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The Regional and National Investment Outlook: Challenges and Prospects

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Malaysian Capital Market Summit 2010

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Global Economic Outlook 2011-2012

Country	2009	2010	2011	2012
US	-2.6	2.8	2.4	3.0
EU	-4.2	1.8	1.6	1.9
Japan	-5.3	3.5	0.7	1.4
Asia (ex-Japan)	5.2	8.1	6.7	6.7
Middle East	1.3	4.6	5.3	5.1
Sub-Saharan Africa	2.0	4.5	5.2	5.1
Latin America	-1.8	5.5	4.6	4.6
World	-1.8	4.0	3.3	3.7

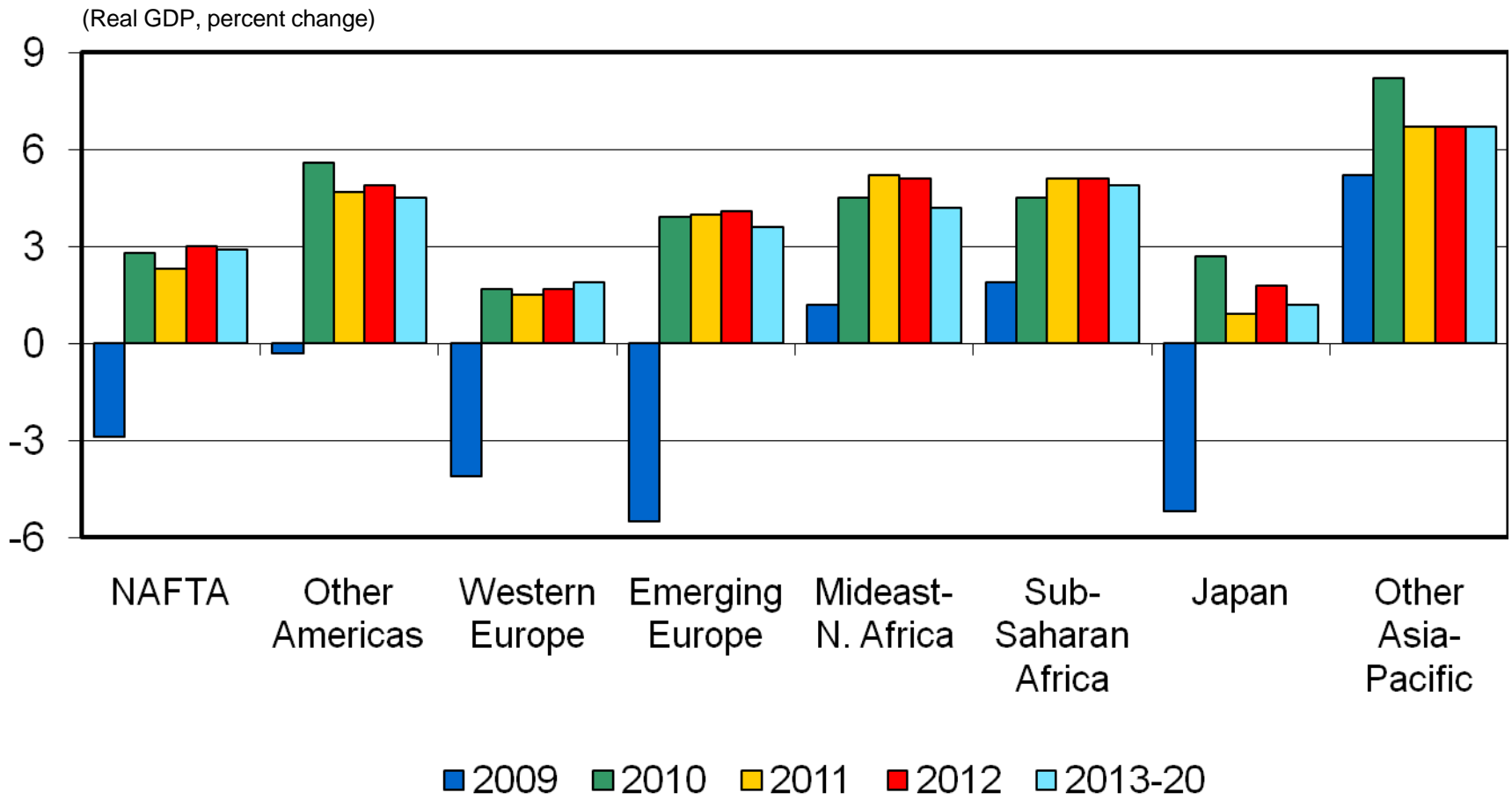
Source: IHS Global Insight



A Multi-Speed Global Economy

- The global expansion is continuing at a slower pace
- Debt levels will influence the speed of country recoveries
- Emerging markets will achieve 6.2% growth over the next decade, compared with 2.3% growth in advanced countries
- Inflation will not be a problem in most countries due to excess productive capacity
- Interest rates will remain low through 2011 in advanced countries but will rise in emerging markets
- The probability of a double-dip recession is about 20%

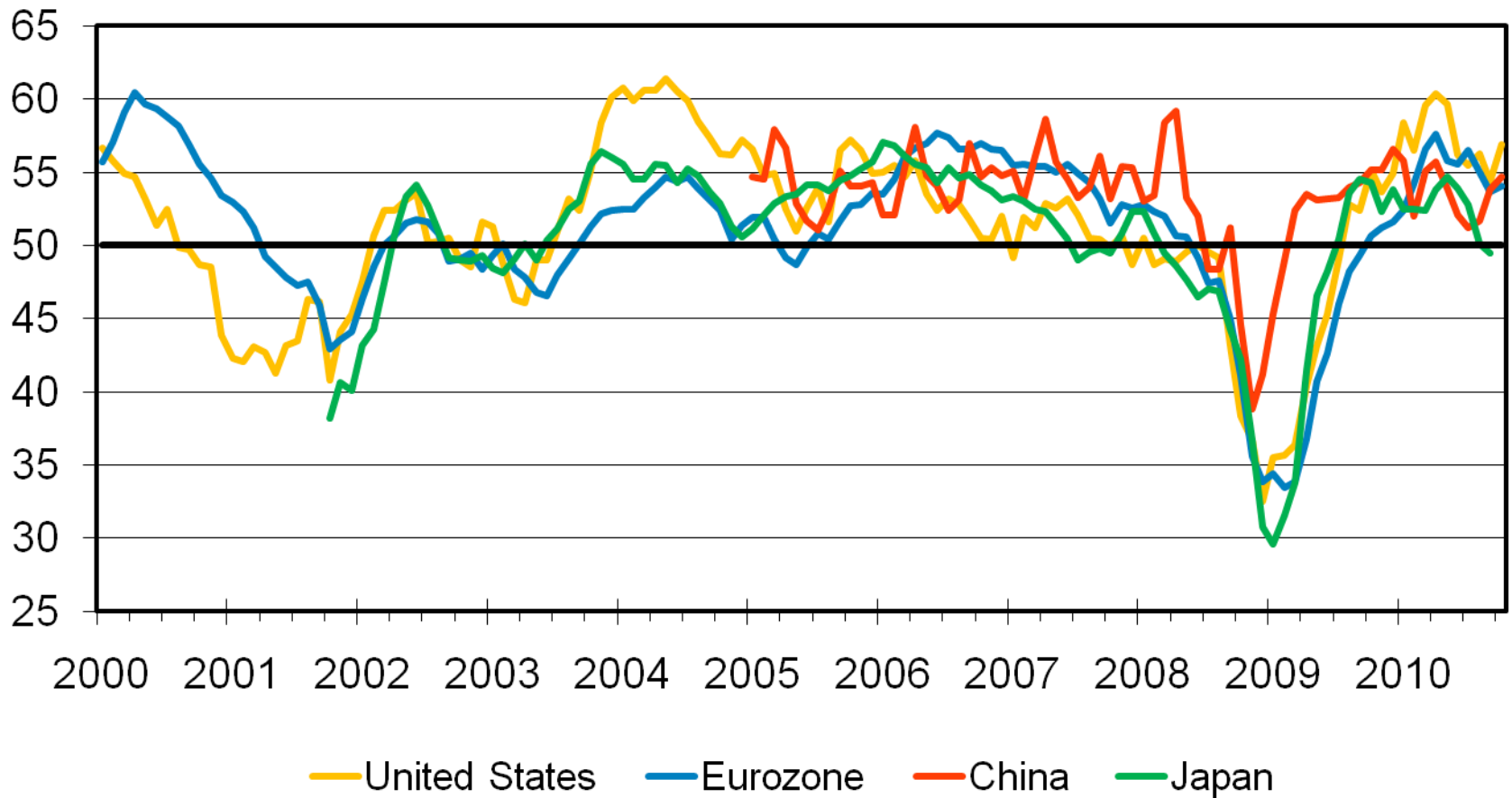
Asia-Pacific Will Achieve the Fastest Growth; Other Emerging Markets Will Thrive



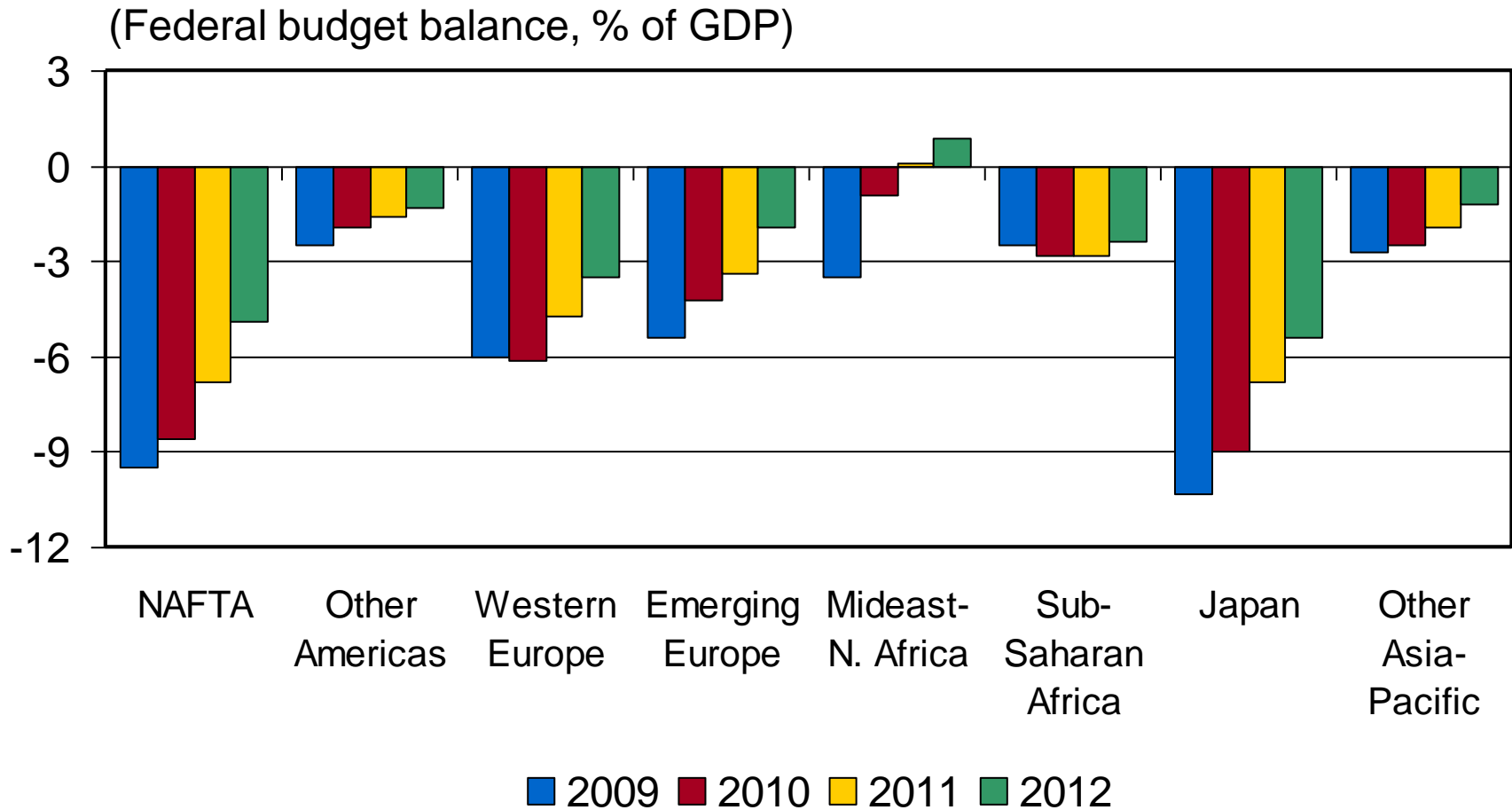
Purchasing Managers' Indexes for Manufacturing Signal Expansion at a Slower Pace



(Index, over 50 indicates expansion)

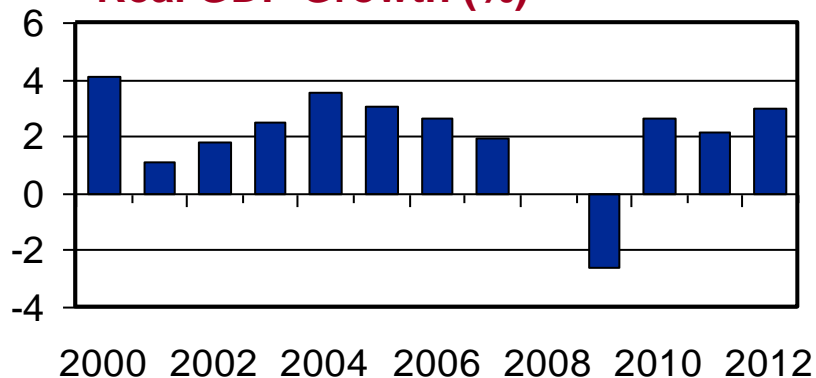


Fiscal Deficits: Higher in the Developed World

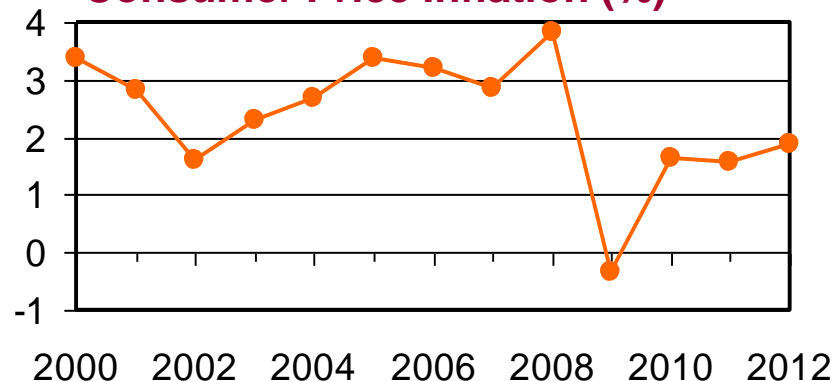


United States Outlook Summary

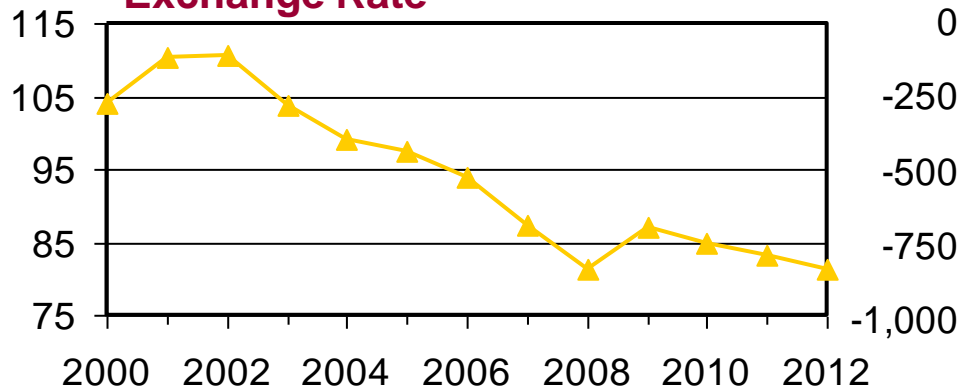
Real GDP Growth (%)



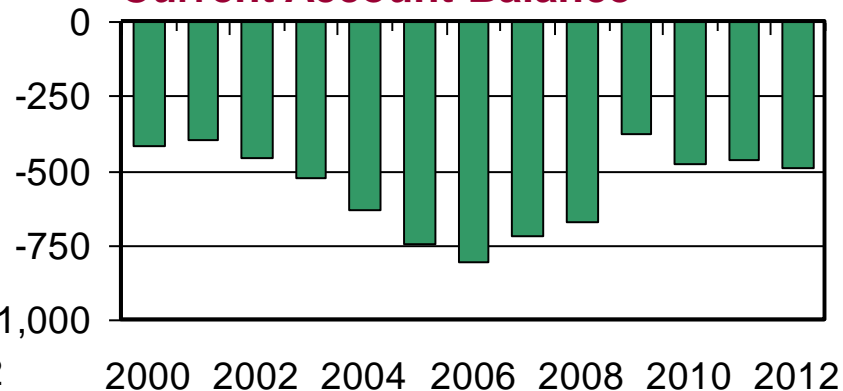
Consumer Price Inflation (%)



Exchange Rate*



Current Account Balance**



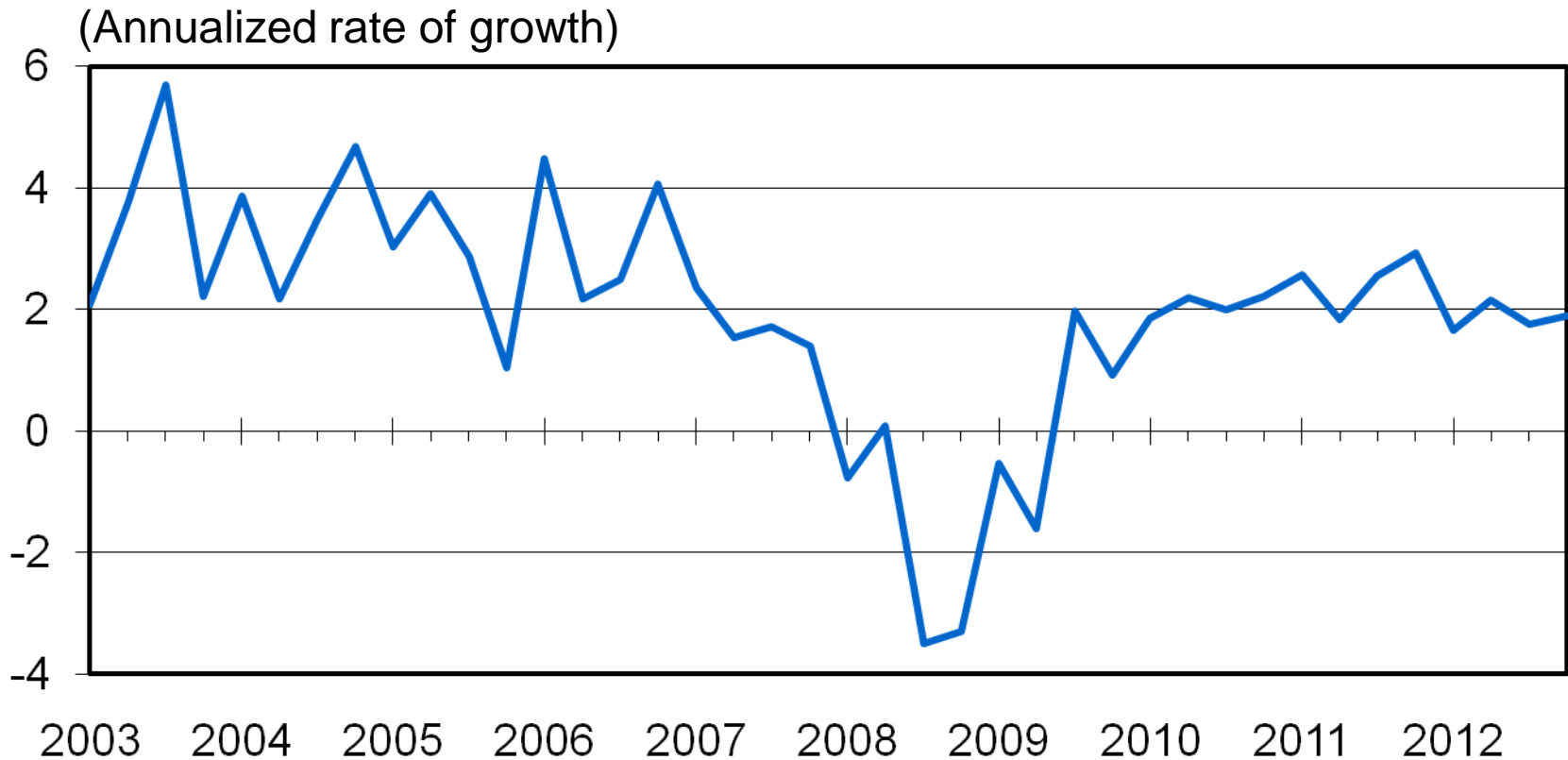
*FRB broad index, March 1973 = 100, **Billions of U.S. dollars



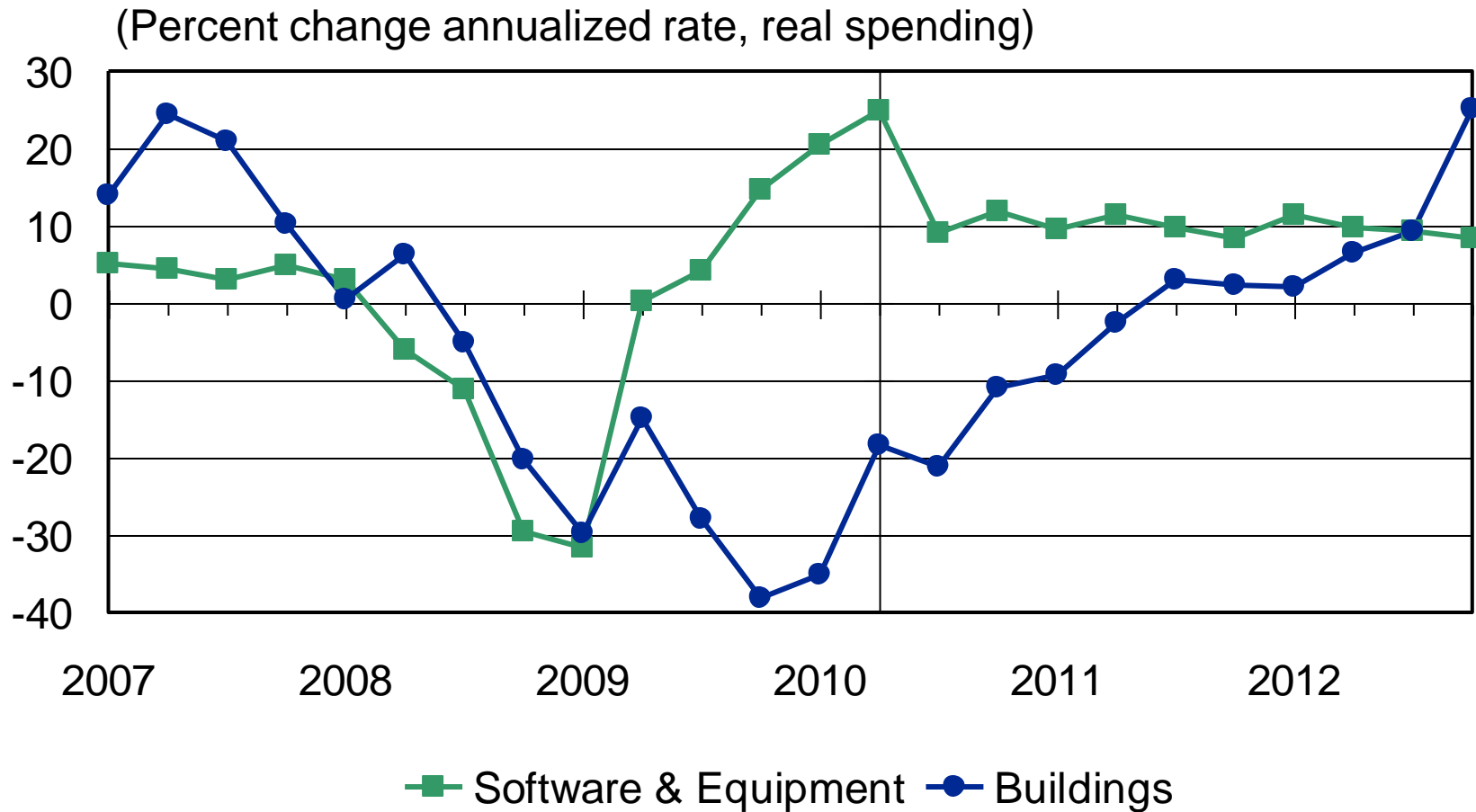
U.S.: Fears of a Double-Dip Are Ebbing

- Underlying growth is around 2%, as the boost from fiscal stimulus and inventory re-building fades
- Consumer spending growth is being held back by the strong headwind of a high unemployment rate and the need to de-leverage — an “epidemic of thrift”
- Business spending on equipment and services is boosting growth — cash flow is very strong
- While non-residential construction and state-and-local spending are still drags on the recovery
- Housing will continue to “bounce along the bottom”
- Exports will benefit from a weaker dollar and strong growth in emerging markets
- Policy uncertainty is a big problem for the United States

U.S. Consumer Spending Stabilizing, But Not a Strong Driver of Recovery

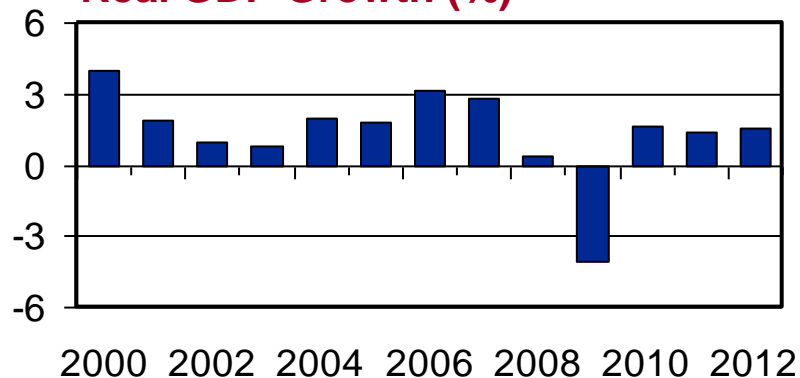


U.S. Business Capital Spending Cycle: Construction Lags

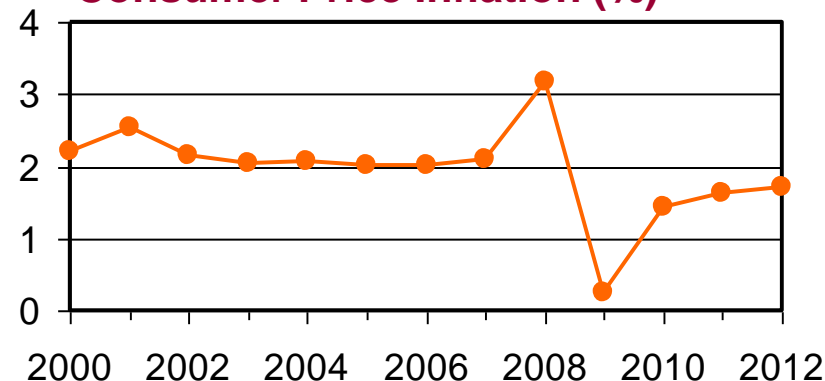


Eurozone Outlook Summary

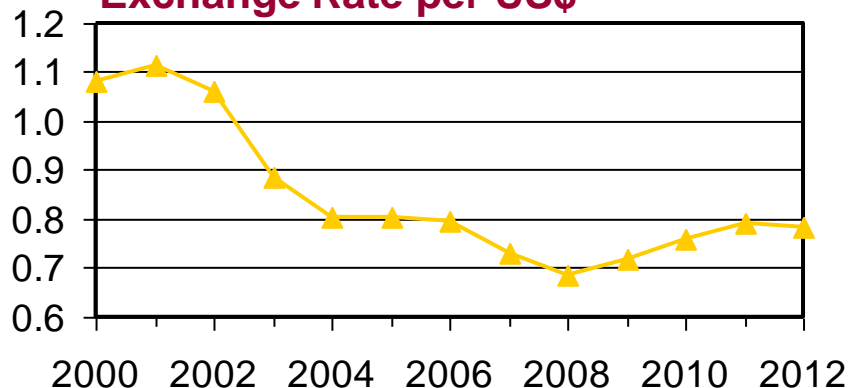
Real GDP Growth (%)



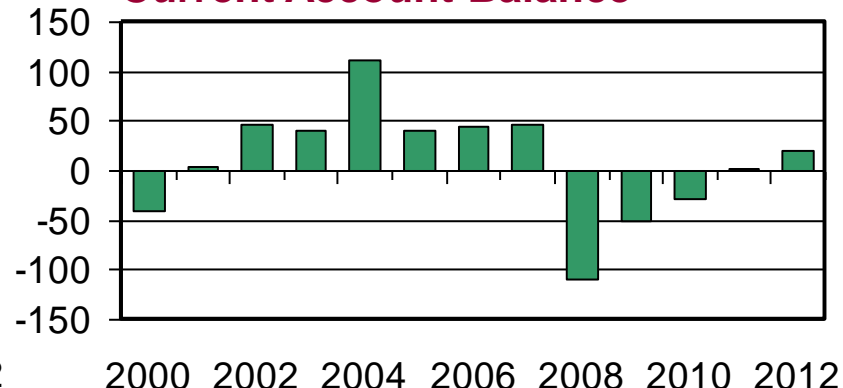
Consumer Price Inflation (%)



Exchange Rate per US\$*



Current Account Balance**



*Annual average, **Billions of U.S. dollars

Eurozone: Sovereign Debt Problems Weigh on 2011 Outlook



- After strong Q2 (+1% qoq), Eurozone growth moderated in Q3 (+0.4% qoq) will remain sluggish overall into 2011
- Two-speed Europe — marked divergences in performance of member countries, with North doing relatively well (especially Germany) and South struggling
- Sovereign debt problems of some EU countries, notably Greece, Ireland, Portugal and Spain remain a key vulnerability and downside risk to EU outlook
- But fiscal policy was already becoming less accommodative even before Eurozone sovereign debt crisis increased pressure for policy to be tightened earlier and faster
- High unemployment, fiscal austerity measures, weak wage gains, and tight credit will restrain consumer
- Business investment limited by substantial excess capacity and concerns about strength and sustainability of recovery
- Exports will be hurt by slowing global growth and the recent strength in the euro



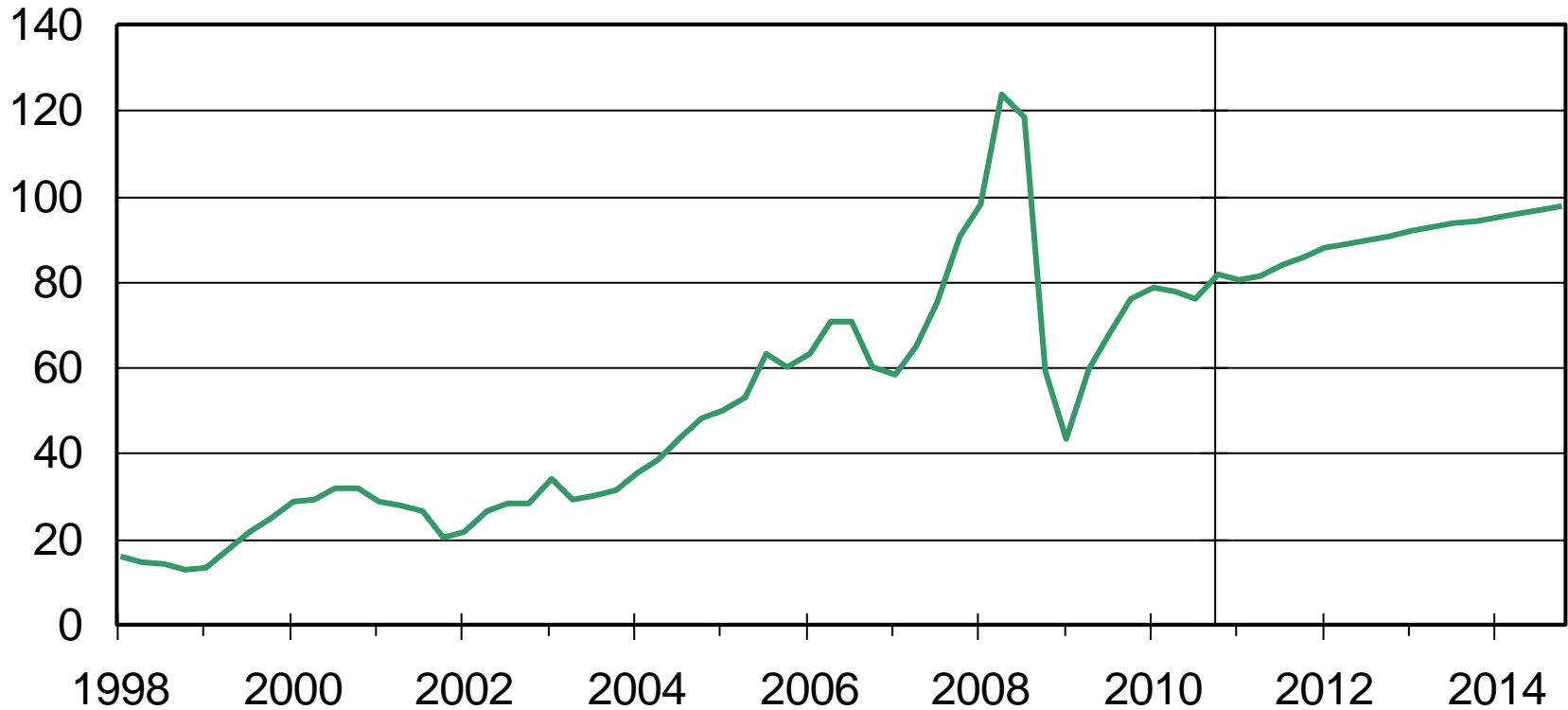
Risks to the Global Outlook

- Double-dip
- European sovereign debt crisis worsens
- Risk of protracted stagnation in US and EU leading to a “lost” decade
- China boom-bust, including problems with state government debt
- Still large housing over-valuation in many economies
- Currency “wars” and protectionism
- Prolonged period of high unemployment rates
- Policy mistakes
- Upside risks: pent-up demand finally released, stronger productivity growth, stronger domestic demand in many emerging markets (especially Asia)

Crude Oil Prices Will Gradually Increase

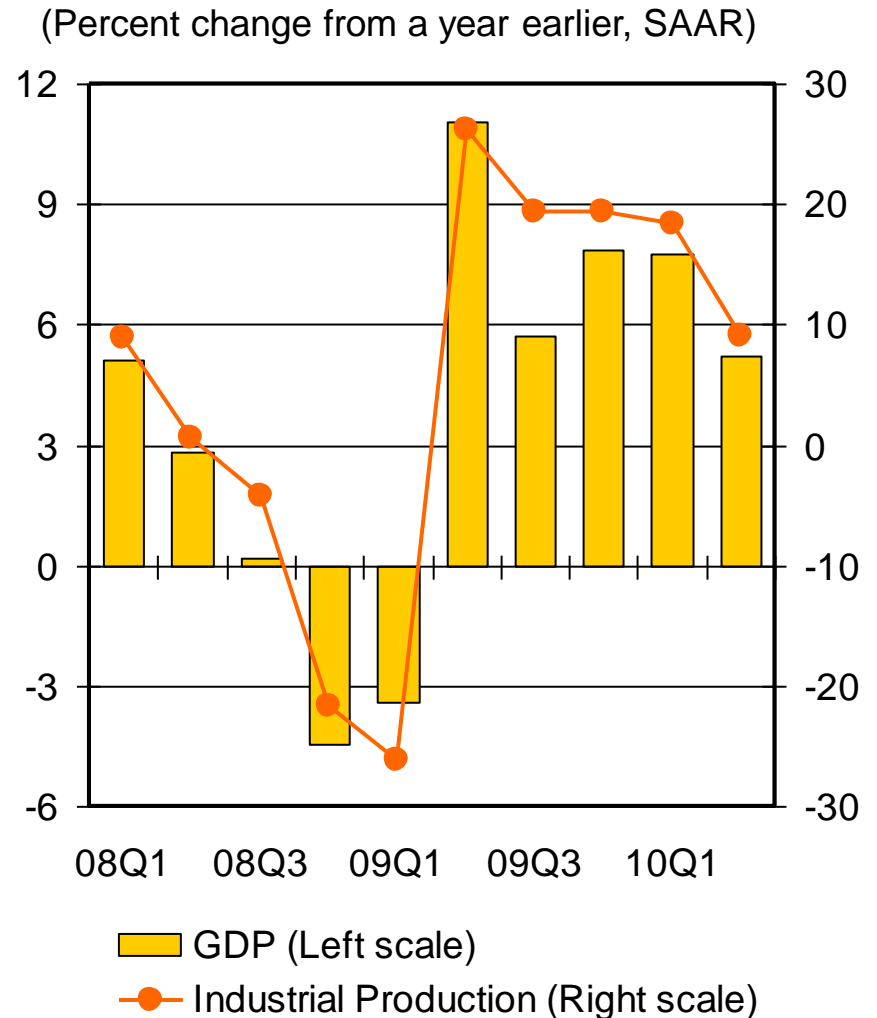


(West Texas Intermediate price, dollars per barrel)



Is Asia's Recovery Vulnerable?

- Impetus from inventories has already peaked
- Net exports will slow considerably in coming quarters
- Central banks in Asia have been tightening monetary policy stance
- Fiscal stimulus measures being scaled back in many Asian countries



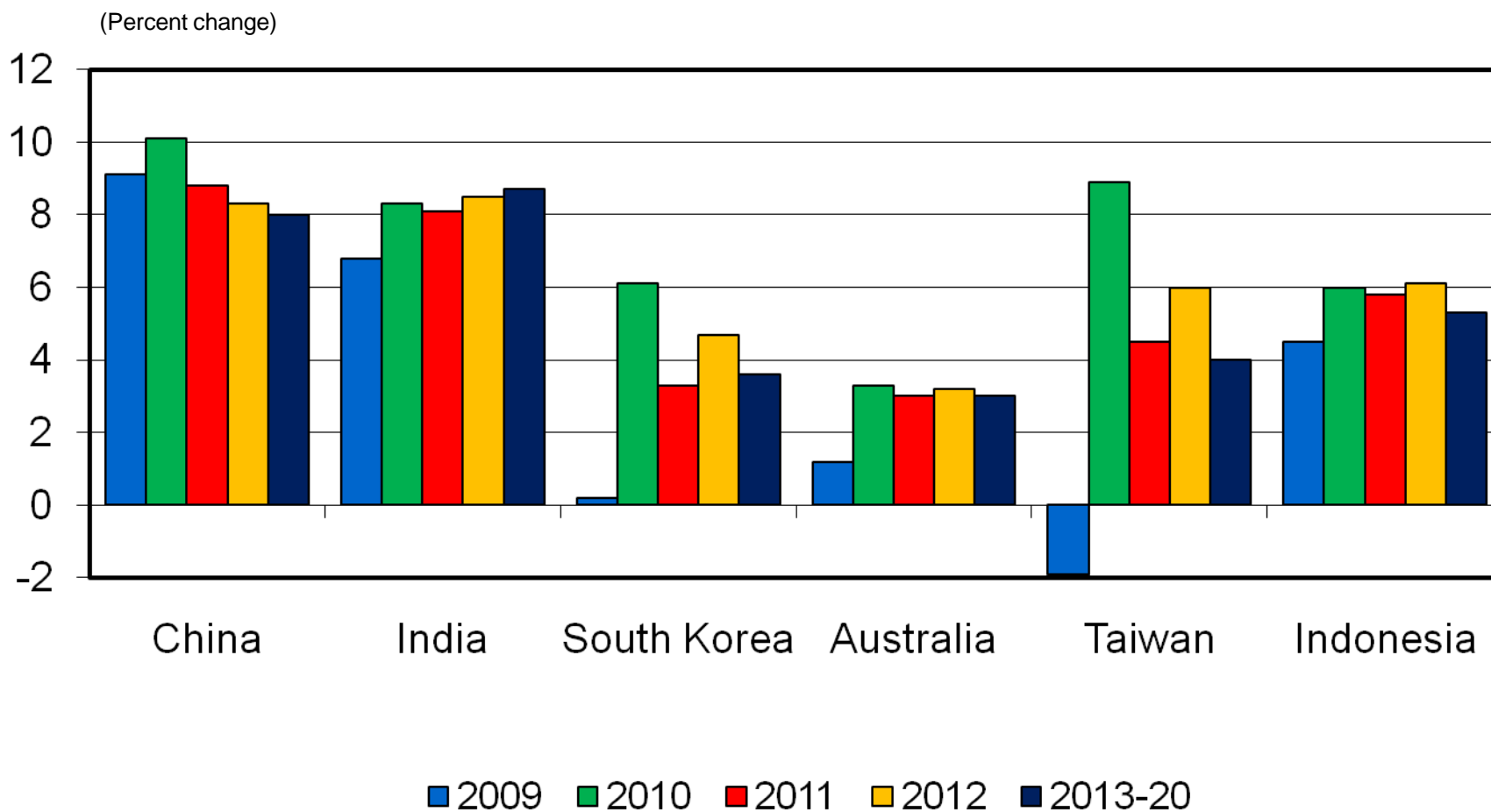


Asia Pacific Growth Outlook for 2011-12

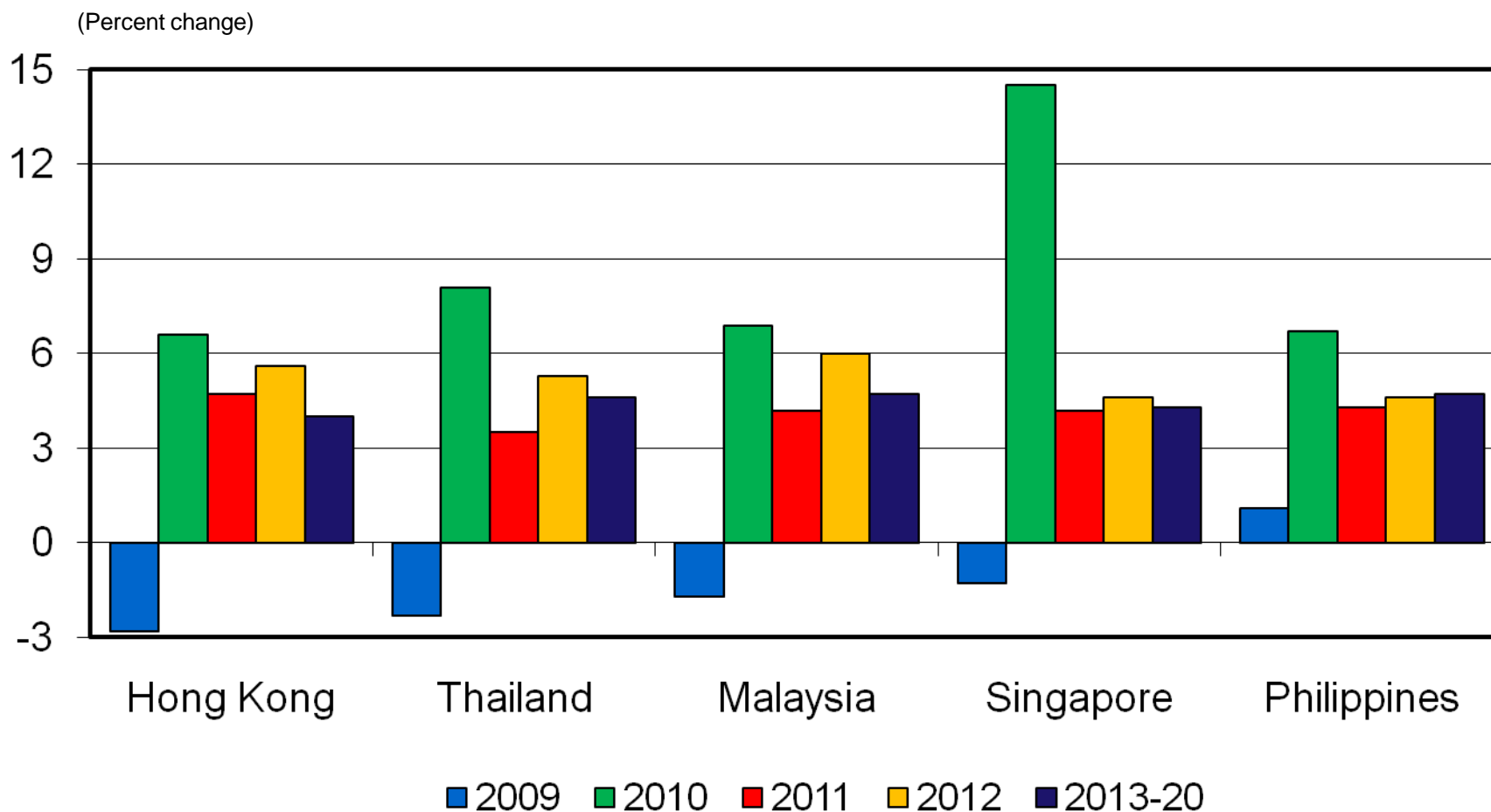
(Real GDP growth, percent change from a year earlier)

	2010	2011	2012
Australia	3.2	2.8	3.2
China	10.1	8.8	8.3
Hong Kong	6.6	4.7	5.6
India	8.3	8.1	8.5
Indonesia	6.0	5.8	6.1
Japan	3.5	0.7	1.4
S. Korea	6.1	3.3	4.7
Malaysia	6.9	4.2	6.0
Philippines	6.7	4.3	4.6
Singapore	14.5	4.2	4.6
Taiwan	8.9	4.5	6.0
Thailand	8.1	3.5	5.3

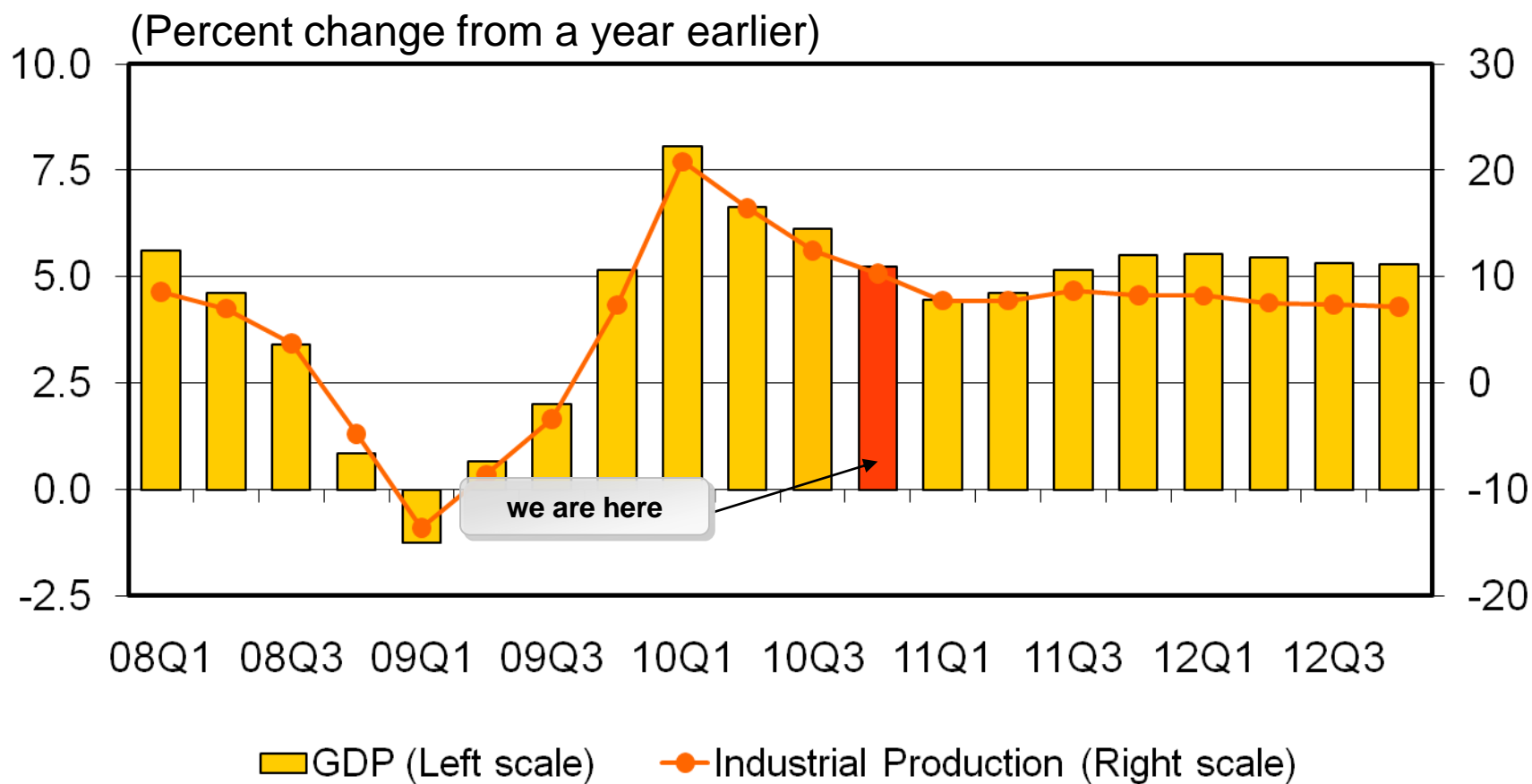
Real GDP Growth in Asia-Pacific Economies



Real GDP Growth in Asia-Pacific Economies



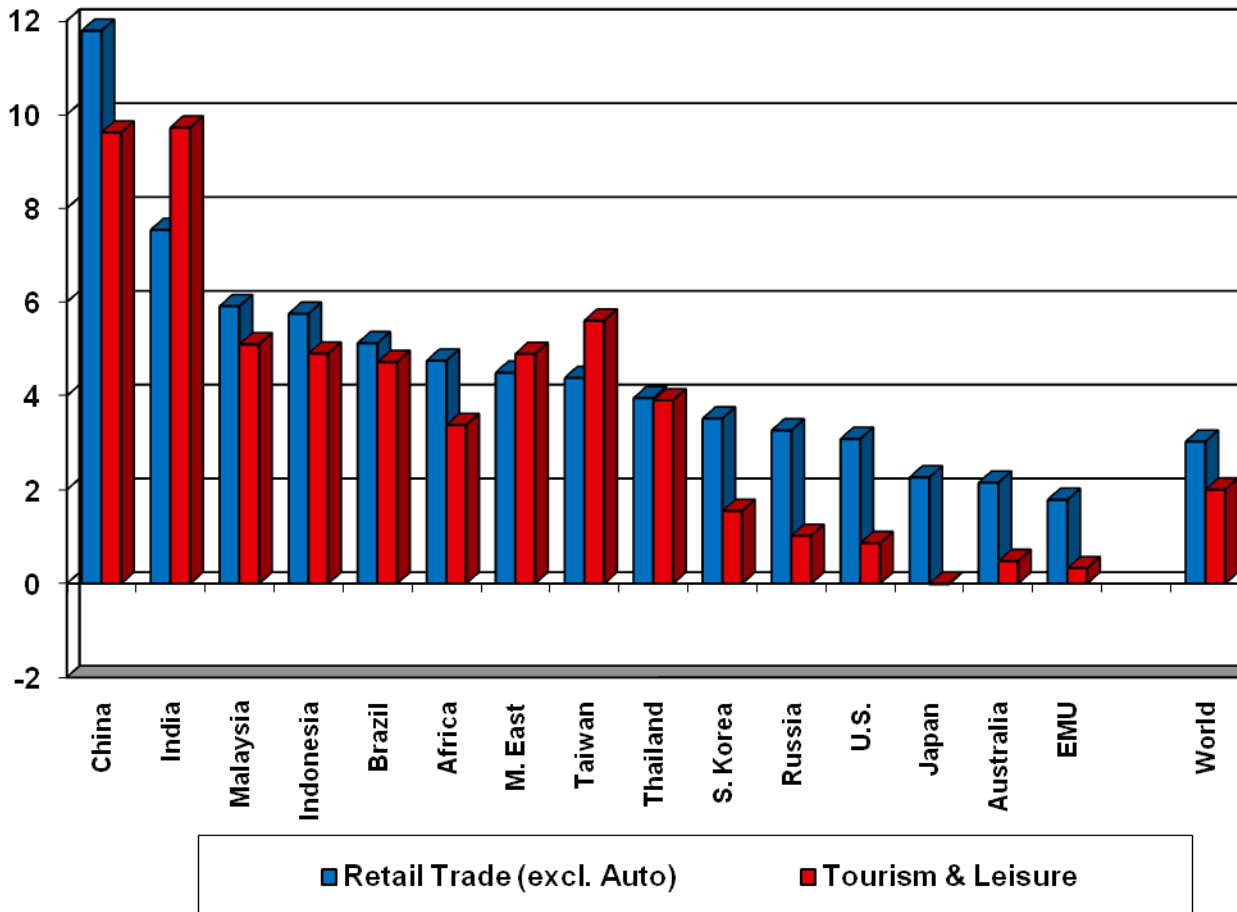
Asia: Slowdown, But No “Double Dip”



Source: National Sources and IHS Global Insight Forecast

The New Silk Road

Forecast Growth in Real Retail Sales (2010-11 CAGR)

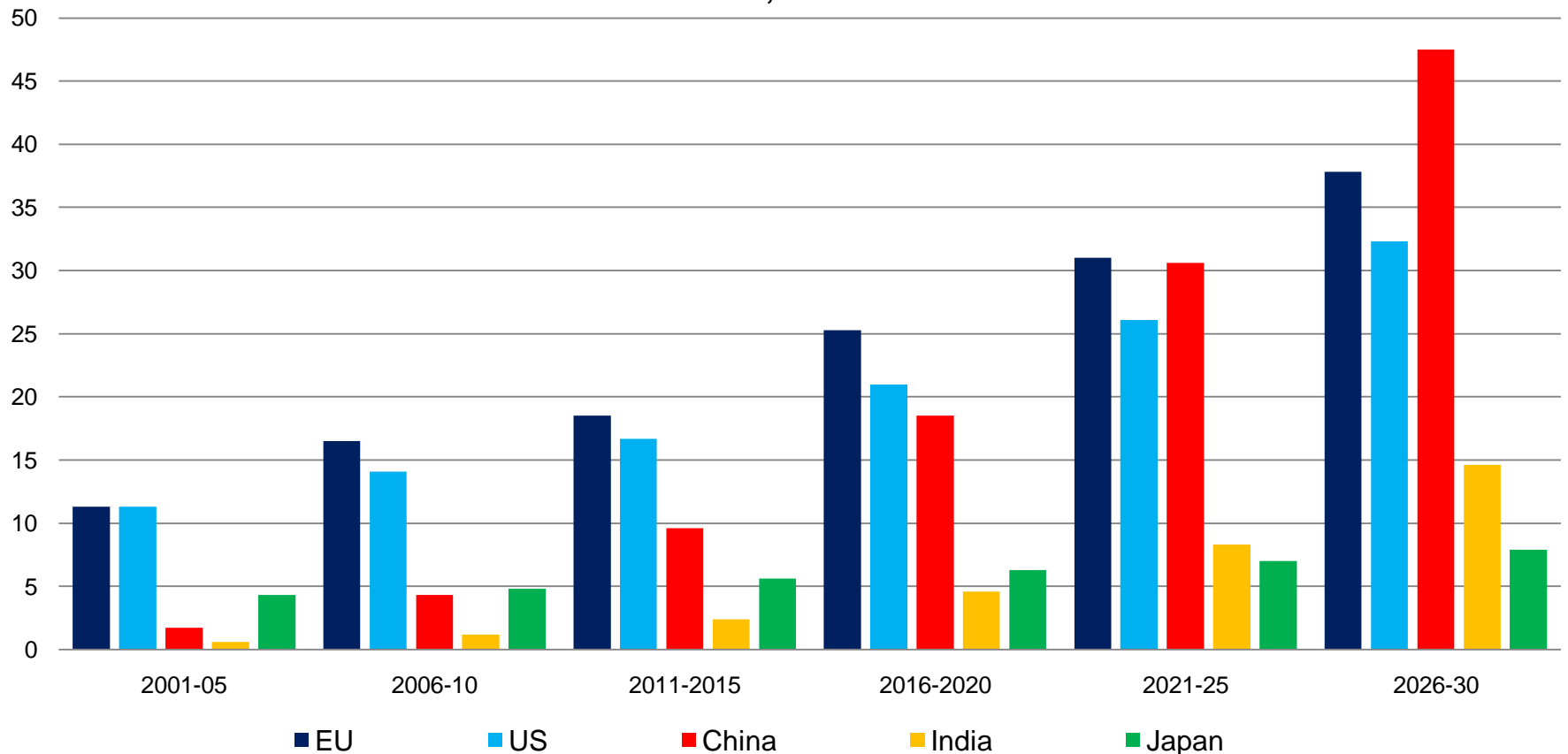


- Recoveries in stock and home prices in Western Europe and the United States has supported retail discretionary sales
- The recovery in Tourism, Hotels and Leisure will be slow in Western countries where consumers are still threatened by unemployment
- In Emerging Asia, rise of the middle class and change in strategy boosting domestic households' real purchasing power is driving consumer spending

China as Number One

The Shift from West to East

Nominal GDP, USD trillion

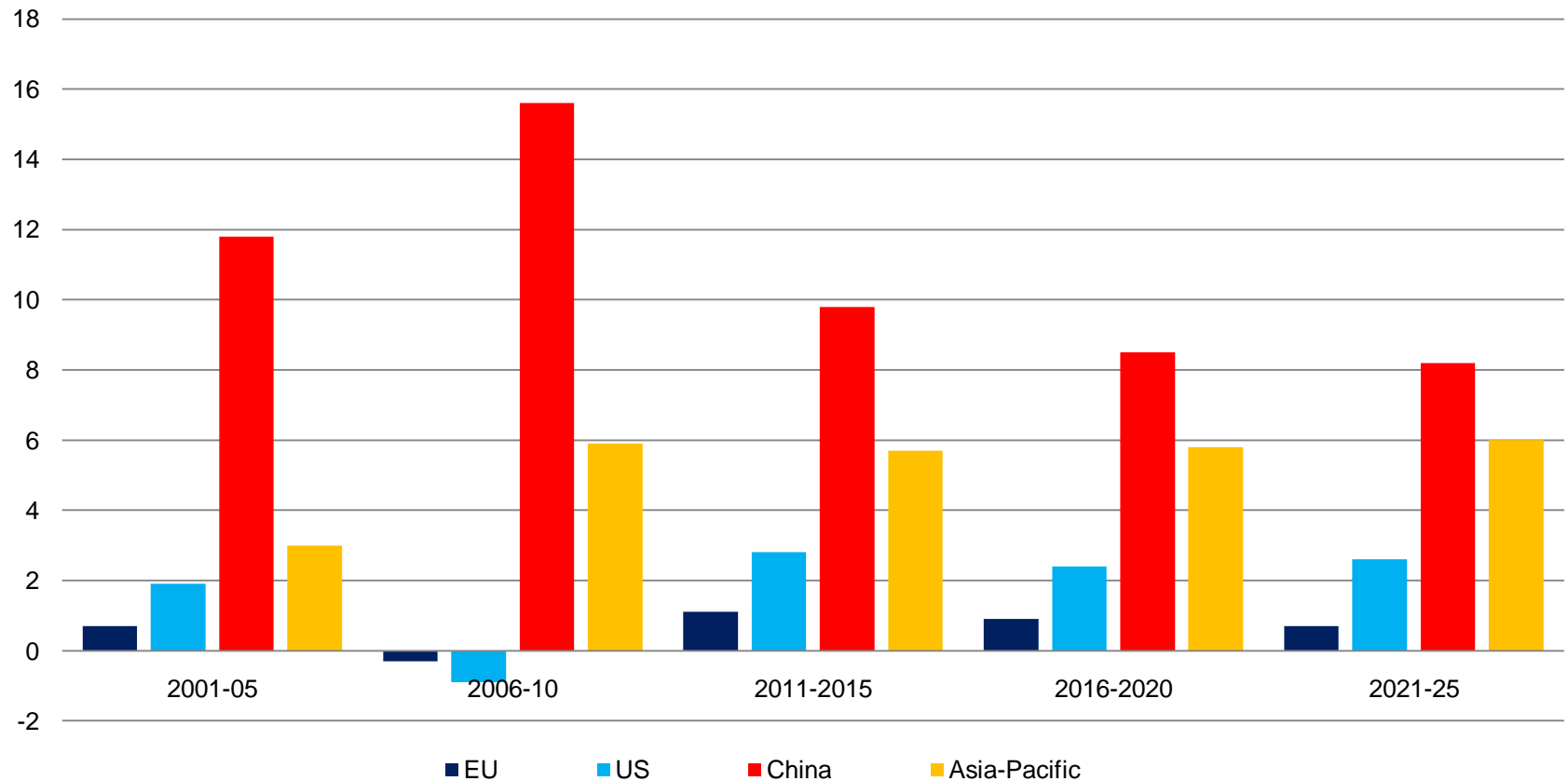




Asian Consumer Markets Will Drive Global Growth

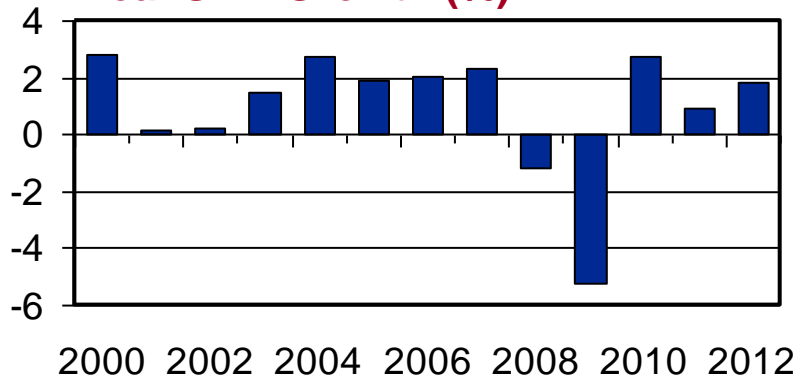
The Rise of Asian Consumer Markets

Real retail sales, average annual percentage change

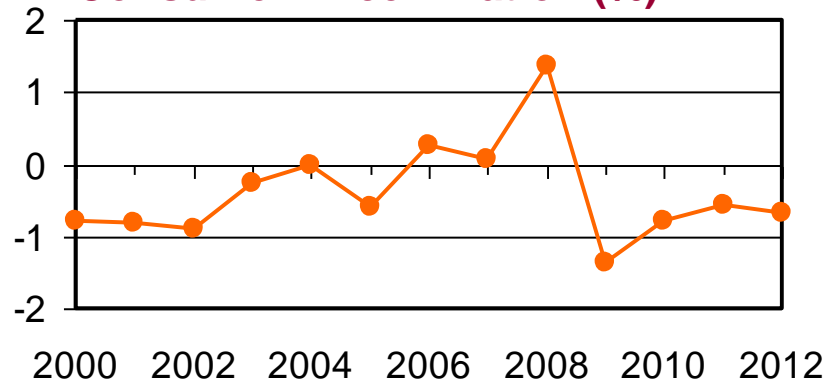


Japan Outlook Summary

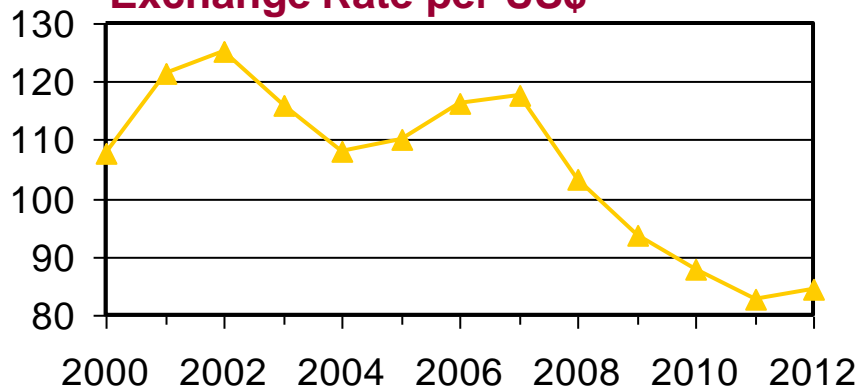
Real GDP Growth (%)



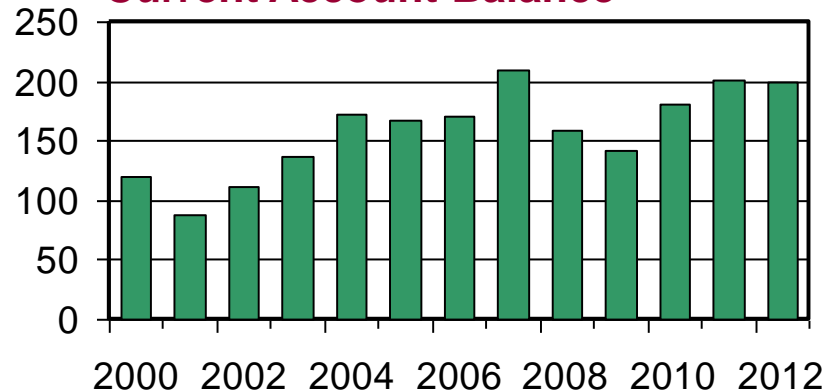
Consumer Price Inflation (%)



Exchange Rate per US\$*



Current Account Balance**



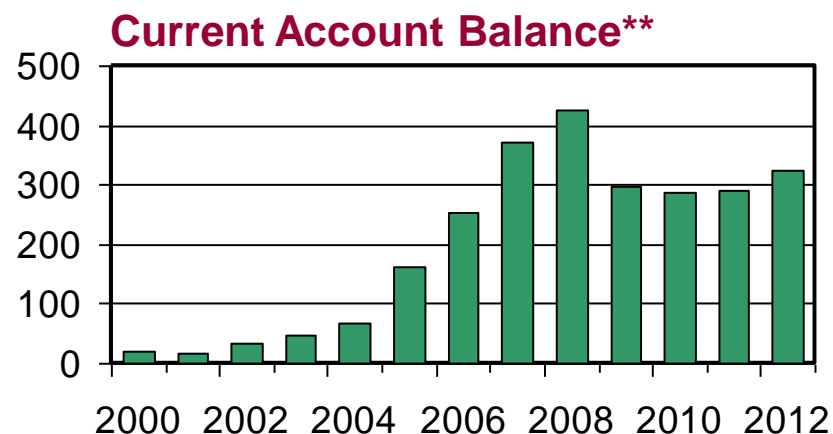
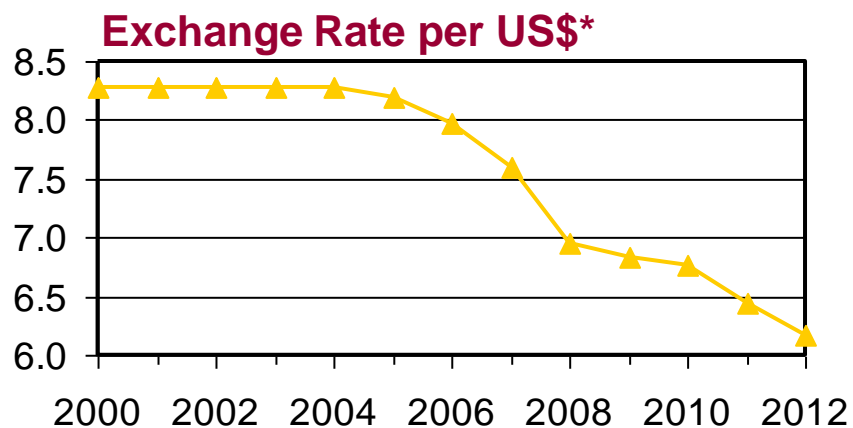
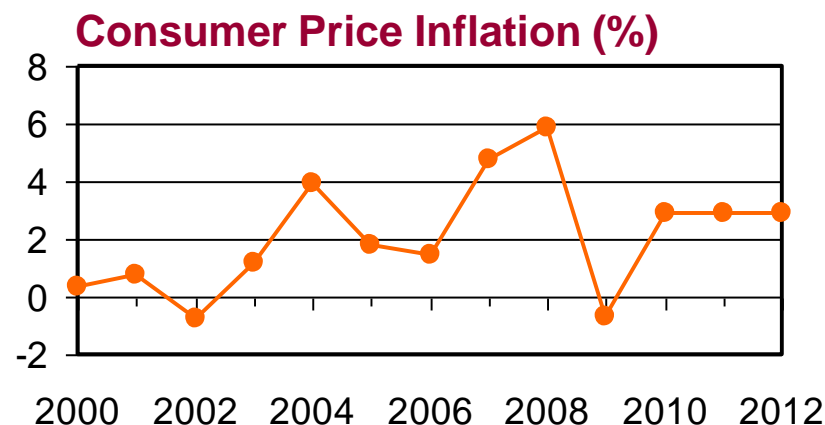
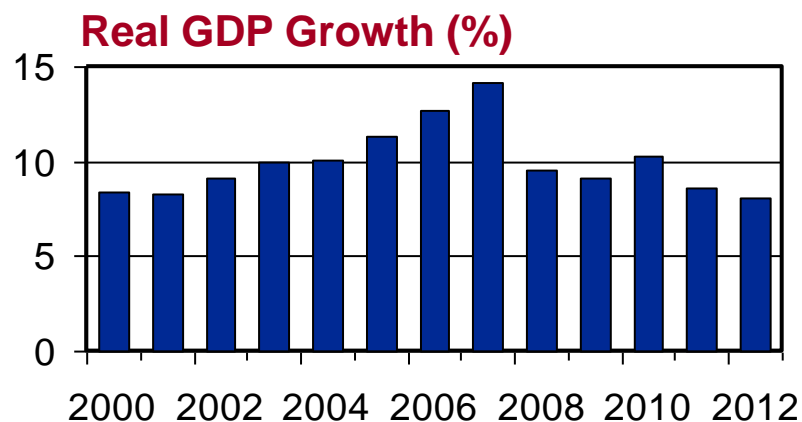
*Annual average, **Billions of U.S. dollars



China: Strong Domestic Demand Supports Growth

- Large increases in minimum wages in provinces together with double-digit growth in manufacturing labor costs, particularly in the Pearl River Delta and Yangtze River Delta, are underpinning consumer spending
- Retail sales of consumer goods up 18.6% yoy in October, and were 18.3% higher in the calendar year to date compared to the same period last year
- Urban fixed asset investment rose 24 per cent yoy in October
- November PMI index for manufacturing has continues to indicate expansion in industrial production, driven by domestic demand
 - New orders index at a seven month high, driven by domestic orders
 - Export orders still show moderate positive expansion
 - Industrial production up 13.1% yoy in October
- Export sector has also rebounded during 2010, albeit momentum has moderated in H2'10, with export growth up 23% year-on-year in October.

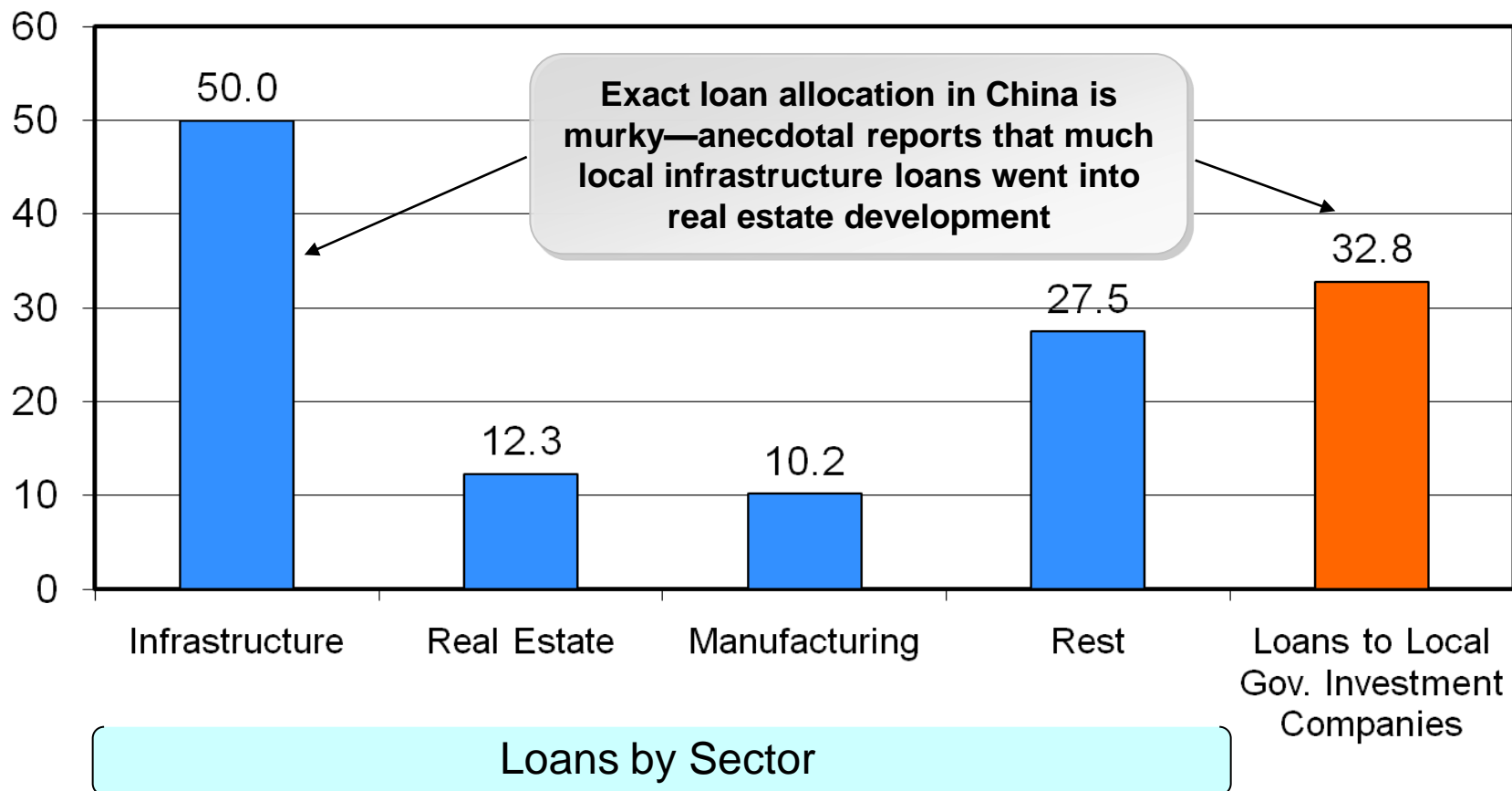
China Outlook Summary



*Annual average, **Billions of U.S. dollars

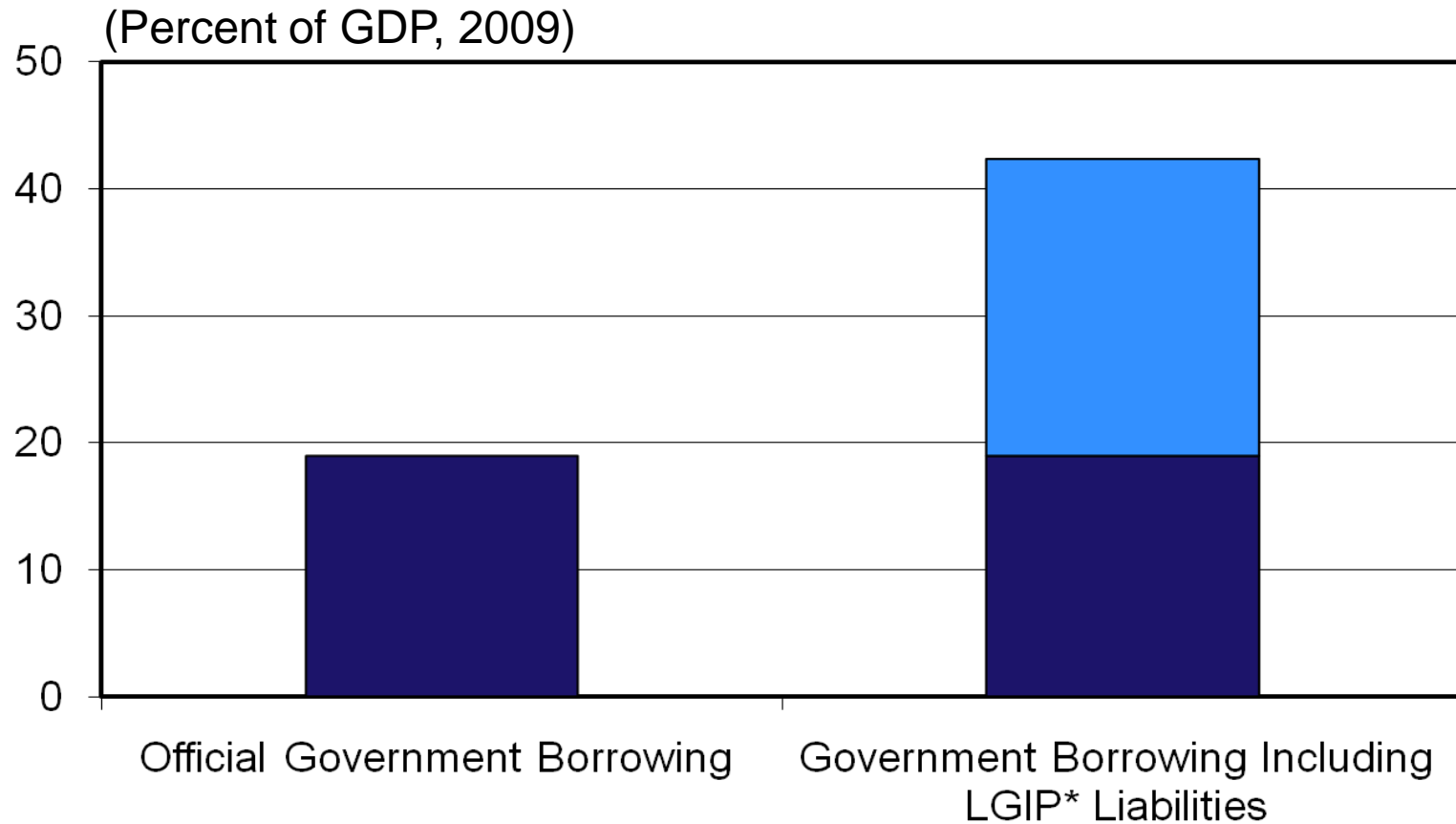
China Bank Exposure to Property Sector Could Be Much Larger than Official Figures Suggest

(Percent of 2009 new medium- and long-term loans)



Source: People's Bank of China, China Banking Regulatory Commission

China's Government Debt



Source: MoF, SAFE, and CBRC

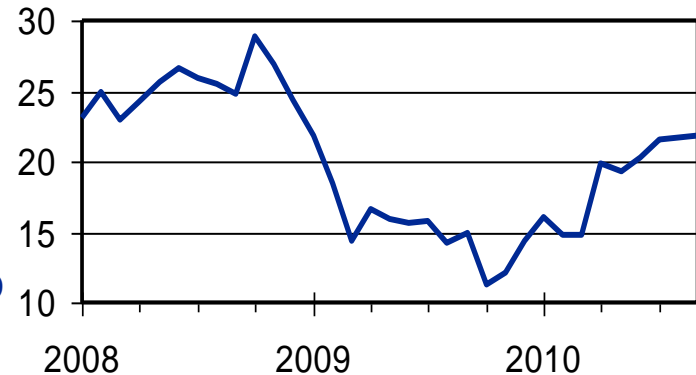
* Local government investment platforms

India: Growth Back to Trend Rates (8%)

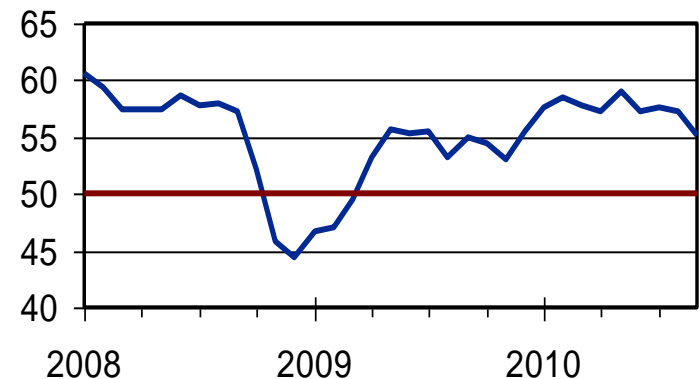
- Private consumption — mainstay of economy
 - has recovered strongly in 2010
 - Credit growth accelerating to above 20% y/y
 - Passenger car sales rose 33% y/y in Apr-Oct 2010, with auto production up 45 percent.
 - Industrial production data has moderated to 4.4% yoy in September

- Outlook for some pick-up in 2011
 - Domestic financial/credit conditions improving
 - Capital inflows increasing
 - Improved access to international capital for domestic businesses
 - Infrastructure spending rising
 - PMI in positive territory for the past 18 months

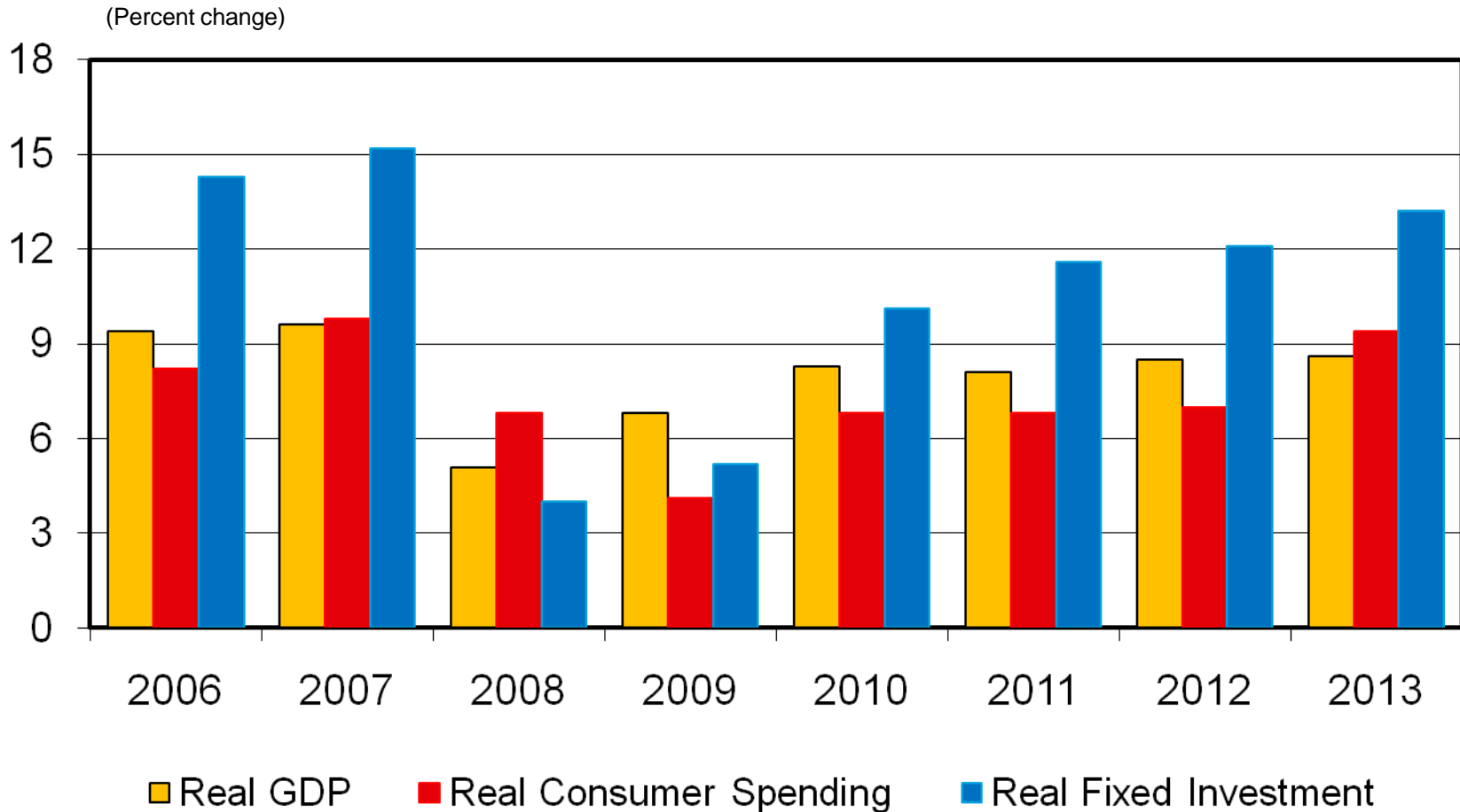
Non-Food Bank Credit Growth



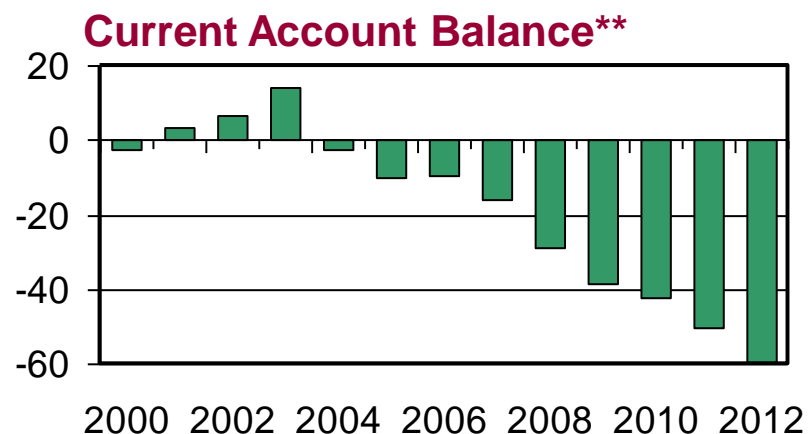
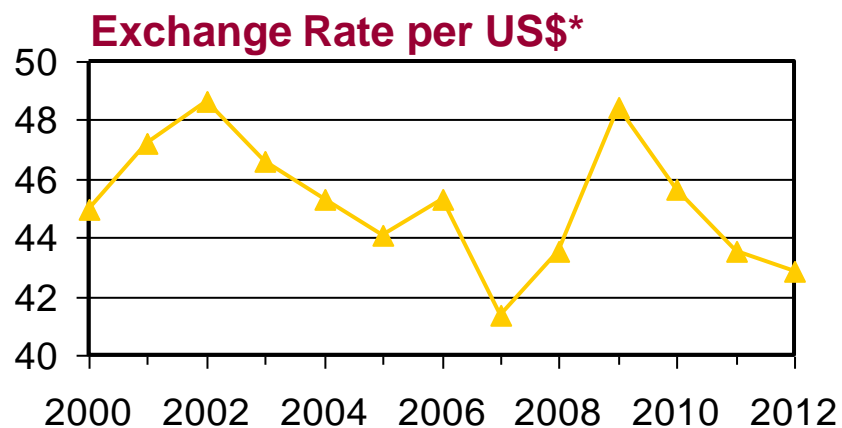
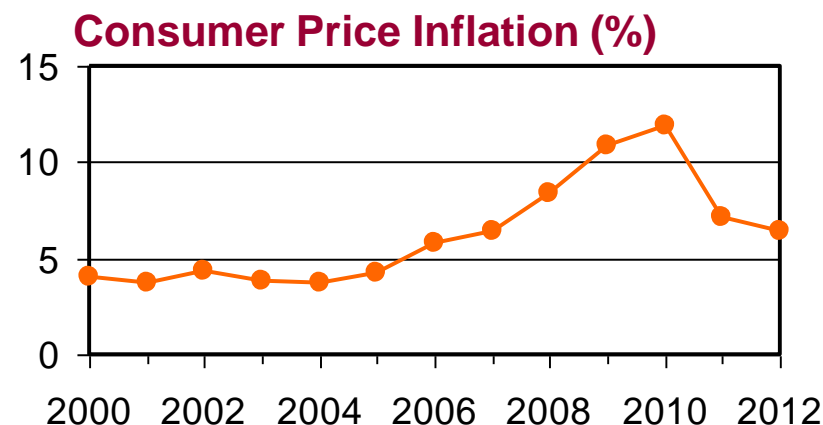
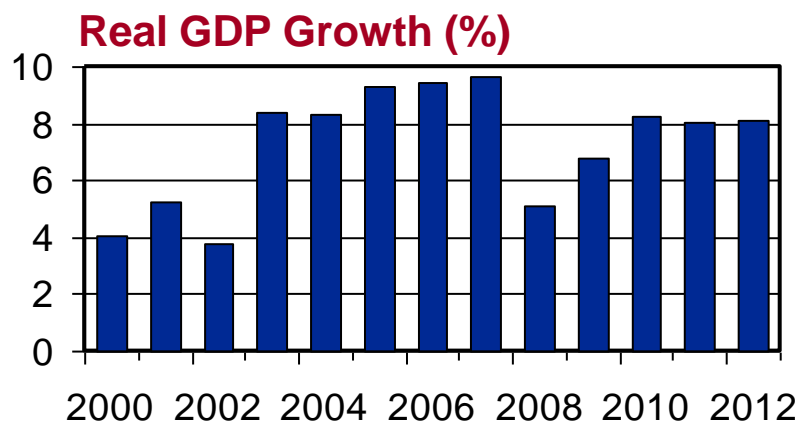
Purchasing Managers' Index



Domestic Demand Will Sustain India's Growth

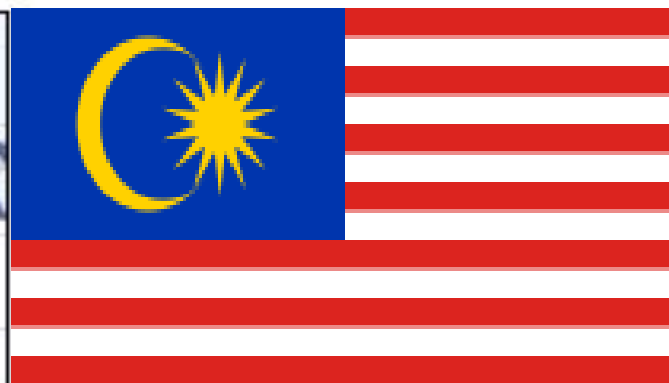


India Outlook Summary



*Annual average, **Billions of U.S. dollars

Malaysian Economic Outlook



Malaysia: Economic Outlook 2011-12

real percentage change



	2009	2010	2011	2012
Private Consumption	0.8	6.1	5.0	5.2
Fixed Investment	-5.5	6.9	3.7	5.4
Government Consumption	3.7	5.0	1.0	3.6
Exports	-10.1	11.0	5.1	7.1
GDP	-1.7	6.9	4.2	6.0
Industrial Production	-7.7	7.6	2.5	4.1
CPI Inflation	0.6	1.7	2.4	2.3

Source: IHS Global Insight



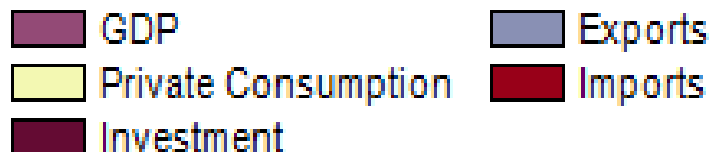
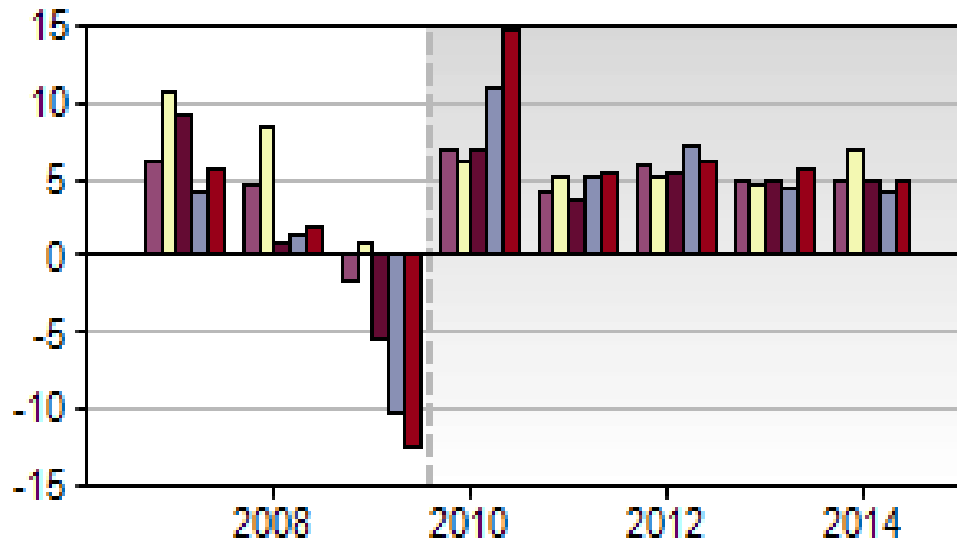
Malaysia: Near Term Outlook

- GDP growth estimated at 6.9% in 2010 and forecast at 4.2% for 2011
 - Rebound in exports and inventory restocking were key growth drivers in 2010
 - Momentum from these drivers will wane in 2011, with policy support also being gradually withdrawn
 - Gradual reduction in fiscal deficit to around 5% in 2011 and 4% by 2013
 - Real GDP growth in first nine months of 2010 up 8.1% yoy, albeit Q3'10 momentum moderated to 5.3% yoy
- Strong Domestic Demand Will Support Growth Outlook
 - For first nine months of 2010, private consumption is up 6.7% yoy
 - Private consumption is expected to remain firm in 2011, up 5% yoy
 - Fixed investment has also rebounded in 2010, with major new infrastructure projects expected to support firm investment growth in 2011-12
- External account continuing to benefit from strong commodity prices, helped by demand from China and India for key mineral and agricultural resources.

Malaysia: Medium Term Outlook

Economic Growth: Medium-Term Outlook

(Percent change from a year earlier)



Medium Term Outlook

- Malaysian economy projected to grow at around 5% per year over medium-term to 2014
- Potential growth rate could be boosted to 6% by government initiatives to boost investment spending
- Key driver of Malaysian economic competitiveness will be moving up value-added chain in manufacturing and services

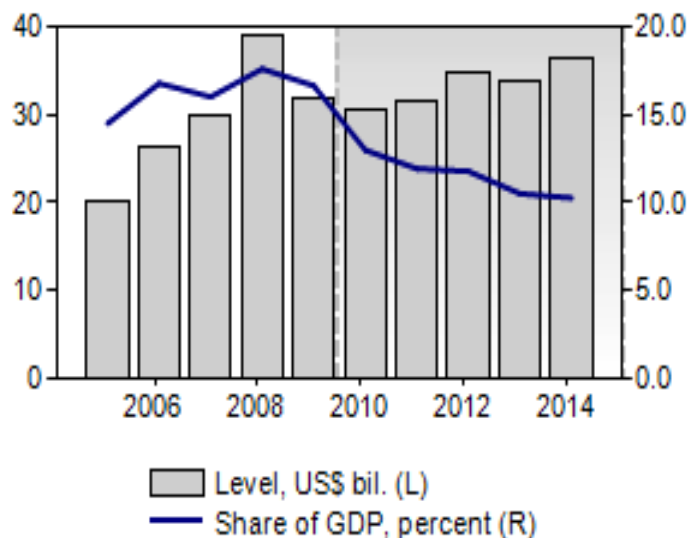


Malaysia: Catalyzing Investment

- Share of Investment in GDP has declined
 - Share of investment in GDP has declined from 44% in 1995 to around 19% in 2010.
 - Mobilizing private investment remains a key challenge in medium-term outlook.
 - Government initiatives to boost infrastructure investment through public-private partnerships will help.
- Foreign Investment Inflows
 - Net portfolio investment inflows expected to average around 1.5% of GDP over 2011-14.
 - Net foreign direct investment inflows expected to be negative, averaging around -3.5% of GDP over 2011-14 reflecting large investments by Malaysian multinationals abroad.

Malaysia: External Account Outlook

Current Account Balance



Large Current Account Surpluses Projected to Continue

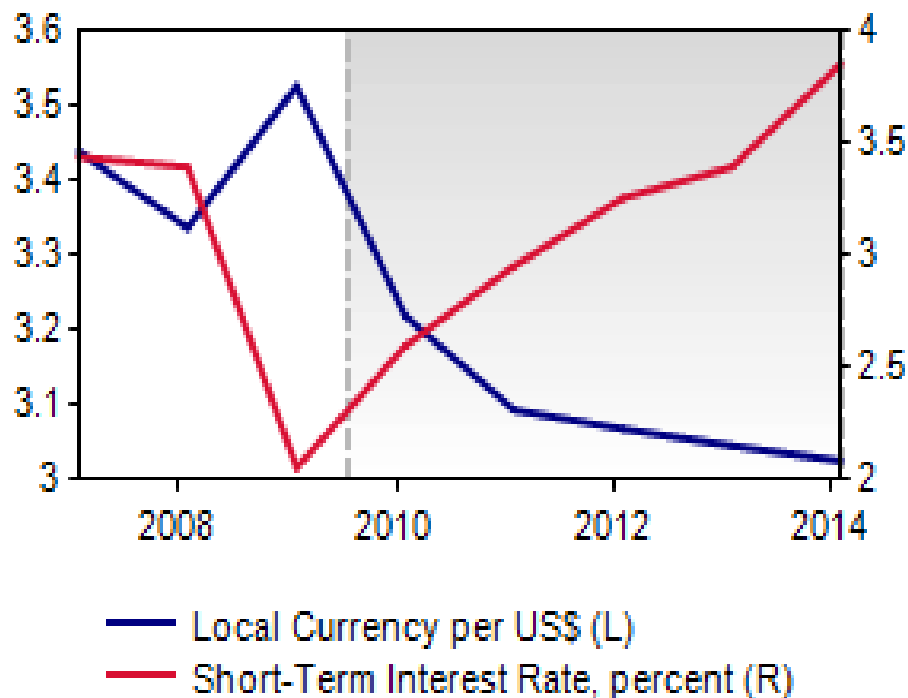
- Large current account surpluses projected over 2011-2014.
- FX reserves projected to increase from USD100 bn in 2010 to USD 160bn by 2014.

External Debt Position Improving Further

- External debt position expected to improve further, with total external debt as share of GDP declining from around 29% in 2010 to 19% by 2014.

Malaysia: Financial Markets Outlook

Financial Markets: Medium-Term Outlook



- Financial Markets Outlook
 - With inflationary pressures expected to be moderate over medium-term, only gradual further monetary policy tightening is expected in 2011 and also over 2012-14 period.
 - Strong external account surpluses and FX reserves will support gradual further appreciation of ringgit against USD over medium term.



Global Electronics Industry Outlook

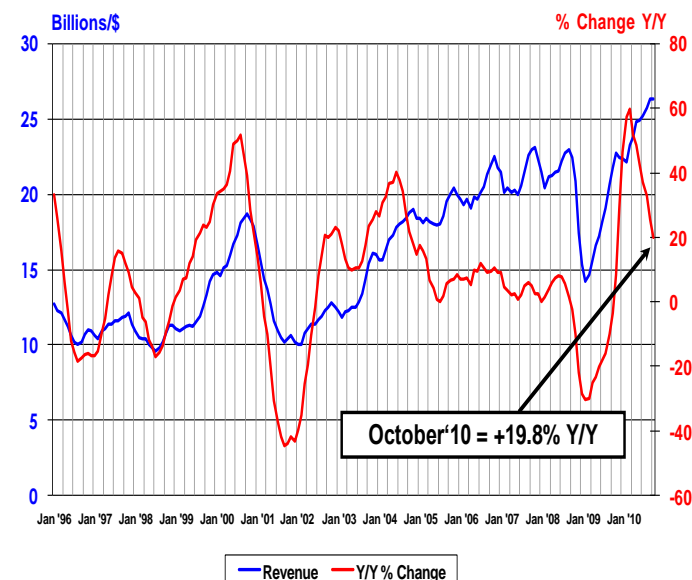
• Semiconductors Outlook

- Semiconductor Industry Association estimates that global sales have risen 32.8% yoy in 2010.
- Global semiconductors sales up 6.1% yoy in Q3'10 and 26.2% higher compared to a year ago.
- Semiconductor sales projected to rise 6.0% in 2011 and 3.4% in 2012.
- IHS iSuppli forecasts that the global consumer electronics market will grow from USD 340bn in 2010 to USD 385bn by 2014. Sales of LCD TVs and Blu-ray players are expected to grow strongly.

• Key Growth Drivers

- While the rebound in imports in the key US and EU markets has been an important contributor to the rebound in the global electronics industry, emerging markets are playing an increasingly important role.
- Rapid growth in sales of PC and mobile phones in emerging markets, particularly China and India, are helping to drive semiconductors sales, assisted by the roll-out of broadband infrastructure in many countries.

Global Semiconductors Sales



Source: SIA



Malaysia: Building a Knowledge Economy

- Building Human Capital
 - Improving the quality of the workforce through strengthening higher educational institutions
 - Building partnerships between industry and educational institutions to improve educational standards
 - Improving educational standards through international alliances with leading international universities and research institutes
- Boosting Innovation
 - R&D spending in Malaysia is less than 1 per cent of GDP, far below levels in other East Asian countries such as China, Japan, South Korea and Singapore
 - Clusters of excellence need to be developed to improve innovation
 - Government policies need to encourage multinationals to establish R&D hubs in Malaysia
- Creating Globally Competitive Business Environment
 - Improving competitiveness as an international business hub for regional headquarters
 - Streamlining processes for senior international staff to be based in Malaysia



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Thank you!

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