



Socio-Economic Research Centre (SERC)

Quarterly Economy Tracker

Apr-Jun 2023

Sustaining Economic Resilience Amid Persistent Challenges

2 August 2023





GLOBAL OUTLOOK REMAINS WEIGHED DOWN BY PERSISTENT CORE INFLATION AND HIGHER INTEREST RATES

- **Global growth continues but remain weak.** Six months on, while the global economic environment remains weak, it was not that bad as feared. Global growth continues in 1H 2023, with growth in the advanced economies were supported by resilient domestic demand and firm labour market conditions. The long list of risks affecting the global economy remained: Prolonged geopolitical uncertainties, including the Russia-Ukraine conflict as well as the US and China's strategic rivalry, high inflation and cost of living pressures, the lag impact of higher interest and tighter financial conditions, as well as the climate change impact.
- **High-frequency data suggest slowing economic growth.** The tracking of high frequency current and forward indicators continue to show slowing global economic growth: (i) The OECD Composite Leading Indicators stayed below its long-term average with an insignificant upward turning for overall G20, indicating still weak global economic recovery; (ii) Global Manufacturing PMI stood below the threshold (50-pt expansion mark) for four consecutive months in June 2023 while Services PMI, which remained robust, has turned softer in June; (iii) Global industrial production paced moderately while trade volume showing contraction in Apr-May; and (iv) Since August 2022, global semiconductor sales have been declining for ten consecutive months in May 2023, with double-digits contraction from December 2022 onwards due to weakening demand and inventories adjustment. The Semiconductor Industry Association (SIA) projected that global semiconductor sales would contract by 10.3% in 2023 on increasing inflation and weakening demand in end markets. Nonetheless, the long-term prospects remain strong for the industry as semiconductors are the backbone of the current-day technology-driven economy.
- **Performance of advanced economies:** Notwithstanding the easing banking sector stress and tighter monetary policy, the **United States** economy remained resilient in 2Q (2.4% annualised qoq vs. 2.0% in 1Q and 2.6% in 4Q 2022; 2.6% yoy vs. 1.8% in 1Q and 0.9% in 4Q 2022), underpinned by strong labour market conditions and continued wage growth. Ebbing inflation will likely to aid households spending. Nonetheless, lingering recession fears remain due to the lag impact of higher interest rates.
- The **euro area** grew marginally by 0.3% qoq in 2Q (0.0% in 1Q 2023 and -0.1% in 4Q 2022). Rising interest rates, high inflation albeit moderating and global headwinds continue to challenge economic momentum in 2Q. Economic sentiment was weak; the manufacturing PMI contracted for twelve straight months in June while the services PMI pointed to a robust expansion ahead.
- The **Japan's** economy will continue to expand due to recovering consumer spending (benefitting from easing of pandemic restrictions) and private non-residential investment. Services activity expanded at a record pace in April and May with retail sales expanding steadily. Core machinery orders exhibited uneven growth. However, exports growth remained sluggish amid a weaker-than-expected Chinese economy. A 22 months of trade deficit recorded since August 2021 until May 2023, with a small surplus registered in June recently.

- After growing by 4.5% yoy in 1Q, **China's** GDP growth picked up to 6.3% in 2Q on a favourable base effect, which coincided with the Shanghai lockdown. However, the underlying momentum is losing steam as the anticipated pandemic's economic reopening boost fades, exports fell to the lowest in three years, and the still struggling property sector as reflected in decline in new home sales. There was a mix bag of economic data in June: Industrial output grew by 4.4% in June (3.5% in May); retail sales increased moderately by 3.1% in June (12.7% in May); and fixed asset investment expanded by 3.8% in the first six months of 2023 vs. 4.0% in the Jan-May period. The most concerning issue is the persistently high youth (16 to 24 years old) unemployment rate rose to a fresh record high of 21.3% in June. The People's Bank of China has cut several policy and lending rates by 10 basis points, and key state-owned banks lowered deposit rates to support households and businesses.
- **Headline inflation ebbing; core inflation remains in focus.** While headline inflation has falling rapidly in some developed economies, tight labour market conditions pressure services prices, adding to core inflation. Global energy and commodity prices, tight labour markets that drive up services inflation, and ongoing globalisation reset, which could offset some of the efficiency gains in the global supply chains, are among the key risks that could increase inflationary pressures in 2H 2023 and 2024.

We concur with the IMF's assessment that the discontinuation of the Black Sea grain deal threatens to worsen the food security outlook and risks adding to global food inflation. Add to the inflation risk is the tighter oil supplies and renewed surge in crude oil prices as well as the climate change impact on agricultural and food production

- **Global monetary tightening cycle may come to an end.** The overall picture is that monetary tightening is clearly slowing and likely to pause in the second half-year of 2023. Inflation may have peaked, but upside risks could make the monetary policy tightening more challenging. Ultimately, central bank policy moves will be driven by the current and expected path of inflation. While easing inflation builds the case for rate cutting going into 2024, probably in 2H 2024 but the high level of interest rates will have to stay higher for longer than previously expected.

Global Economic and Monetary Conditions

Real GDP growth (% YoY)

	2021	2022	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023F (IMF)	2023F (WB)
World	6.3	3.5	N/A	N/A	N/A	N/A	3.0	2.1
United States	5.9	2.1	1.9	0.9	1.8	2.6	1.8	1.1
Euro Area	5.5	3.4	2.4	1.8	1.1	0.6	0.9	0.4
China	8.1	3.0	3.9	2.9	4.5	6.3	5.2	5.6
Japan	2.2	1.0	1.5	0.4	1.9	N/A	1.4	0.8
India	9.1	7.2	6.2	4.5	6.1	N/A	6.1	6.3
Malaysia	3.1	8.7	14.1	7.1	5.6	N/A	4.5	4.3
Singapore	8.9	3.6	4.0	2.1	0.4	0.7	1.5	N/A
Indonesia	3.7	5.3	5.7	5.0	5.0	N/A	5.0	4.9
Thailand	1.5	2.6	4.6	1.4	2.7	N/A	3.4	3.9
Philippines	5.7	7.6	7.7	7.1	6.4	N/A	6.2	6.0
Vietnam	2.6	8.0	13.7	5.9	3.3	4.1	5.8	6.0

Note: World GDP growth for 2021-2022 by IMF; Annual GDP for India is on fiscal year basis; N/A = Not applicable or not available

Source: Officials (unadjusted data except quarterly GDP for Euro Area); IMF (World Economic Outlook (WEO), Article IV); World Bank (Global Economic Prospects)

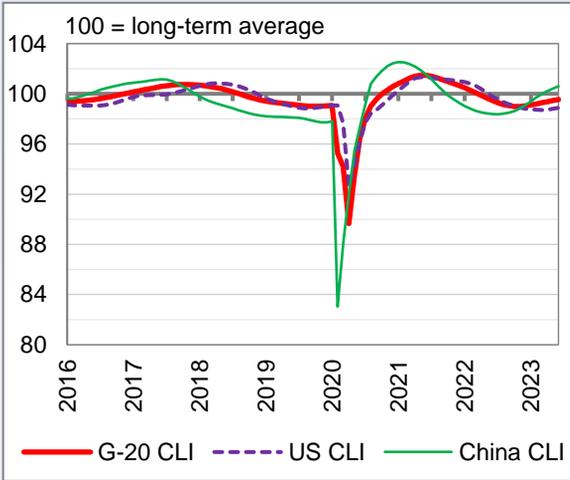
Policy rate (%)

End-period of	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 (Jul)	2023f
US, Fed Federal Funds Rate	0.00-0.25	0.25-0.50	0.50-0.75	1.25-1.50	2.25-2.50	1.50-1.75	0.00-0.25	0.00-0.25	4.25-4.50	5.25-5.50	5.50-5.75
Euro Area, ECB Deposit Facility	-0.20	-0.30	-0.40	-0.40	-0.40	-0.50	-0.50	-0.50	2.00	3.75	4.25
Japan, BOJ Short-term Policy I/R	0.00-0.10	0.00-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
China, PBC 1-Year Loan Prime Rate	5.60	4.35	4.35	4.35	4.35	4.15	3.85	3.80	3.65	3.55	3.55
India, RBI Policy Repo Rate (LAF)	8.00	6.75	6.25	6.00	6.50	5.15	4.00	4.00	6.25	6.50	6.50
Korea, BOK Base Rate	2.00	1.50	1.25	1.50	1.75	1.25	0.50	1.00	3.25	3.50	3.50
Malaysia, BNM Overnight Policy Rate	3.25	3.00	3.00	3.00	3.25	3.00	1.75	1.75	2.75	3.00	3.00
Indonesia, BI 7-Day RR Rate	7.75	7.50	4.75	4.25	6.00	5.00	3.75	3.50	5.50	5.75	5.75
Thailand, BOT 1-Day Repurchase Rate	2.00	1.50	1.50	1.50	1.75	1.25	0.50	0.50	1.25	2.00	2.00
Philippines, BSP Overnight RR Facility	4.00	4.00	3.00	3.00	4.75	4.00	2.00	2.00	5.50	6.25	6.25

Source: Officials; SERC

Global Current and Forward Indicators

OECD composite leading indicators showed insignificant upward turning for overall G20



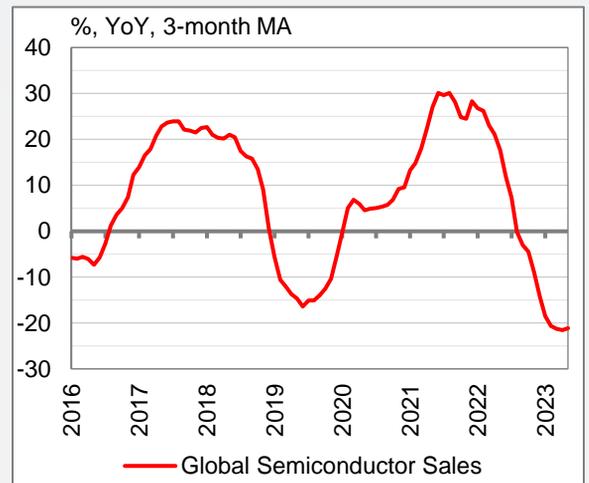
Global manufacturing PMI contracted for four straight months in Jun



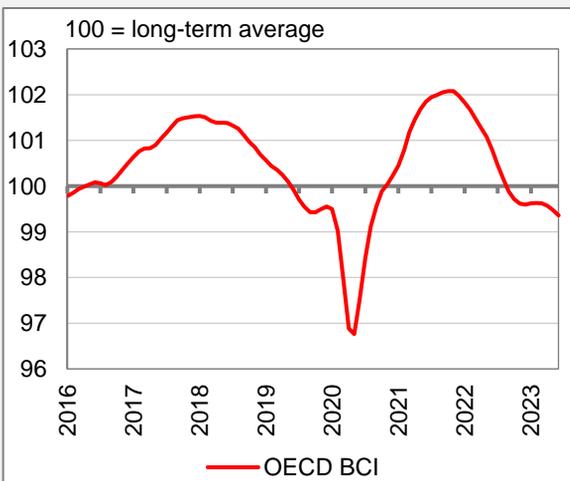
Global trade volume remains weak on slower demand



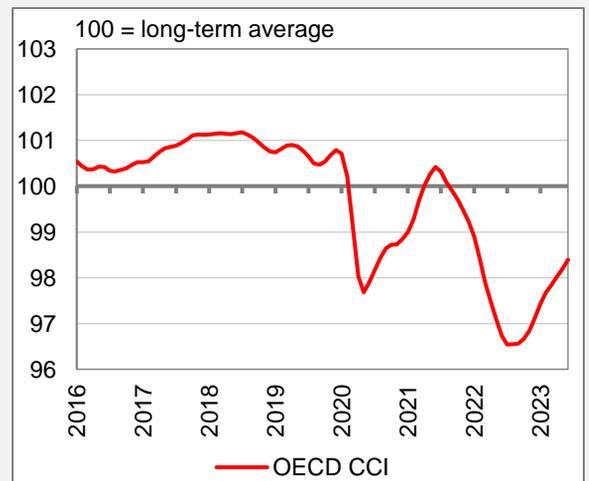
Global semiconductor sales growth may have reached its bottom



OECD Business Confidence Index

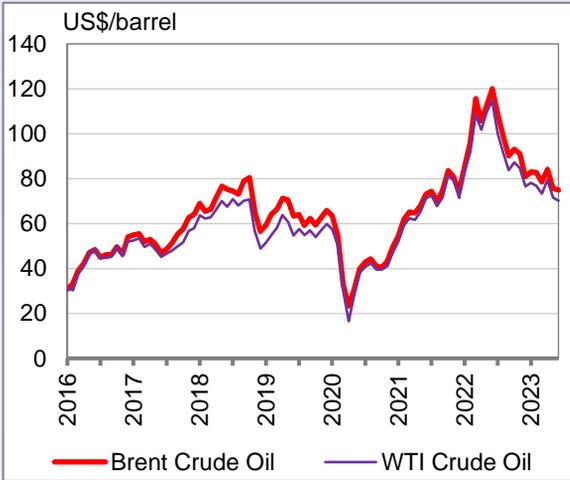


OECD Consumer Confidence Index

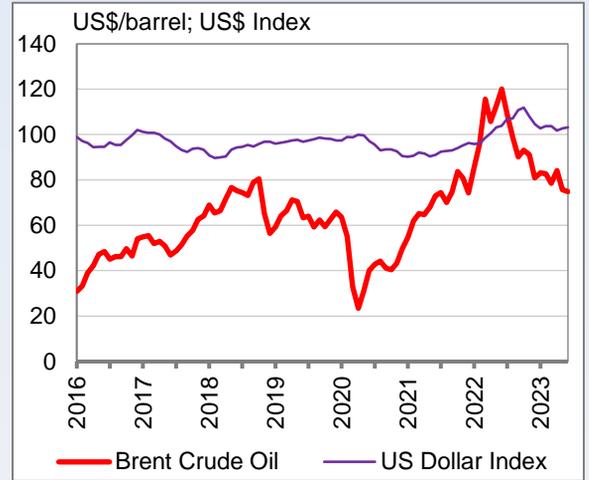


Global Current and Forward Indicators (cont.)

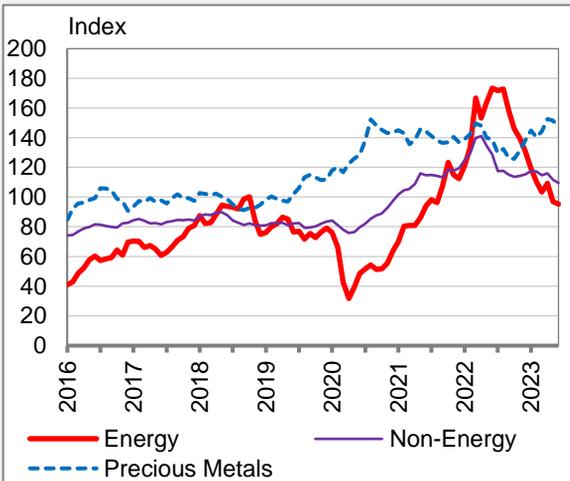
Crude oil prices eased gradually on softening global activities



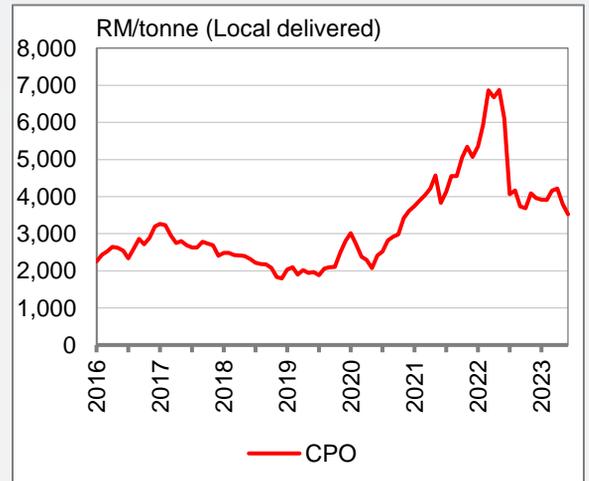
Brent crude oil price vs. the US dollar index



Overall prices of non-energy commodities continued to slow, albeit gradually



Crude palm oil prices rebounded to about RM4,000/tonne level in late-Jul

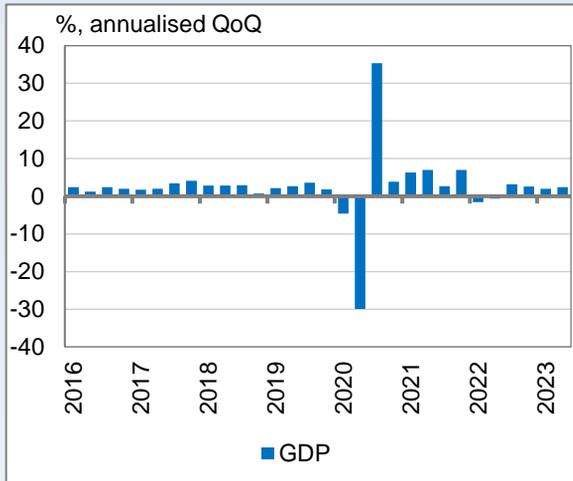


Source: Organisation for Economic Co-operation and Development (OECD); Markit; CPB Netherlands Bureau for Economic Policy Analysis; Semiconductor Industry Association (SIA); World Bank; The Wall Street Journal; Malaysian Palm Oil Board (MPOB)

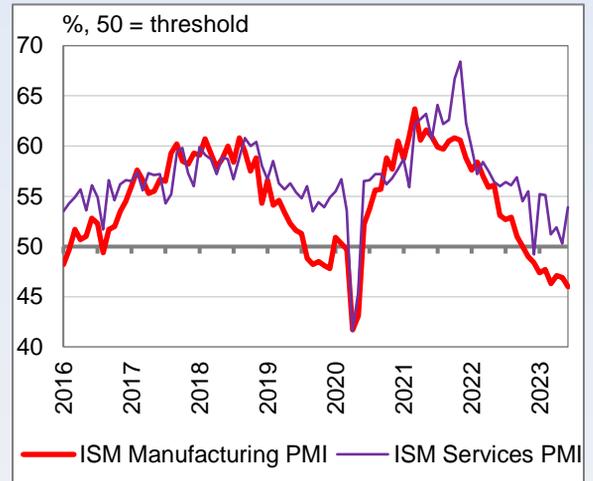


The US – Still strong private consumption

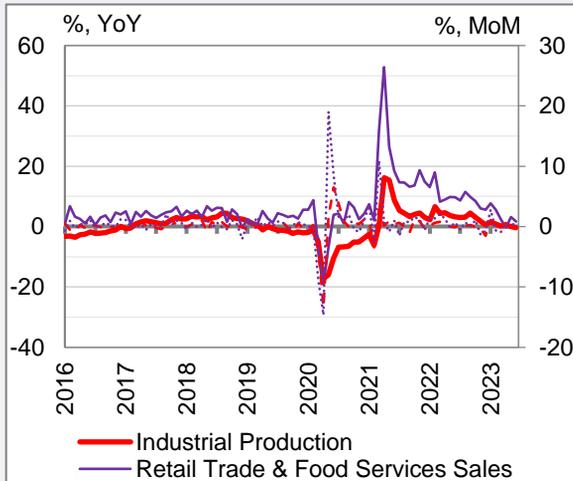
The US economy expanded firmly in 1Q and 2Q on resilient consumption



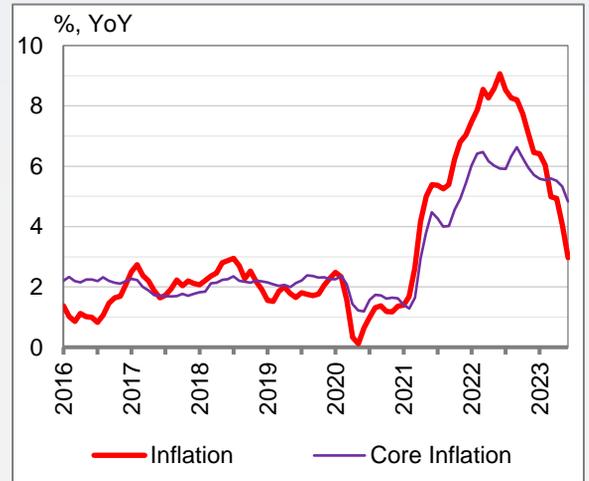
Manufacturing PMI showed contraction for eight consecutive months in Jun



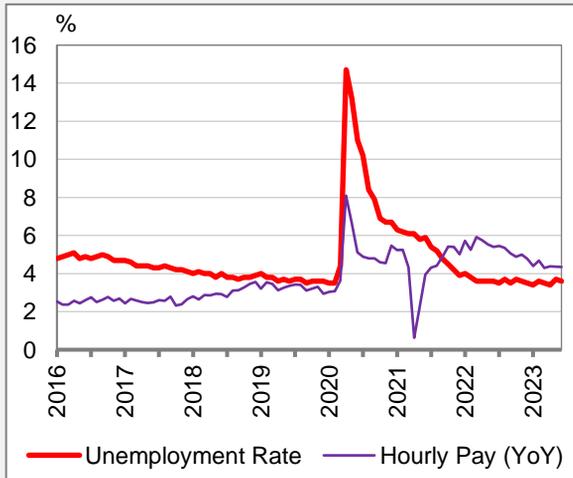
Industrial production contracted for the first time in June since Feb 2021



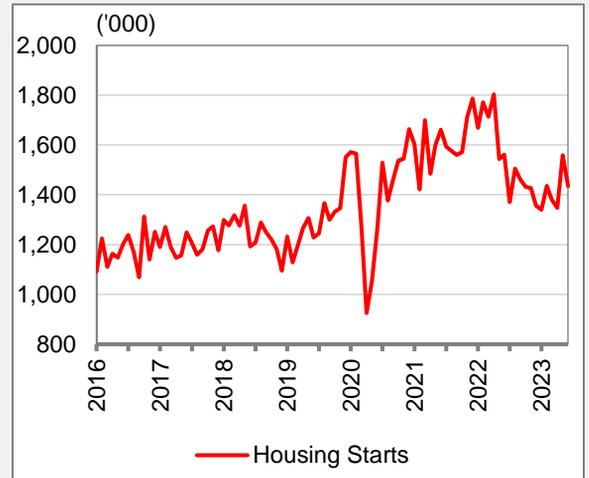
Headline inflation eased-off; core inflation still elevated



Job market remained robust since early-2022



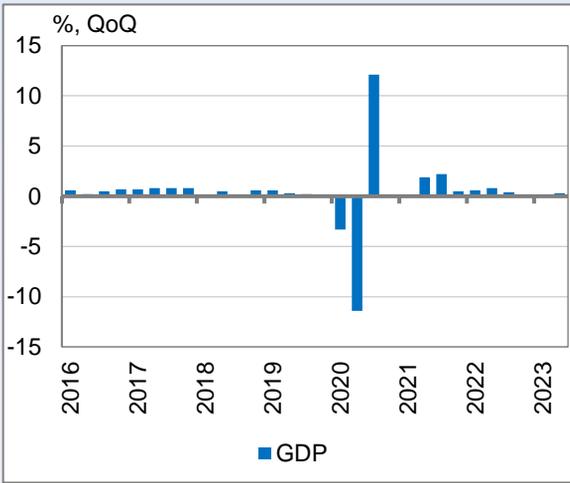
Housing starts trend is uneven



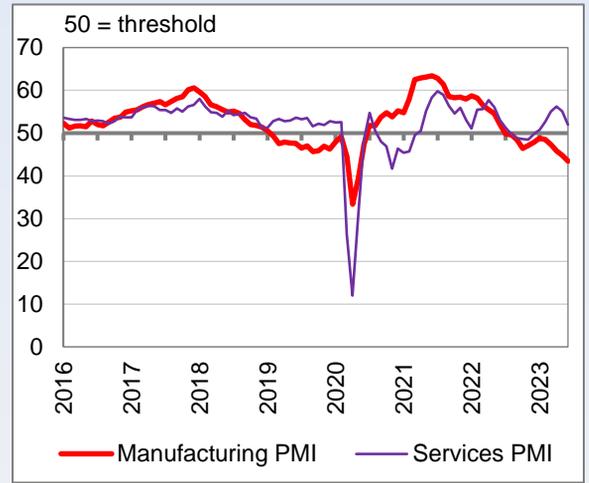
Source: Bureau of Economic Analysis (BEA); Institute for Supply Management (ISM); Federal Reserve System; US Census Bureau; US Bureau of Labor Statistics

Euro Area – Seemingly tepid

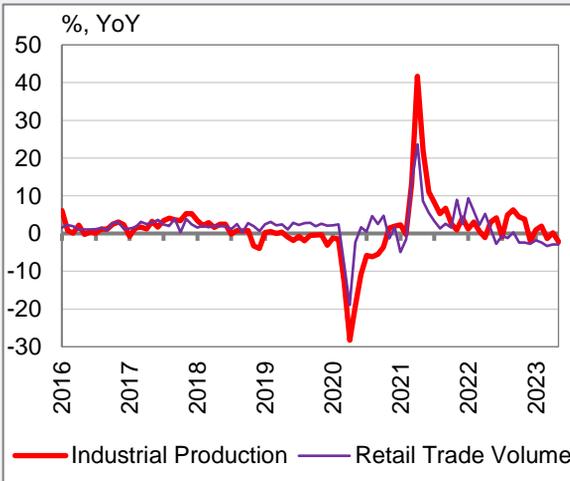
A mild economic growth in 2Q



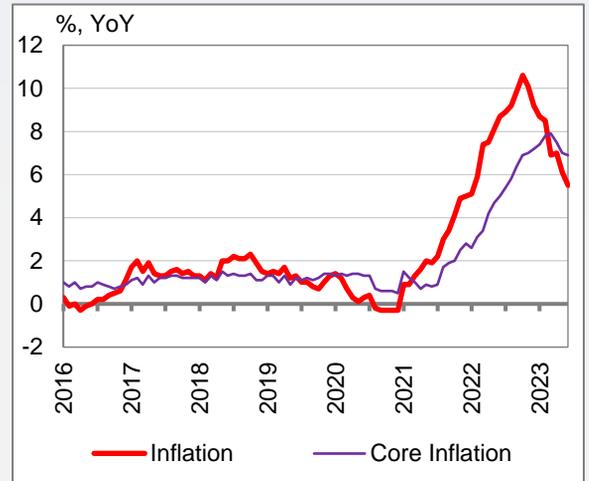
Manufacturing PMI stayed below threshold for the past 12 months in Jun



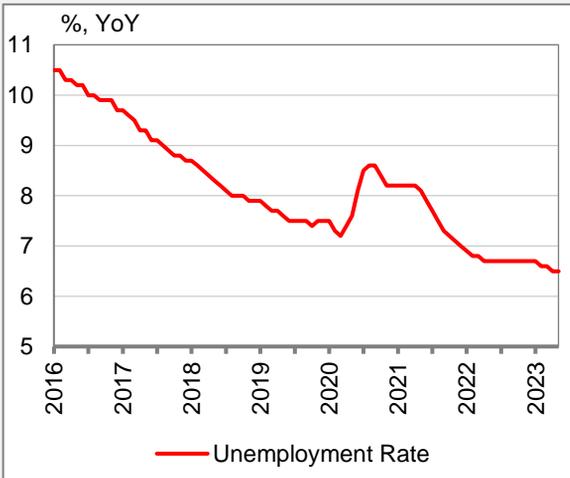
Both industrial production and retail activities declined in May



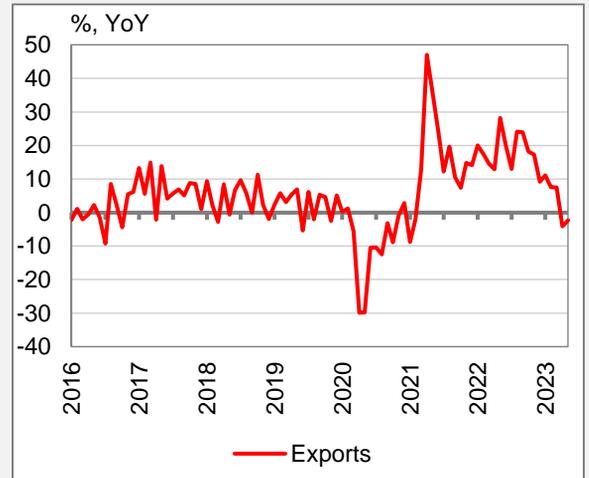
Core inflation cooled-off a little from the peak



Job market is improving



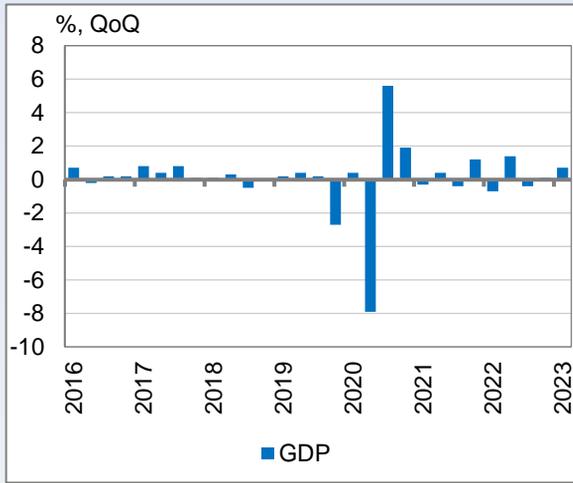
Exports contracted for the second continuous month in May



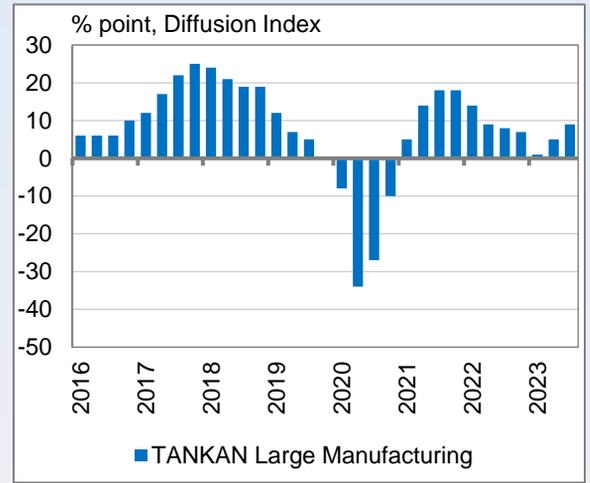
Source: Eurostat; Markit

Japan – Losing some steam

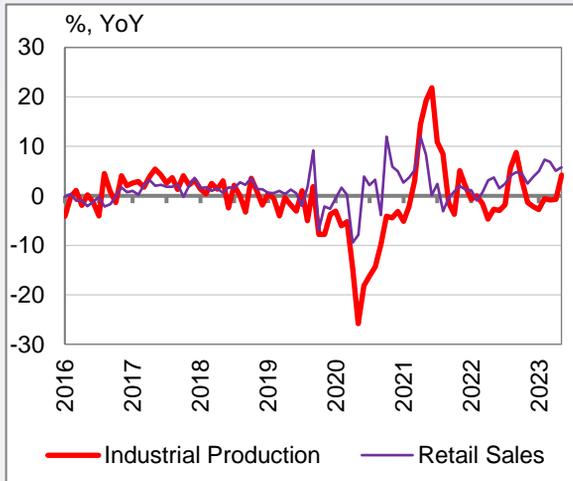
Economic growth expanded considerably in 1Q 2023



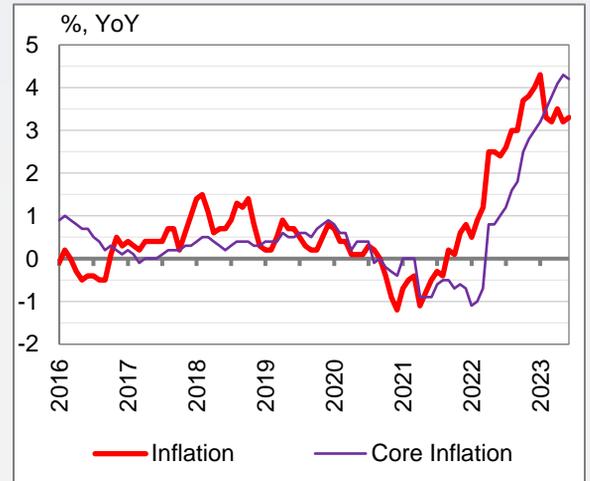
TANKAN survey signals brighter prospect for manufacturing sector



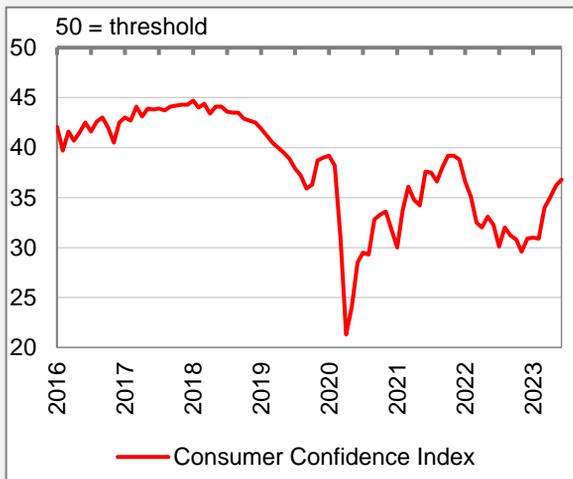
Industrial production back to growth in May after six months of contraction



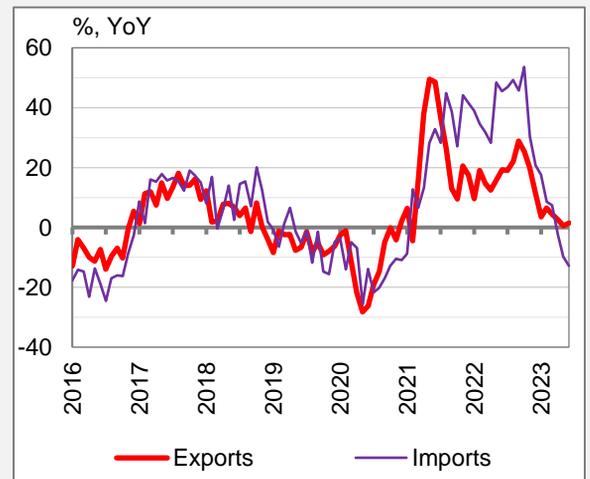
Core inflation rate climbing up rapidly



Consumer confidence showed some recovery signs



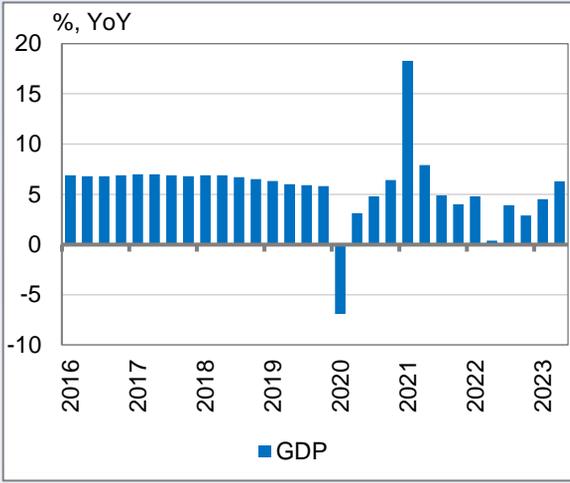
External demand remained sluggish



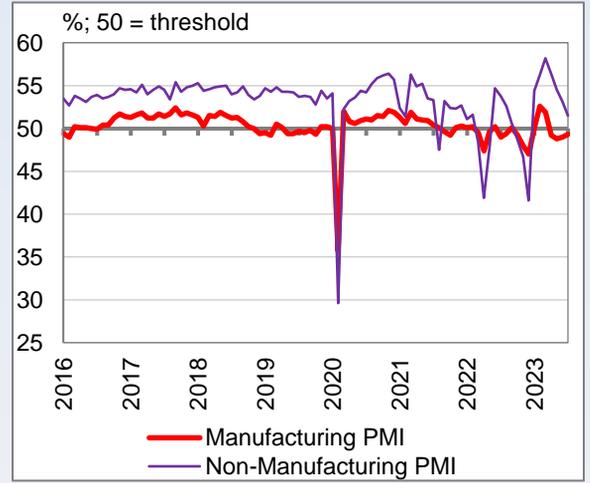
Source: Economic and Social Research Institute (ESRI), Cabinet Office of Japan; Bank of Japan (BOJ); Ministry of Economy, Trade and Industry (METI), Japan; Japan Customs; Statistics Bureau, Japan

China – Stuttering recovery

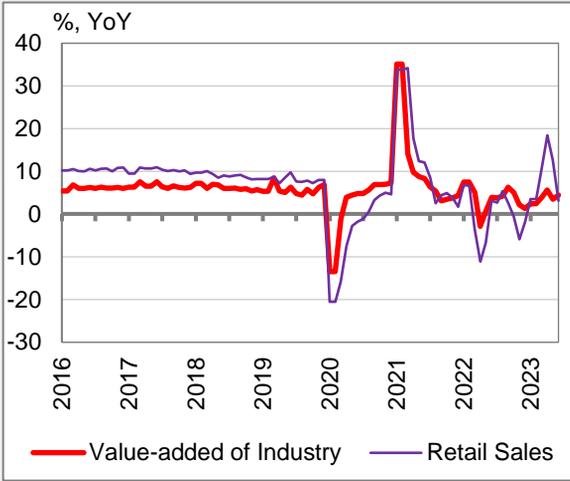
Stronger growth in 2Q but below market expectations



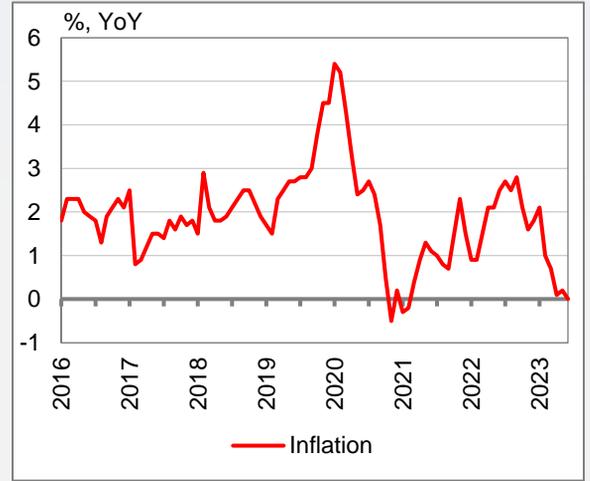
Manufacturing PMI signalled weakened manufacturing activities



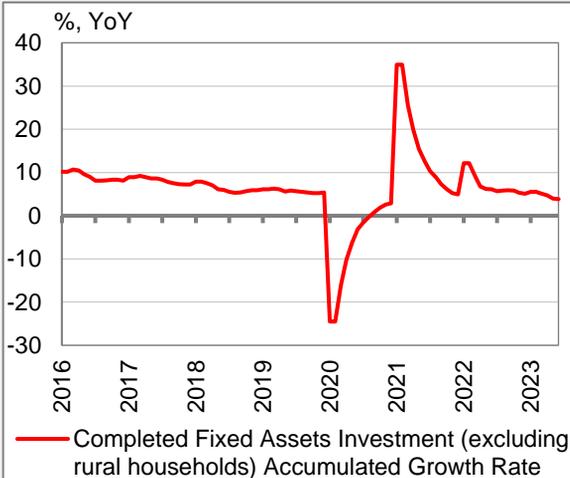
Industrial and retail trade growth grew unevenly



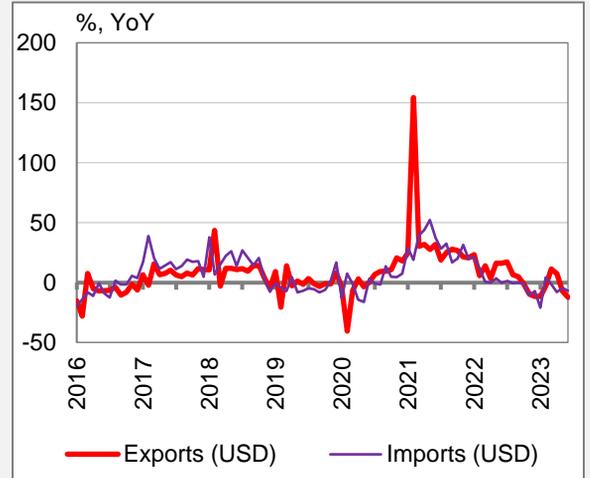
Muted headline inflation in Jun



Fixed investment growth is moderating



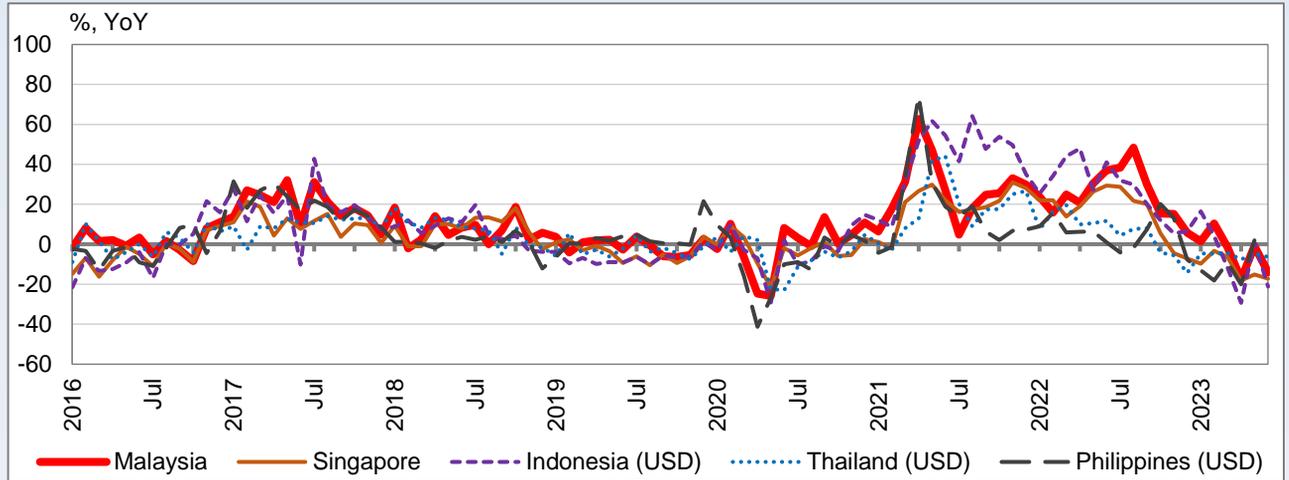
Exports contracted at double-digit rate in Jun



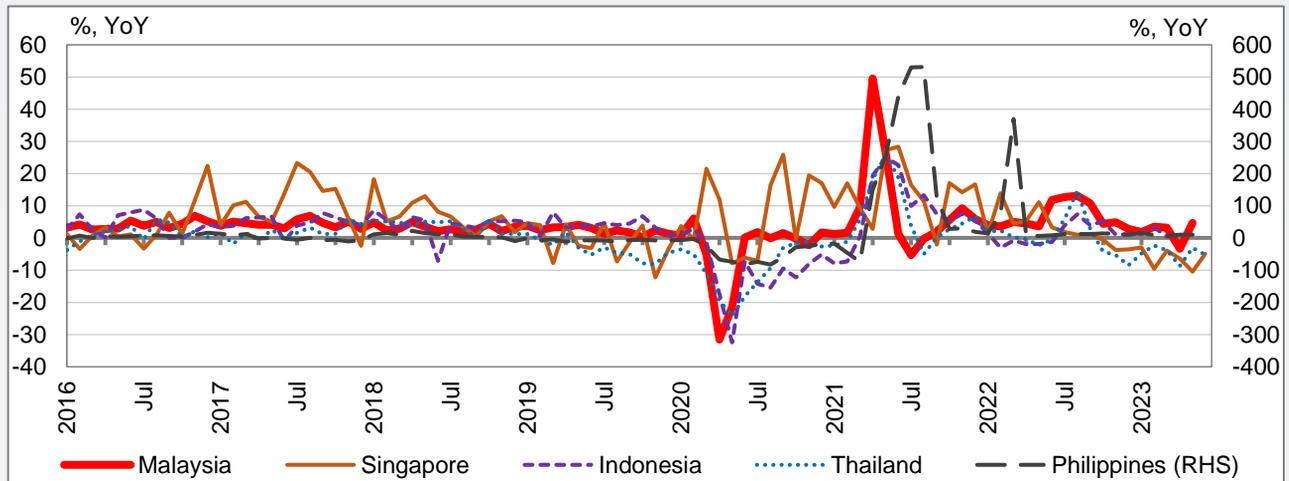
Source: National Bureau of Statistics of China; General Administration of Customs, China

ASEAN Economies

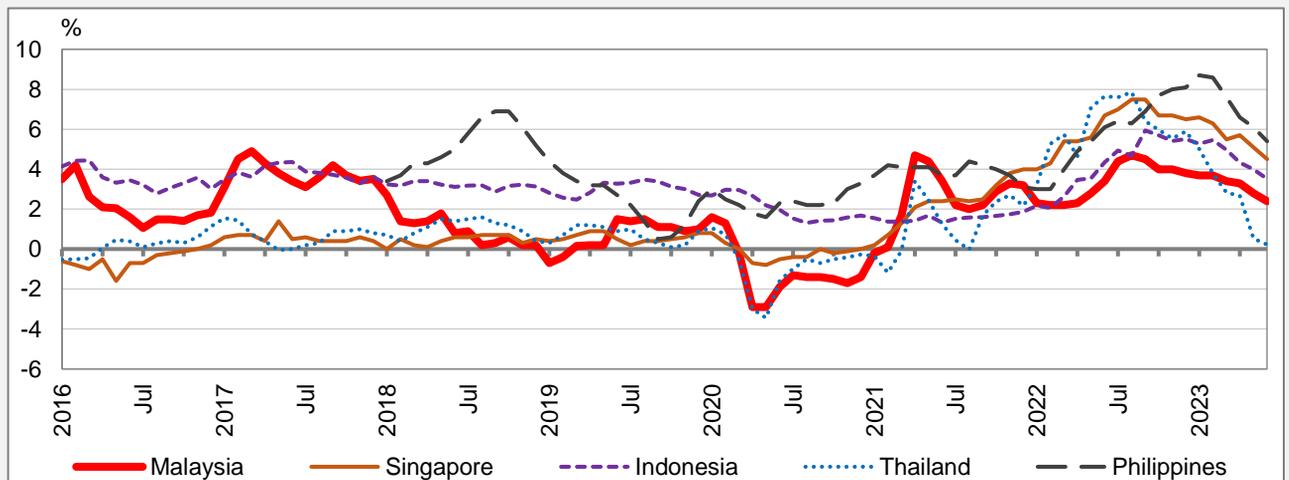
Export growth trend



Industrial production growth trend



Inflation trend



Source: Department of Statistics, Malaysia; Singapore Department of Statistics; Statistics Indonesia; Bank Indonesia; Office of Industrial Economics, Thailand; Ministry of Commerce, Thailand; Philippine Statistics Authority



SLOWER GROWTH IN 2H 2023

- **Economic growth has normalized.** After registering a spectacular growth of 8.7% in 2022, which was turbo-charged by cash stimulus and a favourable base-effect post pandemic, the Malaysian economy has normalized to grow at a sustainable rate of 5.6% yoy in 1Q 2023. The contribution to growth was largely driven by domestic demand driven to counteract the falling exports.
- **GDP growth to average 4.0%-5.0% in 2H 2023.** Our tracking of high frequency data has shown that the Malaysian economy has moderated in recent months, especially demand for our exports while consumer spending has normalised.
 - a) The **leading index**, which is a predictive tool used to anticipate economic upturns and downturns in an average of four to six months **signalled cautious sentiment as it has contracted for the third consecutive month in May.**
 - b) **Industrial production index (IPI)** growth rebounded to 4.7% yoy in May from a contraction of 3.3% in April (+2.8% in 1Q). Overall, the IPI growth only registered 0.7% in Apr-May, where the manufacturing sector expanded by 1.0%, while the mining output declined by 1.0%. The slow growth in manufacturing segment was mainly dragged by the export-oriented industries given the weakening global demand for electronics and electrical products. The industrial output will remain sluggish for some time before global demand picks up again.
 - c) **Manufacturing sales** growth also moderated to an average growth of 0.6% yoy in Apr-May (3.3% in May; -2.0% in April), compared to 8.2% in 1Q and 11.1% in 4Q 2022. A wide range of products registered lower sales growth, mainly among the export-oriented products, particularly rubber products, basic chemicals, refined petroleum products, textiles as well as wood products.
 - d) **Distributive trade** continued to expand by 6.6% yoy in May (6.3% in April and 12.8% in 1Q), mainly supported by retail sales, which has showed a significant moderation to 5.0% in May. High inflationary pressure has dampened the consumption sentiments. The expectation of large number of higher quality spenders, particularly from China, has not realised as there was only 178,150 tourist arrivals from China in Jan-Mar 2023. It is expected that the number of tourist from China may increase further in the second half-year of 2023, and strengthen the recovery of tourism-related industries such as retailing, restaurants and accommodation.
 - e) **Exports** declined by 11.1% yoy in 2Q from a slow growth of 3.0% in 1Q. It has declined for four months in a row in June since March 2023. Among the products experienced huge declines were palm oil (mainly due to a large decrease in average unit value), chemical and chemical products, machinery and equipment, iron and steel products, metal products, rubber and plastic products, and wood products.
 - f) **Banking sector's outstanding loan** growth continued to soften to 4.4% yoy in June 2023, mainly dragged by a lacklustre in business segment due to slower growth in working capital loans among non-SMEs. Household loan growth also showed some moderation. Loan applications registered slower growth in Apr-Jun, particularly for the purchase of residential property, partly due to the high base effect from a strong increase in the corresponding period in 2022.

- g) **Unemployment rate** held steadily at 3.5% in Feb-May 2023, with declining unemployed persons over the months. In May 2023, there were 584,600 unemployed persons, still higher than pre-pandemic level of about 520,000 persons. Overall labour force participation rate has climbed to a record high of 70.0% in both April and May. Stable labour market conditions support consumer spending amid inflation and rising cost of living.
- h) **Headline inflation** eased off to 2.4% yoy in Jun from 2.8% in May and 3.3% in April. Price increases in food and non-alcoholic beverages also continued to moderate at 4.7% in Jun, trending lower compared to the recent peak of 7.3% in Nov 2022. Transport prices remained unchanged in May. Core inflation, which excluding volatile prices of items for fresh food as well as administered prices of goods by the government, also lowered down to 3.1% in June (3.5% in May).
- **Consumers have tightened discretionary spending.** Amid stable labour market conditions, we expect growth in private consumption to continue normalize as consumers tighten discretionary spending in response to inflation and cost of living. Private consumption grew by 5.9% yoy in 1Q 2023 and is expected to increase by between 4.5% and 5.0% in 2023-2024 vs. an average growth of 7.1% per annum (pa) in 2016-2019.
 - We have reasons to expect a moderate pace of households' consumption as they spend discretionary between necessities, consumer durables and non necessities in coping with rising cost of living. While headline inflation has eased, food and services inflation remain high and the prices of items that have gone up have not come down due to price stickiness. The ultra-cash stimulus via RM145 billion EPF withdrawal has already been spent; or some were saved for rainy days. Spending booms as "revenge spending" on travel and consumer services post-pandemic has faded. As consumer spending renormalises, they could conceivably spend less on durable consumer goods. In addition, higher interest rates (borrowing costs) would mean higher debt service payments for higher-debt borrowers. 53.4% of total household loan accounts have floating-rate loans.
 - **Near-term private investment outlook:** Private investment growth has slowed to 4.7% yoy in 1Q 2023 (7.2% in 2022; 2.7% in 2021) as increased capital and operating costs as well as cautious view about global environment and domestic economic and political conditions have dampened capital spending. We expect private investment growth to remain moderate around 4%-6% in the quarters ahead.
 - Nevertheless, there remain catalysts for investment: High amount of investment approvals averaging RM288.5 billion per year in 2021-2022 and RM71.4 billion in 1Q 2023; and the ongoing implementation of public infrastructure projects (ECRL, LRT3, MyDIGITAL 5G, Pan Borneo Highway). The roll out of the National Energy Transition Roadmap (Part 1) has identified 10 flagship catalyst projects and initiatives (an estimated total investment of more than RM25 billion and 23,000 job opportunities) to accelerate the pace of energy transition. The New Industrial Master Plan in August 2023 would provide a strategic direction for high quality and value-added industries to accelerate Malaysia's industrial growth by stimulating innovation, boosting technology adoption, tackling global concerns, and ensuring economic stability and inclusivity.
 - **Bank Negara Malaysia to pause interest rate at 3.00% in 2023.** We expect Bank Negara Malaysia to keep the overnight policy rate unchanged at 3.00% for the rest of the year, taking into account the global growth concerns, moderating domestic economic growth and easing inflation. There is, however, may be renewed inflation pressure following the changes in domestic fuel subsidy policy and also the impact of weakening ringgit. If such scenario plays out, Bank Negara Malaysia will have no choice but to hike rate further if the growth continues at steady pace.

Real GDP growth (% , YoY)

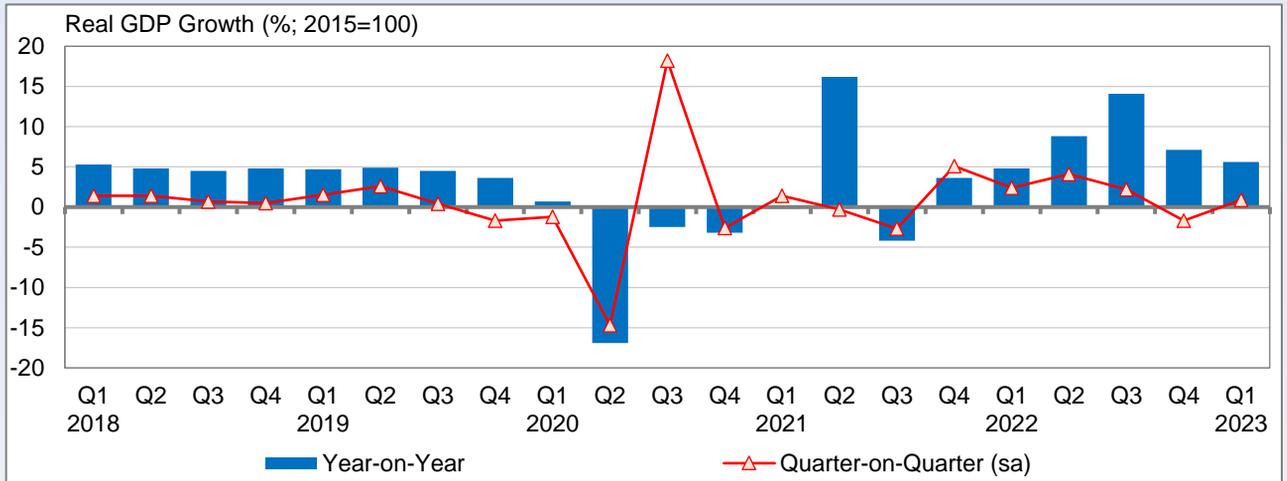
Economic Sector [% share to GDP in 2022]	2021	2022	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023F (BNM)	2023F (SERC)
By kind of economic activity									
Agriculture [6.6%]	-0.1	0.1	0.1	-2.3	1.2	1.1	0.9	0.7	1.5
Mining & Quarrying [6.4%]	0.9	2.6	-2.2	-1.7	9.1	6.3	2.4	2.0	1.6
Manufacturing [24.1%]	9.5	8.1	6.7	9.2	13.1	3.9	3.2	4.0	2.4
Construction [3.5%]	-5.1	5.0	-6.1	2.5	15.3	10.1	7.4	6.3	6.1
Services [58.3%]	2.2	10.9	6.4	11.9	16.7	9.1	7.3	5.0	6.0
By type of expenditure									
Private Consumption [60.2%]	1.9	11.2	5.3	18.3	14.8	7.3	5.9	6.1	5.5
Public Consumption [13.2%]	6.4	4.5	6.7	2.6	4.5	2.4	-2.2	1.3	1.5
Private Investment [15.3%]	2.7	7.2	0.4	6.3	13.2	10.3	4.7	5.8	4.6
Public Investment [4.4%]	-11.1	5.3	-0.9	3.2	13.1	6.0	5.7	7.0	6.2
Exports of Goods and Services [74.6%]	18.5	14.5	8.0	10.4	23.9	9.6	-3.3	2.7	-4.1
Imports of Goods and Services [69.1%]	21.2	15.9	11.1	14.0	24.4	8.1	-6.5	2.1	-3.3
Overall GDP	3.3	8.7	4.8	8.8	14.1	7.1	5.6	4.0-5.0	4.5

Source: Department of Statistics, Malaysia (DOSM); SERC estimates and forecast

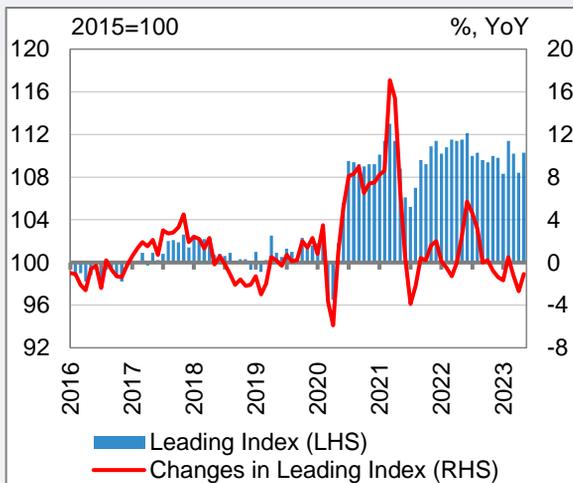


Spotlight on the Malaysian Economy

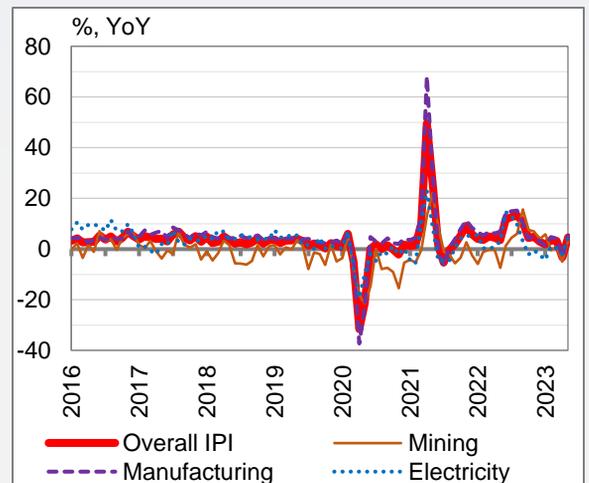
Malaysia's GDP continued to expand by 5.6% yoy in 1Q, supported largely by resilient consumer spending



Leading Index (LI) in May 2023 signalled cautious sentiments

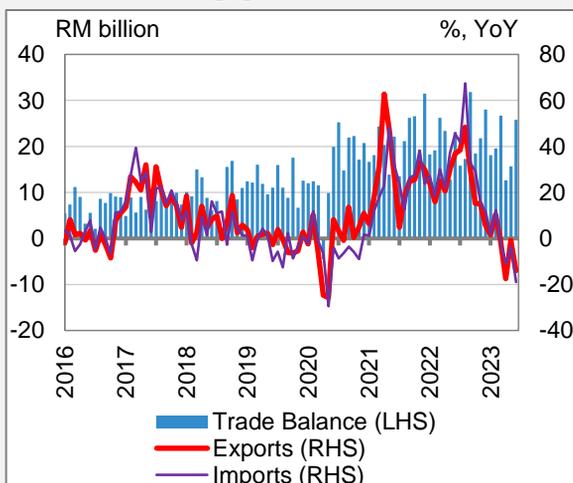


Industrial production growth is trending lower

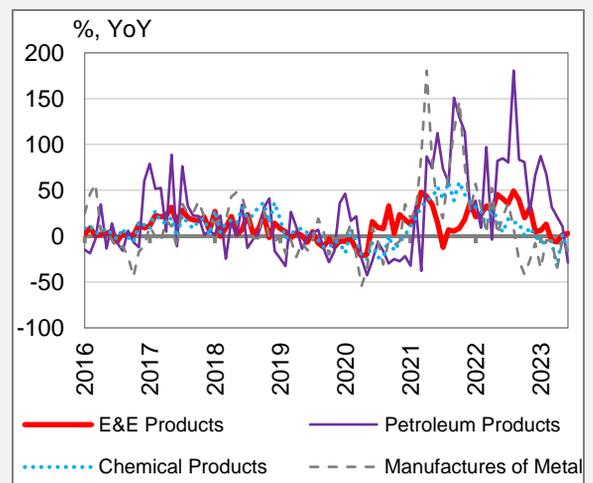


External Sector

Export declined by double-digit in 2Q due to slowing global demand



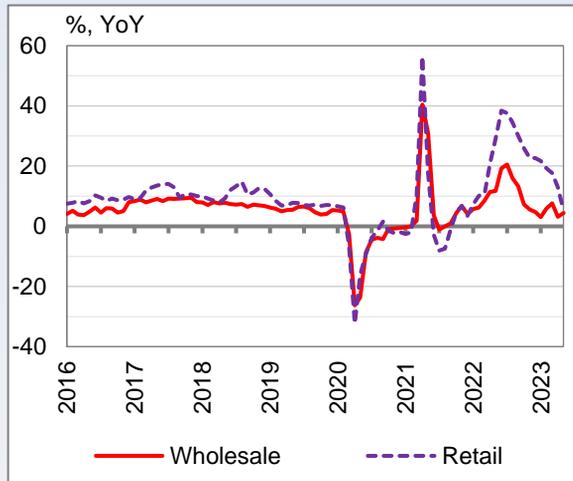
Exports by major products



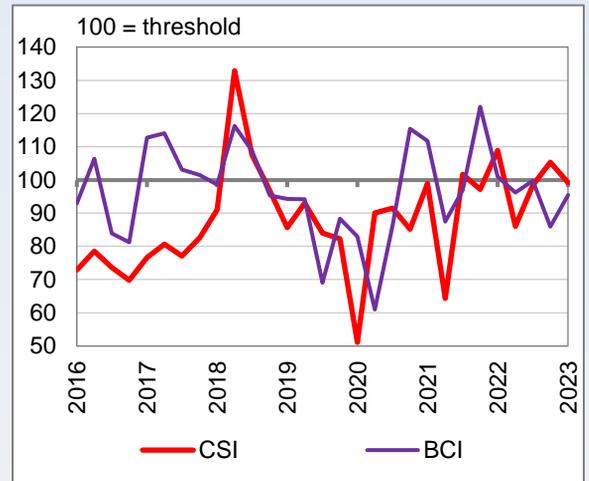
Spotlight on the Malaysian Economy (cont.)

Domestic demand

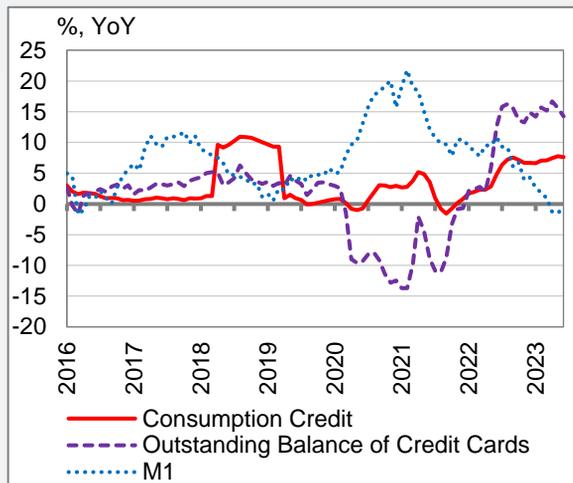
Retail sales growth has moderated sharply to single-digit rate



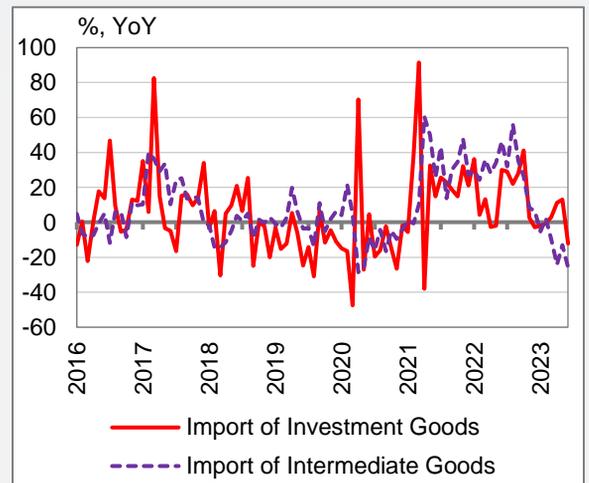
Both consumer and business sentiments slipped below the optimism threshold



Selected private consumption indicators



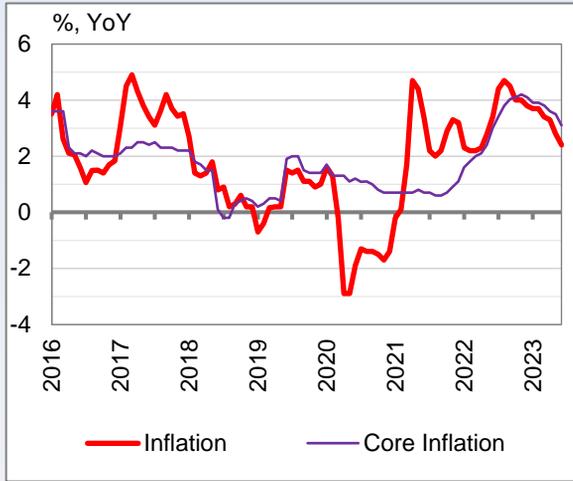
Selected private investment indicators



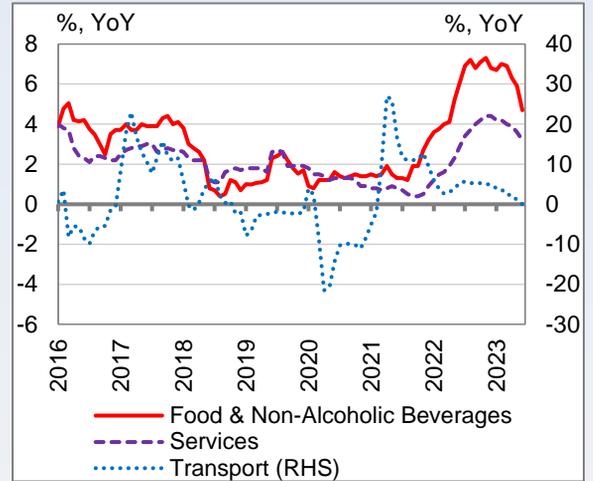
Spotlight on the Malaysian Economy (cont.)

Price Indicators and Labour Market

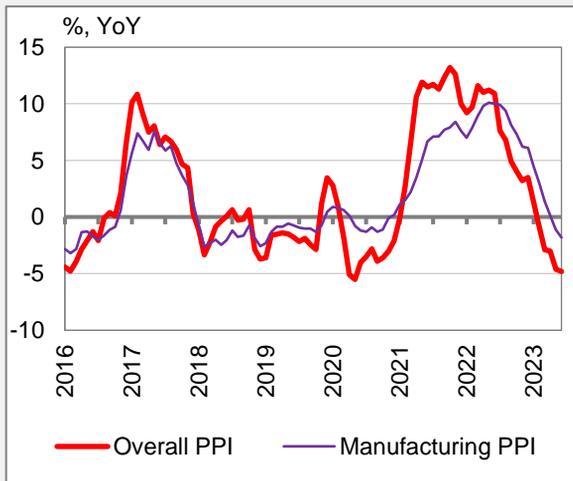
Headline inflation has eased; core inflation is also cooling-off



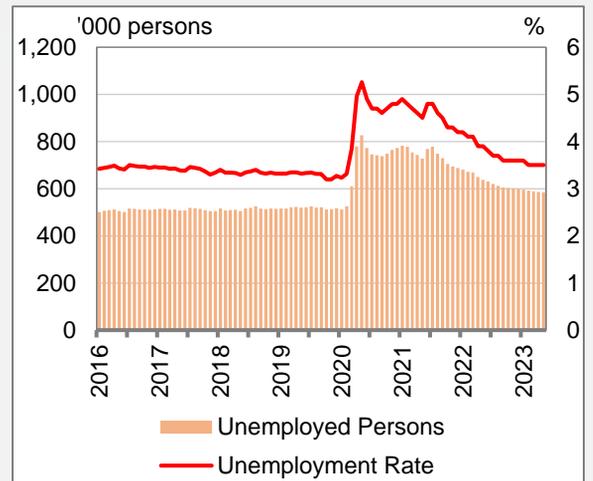
Food prices started to increase at slower pace; transport prices muted in May



Producer prices declined in the recent months



Unemployment rate held steadily at 3.5% in Feb-May 2023, labour force participation rate at a record high



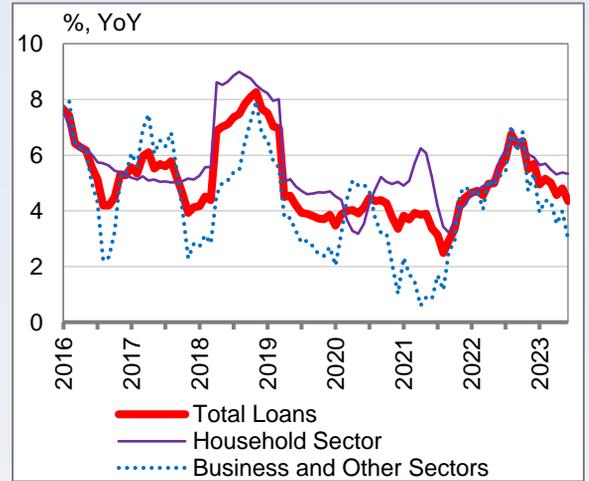
Spotlight on the Malaysian Economy (cont.)

Banking and Financial Indicators

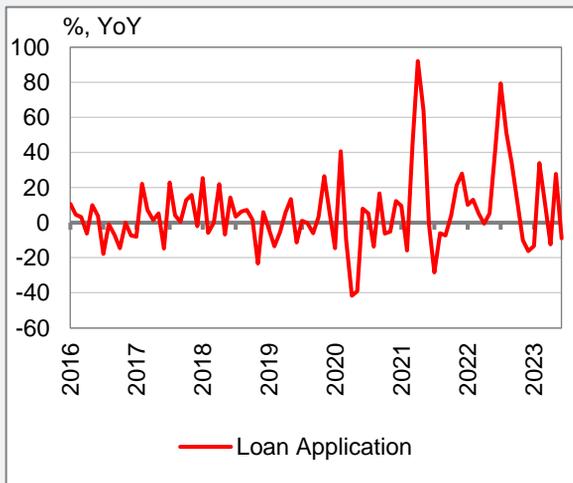
Banking deposit growth continued its moderation trend



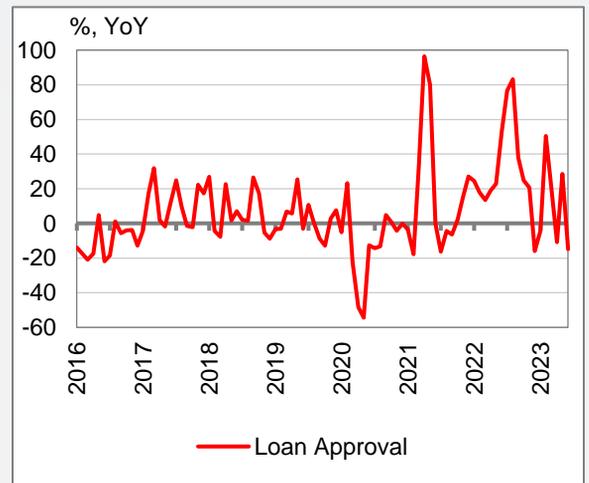
Overall loan growth is slower, particularly due to sluggish business segment



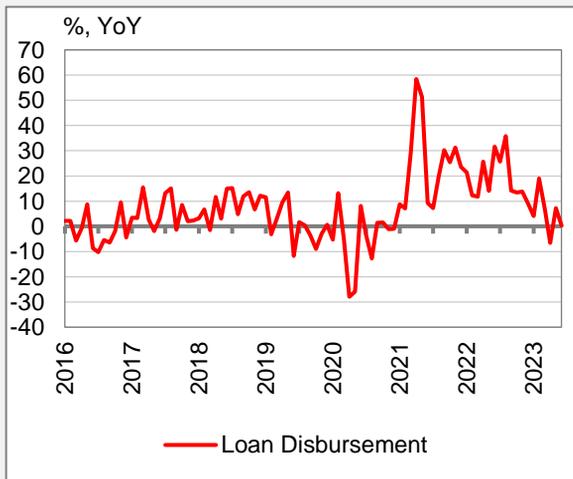
Loan applications growth



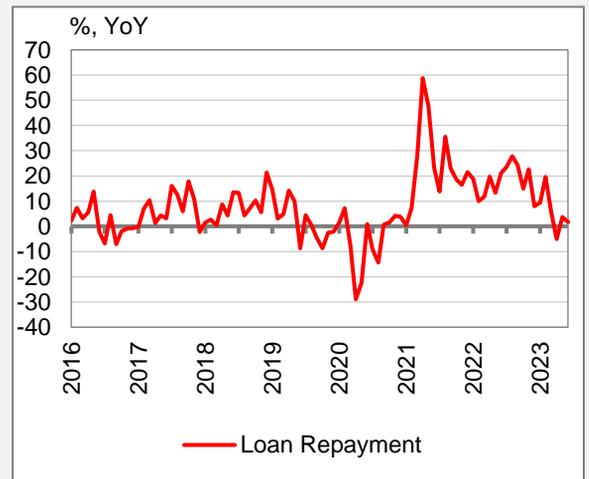
Loan approvals growth



Loan disbursements growth



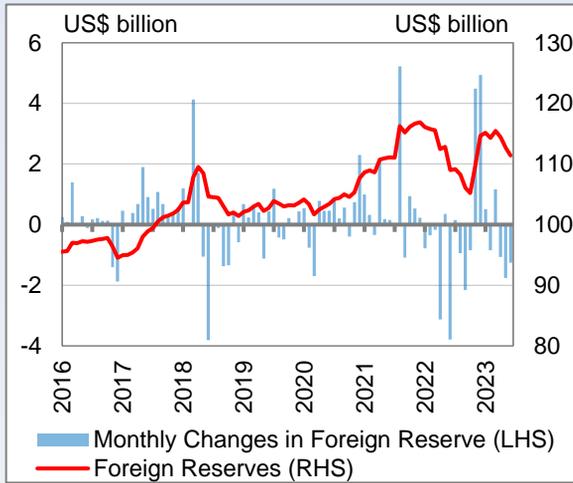
Loan repayments growth



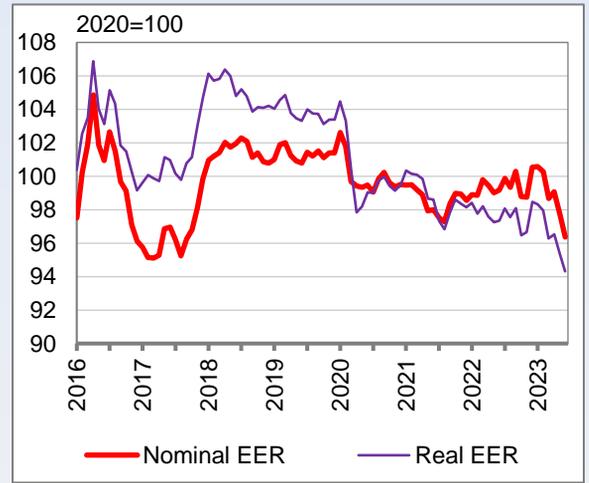
Note: Loan data from July 2022 onwards was revised and expanded based on the latest requirements with more accurate data definition and reporting methodology. Outstanding loan excludes DFI.

Spotlight on the Malaysian Economy (cont.)

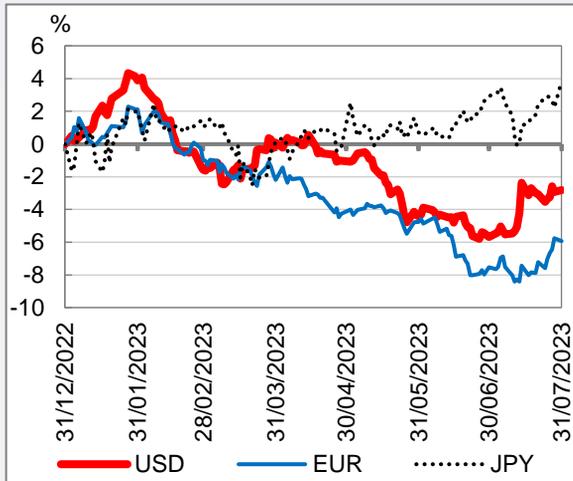
Foreign reserves declined for three months in a row in Jun



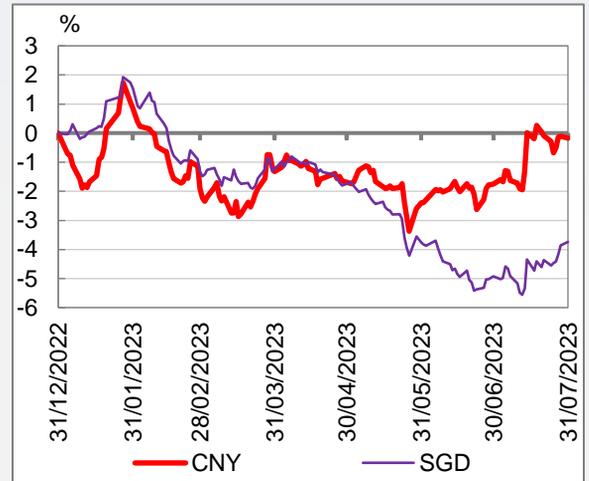
Ringgit's Effective Exchange Rate (EER)



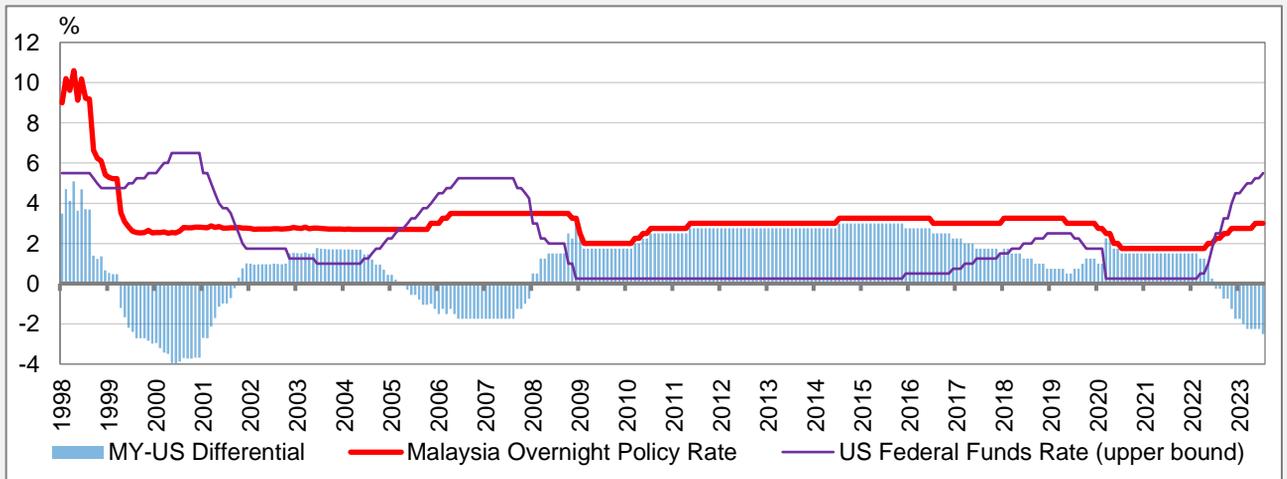
The Ringgit against the US dollar, euro and Japanese yen



The Ringgit against the Chinese renminbi and Singapore dollar



Malaysia-US's interest rate differentials



Source: Department of Statistics, Malaysia (DOSM); Malaysian Institute of Economic Research (MIER); Bank Negara Malaysia (BNM); Bank for International Settlements; Federal Reserve



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The Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM)'s Socio-Economic Research Centre (SERC Sdn. Bhd.) was established as an independent and non-profit think tank on 19 October 2010. Officiated by YAB Prime Minister on 28 April 2011, SERC is funded by ACCCIM SERC Trust.

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The organization will identify and explore issues and future trends that impact domestic economic and business environments. It will also focus on sharing knowledge and promoting public understanding of socio-economic issues of national importance.