1 September 2022

MONTHLY ECONOMIC REVIEW | August 2022

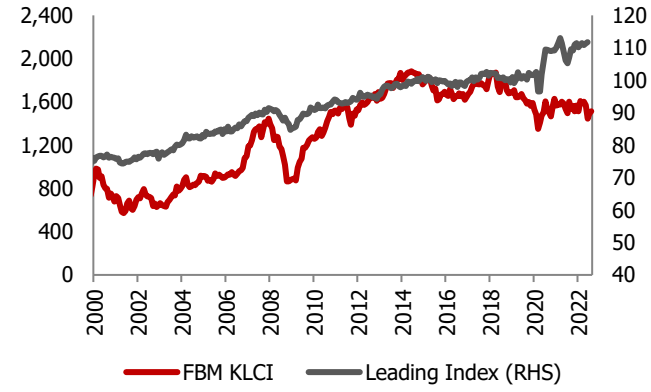
Positive Growth Momentum to Continue Amid External Uncertainties

- *Leading index signals positive growth momentum to continue. Malaysia's leading index (LI) continued to expand at +5.3%yoy in Jun-22 (May-22: +2.3%yoy), mainly driven by higher real imports of other basic precious & other non-ferrous metals and also boosted by the low base effect. On month-on-month basis, the LI grew positively at +0.4%mom in Jun-22.*
- *External trade still robust in Jul-22. Malaysia's total trade continued to grow in Jul-22. Total trade stood at RM252.6b, the second highest after record high RM270.1b in Jun-22. Exports growth in particular was sustained at +38%yoy (Jun-22: +38.4%yoy), higher than our estimate, driven by demand for major products such as E&E, petroleum (both processed and crude), palm oil and LNG. Imports growth remained positive but moderated to +41.9%yoy (Jun-22: +49.2%yoy).*
- *GDP to grow at 6.6% in 2022. Following the stronger-than-expected GDP release in 2QCY22, we recently upgraded our 2022 growth forecast to +6.6% (previous estimate: +6.0%). Reading from the better prospects as indicated by the Leading Index, we foresee momentum of growth will continue going into 2HCY22. However, we are cautious of possible downside risks from external uncertainties such as weaker growth prospects in major trading partners (namely China and USA), escalation of geopolitical tensions and continued disruption in the global supply chain.*

Leading index signals positive growth momentum to continue. Malaysia's leading index (LI) continued to expand at +5.3%yoy in Jun-22 (May-22: +2.3%yoy), the fastest annual growth since Jun-21. The increase was mainly driven by higher real imports of other basic precious & other non-ferrous metals and also boosted by the low base effect. On month-on-month basis, the LI grew positively at +0.4%mom in Jun-22, attributable to improvement in four out of seven components, notably real imports of other metals (+0.6%mom) and new companies registered (+0.6%mom). The current economic condition also picked up sharply as the coincident index (CI), spiking up by +12.6%yoy, the strongest growth in 14 months. The surge was in line with improving domestic economic activities which contributed to the strong economic growth in 2QCY22. Moving forward, we except Malaysia's economy will continue to develop positively in 2HCY22 as the latest LI reading indicates encouraging signals that growth momentum continued to improve following the reopening of the economy and international borders and despite concerns over possible slowdown mainly due to external uncertainties.

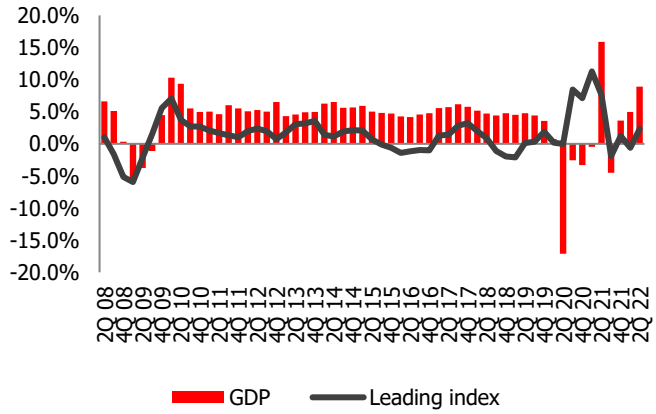
KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES

Chart 1: Leading Index vs KLCI (Points)



Source: CEIC, MIDFR

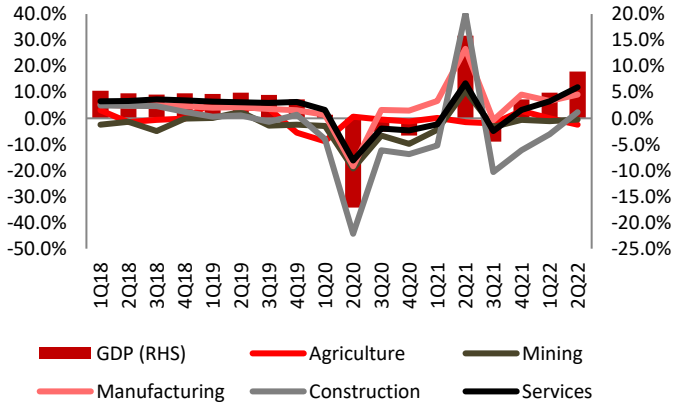
Chart 2: Leading Index vs GDP (YoY%)



Source: CEIC, MIDFR

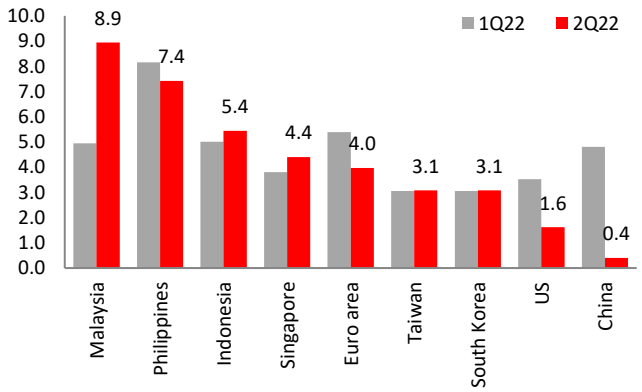
GDP grew faster in 2QCY22. Malaysia's economy expanded faster at +8.9%yoy in 2QCY22 (1QCY22: +5%yoy), mainly driven by the continued pick-up in domestic economic activities on the back of further economic reopening. Not only production activity improved for most sectors, robust consumer spending was the major contributor to the stronger growth. While external trade also grew faster during the quarter, the trade surplus was smaller than 1QCY22 because higher commodity prices resulted in bigger imports. Compared to regional economies, Malaysia joins Indonesia and Singapore to record higher growth, better than the Philippines and other East Asian economies that saw stable or moderate growth in 2QCY22. On quarter-to-quarter basis, Malaysia's seasonally adjusted GDP grew by +3.5%qoq (1QCY22: +3.8%qoq), the third straight quarter of expansion since fourth quarter last year. Apart from relaxation of Covid-19 SOPs, we noticed the surging growth was also due to low base effect, particularly when the nationwide lockdown was imposed from 1st June last year.

Chart 3: GDP by Supply-Side (YoY%)



Source: CEIC, MIDFR

Chart 4: Growth for Selected Countries (YoY%)

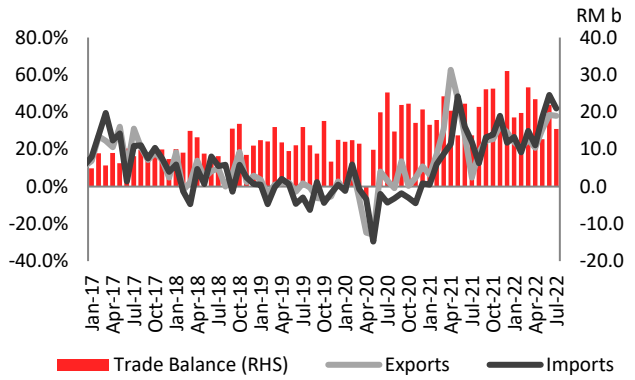


Source: CEIC, MIDFR

External trade still robust in Jul-22. Latest data shows Malaysia's total trade continued to grow in Jul-22. Total trade stood at RM252.6b, the second highest after record high RM270.1b in Jun-22. Exports growth in particular was sustained at +38%yoy (Jun-22: +38.4%yoy), somewhat higher than our estimate. We anticipated

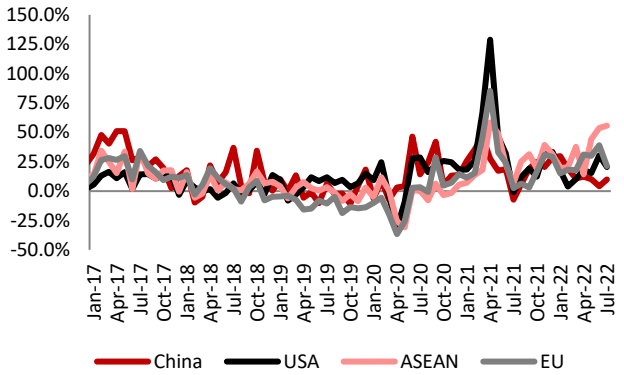
recent correction in commodity prices and weaker demand from China would start to hit exports performance. The official number is better than expected, also due to lower base in Jul-21 which explained the stronger expansion in domestic exports at +33.4%yoy (Jun-22: +30.5%yoy). Re-exports, on the other hand, moderated to +55.1%yoy (Jun-22: +70.9%yoy). Overall, exports growth in Jul-22 was driven by major products such as E&E, petroleum (both processed and crude oil), palm oil and LNG. Meanwhile, imports growth remained positive but moderated to +41.9%yoy (Jun-22: +49.2%yoy). Increased imports, which has been growing at double-digit pace in the last 18 months, reflects the improving domestic economic activities as Malaysia transitioned into endemic phase.

Chart 5: Exports & Imports (YoY%) vs Trade Bal. (RM b)



Source: CEIC, MIDFR

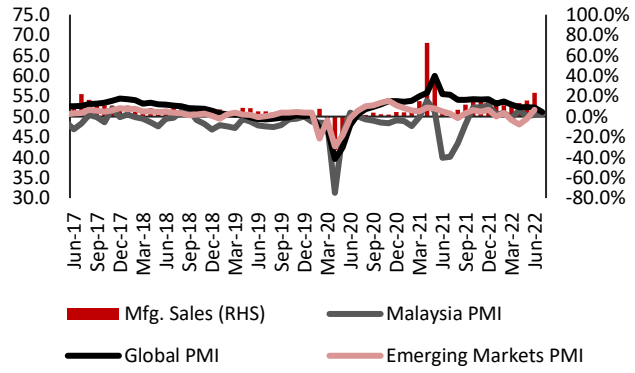
Chart 6: Exports Growth (YoY%) by Major Destination



Source: CEIC, MIDFR

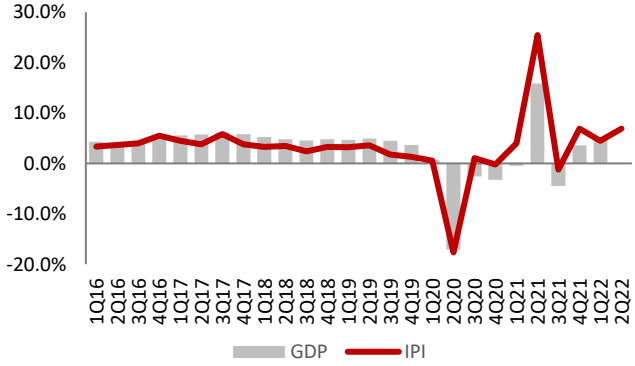
IPI growth strengthened in Jun-22. Malaysia's IPI growth accelerated to +12.1%yoy (May-22: +4.1%yoy), marking the fastest expansion in 13 months. The stronger IPI was driven by the jump in manufacturing production (+14.5%yoy) and higher electricity generation (+14.1%yoy). In addition, mining sector output rebounded (+2.1%yoy) during the month, mainly due to rebound in natural gas production and smaller contraction in crude petroleum output. While the level of production improved from May-22, we observed the faster IPI growth in Jun-22 was also due to the low base effect. Consequently, output growth improved sharply for some sectors such as products from leather, tobacco, and glass as well as non-metallic mineral products and basic metals like iron & steel.

Chart 7: IPI Performances by Sector (YoY%)



Source: CEIC, MIDFR

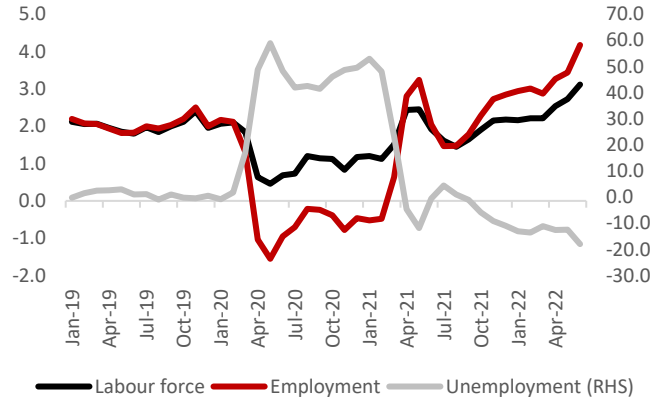
Chart 8: IPI vs GDP (YoY%)



Source: CEIC, MIDFR

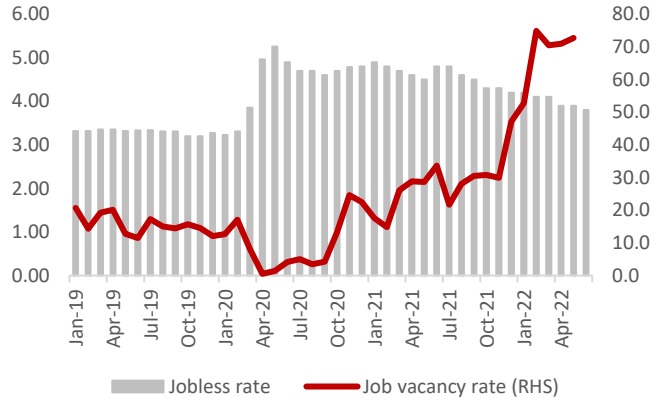
Employment growth surged to a new record high. Recovery of Malaysia's labour market continued as jobless rate descended to a new pandemic low 3.8% in Jun-22. Underpinned by robust domestic demand and external trade sector, labour force and employment growth hit new record high +3.1%yoy and +4.2%yoy respectively. Unemployment count dipped further by -18.0%yoy, the largest contraction rate ever recorded. In addition, those outside of labour force reduced by -2.7%yoy, the largest decline on record as more people returned to the job market. Robust growth in employment notably driven by employer +11.6%yoy (May-22: +8.9%yoy), self-account worker +10.8%yoy (May-22: +10.1%yoy) and unpaid family workers +14.1%yoy (May-22: +11.6%yoy). Employee segment which represents 76.1% of total employment grew higher by +2.1%yoy (May-22: +1.5%yoy). As for 2QCY22, average employment growth was at +3.6%yoy (1QCY22: +2.9%yoy) and unemployment rate at 3.9% (1QCY22: 4.1%). Apart from strong macro fundamentals, we believe international borders reopening on the 1st April 2022 will be an extra support for labour market recovery particularly the return of foreign workers.

Chart 9: Labour Market Key Indicators (YoY%)



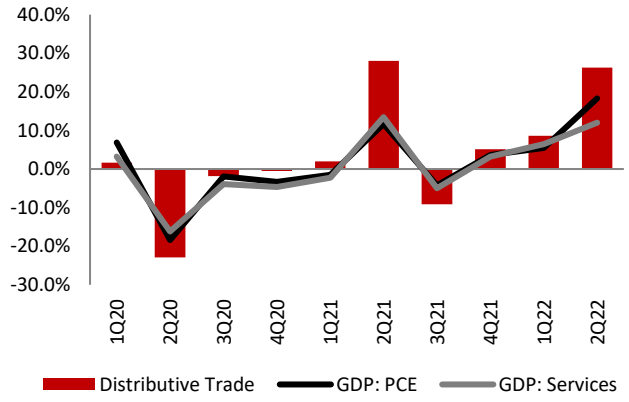
Source: CEIC, MIDFR

Chart 10: Unemployment rate vs. Job vacancy rate (%)



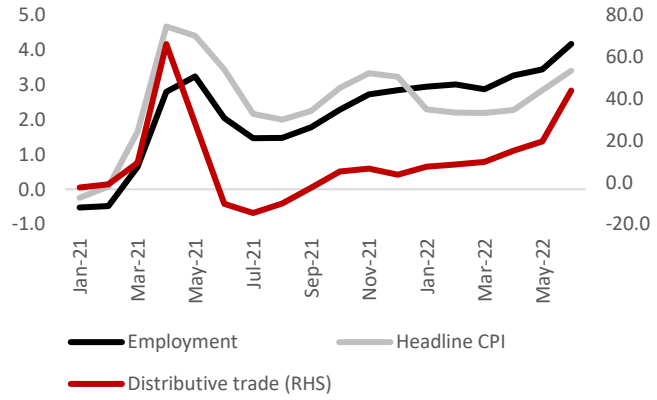
Source: CEIC, MIDFR

Chart 11: Distributive Trade (DT) Sales vs. GDP (YoY%)



Source: CEIC, MIDFR

Chart 12: DT vs. CPI vs. Employment (YoY%)



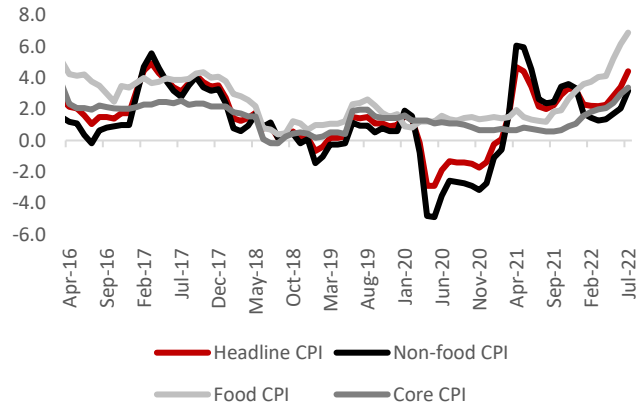
Source: CEIC, MIDFR

Distributive trade sales surged to more than +40%yoy. Malaysia's distributive trade sales expanded by +44.0%yoy in Jun-22, fastest pace in 14-month. By component, retail spending expanded strongly by

+38.4%yoy, wholesale trade up by +19.3%yoy and motor vehicles sales skyrocketed. The high growth rates are widely expected due to low-base effect because of tight nationwide lockdown in Jun-21. We expect the low-base effect will continue to be seen in Jul-22 until Sep-22. However, the domestic spending trend remained firm as sequential month continued to record positive growth, +2.5%mom for overall trade. As for 2QCY22, distributive trade sales grew by +26.3%yoy (1QCY22: +8.6%yoy), indicating stronger GDP growth in the second quarter. Most notably, domestic demand continued to stay on an uptrend among others contributed by improving labour market, stable inflationary pressure, further reviving of domestic economy including international borders reopening and special EPF withdrawals in Apr-22. Looking ahead, we opine the upbeat momentum of domestic demand to continue in 2HCY22 particularly driven by stable overall price growth and lower unemployment rate.

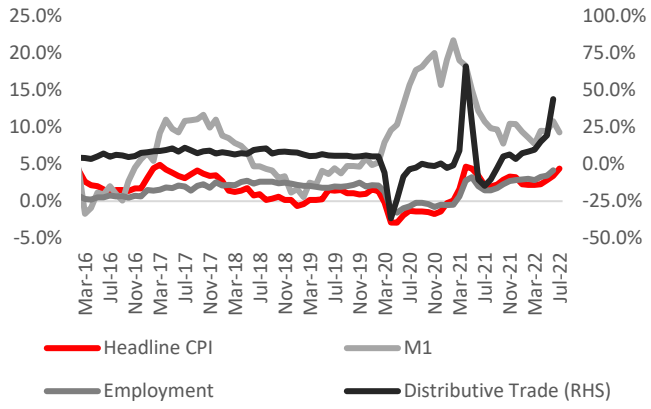
Core inflation rose further, the highest in 6 years. As anticipated, core inflation accelerated further to +3.4%yoy, fastest gain since Apr-16. The upward trend in core CPI indicates the underlying price pressures from surging domestic demand, underpinned by improving labour market condition and positive effects from economic reopening. We opine the steady uptick in core inflation, in addition to the robust GDP growth, increases the chances for BNM to consider another rate hike in Sep-22. Malaysia's headline inflation rose higher to +4.4%yoy, similar to Bloomberg consensus. This brings the average headline inflation to +2.8%yoy in first 7 months this year, still within BNM's inflation forecast range +2.3~3.3%. Non-food CPI also rose faster by +3.2%yoy, while food inflation hit new record high of +6.9%yoy. On the month-on-month basis, all major CPI components including core CPI registered monthly increases, with a larger rise in food prices.

Chart 13: Key CPI Data (YoY%)



Source: CEIC, MIDFR

Chart 14: CPI vs. Domestic Demand Indicator (YoY%)

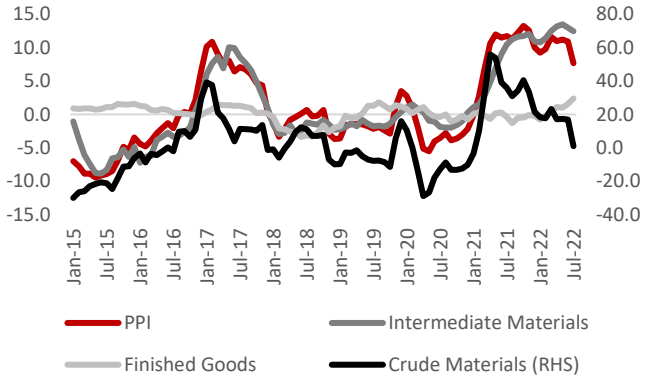


Source: CEIC, MIDFR

PPI inflation eased to 16-month low. Producer price index (PPI) rose by +7.6%yoy in Jul-22, easing to the slowest inflation since Apr-21. Due to the correction in commodity prices, the PPI inflation for crude materials moderated sharply to +1.1%yoy (Jun-22: +16.9%yoy), the slowest rise since Feb-21. Meanwhile, the cost of intermediate materials continued to rise at a double-digit rate (+12.5yoy%) for the 13th consecutive month. With the rise in raw materials and intermediate inputs, producer prices for finished goods increased faster at +2.4%yoy in Jul-22. By industry, correction in the global crude oil and gas prices led to moderation in PPI inflation for the

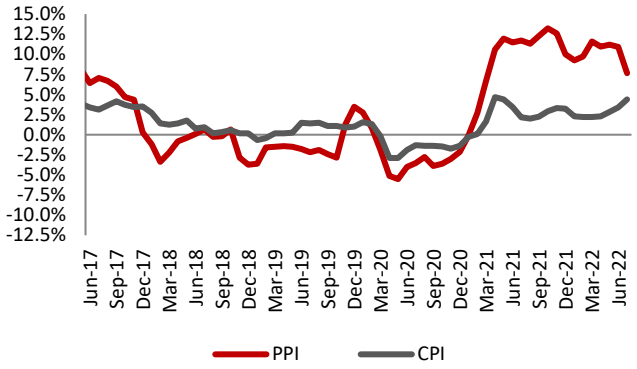
mining industry (+9.0%yoy), which is the slowest in 16 months. Despite the slower inflation for raw materials and intermediate goods, PPI inflation for the manufacturing sector remained at high level (Jul-22: +9.9%yoy; Jun-22: +10.0%yoy). Agriculture, forestry & fishing industry, on the other hand, registered lowest inflation at -10.3%yoy (Jun-22: +18.3%yoy), in line with the correction in prices of agriculture and food commodities. In coming months, we opine price pressures could ease in anticipation for improved supply of intermediate materials as shown in the decline in the Baltic Dry Index in the recent months, signalling easing pressures on the global supply chain. On another note, producers would keep prices high to cope with rising production costs as PPI inflation remained above CPI inflation since Jan-21.

Chart 15: PPI (YoY%)



Source: CEIC, MIDFR

Chart 16: PPI vs CPI (YoY%)



Source: CEIC, MIDFR

GDP to grow at 6.6% in 2022. Following the stronger-than-expected GDP release in 2QCY22, we recently upgraded our 2022 growth forecast to +6.6% (previous estimate: +6.0%). Reading from the better prospects as indicated by the Leading Index, we foresee momentum of growth will continue going into 2HCY22. This will be backed by increased spending and business activities as the economy transitioned into the endemic phase, with Covid-19 restrictions have been relaxed and rising tourist arrivals. While measures like Bantuan Keluarga Malaysia cash handouts and EPF withdrawals helped to boost spending in 2QCY22, we may see a more normalized growth for domestic spending towards the latter part of the year. Nevertheless, improving labour market and better income prospects will continue to support domestic spending activity. For external trade, we expect the growing external demand especially for E&E, petroleum and palm oil will also support growth outlook this year. However, we are cautious of possible downside risks from the external front such as weaker growth prospects in major trading partners (namely China and USA), escalation of geopolitical tensions and continued disruption in the global supply chain. Despite these external uncertainties, we opine the above-6% growth can be achieved given the strength and the sustained improvement in domestic demand.

Table 1: Macroeconomic Past Performances (%)

(YoY%) Unless Stated Otherwise	2018	2019	2020	2021	2022_f
Real GDP	4.7	4.3	(5.5)	3.1	6.6
Govt. Consumption	3.2	2.0	5.0	5.3	3.1
Private Consumption	7.9	7.6	(4.2)	1.9	10.8
Govt. Investment	(5.0)	(10.8)	(21.3)	(10.0)	4.2
Private Investment	4.4	1.5	(12.0)	4.0	5.5
Exports of goods & services	2.2	(1.1)	(8.6)	15.4	8.3
Imports of goods & services	1.3	(2.3)	(7.9)	17.7	12.4
Net Exports	14.6	8.9	(13.7)	(4.1)	(34.5)
Agriculture etc.	0.2	1.8	(2.4)	(0.2)	2.5
Mining & Quarrying	(2.6)	(1.5)	(9.7)	0.3	1.3
Manufacturing	5.0	3.8	(2.7)	9.5	6.8
Construction	4.3	0.0	(19.3)	(5.3)	1.5
Services	6.8	6.1	(5.4)	1.9	8.0
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	258.7
Consumer Price Index	1.0	0.7	(1.2)	2.5	2.8
Current Account, % of GDP	2.1	3.6	4.4	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	2.75

Source: CEIC, MIDFR

August 2022 Key Economic Events

Aug 3: US job openings fall to 10.7 million, lowest since September. US job openings fell in June to a nine-month low, suggesting a slight moderation in demand for labour amid growing economic pressures.

Aug 3: Zafrul: 97.5% of federal govt debt in ringgit. Almost all or 97.5% of the federal government's outstanding debt is in ringgit, based on data for the first quarter of 2022, while only a small portion or 2.5% is in foreign currencies, said Finance Minister Tengku Datuk Seri Zafrul Tengku Abdul Aziz.

Aug 4: Taiwan turmoil prompts detours, delays for global shipping. China's announcement of military drills around Taiwan as US House Speaker Nancy Pelosi visits the island is creating ripple effects across global supply chains, prompting detours and delaying energy shipments.

Aug 5: Dewan Rakyat approves Bill to tax imported low-value goods sold online. The Dewan Rakyat has passed the Sales Tax (Amendment) Bill 2022, which updates the Sales Tax Act 2018 with a provision to tax low-value goods sold online and delivered to Malaysia, which is expected to bring the country an additional RM200 million tax revenue per year.

Aug 8: China's exports gain steam but outlook cloudy as global growth cools. China's export growth unexpectedly picked up speed in July, offering an encouraging boost to the economy as its struggles to recover from a COVID-induced slump, but weakening global demand could start to drag on shipments in coming months. Exports rose 18.0% in July from a year earlier, the fastest pace this year.

Aug 11: Fed's Kashkari: More rate hikes ahead, and possible recession. Minneapolis Federal Reserve Bank President Neel Kashkari said he is sticking to his view that the U.S. central bank will need to raise its policy rate another 1.5 percentage points this year and more in 2023, even if that causes a recession.

Aug 12: Ringgit holding up against peers, swing impact on food inflation 'quite small' — BNM. The weaker ringgit against the US dollar has had little impact on the rising food prices, which pushed up inflation to a 12-month high of 3.4% in June, according to Bank Negara Malaysia (BNM) governor Tan Sri Nor Shamsiah Mohd Yunus.

Aug 15: PM: Recording 8.9% economic growth in Q2 proves govt has not failed. The country's economic growth of 8.9% for the second quarter (Q2) of this year is the best in Southeast Asia and a testament that the government has not failed as the opposition claims," said Prime Minister Datuk Seri Ismail Sabri Yaakob.

Aug 18: China central bank, under pressure to ease, is hemmed-in by inflation, Fed jitters. China's central bank is set to take more easing steps, pressured by a shaky economy that is undercutting jobs, but it faces limited room to manoeuvre due to worries over rising inflation and capital flight.

Aug 24: Mustapa: Subsidies ensured inflation rate remained low in Malaysia. Malaysia's inflation rate could have reached up to 11.4% if the government had not implemented the subsidies, according to Minister in the Prime Minister's Department (Economy) Datuk Seri Mustapa Mohamed.

Aug 24: Fed's Harker: Would like to get rates above 3.4% and 'sit for a while'. Philadelphia Federal Reserve President Patrick Harker on Thursday said he would like to get interest rates above 3.4% and then "maybe sit for a while," adding his voice to the recent chorus of policymakers pushing back against market expectations for a series of rate reductions next year.

Aug 26: Budget 2023 expected to be tabled on Oct 7. The Budget, scheduled to be tabled on Oct 28, will now be held earlier. It is now expected to be presented in the Dewan Rakyat on Oct 7, three weeks earlier than scheduled.

Aug 26: Powell warns of 'some pain' ahead as the Fed fights to bring down inflation. Federal Reserve Chairman Jerome Powell delivered a stern commitment Friday to halting inflation, warning that he expects the central bank to continue raising interest rates in a way that will cause "some pain" to the U.S. economy. Powell affirmed that the Fed will "use our tools forcefully" to attack inflation.

Aug 29: Malaysia ranks world's third most competitive GBS location, behind India and China Malaysia has been ranked as the world's third most competitive Global Business Services (GBS) location, behind India and China, according to an index by global consulting firm Kearney.

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