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Research house cites fading of base effects and pent-up demand, tighter credit conditions and weakening global growth outlook

FitchSolutions

PETALING JAYA: Malaysia's economic growth is expected to slow to 4.0% this year from 8.7% in 2022, due to fading of base effects and pent-up demand, tighter credit conditions and weakening global growth outlook, according to Fitch Solutions Country Risk and Industry Research.

Based on its outlook report for 2023, the research house said that while it expects the economy to return to growth over the coming quarters, it believes the pace of economic expansion will moderate significantly with credit conditions tightening further and pent-up demand fading.

"Moreover, the export outlook will likely weaken further on the back of a slowing global economy and as the semiconductor industry continues to be in a downcycle," it said in a statement yesterday.

From a gross domestic product by expenditure perspective, the research house said, the growth slowdown in the fourth quarter of 2022 (Q4'22) was broad-based, with export growth weakening the most from 23.9% year-on-year (y-o-y) in Q3'22, to 9.6% in Q4'22.

"Meanwhile, private consumption growth also slowed to 7.4% y-o-y, versus 15.1% in the previous quarter, while gross fixed investment expanded by 8.8% y-o-y, as compared with 13.1% in Q3'22," it said.

In terms of growth, the report said that it expects base effects to turn unfavourable after Malaysia posted its highest growth rate since 2000. While cash handouts and subsidies on food and fuel, combined with the easing of Covid-19 restrictions drove up aggregate demand in 2022, the growth impulse is unlikely to be sustained.

"Households and businesses have already drawn down on their savings considerably since April 2022 and we expect that the 100bps of interest rate hikes by Bank Negara Malaysia (BNM) to gradually feed through, further weighing on consumer appetite. Accordingly, we continue to expect private consumption growth to slow significantly to 5.0% in 2023, from 11.5% in 2022," said Fitch Solutions.

Additionally, it said that it anticipates gross fixed investment growth to slow markedly to 2.0% in 2023, versus 6.8% in 2022, as both domestic and external monetary conditions continue to tighten and as business confidence wanes.

"BNM has adopted a relatively gradual tightening approach, having hiked its policy rate by only 100bps to 2.75% since it began its rate hiking cycle in May 2022. However, we are expecting an additional 50bps of hikes over the coming months, as real interest rates remain negative and underlying price pressures remain elevated by historical standards, with core inflation coming in at 4.1% y-o-y in December," it said.

The research house opined that as higher borrowing costs gradually feeds through, this will likely weigh on domestic and foreign businesses' appetite to borrow and invest. Malaysia's manufacturing PMI has fallen further to 46.5, marking the sixth consecutive month of decline and fifth straight month that the reading stayed below the 50 mark that separates contraction and expansion.

Meanwhile, it said that a slowing global economy will hurt exports and it expect growth to decline sharply to 3.0% in 2023, from 12.8% in 2022. It added that the reopening of the mainland Chinese economy should provide a tailwind for Malaysian exporters given that the latter is Malaysia's largest export destination, accounting for more than one-fifth of total outbound shipments.