Economic Research

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ECONOMIC DIGEST

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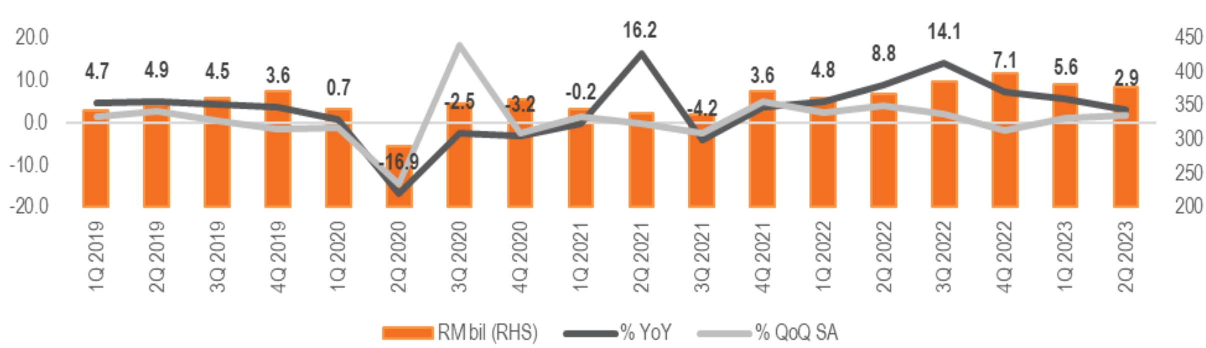
GDP growth moderates in 2Q 2023

- Malaysia's 2Q 2023 economic **growth moderated** to 2.9% YoY, **in line with in-house estimate of 3.0%** (1Q: 5.6%; 1H 2023: 4.2%; average 2017-2019: 5.0%). This tepid growth came in below Bloomberg's average of 3.5% and is the weakest expansion since 3Q 2021, partly attributed to high base effect last year (2Q 2022: 8.8%), slower global trade activities and effect of 125 bps interest rate hikes.
- Still, the continuous growth were supported by 1) **festive and holiday spending,** 2) **faster investment activities**, 3) **better labour market conditions** and 4) **higher inbound tourism**.
- On a monthly basis, GDP grew by **0.7% YoY in Apr (May: 5.6%; Jun: 2.4%).** Although, on **a QoQ seasonally adjusted (sa) basis** the economy **expanded by 1.5%** (1Q: 0.9%), the **non-sa QoQ contracted** by 0.8% in 2Q (1Q: -4.3%).
- On the supply side, **GDP growth eased for services, construction and manufacturing** while those of **agriculture and mining & quarrying declined** *(refer to the next page for sector analysis).*
- On the expenditure side (*refer to Table 1*), the **growth continued to be supported by** domestic demand. While private consumption growth moderated**, public spending rebounded** due to higher emolument. **Public and private investment** expanded further on the back of capacity expansion where investment in machinery & equipment rose 4.4% YoY (1Q: 2.6%). Exports posted larger contraction dragged by the goods segment (2Q: -14.8% YoY; 1Q: -8.5%). Meanwhile, **services export** continued to record strong double-digit growth (2Q: 41.4% YoY; 1Q: 58.2%) due to recovery in tourism activity.
- Overall, GDP grew by 4.2% in 1H 2023 (1H 2022: 6.8%; 2022: 8.7%) and the **outlook for 2H** is expected **to moderate** mainly attributed to **high base effect** last year which may bring the full year **2023 GDP forecast closer to the lower end of 4.0% to 5.0%.** We foresee 3Q GDP performance to be as challenging as 2Q. Nonetheless, **government measures underlined in MADANI Economy Framework** such as 1) RM100 e-Tunai for B40s and M40s and 2) RM300 and RM200 special assistance for civil servants and pensioners may cushion the pace of anticipated slowdown for the 2H.
- This also reaffirms our stance that OPR will stay at 3.0% in 2023 as inflation continues to ease (Jun: 2.4%).
- **Financing outstanding** in the SMEs segment grew faster at 6.4% YoY in 2Q (1Q: 5.9%), in contrast with contraction of non-SMEs (2Q: -4.1%; 1Q: -0.9%). SMEs' repayment in 1H rose 1.9% YoY (Non-SMEs: 0.5%), which signals **SMEs' healthy debt servicing capability and resilient business activities.** Moreover, loan application by SMEs also improved in 1H (13.9% YoY > 11.2% Non-SMEs), **in line with our SME Sentiment Index published in Aug 2022** (outlook for 6-12 months) where close to 80% of SMEs **required financing**.

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	
		2Q	3Q	4Q	Year	1Q	2Q
		Annual growth (%)					
Aggregate domestic demand	**93.1**	**13.0**	**13.2**	**6.8**	**9.2**	**4.6**	**4.5**
Private consumption	*60.2*	*18.3*	*14.8*	*7.3*	*11.2*	*5.9*	*4.3*
Public consumption	*13.2*	*2.3*	*6.5*	*3.0*	*4.5*	*(2.2)*	*3.8*
Private Investment	*15.3*	*6.3*	*13.2*	*10.3*	*7.2*	*4.7*	*5.1*
Public investment	*4.4*	*3.2*	*13.1*	*6.0*	*5.3*	*5.7*	*7.9*
Net exports	**5.5**	**(29.0)**	**26.2**	**23.0**	**(1.0)**	**54.4**	**(3.7)**
Exports of goods & services	*74.6*	*15.9*	*21.5*	*8.6*	*14.5*	*(3.3)*	*(9.4)*
Imports of goods & services	*69.1*	*20.1*	*21.1*	*7.2*	*15.9*	*(6.5)*	*(9.7)*
Real GDP	**-**	**8.8**	**14.1**	**7.1**	**8.7**	**5.6**	**2.9**

Economic Activity	Details
Services	• **Services sector grew at a slower pace of 4.7% YoY** (1Q: 7.3%). • **All service sub-sectors registered positive growth except** finance (2Q: -1.9% YoY: 1Q: 2.8%) and insurance (2Q: -13.4%; 1Q: -0.2%). • Wholesale sub-sector improved to 4.5% YoY (1Q: 3.3%), while **retail and motor vehicles moderated to single-digit growth** of 5.1% (1Q: 14.5%) and 3.3% (1Q: 11.2%), respectively. **Consumer** consumption is likely **to remain intact** on the back of 1) still resilient retail sales, 2) tight labour market, 3) fiscal support (e.g. RM100 e-Tunai for B40s & M40s, RM300 & RM200 special assistance for civil servants & pensioners), 4) higher inbound tourists. **Nonetheless, high base effect** and impact from consecutive **interest rate hikes** could dampen consumer spending. • **Tourism related activities continued to recover** with accommodation sub-sector growing at double-digit rates (2Q: 49.0% YoY; 1Q: 55.7%) - where services deficit in the current account position narrowed, buoyed by **higher net surplus of travel account** (2Q: RM3.8 bil; 1Q: RM1.3 bil; average 2017-2019: RM7.8 bil). • While **travel receipts are still recovering** (2Q: RM16.3 bil; 2017-2019; RM20 bil) **travel payments** (RM12.5 bil) **has surpassed the pre-pandemic 2017-2019 average** (RM12.2 bil). • In line, **international passenger traffic at airports further improved to 67.7%** of 2019's pre-pandemic level (1Q: 59.3%).
Manufacturing	• **Manufacturing sector** registered **a rather lacklustre performance of 0.1% YoY** (1Q: 3.2%) dragged down by **slower production of E&E (-1.9%)** as well as refined petroleum (-2.3%), and rubber products (-12.4%). • Weaker manufacturing performance is largely **linked to sluggish exports as total manufacturing sales dropped by 1.0% YoY in 2Q (1Q: +8.2%).** • **Export-oriented** manufacturing sales - which makes up **72% of total manufacturing sector sales** in 2Q (1Q: 71.4%) **- contracted by 3.6%** YoY (1Q: +7.9%). On the other hand, the **domestic-oriented** manufacturing sales **advanced 7.0% YoY to cushion the overall slowdown.** • **On the bright side, contraction in global semiconductor sales is bottoming out** (Jun: -17.3% YoY; May: -21.1%; Apr: -21.6%), which could lend support to our manufacturing sector performance moving forward, particularly the E&E segment.

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

Economic Activity	Details
Agriculture	• **Agriculture sector slipped by 1.1% YoY** (1Q: 1.0%) mainly caused by **contraction in the oil palm sub-sector** (2Q: -6.9% YoY; 1Q: 3.4%). • Production of crude palm oil declined by 6.9% YoY to 4.2 mil tonne in 2Q (1Q 2023: +3.2% YoY to 3.9 mil) likely due to low manuring in 2021 (i.e. lower fertilisation which will have implication on fresh fruit bunch output over the next 2-3 years) and hotter weather conditions (2Q 2023: 28.9 C > normal at 25.4 C). • Nonetheless, palm oil production is expected **to pick up in 3Q 2023** supported by **high crop seasonality in the upcoming months (Jul - Oct).**
Mining and quarrying	• The sector **fell** into contraction at 2.3% YoY (1Q: 2.4%) despite oil price steadying above historical levels (2Q 2023: USD77.8/bbl; 2Q 2022: USD112 bbl; 2017-2019: USD63.5/bbl). Lower output was partially attributed to plant maintenance during the quarter. • To note, Petronas plans to **increase the number of rigs** to 26 in 2023, from 20 last year (2024f: 28). This is seen to be supportive for drilling activities as these **new wells** (16 wells exploration were completed in 2022, doubling the 2021 figure) **could lift production moving forward.**
Construction	• Although construction sector has the lowest share of contribution to GDP, this sector posted the **highest growth rate of 6.2% in 2Q,** albeit some moderating from the previous quarter (1Q: 7.4%). This is due to **continuous progress of large infrastructure projects.** • Growth for this sector was impelled by **civil engineering** with a double-digit growth of 10.0% YoY (1Q: 15.9%), followed by **specialised construction** activities at 6.4% (1Q: 8.7%). In addition, residential buildings and non-residential buildings recorded growth of 6.1% (1Q: -3.4%) and 2.3% (1Q: 6.4%), respectively. • Construction work done kept up pace at 8.1% YoY (1Q: 9.4%) and **remained on track, gradually recovering to pre-pandemic level** (2Q 2023: 88.4%; 1Q: 88.0%; 2022: 83.3%).

Table 2: GDP by economic activity (2015p)	Share 2022 (%)	2022				2023	
		2Q	3Q	4Q	Year	1Q	2Q
		Annual growth (%)					
Services	58.3	11.9	16.7	9.1	10.9	7.3	4.7
Manufacturing	24.1	9.2	13.1	3.9	8.1	3.2	0.1
Agriculture	6.6	(2.3)	1.2	1.1	0.1	1.0	(1.1)
Mining	6.4	(1.7)	9.1	6.3	2.6	2.4	(2.3)
Construction	3.5	2.5	15.3	10.1	5.0	7.4	6.2
Real GDP	-	**8.8**	**14.1**	**7.1**	**8.7**	**5.6**	**2.9**

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

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

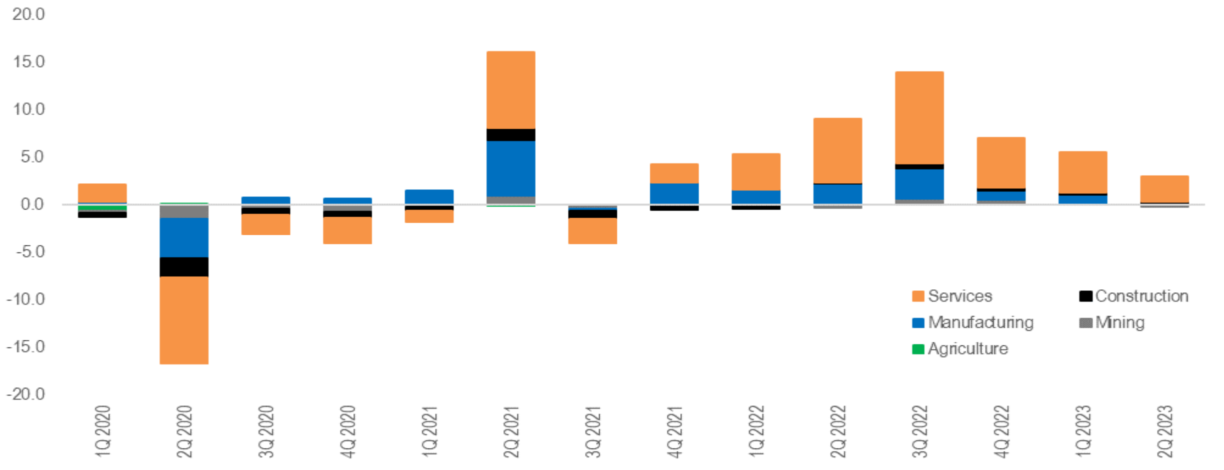


Figure 3: Top 5 contributors to services GDP performance in 2Q 2023 (ppt.)

Figure 4: Bottom 5 contributors to services GDP performance in 2Q 2023 (ppt.)

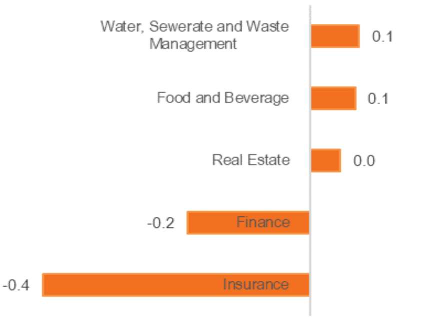
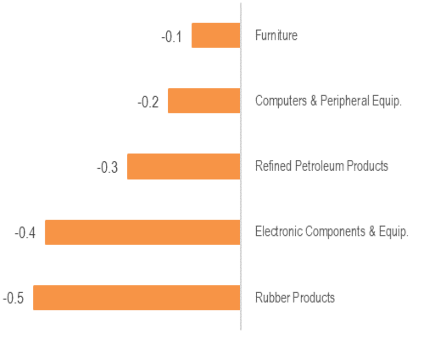


Figure 5: Top 5 contributors to manufacturing GDP performance in 2Q 2023 (ppt.)

Figure 6: Bottom 5 contributors to manufacturing GDP performance in 2Q 2023 (ppt.)



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