4 December 2019

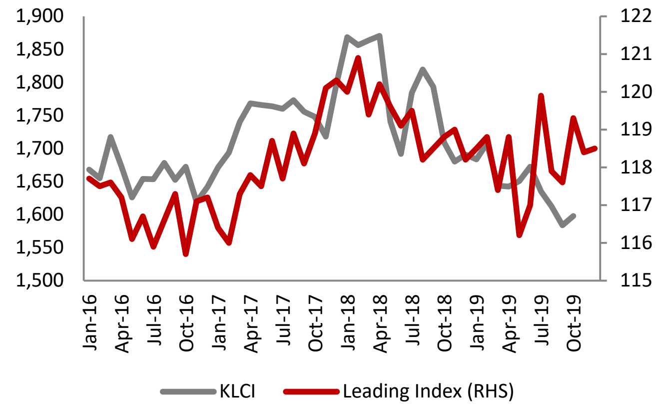
MONTHLY ECONOMIC REVIEW | November 2019

Gloomy Economic Outlook as External Front Remains Weak and Uncertain

- *Leading index indicates economic growth momentum remain positive in 1Q20. Malaysia's Leading Index (LI) rebounded to 0.1%mom growth in Sep-19 from a -0.8%mom fall in the preceding month. Four out of seven components recorded increase during the month with significant contribution came from number of housing units approved and real money supply (M1).*
- *3Q19 GDP growth moderated to 1-year low. Malaysia's GDP growth expanded 4.4%yoy in 3Q19, matched market estimate. The economy remains in expansion mode supported by domestic demand particularly private consumption and government spending. On the other hand, sluggish investment activities and weak external sector continue dampening the growth.*
- *Current account surplus at three-month low. Malaysia's current account surplus dropped to RM 11.5b (or 3% of the GDP) in 3Q19, the lowest so far this year. However, the figure was significantly higher than RM 3.3b surplus recorded in the same quarter last year. The quarterly sequential moderation was mainly due to higher deficit in primary and secondary income which increased to RM 12.2b and RM 5.5b compared to RM 5.5b and RM 4.9b respectively in 2Q19.*

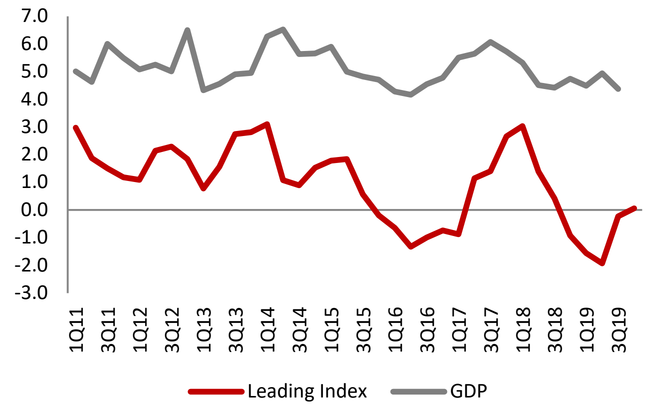
Leading index indicates economic growth momentum remain positive in 1Q20. Malaysia's Leading Index (LI) rebounded to 0.1%mom growth in Sep-19 from a -0.8%mom fall in the preceding month. Four out of seven components recorded increase during the month with significant contribution came from number of housing units approved and real money supply (M1). Similarly, on annual basis, the index increased 0.3% following a -0.5% drop in Aug-19. The LI's performance is in line with those of smoothed LI which continued trending upwards, indicating that the economic growth momentum remain positive in 1Q20. We foresee Malaysian economy to continue expanding in 2020 but at a slightly moderating pace compared to this year as there are more challenges ahead. Slowing global demand, recession fears, rising protectionism and loss of momentum in major economies are among the factors. Domestically, sizable debt level which somehow bounds government from spending generously, expectations on rising inflationary pressure and slightly easing employment on top of currency risk could stifle private consumption. Besides that, we believe uncertainties over trade crusades will continue to threaten our exports performance. In addition, continuous decline in imports of capital and intermediate goods this year indicate weak prospects for exports in 2020.

Chart 1: Leading Index vs KLCI (Points)



Source: CEIC, MIDFR

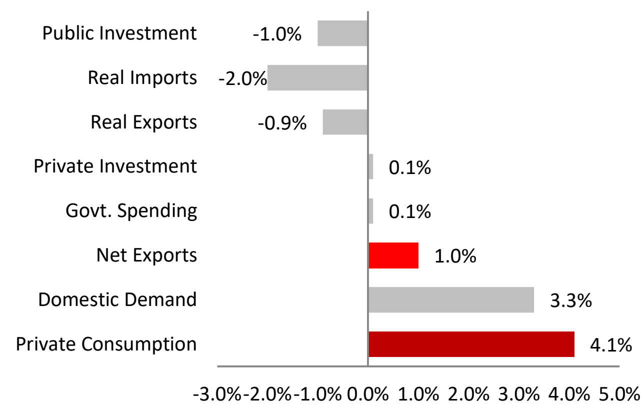
Chart 2: Leading Index vs GDP (YoY%)



Source: CEIC, MIDFR

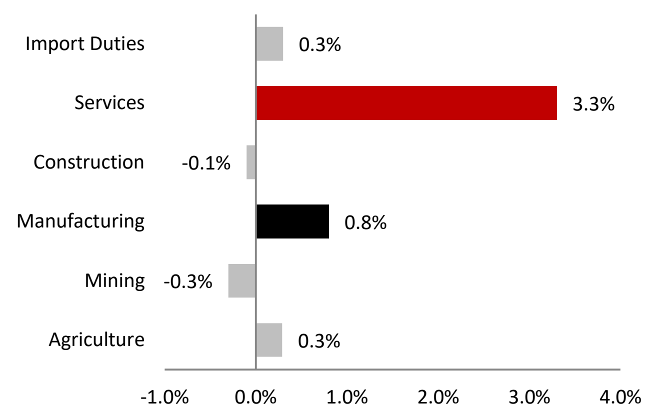
3Q19 GDP growth moderated to 1-year low. Malaysia's GDP growth expanded 4.4%yoy in 3Q19, matched market estimate. The economy remains in expansion mode supported by domestic demand particularly private consumption and government spending. On the other hand, sluggish investment activities and weak external sector continue dampening the growth. From expenditure side, private consumption and net exports contributed 4.1% and 1% respectively. From supply side, services, manufacturing and agriculture sectors contributed 3.3%, 0.8% and 0.3% respectively during the quarter.

Chart 3: Contribution Points by Expenditure Components (%)



Source: CEIC, MIDFR

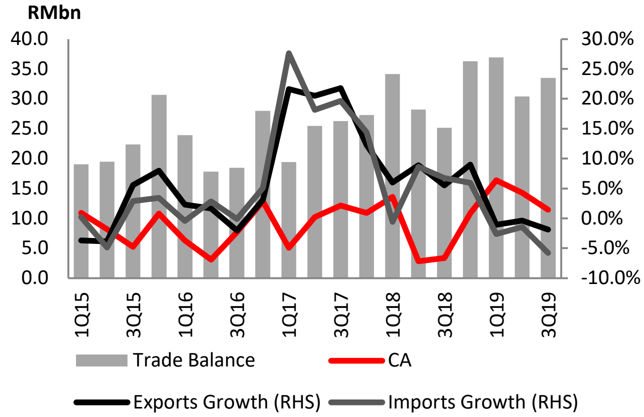
Chart 4: Contribution Points by Supply Components (%)



Source: CEIC, MIDFR

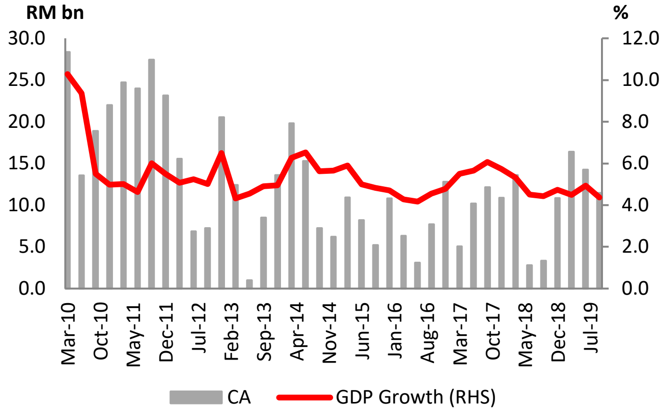
Current account surplus at three-month low. Malaysia's current account surplus dropped to RM 11.5b (or 3% of the GDP) in 3Q19, the lowest so far this year. However, the figure was significantly higher than RM 3.3b surplus recorded in the same quarter last year. The quarterly sequential moderation was mainly due to higher deficit in primary and secondary income which increased to RM 12.2b and RM 5.5b compared to RM 5.5b and RM 4.9b respectively in 2Q19. In contrast, goods and services account improved in 3Q19. Goods surplus increased to RM 30.8b due to solid trade surplus of RM 33.5b (2Q19: RM 30.4b) resulting from harder fall in imports compared to exports. Exports and imports contracted by -1.9%yoy and -5.8%yoy respectively during the quarter. Meanwhile, services account continued to be in deficit but improved to RM 1.6b (2Q19: RM 3.4b). Nevertheless, Malaysia is still positioned as a net domestic saver built up from a historical record of current account surpluses.

Chart 5: Current Account Balance vs External Trade



Source: CEIC, MIDFR

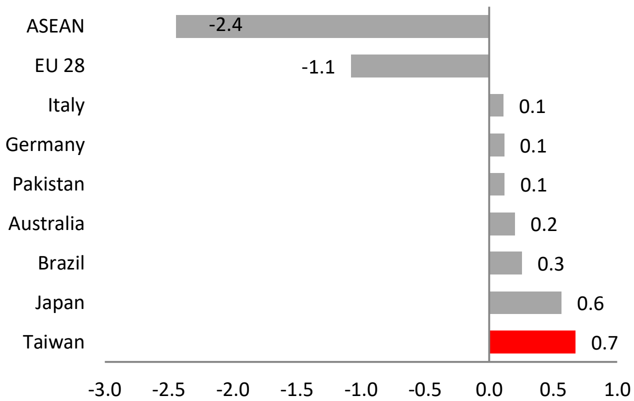
Chart 6: Current Account vs GDP Growth



Source: CEIC, MIDFR

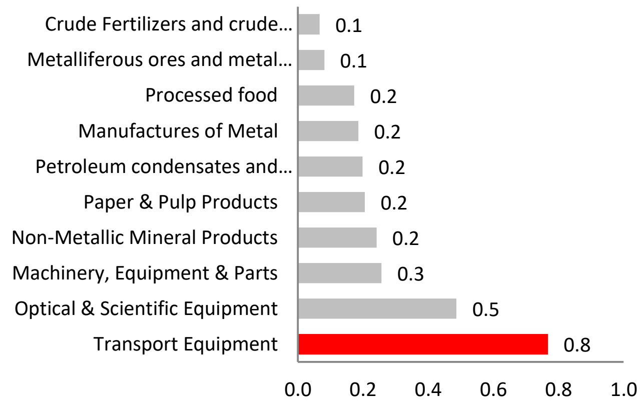
Export contraction fell to near the lowest rate in 3-years. In Sep-19, export contracted -6.8%yoy, the hardest fall since Oct-16. The second consecutive month of negative growth was due to weak performances in all major sectors. Manufacturing export which accounted for circa 85% of total exports contracted by -5.8%yoy. Similarly, export of mining and agriculture products declined by -15.2%yoy and 8.3%yoy respectively. In contrast to export, imports growth rebounded to 2.4%yoy growth after three straight months of negative growth. This resulted in trade surplus at a 13-month low of RM 8.3b.

Chart 7: % Contribution to Exports Growth by Destination



Source: CEIC; MIDFR

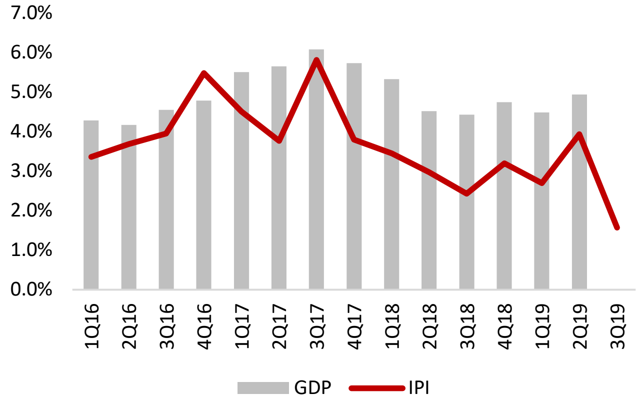
Chart 8: % Contribution to Exports Growth by Products



Source: CEIC; MIDFR

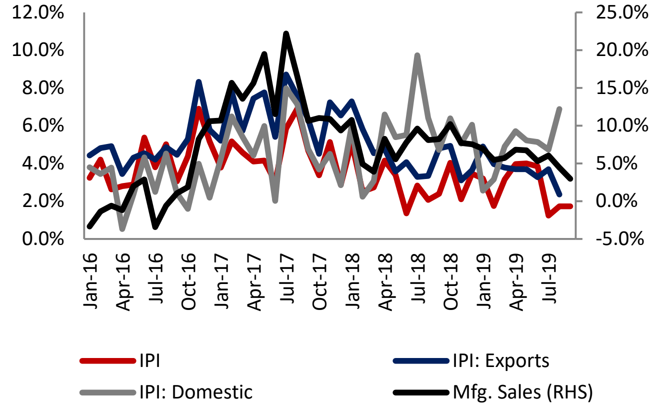
IPI continued on expansion. Malaysia's IPI growth recorded at 1.7%yoy in Sep-19, similar with previous month and slightly lower than market estimates of 1.9%yoy. The slowdown is mainly due to further contraction in mining output and moderation in factory and electricity productions. Moving forward, we foresee IPI performance to continue expanding at a modest pace in 4Q19 as trade war factor remains a major downside risk to global trade activities and manufacturing production in particular, which has the highest weightage in the overall IPI index. Nevertheless, effects of OPR cut, easing monetary measures globally, low inflationary pressure, positive progression in construction activities and stable domestic demand would provide support to the industrial production performance.

Chart 9: IPI vs GDP (YoY%)



Source: CEIC, MIDFR

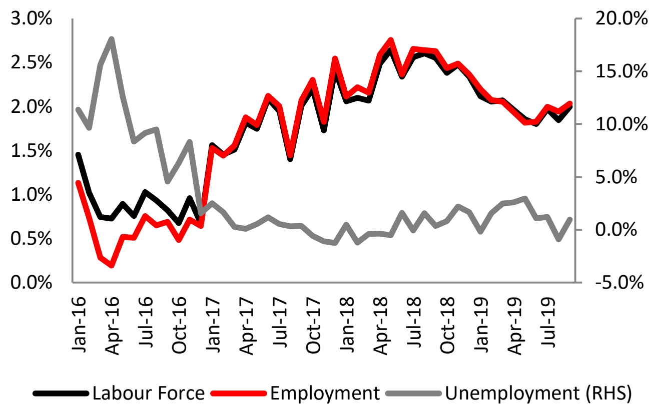
Chart 10: IPI & Mfg. Sales (YoY%)



Source: CEIC, MIDFR

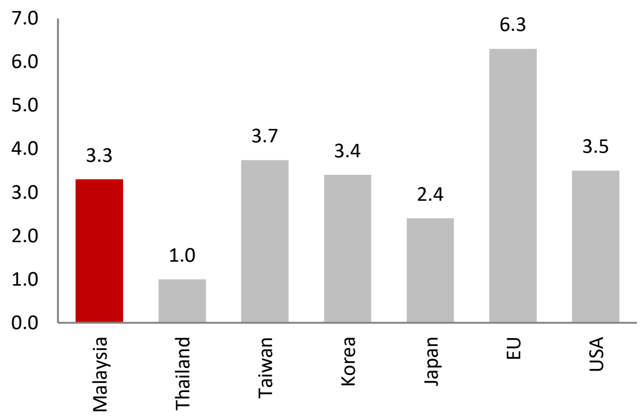
Labour market strengthens. Labour force and employment returned to 2%yoy growth with 44.1K jobs added in Sep-19. Meanwhile, number of unemployed rebounded by 1%yoy from -0.9%yoy recorded in the previous month. Overall, Malaysia's economy remains at full-employment condition as jobless rate remains at low level of 3.3%. Stable labour market is crucial for Malaysian economy as it provides solid support to the domestic demand.

Chart 11: Labour Market Key Indicators (YoY%)



Source: CEIC, MIDFR

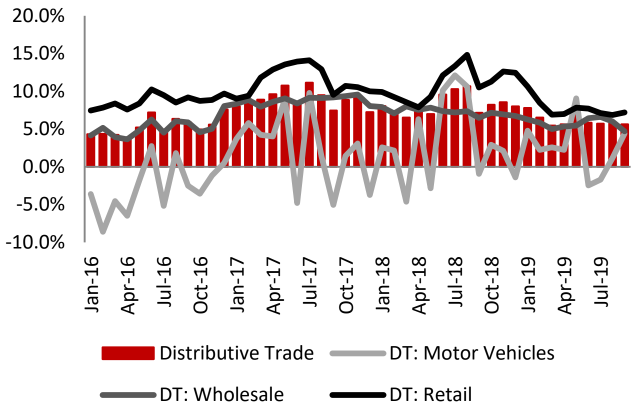
Chart 12: Global Unemployment Rates (%) in Sep-19



Source: CEIC, MIDFR

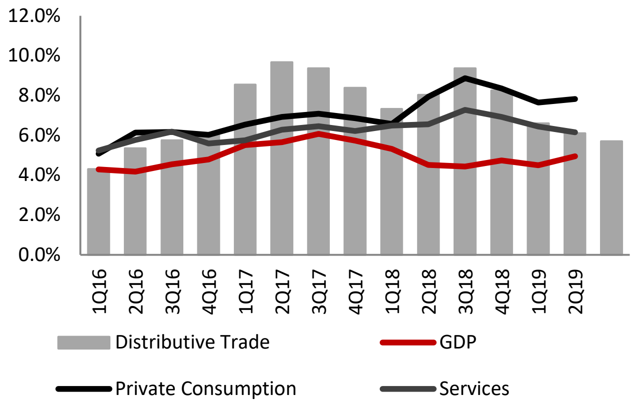
Retail sales growth at 3-month high. Retail trade which accounted for the second largest share of total distributive sales returned to above 7% growth in Sep-19. Similarly, motor vehicles sales expanded further to 4.4%yoy, fastest pace since May-19. In contrast, wholesale trade, the biggest contributor to the total distributive sales registered near 3-year low growth of 4.7%yoy. That caused overall distributive trade to perform moderately at 5.6%yoy despite the absence of high base effect from tax holiday period last year.

Chart 13: Distributive Trade Sales, DT (YoY%)



Source: CEIC; MIDFR

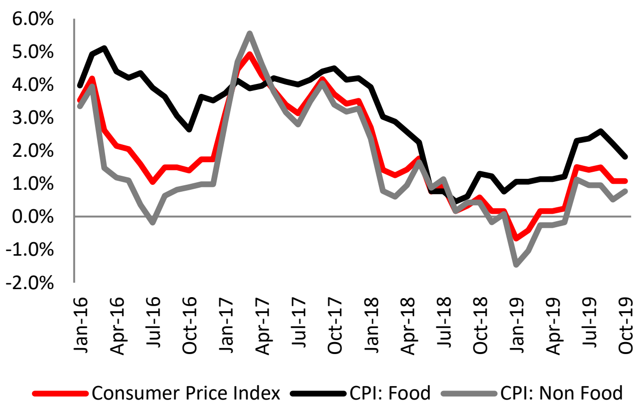
Chart 14: DT vs Private Consumption vs Services (YoY%)



Source: CEIC; MIDFR

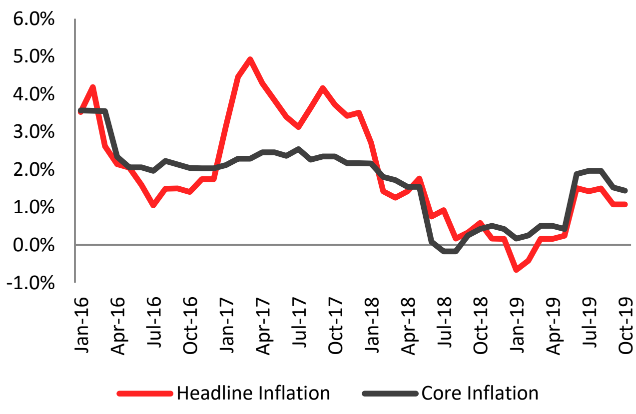
Inflation remains muted. Headline inflation maintained at 1.1%yoy in Oct-19, unchanged from preceding months as prices of food & non-alcoholic beverages, the biggest component of CPI increased at a softer pace of 1.8%yoy (Sep-19: 2.2%yoy). In addition, inflation of housing & utilities sustained at 1.6%yoy, similar to the prior month while those of transport, fell slightly harder to -2.3%yoy (Sep-19: -2.2%yoy). On monthly basis, inflation rose 0.2% compared to neutral growth in Sep-19. Meanwhile, core inflation inched down to five-month low of 1.4%yoy.

Chart 15: CPI: Headline vs Food & Non-food (YoY%)



Source: CEIC, MIDFR

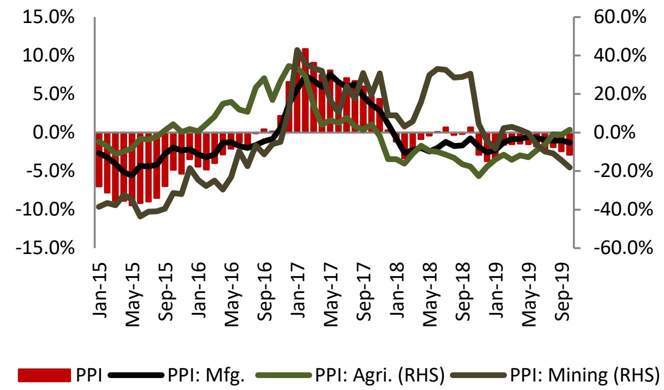
Chart 16: CPI: Headline vs Core (YoY%)



Source: CEIC, MIDFR

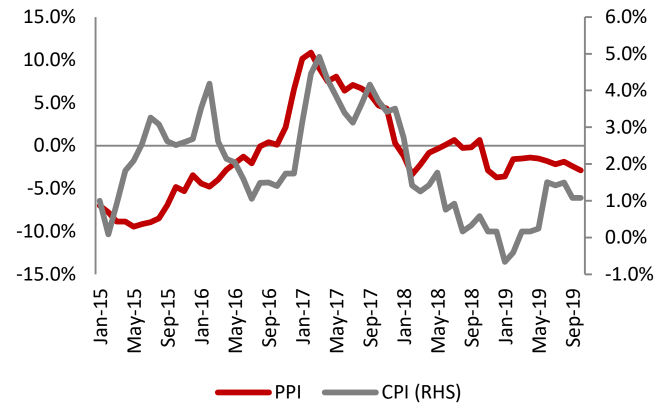
PPI contracted for one-solid year. Malaysia's producer cost remained deflationary for one-solid year with the latest figure at -2.9%yoy in Oct-19. The largest drop since Feb-19 was mainly due to higher decline in input prices of mining and manufacturing. Meanwhile, PPI of agriculture rebounded to positive growth, beating the down cycle. Moving forward, we foresee mining PPI to remain in negative territory given that retail fuel prices of RON95 and Diesel are capped at lower levels than 2018's average prices. This will eventually put a downward pressure on the overall PPI despite mining's relatively small share of total PPI at circa 8% as lower oil prices would have spill over effects to manufacturing sector in particular. Manufacturing PPI held 81.6% of the total PPI.

Chart 17: PPI Performance by Sector (YoY%)



Source: CEIC, MIDFR

Chart 18: PPI vs CPI (YoY%)



Source: CEIC, MIDFR

Table 1: MIDF Research Macroeconomic Forecast Figures for 2019 (%)

(YoY%) Unless Stated Otherwise	2016	2017	2018	2019e
Real GDP	4.4	5.7	4.7	4.6
Govt. Consumption	1.6	5.5	3.2	3.0
Private Consumption	5.8	6.8	7.9	7.5
Gross Fixed Capital Formation	2.5	6.1	1.3	(1.7)
Govt. Investment	(0.8)	0.5	(5.0)	(9.2)
Private Investment	4.4	9.1	4.4	1.5
Exports of goods & services	1.3	8.8	2.2	(0.2)
Imports of goods & services	1.5	10.3	1.3	(2.1)
Net Exports	0.3	(3.9)	14.6	16.7
Agriculture etc.	(3.6)	5.8	0.2	4.5
Mining & Quarrying	2.3	0.5	(2.6)	(1.0)
Manufacturing	4.4	6.1	5.0	4.0
Construction	7.5	6.8	4.3	0.2
Services	5.7	6.2	6.8	6.3
Exports of Goods (f.o.b)	1.2	18.8	7.3	(1.1)
Imports of Goods (c.i.f)	1.9	19.7	5.2	(4.6)
Trade Balance	88.1	98.5	123.8	142.2
Consumer Price Index	2.1	3.8	1.0	0.6
Current Account Surplus-%of GDP	2.4	3.0	2.4	2.2
Fiscal Balance - % of GDP	(3.2)	(3.1)	(3.8)	(3.4)
Federal Government Debt - % of GDP	52.7	50.7	51.8	58.2
End of Unless States Otherwise	**2016**	**2017**	**2018e**	**2019e**
Brent Crude Oil (Avg)	46.0	55.7	70.0	63.0
Crude Palm Oil (Avg)	2,630	2,690	2,320	2,090
USD/MYR (Avg)	4.14	4.30	4.00	4.15
USD/MYR	4.46	4.08	4.10	4.15
Overnight Policy Rate (%)	3.00	3.00	3.25	3.00

Source: MIDFR

November 2019 Key Economic Events

1 November: Property Rebound Surges in Australia on Low Rates, Easy Credit. Australia's housing market recovery surged ahead in October, led by further hefty gains in the nation's two biggest cities. Housing values in the combined capital cities jumped 1.4% last month, CoreLogic Inc. data released Friday showed. Nationwide, prices increased 1.2%, the biggest gain since May 2015. The rapid turnaround in fortunes has taken another step up. Prices in Melbourne surged 2.3%, the biggest monthly gain in almost 10 years. Since bottoming in May, home values in Australia's second-biggest city have climbed 6%.

4 November: India Exits China-Backed Trade Deal 15 Nations Plan to Sign. India decided against joining a trade agreement covering much of Asia, paving the way for 15 other countries to sign the China-backed regional deal next year. India conveyed its decision to exit the Regional Comprehensive Economic Partnership, or RCEP, foreign ministry official Vijay Thakur Singh told reporters in Bangkok on Monday. Prime Minister Narendra Modi highlighted that he was guided by the impact it would have on the lives and livelihoods of all Indians, especially vulnerable sections of society, she said.

5 November: MACC, Bursa in collaboration towards a corruption-free Corporate Malaysia. The Malaysian Anti-Corruption Commission (MACC) and Bursa Malaysia Bhd plan to establish a learning collaboration to promote a corruption-free Malaysia. Bursa Malaysia chairman Datuk Shireen Ann Zaharah Muhiudeen said through this learning collaboration, both sides would benefit from the sharing of knowledge and experiences. "This, in turn, will enhance the skills and learning capabilities of the MACC and Bursa Malaysia officers in carrying out their respective roles." she said in a statement today.

7 November: U.S. Says Phase-One China Deal Would Include Tariff Rollback. The U.S. and China have agreed to roll back tariffs on each other's goods in phases as they work toward a deal between the two sides, both sides said. "In the past two weeks, top negotiators had serious, constructive discussions and agreed to remove the additional tariffs in phases as progress is made on the agreement," China's Ministry of Commerce spokesman Gao Feng said Thursday. White House economic adviser Larry Kudlow confirmed the advance in negotiations. "

11 November: Malaysia's Airline-Safety Ranking Downgraded by U.S. FAA. Malaysia had its airline-safety ranking downgraded by the U.S. Federal Aviation Administration, putting the country on a par with Bangladesh and Ghana. "The U.S. Department of Transportation's Federal Aviation Administration (FAA) has found that the Civil Aviation Authority of Malaysia (CAAM) does not meet International Civil Aviation Organization (ICAO) safety standards," the FAA said. The FAA cut the safety grade to Category 2 from Category 1.

14 November: Malaysia signs 2020 palm oil export deal for south Asia. Malaysia signed a pact on Thursday for exports of palm oil to south Asia next year, amid uncertainty over trade with India after its dealers last month urged a boycott of palm oil from the southeast Asian nation. In October, India's top vegetable oil trade body told members to stop buying palm oil from the world's second largest producer and exporter of the commodity, after remarks by Malaysia's prime minister on disputed Kashmir stirred anger.

20 November: U.S. Senate Passes Hong Kong Democracy Bill, Drawing China's Ire. The U.S. Senate unanimously passed a bill Tuesday aimed at supporting protesters in Hong Kong and warning China against a violent suppression of the demonstrations -- drawing a rebuke from Beijing. China reiterated Wednesday a threat to impose unspecified retaliation if the bill became law and urged the U.S. to stop meddling in Hong Kong affairs. Ma Zhaoxu, vice minister of foreign affairs in Beijing, later summoned William Klein, a U.S. embassy official, and raised strong objections about the bill.

28 November: Trump Signs Hong Kong Bill That Will Strain Relations With China. Donald Trump signed legislation expressing U.S. support for Hong Kong protesters, prompting China to threaten retaliation just as the two nations get close to signing a phase one trade deal. China summoned U.S. Ambassador Terry Branstad, with Vice Foreign Minister Le Yucheng telling him to stop meddling in Hong Kong affairs. He warned that such actions would strain ties and risk affecting "cooperation in important areas," according to a foreign ministry statement, which didn't give more details.

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