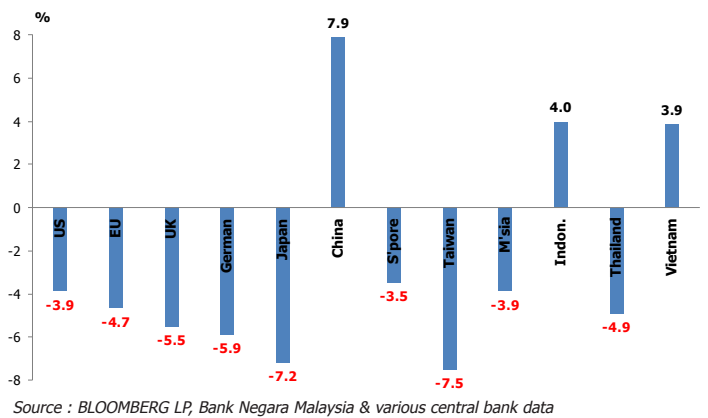


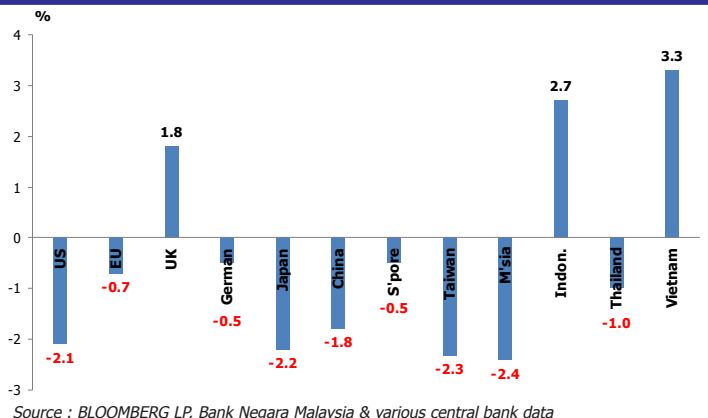
Global : Global Recession Ending?

16 SEPTEMBER 2009
2009/046

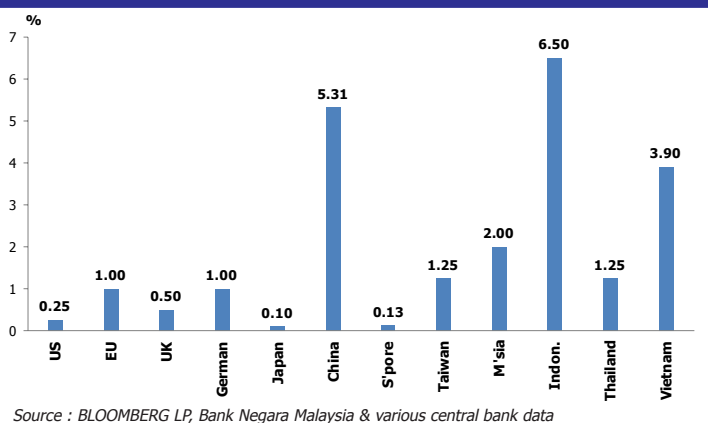
2Q 2009 GDP - SELECTED COUNTRIES (% YOY)



JULY CPI (INFLATION) - SELECTED COUNTRIES (% YOY)



CENTRAL BANK RATES - SELECTED COUNTRIES (%)



RECENT DEVELOPMENTS

- Latest data releases showed the global economy is stabilizing and the outlook is better than expected as developed and emerging economies recorded quarterly expansion or narrowing annualized decline. The IMF has revised upwards global growth projection for 2010 to 2.5% from 1.9% following a contraction of 1.4% in 2009.
- US GDP contracted by a quarterly annualized 1.0% in the second quarter of 2009, the smallest in a year and the first sign of growth, after it charted a steep 6.4% fall in the first quarter. On a yearly basis, US GDP however fell at a faster rate of 3.9% in the April-June quarter compared with -3.3% in the first three months of the year. Many are already expecting US to post positive quarterly growth beginning in the third quarter.
- The rate of quarterly GDP contraction also slowed sharply in the euro zone in the second quarter to 0.1% from 4.7% in the preceding three months. Germany and France had chartered positive quarterly growth of 0.3% each after four consecutive quarters of contraction. The UK economy continued to contract in the second quarter, but similarly improved with the rate of decline narrowed to 0.7% from 2.7% in the preceding three months.
- On a yearly comparison, output in the euro zone fell by a smaller 4.7% in the second quarter against -4.9% in the first quarter supported by Germany and France which saw their annualized rate of decline moderating to -5.9% and -2.6% from -6.7% and -3.4% respectively in the first quarter.
- Japan expanded by 0.6% quarter-on-quarter in the April-June period of this year, after four straight quarters of contraction. In comparison to the corresponding period of 2008, output was up 3.7% against 11.7% in the preceding three months.
- China's economic growth strengthened in the second quarter to an annualized 7.9% after chartered a slide to 6.1% in the January to March quarter.
- Singapore registered a sharp quarterly rebound with a growth of 20.4% in the second quarter of 2009 after plunging 12.7% in the preceding three months and the first expansion in a year. Its annualized rate of contraction for the second quarter narrowed sharply to 3.7% from -9.7% in the first three month of this year.
- Malaysia tracked global trend with a strong 4.8% quarterly rise in GDP after two consecutive quarters of contraction. In comparison to the same period a year ago output dropped at a significantly slower rate of 3.9% against -6.2% in the first quarter.

RISKS AND CONCERNS

- The downside risks to world growth remain high as global economies continue to face vulnerable external shocks. In comparison to the position a year ago, with the exception of a few, all major and emerging economies continued to post negative growth during the second quarter. To a large extent, growth for the period was largely contributed by restocking activities and government stimulus programs, while consumer spending remained lackluster.
- The primary concern of many economies is the very weak labor market. The unemployment rate in the US and Europe has passed 9.0% and is expected soon to reach the 10% level. In the US, its unemployment rate hit a 26 year high of 9.7% in July. The euro zone reported its unemployment rate climbing to a 10-year high of 9.5% in July affecting mostly the younger age groups. The consequential loss in income, falling wages and erosion of consumer confidence are adverse to consumption spending and overall growth of the economy.
- Another immediate concern is the threat of deflation on consumer spending and business sentiment and confidence. The US saw its consumer price index retreating by 2.1% in July mainly following falling energy prices and sluggish consumer spending. In the euro zone, consumer prices dropped by 0.6% in the same month.
- Over the longer term, growth momentum can be affected by the sharp expansion in government budgetary deficits as a consequence of huge fiscal stimulus packages. Globally, stimulus packages totaled about US\$5.0 trillion.
- The US fiscal deficit could hit US\$1.58 trillion in 2009 or 11.2% of GDP – the largest since 1945. Its national debt can double to about US\$20 trillion by 2010, representing about 70% of the GDP compared with the current level of US\$11.0 trillion or 48% of GDP.
- Financing of the deficits potentially can exert a strong downward pressure on the US dollar and subsequently affects its position as the world reserve currency.
- On the monetary policy front, huge liquidity injection and exceptionally low interest rates could finally trigger upward inflationary pressures, particularly if there are no adequate or sufficient exit policies on both the fiscal stimulus and monetary easing programs. There is also a continuing concern on the health of the US and European property and financial sectors, especially on the ability of the banking sector to play its intermediary roles to support economic activity.
- The uncertainties can disrupt sustainability of global economic recovery. While global recovery process can be slow and gradual, fear has emerged on the possibility of a double-dip or 'W'-shape recovery, suggesting growth could slide back to contraction due to the adverse factors.

MALAYSIA'S RECOVERY PROSPECTS

- The domestic economic condition continued to remain weak through the second quarter of 2009. Despite the quarterly increase and a smaller annualized drop in GDP, Malaysia continued to be adversely affected by the sluggish external demand. In fact, exports fell more by 22.8% in July as primary commodities suffered from sharp decline in prices, while manufacturing exports retained negative growth following sluggish world demand for the electrical and electronic goods.
- The domestic economy will continue to track global economic performance driven by the US. However, to a significant extent economic activity would still be supported by domestic consumption and public investment spending through the final part of this year. On the assumption that global economic recovery is sustained, driven by the US, potentially the Malaysian economy can continue to see an uptrend on the back of better exports. Subsequently, it can chart a positive annualized growth in the fourth quarter of this year. This would form a good base to start 2010.
- On the other hand, if the global economic recovery is not sustained dragged by the US, it would also affect Malaysia's recovery process. The position of domestic economy would be weakened further if the Government were to decide to slow down the direct fiscal injection as a result of escalating deficit. At the same time, foreign direct investment would remain depressed, amidst low capacity utilization particularly in the manufacturing sector.
- Nonetheless, we believe the potential of the economy is currently more to the upside, given the recent inflows of positive economic data. The resumption in global manufacturing and services back to the expansionary level, the first monthly gain in world trade volume in June, rallies in global stock market and stable commodity prices are all constructive towards strengthening consumers and businesses optimism on the economy which had been tarnished since the pinnacle of the global financial crisis in 2008.
- As such, our estimation shows that Malaysia's GDP could decline at between 2.5% to 3.0% in 3Q09 before rebounding to +1.0% to 1.5% in 4Q09, taking the overall 2009 economic growth to range between -2.5% to 3.0%. Real GDP is projected to rebound to +3.5% in 2010 on a turnaround in exports as well as a recovery in domestic demand.
- On the back of continuing global uncertainties and the need to stimulate private sector, monetary policy have to remain accommodative. Thus, the current low level of interest rate is likely to stay at least through the first half of 2010.
- Inflation, which is in negative territory since June 09 will likely turn positive in 4Q09 as the statistical base effects from last year's oil price shocks normalize. Even so, prices are still more exposed towards deflationary pressure as real demand is yet to recover at least until end of the year.