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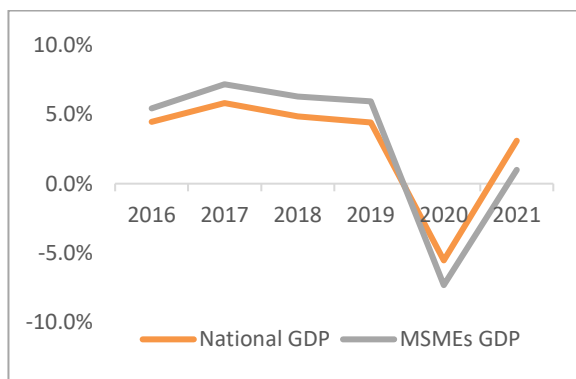
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Malaysia's economic performance registered a stellar growth in 2Q 2022, with Gross Domestic Product (GDP) of 8.9% YoY, bringing the 1H 2022 GDP to 6.9% (1H 2021: 7.0%) and above pre-pandemic average (1H 2019) of 4.9%. Private consumption was the key contributor, which jumped 18.3% YoY (1Q: 5.3%). While the **Micro, Small, Medium Enterprises (MSMEs) GDP** is still below the pre-pandemic level, based on the latest available data in 2021, it has shown **an encouraging recovery momentum**, charting a growth of 1.0% (2020: -7.3%).

Growth trajectory is expected to continue this year with the resumption of all economic activities and the reopening of international borders. This is in line with our **SMEs Sentiment index**¹ score of 53.8, which points to some degree of **optimism** as 57.3% of respondents expect business environment to improve over the next 6 to 12 months.

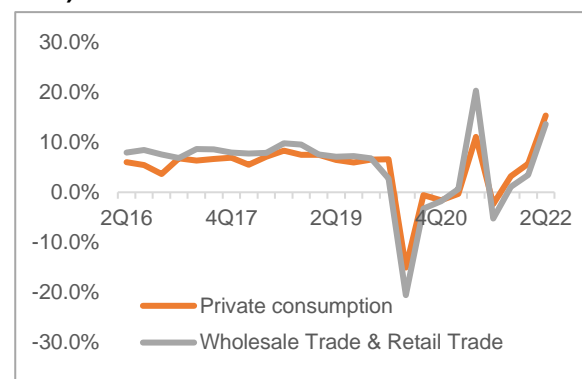
Higher household spending and business expansion plans provide a silver lining for MSMEs, especially businesses in the vulnerable sectors that were severely affected by the pandemic such as the retail and tourism-related industries. MSMEs makes up 98.5% of the establishments in the wholesale & retail trade sector. There is a **high correlation between private consumption and the wholesale & retail trade** sector which stood at 0.94 (1 is perfectly correlated while 0 has no relationship).

Chart 1: MSME GDP growth was slower than National GDP since 2020 (% YoY)



Sources: CEIC, DOSM and SME Bank

Chart 2: Almost perfect correlation between private consumption and wholesale & retail (% YoY)

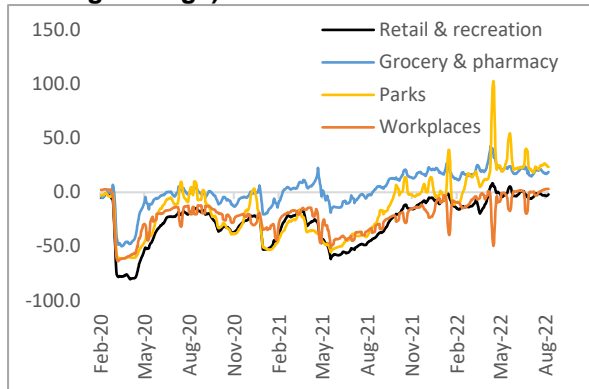


For 1H 2022, wholesale trade sales rose 10.4% YoY (1H 2021:10.5%), and retail trade jumped 19.1% (1H 2021: 9.7%). This was **in line with healthy trend of the Google mobility report** (Chart 3) amidst the normalisation of economic and social activity. Pick ups in mobility and out-of-home activities had translated into **better footfalls in brick and mortar stores**, jolting the demand for goods and services as depicted by **double-digit growth in retail sales**.

Since the reopening of our borders in April 2022 (Chart 4), tourist arrivals had surged 44.9% MoM to 971,574 persons in June (May: 71.0%; 2017-2019 monthly average: 2.2 mil persons). According to the Ministry of Tourism, Arts and Culture, inbound tourists are expected to spend RM26.8 bil during their stay this year (2019: RM89.4 bil). While still a far-cry from pre-pandemic levels, these are positive developments for MSMEs.

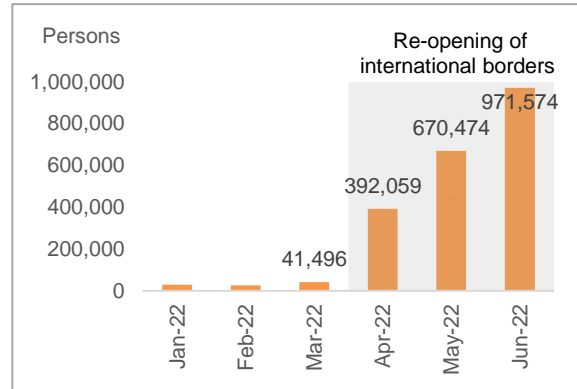
1. SME Bank published its inaugural SME Sentiment Index on 15 August 2022. The Index serves to gauge SMEs' sentiment on the economy and business environment, providing a glimpse into the reality of SMEs on the ground. A score of above 50 reflects optimism/ positive sentiment and vice versa.

Chart 3: Higher Google Mobility readings after lifting of pandemic-related restrictions (7-day moving average)



Sources: Google Mobility Report, SCEA SME Bank

Chart 4: Tourists streaming into Malaysia



Sources: CEIC, SCEA SME Bank

The labour market continues to improve in tandem with stronger economic activity. Employed persons rose 3.2% YoY in 2Q 2022 (1Q: 2.2%) to 15.7 mil while jobless claims retreated to 7,600 persons (1Q: 10,400). These translated to a better unemployment rate of 3.9% (1Q: 4.1%), the lowest since the onset of the pandemic. Wage growth in the private sector expanded 7.8% in 2Q 2022 (1Q: 4.7%) as a result of tight labour market and the minimum wage hike. Healthy recovery in labour market raises disposable income, which may spilled over into higher spending, supportive of the firm domestic demand.

Moreover, core CPI, a demand gauge indicator, trended higher at 3.4% YoY in Jul 2022 (Jun: 3.0%), reflecting the increased underlying price pressures. **E- payments and credit card transactions, a proxy of private consumption, grew 34.7% YoY in 2Q (1Q: 24.3%) and 51.7% (1Q: 29.2%),** respectively. The strong spending was also attributed to ongoing policy support such as special EPF withdrawal, cash aids, vehicle tax exemption, subsidies and accommodative monetary policy etc.

Overall, the strong economic recovery momentum will uplift the broad MSME segment. **With 1H economic expansion at 6.9%, we believe 2022 full year GDP could overshoot Bank Negara Malaysia’s forecast range of 5.3% - 6.3%.** While recent data points towards an encouraging growth trend, Malaysia could face headwinds from slower external demand. MSMEs should remain cautious and vigilant amid rising challenges and downside risks such as weaker than expected global growth, waning pent-up demand, high-cost environment, further escalation and prolonged geopolitical conflicts as well as worsening supply chain disruptions.

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