3 April 2018

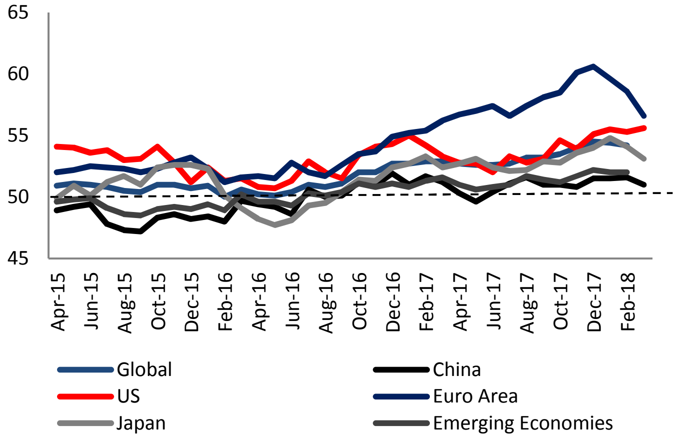
MONTHLY ECONOMIC REVIEW | March 2018

Looming Trade War Casts Doubt Over Global Trade Outlook

- *Malaysia's PMI slips below 50-point level again. The slight slowdown in Malaysia's manufacturing PMI partly due to the gradual rise in input price pressure and decelerating global demand.*
- *Exports hit a double digit growth to highest ever January value. Malaysia's exports expanded by 17.9%yoy to RM82.9 billion in January, making a comeback after fell to a single digit growth in the preceding month.*
- *Inflation dipped to 16-month low. Headline inflation rate rose by 1.4%yoy in Feb-18, lowest in 16 months. The slowdown in inflation is in tandem with slowing inflation trend for almost all the goods and services with transport inflation contributed the highest decline from 5.7%yoy in Jan-18 to -0.3%yoy last month.*

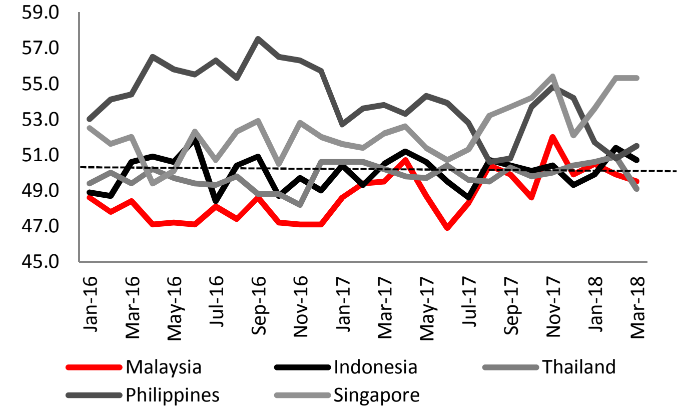
Malaysia's PMI slips below 50-point level again. The slight slowdown in Malaysia's manufacturing PMI partly due to the gradual rise in input price pressure and decelerating global demand. As of Mar-18, Brent oil price has risen by 28.2%yoy to $67.4 per barrel. The price level has been above $60 level for 5-consecutive months. On a flip side, global demand is seen toning down especially with the recent trade war between the US and China. So far in 2018, the US government has increase tariff on imported solar panel, washer, aluminum and steel. China also raises tariff on 128 products of the US. Among the products are fruits, pork and other food products. Nevertheless, Malaysia's PMI figure remains above expansionary 50 points level in the first quarter of 2018, slightly lower than previous quarter of 50.2 points. Hence, we foresee GDP growth for Malaysia's economy to stay above 5.5%yoy in 1Q18. Nevertheless, we predict further tone down in the PMI trends amid of continuous rising input price pressure and escalating threat of trade war among major economies.

Chart 1: Manufacturing PMI Performance (Points)



Source: CEIC, MIDFR

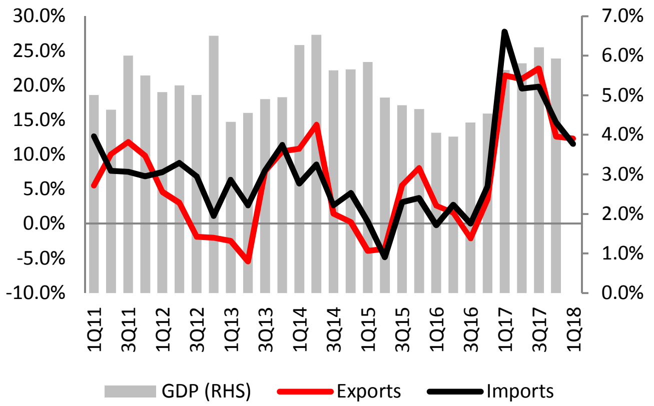
Chart 2: Manufacturing PMI in ASEAN Region (Points)



Source: CEIC; MIDFR

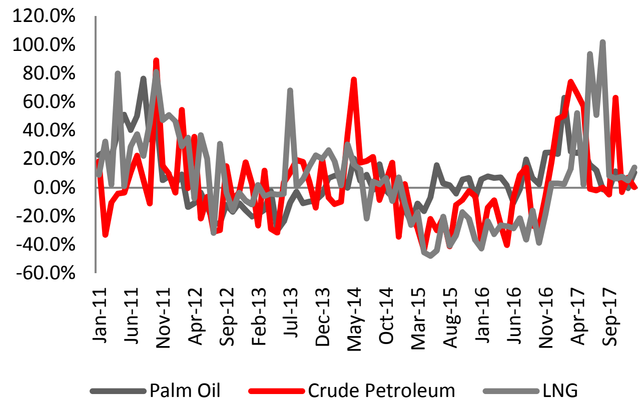
Exports hit a double digit growth to highest ever January value. Malaysia's exports expanded by 17.9%yoy to RM82.9 billion in January, making a comeback after fell to a single digit growth in the preceding month. It was the highest January's reading ever recorded, exceeding RM73.15 billion registered in January 2017. Similarly, imports increased by 11.6%yoy during the same month, resulting in a trade surplus of RM9.7 billion. Acceleration in exports was mainly due to growth in major sectors including manufactured goods (20.4%yoy), mining goods (8.5%yoy) and agriculture goods (6.2%yoy). Similar to 2017, we foresee upbeat momentum in global trade activities will continue and buoyed by gradual rise in commodity prices as well as receding of protectionism threat. Henceforward, we are optimistic that Malaysia's external trade performance will continue expanding at steady pace in 2018.

Chart 3: External Trade vs GDP (YoY%)



Source: CEIC, MIDFR

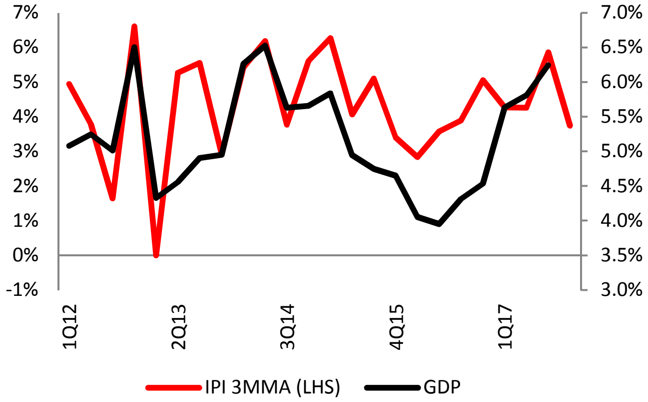
Chart 4: Exports by Commodity Product (YoY%)



Source: CEIC; MIDFR

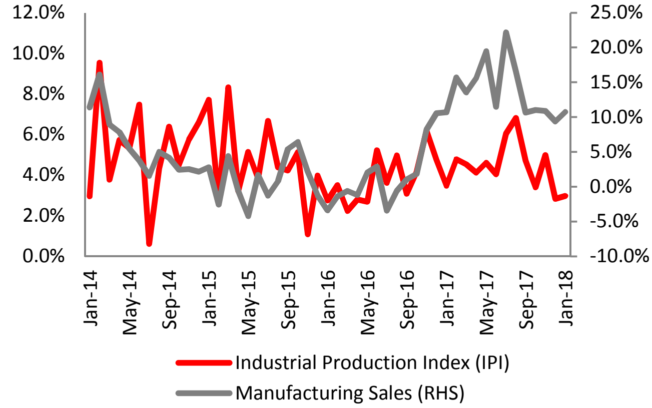
IPI growth below market estimates. Malaysia's industrial production expanded by 3%yoy in Jan-18, lower than market expectations of 6.8%yoy. On monthly basis, IPI shrank by 4.5% which mainly pulled down by manufacturing and electricity productions, contracted by 5.8% and 1.5% respectively. On a flip side, mining output grew by 1.5%yoy, fastest in 4-months amid of improving commodity prices globally whereas manufacturing and electricity output grew by 4.8%yoy and 4.4%yoy respectively in Jan-18. Moving forward, we foresee IPI performances to trend upward underpin by continuous upbeat momentum in global trade activities and gradual rise in commodity prices.

Chart 5: IPI vs GDP (YoY%)



Source: CEIC, MIDFR

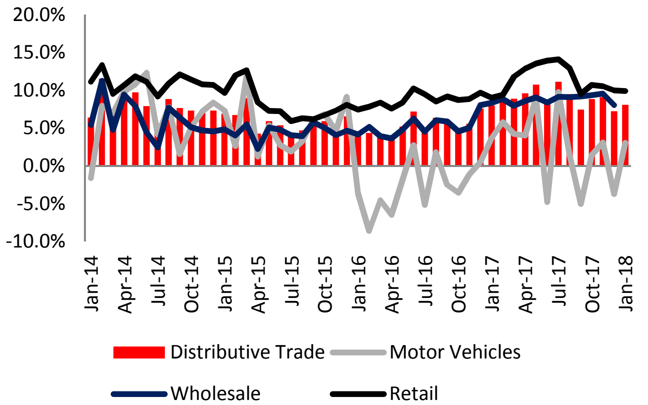
Chart 6: IPI vs Manufacturing Sales (YoY%)



Source: CEIC, MIDFR

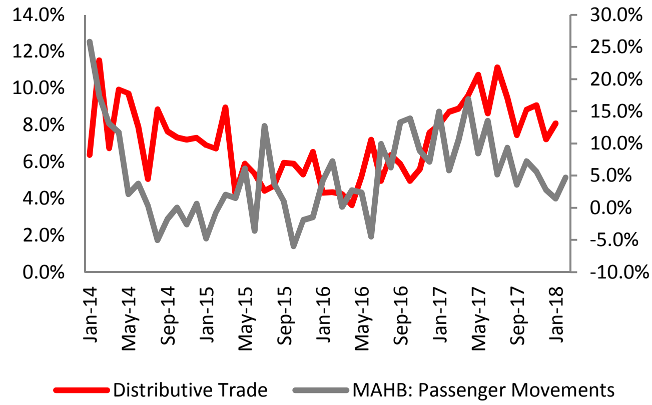
Distributive trade registered above RM100 billion for second consecutive month. Distributive trade rose by 8.1%yoy to RM101.1 billion in Jan-18 from 7.2%yoy gain registered in Dec-17. On monthly basis, sales of motor vehicles fell by 3%yoy from 0.3%yoy gain in the preceding month as year-end sales promotions and offers by automotive companies were over. In overall, distributive trade remain robust on the back of improved consumer confidence, stable wage growth and continuous rising in passenger movements on top of strengthening Ringgit and stronger oil price. Moving forward, we foresee distributive trade will experience a trivial slowdown in Feb-18 following short working days due to the Chinese New Year festive holidays.

Chart 7: Distributive Trade, DT (YoY%)



Source: CEIC; MIDFR

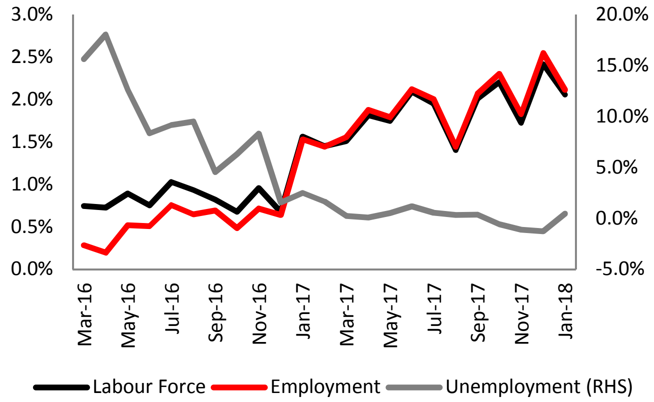
Chart 8: DT vs Passenger Movements (YoY%)



Source: CEIC; MIDFR

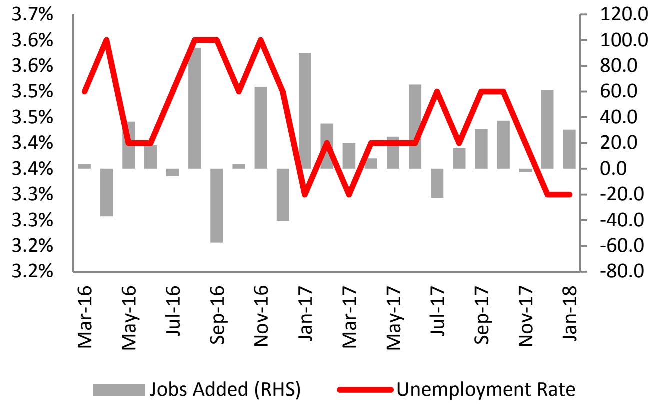
Employment grew at steady pace. Employment increased by 2.1%yoy in Jan-18, lower than 2.5%yoy in the previous month. Similarly, labour force grew by 2.1%yoy to 15.19 million, lower than 2.4%yoy growth recorded in Dec-17. During the same month, jobs added in the economy registered at 30.4K, marginally higher than 2017's monthly average of 30.3K. Thus, unemployment rate maintains at healthy level of 3.4% in the first month of 2018. As both domestic and external economic activities are on upbeat momentum, growths in both labour force and employment have been outpacing unemployment growth for 11-consecutive months since Mar-17.

Chart 9: Labour Market Key Indicators (YoY%)



Source: CEIC; MIDFR

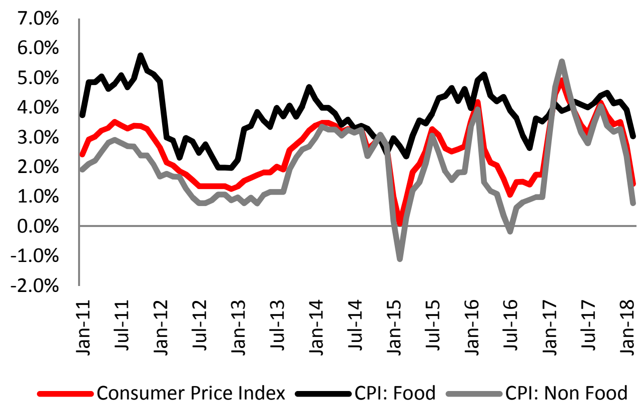
Chart 10: Jobs Added ('000) vs Unemployment Rate



Source: CEIC; MIDFR

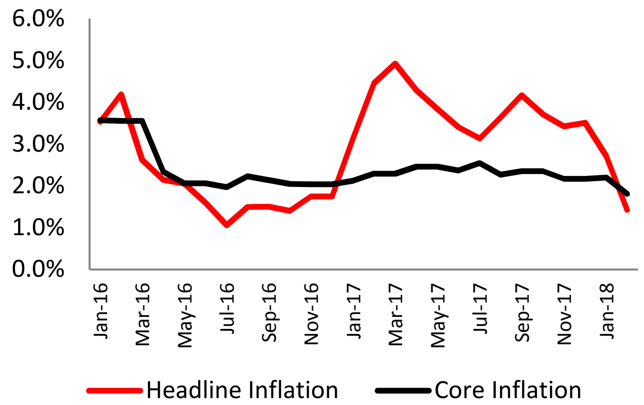
Inflation dipped to 16-month low. Headline inflation rate rose by 1.4%yoy in Feb-18, lowest in 16 months. The slowdown in inflation is in tandem with slowing inflation trend for almost all the goods and services with transport inflation contributed the highest decline from 5.7%yoy in Jan-18 to -0.3%yoy last month. Similarly, transport price declined on monthly basis by 0.6% from 0.4% gain in the preceding month underpinned by declining retail fuel prices. Meanwhile, core inflation went down to 1.8%yoy in Feb-18, the lowest figure on record.

Chart 11: CPI: Headline vs Food & Non-food (YoY%)



Source: CEIC, MIDFR

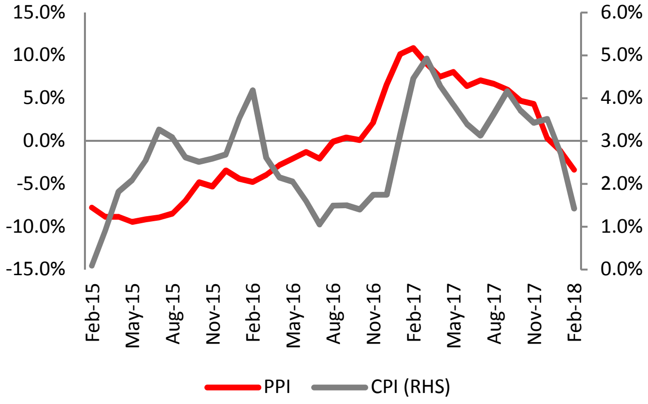
Chart 12: CPI: Headline vs Core (YoY%)



Source: CEIC; MIDFR

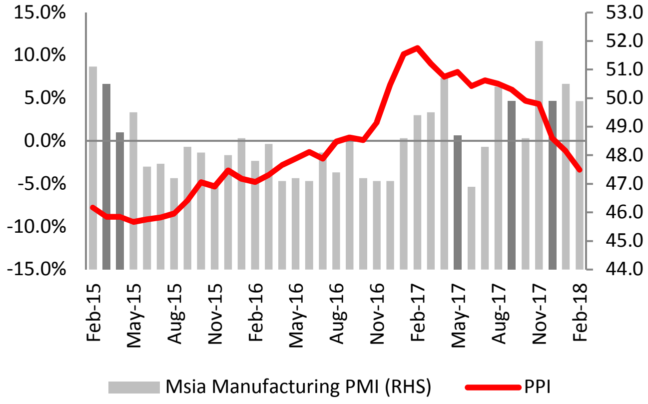
Producer prices continued to fall for two consecutive months. On a yearly basis, Malaysia's producer prices recorded the steepest decline since Jul-16 at 3.4%, mainly due to unfavourable base effects. Furthermore, on a monthly basis, input inflation also went down to negative reading after an upwardly revised of 0.5% gain in Jan-18. The decline was mainly due to the cost for both of manufacturing and agriculture, forestry & fishing which fell more than the previous month. In contrast, we noticed cost rebounded for electricity and gas supply to positive territories, while the cost of water supply and mining went up at a softer pace. Moving forward, we foresee the slowdown inflationary pressure will stay throughout the year.

Chart 13: PPI vs CPI (YoY%)



Source: CEIC, MIDFR

Chart 14: PPI (YoY%) vs Manufacturing PMI (Points)



Source: CEIC, MIDFR

Table 1: Macroeconomic Data Updates

(YoY%) Unless Stated Otherwise	2016	2017e	2018f	1Q18f	2Q18f	3Q18f	4Q18f
Real GDP	4.2	5.8	5.5	5.8	5.4	5.5	5.3
Private Consumption	6.1	7.0	6.5	5.9	6.1	6.9	7.0
Public Consumption	1.0	5.0	3.3	(2.0)	0.5	3.7	11.2
Gross Fixed Capital Formation	2.7	5.7	3.9	(2.9)	3.5	4.2	10.8
Exports of goods & services	0.1	9.2	5.0	5.6	6.7	2.3	5.5
Imports of goods & services	0.4	10.3	4.8	0.6	6.4	3.7	8.5
Net Exports - RMb	92.6	93.4	99.6	27.5	23.1	24.5	24.5
Exports of Goods (f.o.b)	1.1	14.5	9.3	10.3	12.1	5.8	9.0
Imports of Goods (c.i.f)	1.9	15.5	8.9	6.0	12.4	6.6	10.8
Trade Balance - RMb	87.2	97.5	112.1	29.9	27.1	26.4	28.7
Consumer Price Index	2.1	3.8	2.6	3.5	2.4	2.6	2.0
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	6.2	7.2		-	-	-	-
Year-End of Unless States Otherwise	**2016**	**2017e**	**2018f**	**1Q18**	**2Q18f**	**3Q18f**	**4Q18f**
Brent Crude Oil (Avg)	43.6	53.0	60.0	67.3	-	-	-
Crude Palm Oil (Avg)	2,652	2,825	2,900	2,480	-	-	-
USD/MYR (Avg)	4.15	4.32	4.00	3.92			
USD/MYR	4.46	4.05	3.95	-	-	-	-
Yield on generic 10-year MGS (%)	3.85	4.00	4.10	3.95	4.10	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

March 2018 Key Economic Events

1 Mar: Winners and Losers From Trump's Tariffs on Aluminum and Steel. U.S. President Donald Trump said he plans to impose 25 percent tariffs on steel and 10 percent on aluminium imports. If he gets his way, the policy could have sweeping ramifications across the globe. Here are some of the likely winners and losers. Producers such as Nucor Corp., AK Steel Holding Corp. and U.S. Steel Corp. will reap the benefits. They have aggressively lobbied for trade defenses against what they see as unfair competition from China, Russia and South Korea.

2 Mar: India raises import tax on palm oil to 44%, highest in a decade. India has raised import tax on crude and refined palm oil to the highest level in more than a decade, the government said in a statement on Thursday, as the world's biggest edible oil importer tried to support local farmers. The duty increase would lift oilseed prices and encourage domestic supply for crushing, helping cap edible oil imports in the 2017/18 marketing year that started on Nov. 1, dealers said.

6 Mar: Labour-intensive job loss normal in 4th industrial revolution, says Mustapa. Malaysians should not be worried for the loss of labour-intensive jobs as the shift towards more high-skilled ones is normal for a country embracing the Industrial Revolution 4.0, said International Trade and Industry Minister Datuk Seri Mustapa Mohamed. He said the dynamics of the workforce will inevitably change but there is no cause for concern as new jobs will be created. "As you lose some jobs, you create new job opportunities. So the structure of work will change.

12 Mar: The Secret to Australia Avoiding Recession: Mass Immigration. Australia is standing firm amid growing calls for immigration curbs, even as the U.S. and Europe succumb to rising populism. It has little choice if it's to continue a period of record economic expansion. A flood of arrivals that's swelled the population by 50 percent over the past three decades has underpinned economic growth and allowed a succession of governments to boast of avoiding recession since 1991. Populists are blaming immigrants for over-burdened infrastructure, soaring housing prices and low wage growth.

19 Mar: EU Offers Brexit-Backing Tories an Easy Victory on Global Trade. The European Union has persuaded the U.K. to agree to all its key demands for the terms of a Brexit transition, while throwing a free bone to the British bulldogs in Theresa May's Tory party who want a quick, clean split. At first glance, the terms of the transitional phase fit precisely the recipe set down by the EU's chief negotiator Michel Barnier -- a 21-month "status quo" period during which the rest of the world carries on treating the U.K. as if it were still a member of the bloc.

22 Mar: Fed Lifts Rates, Steepens Path Through 2020 for More Hikes. Federal Reserve officials, meeting for the first time under Chairman Jerome Powell, raised the benchmark lending rate a quarter-point and forecast a steeper path of hikes in 2019 and 2020, citing an improving economic outlook. Policy makers continued to project a total of three increases this year. "The economic outlook has strengthened in recent months," the policy-setting Federal Open Market Committee said in a statement Wednesday in Washington.

23 Mar: China Hits Back at Trump Tariffs as Trade War Finally Arrives. China announced plans for reciprocal tariffs on $3 billion of imports from the U.S., including products from steel to pork, after President Donald Trump's move to order levies on a range of Chinese goods sent markets plunging. In a statement Friday, hours after Trump instructed U.S. Trade Representative Robert Lighthizer to slap tariffs on at least $50 billion in Chinese imports, China's Commerce Ministry said it plans a 25 percent tariff on U.S. pork imports and recycled aluminum, and 15 percent tariffs on American steel pipes, fruit and wine.

28 Mar: Bank Negara: Economy to grow 5.5% to 6% in 2018. Malaysia's economy is expected to grow at a firm pace of between 5.5% and 6% in 2018 versus 5.9% in 2017 with domestic demand remaining the anchor of growth, says Bank Negara Malaysia. In its annual report released on Wednesday, it said private sector expenditure will remain the key driver of growth, underpinned mainly by continued growth in wages and employment, business optimism and favourable demand. Bank Negara said that public sector expenditure is expected to decline due to the contraction in public investment amid more moderate growth in public consumption.

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