

## ECONOMIC REVIEW | 1Q24 National Account – Advance Estimate

# Stronger GDP Growth in 1QCY24 Indicates Improving Growth Momentum

- GDP growth accelerated to +3.9%yoy in 1QCY24. Advance estimate showed Malaysia's economy grew faster at +3.9%yoy in 1QCY24 (4QCY23: +3.0%yoy), marking the fastest expansion in 4 quarters. The growth was relatively better than our expectation despite coming in below +4.1%yoy projected by market consensus.
- GDP contracted by -3.4%qoq from the previous quarter. Compared to the previous quarter, Malaysia's GDP contracted by -3.4%qoq (4QCY23: +3.1%qoq). All major sectors except construction registered quarterly declines during the quarter.
- Maintain 2024 GDP growth forecast at +4.7%. With the improving growth momentum and expected recovery in external demand, we maintain our forecast that Malaysia's GDP growth will accelerate to +4.7% this year (2023: +3.7%).

**GDP growth accelerated to +3.9%yoy in 1QCY24.** Advance estimate showed Malaysia's economy grew faster at +3.9%yoy in 1QCY24 (4QCY23: +3.0%yoy), marking the fastest expansion in 4 quarters. The growth was relatively better than our expectation despite coming in below +4.1%yoy projected by market consensus. Manufacturing sector rebounded to expand by +1.9%yoy (4QCY23: -0.3%yoy), ending 2 consecutive quarters of contraction. The improvement in manufacturing sector was aligned with the better external trade performance during the quarter. Meanwhile, construction output soared +9.8%yoy (4QCY23: +3.6%yoy), the steepest rise in 6 quarters, with increased activities in civil engineering, specialised construction, and the residential sector. The services sector growth also picked up to +4.4%yoy (4QCY23: +4.2%yoy), extending expansionary sequence for the 10th straight quarter and backed by growth in sub-sectors such as wholesale & retail trade, transportation & storage, and business services. Within the primary sector, agriculture sector growth softened to +1.3%yoy (4QCY23: +1.9%yoy) while growth for mining and quarrying accelerated to +4.9%yoy, the fastest in 5 quarters. Sustained expansion of the agriculture sector continued to be underpinned by production of oil palm and livestock's; while the increased production of natural gas boosted growth for the mining and quarrying industry. We view the stronger growth as an encouraging development as it indicates improving growth momentum.

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

	1Q23	2Q23	3Q23	4Q23	1Q24 <sup>a</sup>	1Q23	2Q23	3Q23	4Q23	1Q24 <sup>a</sup>
	QoQ%					YoY%				
<b>GDP</b>	<b>(4.3)</b>	<b>(0.8)</b>	<b>5.2</b>	<b>3.1</b>	<b>(3.4)</b>	<b>5.6</b>	<b>2.9</b>	<b>3.3</b>	<b>3.0</b>	<b>3.9</b>
Agriculture	(9.5)	2.0	19.9	(7.9)	(10.1)	1.0	(1.0)	0.9	1.9	1.3
Mining & Quarrying	(2.5)	(6.3)	(0.1)	13.7	(1.5)	2.4	(2.3)	(0.1)	3.8	4.9
Manufacturing	(5.8)	(0.9)	3.5	3.2	(3.7)	3.2	0.1	(0.1)	(0.3)	1.9
Construction	0.1	(1.1)	6.4	(1.8)	6.2	7.4	6.2	7.2	3.6	9.8
Services	(3.5)	(0.5)	4.9	3.5	(3.3)	7.3	4.7	5.0	4.2	4.4


<sup>a</sup> advance estimate

Source: DOSM, MIDFR

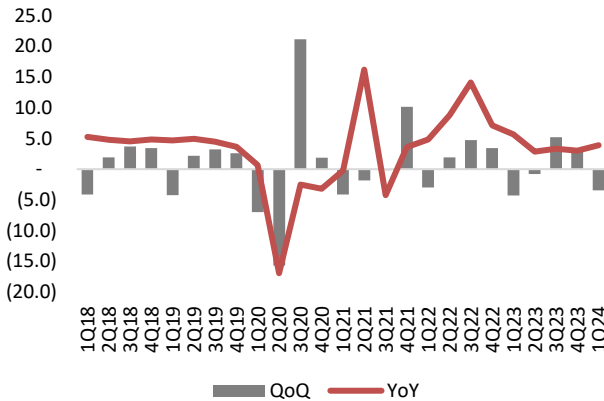
**GDP contracted by -3.4%qoq from previous quarter.** Compared to the previous quarter, Malaysia's GDP contracted by -3.4%qoq (4QCY23: +3.1%qoq). This was, however, due to the seasonal effect as historically business activities in first few months of the year will be impacted by the Chinese New Year holidays. All major sectors except construction registered quarterly declines during the quarter. Larger contraction of -10.1%qoq in the agriculture sector was largely explained by the weaker production palm oil and natural rubber. Meanwhile, mining & quarrying sector growth turned to negative (-1.5%qoq) on the back of weaker extraction of crude petroleum. Manufacturing sector also contracted by -3.7%qoq, where IPI data showed there were quarter-to-quarter reduction in output of various products such as processed foods, E&E, machinery, and basic metals. Meanwhile, contraction of -3.3%qoq in services sector can be attributed to the weaker distributive trade, in view of the weaker retail trade and reduced spending on motor vehicles in the first 2 months of 2024. Construction sector, however, managed to register stronger rebound of +6.2%qoq. The stronger construction activities perhaps explained why the quarterly decline in the overall GDP in 1QCY24 was not as sharp as seen in 1Qs during the pre-pandemic years.

**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 the key factor to support overall economic growth this year. 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 positive labour market conditions and rising income. Furthermore, government's assistance such as cash handouts and targeted subsidies will also help to support spending, especially for the lower-income groups.

**Consumers remained pessimistic despite easing inflation.** Consumers in general remained pessimistic despite the moderating in CPI inflation. Although MIER Consumer Sentiment Index rose to 89.4 in 4QCY24 from the historical lows of 78.9 in the previous quarter, the below-100 reading indicated continued pessimism among Malaysian consumers. Understandably, consumers were concerned with the rising cost of living. Although inflation has generally eased in line with improved supply condition and reduced cost pressures, the recent uptick in inflation (which accelerated to +1.8%yoy in Feb-24) could weaken consumer sentiment as result of the revision to utility bills. The planned shift to targeted subsidies will also cause upward adjustment in the domestic fuel prices, and consumers will need to be prepared to pay for higher transport and energy charges. Going forward, we foresee consumer sentiment will continue to be closely influenced by the inflation outlook which will be affected by policy changes.

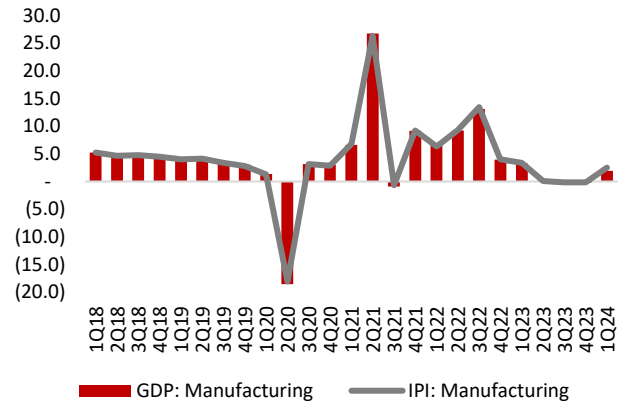
**Maintain 2024 GDP growth forecast at +4.7%.** With the improving growth momentum and expected recovery in external demand, we maintain our forecast that Malaysia's GDP growth will accelerate to +4.7% this year (2023: +3.7%). In addition to the sustained growth in domestic demand, we foresee the stronger GDP growth to be underpinned by improvements in global manufacturing activity and growing demand from major markets such as China and the US. Moreover, recovery in the E&E trade will also support external trade recovery this year. However, we remain cautious that external developments could constrain the external trade recovery. This includes downside risks such as slower growth in China, further escalation in geopolitical tension in the Middle East (which could affect global trade and commodity markets), and risk of weak final demand from the advanced markets (because of the high borrowing costs). 

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



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

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



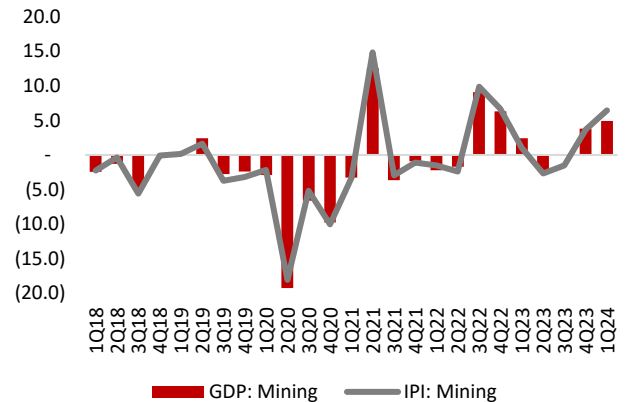
Note: Latest data for IPI: Manufacturing refers to Jan-Feb-24  
Source: Macrobond, DOSM, MIDFR

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



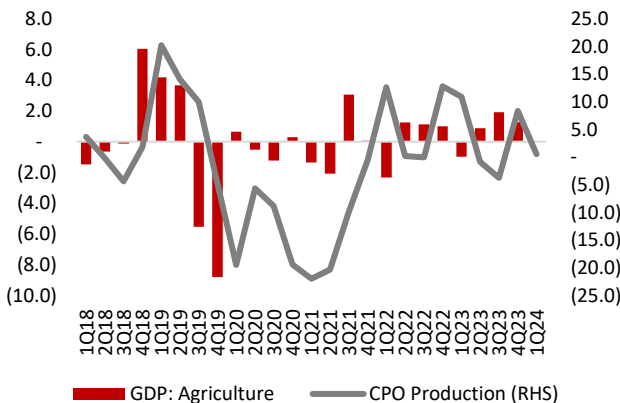
Note: Latest data for Retail Trade refers to Jan-Feb-24  
Source: Macrobond, MIDFR

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



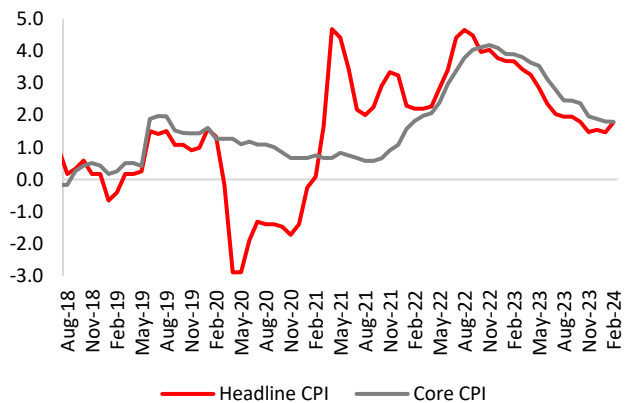
Note: Latest data for IPI: Mining refers to Jan-Feb-24  
Source: Macrobond, MIDFR

**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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