Inve$t

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Douglas McWilliams

Deputy Chairman, Centre for Economics & Business Research.

Inve$t presents the key highlights of MRMA's 3rd Annual Malaysian REIT Forum - 'M-REITs and the Road Ahead.' In Part 1 of our 2-part series, find out how M-REITs are performing as they weather the economic storm.

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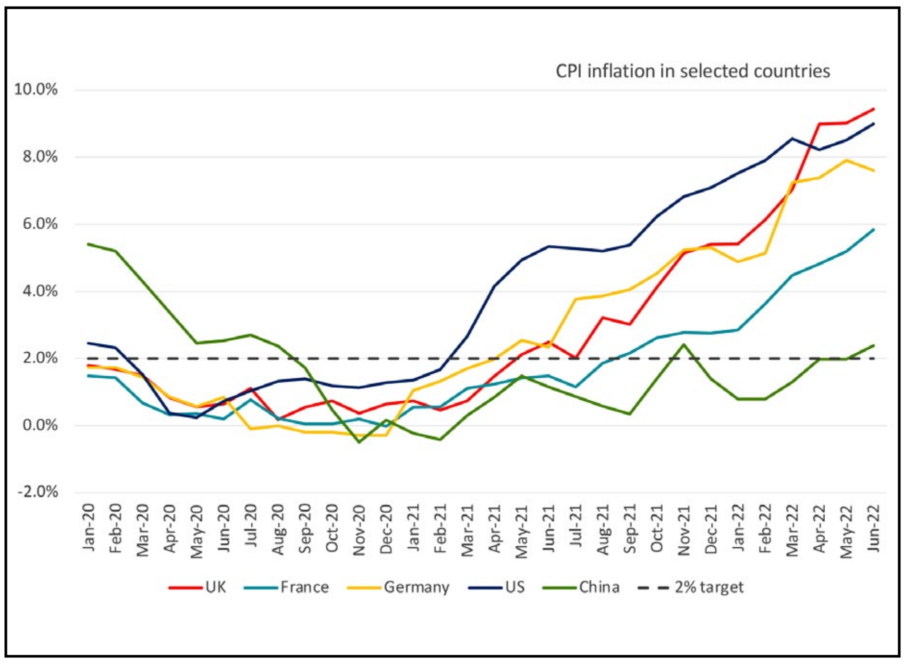
A NEW ECONOMIC ORDER AS GLOBAL RECESSION IS SET TO HIT IN 2023

A recession is inevitable in 2023, but the world's economies are evolving to adapt to a new order of business.

While politics and economics have always made strange bedfellows, it's now coming together more than usual triggering a potential global recession. The Russia-Ukraine war, China-US trade war, backlash from China's property cycle, supply chain disruptions and multiple imbalances because of cheap money are slowly unwinding, setting the pace for dismal figures in 2023, all around the world.

To rein in the rising inflation, a recession is inevitable

Consumer Price Index Inflation in Selected Countries



Source: Centre for Economics & Business Research

CEBR's growth forecast for selected countries around the world and forecast commodity and oil prices

Cebr-Growth forecast-%	2020	2021	2022	2023	2024	2025	2026
Australia	-2.2%	4.7%	3.7%	0.1%	1.0%	2.0%	2.3%
China	2.2%	8.1%	2.7%	1.5%	2.4%	3.1%	2.8%
India	-6.6%	8.7%	7.0%	4.0%	5.4%	6.5%	6.7%
Indonesia	-2.1%	3.7%	5.4%	2.5%	3.0%	3.7%	4.3%
Japan	-4.5%	1.6%	1.5%	-0.5%	1.2%	1.0%	0.9%
South Korea	-0.9%	4.0%	2.5%	0.5%	1.6%	2.5%	2.4%
Singapore	-7.5%	4.1%	4.0%	0.3%	1.8%	1.6%	1.5%
Malaysia	-5.6%	3.1%	2.1%	1.2%	3.2%	3.1%	3.1%
Thailand	-6.2%	1.6%	3.2%	-0.6%	2.0%	1.8%	2.0%
Philippines	-9.6%	5.6%	1.6%	0.8%	1.4%	1.8%	2.1%
Commodity prices	116	146	161	128	137	129	122
Oil prices	42	70	100	75	77	74	63

Source: Centre for Economics & Business Research

Taking a page from the past when the world's gross domestic product (GDP) fell for three consecutive years in the 1930s, economists advocated pumping in money and fiscal policy to bolster rapid recovery post-Covid-19. What the world's economies experienced was one year of GDP decline followed by a quick recovery. Unfortunately, the recovery was too fast, compounded by the supply disruption caused by the pandemic and the various economic disruptions and imbalances, led to a huge jump in inflation.

Speaking at the 3rd Annual Malaysian REIT Forum, organised by Malaysian REIT Managers Association (MRMA), Douglas McWilliams, Deputy Chairman, Centre for Economics & Business Research (CEBR), one of the UK's leading specialist economics consultancies warned that it was not possible to bring inflation down without some sort of recession, but he hoped for a 'shallow one with about 1% GDP growth followed by a gradual recovery.'

McWilliams pointed out that the consequence of the build-up of interest rates in the US was inflationary pressures in the Europe and Asia.

"They [Europe and Asia] are likely to go into recession and the world's economies are likely to go into recession. It has to be dealt with and it's very hard to squeeze inflation out without pain," he said.

"The good news is that things are probably already starting to react. In economics bad things create good things. If you have a recession it brings down inflation. If you have economic problems, people buy less and if they buy less, demand drops and then prices fall. When prices fall you have lower inflation," said McWilliams.

He pointed out that the economy was already beginning to see falling rates, as the world's shipping crises has fallen almost three quarters since its peak. Gas prices have started to fall in the Europe and Goldman Sachs predicts that it will be back to normal levels by the first quarter of next year.

WHAT'S IN STORE FOR THE PROPERTY MARKET

Property prices in Southeast Asia (SEA) are expected to remain buoyant through next year, with CEBR predicting around a 10% drop in prices, varying from one place to another.

"We expect a bigger fall in property prices in Singapore than in Malaysia," McWilliams revealed.

He believed that moving forward, property may no longer be a 'one-way bet' potentially dropping in price rather than consistently rising as it did in the past. However, as a real asset it will always have some value.

Looking into the future, McWilliams predicts a flight to quality as newer buildings scramble to conform to

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ESG standards. This will place a premium on ESG-compliant buildings especially when there are 'more buildings than tenants' in time to come.

The long-term demand for property will persist as people seek places to live and work despite the hybrid working arrangements. Retail and commercial spaces will retain demand, as will warehouses for distribution purposes.

"There will be a decent demand for property and that's what makes property so different. There is real income coming into the sector," explained McWilliams, who grew up in Kuala Lumpur in his early years.

There will be a decent demand for property and that's what makes property so different

When asked of the potential of REITs as a sound investment instrument, he cited its role as a long-term prospect to balance out investment portfolio.

"One of the advantages of property-based investment is that they are less volatile than equities. Property looks to be more attractive as a long term investment because at least there is an income stream unlike cryptos for instance," he reminded.

Malaysian REITs (MREITs) are instrumental in bringing in some foreign direct investment (FDI), however McWilliams opined that Malaysia was currently experiencing reputational damage from its political state of affairs.

"It will take a while before international investors are fully confident in Malaysia and they are obviously looking for something stable to emerge after the election," he added.

THE CHANGING LANDSCAPE

McWilliams touched on signposts important to watch as the world adapts to the changing landscape. He predicted the continued momentum of globalisation however, it will likely pivot from trade in goods and commodities to focus on trade in information.

Citing world trade to remain at about 50% of world GDP rather than falling back to 30-40%, he believed two key factors will drive productivity and global economy – the rise of automation and the security of supply.

He explained that the assembly element of manufacturing is heading towards almost zero labour cost as processes are almost entirely done by machines, thus erasing the advantage of cheap labour costs, facilitating the rise of on-shoring.

"Now, we are also seeing a much more cautious approach towards supply, dual-sourcing and keeping good, decent sized stock piles, while reducing dependence on sources of production a long way away, risking that the supply might get disrupted either by political factor or by shipping factor or something else," he pointed out.

"So world trade is here to stay but its nature will change and will be based in future much more on specialisation rather than being based on the access to cheap labour," McWilliams stressed.

In our Part 2 post event coverage next week, we will bring you key takeaways from MRMA's Chairman Dato' Philip Ho and Bursa Malaysia's Azhar Mohd. Zabidi. Explore the growth potential of the M-REIT industry in Inve$t issue #131 dated Nov 4, 2022.