18 August 2023

ECONOMIC REVIEW | 2Q23 National Account

Malaysia's GDP Growth Moderated to +2.9%yoy in 2QCY23, the Slowest in 7 Quarters

- *GDP growth moderated to +2.9%yoy in 2QCY23, much weaker than expected. Malaysia's economic growth moderated to +2.9%yoy in 2QCY23 (1QCY23: +5.6%yoy), below ours and market expectations. While we anticipated the growth to moderate in view of the slower growth as indicated by latest economic indicators, the deviation was largely due to sharper fall in external trade of goods and to a certain extent the moderation in private consumption growth which was also more than expected.*
- *Private consumption registered sustained growth, albeit moderating. The demand side saw personal consumption growing further but at slower pace of +4.3%yoy (1QCY23: +5.9%yoy). Further easing of inflationary pressure to +2.8%yoy (1QCY23: +3.6%yoy) and the resilient labour market during the quarter underpinned the continued growth in private consumption.*
- *Current account surplus doubled up in 2QCY23. Malaysia's current account improved by more-than-double to RM9.1b (1QCY23: 4.3b), on the back of lower deficit in both primary and secondary income account. The primary income account deficit narrowed down to -RM6.3b (1QCY23: -RM16.9b) while the size of deficit for the secondary income account also reduced to -RM2.8b (1QCY23: -RM5.9b).*
- *We keep our +4.2% growth forecast for 2023. As of 1HCY23, Malaysia's economy expanded by +4.2%. We are not making any changes for Malaysia's GDP growth forecast for this year as we expect the strength in domestic demand will be the main driver to support the economy to grow at +4.2%.*

GDP growth moderated to +2.9%yoy in 2QCY23, much weaker than expected. Malaysia's economic growth moderated to +2.9%yoy in 2QCY23 (1QCY23: +5.6%yoy), below ours and market expectations. While we anticipated the growth to moderate in view of the slower growth as indicated by latest economic indicators, the deviation was largely due to sharper fall in external trade of goods and to a certain extent the moderation in private consumption growth which was also more than expected. Nevertheless, as expected, the sustained rise in domestic demand was the major driver of growth during the quarter, contributing +3.0%-pts to 2QCY23 growth vis-à-vis -0.1%-pt downward drag from net exports. Thanks also to the sharp fall in imports, the drag from net exports was not as significant as feared. On quarter-to-quarter basis, interestingly Malaysia's GDP grew further by by +1.5%qoq (1QCY23: +0.9%qoq) after seasonal adjustment. In other words, despite the weaker-than-expected year-on-year growth, the sequential growth was still encouraging, supported by stronger quarterly increase in private consumption (2QCY23: +5.9%qoq; 1QCY23: +2.0%qoq) as well as rebounds in government spending (2QCY23: +4%qoq; 1QCY23: -1.7%qoq) and investment activities (2QCY23: +4.7%qoq; 1QCY23: -1.4%qoq). Given the stronger quarter-to-quarter growth, the sharper moderation in annual GDP growth to a certain extent can be explained by the higher base in 2QCY23 last year. This supports our expectations that growth will be more moderate this year compared to last year.

Private consumption registered sustained growth, albeit moderating. The demand side saw personal consumption growing further but at slower pace of +4.3%yoy (1QCY23: +5.9%yoy). Further easing of inflationary pressure to +2.8%yoy (1QCY23: +3.6%yoy) and the resilient labour market during the quarter underpinned the continued growth in private consumption. Meanwhile, investments continued to be supported by encouraging business activities as private and public sector investments expanded stronger by +5.1%yoy and +7.9%yoy, respectively. Despite the drag from sluggish China's economic recovery, we foresee investment activities to continue growing in 2HCY23, backed by the expansionary fiscal spending as outlined in Budget 2023, improving business environment, and easing cost pressures.

Real exports contracted for the second consecutive quarter. On the external front, real exports shrank steeper at -9.4%yoy, marking the second successive quarter of contractions. The drag was from sharp fall in real exports of goods (-14.8%yoy), even steeper decline compared to the drag from great lockdown during first year of the global pandemic (2QCY20: -14.5%yoy). This was also attributable to the sluggishness in the global manufacturing sector. However, services exports continued to increase robustly, growing by +41.4%yoy (1QCY23: +58.2%yoy), buoyed by the recovery of the tourism sector. Real imports also dropped sharply, falling at the fastest pace in 12 quarters at -9.7%yoy as the export-oriented sectors continued to slow and reduced purchases of intermediate goods. Consequently, the sharp fall in exports caused trade surplus to shrink to +RM13.9b (1QCY23: +RM21.3b; 2QCY22: +RM14.1b).

Current account surplus doubled up in 2QCY23. Malaysia's current account improved by more-than-double to RM9.1b (1QCY23: 4.3b), on the back of lower deficit in both primary and secondary income account. The primary income account deficit narrowed down to -RM6.3b (1QCY23: -RM16.9b) while the size of deficit for the secondary income account also reduced to -RM2.8b (1QCY23: -RM5.9b). Notably, the services account recorded 3-quarter low deficit at to -RM11.3b (1QCY23: -RM12.8), with the services exports expanded by +16.5%qoq to RM47.b and imports grew by +9.7%qoq to RM59.1b. The improving outlook in services export was driven by higher travel services' exports by +32.6%qoq to RM16.3b. Meanwhile, the goods account declined by -26.1%qoq to RM29.3b, dragged by weak external front amid the slowdown in global demand. Given the larger CAB surplus, the ratio of current account surplus to nominal GDP also increased to 2.1% (1QCY23: 1% of GDP). As for the 2023, we forecast current account surplus to GDP ratio at +2.2% (2022: +3.1%).

Table 1: Summary of GDP by Expenditure Approach

	Quarterly Basis (QoQ %)				Yearly Basis (YoY %)			
	3Q22	4Q22	1Q23	2Q23	3Q22	4Q22	1Q23	2Q23
GDP	4.7	3.4	(4.3)	(0.8)	14.1	7.1	5.6	2.9
Domestic Demand	2.2	1.9	(2.2)	1.2	13.4	6.0	3.7	3.1
Private Consumption	7.5	(2.0)	1.1	(2.0)	14.8	7.3	5.9	4.3
Govt. Consumption	5.2	27.5	(25.1)	3.3	6.5	3.0	(2.2)	3.8
Private Investment	(6.1)	(15.0)	24.1	6.2	13.2	10.3	4.7	5.1
Govt. Investment	15.4	70.0	(39.2)	(9.6)	13.1	6.0	5.7	7.9
Real Exports	5.9	(2.1)	(12.4)	(0.1)	21.5	8.6	(3.3)	(9.4)
Real Imports	2.5	(4.6)	(10.4)	3.0	21.1	7.2	(6.5)	(9.7)
Net Exports	67.5	25.6	(30.0)	(34.6)	26.1	23.0	54.4	(3.7)

Note: QoQ is non-seasonally adjusted
Source: Macrobond, MIDFR

Elevated food inflation and higher OPR caused slower consumer demand in 2QCY23. On the supply side, the services sector which represents 59.3% of the economy grew +4.7%yoy in 1QCY23, the slowest in 6-quarter. This was below the +6.3%yoy average growth typically recorded during the pre-pandemic period. Demand for services expanded among others contributed by pick-up in accommodation (on the back of rising tourist arrivals); private education; business services; and transport & storage. The moderation of services was in line with private consumption growth. We opine the continuous elevated food inflation rate +5.6%yoy in 2QCY23 (Pre-pandemic average: +3.6%) and higher OPR 3.00% (1QCY23: 2.75%) were among the downside factors on the consumer spending. Growth for agriculture and mining turned negative, due to lower demand and negative price effects. For instance, Brent crude oil price averaged at USD75.7pb in 2QCY23 (1QCY23: USD82.7pb & 2QCY22: USD115.7pb) and CPO price averaged at RM3,809 per tonne (1QCY23: RM4,034 per tonne & 2QCY23: RM6,410 per tonne). Manufacturing grew marginally by +0.1%yoy as key sub-sectors namely refined petroleum, machinery & equipment, computers & peripheral equipment and electronic components registered contraction rates in the quarter. We expect the manufacturing sector to remain in challenging path as global demand is predicted to stay weak in 2HCY23 amid elevated interest rate effects in developed markers and sluggish recovery in China. On a flip side, construction sector to remain on expansionary supported by civil engineering, residential and non-residential activities. Close to RM100b development expenditure allocated in the Budget 2023 is among the key upside factors for the sector to remain in expansionary for this year.

Table 2: Summary of GDP by Supply-Side Approach

	QoQ%			YoY%		
	4Q22	1Q23		4Q22	1Q23	2Q23
GDP	**3.4**	**(4.3)**	**(0.8)**	**7.1**	**5.6**	**2.9**
Agriculture, Forestry & Fishing	**(8.9)**	**(9.5)**	**1.9**	**1.1**	**1.0**	**(1.1)**
Rubber	(18.0)	(4.2)	(7.1)	(21.9)	(13.3)	3.8
Oil Palm	2.5	(25.5)	(0.9)	9.6	3.4	(6.9)
Livestock	(5.3)	(5.2)	(0.9)	(2.2)	(2.3)	0.3
Other Agriculture	(20.3)	12.5	8.9	(4.9)	2.6	6.6
Forestry & Logging	(13.4)	(14.5)	(1.0)	(5.4)	(2.3)	(11.4)
Marine Fishing	(21.5)	8.1	(13.1)	(1.9)	(1.6)	(0.5)
Aquaculture	(11.6)	(23.4)	23.6	2.0	(0.2)	(2.8)
Mining & Quarrying	**9.4**	**(2.5)**	**(6.3)**	**6.3**	**2.4**	**(2.3)**
Crude Oil	8.3	0.8	(4.1)	4.3	3.9	(1.5)
Natural Gas	8.4	(2.6)	(5.4)	7.3	0.6	(3.6)
Others	19.8	(13.6)	(20.2)	8.4	7.3	3.8
Manufacturing	**3.4**	**(5.8)**	**(0.9)**	**3.9**	**3.2**	**0.1**
Vegetable & Animal Oils & Fats	11.2	(19.5)	7.2	1.8	13.5	0.5
Food Processing	(9.8)	(6.6)	14.2	6.0	4.1	3.0
Beverages	(2.5)	(15.3)	27.9	2.1	(1.6)	1.4
Tobacco Products	27.6	25.3	22.8	(12.9)	15.4	19.4
Textile & Wearing Apparel	7.3	(1.5)	(10.0)	(2.2)	(0.2)	2.5
Leather Products	(15.8)	36.9	21.6	18.1	7.6	9.3
Wood Products	(3.3)	(2.1)	(5.1)	(7.6)	(8.5)	(4.9)
Paper Products	(17.8)	12.8	0.3	1.7	3.6	3.2
Printing	39.7	1.9	(19.4)	5.8	3.6	6.5

	QoQ%			YoY%		
	4Q22	1Q23		4Q22	1Q23	2Q23
Refined Petroleum Products	(5.6)	(5.4)	(6.0)	4.6	6.3	(2.3)
Chemicals & Chemical Products	4.1	(7.3)	(5.7)	1.5	2.6	4.1
Rubber Products	(10.0)	(29.3)	35.1	(8.6)	(7.2)	(12.4)
Plastic Products	(27.2)	(8.8)	2.0	(3.9)	(8.7)	(3.3)
Non-Metallic Mineral Products	6.7	(0.1)	(7.4)	1.9	3.3	2.7
Basic Metals	6.3	(14.8)	14.8	0.1	1.6	4.8
Fabricated Metal Products	9.2	5.8	(1.1)	3.3	4.4	7.7
Machinery & Equipment	(10.9)	36.7	(24.8)	1.6	1.1	(2.1)
Computers & Peripheral Equipment	(8.3)	(8.1)	3.7	(6.2)	(7.8)	(8.6)
Electrical Equipment	24.6	(8.7)	21.5	7.5	2.0	3.7
Electronic Compo & Boards, Com Equip and Elect	5.9	1.5	(13.3)	11.4	5.0	(1.9)
Medical, Precision & Optical, Watches & Clocks	14.2	(38.8)	45.9	12.3	7.6	5.7
Motor Vehicles & Transport Equipment	40.6	(25.9)	20.4	5.0	8.3	0.3
Furniture	12.2	23.8	1.1	(6.7)	(11.0)	(6.7)
Other Mfg and Repair & Installation and Equipment	(0.9)	(24.3)	0.2	4.0	4.4	3.3
Construction	**1.7**	**0.1**	**(1.1)**	**10.1**	**7.4**	**6.2**
Residential	2.2	0.8	0.1	2.8	(3.4)	6.1
Non-Residential	13.8	(13.7)	6.5	10.7	6.4	2.2
Civil Engineering	(7.5)	11.6	(9.1)	18.1	16.0	10.0
Special Trades	0.8	1.8	0.5	7.9	8.7	6.4
Services	**4.3**	**(3.5)**	**(0.5)**	**9.1**	**7.3**	**4.7**
Electricity & Gas	(1.0)	(3.8)	6.4	(1.1)	0.2	2.6
Water, Sewerage and Waste Management	(0.5)	(2.7)	3.4	2.5	4.0	7.0
Wholesale Trade	0.3	(10.2)	5.6	0.6	3.3	4.5
Retail Trade	12.3	(7.8)	(1.7)	19.2	14.5	5.1
Motor Vehicles	0.2	(10.9)	(5.4)	7.3	11.2	3.3
Food & Beverage	1.0	1.7	(1.5)	14.9	3.7	1.6
Accommodation	21.7	(2.8)	0.2	78.6	55.7	49.0
Transportation & Storage	7.0	3.9	(0.8)	23.1	17.0	13.5
ICT	0.1	1.9	0.4	4.2	3.8	3.6
Finance	(1.2)	(2.2)	(1.9)	4.1	2.8	(1.9)
Insurance	10.2	5.0	(28.1)	(5.1)	(0.2)	(13.4)
Real Estate	0.7	(0.0)	0.5	34.0	1.9	1.9
Business Services	3.8	1.6	1.2	23.6	16.2	10.7
Private Health	2.9	2.7	0.4	6.0	8.7	8.7
Private Education	1.9	(0.2)	2.8	9.5	9.5	9.5
Other Services	1.5	2.4	(0.4)	6.3	5.9	5.5
Govt. Services	8.6	(7.4)	0.1	5.0	5.1	5.5
Import Duties	**9.7**	**(8.0)**	**7.1**	**8.1**	**10.6**	**6.7**

Note: QoQ is non-seasonally adjusted
Source: Macrobond, MIDFR

More resilient growth in some countries. Some economies reported stronger in 2QCY23, for example USA, China, Taiwan and Indonesia. In the US, in particular, consumers increased spending both on services and goods as easing inflation translated into better consumer sentiment. In China, although growth picked up to +6.3%yoy, it was not as robust as expected, especially with recent signs of slowing momentum in domestic spending. Taiwan saw its GDP growth rebounded to +1.5%yoy after 2 quarters of contraction, thanks mainly to increased in consumption and slower decline in external trade. Looking at other countries, few countries reported moderation in GDP growth in 2Q, namely Philippines and euro area. Unlike the US, growth was more moderate at +0.6%yoy in euro area, the slowest in 9 quarters, moderating on the back of policy tightening by the ECB. In the UK, GDP growth remained below 1% although picked up slightly to +0.4%yoy due to higher domestic spending and improved investment activities. Despite the resilience thus far, concerns over slowing growth momentum in China and expected slowdown in the US aggregate demand (due to aggressive tightening by the Fed), growth outlook could be constrained. In other words, global slowdown will likely continue in 2HCY23 which explained the continued weakness in global manufacturing and international trade.

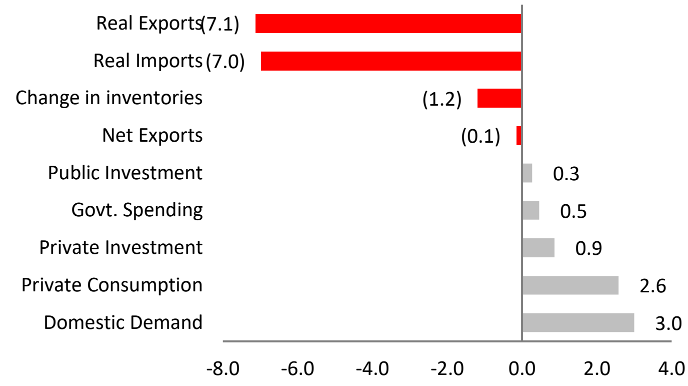
Table 3: GDP Growth by Selected Economies (YoY%)

	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23
Malaysia	3.6	4.8	8.8	14.1	7.1	5.6	2.9
Indonesia	5.0	5.0	5.5	5.7	5.0	5.0	5.2
Philippines	7.9	8.0	7.5	7.7	7.1	6.4	4.3
Thailand	1.9	2.2	2.5	4.6	1.4	2.7	n.a.
Singapore	6.6	4.0	4.5	4.0	2.1	0.4	0.5
China	4.3	4.8	0.4	3.9	2.9	4.5	6.3
Taiwan	5.2	3.9	3.0	3.6	(0.8)	(2.9)	1.5
South Korea	4.3	3.1	2.9	3.2	1.4	0.9	0.9
Japan	0.9	0.6	1.7	1.5	0.4	2.0	2.0
UK	8.9	10.6	3.8	2.0	0.6	0.2	0.4
Euro area	4.8	5.4	4.2	2.4	1.8	1.1	0.6
USA	5.7	3.7	1.8	1.9	0.9	1.8	2.6

n.a. = not yet available
Source: CEIC, MIDFR

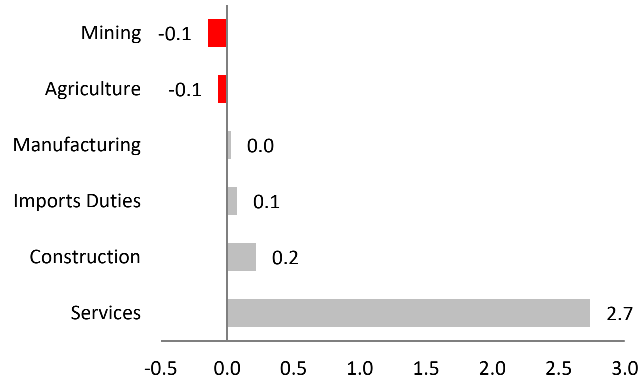
We keep our +4.2% growth forecast for 2023. As of 1HCY23, Malaysia's economy expanded by +4.2%. We are not making any changes for Malaysia's GDP growth forecast for this year as we expect the strength in domestic demand will be the main driver to support the economy to grow at +4.2%. This will be more normalized growth compared to the robust expansion +8.7% last year, which was boosted by low base effect. Apart from the diminshing low base effect, the more moderate growth was mainly dragged down by persistent weakness in external demand as well as global manufacturing activities. Looking at the continued rise in domestic spending, we opine the expansion can be sustained in 2HCY23 in view of positive labour market conditions, growing income growth and supportive & accommodative economic policies. In addition, recovery in tourism sector and tourist spending will also help to support growth in retail trade and consumer-related sectors such as F&B and hotels & accommodation. On the balance of risks, we are more concerned that a more protracted contraction in global demand will derail external trade performance even more. In addition, geopolitical and trade tensions could also affect trade and investment flows at least in the short term. Domestically, food inflation risk will be the main downside risk that could affect consumer spending, as rising cost of living will reduce consumers' purchasing power and discretionary spending.

Chart 1: Contribution to 2QCY23 GDP Growth by Expenditure Components (%-point)



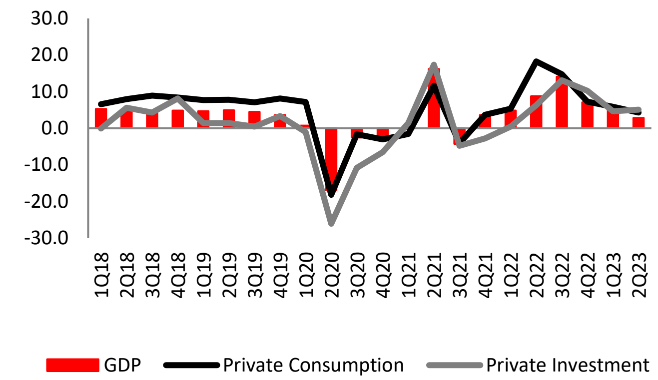
Source: Macrobond, MIDFR

Chart 2: Contribution to 2QCY23 GDP Growth by Supply-Side Components (%-point)



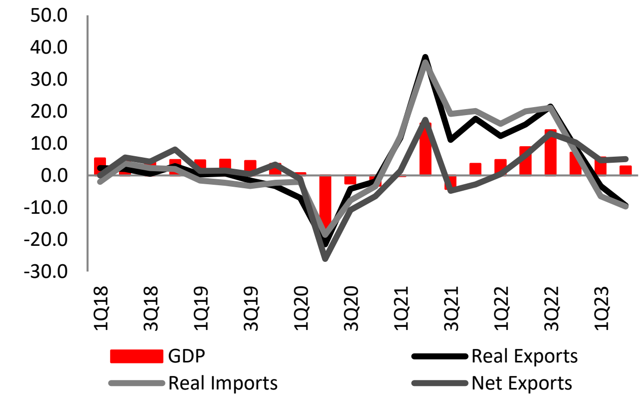
Source: Macrobond, MIDFR

Chart 3: GDP vs Private Sector (YoY%)



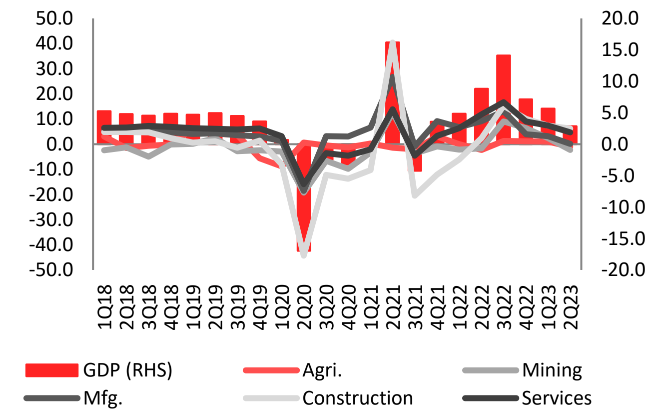
Source: Macrobond, MIDFR

Chart 4: GDP vs External Trade (YoY%)



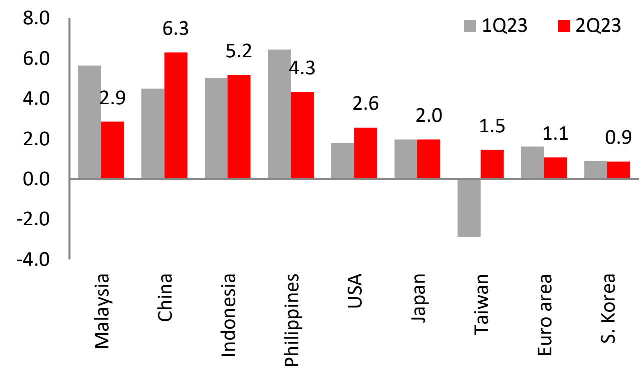
Source: Macrobond, MIDFR

Chart 5: GDP by Supply-Side (YoY%)



Source: Macrobond, MIDFR

Chart 6: GDP Growth for Selected Countries (YoY%)



Source: Macrobond, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad 197501002077 (23878-X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD 197501002077 (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein This document may not be reproduced, distributed or published in any form or for any purpose.