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ECONOMIC THEMATIC REPORT

Preview of 12th Malaysia Plan Midterm Review

KEY HIGHLIGHTS

- **Post-pandemic growth rate top 12MP target. Despite of pandemic-led crisis in 2020, the economic recovery pace was faster than expected. Malaysia's real GDP grew by +5.9% per annum during the period 2020-2022, way higher than the 12MP target of CAGR rate +4.5~5.5%.**
- **Long-road for compensation of employees (COE). From peak 37.4% in 2020, the labour income share dropped to 32.4% of GDP in 2022. We view the 12MP-MTR will readjust the target to 35% by 2025.**
- **Over-concentration in Selangor. In 2015, Selangor contributed 22.8% to national GDP. After 7 years, the contribution rate had increased to 25.5% in 2022. This surpassed the 12th Malaysia Plan (12MP) target rate of 23.6% by 2025.**
- **Tough to reach -3.5% fiscal deficit target within 2 years. We view the fiscal deficit ratio to stay at range of -4% to -4.5% by 2025. Limited income streams and elevated expenditure levels will keep the fiscal balance trajectory on challenging path. Under the 12MP, DEVEX allocation was RM400b, RM80b per annum (11MP: RM248b). For the past 2021-2023F, the government has allocated RM232.8b.**
- **Skilled employment still below target. Even though on improving trends, skilled-employment ratio still lag behind and it seems a bit far-fetched to reach 35% by 2025. The semi-skilled and low-skilled employment shares have been declining yet not as fast as expected.**

ECONOMICS & POLICY

Post-pandemic growth rate top 12MP target. Despite of pandemic-led crisis in 2020, the economic recovery pace was faster than expected. Malaysia's real GDP grew by +5.9% per annum during the period 2020-2022, way higher than the 12MP target of CAGR rate +4.5~5.5%. Stimulus measures such as EPF withdrawals, 6-month loan moratorium and wage subisidy have contributed to the steady economic recovery. Private consumption expanded by +6.4% per annum in post-pandemic period, beating the 12MP target rate of +5.8%. Similarly, government consumption increased by +5.5% against +3.7%. On external front, post-2020 saw double-digit expansion rate for both real exports and imports. The strong surge had pushed real exports to GDP ratio 74.6% in 2022, way beyond 12MP target of 64.1%. For the upcoming midterm review of 12MP (12MP-MTR), we believe the government of Malaysia via Ministry of Economy will maintain the focus of enlarging domestic demand share in the economy especially private consumption at 61.9% by 2025. By sector, services to GDP ratio has hit the 2025 target. We foresee the sector will have a new ratio goal of 60% by 2025. Revival of tourism industry, digitalization efforts and improving labour market conditions are among key supportive factors for the services sector.

Table 1: Malaysia's GDP by Expenditure & Sectoral Approach

	% of GDP					CAGR %		
	2019	2020	2021	2022	2025	2015-2020	2020-2022	12MP Target Rate
Real GDP	-	-	-	-	-	2.7	5.9	4.5-5.5
Expenditure-Approach								
Private Expenditure	75.5	75.3	74.4	75.5	76.8	4.0	6.1	5.4
Consumption	58.7	59.6	58.8	60.2	61.9	4.8	6.4	5.8
Investment	16.8	15.6	15.6	15.3	14.8	1.2	4.9	3.8
Public Expenditure	18.4	18.6	18.3	17.6	17.3	(0.8)	3.1	3.4
Consumption	12.1	13.3	13.8	13.2	12.6	3.1	5.5	3.7
Investment	6.3	5.2	4.5	4.4	4.7	(7.9)	(3.3)	2.6
Net Exports	7.1	6.5	6.0	5.5	6.0	(0.3)	(2.5)	3.1
Real Exports	63.8	61.7	70.8	74.6	64.1	0.3	16.5	5.8
Real Imports	56.7	55.2	64.8	69.1	58.1	0.4	18.5	6.1
Sectoral-Approach								
Agriculture	7.1	7.4	7.1	6.6	7.0	0.3	(0.0)	3.8
Mining	7.2	6.9	6.7	6.4	6.1	(2.1)	1.8	2.6
Manufacturing	22.2	22.8	24.2	24.1	23.7	3.2	8.8	5.7
Construction	4.7	4.0	3.7	3.5	3.8	(0.6)	(0.2)	4.2
Services	57.6	57.8	57.1	58.3	58.3	3.8	6.5	5.2

Source: DOSM, EPU, MIDFR

Long-road for compensation of employees (COE). Expansion rate of COE was slower at +4.6% per annum in post-pandemic period against +8.9% 12MP target rate. From peak 37.4% in 2020, the labour income share dropped to 32.4% of GDP in 2022. We view the 12MP-MTR will readjust the target to 35% by 2025. To achieve 45%, as highlighted in the Economic Madani Narratives, will take more years and crucial efforts to alleviate the labour income share. Based on our estimate, COE has to increase by +10.8% per annum from 2022 to reach 40% mark by 2030. This assuming GOS and Net Taxes growing the same CAGR of 12MP target. To reach 45% by 2030, COE is expected to surge by +13.7% per annum. It is a long road for COE to reach above 40%. Higher skiled-worker to employment ratio, progressive wage model and minimum wage policy are among the factors that may potentially uplift the COE.

Table 2: Malaysia's GDP by Income Approach

	% of GDP					CAGR %		
	2019	**2020**	**2021**	**2022**	**2025**	**2015-2020**	**2020-2022**	**12MP Target Rate**
Compensation of Employees (COE)	35.9	37.4	35.1	32.4	40.0	5.2	4.6	8.9
Gross Operating Surplus (GOS)	60.5	59.9	62.6	67.0	57.1	3.7	18.9	6.3
Net Taxes	3.7	2.7	2.3	0.6	2.9	(7.1)	(46.6)	8.5

Source: DOSM, EPU, MIDFR

Over-concentration in Selangor. In 2015, Selangor contributed 22.8% to national GDP. After 7 years, the contribution rate had increased to 25.5% in 2022. This surpassed the 12th Malaysia Plan (12MP) target rate of 23.6% by 2025. Strong economic expansion in Selangor while other states grow at relatively slower pace are the factors contributing to the GDP ratio surge. Since 2016, GDP growth in Selangor outperformed national economic growth. Penang and Kuala Lumpur are other key states that have beaten 12MP's 2025 GDP share target. By CAGR, only Penang, Selangor, Kuala Lumpur, Johor and Melaka recorded stronger growth rate than the 12MP target. Looking ahead, we opine the 12MP-MTR will address this state economies' imbalances. We are optimistic certain states will benefit more with the upcoming completion of East Coast Railway Line (ECRL) and Pan-Bornei Highway projects.

Table 3: Malaysia's GDP by State Approach

	% of GDP					CAGR %		
	2019	**2020**	**2021**	**2022**	**2025**	**2015-2020**	**2020-2022**	**12MP Target Rate**
Malaysia	-	-	-	-	-	2.7	5.9	4.5-5.5
Johor	9.4	9.5	9.4	9.4	9.6	3.1	5.3	5.1
Kedah	3.3	3.4	3.4	3.4	3.6	3.1	5.2	6.2
Kelantan	1.8	1.9	1.9	1.8	2.0	3.3	3.3	6.7
Melaka	3.1	3.0	3.0	3.0	3.0	2.6	5.3	4.8
Negeri Sembilan	3.4	3.4	3.4	3.4	3.4	2.9	4.7	5.0
Pahang	4.1	4.1	4.0	4.1	4.4	2.1	5.8	6.3
Penang	6.6	6.9	7.1	7.4	7.0	3.5	10.0	5.4
Perak	5.3	5.5	5.5	5.3	5.7	3.3	3.9	5.6
Perlis	0.4	0.4	0.4	0.4	0.4	1.6	3.5	5.8
Selangor	24.2	24.3	24.7	25.5	23.6	4.0	8.5	4.3
Terengganu	2.5	2.5	2.5	2.5	2.7	1.8	4.8	6.6
Sabah	6.0	5.8	5.7	5.4	6.2	1.1	2.6	6.5
Sarawak	9.6	9.5	9.5	9.3	9.6	1.0	4.8	5.3
Kuala Lumpur	16.4	16.2	15.8	15.9	15.5	3.8	5.0	4.2
Labuan	0.5	0.6	0.6	0.5	0.6	4.9	2.2	5.5
Supra*	3.2	3.0	3.0	2.8	2.6	(4.6)	2.5	1.7

Source: DOSM, EPU, MIDFR
* indicates economic activity not constrained by state boundaries.

Table 4: Malaysia's GDP by Sectoral and State Approach

	Agriculture		Mining		Manufacturing		Construction		Services	
	2022	**2025**	**2022**	**2025**	**2022**	**2025**	**2022**	**2025**	**2022**	**2025**
Johor	17.5	16.6	0.7	0.9	11.8	12.7	7.4	7.1	8.6	8.6
Kedah	5.7	5.3	0.1	0.1	4.3	4.4	2.3	2.1	3.2	3.6
Kelantan	5.7	6.3	0.4	0.4	0.4	0.4	0.9	0.7	2.2	2.5
Melaka	4.6	4.6	0.1	0.1	4.6	5.0	1.8	2.0	2.6	2.5
N. Sembilan	3.3	3.5	0.2	0.2	5.3	5.3	2.7	2.7	3.0	3.0
Pahang	13.8	13.6	0.6	0.8	3.8	4.0	3.0	2.5	3.6	4.0
Penang	2.1	1.8	0.1	0.2	14.9	13.5	5.1	3.5	5.9	6.0
Perak	11.4	11.8	0.5	0.5	4.3	4.6	3.8	3.3	5.8	6.2
Perlis	1.1	1.2	0.0	0.0	0.1	0.1	0.3	0.3	0.5	0.5
Selangor	4.9	5.2	0.8	1.0	32.2	31.5	34.1	34.8	26.5	23.8
Terengganu	2.6	3.0	0.2	0.2	3.9	3.8	2.1	2.1	2.2	2.6
Sabah	12.6	13.0	21.1	22.5	1.6	1.8	4.7	4.2	4.6	5.6
Sarawak	14.7	13.9	30.6	30.5	10.8	10.6	8.8	7.3	5.9	6.7
KL	0.0	0.0	0.2	0.2	1.7	1.8	22.9	27.2	24.8	23.5
Labuan	0.1	0.1	0.0	0.0	0.4	0.4	0.3	0.3	0.7	0.8
Putrajaya	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: DOSM, EPU, MIDFR

RCEP, CTPPP and NIMP 2030 to alleviate Malaysia's external front. We expect 12MP-MTR will surely set a new target for Malaysia's external trade sector. Thanks to the robust global demand after 2020, exports expanded by +25.5% per annum, outpacing the +5% target rate. By GDP ratio, exports share skyrocketed to 86.5% in 2022, against 61.9% set for 2025. Similarly, imports share to GDP shot up to 72.2% in 2022, almost 20% higher than the 2025's target share. Under 12MP-MTR, we believe the growth rates for external trade to return to a single-digit pace amid challenging global trade environments. Looking beyond 2023, positive prospects for Malaysia's external trade activities will probably come mainly from new trade agreements taking effect. After the pandemic, Malaysia had ratified Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). RCEP came into force on 18th March 2022 and CPTPP on 29th November 2022. There are 15 countries in RCEP; Malaysia, Brunei, Singapore, Vietnam, Cambodia, Indonesia, Laos, Myanmar, the Philippines, Thailand, China, South Korea, Australia, Japan and New Zealand. CPTPP is another free trade agreement (FTA) in which Malaysia participates, which includes other member countries namely Australia, Brunei Darussalam, Canada, Chile, Japan, Mexico, Peru, New Zealand, Singapore and Vietnam. Based on MITI's estimate, CPTPP would alleviate Malaysia's GDP by USD56.5b throughout 2021 to 2030. Having these two FTAs, Malaysian products can penetrate wider markets and enjoy cheaper imported goods. On a different note, the newly launched New Industrial Master Plan 2030 (NIMP 2030) will drive Malaysia's manufacturing sector into higher value chain and produce more sophisticated products.

Table 5: Malaysia's External Trade Structure

	% of GDP					CAGR %		
	2019	**2020**	**2021**	**2022**	**2025**	**2015-2020**	**2020-2022**	**12MP Target Rate**
Exports	65.8	69.4	80.1	86.5	61.9	4.8	25.5	5.0
Agriculture	4.4	5.1	6.3	6.8	4.5	1.3	29.8	4.8
Mining	5.4	4.1	4.5	6.5	4.0	(6.7)	41.7	7.3
Manufacturing	55.6	59.9	69.0	72.8	53.2	6.3	23.9	4.9
Others	0.5	0.3	0.3	0.4	0.2	15.7	30.2	0.3
Imports	56.2	56.4	63.7	72.2	52.5	3.1	27.1	5.9
Retained	44.8	43.4	49.0	53.8	40.5	1.1	25.1	6.1
Capital Goods	6.6	6.4	6.7	6.7	5.9	(1.0)	15.1	5.5
Intermediate Goods	30.9	30.3	35.2	39.4	28.6	1.4	28.2	6.5

	% of GDP					CAGR %		
	2019	**2020**	**2021**	**2022**	**2025**	**2015-2020**	**2020-2022**	**12MP Target Rate**
Consumption Goods	4.9	5.2	5.4	5.8	4.8	3.5	18.5	5.4
Others	2.4	1.5	1.6	2.0	1.3	(2.8)	26.9	4.1
Re-Exports	11.3	13.0	14.8	18.4	12.0	12.3	33.8	5.3
Trade Balance	9.6	12.9	16.4	14.3	9.5	14.9	18.2	0.7
Total Trade	121.9	125.8	143.9	158.8	114.4	4.0	26.2	5.4

Source: DOSM, EPU, MIDFR

Tough to reach -3.5% fiscal deficit target within 2 years. We view the fiscal deficit ratio to stay at range of -4% to -4.5% by 2025. Limited income streams and elevated expenditure levels will keep the fiscal balance trajectory on challenging path. Under the 12MP, DEVEX allocation was RM400b, RM80b per annum (11MP: RM248b). For the past 2021-2023F, the government has allocated RM232.8b. Therefore, based on our estimate, the government can spend another RM83.6b annually for 2024 and 2025 assuming no change to the original DEVEX allocation. Among the key infra projects to monitor are 5G roll-out, Central Spind Road, East Coast Highway 3, West Coast Expressway, ECRL and Penang LRT. We expect all, these projects will offer additional job opportunities and will have positive spillover effects to other economic sectors.

Table 6: Malaysia's Fiscal Policy Structure

	RM Billion					% of GDP				
	2019	**2020**	**2021**	**2022**	**2025**	**2019**	**2020**	**2021**	**2022**	**2025**
Revenue	264.4	225.1	233.8	294.4	272.0	17.5	15.9	15.1	16.4	13.5
OPEX	263.3	224.6	231.5	292.7	265.0	17.4	15.9	15.0	16.3	13.1
Gross DEVEX	54.2	51.4	64.3	71.6	76.1	3.6	3.6	4.2	4.0	3.8
Covid-19 Fund	0.0	38.0	39.0	23.0	-	0.0	2.7	2.5	1.3	0.0
Total Expenditure	317.5	314.0	334.8	387.3	341.0	21.0	22.2	21.7	21.6	16.9
Fiscal Balance	(53.1)	(88.9)	(101.0)	(92.9)	(69.0)	(3.5)	(6.3)	(6.5)	(5.2)	(3.4)

Source: MOF, EPU, MIDFR

Skilled employment still below target. Even though on improving trends, skilled-employment ratio still lag behind and it seems a bit far-fetched to reach 35% by 2025. The semi-skilled and low-skilled employment shares have been declining yet not as fast as expected. The growth rate for skilled employment remains below the 12MP target, +3.9% vs. +5.2% per annum. Only tecnicians & associate professionals employment expanded strongly while managers contracted by -6.1%, totally opposite to 12MP target of +6.3% per annum. Under semi-skilled, clerical support workers jumped +11.2% in the post-pandemic period. Moving forward, Malaysia's labour market is gradually transforming towards capital-intensive approach as guided by NIMP 2030. NIMP 2030 is set to drive employment up by +2.3% on a cumulative average between 2022-2030, providing a total of 3.3m jobs or 20% increase in employment by 2030. The additional employment will primarily be in high-skilled jobs, pushing median pay to rise on a cumulative average of +9.6% between 2021-2030 to reach RM4,510 in 2030 or +128.0% increase from 2021. Among the initiatives, the Ministry of Economy (KE) and the Ministry of Human Resources (MOHR) are currently exploring to introduce a progressive wage system (PWS) to increase the number of skilled workers and accelerate wage growth.

Table 7: Malaysia's Employment Structure

	% of Employment					CAGR %		
	2019	**2020**	**2021**	**2022**	**2025**	**2015-2020**	**2020-2022**	**12MP Target Rate**
Employment	-	-	-	-	-	1.2	1.4	1.4
Skilled	27.5	28.2	29.6	29.6	35.0	3.3	3.9	5.2
Managers	4.6	5.4	4.6	4.6	6.5	2.4	(6.1)	6.3
Professionals	12.5	12.5	13.0	12.9	15.0	5.0	3.3	4.5
Technicians & Associate Professionals	10.4	10.3	12.0	12.1	13.6	1.9	9.5	5,4

	% of Employment					CAGR %		
	2019	**2020**	**2021**	**2022**	**2025**	**2015-2020**	**2020-2022**	**12MP Target Rate**
Semi-Skilled	60.1	59.9	57.7	58.4	54.0	1.0	0.2	(0.4)
Clerical Support Workers	8.4	8.3	10.0	10.0	8.1	0.0	11.2	(0.2)
Service and Sales Workers	22.6	24.3	24.0	24.4	21.0	2.6	1.8	(0.8)
Skilled Agricultural Workers	6.2	6.1	4.8	4.7	6.1	(0.5)	(11.1)	1.6
Craft and Related Trade Workers	10.5	9.8	8.6	9.0	8.2	(1.4)	(3.2)	(0.8)
Plant-Machine Operators Assemblers	12.4	11.3	10.3	10.3	10.5	1.3	(3.2)	(0.3)
Low Skilled	12.4	11.9	12.7	12.0	11.0	(1.8)	1.8	(0.8)
Elementary Occupations	12.4	11.9	12.7	12.0	11.0	(1.8)	1.8	(0.8)

Source: DOSM, EPU, MIDFR

Strike the balance between employment and national GDP contribution by state. Across all sectors, we observe employment and GDP are distributed fairly. For instance, Selangor contributed more than 25% to Malaysia's manufacturing, construction and services sectors where 20-26% of employment for these sectors were located in the golden state. Close to one-third of Malaysia's agriculture output was produced in Sabah & Sarawak while employment of the sector in both states represented more than half of agriculture workforce in 2022. However, we notice there is an imbalance in the mining sector; 51.7% of mining output was produced in Sabah & Sarawak while another 44.4% was found in Supra (economic activity not constrained by state boundaries). As for the sector's employment, 39.7% were located in Selangor which only produced 0.8% of Malaysia's mining output. After Selangor, Johor came in second at 14.6%, Terengganu at 7.9%, Sarawak at 7.6%, Labuan at 5% and Sabah at 4.4% of the mining sector employment. With the upcoming 12MP-MTR, we are confident the government will look into this matter in order to stimulate sustainable and equitable state economic developments as well as overall economic growth.

Chart 1: Overall Empl. vs. GDP by State (Share %)
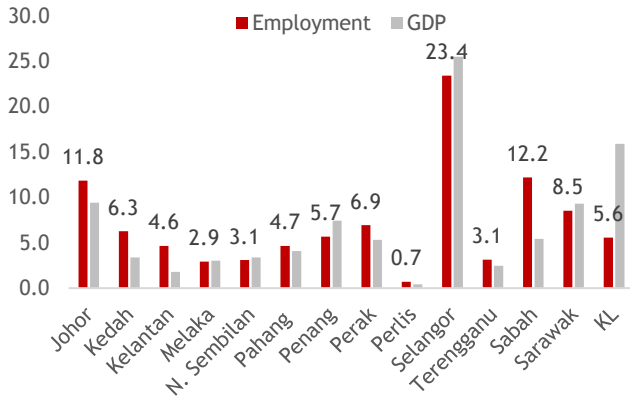
Source: DOSM, EPU, MIDFR

Chart 2: Agriculture Empl. vs. GDP by State (Share %)
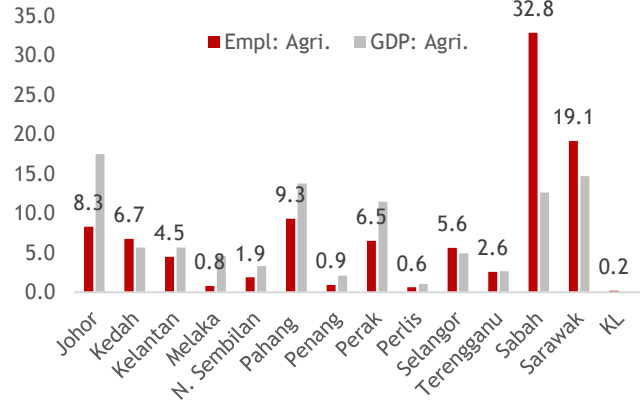
Source: DOSM, EPU, MIDFR

Chart 3: Mining Empl. vs. GDP by State (Share %)
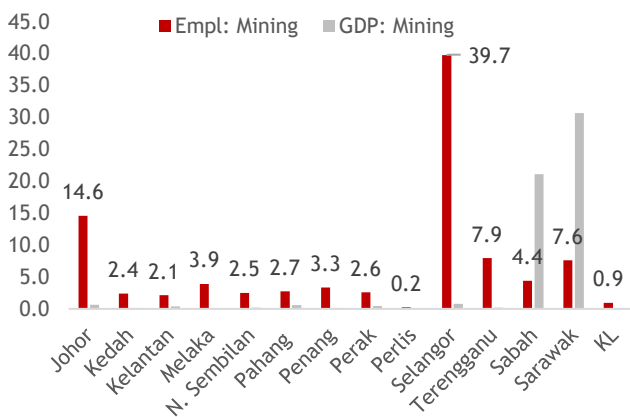
Source: DOSM, EPU, MIDFR

Chart 4: Mfg. Empl. vs. GDP by State (Share %)
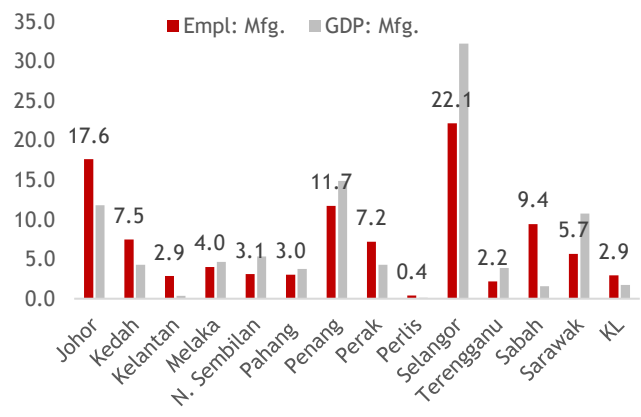
Source: DOSM, EPU, MIDFR

Chart 5: Construction Empl. vs. GDP by State (Share %)
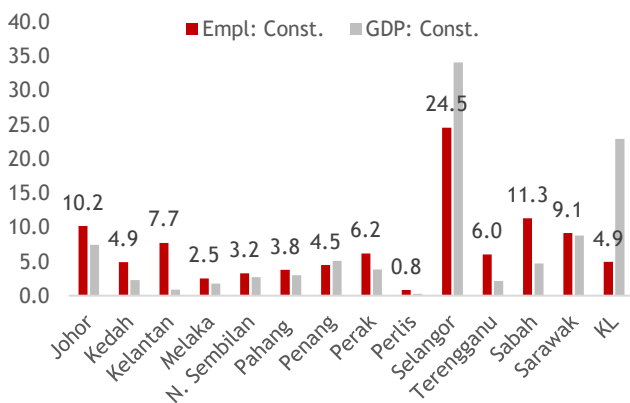
Source: DOSM, EPU, MIDFR

Chart 6: Services Empl. vs. GDP by State (Share %)
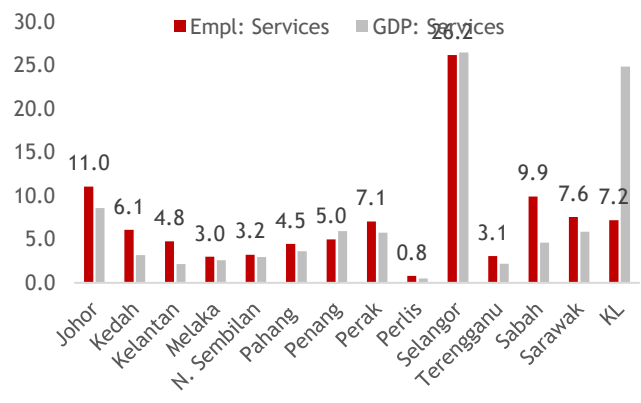
Source: DOSM, EPU, MIDFR

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology