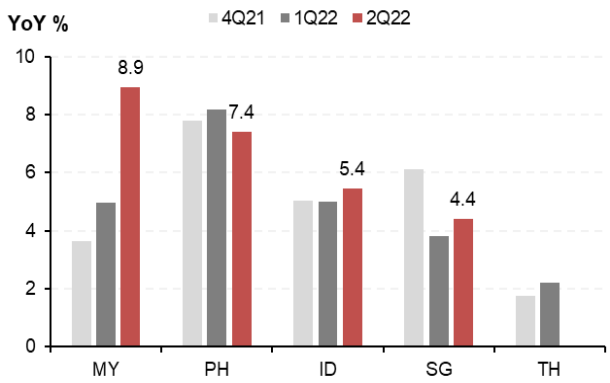
Malaysia 2Q22 GDP

Solid growth recovery amid transition to endemicity and ongoing policy support

- **GDP growth expanded in 2Q22 (8.9% YoY; 1Q22: 5.0%), higher than house and market expectations (KIBB: 7.7%; consensus: 7.0%)**
  - The better-than-expected GDP growth was mainly driven by a sharp recovery in the services sector and sustained expansion recorded in the manufacturing sector. Growth was also attributable to a surge in private consumption amid strong domestic demand bolstered by unleashed pent-up demand as Malaysia transitioned to endemicity with the removal of COVID-related restrictions and the reopening of international borders.
  - Seasonally adjusted QoQ (3.5%; 1Q22: 3.8%): moderated slightly.

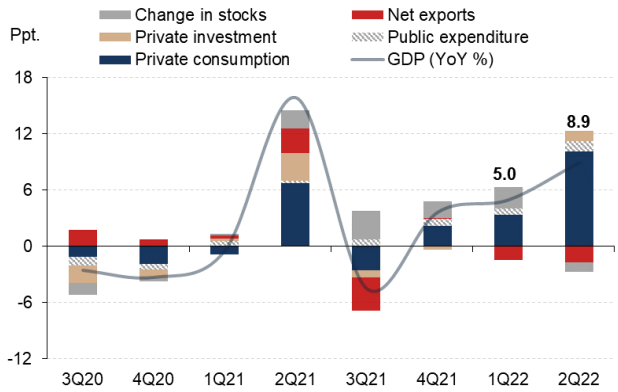
Graph 1: ASEAN-5 GDP Growth Performance



Source: DoSM, CEIC, Kenanga Research

- **Robust growth was driven by strong domestic demand, specifically private consumption, which outweighed weakness in net exports**
  - Domestic demand (13.0%; 1Q22: 4.4%):
    - Private spending (15.4%; 1Q22: 4.4%): expanded sharply on a sustained increase in private consumption (18.3%; 1Q22: 5.5%), amid higher spending on necessities and selected discretionary items. The growth acceleration was largely driven by a continuous recovery in the labour market, the festive season period and various policy support such as the implementation of a higher minimum wage, wage subsidy program, cash transfers and the special EPF withdrawal. Likewise, private investment also expanded sharply (6.3%; 1Q22: 0.4%), supported by higher capital spending in the services and manufacturing sectors. Overall, private spending accounted for 11.2 percentage points (ppts) of overall GDP growth (1Q22: 3.4 ppts).

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



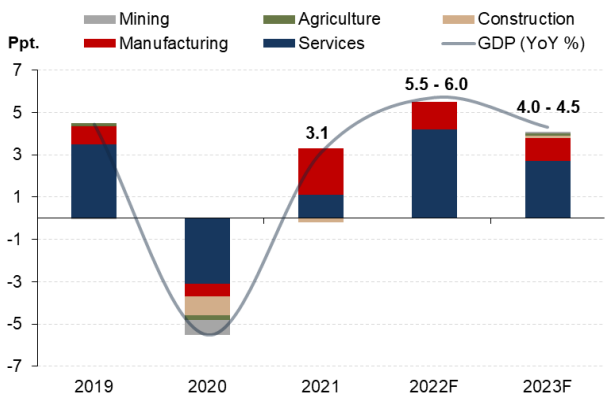
Source: DoSM, Kenanga Research

    - Public spending (2.8%; 1Q22: 4.8%): moderated due to softer public consumption (2.6%; 1Q22: 6.7%), particularly in supplies and services spending , amid smaller COVID-19-related expenditure. Nonetheless, growth was supported by a rebound in public investment (3.2%; 1Q22: -0.9%) amid higher capital expenditure by public corporations in the telecommunication and oil and gas sectors. Public spending represented 0.5 ppts of GDP growth (1Q22: 0.8 ppts).
  - Net exports (-28.7%; 1Q22: -26.5%): sharper decline as value-added import growth continued to outpace exports, subsequently knocking off 1.7 ppts out of the overall GDP growth (1Q22: -1.5 ppts).
    - Exports (10.4%; 1Q22: 8.0%): underpinned by higher gross exports (30.0%; 1Q22: 22.0%) on the back of strong external demand and elevated commodity prices despite the growing concern about the impact of the Russia-Ukraine crisis, the spread of the virulent Omicron variant and global supply chain disruptions. Nonetheless, external trade remained resilient, underpinned by strong E&E exports (37.6%; 1Q22: 27.2%) and robust commodity exports (55.3%; 1Q22: 51.9%).
    - Imports (14.0%; 1Q22: 11.1%): expanded amid surging gross imports (36.1%; 1Q22: 25.2%) driven largely by higher intermediate imports (36.2%; 1Q22: 29.0%) which partially offset the moderation of growth of capital (8.2%; 1Q22: 17.5%) and consumption (18.1%; 1Q22: 24.4%) imports.
- **Growth on the supply side was underpinned by a strong expansion in the services and manufacturing sectors**

- Services (12.0%; 1Q22: 6.5%): growth accelerated to its highest level since 2Q21, underpinned by a solid recovery in consumer-related subsectors as the nation transitioned to endemicity with the further relaxation of pandemic restrictions, border reopening to inbound tourists as well as improving labour market conditions. Growth was also supported by expansion in business-related activities such as transport and storage amid the resumption of tourism activities. Services accounted for 6.8 ppts of overall GDP growth (1Q22: 3.7 ppts), almost double the previous quarter.
- Manufacturing (9.1%; 1Q22: 6.6%): growth expanded for the second quarter, attributable to a strong recovery in domestic-oriented industries amid higher spending. This was further bolstered by robust exports backed by the E&E cluster amid sustained global demand for semiconductors, despite concerns over prolonged global supply chain disruptions. Nevertheless, growth was partially capped by a moderation in primary-related industries such as rubber gloves as production normalised. Manufacturing accounted for 2.2 ppts of GDP (1Q22: 1.6 ppts).
- Construction (2.4%; 1Q22: -6.2%): rebounded, and its first positive growth since 2Q21 due to a recovery in large commercial and industrial projects and small-scale projects. However, the upside was partially weighed by the subdued civil engineering subsector amid the slower progress of infrastructure projects. Its contribution to GDP growth finally returned to positive at 0.1 ppts (1Q22: -0.2 ppts)
- Mining (-0.5%; 1Q22: -1.1%): a smaller growth contraction due to higher oil and gas production at the offshore Pegaga gas field in Sarawak. This partially offset the impact of the shutdown in several oil and gas facilities around the country amid maintenance work.
- Agriculture (-2.4%; 1Q22: 0.1%): fell after two consecutive quarters of expansion, following higher input costs associated with animal feed and fertiliser, which affected livestock production and other agriculture subsectors. Likewise, growth was also hampered by weak palm oil output amid ongoing labour shortages. This has dragged overall GDP growth down by 0.2 ppts (1Q22: 0.0 ppts).

- **2022 GDP forecast revised to 5.7% (range: 5.5% - 6.0%) from 5.3% (5.0% - 5.5%)_on expectations that 1H22 growth momentum will lift up waning 2H22 growth performance**
  - The better-than-expected GDP growth in 2Q22 boosted the 1H22 GDP growth, which rebounded sharply by 6.9% (2H21: -0.4%). As the positive effect is expected to subside on the expectation of slowing global demand, we project growth to moderate to 4.5% in 2H22. Nonetheless, growth would likely remain supported by improved labour market conditions and a gradual pickup in tourism activities. This will be further supported by public spending: ongoing mega infrastructure projects (e.g. JENDELA, MRT2, MRT3, Pan-Borneo Highway) and various subsidies. On the external side, demand is expected to remain resilient albeit moderating, supported mainly by the COVID-19 vaccinations and booster progress among trading partners. This will be further buoyed by elevated commodity prices and growth recovery as China is expected to eventually ease its COVID-19 restrictions and gradually reopen its economy and borders.

Graph 3: Growth Outlook by Sector (KIBB forecast)



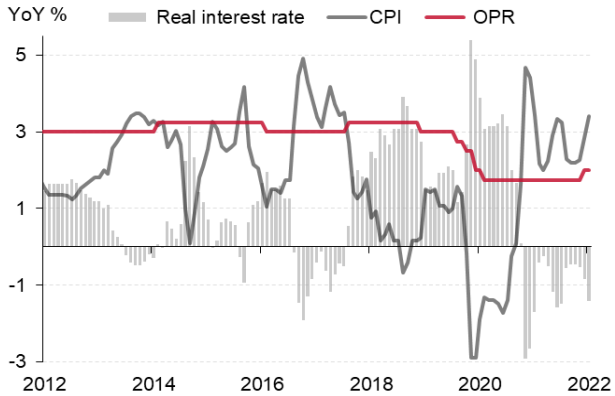
Source: DoSM, Kenanga Research

  - Against this backdrop, we still maintain our outlook that domestic growth remains susceptible to several downside risks, mainly from weaker-than-expected global economic growth. This comes amid rising inflation and the acceleration in monetary policy tightening by major central banks, which would likely impede the growth of private consumption. In addition, prolonged global supply chain disruptions due to China's zero-COVID policy may drag down economic growth and trigger contagion risk on regional economies with strong trade ties, including Malaysia. Meanwhile, geopolitical tension will likely exacerbate global supply disruptions, with a further escalation in the Russia-Ukraine war, fears of China's invasion of Taiwan and possible renewed US-China tensions. Likewise, the US Fed's more aggressive monetary policy tightening to combat elevated inflation would probably put the brakes on private spending and further aggravate global financial market volatility.
  - Meanwhile, with the expectation of a global economic slowdown in the coming year brought about by the rising prospect of a recession, mainly in the US and Europe, as well as the growing uncertainty in the recovery of China's economy, we maintain our 2023 GDP growth forecast of 4.0% - 4.5% (midpoint: 4.3%)

- **BNM is expected to adopt gradual and measured policy rate hikes, with 25 bps hikes at the September and November MPC meetings to realign with regional and global policy rate trends**

- Backed by the BNM's increasingly hawkish tone and supported by solid growth momentum brought by the better-than-expected 2Q22 GDP growth, we continue to expect the central bank to raise the overnight policy rate (OPR) by 25 bps at each of its two remaining meetings this year, bringing it to 2.75% by the end of the year.
- Hence, we expect this monetary tightening cycle to gradually tame inflationary pressures, which is projected to accelerate to 4.9% in 3Q22 (2Q22: 2.8%). It is expected to be largely driven by the tight labour market as reflected in the latest unemployment rate (2Q22: 3.9%; 1Q21: 4.1%) and the rising cost of living.

Graph 4: OPR (%) vs. Inflation (% YoY)



Source: BNM, DoSM, Kenanga Research

Table 1: Malaysia GDP Growth (constant 2015 prices) and Contribution to Growth By Sector (Supply) and Expenditure (Demand)

						KIBB				BNM
YoY %	**2021**	**1Q22**	**2Q22**	**3Q22F**	**4Q22F**	**1H22**	**2H22F**	**2022F**	**2023F**	**2022F**
By Sector										
Agriculture	-0.2	0.1	-2.4	0.2	1.6	-1.2	0.8	-0.1	1.1	1.8
Mining	0.3	-1.1	-0.5	2.0	1.7	-0.8	1.9	0.5	1.2	1.9
Manufacturing	9.5	6.6	9.1	6.2	0.1	7.9	3.0	5.4	4.4	5.2
Construction	-5.2	-6.2	2.4	4.2	1.5	-2.1	2.8	0.3	3.9	6.1
Services	1.9	6.5	12.0	11.8	0.1	9.2	5.6	7.4	4.7	6.8
Real GDP	**3.1**	**5.0**	**8.9**	**8.8**	**0.5**	**6.9**	**4.4**	**5.7**	**4.3**	**5.8**
								(5.5-6.0)	**(4.0-4.5)**	**(5.3-6.3)**
Ppt. Contribution										
Agriculture	0.0	0.0	-0.2	0.0	0.1	-0.1	0.1	0.0	0.1	0.1
Mining	0.0	-0.1	0.0	0.1	0.1	-0.1	0.1	0.0	0.1	0.1
Manufacturing	2.2	1.6	2.2	1.5	0.0	1.9	0.7	1.3	1.1	1.3
Construction	-0.2	-0.2	0.1	0.1	0.1	-0.1	0.1	0.0	0.1	0.2
Services	1.1	3.7	6.8	6.7	0.1	5.2	3.2	4.2	2.7	3.9
Real GDP	**3.1**	**5.0**	**8.9**	**8.8**	**0.5**	**6.9**	**4.4**	**5.7**	**4.3**	**5.8**
								(5.5-6.0)	**(4.0-4.5)**	**(5.3-6.3)**
By Expenditure										
Consumption	2.5	5.7	15.3	6.3	4.4	10.3	5.3	7.7	4.1	7.5
Public	5.3	6.7	2.6	2.1	0.3	4.7	2.7	3.6	2.0	1.7
Private	1.9	5.5	18.3	7.7	4.3	11.5	6.0	8.6	4.6	8.8
Investment	-0.9	0.1	5.8	9.3	6.8	2.9	8.0	5.4	4.0	6.2
Public	-11.3	-0.9	3.2	16.5	8.3	1.0	11.2	6.9	2.3	9.3
Private	2.6	0.4	6.3	7.5	6.1	3.3	6.8	4.9	4.5	5.3
Public Spending	0.6	4.8	2.8	3.8	5.7	3.8	4.9	4.4	2.0	3.6
Private Spending	2.0	4.4	15.4	7.7	4.6	9.6	6.1	7.9	4.5	8.1
Domestic Demand	1.7	4.4	13.0	6.9	4.9	8.6	5.9	7.2	4.1	7.2
Exports	15.4	8.0	10.4	6.3	4.9	9.2	5.6	7.4	4.7	4.9
Imports	17.7	11.1	14.0	7.7	5.3	12.6	6.4	9.5	5.5	5.2
Net exports	-4.1	-26.5	-28.7	-9.4	1.3	-27.6	-3.3	-14.8	-6.6	1.7
Real GDP	**3.1**	**5.0**	**8.9**	**8.8**	**0.5**	**6.9**	**4.4**	**5.7**	**4.3**	**5.8**
								(5.5-6.0)	**(4.0-4.5)**	**(5.3-6.3)**
Ppt. Contribution										
Consumption	1.8	4.2	10.4	4.7	3.2	7.3	3.9	5.6	3.0	5.4
Public	0.7	0.8	0.3	0.0	0.7	0.6	0.4	0.5	0.3	0.2
Private	1.1	3.3	10.1	4.7	2.5	6.7	3.5	5.1	2.7	5.2
Investment	-0.2	0.0	1.2	1.8	1.3	0.6	1.5	1.1	0.8	1.2
Public	-0.6	0.0	0.1	0.6	0.5	0.0	0.6	0.3	0.1	0.4
Private	0.4	0.1	1.1	1.2	0.7	0.6	0.9	0.8	0.7	0.8
Public Spending	0.1	0.8	0.5	0.7	1.2	0.6	1.0	0.8	0.4	0.7
Private Spending	1.5	3.4	11.2	5.9	3.2	7.3	4.5	5.8	3.4	6.0
Domestic Demand	1.6	4.2	11.7	6.5	4.5	7.9	5.5	6.7	3.8	6.7
Exports	9.5	5.4	7.5	4.3	3.4	6.5	3.8	5.1	3.3	3.4
Imports	9.8	6.9	9.2	4.8	3.3	8.1	4.0	6.0	3.6	3.3
Net exports	-0.3	-1.5	-1.7	-0.5	0.1	-1.6	-0.2	-0.9	-0.3	0.1
Real GDP	**3.1**	**5.0**	**8.9**	**8.8**	**0.5**	**6.9**	**4.4**	**5.7**	**4.3**	**5.8**
								(5.5-6.0)	**(4.0-4.5)**	**(5.3-6.3)**

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

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