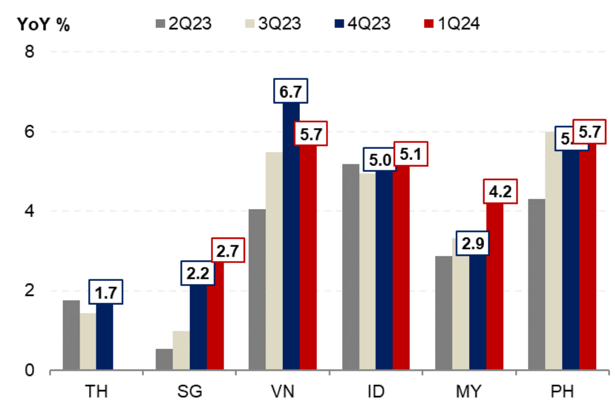
Malaysia 1Q24 GDP

Growth jumps to 4.2%, exceeds expectations driven by external and domestic factors

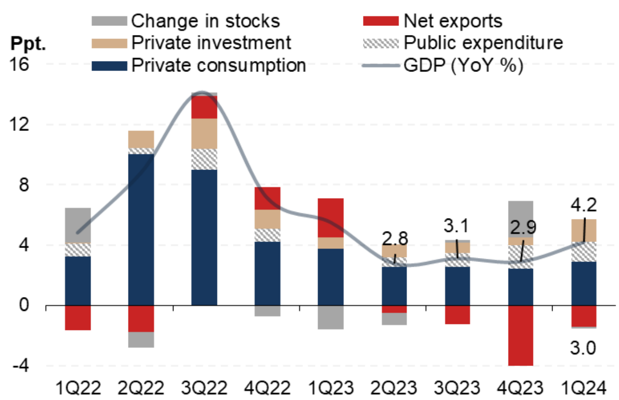
- **GDP growth accelerated in 1Q24 to 4.2% YoY (4Q23: 2.9%), surpassing house forecast and market expectations (KIBB: 3.3%; Bloomberg consensus: 3.9%) and even exceeding DOSM advance GDP estimates of 3.9%**
  - Growth expansion in 1Q24 was mainly attributed to resilient household spending, a turnaround in exports, and higher tourist arrivals. Increased investment activities also contributed to the momentum. However, the momentum was restrained by lower agricultural output due to hot weather conditions.
  - Meanwhile, seasonally adjusted QoQ rebounded (1.4%; 4Q23: -1.0%), mainly due to a rebound in exports (6.3%; 4Q23: -0.8%) and private final consumption expenditure (1.8%; 4Q23: -1.0%), followed by further expansion in imports (3.8%; 4Q23: 2.7%) and gross fixed capital formation (2.8%; 4Q23: 1.0%). This was also attributable to a rebound in construction (7.9%; 4Q23: -3.5%) and manufacturing (2.4%; 4Q23: -2.0%) as well as services (1.2%; 4Q23: -1.1%) sectors.
  - Comparatively, Malaysia is currently ranked fourth in the ASEAN-5 (exclude TH, but +VN) group for 1Q24 GDP performance, behind the Philippines (5.7), Vietnam (5.7%) and Indonesia (5.1%), but slightly above Singapore (2.7%).

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



Source: DoSM, Kenanga Research

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



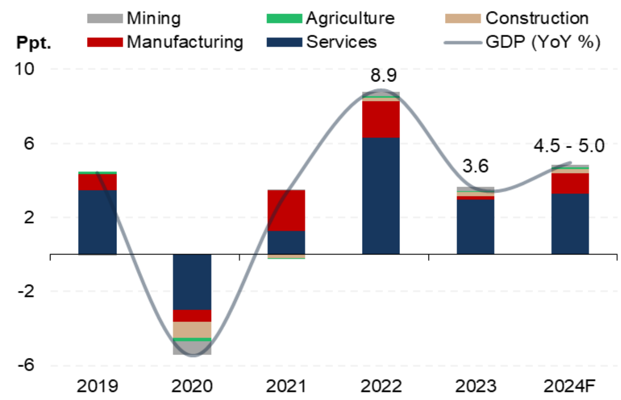
Source: DoSM, Kenanga Research

- **Resilient domestic demand, driven by sustained private spending during the festive season and continued government expenditure, partially offsets the contraction in net exports**
  - Domestic demand (6.1%; 4Q23: 4.9%): reached a five-quarter high, driven by strong private sector growth and sustained public sector spending, contributing 5.7 percentage points (ppts) to overall 1Q24 GDP (4Q23: 4.5 ppts).
    - Public spending (8.4%; 4Q23: 7.4%): growth expanded, highest since 2Q21 (11.0%), adding 1.3 ppts (4Q23: 1.6 ppt) to the overall 1Q24 GDP growth. The expansion was driven by a substantial increase in public consumption (7.3%; 4Q23: 5.8%) and public investment (11.5%; 4Q23: 11.3%).
    - Private spending (5.7%; 4Q23: 4.1%): growth expanded strongly, thanks to higher private consumption (4.7%; 4Q23: 4.2%) and private investment (9.2%; 4Q23: 4.0%). Its contribution to overall 1Q24 GDP growth jumped to 4.4 ppts (4Q23: 2.9 ppts), the highest since 1Q23 (4.5%).
  - Net exports (-24.5%; 4Q23: -52.9%): growth contraction eased, helped by a positive rebound in value-added exports, although still outstripped by a sharp rebound in imports, subtracting 1.4 ppts from overall 1Q24 GDP growth (4Q23: -4.0 ppts).
    - Exports (5.2%; 4Q23: -7.9%): rebounded, thanks to a smaller contraction in value-added exports of goods (-1.0%; 4Q23: -12.4%) and a surge in value-added services exports (33.8%; 4Q23: 25.4%).
    - Imports (8.0%; 4Q23: -2.6%): rebounded sharply, due to a sharp turnaround in value-added imports of goods (7.1%; 4Q23: -5.0%), and further expansion in imports of services (12.0%; 4Q23: 8.9%).
- **Sustained expansion in the services sector, a manufacturing growth recovery, and a surge in the construction sector bolstered the 1Q24 GDP expansion**
  - Services (4.7%; 4Q23: 4.1%): expansion reached a two-quarter high, surpassing our projection of 4.2%. The sector's growth was driven by wholesale trade (3.8%; 4Q23: 4.8%) and retail trade (3.6%; 4Q23: 2.8%), which together accounted for 26.0% of the overall services sector. The services sector continued to be a major sector, adding 2.8 ppts to overall GDP growth (4Q23: 2.4 ppts).
  - Manufacturing (1.9%; 4Q23: -0.3%): rebounded, following two consecutive quarters of contraction. Growth exceeded our projection of 1.1%. The sector's performance was supported by a better performance in non-metallic mineral products, basic metal and fabricated metal products (7.2%; 4Q23: 6.2%), followed by petroleum, chemical, rubber

and plastic products (1.1%; 4Q23: -0.6%) and wood products, furniture, paper products and printing (4.2%; 4Q23: 3.8%). Notably, the E&E sector, particularly electronic components & boards (-0.2%; 4Q23: -10.0%) subsector remained weak albeit the contraction eased during the quarter. Overall, manufacturing contribution to GDP growth rebounded by 0.5 ppts (4Q23: -0.1 ppts).

- Construction (11.9%; 4Q23: 3.6%): growth surged to the highest level since 3Q22 (15.3%), significantly exceeding our forecast of 3.1% due to a broad-based expansion. Leading this growth were civil engineering (23.5%; 4Q23: 16.9%), specialised construction activities (11.4%; 4Q23: 0.8%) and residential buildings (8.0%; 4Q23: 1.3%). Construction contributed 0.4 ppts of overall 1Q24 GDP (4Q23: 0.1 ppts).

Graph 3: Growth Outlook by Sector (KIBB forecast)



Source: DoSM, Kenanga Research

- Agriculture (1.6%; 4Q23: 1.9%): growth slowed but slightly higher than our forecast of 1.5%, mainly supported by higher output in oil palm (2.5%; 4Q23: 1.6%) in line with increased production of fresh fruit bunches. Agriculture's contribution to overall GDP remained at 0.1 ppt (4Q23: 0.1 ppt) for the second straight quarter.
- Mining (5.7%; 4Q23: 3.5%): expanded to a five-quarter high, beating our forecast of 1.9%, thanks to higher output in natural gas (8.9%; 4Q23: 5.3%), though crude oil & condensate growth came in lower (1.3%; 4Q23: 1.5%). Nevertheless, mining contribution to overall GDP fell to 0.0 ppts (4Q23: 0.1 ppts).

- **2024 GDP growth forecast remains at 4.5% - 5.0%, driven by solid domestic demand and sustained expansion in manufacturing and services sectors**
  - We maintain a positive outlook on this year's GDP growth, within the Ministry of Finance (MoF) and Bank Negara Malaysia (BNM) projections of 4.0% - 5.0%. This outlook is supported by strong growth in the services sector, driven by resilient domestic demand. Key contributors to this expansion include the introduction of EPF's Account 3, which permits flexible withdrawals, and the planned wage increase for government servants in December. Additionally, the ongoing cash transfer initiative known as Sumbangan Tunai Rahmah (STR) will bolster domestic demand.
  - Furthermore, an increase in tourist arrivals and a healthy labour market, with the unemployment rate projected to improve to 3.2% (2023: 3.4%) would significantly support the growth trajectory. Notably, a significant recovery in the export-oriented industries is expected later this year, particularly with a potential upturn in the technology cycle especially in the 2H24. The latest data from the Semiconductor Industry Association (SIA) shows a significant improvement in semiconductor sales, totalling USD137.7b in 1Q24, up by 15.2% YoY. Additionally, the recovery in the global demand is evident, spurred by improvements in the Chinese manufacturing sector. Higher investment realisation following higher approved investment last year, progress of new and ongoing projects like the construction of the JB-SG Rapid Transit System (RTS), the Pan-Borneo highway, the East Coast Rail Link (ECRL) network, and policies under the Madani Economy framework, will further drive a more robust economic growth.
  - Nevertheless, geopolitical risk would dominate the macro narrative and potentially disrupt the growth momentum. Weaker-than-expected global trade and the elevated trade tensions between the US and China, especially following the recent tariff hike announcement, could impede global economic growth. This situation is exacerbated by the ongoing conflict in Ukraine and the continued Israel-Gaza war, which could negatively affect global trade activities due to the diversion of sea shipments. Meanwhile, the prevailing tight monetary policy adopted by most of the advanced economies poses downside risks to Malaysia, given the potential risk of a global economic downturn.

- **BNM is highly likely to maintain its current monetary policy, backed by the need to support growth while keeping inflation in check**
  - We believe the current monetary policy will remain unchanged for the rest of the year, as it is deemed appropriate to control inflation and support domestic growth. The headline inflation outlook shows a modest expansion (KIBB: 2.7%; 2023: 2.5%) due to expected gradual subsidy rationalisation in the 2H24. This may increase price pressures, but the impact should be manageable, with potential supply shocks offset by reduced demand amid higher prices.

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

YoY %	2020	2021	2022	2Q23	3Q23	4Q23	1H23	2H23	2023	1Q24	2024F
By Sector											
Agriculture	-2.4	-0.3	1.3	-0.7	0.3	1.9	0.3	1.1	0.7	1.6	1.6
Mining	-9.7	0.9	3.5	-2.1	-1.1	3.5	-0.2	1.3	0.5	5.7	2.9
Manufacturing	-2.7	9.5	8.1	0.1	-0.1	-0.3	1.7	-0.2	0.7	1.9	4.7
Construction	-19.3	-5.2	5.1	6.2	7.2	3.6	6.8	5.3	6.1	11.9	6.1
Services	-5.2	2.2	11.0	4.5	4.9	4.1	5.8	4.5	5.1	4.7	5.5
Real GDP	**-5.5**	**3.3**	**8.9**	**2.8**	**3.1**	**2.9**	**4.1**	**3.0**	**3.6**	**4.2**	**4.5 – 5.0**
Ppt. Contribution											
Agriculture	-0.2	0.0	0.1	0.0	0.0	0.1	0.0	0.1	0.0	0.1	0.1
Mining	-0.7	0.1	0.2	0.6	0.2	0.1	-0.1	-0.1	0.2	0.0	0.1
Manufacturing	-0.6	2.2	2.0	0.0	0.0	-0.1	0.4	0.0	0.2	0.5	1.1
Construction	-0.9	-0.2	0.2	0.2	0.3	0.1	0.2	0.2	0.2	0.4	0.2
Services	-3.0	1.3	6.3	2.6	2.8	2.4	3.4	2.6	3.0	2.8	3.3
Real GDP	**-5.5**	**3.3**	**8.9**	**2.8**	**3.1**	**2.9**	**4.1**	**3.0**	**3.6**	**4.2**	**4.5 – 5.0**
By Expenditure											
Consumption	-2.6	2.5	10.1	4.1	4.3	4.5	4.4	4.4	4.4	5.1	5.4
Public	4.1	5.8	5.1	3.3	5.3	5.8	0.6	5.6	3.3	7.3	3.4
Private	-3.9	1.8	11.3	4.2	4.1	4.2	5.2	4.1	4.7	4.7	5.9
Investment	-14.4	-0.7	6.8	5.5	5.1	6.4	5.2	5.7	5.5	9.6	7.0
Public	-21.2	-11.0	5.3	7.9	7.5	11.3	6.7	9.9	8.6	11.5	7.3
Private	-11.9	2.8	7.2	5.1	4.5	4.0	4.9	4.2	4.6	9.2	7.0
Public Spending	-4.5	1.1	5.2	4.3	5.9	7.4	2.0	6.7	4.6	8.4	4.4
Private Spending	-5.7	2.0	10.5	4.4	4.2	4.1	5.1	4.2	4.6	5.7	6.1
Domestic Demand	-5.5	1.8	9.4	4.4	4.5	4.9	4.6	4.7	4.6	6.1	5.8
Exports	-8.6	18.5	14.5	-9.0	-12.0	-7.9	-6.0	-10.0	-8.1	5.2	4.8
Imports	-7.9	21.2	16.0	-8.8	-11.3	-2.6	-7.8	-7.1	-7.4	8.0	5.6
Net exports	-13.7	-4.0	-1.5	-11.9	-19.9	-52.9	26.5	-38.2	-16.2	-24.5	-6.8
Real GDP	**-5.5**	**3.3**	**8.9**	**2.8**	**3.1**	**2.9**	**4.1**	**3.0**	**3.6**	**4.2**	**4.5 – 5.0**
Ppt. Contribution											
Consumption	-1.8	1.8	7.3	2.9	3.2	3.3	3.2	3.2	3.2	3.8	4.0
Public	0.5	0.8	0.7	0.4	0.7	0.9	0.1	0.8	0.4	0.9	0.4
Private	-2.3	1.1	6.6	2.5	2.5	2.4	3.1	2.5	2.8	2.9	3.6
Investment	-3.3	-0.1	1.4	1.1	1.0	1.2	1.1	1.1	1.1	2.0	1.4
Public	-1.3	-0.6	0.2	0.3	0.3	0.7	0.2	0.5	0.4	0.5	0.3
Private	-2.0	0.4	1.1	0.9	0.7	0.5	0.8	0.6	0.7	1.5	1.1
Public Spending	-0.8	0.2	0.9	0.7	0.9	1.6	0.3	1.3	0.8	1.3	0.8
Private Spending	-4.3	1.5	7.8	3.4	3.2	2.9	4.0	3.1	3.5	4.4	4.6
Domestic Demand	-5.1	1.7	8.7	4.1	4.2	4.5	4.3	4.3	4.3	5.7	5.4
Exports	-5.5	11.4	10.3	-6.8	-9.2	-5.7	-4.4	-7.5	-6.0	3.5	3.2
Imports	-4.5	11.7	10.4	-6.3	-8.0	-1.7	-5.5	-4.8	-5.1	4.9	3.5
Net exports	-1.0	-0.3	-0.1	-0.5	-1.2	-4.0	1.0	-2.6	-0.9	-1.4	-0.3
Real GDP	**-5.5**	**3.3**	**8.9**	**2.8**	**3.1**	**2.9**	**4.1**	**3.0**	**3.6**	**4.2**	**4.5 – 5.0**

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

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Published by:

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