

## Global Markets Research

### Malaysia - Economics

# First pick-up in GDP growth since 3Q22

**3Q GDP growth accelerated to 3.3% y/y; underpinned by resilient domestic demand**

**Consumption remained the main growth pillar; bigger drag from net exports**

**Full year 2023 GDP growth likely to settle just south of 4.0%; before picking up again in 2024**

#### Summary

The Malaysian economy expanded at a faster pace for the first time in four quarters, by 3.3% y/y in 3Q23, suggesting growth has bounced off the trough of 2.9% y/y seen in 2Q23. Today's final print came in unchanged from the advance estimate of 3.3% but above our forecast for a 3.0% y/y increase. Growth was uneven although domestic demand remained firmly in the driver seat thanks to continued increase in household spending, improvement in labour market conditions, and further recovery in tourism activities. This cushioned the heftier fall in net exports. Services and construction activities picked up steam while the agriculture sector turned around in 3Q.

On a quarterly basis, 3Q GDP expanded at a faster pace for the 3<sup>rd</sup> straight quarter, by 2.6% (2Q: +1.5% q/q) but monthly GDP pointed to softening growth momentum (Figure 2). Headline inflation has also tapered off further from +2.8% y/y in 2Q to +2.0% y/y in 3Q, and is poised to stay muted until subsidy rationalization measures kick in in a more comprehensive manner. On account of a sustained and moderate growth outlook, coupled with largely well-contained inflationary pressure, we maintain our view for OPR to stay unchanged at 3.00% through 2024.

#### Improvement in domestic demand; bigger decline in net exports

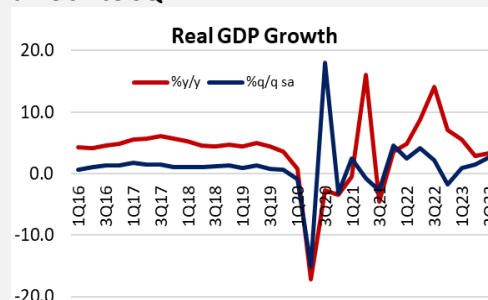
Domestic demand picked up for the first time in four quarters, growing at a faster pace of 4.8% y/y in 3Q (2Q: +4.5% y/y). Underlying details were however a little mixed. Growth in the private sector was stable at 4.5% y/y in 3Q (2Q: +4.5%) as quicker growth in consumer spending (+4.6% vs +4.3%) on both necessities and discretionary items, was neutralized by slower increase in private investment (+4.5% vs +5.1%). Meanwhile, the public sector grew at a faster pace (+6.2% vs +4.6% y/y), mainly driven by government spending on supplies and services.

On the contrary, net exports exerted a bigger drag during the quarter in review, plummeting 22.7% y/y (2Q: -3.7%), hit by weaker external demand for goods. Exports of goods and services fell at a bigger rate of 12.0% y/y in 3Q (2Q: -9.4% y/y), while imports of goods and services declined 11.1% y/y (2Q: -9.7% y/y).

#### Services and construction continued to lead

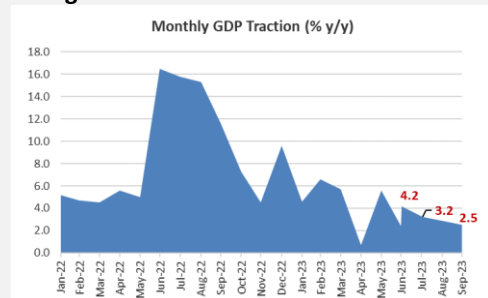
On the supply side (Figure 6), notable improvement was observed through all sectors except for manufacturing, which slipped 0.1% y/y in 3Q compared to the 0.1% growth in 2Q. The weaker performance was due to further weakness in E&E in the wake of the industry downcycle (which has nonetheless shown signs of bottoming), as well as lower production of refined petroleum products.

**Figure 1: Growth picked up for the first time since 3Q22**



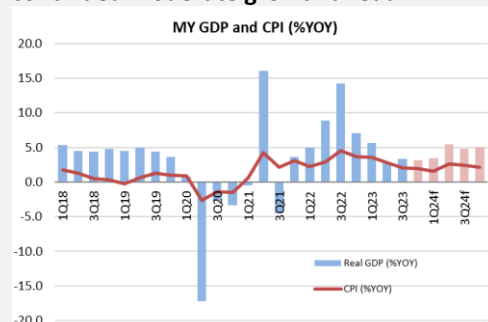
Source: DOSM, BNM

**Figure 2: Easing momentum in monthly GDP growth**



Source: DOSM, BNM

**Figure 3: Trough seen in 2Q; on track for continued moderate growth ahead**



Source: DOSM, HLBB Global Markets Research

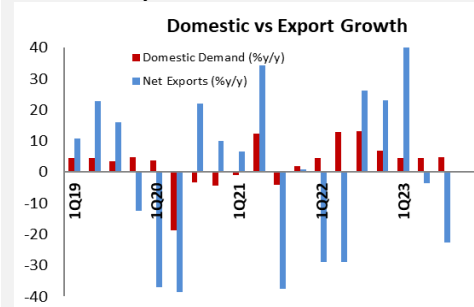
The services sector halted three straight quarters of softening growth, increasing at a faster rate of 5.0% y/y in 3Q (2Q: +4.7%), thanks to improvement across both consumer and business related services sector. The construction sector also saw better momentum with a higher growth of 7.2% y/y in 3Q (2Q: +6.2%), due to support from ongoing large infrastructure and small scale projects. The agriculture sector also rebounded with a 0.8% y/y increase (2Q: -1.0%), attributable to higher oil palm output and further easing in labour shortages issue.

## Outlook

Looking ahead, overall macro landscape remains uncertain and fragile. The world economy is expected to see diverging growth trend, with slower growth expected from the advanced economies as more lagged effects from earlier aggressive policy tightening take a toll on growth. In addition, lingering and potential escalation of geopolitical risks, uneven growth and real estate fallout in the China economy, upside risk to inflation outlook, as well as tightening financial market conditions, could all potentially weigh on growth outlook moving forward.

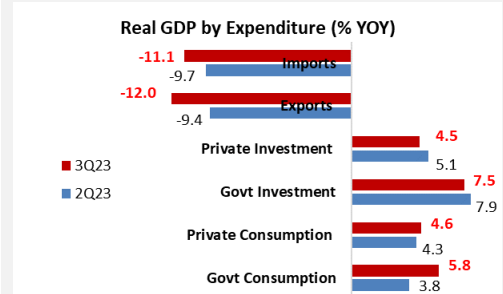
Back home, the Malaysian economy remains susceptible to external headwinds although resilient domestic demand is expected to remain as the main growth engine. Continued employment and wage growth, further improvement in tourism activities, anticipated recovery in E&E exports, in addition to implementation of infrastructure projects and initiatives under the master plans and national budget, will be the growth catalysts for 2024. We are revising our full year 2023 growth forecast higher to 3.6% following the better than expected 3Q GDP print today, and expect growth to pick up to 4.7% in 2024.

**Figure 4: Domestic demand picked up for the first time in four quarters; bigger drag from net exports**



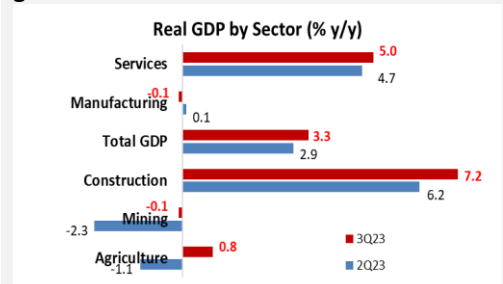
Source: DOSM, BNM

**Figure 5: Consumption growth accelerated; slowdown in investment**



Source: DOSM, BNM

**Figure 6: Services- and construction-led growth**



Source: DOSM, BNM

## Malaysia Key Economic Metrics

2021												2022												2023												
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept				
		-0.5			16.1			-4.5			3.6						4.8			8.8			14.1				5.6			2.9			3.3	Real GDP		
-3.6	-3.6	6.1	39.7	19.3	-3.6	-7.6	-4.7	-1.1	2.7	5.4	2.6	5.2	4.7	4.5	5.6	5.0	16.5	15.8	15.3	11.6	7.3	4.5	9.6	4.6	6.6	5.7	0.7	5.6	2.4	4.2	3.2	2.5	Monthly Real GDP			
8.2	8.5	17.3	15.7	6.9	0.5	-3.9	-2.2	0.4	0.2	1.6	2.0	0.1	-0.4	-1.4	-0.5	2.3	5.3	4.0	4.1	0.3	0.1	-0.9	-1.5	-1.8	0.4	-1.2	-2.7	-1.1	-2.1	-1.0	-0.5		Leading indicator			
6.3	17.4	30.9	62.7	47.0	27.2	5.0	18.4	24.7	25.5	32.4	29.2	23.5	16.8	25.4	20.7	30.5	38.8	38.0	48.2	30.1	15.0	15.6	5.9	1.6	9.8	-1.4	-17.4	-0.9	-14.1	-13.1	-18.7	-13.7		Exports		
1.1	12.1	17.5	22.9	48.4	32.1	24.0	22.5	26.5	27.9	38.0	23.6	26.4	18.4	29.9	22.0	37.3	49.3	41.9	67.6	32.8	29.1	15.6	11.5	2.2	12.4	-1.8	-11.1	-3.7	-18.7	-15.9	-21.2	-11.1		Imports		
16.6	17.9	24.2	20.4	13.8	22.2	13.7	21.4	26.1	26.3	18.9	31.0	18.4	19.8	26.7	23.5	12.6	21.9	15.5	16.92	31.8	18.1	22.3	27.8	18.1	19.6	26.7	12.8	15.7	25.6	17.1	17.2	24.5		Trade balance (RMbn)		
1.2	1.5	9.3	50.1	26.0	1.4	-5.2	-0.7	2.5	5.5	9.4	5.9	4.3	4.0	5.1	4.6	4.1	12.1	12.5	13.5	10.8	4.6	4.8	3.0	1.8	3.5	3.2	-3.3	4.8	-2.2	0.7	-0.3	-0.5		Industrial production		
3.5	4.5	12.7	68.0	29.8	-0.2	-6.5	0.6	4.0	8.0	11.3	8.4	6.8	5.2	6.9	6.2	6.9	14.5	14.9	15.2	10.4	4.2	4.8	3.0	1.3	4.8	4.1	-3.0	5.1	-1.6	-0.2	-0.6	0.4		Manufacturing production		
-1.4	-1.3	0.8	8.2	6.4	3.5	1.5	1.7	3.6	4.4	4.8	4.9	4.1	3.9	4.4	4.5	5.0	6.2	7.1	7.5	5.4	4.8	4.7	5.4	4.0	4.6	4.2	4.0	4.0	3.0	2.9	3.0	3.2		Wages (manufacturing)		
4.9	4.8	4.7	4.6	4.5	4.8	4.8	4.6	4.5	4.3	4.3	4.2	4.2	4.1	4.1	3.9	3.8	3.7	3.7	3.6	3.6	3.6	3.6	3.6	3.6	3.5	3.5	3.5	3.5	3.4	3.4	3.4	3.4		Unemployment rate (%)		
-0.4	-0.1	1.8	40.4	30.8	3.5	-1.1	-0.1	0.9	4.4	6.8	4.1	5.7	6.2	8.6	11.5	11.7	19.3	20.6	16	13.3	7.3	5.6	4.7	3.1	5.9	7.6	3.2	4.4	3.1	5.7	6.2	6.9		Wholesale trade		
-2.5	-2.1	10.5	56.4	17.3	-2.9	-8.1	-7.1	-1.1	5.1	6.7	3.5	7.3	10.2	10.8	20.9	29.9	38.4	37.5	34.5	30.0	26.0	22.8	22.7	21.7	19.2	17.7	12.9	5.0	5.8	5.5	6.3	5.9		Retail trade		
-26.3	3.3	183.9	4007.0	105.3	-95.5	-90.5	-68.3	-25.5	9.8	2.8	-7.3	16.6	2.4	14.6	-5.3	4.1	2999.6	780.9	296.8	56.8	-4.2	9.4	19.6	30.8	43.1	7.7	-16.9	24.5	-3.0	32.1	7.4	0.8		Passenger car sales		
3.1	3.2	4.2	5.6	4.9	3.5	1.0	-0.8	-1.6	-0.7	0.1	0.8	1.7	2.0	2.3	2.3	2.8	4.8	6.5	6	7.5	7.1	6.7	6.7	6.6	7.0	7.1	7.5	7.8	7.6	7.6	7.9	8.1		Consumption credit		
-0.2	0.1	1.7	4.7	4.4	3.4	2.2	2.0	2.2	2.9	3.3	3.2	2.3	2.2	2.2	2.3	2.8	3.4	4.4	4.7	4.5	4.0	4.0	3.8	3.7	3.6	3.4	3.3	2.8	2.4	2.0	2.0	1.9		CPI		
-0.1	2.7	6.7	10.6	11.9	11.5	11.7	11.3	12.3	13.2	12.6	10	9.2	9.7	11.6	11.0	11.2	10.9	7.6	6.8	4.9	4.0	3.2	3.5	1.3	-0.8	-2.9	-3.0	-4.6	-4.8	-2.3	-2.2	0.2		PPI		

Note: Figures are %YOY unless otherwise stated

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Source: BNM; DOSM; HLBB Global Markets Research

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