

Exports likely to support growth this year

INFOGRAPHIC: NST

SLOW GLOBAL RECOVERY: Volatility in financial market seen continuing in 2016 against backdrop of weak crude oil prices

RUPA DAMODARAN

KUALA LUMPUR

rupabanerji@mediaprima.com.my

THE global economy continues to splutter into this year, raising expectations for a disappointing growth outlook for Malaysia.

Against a backdrop of weakening crude oil prices, more volatility in the financial markets is expected this year as the United States central bank has commenced its interest rate hike cycle.

While the overall outlook is that growth will be similar to what was seen last year, economists are also cautious whether domestic demand can continue to be in the driver's seat.

Think-tank Malaysian Institute of Economic Research warned that dark clouds would be hovering as consumer sentiment remained weak.

Credit Suisse economist Michael Wan said the disappointing outlook was due to weaker domestic demand.

"In our view, the full negative impact on private consumption, investment from the weaker ringgit, the Goods and Services Tax (GST) and lower commodity prices have not been fully realised."

Exports are more likely to lend the key support to growth.

Falling revenue for commodity exporters like Malaysia has posed a challenge to government finances and the market is concerned whether the government will be able to meet its targeted 3.1 per cent budget deficit to gross domestic product ratio.

Economists argue that the GST will broaden the revenue but it is not adequate to meet the gap in contribution from national oil company Petrolim Nasional Bhd (Petronas), which has dropped to RM30 billion.

Public Invest Research said studies showed government finances would be holding steady even if crude oil prices stayed at US\$40 (RM171.6) per barrel, provided the ringgit remained around RM4.00/RM4.20 against the US dollar.

Bank of America Merrill Lynch said risk remained high that the fiscal deficit might swell, given the plunging oil and gas-related revenue and a slowing economy.

"Consumer spending will likely grow more slowly with a weaker jobs market and poor consumer sentiment."

A high household debt burden will weigh on consumer spending and the housing market, it warned.

Higher Bantuan Rakyat Malaysia cash handouts to lower income households could provide a small uplift.

Here are some of the brief take-

aways from various research houses on the various growth/risk factors this year:

GROWTH SUPPORT FACTORS

UOB: RM80 billion worth of major projects and higher cash handouts were reaffirmed in the 2016 Budget. The Light Rail Transit 3 (RM10 billion) and Mass Rapid Transit 2 (RM28 billion) should begin work in the first half of this year.

GROWTH RISKS (DOMESTIC AND EXTERNAL)

UOB: Fiscal slippage risks linger should oil prices dip below US\$40 per barrel (bbl) and other non-oil revenue components fall short of expectations, given a more challenging operating and growth environment this year.

DOMESTIC DEMAND

MARC: Domestic demand will slow on the back of increases in public transportation charges (LRT, KTM Komuter, etc), toll rates, removal of electricity rebates for certain segments of population, further subsidy rationalisation (Super Tempatan ST15 rice).

Ringgit depreciation will dent private consumption as consumers become more cautious.

Credit Suisse: Highway toll hikes and the recent cigarette excise duties are new negative shocks to private consumption spending.

RHB Research: Far-reaching effects of a weaker currency have led to job cuts in the banking industry and rightsizing by the national carrier.

UNEMPLOYMENT

MIER: The prediction for unemployment rate at three per cent seems achievable, reflecting the rate that is still below the threshold for full employment situation (four per cent) as labour market conditions remain healthy.

INFLATION

Credit Suisse: Inflation to surprise on the upside, with the Consumer Price Index peaking in the first quarter partly due to base effects.

UOB: Weak demand pressures are likely to keep inflation in check.

Maybank: Inflationary pressures will be sustained by further adjustments in domestic subsidies and other controlled prices, the impact of weak ringgit on imported prices and costs as well as the 11 to 15 per cent increase in minimum wages effective July 1. Higher labour costs

GDP forecast for 2016 (% year-on-year)

Official Forecast (Ministry of Finance)	4.0-5.0
World Bank	4.7
International Monetary Fund	4.5
Asian Development Bank	5.0
Malaysian Institute of Economic Research	4.5-5.0
Malaysian Rating Corporation Berhad	4.4
Public Invest Research	4.5
AffinHwang Capital Research	5.0
MIDF Research	5.0
Maybank Research	4.5
Bank of America Merrill Lynch	4.3
Credit Suisse	4.4
RHB Research	4.0-4.5
UOB Bank	4.8
DBS Bank	4.5
HSBC Bank	3.6



can find their way into consumer prices.

A weak ringgit will induce higher imported inflation and force producers to pass at least some if not all the additional costs to consumers.

Hong Leong Investment Bank: Inflation will pick up, driven mainly by a series of price hikes, lagged effect of GST, imported inflation as well as low base effect.

MIDF Research: Impact of fare hike in public rail transport will be minimal due to the low contribution of this sub-sector to the inflation basket (0.03 per cent weight).

RINGGIT

Public Invest Research: Expect rates to hover at current levels of RM4.00 to RM4.20 but see it improving to RM3.90 by the second half of this year on improvements in economic conditions and a more significant reversal of flows back into the Malaysian market, thereby increasing demand for the ringgit.

Credit Suisse: Risks to ringgit in the short-term are less acute compared with the oil price trajectory.

MONETARY POLICY

Kenanga Investment Bank: The end of the zero interest rate policy (in the US) is a new chapter of monetary policy (in the world).

Bank Negara Malaysia will face a tough choice between supporting the economy or defending the ringgit. For now it would err on supporting growth.

Maybank: The Overnight Policy Rate (OPR) will remain steady at 3.25 per cent until end of this year despite higher inflation rate. The option to adjust OPR lower is limited by the weak bias in ringgit amid the start of the US interest rate hike cycle.

MIDF: Despite downward pressure on the interest rate level due to the expected slowdown in private consumption, the economy is expected to do slightly better than the initial expectation of the government.

UOB: The risk is tilted on the downside but only if growth heads further south. Bank Negara is unlikely to hike rates to defend currency.

FISCAL DEFICIT

UOB: The fiscal deficit could widen to between 3.3 and 4.6 per

cent if average Brent oil prices range between US\$20 and US\$40. (This assumes no expenditure adjustments and a gradual reduction in Petronas dividends to the government.)

MARC: The fiscal policy space is limited by its budget deficits which have yet to decline to below three per cent of GDP, challenged by declining oil prices and decelerating nominal GDP growth.

Only a sustained level of oil price below US\$35 per barrel will induce the government to consider a revision in the budget.

Credit Suisse: The decline in Petronas dividends has more than offset the net improvement in GST revenue.

CURRENT ACCOUNT SURPLUS

Credit Suisse: Assuming no further oil price shocks, the current account has bottomed and likely to be 3.8 per cent of GDP (US\$10.7 billion). This reflects a bigger-than-expected adjustment to the trade balance from the weaker ringgit. There will be some support to the broader current account in services exports (e.g. tourism).

EXPORTS

Credit Suisse: Exports will be a key support to growth this year, helped by a lagged impact of the weaker ringgit.

MIDF: Exports will be flattish on coming months due to mixed global outlook. Exports, led by the electrical and electronics sector will continue to deliver, especially to the US.

However, China's slowing down remains unabated to offset demand by the US.

The weak ringgit will help to offset the negative exports growth in the first half of this year.

Bank of America Merrill Lynch: Non-commodity exports could stage a more visible recovery.

INVESTMENT

Bank of America Merrill Lynch: Growth will be relatively soft, hurt by low oil and gas prices, weaker corporate earnings and confidence crisis.

Realisation of public investment targets may be difficult this year, given tightening finances and monetary conditions.



Credit Suisse says exports will be a key support to growth this year, helped by a lagged impact of the weaker ringgit. Bloomberg pic