1 March 2024

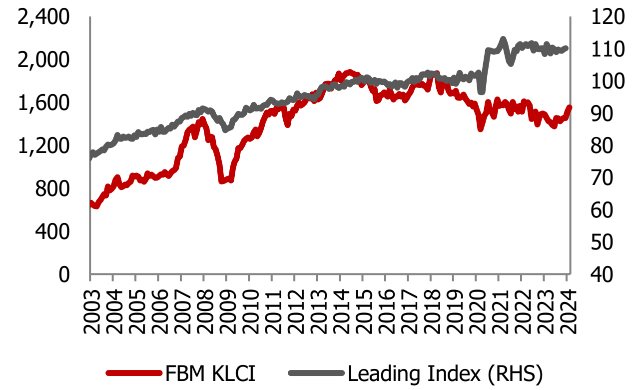
MONTHLY ECONOMIC REVIEW | February 2024

LI Rebound Signals Malaysia's Growth Momentum to Improve in the Near Term

- *LI rebounded to +0.3%yoy growth in Dec-23. Leading index (LI) registered an increase of +0.3%yoy in Dec-23 (Nov-23: -0.1%yoy), mainly supported by the rise in the number of approved housing units.*
- *Malaysia's economy grew at +3.0% in 4QCY23. Based on the full-quarter data, Malaysia's economic growth moderated to +3.0%yoy in 4QCY23, lower than the advance estimate of +3.4%yoy.*
- *Exports growth turned positive in Jan-24. Exports rebounded and grew at +8.7%yoy in Jan-24, driven by higher shipments of petroleum products and palm oil & palm oil-based products.*
- *Malaysia's economy to grow stronger at +4.7% in 2024. As LI signals for improving growth momentum in the short run, we maintain our projection that Malaysia's economy will grow stronger at +4.7% this year.*

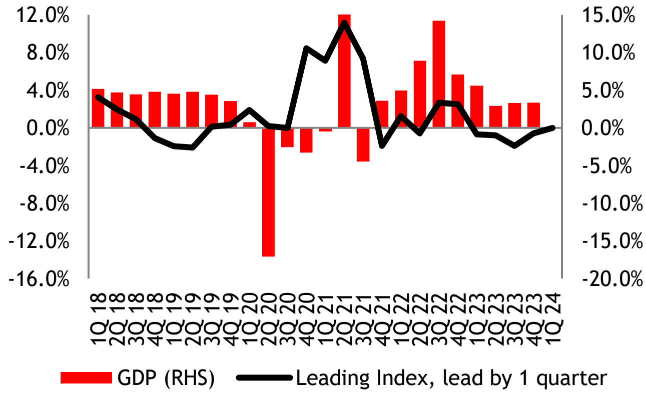
LI rebounded to +0.3%yoy growth in Dec-23. Leading index (LI) registered an increase of +0.3%yoy in Dec-23 (Nov-23: -0.1%yoy), rebounding back to growth after 9 months of contraction. The improvement was mainly supported by the rise in the *number of approved housing units*. From month-on-month perspective, LI also rose by +0.3%mom (Nov-23: +0.5%mom), underpinned by growth in *number of approved housing units* and *Bursa Malaysia Industrial Index*. For the Coincident Index (CI), current economic condition continued to grow at CI grew by +2.3%yoy (Nov-23: +2.6%yoy), the 28th straight month of expansion because of increases in all CI components, excluding *industrial production index*. The weaker industrial production also led to CI registering the second month of sequential decline by -0.5%mom in Dec-23 (Nov-23: +0.3%mom). Overall, despite the still modest GDP growth in 4QCY23, we foresee growth momentum would pick up in 1HCY24 in view of the better LI reading and the recent improvement in export performance.

Chart 1: Leading Index vs KLCI (Points)



Source: Macrobond, MIDFR

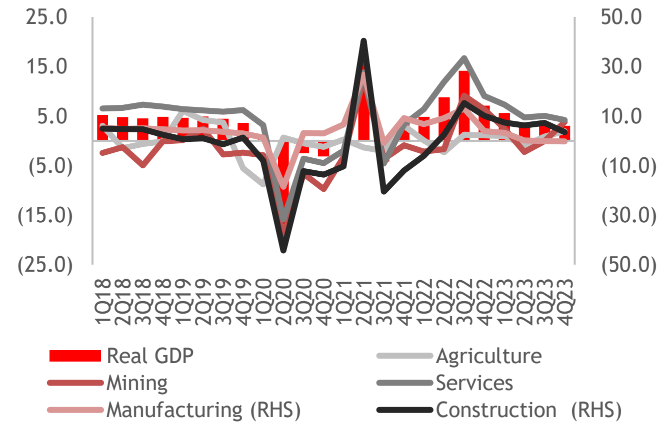
Chart 2: Leading Index vs GDP (YoY%)



Source: Macrobond, MIDFR

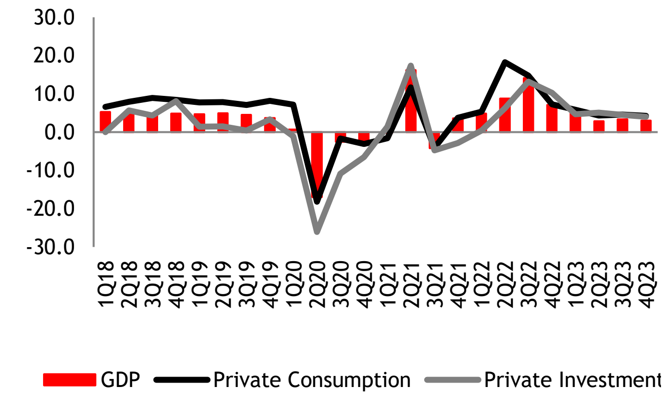
Malaysia's economy grew at +3.0% in 4QCY23. Based on the full-quarter data, Malaysia's economic growth moderated to +3.0%yoy in 4QCY23, lower than the advance estimate of +3.4%yoy. In terms of the sector breakdown, the weaker-than-expected growth reflected the continued weakness in the manufacturing sector which fell further by -0.3%yoy (3QCY23: -0.1%yoy), in line with the weakness in the external demand. The services sector also registered slower growth at +4.2%yoy (3QCY23: +5.0%yoy), but still showing sustained rise in line with the growing domestic spending activity. In contrast, other sectors like agriculture, mining and construction registered stronger growth (better than the advance estimates) at +1.9%yoy, +3.8%yoy and +3.6%yoy, respectively, during the quarter. From the demand side, the moderation in growth in 4QCY23 was mainly attributable to moderation in the growth in private consumption (4QCY23: +4.2%yoy; 3QCY23: +4.6%yoy) and investment (4QCY23: +4.5%yoy; 3QC23: +5.1%yoy) activities as well as continued drag from the net exports (4QCY23: -35.6%yoy; 3QCY23: -22.7%yoy). Following the more moderate growth in 4QCY23, Malaysia's GDP growth moderated to +3.7% (2022: +8.7%). The slower growth was as anticipated due to the absence of low base effect (from the pandemic-related restrictions and lockdowns); however, the moderation was larger than expected because of the weakness in the external trade and manufacturing activities.

Chart 3: GDP Growth by Major Sector (YoY%)



Source: Macrobond, MIDFR

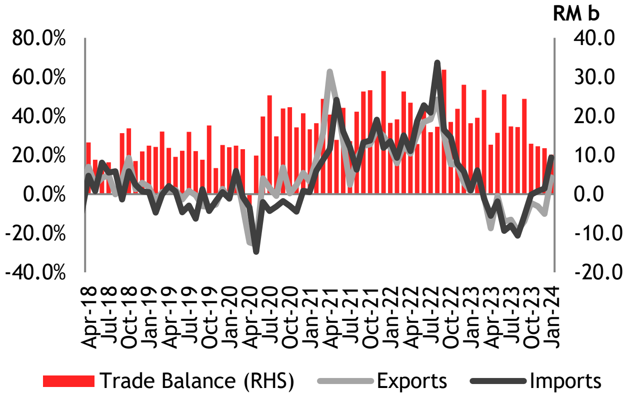
Chart 4: GDP vs. Private Sector Activities (YoY%)



Source: Macrobond, MIDFR

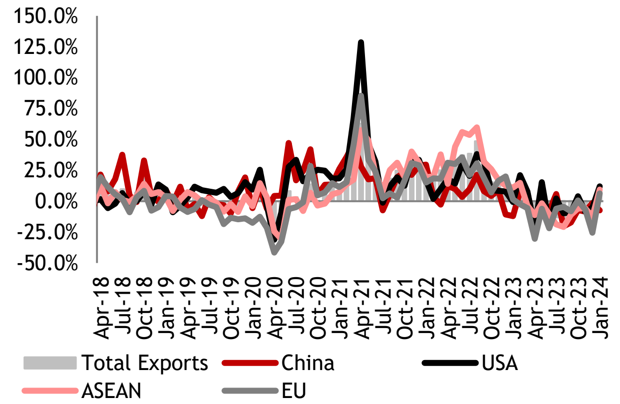
Exports growth turned positive in Jan-24. Malaysia's total trade rebounded to +13.3%yoy in Jan-24, marking the first growth in 11 months due to increases in both exports (+3.4%mom) and imports (+5.3%mom) and the lower base in Jan-23. Due to the relatively stronger rise in imports, the monthly trade surplus reduced to a new post-pandemic low of +RM10.1b. Exports rebounded and registered the first annual growth after 10 months of contraction, growing at +8.7%yoy in Jan-24 (Dec-23: -10.1%yoy) driven by increased re-exports (+4.1%yoy), while the rebound in domestic exports (+10.1%yoy) was mainly explained by the lower base effect. By product, the exports growth in Jan-24 was driven by higher shipments of petroleum products and palm oil & palm oil-based products. In terms of destination, exports rebounded and increased in Jan-24 to major destinations such as the US, euro area, and ASEAN, but declined further to China and Hong Kong. From month-on-month perspective, monthly rise of +3.4%mom in exports was largely due to increased exports of manufactured products (+4.8%mom); overwhelmingly from petroleum products (+63.5%mom), more than offset the decline in E&E exports (-4.2%mom). Meanwhile, imports grew faster at +18.8%yoy in Jan-24, the fastest growth in since Nov-22, driven mainly by purchases of E&E and petroleum products. We view the rebound in exports to be an encouraging development in line with our expectation that the recovery in external demand will be contributing towards stronger economic growth this year, in addition to the sustained growth in domestic demand.

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



Source: Macrobond, MATRADE, MIDFR

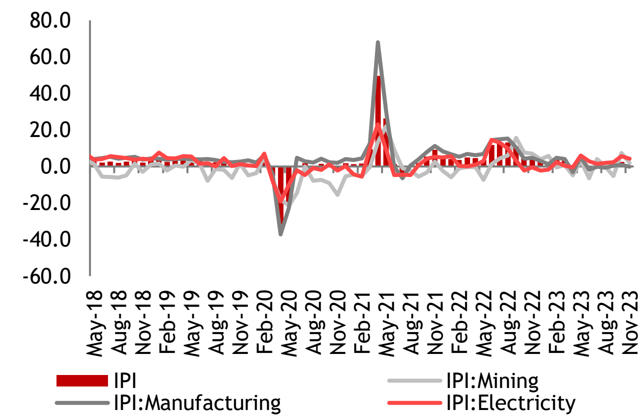
Chart 6: Exports Growth by Major Destination (YoY%)



Source: Macrobond, MATRADE, MIDFR

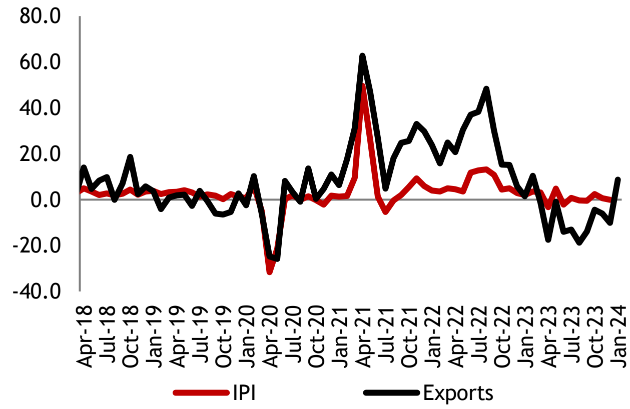
IPI fell marginally -0.1%yoy in Dec-23. Malaysia's IPI registered marginal contraction of -0.1%yoy in Dec-23 (Nov-23: +0.6%yoy), below ours and market expectations. The weaker IPI was due to sharper fall in output in the export-oriented sectors such as electrical equipment, refined petroleum products and chemicals. As we expected, the trend closely followed the weaker export performance in the same month because manufacturing contributed more than two-thirds of IPI calculation. By major sectors, the decline in IPI in Dec-23 was largely due to sharper output declines in the manufacturing sector (Dec-23: -1.4%yoy; Nov-23: -0.1%yoy) such as motor vehicles, apart from continued reduction in production of E&E and petroleum products. In contrast, the drop was almost offset by the stronger growth in mining output (+3.6%yoy) and electricity generation (+4.6%yoy). For the mining sector, sustained output growth was underpinned by stronger growth in natural gas production. The higher electricity generation continued to suggest electricity consumption continued to grow annually for the 8th consecutive month. With the weaker-than-expected growth in Dec-23, IPI only grew moderately by +0.9% in 2023 (2022: +6.7%), slightly below our estimate of +1.1%. Nevertheless, we expect IPI growth will improve this year on the back of sustained growth in domestic demand and recovery in external trade.

Chart 7: IPI Performances by Sector (YoY%)



Source: Macrobond, MIDFR

Chart 8: IPI vs Exports (YoY%)

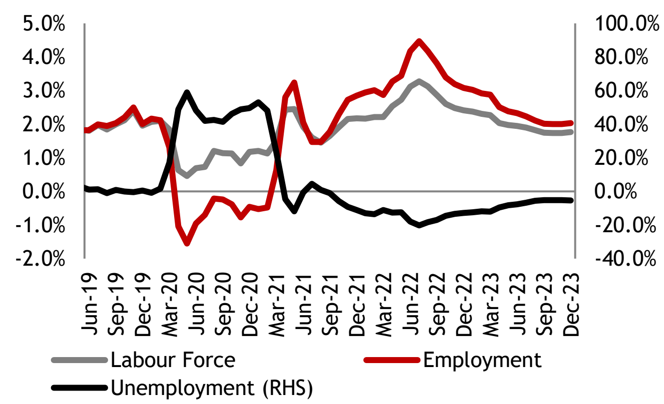


Source: Macrobond, MIDFR

Resilient and healthy labour market. Malaysia's labour market continued an improving trend as unemployment rate maintained at post-pandemic low of 3.3% in Dec-23. Overall, by 2023, the jobless rate averaged at 3.4%. Labour force and employment improved further by +2.0% (2022: +2.6%) and +2.4% (2022:

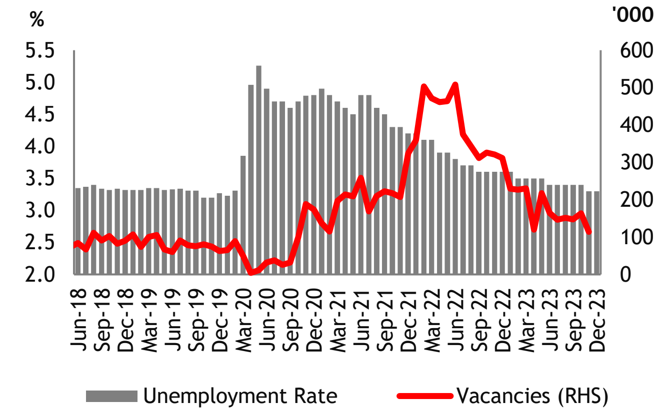
+3.5%) respectively. Unemployed persons declined by -8.1% (2022: -14.8%) while outside labour force fell by -0.5% (2022: -1.7%). The unemployed persons dropped further by -0.2%mom to 568K in Dec-23, approximately 49K higher than average jobless persons 519K in 2019. For youth aged 15~24, the unemployment rate averaged at pandemic and post-pandemic low of 10.9% in 2023 (2019: 10.4%). By employment type, employees (about 75.4% of employment) increased steadily by +1.4%yoy while employer (3.5% of employment) and own-account-worker (18% of employment) increased by +5.3%yoy and +6.5%yoy respectively in 2023. The healthy job market in our view will further reinforce consumer consumption and support overall GDP growth this year.

Chart 9: Labour Market Key Indicators (YoY%)



Source: Macrobond, MIDFR

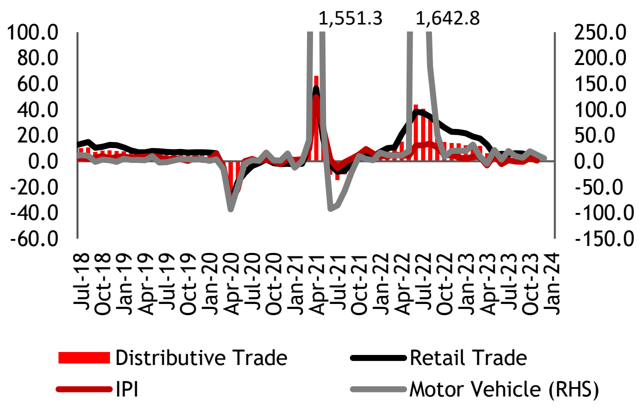
Chart 10: Unemployment Rate (%) vs. Job Vacancies



Source: Macrobond, MIDFR

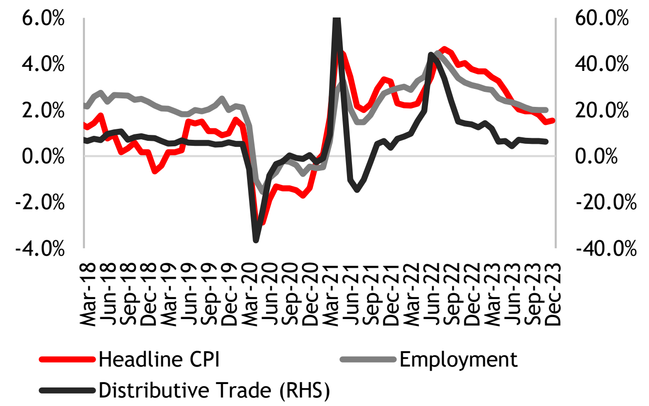
Distributive trade grew by +7.7% in 2023. After recording double-digit expansion in 2022, Malaysia's distributive trade posted growth of +7.7% in the following year. Sales of motor vehicles still sustained double-digit growth of +12.3% (2022: +47.6%), while wholesale and retail trade rose by +5.2% (2022: +10.7%) and +9.0% (2022: +23.9%) respectively. In Dec-23, domestic trade rose steadily by +4.8%yoy, supported by growth in all three components. However, distributive trade as well as retail trade and motor vehicle declined by -1.4%mom, -0.5%mom and -4.6%mom, respectively, in terms of seasonally adjusted volume. The resilience of Malaysia's consumer demand is in tandem with the softening inflationary pressure and healthy labour market. Looking ahead, we foresee sanguine domestic outlook for 2024 amid better stable income growth, further pick-up in tourism activities and supportive & accommodative economic policies from both fiscal and monetary sides.

Chart 11: Distributive Trade (YoY%)



Source: Macrobond, MIDFR

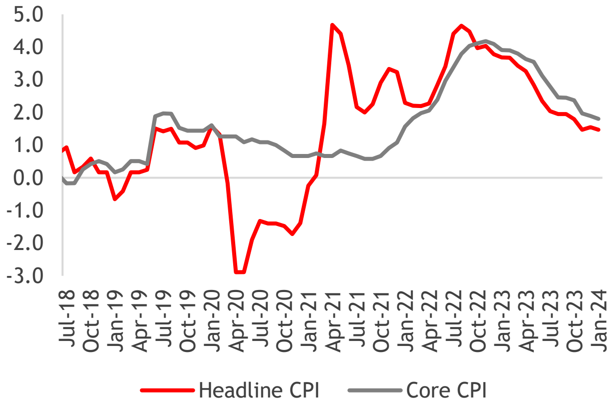
Chart 12: DT vs. CPI vs. Employment (YoY%)



Source: Macrobond, MIDFR

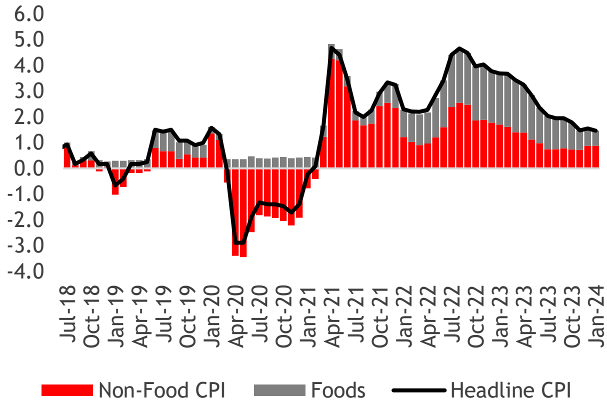
Low inflation rate continues. Malaysia's headline inflation rate came in at +1.5%yoy the first month of 2024. The rate plateaued since Nov-23, the lowest since Mar-21. Non-food inflation stabilised at +1.1%yoy while food inflation moderated to 27-month low of +2.0%yoy. The continued softening of inflationary pressures among others was due to normalisation in the global commodity prices and supportive fiscal policies. Core CPI inflation also moderated to +1.8%yoy, almost a 2-year low. Given the slowing core inflation, we believe BNM will keep its OPR status quo throughout 2024. Looking into 1HCY24, we expect a gradual pick-up in overall prices following an increase in utility charges, implementation of higher SST rate to 8.0% (except for food & beverage and telecommunications) and 10% low value goods tax (LVGT). In the latter half, we opine that it is possible that the roll-out of fuel targeted-subsidy may see higher retail fuel prices.

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



Source: Macrobond, MIDFR

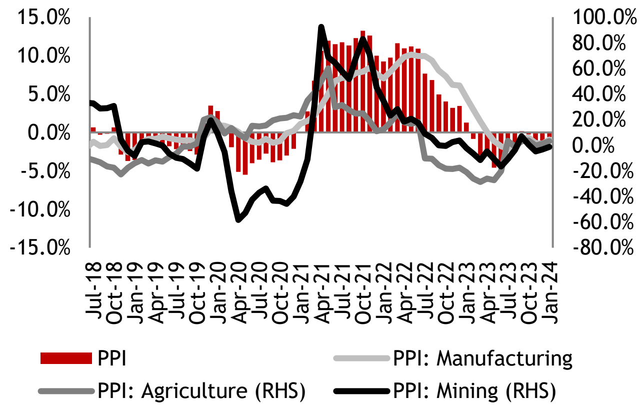
Chart 14: Food vs Non-Food CPI (YoY%)



Source: Macrobond, MIDFR

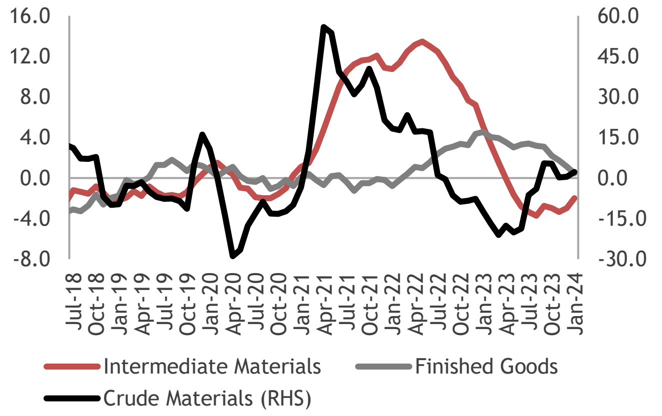
PPI deflated at softer pace in Jan-24. Input inflation contracted further but at slower pace of -0.6%yoy in Jan-24, remaining in deflation for 4 consecutive months. The sustained deflation reflected declines in PPI for manufacturing sector (weight: 81.6%), which fell by -0.9%yoy, and cost of electricity & gas, which declined further by -0.8%yoy. By stage of production, the PPI deflation was contributed by -2.0%yoy reduction in prices of intermediate materials, supply & components, which has been falling for the 10 consecutive months. Meanwhile, input price of finished goods rose by +0.5%yoy, the softest increase in 22-month. In contrast, prices of crude materials registered faster inflation of +2.3%yoy (Dec-23: +0.4%yoy), on the back of increases in commodity prices. Against the previous month, PPI dropped for the fourth month by -0.1%mom as cost pressures dropped in the mining (-0.7%mom) and manufacturing (-0.2%mom) sectors. Moving forward, we foresee low inflationary pressure to persist at least until 1QCY24 amid better domestic supply chain, stable interest rate levels and normalisation of global commodity prices. Tensions in Middle East and Europe remained a downside risk which could lead to renewed fluctuations in the global commodity prices and therefore affect Malaysia's PPI outlook. Policy changes and revision to local energy prices, however, could also lead to higher cost pressures.

Chart 15: PPI by Sector (YoY%)



Source: Macrobond, MIDFR

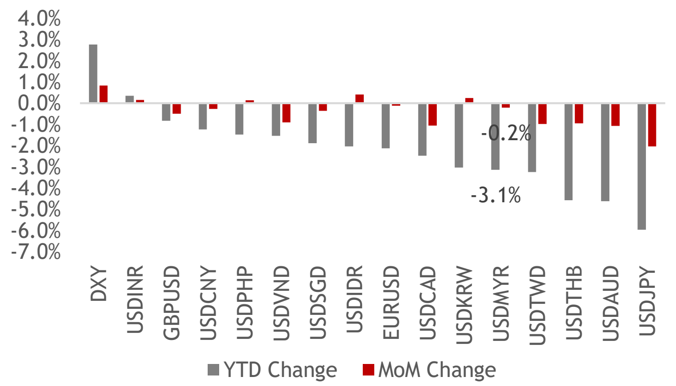
Chart 16: PPI by Processing Stage (YoY%)



Source: Macrobond, MIDFR

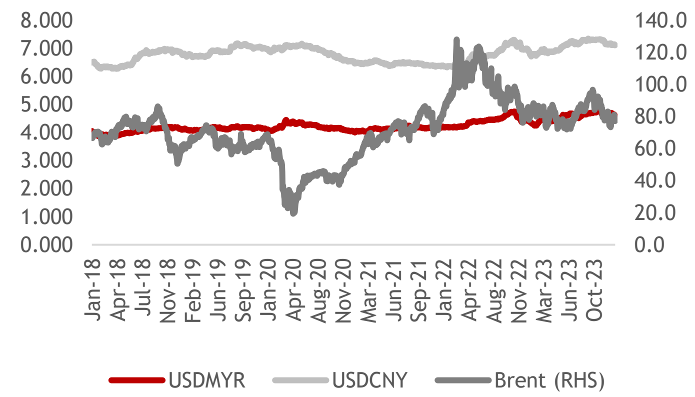
Ringgit depreciated against the USD. Malaysian ringgit weakened -0.2%mom to RM4.743, as the dollar appreciated in Feb-24. On average, the ringgit plunged -1.8%mom to RM4.768. The ringgit touched a new 26-year low, closing on 20 February 2024 at RM4.799 as escalating geopolitical tension triggered a run towards safe-haven assets. Since then, the ringgit appreciated towards month end, benefiting from the decline in dollar as inflation in the US eased further in Jan-24. Movement in commodity prices failed to provide support for the ringgit despite the Brent crude oil prices surging by +2.3%mom to USD83.62pb. Economic fundamentals continued to point for a stronger ringgit this year, especially from the expected turnaround in external trade with exports registering the first expansion in Jan-24 after 10 months of contraction. We continue to foresee the ringgit and other regional currencies would appreciate in 2024, to be supported by the reversal of funds flowing back into EMs and the recovery in external trade.

Chart 17: Monthly and Year to Date Changes in FX Rates for Selected Currencies Against US Dollar (%)



Source: Bloomberg, MIDFR

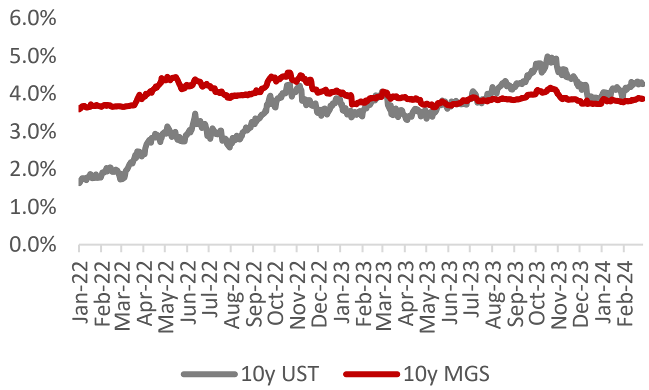
Chart 18: USDMYR vs. USDCNY vs. Brent Crude Oil Price (USD pb)



Source: Bloomberg, MIDFR

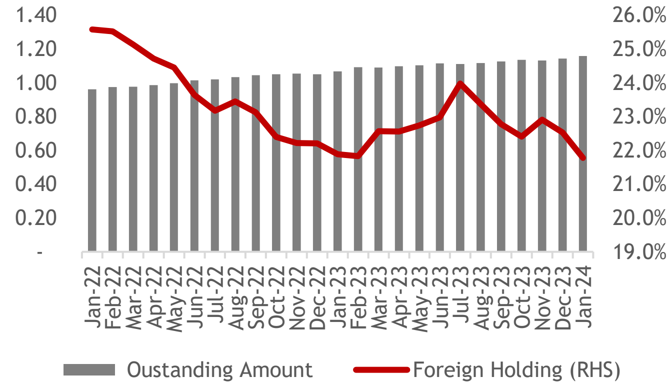
MGS's 10-year rose on risk aversion. The yield for 10y MGS rose by +8bps to 3.86% in Feb-24 (Jan-24: 3.79%), the highest monthly closing in 4 months. Apart from the escalation in geopolitical tensions, the movement in MGS yields were mainly influenced by the shift in market expectations for later interest rate cuts by the US Fed. In terms of foreign holding of Malaysian bonds, latest data shows foreign holding of Malaysian bonds declined to RM265.3b in Jan-24 (Dec-23: RM270.4b). Foreign holdings of govvies made up 21.8% or RM252.4b of the total outstanding government bonds in Jan-24, declining from 22.5% in the previous month. We anticipate a positive trajectory for the domestic bond market in 2024, driven by the expected narrowing of the spread between the fed funds rate and OPR. We also predict a growing demand for domestic bonds, supported by a rise in foreign investments due to a renewed interest in higher-risk assets. Therefore, we forecast the yield for the 10-year MGS will move lower in 2024, towards 3.60% by year-end.

Chart 19: 10y MGS vs 10y UST Yields (%)



Source: Macrobond, MIDFR

Chart 20: Share of Foreign Holding (%) vs Outstanding MGS/MGII/Treasury Bills (RM t)



Source: Macrobond, MIDFR

Malaysia's economy to grow stronger at +4.7% in 2024. As LI signals for improving growth momentum in the short run, we maintain our projection that Malaysia's economy will grow stronger at +4.7% this year (2023: +3.7%). The pick-up in growth will be supported by the external trade recovery, on top of the sustained growth in domestic spending. However, we are cautiously monitoring potential downside risks, such as escalation of geo-political tensions, another round of supply (and global trade) disruptions, fluctuations in the commodity and financial markets, and the possibility of economic recession in the US, which could adversely affect Malaysia's external demand and overall growth outlook. On the domestic front, we are closely monitoring the effects of the government's policy changes on the domestic price outlook, which will hit consumer purchasing power and cost of doing business as well as the overall domestic spending activities.

Table 1: Macroeconomic Past Performances (%)

(YoY%) Unless Stated Otherwise	2020	2021	2022	2023	2024f
Real GDP	(5.5)	3.3	8.7	3.7	4.7
Govt. Consumption	4.1	6.4	4.5	3.6	2.7
Private Consumption	(3.9)	1.9	11.2	4.9	4.6
Gross Fixed Capital Formation	(14.4)	(0.8)	6.8	2.8	4.7
Govt. Investment	(21.2)	(11.1)	5.3	(1.1)	4.5
Private Investment	(11.9)	2.7	7.2	3.9	4.7
Exports of goods & services;	(8.6)	18.5	14.5	(7.9)	4.1
Goods Exports	(0.7)	21.4	11.1	(11.5)	3.7
Services Exports	(47.8)	(8.2)	56.9	31.4	6.6
Imports of goods & services;	(7.9)	21.2	15.9	(7.9)	3.6
Goods Imports	(3.6)	23.8	14.6	(12.4)	4.0
Services Imports	(25.3)	7.7	23.9	18.0	1.9
Net Exports	(13.7)	(4.0)	(1.0)	2.4	10.1
Agriculture etc.	(2.4)	(0.1)	0.1	0.7	1.5
Mining & Quarrying	(9.7)	0.9	2.6	1.0	3.5
Manufacturing	(2.7)	9.5	8.1	0.7	4.1
Construction	(19.3)	(5.1)	5.0	6.1	5.5
Services	(5.2)	2.2	10.9	5.3	5.3
Exports of Goods (f.o.b)	(1.1)	26.1	24.9	(8.0)	5.2
Imports of Goods (c.i.f)	(5.8)	23.3	31.0	(6.4)	4.4
Headline CPI Inflation (%)	(1.1)	2.5	3.4	2.5	3.2
Current Account, % of GDP	4.1	3.9	3.0	1.3	2.2
Fiscal Balance, % of GDP	(6.2)	(6.4)	(5.6)	(5.2)	(4.7)
Federal Government Debt, % of GDP	62.0	63.2	60.3	61.9	62.3
Unemployment Rate (%)	4.48	4.58	3.82	3.50	3.30
Brent Crude Oil (Avg), USD per barrel	41.6	71.5	102.0	82.2	84.0
Crude Palm Oil (Avg), MYR per tonne	2,775	4,486	5,262	3,813	3,600
USD/MYR (Avg)	4.20	4.14	4.40	4.56	4.38
USD/MYR (End-period)	4.02	4.17	4.35	4.59	4.20
MGS 10-Yr Yield (Avg)	2.84	3.23	4.07	3.86	3.68
MGS 10-Yr Yield (End-period)	2.65	3.59	4.04	3.73	3.60
Overnight Policy Rate (%)	1.75	1.75	2.75	3.00	3.00

Source: Macrobond, DOSM, MIDFR

February 2024 Key Economic Events

1 Feb: Fed keeps interest rates steady as Powell says, 'path forward is still uncertain'. Following a two-day meeting of the Federal Open Market Committee (FOMC), the US Federal Reserve issued its interest rate decision on Wednesday, maintaining the benchmark interest rates at 5.25 to 5.50 percent for the fourth consecutive meeting.

7 Feb: LCC2030C reduces more than 3 mil tonnes of carbon dioxide equivalent — Nik Nazmi. Minister of Natural Resources and Environmental Sustainability, Nik Nazmi Nik Ahmad, proudly announced that the Low Carbon City 2030 Challenge (LCC2030C) programme achieved a significant milestone last year by successfully reducing a total of 3,030,397.07 tonnes of carbon dioxide equivalent

13 Feb: US inflation hotter than expected in January at 3.1%. Inflation was hotter than expected across the US last month. Price growth dropped to an annual rate of 3.1% in January, according to official data; above economists' expectations of 2.9%.

14 Feb: Anwar: New Bumiputera growth areas need to be identified for the benefit of all. New Bumiputera growth areas need to be identified so that the benefits can be enjoyed by everyone and not just certain groups, said Prime Minister Datuk Seri Anwar Ibrahim.

18 Feb: Paddy planting in Kawasan Muda unaffected by hot and dry conditions — agricultural authority. Despite the prevailing hot and dry conditions, particularly in Kedah, the paddy planting activities in Kawasan Muda have remained largely unaffected, says the Muda Agricultural Development Authority (Mada).

19 Feb: Banks urged to support energy transition, food security initiatives. Financial institutions are urged to support some of the Madani Economic Framework's biggest initiatives by funding efforts to increase food security and develop energy transition projects.

21 Feb: Fed officials expressed caution about lowering rates too quickly at last meeting, minutes show. Federal Reserve officials indicated at their last meeting that they were in no hurry to cut interest rates and expressed both optimism and caution on inflation, according to minutes from the session released Wednesday.

21 Feb: Manufacturing industry at 79.8% operating capacity in 4Q2023 — DOSM. n a statement on Wednesday, chief statistician Datuk Seri Mohd Uzir Mahidin said a lower capacity utilisation of the manufacturing industry was primarily attributable to decreases in the sub-sector of petroleum, chemical, rubber and plastic products (-4.2 percentage points); and electrical and electronic products (-0.5 percentage points).

28 Feb: Eleventh hour service tax on maintenance and repair to hurt consumers and businesses alike. Amendment to include service tax on almost all maintenance and repair work is expected to hurt consumers and medium-sized small and medium enterprises. An amendment to the service tax regulation stated that service tax would be imposed on almost all maintenance and repair services from Monday (Feb 26, 2024). Sales and Service Tax is due to be revised upwards to 8 per cent on Mar 1, 2024.

1 Feb: Anwar: Cabinet to discuss proposal to scrap politicians' pensions before it is brought to Parliament. Prime Minister Datuk Seri Anwar Ibrahim said that the proposal to abolish pensions for politicians will first be discussed at the Cabinet level and then brought to Parliament before any decision is implemented.

12 Feb: Onn Hafiz: Johor investment centre to be completed this year. The Invest Malaysia Facilitation Centre (IMFC) in Johor is expected to be completed this year and can attract more new investors into the state.

14 Feb: Zafrul: Nearly 70% of Malaysia's RM225b approved investments focused on digital economy. Almost 70% of Malaysia's RM225 billion approved investments are in the digital economy, said Investment, Trade and Industry Minister Tengku Datuk Seri Zafrul Abdul Aziz.

15 Feb: Total jobs up 2.1pc to 8.94mil in Q4 last year. The total number of jobs increased by 2.1 per cent to 8.94 million openings in the fourth quarter of 2023 from 8.76 million jobs during the same period in the year before, the Department of Statistics Malaysia (DOSM) said.

19 Feb: Fahmi: Govt striving to reduce fiscal deficit rate to 4.3% this year. The Unity Government will make efforts to reduce the country's fiscal deficit rate to 4.3% this year, said Communications Minister Fahmi Fadzil.

21 Feb: NCER expects to facilitate RM18 bil investments in 2024. Northern Corridor Implementation Authority (NCIA) chief executive Mohamad Haris Kader Sultan said the figure was similar to its target for 2023 as it plans to maintain a conservative stance given that big companies with chunky investments will not come in every year.

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25 Feb: Anwar: Agriculture ministry, Naccol given until March 20 to sort out paddy, rice price issues. Prime Minister Datuk Seri Anwar Ibrahim has given the Agriculture and Food Security Ministry (KPKM) and the National Action Council on Cost of Living (Naccol) until March 20 to resolve the issue of paddy and rice prices.

28 Feb: Federal govt has approved 510 projects in Johor worth RM4.7b, says MB. Menteri Besar Datuk Onn Hafiz Ghazi said the effort was the result of close cooperation between the Johor state government and the federal government, which is aiming for the country's economic growth, as well as recognising Johor's potential to become a new economic hub.

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