



Socio-Economic Research Centre (SERC)

Quarterly Economy Tracker

Jan-Mar 2023

Be Vigilant to Economic and Financial Headwinds

13 April 2023





GLOBAL OUTLOOK SHAPED BY INFLATION, HIGHER INTEREST RATES, CHINA'S REOPENING AND RISK OF CONTAGION BANKING CRISIS

- **Early positive signs of global indicators.** The global economy is seemingly less gloomy than it was just several months ago at the beginning of 2023. Amid an on-going military conflict in Ukraine, headline inflation readings have eased from their peak levels. While China's ending of its zero-COVID policy provides some global growth impulses, the magnitude of its positive impact on the global economy is being hurdled by global economic headwinds.
- **Global macroeconomic environment remains challenging** for economies, business and consumers in the year ahead. Inflation has moderated due to tighter monetary policy effect, and global food prices also softened from the peak. However, core inflation remains persistent, held up by strong service inflation and cost pressures from tight labour markets. The underlying pressures will require many central banks to maintain high policy rates well into 2024.

Regional banks turmoil in the US and the rescue of "too big to fail" Credit Suisse have sparked fears of contagion in the banking sector. The regulators and central banks have stepped in swiftly to backstop billions of dollars in uninsured money to stem a run in deposit, and also provide liquidity to ensure an orderly functioning of the credit market for supporting consumer spending and business activities lending.

However, lingering uneasiness about the banks' rout continued, with businesses and investors keeping a close eye on a dashboard of indicators that show how the banking stress is rippling through the US economy, global financial markets and banking system.

- **High frequency indicators show mixed performance.**
 - a) **Purchasing Managers' Index (PMI) for the manufacturing and services** for the month of February and March offers a glimpse of hope that global economic activities have returned to growth, ending six-month sequences of contraction.
 - b) **Composite PMI for manufacturing** increased to 53.4 points in March 2023 (52.1 in Feb and 49.7 in Jan) for fourth consecutive month since November 2022, underpinned by better expectation in future output. The J.P. Morgan Global Services Business Activity Index rose to a 15-month high of 54.4 points in March.
 - c) **Global trade volume** continued to moderate in January 2023, from the peak in September 2022, registering a 16-month low reading. The WTO's latest projection in April 2023 indicated that the world's trade growth will slow to 1.7% in 2023, following a 2.7% growth in 2022, weighed down by the effects of the war in Ukraine, stubbornly high inflation, tighter monetary policy and financial market uncertainty. Nevertheless, the projection is slightly higher than 1.0% estimated in October 2022, contributed by the expected unleashing of pent-up demand from China's reopening.
 - d) **Global semiconductor sales** on a down cycle, contracted further by 20.7% in February 2023, a level not seen in the past few down cycles and it was the worst since the Global Financial Crisis era. Overall chips sales fell back to below US\$40 billion level after 23 months, led by short-term market cyclical and macroeconomic headwinds.

- **Performance of advanced economies.** Available data suggests that the **US economy** has performed well in Q1 2023. Job market continued to expand amid slower gains in wages. This together with easing price pressures have supported consumer spending. Despite the regulators' swift backstop and liquidity support action to stem a systemic risk in the banking sector arising from recent regional banks' crisis, the turmoil could temper consumers' and businesses' sentiments as the banks could tighten lending standards and have a material impact on domestic demand.

The **euro area** economy continues growing in 1Q 2023. Industrial production was up. The Eurozone Composite Purchasing Managers' Index (PMI) rose to 53.7 in March from 47.3 in October 2022, hitting a 10-month high. However, while headline inflation softened to 6.9%, the core inflation reached a new record high at 7.9% in March.

GDP growth in **Japan** is expected to remain moderate in Q1 2023, as reflected in a mix bag of economic data. On a month-on-month basis, new core machinery orders grew at their fastest rate since October 2020 in January, consumer confidence and the services PMI have moved higher in February. Exports were down to a single-digit growth in January–February from 11 months of double-digit growth. The government has unveiled a fresh 2 trillion yen (about US\$15 billion) cost-of-living package on 22 March to support private spending.

The **China** economy appears to be recovering, thanks to the unexpectedly lifting of zero COVID-19 approach. In Jan-Feb 2023, retail sales growth of 3.5% yoy, matched expectations; industrial production grew 2.4%, less than expected; and fixed asset investment rose by 5.5%, topping expectations. However, investment in real estate fell further by 5.7% (-10.0% in Jan-Dec 2022), reflecting the persistent stress.

- **Global monetary tightening continues, albeit less aggressive.** Central banks are not giving up their inflation fight yet amid headline inflation has eased from the peak. While the peak in the Fed's interest rates is nearing, it is still some time to go for some advanced economies given still elevated and persistent price pressures, especially core inflation.

The Fed went ahead to hike interest rate by 25 basis points to 4.75%-5.00% in March despite the recent collapse of two regional banks. Forward guidance grew more dovish, with the Fed stating that "some additional policy firming may be appropriate". Market consensus is for the upper bound of the target range to peak at around 5.25% in 1H 2023.

- **No let up in global headwinds.** We continue to expect the global economy to grow below trend growth in 2023. The world economy will continue to face major headwinds, most notably from the fallout of a prolonged Russia's invasion of Ukraine, continued geopolitical tensions between the US and China; still elevated inflation pressure; global monetary tightening and tighter financial conditions; and the cost of climate change. Last but not least, is lingering concerns about the banks turmoil in the US and Credit Suisse in the Switzerland.

Global Economic and Monetary Conditions

Real GDP growth (% , YoY)

	2020	2021	2022	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023F (IMF)	2023F (WB)
World	-3.0	6.2	3.4(e)	N/A	N/A	N/A		2.8	1.7
United States	-2.8	5.9	2.1	3.7	1.8	1.9	0.9	1.6	0.5
Euro Area	-6.1	5.4	3.5	5.5	4.4	2.5	1.9	0.8	0.0
China	2.2	8.1	3.0	4.8	0.4	3.9	2.9	5.2	4.3
Japan	-4.3	2.1	1.0	0.5	1.7	1.5	0.4	1.3	1.0
India	-5.8	9.1	7.0(e)	4.0	13.2	6.3	4.4	5.9	6.6
Malaysia	-5.5	3.1	8.7	5.0	8.9	14.2	7.0	4.5	4.0
Singapore	-3.9	8.9	3.6	4.0	4.5	4.0	2.1	1.5	N/A
Indonesia	-2.1	3.7	5.3	5.0	5.5	5.7	5.0	5.0	4.8
Thailand	-6.1	1.5	2.6	2.2	2.5	4.6	1.4	3.4	3.6
Philippines	-9.5	5.7	7.6	8.2	7.5	7.6	7.2	6.0	5.4
Vietnam	2.9	2.6	8.0	5.1	7.8	13.7	5.9	5.8	6.3

Note: World GDP growth for 2020-2022 by IMF; Annual GDP for India is on fiscal year basis; N/A = Not applicable or not available

Source: Officials (unadjusted data except quarterly GDP for Euro Area); IMF (World Economic Outlook (WEO), Article IV); World Bank (Global Economic Prospects)

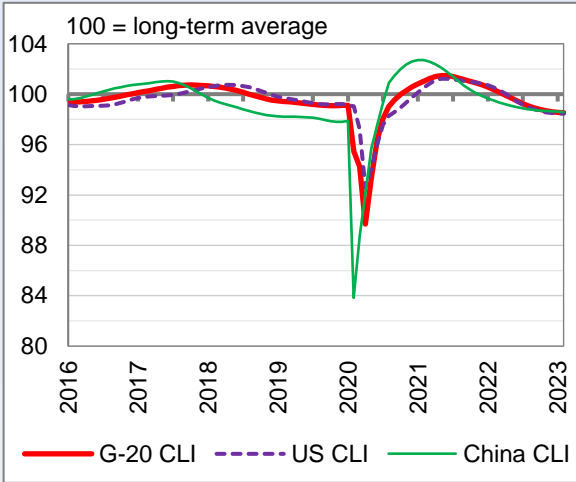
Policy rate (%)

End-period of	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 (Mar/Apr)	2023f
US, Fed Federal Funds Rate	0.00-0.25	0.25-0.50	0.50-0.75	1.25-1.50	2.25-2.50	1.50-1.75	0.00-0.25	0.00-0.25	4.25-4.50	4.75-5.00	5.25-5.50
Euro Area, ECB Deposit Facility	-0.20	-0.30	-0.40	-0.40	-0.40	-0.50	-0.50	-0.50	2.00	3.00	3.50-3.75
Japan, BOJ Short-term Policy I/R	0.00-0.10	0.00-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
China, PBC 1-Year Loan Prime Rate	5.60	4.35	4.35	4.35	4.35	4.15	3.85	3.80	3.65	3.65	3.65
India, RBI Policy Repo Rate (LAF)	8.00	6.75	6.25	6.00	6.50	5.15	4.00	4.00	6.25	6.50	6.50
Korea, BOK Base Rate	2.00	1.50	1.25	1.50	1.75	1.25	0.50	1.00	3.25	3.50	3.50
Malaysia, BNM Overnight Policy Rate	3.25	3.00	3.00	3.00	3.25	3.00	1.75	1.75	2.75	2.75	3.00
Indonesia, BI 7-Day RR Rate	7.75	7.50	4.75	4.25	6.00	5.00	3.75	3.50	5.50	5.75	5.75
Thailand, BOT 1-Day Repurchase Rate	2.00	1.50	1.50	1.50	1.75	1.25	0.50	0.50	1.25	1.75	1.75
Philippines, BSP Overnight RR Facility	4.00	4.00	3.00	3.00	4.75	4.00	2.00	2.00	5.50	6.25	6.25

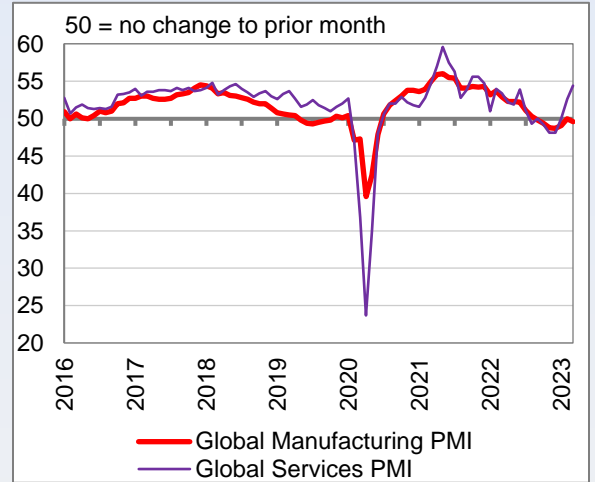
Source: Officials; SERC

Global Current and Forward Indicators

OECD composite leading indicators remained below its long-term average



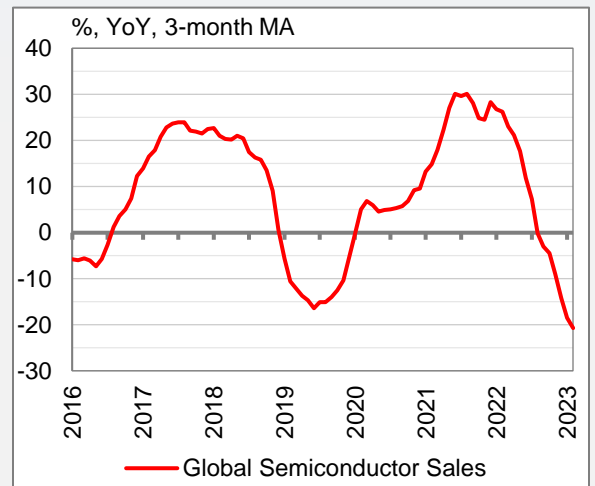
Global economic growth accelerates as upturn in the service sector strengthens



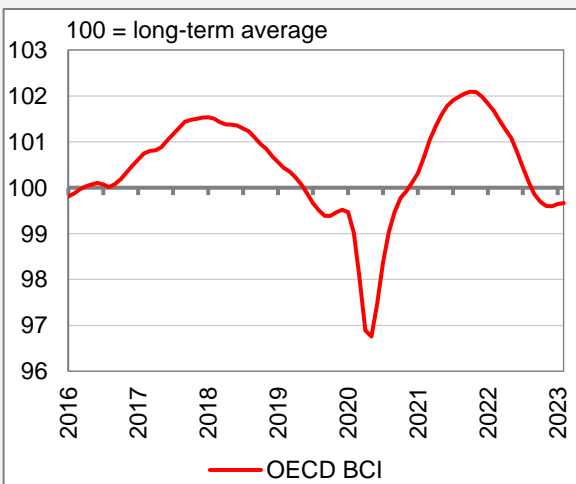
Global trade volume has contracted for three months in a row in Jan 2023



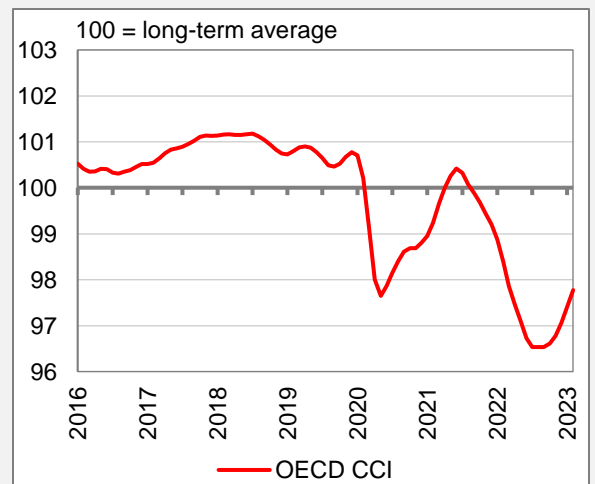
Global semiconductor sales on a down cycle



OECD Business Confidence Index

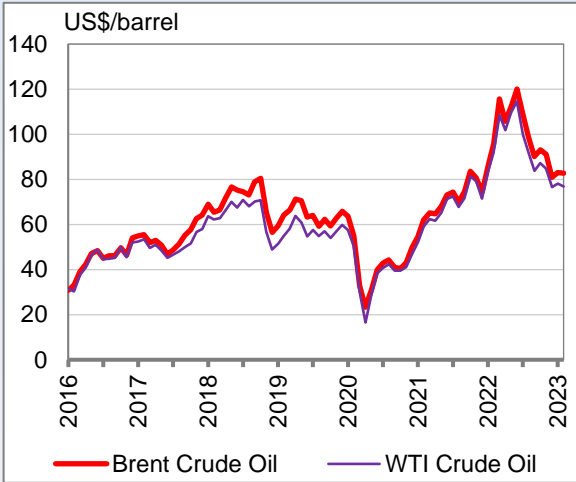


OECD Consumer Confidence Index

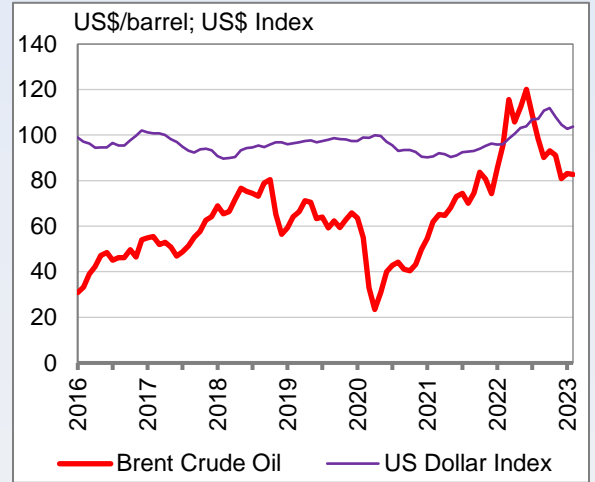


Global Current and Forward Indicators (cont.)

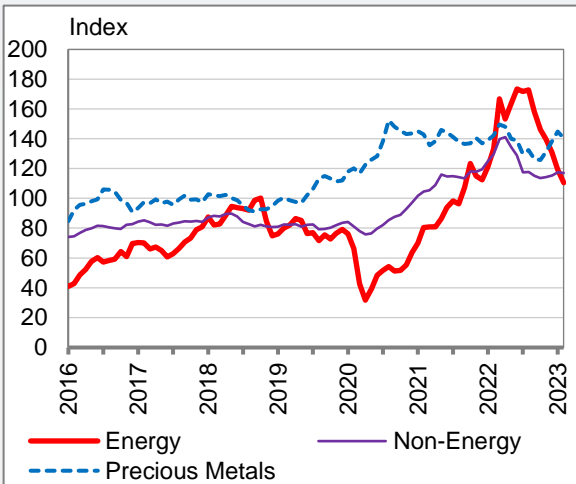
Brent crude oil prices may sustain around US\$80-100/bbl following a surprise output cut by OPEC+



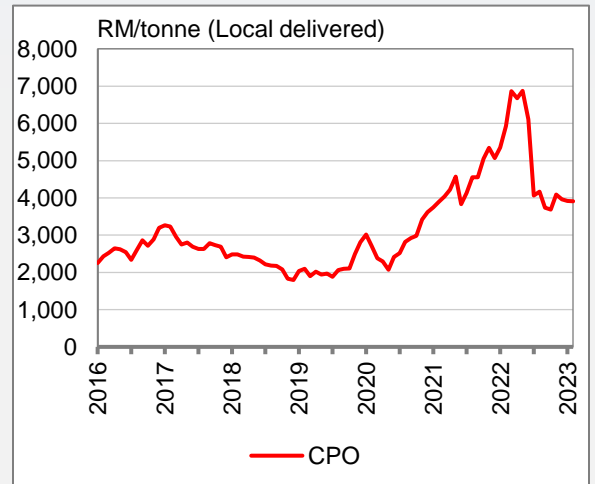
Brent crude oil price vs. the US dollar index



Prices of non-energy commodities remained elevated despite moderating from the peak



Crude palm oil prices sustained around RM4,000/tonne

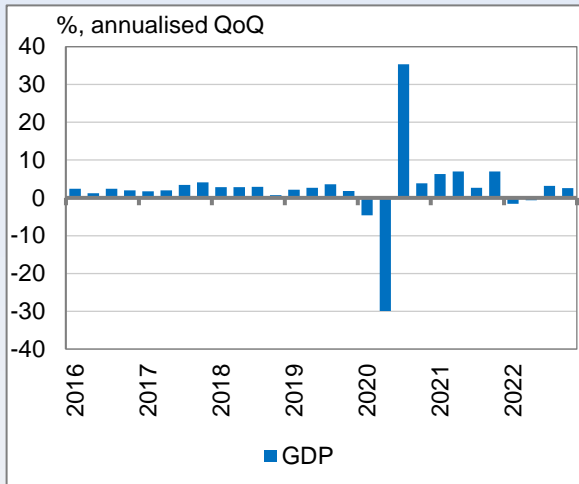


Source: Organisation for Economic Co-operation and Development (OECD); Markit; CPB Netherlands Bureau for Economic Policy Analysis; Semiconductor Industry Association (SIA); World Bank; The Wall Street Journal; Malaysian Palm Oil Board (MPOB)

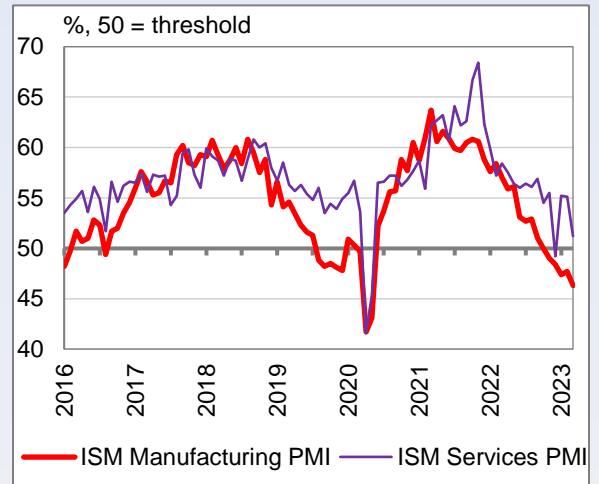


The US – Recessionary risks still lingering

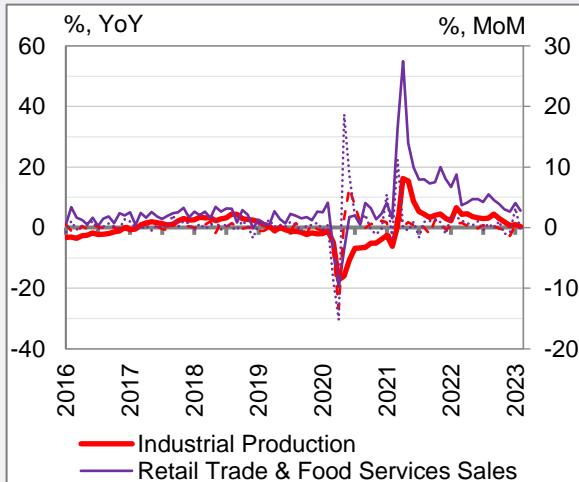
The US economy sustained in 4Q 2022 despite headwinds



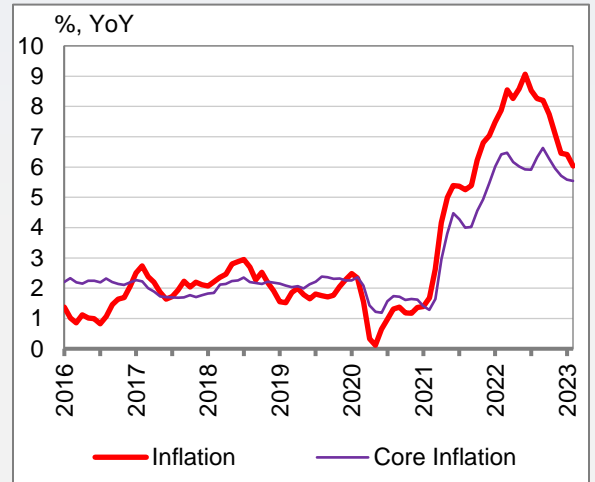
PMI for manufacturing and services continued downtrend since Jun 2022



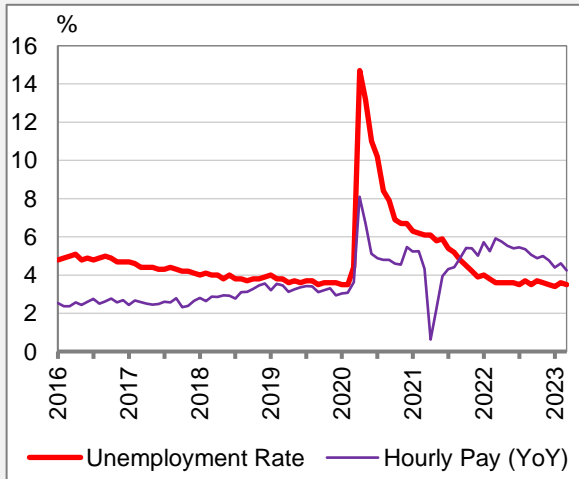
Industrial production growth nearly muted; retail activities slowed



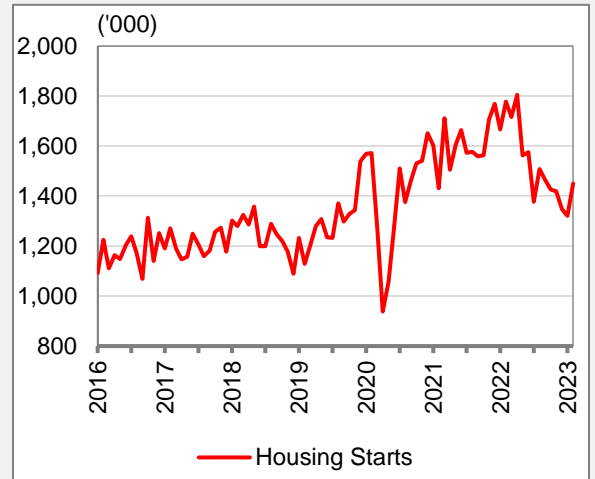
Both headline and core inflation remained elevated



Steadying jobless rate while hourly pay growth pressure eased a little



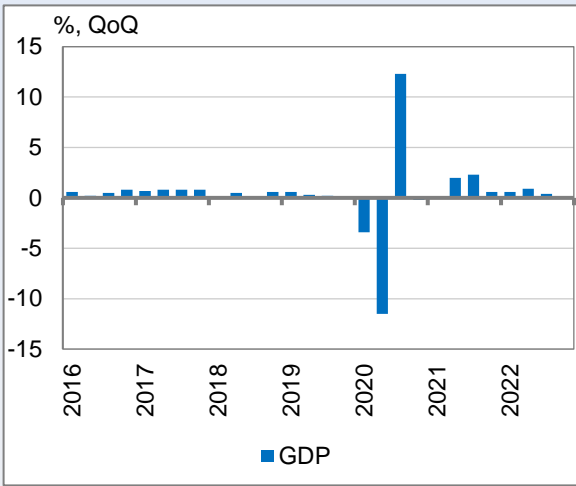
Surging housing starts in Feb, signalling an improved sentiment



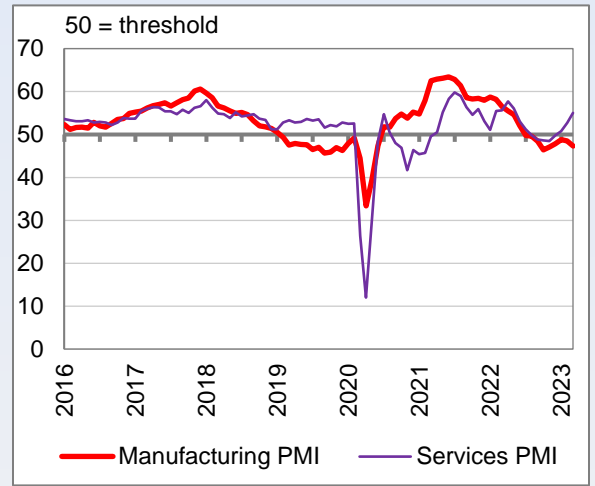
Source: Bureau of Economic Analysis (BEA); Institute for Supply Management (ISM); Federal Reserve System; US Census Bureau; US Bureau of Labor Statistics

Euro Area – A glimpse of hope for expansion

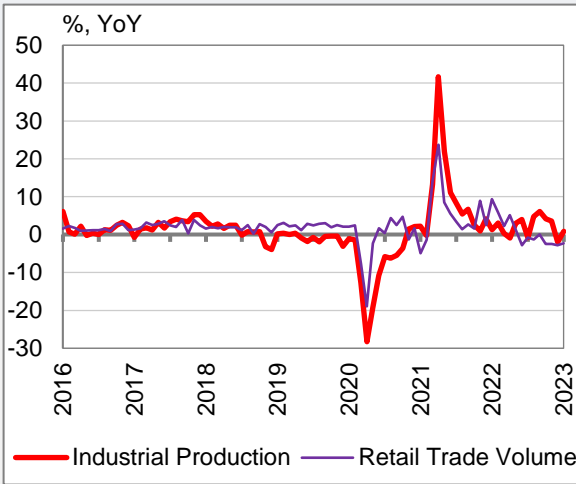
A flat growth in 4Q 2022



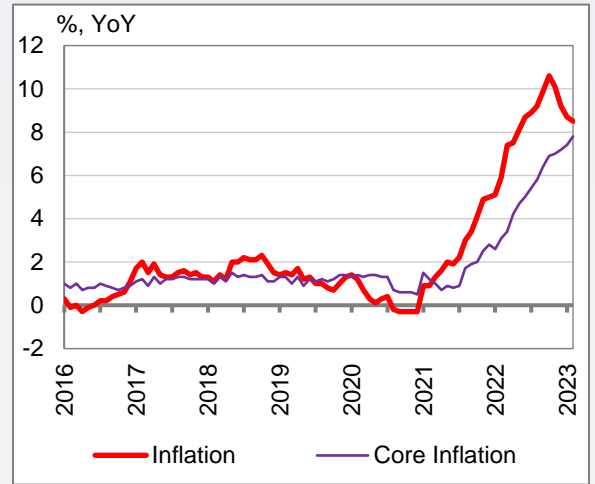
Services PMI rose strongly while manufacturing PMI still sluggish



Retail activities contracted fourth continuous month in Jan 2023



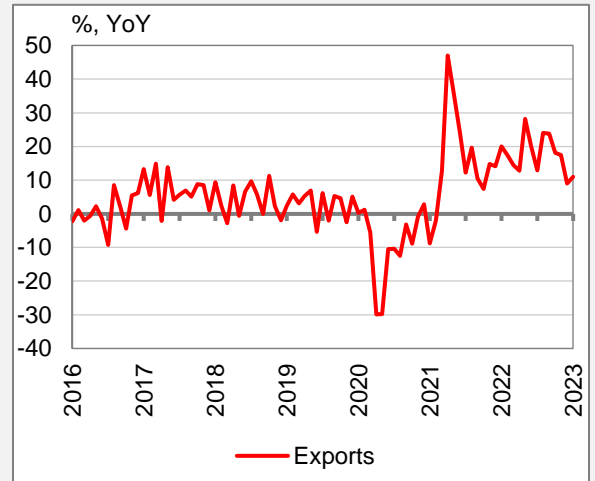
Core inflation at record high of 7.9% in Mar 2023



Job market continued to tighten



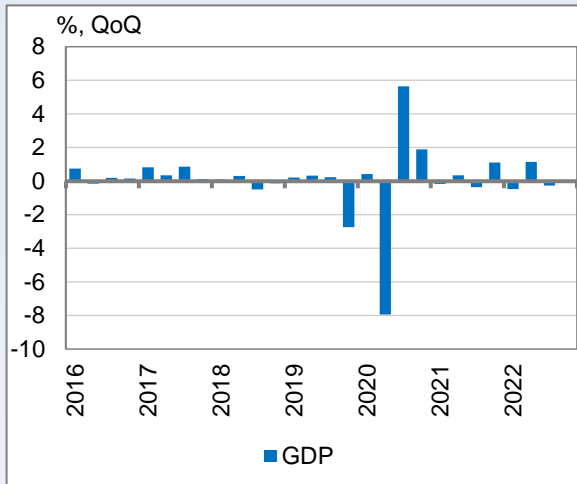
Exports growth off to a good start in 2023



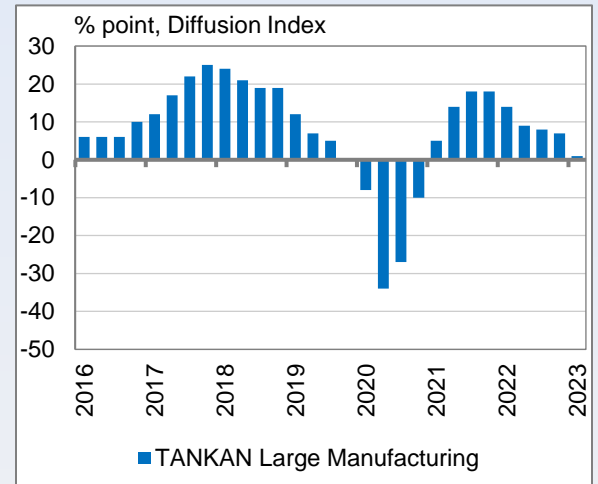
Source: Eurostat; Markit

Japan – Fragile recovery

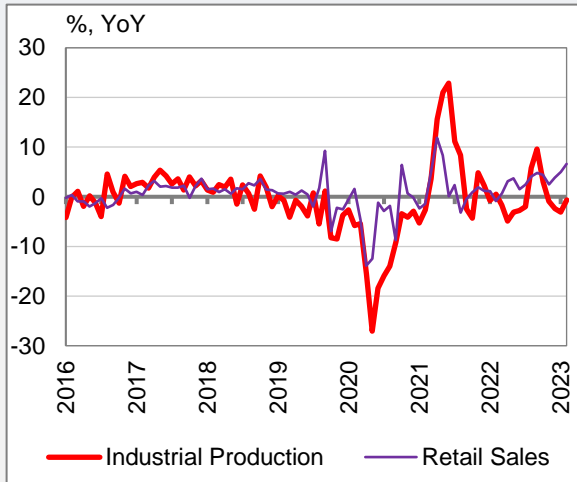
Barely grew in 4Q 2022



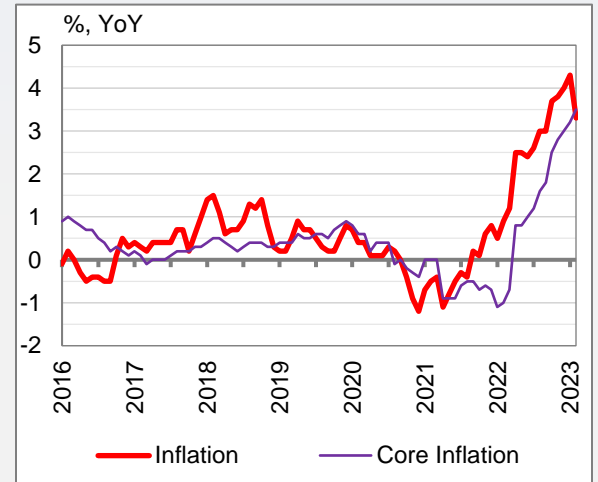
TANKAN survey signals almost a flat growth in the manufacturing sector



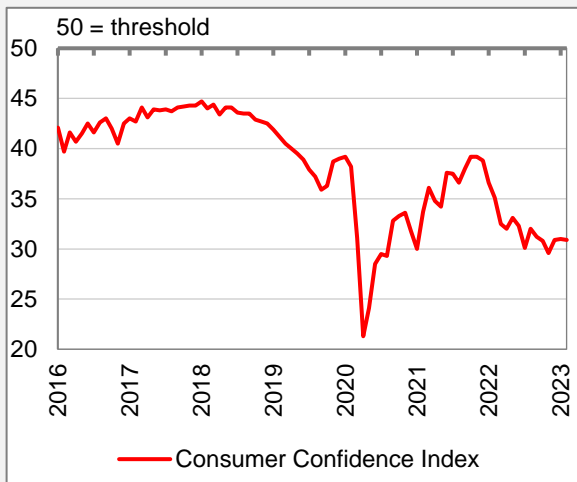
Core machinery orders showed positive sign



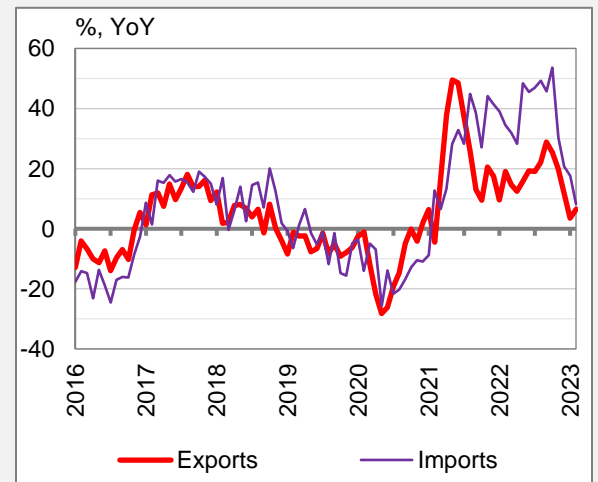
Headline inflation peaked and turning down



Consumer confidence remained subdued



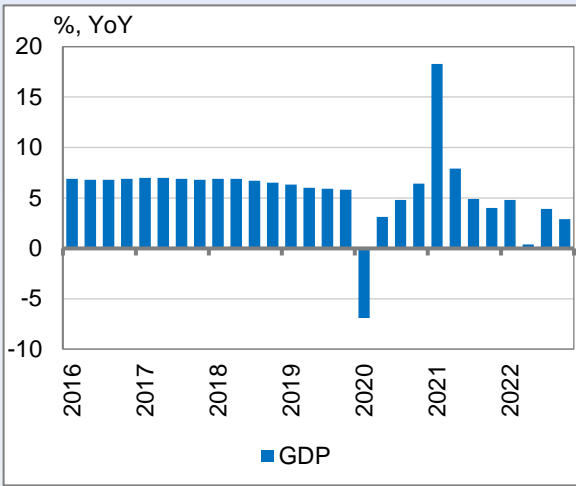
External demand growth moderated sharply



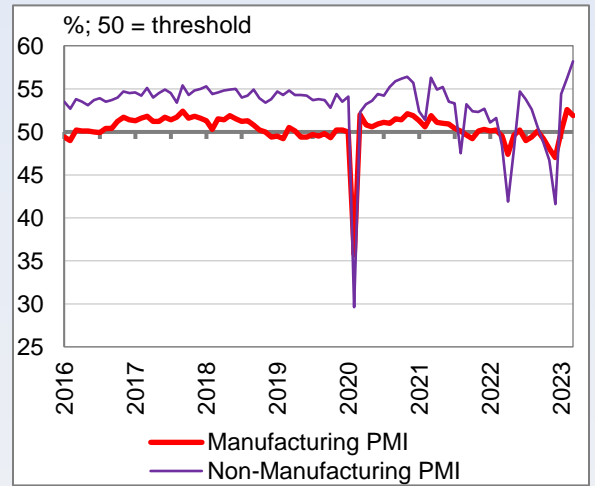
Source: Economic and Social Research Institute (ESRI), Cabinet Office of Japan; Bank of Japan (BOJ); Ministry of Economy, Trade and Industry (METI), Japan; Japan Customs; Statistics Bureau, Japan

China – All eyes on China’s post reopening path

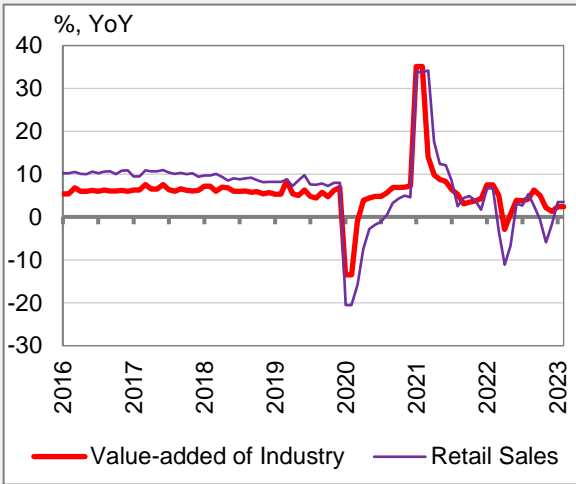
Expecting better growth in 2023



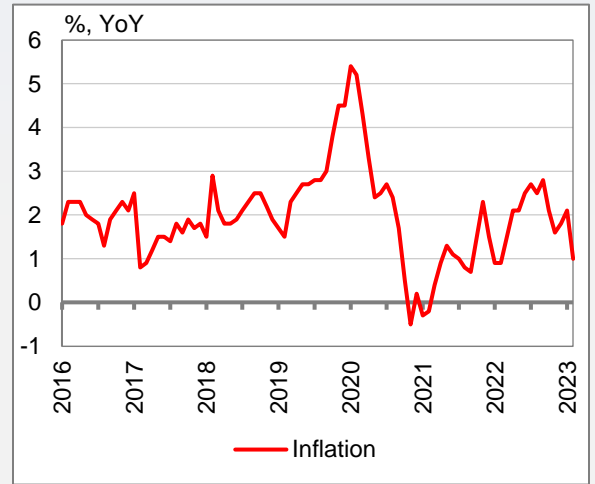
Both PMIs rose significantly following the re-opening of economy



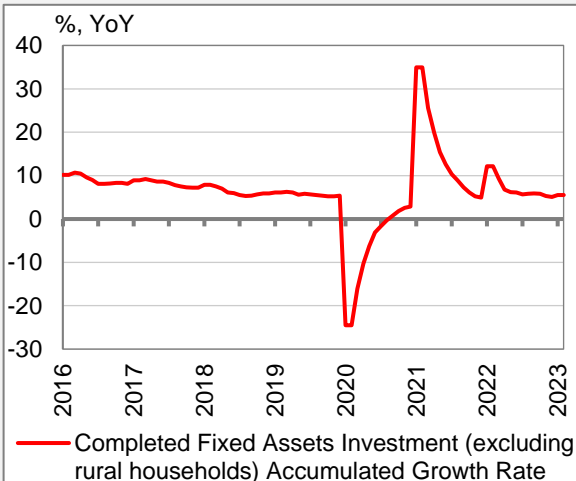
Industrial and retail trade growth off to a decent start



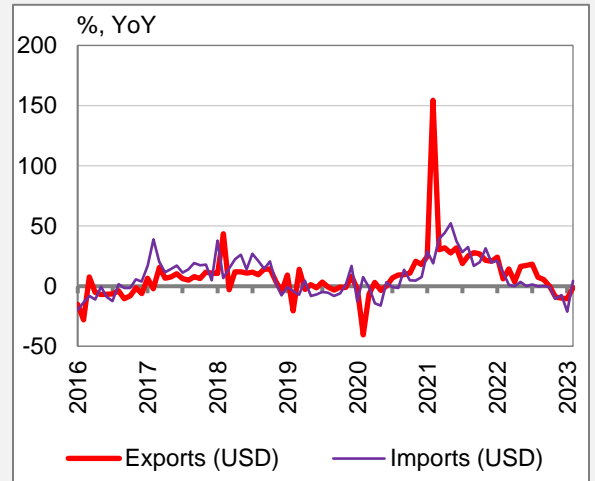
Moderate headline inflation and lower core inflation



Fixed investment growth on stable mode



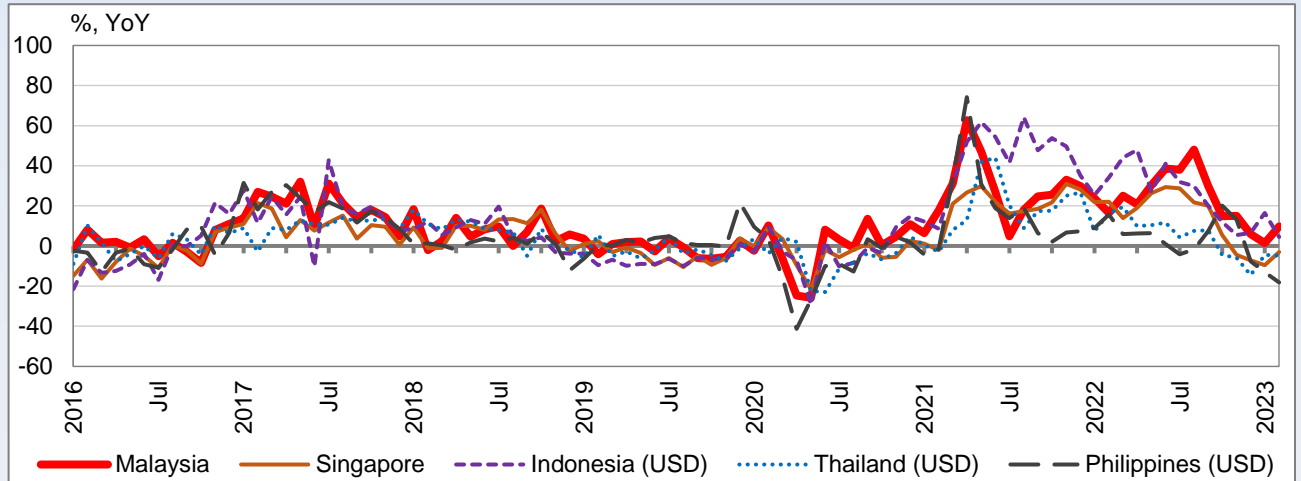
Exports contracted for the fifth straight month in Feb 2023



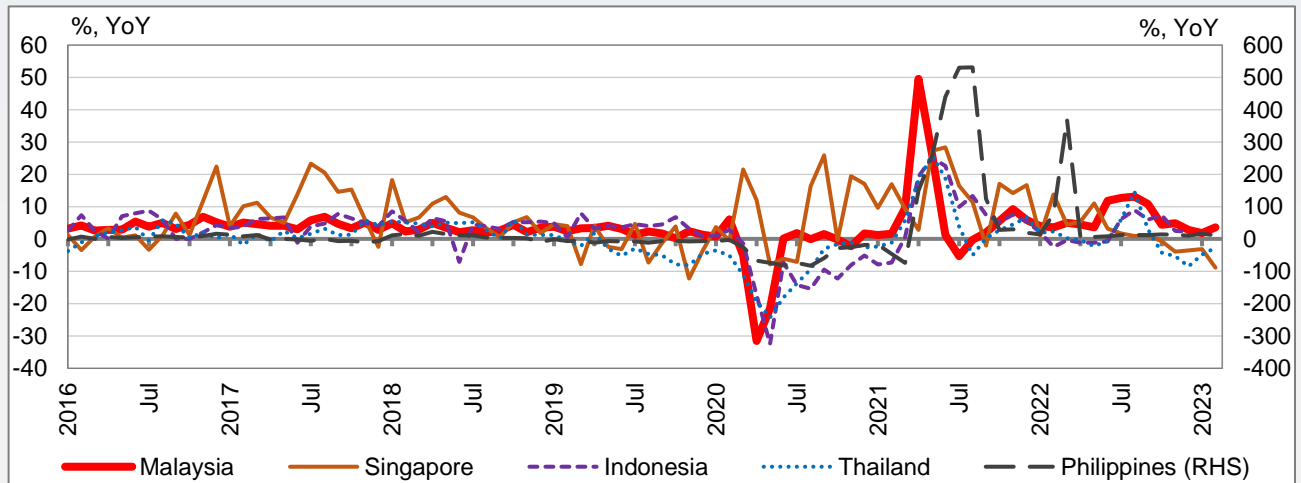
Source: National Bureau of Statistics of China; General Administration of Customs, China

ASEAN Economies

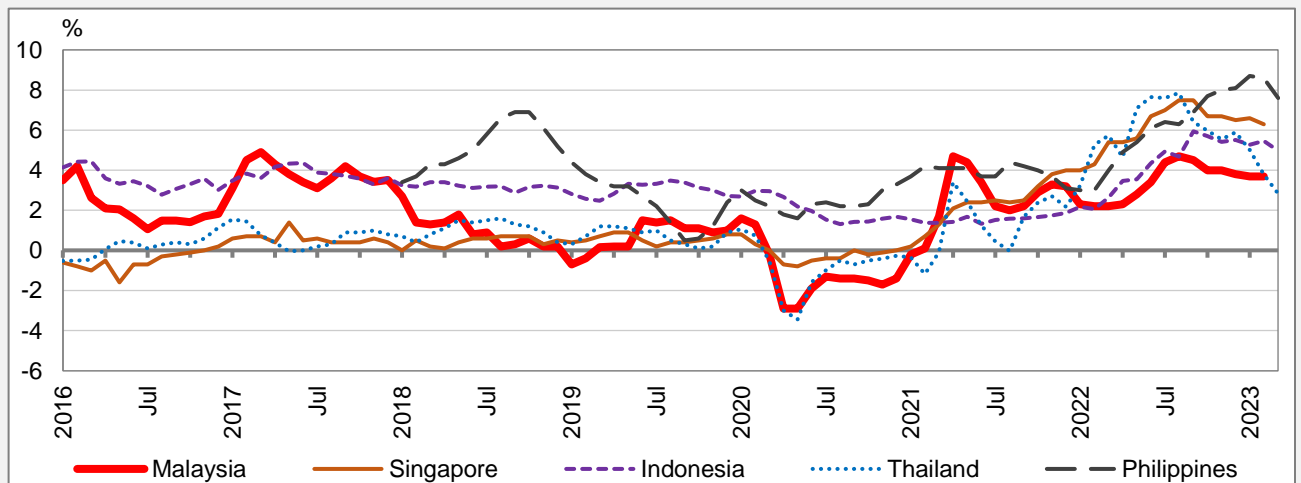
Export growth trend



Industrial production growth trend



Inflation trend



Source: Department of Statistics, Malaysia; Singapore Department of Statistics; Statistics Indonesia; Bank Indonesia; Bank of Thailand; Office of Industrial Economics, Thailand; Ministry of Commerce, Thailand; Philippine Statistics Authority



“NORMALISING” GROWTH IN 2023 – ANCHORING GROWTH ON DOMESTIC DEMAND

- **The Malaysian economy continues growing, albeit slower in 2023.** After staging a strong recovery growth of 8.7% in 2022 post the COVID-19 pandemic, the Malaysian economy is expected to normalise to an estimated 4.1% in 2023 on a more sustainable pace of private consumption, which made up 60.2% of total GDP in 2022. Exports, which had been a strong contributor to the economy, has displayed slowing momentum since late 2022.
- **Re-tabled Budget 2023 focuses on rebuilding economic resilience.** The re-tabled new Budget 2023 with a record RM97.0 billion allocation of development expenditure is crafted to sustain the strength of economy against still challenging and uncertain external environment. There were measures and initiatives to help coping with rising cost of living pressures, increasing income and employment opportunities, improving business facilities and the competitiveness of SMEs, restoring the tourism industry, and driving digitisation and automation as well as ESG agenda.
- **Latest batch of economic data suggests slowing start in early 2023.**
 - a) The **leading index** continued to decline in January 2023, marking three consecutive months of contraction. This indicates that Malaysia’s near term (four to six months ahead) economic prospects continue to face challenges.
 - b) **Industrial production index (IPI)** registered a low single-digit growth of 3.6% yoy in February (1.8% in January; 4.0% in 4Q 2022 and 12.2% in 3Q 2022), due to dissipating overseas demand. Slower industrial output was weighed down by slower growth in the manufacturing sector (3.0% in Jan-Feb 2023 vs. 4.0% in 4Q 2022 and 13.4% in 3Q 2022) and a decline in the electricity sector (-1.7% in Jan-Feb 2023 and 4Q 2023, respectively). We expect the industrial output to weaken in the months ahead due to moderate exports while domestic market sectors would be supported by a revival in the construction sector.
 - c) **Manufacturing sales** reposted a double-digit growth of 10.3% yoy in February 2023 from 6.5% in January 2023 (8.8% in December 2022). Export-oriented industries, which accounted for 71.1% of total sales, expanded by 10.0% (6.9% in Jan), while domestic-oriented industries (28.9% of total sales) accelerated by 11.0% (5.6% in Jan).
 - d) **Distributive trade** continued to expand by 14.7% yoy in February 2023 (12.4% in Jan), mainly helped by strong growth in retail sector (19.2%) and motor vehicle (36.1%). China’s reopening will help to sustain stronger domestic tourism-related spending such as retailing, restaurants and accommodation.
 - e) **Exports** continued to pace at much slower growth of 5.4% yoy in Jan-Feb compared to 11.8% in 4Q 2022, dragged by lower export values in selected products, particularly palm oil (mainly due to a large decrease in average unit value), chemical and chemical products, metal products, rubber and plastic products, and wood products.
 - f) **Banking sector’s outstanding loan** grew at a slightly more moderate pace at 5.2% yoy in February 2023 (5.7% in Dec 2022), supported by the household sector (5.7%), while loans demand of business and others increased by 4.4%. The banking system reported a healthy liquidity buffers with the aggregate Liquidity Coverage Ratio at 152.7% (147.1% in Jan).

- **Preliminary estimates of 4.0%-4.5% real GDP growth in 1Q 2023.** Our preliminary estimate of real GDP growth is 4.0%-4.5% in 1Q 2023 (5.0% in 1Q 2022 and 7.0% in 4Q 2022). The external trade sector is a drag on the economy due to a sharp pullback in export growth. Festive demand will fuel private consumption but increased prices and cost of living pressures as well as higher interest rate (higher debt service payment) will reduce net disposable income; and hence, discretionary spending.
- **Headline inflation pressure has eased off from the peak.** Headline inflation held steady at 3.7% yoy in February 2023 (3.7% in January vs. 3.3% in 2022). The rise in price inflation particularly food and beverages; housing, utilities and other fuels; education; and restaurants and hotels was offset by price moderation in transport and recreation & culture.

We concur with Bank Negara Malaysia (BNM)'s assessment that inflation will remain elevated in the months ahead. Both cost and demand pressures have reinforced each other on prices, though the wage bargaining is limited amid a relatively tight labour market. The wild card is the change in domestic policy on subsidies. We expect headline inflation to increase by 2.8%-3.5% in 2023 (3.3% in 2022).

- **BNM will likely to increase policy rate to 3.00%.** We expect Bank Negara Malaysia to remain on guard on inflation while supporting the economy. BNM stated that any adjustment to the degree of accommodation will take into consideration the evolving global and domestic conditions and their implications on the overall outlook of domestic inflation and growth. It remains vigilant to cost factors, including those arising from financial market developments, that could affect the inflation outlook.
- **We concur with Bank Negara Malaysia's assessment that the upside and downside risks to the economy are roughly balanced.**
 - 1) Global economic uncertainty remains elevated, pertaining to the lag impact of global monetary tightening in some advanced economies; tighter credit conditions; still high consumer inflation and business costs pressure; and lingering fears about the recent banking stress in the US.
 - 1) Exports growth momentum, which has been softening since late 2022, continued in Jan-Feb 2023 (5.4% vs. 24.1% in 2H 2022), reflecting the dampening impact of weakening global demand, easing prices of energy and commodities as well as being challenged by high base effects in 2022.
 - 2) Prolonged and further escalation of the geopolitical conflicts would impact Malaysia via trade disruptions, commodity and energy prices and financial market volatility.
 - 3) China's reopening would help to strengthen domestic tourism, trade activities and Chinese FDI inflows.
 - 4) Inflation remains tilted to the upside if the worsening geopolitical conflicts lead to higher commodity prices, extreme weather conditions and higher input costs due to exchange rate developments. The wild card is a review of domestic policy on subsidies.

Real GDP growth (% , YoY)

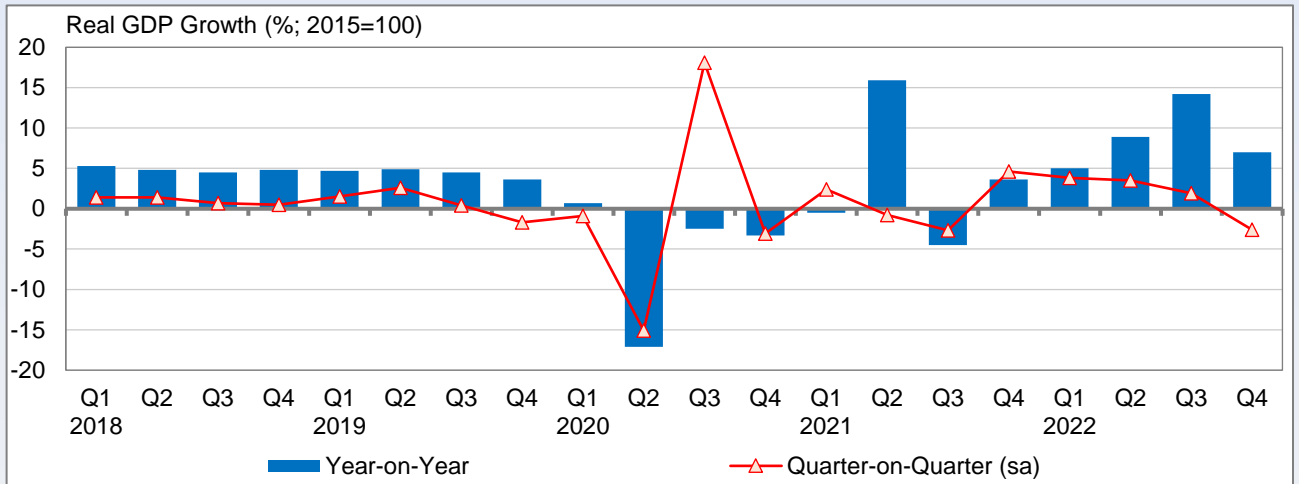
Economic Sector [% share to GDP in 2022]	2020	2021	2022	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023F (BNM)	2023F (SERC)
By kind of economic activity									
Agriculture [6.6%]	-2.4	-0.2	0.1	0.1	-2.4	1.2	1.1	0.7	0.5
Mining & Quarrying [6.4%]	-9.7	0.3	3.4	-1.1	-0.5	9.2	6.8	2.0	1.0
Manufacturing [24.2%]	-2.7	9.5	8.1	6.6	9.2	13.2	3.9	4.0	4.0
Construction [3.5%]	-19.3	-5.2	5.0	-6.2	2.4	15.3	10.1	6.3	5.2
Services [58.2%]	-5.4	1.9	10.9	6.5	12.0	16.7	8.9	5.0	5.0
By type of expenditure									
Private Consumption [60.2%]	-4.2	1.9	11.3	5.5	18.3	15.1	7.4	6.1	5.9
Public Consumption [13.2%]	5.0	5.3	3.9	6.7	2.6	4.5	2.4	1.3	2.6
Private Investment [15.4%]	-11.9	2.6	7.2	0.4	6.3	13.2	10.3	5.8	4.0
Public Investment [4.4%]	-21.2	-11.3	5.3	-0.9	3.2	13.1	6.0	7.0	1.7
Exports of Goods and Services [71.7%]	-8.6	15.4	12.8	8.0	10.4	23.9	9.6	2.7	1.6
Imports of Goods and Services [66.3%]	-7.9	17.7	14.2	11.1	14.0	24.4	8.1	2.1	2.4
Overall GDP	-5.5	3.1	8.7	5.0	8.9	14.2	7.0	4.0-5.0	4.1

Source: Department of Statistics, Malaysia (DOSM); SERC estimates and forecast

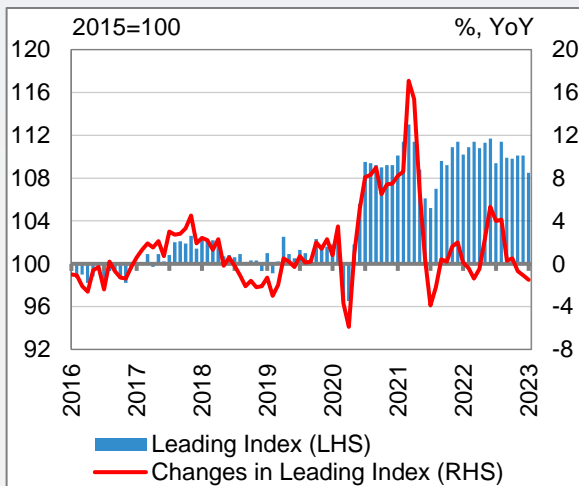


Spotlight on the Malaysian Economy

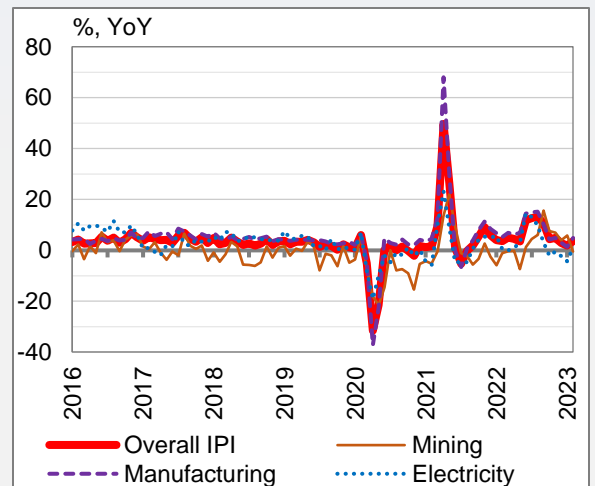
Malaysia's GDP recorded a strong growth of 8.7% in 2022, underpinned by robust expansion in both domestic and external demand



Leading Index (LI) in Jan 2023 indicates challenging economic prospects

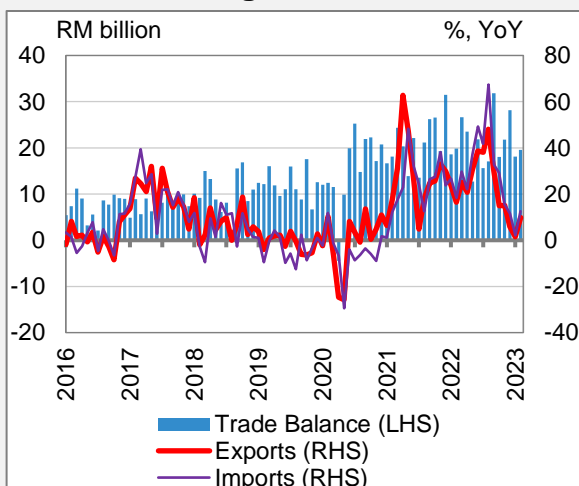


Industrial production growth eased on dissipating overseas demand

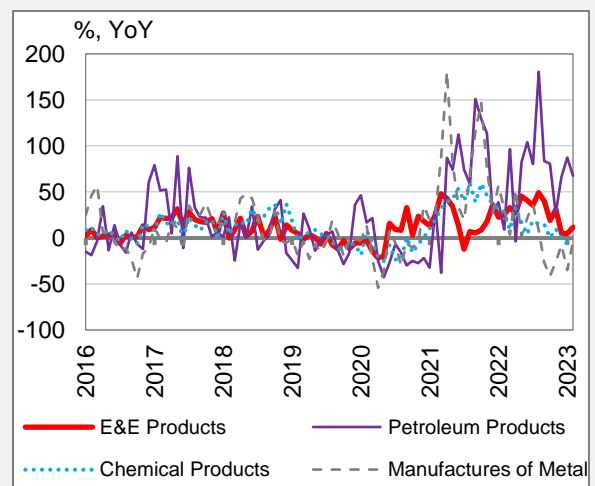


External Sector

Both export and import growth could contract starting Mar 2023



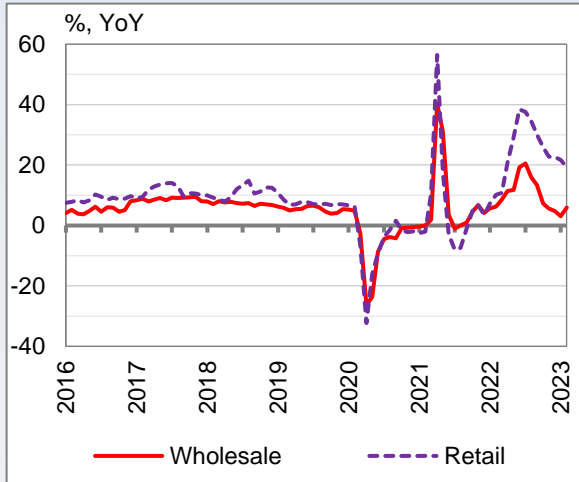
Exports by major products



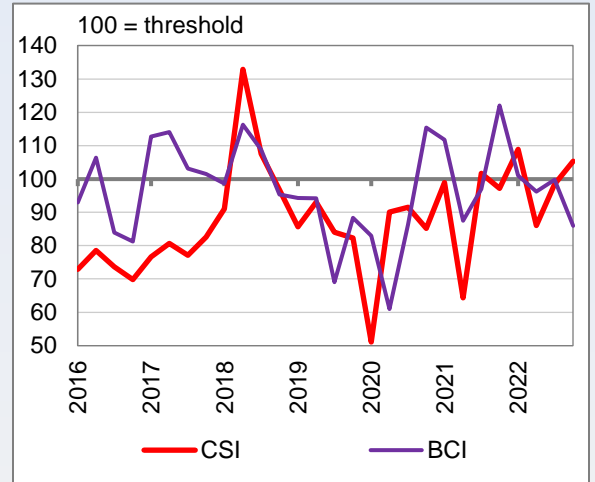
Spotlight on the Malaysian Economy (cont.)

Domestic demand

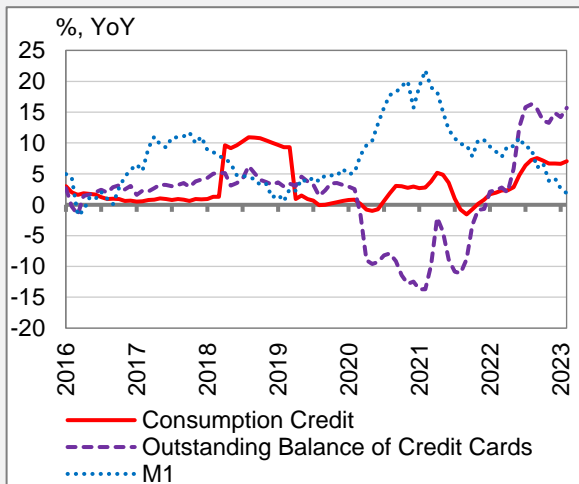
Retail sales still growing, albeit moderating while wholesale growth normalised



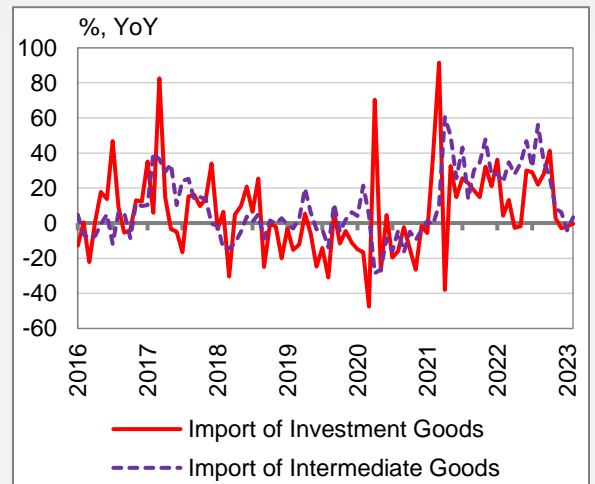
Consumer sentiments improved cautiously; business conditions weakened



Selected private consumption indicators



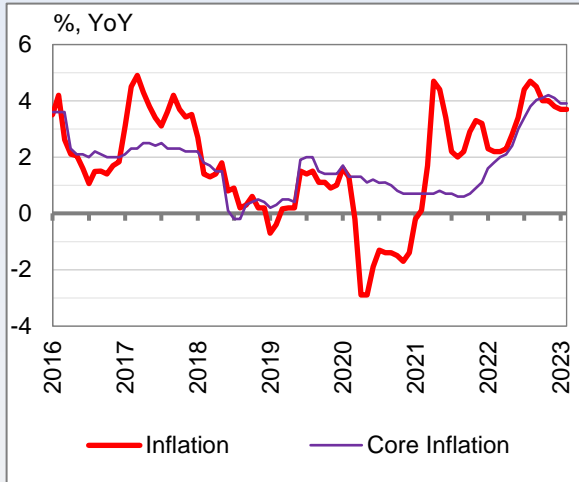
Selected private investment indicators



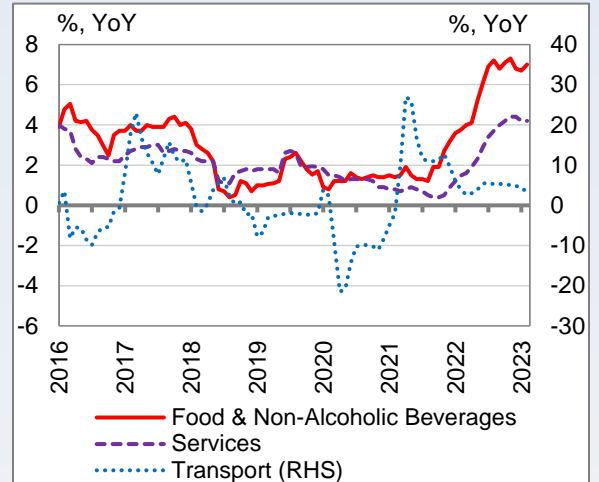
Spotlight on the Malaysian Economy (cont.)

Price Indicators and Labour Market

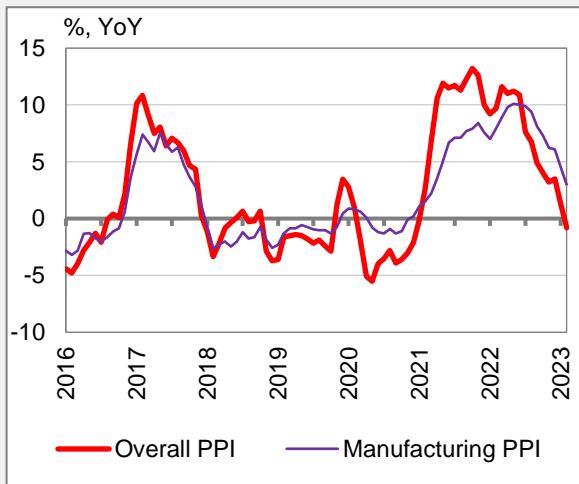
Headline inflation easing but core inflation remained elevated. Targeted subsidies could fuel price pressure



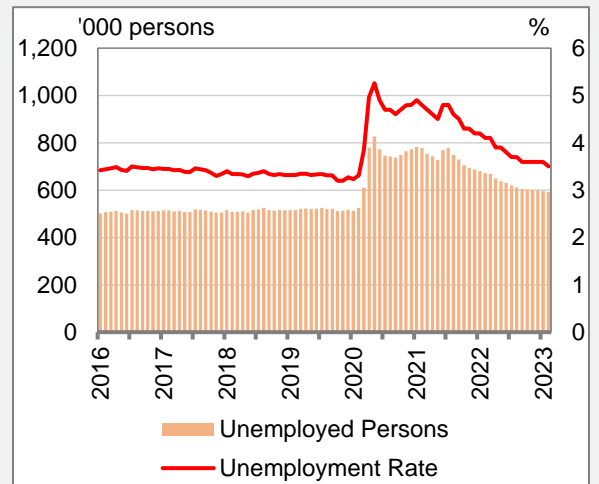
Food prices continued to increase substantially; B40 felt the most



Producer prices were trending down since 2H 2022



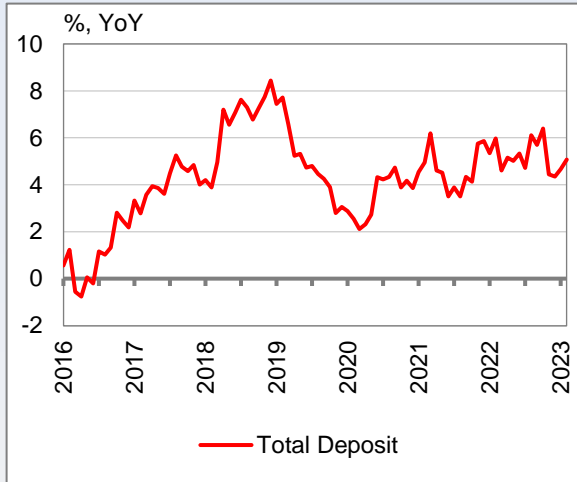
Unemployment rate improved further to 3.5% in Feb 2023, with easing pressure in labour supply



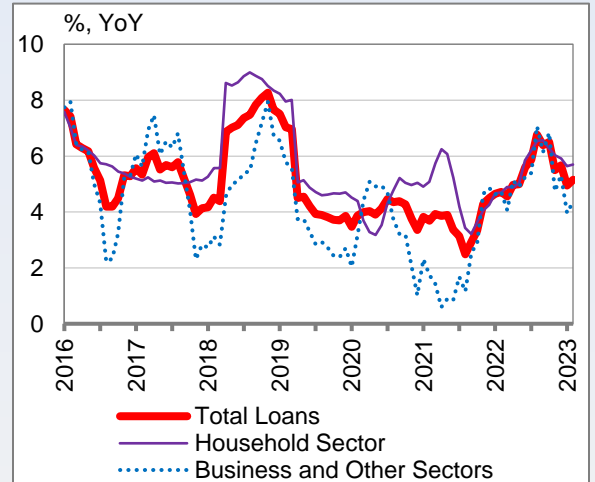
Spotlight on the Malaysian Economy (cont.)

Banking and Financial Indicators

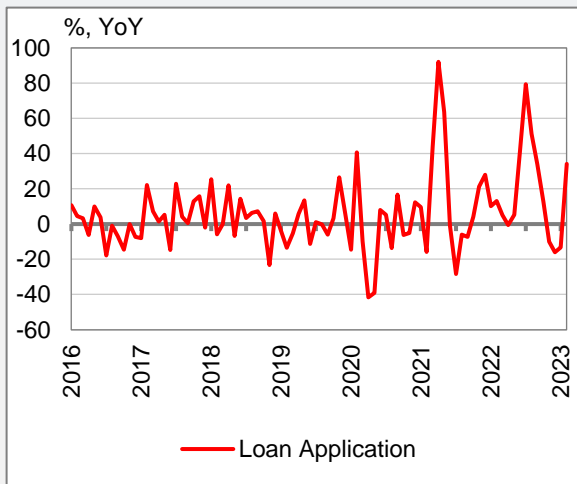
Banking deposit growth remained healthy



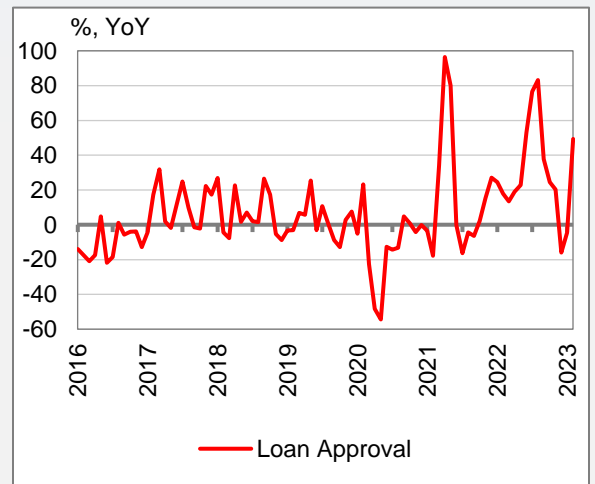
Overall loan growth moderated as loan repayments growth outpaced disbursements



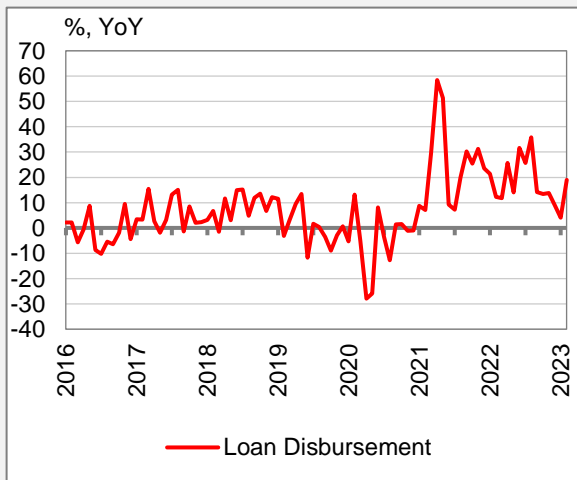
Loan applications growth



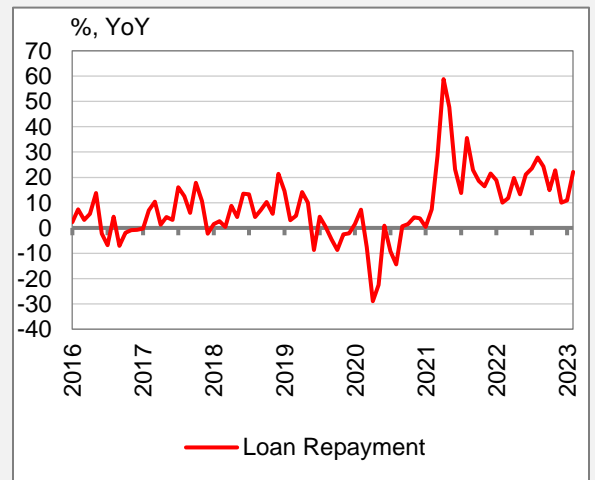
Loan approvals growth



Loan disbursements growth



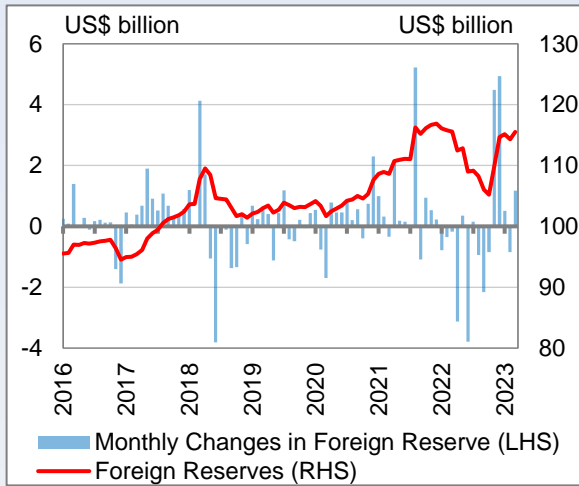
Loan repayments growth



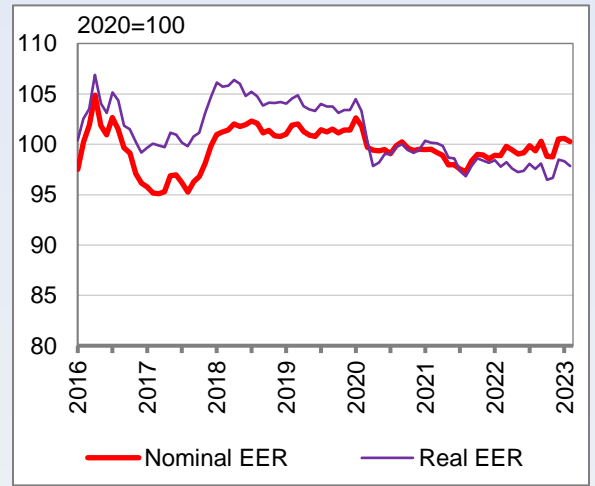
Note: Loan data from July 2022 onwards was revised and expanded based on the latest requirements with more accurate data definition and reporting methodology. Outstanding loan excludes DFI.

Spotlight on the Malaysian Economy (cont.)

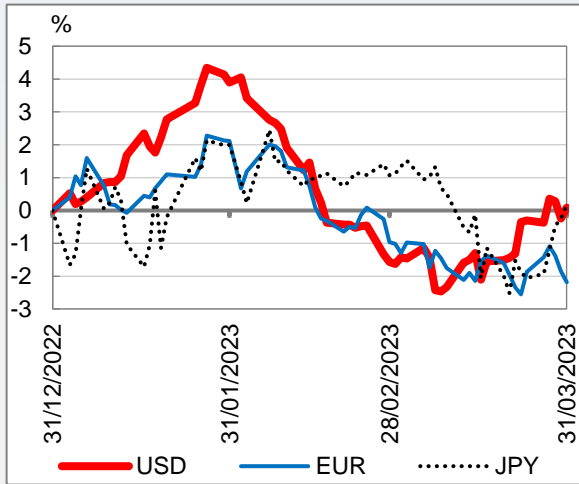
Foreign reserves accumulation improved a little



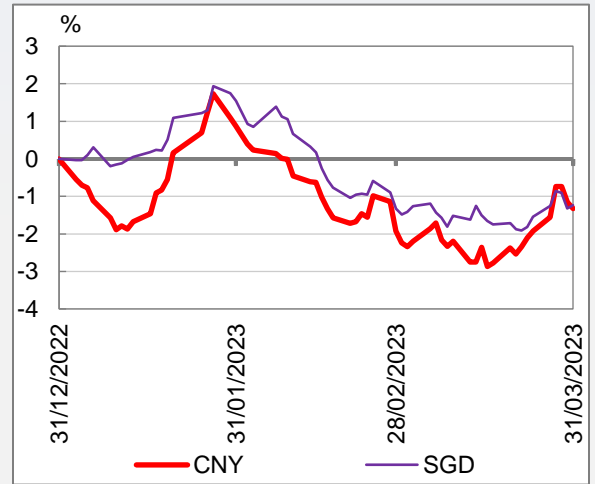
Ringgit's Effective Exchange Rate (EER)



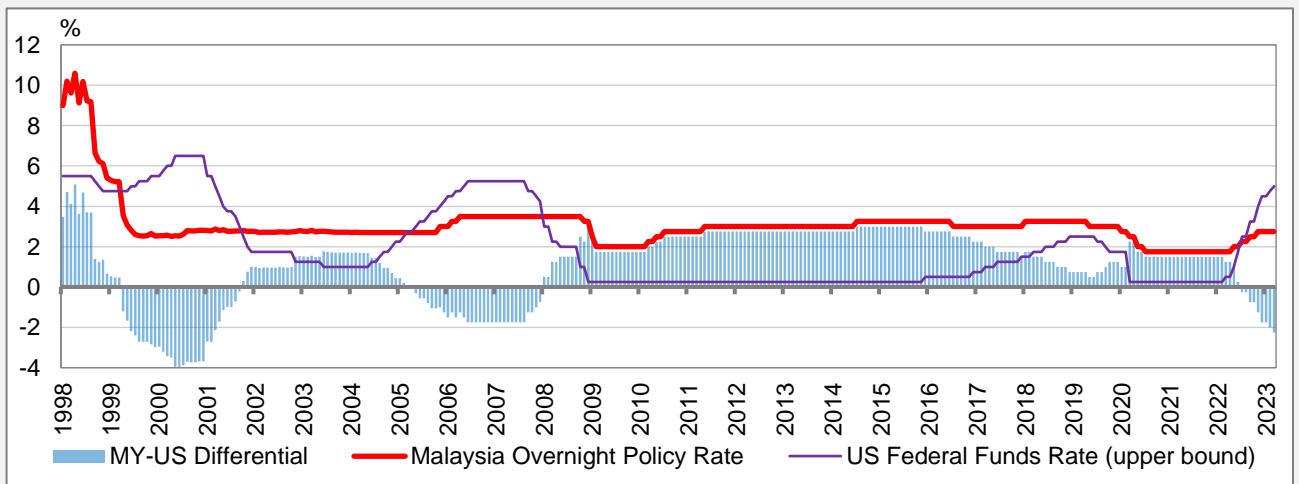
The Ringgit against the US dollar, euro and Japanese yen



The Ringgit against the Chinese renminbi and Singapore dollar



Malaysia-US's interest rate differentials



Source: Department of Statistics, Malaysia (DOSM); Malaysian Institute of Economic Research (MIER); Bank Negara Malaysia (BNM); Bank for International Settlements; Federal Reserve



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The Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM)'s Socio-Economic Research Centre (SERC Sdn. Bhd.) was established as an independent and non-profit think tank on 19 October 2010. Officiated by YAB Prime Minister on 28 April 2011, SERC is funded by ACCCIM SERC Trust.

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The organization will identify and explore issues and future trends that impact domestic economic and business environments. It will also focus on sharing knowledge and promoting public understanding of socio-economic issues of national importance.