2 September 2024

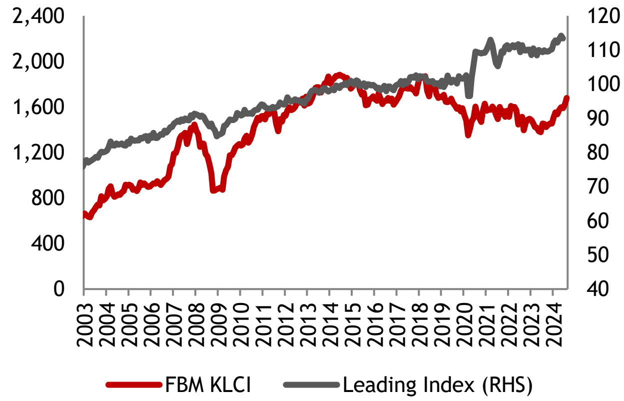
MONTHLY ECONOMIC REVIEW | August 2024

Malaysia's Positive Growth Momentum to Continue in the Near Term

- *Growth momentum will continue. Malaysia's Leading Index (LI) rose further at +3.5%yoy in Jun-24 (May-24: +3.8%yoy), expanding for the 7th straight month. The sustained annual growth was mainly driven by the increase in the Bursa Malaysia Industrial Index.*
- *Growth in 2Q slightly higher than advance estimate. Malaysia's GDP growth accelerated to +5.9%yoy in 2QCY24, marking the fastest expansion in 6 quarters (1QCY24: +4.2%yoy). This growth surpassed the advance estimate of +5.8%yoy but fell slightly below our projection of +6.1%yoy.*
- *Domestic demand remains upbeat. Malaysia's domestic demand remained firm as overall domestic trade continued to expand by +5.4%yoy in Jun-24 (May-24: +7.1%yoy), marking the 5th consecutive month of growth above +5%yoy. Consumer spending remained robust with retail sales growing at +7.9%yoy.*
- *Headline inflation steadied at +2.0%yoy in Jul-24. Headline CPI inflation remained at +2.0%yoy for the 3rd consecutive month in Jul-24. Food inflation eased to a 4-month low of +1.7%yoy (Jun-24: +1.9%yoy), while non-food inflation quickened to +2.1%yoy.*
- *Malaysia's economy to grow stronger at +5.0% in 2024. Considering the robust growth in 2QCY24, encouraging expansion in the domestic demand and continued recovery in external demand, we now predict Malaysia's economic growth would grow stronger at +5.0% this year (2023: +3.6%).*

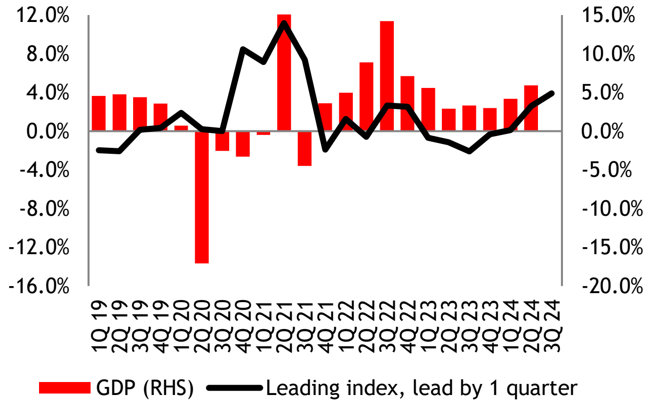
Positive growth momentum will continue. Malaysia's Leading Index (LI) rose further at +3.5%yoy in Jun-24 (May-24: +3.8%yoy), expanding for the 7th straight month. The sustained annual growth was mainly driven by the increase in the Bursa Malaysia Industrial Index. However, the LI experienced a decline of -0.7%mom (May-24: -0.5%mom), the second consecutive monthly contraction, due to declines in all LI components from May-24, except the Bursa Malaysia Industrial Index (+0.4%mom) and real money supply, M1 (+0.2%mom). Meanwhile, the Coincident Index (CI) rose faster by +2.6%yoy in Jun-24 (May-24: +2.2%yoy), primarily driven by an +8.5%yoy increase in real contributions to EPF and a +6.4%yoy rise in the volume index of retail trade. The monthly performance of CI also increased by +0.2%mom, with all components contributing positively except capacity utilisation in the manufacturing sector (-0.3%mom). The continued rise in LI suggests the positive momentum in Malaysia's economy will generally continue in 2HCY24. This supports our recent upward revision of 2024 GDP growth forecast to 5.0% (2023: +3.6%) as we foresee the national economic growth will continue to be supported by growing domestic spending and recovery in the external trade activity.

Chart 1: Leading Index vs KLCI (Points)



Source: Macrobond, MIDFR

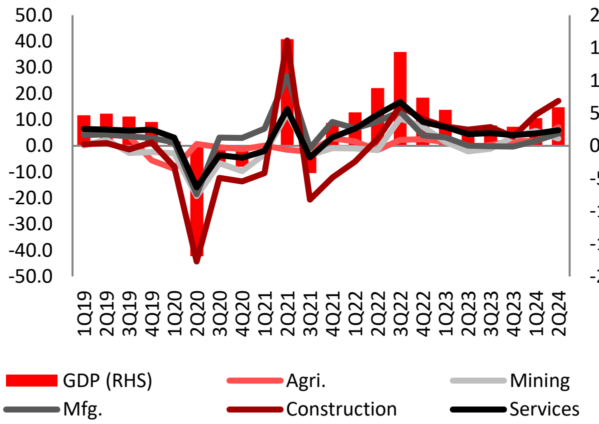
Chart 2: Leading Index* vs GDP (YoY%)



Source: Macrobond, MIDFR

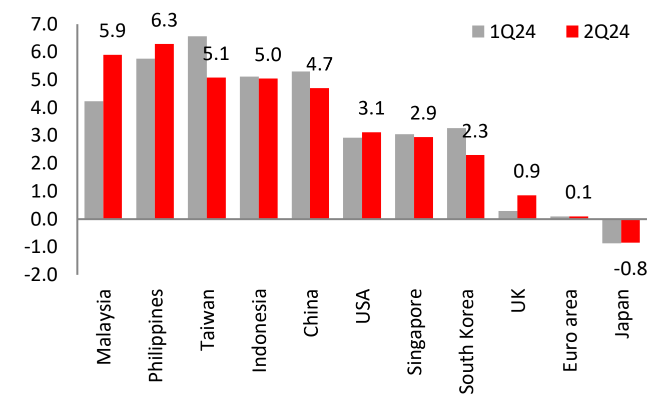
Growth in 2Q slightly higher than advance estimate. Malaysia's GDP growth accelerated to +5.9%yoy in 2QCY24, marking the fastest expansion in 6 quarters (1QCY24: +4.2%yoy) and surpassed the advance estimate of +5.8%yoy. For 1CHY24, the economy expanded +5.1%yoy, stronger than +3.0%yoy in 2HCY23. The robust performance was driven by sustained resilience in domestic demand, improvements in manufacturing activities, and recovery in external trade. Looking ahead, the uptrend in the semiconductor industry and the rollout of various construction projects in 2HCY24 are expected to continue supporting Malaysia's economic growth. Against the previous quarter, Malaysia's seasonally adjusted GDP grew further by +2.9%qoq (1QCY24: +1.5%qoq), the fastest sequential growth since 2QCY22. The quarterly growth was supported by stronger growth in private consumption spending and gross fixed capital formation as well as a rebound in the government spending. By the sector breakdown, all industries, except mining & quarrying, recorded stronger growth in 2Q.

Chart 3: Malaysia's GDP by Supply Side (YoY%)



Source: Macrobond, DOSM, MIDFR

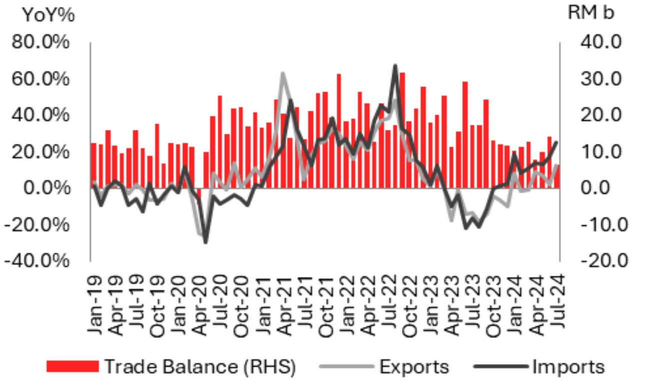
Chart 4: GDP for Selected Economies (YoY%)



Source: Macrobond, MIDFR

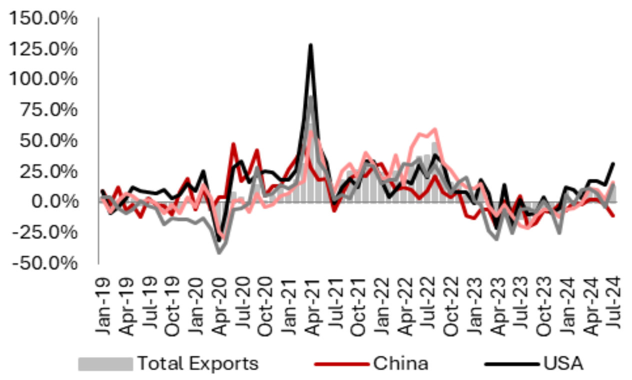
Exports grew stronger than expected at +12.3%yoy in Jul-24. Malaysia's total trade rose by +18.3%yoy, extending expansion since Jan-24. While the annual growth reflected both higher exports and imports, the trade balance however recorded smaller surplus of +RM6.4b (Jun-24: +RM14.3b) mainly due to the sharper monthly rise in imports. Export growth accelerated to +12.3%yoy in Jul-24, marking the fastest growth in more than 1.5 years, driven by stronger domestic exports (+18%yoy) which continued to cushion the drag from falling re-exports (-5.8%yoy). The stronger exports growth in Jul-24 was supported by higher shipments of palm oil & palm oil products as well as rebounds in exports of E&E and petroleum products. By destination, exports grew faster to major destinations except China and Hong Kong. Meanwhile, imports also grew faster by +25.4%yoy in Jul-24 (Jun-24: +17.8%yoy) due to higher purchases of manufactured goods, mainly E&E products and machinery, equipment & parts. We believe the export recovery to continue in 2HCY24, driven by foreign demand for both E&E and non-E&E products. The external trade recovery will support our projection that Malaysia's economy will grow stronger this year, in addition to the sustained growth in domestic spending activities.

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



Source: Macrobond, MIDFR

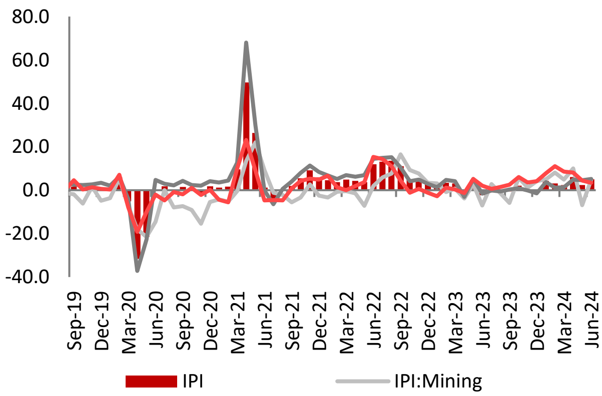
Chart 6: Exports Growth by Major Destination (YoY%)



Source: Macrobond, MIDFR

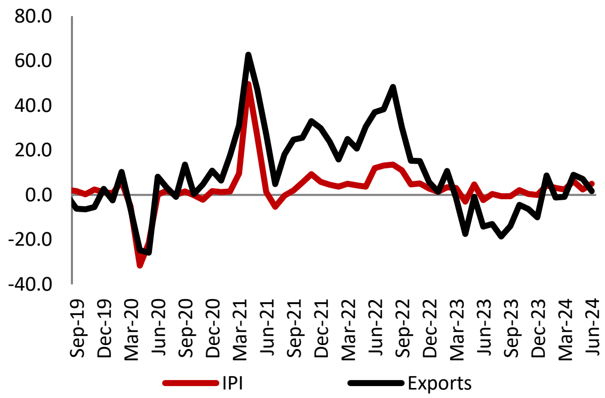
IPI growth increased to +5.0%yoy in Jun-24. Malaysia's IPI growth accelerated to +5.0%yoy in Jun-24 (May-24: +2.4%yoy), continuing its expansion since rebounding in the final quarter of last year. By major sector, mining production rebounded to grow by +4.9%yoy (May-24: -6.9%yoy), supported by stronger crude petroleum (+3.5%yoy) and natural gas (+6.0%yoy) output. Meanwhile, manufacturing output surged +5.2%yoy (May-24: +4.6%yoy), the fastest pace of growth in its current 6-month expansionary sequence, driven by the rebound in refined petroleum productions and continued expansion of E&E-related productions. Electricity generation saw growth moderated to +3.5%yoy, reflecting steady electricity consumption. The faster expansion in IPI suggests an upbeat momentum in the economy, with the index registering growth throughout 1HCY24. Average IPI growth in 1HCY24 was relatively stronger at +3.9%yoy compared to +1.2%yoy in 1HCY23. The stronger GDP growth in 2QCY24 was also underpinned by stronger industrial production (2QCY24: +4.5%yoy; 1QCY24: +3.3%yoy), particularly due to stronger manufacturing output (2QCY24: +4.9%yoy; 1QCY24: +2.1%yoy).

Chart 7: IPI Performances by Sector (YoY%)



Source: Macrobond, MIDFR

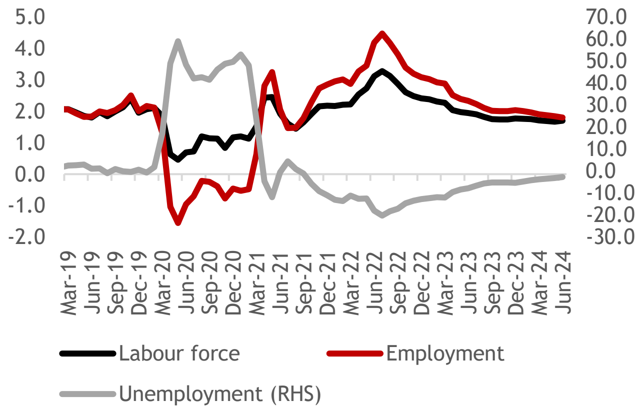
Chart 8: IPI vs Exports (YoY%)



Source: Macrobond, MIDFR

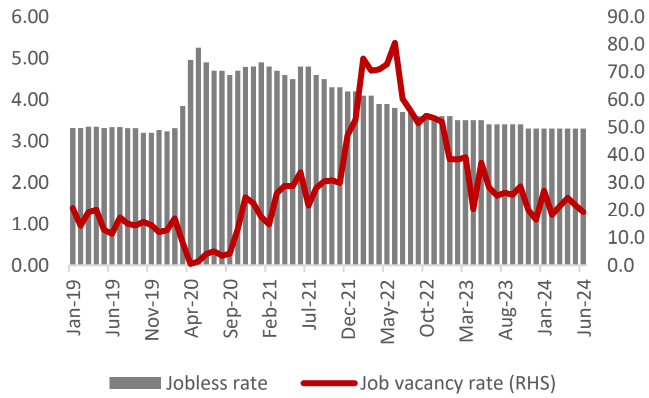
Labour market remains stable in Jun-24. Malaysia's labour market remained robust in Jun-24, with the unemployment rate holding steady at a post-pandemic low of 3.3%. Both the labour force and employment figures showed consistent year-on-year growth, increasing by +1.7%yoy and +1.8%yoy, respectively. The number of unemployed persons was recorded at 565K in Jun-24, approximately 46K higher than the average jobless persons of 519K in 2019. For youth aged 15~24, the unemployment rate remained at a post-pandemic low of 10.5% (2019: 10.4%). By employment type, employee which made up 75.0% of the employment increased steadily by +1.3%yoy while employer (3.6% of employment) and own-account-worker (18.4% of employment) increased by +4.7%yoy and +3.8%yoy respectively in Jun-24. As of 1HCY24, average vacancy rate stood at 22.0% (2023: 28.7%). Looking ahead, we see that the still encouraging job vacancies number signals continuous stability in the labour market. Steady upbeat momentum in the domestic economy and further recovery in external trade are key supporting factors for the job market.

Chart 9: Labour Market Performance (YoY%)



Source: Macrobond, MIDFR

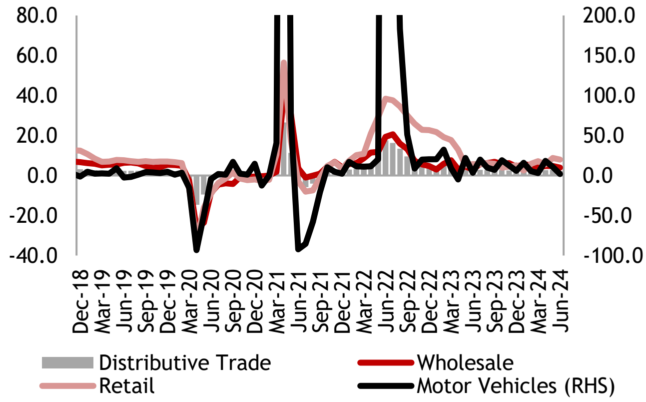
Chart 10: Leading Index* vs GDP (YoY%)



Source: Macrobond, MIDFR

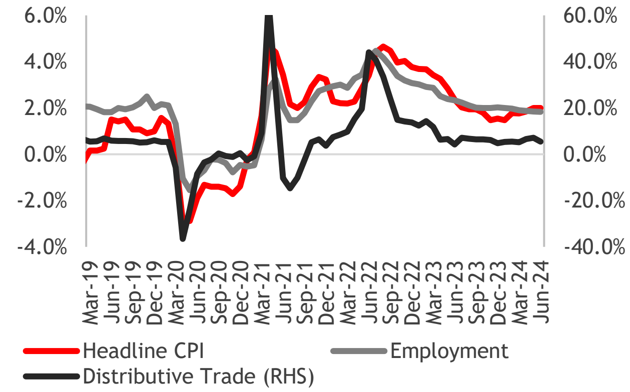
Domestic demand remains upbeat. Malaysia's domestic demand remained firm as overall domestic trade continued to expand by +5.4%yoy in Jun-24 (May-24: +7.1%yoy), marking the 5th consecutive month of growth above +5%yoy. Consumer spending remained robust with retail sales growing at +7.9%yoy, although moderating from the over 1-year high of +8.7%yoy in May-24. Growth in motor vehicle sales, however, moderated sharply to +2.0%yoy (May-24: +10.5%yoy), ending 2 consecutive months of double-digit expansion. The softer growth in vehicle sales in Jun-24 might be due to the implementation of diesel subsidy rationalisation which affected commercial vehicle sales. Meanwhile, wholesale trade advanced further by +4.0%yoy, albeit slowing to a 3-month low. The sustained expansion in consumer demand was aligned with the healthy labour market condition and stable inflation, as price pressures in general remained under control despite the implementation of diesel subsidy rationalisation in Jun-24. Looking ahead, we anticipate consumer demand to maintain its expansionary trajectory, supported by a stable job market, increased tourism activity, and supportive economic policies. Nevertheless, potential downside risks persist, notably elevated inflation expectations and subdued consumer sentiment.

Chart 11: Distributive Trade (YoY%)



Source: Macrobond, MIDFR

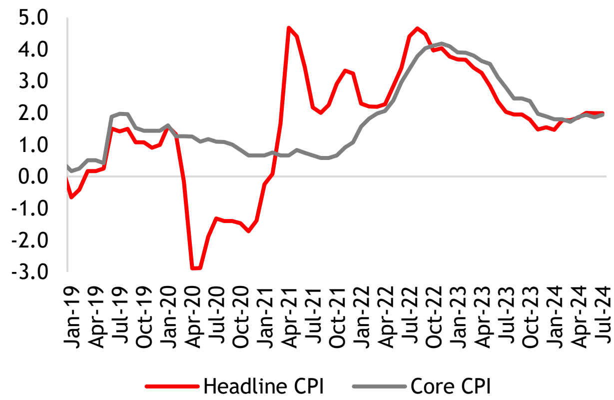
Chart 12: Distributive Trade vs. CPI vs. Employment (YoY%)



Source: Macrobond, MIDFR

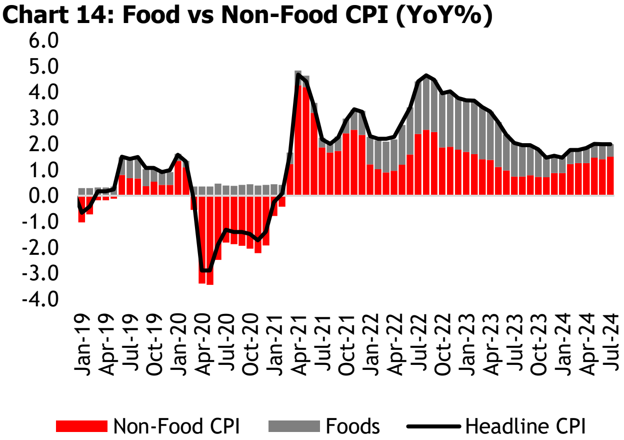
Headline inflation steadied at +2.0%yoy in Jul-24. Headline CPI inflation remained at +2.0%yoy for the 3rd consecutive month in Jul-24. Food inflation eased to a 4-month low of +1.7%yoy (Jun-24: +1.9%yoy), with food-at-home prices rising by a mere +0.3%yoy. Non-food inflation quickened to +2.1%yoy, the fastest in 16 months. The rise in non-food inflation was predominantly due to the uptick in prices of personal care, social protection & miscellaneous goods & services at +3.2%yoy, which was the highest since 2016 and rebound in prices of insurance & financial services. Meanwhile, transport inflation was unchanged at +1.2%yoy, despite a more pronounced impact of diesel subsidy rationalisation pushing diesel prices soaring by +22.6%yoy (Jun-24: +15.8%yoy). Underlying demand pressure is still contained as core CPI inflation steadied at +1.9%yoy for the 4th consecutive month, the highest since end-2023. In the first 7MCY24, consumer inflation averaged at +1.8%yoy (2023: +2.5%yoy). In 2HCY24, we foresee a gradual rise in prices, attributed to targeted diesel subsidies, increased utility charges, the higher SST rate of 8.0% on selected items, and the 10% low-value goods tax (LVGT). As we approach 4QCY24, we anticipate the potential implementation of a managed-float mechanism for the RON95 prices as a result of targeted subsidy roll-out.

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



Source: Macrobond, MIDFR

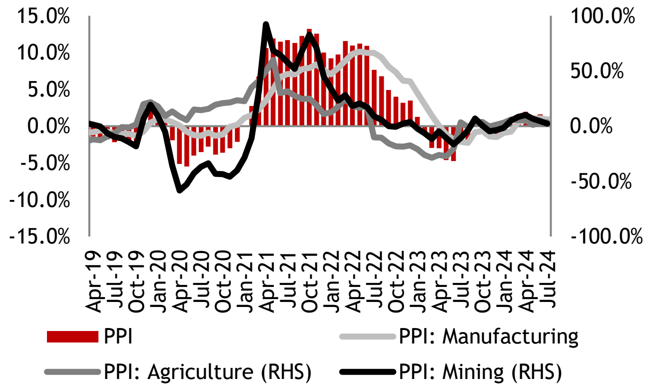
Chart 14: Food vs Non-Food CPI (YoY%)



Source: Macrobond, MIDFR

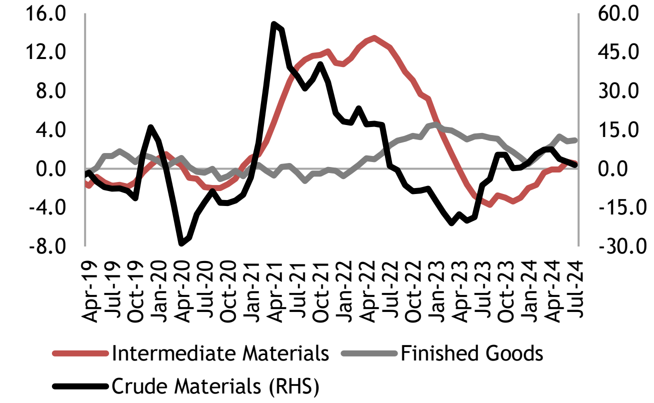
PPI increased further in Jul-24. Cost pressures continued to increase as Malaysia's Producer Price Index (PPI) increased further by +1.3%yoy in Jul-24, albeit slightly slower than +1.6%yoy rise in Jun-24. The water supply sector saw the most significant rise, surging by +9.0%yoy, while the PPI inflation in the agriculture, forestry, and fishing sector was unchanged at +3.4%yoy. In contrast, the PPI inflation for the mining sector moderated to +2.2%yoy (Jun-24: +4.6%yoy), primarily due to a deceleration in the PPI for extraction of crude petroleum. Meanwhile, producer prices for the manufacturing sector posted a marginal increase of +0.9%yoy, mainly led by +7.0%yoy rise in the costs for manufacture of computer, electronic, and optical products. On a month-on-month basis, the PPI deflated by -0.2%mom, with declines in the manufacturing PPI (-0.3% mom) and prices paid by producers in the electricity and gas supply (-0.8%mom). The rise in cost pressures did not accelerate in Jul-24, also indicating small impact from the policy changes and diesel subsidy adjustment. With the PPI inflation continuing to be lower than CPI inflation, we believe the pressures to pass cost increases to customers are still under control. Nevertheless, the sustained rise in PPI suggests local producers are gradually facing increasing production costs, particularly affected by the elevated commodity prices.

Chart 15: : PPI by Sector (YoY%)



Source: Macrobond, MIDFR

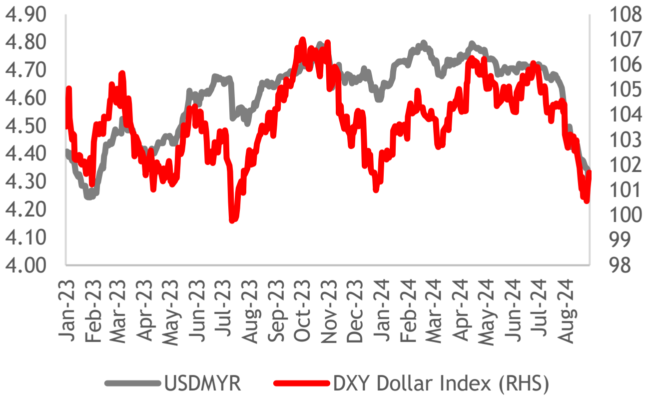
Chart 16: PPI by Processing Stage (YoY%)



Source: Macrobond, MIDFR

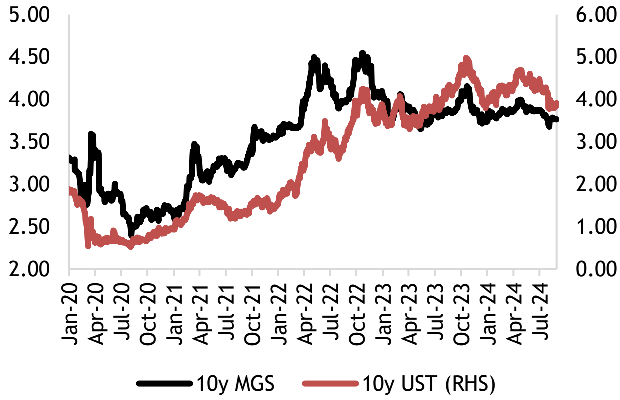
Ringgit gained, but 10y MGS yield rose in Aug-24. Growing expectations for rate cuts by the Fed has been major factor affecting the financial markets, with the ringgit appreciating strongly by +6.2%mom and closed at RM4.321 by end-Aug-24 (end-Jul-24: RM4.591). The end-month closing was the strongest level last seen in Feb-23. The dovish sentiment was reinforced by the Fed Chairman's speech at the annual symposium in Jackson Hole which sent a strong signal that the Fed is pivoting towards easing its monetary policy as the US inflation moderates further amid indication of cooling labour market. Our Trade-Weighted Ringgit Index also increased by +4.0%mom to 91.3 (end-Jul-24: 87.8), indicating ringgit also broadly gained against currencies of Malaysia's major trading partners. On the other hand, the 10-year MGS yield rose by +1.1%mom to 3.759% in Aug-24 (end-Jul-24: 3.719%). While the MGS market typically moves in tandem with the US treasury yield which fell during the month, we believe the higher MGS yield suggests the repricing in market expectations on the aggressiveness of policy rate cuts. In other words, the Fed may not ease its policy rate excessively to ensure inflation will continue to move lower towards its +2% target on the back of still resilient economy and job market. As market will continue to be influenced by the rate cut expectations, we foresee ringgit has rooms to appreciate towards RM4.23 by year-end. On the same note, we expect 10-year MGS yield will decline and end the year at 3.60%.

Chart 17: USDMYR vs. US DXY Dollar Index



Source: Bloomberg, MIDFR

Chart 18: 10y MGS vs 10y US Treasury Yields



Source: Bloomberg, MIDFR

Malaysia's economy to grow stronger at +5.0% in 2024. Taking into account the robust growth in 2QCY24, encouraging expansion in the domestic demand and continued recovery in external demand, we now predict Malaysia's economic growth would grow stronger at +5.0% this year (2023: +3.6%). The continued rise in LI also suggests the positive growth fundamentals will continue in the near term i.e. in 2HCY24. Despite the more optimistic view on the domestic economic picture, we keep a close look at several factors which could derail growth outlook such as weaker growth in China, recession risk in the US, recent escalation in the geopolitical tensions, and potential disruptions to the global supply chain and trade flow. On the domestic front, although inflation has been generally under control, potential uptrend in price pressures from planned policy changes could hurt consumer sentiment and their discretionary spending.

Table 1: Macroeconomic Past Performances (%)

(YoY%) Unless Stated Otherwise	2020	2021	2022	2023	2024f
Real GDP	(5.5)	3.3	8.9	3.6	5.0
Govt. Consumption	4.1	5.8	5.1	3.3	4.5
Private Consumption	(3.9)	1.8	11.3	4.7	5.4
Gross Fixed Capital Formation	(14.4)	(0.7)	6.8	5.5	9.4
Govt. Investment	(21.2)	(11.0)	5.3	8.6	9.5
Private Investment	(11.9)	2.8	7.2	4.6	11.2
Exports of goods & services;	(8.6)	18.5	14.5	(8.1)	7.5
Goods Exports	(0.7)	21.4	11.0	(12.7)	4.5
Services Exports	(47.8)	(8.2)	58.3	33.0	24.6
Imports of goods & services;	(7.9)	21.2	16.0	(7.4)	8.9
Goods Imports	(3.6)	23.8	14.4	(11.7)	9.0
Services Imports	(25.3)	7.7	25.7	15.8	8.3
Net Exports	(13.7)	(4.0)	(1.5)	(16.2)	(12.0)
Agriculture etc.	(2.4)	(0.3)	1.3	0.7	2.9
Mining & Quarrying	(9.7)	0.9	3.5	0.5	3.5
Manufacturing	(2.7)	9.5	8.1	0.7	4.4
Construction	(19.3)	(5.2)	5.1	6.1	9.8
Services	(5.2)	2.2	11.0	5.1	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)	11.2
Headline CPI Inflation (%)	(1.1)	2.5	3.4	2.5	2.3
Current Account, % of GDP	4.1	3.9	3.0	1.5	2.3
Fiscal Balance, % of GDP	(6.2)	(6.4)	(5.6)	(5.0)	(4.7)
Federal Government Debt, % of GDP	62.0	63.2	60.3	61.9	62.2
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	3,800
USD/MYR (Avg)	4.20	4.14	4.40	4.56	4.56
USD/MYR (End-period)	4.02	4.17	4.35	4.59	4.23
MGS 10-Yr Yield (Avg)	2.84	3.23	4.07	3.86	3.80
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

August 2024 Key Economic Events

1 Aug: Bank of England cuts interest rates for first time in over four years The Bank of England on Thursday delivered its first interest rate cut in more than four years, taking the key rate to 5%. Policymakers ultimately voted 5-4 in favor of the reduction, with Governor Andrew Bailey saying that the committee would move ahead cautiously. The Bank rate had been held at a 16-year high of 5.25% since August 2023.

4 Aug: PM: Ringgit at its strongest in 14 years The ringgit is currently at its strongest level in 14 years, due to the Unity Government's policies and collective efforts to develop the country, said Prime Minister Datuk Seri Anwar Ibrahim. The prime minister said although the opposition often claimed the currency was declining, it has, in fact, shown positive recovery trends under the current administration.

7 Aug: Russia: State of emergency in Kursk amid incursion Russia on Wednesday said it was continuing to battle Ukrainian troops that crossed into the border region of Kursk a day earlier, with a state of emergency declared by the regional governor and security tightened around a nearby nuclear power plant.

8 Aug: Malaysia and China deepen chip cooperation with joint expo Malaysia and China are pursuing closer cooperation on semiconductors via a joint industry event, as Kuala Lumpur seeks to advance its chip industry while Beijing bolsters its own supply chains. The first Asia-Pacific Semiconductor Summit and Expo is set for October in the Malaysian state of Penang.

8 Aug: Budget 2025: PM holds engagement session with northern E&E industry players Prime Minister Datuk Seri Anwar Ibrahim held a Budget 2025 engagement session with the electrical and electronics (E&E) industry players at the SilTerra Malaysia plant here on Thursday, to get feedback from industry stakeholders.

11 Aug: Decision to restart Malaysia-EU FTA talks imminent, says envoy Outgoing European Union (EU) Ambassador to Malaysia Michalis Rokas has expressed confidence that the decision to restart negotiations on the stalled Malaysia-EU Free Trade Agreement (MEUFTA) is imminent.

12 Aug: Health Ministry cracks down on high medicine costs The Health Ministry will not tolerate any form of exclusivity, price collusion, anti-competitive practices, or procurement management issues, which can contribute to the increase in the cost of procurement of medicines.

13 Aug: PM: National Investment Council greenlights key measures to fortify supply chains The National Investment Council (NIC) Meeting No. 6/2024 endorsed several key measures to strengthen and enhance the resilience of the nation's supply chain management, aligned with the goal of reinforcing the country's economic security.

16 Aug: Civil servants to get 7%-15% pay raise, says PM For civil servants under the management and professional category, officers will receive an 8% raise in the first phase of implementation on Dec 1, and a 7% raise in the second phase on Jan 1, 2026. For civil servants in the upper management category, they will receive a 4% raise in the first phase on Dec 1, and a 3% raise in the second phase on Jan 1, 2026.

18 Aug: Health Ministry ramps up mpox monitoring at Malaysia's entry points after global health emergency declared The Health Ministry (MoH) will increase surveillance at Malaysia's international entry points and advocacy on mpox following the mpox was declared a Public Health Emergency of International Concern (PHEIC) by the World Health Organisation for the second time on August 14.

19 Aug: Rafizi announces new economic development for Bumiputera, PuTERA35, that won't compromise rights of other races The government today introduced a new economic transformation plan that aims to lift the impoverished Bumiputera community. At its launch today, Economy Minister Rafizi Ramli said the initiative will priorities the economic development of the Bumiputera without compromising the rights of other ethnic groups.

20 Aug: Malaysia aiming to diversify economic diplomacy through BRICS participation, says PM Prime Minister Datuk Seri Anwar Ibrahim said Malaysia aims to diversify its economic diplomacy efforts by participating in the intergovernmental organisation BRICS and enhance its collaboration with member countries through shared initiatives and strategic partnerships.

22 Aug: Malaysia as Asean chair to proactively engage, urge US, China to ease tensions The protracted tensions between the US and China over the past few years have not only led to the deterioration of bilateral relations between the two countries but also affected global stability and economic prosperity. Anwar said he was thankful that Malaysia is the next Asean chair.

22 Aug: Fed steaming toward September rate cut, minutes from meeting show The Federal Reserve appears to be very much on track for an interest rate cut in September after a "vast majority" of officials said such an action was likely, according to the minutes of the U.S. central bank's July 30-31 meeting.

23 Aug: Fed's Powell, in policy shift, says 'time has come' to cut rates Federal Reserve Chair Jerome Powell endorsed an imminent start to interest rate cuts, saying further cooling in the job market would be unwelcome and expressing confidence that inflation is within reach of the U.S. central bank's 2% target.

23 Aug: STR Phase 3 payments to begin Aug 29 for 8.5 million recipients The disbursement of the Sumbangan Tunai Rahmah (STR) Phase 3 payment to 8.5 million recipients will begin next Thursday (Aug 29). The Ministry of Finance (MOF) said recipients would receive payments of up to RM650 according to their respective categories, with a financial implication of RM1.7 billion.

26 Aug: Israel and Hezbollah in major missile exchange as escalation fears grow Hezbollah launched hundreds of rockets and drones at Israel early on Sunday, as Israel's military said it struck Lebanon with around 100 jets to thwart a larger attack, in one of the biggest clashes in more than 10 months of border warfare.

28 Aug: Rafizi: Govt efficiency commitment law to be tabled in Parliament by year-end The government will introduce the Government Efficiency Commitment Act to reduce bureaucracy and certain procedures in business affairs, said Economy Minister Rafizi Ramli.

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