



From the Desk
of the
Chief Economist

BANK ISLAM

GDP PREVIEW – ECONOMIC GROWTH TO SURGE BY 10.3% IN 2Q2022

11 AUGUST 2022

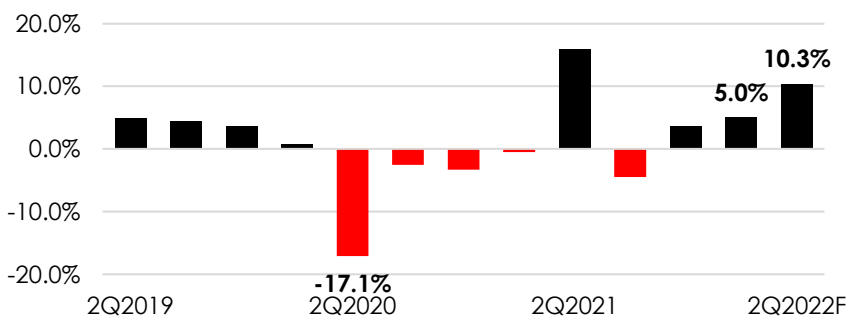
ECONOMIC RESEARCH

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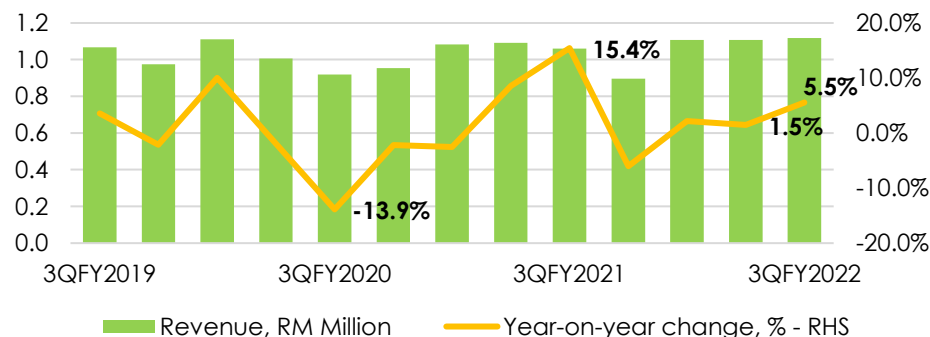
ECONOMIC GROWTH CONTINUED TO ACCELERATE IN 2Q2022

- ✓ Malaysia's Gross Domestic Product (GDP) for second quarter of 2022 will be published on 12 August 2022. **We are projecting the 2Q2022 GDP growth to come in at 10.3% year-on-year (y-o-y) after rising by 5.0% in the previous quarter.** This marks the third consecutive quarter of gains, thanks to the reopening of country's international borders in April which have improved community mobility and spurred consumer spending.
- ✓ For instance, consumer staple related companies such as Fraser and Neave Holdings Berhad (F&N) recorded a 5.5% revenue growth in the 3QFY2022 which ended 30 June 2022 (2QFY2022: 1.5%) amid positive momentum from the recovery of economic activities and strong festive sales in Malaysia. This was in tandem with the increase in manufactured products for Food, Beverages & Tobacco (2Q2022: 5.9% vs. 1Q2022: 5.7%) subsector which represents 8.6% of the total industrial production index (IPI).
- ✓ Apart from that, the country's export performance remained resilient, maintaining its growth momentum with a sustained double-digit figure (2Q2022: 30.0% vs. 1Q2022: 22.0%) for sixth straight month since 1Q2021.
- ✓ This suggests a better prospect for manufacturers particularly in the Electrical & Electronic (E&E). One example would be Unisem (M) Berhad which recorded a 15.4% y-o-y increase in its revenue during 2Q2022 (1Q2022: 13.5%), driven by higher average selling price (ASP) and appreciation of USDMYR exchange rates.
- ✓ Likewise, Frontken Corporation Berhad's revenue during the quarter rose by 18.0% from 15.1% in 1Q2022, underpinned by higher contributions from its subsidiaries in Taiwan, Singapore and Malaysia following higher demands for its semiconductors business.
- ✓ On top of that, services sector also helps to support the economic growth in 2Q2022 when the reopening borders led to sharp recovery in air traffic movement. This could be seen in Malaysia Airport Holding's Berhad's (MAHB) passenger traffic movement which grew significantly by 819.7% in 2Q2022 (1Q2022: 399.6%), a more than double increase from the previous quarter. This was attributable to the resumption of more airlines operating at its airports amid the removal of pandemic-related constraints.

GDP growth, y-o-y%

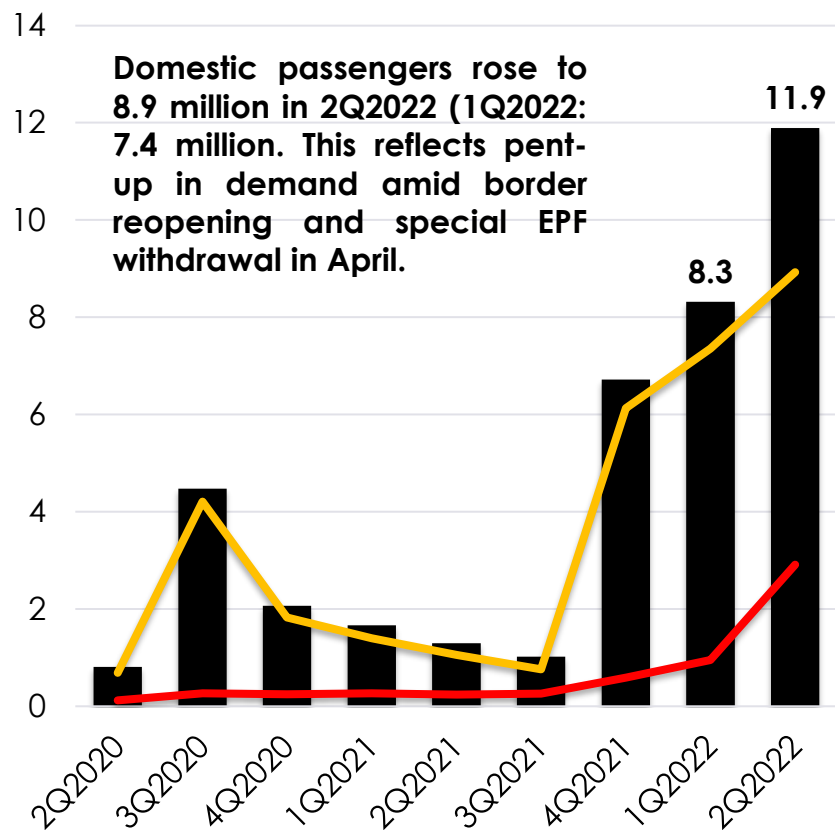


F&N's Quarterly Revenue, RM Million



SERVICES SECTOR SAW AN UPBEAT MOMENTUM WITH AIRPORTS PASSENGER KEEP ON RISING WHICH LED TO SURGE IN WHOLESALE & RETAIL TRADE, FOOD & BEVERAGES, AS WELL AS ACCOMMODATION

Malaysia's Airports Passenger Traffic, Million

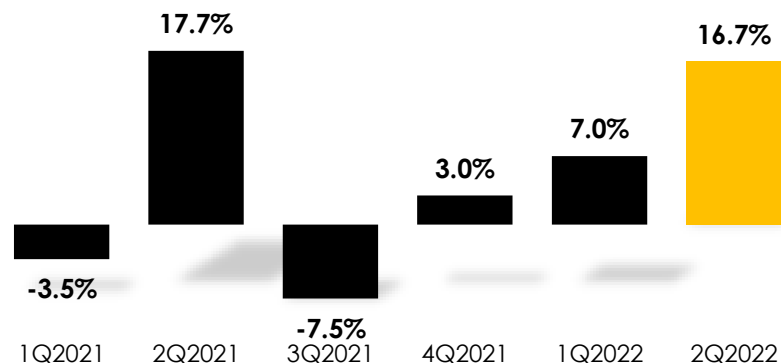


Domestic passengers rose to 8.9 million in 2Q2022 (1Q2022: 7.4 million). This reflects pent-up in demand amid border reopening and special EPF withdrawal in April.

■ Total Passenger Traffic — International
— Domestic

Sources: Bank Islam, CEIC, DOSM

Index of Services, y-o-y%



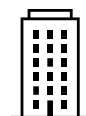
Wholesale & Retail Trade

2Q2022: 19.3%
1Q2022: 3.9%



Food & Beverages

2Q2022: 29.4%
1Q2022: 16.3%



Accommodation

2Q2022: 179.0%
1Q2022: 85.9%



Transportation & Storage

2Q2022: 40.4%
1Q2022: 26.4%

PRIVATE SECTOR AND EXTERNAL TRADE ACTIVITIES REMAIN AS THE PRIMARY DRIVERS OF 2Q2022 GROWTH

Y-o-Y%	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021	1Q2022	2Q2022F
GDP	4.9%	4.5%	3.6%	0.7%	-17.1%	-2.5%	-3.3%	-0.5%	15.9%	-4.5%	3.6%	5.0%	10.3%
Domestic Demand (excluding stocks)	4.5%	3.5%	4.8%	3.8%	-18.7%	-3.2%	-3.9%	-1.0%	12.3%	-4.2%	1.9%	4.4%	17.1%
Private Sector	6.1%	5.5%	7.2%	5.0%	-20.3%	-3.9%	-3.9%	-0.9%	13.0%	-4.4%	2.5%	4.4%	18.9%
-Consumption	7.8%	7.1%	8.1%	6.8%	-18.4%	-1.9%	-3.3%	-1.5%	11.7%	-4.2%	3.7%	5.5%	23.9%
-Investment	1.5%	0.4%	3.4%	-1.1%	-26.1%	-10.8%	-6.5%	1.3%	17.3%	-4.9%	-2.8%	0.4%	3.0%
Public Sector	-2.5%	-5.1%	-2.2%	-1.6%	-11.0%	0.1%	-3.8%	-1.7%	9.0%	-3.5%	0.1%	4.8%	9.1%
-Consumption	0.0%	0.4%	0.6%	5.0%	2.4%	6.8%	5.4%	5.6%	8.2%	7.1%	1.6%	6.7%	5.2%
-Investment	-7.6%	-14.2%	-6.7%	-14.2%	-40.0%	-12.9%	-20.4%	-18.5%	12.0%	-28.9%	-3.4%	-0.9%	23.2%
Net Exports of Goods and Services	32.5%	15.3%	-11.1%	-39.6%	-46.4%	25.9%	12.1%	6.6%	57.6%	-39.9%	0.8%	-26.5%	-37.2%
-Exports	0.6%	-1.6%	-3.3%	-7.0%	-21.5%	-4.2%	-1.9%	11.7%	37.1%	4.2%	13.0%	8.0%	15.5%
-Imports	-2.3%	-3.3%	-2.3%	-1.9%	-18.5%	-7.8%	-3.4%	12.2%	35.5%	11.4%	14.5%	11.1%	20.3%

Sources: CEIC, Bank Islam

✓ **Private Consumption** is estimated to increase by 23.9% y-o-y in 2Q2022 (1Q2022: 5.5%).

✓ **Assumptions:**

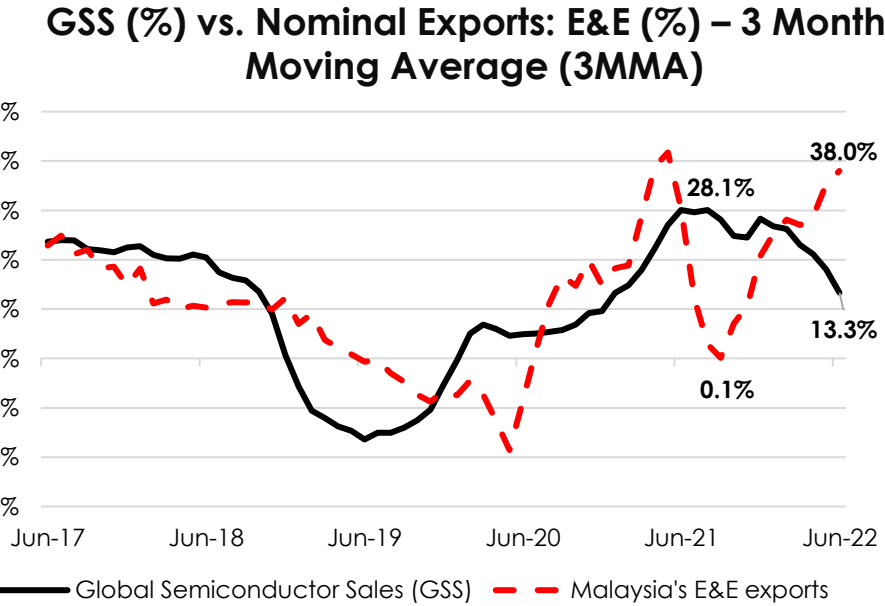
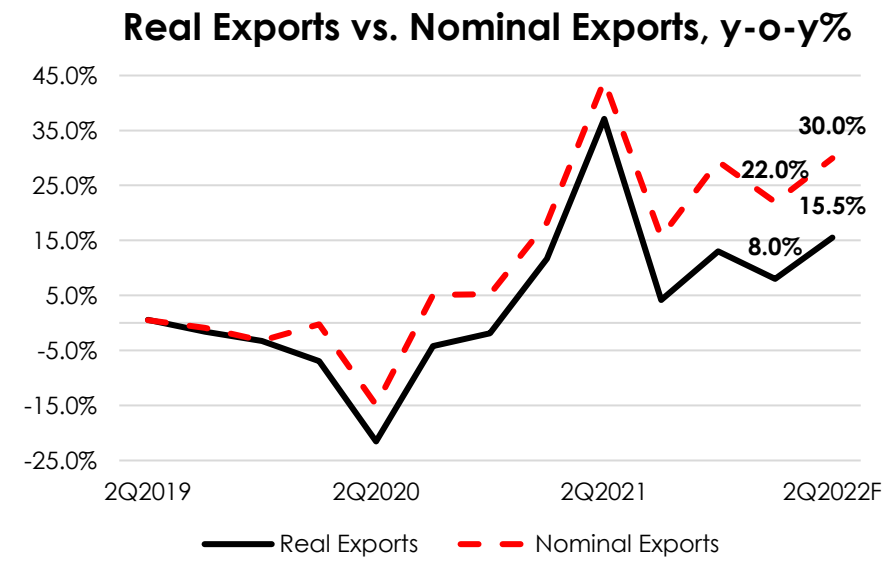
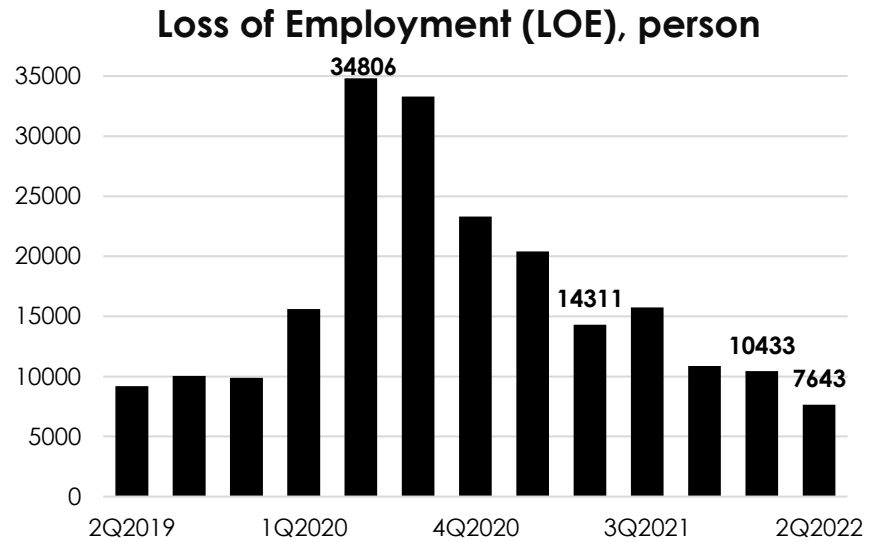
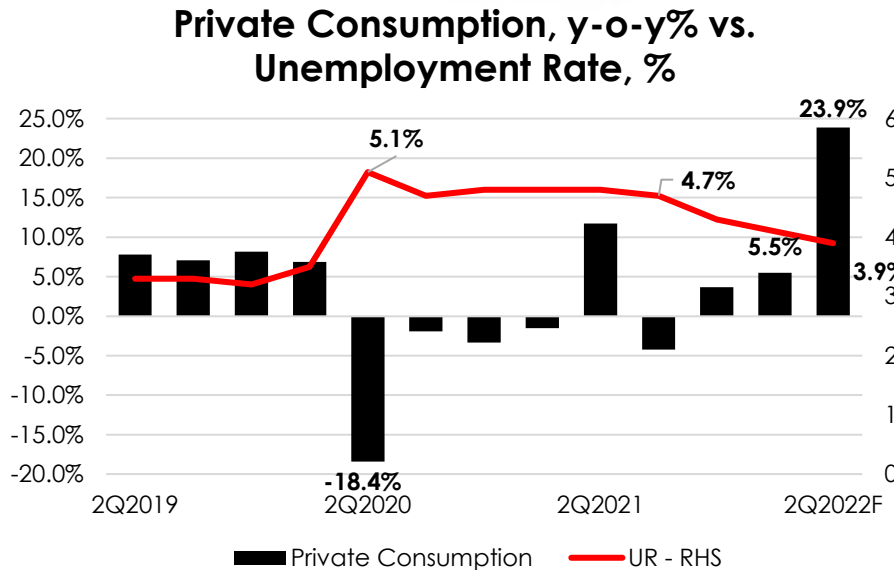
- 1) The retail sales rose by a double digit-growth of 29.2% y-o-y in 2Q2022 (1Q2022: 9.4%), mainly underpinned by Non-specialized Stores (2Q2022: 33.6% vs. 1Q2022: 14.0%) and Household Equipment (2Q2022: 21.7% vs. 1Q2022: 8.8%) during the quarter.
- 2) Apart from that, the unemployment rate maintained its downward trend (2Q2022: 3.9% vs. 1Q2022: 4.1%), signaling more job opportunities in the labour market following the transition to the endemic phase. As such, the loss of employment (LOE) by SOCSO saw a reduction from 10,433 persons in 1Q2022 to 7,643 persons in 2Q2022.
- 3) Additionally, Manufacturing and Services sector wages increased by 5.2% y-o-y and 9.3% y-o-y in 2Q2022 from 4.1% and 5.0% in the previous quarter, indicating that business operations continued to pick up after two years in the pandemic.

✓ On the external sector, **Exports** are expected to reach a double digit-growth of 15.5% in 2Q2022 (1Q2022: 8.0%), supported by a robust external trade performance in view of country's reopening border starting April this year.

✓ **Assumptions:**

- 1) Nominal exports increased by 30.0% in 2Q2022 from a 22.0% in the previous quarter.
- 2) The Global Semiconductor Sales (GSS) have been expanding to double-digit growth for eighteenth consecutive months since January 2021 (June: 13.3% vs. May: 18.0%) despite the weight of rising interest rates and mounting geopolitical risks. This bodes well with our E&E exports which have been increasing from 27.3% in 1Q2022 to 37.6% in the 2Q2022.

DEMAND SIDE – EXTERNAL TRADE IS ALSO A MAJOR CONTRIBUTOR FOR THE ECONOMIC GROWTH DURING THE QUARTER



Sources: CEIC, Bank Islam
ECONOMIC RESEARCH

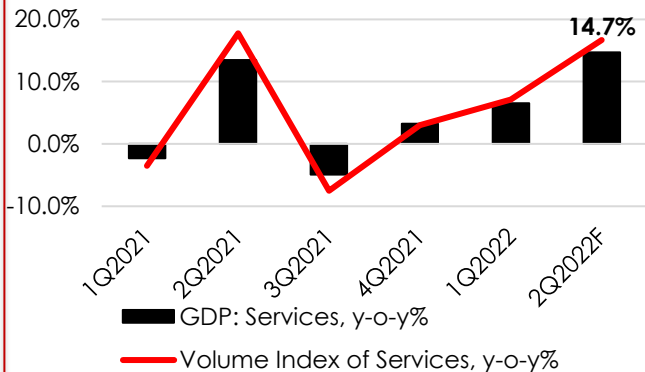
SUPPLY SIDE – SERVICES SECTOR WILL REMAIN AS ANCHOR OF GROWTH IN LIGHT OF BORDER REOPENING IN 2Q2022

Services sector is expected to record strong performance boosted by wholesale & retail trade, accommodation and transport as human mobility improved.

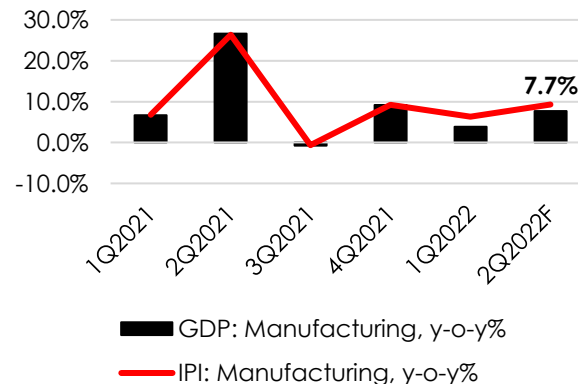
Sturdy external demand continues to support Malaysia's **manufacturing** activities particularly in E&E industry.

Construction to grow positively in view of stronger demand from property-related construction.

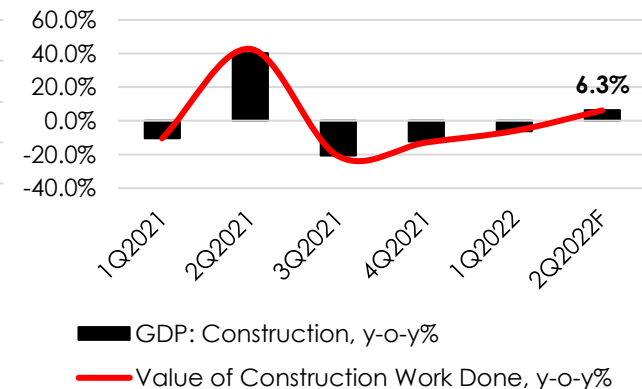
GDP: Services vs. Volume Index of Services, y-o-y%



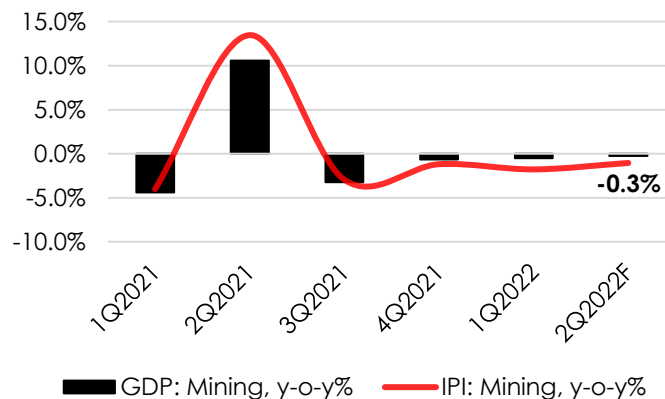
GDP: Manufacturing vs. IPI: Manufacturing, y-o-y%



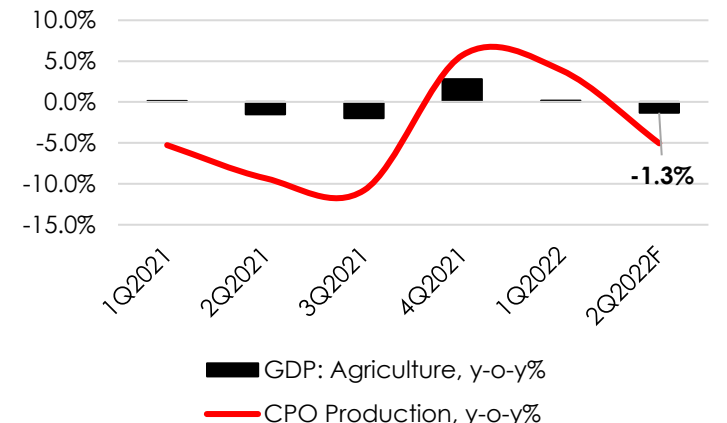
GDP: Construction vs. Construction Work Done, y-o-y%



GDP: Mining vs. IPI: Mining, y-o-y%



Agriculture vs. CPO Production, y-o-y%



Mining and Agriculture are likely to be in negative level during 2Q2022 weighed by weaker output.

Sources: Bank Islam, CEIC, DOSM

- ✓ We estimated the monthly real GDP for April, May and June based on the growth in Malaysia's Coincident Index from the Department of Statistics Malaysia (DOSM) and the growth in the Key Production Index.
- ✓ The Key Production Index is derived from a weighted average growth of economic indicators namely, Industrial Production Index (IPI), Distributive Trade Index and Crude Palm Oil (CPO) Production.
- ✓ The reason for using the growth of the Coincident Index and Key Production Index is due to the **higher correlation with the monthly real GDP growth at 99.5% and 93.3% respectively from Jan 2020 until March 2022.**

Correlation Matrix Between Monthly Real GDP and Coincident Index Growth:

Variables	Monthly Real GDP	Coincident Index
Monthly Real GDP	1.0000	
Coincident Index	0.9945	1.0000

Correlation Matrix Between Monthly Real GDP and Key Production Index Growth:

Variables	Monthly Real GDP	Key Production Index
Monthly Real GDP	1.0000	
Key Production Index	0.9329	1.0000

Sources: Bank Islam, CEIC

- ✓ On further scrutiny, a regression analysis was carried out between the monthly real GDP growth and the growth of these two indexes. The monthly real GDP estimates obtained using the growth of the Coincident Index and the Key Production Index was then averaged to derive the monthly real GDP growth for April, May and June as shown below:

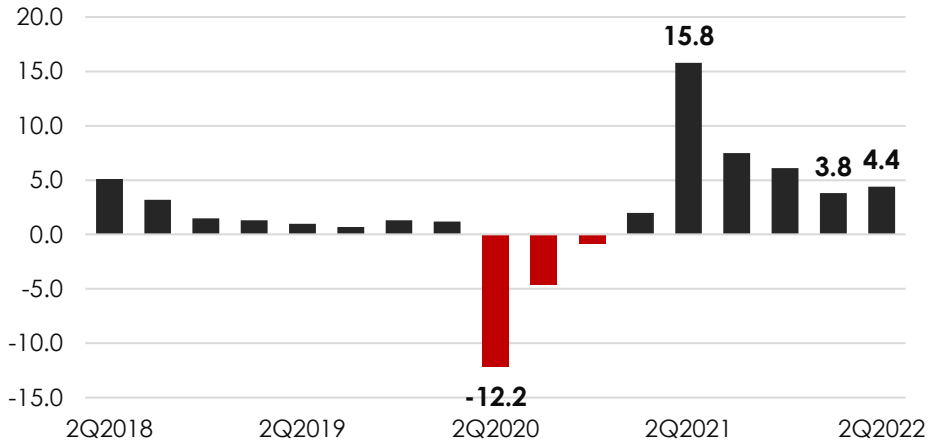
Regression between Monthly Real GDP, y-o-y% and:	Real GDP Estimates from Regression Analysis			
	Apr-22	May-22	Jun-22	2Q2022
Key Production Index Growth, y-o-y%	6.5	7.0	17.7	10.4
Coincident Index Growth, y-o-y%	10.1	12.1	9.5	10.6
Average	8.3	9.6	13.6	10.5

- ✓ The 2Q2022 GDP growth is derived from the average of the monthly real GDP growth from April to June this year at 10.5%, which is close to our estimates based on supply and demand components of 10.3%.

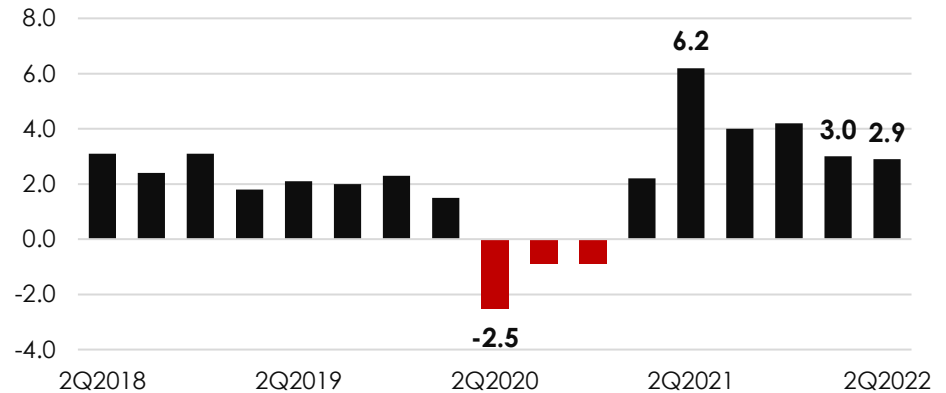
Note: Applied Auto Regressive Integrated Moving Average (ARIMA) forecasting technique to estimate Coincident Index for the month of June 2022.

REGIONAL PEERS CONTINUED TO RECORD A POSITIVE OUTPUT GROWTH DURING 2Q2022 DESPITE HEIGHTENED UNCERTAINTIES IN THE GLOBAL MARKET

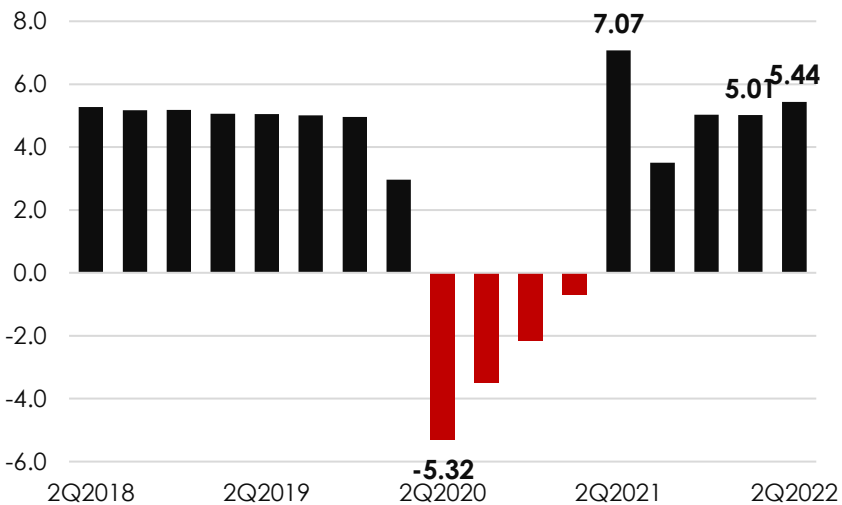
Singapore's GDP, y-o-y%



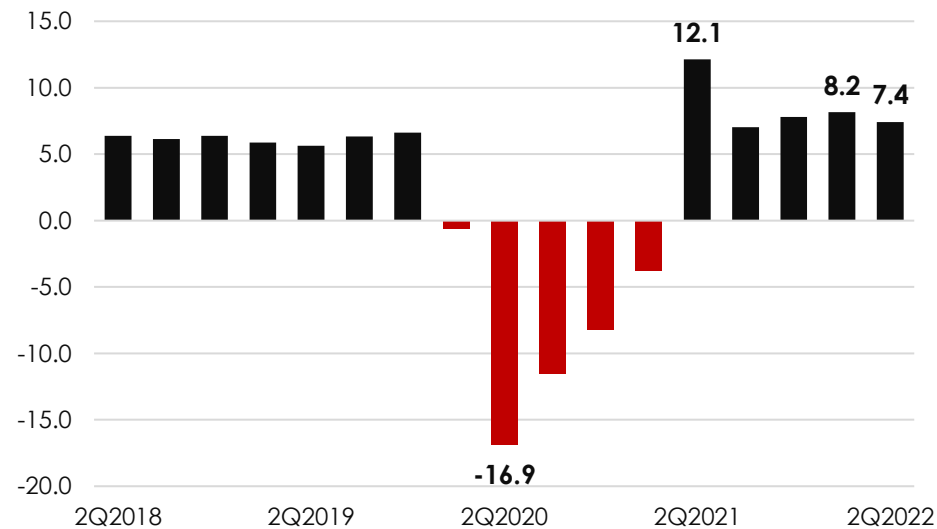
South Korea's GDP, y-o-y% (Advance Estimate)



Indonesia's GDP, y-o-y%



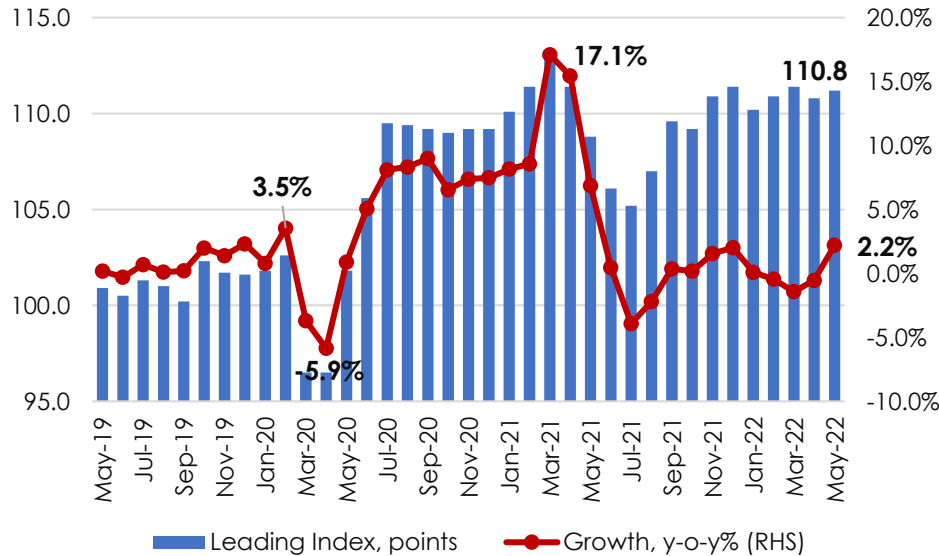
Philippines's GDP, y-o-y%



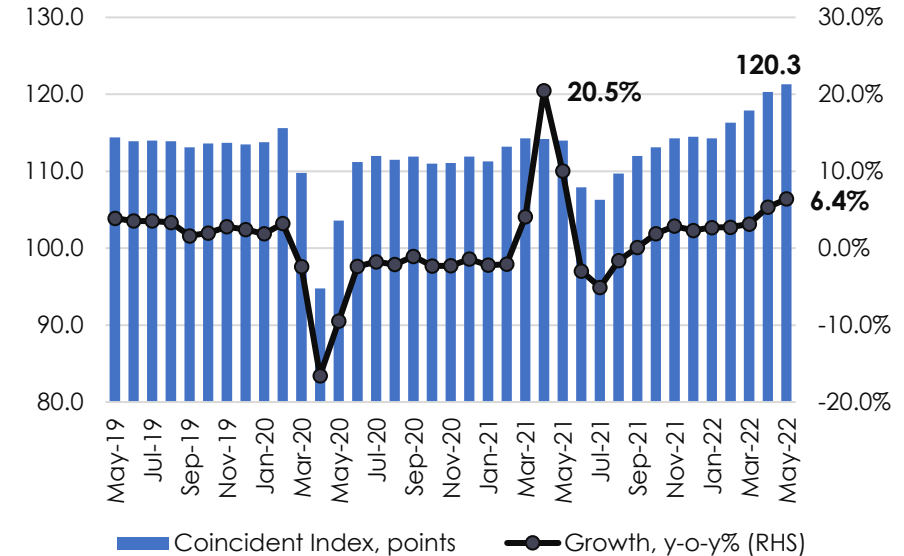
Source: CEIC

OUR VIEW – MALAYSIA’S ECONOMIC ACTIVITIES REMAINED ON TRACK DURING 2Q2022. HOWEVER, EXTERNAL FACTORS COULD AFFECT THE GROWTH TRAJECTORY IN 2H2022

Leading Index



Coincident Index



Source: CEIC

- ✓ The leading index rebounded by 2.2% y-o-y in May (April: -0.5%) after reporting series of contraction in the previous month, indicating an encouraging economic prospect in the months to come.
- ✓ Apart from that, coincident index, which reflects the current state of the economy registered a better y-o-y growth, increasing by 6.4% in May from 5.3% in the previous month. This suggests that Malaysia’s recovery continues to be resilient after entering the endemic phase starting 1 April 2022.
- ✓ As such, we opine that our 10.3% forecasted growth for the 2Q2022 GDP is reasonable as the reopening of international borders is expected to facilitate economic activities especially in the services sector.
- ✓ However, further escalation of geopolitical conflicts, prolonged supply chain disruptions, higher inflation rate alongside with aggressive move by central banks to hike interest rate could pose downside risks to growth moving forward.
- ✓ Already, the International Monetary Fund (IMF) has revised down its economic growth forecast for Malaysia in 2022 from 5.6% to 5.1%, citing that increasing risks of global recession could impede international trade and cooperation.

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An aerial photograph of a city skyline at sunset, with a prominent pink bar at the bottom. The sky is filled with soft, golden light and scattered clouds. The city features numerous high-rise buildings, with a particularly tall, slender skyscraper on the left. A highway with traffic is visible in the foreground, winding through the city. The overall mood is warm and serene.

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GDP by Economic Sector	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021	1Q2022	2Q2022F
Services	3.2%	-16.2%	-3.9%	-4.6%	-2.3%	13.4%	-4.9%	3.2%	6.5%	14.7%
Manufacturing	1.4%	-18.4%	3.2%	3.0%	6.7%	26.7%	-0.8%	9.1%	6.6%	7.7%
Mining	-2.9%	-19.2%	-6.6%	-9.8%	-4.4%	10.6%	-3.2%	-0.6%	-1.1%	-0.3%
Agriculture	-8.8%	0.6%	-0.5%	-1.2%	0.1%	-1.5%	-2.0%	2.8%	0.2%	-1.3%
Construction	-7.9%	-44.3%	-12.2%	-13.7%	-10.5%	40.3%	-20.6%	-12.3%	-6.2%	6.3%
GDP (y-o-y%)	0.7%	-17.1%	-2.5%	-3.3%	-0.5%	15.9%	-4.5%	3.6%	5.0%	10.3%

Sources: Bank Islam, CEIC, DOSM