17 May 2024

Global Economics & Market Strategy

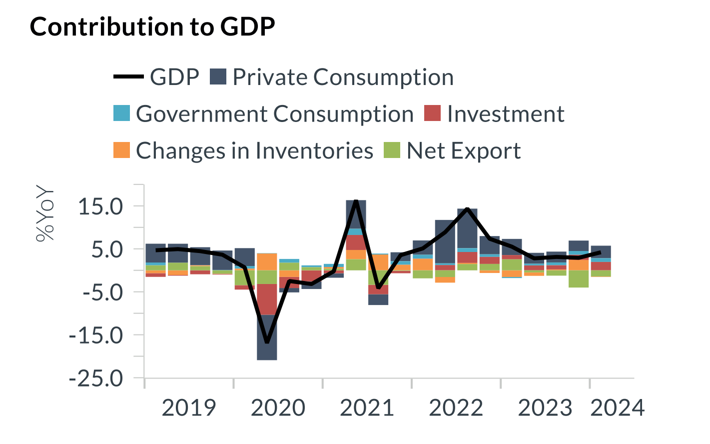
Malaysia: GDP Growth to Gain Pace to Above 5% YoY in 2Q24

- **Our composite leading indicators–RHB-LEI (MY) and AR model suggest that Malaysia's economic growth will accelerate to above 5% YoY in 2Q24 and likely persist into 3Q24.**
- **Beyond the positive spill-over effects from the global economy, we think (1) higher commodity prices, (2) improving domestic confidence, and (3) healthy labour conditions may support Malaysia's growth dynamics.**
- **1Q24 final GDP printed 4.2% YoY (4Q23: 3.0% YoY), matching our in-house view of the 1Q24 final print to expand beyond 4.0%, and beating the Bloomberg consensus and advanced estimate of 3.9% YoY.**

Economist:

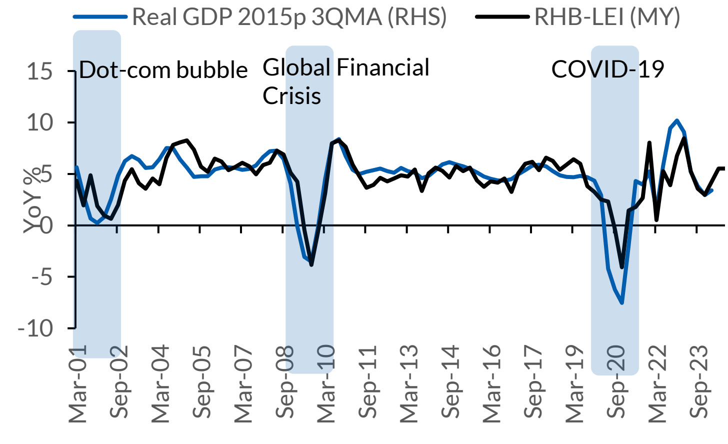
Chin Yee Sian
+603 9280 8862
chin.yee.sian@rhbgroup.com

Figure 1: GDP momentum to accelerate in 2024 amid stronger external demand



Source: Macrobond, RHB Economics & Market Strategy.

Figure 2: RHB-LEI (MY) suggesting an acceleration in economic momentum for upcoming quarters



Source: Macrobond, RHB Economics & Market Strategy.

We maintain our 2024 GDP Projection at 4.6% YoY

Our composite leading indicators–RHB-LEI (MY) and AR model suggest that Malaysia's economic growth will accelerate to above 5% YoY in 2Q24 and likely persist into 3Q24. We keep our Malaysia's GDP forecast at 4.6% for 2024. Both external and internal drivers will drive the growth - we expect further acceleration in trade and manufacturing activities, coupled with continued resilience in domestic demand from increased consumer and investment spending. Given stable inflation YTD and improvement in the economic prospects for 2024, we viewed that as a good timing for fiscal structural reforms.

We expect a rosier global trade backdrop to lift Malaysia's externally facing industries, specifically manufacturing and trade. The momentum of outbound shipments to major destinations such as China and the U.S. has picked up in 1Q24. We have seen continued economic recovery momentum for key economies such as the U.S., China and selected ASEAN economies. We maintain our above consensus U.S. GDP growth projection at 2.5% YoY for 2024 (versus Bloomberg consensus estimate of 2.2% YoY). The stronger-than-expected GDP growth for China in 1Q24 (5.3% YoY in actual versus market consensus of 4.8% YoY) reinforces China's recovery narration for the year. In tandem with the resurgence of the global technology cycle, the E&E export momentum has been showing signs of sustained improvement in 1Q24 as well. The export earnings are closely linked to the E&E exports as the E&E exports constitute nearly 40% of total exports.

Beyond the positive spill-over effects from the global economy, we think (1) higher commodity prices, (2) improving domestic confidence, and (3) healthy labour conditions may support Malaysia's growth dynamics. First, commodity-based sectors such as petroleum and petroleum-based products and non-metal mineral and metal products are expected to gain from higher commodity prices and likely spur manufacturing activities. Second, robust domestic consumption and investment activities in 2024 are also anticipated to support the manufacturing sector **-** increased imports of capital goods and rising business confidence suggest that manufacturers' and businesses' optimism are up. We have noticed stronger structures investment and continued expansion in machinery & equipment spending.

Further upsides on investment activities would emanate from business-friendly policies and the implementation of catalytic initiatives under the national master plans. The public investment and construction sector activities have picked up in recent quarters amid accelerated progress of selected civil engineering projects coupled with support from special trade and residential activities. Third, consumer spending is expected to remain robust amid healthy labour market conditions.

On the downside risks, we recognise that there would be some dampening effect on consumer spending amid lower disposable income, in line with the anticipated retargeting of subsidies and social assistance allocation and the upward revision in services tax. Nevertheless, the impact would be contained by (1) the continued provision of social assistance towards the lower income group and (2) differing impacts across income groups where the higher income group has relatively inelastic demand. At an aggregate level, the T40 contributes most to the aggregate consumer expenditure with a share of 42.3%, followed by M40 at 39.9% and the B20 group at 17.8%.

We maintain that the Overnight Policy Rate (OPR) will remain at 3.00% for 2024. We see the lack of impetus for the central bank to tweak its policy rate level in 2024, considering the rosier domestic economy prospect amid uncertainties in the inflationary trajectory. In our view, three key factors will drive the OPR behaviour: (1) Malaysia's economic momentum, whereby we are expecting growth to expand by 4.6% in 2024 (against 2023's 3.7%), (2) the inflation momentum, which we think headline CPI will expand by 3.3% in 2024 (from 2023's 2.5%), and (3) to a smaller extent, on how global rates may behave in the foreseeable future.

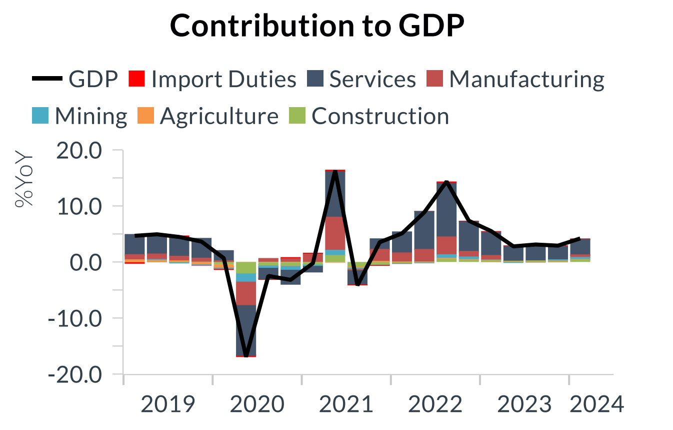
1Q24 final GDP printed 4.2% YoY (4Q23: 3.0% YoY), in line with our in-house view of the 1Q24 final print to expand beyond 4.0%, beating the Bloomberg consensus and advanced estimate of 3.9% YoY. On a quarter-on-quarter seasonally adjusted basis, the economy grew by 1.4% (4Q 2023: -1.0% QoQ SA). Domestic demand remains robust, with private consumption expanding by 4.7% YoY (4Q23: 4.2% YoY) while investment spending advanced by 9.6% YoY (4Q23: 6.4% YoY). Meanwhile, government spending rose to 7.3% YoY (3Q23: 5.8% YoY) due to higher spending on supplies and services. On the external front, the real exports rebounded by 5.2% YoY (4Q23: -7.9% YoY). Likewise, the real imports increased by 8.0% YoY (4Q23: -2.6% YoY).

On a sectoral basis, all key sectors posted positive growth. The services sector grew by 4.7% YoY (4Q23: 4.1% YoY). Meanwhile, the manufacturing sector grew by 1.9% YoY (4Q23: -0.3 % YoY). Construction sector activities accelerated by

11.9% YoY (4Q23: 3.6% YoY), fueled by strong momentum across civil engineering and specialised construction activities. The agriculture and mining sector output increased by 1.6% YoY (3Q23: 0.9% YoY) and 5.7% YoY (3Q23: -0.1% YoY).

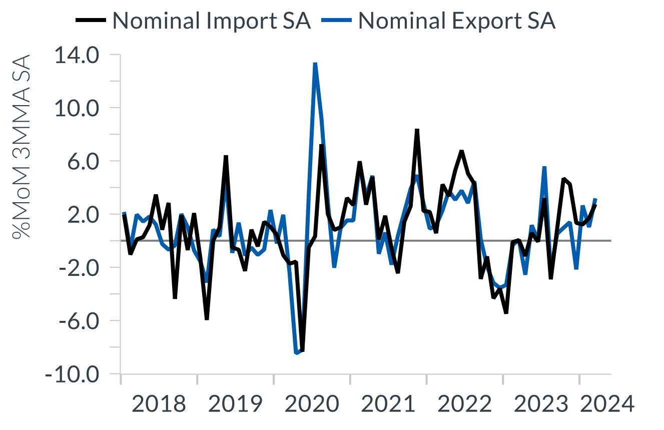
The 1Q24 balance of payments (BoP) was published alongside, which showed a current account surplus of 3.5% of GDP versus the 4Q23 print of 0.1%. The current account of the balance of payments recorded a surplus of RM16.2 billion during the quarter (4Q23: RM0.9 billion). The goods account registered a higher surplus of RM32.0 billion (4Q23: RM30.8 billion). The services deficit narrowed to RM7.3 billion (4Q23: -RM7.4 billion) amid higher travel receipts amid improvement in tourism activities. Primary Income account recorded a lower deficit of RM8.8 billion (4Q23: -RM20.3 billion) amid higher net flows in the higher other investment income sub-component, which capture the income of the public sector, i.e. Federal Government, state governments and other government-related agencies, which is to be received from or payable to foreign governments, central banks or international organisations as well as income of the private sector such as interest from loans, deposits, etc. The Secondary Income account registered a surplus of RM0.3 billion (4Q23:-RM2.2 billion). We expect the current account surplus to trend higher to 2.3% of GDP in 2024, with a balance of the risks tilted to the upsides versus 1.2% of GDP in 2023, in anticipation of higher goods surplus and lower services deficit.

Figure 3: The growth to be driven by manufacturing and construction sector activities



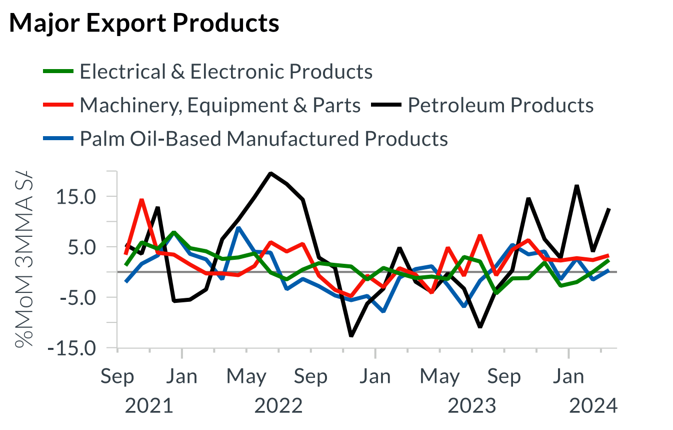
Source: Macrobond, RHB Economics & Market Strategy.

Figure 4: Momentum of exports has pick up in 1Q24…



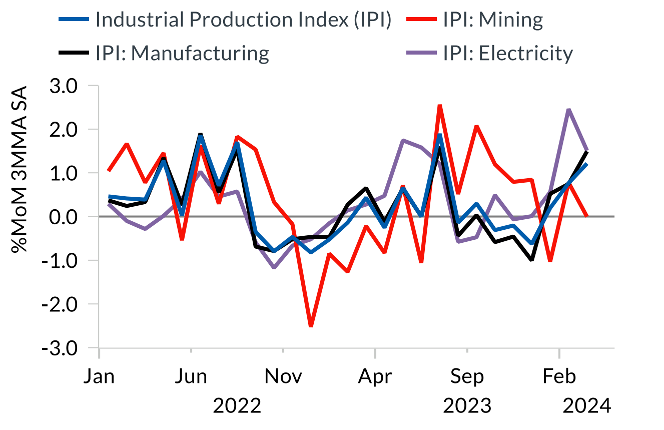
Source: Macrobond, RHB Economics & Market Strategy.

Figure 5: …and to be supported by higher outbound shipments of E&E and commodity based products



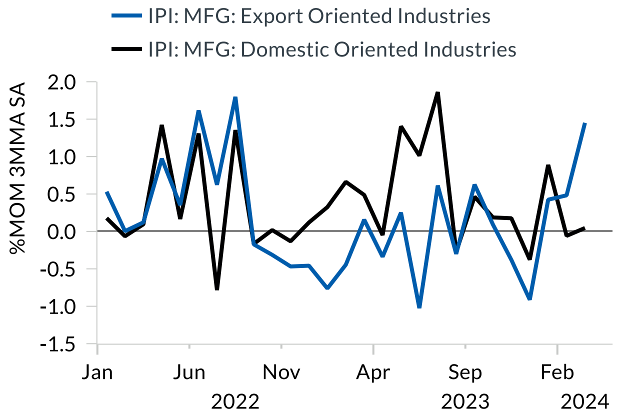
Source: Macrobond, RHB Economics & Market Strategy.

Figure 6: Manufacturing sector is well supported by…



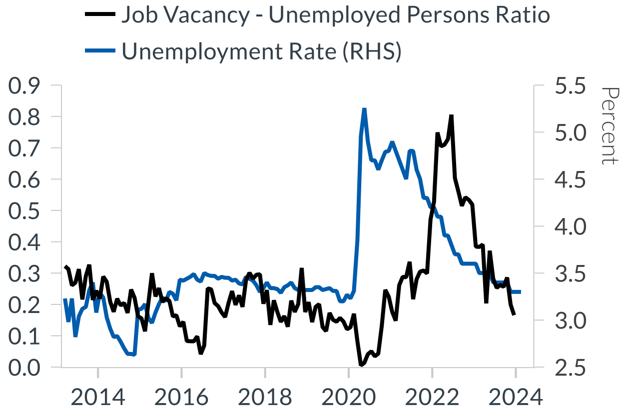
Source: Macrobond, RHB Economics & Market Strategy.

Figure 7: … export oriented industries



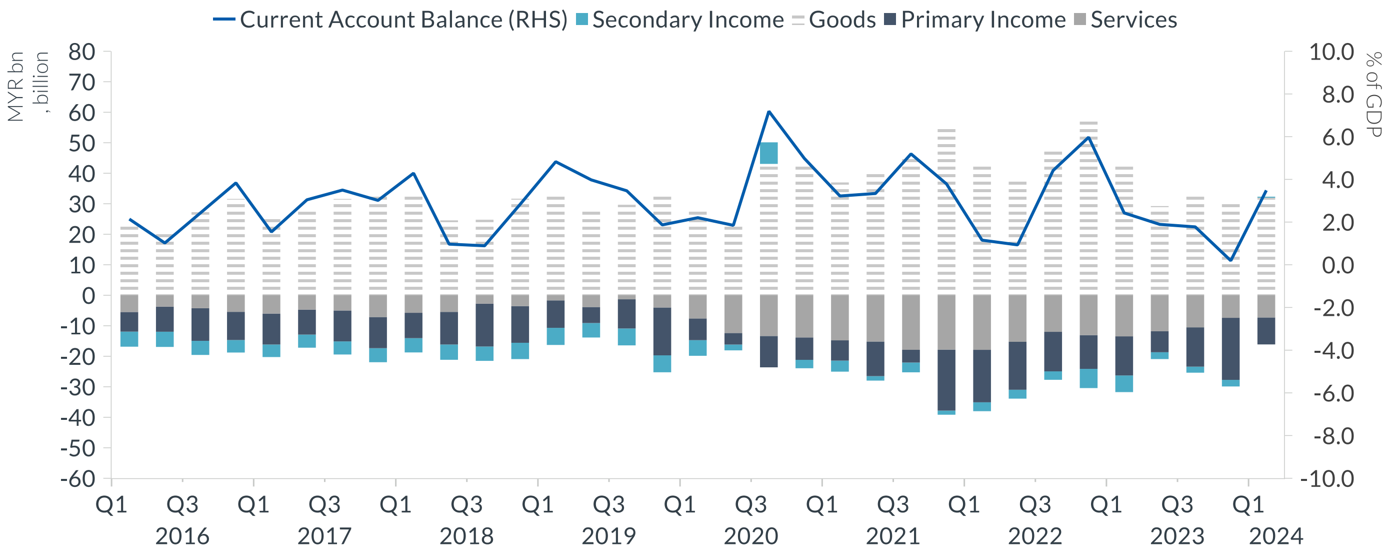
Source: Macrobond, RHB Economics & Market Strategy.

Figure 8: Domestic spending to be lifted by healthy labour market conditions



Source: Macrobond, RHB Economics & Market Strategy.

Figure 9: Current account surplus to trend higher to 2.3% of GDP in 2024 versus 1.2% of GDP in 2023



Source: Macrobond, RHB Economics & Market Strategy. Last data point is 1Q24.

Disclaimer Economics and Market Strategy

This report is prepared for information purposes only by the Economics and Market Strategy division within RHB Bank Berhad and/or its subsidiaries, related companies and affiliates, as applicable ("RHB").

All research is based on material compiled from data considered to be reliable at the time of writing, but RHB does not make any representation or warranty, express or implied, as to its accuracy, completeness or correctness.

Neither this report, nor any opinion expressed herein, should be construed as an offer to sell or a solicitation of an offer to acquire any securities or financial instruments mentioned herein. RHB (including its officers, directors, associates, connected parties, and/or employees) accepts no liability whatsoever for any direct or consequential loss arising from the use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without prior consent of RHB and RHB (including its officers, directors, associates, connected parties, and/or employees) accepts no liability whatsoever for the actions of third parties in this respect.

Recipients are reminded that the financial circumstances surrounding any company or any market covered in the reports may change since the time of their publication. The contents of this report are also subject to change without any notification.

This report does not purport to be comprehensive or to contain all the information that a prospective investor may need in order to make an investment decision. The recipient of this report is making its own independent assessment and decisions regarding any securities or financial instruments referenced herein. Any investment discussed or recommended in this report may be unsuitable for an investor depending on the investor's specific investment objectives and financial position. The material in this report is general information intended for recipients who understand the risks of investing in financial instruments. This report does not take into account whether an investment or course of action and any associated risks are suitable for the recipient. Any recommendations contained in this report must therefore not be relied upon as investment advice based on the recipient's personal circumstances. Investors should make their own independent evaluation of the information contained herein, consider their own investment objective, financial situation and particular needs and seek their own financial, business, legal, tax and other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report.

RHB (including its respective directors, associates, connected parties and/or employees) may own or have positions in securities or financial instruments of the company(ies) covered in this research report or any securities or financial instruments related thereto, and may from time to time add to, or dispose off, or may be materially interested in any such securities or financial instruments. Further, RHB does and seeks to do business with the company(ies) covered in this research report and may from time to time act as market maker or have assumed an underwriting commitment in securities or financial instruments of such company(ies), may sell them or buy them from customers on a principal basis and may also perform or seek to perform significant banking, advisory or underwriting services for or relating to such company(ies), as well as solicit such banking, advisory or other services from any entity mentioned in this research report.

RHB (including its respective directors, associates, connected parties and/or employees) do not accept any liability, be it directly, indirectly or consequential losses, loss of profits or damages that may arise from any reliance based on this report or further communication given in relation to this report, including where such losses, loss of profits or damages are alleged to have arisen due to the contents of such report or communication being perceived as defamatory in nature.

KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799