AmBank Research

Economic Highlights

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- Malaysia's economy grew by 14.2% in the 3Q22.

Malaysia – Expect slower 4Q22 growth

Strong growth number in the 3Q22.
Malaysia's 3Q22 GDP performance came in strongly at 14.2% y/y, beating market expectations of 11.7% and our expectation of 12.2% This is the strongest quarterly GDP performance reported since the 2Q21, where the economy grew by 15.9%.

On a quarter-on-quarter basis, we saw some loss of momentum. Malaysia's economy grew by 1.9% q/q, slower than 2Q22's growth of 3.5% q/q.

With such a strong third quarter performance, the first three quarters average would be 9.3%. This is well above our full year growth projection of 7.5%, and BNM's forecast of 5.3 – 6.3% for 2022.

Strong domestic consumption.
The strong growth was supported by private consumption, where it grew by 18.3% (2Q22: 5.5%).

Drivers to private consumption is the continuous improvement in the labour market where the unemployment rate eased further from 3.9% in the 2Q22 to 3.7% in the 3Q22.

Besides, wages grew stronger. Using the manufacturing wage growth as the basis, it grew by 3.0% (2Q22: 2.2%). Adding on, spending indicators were strong too. Where the retail trade grew by 34.0% (2Q22: 29.5%).

The higher spending in the 3Q22 was supported by government's effort to stabilise prices of key items and the disbursement of Bantuan Keluarga Malaysia, where around RM1.7 bn were disbursed to eligible recipients.

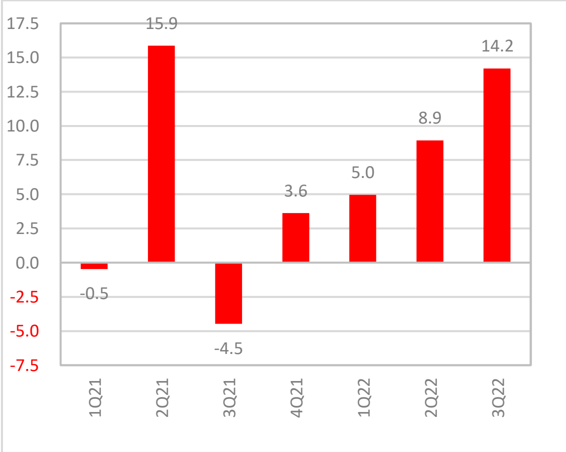
Plus, the tourism sector continued to improve, where tourists' arrival reached 1.1 million people in July (the most recent data available) and the upwards trend that started in March is expected to stay this year.

Exports grew by double-digit.
At the same time, Malaysia's exports help propel the strong growth. Exports grew robustly by 23.9% y/y in the 3Q22 (2Q22: 10.4%), supported by E&E, machinery equipment & parts, and petroleum products by 114.6%.

Investment was also improving.
Gross fixed capital formation (GFCF) also improved to 13.1% (2Q22: 5.8%). Private sector, which contributed 80.3% to GFCF edged up to 13.2 (2Q22: 6.3%) in 3Q22. This coincided with continuous FDI inflow particularly in the E&E-related activities plus other areas too.

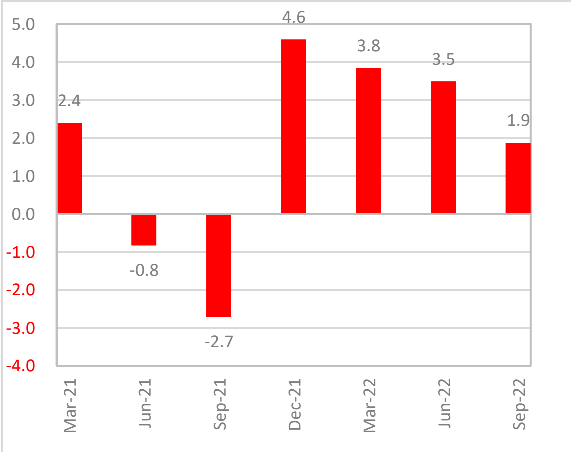
Growth on all industries were improving.
From the industry side, the main impetus on growth was the services sector, that grew by 16.7% (2Q22: 12.0%). This was due to the economy moving into the endemic phase school holiday in September 2022, where more people were travelling.

Figure 1: Malaysia – GDP (% y/y)



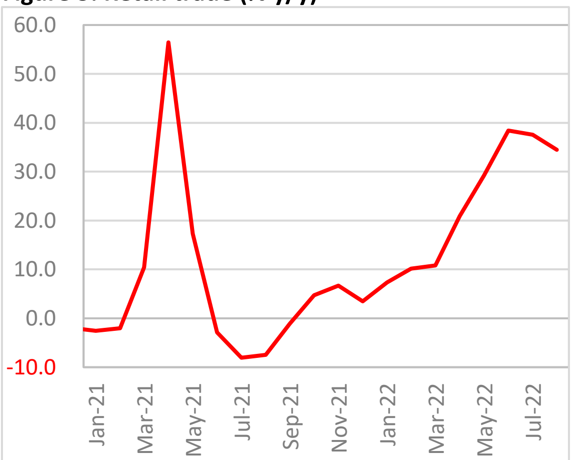
Source: CEIC, AmBank Research

Figure 2: Malaysia – GDP (% q/q sa.)



Source: CEIC, AmBank Research

Figure 3: Retail trade (% y/y)



Source: CEIC, AmBank Research

The manufacturing sector rose to 13.2% (2Q22: 2.4%). The growth in this sector was backed by electrical, electronic & optical products, up 17.3% (2Q22: 15.5%).

The agriculture sector rebounded by 1.2% (2Q22: -2.4%), driven by the palm-oil subsector, as workers are slowly returning to the sector. Several key players in the palm-oil were already using machineries to reduce their reliance of foreign workers.

The construction sector grew strongly by 15.3% (2Q22: 2.4%), supported by improvement in the residential and non-residential segments. The local construction sector has completed projects worth RM89.9 bn in the first three quarters this year, which is an improvement relative to the same period last year of RM84.4 bn.

The mining sector grew by 9.2% (2Q22: -0.5%), supported by higher production in the natural gas segment which increased by 13.6% (2Q22: 0.4%), driven by the higher demand from the Far East, including Japan, China and Korea.

Outlook.

While the 3Q22 number is strong, headwinds are expected to kick in from 4Q22 onwards. Already we are witnessing some signs of stress from the manufacturing sector.

Trade activity is expected to be slower in the future. This is mainly because a slower economic activity from the external front, including from our major trading partners such as China. Latest exports and imports numbers have been slowing down since August.

Price pressure in selected manufacturing sector is still elevated, particularly those in the production of textiles, wood & wood products, paper & paper products, basic pharmaceutical products, non-metallic mineral products, electrical, machinery equipment, and motor vehicles. This is partly due to shortage of key products and weaker currency.

This also coincided with the PMI manufacturing number, that has been on a downward trend since July 2022, and dropped below the 50-level threshold since September 2022. It was due to slower demand from the external front, as economies such as the US, the UK and Euro Area are heading for a slowdown.

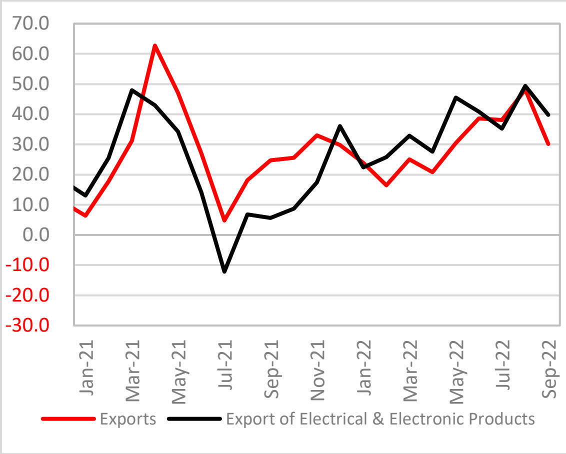
Also, palm-oil plantation sector is still short of 54,630 of around 437,212 workers required, based on MPOB's estimates. Plus, the multi-tiered levy proposed in the Budget could dampen recovery the sector.

On the household side, rising cost of living is still an issue. Food inflation is still relatively high this year, increasing by 5.3% ytd (2021: 1.8%).

With rising living as well as business cost adding pressure, the likelihood for 4Q22 GDP to slow down remains high on our cards. Headwinds are expected to remain as we move into 2023.

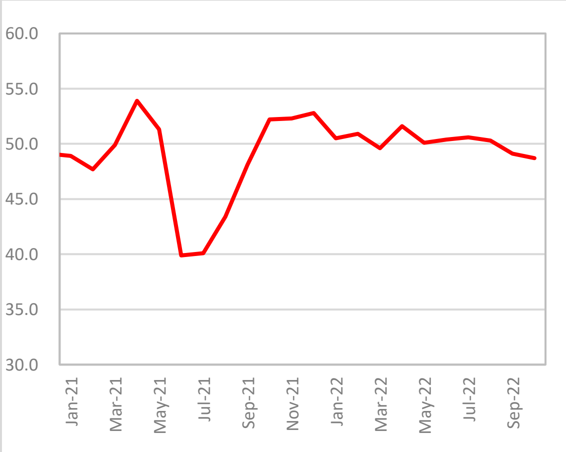
Hence, we are expecting overall growth for 2022 to be at 8.5% - 9.0% with fourth quarter 2022 GDP is projected to hover around 6.0% - 8.0%, supported mainly by private consumption, external trade and low base effects (4Q21: 3.6%). For 2023, we are looking at slower growth of 4.5% as the downside risks become more pronounced.

Figure 4: Exports growth (% y/y)



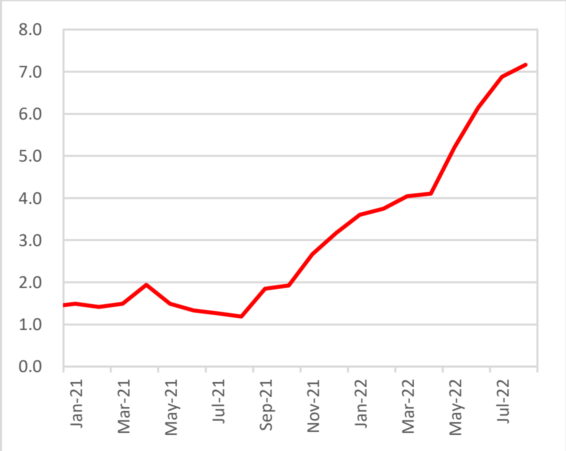
Source: CEIC, AmBank Research

Figure 5: PMI Manufacturing



Source: CEIC, AmBank Research

Figure 6: Inflation for food & non-alcoholic beverages (%)



Source: CEIC, AmBank Research

Table 1: GDP growth by demand (% y/y)

%y/y	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22		1H22	2020	2021
GDP	15.9	-4.5	3.6	5.0	8.9	14.2		7.0	-5.6	3.6
Domestic Demand	11.0	-2.3	3.2	5.7	15.3	13.1		10.5	-2.7	2.9
Pvt. Expenditure	11.7	-4.2	3.7	5.5	18.3	15.1		11.9	-4.2	2.4
Govt. Expenditure	8.2	7.1	1.6	6.7	2.6	4.5		4.7	4.9	5.6
GFCF	16.4	-10.8	-3.0	0.1	5.8	13.1		3.0	-14.1	-0.2
Net Exports	57.6	-39.9	0.8	-26.5	-28.7	18.7		-27.6	-12.0	6.3
Exports	37.1	4.2	13.0	8.0	10.4	23.9		9.2	-8.6	16.5
Imports	35.5	11.4	14.5	11.1	14.0	24.4		12.6	-7.9	18.4

Source: CEIC, AmBank Research

Table 2: GDP growth by industry (% y/y)

%y/y	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22		1H22	2020	2021
GDP	15.9	-4.5	3.6	5.0	8.9	14.2		7.0	-5.6	3.6
Agriculture	-1.5	-2.0	2.8	0.1	-2.4	1.2		-1.2	-2.5	-0.1
Mining & Quarrying	10.6	-3.2	-0.6	-1.1	-0.5	9.2		-0.8	-9.6	0.6
Manufacturing	26.7	-0.8	9.1	6.6	9.2	13.2		7.9	-2.7	10.4
Construction	40.3	-20.6	-12.3	-6.2	2.4	15.3		-1.9	-19.5	-0.8
Services	13.4	-4.9	3.2	6.5	12.0	16.7		9.2	-5.4	2.4

Source: CEIC, AmBank Research

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