midf RESEARCH

1 October 2024

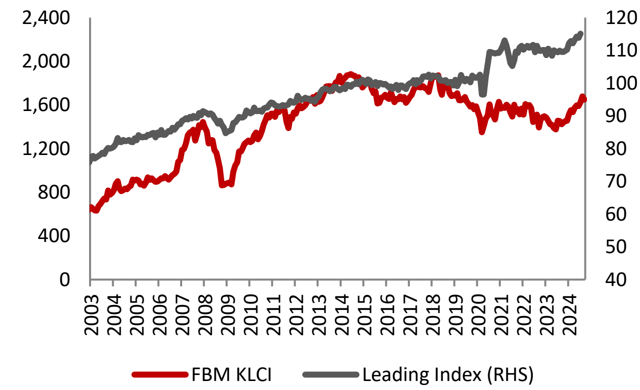
MONTHLY ECONOMIC REVIEW | September 2024

Positive Growth Momentum in Malaysia's Economic will be Sustained in the Near Future

- *LI grew further, +5.2%yoy in Jul-24. Malaysia's positive economic momentum is expected to be sustained in the coming months as the Leading Index (LI) grew further at +5.2%yoy in Jul-24 (Jun-24: +3.8%yoy).*
- *Another month of double-digit export growth. Malaysia's export growth was sustained at +12.1%yoy in Aug-24, mainly supported by surge in E&E exports and higher shipments of palm oil & palm oil products and machinery, equipment & parts.*
- *Still stable job market. Malaysia's labour market remained stable, with the unemployment rate holding steady at 3.3% in Jul-24 as expected. Labour force and employment sustained growth at +1.7%yoy and +1.8%yoy, respectively.*
- *Malaysia's economic growth to strengthen to +5.0% in 2024. We continue to forecast that Malaysia's economic growth will expand faster at +5.0% (2023: +3.6%), underpinned by increased domestic spending and recovery in the external trade.*

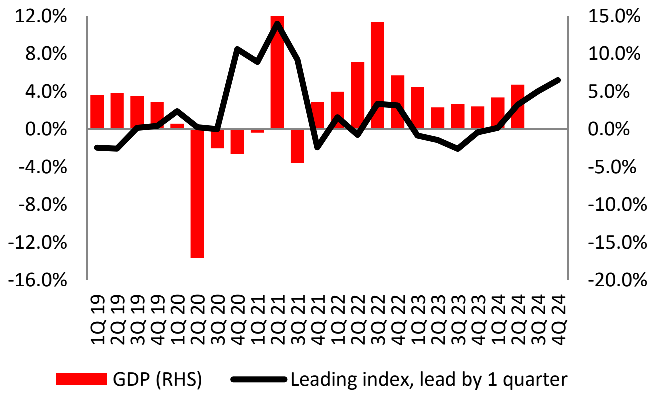
LI grew further, +5.2%yoy in Jul-24. Malaysia's positive economic momentum is expected to be sustained in the coming months as the Leading Index (LI) grew further at +5.2%yoy in Jul-24 (Jun-24:+3.8%yoy). This marks the 8th consecutive month of growth, primarily driven by robust increases in Real Imports of Semiconductors (+36.7%yoy) and Bursa Malaysia Industrial Index (+35.4%yoy). On a month-on-month basis, the LI rebounded by +1.1%mom (Jun-24:-0.4%mom) primarily due to the continued growth in Real Imports of Semiconductors (+1.0%mom) and increased number of new company registration (+0.5%mom). The Coincident Index (CI) also rose faster at +2.8%yoy (Jun-24: +2.6%yoy), supported by increases across all CI components. The monthly performance of CI also increased by +0.7%mom, with all components contributing positively except for a slight decline in the Volume Index of Retail Trade (-0.1%mom). The continued rise in LI indicates that Malaysia's economy would continue growing positively in 2HCY24. Looking at the continued improvement in LI, we maintain our projection that Malaysia's GDP growth will grow faster at 5.0% (2023:+3.6%) underpinned by growing domestic spending and recovering international trade.

Chart 1: Leading Index vs KLCI (Points)



Source: Macrobond, MIDFR

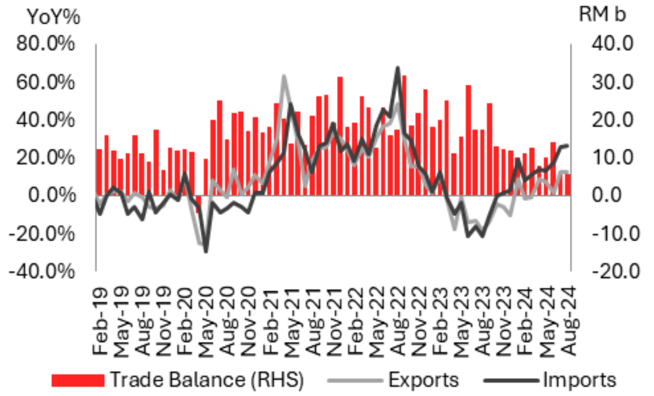
Chart 2: Leading Index* vs GDP (YoY%)



Source: Macrobond, MIDFR

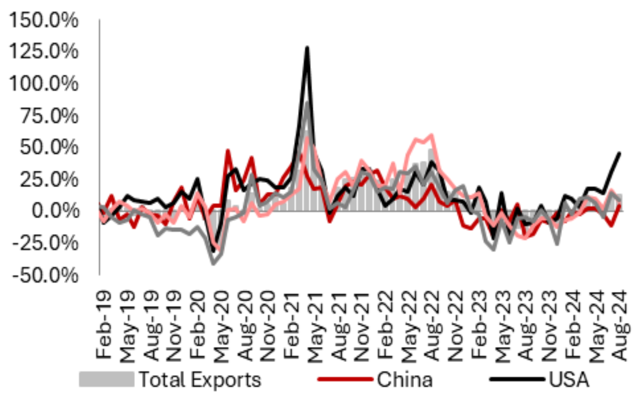
Another month of double-digit export growth. Malaysia's total trade grew faster at +18.6%yoy, sustaining expansion for 8 consecutive months. The trade surplus, however, shrank further to +RM5.7b (Jul-24: +RM6.4b) due to relatively sharper monthly decline in exports. From year-on-year perspective, Malaysia's export growth was sustained at +12.1%yoy in Aug-24, higher than our estimate. Domestic exports maintained a double-digit rise at +14.9%yoy (Jul-24: +18%yoy), while re-exports registered a smaller decline of -1.2%yoy (Jul-24: - 6%yoy). The positive Aug-24 export growth was mainly supported by surge in E&E exports and higher shipments of palm oil & palm oil products and machinery, equipment & parts. Meanwhile, import growth continued to surpass exports, increasing faster at +26.2%yoy (Jul-24: +25.4%yoy) primarily due to higher purchases of E&E products and machinery, equipment & parts. We view the stronger E&E exports to be in line with regional trends and expect the continued rise in global E&E trade as well as increased demand for other commodities to continue support Malaysia's export recovery in the coming months.

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



Source: Macrobond, MIDFR

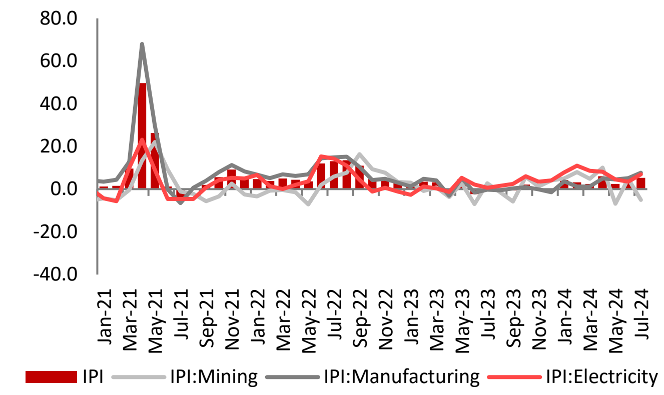
Chart 4: Exports Growth by Major Destination (YoY%)



Source: Macrobond, MIDFR

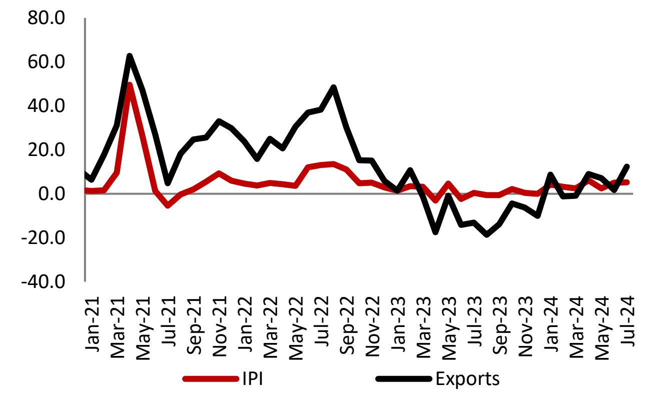
IPI increased relatively faster at +5.3%yoy in Jul-24. Malaysia's IPI grew slightly faster at +5.3%yoy in Jul-24 (Jun-24: +5.0%yoy), driven by stronger manufacturing output and increased electricity generation. The pace of growth exceeded ours and market consensus as we anticipate IPI growth will reflect stronger activities as seen in the Jul-24 exports. By major sector, manufacturing output rose at +7.7%, the fastest expansion since Sep-22 driven among others by higher production of E&E product, machinery, chemicals and motor vehicles. Electricity generation also accelerated to +7.0%yoy, sustaining positive growth since May-23 and signalling continued rise in energy demand on the back of growing economic activities. In contrast, mining sector output fell by -5.0%yoy in Jul-24 due to weaker output of both crude petroleum and natural gas. In 7MCY24, IPI recorded stronger growth of +4.1%yoy (7MCY23: +1.1%yoy; 2023: 0.7%). In line with the more encouraging economic growth, the sustained IPI growth in Jul-24 suggests the positive growth momentum will continue in 2HCY24 on the back of growing domestic and external demand.

Chart 5: IPI Performances by Sector (YoY%)



Source: Macrobond, MIDFR

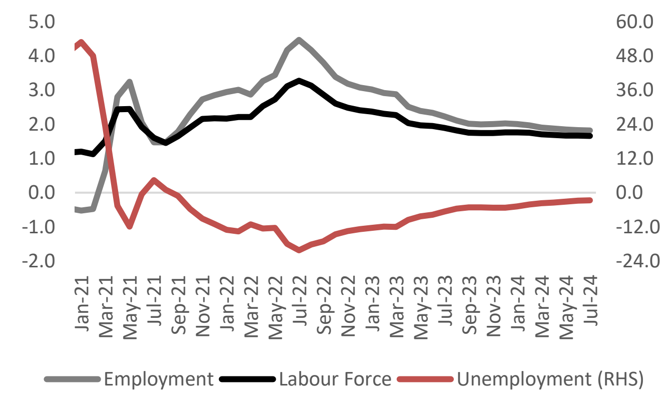
Chart 6: IPI vs Exports (YoY%)



Source: Macrobond, MIDFR

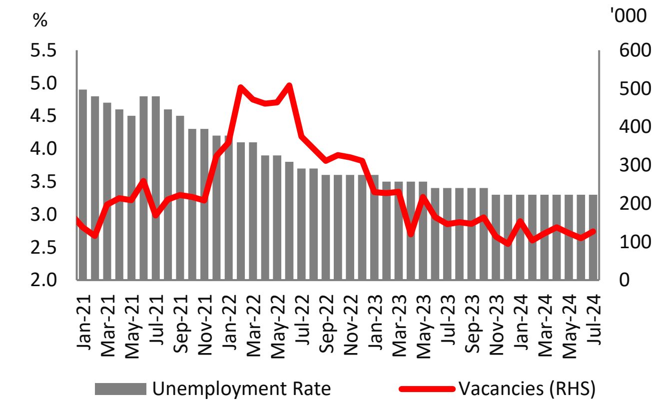
Still stable job market. Malaysia's labour market remained stable, with the unemployment rate holding steady at 3.3% in Jul-24 as expected. Labour force and employment sustained growth at +1.7%yoy and +1.8%yoy, respectively. The number of unemployed persons decreased to 564K in Jul-24, a new low in the post-pandemic period but still higher than average 519K jobless persons in 2019. For youth aged 15-24, the unemployment rate remained at 10.5% since May-24, the lowest rate since Feb-20. By employment type, employee (share: ~75% of total employment) experienced a steady increase of +1.3%yoy, while the employer (3.6% of employment) and own-account-worker (18.4% of employment) increased by +4.7%yoy and +3.7%yoy, respectively, in Jul-24. Looking ahead, Malaysia's employment outlook is expected to remain stable, with the increased vacancies signal growing labour demand. As we anticipate the positive momentum in the domestic economy to continue, we expect sustained growth in domestic economic activities including recovery in tourism-related and external trade industries will contribute to the resilience of the domestic job market.

Chart 7: Labour Market Indicators (YoY%)



Source: Macrobond, MIDFR

Chart 8: Unemploym. Rate (%) vs. Vacancies ('000)

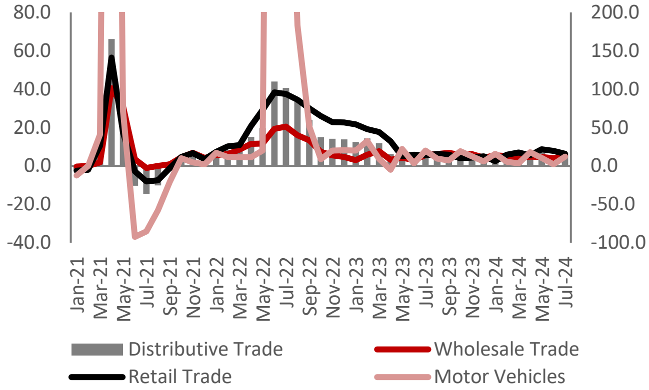


Source: Macrobond, MIDFR

Retail trade grew further albeit moderating to +6.4%yoy in Jul-24. Malaysia's domestic spending increased sustainably as the overall distributive trade expanded faster at +6.7%yoy in Jul-24, growing for the 34th consecutive month since Oct-21. The continued expansion reflected a more encouraging sales performance for motor vehicles (+12.2%yoy) and wholesale trade (+5.5%yoy), and sustained rise in retail trade albeit at relatively moderate pace (+6.4%yoy). Looking at the seasonally adjusted data, the stronger growth in volume of distributive trade by +5.3%yoy (Jun-24: +4.3%yoy) was particularly attributable to a rebound in motor vehicle sales (+8.7%yoy; Jun-24: -0.6%yoy) and stronger growth in wholesale trade (+5.1%yoy; Jun-24: +3.1%yoy).

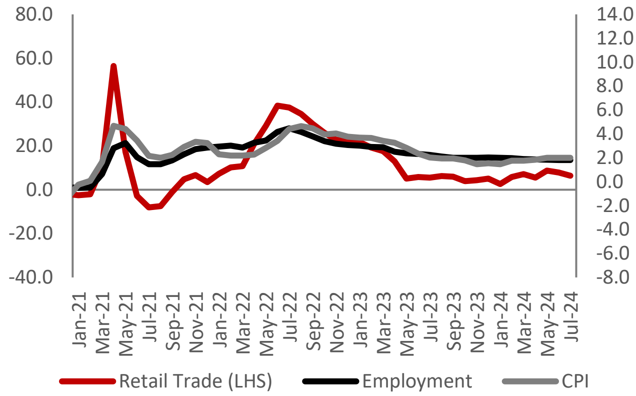
We continue to expect the positive labour market conditions and higher tourist arrivals, as well as the flexibility to tap retirement fund and cash assistance from the government, will underpin positive outlook for the distributive trade in the coming months. However, rising cost of living and pessimism among consumers could affect future spending plans, which may be influenced by the government's plan to further rationalise subsidy allocations.

Chart 9: Distributive Trade (YoY%)



Source: Macrobond, MIDFR

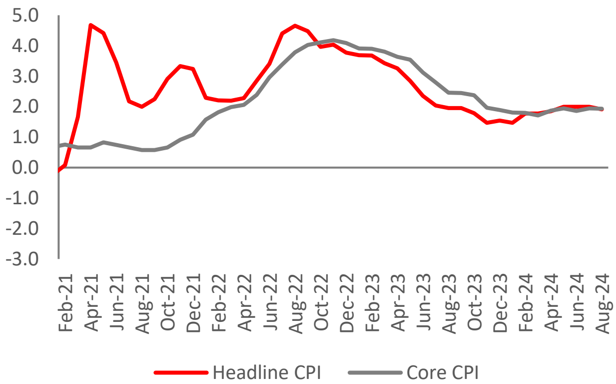
Chart 10: Retail Trade vs. CPI vs. Employment (YoY%)



Source: Macrobond, MIDFR

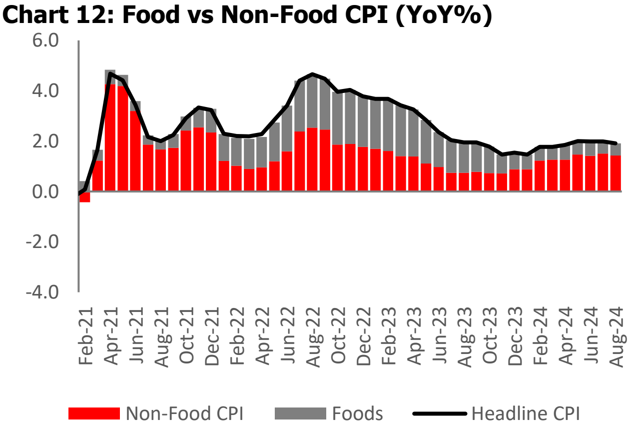
Headline inflation moderated to +1.9%yoy in Aug-24. Malaysia's headline CPI inflation moderated to +1.9%yoy in Aug-24 after remaining stable at +2.0%yoy in the previous 3 months. This was attributable to easing food inflation which slowed further to a 3-year low of +1.6%yoy (Jul-24: +1.7%yoy). Non-food inflation also moderated to +2.1%yoy (from 19-month high of +2.2%yoy in Jul-24) due to slower inflation for utility charges; furnishing, household equipment & maintenance; health; and restaurants & accommodation services. Transport inflation, on the other hand, rose faster at +1.3%yoy which included the increase in diesel prices following the implementation of targeted subsidies. Underlying demand pressure remained contained in Aug-24 as core CPI inflation steadied at +1.9%yoy for the 5th consecutive month. We view the limited rise in CPI suggests the policy adjustments such as subsidy re-targeting, tariff hikes and SST rate increase so far did not lead to a sharp spike in general prices. Nevertheless, we continue to expect the policy changes will be the main factor that would gradually push inflation higher, particularly the non-food component. As we approach 4QCY24, we foresee further subsidy rationalisation, involving the roll-out of targeted RON95 subsidies, will also add to inflationary pressures.

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



Source: Macrobond, MIDFR

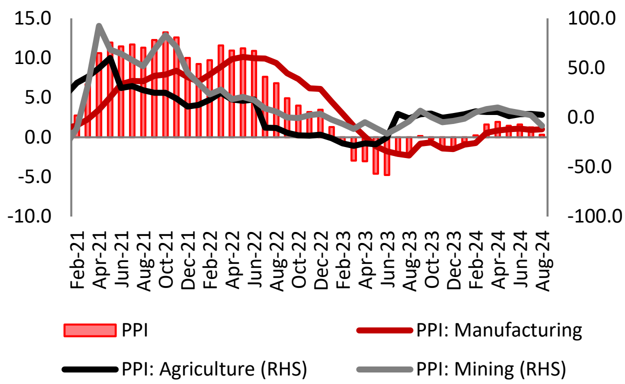
Chart 12: Food vs Non-Food CPI (YoY%)



Source: Macrobond, MIDFR

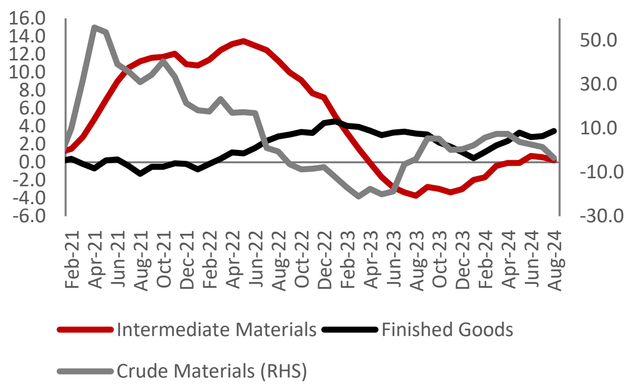
PPI softened to +0.3%yoy in Aug-24. Malaysia's PPI inflation moderated to +0.3%yoy in Aug-24 (Jul-24: +1.3%yoy), the slowest increase in 6 months. The moderation can be explained by lower commodity prices, particularly Brent crude oil price which dropped -7.3%yoy to USD78.88pb. Consequently, the mining sector's PPI turned to deflation of -8.3%yoy (Jul-24: +2.2%yoy), the first decline in 7 months and the steepest since Jul-23. Meanwhile, PPI inflation for the agriculture and water supply industries eased to +2.7%yoy (Jul-24: +3.4%yoy) and +8%yoy (Jul-24: 9%yoy), respectively. In contrast, producer prices for the manufacturing sector inflated faster at to +1.0%yoy (Jul-24: +0.9%yoy). For the electricity & gas supply, the sector's PPI accelerated to +1.0%yoy (Jul-24: +0.3%yoy). By stage of processing, PPI for crude materials for further processing declined by -3.5%yoy (Jul-24:+1.5%yoy), while for the intermediate goods the growth slowed to +0.2%yoy (Jul-24: +0.6%yoy). PPI for finished goods, on the other hand, rose faster at 3.5%yoy, the fastest growth in 17 months, because of higher prices of finished capital goods and finished goods in the non-manufacturing industries. The easing of PPI inflation generally suggests a limited effect of policy changes (e.g. diesel subsidy rationalisation) on local production costs. We expect reduced pressures to increase selling prices as PPI inflation remained below CPI inflation. With inflation still low and stable, there is no reason for BNM to adjust OPR setting.

Chart 13: PPI by Sector (YoY%)



Source: Macrobond, MIDFR

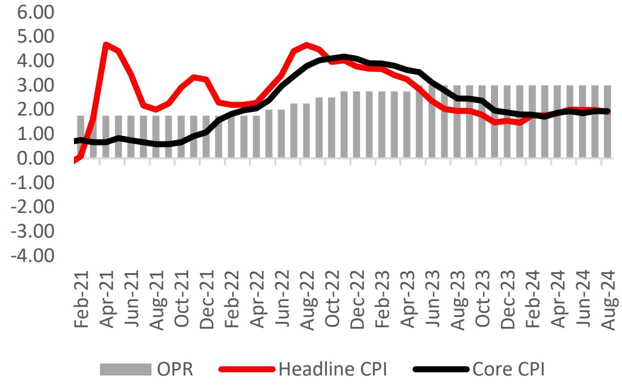
Chart 14: PPI by Processing Stage (YoY%)



Source: Macrobond, MIDFR

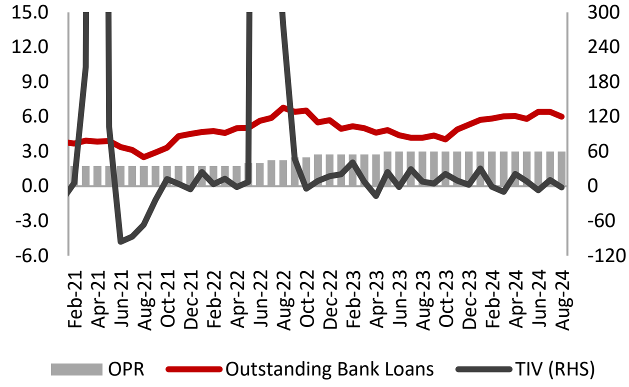
OPR stays at 3.00%. As expected, BNM decided to maintain the Overnight Policy Rate (OPR) at 3.00% after the fifth Monetary Policy Meeting this year. In the Monetary Policy Statement (MPS), BNM highlighted that the expansion in the global economy is expected to continue, supported by positive labour market conditions, easing inflation and reduced monetary policy restrictiveness. BNM also reiterated that the global trade will continue to recover driven by increased external demand for both E&E and non-E&E products. Unlike in the previous MPS which inflation was a major concern, BNM indicated in the Sep-24 MPS that the downside risks to global growth outlook could come from heightened geopolitical tensions, more volatile conditions in the financial markets, and weaker growth in major economies. We believe this may be linked to slower growth momentum in China and recent concerns over recession risk in the US. Given inflation remained under control, we expect OPR to be maintained at 3.00% throughout 2024 and even going into 2025.

Chart 15: OPR (%) vs. Inflation (YoY%)



Source: Macrobond, MIDFR

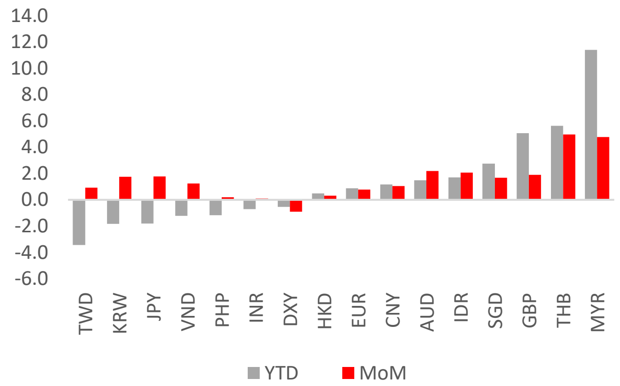
Chart 16: OPR (%) vs Loan Application & Total Industry Volume (YoY%)



Source: Macrobond, MIDFR

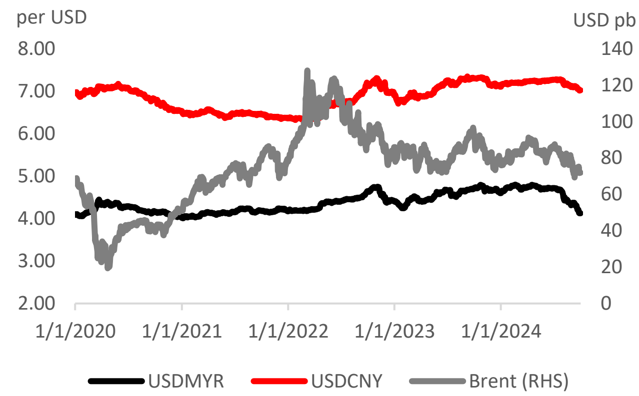
Ringgit becomes top performing currency. The Malaysian ringgit was one of top performing currencies in Sep-24, appreciating further by +4.8%mom and ended the month at to RM4.124, the strongest level last seen in Jun-21. Following another strong monthly gain, ringgit recorded a strong gain thus far this year by +11.4%ytd on the back of weakening US dollar as Fed shifted to rate easing starting with -50bps reduction after concluding the Sep-24 FOMC meeting. Ringgit gained strongly despite the decline in Brent crude oil prices by -8.9%mom to USD71.77pb (Aug-24: USD78.80pb). Apart from the Fed's rate cuts, ringgit's appreciation was also supported by the new stimulus measures announced by China, being one of Malaysia's major trading partners. We expect the appreciation of local currency will continue in the near term, influenced by the increased fund inflows and narrowing interest differentials favouring the EM currencies. Following the sharp strengthening of ringgit, we have revised our ringgit outlook to end the year around RM4.03 to the dollar (previous forecast: RM4.23).

Chart 17: Monthly and Year to Date Changes of Selected Currencies Against US Dollar (%)



Source: Bloomberg, MIDFR

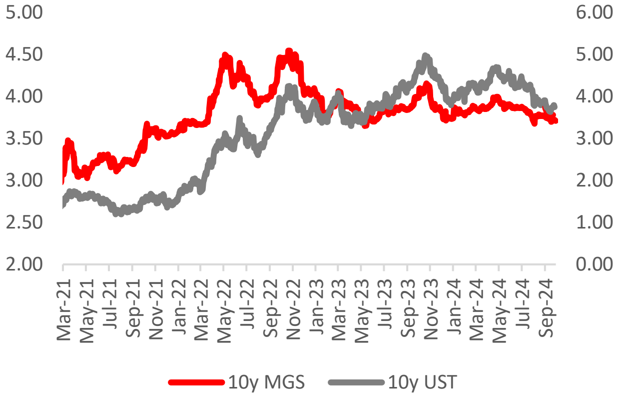
Chart 18: USDMYR vs. USDCNY vs. Brent Crude Oil Price (USD pb)



Source: Bloomberg, MIDFR

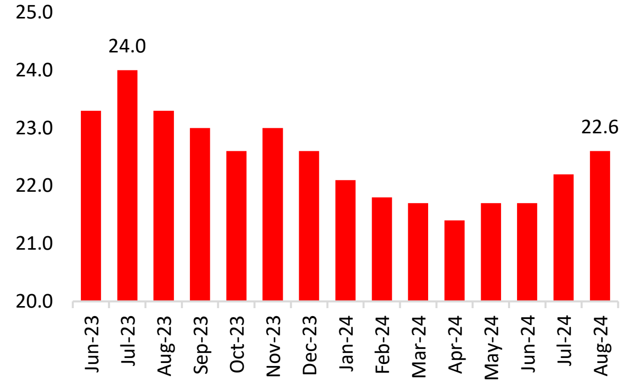
10y MGS yield closed lower in Sep-24. The 10-year MGS yield declined by -5bps to 3.71% in Sep-24 (Aug-24: 3.76%). With the strengthening of the ringgit, the decline in yield indicated more funds flowing into the domestic bond market. Based on the latest available data, foreign holdings of Malaysian bonds registered the second straight month of increase to a new high of RM288.1b in Aug-24 (Jul-24: RM279.1b). Foreign holdings of govvies made up 22.6% or RM269.6b of the total outstanding government bonds in Aug-24, rising from 22.2% in the previous month and moving closer to the pre-pandemic level (2019 average: 23.1%). The decline in MGS yield suggests more inflows into the domestic bond market in Sep-24. We continue to expect the 10-year MGS yield will decline towards 3.68% by end-2024 as we price in the assumptions of more foreign funds will flow into the domestic debt market in response to more rate cuts by the Fed later this year.

Chart 19: 10y MGS vs 10y UST Yields (%)



Source: Macrobond, MIDFR

Chart 20: Share of Foreign Holding of MGS/MGII (%)



Source: Macrobond, MIDFR

Malaysia's economic growth to strengthen to +5.0% in 2024. We continue to forecast that Malaysia's economic growth will expand faster at +5.0% (2023: +3.6%). The positive growth fundamentals will continue in 2HCY24 as indicated by continued expansion in LI, and in general we expect Malaysia's economy will grow this year underpinned by increased domestic spending and recovery in the external trade. Nevertheless, we remain cautious that Malaysia's growth outlook may be constrained by several downside risks such as weak growth in major economies (i.e. China and the US), worsening of geopolitical and trade tensions, and renewed disruptions to the global supply chain and trade flow. On another note, possible re-accelaration in inflationary pressures from planned policy changes may adversely affect consumer sentiment and their discretionary spending.

Table 1: Macroeconomic Past Performances (%)

(YoY%) Unless Stated Otherwise	2020	2021	2022	2023	2024_f
Real GDP	(5.5)	3.3	8.9	3.6	5.0
Govt. Consumption	4.1	6.4	5.1	3.3	4.5
Private Consumption	(3.9)	1.9	11.3	4.7	5.4
Gross Fixed Capital Formation	(14.4)	(0.8)	6.8	5.5	10.8
Govt. Investment	(21.2)	(11.1)	5.3	8.6	9.5
Private Investment	(11.9)	2.7	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)	(0.1)	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)	(5.1)	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	2.7
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)	(4.3)
Federal Government Debt, % of GDP	62.0	63.2	60.2	64.3	62.5
Unemployment Rate (%)	4.48	4.58	3.82	3.43	3.30
Brent Crude Oil (Avg), USD per barrel	41.6	71.5	99.0	82.2	82.0
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	3.73	3.68
Overnight Policy Rate (%)	1.75	1.75	2.75	3.00	3.00

Source: Macrobond, DOSM, MIDFR

September 2024 Key Economic Events

3 Sept: Johor contributed RM753bil of country's total trade volume last year, says exco member Johor has contributed about RM753bil or 29% of Malaysia's total trade volume in 2023, says state executive councillor Lee Ting Han. The state investment, trade, consumer affairs and human resources committee chairman added that from the amount, some RM414bil was in export value while RM39bil was in import value.

6 Sept: Malaysia hopes for influx of Russian companies, increase in tourist flow- PM Anwar Malaysia hopes for the influx of Russian companies into the country and an increase in the tourist flow between the two countries, Malaysian Prime Minister Datuk Seri Anwar Ibrahim said in an interview with RIA Novosti and RT, reported Sputnik.

9 Sept: Petros-Petronas discussions still ongoing — Sarawak premier Sarawak government subsidiary Petroleum Sarawak Bhd (Petros) is still in discussions with Petroliam Nasional Bhd (Petronas) regarding the supervision of oil and gas trading in the state, said Sarawak Premier Tan Sri Abang Johari Tun Openg.

9 Sept: PM: Pikas 2030 to strengthen governance in public-private partnerships Prime Minister Datuk Seri Anwar Ibrahim has launched the Public-Private Partnership Master Plan 2030 (Pikas 2030), a strategic plan to provide a robust and sustainable Public-Private Partnership (PPP) landscape to drive the nation's prosperity.

10 Sept: Malaysia central banker sees rate hold in 2024, growth at 5% MALAYSIA'S resilient economy and contained price pressures should allow it to keep interest rates unchanged for the rest of the year, even as global central banks pivot towards easing, according to Bank Negara Malaysia's (BNM) deputy governor. Malaysia's economy is on track to grow around 5 per cent in 2024 while inflation will not exceed 3 per cent, Adnan Zaylani Mohamad Zahid said.

12 Sept: Putrajaya doubling Sabah, Sarawak special grant allocation to RM600m starting 2025 The federal government on Thursday agreed to increase the interim special grant for Sabah and Sarawak from RM300 million to RM600 million starting next year, according to Deputy Prime Minister Datuk Seri Fadillah Yusof. He said this was announced by Prime Minister during the Malaysia Agreement 1963 Implementation Action Council (MTPMA63) meeting on Thursday.

13 Sept: Abang Johari: Distribution formula for Sabah, Sarawak's interim special grant not finalised The formula for distributing the RM600 million interim special grant to Sarawak and Sabah is still under discussion, said Premier Datuk Patinggi Tan Sri Abang Johari Openg. Prime Minister Datuk Seri Anwar Ibrahim announced the allocation during the Malaysia Agreement 1963 Implementation Action Council (MTPMA63) meeting in Kota Kinabalu yesterday.

18 Sept: Malaysia may have to consider more imports of natural gas in future, says Nik Nazmi The plan is to retire its coal-fired power plants and there is limited room to build new hydroelectric dams, particularly in Peninsular Malaysia, Minister of Natural Resources and Environmental Sustainability Nik Nazmi Nik Ahmad said in a televised interview with Bloomberg."So that bridging role will be played by LNG imports, for us to meet our energy demands," Nik Nazmi said.

19 Sept: Federal Reserve signals end to inflation fight with a sizable half-point rate cut The Federal Reserve on Wednesday cut its benchmark interest rate by an unusually large half-point, a dramatic shift after more than two years of high rates that helped tame inflation but also made borrowing painfully expensive for American consumers.

20 Sept: 0%-5% corporate tax rate under Forest City special financial zone The Forest City special financial zone in Johor was launched, which would see companies being imposed a reduced corporate income tax rate of between 0% and 5%. Second finance minister Amir Hamzah Azizan also announced family wealth offices will have a 0% tax rate, a first in Malaysia.

23 Sept: Ringgit's best quarter in 50 years has traders baying for more The Malaysian ringgit is poised to extend its rally after what's likely to be its best quarter since 1973, if the outlook for interest rates is any guide. The ringgit has risen more than 12% against the dollar so far this quarter, making it the best performing emerging-market currency.

24 Sept: Stricter penalties for bid-rigging will promote fair competition, strengthen economy The Malaysia Competition Commission's (MyCC) proposal to impose heavier penalties against bid-riggers will not only promote fair competition but also elevate the country's overall economic health, business groups said.

24 Sept: China unleashes boldest stimulus in years to boost ailing economy China's central bank has cut interest rates in attempt to revive flagging economic growth and prevent scores of debt-laden property owners from going bust in its boldest intervention to boost the economy since the pandemic.

24 Sept: Israeli strikes kill 492 in Lebanon's deadliest day of conflict since 2006 Israeli strikes Monday on Lebanon killed more than 490 people, including more than 90 women and children, Lebanese authorities said, in the deadliest barrage since the 2006 Israel-Hezbollah war.

26 Sept: Malaysia launches policy to transform fossil fuel industries, boost green growth in manufacturing The government is seeking to lift the sector's contribution to gross domestic product from its current baseline of 24% but via more "sustainable pathways", according to Investment, Trade and Industry Minister Tengku Datuk Seri Zafrul Abdul Aziz. He did not provide a target.

26 Sept: Govt firm in implementing diesel subsidy rationalisation despite criticisms, says Anwar The government needs to take practical measures, including targeted diesel subsidies despite receiving criticisms, said Prime Minister Datuk Seri Anwar Ibrahim. He said targeted diesel subsidies had successfully increased investor confidence, stock market stability, and strengthened the implementation of the country's Fiscal Responsibility Act.

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