

## Global Markets Research

### Malaysia - Economics

# Further acceleration in 1Q GDP

- The Malaysian economy expanded at a faster pace of 5.0% y/y in 1Q22
- Pick-up in domestic demand more than offset the negative drag from net exports
- Expect full year 2022 growth to exceed official forecast range of 5.3-6.3%

#### Summary

The Malaysian economy gained further traction, expanding at a faster pace of 5.0% y/y in 1Q22 (4Q21: +3.6%), thanks to further relaxation of movement restrictions that helped revive economic activities, especially in the services sector. This marked its best growth since 1Q18, discounting the statistically distorted double-digit expansion in 2Q21, and came in higher than consensus estimate of 4.0% but within ours 5.0%.

On a quarter-on-quarter basis, economic activities continued to expand albeit at a more moderate pace of 3.9% in 1Q22 (4Q21: +4.6%). The economy saw increasing momentum through the three months of 1Q, from 4.3% in January to 5.2% in February and 5.4% in March (Figure 2) amid continued resumption in economic activities and improvement in the labour market conditions and wage growth.

#### Encouraging pick-up in domestic demand

Aggregate domestic demand garnered further traction, registering a 4.4% y/y increase in 1Q22, more than double the 1.9% growth seen in 4Q21. This was led by private sector activities, which picked up from +2.5% to +4.4% y/y, contributing 3.4ppt to total GDP growth. Specifically, private consumption was the main driver, driven by higher spending on both essential as well selected discretionary items supported by recovery in employment and wage growth. Meanwhile, private investment eked out a gain (+0.4% y/y) for the first time in three quarters, underpinned by capital spending in the services and manufacturing sectors. The public sector also gained traction (+4.8% vs +0.1% y/y) and contributed 0.8ppt to overall growth, driven by a 6.7% y/y growth in government spending as public investment saw extended declines (-0.9% vs -3.4% y/y).

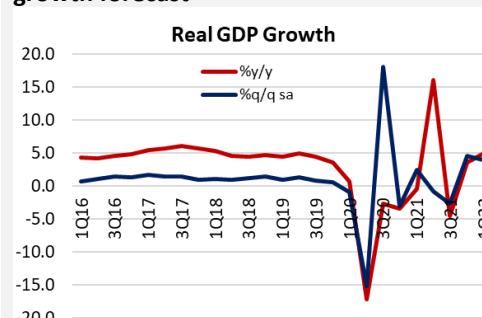
The pick-up in domestic demand was however partly mitigated by the decline in net exports, which shaved 1.5ppt off total GDP growth. Net exports took a turn and fell 26.5% y/y, from the 0.8% marginal gain in 4Q21 as the increase in imports (+11.1% y/y) outpaced exports growth (+8.0% y/y).

#### Mixed sectoral performance led by the services

On the supply side, the stronger growth was led by the pick-up in the services sector (+6.5% vs +3.2% y/y). Consumer-related services sector namely retail and leisure related subsector continued to recover amid the reopening of the economy. Business-related sectors including transport & storage, real estate, business services and healthcare also recorded strong expansion.

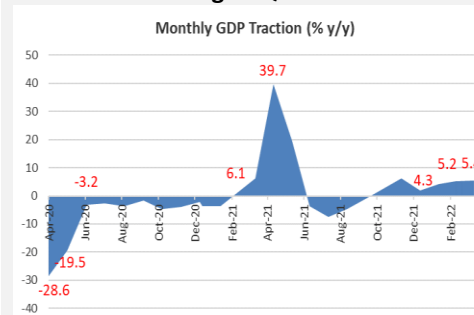
Value-added in the manufacturing and agriculture sectors continued to expand, albeit at slower pace. (Figure 6). Meanwhile, the mining and

**Figure 1: Promising expansion in 1Q GDP prompts an upward revision to full year growth forecast**



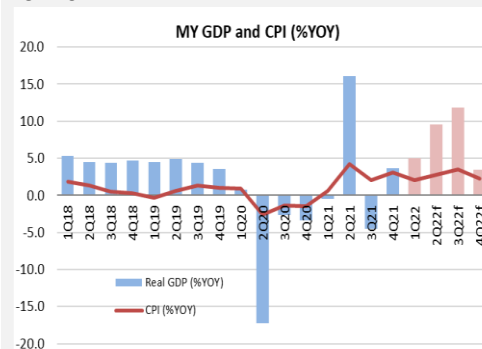
Source: DOSM, BNM

**Figure 2: Commendable growth momentum through 1Q22**



Source: DOSM, BNM

**Figure 3: Estimated GDP growth trajectory for 2022**



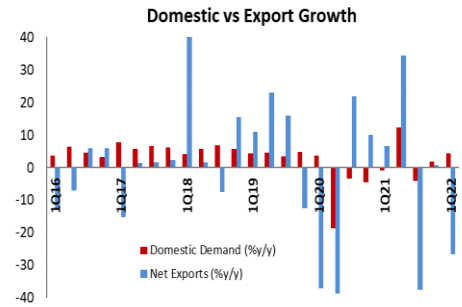
Source: DOSM, HLBB Global Markets Research

construction saw extended declines, the former due to maintenance related closure in several oil and gas facilities, and labour shortages in the later.

**Outlook**

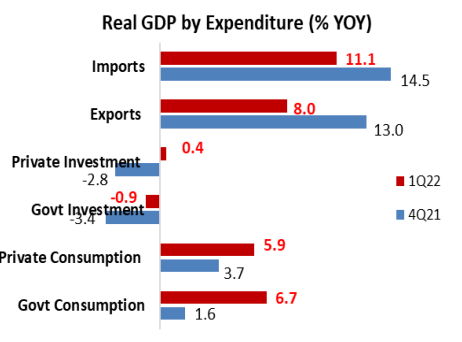
Taking cue from the upbeat 1Q GDP number, we expect full year 2022 growth forecast to exceed the official forecast range of 5.3-6.3%, potentially exceeding the 7.0% level, further underpinned by expected incremental increase in consumption stemming from the higher than expected EPF withdrawal and minimum wage implementation. This should help alleviate potential downside from ongoing geopolitical uncertainties, worsening supply disruptions and higher cost pressures. We believe this could have prompted BNM to raise its OPR earlier than expected at the latest MPC meeting, as faster than expected recovery will help narrow the negative output gap at a faster pace. In addition, we also understand BNM was being vigilant, acknowledging potential shift from supply-driven inflation to demand-pull inflation. Hence, we expect BNM to raise OPR by a further 50bps in 2H2022.

**Figure 4: Acceleration in domestic demand more than offset continued net exports drag**



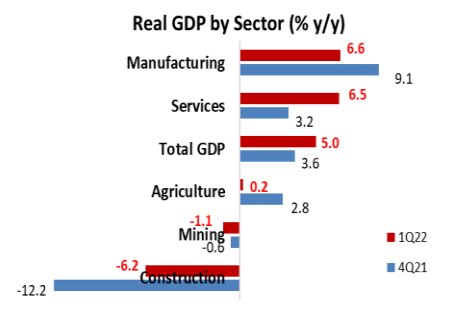
Source: DOSM, BNM

**Figure 5: Private-sector led expansion**



Source: DOSM, BNM

**Figure 6: Mixed fortunes – manufacturing and services remained the key growth engine**



Source: DOSM, BNM

### Malaysia Key Economic Metrics

	2021												2022		
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Real GDP	-3.6	-3.6	6.1	39.7	19.3	-3.6	-7.6	-4.7	-1.1	2.7	5.4	2.6	4.2	5.2	5.4
Leading indicator	8.2	8.5	17.3	15.7	6.9	0.5	-3.9	-2.2	0.4	0.2	1.6	2.0	0.1	-0.5	
Exports	6.3	17.4	30.9	62.7	47.0	27.2	5.0	18.4	24.7	25.5	32.4	29.2	23.5	16.8	25.4
Imports	1.1	12.1	17.5	22.9	48.4	32.1	24.0	22.5	26.5	27.9	38.0	23.6	26.4	18.4	29.9
Trade balance (RMbn)	16.6	17.9	24.2	20.4	13.8	22.2	13.7	21.4	26.1	26.3	18.9	31.0	18.4	19.8	26.7
Industrial production	1.2	1.5	9.3	50.1	26.0	1.4	-5.2	-0.7	2.5	5.5	9.4	5.9	4.3	4.0	5.1
Manufacturing production	3.5	4.5	12.7	68.0	29.8	-0.2	-6.5	0.6	4.0	8.0	11.3	8.4	6.8	5.2	6.9
Wages (manufacturing)	-1.4	-1.3	0.8	8.2	6.4	3.5	1.5	1.7	3.6	4.4	4.8	4.9	4.1	3.9	4.4
Unemployment rate (%)	4.9	4.8	4.7	4.6	4.5	4.8	4.8	4.6	4.5	4.3	4.3	4.2	4.2	4.1	4.1
Wholesale trade	-0.4	-0.1	1.8	40.4	30.8	3.5	-1.1	-0.1	0.9	4.4	6.8	4.1	5.7	6.2	8.6
Retail trade	-2.5	-2.1	10.5	56.4	17.3	-2.9	-8.1	-7.1	-1.1	5.1	6.7	3.5	7.3	10.2	10
Passenger car sales	-26.3	3.3	183.9	40074.0	105.3	-95.5	-90.5	-68.3	-25.5	9.8	2.8	-7.3	16.6	2.4	14.6
Consumption credit	3.1	3.2	4.2	5.6	4.9	3.5	1.0	-0.8	-1.6	-0.7	0.1	0.8	1.7	2.0	2.3
CPI	-0.2	0.1	1.7	4.7	4.4	3.4	2.2	2.0	2.2	2.9	3.3	3.2	2.3	2.2	2.2
PPI	-0.1	2.7	6.7	10.6	11.9	11.5	11.7	11.3	12.3	13.2	12.6	10.0	9.2	9.7	11.6

Note: Figures are %YOY unless otherwise stated

Source: BNM; DOSM; HLBB Global Markets Research

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