midf RESEARCH

1 April 2024

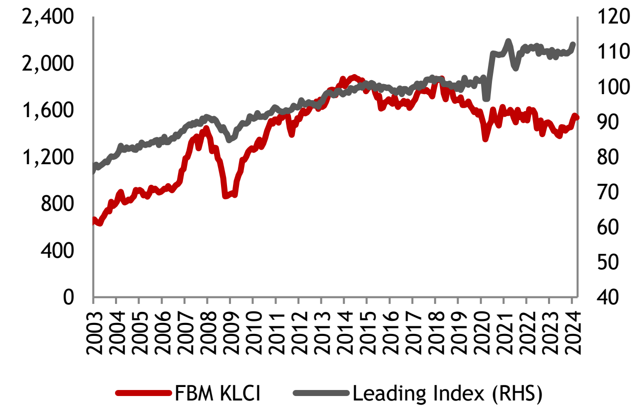
MONTHLY ECONOMIC REVIEW | March 2024

LI Continued to Signal Better Growth Momentum

- *LI rose faster at +3.2%yoy in Jan-24. Growth momentum will improve in the short run as signalled by the continued rise in leading index (LI), which rose faster at +3.2%yoy in Jan-24 due to the rise in the number of registered companies and real imports of other basic precious & other non-precious metals.*
- *Exports contracted again by -0.8%yoy in Feb-24. Exports fell again by -0.8%yoy in Feb-24 due to lower re-exports. Export growth was anticipated to soften in Feb-24 due to the CNY seasonal effect*
- *Resilient and healthy labour market continues. Malaysia's labour market maintained on an improving trend as unemployment rate kept at post-pandemic low of 3.3% in Jan-24. Labour force and employment grew steadily by +1.8%yoy and +2.0%yoy, respectively.*
- *Maintain projection Malaysia's economy to grow stronger at +4.7%. We keep our forecast that Malaysia's economy will grow stronger at +4.7% this year, backed by both external and domestic demand.*

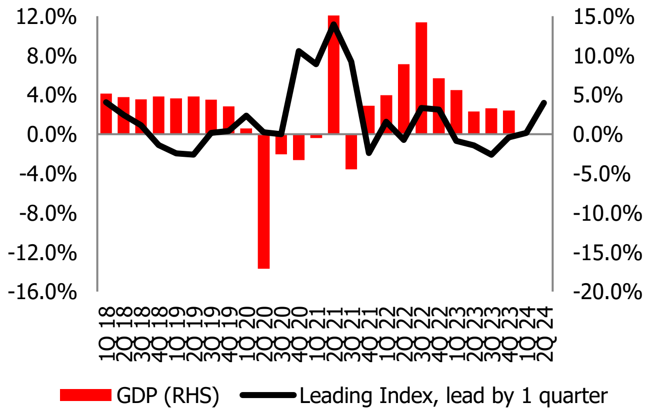
LI rose faster at +3.2%yoy in Jan-24. Growth momentum will improve in the short run as signalled by the continued rise in leading index (LI), which rose faster at +3.2%yoy in Jan-24 (Dec-23: +0.4%yoy). The pace of LI expansion in Jan-24 was the strongest since Aug-22 and mainly supported by the rise in the *number of registered companies* and *real imports of other basic precious & other non-precious metals*. From a month-on-month perspective, LI also rose faster by +1.6%mom (Dec-23: +0.3%mom), due to increases in the *number of registered companies*, *real imports of other basic precious & other non-precious metals* and *Bursa Malaysia Industrial Index*. The current economic conditions continued to expand in Jan-24 as the Coincident Index (CI) grew further by +3.2%yoy (Dec-23: +3%yoy), the strongest growth in 10 months and the 29th straight month of expansion. The better growth was also reflected in the month-on-month change as CI rose by +0.2%mom, the first growth after months of monthly contractions. The growth was driven by increases in industrial production, capacity utilization in the manufacturing sector and real EPF contributions. We continue to predict that growth prospects in Malaysia's economy will be brighter in 1HCY24 particularly because of improved production and external trade activities as well as sustained growth in domestic spending activities.

Chart 1: Leading Index vs KLCI (Points)



Source: Macrobond, MIDFR

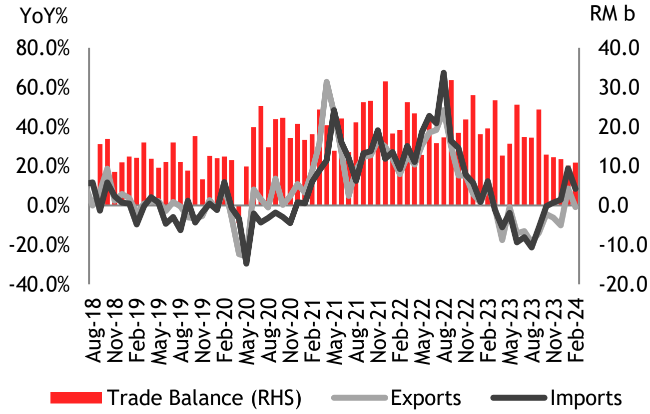
Chart 2: Leading Index vs GDP (YoY%)



Source: Macrobond, MIDFR

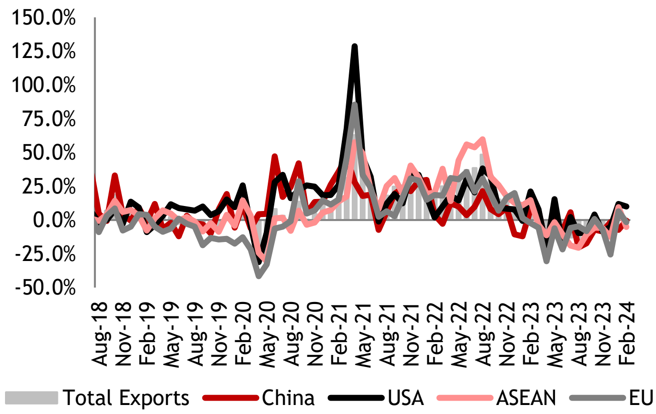
Exports contracted again by -0.8%yoy in Feb-24. Malaysia's total trade continued to grow albeit at moderate pace of +3.3%yoy in Feb-24, the second straight month of expansion in 12 months. The slower annual growth was mainly due to monthly declines in both exports (-9.1%mom) and imports (-10.5%mom). Consequently, the trade surplus widened to RM10.9b as a result of the sharper fall in imports. From the year-on-year perspective, exports fell again by -0.8%yoy after one month of annual growth in Jan-24. The softer export growth in Feb-24 was anticipated due to the Chinese New Year (CNY) seasonal effect and slower export growth reported by regional countries. The decline in exports was mainly due to lower re-exports (Feb-24: -20.2%yoy; Jan-24: +4.1%yoy), while domestic exports grew slower at +4.7%yoy (Jan-24: +10.1%yoy). By major products, the decline in Feb-24 was attributable to lower shipments of E&E, petroleum products and palm oil. From month-on-month perspective, exports dropped by -9.1%mom primarily dragged down by lower external demand for manufactured goods (-10.2%mom), especially petroleum products (-28.8%mom) and E&E products (-9.2%mom). Meanwhile, import growth moderated to +7.8%yoy in Feb-24 (Jan-24: +18.7%yoy), mainly supported by increased purchases of E&E, chemicals & chemical products and petroleum products. We believe the slower growth in Feb-24 was mainly influenced by the effect of shorter working days following the CNY holidays, which caused both exports and imports to fall sequentially from Jan-24. On that note, we still foresee external trade to pick up in the coming months in line with growing regional exports and stabilisation in global production activities.

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



Source: Macrobond, MATRADE, MIDFR

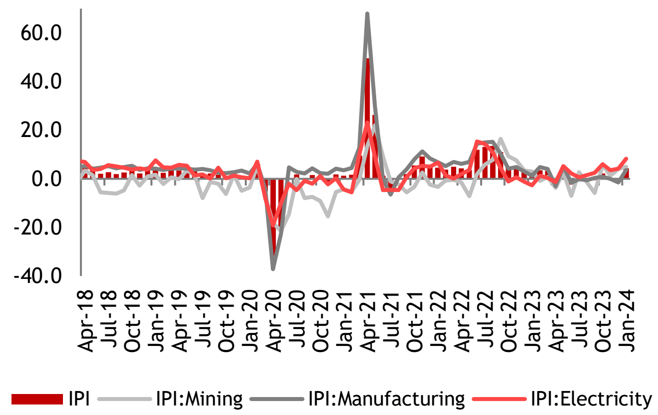
Chart 4: Exports Growth by Major Destination (YoY%)



Source: Macrobond, MATRADE, MIDFR

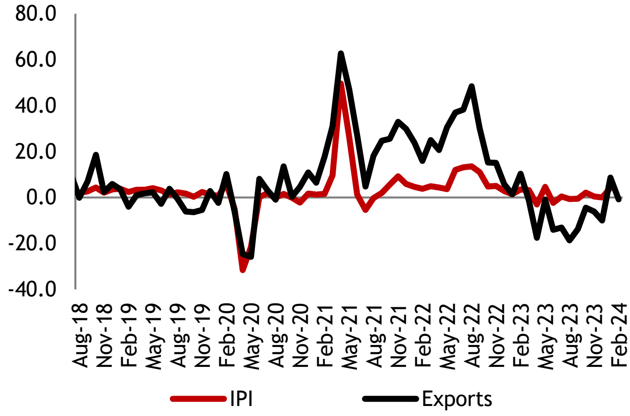
IPI growth rebounded to +4.3%yoy in Jan-24. Malaysia's IPI registered a rebound in Jan-24, growing at +4.3%yoy (Dec-23: -0.03%yoy) which is the fastest growth since May-23. The jump was stronger than ours and market expectations as we expect IPI to show stronger performance as recorded in Jan-24 goods exports. In particular, the improvement was driven by stronger output in the export-oriented sectors such as chemicals & chemical products, rubber products, computer & peripherals and machinery & equipment. By major sectors, the rebound in IPI in Jan-24 was largely reflected the output rebound in the manufacturing sector (Jan-24: +5.0%yoy; Dec-23: -1.4%yoy) such as export-oriented products and motor vehicles. Mining sector also grew faster at +8.3%yoy, driven by the stronger output of petroleum and natural gas. Electricity generation also recorded stronger growth of +8.3%yoy, the fastest growth since Aug-22 which indicates a continued rise in electricity consumption and energy demand. Going forward, we maintain our expectations that IPI growth will improve this year on the back of sustained growth in domestic demand as well as recovery in external demand.

Chart 5: IPI Performances by Sector (YoY%)



Source: Macrobond, MIDFR

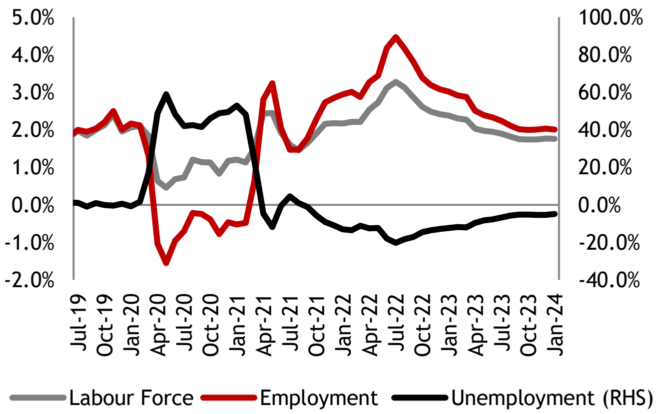
Chart 6: IPI vs Exports (YoY%)



Source: Macrobond, MIDFR

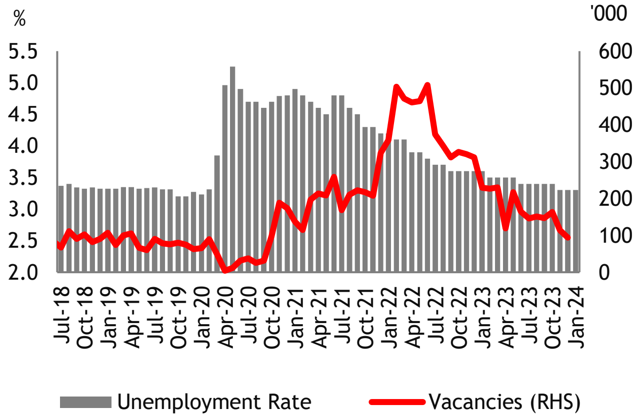
Resilient and healthy labour market continues. Malaysia's labour market maintained on an improving trend as unemployment rate kept at post-pandemic low of 3.3% in Jan-24. Labour force and employment grew steadily by +1.8%yoy and +2.0%yoy, respectively. The unemployed persons dropped further by -4.8%yoy and -0.2%mom to 567K in Jan-24, approximately +48K higher than average jobless persons 519K in 2019. For youth aged 15~24, the unemployment rate stayed at post-pandemic low of 10.6% (2019: 10.4%). By employment type, employees which made up about 75.2% of the employment increased steadily by +1.3%yoy while employer (3.5% of employment) and own-account-worker (18.3% of employment) increased by +4.6%yoy and +4.7%yoy respectively in Jan-24. The strengthening and healthier job market in our view will further reinforce consumer consumption and support overall GDP growth for 2024.

Chart 7: Labour Market Key Indicators (YoY%)



Source: Macrobond, MIDFR

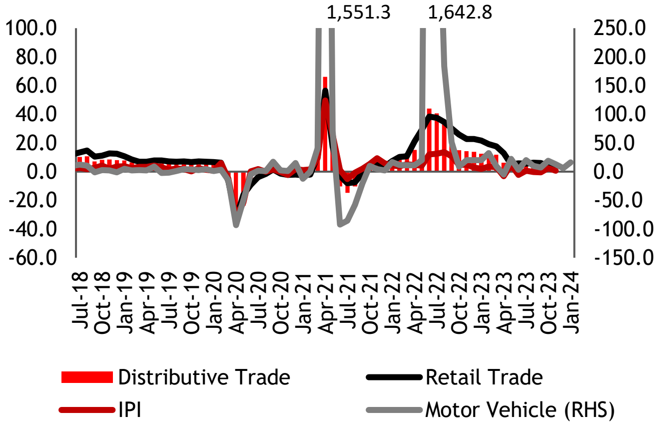
Chart 8: Unemployment Rate (%) vs. Job Vacancies



Source: Macrobond, MIDFR

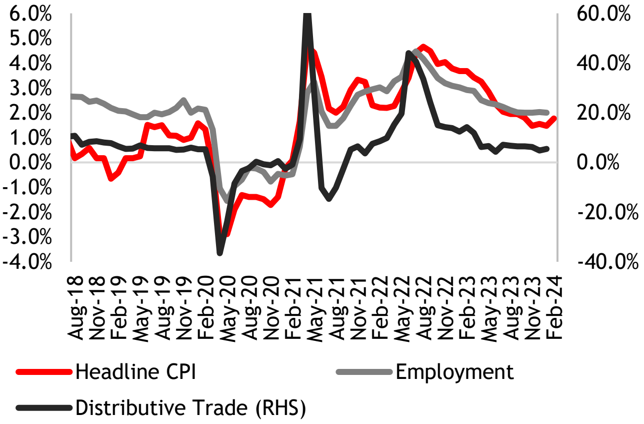
Retail trade growth rate at more than 2-year low. Malaysia's consumer demand seen on softening mode as retail sales growth moderated to +2.6%yoy in Jan-24, the slowest pace since Sep-21. Overall distributive trade sales were up by +5.4%yoy, thanks to double-digit expansion of +16%yoy in motor vehicles sales, while wholesale trade increased steadily by +5.5%yoy. On a sequential monthly basis, distributive trade and retail trade fell by -1.1%mom and -2.1%mom respectively. In terms of seasonally-adjusted volume, distributive trade, wholesale trade and retail trade declined by -0.9%mom, -1.2%mom and -1.6%mom respectively whereas motor vehicles improved firmly by +3.7%mom. Looking ahead, we foresee sanguine domestic outlook for 2024 amid better stable income growth, further pick-up in tourism activities and supportive & accommodative economic policies from both fiscal and monetary sides.

Chart 9: Distributive Trade (YoY%)



Source: Macrobond, MIDFR

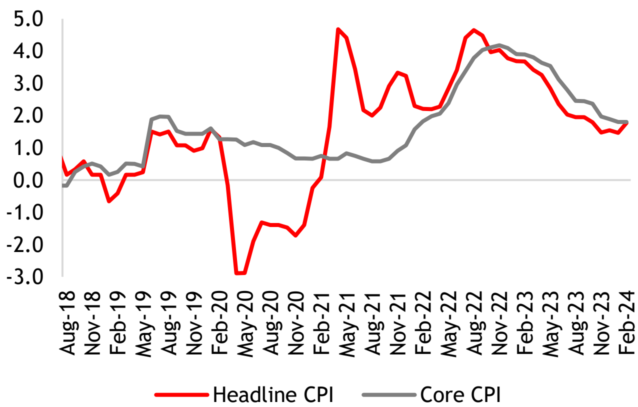
Chart 10: DT vs. CPI vs. Employment (YoY%)



Source: Macrobond, MIDFR

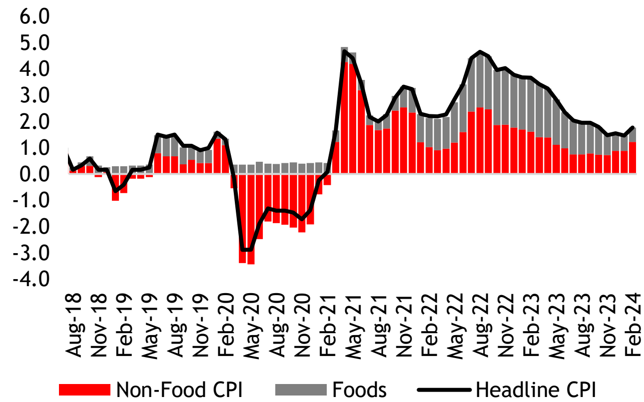
Malaysia's inflation hit turning point. The headline CPI inflation accelerated to +1.8%yoy in Feb-24, the highest in 4 months. We opine Feb-24 marked the turning point for Malaysia's inflation as non-food price growth surged to 10-month high at +1.6%yoy, among others due to the adjustments in water tariff rates across many states. As a result, inflation for water supply charges skyrocketed to +28.8%yoy, while waste collection jumped by +58.7%yoy. Going forward from Mar-24 onwards, we expect non-food inflation to stay on uptrend following the implementation of +2% hike of SST on selected items, apart from the utility bill revision. Even though food inflation moderated further, prices of food away from home increased by +3.5%yoy, the highest in 3 months. This food segment is expected to continuously pick up amid rise in logistics and operating charges. Core inflation, however, was stable at +1.8%yoy despite the sequential change between month to month remained positive. Looking into 1HCY24, we should expect a gradual pick-up in overall prices following increase in utility charges, implementation of higher SST rate to 8.0% on selected items and 10% for low value goods tax (LVGT). In the latter half, we opine that it is possible that the roll-out of fuel targeted-subsidy may see higher retail fuel prices involving both RON95 and Diesel

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



Source: Macrobond, MIDFR

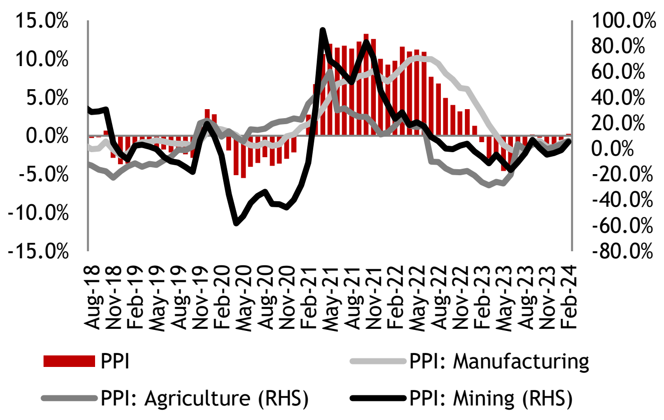
Chart 12: Food vs Non-Food CPI (YoY%)



Source: Macrobond, MIDFR

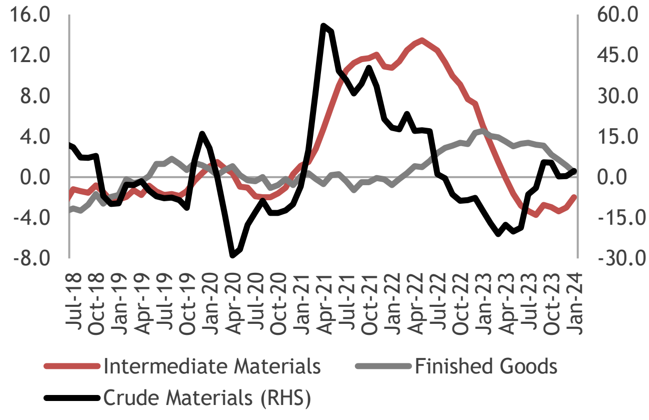
PPI deflated at softer pace in Jan-24. Input inflation contracted further but at slower pace of -0.6%yoy in Jan-24, remaining in deflation for 4 consecutive months. The sustained deflation reflected declines in PPI for manufacturing sector (weight: 81.6%), which fell by -0.9%yoy, and cost of electricity & gas, which declined further by -0.8%yoy. By stage of production, the PPI deflation was contributed by -2.0%yoy reduction in prices of intermediate materials, supply & components, which has been falling for the 10 consecutive months. Meanwhile, input price of finished goods rose by +0.5%yoy, the softest increase in 22-month. In contrast, prices of crude materials registered faster inflation of +2.3%yoy (Dec-23: +0.4%yoy), on the back of increases in commodity prices. Against the previous month, PPI dropped for the fourth month by -0.1%mom as cost pressures dropped in the mining (-0.7%mom) and manufacturing (-0.2%mom) sectors. Moving forward, we foresee low inflationary pressure to persist at least until 1QCY24 amid better domestic supply chain, stable interest rate levels and normalisation of global commodity prices. Tensions in Middle East and Europe remained a downside risk which could lead to renewed fluctuations in the global commodity prices and therefore affect Malaysia's PPI outlook. Policy changes and revision to local energy prices, however, could also lead to higher cost pressures.

Chart 13: PPI by Sector (YoY%)



Source: Macrobond, MIDFR

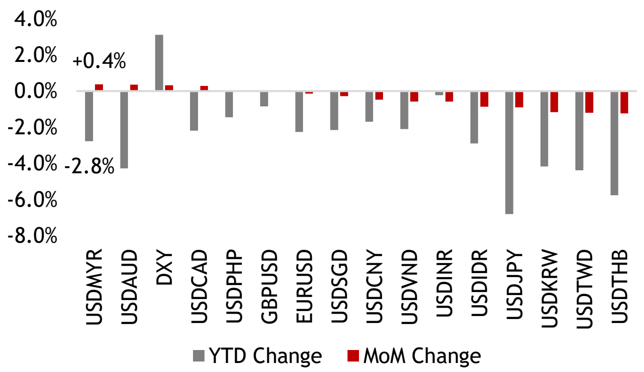
Chart 14: PPI by Processing Stage (YoY%)



Source: Macrobond, MIDFR

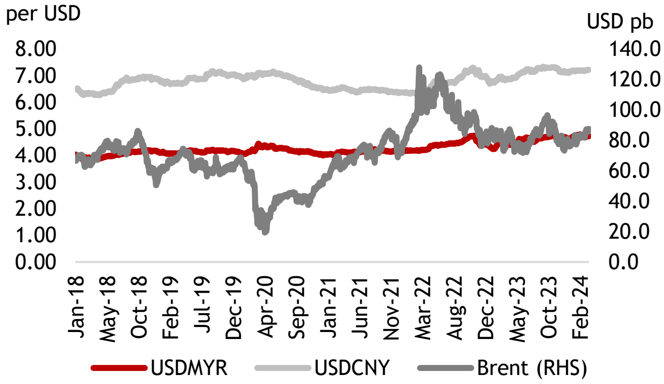
Ringgit rebounded against the USD in Mar-24. The Malaysian ringgit appreciated +0.4%mom to RM4.725 against the dollar in Mar-24. The ringgit started the month at RM4.746 its weakest during the month before strengthening to the month's peak at RM4.678 on 12 March 2024, the strongest closing since mid-Jan-24. The rally, however, was tempered as the month progressed, with the ringgit retreating from its high on the broadly stronger dollar. Movement in commodity prices was also supportive of the ringgit as the price for Brent crude oil soared by +4.6%mom to USD87.48pb. Although economic fundamentals remained supportive of the ringgit as domestic demand remained expansionary on the back of positive labour market conditions, movement of ringgit continued to be influenced by expectations on future decisions by the US Fed. Although exports weakened again in Feb-24, it was mainly due to seasonal effect and the pick-up in trade and production pointing towards recovering external demand. To a certain extent, initiatives by the government and Bank Negara to encourage conversion of investment income gained by the government-linked companies from abroad helped to support ringgit during the month. Looking ahead, we anticipate the ringgit, along with other regional currencies, to appreciate against the USD in 2024, buoyed by the reversal of funds flowing back into EMs and the recovery in external trade.

Chart 15: Monthly and Year to Date Changes in FX Rates for Selected Currencies Against US Dollar (%)



Source: Bloomberg, MIDFR

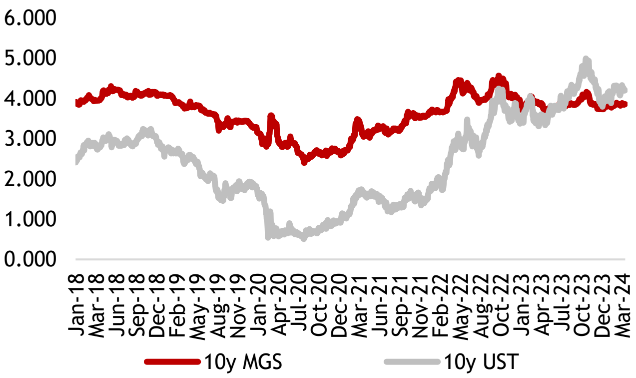
Chart 16: USDMYR vs. USDCNY vs. Brent Crude Oil Price (USD pb)



Source: Bloomberg, MIDFR

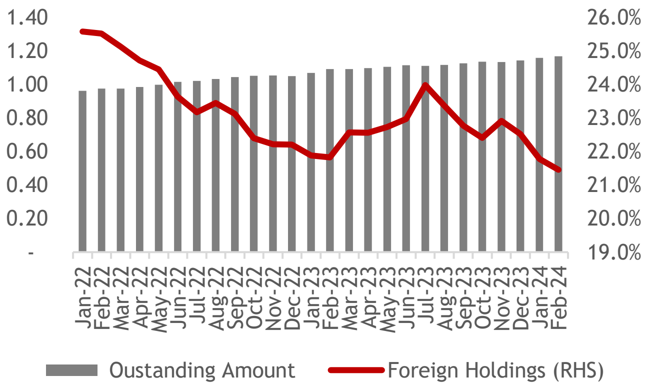
MGS's 10-year yield moderated slightly. The 10y MGS yield declined by -1bps to 3.85% in Mar-24 (Feb-24: 3.87%). With the strengthening of the ringgit during the month, the lower yield indicated an increased buying interest for MGS. On another note, foreign holding of Malaysian bonds recorded further decline to RM264.1b in Feb-24 (Jan-24: RM265.3b). Foreign holdings of govvies made up 21.5% or RM250.4b of the total outstanding government bonds in Feb-24, declining from 21.8% in the previous month. We continue to anticipate a further moderation of MGS's 10-year yield in 2024, underpinned by the narrowing gap between FFR and OPR. Additionally, we foresee MGS rallying on returning interest on riskier assets, which will result in the return of foreign fund flows into emerging markets including Malaysia. Hence, we project the 10-year MGS yield would trend downward towards 3.60% by year-end.

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

Maintain projection Malaysia's economy to grow stronger at +4.7%. We keep our projection that Malaysia's economy will grow stronger at +4.7% this year (2023: +3.7%), backed by both external and domestic demand. Nonetheless, we believe there are still downside risks, such as escalation of geopolitical tensions, another round of supply (and global trade) disruptions, fluctuations in the commodity and financial markets, and the possibility of weak growth in major economies, which could adversely affect Malaysia's growth outlook, being a country exposed to the global trade and production network. On the domestic front, we are wary of the possible inflationary effect from the government's planned policy changes, which could also affect consumer purchasing power, their sentiment and spending plans as well as the cost of doing business for the local businesses.

Table 1: Macroeconomic Past Performances (%)

(YoY%) Unless Stated Otherwise	2020	2021	2022	2023	2024f
Real GDP	(5.5)	3.3	8.7	3.7	4.7
Govt. Consumption	4.1	6.4	4.5	3.9	2.5
Private Consumption	(3.9)	1.9	11.2	5.0	4.8
Gross Fixed Capital Formation	(14.4)	(0.8)	6.8	5.5	5.3
Govt. Investment	(21.2)	(11.1)	5.3	8.6	4.5
Private Investment	(11.9)	2.7	7.2	7.0	5.5
Exports of goods & services;	(8.6)	18.5	14.5	(7.9)	3.1
Goods Exports	(0.7)	21.4	11.1	(12.8)	3.1
Services Exports	(47.8)	(8.2)	56.9	38.0	11.0
Imports of goods & services;	(7.9)	21.2	15.9	(7.6)	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)	(11.3)	13.8
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	5.2
Services	(5.2)	2.2	10.9	6.0	5.4
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	4.1	3.9	3.0	1.2	3.7
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	3.77	3.60
Overnight Policy Rate (%)	1.75	1.75	2.75	3.00	3.00

Source: Macrobond, DOSM, MIDFR

March 2024 Key Economic Events

3 Mar: Fed's Powell to double down on 'no rush to cut' message. Federal Reserve chair Jerome Powell is expected to double down on his message that there's no rush to cut interest rates, especially after fresh inflation data showed that price pressures persist.

4 Mar: Transport Ministry: Evaluation of KL-Singapore HSR concept proposals to take two months. The evaluation of the seven Concept Proposals that have been received from firms/consortiums interested in the Kuala Lumpur-Singapore (KL-Singapore) High Speed Rail (HSR) project is expected to take two months to complete.

6 Mar: US factory orders fall more than expected in January. New orders for US-manufactured goods dropped more than expected in January, pulled down by a sharp decline in bookings for commercial aircraft, but demand for computers and electronic products accelerated.

7 Mar: Finance minister II: Malaysia facing serious subsidised diesel leakages. The country is facing a serious problem with subsidised diesel leakages, with a possibility of ineligible parties still enjoying the subsidy, said Finance Minister II Datuk Seri Amir Hamzah Azizan.

12 Mar: Miti targets to have 100 local tech companies with RM1 bil revenue by 2030. The Ministry of Investment, Trade and Industry (Miti) is aiming for Malaysia to have 100 local technology companies with annual revenue of RM1 billion by 2030, according to Deputy Minister Liew Chin Tong.

13 Mar: Biden, Trump clinch nominations, kicking off bruising presidential rematch. President Joe Biden and former President Donald Trump both clinched their parties' nomination on Tuesday, kicking off the first U.S. presidential election rematch in nearly 70 years.

13 Mar: Anwar: Madani economy framework will boost MSME sector, says Ramanan. The Madani Economy framework launched by Prime Minister Datuk Seri Anwar Ibrahim will be able to assist the Ministry of Entrepreneur and Cooperatives Development (Kuskop) in boosting the micro, small, and medium enterprises (MSME) sector.

13 Mar: Economy Ministry: Development expenditure allocation based on ministries' requests, priorities. The allocation of development expenditure (DE) earmarked for implementing development projects is decided based on requests and priorities stated by the ministries, and not based on the preferences of the state governments, according to the Ministry of Economy.

17 Mar: DPM Zahid: Review of agricultural land rental system implementation needed. The implementation of the agricultural land rental system, especially for vegetables to local operators, needs to be reviewed to prevent the sector from being dominated by foreigners, Deputy Prime Minister Datuk Seri Ahmad Zahid Hamidi said.

18 Mar: Less than two months to implementation, MOF says high value goods tax still being finalised. The proposed high-value goods tax (HVGT) is still undergoing the final stages of policy development, said the Ministry of Finance (MOF), with less than two months left before the tax's scheduled implementation on May 1.

19 Mar: New indicators to measure cost of living standards being developed — Anwar. The National Action Council on Cost of Living (NACCOL) agreed on Tuesday to allow the Department of Statistics Malaysia (DOSM) to develop new indicators to measure the cost of living standards down to the district level.

21 Mar: Global fertility rates to decline, shifting population burden to low-income countries. The trend will lead to a "baby boom" and "baby bust" divide across the world, with the boom concentrated in low-income countries that are more susceptible to economic and political instability, senior researcher Stein Emil Vollset from the Institute for Health Metrics and Evaluation (IHME) at the University of Washington in Seattle said in a statement.

21 Mar: Govt, BNM upping engagement with corporates to drive funds into FX market — PM. The government and Bank Negara Malaysia (BNM) will continue to intensify engagement with corporates, including exporters, importers, government-linked investment companies (GLICs) and government-linked companies (GLCs) to encourage fund flows into the foreign exchange (forex) market.

24 Mar: Padu: Over 7.36 million Malaysians have updated their info, says chief statistician. Chief Statistician Datuk Seri Dr Mohd Uzir Mahidin said the Department of Statistics Malaysia (DOSM) is optimistic that more individuals who have not yet registered or updated their data will do so in the last few days before the March 31 deadline, following increasing awareness.

25 Mar: Malaysia's leading index continues to grow by 3.2 pct in January. Malaysia's leading index continued to grow by 3.2 percent year on year in January, signaling a more encouraging economic performance in the coming months, official data showed Monday

26 Mar: US new home sales fall; median price lowest in more than 2-1/2 years. Sales of new U.S. single-family homes unexpectedly fell in February after mortgage rates increased during the month, but the underlying trend remained strong amid a chronic shortage of previously owned houses on the market.

26 Mar: US consumers remain confident, but their feelings about the near future are a bit more cloudy. The Conference Board, a business research group, said Tuesday that its consumer confidence index ticked down to 104.7 in March from a revised 104.8 in February.

29 Mar: Key Fed inflation gauge rose 2.8% annually in February, as expected. The personal consumption expenditures price index excluding food and energy increased 2.8% on a 12-month basis and was up 0.3% from a month ago, matching estimates.

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