midf RESEARCH

2 May 2023

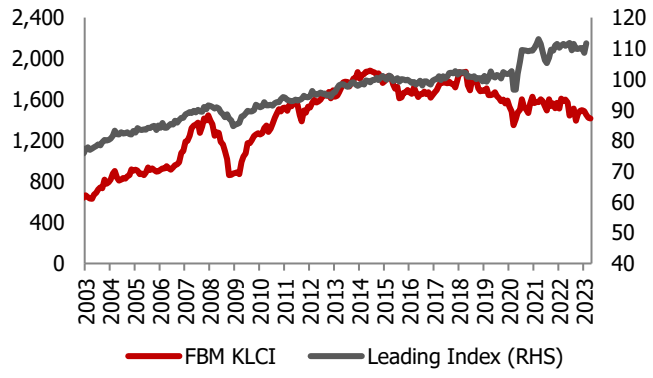
MONTHLY ECONOMIC REVIEW | April 2023

LI Signals Better Growth Momentum in the Near Term

- *LI signals better growth momentum. Malaysia's leading index (LI) bounced back to positive growth, rising by +0.6%yoy in Feb-23 (Jan-23: -1.5%yoy), signalling growth momentum would strengthen in coming months.*
- *Exports fell for the first time in 31 months. Malaysia recorded -1.4%yoy decline in exports in Mar-23 (Feb-23: +9.8%yoy), the first contraction in 31 months due to lower domestic exports (-4.1%yoy), in contrast to sustained growth in re-exports (+10.3%yoy).*
- *Steady labour market expansion. Recovery of Malaysia's labour market continued as unemployment rate dipped further to new pandemic low at 3.5% in the second month of 2023. Labour force and employment continued expanding +2.3%yoy and +2.9%yoy, respectively.*
- *GDP growth projection unchanged at +4.2% for 2023. We maintain our forecast that Malaysia's GDP to grow at +4.2%, a more moderate but normalized rate compared to the strong +8.7% expansion last year. Domestic demand will remain key driver to Malaysia's growth, in contrast to slower external trade.*

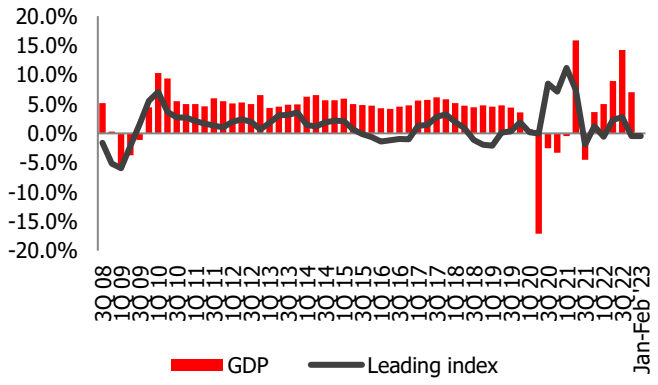
LI signals better growth momentum. After 3 months of annual declines, Malaysia's leading index (LI) bounced back to positive growth, rising by +0.6%yoy in Feb-23 (Jan-23: -1.5%yoy), supported by higher approval of new housing units, rising real imports of intermediate goods, and higher number of company registration. This was not because of the base effect but the rebound in LI was driven by the monthly rise of +2.9%mom from the previous month (Jan-23: -1.5%mom), mainly due to higher company registration and real imports of other basic previous & other non-ferrous metals. On another note, Coincident Index (CI) rose by +4.6%yoy from a year ago (Jan-23: +4.5%yoy), which also reflects the monthly jump of +1.8%mom (Jan-23: -0.7%mom) because of better industrial production and increase capacity utilization and employment in the manufacturing sector. We expect growth momentum to strengthen in the coming months given the improvement in LI, and Malaysia's economic growth to remain positive as shown by the sustained rise 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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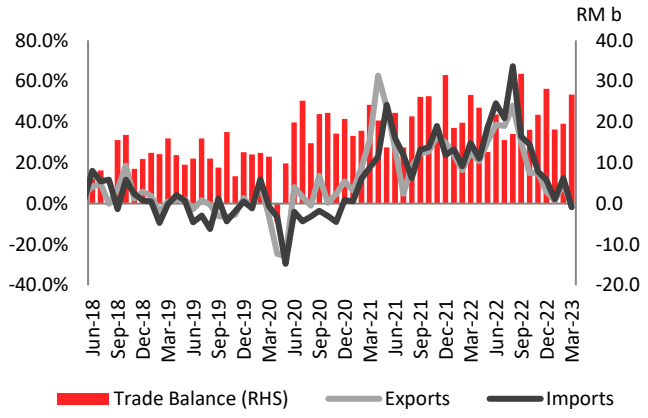
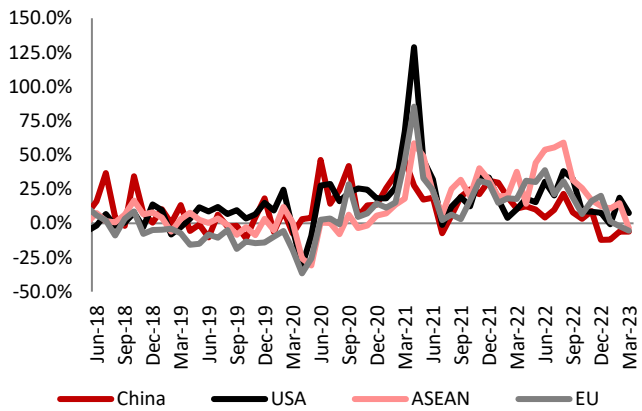
Exports fell for the first time in 31 months. Malaysia recorded -1.4%yoy decline in exports in Mar-23 (Feb-23: +9.8%yoy), the first contraction in 31 months. The decline was slightly sharper than ours and market consensus as we predict the high base effect and limited upside support from China's economic recovery will translate into weak year-on-year growth. The decline was also attributable to lower domestic exports (-4.1%yoy), in contrast to sustained growth in re-exports (+10.3%yoy). The weak exports was also explained by the -4.4%yoy decline in E&E exports (share: 39% of total exports) after 20 straight months of expansion, on top of the continued fall in palm oil & palm-oil based products (-14.4%yoy) and rubber products (-29.5%yoy). The drop in exports of these commodities more than offset the sustained rise in exports of (refined) petroleum products (+32.1%yoy) and LNG (+11.4%yoy). Relative to Feb-23, exports actually rose sequentially by +15.5%mom, mainly driven by higher shipments of E&E, palm oil & palm oil products, machinery & equipment as well as opticial & scientific equipment. We opine the lower commodity prices contributed to the high-base effect, with Brent crude oil and CPO prices hovering - USD79.21pb (Mar-22: USD112.46pb) and RM4,061/tonne (Mar-22: RM6,814/tonne), which were -29.6%yoy and -40.4%, respectively, lower than last year. We foresee the relatively lower commodity prices will likely influence trade performance in the next few months before the effect diminishes in 2HCY23.

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



Source: Macrobond, MATRADE, MIDFR

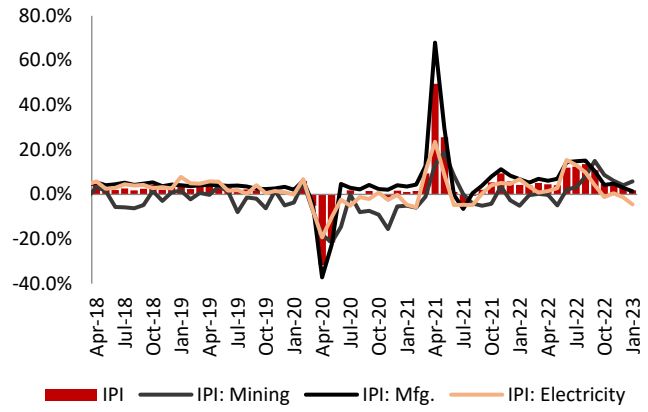
Chart 4: Exports Growth (YoY%) by Major Destination



Source: Macrobond, MATRADE, MIDFR

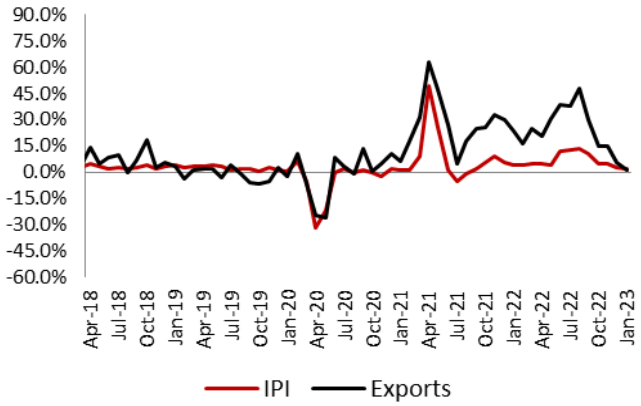
IPI grew faster in Feb-23. Malaysia's IPI rose faster and better-than-expected at +3.6%yoy in Feb-23 (Jan-23: +1.8%yoy), underpinned by stronger manufacturing output (+4.9%yoy) and rebound in electricity generation (+1.1%yoy). Although the IPI growth was slightly above our forecast, we anticipated for the stronger expansion in view of higher export growth and better manufacturing PMI during the month. The details showed that the increase in manufacturing output was driven by higher output of various products, among others E&E, chemicals, food products and basic metals. Meanwhile, the rebound in electricity output reflected higher energy demand during the month, reflective of increased business and manufacturing activities. Mining output, however, fell due to weaker output of both crude petroleum and LNG.

Chart 5: IPI Performances by Sector (YoY%)



Source: Macrobond, MIDFR

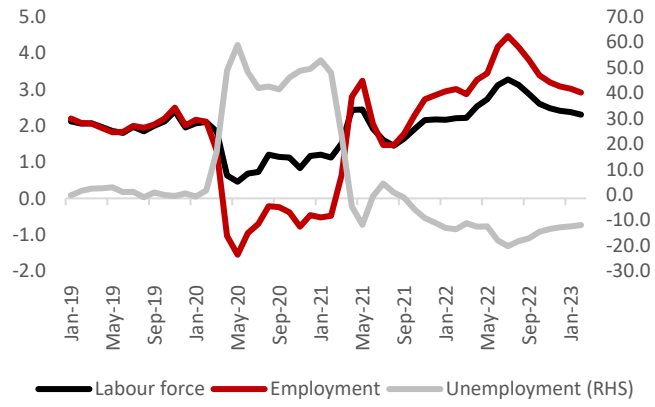
Chart 6: IPI vs Exports (YoY%)



Source: Macrobond, MIDFR

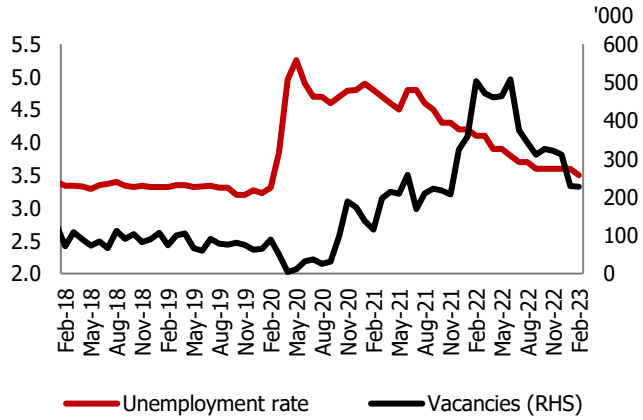
Steady labour market expansion. Recovery of Malaysia's labour market continued as unemployment rate dipped further to new pandemic low at 3.5% in the second month of 2023. Labour force and employment continued expanding +2.3%yoy and +2.9%yoy, respectively, supported by upbeat domestic economic momentum and expansionary external front. On monthly basis, employment growth at +0.2%mom. Unemployment dipped further by -11.9%yoy, marking the 18th-consecutive months of contraction rate. In addition, outside labour force reduced by -1.1%yoy, registering the 16th-straight months of negative growth rate. Youth aged 15~24 unemployment rate descended to a new pandemic low of 11.3%, but remained higher than pre-pandemic (2019: 10.4%). By employment type, employee which made up about 75.7% of the employment grew steadily by +1.7%yoy while employer and own-account-worker increased by +7.5%yoy and +8.1%yoy respectively in Feb-23. We are optimistic on the Malaysia's job market recovery underpin by upbeat local economic momentum, return of foreign workers, positive effects of China's reopening and supportive & accommodative economic policies.

Chart 7: Labour Market Key Indicators (YoY%)



Source: Macrobond, MIDFR

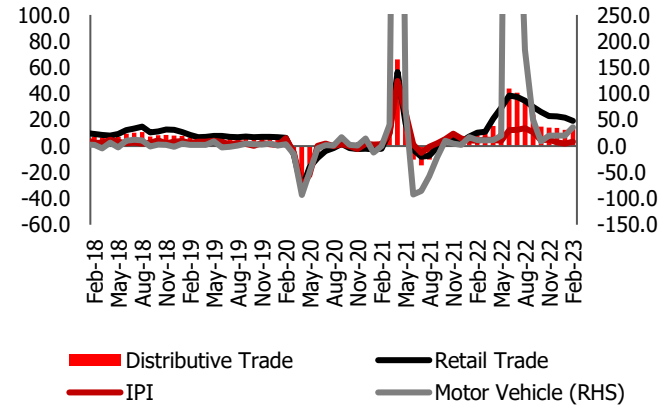
Chart 8: Unemployment Rate (%) vs. Job Vacancies



Source: Macrobond, MIDFR

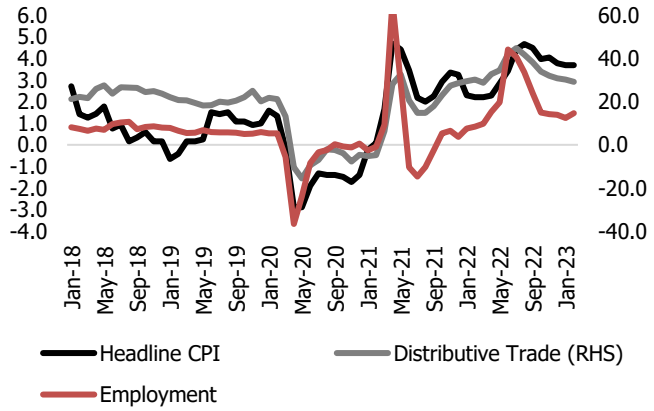
Solid distributive trade performance. Malaysia's distributive trade sales grew by +14.7%yoy in Feb-23, marking the 11 th straight months of double-digit growth rate and fastest pace in 4-month. All components except wholesale trade posted strong double-digit expansion. Wholesale trade inched up by +5.9%yoy while sales of motor vehicles increased by +36.1%yoy, the strongest expansion rate since Oct-22. As consumer demand stayed solid, retail trade sales grew by +19.2%yoy. Excluding price effects, seasonally adjusted volume of distributive trade growth hit 4-month high at +10.6%yoy, mainly supported by motor vehicles and retail trade by +24.9%yoy and +11.6%yoy respectively. On monthly comparison, distributive trade volume increased by +5.5%mom, the biggest gain in 10-month. The expansion of distributive trade sales came from both value and volume factors. Looking ahead, we opine the upbeat momentum of domestic demand to continue in 2023 underpin by steady labour market, softening inflationary pressure, pick-up in tourism activities and supportive economic policies.

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



Source: Macrobond, MIDFR

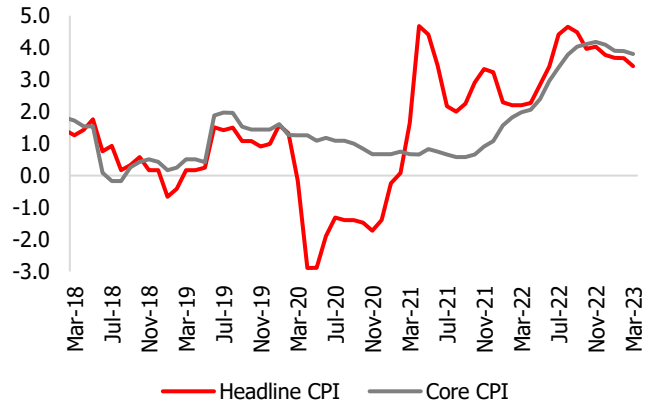
Chart 10: DT vs. CPI vs. Employment (YoY%)



Source: Macrobond, MIDFR

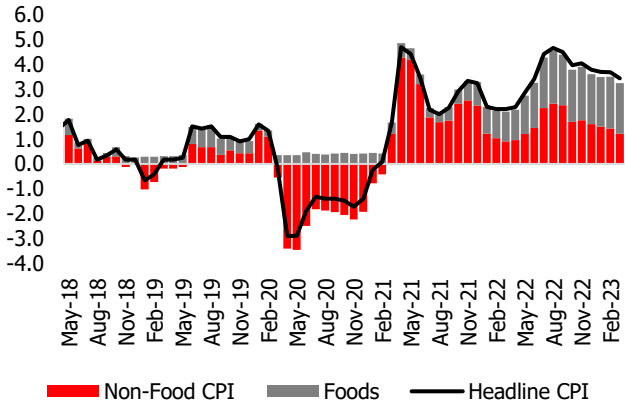
Headline inflation moderated to 9-month low. Headline inflation rate descended to +3.4%yoy, lower than market estimates +3.6%yoy. Non-food inflation decelerated further to 10-month low of +1.7%yoy while food inflation softened to +6.9%yoy. Elevated global commodity prices, high food prices and firming domestic demand were among factors holding up inflation pressure in Malaysia. For instance, 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 +0.2%mom. We opine the strong inflation trend in Malaysia is highly driven by strong consumer demand, while cost factors are slowing down. Services inflation remained above +4%yoy for 7-straight months (pre-pandemic average: +2.6%yoy). Job market has been improving where employment growth has been above +2%yoy (pre-pandemic average: +1.7%yoy) for 18-straight months since Oct-21, while distributive trade sales continued to expand by double-digit pace +14.7%yoy in Feb-23.

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



Source: Macrobond, MIDFR

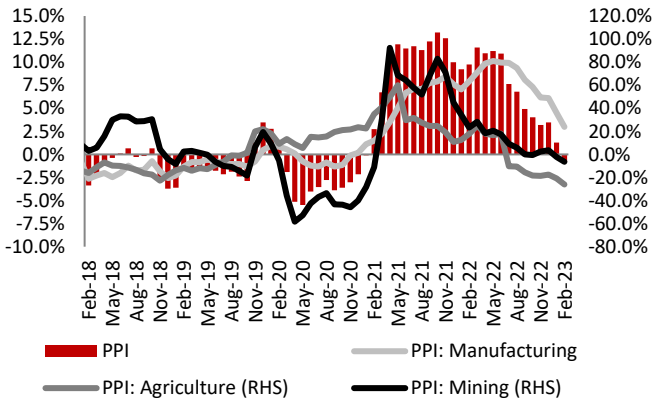
Chart 12: Food vs Non-Food CPI (YoY%)



Source: Macrobond, MIDFR

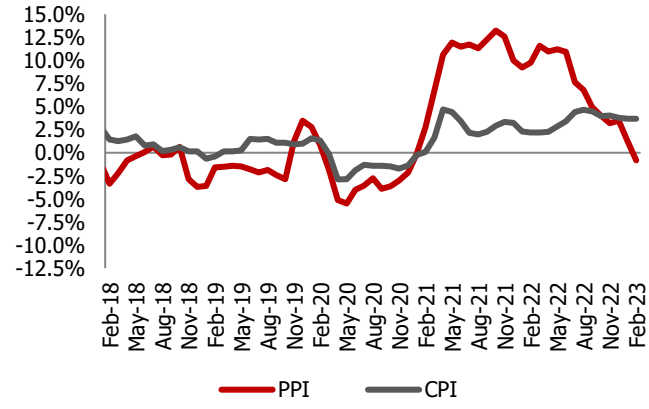
Input inflation contracted for the second consecutive month. PPI registered a larger deflation -2.9%yoy in Mar-23 (Feb-23: -0.8%yoy). Although producer prices rose +0.3%mom from previous month (Feb-23: -0.2%mom), the high base kept Mar-23 price levels below a year ago. In particular, PPI for crude materials extended contractionary trend since Aug-22, with a larger fall of -21%yoy (Feb-23: -16.9%yoy). Apart from the high base, the continued decline tracked the sharper fall in crude fuel prices (-13.6%yoy; Feb-23: -8.2%yoy). In line with this, PPI for the agriculture and mining sectors dropped sharper at -28.7%yoy (Feb-23: -26.1%yoy) and -11.5% (Feb-23: -6.5%yoy), respectively. In addition, PPI inflation for intermediate materials and finished goods eased to +1.5%yoy (Feb-23: +3.3%yoy) and +3.9%yoy (Feb-23: +4.0%yoy), respectively; and similar trend was observed in the manufacturing PPI which rose at the slowest pace (+1.4%yoy) in 2 years. Given the level of commodity prices remaining below last year and reduced cost pressures, we expect CPI inflation will continue to moderate as local suppliers face reduced pressures to increase selling prices.

Chart 13: PPI (YoY%)



Source: Macrobond, MIDFR

Chart 14: PPI vs CPI (YoY%)



Source: Macrobond, MIDFR

Keep GDP growth projection unchanged at +4.2% for 2023. We maintain our forecast that Malaysia's GDP to grow at +4.2%, a more moderate but normalized rate compared to the strong +8.7% expansion last year. Domestic demand will remain key driver keeping growth in the positives, backed by encouraging labour market condition, increased business activity, recovery in tourism sector with the rise in tourist arrivals, and no more drag from containment measures. Meanwhile, external trade will experience slower growth in view of the moderation in global economic growth. Nevertheless, we still expect rising demand for E&E, refined petroleum and commodities to support Malaysia's exports, although the performance this year will also be influenced by the high base and relatively lower commodity prices. We still expect China's economic reopening to provide positive spill over to Malaysia's economy, albeit the impact yet to be reflected in recent trade performance. While inflation has been on moderating trend, we are still cautious that risks from elevated inflation, geopolitical tensions, and further rise in borrowing costs, among others, would derail Malaysia's growth prospect this year.

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	6.2
Imports of Goods (c.i.f)	(3.5)	(5.8)	23.3	31.3	6.4
Trade Balance, RMb	145.7	183.3	253.1	255.5	268.4
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

April 2023 Key Economic Events

Apr 3: US manufacturing near three-year low; casts a shadow over economy. U.S. manufacturing activity slumped in March to the lowest level in nearly three years as new orders plunged, and analysts said activity could decline further due to tighter credit conditions

Apr 3: Rafizi: Govt disallows EPF withdrawal to protect the people. The government has the obligation to protect the people, especially those at risk, such as contributors to the Employees Provident Fund (EPF) who do not have enough savings for their old age, Economy Minister Rafizi Ramli said.

Apr 5: PM: First of RM170 billion worth of projects from China to start in May. He said Zhejiang Geely Holding Group Co Ltd (Geely) and Rongsheng Petrochemical Co Ltd (RPCL) were expected to visit the country to follow-up on their investments here.

Apr 6: IMF head expects less than 3% global economic growth in 2023. The International Monetary Fund chief said Thursday the world economy is expected to grow less than 3% this year, down from 3.4% last year, increasing the risk of hunger and poverty globally.

Apr 10: EPF Account 2 Support Facility not collateral to bank, says Ahmad Maslan. The Employees' Provident Fund (EPF) Account 2 Support Facility is not in the form of collateral offered by a borrower to a bank, said Deputy Finance Minister I Datuk Seri Ahmad Maslan. He said a bank cannot use a borrower's EPF savings if the (EPF) member or borrower fails to pay his loan instalments.

Apr 10: Fadillah: Govt drawing up strategies to ensure for food security. The government is formulating several strategies to strengthen food security in the country, said Deputy Prime Minister Datuk Seri Fadillah Yusof. Fadillah, who is also Plantation Industries and Commodities minister, said the ministry and the Agriculture and Food Security Ministry led by Datuk Seri Mohamad Sabu are responsible at technical level to evaluate and provide input related to agriculture issues before they are tabled in the Cabinet.

Apr 11: Malaysian banks are prepared for tougher conditions, S&P says. Malaysian banks can ride out tougher conditions this year amid a slowdown in the country's growth rate and weaker borrowing appetite, according to S&P Global Ratings.

Apr 13 Expired Covid-19 vaccine doses cost govt RM81.4mil. Zaliha said there were 2,796,638 Covid-19 vaccine doses of various brands that had expired and were being stored at the ministry's facilities and vaccine storage warehouse.

Apr 16: All depts, agencies under Ministry of Agriculture and Food Security bracing for hot spell. All departments and agencies under the Ministry of Agriculture and Food Security (MAFS) are gearing up and constantly monitoring the hot spell that is expected to affect the country's agriculture sector.

Apr 17: Malaysia keeps May crude palm oil export duty at 8%. Malaysia has maintained its May export tax for crude palm oil at 8% and raised its reference price, a circular on the Malaysian Palm Oil Board website showed on Monday (April 17).

Apr 18: Health minister says over 4,200 contract doctors made permanent staff to date. Health Minister Dr Zaliha Mustafa today gave an assurance that her ministry is on track to provide permanent positions to its contract doctors, amid continued grievances about their employment prospects.

Apr 19: Fed likely to hike rates one more time and then hold steady, Bostic says. The U.S. central bank most likely has one more interest rate rise ahead of it as it continues to work to lower high inflation, Atlanta Federal Reserve President Raphael Bostic said on Tuesday.

Apr 20: Govt to review strict MM2H conditions. The government will review the strict conditions for the Malaysia My Second Home (MM2H) programme that have forced many who adopted the country as their second home to leave and led to a 90 per cent drop in applications.

Apr 24: Calls to move away from the U.S. dollar are growing — but the greenback is still king. More and more countries — from Brazil to Southeast Asian nations — are calling for trade to be carried out in other currencies besides the U.S. dollar.

Apr 25: Abang Johari: New financial institution to aid Sarawak SMEs. A financial institution will be set up in Sarawak to help small- and medium-sized entrepreneurs venture into new economic activities, said Sarawak Premier Tan Sri Abang Johari Tun Openg.

28 Apr: 'Proposed luxury tax is to broaden govt's revenue base'. The proposed luxury tax was, among others, to allow the government to broaden its revenue base and continue providing subsidies to the people, says Umno deputy president Datuk Seri Mohamad Hasan.

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