

ECONOMIC DIGEST

20 FEBRUARY 2024

4Q 2023 GDP Growth Below Consensus

- Malaysia's **4Q 2023 GDP growth moderated** to 3.0% YoY (3Q: 3.3%), **slightly short** of our in-house estimation of 3.2% (DOSM's advance estimate & Bloomberg's consensus median: 3.4%). This was due to **high base effect** (4Q 2022: 7.1% YoY) and **continuous contraction in export** (4Q 2023: -6.3% YoY) which outpaced import (-2.9%). On a monthly basis, GDP growth dropped to 1.4% YoY in Dec (Oct: 3.9%; Nov: 3.8%). It was the weakest 4Q growth for the past 5 years (excluding Covid's 4Q 2020). On a QoQ seasonally adjusted (sa) basis, the economy **contracted by -2.1%** (3Q: +2.6%), while the non-sa QoQ grew by 3.1% in 4Q (3Q: 5.2%).
- On the supply side, **all sectors registered growth except manufacturing**. While **mining & quarrying and agriculture sector have improved further** because of uptick in commodities prices, **services and construction moderated** compared to the previous quarter (*refer to the next page for sector analysis*).
- On the expenditure side (*refer to Table 1*), the public sector, which contributed 17.9% share to GDP recorded the highest growth rate in the quarter, where **public consumption** accelerated by 7.3% YoY (3Q: 5.8%) and **public investment** surged to 11.3% (3Q: 7.5%). Meanwhile, **private consumption and investment** registered slower growth of 4.2% YoY (3Q: 4.6%) and 4.0% (3Q: 4.5%), respectively. Exports and imports continued to recover, albeit still negative. **Services export** which recorded **stellar double-digit growth** (4Q: 37.3% YoY; 3Q: 21.2%) had cushioned the fall in goods exports (4Q: -12.3% YoY; 3Q: -16.0%), boosted by **recovery in tourism activity**.
- For full year 2023**, Malaysia economy **expanded at a slower pace** of 3.7% YoY (2022: 8.7%; average 2017-2019: 5.0%), **below government's official target of 4.0%**, dragged down by lackluster external demand particularly goods export i.e palm oil (-27.9% YoY), E&E (-3.1%), petroleum (-11.0%) & chemical products (-11.3%). This has resulted in the decline in current account surplus **to a historical low of 1.2% of GDP** (2022: 3.1%; average 2017-2019: 2.8%).
- For **2024**, our **GDP growth forecast of 4.0% - 5.0%** will be underpinned by favourable base effect, resilient domestic demand and the recovery in global trade, particularly the anticipated revival of the global semiconductor market. However, risk to the outlook is **largely tilted to the downside** with latest developments (upward revision in water tariff, electricity subsidy rationalisation, sales tax imposition on imported low value goods sold online and supply chain disruption from the exacerbation of geopolitical tensions (i.e. ongoing Red Sea crisis) which will result in **higher cost of doing business** and **reduction in consumers' purchasing power**.

Figure 1: Quarterly Real GDP

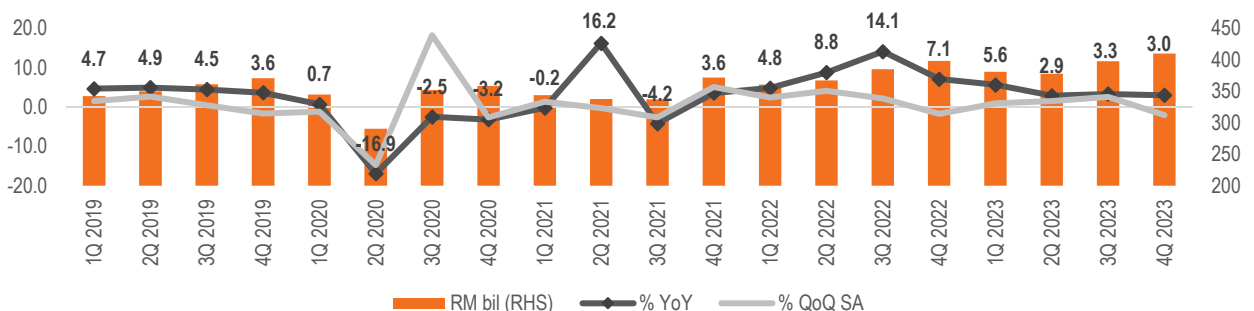

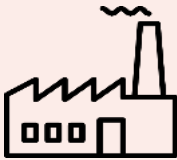


Table 1: GDP by expenditure components (2015p)	Share 2023 (%)	2022		2023				
		4Q	Year	1Q	2Q	3Q	4Q	Year
		Annual growth (%)						
Aggregate domestic demand	94.1	6.8	9.2	4.6	4.5	4.8	5.2	4.8
Private consumption	60.8	7.3	11.2	5.9	4.3	4.6	4.2	4.7
Public consumption	13.3	3.0	4.5	(2.2)	3.8	5.8	7.3	3.9
Private Investment	15.5	10.3	7.2	4.7	5.1	4.5	4.0	4.6
Public investment	4.6	6.0	5.3	5.7	7.9	7.5	11.3	8.6
Net exports	4.7	23.0	(1.0)	54.4	(3.7)	(22.7)	(35.6)	(11.3)
Exports of goods & services	66.3	8.6	14.5	(3.3)	(9.4)	(12.0)	(6.3)	(7.9)
Imports of goods & services	61.6	7.2	15.9	(6.5)	(9.7)	(11.1)	(2.9)	(7.6)
Real GDP	-	7.1	8.7	5.6	2.9	3.3	3.0	3.7

Economic Activity	Details
 <p>Services</p>	<ul style="list-style-type: none"> Growth in the services sector slowed to 4.2% YoY (3Q: 5.0%). All services sub-sectors registered growth except insurance (4Q: -11.1% YoY; 3Q: -1.5%) and finance (4Q: -2.5%; 3Q: -0.3%). Wholesale and retail trade sub-sector growth eased to 4.7% YoY and 2.8% YoY (3Q: 6.2% and 3.3%) respectively. In addition, motor vehicles softened to single-digit growth of 9.7% (3Q: 11.0%) as base effect from sales tax exempted dissipated. Moving forward, consumer consumption is likely to be supported by 1) tight labour market, 2) Budget 2024 incentives (e.g. higher STR and SARA allocation), 3) higher inbound tourists. On the other hand, the impact from higher and wider scope of services tax, increase in water tariff, implementation of targeted subsidy (electricity and fuel) may lead to changes in consumers' spending patterns e.g. higher spending for necessities but lower in discretionary items. Tourism related activities continued to recover as reflected by 1) double digit growth in accommodation (4Q: 10.0%; 3Q: 16.9%); 2) international passenger traffic at airports further improved to 81.5% (3Q: 77.5%) of 2019's pre-pandemic level; 3) tourist arrival in 2023 reached 77.2% of pre-pandemic, above regional peers (Indonesia: 71.8%; Singapore: 71.2%; Thailand: 70.4%); and 4) travel account recorded a net surplus of RM6.5 bil in 4Q (3Q: RM5.4 bil), the highest since 3Q 2019.
 <p>Manufacturing</p>	<ul style="list-style-type: none"> Manufacturing sector shrank by -0.3% YoY (3Q: -0.1%), the fastest decline since 3Q 2021 likely caused by continued weakness in production of E&E (-10.0% YoY), refined petroleum (-3.3%) and rubber products (-2.0%). Export-oriented manufacturing sales continued dragging down the sector performance at -6.8% YoY (3Q: -6.6%). In contrast, the domestic-oriented manufacturing sales advanced by 8.4% YoY (3Q: 8.2%). Nevertheless, manufacturing sector is anticipated to recover in 2024 as signaled by improved manufacturing PMI to 49.0 in Jan 2024 (Dec: 47.9), albeit remain in contraction. Moreover, global semiconductor sales seemed to have bottomed out and turned around, growing 11.6% YoY in 4Q (3Q: -4.5%; 2Q: -15.8%; 1Q: -21.3%), the 1st rise since 2Q 2022. For 2024, WSTS forecasts sales to rebound by 13.1% (2022e: -9.4%). This is expected to positively spillover to our E&E performance – E&E contribution to export stood at 40% in 2023 (average 2017-2019: 37.4%).




Economic Activity	Details
 <p>Agriculture</p>	<ul style="list-style-type: none"> • Agriculture sector posted a higher growth of 1.9% YoY (3Q: 0.9%), the fastest since 4Q 2021 supported by recovery in rubber sub-sector (4Q: 3.8% YoY; 3Q: -16.2%) – latex price increased to RM5.40/kg (3Q: RM4.81; 4Q 2022: RM4.70; average 2017-2019: RM4.92). • Other sectors also improved including marine fishing (4Q: 5.3%; 3Q: -0.2%), livestock (4Q: 3.4%; 3Q: 1.1%), and aquaculture (4Q: 3.1%; 3Q: -0.1%). • Oil palm sub-sector which contribute 41% share to the sector, however, eased slightly by 1.6% YoY (4Q: 2.2%). This coincided with decrease in the price (4Q: RM3,670/ton; 3Q: RM3,814; 4Q 2022: RM3,913; average 2017-2019: RM2,386) • Nonetheless, palm oil production is expected to remain resilient owing to easing labour shortages and end of dry season from April onwards.
 <p>Mining and quarrying</p>	<ul style="list-style-type: none"> • The sector rebounded by 3.8% YoY (3Q: -0.1%), underpinned by sharp improvement in natural gas production of 4.6% (3Q: -2.2%). • In line, industrial production index (IPI) for mining has improved, registering the 1st expansion in 3 quarters (4Q: 4.3% YoY; 3Q: -0.3%). • The performance for upstream oil & gas is likely to improve on the back of 1) OPEC+ production cut which could sustain Brent crude oil prices at high level; and 2) upcycle in upstream activities (e.g Petronas aims to boost its rig utilisation from 24 rigs to 28 in 2024) which could translate into improved production activities moving forward.
 <p>Construction</p>	<ul style="list-style-type: none"> • Construction sector growth moderated sharply to 3.6% YoY in 4Q (3Q: 7.2%). • The moderation was due to slowing specialised construction activities at 0.5% YoY (3Q: 10.4%) and residential buildings at 1.3% (3Q: 6.2%) as well as deeper contraction for non-residential buildings at -4.9% (3Q: -4.7%). In contrast, civil engineering recorded stronger double-digit growth of 16.8% (3Q: 14.6%), attributed to the continuous progress of major infrastructure projects. • Construction work done increased at a slower pace of 6.8% YoY (3Q: 9.6%) while gradually recovering to pre-pandemic levels (4Q: 93.3%; 3Q: 91.4%). The performance this year will be propelled by the rollout of infrastructure projects in Budget 2024 and continued realisation of multi-year projects (e.g. ECRL, RTS, Pan Borneo, LRT3)

Table 2: GDP by economic activity (2015p)	Share 2023 (%)	2023						
		4Q	Year	1Q	2Q	3Q	4Q	Year
		Annual Growth (%)						
Services	59.2	9.1	10.9	7.3	4.7	5.0	4.2	5.3
Manufacturing	23.4	3.9	8.1	3.2	0.1	(0.1)	(0.3)	0.7
Agriculture	6.4	1.1	0.1	1.0	(1.0)	0.9	1.9	0.7
Mining	6.2	6.3	2.6	2.4	(2.3)	(0.1)	3.8	1.0
Construction	3.6	10.1	5.0	7.4	6.2	7.2	3.6	6.1
Real GDP	-	7.1	8.7	5.6	2.9	3.3	3.0	3.7

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

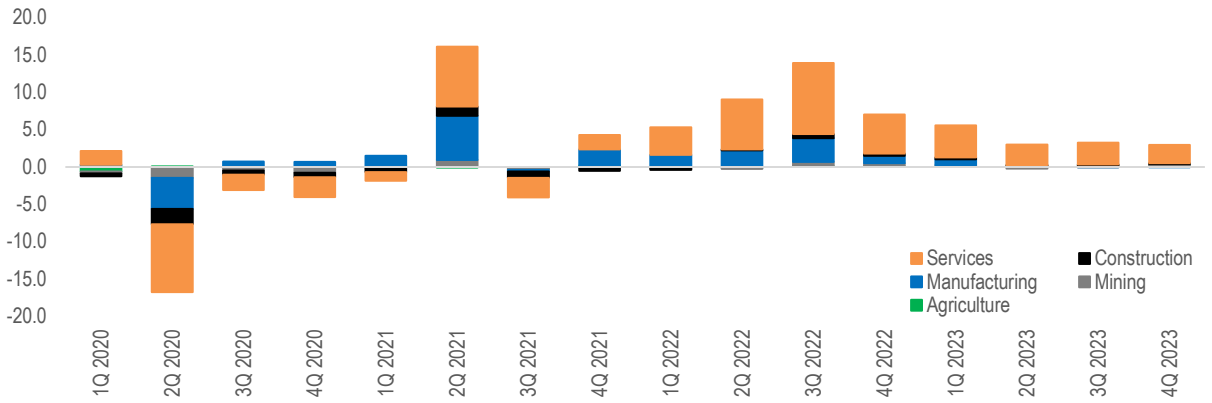


Figure 3: Top 5 contributors to services GDP performance in 4Q 2023 (ppt.)



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

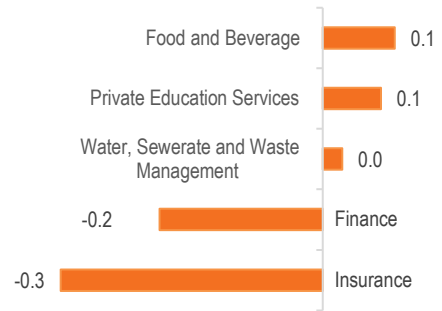


Figure 5: Top 5 contributors to manufacturing GDP performance in 4Q 2023 (ppt.)

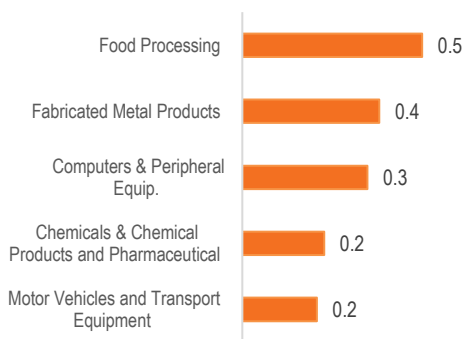
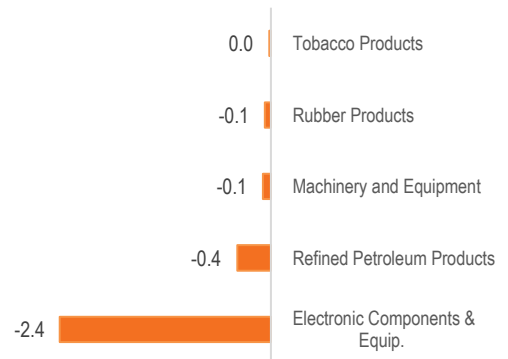


Figure 6: Bottom 5 contributors to manufacturing GDP performance in 4Q 2023 (ppt.)



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