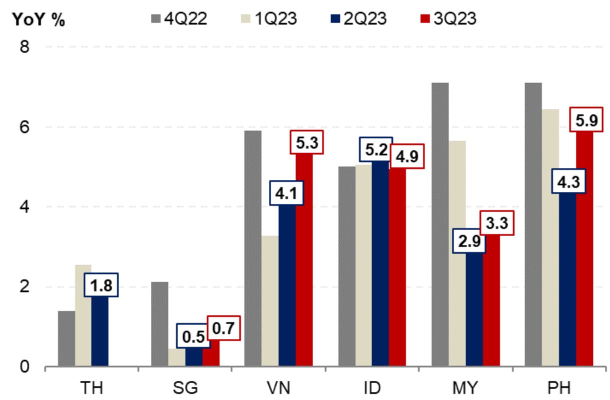
Malaysia 3Q23 GDP

Better-than-expected growth driven by robust domestic demand

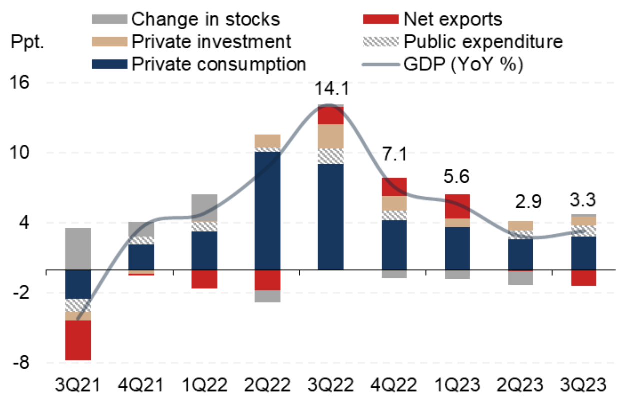
- **The GDP growth expanded in 3Q23 (3.3% YoY; 2Q23: 2.9%), surpassing house forecast and market expectations (KIBB: 1.7%; Bloomberg consensus: 3.2%)**
  - Growth was mainly attributed to the expansion in domestic spending and increased activity in services and construction, partially offsetting contractions in the mining and manufacturing sectors. This exceeds our expectation, as we anticipated that the manufacturing downturn and a higher base effect recorded last year (3Q22: 14.1%) would have a more significant negative impact on the overall growth for the quarter.
  - Nevertheless, Malaysia is currently the fourth fastest-growing economy in the ASEAN-5 (ex-TH +VN) group, behind the Philippines (5.9%), Vietnam (5.3%) and Indonesia (4.9%).
  - Meanwhile, seasonally adjusted QoQ (2.6%; 2Q23: 1.5%) registered an expansion due to an increase in government final consumption expenditure (4.6%; 2Q23: 4.0%), which partially mitigated the marginal contraction in private final consumption expenditure (-0.7%; 2Q23: 5.9%). This was also driven by a rebound in agriculture (4.5%; 2Q23: -3.5%) and mining and quarrying (8.6%; 2Q23: -2.7%) as well as expansion in the manufacturing (1.5%; 2Q23: 0.6%) sectors.

Graph 1: ASEAN-5 (+VN) GDP Growth Performance



Source: DoSM, Kenanga Research

Graph 2: GDP by Expenditure Performance (Percentage Point Contribution to Growth)



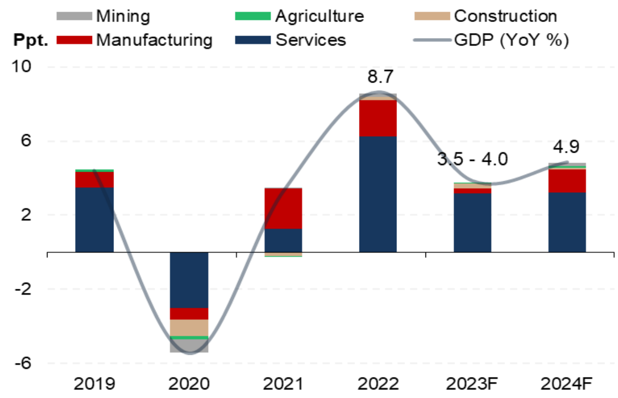
Source: DoSM, Kenanga Research

- **Robust domestic demand helped to alleviate the impact of subdued export growth**
  - Domestic demand (4.8%; 2Q23: 4.5%): expanded due to strong public sector spending and sustained private sector spending, contributing 4.5 ppts to overall 3Q23 GDP (2Q23: 4.2 ppts).
    - Public spending (6.2%; 2Q23: 4.6%): rebounded to a four-quarter high, adding 1.0 ppts (2Q23: 0.7 ppt) to the overall GDP growth. The expansion was primarily driven by a substantial increase in public consumption (5.8%; 2Q23: 3.8%) and supported by public investment (7.5%; 2Q23: 7.9%).
    - Private spending (4.5%; 2Q23: 4.5%): growth sustained, as expansion in private consumption (4.6%; 2Q23: 4.3%) partially mitigated the moderation in private investment (4.5%; 2Q23: 5.1%).
  - Net exports (-22.7%; 2Q23: -3.7%): plunged to its lowest level since 2Q22, marked by a larger decline in value-added exports that outpaced a fall in imports, subtracting 1.4 ppts from overall 3Q23 GDP growth (2Q23: -0.1 ppts).
    - Exports (-12.0%; 2Q23: -9.4%): recorded a more substantial contraction, in tandem with a sharper decline in value-added exports of goods (-16.0%; 2Q23: -14.8%) and a moderation in value-added services exports (21.2%; 2Q23: 41.4%). The decline was largely attributed to weaker external demand from the major trading partners, particularly China's struggling post-pandemic recovery, a global technology downcycle, and the impact of relatively lower commodity prices.
    - Imports (-11.1%; 2Q23: -9.7%): declined further due to a more significant drop in imports of goods (-16.0%; 2Q23: -14.9%), outweighing the positive growth in imports of services (16.1%; 2Q23: 21.6%).
- **Fuelled by higher growth in the construction and services sectors**
  - Construction (7.2%; 2Q23: 6.2%): growth expanded, beating our forecast of 5.7%, largely supported by higher growth in civil engineering (14.6%; 2Q23: 10.0%), followed by specialised construction activities (10.4%; 2Q23: 6.4%),

backed by further progress in multi-year infrastructure projects. Construction accounted for 0.3 ppts of overall GDP (2Q23: 0.2 ppts).

- Services (5.0%; 2Q23: 4.7%): expanded to a two-quarter high and surpassing our projection of 3.0% attributable to expansion in wholesale trade (6.2%; 2Q23: 4.5%) and motor vehicles (11.0%; 2Q23: 3.3%). The services sector contributed 2.9 ppts to overall GDP growth (2Q23: 2.7 ppts).
- Agriculture (0.8%; 2Q23: -1.0%): rebounded and exceeded our forecast of -2.2%. Growth was primarily supported by a recovery in oil palm (2.2%; 2Q23: -6.9%) as well as expansion in livestock (1.1%; 2Q23: 0.5%). Agriculture contributed 0.1 ppt (2Q23: -0.1 ppt) to GDP growth.
- Manufacturing (-0.1%; 2Q23: 0.1%): contracted slightly, reaching the lowest level since 3Q21, but still better than our projection of -1.6%. Weaker manufacturing growth was primarily attributable to a slack in commodity-based products such as refined petroleum (-8.4%; 2Q23: -2.3%) and rubber products (-6.4%; 2Q23: -12.4%). This is also partly due to the continued downcycle in E&E products such as electronic components & board, communication equipment and consumer electronics, which fell further (-4.8%; 2Q23: -1.9%), the lowest since 2Q20. That said, manufacturing dragged GDP growth by 0.03 ppts (2Q23: 0.03 ppts).
- Mining (-0.1%; 2Q23: -2.3%): growth contraction eased due to the recovery in crude oil and condensate (2.1%; 2Q23: -1.5%), partially offsetting the continued decline in natural gas (-2.2%; 2Q23: -3.6%). Mining contributed 0.2 ppts to overall GDP (2Q23: 0.5 ppts).

Graph 3: Growth Outlook by Sector (KIBB forecast)



Source: DoSM, Kenanga Research

- **We maintain our 2023 GDP forecast at 3.5% - 4.0% (2022: 8.7%) with a likelihood of settling around the upper end of our target range and expanding to 4.9% in 2024**
  - Given the better-than-expected GDP performance in the 3Q23, we expect the momentum to be sustained in the final quarter of 2023 at 3.7%, albeit lower than our previous forecast of 4.5%. Growth is expected to be primarily supported by a resilient domestic demand on the back of a healthy labour market steered by an expansion in the services sector and a continued recovery in tourism activity and income. Additionally, the ongoing implementation of multi-year investment projects and the expectation that the government would step up its fiscal spending in the final quarter would also support the domestic economy. On the external front, we expect the contraction in exports to ease, partly banking on a firmer economic recovery of China and a steady pick up of the E&E global demand cycle.
  - **For 2024, we maintain our projection that GDP growth would expand to 4.9%**, underpinned by an improvement in the external sector, particularly led by an economic recovery from China, and an upturn in the tech cycle, benefitting our export-oriented industries. This will be further bolstered by the anticipation of higher capital inflow and portfolio investments due to increased political stability. A potential cut in policy rates among the advanced economies is also expected to support external demand.
  - However, the **risk to growth remains tilted to the downside,** largely attributed to external factors such as potentially higher and longer interest rates in the advanced economies, escalating geopolitical tensions in the Middle East and Europe, and uncertainty in China's economic recovery and its relationship with the US, which is expected to continue exerting pressure on the manufacturing export-oriented industries.
- **BNM is expected to keep the OPR unchanged in 2024, aiming to control price pressures while supporting growth trajectories**
  - We believe that BNM has concluded its policy normalisation cycle and will maintain the overnight policy rate (OPR) steady at 3.00% throughout 2024. In addition, we expect BNM will prioritise supporting economic growth given the relatively stable inflationary pressures. This would be further facilitated by improvements in the supply chain and government measures outlined in Budget 2024. Furthermore, the relatively high core inflation (Sep: 2.5%; Aug: 2.5%), which exceeds its long-term average of 1.8%, provides additional justification for maintaining the OPR at its current level. Therefore, the possibility of a rate cut is remote at this point.

Table 1: Malaysia GDP Growth (constant 2015 prices) and Contribution to Growth by Sector (Supply) and Expenditure (Demand)

YoY %	3Q22	4Q22	2022	1Q23	2Q23	3Q23	4Q23F	1H23	2H23F	2023F	2024F
By Sector											
Agriculture	1.2	1.1	0.1	1.0	-1.0	0.8	0.9	0.0	0.8	0.4	1.3
Mining	9.1	6.3	2.6	2.4	-2.3	-0.1	1.3	0.1	-0.1	0.0	1.8
Manufacturing	13.1	3.9	8.1	3.2	0.1	-0.1	1.5	1.7	0.7	1.2	5.3
Construction	15.3	10.1	5.0	7.4	6.2	7.2	5.7	6.8	6.5	6.6	1.6
Services	16.7	9.1	10.9	7.3	4.7	5.0	4.9	6.0	5.0	5.5	5.5
Real GDP	**14.1**	**7.1**	**8.7**	**5.6**	**2.9**	**3.3**	**3.7**	**4.2**	**3.5**	**3.5-4.0**	**4.9**
Ppt. Contribution											
Agriculture	0.1	0.1	0.0	0.1	-0.1	0.1	0.1	0.0	0.1	0.0	0.1
Mining	0.6	0.4	0.2	-0.1	0.5	0.2	0.2	-0.1	0.0	0.0	0.1
Manufacturing	3.2	1.0	2.0	0.8	0.0	0.0	0.4	0.4	0.2	0.3	1.2
Construction	0.5	0.3	0.2	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.1
Services	9.5	5.2	6.2	4.3	2.7	2.9	2.9	3.5	2.9	3.2	3.2
Real GDP	**14.1**	**7.1**	**8.7**	**5.6**	**2.9**	**3.3**	**3.7**	**4.2**	**3.5**	**3.5-4.0**	**4.9**
By Expenditure											
Consumption	13.3	6.3	9.9	4.5	4.2	4.8	3.6	4.3	4.2	4.2	5.4
Public	6.5	3.0	4.5	-2.2	3.8	5.8	3.1	0.8	3.0	2.0	2.1
Private	14.8	7.3	11.2	5.9	4.3	4.6	4.3	5.1	4.4	4.8	6.2
Investment	13.1	8.8	6.8	4.9	5.5	5.1	5.6	5.2	5.3	5.3	6.2
Public	13.1	6.0	5.3	5.7	7.9	7.5	8.1	6.7	7.9	7.4	6.1
Private	13.2	10.3	7.2	4.7	5.1	4.5	4.3	4.9	4.4	4.7	6.3
Public Spending	7.9	3.9	4.7	-0.3	4.6	6.2	2.9	2.1	4.3	3.3	3.1
Private Spending	14.4	7.8	10.3	5.6	4.5	4.5	4.3	5.0	4.4	4.7	6.2
Domestic Demand	13.2	6.8	9.2	4.6	4.5	4.8	4.0	4.5	4.4	4.5	5.6
Exports	21.5	10.1	14.5	-3.3	-9.4	-12.0	-4.9	-6.4	-8.5	-7.5	2.3
Imports	21.1	11.5	15.9	-6.5	-9.7	-11.1	-4.5	-8.1	-7.9	-8.0	2.0
Net exports	26.1	23.0	-1.0	54.4	-3.7	-22.7	-8.3	24.7	-14.7	-1.3	4.9
Real GDP	**14.1**	**7.1**	**8.7**	**5.6**	**2.9**	**3.3**	**3.7**	**4.2**	**3.5**	**3.5-4.0**	**4.9**
Ppt. Contribution											
Consumption	9.9	4.7	7.2	3.3	3.0	3.5	2.6	3.2	3.1	3.1	4.0
Public	0.9	0.5	0.6	-0.3	0.5	0.7	0.1	0.1	0.4	0.3	0.3
Private	9.0	4.2	6.6	3.6	2.6	2.8	2.5	3.1	2.6	2.9	3.8
Investment	2.5	1.6	1.4	1.0	1.1	1.0	1.0	1.1	1.0	1.0	1.3
Public	0.5	0.4	0.2	0.2	0.3	0.3	0.5	0.2	0.4	0.3	0.3
Private	2.0	1.3	1.1	0.8	0.9	0.7	0.5	0.8	0.6	0.7	1.0
Public Spending	1.4	0.9	0.9	-0.1	0.7	1.0	0.6	0.3	0.8	0.6	0.5
Private Spending	11.0	5.5	7.7	4.4	3.4	3.5	3.0	3.9	3.3	3.6	4.7
Domestic Demand	12.4	6.3	8.5	4.3	4.2	4.5	3.7	4.2	4.1	4.2	5.3
Exports	15.5	6.2	10.3	-2.4	-7.1	-9.3	-3.6	-4.8	-6.4	-5.6	1.6
Imports	14.1	4.7	10.3	-4.5	-7.0	-7.8	-2.9	-5.7	-5.3	-5.5	1.3
Net exports	1.5	1.5	-0.1	2.1	-0.1	-1.4	-0.6	1.0	-1.0	-0.1	0.3
Real GDP	**14.1**	**7.1**	**8.7**	**5.6**	**2.9**	**3.3**	**3.7**	**4.2**	**3.5**	**3.5-4.0**	**4.9**

Source: DoSM, BNM, Kenanga Research
F: forecast, PPT: percentage point

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