17 May 2024

ECONOMIC REVIEW | **1Q24 National Account**

Malaysia's Economy Grew Faster in 1QCY24 with Smaller Drag from External Trade

- *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), below the government projection of +4.0%.*
- *Current account surplus at new low. Malaysia's current account balance remained in surplus, but the size shrank the most to RM0.25b, the smallest quarterly surplus ever recorded since the BOP statistics started in 1QCY99. 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 on record, with the ratio to GDP declining to a new low of +1.3%.*
- *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. We remain cautious that external developments like slower growth in China, possible recession risk in the US and disruption to global trade from geopolitical tensions could negatively affect Malaysia's growth prospects. On domestic front, upward price pressures as a result of policy changes could constrain consumer spending because of rising prices and overall cost of living.*

GDP rose faster at +4.2%yoy in 1QCY24. Malaysia's economic growth accelerated to +4.2%yoy in 1QCY24 (4QCY23: +2.9%yoy), surpassing both ours and market expectations. This was the fastest growth in the 4 quarters. The slight upward revision from the advance estimate of +3.9%yoy was generally aligned with our expectations given the stronger consumer spending and more encouraging growth in the manufacturing and construction sectors. Additionally, in view of the improving global semiconductor sales, we foresee net exports would also return to an expansionary trend underpinned by growing demand from major trading partners. On quarter-to-quarter basis, Malaysia's seasonally adjusted GDP surged +1.4%qoq, reversing the -1.0%qoq contraction in 4QCY23, anchored by the sequential rebound in both domestic and external demands. This is an encouraging development as we project the continued expansion in domestic demand will remains key driver of Malaysia's economic growth in 2024, further bolstered by the external trade recovery.

Robust private consumption continues. On the demand side, private consumption growth remained resilient advancing faster by +4.7%yoy (4QCY23: +4.2%yoy). The low jobless rate at 3.3% and the low inflation, which averaged at +1.7%yoy during the quarter (4QCY23: +1.6%yoy), supported the continued rise in private consumption. Meanwhile, investment spending continued to grow with investment by the private and public sectors expanding by +9.2%yoy and +11.5%yoy, respectively. The stronger public sector investment was in line with the more progress in the construction sector, particularly the ongoing infrastructure developments under the 12MP. This encouraging trend may continue in the coming period given the expansionary fiscal policy which the government indicated continued commitment to keep the large RM90b allocation a year for development spending until 2025. With more jobs being added and more people entering the job markets, we foresee this will continue to support consumer spending.

Net exports remained a drag on GDP growth. On the external front, real exports rebounded to expand +5.2%yoy, ending 4 quarters of contraction. The rebound was underpinned by improved exports of goods, which advanced +1.0%yoy (4QCY23: -12.4%yoy), in addition to the strong surge in services exports (1QCY24: +33.8%yoy; 4QCY24: +25.4%yoy). However, the much steeper rise of real imports at +8.0%yoy (4QCY23: -2.6%yoy) kept net exports to continue falling by -24.5%yoy (4QCY23: -52.9%yoy), hence contributing negatively to GDP growth during the quarter. We anticipate the continued recovery in exports will eventually result in net exports contributing positively to growth this year.

Current account surplus remained low. Malaysia's current account (CA) surplus bounced back to +3.5% of GDP in 1QCY24, an improvement from the record low of +0.2% in the previous quarter. Current account surplus widened to 4-quarter high of +RM16.2b (4QCY23: +RM0.9b), thanks to higher trade surplus (in both goods and services). Deficits in the services trade continued to narrow to new post-pandemic low of -RM7.3b (4QCY23: -RM7.4b), supported by higher surplus travel services (in line with continued recovery in the tourism sector) as well as higher exports of manufacturing and ICT services. In addition, the wider surplus in the trade of goods, which rose to +RM32b (4QCY23: +RM30.8b) also added to the higher CA surplus. The higher CA surplus during the quarter was also attributable to the narrower deficits in the primary income account, which declined significantly to -RM8.8b (4QCY23: -RM20.3b), largely due to larger surplus in investment income from other investment. Looking at the improvement in CA balance, we now foresee the ratio would increase to +4.2% of GDP in 2024 (2023: +1.5%). The higher surplus will be underpinned by the recovery in trade of goods and further improvement in services trade. The services trade will continue to benefit from the recovery in tourism sector, while the goods trade will recover on the back of improved E&E exports, recovery in global production and restocking activities, and growing demand from major markets.

Table 1: Summary of GDP by Expenditure Approach

	Quarterly Basis (QoQ %)				Yearly Basis (YoY %)			
	2Q23	3Q23	4Q23	1Q24	2Q23	3Q23	4Q23	1Q24
GDP	(0.8)	5.2	3.1	(3.1)	2.8	3.1	2.9	4.2
Domestic Demand	1.6	3.7	4.6	(3.9)	3.4	4.6	7.5	6.0
Private Consumption	(2.3)	7.5	(2.2)	1.9	4.2	4.1	4.2	4.7
Govt. Consumption	3.1	6.8	29.3	(24.5)	3.3	5.3	5.8	7.3
Private Investment	6.2	(6.7)	(15.5)	30.2	5.1	4.5	4.0	9.2
Govt. Investment	(9.7)	15.0	75.9	(39.0)	7.9	7.5	11.3	11.5
Real Exports	(0.6)	3.2	2.3	0.2	(9.0)	(12.0)	(7.9)	5.2
Real Imports	3.2	0.8	4.6	(0.8)	(8.8)	(11.3)	(2.6)	8.0
Net Exports	(40.1)	45.1	(26.3)	17.8	(11.9)	(19.9)	(52.9)	(24.5)

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

Robust growth in the construction sector. On the supply side, growth in the services, construction, mining and services sectors were even better than the advanced estimate. Generally, the sectoral growth performance is broadly similar to the advance estimate with all sectors registering improvements. The manufacturing sector returned to expansion at +1.9%yoy (4QCY23: -0.3%yoy), ending 2 quarters of decline on the pickup in non-E&E goods. The services sector growth accelerated to +4.7%yoy (4QCY23: +4.1%yoy), supported by further and faster growth in retail trade. Similarly, the construction sector advanced stronger at +11.9%yoy (4QCY23: +3.6%yoy) while the mining sector growth quickened to +5.7%yoy (4QCY23: +3.5%yoy), both registering the fastest expansion in 5 quarters. The robust growth of the construction sector was buoyed by the steeper advancement in civil engineering output while the quicker expansion of natural gas output underpinned the acceleration in the mining sector growth. Meanwhile, agriculture sector expansion softened to +1.6%yoy (4QCY23: +1.9%yoy) partly due to slowdown in growth of oil palm production. Overall, turnaround in the manufacturing sector and sustained positive growth of other sectors especially the services sector is aligned with our expectations for growth to be underpinned by both robust expansion of domestic demand and recovery of external trade.

Table 2: Summary of GDP by Supply-Side Approach

	QoQ%			YoY%		
	3Q23	4Q23	1Q24	3Q23	4Q23	1Q24
GDP	**5.2**	**3.1**	**(3.1)**	**3.1**	**2.9**	**4.2**
Agriculture, Forestry & Fishing	**19.3**	**(7.1)**	**(9.3)**	**0.3**	**1.9**	**1.6**
Rubber	14.7	1.6	(4.5)	(16.3)	3.7	5.8
Oil Palm	35.2	1.9	(24.9)	2.2	1.6	1.1
Livestock	13.8	(3.2)	(4.5)	1.2	3.6	4.5
Other Agriculture	6.1	(18.9)	9.9	2.8	2.5	0.3
Forestry & Logging	10.6	(8.2)	(8.7)	(16.7)	(5.6)	(10.5)
Marine Fishing	35.1	(15.3)	4.7	(0.6)	7.7	6.7
Aquaculture	8.8	(6.2)	(21.0)	(4.9)	(5.5)	(2.8)
Mining & Quarrying	**(0.0)**	**14.1**	**(0.9)**	**(1.1)**	**3.5**	**5.7**
Crude Oil	(2.9)	10.2	(1.3)	(0.5)	1.5	1.3
Natural Gas	(1.8)	16.0	1.3	(2.3)	5.3	8.9
Others	25.5	18.1	(11.0)	3.1	1.3	4.9
Manufacturing	**3.5**	**3.2**	**(3.7)**	**(0.1)**	**(0.3)**	**1.9**
Vegetable & Animal Oils & Fats	4.0	16.9	(30.8)	(0.3)	4.9	(9.9)
Food Processing	10.5	(7.7)	(10.1)	6.2	8.7	4.7
Beverages	(4.8)	2.1	(15.0)	0.5	5.3	5.7
Tobacco Products	(42.0)	18.4	27.5	13.9	5.7	7.6
Textile & Wearing Apparel	4.8	6.3	0.4	(0.3)	(1.2)	0.7
Leather Products	(25.3)	(13.2)	34.7	4.8	8.0	6.3
Wood Products	8.3	(0.9)	(2.0)	(2.7)	(0.3)	(0.2)
Paper Products	10.5	(15.0)	10.2	2.8	6.2	3.7
Printing	(5.0)	35.1	1.6	9.0	5.4	5.1
Refined Petroleum Products	9.2	(0.4)	(1.8)	(8.4)	(3.3)	0.4
Chemicals & Chemical Products	16.1	0.6	(9.1)	5.8	2.1	0.1
Rubber Products	8.8	(5.8)	(23.8)	(6.5)	(2.1)	5.6
Plastic Products	46.3	(25.3)	(6.9)	(1.0)	1.6	3.8
Non-Metallic Mineral Products	6.2	7.9	0.0	4.7	6.1	6.3
Basic Metals	(1.2)	6.1	(15.3)	2.7	2.5	1.9
Fabricated Metal Products	(5.7)	10.0	7.6	7.7	8.5	10.4
Machinery & Equipment	4.2	(9.6)	43.5	(4.5)	(3.2)	1.7
Computers & Peripheral Equipment	31.6	(4.5)	(13.7)	15.0	19.8	12.4
Electrical Equipment	(26.3)	22.7	(9.8)	1.8	0.3	(0.8)
Electronic Compo & Boards, Com Equip and Elect	2.1	0.1	12.6	(4.8)	(10.0)	(0.2)
Medical, Precision & Optical, Watches & Clocks	4.6	15.1	(41.3)	6.6	7.5	3.2
Motor Vehicles & Transport Equipment	(16.3)	36.9	(26.2)	5.0	2.2	1.9
Furniture	(31.0)	23.0	28.1	(3.1)	6.2	10.0
Other Mfg and Repair & Installation and Equipment	36.1	(0.1)	(24.6)	2.2	3.0	2.8
Construction	**6.1**	**(1.5)**	**8.1**	**7.2**	**3.6**	**11.9**
Residential	2.8	(2.4)	7.5	6.1	1.3	8.0
Non-Residential	(9.3)	14.0	(7.4)	(4.6)	(4.9)	1.6
Civil Engineering	21.9	(5.6)	17.6	14.7	16.9	23.5
Special Trades	7.6	(8.6)	12.8	10.5	0.8	11.4
Services	**4.9**	**3.3**	**(3.0)**	**4.9**	**4.1**	**4.7**

	QoQ%			YoY%		
	3Q23	4Q23	1Q24	3Q23	4Q23	1Q24
Electricity & Gas	0.5	1.9	(0.2)	1.8	4.8	9.4
Water, Sewerage and Waste Management	2.6	1.3	(8.9)	2.8	2.7	0.1
Wholesale Trade	11.3	(0.9)	(11.2)	6.2	4.8	3.8
Retail Trade	1.6	11.5	(6.9)	3.4	2.8	3.6
Motor Vehicles	31.3	(2.9)	(15.2)	11.1	9.9	5.1
Food & Beverage	1.5	1.7	2.4	1.8	2.9	3.5
Accommodation	(1.5)	14.6	(0.8)	16.8	9.9	12.2
Transportation & Storage	2.5	6.3	2.6	13.0	12.8	11.0
ICT	0.9	0.1	1.3	3.5	3.3	2.9
Finance	5.0	(3.3)	3.2	(0.6)	(2.8)	2.9
Insurance	20.6	(3.5)	12.2	(1.7)	(11.4)	(7.5)
Real Estate	5.6	1.6	0.9	6.5	6.5	9.9
Business Services	1.9	2.4	2.2	8.6	8.2	8.4
Private Health	3.2	3.5	1.6	9.7	10.0	9.1
Private Education	0.4	2.9	1.3	5.0	5.9	7.3
Other Services	2.1	(0.1)	3.7	5.8	3.8	5.5
Govt. Services	4.5	8.8	(8.0)	4.7	4.8	4.6
Import Duties	**0.0**	**11.4**	**(9.6)**	**8.5**	**10.1**	**5.8**

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

Most economies reported stronger 1Q growth. Despite concerns over renewed inflationary pressures in some countries, we noticed most economies grew at a faster pace in 1QCY24. In the US, although the annualised +1.6%qoq growth was below expectation, the year-on-year GDP growth was sustained at +3.0%yoy in 1QCY24 underpinned by the continued expansion in consumer spending. This defies expectations that the economy would start to weaken, constrained by the high interest rates and still elevated inflation. Euro area rebounded to +0.3%qoq, ending 2 quarters of quarterly contraction, mainly due to rebound in Germany's growth as well as stronger expansion in France and Italy. As a result, the economy as a bloc grew faster at +0.4%yoy in 1QCY24. In China, the GDP growth was slightly faster at +5.3%yoy on the back of stronger expansion in the secondary industries. Other economies in the East Asian region, including Malaysia, also experienced more robust expansion with South Korea and Taiwan registering better-than-expected growth, benefiting from growing external demand. The Philippines' economy was also backed by the positive contribution from net exports, against concerns over slowing growth in the domestic economy. Despite sluggishness in the manufacturing sector, Singapore also managed to grow faster, contributed by the increased international tourist arrivals which supported sectors like hospitality and entertainment. Japan was an exception as the country's GDP fell by -0.2%yoy, the first contraction since the rebound to growth in 2QCY21. Decreases in household spending and investment activities led to the GDP contraction. While we expect most countries would benefit from the recovery in the international trade and production activities, growth in some countries may be limited by elevated inflation and high borrowing costs.

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

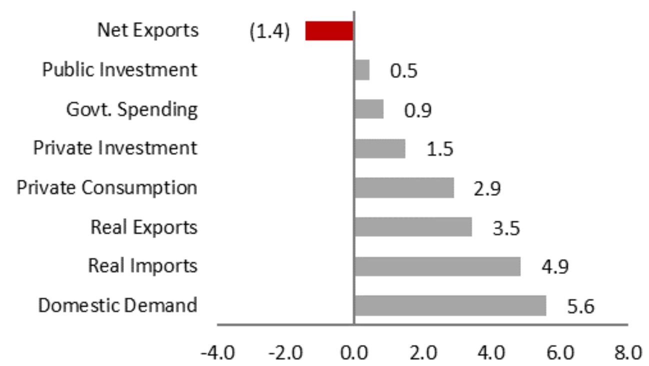
	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24
Malaysia	14.1	7.1	5.6	2.9	3.3	3.0	4.2
Indonesia	5.7	5.0	5.0	5.2	4.9	5.0	5.1
Philippines	7.7	7.1	6.4	4.3	6.0	5.5	5.7
Thailand	4.4	1.3	2.6	1.8	1.4	1.7	n.a.
Singapore	4.2	2.4	0.5	0.5	1.0	2.2	2.7
China	3.9	2.9	4.5	6.3	4.9	5.2	5.3
Taiwan	4.0	(0.7)	(3.5)	1.4	2.1	4.9	6.5
South Korea	3.2	1.4	0.9	0.9	1.4	2.2	3.4

	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24
Japan	1.5	0.6	2.6	2.3	1.6	1.2	(0.2)
UK	2.1	0.6	0.3	0.2	0.2	(0.2)	0.2
Euro area	2.5	1.9	1.3	0.6	0.0	1.0	2.0
USA	1.7	0.7	1.7	2.4	2.9	3.1	3.0

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

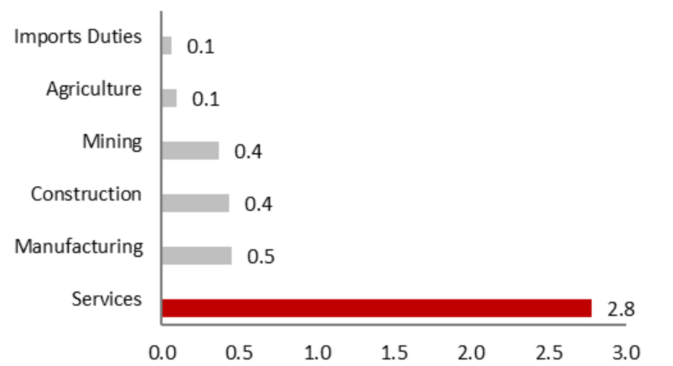
Maintain 2024 GDP growth forecast at +4.7%. We believe the positive growth momentum will continue in the coming quarters; therefore, we are keeping our forecast that Malaysia's GDP growth this year will be faster at +4.7% (2023: +3.6%). Domestic spending activities will continue to grow on the back of positive labour market conditions, positive income growth and increased tourist arrivals. In addition, external demand will recover as Malaysia stands to benefit from improvements in the global production and international trade, especially growing demand from major trading partners such as China and the US. In addition, we expect the improvement in the E&E trade will contribute to the export recovery this year. On another note, we are cautious that several risks could constrain this year's growth outlook, such as escalation in geopolitical and trade tensions; weaker growth in China and the US; and significant slowdown in final demand from the major markets (in view of the high borrowing costs). On the domestic front, policy changes may result in higher inflation, which could adversely affect consumer sentiment and their spending plans.

Chart 1: Contribution by Expenditure Components to 1QCY24 GDP Growth (%-point)



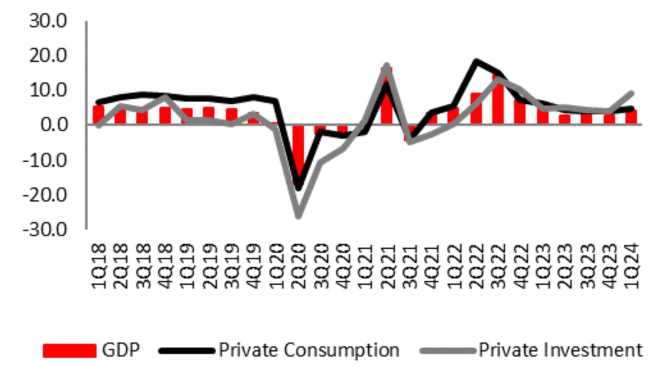
Source: Macrobond, MIDFR

Chart 2: Contribution by Supply-Side Components to 1QCY24 GDP Growth (%-point)



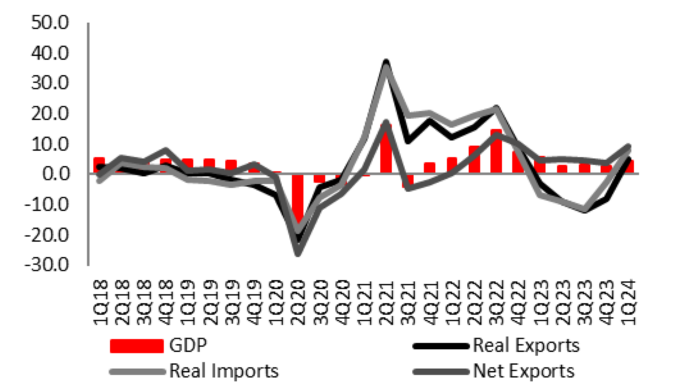
Source: Macrobond, MIDFR

Chart 3: GDP vs Private Sector (YoY%)



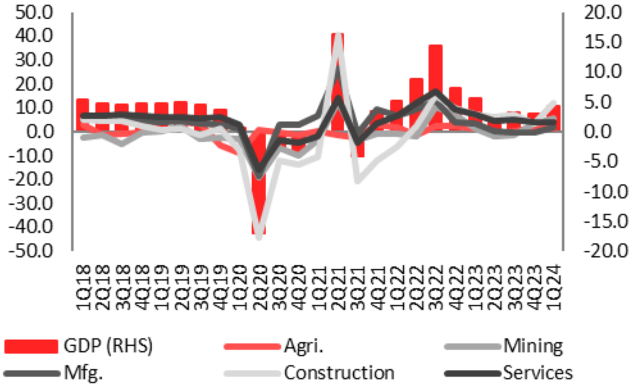
Source: Macrobond, MIDFR

Chart 4: GDP vs External Trade (YoY%)



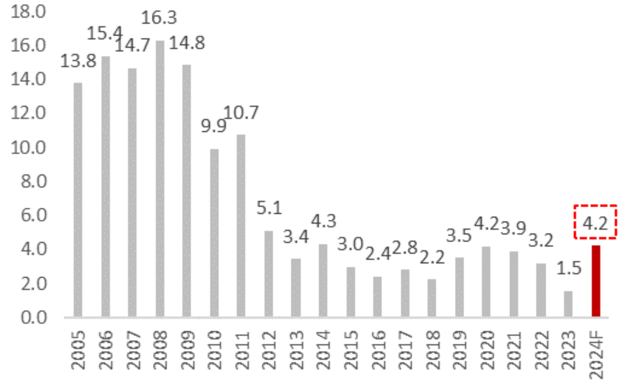
Source: Macrobond, MIDFR

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



Source: Macrobond, MIDFR

Chart 6: Current Account Balance (% of GDP)



Source: Macrobond, MIDFR

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