OCBC TREASURY RESEARCH

Regional Snapshot

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Bouncy Print

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Malaysia's Q2 GDP upside surprise opens the door for more rate hikes

- Malaysia reported Q2 GDP growth rate of 8.9% yoy. We had an above-consensus 7.5% and yet it turned out to be not optimistic enough.
- Looking at the details, the print speaks to the strength of the post-pandemic domestic consumption recovery, bolstered by robust exports strength.
- It further increases the odds of a sustained – even if gradual – pace of rate hikes from Bank Negara. A 25bps hike in the September MPC is a given now, and there is a greater chance of a further hike in November.

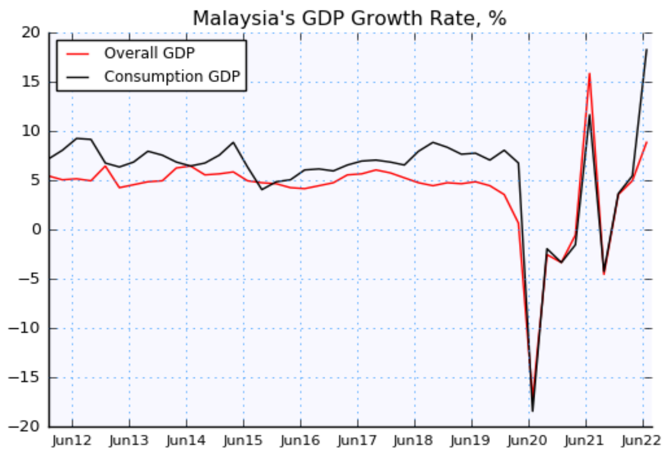
Endemic Elevation

We had thought that having a forecast of 7.5% yoy for the Q2 2022 GDP growth for Malaysia would put us in a comfortable place compared to the median forecast of 7.0%. As it turned out, we had been too conservative in our estimation of the underlying strength in the Malaysian economy over the period, as the actual number turned out to 8.9% yoy.

Technically, that is the highest in just a year, after Q2 2021's 15.9% yoy. However, given that it does not enjoy that much of the uplift from the base year effect as the 2021 print, the latest uptick is all the more remarkable.

Looking into the details, the surge in private consumption stands out above all. It came in at a robust 18.3% yoy growth, compared to 5.5% in Q1. The recovery in the employment over the period, with the unemployment rate declining further to 3.8% in June compared to the height of 4.8% last year, helps to underpin the consumption strength.

This is corroborated with the upticks in industry-level GDP prints, with items such as recreational services up 75.1% yoy and restaurants and hotels up by 36.7% yoy. All together, these signal the type of 'revenge spending' that a country entering the endemic stage of the Covid-19 pandemic has had.



Source: OCBC, Bloomberg.

Elsewhere, investment activities saw a relative uptick, with private-led investment in particular growing by 6.3% yoy in Q2, compared to 0.4% before. Going by the statistics office, this appears to have been led by improvement in the non-residential construction and continued expansion in machinery and equipment investments.

Apart from the domestic drivers, the external growth driver of exports performed well too. Exports grew by 10.4% yoy in Q2, compared to 8.0% in the prior quarter, broadly in line with the strength that we have seen in the customs exports print, bolstered by semiconductor shipment. Given the strength in the domestic consumption, however, import activities also grew considerably, by 14.0% yoy against 11.1% before. The combined effect is that net exports of goods and services shrank by 28.7% yoy, compared to a drop of 26.5% in the prior quarter.

Overall, the strength in Q2 could be seen as a continued pick-up in growth momentum that we had seen in Q1, with the combined H1 growth of 6.9%. This should bode well for the underlying strength in the economy as we step further into the second half of the year, which may look decidedly less supportive especially on the external front that might crimp exports more. Still, given the strength in the GDP prints thus far, we remain comfortable with the full year forecast of 5.7% yoy that we had in mind, even as the challenges of the second half of the year may look foreboding.

On the monetary policy front, even before the upside beat in the Q2 GDP print, we already saw a good chance of a 25bps hike in the September MPC meeting, partly because of the incipient price pressures that are starting to show up more concretely.

Even though there might now be some whispers of a ‘fatter’ hike of, say, 50bps, we continue to attach a low probability to that. The fact that BNM has been relatively early in normalizing rates – having hiked rates twice this year already – gives it the space to continue adopting a modest and gradual approach for now.

Still, we do see a higher chance of another 25bps hike in the last meeting of the year in November, which would put the Overnight Policy Rate at 2.75% by the end of 2022. There is still some time to come, with a number of key data points to look out for in the interim months. In particular, if core inflation picks up speed to above 3.5% yoy by then, compared to the latest 3.0% print of June, the likelihood of the November MPC hike will be a lot more crystallized.

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