12 August 2022

ECONOMIC REVIEW | 2Q22 National Account

GDP Growth Jumped to +8.9%yoy in 2QCY22 Due to Robust Domestic Demand

- *GDP grew faster in 2QCY22. Malaysia's economy registered stronger growth of +8.9%yoy in 2QCY22 (1QCY22: +5%yoy), beating ours and market's expectations. On quarter-to-quarter basis, Malaysia's seasonally adjusted GDP grew by +3.5%qoq (1QCY22: +3.8%qoq), the third straight quarter of expansion since fourth quarter last year.*
- *Further economic reopening led to surge in consumer spending. Private consumption growth accelerated significantly to +18.3%yoy. Despite concerns over rising prices particularly food items, consumers continued to increase spending as they are no longer bound to strict SOPs. In addition to improvement in labour market and income prospects, higher spending was also backed by policy measure such as Bantuan Keluarga Malaysia, higher minimum wage, and the additional EPF withdrawals.*
- *Services sector gained the most from growing domestic demand. The pace of growth in the services sector nearly doubled at +12%yoy in 2QCY22 (1QCY22: +6.5%yoy) as the sector benefited the most from the continued expansion in domestic demand. Sub-sectors such as retail trade, F&B services, motor vehicles, accommodation, business services and transportation & services gained from increased consumer spending and business activities. Meanwhile, manufacturing sector grew faster as +9.2%yoy (1QCY22: +6.6%yoy), supported by sustained growth in external demand and more robust production of consumer products.*
- *We revise 2022 GDP growth forecast higher to 6.6%. Taking into account the stronger-than-expected growth in 2QCY22 which resulted in +6.9% expansion for 1HCY22, we revise our 2022 GDP growth projection higher to +6.6% from +6.0% previously. We expect the positive growth momentum to continue in 2HCY22, looking at the continued pick-up in consumer spending, improved business activities, and even sustained growth in the external demand.*

GDP grew faster in 2QCY22. Malaysia's economy registered stronger growth of +8.9%yoy in 2QCY22 (1QCY22: +5%yoy), beating ours and market's expectations. This was driven mainly by the continued pick-up in domestic economic activities following further reopening of the economy as well as international borders. Not only production activity improved for most sectors, robust consumer spending contributed to the stronger growth. While external trade also grew faster during the quarter, the trade surplus was smaller than 1QCY22 because higher commodity prices resulted in bigger imports. Compared to regional economies, Malaysia joins Indonesia and Singapore to record higher growth, better than the Philippines and other East Asian economies that saw stable or moderate growth in 2QCY22. On quarter-to-quarter basis, Malaysia's seasonally adjusted GDP grew by +3.5%qoq (1QCY22: +3.8%qoq), the third straight quarter of expansion since fourth quarter last year. Apart from relaxation of Covid-19 SOPs, we noticed the low base effect, particularly when the nationwide lockdown started from 1 June last year, also contributed to the higher-than-expected annual growth in 2QCY22.

Further economic reopening led to surge in consumer spending… On the demand side, private consumption growth accelerated significantly to +18.3%yoy, and contributed 10.1ppt or even larger than the overall +8.9%yoy growth in 2QCY22. In other words, the economy could have grown by +10% taking into

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account the surge in domestic consumption alone. Despite concerns over rising prices particularly food items, consumers continued to increase spending as they are no longer bound to strict SOPs, with traffic to business premises also improved because rules on social distancing, MySejahtera scanning and face-mask wearing in the public had been relaxed. In addition to improvement in labour market and income prospects, higher spending in 2QCY22 was also backed by policy measure such as disbursement of Bantuan Keluarga Malaysia, increase in minimum wage, and the additional EPF withdrawals. Investment activities also registered improvements, with investment from the private sector expanded further (+6.3%yoy) for the second straight quarter, driven by capital spending in the services and manufacturing sectors. Public sector investment also contributed positively to growth, with a rebound to +3.2%yoy which was the first growth since 2QCY21.

A larger drag from net exports. On the external front, real exports, which expanded by +10.4%yoy on the back of robust demand for E&E, petroleum and palm oil, also contributed positively (or +7.5%-point) to the 2QCY22 GDP growth. Of significance, we see significant improvement in services exports (+49.1%yoy), which could be linked to the increased activities in the tourism sector, benefiting from resumption of cross-border travels and therefore higher tourist arrivals. However, net exports were a larger drag to the economy because real imports increased at relatively faster pace (+14%yoy). Consequently, the size of trade surplus which was smaller than last year (-28.7%yoy) deducted a larger portion (or -1.7ppt) from 2QCY22 GDP.

Signs of turnaround in current account surplus. Malaysia's current account remained in surplus and increased to +RM4.4b in 2QCY22 from 9-year low +RM3.0b recorded in 1QCY22. In terms of percentage to GDP, the current account rose slightly to +1.0% (1QCY22: +0.7%). The modest improvement was due to smaller deficit ratio of services trade -2.8% of GDP (1QCY22: -3.5%). As domestic demand strengthens, higher imports growth pushed downward goods surplus ratio to more than 2-year low at +7.7% while primary and secondary income ratio stayed in deficit rates. Moving forward, we view Malaysia's current account surplus shall rebound firmly, to be driven by steady exports revenue derived from elevated global commodity prices and firm regional demand. In addition, reopening of international borders on 1st April 2022 will support the recovery in travel services in 2HCY22. As for 2QCY22, travel services registered the lowest deficit in 9 quarters at -RM0.5b, and we expect the travel segment to shift into surplus from 3QCY22 onwards.

Table 1: Summary of GDP by Expenditure Approach

	Quarterly Basis (QoQ %)				Yearly Basis (YoY %)			
	3Q21	4Q21	1Q22	2Q22	3Q21	4Q21	1Q22	2Q22
GDP	0.0	10.5	(3.0)	1.7	(4.5)	3.6	5.0	8.9
Private Consumption	10.5	5.0	2.6	(0.7)	(4.2)	3.7	5.5	18.3
Govt. Consumption	5.7	25.6	(21.4)	(1.7)	7.1	1.6	6.7	2.6
Private Investment	(11.9)	(12.7)	30.6	5.9	(4.9)	(2.8)	0.4	6.3
Govt. Investment	5.3	81.4	(39.1)	(11.3)	(28.9)	(3.4)	(0.9)	3.2
Domestic Demand	0.5	9.0	(0.0)	1.7	(1.1)	3.8	6.8	11.4
Real Exports	(5.4)	12.1	(1.5)	5.7	4.2	13.0	8.0	10.4
Real Imports	(5.1)	10.0	3.1	5.9	11.4	14.5	11.1	14.0
Net Exports	(7.8)	35.7	(44.0)	1.9	(39.9)	0.8	(26.5)	(28.7)

Note: QoQ is non-seasonally adjusted
Source: CEIC, MIDFR

Services sector gained the most from growing domestic demand. On the supply side, the pace of growth in the services sector, which accounted for more than half of the economy, nearly doubled in 2QCY22 (+12%yoy; 1QCY22: +6.5%yoy). This shows services sector benefited the most from the continued recovery in domestic demand. Roughly 3 quarters (or 75.7%) of 2QCY22 GDP growth was from the expansion in services sector, which added +6.8ppt to the +8.9%yoy growth. Sub-sectors such as retail trade, F&B services, motor vehicles, accommodation, business services and transportation & services all gained from increased consumer spending and business activities. Meanwhile, manufacturing sector grew faster as +9.2%yoy (1QCY22: +6.6%yoy), supported by sustained growth in E&E sub-sector on strong external demand for semiconductors and parts and more robust production of consumer products such as motor vehicles, F&B, tobacco and leather products. In addition, construction activities, particularly in non-residential sector and special trades, also increased in 2QCY22. Increasing activities finally pushed construction sector's growth back to positives (+2.4%yoy) after 3 consecutive quarters of contraction.

Negative growth for agriculture and mining sectors. Agriculture sector's growth, on the other hand, slowed further and contracted by -2.4%yoy in 2QCY22 (1QCY22: +0.1%yoy), constrained by weak output in the plantation sector due to labour shortages. Other agriculture products and livestock sub-sectors were also impacted by the high production costs. Mining sector continued to contract by -0.5%yoy (1QCY22: -1.1%yoy, albeit at slower pace. It marks the fourth straight quarter of decline because oil & gas production was negatively impacted by the closure of facilities for maintenance. Nevertheless, higher production in Pegaga gas field in offshore East Malaysia and other fields contributed to the smaller fall during the quarter.

Table 2: Summary of GDP by Supply-Side Approach

	QoQ%			YoY%		
	4Q21	1Q22	2Q22	4Q21	1Q22	2Q22
GDP	**10.5**	**(3.0)**	**1.7**	**3.6**	**5.0**	**8.9**
Agriculture, Forestry & Fishing	**(9.1)**	**(9.3)**	**4.0**	**2.8**	**0.1**	**(2.4)**
Rubber	(12.3)	(13.6)	(22.1)	(18.9)	(23.0)	(16.9)
Oil Palm	(1.7)	(21.1)	10.1	4.8	3.9	(3.9)
Livestock	(1.3)	(4.8)	(2.4)	0.2	1.4	(1.2)
Other Agriculture	(19.2)	4.2	4.7	5.4	(3.0)	(1.5)
Forestry & Logging	(9.9)	(15.8)	5.8	4.1	(5.2)	(8.1)
Marine Fishing	(22.4)	8.1	(13.9)	(3.0)	2.5	(0.1)
Aquaculture	(1.0)	(21.8)	24.4	3.4	5.7	9.3
Mining & Quarrying	**12.1**	**0.8**	**(2.2)**	**(0.6)**	**(1.1)**	**(0.5)**
Crude Oil	4.8	0.1	2.3	(6.5)	(7.4)	(2.8)
Natural Gas	15.2	4.0	(2.7)	3.4	3.3	0.4
Others	25.8	(12.7)	(17.9)	2.0	0.6	5.3
Manufacturing	**12.2**	**(5.1)**	**2.3**	**9.1**	**6.6**	**9.2**
Vegetable & Animal Oils & Fats	8.9	(27.8)	21.7	8.4	0.2	(8.8)
Food Processing	(7.9)	(4.9)	15.3	12.1	7.4	9.7
Beverages	17.0	(11.8)	23.2	11.6	7.3	21.4
Tobacco Products	341.3	(5.4)	18.7	6.3	3.9	41.4
Textile & Wearing Apparel	16.2	(3.5)	(12.4)	4.8	5.3	4.3
Leather Products	25.0	50.7	25.2	3.4	2.3	20.9

	QoQ%			YoY%		
	4Q21	1Q22	2Q22	4Q21	1Q22	2Q22
Wood Products	23.5	(1.4)	(8.9)	9.1	9.2	11.3
Paper Products	(9.6)	10.7	0.6	16.5	8.2	8.4
Printing	43.0	4.1	(21.7)	1.1	1.4	11.5
Refined Petroleum Products	(0.3)	(6.9)	2.2	9.5	2.4	2.8
Chemicals & Chemical Products	6.4	(8.2)	(7.0)	10.8	2.0	4.7
Rubber Products	(14.1)	(30.5)	43.1	(11.4)	(22.1)	(22.4)
Plastic Products	(20.4)	(4.0)	(3.7)	7.4	5.2	4.1
Non-Metallic Mineral Products	24.5	(1.5)	(7.0)	2.0	5.9	13.4
Basic Metals	15.9	(16.1)	11.3	5.9	6.8	9.4
Fabricated Metal Products	18.7	4.6	(4.1)	8.7	4.2	8.8
Machinery & Equipment	(2.6)	37.5	(22.4)	15.7	6.6	6.0
Computers & Peripheral Equipment	7.2	(6.1)	4.1	10.0	9.2	8.7
Electrical Equipment	31.6	(3.9)	19.6	14.3	14.5	7.0
Electronic Compo & Boards, Com Equip and Elect	13.3	7.6	(7.1)	17.7	17.9	19.3
Medical, Precision & Optical, Watches & Clocks	21.8	(36.1)	48.0	12.2	7.4	7.5
Motor Vehicles & Transport Equipment	80.6	(27.8)	32.8	1.7	2.1	21.0
Furniture	48.0	28.8	(5.8)	(5.2)	5.9	16.0
Other Mfg and Repair & Installation and Equipment	18.8	(25.2)	0.0	3.9	3.6	12.1
Construction	**6.5**	**2.7**	**0.1**	**(12.3)**	**(6.2)**	**2.4**
Residential	9.1	7.3	(8.7)	(24.4)	(15.3)	2.7
Non-Residential	34.1	(10.2)	10.8	(12.1)	0.9	10.0
Civil Engineering	(13.6)	13.7	(4.2)	(18.8)	(16.1)	(8.2)
Special Trades	6.1	1.3	2.5	9.2	10.4	6.9
Services	**12.2**	**(2.0)**	**1.6**	**3.2**	**6.5**	**12.0**
Electricity & Gas	10.0	1.4	(5.3)	4.4	3.7	5.5
Water, Sewerage and Waste Management	2.2	(2.7)	(1.9)	6.2	2.4	0.0
Wholesale Trade	6.9	(12.4)	4.4	0.0	1.3	5.5
Retail Trade	20.6	(4.0)	7.0	2.1	5.4	21.6
Motor Vehicles	132.5	(13.7)	0.1	3.5	8.8	66.3
Food & Beverage	15.2	12.7	0.5	0.1	16.8	24.5
Accommodation	169.2	11.4	4.8	47.8	86.0	139.0
Transportation & Storage	23.1	9.0	2.3	11.8	25.8	35.8
ICT	0.4	2.3	0.7	6.8	6.3	5.9
Finance	2.4	(0.8)	2.9	1.2	(2.1)	0.3
Insurance	9.5	(0.3)	(17.2)	11.4	2.0	(6.5)
Real Estate	1.2	31.1	1.0	(13.6)	13.3	34.7
Business Services	13.4	8.5	5.9	(3.7)	7.8	16.7
Private Health	3.6	0.1	0.4	9.9	15.6	6.4
Private Education	1.3	0.1	2.7	(2.9)	3.6	5.9
Other Services	14.3	2.9	0.0	0.1	6.1	9.5
Govt. Services	10.3	(9.7)	0.2	5.3	5.7	5.4
Import Duties	**29.9**	**(9.1)**	**10.0**	**(4.5)**	**(1.8)**	**5.6**

Note: QoQ is non-seasonally adjusted
Source: CEIC, MIDFR

Growth in some economies moderated in 2QCY22. Despite improved growth in 1QCY22 following economic reopening and relaxation of Covid-19 restrictions, GDP growth in some economies moderated in 2QCY22. For countries like the US and European countries, the moderation can be explained by the effect of high inflation as well as tightening of monetary policy. The US economy recorded slower growth of +1.6%yoy, the weakest growth in 5 quarters. The aggressive hikes in borrowing costs, reduced consumption of durable goods and slower build-up in inventories brought the US economy into technical recession, with the 2QCY22 GDP contracting for the second straight quarter by -0.9%qoq on annualized basis. In China, the sharp moderation of GDP growth to +0.4%yoy was mainly due to weaker consumer spending, constrained by the Covid-19 lockdowns imposed during the quarter. Other Asian economies like South Korea and Taiwan, the stable GDP growth was mainly supported by growth in private and government spending, although there is concern the disruption in global supply chain affected external trade performance. In ASEAN, growth strengthened in Singapore and Indonesia following further pick-up in domestic spending; but, slower expansion in consumer spending on the back of high inflation resulted in moderate GDP growth in the Philippines.

Table 3: GDP Growth by Selected Economies (YoY%)

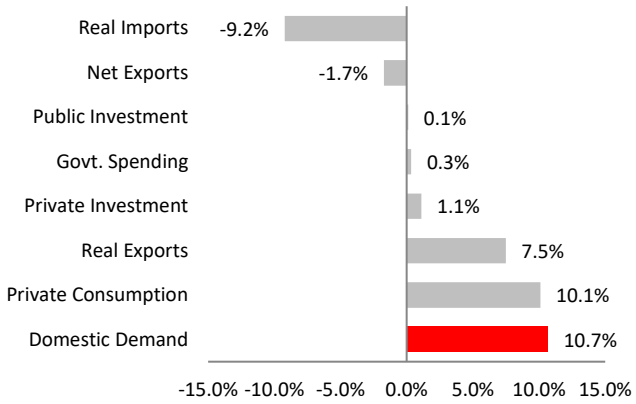
	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
Malaysia	(3.3)	(0.5)	15.9	(4.5)	3.6	5.0	8.9
Indonesia	(2.2)	(0.7)	7.1	3.5	5.0	5.0	5.4
Philippines	(8.2)	(3.8)	12.1	7.0	7.8	8.2	7.4
Thailand	(4.2)	(2.4)	7.7	(0.2)	1.8	2.2	n.a.
Singapore	(0.9)	2.0	15.8	7.5	6.1	3.8	4.4
China	6.4	18.3	7.9	4.9	4.0	4.8	0.4
Taiwan	4.9	8.2	7.5	3.8	4.9	3.1	3.1
South Korea	(0.9)	2.2	6.3	4.0	4.2	3.0	2.9
Japan	(0.8)	(1.7)	7.3	1.2	0.4	0.4	n.a.
UK	(6.3)	(5.0)	24.5	6.9	6.6	8.7	n.a.
Euro area	(4.3)	(0.9)	14.6	3.9	4.8	5.4	4.0
USA	(2.3)	0.5	12.2	4.9	5.5	3.5	1.6
QoQ%, annualized	*4.5*	*6.3*	*6.7*	*2.3*	*6.9*	*(1.6)*	*(0.9)*

n.a. = not yet available
Source: CEIC, MIDFR

We revise 2022 GDP growth forecast higher to 6.6%. Taking into account the stronger-than-expected growth in 2QCY22 which resulted in +6.9% expansion for 1HCY22, we revise our 2022 GDP growth projection higher to +6.6% from +6.0% previously. We foresee the positive growth momentum to continue in 2HCY22, looking at the continued pick-up in consumer spending, improved business activities, and even sustained growth in the external demand. Further improvement in the labour market and better employment prospects will help to support consumption expenditures, although consumers are more cautious in their financial and spending plans in response to the rise in cost of living. Recent MIER survey highlighted this was among key concerns which affected consumer sentiment recently. Nevertheless, we believe the positive effect from further economic reopening and the transition towards endemic phase will support for stronger growth this year, especially normalization in the domestic economy. But, we remain wary of the possible downward risks mostly from external developments such weak recovery in China's economy, risk of recession and sharper slowdown in the US (and the global economy),

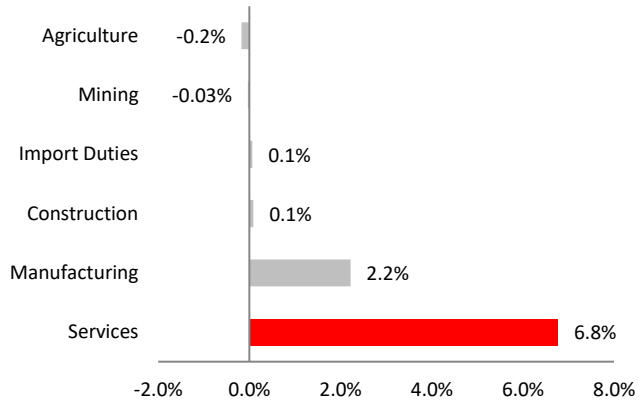
the ongoing war in Ukraine, escalation of geopolitical tensions, and high inflationary pressures globally from elevated commodity prices.

Chart 1: Contribution by Expenditure Components to 2Q22 GDP Growth (%-point)



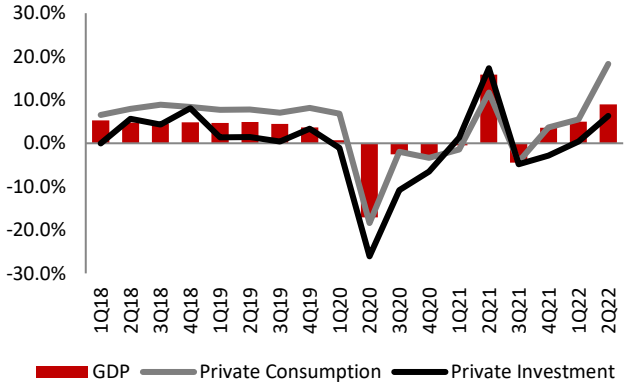
Source: CEIC, MIDFR

Chart 2: Contribution by Supply-Side Components to 2Q22 GDP Growth (%-point)



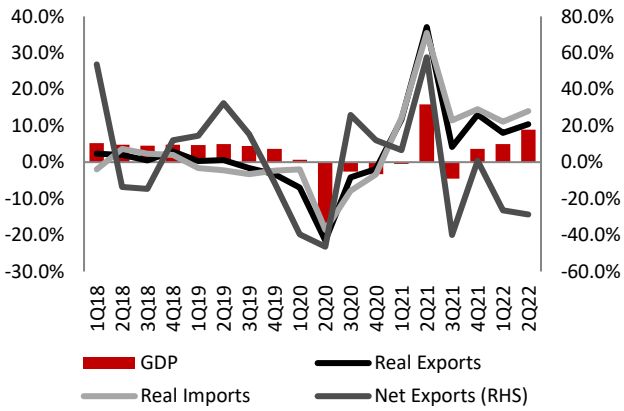
Source: CEIC, MIDFR

Chart 3: GDP vs Private Sector (YoY%)



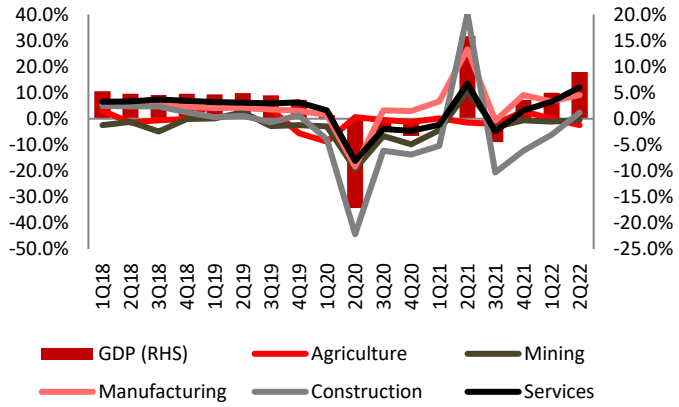
Source: CEIC, MIDFR

Chart 4: GDP vs External Trade (YoY%)



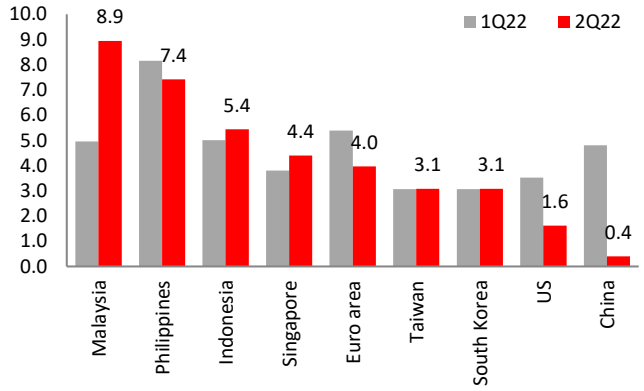
Source: CEIC, MIDFR

Chart 5: GDP by Supply-Side (YoY%)



Source: CEIC, MIDFR

Chart 6: GDP Growth for Selected Countries (YoY%)



Source: CEIC, MIDFR

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