

The Significance of Implementing CMCO Immediately

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There has been plenty of debate whether CMCO and its timing is appropriate. Yesterday the Finance Minister said that unemployment could rise to 1.8 million, that is approximately 12% of the total workforce based on 2018 statistics (BNM in March projected unemployment to be at 4%). This estimate has not clearly stated whether it has considered upcoming graduates who are also going to enter the job market. The Malaysian Institute of Economic Research (MIER) on March 25th had mentioned that up to 2.4 million Malaysians would lose their jobs. Compare this to the unemployment rates of less than 4.0% in both 1997 and 2008 economic crisis respectively. Every month the authorities are beginning to understand the depth and breadth of the crisis better.

As for the United States which accounts to almost 25% of the world's gross domestic product (GDP), a 30% contraction in real GDP in the second quarter, negative year-over-year consumer price growth for 5 quarters, and an unemployment rate of 14.2% by the end of 2020, averaging 13% throughout 2021 is projected. The European Central Bank (ECB) predicts the Eurozone will contract anything between -5% to -12% in 2020. Such a wide range in projection indicates that there is no clarity on the severity of this pandemic and its implication towards the economy. There is also plenty of uncertainty with regards to the efficacy of the intermediate therapeutic drugs before a vaccine is available, widely projected to be available in abundance by March'21 provided there are no hitches in between.

With a total of RM35 billion pumped in through Prihatin and Prihatin Plus, this may increase government de cit to 5.4% in 2020. A decrease in oil revenue will further increase the government's budget de cit. Brent oil has been hovering between USD15-30 per barrel for sometime and there has not been much uptake on the demand side, although the month of May may show signs of increase due to a huge suppression in demand in the month of April with the implementation of lockdowns and MCOs worldwide.

This economic shock is unique because it is both a supply and demand shock, which is what makes its impact so widespread and powerful. The demand shock arises from the fact that aggregate demand has been intentionally suppressed worldwide due to lockdowns and MCOs. The demand shock leads to a supply shock, while in turn a supply shock leads to a demand shock. This cycle continues until it is gradually broken. The end result is a severe economic crisis.

Although the economy is expected to gradually recover in the third quarter, what if the recovery is much slower than what has been projected. This would further dampen the job market with employers continuing to be extremely cautious on rehiring, new hiring or increasing their investment. This will be further exacerbated by the exodus of fresh graduates owing into the job market. While waiting for suitable placements, unemployed fresh graduates will have to be supported by family, reducing the spending power of households even further. Epidemiologists have also not totally discounted the probability of a second wave either.

Country's debt is over 86% of GDP in the year 2019 and is forecasted to rise to 96.4% by CLSA research. Approximately, 2.5 million people are under government's paycheck, while the number of pensioners are increasing annually.

Tan Teng Boo, global fund manager, CEO and Managing Director of Capital Dynamics Group projects KLCI index to be around 700/800 points in the mid-term. Seeing that the severity and duration of this impact is far worst than the Asian nancial crisis, he may not be far o with his forecast.

After looking at netizen's reaction on Facebook and WhatsApp groups, it is clear that many are unhappy with the implementation of CMCO. Some have even gone to the extent of initiating petitions and have actually succeeded in garnering thousands of signatures in support. If this sentiment carries on, businesses may never restart operations, leading to soaring unemployment rates throughout the country.

All this points to either a very slow U-shaped recovery or even a L-shaped recovery (something I discounted earlier on, but which has since become a possibility). Of the 12% or more unemployed, most will be those below 30, blue collar, self-employed or gig workers. Can you imagine the social implications?

As financial and psychological stress rises, more people may fall ill as many studies have identified stress as the main precursor for many critical illnesses. Continued exposure to stress leads to an increase in inflammatory markers in the body. Thereby, government hospitals and staff would be overwhelmed (as it is, they have been working tirelessly for some time), unless those who fall ill have medical cards. What if there is an increase in policy lapses in tandem with unemployment?

MCO seems to be like chemotherapy treatment for cancer. Both too little or too much can kill the host. Not a pretty picture at all, no matter how you look at it.

Introducing CMCO therefore, is a move in the right direction, and a timely one too. As long as the number of new cases is less than the number of those recovering, CMCO comes out as a solution that can balance our health, social, psychological and economic needs. For those who are opposing and signing petitions to abolish CMCO, please contribute substantially and frequently to the Covid-19 fund setup by the government. At least that amount can be used to aid those whose income has been severely dented with no clear indication of when they may return to normal. They are on survival mode. Some are even living on a day-to-day basis, with increasing dependence on handouts. This is not the time to be selfish, rather it is time for us to initiate a holistic and sustainable approach.

THE CURE CANNOT BE WORSE THAN THE DISEASE