30 December 2022

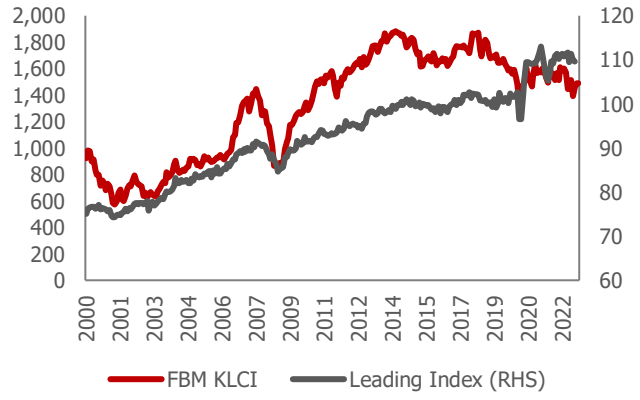
MONTHLY ECONOMIC REVIEW | December 2022

Growth Momentum to Moderate Going into 2023

- *LI still points to moderate growth momentum. Malaysia's leading index (LI) was little changed in Oct-22, only +0.4%yoy higher than a year ago (Sep-22: +0.3%yoy). On month-on-month basis, LI dropped further by -0.3%mom (Sep-22: -1.3%mom).*
- *Exports growth accelerated to +15.6%yoy. External trade performance was more robust, with exports performing better than expected in Nov-22. Exports grew at +15.6%yoy (Oct-22: +14.9%yoy). Exports to major markets strengthened, and the increase in Nov-22 exports was largely driven by higher E&E exports.*
- *IPI growth moderated to +4.6%yoy. IPI growth softened to +4.6%yoy in Oct-22, the slowest growth since May-22 but remained in positives for 14th consecutive month. The softer expansion reflects slower output growth growth in manufacturing and mining sectors and reduced electricity generation.*
- *Malaysia's GDP growth to ease from +8% this year to +4.2% next year. Looking at the trend indicated by LI, we priced in moderation in growth momentum from 4QCY22 onward and we believe the diminishing low base effect will also result in a more normalized growth rate. At this point, we forecast Malaysia's GDP growth to moderate to +4.2% next year after registering a strong growth of +8% this year.*

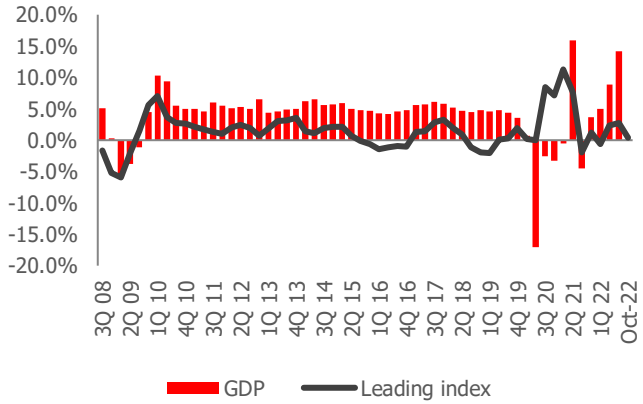
LI still points to moderate growth momentum. Malaysia's leading index (LI) was little changed in Oct-22, only +0.4%yoy higher than a year ago (Sep-22: +0.3%yoy). The increase was attributable to similar factors: new units of housing approved and increased real imports of other basic precious and non-ferrous metals. On month-on-month basis, LI dropped further by -0.3%mom (Sep-22: -1.3%mom) due to reduction in real imports of other basic precious and non-ferrous metals and number of new companies registered. Meanwhile, current economic economic condition moderated in Oct-22 as the coincident index (CI) rose slower at +6.5%yoy (Sep-22: +8.2%yoy). The rate of increase in CI was the slowest in 5 months, but still faster than +5.5%yoy in 1HCY22. From month-to-month prespective, CI fell by -0.6%mom (Sep-22: +0.6%mom) mainly explained by slower industrial output and lower factory utilization. With the change in LI remained subdued compared to previous months, we anticipate Malaysia's economy would experience slower growth momentum heading into 2023.

Chart 1: Leading Index vs KLCI (Points)



Source: Macrobond, MIDFR

Chart 2: Leading Index vs GDP (YoY%)



Source: Macrobond, MIDFR

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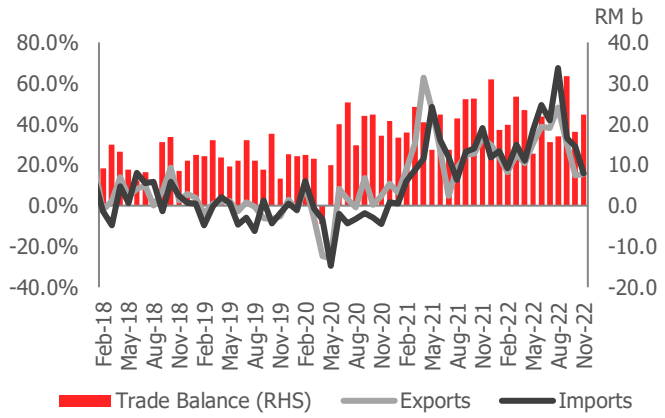
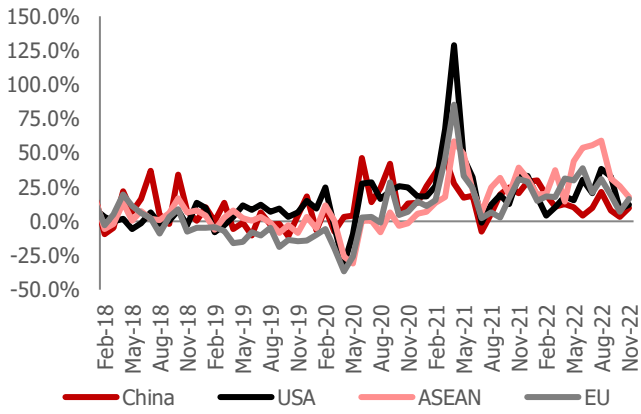
Exports growth accelerated to +15.6%yoy. External trade performance was more robust, with exports performing better than expected in Nov-22. Total trade growth remained in positives (higher than last year) albeit moderated further to +15.7%yoy in Nov-22 with value of trade easing to RM238.2b on the back of sequential declines in both exports (-1%mom) and imports (-4.9%mom). Exports grew at +15.6%yoy (Oct-22: +14.9%yoy), growing at double-digit growth for the 16th consecutive month. Exports to major markets strengthened, and the increase in Nov-22 exports was largely driven by higher E&E exports. With the rise in regional production activity, re-exports also grew faster (Nov-22: +41.8%yoy; Oct-22: +31.6%yoy) amid sustained domestic export growth (Nov-22: +10.5%yoy; Oct-22: +10.7%yoy). Imports growth, on the other hand, moderated to +15.7%yoy (Oct-22: +28.8%yoy), but sustaining double-digit since Aug-21. Imports was driven by purchases for consumption goods, in line with robust domestic spending facilitated by the economic reopening and recovery in labour market and income growth.

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



Source: Macrobond, MATRADE, MIDFR

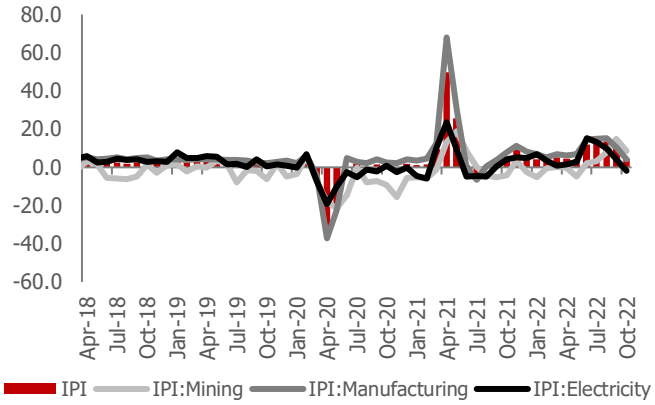
Chart 4: Exports Growth (YoY%) by Major Destination



Source: Macrobond, MATRADE, MIDFR

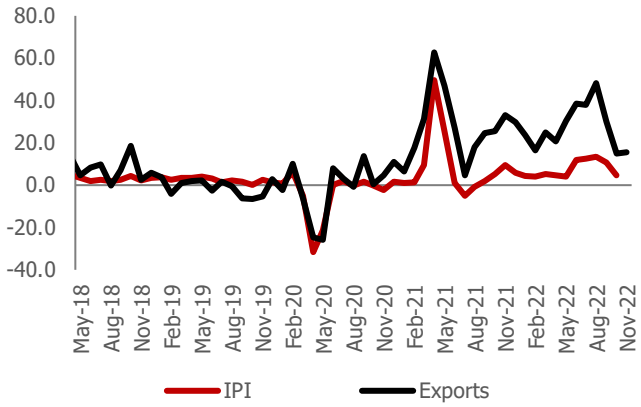
IPI growth moderated to +4.6%yoy. IPI growth softened to +4.6%yoy in Oct-22 (Sep-22: +10.8%yoy), the slowest growth since May-22 but remained in positives for 14th consecutive month. The softer IPI growth in Oct-22 reflects slower rise in production in manufacturing and mining sectors, as well as reduced electricity generation. Manufacturing output growth slowed to +4.2%yoy (Sep-22: +10.4%yoy), but continued to be driven by rising output of refined petroleum, E&E and food products. Meanwhile, higher production of crude oil and LNG contributed to +8.6% growth in mining output (Sep-22: +15%yoy). On the other hand, decrease in electricity output (Oct-22: -1.9%yoy; Sep-22: +4.1%yoy) was underpinned by slower energy demand during the month. We notice that the moderate IPI growth in Oct-22 not only explained by monthly reduction from Sep-22, it was also due to higher base in Oct-21. Overall, continued IPI growth also indicates positive growth momentum following the reopening of the economy this year and businesses increasing their production as economic activities normalize. Going forward, we still anticipate IPI to grow given the backlog of orders and expanding exports. However, anticipation of slowing global demand particularly from advanced economies and below-50 manufacturing PMI reading suggest IPI growth would moderate in coming months.

Chart 5: IPI Performances by Sector (YoY%)



Source: Macrobond, MIDFR

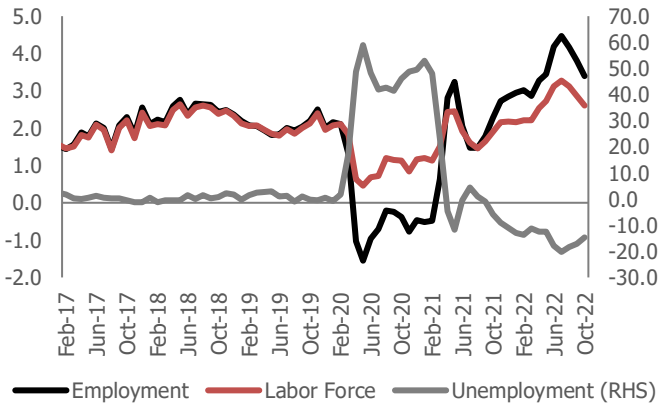
Chart 6: IPI vs Exports (YoY%)



Source: Macrobond, MIDFR

Jobless rate maintained at pandemic low. Recovery of Malaysia's labour market continued as unemployment rate stayed at 3.6% in Oct-22. Unemployment rate for youth aged 15~24 was still at double-digit rate of 12.1%, which is more than two-year low, but remained higher than pre-pandemic (2019: 10.4%). Labour force and employment continued expanding +2.6%yoy and +3.4%yoy, respectively, supported by robust domestic economic growth and still upbeat external front. Unemployment dropped further by -14.6%yoy, marking the 14th consecutive month of contraction. In addition, outside labour force reduced by -1.7%yoy, falling for the 12th straight month. By type, employment growth was driven by employer +9.2%yoy (Sep-22: +9.7%yoy), self-account worker +8.7%yoy (Sep-22: +9.7%yoy) and unpaid family workers +5.5%yoy (Sep-22: +7%yoy). Employee segment which represents 75.9% of total employment grew steadily by +1.9%yoy (Sep-22: +2.2%yoy). However, the job patterns have shown signs of moderation in the economy amid concerns over external outlook dampened by possibly weakening in global demand.

Chart 7: Labour Market Key Indicators (YoY%)



Source: Macrobond, MIDFR

Chart 8: Unemployment Rate (%) vs. Job Vacancies

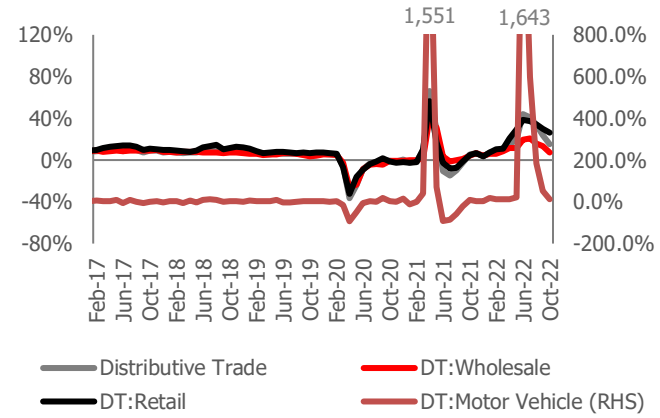


Source: Macrobond, MIDFR

Distributive trade sales growth softened to 6-month low. Distributive trade sales maintained double-digit expansion rate for 5 consecutive months, growing at +15.2%yoy in Oct-22 and albeit the slowest since May-22. By component, retail spending expanded strongly by +26%yoy, wholesale trade up by +7.3%yoy and motor

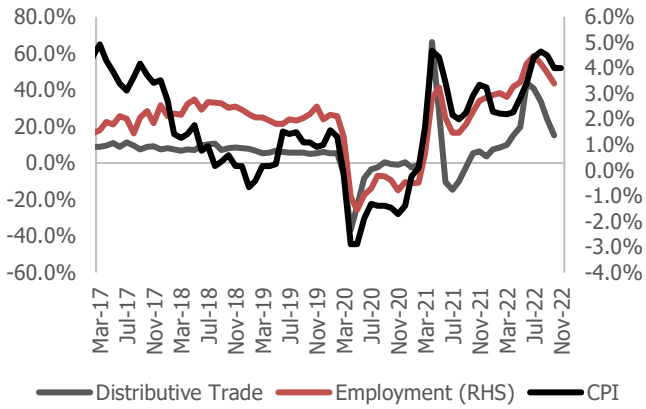
vehicles sales by +11.2%yoy. The moderating growth rates are highly anticipated given the receding low-base effect. On month-on-month basis, only retail sales registered positive growth of +1.1% almost entirely offset the declines in wholesale trade and motor vehicle sales. As a result, the value of distributive trade was little changed at RM133.9b in Oct-22, or only -0.1%mom less than RM134b in Sep-22. Looking ahead, we opine the upbeat momentum of domestic demand to continue in 4QCY22 and 2023 amid steady labour market, softening inflationary pressure and supportive economic policies. The sustained expansion in domestic demand will be the key factor to support growth next year, cushioning the negative impact from external slowdown.

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



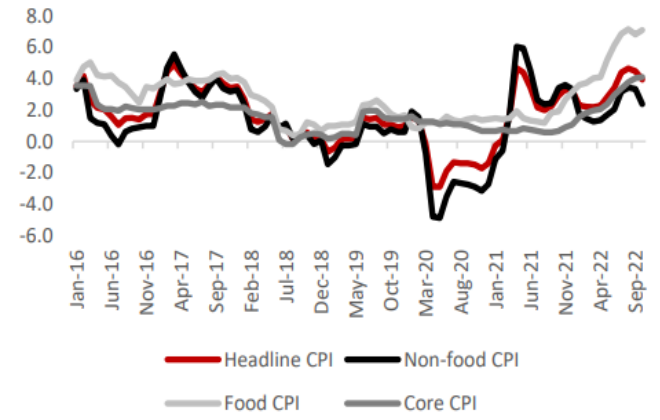
Source: Macrobond, MIDFR

Chart 10: DT vs. CPI vs. Employment (YoY%)



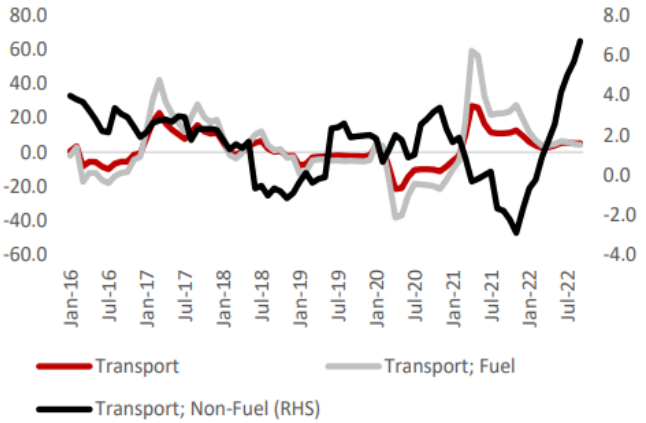
Source: Macrobond, MIDFR

Chart 11: Key CPI Data (YoY%)



Source: Macrobond, MIDFR

Chart 12: Transport CPI; Fuel vs. Non-Fuel (YoY%)

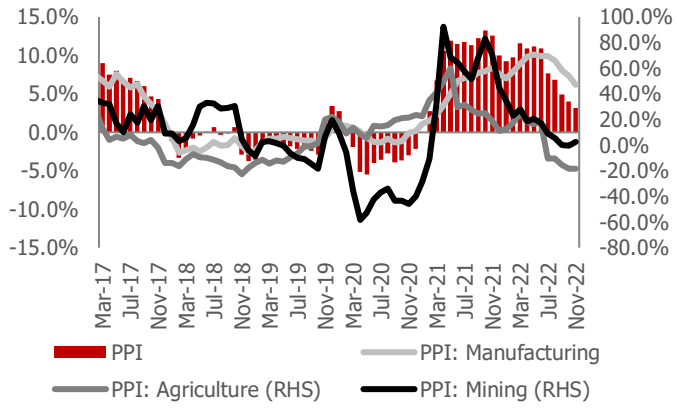


Core inflation surged to a new record high again. Reflecting underlying domestic demand, core inflation rose to a new peak at +4.2%yoy in Nov-22 (Oct-22: +4.1%yoy). Sequentially, core prices rose further by +0.4%mom from previous month. We opine the strong inflation trend in Malaysia is highly driven by robust consumer demand while indicators for cost inflation have eased in recent months. Job market has been on improving trend, with employment growth above +3%yoy for 7-straight months since Apr-22 while imports of consumption goods and distributive trade sales continued to expand by double-digit pace at +21.6%yoy and +15.2%yoy, respectively, in Oct-22. Headline inflation continued on moderating trend from recent peak +4.7%yoy in Aug-22, despite remaining at +4%yoy in Nov-22. Non-food inflation edged up slightly to +2.5%yoy

while food inflation rose a new record high at +7.3%. With this upbeat momentum, we believe BNM is likely to raise the OPR by another +25bps to 3.00% in the first MPC meeting next year in Jan-23.

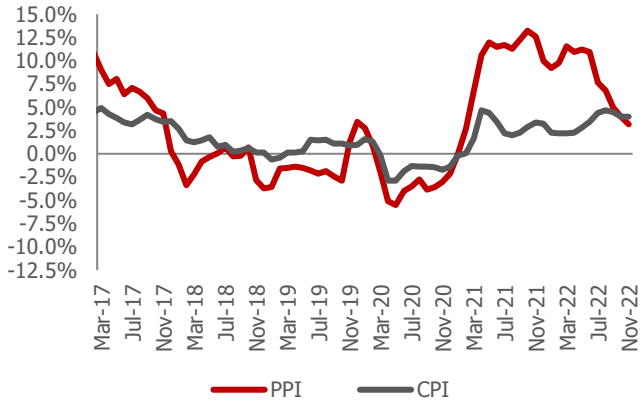
PPI inflation eased further to +3.2%yoy in Nov-22. PPI inflation continued to ease to +3.2%yoy in Nov-22 (Oct-22: +4%yoy), the slowest increase since Feb-21. This also marks the first month in nearly 2 years where PPI inflation was lower than CPI inflation. The slower rise in producer prices was due to continued decline in agriculture PPI (-18.5%yoy) as commodity prices remained below the highs recorded a year ago. Similarly, PPI for crude materials also declined during the month. Nevertheless, the sustained rise in overall PPI reflects increased PPIs for mining (+2.4%yoy), manufacturing (+6.2%yoy) and utility i.e. electricity and gas (+1.4%yoy) sectors. The continued rise in production costs also explained the sustained rise in PPI for intermediate and finished goods. Looking at the easing cost pressures, we maintain our view that there will be reduced need for local businesses to pass on price increases to customers. In other words, we expect reduced supply-driven pressures and improvement in supply condition will ease inflationary pressures on consumer prices going forward.

Chart 13: PPI (YoY%)



Source: Macrobond, MIDFR

Chart 14: PPI vs CPI (YoY%)



Source: Macrobond, MIDFR

Malaysia's GDP growth to ease from +8% this year to +4.2% next year. Growth in the first 3 quarters this year has been remarkable facilitated by the reopening of the economy and the better-than-expected post-pandemic recovery in domestic economic activities. Looking at the recent trend indicated by LI, we priced in moderation in growth momentum from 4QCY22 onward and we believe the diminishing low base effect will also result in a more normalized growth rate. Given the recent concerns, external demand could ease as final demand especially from advanced economies is expected to weaken as a result of the policy tightening carried out to contain inflationary pressures. In addition, risks of elevated inflation, possible recession and heightened geo-political tensions could also dragged down global economy and therefore further weakening outlook for Malaysia's external trade. On the other hand, we anticipate the sustained growth in domestic spending, on the back of growing labour demand, increased employment and easing inflation, will be the key factor to support Malasia's growth next year. At this point, we forecast Malaysia's GDP growth to moderate to +4.2% next year after registering a strong growth of +8% this year.

Table 1: Macroeconomic Past Performances (%)

(YoY%) Unless Stated Otherwise	2019	2020	2021	2022f	2023f
Real GDP	4.3	(5.5)	3.1	8.0	4.2
Govt. Consumption	2.0	5.0	5.3	4.1	2.3
Private Consumption	7.6	(4.2)	1.9	11.5	6.6
Govt. Investment	(10.8)	(21.3)	(10.0)	6.5	3.5
Private Investment	1.5	(12.0)	4.0	7.5	4.1
Exports of goods & services	(1.1)	(8.6)	15.4	12.5	2.8
Imports of goods & services	(2.3)	(7.9)	17.7	17.1	4.2
Net Exports	8.9	(13.7)	(4.1)	(36.0)	(24.3)
Agriculture etc.	1.8	(2.4)	(0.2)	2.0	1.0
Mining & Quarrying	(1.5)	(9.7)	0.3	2.8	1.0
Manufacturing	3.8	(2.7)	9.5	7.3	3.0
Construction	0.0	(19.3)	(5.3)	3.5	4.8
Services	6.1	(5.4)	1.9	10.0	5.3
Exports of Goods (f.o.b)	(0.8)	(1.1)	26.1	27.1	9.2
Imports of Goods (c.i.f)	(3.5)	(5.8)	23.3	32.0	9.5
Trade Balance, RMb	145.7	183.3	257.2	274.2	295.6
Consumer Price Index	0.7	(1.2)	2.5	3.2	2.3
Current Account, % of GDP	3.6	4.4	3.8	3.6	3.2
Fiscal Balance, % of GDP	(3.4)	(7.0)	(6.6)	(6.1)	(5.5)
Federal Government Debt, % of GDP	52.5	62.0	63.4	61.5	60.0
Unemployment rate, %	3.3	4.5	4.5	3.8	3.5
Year-End or Unless Stated Otherwise	**2019**	**2020**	**2021**	**2022f**	**2023f**
Brent Crude Oil (Avg)	64.3	43.3	70.9	102.0	96.0
Crude Palm Oil (Avg)	2,079	2,781	4,437	5,500	3,500
USD/MYR (Avg)	4.14	4.20	4.14	4.38	4.30
USD/MYR (end-year)	4.09	4.02	4.17	4.35	4.23
Overnight Policy Rate (%)	3.00	1.75	1.75	2.75	3.00

Source: Macrobond, DOSM, MIDFR

December 2022 Key Economic Events

Dec 1: China eases virus controls amid effort to head off protests. More Chinese cities eased anti-virus restrictions and police patrolled their streets Thursday as the government tried to defuse public anger over some of the most stringent COVID measures and head off more protests.

Dec 6: Approved foreign workers met only 19% of oil palm plantation sector's requirement in 2022—MPOA. The Malaysian Palm Oil Association (MPOA), which estimated RM20 billion in revenue losses for the oil palm plantation sector following harvester shortages, said the foreign workers approved was only 19% of total required in 2022.

Dec 14: Hit by COVID wave, companies in China strain to keep operations running normally. From e-commerce giant JD.com to cosmetics brand Sephora, companies in China are rushing to minimise the impact of surging COVID infections - doling out test kits, encouraging more work from home and, in some cases, procuring truckloads of medicine.

Dec 15: ECB hikes rates, sees significant increases ahead as it announces plan to shrink balance sheet. The European Central Bank opted for a smaller rate hike at its Thursday meeting, taking its key rate from 1.5% to 2%, but said it would need to raise rates "significantly" further to tame inflation. It also said that from the beginning of March 2023 it would begin to reduce its balance sheet by 15 billion euros ($15.9 billion) a month on average until end-2Q 2023.

Dec 16: First batch of imported eggs arrives, passes all screening. The trial phase supply of chicken egg imports has arrived in Malaysia. The Agriculture and Food Security Ministry said it has brought in eggs from foreign countries to accommodate the lack of supply that the country has been facing for several months.

Dec 20: RM107bil mini budget approved. The Dewan Rakyat has passed the Consolidated Fund (Expenditure on Account) bill 2022 or the '2023 Mini Budget' amounting to RM107,718,676,650. The mini budget was tabled to facilitate provisions for expenditure in 2023 such as salaries of civil servants, given that the 2023 Budget yet to be approved.

Dec 21: Govt approves RM100m immediate assistance to Kelantan, Terengganu. The government has approved an immediate flood allocation of RM100 million to Kelantan and Terengganu. Each state would receive RM50 million to assist people affected by the major flood.

Dec 27: New minimum wage put off for companies with fewer than 5 workers. The government has postponed the implementation of the RM1,500 minimum wage for companies employing less than five workers. Originally set to be implemented on Jan 1, it will now come into effect on July 1, said human resources minister V Sivakumar.

Dec 4: Malaysia can't afford to withdraw from CPTPP, says MCMTC. Malaysia cannot afford to withdraw from the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), as the agreement is crucial for the country's trade, moving forward.

Dec 11: Penang hotels reach 100pc occupancy rate in post-pandemic era. Penang hotels have recorded close to 100 per cent occupancy rate for the first time this year in December, in the post-pandemic era.

Dec 15: Fed's Powell says inflation battle not won, more rate hikes coming. The Federal Reserve will deliver more interest rate hikes next year even as the economy slips towards a possible recession, Fed Chair Jerome Powell said on Wednesday, arguing that a higher cost would be paid if the U.S. central bank does not get a firmer grip on inflation.

Dec 16: Parties sign MoU backing Anwar, unity government. The coalitions in the national unity government (i.e. Pakatan Harapan, Barisan Nasional, Gabungan Parti Sarawak, Gabungan Rakyat Sabah, and Parti Warisan) signed a memorandum of understanding today pledging to support Datuk Seri Anwar Ibrahim's administration in all matters of confidence and supply, effectively guaranteeing its stability.

Dec 19: Motion of confidence on PM Anwar passed via voice vote. The motion of confidence on Prime Minister Datuk Seri Anwar Ibrahim passed via a voice vote today in the Dewan Rakyat. The debate on the motion saw the participation of 12 MPs, including Perikatan Nasional's (PN) new Opposition leader, Datuk Seri Hamzah Zainudin.

Dec 20: MAHB records 5.2 mil domestic passenger movements in November, 60% of pre-pandemic volume. Malaysia Airports Holdings Bhd (MAHB) recorded 5.2 million passenger movements for its 39 airports in the country in November, reaching 60% of what was posted for the same month in 2019, before Covid-19 outbreak in 2020.

Dec 26: China to scrap COVID-19 quarantine for overseas arrivals from Jan 8. China will scrap quarantine measures for overseas arrivals starting Jan 8, health authorities announced Monday (Dec 27), after nearly three years of strict pandemic border restrictions.

Dec 29: Health DG urges M'sians to take booster jabs as China reopens borders. Health DG Dr Noor Hisham Abdullah reminded Malaysians, particularly frontliners and those in high-risk groups, to take a booster of the Covid-19 vaccine in light of China's move to reopen its border on Jan 8, 2023. He said Malaysians should be prepared even though new Covid-19 cases in the country decreased and are still under control.

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