

Global Markets Research

Malaysia - Economics

Decent 1Q GDP; imminent slowdown ahead

- More moderate 1Q GDP growth of +5.6% y/y underpinned by domestic demand
- Private consumption remained firmly in the driver seat; further lift from net exports
- Revising full year 2023 GDP growth down to 4.0% amid uncertain and patchy global outlook

Summary

Growth in the Malaysian economy continued to normalize, expanding at a more moderate but still decent pace of 5.6% y/y in 1Q23 (4Q22: +7.1% y/y revised), in line with our expectations but higher than consensus estimate (+5.1% y/y).

Little changed from the preceding quarter, growth in the first quarter of 2023 was underpinned by domestic demand, primarily private consumption, with the spike in net exports provided a further boost. On a seasonally adjusted basis, growth rebounded to print a 0.9% q/q increase (4Q: -1.7% q/q). Meanwhile, the relatively steady growth traction seen in the monthly GDP alleviated some concerns over sharp deterioration in domestic economic activities thus far as the global backdrop softens.

Headline inflation tapered off to 3.6% y/y in 1Q (4Q: +3.9% y/y), while core inflation eased to 3.9% y/y in 1Q (4Q: +4.2%), adding to signs of continued moderation in inflation. This, coupled with the softer growth outlook, shall support our view for monetary policy to stay pat for the rest of the year.

Domestic demand remained the key growth engine

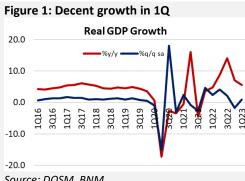
Domestic demand saw more moderate growth of 4.6% y/y in 1Q23 (4Q: +6.8% y/y), but remained the main growth engine nonetheless. As expected, the private sector continued to shine, increasing 5.6% y/y in 1Q (4Q: +7.8%), offsetting the 0.3% y/y decline in the public sector (4Q: +3.9%). Noticeably, private consumption continued to lead, growing 5.9% y/y in 1Q (4Q: +7.3%), driven by improving labour market conditions and policy measures including minimum wage hike and cash transfers. Private investment (+4.7% vs +10.3% y/y) provided an added support, underpinned by capacity expansion by firms and further progress in construction activities.

In the public sector, sustained increase in government investment (+5.7% vs +6.0%), helped cushion the 2.2% contraction in government spending, as a result of lower spending on government supplies and services.

Net exports continued to gain traction, with growth almost doubled to 54.4% y/y in 1Q (4Q: +23.0% y/y), as a result of bigger decline in imports visà-vis exports (Figure 4 and 5). Further recovery in tourism activities also served as an added impetus to growth, cushioning the drag from goods exports.

The services sector remained the main growth pillar

On the supply side, all sectors registered slower growth as expected (Figure 6). The services sector remained the main growth pillar, expanding 7.3% y/y in 1Q (4Q: +9.1% y/y), thanks to increased retail spending, recovery in



Source: DOSM, BNM

Figure 2: Sustained growth through the three months of 1Q



Source: DOSM, BNM

Figure 3: Expect further easing in growth



Source: DOSM, HLBB Global Markets Research



tourism activities, and improvement in real estate & business services. Meanwhile, growth in the manufacturing sector (+3.2% vs +3.9% y/y) was underpinned by clearing of motor vehicle backlogs and continued increase in E&E production. The construction sector saw more moderate growth of 7.4% y/y (4Q: +10.1%), supported by progress in large transportation and utility projects. In the mining sector, growth was driven by moderate increase in oil and gas production, while the agriculture sector benefitted from higher production and easing foreign labour shortages.

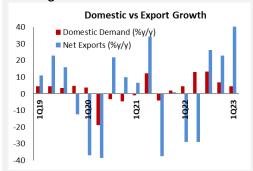
Outlook

Growth outlook remains uncertain and patchy. Economic releases across the globe continued to skew towards the softer side by and large, reaffirming risk of a global recession, albeit likely a shallow one. We noticed increasing signs recovery in the US economy is losing momentum, while the Europe and UK growth outlook remains murky, all taking the brunt of higher inflation and tighter monetary policy. Recent data bag also showed softer than expected and fragile recovery in the China economy, dimming expectations that China could cushion some of the slacks from the major economies. On a less negative note, financial conditions have stabilized somewhat as markets regained some calm after the banking-related selloffs, in addition to noises surrounding the Fed monetary policy path.

Global inflation remained on a downward trajectory but not at the intended pace and upside risk remains tilted to the upside. This suggests while global central banks are at/ near the end of policy tightening, rate cuts may not take place as early as what market is pricing in, hence our take for Fed rate cuts to kick in only in end-2023 or early 2024.

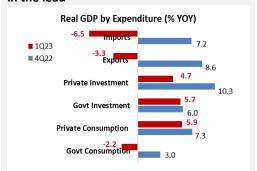
The Malaysian economy, however, is still expected to chart decent growth, likely within the official forecast range of 4.0-5.0% in 2023, supported by favourable domestic demand as a result of continuous improvement in the labour market, implementation of new and existing investment projects, as well as further recovery in tourism activities. That said, we are trimming our full year GDP growth forecast to 4.0% (prior: +4.9%), in view of increasing uncertainties and more sluggish than expected growth momentum in the world economy. While there is still room for a further 25bps OPR hike to more neutral level, we opine moderating growth and inflation outlook would mean OPR will be left unchanged at 3.00% for the rest of the year, and probably through 2024.

Figure 4: Pick-up in net exports cushioned slower gain in domestic demand



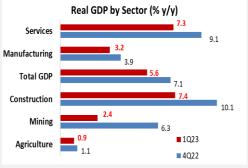
Source: DOSM, BNM

Figure 5: The private sector remains firmly in the lead



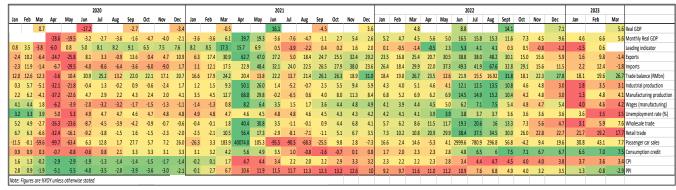
Source: DOSM, BNM

Figure 6: Broad moderation in all sectors



Source: DOSM, BNM

Malaysia Key Economic Metrics



Source: BNM; DOSM; HLBB Global Markets Research



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