1 August 2022

MONTHLY ECONOMIC REVIEW | July 2022

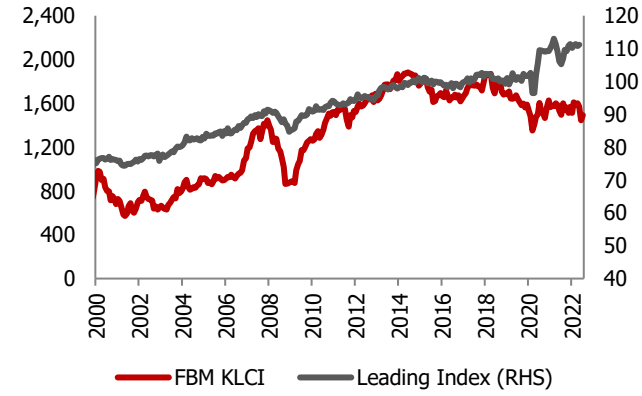
Malaysia's Economy Will Continue to Grow Going into 2HCY22

- *Leading index signals growth momentum to continue. Malaysia's leading index (LI) rebounded to positive growth in May-22 (+2.2%yoy; Apr-22: -0.5%yoy) after 3 months of contraction. The increase in LI was mainly supported by higher real imports of other basic previous & other non-ferrous metals as businesses bought more intermediate goods in anticipation for better business and demand outlook.*
- *Another stronger-than-expected external trade performance. Exports growth quickened again to +38.6%yoy in Jun-22 (May-22: +30.5%yoy), underpinned by stronger growth in domestic exports (Jun-22: +30.5%yoy; May-22: +22.2%yoy), on the back of increased external demand for E&E, petroleum, palm oil and LNG.*
- *Malaysia's economy to grow at 6% this year. We maintain our projection that Malaysia's GDP will grow at +6% this year, better than +3.1% expansion last year. Encouraging growth momentum in the domestic economy will continue going into 2HCY22. Nevertheless, we opine downside risks to growth outlook will come mainly from external factors.*

Leading index signals growth momentum to continue. Malaysia's leading index (LI) rebounded to positive growth in May-22 (+2.2%yoy; Apr-22: -0.5%yoy) after 3 months of contraction. The increase in LI was mainly supported by higher real imports of other basic previous & other non-ferrous metals as businesses bought more intermediate goods in anticipation for better business and demand outlook. On month-on-month change, the LI rebounded and increased by +0.4%mom (Apr-22: -0.5%mom), with higher number of housing units approved and new company registration pointed to improved business outlook. The current economic activities also picked up further as the coincident index (CI) rose faster at +6.4%yoy, the highest expansion in 12 months and mainly underpinned by the stronger retail trade activity. Reading from the improvement in LI, we foresee growth momentum in Malaysia's economy will remain positive going into the second half of 2022. Moreover, domestic spending will continue to grow, boosted by continued recovery in the job market, increased people's mobility and increased tourist arrivals following the reopening of international borders.

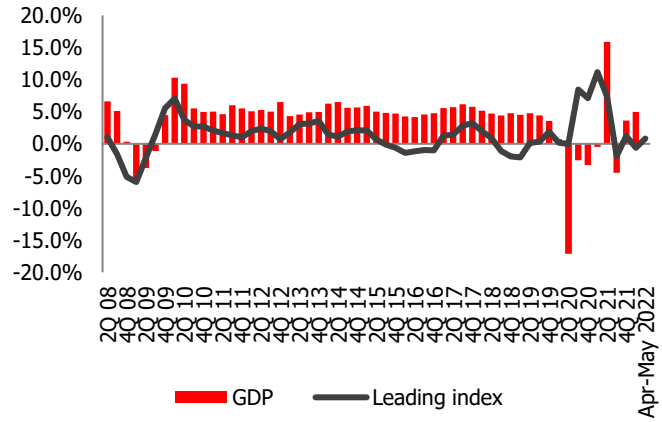
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Chart 1: Leading Index vs KLCI (Points)



Source: CEIC, MIDFR

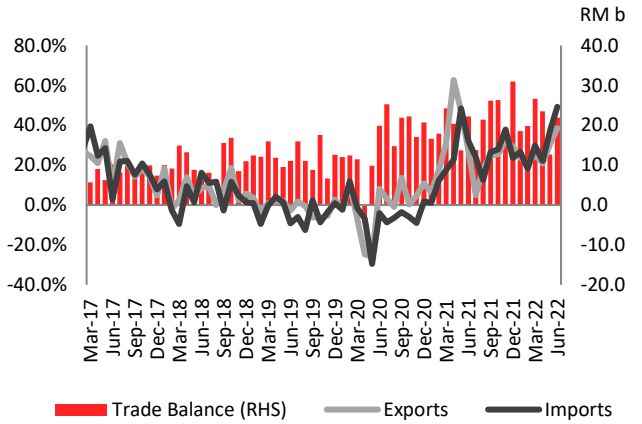
Chart 2: Leading Index vs GDP (YoY%)



Source: CEIC, MIDFR

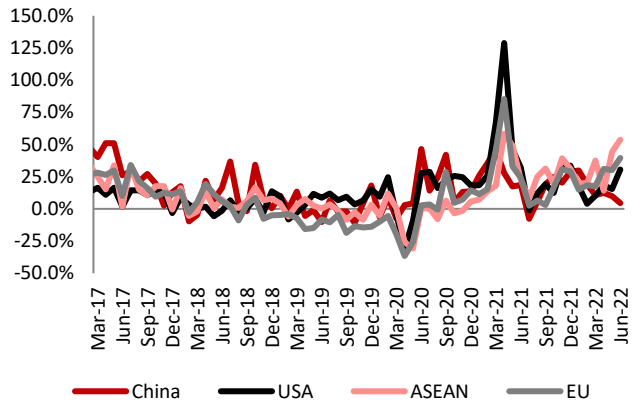
Another stronger-than-expected external trade performance. Total trade grew for the 19th straight month, rising faster by +43.3%yoy to a new record high of RM270.3b in Jun-22. The sustained increase in Jun-22 brings total trade to RM1.36t in 1HCY22, or 28.6% higher than 1H last year. Exports growth quickened again to +38.6%yoy in Jun-22 (May-22: +30.5%yoy), underpinned by stronger growth in domestic exports (Jun-22: +30.5%yoy; May-22: +22.2%yoy), on the back of increased external demand for E&E, petroleum, palm oil and LNG. Meanwhile, the growth in imports also accelerated, expanding by +49.3%yoy in Jun-22 (May-22: +37.2%yoy) which is the fastest growth since Feb-98. While this indicates improved growth momentum in line with further reopening of the economy, it also reflects more normalized domestic economic activities coming out from the nationwide lockdown one year ago.

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



Source: CEIC, MIDFR

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

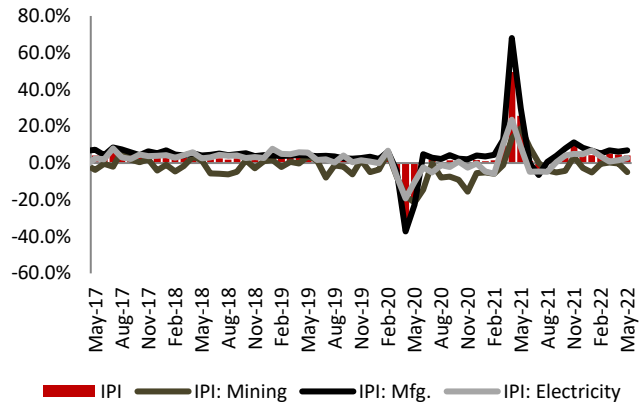


Source: CEIC, MIDFR

IPI growth moderated in May-22. Malaysia's IPI growth moderated further to +4.1%yoy in May-22 (Apr-22: +4.6%yoy). The moderation in IPI growth was mainly due to sharper decline in mining sector output (-4.9%yoy) because of reduced production of crude oil and natural gas. Overall, the IPI growth in May-22 was supported by stronger manufacturing output (+6.9%yoy) and electricity generation (+2.7%yoy). Manufacturing production

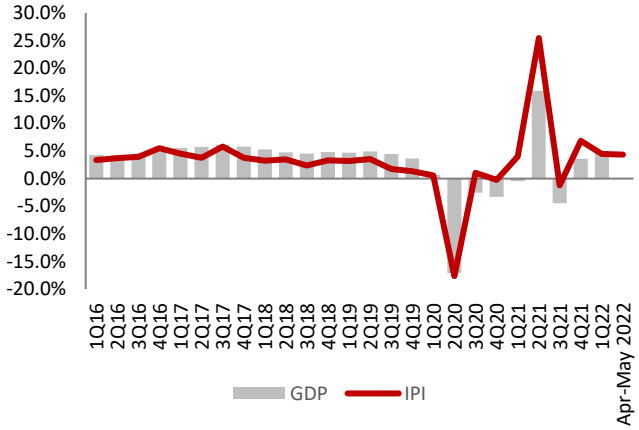
grew faster, driven by increased output of E&E, motor vehicles and basic metals. Meanwhile, stronger electricity output reflects higher consumption of electricity in line with improved domestic economic activity on the back of further reopening of the economy and relaxation of Covid-19 restrictions. For the first 5 months of 2022, IPI rose by +4.4%yoy.

Chart 5: IPI Performances (YoY%)



Source: CEIC, MIDFR

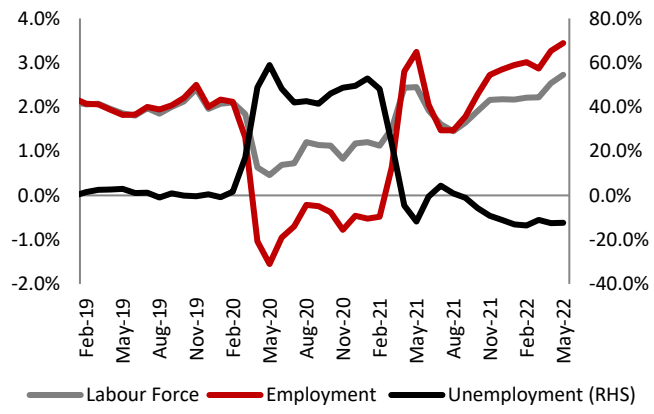
Chart 6: IPI vs GDP (YoY%)



Source: CEIC, MIDFR

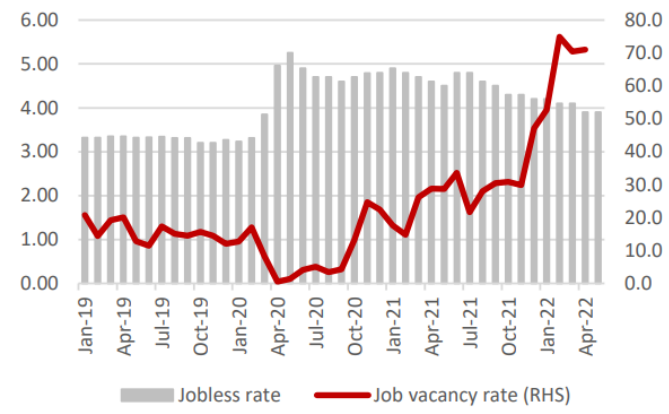
Unemployment rate maintained at pandemic low. Malaysia's labour market remained firm as jobless rate stayed at 3.90%, lowest since Mar-20. Labour force and employment expanded strongly, +2.7%yoy and +3.4%yoy in May-22, the highest expansion rate ever registered. Unemployment continued on contractionary form of double-digit rate for 6-consecutive months. However, robust growth in employment notably driven by employer (+8.9%yoy), self-account worker (+9.4%yoy) and unpaid family workers (+11.6%yoy). Employee segment which represents 76.2% of total employment grew modestly by +1.5%yoy (Apr-22: +1.5%yoy). The continued firm expansion in employment and reduction in unemployment was due to the positive effects of upbeat momentum of domestic economy, international borders reopening and steady external sector.

Chart 7: Labour Market Key Indicators (YoY%)



Source: CEIC, MIDFR

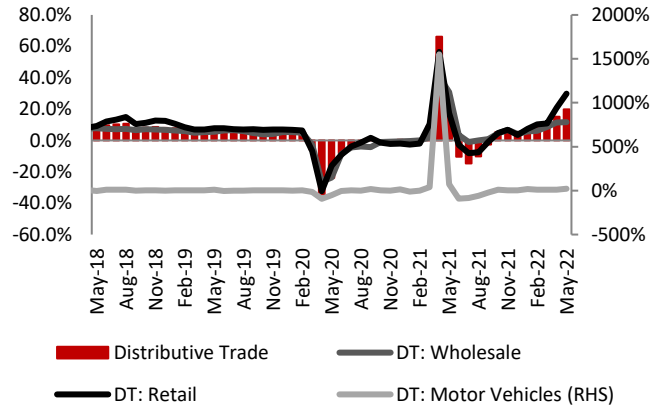
Chart 8: Unemployment rate vs. Job vacancy rate (%)



Source: CEIC, MIDFR

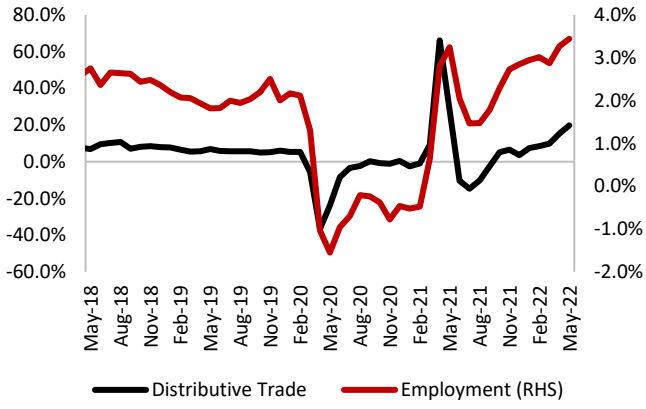
Distributive trade sales growth hit 1-year high. Malaysia's distributive trade sales expanded by +19.9%yoy in May-22, the biggest gain in a year. Most significantly, retail spending rose continued expanding strongly by +29.9%yoy and +5.1%mom. Sales growth of motor vehicles and wholesale grew at double-digit rate of +20.1%yoy and +11.7%yoy, respectively. We opine effects of special EPF withdrawal and international borders reopening provided extra boost to consumer spending since Apr-22. Moreover, economic fundamentals in Malaysia strengthen further as employment growth hit record high at +3.4%yoy and unemployment rate stayed at pandemic-low of 3.9% in the same month. Despite of food inflation rise, overall price pressure in Malaysia remained stable thanks to the capped retail fuel prices. Looking ahead, we expect private consumption and services sector to contribute to stronger 2QCY22 and 2HCY22 GDP growth amid robust and sound domestic demand. For 2QCY22, the 3-month moving average of the growth for distributive trade sales was stronger at +15.0%yoy (1QCY22: 8.6%yoy).

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



Source: CEIC, MIDFR

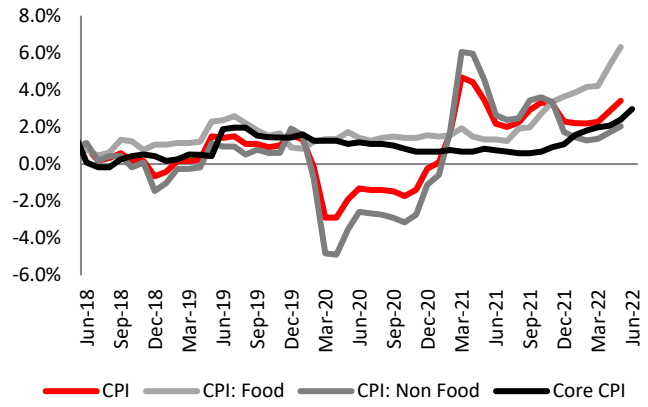
Chart 10: DT vs. Employment (YoY%)



Source: CEIC, MIDFR

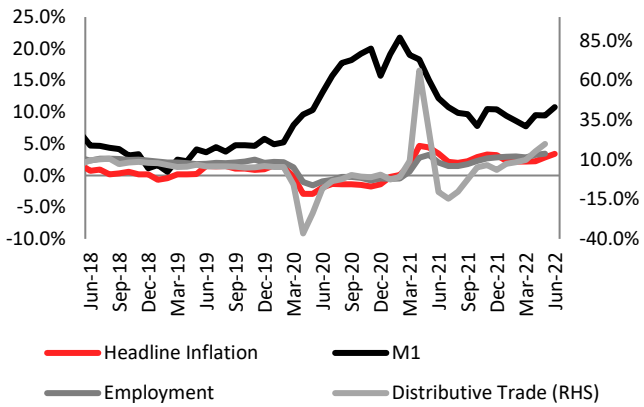
Core inflation rushed to more than 6-year high. As domestic demand strengthened, core inflation rose by +3.0%yoy, fastest gain since Apr-16. The continuous upward trend in core CPI indicates the underlying price pressures from surging domestic demand, underpinned by improving labour market condition and domestic reopening effects. We opine the steady uptick in core inflation will increase the chances that BNM will consider for another rate hike in Sep-22. The headline CPI inflation also rose to +3.4%yoy in Jun-22, higher than Bloomberg's consensus of +3.1%yoy. As of 1HCY22, average headline inflation is +2.5%yoy (1HCY21: +2.3%yoy), still within BNM's inflation forecast range +2.3~3.3%. Non-food CPI rose by +2.0%yoy while food inflation hit record high +6.1%yoy. On the month-on-month basis, all major CPI components including core CPI registered positive growth rate.

Chart 11: Key CPI Data (YoY%)



Source: CEIC, MIDFR

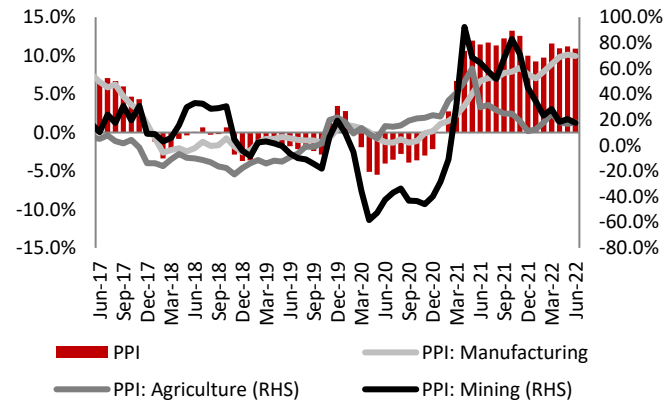
Chart 12: CPI vs. Domestic Demand Indicator (YoY%)



Source: CEIC, MIDFR

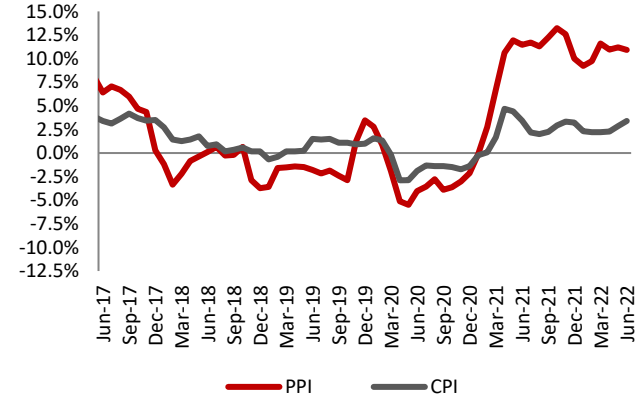
PPI inflation remained high. Malaysia's producer price inflation eased to +10.9%yoy in Jun-22, marking the slowest rise since Mar-22. Due to the correction in commodity prices in June, the PPI inflation for crude materials moderated to +16.9%yoy, the lowest reading since Mar-21. Meanwhile, the cost of intermediate materials continued to rise at a double-digit rate (+13yoy%) for the 12th consecutive month. The continued rise in raw materials and intermediate inputs signals higher inflationary pressures on local producers. As a result, producer prices for finished goods increased faster at +1.6%yoy in Jun-22, the highest since Dec-15. By industry, correction in commodity prices also led to moderate PPI inflation (+17.5%yoy) for the mining industry, the slowest in 16 months. Despite the slower inflation for raw materials and intermediate goods, PPI inflation for the manufacturing sector remained elevated at +10%yoy (May-22: +10.1%yoy). Agriculture, forestry & fishing industry, on the other hand, registered higher inflation at +18.1%yoy (May-22: +16.7%yoy). This signals upward pressures on food prices to continue given the higher cost in animal and crop production.

Chart 13: PPI (YoY%)



Source: CEIC, MIDFR

Chart 14: PPI vs CPI (YoY%)

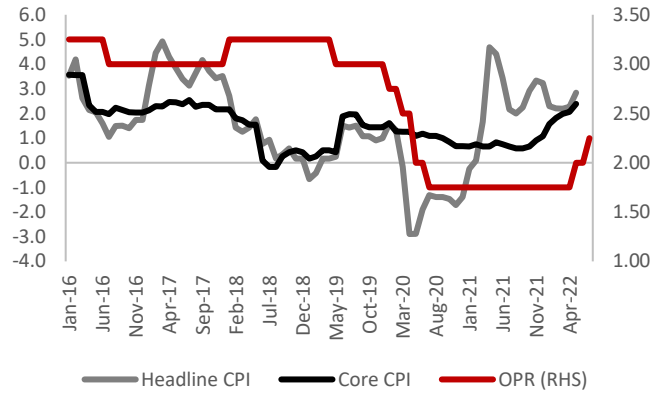


Source: CEIC, MIDFR

Another +25bps hike to bring OPR to more normal level. On 6 July 2022, BNM decided to raise the Overnight Policy Rate (OPR) by 25bps from 2.00% to 2.25% in its fourth Monetary Policy Meeting of 2022. On the

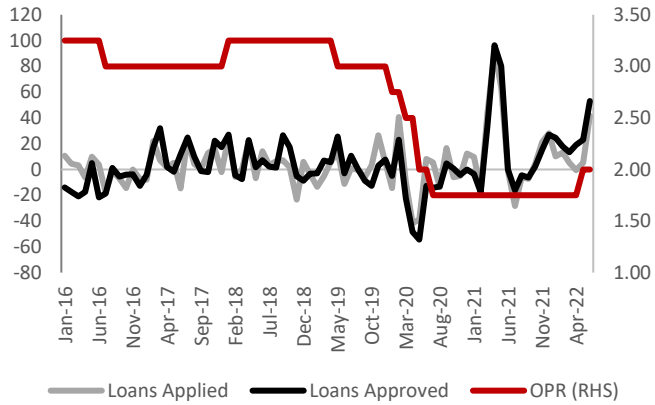
back of growing global demand, BNM indicated the improvement in Malaysia's labour market conditions continues to support the domestic economic activity. While there have been improvements in the global supply chain, the central bank also highlighted global inflation risk was attributable to the high commodity prices and strong demand. So far, inflation in Malaysia remains manageable, with the average rate remaining within BNM's forecast range of 2.2% to 3.2%. We view the decision to raise OPR by another +25bps as timely and appropriate looking at the steady improvement in domestic economy as reflected in recent macroeconomic data and the rise in core inflation.

Chart 15: Monetary Policy (%) vs Inflation (YoY%)



Source: CEIC, MIDFR

Chart 16: OPR (%) vs Loan Indicators (YoY%)



Source: CEIC, MIDFR

Malaysia's economy to grow at 6% this year. We maintain our projection that Malaysia's GDP will grow at +6% this year, better than +3.1% expansion last year. Encouraging growth momentum in the domestic economy will continue going into 2HCY22. Despite rising inflation, latest data shows domestic spending activity grew faster, benefiting from reopening of the economy and the international borders. The recovery in job market amid robust labour demand also supports improvement in consumer spending. Meanwhile, trade performance shows businesses increased imports of intermediate goods. In line with the improvement in LI, this shows businesses are increasing their activities in anticipation of growing demand. On the external front, we expect sustained growth in foreign demand for E&E and commodities, especially palm oil and petroleum, will continue to drive Malaysia's exports in the coming months. Nevertheless, we opine downside risks to growth outlook will come mainly from external factors such as sluggish growth in China, the ongoing war in Ukraine, changes in global commodity prices and volatility in the international financial markets.

Table 1: Macroeconomic Past Performances (%)

(YoY%) Unless Stated Otherwise	2018	2019	2020	2021	2022f
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	20.9
Imports of Goods (c.i.f)	5.2	(3.5)	(5.8)	23.3	25.6
Trade Balance, RMb	123.8	145.7	183.3	252.6	258.4
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**	**2022f**
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

July 2022 Key Economic Events

Jul 5: Malaysia mulls option to source wheat from Turkiye. Malaysia seeks to diversify its food import source, including the possibilities of buying wheat flour from Turkiye as the world battles with supply constraints, soaring food prices and inflation.

Jul 8: Malaysia retains position as world's 5th largest LNG exporter in 2021. Malaysia exported 24.9 million tonnes per annum (MTPA) of liquefied natural gas (LNG) in 2021, retaining its previous year's position as the fifth largest LNG exporter after Australia, Qatar, the United States and Russia, the Malaysian Gas Association (MGA) said.

Jul 11: New Covid-19 cases on the rise, fatalities up by 46.2pc. New Covid-19 cases increased by 27.9 per cent from July 3-9 compared to the week before that, Health director-general Tan Sri Dr Noor Hisham Abdullah said.

Jul 13: MEF urges govt to ensure no disruption to supply of foreign workers. Following today's announcement on the temporary freeze of Indonesian workers, it is critical for the government to iron out any outstanding matters to ensure that the smooth supply of foreign workers will not be disrupted.

Jul 15: In rare open letter, BNM governor dispels OPR hike-bankruptcy rise notion. Bank Negara Malaysia governor Tan Sri Nor Shamsiah Mohd Yunus dispelled the alleged link between Malaysia's Overnight Policy Rate hike and the rise in individual bankruptcies in the country, saying that the number of individual bankruptcies in the nation has been declining since 2016.

Jul 15: 11 more building materials added into VOP to help contractors face price hikes, says PM. The government has added 11 more building materials in the implementation of the Variation of Prices (VOP) clause to help face the rising prices of building materials.

Jul 18: Business community hails deferment of 80:20 local-foreign worker ruling. Industry players have welcomed the government's decision to defer the ruling that permits manufacturing companies to hire foreign workers only after 80% of their workforce is made up of Malaysians.

Jul 19: Health Ministry: Medicine shortage expected to be resolved in two weeks. The shortage of medicine in the country is expected to be resolved within two weeks at least, said Deputy Health Minister Datuk Dr Noor Azmi Ghazali.

Jul 21: Tengku Zafrul: Govt in midst of testing targeted petrol subsidy mechanism. The Government is still testing the targeted subsidy mechanism for petrol to ensure the system to be implemented is suitable and easy to use in both urban and rural area.

Jul 22: ECB hikes rates, throws lifeline to indebted countries. The European Central Bank raised interest rates by more than expected as concerns about runaway inflation trumped worries about growth. The ECB raised its benchmark deposit rate by 50 basis points to zero percent, breaking its own guidance for a 25 basis point move.

Jul 25: Ceiling price of bottled cooking oil will be based on CPO price trend. Putrajaya is targeting to introduce the flexi price ceiling for oil palm-based bottled cooking oil, in a bid to control the maximum price and prevent profiteering by traders.

Jul 26: IMF cuts global growth forecasts, warns high inflation threatens recession. The International Monetary Fund cut global growth forecasts again on Tuesday, warning that downside risks from high inflation and the Ukraine war were materializing and could push the world economy to the brink of recession if left unchecked.

Jul 27: Fed Chair Jerome Powell said he does not think the U.S. is currently in a recession. Federal Reserve Chairman Jerome Powell said Wednesday he does not believe the U.S. economy is in a recession as the central bank raised rates further to fight inflation.

Jul 27: Anti-Party Hopping Bill: MPs put aside political differences. Government and Opposition lawmakers on Wednesday put aside their political differences to come to a consensus towards the Government's efforts to table an amendment to the Federal Constitution to prohibit Members of Parliament from switching parties.

Jul 27: Tobacco and Smoking Control Bill tabled in Dewan Rakyat. The Tobacco and Smoking Control Bill, also known as tobacco generational endgame (GEG) law, aimed at snuffing smoking habit and protecting the health of Malaysians, was tabled at the Dewan Rakyat today. Tabled for the first reading, the law will apply to those born in 2007 onwards, and not 2005 as initially proposed.

Jul 28: Saravanan: Indonesia agrees to lift freeze on sending migrant workers from Aug 1. Indonesia lifted its restrictions on the entry of its workforce into Malaysia, and agreed to integrate the existing system between the Malaysian Immigration Department and the Indonesian Embassy in Kuala Lumpur for the recruitment of Indonesian domestic workers.

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