

# ECONOMIC DIGEST

15 MAY 2023

## Resilient 1Q 2023 GDP growth, above trend

- Malaysia's economy expanded by **5.6% YoY** in 1Q 2023 (4Q 2022: 7.0%; average 2017-2019: 5.0%) supported by 1) **festive and holiday spending** 2) **continued investment activity**, 3) **better labour market conditions**, 4) **higher tourism activities**. On a monthly basis, GDP grew by **4.6% YoY** in Jan, then accelerated to **6.6% in Feb**, before moderating to **5.6% in Mar**. On a **QoQ seasonally adjusted basis**, the economy **rebounded by 0.9%** (4Q: -1.7%).
- The GDP growth in 2023 will still be **driven by resilient domestic demand** where we have forecasted a **4.0% - 5.0%** (2022: 8.7%). We remain **cautious and expect some moderation in the growth trajectory** moving forward amid rising external headwinds, waning pent-up demand and absence of base effect.
- All sectors recorded positive growth** but moderated from 4Q (refer Table 1). With continuous recovery momentum, **42 out of 55 or 76%** of the **country's economic activities** had **surpassed the 2019** pre-pandemic levels in 1Q (4Q: 69%). Similar to 4Q performance, manufacturing (19.0%) and services (15.4%) sectors had fully recovered, whereas **3 out of 17 services sub-sectors are still lagging** i.e. **food & beverage sub-sectors (-4.5%), real estate (-3.7%), and other services (-2.2%)**.
- On the expenditure side** (refer Table 2), the expansion was underpinned by **firm domestic demand**, primarily in the **private sector**. Despite weakening external trade performance, dragged down by export of goods (1Q: -8.5%; 4Q: 3.3% YoY), **export of services showed a bright spot** (1Q: 58.2%; 4Q: 75.8% YoY), reaching 86% of the pre-pandemic level. The momentum is expected to continue given the **ongoing shift in consumption from goods to services**. This is reflected by **recovery in tourism activities** in 1Q as international passenger traffic at airports further improved to 59.3% of pre-pandemic level (4Q: 54.1%).
- On a side note, financing outstanding of the SME segment grew slower by 2.2% YoY (Non-SMEs: 2.9% YoY) in 1Q 2023 (4Q: SMEs: 4.2%; Non-SMEs: 2.8%) as growth in repayments (5.1%) > disbursements (4.2%). In value terms, SMEs' disbursement (RM125.1 bil) > repayments (RM122.5 bil), which portrays a divergence from other segments. The moderation in repayments from its double-digit growth trend (4Q: 13.9%) could be due to the increase in borrowing costs and tighter cashflows. Nonetheless, **strong expansion was observed in financing application** (1Q: 21.1% vs 4Q: -0.1%), signaling that SMEs' demand for financing is still healthy.
- Earlier this month, BNM raised its overnight policy rates by **25 basis points to 3.00%**, returning its rates to pre-pandemic levels. This unexpected move was due to the **timing** of this hike rather than the quantum as **normalisation was brought forward** owing to **firm domestic demand which translates to sticky core inflation** (Mar: 3.8%: Feb: 3.9% YoY). For more information, kindly refer to OPR snapshot [here](#).

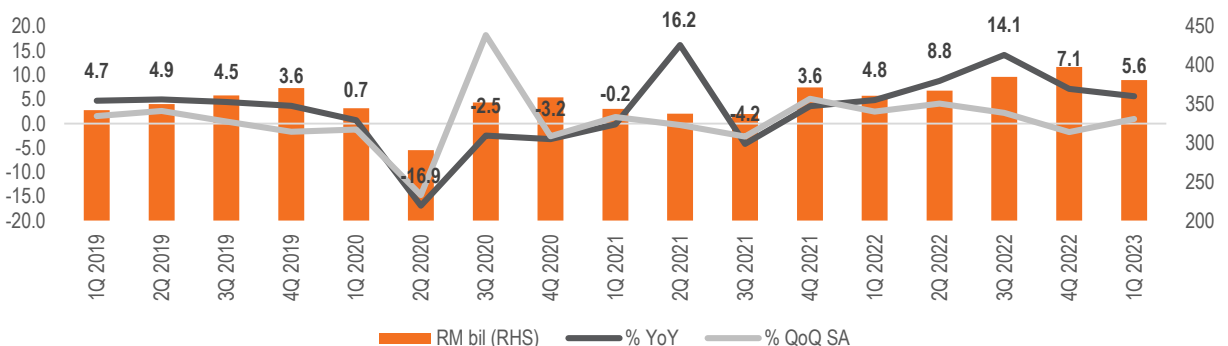
**Figure 1: Quarterly Real GDP**


Table 1: GDP by economic activity (2015p)	Share 2022 (%)	2022					2023
		1Q	2Q	3Q	4Q	Year	1Q
		Annual growth (%)					
Services	58.3	6.4	11.9	16.7	9.1	10.9	7.3
Construction	3.5	(6.1)	2.5	15.3	10.1	5.0	7.4
Manufacturing	24.1	6.7	9.2	13.1	3.9	8.1	3.2
Mining	6.4	(2.2)	(1.7)	9.1	6.3	2.6	2.4
Agriculture	6.6	0.1	(2.3)	1.2	1.1	0.1	0.9
<b>Real GDP</b>	-	<b>4.8</b>	<b>8.8</b>	<b>14.1</b>	<b>7.1</b>	<b>8.7</b>	<b>5.6</b>

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

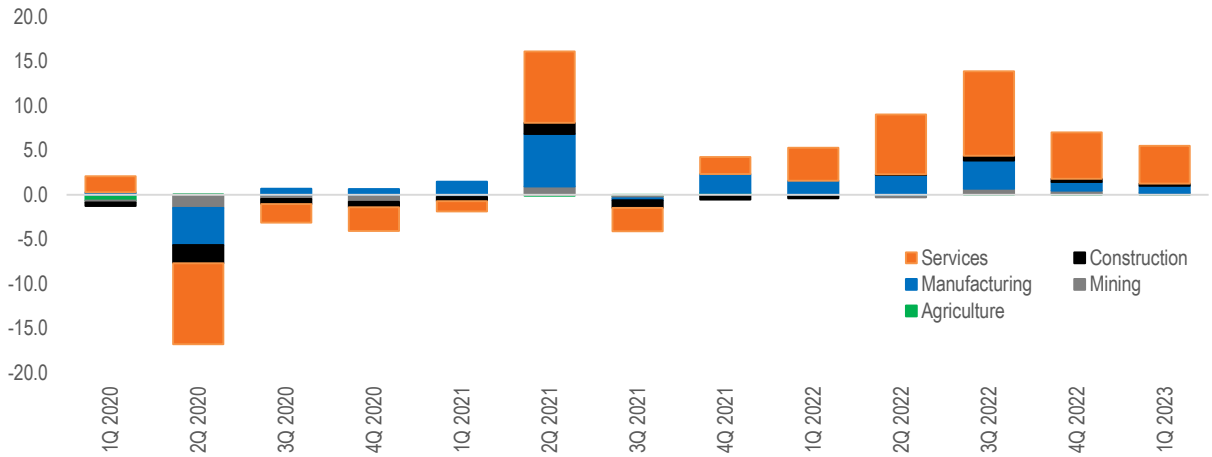


Figure 3: Top 5 contributors to services GDP performance in 1Q 2023 (ppt.)



Figure 4: Bottom 5 contributors to services GDP performance in 1Q 2023 (ppt.)

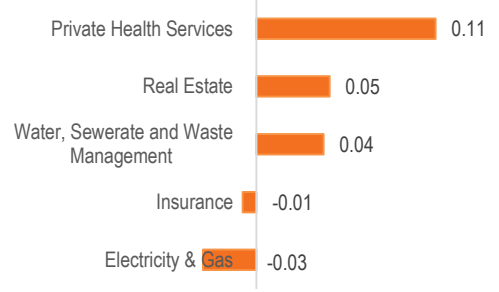


Figure 5: Top 5 contributors to manufacturing GDP performance in 1Q 2023 (ppt.)

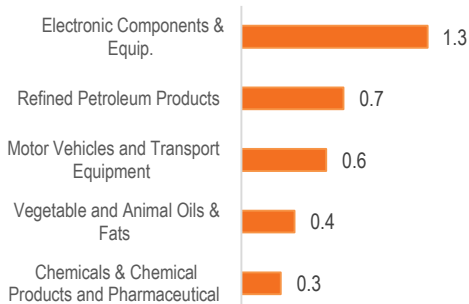


Figure 6: Bottom 5 contributors to manufacturing GDP performance in 1Q 2023 (ppt.)

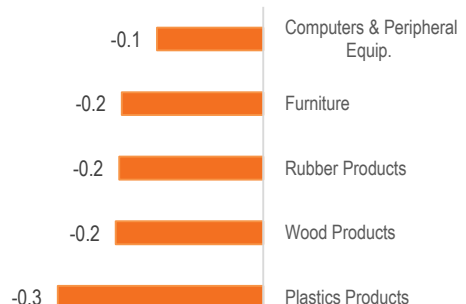


Table 2: GDP by expenditure components (2015p)	Share 2022 (%)	2022					2023
		1Q	2Q	3Q	4Q	Year	1Q
		Annual growth (%)					
Aggregate domestic demand	93.1	4.4	13.0	13.2	6.8	9.2	4.6
<i>Private consumption</i>	60.2	5.3	18.3	14.8	7.3	11.2	5.9
<i>Public consumption</i>	13.2	6.9	2.3	6.5	3.0	4.5	(2.2)
<i>Private Investment</i>	15.3	0.4	6.3	13.2	10.3	7.2	4.7
<i>Public investment</i>	4.4	(1.1)	3.2	13.1	6.0	5.3	5.7
Net exports	5.5	(28.9)	(29.0)	26.2	23.0	(1.0)	54.4
<i>Exports of goods &amp; services</i>	74.6	12.3	15.9	21.5	8.6	14.5	(3.3)
<i>Imports of goods &amp; services</i>	69.1	16.1	20.1	21.1	7.2	15.9	(6.5)
<b>Real GDP</b>	-	<b>4.8</b>	<b>8.8</b>	<b>14.1</b>	<b>7.1</b>	<b>8.7</b>	<b>5.6</b>

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