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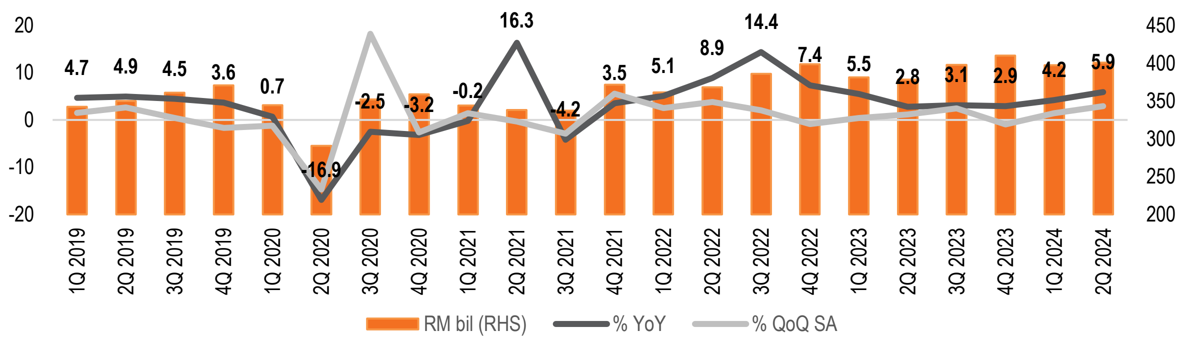
ECONOMIC DIGEST

20 AUG 2024

2Q 2024 GDP growth at 6-quarter high

- Malaysia's economy saw **a robust expansion of 5.9% YoY** in 2Q (in-house estimate: 6.3%; Bloomberg median: 5.8%; 1Q: 4.2%), supported by 1**) resilient household spending; 2) vigorous investment activities**; and 3) **further recovery in goods exports and higher tourist arrivals**, among others. On a QoQ seasonally adjusted basis, the economy continued to **expand by 2.9%** (1Q: 1.5%), **the highest in 2 years**.
- In line with our expectations, **all sectors recorded better performance than 1Q, except mining** (due to production disruption in May). Construction sector continued to chalk the highest growth among other sectors, this time to a 3-year high, propelled by all subsectors. Services sector (59.3% share of total GDP) advanced by 5.9% while growth in manufacturing (2nd largest sector) was the highest since 3Q22 driven by a **rebound in electronic components and boards (3.2%) after a year of contraction.**
- On the expenditure side (*refer to Table 1*), **private sector drove overall performance**, with **both consumption (6.0%) and investment (12.0%) grew at a faster pace**. Consumption may have been fueled by festival spending (Ramadhan & Hari Raya Aidilfitri) in April supported by bonus/increment payout before slowing down in the subsequent months, as reflected by easing monthly GDP growth (Apr: 6.2%; May: 5.9%; June: 5.6%). On the external front, **net exports saw a positive turnaround**, growing by 3.4% after a year of decline driven by stronger export recovery where **goods exports grew at a 7-quarter high**.
- For **1H 2024, GDP growth averaged at 5.1%** (2H 2023: 3.0%; 1H 2023: 4.1%) which prompted us to **revise our in-house GDP growth forecast upwards to 4.3% - 5.3%** (previously: 4.0% - 5.0%). Performance in the 2H will be supported by 1) **withdrawals from EPF Account 3**; 2) **export-oriented manufacturing activities that will benefit from some front-loading activities** in anticipation of Trump's return to office; 3) improving business sentiment and **investors confidence** arising from continuous investment projects in line with national plans/agenda; 4) **salary revision of up to 42.7% for civil servants** by phases (1st in Dec 2024), and 5) relatively **strong Ringgit**. The recent strength in RM is not just due to expectation of monetary policy easing in the US, but RM has also strengthened against our key trading partners' currencies i.e. SGD, CNY, EUR, THB, IDR.
- **RON95 subsidy rationalisation is likely to come in later** than our initial expectation, postponing the potential price pressure effect on consumption. Nonetheless, the blanket subsidy removal is deemed to be necessary and beneficial in the longer term to reduce fiscal deficit as these funds can be reallocated for more productive purposes.
- Nonetheless, we **remain cautious amid rising headwinds**, mainly stemming from the external side: 1) weaker-than-expected external demand; 2) escalation of geopolitical conflicts; and 3) lower-than-expected commodity production and prices.

Figure 1: Quarterly Real GDP



Sources: DOSM, CEIC, BNM, and SME Bank Economic Research

Table 1: GDP by expenditure components (2015p)	Share 2023 (%)	2023					2024	
		1Q	2Q	3Q	4Q	Year	1Q	2Q
		Annual growth (%)						
Aggregate domestic demand	**93.9**	**4.8**	**4.4**	**4.5**	**4.9**	**4.6**	**6.1**	**6.9**
Private consumption	*60.7*	*6.1*	*4.4*	*4.2*	*4.2*	*4.7*	*5.7*	*6.0*
Public consumption	*13.2*	*(2.0)*	*3.3*	*5.3*	*5.8*	*3.3*	*7.3*	*3.6*
Private Investment	*15.5*	*4.7*	*5.1*	*4.5*	*4.0*	*4.6*	*9.2*	*12.0*
Public investment	*4.6*	*5.7*	*7.9*	*7.5*	*11.3*	*8.6*	*11.5*	*9.1*
Net exports	**4.4**	**71.2**	**(11.9)**	**(19.9)**	**(52.9)**	**(16.2)**	**(24.5)**	**3.4**
Exports of goods & services	*66.1*	*(2.9)*	*(9.0)*	*(12.0)*	*(7.9)*	*(8.1)*	*5.2*	*8.4*
Imports of goods & services	*61.7*	*(6.7)*	*(8.8)*	*(11.3)*	*(2.6)*	*(7.4)*	*8.0*	*8.7*
Real GDP	-	**5.5**	**2.8**	**3.1**	**2.9**	**3.6**	**4.2**	**5.9**

Economic Activity	Details
 **Services**	• Services sector **grew faster** at 5.9% YoY in 2Q (1Q: 4.8%), the fastest pace since 1Q 2023 (7.1%). • **All services sub-sectors expanded, except water, sewerage and waste management** (2Q: -4.0% YoY; 1Q: 0.05%). • **Insurance** posted the highest growth of 24.4% YoY (mainly due to high medical claims besides increasing premium), followed by **accommodation** (12.5%), and **real estate** (11.8%), while **transportation and storage** continued double-digit growth (10.5%) • Growth in **retail trade** accelerated to 5.6% YoY (1Q: 3.6%), in tune with **motor vehicles** (2Q: 8.2%: 1Q: 5.1%). However, **wholesale trade** growth softened to 3.0% (1Q: 3.8%). • **Tourism related activities remain intact:** **1. Travel account** posted higher net surplus of RM8.2 bil in 2Q (1Q: RM6.6 bil), surpassing historical level (average 2017-2019: RM7.8 bil) **2. International passenger traffic** at airports has returned to pre-pandemic level, currently at 101% of 2019's average monthly in Jul 2024 (Jun: 90.4%). 3. For Jan-May 2024, **tourist arrivals** recorded 9.5 mil persons which stood at 87% of pre-pandemic's Jan-May 2019. a. Among the top 3 countries, tourists from Singapore recovered to 76% of pre-pandemic level, followed by Indonesia (98%) and China (89%). b. Tourist arrivals from India (144%), Germany (124%), and UK (101%) even surpassed 2019 level. • **Improving households' disposable income** will support spending; 1) EPF Account 3 withdrawal, 2) civil servant salary revision, 3) continued govt cash aids (e.g. STR, Budi Madani), 4) upcoming progressive wage policy • Nevertheless, **purchasing power could be constrained** by **higher cost of living** (e.g. higher and wider scope of service tax, higher utility bills, higher Diesel prices, upcoming RON95 subsidy rationalisation).

Sources: DOSM, CEIC, BNM, EPF, MOF, and SME Bank Economic Research

Economic Activity	Details
Manufacturing	• **Manufacturing sector accelerated by 4.7% YoY** (1Q: 1.9%), the fastest pace since 3Q 2022 (13.1%), underpinned by computers and peripheral equipment (14.8% YoY), fabricated metal products (10.5%), and tobacco products (10.5%). • **Electronic components & boards** (semiconductor) - largest share of manufacturing at 22.1% - **rebounded by 3.2% YoY** (1Q: -0.2%), reversing 4 quarters of contraction. For the 1H 2024, it grew by 1.4% YoY and **stood at 103% of 1H 2022 level** (prior to downturn in 2023). • This was in line with **global upcycle** trend for semiconductor sales, up by **double-digit growth of 18.3% YoY in 2Q 2024** (1Q: 17.8%). • The positive trend is expected to continue as WSTS forecasted **global semiconductors sales** to recover by **16.0% YoY in 2024** (2025f: 12.5%; 2023: -8.2%; 2022: 3.3%). • Since Feb 2023, manufacturing sector has been supported by domestic-oriented industry sales growth. However, it has **reversed in Jun 2024** where the **export-oriented sales growth** (6.0%) has **outpaced the domestic-oriented** (5.5%). This was in line with manufacturing PMI survey, where foreign sales rose for the 4th month in Jul 2024. This trend is expected to continue in the near term underpinned by export recovery.
Agriculture	• Agriculture sector **surged by** 7.2% YoY (1Q: 1.7%), the highest since 4Q 2017 (9.4%). All sub-sectors grew except logging (-14.5%) and rubber (-1.0%). The performance was largely propelled by stronger growth of palm oil (2Q: 19.0% YoY; 1Q: 2.5%) and marine fishing (2Q: 8.9%; 1Q: 6.4%). • **Likewise, all palm oil indicators showed a robust performance;** 1. Higher fresh fruit bunches received by mills, up 19.6% YoY to 25.4 mil tonne in 2Q 2024 (1Q: 2.6%) 2. CPO production came in at 4.8 mil ton in 2Q 2024 (1Q: 4.1 mil ton) 3. Better oil yield (2Q 2024: 0.27 ton per hectare; 1Q : 0.23 ton) 4. CPO prices traded slightly higher. The average CPO price in 2Q at RM3,982 (1Q: RM3,945) • **Barring any unexpected production and price shocks,** palm oil production is expected **to stay robust going forward** buoyed by: 1. Peak harvesting season (Apr-Nov) 2. Favorable weather condition (no strong La Niña) 3. Better demand (restocking activity for upcoming festivals in India and China) 4. Indonesia palm oil-based biodiesel blending mandate to 50% (current B35) will eventually reduce its export. This could provide opportunities for Malaysia to fill the gap.

Sources: DOSM, CEIC, BNM, WSTS, OPEC, MIDF, Indonesia govt and SME Bank Economic Research

Economic Activity	Details
Mining and quarrying	• Mining & quarrying sector growth **slowed to 2.7**% YoY (1Q: 5.7%), driven by moderation in natural gas production (2Q: 2.9% YoY; 1Q: 8.9). Nonetheless, other mining (2Q: 7.1% YoY; 1Q: 4.9%) and crude oil and condensate (2Q: 1.6%; 1Q: 1.3%) increased at a faster pace. • In tandem, **mining IPI eased** to 2.4% YoY in 2Q (1Q: 5.9%). On a monthly basis, the performance was dragged down by **production disruption during the month of May** (Jun: 4.9% YoY; May: -6.9%; Apr: 10.0%) • In the months ahead, barring any unprecedented production disruption or maintenance, performance of this sector is expected **to remain steady this year.** • OPEC+ initially plans to start unwinding its existing supply cuts of 2.2 mil barrels per day from Oct 2024. This will increase global supply going forward. • However, the plan could possibly halt as OPEC+ has recently cut its forecast for global oil demand growth in 2024, citing softer demand from China. World oil demand will now rise by 2.1 mil bpd in 2024 (previous estimate: +2.3 mil bpd). • In the event of total sanction/disruption to Iran's oil production (±3.4 mil bpd in Jul 2024) due to mounting Middle East conflict, we opine that current OPEC's (excluding Iran) **spare capacity** of 4.9 mil bpd will be able to support/cushion the market from supply shock.
Construction	• Construction sector **augmented by 17.3% YoY in 2Q** (1Q: 11.9%), the strongest growth in 3 years (2Q 2021: 40.3%). This was **attributed to stellar growth in all sub-sectors:** 1. Growth in **specialised construction** activities doubled to 27.0% YoY in 2Q 2024 (1Q: 11.4%) and the fastest since 2Q 2021 (58.6%). **2.** **Civil engineering** maintained double-digit growth of 23.6% YoY (1Q: 23.5%). **3.** **Residential buildings** surged 14.1% YoY (1Q: 8.0%). **4.** **Non-residential buildings** grew by 2.8% (1Q: 1.6%). • In tandem, construction work done surged by 20.2% YoY in 2Q (1Q: 14.2%), the highest since 3Q 2022 (23.2%). • Only 2 sub-sectors have yet to return to pre-pandemic's 2019 level; 1) **residential** (2Q: 98%; 1Q: 87%); and 2) **civil engineering** (2Q: 92%: 1Q: 92%). • Moving forward, performance of the construction sector will be underpinned by: **1.** **Steady progress of major infrastructure projects** (e.g. ECRL, RTS, Nenggiri Hydro, Pan Borneo Highway package 1a) **2.** **More govt project tenders** to be awarded and to start construction activities in 2H 2024. **Only 37.3% of the total development expenditure budget for 2024 is used, as at 1H 2024.** **3.** **Increase in private projects** (MIDA investment approval went up by 13% YoY in 1Q 2024 to RM83.7 bil)

Sources: DOSM, CEIC, BNM, OPEC, Reuters, and SME Bank Economic Research

Table 2: GDP by economic activity (2015p)	Share 2023 (%)	2023					2024	
		1Q	2Q	3Q	4Q	Year	1Q	2Q
		Annual growth (%)						
Services	59.2	7.3	4.7	4.9	4.1	5.1	4.8	5.9
Manufacturing	23.4	3.2	0.1	(0.1)	(0.3)	0.7	1.9	4.7
Agriculture	6.4	1.0	(1.0)	0.3	1.9	0.7	1.7	7.2
Mining	6.2	2.4	(2.3)	(1.1)	3.5	0.5	5.7	2.7
Construction	3.6	7.4	6.2	7.2	3.6	6.1	11.9	17.3
Real GDP	-	**5.6**	**2.9**	**3.1**	**2.9**	**3.6**	**4.2**	**5.9**

Figure 2: Percentage point (ppt.) contribution to GDP by economic activities

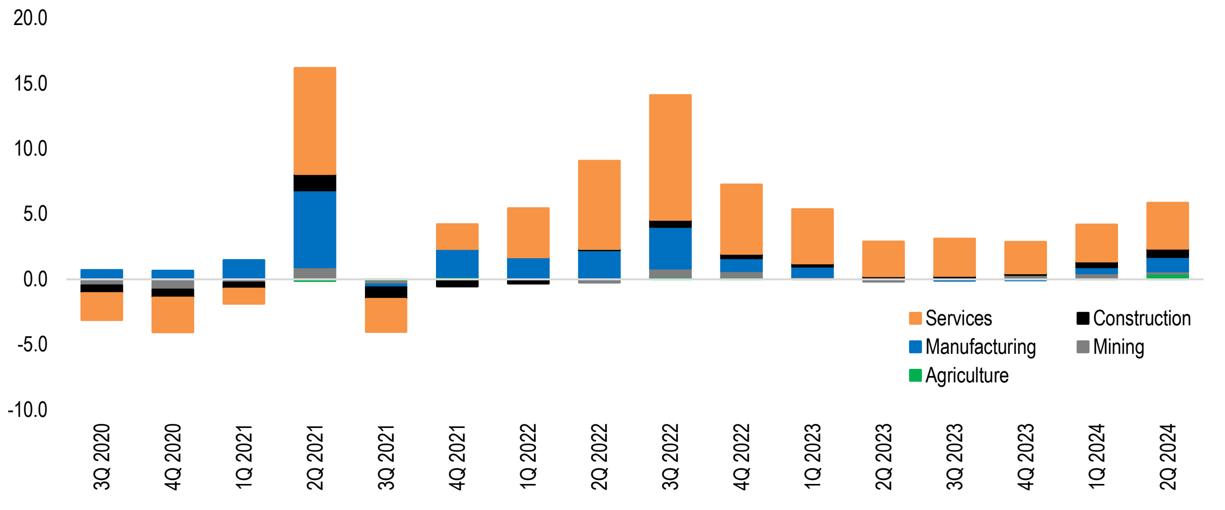
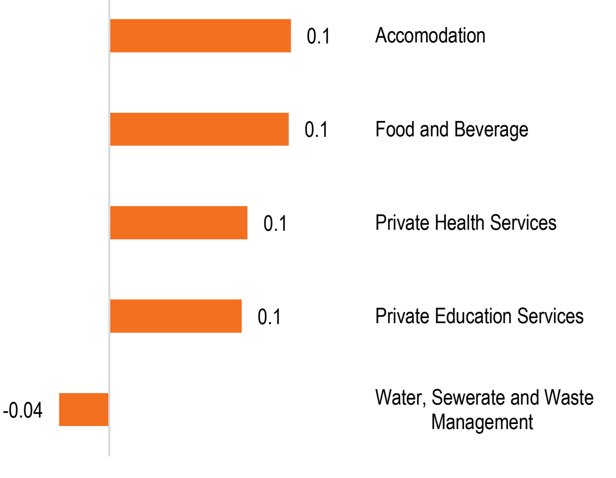


Figure 3: Top 5 contributors to services GDP performance in 2Q 2024 (ppt.)

Figure 4: Bottom 5 contributors to services GDP performance in 2Q 2024 (ppt.)



Sources: DOSM, CEIC, BNM, SIA, S&P Global, EPF and SME Bank Economic Research

Figure 5: Top 5 contributors to manufacturing GDP performance in 2Q 2024 (ppt.)

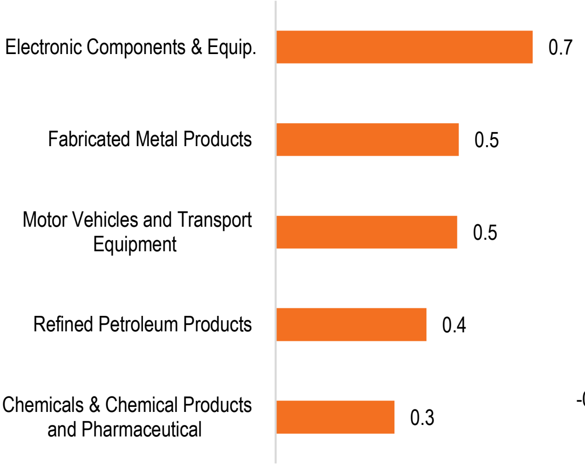
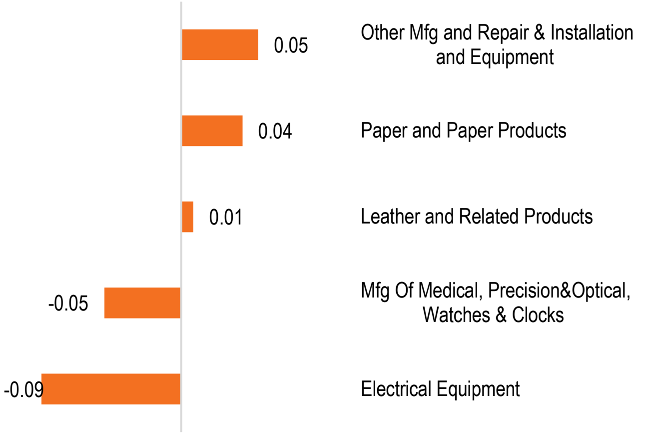


Figure 6: Bottom 5 contributors to manufacturing GDP performance in 2Q 2024 (ppt.)



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