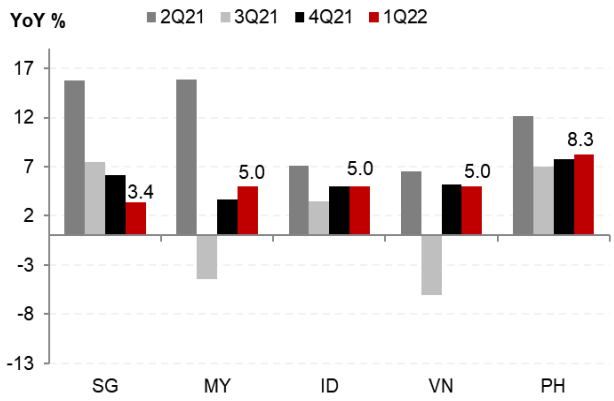
Malaysia 1Q22 GDP

Robust growth as domestic demand gathers momentum

- **GDP growth expanded in 1Q22 (5.0% YoY; 4Q21: 3.6%), lower than house estimate but above market expectations (KIBB: 5.7%; consensus: 4.0%)**
  - The greater expansion was mainly driven by an improvement in the services sector, as well as a return to growth for the agriculture sector, and remained underpinned by manufacturing sector growth despite some moderation. Growth was also attributable to a further expansion in private consumption, as domestic demand began to ramp up with the easing of COVID-19 restriction measures.
  - Seasonally adjusted QoQ (3.9%; 4Q21: 4.6%): moderated amid the spread of the Omicron variant, the impact of flash floods in parts of the nation, and due to prolonged global supply chain disruptions, exacerbated by the breakout of conflict between Russia and Ukraine.

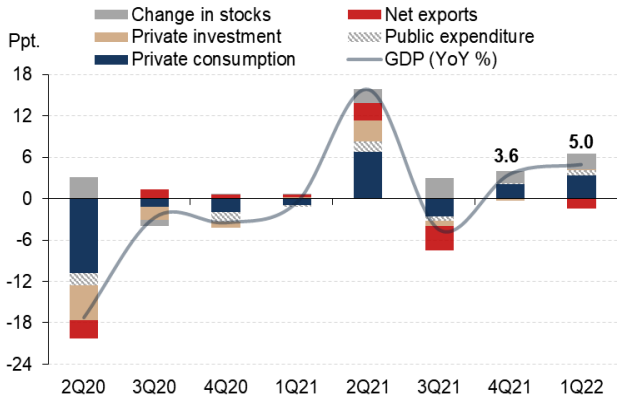
Graph 1: ASEAN-5 ex-TH (+VN) GDP Growth



Source: DoSM, CEIC, Kenanga Research

- **Expansion was driven by growing domestic demand, particular in private consumption, which outweighed export weakness**
  - Domestic demand (4.4%; 4Q21: 1.9%):
    - Private spending (4.4%; 4Q21: 2.5%): rose to a three quarter high on a sustained increase in private consumption (5.5%; 4Q21: 3.7%), amid higher spending on necessities and selected discretionary items, with COVID-19 restrictions relaxed on greater national vaccination coverage. However, consumption was likely still hampered by the resurgence of COVID-19 cases amid the Omicron wave. Meanwhile, private investment returned to growth for the first time in three quarters (0.4%; 4Q21: -2.8%), supported by capital spending in the services and manufacturing sectors. Private spending accounted for 3.4 percentage points (ppts) of overall GDP growth (4Q21: 1.8 ppts).
    - Public spending (4.8%; 4Q21: 0.1%): reached a three quarter high, namely due to an increase in public consumption (6.7%; 4Q21: 1.6%) amid ongoing support from COVID-19 related expenditure. Growth was also lifted by a smaller contraction in public investment (-0.9%; 4Q21: -3.4%), supported by an improvement in General Government's fixed assets spending. Public spending represented 0.8 ppts of GDP growth (4Q21: 0.03 ppts).
  - Net exports (-26.5%; 4Q21: 0.8%): sharp decline as imports growth (3.1%) outpaced a contraction in exports (-1.5%) on a QoQ basis; accounted for -1.5 ppts of overall GDP growth (4Q21: 0.1 ppts).
    - Exports (7.7%; 4Q21: 13.0%): growth moderated on prolonged global supply chain disruptions, renewed by the spread of the Omicron variant and Russia's invasion of Ukraine. Nonetheless, external trade remained underpinned by strong E&E exports (27.2%; 4Q21: 20.6%) and robust commodity exports (54.0%; 4Q21: 45.0%).
    - Imports (8.3%; 4Q21: 14.6%): moderated on lower intermediate imports (29.2%; 4Q21: 36.2%) and capital imports (17.9%; 4Q21: 22.6%), which outweighed an expansion in consumption imports (24.5%; 4Q21: 15.5%) amid faster private consumption growth.

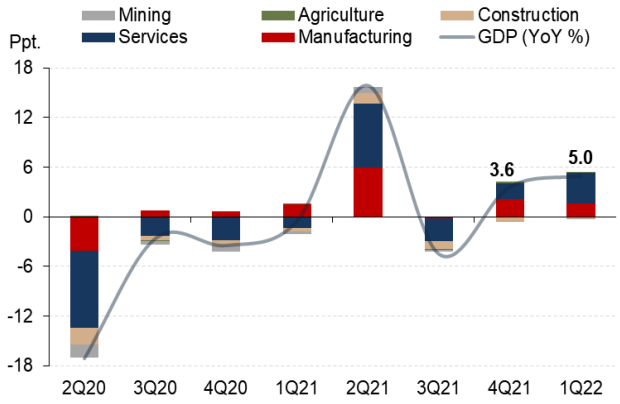
Graph 2: GDP by Expenditure Performance (Percentage Point Contribution to Growth)



Source: DoSM, Kenanga Research

- **Supply side growth was led by the services sector and retained support from decent manufacturing sector growth**
  - Services (6.5%; 4Q21: 3.2%): expanded to its highest level in three quarters, as economic activity recovered amid the further easing of COVID-19 restrictions. Consumer spending increased and led to stronger growth in the retail and leisure subsectors. Business-related activities also experienced a strong recovery, along with sustained growth in the information and communication subsector, on robust demand for data communication services (i.e. e-commerce and e-payment). Services represented 3.7 ppts of GDP growth (4Q21: 1.9 ppts).

Graph 3: GDP by Sector (Percentage Point Contribution to Growth)

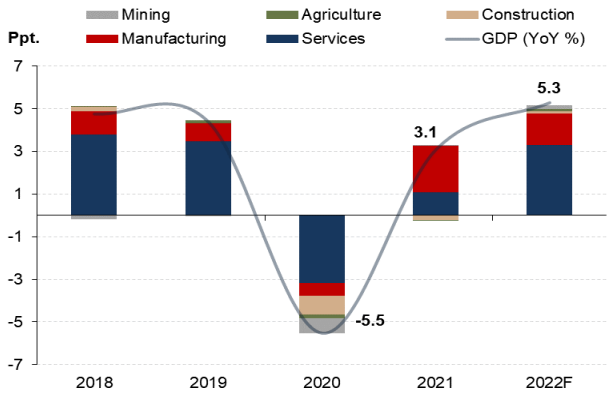


Source: DoSM, Kenanga Research

  - Manufacturing (6.6%; 4Q21: -9.1%): expansion moderated due to lower growth in the primary-related cluster, amid a normalisation of demand for products that surged due to the pandemic, such as rubber gloves. Nonetheless, growth of E&E products remained strong, driven by robust demand for semiconductors amid the technology upcycle. Likewise, consumer products sustained an expansion on improved consumer confidence, and despite the resurgence in COVID-19 cases, with motor vehicles and transport equipment showing strong growth in particular. Manufacturing accounted for 1.6 ppts of GDP (4Q21: 2.1 ppts).
  - Construction (-6.2%; 4Q21: -12.2%): smaller contraction amid further progress in new and existing, commercial and industrial projects, along with the implementation of small-scale projects under the Budget 2022. Represented -0.2 ppts of GDP growth (4Q21: -0.5 ppts).
  - Agriculture (0.2%; 4Q21: 2.8%): moderated due to slower growth in oil palm output, as harvesting activity was disrupted by heavy rainfall, as well as a decline in growth in the other agriculture, forestry, and rubber subsectors. Contributed 0.01 ppts to GDP (4Q21: 0.2 ppts).
  - Mining (-1.1%; 4Q21: -0.6%): contraction deepened due to the closure of several crude oil and natural gas facilities for maintenance. Nonetheless, the commencement of the Pegaga gas field in East Malaysia provided some support to growth. Accounted for -0.1 ppts of GDP growth (4Q21: -0.04 ppts).

- **We maintain our 2022 GDP forecast at 5.3% (range: 5.0% - 5.5%) and foresee 2Q22 forecast to exceed 5.0% from 4.3% previously**
  - Growth recovery to gain further momentum following Malaysia's transition to the endemic phase starting from April 1, with COVID-19 restrictions almost entirely relaxed and international borders reopened. Likewise, the labour market is expected to be further lifted by a steadily declining unemployment rate and the new minimum wage. In the near-term, the special EPF withdrawal facility, which likely saw over RM40.0b worth of withdrawals, coupled with the festive season in early May should provide robust support towards raising domestic demand.

Graph 4: Growth Outlook by Sector (KIBB forecast)



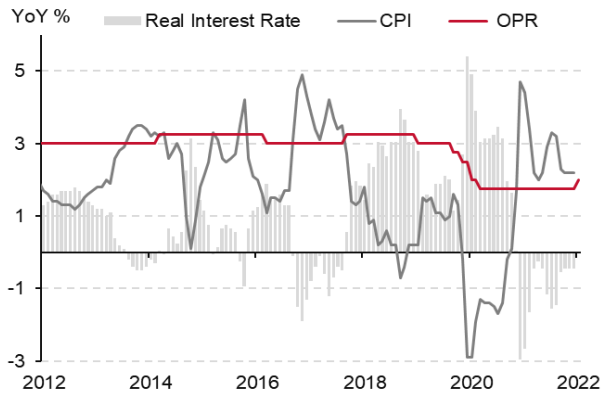
Source: DoSM, Kenanga Research

  - External demand is expected to remain strong and support sustained growth recovery, along with elevated global oil prices, and the ongoing technology upcycle. Furthermore, public investment should sustain amid several ongoing mega infrastructure projects (e.g. JENDELA, MRT 2, Pan-Borneo Highway).
  - However, our forecast remains subject to several downside risks, such as weaker global economic growth as some countries have recently fallen into unexpected economic growth contractions (e.g. the US, UK). In particular, China's zero-COVID policy threatens to prolong global supply chain disruptions and the country's economic slowdown risks contagion into regional economies with strong trade ties, including Malaysia. Likewise, any further escalation in the

Russia-Ukraine war will likely exacerbate global supply disruptions. Finally, the US Fed's more aggressive monetary policy tightening moves could worsen global financial market volatility, which has already led to major bond and equity market sell-offs worldwide.

- **BNM to potentially raise rates by another 50 to 75 bps this year**
  - Following BNM's surprise 25bps rate hike in the recent MPC meeting, and its more hawkish position in seeing the domestic economy on firmer footing, we now expect another 50 to 75 bps worth of hikes this year, including a 25 bps increase at its July meeting.
  - This comes amid aggressive monetary policy tightening by major central banks, including the US Fed, and the sharp depreciation of the ringgit (about 4.8% since the start of the year). The relatively strong domestic growth recovery in 1Q22 and expectations of sustained momentum for the rest of the year would support BNM's hawkish stance and further rate hikes at its remaining MPC meetings. Moreover, further rate hikes could help stem further capital outflows, given that the overall capital market experienced a deeper net outflow in April (-RM1.4b; Mar: -RM0.7b).

Graph 5: OPR (%) vs. Inflation (% YoY)



Source: BNM, DoSM, Kenanga Research

Table 1: Malaysia GDP Growth (constant 2015 prices)

YoY %	2019	2020	1Q21	2Q21	3Q21	4Q21	2021	1Q22	2022F
By Sector									
Agriculture	1.9	-2.2	0.1	-1.5	-2.0	2.8	-0.2	0.2	1.6
Mining	-0.6	-10.6	-4.4	10.6	-3.2	-0.6	0.7	-1.1	2.4
Manufacturing	3.8	-2.6	6.7	26.6	-0.8	9.1	9.5	6.6	6.1
Construction	0.4	-19.4	-10.4	40.3	-20.6	-12.2	-5.2	-6.2	2.5
Services	6.2	-5.5	-2.3	13.4	-4.9	3.2	1.9	6.5	5.8
Real GDP	**4.4**	**-5.6**	**-0.5**	**15.9**	**-4.5**	**3.6**	**3.1**	**5.0**	**5.3**
Ppt. Contribution									
Agriculture	0.1	-0.2	0.0	-0.1	-0.2	0.2	0.0	0.0	0.1
Mining	0.0	-0.8	-0.3	0.8	-0.2	0.0	0.0	-0.1	0.2
Manufacturing	0.8	-0.6	1.5	5.9	-0.2	2.1	2.2	1.6	1.5
Construction	0.0	-0.9	-0.5	1.2	-0.9	-0.5	-0.2	-0.2	0.1
Services	3.5	-3.2	-1.3	7.8	-2.8	1.9	1.1	3.7	3.3
Real GDP	**4.4**	**-5.6**	**-0.5**	**15.9**	**-4.5**	**3.6**	**3.1**	**5.0**	**5.3**
By Expenditure									
Consumption	6.6	-2.9	-0.3	11.0	-2.3	3.2	2.5	5.7	5.7
Public	1.5	3.9	5.6	8.2	7.1	1.6	5.3	6.7	3.6
Private	7.7	-4.3	-1.5	11.7	-4.2	3.7	1.9	5.5	6.2
Investment	-2.1	-14.5	-3.3	16.4	-10.8	-3.0	-0.9	0.1	4.2
Public	-10.7	-21.3	-18.5	12.0	-28.9	-3.4	-11.3	-0.9	6.5
Private	1.6	-11.9	1.3	17.3	-4.9	-2.8	2.6	0.4	3.5
Public Spending	-3.0	-4.7	-1.7	9.0	-3.5	0.1	0.6	4.8	4.3
Private Spending	6.3	-6.0	-0.9	13.0	-4.4	2.5	2.0	4.4	5.7
Domestic Demand	4.3	-5.8	-1.0	12.3	-4.2	1.9	1.7	4.4	5.4
Exports	-1.0	-8.9	11.7	37.1	4.2	13.0	15.4	7.7	5.3
Imports	-2.4	-8.4	12.2	35.5	11.4	14.5	17.7	8.3	6.5
Net exports	11.2	-13.0	6.6	57.6	-39.9	0.8	-4.1	-26.5	-6.9
Real GDP	**4.4**	**-5.6**	**-0.5**	**15.9**	**-4.5**	**3.6**	**3.1**	**5.0**	**5.3**
Ppt. Contribution									
Consumption	4.6	-2.1	-0.2	7.9	-1.7	2.4	1.8	4.2	4.2
Public	0.2	0.5	0.7	1.1	0.9	0.3	0.7	0.8	0.5
Private	4.4	-2.5	-0.9	6.7	-2.6	2.1	1.1	3.4	3.7
Investment	-0.5	-3.3	-0.7	3.5	-2.2	-0.6	-0.2	0.0	0.8
Public	-0.8	-1.3	-0.9	0.4	-1.5	-0.2	-0.6	0.0	0.3
Private	0.3	-2.0	0.2	3.0	-0.8	-0.4	0.4	0.1	0.5
Public Spending	-0.6	-0.9	-0.3	1.6	-0.6	0.0	0.1	0.8	0.8
Private Spending	4.6	-4.5	-0.7	9.7	-3.3	1.8	1.5	3.4	4.2
Domestic Demand	4.0	-5.4	-1.0	11.3	-3.9	1.8	1.6	4.2	5.0
Exports	-0.7	-5.7	7.1	22.5	2.6	8.2	9.5	5.4	3.7
Imports	-1.4	-4.8	6.7	19.9	6.1	8.2	9.8	6.9	4.1
Net exports	0.7	-0.9	0.3	2.5	-3.5	0.1	-0.3	-1.5	-0.4
Real GDP	**4.4**	**-5.6**	**-0.5**	**15.9**	**-4.5**	**3.6**	**3.1**	**5.0**	**5.3**

Source: DoSM, Kenanga Research, F: forecast, PPT: percentage point

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