1 June 2023

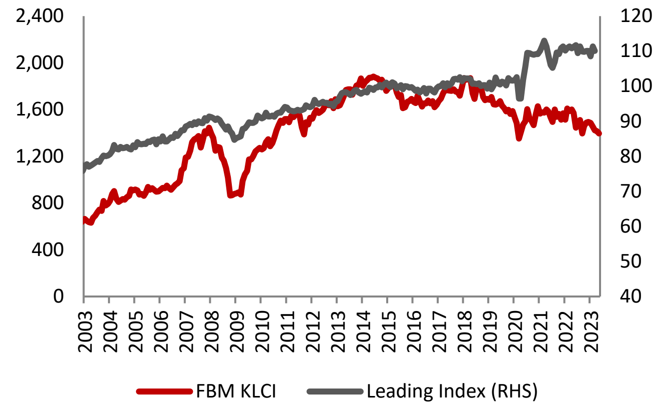
MONTHLY ECONOMIC REVIEW | May 2023

Leading Index Points to Softer Growth Momentum in 2HCY23

- *Near-term growth momentum to soften. Malaysia's Leading Index fell again by -1.2%yoy in Mar-23, mainly due to reduction in real imports of semiconductors and Bursa Malaysia industrial index. The weaker LI in 1QCY23 points to softer growth outlook in the near term.*
- *GDP growth moderated to +5.6%yoy in 1Q, but better than expected. Malaysia's GDP growth moderated to +5.6%yoy in 1QCY23 (4QCY22: +7.1%yoy). Private consumption was robust and resilient on the back of moderating inflation and higher employment.*
- *Exports contracted by -17.4%yoy, sharpest fall since May-20. Exports declined by -17.4%yoy in Apr-23 (Mar-23: -1.4%yoy), the sharpest contraction in 3 years i.e. since the post-pandemic recovery from the sharp decline during the first MCO in 2020.*
- *Sound and steady employment growth. Recovery of Malaysia's labour market continued as unemployment rate maintained at new pandemic low 3.5% in Mar-23. Labour force and employment continued expanding +2.3%yoy and +2.9%yoy, respectively.*
- *Maintain our 2023 GDP growth forecast at +4.2% for now. With growth momentum to soften in the latter part of the year and external trade performance having performed weaker than expected, we keep our 2023 GDP growth forecast unchanged for now at +4.2%.*

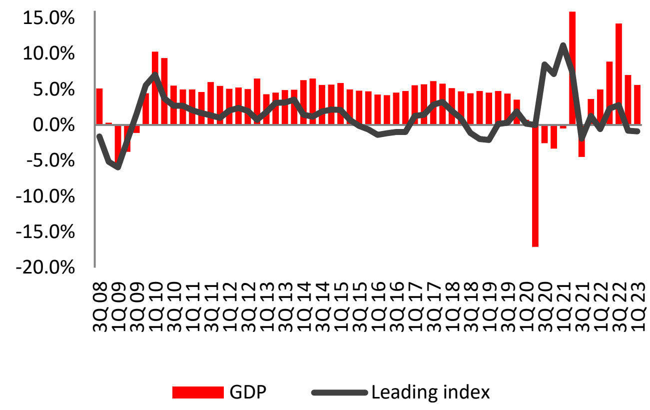
Near-term growth momentum to soften. Malaysia's Leading Index (LI) fell again by -1.2%yoy (Mar-23: +0.6%yoy), mainly due to reduction in real imports of semiconductors and Bursa Malaysia industrial index. Meanwhile, economic condition remained higher than last year in Mar-23 albeit the rise in Coincident Index (CI) was more moderate at +3.4%yoy (Feb-23: +4.6%yoy), with improvement in all indicators except capacity utilization in manufacturing sector. As a forward-looking indicator, the continued fall in LI at -0.9%yoy in 1QCY23 (4QCY23: -0.8%yoy) suggests Malaysia's growth outlook will soften in 2HCY23. While slowdown in external demand already translated into weaker-than-expected trade performance, we opine resilience in domestic spending will be key to sustain Malaysia's economic growth later this year.

Chart 1: Leading Index vs KLCI (Points)



Source: Macrobond, MIDFR

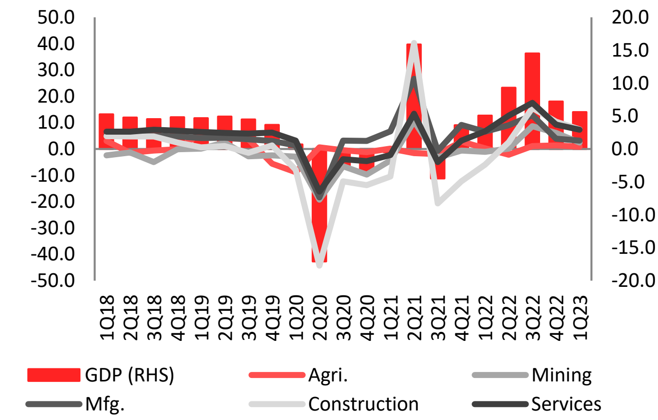
Chart 2: Leading Index vs GDP (YoY%)



Source: Macrobond, MIDFR

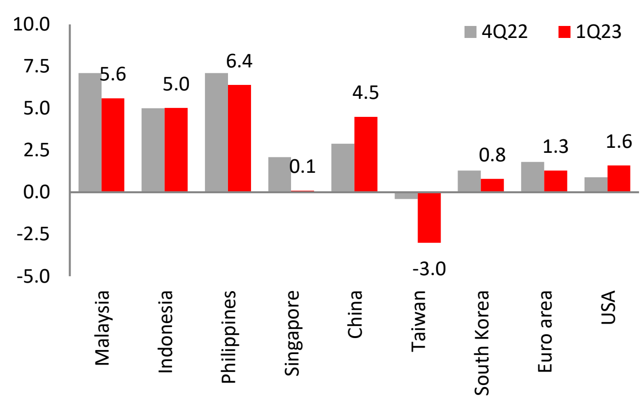
GDP growth moderated to +5.6%yoy in 1Q, but better than expected. Malaysia's GDP growth moderated to +5.6%yoy in 1QCY23 (4QCY22: +7.1%yoy), exceeding our prediction and market expectations. As expected, domestic demand remained as the major driver of growth, cushioning the impact of weaker external demand. Private consumption was robust and resilient on the back of moderating inflation and higher employment. On another note, the sharper fall in real imports kept net exports contributing positively to the 1Q growth. From the supply side, services maintained above pre-pandemic growth at +7.3%yoy (4QCY23: +9.1%yoy), and the sector alone contributed more than three-quarter of growth during the quarter. On quarter-to-quarter basis, Malaysia's seasonally adjusted GDP rebounded and rose by +0.9%qoq, alleviating concerns over overall growth outlook after growth momentum weakened in the final quarter last year (4QCY22: -1.7%qoq). Nevertheless, the quarterly jump which was largely driven by increased consumer spending (+2%qoq) was limited by declines in government spending (-1.7%qoq), fixed investment (-1.4%qoq), and even weaker exports (-8.9%qoq) from previous quarter.

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



Source: Macrobond, MIDFR

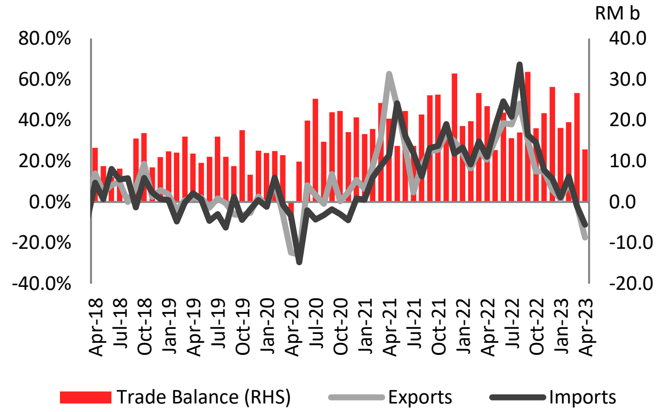
Chart 4: Growth for Selected Countries (YoY%)



Source: Macrobond, MIDFR

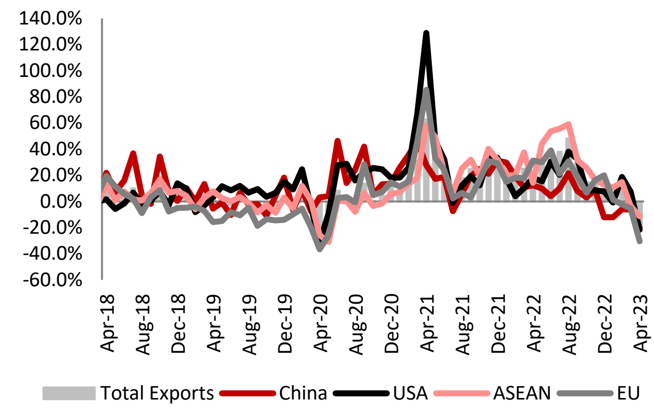
Exports contracted by -17.4%yoy, sharpest fall since May-20. Exports declined by -17.4%yoy in Apr-23 (Mar-23: -1.4%yoy), the sharpest contraction in 3 years i.e. since the post-pandemic recovery from the sharp decline during the first MCO in 2020. It was attributable to sharper fall in domestic exports (-22.3%yoy), in contrast to sustained but slower growth in re-exports (+3.8%yoy). In particular, 75% of the fall was contributed by the reduced exports of manufacturing goods, primarily E&E, manufactures of metal and chemicals & chemical products. While shipments of crude petroleum and LNG also declined during the month, exports of petroleum products in contrast maintained its positive contribution to overall exports growth. On month-on-month basis, the -18.7%mom monthly drop in exports was mainly attributable to weaker external demand for E&E, palm oil & palm oil products, machinery & equipment as well as LNG & crude petroleum. Apart from the high base, we still expect the near-term export outlook to be constrained by the relatively lower commodity prices, especially for palm oil and crude oil, while processed petroleum products exports will remain as positive contributor. As imports fell faster than expected but not as sharp as exports (-11.1%yoy; -10.1%mom) mainly due to weaker purchases of intermediate and capital goods, trade balance fell to RM12.8b, the smallest in 11 months.

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



Source: Macrobond, MATRADE, MIDFR

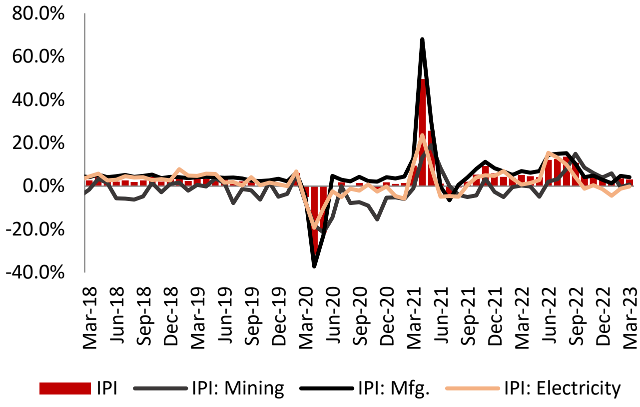
Chart 6: Exports Growth (YoY%) by Major Destination



Source: Macrobond, MATRADE, MIDFR

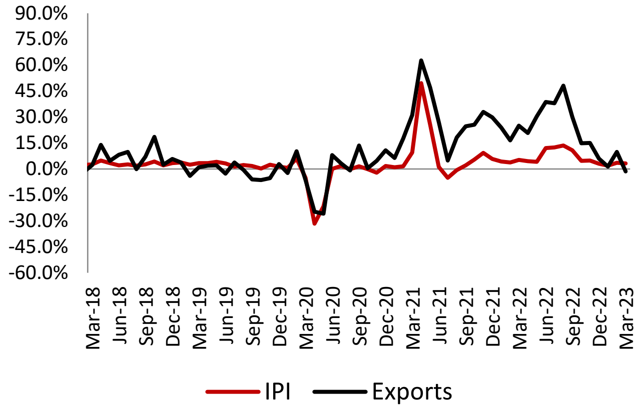
Better-than-expected IPI in Mar-23. Malaysia's IPI growth was better than expected and sustained at +3.1%yoy in Mar-23 (Feb-23: +3.5%yoy; market consensus: +1%yoy). The expansion was underpinned by higher manufacturing output (+4.1%yoy), such as refined petroleum, E&E and motor vehicles, and rebound in mining production (+0.8%yoy), with increased output for both crude oil and LNG. In contrast, electricity output fell by -0.3%yoy, signaling energy consumption was slightly lower than a year ago. On the month-on-month change, the level of IPI in Mar-23 was technically unchanged from Feb-23 after adjusting to seasonal difference. Although the small decline -0.3%mom in manufacturing output could have dragged down the overall IPI, this was cushioned by the rebound in mining output (+1%mom) and further rise in electricity generation (+1.1%mom). We expect IPI growth will continue as we anticipate better business activities on the back of improved supply condition and easing cost pressures.

Chart 7: IPI Performances by Sector (YoY%)



Source: Macrobond, MIDFR

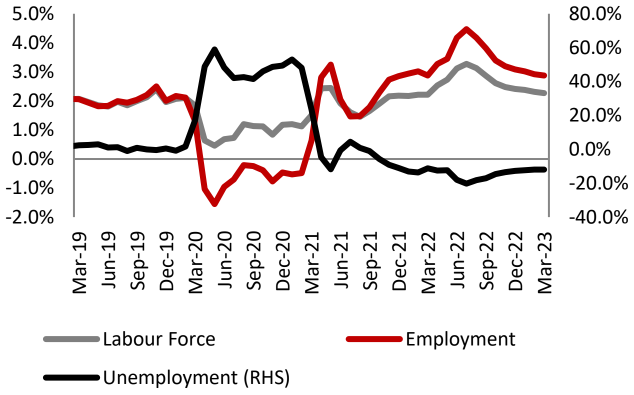
Chart 8: IPI vs Exports (YoY%)



Source: Macrobond, MIDFR

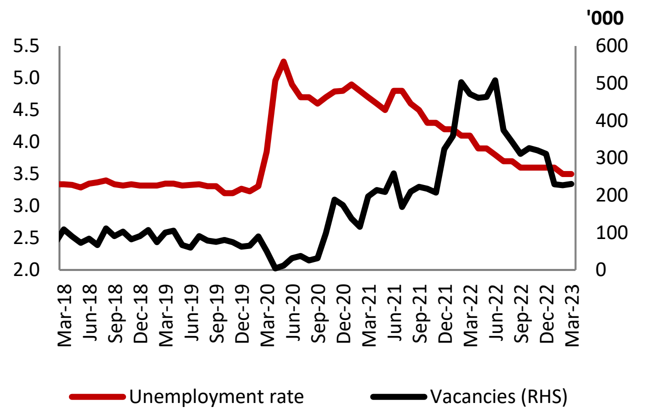
Sound and steady employment growth. Recovery of Malaysia's labour market continued as unemployment rate maintained at new pandemic low 3.5% in Mar-23. Labour force and employment continued expanding +2.3%yoy and +2.9%yoy, respectively, supported by upbeat domestic economic momentum and expansionary external front. On monthly basis, employment growth at +0.2%mom. Unemployment dipped further by -12%yoy, marking the 19th-consecutive months of contraction rate. In addition, outside labour force reduced by -1.1%yoy, registering the 17th-straight months of negative growth rate. Youth aged 15~24 unemployment rate descended further to a new pandemic low of 11.2%, but remained higher than pre-pandemic (2019: 10.4%). By employment type, employee which made up about 75.6% of the employment grew steadily by +1.7%yoy while employer and own-account-worker increased by +6.9%yoy and +8.1%yoy respectively in Mar-23. As for 1QCY23, employment grew by +2.9%yoy (4QCY22: +3.2%yoy) and average jobless rate 3.5% (4QCY22: +3.6%yoy). The strengthening job market in our view will further reinforce consumer consumption and support overall GDP growth.

Chart 9: Labour Market Key Indicators (YoY%)



Source: Macrobond, MIDFR

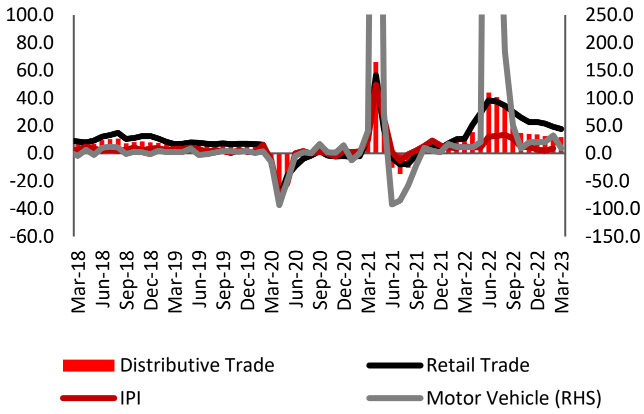
Chart 10: Unemployment Rate (%) vs. Job Vacancies



Source: Macrobond, MIDFR

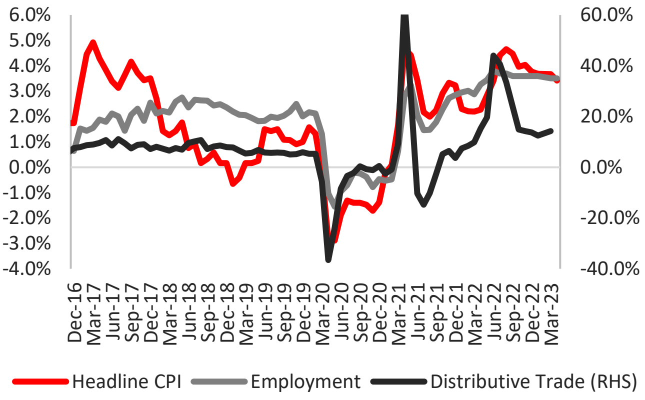
Sturdy domestic trade performances. Malaysia's distributive trade sales grew by +11.9%yoy in Mar-23, marking the 12 th straight months of double-digit growth rate. All components posted solid expansion rate with motor vehicles by +9.3%yoy, wholesale by +7.6%yoy and retail by +17.7%yoy respectively. Despite inflation concerns, consumer demand remained robust as retail trade growth still on double-digit rate for the past 14-month. Excluding price effects, seasonally adjusted volume of distributive trade growth touched +9.4%yoy, mainly supported by motor vehicles and retail trade by +4%yoy and +12%yoy respectively. On monthly comparison, retail trade volume increased by +1.2%mom, 2-straight months of positive gain. The expansion of distributive trade sales came from both value and volume factors. As for 1QCY23, distributive trade sales increased by +12.9%yoy (4QCY22: +14.3%yoy). We opine the upbeat momentum of domestic demand underpin by steady labour market, softening inflationary pressure, pick-up in tourism activities and supportive economic policies will continue boosting 1QCY23 GDP growth as well as overall 2023 expansion rate.

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



Source: Macrobond, MIDFR

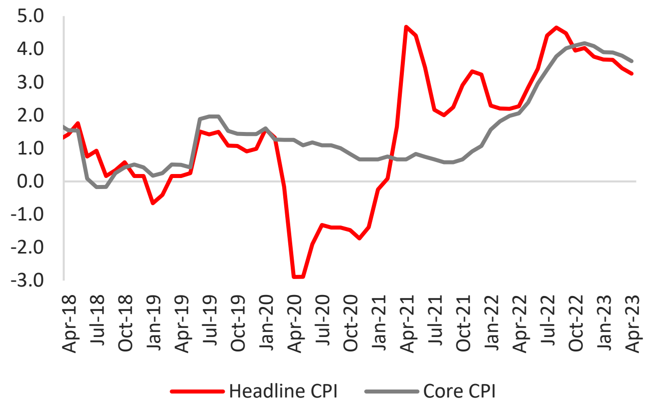
Chart 12: DT vs. CPI vs. Employment (YoY%)



Source: Macrobond, MIDFR

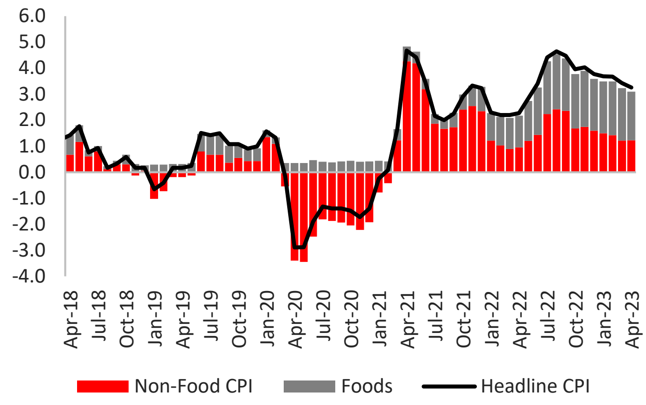
Headline inflation eased further to 11-month low. Headline inflation rate continued descending to +3.3%yoy, the slowest rate since May-22. Non-food inflation inched up marginally by +1.8%yoy while food inflation softened to 10-month low at +6.3%yoy. The moderation of inflation among others was due to high base effect and improved supply condition. Nevertheless, 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). Services inflation remained above pre-pandemic average of +2.6%yoy. Steady core inflation trend was highly driven by strong consumer demand while cost factors were on a decline. 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 +11.9%yoy respectively in Mar-23.

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



Source: Macrobond, MIDFR

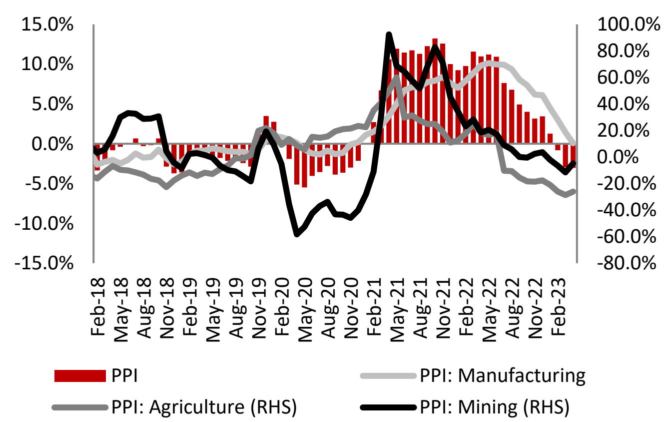
Chart 14: Food vs Non-Food CPI (YoY%)



Source: Macrobond, MIDFR

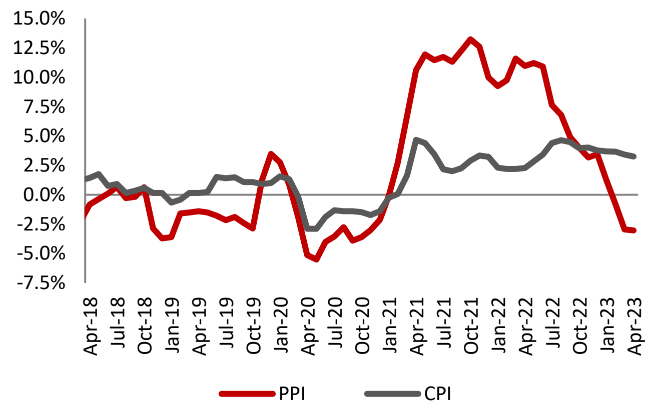
Input inflation fell by -3%yoy in Apr-23. Malaysia's producer prices continued to fall with a slightly faster deflation at -3%yoy in Apr-23 (Mar-23: -2.9%yoy), marking the third consecutive month of contraction and the largest drop since Nov-20. Among the sectors, continued and sharp deflation was recorded in agriculture, forestry & fishery (Apr-23: -28.7%yoy; Mar-23: -26%yoy) and mining (Apr-23: -11.5%yoy; Mar-23: -4.7%yoy). Moreover, inflation for manufacturing sector and electricity & gas both softened to +0.1%yoy (Mar-23: +1.4%yoy). PPI for water supply also eased but marginally to +3.2%yoy (Mar-23: +3.3%yoy), the lowest in 8 months. By stage of production, the continued deflation was mainly observed in reduced cost for crude materials (-17.6%yoy) and small decrease in prices intermediate materials, supplies & components (-0.1%yoy). Notably, the PPI inflation for finished goods eased to +3.5%yoy, the slowest rise since Dec-22. Compared to prior month, producer prices rose by +0.2%mom (Mar-23: +0.3%mom) mainly due to higher prices of intermediate goods. We view the decline in PPI indicates reduced cost pressures for local suppliers, and thus lower probability for firms passing on more price hikes to the consumers. In short, we foresee the deflation for input prices and better supply condition to support for further moderation in CPI inflation in the coming months.

Chart 15: PPI (YoY%)



Source: Macrobond, MIDFR

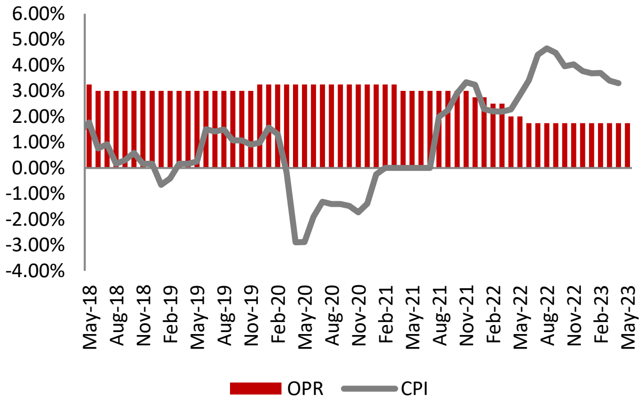
Chart 16: PPI vs CPI (YoY%)



Source: Macrobond, MIDFR

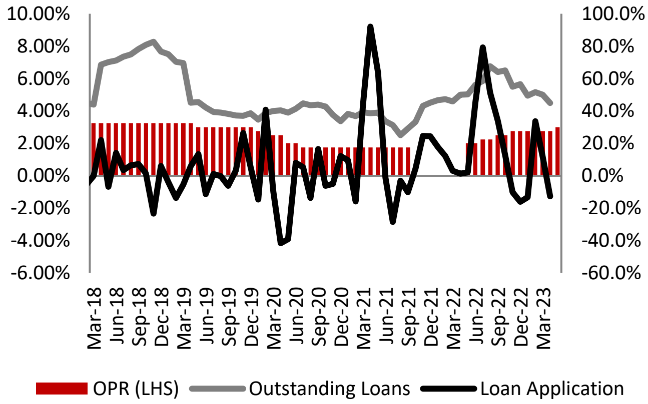
BNM hiked and restored OPR back to 3.00%. BNM raised the Overnight Policy Rate (OPR) by 25bps to 3.00% after its third Monetary Policy Meeting of 2023. The OPR hike was generally a surprise as market consensus mostly predicted for BNM to keep the policy rate unchanged. Given the decision, we conclude that BNM had a more optimistic assessment that the economy continued to grow robustly in 1QCY23. In the Monetary Policy Statement, BNM highlighted that the global economy remains firm underpinned by resilient domestic demand, strong labour marker conditions and stronger-than-expected China's economic recovery. However, the global economy is still surrounded with downside risks, among others elevated cost pressures and higher interest rates. Central banks across the globe still embarking contractionary monetary policy even though with slower pace as to manage inflationary pressure particularly driven by resilient domestic demand. BNM also foresees inflation to continue moderating with firm demand keeping core inflation elevated. While inflation is generally manageable, we opine BNM acted proactively to restore its monetary bullets to pre-pandemic levels. For the rest of the year, we predict OPR will be kept at 3.00% and BNM will focus more on sustaining growth going forward.

Chart 17: OPR (%) vs. Inflation (YoY%)



Source: Macrobond, MIDFR

Chart 18: OPR (%) vs Loans (YoY%)



Source: Macrobond, MIDFR

Maintain our 2023 GDP growth forecast at +4.2% for now. With growth momentum to soften in the latter part of the year and external trade performance having performed weaker than expected, we keep our GDP growth forecast unchanged at +4.2% for 2023. Moreover, we also assume inflation outlook will remain elevated i.e. above pre-pandemic level. Nevertheless, we believe the resilience and sustainable growth of domestic demand will remain as a key driver for Malaysia's economic growth this year. This will be supported by positive job growth, growing business activity, recovery in the tourism sector and higher tourist arrivals. On the other hand, downside risks to near-term growth outlook could come from external developments such as geo-political and trade tensions, volatility in the financial markets, and sharper slowdown in global demand.

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	(3.4)
Imports of Goods (c.i.f)	(3.5)	(5.8)	23.3	31.3	(1.9)
Trade Balance, RMb	145.7	183.3	257.2	253.7	227.2
Consumer Price Index	0.7	(1.2)	2.5	3.3	3.0
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	4.26
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

May 2023 Key Economic Events

May 3: Fed increases rates a quarter point and signals a potential end to hikes. The Federal Reserve on Wednesday approved its 10th interest rate increase in just a little over a year and dropped a tentative hint that the current tightening cycle is at an end. The central bank's Federal Open Market Committee raised fed funds rate by 0.25%-point to a target range of 5%-5.25%, the highest since August 2007.

May 5: Asyraf: 148 MPs signed MoU, so unity govt is intact. The support of all 148 members of parliament (MPs) in the unity government is intact. Unity Government Secretariat chief Datuk Dr Asyraf Wajdi Dusuki reiterated that the MPs were fully behind the leadership and that any rumour about an attempt to topple the unity government was coming from those who were jealous of its achievements

May 8: Covid-19 no longer a public health emergency, says Dr Zaliha. Covid-19 is not a public health emergency of international concern anymore, says the Health Ministry. Minister Dr Zaliha Mustafa said the Emergency Committee of the International Health Regulations (2005), which met in Geneva on May 4, had decided on the move.

May 9: Govt lifts ban on exporting renewable energy to fast-track Malaysia's carbon efficiency. Malaysia is removing its ban on trading renewable energy and stepping up its efforts to move the country to become more green and energy efficient.

May 12: BNM governor denies OPR rise has resulted in bankruptcies going up. Bank Negara Malaysia (BNM) governor Tan Sri Nor Shamsiah Mohd Yunus denied increase in OPR has led to a rise in bankruptcies. She said there are no figures to support such allegation. Households on aggregate continued to hold financial assets in excess of debt.

May 12: Penang scales down controversial PSI project -to scrap island B and C. Penang will do away with two of three islands of the controversial Penang South Islands (PSI) reclamation project. This will mean a scaling down of 49 per cent of the total three man-made islands project.

May 15: No more subsidy for high household electricity use, says PM. Households with high electricity consumption will no longer enjoy government subsidies, said Prime Minister Datuk Seri Anwar Ibrahim. Households, such as those that used three fans and four air conditioners, should pay the actual cost of consumption.

May 16: Immediate cloud seeding at seven dams to avert potential water woes, says Zahid. Cloud seeding will be carried out immediately to avert potential water woes due to the hot spell, says Datuk Seri Dr Ahmad Zahid Hamidi. It would be done at catchment areas for 7 dams where water level has receded. They are Sg Muda and Sg Kedah, Sg Melaka, Sg Kelantan, Sg Klang, Sg Bernam and Sg Similajau.

May 18: Rafizi: Malaysia can reach high-income status in next five years, if all goes well. Malaysia should be able to leap from being a middle-income nation to high-income by 2028 if everything goes right, Economy Minister Rafizi Ramli said.

May 24: DoSM: Malaysia's business outlook to remain positive in next six months. Malaysia's business outlook is seen to remain positive in the next six months from April to September 2023, with a net balance of +14.9% from +12.1% previously, said the Department of Statistics Malaysia.

May 25: Another Fed rate hike could be in play during June meeting. Wall Street traders are ratcheting up the odds that the Federal Reserve lifts interest rates for the 11th straight time in June amid ongoing signs of inflationary pressures in the U.S. economy.

May 26: KPDN appoints five wholesalers in Penang to supply sugar to retailers. The Penang branch of the Ministry of Domestic Trade and Cost of Living (KPDN) has appointed five major wholesalers to help overcome sugar supply disruptions in the state over the past few days.

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.

May 28: Rafizi: No plans to revise economic growth projection. The government has not planned to revise the economic growth forecast this year following the depreciation of the ringgit's value in the last two weeks. Economy Minister Rafizi Ramli said, however, the government will keep monitoring the development in ringgit movement.

May 29: Malaysia to fight discriminatory trade practices against its agricommodity sector. The government will fight against any discriminatory trade practices against Malaysia's agricommodity sector, says Deputy Prime Minister and Plantation and Commodities Minister Datuk Seri Fadillah Yusof.

May 30: T20 contributed 85% of personal income tax collected in 2022. The Top 20 (T20) group of income earners in the country contributed RM33.68 billion or 85% of the total personal income tax collected in 2022.

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