midf RESEARCH

1 December 2023

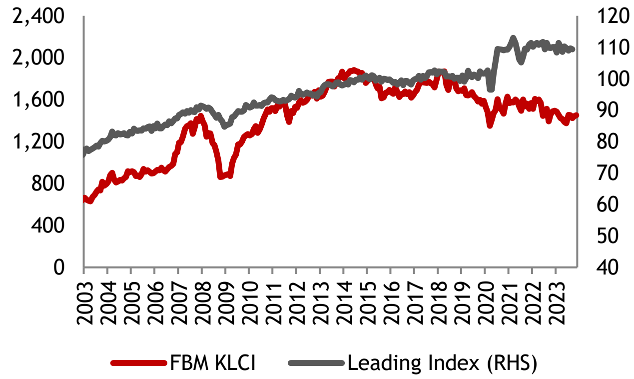
MONTHLY ECONOMIC REVIEW | November 2023

LI Signals Malaysia's Growth Prospects May Get Better

- *Growth prospects improving. Growth prospects are expected to improve given the slower contraction in Malaysia's Leading Index (LI), which fell by -0.3%yoy in Sep-23 (Aug-23: -0.5%yoy).*
- *Still moderate growth in 3QCY22. Malaysia's economic growth accelerated slightly to +3.3% in 3QCY22, (2QCY23: +2.9%yoy). The moderate below-4% growth reflects the continued drag from weak external demand.*
- *Exports contracted slower at -4.4%yoy in Oct-23. The decline in exports also moderated to -4.4%yoy because of the slower decline in among others exports of E&E, palm oil, and rubber.*
- *Steady and stable job market. Malaysia's labour market continued improving trend as unemployment rate maintained at post-pandemic low of 3.4% in Sep-23. Labour force and employment growth rates continued albeit at a moderating pace of +1.8%yoy and +2%yoy, respectively.*
- *Malaysia's economy will grow at +4.2% this year. We maintain our forecast that Malaysia's economy will grow at +4.2%, moderating from +8.7% expansion in 2022. Despite the drag from weak external demand, the continued growth in domestic spending and investment activities underpin the sustained growth this year.*

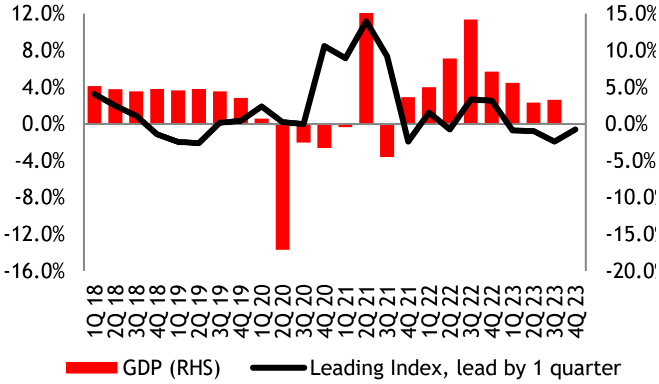
Growth prospects improving. Growth prospects are expected to improve given the slower contraction in Malaysia's Leading Index (LI), which fell by -0.3%yoy in Sep-23 (Aug-23: -0.5%yoy). The decline in Sep-23 was the slowest fall in 7 months of contraction since Mar-23. In particular, LI components which recorded increases were the *number of housings approved* and *Bursa Malaysia Industrial Index*. From month-to-month perspective, LI fell by -0.4%mom (Aug-23: +0.7%mom) due to reduction in *real imports of other basis precious & other non-ferrous metals* and *number of new companies registered*. For the Coincident Index (CI), the continued rise by +2.1%yoy, the same growth as in Aug-23, signals the overall economy thus far still grew higher than last year. This was mainly backed by increases in real EPF contributions and retail trade volume. Compared to Aug-23, the CI rose further by +0.2%mom (Aug-23: +0.1%mom), primarily due to the higher employment in the manufacturing sector. The further improvement in LI is in line with our expectations as we expect growth outlook will gradually improve in the 4QCY23. Despite the persistent moderate momentum because of the weak external trade, continued growth in CI also signals the country's economic growth remained in the positives, as shown by the sustained GDP growth in 3QCY23.

Chart 1: Leading Index vs KLCI (Points)



Source: Macrobond, MIDFR

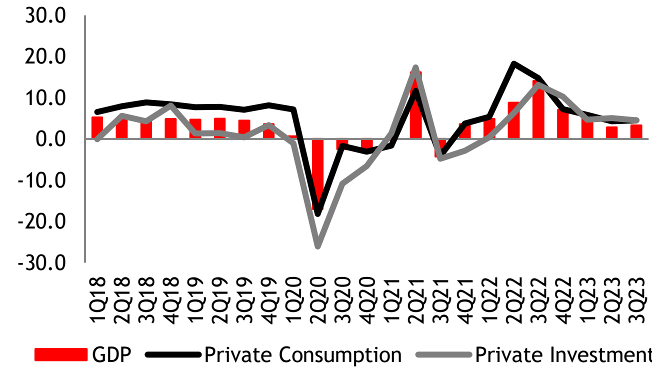
Chart 2: Leading Index vs GDP (YoY%)



Source: Macrobond, MIDFR

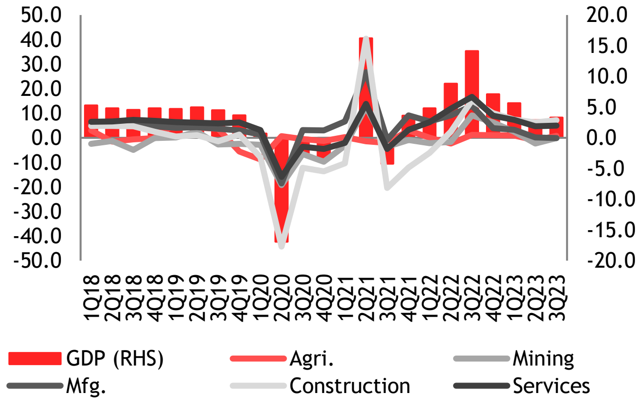
Still moderate growth in 3QCY22. Malaysia's economic growth accelerated slightly to +3.3% in 3QCY22, (2QCY23: +2.9%yoy), similar to the advance estimate. The moderate below-4% growth reflects the continued drag from weak external demand; while the sustained growth was anchored by the continued rise in domestic demand, thanks to growing spending activities on the back of positive job market conditions with more people getting employed. In addition, the tourism sector recovery, with increased tourist arrivals and spending, also contributed to the growth in domestic spending. Although trade surplus widened to RM18.7b (2QCY23: RM13.9b), much lower (-22.7%yoy) than the surplus in 3Q last year, contributing a larger downward drag of -1.4ppt to the 3QCY23 growth (2QCY23: -0.1ppt). If we exclude the drag from external trade, the economy could've grown more than +4.5%yoy due to larger contribution from domestic demand (3QCY23: +4.7ppt; 2QCY23: +3.0ppt). On quarter-to-quarter basis, Malaysia's GDP grew robustly by +2.6%qoq (2QCY23: +1.5%qoq) after seasonal adjustment, marking the third straight quarter of quarterly growth and the strongest 5 quarters mainly attributable to higher government spending (+4.6%qoq) and fixed investment (+1.8%qoq) which offset the decline in private consumption (-0.7%qoq). Looking at 4QCY23, we expect the growth momentum to pick up on the back of improving external demand and continued expansion in domestic demand.

Chart 3: Leading Index vs KLCI (Points)



Source: Macrobond, MIDFR

Chart 4: GDP by Supply Side (YoY%)

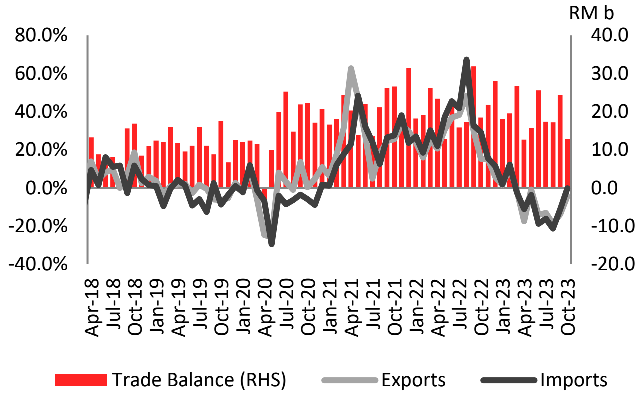


Source: Macrobond, MIDFR

Exports contracted slower at -4.4%yoy. Malaysia's total trade declined further for the 8th straight month but at slower pace of -2.4%yoy in Oct-23, with total trade value reaching 12-month high at RM239.5b. The

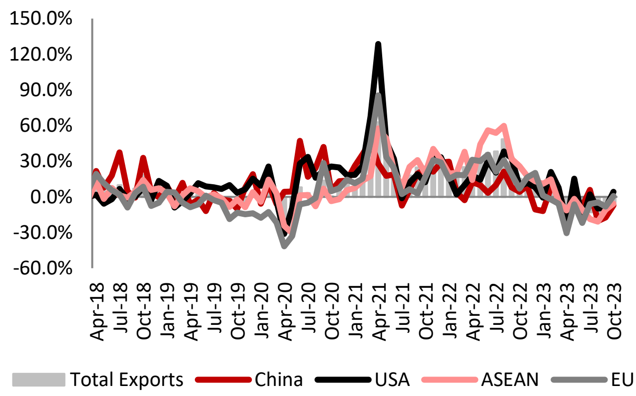
+6.8%mom in total trade was mainly due to strong surge in imports (+13.4%yoy), which also resulted in trade surplus shrinking to RM12.9b (Sep-23: RM24.4b), approximately -30.3%yoy lower than the surplus a year ago. The decline in exports also moderated to -4.4%yoy, the slowest contraction in 5 months. Although the improvement (i.e., the slower contraction) was anticipated, the pace of decline was in line with market consensus but not as steep as our estimate, because of the slower decline in, among others exports of E&E, palm oil, and rubber. Both domestic exports and re-exports also fell slower at -5%yoy and -2.2%yoy (Aug-23: -12.4%yoy and -18.3%yoy), respectively. Compared to the prior month, exports grew by +1.5%mom driven primarily by stronger exports of petroleum products (+28.6%mom), LNG (+16.5%), and palm oil & palm oil products (+5.6%mom). With the improvement in Oct-23 trade data signaling another month of recovering external demand, we believe the trade recovery will be supportive of economic growth in 4QCY23 onwards.

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



Source: Macrobond, MATRADE, MIDFR

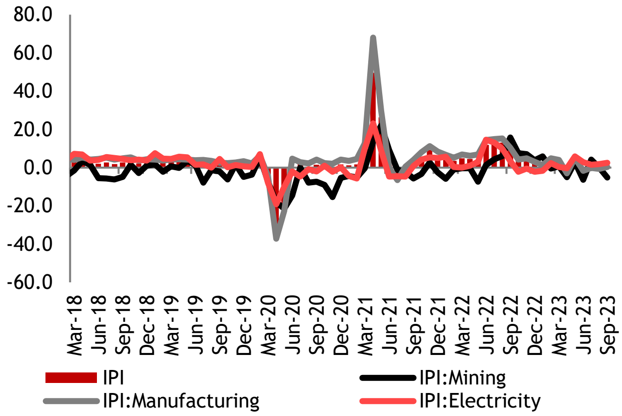
Chart 6: Exports Growth (YoY%) by Major Destination



Source: Macrobond, MATRADE, MIDFR

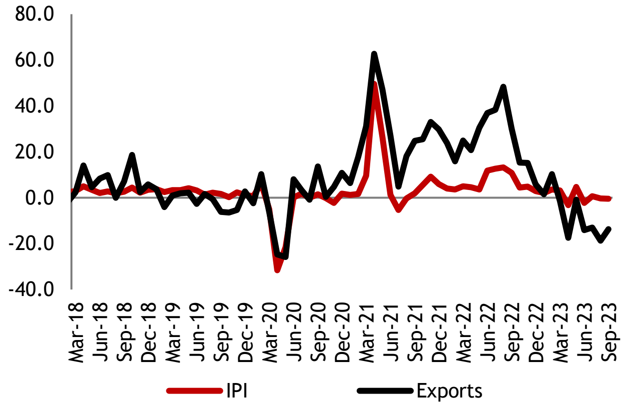
IPI fell by -0.5%yoy in Sep-23. Malaysia's IPI contracted by -0.5%yoy in Sep-23 (Aug-23: -0.3%yoy), falling for the second month despite rebound in manufacturing output. The -0.5%yoy contraction in Sep-23 was similar to average market consensus polled by Bloomberg but lower than our expectation as we anticipated stronger IPI in view of better export performance. In particular, the decline in mining sector output (-5.2%yoy) was the main drag to the overall IPI in Sep-23 mainly because of sharper fall in natural gas output (-7.8%yoy). Manufacturing output, on the other hand, rebounded to a marginal growth of +0.4%yoy (Aug-23: -0.6%yoy), registering the first growth after 3 months of contraction. This was driven by sustained rise in domestic-oriented output and stabilization in E&E output. Electricity output also increased in Sep-23, growing faster at +2.5%yoy, on the back of increased electricity demand. We expect manufacturing output will improve further in the coming months, to be supported by recovering external demand as well as continued growth in domestic demand.

Chart 7: IPI Performances by Sector (YoY%)



Source: Macrobond, MIDFR

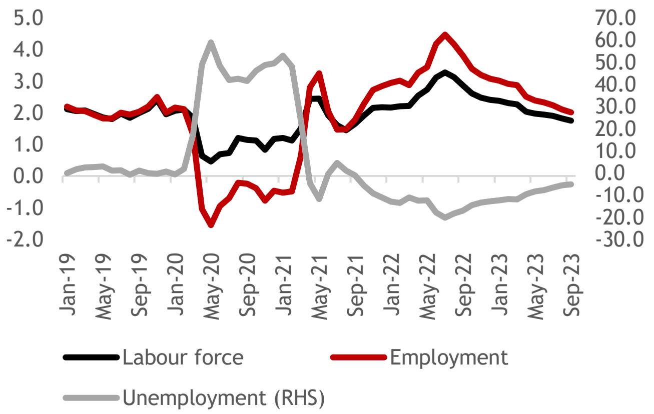
Chart 8: IPI vs Exports (YoY%)



Source: Macrobond, MIDFR

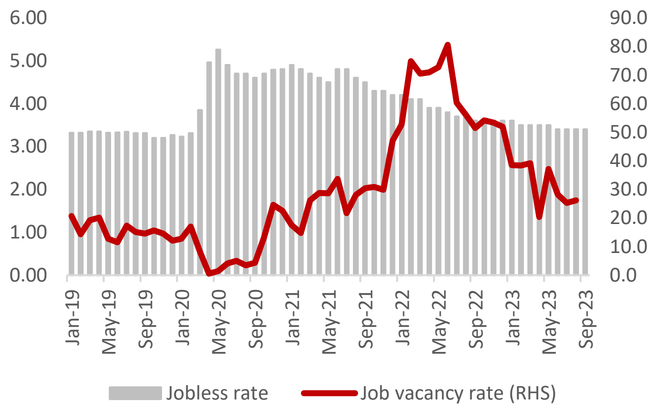
Steady and stable job market. Malaysia's labour market continued on improving trend as unemployment rate maintained at post-pandemic low of 3.4% in Sep-23. Labour force and employment growth rates continued albeit on moderating pace of +1.8%yoy and +2%yoy, respectively, the slowest in 2 years. On month-on-month basis, employment grew +0.1%mom, marking the 27 straight months of positive gains. Unemployment dipped further by -5.2%yoy, marking the 25 consecutive months of contraction. The unemployed persons dropped further by -0.6%mom to 574K, approximately 55K higher than average jobless persons 519K in 2019. In addition, outside labour force was reduced by -0.1%yoy, registering the 23 straight months of negative growth. For youth aged 15~24, unemployment rate hit a new pandemic-low of 10.6%, yet slightly higher than pre-pandemic (2019: 10.4%). By employment type, employee which made up about 75.5% of the employment as of 9MCY23 increased steadily by +1.2%yoy while employer (3.5% of employment) and own-account-worker (18% of employment) increased by +4.7%yoy and +5.3%yoy, respectively, in Sep-23. The strengthening job market in our view will further reinforce consumer consumption and support overall GDP growth for this year.

Chart 9: Labour Market Key Indicators (YoY%)



Source: Macrobond, MIDFR

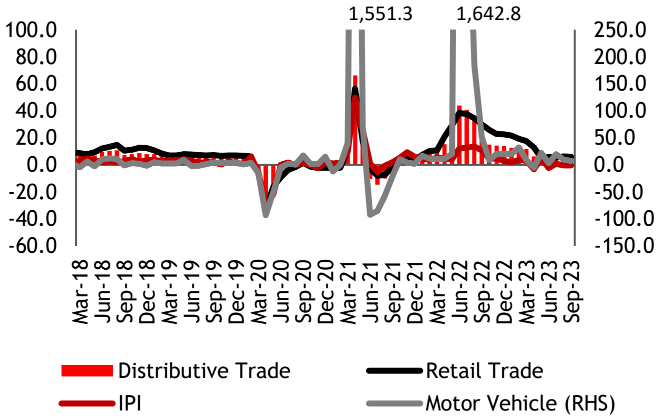
Chart 10: Unemployment Rate (%) vs. Job Vacancies



Source: Macrobond, MIDFR

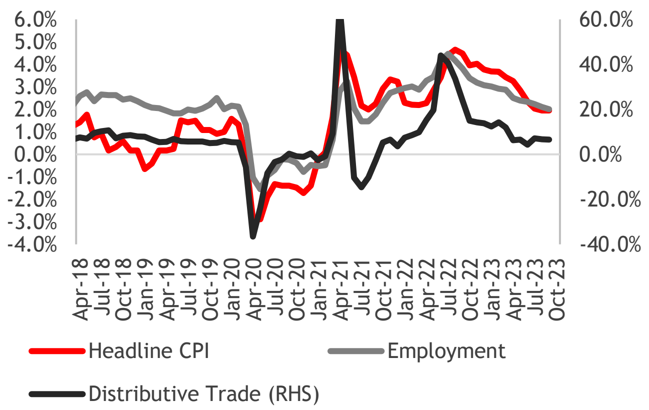
Steady and sound consumer spending. Malaysia's retail trade posted growth of +5.9%yoy in Sep-23, slightly lower than the 4-month high pace recorded in the previous month. On a month-on-month basis, non-seasonally-adjusted retail trade still grew, at a pace of +1.4%mom. Overall distributive trade sales increased by +6.5%yoy and +0.1%mom. By component, sales of motor vehicles remained solid as it grew by +7%yoy and wholesale trade growth at 6-month high +6.9%yoy. In terms of seasonally adjusted volume, distributive trade as well as motor vehicles and wholesale trade fell by -0.5%mom, -12.8%mom and -2.3%mom respectively. Retail trade seasonally adjusted volume which reflects steady consumer spending grew by +1.7%mom. The resilient of consumer demand in Malaysia is in tandem with the healthy job market development and softening inflationary pressure. Looking ahead, we foresee sanguine domestic outlook for 4QCY23 onwards amid better pick-up in tourism activities and supportive & accommodative economic policies from both fiscal and monetary sides. As for 3QCY23, distributive trade sales expanded by +6.8%yoy (2QCY23: +5.7%yoy) which signal for a slight betterment in Malaysia's GDP performance.

Chart 11: Distributive Trade (YoY%)



Source: Macrobond, MIDFR

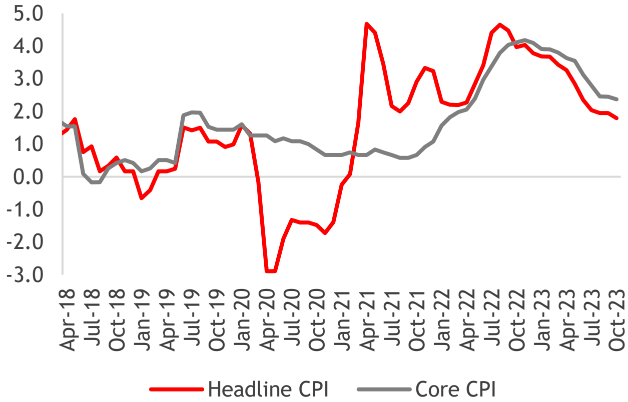
Chart 12: DT vs. CPI vs. Employment (YoY%)



Source: Macrobond, MIDFR

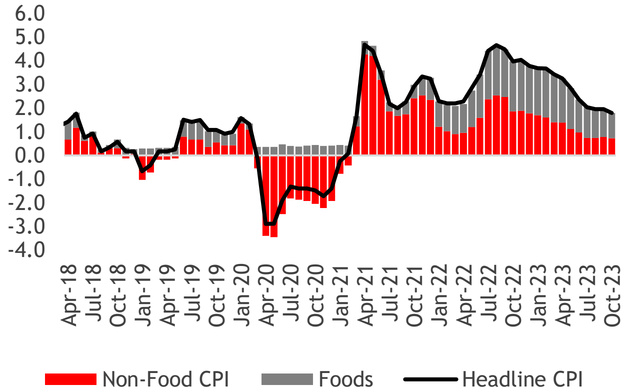
Headline inflation rate is close to 3-year low. Headline inflation rate registered at +1.8%yoy in Oct-23, the lowest since Mar-21. The inflation rate was below market consensus of +1.9%yoy. Non-food inflation rate maintained at +0.9%yoy while food inflation rate moderated to almost 2-year low at +3.6%yoy. The softening inflationay pressure among others was due to high base effects and normalisation of global commodity prices. Core inflation rate recorded lower at +2.4%yoy yet still above pre-pandemic average of +1.7%. Average 10MCY23 headline inflation was +2.7% (2022: +3.4%) and core inflation rate was +3.2% (2022: +3.0%). The softening inflationary pressure is a positive signal especially for domestic demand to stay on expansionary path in 4QCY23 onwards.

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



Source: Macrobond, MIDFR

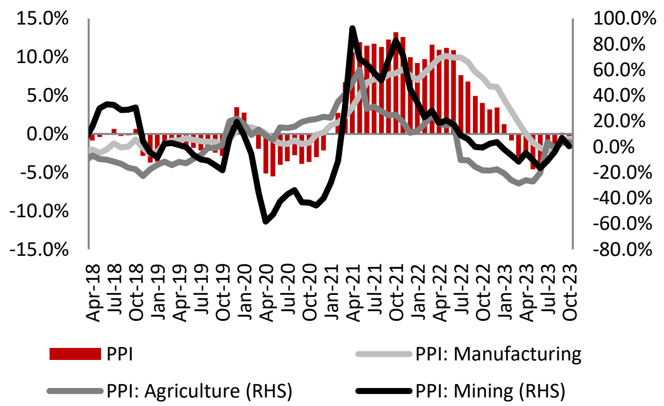
Chart 14: Food vs Non-Food CPI (YoY%)



Source: Macrobond, MIDFR

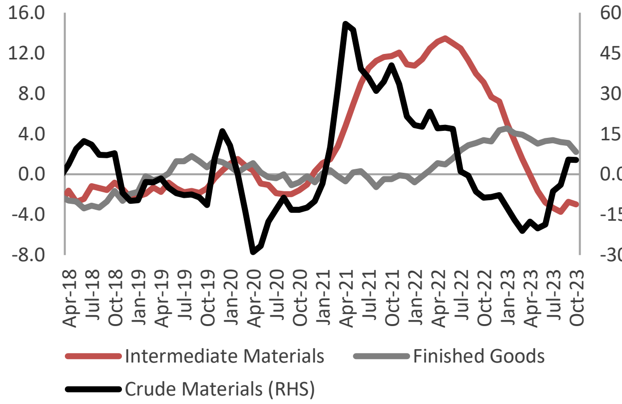
PPI back on deflationary. Malaysia's producer prices returned back to deflation of -0.3%yoy in Oct-23, after the first inflation in 8-month last month (Sep-23: +0.2%yoy). The PPI decline in Oct-23 was underpinned by moderating PPI inflation for crude materials by +5.3%yoy (Sep-23: +5.4%yoy). Prices of intermediate goods deflated further for 7-month in a row, -3.0%yoy. Input inflation for finished goods softened to 16-month low at +2.2%yoy. Against the previous month, overall producers' prices fell by -0.3%mom while intermediate materials and finished goods costs dropped by -0.2%mom and -0.6%mom respectively. Prices of crude materials were unchanged in terms of month-on-month basis. As of 10MCY23, overall PPI fell by -2.0%yoy, attributable to reduction in input prices as shown by deflation for crude materials (-11.4%yoy) and intermediate materials (-0.8%yoy%) vis-à-vis higher prices of finished goods (+3.4%yoy). Moving forward, we foresee low inflationary pressure to persist at least until 1HCY24 amid better domestic supply chain, stabilisation of interest rate and normalisation of global commodity prices. Among risks which could push Malaysia's PPI and CPI higher in 2024 are prolonged weakness in ringgit and surge in petrol & diesel prices following subsidy rationalisation efforts.

Chart 15: PPI by Sector (YoY%)



Source: Macrobond, MIDFR

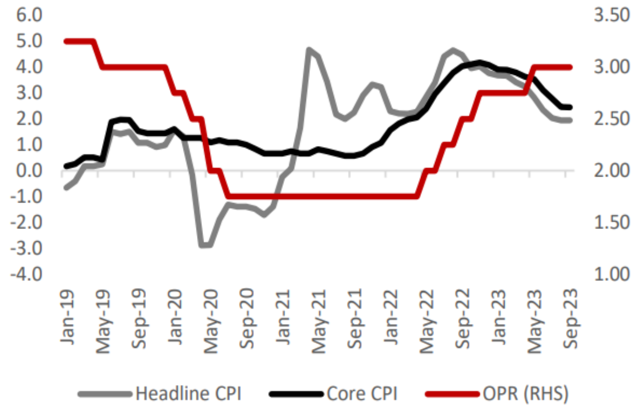
Chart 16: PPI by Processing Stage (YoY%)



Source: Macrobond, MIDFR

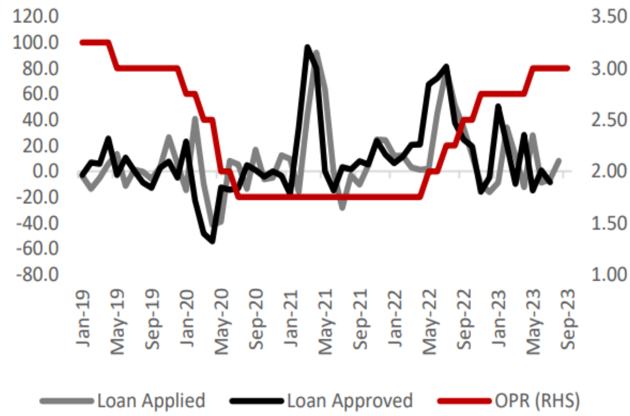
OPR maintained at 3.00%. BNM kept the Overnight Policy Rate (OPR) at 3.00%, in its final Monetary Policy Meeting of 2023 on 2 November 2023. In the Monetary Policy Statement, BNM highlighted that the global economy remains expanding as countries reported increased domestic demand on the back of strong labour market. For the domestic economy, BNM foresees domestic demand to remain on expansionary and while improvement in the external trade, particularly E&E exports, will contribute to next year's economic growth. On the price developments, BNM indicated easing cost pressures contributed to the moderation in both the headline and core inflation. Stabilisation of core inflation rate and amid challenging external environment may influence BNM to keep OPR at current levels. Given OPR already at the normal rate supportive of sustained growth in Malaysia's economy, we expect BNM will continue to maintain OPR at 3.00% next year.

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



Source: Macrobond, MIDFR

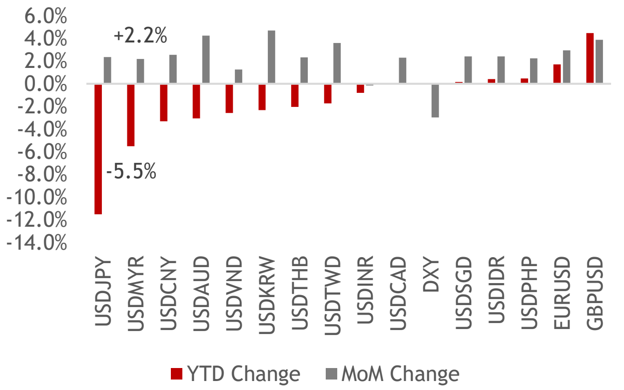
Chart 18: OPR (%) vs. Loan Growth (YoY%)



Source: Macrobond, MIDFR

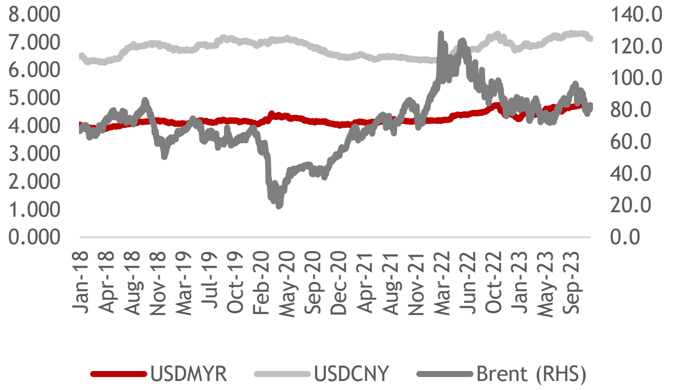
The ringgit is back on an appreciating trend in Nov-23. The Malaysian ringgit appreciated +2.2%%mom to RM4.661 as the dollar weakened. On a monthly average, the ringgit appreciated +1.3%mom to RM4.688. The ringgit marked its intra-month high on 6th Nov-23 at RM4.637, the strongest level since mid-Aug-23. However, Fed officials' still hawkish views and below-expectation China's economic update later dampened the ringgit rally. Despite a promising domestic demand outlook, the still lukewarm China manufacturing sector performance remained a drag on the regional trade outlook. Additionally, the movement in commodity prices was also unfavourable towards the ringgit as the Brent crude oil prices declined -5.2%mom to USD82.83pb (or contracted by -7.5%mom on average to USD82.03pb). Despite the external challenges, the ringgit is expected to appreciate further towards year-end as the market viewed the Fed is already at the end of its tightening cycle, which explained the recent declines in demand for dollar. We opine that the ringgit will benefit from the reversal of fund flows back into EMs and the recovery in regional trade as China's economy (and demand) continues to recover.

Chart 19: Monthly and YTD Ringgit Performance vs. Regional Currencies as at end-Nov 2023



Source: Macrobond, MIDFR

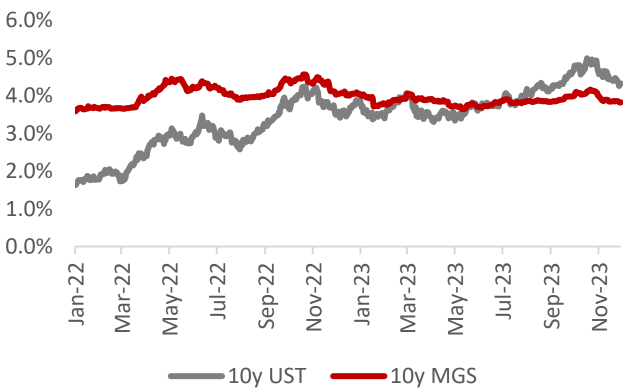
Chart 20: Movement of Malaysian Ringgit vs. Chinese Yuan and Brent Crude Oil Price (USD pb)



Source: Macrobond, MIDFR

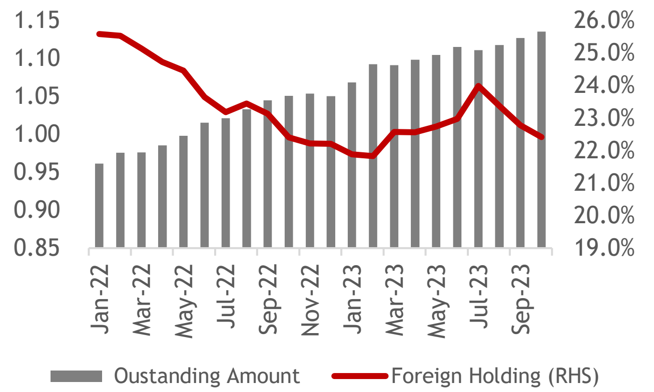
MGS 10-year yield was steeply lower in Nov-23. The yield for the benchmark 10y MGS declined by -25bps to 3.82% in Nov-23. In turn, the 10y MGS yield averaged lower by -20bps to 3.88% during the month. In terms of foreign holding of Malaysian bonds, based on the latest data in Oct-23, foreign holding of Malaysian bonds declined for the 3rd consecutive month to RM267.2b (Aug-23: RM269.7b). Consequently, the share of foreign holdings of govvies, which stood at RM254.4b, fell further to 22.4% of total outstanding government bonds (Sep-23: 22.8%), an 8-month low and below the pre-pandemic level (2019 average: 23.1%). However, given the steady and steep decline of MGS yields in Nov-23 we foresee the return of foreign flow into the domestic bond market in the coming months, underpinned by expectations of no further widening of the FFR-OPR differential. As there are overwhelming expectations for the Fed to hold the rate steady in Dec-23, we opine MGS yields to move lower after Dec-23 FOMC as Fed is expected to have ended its tightening cycle.

Chart 21: 10y MGS vs 10y UST Yields (%)



Source: Macrobond, MIDFR

Chart 22: Share of Foreign Holding (%) vs Outstanding MGS/MGII/Treasury Bills (RM t)



Source: Macrobond, MIDFR

Malaysia's economy will grow at +4.2% this year. We maintain our forecast that Malaysia's economy will be able to register growth at +4.2%, moderating from +8.7% expansion in 2022. Despite the drag from weak external demand, the continued growth in domestic spending and investment activities underpin the sustained growth this year. This was backed by healthy labour market conditions, positive income growth and tourism sector recovery. Going forward, we expect growth momentum to improve from 4QCY23 onwards as we expect external trade will continue to pick going into 2024. Nevertheless, several risks could derail growth outlook such as escalation of geo-political tensions, possible supply disruptions, fluctuations in the commodity and financial markets and possibility of sharp decline in external demand. Domestically, we are wary on the elevated price outlook in view of the planned policy changes by the government, which could affect consumer spending next year.

Table 1: Macroeconomic Past Performances (%)

(YoY%) Unless Stated Otherwise	2020	2021	2022	2023f
Real GDP	(5.5)	3.3	8.7	4.2
Govt. Consumption	4.1	6.4	4.5	2.0
Private Consumption	(3.9)	1.9	11.2	5.3
Gross Fixed Capital Formation	(14.4)	(0.8)	6.8	7.4
Govt. Investment	(21.2)	(11.1)	5.3	7.6
Private Investment	(11.9)	2.7	7.2	7.3
Exports of goods & services;	(8.6)	18.5	14.5	(5.3)
Goods Exports	(0.7)	21.4	11.1	(11.8)
Services Exports	(47.8)	(8.2)	56.8	52.7
Imports of goods & services;	(7.9)	21.2	15.9	(5.7)
Goods Imports	(3.6)	23.8	14.6	(10.2)
Services Imports	(25.3)	7.7	23.9	19.5
Net Exports	(13.7)	(4.0)	(1.0)	(1.2)
Agriculture etc.	(2.4)	(0.1)	0.1	(0.1)
Mining & Quarrying	(9.7)	0.9	2.6	0.2
Manufacturing -2.7	(2.7)	9.5	8.1	1.4
Construction	(19.3)	(5.1)	5.0	7.5
Services	(5.2)	2.2	10.9	6.0
Exports of Goods (f.o.b)	(1.1)	26.1	24.9	(6.4)
Imports of Goods (c.i.f)	(5.8)	23.3	31.0	(6.9)
Headline CPI Inflation (%)	(1.1)	2.5	3.4	2.7
Current Account, % of GDP	4.2	3.9	3.1	2.2
Fiscal Balance, % of GDP	(6.2)	(6.4)	(5.6)	(5.2)
Federal Government Debt, % of GDP	62.0	63.2	60.3	61.9
Unemployment Rate (%)	4.48	4.58	3.82	3.50
Brent Crude Oil (Avg), USD per barrel	41.6	71.5	102.0	83.0
Crude Palm Oil (Avg), MYR per tonne	2,775	4,486	5,262	3,800
USD/MYR (Avg)	4.20	4.14	4.40	4.48
USD/MYR (End-period)	4.02	4.17	4.35	4.30
MGS 10-Yr Yield (Avg)	2.84	3.23	4.07	3.80
MGS 10-Yr Yield (End-period)	2.65	3.59	4.04	3.77
Overnight Policy Rate (%)	1.75	1.75	2.75	3.00

Source: Macrobond, DOSM, MIDFR

November 2023 Key Economic Events

1 Nov: Agriculture and Food Security Ministry: Chicken prices, supply remain steady. Surveys done by the Agriculture and Food Security Ministry (KPKM) in various areas in Selangor, Negeri Sembilan and, Putrajaya today found no price hikes for chicken throughout the supply chain.

2 Nov: MOSTI launches feasibility study guidelines for space launch facility development. The Ministry of Science, Technology and Innovation (MOSTI) on Thursday launched the feasibility study guidelines for the development of a space launch site in Malaysia to ensure that the development of the country's space sector is well-planned and effective.

7 Nov: New salary scheme for civil servants to be announced before end of 2024 — PM. Prime Minister Datuk Seri Anwar Ibrahim said on Tuesday that the new salary scheme for civil servants will be announced before the end of next year. Several guidelines will be prepared before the end of this year or in the first quarter of 2024 to facilitate the announcement of the new salary scheme.

9 Nov: RM265 mil allocated for two price standardisation programmes for next year. The government has allocated RM40 million to implement the Price Standardisation Programme and RM225 million for the Essential Goods Distribution Programme, LPG (liquefied petroleum gas) and Community Drumming for next year, the Dewan Rakyat was told on Thursday.

16 Dec: US economy cools as retail sales dip; monthly producer prices decline. U.S. retail sales fell for the first time in seven months in October as motor vehicle purchases and spending on hobbies dropped, pointing to slowing demand at the start of the fourth quarter that further strengthened expectations the Federal Reserve is done hiking interest rates.

18 Nov: Mosti strengthens national vaccine ecosystem to face any future pandemic threat. The Ministry of Science, Technology, and Innovation (Mosti) is currently working to strengthen the national vaccine ecosystem to ensure Malaysia is ready to face any pandemic threat in the future, the Dewan Rakyat was told on Thursday.

20 Nov: US leading indicators continue to signal a recession. A gauge of future economic activity declined in October, after falling in September, on worsening consumer expectations, the Conference Board reported on Monday.

21 Nov: Fed shifts into cautious policy mode as risks become more two-sided. U.S. Federal Reserve officials agreed at their last policy meeting that they would proceed "carefully" and only raise interest rates if progress in controlling inflation faltered, the minutes of the Oct. 31-Nov. 1 gathering showed on Tuesday

23 Nov: Miti: Investment promotion agencies' functions to be centralised under Mida on Jan 1, 2024. The investment promotion and marketing functions of the federal-level investment promotion agencies (IPAs) will be centralised under the Malaysian Investment Development Authority (Mida) from January 1, 2024.

26 Nov: Anwar, Srettha to convene bilateral talks on border development on Monday. Prime Minister Datuk Seri Anwar Ibrahim is set to meet his Thai counterpart Srettha Thavisin on Monday (Nov 27) in Sadao, Songkhla Province, with the aim of advancing cooperation for the development of the border area between Malaysia and Thailand.

27 Dec: Dewan Negara passes IRB (Amendment) Bill 2023. The Dewan Negara today passed the Malaysian Inland Revenue Board (IRB) (Amendment) Bill 2023, with amendments at the committee stage via a majority voice vote.

27 Nov: Dewan Rakyat approves Budget 2024 via voice vote. Dewan Rakyat passed the RM393.8 billion Budget 2024 on Monday with a majority voice vote after 24 days of debate

29 Nov: Sarawak secures RM16.69 bil investments from January to September 2023. Sarawak recorded RM16.69 billion worth of investments for the first nine months of 2023, despite the sluggish global economy, said Sarawak Deputy Premier Datuk Amar Awang Tengah Ali Hasan.

30 Nov: Dewan Rakyat approves transfer of RM21b Malaysian Govt Investment Issues receipts balance to Development Fund. The Dewan Rakyat today passed the resolution for the government to transfer the balance of the Malaysian Government Investment Issues (MGII) receipts totalling RM21 billion for the June-November 2023 period to the Development Fund.

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