15 November 2024

ECONOMIC REVIEW | 3QCY24 National Account

Sustained Robust Growth as GDP Grew by +5.3%yoy in 3QCY24

- *GDP growth remained robust albeit moderating to +5.3%yoy. Malaysia's GDP grew by +5.3%yoy in 3QCY24 (2QCY24: +5.9%yoy), as widely anticipated. The growth performance aligned with both our projections and the advance estimate, reflecting a still robust above-5% growth trajectory.*
- *Moderate growth in private consumption. Private consumption growth moderated to +4.8%yoy (2QCY24: +6.0%yoy), in line with our expectations looking at the relatively slower growth in retail sales. Nevertheless, the sustained growth continued to be underpinned by positive labor market.*
- *Exports growth continued to accelerate, while imports remained strong. On the external front, real exports demonstrated a robust acceleration, increasing by +11.8%yoy in 3QCY24 (2QCY24: +8.4%yoy). Real imports climbed by +13.5%yoy, outpacing export growth and as a result, net exports fell by -8.9%yoy and posed a negative drag of -0.4ppt on the GDP growth in 3QCY24. Taking into account the lower surplus in 3QCY24, we revised down our forecast anticipating the current account surplus to remain low at +1.5% of GDP this year.*
- *Maintain our 2024 GDP growth forecast at +5.0%. With the 3Q GDP growth in line with our estimate, we maintain our 2024 GDP growth forecast at +5.0% (2023: +3.6%). We are still cautious that weaker demand from major countries and the escalation in geopolitical and trade tensions could hurt outlook for external trade and domestic production activity. Other risk could come from potential re-acceleration of inflation due to policy changes or other supply factors.*

GDP growth remained robust albeit moderating to +5.3%yoy. Malaysia's GDP grew by +5.3%yoy in 3QCY24 (2QCY24: +5.9%yoy), as widely anticipated. The growth performance aligned with both our projections and the advance estimate, reflecting a still robust above-5% growth trajectory. The robust growth can be attributed to several factors, notably vigorous investment activity, an uptick in exports and expansion of household spending. Private and public sector investments have been particularly strong, driven by ongoing multi-year projects outlined in national master plans, which have facilitated higher realization rates of approved investments. This momentum is expected to persist, bolstered by advancements in the semiconductor sector and the initiation of various construction projects slated for 2HCY24. On a seasonally adjusted basis, Malaysia's GDP increased by +1.8%qoq (2QCY24: +2.9%qoq), dragged down by -0.5%qoq contraction in private consumption but more than offset by the stronger growth in government spending (+5.1%qoq) and gross fixed capital formation (+5.7%qoq). From sector breakdown, the quarterly growth was driven by increased activities in all major economic sectors except the mining & quarrying industry, which fell further for the third straight quarter.

Moderate growth in private consumption. Private consumption growth moderated to +4.8%yoy (2QCY24: +6.0%yoy), in line with our expectations looking at the relatively slower growth in retail sales. Nevertheless, the sustained growth continued to be underpinned by positive labor market, pushing the unemployment rate lower to post-pandemic low of 3.2%. Throughout the quarter, both headline and core inflation averaged at 1.8%, as the effects of policy changes (including diesel price hike) on broader price levels were effectively managed. Investment spending demonstrated robust growth, driven by significant expenditure on structures and machinery and equipment (M&E). Both private and public sector investments surged by +15.5%yoy and +14.4%yoy, respectively. This growth was significantly supported by progress in multi-year projects detailed in national master plans, along with an increased implementation of approved investments, both of which are essential for stimulating investment activities. Looking ahead, this positive trend is anticipated to persist, supported by the implementation of infrastructure projects and increased investment into the country. We anticipate the increase employment, with higher labor market participation, and income growth will further support consumer spending in 4QCY24 and going into next year.

Exports growth continued to accelerate, while imports remained strong. On the external front, real exports demonstrated a robust acceleration, increasing by +11.8%yoy in 3QCY24 (2QCY24: +8.4%yoy). This growth was primarily driven by goods exports, which surged by +9.2%yoy (2QCY24: +5.5%yoy), marking the fastest expansion in 8 quarters. Additionally, services exports continued to pick up, surging by +27.3%yoy and extending a period of double-digit growth for 12 consecutive quarters. However, real imports also rose significantly following strong demand for capital and intermediate goods to support rising investments and trade, climbing by +13.5%yoy, which outpaced export growth. As a result, net exports fell by -8.9%yoy (2QCY24: +3.4%yoy), contributing to a negative drag or -0.4ppt on the GDP growth in 3QCY24. Looking ahead, we anticipate that export recovery will continue in 4QCY24, on the back of recovering external demand, positive spillovers from the global tech upcycle and potentially additional boost in the short term from frontloading of shipments ahead of further trade rule tightening by the new US government. However, the more robust import growth will continue to constrain the positive contribution from external trade recovery to the overall GDP growth.

Continued contraction in Malaysia's current account surplus. Malaysia's current account (CA) surplus narrowed further to RM2.2b in 3QCY24 (2QCY24: +RM3.0b), or +0.4% of GDP (2QCY24: +0.6% of GDP). The smaller CA surplus was dragged down by continued reduction in goods trade surplus and widening of primary and secondary income deficits. Notably, deficits in the services trade decreased to -RM1.6b (2QCY24: -RM4.9b), supported by a stronger travel services surplus amidst the ongoing recovery in the tourism sector and narrower deficit in other business services, particularly professional and management consulting which increased by +9.6%qoq despite higher import of this component. However, the overall CA surplus was weighed down by a narrower trade surplus in goods, which fell to +RM23.1b (2QCY24: +RM24.6b), and a larger deficit in the primary income account, which widened to -RM17.0b (2QCY24: -RM15.5b), primarily due to larger deficits in employee compensation, while the deficit in the secondary income account widened to -RN2.4b (2QCY24: -RM1.1b). Additionally, capital account surplus increased moderately to +RM21.8m (2QCY24: +RM21.7m) due to higher net inflows in capital transfers of +RM36.1m. Concurrently, financial account recorded a net outflow of -RM7.5b (2QCY24: +RM17.1b), largely attributed to outflows in other investment and direct investment, despite a reduced outflow in financial derivatives and a shift in portfolio investment from outflow to inflow. With the still low ratio of CA surplus to GDP at +0.4% in 3QCY24, we revised down our forecast anticipating the current account surplus to GDP to remain low at +1.5% (2023: +1.5% of GDP).

Table 1: Summary of GDP by Expenditure Approach

	Quarterly Basis (QoQ %) *				Yearly Basis (YoY %)			
	4Q23	1Q24	2Q24	3Q24	4Q23	1Q24	2Q24	3Q24
GDP	3.1	(3.1)	0.8	4.6	2.9	4.2	5.9	5.3
Seasonally adjusted	(1.0)	1.5	2.9	1.8	-	-	-	-
Domestic Demand	4.6	(3.9)	1.6	3.8	7.5	6.0	6.0	6.1
Private Consumption	(2.2)	1.9	(1.1)	7.0	4.2	4.7	6.0	4.8
Govt. Consumption	29.3	(24.5)	(0.5)	6.0	5.8	7.3	3.6	4.9
Private Investment	(15.5)	30.2	9.0	(9.5)	4.0	9.2	12.0	15.5
Govt. Investment	75.9	(39.0)	(11.6)	15.0	11.3	11.5	9.1	14.4
Real Exports	2.3	0.2	2.5	6.4	(7.9)	5.2	8.4	11.8
Real Imports	4.6	(0.8)	3.8	5.3	(2.6)	8.0	8.7	13.5
Net Exports	(26.3)	17.8	(18.0)	27.9	(52.9)	(24.5)	3.4	(8.9)

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

Solid expansion driven by services and manufacturing growth. On the supply side, the full-quarter data shows a more modest growth in the services sector in the third quarter of 2024. The sector's growth eased to +5.2%yoy (2QCY24: +5.9%yoy), +0.1ppt higher than the advance estimate but continued to be supported by increased domestic spending. This was primarily attributed to consistent growth in most sub-sectors except for water, sewage, and waste management (3QCY24: -3.9%yoy). Notably, wholesale and retail trade increased by +4.2%yoy, transportation and storage sub-sector surged by +10.6% and business services sub-sector expanded by +8.5%yoy. The agriculture growth moderated to +3.9%yoy (2QCY24: +7.3%yoy), largely explained by a slower increase in palm oil production at +7.3%yoy (2QCY24: +19.0%yoy) as fresh fruit bunches output shrank. Meanwhile, the manufacturing sector saw an accelerated growth of +5.6%yoy (2QCY24: +4.7%yoy), slightly below the advance estimate of +5.7%yoy, but aligned with improved export performance as higher output growth was recorded in various sub-sectors such as electrical, electronic and optical products (3QCY24: +5.6%yoy) and petroleum, chemical, rubber and plastic products (3QCY24: +4.4%yoy). Given the encouraging progress in construction works done across all segments, the construction sector continued to demonstrate a robust double-digit growth of +19.9%yoy (2QCY24: +17.3%yoy). In contrast, the contraction in the mining was steeper at -3.9%yoy (advance estimate: -3.4%yoy) due to declines in output of crude oil and natural gas. We noticed that 3QCY24 presented a mixed picture in the five major economic sectors, with agriculture and services sectors showing slower but still healthy growth, construction and manufacturing growth accelerating and mining & quarrying sector facing contraction, on the back of sustained expansion in domestic spending and a partial recovery in external demand.

Table 2: Summary of GDP by Supply-Side Approach

	QoQ%			YoY%		
	1Q24	2Q24	3Q24	1Q24	2Q24	3Q24
GDP	**(3.1)**	**0.8**	**4.6**	**4.2**	**5.9**	**5.3**
Agriculture, Forestry & Fishing	**(9.2)**	**6.7**	**15.5**	**1.7**	**7.3**	**3.9**
Rubber	(4.5)	(11.1)	31.0	3.4	(1.0)	13.0
Oil Palm	(24.9)	15.1	21.9	2.5	19.0	7.3
Livestock	(4.0)	0.1	10.5	4.9	5.8	2.7
Other Agriculture	10.3	6.0	7.5	0.6	0.6	1.8
Forestry & Logging	(8.7)	(7.1)	32.1	(10.5)	(13.9)	2.8
Marine Fishing	4.4	(7.7)	23.1	6.4	10.2	0.4
Aquaculture	(21.0)	24.2	6.2	(2.8)	0.1	(2.3)
Mining & Quarrying	**(0.9)**	**(9.0)**	**(6.5)**	**5.7**	**2.7**	**(3.9)**
Crude Oil	(1.3)	(3.8)	(11.4)	1.3	1.6	(7.3)
Natural Gas	1.3	(10.8)	(7.2)	8.9	2.9	(2.8)
Others	(11.0)	(18.8)	20.1	4.9	7.1	2.6
Manufacturing	**(3.7)**	**1.8**	**4.4**	**1.9**	**4.7**	**5.6**
Vegetable & Animal Oils & Fats	(30.8)	26.4	13.0	(9.9)	6.3	15.5
Food Processing	(10.1)	13.8	10.0	4.7	4.4	3.9
Beverages	(15.0)	28.1	(3.9)	5.7	5.9	7.0
Tobacco Products	27.5	26.1	(39.3)	7.5	10.5	15.6
Textile & Wearing Apparel	0.4	(7.1)	5.0	0.7	4.0	4.2
Leather Products	34.7	17.2	(21.3)	6.2	2.4	7.8
Wood Products	(2.0)	(1.5)	11.6	(0.2)	3.6	6.7
Paper Products	10.2	(1.0)	12.1	3.7	2.4	3.9
Printing	1.6	(16.9)	(2.3)	5.1	8.2	11.3
Refined Petroleum Products	(1.8)	(2.8)	7.6	0.4	3.9	2.4

	QoQ%			YoY%		
	1Q24	2Q24	3Q24	1Q24	2Q24	3Q24
Chemicals & Chemical Products	(9.1)	(2.6)	16.8	0.1	3.4	4.1
Rubber Products	(23.8)	36.1	12.6	5.6	6.4	10.1
Plastic Products	(6.9)	2.6	48.5	3.8	4.4	6.0
Non-Metallic Mineral Products	0.0	(4.1)	5.7	6.3	9.9	9.4
Basic Metals	(15.3)	20.2	(0.3)	1.8	6.6	7.6
Fabricated Metal Products	7.6	(0.9)	(6.3)	10.4	10.5	9.9
Machinery & Equipment	43.5	(23.1)	4.4	1.7	3.9	4.1
Computers & Peripheral Equipment	(13.7)	5.9	33.0	12.4	14.8	16.1
Electrical Equipment	(9.8)	18.3	(24.0)	(0.8)	(3.4)	(0.3)
Electronic Compo & Boards, Com Equip and Elect	12.6	(10.3)	4.6	(0.2)	3.2	5.7
Medical, Precision & Optical, Watches & Clocks	(41.3)	37.8	8.4	3.3	(2.5)	1.0
Motor Vehicles & Transport Equipment	(26.2)	25.0	(20.6)	1.9	5.7	0.2
Furniture	28.1	(0.7)	(32.5)	10.0	8.0	5.6
Other Mfg and Repair & Installation and Equipment	(24.6)	1.6	37.5	2.8	4.2	5.3
Construction	**8.1**	**3.8**	**8.5**	**11.9**	**17.3**	**19.9**
Residential	7.5	5.8	(100.0)	8.0	14.1	(100.0)
Non-Residential	(7.4)	7.4	(100.4)	1.6	2.8	(100.4)
Civil Engineering	17.6	(8.6)	(99.8)	23.5	23.6	(99.7)
Special Trades	12.8	14.5	(100.0)	11.4	27.0	(99.9)
Services	**(3.0)**	**0.7**	**4.2**	**4.8**	**5.9**	**5.2**
Electricity & Gas	(0.2)	2.9	0.5	9.4	5.3	5.2
Water, Sewerage and Waste Management	(8.9)	1.5	2.6	0.0	(4.0)	(3.9)
Wholesale Trade	(11.2)	5.1	12.9	3.8	3.0	4.4
Retail Trade	(6.9)	0.0	0.2	3.6	5.6	4.0
Motor Vehicles	(15.2)	0.1	25.6	5.1	8.2	3.5
Food & Beverage	2.4	(1.9)	1.8	3.5	3.7	4.0
Accommodation	(0.8)	0.5	0.1	12.1	12.5	14.3
Transportation & Storage	2.6	(1.2)	2.5	11.0	10.5	10.6
ICT	1.3	0.7	1.3	2.9	3.1	3.5
Finance	3.2	1.3	2.4	3.0	6.2	3.6
Insurance	15.1	(7.0)	(0.0)	(5.2)	24.4	3.1
Real Estate	0.9	3.2	7.9	10.0	11.8	14.2
Business Services	2.2	1.6	2.0	8.4	8.4	8.5
Private Health	1.6	(0.0)	3.4	9.1	8.5	8.8
Private Education	1.3	3.3	0.3	7.3	8.0	7.8
Other Services	3.7	(2.1)	2.6	5.5	3.5	4.0
Govt. Services	(8.0)	0.2	4.7	4.6	4.8	5.1
Import Duties	**(11.5)**	**4.1**	**13.7**	**3.5**	**2.7**	**16.8**

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

Other economies also reported GDP growth easing in 3QCY24. Like Malaysia, the pace of GDP growth in other economies also moderated in 3QCY24, with the exception of Singapore and euro area reported stronger. In the US, the annualized GDP growth eased to +2.8%qoq (2QCY24: +3.0%qoq) due to weakness in the residential investment, while consumer spending remained resilient with higher goods consumption. From the year-on-year perspective, the US economic growth moderated to +2.7%yoy (2QCY24: +3.0%yoy), still robust despite concerns over slowing growth due to the high interest rates. In China, the slower growth of +4.6%yoy during the quarter (2QCY24: +4.7%yoy) prompted more policy supports by the government and monetary authority to ensure the +5% growth target is achievable. In other East Asian economies, Taiwan's GDP growth eased to +4.0%yoy due to slower growth in household consumption. South Korea also experience slower growth at +1.5%yoy during the quarter due to weaker external trade performance. Singapore, on the other hand, registered faster growth of +4.1%yoy, underpinned by growth in manufacturing and construction sectors. Growth in the euro area also picked up to +0.9%yoy due to stronger growth Spain, Belgium, Portugal, France and Netherlands, among others, which offset the continued decline of -0.2%yoy in Germany.

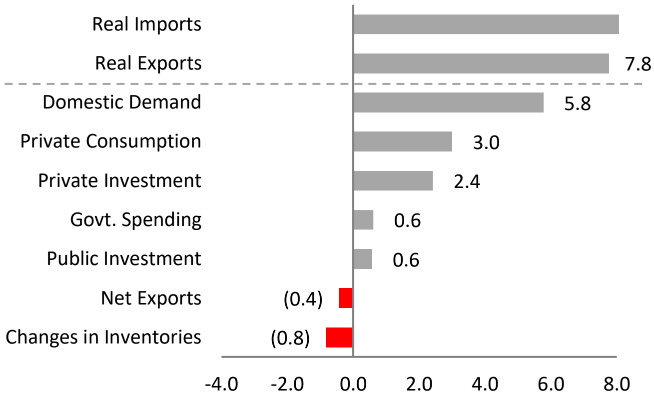
Table 3: GDP Growth by Selected Economies (YoY%)

	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24
Malaysia	5.5	2.8	3.1	2.9	4.2	5.9	5.3
Indonesia	5.0	5.2	4.9	5.0	5.1	5.1	5.0
Philippines	6.4	4.3	6.0	5.5	5.8	6.4	5.2
Thailand	2.6	1.8	1.4	1.7	1.6	2.3	n.a.
Singapore	0.5	0.5	1.0	2.2	3.0	2.9	4.1
China	4.5	6.3	4.9	5.2	5.3	4.7	4.6
Taiwan	(3.5)	1.4	2.1	4.8	6.6	5.1	4.0
South Korea	1.1	1.0	1.4	2.1	3.3	2.3	1.5
Japan	2.6	2.0	1.3	0.9	(0.9)	(1.0)	n.a.
UK	0.3	0.2	0.2	(0.2)	0.3	0.7	n.a.
Euro area	1.4	0.5	0.0	0.1	0.5	0.6	0.9
USA	1.7	2.4	2.9	3.1	2.9	3.0	2.7

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

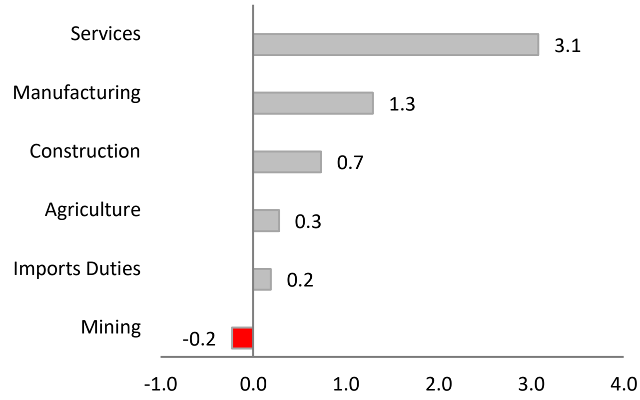
Maintain our 2024 GDP growth forecast at +5.0%. With the 3Q GDP growth in line with our estimate, we maintain our 2024 GDP growth forecast at +5.0% (2023: +3.6%). We foresee the positive outlook for domestic spending to continue, as businesses and consumers have been ramping up their consumption and investment in a more encouraging domestic economic condition. Concurrently, we maintain our anticipation that the recovery in exports will likely persist into 2025, driven by continued improvements in the E&E trade. On the downside risks, we are still cautious that weaker demand from major countries, namely the USA and China, and the escalation in geopolitical and trade tensions could hurt outlook for external trade and domestic production activity. Tightening of trade rules by the US and escalating geopolitical and trade tensions could also disupt the global trade flows. On the domestic front, we are monitoring closely the adverse effect on domestic demand from possible re-acceleration in domestic inflation, which may be triggered by the planned policy changes by the government and other supply shocks.

Chart 1: Contribution to 3QCY24 GDP Growth by Expenditure Components (%-point)



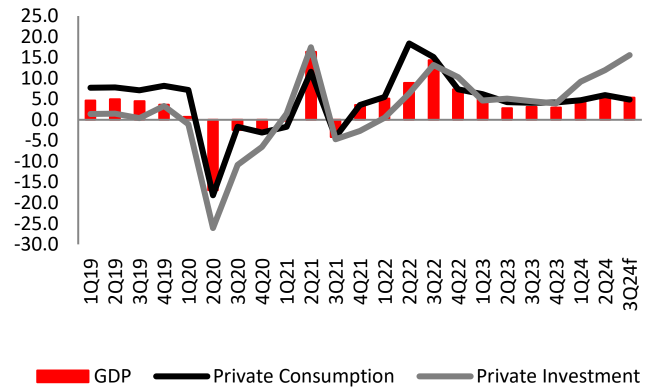
Source: Macrobond, MIDFR

Chart 2: Contribution to 3QCY24 GDP Growth by Supply-Side Components (%-point)



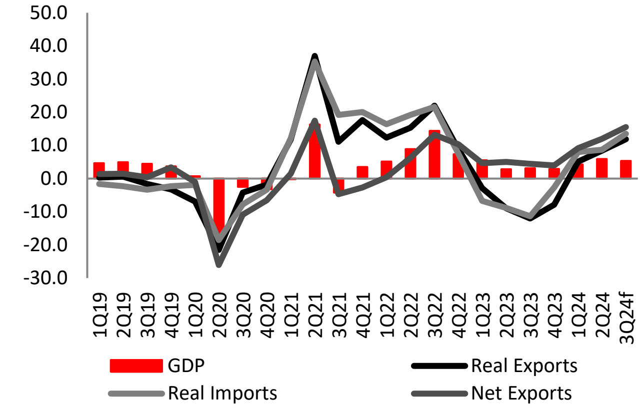
Source: Macrobond, MIDFR

Chart 3: GDP vs Private Sector (YoY%)



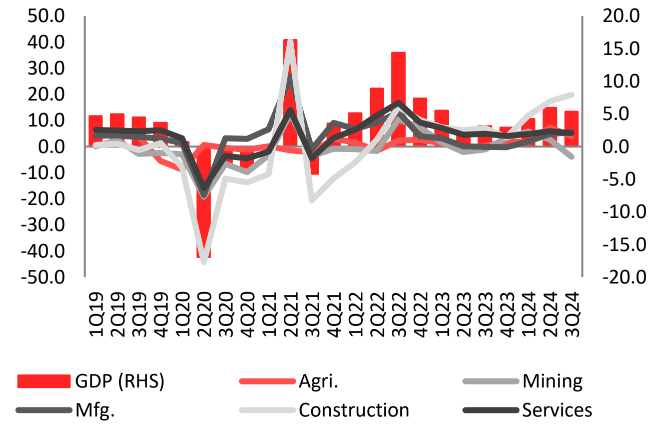
Source: Macrobond, MIDFR

Chart 4: GDP vs External Trade (YoY%)



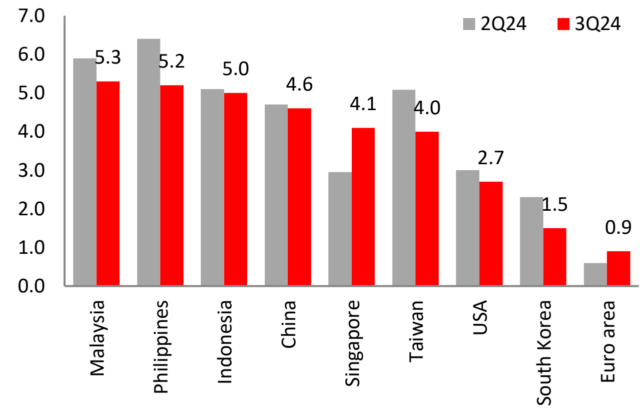
Source: Macrobond, MIDFR

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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