11 November 2022

**ECONOMIC REVIEW | 3Q22 National Account**

# Malaysia's GDP Growth Surged to +14.2%yoy in 3QCY22 as Domestic Demand Strengthened Further

- *Stronger-than-expected GDP growth in 3QCY22. Malaysia's economic growth in 3QCY22 was stronger than expected as real GDP surged by +14.2%yoy (2QCY22: +8.9%yoy), higher than our estimate and market consensus, +12.5%yoy. The robust growth indicates growth momentum picked up further as Covid-19 restrictions had generally been uplifted, international borders reopening, growing domestic spending and continued expansion in external sector.*
- *Signs of turnaround in current account surplus. Malaysia's current account remained in surplus and increased to three-quarter high at RM14.1b in 3QCY22. In terms of percentage to GDP, the current account rose to +3.1% (2QCY22: +1%). The steady improvement was due to smaller deficit ratio of services trade -2.1% of GDP (2QCY22: -2.8%), thanks to international borders reopening in Apr-22.*
- *We upgrade 2022 GDP growth forecast to +8%. Considering the stronger-than-expected growth in 3QCY22, we adjust our 2022 GDP growth projection higher to +8% from +6.6% previously. Even with 0%qoq in the next quarter, the 2022 GDP growth would be at least +7.7%. Continued improvement in income and positive labour market condition will continue to support consumption activity in the final quarter of 2022 and going into 2023.*

**Stronger-than-expected GDP growth in 3QCY22.** Malaysia's economic growth in 3QCY22 was stronger than expected as real GDP surged by +14.2%yoy (2QCY22: +8.9%yoy), higher than our estimate and market consensus, +12.5%yoy. The robust growth indicates growth momentum picked up further as Covid-19 restrictions had generally been uplifted, international borders reopening, growing domestic spending and continued expansion in external sector. Tourism sector activity also started to recover with the return of foreign tourists following international-border reopening and greater domestic tourism activities. Trade surplus recorded at RM22.1b in 3QCY22, the widest in three quarters among others supported by elevated commodity prices. On quarter-to-quarter basis, Malaysia's seasonally adjusted GDP grew by +1.9%qoq (2QCY22: +3.5%qoq), the four-straight quarter of expansion since fourth quarter last year. Looking at 4QCY22, we expect the GDP growth to normalize at single-digit rate range following fading low-base effects.

**Consumer spending strengthened further.** On the demand side, private consumption growth remained strong and sustained at +15.1%yoy, contributing +9.2ppt to the 3QCY22 GDP growth. Despite of higher inflationary pressure in 3QCY22, further decline of unemployment rate to 3.7% (2QCY22: 3.9%) supported the robust consumer spending and overall private consumption performances. Meanwhile, investment activities also picked up as companies increase production to cope with growing demand, translating into stronger private sector investment (+13.2%yoy) with increased capital spending in the commodity-based, manufacturing and services sectors. Public sector investment also contributed positively to growth, expanding by +13.1%yoy following improved progress in several infrastructure projects.

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**...and net exports contributed positively.** On the external front, real exports, which rose +23.9%yoy on the back of robust demand for E&E, petroleum and palm oil, also contributed positively (+16.3ppt) to the 3QCY22 GDP growth. Of significance, we see significant improvement in services exports (+77%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. With strong exports growth, net exports were a larger at RM22.1b and grew by +18.7%yoy after two-consecutive quarters of negative growth. On a flip side, real imports growth surged by five-quarter high at +24.4%yoy, in line with the improving domestic economic activities.

**Signs of turnaround in current account surplus.** Malaysia's current account remained in surplus and increased to three-quarter high at RM14.1b in 3QCY22. In terms of percentage to GDP, the current account rose to +3.1% (2QCY22: +1%). The steady improvement was due to smaller deficit ratio of services trade -2.1% of GDP (2QCY22: -2.8%), thanks to international borders reopening in Apr-22. We foresee services trade to improve further especially driven by the reopening of Japan's borders in Oct-22 and possibly China in 2QCY23. As global demand and elevated commodity prices stayed on, goods trade to GDP ratio rose to +9.4% (2QCY22: +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, firm regional demand and steady recovery in services trade primarily tourism activities.

**Table 1: Summary of GDP by Expenditure Approach**

| | Quarterly Basis (QoQ %) | | | | Yearly Basis (YoY %) | | | |
|---|---|---|---|---|---|---|---|---|
| | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q21 | 1Q22 | 2Q22 | 3Q22 |
| GDP | 10.5 | (3.0) | 1.7 | 4.8 | 3.6 | 5.0 | 8.9 | 14.2 |
| Domestic Demand | 9.0 | (0.0) | 1.7 | 2.8 | 3.8 | 6.8 | 11.4 | 13.9 |
| Private Consumption | 5.0 | 2.6 | (0.7) | 7.4 | 3.7 | 5.5 | 18.3 | 15.1 |
| Govt. Consumption | 25.6 | (21.4) | (1.7) | 7.6 | 1.6 | 6.7 | 2.6 | 4.5 |
| Private Investment | (12.7) | 30.6 | 5.9 | (6.2) | (2.8) | 0.4 | 6.3 | 13.2 |
| Public Investment | 81.4 | (39.1) | (11.3) | 15.4 | (3.4) | (0.9) | 3.2 | 13.1 |
| Real Exports | 12.1 | (1.5) | 5.7 | 6.2 | 13.0 | 8.0 | 10.4 | 23.9 |
| Real Imports | 10.0 | 3.1 | 5.9 | 3.5 | 14.5 | 11.1 | 14.0 | 24.4 |
| Net Exports | 35.7 | (44.0) | 1.9 | 53.4 | 0.8 | (26.5) | (28.7) | 18.7 |

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

**Services sector gained the most from growing domestic demand.** On the supply side, business activities in the services sector continued to grow faster by +16.7%yoy (2QCY22: +12%yoy). Demand for services expanded amid continued pick-up in consumption spending, supporting growth in accommodation, F&B services, wholesale & retail trade as well as healthcare and education. About 57.9% of the economy contributed by services sector alone, contributing +9.5ppt to the +14.2%yoy growth. Other sectors like manufacturing, construction, agriculture and mining also recorded stronger growth in 3QCY22. Manufacturing benefited from continued export demand for E&E, petroleum products and palm oil & palm oil products. In addition, construction activities, particularly in non-residential sector and special trades, also increased in 3QCY22. Despite supply chain constraints, construction sector continued to grow +15.3%yoy, the fastest pace in a year. In line with our

expectation, mining sector output rebounded to positive growth following resumption of oil & gas production at Sabah waters.

**Table 2: Summary of GDP by Supply-Side Approach**

| | QoQ% | | | YoY% | | |
|---|---|---|---|---|---|---|
| | 1Q22 | 2Q22 | 3Q22 | 1Q22 | 2Q22 | 3Q22 |
| **GDP** | **(3.0)** | **1.7** | **4.8** | **5.0** | **8.9** | **14.2** |
| **Agriculture, Forestry & Fishing** | **(9.3)** | **4.0** | **18.0** | **0.1** | **(2.4)** | **1.2** |
| Rubber | (13.6) | (22.5) | 42.4 | (23.0) | (17.3) | (16.4) |
| Oil Palm | (21.1) | 10.1 | 23.0 | 3.9 | (3.9) | 5.1 |
| Livestock | (4.8) | (2.9) | 12.3 | 1.4 | (1.7) | 2.5 |
| Other Agriculture | 4.2 | 4.7 | 9.3 | (3.0) | (1.5) | (3.7) |
| Forestry & Logging | (15.8) | 8.6 | 22.0 | (5.2) | (5.6) | 0.5 |
| Marine Fishing | 8.1 | (14.0) | 36.9 | 2.5 | (0.2) | (1.4) |
| Aquaculture | (21.8) | 24.4 | 18.5 | 5.7 | 9.3 | 14.0 |
| **Mining & Quarrying** | **0.8** | **(2.2)** | **(1.2)** | **(1.1)** | **(0.5)** | **9.2** |
| Crude Oil | 0.1 | 2.3 | (4.4) | (7.4) | (2.8) | 2.5 |
| Natural Gas | 4.0 | (2.7) | (2.6) | 3.3 | 0.4 | 13.6 |
| Others | (12.7) | (17.9) | 25.8 | 0.6 | 5.3 | 13.5 |
| **Manufacturing** | **(5.1)** | **2.3** | **3.9** | **6.6** | **9.2** | **13.2** |
| Vegetable & Animal Oils & Fats | (27.8) | 21.1 | 4.7 | 0.2 | (9.1) | (0.3) |
| Food Processing | (4.9) | 15.3 | 7.1 | 7.4 | 9.7 | 8.3 |
| Beverages | (11.8) | 23.2 | (3.7) | 7.3 | 21.4 | 22.4 |
| Tobacco Products | (5.4) | 18.7 | (39.1) | 3.9 | 41.4 | 201.4 |
| Textile & Wearing Apparel | (3.5) | (12.4) | 7.8 | 5.3 | 4.3 | 5.8 |
| Leather Products | 50.7 | 25.2 | (23.7) | 2.3 | 20.9 | 80.0 |
| Wood Products | (1.4) | (8.9) | 6.7 | 9.2 | 11.3 | 18.4 |
| Paper Products | 10.7 | 0.6 | 10.9 | 8.2 | 8.4 | 11.7 |
| Printing | 4.1 | (21.7) | (7.1) | 1.4 | 11.5 | 8.4 |
| Refined Petroleum Products | (6.9) | 2.2 | 16.5 | 2.4 | 2.8 | 10.5 |
| Chemicals & Chemical Products | (8.2) | (7.0) | 14.3 | 2.0 | 4.7 | 3.7 |
| Rubber Products | (30.5) | 43.1 | 2.0 | (22.1) | (22.4) | (12.9) |
| Plastic Products | (4.0) | (3.7) | 42.9 | 5.2 | 4.1 | 5.2 |
| Non-Metallic Mineral Products | (1.5) | (7.0) | 4.0 | 5.9 | 13.4 | 18.6 |
| Basic Metals | (16.1) | 11.3 | 0.9 | 6.8 | 9.4 | 9.1 |
| Fabricated Metal Products | 4.6 | (4.1) | (5.7) | 4.2 | 8.8 | 12.3 |
| Machinery & Equipment | 37.5 | (22.4) | 6.6 | 6.6 | 6.0 | 10.8 |
| Computers & Peripheral Equipment | (6.1) | 4.1 | 4.8 | 9.2 | 8.7 | 9.8 |
| Electrical Equipment | (3.9) | 19.6 | (25.0) | 14.5 | 7.0 | 13.5 |
| Electronic Compo & Boards, Com Equip and Elect | 7.6 | (7.1) | 5.2 | 17.9 | 19.3 | 19.1 |
| Medical, Precision & Optical, Watches & Clocks | (36.1) | 48.0 | 3.4 | 7.4 | 7.5 | 19.0 |
| Motor Vehicles & Transport Equipment | (27.8) | 33.0 | (18.4) | 2.1 | 21.2 | 41.5 |
| Furniture | 28.8 | (5.8) | (27.4) | 5.9 | 16.0 | 30.4 |
| Other Mfg and Repair & Installation and Equipment | (25.2) | 0.0 | 32.8 | 3.6 | 12.1 | 17.9 |
| **Construction** | **2.7** | **0.1** | **5.4** | **(6.2)** | **2.4** | **15.3** |
| Residential | 7.3 | (8.7) | 2.6 | (15.3) | 2.7 | 9.7 |

| | QoQ% | | | YoY% | | |
|---|---|---|---|---|---|---|
| | 1Q22 | 2Q22 | 3Q22 | 1Q22 | 2Q22 | 3Q22 |
| Non-Residential | (10.2) | 10.8 | (2.2) | 0.9 | 10.0 | 30.5 |
| Civil Engineering | 13.7 | (4.2) | 17.1 | (16.1) | (8.2) | 10.1 |
| Special Trades | 1.3 | 2.5 | 3.2 | 10.4 | 6.9 | 13.7 |
| **Services** | **(2.0)** | **1.6** | **4.5** | **6.5** | **12.0** | **16.7** |
| Electricity & Gas | 1.4 | (5.3) | 3.0 | 3.7 | 5.5 | 8.7 |
| Water, Sewerage and Waste Management | (2.7) | (1.9) | 7.4 | 2.4 | 0.0 | 4.7 |
| Wholesale Trade | (12.4) | 4.4 | 9.8 | 1.3 | 5.5 | 7.3 |
| Retail Trade | (4.0) | 7.0 | 3.3 | 5.4 | 21.6 | 28.0 |
| Motor Vehicles | (13.7) | 0.1 | 20.6 | 8.8 | 66.3 | 142.2 |
| Food & Beverage | 12.7 | 0.5 | 0.4 | 16.8 | 24.5 | 31.0 |
| Accommodation | 11.4 | 4.8 | 25.6 | 86.0 | 139.0 | 295.0 |
| Transportation & Storage | 9.0 | 2.3 | 3.0 | 25.8 | 35.8 | 41.4 |
| ICT | 2.3 | 0.7 | 1.1 | 6.3 | 5.9 | 4.5 |
| Finance | (0.8) | 2.9 | 3.4 | (2.1) | 0.3 | 8.2 |
| Insurance | (0.3) | (17.2) | 4.2 | 2.0 | (6.5) | (5.9) |
| Real Estate | 31.1 | 1.0 | 0.5 | 13.3 | 34.7 | 34.6 |
| Business Services | 8.5 | 5.9 | 3.8 | 7.8 | 16.7 | 35.4 |
| Private Health | 0.1 | 0.4 | 2.4 | 15.6 | 6.4 | 6.6 |
| Private Education | 0.1 | 2.7 | 4.6 | 3.6 | 5.9 | 8.9 |
| Other Services | 2.9 | 0.0 | 1.3 | 6.1 | 9.5 | 19.2 |
| Govt. Services | (9.7) | 0.2 | 4.2 | 5.7 | 5.4 | 4.0 |
| **Import Duties** | **(9.1)** | **10.0** | **(2.0)** | **(1.8)** | **5.6** | **27.4** |

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

**Economies registered sustained or stronger growth in 3QCY22.** Following reopening of economies, growth for in many countries mostly picked up as the relaxation of restrictions allowed more activities to recover. Even after the aggressive hikes by the Fed, US economy is still resilient with growth rebounding to +2.6%qoq on annualized basis, sustaining annual growth at +1.8%yoy, in 3Q after 2 quarters of declines. However, the improvement mainly reflects positive contribution from smaller trade deficits, while consumer spending grew at slower pace. China's economy also jumped to +3.9%yoy in 3Q despite the concern over sluggish growth outlook as the government continued to adopt strict Covid-19 policy. At least, the stronger growth indicates improving growth outlook after the country's growth was impacted by lockdown in the earlier quarter. Euro area, on the other hand, experienced slower growth of +2.1%yoy amid rising inflation and risk of energy crisis. Although Taiwan and South Korea starting to see signs of slowing external demand with the slower growth in exports, both economies also reported stronger growth in 3Q backed by growing private consumption. In ASEAN, like Malaysia, GDP growth also strengthened in Indonesia and Philippines amid resilience in consumer spending and pick-up in investment; while Singapore's growth was more or less sustained at around +4.4%yoy as slowdown in manufacturing sector was offset by stronger activities in services and construction industries.

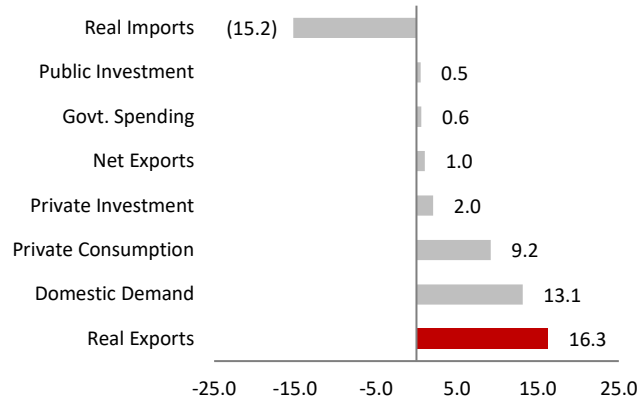
**Table 3: GDP Growth by Selected Economies (YoY%)**

| | 1Q21 | 2Q21 | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22 |
|---|---|---|---|---|---|---|---|
| Malaysia | (0.5) | 15.9 | (4.5) | 3.6 | 5.0 | 8.9 | 14.2 |
| Indonesia | (0.7) | 7.1 | 3.5 | 5.0 | 5.0 | 5.4 | 5.7 |
| Philippines | (3.8) | 12.1 | 7.0 | 7.8 | 8.2 | 7.5 | 7.6 |
| Thailand | (2.4) | 7.7 | (0.2) | 1.8 | 2.3 | 2.5 | n.a. |
| Singapore | 2.0 | 15.8 | 7.5 | 6.1 | 3.9 | 4.5 | 4.4 |
| China | 18.3 | 7.9 | 4.9 | 4.0 | 4.8 | 0.4 | 3.9 |
| Taiwan | 9.2 | 7.8 | 4.4 | 5.3 | 3.7 | 3.0 | 4.1 |
| South Korea | 2.2 | 6.2 | 4.0 | 4.2 | 3.0 | 2.9 | 3.1 |
| Japan | (1.7) | 7.3 | 1.2 | 0.5 | 0.6 | 1.6 | n.a. |
| UK | (7.8) | 24.3 | 8.5 | 8.9 | 10.9 | 4.4 | n.a. |
| Euro area | (0.8) | 14.2 | 3.9 | 4.8 | 5.5 | 4.3 | 2.1 |
| USA | 1.2 | 12.5 | 5.0 | 5.7 | 3.7 | 1.8 | 1.8 |
| *QoQ%, annualized* | *6.3* | *7.0* | *2.7* | *7.0* | *(1.6)* | *(0.6)* | *2.6* |

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

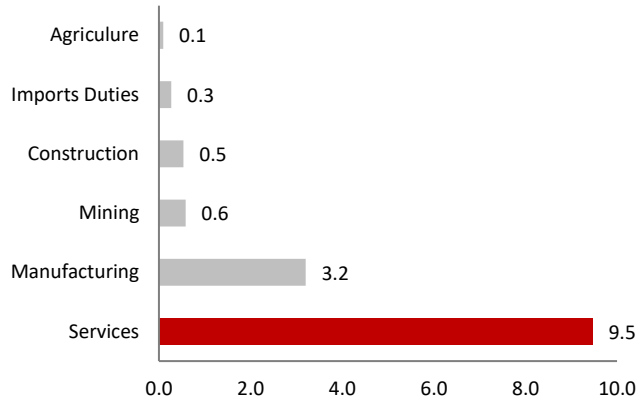
**We upgrade 2022 GDP growth forecast to +8%.** Considering the stronger-than-expected growth in 3QCY22, we adjust our 2022 GDP growth projection higher to +8% from +6.6% previously. Even with 0%qoq in the next quarter, the 2022 GDP growth would be at least +7.7%. Continued improvement in income and positive labour market condition will continue to support consumption activity in the final quarter of 2022 and going into 2023. However, we keep a cautiously optimistic view that Malaysia's economic growth will be supported by growing activities in the domestic economy, but the outlook may be impacted by uncertainties from external front. New orders and export orders contributed to the deterioration in manufacturing PMI, indicating signs of slowing demand. Moreover, external demand could slow in the event of global slowdown as final demand is expected to be constrained by sharp rise in borrowing costs following policy tightening by major central banks. As for domestic front, the outcome of GE15 will determine the magnitude of political risk to Malaysian economy. In the event of a prolong hung parliament, this may pose economic risk particularly on government expenditure, upcoming Budget 2023 and implementation of public policies.

**Chart 1: Contribution by Expenditure Components to 3Q22 GDP Growth (%-point)**



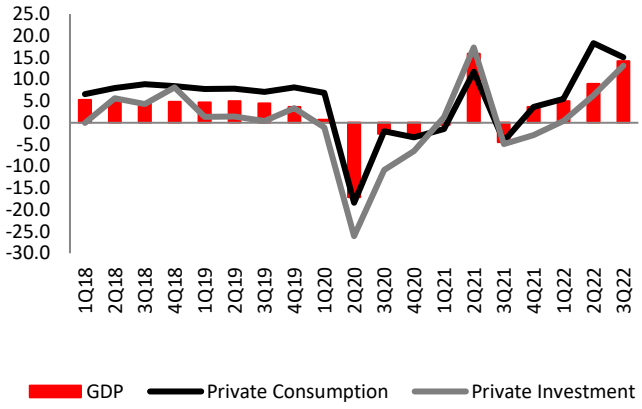

Source: Macrobond, MIDFR

**Chart 2: Contribution by Supply-Side Components to 3Q22 GDP Growth (%-point)**



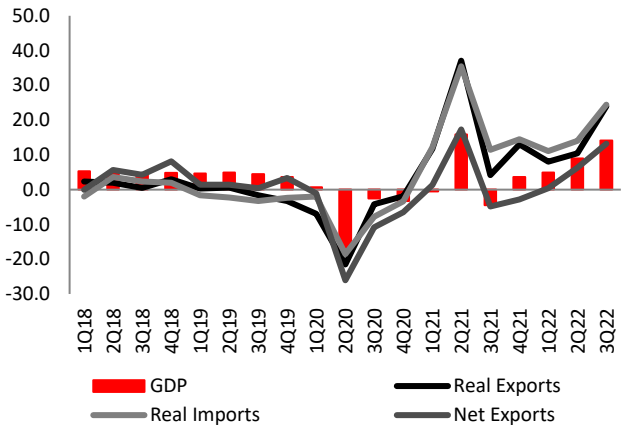

Source: Macrobond, MIDFR

**Chart 3: GDP vs Private Sector (YoY%)**



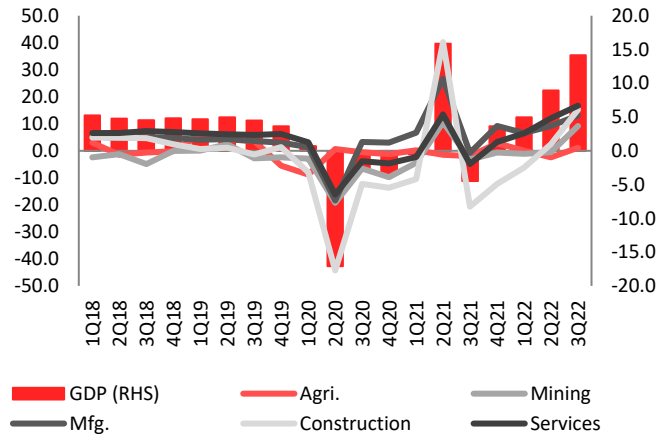

Source: Macrobond, MIDFR

**Chart 4: GDP vs External Trade (YoY%)**



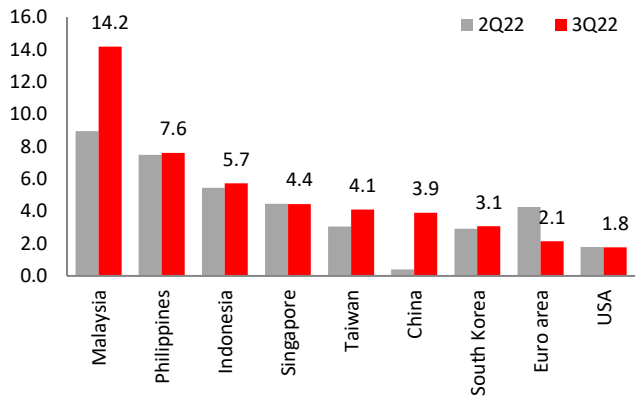

Source: Macrobond, MIDFR

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




Source: Macrobond, MIDFR

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




Source: Macrobond, MIDFR

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