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ECONOMIC REVIEW | 3Q23 National Account – Advance Estimate

Malaysia's Economic Growth Accelerated but Still Moderate in 3QCY23 Based on Advance Estimate

- *Still below trend despite faster than the previous quarter. According to the advance estimate which is based on Jul-23 and Aug-23 data, Malaysia's economy grew faster by +3.3%yoy in 3QCY23 (2QCY23: +2.9%yoy). The growth momentum, however, is still moderate, remaining below +4%.*
- *Inflation and cost of living will affect sentiment. Easing inflation, which moderated further to +1.9% in Sep-23, would be supportive of spending outlook. However, core inflation, which was unchanged at +2.5%yoy, remained above headline inflation and this signaled sticky underlying demand pressures on prices.*
- *Maintain our GDP forecast for 2023 at +4.2%. we maintain our forecast for the full-year growth for 2023 at +4.2% (MOF forecast: +4.0%). Heading into next year, we forecast GDP growth to pick up to +4.7% in 2024, backed by recovery in external demand and growing activities in the domestic economy.*

Still below-trend despite faster than previous quarter. According to the advance estimate which is based on Jul-23 and Aug-23 data, Malaysia's economy grew faster by +3.3%yoy in 3QCY23 (2QCY23: +2.9%yoy). The growth momentum, however, is still moderate, remaining below +4%. Based on the sector breakdown, the stronger growth was underpinned by more robust expansion in the services sector. Although the advance estimate did not come with the demand side breakdown, we believe the services sector growth was supported by growing domestic spending and recovery in tourist arrivals. Construction sector also contributed positively to the third quarter growth, although the sector's growth rate moderated to +5.8%yoy (2QCY23: +6.2%yoy). Agriculture sector recorded better growth, rebounding to +0.8%yoy (2QCY23: -1.1%yoy). Mining & quarrying sector growth, on the other hand, was nearly unchanged from a year ago, falling at slower pace of -0.1%yoy (2QCY23: -2.3%yoy). In line with the external slowdown, manufacturing sector registered a marginal contraction of -0.1%yoy, the first negative growth after 7 quarters of expansion.

Strength in domestic demand will be key. The sustainability of growth in the domestic economy will be the key driver to growth. We expect consumer spending to continue supporting the GDP growth in 3QCY23 and the coming quarters. This will be backed the positive labour market conditions, with more people entered the job market and positive employment growth. In addition, the tourism sector recovery, particular the recovery in foreign tourist arrivals, will also support domestic spending. This shall be positive for sectors such as retail trade and accommodation.

Inflation and cost of living will affect sentiment. Easing inflation, which moderate further to +1.9% in Sep-23, would be supportive of spending outlook. However, core inflation, which was unchanged at +2.5%yoy, remained above headline inflation and this signalled sticky underlying demand pressures on prices. In other words, we expect consumers will be cautious to make big spending in view of the overall rise in cost of living, and some may also express concerns about the economy in view of moderate growth momentum. The recent rise in prices of food items, such as fresh seafood, eggs and rice, will also hurt consumer sentiment and discretionary spending on other goods and services.

Growth still subject to downside risks. Apart from the inflation risk which could hurt consumer's purchasing power, growth outlook is still subject to downside risks, mainly from the external front. Sharper slowdown in the external demand, given the restrictive interest rates in the advanced economies and the ongoing troubles in China's property market, could affect external trade performance. In addition, the escalation of tensions in the Middle East and the possible surge in oil prices also pose downside risks from the external front.

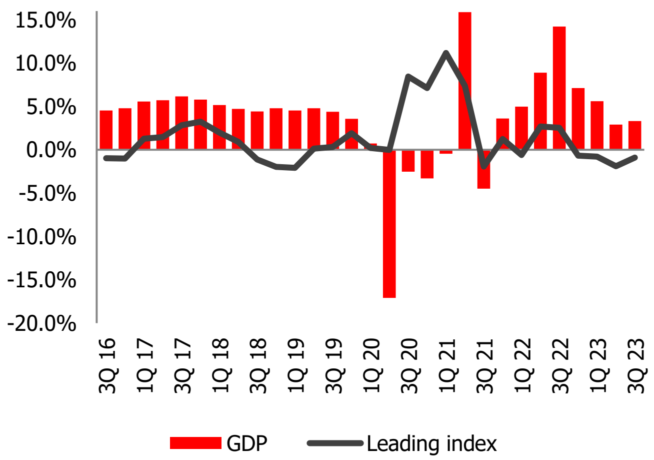
Maintain our GDP forecast for 2023 at +4.2%. The relatively stronger GDP reading in 3QCY23 is still close to our expectations for growth to hover around the same level in 2QCY23, given the higher base in 3QCY22 and indication from Leading Index that the soft growth momentum will continue in 2HCY23. We foresee growth to pick up further in 4QCY23 with a more stabilized external trade performance, in addition to the continued rise in domestic demand. On that note, we maintain our forecast for the full-year growth for 2023 at +4.2% (MOF forecast: +4.0%). Heading into next year, we forecast GDP growth to pick up to +4.7% in 2024, backed by recovery in external demand and growing activities in the domestic economy.

Table 1: Real GDP by Industry (YoY%)

	1Q22	2Q22	3Q23[a]
GDP	5.6	2.9	3.3
Agriculture	1.0	(1.1)	0.8
Mining & Quarrying	2.4	(2.3)	(0.1)
Manufacturing	3.2	0.1	(0.1)
Construction	7.4	6.2	5.8
Services	7.3	4.7	5.1

[a] advance estimate
Source: DOSM, MIDFR

Chart 1: Real GDP vs. Leading Index (YoY%)



** The latest Leading Index refers to reading for Jul-23*
Source: DOSM, MIDFR

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