



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

ACCCIM's Webinar on

Coping with Turbulent Times

Multi-faceted Shocks Post Pandemic Era

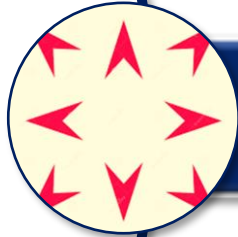
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Executive Director

6 April 2022

Outline



The war in Ukraine and its associated impacts on the world economy



Malaysia is in multitude of shocks



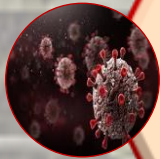
Managing negative supply shocks and increasing business costs

New negative supply shocks layered on top old shocks

IMPACT

1. Soaring energy and commodity prices

- Prices oil, gas, wheat, soya bean, maize as well as industrial metals surged on supply uncertainty, harsh sanctions and supply disruptions



2. Inflationary pressures

- Higher and longer inflation
- Supply chain disruptions and rebound in demand post pandemic



4. Financial markets

- The war uncertainty causes financial flows volatility
- Investors flight to safety assets (bonds, gold and hard currencies)



3. Increasing business costs

- Cascading price effects on raw materials and inputs
- Logistic costs and shipping rates higher



5. Central banks to act hard on inflation risk

- The US Fed has began its interest rate normalization journey
- Other central banks also on High Alert



Russia-Ukraine conflicts induced shocks to the world economy

GLOBAL ECONOMY



Russia: 1.8% of world GDP

- **Negative supply and oil shocks are a double-blow to the global economy**
- **Harsh sanctions may hit the European countries**
(Nearly 25% of crude oil and 40% of gas imported from Russia)¹



Oil and gas; wheat; corn;
soybean; industrial materials



Worsen global supply chain disruptions
such as semiconductor grade neon,
palladium



Higher business costs and consumer inflation



Crude oil



Russian oil²

- Third largest oil producer
- Largest exporter of oil and petroleum products
- Second largest crude oil exporter



Wheat



World's largest
supplier (~18%)

Nearly **1/4** Global exports³



Fertilizer

Russia (~13%)⁴



Sunflower oil

Ukraine (~50%)⁴

Persistent volatility



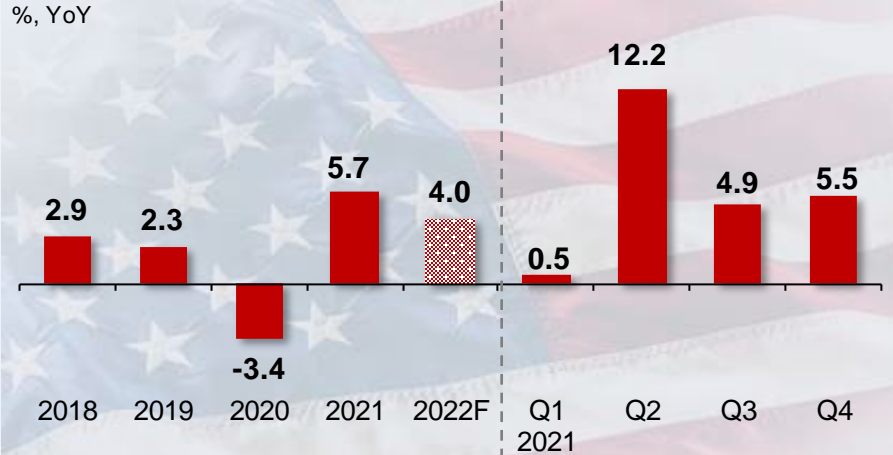
Global financial and
foreign exchange markets



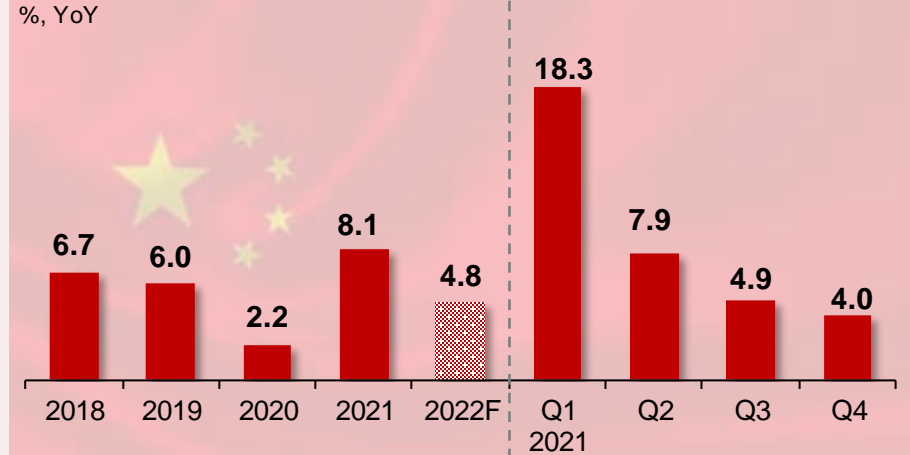
Energy and
commodities market

How are advanced economies doing post the COVID-19?

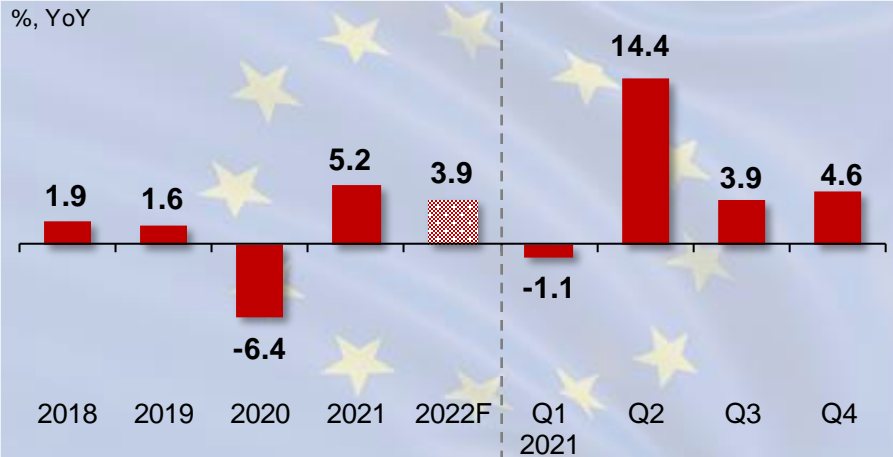
The US economy to slow in 2022 on strong inflation and aggressive interest rate hikes



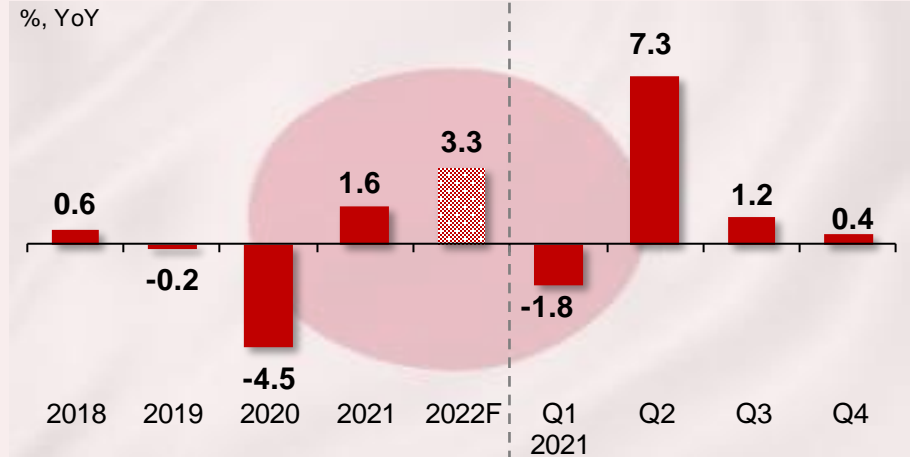
China is hitting a slow button on real estate woes and zero COVID approach



Euro Area growth undermined by high energy and supply chain disruptions



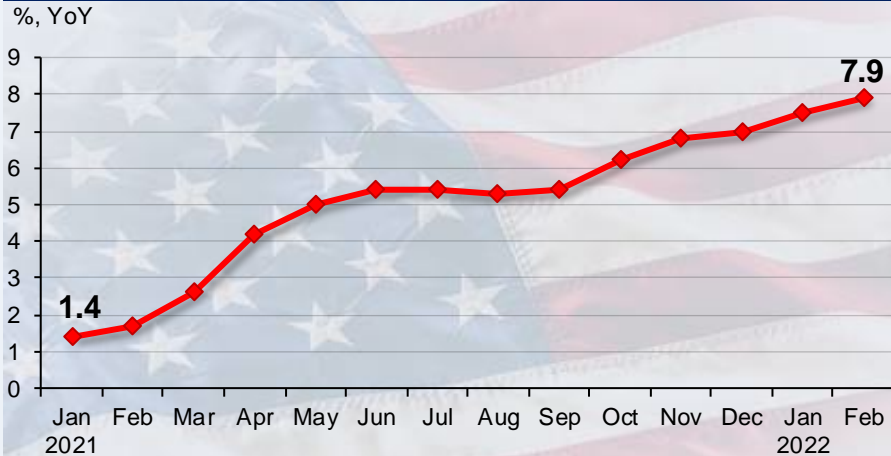
Japan recovery continues to lag behind other advanced economies



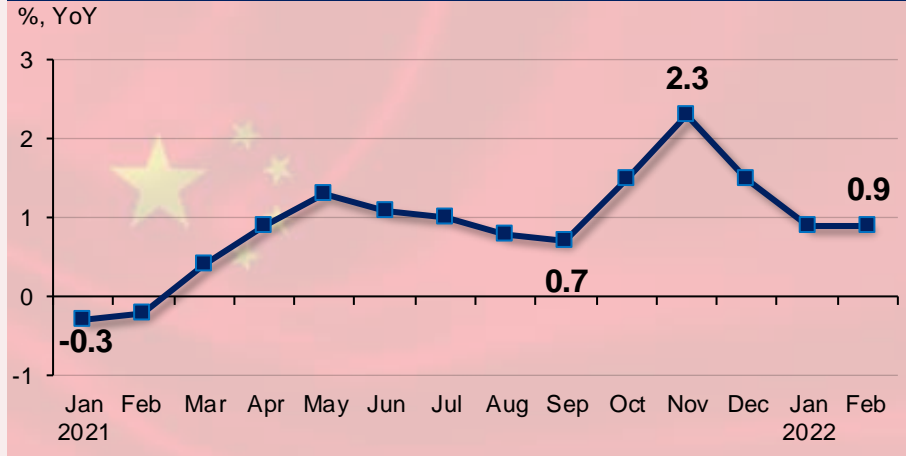
Source: US Census Bureau; National Bureau of Statistics of China; Eurostat; Statistics Bureau, Japan; IMF's forecast

Inflation spikes more markedly – Stubborn and persistent !

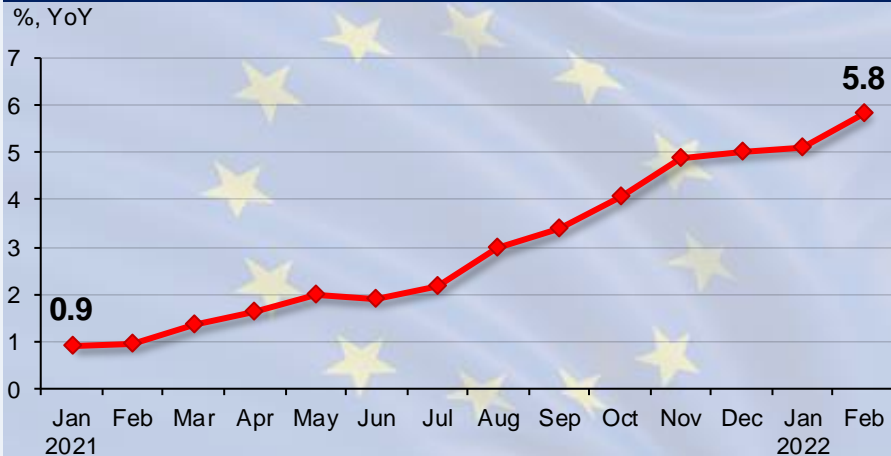
United States inflation trend



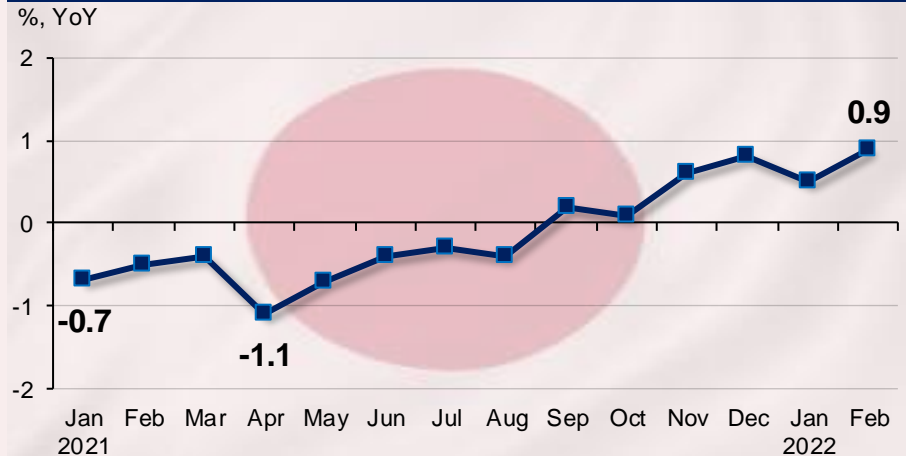
China inflation trend



Euro Area inflation trend

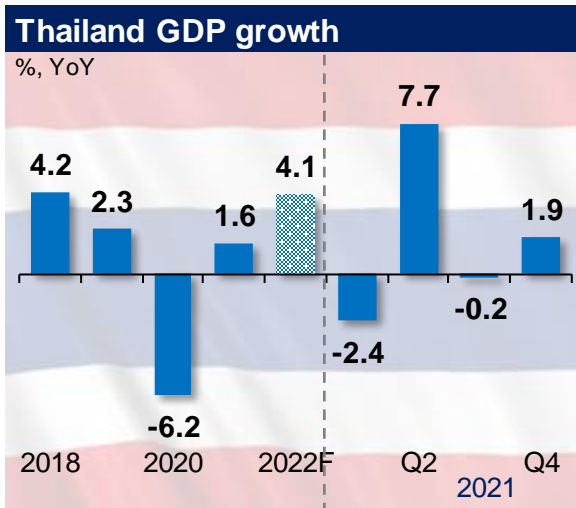
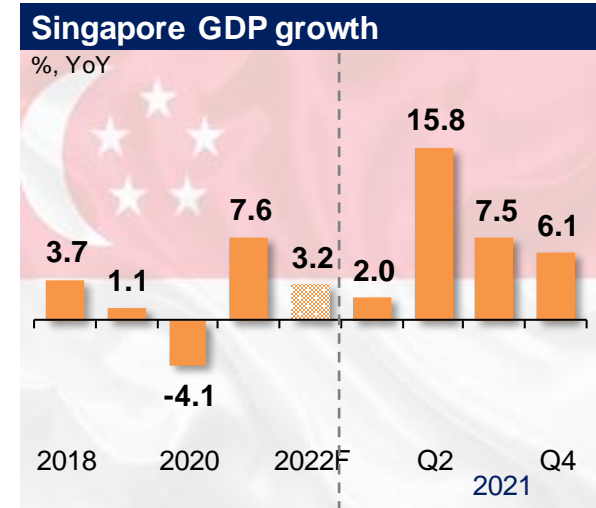
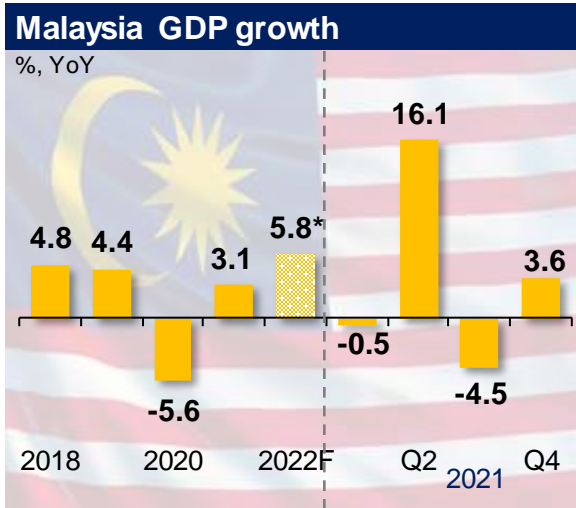


Japan inflation trend



Source: US Census Bureau; National Bureau of Statistics of China; Eurostat; Statistics Bureau, Japan

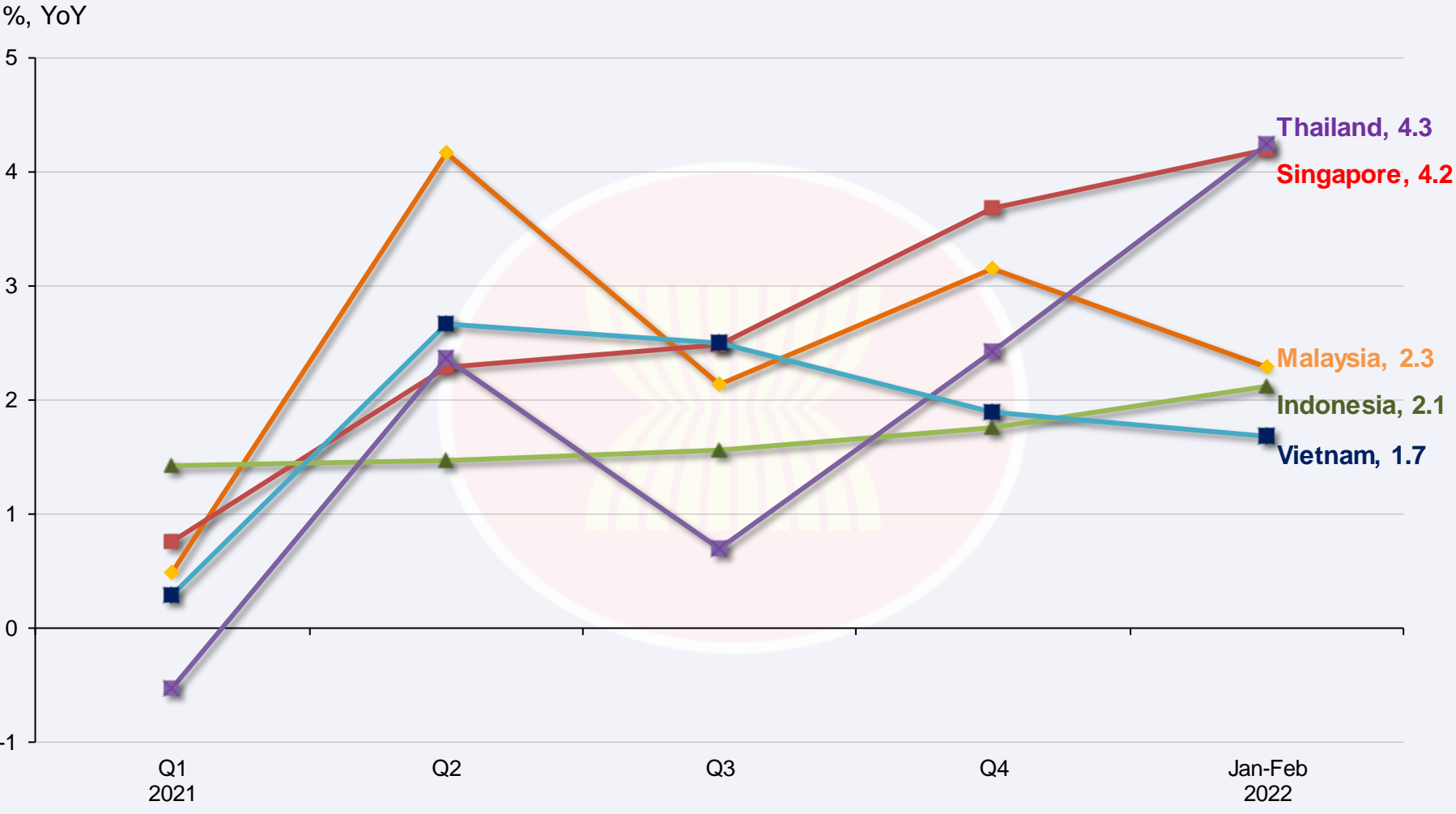
How are selected ASEAN economies doing post the COVID-19?



Source: Department of Statistics, Malaysia; Singapore Department of Statistics; Statistics Indonesia; Office of Industrial Economics, Thailand; IMF's forecast
 *Bank Negara Malaysia's estimate mid-forecast between 5.3-6.3%

ASEAN economies have been hit by a similar wave of inflationary surge

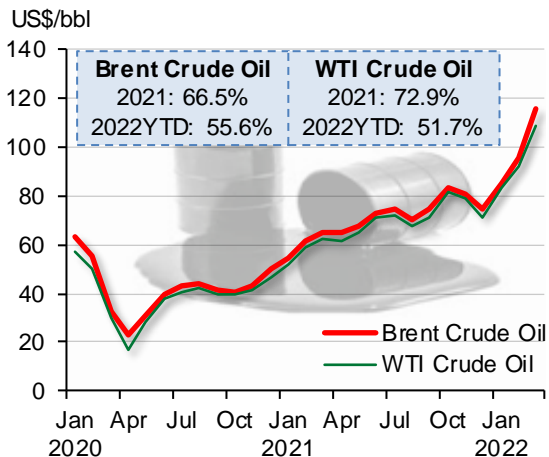
Inflation rate in selected ASEAN economies



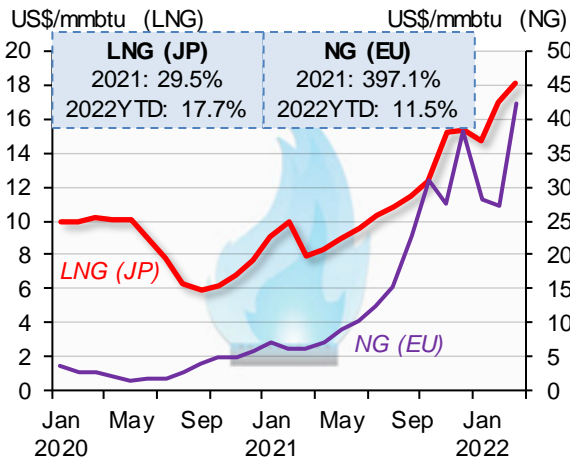
Source: Department of Statistics, Malaysia; Singapore Department of Statistics; Bank Indonesia; Office of Industrial Economics, Thailand; General Statistics Office of Vietnam

Soaring energy, commodity, non-energy prices & shipping rate

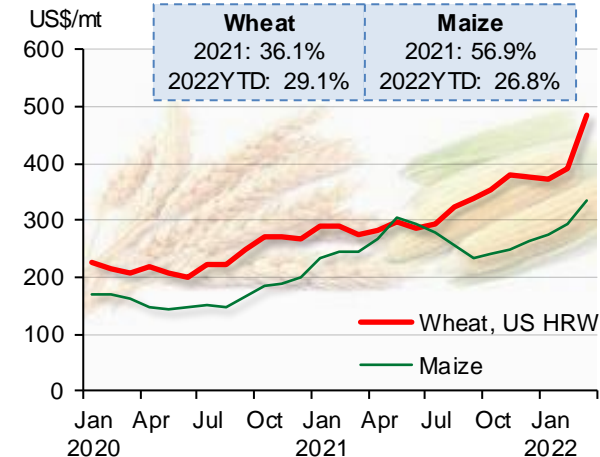
Crude oil



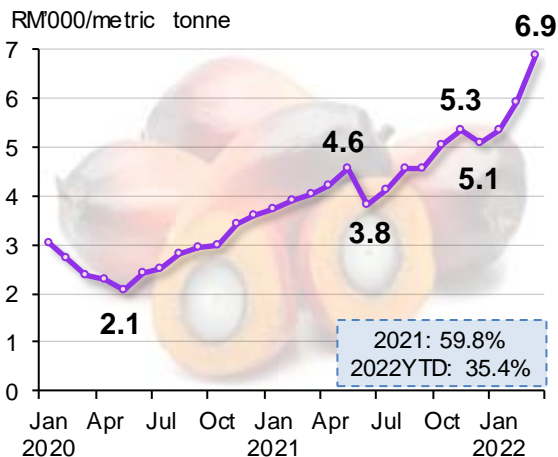
Natural gas



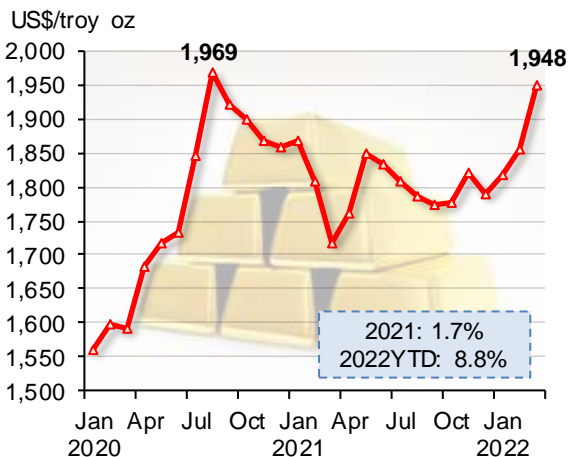
Wheat and Maize



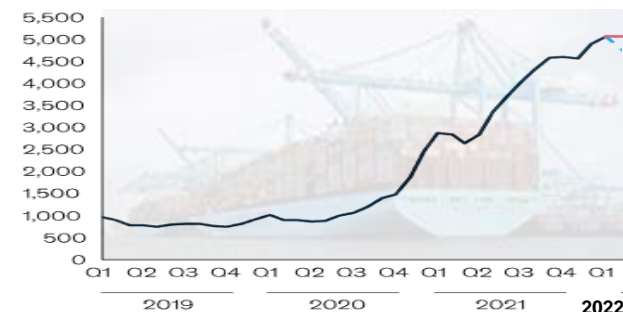
Crude palm oil



Gold



Shanghai Containerized Freight Index



Malaysia's shipping freight rates

USD	Pre-pandemic		Pandemic		Current	
	20ft	40ft	20ft	40ft	20ft	40ft
Europe	2,000	4,000	11,000	22,000	8,500	17,000
China	200	400	1,200	1,800	1,200	1,800
North America	6,000	11,400	22,000	41,000	15,000	28,500

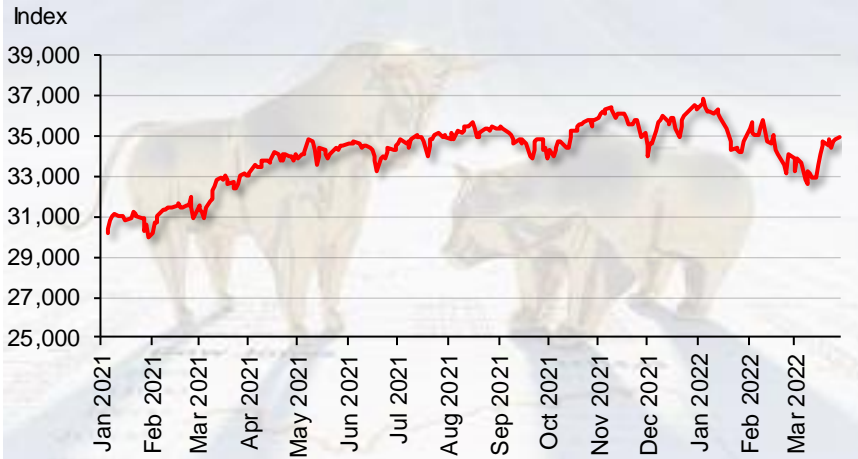
Note: Changes for 2021 is average 2021 / average 2020; 2022 YTD is Mar 2022 / Dec 2021

Source: World Bank; MPOB; McKinsey

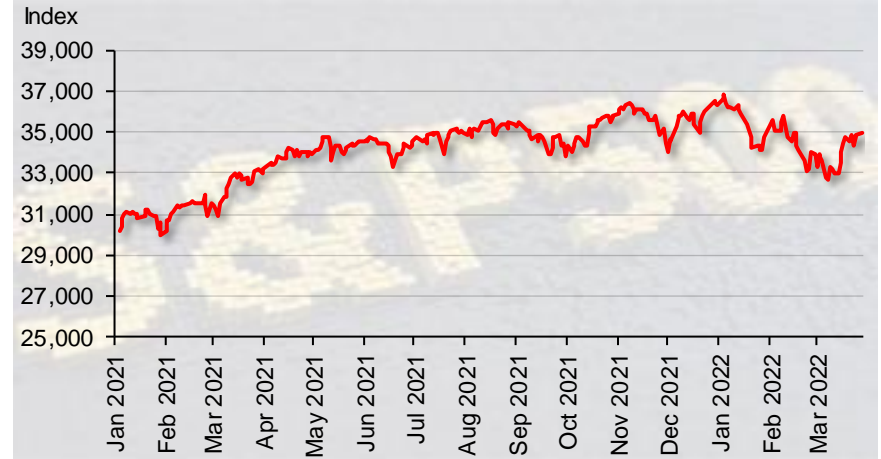
Note: Pre-pandemic: Prior to March 2020; Pandemic: March 2020 – 2021; Current: March 2022

War uncertainty induces volatility in global financial markets

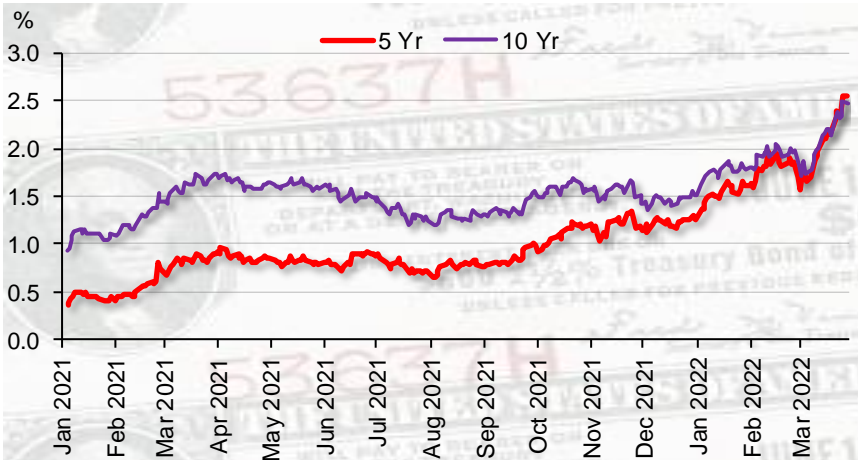
Dow Jones Industrial Average (DJIA)



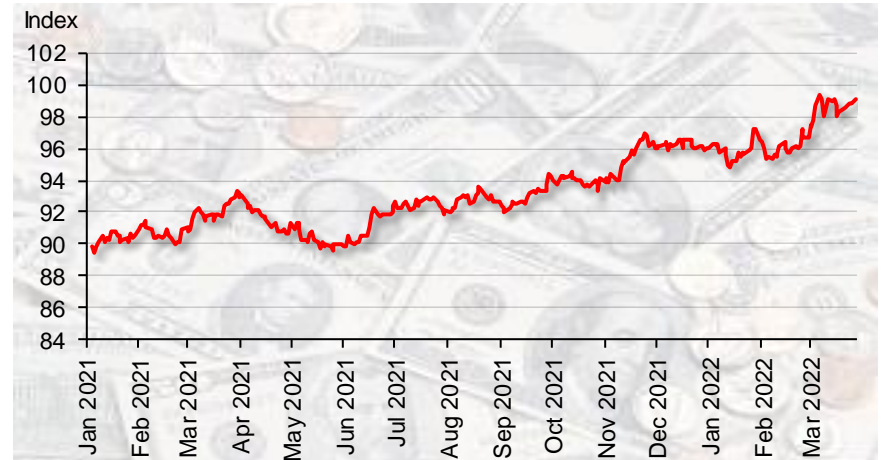
S&P 500 Index



US Treasury bond yield



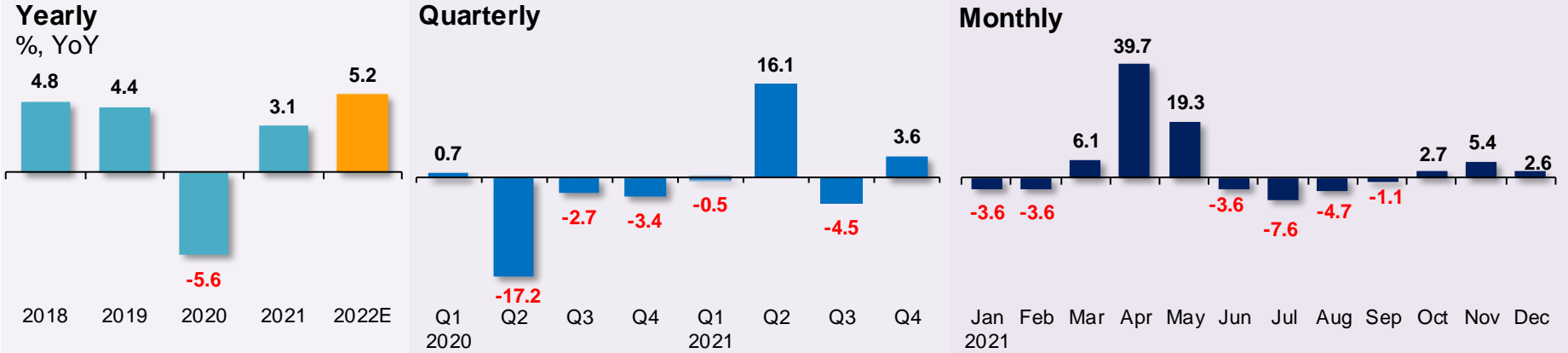
The US dollar index



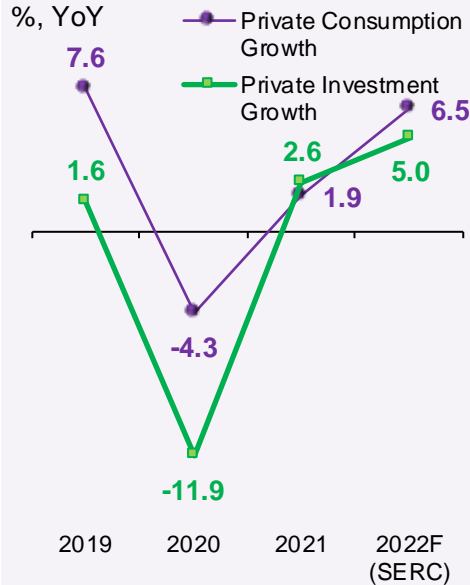
Source: Wall Street Journal (WSJ)

Malaysia is on the recovery path amid the risks to growth remain tilted on the downside

Real GDP growth



Private consumption and investment growth



Gross export and import growth



Cautious optimism transitioning into endemic phase

Transition from pandemic to endemic phase

Reopening of international borders



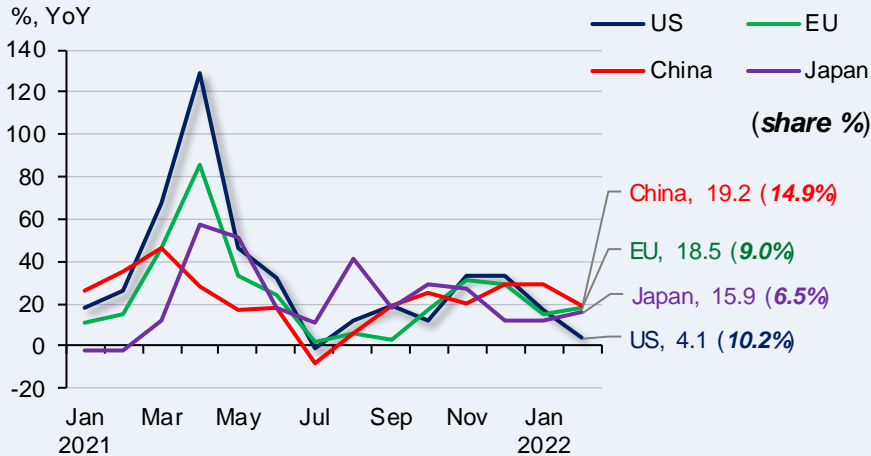
Recovery in the tourism-related services sectors

Risks: Global monetary tightening; trade friction; stagflation; climate change; geopolitical

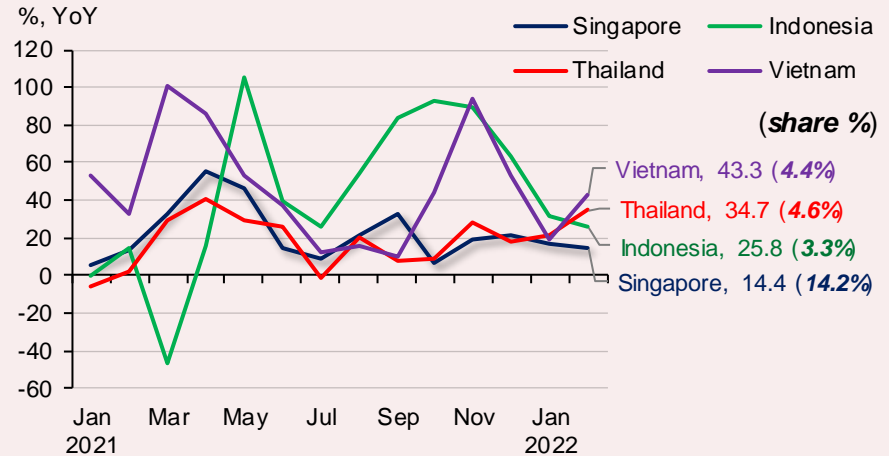
Source: DOSM; SERC estimates

Malaysia's trade performance with key trading partners

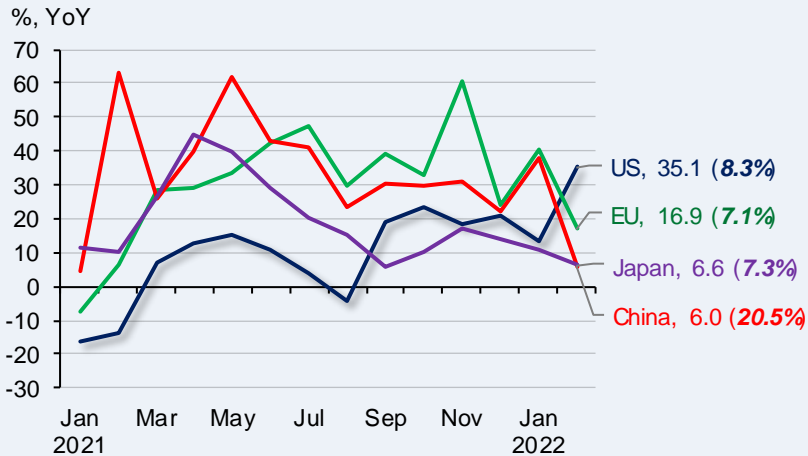
Exports to major economies



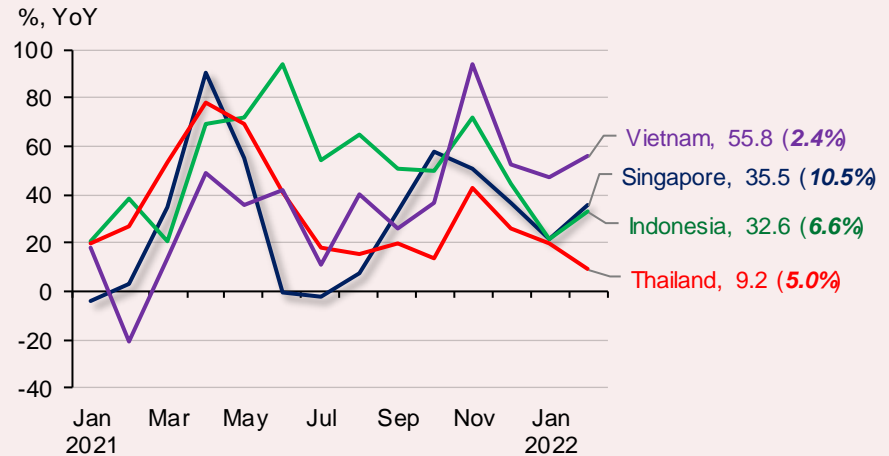
Exports to key regional economies



Imports from major economies



Imports from key regional economies



Note: Figure in parenthesis indicates share of exports/imports in Feb 2022

Source: DOSM

Malaysia's coping with Russia-Ukraine war and oil shock

THE MALAYSIAN ECONOMY



Russia-Ukraine's war on **external trade**

Muted direct impact



Malaysia-Russia: Total external trade at 0.4% (Exports: 0.3%; Imports: 0.5%)

Malaysia-Ukraine: Total external trade at 0.1%



Higher oil-related revenue will be offsetting by bloated fuel subsidies and possibly other subsidies



Higher prices on wheat, corn and chemical fertilisers → **costlier animal feed, fertilisers, flour and other raw materials**

Financial market



Spillover transmission through the global financial markets



Financial market may experience volatility



Flight to quality as investors lighten their portfolio



Ringgit to remain weak

Direct and indirect impact on business and consumer

The COVID-19 pandemic-induced impact



Supply chain disruptions



Logistic and shipping rates
Input and raw material costs



Increased business costs, including
electricity tariff surcharge



Shortage of manpower



Rising inflation risk

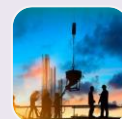


Consumer demand is
on the mend

New cost
drivers



New minimum wage



Multi-tier levy



Act 446



Higher interest rate

Post the COVID-19 pandemic with Russia's invasion in Ukraine-inflicted shocks

Worsen supply chain disruptions



- Possibly further increases in logistic and shipping rates
- Input and raw material costs



Still rising business costs; dampen
production and margin



Still manpower shortages

Second round of inflationary
pressures



Higher cost of living crimps
households' disposable income
(purchasing power)

What are the impact on industries?

Export-oriented industries



External demand will slow if the global economy tanks



Higher freight and container rate and logistic costs (such as warehousing, forwarding, haulage and landside charges) hit cost



Supply chain disruptions



Plantation sector – workers shortage, higher cost of fertilizers and pesticides

- EU may force to buy more palm oil due to the shortage of sunflower and rapeseed oils

Domestic market-oriented industries



Services sector (tourism, retail, transport and aviation) - Benefit from pent-up demand, borders reopening amid increased operating costs



Construction sector – Higher prices of building materials may cause delay/postpone/stalling of projects



Agriculture and livestock – Higher cost of fertilizers, pesticides and animal feed; shortage of workers, minimum wage



Manufacturing sector – Higher minimum wage, raw material costs, shortage of workers, logistic cost



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谢谢
THANK YOU

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