



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

# **2017 BUSINESS SECTOR OUTLOOK**

**REHDA Institute**  
**28 February 2017**



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**Big Picture Navigator**

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**Domestic Economic and Business Environment**

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**2017 Sector Outlook**

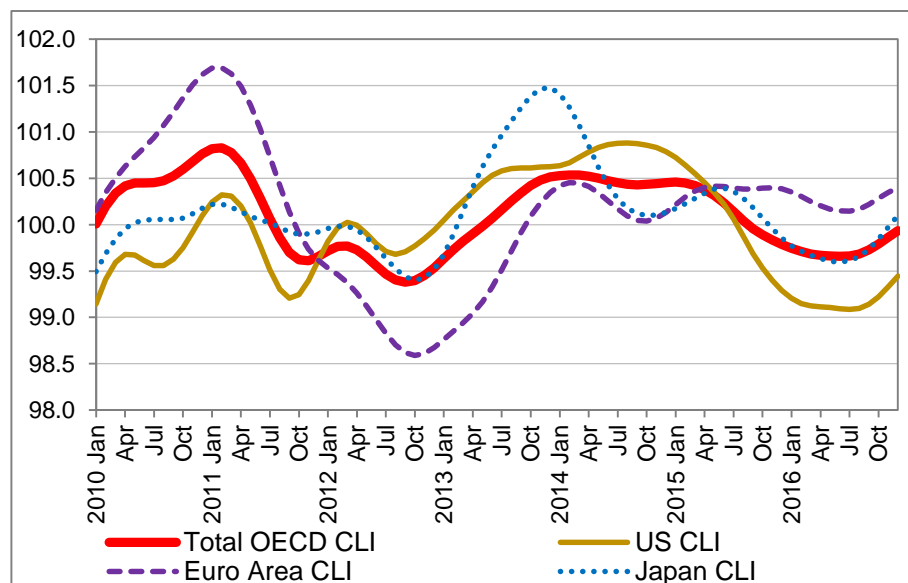
## Still challenging external environment...



# THE GLOBAL ECONOMY IS ON A CRUISING SPEED...

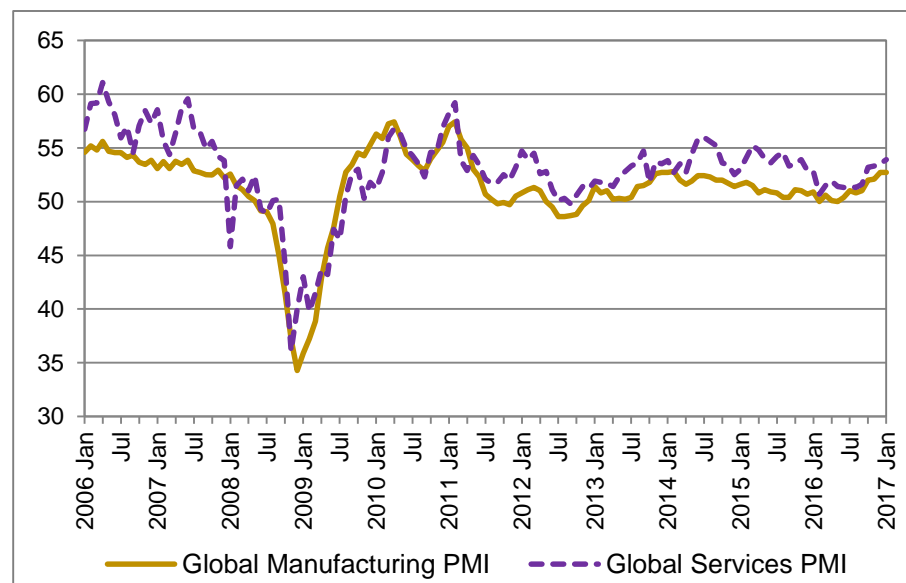
- **Global growth will pick up pace** (3.4% in 2017 and 3.6% in 2018) against estimated 3.1% in 2016. But, the growth remains below 4.2% pa in 1998-2007
- **The US economy is gaining traction**; a modest recovery in eurozone and Japan
- **China's growth reassuring amid growing worries about high debt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

OECD CLI points to picking up of global growth momentum



Source: OECD  
CLI = Composite Leading Indicators

Global PMI for manufacturing and services showed continued expansion



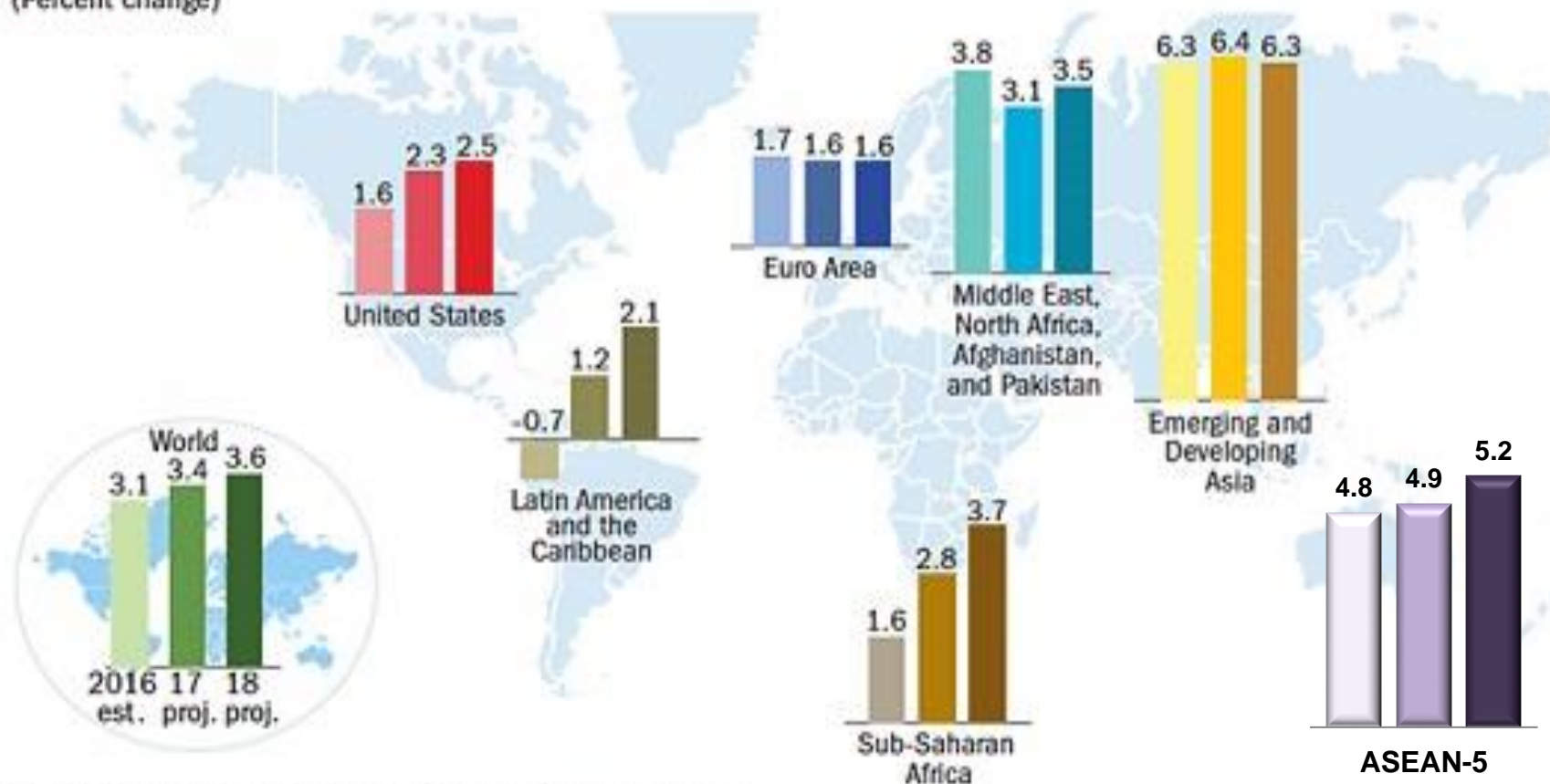
Source: Markit  
PMI = Purchasing Managers' Index

# IMF'S LATEST WORLD ECONOMIC UPDATE

## Latest growth projections

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

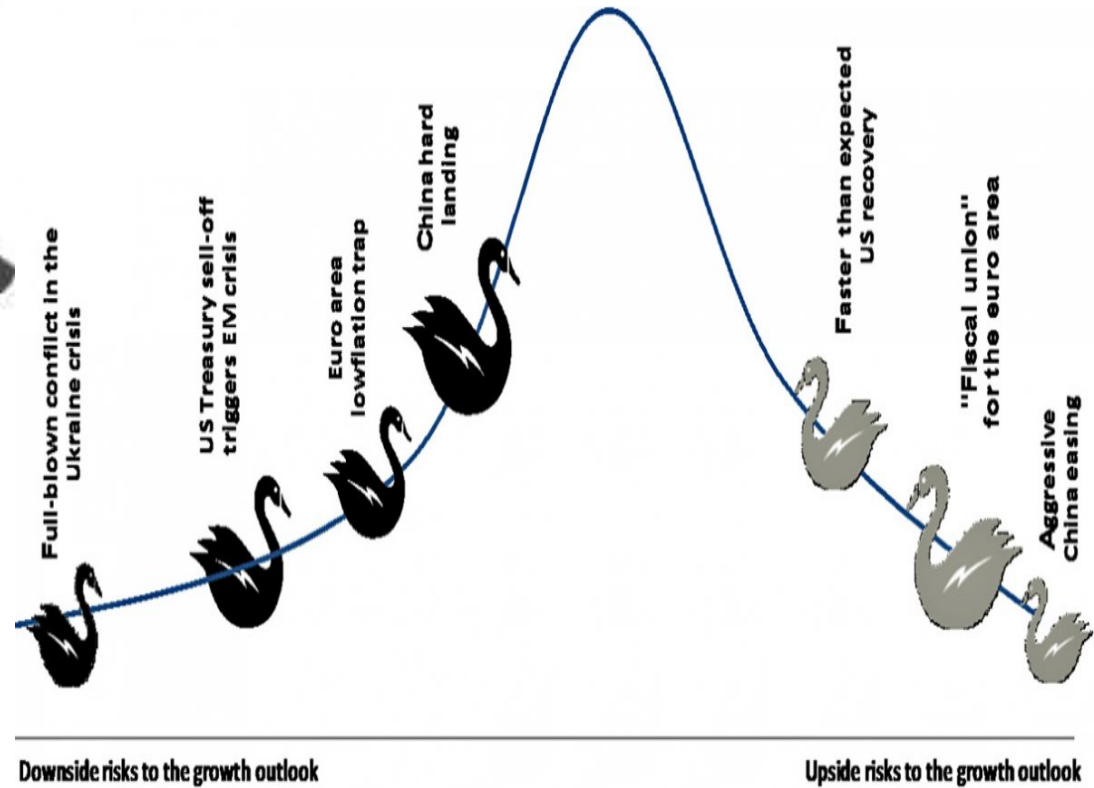
(Percent change)



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.

# WHAT ARE THE RISKS FACING THE GLOBAL ECONOMY?



## ... MORE RISKS TO THE DOWNSIDE THAN TO THE UPSIDE

- ✓ **The Trump factor** - shaping of economic plans; how will it impact the US and world economy?
- ✓ **The Fed's call** – Gradual path or more aggressive interest rates hike?
- ✓ **Unresolved issues related to post Brexit**
- ✓ **Political outcomes** in France, Germany and Netherland that will be having their national or Presidential elections
- ✓ **China Watch** - high debt risks; Renminbi's movements
- ✓ **Geopolitical risks**

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

# TRUMP, REFLATION & DOLLAR WILL DEFINE THE YEAR

- A **much more aggressive run of US interest rate increases** can cause more uncertainty in markets
- **Financial and exchange rate volatility will continue** as the prospects of higher US interest rates and a stronger dollar will spur more capital outflows due to a compressed yields differential
- Many **emerging market currencies are already under pressure** due to decreasing prospects for growth, moderate commodity prices, declining productivity and a stronger dollar
- Emerging markets with **dollar-denominated debt will face a hard time paying off high cost** of servicing dollar debt
- **Weakening Asian currencies** will probably **deter** regional central banks from **easing monetary policies**



# Navigating domestic economic and business environment...

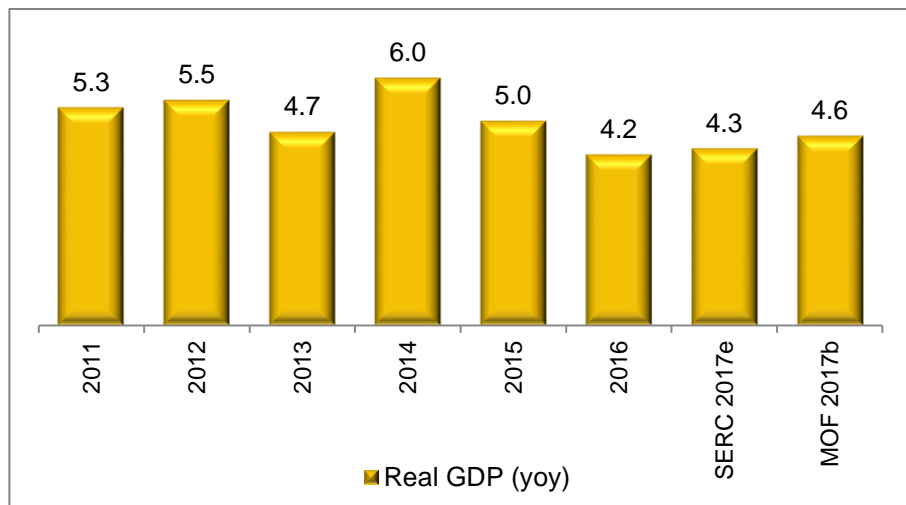


# 2017 - ANOTHER YEAR OF CHALLENGING GROWTH

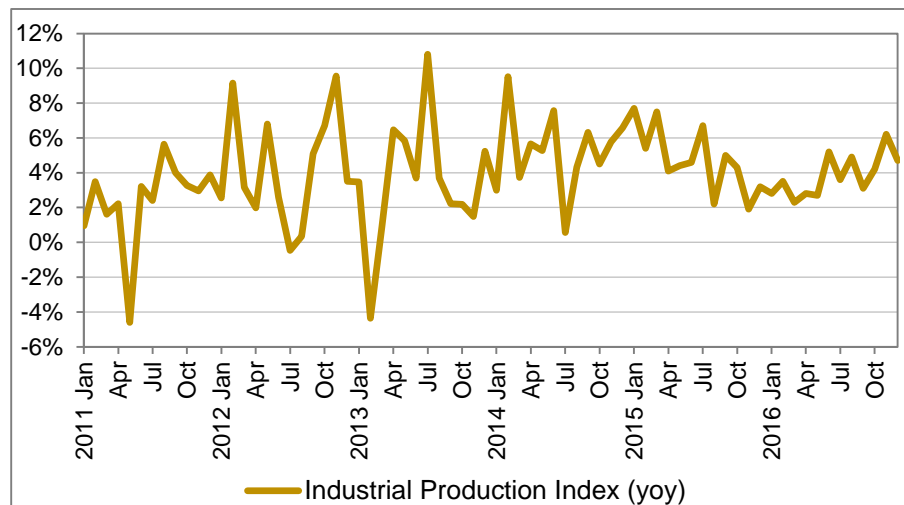
- The economy has bottomed out. **2017's growth outlook shows a cautiously positive trend of 4.3%** (4.2% in 2016 and 5.0% in 2015)
- **What could possibly lift economic growth higher?** Stronger domestic demand and firmer external demand if higher energy and commodity prices provide a small tailwind
- **Discretionary consumer spending** (estimated private consumption growth of 5.3% in 2017 vs. 6.1% in 2016 and an average of 7.1% p.a. in 2011-15)
- **Private investment continues but not robust** (estimated 5.2% in 2017 vs. 4.4% in 2016 and an average growth of 12.2% pa in 2011-15)
- Some form of **trade-offs and substitutions** have to be made due to **the ringgit's depreciation**
- The **on-going implementation of public transportation-related infrastructure projects** and continued investments in manufacturing and services should help private investment
- **Inflation will move higher in 2017** (estimated 2.8% vs. 2.1% in 2016) on cost-driven pressures (weak ringgit, higher fuel prices and other indirect costs)
- For now, we expect Bank Negara Malaysia to keep the **overnight policy rate (OPR) status quo at 3.0% for 2017**

# REAL ECONOMIC INDICATORS SHOW CONTINUED GROWING

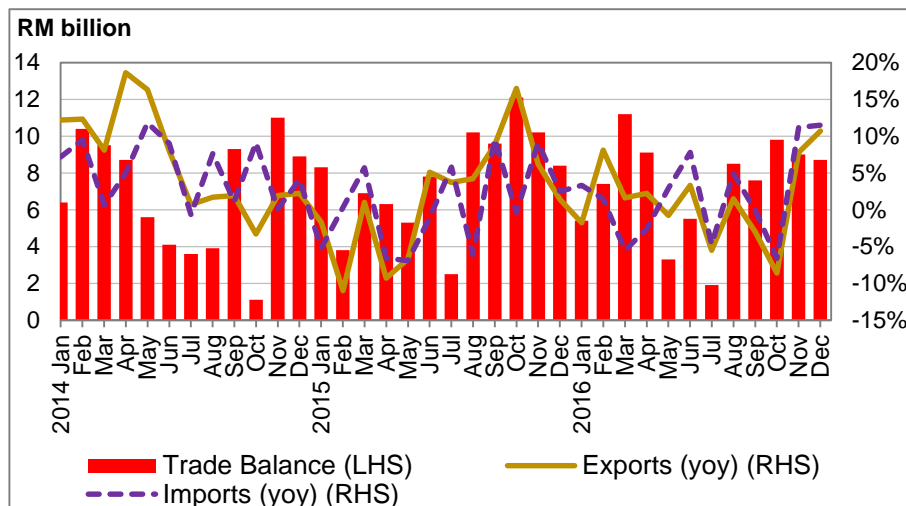
## Still positive growth trajectory (% YoY)



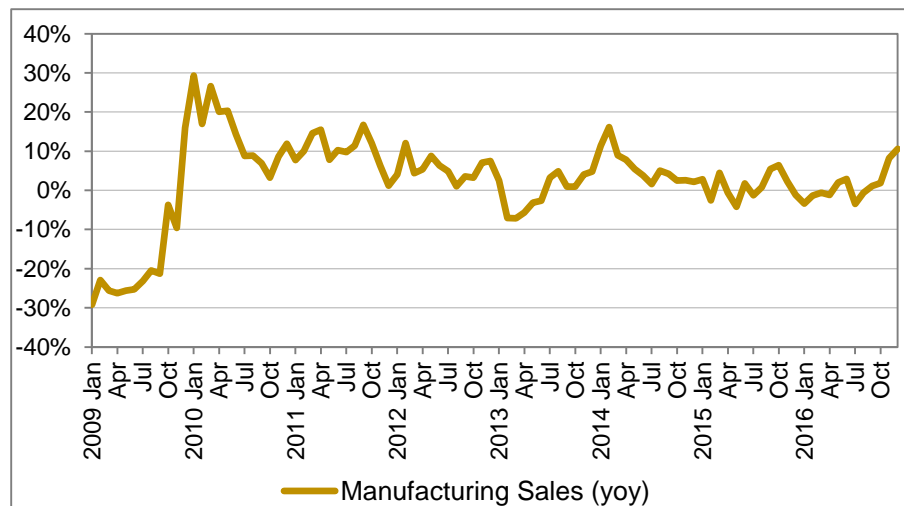
## Industrial production grew steadily



## Recovering exports



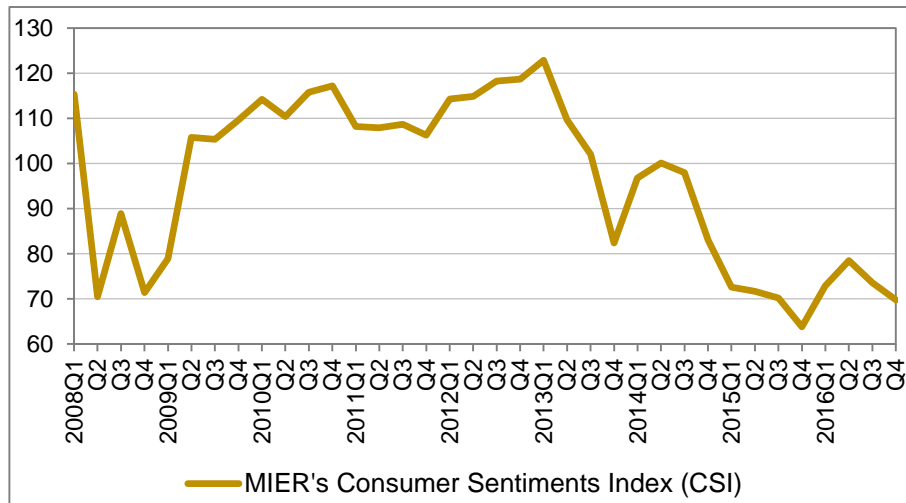
## Manufacturing sales continue to expand



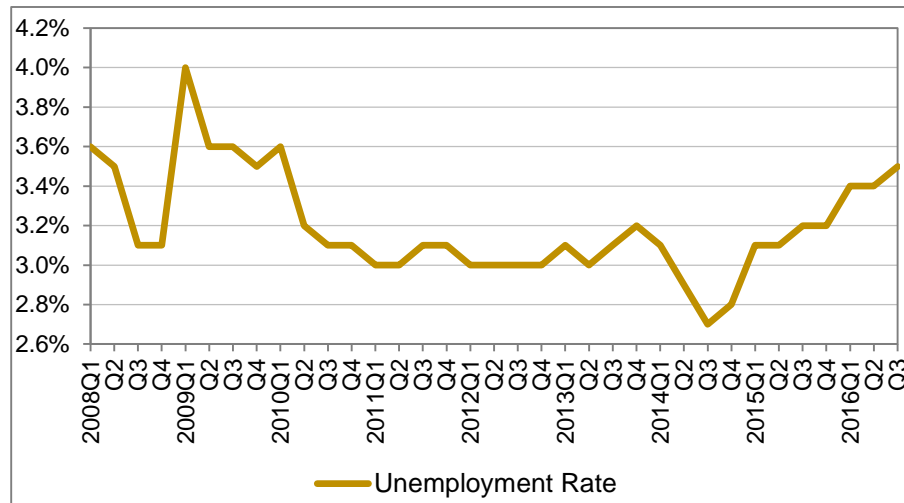
Source: Department of Statistics, Malaysia

# PRIVATE CONSUMPTION & INVESTMENT

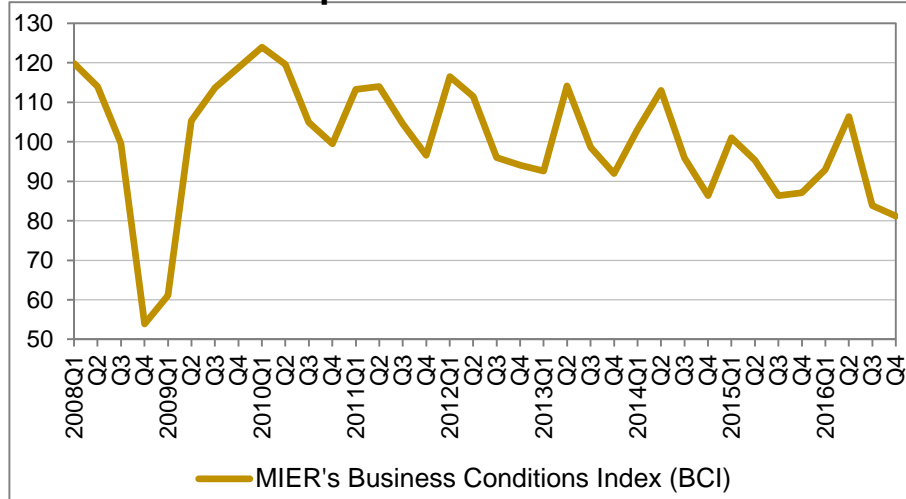
## Consumer sentiment remains cautious



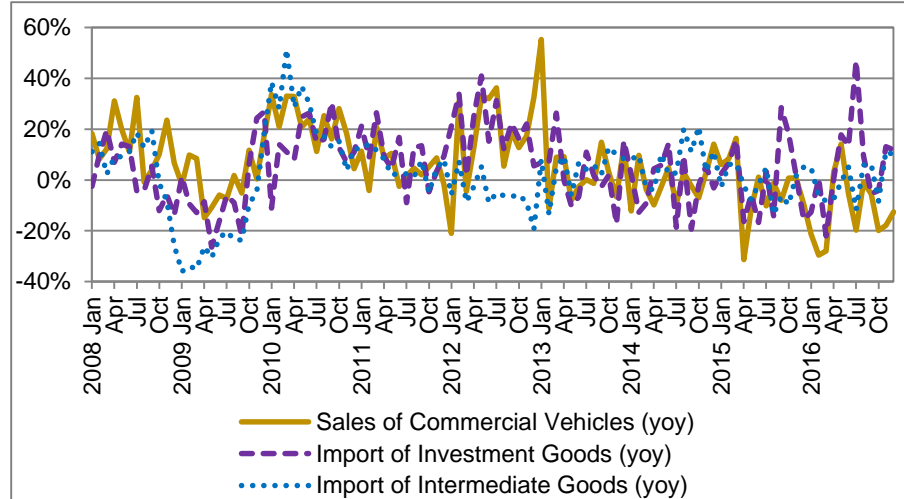
## Jobless rate of 3.5% (3Q'16) highest since 2Q'10



## Business confidence slips on slowdown in overall sales and production



## Private investment indicators show mixed outcomes



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

# MALAYSIA: GDP GROWTH ESTIMATES (DEMAND & SUPPLY)

## GDP by Demand Component (% YoY)

Demand Component [% share to GDP in 2017*]	2014	2015	2016	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017b (MOF)	2017e (SERC)
Private Consumption [54.2%]	7.0	6.0	6.1	5.3	6.3	6.4	6.2	6.3	5.3
Public Consumption [12.4%]	4.3	4.4	1.0	2.8	5.5	2.2	-4.2	0.4	0.9
Private Investment [17.2%]	11.1	6.4	4.4	2.2	5.6	4.7	4.9	5.8	5.2
Public Investment [8.4%]	-4.7	-1.0	-0.5	-4.5	7.5	-3.8	-0.3	1.1	2.2
Exports of Goods and Services [69.0%]	5.0	0.6	0.1	-0.5	1.0	-1.3	1.3	2.5	1.3
Imports of Goods and Services [61.3%]	4.0	1.2	0.4	1.3	2.0	-2.3	0.7	2.6	2.2
<b>Overall GDP</b>	<b>6.0</b>	<b>5.0</b>	<b>4.2</b>	<b>4.2</b>	<b>4.0</b>	<b>4.3</b>	<b>4.5</b>	<b>4.0-5.0</b>	<b>4.3</b>

## GDP by Economic Sector (% YoY)

Economic Sector [% share to GDP in 2017*]	2014	2015	2016	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017b (MOF)	2017e (SERC)
Agriculture [8.0%]	2.1	1.2	-5.1	-3.8	-7.9	-6.1	-2.4	1.5	1.0
Mining & Quarrying [8.4%]	3.5	4.7	2.7	0.3	2.6	3.0	4.9	1.4	2.0
Manufacturing [22.8%]	6.2	4.9	4.4	4.5	4.1	4.2	4.8	4.1	4.2
Construction [4.7%]	11.7	8.2	7.4	7.9	8.8	7.9	5.1	8.3	8.8
Services [54.8%]	6.6	5.1	5.6	5.1	5.7	6.1	5.5	5.7	5.0
<b>Overall GDP</b>	<b>6.0</b>	<b>5.0</b>	<b>4.2</b>	<b>4.2</b>	<b>4.0</b>	<b>4.3</b>	<b>4.5</b>	<b>4.0-5.0</b>	<b>4.3</b>

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

\* % Share to GDP of 2017b by MOF

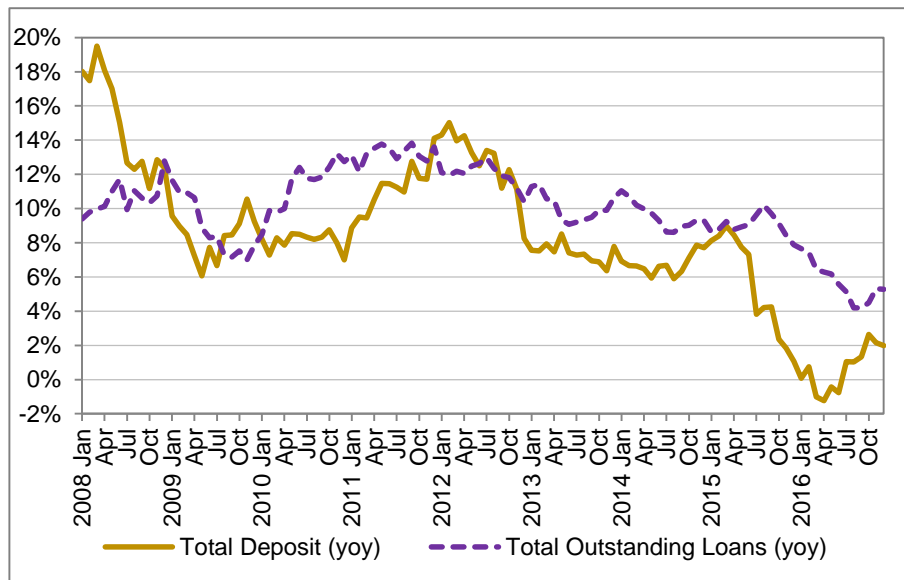
## 2017 Business sector outlook



# BANKS: SELECTIVE LENDING

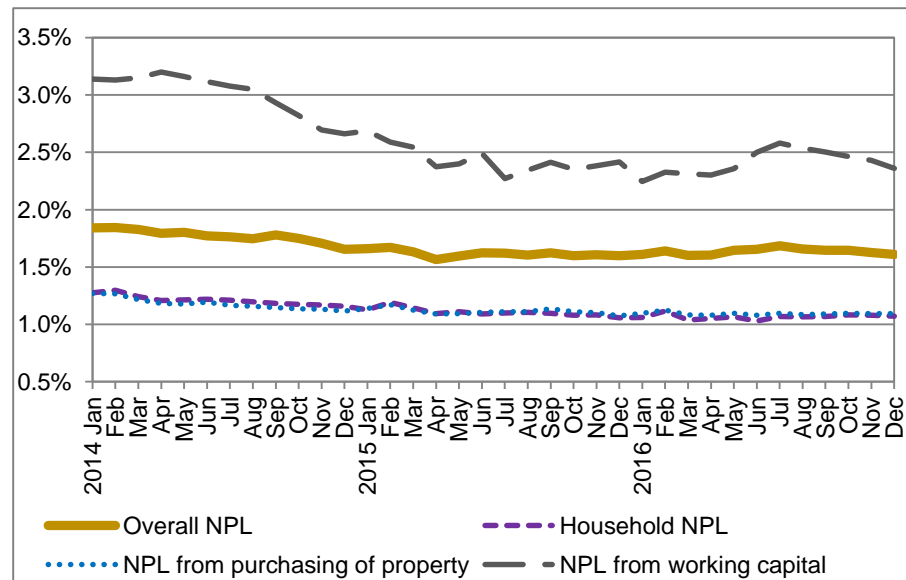
- Besides highly correlating with GDP growth, the financial services industry finds itself adjusting to the influence and disruption of innovative technology in the form of fin-tech companies
- Moderate loan growth** (estimated 5% this year vs. 5.3% in 2016) on slowing household and business loans demand
- 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

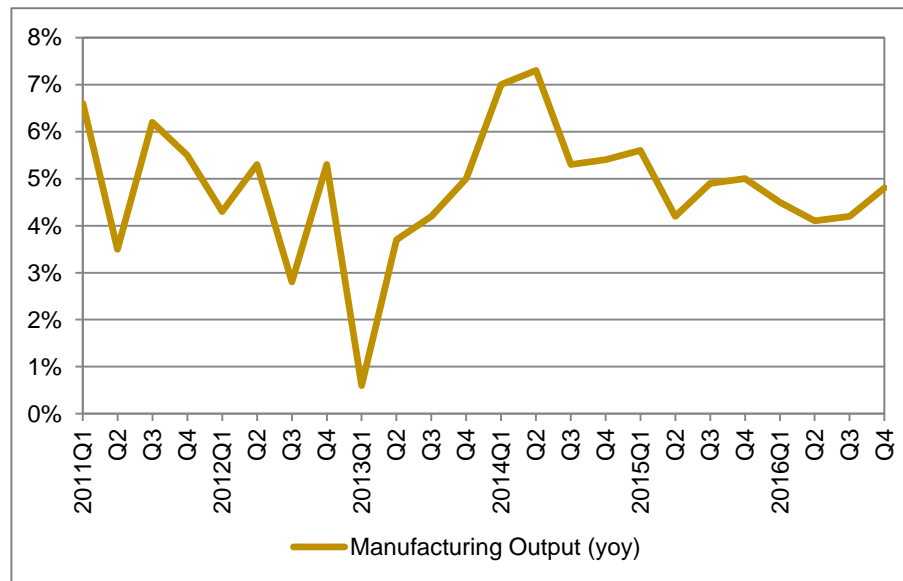
NPL remains manageable



# MANUFACTURING: STILL GROWING ALBEIT MODERATELY

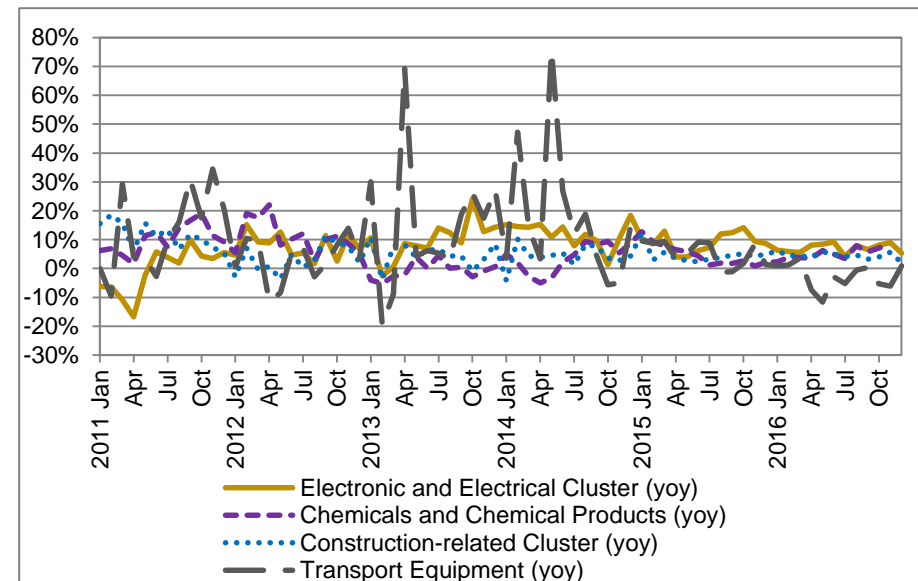
- Challenging economic environment, high cost of doing business and weak ringgit
- **Export-oriented industries** will be supported by higher output of chemical-related products as well as continued demand for electronics in tandem with recent recovery in global semiconductor sales
- Growth in the **domestic-oriented industries** will be underpinned by 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; Department of Statistics, Malaysia

## Performance of key industries

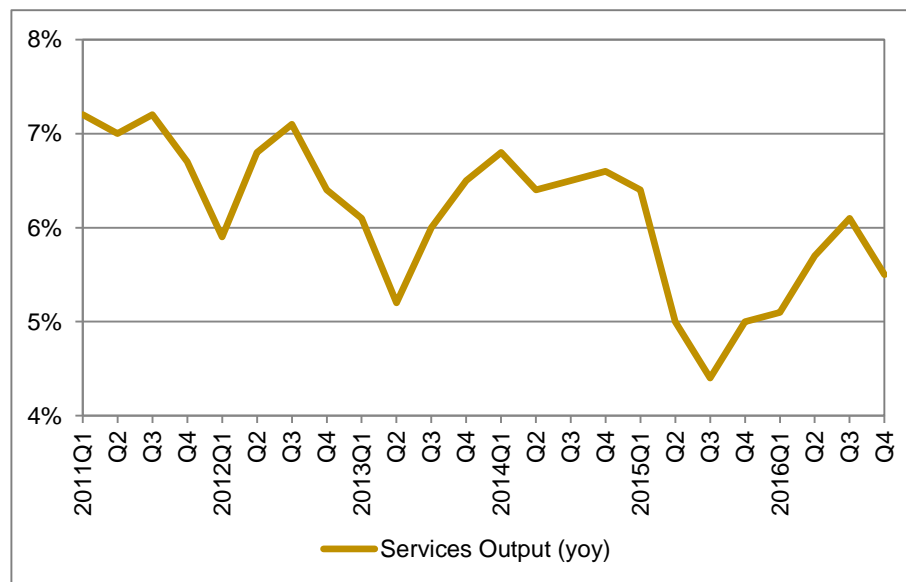




# SERVICES: DOMINANT DRIVER OF GDP GROWTH

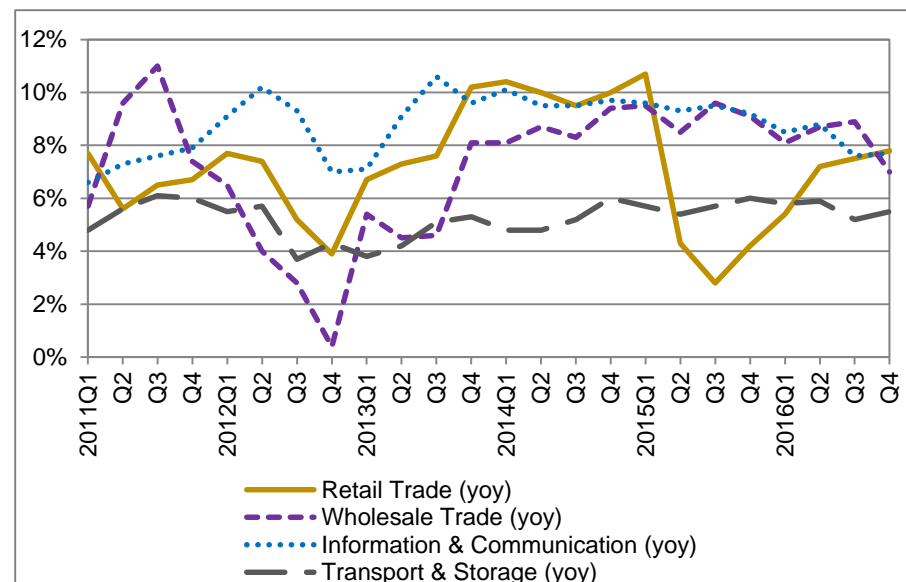
- The expansion in services sector will be driven by **domestic consumption, tourism and leisure as well as moderate trade activity**
- **Major events** are expected to **boost tourists arrival and spending**: Visiting Asean@50<sup>th</sup> anniversary; play host for the 29th South-east Asia (SEA) Games (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 transportation**

## Output growth of services sector



Source: Bank Negara Malaysia

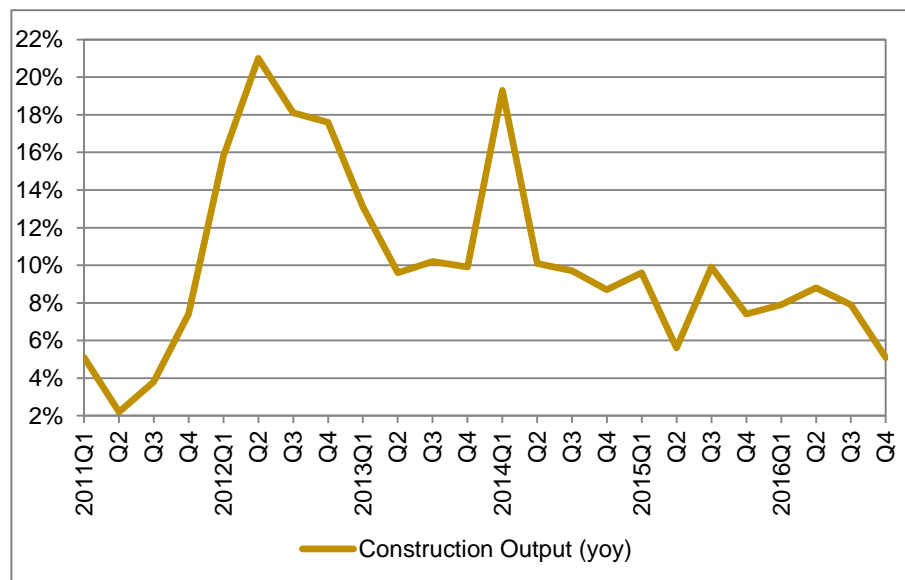
## Performance of sub services sectors



# CONSTRUCTION: PROMISING OUTLOOK

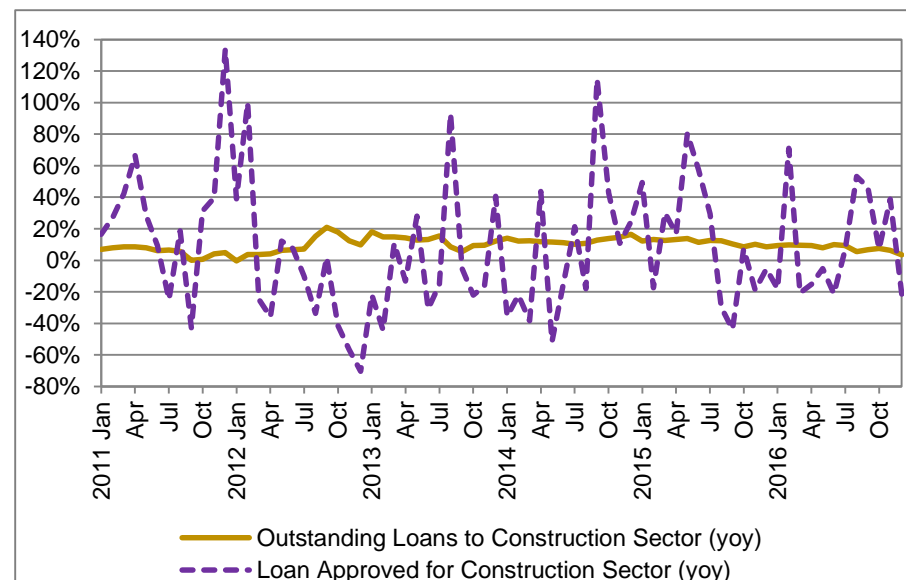
- **Public spending on transportation projects** (MRT, LRT, rail, HSR), highways (Pan Borneo Highway), ports and the public-driven affordable housing development
- **An estimated RM212bn value of construction jobs** covering on-going and new ones over the next five years. China-led contracts are potential strong catalysts
- **Positive spillovers and multiplier effects** on more than 140 sub-sectors

## Output growth of construction sector



Source: Bank Negara Malaysia

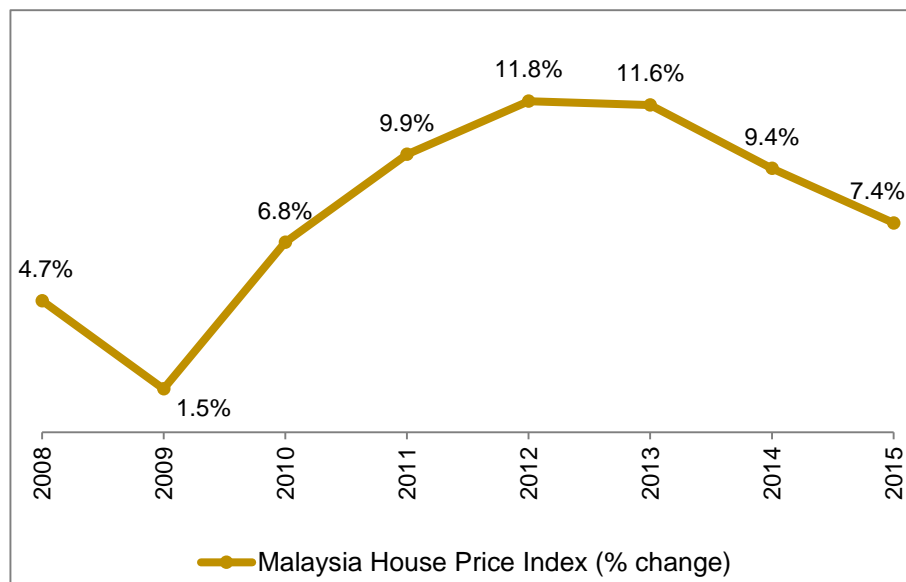
## Indicators of construction sector



# PROPERTY: FURTHER CONSOLIDATION

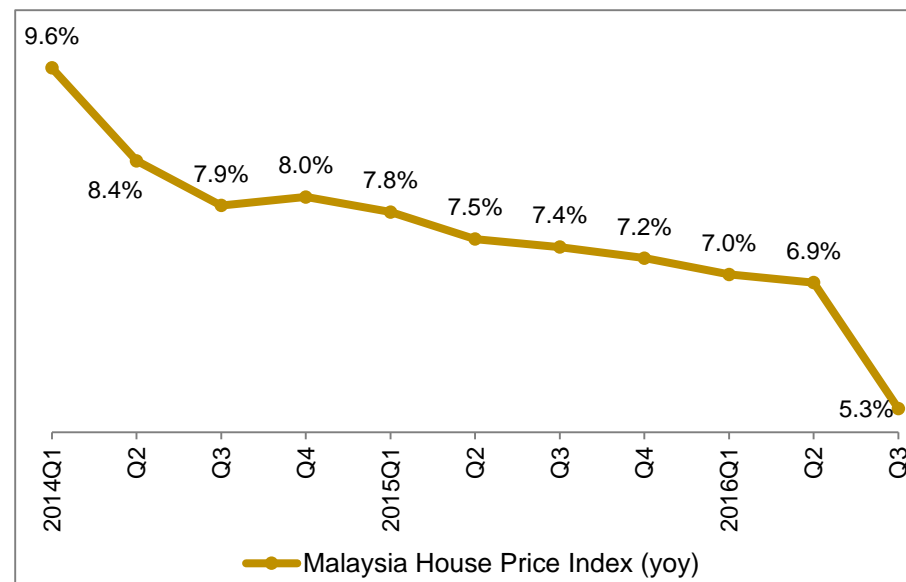
- The **property sector will remain flat this year**, continued its consolidation trend since 2013
- Cautious buyer sentiment, unexciting macro outlook, concerns over large market supply, especially for the condos segment and stringent loan requirements had affected demand
- Mass market housing, focusing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

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



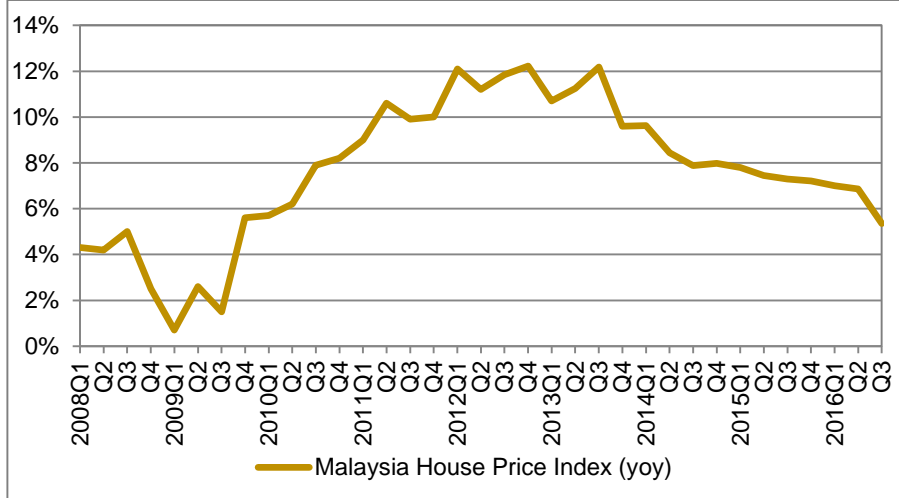
Source: Bank Negara Malaysia

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

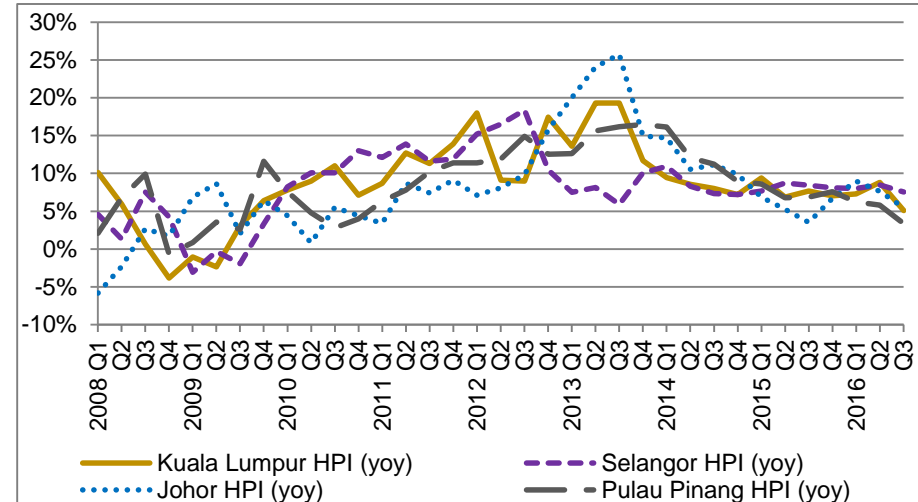


# PROPERTY SECTOR INDICATORS AT A GLANCE

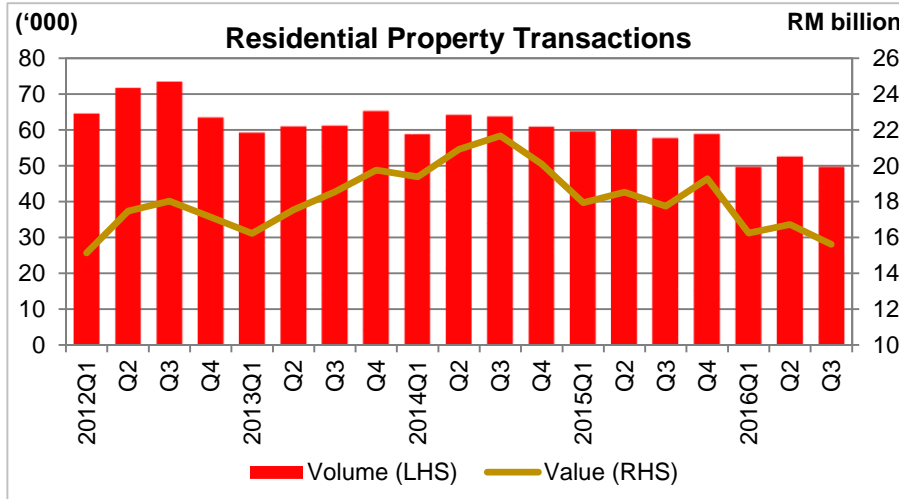
## Property prices moderated in recent quarters since 2013



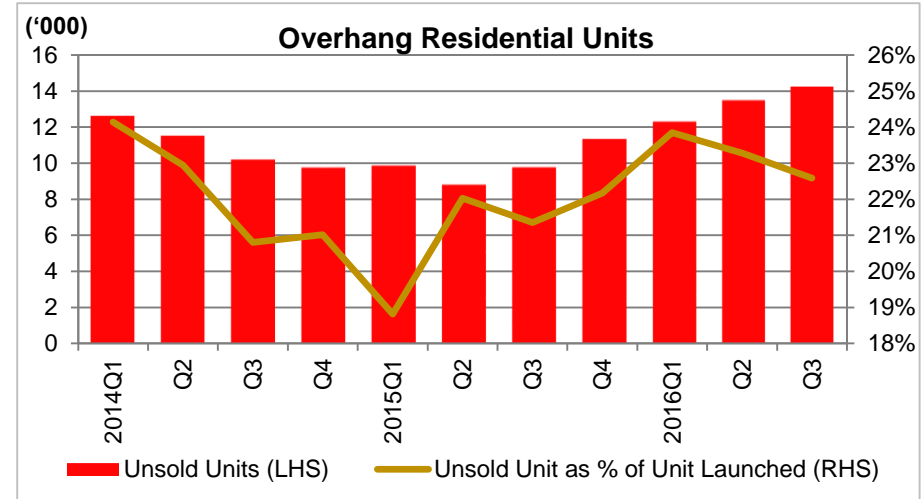
## All major cities are facing similar trend



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



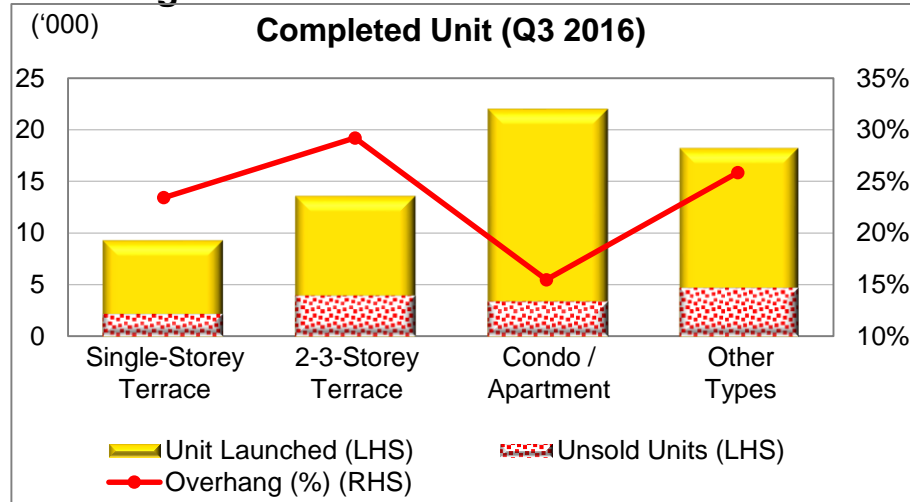
## Overhang and unsold units show a gradual decline



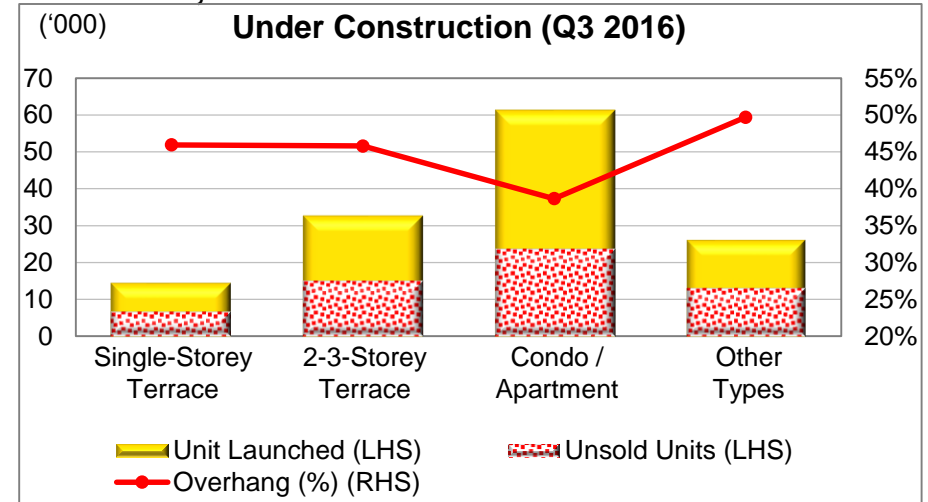
Source: Bank Negara Malaysia; NAPIC

# OVERHANG & UNSOLD UNITS IN THE PROPERTY MARKET

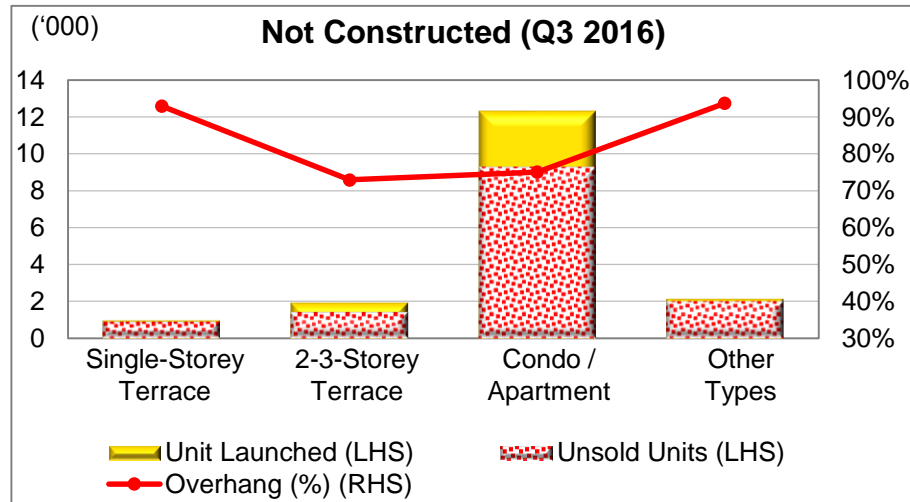
Overall, 22.6% of completed residential units still overhang



A total of 58,300 units under construction unsold out of 134,553 units launched



Unsold not constructed units



The new special step-up end-financing scheme grants homebuyers to access larger loan amount

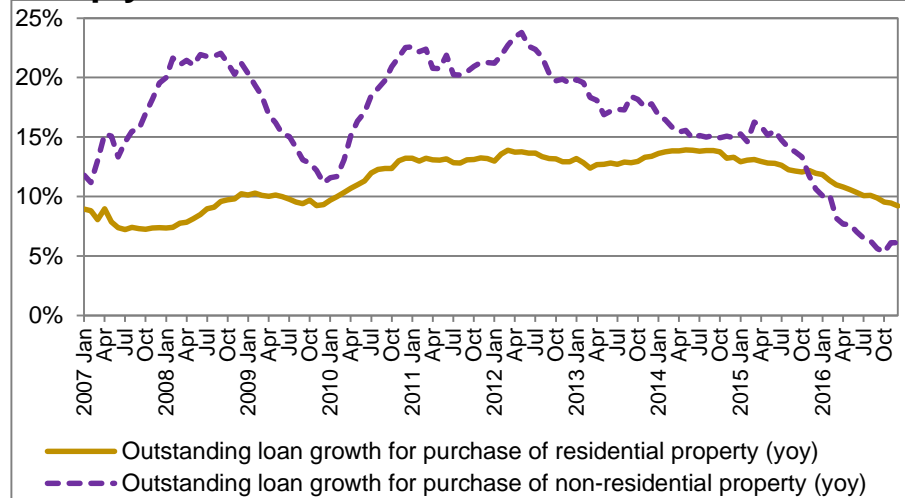
Selected Public Housing Scheme	Approved Units	Completed	Under Construction	Plan-to-build in Budget 2017
PR1MA	260,188	4,500	132,352	30,000
People Housing Programme (PPR)	102,896	80,252	14,892	9,850
<i>For Rental</i>	75,805	72,479	3,326	
<i>For Ownership</i>	27,091	7,773	11,566	
People's Friendly Home (PMR)	46,740	37,277	7,689	5,000

Note: PR1MA & PMR as at January 2017; PPR as at Q3 2016

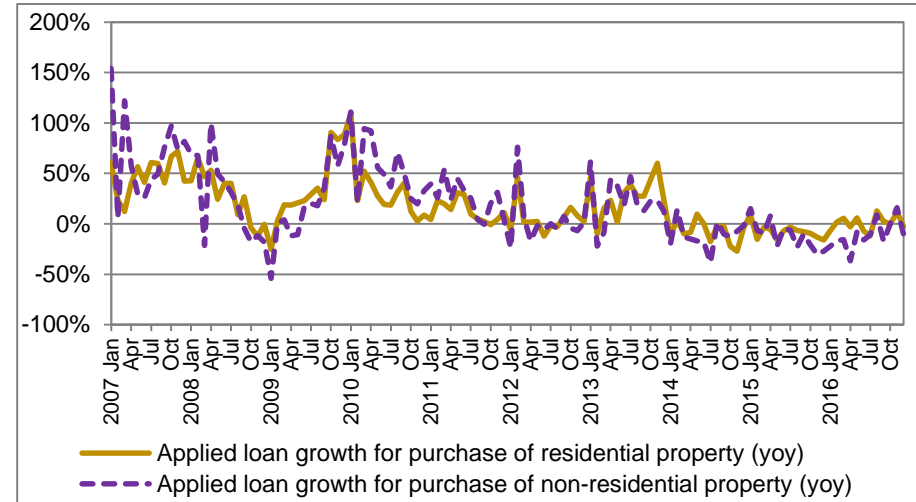
Source: NAPIC; PR1MA; KPKT; SPNB; Utusan Malaysia

# PROPERTY LOAN INDICATORS AT A GLANCE

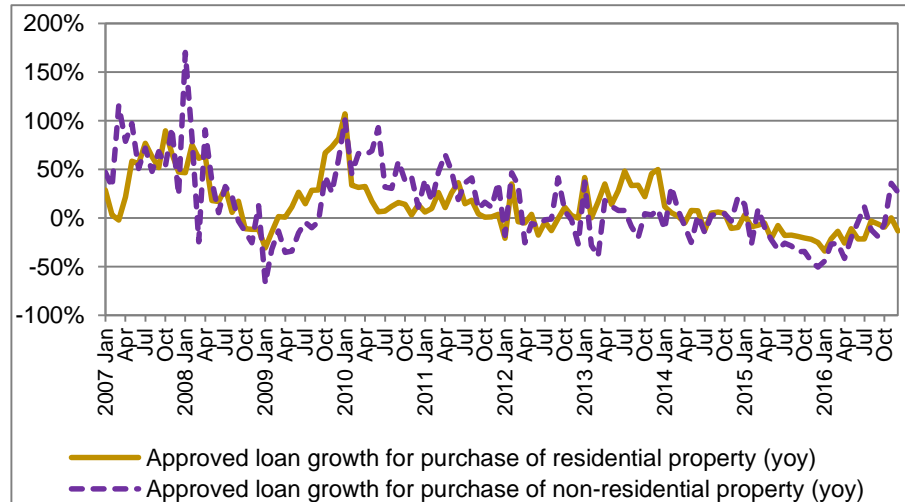
## Non-residential property loans growth dropped sharply since 2012



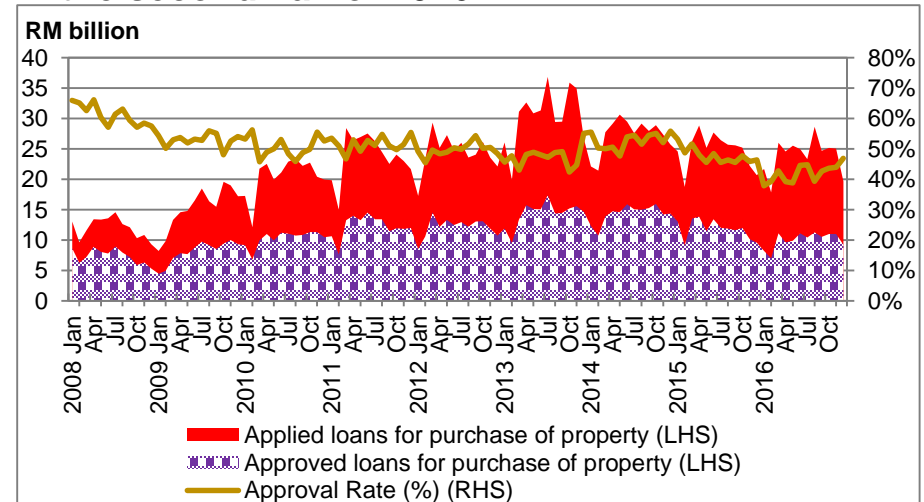
## Loan applications growth still trending down



## Approved loan growth improved in recent months



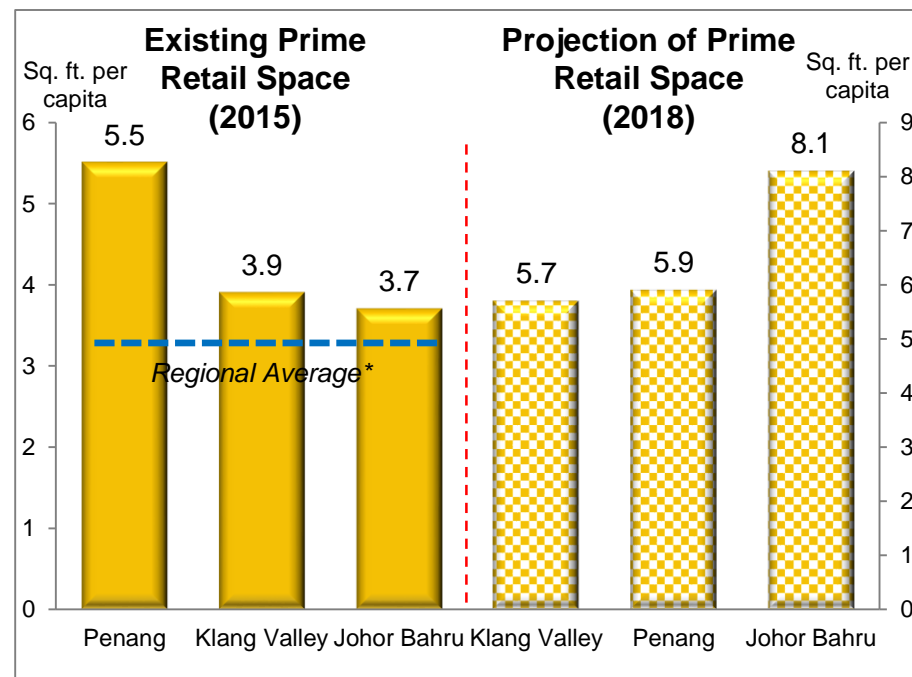
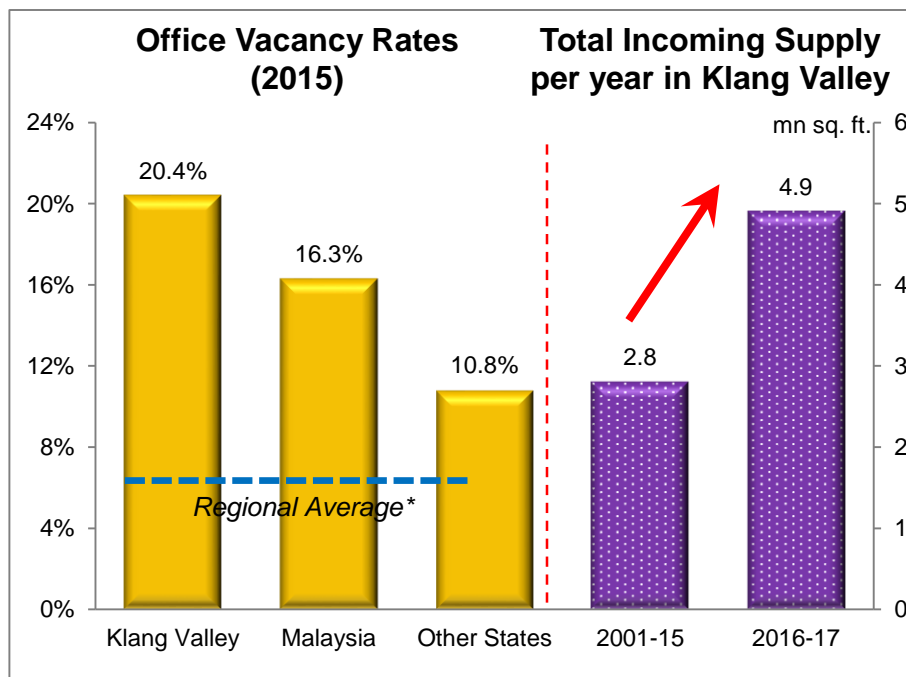
## Approval rate for purchase of property improved in the second half of 2016



Source: Bank Negara Malaysia

# OVERSUPPLY OF COMMERCIAL PROPERTIES

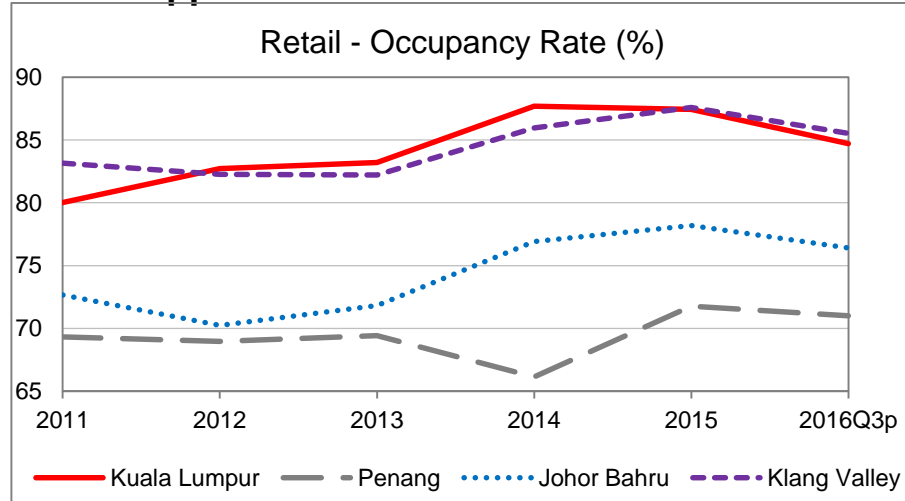
- Potential **negative spillover impact** on other sectors
- The **imbalances in office space and retail sub-sectors** will persist
- **Significant increases in the supply of office space** have begun to **put pressure on occupancy rates**
- **Shopping centre owners not able to recoup high operating costs** by increasing their rental rates due to weaker retail environment



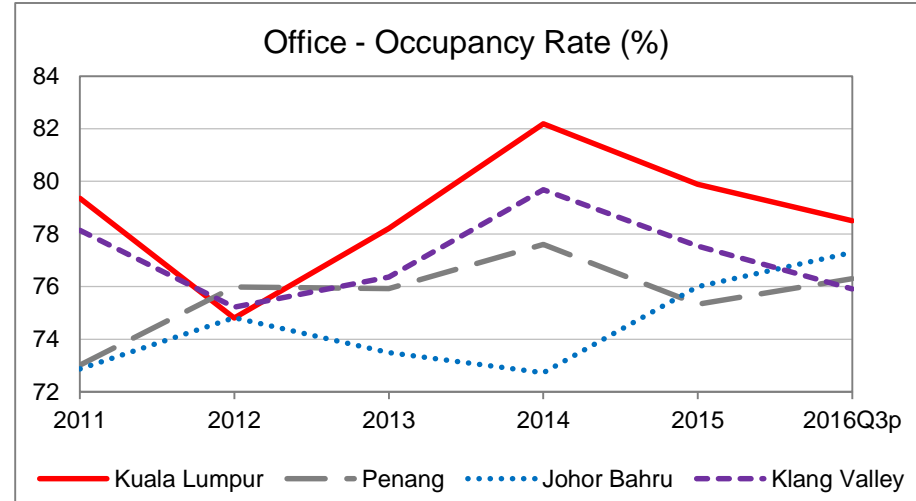
\* For office and retail space, regional average refers to the simple average of Shanghai, Jakarta, Bangkok, Hong Kong and Singapore as of 2Q 2015  
 Source: Bank Negara Malaysia, NAPIC

# RETAIL & OFFICE SPACE INDICATORS AT A GLANCE

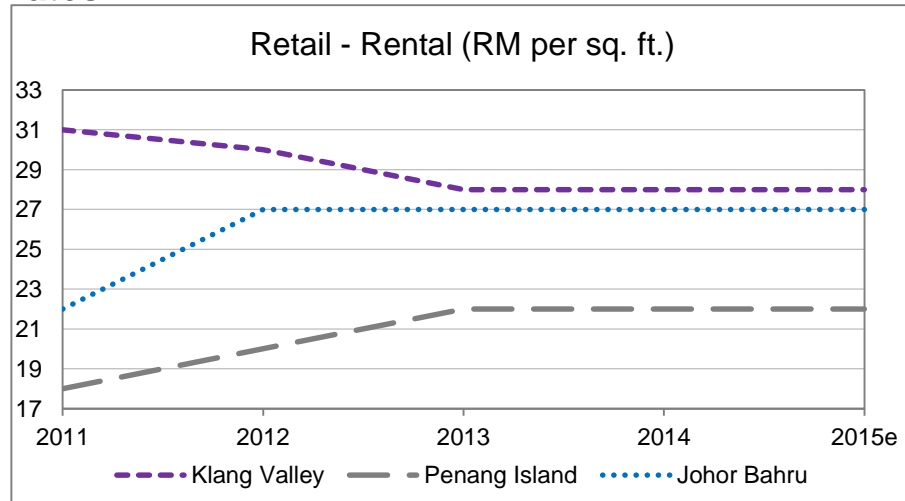
The average occupancy rate of shopping centres have dropped...



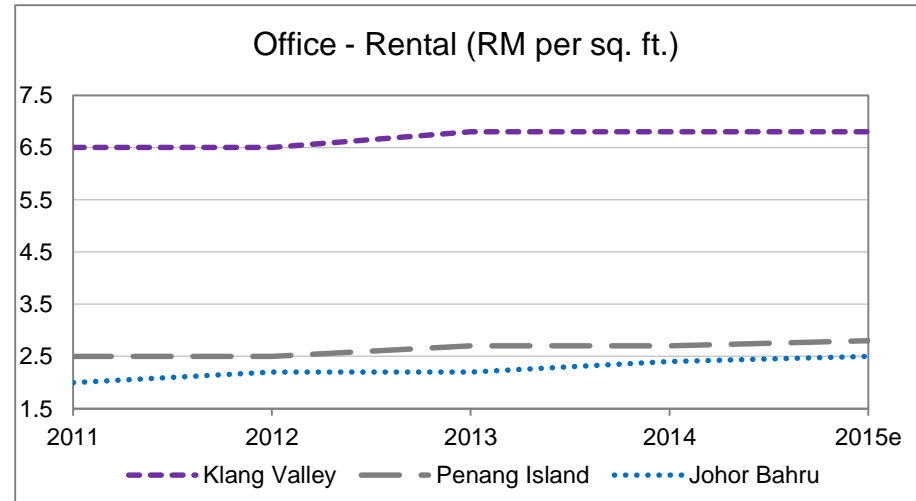
... the same for office space



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



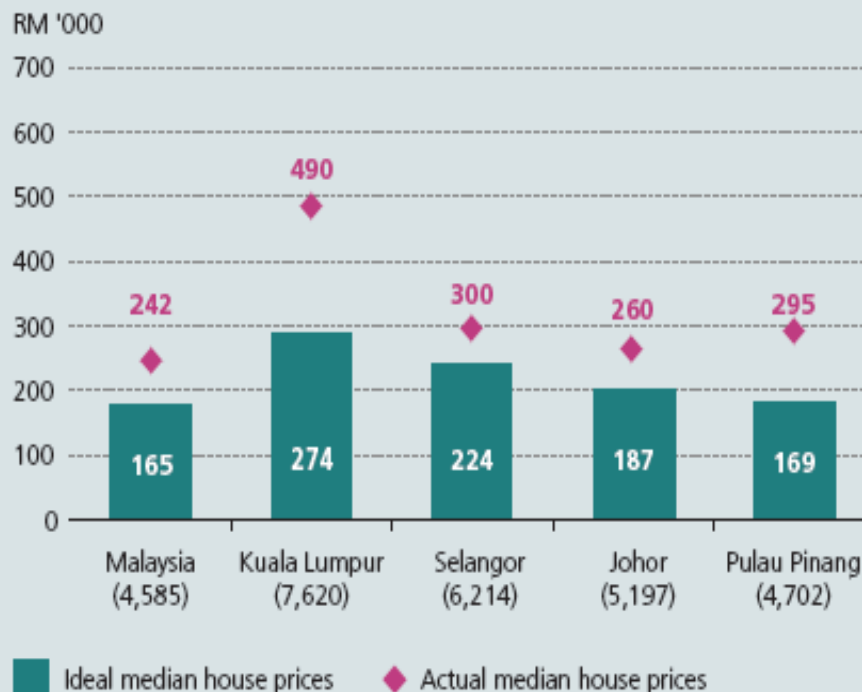
# HOUSING AFFORDABILITY

- A substantial increase in the supply of affordable housing is necessary
- An estimated 202,571 new houses will be required annually between 2016-2020, which is 2.5 times the number of houses built annually in the last five years

House Prices are Severely Unaffordable in Kuala Lumpur and Pulau Pinang

Location	House Price-to-Income Ratio		Rating	House Price-to-Income Ratio
	2012	2014		
Kuala Lumpur	4.9	5.4	Severely Unaffordable	5.1 & Above
Pulau Pinang	4.1	5.2		
Johor	3.7	4.2	Seriously Unaffordable	4.1 to 5.0
Selangor	3.6	4.0	Moderately Unaffordable	3.1 to 4.0
Malaysia	4.0	4.4	Affordable	3.0 & Below

House Prices in Key States are beyond the Reach of Most Malaysians in 2014...



Source: Department of Statistics, Malaysia Household Income and Basic Amenities Survey Reports, National Property Information Centre and 12th Annual Demographia International Housing Affordability Survey 2016

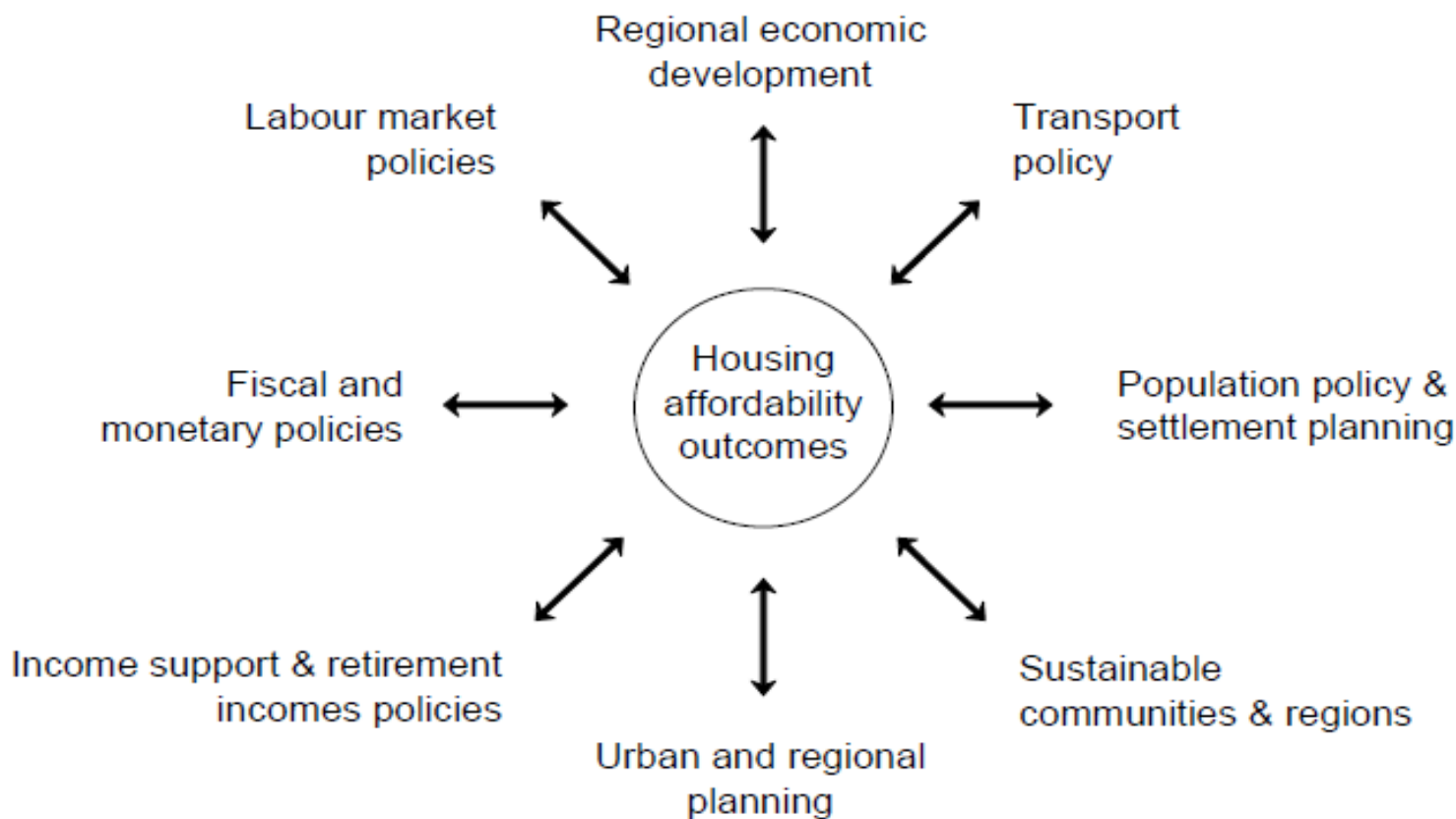
Source: Bank Negara Malaysia

# WHAT NEEDS TO BE DONE?

- Housing affordability is a large and structural problem
- Causes of affordability problems are complex and diverse
- **Addressing affordability problems** require a broad variety of strategies to:
  - improve the efficiency of housing markets
  - cut the cost of infrastructure to go with housing
  - release more land and relaxing regulations
  - plan where to put more houses
  - increase supplies of affordable housing
  - respond to housing-related financial pressures on individual households
  - promote innovative housing finance options

# MACRO DRIVERS OF HOUSING AFFORDABILITY OUTCOMES

Well-coordinated action and cooperation by spheres of government, agencies and private sector. Policy responses and housing policies need to be developed and implemented cohesively.



# ADDRESSING HOME FINANCING (MORTGAGE LOAN)

- Home financing is not an issue as long as the borrower is eligible and passes the mortgage affordability tests
- Home lending practice must not compromise on the credit-worthiness of borrowers and their financial capacity to service the loans given the high household debt
- Relaxation of home lending practices may contribute to the growth of heavily indebted marginal home buyers with greater vulnerability to housing stress
- To promote home ownership among the bottom 40% and middle 40% households, this requires not only commitment from the Government but also the support of the private sector
- To target any subsidies that are provided to the target groups in proportion to need. To give priority of assistance to those most in need

# Q & A



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

**谢谢**  
**THANK YOU**

**Address : 6<sup>th</sup> Floor, Wisma Chinese Chamber,  
258, Jalan Ampang, 50450 Kuala Lumpur, Malaysia.**

**Tel : 603 - 4260 3116 / 3119**

**Fax : 603 - 4260 3118**

**Email : [serc@accimserc.com](mailto:serc@accimserc.com)**

**Website : <http://www.accimserc.com>**

