10 February 2023

ECONOMIC REVIEW | 4Q22 National Account

Malaysia's GDP Growth Eased to +7%yoy in 4QCY22, Still Anchored by Rising Domestic Demand

- *GDP growth moderated to +7%yoy in 4QCY22. Malaysia's economic growth moderated in 4QCY22 as GDP grew slower at +7%yoy (3QCY22: +14.2%yoy). The 4Q growth met market expectation, but better than our estimate because of the strength in domestic demand and higher contribution from net exports.*
- *Current account surplus at more than 2-year high. Malaysia's current account remained in surplus and increased to nine-quarter high at RM25.7b in 4QCY22. In terms of percentage to GDP, the current account rose to +5.5% (3QCY22: +3.1%).*
- *2023 GDP growth forecast at +4.2%. Considering external headwinds and tightening monetary policy in many economies, we foresee Malaysia's GDP growth to moderate to +4.2% in 2023. The softer growth is mainly due to deceleration in external trade performance, taking into account anticipated slowdown in global demand.*

GDP growth moderated to +7%yoy in 4QCY22. Malaysia's economic growth moderated in 4QCY22 as GDP grew slower at +7%yoy (3QCY22: +14.2%yoy). The 4Q growth met consensus expectation, but better than our estimate because of the strength in domestic demand and higher contribution from net exports. It seems domestic real spending looks robust despite concern over rising cost of living, and the moderation in real exports was rather less than we anticipate, underpinned by strong demand for E&E products and strong growth in services exports on the back of tourism sector recovery. On quarter-to-quarter basis, Malaysia's GDP contracted by -2.6%qoq (3QCY22: +1.9%qoq) after adjusting to seasonal difference, dragged down by reduced spending by both in private and public sectors; and, from supply side, lower production in most major economic sectors except agriculture.

Growth surged to 8.7% last year. For the whole 2022, Malaysia's GDP growth surged to +8.7% (2021: +3.7%). As the economy transitioned into the endemic phase, the relaxation of Covid-19 movement control basically allowed consumer mobility, consumer spending and even business activities to normalize. The pent-up demand led to strong consumer spending as reflected in the double-digit growth in retail trade. Taking into account the stronger growth in private consumption (2022: +11.3%; 2021: +1.9%) and rebound in investment activity (with growth in public sector investment turned positive for the first time in 5 years and stronger expansion in private investment), the full-year growth last was primarily driven and contributed by the strong recovery in domestic demand, which contributed +8.9ppt to 2022 GDP growth. Net exports contributed -0.1ppt to GDP growth last year, as the robust growth in domestic demand resulted in a strong surge in real imports (+14.2%), faster than real exports growth (+12.8%). To a certain extent, the low base effect from the nationwide lockdown in 2021 also boosted GDP growth last year, which explains the above-trend growth from 2QCY22 to 4QCY22.

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Private consumption continued to expand... On the demand side, private consumption growth remained positive albeit moderated to +5.8%yoy, contributing approximately 62% or +4.3ppt to the 4QCY22 GDP growth. This shows domestic spending continued to grow despite the elevated inflationary pressure, but backed by continued improvement in labour market as unemployment rate to dropped to pandemic low of 3.6%. Meanwhile, investment activities as the level of business activities remained above a year ago, translating into sustained growth in private sector investment (4QCY22: +10.3%yoy; 3QCY22: 13.2%yoy) with higher capital spending recorded in all sectors. Although the pace of growth slowed to +6%yoy, public sector investment also increased underpinned by increased capital spending by public sector companies.

...and net exports still contributed positively. On the external front, real exports growth eased to +9.6%yoy but continued to grow following robust demand for E&E and refined petroleum. In particular, services exports sustained strong double-digit growth of +81.4%yoy (3QCY22: +77%yoy), gaining from the continued recovery in tourism sector with the increased number of foreign tourists arrivals. On the other hand, real imports grew at relatively slower pace at +8.1%yoy, in line with the moderation in domestic economic activities mainly due to slower purchases of foreign goods. As a result, net exports surplus increased to RM31.2b (RM22.1b), contributing more (4QCY22: +1.6ppt; 3QCY22: +1.0ppt) to growth.

Current account surplus at more than 2-year high. Malaysia's current account remained in surplus and increased to nine-quarter high at RM25.7b in 4QCY22. In terms of percentage to GDP, the current account rose to +5.5% (3QCY22: +3.1%). The steady improvement was due to smaller deficit ratio of services trade -1.8% of GDP (3QCY22: -2.1%), thanks to improving tourism activities. We foresee services trade to gain further especially driven by the reopening of Japan's borders in Oct-22 and China in Jan-23. As global demand and elevated commodity prices stayed on, goods trade to GDP ratio rose to +11.1% (3QCY22: +9.4%) while primary and secondary income ratio stayed in deficit rates. As for 2022, the current account ratio stood at +2.6%, the lowest since 2019. The downward pressure is mainly on further deficit in primary income and stronger goods import growth. 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 %)				
	1Q22	2Q22	3Q22	4Q22	1Q22	2Q22	3Q22	4Q22	2022
GDP	(3.0)	1.7	4.8	3.5	5.0	8.9	14.2	7.0	8.7
Seasonally-adjusted QoQ%	3.8	3.5	1.9	(2.6)	-	-	-	-	-
Domestic Demand	(0.0)	1.7	2.8	1.2	6.8	11.4	13.9	5.8	9.4
Private Consumption	2.6	(0.7)	7.4	2.0	5.5	18.3	15.1	7.4	11.3
Govt. Consumption	(21.4)	(1.7)	7.6	14.0	6.7	2.6	4.5	2.4	3.9
Private Investment	30.6	5.9	(6.2)	0.7	0.4	6.3	13.2	10.3	7.2
Public Investment	(39.1)	(11.3)	15.4	2.0	(0.9)	3.2	13.1	6.0	5.3
Real Exports	(1.5)	5.7	6.2	(0.0)	8.0	10.4	23.9	9.6	12.8
Real Imports	3.1	5.9	3.5	(0.0)	11.1	14.0	24.4	8.1	14.2
Net Exports	(44.0)	1.9	53.4	0.4	(26.5)	(28.7)	18.7	23.4	(1.8)

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

Upbeat domestic momentum as services sector stayed on firm expansion rate. On the supply side, business activities in the services sector increased steadily by +8.9%yoy and +4.7%qoq in the final quarter of 2022. Demand for services expanded among others contributed by pick-up in accommodation, retail trade, insurance, government services and transport & storage. About 58.1% of the economy contributed by services sector alone, contributing +5.1ppt to the +7%yoy growth. Other sectors like manufacturing, construction, agriculture and mining also recorded steady growth in 4QCY22. Manufacturing benefited among others from E&E, medical & optical devices and motor vehicles & transport equipment. In addition, construction activities, particularly in non-residential sector and special trades, rose positively by +12.2%yoy and +9.7%yoy respectively. Despite of labour supply constraints, construction and agriculture sectors managed to record positive growth last year at +5% and +0.1% respectively. In line with our expectation, mining sector to stay on upward trajectory following the resumption of oil & gas production at Sabah waters and continuous elevated energy prices.

Table 2: Summary of GDP by Supply-Side Approach

	QoQ%			YoY%			
	2Q22	3Q22	4Q22	2Q22	3Q22	4Q22	2022
GDP	**1.7**	**4.8**	**3.5**	**8.9**	**14.2**	**7.0**	**8.7**
Agriculture, Forestry & Fishing	**4.0**	**18.1**	**(9.3)**	**(2.4)**	**1.2**	**1.1**	**0.1**
Rubber	(22.5)	42.4	(18.1)	(17.3)	(16.4)	(22.0)	(19.7)
Oil Palm	10.1	23.0	2.5	(3.9)	5.1	9.6	3.8
Livestock	(2.9)	12.5	(5.9)	(1.7)	2.7	(2.2)	0.1
Other Agriculture	4.7	9.3	(20.3)	(1.5)	(3.7)	(5.0)	(3.3)
Forestry & Logging	8.6	23.0	(15.9)	(5.6)	1.3	(5.4)	(3.6)
Marine Fishing	(14.0)	36.9	(22.9)	(0.2)	(1.4)	(1.9)	(0.3)
Aquaculture	24.4	18.5	(12.2)	9.3	14.0	1.2	7.6
Mining & Quarrying	**(2.2)**	**(1.2)**	**9.6**	**(0.5)**	**9.2**	**6.8**	**3.4**
Crude Oil	2.3	(4.4)	7.6	(2.8)	2.5	5.2	(0.8)
Natural Gas	(2.7)	(2.6)	9.0	0.4	13.6	7.4	5.9
Others	(17.9)	25.8	21.1	5.3	13.5	9.2	7.2
Manufacturing	**2.3**	**3.9**	**3.1**	**9.2**	**13.2**	**3.9**	**8.1**
Vegetable & Animal Oils & Fats	21.1	4.7	11.2	(9.1)	(0.3)	1.8	(2.0)
Food Processing	15.3	7.1	(9.8)	9.7	8.3	6.0	7.9
Beverages	23.2	(3.7)	(2.4)	21.4	22.4	2.2	13.0
Tobacco Products	18.7	(39.1)	27.6	41.4	201.4	(12.9)	23.6
Textile & Wearing Apparel	(12.4)	7.8	7.3	4.3	5.8	(2.3)	3.1
Leather Products	25.2	(23.7)	(17.6)	20.9	80.0	18.7	24.3
Wood Products	(8.9)	6.7	(3.6)	11.3	18.4	(7.6)	7.0
Paper Products	0.6	10.9	(17.8)	8.4	11.7	1.6	7.6
Printing	(21.7)	(7.1)	39.6	11.5	8.4	5.8	6.2
Refined Petroleum Products	2.2	16.5	(5.6)	2.8	10.5	4.6	5.2
Chemicals & Chemical Products	(7.0)	14.3	4.1	4.7	3.7	1.5	2.9
Rubber Products	43.1	2.0	(10.0)	(22.4)	(12.9)	(8.7)	(16.6)
Plastic Products	(3.7)	42.9	(27.2)	4.1	5.2	(3.9)	2.7
Non-Metallic Mineral Products	(7.0)	4.0	6.8	13.4	18.6	1.8	9.3
Basic Metals	11.3	0.9	6.3	9.4	9.1	0.1	6.1

	QoQ%			YoY%			
	2Q22	3Q22	4Q22	2Q22	3Q22	4Q22	2022
Fabricated Metal Products	(4.1)	(5.7)	9.2	8.8	12.3	3.3	6.9
Machinery & Equipment	(22.4)	6.6	(10.7)	6.0	10.8	1.6	6.3
Computers & Peripheral Equipment	4.1	4.8	(8.4)	8.7	9.8	(6.2)	5.0
Electrical Equipment	19.6	(25.0)	24.6	7.0	13.5	7.4	10.2
Electronic Compo & Boards, Com Equip and Elect	(7.1)	5.2	5.9	19.3	19.1	11.4	16.7
Medical, Precision & Optical, Watches & Clocks	48.0	3.4	14.9	7.5	19.0	12.3	11.8
Motor Vehicles & Transport Equipment	33.0	(18.4)	34.1	21.2	41.5	5.0	15.1
Furniture	(5.8)	(27.4)	6.0	16.0	30.4	(6.6)	9.6
Other Mfg and Repair & Installation and Equipment	0.0	32.8	4.7	12.1	17.9	4.0	9.2
Construction	**0.1**	**5.4**	**1.7**	**2.4**	**15.3**	**10.1**	**5.0**
Residential	(8.7)	2.6	2.1	2.7	9.7	2.7	(1.2)
Non-Residential	10.8	(2.2)	13.8	10.0	30.5	10.7	12.2
Civil Engineering	(4.2)	17.1	(7.5)	(8.2)	10.1	17.9	(0.4)
Special Trades	2.5	3.2	0.9	6.9	13.7	8.1	9.7
Services	**1.6**	**4.5**	**4.7**	**12.0**	**16.7**	**8.9**	**10.9**
Electricity & Gas	(5.3)	3.0	0.7	5.5	8.7	(0.5)	4.2
Water, Sewerage and Waste Management	(1.9)	7.4	0.0	0.0	4.7	2.5	2.4
Wholesale Trade	4.4	9.8	0.3	5.5	7.3	0.7	3.6
Retail Trade	7.0	3.3	12.3	21.6	28.0	19.2	18.3
Motor Vehicles	0.1	20.6	2.9	66.3	142.2	7.2	40.0
Food & Beverage	0.5	0.4	1.0	24.5	31.0	14.8	21.4
Accommodation	4.8	25.6	21.7	139.0	295.0	78.6	125.1
Transportation & Storage	2.3	3.0	6.7	35.8	41.4	22.5	30.8
ICT	0.7	1.1	0.1	5.9	4.5	4.2	5.2
Finance	2.9	3.4	(1.3)	0.3	8.2	4.2	2.6
Insurance	(17.2)	4.2	10.4	(6.5)	(5.9)	(5.1)	(3.8)
Real Estate	1.0	0.5	0.7	34.7	34.6	34.0	28.5
Business Services	5.9	3.8	3.6	16.7	35.4	23.7	20.4
Private Health	0.4	2.4	2.9	6.4	6.6	5.9	8.4
Private Education	2.7	4.6	1.9	5.9	8.9	9.6	7.0
Other Services	0.0	1.3	2.0	9.5	19.2	6.3	10.0
Govt. Services	0.2	4.2	10.2	5.4	4.0	3.9	4.7
Import Duties	**10.0**	**(2.0)**	**3.7**	**5.6**	**27.4**	**1.7**	**7.2**

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

Growth moderated and weakened in 4QCY22 for most economies. Economic activities in most countries grew slower in 4QCY22, affected by the lockdown in China, weaker global production activities and amid concerns over high inflation. The US economy grew further at +2.9%qoq on annualized basis even after the aggressive rate hike by the Fed last year, but the year-on-year growth was more moderate at +1%yoy. While strong labour market and increased spending on services supported US growth during the quarter, the moderate growth reflects weaker investment in structures and housing market. Meanwhile, China's growth slowed to +2.9%yoy as spending and business activities were constrained by the strict Covid-19 lockdowns. Euro area also recorded slower growth of +1.9%yoy, albeit slightly better than market consensus. In Asia, domestic-driven economies like

Philippines and Indonesia saw growth slowed but did not go below +7% and +5%, respectively. For other regional countries, GDP growth was more moderate (in Malaysia, Singapore, and South Korea) and even turned negative (for Taiwan) as a result of weaker regional production and trade activities. We reckon the momentum of growth would improve this year as China reopens its economy and international borders, nevertheless these trading nations are also exposed to softer demand outlook.

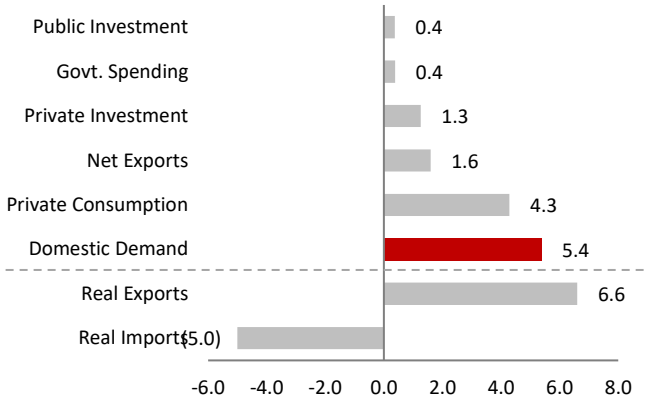
Table 3: GDP Growth by Selected Economies (YoY%)

	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	2022
Malaysia	15.9	(4.5)	3.6	5.0	8.9	14.2	7.0	8.7
Indonesia	7.1	3.5	5.0	5.0	5.4	5.7	5.0	5.3
Philippines	12.1	7.0	7.8	8.2	7.5	7.6	7.2	7.6
Thailand	7.7	(0.2)	1.8	2.3	2.5	4.5	n.a.	n.a.
Singapore	15.8	7.5	6.1	3.9	4.5	4.4	2.2	3.8
China	7.9	4.9	4.0	4.8	0.4	3.9	2.9	3.0
Taiwan	7.8	4.4	5.3	3.9	3.0	4.0	(0.9)	2.4
South Korea	6.2	4.0	4.2	3.0	2.9	3.1	1.4	2.6
Japan	7.7	1.8	0.8	0.4	1.6	1.5	n.a.	n.a.
UK	24.4	8.5	8.9	10.7	4.0	1.9	n.a.	n.a.
Euro area	14.2	3.9	4.8	5.5	4.3	2.3	1.9	3.5
USA	12.5	5.0	5.7	3.7	1.8	1.9	1.0	2.1
QoQ%, annualized	*7.0*	*2.7*	*7.0*	*(1.6)*	*(0.6)*	*3.2*	*2.9*	

n.a. = not yet available
Source: Macrobond, National Authorities, MIDFR

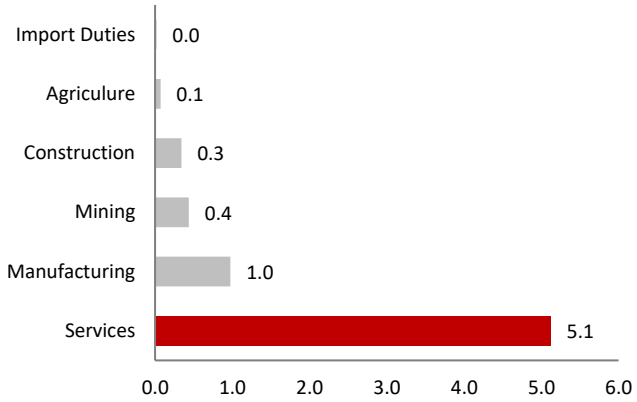
2023 GDP growth forecast at +4.2%. Considering external headwinds and tightening monetary policy in many economies, we foresee Malaysia's GDP growth to moderate to +4.2% in 2023. The softer growth is mainly due to deceleration in external trade performance, taking into account anticipated slowdown in global demand. We foresee global economic slowdown rather than recession for 2023. Due to higher interest rates, pessimistic business sentiment as reflected in S&P Global PMI surveys and elevated inflationary pressure, domestic demand in the US and EU will dampen this year. Malaysia's real exports growth is projected at +3% (2022: +12.8%), partially supported by improving services exports via tourism activity. As China reopens sooner than predicted, we are sanguine this will provide extra boost to Malaysia's services exports as well as tourism activity. However, we believe Malaysia's external trade to continue benefiting from commodity exports especially palm oil, crude petroleum and LNG as the prices of CPO and Brent crude oil to stay elevated at RM3,500 per tonne and USD96.5pbd for 2023. Agriculture and mining sectors are projected to expand at +1% each while manufacturing output to grow modestly by +2.7% for 2023. As for domestic sectors, construction and services are projected to expand by +4.7% and +5.5% respectively.

Chart 1: Contribution by Expenditure Components to 4Q22 GDP Growth (%-point)



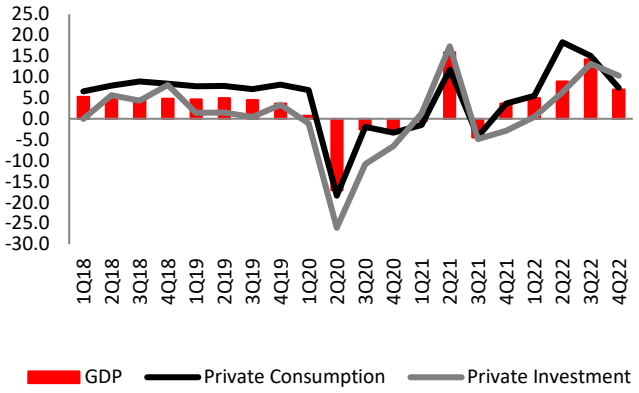
Source: Macrobond, MIDFR

Chart 2: Contribution by Supply-Side Components to 4Q22 GDP Growth (%-point)



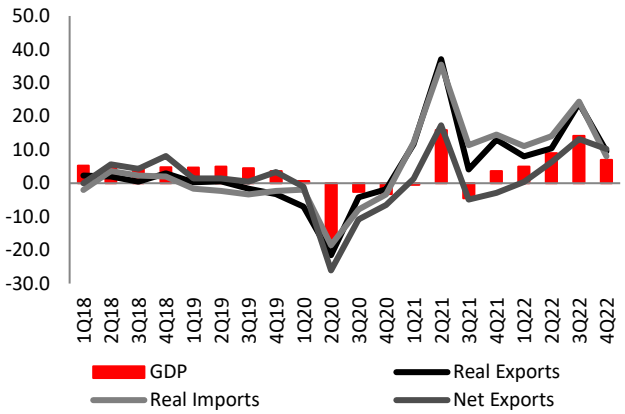
Source: Macrobond, MIDFR

Chart 3: GDP vs Private Sector (YoY%)



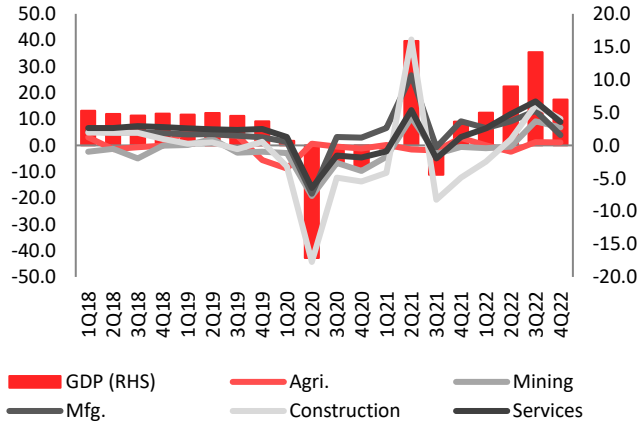
Source: Macrobond, MIDFR

Chart 4: GDP vs External Trade (YoY%)



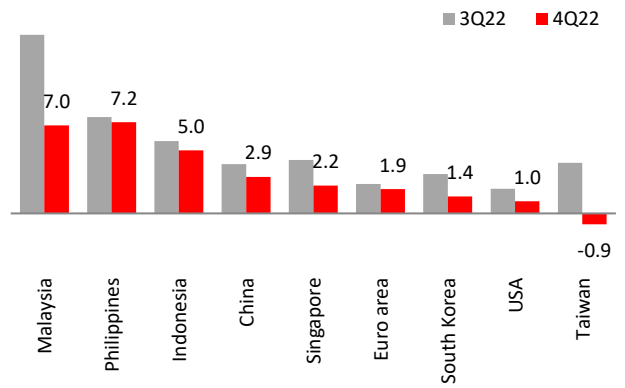
Source: Macrobond, MIDFR

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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