19 April 2024

Global Economics & Market Strategy

Malaysia: We Maintain Our Sanguine View on Malaysia's GDP

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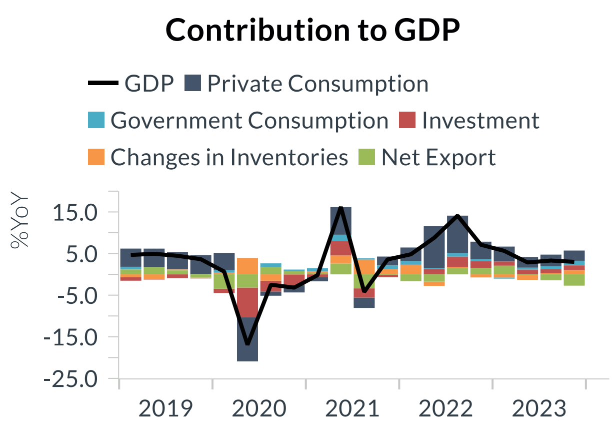
- **We keep Malaysia's GDP forecast at 4.6% in 2024 despite the slower-than-expected advance GDP growth estimate in 1Q24.**
- **Our composite leading indicator, RHB-LEI (MY), suggests that Malaysia's economic growth remains underpinned by externally facing sectors, including export-oriented sectors such as electronics and electricals (E&E), energy and metal goods.**
- **1Q24 advance GDP printed 3.9% YoY (4Q23: 3.0% YoY), accounted for only January and February's data releases. We pencil upside bias towards 4.2% YoY for the final GDP print, which scheduled to be released on 17 May 2024.**

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



Source: Macrobond, RHB Economics & Market Strategy.

Figure 2: The growth momentum is picking up on QoQ SA basis

Source: Macrobond, RHB Economics & Market Strategy.

We Pencil Upside Bias Towards 4.2% YoY for the Final 1Q24 GDP Print

We keep Malaysia's GDP forecast at 4.6% in 2024 despite the slower-than-expected advance GDP growth estimate in 1Q24. The slower-than-expected growth in 1Q24 (versus our in-house projection of 4.4% YoY) is unlikely to derail our optimistic view for the economic outlook in 2024, given that (1) the exports and industrial production momentum have begun to gather steam, (2) potential upsides in the March's key macroeconomic data, (3) seasonality impact of February data amid shorter working days. We continue to see improvement in domestic confidence on the back of (1) improvement in manufacturing PMI, (2) robust imports of capital and intermediate goods, and (3) an uptick in business and consumer confidence.

Our composite leading indicator, RHB-LEI (MY), suggests that Malaysia's economic growth remains underpinned by externally facing sectors, including export-oriented sectors such as electronics and electricals (E&E), energy and metal goods. The export momentum continues to head north in March amid higher exports of key products, i.e., E&E and petroleum-based products. The recovery narration of exports and manufacturing activities is further reaffirmed by the latest above consensus industrial production. The export growth is projected to stay robust, spurred by a brighter global growth landscape coupled with re-acceleration in the technology cycle. The E&E exports (around 38% of total exports) in Malaysia would be buoyed by higher demand, specifically with a positive spillover effect resulting from improved trade performance and manufacturing activities in China. Based on the latest data prints, China's key imports, i.e. E&E, energy products, and metals, are already on the mend.

On the domestic end, we remain positive on the private consumption growth in Malaysia amid healthy labour market demand conditions. The unemployment rate is expected to remain stable at a pre-pandemic level of 3.3% while the job creation remains healthy. Both consumer and business confidence indexes have picked up at the end of 2023, signalling the possibility of healthier retail and business spending going forward. The continued expansion of consumer spending and improved tourism activities would spur the growth of services sector segments such as the retail trade, accommodation and restaurants, and communication segments. Meanwhile, investment spending is projected to remain robust, driven by business-friendly policies and the implementation of catalytic initiatives under the national master plans.

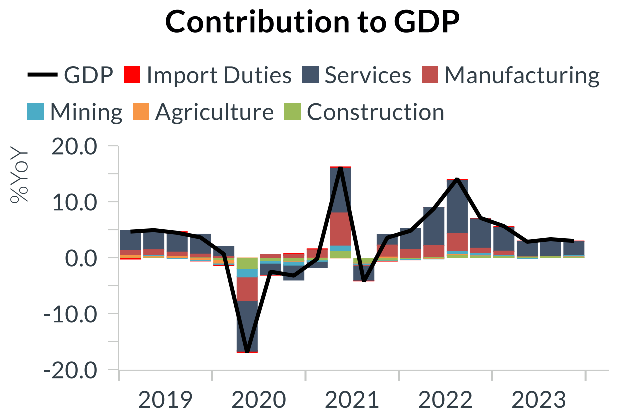
On the downside risks, we recognise that there would be some dampening effect on consumer spending amid lower disposable income, in line with the retargeting of subsidies and social assistance allocation and the upward revision in services tax. The inflation momentum has been picking up for February, partially reflecting the impact of higher utility costs amid electricity tariff adjustments for certain domestic users. Meanwhile, implementing a low-value goods tax coupled with an upward revision in services tax will likely instil further upward pressure on headline inflation. Other upside risks to inflation may materialise from the rationalisation of the fuel subsidy later this year. 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%.

Geopolitical tensions may continue to cloud Malaysia's growth dynamics if they are exacerbated in the coming weeks. As penned in our thematic report, global risk appetite will likely remain in risk-on mode, assuming that tensions are isolated in selected Middle Eastern economies. We keep our global growth assumptions for a rosier 2024 backdrop. Geopolitical risks remain to be a black-swan event. The direct impact on Malaysia's economic landscape is expected to be limited, as Malaysia's trade and tourism incomes have relatively low exposure to the Middle East economies. For instance, the trade with Iran and Iraq accounts for only 0.2% of total trade, while the tourist arrivals from the aforementioned countries account for 0.3% of total tourist arrivals. Meanwhile, trade with the Middle East region accounts for 3.8% of total trade, while the Middle East tourist arrivals constitute merely 1.1% of total arrivals over the past five years.

However, any unexpected escalations may threaten our global growth assumptions, given downside trade, investment, and tourism risks. Slower global GDP growth and trade might impact Malaysia's external demand and investment income. As major trade partners of Malaysia, the total trade with the U.S. and E.U. accounts for 9.3% and 8.1% of Malaysia's trade, respectively. Regarding FDI, the FDI net flows from the E.U. constitute a sizeable share of 25% of total FDI, while the U.S. accounts for -7% of total net FDI flows. The impact of tourism incomes is limited as tourist arrivals from Europe account for 4.5% of total arrivals, with the U.S. accounting for another 1.1%.

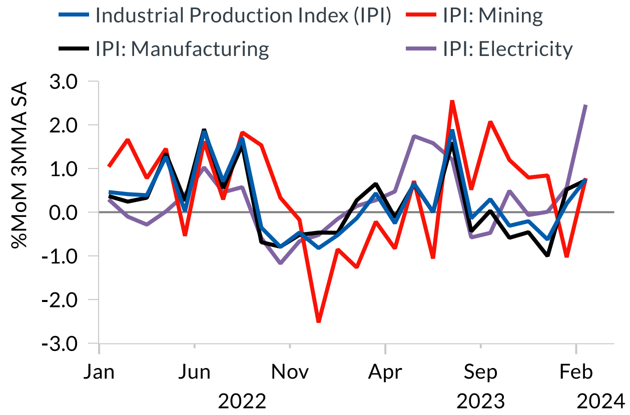
1Q24 advance GDP printed 3.9% YoY (4Q23: 3.0% YoY), accounting for only January and February's data releases. We pencil upside bias towards 4.2% YoY for the final GDP print, which will be released on 17 May 2024. Based on the seasonal adjustment (X-13 ARIMA), Malaysia's GDP growth momentum has accelerated to +0.9% QoQ (3QMA) in 1Q24, against +0.7% QoQ (3QMA) in 4Q23. The economic growth is driven by positive growth in all sectors, led by the services sector. The services sector grew by 4.4% YoY (4Q23: 4.2% YoY). Meanwhile, the manufacturing sector output rebounded by 1.9% YoY (4Q23: -0.3% YoY). Construction sector activities accelerated by 9.8 % YoY (4Q23: 3.6% YoY). The agriculture and mining sector output increased by 1.3% YoY (4Q23: 1.9% YoY) and 4.9% YoY (4Q23: 3.8% YoY), respectively.

Figure 3: More evidence pointing towards a turnaround in the manufacturing sector…



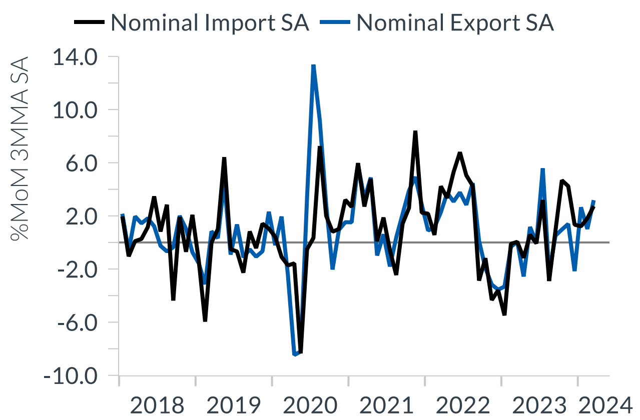
Source: DOSM, RHB Economics & Market Strategy.

Figure 4: …as indicated by uptrend in industrial production momentum



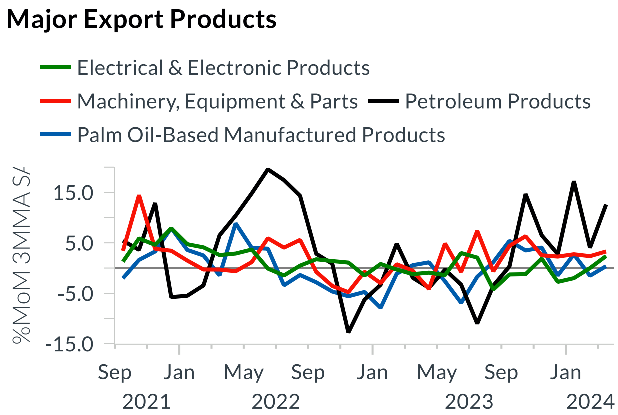
Source: CEIC, RHB Economics & Market Strategy.

Figure 5: The trade momentum rebounded in March



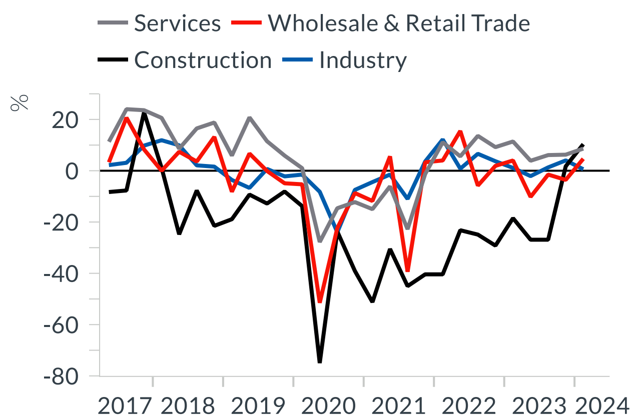
Source: Macrobond, RHB Economics & Market Strategy.

Figure 6: …with higher outbound shipments of E&E and petroleum based products



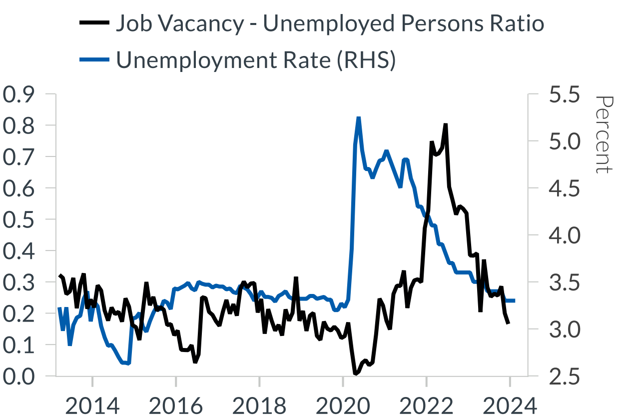
Source: Macrobond, RHB Economics & Market Strategy.

Figure 7: Malaysia's business confidence has improved materially



Source: SpaceKnow, CEIC, RHB Economics & Market Strategy.

Figure 8: The job market condition remains healthy



Source: CEIC, RHB Economics & Market Strategy.

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