2 February 2024

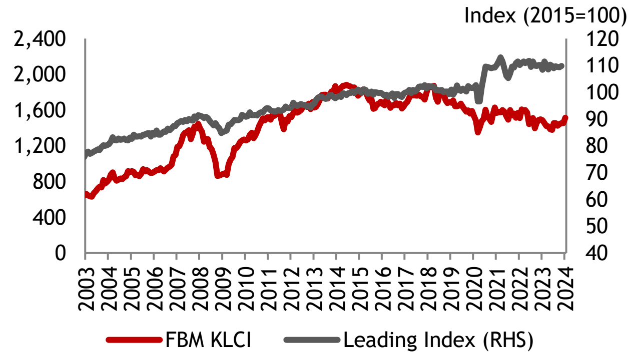
MONTHLY ECONOMIC REVIEW | January 2024

Growth Momentum to Improve Despite Modest Growth in 4QCY23

- *LI fell by -0.2%yoy in Nov-23. Leading index (LI) fell marginally by -0.2%yoy in Nov-23 (Oct-23: -0.1%yoy), the 9th straight month of contraction. From month-on-month perspective, LI rose by +0.5%mom.*
- *Malaysia's economy grew at +3.4% in 4QCY23. Based on advance estimate, Malaysia's economy grew at modest pace of +3.4%yoy in 4QCY23, only marginally faster than +3.3%yoy in 3QCY23.*
- *Exports fell sharper in Dec-23. Exports fell sharper by -10%yoy (Nov-23: -6.1%yoy), mainly due to sharper fall in re-exports, in contrast to relatively slower fall in domestic exports.*
- *Economy to grow stronger at +4.7% in 2024. Given the relatively marginal fall in LI in Oct-23 and Nov-2023 which still pointed to improving growth momentum in the short run, for now we are keeping our projection that Malaysia's economy will grow stronger at +4.7% this year (2023e: +3.8%).*

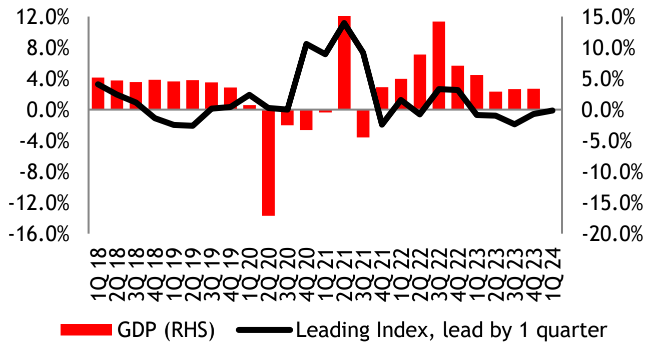
LI fell by -0.2%yoy in Nov-23. Leading index (LI) fell marginally by -0.2%yoy in Nov-23 (Oct-23: -0.1%yoy), the 9th straight month of contraction. Decreases in *approved housing units* and *real imports of semiconductors* were limited by continued growth in *Bursa Malaysia Industrial Index*, which remained positive since May-23. From month-on-month perspective, LI rose by +0.5%mom (Oct-23: -0.1%mom), the first monthly increase after 2 months of contraction, underpinned mainly by higher *real imports of semiconductors*. For the Coincident Index (CI), the index increased further by +2.6%yoy (Oct-23: +2.9%yoy), expanding for the 27th straight month. The stronger CI growth of +2.8%yoy in the 2 months to Nov-23 (3QCY23: +2.1%yoy) was also reflected in the slight strengthening of GDP growth in 4QCY23, according to advance estimate. Continued CI growth was due to increases in all components, especially *real EPF contributions*. Compared to Oct-23, the CI declined by -0.3%mom (Oct-23: +0.3%mom), the first drop in 5 months dragged down by all components except *real salaries & wages in the manufacturing sector*. Despite the still modest GDP growth in 4QCY23, based on the trend in both LI and CI, we expect Malaysia's economy will continue to grow anchored by a sustained rise in domestic spending and also supported by the expected recovery in external demand.

Chart 1: Leading Index vs KLCI (Points)



Source: Macrobond, MIDFR

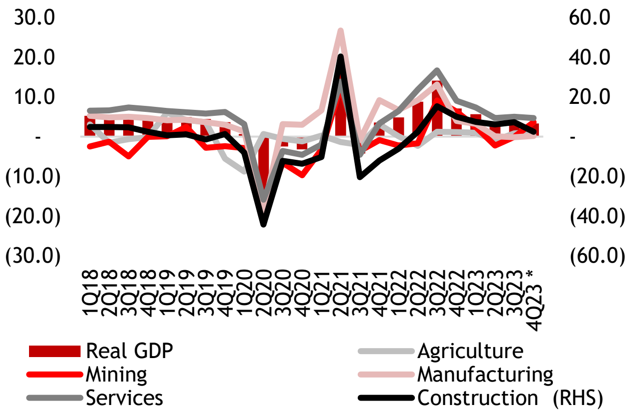
Chart 2: Leading Index vs GDP (YoY%)



Note: LI for 4QCY23 refers to Oct-Nov 2023.
Source: Macrobond, MIDFR

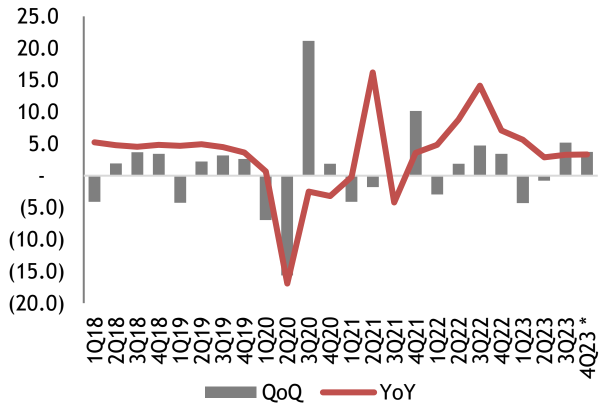
Malaysia's economy grew at +3.4% in 4QCY23. Based on advance estimate, Malaysia's economy grew at modest pace of +3.4%yoy in 4QCY23, only marginally faster than +3.3%yoy in 3QCY23. In terms of the sector breakdown, growth in the manufacturing sector was sluggish at only +0.1%yoy (3QCY23: -0.1%yoy), dragged down by weak production of E&E, petroleum, and rubber & plastic products. This was in line with the still weak export performance, compared to a year ago. In addition, growth in the construction sector moderated to +2.5%yoy (3QCY23: +7.5%yoy), the slowest expansion in 6 quarters, due to reduction in the non-residential segment and specialised construction activities. The services sector also registered marginally slower growth at +4.7%yoy (3QCY23: +5.0%yoy), but the sustained rise reflected continued growth in domestic spending during the quarter. In contrast, the primary sectors i.e. agriculture and mining & quarrying expanded faster at +1.2%yoy (2QCY23: +0.8%yoy) and +3.7%yoy (3QCY23: -0.1%yoy), respectively. The growth in the agriculture sector was driven by increased output in the oil palm, other agriculture and livestock sub-sectors; while higher production of natural gas and crude petroleum & condensates contributed to the rebound in mining sector growth. For the full year 2023, (based on the advanced estimate) Malaysia's GDP growth moderated to +3.8%, below our estimate due to weakness in external trade and manufacturing activities. Overall growth continued to be driven by sustained rise in domestic demand.

Chart 3: GDP Growth by Major Sector (YoY%)



* Refers to advance estimate based on data in Oct-Nov 2023
Source: Macrobond, MIDFR

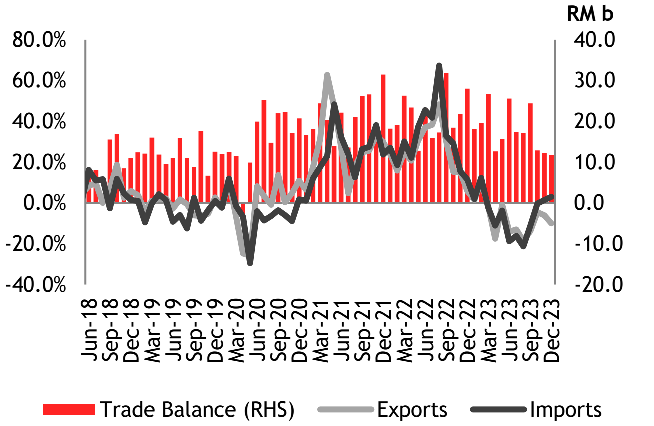
Chart 4: GDP Growth: YoY% vs. QoQ%



* Refers to advance estimate based on data in Oct-Nov 2023
Source: Macrobond, MIDFR

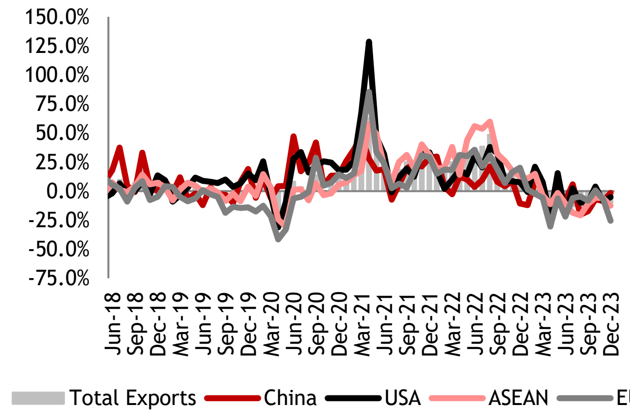
Exports fell sharper in Dec-23. Malaysia's total trade declined sharper at -4.3%yoy in Dec-23, falling for the 9th consecutive month. The decline mainly reflected the continued fall in exports vis-à-vis rising imports, which expanded for the second month. The weak exports together with growing imports resulted in reduced trade surplus of RM11.8b, the smallest surplus since Jun-20. Exports fell sharper by -10%yoy (Nov-23: -6.1%yoy), extending the year-on-year contraction for the 10th straight month. The fall was sharper than expected against expectations for smaller decline given improvement in exports for several regional countries in the final 2 months of 2023. The weaker exports was mainly due to sharper fall in re-exports (Dec-23: -20.3%yoy; Nov-23: +0%yoy), in contrast to relatively slower fall in domestic exports (Dec-23: +7.4%yoy; Nov-23: -7.7%yoy). On month-on-month basis, exports decreased by -2.7%mom, largely due to lower exports of petroleum products (-32.1%mom) and crude petroleum (-13.3%mom) far offset the increases in exports of E&E products (+1.1%mom) and LNG (+10.8%mom). For the full year 2023, the decline in exports by -8.0%yoy was larger than our estimate because of the sharper fall in Dec-23-. Nevertheless, we still expect the recovery in external demand will support better export performance going forward given better regional trade performance and expected turnaround in the global E&E market.

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



Source: Macrobond, MATRADE, MIDFR

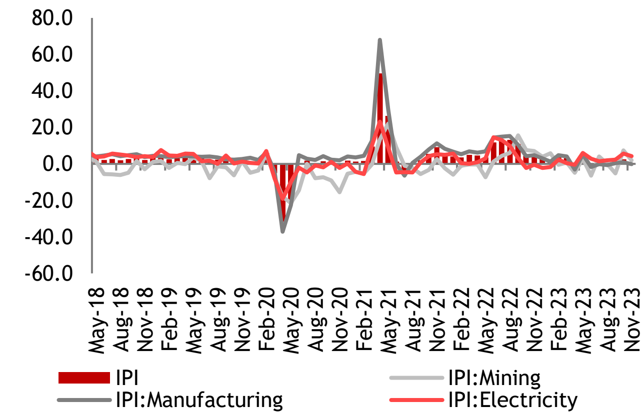
Chart 6: Exports Growth (YoY%) by Major Destination



Source: Macrobond, MATRADE, MIDFR

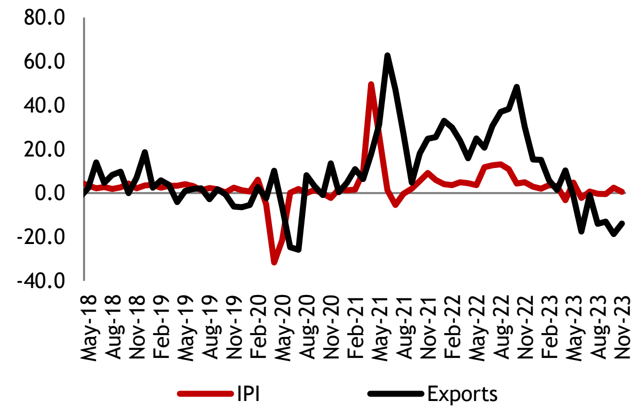
IPI growth slowed to +0.6%yoy in Nov-23. Industrial production grew slower at +0.6%yoy in Nov-23 (Oct-23: +2.4%yoy), in line with our expectations that output in trade-oriented sectors continued to fall, showing similar trend as weaker exports during the month. The Nov-23 IPI growth was, however, lower than the +1.0% growth predicted by market consensus. Given its larger weightage (or 68.3%) in the IPI, the slower IPI growth was mainly due to weaker output in the manufacturing sector (Nov-23: -0.1%yoy; Oct-23: +0.9%yoy), especially a sharper decline in E&E output. In contrast to the marginal drop in manufacturing output, IPI growth in Nov-23 was mainly supported by higher production in the mining sector and electricity. The mining sector sustained the second month of positive output growth albeit slower at +1.9%yoy (Oct-23: +7.4%yoy), backed by increased production of crude and natural gas. Meanwhile, electricity generation grew by +4.2%yoy, growing for the 7th month in a row underpinned by increased energy consumption. Despite the weaker IPI growth in Nov-23, we expect production to improve this year backed by recovering external demand and growing domestic spending.

Chart 7: IPI Performances by Sector (YoY%)



Source: Macrobond, MIDFR

Chart 8: IPI vs Exports (YoY%)

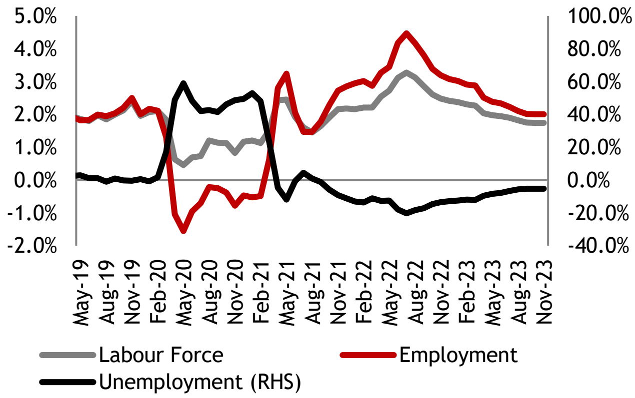


Source: Macrobond, MIDFR

Jobless rate hit new pandemic low at 3.3%. Malaysia's labour market continued to improve as the unemployment rate registered a new post-pandemic low of 3.30% in Nov-23. The jobless rate was recorded at

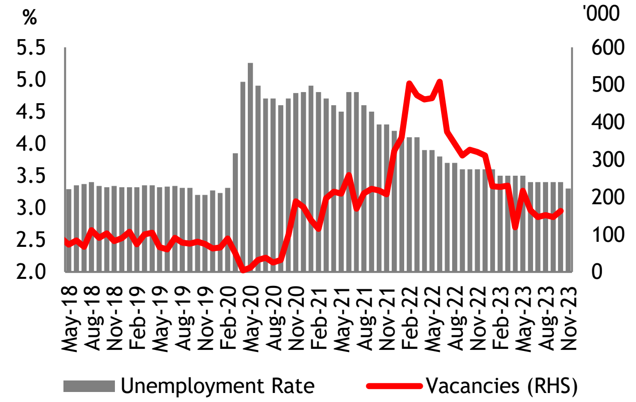
3.23% in Jan-20 and 3.31% in Feb-20. Labour force and employment growth rates continued on moderating pace of +1.7%yoy and +2.0%yoy. On month-on-month basis, employment grew +0.2%mom, marking the 29-straight months of positive gains. Unemployment dipped further by -5.3%yoy, marking the 27 consecutive months of contraction. The unemployed persons dropped further by -0.5%mom to 569K, approximately 50K higher than average jobless persons 519K in 2019. For youth aged 15~24, the unemployment rate returned to pandemic-low of 10.6% (2019: 10.4%). By employment type, employee which made up about 75.5% of the employment as of 11MCY23 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 +5.1%yoy respectively in Nov-23. The strengthening job market in our view will further reinforce consumer consumption and support overall GDP growth for 4QCY23 and 2024.

Chart 9: Labour Market Key Indicators (YoY%)



Source: Macrobond, MIDFR

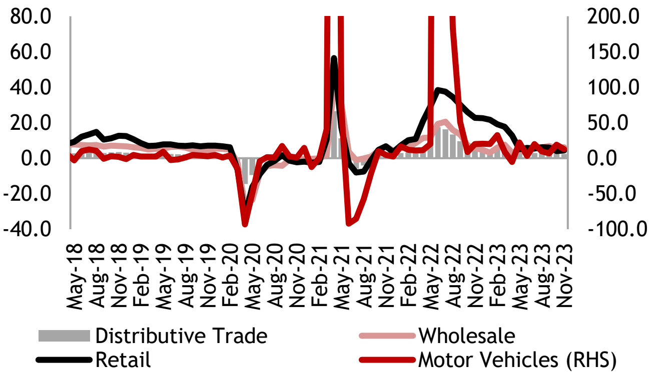
Chart 10: Unemployment Rate (%) vs. Job Vacancies



Source: Macrobond, MIDFR

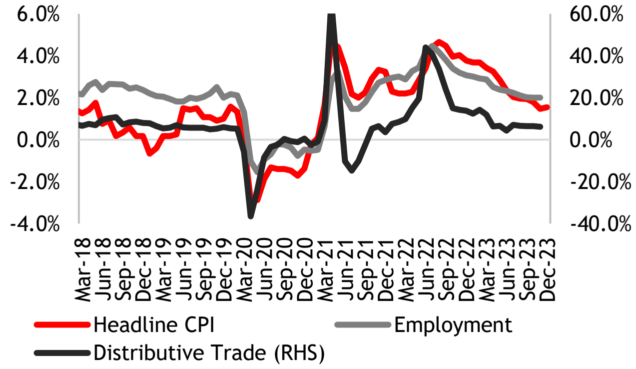
Steady domestic trade. Distributive trade continued to grow by +6.2%yoy in Nov-23, the slowest expansion rate since Jul-23. On month-on-month basis, non-seasonally-adjusted distributive trade inched up by +0.2%. By component, sales of motor vehicles continued their strong momentum growing by +12.7%yoy, wholesale trade rose by +6.2%yoy and retail sales improved by +4.4%yoy. In terms of seasonally-adjusted volume, distributive trade as well as retail trade and motor vehicle increased by +4.7%yoy, +1.0%yoy and +10.6%yoy respectively. The resilience of Malaysia's consumer demand is in tandem with the healthy job market development and softening inflationary pressure. The latest unemployment rate hit a new post-pandemic low of 3.30% in Nov-23 (Jan-20: 3.23%). Looking ahead, we foresee a sanguine domestic outlook for 4QCY23 and 2024 amid better pick-up in tourism activities and supportive & accommodative economic policies from both fiscal and monetary sides.

Chart 11: Distributive Trade (YoY%)



Source: Macrobond, MIDFR

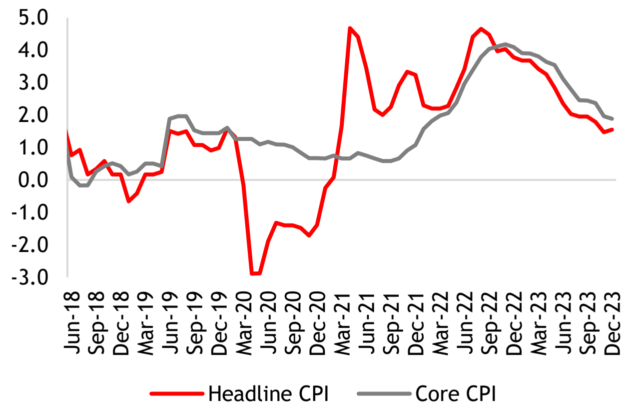
Chart 12: DT vs. CPI vs. Employment (YoY%)



Source: Macrobond, MIDFR

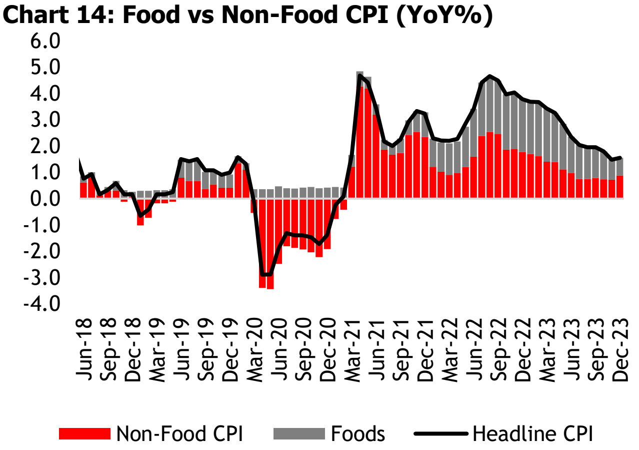
Headline inflation maintained at almost 3-year low. Headline CPI inflation rate remained at +1.5%yoy in Dec-23, the lowest since Feb-21. Non-food inflation rate edged up slightly to +0.9%yoy while food inflation rate eased further to more than 2-year low at +2.3%yoy. The continued softening inflationary pressure among others was due to high base effects, normalisation of global commodity prices and supportive fiscal policies. The core inflation rate recorded lower at +1.9%yoy, the lowest since Mar-22. On that note, we believe BNM will keep OPR status quo as inflation is under control. For 2023, headline inflation eased to +2.5% (2022: +3.4%) while core inflation was unchanged at +3.0% (2022: +3.0%). In 1HCY24, we expect gradual upward price increases from higher utility charges, implementation of higher SST rate to 8.0% (except for food & beverage and telecommunications) and 10% low-value goods tax (LVGT). In the latter half, we opine that the roll-out of fuel-targeted subsidy may see higher retail fuel prices.

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



Source: Macrobond, MIDFR

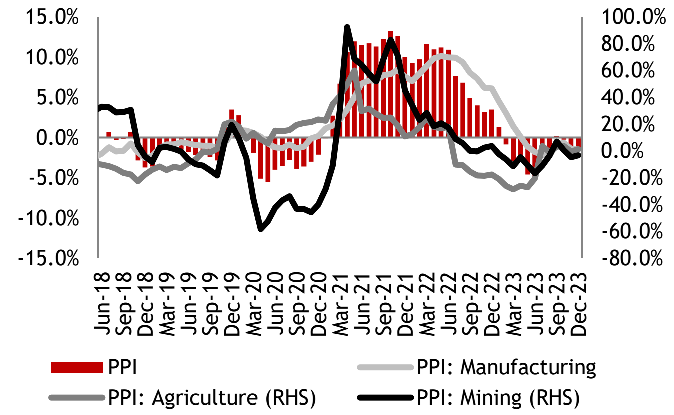
Chart 14: Food vs Non-Food CPI (YoY%)



Source: Macrobond, MIDFR

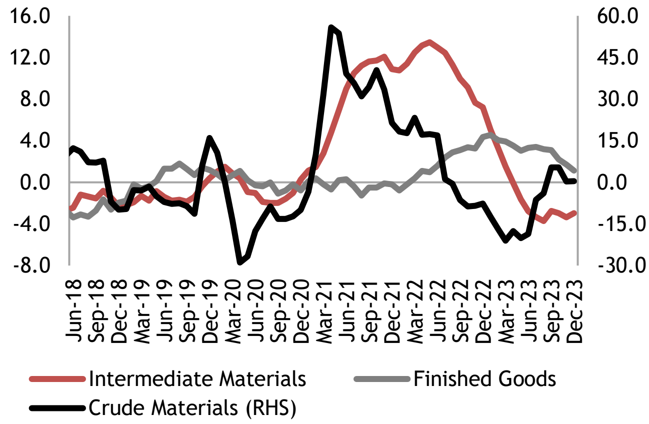
PPI continued to deflate at -1.3%yoy in Dec-23. PPI recorded another month of deflation for the third straight month in Dec-23, falling by -1.3%yoy (Nov-23: -1.5%yoy) due to continued declines in PPI for the manufacturing (-1.5%yoy), mining (-3.4%yoy) and electricity & gas (-0.6%yoy) industries. By stage of processing, the PPI for intermediate materials, supplies & components remained in deflation for the 9th consecutive month (-3.0%yoy), in contrast to rising PPI for finished goods (+1.1%yoy) and crude materials (+0.4%yoy). Compared to Nov-23, PPI fell by -0.2%mom for the 3rd straight month, which reflected monthly PPI deflation in sectors such as manufacture of foods products (-0.4%mom), extraction of crude petroleum & natural gas (-1.6%mom) and manufacture of coke & refined petroleum products. For the whole of 2023, PPI registered -1.9% deflation (2022: +7.8%) due to lower cost pressures in agriculture (-13.8%) and mining (-5.9%) sectors, and small decline for manufacturing PPI (-0.2%). Reduced cost pressures also contributed to the moderating CPI inflation, apart from lower underlying demand pressure has eased as shown in the easing core CPI inflation. Despite the easing cost pressures, we opine price pressures will come from policy changes, as mentioned above.

Chart 15: PPI by Sector (YoY%)



Source: Macrobond, MIDFR

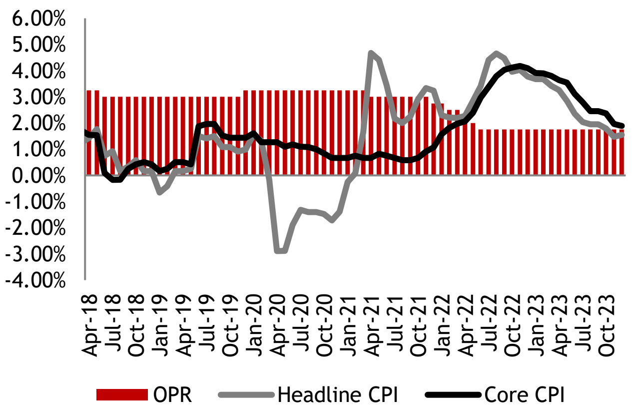
Chart 16: PPI by Processing Stage (YoY%)



Source: Macrobond, MIDFR

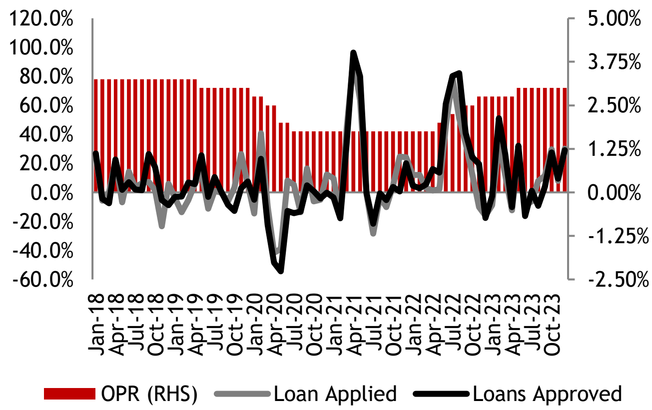
BNM kick-off with no change made. BNM kept the Overnight Policy Rate (OPR) at 3.00%, in its first Monetary Policy Meeting of 2024, in line with market expectations. BNM expects Malaysia's economy to improve further amid external trade recovery and resilient domestic demand. Domestic economic activities to stay on expansionary momentum, supported by improving labour market conditions, steady income growth, higher tourist arrivals and realisation of multi-year and infra projects. On the price developments, BNM foresees headline and core inflation to remain modest this year. However, the risks to inflation are much dependent on domestic policy on subsidies and global commodity price developments. In addition, the revision of utility tariffs and targeted subsidies will affect the trajectory of inflation especially after 2QCY24. With demand-driven inflation under control, we expect BNM will maintain OPR at the current level throughout 2024.

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



Source: Macrobond, MIDFR

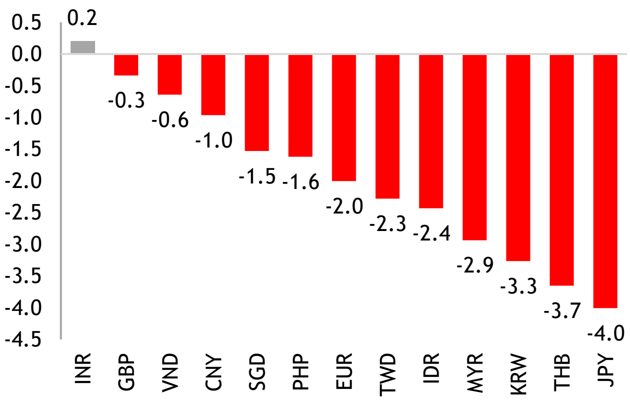
Chart 18: OPR (%) vs Loan Application & Approval (YoY%)



Source: Macrobond, MIDFR

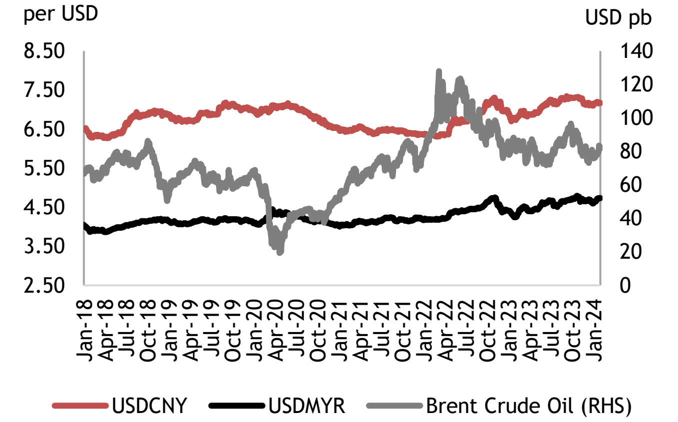
Ringgit depreciated by -2.9%mom in Jan-24. Malaysian ringgit registered -2.9%mom depreciation against the US dollar in Jan-24, closing the month at RM4.733 (end-Dec-22: RM4.594). Ringgit was unable to resume the appreciating trend in the final 2 months of 2023 as the anticipation of rate cuts by the Fed faded especially after the release of higher-than-expected Dec-23 US CPI inflation in the second week of Jan-24. As the market pushed the rate cut expectations to a later time, this resulted in a broad strengthening of the US dollar as the Fed is expected to keep the high interest rates for a longer period. The depreciation of ringgit was not as sharp as other regional currencies such as Korean won (-3.3%mom), Thai baht (-3.7%mom), and Japanese yen (-4.0%mom). Moving forward, we forecast for ringgit to appreciate this year, moving towards RM4.20 by year-end, backed by narrowing interest differentials (as fed funds rate is expected to be reduced vis-à-vis no changes for OPR throughout 2024), expected return of foreign fund flows and sustained current account surplus. On the other hand, we opine there is a downside bias to ringgit outlook, which could come from prolonged strength in dollar due to delayed rate cuts by the Fed or risk-off sentiment from geopolitical tensions or recession risk in the US.

Chart 19: Monthly Changes in FX Rates for Selected Currencies Against US Dollar (MoM%)



Source: Bloomberg, MIDFR

Chart 20: USDMYR vs. USDCNY vs. Brent Crude Oil Price (USD pb)



Source: Bloomberg, MIDFR

Economy to grow stronger at +4.7% in 2024. Given the relatively marginal fall in LI in Oct-23 and Nov-2023 which still pointed to improving growth momentum in the short run, for now we are keeping our projection that Malaysia's economy will grow stronger at +4.7% this year (2023e: +3.8%). The pick-up in growth will be supported by the external trade recovery, on top of the sustained growth in domestic spending. However, we are cautiously monitoring potential downside risks, such as escalation of geo-political tensions, another round of supply (and global trade) disruptions, fluctuations in the commodity and financial markets, and the possibility of economic recession in the US, which could adversely affect Malaysia's external demand and overall growth outlook. On the domestic front, we are closely monitoring the factors that could impact the price outlook, which may effect overall domestic spending activities.

Table 1: Macroeconomic Past Performances (%)

(YoY%) Unless Stated Otherwise	2020	2021	2022	2023	2024f
Real GDP	(5.5)	3.3	8.7	3.8	4.7
Govt. Consumption	4.1	6.4	4.5	3.6	2.7
Private Consumption	(3.9)	1.9	11.2	4.9	4.6
Gross Fixed Capital Formation	(14.4)	(0.8)	6.8	2.8	4.7
Govt. Investment	(21.2)	(11.1)	5.3	(1.1)	4.5
Private Investment	(11.9)	2.7	7.2	3.9	4.7
Exports of goods & services;	(8.6)	18.5	14.5	(7.9)	4.1
Goods Exports	(0.7)	21.4	11.1	(11.5)	3.7
Services Exports	(47.8)	(8.2)	56.9	31.4	6.6
Imports of goods & services;	(7.9)	21.2	15.9	(7.9)	3.6
Goods Imports	(3.6)	23.8	14.6	(12.4)	4.0
Services Imports	(25.3)	7.7	23.9	18.0	1.9
Net Exports	(13.7)	(4.0)	(1.0)	2.4	10.1
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	4.1
Construction	(19.3)	(5.1)	5.0	7.0	5.5
Services	(5.2)	2.2	10.9	6.0	5.3
Exports of Goods (f.o.b)	(1.1)	26.1	24.9	(8.0)	5.2
Imports of Goods (c.i.f)	(5.8)	23.3	31.0	(6.4)	4.4
Headline CPI Inflation (%)	(1.1)	2.5	3.4	2.5	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

January 2024 Key Economic Events

2 Jan: PM Anwar launches Padu database to improve delivery of targeted subsidies. Prime Minister Datuk Seri Anwar Ibrahim officially launched the Central Database Hub (Padu), paving the way towards a fairer distribution of targeted subsidies for Malaysians in need. Anwar acknowledged criticism but spoke of the need to digitise the delivery system, saying that failure to do so would benefit undeserving groups such as those who are affluent over those truly in need.

2 Jan: Online shopping platforms begin imposing low-value goods taxes. Online retail companies have started collecting low-value goods (LVG) taxes on imported goods below RM500. One of those companies, Shopee issued a notice about the matter. Sea Limited Malaysia country head Terence Siau said this is in line with the company's intention to support the government's call to empower local businesses, particularly the micro, small, and medium enterprises (MSME).

4 Jan: Ministry denies existence of cartel, Mafia controlling prices of rice, paddy seeds. The Ministry of Agriculture and Food Security denied the existence of cartel or mafia that controls rice and paddy seeds prices in the country. The rice industry is regulated by the Kawalselia Padi dan Beras (KPB) regulatory body through the Rice Control Act 1994 (Act 522). According to the Act, the ministry carries out regulatory activities through licensing and enforcement to ensure a healthy and orderly development of the rice industry.

9 Jan: Current foreign worker verification process to end on March 31 — home minister. The Home Ministry and Immigration Department announced that the process of verification involving foreign workers and their employers for the Workforce Recalibration Programme (RTK 2.0) will end on March 31. Home Minister Datuk Seri Saifuddin Nasution Ismail said the verification process carried out after registration for the RTK 2.0 ended on Dec 31 revealed that close to 1.1 million foreign workers had been registered.

11 Jan: Singapore and Malaysia strengthen ties with MOU on special economic zone with Johor; RTS Link is 65% completed. Singapore and Malaysia achieved several bilateral milestones on Thursday (Jan 11), with significant progress on the Johor Bahru-Singapore Rapid Transit System (RTS) Link and a memorandum of understanding (MOU) inked for a special economic zone between Singapore and Johor.

15 Jan: MyHSR receives KL-Singapore HSR concept proposals from 7 consortia formed by 31 companies. A total of 31 firms across seven local and international consortia have submitted concept proposals to MyHSR Corporation Sdn Bhd (MyHSR Corp) for the Kuala Lumpur-Singapore High Speed Rail project (KL-Singapore HSR) by its deadline on Monday.

17 Jan: Adjustment to water tariffs still insufficient to cover actual cost of water supply services, says SPAN. The new water tariffs, which will see domestic users in the peninsular and Labuan to pay an average of 22 sen more for every cubic metre beginning Feb 1, are still insufficient to cover the actual cost of providing water supply services, according to the National Water Services Commission (Span).

18 Jan: Red Sea crisis: Malaysia's shipping industry weathers immediate impact, but eyes long-term consequences. The ongoing Red Sea crisis has prompted a significant rerouting of ships, impacting the global shipping industry, while Malaysia's shipping sector currently navigates the situation with relative resilience, concerns are mounting over potential long-term consequences. Approximately 80 per cent of ships have opted to reroute through the Cape of Good Hope, avoiding the Red Sea due to recent Houthi militia attacks.

18 Jan: Govt approves 22 RE projects with total capacity of 36.534 MW. The Ministry of Energy Transition and Public Utilities via the Sustainable Energy Development Authority (Seda) has approved the development for the implementation of 22 renewable energy (RE) projects from biogas and biomass, with a capacity of 36.534MW. The ministry said the green electricity under the Feed-in Tariff (FiT) mechanism would be supplied to Tenaga Nasional Bhd (TNB) as early as 2027.

24 Jan: China's central bank announces policy easing as it seeks to boost growth. China pledged to reduce the amount of liquidity banks are required to hold as reserves in a bid to boost its struggling economy. Reserve ratio requirements for banks will be cut by 50 basis points from Feb. 5, which will provide 1 trillion yuan ($139.8 billion) in long-term capital, Pan Gongsheng, the People's Bank of China governor, said.

29 Jan: Pharma society: Drug prices set to go up 5-10 pct. The prices of pharmaceutical drugs are expected to surge by as much as 10 per cent soon. Malaysian Pharmacists Society (MPS) president Professor Amrahi Buang said this was as drug manufacturers in the United States plan to raise their prices. He said the public should brace for a five to 10 per cent hike in the costs of these imported medicines, particularly from the US.

30 Jan: IMF upgrades global growth forecast, citing U.S. resilience and policy support in China. The International Monetary Fund on Tuesday nudged its global growth forecast higher, citing the unexpected strength of the U.S. economy and fiscal support measures in China. It now sees global growth in 2024 at 3.1%, up 0.2 percentage point from its prior October projection, followed by 3.2% expansion in 2025.

31 Jan: Sultan Ibrahim sworn in as country's 17th King. His Majesty Sultan Ibrahim of Johor was sworn in today (January 31) as the new King in a ceremony steeped in tradition at Istana Negara. At the same ceremony, Sultan of Perak, Sultan Nazrin Shah, took the oath of office as the Deputy Yang di-Pertuan Agong.

31 Jan: US Fed holds key rate steady, says March cut unlikely. The US Federal Reserve voted on Wednesday (Jan 31) to leave interest rates unchanged for the fourth straight meeting. It said the "risks to achieving its employment and inflation goals are moving into better balance". But it added that the rate-setting Federal Open Market Committee (FOMC) is unlikely to start cutting interest rates "until it has gained greater confidence that inflation is moving sustainably" toward 2%.

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