31 October 2022

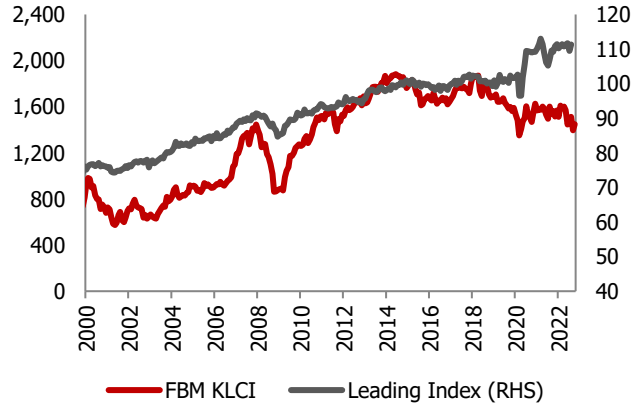
MONTHLY ECONOMIC REVIEW | October 2022

Growth Momentum to Continue Despite Concerns Over External Developments

- *LI still points to sustained growth. Malaysia's leading index (LI) sustained annual increase of +4%yoy in Aug-22 (Jul-22: +4.1%yoy), backed by increased real imports of other basic precious and non-ferrous metals, higher number of housing units approved and increased company registration. On month-on-month basis, LI rebounded by +1.6%mom (Jul-22: -2.0%mom).*
- *More normalized growth. Total trade growth moderated to +31.4%yoy in Sep-22, but the total trade value remained above RM250b for the fourth straight month. Exports grew further at +30.1%yoy (Aug-22: +48.1%yoy), maintaining double-digit growth for the 14th consecutive month.*
- *Malaysia's economy to grow by +6.6% this year. Recent indicators indicated sustained positive growth with expanding domestic demand and robust external trade performance. while growth momentum generally remained positive, we remained cautious of possibly weaker global outlook. On that note, we maintain our forecast for Malaysia's GDP growth this year at +6.6%.*

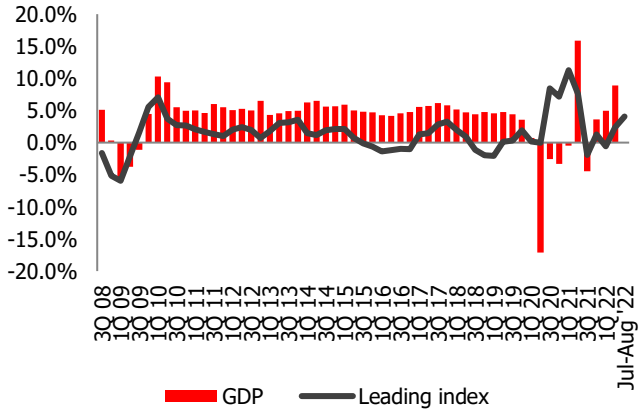
LI still points to sustained growth. Malaysia's leading index (LI) sustained annual increase of +4%yoy in Aug-22 (Jul-22: +4.1%yoy), backed by increased real imports of other basic precious and non-ferrous metals, higher number of housing units approved and increased company registration. On month-on-month basis, LI rebounded by +1.6%mom (Jul-22: -2.0%mom) following higher real imports of semiconductors, higher housing approvals and growth in money stock (M1). Meanwhile, the current economic economic condition showed a more normalized growth as the rise in coincident index (CI) moderated further to +9.8%yoy (Jul-22: +12.5%yoy). Increased industrial production and retail trade as well as higher capacity utilization contributed to the CI growth in Aug-22. Given the sustained growth in LI, we expect growth momentum to remain positive in the coming months and the pace of growth is expected to be more normalized as the low-base effect, as a result of the nationawide lockdown last year, diminishes.

Chart 1: Leading Index vs KLCI (Points)



Source: Macrobond, MIDFR

Chart 2: Leading Index vs GDP (YoY%)



Source: Macrobond, MIDFR

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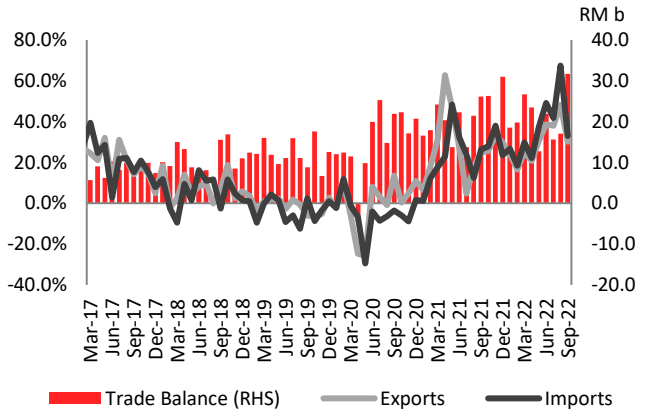
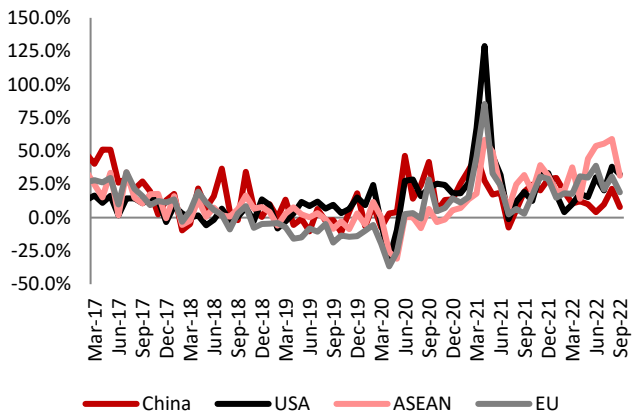
More normalized growth. External trade performance remained robust in Sep-22, albeit annual growth was relatively slower than Aug-22. Growth in total trade was more moderate at +31.4%yoy in Sep-22, but the total trade value remained above RM250b for the fourth straight month. Exports grew further at +30.1%yoy (Aug-22: +48.1%yoy), maintaining double-digit growth for the 14th consecutive month. The moderation was expected given the higher base in Sep-21. Nearly half (or 48.9%) of the increase in exports in Sep-22 was underpinned by demand for E&E, and another 38.9% of the export growth was from higher shipments of oil & gas products (especially refined petroleum and LNG). On another note, growth in re-exports remained relatively stronger at +46.4%yoy (Aug-22: +112.4%yoy) vis-à-vis domestic export growth which moderated to +25.9%yoy (Aug-22: +34.8%yoy). Similarly, import growth slowed to +33%yoy in Sep-22 (Aug-22: +67.4%yoy) as imports moderated for intermediate and consumption goods, in contrast to stronger capital goods imports. Nevertheless, the continued double-digit import growth since Feb-21 suggests the positive effect from economic reopening and growing domestic demand. On balance, RM31.7b trade surplus in Sep-22 is the highest monthly surplus on record mainly because lower imports (-9.4%mom), attributable to the correction in global commodity prices.

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



Source: Macrobond, MATRADE, MIDFR

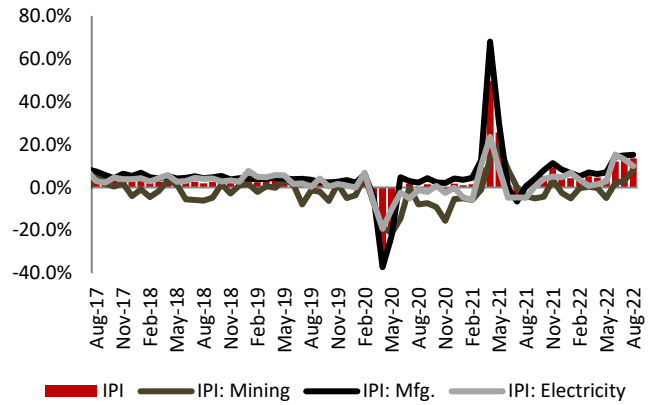
Chart 6: Exports Growth (YoY%) by Major Destination



Source: Macrobond, MATRADE, MIDFR

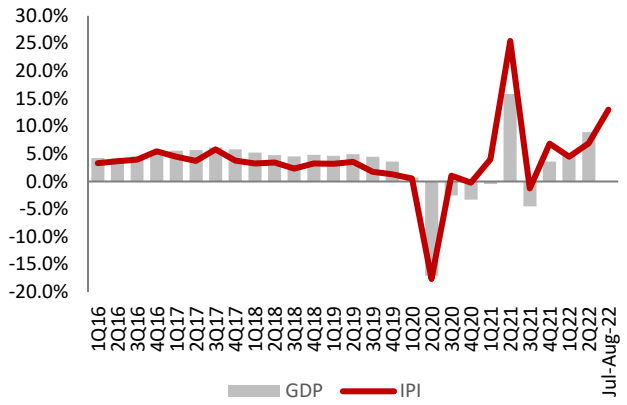
More robust IPI performance in Aug-22. IPI growth accelerated to +13.6%yoy, the fastest in 15 months. This is better than our estimate mainly because of the stronger growth in manufacturing output (+14.9%yoy), in line with the stronger exports performance. Furthermore, mining (+8%yoy) and electricity (+10%yoy) sectors also registered robust output growth, driven by higher crude oil & LNG output and stronger electricity consumption. The pick-up in IPI growth signals stronger production activities in July-August 2022, indicative of a robust GDP growth in 3QCY22. This also shows business activities including production continued to grow on the back of increasing demand, both domestic and external. On month-on-moth basis, seasonally-adjusted IPI recorded a rebound in Aug-22, expanding at +1.7%mom with higher production recorded in all major sectors.

Chart 7: IPI Performances by Sector (YoY%)



Source: Macrobond, MIDFR

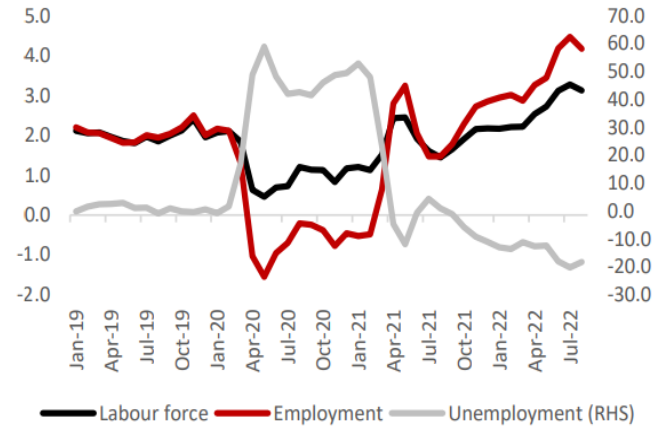
Chart 8: IPI vs GDP (YoY%)



Source: Macrobond, MIDFR

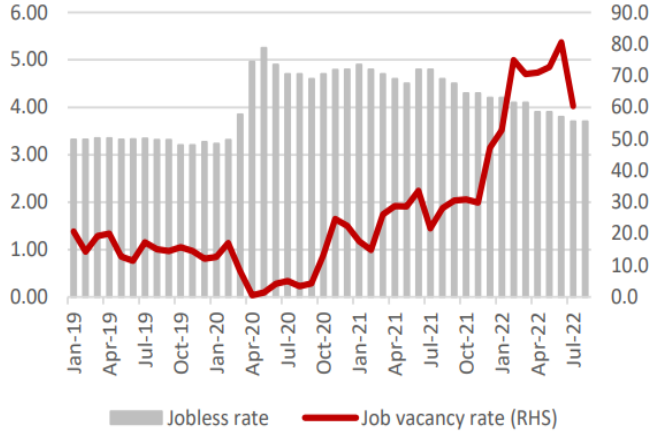
Unemployment rate maintained at pandemic low. Recovery of Malaysia's labour market continued as jobless rate stayed at pandemic low 3.7% in Aug-22. Labour force and employment continued on expansion, +3.1%yoy and +4.2%yoy respectively, thanks to robust domestic economic growth and upbeat external front. Unemployment dropped further by -18.3%yoy, marking the twelve-consecutive months of contraction rate. In addition, outside labour force reduced by -2.8%yoy, slightly lower than the largest negative rate seen in the previous month. By type, employment growth was driven by employer +11.3%yoy (Jul-22: +12.4%yoy), self-account worker +10.5%yoy (Jul-22: +11.3%yoy) and unpaid family workers +10.9%yoy (Jul-22: +14.8%yoy). Employee segment which represents 76.0% of total employment grew steadily by +2.3%yoy (Jul-22: +2.3%yoy). With this upbeat labour market performance, we are optimistic this will support stronger consumer spending in 2HCY22 onwards.

Chart 9: Labour Market Key Indicators (YoY%)



Source: Macrobond, MIDFR

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

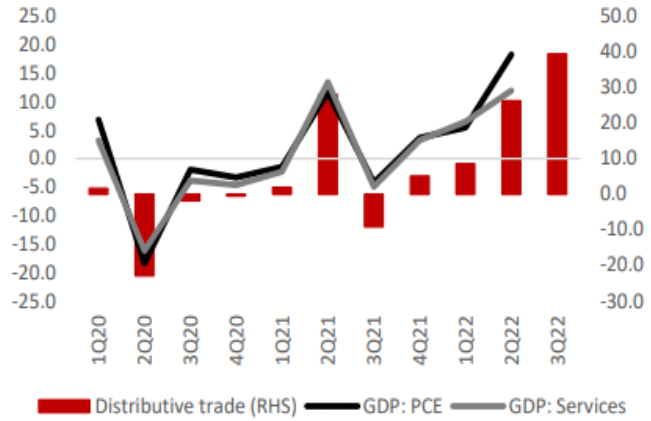


Source: Macrobond, MIDFR

Robust domestic spending continues. Distributive trade sales growth continued on double-digit expansion rate for 5-consecutive months, +33.7%yoy in Aug-22. By component, retail spending expanded strongly by +34.5%yoy, wholesale trade up by +16.0%yoy and motor vehicles sales by +185.3%yoy. The high growth rates were widely expected due to low-base effects as Malaysia faced another tight nationwide lockdown in Jul-21 until Sep-21. However, domestic spending particularly retail trade remained in strong momentum as sequential month

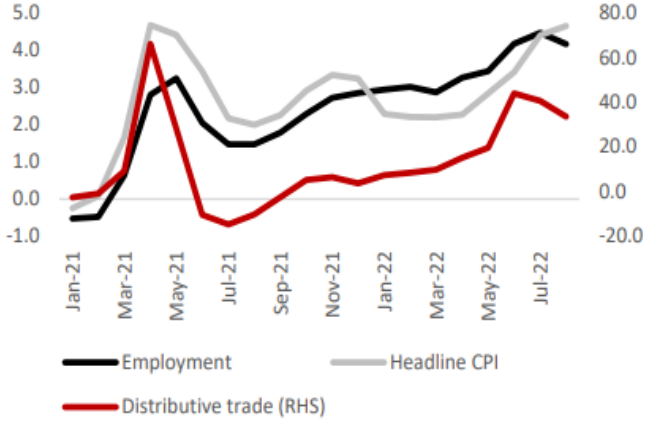
continued to record positive growth, +0.7%mom. Robust domestic spending among others were driven by stable inflationary pressure, improving labour market and accommodative monetary as well as fiscal policies. Looking ahead, we opine the upbeat momentum of domestic demand to continue in 3QCY22 amid strong economic fundamentals and low-base effect.

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



Source: Macrobond, MIDFR

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



Source: Macrobond, MIDFR

Core inflation hit new peak at +4.0%yoy. As domestic demand continued to grow, core CPI inflation rose to new high at +4.0%yoy in Sep-22, the fastest increase at least since 2015. On sequential monthly basis, core CPI prices still recorded +0.3%mom inflation. With this upbeat momentum, we believe BNM will continue to hike OPR by another +25bps at Nov-22 MPC meeting. On the flip side, headline inflation softened slightly to +4.5%yoy (Aug-22: +4.7%yoy) mainly because of marginally slower inflation for both non-food and food CPIs at +3.3%yoy and +6.8%yoy, respectively. Going forward, we anticipated that inflationary pressure in Malaysia would moderate from Aug-22 onwards following the correction in global commodity prices in past few months and improvement in supply chain condition domestically and regionally.

Chart 13: Key CPI Data (YoY%)

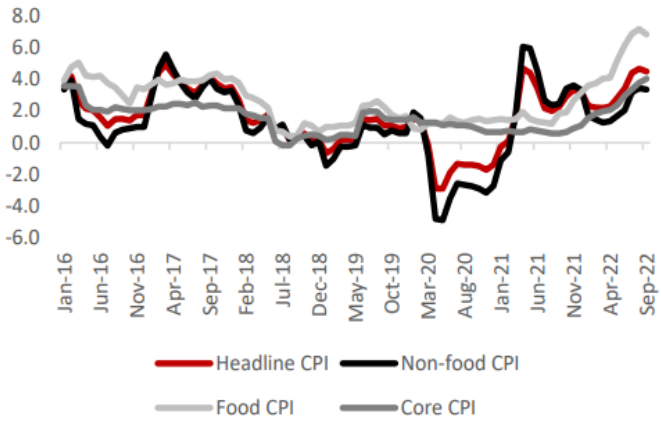
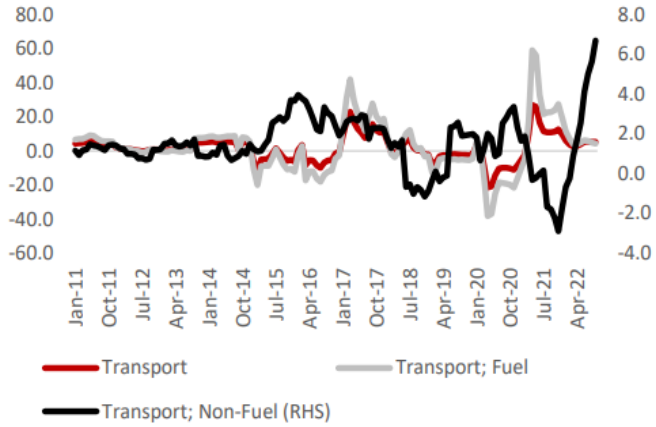


Chart 14: Transport CPI; Fuel vs. Non-Fuel (YoY%)

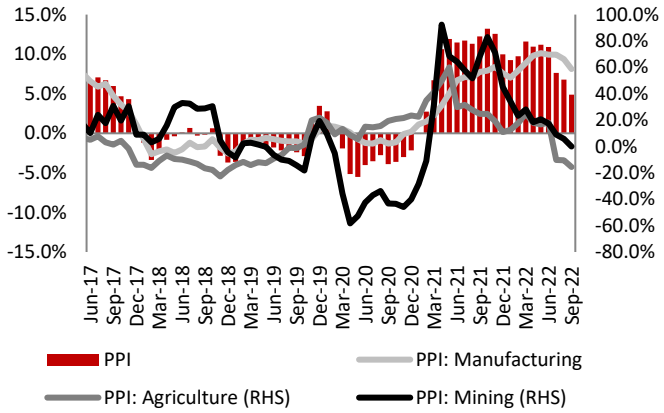


Source: Macrobond, MIDFR

PPI inflation eased further to +4.9%yoy in Sep-22. PPI inflation eased to +4.9%yoy in Sep-22 (Aug-22: +6.8%yoy), the slowest increase since Feb-21. As a result of correction in global commodity prices, PPI for mining sector was unchanged (+0%yoy; Aug-22: +5.8%yoy), while agriculture PPI fell sharper by -15.5%yoy

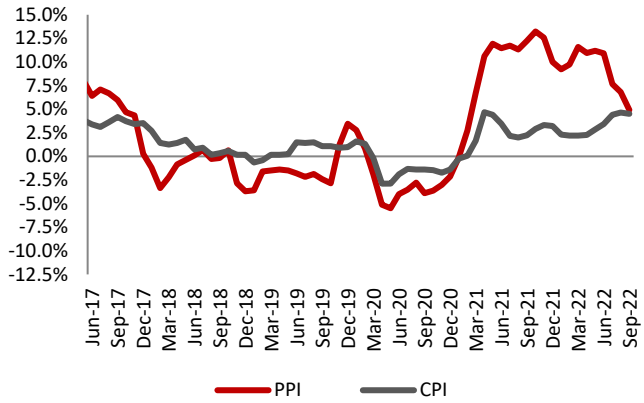
(Aug-22: +-10.6%yoy). Meanwhile, the increase in overall PPI reflects the continued rise in manufacturing PPI (+8.1%yoy) and higher PPI inflation for utilities: electricity & gas (+1.2%yoy) and water (+4.3%yoy). Compared to previous month, PPI fell by -1.4%mom, the fourth straight month of declines as PPIs for all sectors except water were lower than Aug-22. With PPI inflation slowing further in Sep-22, we see slower cost pressures on local businesses particularly because of improving supply condition and the effect of commodity price correction. This signals the inflationary pressures on consumer prices would also ease as businesses have less pressures to pass on cost increases to their clients.

Chart 15: PPI (YoY%)



Source: Macrobond, MIDFR

Chart 16: PPI vs CPI (YoY%)



Source: Macrobond, MIDFR

Malaysia's economy to grow by +6.6% this year. Recent indicators indicated sustained positive growth with expanding domestic demand and robust external trade performance. Apart from reopening of the economy and relaxation of Covid-19 SOPs, we expect the recovery in domestic labour market and improved employment prospects to support domestic spending activity. Meanwhile, businesses increased production as demand improved following economic reopening. In other words, more sustained and robust growth in domestic economic activities will support for stronger GDP growth this year. However, there is sign of slowdown in manufacturing sector activities as weaker new orders, including export demand, amid concerns over slowing global demand which caused manufacturing PMI to fall below 50 in Sep-22 after 5 straight months of expansion. Thus, while growth momentum generally remained positive, we remained cautious of possibly weaker global outlook that may be influenced by monetary policy tightening by central banks, the adverse effect of elevated inflation on final demand, and factors such as geo-politics and labour issues which could affect stability of supply. On that note, we maintain our forecast for Malaysia's GDP growth this year at +6.6%.

Table 1: Macroeconomic Past Performances (%)

(YoY%) Unless Stated Otherwise	2018	2019	2020	2021	2022f
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)	26.1	26.0
Imports of Goods (c.i.f)	5.2	(3.5)	(5.8)	23.3	30.5
Trade Balance, RMb	123.8	145.7	183.3	257.2	322.6
Consumer Price Index	1.0	0.7	(1.2)	2.5	3.0
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**	**2022f**
Brent Crude Oil (Avg)	71.6	64.3	43.3	70.9	102.0
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	4.40
USD/MYR	4.10	4.09	4.02	4.17	4.45
Overnight Policy Rate (%)	3.25	3.00	1.75	1.75	2.75

Source: Macrobond, DOSM, MIDFR

October 2022 Key Economic Events

Oct 3: Govt drops ceiling price for all bottled palm cooking oil from Oct 8; 5kg bottles set at RM31.50. The Ministry of Domestic Trade and Consumer Affairs has further reduced the ceiling price for bottled pure palm cooking oil following the drop in crude palm oil prices. The maximum retail price for the 5kg bottled cooking oil, for the period of Oct 8 to Nov 7, has been reduced to RM31.50, from the current RM33.50.

Oct 7: Malaysia tightens 2023 spending, warns of slower growth. Malaysia on Friday unveiled a smaller budget for 2023 and warned of an economic slowdown but, with a possible national election in the offing, also announced cash aid and tax cuts. Prime Minister Ismail Sabri's administration had been expected to present a moderately expansionary budget and offer incentives for voters after he raised the prospect of an early election.

Oct 10: PM Ismail Sabri dissolves Parliament to pave way for GE15. Prime Minister Datuk Seri Ismail Sabri Yaakob announced the dissolution of Parliament to pave the way for an early polls that must be held sixty days from now. The announcement, while expected, still came as a surprise, given that his administration had just tabled next year's federal budget last Friday.

Oct 12: IMF cuts 2023 growth outlook amid colliding global shocks. The International Monetary Fund (IMF) cut its global growth forecast for 2023. Global GDP growth next year will slow to 2.7%, compared to 2.9% forecast in July, as higher interest rates slow the US economy, Europe struggles with spiking gas prices and China contends with Covid-19 lockdowns and weakening property sector.

Oct 16: BN to contest 191 seats in GE15. Barisan Nasional (BN) will be contesting in 191 parliamentary seats in the upcoming general election (GE15), says its chairman Ahmad Zahid Hamidi.

Oct 17: Caretaker PM: Budget 2023 To Be Tabled Again Before End Of 2022. Caretaker Prime Minister Datuk Seri Ismail Sabri Yaakob has confirmed that Budget 2023 will have to be re-tabled in Dewan Rakyat before the end of 2022.

Oct 20: U.K. Prime Minister Liz Truss resigns after just 44 days in office. Liz Truss was forced to quit as UK prime minister, drawing a dramatic close 44 days in office that saw her preside over an economic meltdown and catastrophic damage to the ruling Conservative Party.

Oct 20: GE15: Malaysia votes on Nov 19, says EC. Polling day for the 15th General Election (GE15) has been set for Nov 19 says the Election Commission (EC). It also announced that Nomination Day for candidates will be on Nov 5 and early voting on Nov 15.

Oct 21: Anwar to contest Tambun seat. PKR president Datuk Seri Anwar Ibrahim will contest the Tambun parliamentary seat in the 15th General Election (GE15). He was also officially named the Prime Minister's candidate if Pakatan won GE15.

Oct 23: PM: China's Xi secures third term, stacks leadership team with allies. China's President Xi Jinping has secured a historic third term as the Communist Party's leader, cementing his place as the nation's most influential ruler since Mao Zedong. The Central Committee of the Chinese Communist Party (CCP) elected Xi as its general secretary for a precedent-breaking five-year term on Sunday.

Oct 23: China GDP beats with a bounce in the third quarter. China reported Monday that third-quarter gross domestic product grew by 3.9% from a year ago, beating expectations. Analysts polled by Reuters prior to Oct. 18 had expected China to report GDP growth of 3.4% for the third quarter.

Oct 26: New PM Rishi Sunak pledges to lead Britain out of economic crisis. Rishi Sunak became Britain's third prime minister in two months on Tuesday and pledged to lead the country out of a profound economic crisis and rebuild trust in politics.

Oct 28: US economy rebounds in Q3 on boost from trade, but demand stalling. The U.S. economy rebounded strongly in the third quarter amid a shrinking trade deficit, but the data overstated the nation's economic health as domestic demand was the weakest in two years. Gross domestic product increased at a 2.6% annualized rate last quarter after contracting 0.6% in the second quarter.

Oct 28: Key inflation gauge for the Fed rose 0.5% in September, in line with expectations. An economic gauge that the Federal Reserve follows closely showed that inflation stayed strong in September but mostly within expectations, the Bureau of Economic Analysis reported. The core personal consumption expenditures price index increased 0.5% from the previous month and accelerated 5.1% over the past 12 months.

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