1 July 2022

MONTHLY ECONOMIC REVIEW | June 2022

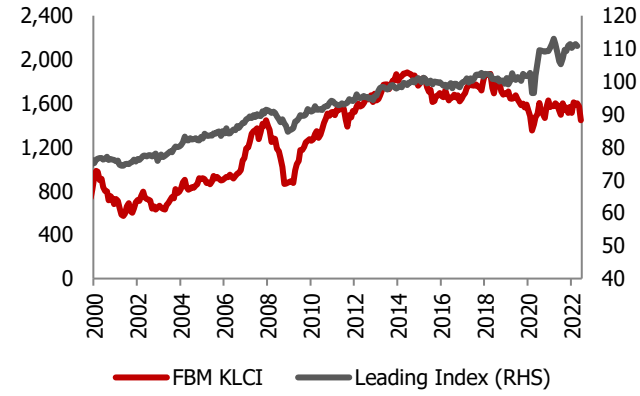
Activities in Malaysia's Economy Continued to Grow Amid Rising Price Pressures

- *Leading index signals improving growth momentum. Malaysia's leading index (LI) registered improvement with slower decline of -0.5%yoy in Apr-22 (Mar-22: -1.4%yoy). The slower decline points to better growth prospects for Malaysia's economy in the near term. The continued decline in LI, however, was due to reduced approvals of housing units, attributable to slower applications from housing developers.*
- *Exports grew stronger than expected in May-22. Exports grew faster at +30.5%yoy in May-22, supported by increased shipments to regional countries and stronger re-exports (May-22: +79.1%yoy; Apr-22: +16.8%yoy). Robust expansion in shipments of E&E and commodities, particularly palm oil and petroleum products, also contributed to the stronger exports growth.*
- *Maintain our projection for GDP to grow at 6% this year. Moving into the endemic phase, further relaxtion of Covid-19 restrictions including reopening of international borders will allow activities in the domestic economy to continue growing going into the latter half of the year. Nevertheless, we are still cautious on external developments which could affect the country's economic outlook. On balance, we maintain our growth projection for Malaysia's economy to grow stronger at +6% (2021: +3.1%) on the back of economic reopening and absence of strict movement control.*

Leading index signals improving growth momentum. Malaysia's leading index (LI) registered improvement with slower decline of -0.5%yoy in Apr-22 (Mar-22: -1.4%yoy). The slower decline points to better growth prospects for Malaysia's economy in the near term. The continued decline in LI, however, was due to reduced approvals of housing units, attributable to slower applications from housing developers. In contrast, on the month-on-month perspective, LI reversed the gain in the previous month, falling by -0.5%yoy (Mar-22: +0.5%) dragged down by reduction in approved housing units, new company registration, and the industrial index of Bursa Malaysia. It is more encouraging that the current economic condition in Malaysia continued to show improvement, with the coincident index (CI) growing faster at +5.3%yoy (Mar-22: +3.1%yoy), the fastest expansion in 11 months. This was underpinned by higher volume of retail trade activity. The smaller fall in LI indicates that growth momentum will continue to improve in the latter part of the year. We expect further reopening of the economy and resumption of business operations will result in continued improvement in domestic economic activities. In particular, the improvement in CI reflects the sustained growth in spending activity, as shown in the rise in retail trade volume.

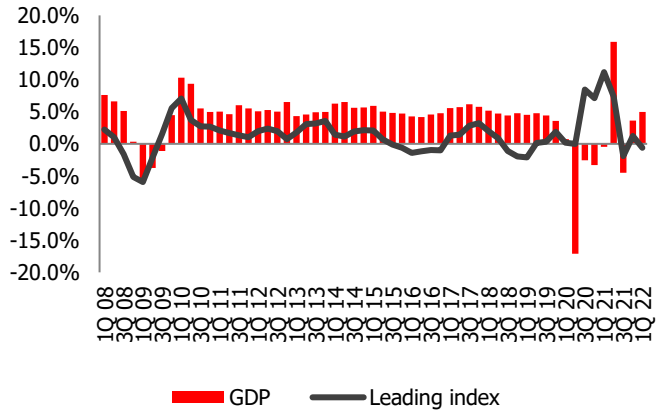
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Chart 1: Leading Index vs KLCI (Points)



Source: CEIC, MIDFR

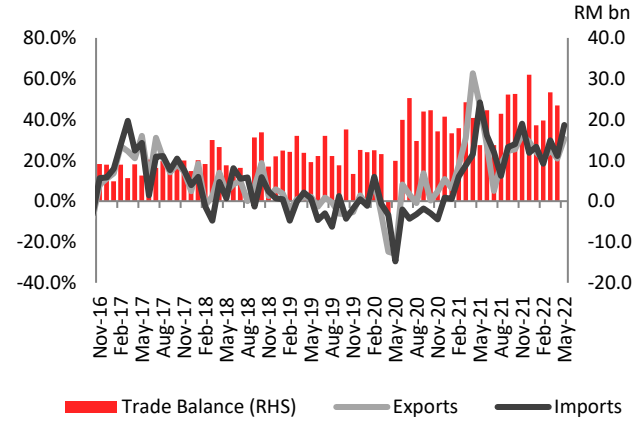
Chart 2: Leading Index vs GDP (YoY%)



Source: CEIC, MIDFR

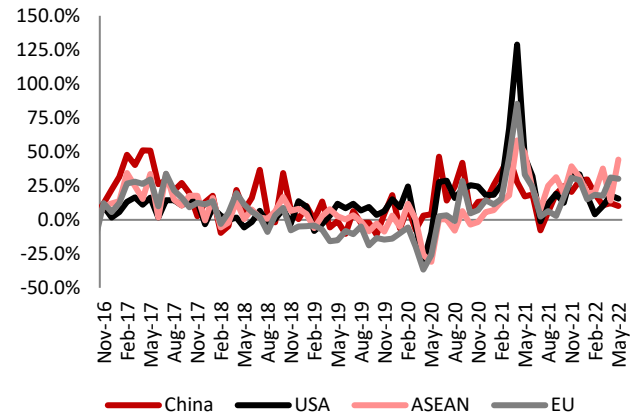
Exports grew stronger than expected in May-22. Malaysia's total trade expanded further by +33.6%yoy to RM228.4b in May-22, driven by acceleration in both exports and imports. Cumulatively, total trade rose to RM1.09t in the first five months this year, touching the 1-trillion-ringgit mark faster than last year on the back of robust external demand and high commodity prices. Exports grew faster at +30.5%yoy in May-22 (Apr-22: +20.8%yoy). The performance was higher than our estimate supported by increased shipments to regional countries and stronger re-exports (May-22: +79.1%yoy; Apr-22: +16.8%yoy). Robust expansion in shipments of E&E and commodities, particularly palm oil and petroleum products, also contributed to the stronger exports growth. Meanwhile, imports growth grew even faster at +37.3%yoy in May-22 (Apr-22: +22.1%yoy) on the back of continued improvement in domestic economic activities and high commodity prices.

Chart 3: Exports & Imports (YoY%) vs Trade Bal. (RM b)



Source: CEIC, MIDFR

Chart 4: Exports Growth (YoY%) by Major Destination

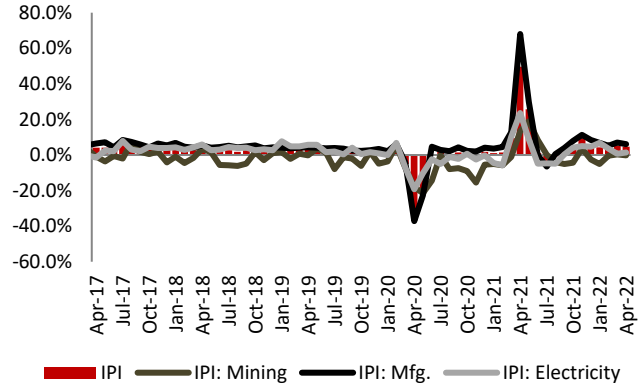


Source: CEIC, MIDFR

IPI growth moderated slightly to +4.6% in Apr-22. Malaysia's IPI increased at slower pace of +4.6%yoy in Apr-22 (Mar-22: +5.1%yoy), similar to our forecast (+4.5%yoy) but below market's consensus (+5.6%yoy). We expect a moderation in IPI growth because the moderate growth in Apr-22 exports suggests a sustained but slower output growth for the export-oriented manufacturing sub-sectors. The moderation in IPI growth in Apr-22 was due to moderate growth in manufacturing output (+6.2%yoy) and small reduction in mining output (-

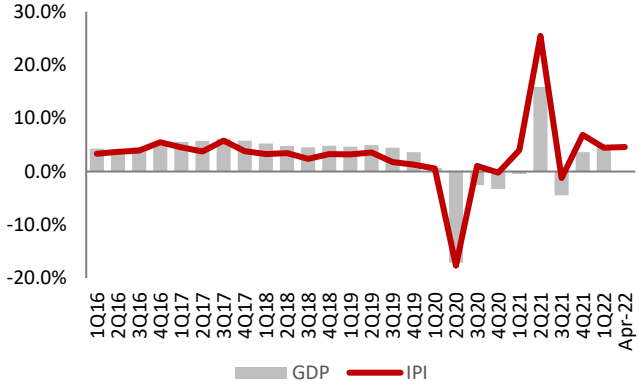
0.1%yoy). The slight decline in mining output reflects the slower growth in natural gas production, in contrast to smaller fall in crude oil output. Electricity output, on the other hand, rose faster during the month (+1.5%yoy) as increased domestic economic activities led to higher electricity consumption.

Chart 5: IPI Performances (YoY%)



Source: CEIC, MIDFR

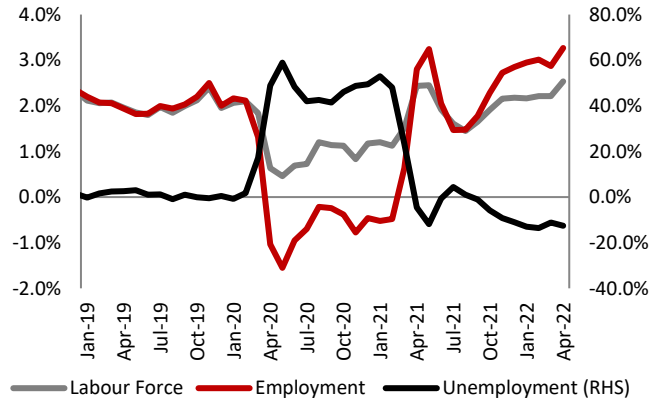
Chart 6: IPI vs GDP (YoY%)



Source: CEIC, MIDFR

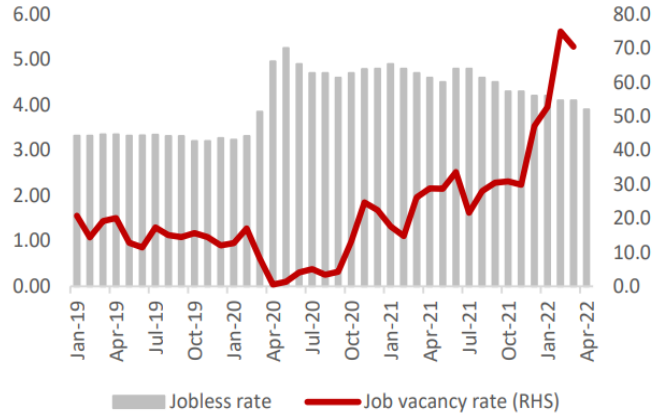
Employment growth hit record high. Malaysia's labour market continued to strengthen as employment surged by +3.3%yoy in Apr-22, the highest rate ever registered. Labour force expanded steadily at +2.5%yoy, the fastest pace in more than 3 years while unemployment remained on contractionary for 8 consecutive months. Malaysia's unemployment rate declined to new post-pandemic low at 3.9% in Apr-22. Strong growth in employment notably driven by employer (+8.7%yoy) and self-account worker (+9.4%yoy). Employee segment which represent 76.3% of total employment grew modestly by +1.5%yoy (Mar-22: +1.4%yoy). The firm expansion in employment and reduction in unemployment are due to the positive effects of lifting Covid-19 curbs and continuous support from external trade sector.

Chart 7: Labour Market Key Indicators (YoY%)



Source: CEIC, MIDFR

Chart 8: Unemployment rate vs. Job vacancy rate (%)

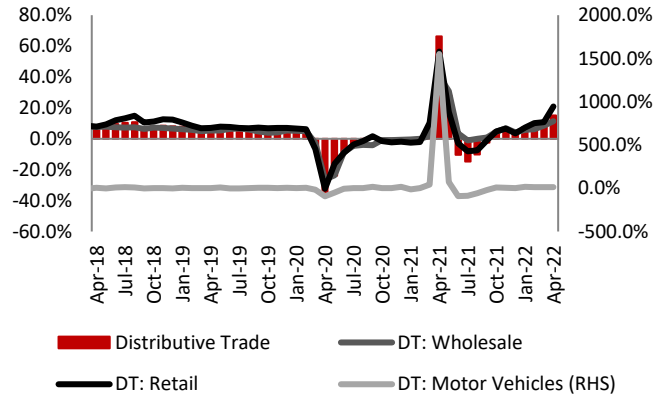


Source: CEIC, MIDFR

Retail trade growth surged to 1-year high. Malaysia's distributive trade sales expanded by +15.2%yoy in Apr-22, the biggest gain since Jun-21. Most significantly, retail spending rose strongly by +20.9%yoy and

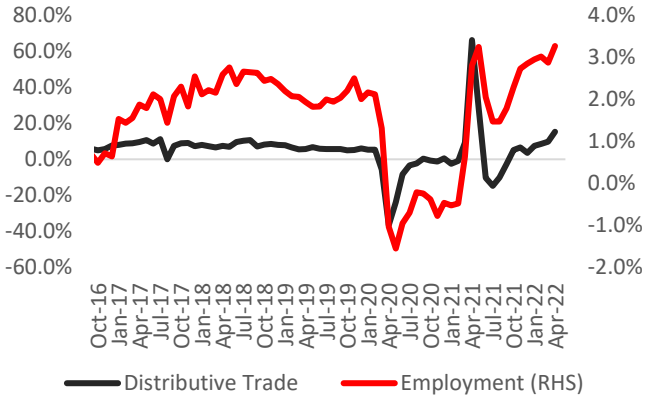
+7.4%mom. Sales of motor vehicles and wholesale trade grew at double-digit rates of +11.3%yoy and +11.5%yoy, respectively. As we anticipated, Apr-22 saw a big jump in domestic spending underpinned by special EPF withdrawals (capped at RM10K), Ramadhan & Aidilfitri shopping, and further reopening of domestic economy. Looking ahead, we expect private consumption and services sector to contribute stronger 2QCY22 and 2HCY22 GDP growth amid strong and sound domestic demand.

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



Source: CEIC, MIDFR

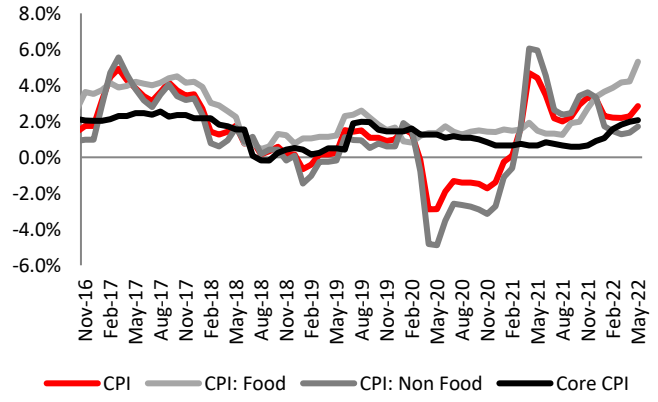
Chart 10: DT vs. Employment (YoY%)



Source: CEIC, MIDFR

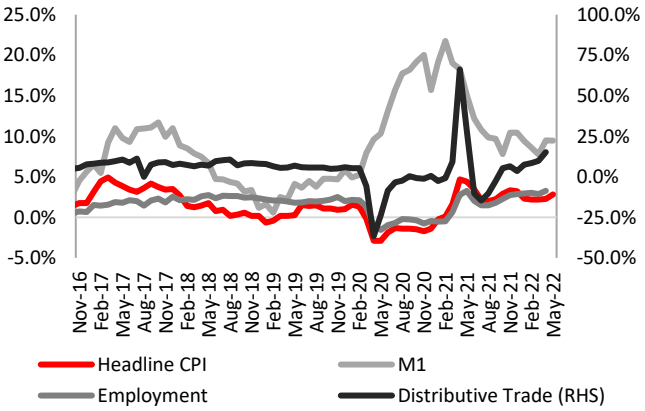
Core inflation surged to almost 5-year high. As domestic demand strengthened, core inflation rose by +2.4%yoy, fastest gain since Aug-17. The continuous upward trend in core CPI indicates the underlying price pressures from surging domestic demand, underpinned by improving labour market condition and domestic reopening effects. This was in tandem with jobless rate which fell to new pandemic low of 3.9% in Apr-22. Slightly higher than Bloomberg's consensus, Malaysia's headline inflation inched up to +2.8%yoy in May-22. Nonfood CPI rose by +1.7%yoy while food inflation hit more than a decade high at +5.2%yoy. On the month-onmonth basis, headline CPI rose by +0.6%mom, fastest gain in 7-month.

Chart 11: Key CPI Data (YoY%)



Source: CEIC, MIDFR

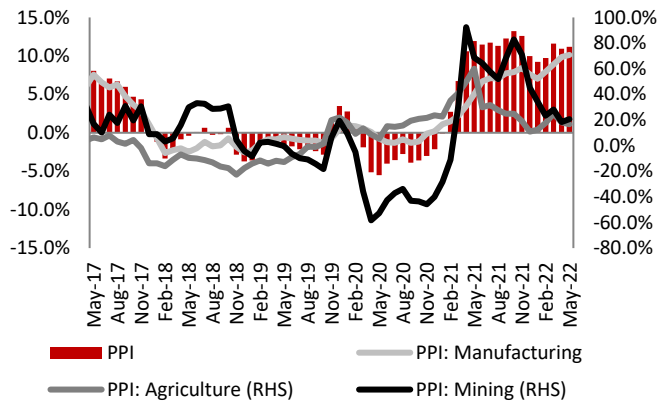
Chart 12: CPI vs. Domestic Demand Indicator (YoY%)



Source: CEIC, MIDFR

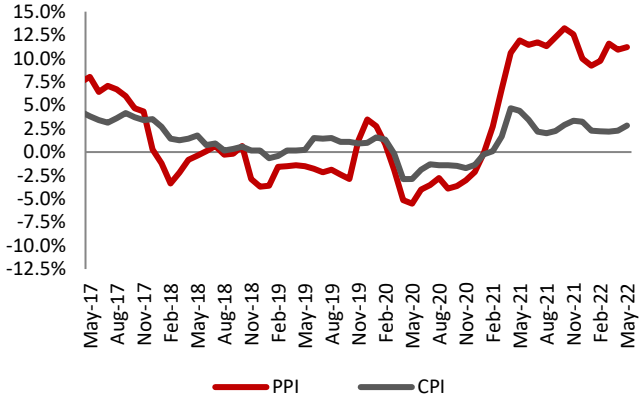
PPI inflation remained high. Malaysia's factory-gate inflation accelerated in May-22 as the producer price inflation increased to +11.2%yoy (Mar-22: +11.6%yoy. The marginally-higher PPI inflation was driven by faster rise in PPI for the mining and manufacturing industries, which rose to +20.6%yoy and +10.1%yoy, respectively. Meanwhile, prices paid by producers in the agriculture, forestry & fishing industry eased to +16.7%, but the double-digit increase highlights the continued pressures on the food prices. On a month-on-month basis, the PPI rose faster by +1.2%mom (Apr-22: +0.2%mom) mainly because of stronger monthly jump in mining sector's PPI which was in tandem with changes in the global crude oil prices. With rathe of inflation for PPI remaining above CPI, we foresee the upward cost pressures faced by local producers will be passed on to consumers. This explains the recent inflationary pressures was driven by both factors from the supply side and the increase in domestic spending activity.

Chart 13: PPI (YoY%)



Source: CEIC, MIDFR

Chart 14: PPI vs CPI (YoY%)



Source: CEIC, MIDFR

Maintain our projection for GDP to grow at 6% this year. Moving into the endemic phase, further relaxtion of Covid-19 restrictions including reopening of international borders will allow activities in the domestic economy to continue growing going into the latter half of the year. Fiscal measures like Bantuan Keluarga Malaysia cash handouts and EPF withdrawals, will support domestic spending activity, in addition to improving labour market condition and positive income growth. Malaysia will also benefit from growing external demand for E&E and commodities, particularly palm oil and petroleum products. Nevertheless, we are still cautious on external developments which could affect the country's economic outlook. These include downside risks such as global inflation risk, slowdown in China and the global economy, prolonged disruption in the global supply chain, the ongoing war in Ukraine, and more hawkish stance of central banks. Overall, we maintain our growth projection for Malaysia's economy to grow stronger at +6% (2021: +3.1%) on the back of economic reopening and absence of strict movement control.

Table 1: Macroeconomic Past Performances (%)

(YoY%) Unless Stated Otherwise	2018	2019	2020	2021	2022$_f$
Real GDP	4.8	4.4	(5.5)	3.1	6.0
Govt. Consumption	3.4	1.5	5.0	5.3	4.5
Private Consumption	8.0	7.7	(4.2)	1.9	7.2
Govt. Investment	(4.5)	(9.6)	(21.3)	(10.0)	4.5
Private Investment	4.8	2.7	(12.0)	4.0	6.3
Exports of goods & services	1.9	(1.0)	(8.6)	15.4	9.3
Imports of goods & services	1.5	(2.4)	(7.9)	17.7	11.5
Net Exports	6.2	11.2	(13.7)	(4.1)	(14.2)
Agriculture etc.	0.1	1.9	(2.4)	(0.2)	3.0
Mining & Quarrying	(2.2)	(0.6)	(9.7)	0.3	1.6
Manufacturing	5.0	3.8	(2.7)	9.5	6.1
Construction	4.2	0.4	(19.3)	(5.3)	1.5
Services	6.9	6.2	(5.4)	1.9	7.2
Exports of Goods (f.o.b)	7.3	(0.8)	(1.1)	26.0	16.9
Imports of Goods (c.i.f)	5.2	(3.5)	(5.8)	23.3	19.2
Trade Balance, RMb	123.8	145.7	183.3	252.6	271.9
Consumer Price Index	1.0	0.7	(1.1)	2.5	2.8
Current Account, % of GDP	2.2	3.5	4.2	3.8	3.9
Fiscal Balance, % of GDP	(3.8)	(3.4)	(7.0)	(6.6)	(6.1)
Federal Government Debt, % of GDP	51.2	52.5	62.0	63.4	62.3
Unemployment rate, %	3.3	3.3	4.5	4.6	3.8
Year-End or Unless Stated Otherwise	**2018**	**2019**	**2020**	**2021**	**2022$_f$**
Brent Crude Oil (Avg)	71.6	64.3	43.3	70.9	112.0
Crude Palm Oil (Avg)	2,320	2,079	2,781	4,437	5,500
USD/MYR (Avg)	4.00	4.14	4.20	4.14	4.28
USD/MYR	4.10	4.09	4.02	4.17	4.25
Overnight Policy Rate (%)	3.25	3.00	1.75	1.75	2.50

Source: CEIC, MIDFR

June 2022 Key Economic Events

Jun 1: No more subsidy for chicken breeders from July 1, says PM. The government will no longer provide subsidies to chicken breeders from July 1, said Prime Minister Datuk Seri Ismail Sabri Yaakob. He said the subsidy will, instead, be channelled directly to the people who are in need of assistance.

Jun 2: GST reintroduction needs to be implemented in a targeted way, says ex-Customs DG The reintroduction of the goods and services tax (GST) to replace the sales and services tax (SST) must be implemented in a targeted manner so as not to burden the people who are facing rising inflation.

Jun 7: 12MP aims to shift country into sustainable circular economy, says Mustapa. The 12th Malaysia Plan (12MP) aims to shift the country's conventional linear economy model, which has been proven to be harmful to the environment, to the sustainable circular economy model, says Minister in the Prime Minister's Department (Economy) Mustapa Mohamed.

Jun 8: MoF to start 2023 Pre-Budget Tour to gather input from stakeholders. The Ministry of Finance (MoF) will begin the 2023 Pre-Budget Tour soon to gather ideas, opinions and suggestions from all stakeholders, Finance Minister Tengku Datuk Seri Zafrul Abdul Aziz said.

Jun 9: Minister: Govt agrees to set up chicken stockpile to address supply shortage The Cabinet, in a meeting yesterday, agreed on the implementation of several short-term measures, including setting up a stockpile of chicken, to address issues of food supply shortage and price hikes.

Jun 12: AP abolishment: Entry of halal food subject to trade descriptions, says Jakim Despite the abolishment of the approved permit (AP) or import quota for some food items as recently announced by the government, any entry of halal food is still subject to Paragraph 5 (1) of the Trade Descriptions (Certification and Marking of Halal) Order 2011.

Jun 14: Swift action needed to address manpower shortage – MEF. The Malaysian Employers Federation (MEF) called on the authorities to act swiftly to address the acute shortage of manpower across all sectors of the economy. MEF president Datuk Dr Syed Hussain Syed Husman said they were deeply concerned by the shortage of labour and the high impact it had on all the industries.

Jun 16: Fed attacks inflation with its largest rate hike since 1994. The Federal Reserve intensified its fight against high inflation on Wednesday, raising its key interest rate by three-quarters of a point — the largest bump since 1994 — and signaling more rate hikes ahead as it tries to cool off the U.S. economy without causing a recession.

Jun 17: Fed's aggressive rate hikes raise likelihood of a recession. Federal Reserve Chair Jerome Powell has pledged to do whatever it takes to curb inflation, now raging at a four-decade high and defying the Fed's efforts so far to tame it. Increasingly, it seems, doing so might require the one painful thing the Fed has sought to avoid: A recession.

Jun 19: Economic growth expected to remain positive in Q2, Q3, says Mohamed Azmin. Malaysia's economic growth is expected to increase further in the second and third quarters of this year, driven by the government's continued efforts to attract foreign investments, as well as the success of the Covid-19 vaccination programme.

Jun 21: MRCA revises upwards 2022 retail industry growth to 13.1%. The Malaysia Retail Chain Association (MRCA) has revised upwards the country's annual retail industry growth rate for 2022 to 13.1% from 6.3% previously, due to the expected strong retail result during the second quarter of this year.

Jun 23: U.S. Fed chief says recession is "certainly a possibility". U.S. Federal Reserve Chair Jerome Powell said Wednesday that the central bank is trying to bring inflation down without inflicting too much damage, but the Fed's aggressive rate hikes could tip the U.S. economy into recession.

Jun 23: MAHB: Passenger movements exceed 7 million mark in may, highest 2 years. MAHB traffic performance for its total network of airports has gained traction in May 2022, the highest passenger movements to-date surpassing 7-million mark for the first time in two years.

Jun 26: Zafrul: Total subsidies in 2022 expected to reach nearly RM80 bil, highest in history. The total amount of subsidies is expected to reach nearly RM80 billion this year, the largest amount in history, Finance Minister Tengku Datuk Seri Zafrul Abdul Aziz said.

Jun 27: G7 nations are worried about global economic crisis. Leaders of the G7 rich democracies are concerned about a looming economic crisis as growth slows and inflation soars, German Chancellor Olaf Scholz said after a working session on the global economy at this year's annual G7 summit.

Jun 29: New ceiling price for chicken at RM9.40 per kg starting July 1. The new ceiling price for chicken has been set at RM9.40 per kg -- 50 sen higher than the previous level at RM8.90, and grade A chicken eggs at 45 sen per seed in Peninsular Malaysia from Friday (July 1), the government announced on Wednesday.

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