2 January 2024

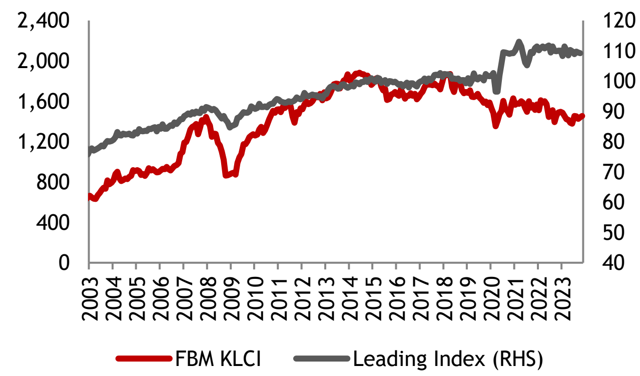
MONTHLY ECONOMIC REVIEW | December 2023

Growth Momentum for Malaysia's Economy is Expected to Improve

- *Leading index (LI) declined at the same pace of -0.2%yoy in Oct-23 (Sep-23: -0.2%yoy), marking the 8th month of contraction but the slowest fall since Mar-23. Growth momentum will pick up as the decline in Oct-23 was not as sharp as sharp as in the previous quarters.*
- *Exports fell sharper by -5.9%yoy in Nov-23 due to weakness in E&E shipments as well as sharper fall in exports to major destinations like China and the US.*
- *Malaysia's labour market remained strong as unemployment rate unchanged at post-pandemic low of 3.4% in Oct-23. Labour force and employment grew further albeit at moderating pace.*
- *Economy to grow at +4.2% in 2023 and +4.7% in 2024. The expected external trade recovery, together with sustained growth in domestic spending, will support Malaysia's economy to grow stronger at +4.7% in 2024.*

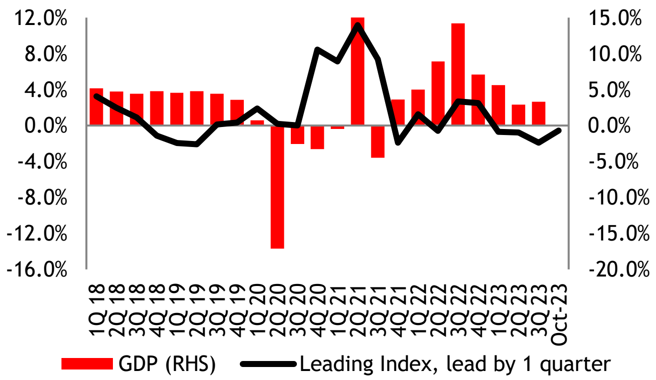
LI fell at the same pace of -0.2%yoy in Oct-23. Leading index (LI) declined at the same pace of -0.2%yoy in Oct-23 (Sep-23: -0.2%yoy), marking the 8th month of contraction but the slowest fall since Mar-23. The small decline in LI mainly explained by the continued weakness in *real imports of semiconductors*, but limited by increases in the *number of housing approved* and *number of new companies registered*. From month-to-month perspective, LI fell by -0.2%mom (Sep-23: -0.3%mom) due to decreases in *real imports of semicondutors, Bursa Malaysia Industrial Index* and *expected manufacturing sales value*. For the Coincident Index (CI), the index grew faster at +2.9%yoy (Sep-23: +2.1%yoy), the strongest growth in 5 months and signals better economic growth in the first month of 4QCY23. The stronger growth was mainly backed by increases in *real EPF contributions*. Compared to Sep-23, the CI rose further by +0.3%mom (Sep-23: +0.1%mom), underpinned by the higher improvement in all CI components except *retail trade volume*. We still view LI pointing towards improving growth momentum, as the decline in Oct-23 was not as sharp as -0.6%yoy contraction in 3QCY23 and -1.9%yoy in 2QCY23. In fact, the improvement in CI in Oct-23 also supports stronger growth momentum in 4QCY23.

Chart 1: Leading Index vs KLCI (Points)



Source: Macrobond, MIDFR

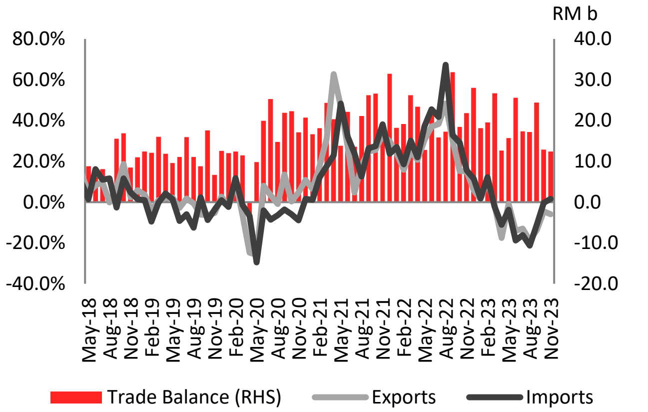
Chart 2: Leading Index vs GDP (YoY%)



Source: Macrobond, MIDFR

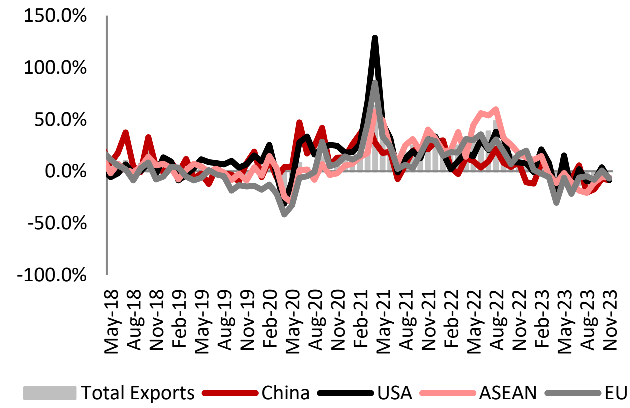
Exports fell sharper in Nov-23. Malaysia's total trade declined for the 9th month in a row, falling by -2.4%yoy in Nov-23, mainly underpinned by a sharper fall in exports, in contrast to imports, which rebounded and registered the first annual growth after 8 months of contraction. The weak exports also resulted in the trade surplus shrinking to RM12.4b, the smallest surplus in 3.5 years. Exports fell sharper by -5.9%yoy, extending the year-on-year contraction from Mar-23. The Nov-23 export performance was somewhat worse than expected due to weakness in E&E shipments as well as sharper fall in exports to major destinations like China and the US. The weakness was also reflected in the sharper drop in domestic exports (Nov-23: -7.4%yoy; Oct-23: -5.1%yoy), partly limited by the marginal rise in re-exports (Nov-23: +0.1%yoy; Oct-23: -2.2%yoy). On a month-on-month basis, exports decreased by -3.2%mom, primarily dragged down by lower exports of E&E products and other manufactured goods such as transport equipment and optical & scientific equipment. On the other hand, crude petroleum exports surged +45.6%mom but limited by -3.7%mom decline in refined petroleum products. Despite the weaker-than-expected performance in Nov-23, we still expect exports to pick up and recover going forward in view of improving regional trade performance in recent months.

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



Source: Macrobond, MATRADE, MIDFR

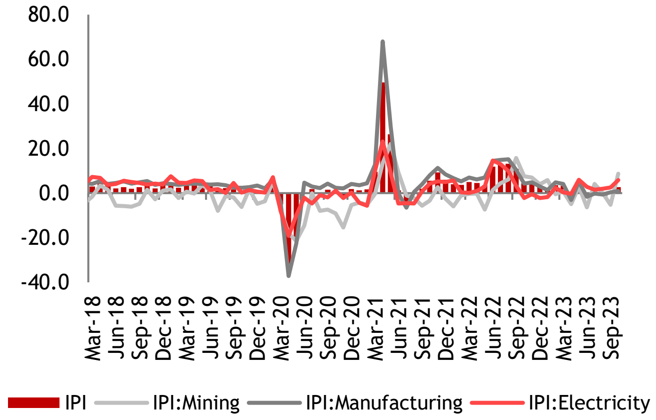
Chart 4: Exports Growth (YoY%) by Major Destination



Source: Macrobond, MATRADE, MIDFR

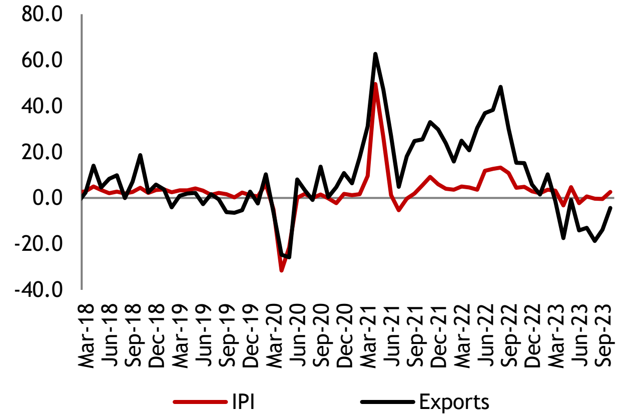
IPI fell by -0.5%yoy in Sep-23. Malaysia's IPI rose by +2.7%yoy in Oct-23 (Sep-23: -0.5%yoy), returning back to growth after 2 months of marginal declines. The Oct-23 IPI growth was in line with the better export performance, with a large share of output growth attributable to rebound in mining sector output (Oct-23: +8.7%yoy; Sep-23: -5.2%yoy), underpinned by higher production of crude petroleum and natural gas. Manufacturing output and electricity also recorded stronger output growth, rising by +0.9%yoy (Sep-23: +0.4%yoy) and +5.8%yoy (Sep-23: +2.5%yoy), respectively. The stronger electricity generation pointed to higher energy demand in line with growing economic activities. As expected, the stronger manufacturing output was mainly due to higher production in domestic-oriented sectors, although export-oriented sectors also reported slower IPI declines. We believe this will continue as growing demand from domestic and external markets will support IPI growth going forward.

Chart 5: IPI Performances by Sector (YoY%)



Source: Macrobond, MIDFR

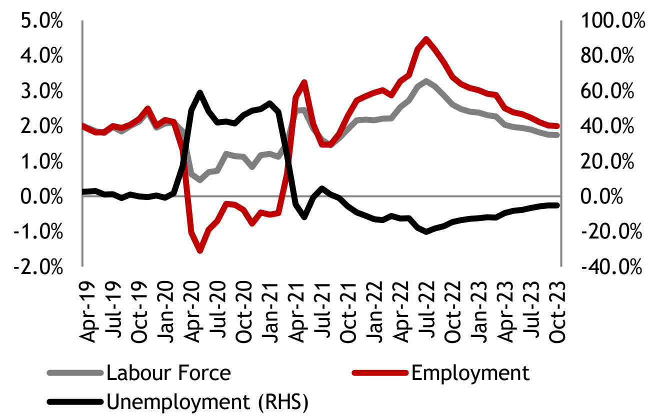
Chart 6: IPI vs Exports (YoY%)



Source: Macrobond, MIDFR

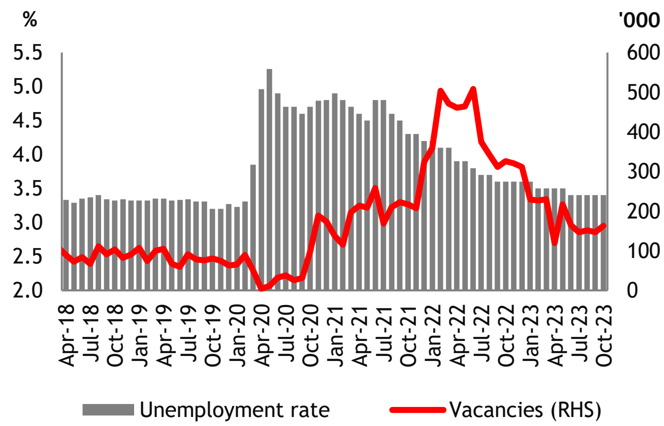
Strong labour market. Malaysia's labour market continued on improving trend as unemployment rate remained at post-pandemic low of 3.4% in Oct-23. Labour force and employment growth rates were still positive but continued to moderate to +1.7%yoy and +2.0%yoy, respectively, the slowest in 2 years. On month-on-month basis, employment grew +0.2%mom, marking the 28 straight months of positive gains. Unemployment dipped further by -5.2%yoy, marking the 26 consecutive months of contraction. The unemployed persons dropped further by -0.5%mom to 571K, still approximately 52K higher than average jobless persons 519K in 2019. For the youth aged 15~24, unemployment rate was slightly higher by +0.1% than pandemic-low of 10.6% (2019: 10.4%). By employment type, employee which made up about 75.5% of the employment as of 10MCY23 increased steadily by +1.2%yoy while employer (3.5% of employment) and own-account-worker (18% of employment) increased by +4.0%yoy and +5.3%yoy, respectively, in Oct-23. The strengthening job market in our view will further reinforce consumer consumption and support overall GDP growth for 4QCY23 and 2024.

Chart 7: Labour Market Key Indicators (YoY%)



Source: Macrobond, MIDFR

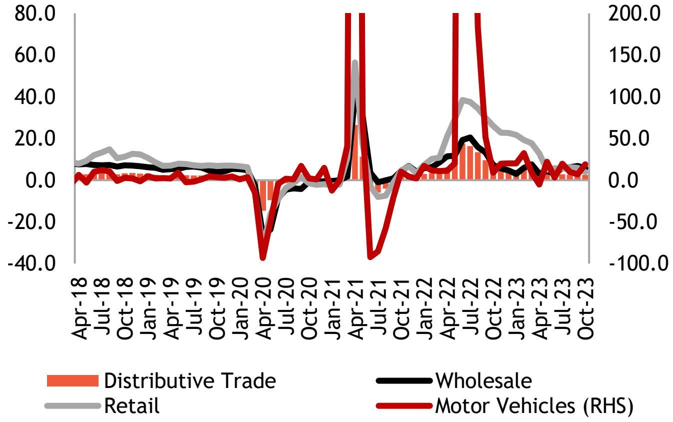
Chart 8: Unemployment Rate (%) vs. Job Vacancies



Source: Macrobond, MIDFR

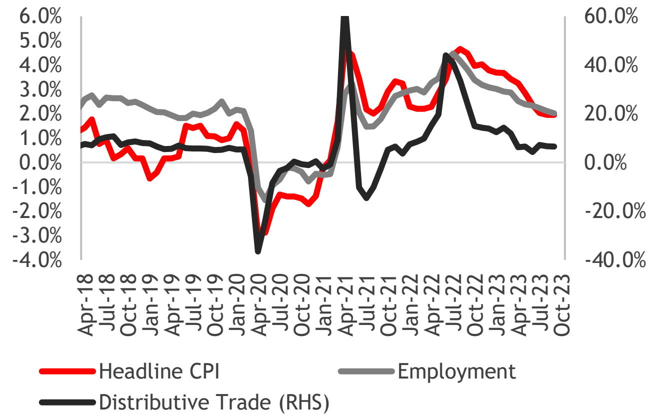
Retail trade growth rate almost at 2-year low. Retail trade grew by +3.9%yoy in Oct-23, the slowest expansion rate since Jan-22. On month-on-month basis, non-seasonally-adjusted retail trade fell by -0.8%mom. Overall distributive trade sales increased by +6.5%yoy but declined -0.3%mom. By component, sales of motor vehicles increased strongly by +19.1%yoy and wholesale trade rose by +5.7%yoy. In terms of seasonally-adjusted volume, distributive trade as well as retail trade and wholesale trade fell by -2.2%mom, -1.8%mom and -1.8%mom, respectively. Even though on a moderating trend, Malaysia's consumer demand remained resilient, in tandem with the healthy job market development and softening inflationary pressure. Looking ahead, we foresee sanguine domestic outlook for 4QCY23 onwards amid better pick-up in tourism activities and supportive & accommodative economic policies from both fiscal and monetary sides.

Chart 9: Distributive Trade (YoY%)



Source: Macrobond, MIDFR

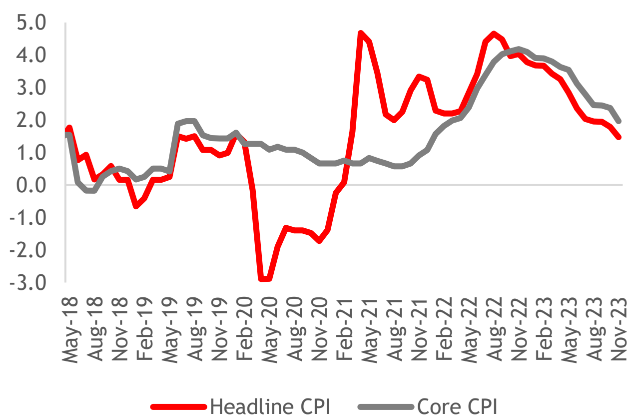
Chart 10: DT vs. CPI vs. Employment (YoY%)



Source: Macrobond, MIDFR

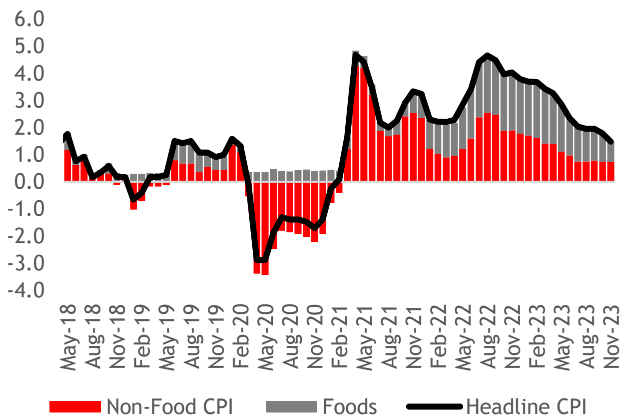
Inflation dipped close to 3-year low. Malaysia's headline inflation rate registered at +1.5%yoy in Nov-23, the lowest since Feb-21. Non-food inflation rate maintained at +0.9%yoy while food inflation rate dived to a 2-year low at +2.6%yoy. The softening inflationary pressure among others was due to high base effects, normalisation of global commodity prices and supportive fiscal policies. Core inflation rate recorded lower at +2.0%yoy yet still above pre-pandemic average of +1.7%. Average 11MCY23 headline inflation was +2.6% (2022: +3.4%) and core inflation rate was +3.1% (2022: +3.0%). The softening inflationary pressure is a positive signal especially for domestic demand to stay on expansionary path in 4QCY23 onwards. Also, the moderating trend of core CPI provides more reason for BNM to keep its OPR status quo in 2024.

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



Source: Macrobond, MIDFR

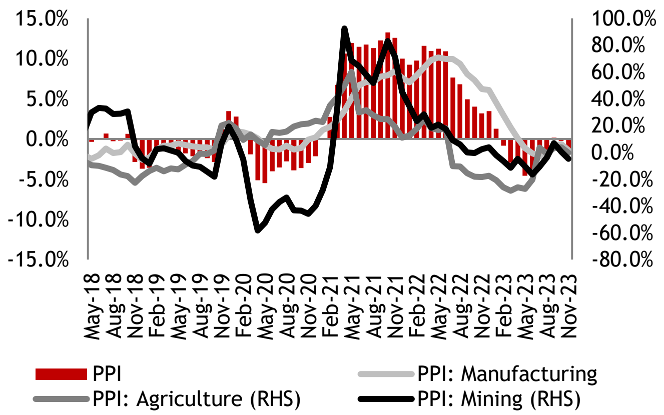
Chart 12: Food vs Non-Food CPI (YoY%)



Source: Macrobond, MIDFR

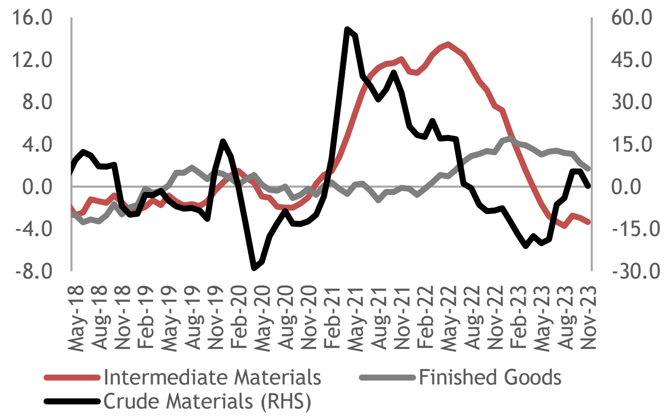
PPI deflated in Nov-23 for the second month. Malaysia producer prices deflated by -1.5%yoy in Nov-23 (Oct-23: -0.3%yoy) for the second month in a row. The deeper deflation rate was underpinned by steeper contraction in input costs for the manufacturing sector, which accounted for 81.6% of the weight in overall PPI. The manufacturing sector's PPI shrank faster by -1.4%yoy (Oct-23: -0.7%yoy), marking the 7 straight months of deflation. By stage of processing, prices for intermediaries (weight: 56.1% of PPI) also registered a faster contraction of -3.4%yoy (Oct-23: -3.0%yoy). In contrast, PPI inflation for crude materials moderated steeply to +0.3%yoy (Oct-23: +5.3%yoy). Against the previous month, the PPI contracted faster at -0.7%mom (Oct-23: -0.3%mom), registering 2 consecutive months of monthly deflation. We believe easing cost pressures contributed to the moderation in price pressures and the overall CPI inflation in the recent months. Although the recent PPI deflation suggests cost pressures remained under control, future prices may be influenced by the planned subsidy rationalisation and other policy changes. On that note, we foresee upside risks to CPI inflation could come from price pressures due to supply side adjustments; local businesses may opt to increase selling prices to cope with rising costs.

Chart 13: PPI by Sector (YoY%)



Source: Macrobond, MIDFR

Chart 14: PPI by Processing Stage (YoY%)

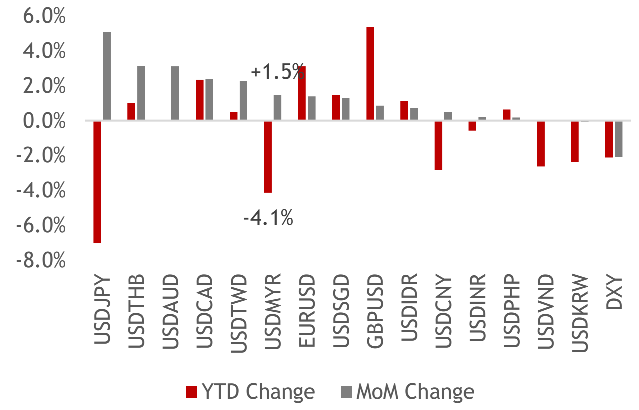


Source: Macrobond, MIDFR

Ringgit appreciated further in Dec-23. Malaysian ringgit appreciated +1.5%mom to RM4.594, gaining on the weakness in US dollar. This makes ringgit as one of the best performing regional currencies after Thai baht's +3.1%mom appreciation during the month. Looking at the monthly average, the ringgit registered another monthly appreciation of +0.6%mom to RM4.659. Economic fundamentals remained supportive of the ringgit as domestic demand continued its resilience, supported by a robust labour market and sustained moderation in consumer inflation. Aside from the weakening dollar, the ringgit also benefitted from more encouraging economic releases in China, being one of the main trading partners for Malaysia. Ringgit's appreciation during the month was more influenced by expectations for policy easing by the Fed as movement in the commodity prices was not supportive of ringgit as Brent crude oil prices plunged -7.0%mom to USD77.04pb by end-Dec-23 (or -5.6%mom to USD77.41 on average). Moving forward, the recent decline in US Treasury yields signalled subsiding demand for greenback and resumed interest into riskier asset classes in anticipation of the Fed to cut interest rates in 2024. Hence, the ringgit and other regional currencies are seen to benefit from more fund flows going into EMs and recovery in the regional trade performance, partly underpinned by sustained growth in China's economy.

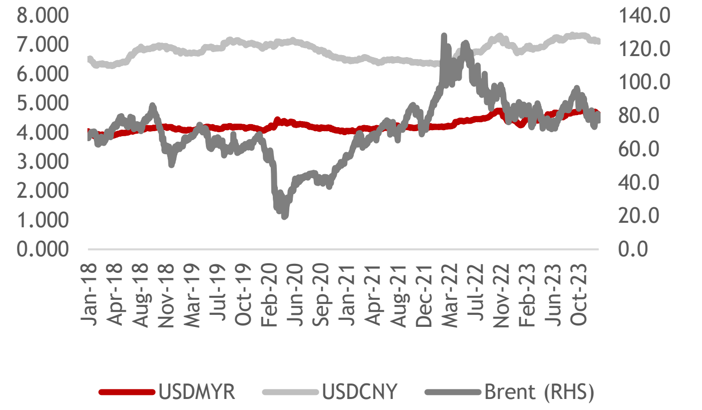
Hence, we foresee the ringgit will continue to appreciate in 2024 and to end the year at RM4.20. Nevertheless, we remained cautious of the downside biases, including escalating geopolitical tensions, possible recession risk in the US and continued weakness in the global trade and manufacturing activities.

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



Source: Macrobond, MIDFR

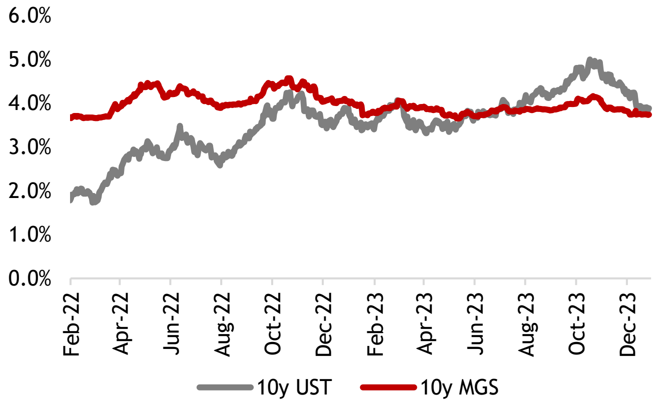
Chart 16: Movement of Malaysian Ringgit vs. Chinese Yuan and Brent Crude Oil Price (USD pb)



Source: Macrobond, MIDFR

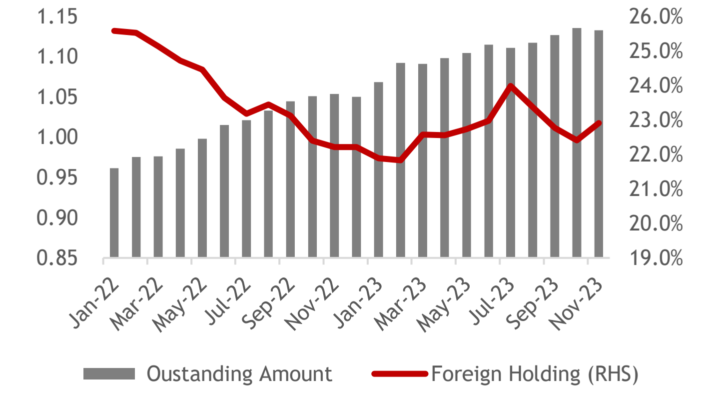
MGS's 10-year yield ended the year around the expected level. The yield for the benchmark 10y MGS declined by -9bps to 3.73% in Dec-23 (Nov-23: 3.82%), slightly lower than our year-end target of 3.77%. We believe the lower yields closed tracked the decline in US treasury yields and supported by more inflows into the debt market during the month. In terms of foreign holding of Malaysian bonds, the latest data as of Nov-23 registered an increase to RM272.3b (Oct-23: RM267.2b), ending 2 consecutive months of decline. As a result, the share of foreign holdings of govvies, which stood at RM259.5b, pushing the share of foreign holdings to 3-month high of 22.9% (Oct-23: 22.4%). We foresee the domestic bond market will continue to perform in 2024 on narrowing FFR-OPR spread as the Fed is expected to cut interest rates vis-à-vis no change in OPR throughout the year. Moreover, we expect domestic bonds to rally underpinned by increased foreign holdings on returning appetite for riskier assets. On that note, we foresee the MGS 10-year yield to move lower in 2024 and to end the year at 3.60%.

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

Economy to grow at +4.2% in 2023 and +4.7% in 2024. Given the relatively marginal fall in LI which still pointed to improving growth momentum in the coming months, we maintain our projection that Malaysia's economy would record growth at +4.2% in 2023. The growth will be mainly driven by sustained growth in domestic spending, backed by healthy labour market and recovery in tourism activity as well as tourist spending. Going forward, the expected recovery in external trade, together with the sustained growth in domestic spending, will support Malaysia's economy to grow stronger at +4.7% in 2024. However, several downside risks such as escalation of geo-political tensions, another round of supply disruptions, fluctuations in the commodity and financial markets, and the risk of recession in the US could hurt external demand and overall growth outlook. We are also wary of the effects of high imported inflation and the government's policy changes on consumer prices, which will pose adverse impacts to consumer purchasing power as well as the overall spending outlook.

Table 1: Macroeconomic Past Performances (%)

(YoY%) Unless Stated Otherwise	2020	2021	2022	2023f	2024f
Real GDP	(5.5)	3.3	8.7	4.2	4.7
Govt. Consumption	4.1	6.4	4.5	3.0	2.5
Private Consumption	(3.9)	1.9	11.2	5.0	4.8
Gross Fixed Capital Formation	(14.4)	(0.8)	6.8	7.4	5.3
Govt. Investment	(21.2)	(11.1)	5.3	9.0	4.5
Private Investment	(11.9)	2.7	7.2	7.0	5.5
Exports of goods & services;	(8.6)	18.5	14.5	(7.7)	4.1
Goods Exports	(0.7)	21.4	11.1	(12.8)	3.1
Services Exports	(47.8)	(8.2)	56.8	38.0	10.0
Imports of goods & services;	(7.9)	21.2	15.9	(8.3)	3.6
Goods Imports	(3.6)	23.8	14.6	(13.0)	2.9
Services Imports	(25.3)	7.7	23.9	18.0	6.4
Net Exports	(13.7)	(4.0)	(1.0)	0.0	10.6
Agriculture etc.	(2.4)	(0.1)	0.1	0.3	1.5
Mining & Quarrying	(9.7)	0.9	2.6	0.5	3.5
Manufacturing	(2.7)	9.5	8.1	1.3	4.0
Construction	(19.3)	(5.1)	5.0	7.0	5.5
Services	(5.2)	2.2	10.9	6.0	5.5
Exports of Goods (f.o.b)	(1.1)	26.1	24.9	(7.6)	5.2
Imports of Goods (c.i.f)	(5.8)	23.3	31.0	(7.0)	4.4
Headline CPI Inflation (%)	(1.1)	2.5	3.4	2.7	3.2
Current Account, % of GDP	4.2	3.9	3.1	2.2	2.6
Fiscal Balance, % of GDP	(6.2)	(6.4)	(5.6)	(5.2)	(4.7)
Federal Government Debt, % of GDP	62.0	63.2	60.3	61.9	62.3
Unemployment Rate (%)	4.48	4.58	3.82	3.50	3.30
Brent Crude Oil (Avg), USD per barrel	41.6	71.5	102.0	82.2	84.0
Crude Palm Oil (Avg), MYR per tonne	2,775	4,486	5,262	3,813	3,600
USD/MYR (Avg)	4.20	4.14	4.40	4.56	4.38
USD/MYR (End-period)	4.02	4.17	4.35	4.59	4.20
MGS 10-Yr Yield (Avg)	2.84	3.23	4.07	3.86	3.68
MGS 10-Yr Yield (End-period)	2.65	3.59	4.04	3.73	3.60
Overnight Policy Rate (%)	1.75	1.75	2.75	3.00	3.00

Source: Macrobond, DOSM, MIDFR

December 2023 Key Economic Events

1 Dec: OPEC+ agrees to deepen voluntary oil output cuts. OPEC+ oil producers on Thursday agreed to voluntary output cuts totalling about 2.2 million barrels per day (bpd) for early next year led by Saudi Arabia rolling over its current voluntary cut. Benchmark global oil prices settled down around 2% , in part because the reductions were voluntary and because of investor expectation ahead of the meeting that additional supply cuts might be deeper.

4 Dec: Ringgit to improve on better fundamentals, with fed fund rate seen to peak: BNM DG. Regional currencies including the ringgit are expected to do better against the US dollar in the coming year, backed by news and indicators that the US federal fund rate is possibly close to a peak. BNM deputy governor Adnan Zaylani Mohamad Zahid said Malaysia's fundamentals are also looking positive.

5 Dec: Fitch affirms Malaysia's sovereign credit rating at BBB+ with stable outlook. Fitch Ratings has affirmed Malaysia's long-term foreign-currency issuer default rating (IDR) at BBB+ with a stable outlook. The ratings agency said Malaysia's ratings "balance a diversified economy with strong medium-term growth prospects against high public debt, a low revenue base relative to operating expenditure, and political considerations that may hinder long-term policymaking and reform implementation".

6 Dec: COP28: Lack of transparency in climate finance impedes developing countries. The poor mobilisation and lack of transparency in climate finance have impeded developing nations from achieving mitigation and adaptation initiatives for climate change, said Local Government Development Minister Nga Kor Ming. He said climate change is a global problem that needs a global commitment to immediately hammer out a transition plan to use renewable energy and help fund vulnerable nations.

12 Dec: Cabinet reshuffle set to enhance unity govt's performance in 2024. With only 20 days remaining until 2024, Prime Minister Datuk Seri Anwar Ibrahim announced today the first Cabinet reshuffle, aimed at strengthening the unity government's administration in line with current demands and situation. During the press conference, Anwar said the Cabinet reshuffle was necessary to address every change in terms of economic development and issues affecting the people, including the cost of living.

12 Dec: Dewan Negara passes Supply Bill 2024. The Dewan Negara has unanimously passed the Supply Bill 2024 after eight days of debate and winding-up following its presentation by Prime Minister Datuk Seri Anwar Ibrahim in Dewan Negara on Nov 29. Dewan Negara Speaker Tan Sri Dr Wan Junaidi Tuanku Jaafar announced the matter after the Bill's third reading on Tuesday (Dec 12). The Bill involves an allocation of RM393.8bil and is the biggest budget ever tabled in the country's history.

12 Dec: Four committees to be formed to work out Progressive Wage implementation. Four working committees will be formed to support the Special Cabinet Committee and Implementation Executive Committee on Progressive Wage Policy, focusing on policy development, system development, skills upgrading, and annual salary increase guide.

13 Dec: Health Ministry tells Malaysians to mask up again as Covid-19 cases jump. The Health Ministry is telling Malaysians to mask up again and resume Covid-19 prevention measures after reported Covid-19 cases in the country nearly doubled in a week to 12,757 cases last week (Dec 3 to 9), from 6,796 cases in the prior week (Nov 26 to Dec 2).

13 Dec: Fed holds rates steady, indicates three cuts coming in 2024. The Federal Reserve on Wednesday held its key interest rate steady for the third straight time and set the table for multiple cuts to come in 2024 and beyond. With the inflation rate easing and the economy holding in, policymakers on the Federal Open Market Committee voted unanimously to keep the benchmark overnight borrowing rate in a targeted range between 5.25%-5.5%.

15 Dec: China's economy is forecast to slow sharply in 2024, the World Bank says, calling recovery 'fragile'. China's economy will slow next year, with annual growth falling to 4.5% from 5.2% this year despite a recent recovery spurred by investments in factories and construction and in demand for services, the World Bank said in a report. "The outlook is subject to considerable downside risks," the report said.

17 Dec: 10% tax on online purchases only applicable for imported goods under RM500. The 10% sales tax on online purchases is only applicable to imported goods valued under RM500, said Communications Minister Fahmi Fadzil. He said this is to enhance the competitiveness of local products which are not affected by the tax when bought online.

25 Dec: Shah Alam City Council grants permission for demolition of Shah Alam Stadium, says Selangor MB. The demolition process of Shah Alam Stadium for the reconstruction of the new Shah Alam Sports Complex (KSSA) is expected to be carried out soon. This follows approval by the Shah Alam City Council (MBSA) for the KSSA development last Friday (Dec 22), recently confirmed by Menteri Besar Datuk Seri Amirudin Shari.

28 Dec: Malaysia's FDI grows by RM14.9 bil in 3Q with the help of CPTPP: Tengku Zafrul. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership helped to boost foreign direct investment into the country, with Malaysia's cumulative FDI rising by RM14.9 billion to RM914.9 billion at the end of third quarter 2023. Minister Tengku Datuk Seri Zafrul Abdul Aziz said FDI from Japan increased by RM4 billion while that from Australia rose by RM1 billion in comparison with 2022.

29 Dec: Red Sea shipping workarounds add costs, delays for suppliers, retailers. Toymaker Basic Fun's team that oversees ocean shipments of Tonka trucks and Care Bears for Walmart and other retailers is racing to reroute cargo away from the Suez Canal following militant attacks on vessels in the Red Sea. Suppliers for the likes of IKEA, Home Depot, Amazon and retailers around the world are doing the same, grappling with the biggest shipping upheaval since the COVID-19 pandemic.

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