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FIABCI MALAYSIA
Morning Talk

Malaysia's Economic Outlook 2022 –
Mapping the Recovery

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Five Key Risks to Watch in 2022



Can Malaysia Deliver on its Growth Expectation (Real GDP: 5.5%-6.5%)?

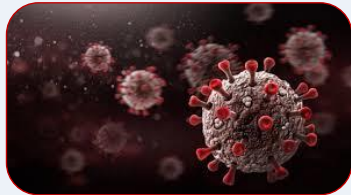


Post COVID-19 Recovery: Sectors' Outlook in 2022

Malaysia's economic outlook 2022: Five risks to watch

1

The COVID contortions



- Highly transmissible but less deadly Omicron variant
- Dent consumer and business sentiment
- Temper the recovery of travel and aviation industries

2

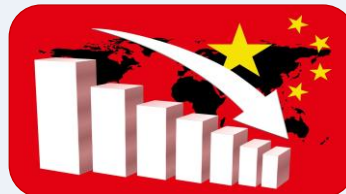
The Fed policy headwinds



- Rising inflation risks; signalling possible 3-6 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

Impact of high oil prices and Russia-Ukraine war on Malaysia

A. Global economy



Russia contributes 1.8% of the world GDP; manageable impact on the global economy.



But, **harsh sanctions** would hit the European countries (which buy 25% of oil and nearly 40% of gas from Russia).

Russia is the world's largest supplier of wheat, and together with Ukraine, accounts for nearly a quarter of total global exports.



Soaring prices of oil and gas, wheat, corn, soyabean as well as **industrial materials** would **worsen** the already **disrupted global supply chains**, drive even **higher business costs and consumer inflation**.



Persistent volatility in global financial and foreign exchange markets as well as commodities markets.



B. The Malaysian Economy

Russia-Ukraine's direct trade impact on Malaysia is muted: Total external trade is 0.4% share of Malaysia's total trade; Exports: 0.3%; Imports: 0.5%

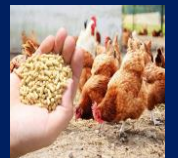


- Malaysia's **financial market may experience volatility via financial channel** due to **spill over transmission** through the global financial markets.
- The ringgit would take a hit against the US dollar due to the flight to quality as investors lighten their portfolio of emerging markets' asset class in times of uncertainty.

- Higher oil-related revenue from soaring oil prices** (Brent crude currently at US\$102 per barrel vs. US\$66 in 2022 Budget: US\$36= RM10.8 billion) will be **offsetting by bloated fuel subsidies** (RM16-18 billion for RON 95 and diesel) and possibly other subsidies to help keeping essential items stable.



- Higher wheat and corn prices as well as chemical fertilisers mean **costlier animal feed, fertilisers and flour**.



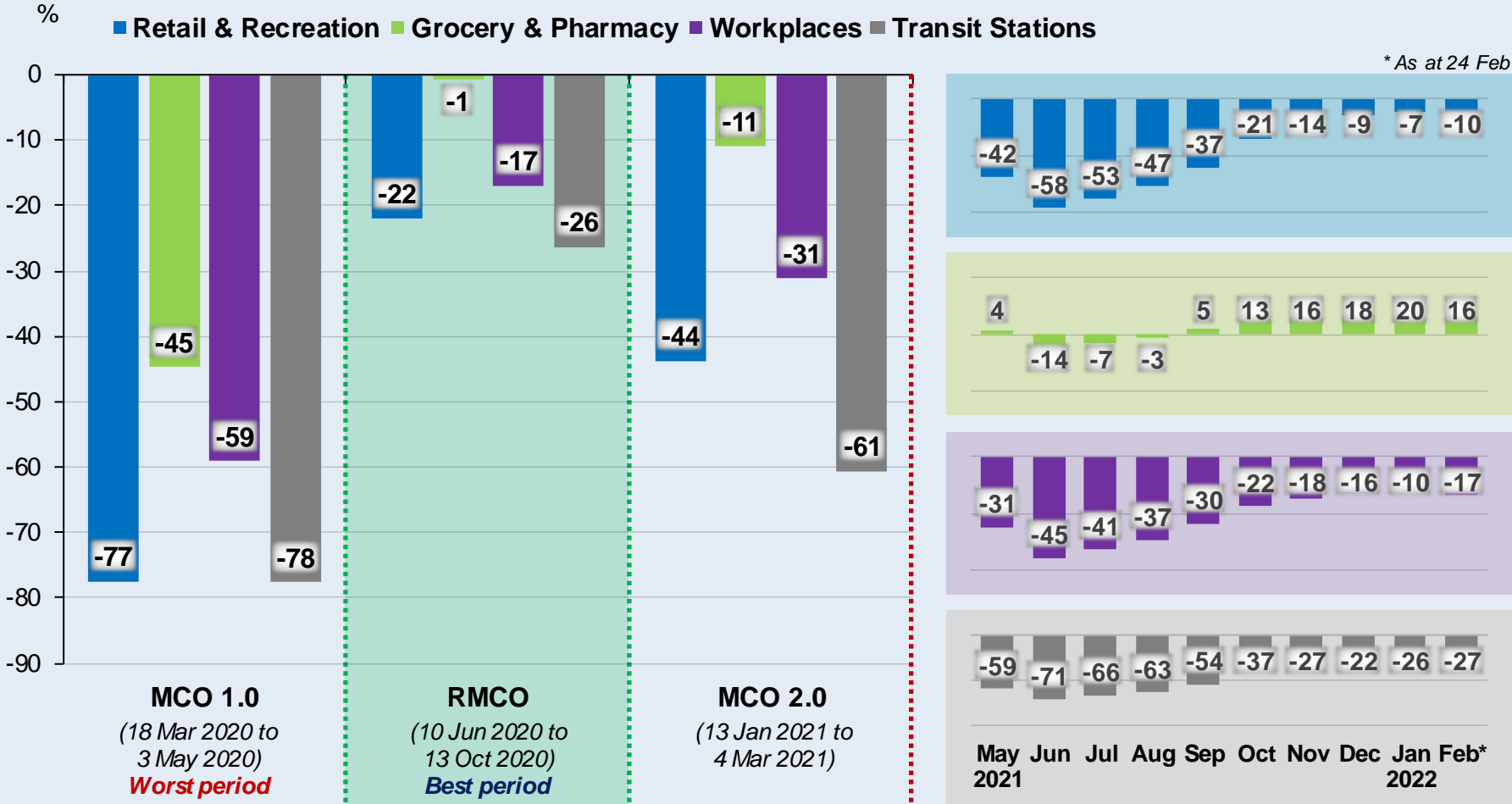
Malaysia's recovery path is contingent on ...

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



People mobility & traffic indicators show signs of weak revival

Average % change vs. baseline (median value for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020)



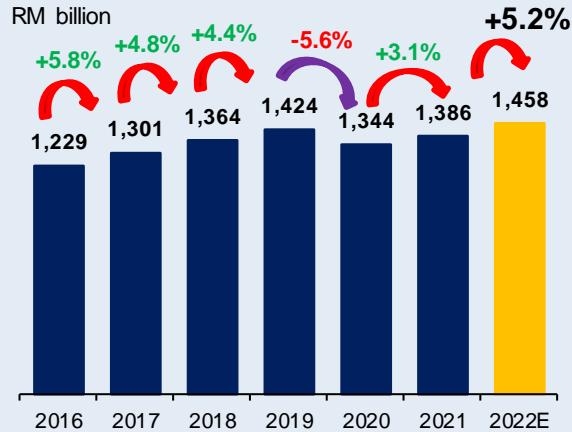
MCO 3.0 & NRP

(6 May 2021 to 24 Feb 2022)
Latest – Ongoing

Source: Google Mobility

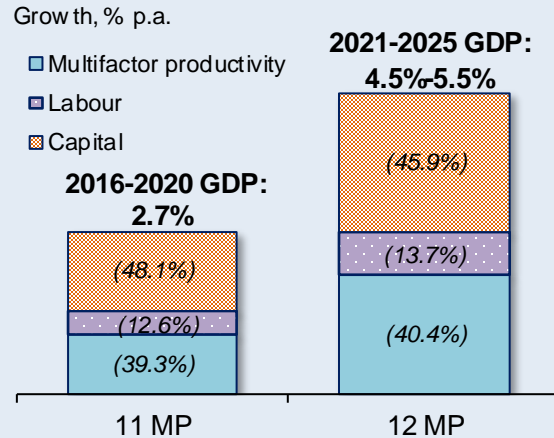
Malaysia's potential output growth hitting speedbump

Real GDP value and growth



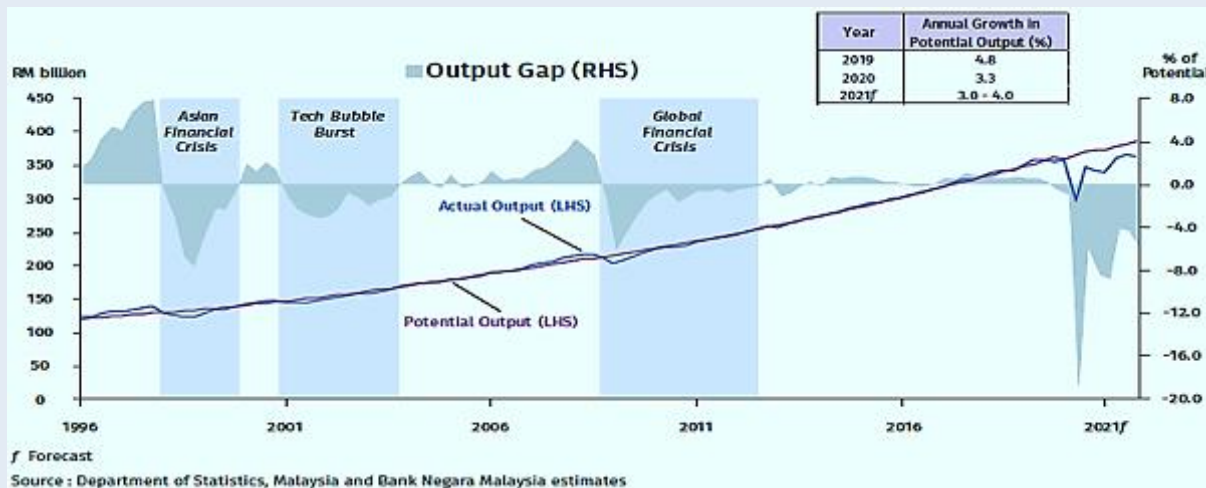
Source: DOSM; 12th Malaysia Plan

Total Factor Productivity (TFP) contribution to GDP growth



Note: % in parenthesis refers to share to GDP growth

Malaysia's Actual vs. Potential Output



f Forecast
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates



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 (1.3% pa in 2016-2021); lower utilisation of productive capital stock and effective utilisation of resources

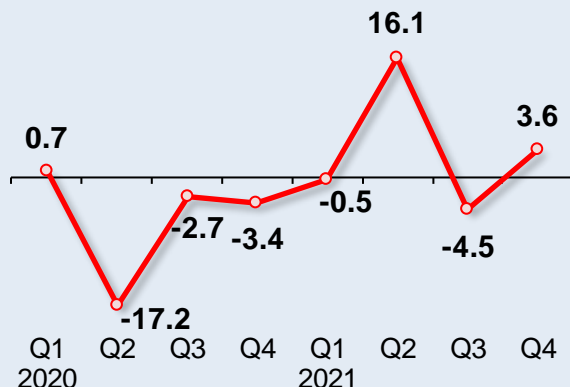


Quality investment, technology adoption, digitalisation, and skilled manpower

Economy rebounded in 4Q 2021, is expected to continue its recovery path ahead

Quarterly GDP growth

%, YoY



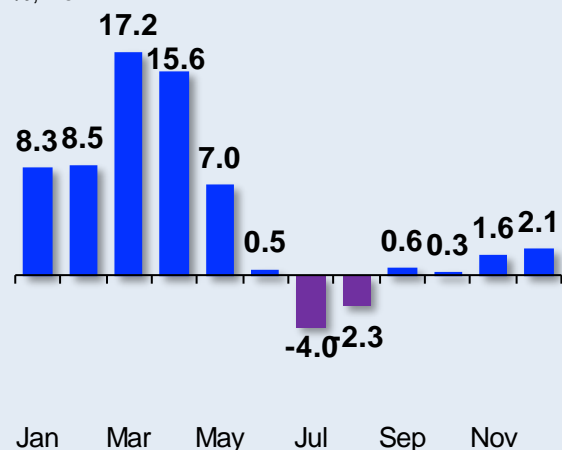
GDP growth by month in 2021

%, YoY



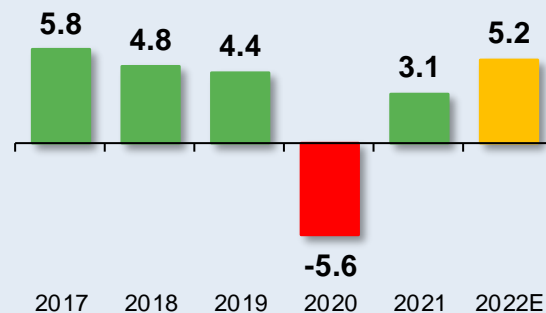
Leading index signals recovery

%, YoY



GDP outlook in 2022

%, YoY



Source: DOSM; SERC estimates



Malaysia's GDP rebounded to 3.6% in 4Q 2021, bringing full year 2021 growth to 3.1%



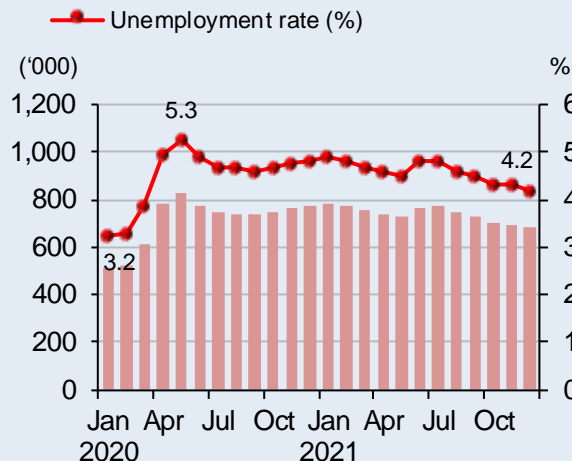
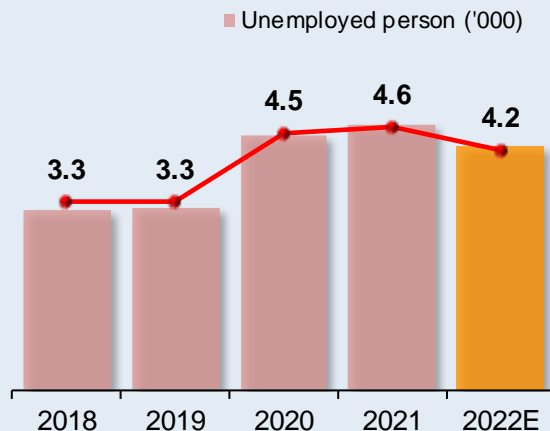
The reopening of economic and social sectors expedite the recovery process amid the Omicron variant



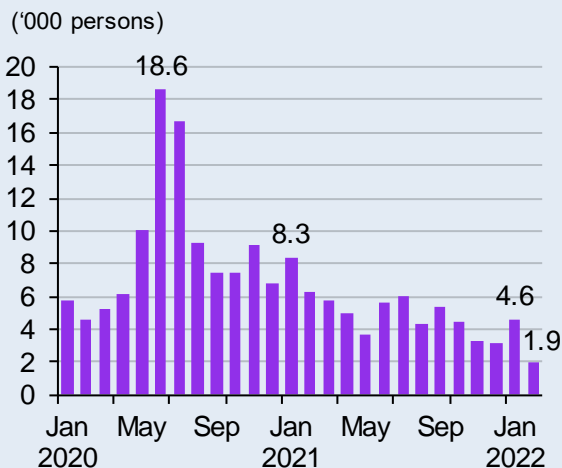
Revived domestic demand, supported by Improvement in the labour market, continued fiscal support via higher public investment

Labour market is gradually recovering

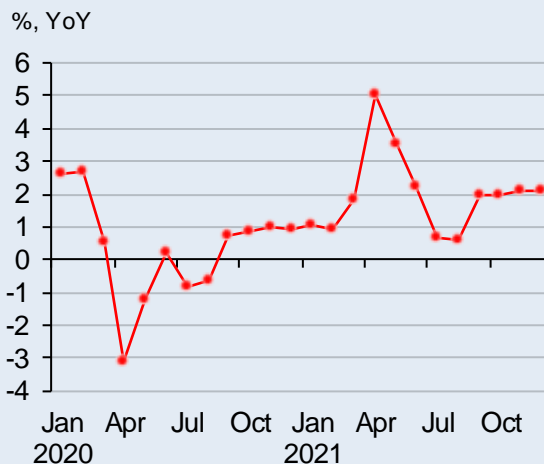
Labour market conditions and prospects



EIS's loss of employment (LOE)



Average salaries and wages per manufacturing employees



Source: DOSM; PERKESO; SERC estimates

Note: *Data as of 18 February 2022



Unemployment rate has eased from the highest rate (5.3% in May 2020) to 4.2% in Dec 2021

But, **skill-related underemployment** stood high at **37.5%** of employed persons with tertiary education; **time-related underemployment** at 1.9% in 4Q of 2021



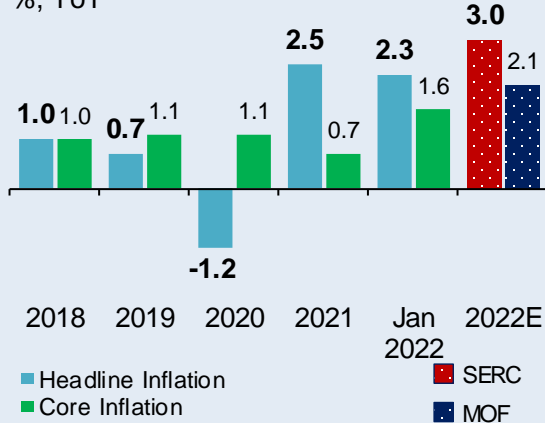
Revived economic and business activities will strengthen manpower demand, helping a steady recovery in the labour market

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

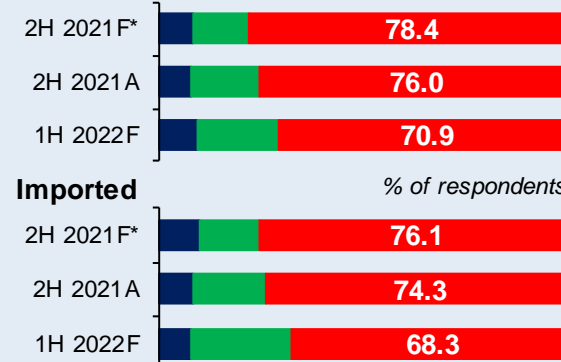
Headline and core inflation

Consumer prices
%, YoY



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

Local Decrease No change Increase

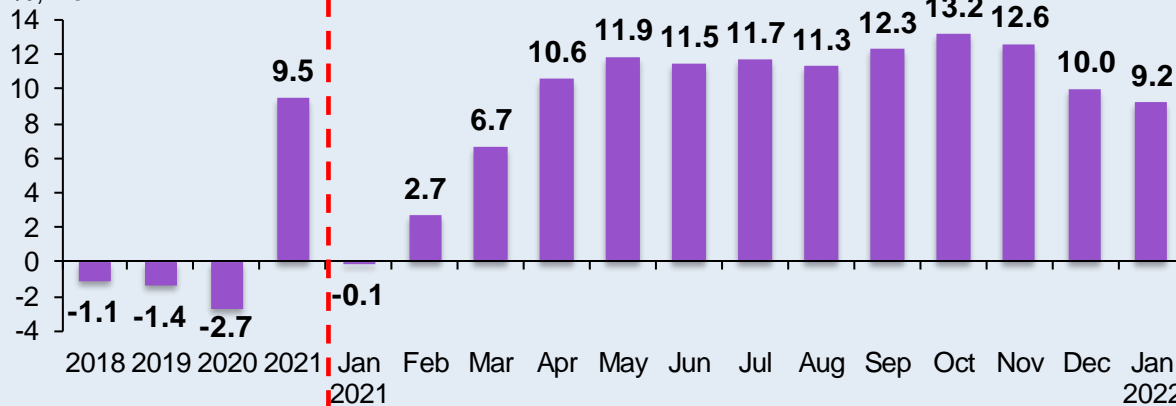


Note: A=Actual; F=Forecast

Producer prices declined modestly but remain high

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

Producer prices
%, YoY



Source: DOSM; MOF; ACCIM M-BECS; SERC estimates



Cost pressures are top of concern for business and consumers. Sustained high costs will inevitably feed through to consumers



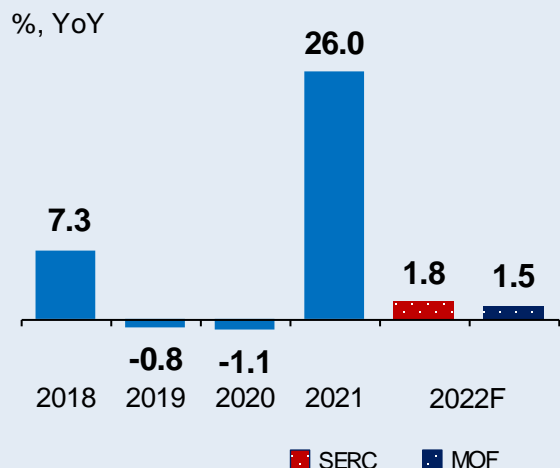
Producer prices are soaring high, suggesting a sustained pass-through of increased costs onto consumers



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

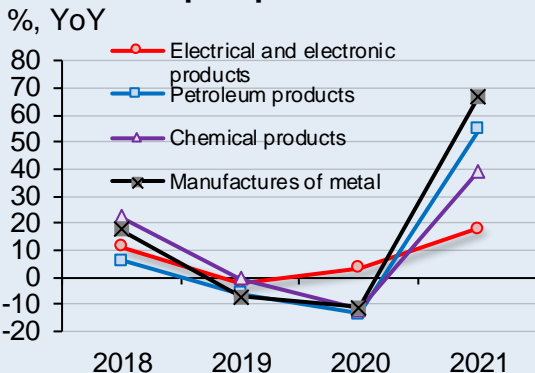
Exports still growing, albeit normalising to long-term trend

Exports growth set to normalise



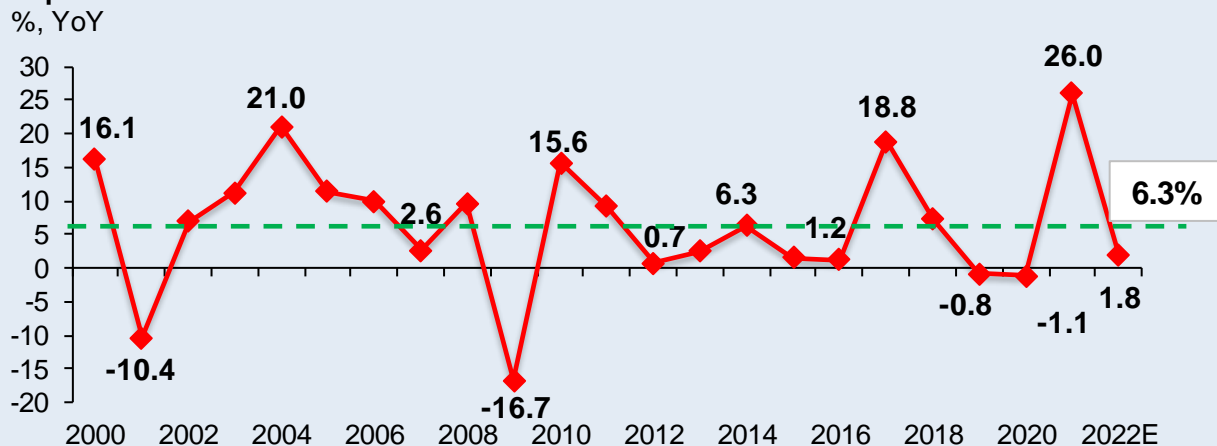
Major export products group

Selected export products



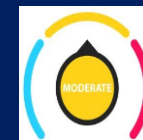
Long-term trend of exports

Exports Growth



Source: DOSM; SERC estimates

% in box refers to CAGR in 2000-2021



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

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**



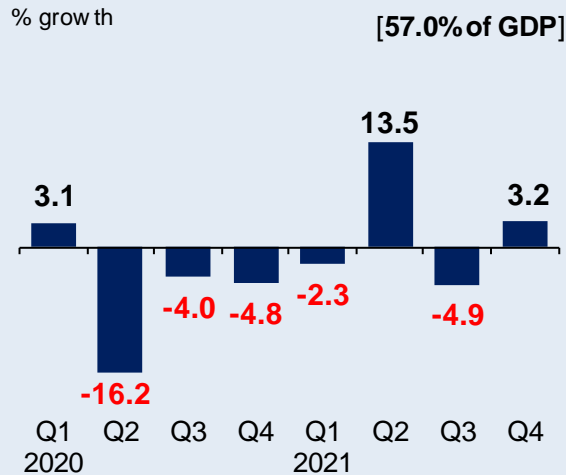
Lingering concerns about **political condition**



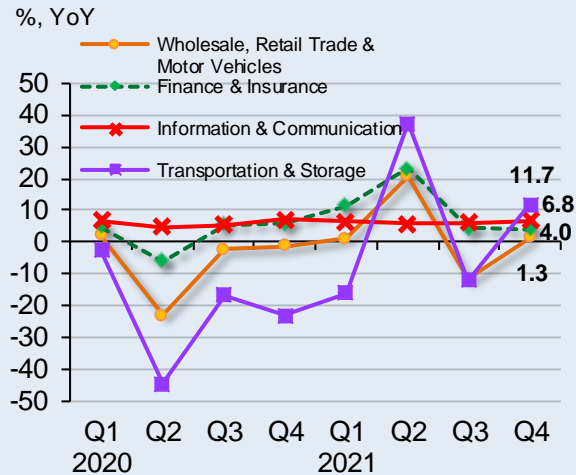
Shortage of workers

Services sector: Recovery in consumer spending holds the key

Services GDP growth



Services sub-sectors



Services GDP growth

2020	2021	2022E
-5.5%	1.9%	5.8%



Higher consumer spending amid easing of containment measures

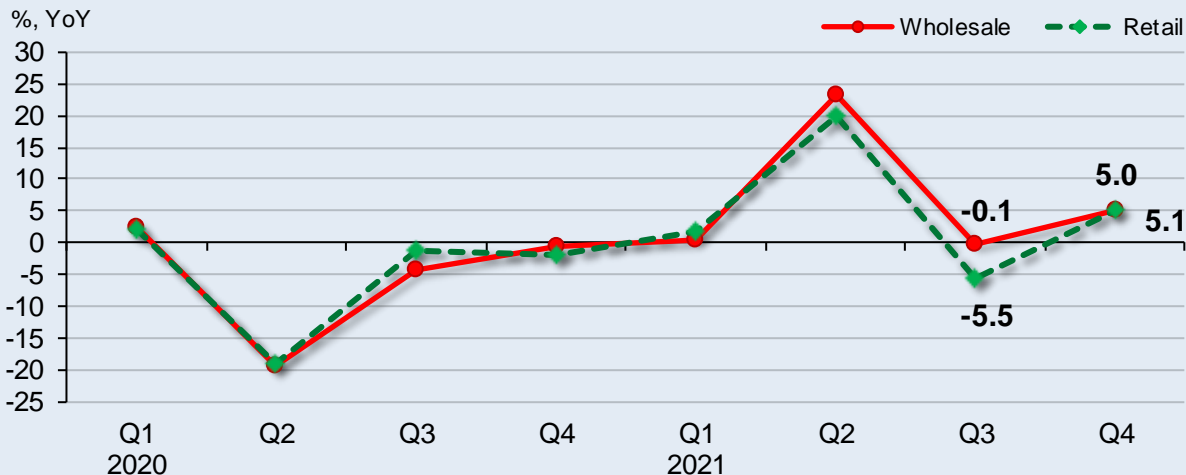


Continued recovery in consumer spending, revived economic and business activities

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

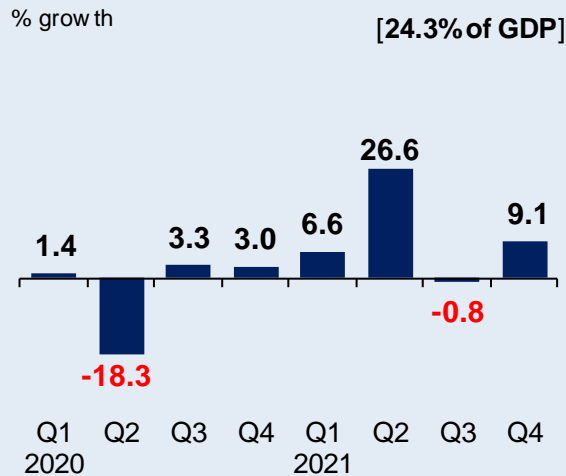


Note: Figure in parenthesis [] indicates share of GDP in 2021

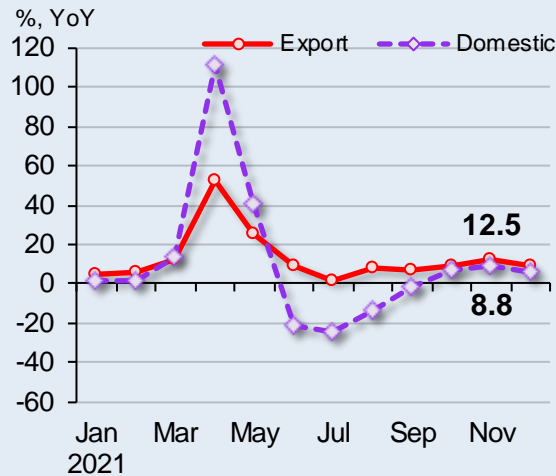
Source: DOSM; SERC estimates

Manufacturing sector: Growth normalises amid supply bottlenecks

Manufacturing GDP growth



Exports vs. Domestic industries



Manufacturing GDP growth

2020	2021	2022E
-2.6%	9.5%	4.8%



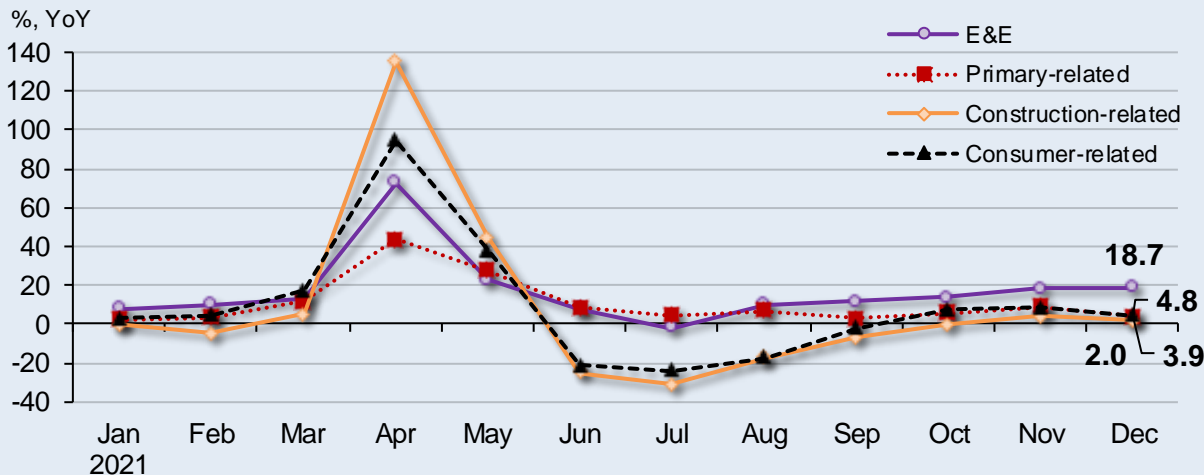
Continued strong external demand will support Malaysia's export growth

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

Industrial Production Index (IPI) by cluster*



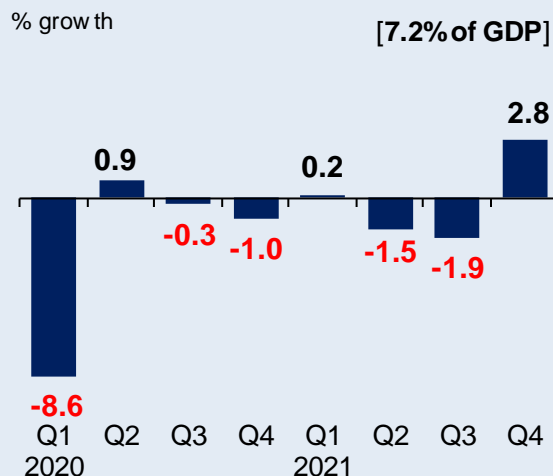
Note: Figure in parenthesis [] indicates share of GDP in 2021

Source: DOSM; BNM; SERC estimates

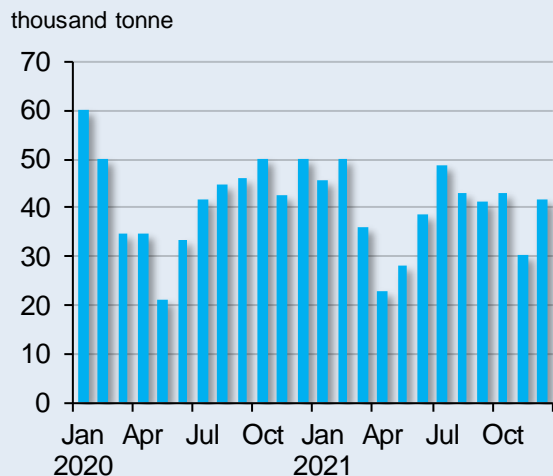
* BNM's classification

Agriculture sector: Turnaround amid increased inputs cost

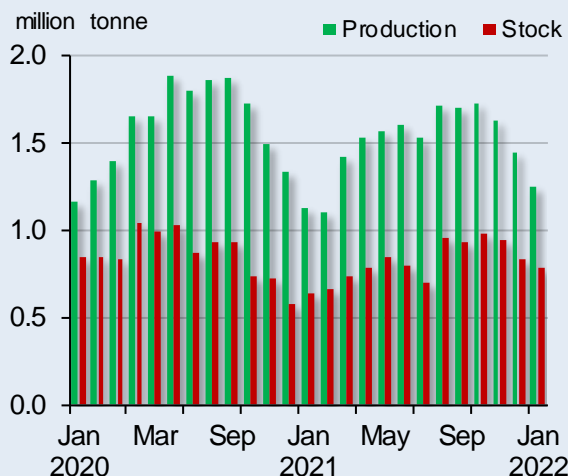
Agriculture GDP growth



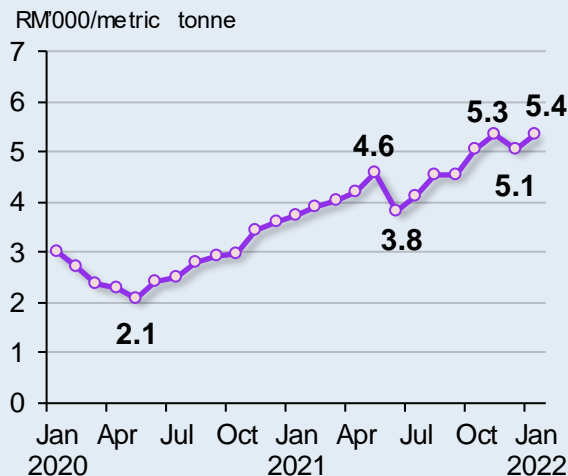
Rubber production



CPO production and stocks



CPO prices (Local delivered)



Agriculture GDP growth

2020	2021	2022E
-2.2%	-0.2%	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



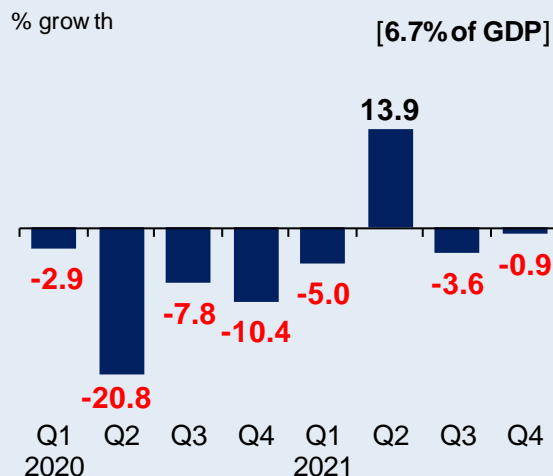
Critically address the shortage of workers pending on the intake of new foreign workers

Note: Figure in parenthesis [] indicates share of GDP in 2021

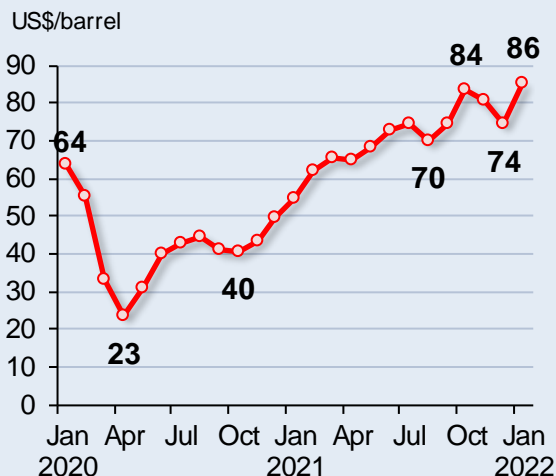
Source: DOSM; MPOB; SERC estimates

Mining and quarrying sector: Marginal decline in output

Mining and quarrying GDP growth



Brent crude oil prices



Mining and quarrying GDP growth

Year	GDP growth
2020	-10.6%
2021	0.7%
2022E	-0.2%



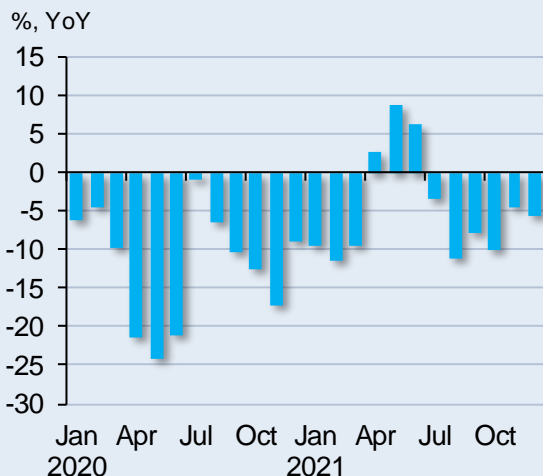
Global consumption of crude oil and petroleum products continue to increase



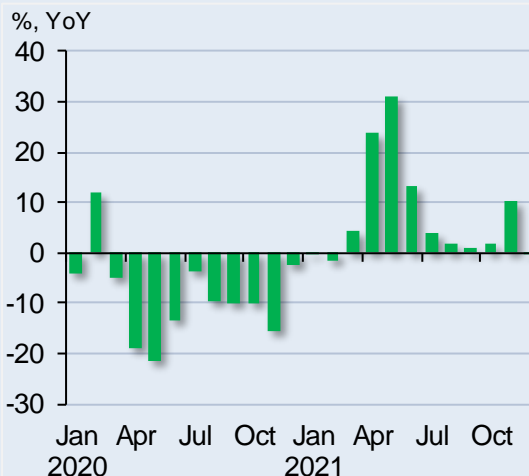
Persistent global oil inventory draws and geopolitical tensions contributed to market concerns about disruptions to oil production. Geopolitical conflicts have also put upward pressure on oil prices.

EIA forecasts Brent crude oil price to average around US\$83/bbl in 2022 from US\$71/bbl in 2021

Crude oil production



Natural gas production

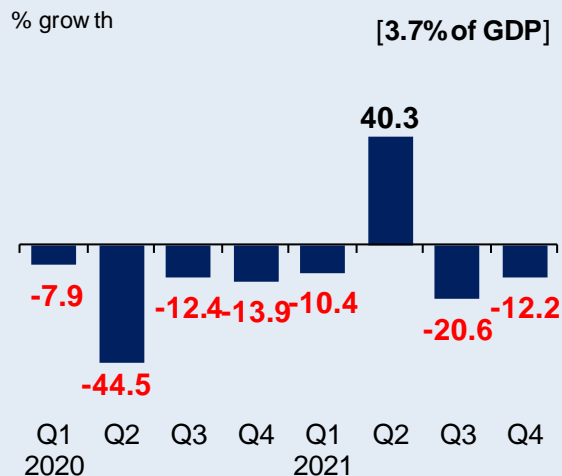


Note: Figure in parenthesis [] indicates share of GDP in 2021

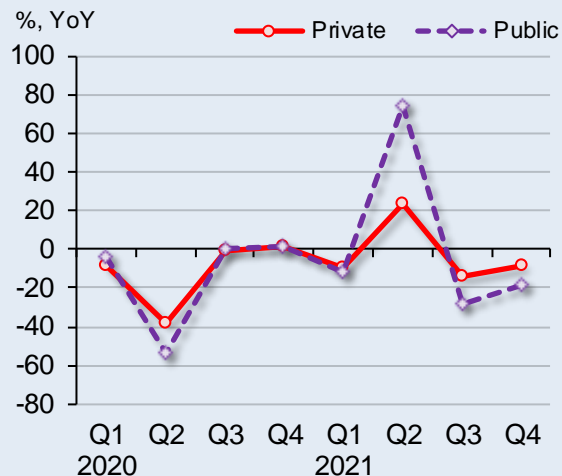
Source: DOSM; World Bank; SERC estimates

Construction sector: A strong turnaround in 2022

Construction GDP growth



Private vs. public construction output



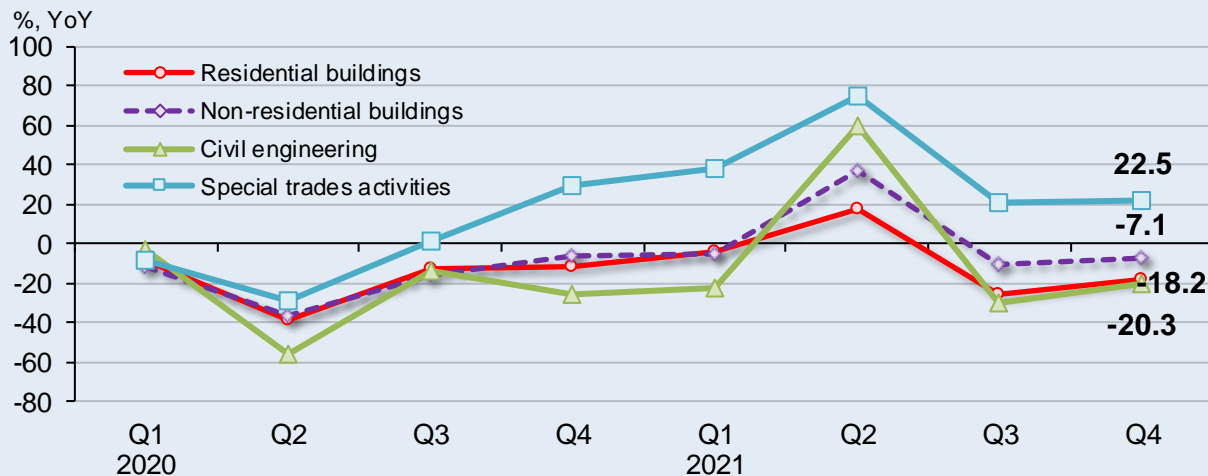
Construction GDP growth

2020	2021	2022E
-19.4%	-5.2%	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



Gradual improvement in construction works following re-opening of the economy

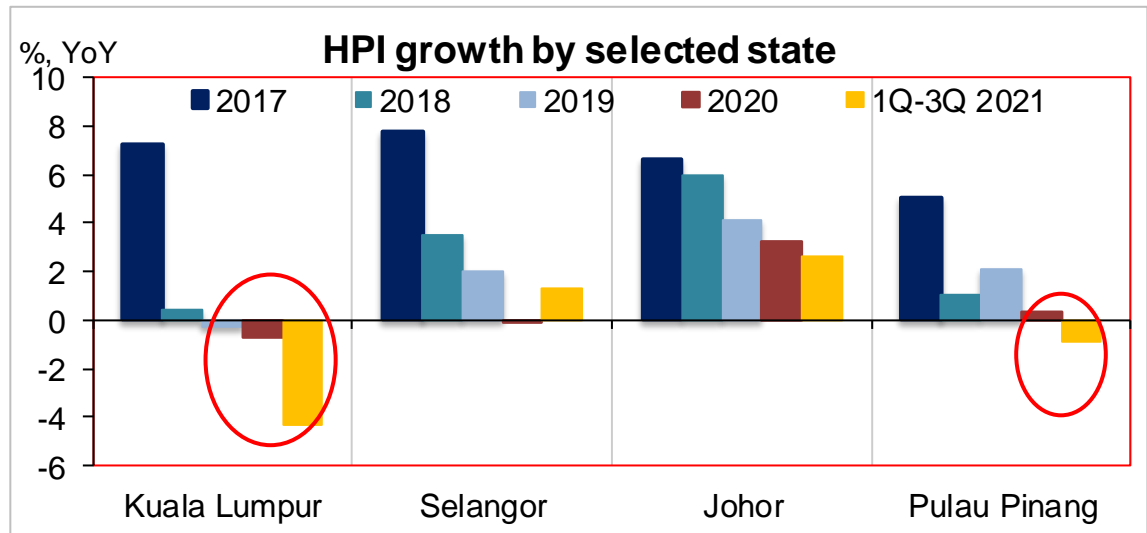
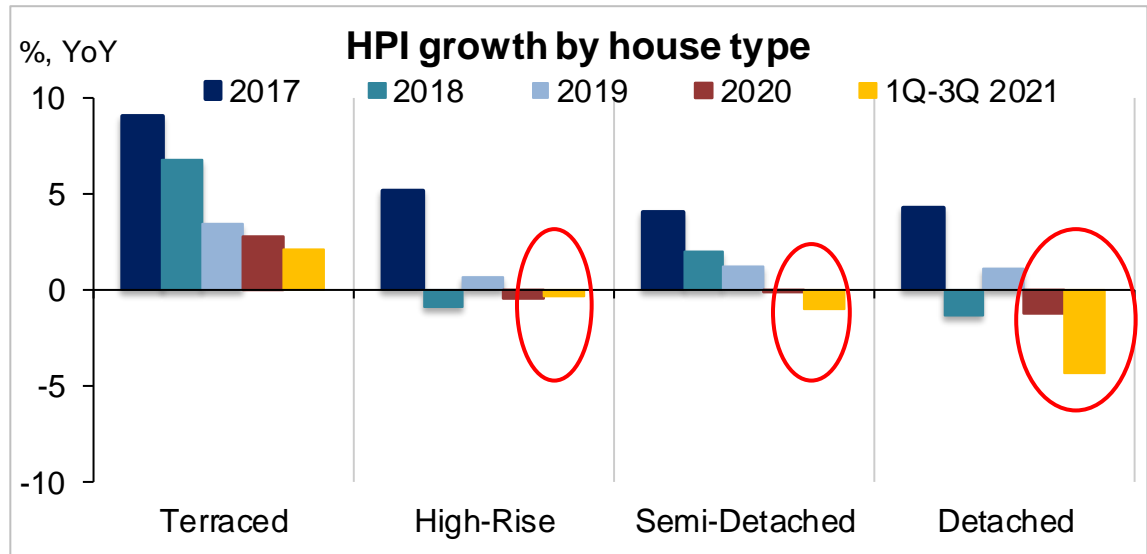
Risks: Rising cost of building materials; shortage of workers; weak implementation capacity of public projects

Note: Figure in parenthesis [] indicates share of GDP in 2021

Source: DOSM; SERC estimates

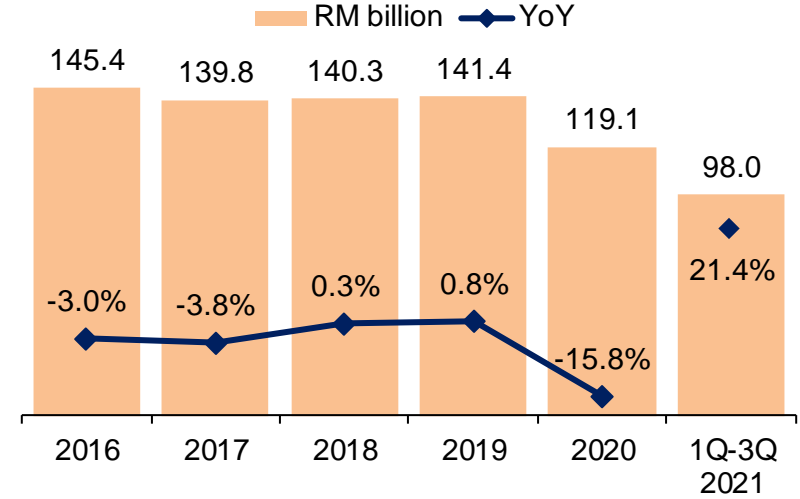
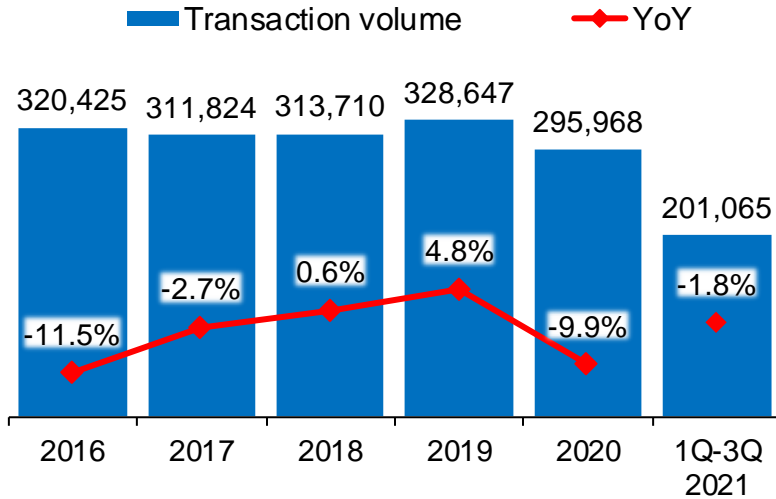
House price index moderated for eight consecutive years

House Price Index (HPI)

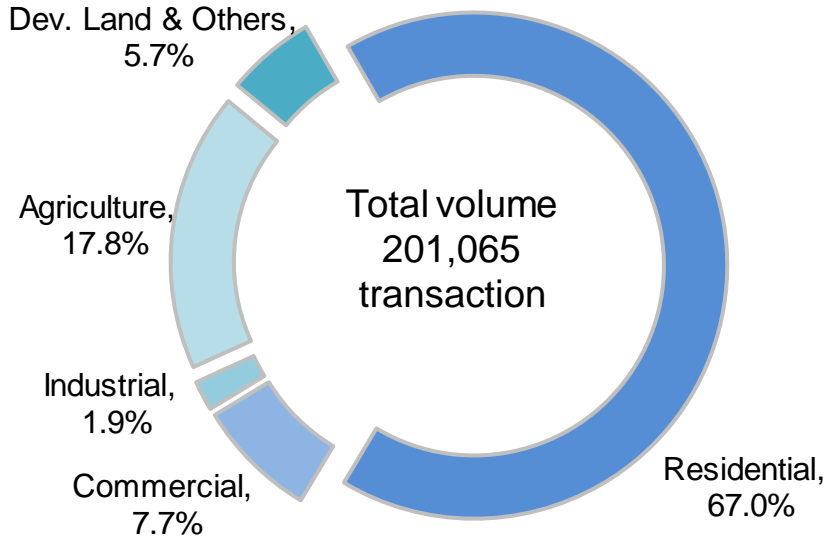


Source: NAPIC

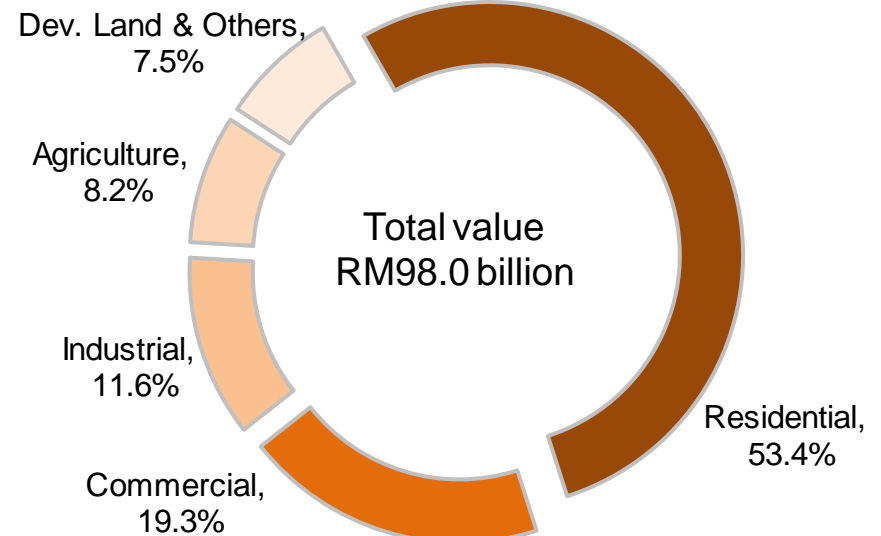
Property transactions volume still contracting, albeit smaller



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 & 2022)	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% ↑
Paint (5 liter)	140	200	43.0% ↑
Mild Steel	-	-	41.0% ↑

Source: Johor Hardware, Machinery & Building Material Merchants Association; Various news media

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.

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.

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 and 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
- Co-sharing space
- Residence
- Large resorts
- Medical centres
- Fitness centres
- Video gaming hubs
- Training centre

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





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