28 June 2019

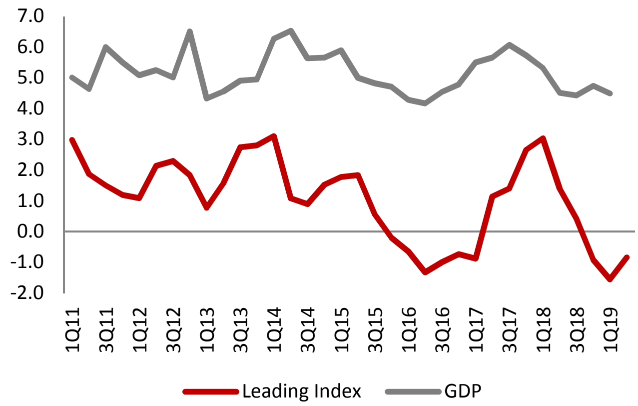
MONTHLY ECONOMIC REVIEW | June 2019

Malaysia's Economy to Grow Better in 2H19

- *Malaysia's economy indicates sign of recoveries. Malaysia's leading economic index surged by 2.6%mom in Apr-19 (Mar-19: 0.7%mom) as six out of seven components recorded increases. Main gains come from real imports of semi-conductors (0.8 %) and real imports of other basic precious & non-ferrous metals (0.7%). On an annual basis, the index rebounded by 0.4% from an upwardly revised 1.8% fall in the previous month.*
- *IPI growth at 6-month high. Malaysia's IPI expanded steadily by 4%yoy in Apr-19, highest since Oct-18 and outpacing market expectation of 2.5%yoy. The growth is mainly attributed by rebound in mining output and continuous expansion in manufacturing and electricity output.*
- *Fed's funds rate unchanged. The Fed maintains its key policy rate at 2.25-2.50% during the FOMC meeting in Jun-19. The central bank views the economy is expanding at moderate pace and global uncertainties remain as one of the major downside risks. Based on the FOMC latest projection, the Fed signals of possible rate cut by at least one this year. The Central Tendency's projection changed from 2.4-2.6% in Mar-19 to 1.9-2.4% in Jun-19.*

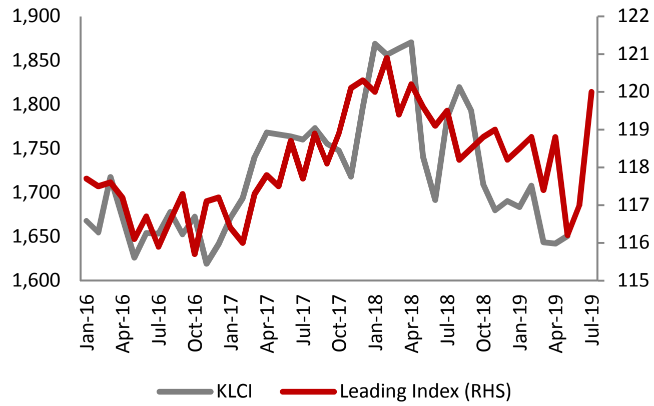
Malaysia's economy indicates sign of recoveries. Malaysia's leading economic index surged by 2.6%mom in Apr-19 (Mar-19: 0.7%mom) as six out of seven components recorded increases. Main gains come from real imports of semi-conductors (0.8 %) and real imports of other basic precious & non-ferrous metals (0.7%). On an annual basis, the index rebounded by 0.4% from an upwardly revised 1.8% fall in the previous month. Based on the performance, the economy is expected to grow better in Aug-19 to Oct-19 in line with our expectation that the economy will perform well in the 2H19. Referring to business expectations for the next 6 months, overall business performance is expected to improve steadily. Overall business performance for the second half of 2019 is expected to enjoy steady pick-up especially for services, mining and construction sectors. Strong domestic demand and low inflationary pressure are fundamental factors supporting the services sectors. Nevertheless, manufacturing sector which is export-oriented sector is predicted to experience moderation following the global trade slowdown.

Chart 1: Leading Index vs GDP (YoY%)



Source: CEIC, MIDFR

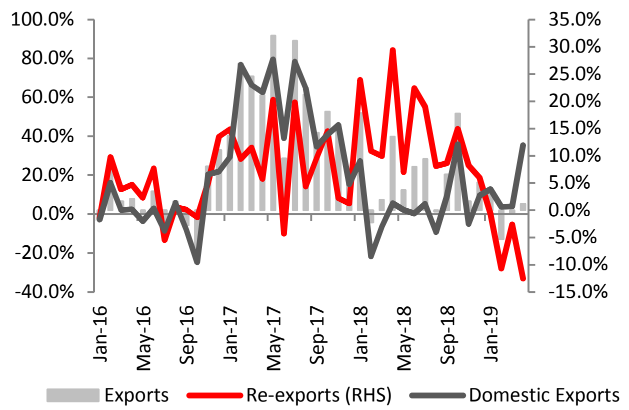
Chart 2: Leading Index vs KLCI (Points)



Source: CEIC, MIDFR

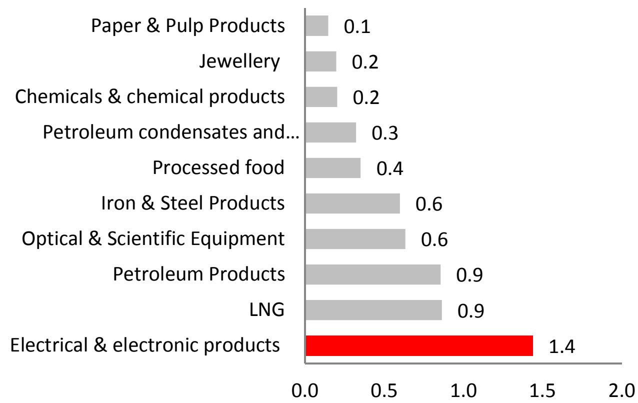
Exports back in positive growth. Exports growth rebounded to the positive territory of 1.1%yoy in Apr-19 following two consecutive months of contraction. However, imports increased at a faster pace of 4.4%yoy. Hence, trade surplus declined to RM10.9b (Apr-18: RM13b). Sector wise, manufacturing exports growth remain on uptrend at 2.7%yoy. Meanwhile, both agriculture and mining goods exports growth continued to be in negative territory of -9.3%yoy and -1.5%yoy but on improving trend.

Chart 3: Exports Performance (YoY%)



Source: CEIC, MIDFR

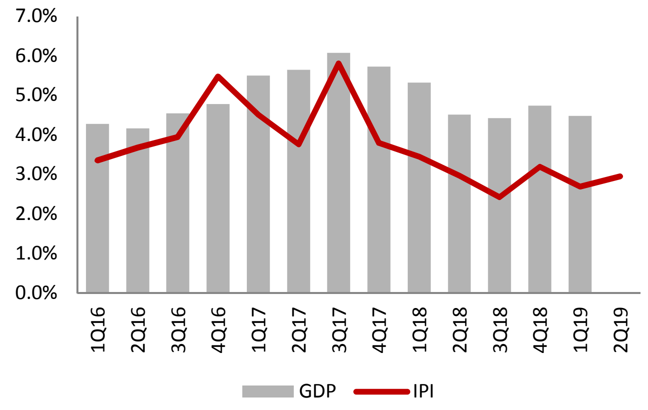
Chart 4: % Contribution to Exports Growth



Source: CEIC, MIDFR

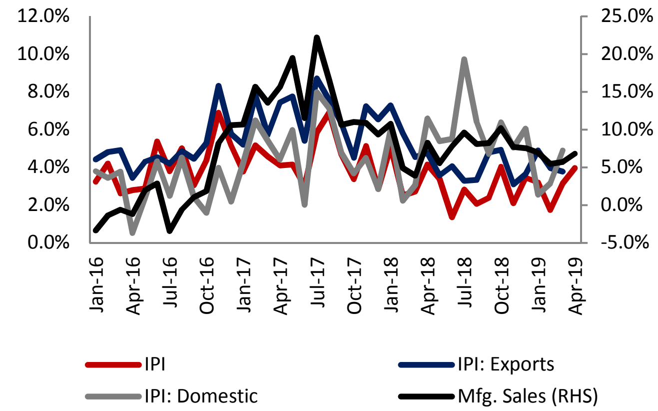
IPI growth at 6-month high. Malaysia's IPI expanded steadily by 4%yoy in Apr-19, highest since Oct-18 and outpacing market expectation of 2.5%yoy. The growth is mainly attributed by rebound in mining output and continuous expansion in manufacturing and electricity output. Mining output improved by 2.3%yoy, fastest gain in 20-month. The factory output grew 4.3%yoy (4-month high) and electricity output increased 5.8%yoy (3-month high). Moving forward, we foresee IPI performance to expand at a moderate pace in 2H19 underpin by lower OPR effects, low inflationary pressure, stable domestic demand, positive progression in construction sector and gradual pick-up in commodity prices. Nevertheless, trade war factor remains as downside risk to global trade activities as well as Malaysia's industrial activities.

Chart 5: IPI vs GDP (YoY%)



Source: CEIC, MIDFR

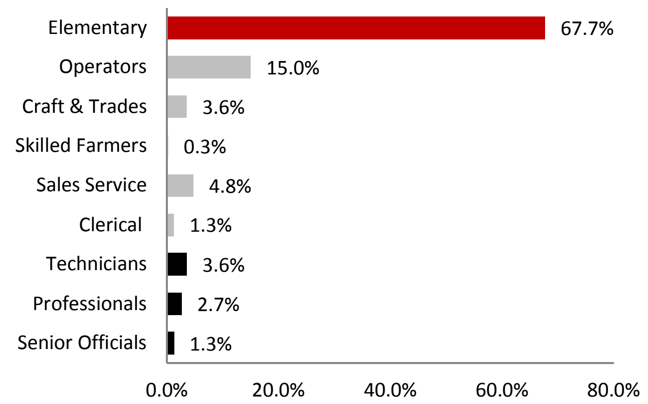
Chart 6: IPI vs Mfg. Sales (YoY%)



Source: CEIC, MIDFR

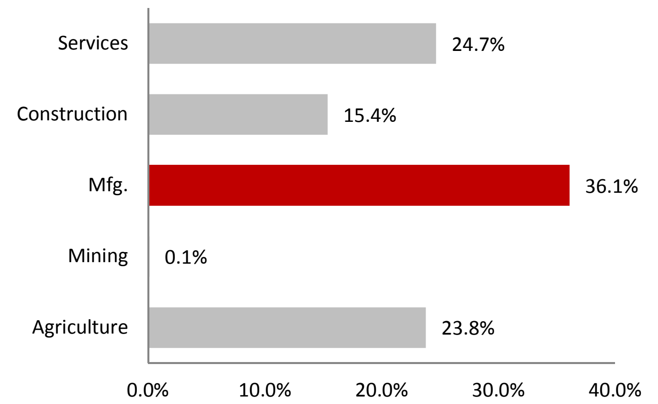
Share of low value-added jobs at 2-year low. Malaysia's job vacancies continue to be dominated by low-skilled type of jobs. However, the share of elementary occupations and operators to the total vacancies in Feb-19 went down to 82.7%, the lowest since Feb-17. Meanwhile, the remaining 17.3% are for medium and high-skilled jobs. Moving forward, we believe the dominancy of low-skilled jobs will gradually decline and that high-skilled jobs will increase as we expect re-exports performance will continue trending downwards amid higher base effects and slowdown in global market especially for E&E sector. In addition, with the expected recovery in mining and agriculture goods, we expect domestic exports to continue its upward trend, offering more vacancies for medium and high-skilled jobs.

Chart 7: Share of Job Vacancies by Type (%)



Source: CEIC, MIDFR
*Data availability until Mar-19

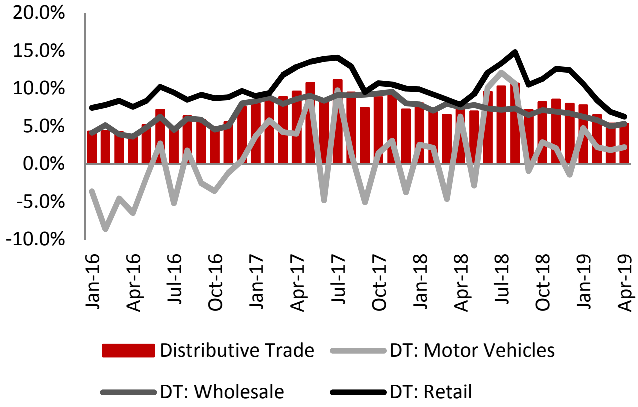
Chart 8: Share of Job Vacancies by Sector (%)



Source: CEIC, MIDFR
*Data availability until Mar-19

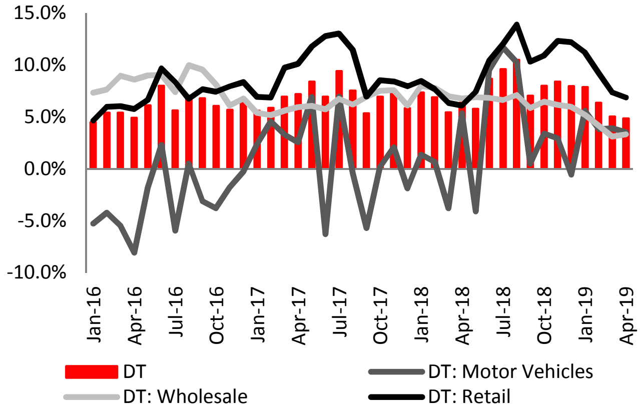
Retail sales growth at over 3-year low. Distributive trade growth inched down to over 2-year low of 5.3%yoy in Apr-19, as retail sales increased 6.3%yoy, the slowest pace since Sep-15. The growth has been on downward trend for the fifth consecutive month despite higher growth in two out of three components. Wholesale and motor vehicle sales expanded 5.3%yoy and 2.2%yoy respectively (Mar-19: 5%yoy and 1.8%yoy). Looking ahead, we foresee domestic demand to increase in upcoming months buoyed by the recent OPR cut, stable job market, wage growth and low inflationary pressure.

Chart 9: Distributive Trade, DT (YoY%)



Source: CEIC; MIDFR

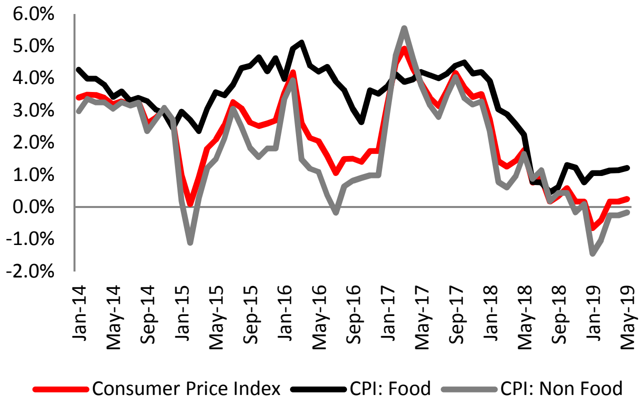
Chart 10: Distributive Trade Volume, DT (YoY%)



Source: CEIC; MIDFR

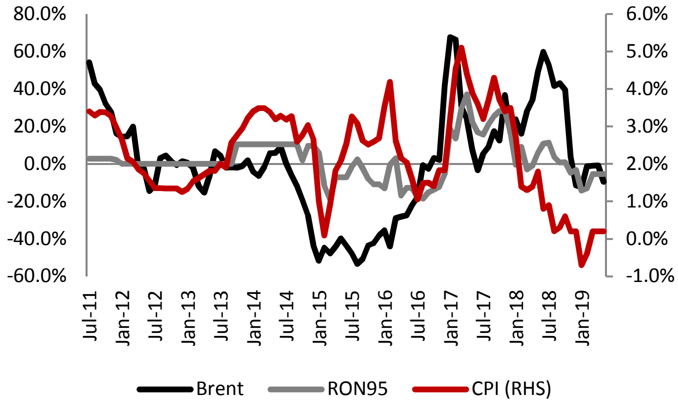
Muted inflationary pressure. Headline inflation maintains at 0.2%yoy for the third consecutive month in May-19. The trivial upward pressures continue to come from both food and housing & utilities prices. In contrast, transport prices continued to drop but at a slightly slower pace of -2.5%yoy (Apr-19: -2.6%yoy). Meanwhile, core inflation edged down to 0.4%yoy. Looking ahead, Malaysia's consumer inflation is likely to stay low following the lower capped prices of RON95 and Diesel at RM2.08 and RM2.18 per litre respectively. Nevertheless, demand-pull factor remains firm amid stable job market and steady wage growth.

Chart 11: CPI: Headline vs Food & Non-food (YoY%)



Source: CEIC, MIDFR

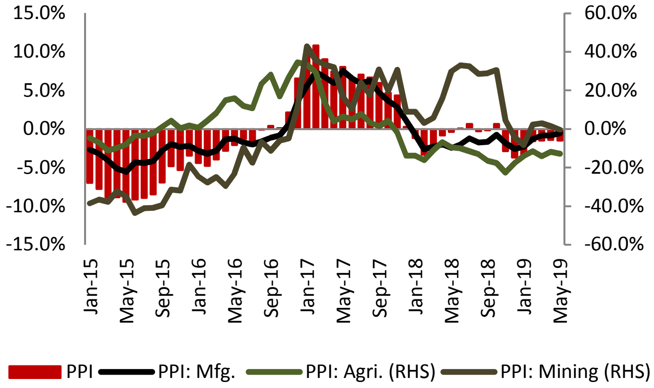
Chart 12: CPI vs Crude & Retail Fuel Prices (YoY%)



Source: CEIC, MIDFR

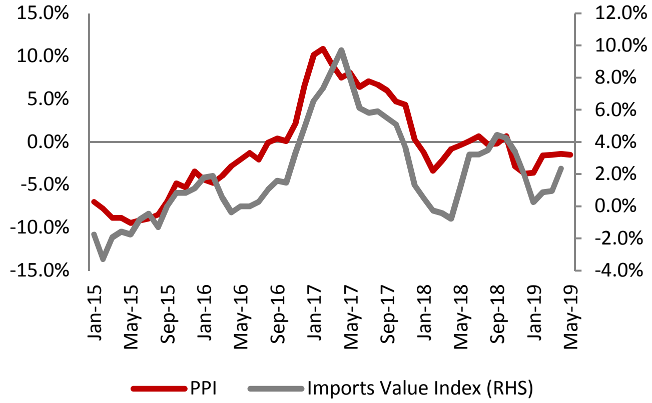
PPI stays on contractionary path. Malaysia's producer cost remains deflationary as PPI shrank by -1.5%yoy in May-19. This is mainly due to continuous falling input prices of agriculture and manufacturing sectors. Factory input price has been on negative growth for 17-consecutive months. Manufacturing sector still held the largest share at 81.6% in determining the producers' inflation. We expect the PPI to remain low given that retail fuel prices of RON95 and Diesel are capped at lower levels than 2018's average prices.

Chart 13: PPI Performance by Sector (YoY%)



Source: CEIC, MIDFR

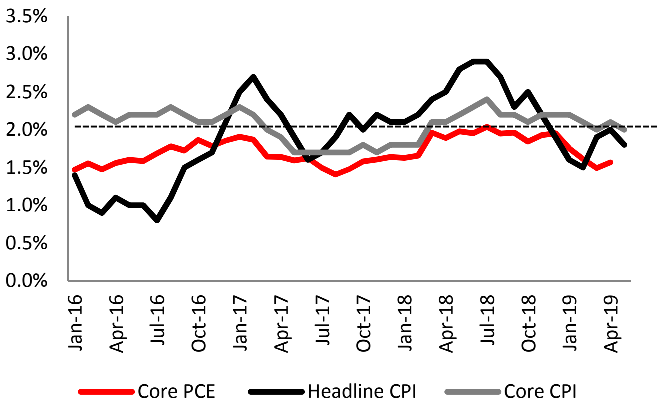
Chart 14: PPI vs Imports Value Index (YoY%)



Source: CEIC, MIDFR

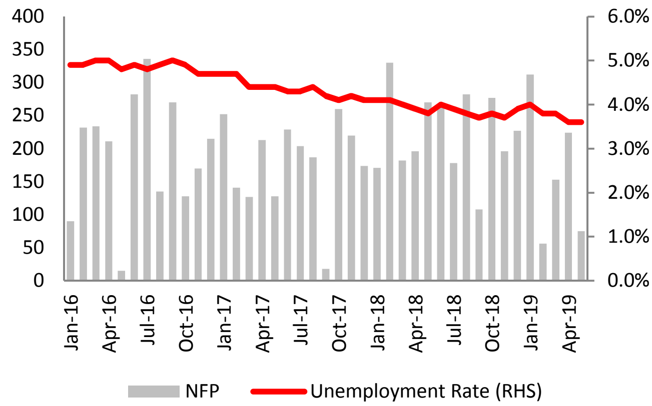
Fed's funds rate unchanged. The Fed maintains its key policy rate at 2.25-2.50% during the FOMC meeting in Jun-19. The central bank views the economy is expanding at moderate pace and global uncertainties remain as one of the major downside risks. Based on the FOMC latest projection, the Fed signals of possible rate cut by at least one this year. The Central Tendency's projection changed from 2.4-2.6% in Mar-19 to 1.9-2.4% in Jun-19. Other estimates such as GDP maintains at 2.1% while Core CPI and unemployment rate slightly lower at 1.8% (Mar-19: 2%) and 3.6% (Mar-19: 3.7%). Cutting the interest rate would positively impact economic activities in the US particularly household spending and business investment. In addition, it may offset the uncertainties due to global trade tension.

Chart 15: Headline vs Core PCE Inflation (%)



Source: CEIC, MIDFR

Chart 16: Unemployment Rate vs Non-Farm Payroll



Source: CEIC, MIDFR

Table 1: Macroeconomic Data Updates

(YoY%) Unless Stated Otherwise	2016	2017	2018	2019f
Real GDP	4.4	5.7	4.7	4.9
Public Consumption	1.6	5.5	3.2	3.5
Private Consumption	5.8	6.8	7.9	7.2
Gross Fixed Capital Formation	2.5	6.1	1.3	1.7
Public Investment	(0.8)	0.5	(5.0)	(4.0)
Private Investment	4.4	9.1	4.4	4.2
Exports of goods & services	1.3	8.8	2.2	0.8
Imports of goods & services	1.5	10.3	1.3	0.7
Net Exports (RMb)	88.9	85.5	95.3	97.5
Agriculture etc.	(3.6)	5.8	0.2	1.5
Mining & Quarrying	2.3	0.5	(2.6)	2.1
Manufacturing	4.4	6.1	5.0	3.8
Construction	7.5	6.8	4.3	4.5
Services	5.7	6.2	6.8	6.5
Exports of Goods (f.o.b)	1.4	19.3	7.3	3.6
Imports of Goods (c.i.f)	2.0	20.2	5.6	3.0
Trade Balance - RMb	88.1	98.5	119.8	126.3
Consumer Price Index	2.1	3.8	1.0	0.6
End of Unless States Otherwise	**2016**	**2017**	**2018**	**2019f**
Brent Crude Oil (Avg)	46.0	55.7	71.6	70.0
Crude Palm Oil (Avg)	2642.0	2659.0	2293.0	2090.0
USD/MYR (Avg)	4.14	4.30	4.00	4.12
USD/MYR	4.46	4.08	4.10	4.10
Overnight Policy Rate (%)	3.00	3.00	3.25	3.00

Source: MIDFR

Jun 2019 Key Economic Events

3 June: U.S. moving toward major antitrust probe of tech giants. The U.S. government is gearing up to investigate whether Amazon, Apple, Facebook and Google misuse their massive market power, sources told Reuters on Monday, setting up what could be an unprecedented, wide-ranging probe of some of the world's largest companies. The Federal Trade Commission and the Department of Justice, which enforce antitrust laws in the United States, have divided oversight over the four companies, two sources said, with Amazon and Facebook under the watch of the FTC, and Apple and Google under the Justice Department.

9 June: Hundreds of thousands march in Hong Kong to protest China extradition bill. Hong Kong was plunged into a fresh political crisis on Sunday night after more than half a million people took to the streets to thwart a proposed extradition law that would allow suspects to be sent to mainland China to face trial. Organizers said the turnout outstripped a demonstration in 2003 when 500,000 hit the streets to challenge government plans for tighter national security laws. Those laws were later shelved and a key government official forced to resign.

11 June: No decision on fuel subsidy yet, says PM. The government has not come out with a decision on the targeted fuel subsidy mechanism that was proposed in the election manifesto, said Prime Minister Tun Dr Mahathir Mohamad. "We have only come to the stage of getting the data. No real decision has been made [on the mechanism]," Dr Mahathir told a press conference after the third meeting of the Economic Action Council here, today. Dr Mahathir added that the plan remains to have the mechanism — meant to target the B40 income group as opposed to blanket fuel subsidy previously — be ready by July this year.

12 June: Penang's approved manufacturing investments rise more than seven-fold in 1Q19. Penang attracted approved investments worth RM8.8 billion in the manufacturing sector in the first quarter (1Q) of 2019, up 763% from RM1.02 billion in the same period last year. Chief Minister Chow Kon Yeow said despite the intensifying trade and technology disputes between the United States and China that created uncertainties in the global trade and economic outlook, Penang remained a favoured investment destination.

21 June: Putrajaya offers to buy four toll concessionaires for RM4.5b cash. Putrajaya is offering to take over the four toll highways owned by Gamuda Bhd and Lingkaran Trans Kota Holdings Bhd (Litrak Holdings) for RM4.5 billion cash. Gamuda announced to Bursa Malaysia that Minister of Finance Inc (MoF Inc) has given offer letters to its subsidiaries and associate companies namely 70%-owned unit Kesas Holdings Bhd, 52%-owned associate Sistem Penyuraian Trafik KL Barat Holdings Sdn Bhd (Sprint Holdings), 44%-owned public-listed Lingkaran Trans Kota Holdings Bhd (Litrak Holdings), and 50%-owned joint venture Projek SMART Holdings Sdn Bhd to acquire each of their toll concessions.

26 June: Malaysia economy to grow better in 2H. Meanwhile, Malaysia's leading economic index surged by 2.6 per cent month-on-month (MoM) in April as six out of seven components recorded increases. The main gains derived from real imports of semi-conductors and real imports of other basic precious and non-ferrous metals. On an annual basis, the index rebounded by 0.4 per cent from an upwardly revised 1.8 per cent fall in the previous month.

27 June: Trade war: US and China agree to tentative truce before G20 summit. The US and China have tentatively agreed to another truce in their trade war in order to resume talks aimed at resolving the dispute, sources familiar with the situation said.Details of the agreement are being laid out in press releases in advance of the meeting between Chinese President Xi Jinping and US President Donald Trump at the Group of 20 summit in Osaka, Japan, this weekend, according to three sources – one in Beijing and two in Washington. Italy, Hungary and Poland.

28 June: Palm oil posts its longest quarterly slump on record. Palm oil is stuck in rut and it's not likely to get out anytime soon. Benchmark futures in Malaysia are down 7.1% this quarter as the world's most-consumed edible oil grapples with persistently high stockpiles in top growers amid lackluster demand. Its performance is in stark contrast to the Bloomberg agricultural spot price index, which is on course for the best quarterly gain in three years thanks to weather-related grain-supply disruption.

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