

10 September 2021



# ECONOMICS

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**Malaysia – Downside in unemployment rate remains sticky**

**Malaysia – Expect OPR to stay at 1.75%**

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**Friday, 10 September 2021**

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## Malaysia

### Downside in unemployment rate remains sticky

July's unemployment rate of 4.8% remained unchanged for the second month impacted by MCO 3.0. The downside in unemployment is expected to remain sticky in the near term.

Looking ahead, we project the unemployment rate to hover between 5.0% and 5.2%.

#### A. Highlights

- The unemployment rate in July remained unchanged at 4.8% for the second consecutive month with the number of people unemployed climbing to 778.2K. Nevertheless, it is still lower than the 5.0% reported in April 2020 during MCO 1.0.
- The number of employed persons in July 2021 declined by 0.02% m/m to a record 15.3mil persons, with the employment-to-population ratio steady at 65.0%.
- The labour force increased marginally by 6.7K persons, or 0.04% to 16.1mil persons, while the labour force participation rate (LFPR) remained unchanged at 68.3%.
- Meanwhile, self-employed individuals recorded an addition of 6.8K persons to 2.5mil compared to June 2021's 2.49mil persons.

#### B. Key Takeaways

- A still high unemployment rate is due to the impact from MCO 3.0. It is despite restrictions were eased in some states towards the end of the month, and more sectors were allowed to operate.
- But sentiment remained soft in the business environment on fears of a continued lockdown. The country is still combatting the rising number of new daily Covid-19 cases and if the current health crisis persists, the economy and labour market will continue experiencing uneven recovery momentum.
- Therefore, herd immunity is essential as the country heads towards looser containment measures, thus allowing businesses to resume their operations. We are already witnessing this as close to 90% of the population have received the first dose.
- The National Covid-19 Vaccination Programme's increasing pace may boost confidence among households and businesses to stimulate economic activities. Added with the various initiatives that are currently implemented to support business continuity and households, we expect unemployment to potentially ease slightly in 4Q2021.
- Moving forward, we project unemployment to hover between 5.0% and 5.2%



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## **Malaysia**

### **Expect OPR to stay at 1.75%**

As expected, BNM kept the policy rate at 1.75%. It has maintained the policy rate for the seventh consecutive time. The last rate cut was on 7 July 2020 with a 25bps cut from 2.00%.

But looking ahead, downside risk on the local economy growth remains due to both external and domestic factors. Risk on global front is also tilted downwards.

We expect BNM to maintain the current supportive policy rate to aid the stimulus measures. The current 1.75% is likely to stay throughout the year, especially with uncertainties still lingering in the global and domestic economy. And just like other major central banks, the future direction of the OPR will be governed by new data and information.

#### **A. Key Highlights**

- As expected, BNM kept the policy rate at 1.75%. It has maintained the policy rate for the seventh consecutive time. The last rate cut was on 7 July 2020 with a 25bps cut from 2.00%.
- Recovery in the global economy is supported by vaccination coverage, relaxation of containment measures and the degree of policy support. This resulted in improvement in manufacturing and services activities although the performance varied across countries.
- On the local front, the reimposition of MCO 3.0 to curb the resurgence in Covid-19 cases weighed on the economic performance. It disrupted supply chain, domestic demand, and job market. But the additional stimulus measures and support from the export sector should provide some cushion.

#### **B. Key Takeaways**

- Looking ahead, downside risk on the local economy growth remains due to both external and domestic factors.
- Domestically, it would be the phase of economic reopening. Delays in the easing or the reimposition of broad-based containment measures due to the impact of new Covid-19 variants remain a concern.
- And risk of a weaker-than-expected global growth recovery is still there. There is also uncertainty over the path of the pandemic amid the emergence of variants. Besides, potential risk from monetary policy adjustment by major economies pose a heightened risk on financial markets' volatility.
- We expect BNM to maintain the current supportive policy rate to aid the stimulus measures. The current 1.75% is likely to stay throughout the year, especially with uncertainties still lingering in the global and domestic economy. And just like other major central banks, the future direction of the OPR will be governed by new data and information.

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**Table 1: Malaysia Policy Data (%)**

	Sep'20	Oct	Nov	Dec	Jan'21	Feb	Mar	Apr	May	June	Jul	Aug	Sep
OPR (%)	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CPI y/y	-1.4	-1.5	-1.7	-1.4	-0.2	0.1	1.7	4.7	4.4	3.4	2.2	nm	nm
Core-CPI y/y	1.0	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.7	0.7	nm	nm
Real Returns (%)	3.1	3.2	3.5	3.1	2.0	1.7	0.1	-2.9	-2.7	-1.7	-0.4	nm	nm
RM/USD (avg)	4.148	4.150	4.113	4.055	4.036	4.045	4.109	4.120	4.127	4.133	4.203	4.217	nm
RM/USD (y/y %)	-0.8	-0.9	-1.0	-2.2	-1.049	-2.8	-4.4	-5.3	-4.8	-3.3	-1.4	0.8	nm

Source: CEIC/AmBank Research

**Table 2: BNM MPC Meeting Schedule 2021**

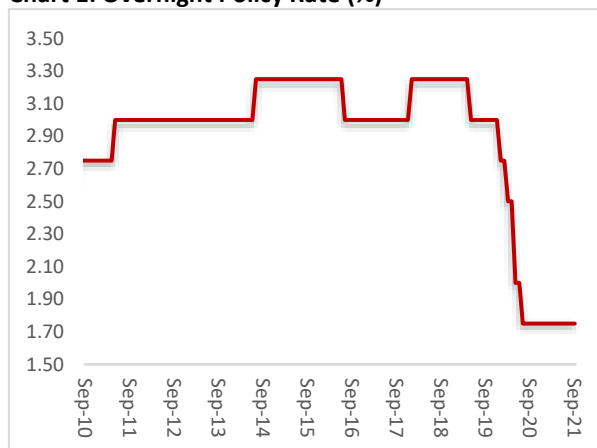
MPC Meeting No	Date(s)	OPR Decision
1st	20 January	Unchanged at 1.75%
2nd	4 March	Unchanged at 1.75%
3rd	6 May	Unchanged at 1.75%
4th	8 July	Unchanged at 1.75%
5th	9 September	Unchanged at 1.75%
6th	3 November	-

**Table 3: Key Labour data**

	Jul'20	Aug	Sep	Oct	Nov	Dec	Jan'21	Feb	Mar	Apr	May	Jun	Jul
Net Employed (K)	83.2	80.1	39.6	14.0	-11.0	19.3	21.9	33.3	58.7	22.7	18.8	-73.3	-2.7
Net Unemployed (K)	-28.1	-3.5	-4.1	10.7	16.2	8.5	9.6	-5.0	-24.3	-10.5	-14.6	40.6	9.5
Unemployment Rate (%)	4.7	4.7	4.6	4.7	4.8	4.8	4.9	4.8	4.7	4.6	4.5	4.8	4.8
LFPR (%)	68.1	68.4	68.4	68.5	68.4	68.4	68.5	68.5	68.6	68.6	68.5	68.3	68.3
Temporarily Not Working (K)	104.3	102.0	100.7	183.6	142.0	146.2	158.9	150.8	121.0	116.0	139.6	801.1	776.3

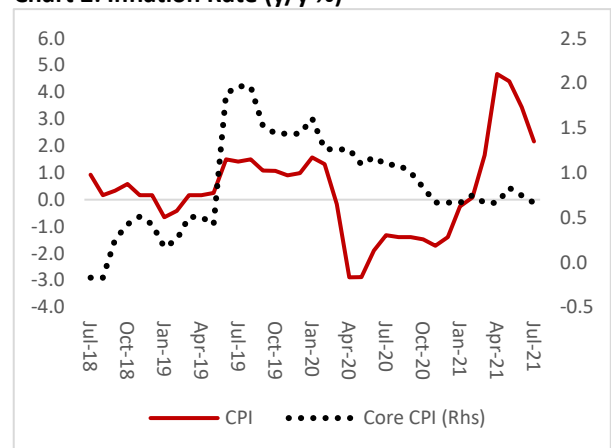
Source: CEIC/AmBank Research

**Chart 1: Overnight Policy Rate (%)**



Source: CEIC/AmBank Research

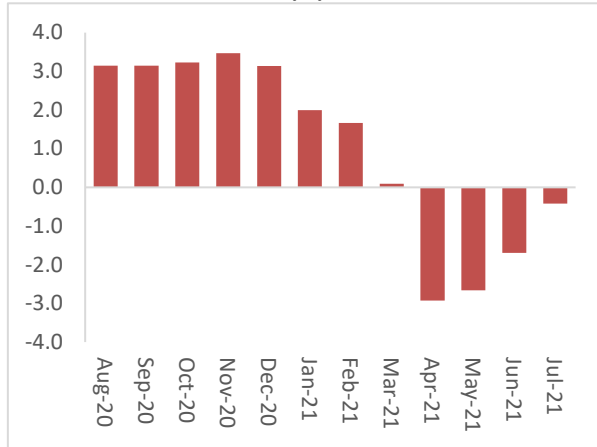
**Chart 2: Inflation Rate (y/y %)**



Source: CEIC/AmBank Research

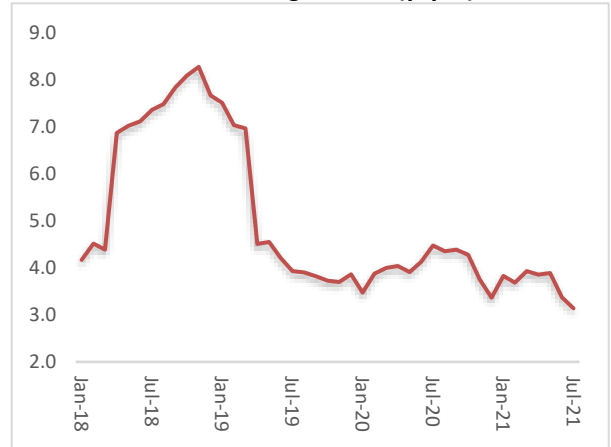
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**Chart 3: CPI Real Returns (%)**



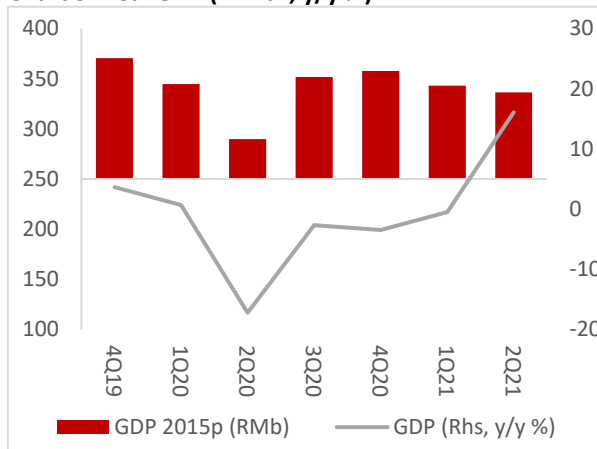
Source: CEIC/AmBank Research

**Chart 4: Loan Outstanding Growth (y/y %)**



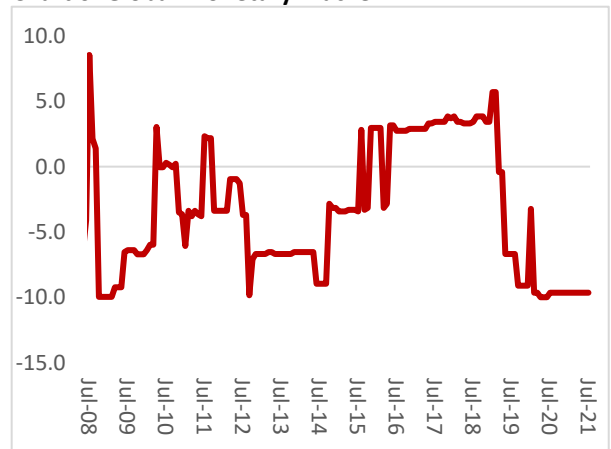
Source: CEIC/AmBank Research

**Chart 5: Real GDP (RM bil, y/y %)**



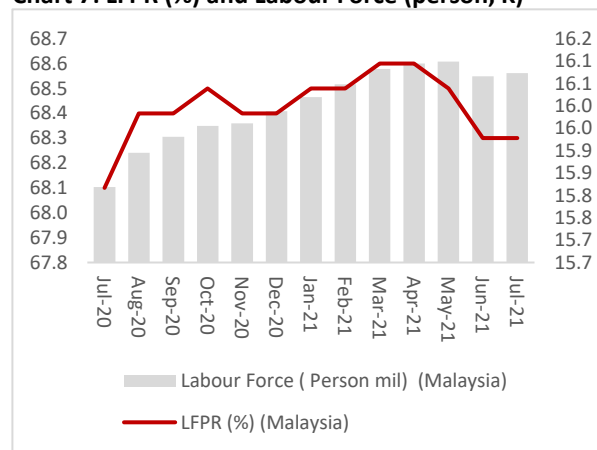
Source: CEIC/AmBank Research

**Chart 6: Global Monetary Tracker**



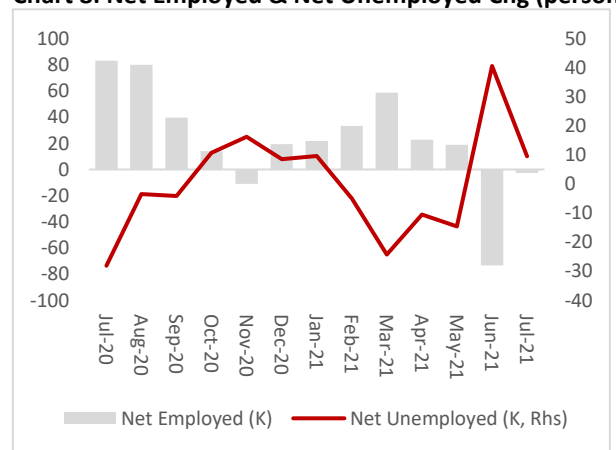
Source: CFR/AmBank Research

**Chart 7: LFPR (%) and Labour Force (person, K)**



Source: CEIC/AmBank Research

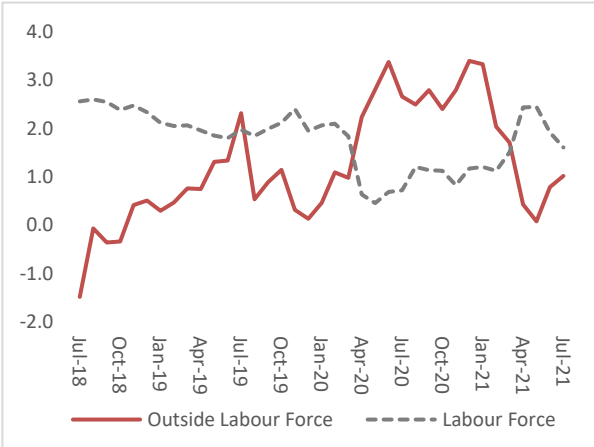
**Chart 8: Net Employed & Net Unemployed Chg (person, K)**



Source: CEIC/AmBank Research

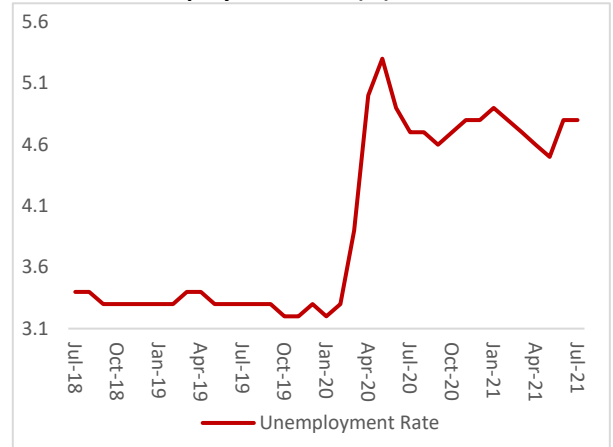
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**Chart 9: Labour Force vs. Outside Labour Force (y/y %)**



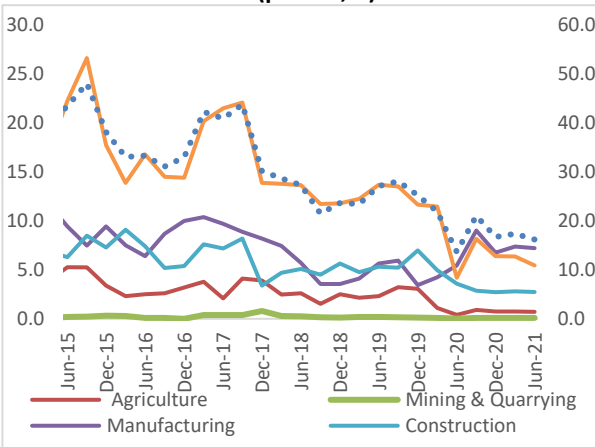
Source: CEIC/AmBank Research

**Chart 10: Unemployment Rate (%)**



Source: CEIC/AmBank Research

**Chart 11: Jobs Created (person, K)**



Source: CEIC/AmBank Research

**Chart 12: Employment-to-Population Ratio (%)**



Source: DOSM/AmBank Research



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