02 February 2023

# MONTHLY ECONOMIC REVIEW | January 2023

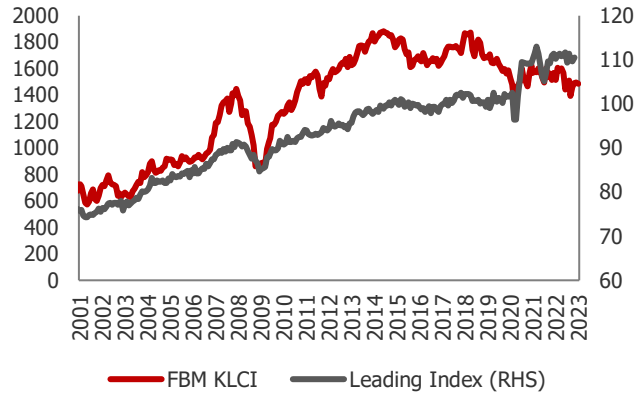
## Growth Momentum to Ease but Domestic Demand will Support Growth this Year

- *LI fell but CI improved in Nov-22. Malaysia's leading index (LI) declined by -0.4%yoy in Nov-22 (Oct-22: +0.4%yoy), the first annual contraction after 6 straight months of growth. On month-on-month basis, LI rebounded +0.8%mom after 2 months of contraction.*
- *External trade moderated to single-digit in Dec-22. Malaysia's external trade continued to grow albeit moderating to single-digit growth in Dec-22. Total trade grew by +8.6%yoy in Dec-22, more normalized growth and the first single-digit growth since Jan-21. Exports growth also moderated to +6%yoy (Nov-22: +15.1%yoy), the slowest expansion since Jul-21. There was a drag from weaker shipments to China and palm oil exports.*
- *IPI growth strengthened to +4.8%yoy in Nov-22. IPI growth strengthened marginally and stabilized at +4.8%yoy in Nov-22 (Oct-22: +4.6%yoy), supported by stronger manufacturing output (+4.8%yoy; Oct-22: +4.2%yoy) and rebound in electricity generation (+1.2%yoy; Oct-22: -1%yoy).*
- *Malaysia's GDP to grow at +4.2% this year. We maintain our projection that Malaysia's GDP growth will ease to +4.2% this year after robust +8% growth estimated last year. We reckon domestic demand will be the major driver of growth, in contrast to sustained expansion but expected moderation in external trade in view of slower global growth.*

**LI fell but CI improved in Nov-22.** Malaysia's leading index (LI) declined by -0.4%yoy in Nov-22 (Oct-22: +0.4%yoy), the first annual contraction after 6 straight months of growth. The fall was due to reduction in real money supply (M1), Bursa Malaysia industrial index, housing units approved, expected value of manufacturing sales, and new registration of companies. On month-on-month basis, LI rebounded +0.8%mom after 2 months of contraction. The monthly improvement reflects more optimistic view on manufacturing sales outlook and increases in real imports of other basic precious and non-ferrous metals, company registration and real imports of semiconductors. While LI shows some stabilization on monthly trend, current index (CI) also improved, rising +0.1%mom, or +5.5%yoy above Nov-21. The monthly rise in CI was driven by increased industrial production and higher real salaries & wages in manufacturing sector. To a certain extent, monthly increases in manufacturing employment and real EPF contribution also contributed to the improved current economic condition. We maintain our anticipation that growth momentum would ease moving into 2023 as indicated by the decline in LI, but there is sign of stabilization given the monthly rise in both LI and CI. In particular, we noticed companies bought less intermediate goods as demand outlook is expected to soften. Nevertheless, increases in production and employment suggest domestic activities continued to grow, despite concerns over slowing outlook.

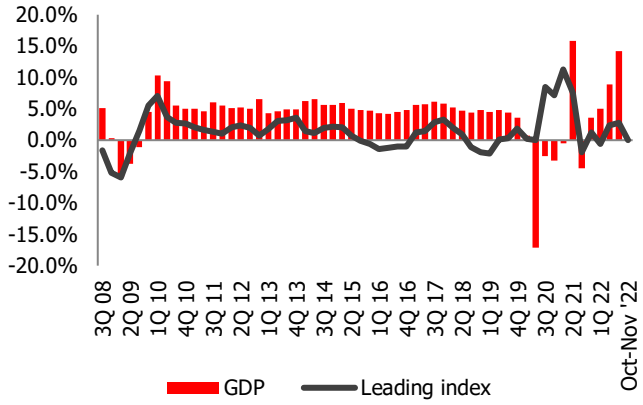
KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES

**Chart 1: Leading Index vs KLCI (Points)**




Source: Macrobond, MIDFR

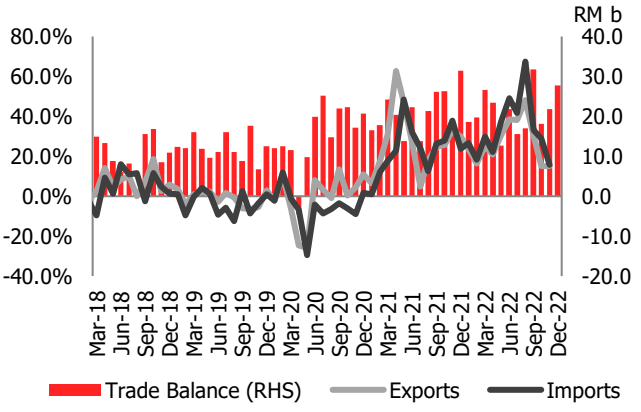
**Chart 2: Leading Index vs GDP (YoY%)**




Source: Macrobond, MIDFR

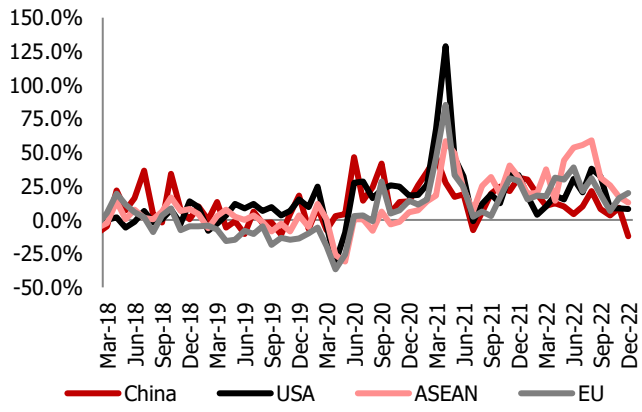
**External trade moderated to single-digit in Dec-22.** Malaysia's external trade continued to grow albeit moderating to single-digit growth in Dec-22. Total trade grew by +8.6%yoy in Dec-22, more normalized growth and the first single-digit growth since Jan-21. Exports growth also moderated to +6%yoy (Nov-22: +15.1%yoy), the slowest expansion since Jul-21. There was a drag from weaker shipments to China and palm oil exports. The continued growth in overall exports, however, was driven mainly by increased E&E exports. Although re-exports maintained double-digit growth (Dec-22: +25.5%yoy; Nov-22: +41.9%yoy), weaker growth in domestic exports at +2%yoy (Nov-22: +9.8%yoy) was mainly due to higher base effect. Imports also grew at more moderate pace, slowing to +12%yoy (Nov-22: +15.7%yoy), the slowest expansion in 23 months. In line with continued expansion in domestic spending, we noticed import growth continued to surpass exports growth since Sep-21 and even throughout 2022. This suggests the post-pandemic recovery in domestic economic activities continues to support strong imports. Trade balance improved to RM27.8b in Dec-22 (Nov-22: RM21.8b) as exports rose +1.7%mom and imports fell by -3.5%mom from previous month.

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




Source: Macrobond, MATRADE, MIDFR

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

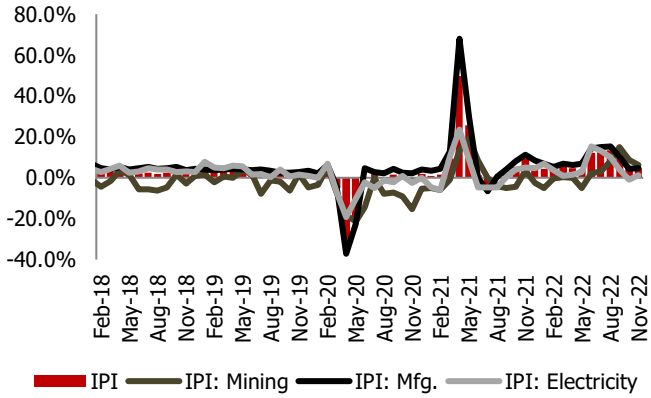



Source: Macrobond, MATRADE, MIDFR

**IPI growth strengthened to +4.8%yoy in Nov-22.** IPI growth strengthened marginally and stabilized at +4.8%yoy in Nov-22 (Oct-22: +4.6%yoy). It was the 15th straight month of expansion since recovering from the nationwide lockdown in 2021. IPI growth in Nov-22 was supported by stronger manufacturing output (+4.8%yoy;

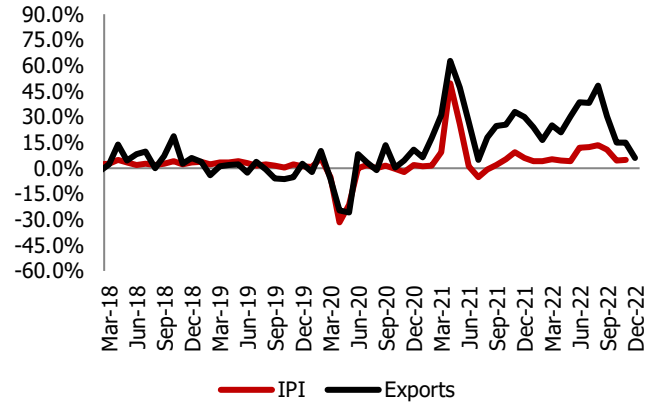
Oct-22: +4.2%yoy) and rebound in electricity generation (+1.2%yoy; Oct-22: -1%yoy). Higher production of E&E products, motor vehicles, machinery & equipment, and food products contributed to the stronger manufacturing IPI. Mining output also grew during the month with increased output of crude petroleum and natural gas, but the pace of growth in mining IPI moderated to +6.1%yoy due to higher base. The better-than-expected IPI growth in Nov-22 closely tracked the sustainable exports which also strengthened on stronger external demand from major countries like China, US and Europe, particularly driven by higher exports of E&E products. The sustained IPI growth also reflects the positive effect on business activity from economic reopening as well as improvement in supply conditions.

**Chart 5: IPI Performances by Sector (YoY%)**




Source: Macrobond, MIDFR

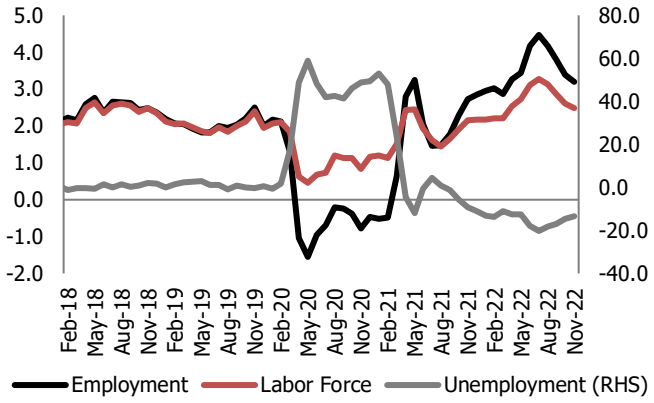
**Chart 6: IPI vs Exports (YoY%)**




Source: Macrobond, MIDFR

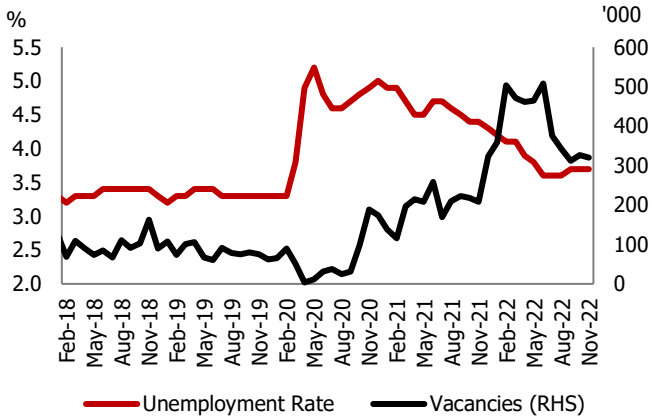
**Jobless rate stayed at pandemic low.** Recovery of Malaysia's labour market continued as unemployment rate maintained at 3.6% in Nov-22. Youth aged 15~24 unemployment rate still at double-digit rate of 11.9%, more than two-year low but remained higher than pre-pandemic (2019: 10.4%). Labour force and employment continued expanding +2.5%yoy and +3.2%yoy, respectively, supported by robust domestic economic growth and still upbeat external front. Unemployment dropped further by -13.5%yoy, marking the 15th-consecutive months of contraction rate. In addition, outside labour force reduced by -1.5%yoy, registering the 13th-straight months of negative growth rate. By type, employment growth was driven by employer +8.8%yoy (Oct-22: +9.2%yoy), self-account worker +8.4%yoy (Oct-22: +8.7%yoy) and unpaid family workers +5.5%yoy (Oct-22: +5.5%yoy). Employee segment which represents 75.9% of total employment grew steadily by +1.8%yoy (Oct-22: +1.9%yoy). However, the job growth and labour demand patterns have shown signs of moderation in the economy amid weakening external outlook.

**Chart 7: Labour Market Key Indicators (YoY%)**




Source: Macrobond, MIDFR

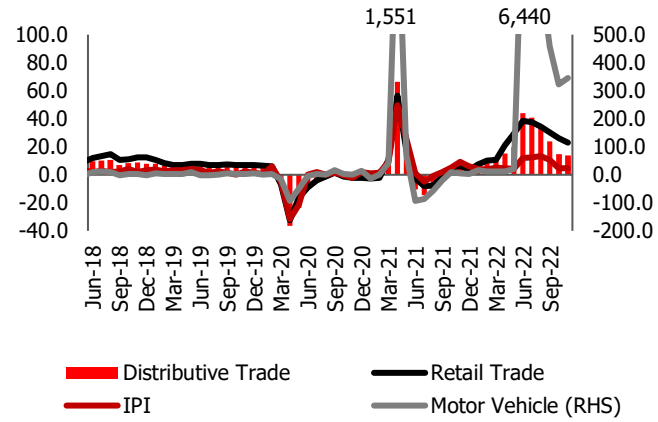
**Chart 8: Unemployment Rate (%) vs. Job Vacancies**




Source: Macrobond, MIDFR

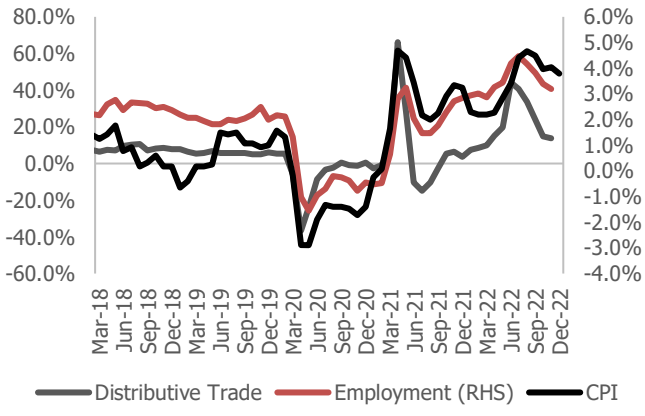
**Distributive trade sales growth softened to 8-month low.** Distributive trade sales growth continued on double-digit expansion rate for 6-consecutive months, albeit moderating slightly to +13.9%yoy in Nov-22 (Oct-22: +14.9%yoy). By component, retail spending expanded strongly by +22.9%yoy, wholesale trade up by +5.6%yoy and motor vehicles sales by +17.2%yoy. The moderating growth rates is highly expected due to receding low-base effects. In addition, GE15 spending could be another boost to the continuous robust expenditure during the month. On month-on-month basis, only retail sales registered positive growth of +0.7%. Looking ahead, we opine the upbeat momentum of domestic demand to continue in 2023 amid steady labour market, softening inflationary pressure and supportive economic policies.

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




Source: Macrobond, MIDFR

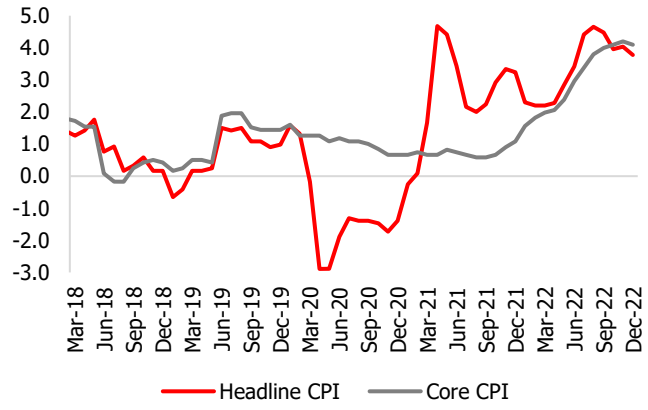
**Chart 10: DT vs. CPI vs. Employment (YoY%)**




Source: Macrobond, MIDFR

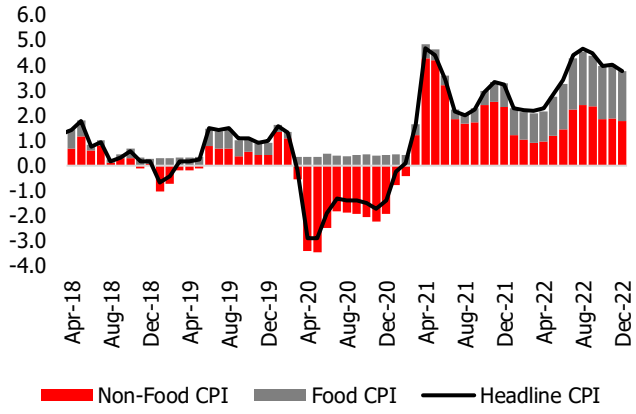
**Headline inflation moderated to 6-month low.** Headline CPI inflation moderated to +3.8%yoy in Dec-22, the lowest since Jul-22 and in line with market estimates. Both non-food and food inflation rates softened to +2.3%yoy (6-month low) and +6.8%yoy (3-month low), respectively. As for 2022, headline inflation averaged at +3.3% (2021: +2.5%) while non-food at +2.2% (2021: +2.8%) and food at +5.7% (2021: +1.8%). However, as domestic demand continue to firm up, core inflation remained sticky lingering above +4%yoy in Dec-22 for the fourth straight months. Core inflation hit +3% in 2022, the highest ever recorded.

**Chart 13: Headline vs. Core CPI (YoY%)**




Source: Macrobond, MIDFR

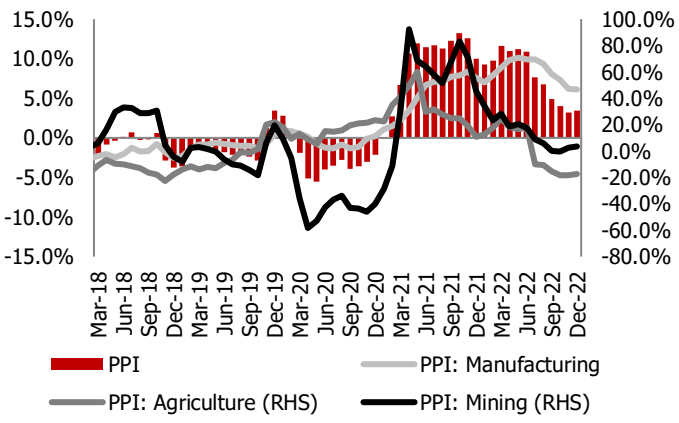
**Chart 14: Food vs Non-Food CPI (YoY%)**




Source: Macrobond, MIDFR

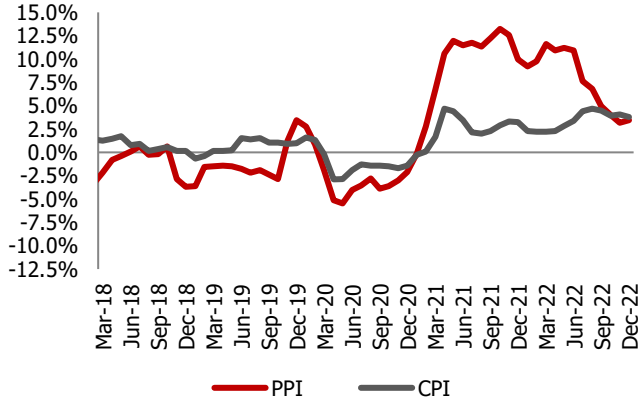
**PPI inflation quickened to +3.5%yoy in Dec-22.** Producer price inflation registered at +3.5%yoy in Dec-22, slightly higher than 21-month low recorded in the previous month, +3.2%yoy. On month-on-month basis, the input inflation fell by -0.3%. The moderating price pressures on producers were mainly due to persistent contraction of crude materials cost and moderation of intermediate materials cost. Crude materials inflation stayed on contractionary trend since Aug-22 while cost growth of intermediate materials moderated to 19-month low at +7.2%yoy in the final month of 2022. As for 2022, overall PPI inflation recorded at +7.8%, lower than peak point +9.5% in 2021. By component, crude materials inflation softened at +6.7% (2021: +31.9%) while cost growth of intermediate materials and finished goods surged to new high at +11% and +1.9% in 2022, respectively. As cost pressures eased and PPI inflation remaining below CPI inflation, we anticipate consumer price growth will also ease in coming months. In other words, we expect there will be reduced pass-through effect on general inflation as supply condition improves.

**Chart 13: PPI (YoY%)**




Source: Macrobond, MIDFR

**Chart 14: PPI vs CPI (YoY%)**

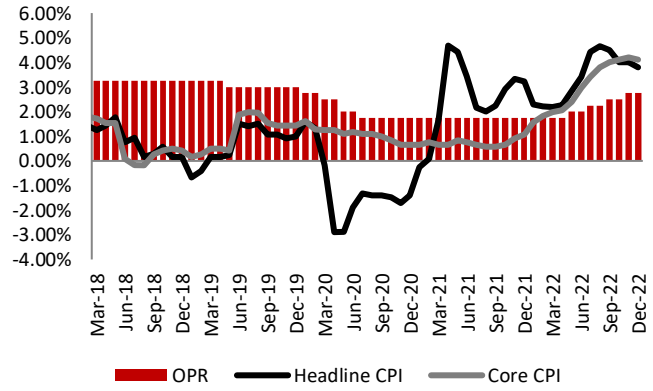



Source: Macrobond, MIDFR

**BNM keeps OPR unchanged against market consensus.** BNM unexpectedly maintained the Overnight Policy Rate (OPR) at 2.75% at the first Monetary Policy Meeting of 2023. BNM pointed that economic data still indicating sound expansionary trend in 4QCY22 particularly driven by resilient domestic demand. The central bank foresee

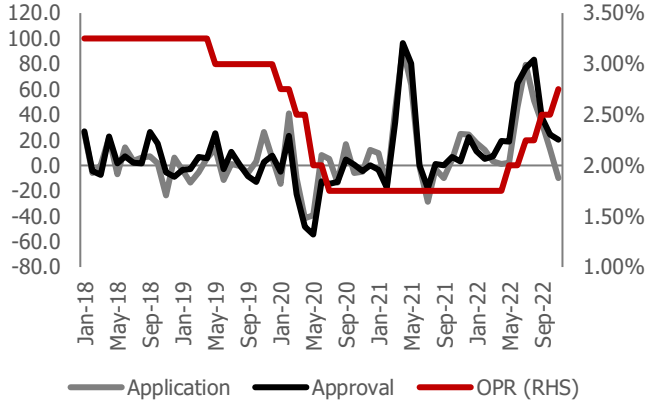
2022 GDP growth to exceed +7% while 2023 growth is predicted to moderate amid slower global demand. Household spending continue to be supported by improving labour market conditions and steady income growth. BNM also highlighted investment prospects to be supported by the realisation of multi-year and infra projects and further pick-up in tourism-related activities. On the price developments, BNM viewed headline inflation has reached its peak in 3QCY22. BNM foresee headline and core inflation to moderate but remain at elevated levels amid demand and cost pressures. We opine that BNM is taking a wait-and-see approach to assess the impacts of +100bps increases made last year. However, we believe the possibility for further normalisation of monetary policy back to 3.00% remains on the cards given still upbeat domestic economic and elevated core inflation.

**Chart 15: OPR (%) vs Inflation (YoY%)**




Source: Macrobond, MIDFR

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




Source: Macrobond, MIDFR

**Malaysia's GDP to grow at +4.2% this year.** We maintain our projection that Malaysia's GDP growth will ease to +4.2% this year after robust +8% growth estimated last year. We reckon domestic demand will be the major driver of growth, in contrast to expected moderation in external trade as open economy like Malaysia will be affected by weaker global growth. On another note, we opine reduced temperature in the domestic politics will boost confidence and therefore positive to the economy. In addition, reopening of China's economy and higher tourist arrivals will also support domestic trade and tourism industry. While our projection assumes Malaysia will be able to sustain positive economic growth this year, among downside risks which could derail 2023 growth outlook include prolonged elevated inflation, sharper-than-expected slowdown in global demand, and heightened geo-political and trade tensions.

**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 | 25.0 | 9.2 |
| Imports of Goods (c.i.f) | (3.5) | (5.8) | 23.3 | 31.3 | 9.5 |
| Trade Balance, RMb | 145.7 | 183.3 | 257.2 | 253.7 | 295.6 |
| Consumer Price Index | 0.7 | (1.2) | 2.5 | 3.3 | 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** | **2022** | **2023f** |
| Brent Crude Oil (Avg) | 64.3 | 43.3 | 70.9 | 99.0 | 96.0 |
| Crude Palm Oil (Avg) | 2,079 | 2,781 | 4,437 | 5,094 | 3,500 |
| USD/MYR (Avg) | 4.14 | 4.20 | 4.14 | 4.40 | 4.20 |
| USD/MYR (end-year) | 4.09 | 4.02 | 4.17 | 4.40 | 4.00 |
| Overnight Policy Rate (%) | 3.00 | 1.75 | 1.75 | 2.75 | 3.00 |

Source: Macrobond, DOSM, MIDFR

## January 2023 Key Economic Events

**Jan 5: Management of foreign workers realigned, recruitment period reduced.** The management of foreign workers between the Home Ministry (KDN) and Human Resources Ministry (KSM) has been realigned in an effort to reduce the period of foreign worker recruitment to fewer than 30 days.

**Jan 8: China reopens borders in final farewell to zero-COVID.** Travellers streamed into China by air, land and sea on Sunday, many eager for long-awaited reunions, as Beijing opened borders that have been all but shut since the start of the COVID-19 pandemic.

**Jan 11: PM discusses plans to upgrade infrastructure, facilities for hawkers in KL.** Proposals to develop and upgrade infrastructure and facilities for hawkers in Kuala Lumpur were among the issues discussed during Prime Minister Datuk Seri Anwar Ibrahim's meeting with the Kuala Lumpur City Hall (DBKL).

**Jan 19: Bank Negara surprises market, maintains OPR at 2.75%.** Bank Negara's Monetary Policy Committee (MPC) surprised the market by maintaining the overnight policy rate (OPR) at 2.75%. The OPR was last raised by 25 basis points to 2.75% in November. All but one of 27 economists in a Reuters poll forecast Bank Negara to hike its OPR to 3.00%.

**Jan 20: Anwar announces RM1 billion to upgrade Sarawak, Sabah border infrastructure.** The Ministry of Finance has given preliminary approval for an additional RM1 billion for the commencement of work to upgrade infrastructure and increase capability of the Customs, Immigration, Quarantine and Security (CIQS) Complex at Sarawak and Sabah borders.

**Jan 26: U.S. GDP rose 2.9% in the fourth quarter, more than expected even as recession fears loom.** U.S. economy finished 2022 in solid shape even as questions persist whether growth will turn negative in the year ahead. Fourth-quarter gross domestic product for October-to-December period, rose at annualized 2.9%.

**Jan 30: Key US inflation gauge cools further, paving way for smaller Fed rate hike.** The Federal Reserve's preferred inflation measures eased in December to the slowest annual paces in over a year while consumer spending fell, helping pave the way for policymakers to further scale back the pace of interest-rate hikes. The PCE core price index, excluding food and energy, rose 4.4% from a year earlier.

**Jan 31: IMF Eyes 'Turning Point' for World Economy as Growth Bottoms.** The IMF sees a "turning point" for the global economy as it raised its growth outlook for the first time in a year, with resilient US spending and China's reopening buttressing demand. Gross domestic product will likely expand 2.9% in 2023, 0.2 percentage point more than forecast in October.

**Jan 5: Fed wants 'flexibility' on rates as inflation remains key focus, minutes show.** All Fed officials at Dec. 13-14 policy meeting agreed the U.S. central bank should slow the pace of its aggressive interest rate increases, allowing them to continue increasing the cost of credit to control inflation but in a gradual way meant to limit the risks to economic growth.

**Jan 9: Price control, chicken subsidies to continue until targeted mechanism is finalized.** The National Action Council on Cost of Living (Naccol) has proposed that the price control policy and chicken subsidies be continued until the policy relating to the targeted mechanism is finalised.

**Jan 18: Putrajaya may lift chicken, eggs ceiling prices once supply is fully restored — Salahuddin.** The government is committed to eventually lift the current ceiling prices on chicken and eggs upon full restoration of supply, according to Minister of Domestic Trade and Cost of Living Datuk Seri Salahuddin Ayub.

**Jan 19: PM launches Malaysia MADANI slogan.** Prime Minister Datuk Seri Anwar Ibrahim today launched the new "Malaysia MADANI" slogan, aimed at leading the country forward. MADANI is the Malay acronym for SCRIPT, which stands for sustainability, care and compassion, respect, innovation, prosperity, and trust.

**Jan 25: Food and beverage price increases main causes of inflation.** Increases in prices of food and drinks prepared in restaurants and hotels are main contributors to inflation, said Economy Minister Rafizi Ramli. He said the public could help to keep prices under control by becoming more "price aware". He said inflation rate had eased but not reflective of charges paid by consumers, especially prepared food in restaurants.

**Jan 28: China vows to boost consumption to power economic recovery.** China's State Council said the nation needs to accelerate a recovery in consumption, and make it the main driving force of the economy, as the world's second-largest economy emerges from three years of stringent Covid-19 controls.

**Jan 30: Sarawak set to export hydropower to Singapore.** Sarawak may export hydropower to Singapore via submarine cables linking Kuching and the island republic. The proposed project has been actively pursued after Singapore expressed its keen interest to buy hydropower energy from Sarawak.

**Jan 31: DOSM: Malaysia can withstand global economic challenges after strong trade performance.** Malaysia can withstand global economic challenges, evidenced by its improved labour market and continuous external demand, coupled with other positive key indicators, said the Department of Statistics Malaysia (DOSM).

**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.