2 October 2023

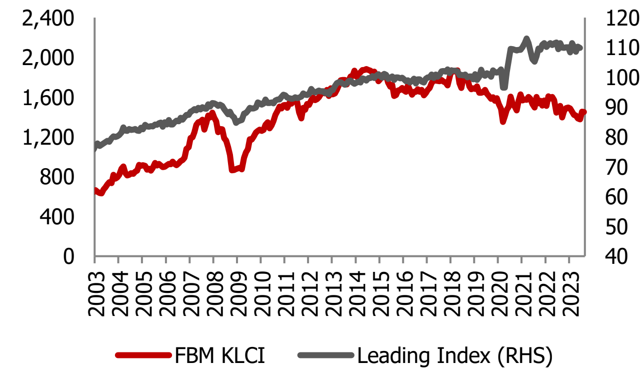
MONTHLY ECONOMIC REVIEW | September 2023

Growth Momentum Will Continue to be Moderate

- *LI fell slower at -0.9%yoy in Jul-23. Malaysia's Leading Index (LI) recorded the 5th straight month of contraction, albeit falling slower at -0.9%yoy (Jun-23: -2.1%yoy). With LI continued to fall, this signals moderate growth momentum will continue in the latter part of the year.*
- *Exports fell sharper in Aug-23. Exports contracted for the 6th straight month at a sharper pace of -18.6%yoy in Aug-23 (Jul-23: -13.0%yoy) due to high base effect and amid continued weakness in the external demand.*
- *Continued expansion in employment. Malaysia's labour market continued on improving trend with the unemployment rate remaining at post-pandemic low of 3.4% in Jul-23. Labour force and employment continued to expand at +1.9%yoy and +2.2%yoy, respectively.*
- *GDP to grow +4.2% this year. Although the weak LI reading indicates growth momentum will moderate in the short run, we maintain our projection that Malaysia's economy will grow at +4.2% this year, moderating from the strong growth last year. Domestic economic activities will be the main driver of growth this year.*

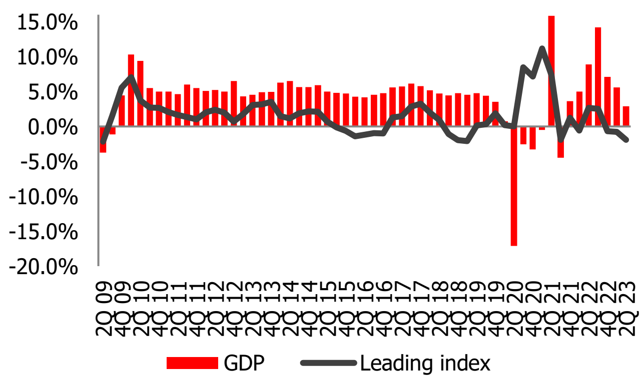
LI fell slower at -0.9%yoy in Jul-23. Malaysia's Leading Index (LI) recorded the 5th straight month of contraction, albeit falling slower at -0.9%yoy (Jun-23: -2.1%yoy). While *real imports of semiconductors* and *real imports of other basic precious & other non-ferrous metals* continued to fall at double-digit pace of -17.4%yoy and -24.3%yoy, respectively, the increase in *number of housing units approved* was the main contributor to the slower fall in LI. From month-to-month perspective, LI fell faster at -0.7%mom (Jun-23: -0.5%mom) due to decreases in all LI components, excluding *Bursa Malaysia industrial index* and *expected manufacturing sales value*. The Coincident Index (CI), on the other hand, continued to rise by mainly due to higher *real EPF contributions*. As inflation eased further, increased *volume of retail trade* contributed to the monthly rebound in CI (+0.2%mom; Jun-23: -0.9%mom). With LI continued to fall, this signals moderate growth momentum will continue in the latter part of the year. The trend in CI, on the other hand, still points to the strength in domestic demand which continued to drive growth amid weakness in the international trade.

Chart 1: Leading Index vs KLCI (Points)



Source: Macrobond, MIDFR

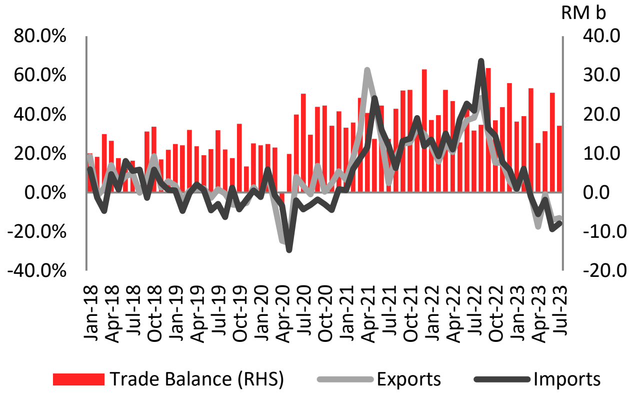
Chart 2: Leading Index vs GDP (YoY%)



Source: Macrobond, MIDFR

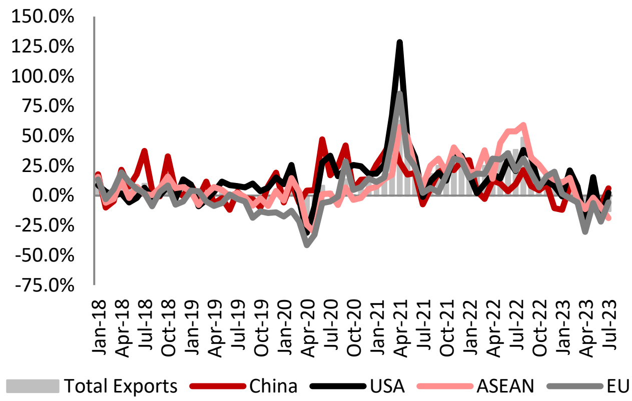
Exports fell sharper in Aug-23. Exports contracted for the 6th straight month at a sharper pace of -18.6%yoy in Aug-23 (Jul-23: -13.0%yoy). Apart from the overall weakness in global demand, the sharper contraction was also due to the high base effect. Re-exports declined sharper at -33.5%yoy (Jul-23: 13.3%yoy), falling for the 3rd month; while domestic exports contracted further at -13.8%yoy (Jul-23: 13.0%yoy). Slightly more than 75% of the source of decline in total exports in Aug-23 was due to the reduction in exports of E&E, crude and refined petroleum products and palm & oil and palm oil-based products. Compared to Jul-23, exports fell by -1.4%mom due to weaker exports of manufactured goods, particularly E&E and optical & scientific equipment. As exports fell further in Aug-23, we foresee the weakness in external trade will continue in 2HCY23. Nevertheless, a possible recovery in the global E&E exports could lend support to trade performance in the latter part of the year.

Chart 3: Exports & Imports (YoY%) vs Trade Bal. (RM b)



Source: Macrobond, MATRADE, MIDFR

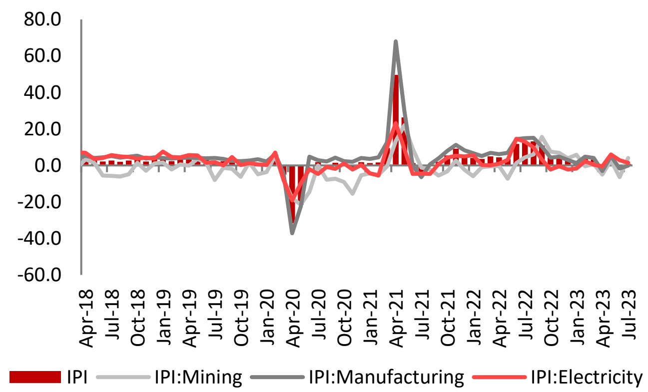
Chart 4: Exports Growth (YoY%) by Major Destination



Source: Macrobond, MATRADE, MIDFR

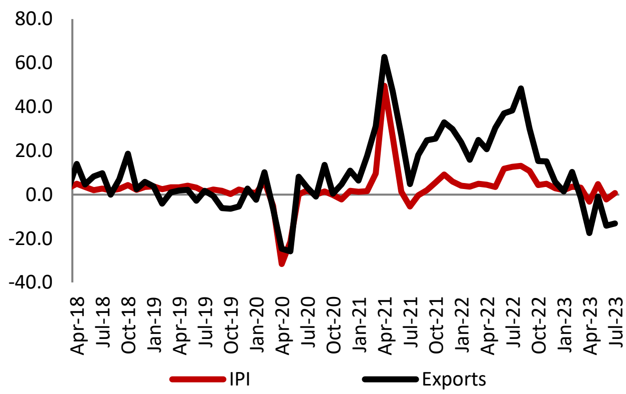
IPI growth rebounded to +0.7%yoy in Jul-23. Malaysia's IPI growth rebounded back to positive growth +0.7%yoy in Jul-23 (Jun-23: -2.2%yoy) following rebound in mining output and slower fall in manufacturing production. The rebound in mining output (+4.2%yoy) was mainly underpinned by a surge in crude petroleum production. Electricity generation continued to grow (+1.5%yoy), reflecting higher energy consumption during the month. Manufacturing output registered smaller decline (-0.2%yoy), supported by smaller decline in E&E output and stronger output of motor vehicles, chemicals & chemical products and computers & peripheral equipment.

Chart 5: IPI Performances by Sector (YoY%)



Source: Macrobond, MIDFR

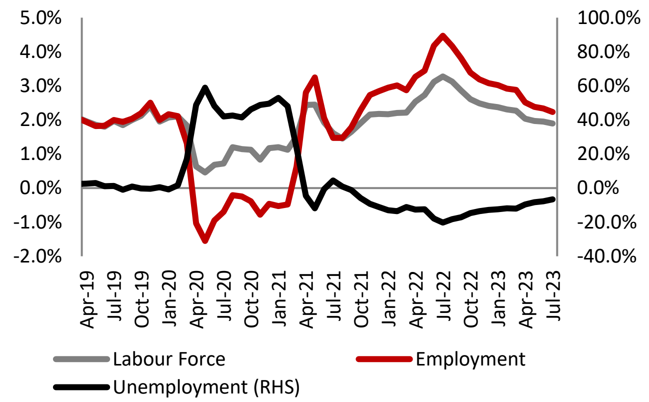
Chart 6: IPI vs Exports (YoY%)



Source: Macrobond, MIDFR

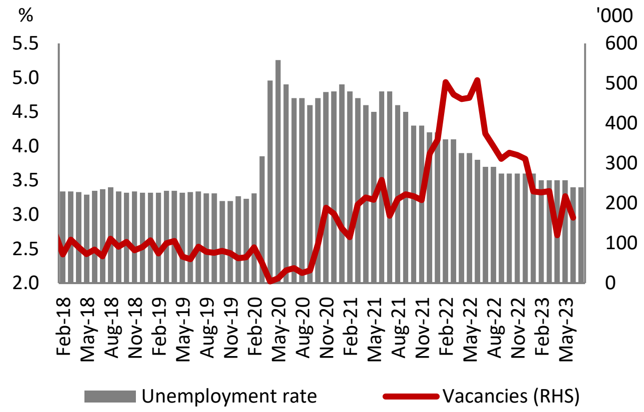
Continued expansion in employment. Malaysia's labour market continued on improving trend as unemployment rate remained at post-pandemic low of 3.4% in Jul-23. Labour force and employment continued expanding +1.9%yoy and +2.2%yoy, respectively, supported by upbeat domestic economic momentum. On monthly basis, employment grew +0.2%mom, marking the 25th straight months of positive gains. Unemployment dipped further by -6.7%yoy, marking the 23rd consecutive months of contraction rate. In addition, outside labour force declined by -0.3%yoy, having contracted for the 21st months in a row. For youth aged 15~24, unemployment rate hit a new post-pandemic low of 10.9% but remained higher than pre-pandemic (2019: 10.4%). By employment type, employee which made up about 75.4% of the employment grew steadily by +1.4%yoy while employer and own-account-worker increased by +4.7%yoy and +6.1%yoy respectively in Jul-23. In our view, the strengthening job market will support consumer consumption and overall GDP growth this year. However, we expect slight moderation in employment growth in 2HCY23 as external trade remained weak.

Chart 7: Labour Market Key Indicators (YoY%)



Source: Macrobond, MIDFR

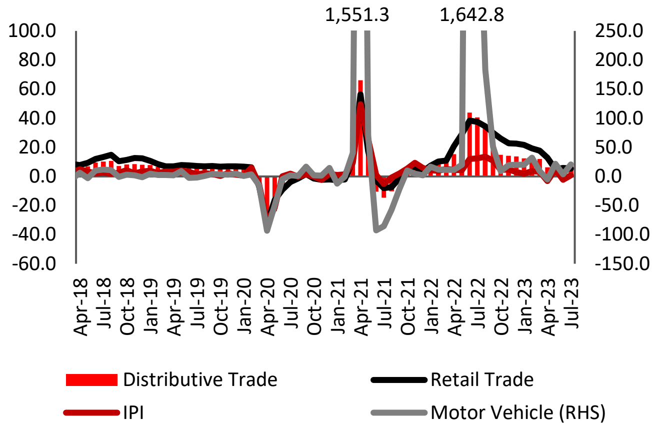
Chart 8: Unemployment Rate (%) vs. Job Vacancies



Source: Macrobond, MIDFR

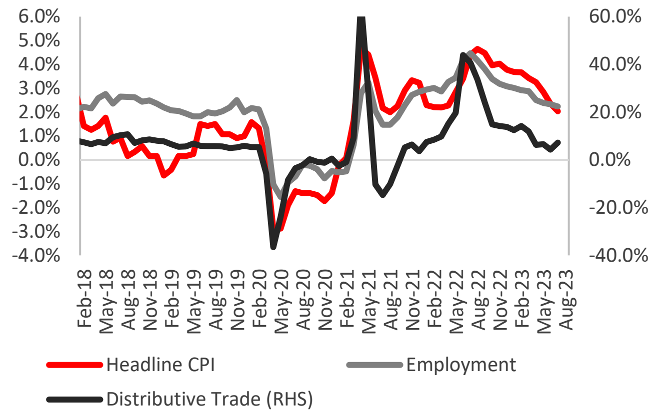
Distributive trade sales growth surged to 4-month high. Distributive trade grew by +7.2%yoy in Jul-23, marking the strongest pace since Apr-23. On monthly basis, non-seasonally-adjusted distributive trade increased by +0.9%mom while seasonally-adjusted figure improved by +2.3%mom (Jun-23: -2.2%mom). By component, sales of motor vehicles jumped by +20.5%yoy, wholesale trade growth at 4-month high +5.7%yoy and retail trade expanded steadily by +5.5%yoy. As for 7MCY23, distributive trade sales increased by +8.8%yoy (7MCY22: +19.7%yoy) while retail sales improved by +12.1%yoy (7MCY22: +21.6%yoy). Looking ahead, we foresee sanguine domestic outlook for 2HCY23 amid steady labour market, softening inflationary pressure, pick-up in tourism activities and supportive & accommodative economic policies from both fiscal and monetary sides.

Chart 9: Distributive Trade (DT) (YoY%)



Source: Macrobond, MIDFR

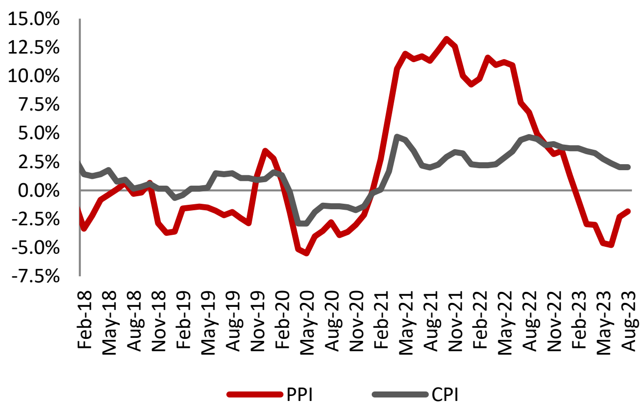
Chart 10: DT vs. CPI vs. Employment (YoY%)



Source: Macrobond, MIDFR

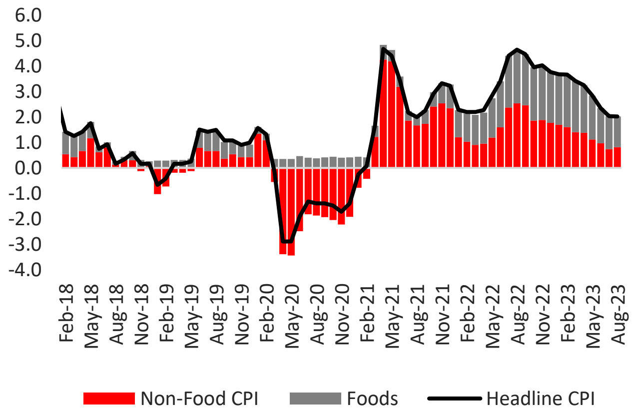
Headline inflation rate stabilized at +2.0%. Headline CPI inflation remained at 2-year low of +2.0%yoy in Aug-23. Inflation for non-food prices inched up slightly to +1.0%yoy while food price inflation softened to 16-month low at +4.1%yoy. The moderation of inflation among others was due to high base effect. Core inflation rate moderated further below +3.0% level at +2.5%yoy but it was still above pre-pandemic average of +1.7%. Average 8MCY23 headline inflation was +2.9% (2022: +3.4%) and core inflation rate was +3.4% (2022: +3.0%). On sequential month basis, headline and core inflation remained firm registering positive gains of +0.2%mom. The moderation of inflationary pressure is a positive signal especially for domestic demand to stay on expansionary path in 2HCY23. However, persistently high domestic food inflation would remain as main pressures to consumers as recent supply shortages could lead to even higher food prices.

Chart 11: Headline vs. Core CPI (YoY%)



Source: Macrobond, MIDFR

Chart 12: Food vs Non-Food CPI (YoY%)

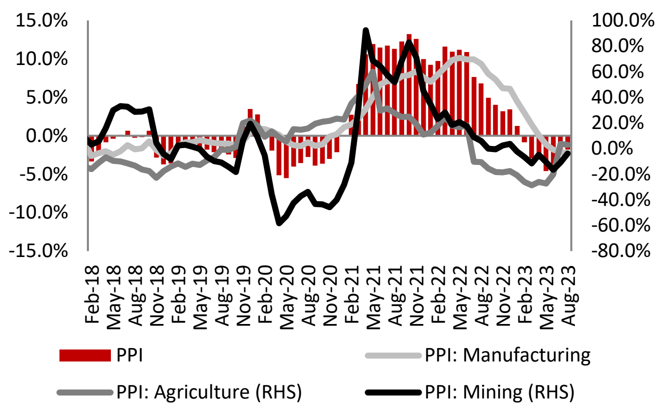


Source: Macrobond, MIDFR

PPI fell further in Aug-23 but at slower pace. Prices paid by producers continued to fall in Aug-23 for the 7th straight month i.e. since Feb-23. The deflation rate for producer price index, however, slowed to -1.8%yoy (Jul-23: -2.3%yoy). While PPI for the *agriculture, forestry & fishing* sector rose +2.9%yoy for the second month (Jul-23: +3.6%yoy), the deflation in the mining sector also slowed to +3.8%yoy (Jul-23: -10.8%yoy). The contraction in the manufacturing sector's PPI persisted for the 4th month with sharper fall of -2.3%yoy (Jul-23:

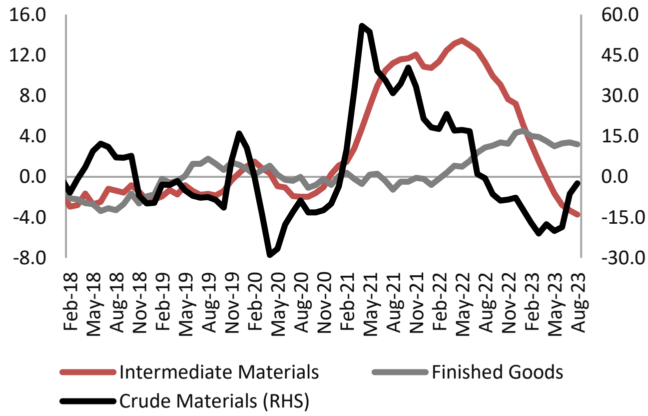
+2.1%yoy), the fastest decline since Feb-19. Looking at PPI by the stage of processing, the deflation in prices for *crude materials* was slower at -2.4%yoy (Jul-23: -6.3%yoy). Among the crude materials, prices of *non-food materials* fell slower due to both slower fall in crude fuel and higher inflation in non-fuel items. Prices of *foodstuffs and feedstuffs*, on the other hand, rose further albeit slower at +3.3%yoy (Jul-23: +6.6%yoy). Meanwhile, prices for *intermediate materials, supplies & components* deflated faster by -3.7%yoy in Aug-23, while prices for *finished goods* continued to increase but slightly slower at +3.2%yoy. On a month-on-month basis, PPI rose +0.3%mom (Jul-23: +0.2%mom), driven by the faster rise in PPI for agriculture and mining. With PPI falling further, this suggests CPI inflation will remain moderate. Although cost pressures have subsided, the short-term price outlook may be influenced by supply factors such as recent rise in crude oil prices and policy changes in other countries.

Chart 13: PPI by Sector (YoY%)



Source: Macrobond, MIDFR

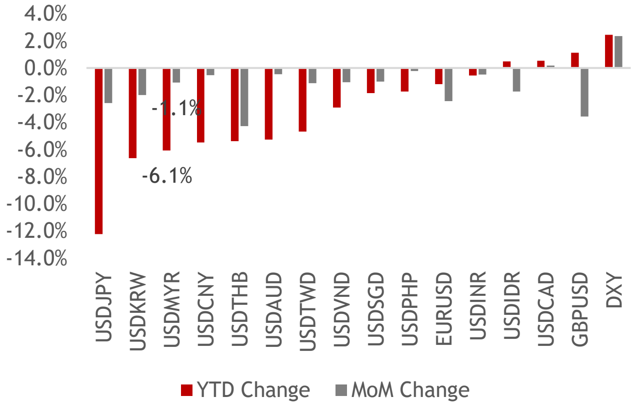
Chart 14: PPI by Processing Stage (YoY%)



Source: Macrobond, MIDFR

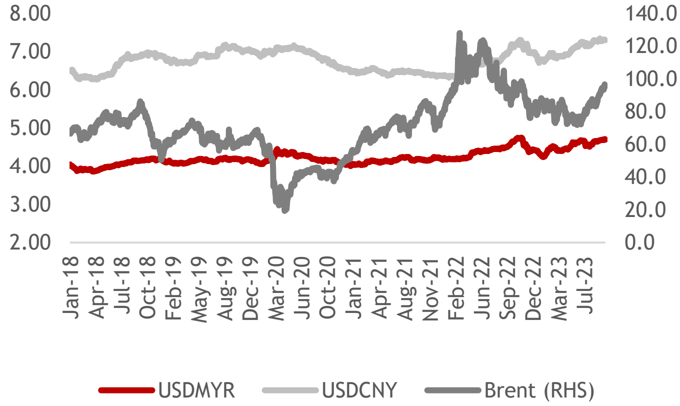
Delayed pause by Fed affected ringgit performance. Ringgit depreciated by -1.1% in Sep-23 weakening to RM4.689 at the end of the month (end-Aug-23: RM4.639). This makes ringgit as the third worst performing regional currencies after Japanese yen and South Korean won. In particular, the US dollar strengthened in Sep-23 following the Fed's signal of another rate hike later this year after the FOMC decided to maintain fed funds rate target at 5.25-5.50% at the Sep-23 FOMC meeting. This caused ringgit and other regional currencies to weaken. Market sentiment continued to be influenced by the developments in the financial market as the rally in crude oil prices failed to support ringgit, with Brent crude oil prices rising by +9.9%mom to USD95.43pb (end-Aug-23: USD86.86pb). We maintain our expectation for ringgit to strengthen as Fed approached the end of its tightening cycle. Without further narrowing of FFR-OPR differential, the rebalancing of fund flows towards emerging markets will benefit ringgit. We predict ringgit would end the year around RM4.30, some downgrade from RM4.24 previously as Fed kept its hawkish stance. As a result the full-year average for ringgit would be around RM4.48 (2022 average: RM4.40).

Chart 15: Monthly and YTD Ringgit Performance vs. Regional Currencies



Source: Macrobond, MIDFR

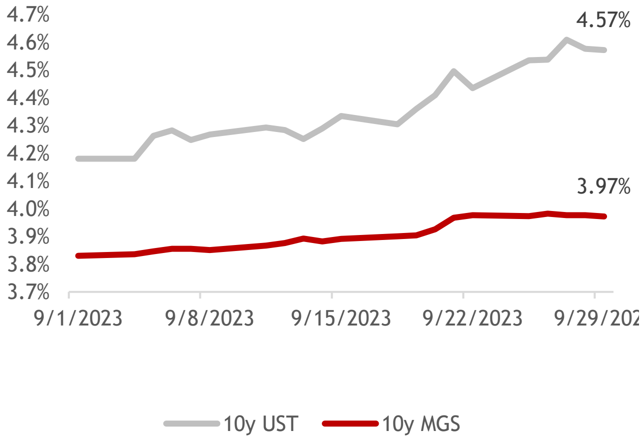
Chart 16: Movement of Malaysian Ringgit vs. Chinese Yuan and Brent Crude Oil Price (USD pb)



Source: Macrobond, MIDFR

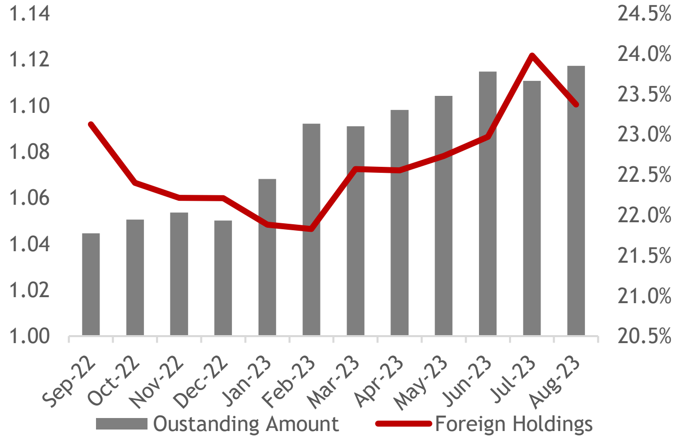
Yield for 10y MGS rose to 3.97% by end-Sep-23. Following the hawkish signal by the Fed, 10y MGS yield moved higher to 3.97% at end-Sep-23. The rate even touched 4.010% on 26th September, moving upward in line with the rise in the US treasury yields as market digested the possibility of another hike. We opine the recent rise was driven more by the external factors, as risk aversion triggered the flight toward the USD, demanding for higher returns for riskier assets. Following the decline in share of foreign holdings of government bond in Aug-23 to 23.4% (Jul-23: 24.0%), there is possibility for foreign share of of govvies to continued declining in Sep-23 after Fed's hawkish sentiment and fears of the US government shutdown which were only resolved near month end. In contrast, local equity market recorded a net purchase of +RM673.85m by foreign investors, the third straight month of net foreign inflows. Malaysia was also the only equity market which saw net inflows in Sep-23, out of the 8 Asian markets that we monitor. Going forward, we foresee 10y MGS yield to decline towards 3.77% as we expect no more hike by the hike and therefore no further widening of FFR-OPR differential to support more funds going into EM markets.

Chart 17: 10y MGS vs 10y UST Yields (%)



Source: Macrobond, MIDFR

Chart 18: Share of Foreign Holding (%) vs Outstanding MGS/MGII/Treasury Bills (RM t)



Source: Macrobond, MIDFR

GDP to grow +4.2% this year. Although the weak LI reading indicates growth momentum will moderate in the short run, we maintain our projection that Malaysia's economy will grow at +4.2% this year. This will be a moderation from the strong +8.7% growth in 2022, dragged down by the weak external demand and also due to the high base last year. Given the weakness in external front, domestic economic activities will be the main driver of growth this year. With manufacturing sector growth to be impacted by the external trade slowdown, outlook for the services and construction sectors will be supported by increased consumption and investment activities. The tourism sector recovery will also lend support to services sector growth, benefiting from the increased tourist arrivals and spending. Although inflation has moderated from the highs about a year ago, elevated inflation will be the risk that will affect consumer confidence and future spending plans. Moreover, we opine downside risks to growth outlook mostly will be from external developments such as more significant decline in external demand, escalation of geo-political tensions, disruptions and instability of supply chain and fluctuations in the commodity and financial markets.

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	5.3
Govt. Investment	(10.7)	(21.2)	(11.1)	5.3	7.6
Private Investment	1.6	(11.9)	2.7	7.2	7.3
Exports of goods & services	(1.0)	(8.6)	18.5	14.5	(5.3)
Imports of goods & services	(2.4)	(7.9)	21.2	15.9	(5.7)
Net Exports	11.2	(13.7)	(4.0)	(1.0)	(1.2)
Agriculture etc.	1.9	(2.4)	(0.1)	0.1	(0.1)
Mining & Quarrying	(0.6)	(9.7)	0.9	2.6	0.2
Manufacturing	3.8	(2.7)	9.5	8.1	1.4
Construction	0.4	(19.3)	(5.1)	5.0	7.5
Services	6.2	(5.2)	2.2	10.9	6.0
Exports of Goods (f.o.b)	(0.8)	(1.1)	26.1	25.0	(6.4)
Imports of Goods (c.i.f)	(3.5)	(5.8)	23.3	31.3	(6.9)
Trade Balance, RM b	145.7	183.3	257.2	253.7	244.9
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	2.2
Fiscal Balance, % of GDP	(3.5)	(6.3)	(6.5)	(5.2)	(4.9)
Federal Government Debt, % of GDP	52.4	62.1	63.4	60.3	60.6
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, Average	64.3	43.3	70.9	99.0	83.0
Crude Palm Oil, Average	2,079	2,781	4,437	5,094	3,800
USD/MYR, Average	4.14	4.20	4.14	4.40	4.48
USD/MYR, End-year	4.09	4.02	4.17	4.40	4.30
10y MGS Yield, Avg (%)	3.64	2.84	3.23	4.07	3.80
10y MGS Yield, End-year (%)	3.33	2.65	3.59	4.04	3.77
Overnight Policy Rate (%)	3.00	1.75	1.75	2.75	3.00

Source: Macrobond, DOSM, MIDFR

September 2023 Key Economic Events

6 Sep: Anwar proposes enhanced US economic ties with focus on trade, investment. PM Datuk Seri Anwar Ibrahim proposed further cooperation with the US, focusing on deeper economic collaboration through trade & investment framework agreement and broadened economic engagement. He emphasised the importance of supporting FDI, internationalising MSMEs, promoting green growth for climate sustainability, and ensuring efficient resource use and food security.

8 Sep: Restriction on sale of local white rice. To address the shortage of locally-produced rice, the government has implemented a restriction on the sale of local white rice, limiting purchases to 100kg per customer, says Datuk Azman Mahmood. The Agriculture and Food Security Ministry's Agricultural Industry Development Division secretary said purchase limit would be implemented until supply of local white rice stabilises.

11 Sep: Muda out, govt loses two-thirds majority. Muar MP Syed Saddiq Syed Abdul Rahman's decision to withdraw his support from the unity government has resulted in the government losing its two-thirds majority. Legal and constitutional expert Prof Dr Nik Ahmad Nik Mahmood said when the government loses two-thirds majority, it is a major obstacle in amending any federal constitution when necessary.

17 Sep: Zafrul: Malaysia saw RM132.6 bil approved investment in 1H2023, on track to hit annual target. The Ministry of Investment, Trade and Industry expects approved investment to record stronger growth in the 2H2023, on track to hit its annual target, after achieving RM132.6 billion worth of approved investment in the 1H2023.

19 Sep: Govt to bear more than RM100 bil in subsidies a year if oil reaches US$100. The government may have to bear more than RM100b in subsidies annually if crude oil price hits US$100 (RM468.20) a barrel, said Economy Minister Rafizi Ramli. He said the subject of targeted subsidy is unavoidable to strengthen the country's fiscal position.

22 Sep: Anwar meets with Google, Boeing, Medtronic and Siemens Healthineers executives in New York. Prime Minister Datuk Seri Anwar Ibrahim's efforts to attract investors to Malaysia continued with separate meetings with four giant companies, namely Google, Boeing, Medtronic and Siemens Healthineers. These companies also expressed their desire to expand their operations and business in Malaysia.

25 Sep: Steven Sim: Not the right time to bring back GST. The government is not disputing the GST, either in terms of its strengths or weaknesses, but rather the timing to implement it, said Deputy Minister of Finance II Steven Sim Chee Keong. The country is still in the recovery phase post-pandemic with various global economic challenges due to geopolitical unrest, so it is still not ready to implement the GST.

29 Sep: After Public Bank, Maybank says it too is waiving DuitNow QR charge indefinitely. Maybank has announced that it has no plans to impose transaction fees rate on vendors accepting payments via the DuitNow QR code platform for the time being. In an announcement today, the bank said this would continue until further notice.

6 Sep: No special approval for illegal foreign workers after December 2022, says Immigration director general. The Immigration Department has never issued special approvals under the Recalibration Programme (RTK) 2.0 to foreigners with illegal status after Dec 31, 2022, Immigration director general Datuk Ruslin Jusoh said. He said such approvals would violate the policy set by the government, when it introduced the RTK 2.0 programme on Jan 27 this year.

11 Sep: Anwar tables 12MP mid-term review, reveals extra RM15bil allocation. Prime Minister Datuk Seri Anwar Ibrahim has tabled the 12th Malaysia Plan (12MP) Mid-Term Review in the Dewan Rakyat here on Monday (Sept 11). A total of RM400bil was allocated for the 12th MP. However, Anwar said a further RM15bil will be added, bringing the total allocation for the government's five-year development plan to RM415bil.

14 Sep: China cuts bank reserve requirements to aid fiscal stimulus. PBOC cut the amount of cash lenders must hold in reserve for the second time this year to help banks support government spending to stimulate the slowing economy. PBOC lowered the reserve requirement ratio for most banks by 25 basis points. The weighted average RRR for banks will be 7.4% after the reduction.

19 Sep: Budget 2024 to focus on M40 group and SMEs. Budget 2024 will focus on the M40 group and small and medium enterprises (SMEs), says Steven Sim. The Deputy Finance Minister II said both groups are important because they contribute to the country's economy. Sim said the middle class needs assistance and to be empowered as many have been affected by the Covid-19 pandemic.

20 Sep: US Fed leaves interest rates unchanged, signals another hike. The United States Federal Reserve held interest rates steady but stiffened its hawkish stance, with another rate increase projected by the end of the year and monetary policy kept significantly tighter through 2024 than previously expected.

23 Sep: Mosti backs govt's decision to ban export of rare earth raw materials. The Science, Technology and Innovation Ministry (Mosti) backs the government's proposal to ban the export of rare earth raw materials that would guarantee maximum returns for the country. Its minister Chang Lih Kang said if the country were to export rare earth raw materials, it would not be able to help develop related industries.

25 Sep: Putrajaya wants to meet Indian govt over ban on export of non-basmati white rice. Putrajaya wants to meet with the Indian government over its ban on the export of non-basmati white rice, says Datuk Seri Mohamad Sabu. The Agriculture and Food Security Minister said his ministry is reaching out to its Indian counterpart to obtain a suitable date for a government-to-government meeting.

30 Sep: US Congress passes stopgap bill to avert government shutdown. The US Congress passed a stopgap funding bill late on Saturday with overwhelming Democratic support, after Republican Speaker Kevin McCarthy backed down from an earlier demand by his party's hardliners for a partisan bill. The Senate voted 88-9 to pass the measure to avoid the federal government's fourth partial shutdown in a decade.

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