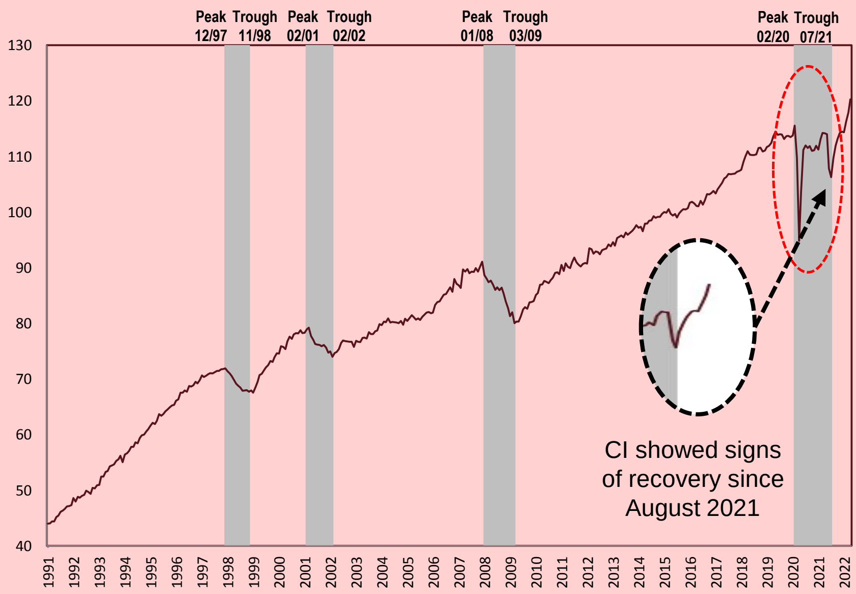
DOSM/BPE/4.2022/Series 52

# IS OUR ECONOMY IN THE RECOVERY PHASE?

The Composite Coincident Index (CI) is a proxy of Gross Domestic Product (GDP) that provides a broad-based measurement of current economic conditions. The economic situation is classified into four phases namely, expansion, slowdown, recession and recovery. The index helps economists, investors and policymakers to determine the phases of the business cycle the economy is going through.

CI registered the highest points in February 2020 (115.6 points) as in Chart 1. In other words, February 2020 was the beginning of the recession phase and reached its lowest level in July 2021 (Trough) as the second temporary businesses shutdown after April 2020 which affected economic performance. However, the progressive lifting of sanctions has reduced the economic impact. The transition to an endemic phase and the reopening of Malaysia's borders clearly have a positive impact on the country's economy compared to the pandemic phase two years ago. Economic conditions improved where CI showed signs of improvement since August 2021 and then reached 120.3 points in April 2022.

**Chart 1: Composite Coincident Index (2015=100), January 1991 to April 2022**




Shaded areas are business cycle recession in Malaysia
Source: Malaysian Economic Indicators April 2022

## 6 Components of the Composite Coincidence Index (CI)

- **Total Employment, Manufacturing**
- **Real Salaries & Wages, Manufacturing**
- **Industrial Production Index**
- **Real Contribution to Employees' Provident Fund (EPF)**
- **Capacity Utilisation, Manufacturing**
- **Volume Index of Retail Trade**

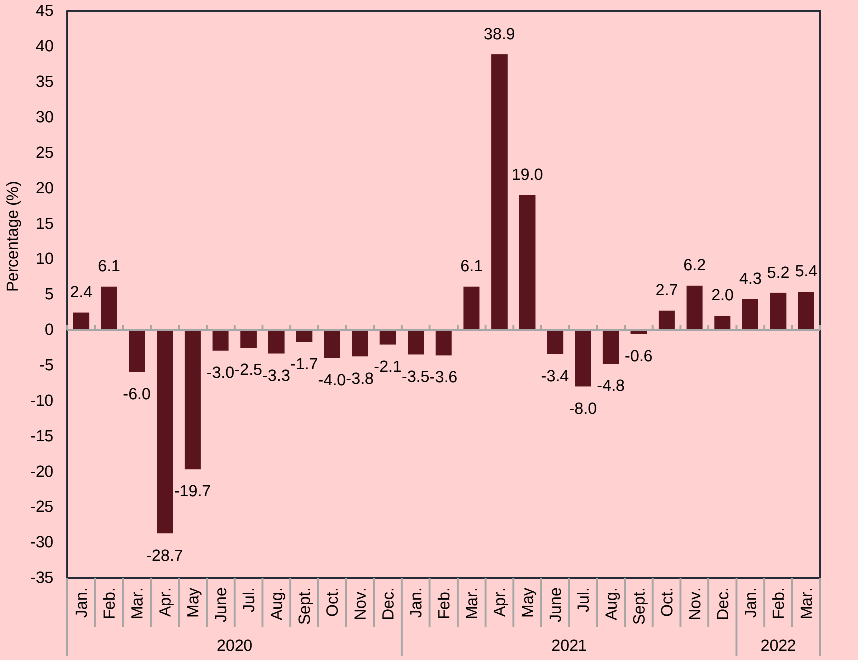
The percentage change of GDP (Chart 2) indicates the recession phase began in February 2020 with year-on-year growth at 6.1 per cent. Meanwhile, the recession phase ended in July 2021 which recorded a negative 8.0 per cent.

As illustrated in Chart 3, Malaysian economic slowdown is seen to have started before the COVID-19 shock. Year-on-year GDP growth was weak in the third (4.5%) and fourth (3.6%) quarter of 2019. The growth then weakened at 0.7 per cent in the first quarter of 2020 which started the recession phase before it worsened after the first close in the second quarter (-17.1%) of 2020. Followed by negative growth for the third quarter of 2020 until first quarter of 2021.

The Malaysian economy rebounded to 15.9 per cent in the second quarter of 2021 due to lower based impact before returning to negative 4.5 per cent in the third quarter of 2021. According to the most common definition of technical recession, a country is in a recession after facing two consecutive quarters of negative growth in real GDP*. The performance of the Malaysian economy is in line with the policies imposed by the government to curb the spread of COVID-19. Longer and tighter sanctions in Malaysia have caused structural damage to businesses, jobs, income and savings that affected the prospects for recovery.

Note:*https://www.rba.gov.au/education/resources/explainers/pdf/recession.pdf?v=2022-06-09-11-32-35

**Chart 2: Gross Domestic Product (2015=100) – Percentage Change from Corresponding Month of Preceding Year, January 2020 to March 2022**




Source: Malaysian Economic Statistics Review (MESR), Volume 5/2022

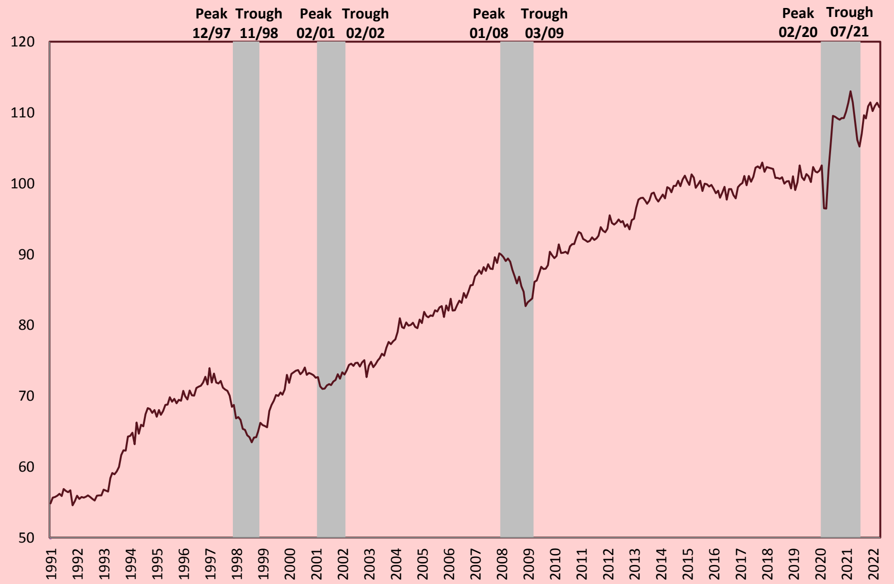
**Chart 3: Gross Domestic Product (2015=100) – Percentage Change from Corresponding Quarter of Preceding Year, First Quarter of 2015 to First Quarter of 2022**


Source: Malaysia Economic Performance First Quarter 2022

Investors and analysts, typically use CI to assess the current position of the economy in the business cycle. This index also used as a confirmation tool in conjunction with the Composite Leading Index (LI). By looking at both indexes as a whole, investors and analysts can get more comprehensive picture of the overall economy and the state of its health on average of four to six months ahead. It provides valuable insights in helping to make appropriate investments. Currently, it is important to note that the ongoing uncertainties related with global conflicts and COVID-19 result in significant fluctuations. Therefore, LI should be interpreted with caution.

As of April 2022, the LI level maintains above 100.0 points indicating that the short-term economy is expected to remain on a recovery path (Chart 4). The outlook is in line with the economic situation after the full reopening of international borders which encourages more economic and social activities at full capacity. However, the ongoing global conflict is expected to affect growth prospects through a number of aspects, including disruptions from trade and financial restrictions, higher commodity prices and volatile financial markets.

**Chart 4: Composite Leading Index (2015=100), January 1991 to April 2022**




Shaded areas are business cycle recession in Malaysia
Source: Malaysian Economic Indicators April 2022

## 7 Components of the Composite Leading Index (LI)

- **Real Money Supply, M1**
- **Bursa Malaysia Industrial Index**
- **Real Imports of Semi Conductors**
- **Real Imports of Other Basic Precious & Other Non-ferrous Metal**
- **Number of Housing Units Approved**
- **Expected Sales Value, Manufacturing**
- **Number of New Companies Registered**