17 November 2023

Malaysia's GDP Growth Remained Moderate at +3.3%yoy in 3QCY23

- *Still moderate growth in 3QCY22. Malaysia's economic growth accelerated slightly to +3.3%yoy in 3QCY22, (2QCY23: +2.9%yoy), similar to the advance estimate. The full-quarter growth is similar to our expectation, but somewhat higher than market consensus (+3%yoy). The moderate below-4% growth reflects the continued drag from weak external demand; while the sustained positive growth was anchored by the continued rise in domestic demand, thanks to growing spending activities on the back of positive job market conditions.*
- *Current account surplus widened slightly. Malaysia's current account remained in surplus and increased to three-quarter high at RM9.14b in 3QCY22. In terms of percentage to GDP, the current account surplus stood at +2.0% (2QCY22: +2.1%). Services exports among others attributed by further pick-up in tourism activity as travel account to GDP ratio hit a new post-pandemic high at +1.2% (Average 2019: +2.0%).*
- *We maintain 2023 GDP growth forecast at 4.2%. Although Malaysia's growth averaging at +3.9%yoy in the first 3-quarter 2023, we maintain our projection that the economy will grow at +4.2% for the full-year 2023, underpinned by the recovery in external trade from 4QCY23 onwards.*

Still moderate growth in 3QCY22. Malaysia's economic growth accelerated slightly to +3.3%yoy in 3QCY22, (2QCY23: +2.9%yoy), similar to the advance estimate. The full-quarter growth is similar to our expectation, but somewhat higher than market consensus (+3%yoy). The moderate below-4% growth reflects the continued drag from weak external demand; while the sustained positive growth was anchored by the continued rise in domestic demand, thanks to growing spending activities on the back of positive job market conditions with more people getting employed. In addition, the tourism sector recovery, with increased tourist arrivals and spending, also contributed to the growth in domestic spending. Although trade surplus widened to RM18.7b (2QCY23: RM13.9b), much lower (-22.7%yoy) than the surplus in 3Q last year, contributing a larger downward drag of -1.4ppt to the 3QCY23 growth (2QCY23: -0.1ppt). If we exclude the drag from external trade, the economy could've grown more than +4.5%yoy due to larger contribution from domestic demand (3QCY23: +4.7ppt; 2QCY23: +3.0ppt). On quarter-to-quarter basis, Malaysia's GDP grew robustly by +2.6%qoq (2QCY23: +1.5%qoq) after seasonal adjustment, marking the third straight quarter of quarterly growth and the strongest 5 quarters mainly attributable to higher government spending (+4.6%qoq) and fixed investment (+1.8%qoq) which offset the decline in private consumption (-0.7%qoq). Looking at 4QCY23, we expect the growth momentum to pick up on the back of improving external demand and continued expansion in domestic demand.

Private consumption continued to grow. Private consumption growth accelerated slightly to +4.6%yoy in 3QCY23 (2QCY23: +4.3%yoy) as consumers increased spending on among others F&B, transport and restaurants & hotels. This is backed by increased employment, positive income growth as well as easing inflation, which slowed to 2.0%yoy in 3QCY23 (2QCY23: +2.8%yoy). Meanwhile, gross fixed investment also grew further by +5.1%yoy supported by encouraging business activities as which led to increased investment spending by both private and public sector. We expect investment will continue to grow, backed by backed by continued growth in domestic demand, improved supply conditions, and easing cost pressures. To a certain extent, companies may also increase their purchases to rebuild their inventories in anticipation for recovering external demand.

Net exports continued weighing down on the economy. On the external front, real exports fell sharper at -12%yoy (2QCY23: -9.4%yoy), mainly because of weakness goods in manufacturing exports (such as petroleum products and machinery & equipment) and mining exports (both LNG and crude petroleum) which remained below last year. Nevertheless, we continue to see strong double-digit growth in services exports (+21.2%yoy), in line with the tourism sector recovery. Meanwhile, the decline in imports was steeper by -11.1%yoy (2QCY3Q: -9.7%yoy) mainly because of slower imports by local businesses, as manufacturers slowed purchases in view of still weak overseas demand. The weaker exports contributed to the smaller net exports, which fell sharper at -22.7%yoy (2QCY23: -3.7%yoy), falling further for the third straight quarter. Given the sign of stabilization in recent months, we project turnaround in net exports would contribute positively to growth in 4QCY23.

Current account surplus widened slightly. Malaysia's current account remained in surplus and increased to three-quarter high at RM9.14b in 3QCY22. In terms of percentage to GDP, the current account surplus stood at +2.0% (2QCY22: +2.1%). Goods & services account improved to +4.8% to GDP as compared to previous quarter +4.1%. Services exports among others attributed by further pick-up in tourism activity as travel account to GDP ratio hit a new post-pandemic high at +1.2% (Average 2019: +2.0%). We foresee services trade to recovery faster in 4QCY24 onwards. As global demand and elevated commodity prices stayed on, goods trade to GDP ratio registered at +7.1% (2QCY22: +6.7%) while primary and secondary income ratio stayed in deficit rates. We forecast current account surplus ratio at +1.8% for 2023 (2022: +3.1%) amid challenging external demand, weaker-than-expected China's economic recovery and lower global commodity price effects. Going into 2024, we view Malaysia's current account surplus shall rebound firmly ranging at +2.5~3.5% to GDP, to be driven by steady exports revenue derived from elevated global commodity prices, stronger regional demand and steady recovery in services trade primarily tourism activities.

Table 1: Summary of GDP by Expenditure Approach

	Quarterly Basis (QoQ %)				Yearly Basis (YoY %)			
	4Q22	1Q23	2Q23	3Q23	4Q22	1Q23	2Q23	3Q23
GDP	3.4	(4.3)	(0.8)	5.2	7.1	5.6	2.9	3.3
Domestic Demand	2.7	(2.9)	(0.2)	5.3	6.9	4.6	4.5	4.8
Private Consumption	(2.0)	1.1	(2.0)	7.7	7.3	5.9	4.3	4.6
Govt. Consumption	27.5	(25.1)	3.3	7.3	3.0	(2.2)	3.8	5.8
Private Investment	(15.0)	24.1	6.2	(6.6)	10.3	4.7	5.1	4.5
Public Investment	70.0	(39.2)	(9.6)	15.0	6.0	5.7	7.9	7.5
Real Exports	(2.1)	(12.4)	(0.1)	2.8	8.6	(3.3)	(9.4)	(12.0)
Real Imports	(4.6)	(10.4)	3.0	0.9	7.2	(6.5)	(9.7)	(11.1)
Net Exports	25.6	(30.0)	(34.6)	34.4	23.0	54.4	(3.7)	(22.7)

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

Still strong growth in services and construction sectors. On the supply side, the updated growth was little changed from the advance estimate. Business activities in the services sector grew faster at +5.0%yoy (2QCY23:

+4.7%yoy), due to stronger expansion in wholesale trade, motor vehicles, private healthcare and F&B services. Growth in the services sector alone contributed +2.9ppt or more than 88% of the 3QCY23 growth. Construction and agriculture sectors also recorded better growth, while manufacturing sector registered marginal contraction of -0.1%yoy, which was the first decline after 7-quarter of expansion. The weak manufacturing output was in line with the slowdown in external trade and overall slowdown in global manufacturing activities. Mining sector also recorded better growth performance, with slower decline of -0.1%yoy (2QCY23: -2.3%yoy) driven by rebound in crude oil production. We expect pick-up in external demand to support better growth outlook for manufacturing sector, while increased domestic spending will continue to support growth in the services sector. Moreover, better supply conditions will be positive for agriculture sector production to grow further, which has been supported by the rebound in oil palm production in 3QCY23.

Table 2: Summary of GDP by Supply-Side Approach

	QoQ%			YoY%		
	1Q23	2Q23	3Q23	1Q23	2Q23	3Q23
GDP	**(4.3)**	**(0.8)**	**5.2**	**5.6**	**2.9**	**3.3**
Agriculture, Forestry & Fishing	**(9.5)**	**2.0**	**19.8**	**1.0**	**(1.0)**	**0.8**
Rubber	(4.2)	(7.1)	14.7	(13.3)	3.8	(16.3)
Oil Palm	(25.5)	(0.9)	35.2	3.4	(6.9)	2.2
Livestock	(5.2)	(0.7)	13.3	(2.3)	0.5	1.1
Other Agriculture	12.5	8.9	5.2	2.6	6.6	2.8
Forestry & Logging	(14.5)	(0.3)	21.6	(2.3)	(10.7)	(10.3)
Marine Fishing	8.1	(12.9)	35.2	(1.6)	(0.3)	(0.1)
Aquaculture	(23.4)	23.8	15.9	(0.2)	(2.6)	(2.8)
Mining & Quarrying	**(2.5)**	**(6.3)**	**(0.1)**	**2.4**	**(2.3)**	**(0.1)**
Crude Oil	0.8	(4.1)	(2.5)	3.9	(1.5)	2.1
Natural Gas	(2.6)	(5.4)	(2.0)	0.6	(3.6)	(2.2)
Others	(13.6)	(20.2)	25.3	7.3	3.8	3.5
Manufacturing	**(5.8)**	**(0.9)**	**3.5**	**3.2**	**0.1**	**(0.1)**
Vegetable & Animal Oils & Fats	(19.5)	7.2	4.0	13.5	0.5	(0.3)
Food Processing	(6.6)	14.2	10.5	4.1	3.0	6.2
Beverages	(15.3)	27.9	(4.8)	(1.6)	1.4	0.5
Tobacco Products	25.3	22.8	(42.0)	15.4	19.4	13.9
Textile & Wearing Apparel	(1.5)	(10.0)	4.8	(0.2)	2.5	(0.3)
Leather Products	36.9	21.6	(25.3)	7.6	9.3	4.8
Wood Products	(2.1)	(5.1)	8.3	(8.5)	(4.9)	(2.7)
Paper Products	12.8	0.3	10.4	3.6	3.2	2.7
Printing	1.9	(19.4)	(5.0)	3.6	6.5	9.0
Refined Petroleum Products	(5.4)	(6.0)	9.2	6.3	(2.3)	(8.4)
Chemicals & Chemical Products	(7.3)	(5.7)	16.1	2.6	4.1	5.8
Rubber Products	(29.3)	35.1	8.8	(7.2)	(12.4)	(6.4)
Plastic Products	(8.8)	2.0	46.3	(8.7)	(3.3)	(1.0)
Non-Metallic Mineral Products	(0.1)	(7.4)	6.1	3.3	2.7	4.8
Basic Metals	(14.8)	14.8	(1.3)	1.6	4.8	2.6
Fabricated Metal Products	5.8	(1.1)	(5.6)	4.4	7.7	7.8
Machinery & Equipment	36.7	(24.8)	4.2	1.1	(2.1)	(4.5)

	QoQ%			YoY%		
	1Q23	2Q23	3Q23	1Q23	2Q23	3Q23
Computers & Peripheral Equipment	(8.1)	3.7	31.6	(7.8)	(8.6)	15.0
Electrical Equipment	(8.7)	21.5	(26.3)	2.0	3.7	1.8
Electronic Compo & Boards, Com Equip and Elect	1.5	(13.3)	2.1	5.0	(1.9)	(4.8)
Medical, Precision & Optical, Watches & Clocks	(38.8)	45.9	4.6	7.6	5.7	6.6
Motor Vehicles & Transport Equipment	(25.9)	20.4	(16.3)	8.3	0.3	5.0
Furniture	23.8	1.1	(31.0)	(11.0)	(6.7)	(3.1)
Other Mfg and Repair & Installation and Equipment	(24.3)	0.2	36.0	4.4	3.3	2.2
Construction	**0.1**	**(1.1)**	**6.4**	**7.4**	**6.2**	**7.2**
Residential	0.8	0.1	2.9	(3.4)	6.1	6.2
Non-Residential	(13.7)	6.5	(8.9)	6.4	2.2	(4.7)
Civil Engineering	11.6	(9.1)	22.1	16.0	10.0	14.6
Special Trades	1.8	0.5	7.1	8.7	6.4	10.4
Services	**(3.5)**	**(0.5)**	**4.9**	**7.3**	**4.7**	**5.0**
Electricity & Gas	(3.8)	6.4	0.7	0.2	2.6	2.0
Water, Sewerage and Waste Management	(2.7)	3.4	2.6	4.0	7.0	2.8
Wholesale Trade	(10.2)	5.6	11.5	3.3	4.5	6.2
Retail Trade	(7.8)	(1.7)	1.5	14.5	5.1	3.3
Motor Vehicles	(10.9)	(5.4)	31.5	11.2	3.3	11.0
Food & Beverage	1.7	(1.5)	1.0	3.7	1.6	2.2
Accommodation	(2.8)	0.2	(1.5)	55.7	49.0	16.9
Transportation & Storage	3.9	(0.8)	2.3	17.0	13.5	12.8
ICT	1.9	0.4	1.0	3.8	3.6	3.5
Finance	(2.2)	(1.9)	5.2	2.8	(1.9)	(0.3)
Insurance	5.0	(28.1)	17.3	(0.2)	(13.4)	(2.4)
Real Estate	(0.0)	0.5	5.4	1.9	1.9	6.5
Business Services	1.6	1.2	1.7	16.2	10.7	8.6
Private Health	2.7	0.4	3.4	8.7	8.7	9.7
Private Education	(0.2)	2.8	0.4	9.5	9.5	4.9
Other Services	2.4	(0.4)	1.9	5.9	5.5	5.5
Govt. Services	(7.4)	0.1	4.8	5.1	5.5	5.6
Import Duties	**(8.0)**	**7.1**	**0.7**	**10.6**	**6.7**	**8.8**

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

Some economies report stronger GDP growth in 3QCY22. Some economies reported stronger in 3QCY23, such as USA and selected regional countries. In the US, the stronger year-on-year growth of +2.9%yoy was backed by strong sequential increase in consumer spending as Americans increased consumption as inflation continued to ease. The resilient growth shows the economy is still doing well despite the aggressive hikes carried by the Fed since last year. Regional countries like the Philippines and Taiwan also reported stronger growth in 3QCY23, with positive contribution from net exports, while stronger growth in Singapore with smaller contraction in the manufacturing sector during the quarter. In the UK, GDP growth was sustained at +0.6%yoy Other advanced economies like euro area reported slower growth constrained by the tighter financing condition, while Japan's growth also slowed due to sluggish consumer spending. In China, GDP growth slowed to +4.9%yoy due to slower growth in domestic spending. While we expect China's economic growth to improve in 4QCY23 onwards, we foresee the high interest rates will eventually lead to slower aggregate demand in the US and euro area. On that note, we believe the moderate growth in advanced economies and continued recovery in China will support for recovering trade activities going into next year.

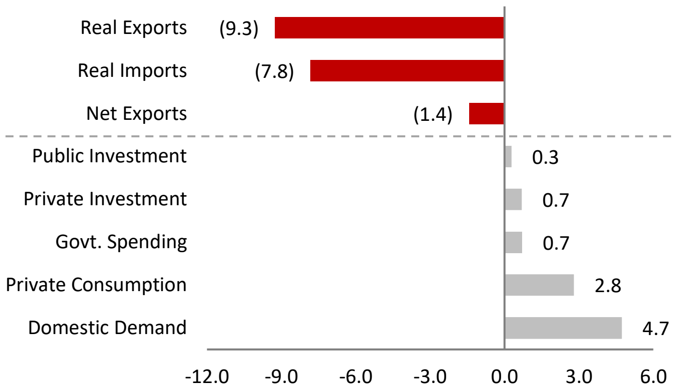
Table 3: GDP Growth by Selected Economies (YoY%)

	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
Malaysia	4.8	8.8	14.1	7.1	5.6	2.9	3.3
Indonesia	5.0	5.5	5.7	5.0	5.0	5.2	4.9
Philippines	8.0	7.5	7.7	7.1	6.4	4.3	5.9
Thailand	2.2	2.5	4.6	1.4	2.6	1.8	n.a.
Singapore	4.0	4.5	4.0	2.1	0.4	0.5	0.7
China	4.8	0.4	3.9	2.9	4.5	6.3	4.9
Taiwan	3.9	3.0	3.6	(0.8)	(3.3)	1.4	2.3
South Korea	3.1	2.9	3.2	1.4	0.9	0.9	1.4
Japan	0.5	1.5	1.4	0.3	2.0	1.7	1.2
UK	11.4	3.9	2.1	0.7	0.5	0.6	0.6
Euro area	5.4	4.1	2.4	1.8	1.7	1.0	0.6
USA	3.6	1.9	1.7	0.7	1.7	2.4	2.9
QoQ%, annualized	*(2.0)*	*(0.6)*	*2.7*	*2.6*	*2.2*	*2.1*	*4.9*

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

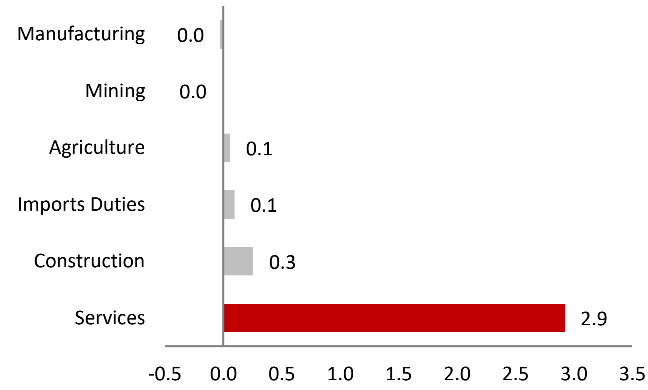
We maintain 2023 GDP growth forecast at 4.2%. Although Malaysia's growth averaging at +3.9%yoy in the first 3-quarter 2023, we maintain our projection that the economy will grow at +4.2% for the full-year 2023, underpinned by the recovery in external trade from 4QCY23 onwards. We expect Malaysia's economic growth to pick up next year as we assume the trade recovery will continue, driven by pick-up in demand for E&E products and semiconductors (as discussed in our thematic report). In addition, the positive employment and income growth, including cash assistance from the government, will support domestic spending to continue growing next year. However, we view inflation risk mainly because of planned policy changes by the government is the key downside risk to household spending, which has been one of the main concerns affecting consumer sentiment. Moreover, other developments like the geopolitical and trade tensions, volatility in the financial markets, slowdown in the US economy and fragility of China's economic recovery are among downside risks that could also derail Malaysia's growth outlook.

Chart 1: Contribution by Expenditure Components to 3QCY23 GDP Growth (%-point)



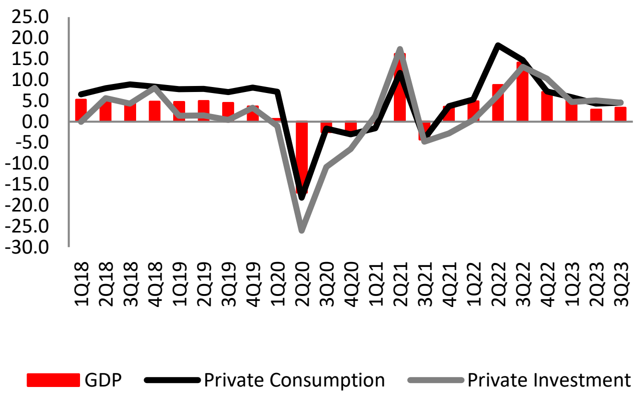
Source: Macrobond, MIDFR

Chart 2: Contribution by Supply-Side Components to 3QCY23 GDP Growth (%-point)



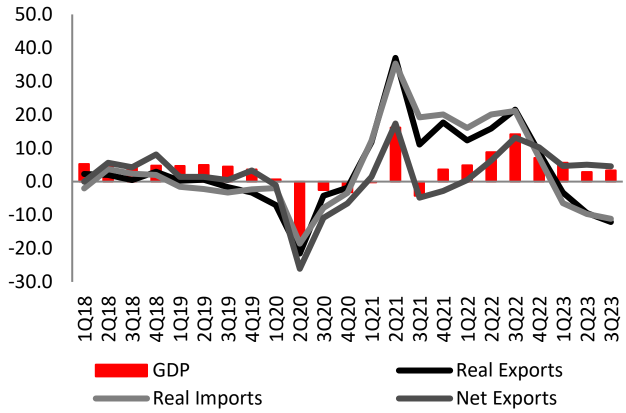
Source: Macrobond, MIDFR

Chart 3: GDP vs Private Sector (YoY%)



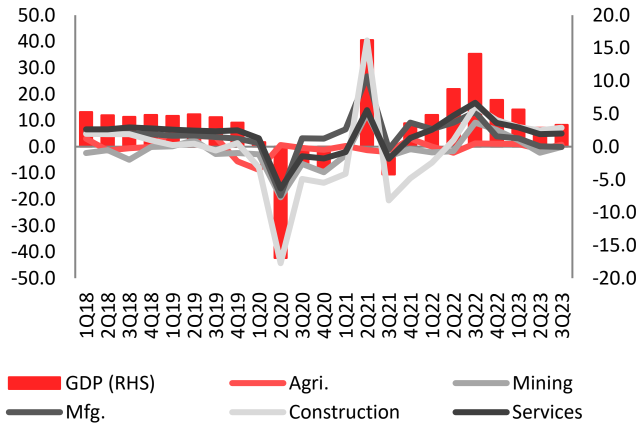
Source: Macrobond, MIDFR

Chart 4: GDP vs External Trade (YoY%)



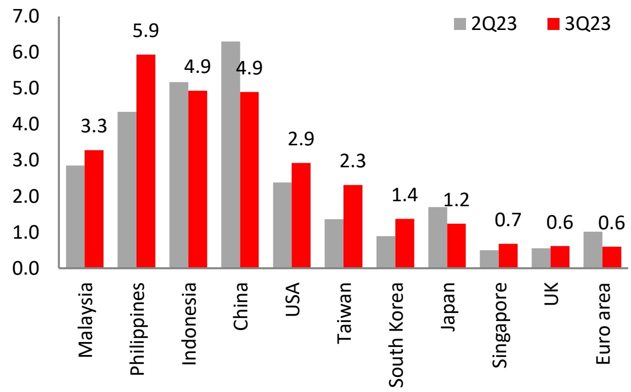
Source: Macrobond, MIDFR

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



Source: Macrobond, MIDFR

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



Source: Macrobond, MIDFR

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