materials

Local Decrease No change Increase



Imported % of respondents

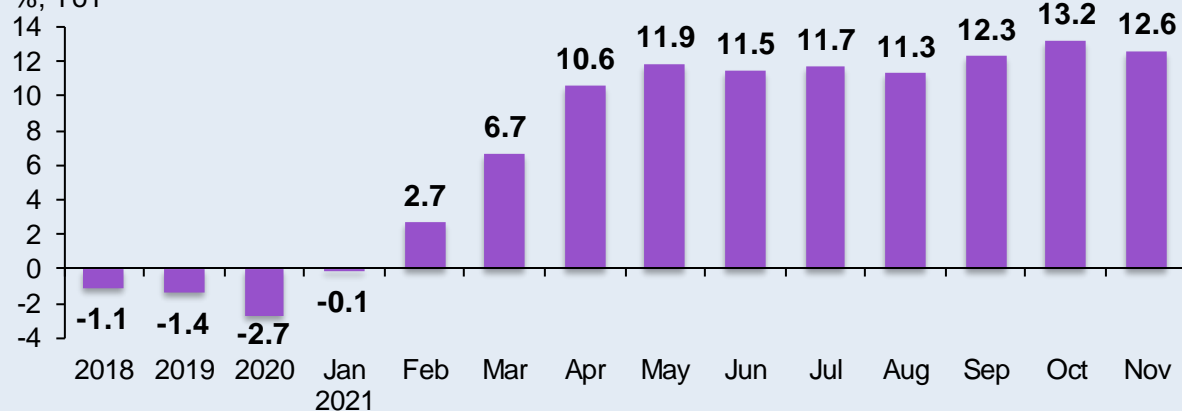


Note: A=Actual; F=Forecast ^Preliminary results

* The results of 2H 2021F were from previous survey (M-BECS 1H 2021 and 2H 2021F).

Soaring producer prices

Producer prices
%, YoY



Source: DOSM; MOF; ACCCIM M-BECS; SERC estimates and forecast



Cost pressures are top of concern for business and consumers.

Sustained high costs will inevitably feed through to consumers



Producer prices are soaring high, suggesting 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

Malaysia's growth prospect for 2022 (GDP estimates: +5.2%)

UPSIDE RISKS



Continued global recovery to support production and exports



Recovery in **domestic demand amid Omicron variant**



Implementation of the **12MP, Jalinan Digital Negara (JENDELA)**



Implementation of **RCEP**

DOWNSIDE RISKS



Global monetary tightening -induced volatility



Continued **costs and price pressures**



Households **repair balance sheet** and **build savings**



Slower progress in **projects implementation**



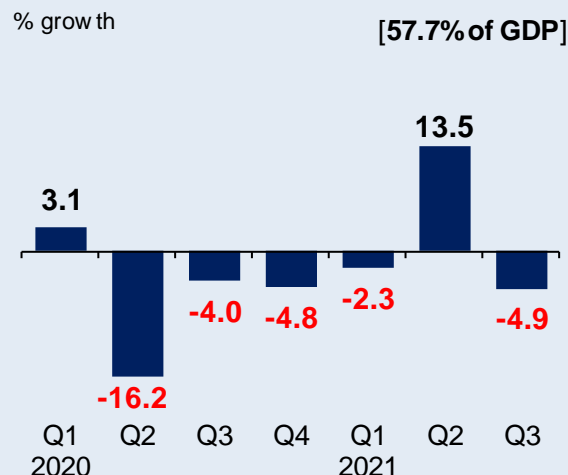
Lingering concerns about **political condition**



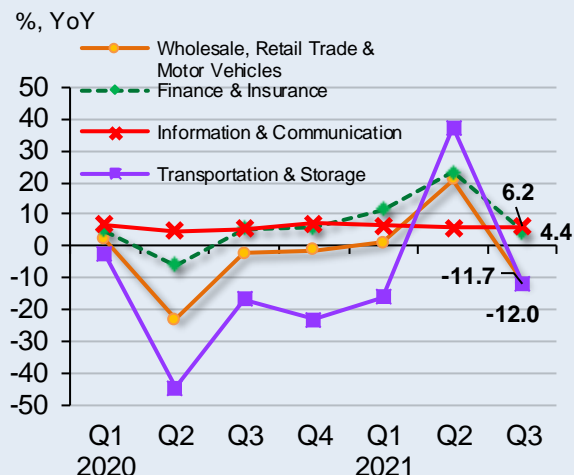
Shortage of workers

Services sector: Recovery in consumer spending holds the key

Services GDP growth

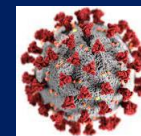


Services sub-sectors



Services GDP growth

2020	2021E	2022F
-5.5%	2.3%	5.8%



Pent-up consumer spending help retail businesses amid continued vigilance over the Omicron variant

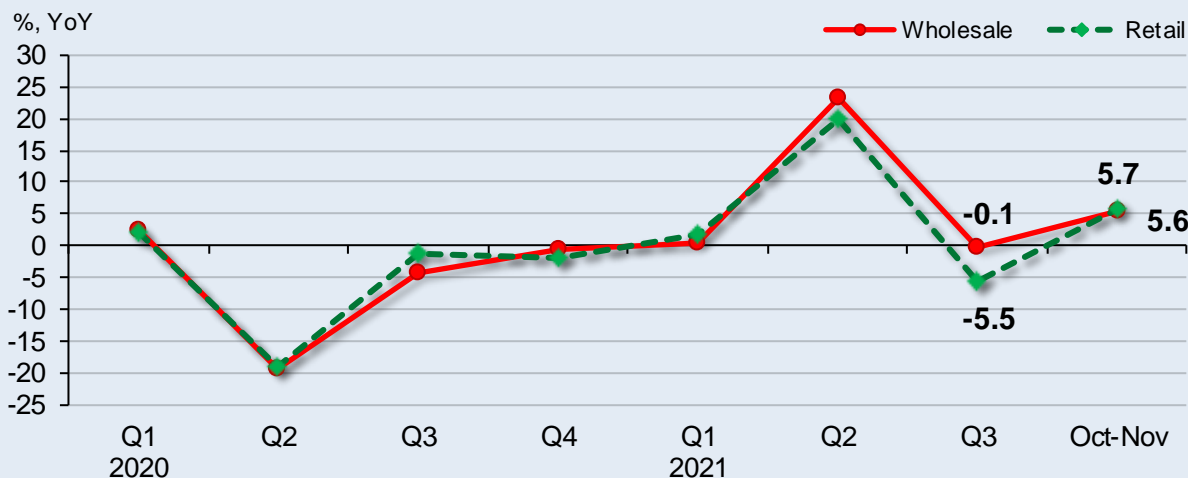


Continued recovery in consumer spending, revived economic and business activities

Resumption of domestic in-bound tourists aid the revival of tourism sector

But, a **full-reopening of international borders** to foreign tourists and business travellers will reinforce stronger revival in the tourism and aviation industry

Wholesale and retail trade growth

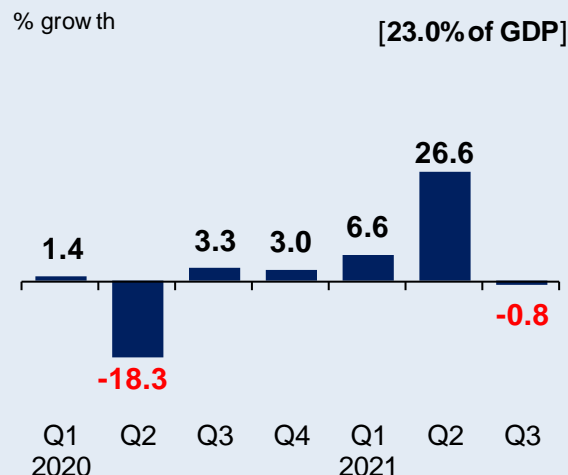


Note: Figure in parenthesis [] indicates share of GDP in 2020

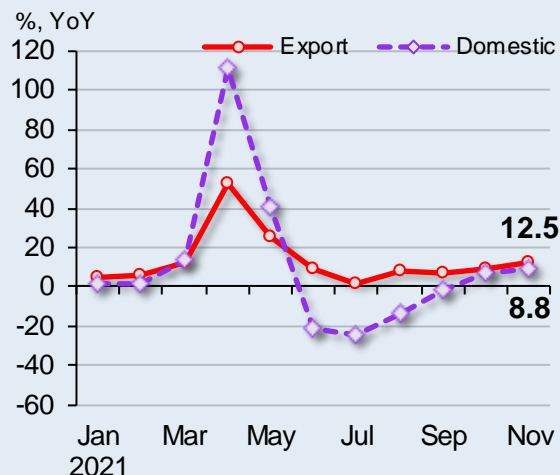
Source: DOSM; SERC estimates and forecast

Manufacturing sector: Growth normalises amid supply bottlenecks

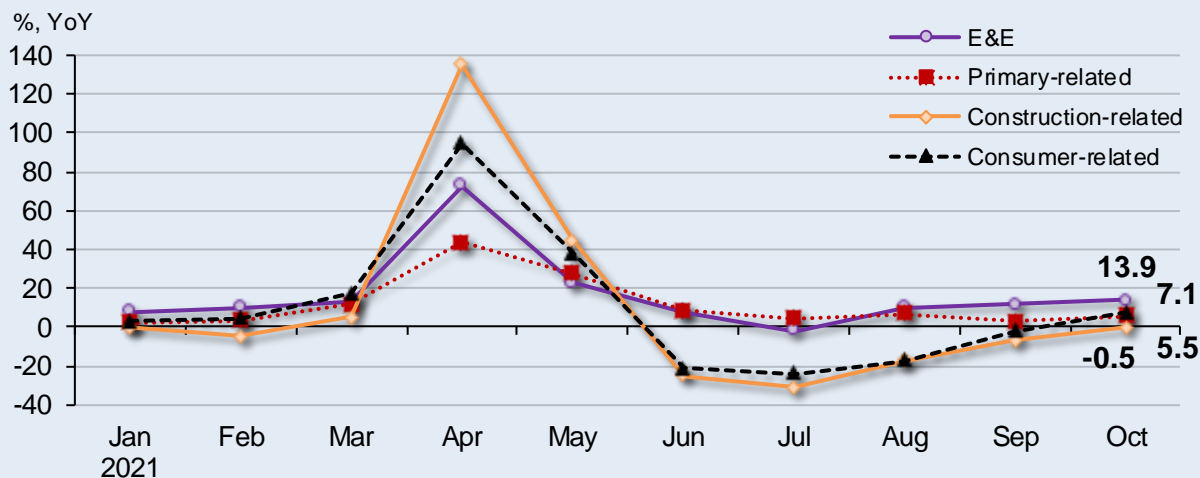
Manufacturing GDP growth



Exports vs. Domestic industries



Industrial Production Index (IPI) by cluster*



Note: Figure in parenthesis [] indicates share of GDP in 2020

Source: DOSM; BNM; SERC estimates and forecast

* BNM's classification

Manufacturing GDP growth

2020	2021E	2022F
-2.6%	8.8%	4.8%



Continued global demand will support Malaysia's export growth

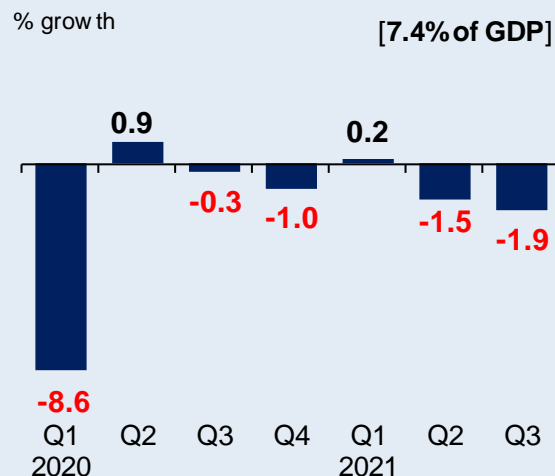
The electronics and electrical products industry will remain strong; the chip shortage dampened auto sector; increased consumption and a rebound in construction output will support domestic-market industries



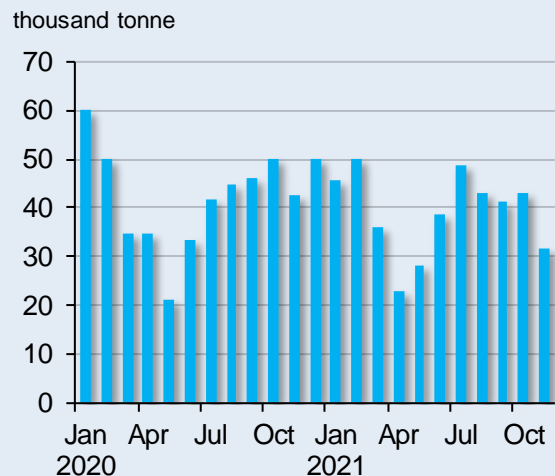
Headwinds: Rising cost of raw materials; logistic cost and workers shortage restrained production and new orders

Agriculture sector: Turnaround amid increased inputs cost

Agriculture GDP growth



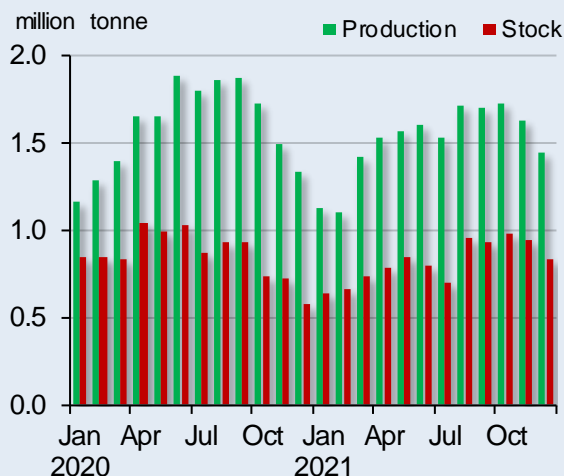
Rubber production



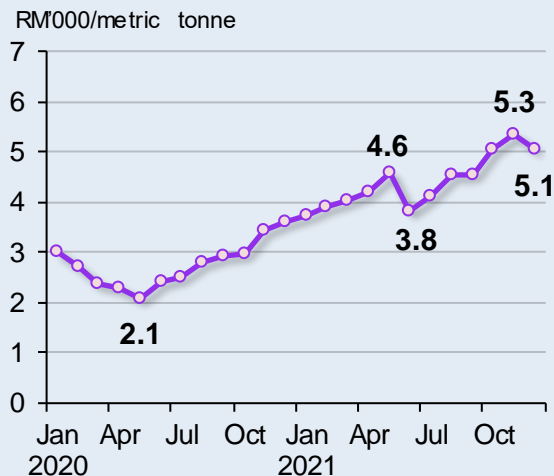
Note: Figure in parenthesis [] indicates share of GDP in 2020

Source: DOSM; MPOB; SERC estimates and forecast

CPO production and stocks



CPO prices (Local delivered)



Agriculture GDP growth

2020	2021E	2022F
-2.2%	-1.2%	2.8%



Supported by sustained global demand for commodity-based products



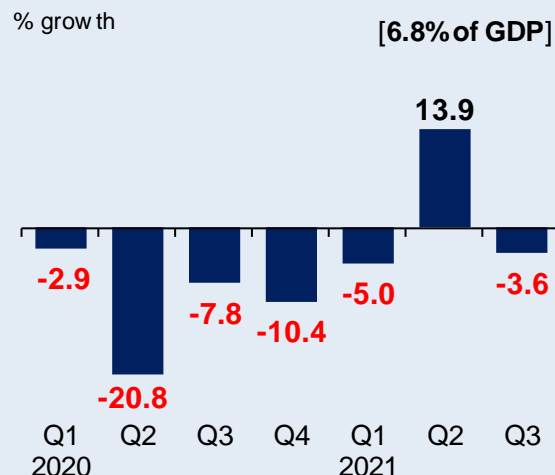
Headwinds: Extreme weather condition, higher cost of fertilisers, pesticides and animal feed as well as logistical issues would dampen production



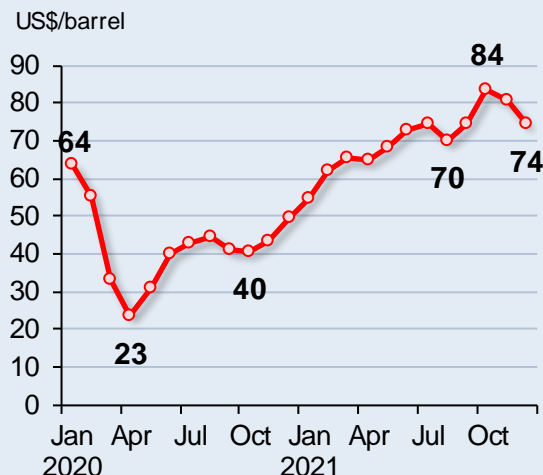
Critically address the shortage of workers pending on the intake of new foreign workers

Mining and quarrying sector: Marginal decline in output

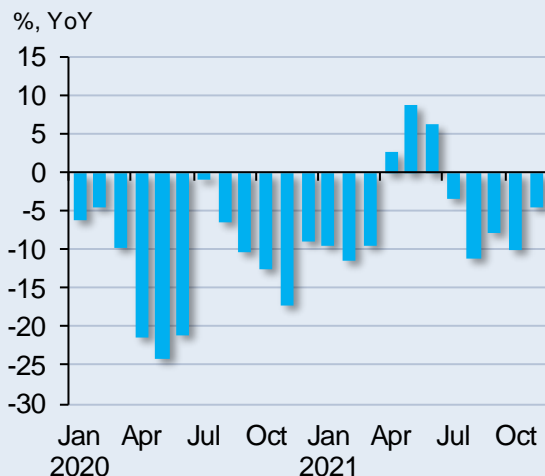
Mining and quarrying GDP growth



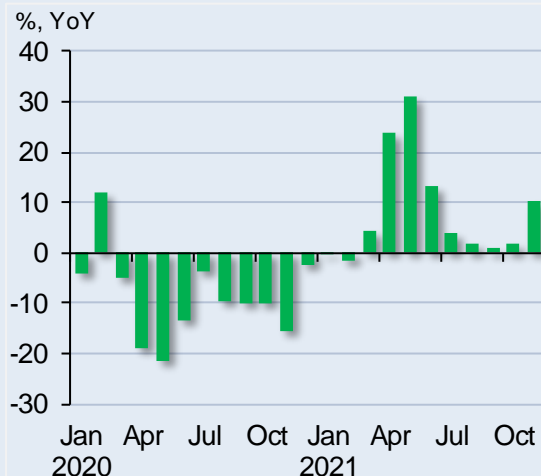
Brent crude oil prices



Crude oil production



Natural gas production



Note: Figure in parenthesis [] indicates share of GDP in 2020

Source: DOSM; World Bank; SERC estimates and forecast

Mining and quarrying GDP growth

2020	2021E	2022F
-10.6%	0.5%	-0.2%



Global consumption of crude oil and petroleum products continue to increase

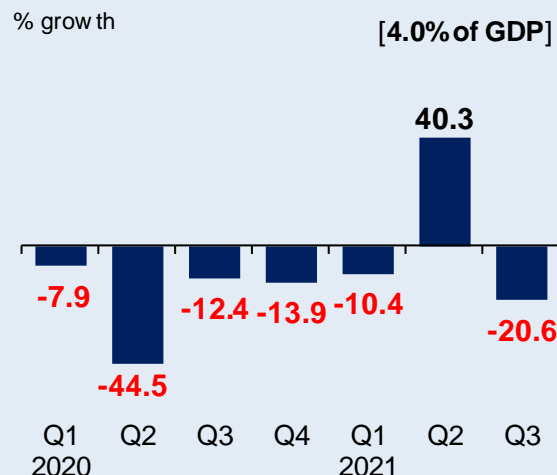


Amid still firming oil prices, lower crude oil and condensates production following the scheduled shut down of oil and gas plants and facilities for maintenance

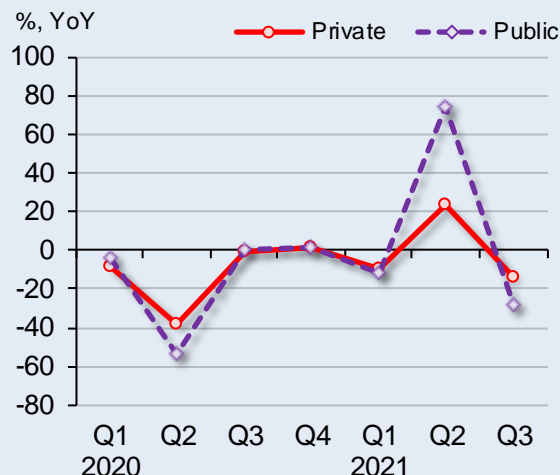
EIA forecasts Brent crude oil price to **average around US\$75/bbl in 2022** from US\$71/bbl in 2021

Construction sector: A strong turnaround in 2022

Construction GDP growth



Private vs. public construction output



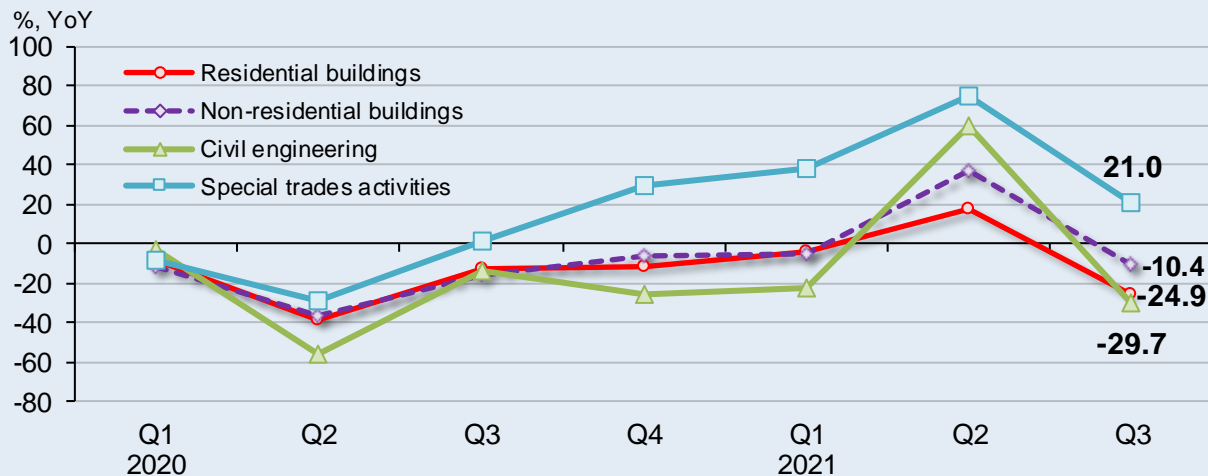
Construction GDP growth

2020	2021E	2022F
-19.4%	-2.0%	10.6%



The construction sector contracted the most in 2020-2021, mainly dragged by the limited operating capacity due to various stages of containment measures

Construction sub-sector



Note: Figure in parenthesis [] indicates share of GDP in 2020

Source: MOF; DOSM; SERC estimates and forecast

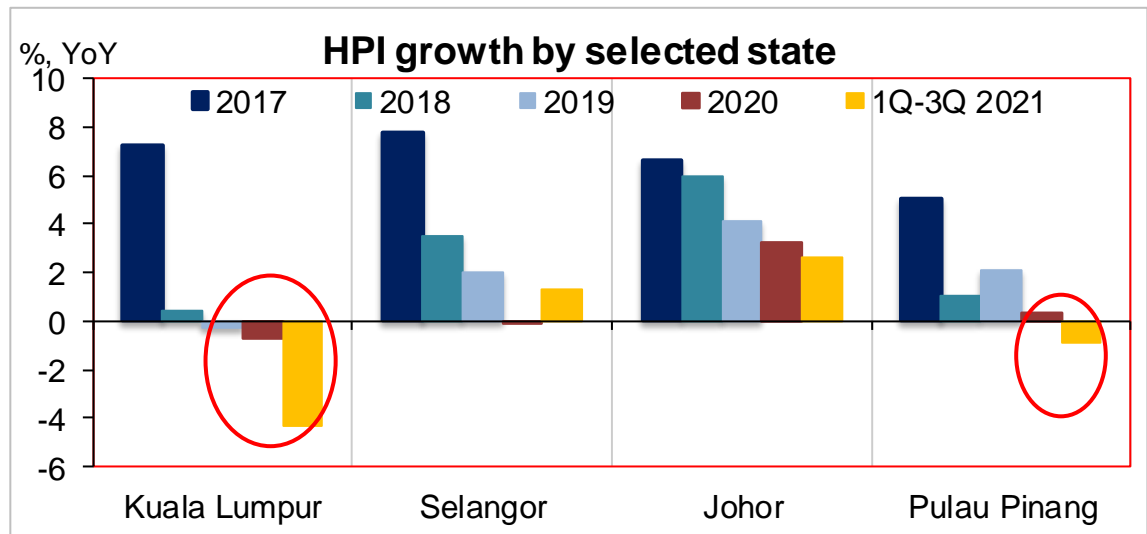
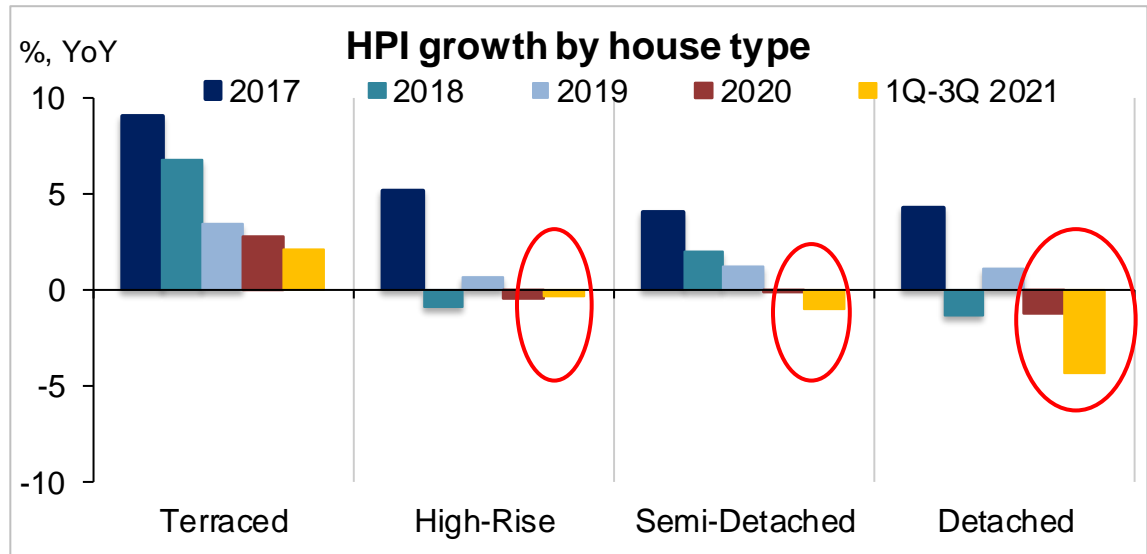
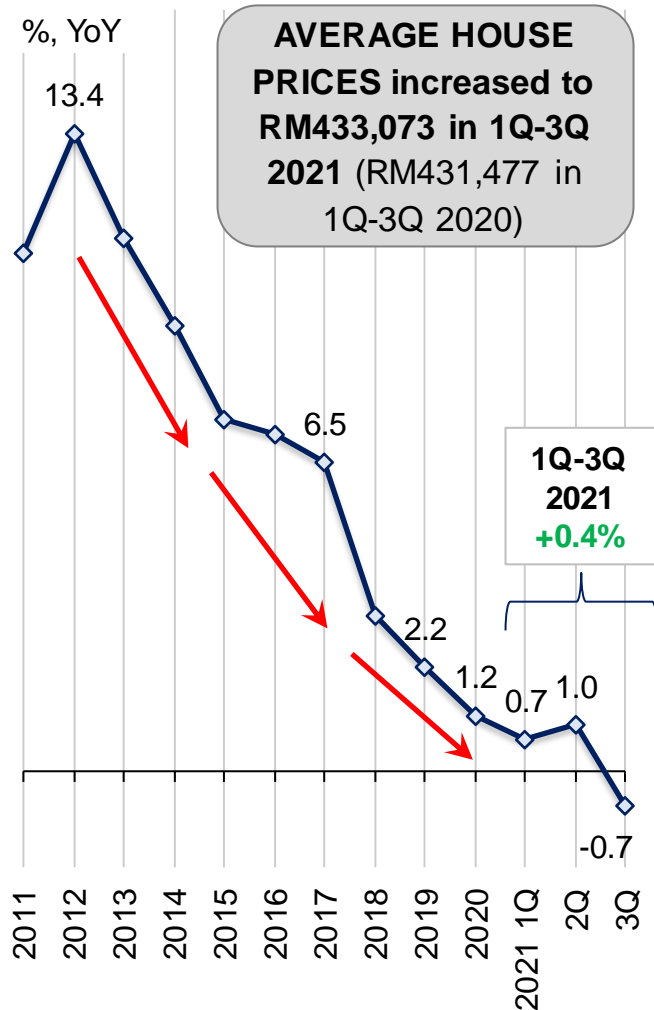


Supported by continuation and acceleration of major infrastructure projects (LRT3, MRT3, Johor Bahru-Singapore RTS, and Pan Borneo highways); affordable housing; and ongoing commercial projects

Risks: Rising cost of building materials; shortage of workers; weak implementation capacity of public projects

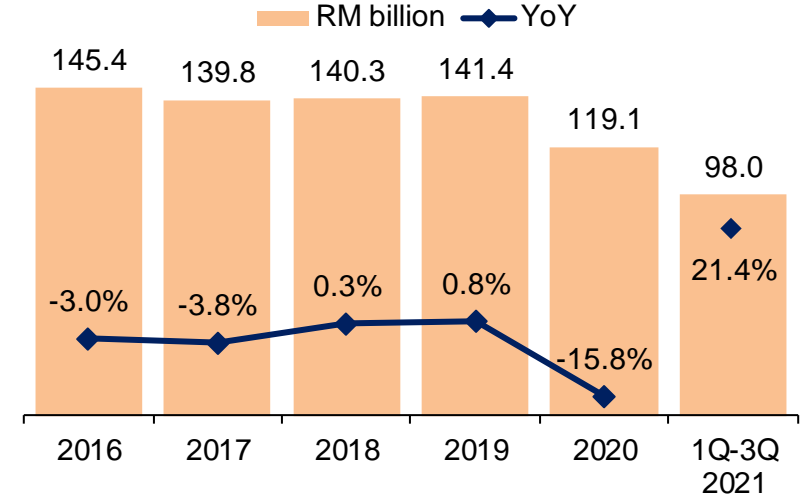
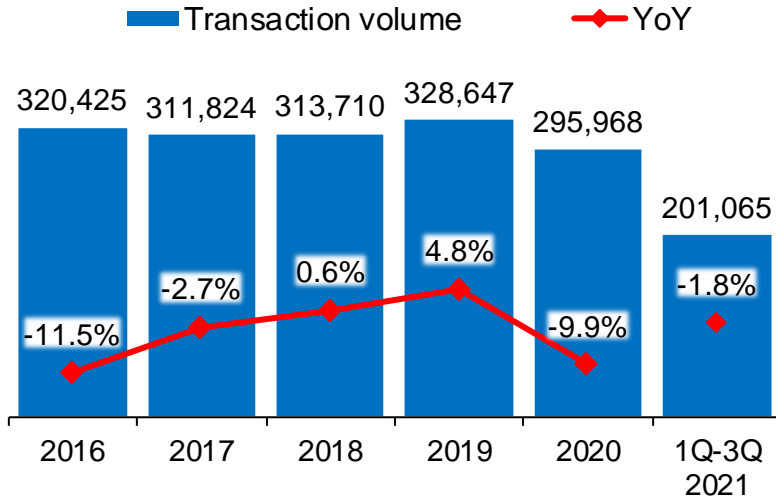
House price index moderated for eight consecutive years

House Price Index (HPI)

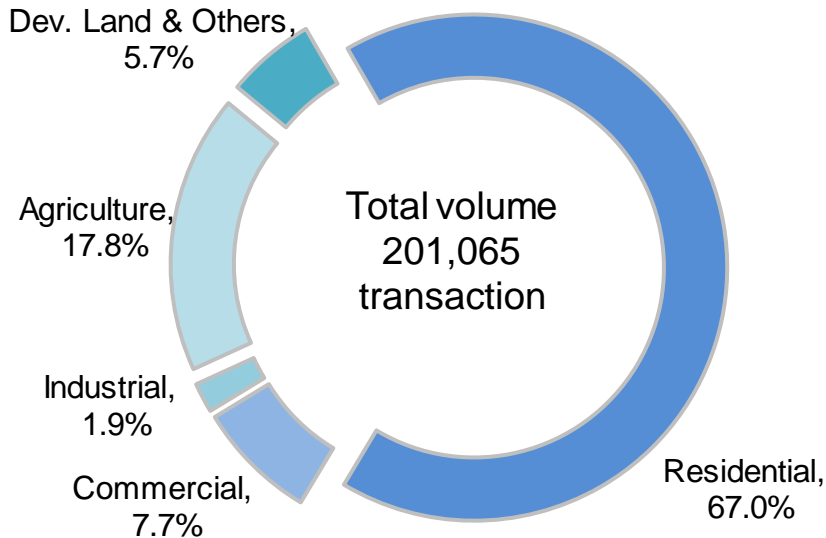


Source: NAPIC

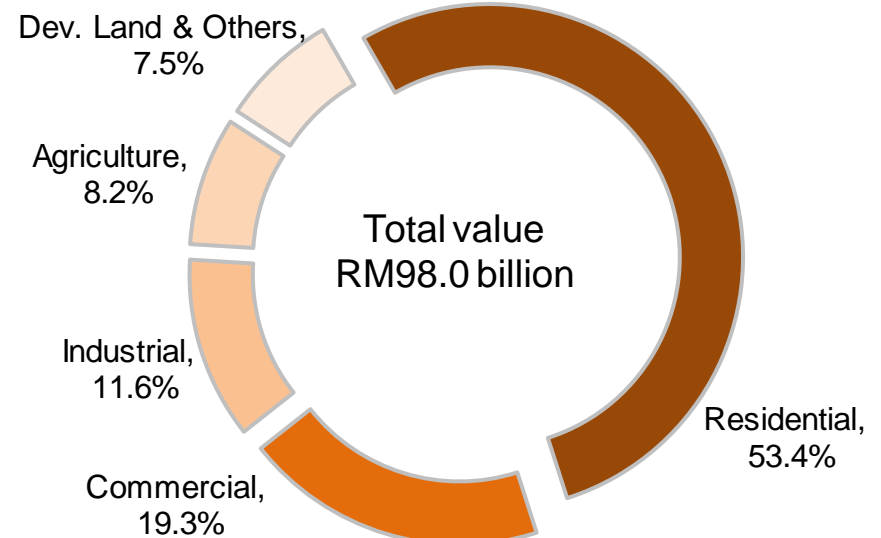
Property transactions volume still contracting, albeit smaller



Transaction volume in 1Q-3Q 2021 by sub-sector (% share)



Transaction value in 1Q-3Q 2021 by sub-sector (% share)



1 Rising cost of building materials

will lead to higher house prices

Building materials*	Price (RM in Jan 2021)	Price (RM in Nov 2021)	Increase (%)
Cement (bag)	12.10	16.30	35.0% ↑
Hardwood	895	1,200	34.0% ↑
Glass	45	70	55.0% ↑
Diesel fuel	1.75	2.68	53.0% ↑
Aluminium	13.10	18.30	40.0% ↑
Construction templates	55	71	29.0% ↑

Source: Johor Hardware, Machinery & Building Material Merchants Association

2 Persistent high overhang units

As of 3Q 2021, total overhang units declined by 1.0% yoy to 64,923 units worth RM49.4 billion.

3 Rising non-performing residential loans could lead to **more auctions of houses** in the market.



6 **Risk of abandoned projects rises** due to the prolonged COVID-19 pandemic.

5 **Shortage of workers** a drag on the completion of housing projects. Master Builders Association Malaysia (MBAM) reported 200,000 shortage of workers in the industry.

4 **Buyers' sentiment dampened** by rising cost of living and the end of Home-Ownership Campaign (HOC) on 31 December 2021 amid historically low mortgage rate.

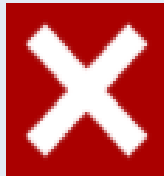
Property sector - Catalysts and opportunities

Catalysts



Historic low interest rate:
average lending rate currently at 3.44%¹ vs. 4.7% in 2015-2019

Abolishment of Real Property Gains Tax (RPGT) on the disposal of real property in the **6th year onwards**.
Current zeroised rate is only for citizens and permanent residents



RM2 billion for Skim Jaminan Kredit Perumahan to help gig workers, small business owners and farmers in securing a housing loan

Continuation and acceleration in the construction of major infrastructure projects (e.g. MRT3, LRT3, Rapid Transit System (RTS) Link or Pan Borneo Highway).



Opportunities

Revive, refurbish and rebrand the zombie malls (e.g. *One Shamelin, Viva Home or Bangi Evo Mall*) **and abandoned malls** (e.g. *Pertama Shopping Complex (KL) and Sentral Bazaar (Nilai)*).



Transforming the malls into:

- Data centres
- Restaurants and hotels
- Self-storage
- Film and TV studios
- Residence
- Large resorts
- Medical centres
- Fitness centres
- Video gaming hubs

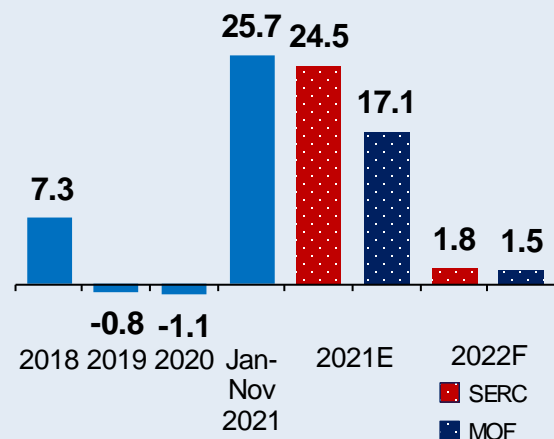
Transforming vacant office lots or shop lots into indoor farming, warehouse, logistics space, day-care centre or confinement centre.



Exports still growing, albeit normalising to long-term trend

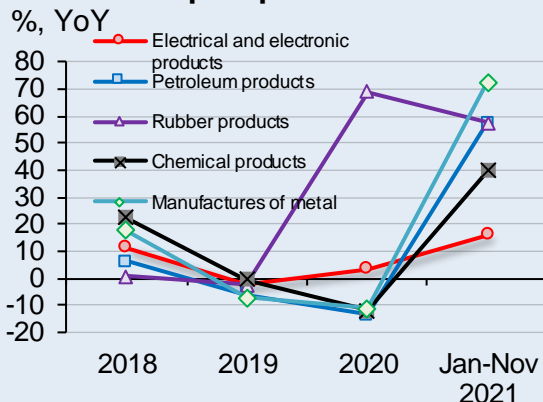
Exports growth set to normalise

%, YoY



Major export products group

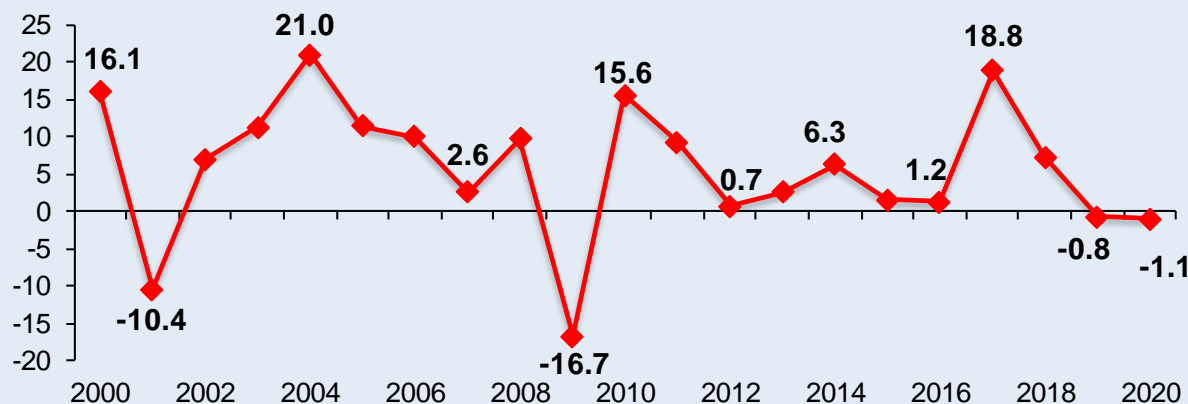
Selected export products



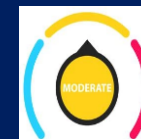
Long-term trend of exports

Exports Growth

%, YoY



Source: DOSM; MOF; SERC estimates and forecast



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 implementation; CPTPP ??



Green investment and exports



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