



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

**Perspectives from onshore –  
“Breaking out of slowing growth  
trajectory”**

**J.P. Morgan, 14 February 2017**



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## Coping with increasingly complex environment...



# NAVIGATING POLICIES ADJUSTMENT & REFORM

- ✓ Since 2015, domestic business operating landscape was reshaped by **on-going subsidy rationalization, the Goods and Services Tax (GST), higher minimum wage and other regulatory changes**
- ✓ **Consumer and business sentiment** was weighed down by concerns over external and domestic economic uncertainties and weak ringgit
- ✓ The **ringgit had depreciated against the US dollar for four consecutive years** since 2013, losing a cumulative of 31.7% against the dollar as at end-2016
- ✓ The **stock market**, as measured by FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBMKLCI) has been in **negative territory for three years in a row (-12.0%)** in 2014-16
- ✓ **Our initial conditions are manageable.** While business and economic conditions have weakened, they are not in a deep slowdown; the banking sector is strong, the capital market is well developed and corporate balance sheets are in good shape. The current account of BOP continues to register surplus though much reduced
- ✓ Some **sweet spots in Jan-Feb 2017:** Higher CPO and rubber prices as well as improved crude oil prices

# TRUMPONOMICS & STRONG DOLLAR WILL DEFINE THE YEAR

- ✓ Malaysia is now entering a period of moderate growth between 4.3-4.6% in 2017-18 (estimated 4.2% in 2016) after a high growth of 5.3% over the period (2011-15)
- ✓ This raises key questions: **how long will the adjustment last? Is the slowdown here to stay?**
- ✓ Malaysia **remains sensitive to increasingly complexity of global environment**, which is brought about by the policy outcomes and uncertainties associated with the advanced economies. China's economy and the renminbi merits close watch
- ✓ **Prospect of higher US interest rates, stronger US dollar and the compressed yields differential** would be a bane for Malaysia in the form of capital reversals, manifesting in financial markets' (equities and bonds) and the ringgit's volatility
- ✓ Both **consumers and businesses had endured and will continue to make adjustments** in the form of increasing cost of doing business via costlier imported inputs for businesses, lower purchasing power for consumers due to higher imported prices of goods and services

**The challenge is policymakers are prepared, willing and able to take control to boost economic growth and address the risks**

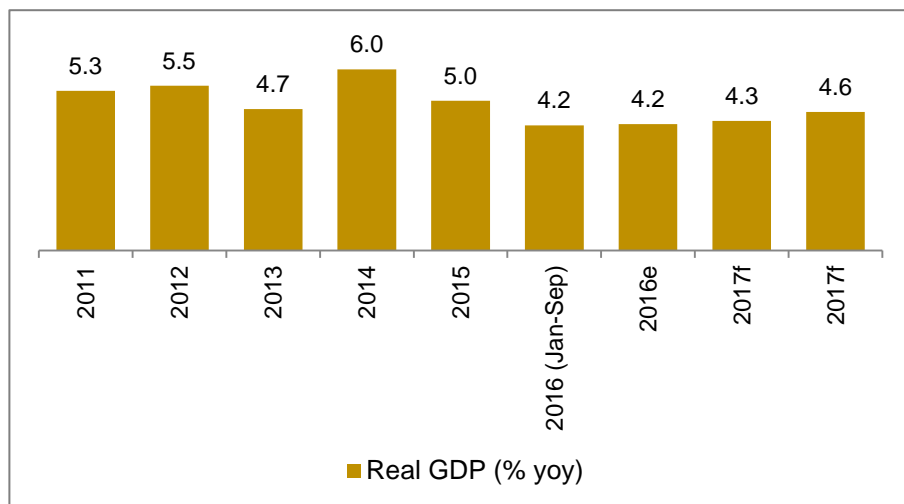
# Malaysia: Be prepared to face looming challenges



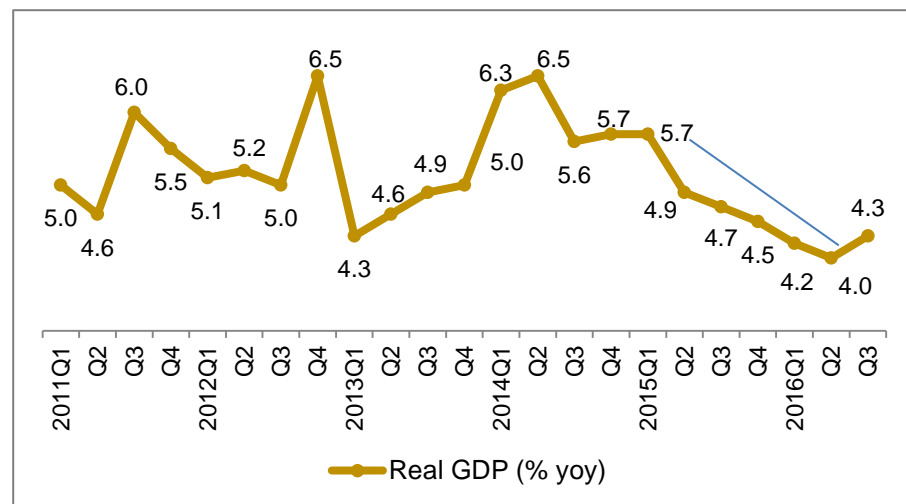
# MALAYSIA: IS THE SLOWDOWN HERE TO STAY?

- **2017's growth outlook** shows a **cautiously positive trend of 4.3%** (estimated 4.2% in 2016 vs. 5.0% in 2015 and 6.0% in 2014)
- What could possibly lift economic growth higher? **Stronger domestic demand and firmer external demand** if higher energy and commodity prices provide a small tailwind. Higher-than-expected export growth (estimated 1.5-2.0% for 2017) may give a boost
- Is the latest ringgit's volatility symptomatic of more perfect storm to come?
- What can the policy makers do to withstand the volatility?
- What should our policies focus on to prepare the country in the coming years?

**Still positive GDP growth trajectory (% YoY)**



**Deceleration in GDP growth has bottomed out**

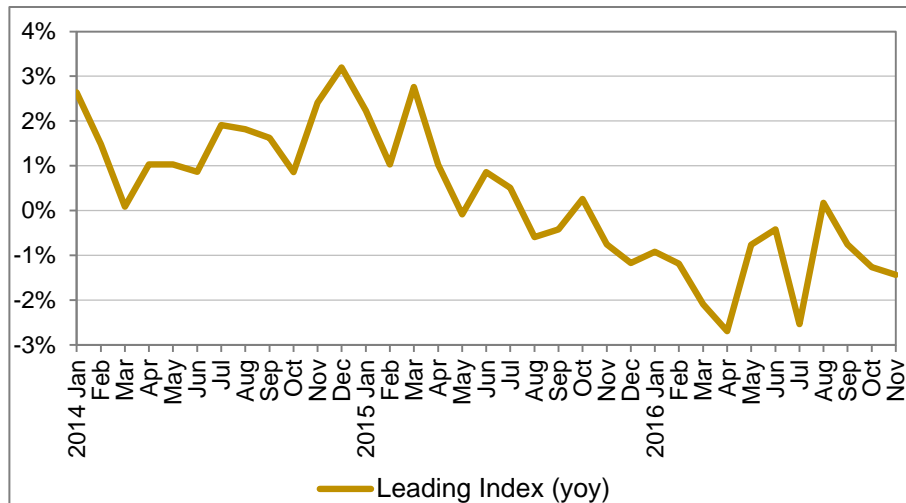


Source: Department of Statistics, Malaysia; SERC estimate and forecast

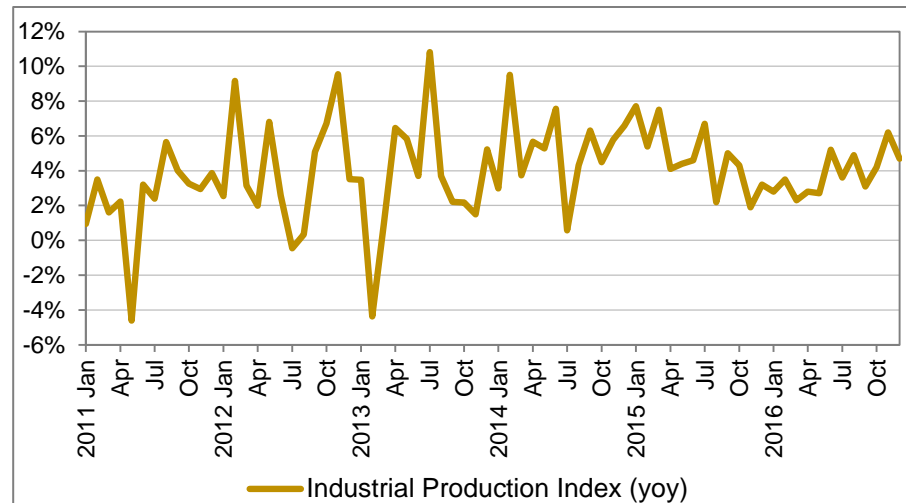


# REAL ECONOMIC INDICATORS SHOW MIXED TRENDS

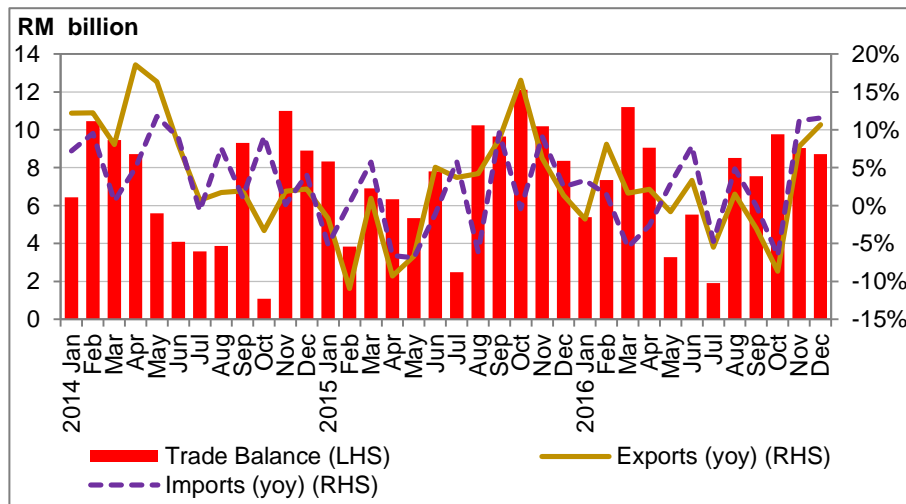
## Leading index suggests moderate growth ahead



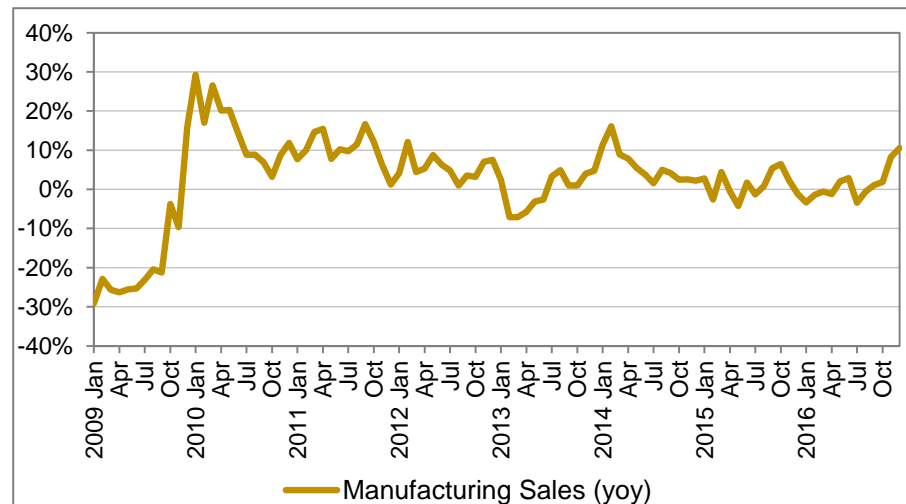
## Industrial production grew steadily



## Exports turned positive in Nov-Dec 2016



## Manufacturing sales continue to expand



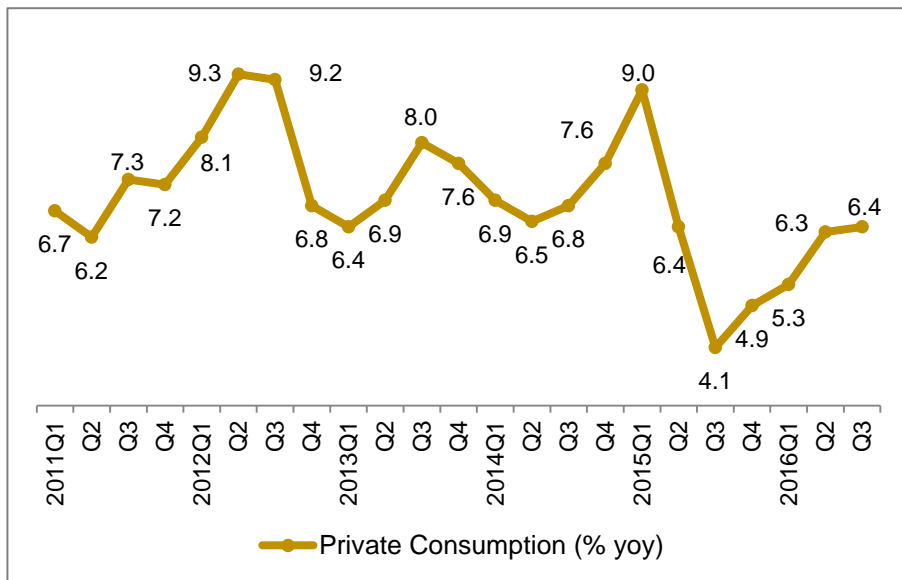
Source: Department of Statistics, Malaysia



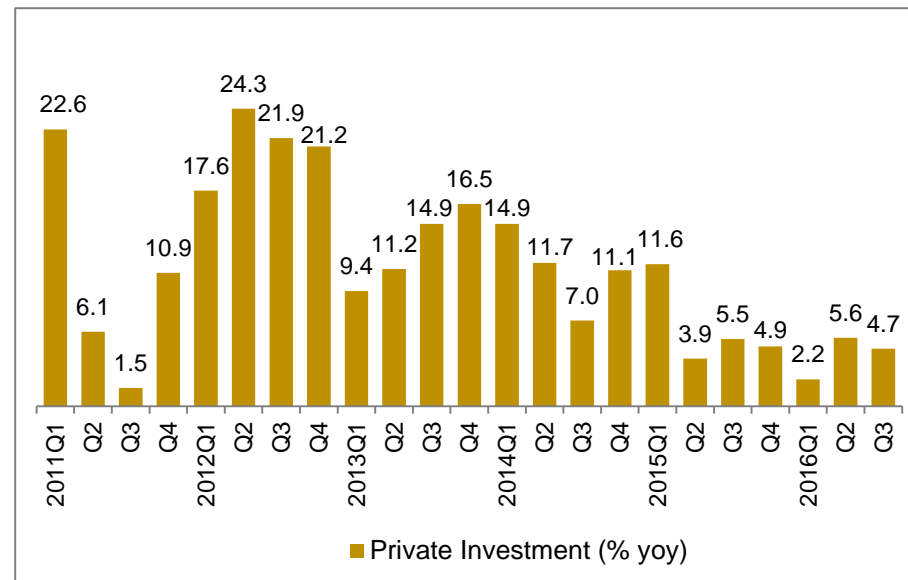
# DOMESTIC DEMAND STILL CALLING THE SHOTS

- **Discretionary consumer spending** (estimated private consumption growth of 5.3% in 2017 vs. est. 5.9% in 2016 and an average growth of 7.1% pa in 2011-15)
- **Private investment continues but not robust** (estimated 5.2% in 2017 vs. est. 4.2% in 2016 and an average growth of 12.1% pa in 2011-15)
- Some form of **trade-off and substitution** has to be made due to the ringgit's depreciation

## Concerns about the strength of consumer spending



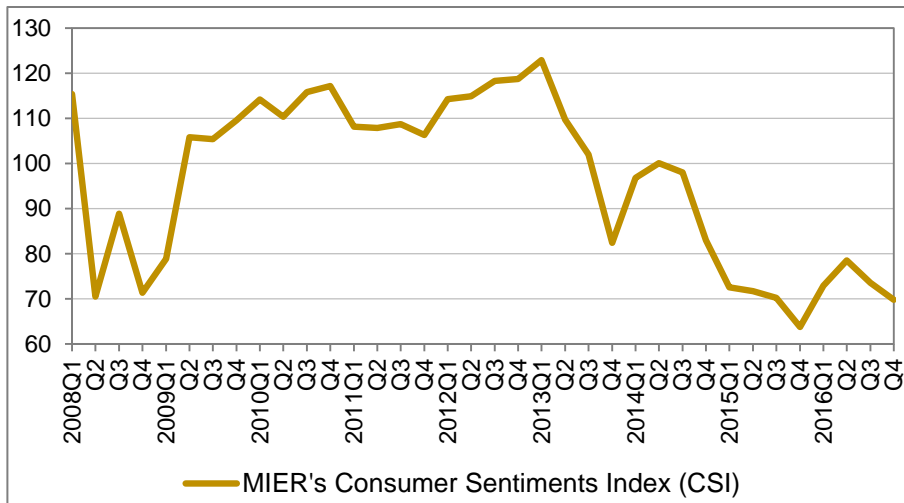
## Private investment growth remains uneven



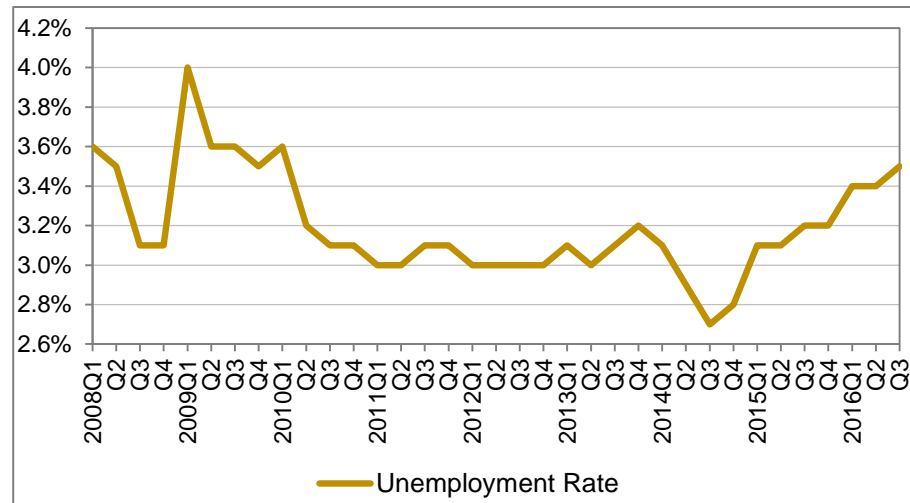
Source: Bank Negara Malaysia

# DISCRETIONARY CONSUMER SPENDING

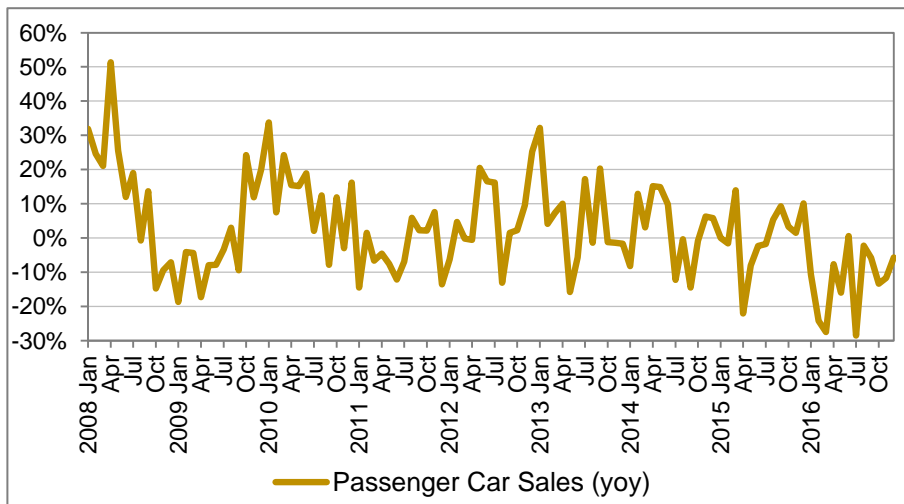
## Consumer sentiment remains cautious



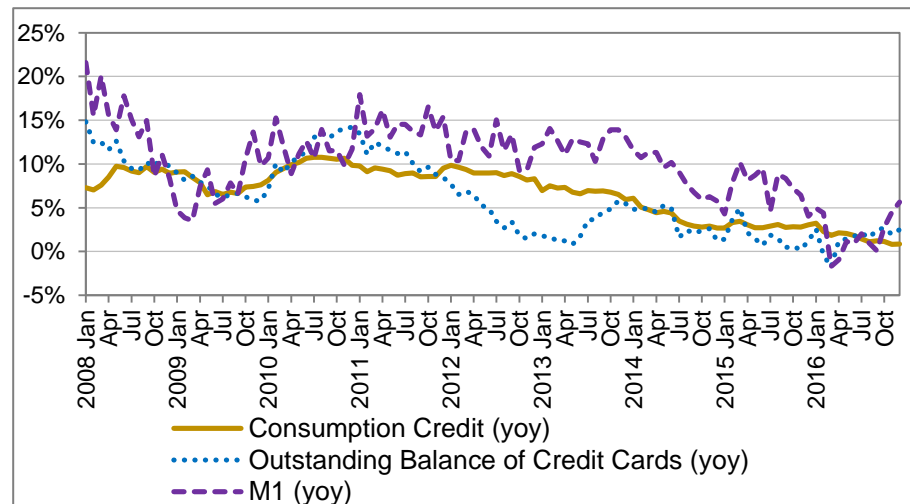
## Jobless rate of 3.5% (3Q'16) highest since 2Q'10



## New models provide a lift to demand



## Still soft private consumption indicators

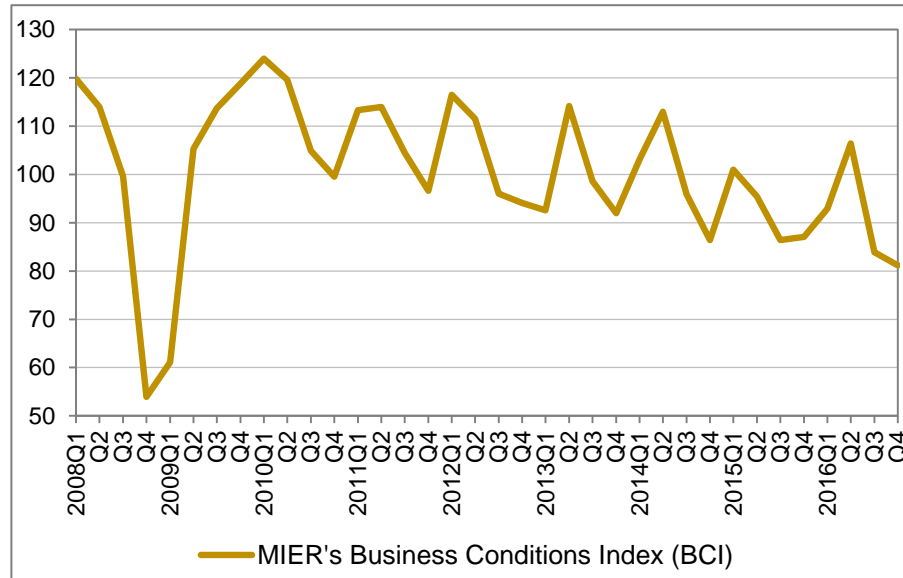


Source: Department of Statistics, Malaysia; Bank Negara Malaysia; Malaysian Institute of Economic Research (MIER)

# PRIVATE INVESTMENT GROWING ALBEIT MODERATELY

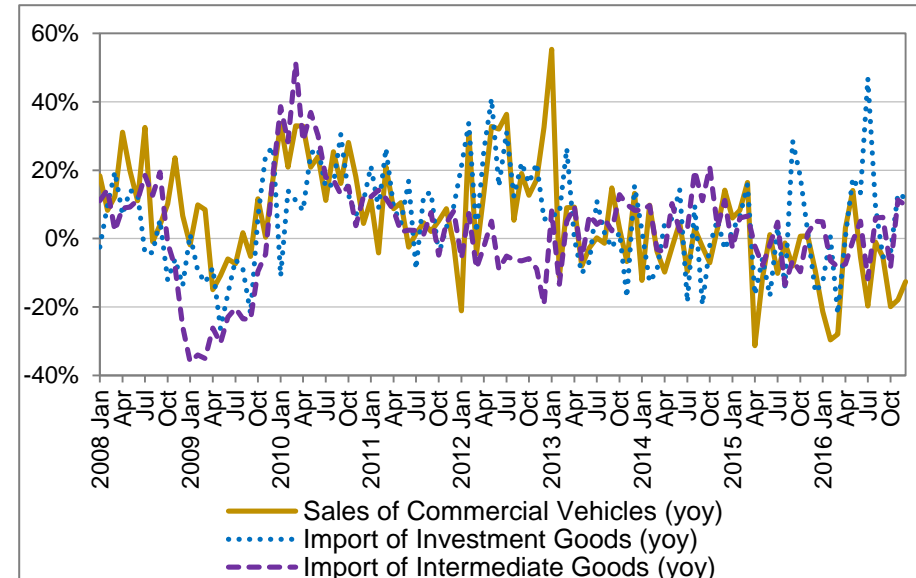
- **Cautious investment approach** by considering global and domestic economic conditions
- **Uncertainty associated with Trump's reflationary policies, weakening ringgit and rising cost pressures** will pose challenges to businesses
- The on-going implementation of public transportation-related infrastructure projects and continued investments in manufacturing and services should help private investment

## Business confidence slips for the second consecutive quarter



Source: Malaysian Institute of Economic Research (MIER)

## Private investment indicators show mixed outcomes

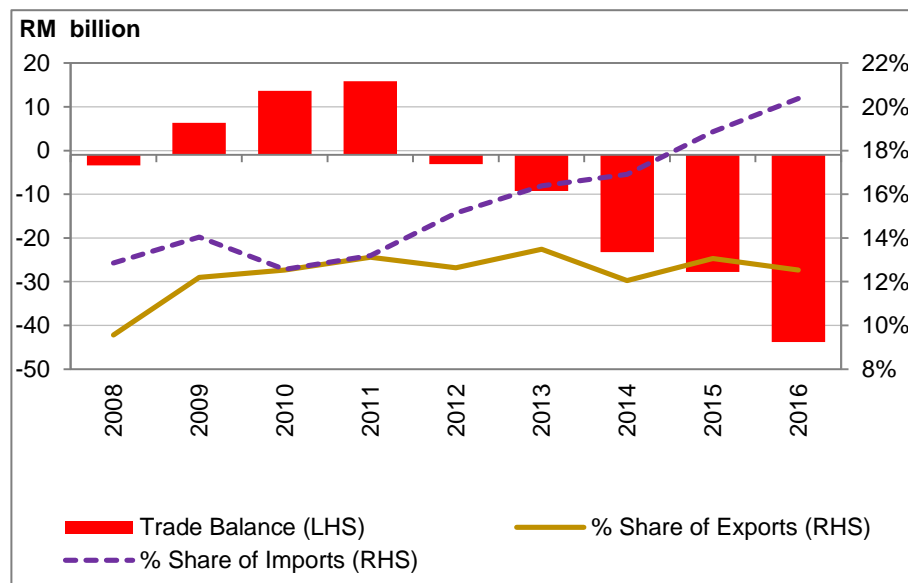


Source: Department of Statistics, Malaysia; Bank Negara Malaysia

# CHINA IS STEPPING UP ITS INVESTMENT IN MALAYSIA

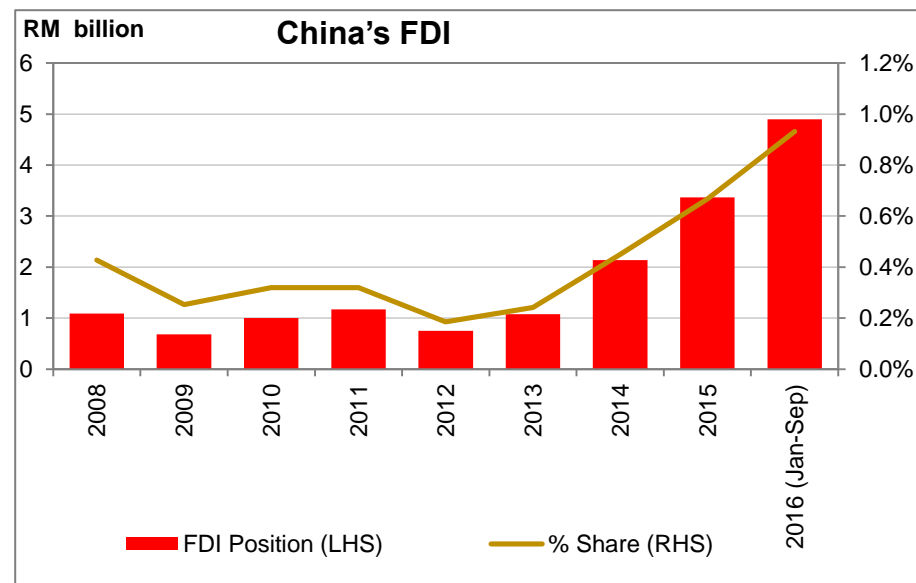
- On 16 Nov 2016, Malaysia and China signed 14 agreements worth RM144bn, including projects covering property, steel production, solar cells production, bird's net, port and technology park
- A total of 140 contracts valued at RM38bn were awarded to China's contractors in 2010-Oct 2016
- China's FDI into Malaysia is gaining traction

## Malaysia incurred trade deficit with China since 2012



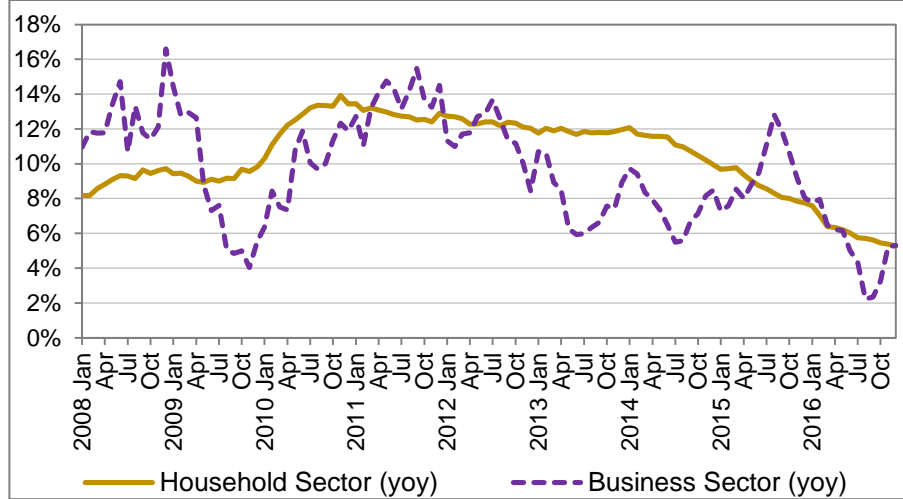
Source: Bank Negara Malaysia; Department of Statistics, Malaysia

## China's share of outstanding FDI stood at 0.9% of total at end-Sep 2016 (0.2% at end-2012)

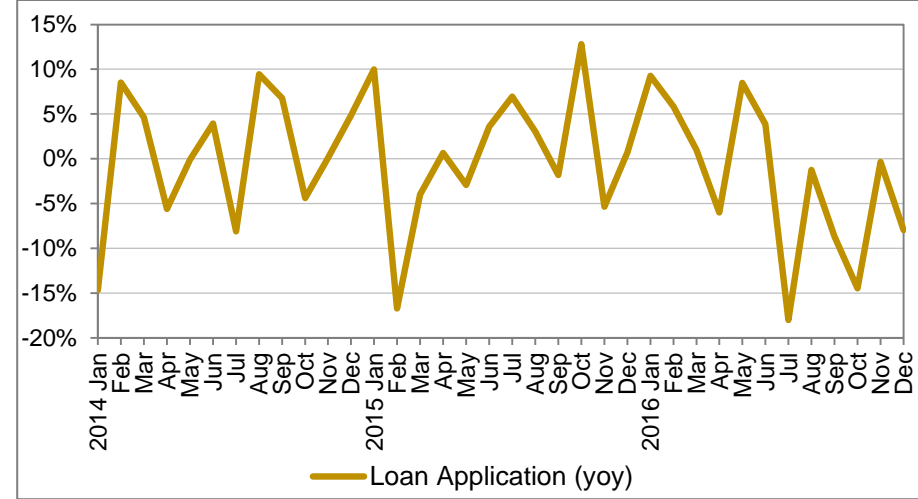


# HOUSEHOLD AND BUSINESS LOAN INDICATORS

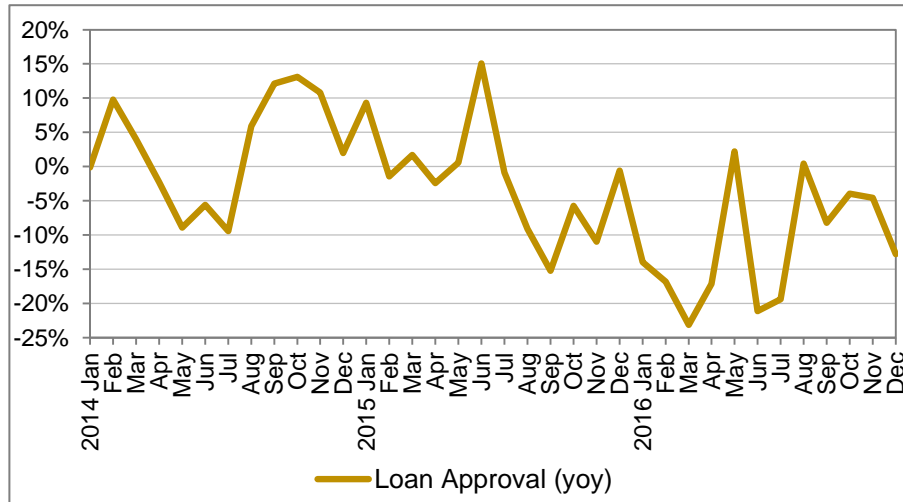
**Business loans growth edged higher while household loans stable**



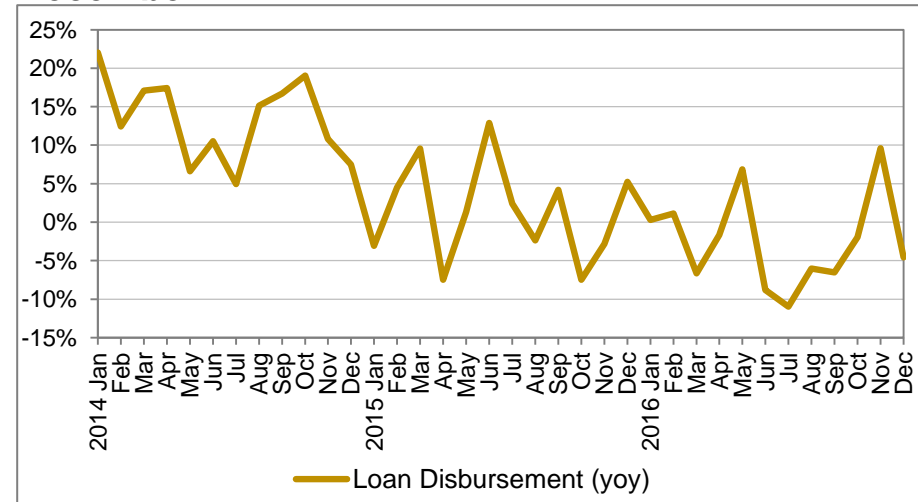
**Loan applications declined for six consecutive months**



**Loan approvals remained low**



**Loan disbursements reverted to negative in December**

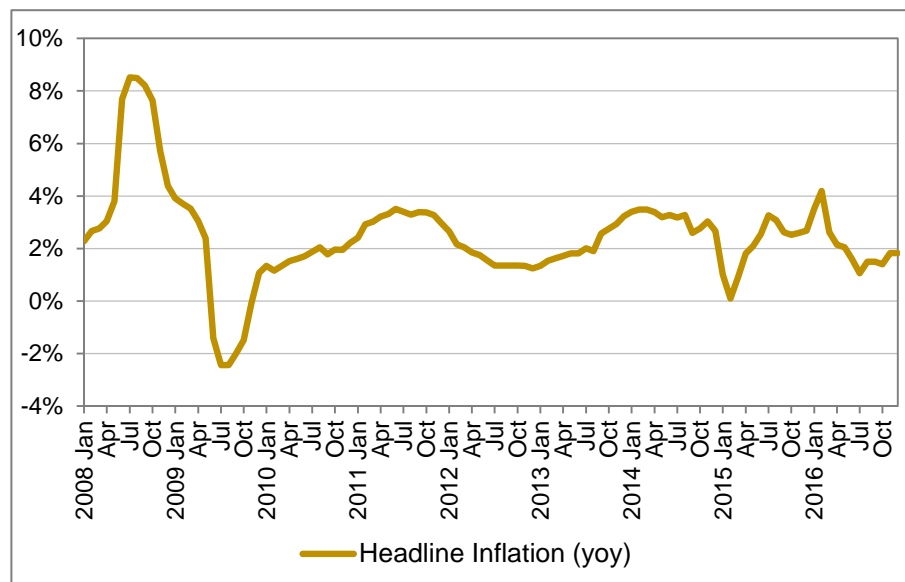


Source: Bank Negara Malaysia

# BANK NEGARA MALAYSIA IN HORNS OF A DILEMMA

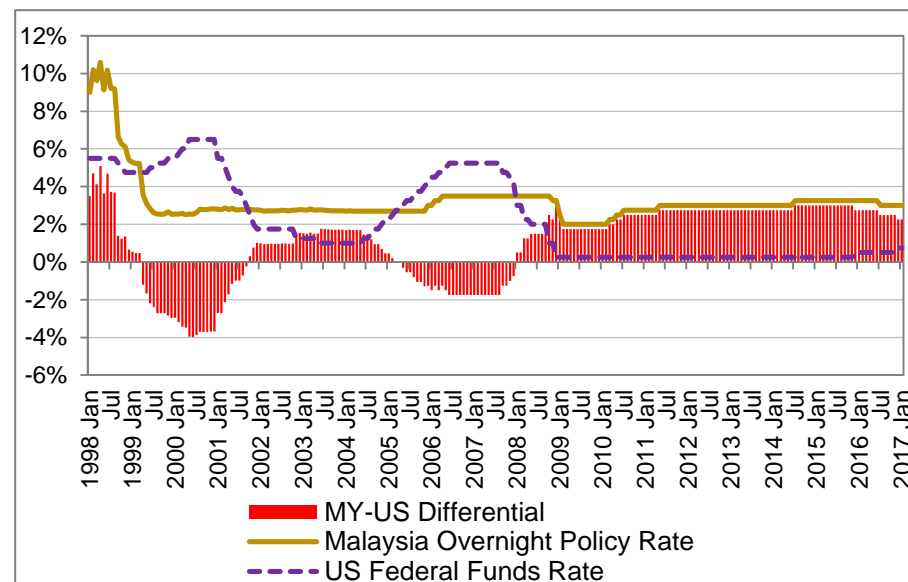
- **Accommodative interest rates** to anchor growth and inflation expectations
- **Higher US interest rates and weaker ringgit** places a constrain on monetary easing
- The decisive factors: **GDP momentum and the ringgit's stability**
- **But, if the GDP growth is seriously under threat slipping below 4%, BNM may compel to cut interest rates even at the expense of much weaker ringgit**
- For now, we expect **BNM to keep the overnight policy rate (OPR) status quo at 3.0% for 2017**

**Inflation will rise higher**  
(est. 2.5% in 2017 vs. 2.1% in 2016)



Source: Department of Statistics, Malaysia

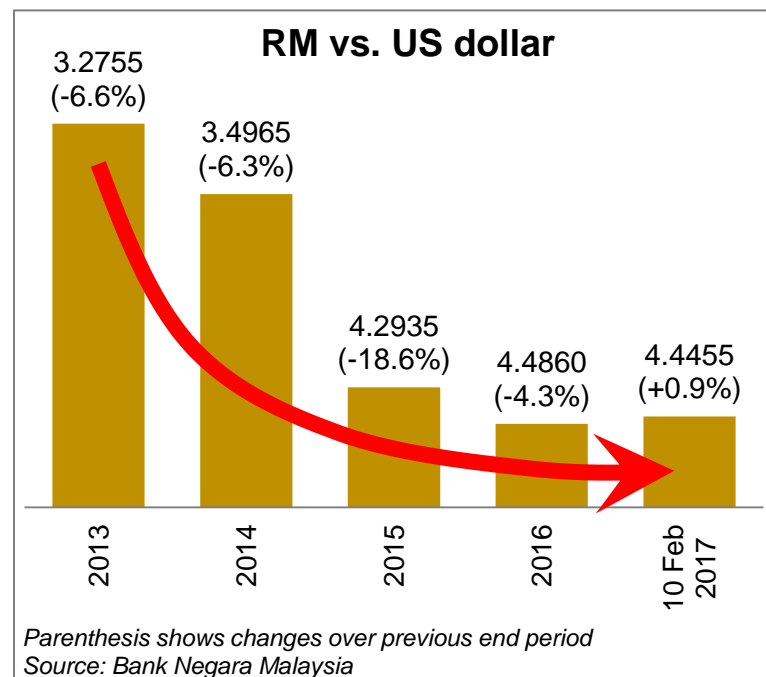
**Malaysia-US interest rate differential narrows**



Source: Bank Negara Malaysia; Federal Reserve

# THE RINGGIT CONUNDRUM

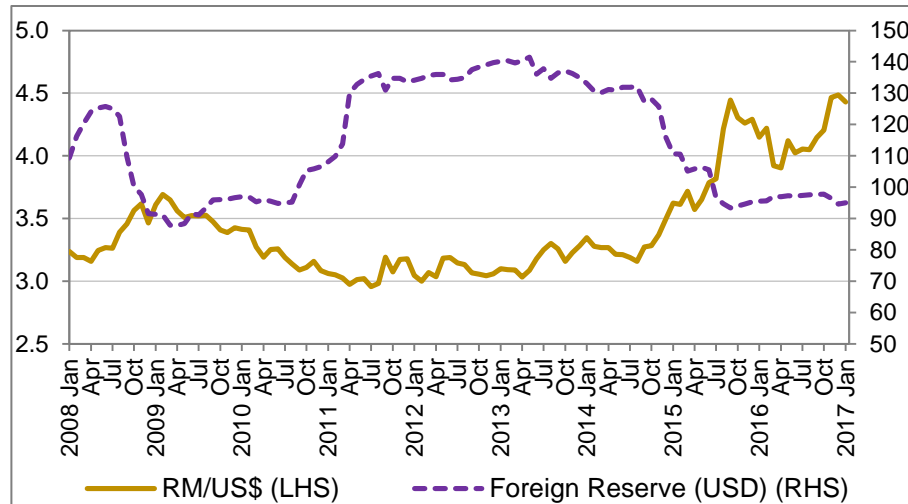
- In times of extreme uncertainty, **one should not be fixated by the level of exchange rate**; the ringgit's stability remains the outmost priority
- The ringgit is not reflective of its fundamental value; **external headwinds as well as negative sentiments and perceptions** drag down the ringgit
- The ringgit will continue to remain under pressure - capital flows volatility, the prospect of higher US interest rates, domestic interest rate policy and inflation outlook
- BNM's assertive measures to contain the influence of non-deliverable forward market on the ringgit, deepen the onshore ringgit market as well as capping the retention of export proceeds in foreign currency account will help to enhance demand for ringgit
- We project **the ringgit to be around RM4.20-4.40 against USD by end-2017** (RM4.4860 at end-2016)



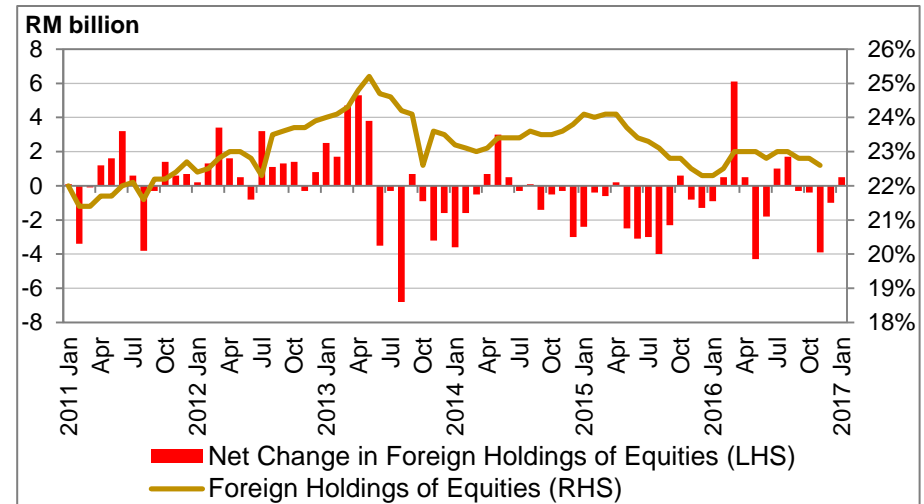


# RINGGIT REMAINS VULNERABLE

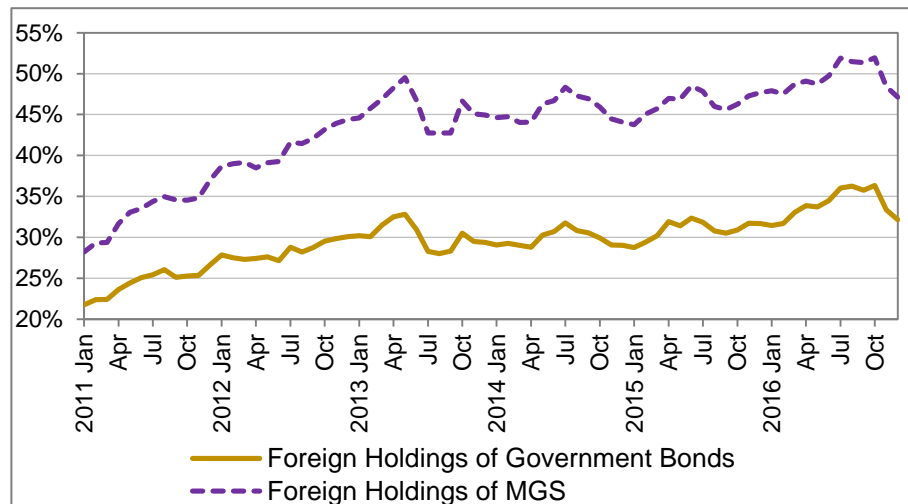
## RM/US\$ vs. foreign reserves



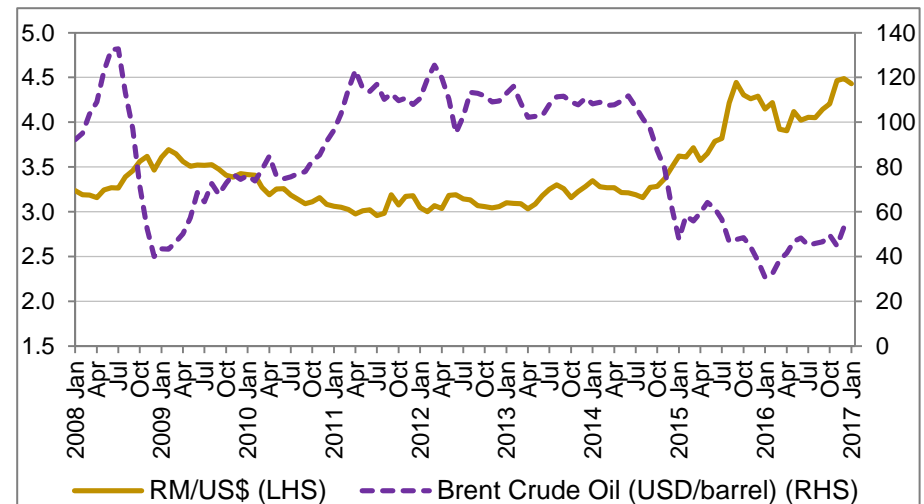
## Foreign holdings of Malaysian equities



## Foreign holdings of MGS and bonds



## RM/US\$ vs. oil price

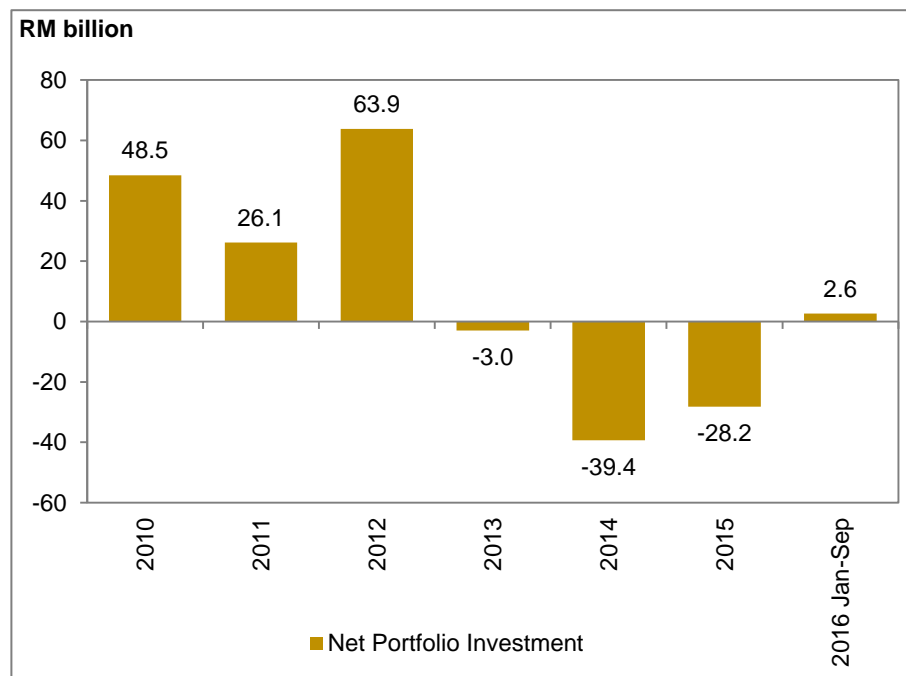


Source: Bank Negara Malaysia; US Energy Information Administration; Bloomberg; Bursa Malaysia

# CAPITAL FLOWS VOLATILITY AND RINGGIT

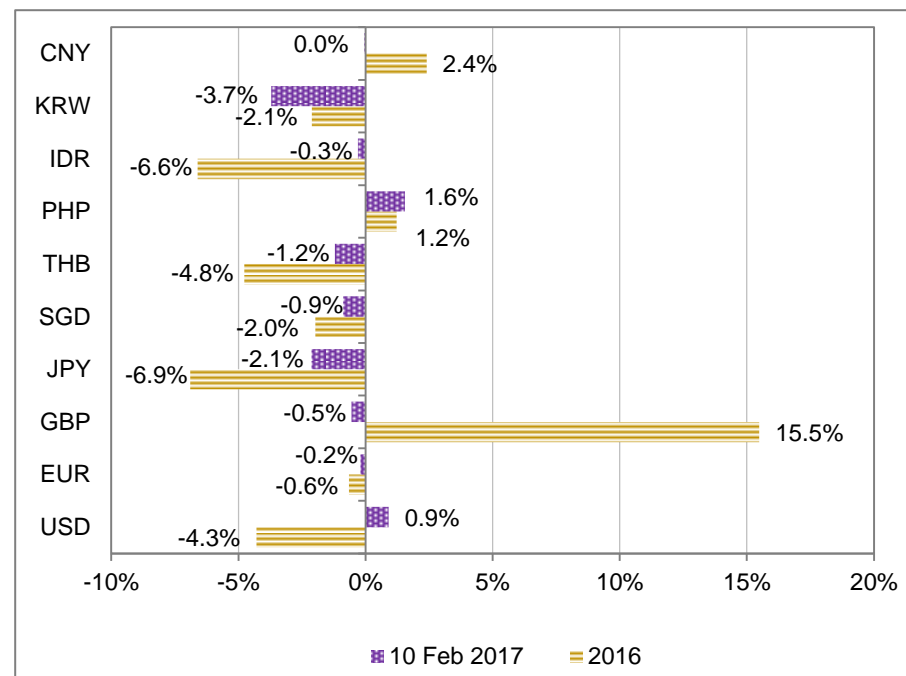
- Portfolio investment recorded net inflows of RM2.6 billion in first nine months of 2016, dragged by four consecutive months of equities outflows and a large-scale of bond market sell-off in Nov-Dec 2016 and Jan 2017
- The ringgit depreciated against the US dollar for four years in a row. It gained modestly as of 10 Feb 2017

## Portfolio investment trend



Source: Bank Negara Malaysia

## Ringgit depreciated against most currencies in 2016



Source: Bank Negara Malaysia

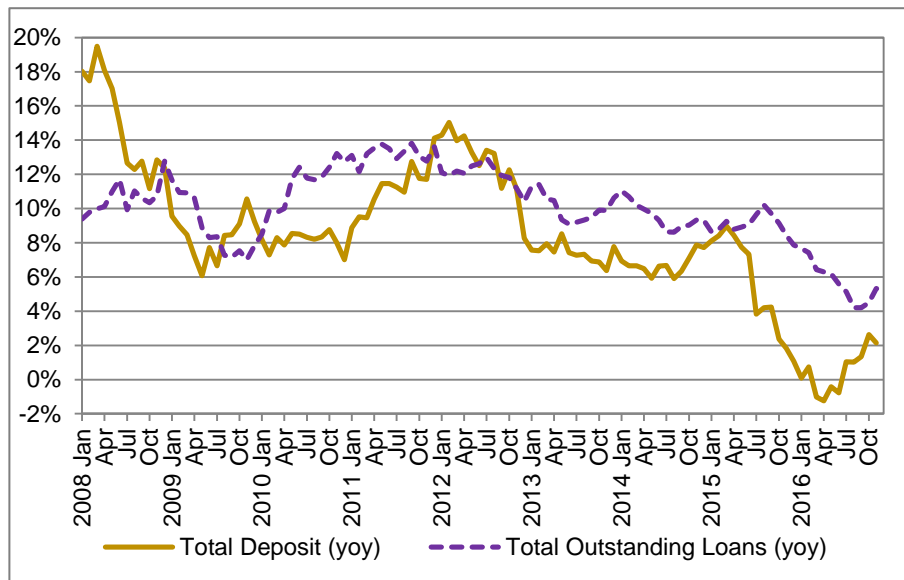
## 2017 Business sector outlook



# BANKS: SELECTIVE LENDING

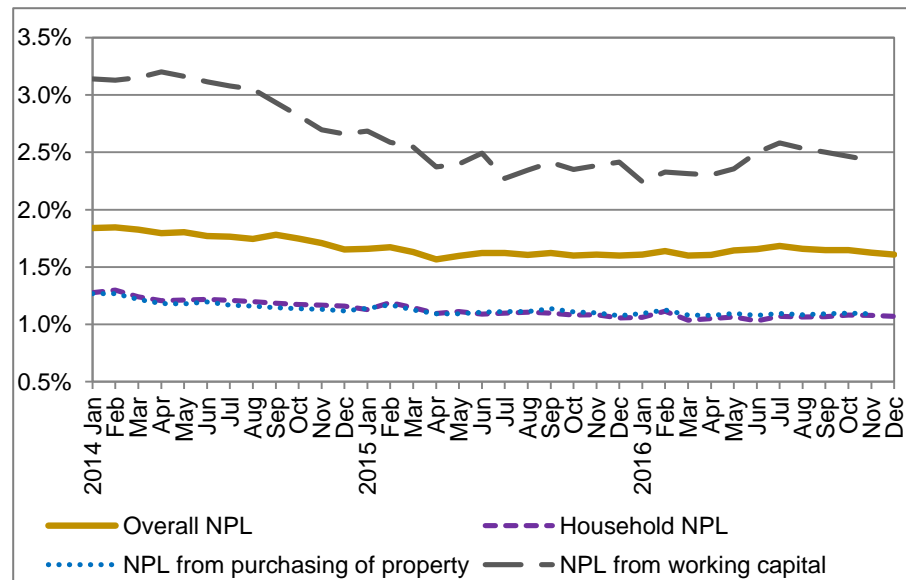
- Besides highly correlating with GDP growth, the financial services industry finds itself adjusting to the influence and disruption of innovative technology in the form of fin-tech companies that are redefining customer interactions
- Further moderation in loan growth (estimated 5% this year vs. 5.3% in 2016) on slowing household and business loans demand
- Banks will continue to focus on asset quality, managing credit cost and selective in their lending activity

## Loan and deposit growth paced at slower rate



Source: Bank Negara Malaysia

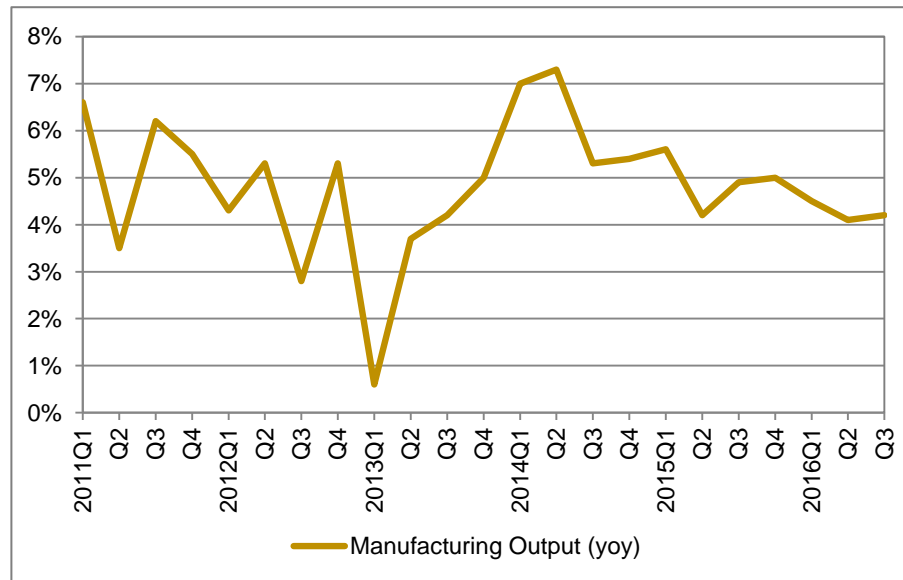
## NPL remains manageable



# MANUFACTURING: STILL GROWING ALBEIT MODERATELY

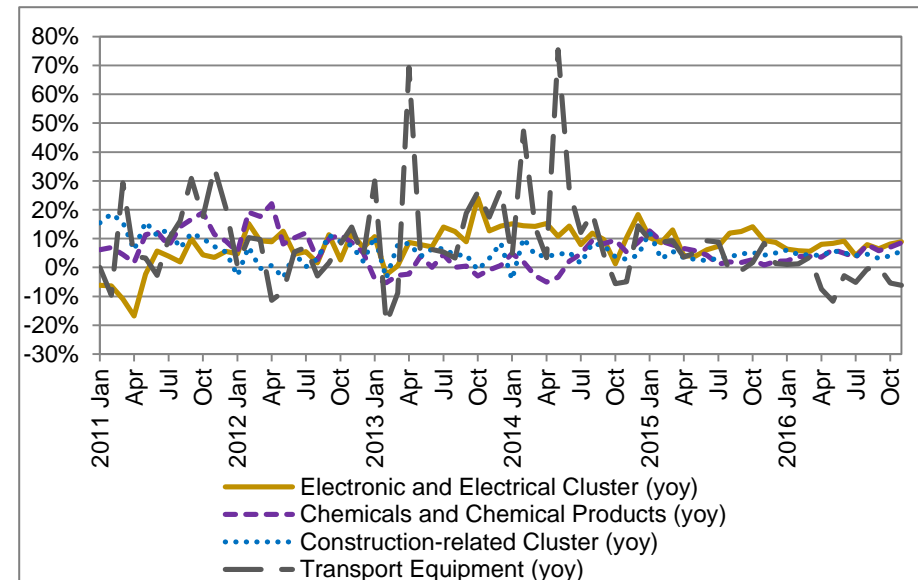
- High cost of doing business, regulatory compliance cost and weak ringgit (costlier imports)
- Export-oriented industries will be supported by higher output of chemical-related products as well as continued demand for electronics in tandem with recent recovery in global semiconductor sales
- Growth in the domestic-oriented industries will be underpinned by the production of food and construction-related products. Transport equipment (mainly passenger cars) will stay weak due to cautious consumer demand

## Output growth of manufacturing sector



Source: Bank Negara Malaysia

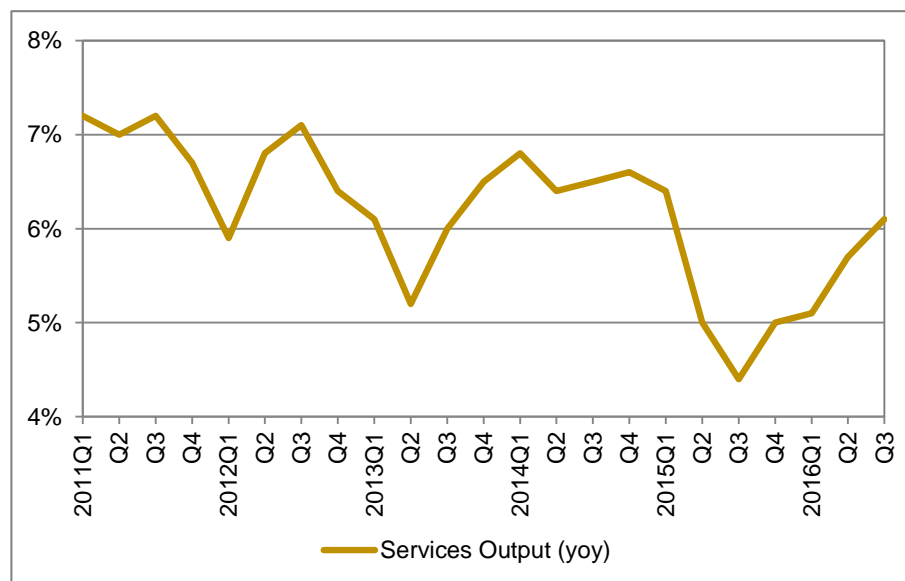
## Performance of key industries



# SERVICES: DOMINANT DRIVER OF GDP GROWTH

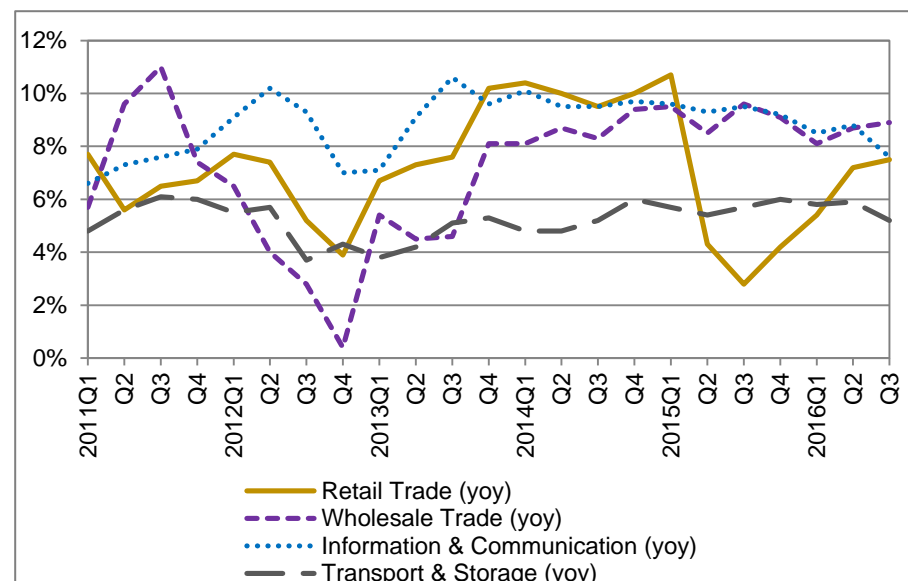
- The expansion in the services sector will be driven by domestic consumption, tourism and leisure as well as moderate trade activity
- Major events are expected to boost tourists arrival and spending: Visiting Asean@50<sup>th</sup> anniversary; play host for the 29th South-east Asia (SEA) Games (19-31 August) and the 9th Para ASEAN Games
- Sectors to benefit: Wholesale and retail trade, food and beverages and accommodation, information and communication as well as the transportation

## Output growth of services sector



Source: Bank Negara Malaysia

## Performance of sub services sectors



# CONSTRUCTION: PROMISING OUTLOOK

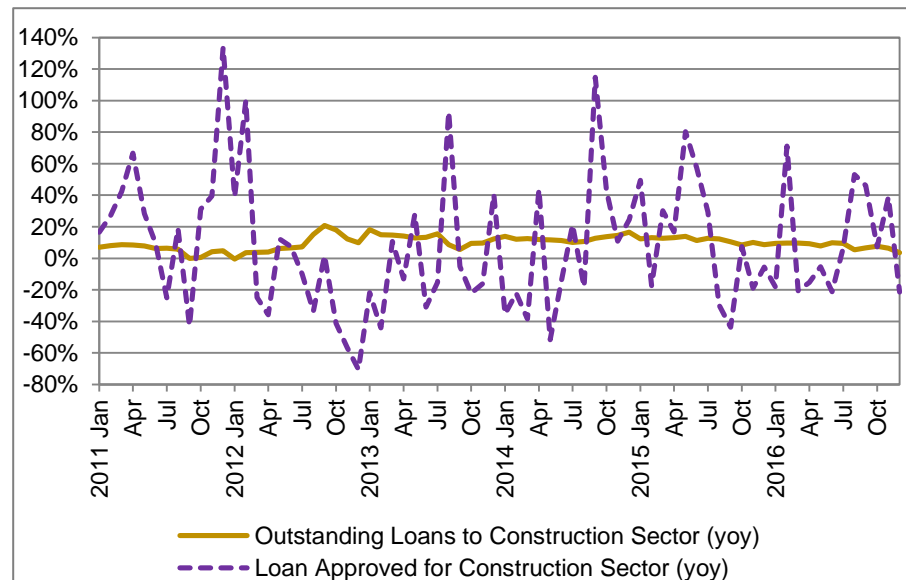
- Public spending on transportation projects (MRT, LRT, rail), highways (Pan Borneo Highway), ports and the public-driven affordable housing development
- An estimated RM212bn value of construction jobs covering on-going and new ones over the next 5 year
- Positive construction newsflow in the run-up to GE14. China-led contracts are potential strong catalysts to the construction sector

## Output growth of construction sector



Source: Bank Negara Malaysia

## Indicators of construction sector

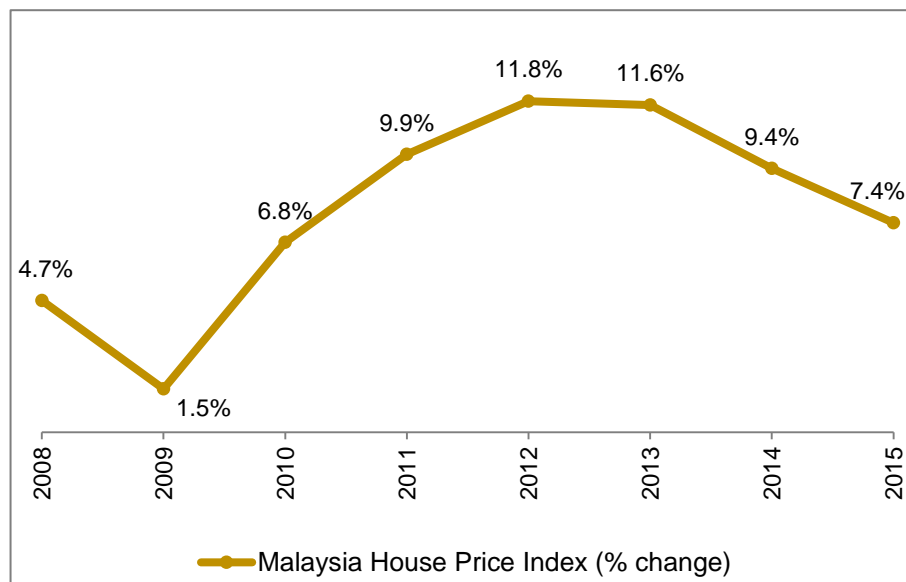




# PROPERTY: FURTHER CONSOLIDATION

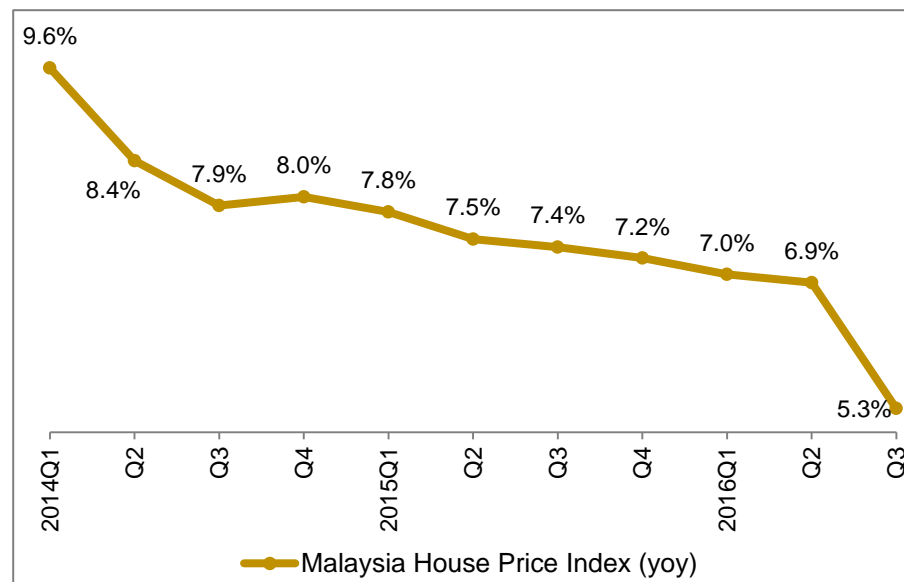
- The property sector will remain flat this year, continued its consolidation trend since 2013
- Cautious buyer sentiment, unexciting macro outlook, concerns over large market supply, especially for the condos segment, and stringent loan requirements had affected demand
- Mass market housing, focusing on the low-medium households are likely to observe more affordable housing projects

### Annual Property Price Index (2008-2015)



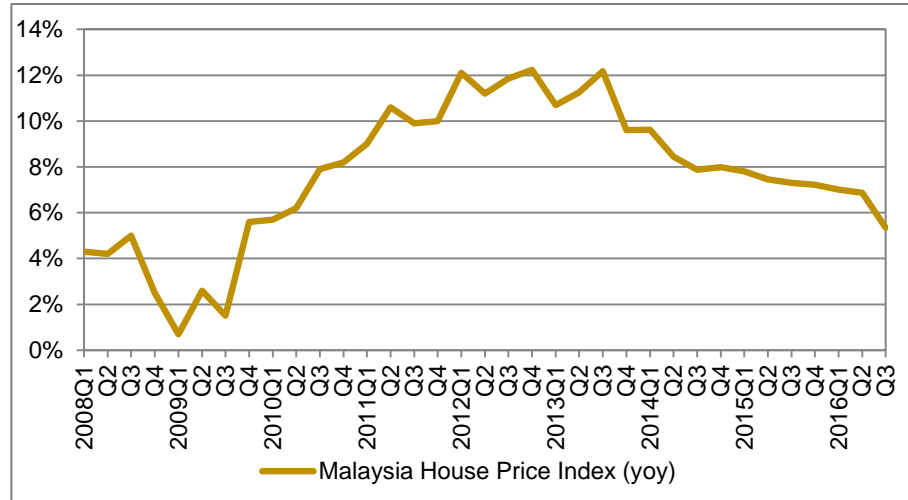
Source: Bank Negara Malaysia

### Quarterly Property Price Index (2014-2016)

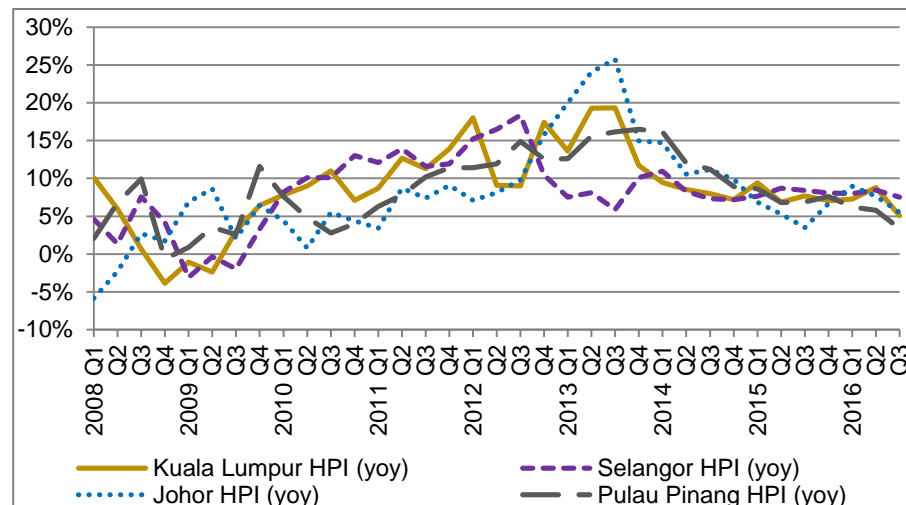


# PROPERTY SECTOR INDICATORS AT A GLANCE

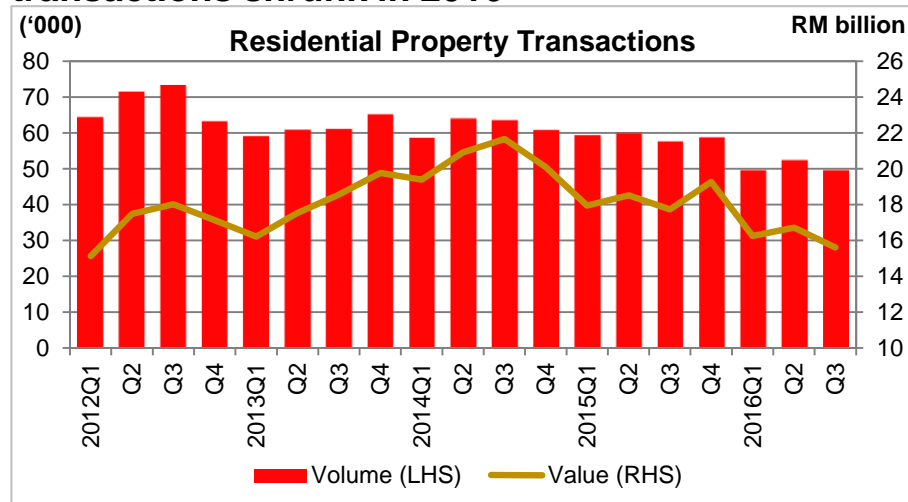
## Property prices moderated in recent quarters since 2013



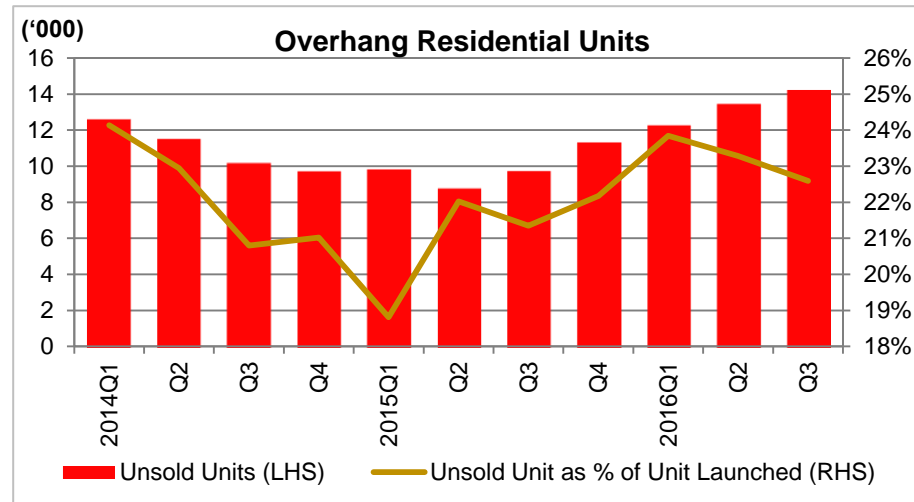
## All major cities are facing similar trend



## Both volume and value of residential property transactions shrunk in 2016



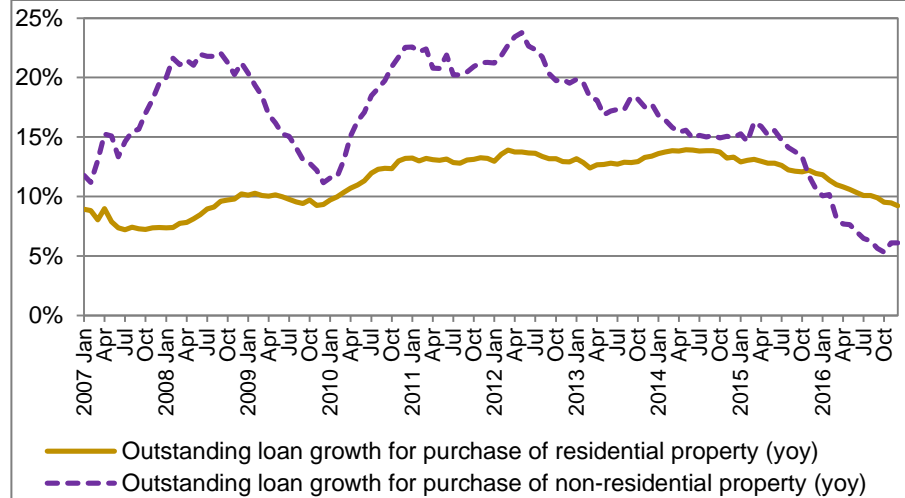
## Overhang units are increasing



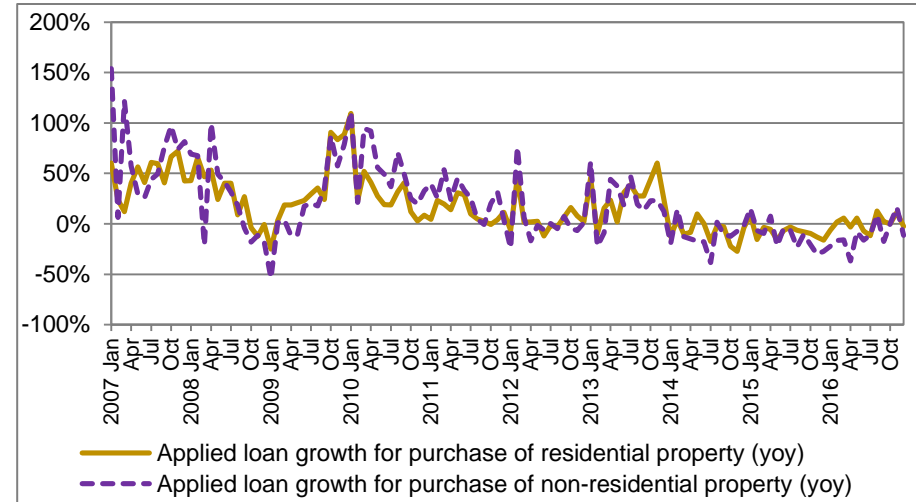
Source: Bank Negara Malaysia; NAPIC

# PROPERTY SECTOR INDICATORS AT A GLANCE

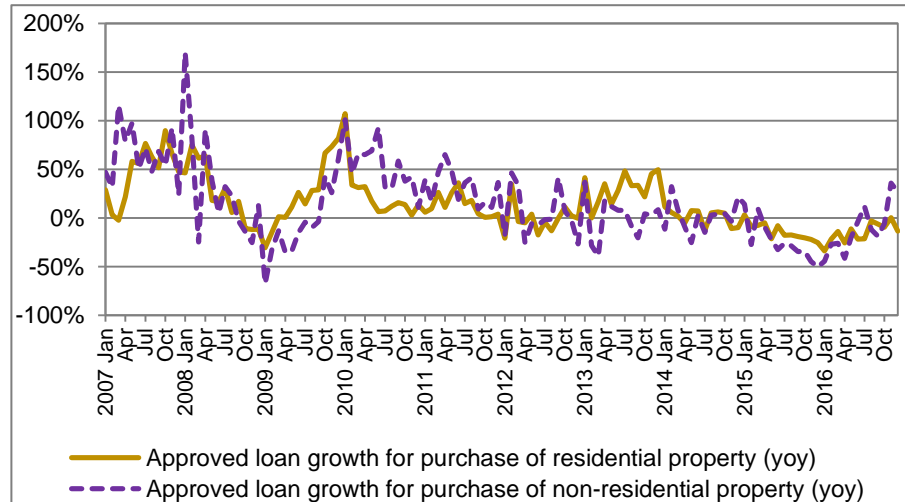
## Non-residential property loans dropped sharply since 2012



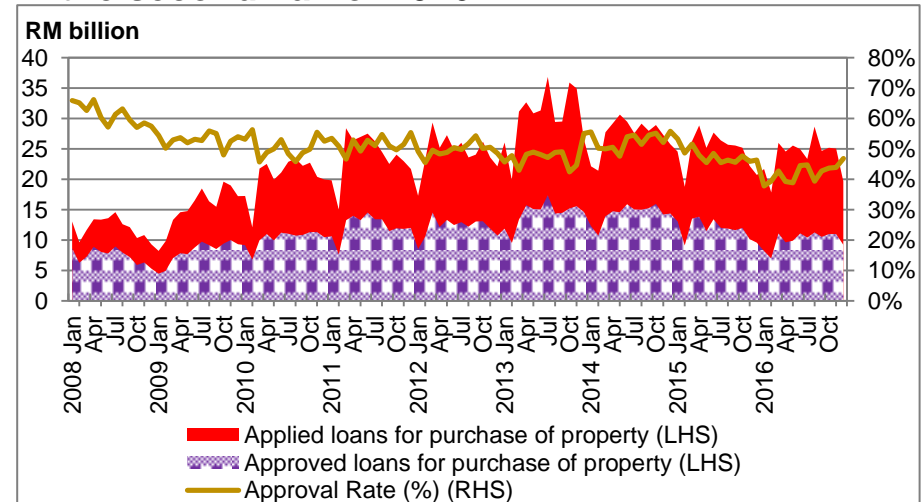
## Loan applications growth still trending down



## Approved loan improved in recent months



## Approval rate for purchase of property improved in the second half of 2016

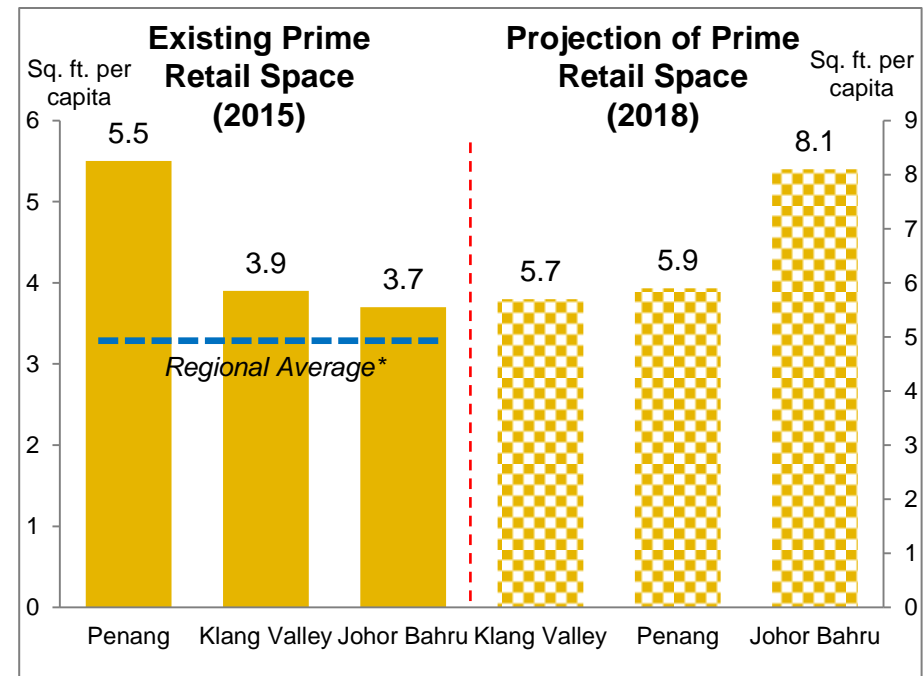
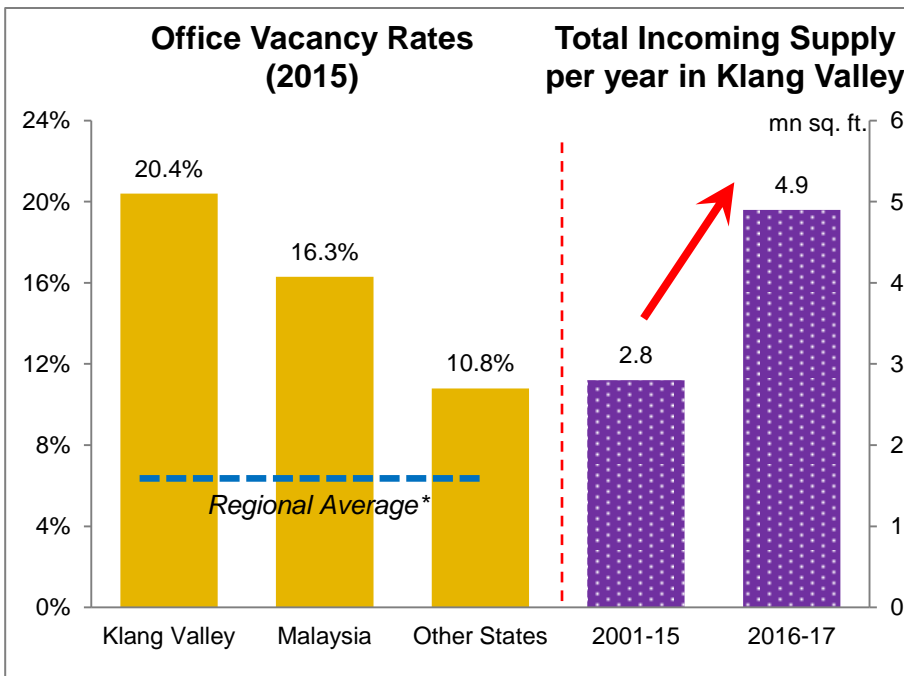


Source: Bank Negara Malaysia



# OVERSUPPLY OF COMMERCIAL PROPERTIES

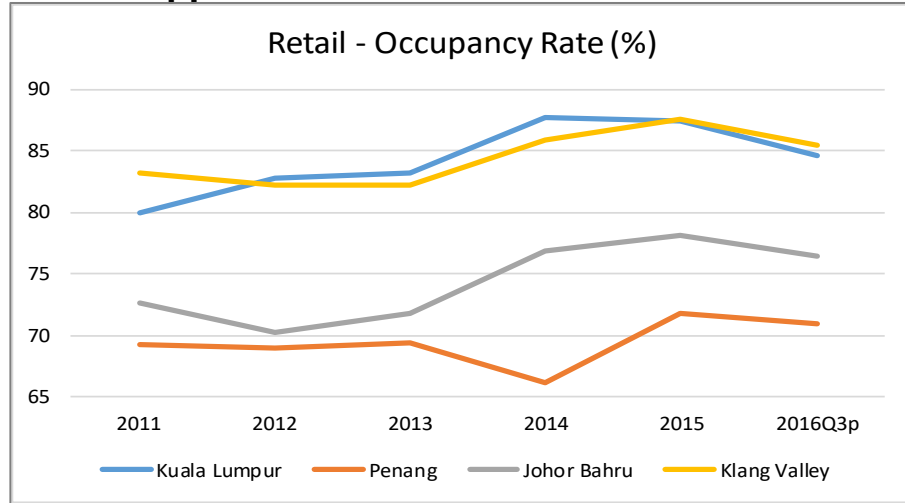
- The imbalance within the office space and retail sub-sectors will persist
- For the office sector, the significant increase in the supply of office space over the past five years have begun to put pressure on occupancy rates
- Shopping centre owners had to bear with higher operations costs but yet they were not able to recoup these costs by increasing their rental rates due to the weaker retail environment



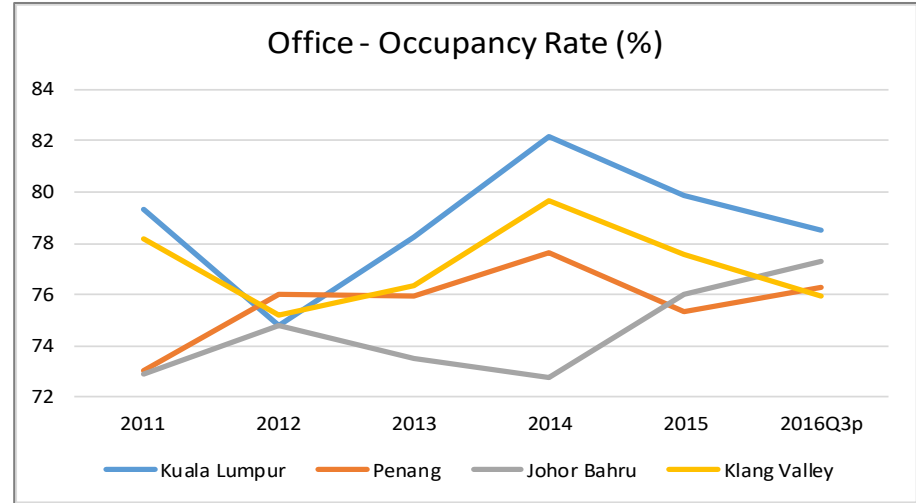
\* For office and retail space, regional average refers to the simple average of Shanghai, Jakarta, Bangkok, Hong Kong and Singapore as of 2Q 2015  
 Source: Bank Negara Malaysia, NAPIC

# RETAIL & OFFICE SPACE AT A GLANCE

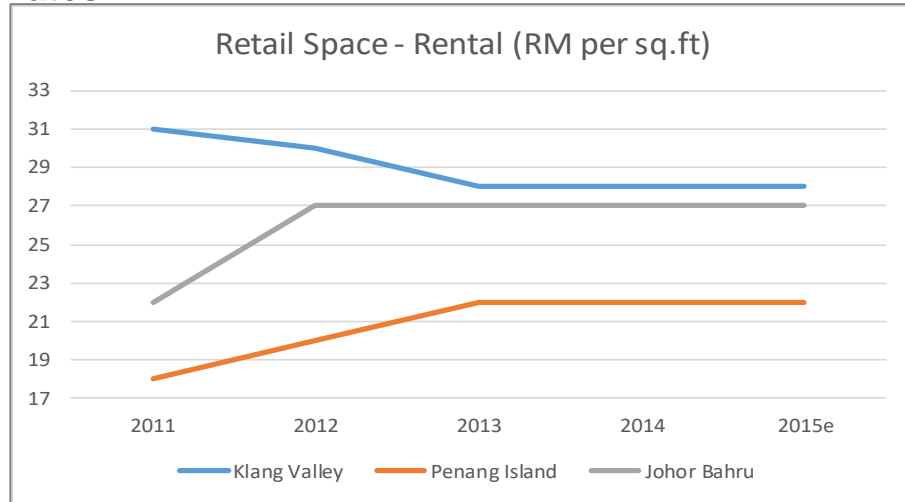
The average occupancy rate of shopping centres have dropped...



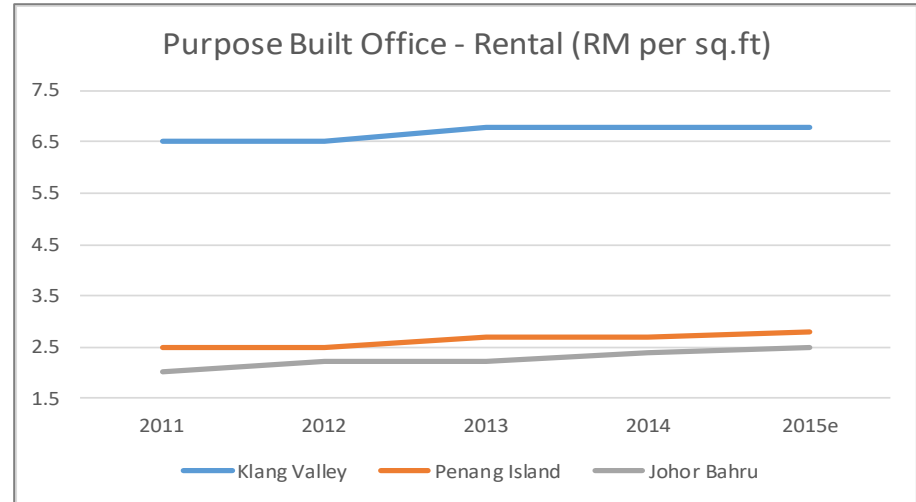
... the same for office space



Higher operating costs put pressure on rental rates



Rentals have been quite stable to date



Source: C H Williams Talhar & Wong Property Market 2016; NAPIC



# MALAYSIA: GDP GROWTH ESTIMATES (DEMAND & SUPPLY)

## GDP by Demand Component (% YoY)

Demand Component [% share to GDP in 2017*]	2014	2015	2016 Q1	2016 Q2	2016 Q3	2016e (MOF)	2016e (SERC)	2017b (MOF)	2017f (SERC)
Private Consumption [54.2%]	7.0	6.0	5.3	6.3	6.4	6.1	5.9	6.3	5.3
Public Consumption [12.4%]	4.3	4.4	3.8	6.5	3.1	0.2	4.3	0.4	0.9
Private Investment [17.2%]	11.1	6.4	2.2	5.6	4.7	5.3	4.2	5.8	5.2
Public Investment [8.4%]	-4.7	-1.0	-4.5	7.5	-3.8	1.7	-0.3	1.1	2.2
Exports of Goods and Services [69.0%]	5.0	0.6	-0.5	1.0	-1.3	0.7	-0.3	2.5	1.3
Imports of Goods and Services [61.3%]	4.0	1.2	1.3	2.0	-2.3	1.4	0.4	2.6	2.2
Overall GDP	6.0	5.0	4.2	4.0	4.3	4.0-4.5	4.2	4.0-5.0	4.3

## GDP by Economic Sector (% YoY)

Economic Sector [% share to GDP in 2017*]	2014	2015	2016 Q1	2016 Q2	2016 Q3	2016e (MOF)	2016e (SERC)	2017b (MOF)	2017f (SERC)
Agriculture [8.0%]	2.1	1.2	-3.8	-7.9	-5.9	-3.3	-5.0	1.5	1.0
Mining & Quarrying [8.4%]	3.5	4.7	0.3	2.6	3.6	1.1	1.8	1.4	2.0
Manufacturing [22.8%]	6.2	4.9	4.5	4.1	4.2	4.0	4.2	4.1	4.2
Construction [4.7%]	11.7	8.2	7.9	8.8	7.9	8.7	8.5	8.3	8.8
Services [54.8%]	6.6	5.1	5.1	5.7	6.1	5.6	5.6	5.7	5.0
Overall GDP	6.0	5.0	4.2	4.0	4.3	4.0-4.5	4.2	4.0-5.0	4.3

Source: Department of Statistics, Malaysia; Bank Negara Malaysia (Annual Report 2015)

\* % Share to GDP of 2017b by MOF

# WHAT NEEDS TO BE DONE?

- Must take all necessary actions and initiatives to strengthen our **economic fundamentals, restore confidence and address the growing public trust deficit**
- Policy makers must remain vigilant, holding tight the reins on **credible economic and financial management policies** to keep the economy going
- **Confidence is the key to stemming the ringgit's slide.** While external factors were held responsible for the falling value of RM/US\$, **a conducive and stable ecosystem is equally vital** to encourage domestic investors (residents) and foreign investors to increase as well as retain their investments (money) in the country
- **Increased transparency and enhanced communication** are essential ingredients of an effective implementation of policies. Good communication can enhance policy effectiveness by influencing expectations and by reducing uncertainty



# WHAT NEEDS TO BE DONE?

- **Fiscal consolidation path** should continue to reduce deficits and debt accumulations. Focus on reforms to achieve spending efficiency and productive outcomes with zero tolerance of wastage and leakage
- Continue to **address domestic constraints such as slow productivity, lack of innovation, haphazard regulatory reforms** as well as **outmoded legislation and the heavy weight of administration-oriented rules** to uplift the country's economic growth and investment potential. The policy makers must catch-up opportunities related to creativity, innovation and digitalization
- **Corrective measures to strengthen the shrinking current account surplus** via exports enhancing, ports and insurance services expansion, boosting tourism and imports substitution. A critical review and thorough assessment, including the sequencing of both public and private sectors' projects to ease pressure on imports
- Swiftly **advancing structural reforms in the labour market and innovation** that can boost productivity and unleash Malaysia's growth potential



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**谢谢**  
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