

Global Markets Research
Malaysia - Economics

Slower than expected 4Q GDP growth

4Q GDP growth ticked lower to 3.0% y/y; bringing full year 2023 growth to 3.7%

Quicker gain in domestic demand was negated by bigger drag from net exports

Expect better growth of 4.7% in 2024; underpinned by export recovery and sustained domestic demand

Summary

The Malaysian economy grew at a slower pace of 3.0% y/y in the final quarter of 2023 (3Q: +3.3% y/y), below the preliminary and consensus estimates of +3.4% y/y. This was due to deceleration in growth momentum towards year end, as evident in the sharply slower expansion of a mere 1.4% y/y in December, its slowest in eight months, as a result of softness in services, manufacturing, and construction activities. On the demand side of the equation, the private sector lost steam, and was compounded by a bigger contraction in net exports, more than offset the quicker increases in government spending and investment. As a result, real GDP contracted 2.1% q/q in 4Q (3Q: +2.6% q/q), its first decline in a year.

For 2023 as a whole, the Malaysian economy expanded by 3.7% y/y, right between our base (3.6%) and upper case (3.8%). This marked a normalization from the 8.7% y/y growth in 2022, but is poised to pick up to 4.7% in 2024, supported by export recovery and sustained domestic demand.

Further improvement in domestic demand; bigger decline in net exports

Riding on the better momentum in 3Q, domestic demand continued to gain traction, expanding at a faster pace of 5.2% y/y in 4Q (3Q: +4.8%), boosted by the government sector (+8.4% vs +6.2% y/y), thanks to faster growth in both consumption (+7.3% vs +5.8% y/y) and investment (+11.3% vs +7.5% y/y), the former due to higher spending on supplies and services and the latter due to higher capex. However, private sector activities lost some steam, increasing at a slightly slower pace of 4.2% y/y in 4Q (3Q: +4.5%), as a result of slower gains in consumer spending (slowest growth in two years at +4.2% vs 3Q's +4.6% y/y) and investment (+4.0% vs +4.5% y/y), but nonetheless remained supported by continued household expenditure on both necessities and discretionary items, as well as capacity expansion and ongoing projects.

On the contrary, the decline in net exports deepened for the second straight quarter, to -35.6% y/y in 4Q (3Q: -22.7% y/y), following a bigger decline in exports of goods and services (-6.3% y/y) vis-à-vis imports (-2.9% y/y) (Figure 5).

Commodity sectors flourished; non-commodity sectors languished

On the supply side (Figure 6), commodity related sectors like agriculture and mining performed better, registering higher growth of 1.9% and 3.8% y/y respectively in 4Q (3Q: +0.9% and -0.1% y/y), driven by higher production of natural gas, oil, and oil palm. However, on a less positive note, the heavy weights services and manufacturing sectors that contributed more than 80% of overall GDP, witnessed slower growth during the quarter. Growth in the services sector grew at a slower pace of 4.2% y/y (3Q: +5.0%), its slowest in two years, as contraction in finance and insurance subsectors more than

Figure 1: Softer growth of 3.0% y/y in 4Q; first quarterly contraction in a year



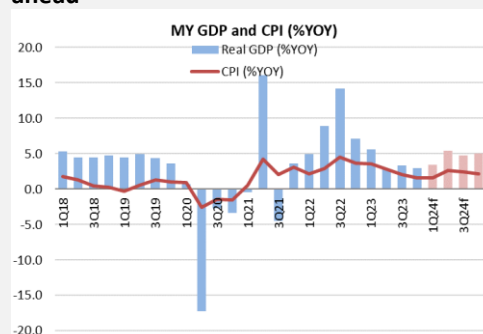
Source: DOSM, BNM

Figure 2: Sharp easing in growth momentum towards December



Source: DOSM, BNM

Figure 3: Continued moderate growth ahead



Source: DOSM, HLBB Global Markets Research

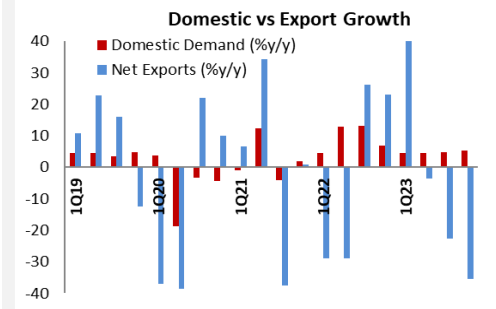
offset ongoing recovery in tourism activities. Meanwhile, the manufacturing sector registered a slightly bigger decline of 0.3% y/y in 4Q (3Q: -0.1%), marking its first back-to-back contraction as far as revised data series showed, hit by continued weakness in the tech downcycle despite resiliency seen in domestic-oriented manufacturing subsectors.

Outlook

We expect the Malaysian economy to continue expanding at a moderate pace of 4.7% in 2024, riding on sustained domestic demand and recovery in exports. Anticipated upswing in the global tech cycle, should help underpin external demand at least in 1H of the year. Indeed, the global macro landscape started the new year on a relatively positive note with some bright spots in the major economies. This was evident in the upgrade in IMF growth forecast to 3.1% for 2024, sustaining the same growth pace as 2023. The US economy in particular, has shown surprisingly good resiliency from most fronts, although the robust job data could be skewed by seasonal factors and is expected to normalize somewhat near term, but remaining at healthy levels. The Eurozone averted a technical recession although downside risks remained while the UK and Japanese economy unfortunately slipped into technical recessions, not surprising given the weaknesses seen in recent data flow.

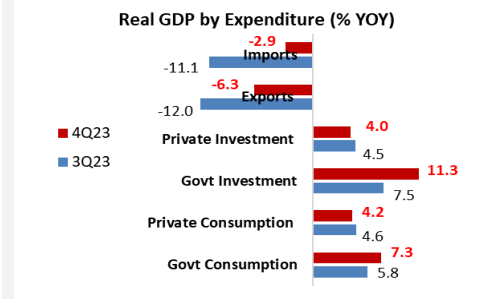
While we are cautiously optimistic on growth prospects ahead, we noted softening momentum on a sequential basis in terms of both monthly and quarterly, which could spell some challenges to growth sustainability going forward, especially on consumption and the services sector. We are hopeful that continued improvement in labour market conditions, policy support, faster implementation of investment projects, as well as further recovery in tourism activities, could help support domestic growth. Expectations for continued moderate economic expansion, coupled with manageable inflationary outlook despite ongoing subsidy rationalisation programmes, reinforced our view for OPR to stay unchanged at 3.00% for the year.

Figure 4: Pick-up in domestic demand wiped out by bigger drag from net exports



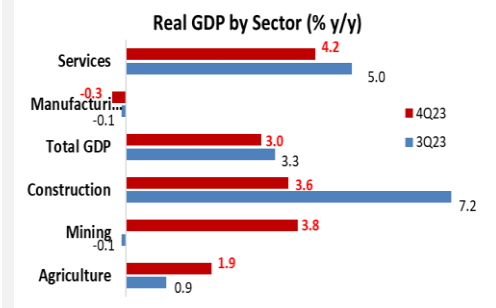
Source: DOSM, BNM

Figure 5: Faster growth in government spending and investment not sufficient to offset slowdown in the private sector



Source: DOSM, BNM

Figure 6: Softer growth across most sectors except commodity sectors



Source: DOSM, BNM

Malaysia Key Economic Metrics

2022												2023												
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	
		4.8			8.8			14.1			7.1			5.6			2.9			3.3			3.4	Real GDP
5.2	4.7	4.5	5.6	5.0	16.5	15.8	15.3	11.6	7.3	4.5	9.6	4.6	6.6	5.7	0.7	5.6	2.4	4.2	3.2	2.5				Monthly Real GDP
0.1	-0.4	-1.4	-0.5	2.3	5.3	4.0	4.1	0.3	0.1	-0.9	-1.5	-1.8	0.4	-1.2	-2.7	-1.1	-2.1	-1.0	-0.5	-0.2	-0.1	-0.2		Leading indicator
23.5	16.8	25.4	20.7	30.5	38.8	38.0	48.2	30.1	15.0	15.6	5.9	1.6	9.8	-1.4	-17.4	-0.9	-14.1	-13.1	-18.7	-13.8	-4.5	-6.1	-10.0	Exports
26.4	18.4	29.9	22.0	37.3	49.3	41.9	67.6	32.8	29.1	15.6	11.5	2.2	12.4	-1.8	-11.1	-3.7	-18.7	-15.9	-21.2	-11.1	-0.3	1.5	2.9	Imports
18.4	19.8	26.7	23.5	12.6	21.9	15.5	16.92	31.8	18.1	22.3	27.8	18.1	19.6	26.7	12.8	15.7	25.6	17.1	17.2	24.4	12.9	12.2	11.8	Trade balance (RMbn)
4.3	4.0	5.1	4.6	4.1	12.1	12.5	13.5	10.8	4.6	4.8	3.0	1.8	3.5	3.2	-3.3	4.8	-2.2	0.7	-0.3	-0.5	2.4	0.6	-0.1	Industrial production
6.8	5.2	6.9	6.2	6.9	14.5	14.9	15.2	10.4	4.2	4.8	3.0	1.3	4.8	4.1	-3.0	5.1	-1.6	-0.2	-0.6	0.4	0.9	-0.1	-1.4	Manufacturing production
4.1	3.9	4.4	4.5	5.0	6.2	7.1	7.5	5.4	4.8	4.7	5.4	4.0	4.6	4.2	4.0	4.0	3.0	2.9	3.0	3.2	3.4	3.3	2.1	Wages (manufacturing)
4.2	4.1	4.1	3.9	3.9	3.8	3.7	3.7	3.6	3.6	3.6	3.6	3.6	3.5	3.5	3.5	3.5	3.4	3.4	3.4	3.4	3.4	3.3	3.3	Unemployment rate (%)
5.7	6.2	8.6	11.5	11.7	19.3	20.6	16	13.3	7.3	5.6	4.7	3.1	5.9	7.6	3.2	4.4	3.1	5.7	6.2	6.9	5.7	6.2	5.5	Wholesale trade
7.3	10.2	10.8	20.9	29.9	38.4	37.5	34.5	30.0	26.0	22.8	22.7	21.7	19.2	17.7	12.9	5.0	5.8	5.5	6.3	5.9	3.9	4.4	5.0	Retail trade
16.6	2.4	14.6	-5.3	4.1	2999.6	780.9	296.8	56.8	-4.2	9.4	19.6	30.8	43.1	7.7	-16.9	26.1	-2.4	32.9	8.1	2.5	23.8	13.4	2.9	Passenger car sales
1.7	2.0	2.3	2.3	2.8	4.8	6.5	6	7.5	7.1	6.7	6.7	6.6	7.0	7.1	7.5	7.8	7.6	7.6	7.9	8.1	8.2	8.5	8.6	Consumption credit
2.3	2.2	2.2	2.3	2.8	3.4	4.4	4.7	4.5	4.0	4.0	3.8	3.7	3.6	3.4	3.3	2.8	2.4	2.0	2.0	1.9	1.8	1.5	1.5	CPI
9.2	9.7	11.6	11.0	11.2	10.9	7.6	6.8	4.9	4.0	3.2	3.5	1.3	-0.8	-2.9	-3.0	-4.6	-4.8	-2.3	-2.2	0.2	0.3	-1.5	-1.3	PPI

Note: Figures are %YOY unless otherwise stated

Source: BNM; DOSM; HLBB Global Markets Research

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