midf RESEARCH

30 June 2023

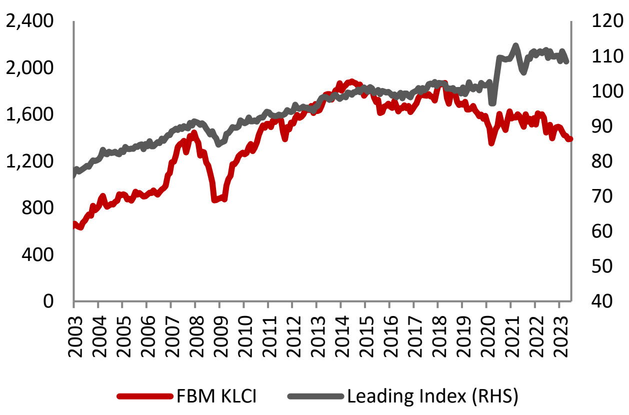
MONTHLY ECONOMIC REVIEW | June 2023

Leading Index Continued to Signal Growth Momentum will Soften

- *Slowing growth momentum as LI fell sharper. Leading Index (LI) suggests growth momentum for Malaysia's economy will slow in the near term as the index fell sharper by -2.7%yoy in Apr-23 (Mar-23: -1.2%yoy) because all LI components declined except an uptick in approved housing units.*
- *Small decline in exports with rebound in shipments to major markets. Following a robust monthly rebound from previous month, exports contracted at a much slower pace of -0.7%yoy in May-23, a stark improvement from -17.6%yoy decline in Apr-23.*
- *Resilient job market. Labour market conditions in Malaysia remained favourable as the post-pandemic improvement continued in Apr-23, keeping unemployment rate at pandemic-low 3.5% on the back of continued rise in labour force and employment.*
- *Maintain our forecast for GDP growth at +4.2% for this year. We maintain our GDP growth forecast at +4.2% for 2023. Although slowdown in external demand will be a drag, we foresee the resilience in domestic demand, particularly consumer spending, will be the main driver for Malaysia's economic growth this year.*

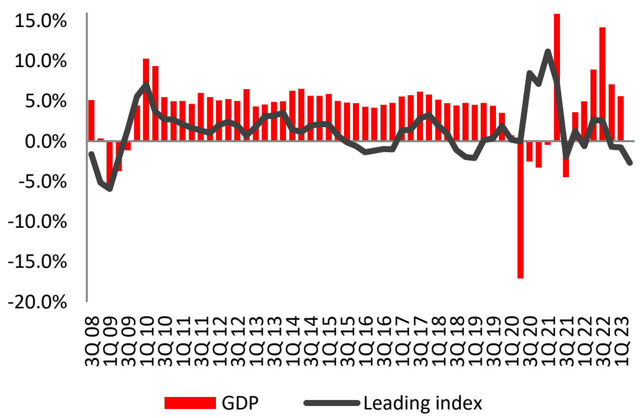
Slowing growth momentum as LI fell sharper. Leading Index (LI) suggests growth momentum for Malaysia's economy will slow in the near term as the index fell sharper by -2.7%yoy in Apr-23 (Mar-23: -1.2%yoy) because all LI components declined except an uptick in approved housing units. Meanwhile, current economic condition remained on moderating trend although the level of activities remained above a year ago as the expansion in Coincident Index (CI) slowed to +2.2%yoy (Feb-23: +3.7%yoy), mainly supported by the growing retail trade volume (+9.5%yoy). We maintain our view that growth will be more moderate in the latter part of the year vis-à-vis the robust +5.6%yoy expansion in 1QCY23. Despite subdued demand on the external front in recent months, the sustained growth in domestic spending supports our view that the continued expansion in domestic demand will be the key driver to support Malaysia's growth this year.

Chart 1: Leading Index vs KLCI (Points)



Source: Macrobond, MIDFR

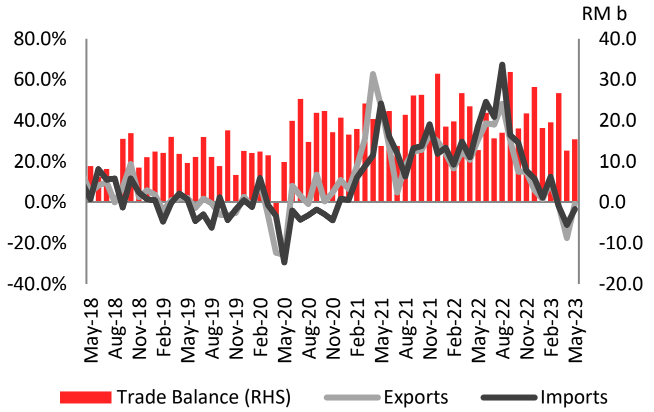
Chart 2: Leading Index vs GDP (YoY%)



Source: Macrobond, MIDFR

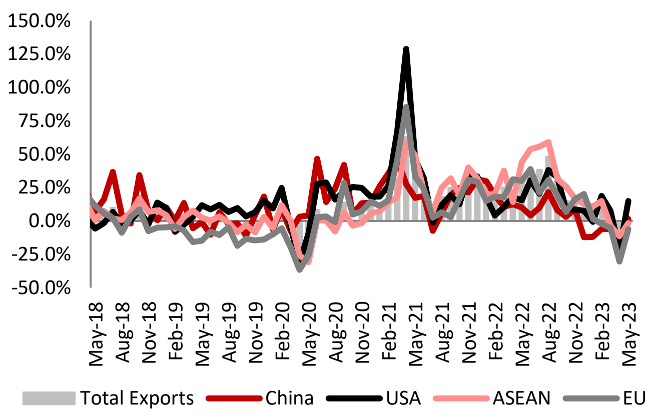
Small decline in exports with rebound in shipments to major markets. Following a robust monthly rebound from previous month, exports contracted at a much slower pace of -0.7%yoy in May-23, a stark improvement from -17.6%yoy decline in Apr-23. The improvement was explained by significantly slower fall in domestic exports (-2.5%yoy; Apr-23: -22.5%yoy) as well as stronger re-exports (+6.4%yoy; Apr-23: +3.7%yoy). The decline in domestic exports showed continued drag from weak agriculture exports, especially palm oil & palm oil-based products, while exports of manufacturing and mining goods contributed positively during the month. To highlight, exports of processed petroleum products was the largest contributor (+1.1ppt) towards better export performance. By destination, shipments to US, China and Japan rebounded back to positive growth, while exports to EU and ASEAN fell at slower pace. On month-on-month basis, the +13.7%mom surge from Apr-23 was mainly driven by higher manufacturing exports (i.e. E&E, petroleum products, and chemicals & chemical products) as well as mining exports (i.e. LNG and crude petroleum). Although the pick-up in E&E and mining exports supported Malaysia to perform better against regional peers in May-23 external trade, we view the subdued global manufacturing will constrain Malaysia's external trade outlook this year.

Chart 5: Exports & Imports (YoY%) vs Trade Bal. (RM b)



Source: Macrobond, MATRADE, MIDFR

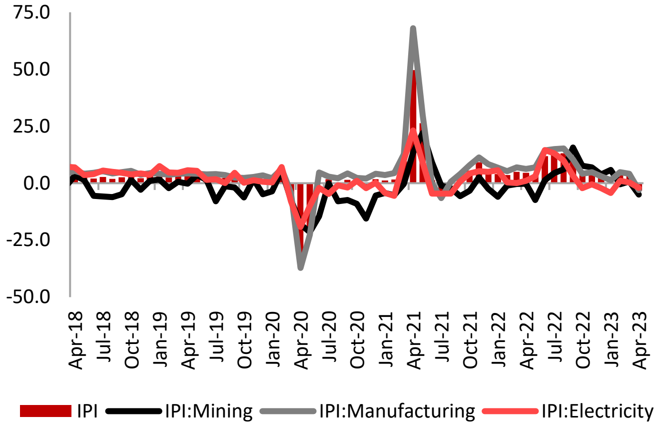
Chart 6: Exports Growth (YoY%) by Major Destination



Source: Macrobond, MATRADE, MIDFR

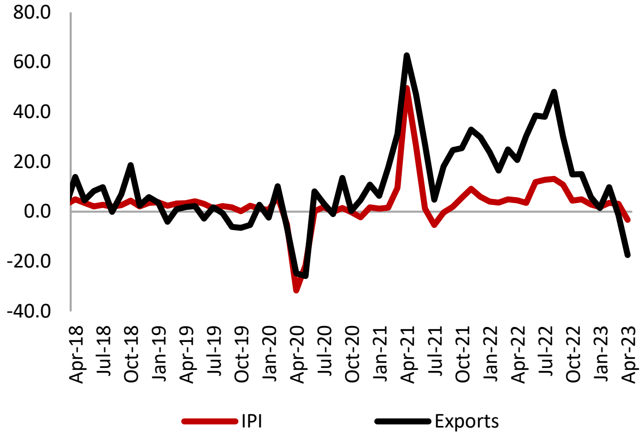
First decline for IPI in 20 months. IPI recorded the first decline since Aug-21, falling by -3.3%yoy in Apr-23 (Mar-23: +3.2%yoy) with contraction recorded in all major sectors. Mining dropped by -4.9%yoy due to lower production of both LNG and crude oil. Meanwhile, manufacturing sector output contracted by -3%yoy, dragged down by among others weaker production of E&E products, F&B and motor vehicles. Moreover, the decline in electricity generation by -2%yoy also contributed to the weaker IPI during the month. Relative to previous month, the level of industrial production in Apr-23 was -5.6%mom lower than Mar-23 after adjusting to the seasonal difference. In other words, while we view the weaker output to a certain extent to a temporary slowdown because of Hari Raya holidays, the performance of IPI in Apr-23 was weaker than normal based on past trends for the month of April with all major sectors reporting lower output. We believe this was closely linked to the subdued external demand as firms slowed output in view of softer demand, as indicated in recent PMI surveys.

Chart 7: IPI Performances by Sector (YoY%)



Source: Macrobond, MIDFR

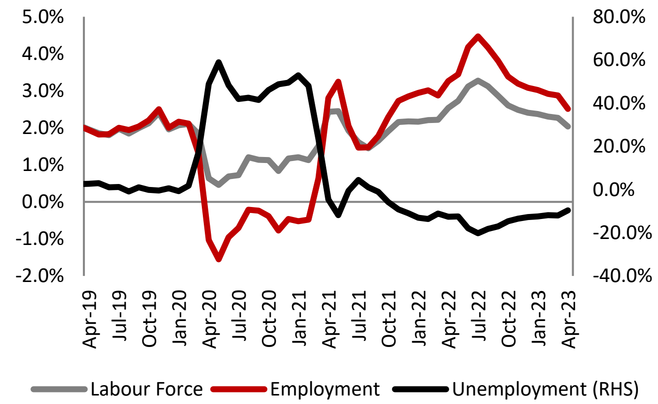
Chart 8: IPI vs Exports (YoY%)



Source: Macrobond, MIDFR

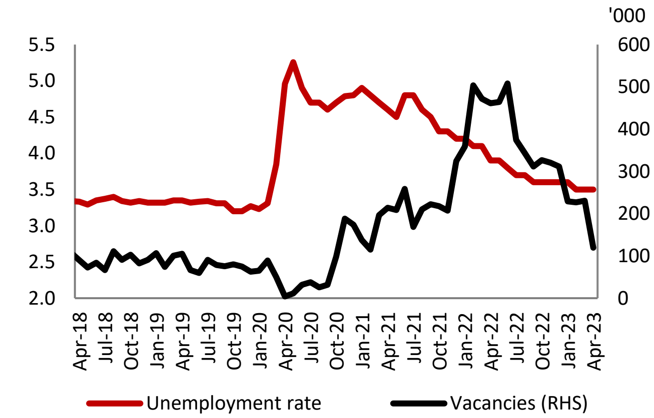
Resilient job market. Labour market conditions in Malaysia remained favourable as the post-pandemic improvement continued in Apr-23, keeping unemployment rate at pandemic-low 3.5%. On the back of continued rise of +2%yoy in labour force, employment continued expanding +2.5%yoy amid upbeat domestic economic momentum, in contrast to weaker external front. On monthly basis, employment was up by +0.2%mom. Unemployment dipped further by -9.6%yoy, falling for the 20th consecutive months. Youth aged 15~24 unemployment rate descended further to a new post-pandemic low of 11.1%, but remained higher than pre-pandemic (2019: 10.4%). Meanwhile, the number of persons outside labour force also dropped by -0.6%yoy, registering the 18th straight months of negative growth. By employment type, employees, which made up about 75.5% of total employment, grew steadily by +1.5%yoy while employers and own-account workers increased by +5.4%yoy and +7.2%yoy, respectively, in Apr-23. Despite concerns over softer external demand, the strengthening job market in our view will be crucial to continued sustaining consumer consumption and therefore support overall GDP growth this year.

Chart 9: Labour Market Key Indicators (YoY%)



Source: Macrobond, MIDFR

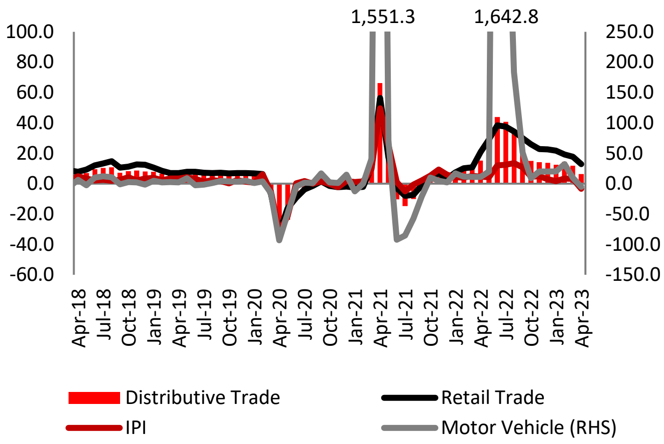
Chart 10: Unemployment Rate (%) vs. Job Vacancies



Source: Macrobond, MIDFR

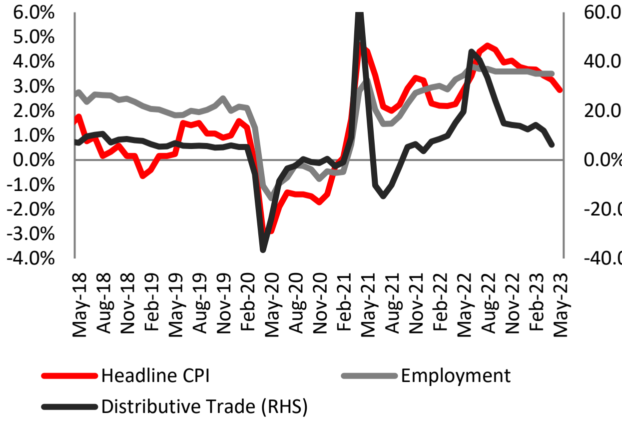
Robust retail trade spending. Retail trade growth remained resilient, despite inflation concerns and tightening monetary policy factor. The retail sales grew by +12.9%yoy in Apr-23 (Mar-23: +177%yoy), the 15th straight months of double-digit expansion. On monthly basis, non-seasonally-adjusted retail trade only increased by +3.1%mom; but adjusting to the seasonal difference, the sector experienced a handsome monthly jump by +11.8%mom. The steady expansion pace among others were attributed to Ramadhan and Aidilfitri spending as well as positive impacts of improving labour market conditions. However, the +6.3%yoy growth for the overall distributive trade sales was the slowest in 16 months, with slower growth in wholesale trade (+3.2%yoy; Mar-23: +7.6%yoy) and plunge in sales of motor vehicles (-5.1%yoy; Mar-23: +9.3%yoy). On monthly basis, both wholesale and motor vehicles dropped by -1.1%mom and -19.8%mom, respectively. As for 4MCY23, distributive trade sales increased by +11.1%yoy (4MCY22: +10.2%yoy) while retail sales improved by +17.7%yoy (4MCY22: +12.3%yoy). We opine the upbeat momentum of domestic demand underpinned by positive employment and steady labour market, softening inflationary pressure, pick-up in tourism activities and supportive economic policies will continue boosting 2QCY23 GDP growth as well as overall 2023 expansion rate.

Chart 11: Distributive Trade (DT) (YoY%)



Source: Macrobond, MIDFR

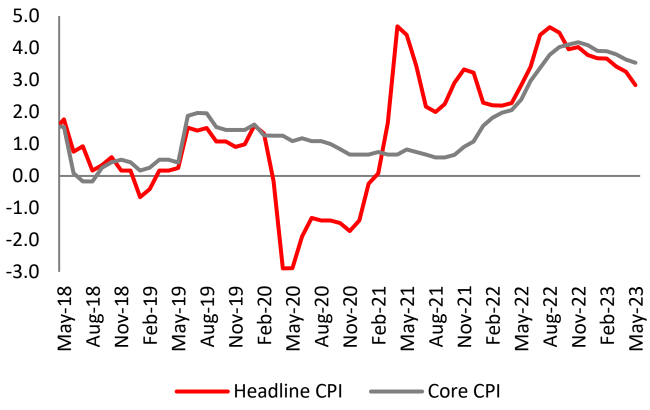
Chart 12: DT vs. CPI vs. Employment (YoY%)



Source: Macrobond, MIDFR

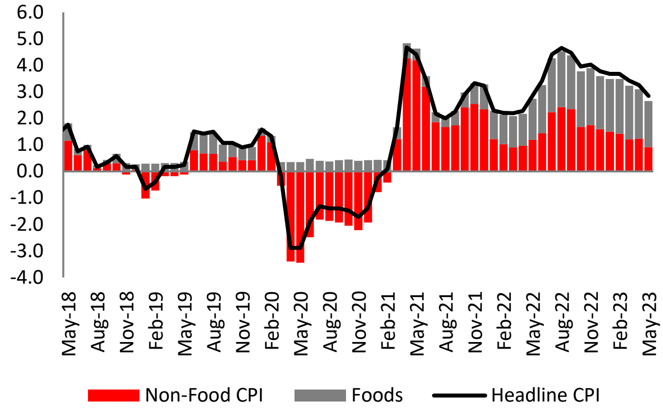
Headline inflation decelerated to 1-year low. Headline inflation rate descended below +3%yoy level in May23, the slowest rate since May-22. Non-food inflation inched up marginally by +1.3%yoy while food inflation softened to 1-year low at +5.9%yoy. The moderation of inflation among others was due to high base effect. Nevertheless, elevated global commodity prices, high food prices and firming domestic demand were among factors holding up inflationary pressure in Malaysia. Core inflation rate remained sticky lingering above +3.5%yoy (pre-pandemic average: +1.7%yoy). Services inflation rate of +3.5%yoy also remained above pre-pandemic average of +2.6%yoy. Average 5MCY23 headline inflation was +3.4% (2022: +3.4%) and core inflation rate was +3.8% (2022: +3%). Steady core inflation trend in Malaysia is highly driven by strong consumer demand while cost-related factors have eased. We opine the steady domestic demand and sticky core inflation may lead BNM to consider for another 25bps of OPR hike in 2HCY23.

Chart 13: Headline vs. Core CPI (YoY%)



Source: Macrobond, MIDFR

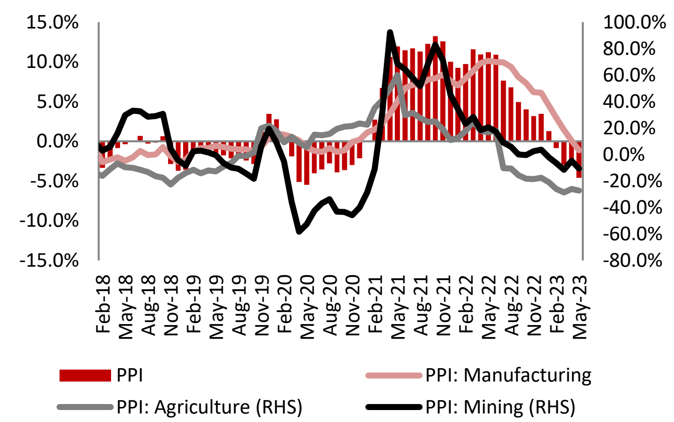
Chart 14: Food vs Non-Food CPI (YoY%)



Source: Macrobond, MIDFR

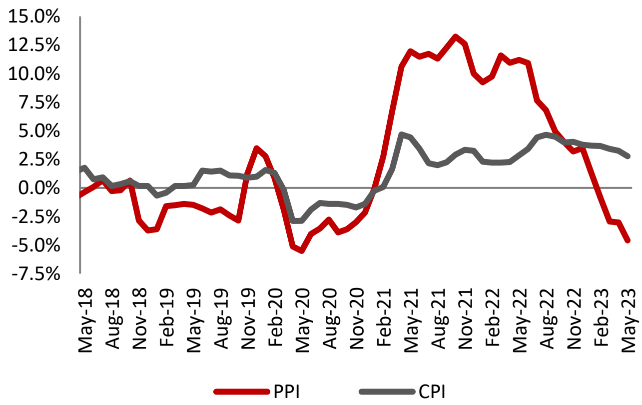
PPI fell further for the 4th straight month. PPI recorded the 4th straight month of deflation in May-23, falling faster by -4.6%yoy (Apr-23: -3%yoy) following steeper declines in PPI for agriculture, forestry & fishing (May-23: -27.2%yoy; Apr-23: -26.0%yoy) and mining (-10.7%yoy; Apr-23: -4.7%yoy) sectors. In addition, manufacturing PPI also contracted by -1.1yoy (Apr-23: +0.1%yoy), marking the first decline after 29 months of inflation since Dec-20. Meanwhile, producer price inflation edged down for water supply at +3.0%yoy (Apr-23: +3.2%yoy) but for electricity and gas accelerated to +1.2%yoy (Apr-23: +0.1%yoy). By the processing stage, the price of crude materials declined by -20.1%yoy (Apr-23: -17.6%yoy) as commodity prices remained below a year ago. Similarly, prices by producers for intermediate materials, supplies, & components contracted sharper by -1.6%yoy (Apr-23: -0.1%yoy). The rise in producer prices for finished goods also moderated to +3.0%yoy (Apr-23: +3.5%yoy), the fourth month of easing after peaking at +4.5%yoy in Jan-23. On month-on-month basis, producers' inflation contracted by -0.4%mom (Apr-23: +0.2%yoy). We believe the continued deflation in producer prices explained the more moderate reading in CPI inflation, which slowed to +2.8%yoy (Apr-23: +3.3%yoy). Going forward, given commodity prices remaining below the high levels last year, we expect the reduced cost pressures signalling further moderation in consumer price inflation as firms see reduced needs to increase selling prices.

Chart 15: PPI (YoY%)



Source: Macrobond, MIDFR

Chart 16: PPI vs CPI (YoY%)



Source: Macrobond, MIDFR

Maintain our forecast for GDP growth at +4.2% for this year. We maintain our GDP growth forecast at +4.2% for full year 2023 (as mentioned in our latest outlook report). Despite the stronger-than-expected growth in 1QCY23, we view the slowdown in external demand to be a drag to growth this year. On that note, we foresee the resilience in domestic demand, particularly consumer spending, on the back of positive job market conditions will be the main driver for Malaysia's economic growth this year. While local businesses will grow their production amid improved supply conditions and services sector in particular will gain from increased tourist arrivals, the manufacturing industry, on the other hand, will be bogged down by the softer external demand particularly influenced by the weakness in global manufacturing activity. Other factors that could derail growth outlook include deterioration in geopolitical and trade tensions, elevated global inflation, and therefore further tightening by major central banks which could lead to sharper slowdown in final demand.

Table 1: Macroeconomic Past Performances (%)

(YoY%) Unless Stated Otherwise	2019	2020	2021	2022	2023f
Real GDP	4.4	(5.5)	3.3	8.7	4.2
Govt. Consumption	1.5	4.1	6.4	4.5	3.0
Private Consumption	7.7	(3.9)	1.9	11.2	6.1
Govt. Investment	(10.7)	(21.2)	(11.1)	5.3	4.8
Private Investment	1.6	(11.9)	2.7	7.2	5.4
Exports of goods & services	(1.0)	(8.6)	18.5	14.5	1.5
Imports of goods & services	(2.4)	(7.9)	21.2	15.9	1.9
Net Exports	11.2	(13.7)	(4.0)	(1.0)	(3.6)
Agriculture etc.	1.9	(2.4)	(0.1)	0.1	0.8
Mining & Quarrying	(0.6)	(9.7)	0.9	2.6	2.6
Manufacturing	3.8	(2.7)	9.5	8.1	1.4
Construction	0.4	(19.3)	(5.1)	5.0	6.5
Services	6.2	(5.2)	2.2	10.9	5.8
Exports of Goods (f.o.b)	(0.8)	(1.1)	26.1	25.0	(3.4)
Imports of Goods (c.i.f)	(3.5)	(5.8)	23.3	31.3	(1.9)
Trade Balance, RMb	145.7	183.3	257.2	253.7	227.2
Consumer Price Index	0.7	(1.1)	2.5	3.4	3.0
Current Account, % of GDP	3.6	4.2	3.9	3.1	2.5
Fiscal Balance, % of GDP	(3.4)	(6.2)	(6.4)	(5.6)	(5.2)
Federal Government Debt, % of GDP	52.4	62.0	63.4	60.4	62.3
Unemployment rate, %	3.3	4.5	4.6	3.8	3.5
Year-End or Unless Stated Otherwise	**2019**	**2020**	**2021**	**2022**	**2023f**
Brent Crude Oil (Avg)	64.3	43.3	70.9	99.0	80.0
Crude Palm Oil (Avg)	2,079	2,781	4,437	5,094	3,500
USD/MYR (Avg)	4.14	4.20	4.14	4.40	4.43
USD/MYR (end-year)	4.09	4.02	4.17	4.40	4.20
Overnight Policy Rate (%)	3.00	1.75	1.75	2.75	3.25

Source: Macrobond, DOSM, MIDFR

June 2023 Key Economic Events

Jun 8: BNM: Unrealistic for Ringgit to hit RM5 against US dollar. Bank Negara Malaysia dismissed concerns of the ringgit hitting RM5 against the US dollar, calling it unrealistic as such an event would mean that the country is in a crisis. "We don't really see us heading anywhere in the direction of hitting RM5. These are just levels that we have in our head that we think that something bad is happening.

Jun 9: Abdul Rasheed Ghaffour appointed governor of Bank Negara Malaysia effective July 1. Bank Negara Malaysia (BNM) today announced that the Yang di-Pertuan Agong has consented to appoint Datuk Shaik Abdul Rasheed Abdul Ghaffour as governor for a five-year term effective July 1, 2023 to June 30, 2028. BNM said he will assume the position of governor from Tan Sri Nor Shamsiah Mohd Yunus, who completes her five-year term on June 30, 2023.

Jun 9: PM agrees to continue poultry subsidies. Subsidies for chicken and eggs will continue and will not end on June 30. "Taking into account all aspects, including ensuring chicken and egg industry remains sustainable and people's welfare, PM Datuk Seri Anwar Ibrahim agreed with Agriculture and Food Security Ministry's and Domestic Trade and Cost of Living Ministry's proposal to continue subsidies and price control of chicken and eggs from July 1, 2023.

Jun 13: Phase 3 of Rahmah cash aid to be distributed before Aidiladha. The third phase of the Rahmah cash aid, totalling over RM2 billion, will be disbursed before Hari Raya Aidiladha celebration, the Dewan Rakyat was told today. Prime Minister Datuk Seri Anwar Ibrahim said the move would benefit over eight million eligible recipients, with payments ranging between RM100 and RM1,300.

Jun 15: Federal Reserve holds interest rates steady, forecasts two more rate hikes this year. The Federal Reserve held interest rates steady Wednesday, but officials signaled they are prepared to raise rates again this year to tame stubborn inflation. The central bank maintained its benchmark interest rate in the range of 5%-5.25%, the first time since January 2022 the Fed made no change to interest rates following a policy meeting.

Jun 20: China cuts main interest rate as economic recovery fizzles out. China's central bank cut its main benchmark lending rates for first time in 10 months, in its latest effort to bolster growth as the economy falters. The People's Bank of China trimmed its 1-year loan prime rate (LPR) by 10 basis points from 3.65% to 3.55%, and reduced the 5-year rate by the same margin to 4.2%. The cuts follow reductions in other interest rates last week.

Jun 20: Malaysia ranks 27th in 2023 IMD World Competitiveness Ranking. Malaysia climbed 5 spots to 27th in the world's most competitive economies, according to the International Institute for Management Development (IMD) World Competitiveness Ranking 2023 report revealed. Malaysia's improvement was mainly backed by its economic recovery, investment growth, and bright spots in exchange rate stability, and the employment market.

Jun 21: Fed's Powell: More rate hikes are likely this year to fight still-high inflation. With inflation in the US still excessive, most Fed officials expect to raise interest rates further this year, Chair Jerome Powell told. "Inflation pressures continue to run high, the process of getting inflation back down to 2% has a long way to go," Powell said on the first of of semi-annual testimony on Capitol Hill.

Jun 23: 99% of domestic users unaffected by electricity tariff hike. Nearly all domestic users and low-voltage non-domestic users will not be affected by the hike in electricity tariffs from July 1, says natural resources, environment and climate change minister Nik Nazmi Nik Ahmad. Users who consume less than 1,500 per kilowatt hour (kWh) of electricity a month will not be charged higher tariffs.

Jun 27: Rafizi: National debt to decline if Malaysia succeeds in cutting fiscal deficit to 3.5pc. Success in lowering the fiscal deficit to the targeted 3.5 per cent of gross domestic product by end-2025 will signal that the national debt will decrease in the years that follow, said Economy Minister Rafizi Ramli. He said if the level can be reduced as per target, it would assure foreign investors that the government has good fiscal discipline.

Jun 27: Bank Negara to intervene in forex market to stem excessive currency movements. Bank Negara Malaysia (BNM) will intervene in the foreign exchange market to stabilise the ringgit currency to stem currency movements that are deemed excessive, according to assistant governor Adnan Zaylani.

Jun 27: Three state assemblies to dissolve tomorrow, N Sembilan yet to follow suit. The state election heat continues to intensify as Penang and Terengganu announced that their respective state assemblies will be officially dissolved tomorrow. Kelantan was the first state to have dissolved its state assembly on June 22, followed by Selangor on June 23.

Jun 27: S&P Global affirms Malaysia's sovereign credit ratings. S&P Global Ratings affirmed its 'A-' long-term and 'A-2' short-term foreign currency sovereign credit ratings on Malaysia. "The stable outlook reflects our expectations that Malaysia's steady growth momentum and fiscal policy will allow modest improvements in fiscal performance over the next two to three years," it said.

Jun 29: Cost of living may no longer be a burden. The Economy Ministry and the Human Resources Ministry are working on a framework to ensure Malaysians can enjoy a hike in salary that commensurates with the rising cost of living. Economy Minister Rafizi Ramli said this is among the strategies being drawn up to deal with the cost of living.

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad 197501002077 (23878-X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD 197501002077 (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein This document may not be reproduced, distributed or published in any form or for any purpose.