



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

**FIABCI Malaysia's Morning Economic Talk**

**Plotting A Path to Eventual Recovery**

**Lee Heng Guie**  
**Executive Director**

7 October 2020



## **Global Recovery Underway**



## **Malaysia's Economic Recovery Tracker – Plotting A Path to Eventual Recovery**



## **Property Outlook: What Opportunities Lie Ahead?**

# A global recovery is underway; risks still prevalent

## Global recovery is slowing emerging

- 👍 **Signs of recovery, albeit unevenly** though the path ahead still full of uncertainty
- 👍 **OECD leading indicators** signal the pace of rebound in the world's leading economies still slow but off the lows
- 👍 **Global PMIs** show a **revived expansion track in manufacturing and services**
- 👍 **Retail spending** has picked up, supported by improving **labour market conditions**
- 👍 **Global trade volume** though continues to decline but at a smaller magnitude

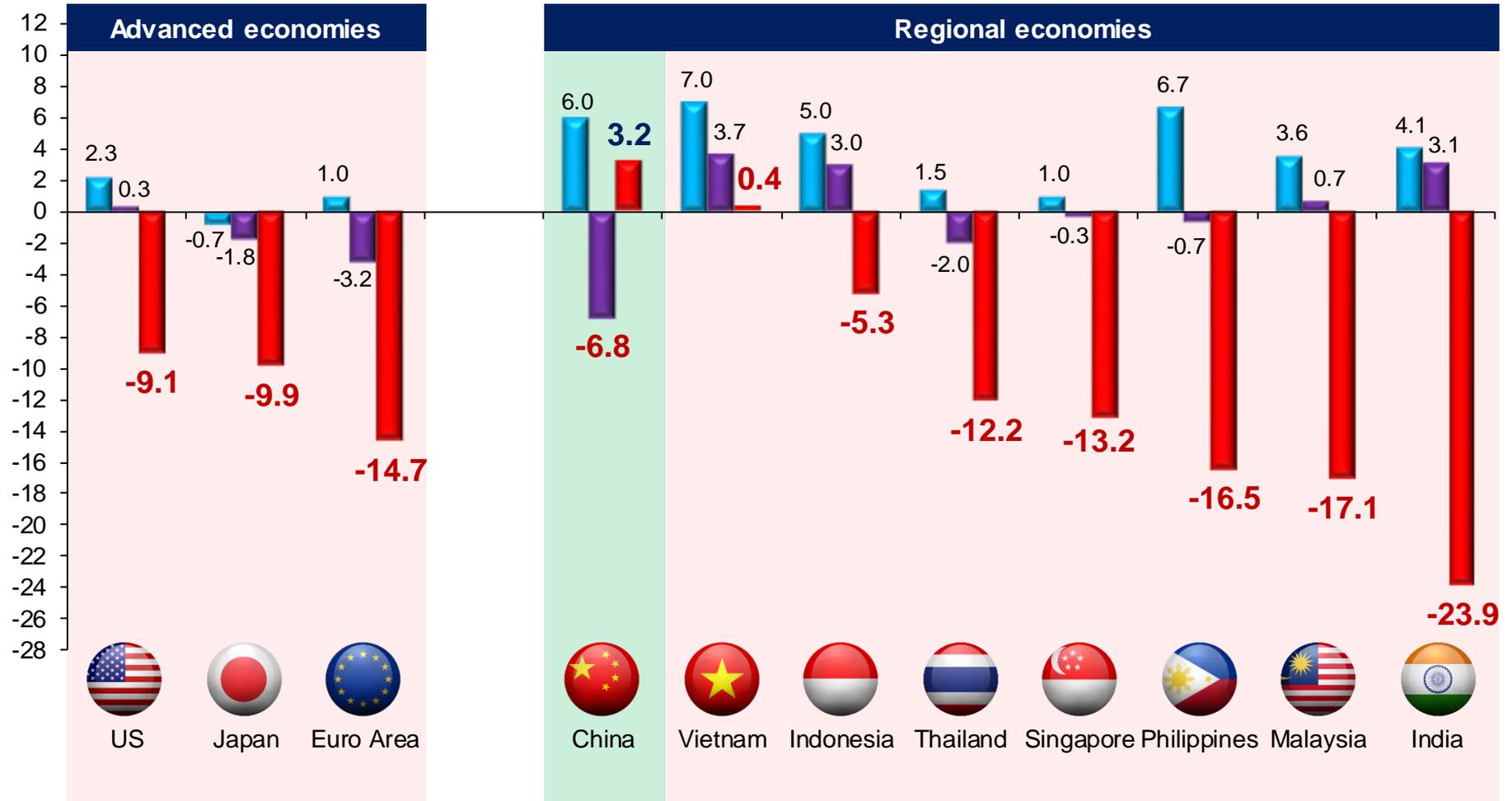
## Risks to recovery

- 👎 The pace and strength of recovery is critically dependent on the **future path of virus and vaccines development**, which is anticipated to be available in 2021
- 👎 **Confidence about the virus containment and vaccination** are needed for a full recovery

# Global outlook – Worst may be over in 2Q 2020, but recovery far from certain

Real GDP growth (% YoY)

2019 Q4 2020 Q1 2020 Q2

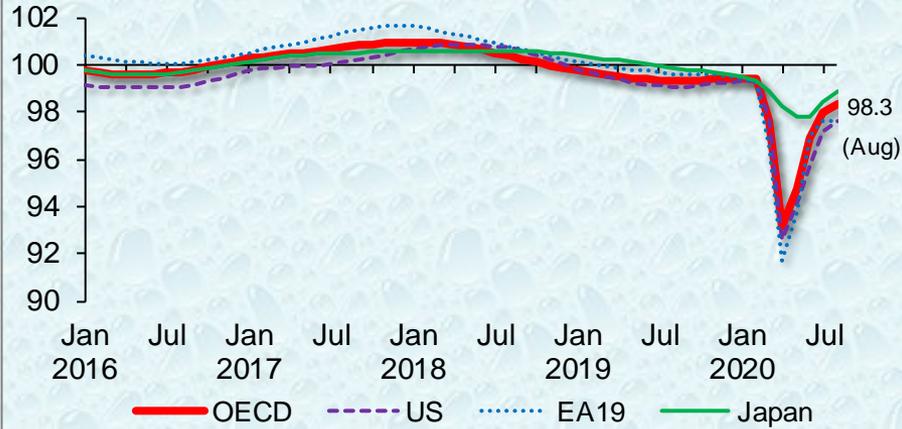


Source: Officials (unadjusted data except Euro Area)

# Steepest economic slump has bottomed out in 2Q 2020

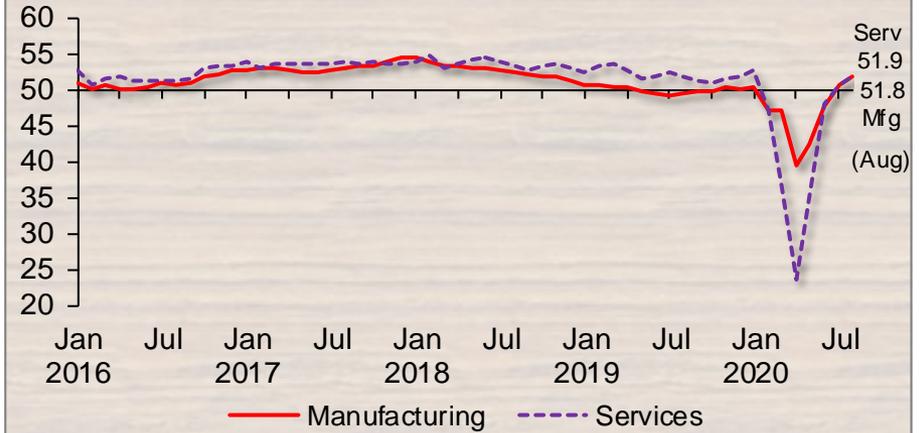
## Composite Leading Index (CLI)

A gauge of forward economic outlook (Long-term average = 100)



## Global PMI for manufacturing and services

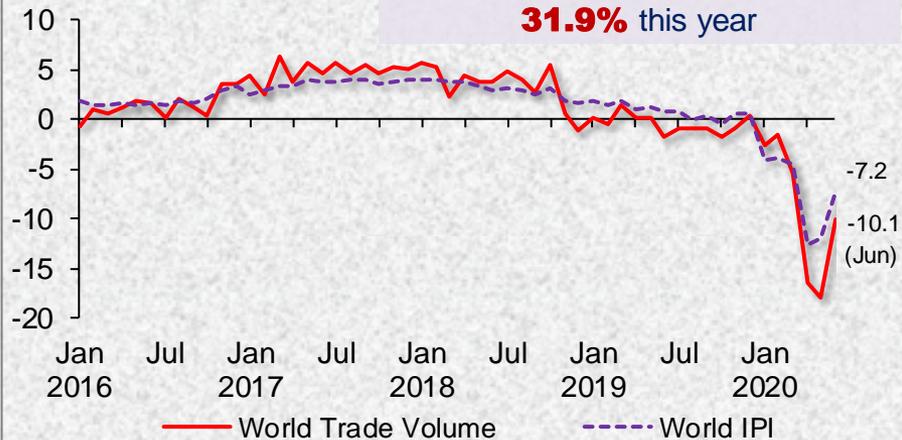
50 = no change on prior month



## World trade and IPI

%, YoY

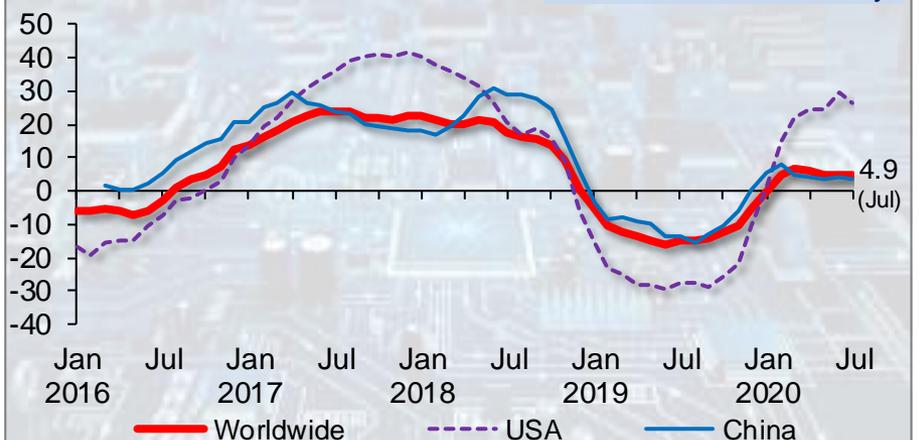
**WTO expects world trade to decline between 12.9% and 31.9% this year**



## Global semiconductor sales

%, 3-month moving average YoY

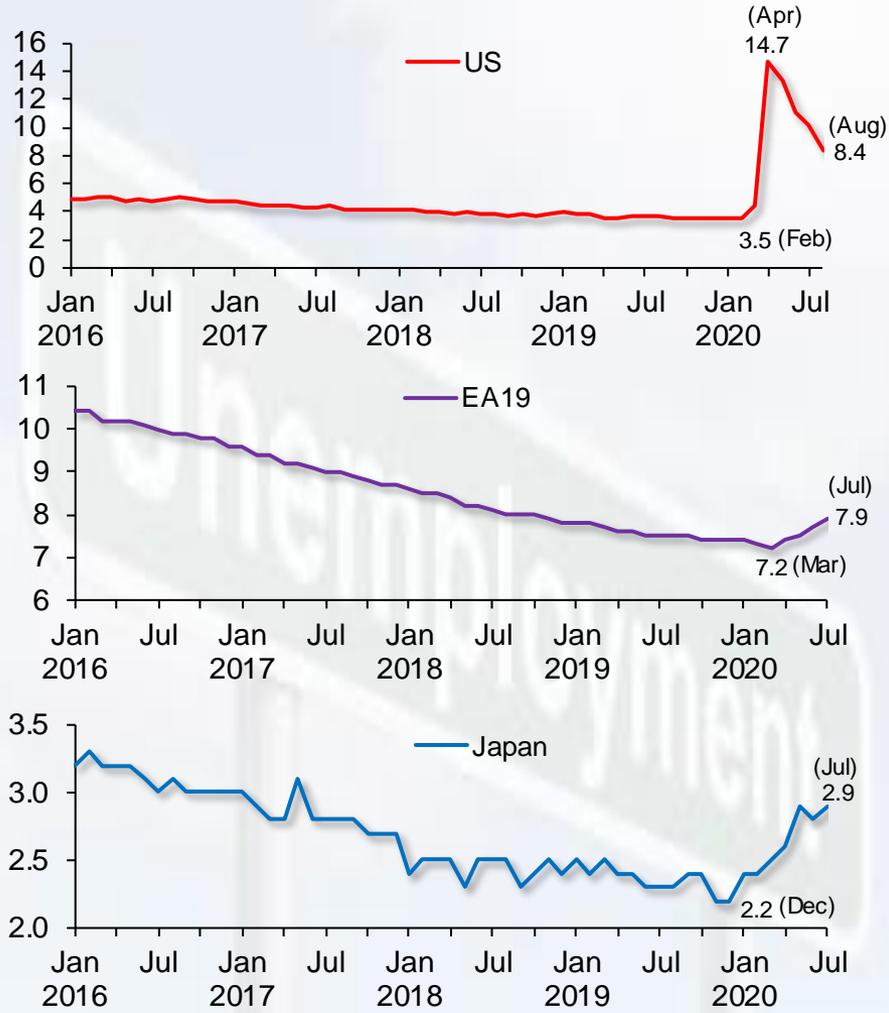
**Silver lining for the semiconductor industry**



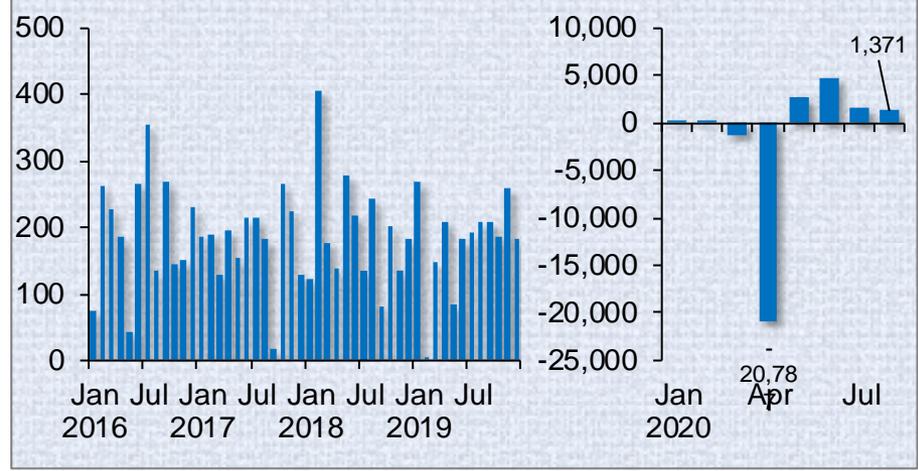
Source: OECD; IHS Markit; SIA

# The labour market conditions

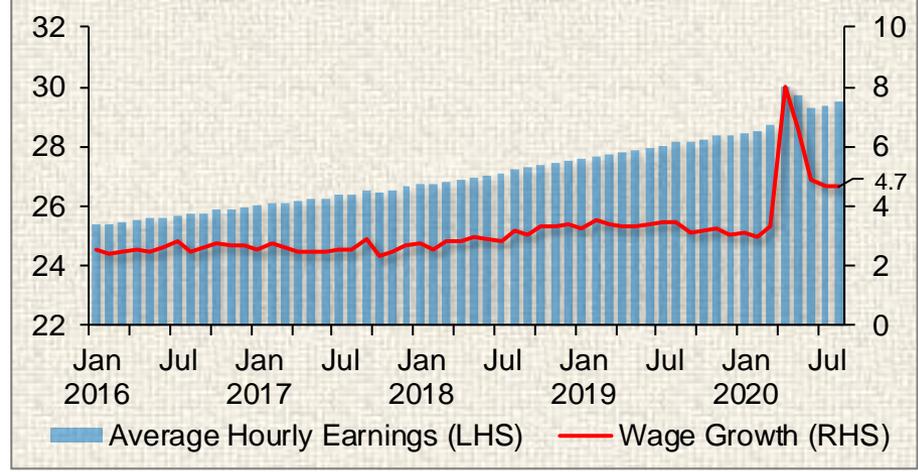
**Unemployment rate shows mixed trends**



**US non-farm payroll**  
Monthly net change, '000



**US wage growth**  
US\$/hour



Source: US Bureau of Labor Statistics; Eurostat; Statistics Bureau of Japan

# Post-Great Lockdown: Global mobility tracker

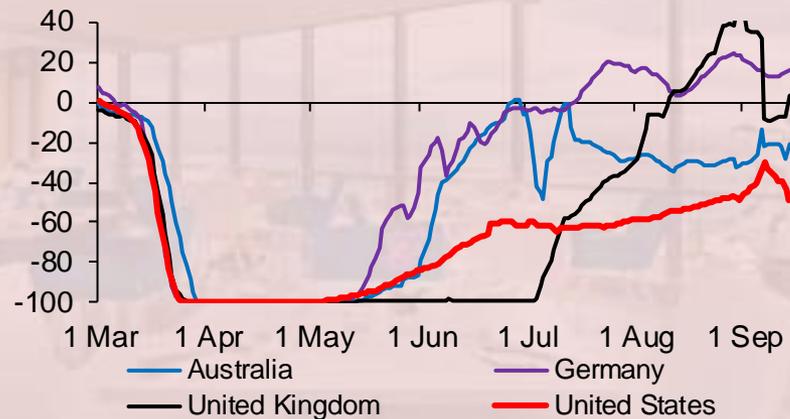
## Global flights tracking

'000, 7-day moving average



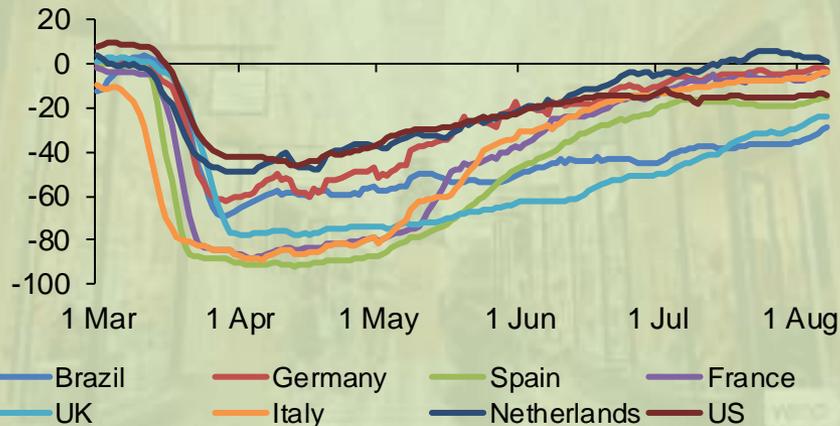
## Restaurant bookings

%, 7-day moving average vs. same day of same week one year ago



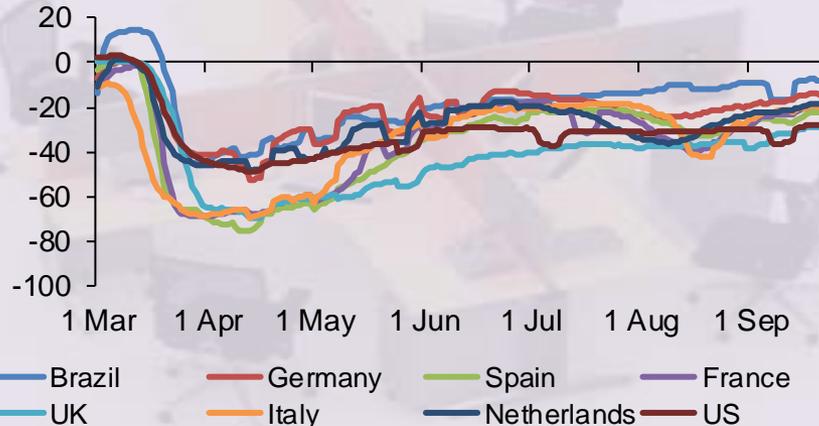
## Time spent in retail and recreation

%, 7-day moving average vs. baseline



## Time spent in workplaces

%, 7-day moving average, vs. baseline



Note: Update for retail and recreation category is temporarily suspended from 17 Aug.

Source: Flightradar24; OpenTable; Google Mobility (baseline = median value for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020)

# Global growth scenarios for 2020-2021\*

Scenario	Projected global GDP growth in 2020	Projected global GDP growth in 2021
<p><b>Upside</b></p>  <ul style="list-style-type: none"> <li>• Global growth stabilisation and recovery. Disruptions from pandemic fade in 2H</li> <li>• COVID-19 outbreak is contained in 2H 2020. Hopeful vaccine will be found in 2021</li> <li>• Monetary and fiscal stimulus are working</li> </ul>	<b>0.5%</b>	<b>5.0%</b>
<p><b>Base Case</b></p>  <ul style="list-style-type: none"> <li>• Global stabilisation and moderate recovery in 2H 2020</li> <li>• A prolonged COVID-19 outbreak, disrupted supply chains, financial turbulence; geopolitical shocks</li> <li>• Monetary and fiscal stimulus are working</li> </ul>	<b>-3.0%</b>	<b>4.5%</b>
<p><b>Downside</b></p>  <ul style="list-style-type: none"> <li>• Deeper global recession</li> <li>• Deepening impact from a prolonged COVID-19 outbreak</li> <li>• Ineffective monetary and fiscal policy stimulus</li> <li>• Sharp correction in global equities and commodities market</li> </ul>	<b>-5.0%</b>	<b>2.0%</b>

\* SERC's estimates

# Top five risks that may temper the global recovery

The US Presidential Election on 3 November is the key upcoming event and the main political uncertainty until year-end



1



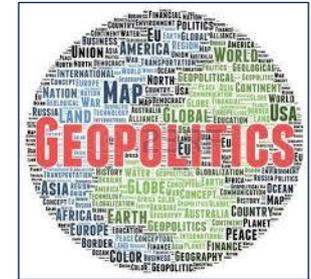
2



3



4



5

***New lockdowns to control a sharp spike in infection cases (a second wave or a third wave) may threaten the global recovery; the longer- than-expected vaccines availability would dampen confidence***

***Premature withdrawal of fiscal stimulus and monetary accommodation. Central banks are expected to remain in accommodative mode for some time. Fiscal stimulus is still needed as a reduction of public-sector demand would trigger a renewed contraction of the economy***

***A sudden reversal of investors' positive optimism towards the stock markets on worries about the worsening economic outlook, could trigger sharp capital outflows and the tightening of global financial conditions volatility***

***Lingering uncertainties about the US-China tensions on trade and technology as well as political relations***

***Geopolitical events, including political events***

# The Malaysian Economy

## Prospects in 2020-2021 – What might the recovery look like?

ACCCIM's M-BECS (1H-2H 2020 and prospects of 2021), covering 828 respondents.

- (a) **46.6% of respondents expect the economy to recover in 1H 2021** while the travel and tourism industry anticipate the recovery in 2H 2021.
- (b) **Almost 50% expect a “U-shaped” recovery** – a gradual pace.
- (c) **68.4% of businesses would take at least 4-12 months** for their business to get back on track.



# Malaysia's economic growth scenarios for 2020-2021\*

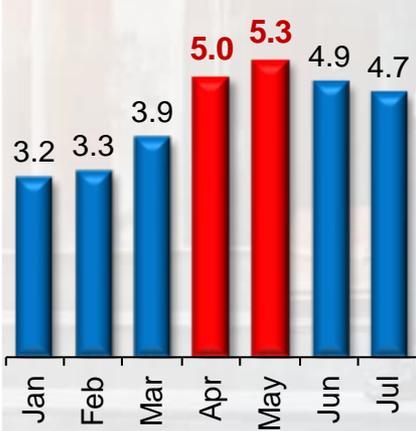
Scenario		Projected GDP growth in 2020	Projected GDP growth in 2021
<b>Upside</b> 	<ul style="list-style-type: none"> <li>• Global growth stabilisation and recovery</li> <li>• COVID-19 outbreak is contained in 1H 2020. Hopeful for a vaccine in 2021</li> <li>• Monetary and fiscal stimulus help to cushion the dampening impact</li> </ul>	<b>-1.5%</b>	<b>6.5%</b>
<b>Base Case</b> 	<ul style="list-style-type: none"> <li>• A prolonged COVID-19 outbreak disrupted supply chains and dampened domestic demand</li> <li>• Financial turbulence</li> <li>• Fiscal and monetary stimulus help to ease the magnitude of impact</li> </ul>	<b>-4.0%</b>	<b>5.0%</b>
<b>Downside</b> 	<ul style="list-style-type: none"> <li>• Deeper global recession</li> <li>• Deepening impact from a prolonged COVID-19 outbreak</li> <li>• Sharp correction in equities and commodities market</li> <li>• Ineffective monetary and fiscal stimulus</li> </ul>	<b>-4.5 to -5.0%</b>	<b>2.0%</b>

\* SERC's estimates

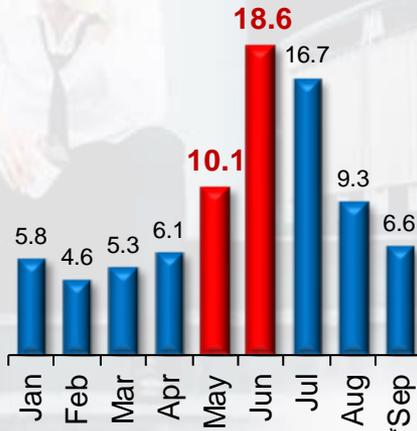
# Labour market rebounding moderately – Policy support still needed

## Unemployment

Unemployment Rate  
%, YoY



Loss of Employment  
(‘000)



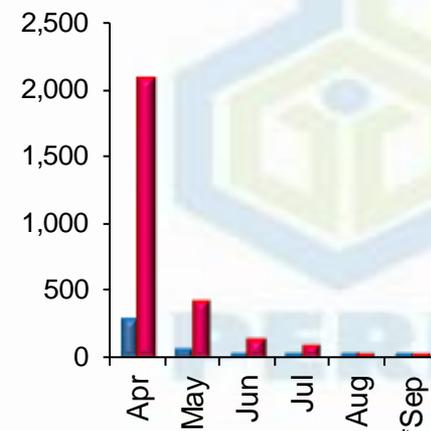
2020

- **Unemployment rate has eased for two consecutive months** to 4.7% in July and 4.9% in June from a record 5.3% in May.
- **EIS’s loss of employment off the peak.** 1-27 Sep 2020: 6,561 persons vs. 18,579 persons in June#.
- Job losses may ease as business activities are gradually on the mend.

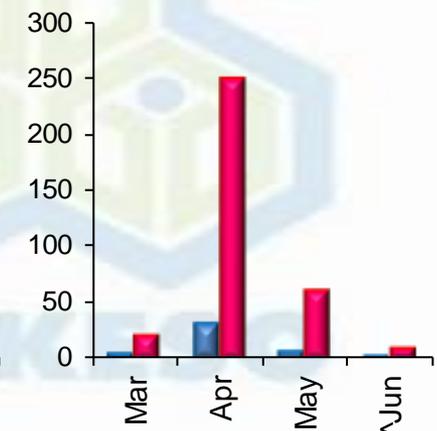
\* As of 27 Sep

## Job savings program

Wage Subsidy Program  
(WSP)  
(‘000, applications)



Employment Retention Program  
(ERP)  
(‘000, applications)



2020

■ Employers ■ Employees

2020

- **2.9 million jobs saved** (2.7m via WSP; 0.2m via ERP).
- The number of employers applied and employees benefited from WSP moderated sharply from May onwards.
- **ERP** (wage subsidy on no pay leave) **may presage the potential loss of employment.**

\* As of 27 Sep

^ As of 21 Jun

Source: DOSM; PERKESO

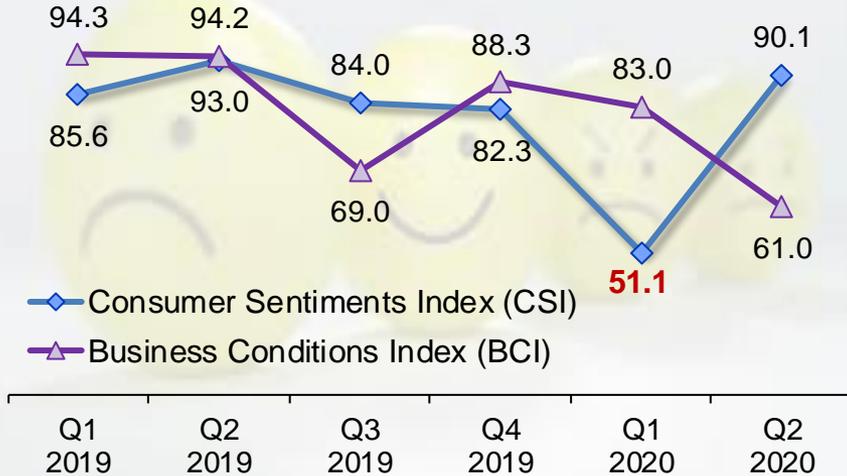
# Unemployment claims under Employment Insurance System (EIS)

# Consumer sentiment improving; weak business confidence

## Consumer sentiment

### MIER CSI & BCI

Optimism Threshold = 100

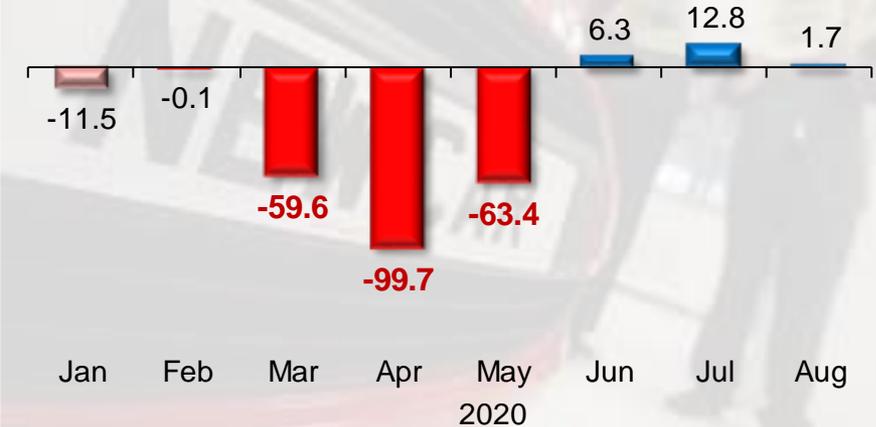


- **Consumers' sentiment index** though rebounded strongly in 2Q, but still remained below 100-pt optimism threshold.
- **Business confidence** remains highly cautious.
- Consumers' and businesses' confidence on the virus containment are needed for a full recovery.
- **The improved labour market and income** would aid household spending.

## Buying a car

### Passenger Car Sales (Volume)

%, YoY



- Low interest rate helps to spur domestic demand, backed by secured job and stable income.
- **PENJANA:** (a) **Exempts sales tax** on passenger cars (100% for locally assembled (CKD) and 50% for imported (CBU)) till end-2020; (b) **Incentives for property sector** - Home Ownership Campaign (HOC), stamp duty exemption, instrument of transfer, 70% margin of financing for third house (>RM600k) and RPGT exemption. Timeline is between June 2020 to 31 Dec 2021.

Source: MIER; BNM

# Retail spending continued to recover from the historic slump

## Shopping at retailers

### Sales Performance

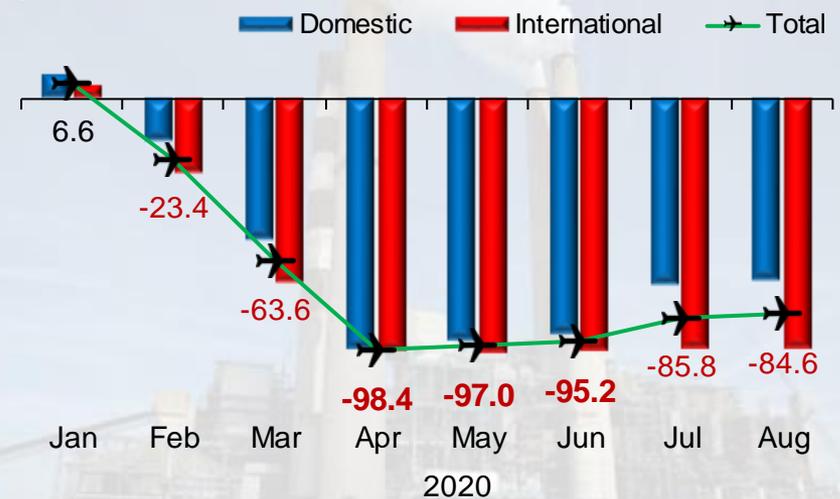
%, YoY



## Daily flying passengers

### Growth

%, YoY



- **Retailers' sales uneven** (90% of retailers having 60%-70% sales; 10% with 100% sales) prior to the rising number of infection cases.
- **Footfall up to 90% in major shopping malls and sales about 50%** before the recent spike in the number of infection cases.
- **Hotels' occupancy rates** averaging 45.4% in August (35.4% in July) compared to between 8.3% and 16.4% in Apr-Jun.

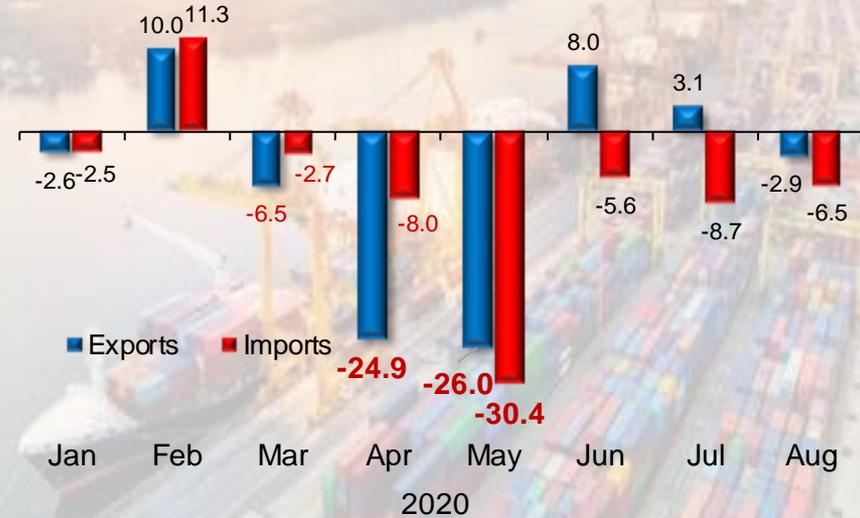
- Following the opening of inter-state travel, the aviation and travel industry has been gradually on the mend.
- Airline passenger traffic numbers tripled in July from June and continued to improve in August, largely due to **increases in domestic travel**. However, it is still far from the much needed recovery and is expected to remain weak till end-year.

Source: DOSM; MAHB

# The external sector & industrial production recovering gradually

## External trade

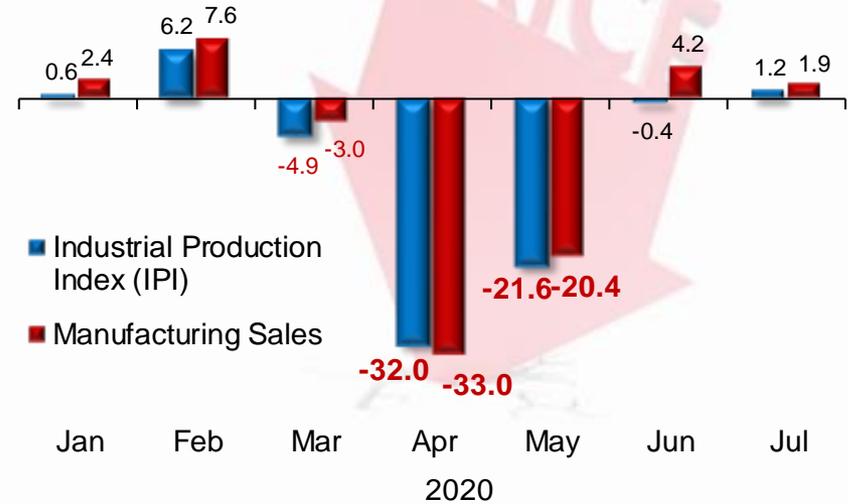
External Trade  
%, YoY



- **Exports** have reverted to decline by 2.9% yoy in August after rebounded in June and July. The main supports were E&E, palm oil, optical and scientific equipment, furniture and rubber gloves.
- **The pace and strength of economic recovery of Malaysia's major trading partners** in 2H 2020 and 2021 would help to lift export growth and support the economy.

## Production & manufacturing sales

Industrial Production and Manufacturing Sales  
%, YoY



- **Manufacturing capacity has gradually restored back to 80%** and 90%-100% for some strong-demand products industries (still low around 30%-50% for wearing apparels).
- **Industrial production and manufacturing sales** continued to gradually recoup lost ground.

Source: DOSM

# Deflationary pressures and falling producer prices easing

## Consumer Price Index (CPI)

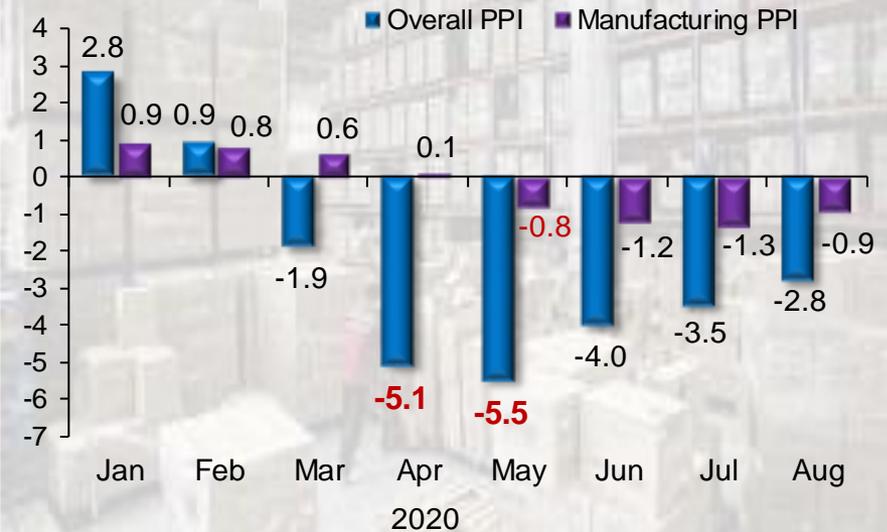
### Inflation by Selected Components



## Producer Price Index (PPI)

### Growth

%, YoY



- **Deflation rate** has narrowed and will continue to ease as the decline in transportation prices (fuel) has eased.
- **32.7% of goods in the CPI basket** (by sub-groups) saw decreases in prices in Jan-Aug 2020.
- Deflation will end in 2021 due to the normalisation of base effect and a gradual improvement in domestic demand.

- **Producer Price Index (PPI)**, a measurement of average selling prices received by domestic producers declined by smaller magnitude.
- **Manufacturing production saw a moderate decline in prices** while mining output prices declined at a larger magnitude. Prices for agriculture, forestry & fishing continued to increase for 11 straight months.

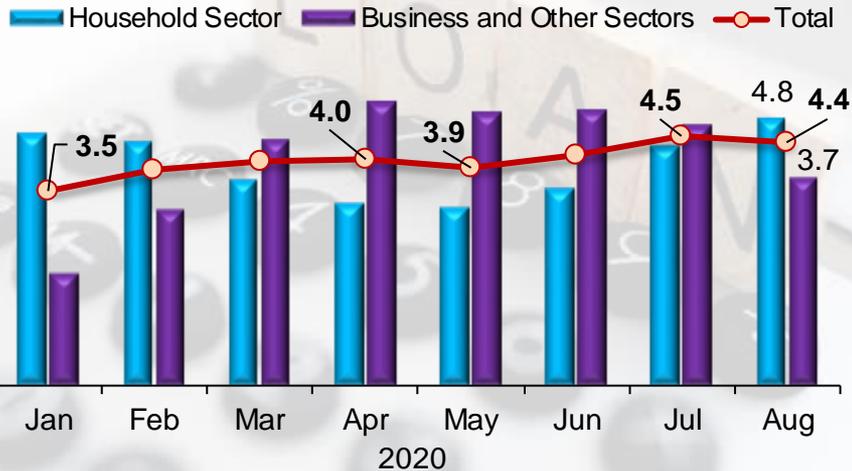
Source: DOSM

# Households' loan demand is picking up; moderate business loan

## Loan financing

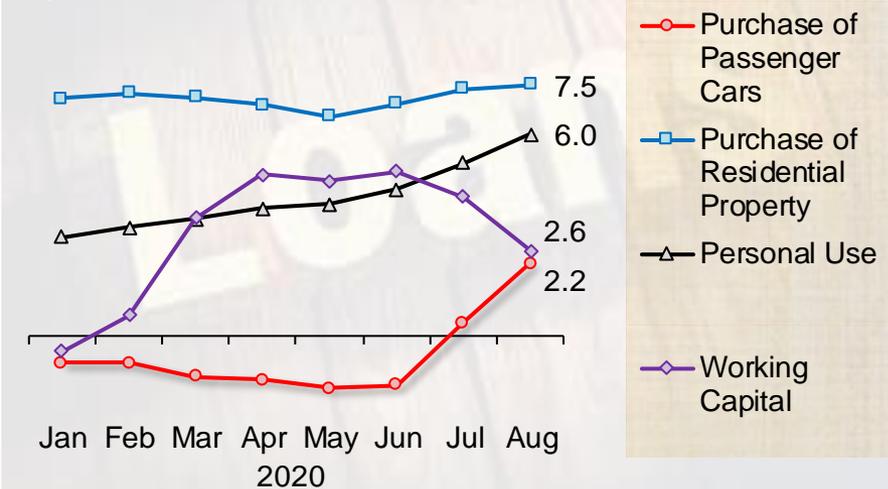
### Loan Outstanding by Sector

%, YoY



### Loan Outstanding by Purpose

%, YoY



- **Business loan** growth (3.3% yoy in August, 3.9% in July) continued to ease while households' loan demand are picking up.
- As of 18 September, total **loan moratorium amounted to RM93.4 billion** (RM60.7 billion for individuals and RM32.7 billion for businesses).
- Real test is **the expiry of loan moratorium in September.**

- An increases in **loan demand for the purchased of passenger cars and residential property** as well as for **personal use.**
- In contrast, outstanding loan for working capital eases on slower growth in the manufacturing sector and a contraction in the construction sector.

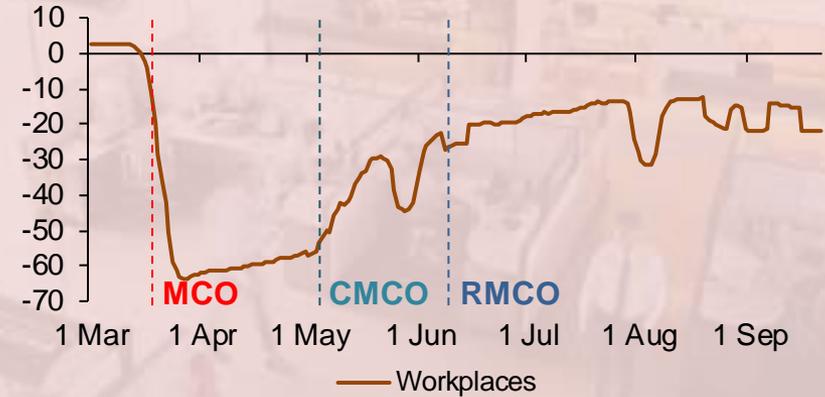
Source: BNM

# Reopening economy: Malaysia's mobility tracker

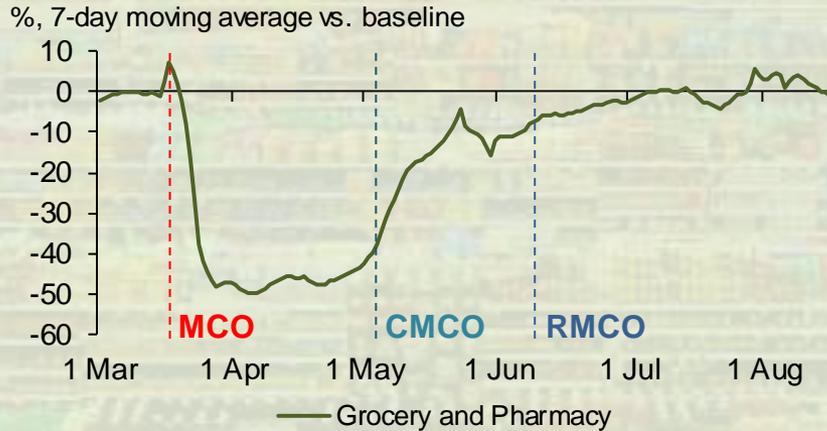
### Time spent in retail and recreation



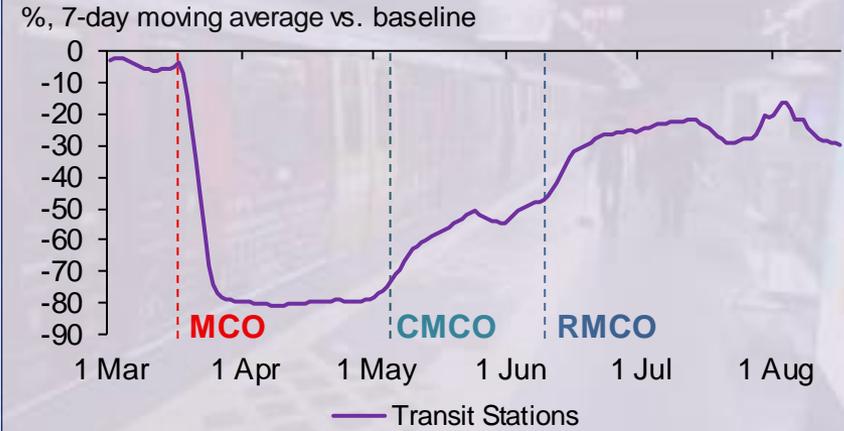
### Time spent in workplaces



### Time spent in grocery and pharmacy



### Time spent in transit stations



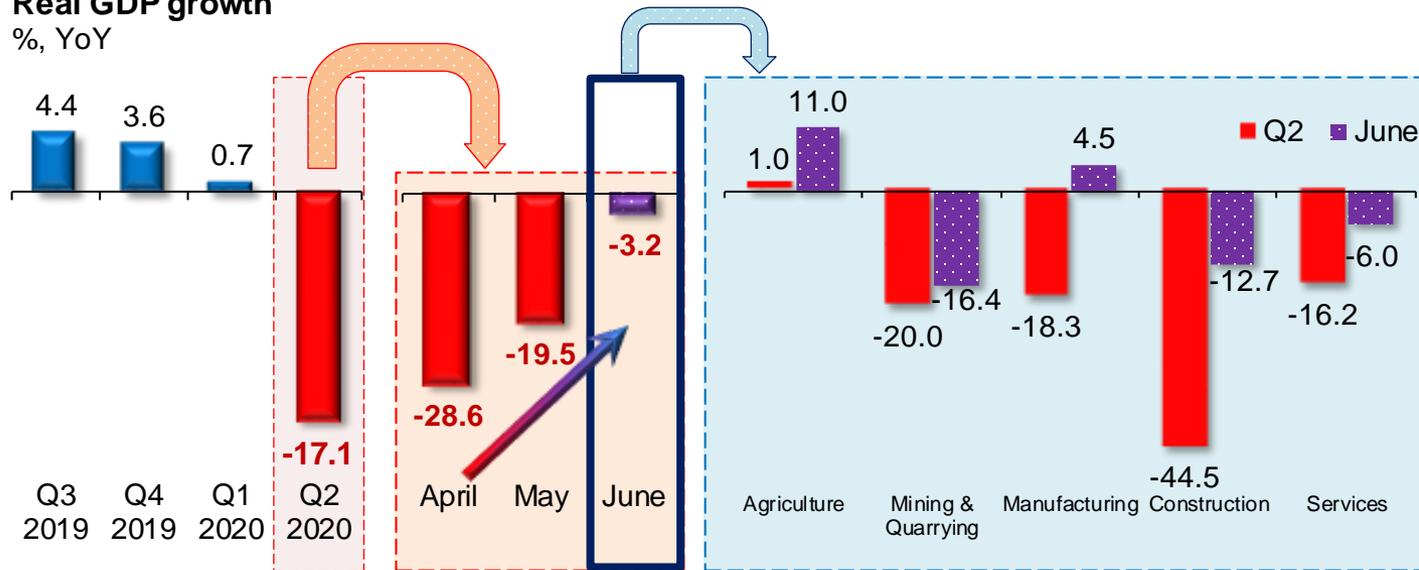
Note: Update (except workplace category) is temporarily suspended from 17 Aug.

Source: Google Mobility (baseline = median value for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020)

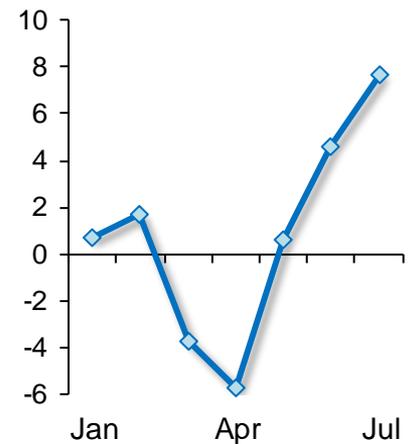
# In a nutshell, the economic slump has off the lows since June

- Based on DOSM's monthly GDP estimates, the sharp declines in economic output (GDP) in April (-28.6% yoy) and May (-19.5%) have narrowed sharply to -3.2% in June following the implementation of CMCO and RMCO.

**Real GDP growth**  
%, YoY



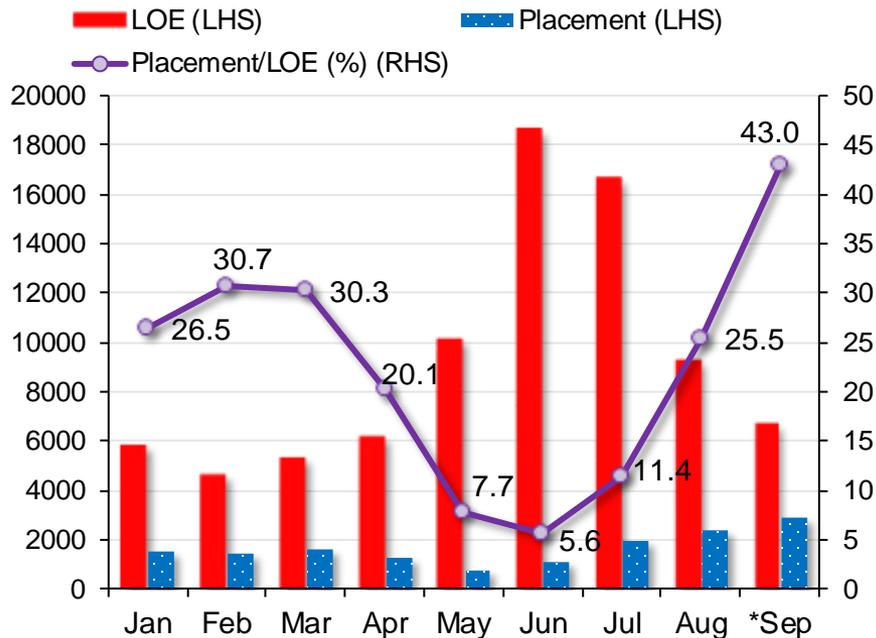
**Malaysia's leading index**  
%, YoY



Source: DOSM

## Loss of employment vs. Job placement

- Placement referred to unemployment benefit recipients who have submitted early re-employment allowance
- **Job placement over loss of employment (LOE) ratio** has improved since reaching bottom in June

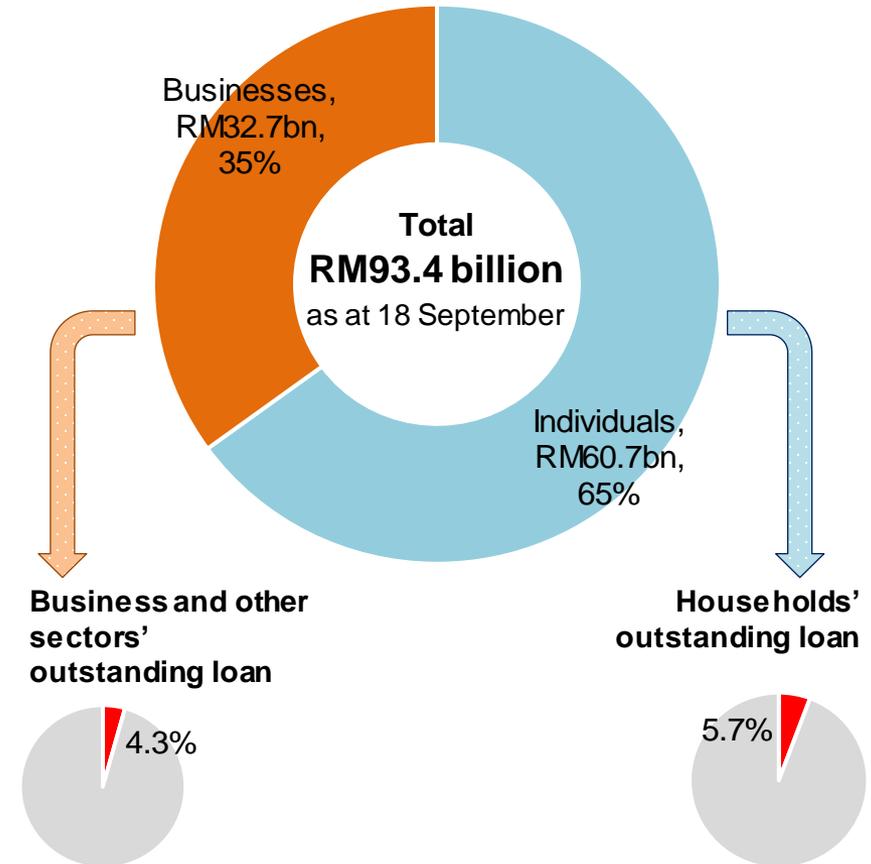


Source: PERKESO; LAKSANA

\* As of 28 Sep, 4pm

## Loan moratorium

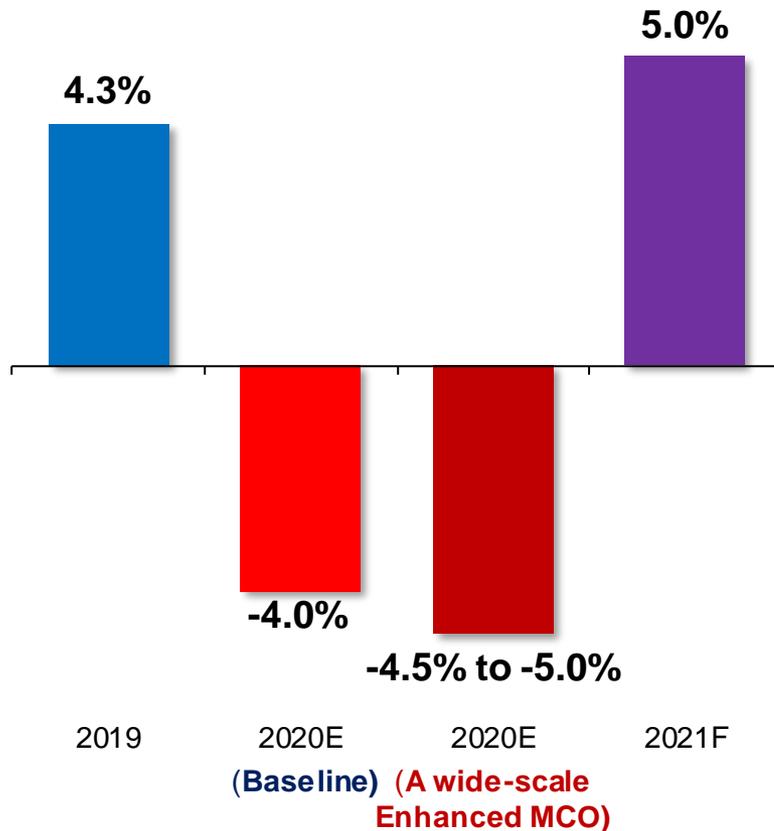
98% of about 500,000 borrowers were approved for targeted extension of loan moratorium as at 11 September



**Blanket moratorium had benefitted 7.7 million individuals (or 93% of individual borrowers) and 243,000 SME borrowers (or 95% of total SME borrowers)**

# Malaysia is well positioned to recover but risks remain

## Real GDP Growth



Source: DOSM; SERC

## Positive Outlook

- 👍 “Sudden stop” in activity in 2020 will normalise in 2021 amid some permanent loss in output
- 👍 Technical base comparison sees a “sharp” bounce in annual growth comparison in 2021
- 👍 Services and tourism-related sectors will be revitalised as tourist arrivals resume gradually
- 👍 Construction: Supported by on-going public infrastructure projects and new projects
- 👍 Exports will rebound as global trade picks up

## Risks to outlook

- 👎 Uncertainty about the future path of virus & vaccines availability
- 👎 A wide-scale Enhanced MCO
- 👎 A prolonged drag in global recovery
- 👎 Longer time for some domestic sectors to repair damage
- 👎 Households repair balance sheet & rebuild savings
- 👎 Slow recovery in jobs market

## Property Sector Outlook

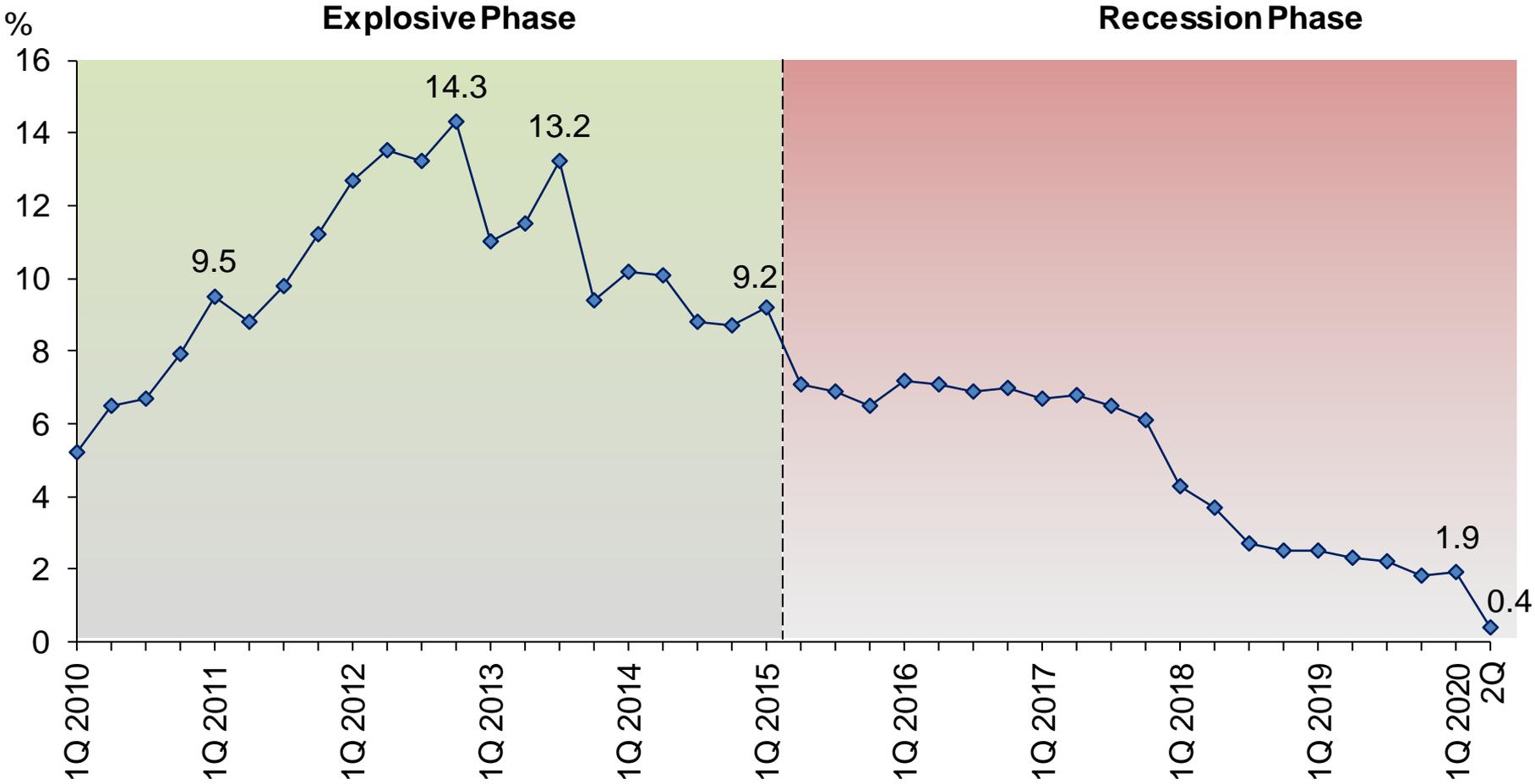
The property sector, which has been in doldrums since 2015, is expected to remain soft for now.

- *Home Ownership Campaign (HOC) – stamp duty exemption, instrument of transfer, 70% margin of financing for third house (>RM600k). Timeline is between 1 June 2020 to 31 May 2021; RPGT exemption for disposal of residential homes from 1 June 2020 to 31 Dec 2021*



# Malaysia's property price cycle (cont.)

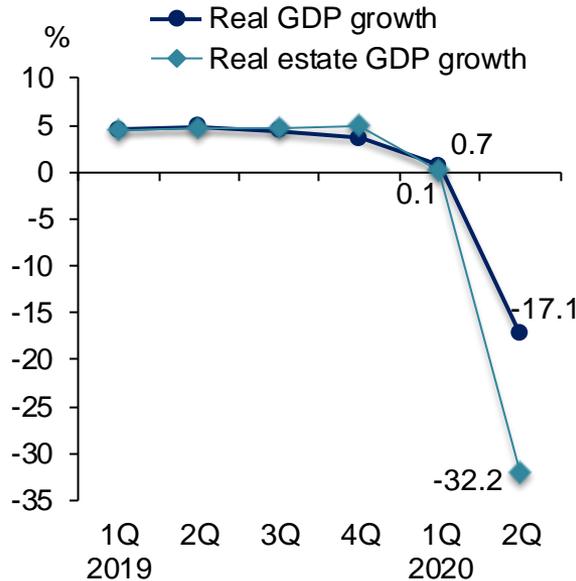
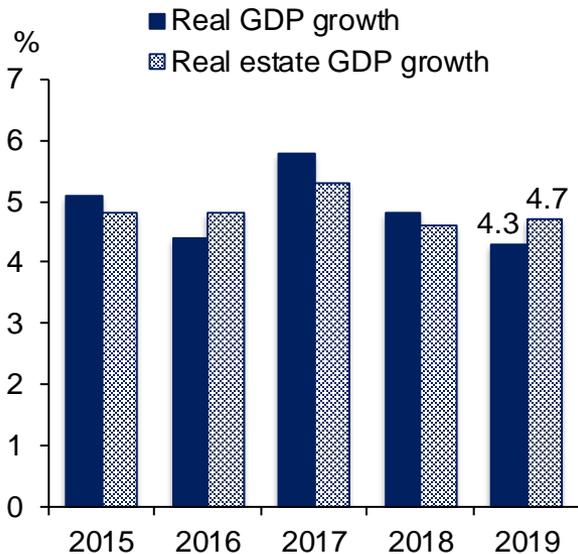
## Percentage change in Malaysia's House Prices



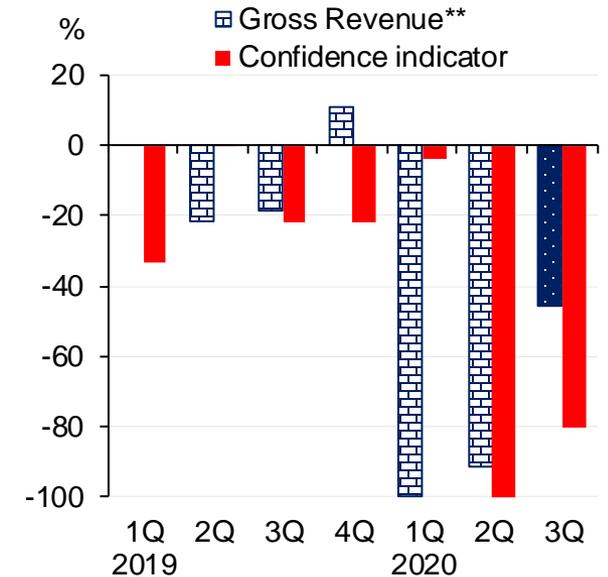
Source: BNM; NAPIC

# Real estate sector took a dive on the COVID-19

- **Growth in real estate sector** contracted sharply by 32.2% yoy in 2Q 2020, impacted by the **COVID-19 and Movement Control Order (MCO)** as well as **disconcerting overhang of properties**.
- **Real estate players remained bearish** on the property outlook in 3Q 2020. Business tendency in real estate industry, which gauges the industry's expectations was less pessimistic in 3Q 2020 compared to 2Q.



Business tendency\* in real estate industry



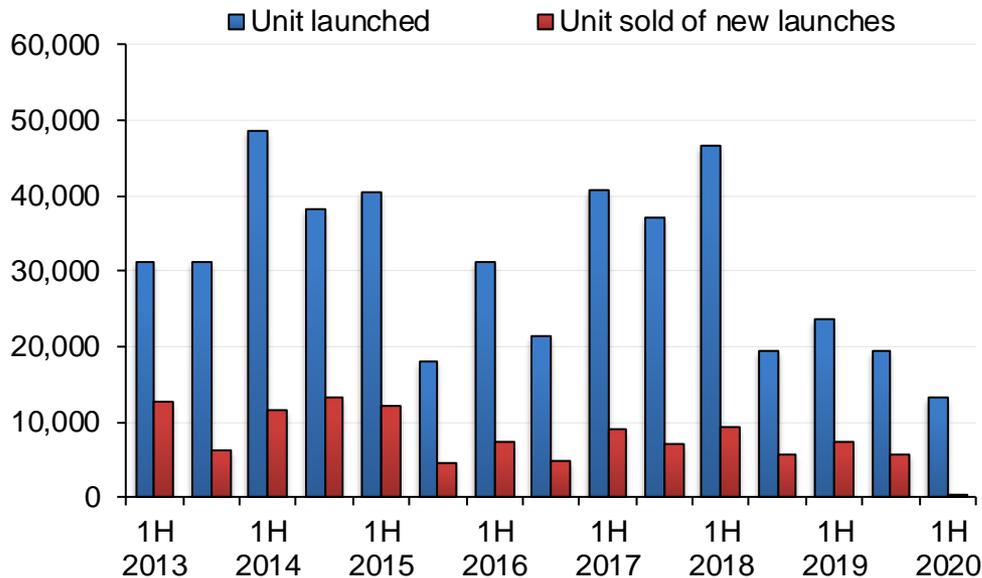
Source: DOSM

\* Calculated by net balance (difference between the percentage of respondents with favourable and unfavourable)  
 \*\* 1Q 2019 to 2Q 2020 is present tendency while 3Q 2020 is future tendency (3 months ahead)

# New launches freeze up in 1H 2020

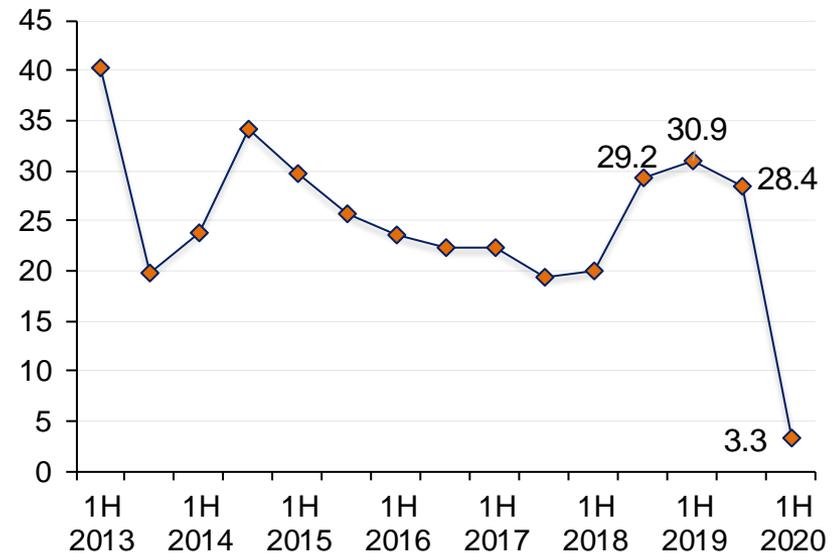
- In 1H 2020, new launches of residential property **slumped 43.6% yoy** due to cautious buyers' sentiment stemming from the COVID-19 induced economic uncertainty and MCO inflicted "sudden stop" business and economic activities.
- **Poor market absorption in the primary market** led to an increase in residential overhang.

New launches of residential property



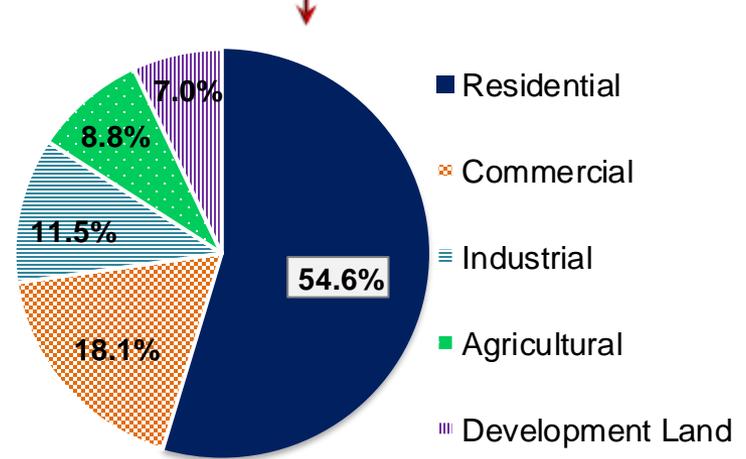
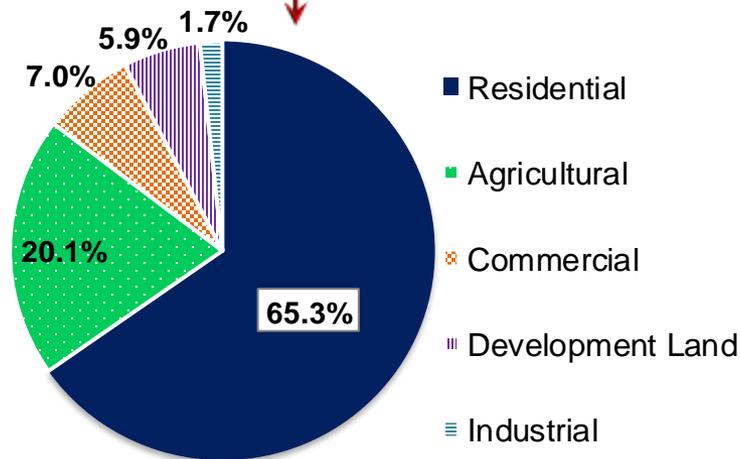
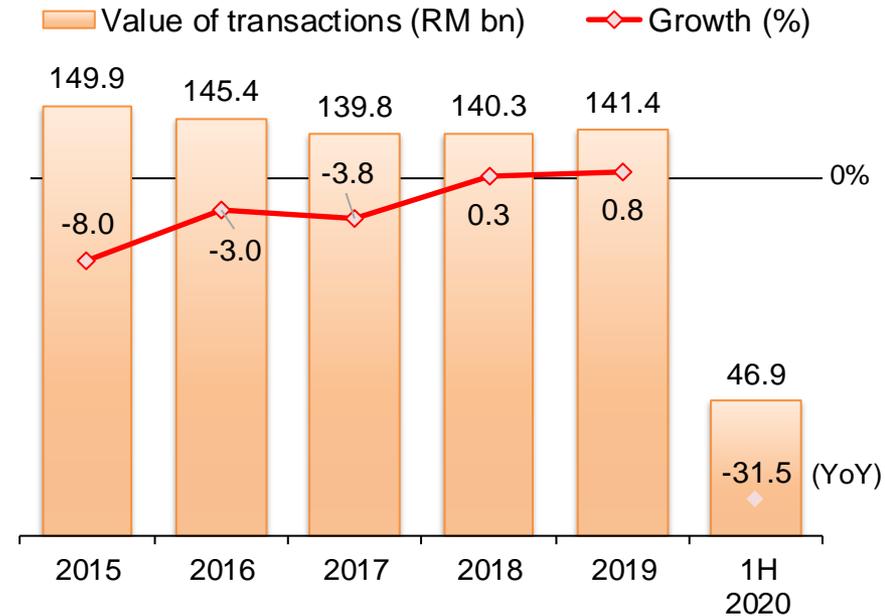
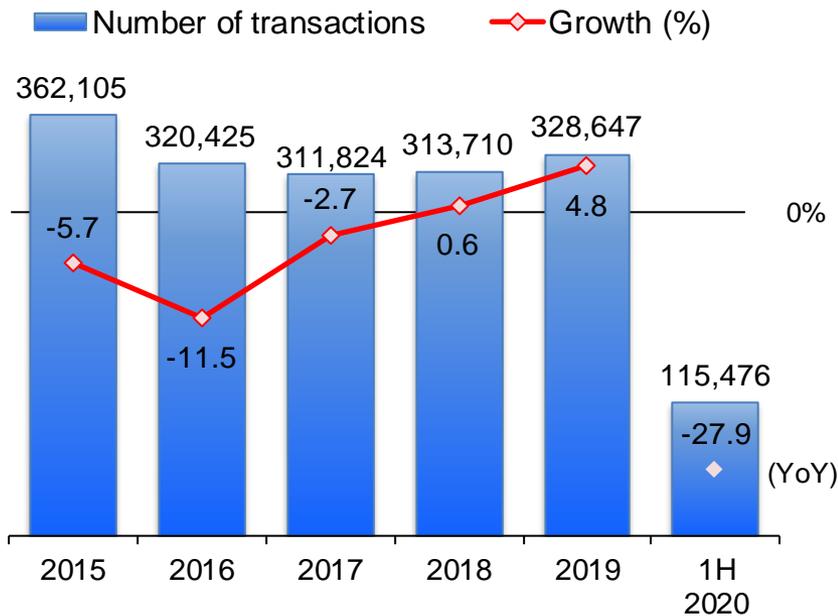
Source: NAPIC

Sales performance (%) of residential property during the new launches



Note: Sales performance = "Unit sold of new launches" / "Unit launched"

# Sluggish property market conditions continue to persist

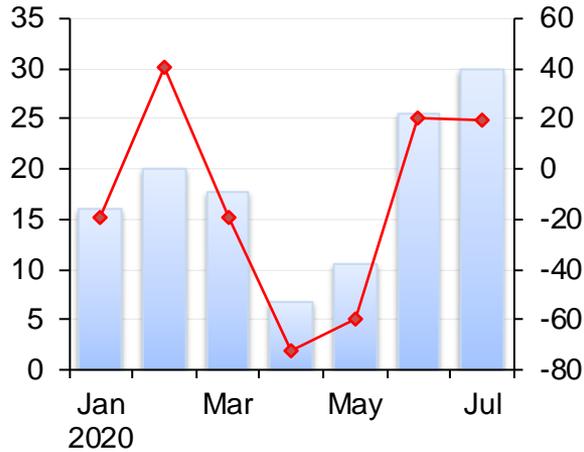


Source: NAPIC

# Housing loan indicators

■ RM bn (LHS)  
◆ % Growth, YoY (RHS)

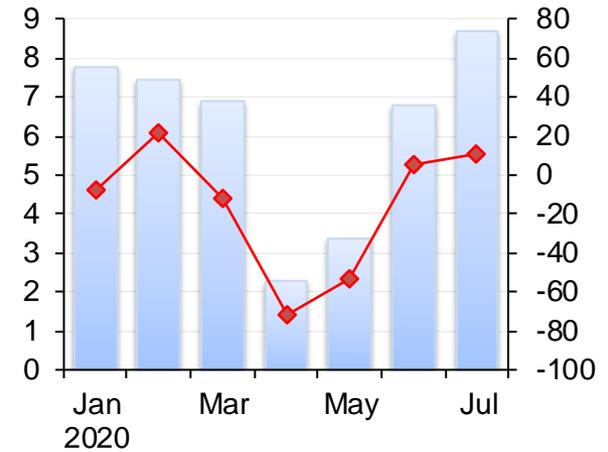
### Housing loan applications



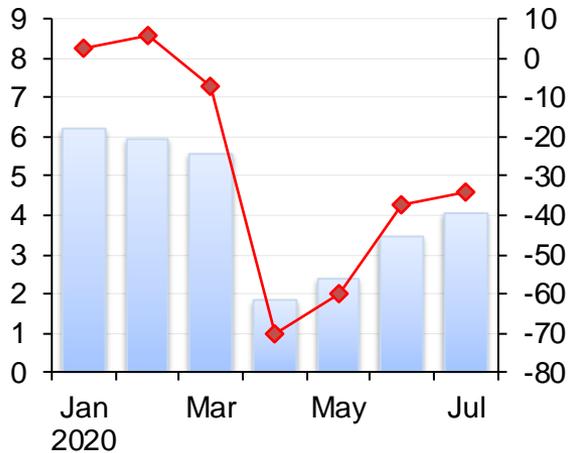
### Housing loan approvals



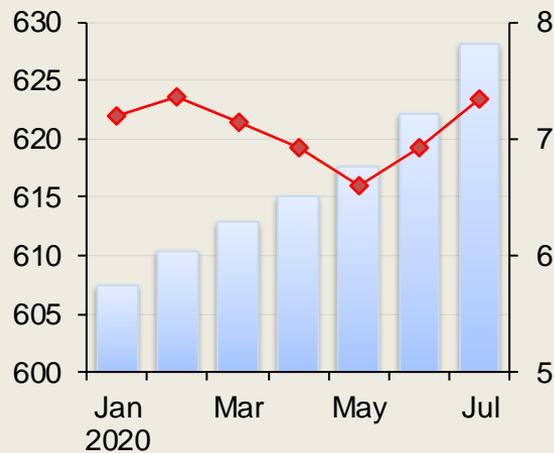
### Housing loan disbursements



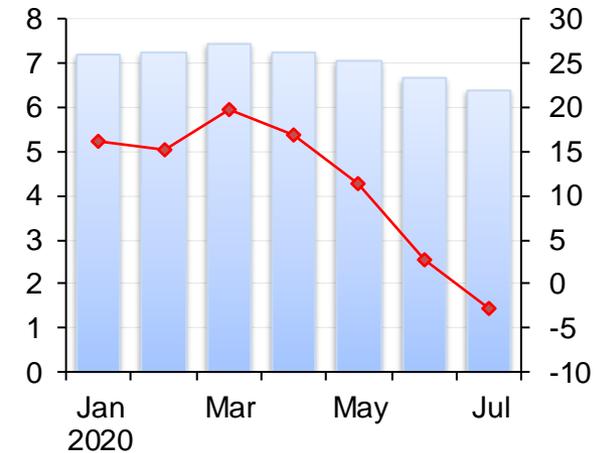
### Housing loan repayments



### Housing loan outstanding



### Non-performing housing loan



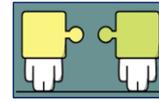
Source: BNM

# Property overhang remains a major concern

## Factors contributed to a massive property overhang since 2015



House prices rose beyond the affordability level



Supply-demand mismatch



High cost of living and stagnant income growth



Lack of timely and accurate data

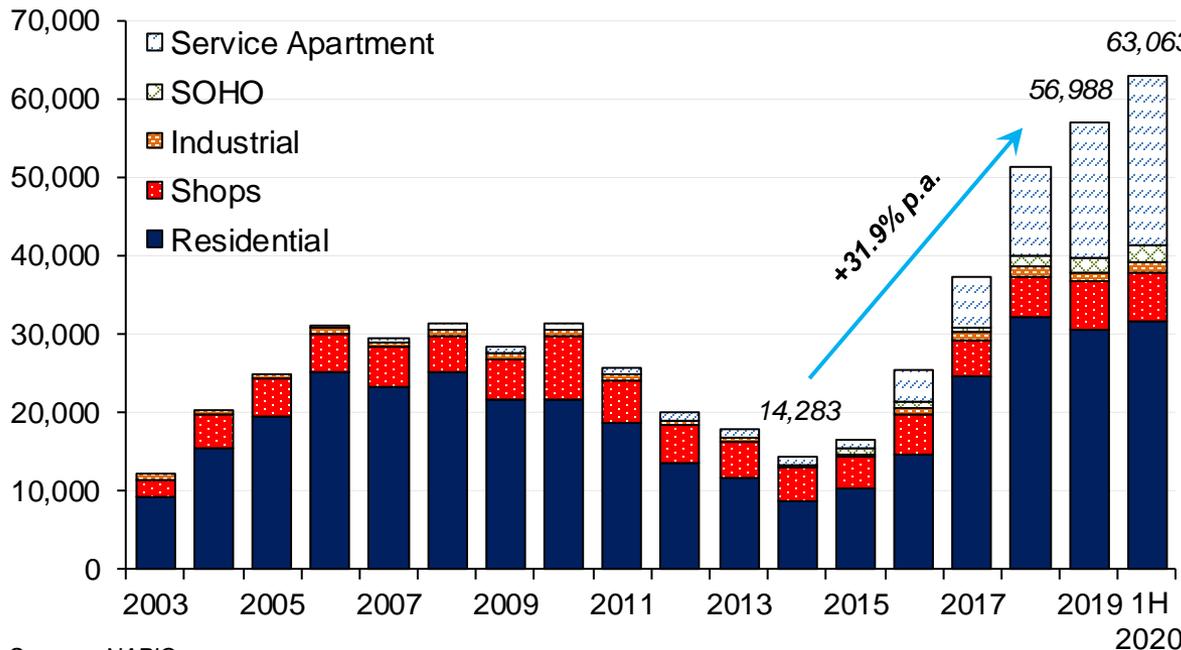


Property cooling measures



Property boom lost its steam

### Total overhang units by type



Source: NAPIC

1H 2020			
	Share of total	Unit	RM bn
Serviced Apartment	(34.4%)	21,683	18.6
SOHO	(3.3%)	2,071	1.0
Industrial	(2.3%)	1,461	2.2
Shops	(9.8%)	6,187	5.0
Residential	(50.2%)	31,661	20.0
<b>TOTAL</b>		<b>63,063</b>	<b>46.9</b>
vs. 1H 2019:		6.0%	12.5%
vs. 1Q 2020:		12.6%	12.9%

# Overhang residential properties are largely in condominium/apartment & 2-3 storey terrace



Condominium/Apartment

**(51.4% share\*)**  
As of 1H2020



2-3 Storey Terrace

**(24.9% share\*)**  
As of 1H2020



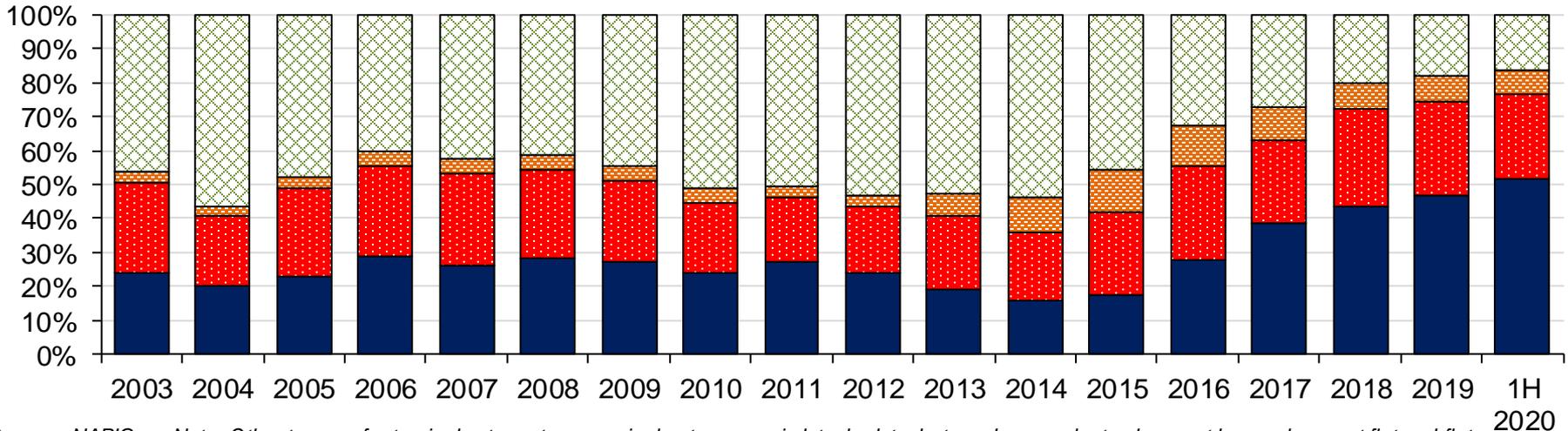
2-3 Storey Semi-Detach

**(7.1% share\*)**  
As of 1H2020

\* Share of total overhang residential property

## Share of overhang units by type

■ Condominium / Apartment    ■ 2 -3 Storey Terrace    ■ 2-3 Storey Semi-Detach    ■ Other Types



Source: NAPIC Note: Other types refer to single storey terrace, single storey semi-detach, detach, town house, cluster, low cost house, low cost flat and flat.

# Property sector remains a challenging outlook

## The Negatives

- 📢 Sharp economic downturn in 2020
- 📢 Lingering uncertainty about the pace and strength of recovery in 2021
- 📢 Highly cautious consumer sentiment
- 📢 Weak labour market conditions (loss of employment and pay cuts or freeze)



## The Positives

- 👍 Incentives to spur buying interest in primary market
  - **Reintroduced the Home Ownership Campaign (HOC)** – Stamp duty exemption on the instruments of transfer and loan agreement for the purchase of residential homes priced between RM300,000 to RM2.5 million subject to at least 10% discounts provided by the developer. The exemption on the instrument of transfer is limited to the first RM 1 million of the home price while full stamp duty exemption is given on loan agreement effective for sales and purchase agreements signed between 1st June 2020 to 31st May 2021.
  - **Real Property Gains Tax exemption** for property sales from 1st June 2020 to 31<sup>st</sup> December 2021 (This exemption is limited to the disposal of three units of residential homes per individual)
- 👍 Historical low mortgage rate (3.3% p.a)
- 👍 Weak Ringgit
- 👍 Malaysian properties remain attractive to foreigners and expats

## **The 2021 Budget – Targeted fiscal expansionary stance**

The 2021 Budget expenditure programs and measures should be targeted and prioritized to help the nation to reset, revitalise and recover from the pandemic crisis.



# Targeted fiscal support still needed

## Domestic economy at an early stage of uneven recovery

- **Fiscal support is incredibly important** to ensure the recovery will not turn anaemic amid increasing concerns about an occurrence of a second wave of virus.
- **A pullback or reduction in public spending** would trigger a renewed economic contraction if the private sector has not recovered to take up the slack.
- It's not about only getting the right macro and growth narrative; the **impactful policies implementation must be in focus.**

## Three key emerging trends

**1. Retooling economic policies** to improve cost competitiveness and strengthen economic resilience

**2. Identifying new sources of economic growth and value creation industries,** focusing on the deployment of digital technologies and digital transformation

**3. Aligning on new targets** for economic performance and socio-economic development in conformity with **Sustainable Development Goals (SDG)**

# Targeted fiscal support still needed ... (cont.)

## A fiscal lever is needed to facilitate and sustain the recovery resilience



The raising of the **self-imposed statutory debt ceiling** from 55% to 60% of GDP through 2022 gives the Federal Government the capacity to borrow an **additional RM70.0 billion to RM75.0 billion**, based on a nominal GDP value of between RM1.4 trillion and RM1.5 trillion.



It's now up to the Federal Government to flex its fiscal spending power. How much budget deficit spending and debt it willing to commit in the tabling of 2021 Budget on 6 November 2020?



We expect the **Federal Government to plan a budget deficit of 5.5%-6.0% of GDP for 2021** (estimated 6.0%-6.5% of GDP in 2020).



The 2021 Budget is being formulated under the Recovery MCO to **cement early signs of recovery are firmly entrenched** amid concerns about an occurrence of a second wave of virus and uncertainty on the availability of vaccines.

# Targeted fiscal support still needed... (cont.)

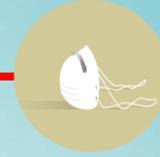
## A fiscal lever is needed to facilitate and sustain the recovery resilience

- **Targeted expansionary budget** to sustain stronger economic revival amid uncertainty about the availability of vaccines.
- Government spending should be **prioritized for programs that protecting B40 households, boost purchasing power, attract investment and create more jobs as well as reskilling and upskilling.**
- **Priority programs on digitalisation, healthcare, industrial development, agriculture and entrepreneurship (youth and women empowerment).**

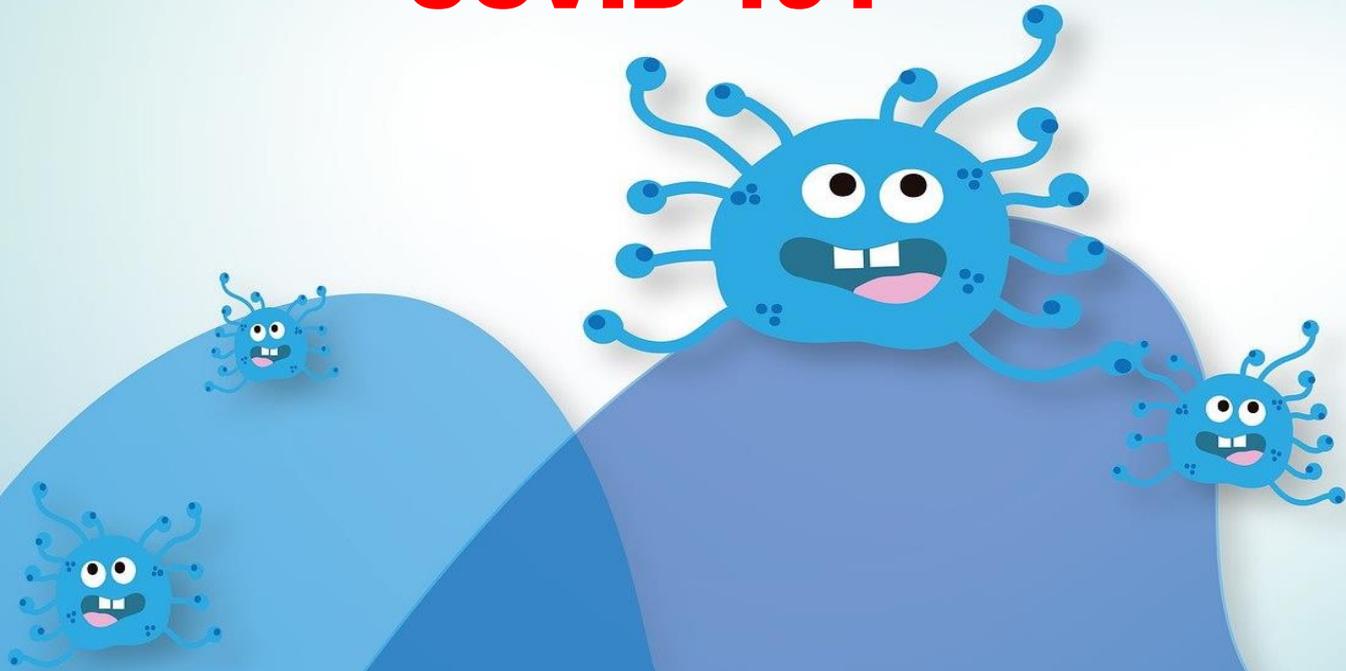
# Targeted fiscal support still needed... (cont.)

## FISCAL MEASURES AND PROGRAMS CAN BE CONSIDERED TO SUPPORT DOMESTIC DEMAND:

- Speeding up the implementation of small and mid-sized projects; on-going and new public infrastructure projects;
- Targeted cash assistance for the most vulnerable group; e-spending voucher; local travel cum shop discount vouchers to support domestic tourism and retail sector; tax holiday for individuals;
- Co-sharing of wage scheme to help hiring of fresh graduates and unemployed; start-ups capital grant to incentivise youth entrepreneurship;
- Facilitation support programs for e-commerce and digitalisation; and
- Encourage agro-food and agriculture entrepreneurship.



**Wearing mask and social distancing  
are the most powerful tool to fight the  
COVID-19 !**







**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>