

## Global Markets Research

### Malaysia - Economics

# 3Q GDP shot up to 14.2%

- Both domestic and external demand supported growth
- Consumer spending benefitted from favorable employment market and pent-up demand
- Raising GDP forecast to 8.0-8.2% for 2022, expects OPR hike to 3.0% in January 2023

#### Summary

The Malaysian economy registered a hefty growth of 14.2% y/y in 3Q (2Q: 8.9%), bringing YTD to +9.3% y/y. Growth in 3Q was primarily due to; 1) half driven by low base effect; 2) strong domestic demand, underpinned by a favourable employment market; 3) pent up demand, in particularly revenge tourism; and 4) supported by still strong demand for electronics and electrical goods. On the supply side, the services and manufacturing sectors benefitted from this to drive growth. YTD, the Malaysian economy expanded by 9.3% y/y.

Headline inflation is likely to have peaked for the year at 4.5% in 3Q (2Q: +2.8% y/y) while core inflation accelerated to 3.7% y/y (2Q: +2.5% y/y). The increase in headline inflation was largely driven by the base effect from the discount on electricity bill implemented in 3Q of 2021, cost push inflation especially for food as well as sign of demand driven inflation.

#### Robust domestic demand the key driver

Domestic demand remained firmly in the driver seat, expanding by 13.1 y/y in 2Q22 (2Q: +13.0%). Consumer spending remained resilient at 15.1% y/y (2Q: 18.3% y/y), supported by still favourable employment market, increase in minimum wage, EPF withdrawal as well as cash handout via Bantuan Negara Malaysia. As mentioned earlier, private consumption was also supported by pent-up demand from tourism.

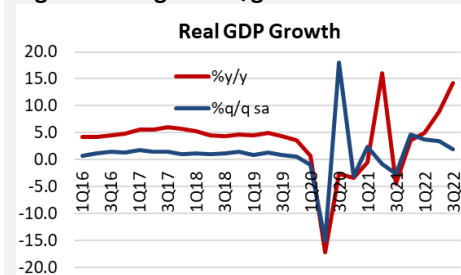
Growth in private investment, meanwhile, doubled to +13.2% y/y, driven by expenditures in the services and manufacturing firms. On the Government's side, government investment grew by 13.1% y/y (3.2% y/y in 2Q), on account of primarily higher spending in oil and gas, as well as telecommunication sectors.

Unlike the previous quarter, net exports surprised on the upside with a growth of 18.7% y/y as opposed to -28.7% y/y in 2Q. Exports continued to register strong momentum at +23.9% y/y, while imports grew by 24.4% y/y.

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

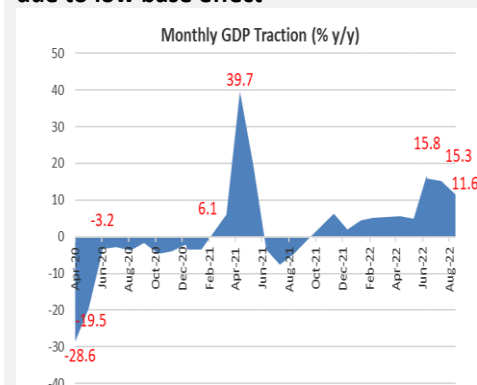
On the supply side, the services sector continued to overshadow other sectors (+16.7% vs +12.0% y/y), driven primarily by the consumer-related subsectors. Consumer-related services sector namely retail and leisure related subsector continued to provide impetus to growth. The manufacturing sector expanded by 13.2% y/y (9.2% y/y in 2Q), as the E&E cluster continued to register double digit growth of 17.3% y/y, while the primary sector benefitted from the resumption in operation at an existing oil refinery. The construction sector grew by 15.3% y/y (2Q: +2.4% y/y), driven by commercial real estate, mixed development and small-scale projects. Growth in the mining sector turnaround at +9.2% y/y (2Q: -0.5%

Figure 1: Surge in 3Q growth



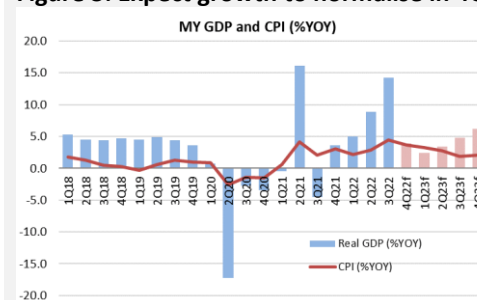
Source: DOSM, BNM

Figure 2: Sustained monthly momentum due to low base effect



Source: DOSM, BNM

Figure 3: Expect growth to normalise in 4Q



Source: DOSM, HLBB Global Markets Research

y/y) attributed to higher oil and gas output, including from the Pegaga gas Field as well as Block PM302 as well as base effect from maintenance related closed in 3Q of 2021. The agriculture sector edged up by 1.2% y/y (-2.4% y/y) driven by higher oil palm output amidst receding labour woes and improved yields.

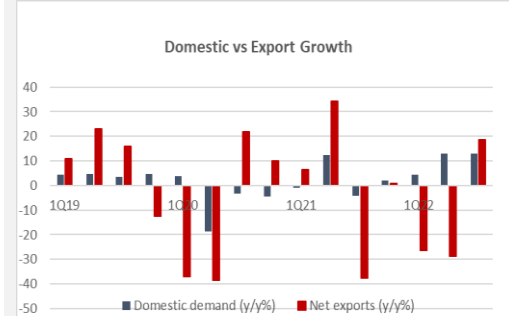
**Outlook**

The bumper 3Q was partially due to statistical distortion from low base effect in 3Q 2021. For 4Q, Malaysia’s growth prospect remains favourable although we expect economic growth to normalise to 4.5% y/y. With this better than expected data, we are revising our GDP forecast upwards to 8.0% -8.2% for 2022. We maintain our GDP forecast of 4.2% in 2023 at this juncture. Pre-emptive move to manage demand-driven pressure amid positive growth prospects, meanwhile, leaves door open for another 25bps hike to 3.00% in January.

In 4Q, domestic demand, particularly private consumption will remain the key growth pillar, supported by still favourable labour market (unemployment rate: 3.6% in September, salaries and wages in the manufacturing sector: +1.5% m/m and +5.4% y/y in September) with added boost from revenge tourism-related activities and possibly election spending. Consumer sentiment has also improved with the MIER Consumer Sentiments Index (CSI) picking up 12.4 points q/q to 98.4 in 3Q. Shoring this was more bounce in spending plans, especially for furniture. On the downside, among those who reported weaker income were southern, urban and low-income employees, the latter who will have higher marginal propensity consume. Price pressures and tightened monetary policy could also put pressure on the spending, but we do not expect this to derail the economy at this juncture given the sufficient liquidity in the economy. The flooding in 4Q will also likely disrupt economic growth for the quarter.

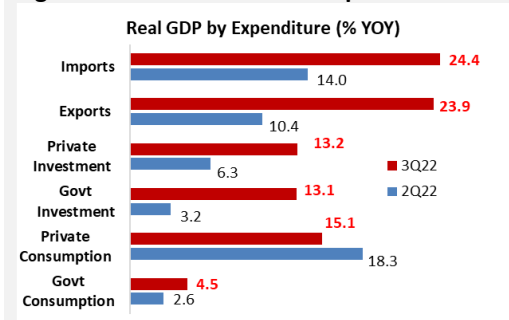
As it is, we expect key downside risk in the external sector in 4Q and into 2023. These includes: 1) Evident slowdown in the global economy with rising recessionary chatters in several major economies. IMF expects global GDP growth to slow from 3.2% in 2022 to 2.7% in 2023. This is the weakest since 2001 except for the global financial crisis and the acute phase of the COVID-19 pandemic. At this juncture, there is 25% probability of global growth falling below 2% and 10%-15% it would decline to 1.1% in 2023. 2) Economic slowdown in China (China accounts for 13% of Malaysia’s export markets) in view of fallout from the property sector, US restrictions on China’s chip exports as well as strict containment measures. The latter could be an upside should this be reversed. 3) Escalation of geopolitical tensions, which could result in potential energy rationing in Europe as well as spiralling commodity prices. 4) Exports of electronics and electrical goods still account for 38% of Malaysia’s exports and slower external demand has been reported in neighbouring countries. Worldwide chip sales growth has stalled recently, decreasing 3.4% m/m. Sales into Europe paced all regional markets, while sales into China saw the sharpest declines.

**Figure 4: Strong domestic demand and supported by external sector**



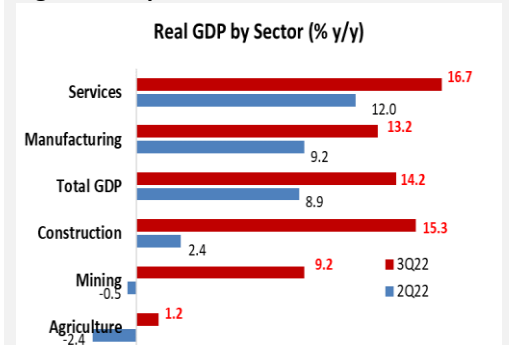
Source: DOSM, BNM

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



Source: DOSM, BNM

**Figure 6: Improvement in all sectors**



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	Jul	Aug	Sept
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	5.8	15.3	11.6
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	2.3	5.3			
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	38.0	48.2	30.1
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	41.9	67.6	33.0
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	15.5	16.9	31.7
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	12.5	13.6	10.8
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	14.9	15.2	10.4
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	7.1	7.5	5.4
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	3.7	3.7	3.6
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	20.6	16.0	13.3
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	37.5	34.5	30.0
Passenger car sales	-11.5	-0.1	-69.6	-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	106.3	-86.6	-90.5	-68.3	-25.5	9.8	2.8	-7.3	16.6	2.4	14.6	-5.3	4.1	2999.6	780.9	296.8	56.8
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	6.4	7.3	7.3
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	4.4	4.7	4.5
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	7.6	6.8	4.9

Source: BNM; DOSM; HLBB Global Markets Research

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