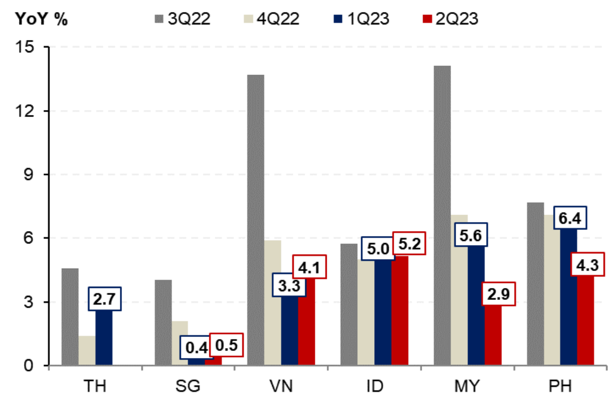
Malaysia 2Q23 GDP

Growth moderated considerably on weaker private spending, net exports, and a high-base effect

- **The GDP growth rate moderated in 2Q23 (2.9% YoY; 1Q23: 5.6%), registering below house forecast and market expectations (KIBB: 6.0%; Consensus: 3.3%)**
  - The slower-than-expected growth can be primarily attributed to weaker private sector expenditure and lower net exports, exacerbated by a global economic slowdown and weaker commodity prices. On the supply side, growth slowed across all sectors, particularly dragged by the Services and Manufacturing sectors, but retained some support from stable labour market conditions and higher tourism activity. That said, the weaker YoY growth is partly attributable to a high base effect from 2Q22.
  - Shifting from the robust expansion seen in 1Q23, Malaysia is currently among the slowest growing economies in the ASEAN-5 (ex-TH + VN) group.
  - Seasonally adjusted QoQ (1.5%; 1Q23: 0.9%): charted an expansion due to a notable increase in private final consumption expenditure (5.9%; 1Q23: 2.0%), as well as a rebound in government final consumption expenditure (4.0%; 1Q23: -1.7%) and gross fixed capital formation (4.7%; 1Q23: -1.4%).

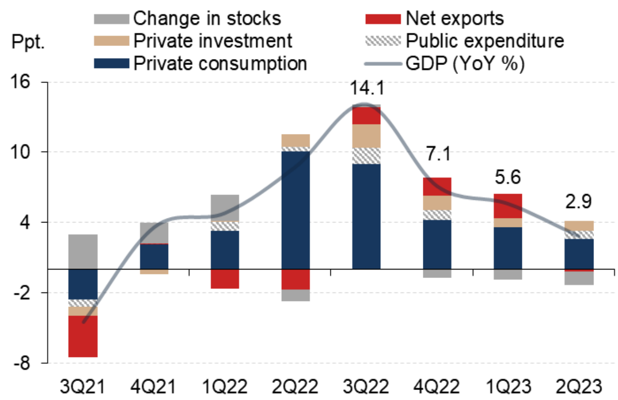
Graph 1: ASEAN-5 (+VN) GDP Growth Performance



Source: DoSM, Kenanga Research

- **Subdued private spending and sluggish exports outweighed greater public sector support**
  - Net exports (-3.7%; 1Q23: 54.4%): plunged to its lowest level in a year, marked by a significant decline in value-added exports that outpaced a fall in imports, subtracting 0.1 ppts from 2Q23 GDP growth (1Q23: 2.1 ppts).
    - Exports (-9.4%; 1Q23: -3.3%): charted a deeper contraction, in line with a further decline in exports of goods (-14.8%; 1Q23: -8.5%) and a deceleration in services exports (41.4%; 1Q23: 58.2%). The decline was driven by weaker external demand, as developed economies grappled with tighter financial conditions following substantial rate hikes and due to China's prolonged economic weakness following its reopening. Furthermore, exports were weighed by the global technology downcycle and the impact of lower commodity prices.
    - Imports (-9.7%; 1Q23: -6.5%): declined further amid a sharper downturn in imports of goods (-14.9%; 1Q23: -10.7%), which outweighed an increase in imports of services (21.6%; 1Q23: 19.3%).
  - Domestic demand (4.5%; 1Q23: 4.6%): edged lower due to a slowdown in private sector spending but remained supported by a strong recovery in public sector spending, adding 4.2 ppts overall to 2Q23 GDP (1Q23: 4.3 ppts).
    - Private spending (4.5%; 1Q23: 5.6%): the moderation was due to a slowdown in private consumption (4.3%; 1Q23: 5.9%) across both essential and discretionary spending categories. This outweighed an increase in private investment (5.1%; 1Q23: 4.7%), which was bolstered by ongoing progress in construction projects and the further expansion of production capacity.
    - Public spending (4.6%; 1Q23: -0.3%): rebounded to its highest level in three quarters, adding 0.7 ppts (2Q23: -0.1 ppt) to the overall GDP growth. The rebound was primarily driven by a substantial increase in public consumption (3.8%; 1Q23: -2.2%) amid higher spending on supplies, services, and emoluments. Similarly, public investment rose (7.9%; 1Q23: 5.7%) particularly as the government increased its outlay on fixed assets.

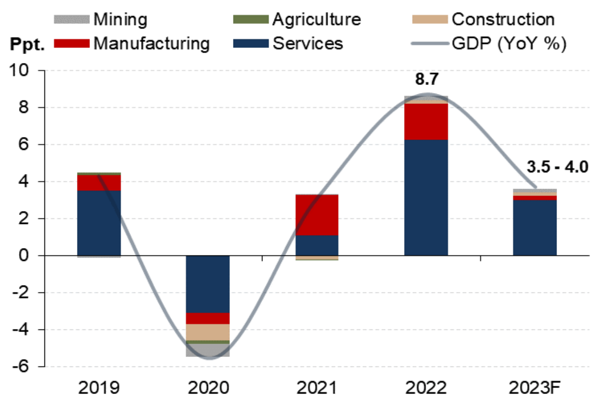
Graph 2: GDP by Expenditure Performance (Percentage Point Contribution to Growth)



Source: DoSM, Kenanga Research

- **A broad-based supply slowdown, chiefly influenced by a moderation in the services and manufacturing sectors**
  - Services (4.7%; 1Q23: 7.3%): continued to slow, reaching its lowest level since 4Q21. The moderation was driven by a slowdown in retail trade (7.8%; 1Q23: 19.5%) and transportation & storage (13.5%; 1Q23: 17.0%), although tourism spending continued to provide some support. Services accounted for 2.7 ppts of overall GDP growth (1Q23: 4.3 ppts).
  - Manufacturing (0.1%; 1Q23: 3.2%): moderated sharply to its lowest level since 3Q21. The weaker manufacturing growth was primarily attributable to a contraction in electrical, electronic & optical products growth (-1.5%; 1Q23: 3.8%), due to the global technology downcycle, and reduced refined petroleum production amid a decline in mining output. Manufacturing accounted for only 0.03 ppts of overall GDP growth (1Q23: 0.8 ppts).

Graph 3: Growth Outlook by Sector (KIBB forecast)



Source: DoSM, Kenanga Research

  - Agriculture (-1.1%; 1Q23: 1.0%): fell into contraction for the first time in a year, driven by a sharp decline in the oil palm subsector (-6.9%; 1Q23: 3.4%) as well as reduced output in forestry & logging and fisheries, exacerbated by adverse hot weather. Agriculture accounted for -0.1 ppts of overall GDP growth (1Q23: 0.1 ppts).
  - Mining (-2.3%; 1Q23: 2.4%): decreased to its lowest level since 3Q21, amid lower global commodity prices and decreased oil and gas output due to plant maintenance. Mining accounted for -0.1 ppts of GDP (1Q23: 0.2 ppts).
  - Construction (6.2%; 1Q23: 7.4%): growth moderated slightly but remained largely supported by further progress in large infrastructure projects and higher special trade activities. Construction accounted for 0.2 ppts of overall GDP (1Q23: 0.3 ppts).
- **2023 GDP forecast revised down to a range of between 3.5% - 4.0% (2022: 8.7%) from 4.7% previously, to account for sustained weakness in external demand as the global economy continues to decelerate owing to prolonged monetary tightening and China's fragile recovery**
  - The economy is expected to return to a moderate expansion in 2H23, buoyed by the resilience of domestic demand as the labour market remains robust. This will likely be bolstered by a continued recovery in tourist activity and the ongoing implementation of multi-year investment projects. However, China's subpar economic recovery, coupled with the increased risk of a broader global economic slowdown, is expected to continue exerting pressure on export-oriented industries and will likely weigh on the manufacturing and services sectors to a greater extent than initially anticipated. Furthermore, the overarching risks to global growth remain tilted to the downside, as major economies contemplate further interest rate hikes to address persistently high inflation, a move that will tighten financial conditions even further.
  - **Looking forward to 2024, we expect a more robust GDP growth trajectory of 4.9%**, fuelled by a more sustained global economic recovery next year, particularly in China, which is expected to drive stronger external demand. The government's commitment to pro-growth initiatives is likely to persist, and the increased political stability following state elections could enhance confidence among foreign investors, potentially leading to a greater inflow of capital and portfolio investments. While the global growth outlook might be more resilient, as major central banks may lean towards rate cuts, lingering downside risks persist. These stem from ongoing geopolitical issues, such as the Russia-Ukraine conflict, as well as the tense relationship between the US, China, and Taiwan.
- **BNM is expected to keep the OPR unchanged for the rest of the year as price pressures continue to ease**
  - Considering the ongoing decline observed in both headline and core inflation, we believe that BNM has reached the end of its policy normalisation cycle and will keep the overnight policy rate (OPR) at 3.00% for the next 6 to 12 months. The weaker-than-expected 2Q23 GDP print is unlikely to incline the central bank towards rate cuts, especially as core inflation remains relatively elevated compared to its long-term average. Furthermore, given BNM's perception that the current monetary policy stance is slightly accommodative and in support of economic growth, the chances of a rate cut appear remote.

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

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

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

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

Zalman Basree
Economist
zalman@kenanga.com.my

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my