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# ECONOMICS

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# Malaysia

## Economic momentum stays favourable

**Softer growth of December's industrial production by 2.9% y/y, which is the weakest growth for 2017, was due to slower manufacturing output (+5.3% y/y), which fell in tandem with moderate gains in manufacturing sales (+9.4% y/y), plus weak mining output (-4.1% y/y) with electricity output growing at the same pace for the second month by 3.9% y/y.**

**We expect the positive manufacturing momentum in terms of production and sales to continue in 2018, supported by stronger global growth of 3.6% and export volume growth of 4.0%, added with improving domestic sentiments coming from both the business and consumer segments. This is reflected by the steady growth in the imports of intermediate and capital goods. Hence, for 2018, we project the domestic economy will grow by 5.5% from our 2017 GDP growth estimate of 5.9% while our USD/MYR outlook based on year-end projection is 3.90–92 (base case) while our worst case is 4.00–4.02 and best case is at 3.76–3.80.**

- In December, industrial production (IP) eased to 2.9% y/y from 5.0% y/y in November, which turned out to be the weakest growth for 2017. Slower growth came from a moderate gain from manufacturing output, up 5.3% y/y from 6.7% y/y in November. It was somewhat in tandem with manufacturing sales which also grew at a slower pace by 9.4% y/y in December from 10.9% y/y in November. Adding on is the poor mining output that fell by -4.1% y/y from +0.2% y/y in November.

- Despite slower December's IP figure, for the full year of 2017, the overall IP rose to 4.5% y/y from 3.8% y/y in 2016. It was supported by the strong manufacturing output, underpinned by healthy manufacturing sales, which rose 13.9% y/y on the back of strong semiconductors and resource-based, a more favourable global and domestic demand and a competitive Malaysian ringgit against the USD.

- We expect the positive manufacturing momentum in terms of production and sales to continue in 2018, supported by stronger global growth of 3.6% and export volume growth of 4.0%, added with improving domestic sentiments coming from both the business and consumer segment. This is reflected by the steady growth in the imports of intermediate and capital goods.

- Hence, for 2018, we project the domestic economy will grow by 5.5% from our 2017 GDP growth estimate of 5.9%. Meanwhile, we expect the USD/MYR to remain with our year-end projection at 3.90 which is our base case while our worst case is 4.00–4.02 and best case is at 3.76–3.80.

**Table 1: Industrial Production and Manufacturing Sales Data**

| | Dec'16 | Jan'17 | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| IP y/y | 4.8 | 3.5 | 4.8 | 4.5 | 4.1 | 4.6 | 4.0 | 6.0 | 6.8 | 4.7 | 3.4 | 5.0 | 2.9 |
| Mfg y/y | 4.3 | 4.6 | 6.5 | 5.8 | 6.7 | 7.2 | 4.7 | 8.0 | 7.6 | 5.7 | 4.2 | 6.7 | 5.3 |
| Mining y/y | 5.7 | 1.1 | 0.4 | 2.0 | -2.0 | -2.3 | 2.3 | 0.2 | 5.3 | 2.1 | 0.8 | 0.2 | -4.1 |
| Electricity y/y | 6.1 | 1.0 | 1.4 | -0.2 | -1.5 | 2.5 | 2.1 | 7.9 | 3.0 | 2.2 | 4.7 | 3.9 | 3.9 |
| Mfg Sales y/y | 10.6 | 10.7 | 15.7 | 13.6 | 15.6 | 19.5 | 11.5 | 22.2 | 16.5 | 10.6 | 11.0 | 10.9 | 9.4 |

Source: CEIC/AmBank Research

**Table 2: USD/MYR & PMI**

| | Jan'17 | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan'18 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| USD/MYR avg | 4.460 | 4.446 | 4.439 | 4.407 | 4.314 | 4.277 | 4.290 | 4.284 | 4.209 | 4.229 | 4.173 | 4.078 | 3.958 |
| USD/MYR EoP | 4.429 | 4.441 | 4.426 | 4.341 | 4.281 | 4.293 | 4.281 | 4.271 | 4.221 | 4.232 | 4.091 | 3.899 | 4.047 |
| USD/MYR y/y | 2.6 | 6.2 | 8.9 | 12.9 | 6.6 | 4.6 | 6.7 | 6.4 | 2.4 | 1.2 | -3.7 | -8.6 | -11.3 |
| PMI | 48.6 | 49.4 | 49.5 | 50.7 | 48.7 | 46.9 | 48.3 | 50.4 | 49.9 | 48.6 | 52.0 | 49.9 | 50.5 |

Source: CEIC/AmBank Research

# Malaysia

## Optimism remains on wholesale & retail trade

**December's distributive trade rose 7.3% y/y, hitting a sales value of all-time high of RM101.3bil, supported by the wholesale trade which grew 8.2% y/y and retail sales by 10%. We expect distributive trade sales to remain favourable in 2018, benefitting from better consumer confidence, firm wage growth and stable inflation which help improve household disposable income, a stronger USD/MYR, which help ease import cost, as well as the business operating cost and growing tourism. We expect both wholesale and retail trade to grow around 8%–9% and 10%–11% respectively for 2018 from 8.8% and 11.5% in 2017.**

- December's distributive trade rose 7.3% y/y from 9.0% y/y in November, hitting a sales value of all-time high of RM 101.3bil. The healthy trade was largely supported by solid wholesale trade reaching an all-time high of RM49.5bil. This segment of the trade grew 8.2% y/y in December from 9.6% y/y in November.

- Besides, retail sales maintained its double-digit growth of 1.0% y/y in December from 10.5% y/y in November while the motor vehicle sales fell -3.3% y/y in December from +3.1% y/y in November.

- We expect distributive trade sales to remain favourable in 2018 benefitting from better consumer confidence, firm wage growth and stable inflation which help improve household disposable income, a stronger USD/MYR, which help ease import cost, as well as the business operating cost and growing tourism. We expect both wholesale and retail trade to grow around 8%–9% and 10%–11% respectively for 2018 from 8.8% and 11.5% in 2017.

**Table 1: Distributive Trade (y/y %)**

| | Dec'16 | Jan'17 | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Wholesale Sales y/y | 8.1 | 8.3 | 8.8 | 8.0 | 8.6 | 9.0 | 8.4 | 9.2 | 9.1 | 9.2 | 9.4 | 9.6 | 8.2 |
| Wholesale Sales q/q | 5.0 | 0.7 | -4.0 | 6.0 | -3.8 | 3.8 | 0.2 | -2.3 | 3.4 | 3.7 | -1.6 | -1.4 | 3.7 |
| Retail Sales y/y | 9.7 | 9.0 | 9.4 | 11.8 | 12.9 | 13.6 | 13.9 | 14.1 | 12.9 | 9.5 | 10.7 | 10.5 | 10.0 |
| Retail Sales q/q | 4.9 | -0.1 | -0.5 | 4.7 | -3.6 | 3.1 | 1.9 | 0.6 | -1.2 | -1.6 | 1.3 | 0.8 | 4.4 |
| Motor Vehicles Sales y/y | 0.5 | 3.7 | 5.8 | 4.2 | 4.0 | 9.0 | -4.8 | 9.8 | 1.4 | -5.0 | 1.4 | 3.1 | -3.3 |
| Motor Vehicles Sales q/q | 7.4 | -9.4 | -9.1 | 24.7 | -11.8 | 11.6 | -6.7 | 4.6 | -1.6 | -7.4 | 4.6 | 2.1 | 0.7 |

Source: CEIC/AmBank Research

# Malaysia

## Labour market could tighten

**Unemployment rate improved to 3.3% in December, the lowest reading since November 2015 with a better labour participation rate of 68.1% and a total of 61.2K net jobs created, bringing the total net jobs created to 363K reflecting an improving economic environment.**

**On the back of a healthy domestic economic outlook in 2018 with the GDP projected to grow around 5.5%, we foresee the labour market to remain healthy. However, the pace at which the unemployment rate to improve further could be slower, especially when there are growing signs of tightness in the labour market. We forecast the unemployment rate to be around 3.1% –3.2% for 2018.**

- Unemployment rate in December improved slightly to 3.3% from 3.4% in November and fell in line with our projection. December's unemployment is the lowest since November 2015.

- Meanwhile, the labour participation rate (LFPR), which is the ratio of labour force to the working population (15–64 years old), improved to 68.1% in December from 67.9% in November. Those outside the labour force i.e. housewives, student (including those going for further studies), retirees, disabled persons and people seeking employment eased 0.1%y/y to 7.08K. This segment makes up 31.9% of the labour force.

- The net jobs created in December picked up strongly by 61.2K after reporting a decline of 2.8K in November. For 2017, the total net jobs created stood at 363K, which suggested an improving economic condition.

- On the back of a healthy domestic economic outlook in 2018 with the GDP projected to grow around 5.5%, we foresee the labour market to remain healthy. However, the pace at which the unemployment rate to improve further could be slower especially when there are growing signs of tightness in the labour market. We forecast the unemployment rate to be around 3.1%–3.2% for 2018.

**Table 1: Malaysia Key Labour Market Data**

| | Dec'16 | Jan'17 | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net Employed (K) | -40.5 | 90.1 | 35.0 | 19.9 | 7.9 | 24.8 | 65.5 | -22.5 | 16.0 | 30.9 | 37.4 | -2.8 | 61.2 |
| Net Unemployed (K) | 1.5 | 1.9 | 0.7 | -4.0 | 1.1 | -4.4 | 0.2 | 11.3 | -2.1 | -2.4 | -5.7 | -3.7 | 0.7 |
| Unemployment Rate (%) | 3.5 | 3.5 | 3.5 | 3.4 | 3.4 | 3.4 | 3.4 | 3.5 | 3.4 | 3.4 | 3.4 | 3.4 | 3.3 |
| LFPR (%) | 67.6 | 67.7 | 67.8 | 67.7 | 67.7 | 67.8 | 67.8 | 67.7 | 67.8 | 67.9 | 68.0 | 67.9 | 68.1 |

Source: CEIC/AmBank Research

# China

## Cooling PPI constrains CPI pricing power

**The Producer Price Index (PPI) walked into 2018 at its slowest pace in 14 months with the January PPI at 4.3% y/y, which is partly due to a high base effect. At the same time, the Consumer Price Index (CPI) eased off to 1.5% y/y in January while the core inflation cooled to 1.9% y/y. Following the sustained moderation in the PPI, factories could be burdened with shrinking profits and higher debt, and this raises question over the strength of the global reflation.**

**We feel it now leaves the policymakers with a freer hand on ongoing campaigns against industrial over-capacity and pollution. The central bank is less pressured to tighten its policy and this allows it more room to focus on other measures rather than targeting its interest rates to address the corporate debt issue. We believe the benchmark lending rate of 4.35% will stay intact.**

- The Producer Price Index (PPI) walked into 2018 at its slowest pace in 14 months. The PPI in January rose 4.3% y/y from 4.9% y/y in December 2017. We believe this could be partly due to a high base effect.

- At the same time, the Consumer Price Index (CPI) eased off moderately to 1.5% y/y in January from 1.8% y/y in December 2018 while the core inflation cooled to 1.9% y/y compared to 2.2% y/y in November. Weak food prices were seen as the cause.

- Apart from high base factor and weak food prices, the downwards pressure in January came from slower rent, fuel & utilities, up 2.7% y/y from 2.8% y/y, household goods and services, rising 1.5% y/y from 1.6% y/y and transport and communication, higher by 0.2% from 1.2% y/y.

- Following the sustained moderation in the PPI, it is expected to burden factories with shrinking profits and higher debt which raises the question over the strength of the global reflation. We feel it now leaves the policymakers with a freer hand on ongoing campaigns against industrial over-capacity and pollution.

- Furthermore, the central bank's pressure to tighten its policy is less strenuous. This will now allow the central bank to focus on other measures rather than targeting its interest rates to address the corporate debt issue. We believe the benchmark lending rate of 4.35% will stay intact.

**Table 1: China Key Inflation Data**

| | Jan'17 | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan'18 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CPI y/y | 2.5 | 0.8 | 0.9 | 1.2 | 1.5 | 1.5 | 1.4 | 1.8 | 1.6 | 1.9 | 1.7 | 1.8 | 1.5 |
| CPI m/m | 1.0 | -0.2 | -0.3 | 0.1 | -0.1 | -0.2 | 0.1 | 0.4 | 0.5 | 0.1 | 0.0 | 0.3 | 0.6 |
| Core-CPI y/y | 2.2 | 1.8 | 2.0 | 2.1 | 2.1 | 2.2 | 2.1 | 2.2 | 2.3 | 2.3 | 2.3 | 2.2 | 1.9 |
| Food y/y | 2.7 | -4.3 | -4.4 | -3.5 | -1.6 | -1.2 | -1.1 | -0.2 | -1.4 | -0.4 | -1.1 | -0.4 | -0.5 |
| PPI y/y | 6.9 | 7.8 | 7.6 | 6.4 | 5.5 | 5.5 | 5.5 | 6.3 | 6.9 | 6.9 | 5.8 | 4.9 | 4.3 |
| 1-yr Rate % | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 | nm | nm |
| Yuan/US$ (avg) | 6.89 | 6.87 | 6.89 | 6.89 | 6.88 | 6.81 | 6.77 | 6.67 | 6.57 | 6.63 | 6.62 | 6.59 | 6.42 |
| Yuan/US$ y/y | 4.8 | 4.9 | 6.0 | 6.4 | 5.5 | 3.3 | 1.4 | 0.3 | -1.5 | -1.6 | -3.2 | -4.7 | -6.8 |

Source: CEIC/AmBank Research

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