



Industry Focus: ENVIRONMENTAL SCANNING

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Summary of economic updates

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Global Economic Development & Outlook

- Headwinds across major economies are **dragging down global growth**.
- Based on the IMF's latest projection, **the global economy** is projected to grow by **+3.2% in 2022 and slowdown to +2.9% in 2023**. **Advance economies** would grow **+2.5% in 2022**, then slow down to **+1.4% growth in 2023**.
- Similarly, OECD also projects the global economy to clock in at +3.0% in 2022 before slowing down to a +2.2% growth next year. World Bank foresees global economy to expand by +2.9% in 2022 but expects global economy to clock in at +3.0% in 2023, a slight uptick contrary to the slower trend by IMF and OECD.
- The risks to economic growth are tilted to the downside as **inflationary pressures broaden beyond food and energy** amid prolonged disruption in geopolitics and supply chain, prompting **tightening in more central banks**.

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Domestic Economic Development & Outlook

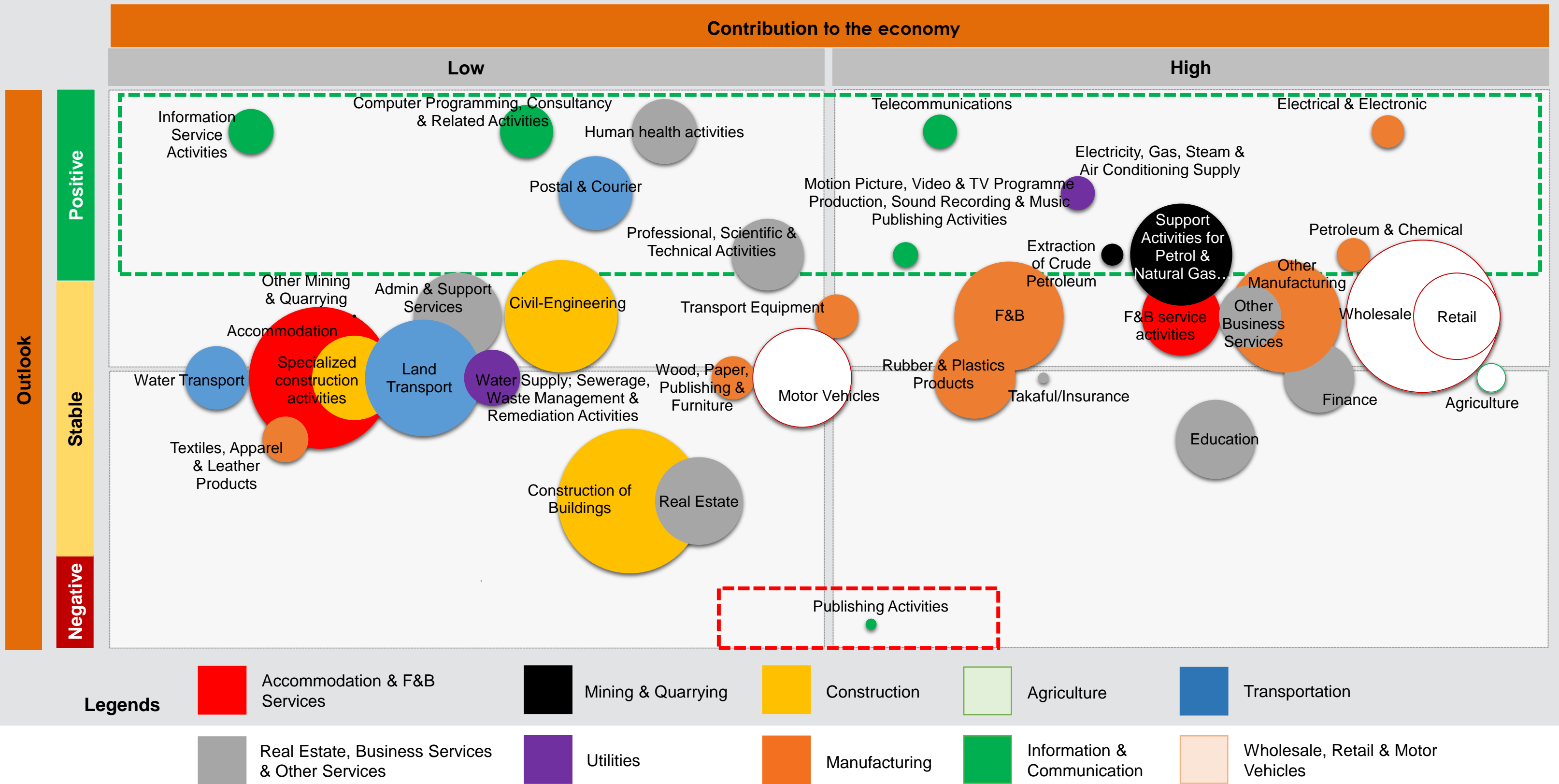
- **Malaysia's 2023 budget** will be tabled in parliament on **Oct 7**.
- 3Q 2022 GDP is expected to be robust (high single digit or double-digit growth rates). 2Q 2022 GDP grew by a robust 8.9% YoY underpinned by strong growth momentum in the services (12.0% YoY) and manufacturing (9.2%) industries, bringing 1H 2022 GDP to 6.9%.
- Internally, we **revised upward 2022 GDP forecast** to **6.4%-7.4%** (previous: 5.0%-6.0%), above **the government's 5.5% - 6.5%**.
- **2023 GDP** of **4.0%-5.0%** is expected, on the back of sustained domestic demand as economic & social activities normalises.
- Nonetheless, we are **cautiously optimistic** on the growth trajectory in 2023 amid rising external headwinds, limited fiscal space, tighter monetary policies, inflationary pressures and slowdown in major economies.

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Environmental Scanning & Sectoral Outlook




- Out of 39 sectors, we have classified **12 sub-sectors as positive** outlook. Meanwhile, there are **26 stable outlook sub-sectors** and **1 sub-sector with negative outlook**.
- **Movements in outlook;**
 - Construction of Buildings (-ve to Stable)
 - Civil-Engineering (+ve to Stable)
 - Real Estate (-ve to Stable)
 - Professional, Scientific & Technical Activities (Stable to +ve)
 - Transport Equipment (+ve to Stable)
- Key sub-sectors are Support Activities for Mining (Positive), Land Transport (Stable), Accommodation (Stable), and Wholesale & Retail (Stable).
- Customer's credit strengths/ weaknesses are important. Clients in positive outlook industries are not necessarily bankable, and vice-versa.

Environmental Scanning: Outlook for 39 sub-sectors



Movements in outlook

Sector	Sub-sectors	Mar-22	New Outlook	Justification
	Construction of Buildings	 → 		<ul style="list-style-type: none"> Demand for housing is likely to be skewed towards affordable and basic segments Logistics and warehousing segments to remain attractive in line with booming e-commerce Government's continuous allocation to Development Expenditure (DE) in housing (2.1% of total DE in 2021), schools and hospitals Supply and demand mismatch – 34k units of unsold completed houses in 2Q 2022 Private office occupancy rate has been on a declining trend at 70.8% in 2Q 2022 (1Q 2016: 78.5%)
	Civil-Engineering	 → 		<ul style="list-style-type: none"> Transport subsector has the largest share of total DE (20% in 2021) - civil engineering works are more prevalent Ongoing government projects (e.g. ECRL, Pan Borneo Highway) – suggest a steady demand for civil engineering activities Government fiscal consolidation commitment - fiscal deficit of 3.0% - 3.5% of GDP by 2025 (2Q 2022: deficit of 5.3% of GDP) Political instability – risk of scrapping/postponing projects (eg: HSR, MRT3) High price of building materials & severe labor shortages
	Real Estate	 → 		<ul style="list-style-type: none"> Amid oversupply issues of properties in the market, increasing economic activities and improving income should increase appetite to buy/ rent Government's initiatives/ campaign such as stamp duty exemption for first-time homeowners, Malaysia My Second Home programme (MM2H) and Premium Visa Programme (PVIP) provide some relief to the residential market Upbeat manufacturing activities, rising e-commerce and structural shift towards omnichannel retailing increases demand for industrial/ production sites and warehouses
	Professional, Scientific & Technical Activities	 → 		<ul style="list-style-type: none"> This sub-sector comprises a number of services which include legal, accounting/auditing, engineering, architectural, graphic designing, photography, advertising, veterinarian, etc. which generally are in greater need as economy improves Demand for engineering services should be high in line with Malaysia's role in the global E&E supply chain High prospects for digital graphic designing/ advertising following e-commerce boom & government's digitalisation agenda
	Transport Equipment	 → 		<ul style="list-style-type: none"> Discontinuation of SST exemption on cars and the prospect of targeted fuel subsidy on top of road congestion may reduce consumers' demand hence affecting production While new line-up every year and the prospect of electrical vehicles entering the market are positive for vehicles manufacturing, prolong chip shortages remain an issue

Outlook Summary		
Negative		1
Stable		26
Positive		12

Key sub-sectors: Upside Potential and Downside Risks

Positive



- + The **recovery of the economy** has increased **travelling and demand for energy**, indirectly raising the demand for fuel extraction's support activities.
- + **Petronas** is increasing its **capex allocation** from RM30.5 bill in FY21 to **RM60 bill in FY22**. Thus, spillover effect to the mining support service sub-sector will benefit.
- ESG concerns - to attain a net **zero carbon emission** by 2050, **higher investment costs** are required in the technologies.

Support Activities for Mining



Stable



- + Demand for land transport (both passenger and freight) in the railroad segment is expected to rise, in line with ongoing **major infrastructure projects** like MRT2, ASEAN Express, LRT3, and ECRL.
- + Demand for **transport via pipeline services** to remain high, with continued **rise in demand for energy**.
- Upward **inflationary pressure** may **reduce discretionary expenses** (e.g. vacation).
- The potential **removal of blanket fuel subsidy** – may increase retail fuel prices.

Land Transport



Stable



- + Malaysia has **diverse** tourist attractions (incl. medical, halal, eco, sustainable tourism).
- + **Border reopening** and the **weak ringgit** led to gradual rise in arrivals numbers.
- + MoTAC further revised upward international tourist arrivals target in 2022 to 9.2 mil (previously: 4.5 mil).
- + Pick up in **local tourism** trend
- **Slower recovery, absence of China's tourist**. Chinese tourist is our top 3 largest share of total tourist arrivals and their spending per capita is significantly higher than that of Singapore and Indonesia.

Accommodation



Stable



- + **Economy recovers**. Labour shortages, higher minimum wages and better hiring prospects drives up income.
- + Wholesale & Retail Trade has consistently rose by double digit for the past few months (Jul: +28.3% YoY).
- + KPDHENP **allows venture into smaller store**, providing more options to consumers.
- **Rising inflationary pressure** erodes purchasing power.
- **High competition** especially in **convenience store market**.
- More targeted cash handouts by government.

Wholesale & Retail



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