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ECONOMIC REVIEW | 4Q23 National Account

Malaysia's Economic Growth Moderated to +3%yoy in 4QCY23 with Continued Drag from External Demand

- *Malaysia's economy grew +3.7% in 2023. Malaysia's GDP growth moderated to +3.0%yoy in 4QCY23 (3QCY23: +3.3%yoy), below advance estimate of +3.4%yoy. For the full year, the economy expanded +3.7% in 2023 (2022: +8.7%yoy).*
- *Current account still in surplus but shrank. Malaysia's current account balance remained in surplus, but the size shrank to RM0.25b, the smallest quarterly surplus since the BOP statistics started. In terms of percentage to GDP, the size of current account surplus also dropped to historical low of +0.1% (3QCY23: +2.0% of GDP). In 2023, Malaysia's current account registered the smallest yearly surplus of +RM22.8b, with the ratio to GDP declining to a new low of +1.3%. This highlights the extent of weak external trade to Malaysia's economic activities last year. Nevertheless, we expect the ratio of current account surplus will bounce back to around +2% of GDP as we expect external trade to recover this year.*
- *Malaysia's GDP growth to pick up to +4.7% in 2024. We forecast Malaysia's GDP growth will strengthen to +4.7% this year (2023: +3.7%), supported by the external trade recovery and sustained rise in domestic spending. The downside risk to our growth forecast, in our view, will be coming mainly from external developments such as slower growth in China, possible recession risk in the US and disruption to global trade from geopolitical tensions. Meanwhile, on the domestic front, another downside risk is the possible upward price pressures which may constrain consumer spending.*

Malaysia's economy grew +3.7% in 2023. Malaysia's GDP growth moderated to +3.0%yoy in 4QCY23 (3QCY23: +3.3%yoy), below ours and market expectations as well as an advance estimate of +3.4%yoy. For the full year, the economy expanded +3.7% in 2023 (2022: +8.7%yoy). The moderation was underpinned by a continued and steeper contraction in external demand, while the sustained growth was anchored by still upbeat domestic demand conditions. Domestic demand expanded faster at +6.2%yoy in 4QCY23 (3QCY23: +5.1%yoy), mainly due to stronger investment spending. Private consumption remained expansionary, albeit moderating slightly to +4.2%yoy (3QCY23: +4.6%yoy), backed by robust labour market conditions and moderating inflation. Both the jobless rate and inflation marked a new post-pandemic low of 3.3% (3QCY23: 3.4%) and +1.6%yoy (3QCY23: +2.0%yoy), respectively. Additionally, gross fixed capital investment also expanded faster at +6.4%yoy (3QCY23: +5.1%yoy) largely from a significantly faster increase in public sector investment (+11.3%yoy; 3QCY23: +7.5%yoy). Meanwhile, private investment continued to register encouraging growth of +4.0%yoy (3QCY23: +4.5%yoy). We foresee investment to maintain on an expansionary trend backed by progress in various infrastructure projects on the back of still encouraging domestic economic condition. In anticipation of recovering external demand, companies might also increase spending on capital and rebuilding of inventories.

GDP contracted -2.1%qoq from the previous quarter. Looking at the quarter-to-quarter change, Malaysia's economic growth contracted -2.1%qoq from the previous quarter (3QCY23: +2.6%qoq), after adjusting for seasonal factors. The decline in economic activities from 3QCY23 was due to a sharp fall in the construction sector (-7.3%qoq), followed by contraction in the manufacturing sector (-2.9%qoq), and -2.4%qoq drop in services sector. Meanwhile, agriculture and mining sectors both recorded quarterly growth of +3.5%qoq and +1.5%qoq, respectively, although the pace of growth was relatively slower than the previous quarter. As we expected, the decline from the demand side showed a continued and sharper fall of -3.0%qoq in private consumption spending (3QCY23: -0.7%qoq) as consumers continued to indicate concerns over the rise in the cost of living. Net exports also posed a downward drag from 3QCY23 because imports rose faster (+2.6%qoq) than exports (+1.0%qoq). On another note, although public sector spending and investment activities continued to increase for the 3rd consecutive quarter, the pace of growth however moderated to +0.6%qoq (3QCY23: +4.6%qoq) and +0.3%qoq (3QCY23: +1.8%qoq), respectively. We remain cautious that consumption spending may be constrained by concerns over inflationary pressures.

Net exports weigh heavier on growth in 3QCY23. Net exports plunged -35.6%yoy (3QCY24: -22.7%yoy), dragged down by a relatively sharper fall in exports, and resulted in the larger full-year contraction in trade surplus at -11.3%yoy (2022: -1.0%yoy). Despite the larger decline in net exports, the decline in exports was softer at -6.3%yoy (3QCY23: -12.0%yoy). The dip continued to be underpinned by weakness in exports of manufacturing goods (such as petroleum products and machinery & equipment) and mining exports (both LNG and crude petroleum) which remained below last year. Nevertheless, services exports advanced much faster at +37.3%yoy (3QCY23: +21.2%yoy), reflective of positive effect from recovery in the tourism sector. Meanwhile, the decline in imports was softer at -2.9%yoy (3QCY3Q: -11.1%yoy), indicative of businesses starting to prepare for a turnaround in external demand. Despite the larger decline in net exports, better export growth indicated a possible rebound in external trade performance in 2024, which we foresee will be underpinned by a more robust manufacturing performance on the upturn of the E&E sector.

Current account still in surplus but shrank. Malaysia's current account balance remained in surplus but the size shrank to RM0.25b, the smallest quarterly surplus since the BOP statistics started. While services trade registered smaller deficit to new post-pandemic low of -RM7.4b, the sharp reduction in current account surplus was mainly explained by larger deficit in primary income account which nearly doubled to -RM20.9b (3QCY23: -RM11b), largely reflecting net payment of investment income mostly related to direct investment. A larger quarterly rise in imports also led to reduced goods account surplus, which shrank to RM30.8b. In terms of percentage to GDP, the size of current account surplus also dropped to historical low of +0.1% (3QCY23: +2.0% of GDP). With the historically small surplus in 4QCY23, Malaysia's current account registered the smallest yearly surplus of +RM22.8b, with the ratio to GDP also fell to a new low of +1.3%. This highlights the extent of weak external trade to Malaysia's economic activities last year. As we foresee external trade to recover this year, we expect the ratio of current account surplus will bounce back to around +2% of GDP in view of turnaround in the global E&E market, recovery in global production and restocking activities, and continued growth in major markets. Moreover, further recovery in tourism sector activities shall support improvement in services exports.

Table 1: Summary of GDP by Expenditure Approach

	Quarterly Basis (QoQ %)				Yearly Basis (YoY %)				
	1Q23	2Q23	3Q23	4Q23	1Q23	2Q23	3Q23	4Q23	2023
GDP	(4.3)	(0.8)	5.2	3.1	5.6	2.9	3.3	3.0	3.7
Domestic Demand	(2.2)	1.2	4.1	3.0	3.7	3.1	5.1	6.2	4.5
Private Consumption	1.1	(2.0)	7.7	(2.3)	5.9	4.3	4.6	4.2	4.7
Govt. Consumption	(25.1)	3.3	7.3	29.4	(2.2)	3.8	5.8	7.3	3.9
Private Investment	24.1	6.2	(6.6)	(15.5)	4.7	5.1	4.5	4.0	4.6
Public Investment	(39.2)	(9.6)	15.0	75.9	5.7	7.9	7.5	11.3	8.6
Real Exports	(12.4)	(0.1)	2.8	4.2	(3.3)	(9.4)	(12.0)	(6.3)	(7.9)
Real Imports	(10.4)	3.0	0.9	4.2	(6.5)	(9.7)	(11.1)	(2.9)	(7.6)
Net Exports	(30.0)	(34.6)	34.4	4.7	54.4	(3.7)	(22.7)	(35.6)	(11.3)

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

More moderate growth in services and larger fall in manufacturing sector... From the supply side, the +3%yoy full-quarter growth was slower than the advance estimate of +3.4%yoy due to more moderate growth in services industry as well slightly sharper contraction in the manufacturing sector. Services sector growth moderated to +4.2%yoy (adv. estimate: +4.7%yoy, 3QCY23: +4.7%yoy), in line with the moderation in private consumption spending. Nevertheless, the sustained growth in the services sector alone contributed +2.5%-point or more than 80% of GDP growth during the quarter, supported by growth in all services sub-sectors, except finance and insurance. Sharper contraction in the manufacturing sector at -0.3%yoy (adv. estimate: -0.1%yoy; 3QCY23: -0.1%yoy) was not a big surprise, given the weaker exports and IPI in Dec-23. The drag comes from further contraction in sub-sectors such as electronic components & consumer electronics; machinery & equipment; and refined petroleum products and rubber products.

...but stronger growth in construction, agriculture and mining. In contrast, construction, agriculture and mining sectors recorded stronger growth, even faster than the advanced estimates. For the agriculture sector, the stronger +1.9%yoy expansion reflected the improvements in various sub-sectors such as rubber, livestock, marine fishing and aquaculture, while the oil palm industry recorded sustained growth. Meanwhile, the rebound in the mining sector growth to +3.8%yoy was driven by the rebound in natural gas production. In the construction sector, the moderate growth of +3.6%yoy was underpinned by continued growth in civil engineering as well as residential buildings, which more than offset the decline in non-residential segment. For the year 2023, the continued but moderate growth last year reflected the sharp moderation in manufacturing sector growth (+0.7%; 2022: +8.1%) and a more normalized growth in the services sector (+5.3%; 2022: +10.9%), in contrast to stronger growth in the construction sector (+6.1%; 2022: +5.0%). We expect growth in the manufacturing sector to pick up this year on the back of improving external demand, while increased domestic spending and recovery in tourism sector will continue to support growth in the services sector. Moreover, recovery in global demand could also support growth for the resource-based industries such as oil palm, refined petroleum products and even energy commodities especially LNG.

Table 2: Summary of GDP by Supply-Side Approach

	QoQ%			YoY%			
	2Q23	3Q23	4Q23	2Q23	3Q23	4Q23	2023
GDP	**(0.8)**	**5.2**	**3.1**	**2.9**	**3.3**	**3.0**	**3.7**
Agriculture, Forestry & Fishing	**2.0**	**19.9**	**(7.9)**	**(1.0)**	**0.9**	**1.9**	**0.7**
Rubber	(7.1)	14.7	1.6	3.7	(16.2)	3.8	(6.6)
Oil Palm	(0.9)	35.2	1.9	(6.9)	2.2	1.6	0.2
Livestock	(0.7)	13.3	(3.1)	0.5	1.1	3.4	0.7
Other Agriculture	8.9	5.2	(20.4)	6.6	2.8	2.6	3.7
Forestry & Logging	(0.3)	20.4	(12.9)	(10.8)	(11.2)	(10.6)	(9.0)
Marine Fishing	(12.9)	35.1	(17.2)	(0.3)	(0.2)	5.3	0.7
Aquaculture	23.8	19.0	(8.6)	(2.6)	(0.1)	3.1	0.1
Mining & Quarrying	**(6.3)**	**(0.1)**	**13.7**	**(2.3)**	**(0.1)**	**3.8**	**1.0**
Crude Oil	(4.1)	(2.5)	9.5	(1.5)	2.1	3.3	2.0
Natural Gas	(5.4)	(2.0)	16.0	(3.6)	(2.2)	4.6	(0.1)
Others	(20.2)	25.3	17.6	3.8	3.5	1.7	3.9
Manufacturing	**(0.9)**	**3.5**	**3.2**	**0.1**	**(0.1)**	**(0.3)**	**0.7**
Vegetable & Animal Oils & Fats	7.2	4.0	16.9	0.5	(0.3)	4.9	4.2
Food Processing	14.2	10.5	(7.7)	3.0	6.3	8.7	5.5
Beverages	27.9	(4.8)	2.1	1.4	0.5	5.3	1.5

	QoQ%			YoY%			
	2Q23	3Q23	4Q23	2Q23	3Q23	4Q23	2023
Tobacco Products	22.8	(42.0)	18.4	19.4	13.8	5.7	14.0
Textile & Wearing Apparel	(10.0)	4.8	6.3	2.5	(0.3)	(1.2)	0.1
Leather Products	21.6	(25.3)	(13.2)	9.2	4.9	8.4	7.5
Wood Products	(5.1)	8.3	(0.9)	(4.9)	(2.7)	(0.3)	(4.1)
Paper Products	0.3	10.4	(15.0)	3.2	2.7	6.2	3.8
Printing	(19.4)	(5.0)	35.1	6.5	8.9	5.4	5.9
Refined Petroleum Products	(6.0)	9.2	(0.4)	(2.3)	(8.4)	(3.3)	(2.3)
Chemicals & Chemical Products	(5.7)	16.1	0.6	4.1	5.8	2.1	3.6
Rubber Products	35.1	8.8	(5.8)	(12.4)	(6.5)	(2.0)	(7.1)
Plastic Products	2.0	46.3	(25.3)	(3.3)	(1.1)	1.6	(2.7)
Non-Metallic Mineral Products	(7.4)	6.1	8.1	2.7	4.7	6.1	4.3
Basic Metals	14.8	(1.3)	6.1	4.8	2.7	2.5	2.9
Fabricated Metal Products	(1.1)	(5.7)	10.0	7.7	7.7	8.5	7.0
Machinery & Equipment	(24.8)	4.2	(9.6)	(2.1)	(4.5)	(3.2)	(2.0)
Computers & Peripheral Equipment	3.7	31.6	(4.5)	(8.6)	14.9	19.8	4.7
Electrical Equipment	21.5	(26.3)	22.7	3.7	1.8	0.3	2.0
Electronic Compo & Boards, Com Equip and Elect	(13.3)	2.1	0.1	(1.9)	(4.8)	(10.0)	(3.0)
Medical, Precision & Optical, Watches & Clocks	45.9	4.6	15.1	5.7	6.6	7.5	6.8
Motor Vehicles & Transport Equipment	20.4	(16.3)	36.9	0.3	5.0	2.2	3.6
Furniture	1.1	(31.0)	23.0	(6.7)	(3.1)	6.2	(4.5)
Other Mfg and Repair & Installation and Equipment	0.2	36.0	(0.1)	3.3	2.2	3.0	3.1
Construction	**(1.1)**	**6.4**	**(1.8)**	**6.2**	**7.2**	**3.6**	**6.1**
Residential	0.1	2.9	(2.5)	6.1	6.2	1.3	2.4
Non-Residential	6.5	(8.9)	13.6	2.3	(4.7)	(4.9)	(0.5)
Civil Engineering	(9.1)	22.1	(5.8)	10.0	14.6	16.8	14.4
Special Trades	0.5	7.1	(8.2)	6.4	10.4	0.5	6.5
Services	**(0.5)**	**4.9**	**3.5**	**4.7**	**5.0**	**4.2**	**5.3**
Electricity & Gas	6.4	0.7	1.7	2.5	2.0	4.8	2.4
Water, Sewerage and Waste Management	3.4	2.6	(0.7)	7.1	2.7	2.5	4.0
Wholesale Trade	5.6	11.5	(1.0)	4.5	6.2	4.7	4.7
Retail Trade	(1.7)	1.5	11.7	5.1	3.3	2.8	6.2
Motor Vehicles	(5.4)	31.5	(1.0)	3.3	11.0	9.7	9.0
Food & Beverage	(1.5)	1.0	1.2	1.6	2.2	2.4	2.5
Accommodation	0.2	(1.5)	14.6	49.0	16.8	10.0	29.2
Transportation & Storage	(0.8)	2.3	6.4	13.5	12.8	12.2	13.8
ICT	0.4	1.0	(0.2)	3.6	3.5	3.2	3.6
Finance	(1.9)	5.2	(3.4)	(1.9)	(0.3)	(2.5)	(0.5)
Insurance	(28.1)	18.4	(0.5)	(13.4)	(1.5)	(11.1)	(6.4)
Real Estate	0.5	5.4	0.6	1.9	6.5	6.5	4.2
Business Services	1.2	1.7	3.4	10.7	8.6	8.2	10.8
Private Health	0.4	3.4	3.5	8.7	9.7	10.3	9.4
Private Education	2.8	0.4	2.9	9.4	4.9	5.9	7.4
Other Services	(0.4)	1.9	(0.2)	5.5	5.5	3.7	5.1
Govt. Services	0.1	4.8	8.8	5.5	5.6	5.7	5.5
Import Duties	**7.1**	**0.7**	**11.8**	**6.7**	**8.9**	**10.9**	**9.3**

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

UK and Japan in technical recession vs. stronger growth in other economies. Most economies grew stronger in 4QCY23, except the UK and Japan. In the US, although the annualized quarterly growth moderated to +3.3%qoq (3QCY23: +4.9%qoq) but the year-on-year GDP growth accelerated to +3.1%yoy (3QCY23: 2.9%yoy), with growth continued to be underpinned by increased consumer spending on the back of easing inflation. In the Euro area, economic growth registered some pick-up to +0.1%yoy (3QCY23: +0.0%yoy) where weak contraction in Germany was offset by stronger growth in other countries such as Spain, Portugal, France and Italy. The UK economy, however, recorded a technical recession according to the first estimate; after 2 quarters of quarterly contraction, the UK GDP fell by -0.2%yoy in 4QCY23 due to reduced spending by households and the government as well as net trade. In Asia, Japan also recorded technical recession as the economy contracted by -0.4%qoq on annualized basis (3QCY23: -3.3%qoq). The level of activity in 4QCY23 was still higher than a year ago because Japan's GDP growth moderated to +1%yoy (3QCY23: +1.7%yoy). In China, growth picked up to +5.2%yoy (3QCY23: +4.9%yoy) as the economy regained momentum benefiting from the government's policy support. Other regional countries like Singapore and Indonesia also reported stronger growth in 4QCY23, with both countries reporting a pick-up in construction activities. The Philippines, however, experienced moderate growth of +5.6%yoy (3QCY23: +6.0%yoy) where sustained growth in consumer spending was somewhat limited by declines in government spending and exports. We expect continued growth in the US and China to support global trade this year. Although China's growth from the ongoing challenges in the property market, we expect the government will step in to support economic growth. In the US, growth will remain positive on the back of growing employment and increased wages, but the high-interest rates could cause demand to weaken and growth to slow. For now, we expect the US to be able to maintain positive growth (albeit slower than last year) in view of continued resilience in the job market.

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

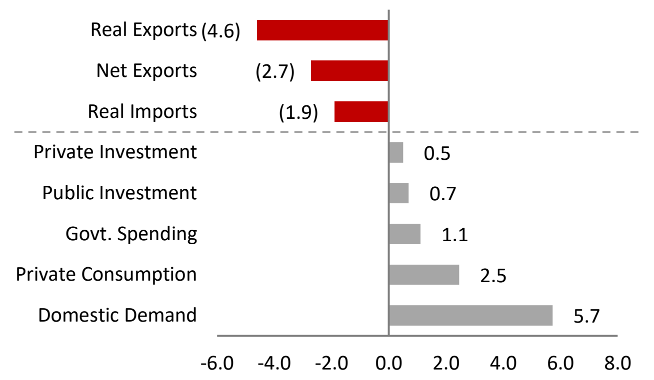
	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	2023
Malaysia	8.8	14.1	7.1	5.6	2.9	3.3	3.0	3.7
Indonesia	5.5	5.7	5.0	5.0	5.2	4.9	5.0	5.0
Philippines	7.5	7.7	7.1	6.4	4.3	6.0	5.6	5.6
Thailand	2.5	4.6	1.4	2.6	1.8	1.5	n.a.	n.a.
Singapore	4.6	4.2	2.4	0.5	0.5	1.0	2.2	1.1
China	0.4	3.9	2.9	4.5	6.3	4.9	5.2	5.2
Taiwan	3.5	4.0	(0.7)	(3.5)	1.4	2.3	5.1	1.4
South Korea	2.9	3.2	1.4	0.9	0.9	1.4	2.2	1.4
Japan	1.5	1.5	0.5	2.6	2.3	1.7	1.0	1.9
UK	3.9	2.1	0.6	0.3	0.3	0.2	(0.2)	0.1
Euro area	4.1	2.4	1.8	1.3	0.6	0.0	0.1	0.5
USA	1.9	1.7	0.7	1.7	2.4	2.9	3.1	2.5
QoQ%, annualized	*(0.6)*	*2.7*	*2.6*	*2.2*	*2.1*	*4.9*	*3.3*	

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

Malaysia's GDP growth to pick up to +4.7% in 2024. We forecast Malaysia's GDP growth will strengthen to +4.7% this year after the more moderate growth last year (2023: +3.7%) that was dragged by external trade performance as well as moderation in private sector spending. Understandably, the moderation in growth last year also reflected a more normalized growth with the absence of low base effect from pandemic-induced slowdown. We postulate the stronger growth this year can be achieved taking into account the external trade recovery, as we foresee improvement in E&E exports and growing external demand from major markets like

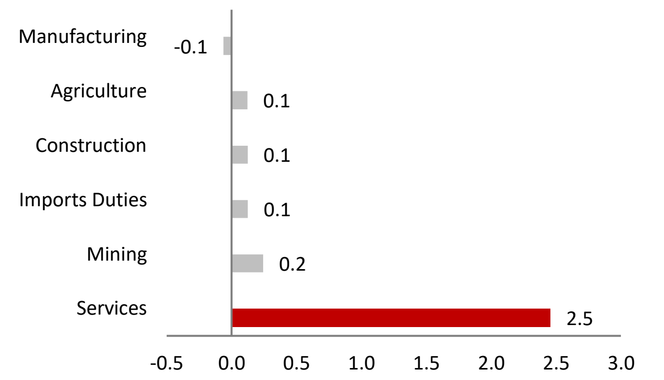
China and the US. Moreover, we expect economic growth this year will continue to be anchored by sustained rise in domestic spending, backed by healthy labour market, rising income and continued recovery in tourist arrivals (and spending). Nevertheless, we remain cautious that external developments like slower growth in China, possible recession risk in the US and disruption to global trade from intensified geopolitical tensions could be the downside risks to Malaysia's growth prospects in 2024. On the domestic front, we opine that the possible upward price pressures may result in constrain consumers' purchasing power and their spending.

Chart 1: Contribution by Expenditure Components to 4QCY23 GDP Growth (%-point)



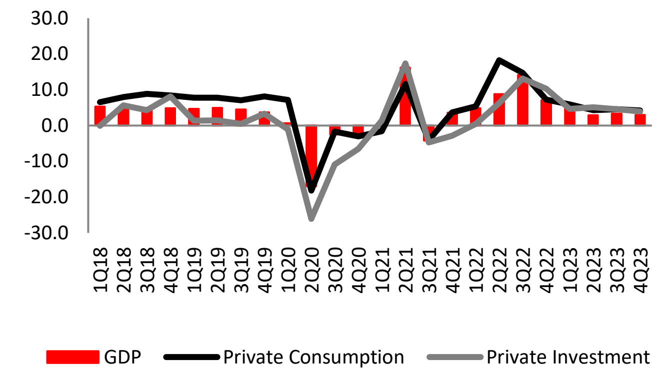
Source: Macrobond, MIDFR

Chart 2: Contribution by Supply-Side Components to 4QCY23 GDP Growth (%-point)



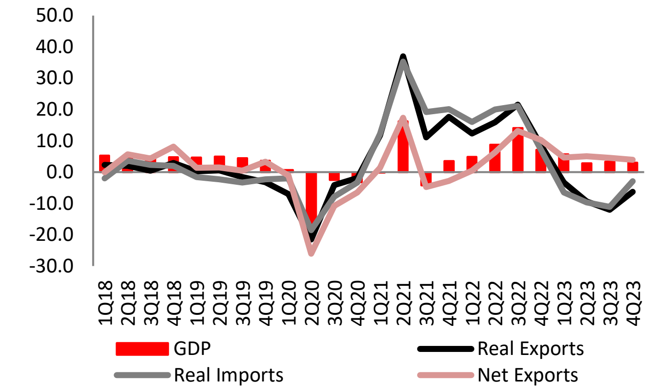
Source: Macrobond, MIDFR

Chart 3: GDP vs Private Sector (YoY%)



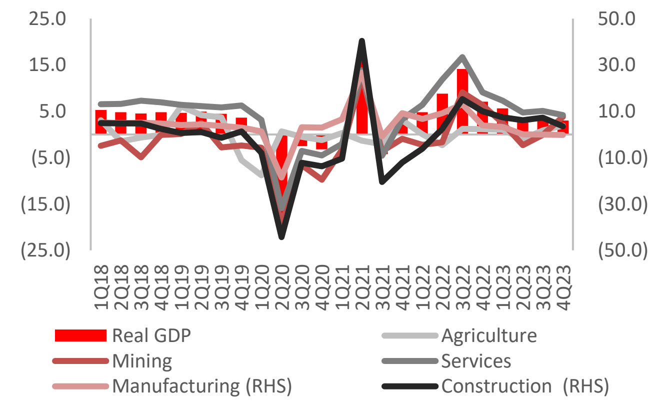
Source: Macrobond, MIDFR

Chart 4: GDP vs External Trade (YoY%)



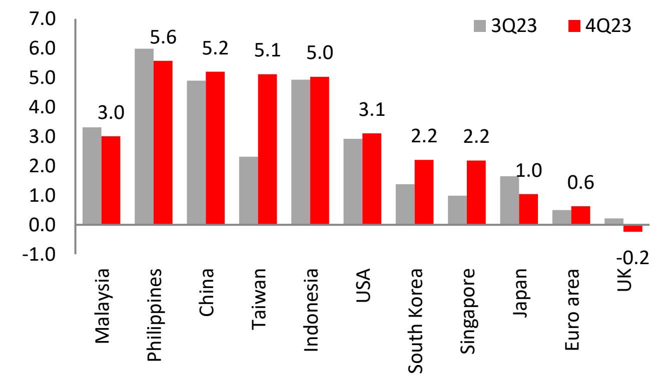
Source: Macrobond, MIDFR

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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