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Global Markets Research

Malaysia - Economics

Advanced 3Q GDP and exports surprised on the upside

Advanced 3Q GDP growth unexpectedly accelerated to a one-year high at 5.2% y/y
Exports growth leapfrogged to 12.2% y/y in September; lifting net exports in 3Q
Massively higher 3Q GDP growth, if maintained, spells upside risk to 2025 growth forecast

Summary

Malaysia's advanced 3Q GDP and September external trade both surprised on the upside. Exports growth picked up more than expected to 12.2% y/y in September (Aug: +1.5% y/y) and outpacing the 7.3% y/y increase in imports. This led to a 6.7% y/y and 0.4% y/y expansion in exports and imports respectively in 3Q (2Q: +3.3% y/y for exports and +9.0% y/y for imports), near doubling the trade surplus to RM50.3bn for 3Q as a result. This implied net exports will make a strong return in 3Q (2Q: -72.6% y/y), and we believe this explained the massive upside surprise in the advanced 3Q GDP print at 5.2% y/y, which was a marked acceleration from the 4.4% y/y increase in 2Q.

Advanced 3Q GDP: turnaround in mining; pick-up in manufacturing

The robust growth in advanced 3Q GDP was driven by a sharp rebound in the mining sector (+10.9% vs -5.2% y/y), due to a surge in the natural gas and crude oil subsectors as reflected in the mining IPI. This marked is first positive gain in five quarters. Manufacturing activities also reported better growth during the quarter (+4.0% y/y), regaining some traction from the tariff-related setback in 2Q. Meanwhile, the services sector saw sustained 5.1% y/y growth underpinned by the wholesale & retail trade, transport & storage, food & beverages, and accommodation subsectors. On the contrary, construction and agriculture sectors registered slower growth, with declines in oil palm and rubber subsectors dragging down the agriculture sector.

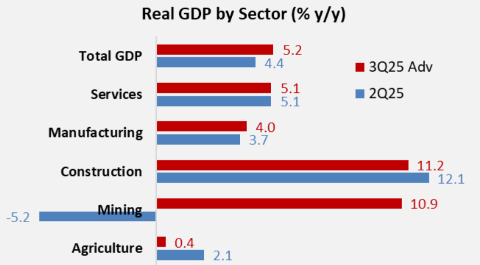
Surge in exports spurred by double-digit gains to the US and Singapore

The jump in September exports was broad-based and benefitted from base effect to some extent. Shipment to Singapore jumped 28.0% y/y in September (Aug: +2.7% y/y) while exports to the US rebounded strongly (+24.4% vs -17.2% y/y), both shored up by E&E and some other manufacturing exports. On the flip side, exports to China slowed (+2.9% vs +10.4% y/y), but at RM16.6bn for the month of September, it remained above the monthly average of RM15.1bn for this year. We also noticed good traction on a month-on-month basis for most of these major export markets (Figure 3). By products, **both manufacturing and commodity exports gained traction**. In the manufacturing space, E&E continued to take the lead, with exports growth picking up to 19.5% y/y in September (Aug: +10.1% y/y). Machinery/ appliances, and optical/ scientific equipment saw extended double-digit growth but chemicals saw extended declines.

Stronger than expected rebound in imports

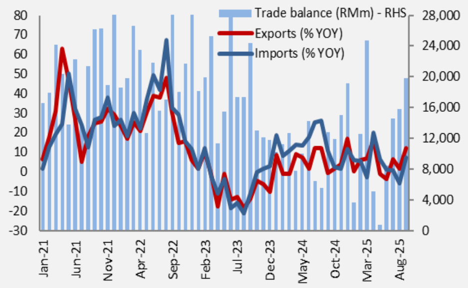
Overall imports staged a stronger than expected rebound of 7.3% y/y in September, putting a halt to the first decline in two years in August (-5.9% y/y). This was attributable to smaller contractions in the imports of intermediate goods (-7.6% vs -16.8% y/y) and a rebound in consumption goods that expanded for the first month in three (+5.1% vs -8.9% y/y). These signaled potentially some improvement in exports and resilient domestic consumption going forward, adding on to the positive vibes in today's trade report.

Figure 1: Advanced 3Q GDP growth defied expectations for a pullback and accelerated to 5.2% y/y, its best in a year



Source: DOSM, HLBB Global Markets Research

Figure 2: Trade surplus widened a 4th straight month in September; auguring well for net exports in 3Q



Source: DOSM, HLBB Global Markets Research

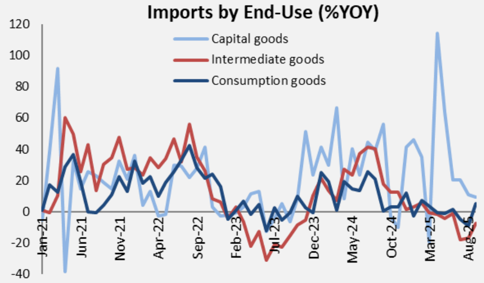
Figure 3: Broad improvement to major export markets except China

Source: DOSM, HLBB Global Markets Research

Outlook

Pleasant surprises from the two releases today bolstered hopes that the Malaysian economy is faring even better than initially expected despite the ongoing challenges surrounding trade and policy uncertainties. While we do not discount possibility of a downward revision to the final print as more data is made available given prevailing downside risks, we do acknowledge the positive traction seen so far is spelling upside risks to our full year growth forecast of 4.0-4.5% for this year. At 5.2% y/y for 3Q, this brought YTD average GDP growth to 4.7%. We will be reviewing our full year GDP growth forecast pending the release of the final print on 14-Novemeber.

Figure 4: Rebound in overall imports growth driven by smaller declines in imports of intermediate goods and rebound in consumption goods



Source: DOSM, HLBB Global Markets Research

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