

## Global Markets Research

### Malaysia - Economics

# 2Q GDP continued to gain traction

- The Malaysian economy continued to grow at a faster pace for the 3<sup>rd</sup> straight quarter
- Hefty gain in domestic demand more than offset the negative drag from net exports
- Expect further pick-up in 3Q; no change to full year growth forecast of 7.4%

#### Summary

The Malaysian economy continued to pick up steam for the third consecutive quarter, expanding by 8.9% y/y in 2Q22 (1Q: +5.0%), spurred by a strong pick-up in domestic demand, notably private consumption and investment. The best growth in a year came in slightly below our expectation (+9.5% y/y) but way above consensus estimate for a 7.0% growth. All supply side sectors improved, with the exception of agriculture.

On a quarter-on-quarter basis, economic activities continued to expand albeit at a more moderate pace of 3.5% in 2Q22 (1Q: +3.8%), underpinned by expansion in domestic demand thanks to improvement in the labour market and ongoing policy support. The economy saw sustained momentum in April and May but registered a significant jump to 16.5% y/y in June (Figure 2), skewed by the MCO 2.0-related economic fallout in June last year.

#### Robust domestic demand the key driver

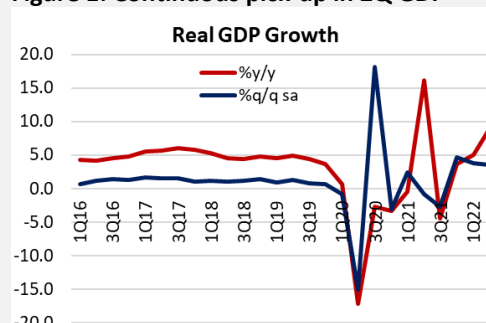
Domestic demand remained firmly in the driver seat, expanding by 13.0 y/y in 2Q22 (1Q: +4.4%), its biggest gain in a decade. As expected, the private sector continued to take the lead, growing 15.4% y/y during the quarter (1Q: +4.4%), offsetting slower growth in the public sector (+2.8% vs +4.8% y/y). Of these, private consumption grew the most by 18.3% y/y (1Q: +5.5%), representing the biggest contribution to overall growth (+10.1ppt), thanks to higher spending on necessities, hotels and restaurants, recreational services, supported by recovery in the labour market, minimum wage hike, cash handouts as well as EPF withdrawals. Private investment which grew 6.3% y/y (1Q: +0.4%) contributed 1.1ppt. Public sector as a whole contributed 0.5ppt. Public spending grew at a slower pace of 2.6% y/y (1Q: +6.7%) dampened by lower spending on Covid-19 related expenses, while public investment rebounded to a 3.2% y/y gain. (Figure 5)

Meanwhile, net exports continued to exert a drag for the second straight quarter, falling by 28.7% y/y in 2Q (1Q: -26.5%), slashing 1.7ppt from total GDP. Imports growth (+14.0% y/y) continued outpacing exports growth (+10.4% y/y) for the second quarter in a row.

#### The services sector continued to outshine the rest

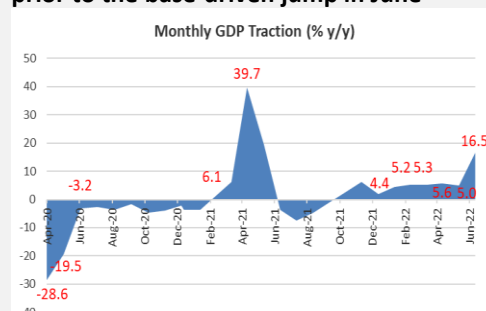
On the supply side (Figure 6), the services sector continued to overshadow other sectors (+12.0% vs +6.5% y/y). Consumer-related services sector namely retail and leisure related subsector continued to recover amid the reopening of the economy. Business-related sectors including transport & storage, real estate, business services and healthcare also recorded strong expansion.

Figure 1: Continuous pick-up in 2Q GDP



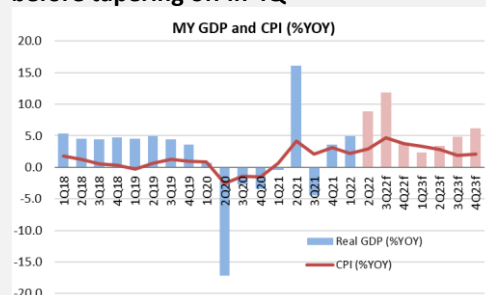
Source: DOSM, BNM

Figure 2: Sustained monthly momentum prior to the base-driven jump in June



Source: DOSM, BNM

Figure 3: Expect quicker growth in 3Q before tapering off in 4Q



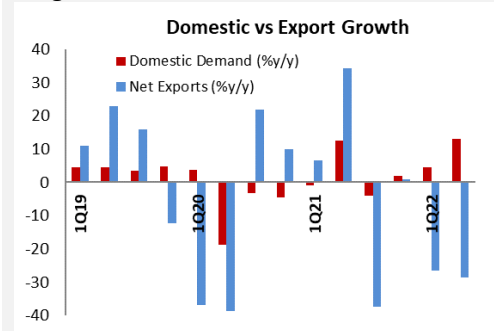
Source: DOSM, HLBB Global Markets Research

Value-added in the manufacturing and construction sectors also showed better traction, growing at a faster pace of 9.2% and 2.4% y/y during the quarter. Commodity-based agriculture and mining sectors contracted, the former due to lower production as a result of higher input costs and labour shortages while the latter was impacted by closure of oil and gas facilities for maintenance.

**Outlook**

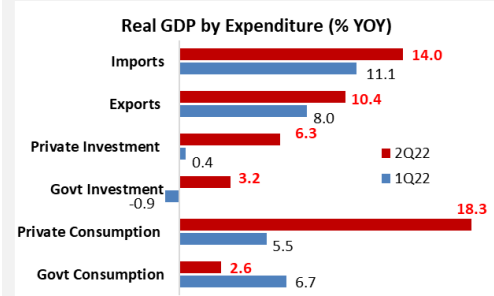
We remain cautiously optimistic that the Malaysian economy would continue to see further acceleration in economic activities in 2H2022, driven by domestic demand and partly attributable to statistical distortion. We expect growth to pick up further to double-digit pace in 3Q before normalizing in 4Q. With the economy having expanded by 6.9% y/y in 1H2022, we believe our full year growth projection of 7.4% y/y remains intact. That said, evident slowdown in the global economy with rising recessionary chatters in several major economies, coupled with added signs of slowdown in China, would be key downside risks to our forecast. Ongoing geopolitical uncertainties, supply disruption-related cap on production, as well as protracted higher price pressures, would also likely dampen the growth prospects. This shall keep BNM’s monetary policy adjustment in a gradual and measured pace as communicated in its policy statement. We therefore expect BNM to raise its OPR by 25bps each in the remaining two MPC meetings to 2.75% for the year.

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



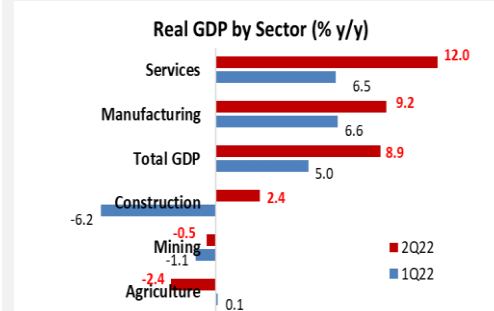
Source: DOSM, BNM

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



Source: DOSM, BNM

**Figure 6: Improvement in all sectors except agriculture**



Source: DOSM, BNM

**Malaysia Key Economic Metrics**

|                          | 2020  |      |       |       |       |      |      |      |      |      |      |      | 2021  |      |       |         |       |       |       |       |       |      |      |      | 2022 |      |      |      |      |        |
|--------------------------|-------|------|-------|-------|-------|------|------|------|------|------|------|------|-------|------|-------|---------|-------|-------|-------|-------|-------|------|------|------|------|------|------|------|------|--------|
|                          | Jan   | Feb  | Mar   | Apr   | May   | Jun  | Jul  | Aug  | Sep  | Oct  | Nov  | Dec  | Jan   | Feb  | Mar   | Apr     | May   | Jun   | Jul   | Aug   | Sep   | Oct  | Nov  | Dec  | Jan  | Feb  | Mar  | Apr  | May  | Jun    |
| Real GDP                 |       |      |       | -28.6 | -19.5 | -3.2 | -2.7 | -3.6 | -1.6 | -4.7 | -4.0 | -2.1 | -3.6  | -3.6 | 6.1   | 39.7    | 19.3  | -3.6  | -7.6  | -4.7  | -1.1  | 2.7  | 5.4  | 2.6  | 4.4  | 5.2  | 5.3  | 5.6  | 5.0  | 16.5   |
| Leading indicator        | 0.8   | 3.5  | -3.8  | -6.0  | 0.8   | 5.0  | 8.1  | 8.2  | 9.1  | 6.5  | 7.5  | 7.6  | 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 | -1.4 | -0.5 | 2.2  |        |
| Exports                  | -2.4  | 10.2 | -6.4  | -24.7 | -25.8 | 8.1  | 3.3  | -0.9 | 13.6 | 0.4  | 4.7  | 10.9 | 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 | 20.7 | 30.5 | 38.8   |
| Imports                  | -2.3  | 11.9 | -1.4  | -6.7  | -29.5 | -4.0 | -8.6 | -6.4 | -3.6 | -6.0 | -9.0 | 1.7  | 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 | 22.0 | 37.3 | 49.3   |
| Trade balance (RMbn)     | 12.0  | 12.6 | 12.3  | -3.6  | 10.4  | 20.9 | 25.2 | 13.2 | 22.0 | 22.1 | 17.1 | 20.7 | 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 | 23.5 | 12.6 | 21.9   |
| Industrial production    | 0.3   | 5.7  | -5.1  | -32.1 | -21.8 | -0.4 | 1.3  | -0.2 | 0.9  | -0.6 | -2.4 | 1.7  | 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  | 4.6  | 4.1  | 12.1   |
| Manufacturing production | 2.2   | 6.2  | -4.1  | -37.2 | -22.6 | 4.7  | 2.9  | 2.2  | 4.3  | 2.4  | 2.0  | 4.1  | 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  | 6.2  | 6.9  | 14.5   |
| Wages (manufacturing)    | 4.1   | 4.4  | 1.8   | -6.2  | -3.9  | -2.0 | -3.2 | -3.2 | -1.7 | -1.5 | -1.3 | -1.1 | -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  | 4.5  | 5.0  | 6.2    |
| Unemployment rate (%)    | 3.2   | 3.3  | 3.9   | 5.0   | 5.3   | 4.9  | 4.7  | 4.7  | 4.6  | 4.7  | 4.8  | 4.8  | 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  | 3.9  | 3.9  | 3.8    |
| Wholesale trade          | 5.2   | 4.9  | -2.7  | -26.3 | -23.6 | -8.7 | -4.5 | -3.9 | -4.2 | -0.9 | -0.7 | -0.6 | -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  | 11.5 | 11.7 | 19.3   |
| Retail trade             | 6.7   | 6.3  | -6.6  | -32.4 | -16.1 | -9.2 | -3.8 | -1.5 | 1.6  | -1.5 | -2.3 | -2.0 | -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 | 10.8 | 20.9 | 29.9 | 38.4   |
| Passenger car sales      | -11.5 | -0.1 | -88.6 | -99.7 | -63.4 | 6.3  | 12.8 | 1.7  | 27.7 | 5.7  | 7.2  | 26.0 | -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 | -5.3 | 4.1  | 2999.6 |
| Consumption credit       | 0.9   | 0.9  | 0.3   | -0.7  | -0.8  | -0.6 | 0.8  | 2.1  | 3.3  | 3.3  | 3.1  | 3.3  | 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  | 2.3  | 2.8  | 4.8    |
| CPI                      | 1.6   | 1.3  | -0.2  | -2.9  | -2.9  | -1.9 | -1.3 | -1.4 | -1.4 | -1.5 | -1.7 | -1.4 | -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  | 2.3  | 2.8  | 3.4    |
| PPI                      | 2.8   | 0.9  | -1.9  | -5.1  | -5.5  | -4.0 | -3.5 | -2.8 | -3.9 | -3.6 | -3.0 | -2.1 | -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 | 11.0 | 11.2 | 10.9   |

Note: Figures are %YOY unless otherwise stated

Source: BNM; DOSM; HLBB Global Markets Research

**Hong Leong Bank Berhad**

Fixed Income & Economic Research, Global Markets  
Level 8, Hong Leong Tower  
6, Jalan Damanlela  
Bukit Damansara  
50490 Kuala Lumpur  
Tel: 603-2081 1221  
Fax: 603-2081 8936  
Email: [HLMarkets@hlbb.hongleong.com.my](mailto:HLMarkets@hlbb.hongleong.com.my)

**DISCLAIMER**

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad ("HLBB") to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group ("HLB Group"). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter.

Potential and actual conflict of interest may arise from the activities of HLB Group. HLB Group constitute a diversified financial services group. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, hedging transactions and other activities for their own account or the account of others. In the ordinary course of their business, HLB Group may effect transactions for their own account or for the account of their customers and hold long or short positions in the financial instruments. HLB Group, in connection with its business activities, may possess or acquire material information about the financial instruments. Such activities and information may involve or have an effect on the financial instruments. HLB Group have no obligation to disclose such information about the financial instruments or their activities.

The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favorable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.