MONTHLY ECONOMIC REVIEW | June 2024

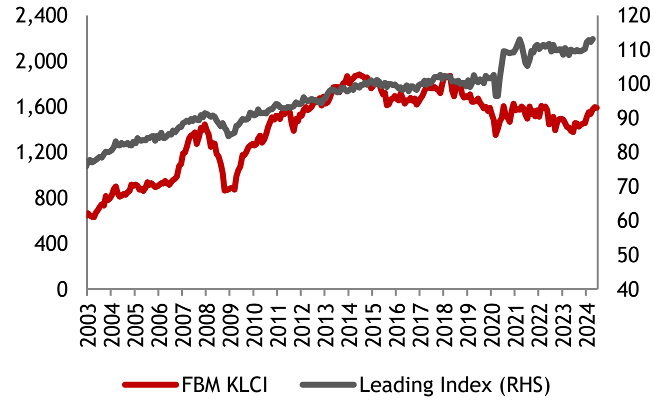
1 July 2024

Continued Rise in Leading Index Indicates Positive Growth Fundamentals

- *LI accelerated to +4.3%yoy in May-24. Malaysia's Leading Index (LI) continued to increase by +4.3%yoy in Apr-24 (Mar-24: +2.3%yoy), marking the steepest rise since Jul-22. The increase was driven by improvements in all components except real imports of semiconductors, which shrank -1.5%yoy.*
- *Exports expanded further +7.3%yoy in May-24. Exports growth was sustained for the second month in a row at +7.3%yoy (Apr-24: +9.1%yoy), underpinned by the continued recovery in E&E and palm oil exports.*
- *Retail trade growth surged to an 8-month high. Malaysia's consumer demand remained steady as overall domestic trade expanded by +6.6%yoy in Apr-24, the fastest pace since Sep-23. Among the upside factors were motor vehicle sales which jumped by +18.1%yoy, the highest rate in 6 months.*
- *Malaysia's economic growth to strengthen to +4.7% in 2024. We maintain our projection that Malaysia's economic growth will be stronger at +4.7% this year (2023: +3.6%), underpinned by growing domestic spending and recovery in the external trade.*

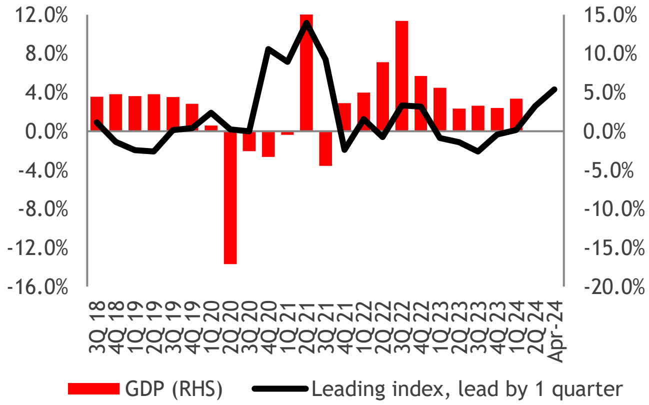
LI accelerated to +4.3%yoy in May-24. Malaysia's Leading Index (LI) continued to increase by +4.3%yoy in Apr-24 (Mar-24: +2.3%yoy), marking the steepest rise since Jul-22. The increase was driven by improvements in all components except real imports of semiconductors, which shrank -1.5%yoy. On month-on-month basis, LI rebounded to +0.8%mom (Mar-24: -0.5%mom), with improvements seen in most of the LI components. Current economic conditions also remained encouraging as the Coincident Index (CI) increased by +3.0%yoy (Mar-24: +2.3%yoy), the fastest growth in three months. The continued growth in CI was mainly due to another double-digit expansion in real EPF contributions at +34.1% as more people entered the job market. Compared to the previous month, CI rose further by +0.3%mom (Mar-24: +0.6%mom), with the only drag coming from lower capacity utilisation in the manufacturing sector (-0.2%mom). We view the continued rise in LI signals a positive economic outlook for Malaysia in 2024. The positive growth in both LI and CI also signal that growth momentum will remain positive at least in the near term on the back of growing domestic and external demand.

Chart 1: Leading Index vs KLCI (Points)



Source: Macrobond, MIDFR

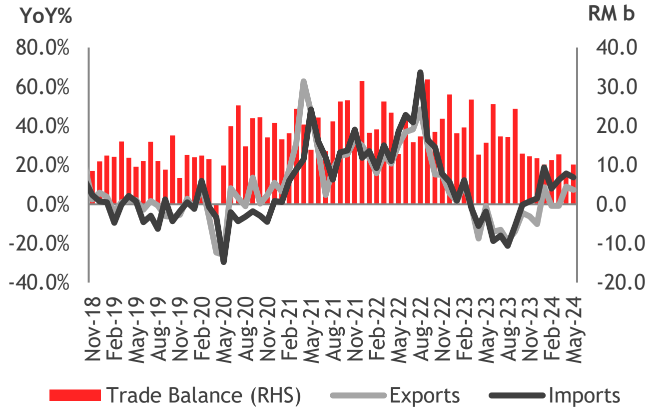
Chart 2: Leading Index* vs GDP (YoY%)



Source: Macrobond, MIDFR

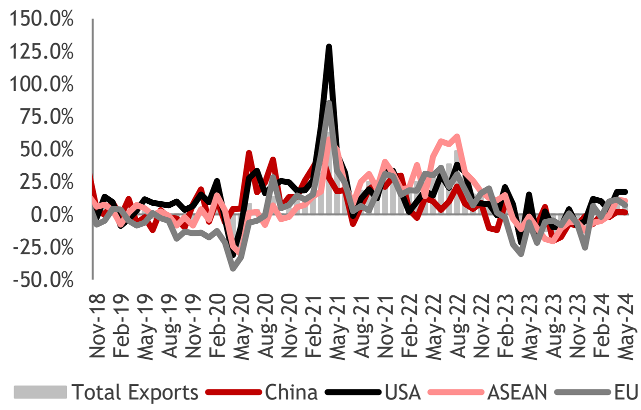
Exports expanded further +7.3%yoy in May-24. Malaysia's total trade rose for the 5th straight month at +10.3%yoy in May-24, underpinned by higher exports and imports. The trade surplus also widened to RM10.1b, improving from the post-pandemic low of +RM7.7b in Apr-24 as monthly growth in exports was faster (+11.8%mom) than imports (+10.3%mom). From year-on-year perspective, exports growth was sustained for the second month in a row at +7.3%yoy (Apr-24: +9.1%yoy), stronger than market expectations. Domestic exports expanded further at +13.2%yoy, sustaining growth since Jan-24 and continue to offset the continued contraction in re-exports (-14.1%yoy). By major products, the continued recovery in E&E and palm oil exports contributed more than two-thirds of the export growth in May-24. Demand from major markets continued to increase, particularly from ASEAN, the US and even continued rise in exports to China. Imports also rose faster than expected albeit moderating to +13.8%yoy (Apr-24: +15.6%yoy), contributed by higher purchases of E&E; machinery, equipment & parts; and crude petroleum. Continued growth in Malaysia external trade was generally aligned with growing regional trade. Looking at the encouraging trade numbers, we continue to expect the recovery in external demand will lend support for Malaysia's economy to grow faster this year.

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



Source: Macrobond, MIDFR

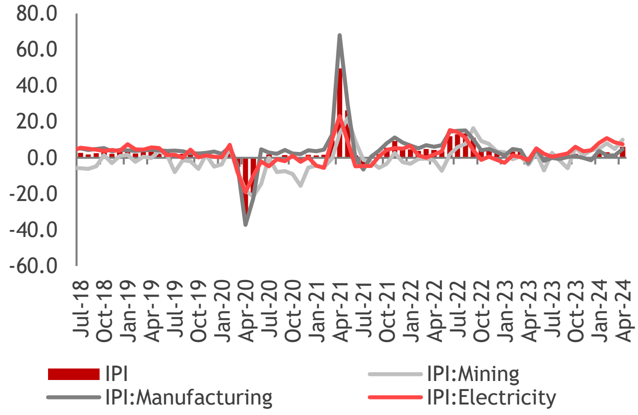
Chart 4: Exports Growth by Major Destination (YoY%)



Source: Macrobond, MATRADE, MIDFR

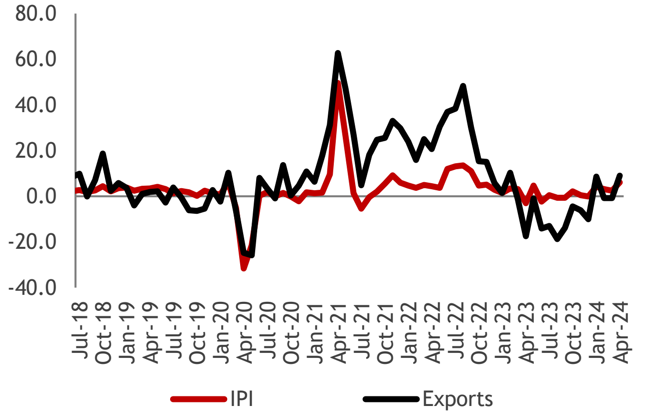
IPI growth accelerated to +6.1%yoy in Apr-24. Malaysia's IPI grew faster at +6.1%yoy in Apr-24 (Mar-24: +2.4%yoy), in line with the pick-up in export growth in Apr-24. By major sector, the stronger IPI growth was driven by faster output growth in the mining (+10%yoy) and manufacturing (+4.9%yoy) industries. The increased mining output was driven by a surge in LNG production (+14.9%yoy) and a rebound in crude petroleum output (+3.5%yoy). Meanwhile, manufacturing output was stronger for most products (such as chemicals, computers, foods, refined petroleum and motor vehicles) except E&E products, which fell by -0.8%yoy after 3 months of growth. On another note, although the growth in electricity generation moderated to +7.6%yoy, the growth continued to indicate growing electricity consumption. Overall, the stronger IPI growth in Apr-24 was also attributable to the lower base effect. Consequently, the improved growth momentum pushed the IPI growth to +3.9%yoy in 4MCY24. We expect the positive IPI growth to continue as firms will continue to increase production in view of increased domestic and external demand.

Chart 5: IPI Performances by Sector (YoY%)



Source: Macrobond, MIDFR

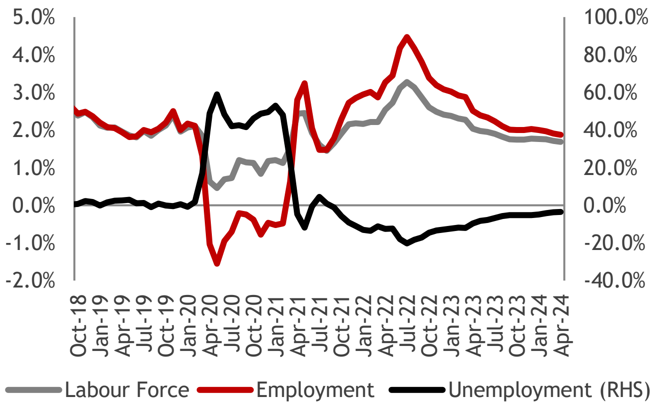
Chart 6: IPI vs Exports (YoY%)



Source: Macrobond, MIDFR

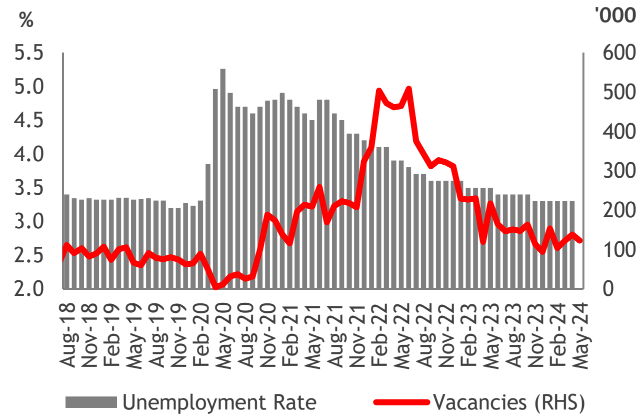
Healthy job market. Malaysia's labour market remained steady and stable as unemployment rate stayed at post-pandemic low of 3.3% in Apr-24. Labour force and employment rose steadily by +1.7%yoy and +1.9%yoy respectively. The unemployed persons stayed at 566K in Apr-24, approximately 47K higher than average 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, employee which made up about 75.1% of the employment increased steadily by +1.3%yoy while employer (3.6% of employment) and own-account-worker (18.3% of employment) increased by +4.8%yoy and +4.1%yoy respectively in the first month of 2QCY24. We opine the steady and stable job market will continue supporting overall domestic consumption in 2QCY24 onwards.

Chart 7: Labour Market Key Indicators (YoY%)



Source: Macrobond, MIDFR

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

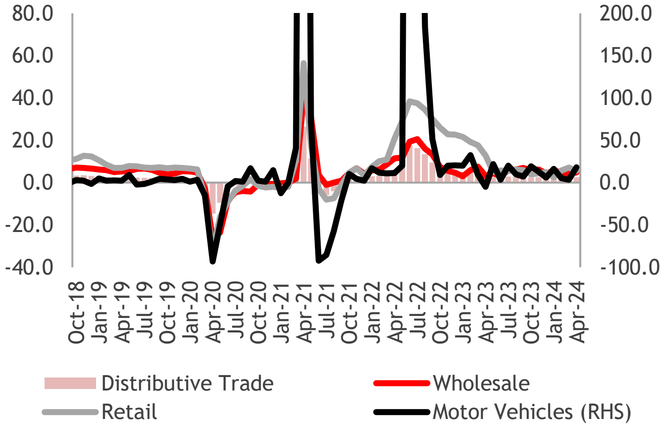


Source: Macrobond, MIDFR

Retail trade growth surged to an 8-month high. Malaysia's consumer demand remained steady as overall domestic trade expanded by +6.6%yoy in Apr-24, the fastest pace since Sep-23. Among the upside factors was motor vehicle sales which jumped by +18.1%yoy, the highest rate in 6 months. Sales of retail and wholesale trade rose by +5.5%yoy and +4.8%yoy, respectively. In terms of seasonally adjusted volume, distributive trade expanded by +5.5%mom (2-year high) while motor vehicles and retail trade improved by +21.5%mom and +3.8%mom respectively. A stable job market and low inflationary pressure were fundamental reasons supporting the resilient domestic demand. Looking ahead, we foresee consumer demand to stay in expansionary mode amid positive real wage growth, better pick-up in tourism activities and supportive & accommodative economic policies.

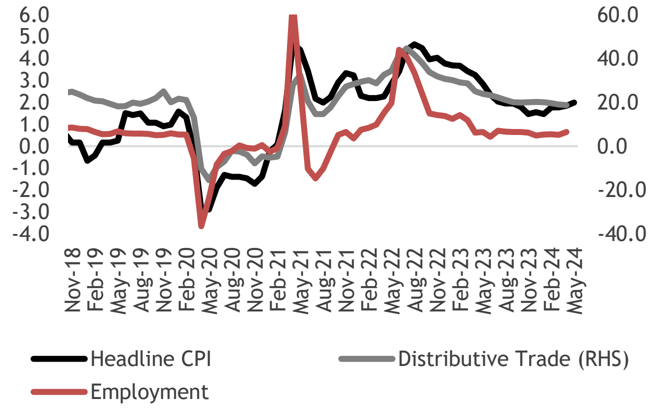
However, there remain downside risks to the demand, especially high inflation expectations and pessimistic consumer sentiment.

Chart 9: Distributive Trade (YoY%)



Source: Macrobond, MIDFR

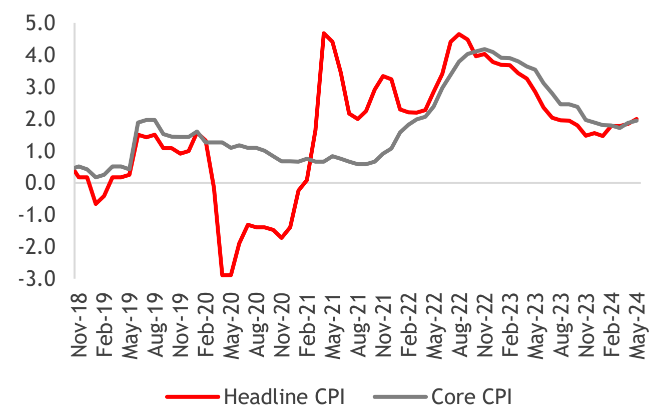
Chart 10: DT vs. CPI vs. Employment (YoY%)



Source: Macrobond, MIDFR

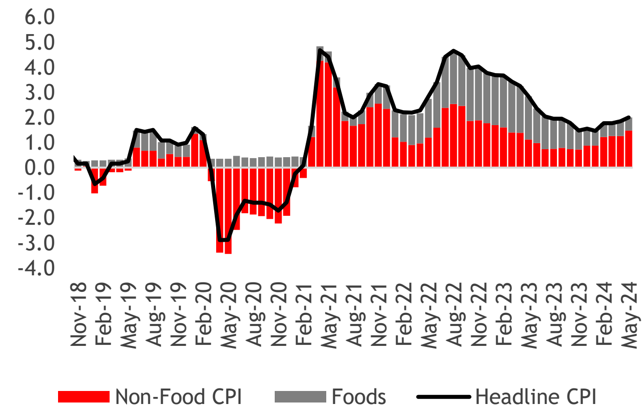
Headline inflation rate touched a 9-month high in May-24. Headline inflation rate rose to +2.0%yoy in May-24, the highest since Sep-23 and slightly above market estimates of +1.9%yoy. The uptick of non-food inflation rate was the main upside factor which increased by +2.0%yoy, the fastest pace in 15-month. We observed the non-food inflation among others attributed by utilities' cost inflation and turnaround of ICT. Expecting gradual pick-up of inflationary pressure in Peninsular Malaysia in 2HCY24. As the government embarked on the targeted diesel subsidy in Jun-24, we opine that there may be a gradual rise of inflationary pressure across all states in Peninsular Malaysia. The direct and indirect effects of the targeted subsidy will be observed in Jun-24 onwards. We project average inflation would be at +2.7% this year (2023: +2.5%) considering the gradual phases of targeted-fuel subsidy implementation and moderating food price growth.

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



Source: Macrobond, MIDFR

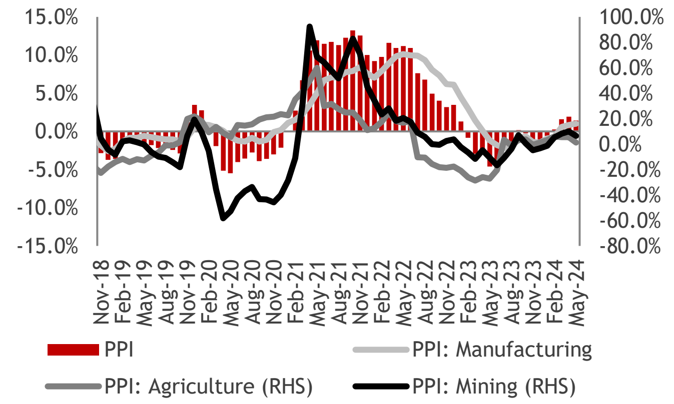
Chart 12: Food vs Non-Food CPI (YoY%)



Source: Macrobond, MIDFR

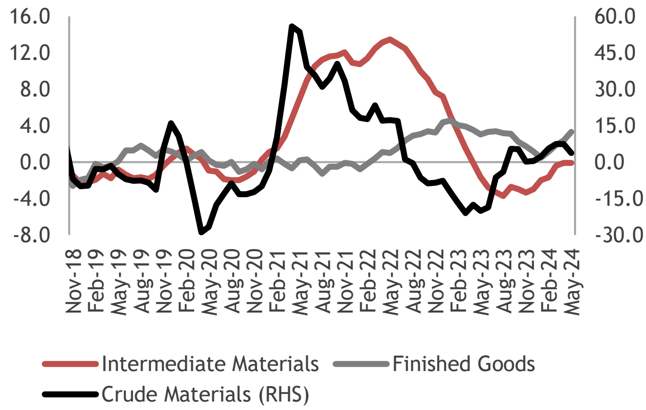
PPI inflation eased to +1.4%yoy in May. Producer price inflation in Malaysia continued to increase albeit softer at +1.4%yoy in May-24, down from 16-month high of +1.9%yoy in the preceding month. The increase continued to suggest rising cost pressures for the local companies for the 4th straight month. The moderation in May-24 was mainly attributed to softer PPI inflation in the agriculture, forestry, & fishing (May-24: +1.3%yoy; Apr-24: +5.4%yoy) and mining (May-24: +6.6%yoy; Apr-24: +10%yoy) sectors. In contrast, manufacturing costs picked up to +1.0%yoy (Apr-24: +0.8%yoy), in line with the higher prices of electricity and gas supply (May-24: +1.5%yoy; Apr-24: +1.0%yoy) and water supply (May-24: +8.7%yoy; Apr-24: +7.2%yoy), following the water tariff hike in Feb-24. At the moment, PPI inflation remains below CPI, posing limited pressures to pass on price increases to consumers. However, we foresee businesses may hike selling prices following the recent hike in diesel prices, which explains our expectations that higher inflation in the non-food components would be the main factor contributing to relatively higher inflation this year.

Chart 13: PPI by Sector (YoY%)



Source: Macrobond, MIDFR

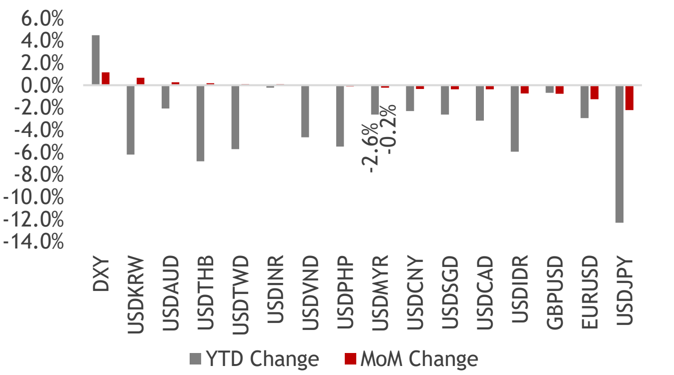
Chart 14: PPI by Processing Stage (YoY%)



Source: Macrobond, MIDFR

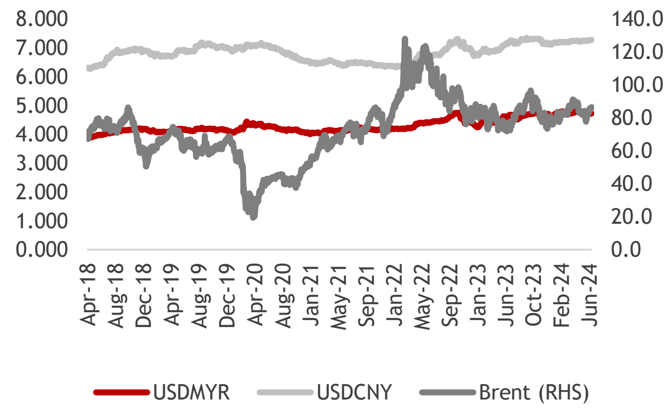
Ringgit retreated amid prolonged strength in US dollar. The ringgit marginally depreciated against the US dollar, ending the month -0.2%mom weaker at RM4.718 at end-Jun-24. In contrast, on average, the ringgit strengthened by +0.1%mom at RM4.711 in Jun-24. Early in the month, the ringgit trended upward, peaking at RM4.692 on 7th June 2024. It then swiftly plunged to its monthly low of RM4.723 on 10th June 2024, following significantly stronger-than-expected US labour market data. Subsequently, the ringgit struggled to break below the RM4.70 level for the remainder of the month due to a series of encouraging US economic data releases. Despite robust growth fundamentals and expanding domestic demand in Malaysia, fluctuations in the ringgit-to-dollar exchange rate was primarily driven by expectations regarding the Fed's future policy direction. As we anticipate this trend will continue to influence ringgit exchange rates in the near term, we foresee the possibility for ringgit to strengthen as the Fed moves closer to rate cuts.

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



Source: Bloomberg, MIDFR

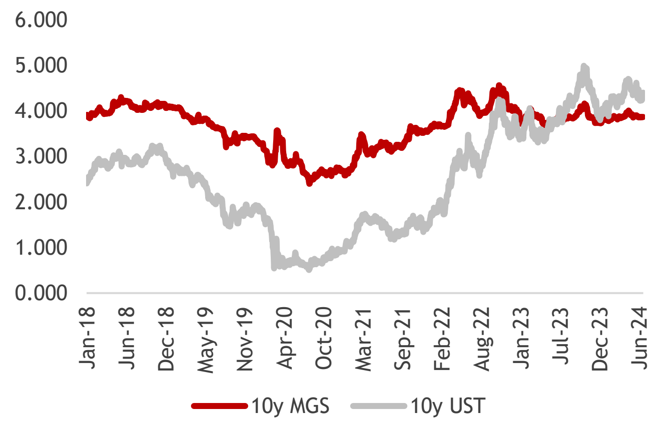
Chart 16: USDMYR vs. USDCNY vs. Brent Crude Oil Price (USD pb)



Source: Bloomberg, MIDFR

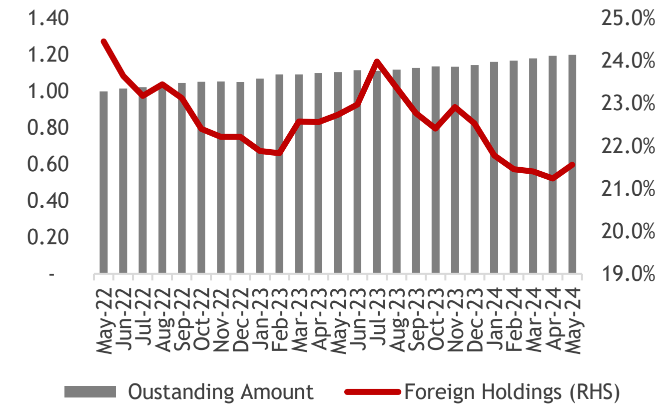
10-year MGS yield moved lower in Jun-24. The 10-year MGS yield declined in Jun-24, falling by -2bps to 3.87% in Jun-24 (May-24: 3.89%). In terms of foreign inflows, the latest available data indicates that foreign holdings of Malaysian bonds marked the third consecutive month of increase, reaching RM271.9 billion in May-24 (Apr-24: RM266.4 billion). The declining yields suggest the possibility of foreign inflows continued into Jun-24. In May-24, foreign holdings of government securities constituted 21.5% or RM258.4 billion of the total outstanding government bonds, up from 21.2% in the previous month but still below the pre-pandemic level (2019 average: 23.1%). We anticipate a further decline in the 10-year MGS yield to approximately 3.60% by the end of 2024, driven by expectations of increased foreign investment into the domestic debt market as more flows will return to EM markets following the anticipated interest rate reductions by the US Fed later this year.

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

Malaysia's economic growth to strengthen to +4.7% in 2024. We maintain our projection that Malaysia's economic growth will return back to above +4% this year, projecting the real GDP to expand faster at +4.7% (2023: +3.6%). We foresee the positive growth fundamentals will continue as indicated by continued expansion in LI. In general, we expect Malaysia's economy will continue to grow this year underpinned by growing domestic spending and recovery in the external trade. Nevertheless, we remain cautious that growth outlook may be constrained by several downside risks such as slowdown in major economies like China and the US, worsening of geopolitical and trade tensions, and disruptions to the global supply chain and trade flow. On the domestic front, we anticipate inflationary pressures would be higher in view of the planned policy changes, particularly the fuel subsidy rationalisation and the upward revision to domestic fuel prices, which may adversely affect consumer sentiment.

Table 1: Macroeconomic Past Performances (%)

(YoY%) Unless Stated Otherwise	2020	2021	2022	2023	2024f
Real GDP	(5.5)	3.3	8.9	3.6	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	5.5	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	(7.9)	4.3
Goods Exports	(0.7)	21.4	11.1	(12.8)	3.1
Services Exports	(47.8)	(8.2)	56.8	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	2.7
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	3.43	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	4.64
USD/MYR (End-period)	4.02	4.17	4.35	4.59	4.43
MGS 10-Yr Yield (Avg)	2.84	3.23	4.07	3.86	3.84
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

June 2024 Key Economic Events

9 June: ECB cuts main interest rate by 0.25 points The European Central Bank has eased the pressure on borrowers across the eurozone after cutting its main interest rate for the first time in almost five years. Citing a sustained fall in inflation, the ECB said its deposit rate would be cut to 3.75% from a record high of 4%.

9 June: Diesel price increases by RM1.20 to RM3.35 per litre in peninsula, from Monday The government has set the pump price of diesel at all retail stations in the peninsula at RM3.35 per litre, up RM1.20 from Monday (June 10), said Finance Minister II Datuk Seri Amir Hamzah Azizan. However, the retail price of diesel fuel for Sabah, Sarawak and Labuan remains at RM2.15 per litre

9 June: RM200 monthly Budi Madani assistance enough for most Malaysians The monthly RM200 Budi Madani cash assistance should be sufficient to off-set the increase in the price of diesel for most Malaysians, says Datuk Seri Amir Hamzah Azizan. "The RM200 is sufficient to cover 80% of diesel vehicle owners based on consumption patterns from Statistics Department data," said the Finance Minister II.

11 June: RTS Link now 77.6% complete; system installation to begin by end-2024 Construction progress of the Rapid Transit System (RTS) Link project between Johor Bahru and Singapore has reached 77.61% as of May 31, according to MRT Corp. If all areas progress as planned, RTS Operations Pte Ltd (RTSO), the operator of the RTS Link project, will carry out system installation works by the end of this year.

11 June: Malaysia approved RM114.7b investments in data centres, cloud services from 2021 to 2023 Malaysia has approved RM114.7 billion worth of investments in data centres and cloud services between 2021 and 2023, said Prime Minister Datuk Seri Anwar Ibrahim. He said these investments have created 2,325 high-value new jobs in specialised fields such as data scientists, data analysts, data engineers, cybersecurity analysts, and network engineers.

12 June: BNM considering more measures to prop up ringgit, says deputy governor Malaysia's central bank is considering further measures to prop up the ringgit, according to deputy governor Adnan Zaylani. "Going forward, we are still looking at what are the various other measures that we can undertake to ensure that the ringgit remains stable and supported," Adnan said at BNM Sasana Symposium 2024.

13 June: Fed leaves rates unchanged, sees only one 2024 cut despite inflation progress The Federal Reserve held interest rates steady on Wednesday and pushed out the start of rate cuts to perhaps as late as December as policymakers sketched out their view of an economy that remains virtually unchanged across its major dimensions for years to come.

13 June: MOF keeps to inflation forecast despite diesel subsidy rationalisation There is no change to the Ministry of Finance's forecast for inflation despite the diesel subsidy rationalisation, according to Treasury Secretary General Datuk Johan Mahmood Merican. Johan said it is reasonable to anticipate that the inflation rate will remain aligned with the MOF's inflation target of between 2% and 3.5% for 2024. Malaysia's inflation rate slowed to 2.5% in 2023, from 3.3% in 2022.

17 June: Anwar: Govt still bears RM7b as diesel subsidy did not abolish The government still bears around RM7 billion in subsidies related to diesel in Peninsular Malaysia, said Prime Minister Datuk Seri Anwar Ibrahim. He explained that the subsidy is not abolished, and the diesel subsidy rationalisation is to ensure more efficient management of subsidies, so that they reach the appropriate groups and are not misused.

19 June: China and Malaysia deepen ties with renewed economic pact China and Malaysia have agreed to renew a five-year economic and trade cooperation pact. The deal, which will deepen relations between the two countries as they mark 50 years of diplomatic ties, was inked during a trip by Chinese Premier Li Qiang on Wednesday.

23 June: ECRL project in Kelantan reaches 79.81pc completion, says MRL CEO The construction of the East Coast Railway Link (ECRL) in Kelantan covering 43 kilometres has reached a progress of 79.81 per cent as of last month, said Malaysia Rail Link Sdn Bhd (MRL) chief executive officer Datuk Seri Darwis Abdul Razak.

24 June: Motac: 1Q2024 tourism earnings top RM22b, tourist arrivals up 27.5% Malaysia welcomed over 7.56 million foreign tourists in the first four months of the year, marking a growth of 27.5% compared to the same period last year. This achievement places Malaysia as the second-highest recipient of foreign tourists in Asean, behind Thailand with 12 million tourists.

26 June: Fuel subsidy rationalisation to impact inflation rate The initiative to rationalise fuel subsidies is expected to impact the country's inflation rate, said Economy Minister Rafizi Ramli. However, Rafizi stated that implementation through well-designed strategies, coupled with targeted cash assistance, will help mitigate these effects.

27 June: S&P affirms Malaysia's sovereign ratings at A-, outlook 'stable' S&P Global Ratings on Thursday affirmed Malaysia's sovereign ratings at A- and a "stable" outlook, citing steady growth and potential modest fiscal improvements. Malaysia is set to benefit from a strong global semiconductor recovery, reinforcing medium-term growth prospects, S&P said.

28 June: Malaysia needs to address workforce challenges to execute economic plans, says Tengku Zafrul The country needs to address the challenges faced in developing the right human workforce, particularly the engineering profession as it moves towards the successful execution of the government's economic plans, namely the New Industrial Master Plan (NIMP) 2030 and the National Semiconductor Strategy (NSS).

29 June: Govt yet to decide on RON95 petrol subsidy rationalisation, says Anwar The government has yet to make any decision on the need to rationalise the RON95 petrol subsidy, says Datuk Seri Anwar Ibrahim. He said Economy Minister Rafizi Ramli's recent comments primarily focused on targeted diesel subsidies, which the government is studying for implementation effectiveness.

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