

Malaysia 4Q23 GDP

Growth slows in 4Q23 on weak global demand; overall 2023 growth moderated

- **The GDP growth surprisingly slowed in the final quarter of 2023 (3.0% YoY; 3Q23: 3.3%), lower than house forecast and market expectations (KIBB: 3.7%; Bloomberg consensus: 3.4%) and even below DOSM advance GDP estimates of 3.4%**

- Slower growth is attributed to the ongoing weakness in the manufacturing sector, which saw a second consecutive quarter of contraction. This is partly due to a prolonged slump in the export-oriented sector, amid weak global demand. Additionally, the momentum was restrained by modest growth in services and construction sectors. However, domestic demand stayed robust and continues to support overall growth.
- Meanwhile, seasonally adjusted QoQ contracted (-2.1%; 3Q23: 2.6%), the lowest since 3Q21 (-2.7%), due to weak private final consumption expenditure (-3.0%; 3Q23: -0.7%), followed by a moderate growth in government final consumption expenditure (0.6%; 3Q23: 4.6%) and gross fixed capital formation (0.3%; 3Q23: 1.8%). This was also attributable to weak construction (-7.3%; 3Q23: 3.7%), followed by manufacturing (-2.9%; 3Q23: 1.5%) and services (-2.4%; 3Q23: 2.1%) sectors.
- Malaysia is currently ranked fourth in the ASEAN-5 (ex-TH +VN) group for 4Q23 GDP performance, behind Vietnam (6.7%), the Philippines (5.6%) and Indonesia (5.0%). Overall, the Philippines recorded the fastest GDP growth in 2023 (5.6%), followed by Indonesia (5.0%), Vietnam (5.0%), Malaysia (3.7%) and Singapore (1.1%).

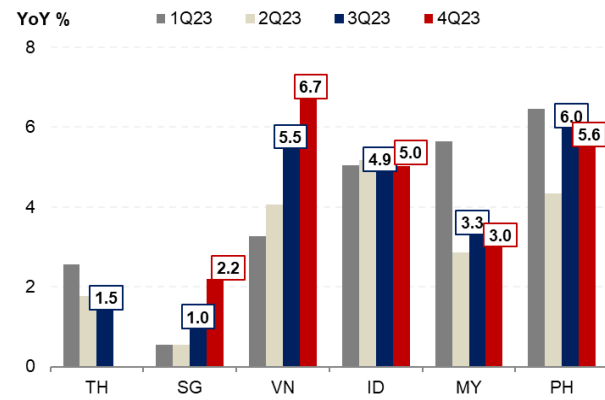
- **Robust domestic demand, driven by government spending and sustained private spending, partially offsets the downturn in net exports**

- Domestic demand (5.2%; 3Q23: 4.8%): expanded to a four-quarter high, due to strong public sector spending and sustained private sector spending, contributing 4.8 ppts to overall 4Q23 GDP (3Q23: 4.5 ppts).
 - Public spending (8.4%; 3Q23: 6.2%): growth expanded, highest since 2Q21 (11.5%), adding 1.8 ppts (3Q23: 1.0 ppt) to the overall 4Q23 GDP growth. The expansion was driven by a substantial increase in public consumption (7.3%; 3Q23: 5.8%) and public investment (11.3%; 3Q23: 7.5%).
 - Private spending (4.2%; 3Q23: 4.5%): growth moderated slightly, due to moderate growth in private consumption (4.2%; 3Q23: 4.6%) and private investment (4.0%; 3Q23: 4.5%). Its contribution to overall GDP growth edged down to 3.0 ppts (3Q23: 3.5 ppts) but remained significant.
- Net exports (-35.6%; 3Q23: -22.7%): plunged to its lowest level since 3Q21 (-38.2%), marked by a decline in value-added exports that outpaced a fall in imports, subtracting 2.7 ppts from overall 4Q23 GDP growth (3Q23: -1.4 ppts).
 - Exports (-6.3%; 3Q23: -12.0%): contraction eased, in line with a smaller decline in value-added exports of goods (-12.3%; 3Q23: -16.0%) and higher growth in value-added services exports (37.3%; 3Q23: 21.2%). Exports fell by 7.9% in 2023 (2022: 14.5%), the lowest since 2020 (-8.6%).
 - Imports (-2.9%; 3Q23: -11.1%): smaller contraction, due to a lower contraction in imports of goods (-5.4%; 3Q23: -16.0%), and positive growth in imports of services (9.0%; 3Q23: 16.1%). Imports contracted by 7.6% (2022: 15.9%), the weakest since 2020 (-7.9%).

- **Moderate growth in the services and construction sectors, while further dragged by persistent weakness in the manufacturing sector**

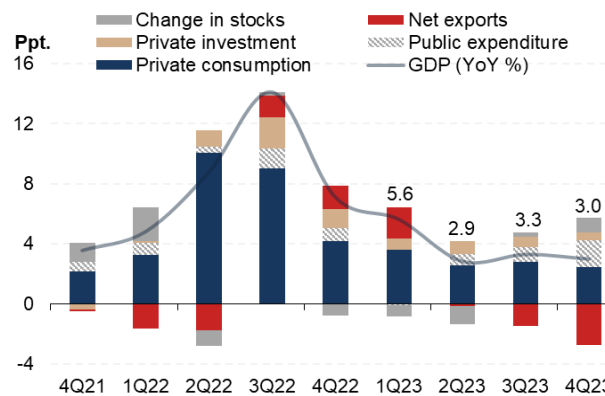
- Services (4.2%; 3Q23: 5.0%): expanded at a slower pace, the lowest since 4Q21 (3.3%) and below our projection of 4.9%. Nevertheless, growth for this sector was contributed by wholesale trade (4.7%; 3Q23: 6.2%) and retail trade (2.9%; 3Q23: 3.3%) albeit at a slower pace. The services sector remained the significant sector, with a contribution of 2.5 ppts to overall GDP growth (3Q23: 2.9 ppts). Overall, the services sector grew 5.3% in 2023 (2022: 10.9%).

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

19 February 2024

- Manufacturing (-0.3%; 3Q23: -0.1%): contracted further, reaching the lowest since 3Q21 (-0.9%), and below our projection of 1.5%. The subdued performance was primarily attributable to a downturn in the E&E sector, particularly electronic components & boards, communication equipment and consumer electronics (-10.0%; 3Q23: -4.8%) and weaker commodity-based products such as refined petroleum products (-3.3%; 3Q23: -8.4%). That said, manufacturing dragged GDP growth by 0.1 ppts (3Q23: -0.03 ppts). Overall, the manufacturing sector moderated sharply to 0.7% in 2023 (2022: 8.1%).
- Construction (3.6%; 3Q23: 7.2%): moderated sharply, lower than our forecast of 5.7%, mainly due to a sharp slowdown in residential buildings (1.3%; 3Q23: 6.2%), and specialised construction activities (0.5%; 3Q23: 10.4%). However, the slowdown was partially mitigated by higher growth in civil engineering (16.7%; 3Q23: 14.6%). Construction accounted for 0.1 ppts of overall 4Q23 GDP (3Q23: 0.3 ppts). Overall, the construction sector expanded to 6.1% in 2023 (2022: 5.0%) compared to the previous year.
- Agriculture (1.9%; 3Q23: 0.9%): growth expanded and exceeded our forecast of 0.9%, supported by growth in oil palm (1.6%; 3Q23: 2.2%) in line with higher production of fresh fruit bunches. Agriculture contribution to overall GDP remained at 0.1 ppt (3Q23: 0.1 ppt) for the second straight quarter. This sector grew 0.7% in 2023 (2022: 0.1%).
- Mining (3.8%; 3Q23: -0.1%): rebounded to a four-quarter high, following two straight quarters of contraction, thanks to strong output in natural gas (4.6%; 3Q23: -2.2%), and crude oil & condensate (3.3%; 3Q23: 2.1%). Mining contribution to overall GDP remained at 0.2 ppts (3Q23: 0.2 ppts) for the second straight quarter.

● **2024 GDP growth is expected to expand to 4.5% - 5.0% (2023: 3.7%) primarily banking on a recovery in the manufacturing sector and resilient domestic demand**

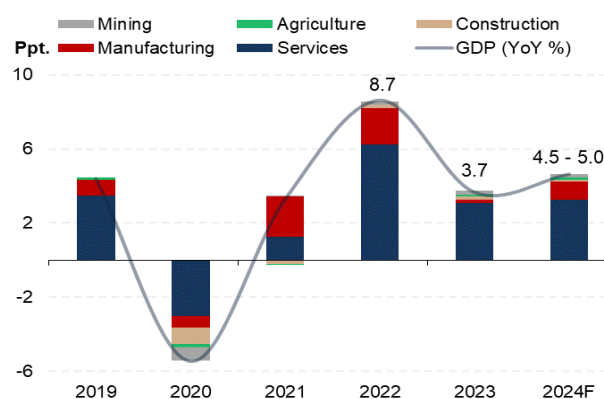
- We maintain our view that GDP will grow strongly in 2024, supported by improvements in the external sector, especially the expected recovery in China and technology upcycles, which subsequently will boost the export-oriented industries. Notably, the US-based Semiconductor Industry Association (SIA) projects global semiconductor industry sales to rebound by 13.1% in 2024 (2023: -8.2%), following a sharp decline the previous year. This rebound is expected to support the E&E sector and overall export performance which we forecast to rebound sharply to 9.4% (2023: -8.0%), thereby fuelling GDP growth. In addition, domestic demand is projected to stay strong, driven primarily by healthy labour market conditions, with the average unemployment rate projected to decrease further to 3.2% (2023: 3.4%). This is also supported by higher investment realisation, ongoing multi-year infrastructure projects, and the implementation of various projects under the major policy framework by the federal government. A continued increase in tourist arrivals and spending will further support our positive growth outlook.

- Likewise, the **risk to growth outlook** likely to persist, primarily due to external factors. These includes higher and prolonged interest rates in advanced economies, especially the US, escalating geopolitical tensions in the Middle East and East Europe as well as a renewed tensions between the US and China. Moreover, a slower-than-expected recovery in China could limit the upside potential of the growth outlook.

● **BNM is expected to maintain the OPR throughout 2024 to support the growth outlook and uphold price stability**

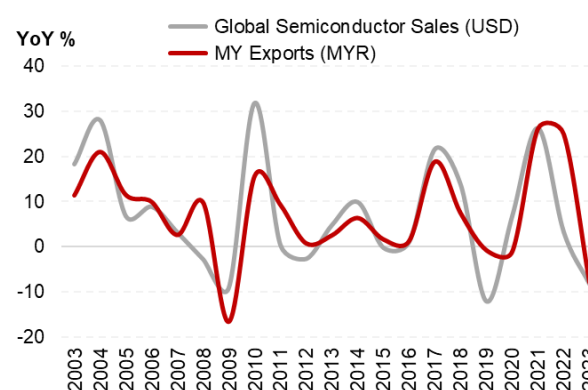
- Despite the anticipation of a slight uptick in headline inflation to 2.7% in 2024 (2023: 2.5%), mainly attributed to changes in government policy, the overall inflation outlook is still expected to remain manageable. This is due to the government's overly cautious and gradualist approach towards subsidy rationalisation. In addition, we foresee demand pressures to taper in the medium term as the domestic economy normalises and is likely to be reflected in moderate core inflation, potentially reaching its long-term average of 1.8% in 2024 (2023: 3.0%).
- On the 2024 growth outlook, we believe BNM will likely aim for a GDP growth target of 4.0% - 5.0% aligning with the Ministry of Finance (MoF) projection and our forecast of 4.5% - 5.0%, as they release the 2023 Economic & Monetary Review 2023 on March 20. The current monetary policy stance is conducive to supporting the growth outlook, especially in light of potential risks from a global economic slowdown, which could stem from restrictive monetary policies in advanced economies. Given this context, any adjustment to the OPR in the near term is unlikely.

Graph 3: Growth Outlook by Sector (KIBB forecast)



Source: DoSM, Kenanga Research

Graph 4: Global Semiconductor Sales (USD) vs MY Exports (MYR) growth



Source: Macrobond, Kenanga Research

19 February 2024

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

YoY %	2020	2021	2022	1Q23	2Q23	3Q23	4Q23	1H23	2H23	2023	2024F
By Sector											
Agriculture	-2.4	-0.1	0.1	1.0	-1.0	0.9	1.9	0.0	1.4	0.7	1.6
Mining	-9.7	0.9	2.6	2.4	-2.3	-0.1	3.8	0.1	2.0	1.0	1.8
Manufacturing	-2.7	9.5	8.1	3.2	0.1	-0.1	-0.3	1.7	-0.2	0.7	4.1
Construction	-19.3	-5.1	5.0	7.4	6.2	7.2	3.5	6.8	5.4	6.1	3.0
Services	-5.2	2.2	10.9	7.3	4.7	5.0	4.2	6.0	4.6	5.3	5.5
Real GDP	-5.5	3.3	8.7	5.6	2.9	3.3	3.0	4.2	3.2	3.7	4.5 – 5.0
Ppt. Contribution											
Agriculture	-0.2	0.0	0.0	0.1	-0.1	0.1	0.1	0.0	0.1	0.0	0.1
Mining	-0.7	0.1	0.2	-0.1	0.5	0.2	0.2	-0.1	0.0	0.2	0.2
Manufacturing	-0.6	2.2	2.0	0.8	0.0	0.0	-0.1	0.4	0.0	0.2	1.0
Construction	-0.9	-0.2	0.2	0.3	0.2	0.3	0.1	0.2	0.2	0.2	0.1
Services	-3.0	1.3	6.2	4.3	2.7	2.9	2.5	3.5	2.7	3.1	3.3
Real GDP	-5.5	3.3	8.7	5.6	2.9	3.3	3.0	4.2	3.2	3.7	4.5 – 5.0
By Expenditure											
Consumption	-2.6	2.7	9.9	4.5	4.2	4.8	4.9	4.3	4.8	4.6	5.2
Public	4.1	6.4	4.5	-2.2	3.8	5.8	7.3	0.8	6.6	3.9	2.1
Private	-3.9	1.9	11.2	5.9	4.3	4.6	4.2	5.1	4.4	4.7	5.8
Investment	-14.4	-0.8	6.8	4.9	5.5	5.1	6.4	5.2	5.8	5.5	5.7
Public	-21.2	-11.1	5.3	5.7	7.9	7.5	11.3	6.7	9.9	8.6	6.1
Private	-11.9	2.7	7.2	4.7	5.1	4.5	4.0	4.9	4.3	4.6	5.6
Public Spending	-4.5	1.5	4.7	-0.3	4.6	6.2	8.4	2.1	7.5	5.1	3.1
Private Spending	-5.7	2.0	10.3	5.6	4.5	4.5	4.2	5.0	4.4	4.7	5.8
Domestic Demand	-5.5	1.9	9.2	4.6	4.5	4.8	5.2	4.5	5.0	4.8	5.3
Exports	-8.6	18.5	14.5	-3.3	-9.4	-12.0	-6.3	-6.4	-9.2	-7.9	2.3
Imports	-7.9	21.2	15.9	-6.5	-9.7	-11.1	-2.9	-8.1	-7.1	-7.6	2.0
Net exports	-13.7	-4.0	-1.0	54.4	-3.7	-22.7	-35.6	24.7	-29.9	-11.3	5.4
Real GDP	-5.5	3.3	8.7	5.6	2.9	3.3	3.0	4.2	3.2	3.7	4.5 – 5.0
Ppt. Contribution											
Consumption	-1.8	2.0	7.2	3.3	3.0	3.5	3.6	3.2	3.5	3.4	3.8
Public	0.5	0.9	0.6	-0.3	0.5	0.7	1.1	0.1	0.9	0.5	0.3
Private	-2.3	1.1	6.6	3.6	2.6	2.8	2.5	3.1	2.6	2.8	3.5
Investment	-3.3	-0.2	1.4	1.0	1.1	1.0	1.2	1.1	1.1	1.1	1.1
Public	-1.3	-0.6	0.2	0.2	0.3	0.3	0.7	0.2	0.5	0.4	0.3
Private	-2.0	0.4	1.1	0.8	0.9	0.7	0.5	0.8	0.6	0.7	0.9
Public Spending	-0.8	0.3	0.9	-0.1	0.7	1.0	1.8	0.3	1.4	0.9	0.6
Private Spending	-4.3	1.5	7.7	4.4	3.4	3.5	3.0	3.9	3.2	3.6	4.4
Domestic Demand	-5.1	1.8	8.5	4.3	4.2	4.5	4.8	4.2	4.6	4.4	5.0
Exports	-5.5	11.4	10.3	-2.4	-7.1	-9.3	-4.6	-4.8	-6.9	-5.9	1.5
Imports	-4.5	11.7	10.3	-4.5	-7.0	-7.8	-1.9	-5.7	-4.8	-5.3	1.3
Net exports	-1.0	-0.3	-0.1	2.1	-0.1	-1.4	-2.7	1.0	-2.1	-0.6	0.3
Real GDP	-5.5	3.3	8.7	5.6	2.9	3.3	3.0	4.2	3.2	3.7	4.5 – 5.0

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

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