

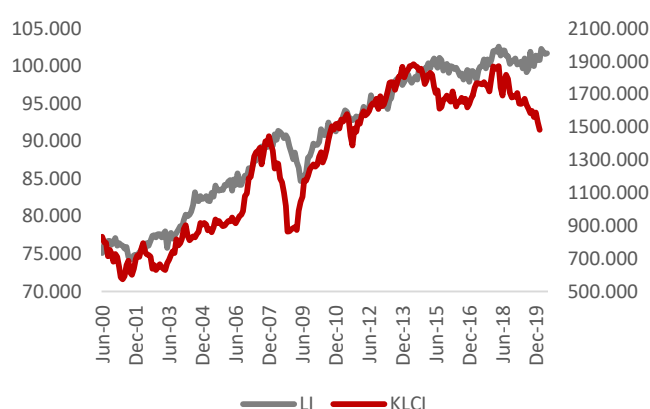
## MONTHLY ECONOMIC REVIEW | March 2020

### Virulent Crisis Induces Moderation in Overall Economy

- *Leading index hints continuous moderation. The latest index recorded in Jan-20 does not capture the domestic political change and Covid-19 outbreak. Leading index still hinting the economy to continue growing yet at slower pace. Improvements in real imports of semiconductors and expected manufacturing sales value were among key drivers for the leading index.*
- *Bleak outlook for 1Q20 IPI. Overall IPI grew by 0.6%yoy in the first month of 2020, slightly lower than market estimate's 0.8%yoy. The moderation was mainly due to contraction of mining output and slowdown in factory production.*
- *Employment growth rebounded. Malaysia's employment growth in Jan-20 increased by 2.2%yoy as compared to 2.0%yoy in Dec-19 while the labour force rose by 2.1%yoy. Unemployment declined by -0.8%yoy, maintaining its jobless rate below 3.5% for the 27th month at 3.2%.*

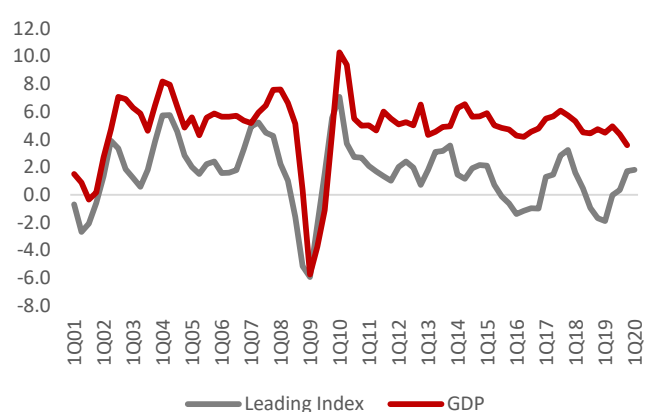
**Leading index hints continuous moderation.** The latest index recorded in Jan-20 does not capture the domestic political change and Covid-19 outbreak. Leading index still hinting the economy to continue growing yet at slower pace. Improvements in real imports of semiconductors and expected manufacturing sales value were among key drivers for the leading index. This reflects positive reaction from the Phase One trade deal agreement between USA and China. Moving forward, we expect leading index to point downward mainly due to fear effects of Covid-19, 1-month lockdown and global oil price plunge. We are looking at GDP growth below 3%yoy in 1H20.

**Chart 1: Leading Index vs KLCI (Points)**



Source: CEIC, MIDFR

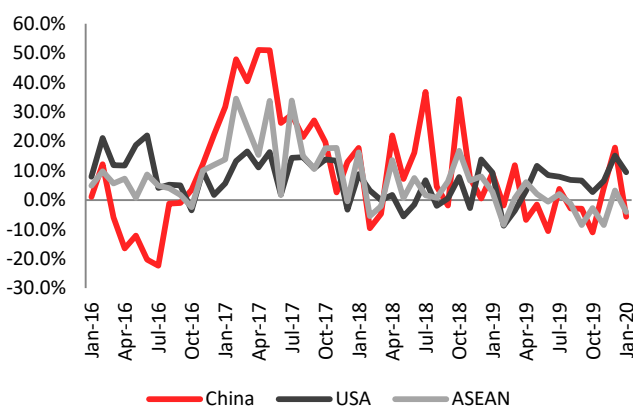
**Chart 2: Leading Index vs GDP (YoY%)**



Source: CEIC, MIDFR

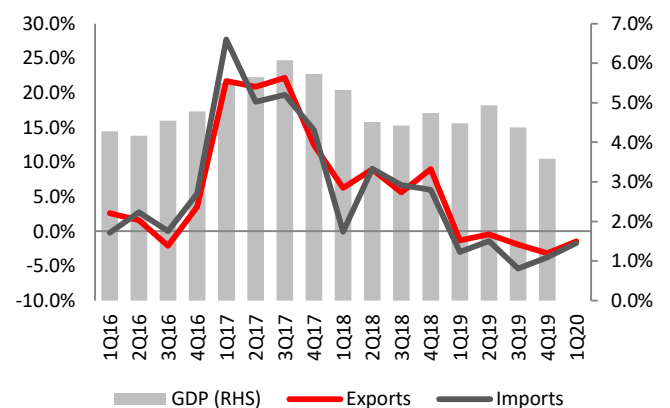
**Exports stumbled again.** Exports in Jan-20 declined again, by -1.5%yoy, and could not sustain the growth (2.7%yoy) in Dec-19. Note that Dec-19's growth was after four straight months of decline. Similarly, imports dropped but at a faster pace of -2.4%yoy. As both exports and imports declined, total trade contracted by -2%yoy while trade surplus recorded at RM12b. By sector, exports of manufactured goods, which hold circa 85% of total export, managed to record marginal expansion of 1.1%yoy. However, exports of commodity-based sectors continued to be weak. Mining and agriculture goods declined -20.1%yoy and -4.2%yoy respectively, wiping out the gain seen in the manufacturing sector.

**Chart 3: Exports Growth (YoY%) by Major Destination**



Source: CEIC, MIDFR

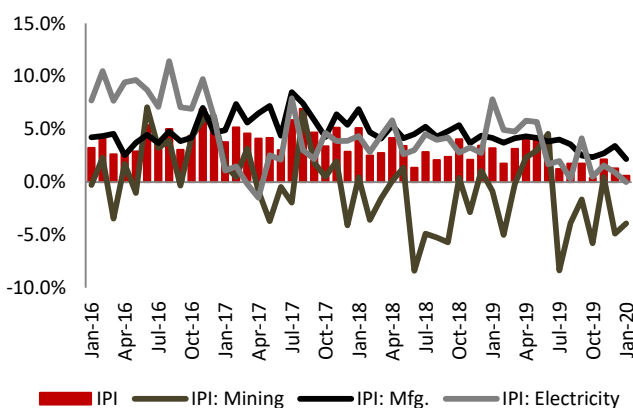
**Chart 4: External Trade vs GDP, (YoY%)**



Source: CEIC, MIDFR

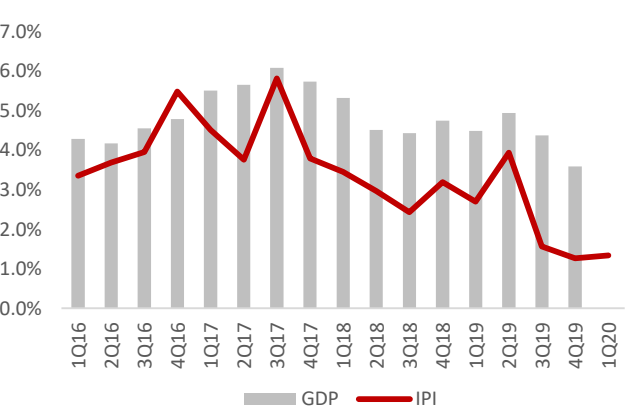
**Bleak outlook for 1Q20 IPI.** Overall IPI grew by 0.6%yoy in the first month of 2020, slightly lower than market estimate's 0.8%yoy. The moderation was mainly due to contraction of mining output and slowdown in factory production. As mentioned in the previous report, the effects of Phase One trade deal may not be seen in 1Q20 amid Lunar New Year celebration, coronavirus and off-peak cycle for semiconductor industry. IPI performance in 1Q20 is expected to shrink, attributable to the fear effect of Covid-19.

**Chart 5: IPI Performances (YoY%)**



Source: CEIC; MIDFR

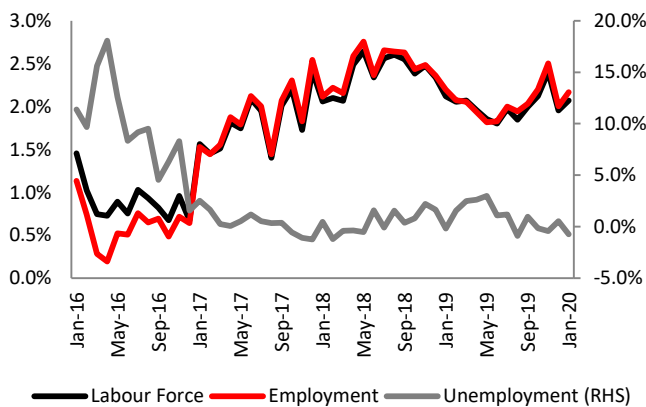
**Chart 6: IPI vs GDP (YoY%)**



Source: CEIC; MIDFR

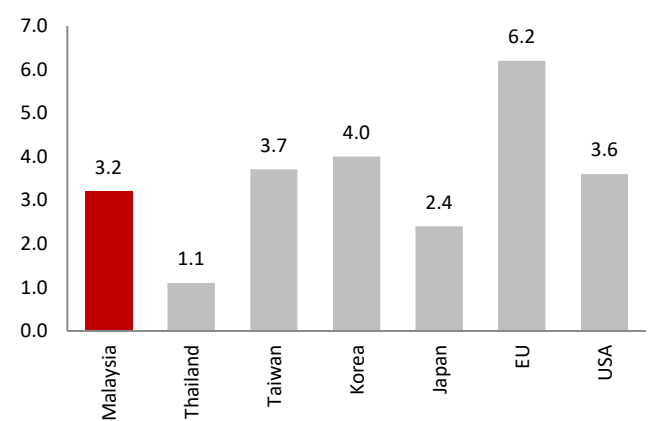
**Employment growth rebounded.** Malaysia's employment growth in Jan-20 increased by 2.2%yoy as compared to 2.0%yoy in Dec-19 while the labour force rose by 2.1%yoy. Unemployment declined by -0.8%yoy, maintaining its jobless rate below 3.5% for the 27<sup>th</sup> month at 3.2%. We opine the stable job market will provide solid foundation for Malaysia's domestic demand to grow at solid pace in 2020. In addition, we view Malaysia's labour market to remain stable despite the Covid-19 fear and weak external demand in 1H20.

**Chart 7: Labour Market Key Indicators (YoY%)**



Source: CEIC, MIDFR

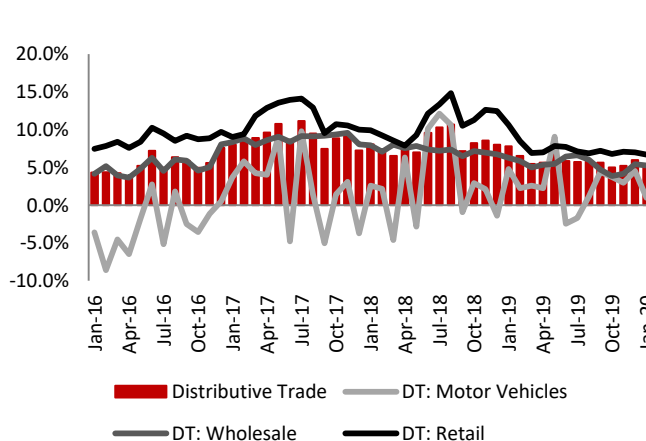
**Chart 8: Global Unemployment Rates (%) in Feb-19**



Source: CEIC, MIDFR

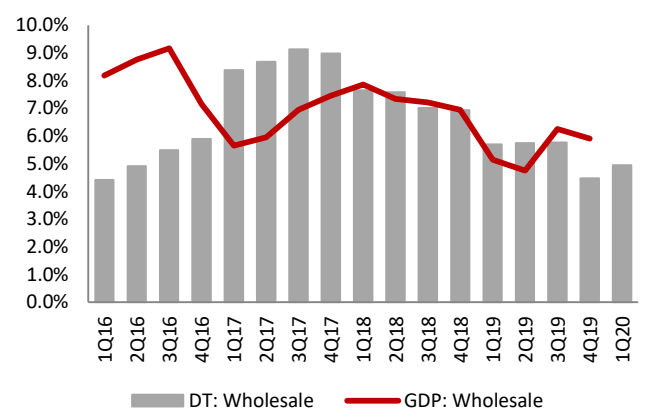
**Distributive trade growth fell below 6%.** Distributive trade grew by 5.4%yoy in Jan-20 moderated from a solid 6%yoy in the preceding month. However, it was a decent start for the year. Significant slowdown was observed in motor vehicle sales which moderated sharply to a six-month low of 1%yoy (Dec-19: 4.5%yoy), attributed to the short working month due to Chinese New Year festive holidays. Similarly, both wholesale and retail trade recorded slightly slower growth at 5.2%yoy and 6.7%yoy (Dec-19: 5.4%yoy and 7%yoy) respectively. On monthly basis, motor vehicle and wholesale trade contracted while retail sales registered tepid growth.

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



Source: CEIC; MIDFR

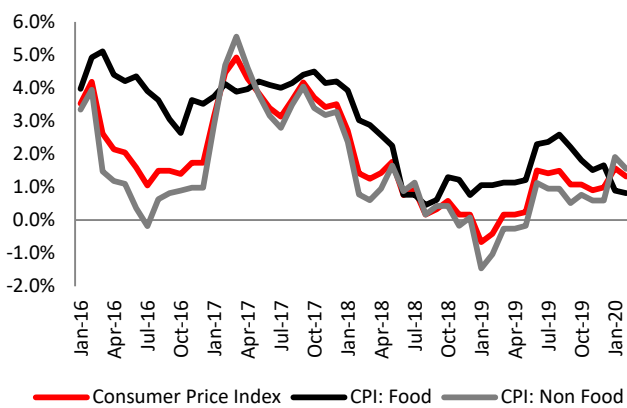
**Chart 10: Wholesale Trade: GDP vs DT (YoY%)**



Source: CEIC; MIDFR

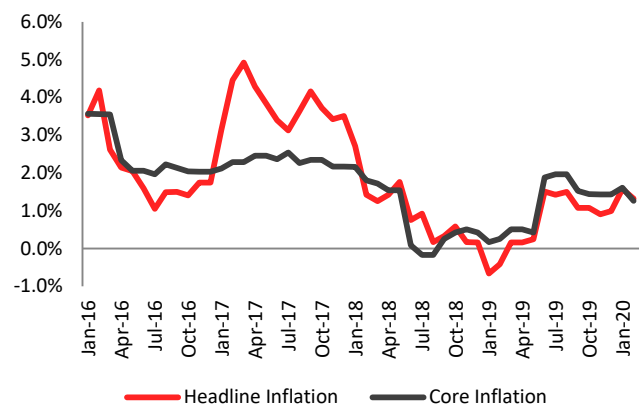
**Inflationary pressure eased.** Pace of headline inflation went down to 1.3%yoy in Feb-20 from 20-month high of 1.6%yoy in Jan-20, primarily due to slowing prices of transport. Transport, the third largest component of CPI continued recording positive growth in prices but at a lower rate of 2.4%yoy (Jan-20: 3.9%yoy). Similarly, prices of food & non-alcoholic beverages, the biggest component of CPI increases at a softer pace of 0.8%yoy and price growth for housing & utilities inched down to 1.6%yoy after three consecutive months at 1.7%yoy. Meanwhile, core inflation also moderated to 9-month low of 1.3%yoy.

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



Source: CEIC, MIDFR

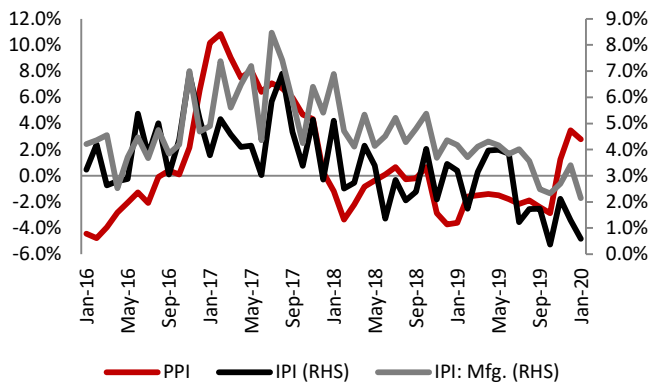
**Chart 12: CPI: Headline vs Core (YoY%)**



Source: CEIC, MIDFR

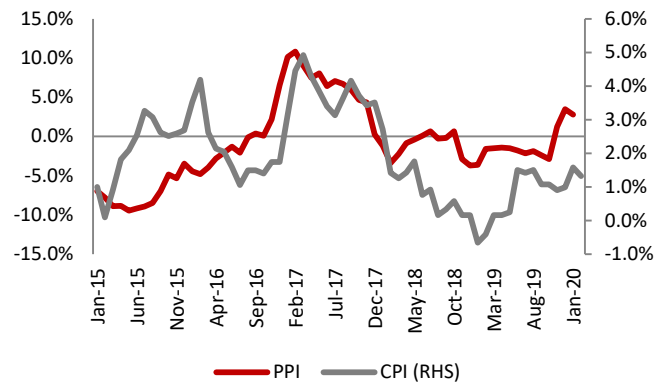
**PPI stays on contractionary path.** Malaysia's producer cost inflation decreased to 0.9%yoy in Feb-20 from a 2.8%yoy in Jan-20. This is the weakest recorded since the decline in Oct-19. With prices increasing at a moderating rate for agriculture, forestry and fishing by 9.2%yoy from 18%yoy(Jan-20), mining by -5.2%yoy from 9.2%yoy(Jan-20), manufacturing by 0.8%yoy from 0.9%yoy(Jan-20) and extraction of petroleum and natural gas by -5.2%yoy from 9.2%yoy(Jan-20). Food manufacturing cost inflation in particular continued soaring to 7%yoy, the most since May-17. It had been on an improving trend since Dec-18. This could be due to a combination of two factors; ringgit depreciation and our position as net food importer. In contrast to that, cost of electricity and gas increased at a faster rate by 1.6%yoy from 1%yoy (Jan-20). As a leading indicator of price changes at the consumer level, the latest PPI suggests that Malaysia's headline inflation will remain contained in 2020. Moving forward, we view slowdown in producer cost inflation would provide supportive environment to businesses including manufacturers in Malaysia. Plunge in global oil prices, cheap retail fuel prices and lower toll charges would depress transport cost pressure. However, depreciation of Ringgit may lead to higher cost of imported inputs.

**Chart 13: PPI (YoY%) vs IPI (YoY%)**



Source: CEIC, MIDFR

**Chart 14: PPI vs CPI (YoY%)**



Source: CEIC, MIDFR

**Table 1: Macroeconomic Past Performances (%)**

<b>(YoY%) Unless Stated Otherwise</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Real GDP	4.4	5.7	4.7	4.3
Govt. Consumption	1.6	5.5	3.2	2.0
Private Consumption	5.8	6.8	7.9	7.6
Gross Fixed Capital Formation	2.5	6.1	1.3	(2.1)
Govt. Investment	(0.8)	0.5	(5.0)	(10.8)
Private Investment	4.4	9.1	4.4	1.5
Exports of goods & services	1.3	8.8	2.2	(1.1)
Imports of goods & services	1.5	10.3	1.3	(2.3)
Net Exports	0.3	(3.9)	14.6	8.9
Agriculture etc.	(3.6)	5.8	0.2	1.8
Mining & Quarrying	2.3	0.5	(2.6)	(1.5)
Manufacturing	4.4	6.1	5.0	3.8
Construction	7.5	6.8	4.3	0.0
Services	5.7	6.2	6.8	6.1
Exports of Goods (f.o.b)	1.2	18.8	7.3	(1.7)
Imports of Goods (c.i.f)	1.9	19.7	5.2	(3.5)
Trade Balance - RMB	88.1	98.5	123.8	137.4
Consumer Price Index	2.1	3.8	1.0	0.7
Current Account - % of GDP	2.4	2.8	2.1	3.6
Fiscal Balance - % of GDP	(3.2)	(3.1)	(3.8)	(3.4)
Federal Government Debt - % of GDP	51.9	50.1	51.2	52.5
<b>Year-End of Unless States Otherwise</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Brent Crude Oil (Avg)	46.0	55.7	70.0	64.3
Crude Palm Oil (Avg)	2,630	2,690	2,320	2,079
USD/MYR (Avg)	4.14	4.30	4.00	4.14
USD/MYR	4.46	4.08	4.10	4.09
Overnight Policy Rate (%)	3.00	3.00	3.25	3.00

Source: MIDFR

## March 2020 Key Economic Events

**March 2 - Muhyiddin sworn in as PM.** Parti Pribumi Bersatu Malaysia president Tan Sri Muhyiddin Yassin took his oath of office as the eighth Prime Minister of Malaysia before Yang di-Pertuan Agong Al-Sultan Abdullah Ri'ayatuddin Al-Mustafa Billah Shah at Istana Negara. The King appointed Muhyiddin as the new Prime Minister in accordance with Articles 40(2)(a) and 43(2)(a) of the Federal Constitution. Tun Dr Mahathir Mohamad had been the interim prime minister after resigning as the seventh PM on Feb 24. Raja Permaisuri Agong Tunku Hajah Azizah Aminah Maimunah Iskandariah also graced the swearing-in ceremony held at Balai Singgahsana Kecil (Minor Throne Room) at 10.33am yesterday.

**March 4 - World Bank announces up to \$12 billion in immediate funds for coronavirus.** The World Bank on Tuesday announced an initial \$12 billion in immediate funds to assist countries grappling with the health and economic impacts of the coronavirus virus outbreak that has spread quickly from China to some 80 countries. World Bank President David Malpass said there were still "many unknowns" about the fast-spreading virus and "much more" aid might be required, but he declined to elaborate. The announcement underscored escalating concern about the economic and human impact of the virus.

**March 12 - WHO declares COVID-19 a pandemic.** The World Health Organisation has just declared COVID-19 as a pandemic. This comes 71 days after China first reported the virus which was spotted in Wuhan city. The number of confirmed cases is approaching 120,000 and it involves over 100 countries worldwide. According to the WHO, the number of COVID-19 cases outside of China has increased 13-fold and the number of affected countries has tripled in the past two weeks. The organisation expects the number of cases, deaths and affected countries to climb even higher. Based on their assessment, they have characterised COVID-19 as a pandemic.

**March 27 - US becomes the first country to reach 100,000 confirmed coronavirus cases.** The U.S. on Friday became the first country to record 100,000 confirmed cases of the coronavirus. As testing expands rapidly across the nation, the U.S. is seeing huge daily spikes in the number of reported cases. There were about 10,000 cases in the country as recently as a week ago, [according to the Johns Hopkins University dashboard](#). But the number broke six figures on Friday shortly after 6 p.m. ET, up from 83,300 a day earlier.

**March 2 - Global Economy Slows As Hopes Of OPEC Cuts Keep Oil Price Afloat.** The ongoing spread of the coronavirus will likely translate into the weakest global economic growth since the financial crisis more than a decade ago. In its "best case" scenario, the OECD said that GDP could rise by 2.4 percent this year, down from a prior estimate of 2.9 percent. But because the situation is highly uncertain, the risk is on the downside. An economic contraction in the first quarter is possible. In China, economic activity has plunged.

**March 10 - PM: A Cabinet to serve the people.** Tan Sri Muhyiddin Yassin has unveiled his 32-member Cabinet that, for the first time in history, does not include a deputy prime minister. For the past week or so, political observers had been discussing the possibility of the Prime Minister breaking with tradition by not choosing anybody to be the No.2 at the helm of government. The move was nevertheless a surprise to many others when Muhyiddin announced the line-up of ministers and deputy ministers here yesterday. However, he named four ministers who will assist him to coordinate Cabinet affairs in the areas of the economy, security, infrastructure development, education and social development.

**March 16 - PM: Malaysia under movement control order from Wed until March 31, all shops closed except for essential services.** Malaysia will be under a nationwide movement control order from this Wednesday (March 18) until March 31 due to the Covid-19 outbreak, Prime Minister Tan Sri Muhyiddin Yassin announced today. The prime minister said that the government has decided to implement a 'restriction of movement order' under the Prevention and Control of Infectious Diseases Act 1988 and the Police Act 1967. "The government's priority now is to avoid the spreading of new infections, which will affect more people.

**March 27 - Malaysia unveils RM250 billion stimulus package to counter coronavirus pandemic.** The government today unveiled a RM250 billion stimulus package as the "nation is at war" against the devastating social and economic fallouts from the coronavirus pandemic. The wide-ranging measures, the largest for the country since the Global Financial crisis of 2008/2009 includes direct cash payout to affected citizens, discounted rates for basic necessities, subsidies and incentives, loan payments moratorium, financial guarantees, grants to companies and additional allocations for critical sectors like healthcare.

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