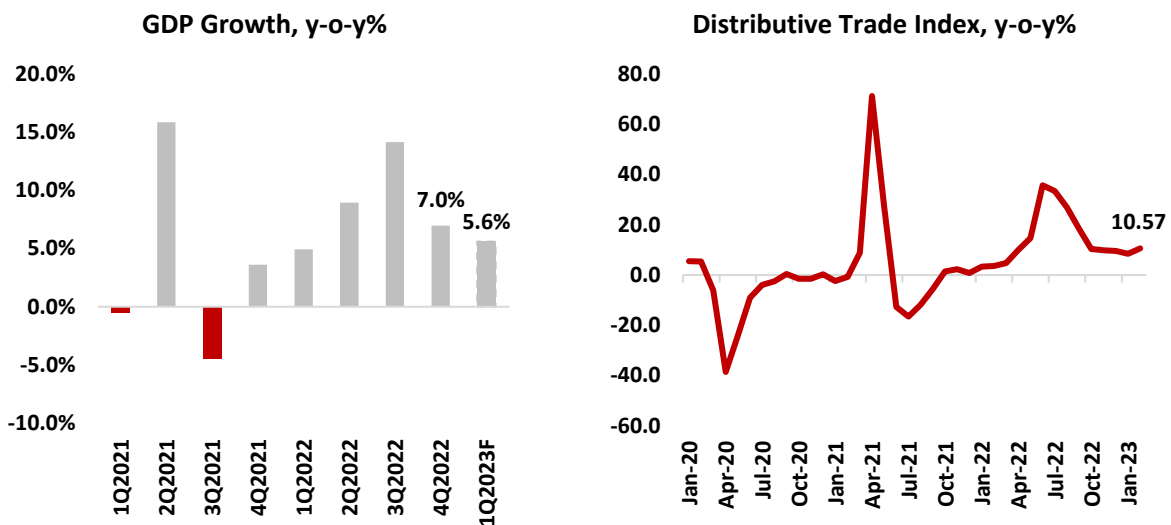


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GDP 1Q2023 PREVIEW: MALAYSIA IS ANTICIPATED TO RECORD THE BEST 1Q PERFORMANCE SINCE 2015



Source: Department of Statistics Malaysia (DOSM)

- We foresee a higher-than-expected number during 1Q2023 GDP at 5.6%.** We posit that such compelling growth was bolstered by strong domestic demand, coupled with moderating inflation in the said quarter, which will help to anchor the country's FY2023 growth amid external headwinds. Private consumption remains the mainstay of the demand growth in 1Q2023, buoyed by a steady improvement in the labour market where the unemployment rate came in lower at 3.5% in February. Higher tourism receipts and the long end-of-2022 academic year holidays helped. As such, we believe that private consumption growth in the said quarter will likely come in the high single digits.
- A good uptick in the services sector, thanks to higher distributive trade and a steady recovery in the tourism sector.** Malaysia recorded 4.5 million tourist arrivals in 4Q2022. We suspect that tourism arrivals/receipts could go up higher in 1Q2023 following China's economic reopening, lending a hand in services sector growth. The financial services sector could register good growth amid the rate pause, together with government services and wholesale and retail sectors taking the lead in spurring 1Q2023 performance. Furthermore, the double-digit figure in vehicle sales during 1Q2023, underpinned by the extension of the sales tax exemption period and new entry-model launches, could possibly help the economy off to a good start in 2023.
- We maintain our 2023 GDP forecast at 4.5% for now.** Our view aligns with the projections of Multilateral Development Banks' (MDBs), which range between 4.5% to 4.7%. We noticed that external demand for Malaysian exports has dropped as recessionary fears manifest amid sticky inflation and the high interest rate environment in advanced economies. However, the latest Purchasing Manager's Index (PMI) shows resilience in the country's manufacturing activity, displaying an upward trend of late (April: 48.8 points vs. January: 46.5 points). We are on the lookout for upside risks to our growth projections stemming from positive trade and investment spillovers from China's economic reopening and Malaysia's solid labour market, which may counterbalance 2H2023 growth headwinds.