

Quarterly Economy Tracker (Apr-Jun 2024)

Domestic Economy Remains on the Expansion Path

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Executive Director
8 August 2024



Agenda

1

Global Economy is Growing but Risks still Prevalent

2

Domestic Economy Remains on the Expansion Path

3

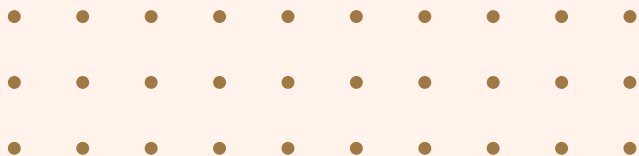
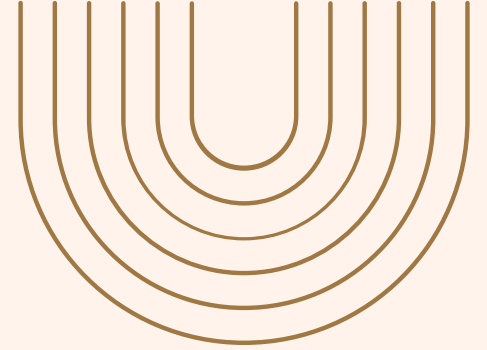
Seize the Moment - Catalysing Private Investment Cycle



Global Economic Outlook

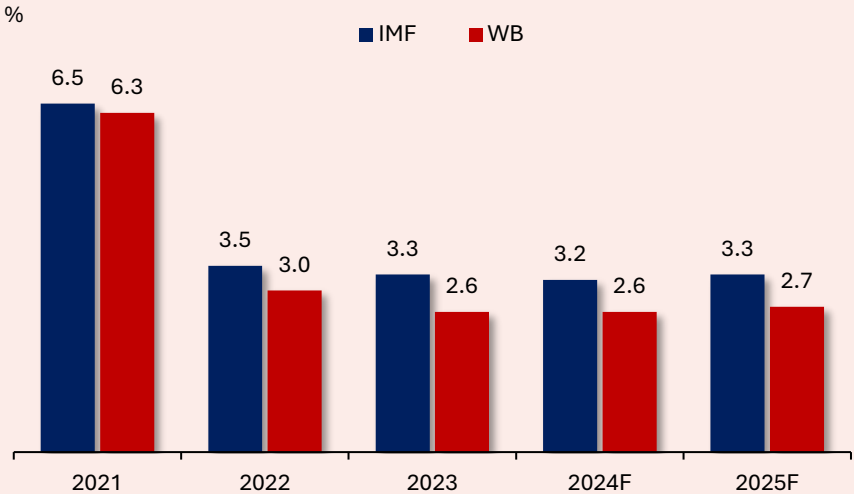
Global Economy is Growing but Risks still Prevalent

- *Global growth continues amid the challenges and risks.*
- *Global core inflation has eased, interest rates easing cycle has begun.*
- *Market are pinning hopes on the Federal Reserve to deliver aggressive rate cuts.*
- *Downside risks to global growth: Recessionary fears in the US economy, slower-than-expected recovery in China; renewed tariffs war; an escalation of geopolitical conflicts, and upside risks to inflation.*

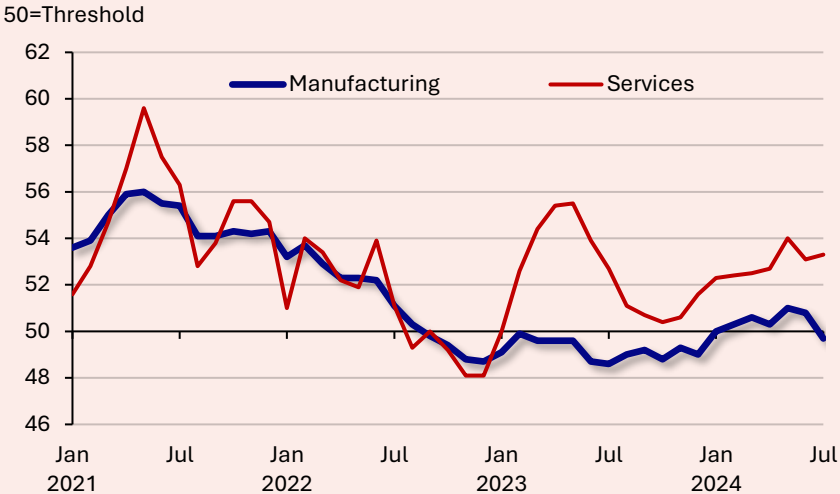


The global economy continues to grow, albeit moderately

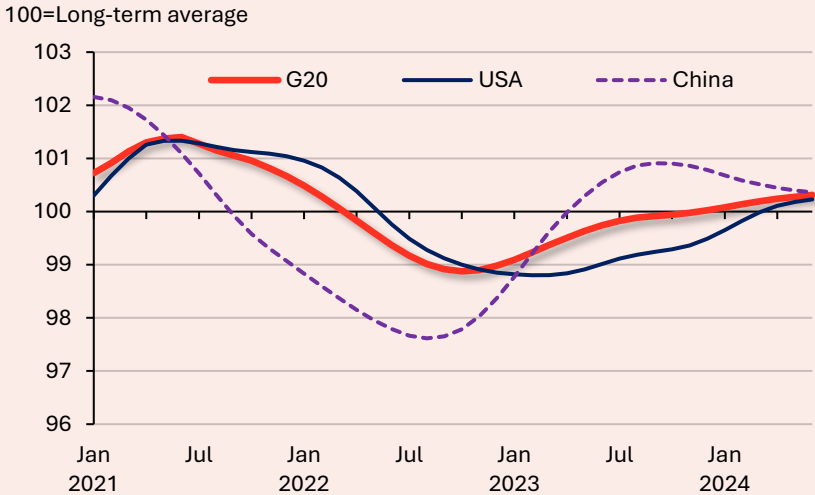
Global growth estimates



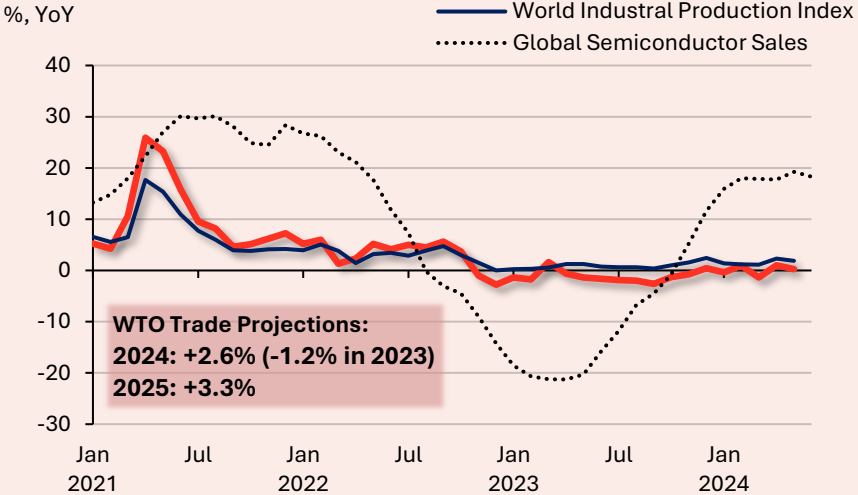
Global PMI for manufacturing & services



OECD Composite Leading Indicators (CLI)



Key economic activities



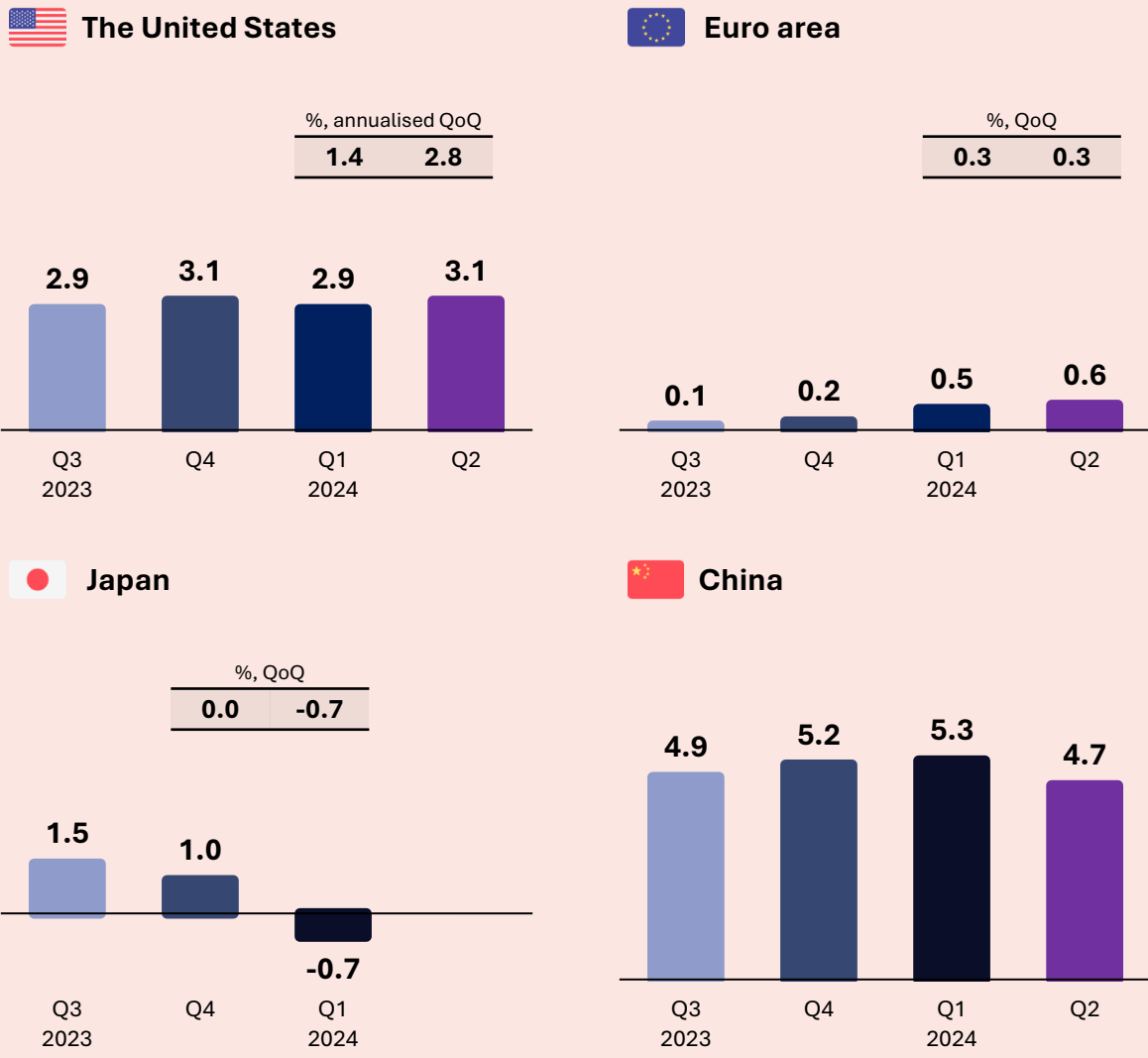
Mixed indicators:

- Global manufacturing PMI dipped below threshold at 49.7 points in Jul 2024, after maintaining positive momentum in the first six months of 2024.
- The OECD composite leading indicators (CLI) showed an upward trend among the G20, pointing a stable growth ahead.
- Global semiconductor sales have seen a robust double-digit expansion since Dec 2023.
- World trade volume growth remained uneven.

Source: International Monetary Fund (IMF); World Bank (WB); S&P Global; Organisation for Economic Co-operation and Development (OECD); CPB Netherlands

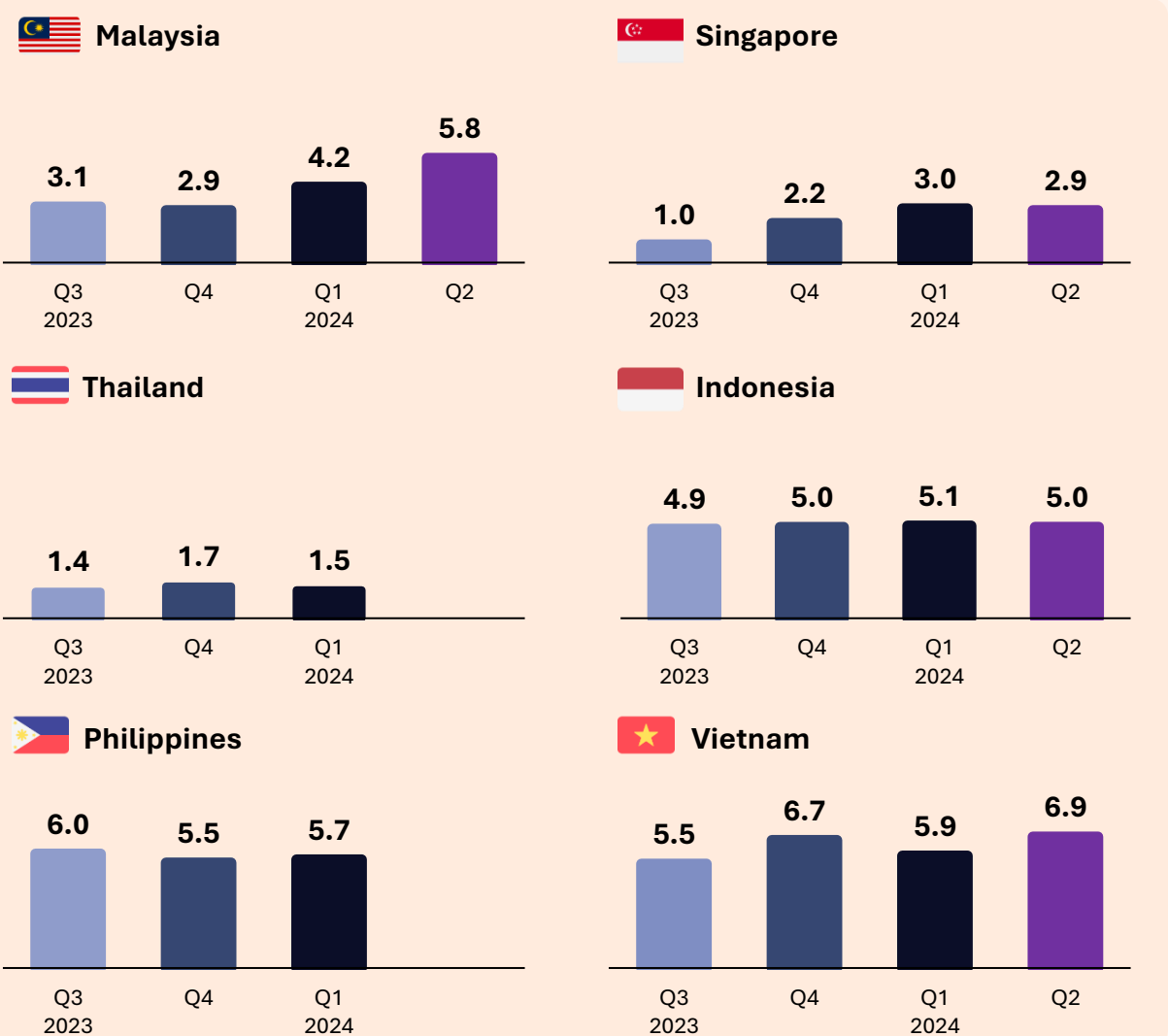
GDP growth heatmap for advanced and emerging economies

Key economic powerhouse



Regional economies

%, YoY

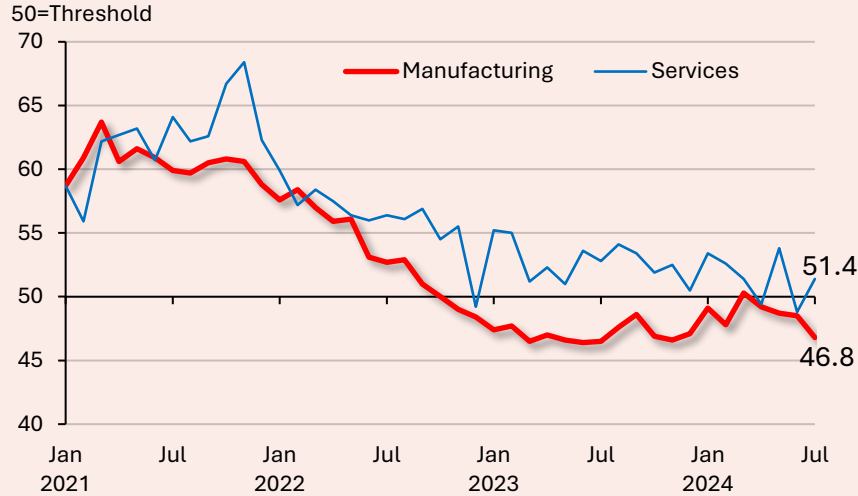


Source: Various officials (unadjusted data except for Euro Area)

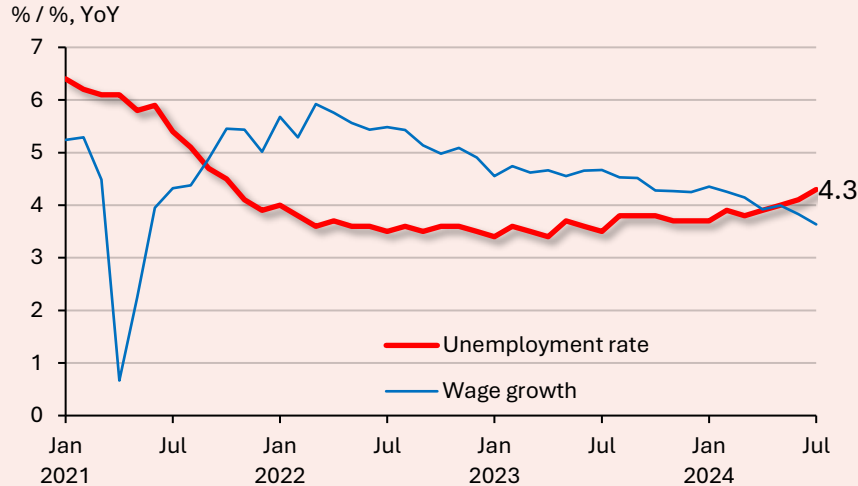
Growth divergent among key economic powerhouse

United States

Manufacturing and services PMI

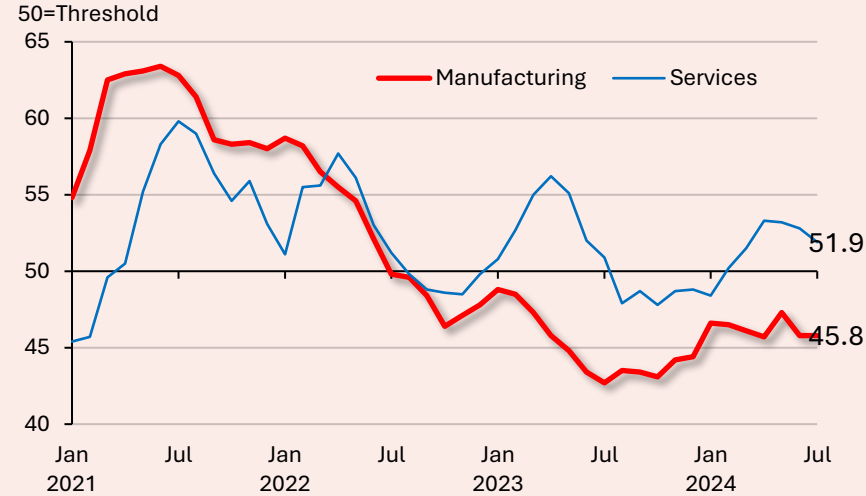


Unemployment rate and wage growth

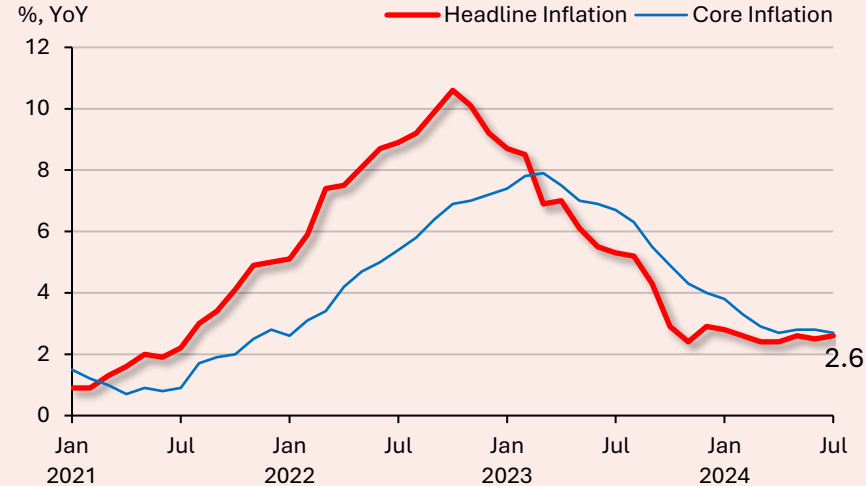


Euro Area

Manufacturing and services PMI



Headline & core inflation



The United States

Soft landing amid recessionary fears

- The US economy has shown some worrisome signs. The manufacturing PMI has fallen below the expansion threshold, disappointing jobs report, and continued low wage growth.

Euro Area

Uneven growth amid headwinds

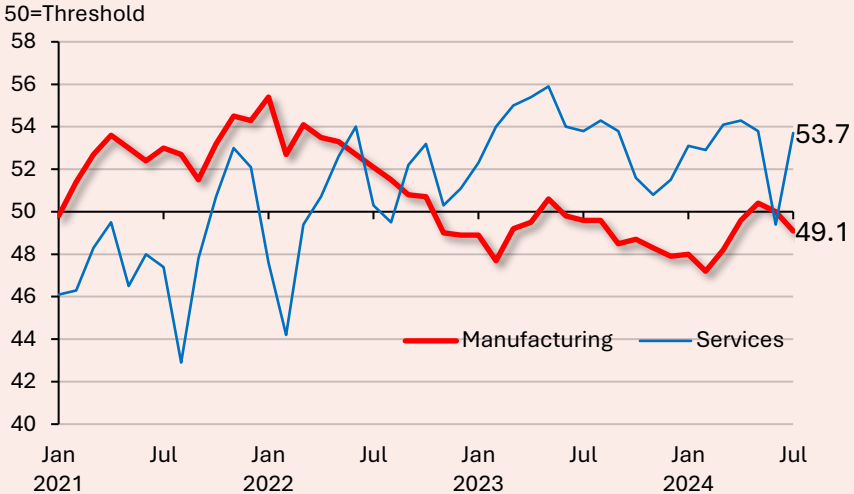
- The economic data exhibited a consistent downward trend but has recently stabilised at its current level.
- Inflation has remained at a stable rate of 2.6% in Jul 2024.

Source: Institute for Supply Management (ISM); US Bureau of Labour Statistics; S&P Global; Eurostat

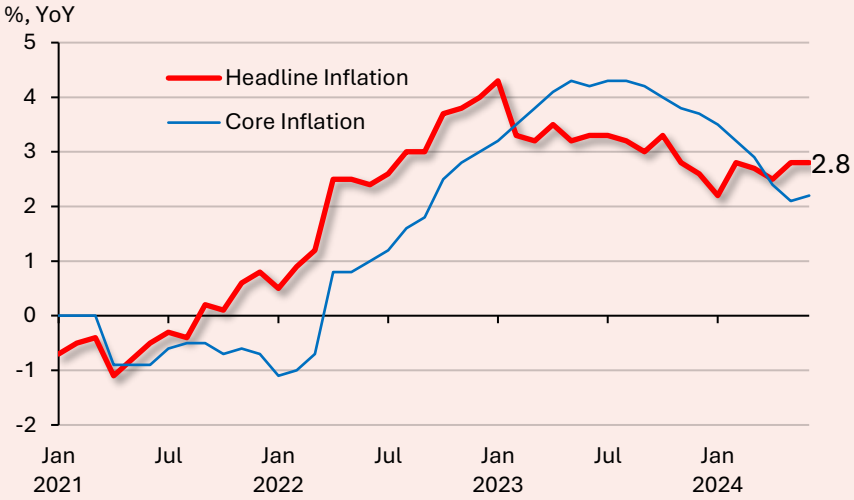
Growth divergent among key economic powerhouse (cont.)

Japan

Manufacturing and services PMI

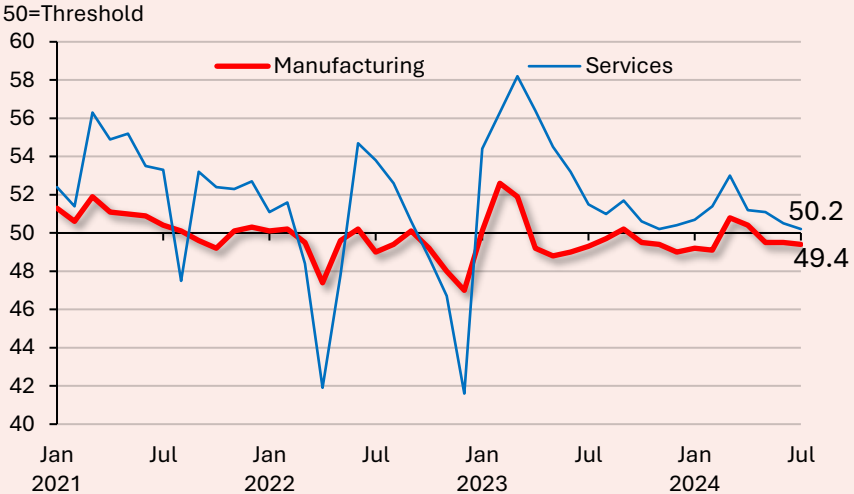


Headline & core inflation

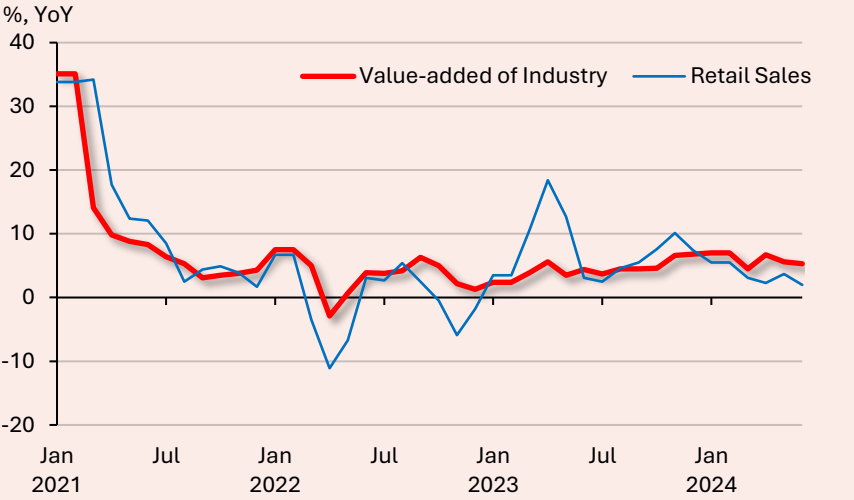


China

Manufacturing and services PMI



Industrial and retail activities



Japan

A new normal in policy rate

- A modest turnaround in growth is expected in 2H 2024, driven by stronger wage growth and consumer spending.
- Bank of Japan signals further rate hikes ahead, triggering the unwinding of yen carry trade.

China





Beset on all sides

- Manufacturing PMI has fallen below the threshold since May 2024.
- Overall economic growth is losing steam, more reforms are needed beyond the real estate sector.

Source: S&P Global; Statistics Bureau of Japan; National Bureau of Statistics of China

How will the US economic slowdown affect us?

Trade and investment with selected countries

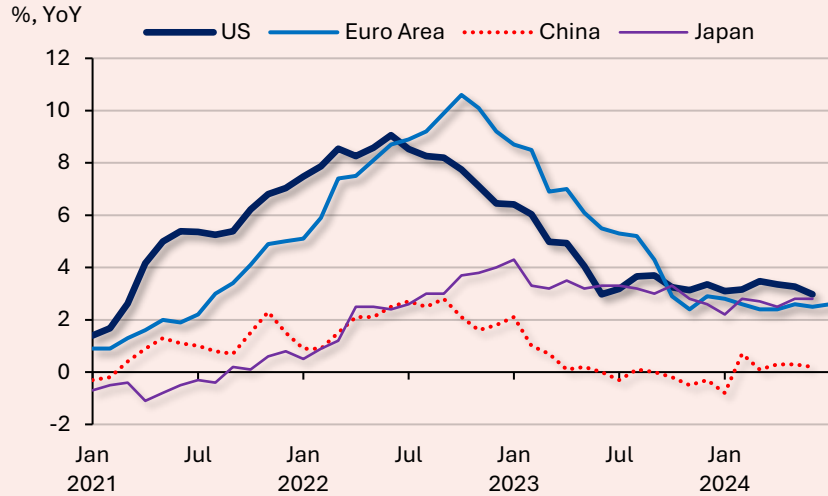
2023 % share (value)	Exports	Imports	Total Trade	Approved Foreign Investment	Approved Foreign Manufacturing Investment
 United States	Rankings #3 11.3% of total (RM161.3 billion)	#4 7.3% (RM89.0 billion)	#3 9.5% (RM250.2 billion)	#3 11.4% (RM21.5 billion)	#2 14.1% (RM18.1 billion)
 China	#2 13.5% (RM192.2 billion)	#1 21.3% (RM258.6 billion)	#1 17.1% (RM450.8 billion)	#5 7.7% (RM14.5 billion)	#5 9.3% (RM12.0 billion)
 Japan	#6 6.0% (RM85.7 billion)	#6 5.9% (RM70.9 billion)	#5 5.9% (RM156.6 billion)	#6 7.2% (RM13.6 billion)	#6 7.9% (RM10.2 billion)
 European Union	#4 7.9% (RM112.9 billion)	#3 7.7% (RM93.8 billion)	#4 7.8% (RM206.7 billion)	N/A 27.0% (RM50.9 billion)	N/A 35.0% (RM45.0 billion)
Malaysia's Overall	RM1,425.6 billion	RM1,211.5 billion	RM2,637.1 billion	RM188.4 billion	RM128.4 billion

Note: The European Union excludes the United Kingdom.
The European Union rankings in approved and manufacturing investments are excluded.

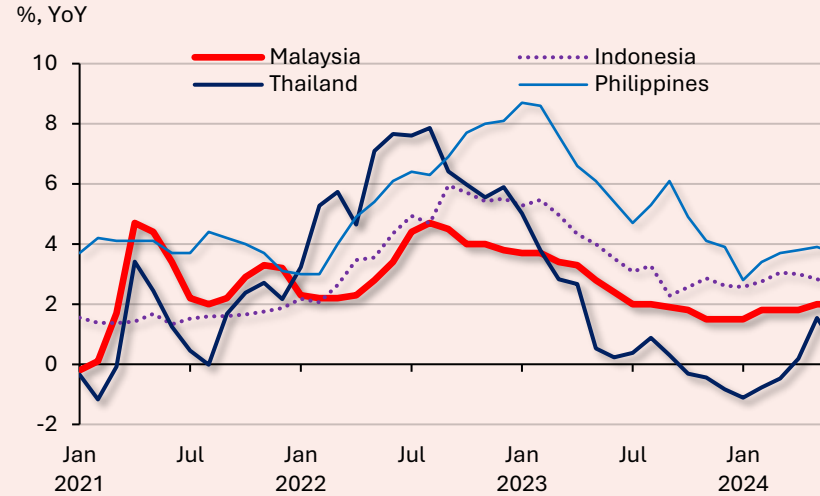
Source: BNM; DOSM

Inflation has finally been tamed, with lower interest rates to follow

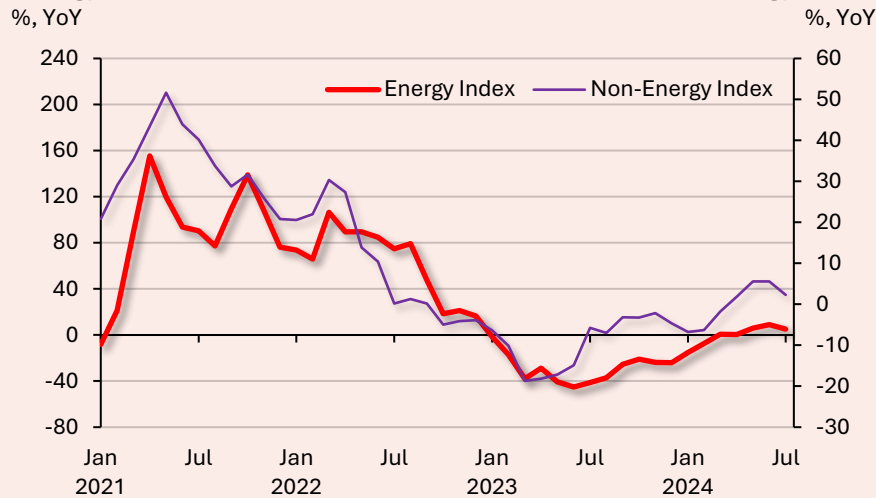
Inflation – Key economies



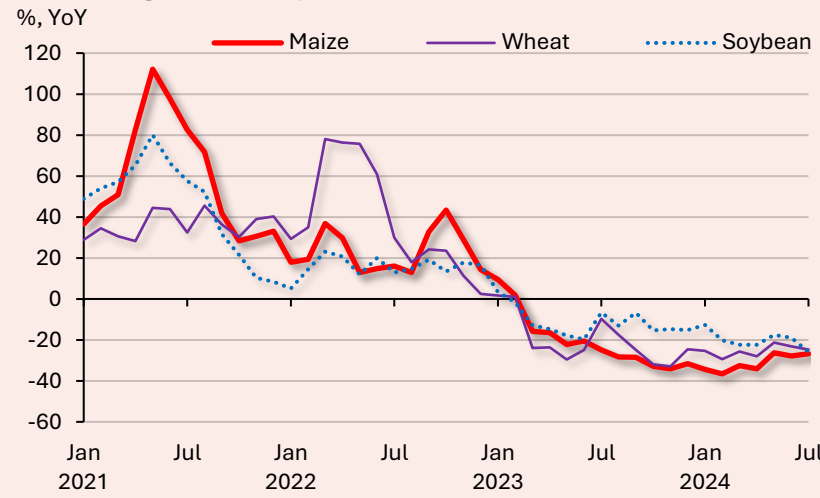
Inflation – Selected ASEAN economies



Energy index



Selected global food prices

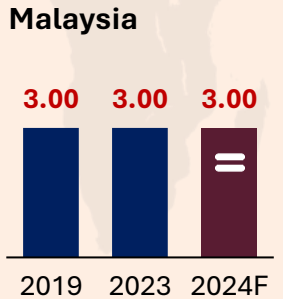
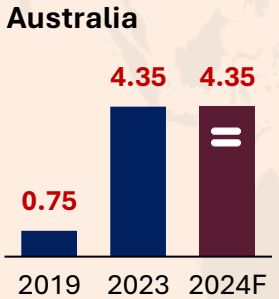
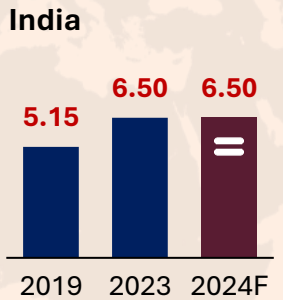
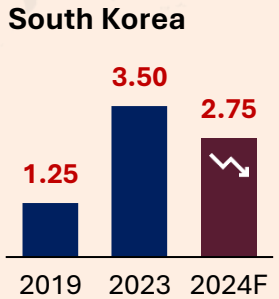
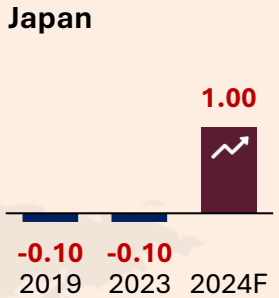
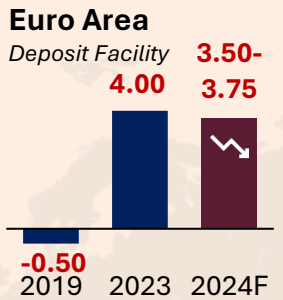
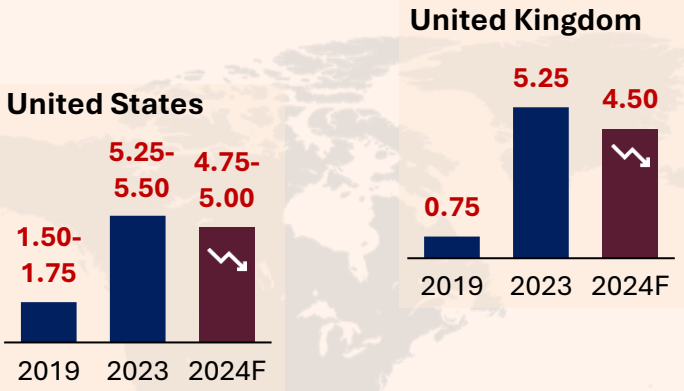


- Headline inflation has been falling over the past few months and has started to stabilise at its current level.
- However, caution is warranted regarding positive trends in the energy and non-energy indices.
- Ongoing and elevated tension in the Middle East pose a significant risk to temper the current inflation.
- Drewray's World Container Index (WCI) continues to show an increase in the price of 40ft containers, rising from USD1,342 in Oct 2023 to USD5,736 on 1 Aug 2024 (+327.4%). Despite this substantial increase, prices remain below their peak during the COVID-19 pandemic.

Source: World Bank; Various officials for inflation data

Global monetary policy tracker

Policy rate (% , end-period)



Federal Reserve Chair Jerome Powell said officials could cut interest rates at their meeting in September, moving closer to a new phase that seeks to avoid weakness in the labor market in the midst of signs inflation is heading lower.

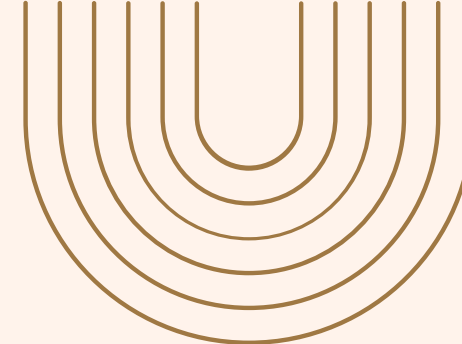
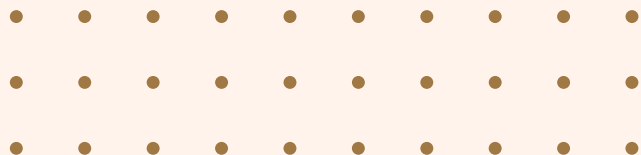
Source: Various officials; SERC's forecasts



Malaysia Economic Outlook

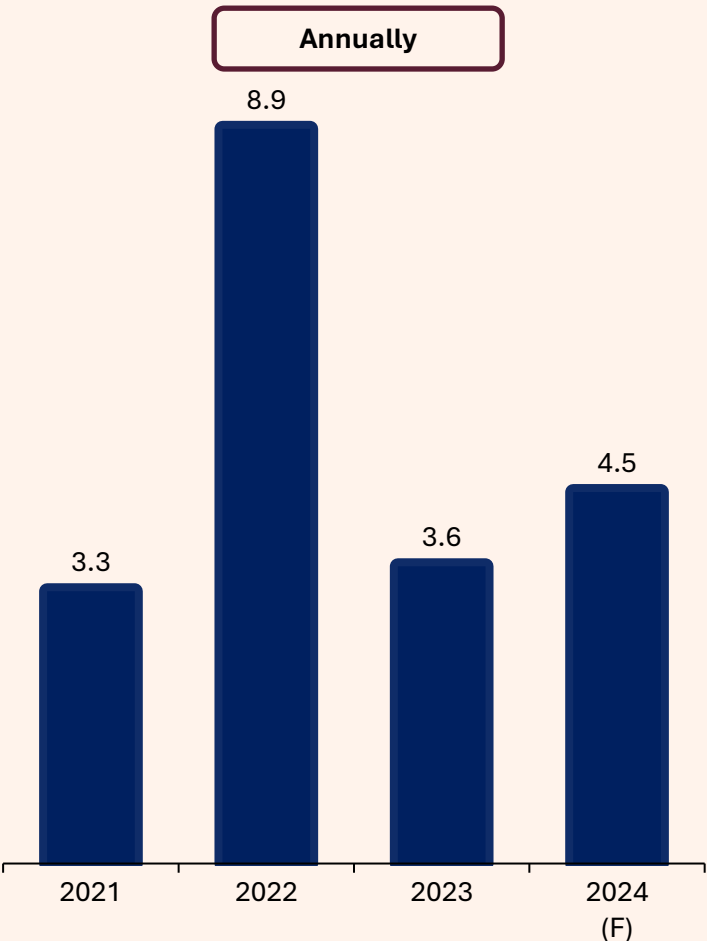
Domestic Economy Remains on the Expansion Path

- *Real GDP growth (advance estimates) came in stronger at 5.8% yoy in Q2 2024 (Q1: 4.2%), bringing average growth to 5.0% in 1H, prompting us to revise our estimate of 4.5% for 2024, pending the release of final estimates on 16 August.*
- *Better-than-expected economic performance was bolstered by growth in all sectors in Q2 2024, particularly the services, manufacturing, and construction sectors.*
- *Private investment growth remains strong going by the improved growth and investment prospects.*
- *Amid rising living costs and persistent price pressures, consumer spending is expected to increase, supported by targeted cash assistance, retargeting rationalisation subsidies, and the withdrawals of the Employee Provident Fund's Flexible Account (Account 3).*



The Malaysian economy in a faster than expected pace of growth

Malaysia's real GDP growth (% YoY)



Drivers of economic growth in 2024

Supporting drivers

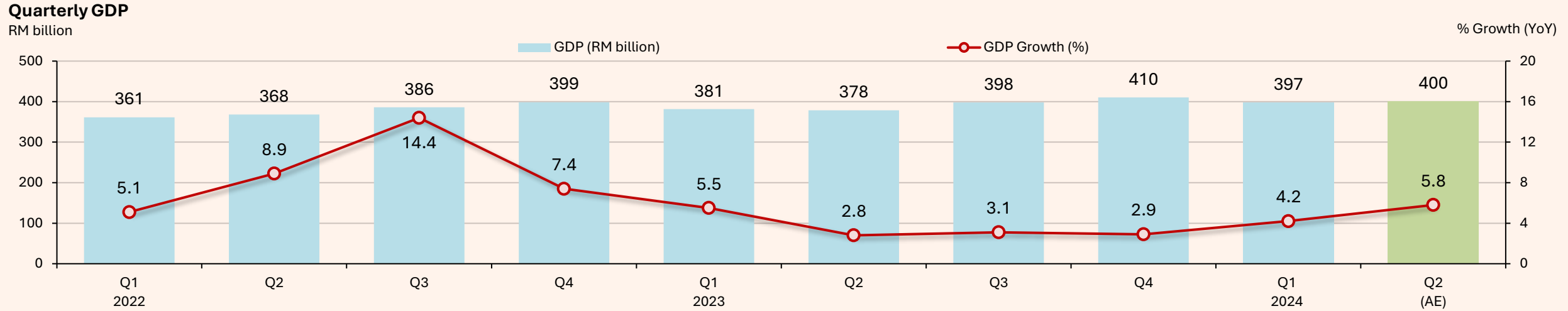
- Stronger growth in domestic economy as well as an upswing in external demand.
- Investment upcycle in the technology and digital infrastructure with the likes of Google and Microsoft contributing.
- Increase in tourist arrivals in line with the visa exemption given to tourists from China and India.

Dampening drivers

- Increased cost of living and business costs especially with the implementation of the subsidy rationalisation for diesel.
- Businesses and households' anxieties have already built up over the petrol subsidy rationalisation will be next in line.
- The domestic economic growth outlook remains subject to downside risks, mainly from the worsening of geopolitical tensions, higher-than-anticipated inflation outturns, and volatility in global financial markets.

AE = Advance estimates by DOSM
 Source: Department of Statistics Malaysia (DOSM); SERC's forecast

Advance estimates of 5.8% yoy GDP growth in Q2 2024



Economic performance by production approach



Services

5.6%
(Q2 2024)

4.7% in Q1 2024



Manufacturing

4.7%
(Q2 2024)

1.9% in Q1 2024



Agriculture

7.1%
(Q2 2024)

1.6% in Q1 2024



Mining and Quarrying

3.3%
(Q2 2024)

5.7% in Q1 2024



Construction

17.2%
(Q2 2024)

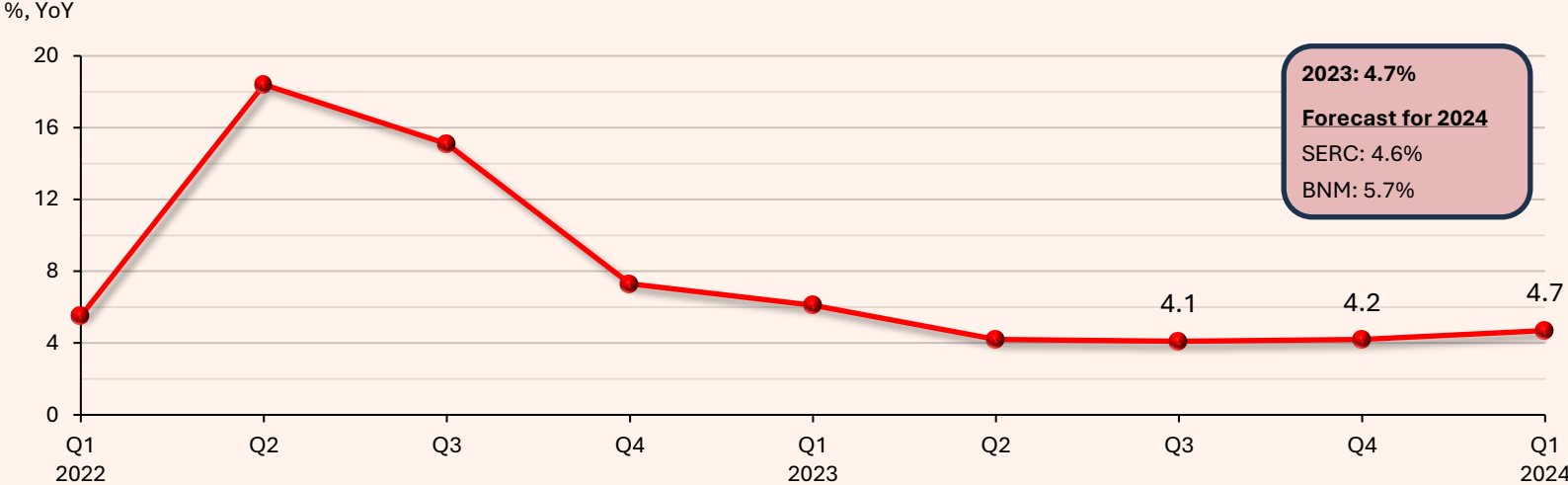
11.9% in Q1 2024

AE = Advance estimates by DOSM

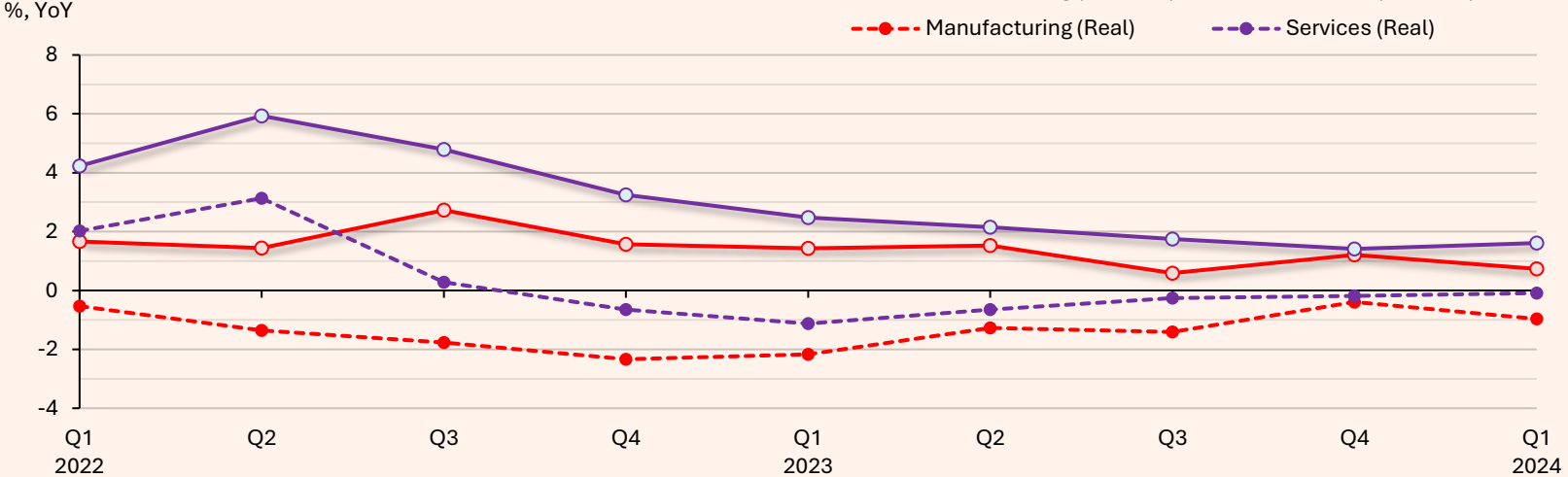
Source: Department of Statistics Malaysia (DOSM); SERC's forecast

Sustaining private consumption

Private consumption growth (60.7% of GDP in 2023)



Real wage growth per employee



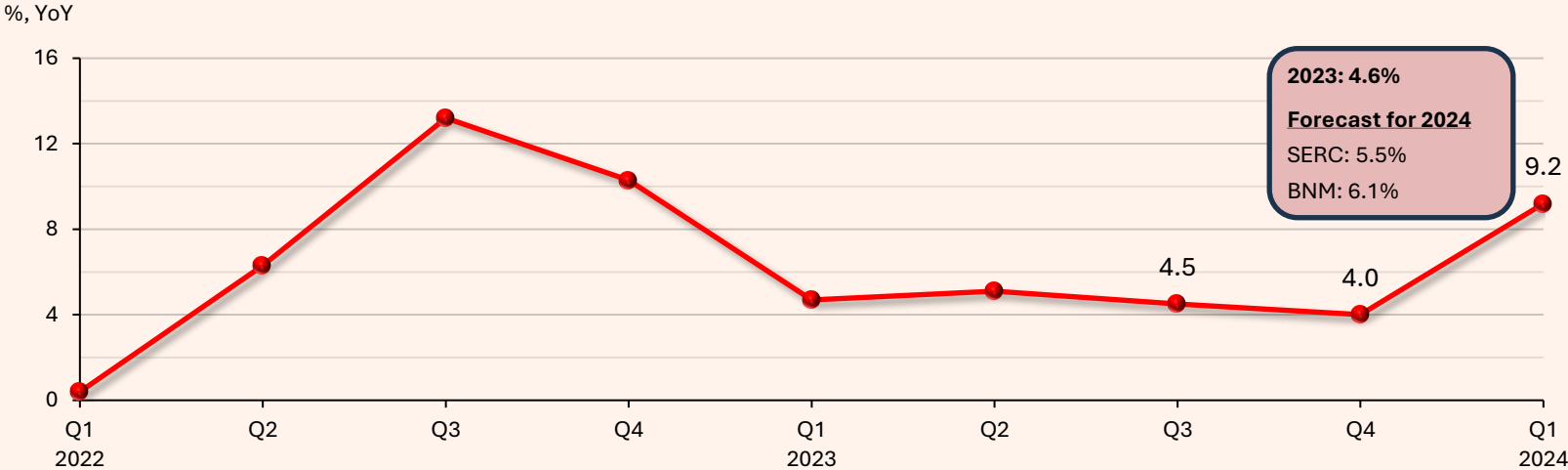
Key focuses

- Stable labour market conditions. Rising cost of living and high prices pressure as well as anxiety about retargeting subsidies rationalisation for RON95 may lead to cautious spending.
- Higher tourist arrivals and spending are expected with the implementation of visa free for India and China. Malaysia targets 27.3 million tourist arrivals with RM102.7 billion in total tourism receipts in 2024. China and India are expected to contribute 5 million and 1 million tourist arrivals, respectively.
- The Employees Provident Fund (EPF)’s Flexible Account (Account 3) allows members to withdraw funds for life cycle needs.
- As of 19 July 2024, 3.8 million or 29.3% of total 13.1 million EPF members under the age of 55 have transferred RM12.6 billion from the Sejahtera Account (Account 2) to the Flexible Account (Account 3).
- 3.4 million or 26.2% of total EPF members under the age of 55 have withdrawn RM8.9 billion from the Flexible Account, a 27.5% increase from RM6.98 billion as of 10 June 2024.

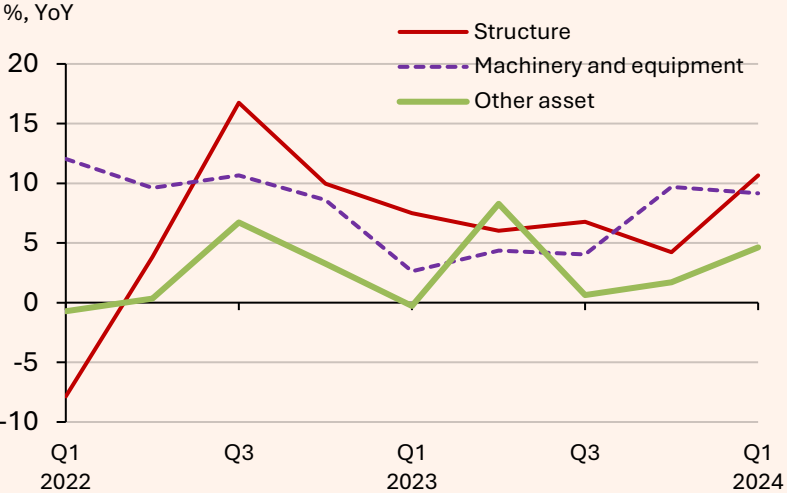
Source: DOSM

Strong investment upcycle set to take off

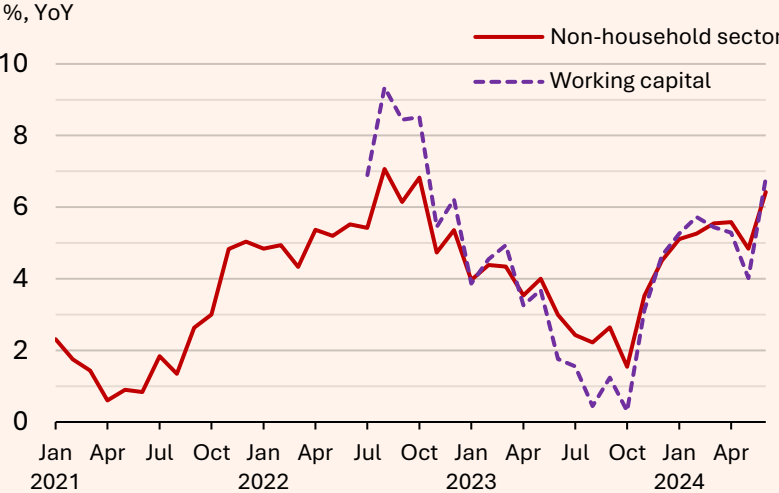
Private investment growth (15.5% of GDP in 2023)



Gross fixed capital formation by type of assets



Outstanding loans to the business sector



Key focuses

- With a plethora of investments streaming in from multinationals like Google, Microsoft and Tesla, Malaysia will experience a global tech upcycle especially where digital infrastructure like artificial intelligence (AI), cloud computing, EVs are concerned.
- Several strategic plans, namely the New Industrial Master Plan (NIMP) 2030, National Energy Transition Roadmap (NETR), the Mid-Term Review of the 12th Malaysia Plan (2021-2025), and National Semiconductor Strategy (NSS) are gradually materialising and will be the catalyst for higher investment growth.
- ACCCIM M-BECS results indicated that increasing cost of doing business remained a key concern. The top three factors that adversely affected business performance in 1H 2024 were the Ringgit's fluctuation (52.3%), increase in prices of raw materials (48.9%), and high operating cost and cash flow problem (47.4%). It is observed that the increase in prices of raw materials, utility costs, staff costs, as well as rent and logistic costs, being the costs that impacted businesses the most.

Source: DOSM; BNM

Tracking Malaysia's economic indicators

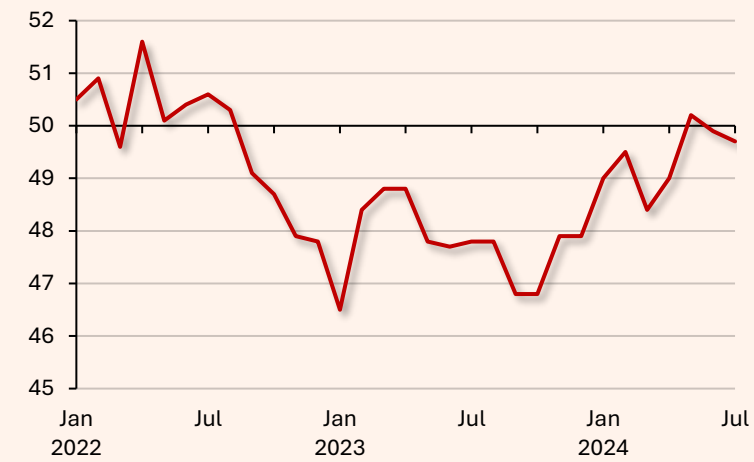
Leading indicators

% YoY



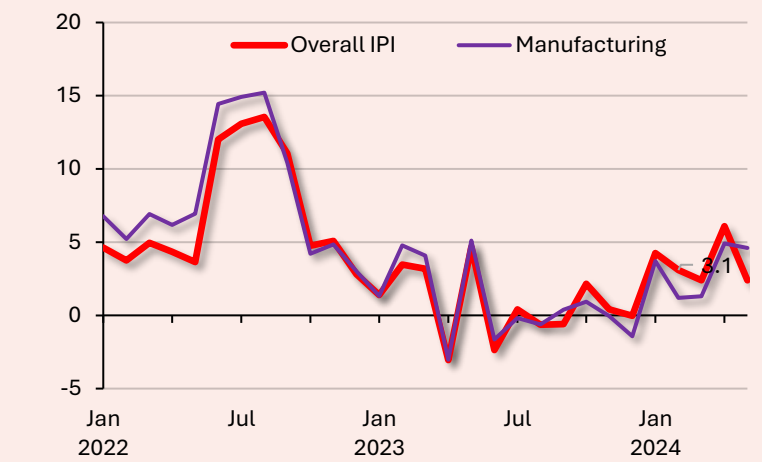
Purchasing Managers' Index (PMI)

50=Threshold



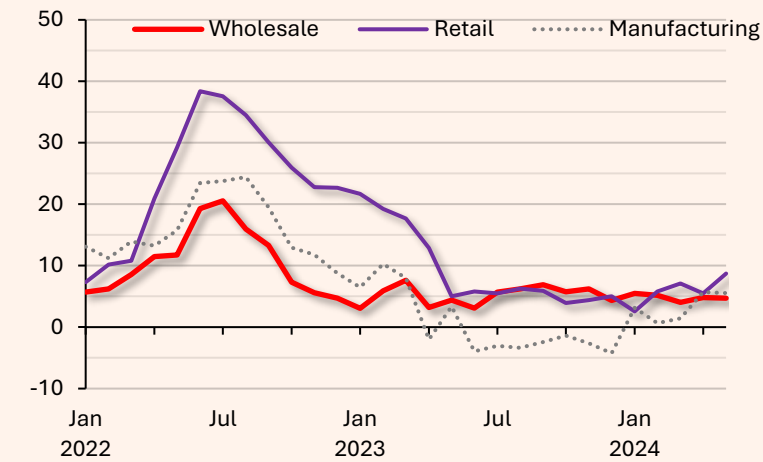
Industrial production index (IPI)

% YoY



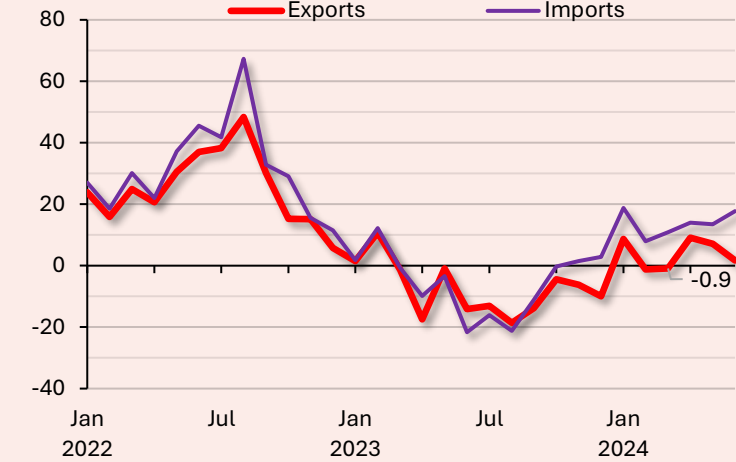
Wholesale, retail & manufacturing sales

% YoY



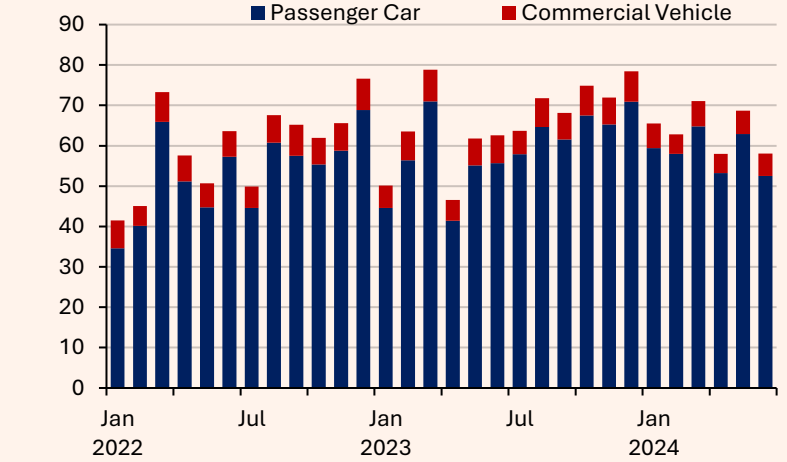
External trade

% YoY



Sales of passenger & commercial vehicles

Thousand units

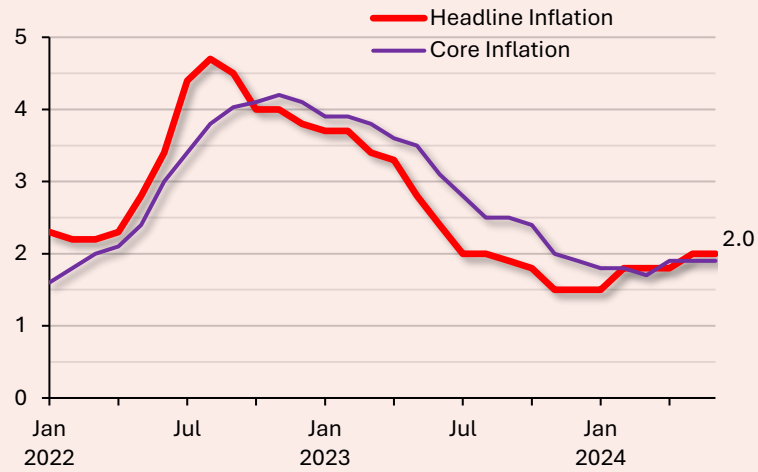


Source: S&P Global; DOSM; Malaysian Automotive Association (MAA)

Tracking Malaysia's economic indicators (cont.)

Inflation

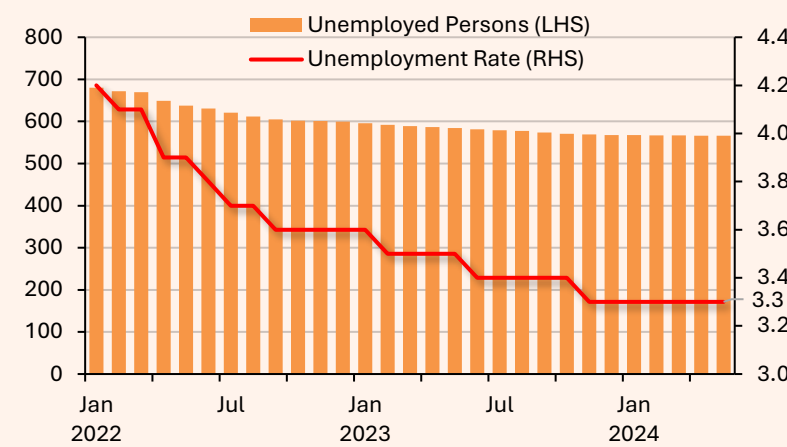
%, YoY



Unemployment

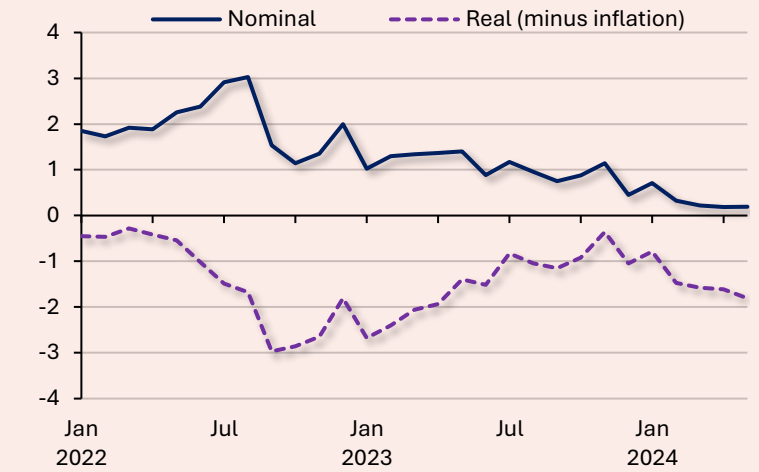
('000)

%



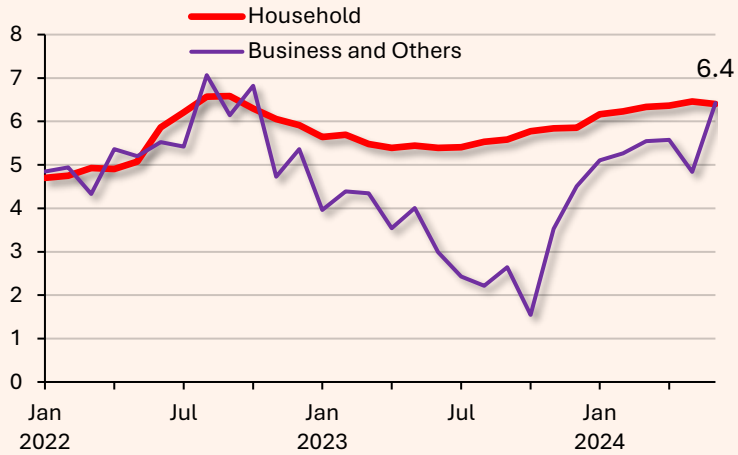
Manufacturing wage (per employee) growth

%, YoY



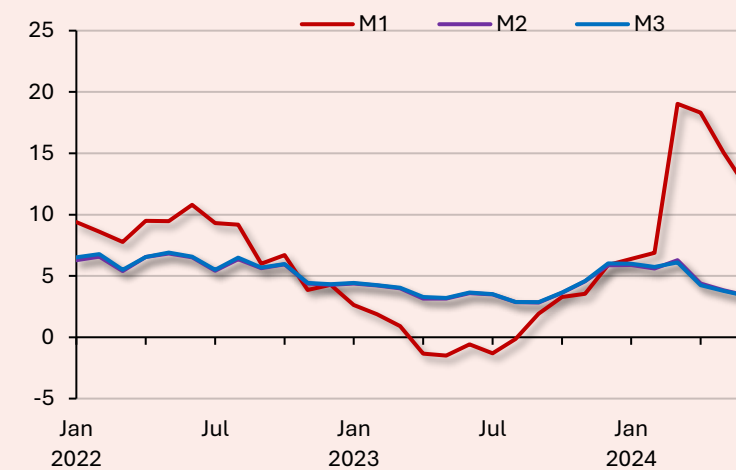
Outstanding banking loan growth

%, YoY



Money supply

%, YoY



Foreign exchange reserves

USD billion

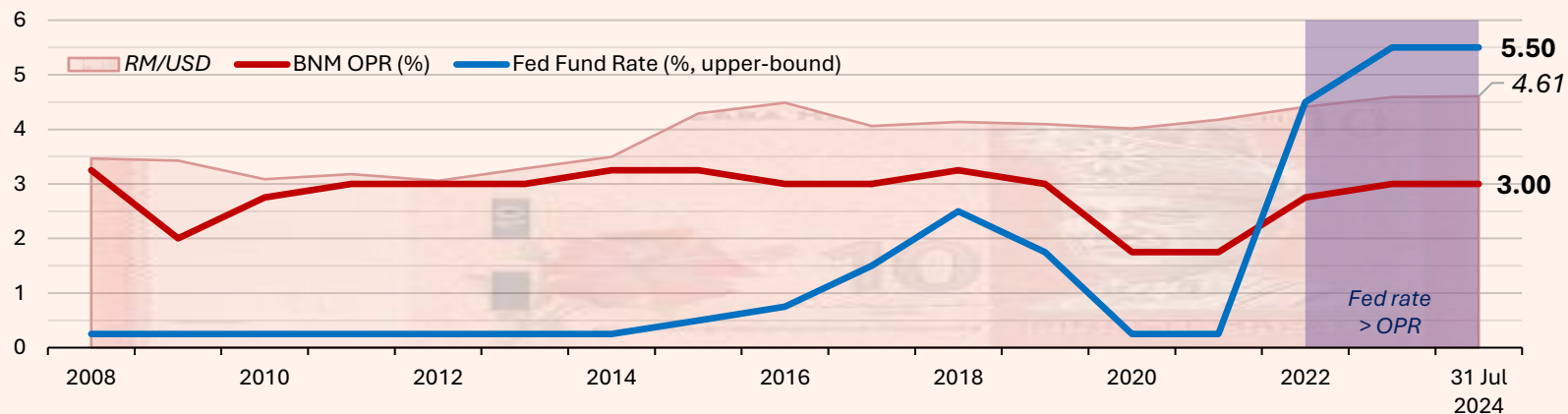


Source: DOSM; BNM; MIDA

BNM's OPR to maintain status quo at 3.00% in 2024

BNM OPR vs. Fed Funds Rate vs. RM/USD

Rate at end-period

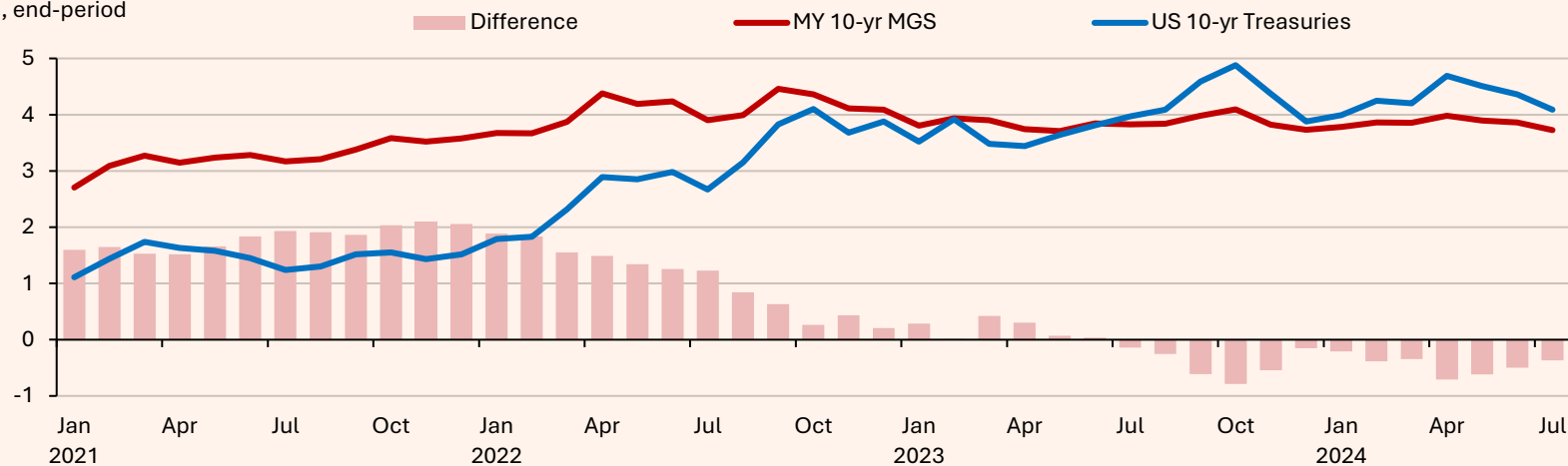


OPR set to stay put at 3.00%

- BNM will maintain the OPR at 3.00% in 2024 to support the economy while keeping domestic prices stable.
- Developments in global energy and commodities market, the implementation of subsidies rationalisation for RON95, the impending salary hike for civil servants and review of new minimum wage.

Yields: MY 10-year MGS vs. US 10-year Treasuries

% end-period

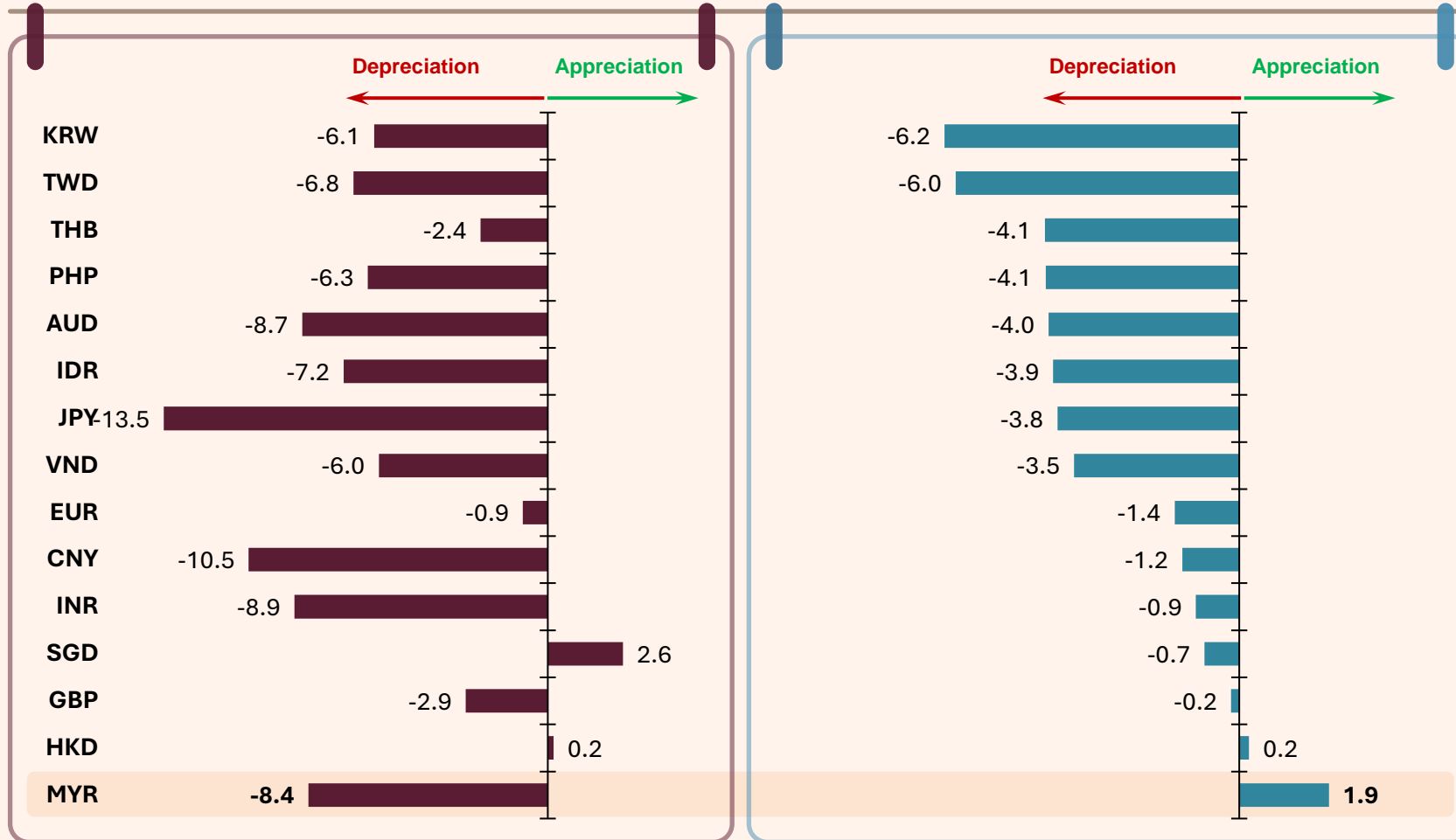


Source: Fed; BNM; US Treasury Department

The Ringgit has recouped some of its losses

Selected major and regional currencies against the USD
(%)

31 Mar 2022 → 29 Dec 2023 → 7 Aug 2024



Since 31 Mar 2022:

- **SDG** outperformed all other currencies, claiming the top spot.
- **MYR** ranked as the sixth strongest currency against the US dollar.
- **JPY** was the worst performing currency as of now.

Net Impact		
#12	KRW	-12.2
#14	TWD	-12.8
#5	THB	-6.5
#9	PHP	-10.4
#13	AUD	-12.7
#10	IDR	-11.1
#15	JPY	-17.3
#7	VND	-9.5
#3	EUR	-2.3
#11	CNY	-11.7
#8	INR	-9.8
#1	SGD	1.9
#4	GBP	-3.1
#2	HKD	0.4
#6	MYR	-6.5

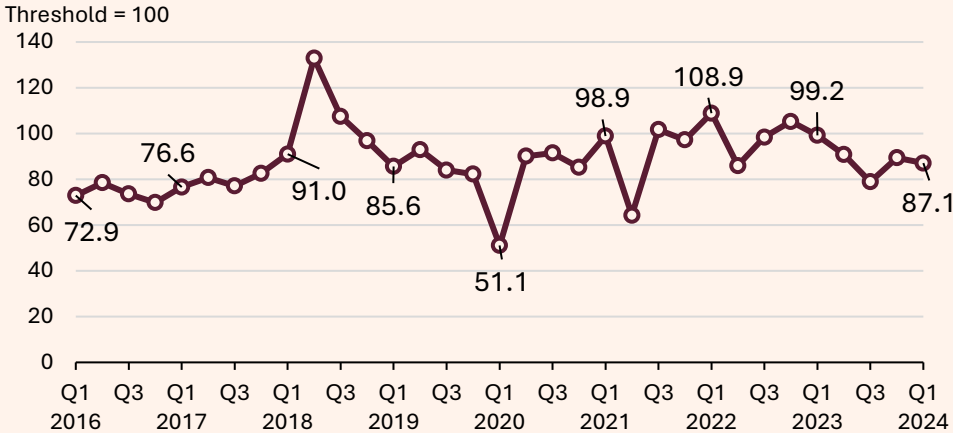
Source: Bank Negara Malaysia (BNM), cross-rate method applied.

Note: Net impact is determined by combining period 1 and period 2. It provides a simple illustration and may not reflect the actual impact.

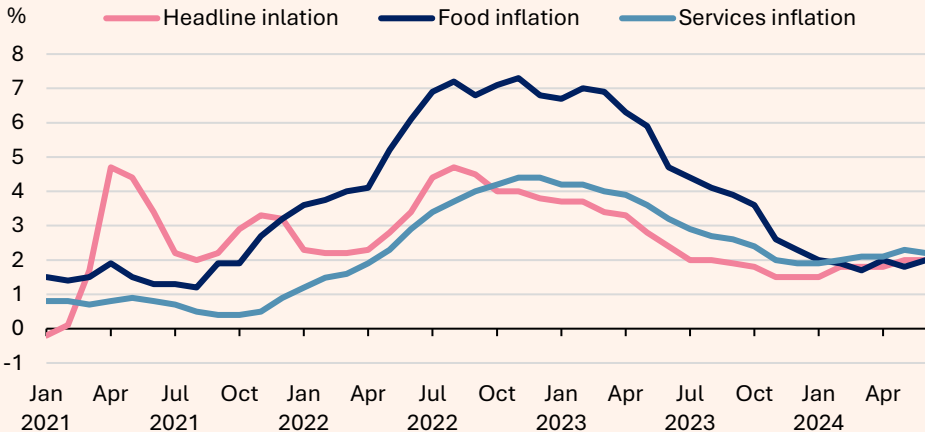
Why people don't feeling good despite higher GDP growth in Q2 2024?

Rakyat faces rising cost of living pressures; does not see many benefits from national plans; trickle effects would take time.

#1 Consumer Sentiment Index (CSI) – still below 100-pt threshold



#2 Purchasing power – easing inflation but price pressures still high



#3 Fiscal reform measures – negative sentiment

- Service tax on selected goods and services rose from 6% to 8%.
- 10% sales tax on online sales of imported goods on LVG goods sold below RM500.
- Retargeting subsidy rationalisation for diesel.
- Anxiety about RON95 subsidy rationalisation (?)

Understanding Rakyat's sentiment



Negative Factors

- Broader tax and higher tax rate
- Sentiment on subsidy rationalisation
- High cost of living
- Weakening ringgit impact



Positive Factors

- EPF Account 3 withdrawal
- Sumbangan Tunai Rahmah
- 3 sen reduction in egg prices



External Factors

- Regional conflicts and wars
- Climate change





Catalysing Private Investment Cycle

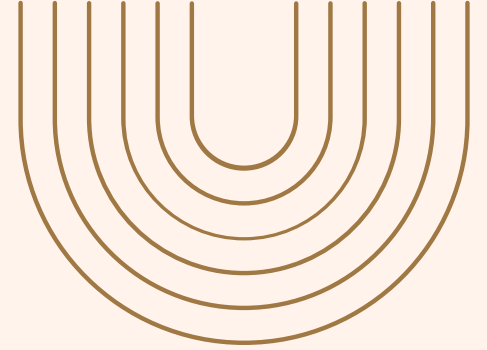
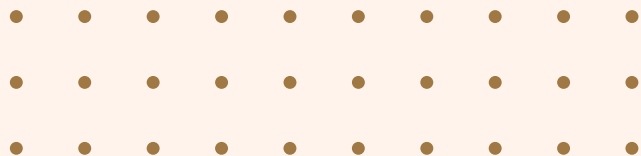
External and Domestic Drivers

➤ **EXTERNAL PUSH FACTORS**

- *Deglobalisation and trade protectionism, supply chains reconfiguration, regional integration, advance technologies, decarbonisation and China Plus One strategy*

➤ **DOMESTIC PULL FACTORS**

- *Investment dynamics to lift Malaysia's economic growth prospects*
- *Resetting Malaysia – MADANI Economy, New Industrial Master Plan (NIMP) 2030, National Energy Transition Roadmap (NETR), and National Semiconductor Strategy (NSS)*



Malaysia remains an attractive destination for DDI and FDI

Determinants



Strategic geographical location



Pro-investment policies



Good regulatory framework



Abundant land and natural resources



Access to capital and manpower



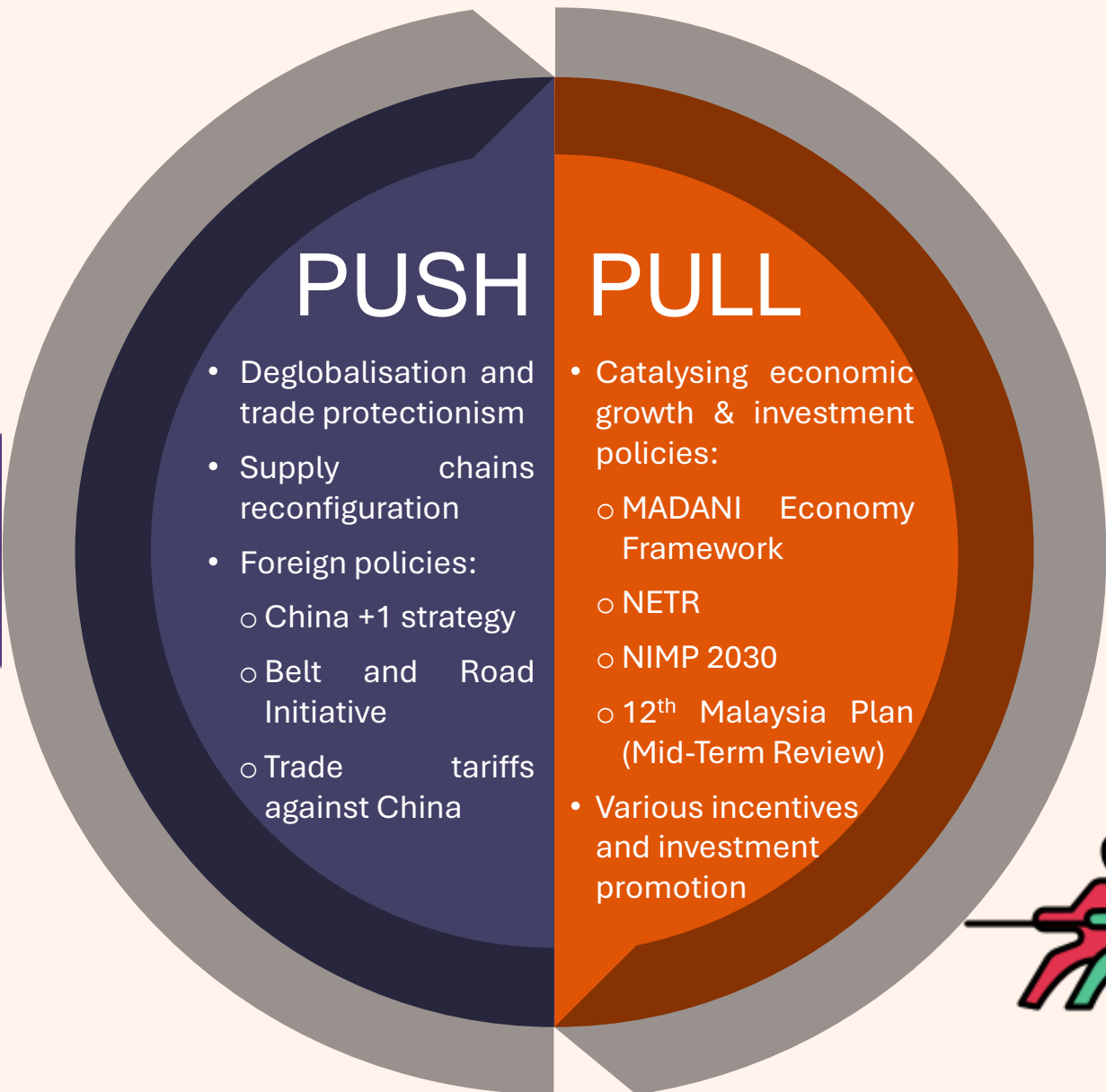
Established trade networks (16 FTAs - 7 bilateral FTAs and 9 multilateral)



Strong infrastructure



Sound financial sector



PUSH

- Deglobalisation and trade protectionism
- Supply chains reconfiguration
- Foreign policies:
 - China +1 strategy
 - Belt and Road Initiative
 - Trade tariffs against China

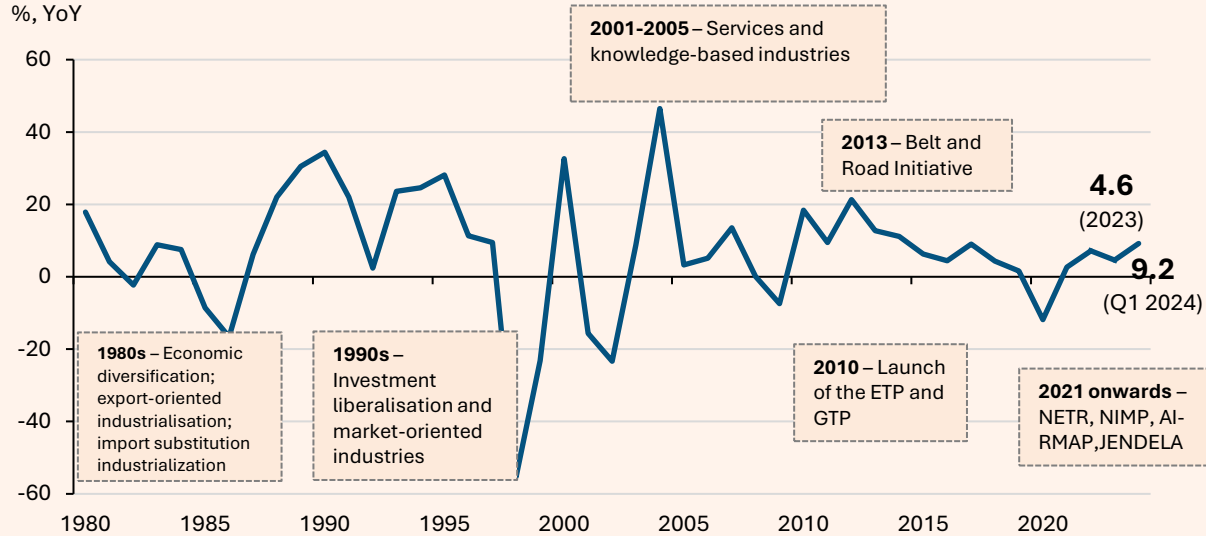
PULL

- Catalysing economic growth & investment policies:
 - MADANI Economy Framework
 - NETR
 - NIMP 2030
 - 12th Malaysia Plan (Mid-Term Review)
- Various incentives and investment promotion

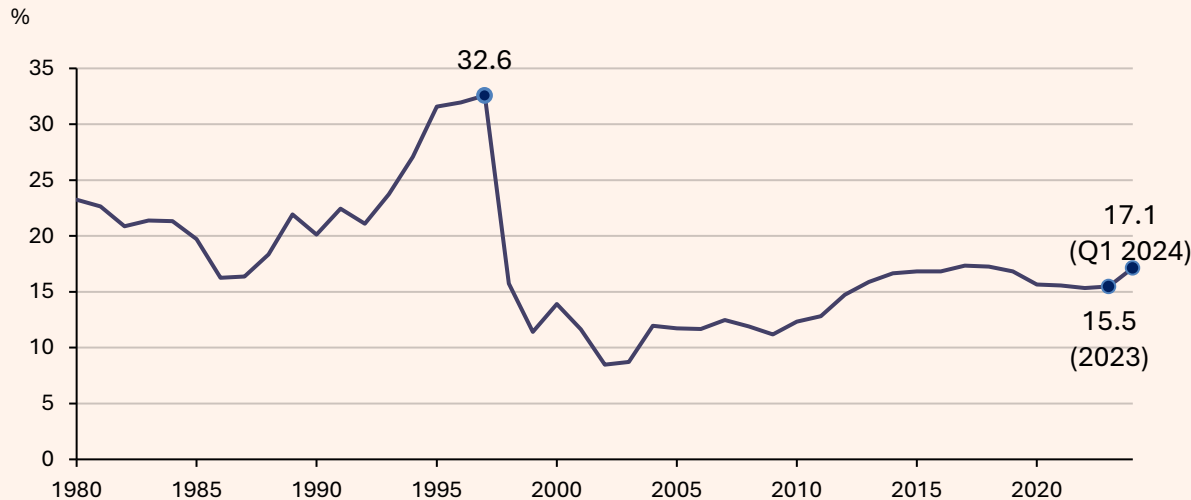


New private investment cycle is taking shape

Private investment growth



Private investment to GDP ratio



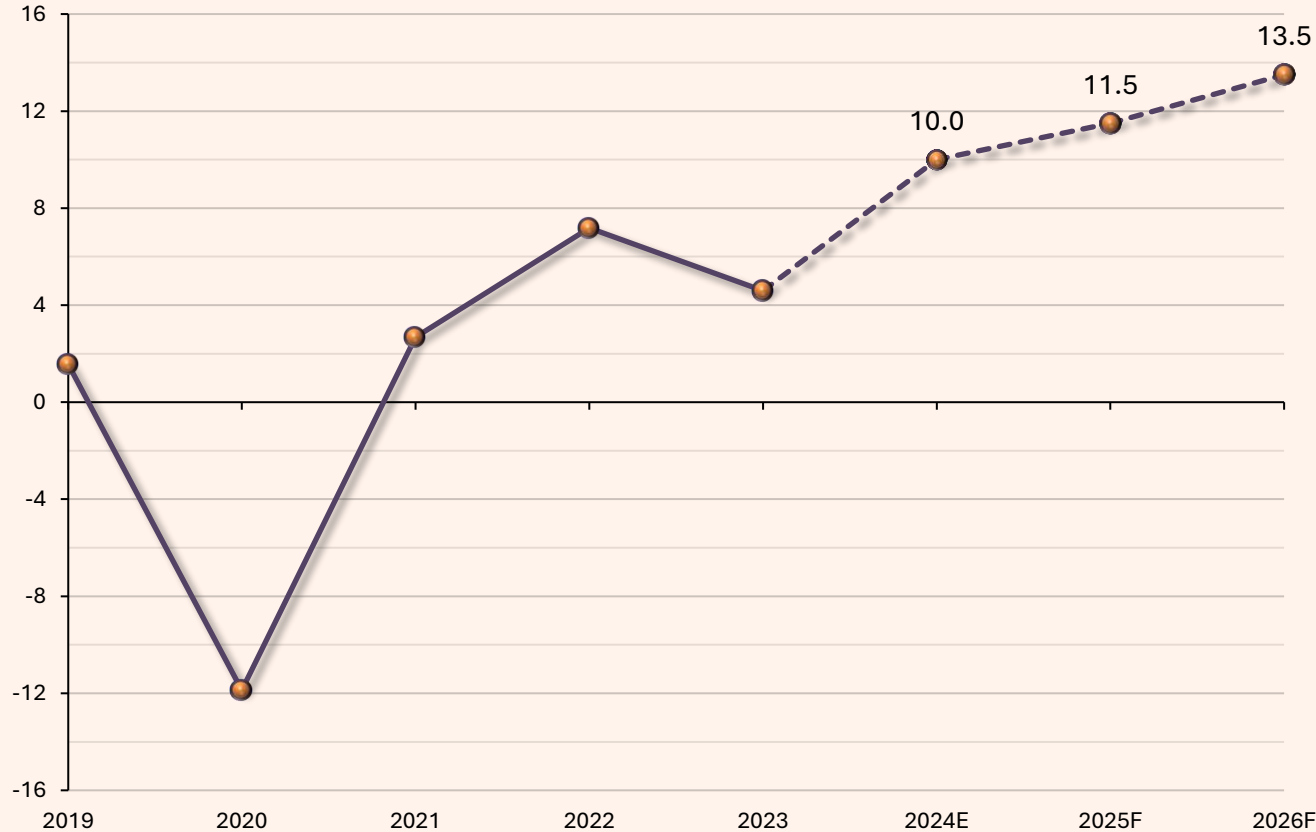
Source: DOSM

Key points

- 5-year Malaysia Plan, Industrial Master Plans, various roadmaps and plans covering agriculture, ICT, industrialisation, manufacturing, and services.
- **1970s-1980s** – Economic diversification; export-oriented industrialisation, imports substitution industrialisation based on heavy industries (automotive; iron and steel); and the Look East policy.
- **1990s** – Investment liberalisation, including foreign equity for export-oriented industries.
- **2000s** – Manufacturing cum services, knowledge-based, ICT; digitalisation, e-commerce, advanced technology, energy transition, climate change wave.
- **2010** – The Economic Transformation Programme (ETP) to make Malaysia better and drive private investment; and Government Transformation Programme (GTP) to address the cost of living and security.
- **2013** – China’s Belt and Road Initiative (BRI), which fostered closer trade and investment relations between Malaysia and China.
- **2020-2023** – Malaysia MADANI Economy Framework, New Industrial Master Plan (NIMP) 2030, National Energy Transition Roadmap (NETR), National Artificial Intelligence Roadmap (AI-RMAP); JENDELA; Malaysian Aerospace Industry Blueprint 2030.
- **2024** – Johor-Singapore Special Economic Zone (JS-SEZ); KL20 Summit to attract more investments in startups.

Expectations of sustaining higher private investment prospects ahead

Private investment growth
%, YoY



Reduce bureaucracy, red tape and gold-plating as well as address skills mismatches and encouraging the deployment of technology and innovation would bring down costs of doing business.

Source: DOSM

Drivers of higher private investment growth in the medium term:

• National Strategic Plans and Roadmaps

#1 Malaysia MADANI Economy

- A whole-of-Malaysia approach with 7 intermediate indicators.

#2 12th Malaysia Mid-Term Review (2021-2025)

- 17 big bolds to catalyse socio-economic development

#3 New Industrial Master Plan 2030

- Key industries include E&E, chemical products, advanced materials, aerospace, and healthcare

#4 National Energy Transition Roadmap

- 6 energy transition levers and 10 flagship project that address energy efficiency, renewable energy, hydrogen, bioenergy, green mobility, and CCUS.

#5 National Artificial Intelligence Roadmap 2021-2025

- Create a thriving and sustainable AI innovation ecosystem.

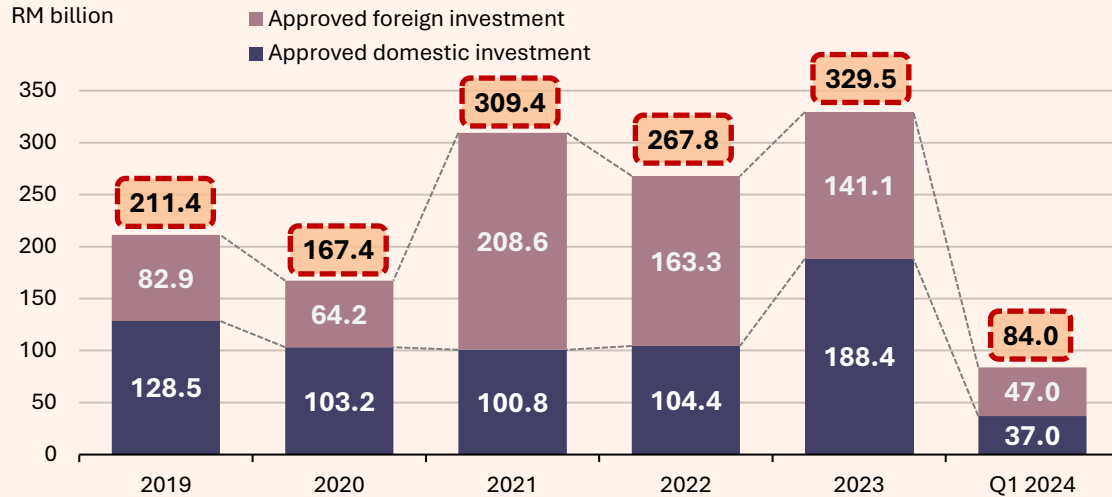
#6 National Semiconductor Strategy

- Boost the semiconductor industry by enhancing research, development, and manufacturing capabilities.

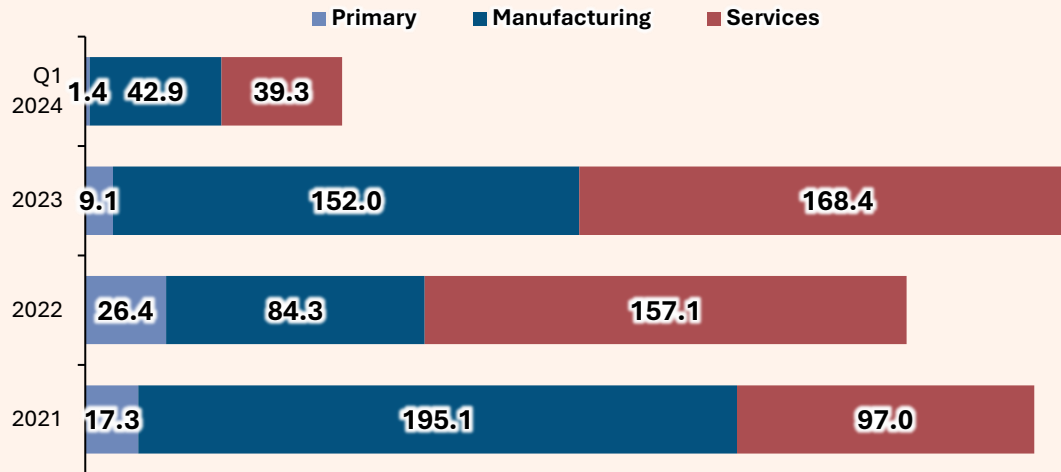
- On-going implementation of multi-year infrastructure projects.
- Realisation of some approved investments in previous years (2021-2023) and in 2024.
- Continued capacity expansions in the manufacturing sector (semiconductor, transport equipment, chemical and chemical products) and services (renewable energy, ICT, data centres, technology related fields).

Highest investment approvals ever recorded in 2023

MIDA's approved DDI and FDI



MIDA's approved Investment by major sector



Source: MIDA






Major foreign investors by ranking (Q1 2024)

Approved investment value

1.		Austria	RM30.1 billion (23.2%)
2.		Singapore	RM5.6 billion (18.9%)
3.		Netherlands	RM3.6 billion (11.4%)
4.		China	RM3.4 billion (9.3%)
5.		United States	RM0.6 billion (7.7%)


Note: Figure in parenthesis indicates % share of total approved foreign approved investments.

Notable flagship investment projects

United States of America 	Project
	Google to invest RM9.4 billion in Malaysia to establish its first data centre and Google Cloud region
	Microsoft to invest US\$2.2 billion in cloud and AI infrastructure over the next 4 years
	Amazon Web Services (AWS) RM25.5 billion (USD6 billion) by 2037 to open a Cloud Computing Infrastructure in several states
	Setting up a vast network of fast-charging and regular-charging stations; establish its state-of-the-art head office and service center; and experiencing centers

China 	Project
	Partnering with xFusion partner to invest RM1.7 billion to open new facility

United Arab Emirates 	Project
	US\$8 billion for up to 10GW of renewable energy projects

Germany 	Project
	Invest RM1.62 billion to open semiconductor backend
	An additional 5 billion euro over the next 5 years in Kulim to build world's largest 200mm SiC Power Fab in Kulim

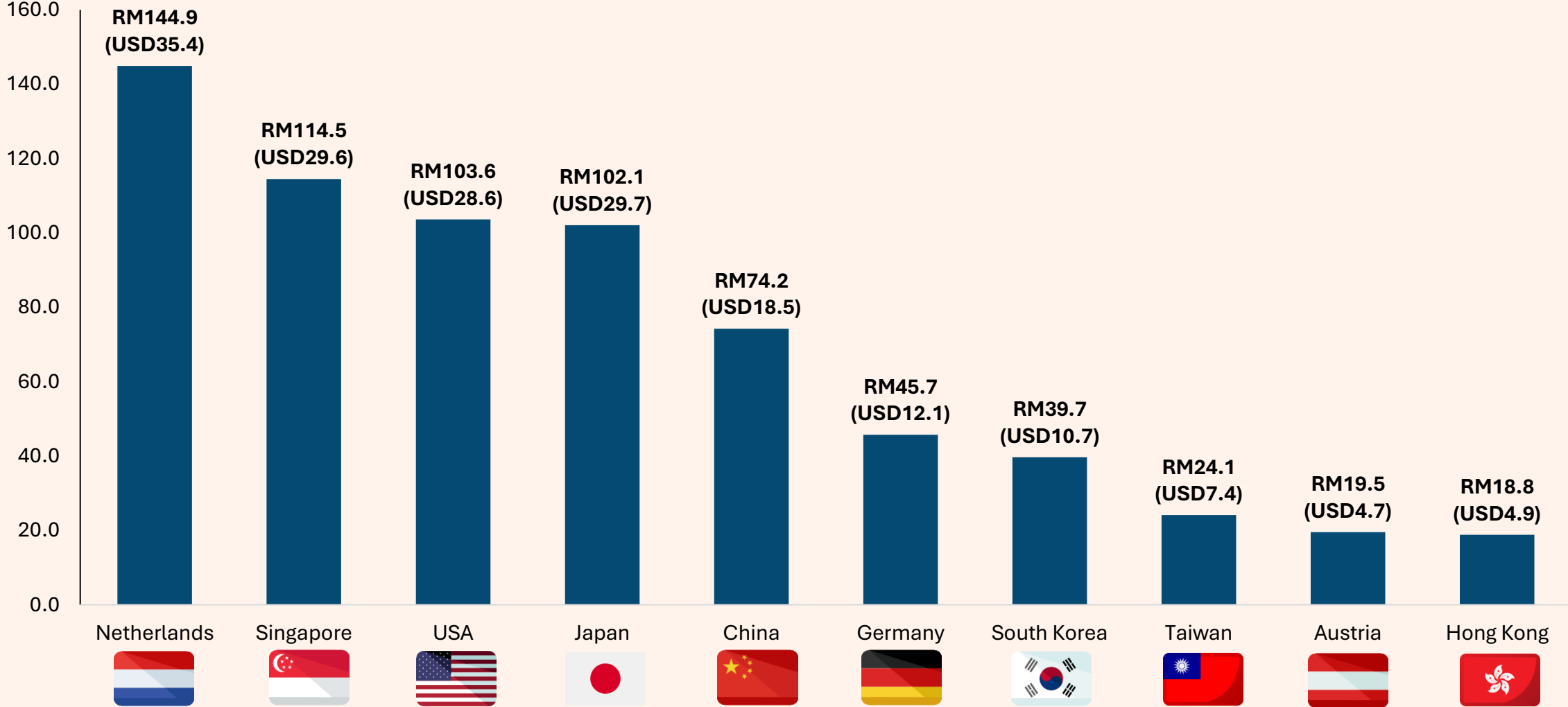
Malaysia 	Project
	Khazanah Nasional Bhd will launch a National Fund-of-Funds to invest RM1 billion in innovative high-growth Malaysian companies which was announced during the KL20 Summit
	The newly launched National Semiconductor Strategy (NSS) which will be allocated RM25 billion, is expected to attract at least RM500 million (first phase) with a focus on integrated circuit design, advanced packaging and manufacturing equipment.

Source: MIDA

Malaysia's top foreign investors in the manufacturing sector since 1980

Since 1980, accumulated realised investments in the manufacturing sector as of 2023

RM Billion

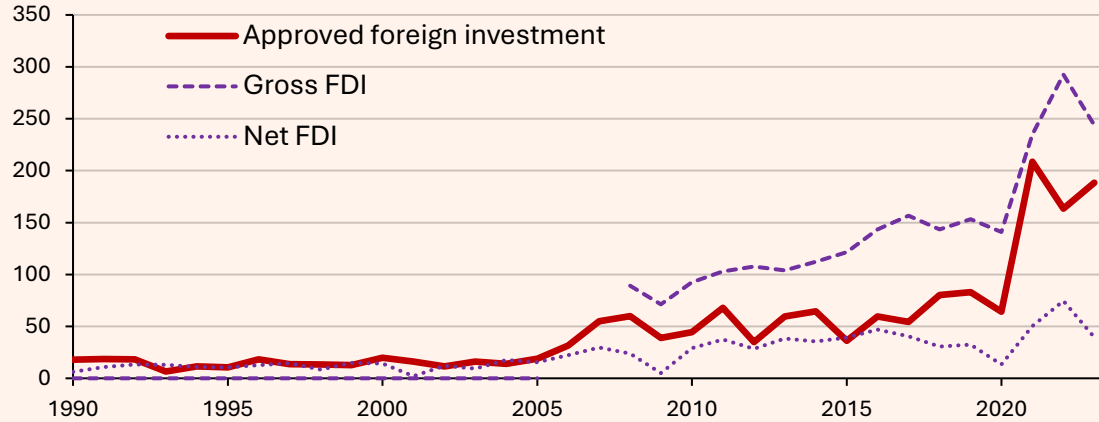


Source: MIDA

Approved FDIs have been reflected in FDI inflows and private investment

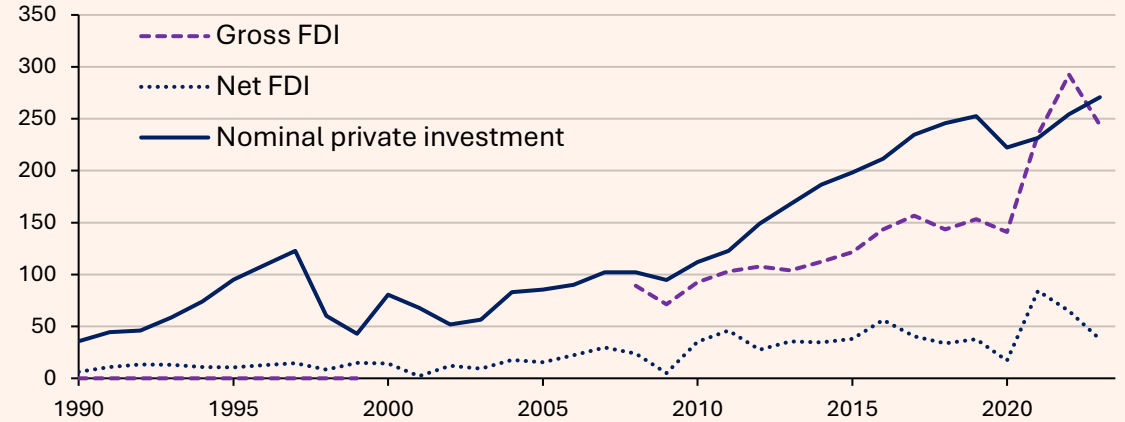
Approved foreign investment vs. FDI

RM billion



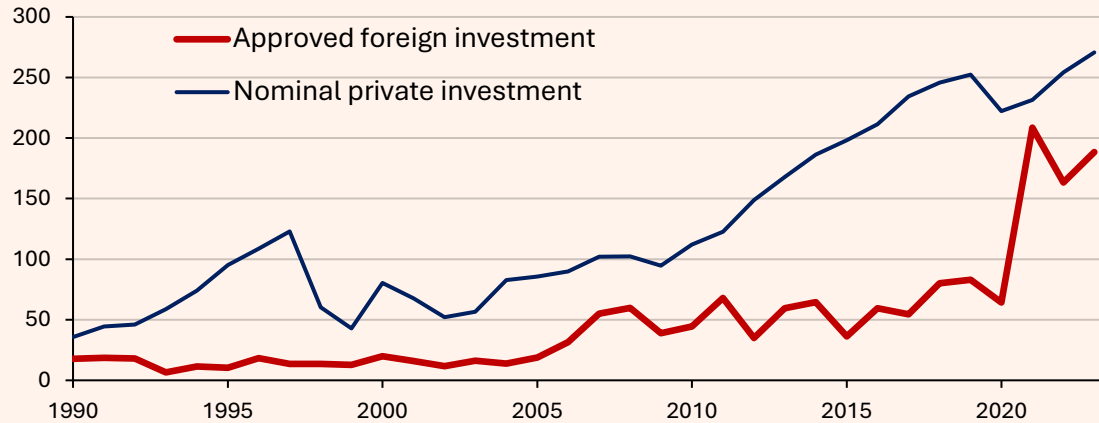
FDI vs. nominal private investment

RM billion



Approved foreign investment vs. nominal private investment

RM billion



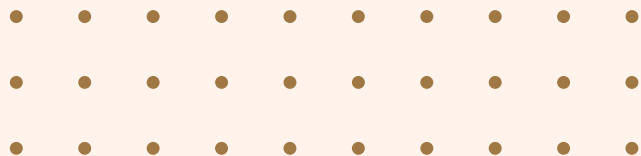
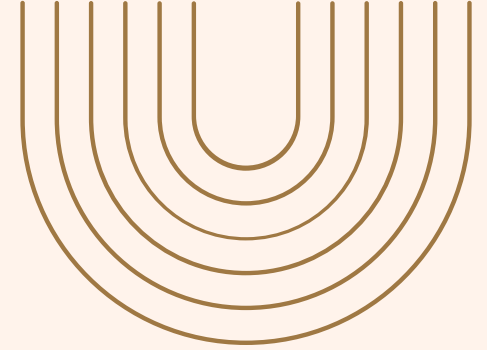
Realisation of approved investment is very crucial

Source: BNM; MIDA; DOSM



In conclusion

- *Attracting the right kind of quality investments will transform the Malaysian economy, pushing for the next economic take-off. Our narrative is that Malaysia offers compelling growth and boundless investment opportunities in this region.*
- *In the rapidly evolving world of complexity masked by geopolitical conflicts and shifts, increasingly volatile and difficult-to-predict global setting, navigating investment opportunities in Malaysia requires both domestic and foreign investors to have a better understanding of the dynamic global and domestic market landscape.*
- *By fostering a more business-friendly environment and thriving investment ecosystem, Malaysia can unlock the full potential of its investment opportunities, entrepreneurial spirit and innovative capabilities. Malaysia has “diversity” as selling points to differentiate us from other countries in the region. These diversities are natural resources, industries, markets, products, languages, ethnicities, cultures, and markets in the region.*



THANK YOU

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