1 November 2024

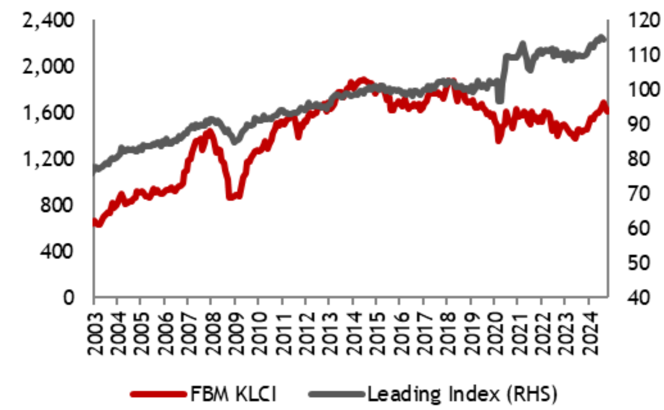
MONTHLY ECONOMIC REVIEW | October 2024

Malaysia's Growth Momentum Will Remain Positive in the Near Term

- *Leading Index rose further in Aug-24. Although the pace of growth moderated to +4.0%yoy, LI marks the 9th straight month of growth, signalling continued positive growth momentum would persist in the short run. The sustained growth was contributed increases across all LI components.*
- *Sustained GDP growth above +5.0%yoy in 3QCY24. Based on the advance estimate, Malaysia's economy expanded by +5.3%yoy in 3QCY24 (2QCY24: +5.9%yoy), sustaining growth above +5.0% for the second consecutive quarter.*
- *External trade slowed more than expected in Sep-24. Malaysia's exports fell by -0.3%yoy in Sep-24, slowing more than expected mainly due to weaker exports of crude & refined petroleum products and E&E.*
- *Malaysia's economic growth to strengthen to +5.0% in 2024. We maintain our projection that Malaysia's economy will expand faster at +5.0% (2023: +3.6%). We expect Malaysia's economy will continue to grow this year underpinned by growing domestic spending and recovery in the external trade.*

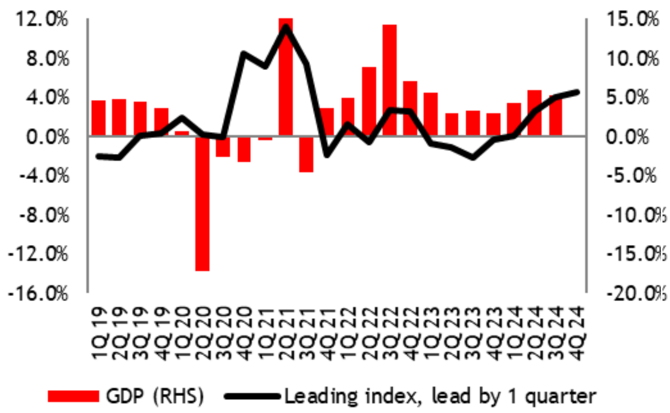
Leading Index rose further in Aug-24. Although the pace of growth moderated to +4.0%yoy, LI marks the 9th straight month of growth, signalling continued positive growth momentum would persist in the short run. The sustained growth was contributed increases across all LI components. On monthly basis, LI fell by -0.7%mom (Aug-24: +1.2%mom), mainly dragged down by lower real imports of semiconductor and reducted expectation of manufacturing sales value. Coincident Index also registered a more moderate growth of +2.1%yoy (Jul-24: +2.8%yoy), supported by growth in all components except real wages and salaries in the manufacturing sector. Compared to Jul-24, CI fell by -0.6%mom, the first decline in 8 months, with declines in most of the components especially reduction in real EPF contributions. The slower rise in CI is in line with the moderation in GDP growth in 3QCY24. Going forward, the sustained rise in LI suggests Malaysia's economy will continue to grow in the near term. We believe the growth will be supported by growing domestic consumption, increased business activities and continued recovery in external demand.

Chart 1: Leading Index vs KLCI (Points)



Source: Macrobond, MIDFR

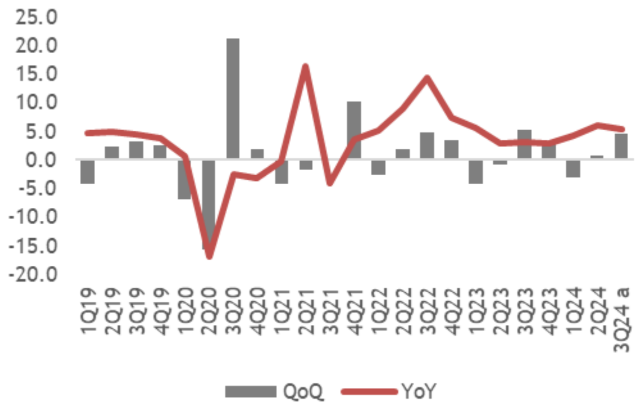
Chart 2: Leading Index* vs GDP (YoY%)



Source: Macrobond, MIDFR

Sustained GDP growth above +5.0%yoy in 3QCY24. Based on the advance estimate, Malaysia's economy expanded by +5.3%yoy in 3QCY24 (2QCY24: +5.9%yoy), sustaining growth above +5.0% for the second consecutive quarter. By sector, all economic sectors expanded except mining which dropped by -3.4%yoy, which can be attributable to weaker output of crude petroleum and natural gas. Continued growth in agriculture sector, albeit moderating to +4.0%yoy, was underpinned by increased output of crude palm oil and natural rubber. Meanwhile, construction sector recorded stronger expansion of +19.5%yoy, the fastest growth since 2QCY21, indicating continued progress in development projects. In line with stronger exports, the growth in manufacturing sector accelerated to +5.7%yoy. Based on IPI data, increased production was recorded in sub-sectors such as E&E products, transport equipment, F&B and tobacco, and machinery & equipment. The services sector grew further albeit at more moderate pace of +5.1%yoy, sustaining growth since 4QCY21 on the back of growing domestic spending. The moderation in growth was in line with slower expansion in distributive trade (+5.7%yoy; 2QCY24: +6.4%yoy), as a result of slower expansion in retail trade and motor vehicles. Services sector contributed 56.6% or +3.0ppt to the +5.3%yoy GDP growth during the quarter.

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



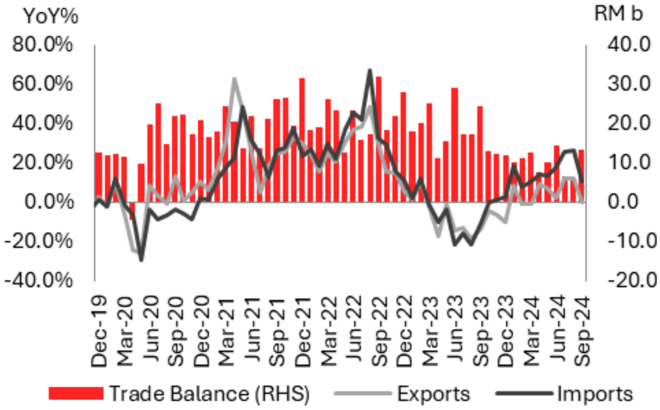
[a] advance estimate
Source: DOSM, MIDFR

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

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

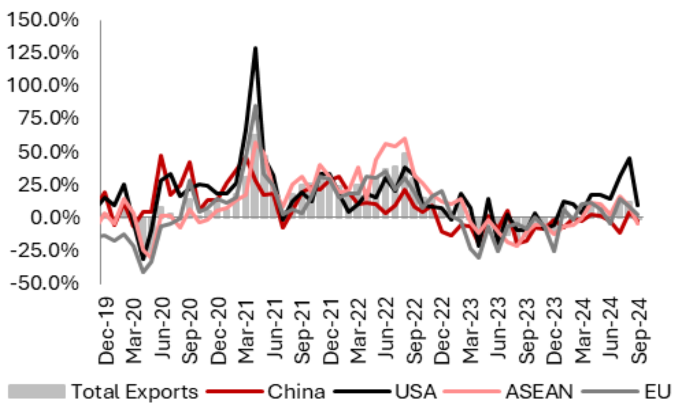
External trade slowed more than expected in Sep-24. Malaysia's total trade growth moderated to +4.7%yoy, the slowest growth in 9 months. Trade surplus, however, widened to +RM13.2b (Aug-24: +RM5.5b) because imports recorded larger monthly decline (-10.3%mom) vis-à-vis exports (-3.9%mom). From year-on-year perspective, Malaysia's exports fell by -0.3%yoy in Sep-24, slowing more than expected mainly due to weaker exports of crude & refined petroleum products and E&E. In particular, the weaker export performance was weighed down by sharper contraction in re-exports (Sep-24: -14.4%yoy; Aug-24: -1.2%yoy) while domestic exports continued to sustain growth albeit easing to +10.1%yoy (Aug-24: +14.9%yoy). Import growth also slowed more than anticipated to +10.9%yoy (Aug-24: +26.2%yoy) but sustaining growth for the 11th straight month underpinned by increased imports of E&E products and crude petroleum. Although Malaysia's E&E exports weakened again in Sep-24, we expect trade recovery will continue in the coming months given the growing global demand for semiconductors and E&E products. Apart from the correction in commodity prices, we believe recent trade performance was also impacted by the strengthening of ringgit. In dollar terms, Malaysia's exports expanded by +9.5%yoy, growing for the 6th consecutive month.

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



Source: Macrobond, MIDFR

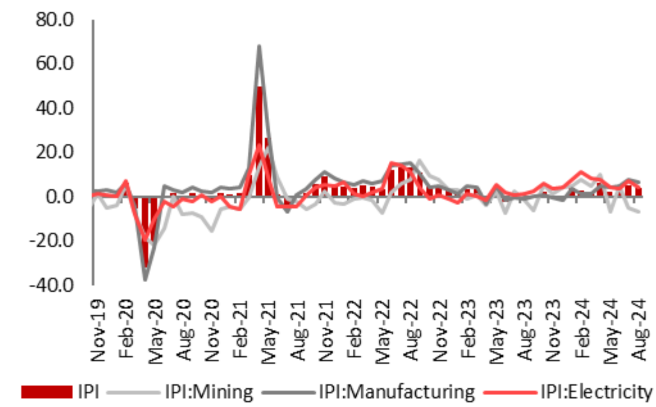
Chart 6: Exports Growth by Major Destination (YoY%)



Source: Macrobond, MIDFR

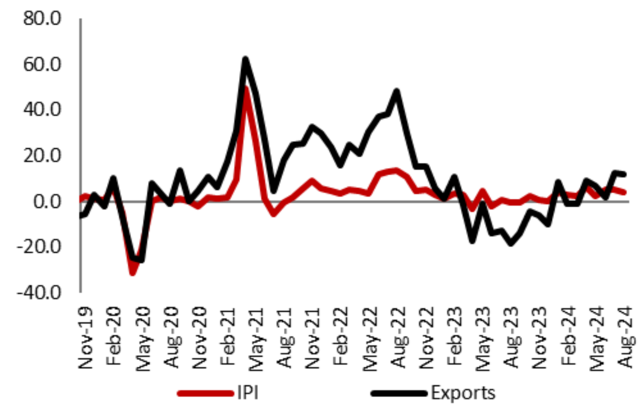
IPI growth moderated to +4.1%yoy in Aug-24. Malaysia's IPI grew relatively slower at +4.1%yoy in Aug-24 (Jul-24: +5.3%yoy), continued to be driven by increased manufacturing output and electricity generation. While market consensus anticipated for a sustained growth of +5.4%yoy, the moderation in Aug-24 IPI was slightly below our estimate because we factored in IPI growth to moderate in view of relatively slower export expansion. By major sector, manufacturing output grew further at +6.5% (Jul-24: +7.7%yoy) underpinned by among others increased production of E&E, rubber products, motor vehicles. Electricity generation rose by +4.1%yoy, sustaining positive growth for the 16th straight month on the back of growing economic activities and increased energy consumption. Mining output fell sharper by -6.4%yoy (Jul-24: -5.0%yoy) due to reduced output of crude petroleum and natural gas. In 8MCY24, IPI expanded by +4.1%yoy, stronger than last year (8MCY23: +0.8%yoy; 2023: 0.7%), largely due to the pick-up in manufacturing production. We expect the IPI will continue to grow in view of sustained rise in domestic economic activities and recovering external demand.

Chart 7: IPI Performances by Sector (YoY%)



Source: Macrobond, MIDFR

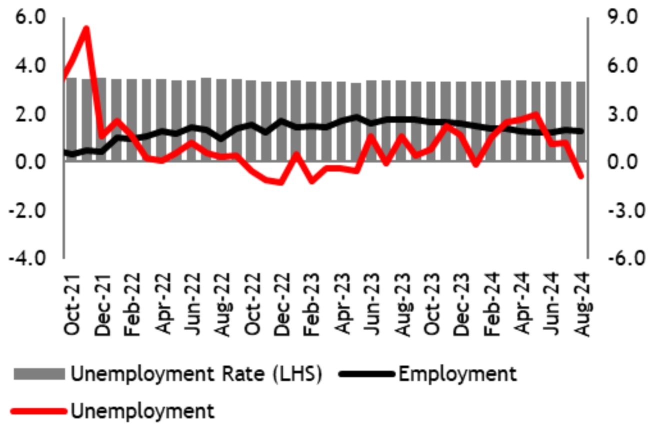
Chart 8: IPI vs Exports (YoY%)



Source: Macrobond, MIDFR

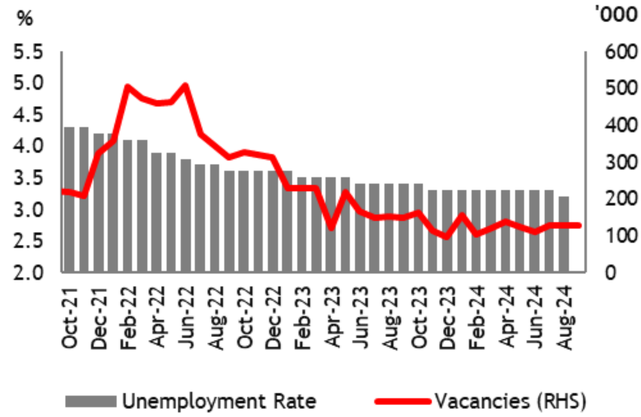
Unemployment rate fell to new post-pandemic low. Malaysia's labour market remained healthy in Aug-24 as the unemployment rate fell to 3.2%, the lowest in the post-pandemic period and back to the level last seen in Jan-20. Employment growth was marginally higher at +1.9%yoy vis-à-vis sustained growth of +1.7%yoy in the labour force. As a result, with more people getting employed, the unemployment count decreased further to 559K, the lowest since Feb-20 but still higher than average 519K in 2019. The breakdown shows the unemployment rate for youth aged 15-24 fell slightly to 10.4% (Jul-24: 10.5) since May-24, still the lowest reading since Feb-20. By employment type, employee (share: 75% of total employment) and the employer (3.6% of employment) categories rose faster at +1.4%yoy and +5.0%yoy, respectively, while the own-account-worker (18.5% of employment) sustained expansion at +3.7%yoy in Aug-24. With more people entering the job market, the labour force participation rate remained at record high of 70.4% for the third straight month. We foresee the healthy labour market conditions will continue as companies increased labour demand and hirings to cope with growing economic activities. We expect the labour market, particularly increased employment, will remain the key factor supporting the sustained rise in domestic spending activities.

Chart 9: Employment vs. Unemployment (YoY%)



Source: Macrobond, MIDFR

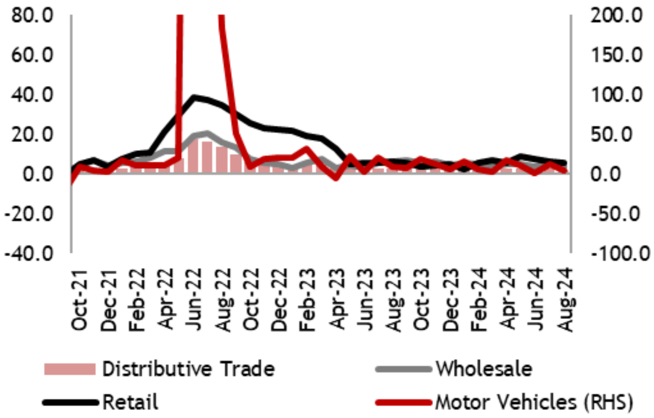
Chart 10: Unemployment Rate (%) vs. Vacancies (YoY%)



Source: Macrobond, MIDFR

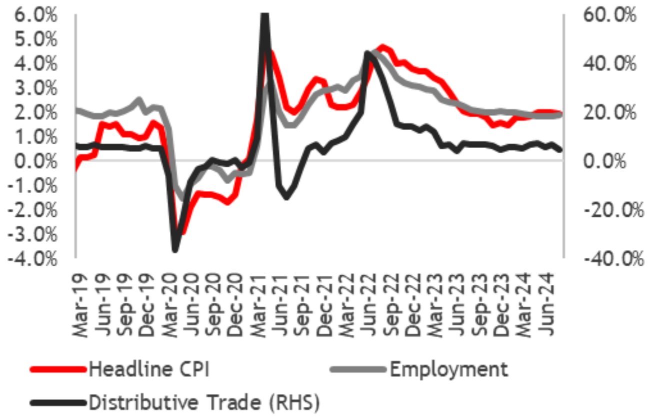
Retail trade growth eased to +5.9%yoy in Aug-24. Malaysia's domestic expenditure exhibited a sustained expansion, with the overall distributive trade expanding further at +4.7%yoy in Aug-24 (Jul-24: +6.7%yoy). The growth in Aug-24 was buoyed by increased retail trade (+5.9%yoy) and wholesale trade (+3.7%yoy) as well higher sales of motor vehicles (+4.1%yoy). Looking at the non-seasonally adjusted data, the volume of distributive trade grew by +3.8%yoy (Jul-24: +5.5%yoy), attributable to higher retail (+4.0%yoy; +4.6%yoy) and wholesale trade (+3.8%yoy; Jul-24: +5.2%yoy) and increased volume of motor vehicle sales (+2.8%yoy; Jul-24: 10.8%yoy). Looking ahead, we expect the positive labour market conditions, higher tourist arrivals, the flexibility to tap retirement fund and distribution of cash assistance from the government will support for domestic consumption and distributive trade to continue growing in the coming months.

Chart 11: Distributive Trade (YoY%)



Source: Macrobond, MIDFR

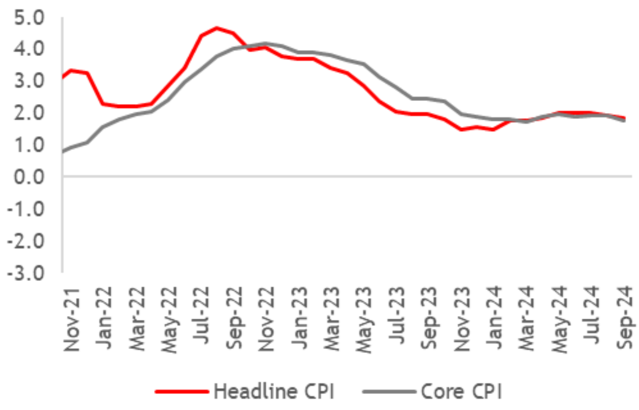
Chart 12: Distributive Trade vs. CPI vs. Employment (YoY%)



Source: Macrobond, MIDFR

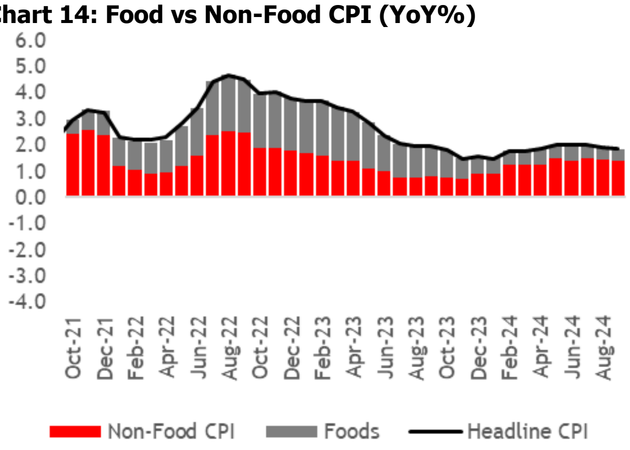
Headline inflation moderated to +1.9%yoy in Aug-24. Malaysia's headline CPI inflation eased to +1.8%yoy in Sep-24, the slowest rise in 5 months. This moderation in CPI inflation was mainly due to slower non-food inflation, which slowed to +2.0%yoy (Aug-24: +2.1%yoy) due to slower inflation in various components such as transport; information & communication; alcoholic beverages & tobacco; furnishings, household equipment & maintenance; and personal care & miscellaneous goods & services In addition, clothing prices fell slightly steeper at -0.3%yoy. For transport inflation, the slower rise at +1.1%yoy (Aug-24: +1.3%yoy) reflected the lower retail prices of RON97 and diesel prices in Sep-24. In contrast, food inflation was unchanged at +1.6%yoy as higher prices of foods at home were offset by easing inflation for foods away from home. On another note, core CPI inflation also eased to +1.8%yoy (Aug-24: +1.9%yoy), signalling easing price pressures from underlying demand last month. The easing inflation signals the inflationary effects from policy changes (such as targeted diesel subsidy, higher utility tariffs and SST rate hike) remained under control. As the government indicated the next fuel subsidy rationalisation will be done next year, we anticipate the moderate inflation will continue in 4QCY24, on top of relatively lower crude oil prices.

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



Source: Macrobond, MIDFR

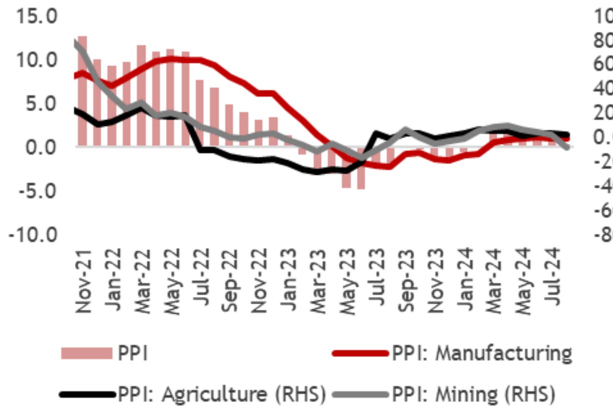
Chart 14: Food vs Non-Food CPI (YoY%)



Source: Macrobond, MIDFR

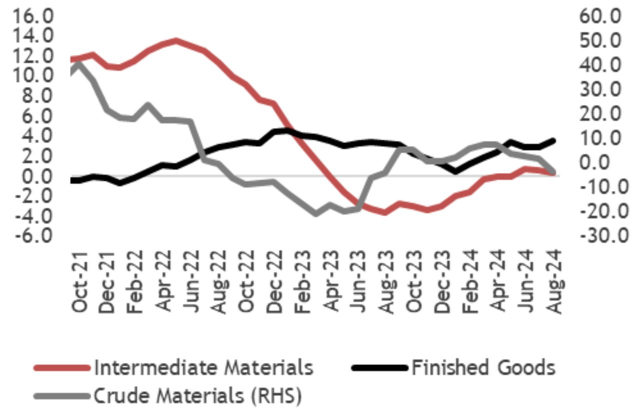
PPI declined at -2.1%yoy in Sep-24. Cost pressures eased as Malaysia's PPI inflation recorded a -2.1% decline in Sep-24 (Aug-24: +0.3%yoy), marking the first decrease since Jan-24. The decline was primarily driven by a sharper cooldown in PPI for the mining sector (Sep-24: -16.1%yoy; Aug-24: -8.3%), led by reductions in the producer prices for the extraction of crude petroleum (-18.6%yoy) and natural gas (=7.9%yoy) as a result of lower commodity prices. For the record, Brent crude oil dropped by -22.2%yoy to USD71.70pb vis-à-vis Sep-23. At the same time, PPI for the manufacturing sector deflated by -1.5%yoy (Aug-24: +1.0%yoy), largely driven by deflation in the manufacture of coke and refined petroleum products (Sep-24: -18.7%yoy). Meanwhile, PPI for electricity and gas supply eased to +0.3%yoy (Aug-24: +1.0%yoy) and PPI for water supply decelerated slightly to +7.8%yoy (Aug-24: +8.0%yoy). Producer prices for agriculture, forestry and fishing, in contrast, inflated faster at +5.8%yoy (Aug-24: +2.7%yoy). By stage of processing, PPI for crude materials for further processing and intermediate materials, supplies and components fell by -9.5%yoy (Aug-24: -3.5%yoy), and -1.1%yoy (Aug-24: +0.2%yoy), respectively. PPI inflation for finished goods eased to +1.5%yoy (Aug-24: +3.5%yoy). We opine the deflation of producer prices suggests local production costs are more influenced by external factors such as movement in the commodity prices. In other words, domestic policy changes pose limited impact on the cost pressures, thus far. We maintain our expectation that selling prices are likely to remain stable given the decline in PPI. With inflation remains under control, we expect BNM will maintain the current OPR setting.

Chart 15: : PPI by Sector (YoY%)



Source: Macrobond, MIDFR

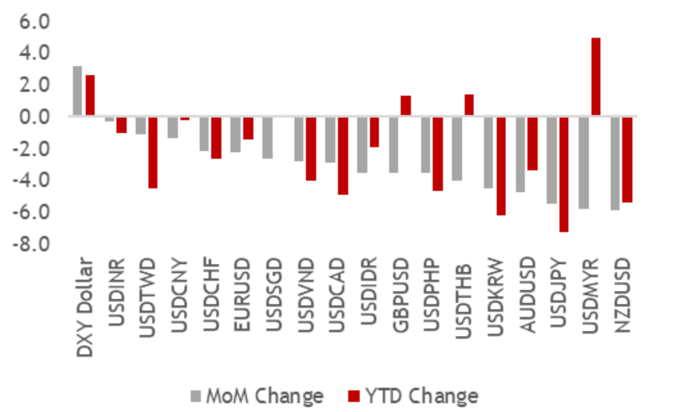
Chart 16: PPI by Processing Stage (YoY%)



Source: Macrobond, MIDFR

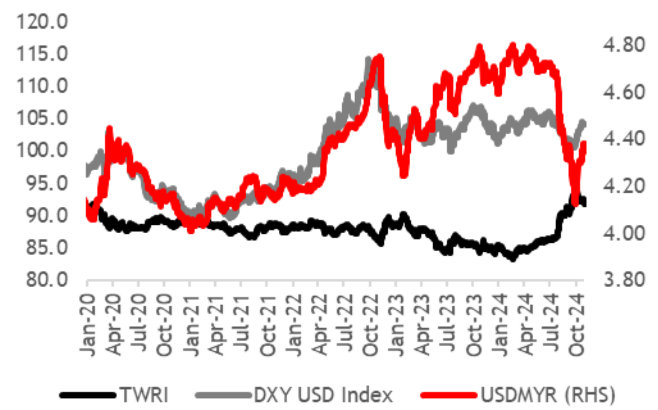
Ringgit's reversed gains in the past couple months. On the back of stronger US dollar after market adjusted expectations on the pace of the future Fed's rate cuts, the Malaysian ringgit depreciated steeply by -5.8%mom. This makes ringgit as the worst performing regional currency against the US dollar. Consequently, the ringgit's year-to date's appreciation against the US dollar was more than halved to +4.9%ytd (end-Sep-24: +11.4%ytd), closing at RM4.378 by the end-Oct-24, the weakest level last seen in Aug-24. Apart from the still wide interest rate differentials in favour of the dollar, the broad strengthening of US dollar was also attributable to the recent escalation of the geo-political conflicts. We expect the narrowing differentials as the Fed proceeds with more rate cuts will support for ringgit to appreciate again. However, there is downside risk to our ringgit outlook (which we predict to appreciate towards RM4.03 by year-end) which could come from prolonged strength in the US dollar if Fed takes even longer time to bring down interest rates, particularly if economic updates point to more encouraging developments and still resilient outlook for the US economy.

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



Source: Bloomberg, MIDFR

Chart 20: USDMYR vs. US Dollar Index vs.MIDF Trade-Weighted Index

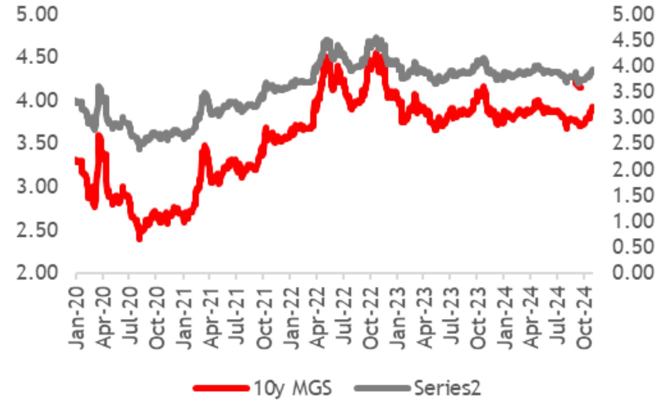


Source: Bloomberg, MIDFR

10-year MGS yield increased in Oct-24. The benchmark 10-year MGS yield increased by +21bps to 3.92% as at end-Oct-24 (Sep-24: 3.71%). The general trend in MGS continued to closely follow changes in the US treasury yields, which rose back to above 4.00% as market repriced expectations on the pace of policy easing by the Fed to less aggressive and smaller cuts as economic releases during the month pointed to still resilient economic condition in the US. As a result, the 10-year MGS yield closed at intra-month high of 3.92% on 30 October 2024 within the same day the 10-year reached its monthly high at 4.301%. Similar to the 10-year MGS, the yield for 3-

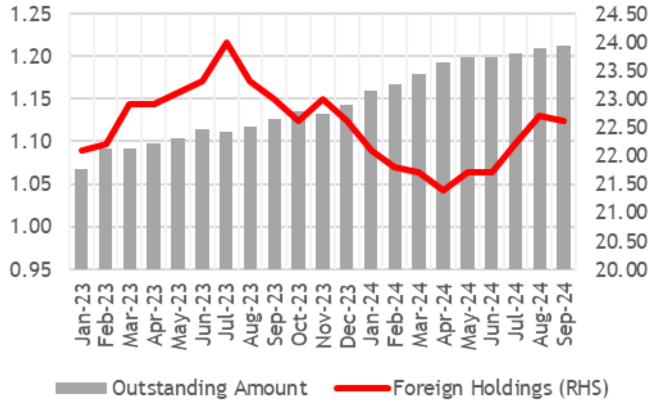
year MGS also rose, albeit at relatively smaller pace of -19bps to 3.53% (Aug-24: 3.33%). Based on the latest data, in terms of foreign holdings, the ratio out of total outstanding government securities and treasury bills fell slightly to 22.6% as of end-Sep-24 (end-Aug-24: 22.7%). However, the value of foreign holdings of Malaysia's debt securities actually rose by approximately RM1b to RM289.1b (Aug-24: RM288.1b).

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 economic growth to strengthen to +5.0% in 2024. We maintain our projection that Malaysia's economy will expand faster at +5.0% (2023: +3.6%). We expect Malaysia's economic growth this year will be 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 other hand, as the next subsidy rationalisation is expected to be carried out next year i.e. later than we had previously anticipated, there could be an upside surprise to our 2024 growth projection if domestic consumption turns out to be more encouraging on the back of easing inflation, in addition to positive labour market conditions and increased tourist arrivals.

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	6.4	4.5	3.3	4.5
Private Consumption	(3.9)	1.9	11.2	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	11.1	(12.7)	4.5
Services Exports	(47.8)	(8.2)	56.8	33.0	24.6
Imports of goods & services;	(7.9)	21.2	15.9	(7.4)	8.9
Goods Imports	(3.6)	23.8	14.6	(11.7)	9.0
Services Imports	(25.3)	7.7	23.9	15.8	8.3
Net Exports	(13.7)	(4.0)	(1.0)	(16.2)	(12.0)
Agriculture etc.	(2.4)	(0.1)	0.1	0.7	2.9
Mining & Quarrying	(9.7)	0.9	2.6	0.5	3.5
Manufacturing	(2.7)	9.5	8.1	0.7	4.4
Construction	(19.3)	(5.1)	5.0	6.1	9.8
Services	(5.2)	2.2	10.9	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	2.0
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	60.3	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	102.0	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	4.03
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

October 2024 Key Economic Events

1 Oct: Rafizi: 13MP to focus on state-federal collaboration to bridge socio-economic, development gaps The 13th Malaysia Plan (13MP) will focus on collaborative efforts between states and federal governments to bridge the socio-economic and development gaps according to states and regions, said Minister of Economy Rafizi Ramli. He said this aligns with the aspirations of the Madani government, which aims to balance the focus on economic development and the public's desires regarding the welfare and quality of the ordinary citizens.

4 Oct: U.S. job creation roared higher in September as payrolls surged by 254,000 The U.S. economy added far more jobs than expected in September, pointing to a vital employment picture as the unemployment rate edged lower, the Labor Department reported Friday. Nonfarm payrolls surged by 254,000 for the month, up from a revised 159,000 in August and better than the 150,000 Dow Jones consensus forecast. The unemployment rate fell to 4.1%, down 0.1 percentage point.

8 Oct: World Bank raises Malaysia's growth forecast to 4.9% after stronger-than-expected first half of 2024 The World Bank has raised its forecast for Malaysia's economic growth for 2024 to 4.9%, up 0.6 percentage points from its previous forecast of 4.3% in April 2024, following the country's stronger-than-anticipated performance in the first half of the year that reflected robust growth in consumption, investment, and trade activity.

9 Oct: Sabah seeks more agricultural budget to revive local agricultural activities Sabah is hoping that the 2025 Budget would increase allocation for the state agricultural activities. State Deputy Chief Minister-cum-state Agriculture, Fisheries and Food Industry minister Datuk Seri Dr Jeffrey Kitingan said that Sabah needs more funds to address hardcore poverty in the state.

11 Oct: Works Ministry seeks RM20mln for new R&Rs on LTU Expressway The Works Ministry will request RM20 million to build rest-and-service areas (R&R) along the Lingkaran Tengah Utama Expressway (formerly the Central Spine Road) in Pahang. Deputy Minister Datuk Seri Ahmad Maslan said the allocation request will be made to the Finance and Economy Ministries.

13 Oct: PM: Govt will only implement GST if minimum wage threshold increases to RM3k-RM4k The government will only implement the Goods and Services Tax (GST) if the minimum income threshold is at RM3,000-RM4,000, said Prime Minister Datuk Seri Anwar Ibrahim. Currently, the minimum monthly wage in Malaysia is RM1,500.

13 Oct: China flags more fiscal stimulus for economy, leaves out key details on size China pledged on Saturday to "significantly increase" debt to revive its sputtering economy, but left investors guessing on the overall size of the stimulus package, a vital detail to gauge the longevity of its recent stock market rally. Finance Minister Lan Foan told a press conference Beijing will help local governments tackle their debt problems, offer subsidies to people with low incomes, support the property market and replenish state banks' capital, among other measures.

18 Oct: Govt plans record RM421b spending in Budget 2025, aims to cut deficit to 3.8pc of GDP, reforms to drive revenue growth Malaysia announced record budget spending of RM421 billion for 2025, with the government boosting salaries and retirement funds for civil servants as it pursues further subsidy and tax reforms to bolster revenue. The government said it was on track to narrow its fiscal deficit to 3.8% of GDP next year, from an estimated 4.3% in 2024.

18 Oct: Govt to expand scope of SST, to include fee-based financial services The federal government is expanding the scope of the sales and service tax (SST) again to raise tax revenue. Starting May 1, 2025, sales tax will be imposed on non-essential items, including imported premium items, such as salmon and avocado, Prime Minister Datuk Seri Anwar Ibrahim announced in his Budget 2025 speech on Friday.

21 Oct: China cuts key lending rates to support growth China cut benchmark lending rates as anticipated at the monthly fixing on Monday (Oct 21), following reductions to other policy rates last month as part of a package of stimulus measures to revive the economy. The 1-year loan prime rate (LPR) was lowered by 25bps to 3.10% from 3.35%, while the 5-year LPR was cut by the same margin to 3.6% from 3.85% previously.

22 Oct: New minimum wage, proposed EPF contributions may shutter SMEs The expected increase in operational costs due to the raising of the minimum wage and the proposed mandatory EPF contributions for foreign workers may lead to some businesses folding, warns the SME Association of Malaysia. Its president Chin Chee Seong said the wage hikes and proposed EPF contributions would burden small and medium enterprises.

25 Oct: Domestic Trade Ministry to monitor price fluctuations as sugary tax announcement triggers market fears The Ministry of Domestic Trade and Cost of Living has a calculation method throughout the supply chain that enables it to detect attempts by irresponsible parties to raise prices following the announcement of several initiatives in Budget 2025.

25 Oct: M'sia now a BRICS partner Malaysia's bid to join BRICS has taken a major step forward with the country officially recognised as a partner of the intergovernmental bloc. According to an update, the bloc officially added 13 other nations (including Malaysia) as partner countries, though not as full members yet.

28 Oct: Japan's ruling coalition loses parliamentary majority Japan's ruling coalition lost its parliamentary majority in Sunday's general election (October 27), with voters punishing Prime Minister Shigeru Ishiba's party over a funding scandal and inflation.

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