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3 April 2023

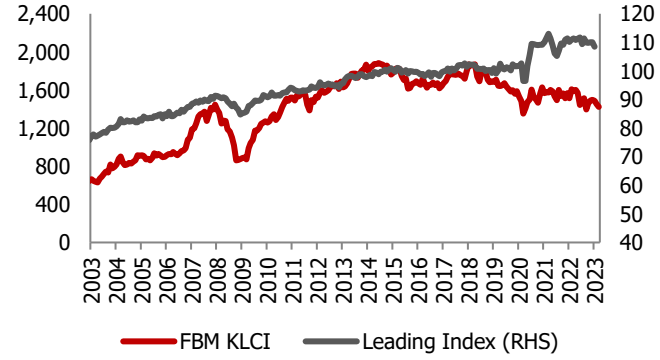
MONTHLY ECONOMIC REVIEW | March 2023

Leading Indicators Signals Softer Growth Momentum in the Short Run

- *Decline in LI signals softening growth momentum. Malaysia's leading index (LI) declined again for the third month in Jan-23, falling by -1.5%yoy (Dec-22: -1.1%yoy) and signalling growth momentum to soften in the coming months.*
- *Domestic trade still on sturdy pace. Malaysia's distributive trade sales grew by +12.4%yoy in the first month of 2023, marking the 10th straight months of double-digit growth. All components except wholesale trade posted strong double-digit expansion. Sales of motor vehicles increased by +20.1%yoy, while wholesale trade only inched up by +3.1%yoy, the weakest gain since Oct-21.*
- *Maintain projection for Malaysia's economy to grow at +4.2% this year. We maintain our projection that Malaysia's economy will grow at +4.2% this year, moderating from strong +8.7% expansion last year. Domestic demand, especially consumer spending, will remain key to drive growth this year, underpinned by increased employment and income, expansionary fiscal spending, and increased investment activities.*

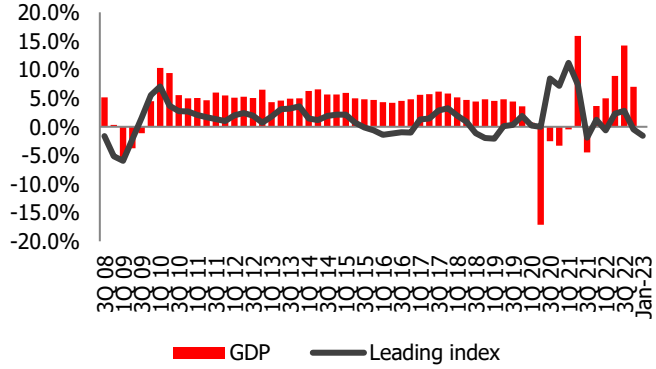
Decline in LI signals softening growth momentum. Malaysia's leading index (LI) declined again for the third month in Jan-23, falling by -1.5%yoy (Dec-22: -1.1%yoy) and signalling growth momentum to soften in the coming months. The decline in LI was due to lower real imports of production materials (i.e. semiconductors, other basic precious & non-ferrous metals) and weaker outlook for manufacturing sales. This shows businesses were more cautious because of slowing demand. Meanwhile, Coincident Index (CI) declined by -0.7%mom from previous month, with the CI at 119.5 in Feb-23 which was the lowest since Mar-22. The month-on-month decline in CI was largely dragged down by weaker manufacturing sector data i.e. production, employment, and salaries & wages. Nevertheless, Jan-23 CI still signals growth over a year ago, sustaining positive year-on-year growth at +4.5%yoy (Dec-22: +5.1%yoy) for the 17th straight month on encouraging volume of retail trade. We opine the weak LI reading as a temporary slowdown, influenced by the softer global trade and production numbers. Still, we expect Malaysia's economic growth to remain positive in view of the sustained annual growth in CI.

Chart 1: Leading Index vs KLCI (Points)



Source: Macrobond, MIDFR

Chart 2: Leading Index vs GDP (YoY%)

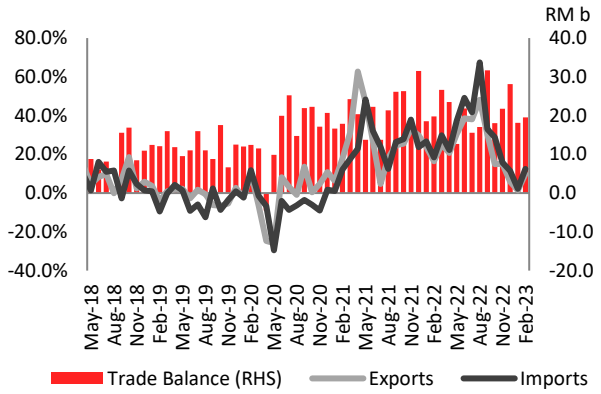


Source: Macrobond, MIDFR

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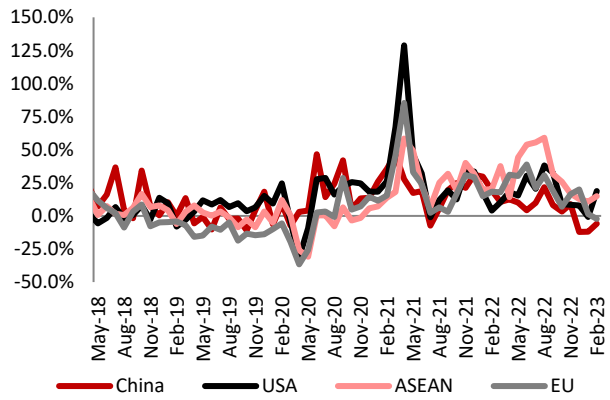
Export growth jumped to +9.8%yoy in Feb-23. Export growth accelerated to +9.8%yoy in Feb-22 (Jan-23: +1.4%yoy), which exceeded market consensus (+4.2%yoy). As the size of exports was -0.3%mom smaller than Jan-23, we conclude the jump in export growth was attributable to the lower base in Feb-22. The stronger growth in re-exports (Feb-23: +37.6%yoy; Jan-23: +33.5%yoy) contributed about one-third of growth in Feb-23, and the balance two-thirds of growth (or +6.6%-point) was from rebound in domestic exports (Feb-23: +3.8%yoy; Jan-23: -5.6%yoy). Given the robust growth, the size of re-exports now accounted 22.1% of exports in Feb-23 (vs. 17.6% of exports in Feb-22). Once again higher external demand for petroleum products, E&E, LNG and crude petroleum offset the continued decline in palm oil exports due to lower prices. The stronger growth was more or less in line with our expectation given the higher manufacturing PMI reading in Feb-23 and growing mining goods exports. However, the effect from China's economic reopening has yet to result in a rebound in Malaysia's exports to China.

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



Source: Macrobond, MATRADE, MIDFR

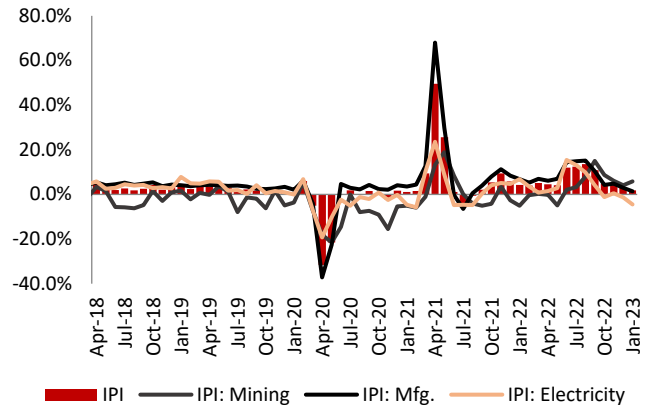
Chart 4: Exports Growth (YoY%) by Major Destination



Source: Macrobond, MATRADE, MIDFR

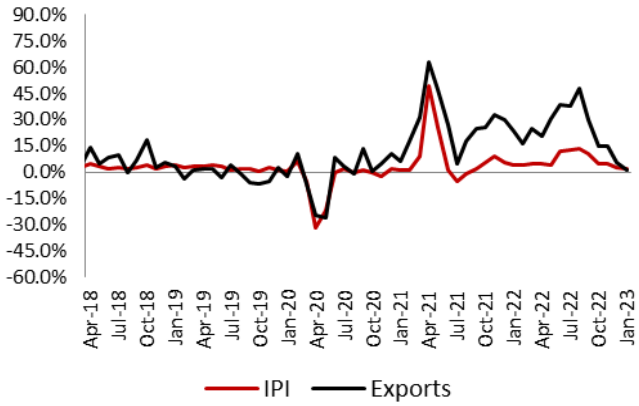
IPI growth at the slowest pace since Sep-21. Malaysia's IPI growth slowed further to +1.8%yoy in Jan-23 (Dec-22: +2.8%yoy), slightly below our forecast and market consensus. Nevertheless, the moderating trend was expected in view of the subdued export growth and below-50 manufacturing PMI reading in Jan-23. The Jan-23 IPI growth, which was the slowest in 17 months, was due to weaker manufacturing output (+1.3%yoy) and reduction in electricity generation (-4.3%yoy). Apart from declines in production of rubber products, basic metals, and computer & peripheral equipment, the slower manufacturing output reflected weaker growth in output of E&E, machinery equipment, and food products. Meanwhile, reduced electricity output indicated lower energy demand during the month. On the other hand, mining output was stronger in Jan-23 following higher output of crude petroleum and LNG. This was also similar to the trend in external trade, which saw stronger exports of petroleum products during the month. Given the improvement in manufacturing PMI and stronger export growth, we expect IPI to perform better in Feb-23.

Chart 5: IPI Performances by Sector (YoY%)



Source: Macrobond, MIDFR

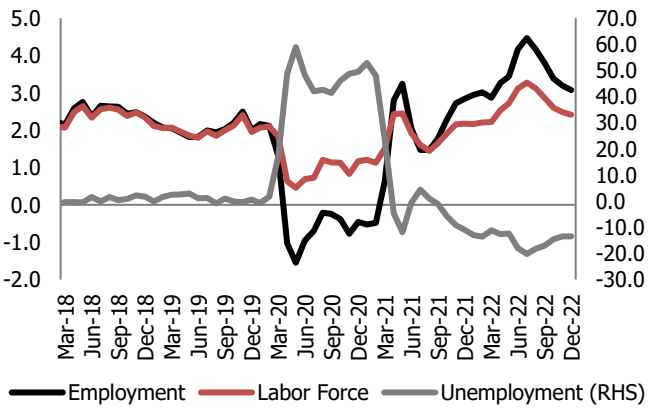
Chart 6: IPI vs Exports (YoY%)



Source: Macrobond, MIDFR

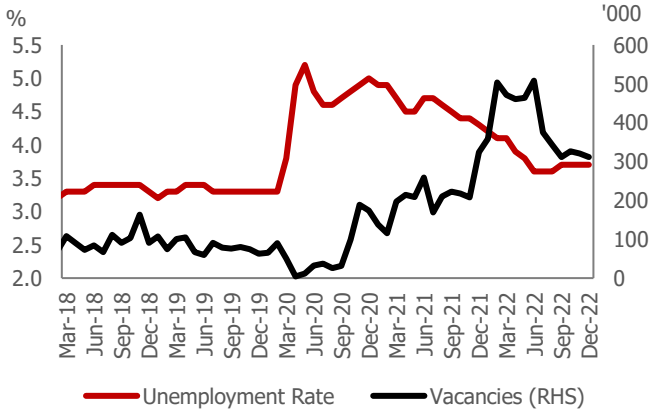
Youth jobless rate hit new pandemic low. Youth aged 15~24 unemployment rate descended to a new pandemic low of 11.5% but remained higher than pre-pandemic (2019: 10.4%). Recovery of Malaysia's labour market continued as unemployment rate remained low at 3.6% in the first month of 2023. Labour force and employment continued expanding at +2.4%yoy and +3%yoy, respectively, on the back of upbeat domestic economic momentum and growing labour demand. On monthly basis, employment grew at +0.2%mom. Unemployment dipped further by -12.4%yoy, marking the 17th consecutive months of annual contraction. In line with more people entering the job market, the number of people outside labour force fell by -1.3%yoy, the 15th straight month of declines. By employment type, employees which made up about 75% of the employment grew steadily by +1.7%yoy, while employers, own-account-workers and unpaid family workers increased by +7.9%yoy, +8.9%yoy, and +0.5%yoy, respectively, in Jan-23. We are optimistic about Malaysia's job market recovery underpinned by upbeat local economic momentum, return of foreign workers, positive effects of China's economic reopening, and supportive & accommodative economic policies.

Chart 7: Labour Market Key Indicators (YoY%)



Source: Macrobond, MIDFR

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

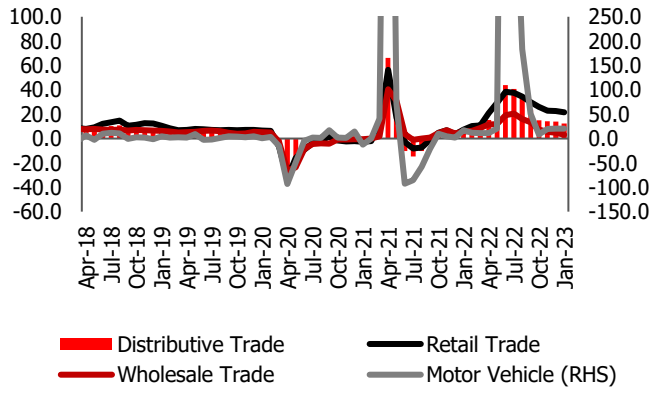


Source: Macrobond, MIDFR

Domestic trade still on sturdy pace. Malaysia's distributive trade sales grew by +12.4%yoy in the first month of 2023, marking the 10th straight months of double-digit growth. All components except wholesale trade posted

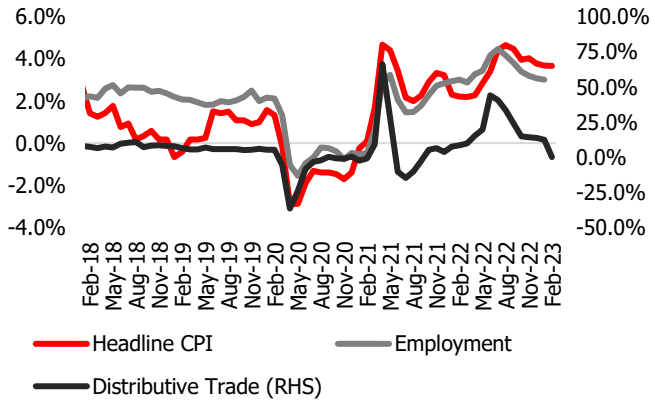
strong double-digit expansion. Sales of motor vehicles increased by +20.1%yoy, while wholesale trade only inched up by +3.1%yoy, the weakest gain since Oct-21. Reflecting effects of still robust domestic demand, retail trade sales surged by +21.7%yoy. Excluding price effects, seasonally adjusted volume of distributive trade growth hit 9-month low at +5.2%yoy, mainly dragged down by -3.5%yoy contraction in wholesale trade. In contrast, spending on motor vehicles and retail trade rose by +10.2%yoy and +13.8%yoy, respectively, in Jan-23. Looking ahead, we opine the upbeat momentum of domestic demand to continue in 2023 underpinned by steady labour market, moderating inflation, increased tourism activities (and tourist spending) and supportive economic policies.

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



Source: Macrobond, MIDFR

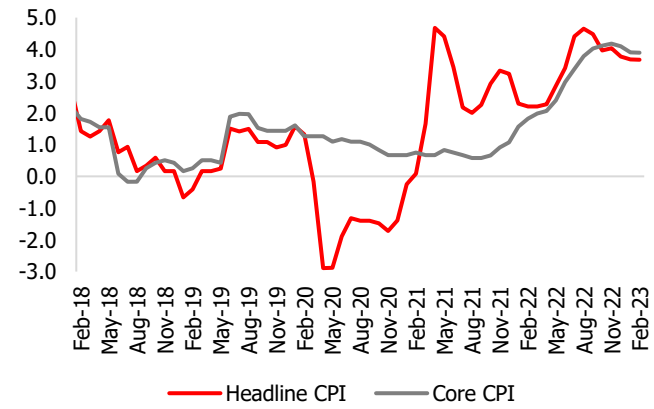
Chart 10: DT vs. CPI vs. Employment (YoY%)



Source: Macrobond, MIDFR

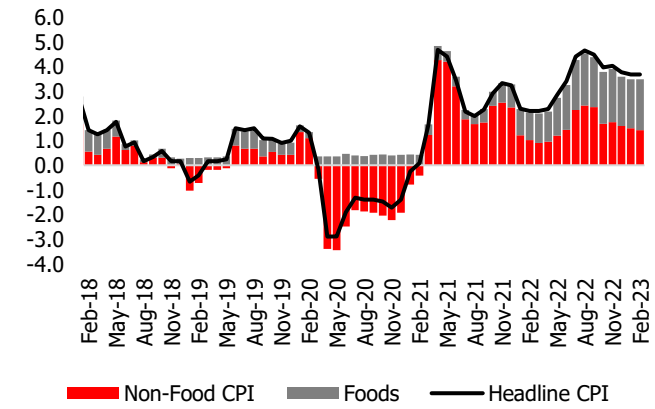
Inflation still elevated in Malaysia. Headline CPI inflation was unchanged at +3.7%yoy, despite moderation in non-food inflation to 8-month low of +2%yoy. The elevated inflation was mainly due to higher food inflation which accelerated to 3-month high at +7%yoy, on the back of still high commodity prices, weaker ringgit, and firm domestic demand. Core CPI inflation remained sticky, lingering above +3.5%yoy (pre-pandemic average: +1.7%yoy) and indicating strong demand. Against Jan-23, core CPI rose by +0.2%mom (Jan-23: +0.4%mom). We opine the still high inflation was driven by robust demand vis-à-vis easing cost pressures. Services inflation remained above +4%yoy for the 6th straight month (pre-pandemic average: +2.6%yoy). Apart from easing cost pressures, inflation will be more moderate this year due to high base effect.

Chart 11: Headline vs. Core CPI (YoY%)



Source: Macrobond, MIDFR

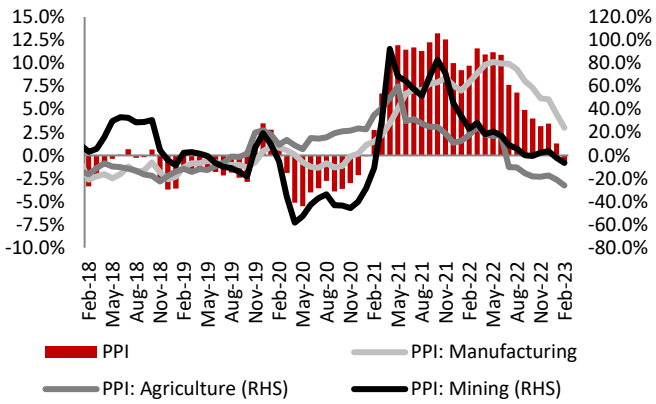
Chart 12: Food vs Non-Food CPI (YoY%)



Source: Macrobond, MIDFR

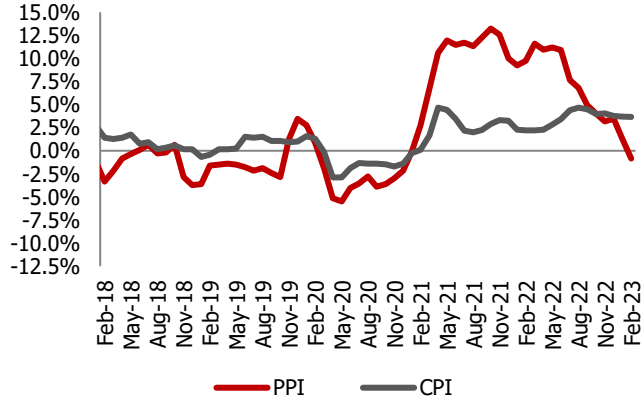
PPI contracted -0.8%yoy in Feb-23. Malaysia's input inflation indicated reduced cost pressures as producer price inflation declined -0.8%yoy in Feb-23, the negative reading in 2 years. On month-on-month basis, the input inflation fell by -0.2%mom, marking the 3rd straight months of negative growth. The tapering price pressures on producers were mainly due to persistent decline in crude materials cost and moderate increase in intermediate materials cost. Crude materials inflation stayed on contractionary since Aug-22 while cost growth of intermediate materials moderated to almost 2-year low at +3.3%yoy in Feb-23. The persistent contraction of crude materials inflation reflects lower global energy prices, whereas improvement in intermediate materials cost inflation was partly attributable to easing pressure in global supply chain. Looking ahead, we foresee lower cost pressure for Malaysia's producers especially with commodity prices remaining below last year and improved supply as a result of reopening of China and better supply of labour and materials globally. The continuous decline in PPI will translate into reduced supply and cost pressures on CPI in the coming months. Nevertheless, demand pressures could keep price outlook elevated.

Chart 13: PPI (YoY%)



Source: Macrobond, MIDFR

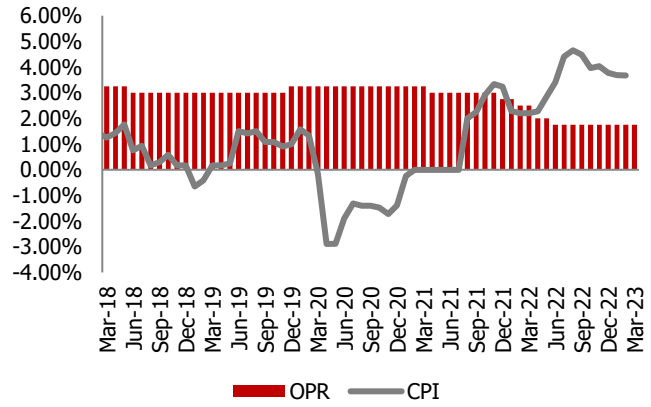
Chart 14: PPI vs CPI (YoY%)



Source: Macrobond, MIDFR

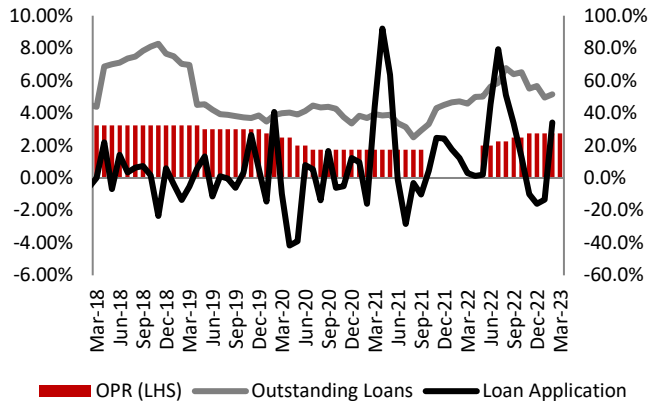
No rate hike, in line with market consensus. BNM maintained the Overnight Policy Rate (OPR) at 2.75%, in its second Monetary Policy Meeting in 2023. In the Monetary Policy Statement, BNM highlighted that the global economy continues to be pressured by escalation of geopolitical tensions, higher-than-expected inflationary pressure and sharper tightening of financial market conditions. Despite slower global growth, BNM expects Malaysia's growth to remain positive albeit moderate from last year, supported by growing household spending and investment activities. BNM reiterated that inflation will moderate but remain elevated this year. In view of recent developments, including changing expectations on the Fed's policy direction and the turmoil in US and European banking system, we now expect BNM to maintain OPR at 2.75% throughout 2023 to keep monetary policy accommodative for sustained growth. The pause in the Jan-23 and Mar-23 signals greater attention to softening growth momentum after +100bps OPR hikes last year. On the other hand, we believe BNM will only proceed with its policy normalization if growth prospects and demand-led inflationary pressures turn out to be much stronger than expected.

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



Source: Macrobond, MIDFR

Chart 16: OPR (%) vs Loans (YoY%)



Source: Macrobond, MIDFR

Maintain projection for Malaysia's economy to grow at +4.2% this year. We maintain our projection that Malaysia's economy will grow at +4.2% this year, moderating from strong +8.7% expansion last year. Domestic demand, especially consumer spending, will remain key to drive growth this year, underpinned by increased employment and income, expansionary fiscal spending, and increased investment activities. Domestic trade and tourism sector will continue to recover in anticipation of higher tourist arrivals. On the external front, while external demand would be influenced by slower global growth, trade outlook will benefit from China's economic reopening. Furthermore, increased trade with FTA members will also support trade activities, in addition to the growing demand for E&E and commodities. We opine source of downside risks will be from external developments such as a sharper slowdown in global demand, higher global inflation, increased volatility and stress in the international financial markets, and further escalation in geo-political and trade tensions.

Table 1: Macroeconomic Past Performances (%)

(YoY%) Unless Stated Otherwise	2019	2020	2021	2022	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	6.1
Govt. Investment	(10.8)	(21.3)	(11.3)	5.3	3.8
Private Investment	1.5	(12.0)	2.6	7.2	4.4
Exports of goods & services	(1.1)	(8.6)	15.4	12.8	3.0
Imports of goods & services	(2.3)	(7.9)	17.7	14.2	3.9
Net Exports	8.9	(13.7)	(4.1)	(1.8)	(7.3)
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	2.7
Construction	0.0	(19.3)	(5.2)	5.0	4.7
Services	6.1	(5.4)	1.9	10.9	5.5
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	2.5
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	85.0
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	2.75

Source: Macrobond, DOSM, MIDFR

March 2023 Key Economic Events

Mar 2: Amazon's RM25.5 bil investment will further enhance ICT industry, help SMEs, says Tengku Zafrul. Amazon Web Services (AWS)'s latest investment will further enhance Malaysia's competitiveness in the information and communications technology (ICT) industry, while helping small and medium enterprises (SMEs) foster innovation, in line with the country's digital aspirations.

Mar 6: MOF: Govt doesn't intend to lower RON95, subsidised diesel ceiling prices. The government has no intention to lower the current ceiling prices of RON95 petrol and subsidised diesel, the Ministry of Finance (MOF) said. MOF said this is to prevent the government from continuing to bear higher subsidy amounts.

Mar 7: Fed's Powell sets the table for higher and possibly faster rate hikes. The Federal Reserve will likely need to raise interest rates more than expected in response to recent strong data and is prepared to move in larger steps if the "totality" of incoming information suggests tougher measures are needed to control inflation, Fed Chair Jerome Powell told U.S. lawmakers.

Mar 7: National brain drain rate of 5.5% is higher than global average —Sivakumar. The Human Resources Ministry is drafting measures to tackle the brain drain phenomenon, which at 5.5% of its population is much higher than the global average of 3.3%, its minister, V Sivakumar said.

Mar 9: Zafrul: National Investment Council to be established. The National Investment Council (MPN) will be established to plan investment-related agenda and ensure empowerment of investment governance in the country. International Trade and Industry Minister Tengku Datuk Seri Zafrul Abdul Aziz said the MPN is chaired by the prime minister and the first meeting will be held in the near future.

Mar 9: Anwar: 5% fiscal deficit achievable due to higher oil and tax revenue, 1MDB-IPIC settlement. The government said its target of a 5% fiscal deficit is achievable this year based on the higher oil and tax revenue projection, coupled with the US$1.8 billion settlement between 1Malaysia Development Bhd (1MDB) and International Petroleum Investment Company (IPIC).

Mar 10: EPF assessing usage of Account 2 savings as collateral to apply for personal loans. The Employees Provident Fund (EPF) is assessing implementation of the utilisation of members' savings in Account 2 as collateral or guarantee for personal bank loans. In a statement on Friday (March 10), EPF said it will carefully consider all relevant factors to ensure its smooth implementation.

Mar 14: UK poised to remove import tariffs on Malaysian palm oil. The UK government is planning to eliminate import tariffs on palm oil from Malaysia, the price of joining an Asia-Pacific trade deal, the Financial Times reported, citing people involved in the talks. Malaysia has successfully demanded Britain cut its palm oil tariffs, currently range up to 12%, to zero immediately on entering Comprehensive and Progressive Trans-Pacific Partnership.

Mar 16: Govt focusing on three main thrusts this year to help country achieve high-income status by 2026. The government will focus on three main issues this year to achieve high-income nation status by 2026, including fiscal strengthening by focusing on increasing revenue and spending rationalisation, including more targeted subsidies.

Mar 20: Open payment system for public transport services besides Touch 'n Go to be implemented soon, says Loke. An open payment system for transport services, especially those under Prasarana Malaysia Bhd, will be implemented soon, Transport Minister Anthony Loke Siew Fook said.

Mar 21: MOF: Bank loans supported by EPF savings to bear 4% to 5% interest. Bank loans using Employees Provident Fund (EPF) Account 2 savings as support are to bear annual interest rates of 4% to 5%, much lower than the current personal financing market rate of around 8% to 15% according to the Ministry of Finance (MOF).

Mar 22: Fed hikes rates by a quarter percentage point, indicates increases are near an end. The Federal Reserve on Wednesday enacted a quarter percentage point interest rate increase, expressing caution about the recent banking crisis and indicating that hikes are nearing an end.

Mar 27: Govt exploring reverse investment in agrofood, agriculture sectors as alternative to boost country's food supply. The government aims to explore the potential of reverse investment (RI) in the agrofood and agriculture sectors to help enhance the sources and supply of food for the country.

Mar 28: Parliament passes Budget 2023 with voice vote. The Dewan Rakyat passed the Supply Bill 2023, also known as Budget 2023, following a voice vote by MPs on Tuesday (March 28) evening. Deputy Speaker Alice Lau announced this after debates on the Higher Education Ministry and the Education Ministry's allocations in Budget 2023 at the committee stage were completed.

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