

## ECONOMIC REVIEW | 4Q23 National Account – Advance Estimate

### GDP Growth Remained Modest at +3.4% in 4QCY23, Translating into Below-4% GDP Growth in 2023

- Malaysia's economy grew at +3.4% in 4QCY23. According to the advance estimate (or data in Oct-23 and Nov-23), Malaysia's economy grew faster at modest pace of +3.4%yoy in 4QCY23. The growth was only marginally faster than +3.3%yoy in 3QCY23 and below our estimate and market consensus.
- Full-year GDP growth at +3.8%. Taking into account the weaker-than-expected GDP growth in 4QCY23, Malaysia's GDP growth moderated to +3.8% in 2023 (2022: +8.7%), lower than our estimate of +4.2% following larger drag from weak global trade and manufacturing activities.
- We forecast GDP growth to strengthen to +4.7% in 2024. We continue to forecast Malaysia's GDP growth will strengthen to +4.7% this year (2023: +3.8%). On top of the external trade recovery, we foresee economic growth this year will be anchored by continued rise in domestic spending.

**Malaysia's economy grew at +3.4% in 4QCY23.** According to the advance estimate (or data in Oct-23 and Nov-23), Malaysia's economy grew at modest pace of +3.4%yoy in 4QCY23. The growth was only marginally faster than +3.3%yoy in 3QCY23 and below our estimate and market consensus. Based on the sector breakdown, growth in the manufacturing sector was sluggish at only +0.1%yoy (3QCY23: -0.1%yoy), dragged down by weak production of E&E, petroleum, and rubber & plastic products. This was in line with the still weak export performance, compared to a year ago. In addition, growth in the construction sector moderated to +2.5%yoy (3QCY23: +7.5%yoy), the slowest expansion in 6 quarters. According to DOSM, reduction was recorded in the non-residential sector and specialised construction activities. The services sector also registered marginally slower growth at +4.7%yoy (3QCY23: +5.0%yoy), but the sustained rise reflected continued growth in domestic spending during the quarter. In contrast, the primary sectors i.e. agriculture and mining & quarrying expanded faster at +1.2%yoy (2QCY23: +0.8%yoy) and +3.7%yoy (3QCY23: -0.1%yoy), respectively. The growth in agriculture sector was driven by increased output in the oil palm, other agriculture and livestock sub-sectors; while higher production of natural gas and crude petroleum & condensates contributed to the rebound in mining sector growth.

**Table 1: Malaysia's Real GDP Growth by Major Sectors**

	2Q23	3Q23	4Q23 <sup>a</sup>	2Q23	3Q23	4Q23 <sup>a</sup>	2022	2023 <sup>a</sup>
	QoQ%			YoY%				
<b>GDP</b>	<b>-0.8</b>	<b>5.2</b>	<b>3.5</b>	<b>2.9</b>	<b>3.3</b>	<b>3.4</b>	<b>8.7</b>	<b>3.8</b>
Agriculture	2.0	19.8	-8.5	-1.0	0.8	1.2	0.1	0.5
Mining & Quarrying	-6.3	-0.1	13.5	-2.3	-0.1	3.7	2.6	1.0
Manufacturing	-0.9	3.5	3.6	0.1	-0.1	0.1	8.1	0.8
Construction	-1.1	6.4	-2.8	6.2	7.2	2.5	5.0	5.8
Services	-0.5	4.9	4.0	4.7	5.0	4.7	10.9	5.4

<sup>a</sup> advance estimate

Source: DOSM, MIDFR


**GDP grew +3.5%qoq from previous quarter.** Sequentially, GDP growth remained in positives, rising by +3.5%qoq (3QCY23: +5.2%qoq). The quarterly growth was supported by strong rebound in the mining & quarrying sector, which grew by +13.5%qoq (3QCY23: -0.1%qoq). Manufacturing sector managed to sustain another quarter of growth at +3.6%qoq (3QCY23: +3.5%qoq), in line with the quarter-to-quarter rise in goods exports. The growth of +4.0%qoq in the services sector also supported the quarterly GDP increase, although the sector's growth was slower than +4.9%qoq in the previous quarter. In contrast, activities in the other 2 sectors i.e. agriculture and construction were lower than 3QCY23 as both sectors registered contraction of -8.5%qoq and -2.8%qoq, respectively.

**Full-year GDP growth at +3.8%.** Taking into account the weaker-than-expected GDP growth in 4QCY23, Malaysia's GDP growth moderated to +3.8% in 2023 (2022: +8.7%), lower than our estimate of +4.2%. This can be explained by the weakness in external trade and global manufacturing activities, which translated into manufacturing growth slowing to +0.8% (2022: +8.1%) last year. Meanwhile, services sector (and domestic demand) continued to anchor growth, despite the sector's growth moderating to +5.4% (2022: +10.9%), back to more normal growth with the absence of low base effect. The strength in domestic demand also helped to boost growth for the construction and agriculture sectors, both growing stronger at +5.8% and +0.5% respectively.

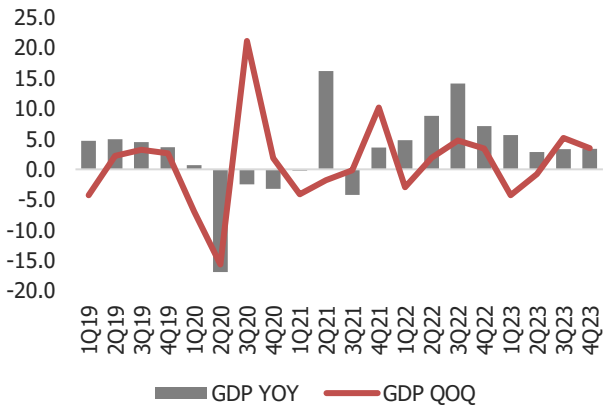
**Domestic demand will continue to support economic growth.** Looking at the continued expansion in services sector, we believe the sustainable growth in domestic spending activities will be crucial to support overall economic growth in Malaysia. Increased tourist arrivals and spending will also support growth in accommodation, transportation and wholesale & retail sub-sectors. Apart from the recovery in tourism sector activities, we foresee consumption spending will grow further on the back of increased employment and positive income growth. Furthermore, government's assistance such as cash handouts and targeted subsidies will also help to support spending, especially for the lower-income groups.

**Inflation eased but consumers were pessimistic.** In general, we expect moderating inflation, which has been moderating from the high of +4.7%yoy in Aug-22 to as low as +1.5% in Nov-23, will be supportive of spending outlook this year. Nevertheless, there could be downward drag to spending outlook as consumers expressed pessimism following concerns over rising cost of living. The deterioration was shown by the continued decline in the MIER consumer sentiment index to 78.9 in 3QCY23 (2QCY23: 90.9; 3QCY22: 86.0). We foresee consumers will continue to be influenced by the inflation outlook.

**Growth outlook still subject to downside risks.** In addition to the weak consumer sentiment, we are also wary of the effect of policy changes to inflation as well as consumers' discretionary spending. More money may be spent to cover the increases in utility tariffs and higher domestic fuel prices, and as a result consumers may reduce spending on other items or services. On the external front, downside risks such as possible recession in the US economy and escalation of geopolitical tensions may lead to prolonged weakness in the global trade and manufacturing activities. In other words, Malaysia's exports and production activities may not increase as strong as anticipated, if external demand continues to be weak.

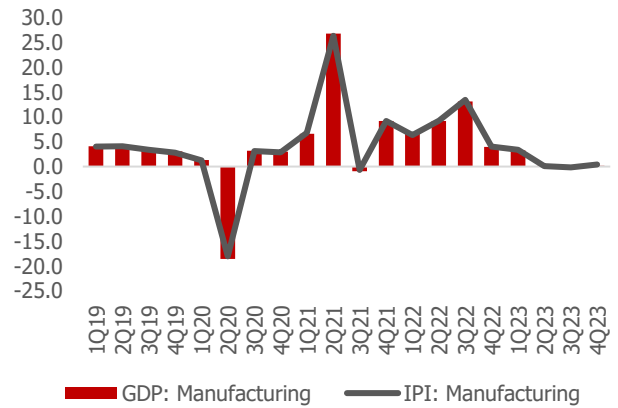
**We forecast GDP growth to strengthen to +4.7% in 2024.** We continue to forecast Malaysia's GDP growth will strengthen to +4.7% this year (2023: +3.8%). The stronger GDP growth will be underpinned by the external trade recovery, as we foresee improvement in E&E exports and growing external demand from major markets like China and the US. On top of the external trade recovery, we foresee economic growth this year will be anchored by continued rise in domestic spending. 

**Chart 1: Real GDP: YoY vs. QoQ (%)**



<sup>a</sup> advance estimate  
Source: DOSM, MIDFR

**Chart 2: Manufacturing GDP vs. Manufacturing IPI (YoY%)**



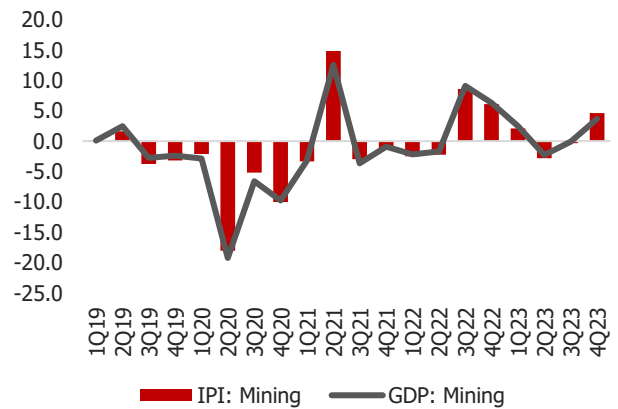
Source: Macrobond, DOSM, MIDFR

**Chart 3: Services GDP vs. Retail Trade (YoY%)**



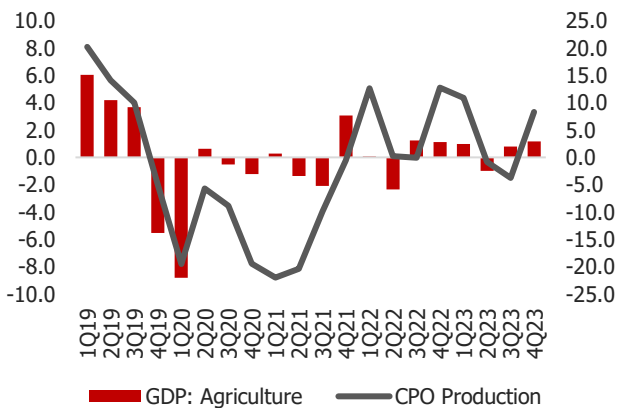
Source: Macrobond, MIDFR

**Chart 4: Mining GDP vs. Mining IPI (YoY%)**



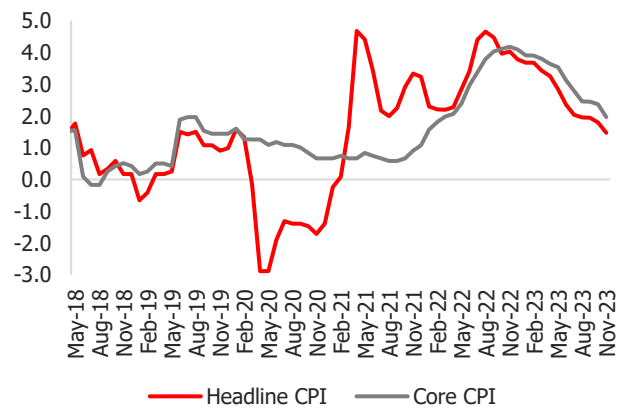
Source: Macrobond, MIDFR

**Chart 5: Agriculture GDP vs. CPO Production (YoY%)**



Source: Macrobond, DOSM, MIDFR

**Chart 6: Headline vs. Core CPI Inflation (YoY%)**



Source: Macrobond, MIDFR

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