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1 March 2023

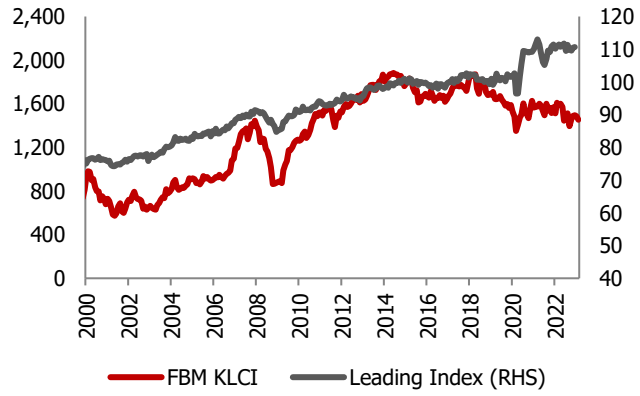
MONTHLY ECONOMIC REVIEW | February 2023

Near-term Outlook to Weaken as LI Declined in Dec-22

- *LI fell again in Dec-22. Malaysia's leading index (LI) declined for the second month, falling by -0.6%yoy in Dec-22 (Nov-22: -0.4%yoy), pointing to weakening growth momentum. Compared to Nov-22, LI rose +0.2%mom for the second month to 4-month high.*
- *GDP growth moderated to +7%yoy in 4QCY22. Economic growth moderated in 4QCY22 as GDP grew slower at +7%yoy (3QCY22: +14.2%yoy). From quarter-to-quarter perspective, Malaysia's seasonally adjusted GDP contracted by -2.6%qoq (3QCY22: +1.9%qoq).*
- *We maintain our forecast for Malaysia's GDP to grow at +4.2% this year. We continue to expect Malaysia's economic growth will moderate to +4.2% this (2022: 8.7%). Continued expansion in domestic demand will be crucial to support growth this year while we factor in weaker growth in external trade on the back of slowing global economic growth.*

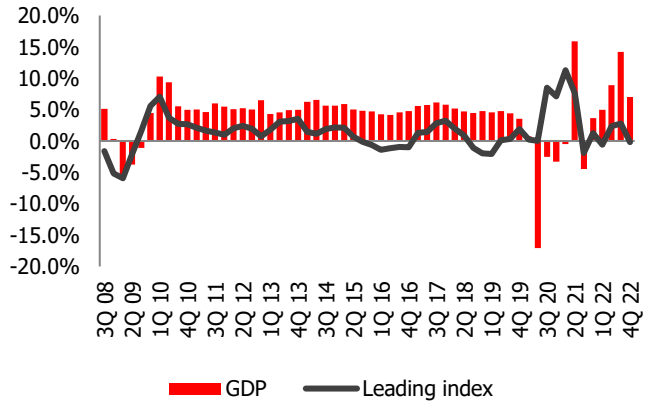
LI fell again in Dec-22. Malaysia's leading index (LI) declined for the second month, falling by -0.6%yoy in Dec-22 (Nov-22: -0.4%yoy), pointing to weakening growth momentum. The contraction was due to decreases in number of housing units approved, new company registration, Bursa Malaysia industrial index, and expected value of manufacturing sales. Compared to Nov-22, LI rose +0.2%mom for the second month to 4-month high. Coincident index (CI) also fell -0.2%mom Nov-22 but still higher than a year ago (+5.1%yoy). The month-on-month decline in CI was mainly due to lower industrial production and retail trade volume, more than offset the improvement in manufacturing employment and real salaries & wages for the manufacturing sector. The trend in CI is more or less in line with GDP data as CI increased at slower pace +5.7%yoy in 4QCY22 (3QCY22: +10.2%yoy). Nevertheless, the weaker LI and softer growth momentum supports our projection that growth will moderate in 2023 after the better-than-expected surge last year.

Chart 1: Leading Index vs KLCI (Points)



Source: Macrobond, MIDFR

Chart 2: Leading Index vs GDP (YoY%)



Source: Macrobond, MIDFR

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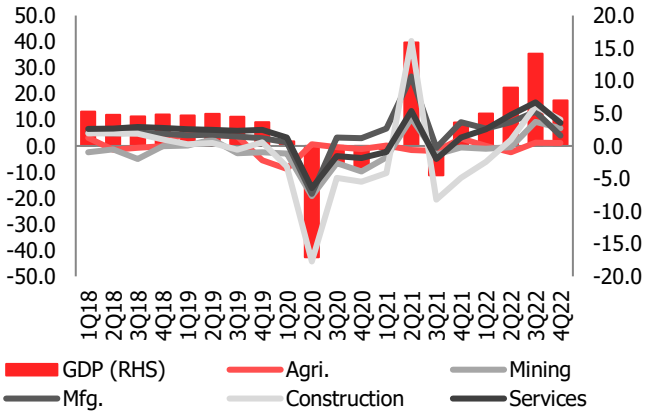
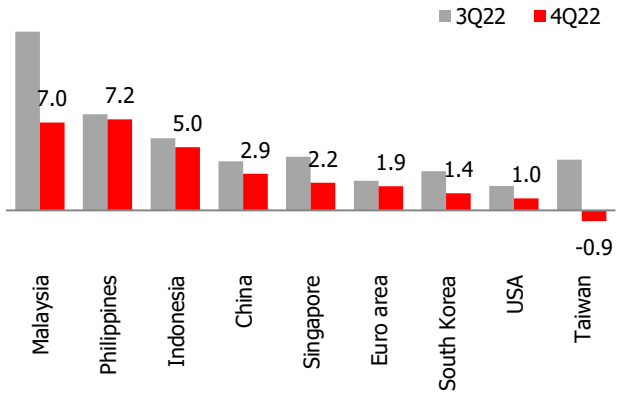
GDP growth moderated to +7%yoy in 4QCY22. Economic growth moderated in 4QCY22 as GDP grew slower at +7%yoy (3QCY22: +14.2%yoy). Private consumption growth remained positive albeit moderated to +5.8%yoy, contributing approximately 62% or +4.3ppt to the 4QCY22 GDP growth. This shows domestic spending continued to grow despite the elevated inflationary pressure but backed by continued improvement in labour market as unemployment rate to dropped to pandemic low of 3.6%. On the external front, real exports growth eased to +9.6%yoy but continued to grow following robust demand for E&E and refined petroleum. In particular, services exports sustained strong double-digit growth of +81.4%yoy (3QCY22: +77%yoy), gaining from the continued recovery in tourism sector with the increased number of foreign tourists' arrivals. On the supply side, business activities in the services sector increased steadily by +8.9%yoy and +4.7%qoq in the final quarter of 2022. Demand for services expanded among others contributed by pick-up in accommodation, retail trade, insurance, government services and transport & storage. From quarter-to-quarter perspective, Malaysia's seasonally adjusted GDP contracted by -2.6%qoq (3QCY22: +1.9%qoq), dragged down by reduced spending by both in private and public sectors; and, from supply side, lower production in most major economic sectors except agriculture.

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



Source: Macrobond, MIDFR

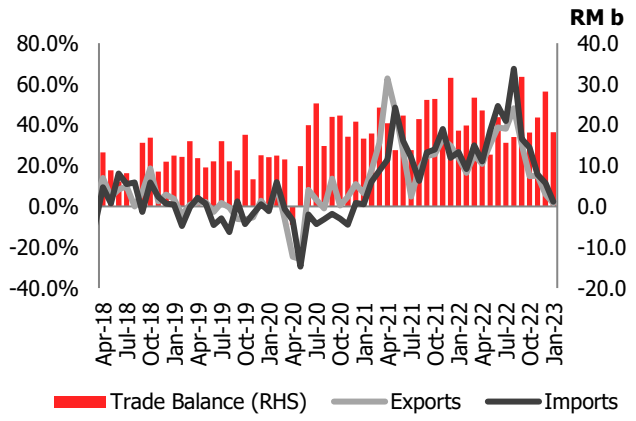
Chart 4: Growth for Selected Countries (YoY%)



Source: Macrobond, MIDFR

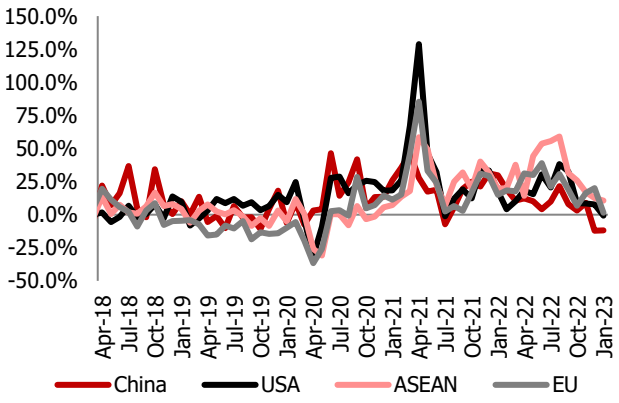
Total trade slowed to w low. Malaysia's total trade stood at RM207.5b in Jan-23, slower than RM235.4b in Dec-22 as both exports and imports fell by -14.4%mom and -8.6%mom, respectively. Although the value of total trade was the lowest since 11 months, it has been sustained above RM200b Mar-22. Given the sharper drop in exports, trade surplus shrank to RM18.2b (Dec-22: RM28.1b), only a 3-month low. From year-on-year perspective, export growth moderated to +1.6%yoy in Jan-22 (Dec-22: +5.9%yoy), the slowest since Nov-20. Thanks to stronger re-exports (+33.5%yoy) which offset the fall in domestic exports (-5.4%yoy), overall export growth remained in positives. In particular, exports of petroleum products, LNG and even crude petroleum increased during the month, in contrast to slow growth in E&E exports and continued decline in exports of palm oil & palm oil products. Imports growth also moderated sharply to +2.3%yoy (Dec-22: +11.5%yoy), the slowest annual growth in 2 years and marks the end of 23 straight months of double-digit growth. By type of goods, imports for intermediate, capital and consumption goods all declined compared to Jan-22. Again, thanks to re-exports, total imports also managed to maintain positive growth since Dec-20.

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



Source: Macrobond, MATRADE, MIDFR

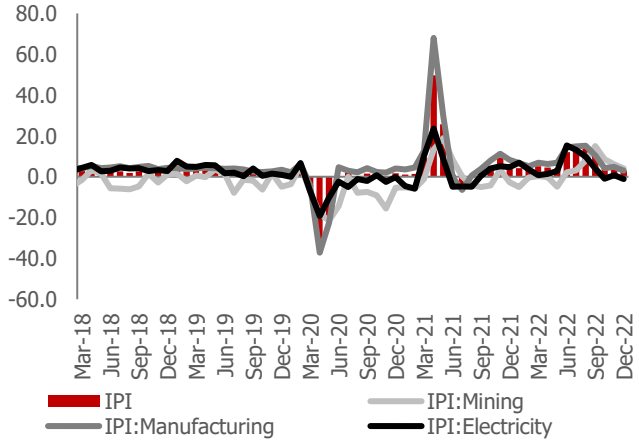
Chart 6: Exports Growth (YoY%) by Major Destination



Source: Macrobond, MATRADE, MIDFR

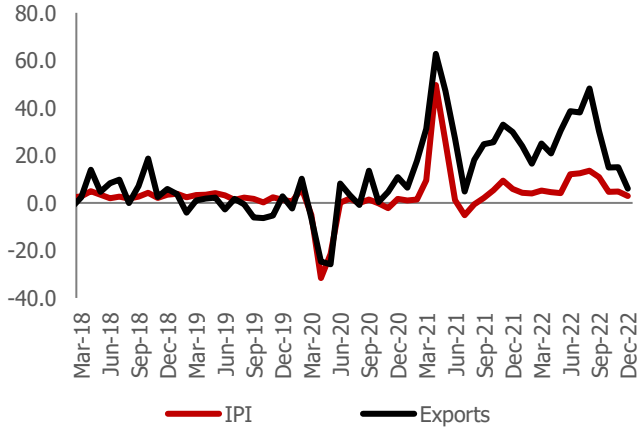
IPI grew slower at +3%yoy in Dec-22. Malaysia's IPI growth slowed to +3%yoy in Dec-22 (Nov-22: +4.6%yoy), the weakest growth since Sep-21. The moderation in growth reflects weaker expansion in mining and manufacturing sectors as well as contraction in electricity output. Slower growth in mining output was mainly attributable to slower rise in LNG production, in contrast to better extraction of crude petroleum. Manufacturing output, which accounted slightly more than two-thirds of overall IPI, also grew slower at +3%yoy (Nov-22: +4.8%yoy), with slower output growth for E&E components, and chemical & chemical products, as well as downward drag from lower output of rubber products, computers & peripheral equipment, and basic metals. Production of machinery & equipment and motor vehicles grew faster in Dec-22, which suggests further improvement in supply condition. Meanwhile, electricity output was -1.1% lower than Dec-21 due to weaker electricity consumption.

Chart 7: IPI Performances by Sector (YoY%)



Source: Macrobond, MIDFR

Chart 8: IPI vs Exports (YoY%)

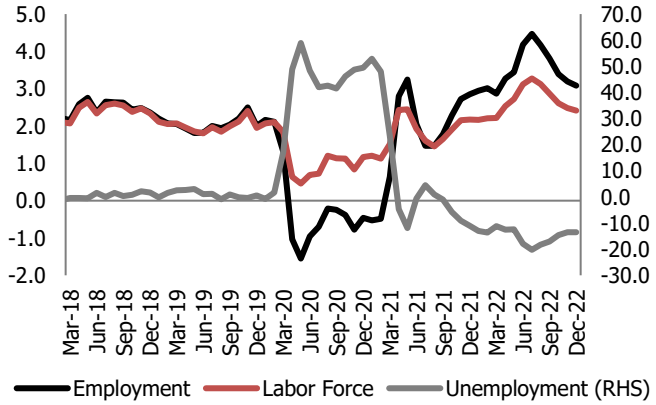


Source: Macrobond, MIDFR

Jobless rate ended at 3.6% for 2022. Recovery of labour market continued as unemployment rate was unchanged at 3.6% in Dec-22. Youth aged 15~24 unemployment rate descended to a new pandemic low of 11.8%, but remained higher than pre-pandemic (2019: 10.4%). Labour force and employment continued

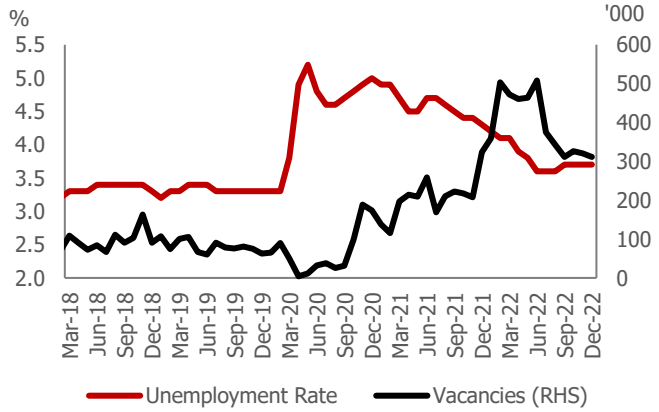
expanding +2.4%yoy and +3.1%yoy, respectively, supported by robust domestic economic growth and still upbeat external front. Unemployment dipped further by -12.8%yoy, marking the 16th-consecutive months of contraction rate. In addition, outside labour force reduced by -1.3%yoy, registering the 14th-straight months of negative growth rate. As for 2022, employment growth hit new record high at +3.5% with solid support from additional job gains of employer by +9.5%, employee by +1.8%, own account worker by +9.7% and unpaid family workers by +6.2%. Jobless rate averaged lower at 3.8%, still higher than pre-pandemic 2019's average 3.3%. Even though robust economic growth pace recorded last year, we opine labour shortages, tightness in global supply chain and Covid-19 concerns are among downside factors for solid recovery of the job market.

Chart 9: Labour Market Key Indicators (YoY%)



Source: Macrobond, MIDFR

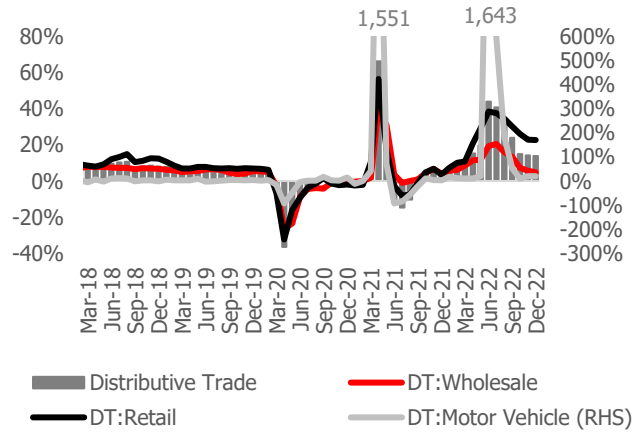
Chart 10: Unemployment Rate (%) vs. Job Vacancies



Source: Macrobond, MIDFR

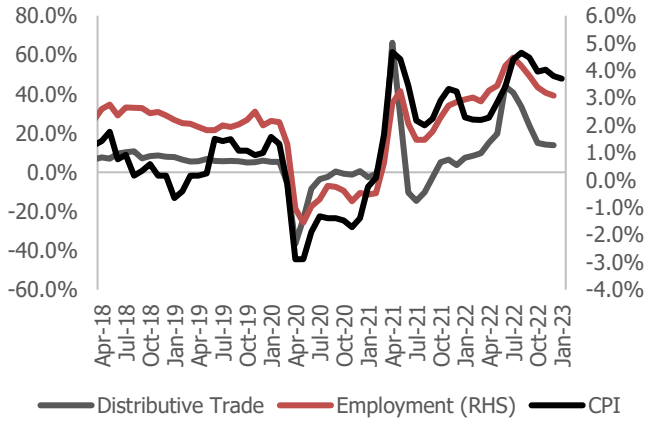
Distributive trade growth hit historical high in 2022. Distributive trade sales grew by +19.6% last year, the fastest expansion rate ever recorded. All components posted strong double-digit expansion. Sales of motor vehicles surged by +47.6% after registering poor performances during the pandemic years. Reflecting effects of pent-up demand, retail trade sales skyrocketed by +23.9% in 2022. In the final month of 2022, the distributive trade growth moderated further to 9-month low at +13.8%yoy. By component, sales of motor vehicles increased by +20.3%yoy while wholesale and retail trade growth descended slightly to +4.7%yoy and +22.7%yoy. Nonetheless, month-on-month basis remained firm as all components recorded positive growth. Looking ahead, we opine the upbeat momentum of domestic demand to continue in 2023 underpin by steady labour market, softening inflationary pressure and supportive economic policies. As for 4QCY22, distributive trade growth moderated to +14.3%yoy, the slowest in 3-quarter. Receding low-base effects was amongst the factors. With this moderation, we foresee 4QCY22 GDP growth to come in at +5% and +8.3% for overall 2022.

Chart 11: Distributive Trade (DT) (YoY%)



Source: Macrobond, MIDFR

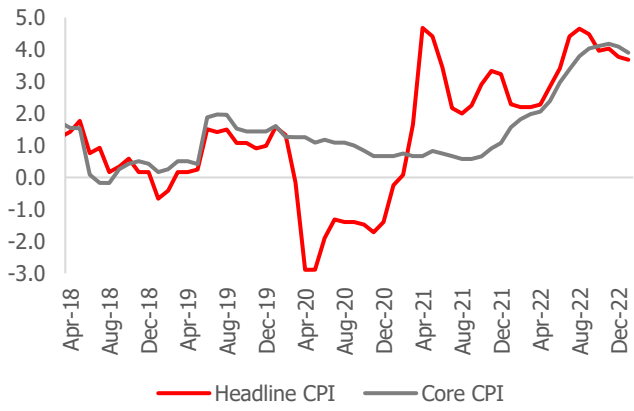
Chart 12: DT vs. CPI vs. Employment (YoY%)



Source: Macrobond, MIDFR

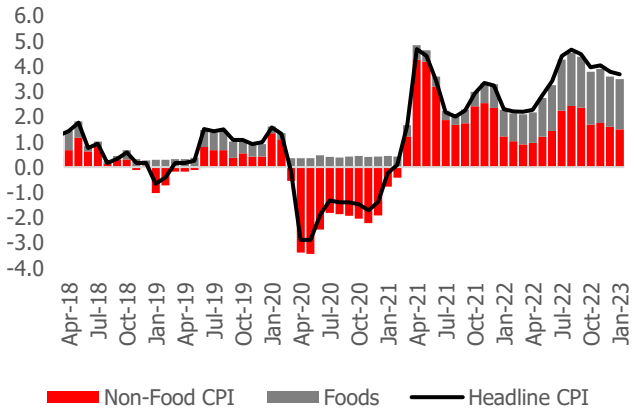
Overall price growth moderated to 7-month low. Headline inflation rate descended to +3.7%yoy, the lowest since Jul-22 and in line with market estimates. Both non-food and food inflation rates softened to +2.1%yoy (7-month low) and +6.7%yoy (7-month low) respectively. Receding base effects and easing supply chain pressure were among contributing factors to the moderating inflation trend. However, domestic demand continues firming as core inflation rate remained sticky lingering above +3.5%yoy (pre-pandemic average: +1.7%yoy). On sequential month basis, core prices still recorded growth of +0.4%mom. We opine the strong inflation trend in Malaysia is highly driven by strong consumer demand while indicators for cost inflation are on slowing pace. Services inflation remained above +4%yoy for 5-straight months (pre-pandemic ave.: +2.6%yoy).

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



Source: Macrobond, MIDFR

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

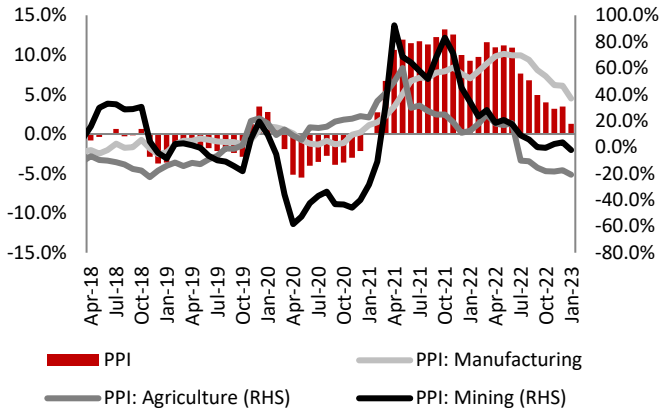


Source: Macrobond, MIDFR

PPI inflation eased to +1.3%yoy in Jan-23. Malaysia's input inflation continued on descending trends. Producer price inflation registered at +1.3%yoy in the first month of 2023, the slowest pace in 2-year. On month-on-month basis, the input inflation fell by -0.8%mom, the biggest monthly contraction in 4-month. 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 since Aug-22 while cost growth of intermediate materials moderated to 21-month low at +5.1%yoy in Jan-23. We believe the

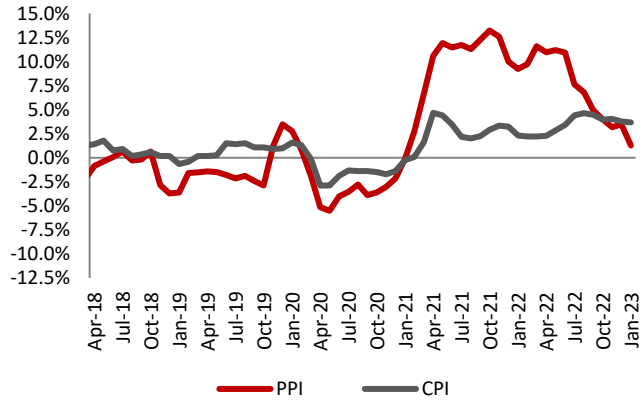
persistent contraction of crude materials inflation was due to mild correction of global energy prices whereas improvement of intermediate materials cost inflation partly attributed by the easing global supply chain pressure. Similarly, PPI for agriculture and mining fell by -20.9%yoy and -2.2%yoy, respectively; in contrast to rising PPI for manufacturing (+4.5%yoy) and electricity & gas (+1.2%yoy). As cost pressures eased and PPI inflation remaining below CPI inflation, we anticipate CPI inflation to ease gradually in coming months. Nevertheless, demand pressures could keep price outlook elevated.

Chart 15: PPI (YoY%)



Source: Macrobond, MIDFR

Chart 16: PPI vs CPI (YoY%)



Source: Macrobond, MIDFR

We maintain our forecast for Malaysia's GDP to grow at +4.2% this year. We continue to expect Malaysia's economic growth will moderate to +4.2% this (2022: 8.7%). Continued expansion in domestic demand will be crucial to support growth this year while we factor in weaker growth in external trade on the back of slowing global economic growth. In particular, the shift towards services has led to weaker global for manufactured goods, thus has been the reason behind the weaker global production and new orders, as highlighted by PMI reports. On another note, government's commitment with the expansionary fiscal spending plans for 2023 will also add to growth this year. On the external front, while we are concerned over weaker demand outlook, the reopening of China's economy and higher tourist arrivals will eventually support domestic trade and tourism sector. On another note, we expect the increased trade with FTA members following the ratification of RCEP and CPTPP will support outlook for the trade-oriented sectors. Risks such as weaker-than-expected slowdown in global growth, elevated inflation, fluctuations in the financial markets, and renewed geo-political tensions would drag down growth outlook this year.

Table 1: Macroeconomic Past Performances (%)

(YoY%) Unless Stated Otherwise	2019	2020	2021	2022f	2023f
Real GDP	4.3	(5.5)	3.1	8.7	4.2
Govt. Consumption	2.0	5.0	5.3	3.9	2.3
Private Consumption	7.6	(4.2)	1.9	11.3	6.6
Govt. Investment	(10.8)	(21.3)	(11.3)	5.3	3.5
Private Investment	1.5	(12.0)	2.6	7.2	4.1
Exports of goods & services	(1.1)	(8.6)	15.4	12.8	2.8
Imports of goods & services	(2.3)	(7.9)	17.7	14.2	4.2
Net Exports	8.9	(13.7)	(4.1)	(1.8)	(14.3)
Agriculture etc.	1.8	(2.4)	(0.2)	0.1	1.0
Mining & Quarrying	(1.5)	(9.7)	0.3	3.4	1.0
Manufacturing	3.8	(2.7)	9.5	8.1	3.0
Construction	0.0	(19.3)	(5.2)	5.0	4.8
Services	6.1	(5.4)	1.9	10.9	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	4.2	3.8	2.6	3.0
Fiscal Balance, % of GDP	(3.4)	(6.2)	(6.4)	(5.6)	(5.0)
Federal Government Debt, % of GDP	52.4	62.0	63.4	60.4	62.1
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

February 2023 Key Economic Events

Feb 1: Fed raises rates a quarter point, expects 'ongoing' increases. The Federal Reserve on Wednesday raised its benchmark interest rate by a quarter percentage point and gave little indication it is nearing the end of this hiking cycle. Aligning with market expectations, the rate-setting Federal Open Market Committee boosted the federal funds rate by 0.25 percentage point. That takes it to a target range of 4.5%-4.75%, the highest since October 2007.

Feb 2: ECB and Bank of England fight inflation with sharp interest rate hikes. Europe's two largest central banks raised interest rates sharply on Thursday, opting for bigger increases than the US Federal Reserve as inflation in the region remains near historically high levels. The European Central Bank (ECB) and the Bank of England lifted rates by another half a percentage point. Benchmark interest rates for both are at their highest levels since 2008.

Feb 7: Vegetable shortage: Fama to identify affected areas. The Federal Agricultural Marketing Authority (Fama) has been instructed to identify areas affected by a shortage in vegetable supply, Agriculture and Food Security Minister Datuk Seri Mohamad Sabu said.

Feb 7: MPOC: US CBP's modified forced labour finding against Sime Darby Plantation is positive for entire palm oil sector. The modification made by the United States (US) Customs and Border Protection (CBP) in its forced labour finding against Sime Darby Plantation Bhd (SDP), following an extensive review of the company's practices, is seen as positive for the entire palm oil sector.

Feb 8: Menu Rahmah initiative incurs no cost to govt. Menu Rahmah initiative, which offers a meal at RM5 and below since the end of last month, incurs neither any expenditure nor allocation from the government. Domestic Trade and Cost of Living (KPDN) Minister Datuk Seri Salahuddin Ayub said instead, it was entirely up to the commitment of food operators who voluntarily joined the initiative.

Feb 13: Agong's royal address a clear message to politicians to administer Malaysia well, ensure unity. Yang Di-Pertuan Agong's royal address in Parliament today sent a clear message to all politicians, especially elected representatives to be more serious and responsible in administering the country and to ensure the continued unity and development.

Feb 15: PM: No plan to bring back GST. There are no plans to reintroduce the Goods and Services Tax (GST), says Datuk Seri Anwar Ibrahim. "We have no plans to bring back the GST or broad-based consumption tax. "What we will do is tighten the reduction of subsidies for those in the affluent group," the Prime Minister said.

Feb 15: Malaysia can achieve high-income nation status as early as 2026 if growth continues at 4%-5%. Malaysia is on track to become a high-income nation if economic growth remains at around 4% to 5% and the value of the ringgit is stronger, said Economy Minister Rafizi Ramli. "If economic growth from 2023 to 2025 is around 4% to 5%, we can reach the status of a high-income nation as early as 2026.

Feb 16: PM Anwar: Fitch Ratings' 'BBB+' affirmation on Malaysia reflects confidence in current govt's administration. Fitch Ratings' affirmation on Malaysia's sovereign credit rating at 'BBB+' with a stable outlook for 2023 reflects its confidence in the current government's administration, said Prime Minister and Finance Minister Datuk Seri Anwar Ibrahim.

Feb 19: Miti wants more affordable EVs brought into the country. The Ministry of International Trade and Industry (Miti) is encouraging the introduction of more affordable electric vehicles (EVs) in Malaysia to advance the country's EV industry. Its deputy secretary general of industry Datuk Seri Norazman Ayub said there will be EV cars coming to Malaysia in the second quarter of this year, priced from as low as RM120,000.

Feb 21: Prices of chicken, eggs to be floated after June. The prices of chicken and eggs are expected to be floated after June, as part of the government's efforts to overcome food shortages, said Agriculture and Food Security Minister Datuk Seri Mohamad Sabu.

Feb 22: Fiscal Responsibility Act to include caps on govt debt levels. The Fiscal Responsibility Act, which is expected to be tabled this year, will include several components, such as capping the government's debt percentage at 65% of gross domestic product (GDP) and debt service charges at 15% of the federal government's annual budget, said Deputy Finance Minister Datuk Seri Ahmad Maslan.

Feb 22: Fed minutes show members resolved to keep fighting inflation with rate hikes. US Fed officials at their most recent meeting indicated that there are signs inflation is coming down, but not enough to counter the need for more interest rate increases, meeting minutes released Wednesday showed. While the Jan. 31-Feb. 1 meeting concluded with a smaller rate hike than most of those implemented since early 2022, officials stressed that their concern over inflation is high.

Feb 24: Budget 2023 revised up to RM388.1bil, GDP growth at 4.5%. Budget 2023 is revised upward to RM386.1 billion, making it the largest allocation in Malaysia's history, as the government continues to provide support to steer the economy, according to the Ministry of Finance (MoF). The budget allocation is an upward revision from the RM372.3 billion budget tabled by the previous government in October 2022, which could not be passed before Parliament was dissolved.

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