3 October 2022

MONTHLY ECONOMIC REVIEW | September 2022

Malaysia's Economy Will Continue to Grow Amid Growing Concerns Over Global Growth Outlook

- *LI still points to sustained growth. Malaysia's leading index (LI) continued to expand by +4.1%yoy in Jul-22, mainly driven by increased real imports of other basic precious and non-ferrous metals. On month-on-month basis, LI dropped significantly by -2.0%mom (Jun-22: +0.4%mom), the largest monthly decline since Jun-21.*
- *Robust external trade in Aug-22. External trade maintained another month of robust expansion in Aug-22. Malaysia's total trade grew strongly by +56.5%yoy to RM265.7b. Exports growth picked up to +47.9%yoy, the strongest increase in 16 months. It was also because of the lower base in Aug-21. Exports growth in Aug-22 was mostly driven by sustained foreign demand for E&E, oil & gas and palm oil products.*
- *GDP to grow at 6.6% in 2022. We maintain our 2022 GDP growth forecast at +6.6%, strengthening from the weak growth last year which was affected by the nationwide lockdown. Recent indicators continued to show improvement, with the continued expansion in LI signals positive growth momentum to continue in the next few months.*

LI still points to sustained growth. Malaysia's leading index (LI) continued to expand by +4.1%yoy in Jul-22, albeit moderated from previous month (Jun-22: +5.3%yoy). The continued expansion of LI was mainly driven by increased real imports of other basic precious and non-ferrous metals due to higher demand for platinum-based metals. On month-on-month basis, LI dropped significantly by -2.0%mom (Jun-22: +0.4%mom), the largest monthly decline since -2.5%mom fall in Jun-21 (i.e. during lockdown last year). The decline in Jul-22 was mainly a result of reduced real imports of materials: other basic precious & other non-ferrous metals (contribution: -0.9ppt) and semiconductos (contribution: -0.5ppt). Meanwhile, the current economic economic condition also showed some sign of slowdown as the rise in coincident index (CI) moderated to +12.5%yoy in Jul-22 (Jun-22: +12.6%yoy), the slowest annual increase since Jan-22. In particular, the slower annual increase reflects the sharp monthly decline of -1.6%mom in CI, mainly dragged down by lower capacity utilisation in the manufacturing sector (-0.9ppt) and weaker industrial production (-0.5ppt). Going ahead, we expect the momentum of growth for Malaysia's economy looks positive as indicated by the continued expansion in LI. However, a rather sharp monthly decline in the LI in Jul-22 signals early signs of softer growth prospects.

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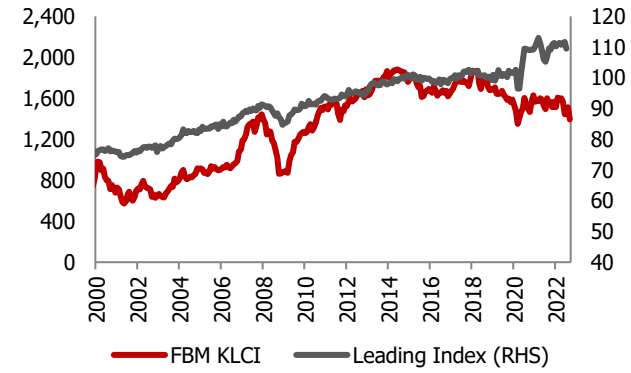
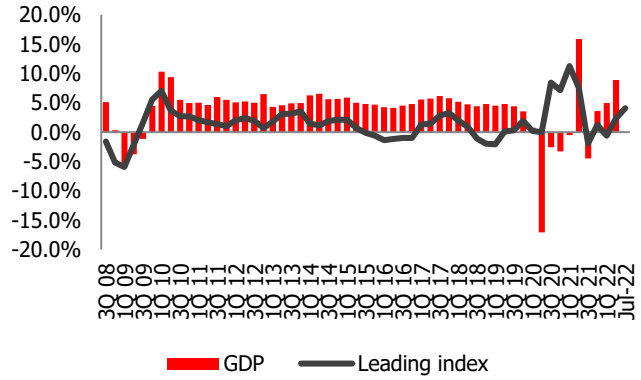
Chart 1: Leading Index vs KLCI (Points)



Source: Macrobond, MIDFR

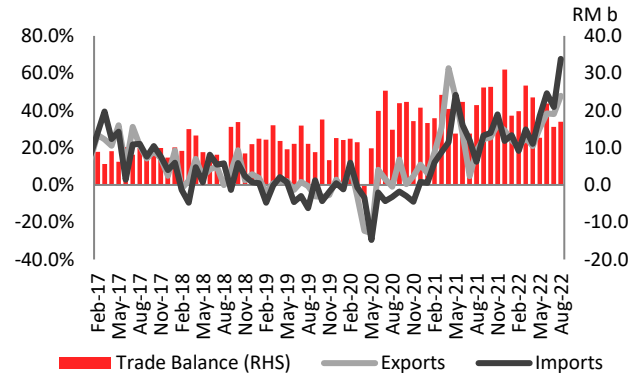
Chart 2: Leading Index vs GDP (YoY%)



Source: Macrobond, MIDFR

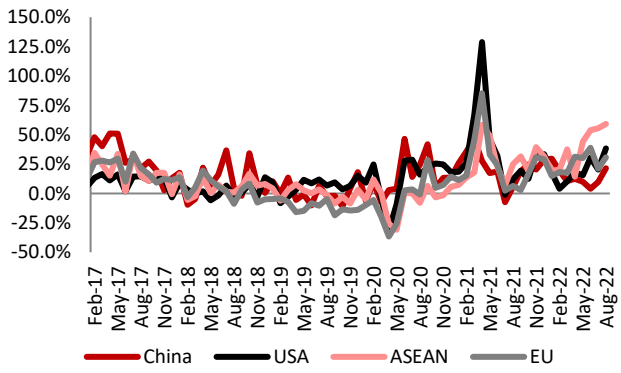
Aug-22 trade performance was better than expected. External trade maintained another month of robust expansion in Aug-22. Malaysia's total trade grew strongly by +56.5%yoy to RM265.7b, as both exports and imports increased from previous month. Exports growth picked up to +47.9%yoy, the strongest increase in 16 months and higher than our and market expectations which was also because of the lower base in Aug-21. The robust growth in Aug-22 also suggests correction in commodity prices and concerns about sluggish recovery in China have yet to affect Malaysia's trade performance. In fact, close to 81% of the exports growth in Aug-22 was attributable to sustained foreign demand for E&E, oil & gas and palm oil products. We noticed the lower base in Aug-21 resulted in +111.2%yoy surge in re-exports, while domestic exports rose by +34.6%yoy which was the fastest expansion since Nov-21. Meanwhile, imports growth even jumped to +67.7%yoy, the fastest monthly growth on record and maintaining double-digit pace from Feb-21, driven by increased demand in the post-Covid recovery as Malaysia transitioned into endemic phase this year.

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



Source: Macrobond, MATRADE, MIDFR

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

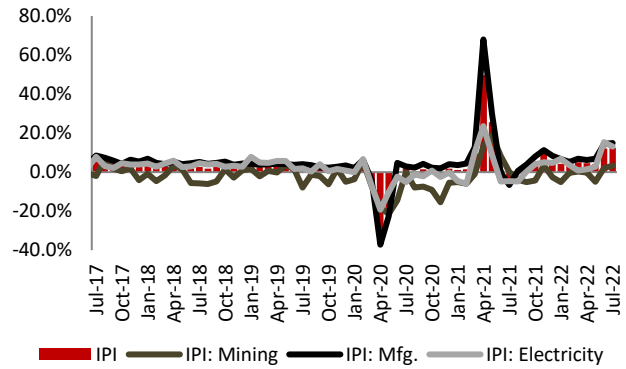


Source: Macrobond, MATRADE, MIDFR

Sustained IPI growth in Jul-22. Malaysia's IPI growth was sustained at +12.5%yoy in Jul-22 (Jun-22: +12.1%yoy), the fastest growth since May-21. Although the growth was not as fast was we predicted, the IPI growth in Jul-22 was supported by the higher growth in manufacturing (+14.9%yoy) and mining (+3.2%yoy) output. Increase in manufacturing IPI was underpinned by higher output of E&E, basic metals, machinery and food products, the stronger mining IPI growth was mainly driven by higher output of natural gas. Electricity

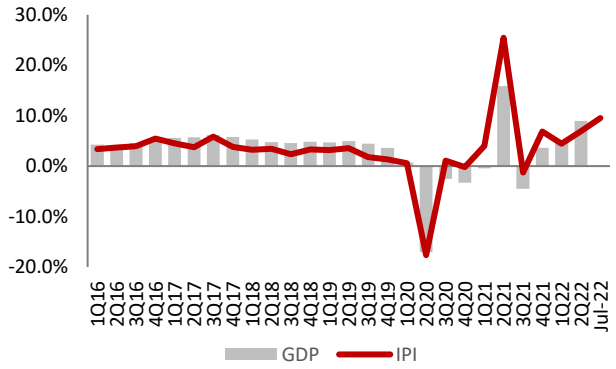
generation, however, moderated to +13.2%yoy, indicating slower rise in energy consumption in Jul-22. Overall, we see sustained IPI growth as indication of growing business and production activities, in line with better prospects particularly for the domestic economy on the back of economic reopening. In addition, the growing production was also backed by sustained growth in external demand, following more robust external trade performance so far this year.

Chart 7: IPI Performances by Sector (YoY%)



Source: Macrobond, MIDFR

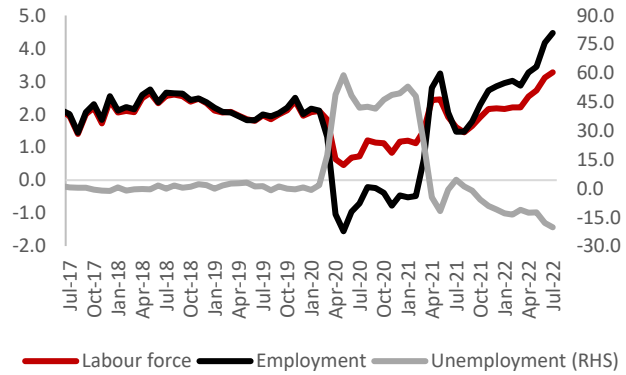
Chart 8: IPI vs GDP (YoY%)



Source: Macrobond, MIDFR

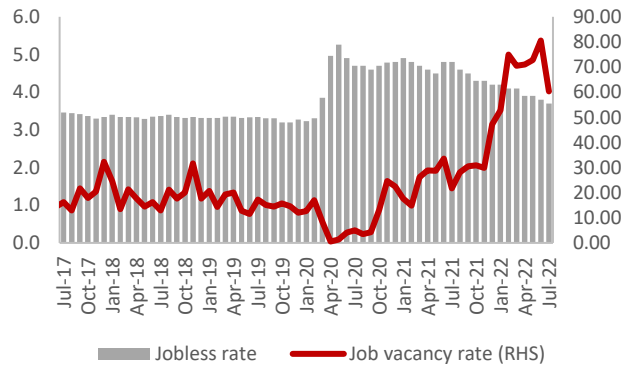
Employment growth remained on robust trend. Recovery of Malaysia's labour market continued as jobless rate descended to a new pandemic low 3.7% in Jul-22. Underpin by robust domestic demand and external trade sector, labour force and employment growth hit new record high +3.3%yoy and +4.5%yoy respectively. Unemployment dropped further by -20.2%yoy, the largest contraction rate ever recorded. In addition, outside labour force reduced by -3.0%yoy, the largest negative rate ever registered. 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 76.0% of total employment grew higher by +2.3%yoy (Jun-22: +2.1%yoy). With this upbeat labour market performances, we are optimistic on stronger consumer spending in 2HCY22 onwards. Plus, receding unemployment rate may lead BNM to consider for further normalisation of OPR in the upcoming MPC meetings.

Chart 9: Labour Market Key Indicators (YoY%)



Source: Macrobond, MIDFR

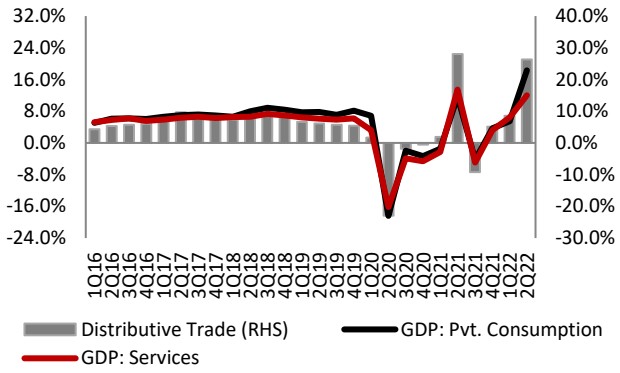
Chart 10: Unemployment rate vs. Job vacancy rate (%)



Source: Macrobond, MIDFR

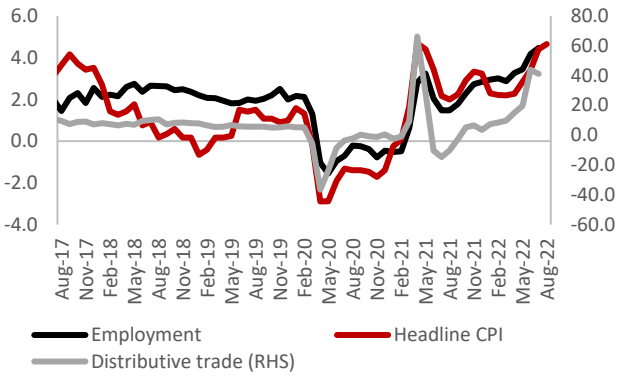
Retail spending remained on upward trajectory. Distributive trade maintained double-digit expansion for 4 consecutive months in Jul-22 (+41.0%yoy). By component, retail spending expanded by +37.5%yoy, wholesale trade up by +20.6%yoy, and motor vehicles sales by +613.8%yoy. The high growth rates were widely expected due to low base effect due to the tight nationwide lockdown in Jul-21. However, domestic spending particularly retail trade remained in strong momentum as sequential month continued to record positive growth, +0.8%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 effects.

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



Source: Macrobond, MIDFR

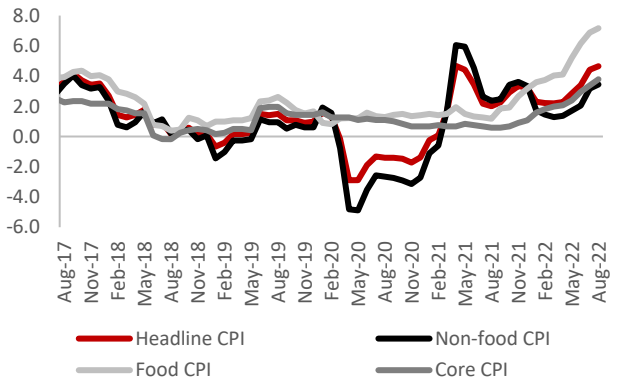
Chart 12: DT vs. CPI vs. Employment (YoY%)



Source: Macrobond, MIDFR

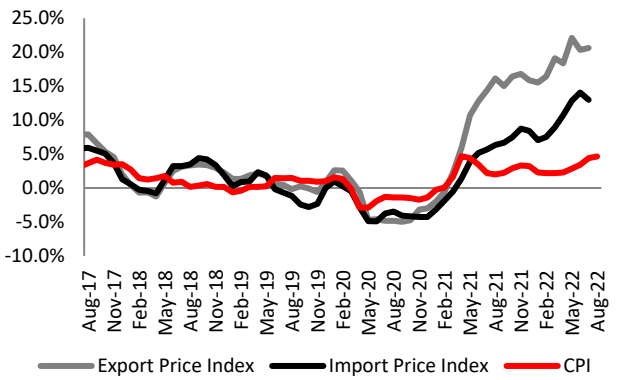
Core inflation reached new peak at +3.8%yoy. As domestic demand continued on strengthening, core CPI inflation touched new high at +3.8%yoy in Aug-22. On month-on-month basis, the core price growth increased further by +0.6%mom. We believe BNM is likely to raise the OPR by another 25bps in the last 2022 MPC meeting in Nov-22. Headline inflation rose further by +4.7%yoy, the highest since Apr-21. Slight uptick in non-food inflation and new record-high food inflation contributed to the +4.7%yoy headline CPI. However, we noticed monthly basis for the three CPI data were already showing signs of moderation. This is line with the slight correction in global commodity prices and easing of supply chain pressures domestically and regionally.

Chart 13: Key CPI Data (YoY%)



Source: Macrobond, MIDFR

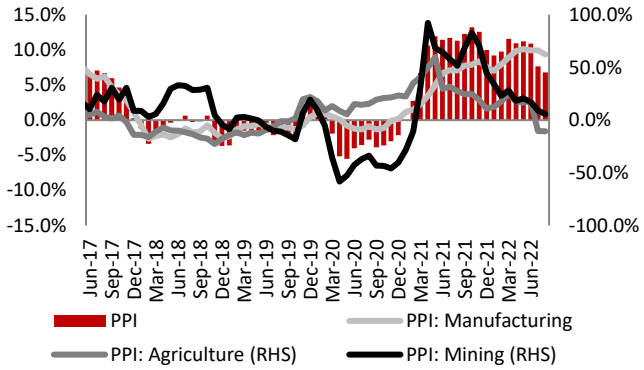
Chart 14: CPI vs. Export and Import Prices (YoY%)



Source: Macrobond, MIDFR

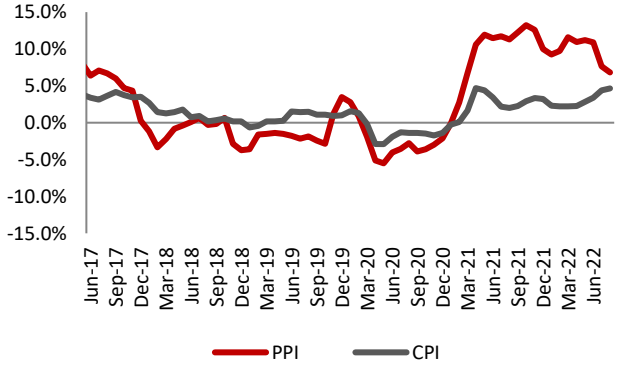
PPI inflation eased to 16-month low. Producer Price Index (PPI) rose by +6.8%yoy in Aug-22 (Jul-22: +7.6%yoy), easing to the slowest increase since Apr-21. The slower PPI inflation was explained by decline in PPI for crude material, contracting for the first time since Jan-21 as a result of reduction in prices of non-food materials. The PPI inflation for intermediate materials also softened to +10.3%yoy, but the sustained double-digit growth signals continued pressures from rising input prices in the manufacturing sector. However, PPI for completed goods accelerated to +2.9%yoy, the highest since the current record started in 2015. By industry, PPI inflation for the mining sector (+5.8%yoy) eased to the slowest pace in 17 months. Meanwhile, easing inflation for raw materials and intermediate goods led to milder PPI inflation for manufacturing sector (Aug-22: +9.4%yoy; Jul-22: +9.9%yoy). Like the mining sector, producer prices in the agriculture forestry & fishing industry even fell by -10.6%yoy, the second month of declines and tracking the lower global commodity prices. However, water supply and electricity & gas supply registered an increase by +3.0%yoy and 0.9%yoy, respectively, which contributed to the positive PPI inflation in Aug-22. Going ahead, we opine price pressures to local producers to ease on the back of improving supply chain activity following the decrease in the Baltic Dry Index and the recent correction in commodity prices. Consequently, CPI inflation outlook will eventually ease as firms may decide to keep selling prices unchanged on the back of reduced PPI inflation and easing cost pressures.

Chart 15: PPI (YoY%)



Source: Macrobond, MIDFR

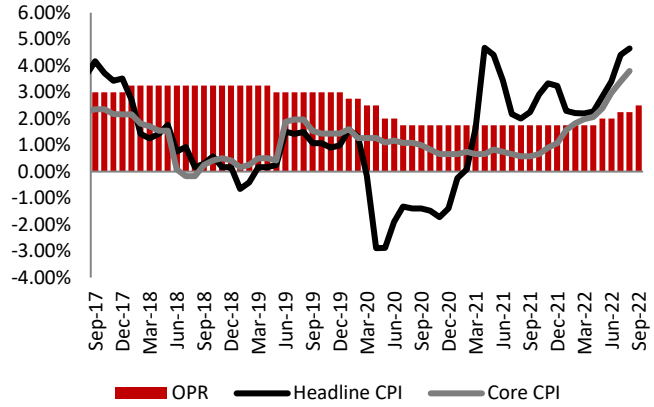
Chart 16: PPI vs CPI (YoY%)



Source: Macrobond, MIDFR

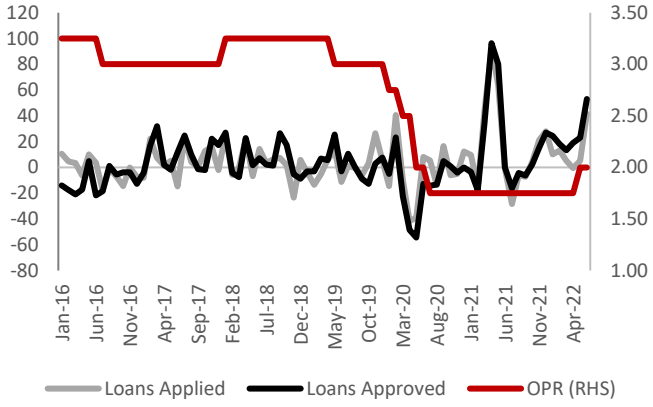
Another 25bps as widely-expected. BNM increased again the Overnight Policy Rate (OPR), from 2.25% to 2.50%, in its fifth Monetary Policy Meeting of 2022, in-line with market expectations. In the Monetary Policy Statement, BNM highlighted that the global economy remain on expansion path despite at a slower pace and improvement in Malaysia's labour market conditions and domestic spending continue to support the recovery in local economic activity. The central bank also highlighted global growth to face challenges from tightening monetary policy in many economies, elevated inflationary pressure and pandemic management measures in China. We view the decision to raise OPR by another +25bps is timely with steady expansion of the domestic economy as reflected in macroeconomic data and core inflation trends.

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



Source: Macrobond, MIDFR

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



Source: Macrobond, MIDFR

GDP to grow at 6.6% in 2022. We maintain our 2022 GDP growth forecast at +6.6%, strengthening from the weak growth last year which was affected by the nationwide lockdown. Recent indicators continued to show improvement, with the continued expansion in LI signals positive growth momentum to continue in the next few months. We expect growth to be further anchored by sustained growth in domestic spending on the back of economic reopening and increased tourist arrivals as a result of the resumption of international travels. Continued growth in domestic spending and business activities will be crucial to cushion the potential impact of external demand slowdown. Nevertheless, the performance of external trade has been better than expected following strong shipments of E&E, petroleum and palm oil products. Despite the optimsim, we are wary of the impact of global inflation and global policy tightening which could hit growth prospects especially going into 2023. To a certain extent, any sharp slowdown in global demand could affect Malaysia's trade and growth outlook. Other downside risks to near-term outlook include increased volality in the global financial markets, weaker growth in major trading partner economies (e.g. USA and China), sustained rise in inflation, and renewed disruptions to global production and trade such as escalation of geopolitical tension, upward cost pressures and prolonged shortage of materials and labour. Despite the external uncertainties, we believe Malaysia will be able to face this global slowdown, thanks to the diversified export products and assuming the softening of global demand will not be as significant as in previous crises; and also if expansion in domestic demand can be maintained.

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	22.4
Imports of Goods (c.i.f)	5.2	(3.5)	(5.8)	23.3	29.5
Trade Balance, RMb	123.8	145.7	183.3	252.4	238.7
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	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, MIDFR

September 2022 Key Economic Events

Sep 1: Malaysia's retail sales at record level, up 63% in 2Q. Malaysian retail sales rose 62.5% in the second quarter of 2022 (2Q22) compared with the same period in 2021, reaching a new record level, according to latest figures released by independent retail research firm Retail Group Malaysia (RGM).

Sep 5: Lagarde's inflation fight at ECB makes Fed's job look simple. Just a quarter-point of interest-rate hikes is all that separates the European Central Bank's (ECB) two key options at this week's decision, and yet few would envy ECB president Christine Lagarde's task.

Sep 8: Malaysia's halal exports rose 19pc to RM36.3b in 2021, says deputy minister. Malaysia's exports of halal products had increased by 19 per cent to RM36.30 billion in 2021 from RM30.50 billion in 2020, said Deputy International Trade and Industry Minister Datuk Lim Ban Hong.

Sep 14: Fed seen getting more aggressive as inflation roars. The Federal Reserve is likely to raise U.S. borrowing costs faster and further than previously expected after data on Tuesday showed underlying inflation broadening out rather than cooling as expected.

Sep 20: PM: Implentation of National Low Carbon Aspiration 2040 plan will expand average GDP growth by RM13 bil annually. The holistic implementation of the National Low Carbon Aspiration 2040 plan is expected to expand gross domestic product growth (GDP) by RM13 billion a year and generate over 207,000 jobs.

Sep 26: Inflation fight can avoid deep pain, Atlanta Fed president says. Atlanta Federal Reserve President Raphael Bostic said on Sunday he still believes the U.S. central bank can tame inflation without substantial job losses given the economy's continued momentum.

Sep 28: Businesses now less optimistic about profit prospects**.** Rising costs have made businesses less confident that they will turn in a profit, according to a RAM-CTOS Business Confidence Index (BCI) survey. The BCI, which measures business confidence, declined to 51.4 in the third quarter of 2022 (3Q22) from a record high of 65.0 in the preceding quarter.

Sep 29: U.S. goods trade deficit shrinks on weak exports; Q3 growth estimates raised. The U.S. trade deficit in goods narrowed for a fifth straight month in August amid a decline in imports, which is being driven by slowing domestic demand as the Federal Reserve aggressively tightens monetary policy to tame inflation.

Sep 2: Malaysia attracted RM123.3 billion approved investments from January to June. Malaysia attracted RM123.3 billion (US$28.0 billion) worth of approved investments in the manufacturing, services and primary sectors involving 1,714 projects from January to June 2022 with 57,771 job opportunities expected to be created.

Sep 8: Labour shortages set up Malaysia for third year of palm oil losses. Malaysian palm oil planters are letting thousands of tonnes of fruits rot as the third year of a worker shortage has left companies unable to increase their harvesting during the peak production season.

Sep 9: U.S. weekly jobless claims fall to three-month low. The number of Americans filing new claims for unemployment benefits fell last week to a three-month low, underscoring the robustness of the labor market even as the Federal Reserve raises interest rates.

Sep 20: Zafrul: Budget 2023 to maintain recovery momentum, prioritise sustainability. Budget 2023 will maintain Malaysia's current economic recovery momentum and build long-term resilience, said Finance Minister Tengku Datuk Seri Zafrul Abdul Aziz on Monday, Sept 19.

Sep 21: Chances of a Soft Landing Receding, Powell Says. It's still possible for the Federal Reserve to avoid a recession as it attempts to cool inflation, but it's becoming less likely, Fed Chairman Jerome Powell said. "The chances of a soft landing are likely to diminish to the extent that policy has to be more restrictive," Mr. Powell told. But the alternative is worse, he added.

Sep 27: Energy, inflation crises risk pushing big economies into recession: OECD. Global economic growth is slowing more than forecast few months ago in the wake of Russia's invasion of Ukraine, as energy and inflation crises risk snowballing into recessions in major economies.

Sep 29: Malaysia's economy on solid and stable footing despite global headwinds — Tengku Zafrul. Malaysia's economy is on solid and stable footing despite global economic headwinds caused by geopolitical tensions and other external events. Finance Minister Tengku Datuk Seri Zafrul Tengku Abdul Aziz said the government will continue to take proactive steps to safeguard the economy.

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