



SERC SDN BHD

Socio-Economic Research Centre

# QUARTERLY ECONOMY TRACKER

## Domestic Economy Remains on the Expansion Path

8 August 2024



Apr-Jun  
2024



# World Economic Outlook Update

## GLOBAL ECONOMY IS GROWING BUT RISKS STILL PREVALENT

- **Global growth stays on the path.** The lead indicators show continued and steady global growth in 2H 2024, supported by continued resilient labour markets and moderating inflation in some advanced economies, especially the US economy as well as a recovery in global trade, and exports on the back of an upturn in global technology cycle.

We concur with the International Monetary Fund (IMF)'s July World Economic Outlook Update that the global economy is in a sticky spot. Growth momentum varied among advanced economies. Services inflation is holding up progress on disinflation; upside risks to inflation have increased, raising the prospect of higher for even longer interest rates amid escalating trade tensions and increased policy uncertainty. The IMF maintained its global growth estimates at 3.2% in 2024, with an uptick to 3.3% (from the 3.2% projected in April 2024) for 2025.

- **Growth divergent in advanced economies.** The US economy remains on a soft-landing path amid fears of recession risk on the back of disappointing July's jobs data and the contraction of the ISM manufacturing in July for the fourth consecutive month. Headline inflation continues to ease closer to the Fed's comfort zone. Economic and business activities in the euro area still growing unevenly amid stable unemployment rate and a marked improvement in inflation. In Japan, after registering a surprise economic contraction in Q1 2024, due to a temporary supply disruption linked to a major automobile plant, a modest turnaround in growth in 2H is expected, driven by stronger wage growth and consumer spending. The China economy unexpectedly slower than expected in Q2 2024, due to weak consumer spending while the property crisis continued to be a major drag. We expect the authorities to roll out support measures to stabilise growth in 2H 2024.
- **Inflation has finally been tamed, with lower interest rates to follow.** Global disinflation is a common theme, albeit the pace is slowing. Stubborn services and wage inflation resulted in bumps in path to lower inflation.

Some central banks (Bank of Canada, the European Central Bank (ECB) and Bank of England) have kickstarted their interest rate easing cycle in June-August but neither is expected to race rates to the bottom. Further easing will depend on wages and services inflation. While the US Federal Reserve's policy easing hinges on more progress made in reducing inflation, market expectations are for aggressive rate cuts given the weak economic data readings stoke recession fears. Financial markets are pricing in more inflation due to higher tariffs imposed on Chinese goods and a fresh round of tax cuts for corporates and individuals if Trump wins the US Presidential election.

- **Risks ahead in 2H 2024 and 2025.** We continue to see risks ahead for the global economy and financial markets. These include recessionary fears in the US economy, China's slow recovery, renewed trade tariffs war, an escalation of geopolitical conflicts, upside risks to inflation due to stubborn services inflation and wage pressures, slowing global disinflation could cap the central banks' monetary easing path. The US President election outcome in November could cast policy uncertainty in global trade and financial markets.



# Global Economic and Monetary Conditions

## Real GDP growth (% , Y-o-Y)

	2022	2023	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024F (IMF)	2024F (WB)
<b>World</b>	3.5	3.3	N/A	N/A	N/A	N/A	3.2	2.6
<b>United States</b>	1.9	2.5	2.9	3.1	2.9	3.1	2.6	2.5
<b>Euro Area</b>	3.5	0.4	0.1	0.2	0.5	0.6	0.9	0.7
<b>China</b>	3.0	5.2	4.9	5.2	5.3	4.7	5.0	4.8
<b>Japan</b>	1.0	1.9	1.5	1.0	-0.7	N/A	0.7	0.7
<b>India</b>	7.0	8.2	8.1	8.6	7.8	N/A	7.0	6.6
<b>Malaysia</b>	8.9	3.6	3.1	2.9	4.2	5.8	4.4	4.3
<b>Singapore</b>	3.8	1.1	1.0	2.2	3.0	2.9	2.1	N/A
<b>Indonesia</b>	5.3	5.0	4.9	5.0	5.1	5.0	5.0	5.0
<b>Thailand</b>	2.5	1.9	1.4	1.7	1.5	N/A	2.9	2.4
<b>Philippines</b>	7.6	5.5	6.0	5.5	5.7	N/A	6.0	5.8
<b>Vietnam</b>	8.0	5.1	5.5	6.7	5.9	6.9	5.8	5.5

Note: World GDP growth for 2022-2023 by IMF; Annual GDP for India is on fiscal year basis; N/A = Not applicable or not available

Source: Officials (unadjusted data except quarterly GDP for Euro Area); IMF (World Economic Outlook (WEO)); World Bank (Global Economic Prospects)

## Policy rate (%)

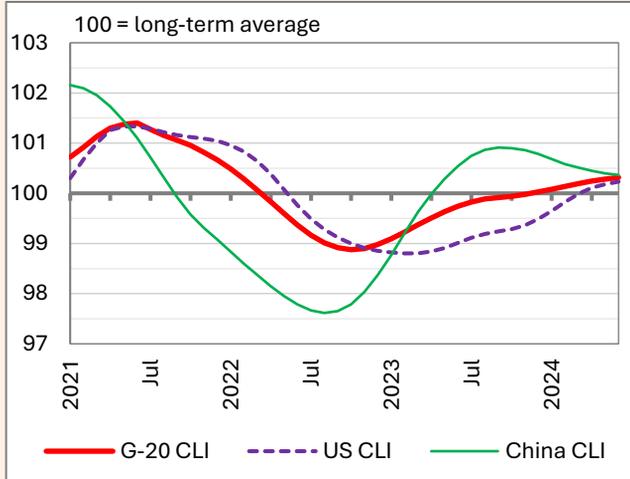
End-period of	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 (Jul)	2024f
<b>US, Fed</b> Federal Funds Rate	0.25- 0.50	0.50- 0.75	1.25- 1.50	2.25- 2.50	1.50- 1.75	0.00- 0.25	0.00- 0.25	4.25- 4.50	5.25- 5.50	5.25- 5.50	4.75- 5.00
<b>Euro Area, ECB</b> Deposit Facility	-0.30	-0.40	-0.40	-0.40	-0.50	-0.50	-0.50	2.00	4.00	3.75	3.50- 3.75
<b>Japan, BOJ</b> Overnight Call Rate	0.00- 0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.25	1.00
<b>China, PBC</b> 1-Year Loan Prime Rate	4.35	4.35	4.35	4.35	4.15	3.85	3.80	3.65	3.45	3.35	3.00
<b>India, RBI</b> Policy Repo Rate (LAF)	6.75	6.25	6.00	6.50	5.15	4.00	4.00	6.25	6.50	6.50	6.50
<b>Korea, BOK</b> Base Rate	1.50	1.25	1.50	1.75	1.25	0.50	1.00	3.25	3.50	3.50	2.75
<b>Malaysia, BNM</b> Overnight Policy Rate	3.00	3.00	3.00	3.25	3.00	1.75	1.75	2.75	3.00	3.00	3.00
<b>Indonesia, BI</b> BI-Rate	7.50	4.75	4.25	6.00	5.00	3.75	3.50	5.50	6.00	6.25	5.75
<b>Thailand, BOT</b> 1-Day Bilateral Repo Rate	1.50	1.50	1.50	1.75	1.25	0.50	0.50	1.25	2.50	2.50	2.25
<b>Philippines, BSP</b> Target RRP Rate	4.00	3.00	3.00	4.75	4.00	2.00	2.00	5.50	6.50	6.50	5.75

Source: Officials; SERC

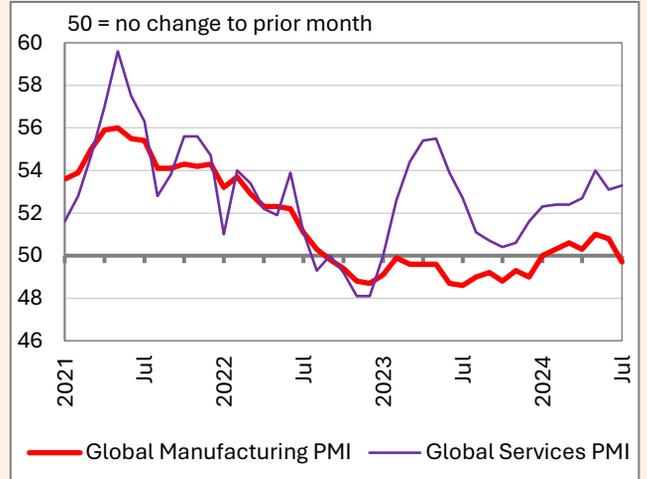


# Global Current and Forward Indicators

### Composite leading indicators are pointing a stable growth ahead



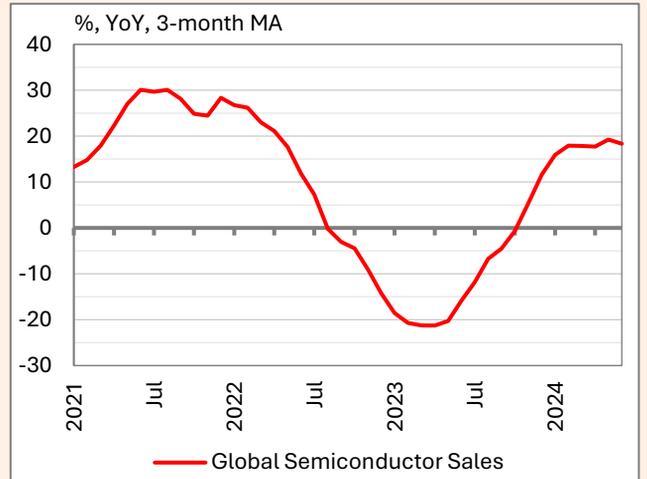
### Global manufacturing PMI dipped below threshold in Jul, first contraction in 2024



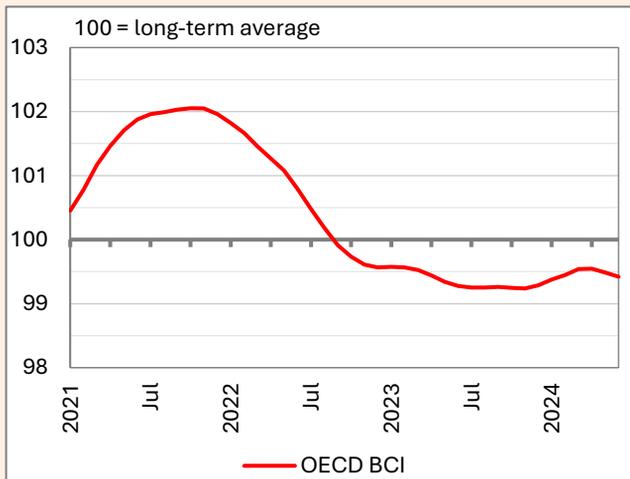
### Global trade volume growth remained uneven



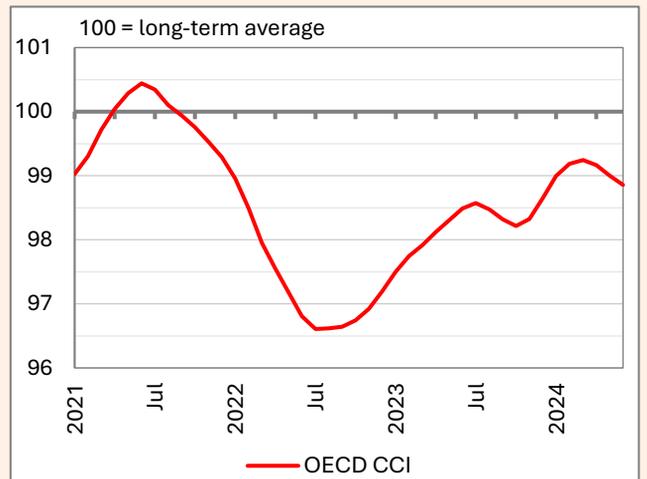
### Global semiconductor sales growth remained robust



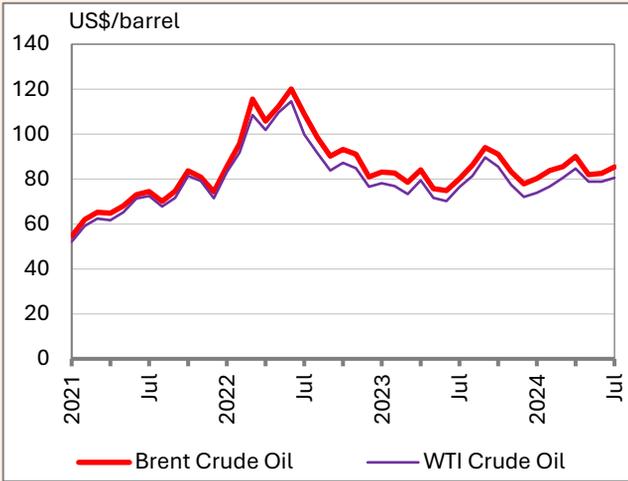
### OECD Business Confidence Index (BCI) below threshold



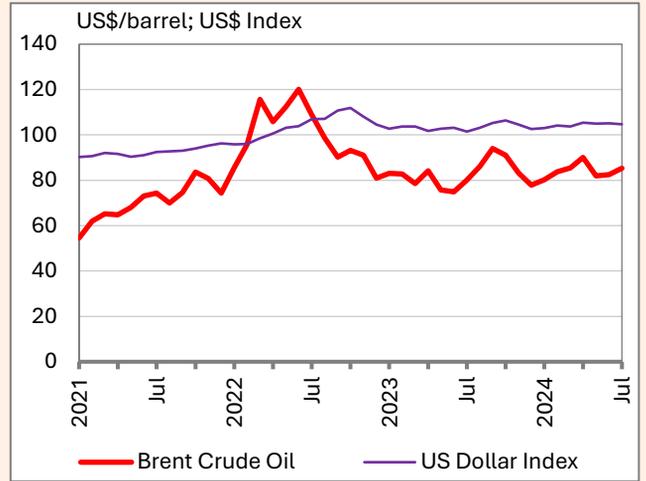
### OECD Consumer Confidence Index (CCI) below threshold



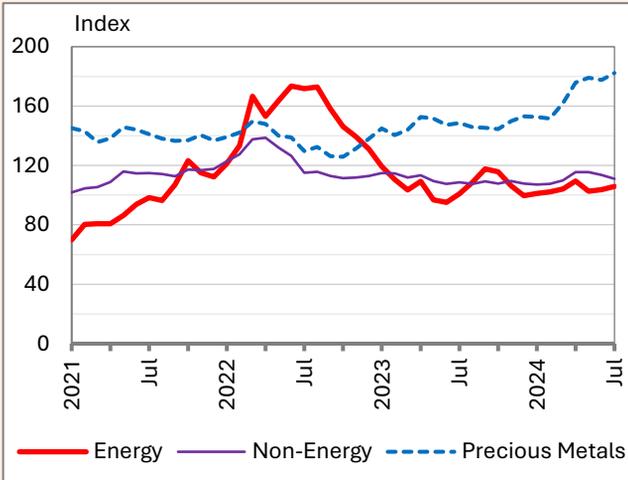
**Crude oil prices may fluctuate given the escalation in the Middle East's tensions**



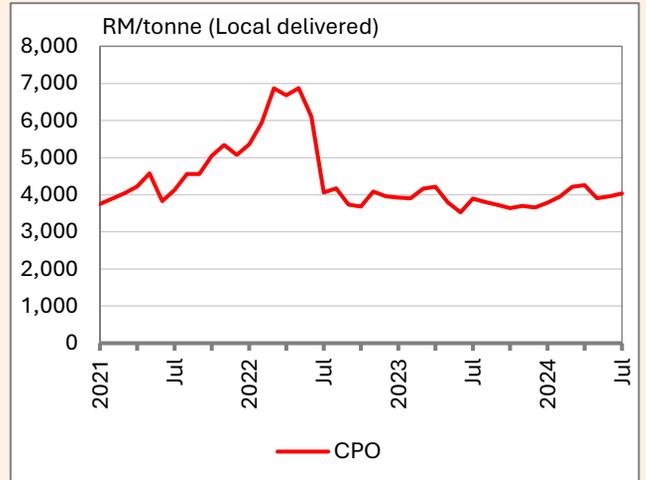
**Brent crude oil prices vs. the US dollar index**



**Prices of precious metals continue to rise higher**



**Crude palm oil prices hover around RM4,000 per tonne**



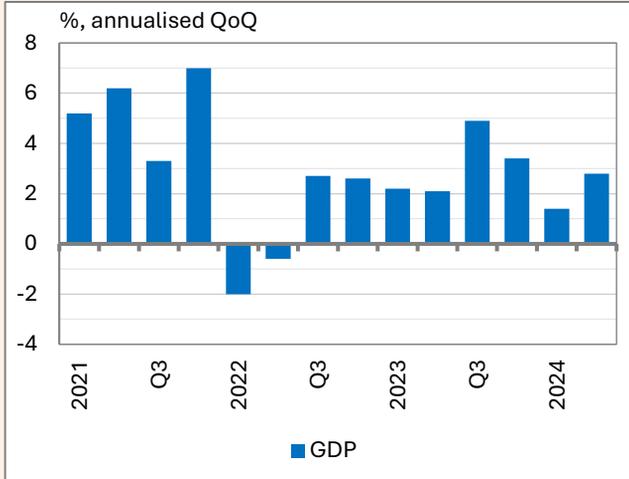
Source: Organisation for Economic Co-operation and Development (OECD); S&P Global; CPB Netherlands Bureau for Economic Policy Analysis; Semiconductor Industry Association (SIA); Federal Reserve Bank of New York; World Bank; The Wall Street Journal; Malaysian Palm Oil Board (MPOB)



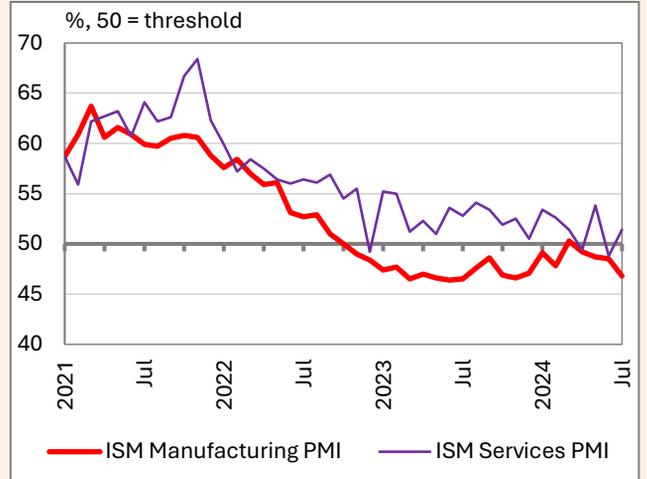


# The US – Soft landing amid recessionary fears

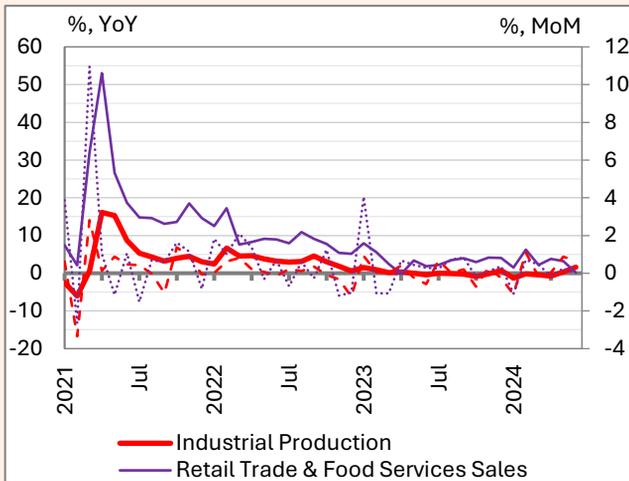
**The US economy underpinned by resilient private consumption and investment activities**



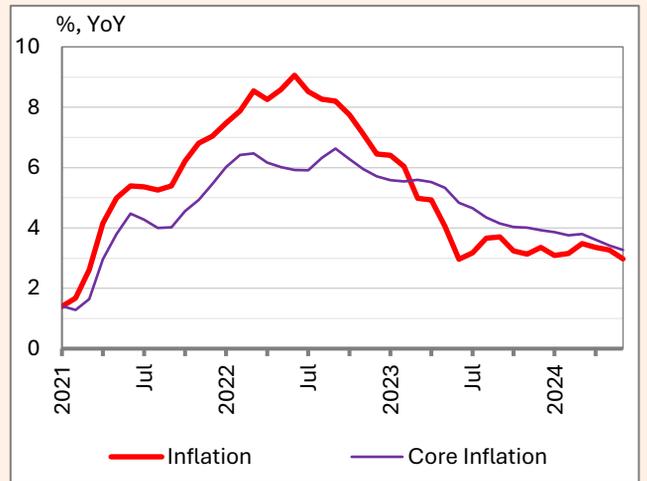
**Manufacturing PMI reading declined for four straight months in Jul to an 8-month low**



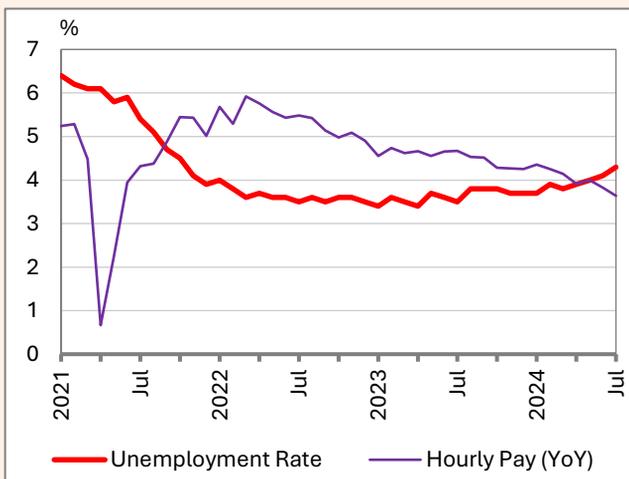
**Both industrial production and retail sales showed uneven growth**



**Core inflation in Jun recorded the lowest reading in the past 38 months**



**Unemployment rate is picking up to 4.3% in Jul, highest in the past 33 months**



**Housing starts have slowed down**

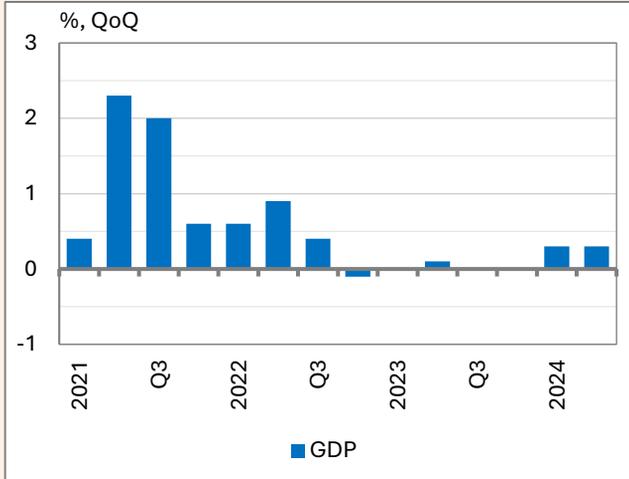


Source: Bureau of Economic Analysis (BEA); Institute for Supply Management (ISM); Federal Reserve System; US Census Bureau; US Bureau of Labor Statistics

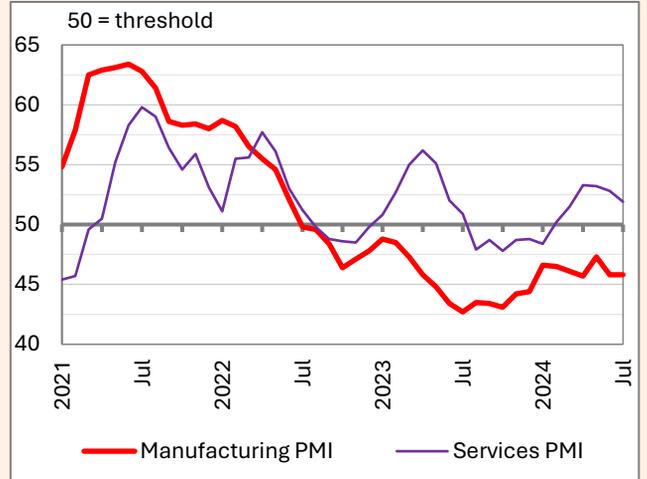


# Euro Area – Uneven growth amid headwinds

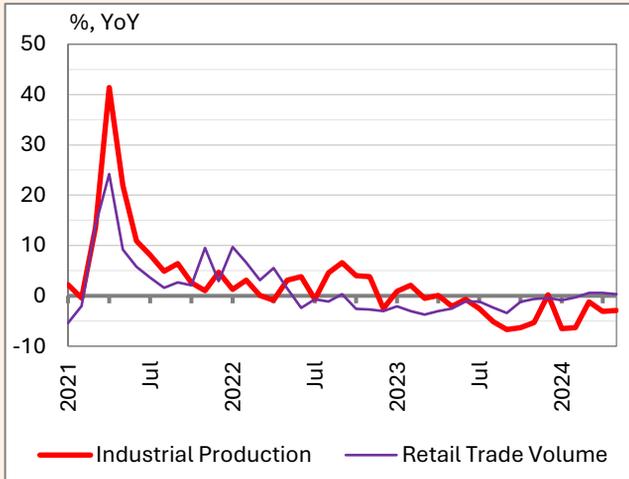
**Euro area recorded 0.3% growth for two consecutive quarters**



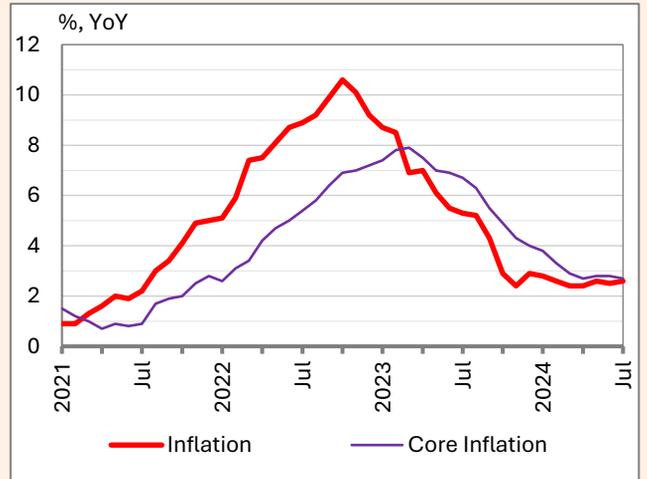
**Manufacturing PMI stayed below threshold for 24 months**



**Industrial production contracted since Jan 2024**



**Inflation was tamed and stable in 2024**



**Unemployment rate at 6.4%-6.6% since Feb 2023**



**Export performance remained uneven**

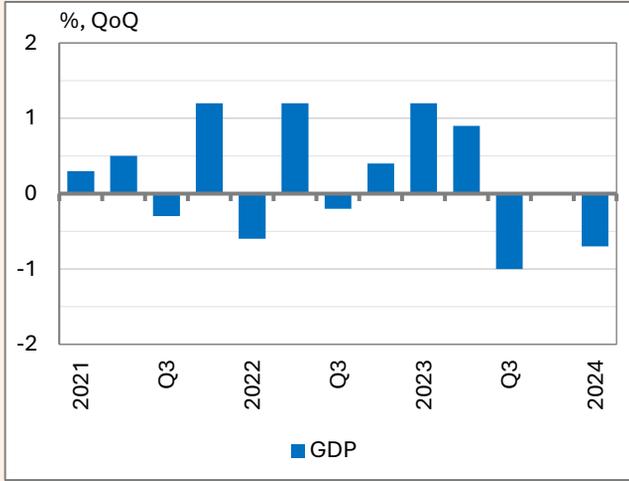


Source: Eurostat; S&P Global

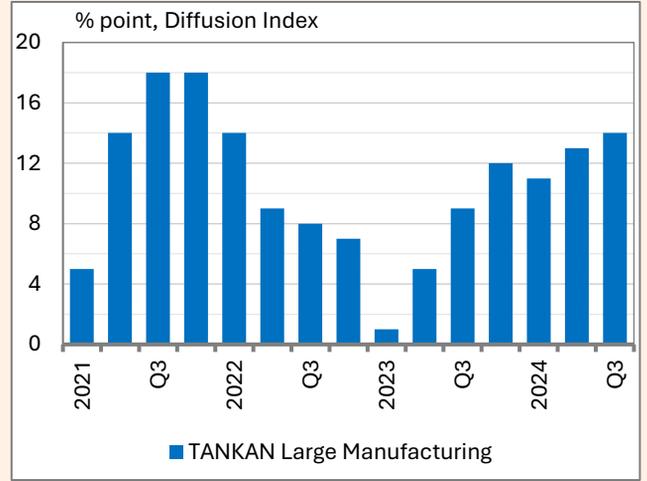


# Japan – A new normal in policy rate

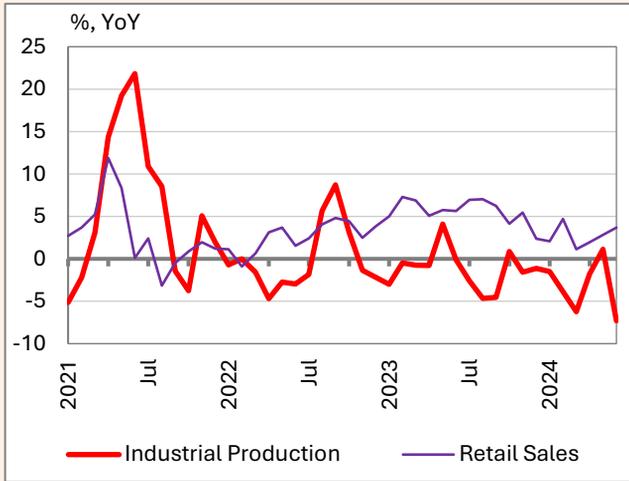
## Contraction in Q1 2024 on the supply chain disruptions



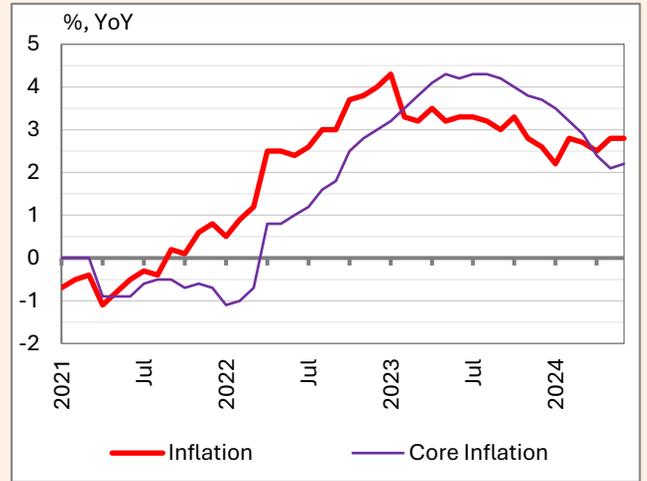
## TANKAN survey indicates a stronger expansion in the manufacturing sector



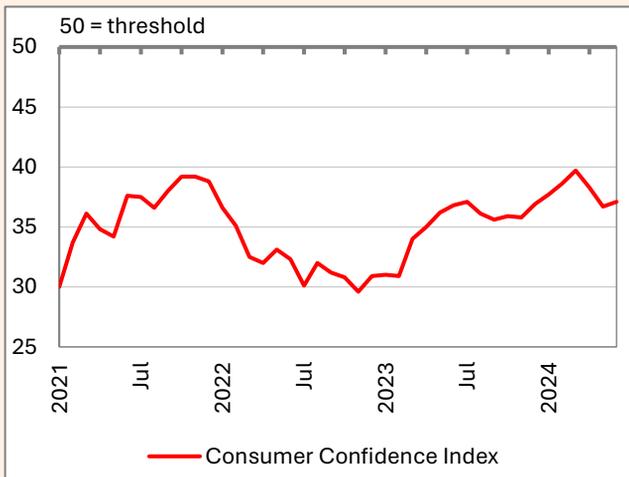
## Industrial production was underperformed



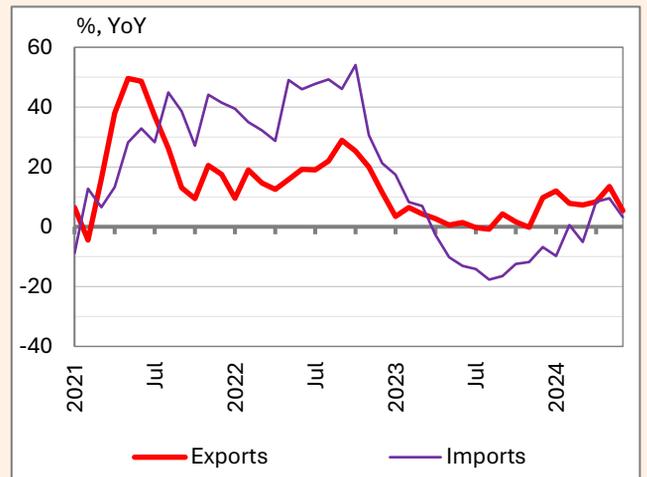
## Headline inflation rate continued to stay below 3%



## Consumers confidence remained lacklustre



## Exports grew for seven months in a row

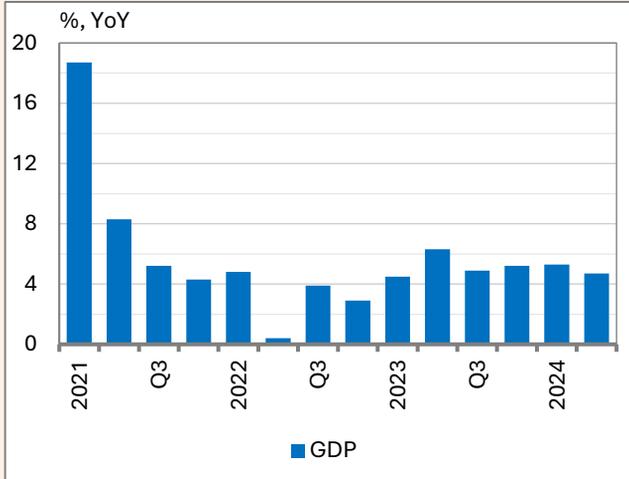


Source: Economic and Social Research Institute (ESRI), Cabinet Office of Japan; Bank of Japan (BOJ); Ministry of Economy, Trade and Industry (METI), Japan; Statistics Bureau, Japan; Japan Customs

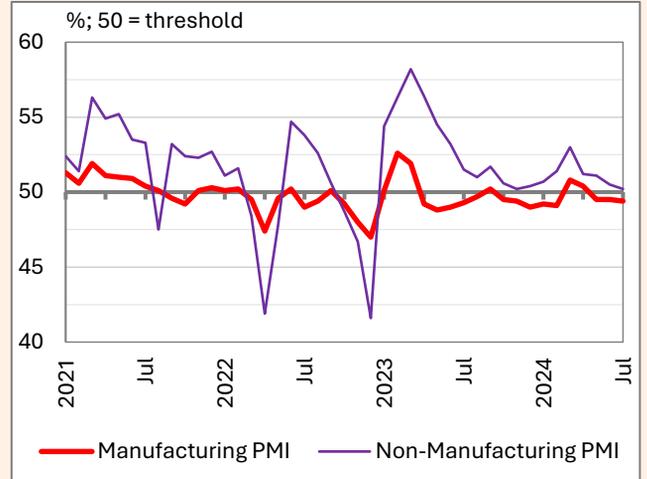


# China - Beset on all sides

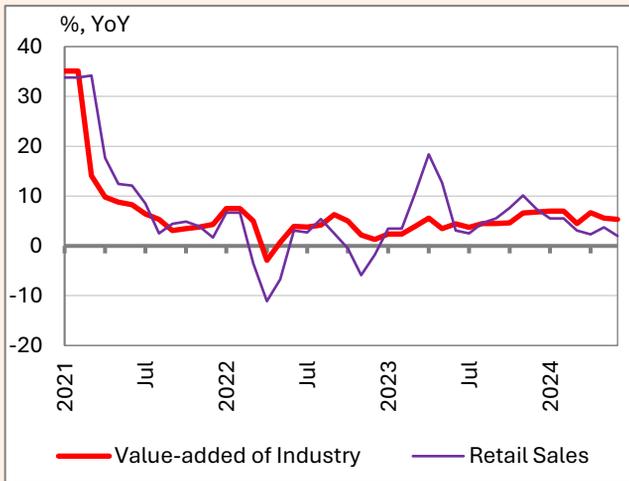
**GDP growth is losing steam in Q2, more reforms are needed beyond the real estate sector**



**Manufacturing PMI signals contraction while services PMI is nearly flattened**



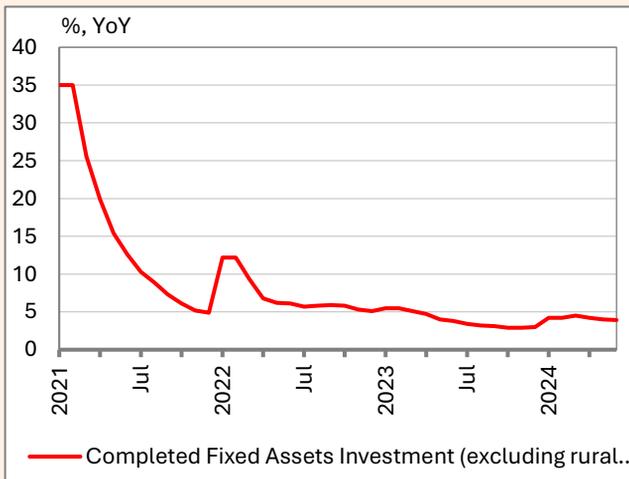
**Both industrial and retail growth continued to soften**



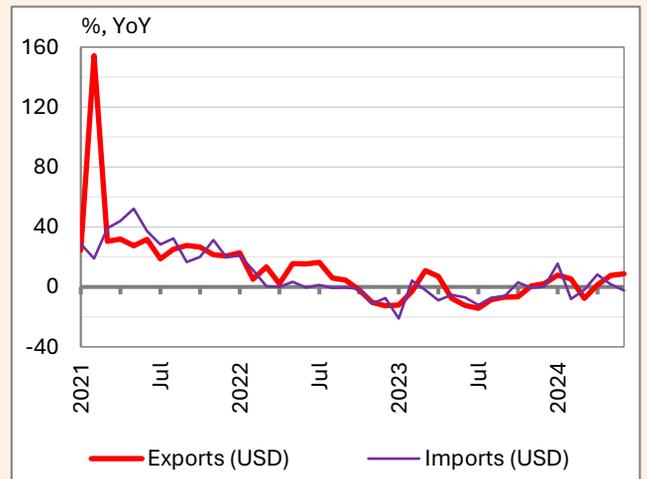
**Inflation rate remained low at 0.1%-0.3% in Feb-Jun**



**Fixed investment growth driven by the secondary sector, particularly equipment**



**Export growth picked up in May-Jun**

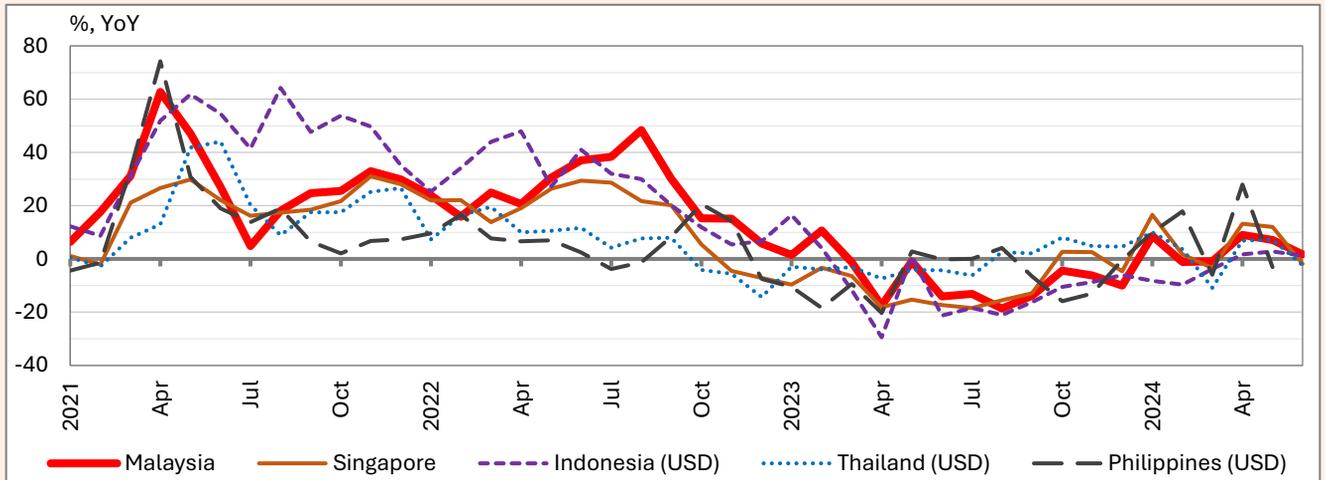


Source: National Bureau of Statistics of China; General Administration of Customs, China

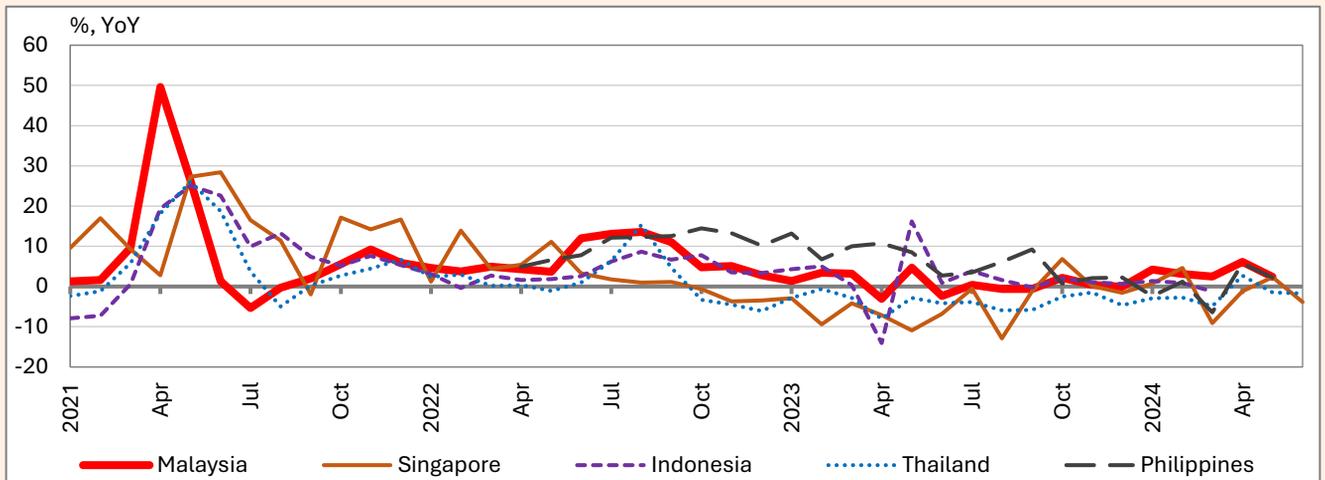


# ASEAN Key Economic Indicators

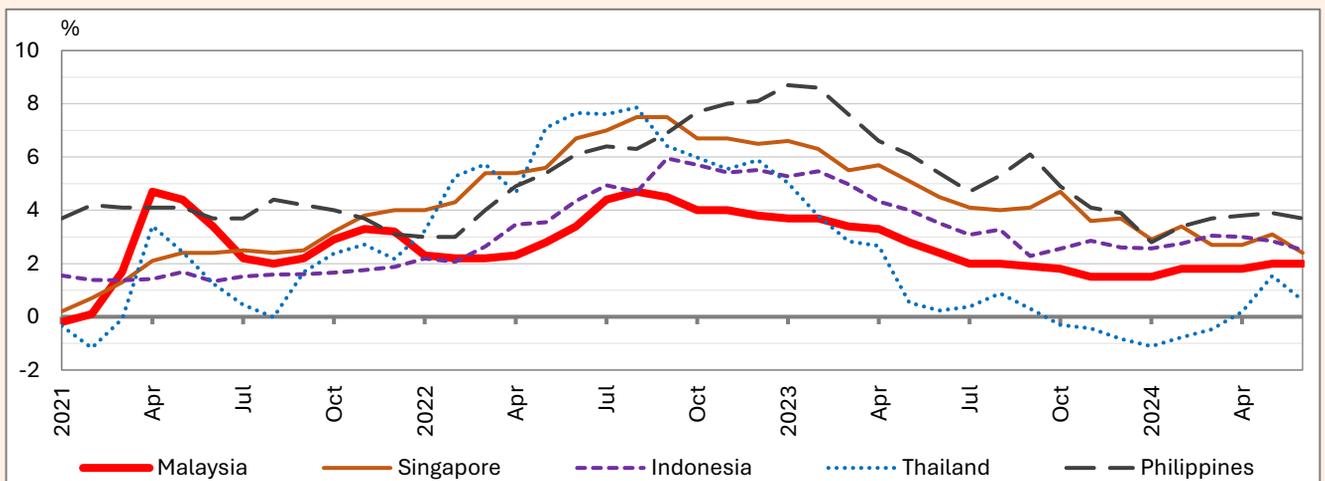
## Export growth trend



## Industrial production growth trend



## Inflation trend



Source: Department of Statistics, Malaysia; Singapore Department of Statistics; Statistics Indonesia; Bank Indonesia; Office of Industrial Economics, Thailand; Ministry of Commerce, Thailand; Philippine Statistics Authority

Note: Industrial production growth for the Philippines only showed from April 2022 due to exceptional data prior to that.



# Malaysia Economic Outlook Update

## DOMESTIC ECONOMY REMAINS ON THE EXPANSION PATH

- **The Malaysian economy grew by estimated 5.0% in 1H 2024.** The Malaysian economy sustained its expansion, underpinned by continued domestic demand and a turnaround in exports. Advanced estimates (based on April and May data) showed that real GDP expanded higher by 5.8% yoy in Q2 (4.2% in Q1), taking average growth to 5.0% in 1H 2024. This is better than market expectations.

We will review our current estimate of 4.5% GDP growth for 2024, pending the release of final estimate of Q2 GDP growth on 16 August.

- **High frequency indicators point towards sustaining positive direction.** In Apr-May, industrial production grew further by 4.2% yoy (3.3% in Q1), and the manufacturing output expanded by 4.8% (2.1% in Q1), leading to higher manufacturing sales growth of 5.6% (1.8% in Q1). The wholesale and retail trade growth also advanced further to 6.8% (5.4% in Q1). In the external sector, gross exports expanded by 5.8% in Q2 (2.0% in Q1), while imports of intermediate goods and capital goods increased strongly by 28.7% and 24.0%, respectively, in 1H 2024, indicating a robust private investment and production ahead.
- **Economic momentum to continue in 2H 2024.** We expect sustained higher growth in the manufacturing, services and construction sectors. Overall exports are expected to gain strong traction in 2H (+3.9% yoy in 1H 2024).

The manufacturing sector will be supported by higher output in the electronics, construction related building materials, chemical products and transport equipment.

Growth in the services sector will continue to get a lift from consumption related services, including stronger tourist arrivals expected in 2024-2026 and trade-related services demand as well as financial services. International tourist arrivals in Malaysia have increased by 26.7% to 9.48 million visitors as of May, and the target set for this year is 27.3 million tourists and an income of RM102.7 billion. The Visit Malaysia Year (VMY) 2026 aims to attract 35.6 million foreign tourists, with a target revenue of RM147.1 billion.

The construction sector, which is expected to expand strongly by 14.5% in 1H 2024, will continue to stay on double-digit growth trajectory, thanks to a broad-based output expansion in the civil engineering and specialised construction activities.

- **No let up in consumer spending.** Amid rising cost of living and still high price pressures, consumer spending growth still unabated, thanks largely to targeted cash assistance and retargeting subsidies rationalisation, as well as the withdrawals of the Employees Provident Fund (EPF)'s Flexible Account (Account 3). As of 19 July, 3.4 million members under the age of 55 have withdrawn some RM8.9 billion from the EPF Flexible Account, a 27.5% increase from RM6.98 billion as of 10 June 2024.

Going into 2025, the big salary hikes of at least 13% for civil servants starting in December 2024 will provide a fillip to consumer spending, though the expected fuel subsidies rationalisation is expected to damp spending due to inflation and cost of living pressure.

- **Private investment upcycle is assured.** Private investment is expected to expand strongly, thanks to a realisation of multi-year large investment projects in the manufacturing and services sectors. These include electronics and electrical products, chemical, oil and gas, transport equipment, renewable energy and data centres. Additionally, the ongoing progress of multi-year projects in public transportation, Pan Borneo Highway, projects in relation to 5G infrastructure and telecommunication, etc., are expected to sustain higher public investment.
- **Upside risks to inflation.** Headline inflation stood at 1.9% in Q2 2024 (1.7% in Q1). The outlook for the rest of the year and in 2025 is depending on the impact of targeted diesel subsidy rationalisation, the anticipated petrol subsidy rationalisation and price controls, as well as global commodity prices and financial market developments. We estimate headline inflation at 2.8%-3.5% in 2024 and 3.0%-3.5% in 2025.
- **Balance of risks to the growth outlook.** 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 stemming from higher and longer interest rate in the US economy.

### **Domestic Concerns and Issues**

- Amid stable headline inflation reading in 2H 2023 and in recent months of 2024, household cost-of-living pressures still biting. Many food items such as coffee, noodles, fruits, and electrical appliances, etc., have increased prices starting the year. The implementation of targeted diesel subsidy rationalisation is expected to have direct and indirect impact on prices of goods and services. Businesses and households' anxieties have already built up over the petrol subsidy rationalisation will be next in line.
- The 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.
- Businesses' concerns over cost pressures are associating with the diesel subsidies rationalisation, an impending review of minimum wage and the likely implementation of a multi-tier levy for foreign workers. Additionally, businesses are concerned about the financial cost and implementation issues relating to e-invoicing, starting with the Malaysian businesses with turnover exceeding RM100 million on 1 August 2024. By 1 July 2025, e-invoicing will become mandatory for all enterprises in Malaysia, except those with annual turnover not more than RM150,000.

## Real GDP growth (% , Y-o-Y)

Economic Sector [% share to GDP in 2023]	2022	2023	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024F (BNM)	2024F (SERC)
<b>By kind of economic activity</b>									
Agriculture [6.4%]	1.3	0.7	1.4	-0.7	0.3	1.9	1.6	-0.5	1.3
Mining & Quarrying [6.2%]	3.5	0.5	1.6	-2.1	-1.1	3.5	5.7	3.5	1.4
Manufacturing [23.4%]	8.1	0.7	3.2	0.1	-0.1	-0.3	1.9	3.5	3.9
Construction [3.6%]	5.1	6.1	7.4	6.2	7.2	3.6	11.9	6.7	7.2
Services [59.2%]	11.0	5.1	7.1	4.5	4.9	4.1	4.7	5.5	5.3
<b>By type of expenditure</b>									
Private Consumption [60.7%]	11.3	4.7	6.1	4.2	4.1	4.2	4.7	5.7	4.6
Public Consumption [13.2%]	5.1	3.3	-2.0	3.3	5.3	5.8	7.3	3.2	2.6
Private Investment [15.5%]	7.2	4.6	4.7	5.1	4.5	4.0	9.2	6.1	5.5
Public Investment [4.6%]	5.3	8.6	5.7	7.9	7.5	11.3	11.5	6.2	7.0
Exports of Goods and Services [66.1%]	14.5	-8.1	-2.9	-9.0	-12.0	-7.9	5.2	4.0	4.1
Imports of Goods and Services [61.7%]	16.0	-7.4	-6.7	-8.8	-11.3	-2.6	8.0	4.1	3.9
<b>Overall GDP</b>	<b>8.9</b>	<b>3.6</b>	<b>5.5</b>	<b>2.8</b>	<b>3.1</b>	<b>2.9</b>	<b>4.2</b>	<b>4.0- 5.0*</b>	<b>4.5</b>

\* BNM's mid-point estimate is set at 4.5%.

Source: Department of Statistics, Malaysia (DOSM); BNM and SERC's forecasts

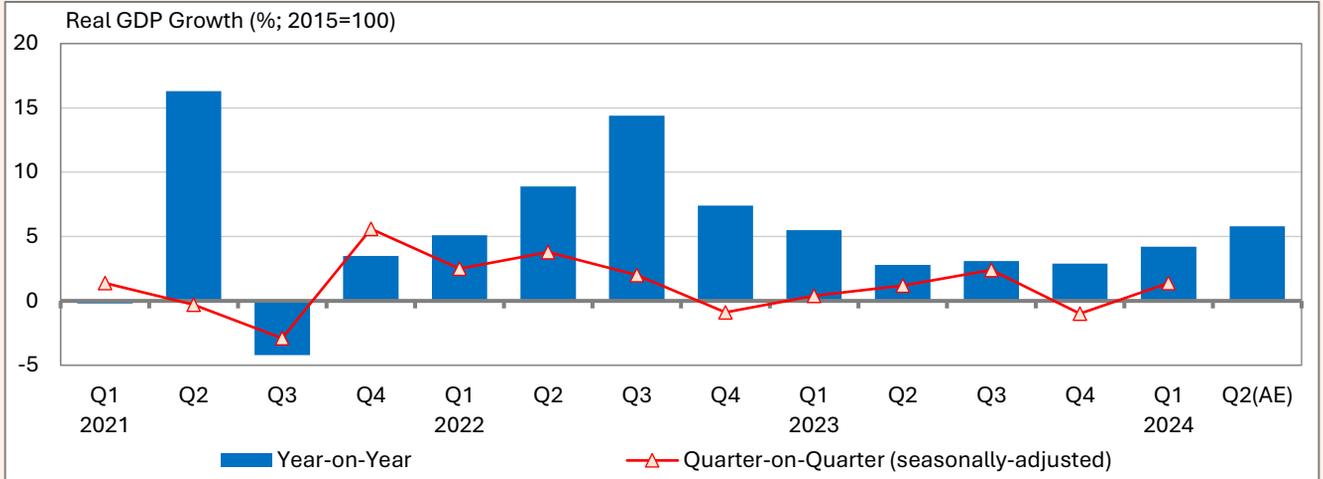


Malaysia  
Truly Asia

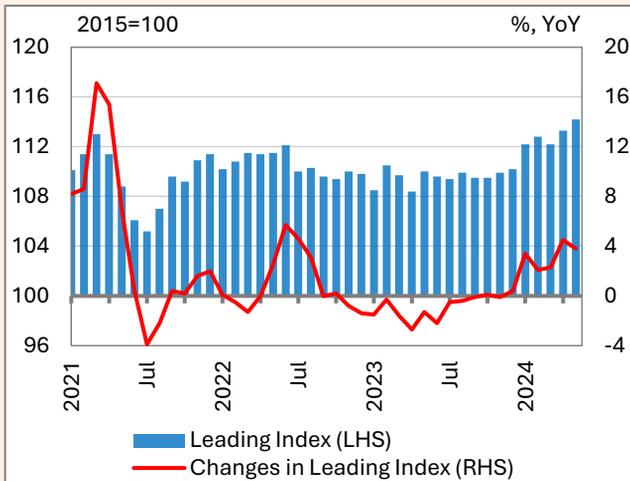


# Spotlight on the Malaysian Economy

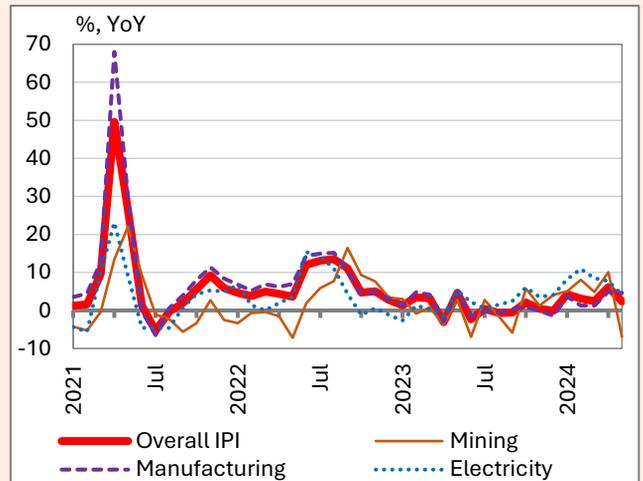
Malaysia's advance estimates GDP expanded stronger at 5.8% yoy in Q2 2024, bolstered by growth in all sectors.



Leading Index (LI) sustained its positive trajectory, illustrating a resilient economy

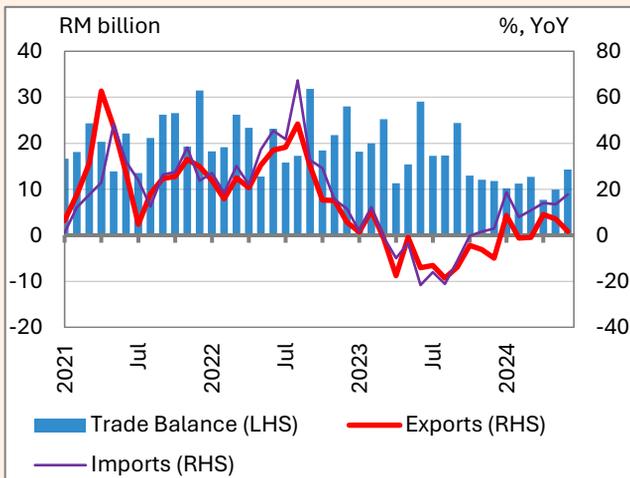


Industrial production growth in Q2 supported by strong manufacturing output

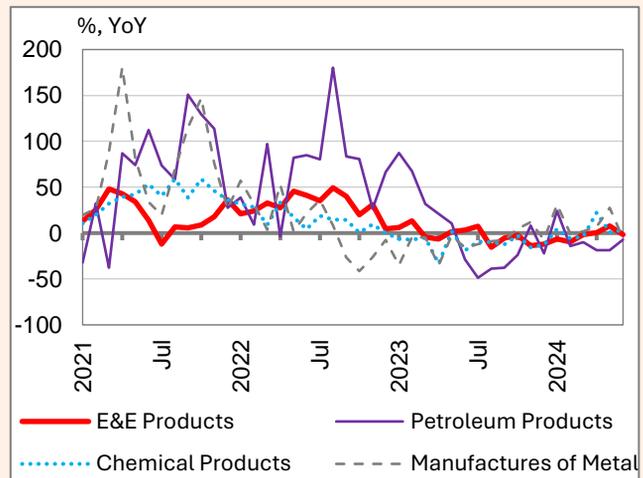


## External Sector

Imports grew by strong double-digit for four months in a row, outpaced export growth

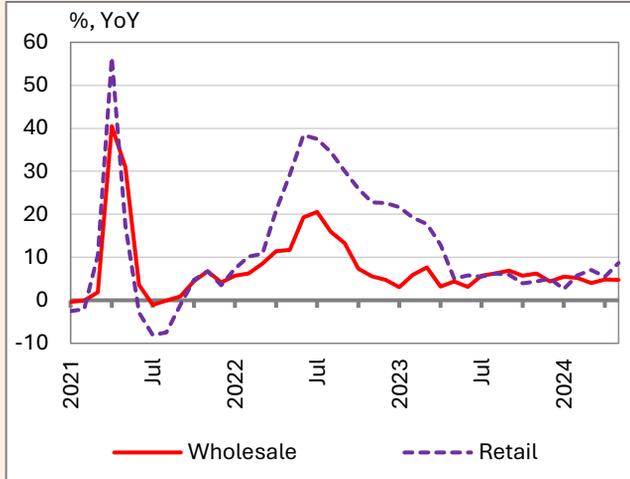


Exports of major products

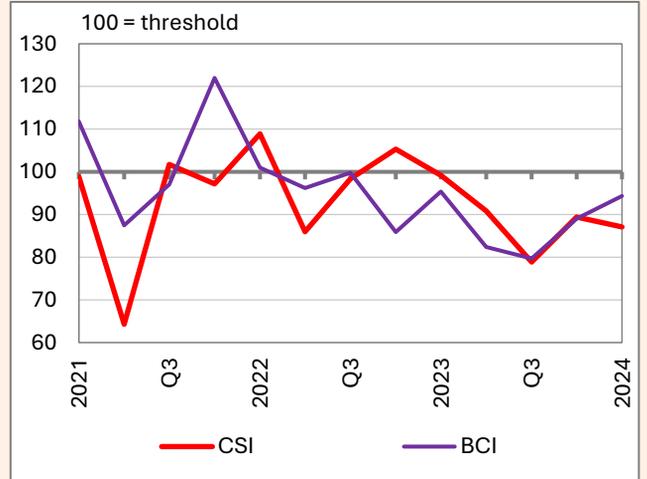


# Domestic Demand

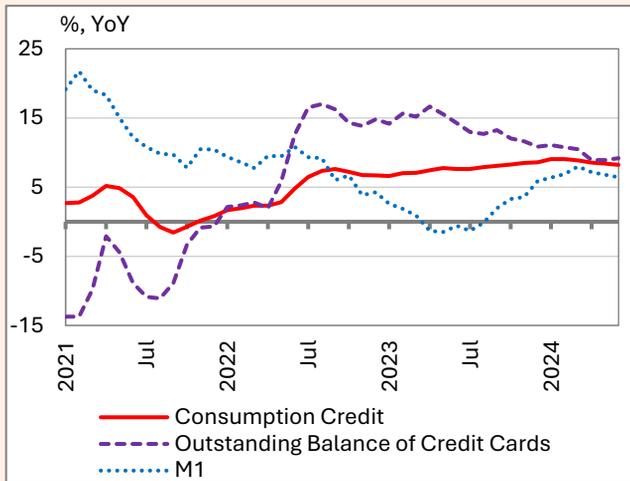
## Overall distributive trade still growing



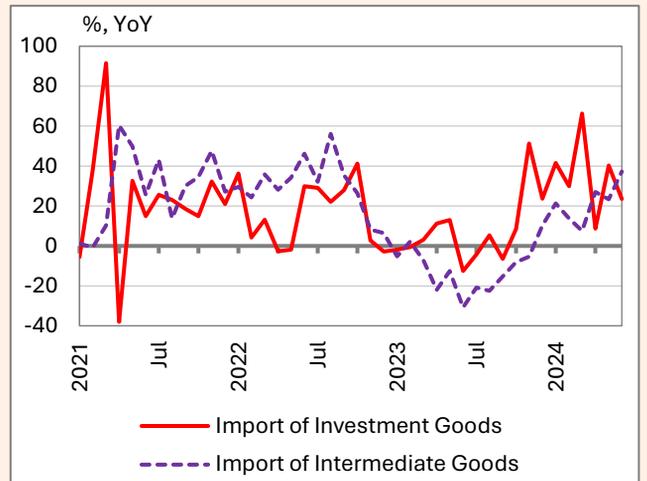
## Both consumers sentiments and businesses conditions yet to return to normalcy



## Selected private consumption indicators

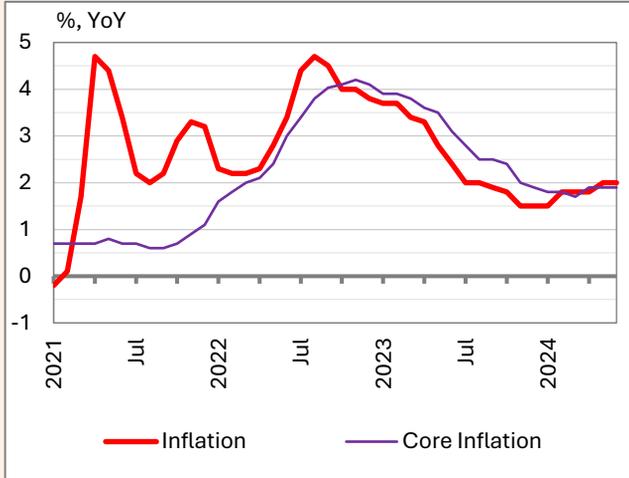


## Selected private investment indicators

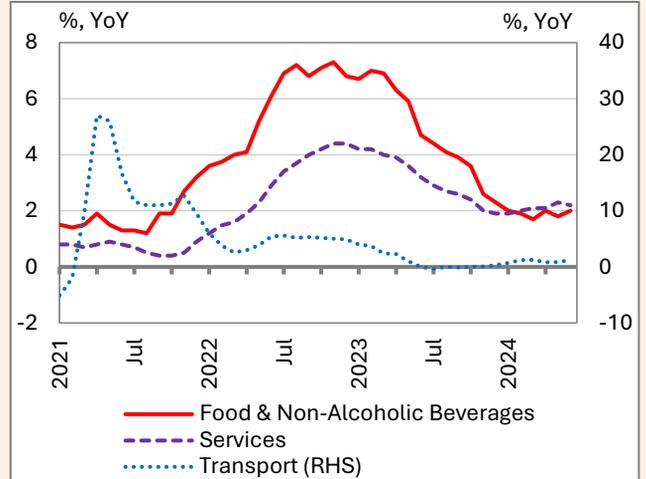


## Price Indicators and Labour Market

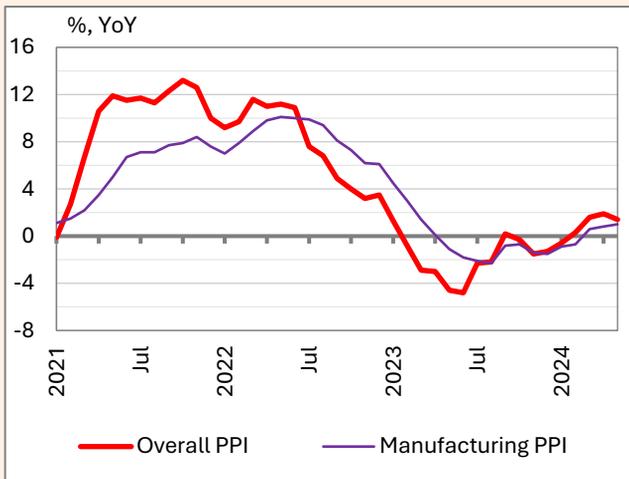
**Headline inflation gradually picked up and stayed at 2.0% in May-Jun**



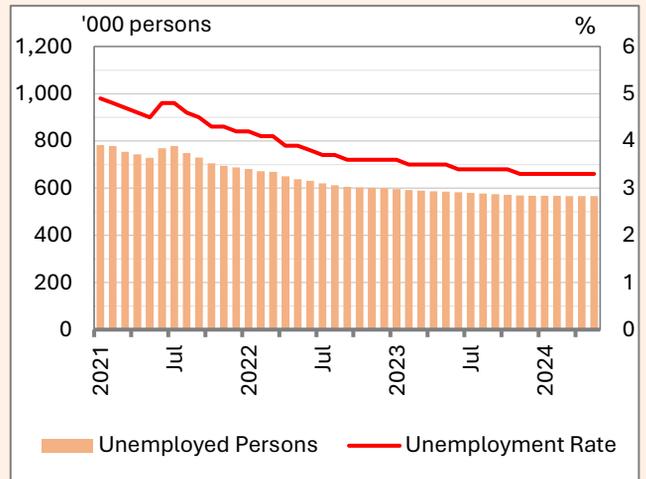
**Food and services inflation are broadly stable**



**Producer prices increased mildly for five continuous months**



**Unemployment rate kept at 3.3% for seven straight months in May**



**International shipping costs soared 40%, home appliance prices to rise 5% to 10% from July**

June 26, 2024

**Prices of Coffee in M'sian Kopitiam Might Increase by 20 Sen Due to Rise in Prices of Imported Coffee Beans**



Published 2 months ago June 9, 2024  
By Azri Aziz

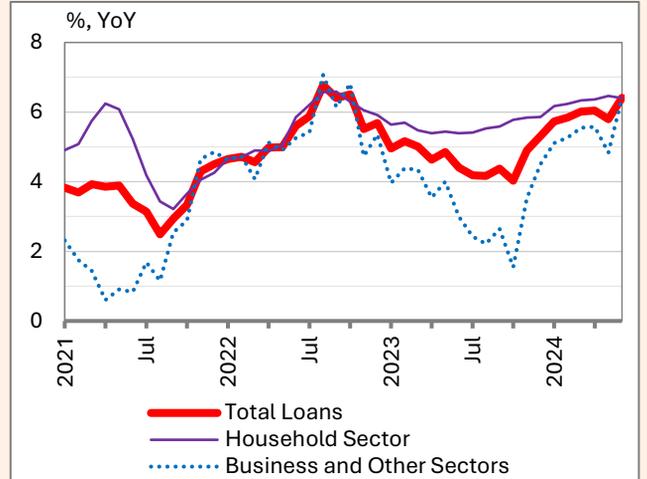
**DIESEL RM3.35/L**  
**EFFECTIVE MIDNIGHT**  
**JUNE 10 2024**

**Tour bus operators to raise rental rates by 20% after diesel price hike**  
Ameer Fakhri - 14 Jun 2024, 06:21 PM

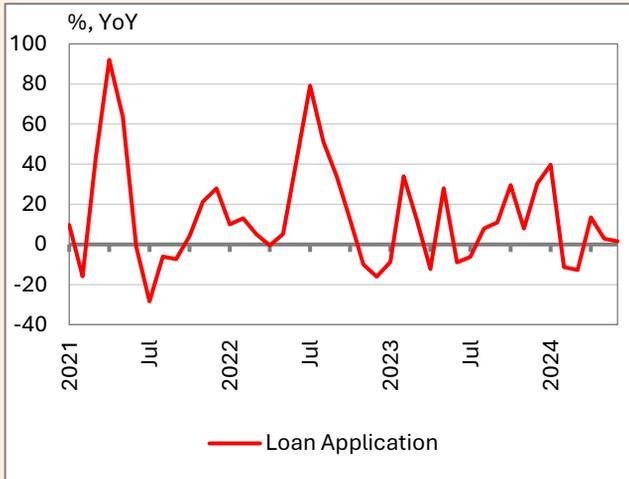
**Banking deposits have expanded steadily**



**Loan growth supported by sustained household loan and stronger business loan**



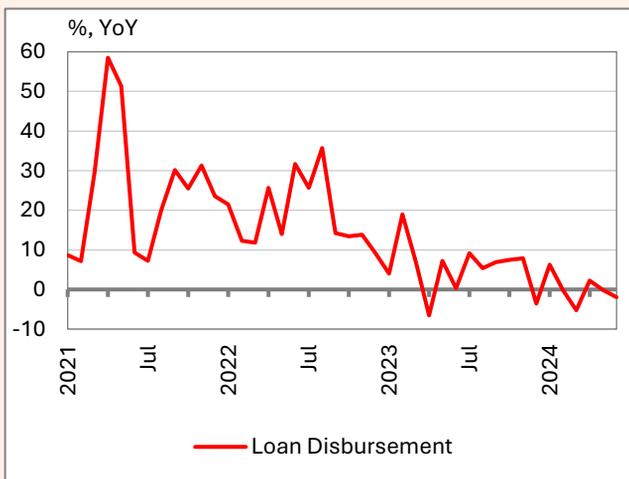
**Loan applications growth**



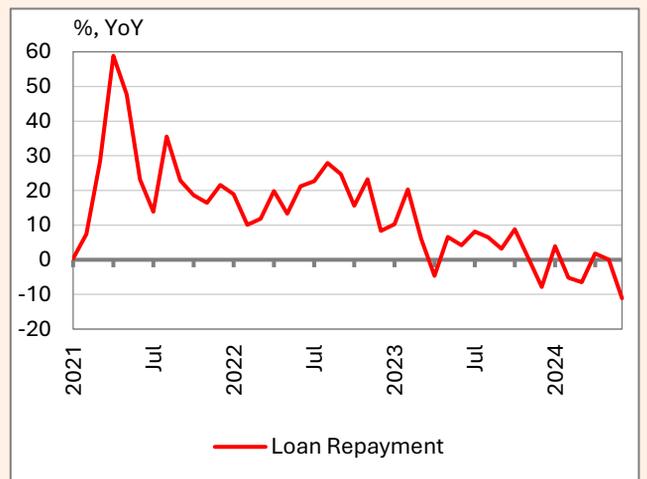
**Loan approvals growth**



**Loan disbursements growth**

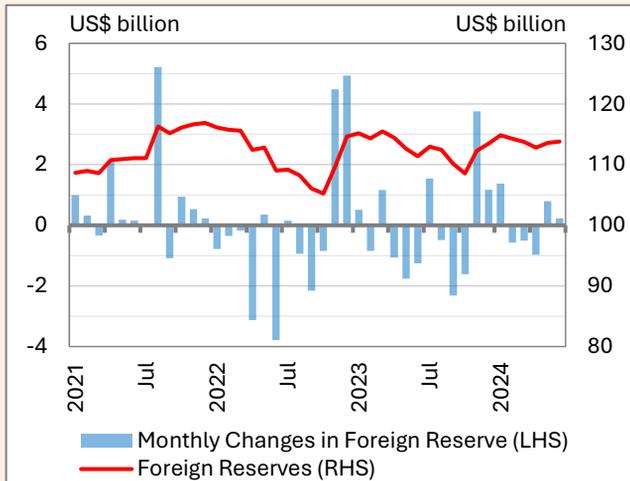


**Loan repayments growth**

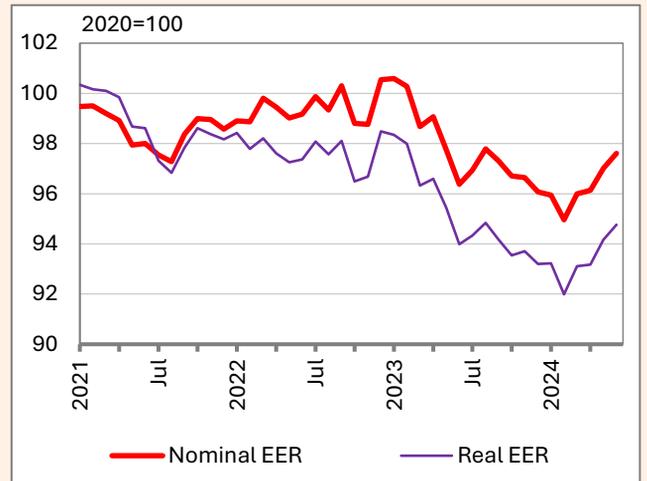


Note:: Loan data from July 2022 onwards was revised and expanded based on the latest requirements with more accurate data definition and reporting methodology. Outstanding loan excludes DFI.

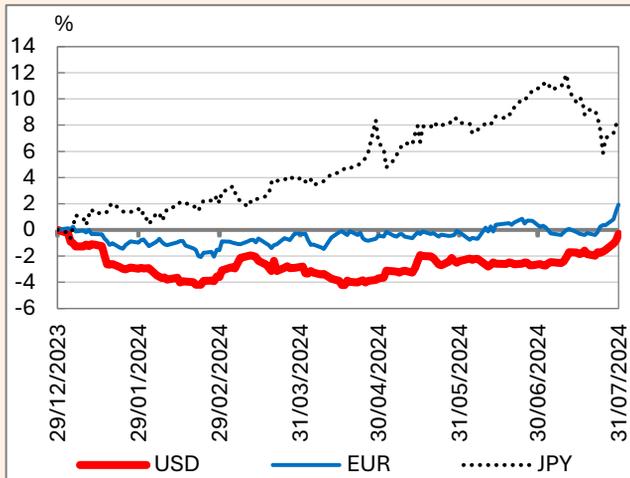
**Foreign reserves shrank by US\$0.2 billion YTD as of 15 Jul 2024**



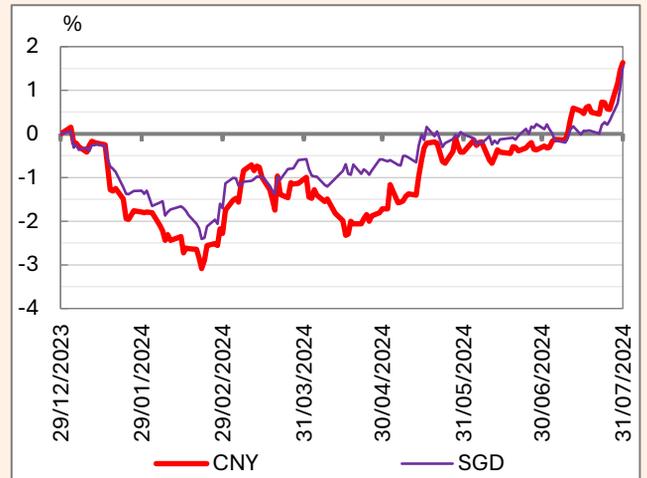
**Ringgit's Effective Exchange Rate (EER)**



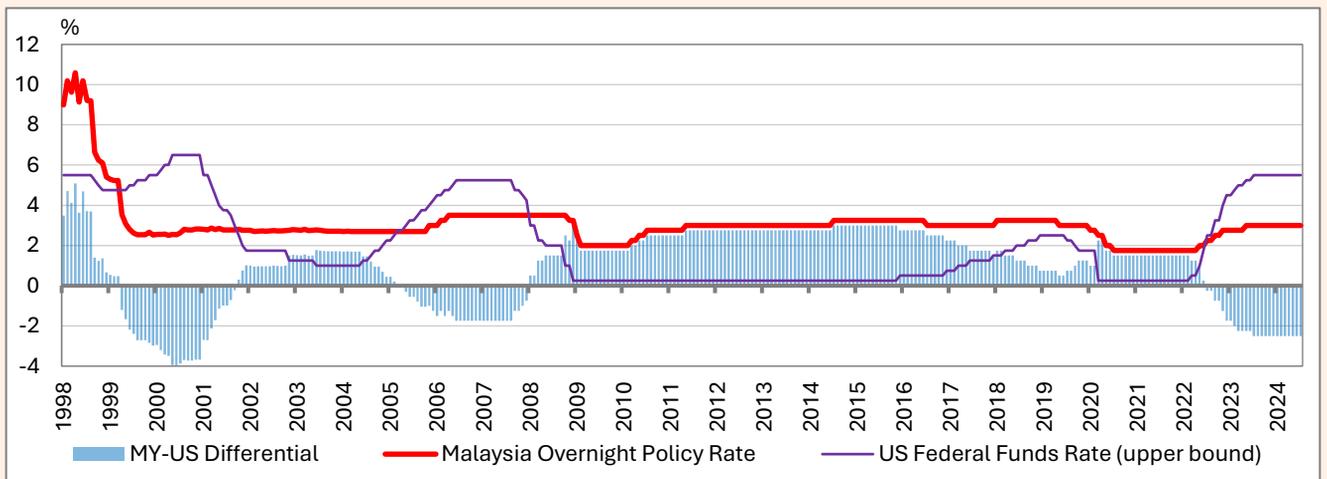
**The Ringgit against the US dollar, euro and Japanese yen**



**The Ringgit against the Chinese renminbi and Singapore dollar**



**Malaysia-US's interest rate differentials**



Source: Department of Statistics, Malaysia (DOSM); Malaysian Institute of Economic Research (MIER); Bank Negara Malaysia (BNM); Bank for International Settlements; Federal Reserve



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### **About SERC**

The Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM)'s Socio-Economic Research Centre (SERC Sdn. Bhd.) was established as an independent and non-profit think tank on 19 October 2010. Officiated by YAB Prime Minister on 28 April 2011, SERC is funded by ACCCIM SERC Trust.

SERC is tasked with carrying out in-depth research and analysis on a wide range of economic, business and social issues in support of the formulation of public policies to shape Malaysia's national socio-economic and industrial development agenda.

The organisation will identify and explore issues and future trends that impact domestic economic and business environments. It will also focus on sharing knowledge and promoting public understanding of socio-economic issues of national importance.

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