

Can Malaysia withstand a global downturn?

10 Cover Feature

ECONOMY

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MALAYSIA surprised the market by delivering a stronger-than-expected growth of 4.9% in the second quarter.

The post-pandemic recovery has picked up pace very well, even as the government remains on fiscal restraint and certain industry sectors.

However, going forward, concern is mounting as to whether Malaysia can sustain its growth momentum, despite the risk of recession plaguing the "whole world".

Adding to market recovery optimism is some uncertainty going forward and from Finance Minister Tengku Dairi Isahak Zaidi, Abdul Halim admitted that Malaysia's economic outlook could be hurt by pessimism in the global economy.

"The weaker global outlook will certainly impact us," he was reported as saying.

The weakening global economy has shown early signs of cooling down, with commodity prices running off their multi-year highs and inflation expectations easing.

These developments are taking place as central banks raise interest rates to counter inflationary pressures but this comes at a cost and economic growth forecasts across advanced and developing economies have been downgraded significantly and consumer sentiment is waning in many parts of the world.

With corporate earnings slowing under pressure, an increasing number of companies are also cutting jobs and freezing hiring.

These include major corporations like Netflix, Tesla, Twitter and Amazon.

While these changes in the global economy are worrying, they are not entirely surprising.

As central banks — especially the United States Federal Reserve (Fed) — raised borrowing costs aggressively, businesses are finding their cash flows and investments have turned more cautious in their spending.

By the end of 2021, the Fed had raised its rate to benchmark federal funds rate to a range of 2.25% to 2.50%. Rates started the year at near-zero.

In the past, most economies in the United States since the 1930s have followed interest rate hikes by the Fed.

Many people think that the US is already in a recession, after estimates by the Bureau of Economic Analysis show that the world's largest economy shrank by an unexpected rate of 1.6% and 0.9% in the first and second quarters of 2022, respectively.

While this means the economic definition of recession, it is a precursor to the US to enter into the National Bureau of Economic Research officially declare a recession.

The expectation of recession is not exclusive to the US alone. Recently, the central bank of England warned that the country could fall into recession by mid-2022.

The International Monetary Fund's (IMF) chief economist also issued a negative picture, saying that the world "may soon be entering on the edge of a global recession".

Recession unavoidable?

At this point, it seems that a recession is unavoidable for many countries, including those dependent on Malaysia.

Can Malaysia withstand a global downturn?

Thanks to high domestic demand, the country has the means to mitigate any shocks to the economy caused by external factors.



Steady momentum People walk past a tree of flags installed in conjunction with the coming 65th Independence Day celebration in Kuala Lumpur. The post-pandemic recovery has picked up pace very well, even as the government remains on fiscal restraint and certain industry sectors.

Further this month, Tengku Dairi admitted that global uncertainty from covid could affect Malaysia's economic growth.

The growth of the domestic economy has considerably accelerated in the last three quarters, on a year-on-year basis.

In the second quarter of 2022, GDP, the gross domestic product, grew by 4.9% y-o-y as compared to 3% and 3.6% in Q1 and Q2 respectively.

However, in a quarter-on-quarter basis, the economy had slowed with a seasonally adjusted growth of 1.5% in Q2 and Q1, the economy expanded by 1.6% q-o-q and 4.1% respectively.

Looking ahead, Malaysia University of Science and Technology (MUST) economics professor Geoffrey Williams says there is a "high" chance for Malaysia to face a technical recession.

With many of its trading partners facing sharp economic weakness, especially the US and China, it would be tough for Malaysia to escape from a recession.

According to an estimate by Socio-Economic Research Centre, Malaysia has a "very strong" growth expectation of 3.8% with China for the 2021 to 2023 period.

As for the US, Malaysia has a expectation of 2.7%, which is considered "strong".

The current correlation between Malaysia and the US is 0.9 and 0.8.

The high and positive correlation between Malaysia and the US

countries indicates that Malaysia is highly susceptible to a decline in GDP if both China and the US fall into recession.

China's current economic outlook was further softened, after its strict zero Covid policy disrupted its operations in its industries.

In the second quarter, China shed out a GDP growth of 4.4%, falling short of expectations.

The economist says it is also looking the road home to reopening property market, which means up a start of its economic output.

The highly leveraged property sector is facing a cash crunch, resulting in stalled houses, a growing number of buyers, on the other hand, are refusing to pay for their mortgage loans until the houses are completed.

The adverse effect from the real estate crisis has delivered a blow to the steel makers, as the reduced demand for steel dragged down steel prices.

As the Chinese property market crisis continues to quiet, concerns are mounting on the possible effects on Malaysia, given the close trade links with China.

A market observer also raised concerns about whether the cheap steel produced in China could be dumped in Malaysia and it may affect local producers.

For all these concerns, the Malaysia, it still is vulnerable to external shocks, especially if the shocks emanate from its major trading partners.

"We remain cautiously positive for Malaysia's economy in 2022 amid multiple external headwinds. Domestic growth is likely to be sustained by reopening drivers in Malaysia and the region."

Asia Citi

More, the big question would be, is Malaysia prepared to face another round of recession after the coming end of the previous downturn?

Where does Malaysia stand?

The fact that the Malaysian economy is well supported by domestic demand provides some comfort.

Thanks to the high domestic demand, the country has the means to mitigate any shock to the economy caused by external factors, he is confident.

Bank Negara, in its latest assessment, says that Malaysia's growth in 2022 would be supported by strengthening domestic demand and reopening of international borders, which more than offset weakness in external demand.

Its policy is also critical to cushion the public and private

the economy, amidst that a transition economy is of greater importance than a industry one.

It also says that Malaysia's domestic demand will remain robust, driving growth.

Nevertheless, the central bank also expressed that risks tilted to the domestic, mainly from weaker global growth and stronger price pressures.

It is noteworthy that appreciation over the economy is being further and increasing sentiment.

Reflecting that in the latest Consumer Sentiment Index (CSI), which has dipped far below the 100 point operation threshold in a first quarter low of 84, rising about 13 points quarter-on-quarter.

The Malaysian Statistics of Economic Research (MER), which compiled the CSI, last measures