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Economic Outlook
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Kuala Lumpur, 29 May 2009 – The global economy is at an inflection point – market participants are seeing, or want to believe that there are "green shoots" sprouting everywhere, and that the global recovery is upon us. However, the hard economic indicators like retail sales, unemployment rate, exports and industrial production suggest that the recovery may not materialize so soon; so those looking for "early blooms" may be disappointed. Our core thesis is that the government support, whether in terms of fiscal stimulus or monetary policy easing, needs to give way to the return of private investments and consumption, in order for a sustainable recovery. Otherwise, not withstanding policymakers' willingness to pump-prime the domestic economy, it is challenging to envisage a V-shape recovery at this juncture. The key risks we see are that the G-3 economies (namely US, Eurozone and Japan) remain mired in a protracted recession, unemployment rates continue to rise, and key economies turn more protectionistic on global trade. The opportunities are for companies to tap potential business prospects domestically (available under the fiscal stimulus packages) and overseas (given easier monetary policy and/or government-aided credit financing). In addition, medium-term economic fundamentals within Asia remain attractive.

The Malaysian economy has not been spared from the brunt of the global recession, as reflected in the worse-than-expected growth contraction in Q1 2009. By our estimates, the Malaysian economy is already in a technical recession (as defined by two consecutive quarters of on-quarter seasonally adjusted annualized GDP contraction). The manufacturing sector, which accounts for approximately one-third of GDP, has notably been hit hard by the global slump in demand. Global investment appetite has also deteriorated in the wake of the global financial crisis, and this has in turn seen foreign direct investments into Malaysia decline sharply. In particular, investments into Malaysia's manufacturing sector fell sharply during the first three months of this year to MYR7.5bn (194 projects) vis-à-vis to the same period last year at MYR22.7bn. The revision of the official GDP growth forecast from +1 to -1% previously to -4% to -5% is credible.

Bank Negara Malaysia has acknowledged the severity of the current global recession and had cut the benchmark rate from 3.5% to 2.0% in April 2009, and also slashed the Statutory Reserve Requirement from 4% to a record low of 1%.

Currently, the central bank is on hold in anticipation of gradual improvements in the second half of the year. The official view appears to be that the interest rate cuts have been sufficiently front-loaded, and the emphasis will continue to be on ensuring an adequate flow of credit to all segments of the economy. Approximately a third of the two-tranche MYR67bn fiscal stimulus packages have been disbursed, while a national financial guarantee institution (Danajamin Nasional Berhad) has also commenced operations on 15 May 2009, to provide credit enhancements to facilitate corporations with viable businesses and investment grade ratings to access the Malaysian bond market. Nevertheless, the window for further fiscal stimulus or monetary policy easing may not be ironclad.

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