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Summary

- Malaysia's economy experienced a difficult 2021, with a -4.5% year-on-year GDP contraction in Q3. But buoyed by strong exports and government spending, the economy is projected to bounce back strongly to 4-7% growth in 2022.
- While risks such as COVID-19 variants, government fiscal constraints and international headwinds remain, for New Zealand exporters looking to expand and diversify offshore, Malaysia continues to be a market worth considering.

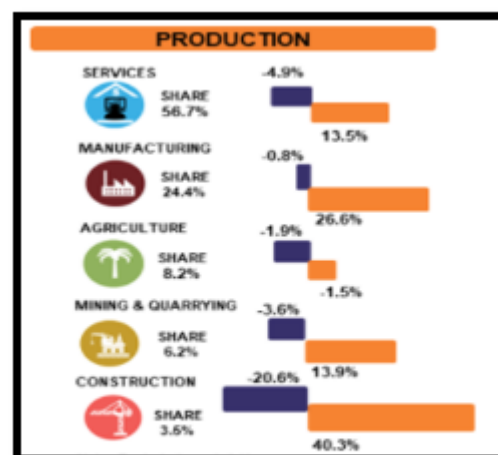
Report

Malaysia's economy: crunching the latest numbers

- The Department of Statistics Malaysia announced a -0.5% year-on-year GDP contraction in Q1 2021 driven by the hard lockdown in January through March, followed by 16.1% growth in Q2, and a -4.5% slump in Q3. Economic commentators are projecting a return to growth in Q4 2021, resulting in around 2% to 4% year-on-year GDP growth in 2021, and 4% to 7% growth in 2022.

A quarter three slump...

- Following the second lockdown in Q3 2021, most predictions were for around 1.3% growth for the year over 2020, so the -4.5% figure was higher than anticipated.
- A closer examination of key indices for Q3 year-on-year 2021 changes paints a sombre story: construction (-20.6%); services (-4.9%); mining and quarrying (-3.6%); agriculture (-1.9%); and manufacturing (0.8%). Consumer spending was unsurprisingly also down (-4.2%), as was private investment (-4.8%).
- Despite these headline figures, the monthly GDP breakdown for the three months of Q3 showed a steady improvement: from -7.6% in July, -4.7% in August to -1.1% in September.



The orange line shows Q2 year-on-year changes for 2021 and the purple line Q3 year-on-year changes for 2021.

... Followed by a quarter four jump?

- The World Bank and Economist Intelligence Unit have projected a return to growth in Q4 2021, resulting in around 2% to 4% year-on-year GDP growth overall for 2021 (off a low base of -5.8% in 2020). This prediction is based on the easing of lockdown restrictions in September, the acceleration of an already largely successful vaccination programme, an expected post-lockdown rebound in private consumption and investment, recovery across all

economic sectors, export expansion, and increased business and consumer sentiment on the back of the expansionary Budget 2022.

- Other positive 2021 indices included Malaysia's inflationary pressure remaining contained, relative to its neighbours. Core inflation was 0.7%, in part driven by a significant decrease in property prices. That said, there has been a surge in the price of key food items due to adverse weather conditions and the shortage of foreign labour. Another positive index was headline unemployment falling, to around 4.0%.



Is Malaysia gradually emerging from the worst of the pandemic?

- Economic commentators are projecting that Malaysia's GDP growth will increase around 5% to 7% in 2022. (The average annual growth rate for the ten years pre-pandemic was 4.5%). Of course, there are several headwinds that may prevent Malaysia achieving growth at this level: new COVID-19 outbreaks, a faster than expected slowdown in global and regional growth, unanchored inflation expectations and faster than anticipated tightening of global financial conditions.
- Goldman Sach's 2021 GDP forecast for Malaysia of 2.8% growth positions it as the second-slowest in the ASEAN-5 after Thailand's 0.9%. However, its 2022 GDP forecast for Malaysia of a 6.6% expansion would make it the second-fastest in the ASEAN-5 after the Philippines (7.3%).
- That forecast for GDP growth in 2022 however is being questioned by other economic commentators as unrealistic, and one of the highest projections in the world. Most economic forecasts for developing country growth in 2022 put the number at an average of 4.5%.

Malaysia trade: a pulse check

- Malaysia is New Zealand's 11th largest trading partner, and third largest within ASEAN, with a total trade value of \$2.74 billion. It remains a key destination for New Zealand exports, particularly primary produce. Our exports to Malaysia overall were down (-13.5%), for the last 12 months ending September 2021. While significant, this figure was largely consistent with New Zealand's exports to ASEAN, which were down by 13.1% for the last 12 months ending September 2021. The decline may be attributed to a reduction in demand because of COVID-19 restrictions, supply chain and red tape constraints, and a re-direction of supply to other markets. Notwithstanding this dip, the New Zealand companies operating in Malaysia that we have spoken to remain mostly positive about their sales and operations.

Malaysia: an export market worth considering

- For New Zealand exporters looking to expand and diversify offshore, Malaysia continues to be a market worth considering. The significant network of free trade agreements (AANZFTA, MNZFTA, RCEP and CPTPP) we share with Malaysia, skilled English-speaking workforce, and ranking of 12th in the world for ease of doing business makes it an attractive export destination. Malaysia is also a cost-effective strategic gateway into the ASEAN market. ASEAN with its significant and youthful population (over 661.5 million), growing affluent middle class and general dynamism is likely to only attract more attention in the coming years.

Where to go to find out more

- Exporters can sign up to [myNZTE](#) for Malaysia market information on a number of topics.
- If you have specific questions or want to learn more about the Malaysian market, the New Zealand team in Kuala Lumpur (both Ministry of Foreign Affairs and Trade and New Zealand Trade and Enterprise) are happy to engage with exporters and investors by zoom, email, phone or in-person to talk further about the opportunities present in the Malaysian market.

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