

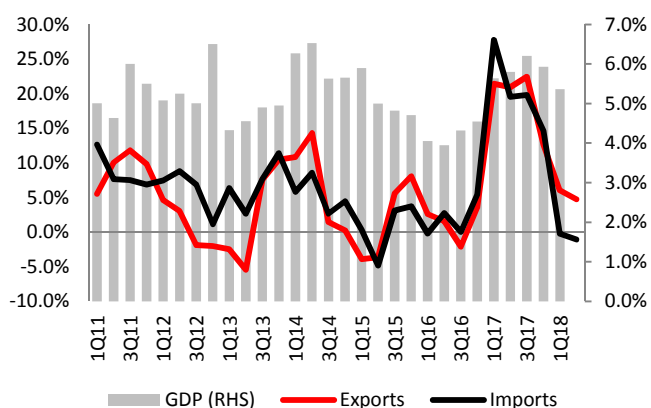
## MONTHLY ECONOMIC REVIEW | June 2018

### Domestic Economy Remains Resilient as Trade Tensions Rise

- Exports hit a double digit growth to highest ever April value. Exports expanded by 14%yoy to RM84.2 billion in Apr-18, following a single digit growth in the preceding month. It was the highest April's reading ever recorded, exceeding RM73.9 billion registered in Apr-17.
- IPI growth hints solid macro outlook. Malaysia's industrial production expands by 4.6%yoy in Apr-18, slightly above our forecast of 4.4%yoy. By major components, manufacturing and electricity outputs up by 5.4%yoy and 5.8%yoy respectively while mining improves to 1.9%yoy from stagnant growth in the previous month.
- Employment grew at the highest pace ever recorded. Employment increased by 2.5%yoy, highest rate ever recorded to 14.8 million in Apr-18. Similarly, labour force grew by 2.5%yoy to 15.3 million. Jobs added in the economy registered at 70K, significantly higher than previous month reading of 11K.

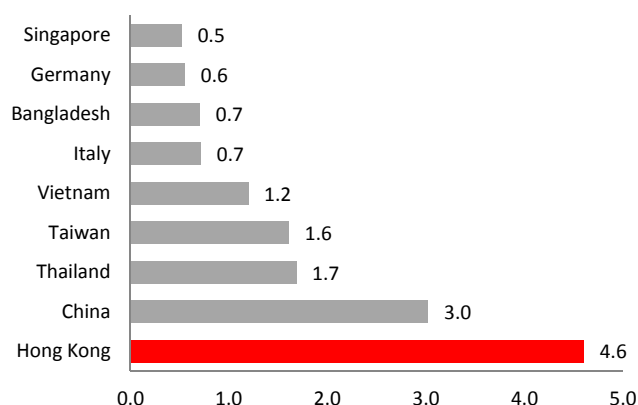
**Exports hit a double digit growth to highest ever April value.** Exports expanded by 14%yoy to RM84.2 billion in Apr-18, following a single digit growth in the preceding month. It was the highest April's reading ever recorded, exceeding RM73.9 billion registered in Apr-17. Acceleration in exports was mainly due to growth in manufactured goods (16.8%yoy) and mining goods (4.2%yoy). Similarly, imports rebounded by 9.1%yoy to RM71.2 billion in the same month, resulting in a trade surplus of RM13.1 billion. Moving forward, Malaysia's export performance will maintain on upbeat momentum in upcoming months despite the change of government. In fact, zero-rated GST, tax holiday period till SST implementation in Sep-18 and stable retail fuel price will support our exports as it will reduce business cost and eventually increase competitiveness. Nevertheless, protectionism threats remain a concern to the economy.

**Chart 1: External Trade vs GDP (YoY%)**



Source: CEIC, MIDFR

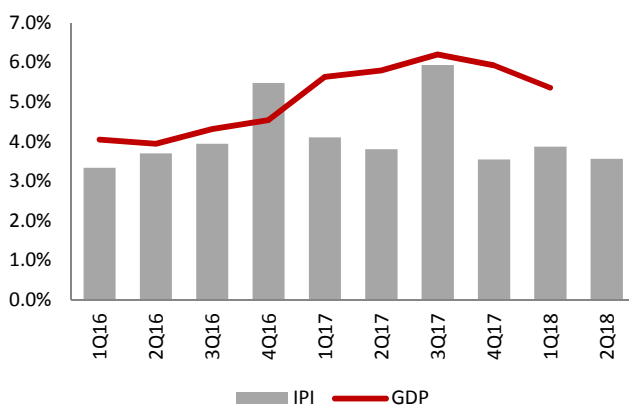
**Chart 2: Exports Growth (YoY%) by Major Destination**



Source: CEIC, MIDFR

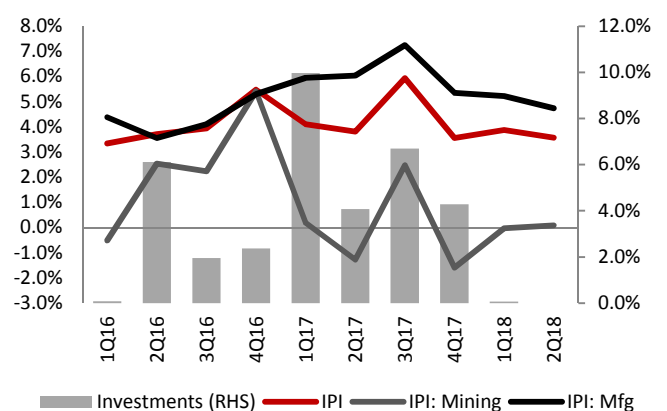
**IPI growth hints solid macro outlook.** Malaysia's industrial production expands by 4.6%yoy in Apr-18, slightly above our forecast of 4.4%yoy. By major components, manufacturing and electricity outputs up by 5.4%yoy and 5.8%yoy respectively while mining improves to 1.9%yoy from stagnant growth in the previous month. On monthly basis, manufacturing and electricity outputs expanded 1.7% and 2.1% respectively while mining shrank by -1.6%. Moving forward, we foresee IPI performances to expand at steady pace for the second half of 2018 amid escalating trade tension, moderating inflation and supportive policy changes for businesses such as zero-rated GST and stabilised retail fuel prices.

**Chart 3: IPI vs GDP (YoY%)**



Source: CEIC, MIDFR

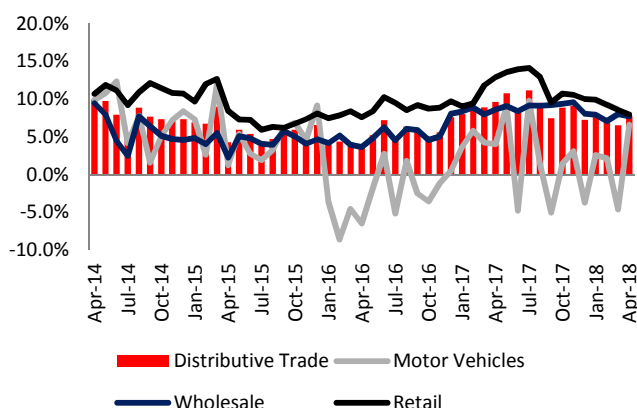
**Chart 4: IPI vs Investments Performances (YoY%)**



Source: CEIC, MIDFR

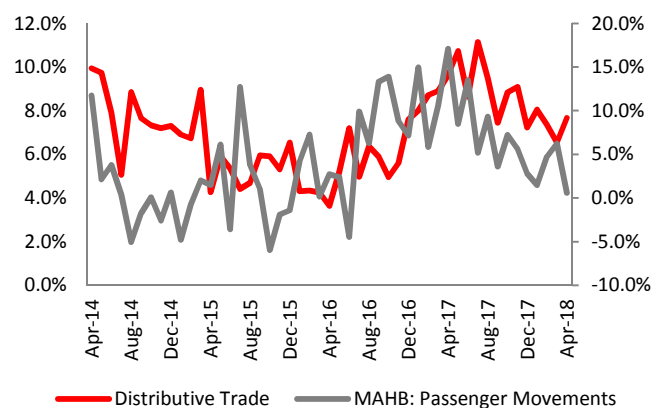
**Distributive trade sales touched RM99.9b.** Distributive trade rose by 7.7%yoy to RM99.9b in Apr-18 lifted by retail trade which expanded by 8%yoy to RM39.2b. Furthermore, wholesale trade grew by 7.7%yoy to RM48.6b, while motor vehicle businesses rebounded to positive growth of 6.6%yoy to RM12.1b. On a monthly basis, all three sectors slumped from a positive growth recorded in the preceding month. Moving forward, we foresee distributive trade sales to remain on steady momentum underpin by stable job market, zero-rated GST, decelerating inflationary pressure, tourism activities and accommodative economic policies.

**Chart 5: Distributive Trade, DT (YoY%)**



Source: CEIC; MIDFR

**Chart 6: DT vs Passenger Movements (YoY%)**



Source: CEIC; MIDFR

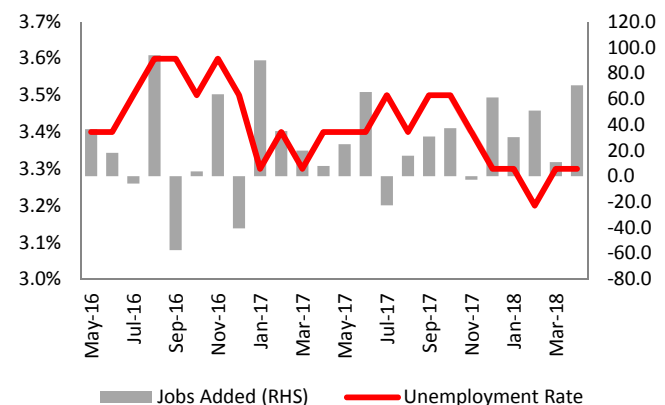
**Employment grew at the highest pace ever recorded.** Employment increased by 2.5%yoy, highest rate ever recorded to 14.8 million in Apr-18. Similarly, labour force grew by 2.5%yoy to 15.3 million. Jobs added in the economy registered at 70K, significantly higher than previous month reading of 11K. Hence, unemployment rate maintained at 3.3%. As both domestic and external economic activities are on upbeat momentum, growths in both labour force and employment have been outpacing unemployment growth for 8-consecutive months since Sep-17.

**Chart 7: Labour Market Key Indicators (YoY%)**



Source: CEIC; MIDFR

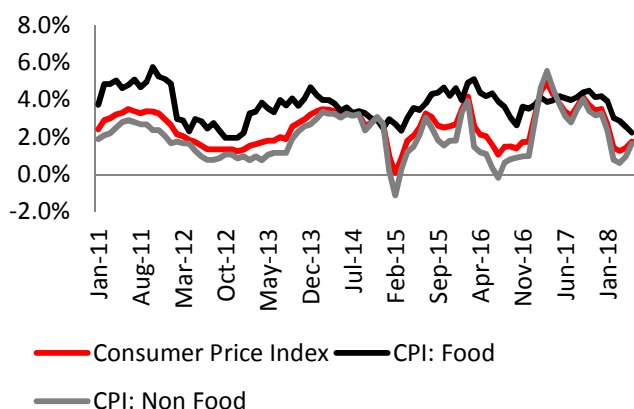
**Chart 8: Jobs Added ('000) vs Unemployment Rate**



Source: CEIC; MIDFR

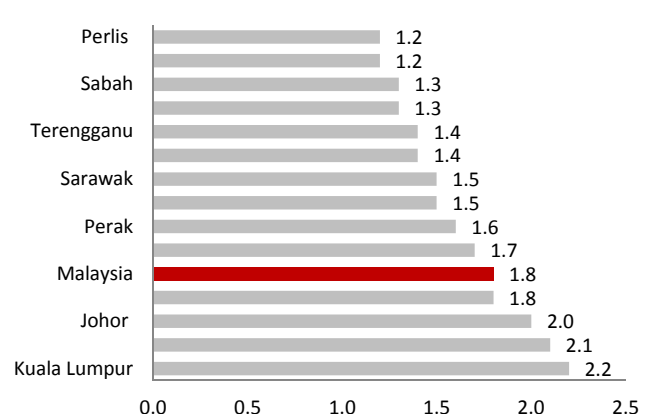
**Inflation jumped to 4-month high.** Headline inflation rate rose 1.8%yoy in May-18, higher than 1.4%yoy registered in the preceding month and the highest since Feb-18 due to strong recovery in transport prices. Transport inflation rose 3.8%yoy in May-18 compared to 0.4% registered in a month earlier. Meanwhile, inflation moderated for a number of major groups such as food & non-alcoholic beverages, health and restaurants & hotels. On a monthly basis, inflation increased by 0.2% in May-18. Meanwhile, core inflation is still low as it maintained at 1.5%yoy. Moving forward, Malaysia's inflation is expected to moderate in upcoming months amid zero-rated GST, tax holiday period until SST implementation in Sep-18 and stable retail fuel price which will reduce business cost.

**Chart 9: CPI: Headline vs Food & Non-food (YoY%)**



Source: CEIC, MIDFR

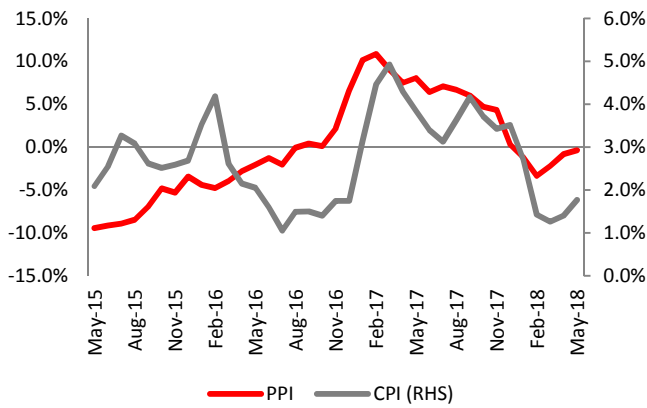
**Chart 10: Inflation by States in Mar-18 (YoY%)**



Source: CEIC; MIDFR

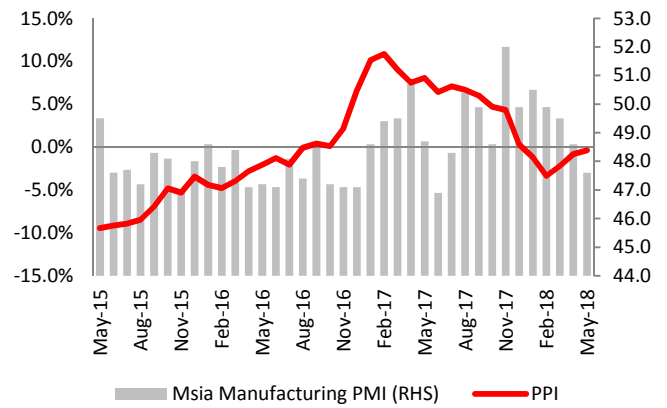
**Producer price index improves marginally for 2-consecutive months.** On yearly basis, Malaysia's producer prices contracted by -0.4%yoy, marked the smallest drop since Jan-18. However, on a monthly basis, PPI went up by 0.3% followed a 0.5% gain in the preceding month. The decline is offset by the manufacturing, agriculture, forestry & fishing and food product which continued to shrink since earlier this year. In contrast, we noticed other sectors recorded a faster growth in input price change in May-18. Moving forward, we foresee slowdown in inflationary pressure within tax-holiday period and stable retail fuel prices. Nonetheless, rising global commodity prices remain as the major source of inflationary pressure in Malaysia, affecting domestic inflation thru non-fuel (RON95 and Diesel) channels as well as the introduction of SST in September.

**Chart 11: PPI vs CPI (YoY%)**



Source: CEIC, MIDFR

**Chart 12: PPI (YoY%) vs Manufacturing PMI (Points)**



Source: CEIC, MIDFR

**Table 1: Macroeconomic Data Updates**

<b>(YoY%) Unless Stated Otherwise</b>	<b>2016</b>	<b>2017<sup>e</sup></b>	<b>2018<sup>f</sup></b>	<b>1Q18</b>	<b>2Q18<sup>f</sup></b>	<b>3Q18<sup>f</sup></b>	<b>4Q18<sup>f</sup></b>
Real GDP	4.2	5.8	5.5	5.4	5.8	5.4	5.2
Private Consumption	6.1	7.0	6.5	6.9	5.8	6.5	6.8
Public Consumption	1.0	5.0	3.5	0.6	0.4	3.5	9.4
Gross Fixed Capital Formation	2.7	5.7	3.8	0.1	3.3	4.0	8.0
Exports of goods & services	0.1	9.2	5.0	3.7	7.9	3.5	5.0
Imports of goods & services	0.4	10.3	4.8	(1.9)	8.3	5.5	7.3
Net Exports - RMb	92.6	93.4	99.6	29.5	23.8	23.1	23.2
Exports of Goods (f.o.b)	1.1	14.5	9.3	6.0	12.1	8.9	10.1
Imports of Goods (c.i.f)	1.9	15.5	8.2	(0.3)	12.4	9.5	11.4
Trade Balance - RMb	87.2	97.5	119.9	33.4	27.0	29.0	30.5
Consumer Price Index	2.1	3.8	2.6	1.8	2.5	3.0	2.9
Current Account - RMb	29.0	36.6	39.6	-	-	-	-
Current Account - % of GNI	2.7	3.2	3.2	-	-	-	-
Fiscal Balance - % of GDP	(3.1)	(3.0)	(2.9)	-	-	-	-
Federal Government Debt - % of GDP	53.8	53.0	52.5	-	-	-	-
Nominal GDP	6.3	9.9	3.5	-	-	-	-
<b>Year-End of Unless States Otherwise</b>	<b>2016</b>	<b>2017<sup>e</sup></b>	<b>2018<sup>f</sup></b>	<b>1Q18</b>	<b>2Q18</b>	<b>3Q18<sup>f</sup></b>	<b>4Q18<sup>f</sup></b>
Brent Crude Oil (Avg)	43.6	53.0	60.0	68.4	76.9		
Crude Palm Oil (Avg)	2,652	2,825	2,900	2,480	2,359	-	-
USD/MYR (Avg)	4.15	4.32	4.00	3.92	3.95	4.05	4.00
USD/MYR	4.48	4.15	3.95	-	-	-	-
Yield on generic 10-year MGS (%)	3.85	4.00	4.10	3.95	4.15	4.00	4.05
3-month KLIBOR (%)	3.54	3.43	3.60	3.60	3.50	3.50	3.70
Overnight Policy Rate (%)	3.00	3.00	3.25	3.25	3.25	3.25	3.25

Source: MIDFR

## June 2018 Key Economic Events

**4 June: Under review mega projects will not necessarily be cancelled - Saifuddin.** Mega projects which are currently under review by the government does not necessarily mean they will be cancelled. PKR secretary-general Datuk Saifuddin Abdullah said this included the Malaysia-China Kuantan Industrial Park which was being studied. "This is to ensure that projects which are continued will abide by the laws and regulations set by the government.

**12 June: Housing loan requirements for youths to be reviewed.** The stringent housing loan requirements by banks for first time house buyers, especially youths, should be reviewed, said Housing and Local Council Minister Zuraida Kamaruddin. She said the lack of a second income, inadequate spouse income and National Higher Education Fund Corporation loan repayments were among the factors that impeded loan approvals. "I would like to sit with both the Ministry of Finance and Bank Negara Malaysia to look into how they (banks) can relax a bit (the regulation) for first time home buyers, especially youths.

**18 June: People in East Coast still hopeful for ECRL.** People from the East Coast are still hopeful that the East Coast Rail (ECRL) project, which is currently being reviewed by the new government, will continue as scheduled as it will ease time and cost for those travelling from that part of Malaysia. Suraya Omar, a single parent who hails from Kelantan, said the ECRL transportation project was much-awaited because of its many benefits. The mammoth RM55 billion ECRL project would become the longest railway track in the country, when completed.

**21 June: Bank of England stands pat on rates, but its chief economist wants a hike.** The Bank of England (BOE) has kept its main interest rate unchanged Thursday amid uncertainty over the economy's wider direction. The central bank's Monetary Policy Committee (MPC) was widely expected to hold rates at their current 0.5 percent level, amid falling inflation and lackluster growth data. The MPC voted by 6-3 to keep rates at the current level, with the bank's Chief Economist Andy Haldane joining more hawkish committee members Michael Saunders and Ian McCafferty in calling for a rate rise to 0.75 percent.

**5 June: Nor Shamsiah may take over as Bank Negara Governor.** Former Bank Negara Malaysia deputy governor Datuk Nor Shamsiah Mohd Yunus is strongly tipped to succeed Tan Sri Muhammad Ibrahim at the helm as rumours swirl that he has tendered his resignation, according to a Reuters newsflash. She was involved in policies to strengthen the banking system during the Asian financial crisis and in the development of regulation and guidelines for the financial sector. She also helped formulate the financial sector's 10-year master plan through 2010.

**14 June: Fed lifts rates amid stronger inflation, drops crisis-era guidance.** The Federal Reserve raised interest rates on Wednesday, a move that was widely expected but still marked a milestone in the U.S. central bank's shift from policies used to battle the 2007-2009 financial crisis and recession. In raising its benchmark overnight lending rate a quarter of a percentage point to a range of 1.75 percent to 2 percent, the Fed dropped its pledge to keep rates low enough to stimulate the economy "for some time" and signaled it would tolerate inflation above its 2 percent target at least through 2020.

**19 June: Trump's tariff war threatens to erode support of farmers.** President Donald Trump's tariff battle with key buyers of U.S. apples, soybeans and corn threatens the support of some of his biggest backers - U.S. farmers now seeing their livelihoods in jeopardy. Farmers overwhelmingly supported Trump in the 2016 election, welcoming how he championed rural economies and vowed to repeal estate taxes that often hit family farms hard.

**27 June: Automakers to warn Trump of \$45 billion higher vehicle costs if tariff imposed.** An automotive trade group said on Tuesday it would tell the Trump administration that a U.S. threat to impose a tariff of up to 25 percent on imported passenger vehicles under national security grounds would cost American consumers \$45 billion annually, or \$5,800 per vehicle. The Alliance of Automobile Manufacturers, a group representing General Motors Co (GM.N), Toyota Motor Corp (7203.T), Volkswagen AG (VOWG\_p.DE) and other major automakers, will file written comments with the U.S. Commerce Department later this week, spokeswoman Gloria Bergquist said.

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