KLBC Fireside Chat on "Global Economy – Escape Velocity at Last? Outlook for ASEAN, especially Malaysia"

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Big Bank Economists Look To Stronger Malaysian Growth in 2017 & 2018

Economists from Malaysia's two largest banks told the Kuala Lumpur Business Club on Tuesday that both the global and Malaysian economies are showing promising signs of recovery.

Despite recent unprecedented events such as Brexit vote in the United Kingdom and the election of political outsider Donald Trump as U.S. President, the world economy is now pulling out of the doom and gloom precipitated by the 2008 Global Financial Crisis, said Dr Arup Raha, Group Chief Economist, CIMB Group.

GLOBAL ECONOMY IS REBOUNDING

"I think the global economy is out of the woods, the global economy is rebounding … Some optimism is misplaced, but there is escape velocity at last," he told around 40 KLBC members during a Fireside Chat at the St. Regis Hotel in Kuala Lumpur.

The improved global economic outlook is also setting the scene for further potential growth in Malaysia after two years of slow down, said Suhaimi Ilias, Group Chief Economist, Maybank Investment Bank.

STRONGER 2018 ECONOMY FOR MALAYSIA

"Of late when we went marketing to U.S. and London in late March and early April, fund managers were turning more receptive on Malaysia's macro economy," Suhaimi said during his presentation on the Malaysian economy, entitled 'Easing Pressure Points'. "Growth slow down should stabilise and slowly pick up this year, with improvements going into next year."

Gross Domestic Product (GDP) growth in Malaysia was 4.3 percent in 2016, falling from 5.0 percent in 2015 and 6.0 percent in 2014.

RINGGIT FLAT LINING AGAINST THE USD

When asked for a forecast on ringgit strength, given the current recovery in Malaysian exports and higher commodity prices, Suhaimi gave a range of 4.40-4.35 against the U.S. dollar for 2017, rising to 4.25 in 2018. He said that the ringgit was not appreciating as much against the U.S. dollar as the Indonesian rupiah or Thai baht because of measures taken by Bank Negara in December to regulate volatility in the ringgit after the currency moved from 3.6 to 4.4 against the U.S. dollar in a matter of months.

(Bank Negara intervened in the forex market in early December to curb a hedging mechanism known as the offshore non-deliverable forward (NDF) market, and to enforce the repatriation of 75 percent of export earnings. The move came as foreign holders of

Malaysian government bonds cashed out in order to return to the U.S. markets after Trump's election. As a result, foreign shareholdings of total government bonds which had peaked at around 35 percent in November 2016, have now fallen to around 28 percent.)

Dr. Raha had a different viewpoint on forecasting ringgit strength. "The thing to watch is the price of oil, as there is a strong correlation with the ringgit … When the oil price changed, the ringgit started weakening. So, if you can tell me the price of oil, I will tell you the value of the ringgit … If oil is at 80 U.S. dollars a barrel, the ringgit would be around 4."

US ECONOMY IS MAIN DRIVER OF GLOBAL ECONOMY

He also underlined the importance of the U.S. economy for the continuing growth of the global economy. In contrast, the developed economies of Europe and Japan have seen a decline in real GDP growth since the 1960s, have ageing populations and little prospect of increases in GDP growth. At the same time, China is currently registering high growth rates from a short-term infrastructure stimulus, but has underlying structural problems.

"In China, demographics are worsening, productivity is going down, there is a debt overhang. If you were expecting China to bail out our trade story indefinitely, it won't happen," Dr. Raha said during his presentation entitled 'Global Economy: Escape Velocity At Last?'

He pointed out that the value of trade in Malaysia had already fallen from 200 percent of GDP to 130 percent of GDP. This is largely due to the localisation of global value chains inside China so fewer components are made in ASEAN.

"When Trump came to power, the negativity was around imposing restrictions on the trade side," said Dr. Raha. "However, I think the situation is very much status quo. I don't think actual protectionist policy measures are likely any time in the near future."

A noticeable improvement in Malaysian trade has yet to materialise because increased trade depends on new business investment, and this is a drawn out process that tends to lag behind other economic indicators. Only when improved consumer sentiment is established and commodity prices are firmer does new business investment take off. In this cycle, uncertainties over trade protectionism also need to dissipate.

BETTER BUT NOT SPECTACULAR

Whilst the improved global outlook is a significant factor in raising growth rates in the Malaysian economy, the economists warned against any exuberance. "As far as growth is concerned, it is better but it is not going to be spectacular," said Suhaimi. He pointed to a current surge in inflation, weak consumer sentiment and a fall in crude palm oil prices.

"Consumers are actually tapping into their savings. Most of the withdrawals from EPF are for settlement of mortgages and study loans, so we can see the consumer deleveraging," he said.

SURGE IN TOURISM INTO MALAYSIA

A bright spot is a strong recovery in tourism on the back of the weaker ringgit. Credit card spending on foreign cards in Malaysia is up sharply and the industry reports large increases in travel bookings from Chinese and ASEAN tourists. (This is also partly due to the Chinese government's decision to ban tour packages to South Korea because of rising political tensions on the Korean peninsula.)

Other structural issues highlighted were the government's continued focus on reducing its deficit, and its newer focus on promoting the digital economy and amendments to bankruptcy legislation to reduce the penalties and stigma surrounding the failure of start-up businesses. These latter initiatives could help to address rising levels of youth unemployment.

YOUTH UNEMPLOYMENT CREEPING UP

Since 2013, when the retirement age rose to 60 from 55, there has been a steady creep in unemployment among 15-24 year olds. This group accounts for one-third of the work force and two-thirds of those unemployed.

During a recent online application process for employment in the civil service, there were 1.5 million applications for around 25-30,000 jobs. At the same time, around 70 percent of those entering the work force have only the minimal SPM qualification.

"The digital economy offers a vast opportunity to do lots of little things and common sense stuff. Could we have our own version of Elon Musk and Jack Ma? We start small. Its better late than never," said Suhaimi.

The KLBC Fireside Chat was moderated by Fad'l Mohamed, deputy CEO of Maybank Investment Bank and KLBC Board Member.

Reported by Lorien Holland
Please see attached presentations for further details.