



From the Desk
of the
Chief Economist

BANK ISLAM

TAKING THE MACRO PULSE: GRADUALLY IMPROVING BUT LOSING MOMENTUM OF LATE

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ECONOMIC RESEARCH

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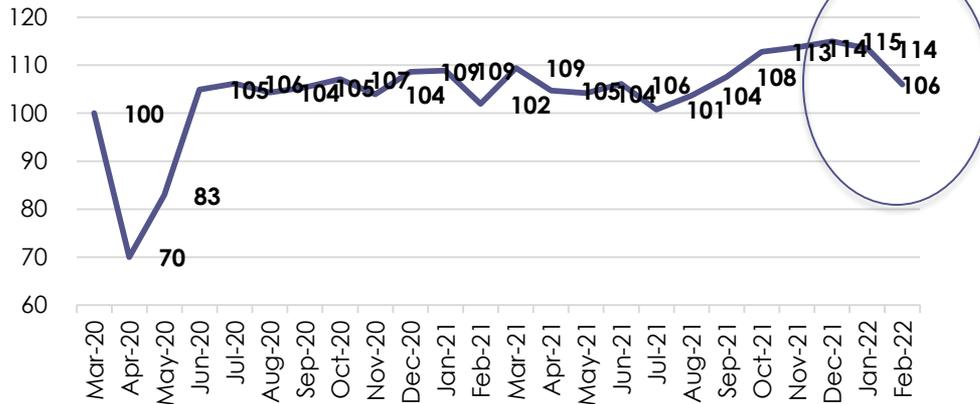
OVERVIEW – THE MALAYSIAN ECONOMY IS IMPROVING BUT LOSING MOMENTUM OF LATE

- ✓ The economic uncertainties are undoubtedly remain elevated. The military conflict in Ukraine remains unresolved and the repercussion from the war in the form of rising inflationary pressures following the sharp rise in commodity prices have been extremely acute.
- ✓ The expected increase in the U.S. interest rate is also likely to exert upward pressures on the bond yields given that the Federal Reserve (Fed) is anticipated to remove the monetary policy accommodation in an aggressive fashion in May.
- ✓ Not to mention, China's fixation towards Zero Covid Strategy (ZCS) has severely dented the businesses supply chains. As most countries globally have been relying from China for input, the upside risks to inflation have never been so visible.
- ✓ Despite the gloom and doom, the reopening of the Malaysian economy since October 2021 has a positive impact to domestic demand. Services-oriented industries have become increasingly lively during the month of January and February this year. This happened before the removal of international borders restriction in April 2022.
- ✓ Similarly, the export-oriented sector has also been growing at a decent rate during the first two months of this year. Following this, the demand for labour is also on the rise as businesses would need to keep up with improving orders and rising sales figure.
- ✓ Nonetheless, it remains to be seen whether such strength can be sustained especially in the context of rising inflationary pressures amidst ongoing supply chain disruption. The rebased Industrial Production index (IPI) and Wholesale & Retail Trade from March 2020 (the start of human mobility restriction) showed that economic activities are tapering down.
- ✓ Therefore, the policy makers are walking on a tight rope. This delicate balancing act would result in anxiety among the businesses and households, leading to cautious sentiments.

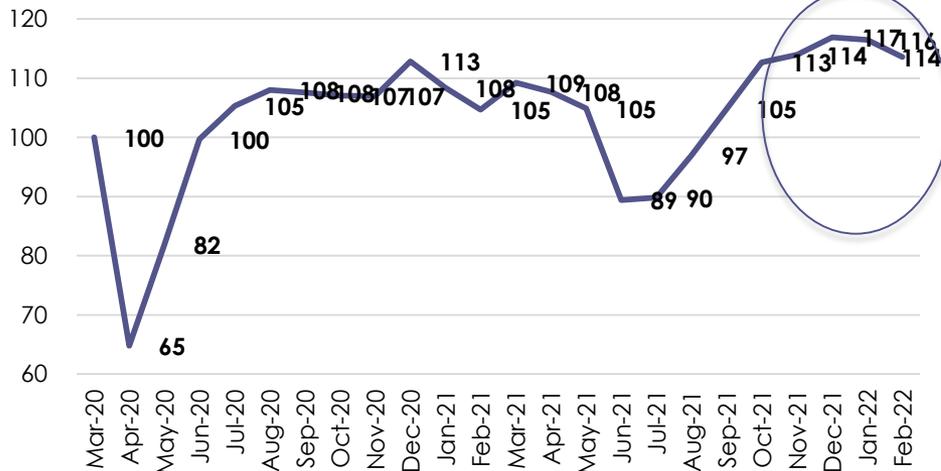
IMPROVING ECONOMIC ACTIVITIES ON YEAR-ON-YEAR TERMS.

HOWEVER, THE PACE OF EXPANSION HAVE SLOWED DURING JANUARY AND FEBRUARY

Industrial Production Index (IPI) (March 2020 = 100)



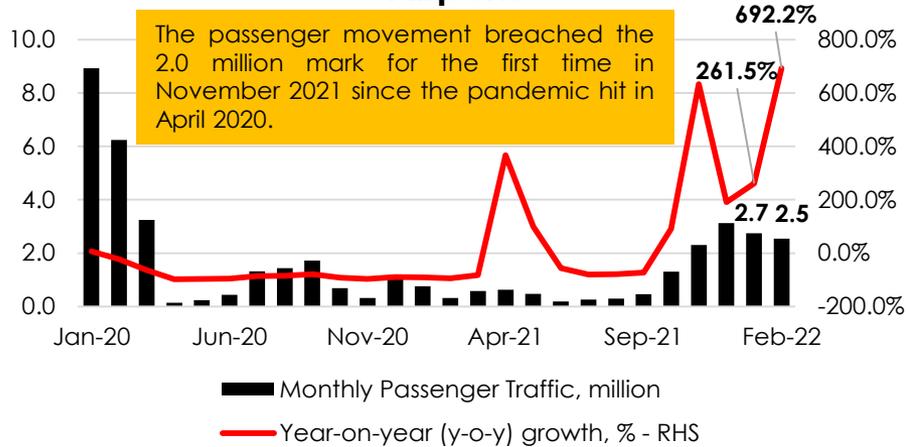
Wholesale & Retail Trade (March = 100)



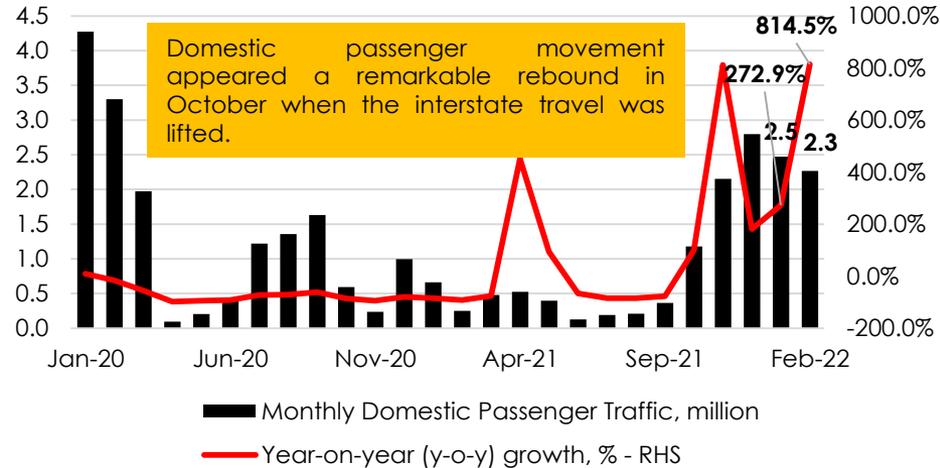
- ✓ Judging from the rebased IPI index (March 2020 = 100), the production activities have been losing some momentum although it is still much better compared to 2020 level.
- ✓ The IPI continues to slide from 115 points in December 2021 to 114 points and 106 points during the month of January and February this year.
- ✓ Similar exercise is also being applied to Wholesale & Retail Trade whereby the absolute numbers are based at 100 on March 2020.
- ✓ It is found that the index is also slowing from 117 points in December 2021 to 116 points and 114 points for the month of January and February 2022 respectively.
- ✓ Having said that, the index level is much higher than 2021. This would mean the 1Q2022 on year-on-year terms is expected to be decent.

A NEW TURNING POINT FOR AIR TRAFFIC RECOVERY MOVING INTO 2022

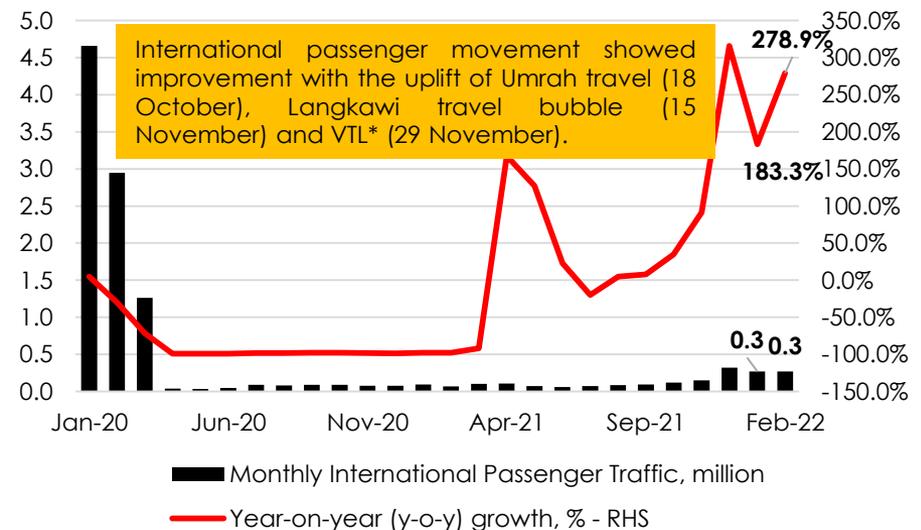
Monthly Passenger Traffic at Malaysia Airports



Monthly Domestic Passenger Traffic



Monthly International Passenger Traffic



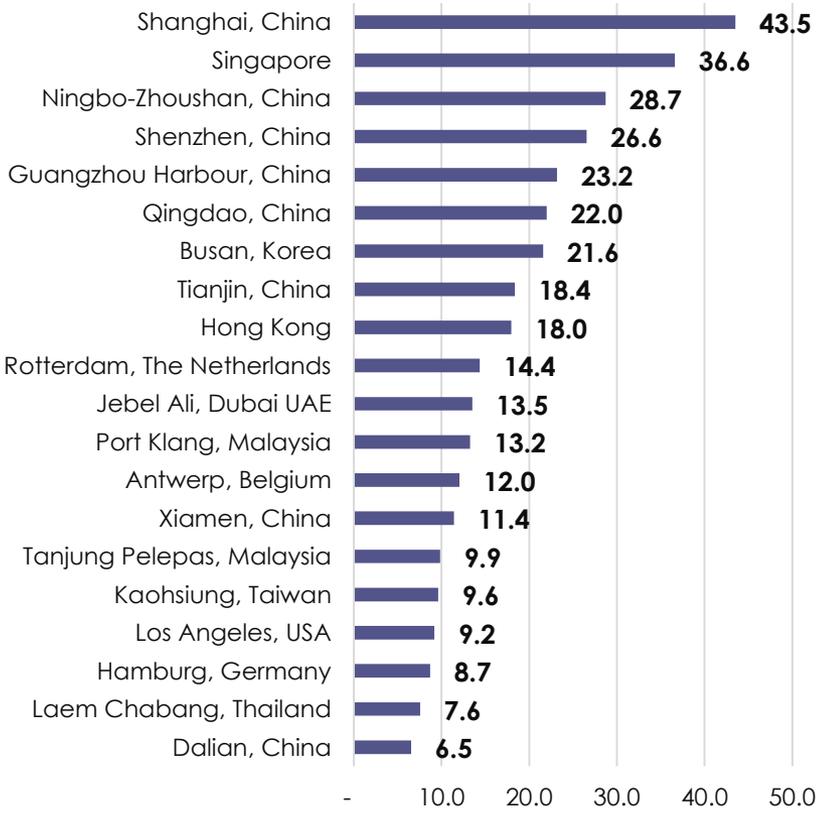
Source: CEIC

*Note: Malaysia-Singapore Vaccinated Travel Lane (VTL)

- ✓ Malaysia's transition to an endemic phase with the reopening border effective 1 April spells a positive development for air traffic movement in the months ahead after two years of wrestling with the Covid-19 pandemic.
- ✓ Already, Malaysia Airport Holding's Berhad's (MAHB) passenger traffic rebounded significantly by 389.5% for the first two months of this year from a contraction of 92.9% in the same period last year.
- ✓ The traffic movement started to regain its momentum during the 2M2022 after a temporary setback following the reimposition of travel restrictions amid sudden surge in Omicron cases.
- ✓ Looking ahead, the traffic movement is anticipated to recover steadily as many countries reopen its borders in tandem with higher vaccination rates in the respective regions.

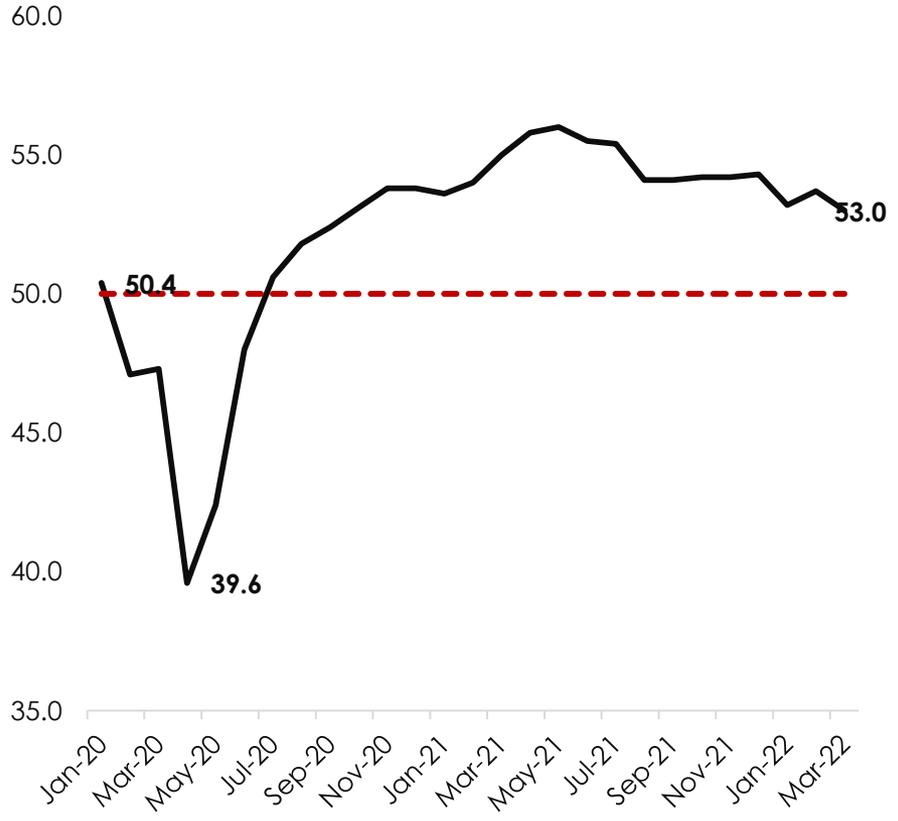
GLOBAL SUPPLY CHAIN DISTRUPTION IS REAL AS MOST GOODS TRAVELLED BY SEA

Top 20 Global Port Ranking by TEUs (million) in 2020



Sources: World Shipping Council & Bloomberg
TEU = Twenty Foot Equivalent Units

JP Morgan Global Composite PMI Index

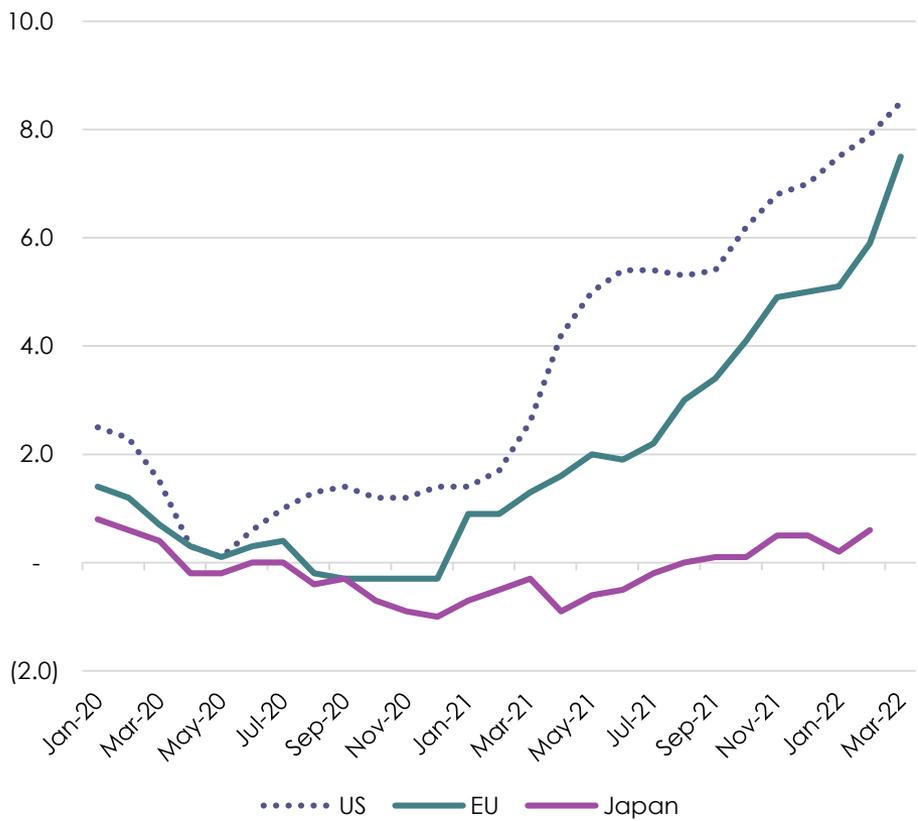


Source: Bloomberg

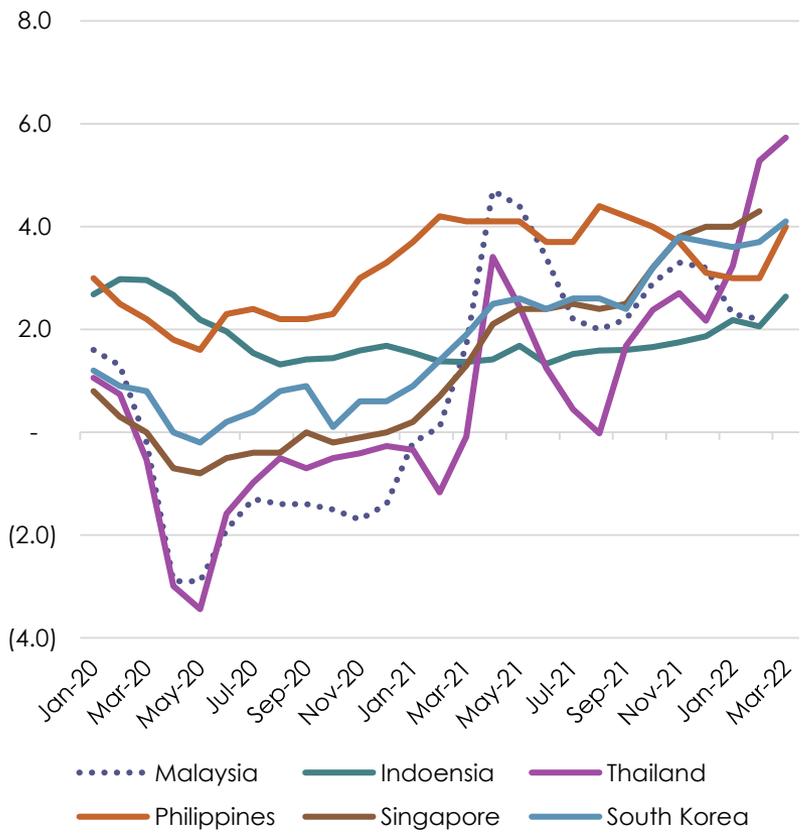
The ongoing lockdown in Shanghai could spell trouble for the world economy as their ports command at the top spot globally.

STATING THE OBVIOUS – INFLATION RATE IS RISING GLOBALLY. THIS COULD POTENTIALLY DERAIL THE STRENGTH OF THE ECONOMIC RECOVERY

Advanced Economies



South East Asian (SEA) Economies



Source: CEIC

Malaysia's inflation rate appears insulated thanks to price control and subsidies measures. However, fuel subsidies are taking a toll on government coffers. Should the subsidies are gradually removed, it will stoke the inflationary pressures.

Malaysian economy has gained momentum but sustainability is what really matters

- ✓ Economic data has pointed to a **decent growth** during early part of 2022 as human mobility restriction has been gradually relaxed since October last year.
- ✓ The **transition to an endemic phase** alongside **resumption of interstate travel** have supported the rising international and domestic passengers at the airport. Hence, the border reopening which has began on 1 April will further uplift Malaysia's domestic consumption activities, as well as tourism sector. **This could translate into better Malaysia's GDP growth in 1Q2022 (released date on 13 May).**
- ✓ In addition to this, the **foreign investors have been net purchasers of local equities on year-to-date basis with a total of RM6.9 billion of net inflows were recorded as of 14 April 2022 (same period in 2021: -RM2.0 billion net).** This suggests improving conviction towards our listed companies earnings.
- ✓ All in all, the BNM is likely to be gentle in removing the monetary policy support. As such, **we are sticking to our earlier call for a 25 basis points hike in the Overnight Policy Rate (OPR) in the 2H2022.** Our conviction stems from improving economic activities amidst better wage growth and employment opportunities.
- ✓ Therefore, keeping the OPR too low for too long can be detrimental to the economy as excessive risks taking attitude could seep in to search for higher yielding returns.

Balance of risks remain tilted to the downside

- ✓ **Russian-Ukraine war** – While it has less direct impact to Malaysia's economy, the indirect channel can be more pronounced via higher commodity prices and weaker global demand.
- ✓ **China's ZCS** - The congestion in port will prolonged the supply chain disruptions, leading to lower turnaround time and productivity level. This can be a costly affair as it could frustrate the customers given the chain reaction that will disrupt the timely completion and delivery of products.
- ✓ **Aggressive monetary policy tightening** - The Fed will unwind its monetary stimulus by rising the Federal Fund rate and reducing its bloated balance sheet. The transition is not going to be smooth, creating the anxiety among the market participants.
- ✓ **Inflation risks** – It's going to be contentious on how best can the policy makers addressed the issue. Talks for possible removal of fuel subsidies appears to have gain some traction. If it happens, it certainly has significant bearing on Malaysia's inflation rate.

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