

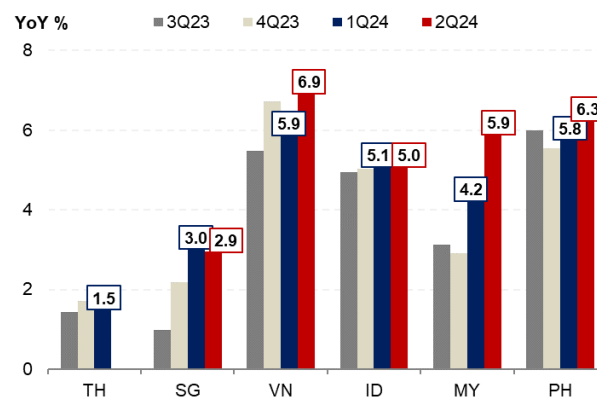
# Malaysia 2Q24 GDP

Domestic demand pushes growth beyond expectations to 5.9%

- **GDP growth accelerated in 2Q24 to 5.9% YoY (1Q24: 4.2%), surpassing house forecasts and market expectations (KIBB: 5.1%; Bloomberg consensus: 5.8%) and slightly exceeding DOSM’s advance GDP estimates of 5.8%**

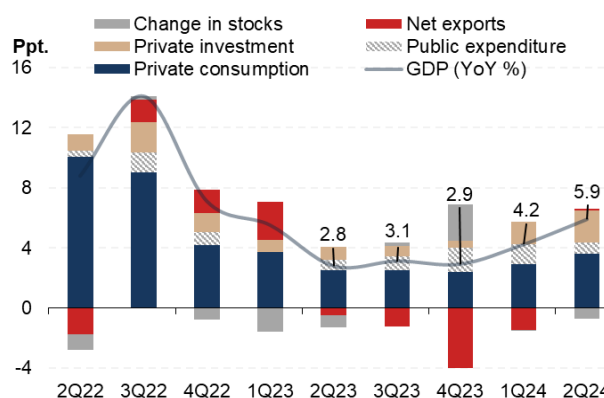
- Growth was driven by strong household spending, a rebound in exports, and rising tourist arrivals. These factors also boosted the services and manufacturing sectors. Additionally, significant expansions in the construction and agriculture sectors supported the overall momentum.
- Meanwhile, seasonally adjusted QoQ growth expanded (2.9%; 1Q24: 1.5%) for the second straight quarter, mainly due to strong expansion in private final consumption expenditure (4.5%; 1Q24: 1.8%) and gross fixed capital formation (5.1%; 1Q24: 2.8%). This was also attributable to a broad-based expansion, led by the construction (8.7%; 1Q24: 7.9%), services (3.3%; 1Q24: 1.3%), manufacturing (3.1%; 1Q24: 2.4%) and agriculture (1.6%; 1Q24: -0.7%) sectors. Bucking the trend, the mining sector contracted (-4.0%; 1Q24: -1.4%) for the second straight quarter.
- Comparatively, Malaysia is currently ranked third in the ASEAN-5 (excluding TH, but +VN) group for 2Q24 GDP performance, behind Vietnam (6.9) and the Philippines (6.3) but ahead of Indonesia (5.0%), and Singapore (2.9%).

**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

- **Resilient domestic demand fuelled by sustained private spending during the festive season and sustained large public spending, was further boosted by a rebound in net exports**
  - Domestic demand (6.9%; 1Q24: 6.1%): increased to a six-quarter high, driven by strong private sector growth which outpaced expansion in public sector spending. Overall, domestic demand contributed 6.5 percentage points (ppts) to the overall 2Q24 GDP (1Q24: 5.7 ppts).
    - Public spending (4.9%; 1Q24: 8.4%): slowed, adding just 0.8 ppts (1Q24: 1.3 ppts) to the overall 2Q24 GDP growth. The slower expansion was largely due to lower public consumption (3.6%; 1Q24: 7.3%) and public investment (9.1%; 1Q24: 11.5%).
    - Private spending (7.3%; 1Q24: 5.7%): expanded strongly, driven by solid private consumption (6.0%; 1Q24: 4.7%) and private investment (12.0%; 1Q24: 9.2%). Its contribution to overall 2Q24 GDP growth surged to 5.7 ppts (1Q24: 4.4 ppts), the highest since 3Q22 (11.2 ppts).
  - Net exports (3.4%; 1Q24: -24.5%): rebounded following four straight quarters of contraction, aided by positive expansion in value-added exports, although still outstripped by imports, contributing 0.1 ppts to overall 2Q24 GDP growth (1Q24: -1.4 ppts).
    - Exports (8.4%; 1Q24: 5.2%): expanded due to higher value-added exports of goods (5.5%; 1Q24: 1.0%), which represent 82.6% of total exports. Growth was also supported by value-added services exports (24.6%; 1Q24: 33.8%) which maintained double digits expansion.
    - Imports (8.7%; 1Q24: 8.0%): increased due to higher value-added imports of goods (9.0%; 1Q24: 7.1%), and further expansion in imports of services (7.2%; 1Q24: 12.0%) albeit at a slower pace.
- **Solid expansion in the services and agriculture sectors, manufacturing growth recovery, and a surge in the construction sector boosted 2Q24 GDP growth**
  - Services (5.9%; 1Q24: 4.8%): expanded to a five-quarter high, surpassing our projection of 5.7% and DOSM’s advance estimate of 5.6%. The sector’s growth was led by retail trade (5.6%; 1Q24: 3.6%) and wholesale trade (3.0%; 1Q24: 3.8%), which together accounted for 26.4% (1Q24: 26.0%) of the overall services sector. Notably, the finance sector also expanded strongly (6.2%; 1Q24: 3.0%). Overall, the services sector continued to be a major contributor, adding 3.5 ppts to overall GDP growth (1Q24: 2.8 ppts).

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- Manufacturing (4.7%; 1Q24: 1.9%): expanded for the second straight quarter. Growth exceeded our projection of 4.4% but matched DOSM's advance estimates. The sector's performance was broad-based, led by key subsectors such as petroleum, chemical, rubber & plastic products (4.1%; 1Q24: 1.1%), followed by non-metallic mineral products, basic metal & fabricated metal products (9.4%; 1Q24: 7.2%), as well as further recovery in the electrical, electronic & optical products (3.0%; 1Q24: 0.7%). Overall, the manufacturing sector's contribution to GDP growth expanded to 1.1 ppts (1Q24: 0.5 ppts), a seven-quarter high.
  - Construction (17.3%; 1Q24: 11.9%): surged to a three-year high, significantly exceeding our forecast of 8.6% and slightly surpassing DOSM advance estimates of 17.2%. Growth was driven by strong improvements across all segments, led by specialised construction activities (27.0%; 1Q24: 11.4%), followed by civil engineering (23.6%; 1Q24: 23.5%) and residential buildings (14.1%; 1Q24: 8.0%). Construction contributed 0.6 ppts to the overall 2Q24 GDP (1Q24: 0.4 ppts). Meanwhile, its share to overall GDP hit 4.0%, the highest since 3Q20 (4.2%)
  - Agriculture (7.2%; 1Q24: 1.7%): growth accelerated, exceeding our forecast of 1.3% mainly due to higher performance in the palm oil sub-sector (19.0%; 1Q24: 2.5%) amid higher production of fruit bunches. The sector was also supported by growth in the livestock (5.4%; 1Q24: 5.0%) and fishing (5.3%; 1Q24: 3.3%) sub-sectors. Agriculture's contribution to overall GDP increased to 0.4 ppts (1Q24: 0.1 ppts).
  - Mining (2.7%; 1Q24: 5.7%): growth slowed, lower than our forecast of 3.9% while DOSM previously estimated 3.3%. The moderation was mainly due to slower growth in natural gas (2.9%; 1Q24: 9.0%), but the slowdown was partially mitigated by expansion in crude oil and condensate (1.6%; 1Q24: 1.3%) as well as other mining & quarrying and supporting services (7.2%; 1Q24: 4.9%). Nevertheless, the mining sector's contribution to overall GDP inched up to 0.1 ppts (1Q24: 0.0 ppt).
- **2024 GDP growth forecast revised to 5.0% from the previous forecast range of 4.5% - 5.0% and is anticipated to moderate slightly to 4.8% in 2025**

– We reiterate our optimistic outlook for this year's GDP growth, which is within the Ministry of Finance (MoF) and Bank Negara Malaysia (BNM) projections of 4.0% - 5.0%. While we believe growth may have peaked in the 2Q24, we anticipate 2H24 growth to moderate around 4.9% as the lower base effect dissipates and the domestic economy normalises.

– Growth in the remaining quarters is expected to be supported by a resilient services sector, driven by robust domestic demand and higher tourist arrivals. Key contributors to this expansion include the impact of EPF's Account 3 withdrawals, the salary increase for government servants in December, and the ongoing cash transfer initiative via Sumbangan Tunai Rahmah (STR). A healthy labour market, with the unemployment rate projected to improve to an average of 3.2% (2023: 3.4%) would continue to support our growth trajectory. Growth will also be

driven by the construction sector, as we anticipate the government will accelerate key infrastructure projects in the 2H24, supported by further investment realisation amid higher approved investments.

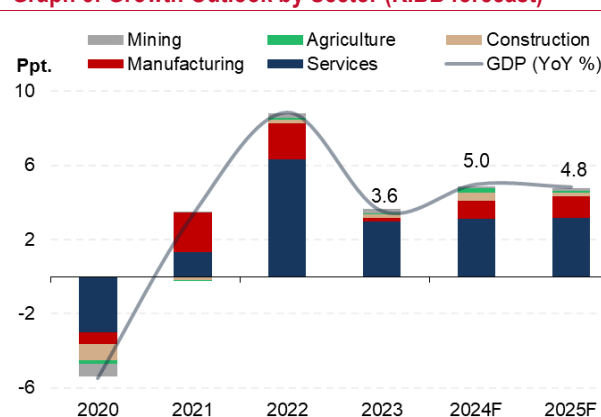
– On the external front, we anticipate a slow but steady recovery in the export-oriented industries, though downside risk remains associated with the performance of China's economic recovery and the health of the US economy. Major catalysts are linked to the upturn in the technology cycle. The latest data from the Semiconductor Industry Association (SIA) shows significant improvement in global semiconductor sales, which grew by 18.3% (1Q24: 15.2%) to USD149.9b in the 2Q24. With global sales in the tech sector expected to continue expanding, we expect Malaysia's exports to perform reasonably well in the coming months.

- **BNM is expected to maintain its current OPR at 3.00% to support domestic growth while controlling inflation**

– We believe BNM appears to be prioritizing domestic economic support while staying alert to inflation risk. This approach is due to ongoing vulnerabilities in the growth outlook, particularly from external factors like the pace of China's economic recovery, the impact of the higher interest rate environment in the US, and uncertainties surrounding global elections and policies. Geopolitical tensions may further threaten Malaysia's growth, given its reliance on external trade. Moreover, we believe the current monetary policy stance is vital for supporting the Madani government's reforms, especially as future subsidy rationalisation may negatively affect consumer and business sentiment.

– Despite stable inflation in 2Q24 (1.9%; 1Q24: 1.7%), price pressures are expected to pick up in 2H24 due to several factors. These include the potential impact of EPF's Account 3 withdrawal, higher household income from public sector salary increases, and a lower unemployment rate. Additionally, disruptions in the transportation sector due to the prolonged Red Sea crisis and rising geopolitical tensions could further elevate price pressures. While these risks and uncertainties may influence future BNM decisions, inflation is expected to remain manageable, allowing the central bank to maintain its current policy stance for an extended period.

**Graph 3: Growth Outlook by Sector (KIBB forecast)**



Source: DoSM, Kenanga Research

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

YoY %	2021	2022	3Q23	4Q23	2023	1Q24	2Q24	1H24	2H24F	2024F
<b>By Sector</b>										
Agriculture	-0.3	1.3	0.3	1.9	0.7	1.7	7.2	4.5	2.8	3.6
Mining	0.9	3.5	-1.1	3.5	0.5	5.7	2.7	4.3	1.5	2.9
Manufacturing	9.5	8.1	-0.1	-0.3	0.7	1.9	4.7	3.3	5.0	4.2
Construction	-5.2	5.1	7.2	3.6	6.1	11.9	17.3	14.6	10.9	12.7
Services	2.2	11.0	4.9	4.1	5.1	4.8	5.9	5.4	5.2	5.3
<b>Real GDP</b>	<b>3.3</b>	<b>8.9</b>	<b>3.1</b>	<b>2.9</b>	<b>3.6</b>	<b>4.2</b>	<b>5.9</b>	<b>5.1</b>	<b>4.9</b>	<b>5.0</b>
<b>Ppt. Contribution</b>										
Agriculture	0.0	0.1	0.0	0.1	0.0	0.1	0.4	0.3	0.2	0.2
Mining	0.1	0.2	0.2	0.1	0.2	0.0	0.1	0.2	0.1	0.1
Manufacturing	2.2	2.0	0.0	-0.1	0.2	0.5	1.1	0.8	1.2	1.0
Construction	-0.2	0.2	0.3	0.1	0.2	0.4	0.6	0.5	0.4	0.5
Services	1.3	6.3	2.8	2.4	3.0	2.8	3.5	3.2	3.1	3.1
<b>Real GDP</b>	<b>3.3</b>	<b>8.9</b>	<b>3.1</b>	<b>2.9</b>	<b>3.6</b>	<b>4.2</b>	<b>5.9</b>	<b>5.1</b>	<b>4.9</b>	<b>5.0</b>
<b>By Expenditure</b>										
Consumption	2.5	10.1	4.3	4.5	4.4	5.1	5.6	5.4	5.2	5.3
Public	5.8	5.1	5.3	5.8	3.3	7.3	3.6	5.5	4.6	5.0
Private	1.8	11.3	4.1	4.2	4.7	4.7	6.0	5.3	5.3	5.3
Investment	-0.7	6.8	5.1	6.4	5.5	9.6	11.5	10.6	6.9	8.7
Public	-11.0	5.3	7.5	11.3	8.6	11.5	9.1	10.3	6.6	8.1
Private	2.8	7.2	4.5	4.0	4.6	9.2	12.0	10.6	7.0	8.9
Public Spending	1.1	5.2	5.9	7.4	4.6	8.4	4.9	6.6	5.2	5.8
Private Spending	2.0	10.5	4.2	4.1	4.6	5.7	7.3	6.5	5.6	6.0
Domestic Demand	1.8	9.4	4.5	4.9	4.6	6.1	6.9	6.5	5.5	6.0
Exports	18.5	14.5	-12.0	-7.9	-8.1	5.2	8.4	6.8	9.4	8.1
Imports	21.2	16.0	-11.3	-2.6	-7.4	8.0	8.7	8.4	9.1	8.7
Net exports	-4.0	-1.5	-19.9	-52.9	-16.2	-24.5	3.4	-14.1	14.0	-0.4
<b>Real GDP</b>	<b>3.3</b>	<b>8.9</b>	<b>3.1</b>	<b>2.9</b>	<b>3.6</b>	<b>4.2</b>	<b>5.9</b>	<b>5.1</b>	<b>4.9</b>	<b>5.0</b>
<b>Ppt. Contribution</b>										
Consumption	1.8	7.3	3.2	3.3	3.2	3.8	4.1	3.9	3.9	3.9
Public	0.8	0.7	0.7	0.9	0.4	0.9	0.4	0.7	0.7	0.7
Private	1.1	6.6	2.5	2.4	2.8	2.9	3.6	3.3	3.2	3.2
Investment	-0.1	1.4	1.0	1.2	1.1	2.0	2.4	2.2	1.3	1.8
Public	-0.6	0.2	0.3	0.7	0.4	0.5	0.3	0.4	0.4	0.4
Private	0.4	1.1	0.7	0.5	0.7	1.5	2.1	1.8	1.0	1.4
Public Spending	0.2	0.9	0.9	1.6	0.8	1.3	0.8	1.1	1.0	1.0
Private Spending	1.5	7.8	3.2	2.9	3.5	4.4	5.7	5.1	4.2	4.6
Domestic Demand	1.7	8.7	4.2	4.5	4.3	5.7	6.5	6.1	5.2	5.6
Exports	11.4	10.3	-9.2	-5.7	-6.0	3.5	5.6	4.5	6.1	5.4
Imports	11.7	10.4	-8.0	-1.7	-5.1	4.9	5.5	5.2	5.6	5.4
Net exports	-0.3	-0.1	-1.2	-4.0	-0.9	-1.4	0.1	-0.7	0.6	0.0
<b>Real GDP</b>	<b>3.3</b>	<b>8.9</b>	<b>3.1</b>	<b>2.9</b>	<b>3.6</b>	<b>4.2</b>	<b>5.9</b>	<b>5.1</b>	<b>4.9</b>	<b>5.0</b>

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

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Published by:

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