midf RESEARCH

1 August 2024

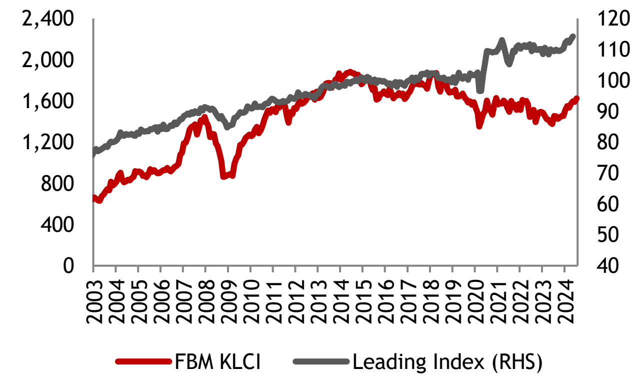
MONTHLY ECONOMIC REVIEW | July 2024

Positive Growth Momentum to Continue as Signalled by the Sustained Rise in Leading Index

- *LI rises 3.8% in May 2024, economy remained resilient. Malaysia's Leading Index (LI) rose further at +3.8%yoy in May-24 (Apr-24: +4.5%yoy), growing for the 6th straight month since Dec-23 attributable to increases in the Bursa Malaysia Industrial Index and the anticipated manufacturing sales value.*
- *GDP growth is estimated to have jumped to +5.8%yoy in 2QCY24. According to the advance estimate, Malaysia's economy grew faster than expected at +5.8%yoy in 2QCY24 (1QCY24: +4.2%yoy), the fastest annual growth in 6 quarters.*
- *Unemployment rate remained low at 3.3%. As of 5MCY24, average jobless rate was 3.3% (2023: 3.4%) while labour force and employment increased by +1.7% (2023: +2.0%) and +1.9% (2023: +2.4%). The labour market in Malaysia is expected to remain positive in 2024, backed by steady upbeat momentum in the domestic economy and further recovery in external trade.*
- *Malaysia's economy could growth stronger than +4.7% in 2024. Given the more encouraging growth momentum, we are sanguine that Malaysia's economic growth will be able to return back to above +4% this year, with our existing 2024 GDP projection at +4.7% (2023: +3.6%).*

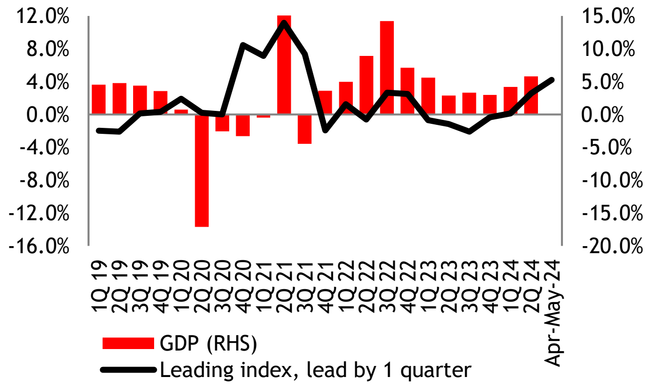
LI rises 3.8% in May 2024, economy remained resilient. Malaysia's Leading Index (LI) rose further at +3.8%yoy in May-24 (Apr-24: +4.5%yoy), growing for the 6th straight months since Dec-23. The sustained growth can be attributed to increases in the Bursa Malaysia Industrial Index and the anticipated manufacturing sales value. On a month-on-month basis, the LI advanced by +0.8% (April 2024: +1.0%), with four out of seven components of the index exhibiting expansion. Meanwhile, the Coincident Index (CI) further improved, registering a month-on-month increase of +0.6% (April 2024: +0.3%), driven by positive contributions from three components, marking the most rapid expansion in two months. This resulted in the CI growing annually at +3.3%yoy for the 33rd consecutive month. The continued growth CI is also in line with the more encouraging GDP growth in 2QCY24. Looking at the sustained rise in LI and CI, we opine the increases signal the positive growth momentum in Malaysia's economy will continue in the short run.

Chart 1: Leading Index vs KLCI (Points)



Source: Macrobond, MIDFR

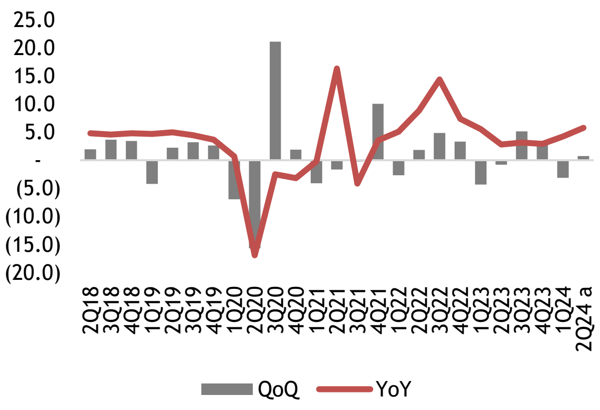
Chart 2: Leading Index* vs GDP (YoY%)



Source: Macrobond, MIDFR

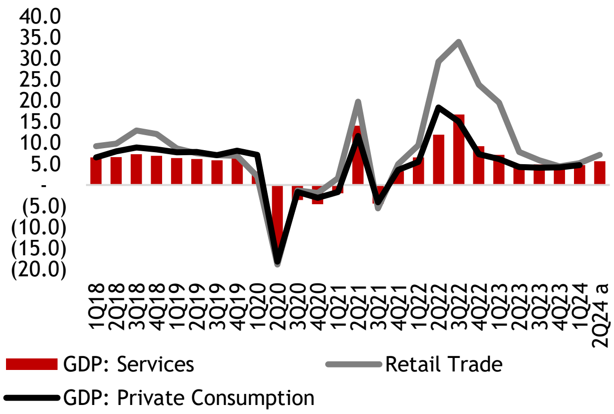
GDP growth is estimated to have jumped to +5.8%yoy in 2QCY24. According to the advance estimate, Malaysia's economy grew faster than expected at +5.8%yoy in 2QCY24 (1QCY24: +4.2%yoy), the fastest annual growth in 6 quarters. The robust growth surpassed our and market expectations, where the stronger growth was also attributable to the lower base in 2QCY23. All major economic sectors registered stronger growth except the mining sector which experienced a more moderate expansion. The services sector growth accelerated to +5.6%yoy, the fastest growth in 5 quarters and underpinned by expansion in retail & wholesale trade; logistics & storage; and the finance & insurance sub-sectors. In line with the improved external trade, the manufacturing sector grew faster by +4.7%yoy, marking the fastest growth since 4QCY22. Meanwhile, construction output surged +17.2%yoy, the steepest rise since the post-pandemic +40.3%yoy recovery in 2QCY21, attributable to higher activities in all segments especially civil engineering and specialised construction. The agriculture sector also grew faster at +7.1%yoy as the growth in oil palm and livestock industries offset the decline in rubber and other sub-sectors. The mining and quarrying sector sustained 3 quarters of expansion, but the pace of growth moderated to +3.3%yoy supported mainly by increased natural gas output. While the pace of growth exceeded our estimate, the faster growth in 2QCY24 was still in line with our expectations that growth momentum continued to improve.

Chart 3: Malaysia's Real GDP (YoY% vs QoQ%)



[a] advance estimate
Source: DOSM, MIDFR

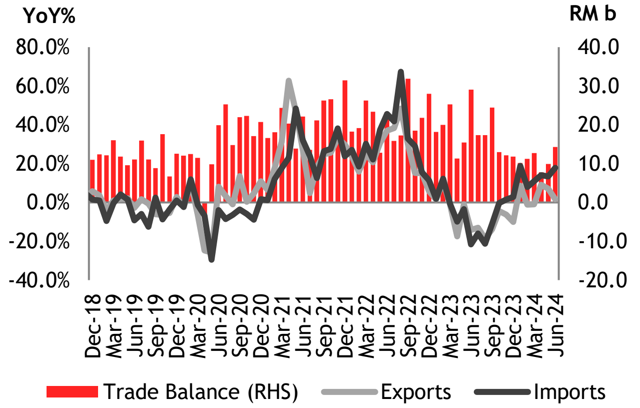
Chart 4: Services GDP vs. Private Consumption vs. Retail Trade (YoY%)



[a] advance estimate
Note: Latest data for Retail Trade refers to Apr-May-24
Source: Macrobond, MIDFR

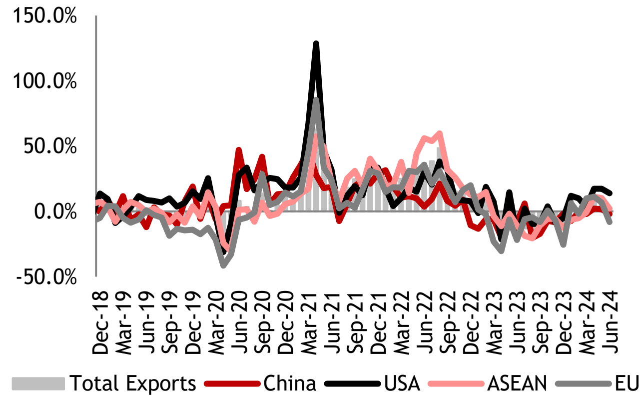
Weaker-than-expected exports growth at +1.7%yoy in Jun-24. Malaysia's total trade continued to grow at +8.7%yoy in Jun-24, sustaining expansion since in Jan-24 due to increases in both exports and imports. The trade balance improved to +RM14.3b (May-24: +RM10b) as imports recorded a sharper monthly decline of (-5.4%mom). Although exports also fell by -1.6%mom from the previous month, the moderation in year-on-year growth was steeper than expected, growing modestly at +1.7%yoy (May-24: +7.1%yoy). The moderation was linked to a sharper fall in re-exports (-15.1%yoy) and slower growth in domestic exports (+7.1%yoy). By major products, the sustained growth was anchored by higher shipments of non-E&E products (mainly machinery, equipment & parts; LNG; palm oil and palm oil products; and other manufactures), which offset declines in exports of petroleum products, E&E and iron & steel products. In contrast, imports grew faster at +17.8%yoy (May-24: +13.4%yoy) driven by imports of manufactured goods mainly E&E products. Despite the renewed decline in E&E exports and softer export growth in Jun-24, we continue to expect the momentum for export growth to improve in the latter part of the year. We anticipate the recovery in E&E exports would be more encouraging in 2HCY24 as Malaysia benefits from the improvement in the global E&E market.

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



Source: Macrobond, MIDFR

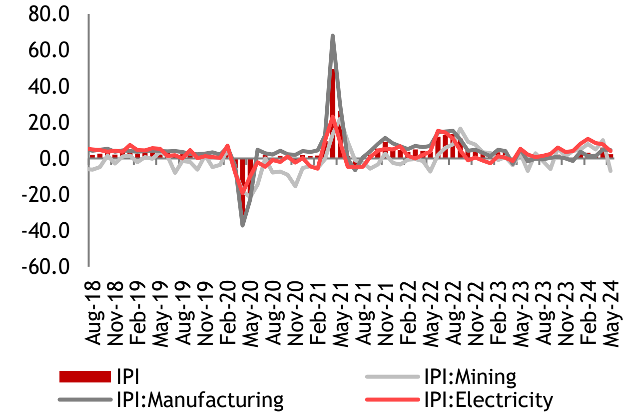
Chart 6: Exports Growth by Major Destination (YoY%)



Source: Macrobond, MIDFR

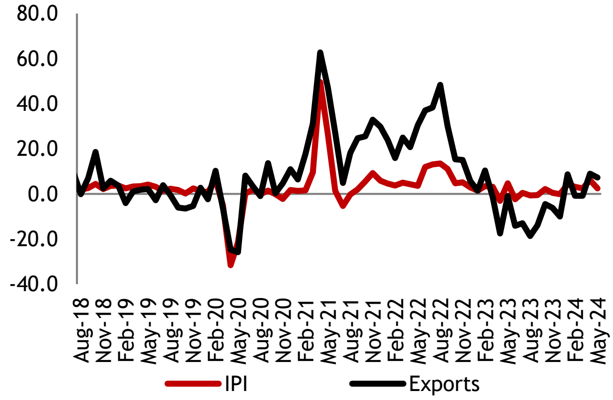
IPI growth moderated to +2.4%yoy in May-24. Malaysia's IPI growth eased to +2.4%yoy in May-24 (Apr24: +6.1%yoy), but still on expansionary since rebounding in the final quarter of last year. The moderation in the IPI growth was steeper than expected, given the higher base in May last year. By major sector, mining production declined by -6.9%yoy due to weaker crude petroleum (-1.9%yoy) and natural gas (-10.3%yoy) output. Meanwhile, manufacturing output growth was sustained at +4.6%yoy (Apr-24: +4.9%yoy), extending growth for the 6th straight month and underpinned by robust output of motor vehicles and computers & peripheral equipment as well as a rebound in output of E&E products. Electricity generation also moderated to +4.2%yoy, but the positive growth reflected growing electricity consumption. The continued expansion in IPI suggests momentum in the economy remained positive with average IPI growth in 5MCY24 relatively stronger at +3.6%yoy compared to +1.9%yoy in 5MCY23.

Chart 7: IPI Performances by Sector (YoY%)



Source: Macrobond, MIDFR

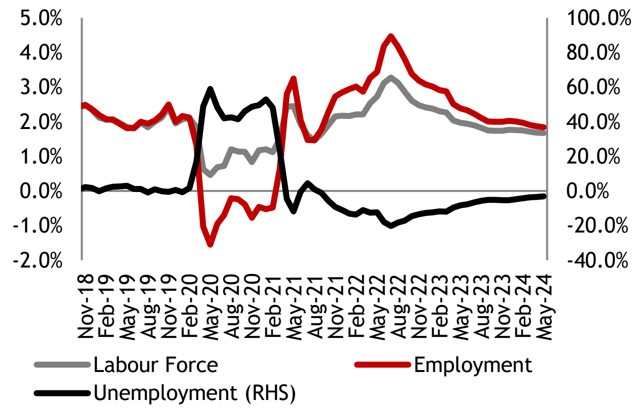
Chart 8: IPI vs Exports (YoY%)



Source: Macrobond, MIDFR

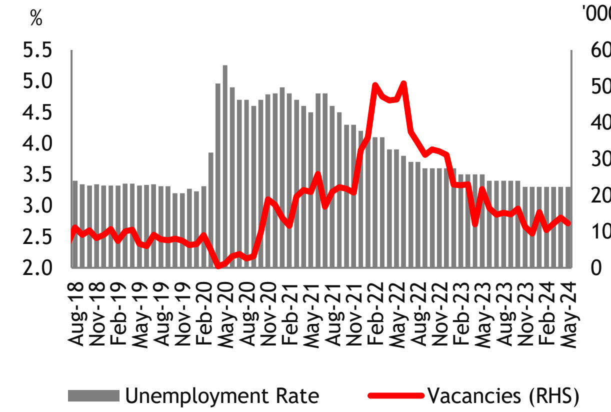
Unemployment rate remained low at 3.3%. As of 5MCY24, average jobless rate was 3.3% (2023: 3.4%) while labour force and employment increased by +1.7% (2023: +2.0%) and +1.9% (2023: +2.4%). The labour market in Malaysia is expected to strengthen further in 2024, backed by steady upbeat momentum in the domestic economy and further recovery in external trade. Malaysia's average unemployment rate is expected to maintain at 3.3% in 2024. The return of non-citizens workers is expected to boost overall employment and reduce the jobless rate. As of 2023, non-citizens' employment is -2.4% lower than pre-pandemic levels. The downside risks to Malaysia's labour market among others is lower-than-expected external trade recovery and nosedived of global commodity prices.

Chart 9: Leading Index vs KLCI (Points)



Source: Macrobond, MIDFR

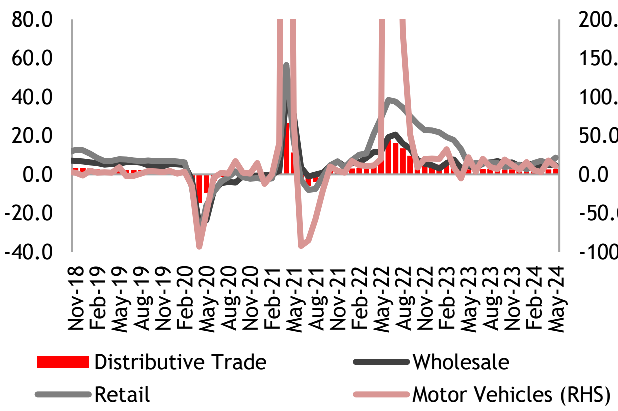
Chart 10: Leading Index* vs GDP (YoY%)



Source: Macrobond, MIDFR

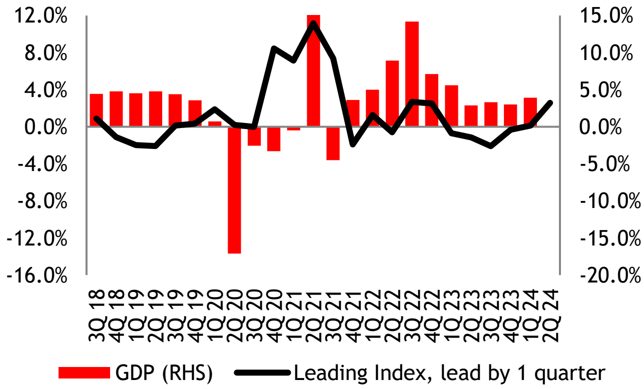
Retail trade growth surged to more than 1-year high. Malaysia's consumer demand remained firm as overall domestic trade expanded by +7.1%yoy in May-24, the fastest pace since Mar-23. Among the upside factors were retail trade expansion rate which registered at 13-month high of +8.7%yoy and motor vehicle sales maintained at double-digit pace for 2-straight months. In terms of seasonally adjusted volume, distributive trade expanded by +5.5%yoy (Apr-24: +7.5%yoy) while motor vehicles and retail trade improved by +7.5%yoy and +6.8%yoy respectively. Apart from stable job market and low inflationary pressure, we opine the approval of partial withdrawal of retirement fund which took effect in May-24 could be a boosting factor for the uptick of overall distributive trade sales. Looking ahead, we foresee consumer demand to stay on expansionary mode amid stable job market, better pick-up in tourism activities and supportive & accommodative economic policies. However, there remain downside risks to the demand especially with potential high inflation expectations and pessimistic consumer sentiment.

Chart 11: Distributive Trade (YoY%)



Source: Macrobond, MIDFR

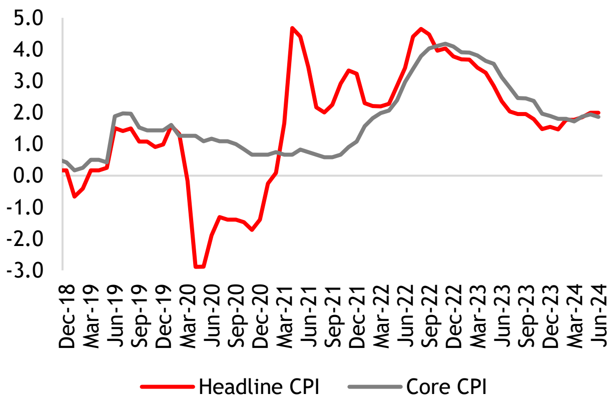
Chart 12: Distributive Trade vs. CPI vs. Employment (YoY%)



Source: Macrobond, MIDFR

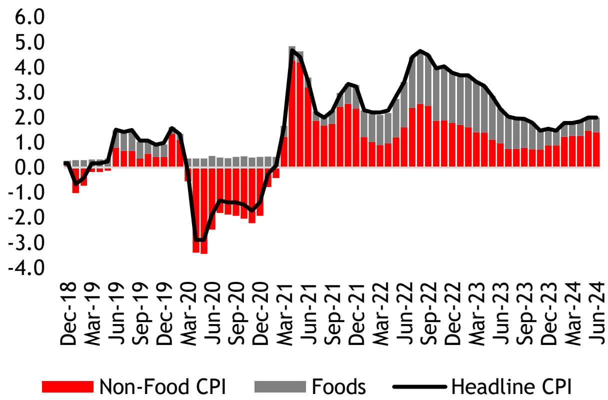
Stable inflation in Jun-24 despite diesel price surge. Headline inflation was unchanged at +2.0%yoy in Jun-24, still the fastest rate since Sep-23. The stable inflation was lower than +2.2%yoy predicted by market expectations. Non-food inflation moderated to +1.9%yoy (May-24: +2.0%yoy), easing from the 15-month high seen in the previous month. Meanwhile, transport inflation rose to +1.2%yoy, a 3-month high as diesel prices soared +15.8%yoy in view of the targeted diesel subsidies. We predict an average headline inflation rate of +2.7% for 2024. We believe the government may need more time to refine the subsidy distribution and fuel price mechanisms, particularly for RON95. In our view, the targeted-RON95 subsidy may commence in 4QCY24. Therefore, we anticipate an average inflation rate of +2.7% due to the gradual implementation of targeted fuel subsidies and moderating food price growth.

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



Source: Macrobond, MIDFR

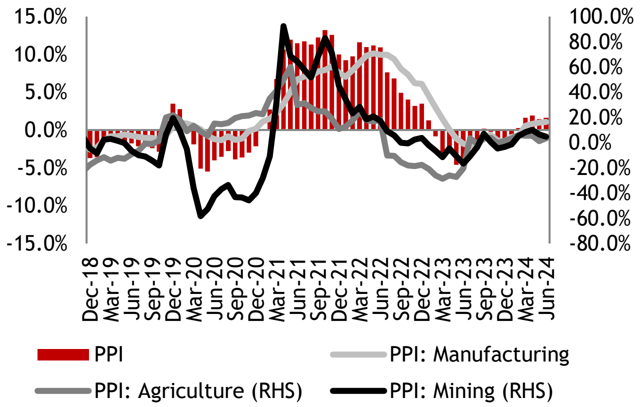
Chart 14: Food vs Non-Food CPI (YoY%)



Source: Macrobond, MIDFR

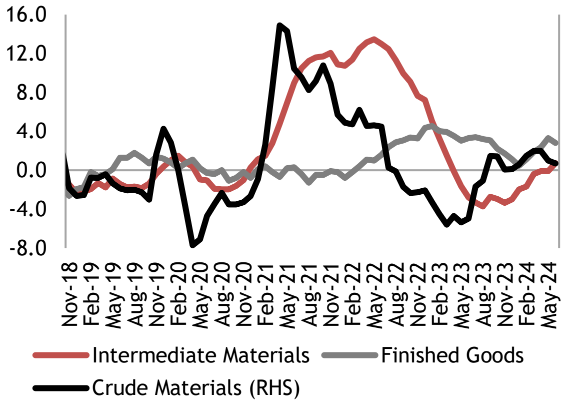
PPI increased faster at 1.6%yoy in Jun-24. Malaysia's PPI inflation accelerated to +1.6%yoy in Jun-24, marking the second consecutive month of increase and the fastest rise compared to May 2024. By sector, the agriculture, forestry & fishing sector experienced a faster rise in input costs at +3.4%yoy (May-24: +0.6%yoy). Meanwhile, inflation in the mining sector deflated at +4.6%yoy (May-24: +6.6%yoy). In addition, producer price inflation for the electricity and gas sector eased slightly to +1.0%yoy (May-24: +1.5%yoy). In the utilities sector, water supply costs jumped to 7.8%yoy in Jun-24 while costs for electricity, gas & water supply decelerated to +7.8%yoy (May-24: +8.7%yoy). Compared to the previous month, PPI fell further by -0.1%mom (May-24: -0.9%mom) due to declines in prices paid by businesses in the mining and electricity & gas industries. The continued rise in PPI signals higher cost pressures for local businesses. However, since the pace of PPI inflation has yet to exceed the CPI inflation rate, we anticipate limited pressure for companies to raise selling prices. We foresee supply-side adjustments could push prices higher, but thus far changes in PPI remained under control and has been influenced more by the movement in the global commodity prices. In other words, the Jun-24 PPI data also indicated that the one-off hike in diesel prices posed limited upside pressures on businesses.

Chart 15: : PPI by Sector (YoY%)



Source: Macrobond, MIDFR

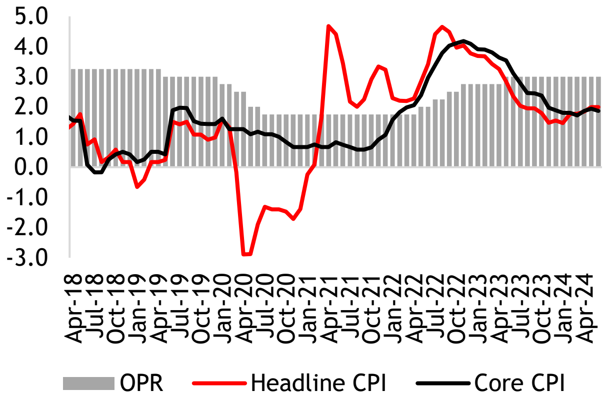
Chart 16: PPI by Processing Stage (YoY%)



Source: Macrobond, MIDFR

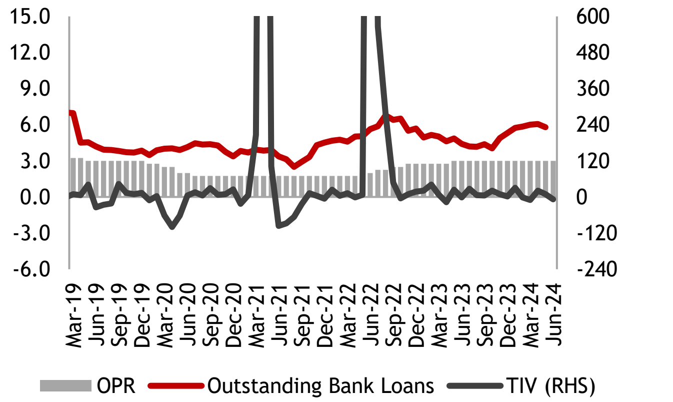
OPR maintained at 3.00% as expected. BNM decided to maintain the Overnight Policy Rate (OPR) at 3.00% after the Monetary Policy Committee meeting on 11 July 2024. BNM indicated an uptick in Malaysia's economic activity in the first quarter of 2024, such as increased household spending and investment activities, however, there are also risks, including potential lower external demand and fluctuations in commodity production. Export growth is expected to quicken, fuelled by the global tech upcycle and continuous demand for non-electrical goods. However, downside risks remain from weaker-than-expected external demand and larger declines in commodity production. Regarding price developments, BNM expected inflation to remain moderate throughout 2024, reflecting stable demand conditions and contained cost pressures. The inflation outlook hinges on domestic policy adjustments, notably subsidies and price controls. BNM also mentioned that the impact of subsidy rationalization could affect the trajectory of inflation, projecting headline and core inflation to average between +2.0% and +3.5% and +2.0% and +3.0%, respectively, for the year. We forecast the OPR will be kept at 3.00% in 2024 to ensure that monetary policy remains supportive of economic growth, with inflation remaining under control.

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



Source: Macrobond, MIDFR

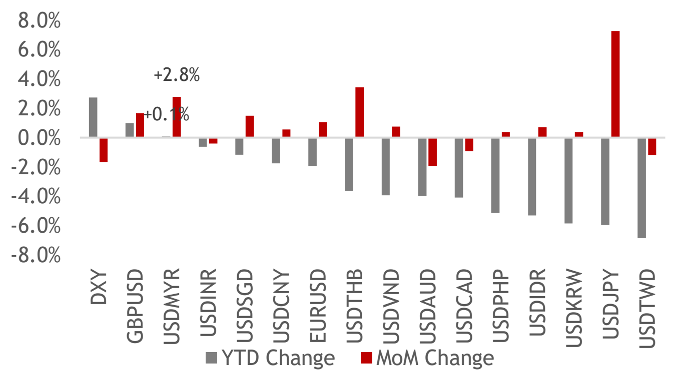
Chart 18: OPR (%) vs Loan Application & Total Industry Volume (YoY%)



Source: Macrobond, MIDFR

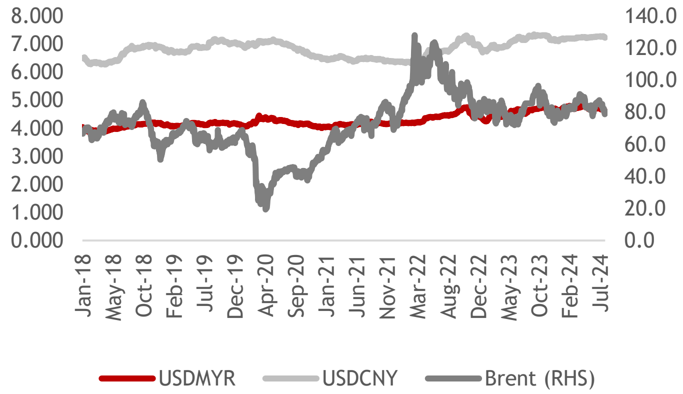
Ringgit erased 1HCY24 losses in Jul-24. The ringgit started 2HCY24 at a stronger position, closing Jul-24 +2.8%mom stronger at RM4.591, the strongest closing in 2024 and completely erasing losses earlier this year. As a result, from the year-to-date performance until end-Jul-24, ringgit appreciated slightly against the US dollar by +0.1%ytd (end-2023: RM4.594). On average, the ringgit was up +0.7%mom to RM4.679. The gradual strengthening of the ringgit throughout the month was underpinned by a series of data releases signalling a further easing in the US inflation and softer US economic outlook, particularly more signs of cooling labour market. Even ahead of the Jul-24 FOMC meeting, ringgit already strengthened towards RM4.60. The more dovish sentiment on the Fed's future policy direction after the Jul-24 FOMC decision also signalled subsiding dollar strength and further ringgit appreciation in the coming months. Contrary to the trend in commodity prices as Brent crude oil prices plunged by -6.6%mom to USD80.72pb, the appreciation of ringgit in Jul-24 therefore suggests the ringgit movement was more influenced by the financial market developments. With the ringgit breaking under RM4.60 mark, we foresee further appreciation of the ringgit would continue the coming months as the Fed move closer towards easing its policy interest rate.

Chart 19: Monthly and Year to Date Changes in FX Rates for Selected Currencies Against US Dollar (%)



Source: Bloomberg, MIDFR

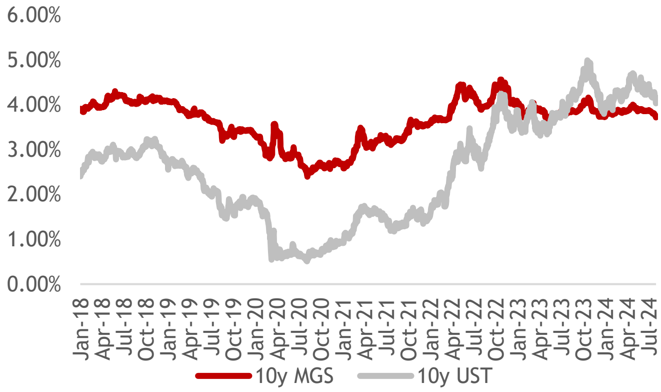
Chart 20: USDMYR vs. USDCNY vs. Brent Crude Oil Price (USD pb)



Source: Bloomberg, MIDFR

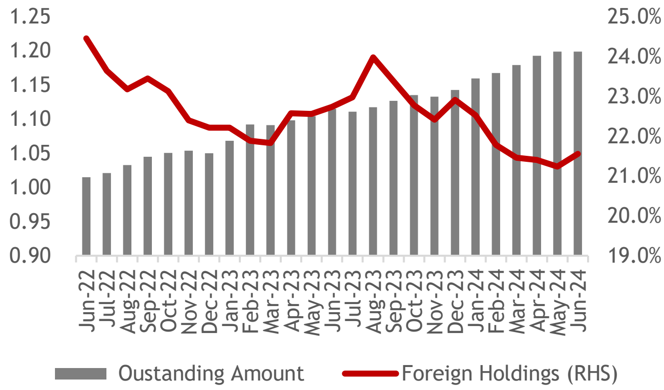
10-year MGS yield closed the lowest in over a year. The 10-year MGS yield declined by -15bps to 3.72% in Jul-24 (Apr-24: 3.98%). Along with the stronger ringgit, the lower yield indicated the possibility of returning foreign inflow into the domestic bond market. Based on the latest available data, foreign holding of Malaysian bonds fell for the first time in 4 months to RM271.3b in Jun-24 (May-24: RM271.9b). Foreign holdings of govvies remained at 21.6% or RM258.4b of the total outstanding government bonds in Jun-24, well under the pre-pandemic level (2019 average: 23.1%). We continue to foresee further decline in 10-year MGS yield as foreign interest in domestic bond market returned on expectations of narrowing FFR-OPR interest differential building on the expectations that the Fed will begin cutting its interest rate later this year.

Chart 21: 10y MGS vs 10y UST Yields (%)



Source: Macrobond, MIDFR

Chart 22: Share of Foreign Holding (%) vs Outstanding MGS/MGII/Treasury Bills (RM t)



Source: Macrobond, MIDFR

Malaysia's economy could growth stronger than +4.7% in 2024. Given the more encouraging growth momentum, we are sanguine that Malaysia's economic growth will be able to return back to above +4% this year, with our existing 2024 GDP projection at +4.7% (2023: +3.6%). As we will review our forecast when the full data for 2QCY24 is published, if we were to factor in the stronger-than-expected advance 2QCY24 GDP estimate alone, we see an upside risk to our 2024 GDP forecast, where Malaysia's economy could grow even stronger at 5%. We believe the sustained positive momentum will be underpinned by rising domestic spending and more encouraging business activities, in addition to the external trade recovery. Nevertheless, we are cautious that growth outlook may be constrained by higher-than-expected inflation from further subsidy adjustment and the risk of slower growth in the major economies (particularly China and USA). Moreover, Malaysia's external trade and production activities could be negatively impacted by potential disruption to global trade flow amid ongoing geopolitical and trade tensions.

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

July 2024 Key Economic Events

1 July: US manufacturing mired in weakness; prices paid gauge hits six-month low The Institute for Supply Management (ISM) said on Monday that its manufacturing PMI slipped to 48.5 last month from 48.7 in May.

4 Jul: Fed sought more evidence of cooling inflation, June minutes show. Minutes from the two-day Federal Open Market Committee gathering ended June 12 showed officials didn't expect it would be appropriate to lower borrowing costs "until additional information had emerged to give them greater confidence that inflation" is on track to their 2% goal.

4 July: Miti: RM195b approved investments for manufacturing sector from January 2023-March 2024 The manufacturing sector, under the purview of the Ministry of Investment, Trade and Industry (Miti) and the Malaysian Investment Development Authority (Mida), recorded RM194.9 billion worth of approved investments from January 2023 to March 2024.

6 July: US labor market losing steam as unemployment rate climbs to 4.1% Nonfarm payrolls increased by 206,000 jobs last month, lifted by government hiring, the Labor Department's Bureau of Labor Statistics said. Economists polled by Reuters had forecast payrolls would increase by 190,000 last month, with the unemployment rate unchanged at 4.0%.

9 July: Putrajaya yet to decide on rollout date for high-value goods tax In a written parliamentary reply to Datuk Seri Wee Ka Siong (Barisan Nasional-Ayer Hitam), the MOF said that the HVGT, which initially proposed to start on May 1 this year, has been postponed to a date to be decided by the Cabinet.

9 July: Budget 2025 to continue efforts in economic restructuring, towards inclusive growth — Anwar Noting that the government's main challenge is to raise both the ceiling and the floor (championing social justice to ensure the enlarged wealth is shared equitably), Anwar said that if the government does the former without the other, the people, especially the urban and rural poor, will be burdened.

11 July: Fed's Powell: Will act 'when and as' needed, regardless of election U.S. Federal Reserve Chair Jerome Powell on Wednesday said the central bank would make decisions on interest rates "when and as they need to be made" with no consideration to the coming presidential election.

11 July: Johor-Singapore SEZ framework in final discussion phase The framework for the Johor-Singapore Special Economic Zone (JS-SEZ) is currently in the final phase of discussions and is expected to be finalised in September, says Datuk Onn Hafiz Ghazi.

14 July: Amir Hamzah sees ringgit staging rebound in 2H2024 Encouraging foreign direct investments by government-linked companies (GLCs) and government-linked investment companies (GLICs) to Malaysia, as well as monitoring the exchange of export and import revenues are among concerted efforts undertaken by the government to strengthen the ringgit, said Finance Minister II Datuk Seri Amir Hamzah Azizan.

15 July: China's economy falters, raises pressure for more stimulus China's economy grew slower than expected in the 2Q as a protracted property downturn and job insecurity knocked the wind out of a fragile recovery, keeping alive expectations Beijing will need to unleash even more stimulus. China's GDP grew 4.7% in April-June, official data showed, its slowest since 1Q 2023 and missing a 5.1% forecast in a Reuters poll. It also slowed from the previous quarter's 5.3% expansion.

15 July: Federal govt debt climbed to RM1.22 tril at end-April 2024 — MOF The federal government's debt increased by RM50 billion to RM1.22 trillion by the end of April 2024, against RM1.17 trillion at the end of 2023, according to the Ministry of Finance (MOF).

16 July: IMF sees steady global growth, warns of slowing disinflation momentum The global economy is set for modest growth over the next two years amid cooling activity in the US, a bottoming-out in Europe and stronger consumption and exports for China, but risks to the path abound, the International Monetary Fund said on Tuesday.

17 July: Padu data to guide RON95 subsidy retargeting, says ministry The RON95 targeted subsidy mechanism will fully utilise data from the Central Database Hub (Padu) and eligibility for the subsidy will be based on net household disposable income, according to the Ministry of Economy.

22 July: MOF: Coordinated efforts culminated in ringgit becoming Asia's top-performing currency The ringgit has emerged as the top-performing currency in the Asian region compared to the US dollar as a result of the implementation of coordinated actions by the government and Bank Negara Malaysia since Feb 26, 2024, said the Ministry of Finance.

25 July: Govt committed to reducing national debt, fiscal deficit — Anwar Prime Minister Datuk Seri Anwar Ibrahim has refuted claims that the monetary, fiscal and budget policies have not been successful in achieving the government's promise of debt and fiscal deficit reduction.

28 July: Kamala Harris erases Trump's poll lead in one week Kamala Harris has virtually erased Donald Trump's six-point lead in the race for US president, according to a new poll. The battle for the White House is now effectively tied as Trump's six-point lead over Joe Biden was squashed to just two points after Ms Harris took his place as election frontrunner for the Democrats, according to the Wall Street Journal.

28 July: Fed Is About to Nod at a Rate Cut as Job Growth Moderates Federal Reserve officials are on the verge of lowering borrowing costs within months, a move Chair Jerome Powell may signal in the coming week as the risks grow of imperilling a solid but moderating job market.

30 July: Budget 2025: MOF mulls new public-private partnership masterplan, expansion of tax base The new PPP Masterplan will be aimed at encouraging private investments to fund the development for crucial public infrastructures, according to MOF's pre-Budget 2025 statement on Tuesday.

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