社会经济研究中心

SOCIO-ECONOMIC RESEARCH CENTRE

REHDA INSTITUTE CEO SERIES 2019

2020 – Year of Inflection

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Executive Director
19 November 2019

What awaits in 2020 and Beyond?

CONTINUED TURBULENT GLOBAL ECONOMY ?

MALAYSIA SURVIVING ECONOMIC HEADWINDS

THE POSITIVES AND NEGATIVES; CAPTURING OPPORTUNITIES

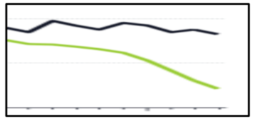
Section 1

The World Economy

A synchronized slowdown amid global recession fears

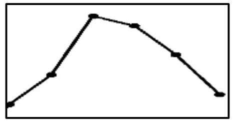
"Weak" – These economic indicators are flashing RED

- **THE US AND CHINA ECONOMY** are slowing



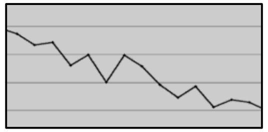
- **EASING global growth momentum. OECD Leading index** on a **downward trend since Feb 2018**

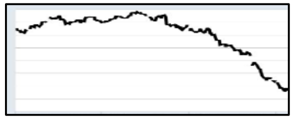
- **WORLD TRADE CONTRACTION for 3 consecutive months** since June 2019



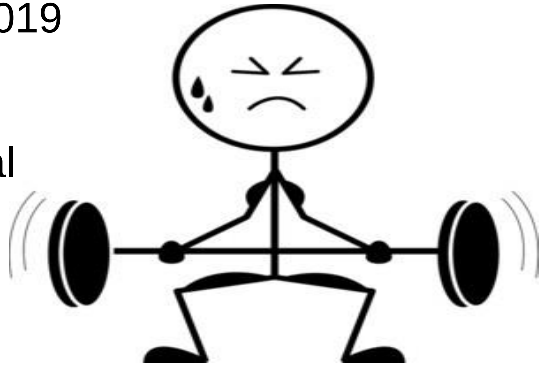
- **MANUFACTURING CONTRACTION for 6 months** in a row since May 2019

- **SERVICES GROWTH** on a weakening mode

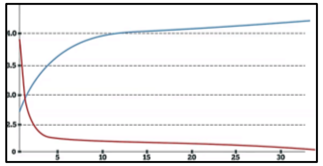




- **GLOBAL SEMICONDUCTOR SALES DOUBLE-DIGIT DECLINE** for eight months since Feb 2019



- **THE INVERTED YIELD CURVE** (short-term bonds deliver a higher yield) may be back to normal but the US economy is still not in the clear



Waiting for the inflection points

The upcoming **2020 U.S. Presidential election**.

The **heightened risks surrounding the trade war**. A return to Trump's favorite maximum pressure tactics, or a refusal by Xi to make meaningful concessions, would reignite global recession fears.

The **damage to business confidence**, **global supply chains** and **global trade** already have been done, and could worsen if there's no trade deal is reached and deepens.

The **alternative scenario: A trade-war retreat**, **coordinated global central banks' monetary easing and QE** and **China's massive policy stimulus** set the scene for stronger global growth in early 2020.

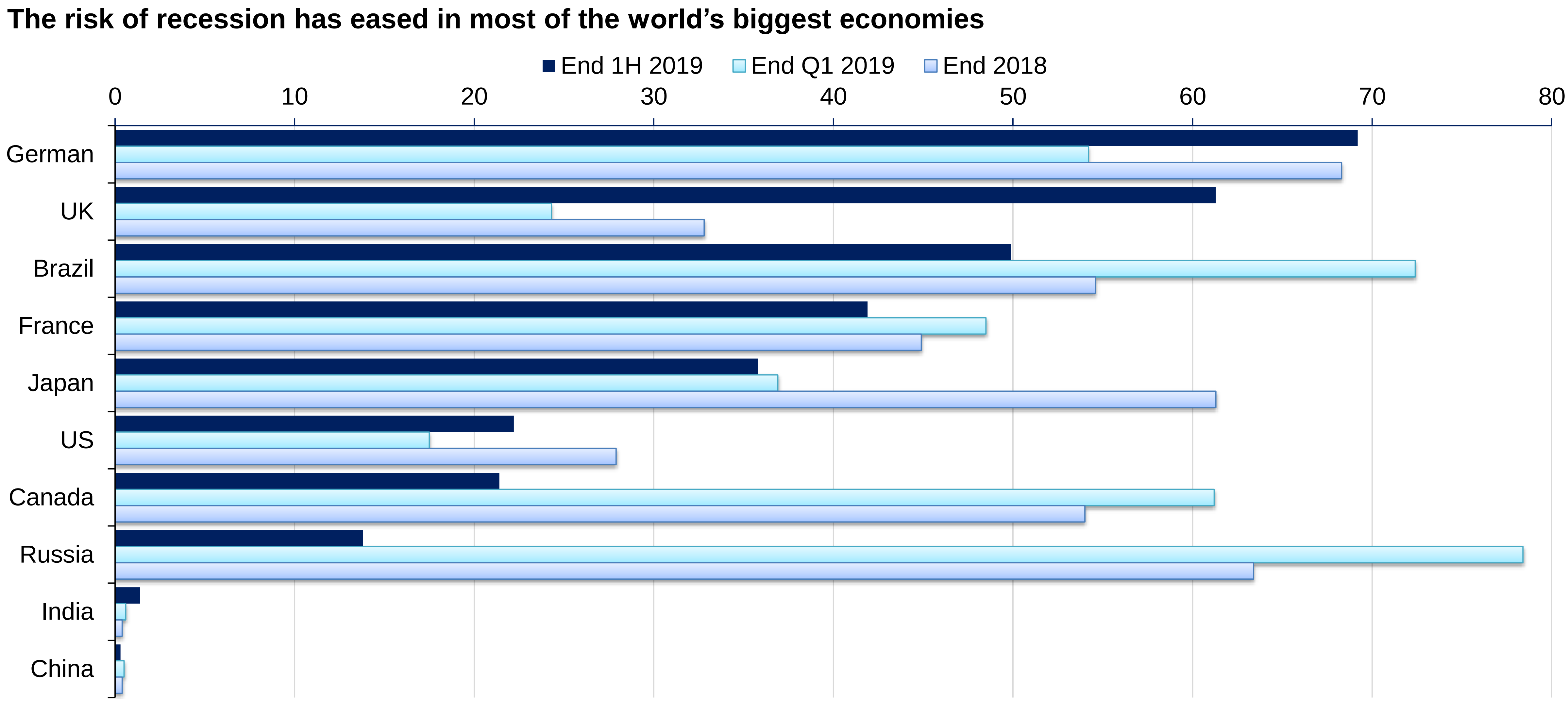
The **downside risks: Low or negative interest rates failed to work; limited fiscal space; geopolitical tensions;** and **volatility in commodity prices**.

CAUTION IS STILL WARRANTED AS WE MOVE INTO 2020

Global growth scenarios for 2020

 Scenario	Event	 Probability	 Projected Global GDP growth
Upside 	Global stabilisation or acceleration Policy stimulus is working	15%	3.5%
Base Case 	Continued global slowdown Continued trade tensions; financial turbulence; geopolitical risks	55%	3.2%
Downside 	Sharp global slowdown Policy stimulus fails to stem economic slowdown	35%	2.8%

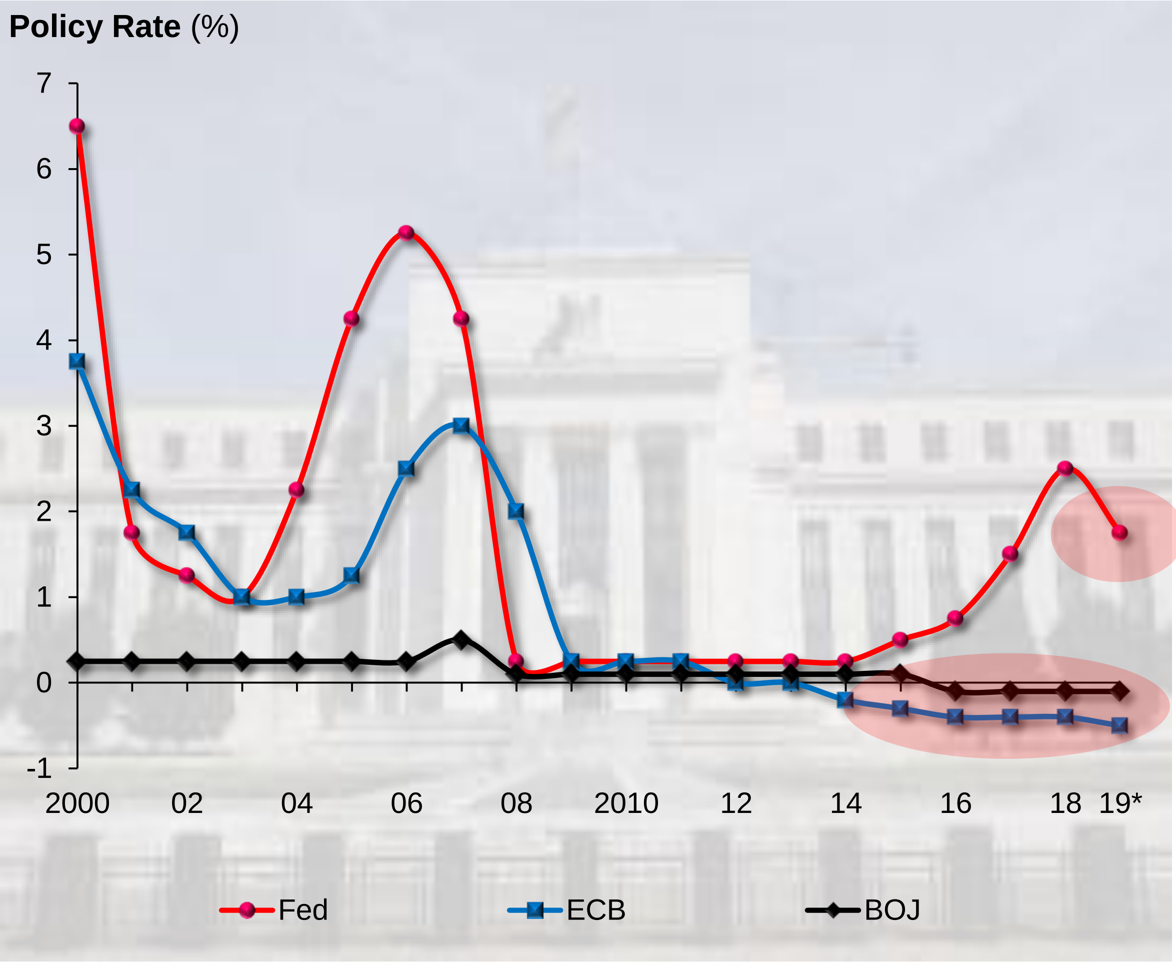
Recession risk eases

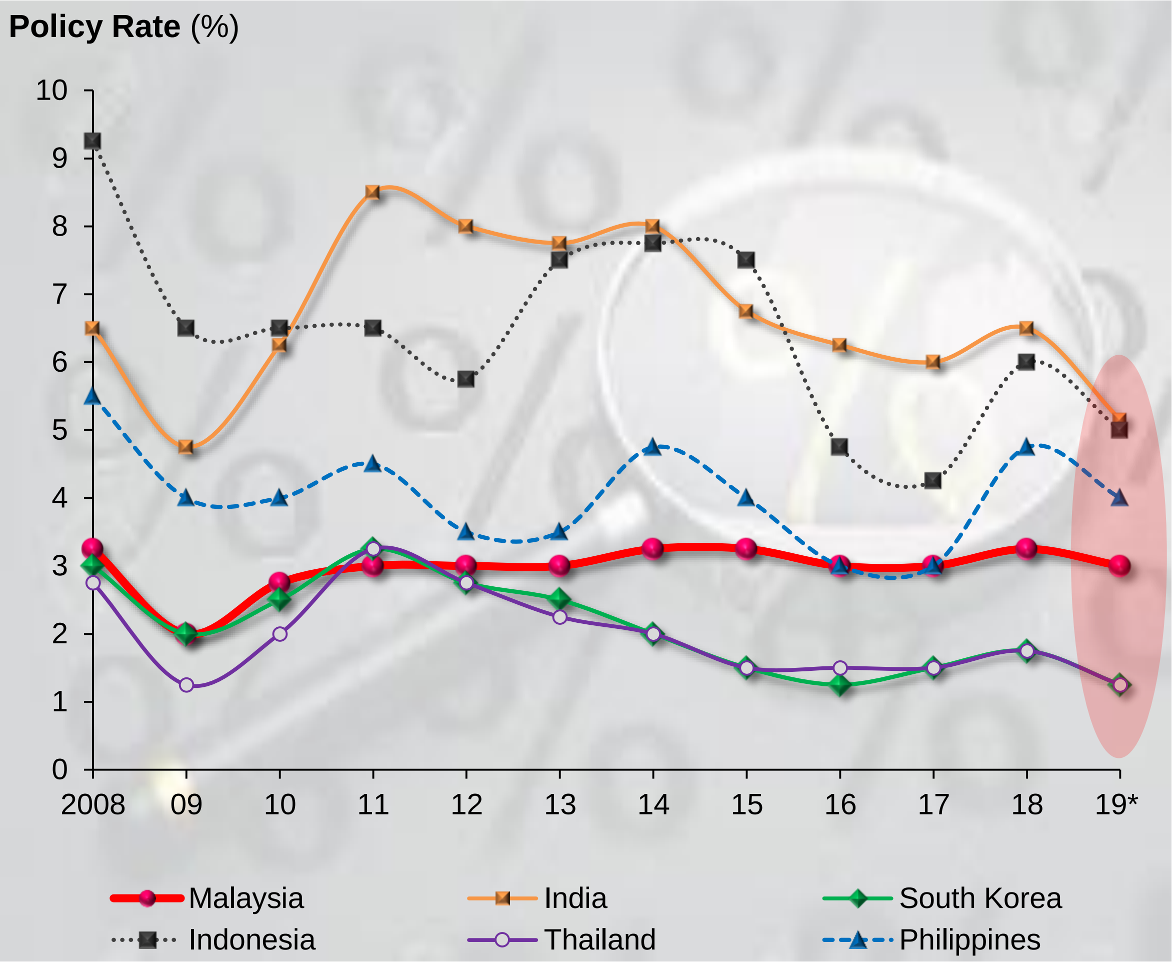


Source: Bloomberg surveys, median probability of a recession in the next 12 months

Global central banks race interest rate to bottom

- **Low or negative interest rate** is a new normal again?



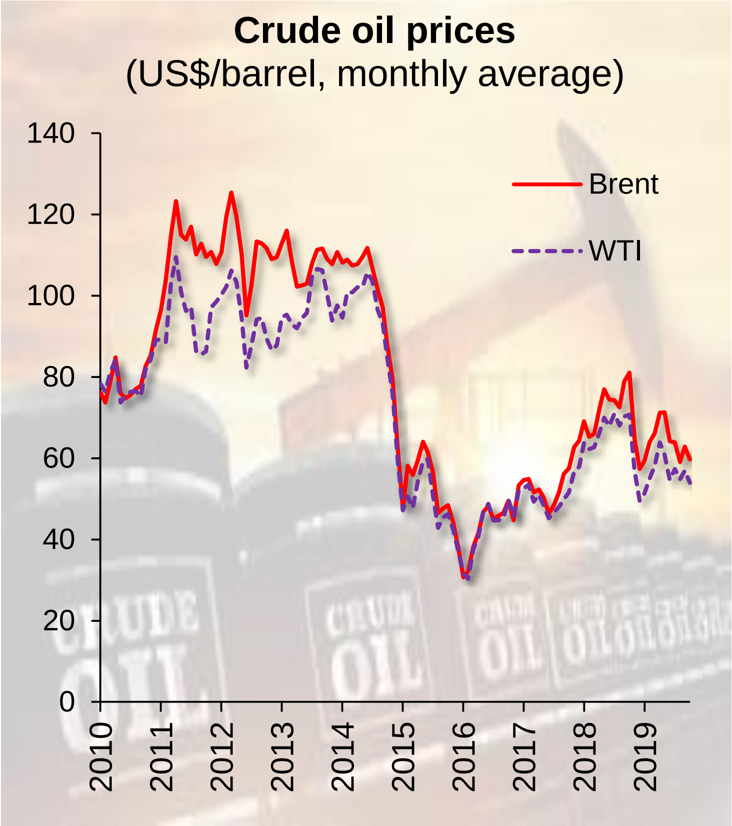


Note: Interest rate on deposit facility applied as ECB's policy rate
** As at 14 Nov 2019*
Source: Fed; ECB; BOJ, Official central banks

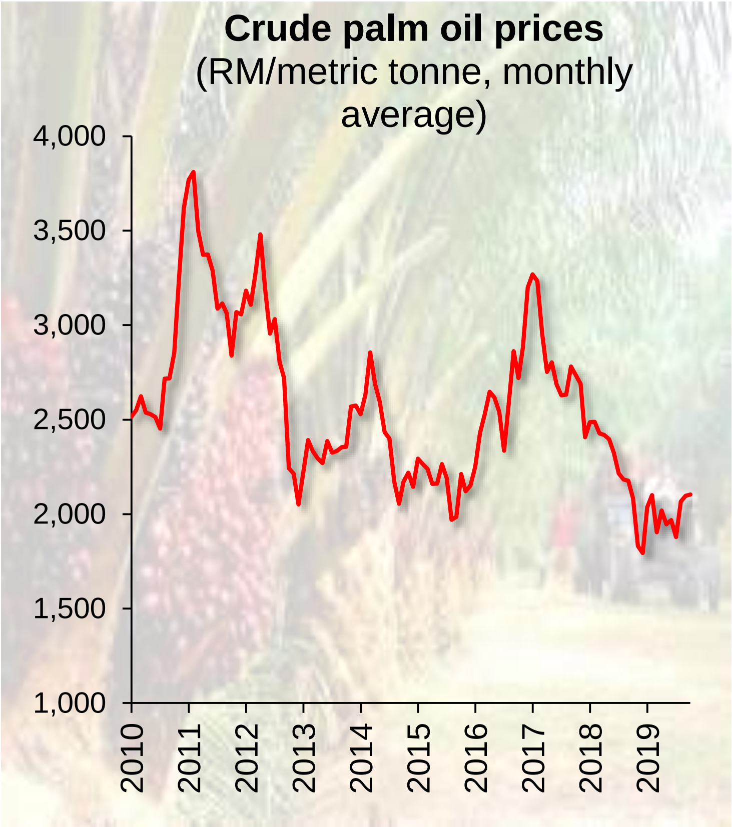
Gold a safe haven (a six-year high); Volatile commodity prices

Gold prices rise on strong demand and falling long-term real interest rate

Volatile crude oil prices: Global growth concerns; Supply cut continues; the US-Iran tensions

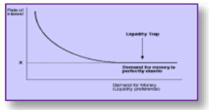


CPO prices yet to recover strongly amid a reduction in inventory



Source: World Bank; EIA; MPOB

Do Governments have policy tools to avert a financial crisis or global recession? A severe enough shock could usher in a global recession, even if central banks respond rapidly.



Policy tools are limited. Interest rates are very low and it gives the central banks very limited room to cut interest rates.

- Today, the **Fed** is starting with a benchmark policy rate of 2.25%-2.50% (1.50%-1.75% currently) compared to 5.25% in September 2007.
- In **Euro Area and Japan**, central banks are already in negative-rate territory, and will face limits on how much further below the zero bound they can go.

Printing money (**Quantitative easing** (QE))? With bloated balance sheets from successive rounds of QE, central banks would face similar constraints if they were to return to large-scale asset purchases.

There's so much divide across the political spectrum, it may be difficult to put together a strong enough **government spending fiscal response**.

On the fiscal side, most advanced economies have **even higher deficits and more public debt** today than before the 2008-09 GFC, leaving little room for stimulus spending.

Section 2

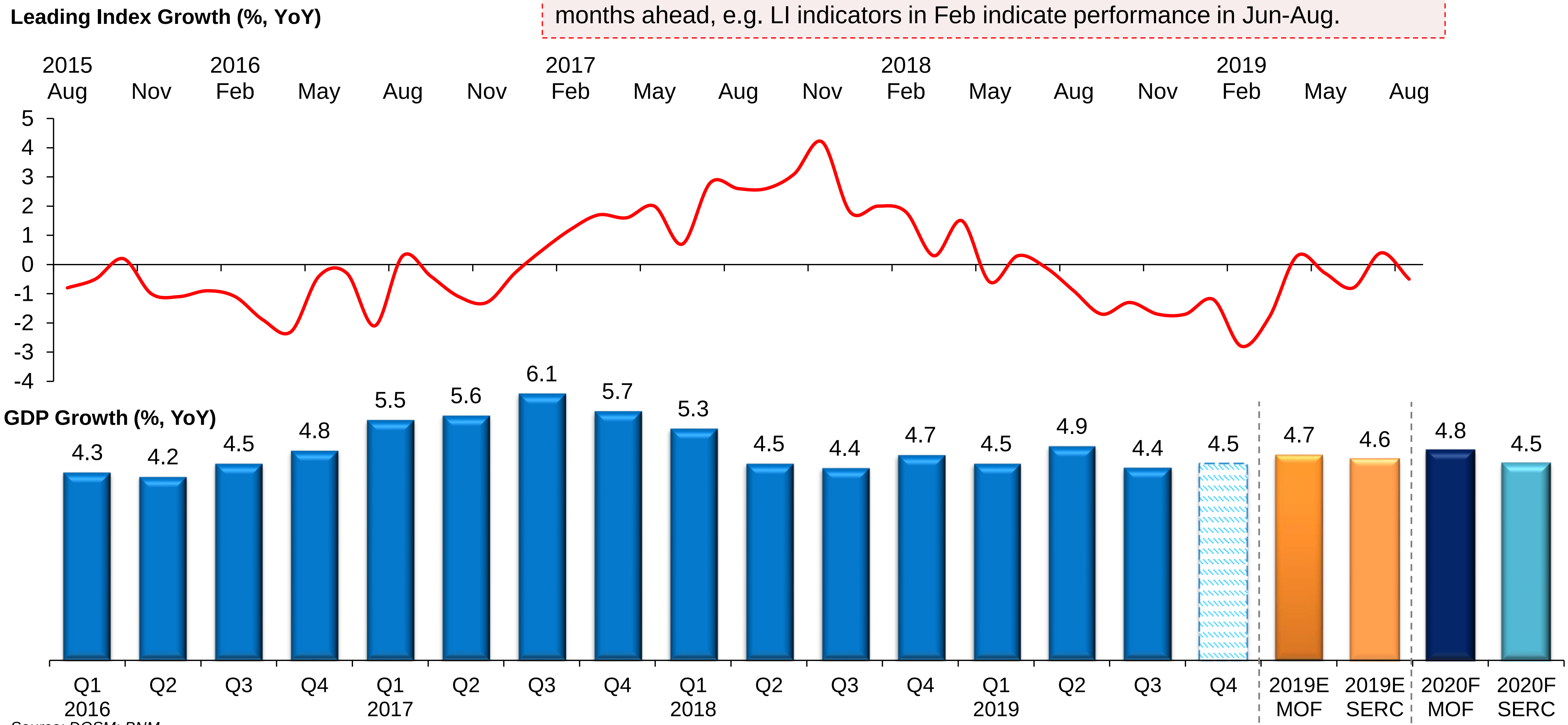
The Malaysian Economy

A priority for action,

now more than ever

Malaysia's leading index indicates softening economic growth ahead

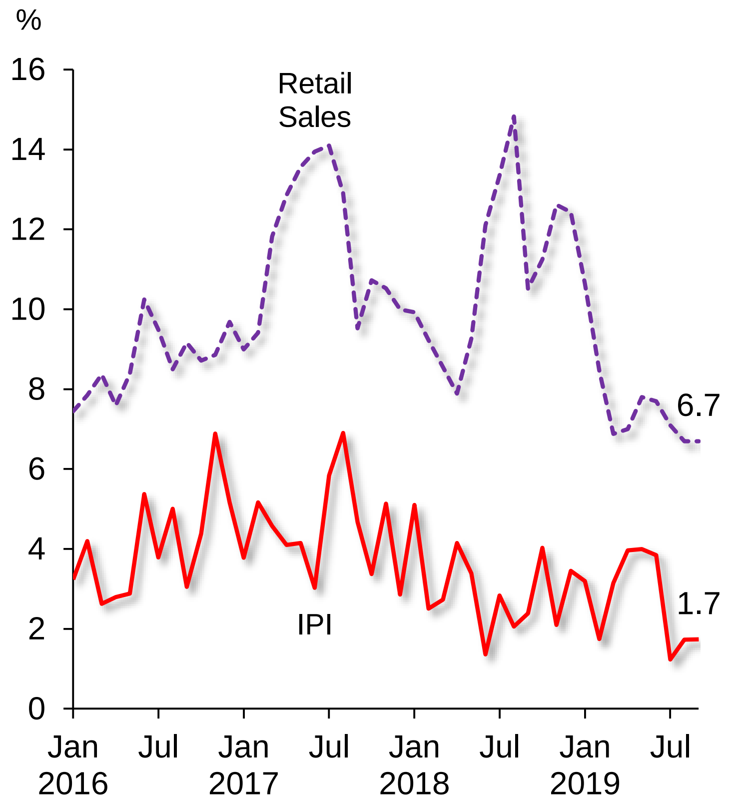
The Leading Index (LI) indicators anticipate overall economic activity in four to six months ahead, e.g. LI indicators in Feb indicate performance in Jun-Aug.



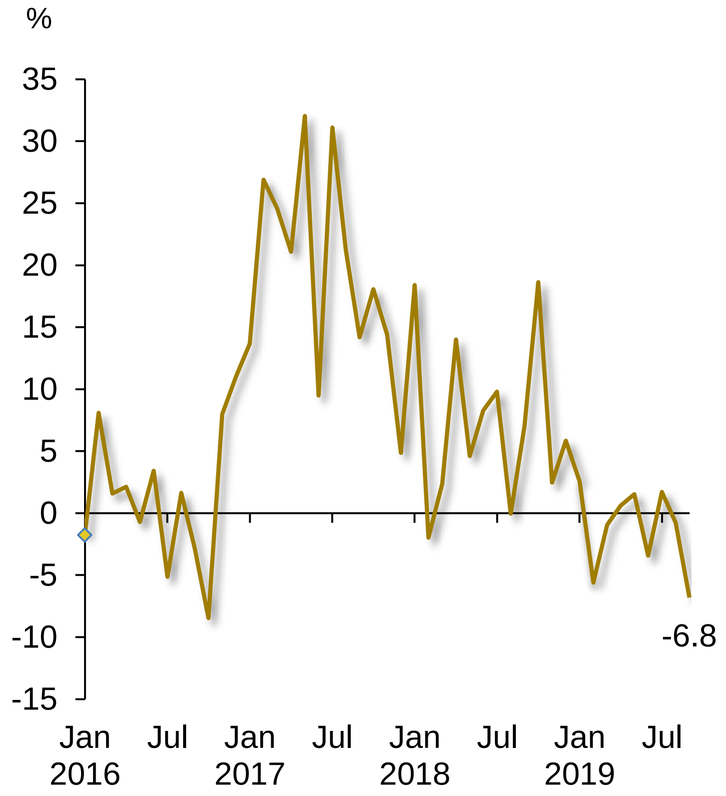
Source: DOSM; BNM

High frequency indicators suggest continued expansion; albeit slower

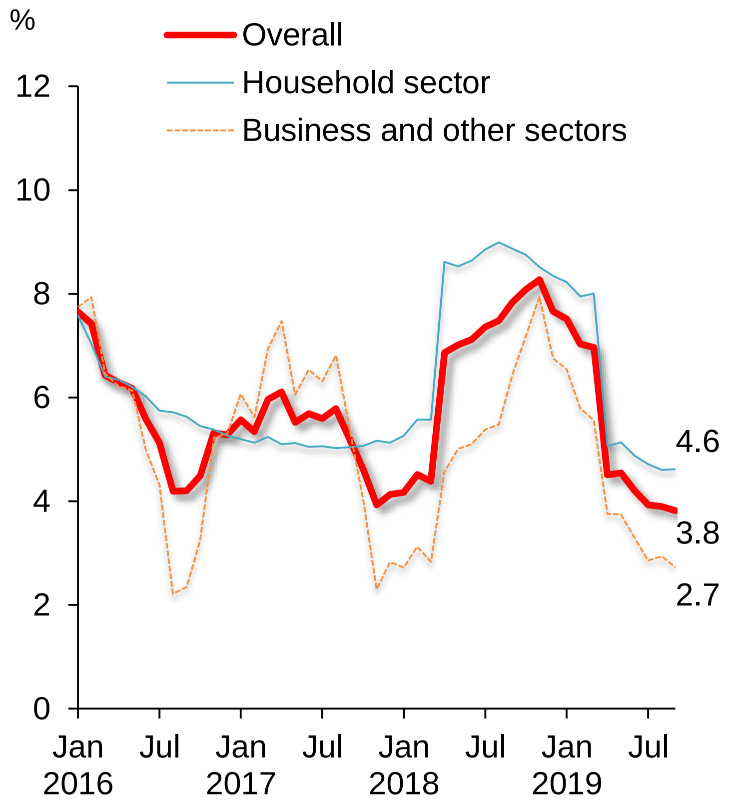
IPI moderate growth; retail sales growth slowed significantly



Exports declined by 1.1% yoy in first nine months of 2019



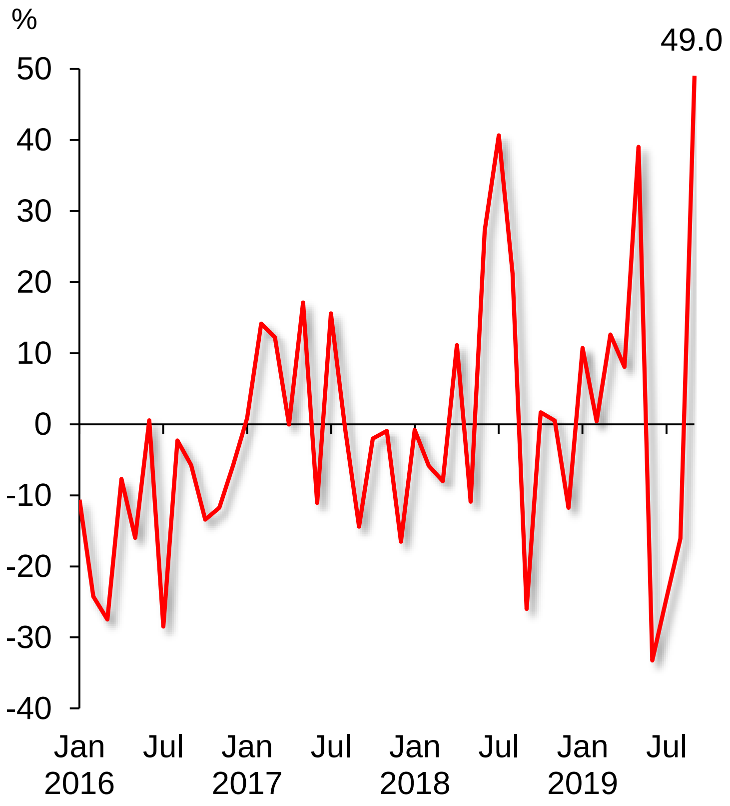
Overall loan growth continued to moderate



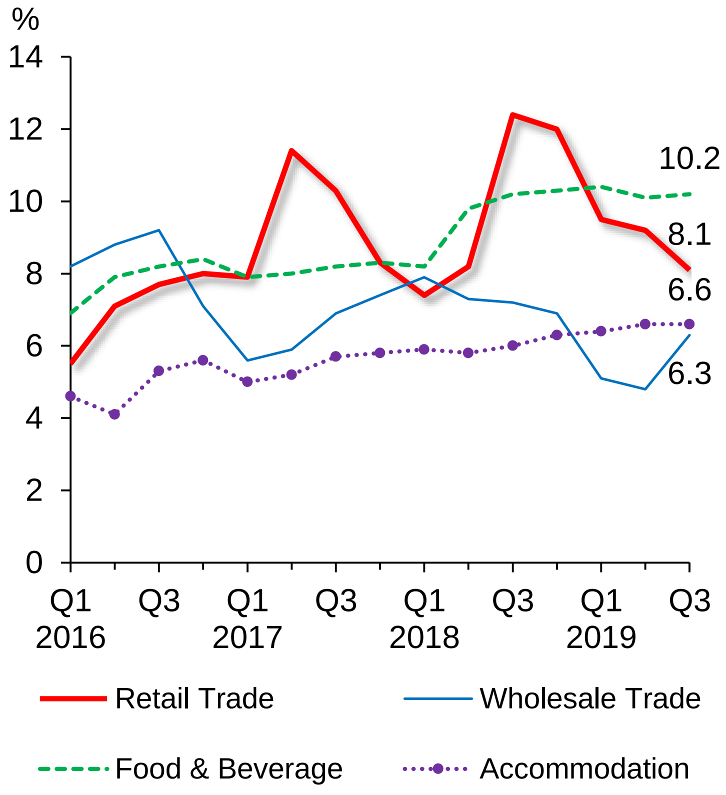
Note: Loan data for April 2018 onwards have been revised to include MBSB Bank Berhad.
Source: DOSM; BNM

Private consumption indicators

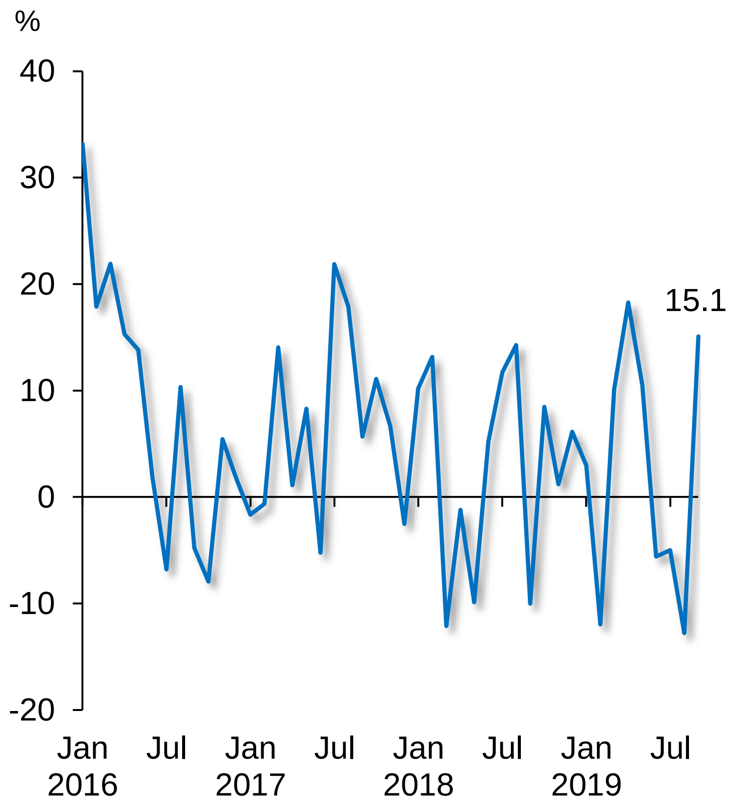
Passenger car sales have declined in Jun-Aug due to high base (zero-rated GST) last year. It surged in Sep on low base



Growth of wholesale, retail, restaurant and hotels



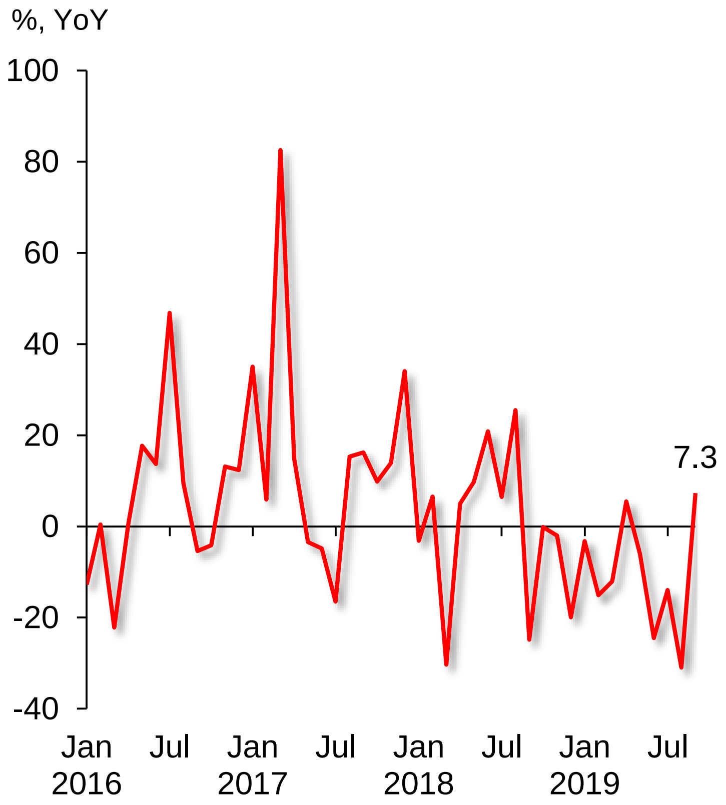
Imports of consumption goods



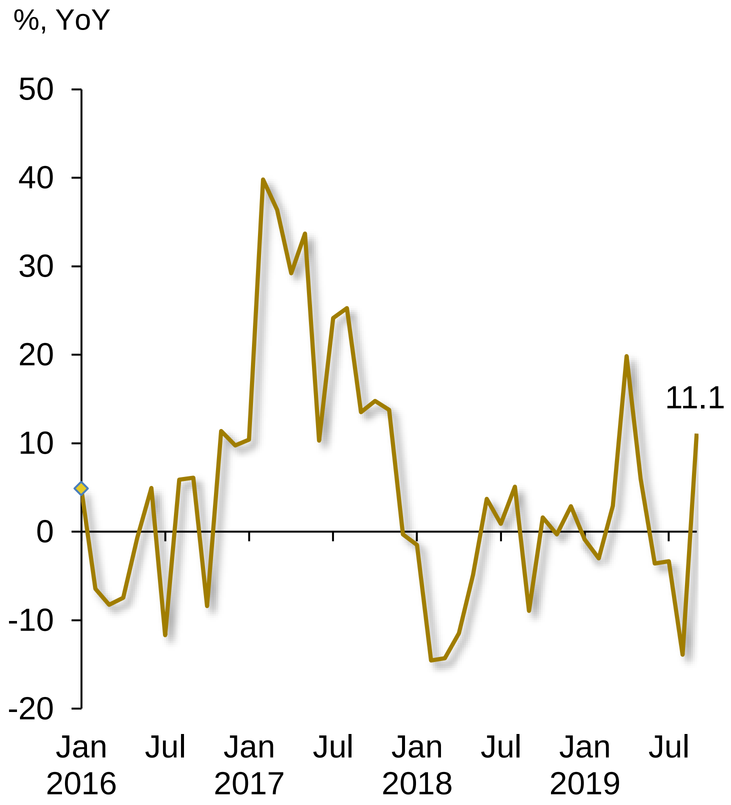
Note: Loan data for April 2018 onwards have been revised to include MBSB Bank Berhad.
Source: DOSM; BNM

Private investment indicators

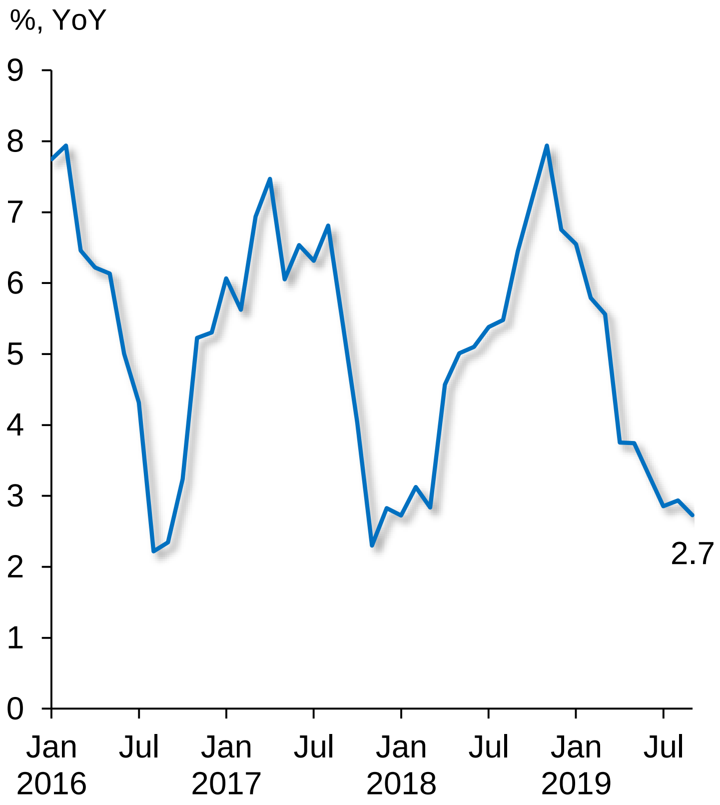
Imports of capital goods



Imports of intermediate goods



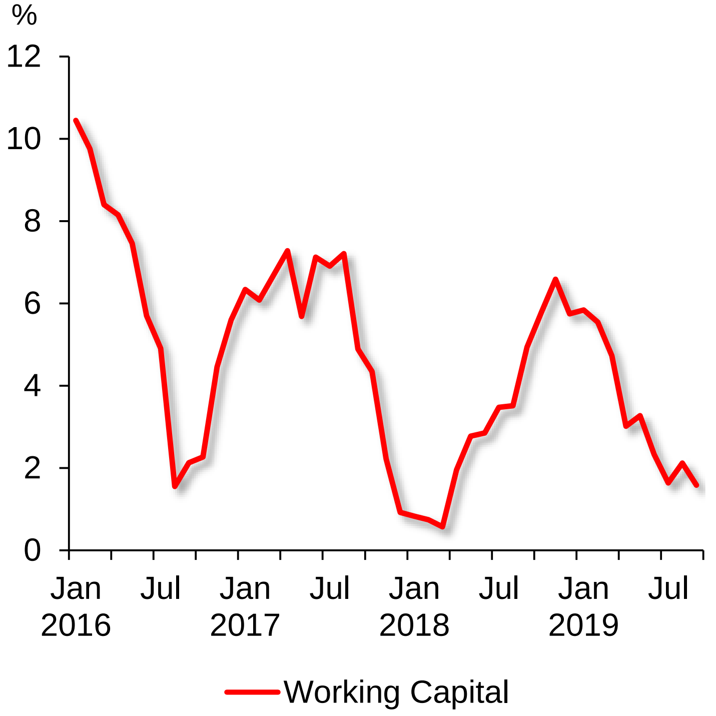
Loans extended for businesses and other sectors



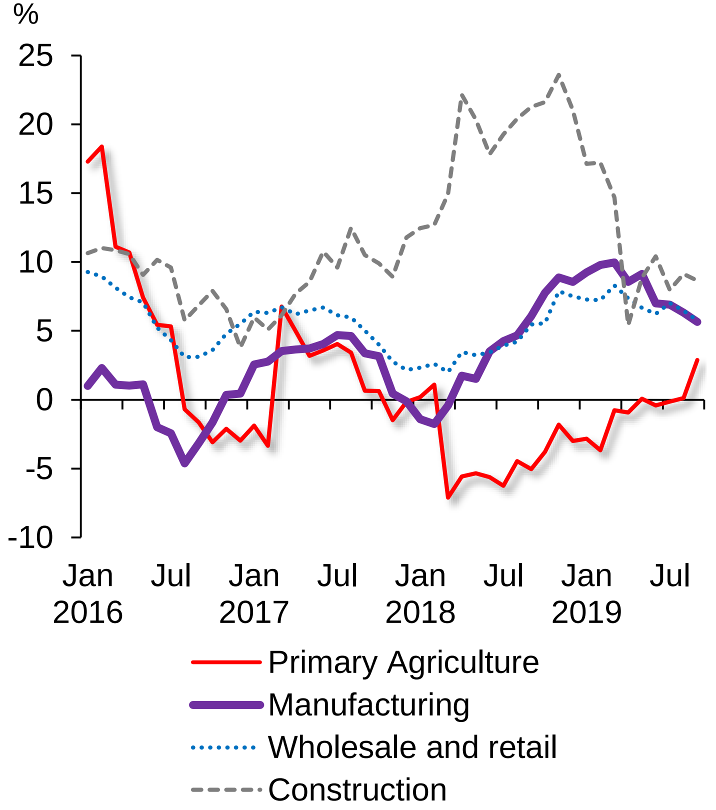
Note: Loan data for April 2018 onwards have been revised to include MBSB Bank Berhad.
Source: DOSM; BNM

Lending barometer by sector shows mixed performance

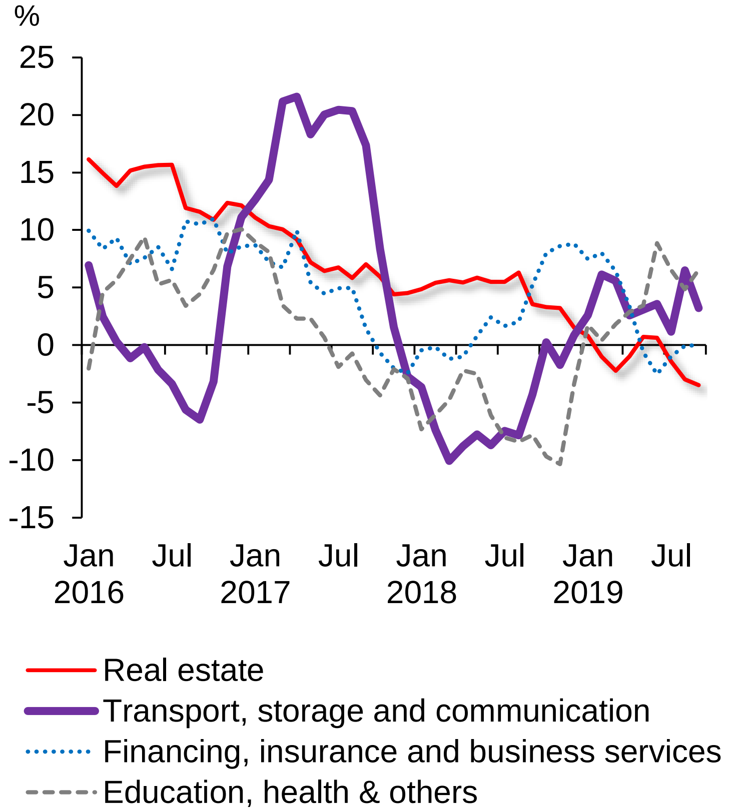
Overall loans growth for working capital softened



Construction, manufacturing as well as wholesale and retail sectors moderated; agricultural sector picking up



Real estate remains subdued; transport, storage and communication still growing



Note: Loan data for April 2018 onwards have been revised to include MBSB Bank Berhad.
Source: BNM

What say ACCCIM's M-BECS?

Economic Conditions and Prospects

% of respondents

Overall

	Pessimistic	Neutral	Optimistic
1H 2019	33.0	53.0	14.0
2H 2019F	20.3	58.3 ↑	21.4
2019E	31.8	54.7	13.5
2020F	17.0	58.1 ↑	24.9

Manufacturing

	P	N	O
1H 2019	32.8	55.2	12.0
2H 2019F	23.3	56.6 ↑	20.1
2019E	27.7	60.1	12.2
2020F	19.1	58.5 ↓	22.3

Wholesale and Retail Trade

	P	N	O
1H 2019	33.5	51.9	14.6
2H 2019F	22.0	56.6 ↑	21.5
2019E	34.3	52.7	13.0
2020F	17.5	58.7 ↑	23.8

Construction

	P	N	O
1H 2019	36.6	54.5	8.9
2H 2019F	19.0	64.5	↑ 16.5
2019E	32.8	54.9	12.3
2020F	14.9	62.0	↑ 23.1

Professional and Business Services

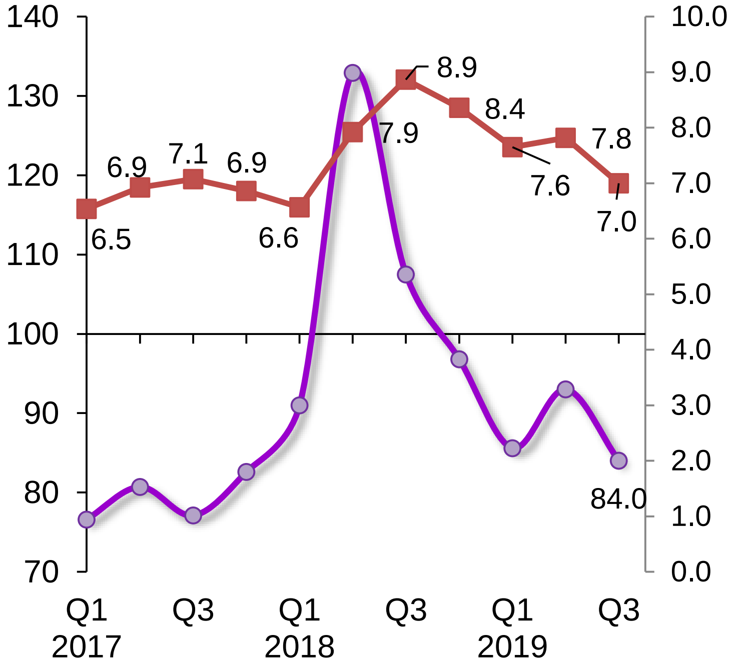
	P	N	O
1H 2019	24.0	55.0	21.0
2H 2019F	14.3	62.2 ↑	23.5
2019E	28.9	56.7	14.4
2020F	16.3	57.1 ↑	26.5

Source: ACCCIM M-BECS for 1H 2019 and Prospects for 2019-2020

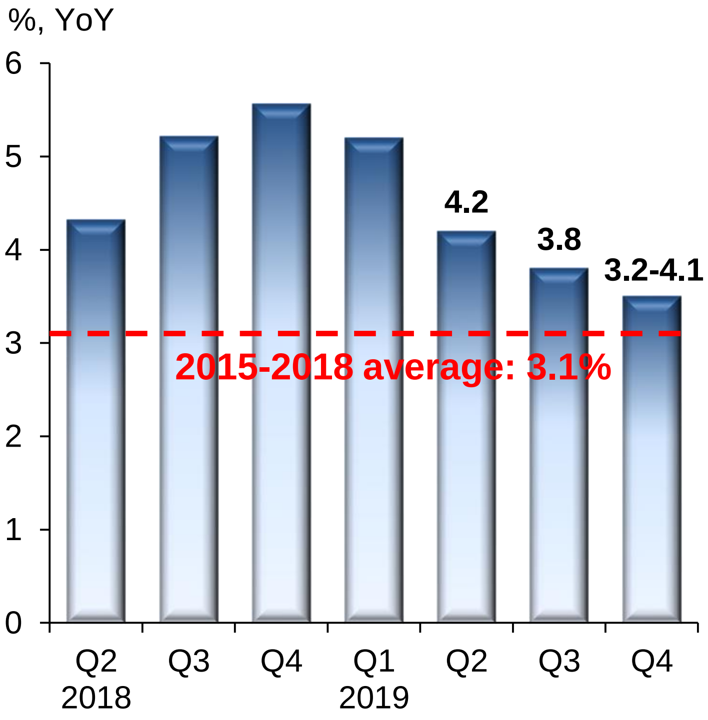
Still-strong consumer spending amid cautious sentiment

- Household spending propping up the economy, underpinned by above-average real wage growth and consumption-enhanced measures.

Private consumption vs. Consumer sentiments index (CSI)



Real private sector wage growth



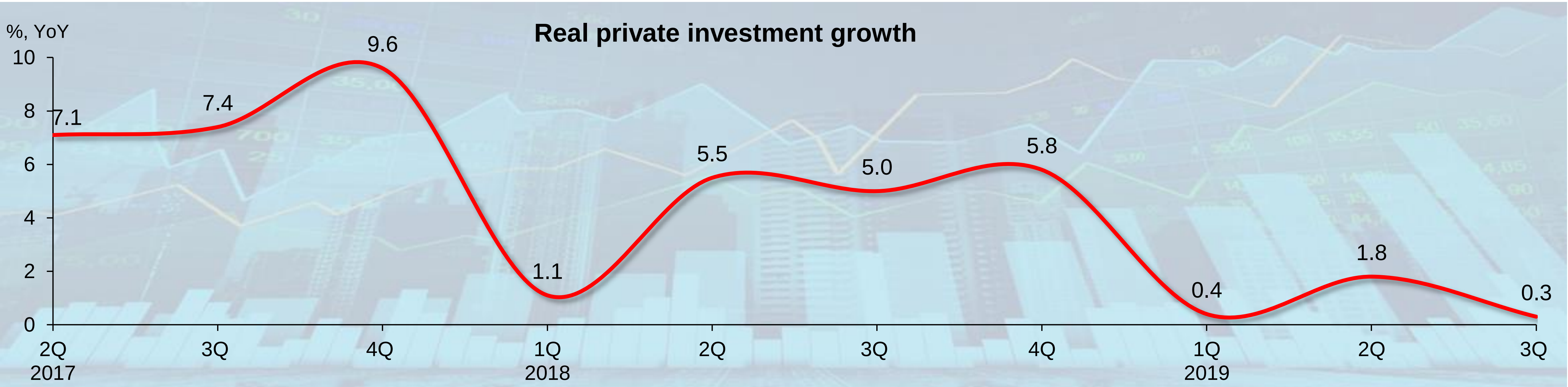
Consumer spending likely to **moderate to 6.7% in 2020** (estimated 7.2% in 2019) on cautious discretionary spending amid stable employment and moderate wage growth.

Note: Real private sector wages are derived from the nominal salaries and wages data, published in the Monthly Manufacturing Statistics and Quarterly Services Statistics by the Department of Statistics, Malaysia (covering 62.9% of total employment). The nominal private sector wages are then deflated by the consumer price index (CPI).

Source: DOSM; BNM

Slackening private investment growth is worrying

- Private investment's momentum had moderated from 12.1% pa in 2011-15 to 5.9% pa in 2016-18. It expanded by only 0.9% in Jan-Sep 2019.
- SERC expects **private investment to increase by 2.2% in 2020** (estimated 0.8% in 2019)



➢ **Downside risks remain**:

Heightened global uncertainty, slower global growth and trade hostilities

Domestic policy uncertainties; persistent weakness in the property segment, especially residential and commercial properties

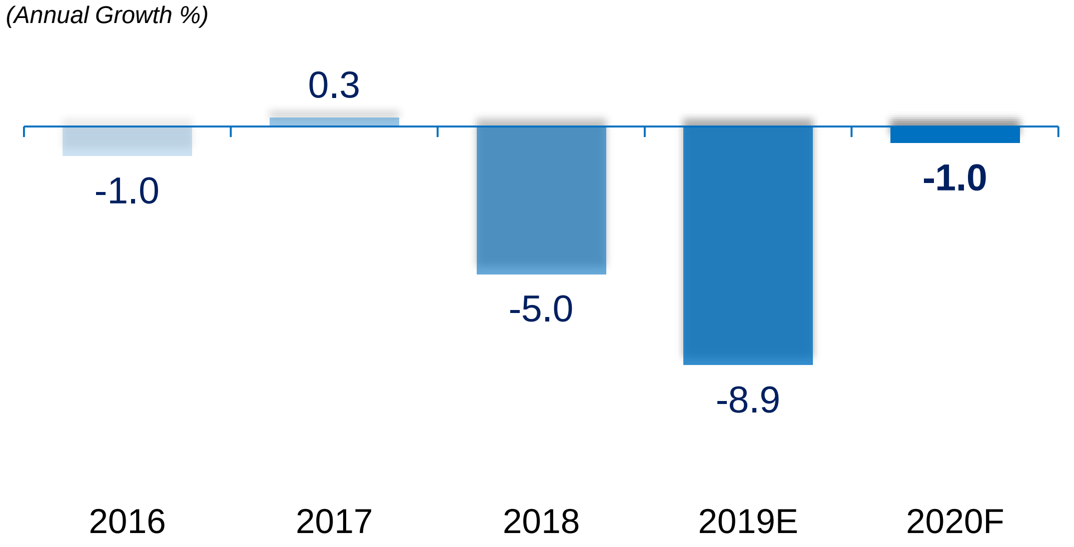
Source: DOSM

A smaller drag from public investment expected in 2020

- **Development expenditure** (DE) is budgeted to increase by **4.3% to RM56.0bn or 18.9% of total expenditure** in 2020 (RM53.7bn in 2019).
- Of the 2020 allocation, **RM53.2bn** is allocated for **4,744 ongoing projects** while **RM2.8bn is for 722 new projects**.
- New projects in O&G industries (Kasawari Gas Development, ongoing projects (Floating LNG 2).
- MRT2, LRT3, LRT line extension and ECRL, Tekai hydroelectric and Pasir Gudang combined-cycle gas turbine; Pan Borneo Highway, airports expansion, Singapore–Johor Bahru Rapid Transit System (RTS Link).

Smaller contraction in public investment

2020F: 6.1% share of GDP



Higher development expenditure

2020B: 18.9% share of total expenditure

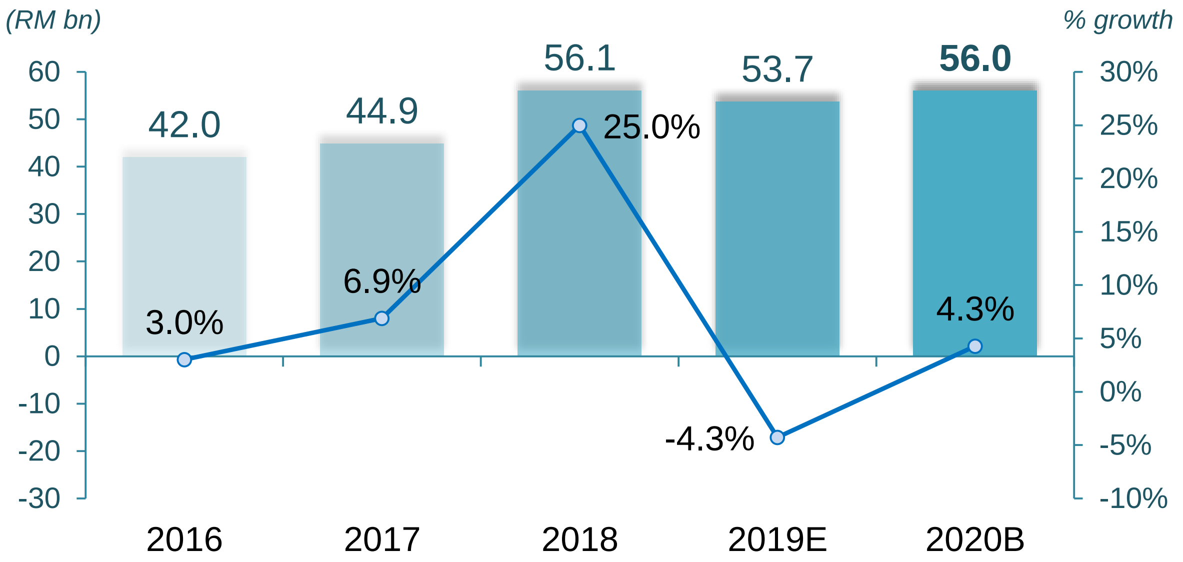


Figure in parenthesis indicates SERC's estimates and forecast
Source: MOF; SERC

Where is the growth coming from?

Services (2019E: 6.1%, 2020F: 6.0%)
% share of GDP in 2020F: 58.2%

- Supported by tourism related activities and accelerating growth of e-commerce.
- 5G-driven ICT; increase in bank lending and higher fee income; operation of new highways.

Manufacturing (2019E: 4.0%, 2020F: 3.9)
% share of GDP in 2020F: 22.1%

- Benefit from global electronics supply chain following the US-China trade and technology dispute and uptick in electronics cycle.
- Domestic-oriented industries (consumer and construction-related clusters).

Agriculture (2019E: 4.4%, 2020F: 2.5%)
% share of GDP in 2020F: 7.2%

- Higher output of palm oil (2020: 22.2 mil tonnes vs. 21.0 mil tonnes in 2019); CPO average prices at RM2,100 per metric tonne in 2020 vs. RM2,000 in 2019; Higher demand (bilateral trade deal) from China.
- Higher production of rubber and food products (except aquaculture).

Where is the growth coming from? (cont.)

Figure in [ ] indicates SERC's estimates and forecast

Mining (2019E: 0.5%, 2020F: 0.8%)
% share of GDP in 2020F: 7.0%

- Strong demand from petrochemical industry; rising exports of LNG.
- Commencement of the North Malay Basin Full Field Development (FFD – Phase 2), Gorek, Integrated Bokor (Phase 3), Betty redevelopment projects.
- Crude oil subsector is expected to increase moderately, underpinned by the development of Anggerik FFD, Zetung FFD and Bayan Oilfield (Phase 2B and 2C).

Construction (2019E: 0.8%, 2020F: 1.5%)
% share of GDP in 2020F: 4.7%

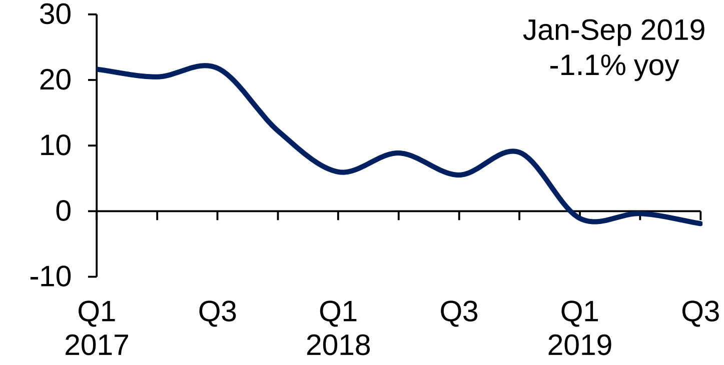
- Acceleration and revival of mega projects and building of affordable housing.
- Civil engineering segment: ECRL; MRT2; LRT3; Electrified Double Track Gemas-Johor Bahru; KVDT2; Central Spine Road; Pan Borneo Highway; and Coastal Highway in Sarawak.
- Non-residential subsector remains subdued, dragged by persistent overhang.

Exports hostage to slowing global growth & trade tensions

Lethargic exports growth

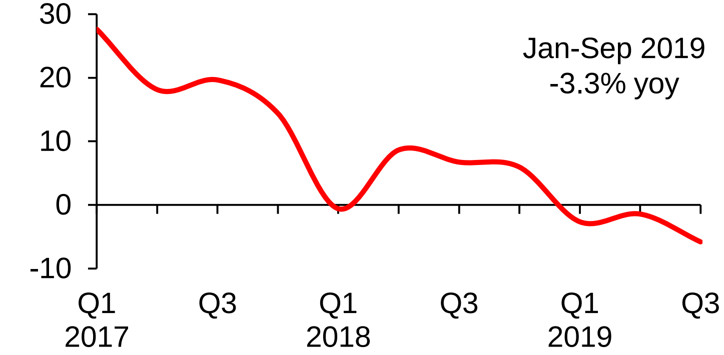
%, YoY

Export growth



%, YoY

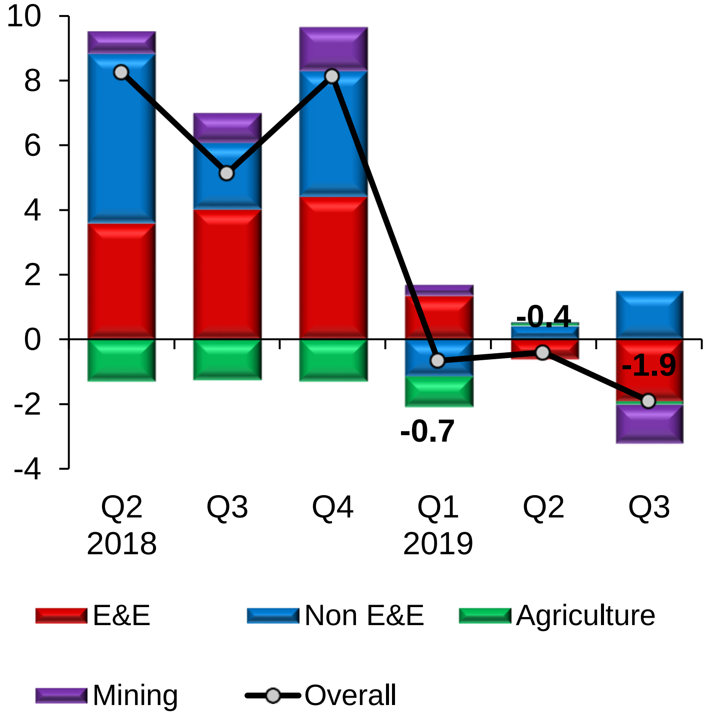
Import growth



Diversified exports helped mitigate impact of weaker E&E export growth

Malaysia's export by product

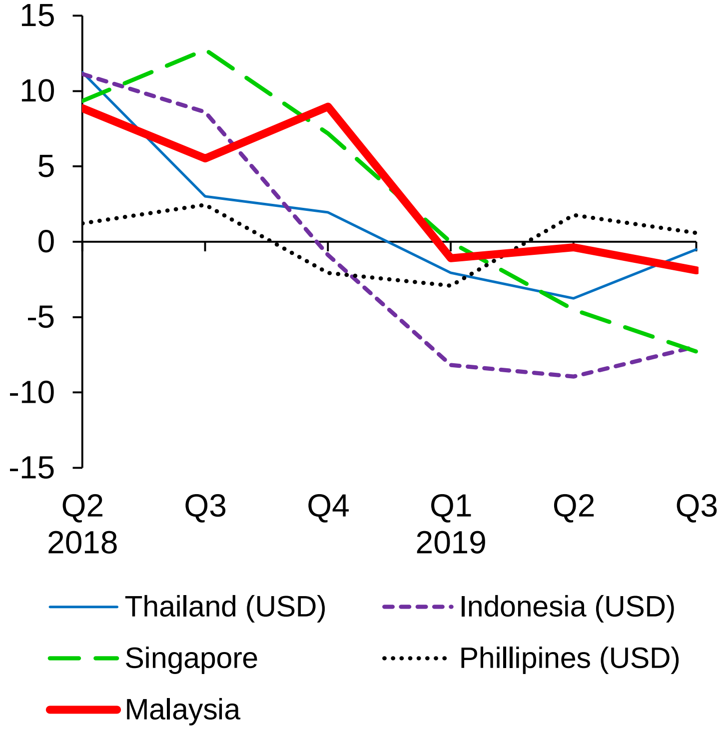
Overall (%, YoY)
Components (%-pt contribution)



Malaysia's exports compared to regional economies

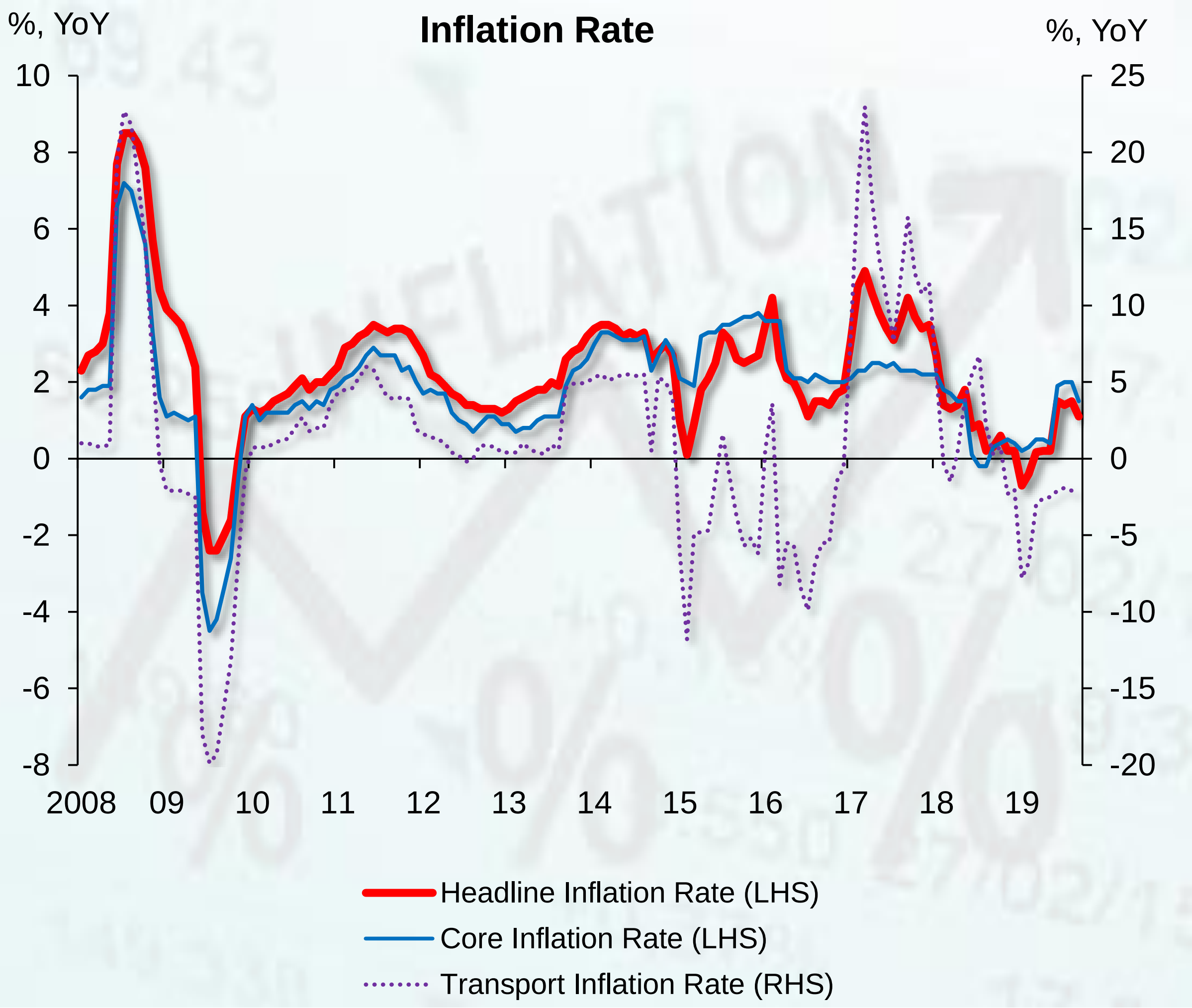
Regional economies export performance

%, YoY



Note: Mineral products data taken is the data of mining products
Source: DOSM; Officials

Headline inflation will average higher in 2020

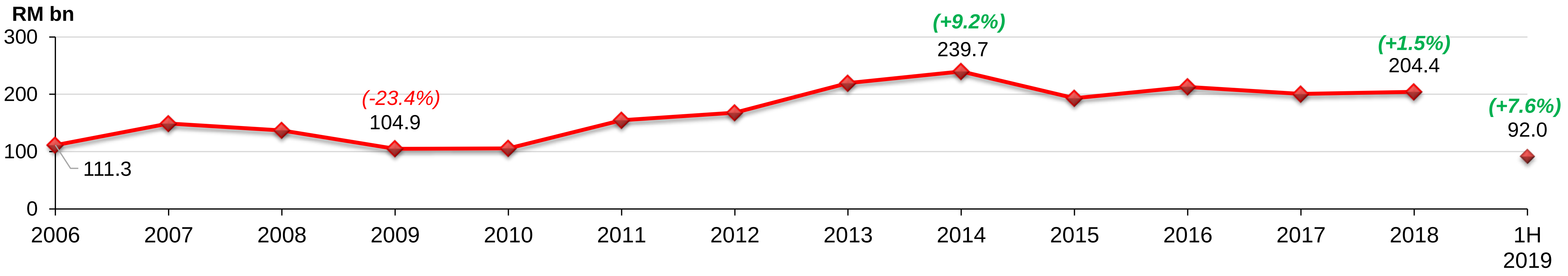


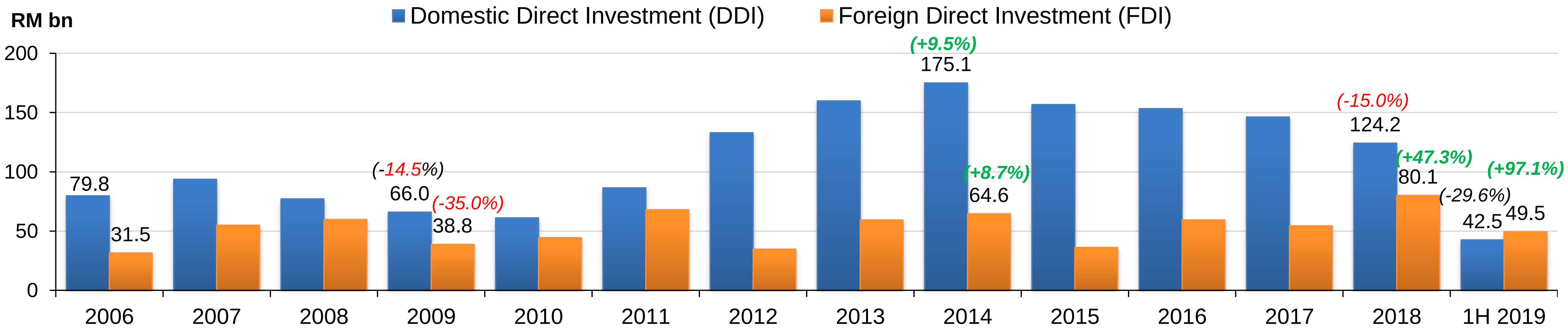
Note: Core inflation in 2008-2014 excludes food and non-alcoholic beverages only.
Source: BNM; DOSM

- **Headline inflation** normalises to 1.4%-1.5% in Jun-Aug and 1.1% in Sep after a year of either low or negative rate due to the change of consumption tax policy. In Jan-Sep, the consumer price index (CPI) increased by 0.6% yoy.
- **Core inflation** remained healthy at 1.5% in Sep (1.9%-2.0% in Jun-Aug), indicating continued domestic demand.
- SERC expects **headline inflation to average 0.8% in 2019 and will pick up to 2.0% in 2020** due to some cost pass-through from domestic cost factors. These include:
  - ➢ Lifting of fuel price ceiling
  - ➢ Departure levy
  - ➢ Digital tax
  - ➢ Potential increase in water tariffs
  - ➢ Crude oil and commodity prices development

Investment approvals trend in Malaysia

Approved investment trend in Malaysia





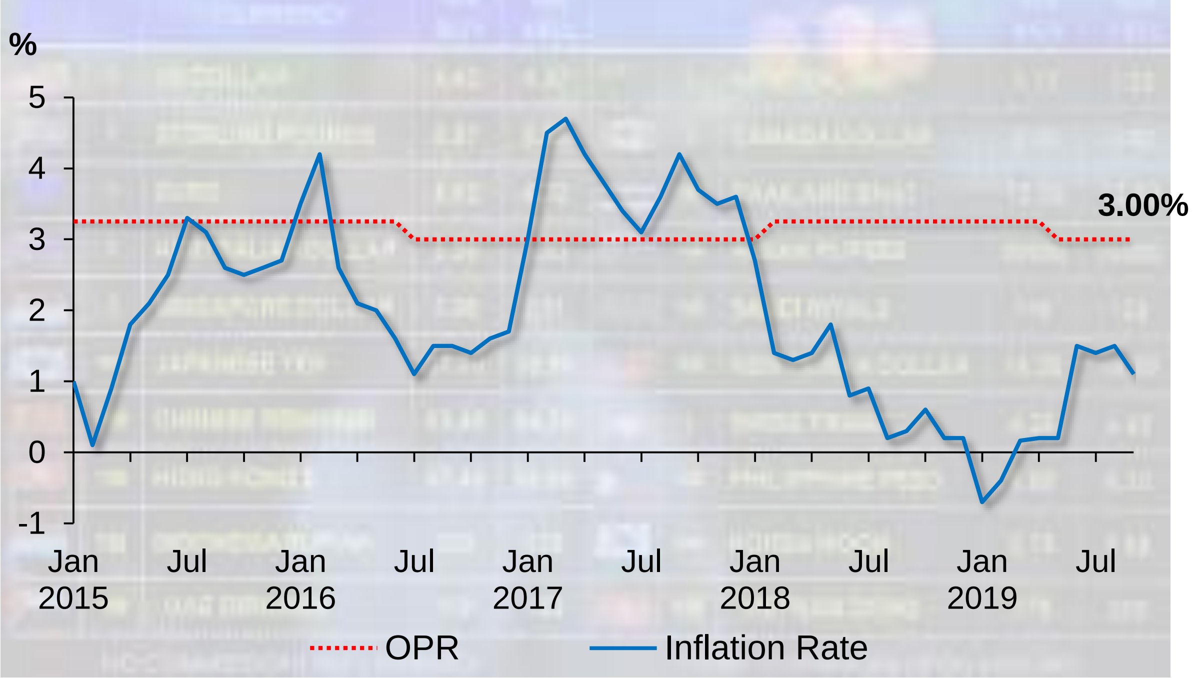
Source: MIDA

BNM keeps rate cut door open

- BNM cut the overnight policy rate by 25 bps to 3.00% in May. SSR was reduced by 50bps to 3.00% effective 16 November.
- Reserve monetary arsenal while continue to assess the impact of rate cut on domestic demand.

Inflation will average higher in 2020

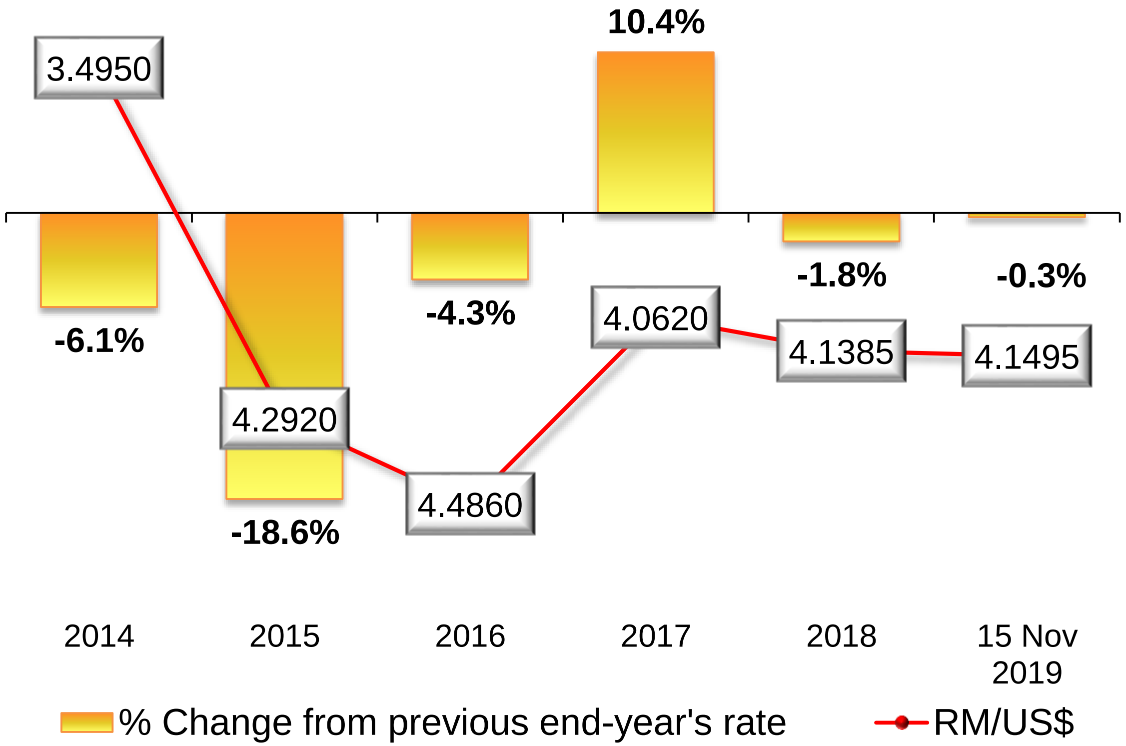
Year	2015	2016	2017	2018	2019E	2020E
OPR (%)*	3.25	3.00	3.00	3.25	3.00	2.75-3.00
Inflation Rate (%)	2.1	2.1	3.7	1.0	0.8	2.0



* OPR as at end-year

Source: DOSM; BNM; SERC

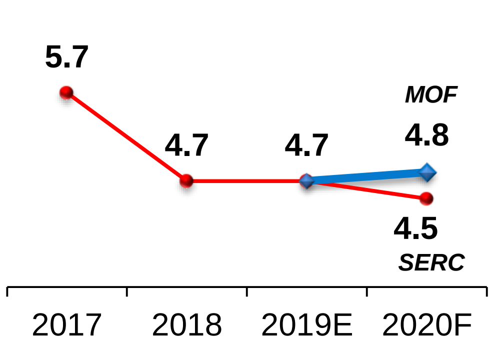
Ringgit outlook at RM4.05 per US dollar et end-2020



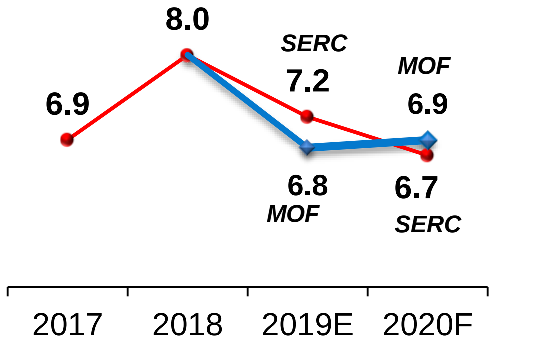
Note: Exchange rate (12:00 rate) as at end-period

Malaysia's key ECONOMIC INDICATORS

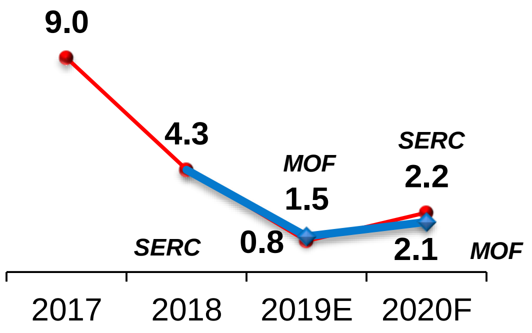
Real GDP Growth
(%)



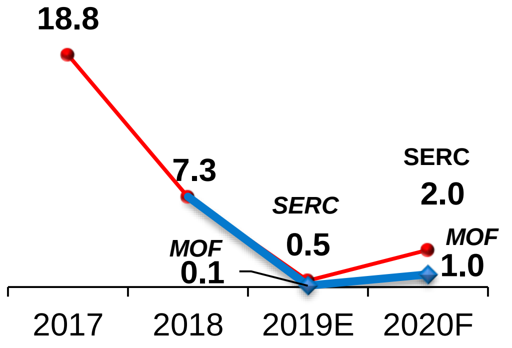
Private Consumption Growth
(%)



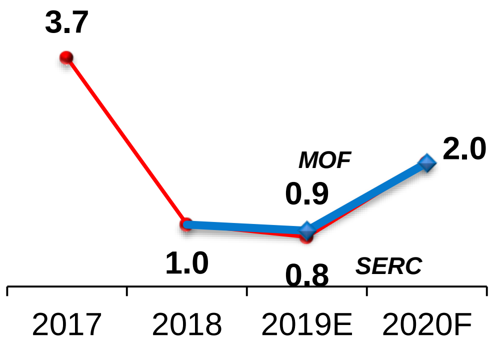
Private Investment Growth
(%)



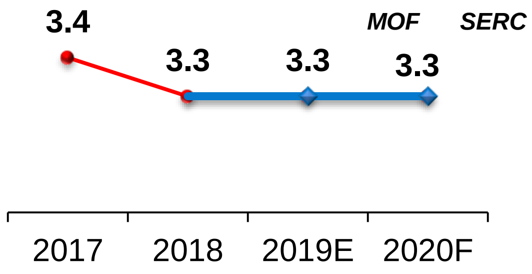
Gross Exports Growth
(%)



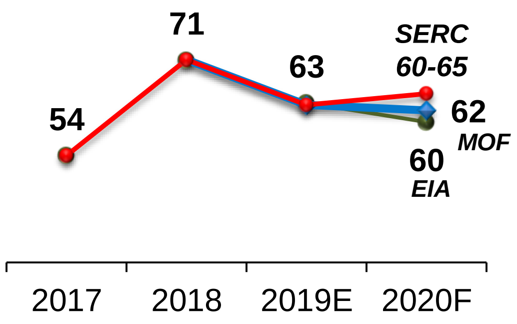
Inflation Rate
(%)



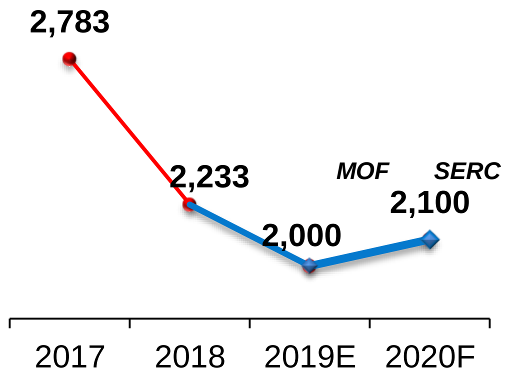
Unemployment Rate
(%)



Brent Crude Oil Prices
(US$/barrel)



Crude Palm Oil Prices
(RM/tonne)



Source: DOSM; MOF; EIA; MPOB; SERC

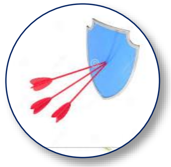
Sources of GDP growth: Demand and Supply side

- **Private consumption remains resilient**; public investment will decline marginally in 2020.
- All economic sectors are expected to register **positive growth, albeit slower** in 2020.

% growth, 2015=100	**2017**	**2018**	**2019 Jan-Sep**	**2019E (MOF)**	**2019E (SERC)**	**2020F (MOF)**	**2020F (SERC)**
GDP by demand component							
Private consumption (58.1%)	6.9	8.0	7.5	6.8	7.2	6.9	6.7
Private investment (16.8%)	9.0	4.3	0.9	1.5	0.8	2.1	2.2
Public consumption (12.1%)	5.5	3.3	2.4	2.0	2.7	1.5	2.0
Public investment (6.5%)	0.3	-5.0	-12.3	-8.1	-8.9	-0.6	-1.0
Exports of goods and services (64.3%)	8.7	2.2	-0.4	-0.4	-0.7	1.4	1.2
Imports of goods and services (56.7%)	10.2	1.3	-2.3	-2.1	-1.6	1.9	1.0
GDP by economic sector							
Agriculture (7.3%)	5.8	0.1	4.5	4.3	4.4	3.4	2.5
Mining & quarrying (7.3%)	0.4	-2.6	-1.2	0.6	0.5	0.3	0.8
Manufacturing (22.2)	6.0	5.0	4.0	4.0	4.0	4.1	3.9
Construction (4.7%)	6.7	4.2	-0.3	1.7	0.8	3.7	1.5
Services (57.5%)	6.2	6.8	6.1	6.1	6.1	6.2	6.0
Overall GDP	**5.7**	**4.7**	**4.6**	**4.7**	**4.6**	**4.8**	**4.5**

Figure in parenthesis indicates % share to GDP in 2019E
Source: DOSM; MOF

What can buffer Malaysia against external shocks?



Malaysia is in a position of strength to face headwinds. Still-sound economic and financial fundamentals supported by facilitative policies and accommodative monetary policy.

A well-diversified trade, economic sectors and sources of foreign direct investments. This helps to reduce vulnerability and risks inflicted by a particular sector and industry as well as country.

Targeted gradual fiscal consolidation path is appropriate while continuing to protect growth-enhancing spending.

The **financial sector is well capitalised** to cope with most shocks. As at September 2019, banks' liquidity buffers exceeded regulatory levels with strong loan quality amid an uptick in aggregate non-performing loans (NPLs) to 1.6% of gross loans since March (1.5%) and sizeable provisions (88.8% to total impaired loans). Liquidity coverage ratio (LCR) is well-above the required level (100% starting 2019) at 143.6%.

Flexible exchange rate is essential continue to play the role of shock absorber and remains the first line of defence against external shocks in the context of protracted uncertainty in global economic and financial conditions. This is backed by **adequate international reserves and sustained current account surplus**.

A priority for action, now more than ever

- The rise of global complexity and competition and uncertainty about its future as well as digitalisation acceleration will fundamentally reshape global economic and business landscape.
- Being a small and highly open economy, Malaysia remains vulnerable to external trade or financial shocks.
- Domestically, the Government must continue and has the political will to **enhance economic resilience and implement coordinated policy reforms** to ensure medium-term growth sustainability. Delays or resistance to the reform agenda could undermine confidence, leading to lower investment and growth.
- **Effective and well-designed structural reforms** are key to shaping Malaysia's future. Structural reforms are needed to boost the country's growth potential, raise productivity and investment as well as reduce the cost of doing business.

Priority should be given to

1. Formulate an **appropriate incentive framework** based upon a clear, transparent and predictable business and investment climate
2. Improving **education**, strengthen **manpower training and skillset of workforce**
3. Accelerating **innovation and technology** adoption
4. Move up further the **value chain and integrate in global supply chains**

2020 Budget – Budget for the Future

Spurring Private Investment through Enhancing Competitiveness

Gearing up for Digitalisation & Industry4WRD

SME Financing & Entrepreneurial Development

Supporting Agriculture Sector

Jobs Creation and Upskilling of Workforce

Driving Tourism - Visit Malaysia Year 2020

Promoting Access to Housing & Ease Property Overhang

Affordable Healthcare in An Inclusive & Caring Society

Enhancing the Transportation Ecosystem

Enhancing Research & Development (R&D) Framework

Easing Cost of Living

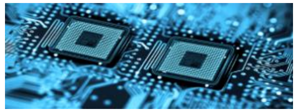
Empowerment of Bumiputera Agenda

Narrow Rural-Urban Divide and Regional Development

2020 Budget's overall impact – Mildly positive

- **Positive –** SMEs, Construction, Housing, Tourism (VMY2020), Digital, telcos and services providers (National Fiberisation & Connectivity Plan – RM21.6bn over five years), plantation (palm oil and rubber), exporters (matching grants and Market Development Grant)

- **Unemployed youth, graduates, women –** RM6.5bn Malaysians@ Work initiative



- **Electronics and electrical sector –** Income tax exemption up to 10 years to services; special Investment Tax Allowance

- **Islamic finance –** Sukuk bonds market

- **Digitalisation and Industry4WRD** – Accelerated Capital Allowance (ACA) and automation equipment capital allowance; Smart Automation matching grants

- **Rural development** – RM10.9 billion allocation on rural electrification, roads, water projects, Pan-Borneo Highway project. Sabah will receive RM5.2 billion and RM4.4 billion for Sarawak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谢 谢
THANK YOU

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