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ECONOMIC DIGEST

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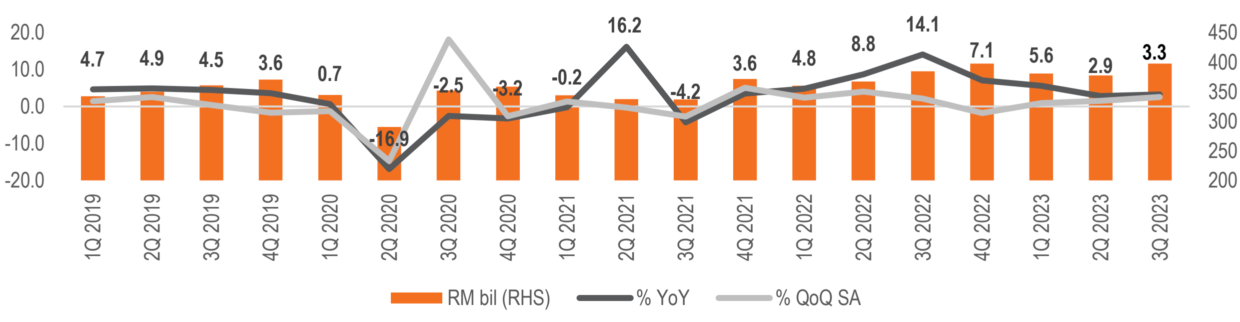
Slightly higher GDP Growth in 3Q 2023

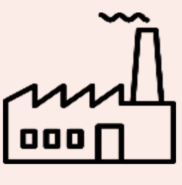
- Malaysia **economy grew** by 3.3% YoY, matched the advance estimate and slightly higher **from the previous quarter** (2Q: 2.9%; 9M 2023: 3.9%; average 2017-2019: 5.0%). However, it is the **second weakest expansion since 3Q 2021**, partly attributed to high base effect last year (3Q 2022: 14.1%) and weaker global trade activities. The **growth** continued to be fueled by 1) **labour market under full employment conditions**, 2) **higher construction activities**, and 3) **improved inbound tourism**.
- On a QoQ seasonally adjusted (sa) basis, the economy **expanded by 2.6%** (2Q: 1.5%). In line, the non-sa QoQ **rebounded strongly** by **5.2% in 3Q** (2Q: -0.8%).
- The performance on the **supply side** was driven by **services, construction and agriculture sectors. Manufacturing**, on the other hand, has **slipped into contraction**, while **mining and quarrying** have **declined even further** *(refer to the next page for sector analysis).*
- On the expenditure side (*refer to Table 1*), domestic demand **continued to underpin** the **overall growth, amidst lackluster external demand**. Private consumption registered slightly higher growth of 4.6% YoY (2Q: 4.3%) with improvement in both necessities and discretionary spending. Similarly, public consumption growth went up to 5.8% (2Q: 3.8%). **Both public and private investment growth decelerated** owing to slower capacity expansion. Exports posted larger contraction dragged by the goods segment (3Q: -16.0% YoY; 2Q: -14.8%). In contrast, **services export** continued to record strong double-digit growth (3Q: 21.2% YoY; 2Q: 41.4%) upheld by recovery in tourism activity.
- With 9M 2023 GDP growth at 3.9% and the expectation that growth for the 4Q will also remain modest, we reiterate that the full year growth is likely to clock in at the **lower tail of our in-house 4% - 5%** projection.
- Moving into 2024, we forecast GDP to expand at the same range of 4.0% - 5.0% however tilted to the upper side, propelled by 1) **continuous improvement in the labour market**, 2) **Budget 2024 measurements and the realisation of multi-year projects**, 3) **recovery in external demand** (e.g. improvement in global tech cycle), and 4) **higher inbound tourism**. Nonetheless, the growth is still subject to several downside risks, stemming from rising cost for businesses (e.g. higher & broader service tax, targeted subsidies, luxury tax, increase in sugary tax) and challenging external environment which include slow recovery in China and advance countries, as well as exacerbation of geopolitical tensions.
- **Financing outstanding** in the SMEs segment increased by 6.7% YoY in 3Q (2Q: 6.4%) whereby those of non-SMEs remained in contraction (3Q: -2.9%; 2Q: -4.3%). Likewise, loan application by SMEs surged in 3Q (+26.3% YoY > -14.9% Non-SMEs). Meanwhile, SMEs' repayment increased 4.4% YoY (Non-SMEs: 1.5%), suggesting **SMEs' healthy debt servicing capability.**

Figure 1: Quarterly Real GDP



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

Table 1: GDP by expenditure components (2015p)	Share 2022 (%)	2022			2023		
		3Q	4Q	Year	1Q	2Q	3Q
		Annual growth (%)					
Aggregate domestic demand	**93.1**	**13.2**	**6.8**	**9.2**	**4.6**	**4.5**	**4.8**
Private consumption	*60.2*	*14.8*	*7.3*	*11.2*	*5.9*	*4.3*	*4.6*
Public consumption	*13.2*	*6.5*	*3.0*	*4.5*	*(2.2)*	*3.8*	*5.8*
Private Investment	*15.3*	*13.2*	*10.3*	*7.2*	*4.7*	*5.1*	*4.5*
Public investment	*4.4*	*13.1*	*6.0*	*5.3*	*5.7*	*7.9*	*7.5*
Net exports	**5.5**	**26.2**	**23.0**	**(1.0)**	**54.4**	***(3.7)***	***(22.7)***
Exports of goods & services	*74.6*	*21.5*	*8.6*	*14.5*	*(3.3)*	*(9.4)*	*(12.0)*
Imports of goods & services	*69.1*	*21.1*	*7.2*	*15.9*	*(6.5)*	*(9.7)*	*(11.1)*
Real GDP	-	**14.1**	**7.1**	**8.7**	**5.6**	**2.9**	**3.3**

Economic Activity	Details
 Services	• **Services sector** increased faster **by 5.0% YoY** (2Q: 4.7%). • **All service sub-sectors registered positive growth except** finance (3Q: -0.3% YoY; 2Q: -1.9%) and insurance (3Q: -2.4% YoY; 2Q: -13.4%). • Wholesale sub-sector enlarged by 6.2% YoY (2Q: 4.5%) while **motor vehicles recorded double-digit growth** of 11.0% (2Q: 3.3%). Retail trade growt, however, moderated to 3.3% (2Q: 5.1%) partially due to high base effect. • **Consumer** consumption is likely to stay resilient underpinned by 1) tight labour market, 2) Budget 2024 incentives (e.g. higher STR allocation , RM1k – RM2k special assistance for civil servants & pensioners), 3) higher inbound tourists. **Nonetheless,** impact from **interest rate normalisation, implementation of targeted subsidy,** and **higher services tax** could dampen consumer spending. • Tourism **related activities** recovery remained on track as accommodation grew by 16.8% in 3Q (2Q: 49.0%). In line, **international passenger traffic at airports further improved to 77.5%** of 2019's pre-pandemic level (2Q: 67.7%). For 1H 2023, tourist arrival **reached 68.6% of pre-pandemic**, slightly better than regional peers (e.g Singapore: 67.4%, Indonesia: 67.3%, Thailand: 65.2%) • Despite that, **higher service tax** and **outbound of local tourist to neighboring countries** could pose downside risk to the sector. Malaysians made up the largest share of tourist arrivals in Thailand at 16.5% in Jan-Sep 2023, **up 237% YoY** and **above pre-pandemic level by 11.5%** (2019: 10.6% of total arrival).
 Manufacturing	• **Manufacturing sector** fell into contraction **of 0.1% YoY** (2Q: 0.1%), the first decline since 3Q 2021. The fall was dragged by further weakness **in production of E&E products (-4.8%),** refined petroleum (-8.4%) and rubber products (-6.5%). • The lackluster performance was largely attributed to sluggish exports as **export-oriented** manufacturing sales **contracted further by 6.3%** YoY (2Q: -3.6%). In contrast, the **domestic-oriented** manufacturing sales advanced by **8.1% YoY and cushioned the overall slowdown.** • **Meanwhile, contraction in the global semiconductor sales continued to** narrow (3Q: -4.5% YoY; 2Q: -17.3%; 1Q: -21.3%) which is expected to lend some support to our manufacturing sector performance moving forward. **E&E contribution** to export stood at 41.6% in 3Q (average 2017-2019: 37.4%).

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

Economic Activity	Details
Agriculture	• **Agriculture sector** **rebounded by 0.8% YoY** (2Q: -1.0%) underpinned by **recovery in the oil palm sub-sector** (3Q: 2.2% YoY; 2Q: -6.9%). • Production of crude palm oil returned to a growth of 2.4% YoY to 5.2 mil tonne in 3Q (2Q 2023: -6.9% YoY to 4.2 mil) supported by high crop seasonality in the months of Jul - Oct, improved weather conditions and easing labour shortages. • Palm oil production is expected **to remain bright in near term** supported by easing labour shortages, and delayed arrival of El Nino (+80% chance to happen in 2024 according to Met Malaysia).
Mining and quarrying	• The sector **extended the slowdown** but **a slower pace** of -0.1% YoY (2Q: -2.3%) on the back of continued contraction in natural gas production – in line with **below historical average of natural gas price** (3Q 2023: USD2.66 per MMBtu; 2Q: USD2.34; 3Q 2022: USD7.89; average 2017-2019: USD2.87). • Likewise, industrial production index (IPI), particularly mining had contracted for the 2nd consecutive quarters (3Q: -0.4% YoY; 2Q: -2.8%). • Regardless, the outlook for **upstream oil & gas remain intact** as the 1) contraction gradually wane – reflected by mining IPI; 2) supported by OPEC+ production cut which could sustain price at high level; and 3) **upcycle in upstream spending** (e.g Petronas rigs for 2024 at 29 vs 24 rigs this year) which could turn into **higher production activities** moving forward.
Construction	• Construction sector continued to post **the highest growth** rate among other key sectors at **7.2% in 3Q (2Q: 6.2%),** albeit having the lowest contribution to GDP of 3.7%. • The growth was impelled by **civil engineering** with a stronger double-digit growth of 14.6% YoY (2Q: 10.0%), followed by **specialised construction** activities at 10.4% (2Q: 6.4%) – attributed to the **continuous progress of major infrastructure projects.** While residential buildings recorded growth of 6.2% (2Q: 6.1%), non-residential buildings declined by 4.7% (2Q: +2.3%). • In line, construction work done **increased at a higher rate** of 9.6% YoY (2Q: 8.1%) and **stay on track to recover to pre-pandemic levels** (3Q 2023: 91.4%; 2Q: 88.4%) especially with the **rollout of Budget 2024** and **continued realisation of multi-year projects.**

Table 2: GDP by economic activity (2015p)	Share 2022 (%)	2022			2023		
		3Q	4Q	Year	1Q	2Q	3Q
		Annual growth (%)					
Services	58.3	16.7	9.1	10.9	7.3	4.7	5.0
Manufacturing	24.1	13.1	3.9	8.1	3.2	0.1	(0.1)
Agriculture	6.6	1.2	1.1	0.1	1.0	(1.0)	0.8
Mining	6.4	9.1	6.3	2.6	2.4	(2.3)	(0.1)
Construction	3.5	15.3	10.1	5.0	7.4	6.2	7.2
Real GDP	-	**14.1**	**7.1**	**8.7**	**5.6**	**2.9**	**3.3**

Sources: DOSM, CEIC, BNM, Petronas, investing.com, MIDF, and SME Bank Economic Research

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

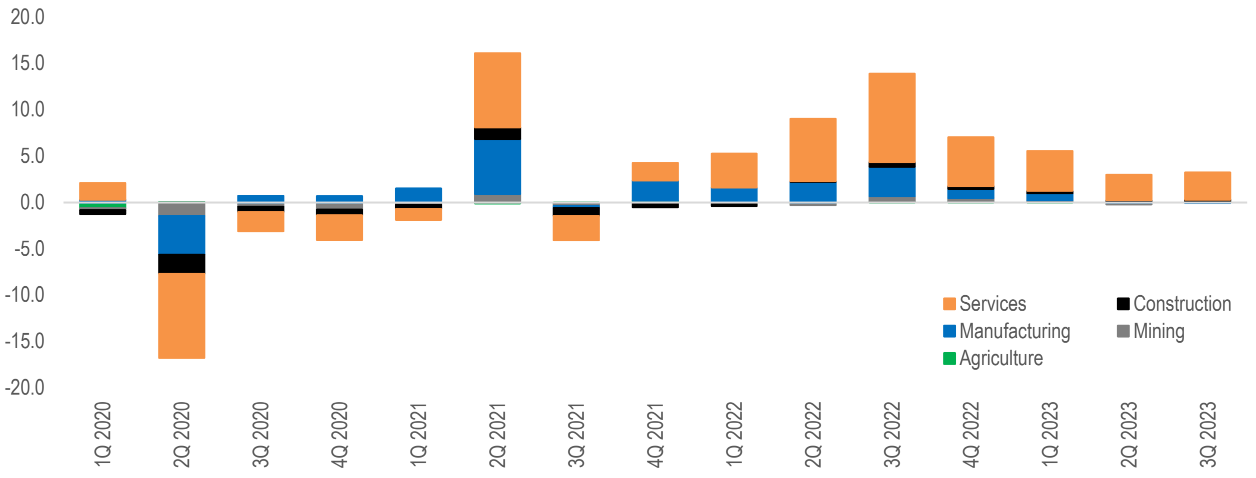


Figure 3: Top 5 contributors to services GDP performance in 3Q 2023 (ppt.)

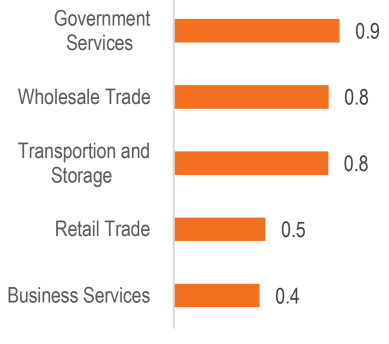


Figure 4: Bottom 5 contributors to services GDP performance in 3Q 2023 (ppt.)

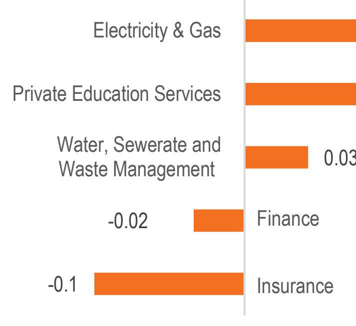


Figure 5: Top 5 contributors to manufacturing GDP performance in 3Q 2023 (ppt.)

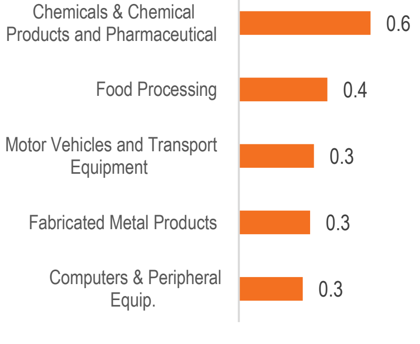
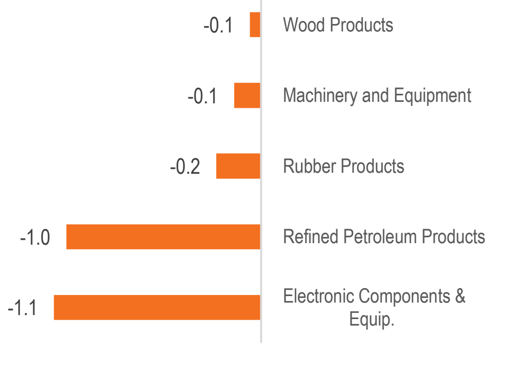


Figure 6: Bottom 5 contributors to manufacturing GDP performance in 3Q 2023 (ppt.)



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