1 October 2019

MONTHLY ECONOMIC REVIEW | September 2019

Expecting Better Economic Performance in 2H19

- *Malaysia's economy remains in upward track. Malaysia's leading economic index soared 1.4%mom in Jul-19 after 2 months of negative streak. Similarly, on year-on-year basis, the index increased by 0.4%. This positive rebound was primarily contributed by rises in number of housing units approved, number of new companies registered, real money supply, M1 and real import of semi-conductors. The latest performance hints a better economic growth for 2H19. In line with that, Business Tendency Survey also indicates better performance particularly in 3Q19.*
- *Exports return to positive territory. Exports rebounded in July-19 by 1.7%yoy from -3.1%yoy growth registered in the previous month. Meanwhile, imports continued to decline however at an improving rate of -5.9%yoy (June-19: -9.2%yoy). As a result of positive exports and negative imports, trade surplus hit four-month high at RM 14.3b. Sector wise, manufacturing exports which accounted for more than 80% of total exports rebounded by 3.8%yoy (June-19: -5%yoy).*
- *Distributive trade hit another new record high. Distributive trade continues to hit new record high at RM 112.5b in July-19. Motor vehicles sales declined by -1.7%yoy but improved from a larger negative growth of -2.5%yoy in June-19. Retail trade continued expanding but at a slightly lower pace of 7.1%yoy (June-19: 7.7%yoy). The moderation could be attributed to the higher base effect resulted from June-August tax holiday period last year which caused consumers to ramp up their spending.*

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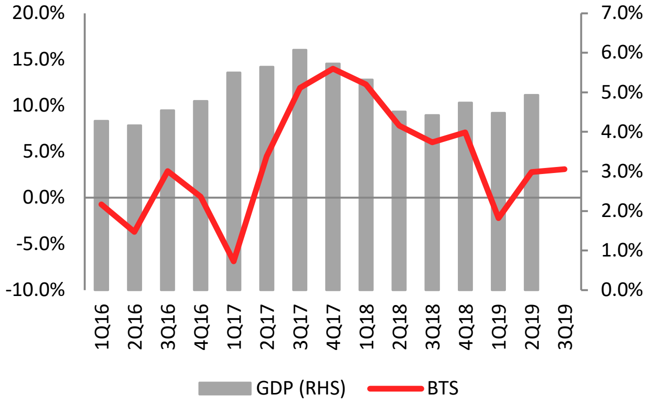
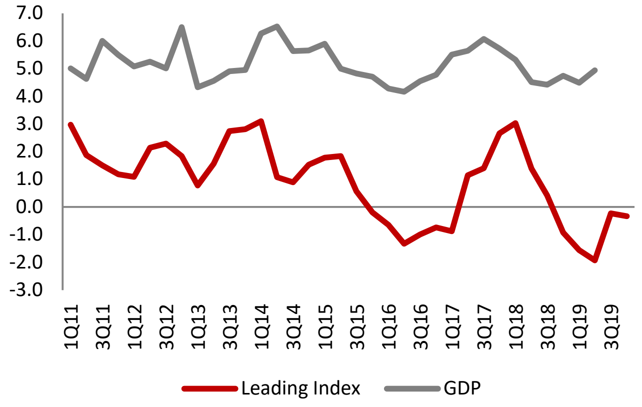
Chart 1: BTS (%) vs GDP (YoY%)



Source: CEIC, MIDFR

Chart 2: Leading Index vs GDP (YoY%)

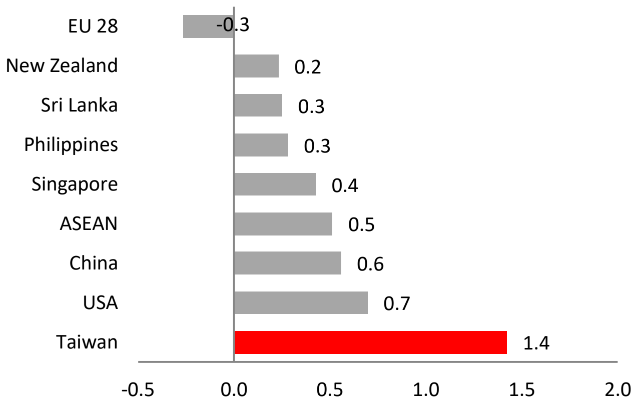


Source: CEIC, MIDFR

Exports return to positive territory. Exports rebounded in July-19 by 1.7%yoy from -3.1%yoy growth registered in the previous month. Meanwhile, imports continued to decline however at an improving rate of -5.9%yoy (June-19: -9.2%yoy). As a result of positive exports and negative imports, trade surplus hit four-month high at RM 14.3b. Sector wise, manufacturing exports which accounted for more than 80% of total exports rebounded by 3.8%yoy (June-19: -5%yoy). In contrast, mining and agriculture exports contracted by -11.6%yoy and -9.3%yoy respectively.

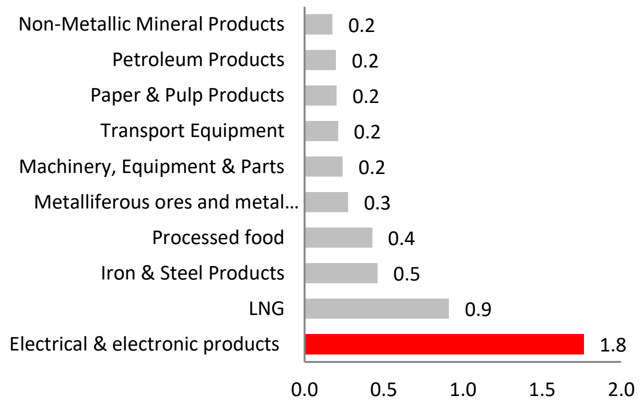
Robust domestic exports. Domestic exports expanded by 3.3%yoy, higher than 1.7%yoy gain in the previous month. The eighth consecutive months of positive growth indicates a good momentum for this year and provides brighter outlook for GDP growth in 3Q19 as domestic exports involve high value-added activities. In contrast, re-exports which have low domestic value-added contracted for the sixth consecutive month but at a far improving rate of -3.9%yoy (June-19: -22.3%yoy). Hence, the ratio of re-exports to total exports recorded higher at six-month high of 20.3% (for every RM1 value of exports, approximately 20sen of it is re-exports). Re-exports activities are expected to remain weak throughout the year mainly due to higher base effects besides external headwinds.

Chart 3: % Contribution to Exports Growth by Destination



Source: CEIC; MIDFR

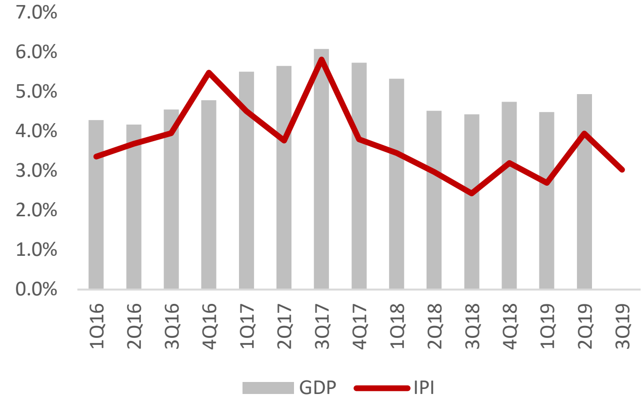
Chart 4: % Contribution to Exports Growth by Products



Source: CEIC; MIDFR

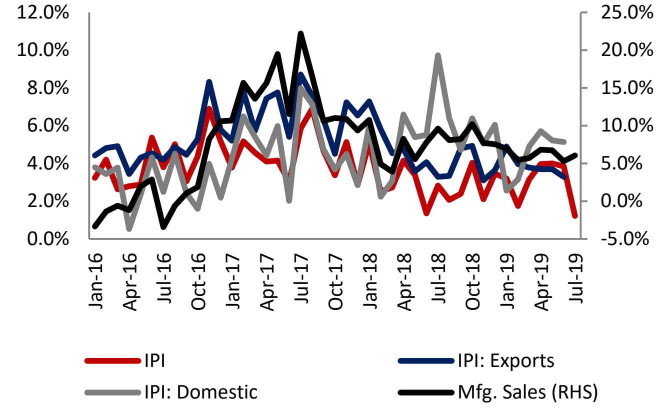
IPI stays in positive track. Malaysia's IPI growth recorded at 1.2%yoy in Jul-19, the lowest expansion rate under the 2015-base year figures. The slowdown is mainly due to nosedived mining output by -8.4%yoy. Despite trade war, manufacturing and electricity output growth improved modestly to 4%yoy and 2%yoy respectively. Moving forward, we foresee IPI performance to continue expanding steady pace in 2H19 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 5: IPI vs GDP (YoY%)



Source: CEIC, MIDFR

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

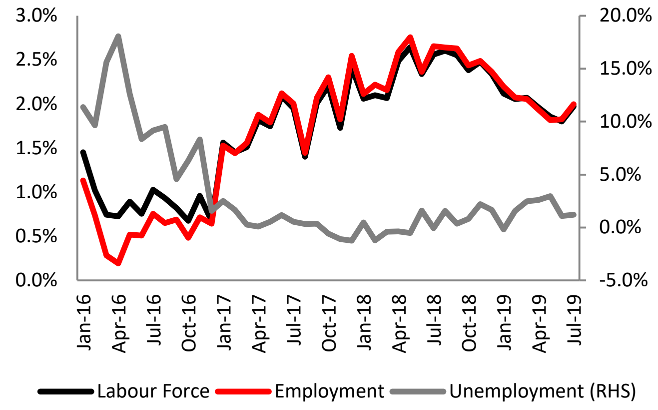


Source: CEIC, MIDFR

Labour market strengthens. Labour force grew by 2%yoy, the strongest gain in 3-month while employment growth maintained at 2%yoy, highest pace in 4-month with 45.2K jobs added in Jul-19. On the other hand, number of unemployed persons and outside of labour force rose by 1.2%yoy and 2.3%yoy respectively during the month. Nevertheless, Malaysia's economy remains operating at full-employment condition as jobless rate is at low level of 3.3%. Stable labour market is crucial for Malaysian economy as it provides solid support to the domestic demand.

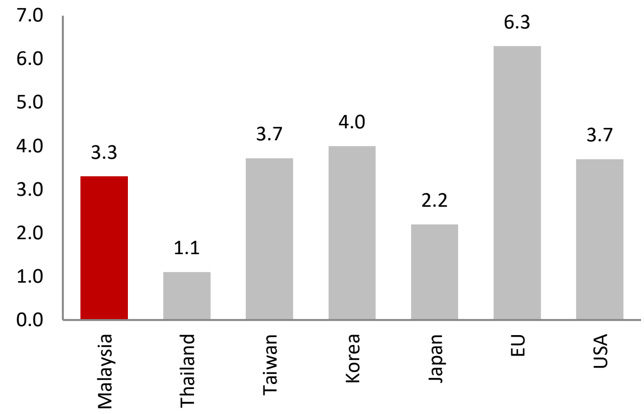
Job vacancies remain below 100K per month. For the first half of 2019, monthly average job vacancies are 84K (2017: 122.8K, 2018: 91.3K). The slight slowdown is in tandem with the current macroeconomic patterns. Nevertheless, we observed vacancies for high-skilled levels performed better than last year. The monthly average for Senior Officials, Professionals and Technicians were at 0.8K, 2.9K and 2.8K respectively in 1H19 (2018: 0.4K, 1.8K & 1.6K). Meanwhile, average vacancies for elementary occupation (low-skilled) registered at 58K (2018: 71K). On sectoral basis, manufacturing saw the highest vacancies of 31.1K, followed by services and agriculture of 23.7K and 18.2K respectively in 1H19.

Chart 7: Labour Market Key Indicators (YoY%)



Source: CEIC, MIDFR

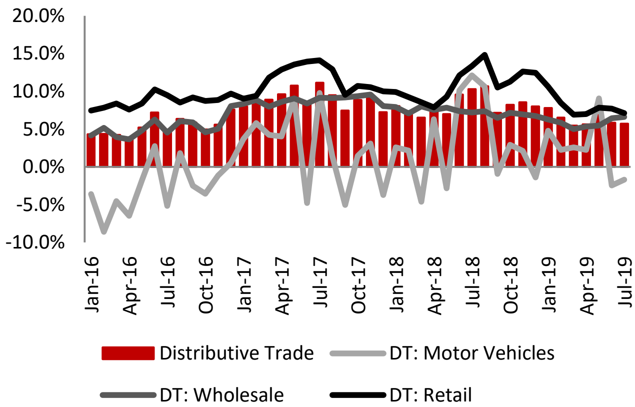
Chart 8: Global Unemployment Rates (%) in Jul-19



Source: CEIC, MIDFR

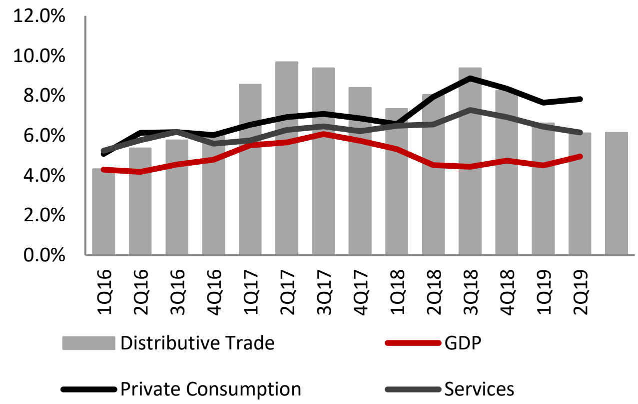
Distributive trade hit another new record high. Distributive trade continues to hit new record high at RM 112.5b in July-19. Motor vehicles sales declined by -1.7%yoy but improved from a larger negative growth of -2.5%yoy in June-19. Retail trade continued expanding but at a slightly lower pace of 7.1%yoy (June-19: 7.7%yoy). The moderation could be attributed to the higher base effect resulted from June-August tax holiday period last year which caused consumers to ramp up their spending. Motor vehicles and retail sales growth were the highest (at double digit growths) during the tax holiday period compared to rest of the months of 2018. In contrast, wholesale trade which constitutes about 48% of total distributive trade advanced by 6.4%yoy in July-19, the fastest pace so far this year.

Chart 9: Distributive Trade Sales, DT (YoY%)



Source: CEIC; MIDFR

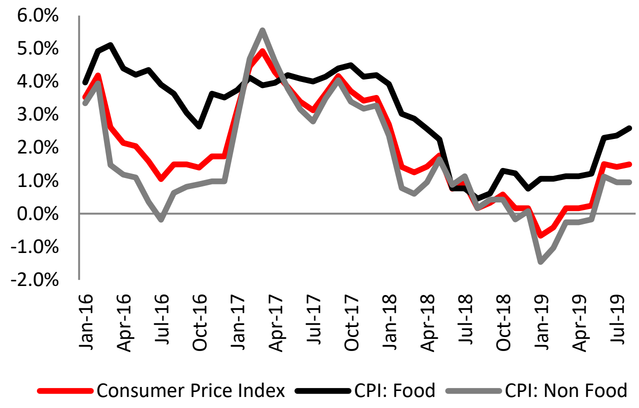
Chart 10: DT vs Private Consumption vs Services (YoY%)



Source: CEIC; MIDFR

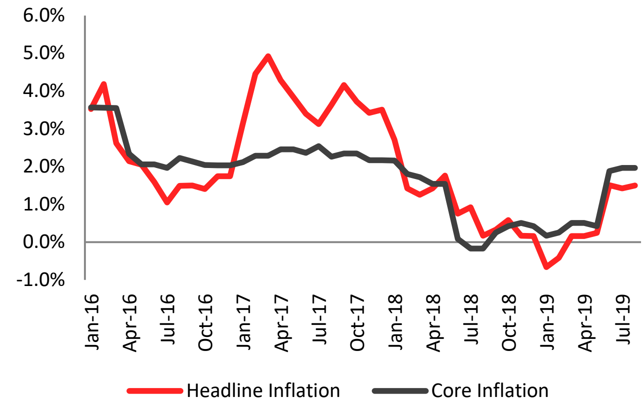
Inflation edged up buoyed by F&B. Headline inflation inched up to 1.5%yoy in Aug-19 from 1.4%yoy in the previous month as food & non-alcoholic beverages prices continued to increase at a faster pace of 2.6%yoy (July-19: 2.4%yoy). This offset further decline in transport prices at -2.1%yoy and a marginally lower inflation of housing & utilities at 1.8%yoy. Meanwhile, core inflation maintained at the fastest pace since Jan-18 at 2%yoy, unchanged from preceding month. Looking ahead, we foresee inflation to return to the low level of below 1% in upcoming months as the lower base effect resulting from the tax holiday period last year is coming to an end. We believe that RON95 price cap at RM2.08 will continue to put a downward pressure on transport inflation.

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



Source: CEIC, MIDFR

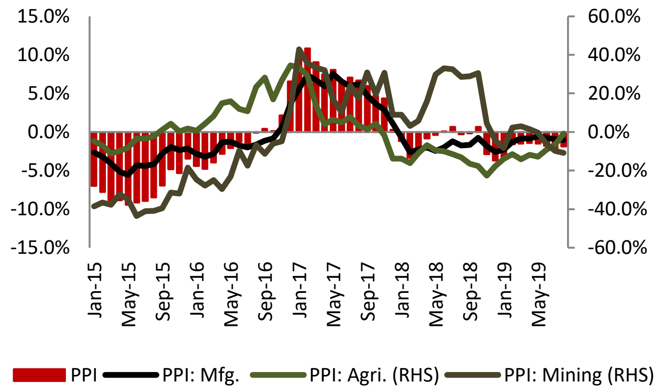
Chart 12: CPI: Headline vs Core (YoY%)



Source: CEIC, MIDFR

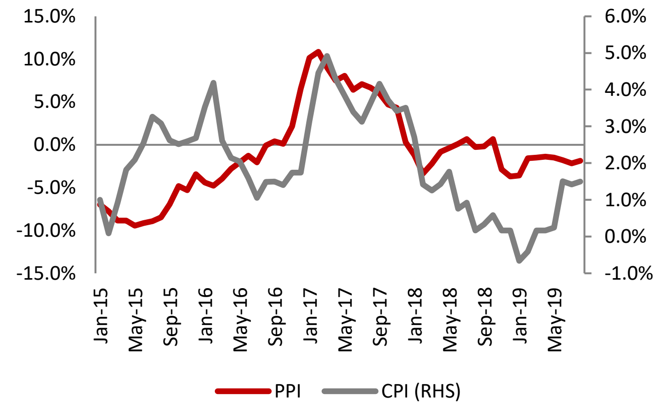
PPI contracted for tenth straight months. Malaysia's producer cost remains deflationary for the tenth consecutive months however at an improving rate of -1.9%yoy in Aug-19. This was mainly due to lower drop in input prices of agriculture at -0.9%yoy, the smallest fall since Nov-17. In addition, PPI of electricity & gas rose to a seven-month high of 2.2%yoy. These offset bigger fall in input prices of mining and manufacturing. 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 13: PPI Performance by Sector (YoY%)



Source: CEIC, MIDFR

Chart 14: PPI vs CPI (YoY%)



Source: CEIC, MIDFR

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

(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	3.7
Private Consumption	5.8	6.8	7.9	7.5
Public Investment	(0.8)	0.5	(5.0)	(6.3)
Private Investment	4.4	9.1	4.4	3.8
Exports of goods & services	1.3	8.8	2.2	1.0
Imports of goods & services	1.5	10.3	1.3	(0.2)
Net Exports	0.3	(3.9)	14.6	11.4
Agriculture etc.	(3.6)	5.8	0.2	3.5
Mining & Quarrying	2.3	0.5	(2.6)	2.0
Manufacturing	4.4	6.1	5.0	4.3
Construction	7.5	6.8	4.3	1.1
Services	5.7	6.2	6.8	6.5
Exports of Goods (f.o.b)	1.4	19.3	7.3	1.7
Imports of Goods (c.i.f)	2.0	20.2	5.2	0.4
Trade Balance - RMb	88.1	98.5	123.8	137.3
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	63.0
Crude Palm Oil (Avg)	2642.0	2659.0	2293.0	2090.0
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

September 2019 Key Economic Events

11 September: China Seeks Argentine Soy Meal in Fresh Blow to U.S. Farmers. China is opening the door to soybean meal shipments from Argentina, the world's biggest exporter of the animal feed, as Beijing looks to pivot away from U.S. agricultural products amid a trade war with Washington. On Tuesday, China agreed to allow soy meal imports from the South American nation after two decades of talks, according to Argentina's Agriculture Ministry. Beijing has been loathe to accept Argentine meal because it prefers to import raw soybeans and process them in China to promote its own crushing industry

12 September: Trump's call for negative rates threatens savers. U.S. President Donald Trump's push for low interest rates reached a new pitch on Wednesday, when he demanded the Federal Reserve take the extraordinary step of sending them below zero. Outside of Washington, D.C., Fed policymakers often face the opposite complaint. Interest rates are too low already, Americans tell Fed officials when they speak at Rotary Clubs and chambers of commerce around the country. Savers, and particularly those near retirement age, are not getting enough return from their savings accounts or fixed investments.

12 September: The European Central Bank cut rates to a surprise record low, and launched a sweeping round of stimulus. The European Central Bank has just announced a sweeping round of stimulus for the continent's slowing economy cutting interest rates to their lowest ever level, as well as a round of quantitative easing. The bank said in a conference in Frankfurt on Thursday announced it would cut its deposit rate from -0.4% to -0.5% as well as start the purchasing of €20 billion of bonds every month from November onwards.

19 September: US and Chinese trade deputies face off in Washington amid deep differences. U.S. and Chinese deputy trade negotiators were set to resume face-to-face talks on Thursday for the first time in nearly two months as the world's two largest economies try to bridge deep policy differences and find a way out of a bitter and protracted trade war. The negotiations on Thursday and Friday are aimed at laying the groundwork for high-level talks in early October that will determine whether the two countries are working towards a solution or are headed for new and higher tariffs on each other's goods.

20 September: Fed Vice Chair Clarida says the Fed will take interest rate policy 'meeting by meeting'. The central bank official spoke two days after the policymaking Federal Open Market Committee cut its benchmark interest rate by a quarter point to a target range of 1.75% to 2%. It was the second reduction of the year and came after the Fed had hiked rates nine times, the most recent coming in December. During the interview, Clarida used variations of the "meeting by meeting" theme several times as he sought to convey that committee members are basing their views on data as it comes in and will remain flexible.

26 September: Trump, Abe Ink Trade Deal as U.S. Withholds Auto Tariffs For Now. President Donald Trump and his Japanese counterpart Shinzo Abe touted a limited trade agreement on Wednesday, as the U.S. withdrew the threat of imposing auto tariffs on the Asian nation for now. Trump and Abe signed the "first stage" of an initial pact after meeting at the United Nations General Assembly in New York. In an emailed statement, the U.S. Trade Representative's office described the agreement as covering "early achievements."

27 September: FTSE Russell maintains Malaysia on fixed-income watchlist. FTSE Russell will keep Malaysia on a watchlist for exclusion from its World Government Bond Index, signaling that policy makers need to do more to deepen the ringgit debt market. Malaysia's currency and bonds have been under pressure since April when FTSE said it may exclude ringgit debt due to accessibility issues. The central bank has announced a slew of measures to deepen onshore markets as analysts estimated outflows could reach at least $5 billion if the nation was dropped.

30 September: Nasdaq cracks down on IPOs of small Chinese companies that trade thinly and are controlled by a few insiders. Nasdaq Inc is cracking down on initial public offerings (IPOs) of small Chinese companies by tightening restrictions and slowing down their approval, according to regulatory filings, corporate executives and investment bankers. Nasdaq's attempt to limit these stock market flotations comes as a growing number of them end up raising most of the capital in their IPO from Chinese sources, rather than from US investors.

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