1 December 2022

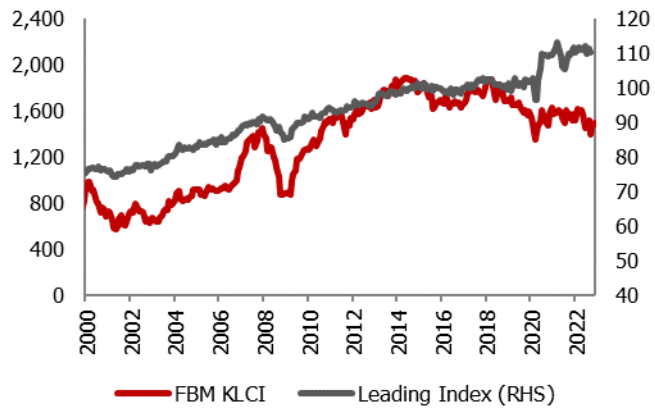
MONTHLY ECONOMIC REVIEW | November 2022

Robust Growth in 2022 But Momentum Likely to Moderate Going into Next Year

- *LI points to slower growth prospects. Malaysia's leading index (LI) rose by only +0.3%yoy in Sep-22 (Aug-22: +4%yoy), marking the weakest annual rise in 5 months. On month-on-month basis, LI dropped by -1.3%mom (Aug-22: +1.8%mom).*
- *Stronger-than-expected GDP growth in 3QCY22. Economic growth in 3QCY22 was stronger than expected as real GDP surged by +14.2%yoy (2QCY22: +8.9%yoy). The robust growth indicates continued pick-up in growth momentum with Covid-19 restrictions had been generally uplifted, international borders reopened, growing domestic spending and stronger expansion in external trade.*
- *Malaysia's economy to grow at +8% this year. Given the stronger-than-expected expansion in 3QCY22, we now forecast Malaysia's economy to grow at +8% with the source of growth mainly coming from recovering domestic demand as Malaysia's economy reopens.*

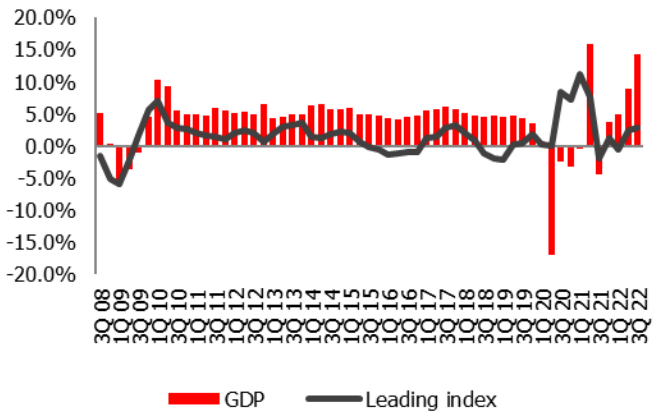
LI points to slower growth prospects. Malaysia's leading index (LI) rose by only +0.3%yoy in Sep-22 (Aug-22: +4%yoy), marking the weakest annual rise in 5 months. The increased continued to be backed by more units of housing approved and higher real imports of other basic precious and non-ferrous metals. On month-on-month basis, LI dropped by -1.3%mom (Aug-22: +1.8%mom) dragged down by reduction in real imports of semiconductors and money stock (M1). In contrast to the fall in LI, current economic economic condition improved in Sep-22 as the coincident index (CI) continued to increase at +8.2%yoy, albeit moderating further from +9.8%yoy rise in previous month. The better CI reflects increased activities in the retail trade sector on the back of continued expansion in consumer spending following the post-pandemic economic reopening. While the weaker LI reading suggests softening growth prospects in the coming months, we already priced in slower growth in 4QCY22 particularly due to signs of slowing external demand as well as fading low-base effect.

Chart 1: Leading Index vs KLCI (Points)



Source: Macrobond, MIDFR

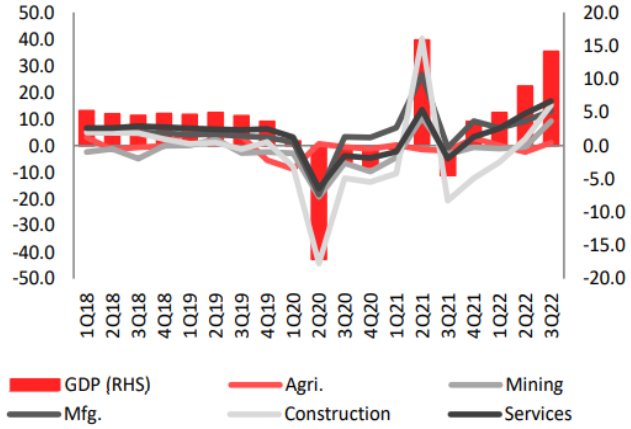
Chart 2: Leading Index vs GDP (YoY%)



Source: Macrobond, MIDFR

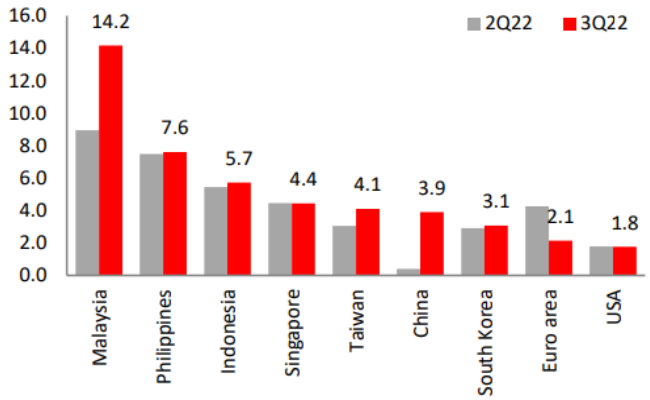
Stronger-than-expected GDP growth in 3QCY22. Economic growth in 3QCY22 was stronger than expected as real GDP surged by +14.2%yoy (2QCY22: +8.9%yoy). The robust growth indicates continued pick-up in growth momentum with Covid-19 restrictions had been generally uplifted, international borders reopened, growing domestic spending and stronger expansion in external trade. Tourism sector activity also started to recover with the return of foreign tourists following international-border reopening and greater domestic tourism activities. Trade surplus recorded at RM22.1b in 3QCY22, the widest in three quarters among others supported by elevated commodity prices. On quarter-to-quarter basis, Malaysia's seasonally adjusted GDP grew by +1.9%qoq (2QCY22: +3.5%qoq), the four straight quarter of expansion since the final quarter last year.

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



Source: Macrobond, MIDFR

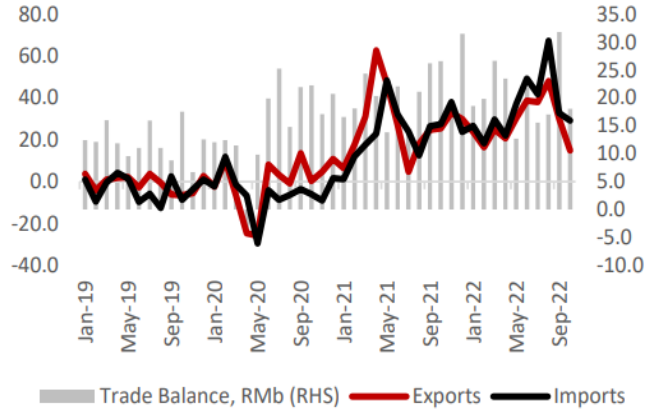
Chart 4: Growth for Selected Countries (YoY%)



Source: Macrobond, MIDFR

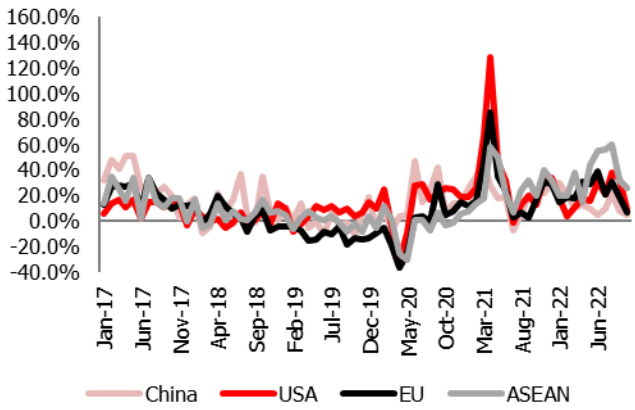
Exports growth remained on double-digit pace. External trade performance was still robust in Oct-22, although from an annual growth perspective the performance was slower than previous months. Growth in total trade was more moderate at +21.1%yoy in Oct-22, slowest pace in eight months. Exports grew further albeit at slower rate of +15%yoy, maintaining double-digit growth for the 15th consecutive month. Although the pace of growth in Oct-22 was lower than market consensus' estimate of +24.7%yoy, the moderation was as we expected given the higher base in Oct-21. On another note, growth in re-exports remained relatively stronger at +31.6%yoy (Sep-22: +46.4%yoy) vis-à-vis domestic export growth which moderated to +10.8%yoy (Sep-22: +25.8%yoy). Import growth also slowed to +29.2%yoy in Sep-22, slightly lower than market consensus' +30.8%yoy. Nevertheless, the continued double-digit import growth since Feb-21 suggests the positive effect from economic reopening and growing domestic economic activities.

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



Source: Macrobond, MATRADE, MIDFR

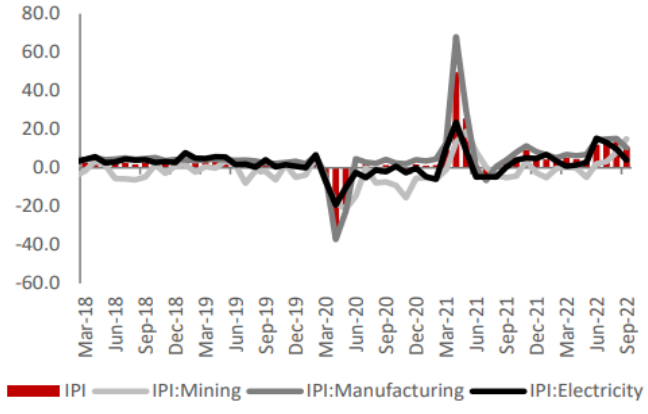
Chart 6: Exports Growth (YoY%) by Major Destination



Source: Macrobond, MATRADE, MIDFR

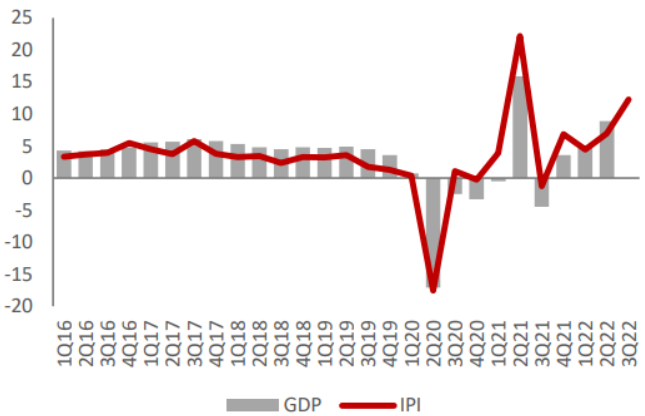
IPI rose +10.8%yoy in Sep-22. Malaysia's IPI growth maintained double-digit expansion for the fourth straight month in Sep-22, albeit at relatively slower pace of +10.8%yoy. Although this is somewhat below our expectation, the growth was slightly higher than +10.3% predicted by market consensus (+10.3%yoy). While the moderation tracks the moderate growth in manufacturing and electricity output, mining output recorded firmer growth (+15%yoy), driven by sustained growth in crude oil production and stronger LNG output. The moderation in IPI growth was more or less expected given the diminishing low base effect. For the first 9 months in 2022, IPI grew by +7.9%yoy (2021: +7.2%), underpinned by sustained growth in manufacturing output (+7.9%yoy) and stronger electricity output (+6.3%yoy). So far, the continued IPI growth reflects the pick-up in business activities following economic reopening and amid growing domestic consumption.

Chart 7: IPI Performances by Sector (YoY%)



Source: Macrobond, MIDFR

Chart 8: IPI vs GDP (YoY%)

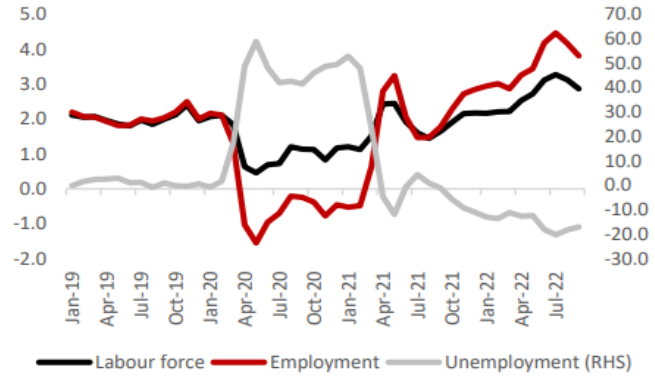


Source: Macrobond, MIDFR

Unemployment rate hit new pandemic low. Labour market condition continued to improve in Sep-22 as jobless rate touched a new pandemic low at 3.6%. Youth aged 15-24 unemployment rate still at double-digit rate of 12.1%, more than two-year low but remained higher than pre-pandemic (2019: 10.4%). Labour force and employment continued expanding +2.9%yoy and +3.8%yoy, respectively, benefiting from robust domestic economic growth and still upbeat external trade performance. Unemployment dropped further by -17.1%yoy,

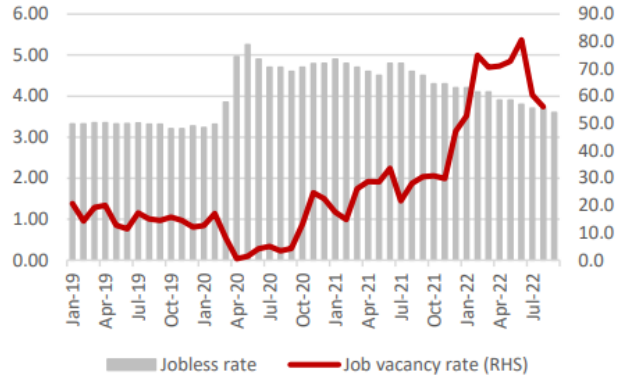
marking 13 consecutive months of contraction. In addition, eligible workers outside labour force reduced by -2.3%yoy, registering the eleventh-straight months of negative growth. By type, employment growth was driven by employer +9.7%yoy (Aug-22: +11.3%yoy), self-account worker +9.7%yoy (Aug-22: +10.5%yoy) and unpaid family workers +7%yoy (Aug-22: +10.9%yoy). Employee segment which represents 75.9% of total employment grew steadily by +2.2%yoy (Aug-22: +2.3%yoy). As for 3QCY22, both labour force and employment growth hit new record high at +3.1%yoy and +4.1%yoy respectively. Unemployment fell the most -18.5%yoy while jobless rate was the lowest since 2QCY20. Overall, improvement in the job market is one of positive developments supportive of growing domestic demand.

Chart 9: Labour Market Key Indicators (YoY%)



Source: Macrobond, MIDFR

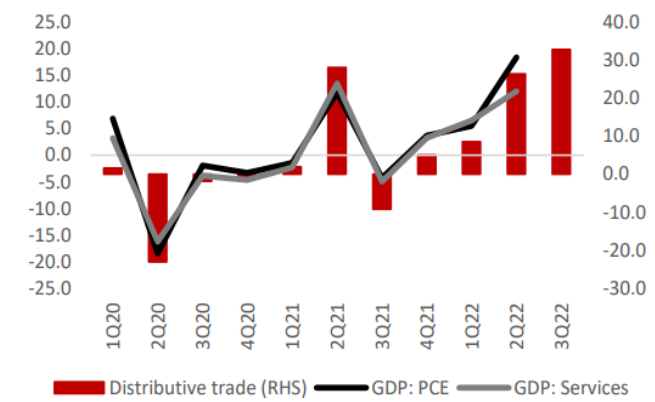
Chart 10: Unemployment rate vs. Job vacancy rate (%)



Source: Macrobond, MIDFR

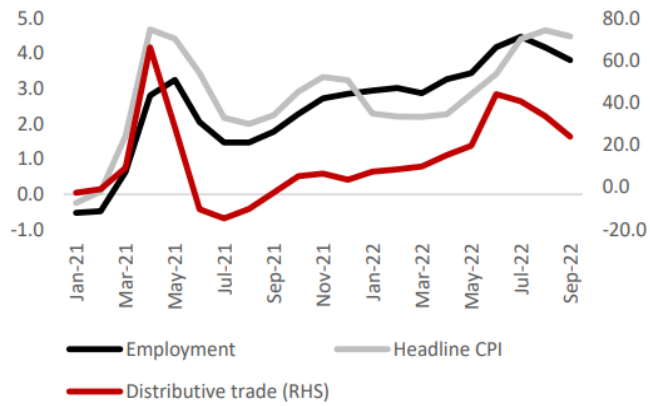
Fastest pace of distributive trade sales growth in 3QCY22. Distributive trade sales continued to expand at double-digit rate for the fifth consecutive month (Sep-22: +23.9%yoy) and translating into +32.7%yoy growth in the 3QCY22. By component, retail spending expanded strongly by +30%yoy, wholesale trade up by +13.3%yoy and motor vehicles sales by +51%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. On 3QCY22 performances, retail trade growth hit new high at +34%yoy while wholesale and motor vehicles at +16.6%yoy and +277.4%yoy respectively. Robust domestic spending among others were driven by stable inflationary pressure, improving labour market and accommodative monetary as well as fiscal policies.

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



Source: Macrobond, MIDFR

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



Source: Macrobond, MIDFR

Headline inflation moderated to 4-month low. Malaysia's headline inflation continued on moderating trend, recording +4%yoy in Oct-22, slightly higher than market consensus +3.9%. Non-food inflation edged lower to +2.4%yoy while food inflation rose to almost record high seen in Aug-22. Apart from cost-push factors, continued strengthening of domestic demand contributed to a new peak point for core inflation rate at +4.1%yoy in Oct-22. On sequential month basis, core prices still recorded growth of +0.1%mom. With this upbeat momentum, we believe BNM is very likely to raise the OPR by another +25bps in the first MPC meeting for next year, in Jan-23.

Chart 13: Key CPI Data (YoY%)

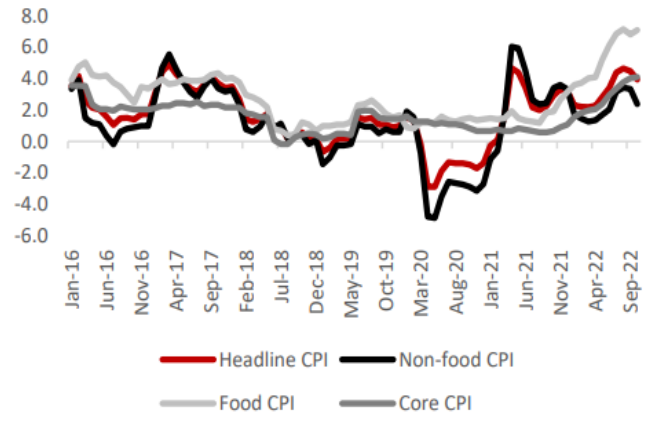
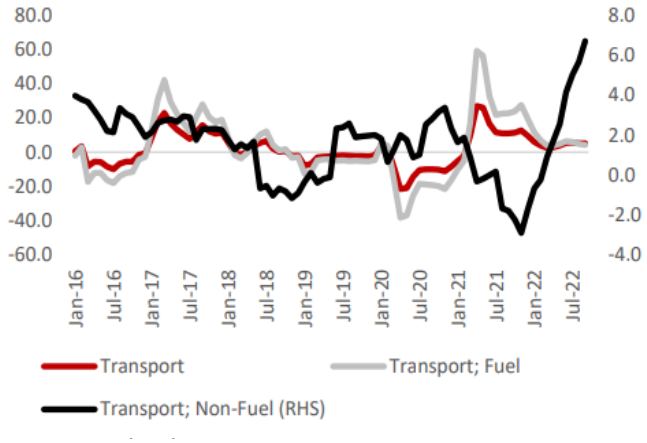


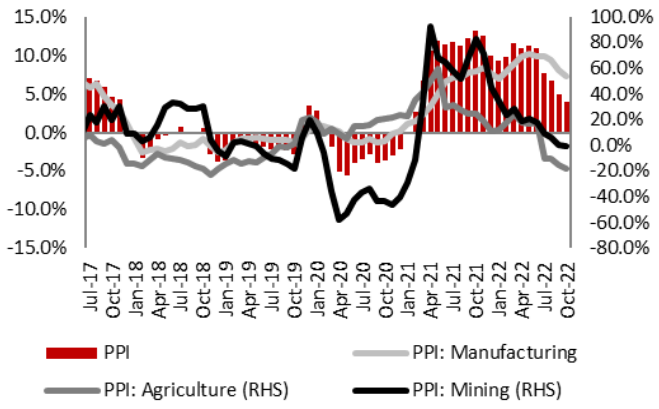
Chart 14: Transport CPI; Fuel vs. Non-Fuel (YoY%)



Source: Macrobond, MIDFR

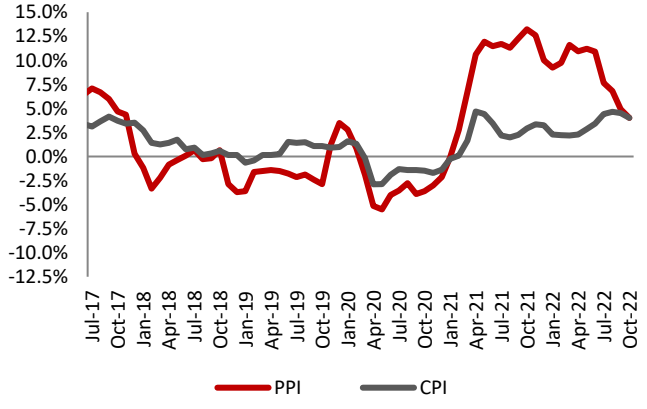
PPI inflation eased further in Oct-22. PPI inflation continued to ease to +4%yoy in Oct-22 (Sep-22: +4.9%yoy), the slowest since Feb-21. PPI for the agriculture (-18.2%yoy) and mining (-0.5%yoy) sectors declined, tracking the commodity price correction to levels lower than October last year. Similarly, prices of crude materials continued to fall during the month. The easing price pressures were also attributable to slower rise in manufacturing PPI (Oct-22: +7.3%; Sep-22: +8.1%yoy), in line with the slower inflation in intermediate goods. However, PPI for the utility sector accelerated further to +4.9%yoy. We maintain our view that supply-drive prices pressures on local producers have been easing, reducing the need to continue passing on price pressures on end-consumers. In other words, we expect reduced cost pressures will help to bring down consumer prices in the coming months.

Chart 15: PPI (YoY%)



Source: Macrobond, MIDFR

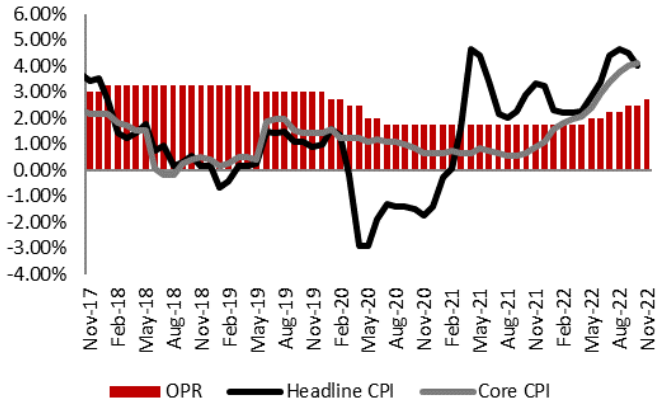
Chart 16: PPI vs CPI (YoY%)



Source: Macrobond, MIDFR

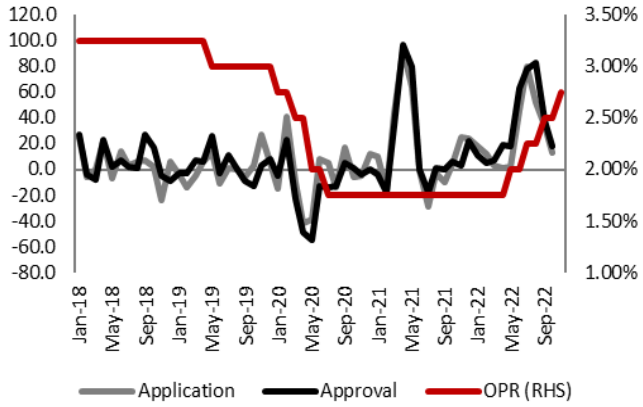
Another 25bps rate hike. BNM raised the Overnight Policy Rate (OPR), from 2.50% to 2.75%, in its final Monetary Policy Meeting in 2022, similar to our expectation. In the Monetary Policy Statement, BNM highlighted that the global economy continues to be pressured by cost inflation, tighter global financial conditions, and strict containment measures in China. Many countries to continue embarking contractionary monetary policy as to manage inflationary pressure particularly driven by strong demand and tight labour market. The central bank also highlighted global growth to face challenges from tightening monetary policy in many economies, elevated inflationary pressure in developed markets and domestic challenges in China. We view the decision to raise OPR by another +25bps is timely, taking the advantage of the stronger-than-expected macroeconomic performances. According to BNM, robust domestic demand continues to fuel growth in 3QCY22. Meanwhile, rising core inflation also shows rising demand pressures on general prices. This supports further withdrawal of monetary policy accommodativeness on the back of sustained growth momentum.

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



Source: Macrobond, MIDFR

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



Source: Macrobond, MIDFR

Malaysia's economy to grow by +8% this year. Given the stronger-than-expected expansion in 3QCY22, we now forecast Malaysia's economy to grow at +8% with the source of growth mainly coming from recovering domestic demand as Malaysia's economy reopens. While the surge in 3Q was also boosted by the low base last year because of the nationwide lockdown, we anticipate growth to moderate from 4QCY22 onwards towards a more normalized growth with the diminishing low base effect. We believe growth will continue to be driven by increasing activiites in the domestic economy, which will partially cushion the slowdown risk from the uncertain external developments. We maintain our view that several downside risks could affect the strength of national economic growth going into next year. The risks include weaker external demand, given the expected demand slowdown in the US and European countries as well as weak growth in China; rising credit costs and high inflation risk; elevated commodity prices, and prolonged supply constraints. As an open economy, Malaysia's economy will also be affected by external uncertainties and possibly weaker global production activity, but we still expect national economic growth will remain in positives underpinned by sustained growth in domestic economy.

Table 1: Macroeconomic Past Performances (%)

(YoY%) Unless Stated Otherwise	2018	2019	2020	2021	2022f
Real GDP	4.7	4.3	(5.5)	3.1	8.0
Govt. Consumption	3.2	2.0	5.0	5.3	4.1
Private Consumption	7.9	7.6	(4.2)	1.9	11.5
Govt. Investment	(5.0)	(10.8)	(21.3)	(10.0)	6.5
Private Investment	4.4	1.5	(12.0)	4.0	7.5
Exports of goods & services	2.2	(1.1)	(8.6)	15.4	12.5
Imports of goods & services	1.3	(2.3)	(7.9)	17.7	17.1
Net Exports	14.6	8.9	(13.7)	(4.1)	(36.0)
Agriculture etc.	0.2	1.8	(2.4)	(0.2)	2.0
Mining & Quarrying	(2.6)	(1.5)	(9.7)	0.3	2.8
Manufacturing	5.0	3.8	(2.7)	9.5	7.3
Construction	4.3	0.0	(19.3)	(5.3)	3.5
Services	6.8	6.1	(5.4)	1.9	10.0
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)	(6.0)
Federal Government Debt, % of GDP	51.2	52.5	62.0	63.4	61.5
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	4.40
Overnight Policy Rate (%)	3.25	3.00	1.75	1.75	2.75

Source: Macrobond, DOSM, MIDFR

November 2022 Key Economic Events

Nov 3: Fed jacks up interest rates again, hints at smaller increases ahead. The Federal Reserve raised interest rates by three-quarters of a percentage point again on Wednesday and said its battle against inflation will require borrowing costs to rise further, yet signaled it may be nearing an inflection point in what has become the swiftest tightening of U.S. monetary policy in 40 years.

Nov 3: Domestic banks adjust lending rates following BNM's OPR hike. Domestic banks are increasing their rates following the 25 basis points (bps) hike in the Overnight Policy Rate (OPR) announced earlier today by Bank Negara Malaysia (BNM).

Nov 6: Up to EC to call off polls in event of major floods, says Ismail Sabri. It is up to the Election Commission (EC) to decide whether to stop the 15th general election (GE15) process if the country is hit by massive floods, said Prime Minister Datuk Seri Ismail Sabri Yaakob.

Nov 11: U.S. inflation eased to 7.7% in October, raising hopes that high prices have begun to slow down. Consumer price increases eased to 7.7% in October, a sign that the persistent inflation that has plagued the U.S. economy is showing glimmers of cooling off, even as it remains near four-decade highs. The new data compare with a reading of 8.2% in September.

Nov 14: Democrats defy 'red wave' to keep Senate control. Democrats held onto control of the U.S. Senate, handing a major victory to President Joe Biden and extinguishing hopes of the "red wave" that Republicans had expected leading into the midterm elections.

Nov 15: Biden, Xi chart path to warmer ties with Blinken China visit. Joe Biden and Xi Jinping agreed to a series of goodwill gestures intended to improve ties between their countries after the first in-person meeting between the leaders of the US and China since the pandemic began.

Nov 16: Petronas confirms fire incident at Sabah-Sarawak gas pipeline. Petroliam Nasional Bhd (Petronas) has confirmed that a fire incident took place at the Sabah-Sarawak Gas Pipeline (SSGP) near Lawas on Wednesday (Nov 16).

Nov 20: Hung Parliament in GE15, as both Pakatan and Perikatan in race to form govt. Malaysia wakes up today to a hung Parliament even after the 15th general election (GE15) that saw encouraging voter turnout, with both Pakatan Harapan (PH) and Perikatan Nasional (PN) claiming to possess the numbers to form a federal government.

Nov 22: Muhyiddin: Agong proposed Perikatan-Pakatan unity government, but we disagreed. Perikatan Nasional (PN) chairman Tan Sri Muhyiddin Yassin said today that he rejected Yang di-Pertuan Agong's proposal for a unity government between his coalition and Pakatan Harapan (PH). Muhyiddin said PN has always agreed to not work with PH, and said he was disappointed that his claim of having the support of 115 MPs was dismissed.

Nov 24: Anwar sworn in as 10th prime minister of Malaysia. Datuk Seri Anwar Ibrahim has taken his oath of office as the 10th prime minister of Malaysia before the Yang di-Pertuan Agong at Istana Negara on Thursday (Nov 24) afternoon. The ceremony, which involved the conferment of the instrument of appointment and taking the oath of office and allegiance, as well as the oath of secrecy as the prime minister, was held at 5pm.

Nov 24: Anwar proposes vote of confidence to be tabled in Parliament on Dec 19; unity govt comprises PH, BN, GPS. A Dewan Rakyat session will be held on Dec 19 to table, among others, a motion of confidence in the prime minister besides the swearing-in ceremony of all members of Parliament.

Nov 28: Give priority to capable, competent civil servants for key posts, says Cuepacs. The Congress of Unions of Employees in the Public and Civil Services (Cuepacs) hopes that the government will give priority to civil servants who are capable and competent to fill key positions in the public service.

Nov 30: Egg supply still short. The supply shortage of eggs continues to plague consumers in markets across the country. The situation has burdened consumers, with some retailers imposing limitations on the sale of chicken eggs, in addition to charging high prices.

Nov 30: Fed Chair Powell says smaller interest rate hikes could start in December. Federal Reserve Chairman Jerome Powell confirmed Wednesday that smaller interest rate increases are likely ahead even as he sees progress in the fight against inflation as largely inadequate. Powell said he sees the central bank in position to reduce the size of rate hikes as soon as next month.

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad 197501002077 (23878-X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD 197501002077 (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein This document may not be reproduced, distributed or published in any form or for any purpose.