1 August 2023

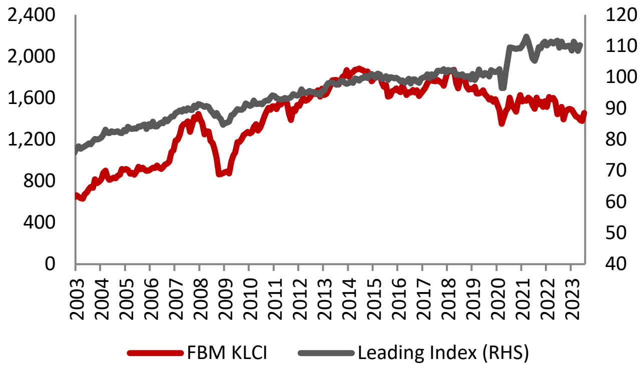
MONTHLY ECONOMIC REVIEW | July 2023

LI Continued to Signal Softer Growth Momentum in the Near Term

- *Easing growth momentum as LI continued to decline. Malaysia's Leading Index (LI) declined further by s-1.1%yoy in May-23 (Apr-23: -2.7%yoy), the slowest contraction in 3 months. The continued contraction was due to the sluggishness in real imports of semiconductors and real imports of other basic precious & other non-ferrous metals.*
- *Exports fell sharper by -14.1%yoy in Jun-23. Exports continued to fall but at sharper pace of -14.1%yoy in Jun-23 (May-23: -0.8%yoy). The decline was sharper following the contraction in both domestic exports (-15.2%yoy) and re-exports (-10.3%yoy).*
- *Stable and sound job market. Labour market remained steady as unemployment rate was unchanged at pandemic low 3.5% in May-23. Labour force and employment continued expanding at +2%yoy and +2.4%yoy, respectively, supported by upbeat domestic economic momentum.*
- *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. Despite slowdown in external demand, we maintain our projection as the resilience in domestic demand will be the main driver for Malaysia's economic growth this year.*

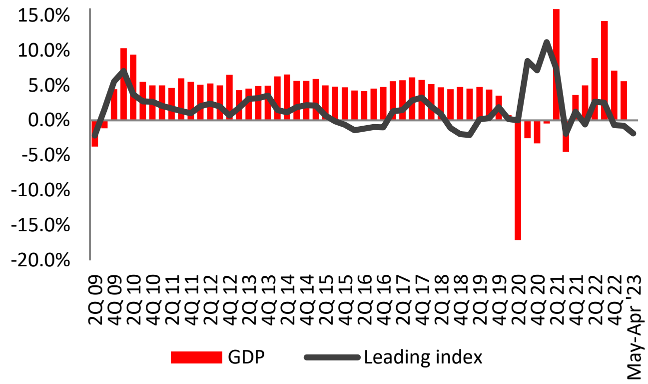
Easing growth momentum as LI continued to decline. Malaysia's Leading Index (LI) declined further by -1.1%yoy in May-23 (Apr-23: -2.7%yoy), the slowest contraction in 3 months. The continued contraction was due to the sluggishness in real imports of semiconductors and real imports of other basic precious & other non-ferrous metals. Compared to the prior month, LI ended two months of contraction and increased by +1.8%mom (Apr-23: -1.6%mom) with improvement across all components (such as increases in new company registration and number of housing approved) except for real money supply M1 (-0.3%mom) and expected sales value in manufacturing (-0.8%mom). Meanwhile, economic conditions remained on expansionary, with the Coincident Index (CI) registering a faster annual rise at +3.1%yoy (Apr-23: +2.2%yoy) as all components registered sound performance. In particular, higher capacity utilization in the manufacturing sector contributed to the +2.5%mom monthly rise in CI. As a leading indicator, the continued decline in LI signaled a more moderate growth outlook in the near term on the back of concerns over the drag from slowdown in external demand to overall growth this year and cautious approach in preparation for slowing demand. Nevertheless, the improved CI suggests positive growth will be sustained in 2QCY23. We reiterate our forecast that Malaysia's economy will expand at +4.2% this year (2022: +8.7%), a more normalized growth rate underpinned by growing domestic demand.

Chart 1: Leading Index vs KLCI (Points)



Source: Macrobond, MIDFR

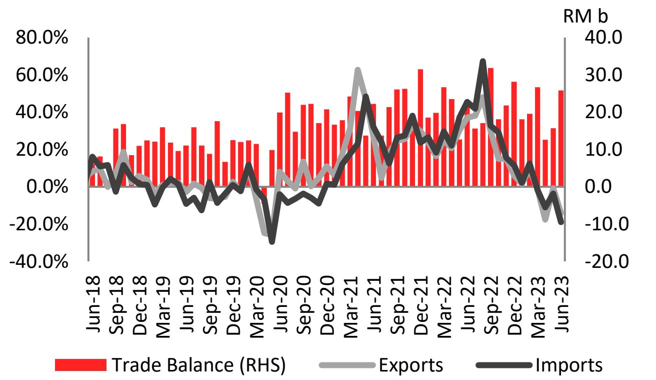
Chart 2: Leading Index vs GDP (YoY%)



Source: Macrobond, MIDFR

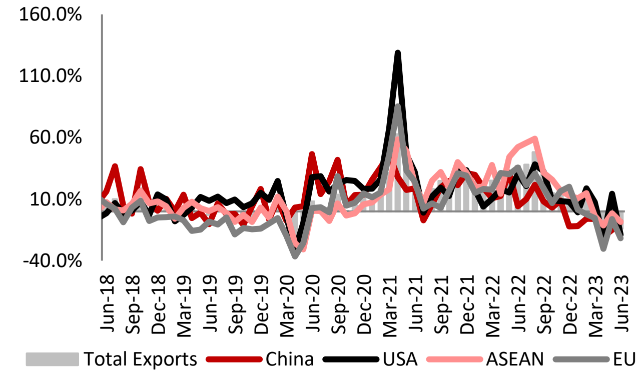
Exports fell sharper by -14.1%yoy in Jun-23. Exports continued to fall but at sharper pace of -14.1%yoy in Jun-23 (May-23: -0.8%yoy). The decline was sharper following the contraction in both domestic exports (-15.2%yoy) and re-exports (-10.3%yoy). The decline in domestic exports reflected the weak commodity exports, while re-exports registered its first annual decline after 31 straight months of growth since Nov-20. On a month-on-month basis, exports rose by +3.7%mom from the previous month, driven mainly by higher E&E exports in contrast to lower exports of crude petroleum & processed petroleum products. Contrary to the weak demand as highlighted by PMI surveys, E&E exports registered a sustained growth in Jun-23. Nevertheless, we opine that the near-term outlook for exports would be hampered by weak commodity exports (particularly palm oil and to a certain extent crude petroleum) in view of current prices remaining below last year.

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



Source: Macrobond, MATRADE, MIDFR

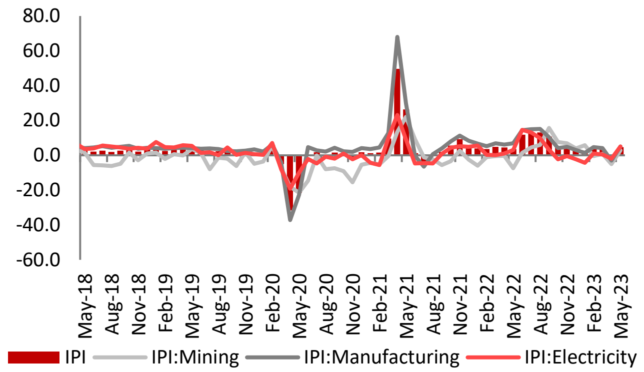
Chart 6: Exports Growth (YoY%) by Major Destination



Source: Macrobond, MATRADE, MIDFR

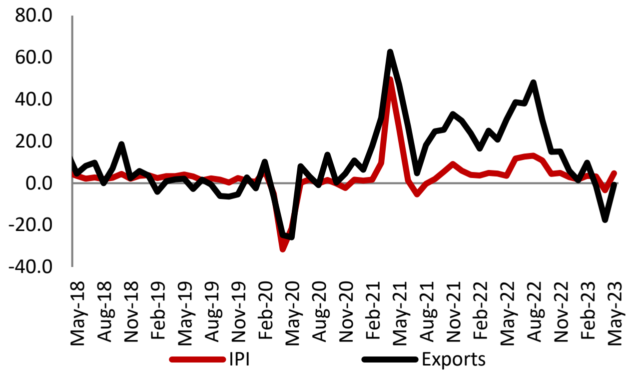
IPI rebounded to +4.7%yoy in May-23. IPI growth improved and picked up by +4.7%yoy in May-23, the fastest growth rate since Dec-22 and significantly above market expectations of +0.5%yoy. The recovery was largely contributed by the turnaround in manufacturing output, which rose by +5.1%yoy, and increased electricity generation, which rebounded to +5%yoy. The increased electricity generation reflected higher energy consumption on the back of pick-up in business activities. In addition, mining sector output expanded by +2.9%yoy thanks to higher production of both LNG and crude petroleum. Looking at the rebound in manufacturing production, we foresee the improved production was an indication of improved business activities which was previously affected by the Hari Raya holidays. Furthermore, the strength in domestic demand remains key driver to support local production activities in contrast to concerns over slowing external demand.

Chart 7: IPI Performances by Sector (YoY%)



Source: Macrobond, MIDFR

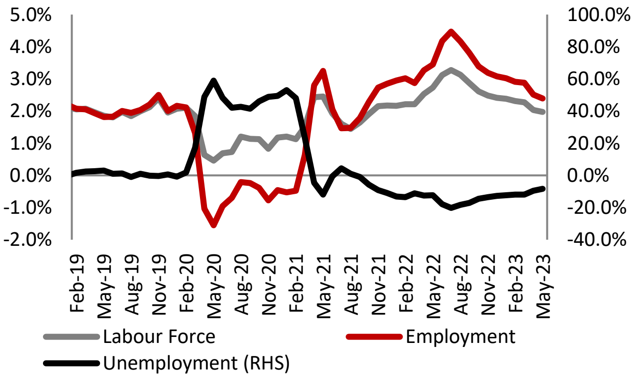
Chart 8: IPI vs Exports (YoY%)



Source: Macrobond, MIDFR

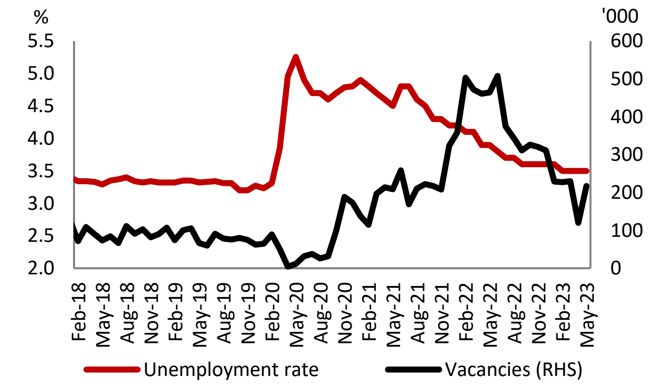
Stable and sound job market. Labour market remained steady as unemployment rate was unchanged at pandemic low 3.5% in May-23. Labour force and employment continued expanding at +2%yoy and +2.4%yoy, respectively, supported by upbeat domestic economic momentum. On monthly basis, employment grew +0.2%mom, marking the 23rd-straight months of positive gains. Unemployment dipped further by -8.3%yoy, marking the 21st consecutive months of contraction as number of unemployed persons continued to fall. In addition, those outside of labour force decreased by -0.5%yoy, declining for the 19th straight months. For youth aged 15~24, unemployment rate descended further to a new post-pandemic low of 11% but remained higher than pre-pandemic (2019: 10.4%). By employment type, employees which made up about 75.5% of the employment grew steadily by +1.4%yoy (14-month low) while employers and own-account-workers increased faster by +5%yoy and +7%yoy, respectively, in May-23. As for 5MCY23, employment grew by +2.7%yoy (5MCY22: +3.1%yoy) and average jobless rate was at 3.5% (5MCY22: +4%yoy). The strengthening job market in our view will further reinforce consumer consumption and support overall GDP growth this year. However, we expect slight moderation of employment growth in 2HCY23 due to slump in external trade performance.

Chart 9: Labour Market Key Indicators (YoY%)



Source: Macrobond, MIDFR

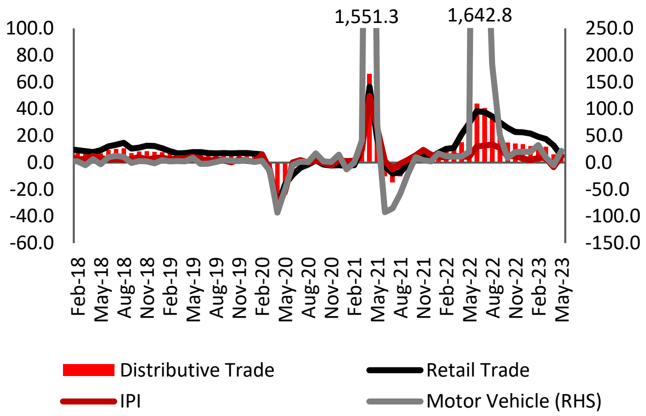
Chart 10: Unemployment Rate (%) vs. Job Vacancies



Source: Macrobond, MIDFR

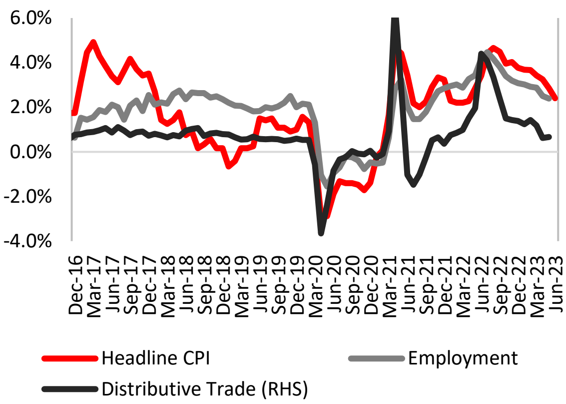
Retail trade growth at more than 1-year low. Malaysia's retail trade growth moderated to +5%yoy in May-23, the slowest growth since Jan-22. On monthly basis, non-seasonally-adjusted retail trade decreased by -2.7%mom while seasonally-adjusted figure plunged by -8.8%mom. We opine the dip of retail trade growth among others due to post-festive season effects particularly Ramadhan and Aidilfitri. However, we should note that overall distributive trade sales growth improved from 16-month low recorded in Apr-23 to +6.6%yoy in the following month. Wholesale trade grew by +4.4%yoy while sales of motor vehicles surged by +22%yoy. On monthly basis, both wholesale and motor vehicles increased by +2.1%mom and +16.2%mom, respectively. As for 5MCY23, distributive trade sales increased by +10.2%yoy (5MCY22: +12.1%yoy) while retail sales improved by +15%yoy (5MCY22: +15.6%yoy). We opine the upbeat momentum of domestic demand underpinned by steady labour market, softer inflationary pressure, pick-up in tourism activities and supportive economic policies will continue boosting 2QCY23 GDP growth as well as overall 2023 expansion.

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



Source: Macrobond, MIDFR

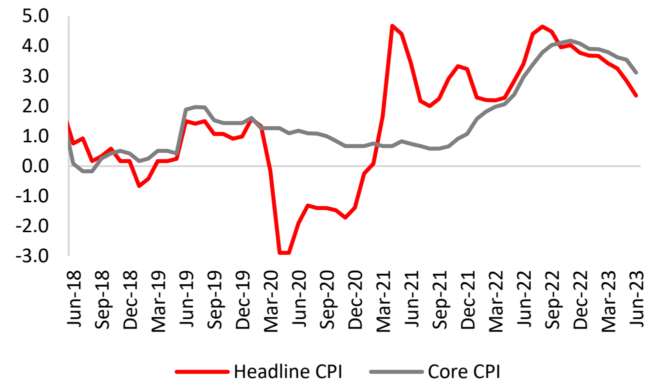
Chart 12: DT vs. CPI vs. Employment (YoY%)



Source: Macrobond, MIDFR

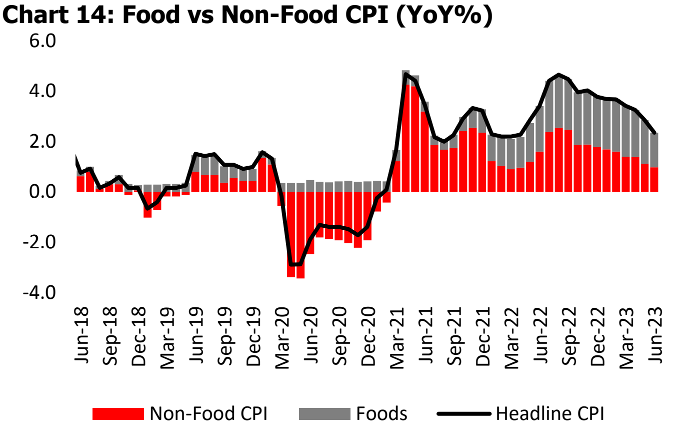
Headline inflation decelerated to 14-month low. Headline inflation moderated to +2.4%yoy in Jun-23, the slowest rate since Apr-22. Non-food inflation inched down marginally to +1.2%yoy while food inflation softened to more than 1-year low at +4.7%yoy. The moderation of inflation among others was due to high base effects. Nevertheless, elevated global commodity prices, high food prices and firming domestic demand were among factors holding up inflationary pressure in Malaysia. Core CPI inflation remained sticky lingering above +3%yoy (pre-pandemic average: +1.7%yoy). Services inflation rate at +3.2%yoy also remained above pre-pandemic average of +2.6%yoy. Average 6MCY23 headline inflation was +3.2% (2022: +3.4%) and core inflation rate was +3.6% (2022: +3%). On monthly basis, headline and core inflation remained firm registering positive gains of +0.2%mom. Steady core inflation trend in Malaysia is highly driven by strong consumer demand while cost-push factors have eased on the back of improved supply and easing cost pressures. In a way, we opine the steady domestic demand and sticky core inflation may lead BNM to consider for another +25bps OPR hike in 2HCY23. Job market has been improving where employment growth hovers above +2%yoy (pre-pandemic average: +1.7%yoy) for the 20th straight months since Oct-21 on the back of distributive trade sales growth at double-digit pace +10.2%yoy in 5MCY23 (2022: +19.6%).

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



Source: Macrobond, MIDFR

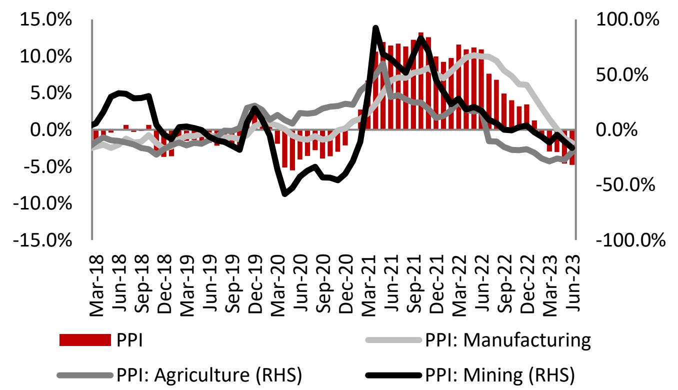
Chart 14: Food vs Non-Food CPI (YoY%)



Source: Macrobond, MIDFR

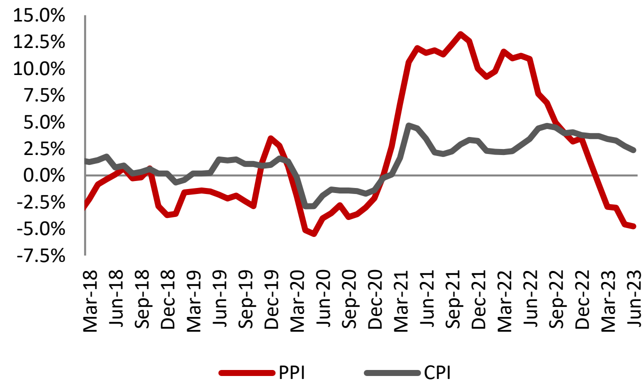
PPI fell further for the 4th straight month. PPI recorded the 4th straight month of deflation in May-23, falling faster by -4.6%yoy (Apr-23: -3%yoy) following steeper declines in PPI for agriculture, forestry & fishing (May-23: -27.2%yoy; Apr-23: -26.0%yoy) and mining (-10.7%yoy; Apr-23: -4.7%yoy) sectors. 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

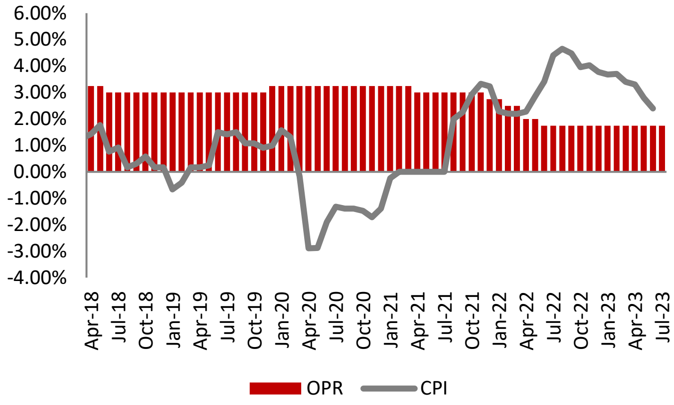
Chart 16: PPI vs CPI (YoY%)



Source: Macrobond, MIDFR

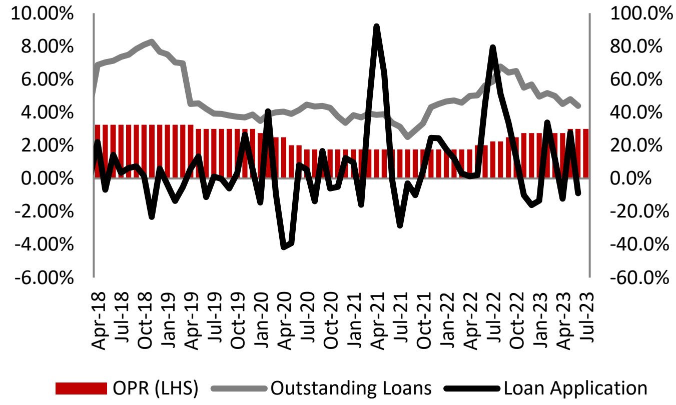
BNM remained status quo. BNM kept the Overnight Policy Rate (OPR) at 3.00%, in its fourth Monetary Policy Meeting of 2023. The OPR hike is in line with market expectations of zero change. In the Monetary Policy Statement, BNM highlighted that the global economy remains firm underpin by resilient domestic demand amid strong labour market conditions. Even though China's reopening seen supportive for global growth, yet the macro momentum in the second largest economy still below expectations. The global economy is still surrounded with downside risks, among others elevated cost pressures and higher interest rates. Central banks across the globe still embarking contractionary monetary policy as core inflation rate remains at elevated levels. We do not discount the possibility of another 25bps rate hike by BNM in 2HCY23 given that domestic economic figures still pointing upbeat momentum.

Chart 17: OPR (%) vs. Inflation (YoY%)



Source: Macrobond, MIDFR

Chart 18: OPR (%) vs Loans (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 we already priced in the effect of slowdown in external demand, we maintain our projection that the resilience in domestic demand, particularly consumer spending, on the back of positive job market 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 will gain from increased tourist arrivals, the manufacturing industry, on the other hand, will be impacted by weakness in global manufacturing and therefore subdued outlook for the export-oriented sub-sectors. Furthermore, factors that could derail external trade outlook will add more downward drag to manufacturing activities should it materialize, which include deterioration in geopolitical and trade tensions, persistently high global inflation, and further rise in borrowing costs as central banks raise interest rates to more restrictive levels.

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

July 2023 Key Economic Events

12 Jul: Brent Closes Above $80 for First Time Since April on Cooling CPI. Tighter supplies and slower US inflation helped crude break out of trading range it had been stuck in for about two months, with Brent crude closing above $80 a barrel for the first time since April. Production cuts from OPEC+ and slowing Russian flows overshadows 6 million barrel jump in US crude inventories. Slower-than-expected inflation and weaker dollar also eased worries more rate hikes could hurt demand.

Jul 18: Russia pulls out of Black Sea grain deal. Russia has formally withdrawn from a UN-brokered deal to export Ukrainian grain across the Black Sea, potentially imperilling tens of millions of tonnes of food exports around the world. President Vladimir Putin's spokesman, Dmitry Peskov, told reporters that the agreement had "essentially stopped" and Russia would no longer co-operate with the deal.

25 Jul: China to step up policy adjustments amid tortuous recovery. China's top leaders pledged to step up policy support for the economy amid a tortuous post-COVID recovery, focusing on boosting domestic demand, signalling more stimulus steps. The world's second-largest economy grew at a frail pace in the second quarter, raising pressure on policymakers to deliver more stimulus to shore up post-COVID recovery.

26 Jul: IMF edges 2023 global economic growth forecast higher, sees persistent challenges. IMF raised its 2023 global growth estimates slightly given resilient economic activity in the first quarter but warned persistent challenges were dampening the medium-term outlook. Inflation was coming down and acute stress in the banking sector had receded. Balance of risks facing the global economy remained tilted to the downside and credit was tight. IMF projected global GDP growth of 3.0% in 2023, up 0.2%-point from April forecast.

26 Jul: Fed lifts rates, Powell leaves door open to another hike in September. The Federal Reserve raised interest rates by 0.25%-point and Fed Chair Jerome Powell said the economy still needed to slow and the labor market to weaken for inflation to "credibly" return to the Fed's 2% target. The hike set the benchmark interest rate in 5.25%-5.50% range, last seen just prior to the 2007 housing market crash and which has not been consistently exceeded for about 22 years.

27 Jul: NETR to create investment opportunities of up to RM1.85t by 2050. The National Energy Transition Roadmap (NETR) launched today will open up investment opportunities of between RM435 billion and RM1.85 trillion by 2050, said Economy Minister Rafizi Ramli. This is expected from 10 wide-ranging catalytic initiatives to be introduced with the launch, which puts in motion recent policies announced by the Economy Ministry and the Natural Resources, Environment and Climate Change Ministry.

27 Jul: Govt initiates moves to get more women into the labour force, say PM Anwar. Affordable childcare centres are to be set up in a move to get more women to join the labour force, Prime Minister Datuk Seri Anwar Ibrahim said today. Announcing this as one of the initiatives of the Care Economy, he also said that the government would allocate RM10 million to facilitate the licencing of unregistered nurseries and childcare centres in the country.

27 Jul: Malaysia's MSME GDP surges 11.6% in 2022 to RM580.4bil -DOSM. Malaysia's micro, small and medium enterprises (MSME) achieved a Gross Domestic Product (GDP) growth of 11.6% in 2022, surpassing the national GDP growth of 8.7%, said the Department of Statistics Malaysia (DoSM). Chief statistician Datuk Seri Dr Mohd Uzir Mahidin said the surge showed the growing significance of MSMEs in driving economic expansion. "Contribution of MSMEs to the GDP also increased to 38.4% compared to 37.4% in 2021" he said.

27 Jul: Review of civil servant salaries to take 6-8 months: PM. The review of civil servants' salaries may take up to six and eight months, said Prime Minister Datuk Seri Anwar Ibrahim. He said the review of civil servants' salaries was last made in 2012. As such, it was his responsibility as the current country's prime minister to initiate another review for the purpose.

28 Jul: Government to pump in more than RM5 billion to kick off Madani Economy Framework. The government will pump in more than RM5 billion to kick off its Madani Economy Framework to enhance the economy and improve national competitiveness. The framework has lofty ambitions of positioning Malaysia as one of the top 30 major economies around the globe within 10 years.

28 Jul: No decision on petrol prices yet, says Rafizi. There have not been any discussions on petrol prices yet, said Economy Minister Rafizi Ramli. Commenting on a report by MIDF Research anticipating that the government would cut retail fuel prices, particularly the RON95 and diesel, Rafizi also said any decision on fuel prices would be made by the Finance Ministry as it involved subsidies.

28 Jul: Malaysia's average household income increased to RM8,479 in 2022, says Stats Dept. The average household income in Malaysia increased by 2.4% in 2022 to RM8,479 compared with RM7,901 in 2019, according to the Household Income and Household Expenditure Survey 2022. Median household income had increased moderately by 2.5% per year to RM6,338 in 2022 compared with RM5,873 in 2019.

31 Jul: Bursa Malaysia's net foreign inflow grows to RM637.8mil. Foreign purchases in the domestic market intensified over the past week to RM637.8mil net for a third straight week of net inflow. According to MIDF Research, the net inflows from foreign investors were more than RM100mil on each day between Tuesday and Friday, averaging RM164.1mil a day.

31 Jul: RM50mil allocated to expand Rahmah initiative, Salahuddin's brainchild, says PM. Putrajaya has allocated RM50mil to expand the Rahmah initiative in the country, says Prime Minister Datuk Seri Anwar Ibrahim. Anwar said the decision to expand the programme, which was the brainchild of the late former Domestic Trade and Cost of Living Minister Datuk Seri Salahuddin Ayub, was due to its success.

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