



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

## **Quarterly Economy Tracker (Jan-Mar 2017)**

*How's the economy doing?*

**4 April 2017**

# Agenda

- **Global economic activity picks up pace**
- **Malaysia economy – how resilient?**
- **What will derail the growth track?**
- **Here's are the five key risks facing Malaysia**
- **Conclusion**

# Key messages

## Global growth is picking up, but risks remain

- Global growth supported by expected fiscal initiatives (Trumponomics)
- Confidence rising but consumption and investment still subpar
- Policy reforms to raise the growth potential; declining productivity growth

## Policy risks and financial vulnerabilities could temper the momentum

- Hopes fading if outcomes fall short of expectations
- Potential disruptions --- trade protectionism, Brexit's negotiation & political risks
- Continued volatility induced by interest rates and exchange rate movements
- Unsustainable asset prices, credit growth and debt

## Malaysia faces challenges in a position of strength

- The Malaysian economy is gaining ground but growth remains vulnerable
- Step-up structural policy actions to boost growth and productivity
- Address as well as contain vulnerabilities to build economic resilience

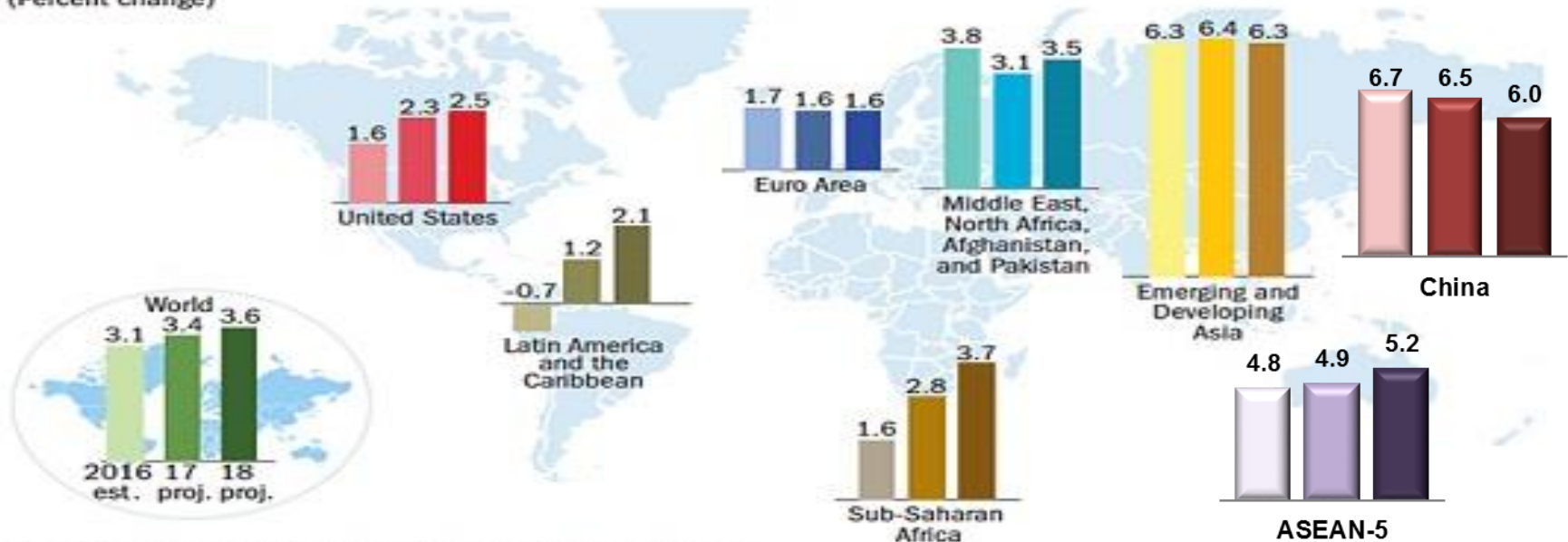
# The global economy is on a cruising speed...

- **Global growth will pick up pace** (3.4% in 2017 and 3.6% in 2018) against estimated 3.1% in 2016. But, the growth estimate remains below 4.2% pa in 1998-2007
- The **US economy is gaining traction** (2.3% in 2017 vs. 1.6% in 2016); a modest recovery in Eurozone and Japan
- **China's growth reassuring** (6.5% in 2017 vs. 6.7% in 2016) amid growing worries about high debt risk

## Latest growth projections

Global economic activity is set to pick up in 2017-18

(Percent change)



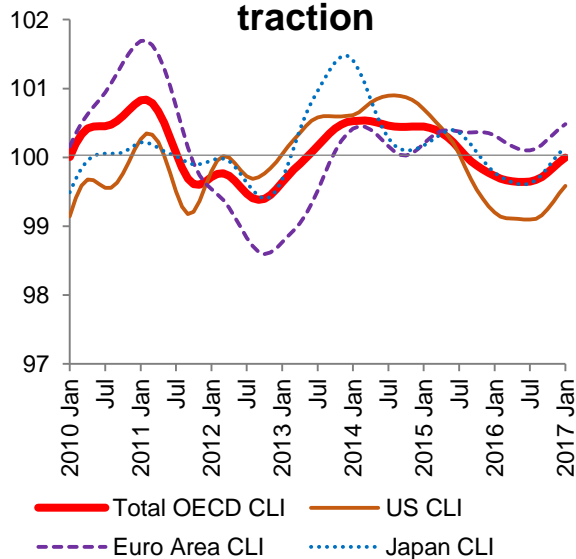
Source: IMF, January 2017 *World Economic Outlook* update.

Note: Order of bars for each group indicates (left to right): 2016 estimate, 2017 projections, and 2018 projections.

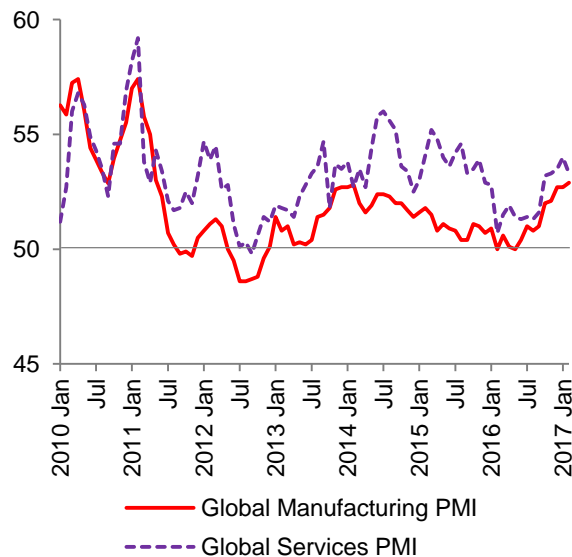
# Global indicators point to better growth ahead

- The year is off to a good start, buoyed by **increasing optimism about global growth**
- Markets are more focused on the prospects of the Trump's reflationary policies and less on the risk of trade wars or other undesirable political outcomes
- **OECD Composite leading indicators and PMIs** suggest an upswing in global economic growth

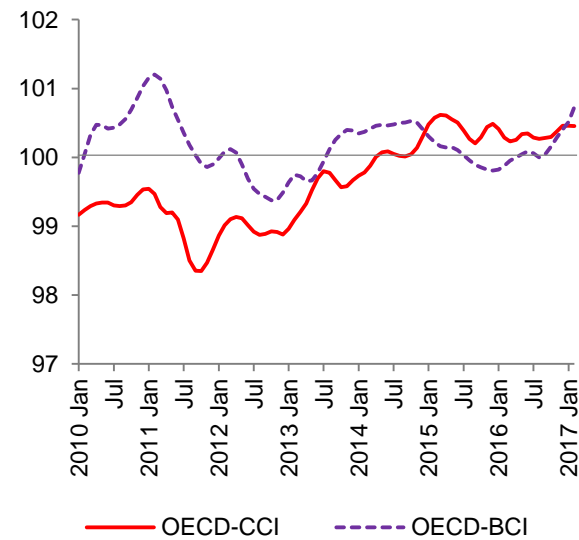
### OECD Composite leading indicators suggest gaining traction



### Global PMI for manufacturing and services on uptrend



### Consumer and business confidence rises

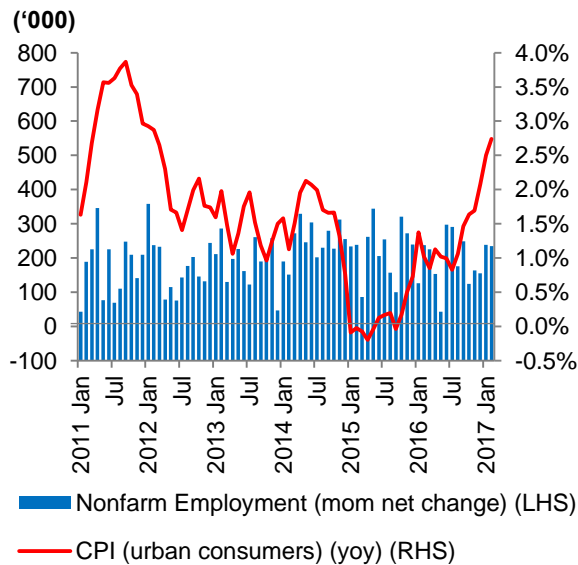


Source: OECD; Markit

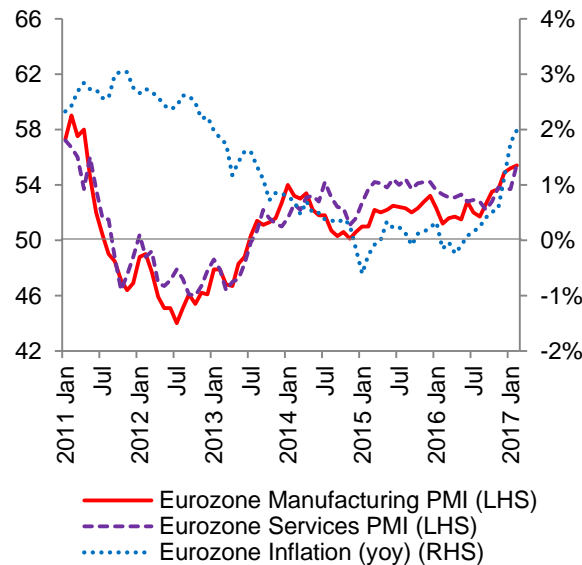
# Here's are how the US, Euro Area and Japan doing

- **US:** a delicate policy adjustment is needed to temper an inflation run-up
- **Euro area:** gaining ground but risks remain
- **Japan:** exports drive moderate economic recovery

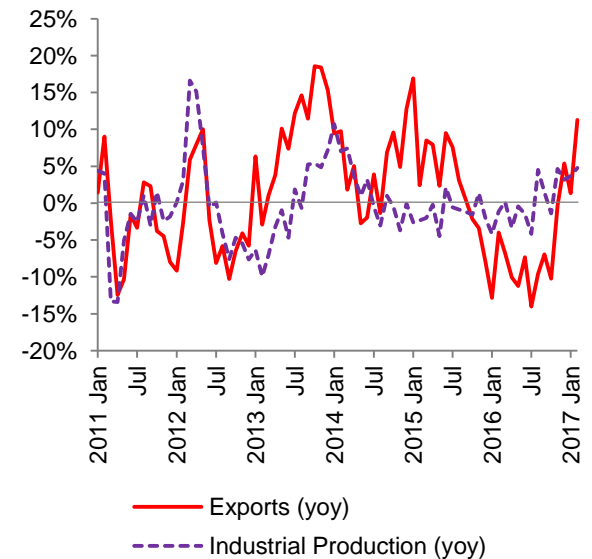
**US: Jobs hiring continues; inflation rises**



**Euro Area: Moderate recovery**



**Japan: An exports-led recovery**

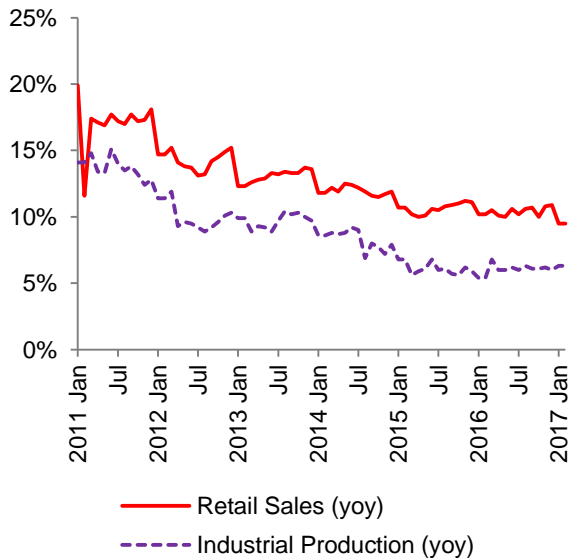


Source: US BLS; Markit; Eurostat; METI, Japan; MOF, Japan

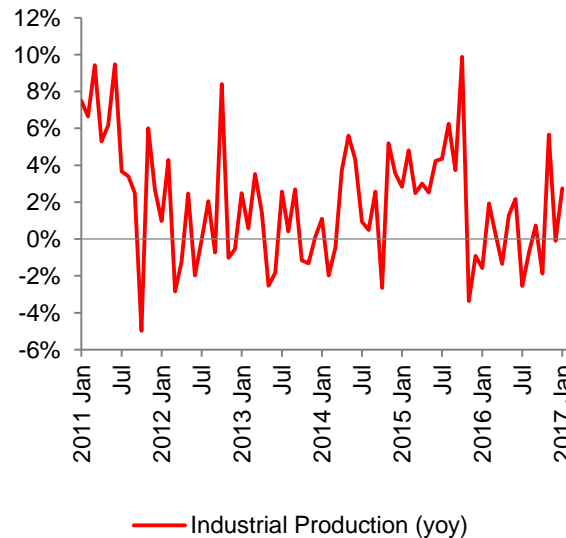
# Here's are how China, India and ASEAN-4 doing

- **China:** Continues its new normal growth trajectory; lingering debt risk
- **India:** Still looking good despite demonetisation shock
- **ASEAN-4** (Indonesia, Philippines, Singapore and Thailand): Exports recovery taking shape

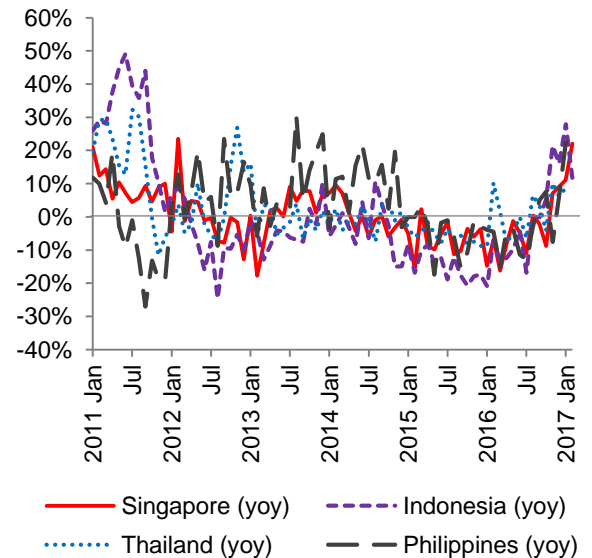
**China: Sustained economic activities**



**India: Industrial output rises**



**ASEAN-4: Synchronized exports upturn**

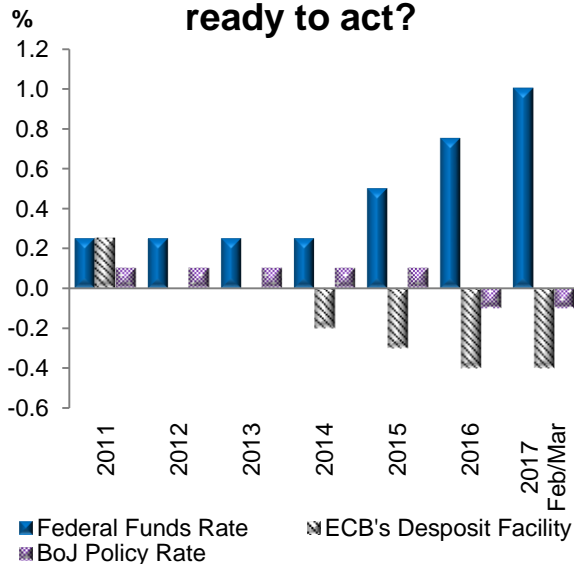


Source: NBS, China; MOSPI, India; DOS, Malaysia; DOS, Singapore; Statistics Indonesia; BOT; PSA

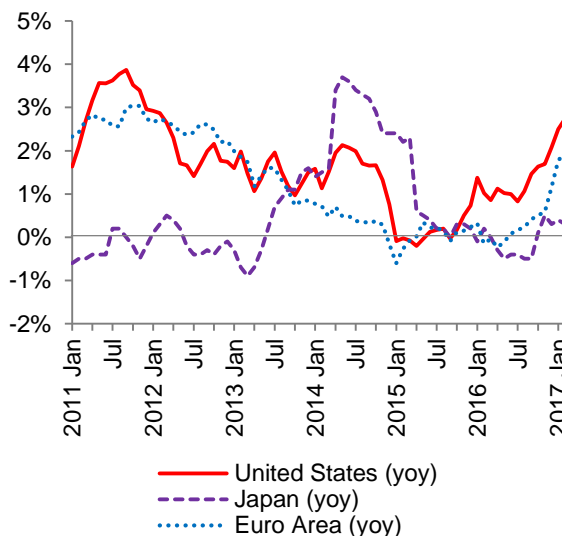
# The era of global cheap money is coming to an end

- The Fed is clearly at the vanguard and setting a vital lead for others to follow suit fairly soon
- Deflation risks are dead and buried, **headline inflation is on the rise** and is gradually building momentum
- The **ECB is ready to tweak interest rate** once French and German elections are out of the way and its quantitative easing program expires in October

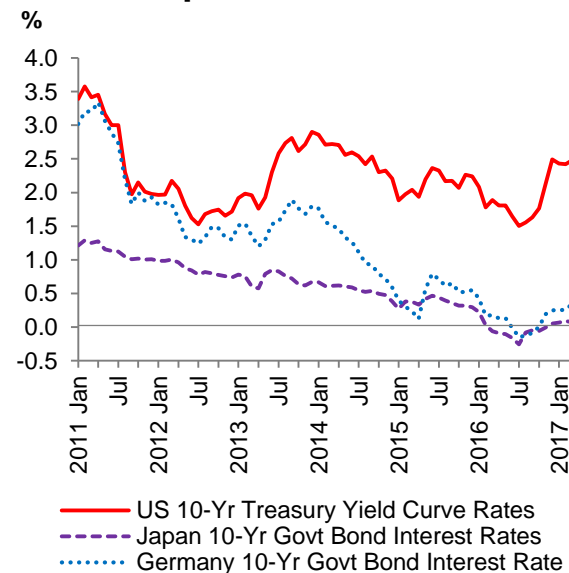
**The Fed's rate hike cycle continues; Is BoJ and ECB ready to act?**



**Rising inflation**



**Bond yields on fire as market anticipates more inflation**



Source: Federal Reserve; ECB; BoJ; U.S. BLS; Eurostat; Statistics Bureau, Japan; U.S. Department of the Treasury; MOF, Japan



# Risks and financial vulnerabilities in perspectives

## Fading

- Disconnects between financial markets vs. real economy
- Fading hopes on the delivery of promised policy reforms

## Disruptions

- Trade protectionist mindset
- Unresolved issues related to Brexit's negotiation
- A plethora of policy and political uncertainties

## Volatility

- Faster pace of the Fed's rate hikes
- Strong US dollar-induced exchange rate volatility
- Financial distress on high foreign borrowing and currency mismatch

## Unsustainable

- Unsustainable asset prices, excessive credit growth
- Bloated debt in some emerging economies

# Here's how the Malaysia economy is doing

Key indicators	2015	2016	2017f (BNM)	2017f (SERC)
Real GDP growth (%)^	5.0	4.2	4.3-4.8	4.3
Private consumption growth (%)^	6.0	6.1	6.0	5.7
Private investment growth (%)^	6.4	4.4	4.1	4.5
Income per capita (RM)	36,078	37,738	39,656	39,858
Unemployment (%)	3.1	3.5	3.6-3.8	3.6
Inflation (%)	2.1	2.1	3.0-4.0	3.0-4.0
Export Growth (%)	1.6	1.1	5.5	5.0
<b>Current account surplus</b>				
RM billion	34.7	25.2	17.4	18.4
% of GDP	3.0	1.3	1.3	1.4
<b>Budget deficit</b>				
RM billion	37.2	38.4	40.3	39.3
% of GDP	3.2	3.1	3.0	3.0
<b>Federal government debt</b>				
RM billion	630.5	648.5	-	-
% of GDP	54.5	52.7	-	-

Source: Bank Negara Malaysia; SERC

^ Constant 2010 prices

- **Cautiously optimistic outlook.** Bank Negara Malaysia (BNM) expects this year's GDP growth to grow by 4.3-4.8% (4.2% in 2016), in line with the Ministry of Finance's forecast made in October (SERC: 4.3% in 2017).
- **Still decent domestic demand.** Consumer spending (54.0% of GDP) will grow by 5.7% in 2017 (6.1% in 2016) while private investment growth paces slower (4.5% in 2017 vs. 4.4% in 2016).
- **Exports recovering.** Exports are estimated to grow by 5.0% in 2017 (1.1% in 2016), riding on higher demand for electronics and electrical products, improved crude oil and commodity prices.
- **Higher inflation trajectory.** Headline inflation is projected to rise by 3.0-4.0% in 2017 (2.1% in 2016), induced by the pass-through impact of the increase in global oil prices on domestic retail fuel prices. Weak ringgit also plays a part.

## Sources of growth: Moving on two engines

- **Domestic demand** will continue to be the main driver of growth, underpinned primarily by private sector, aided by stronger exports.
- **All economic sectors** are expected to register positive growth.

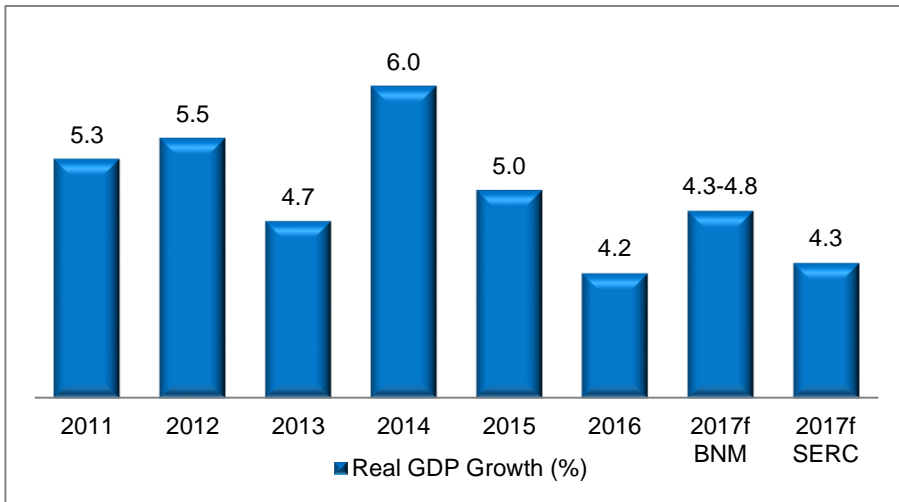
(% change, 2010=100)	% of GDP in 2017*	2014	2015	2016	2017f (BNM)	2017f (SERC)
<b>GDP by demand component</b>						
Private consumption	54.0	7.0	6.0	6.1	6.0	5.7
Private investment	16.8	11.1	6.4	4.4	4.1	4.5
Public consumption	12.5	4.3	4.4	1.0	-0.2	-0.5
Public investment	8.3	-4.7	-1.0	-0.5	1.5	2.0
Exports of goods and services	68.4	5.0	0.6	0.1	2.2	2.7
Imports of goods and services	60.3	4.0	1.2	0.4	1.8	2.2
<b>GDP by economic sector</b>						
Agriculture	8.0	2.1	1.2	-5.1	4.0	1.5
Mining & quarrying	8.7	3.5	4.7	2.7	2.7	2.3
Manufacturing	22.9	6.2	4.9	4.4	4.3	4.2
Construction	4.7	11.7	8.2	7.4	8.0	8.5
Services	54.4	6.6	5.1	5.6	4.9	4.9
<b>Overall GDP</b>	<b>100.0</b>	<b>6.0</b>	<b>5.0</b>	<b>4.2</b>	<b>4.3-4.8</b>	<b>4.3</b>

Source: Bank Negara Malaysia; SERC

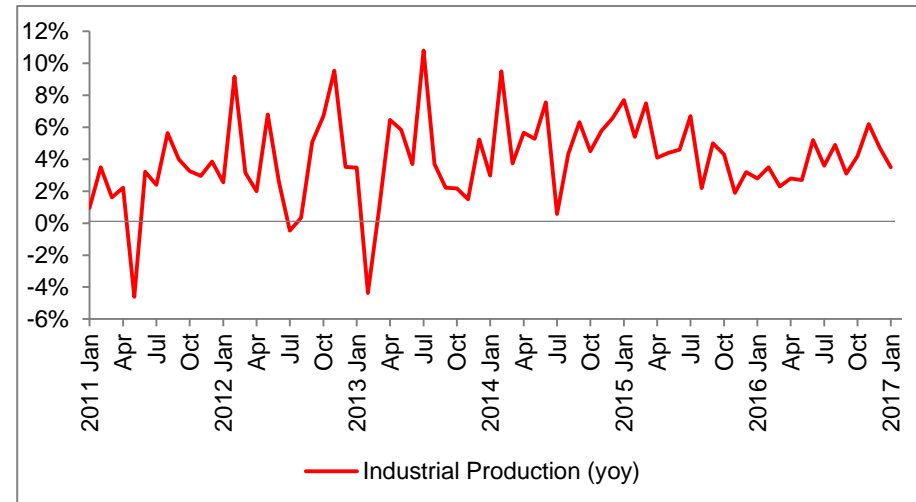
\* % Share to GDP of 2017 from BNM

# Real economic indicators show continued growing

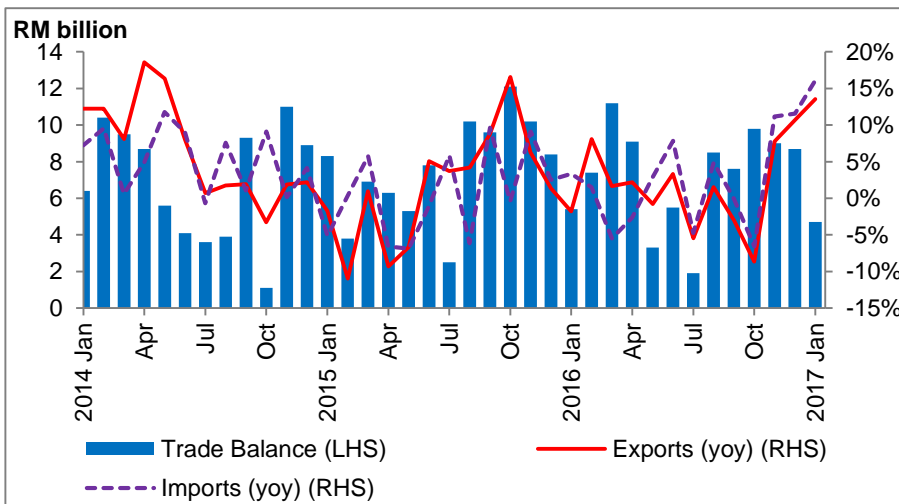
## Still positive economic growth trajectory



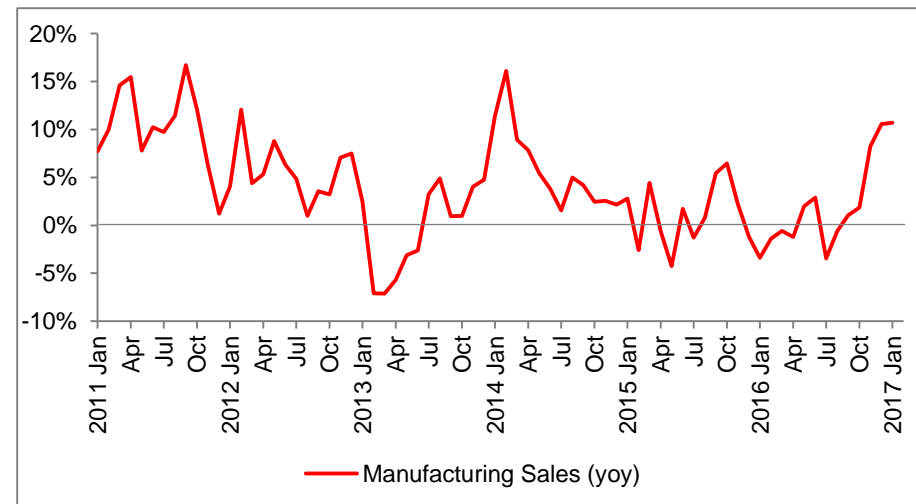
## Industrial production grew steadily



## Recovering exports



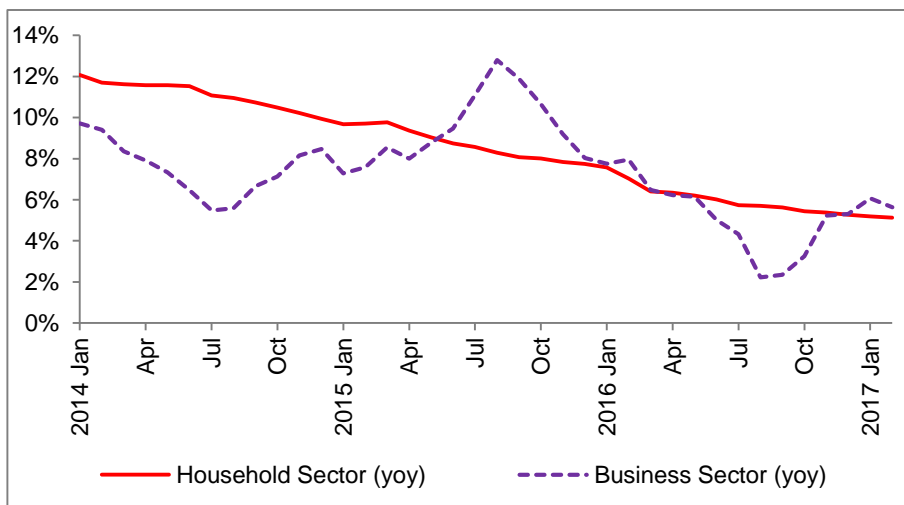
## Manufacturing sales continue to expand



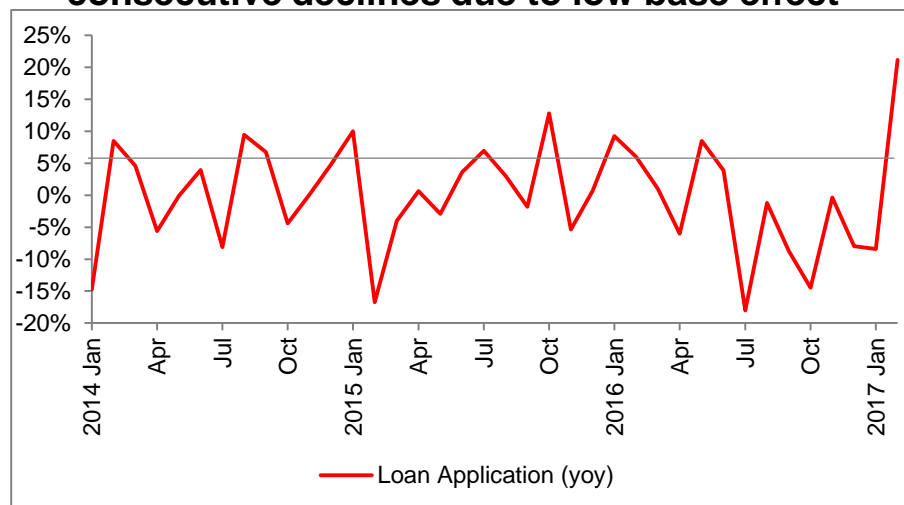
Source: Bank Negara Malaysia; Department of Statistics, Malaysia; SERC

# Moderated households and business loan growth

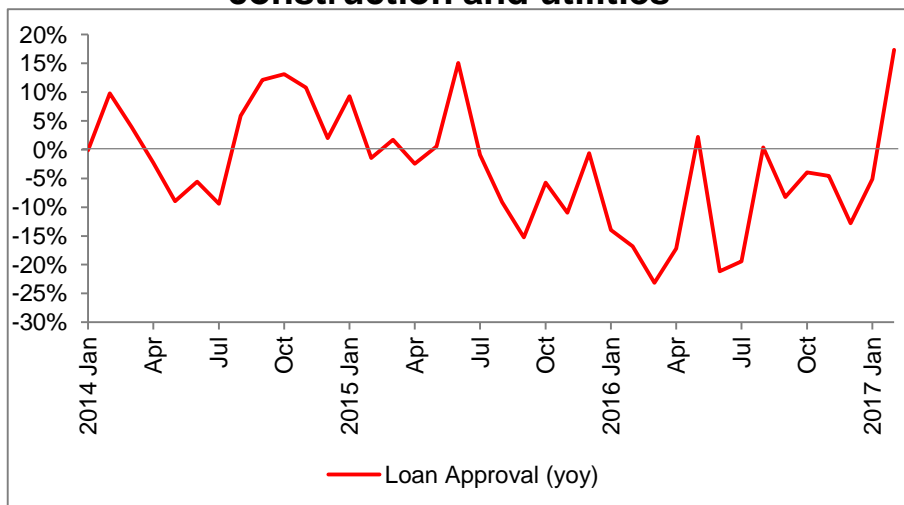
## Business and household loans growth eases



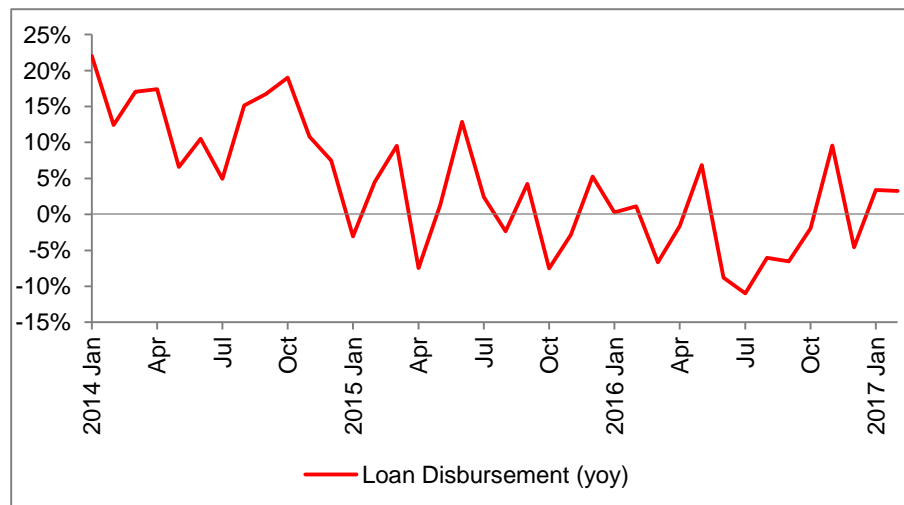
## Loan applications surged in Feb after seven consecutive declines due to low base effect



## Loan approvals also jumped in Feb on construction and utilities



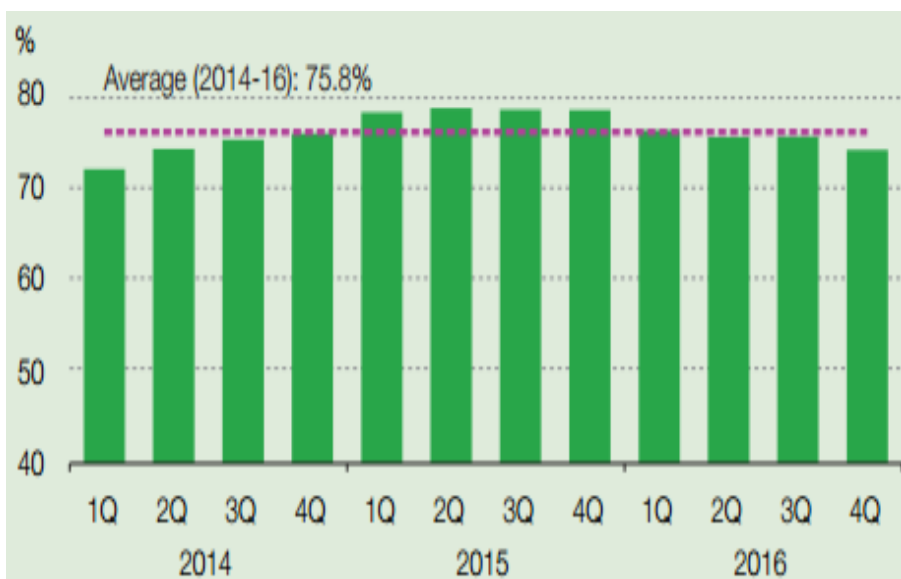
## Loan disbursements remained moderate



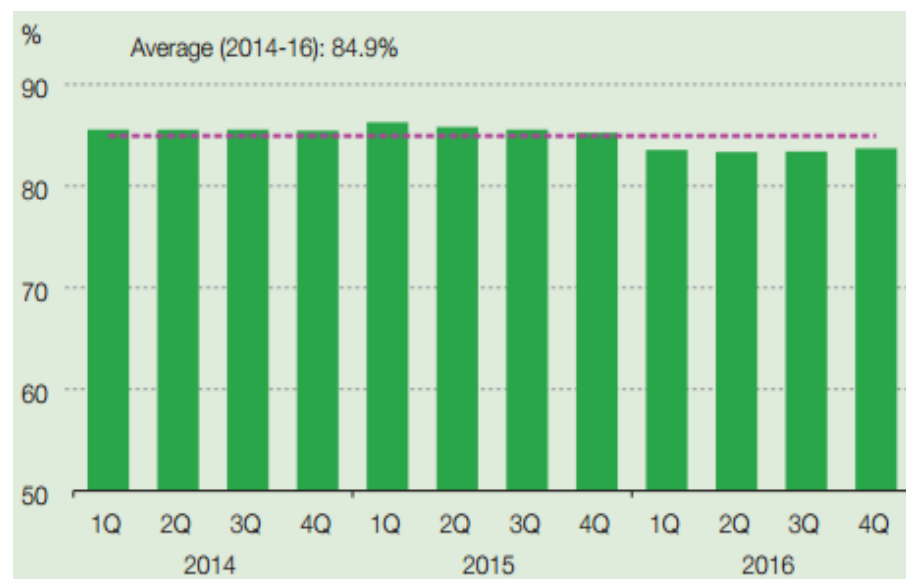
Source: Bank Negara Malaysia

# Home buyers and businesses still getting financing

## Approval rate households for the purchase of residential property



## Approval rate to businesses

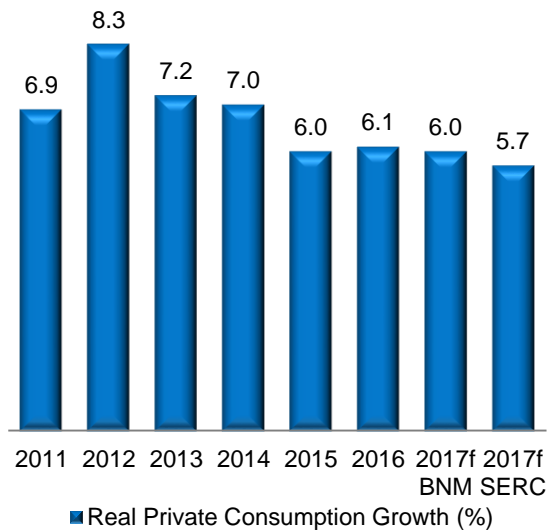


Source: Bank Negara Malaysia

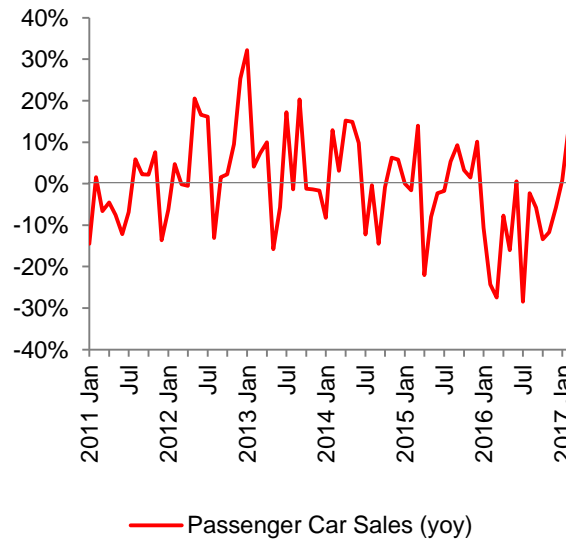
# What's the true health of the consumer?

- Households still **grappling with rising cost of living** though the cash handouts provided some relief to the low-and middle-income households
- **Consumer sentiment remains cautious** and weak, weighed down by rising inflation pressures and continued worries about job prospects
- BNM expects unemployment rate to edge higher (3.6% – 3.8%; 2016: 3.5%); expected wage increment to average 5.4% in 2017 (5.5% in 2016)

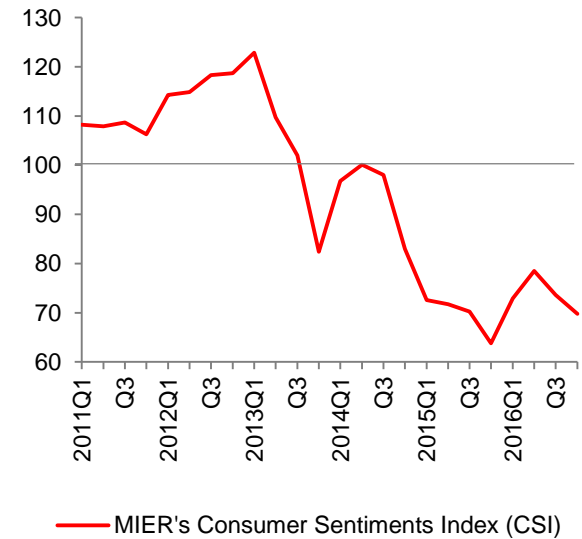
**Private consumption growth trend**



**Passenger car sales rebound with new models**



**Consumer sentiments remain very weak**

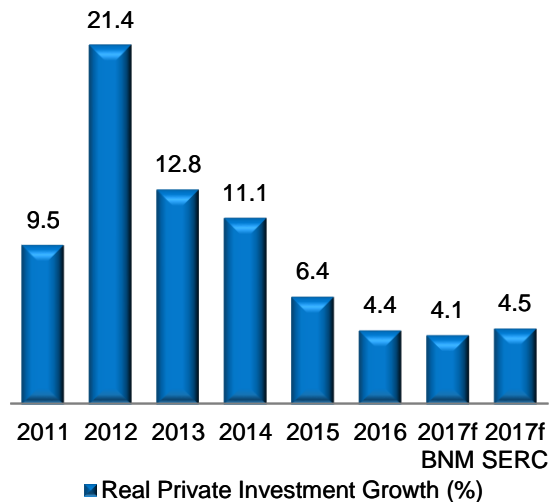


Source: Bank Negara Malaysia; Department of Statistics, Malaysia; Malaysian Institute of Economic Research (MIER); SERC

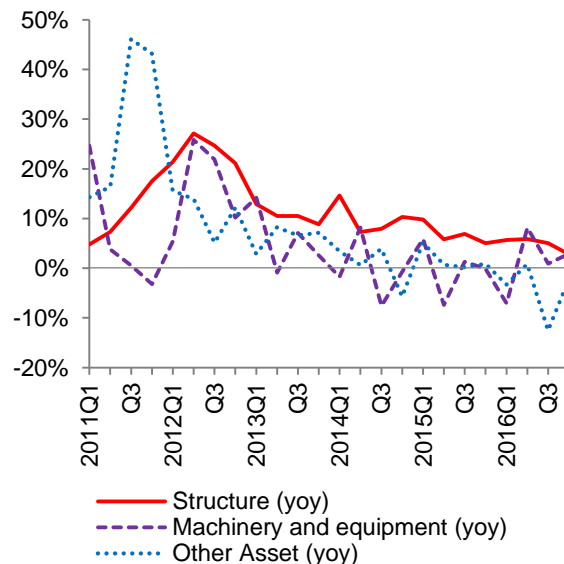
# Slipping private investment growth is a worry

- **Moderating private investment growth**, if not reversed, could eventually jeopardize potential output growth and productivity
- Companies are expected to **remain cautious amidst continued uncertainty in the economic environment**
- High cost of doing business, including unresolved issues associated with foreign workers and regulatory practices, the impact of weakening ringgit as well as lingering uncertainty about the General Election 14 (GE14) may temper investors' sentiment

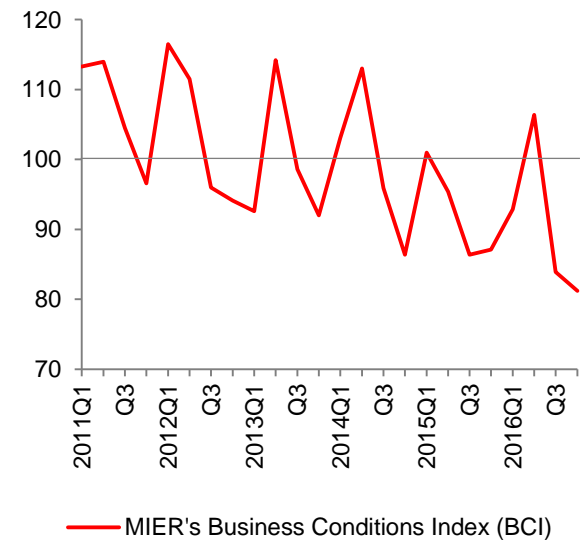
**Private investment growth had slowed for four successive years since 2013**



**Capital investment by type**



**Business sentiments remain sluggish**

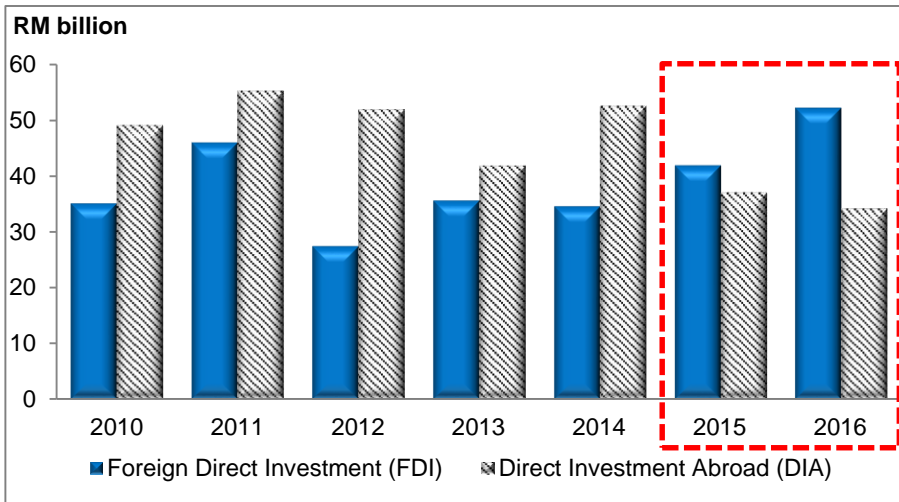


Source: Bank Negara Malaysia; Department of Statistics, Malaysia; Malaysian Institute of Economic Research (MIER); SERC

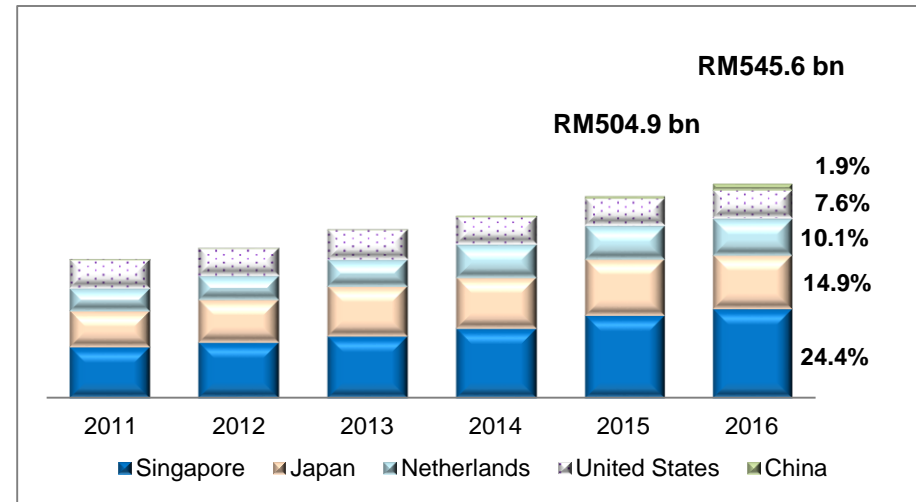


# Does FDI still favor Malaysia?

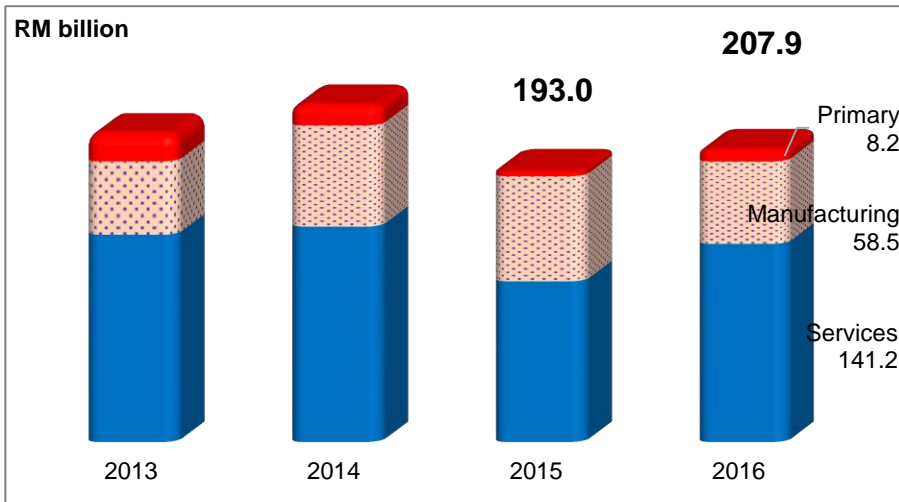
## FDI exceeded Malaysia's direct investment abroad



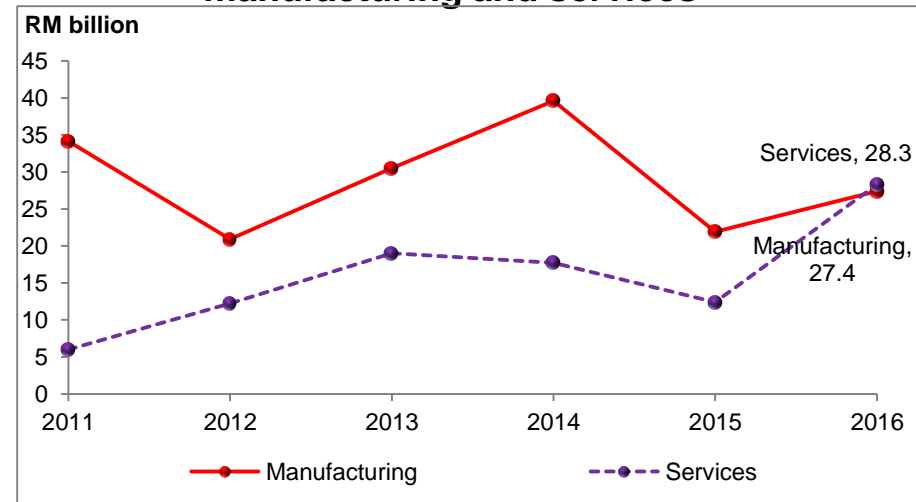
## FDI stock in Malaysia: Diversified investors



## Higher approved total investment in 2016



## Higher approved foreign investment in manufacturing and services

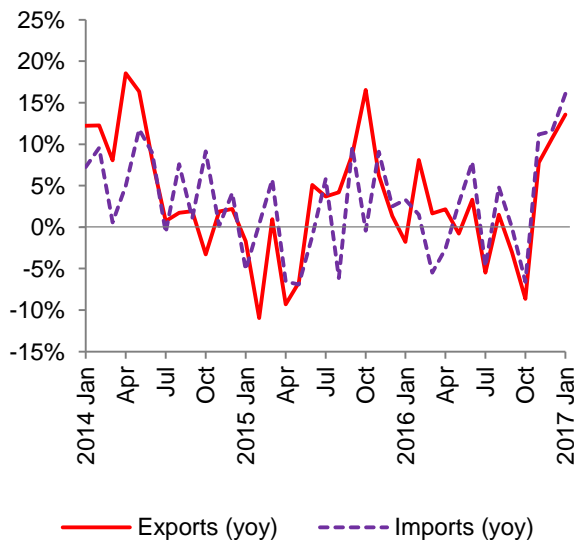


Source: Bank Negara Malaysia; MIDA

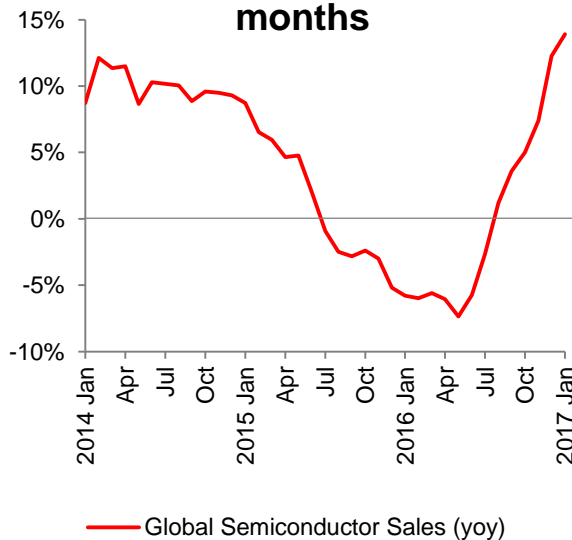
# More export upside but beware of risks

- **Exports** have staged a recovery since mid-2016 (estimated 5.0% in 2017 vs. 1.1% in 2016)
- **Three fundamental drivers:** improved global demand, tech demand and higher commodity prices. Base and weak exchange rate effects have inevitably played some part
- **Risks to global trade environment** threatened by policy uncertainties associated with Trump's strong assertive of a free and fair trade policy, targeting at those countries running huge trade surpluses with the US

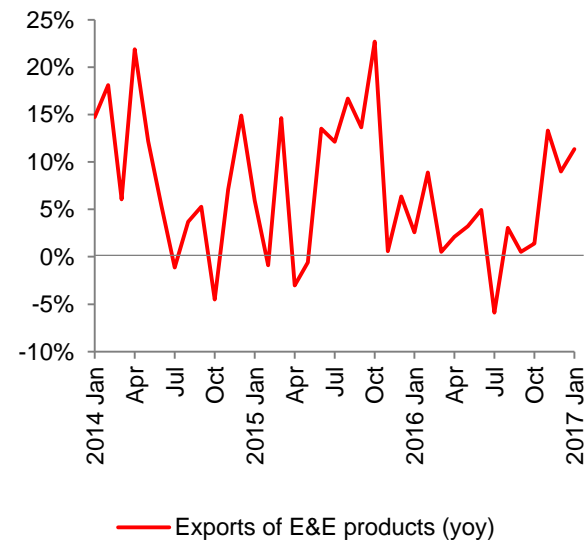
## Exports recovering



## Global semiconductor sales rise for six consecutive months



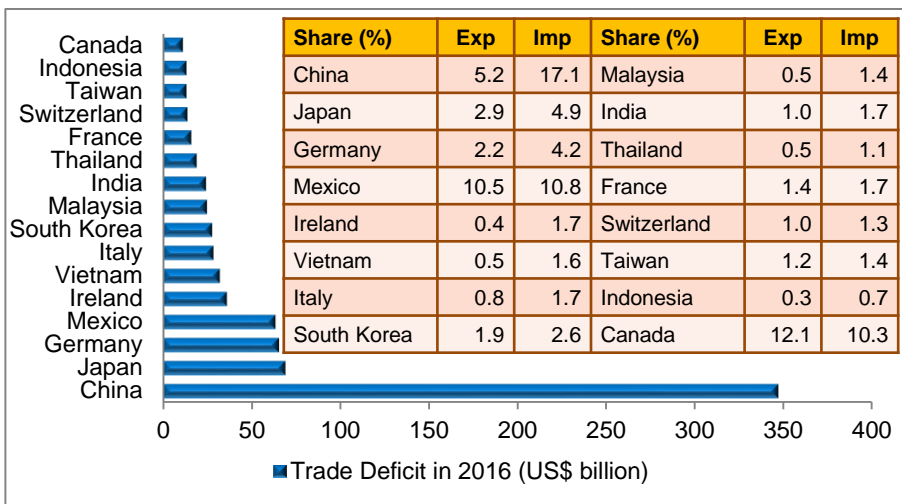
## Malaysia's exports of E&E products



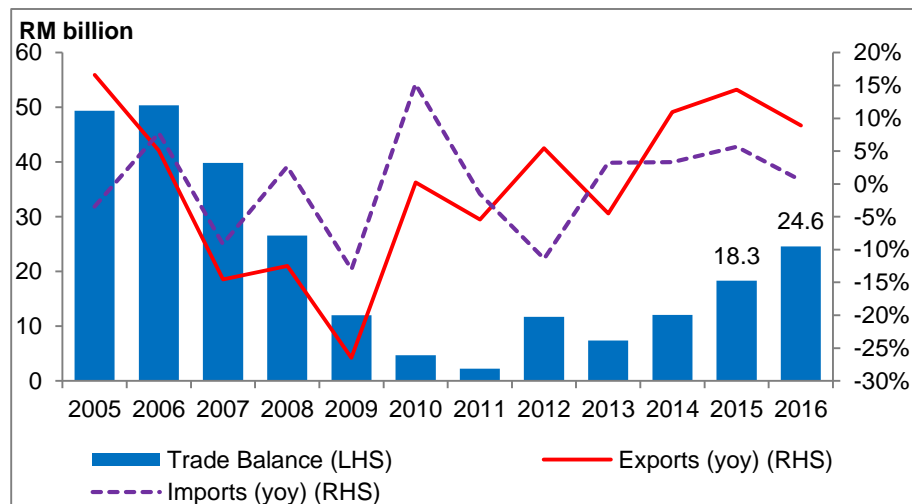
Source: Bank Negara Malaysia; Semiconductor Industry Association (SIA)

# Trump's trade agenda: A fair and free trade

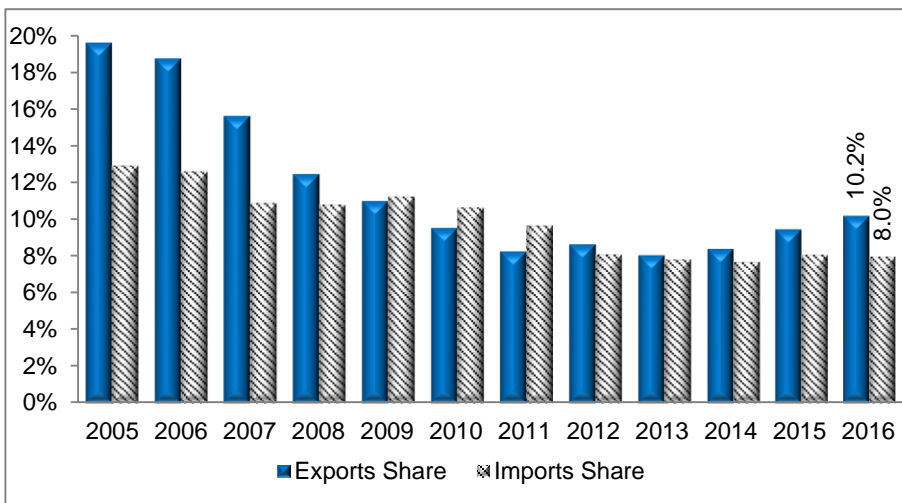
## 16 countries having trade imbalances with the US



## Where does Malaysia stand?



## US is Malaysia's third largest trading partner



## Major export and import products

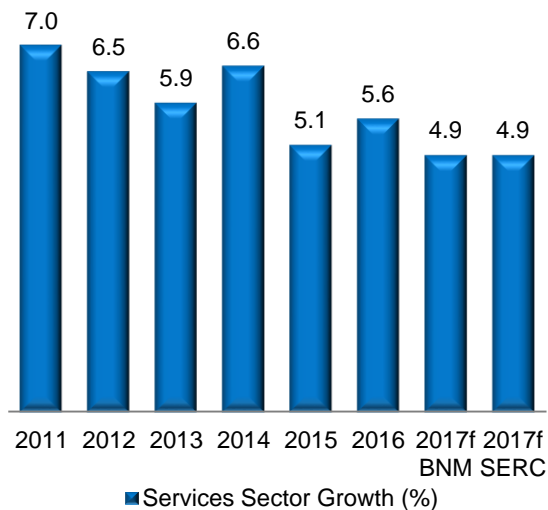
Major exports	Major imports
<ul style="list-style-type: none"> <li>Electrical and Electronics</li> <li>Machinery</li> <li>Medical instruments</li> <li>Rubber gloves</li> <li>Furniture</li> </ul>	<ul style="list-style-type: none"> <li>Electrical and electronics</li> <li>Machinery</li> <li>Medical instruments</li> <li>Aircraft and parts</li> <li>Plastic products</li> </ul>

Source: US Census; Bank Negara Malaysia; Department of Statistics, Malaysia

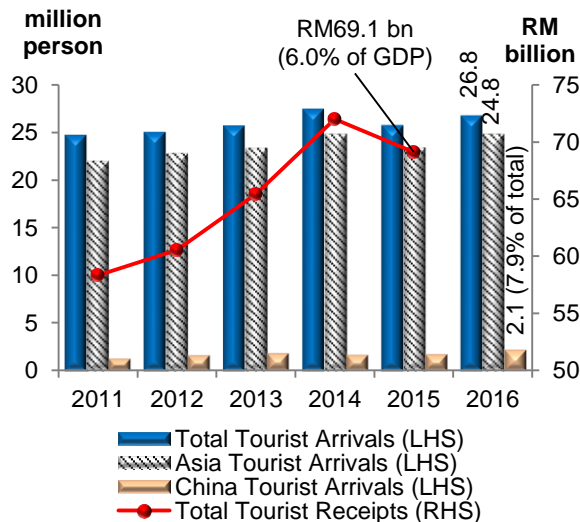
# Services: Dominant driver of GDP growth

- The **services sector** is estimated to grow at a moderate pace (4.9% in 2017 vs. 5.6% in 2016), driven by the wholesale and retail trade, food and beverages and accommodation, information and communication as well as transportation
- Set a target of **31.8 million tourist arrivals** this year (26.8 million in 2016) with targeted foreign exchange earnings of RM118 billion
- 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

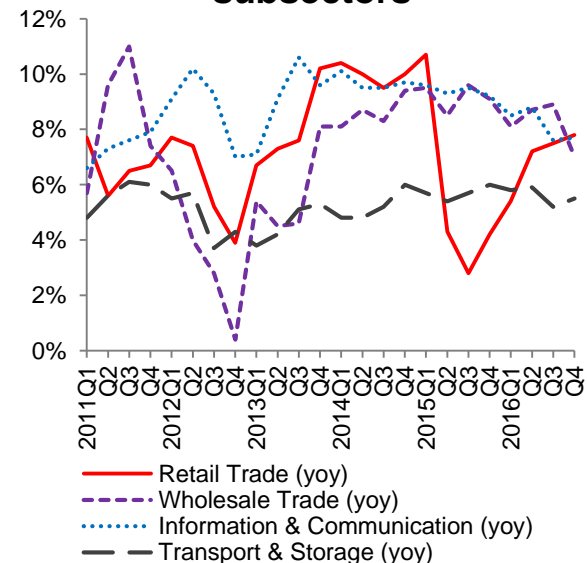
### Output growth of services sector



### China tourists increased by 11.2% p.a. since 2011



### Performance of services subsectors

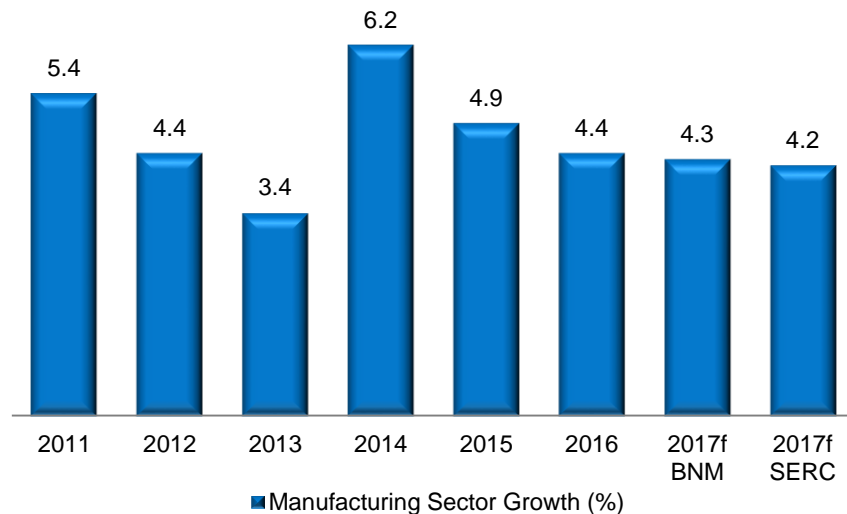


Source: Bank Negara Malaysia; Tourism Malaysia; SERC

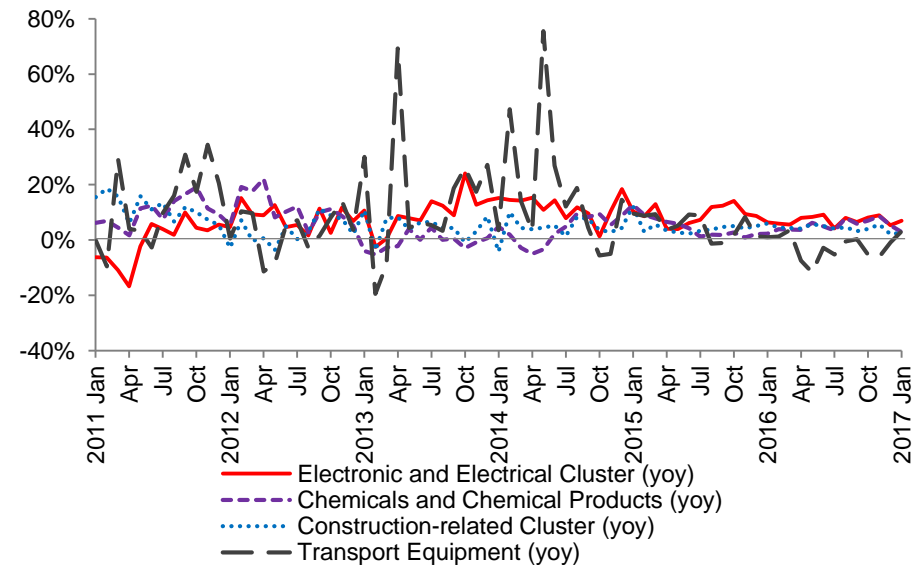
# Manufacturing: Still growing albeit moderately

- The **manufacturing sector** will sustain at 4.3% growth in 2017 (4.4% in 2016), underpinned by the export-oriented industries (electronics and chemical-related products)
- Growth in the domestic-oriented industries -- production of food and construction-related products
- Challenging global and domestic economic environment, high cost of doing business, lingering issues about foreign workers and the weak ringgit could dampen the sector's growth via costlier imported inputs

Output growth of manufacturing sector



Performance of key industries

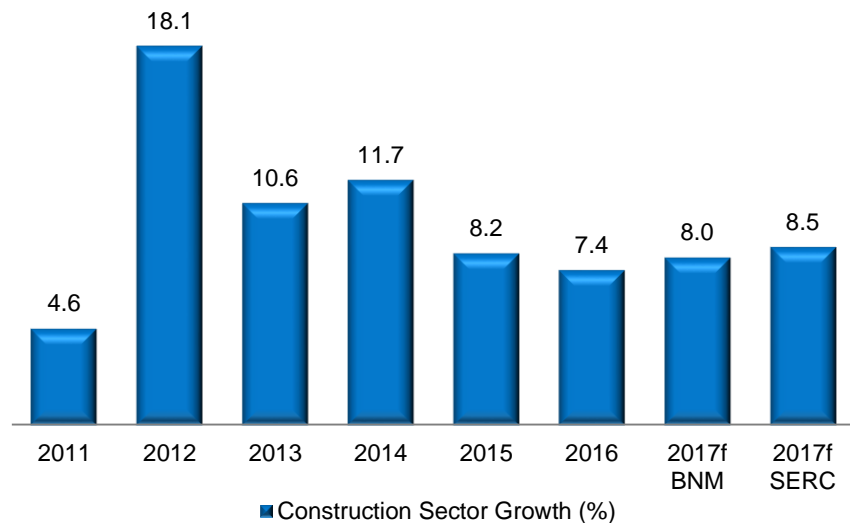


Source: Bank Negara Malaysia; SERC

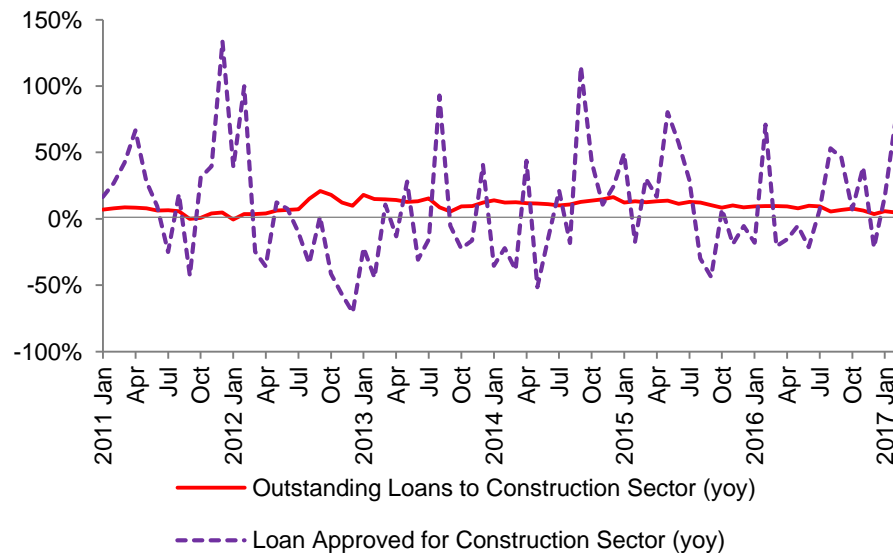
# Construction: Promising outlook

- Growth in the **construction sector** is projected to expand at a faster pace in 2017 (8.0% vs. 7.4% in 2016), driven mainly by new and existing civil engineering projects in the utilities, transportation and petrochemical segments
- **Public spending on transportation projects** (MRT, LRT, rail, HSR), highways (Pan Borneo Highway), **ports and the public-driven affordable housing development**
- An estimated RM212 billion value of construction jobs covering on-going and new ones over the next five years. **Positive spillovers and multiplier effects on more than 140 sub-sectors**

## Output growth of construction sector



## Indicators of construction sector



Source: Bank Negara Malaysia; SERC

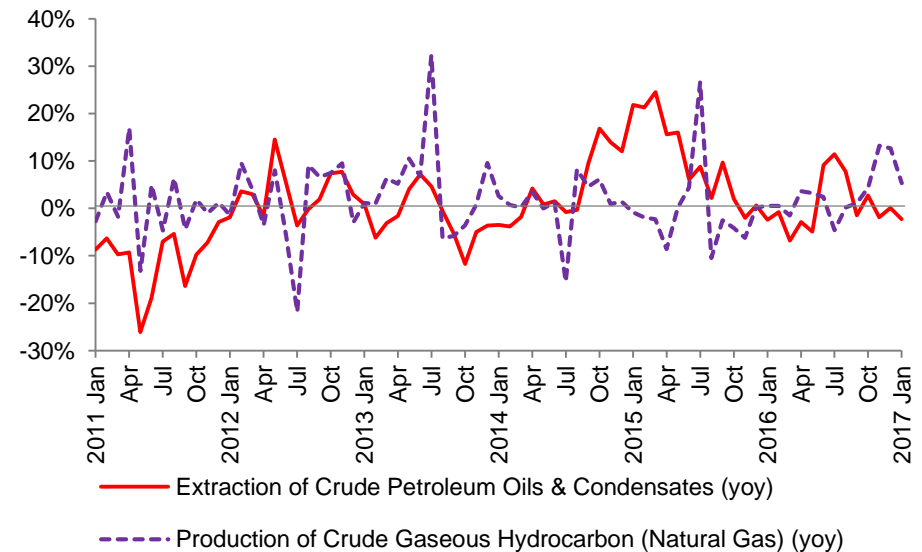
# Mining: Sustained recovery

- The **mining sector** growth is estimated to pace slower at 2.3% (2.7% in 2016), supported by acceleration of natural gas production from the LNG Train 9 and PETRONAS' FLNG Satu facilities as well as production from the new Malikai oil field
- PETRONAS's voluntary 20,000 barrels per day crude oil supply cut to dampen the sector's performance in 1H2017
- SERC estimates crude oil price of US\$55-60 per barrel in 2017 vs. BNM's US\$50-55 per barrel in 2017 (US\$43.67 in 2016); Liquefied natural gas (LNG)'s price is assumed at RM1,350 per tonne (RM1,267 in 2016)

Output growth of mining sector



Crude oil and natural gas output

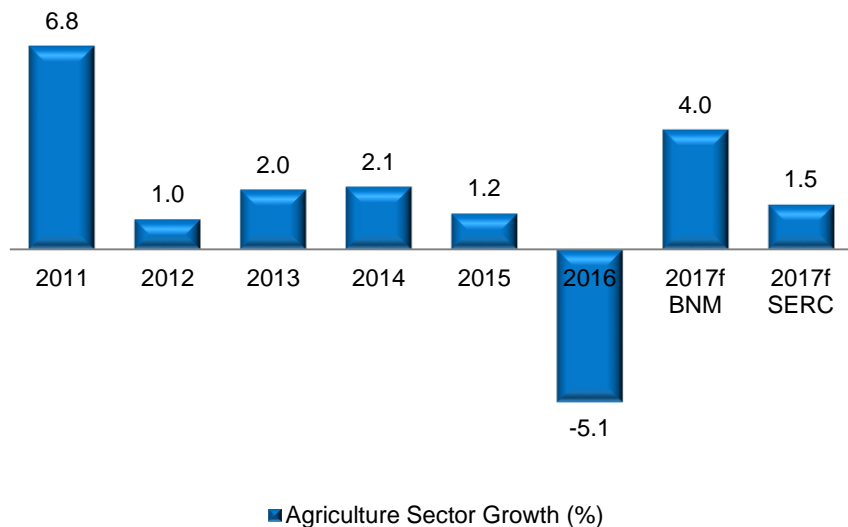


Source: Bank Negara Malaysia; Department of Statistics, Malaysia; SERC

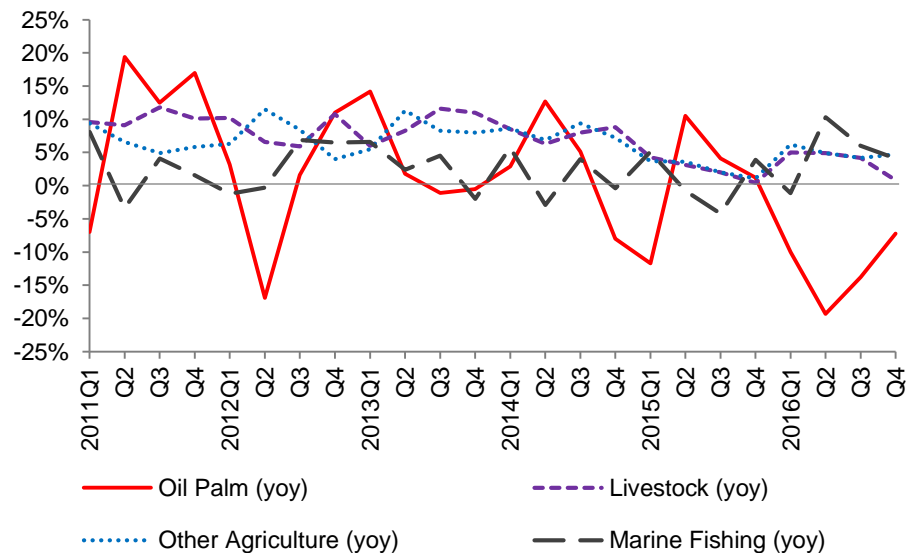
# Agriculture: From contraction to expansion

- The **agriculture sector** is expected to rebound to 1.5% in 2017 from a decline of 4.7% in 2016, mainly attributable to the recovery of crude palm oil yields from the adverse impact of El Niño
- SERC's assumption of palm oil price is RM2,700 per tonne for 2017, which is the same level as BNM's (RM2,647 in 2016)

### Output growth of agriculture sector



### Subsectors of agriculture



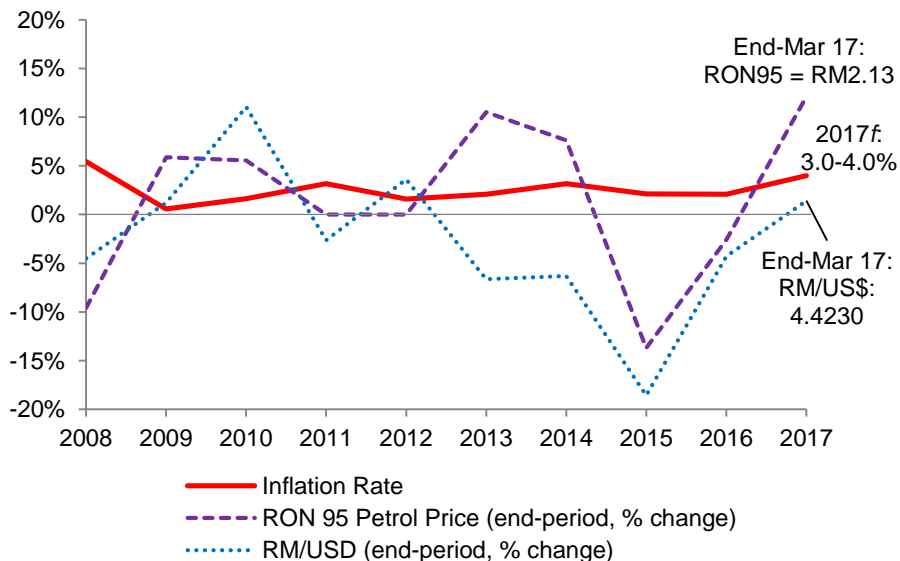
Source: Bank Negara Malaysia; Department of Statistics, Malaysia; SERC



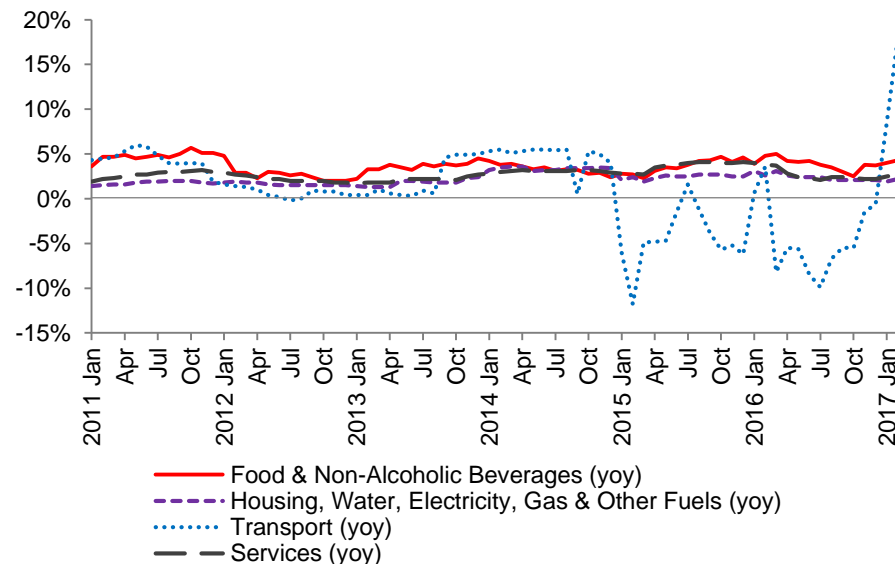
# Inflation comes roaring back

- **High fuel prices-inflicted cost price pressures** along with other indirect costs such as the spillover effect of the weakening ringgit would fuel higher consumer price inflation this year
- We estimate **inflation to increase by 3.0-4.0% in 2017**, with an average increase of 4.0-4.2% in 1H before moderating to 3.0-3.5% in 2H
- **Inflation outlook will be subjected three risks:** 1) Higher than expected oil prices; 2) prolonged exchange rate depreciation may change businesses price-setting behavior; and 3) imported inflation from Malaysia's trading partners

## Fuel price and exchange rate changes on inflation



## Food, transportation and services prices higher



Source: Bank Negara Malaysia; Department of Statistics, Malaysia; SERC

# Can BNM afford to increase interest rates?

## Policy environment

- Lingering uncertainties in global economic and financial environment
- Higher US interest rates
- Volatile capital flows and exchange rate

## Growth, inflation and financial imbalances

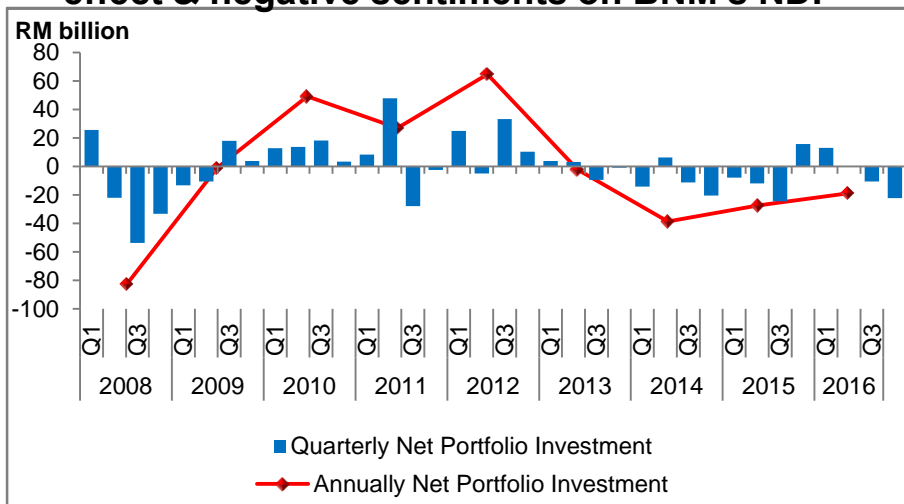
- Economic growth not too strong not too soft
- Domestic demand faces headwinds (high cost of living and weak sentiment)
- Cost-induced inflation outweighs demand pressure
- Household debt to GDP eased to 88.4% at end-2016 (89.1% at end-2015)
- Continue to monitor the risk of financial imbalances

OPR	3.50%	3.25% ↓	2.00% ↓	2.75% ↑	3.00% ↓	3.00% =	3.25-3.50% ↑
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2016</b>	<b>2017f</b>	<b>2018f</b>
GDP	6.5%	4.7% ↓	-1.7% ↓	7.4% ↑	4.2% ↓	4.3% ↑	4.6% ↑
Inflation	2.0%	5.4% ↑	0.6% ↓	1.6% ↑	2.1% =	3.0-4.0% ↑	3.0-3.5% ↑

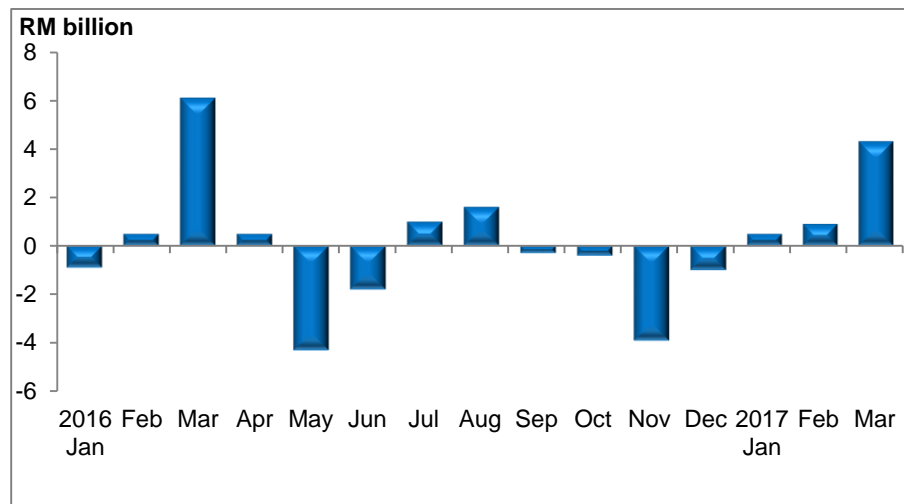
**BNM will face a tough yet decisive balancing act if the Fed takes more aggressive run of rate increases ahead**

# Capital outflows seen subsiding?

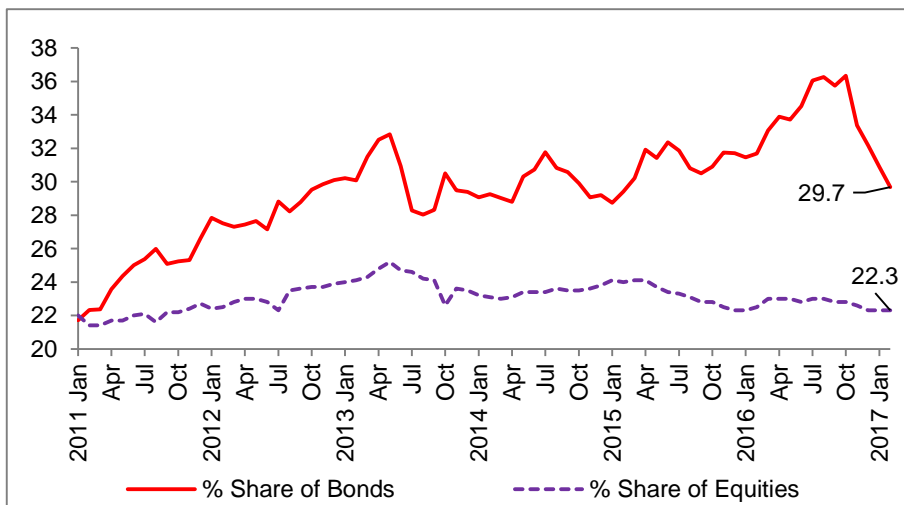
Capital outflows accelerated in 4Q16 on Trump's effect & negative sentiments on BNM's NDF



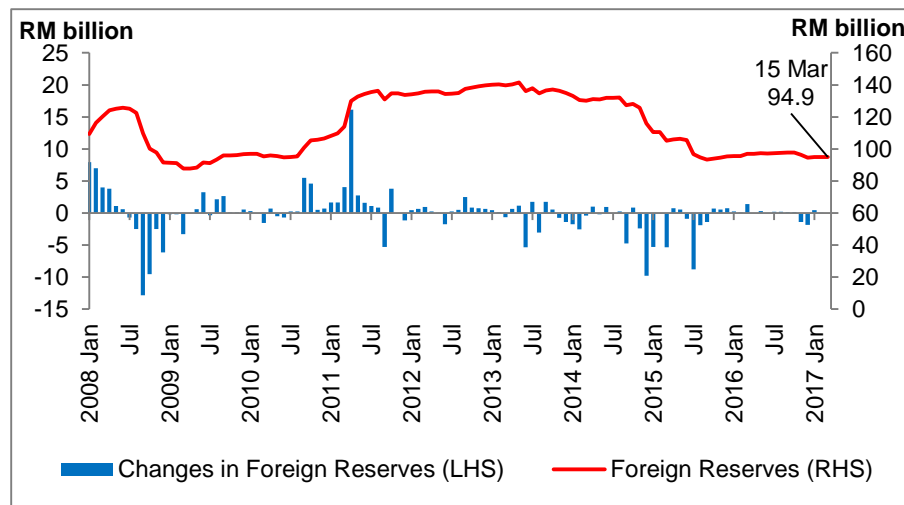
Renewed foreign interest in equities



Foreign share of equities and bonds



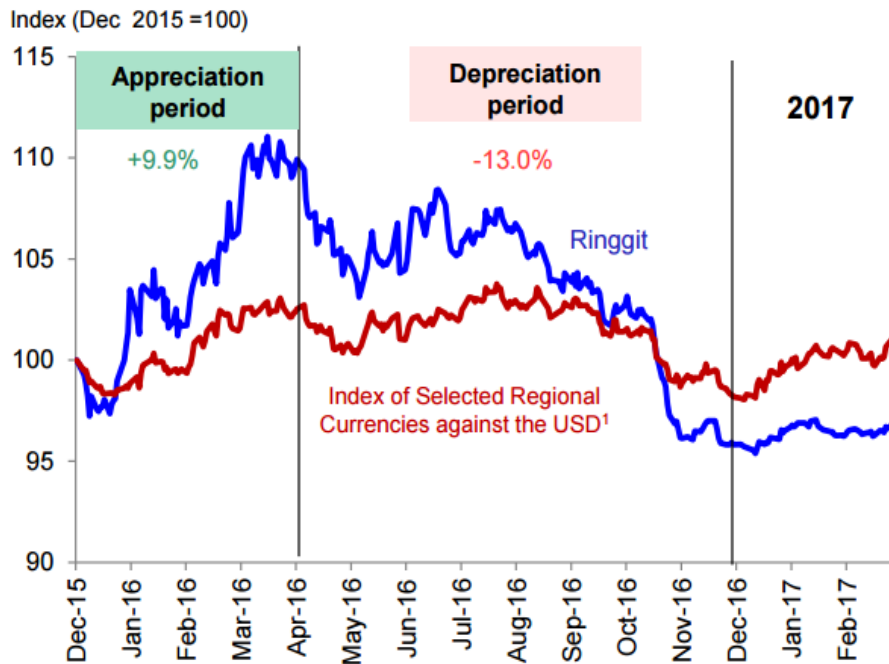
Foreign reserves seen stabilizing



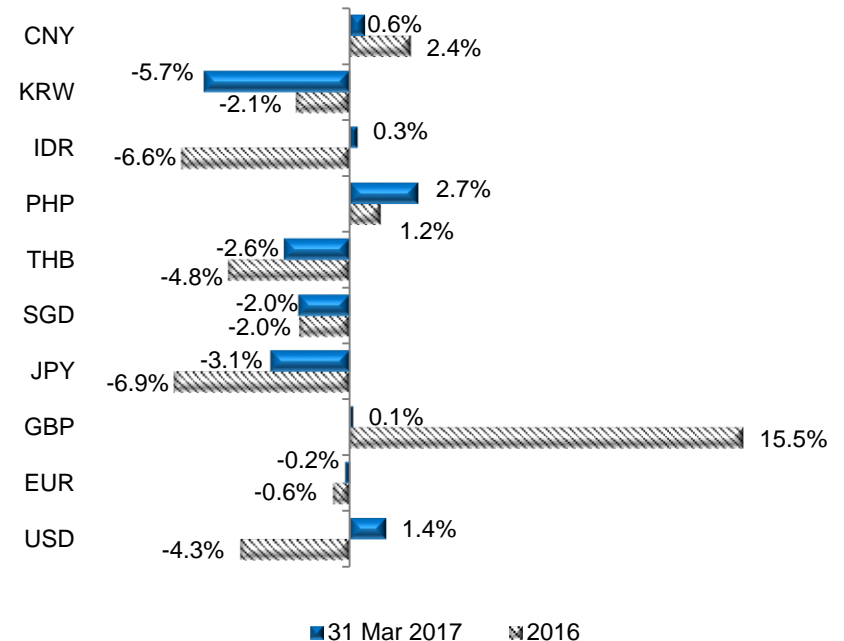
Source: Bank Negara Malaysia; Bursa Malaysia

# Ringgit appears stabilising but headwinds remain

The ringgit followed two distinct phases in 2016, with most of the depreciation occurring after the US election



The ringgit recorded mixed performances in 1Q2017



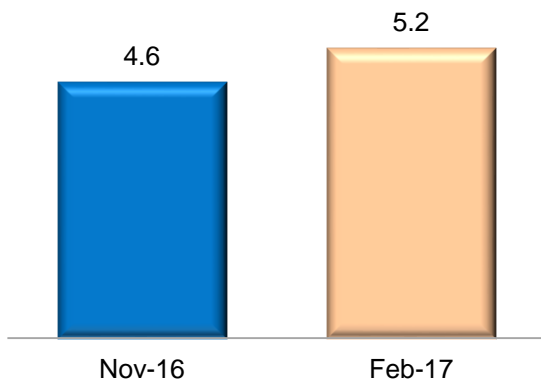
<sup>1</sup> Regional currencies: Chinese renminbi, Indonesian rupiah, Korean won, Philippine peso, Singapore dollar, New Taiwan dollar and Thai baht. Each currency carries equal weight.

Source: Bank Negara Malaysia

# BNM's measures show some positive outcome

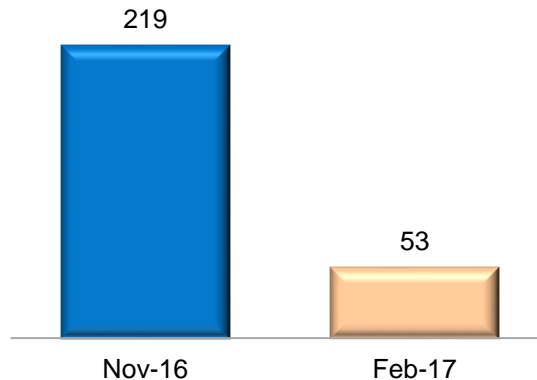
## Daily turnover remained stable

Average Daily Turnover of MYR Currency Pair (USD billion)



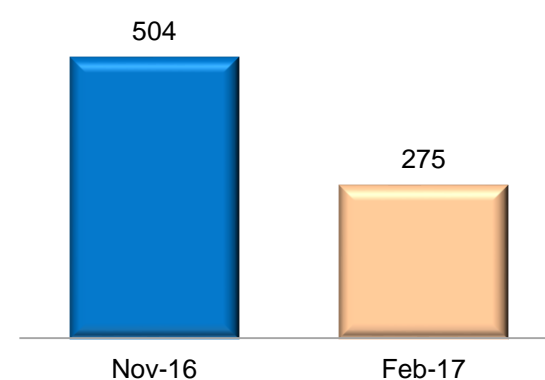
## Ringgit volatility declined

Average Volatility of MYR/USD (points)



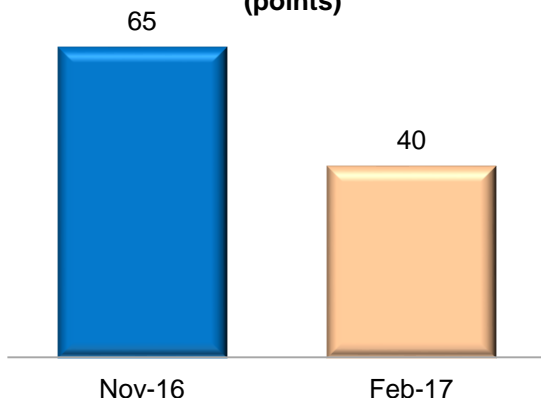
## Offshore-onshore gap narrowed

Average Daily MYR/USD Offshore-Onshore Gap (points)



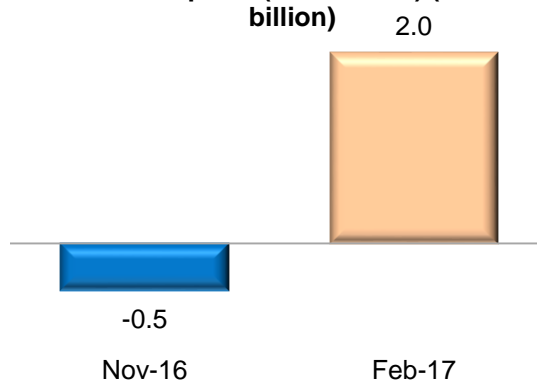
## Bid-ask spread narrowed

Average MYR/USD Bid-Ask Spread (points)



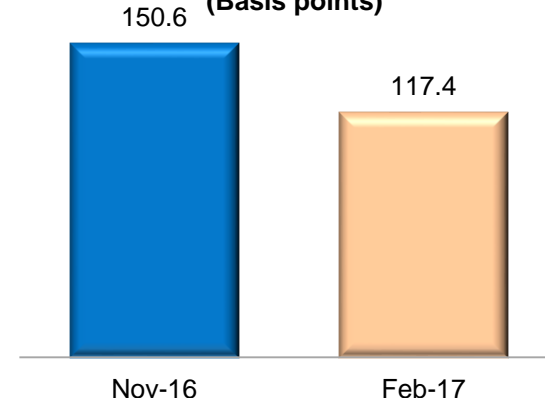
## FX conversion increased post-measures

Net Foreign Exchange Conversion from Exports (Cumulative) (USD billion)



## 5Y CDS spread narrowed

Average Daily 5-year CDS spread (Basis points)

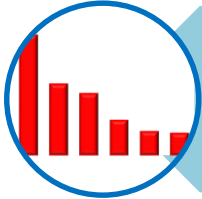


Source: Bank Negara Malaysia

# Here are five key issues facing the economy



**High inflationary environment**



**Persistent narrower current account surplus**



**Overdependence on foreign workers**



**Addressing affordable housing**



**High youth unemployment**

# Reduce vulnerabilities; build future resilience

## Structural policy actions to boost growth & productivity

- **Mitigate increasing cost of doing business**, ease regulatory burden
- Create a **conducive ecosystem** to harness a **digital and connected economy**
- **Leverage on technology and innovation** to increase knowledge-based capital investment and raise productivity
- **High value creation manufacturing and services**

## Address as well as contain vulnerabilities to build economic resilience

- **Re-orientate operating expenditure** to free up limited fiscal space for productive public investment
- Improve **labour market, skills, competition, trade policies**
- **Sequencing of mixed development projects** to contain the oversupply of commercial, office and retail space
- Increase the **supply of affordable housing**

# Conclusion

- 1) The **global economy** continues to stay on positive track, buoyed by expectations that the Trump administration's reflationary policies
- 2) But, **downside risks to global growth still prevalent**. These include the potential disruptions from the Trump administration's shaping of trade and economic policies, aggressive hikes of US interest rates, disruptive UK's Brexit negotiations as well as the political uncertainties
- 3) The **Malaysian economy will perform better this year**. SERC estimates real GDP growth of 4.3 in 2017 vs. BNM's 4.3%-4.8% (4.2% in 2016), supported by continued expansion of domestic demand as well as improved export growth.
- 4) **What risks lie ahead?** The growth estimate is premised on the strength of consumer spending, which may face hurdles from higher cost of living, cost-driven inflation pressures and weak sentiments. Exports too could falter if there is trade flow disruption from the trade protectionism mindset as well as financial markets volatility
- 5) **Inflationary pressures** are developing in recent months, reflecting the combined impact of fuel prices adjustment, the spillover effect of the ringgit's depreciation on imported goods and services and other cost-related pressures. SERC's headline inflation estimate of 3.0-4.0% in 2017, is in line with BNM's estimation



# Conclusion

- 6) **Bank Negara Malaysia is expected to weigh on supporting growth amid facing the threat of cost-driven inflation pressure.** BNM's benchmark policy rate is expected to hold steady at 3.00%. If the cost-induced inflation spills over to a broadening of consumer inflation caused by higher wages and strong demand, BNM may force to act to damp inflation expectations
- 7) **Rebuilding policy space, addressing vulnerabilities, and enhancing international competitiveness** by promoting investment, services, high-end manufacturing and FDI would also boost economic resilience and improve growth prospects
- 8) **Reaping digital dividends** requires the right policy mix and investments such as hardware investment, soft skills and the ecosystem to harness digitalization and reap productivity increase. The government and businesses must be prepared to cope as well as mitigate the disruptive effects yet value creation of new technologies, including put in place a well-designed framework to facilitate the reallocation of workers towards higher productivity jobs



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**谢谢**  
**THANK YOU**

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