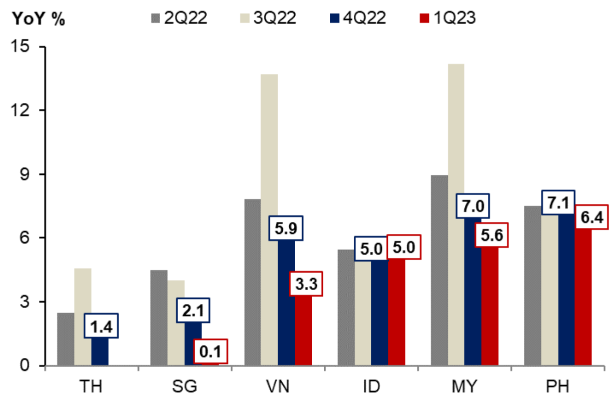
Malaysia 1Q23 GDP

Stronger-than-expected growth on the back of higher tourism receipts and improving labour market

- **The economy expanded by 5.6% YoY in 1Q23, although at a slower pace than the previous quarter (4Q22: 7.1%). Notably, this growth exceeded both house and market expectations of 5.1%**
  - The better-than-expected growth was mainly driven by robust private sector expenditure due to strong household spending amid improving labour market conditions, coupled with a solid expansion in the services sector (1.7% QoQ; 4Q22: -1.5%) due to an improvement in retail spending and higher tourism receipts.
  - In addition to surpassing market expectations, Malaysia is currently the second-fastest growing economy among its ASEAN-5 (ex-TH + VN) peers.
  - Seasonally adjusted QoQ (0.9%; 4Q22: -1.7%): despite a contraction in gross fixed capital formation (-1.4%; 4Q22: 0.1%), the economy rebounded thanks to a sharp recovery in private final consumption expenditure, which increased by 2.0% (4Q22: -2.6%) due to a solid consumer spending activity.

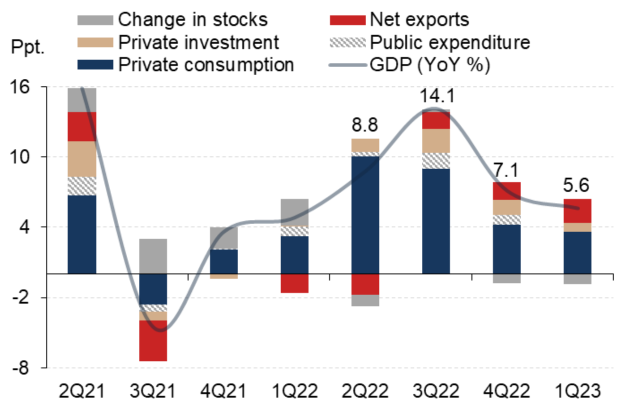
Graph 1: ASEAN-5 (+VN) GDP Growth Performance



Source: DoSM, Kenanga Research

- **Despite a slowdown in domestic demand, growth continued to be supported by higher net exports**
  - Net exports (54.4%; 4Q22: 23.0%): more than doubled and reached its highest in seven quarters, as value-added export growth outpaced imports, subsequently adding 2.1 ppts to 1Q23 GDP growth (4Q22: 1.5 ppts).
    - Exports (5.3%; 4Q22: 10.1%%): moderated in line with the growth in gross merchandise exports (2.8%; 4Q22: 11.8%), owing to several factors such as weaker external demand amid the cumulative impact of tighter global financial conditions and easing commodity prices. The ongoing shift in consumption from goods to services, downcycle in the electrical and electronics (E&E) sector, and a stronger ringgit (average 1Q23: 4.40; 4Q22: 4.57) also contributed to the moderation in export growth.
    - Imports (5.7%; 4Q22: 11.5%): the slowdown was in line with the deceleration of gross merchandise imports (3.7%; 4Q22: 18.5%), mainly due to weaker intermediate imports, which were weighed down by the moderation in manufactured exports and domestic demand.
  - Domestic demand (4.6%; 4Q22: 6.8%): moderated to a four-quarter low due to weak public sector spending but remained supported by robust private sector spending
    - Private spending (5.6%; 4Q22: 7.8%): the moderation in growth was mainly due to a slowdown in private consumption (5.9%; 4Q22: 7.3%) and public investment (4.7%; 4Q22: 4.7%) amid the debilitating impact of rising interest rates. However, growth in this component remained supported by improving labour market conditions and government policy measures, such as higher minimum wage and continued cash transfers. Additionally, capacity expansion by firms and progress in construction activities further contributed to growth in these sectors.
    - Public spending (-0.3%; 4Q22: 3.9%): first negative growth since 3Q21 due to a contraction in public consumption (-2.2%; 4Q22: 3.0%) amid lower government supplies and services spending. This was also due to a slowdown in public investment (5.7%; 4Q22: 6.0%). However, the decline in growth was partially offset by continued capital expenditure by public corporations.

Graph 2: GDP by Expenditure Performance (Percentage Point Contribution to Growth)



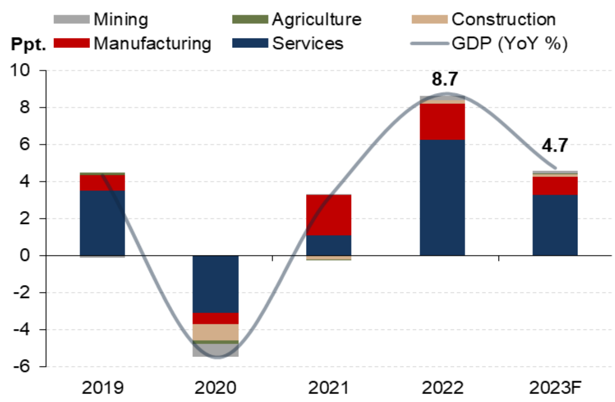
Source: DoSM, Kenanga Research

- **Key economic sectors continued to grow, albeit at a slower pace**

  – Services (7.3%; 4Q22: 9.1%): growth slowed to a four-quarter low, partly due to the base effect. The sector continues to be supported by resilient domestic demand, as evidenced by solid distributive trade sales growth of 12.8% YoY (4Q22: 14.3%) amid lower unemployment rate of 3.5% (4Q22: 3.6%), continued tourism recovery and improving real estate and business services. Services accounted for 4.2 ppts of overall GDP growth (4Q22: 5.2 ppts).

  – Construction (7.4%; 4Q22: 10.1%): moderated but rebounded by 2.9% QoQ (4Q22: -4.1%) on a seasonally adjusted basis, supported mainly by civil engineering and specialised construction activities (8.7%; 4Q22: 8.0%) due to the continued progress of large transportation and utility projects and higher end-works in nearly completed projects.

Graph 3: Growth Outlook by Sector (KIBB forecast)



Source: DoSM, Kenanga Research

  – Manufacturing (3.2%; 4Q22: 3.9%): continued to record decent growth as manufacturing conditions have continued to recover and are better than the levels seen in 4Q22, as evidenced by an improvement in manufacturing PMI reading. Additionally, the sector benefited from the clearance of motor vehicle booking backlogs and sustained growth in electrical and electronic production.

  – Agriculture (0.9%; 4Q22: 1.1%): sustained expansion due to the rise in oil palm output and the arrival of more foreign plantation workers, thanks to the government's foreign worker employment relaxation plan.

  – Mining (2.4%; 4Q22: 6.3%): growth moderation was attributed to a broad-based slowdown of all sub-sectors, especially crude oil and condensate (4.0%; 4Q22: 4.3%), as well as natural gas production (0.6%; 4Q22: 7.3%).

- **2023 GDP forecast maintained at 4.7% (2022: 8.7%), underpinned by the persistent strength in both external and domestic demand in 1H23. However, our forecast is subject to potential downside risks stemming from a possible deceleration in the global economy in 2H23**

  – Despite the stronger-than-expected 1Q23 GDP figure, our initial forecast for 2023 growth remains unchanged at 4.7%. While the economy is expected to continue expanding in the 1H23, we anticipate a slowdown in the 2H23 due to weaker external demand and a rising risk of recession in the global economy, particularly in the US and Europe, brought by tighter financial conditions.

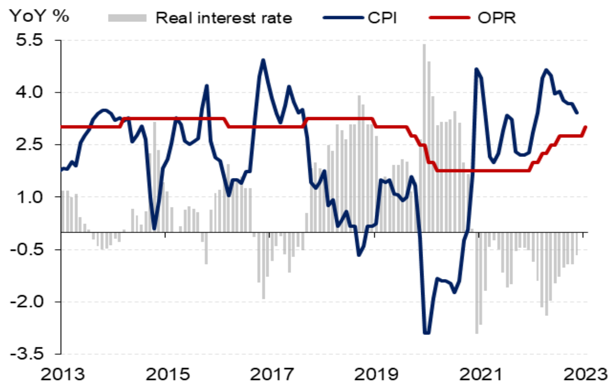
  – Further expansion is expected in 2Q23 (6.0%; 1Q23: 5.6%), as growth is projected to be underpinned by strong domestic demand, supported by steady labour market conditions, increasing tourism activity boosted by China's reopening and further realisation of multi-year investment projects. Growth will also be underpinned by the manufacturing sector, given the continued demand for E&E products and sustained demand from China.

  – Moving forward, the pro-growth policies implemented by the government are expected to continue improving investor sentiment and attracting capital inflows, thereby supporting overall GDP growth in 2023. Nonetheless, there are still considerable downside risks to the economy, including the possibility of a weaker-than-expected global growth stemming from the ongoing banking crisis in the US and tight financial conditions. In addition, geopolitical risks such as the Russia-Ukraine war and rising tensions between the US and China also pose potential threats to the economy.

  – For 2024, our preliminary forecast for GDP points towards a further expansion at 4.9% on the back of growth recovery in the global economy and stronger domestic and external demand driven by higher private investment as well as exports of manufactured goods.

- **BNM is expected to maintain the status quo of its monetary policy for the rest of the year** due to further improvement in the domestic economy supported by higher investment growth, and **the already implemented rate hikes should suffice in reducing inflation**
  - Despite the recent unexpected 25 basis points rate hike by the BNM, we maintain our primary assumption that the implemented rate hikes would suffice to control rising inflation while sustaining domestic economic growth. To note, March core inflation reading is at 3.8% YoY, which indicates a decrease in annual inflation from the November 2022 peak of 4.2%. Over the next few months, we expect inflation to continue declining and average around 2.9% (lower end of BNM's inflation forecast) for the whole year, mainly due to tighter global financial conditions and a slowdown in global demand.
  - Assuming no major policy changes by the government and external shocks to our growth and inflation outlook, we expect the BNM to maintain a steady OPR rate of 3.00% for the rest of 2023.

Graph 4: OPR (%) vs. Inflation (% YoY)



Source: BNM, DoSM, Kenanga Research

Table 1: Malaysia GDP Growth (constant 2015 prices) and Contribution to Growth by Sector (Supply) and Expenditure (Demand)

YoY %	2021	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23F	2023F
By Sector									
Agriculture	-0.1	0.1	-2.3	1.2	1.1	0.1	0.9	2.0	0.9
Mining	0.9	-2.2	-1.7	9.1	6.3	2.6	2.4	2.7	2.0
Manufacturing	9.5	6.7	9.2	13.1	3.9	8.1	3.2	7.1	4.0
Construction	-5.1	-6.1	2.5	15.3	10.1	5.0	7.4	7.9	6.6
Services	2.2	6.4	11.9	16.7	9.1	10.9	7.3	5.9	5.3
Real GDP	**3.3**	**4.8**	**8.8**	**14.1**	**7.1**	**8.7**	**5.6**	**6.0**	**4.7**
Ppt. Contribution									
Agriculture	0.0	0.0	-0.2	0.1	0.1	0.0	0.1	0.1	0.1
Mining	0.1	-0.2	-0.1	0.6	0.4	0.2	-0.1	0.5	0.1
Manufacturing	2.2	1.6	2.2	3.2	1.0	2.0	0.8	1.7	1.0
Construction	-0.2	-0.2	0.1	0.5	0.3	0.2	0.3	0.3	0.2
Services	1.3	3.7	6.7	9.5	5.2	6.2	4.2	3.5	3.1
Real GDP	**3.3**	**4.8**	**8.8**	**14.1**	**7.1**	**8.7**	**5.6**	**6.0**	**4.7**
By Expenditure									
Consumption	2.7	5.6	15.2	13.3	6.3	9.9	4.5	7.1	5.1
Public	6.4	6.9	2.3	6.5	3.0	4.5	-2.2	3.7	0.6
Private	1.9	5.3	18.3	14.8	7.3	11.2	5.9	8.1	6.1
Investment	-0.8	0.1	5.8	13.1	8.8	6.8	4.9	6.6	6.1
Public	-11.1	-1.0	3.2	13.1	6.0	5.3	5.7	7.3	6.9
Private	2.7	0.4	6.3	13.2	10.3	7.2	4.7	6.5	5.9
Public Spending	1.5	4.9	2.5	7.9	3.9	4.7	-0.3	3.5	2.2
Private Spending	2.0	4.3	15.4	14.4	7.8	10.3	5.6	7.7	6.1
Domestic Demand	1.9	4.4	13.0	13.2	6.8	9.2	4.6	7.0	5.3
Exports	18.5	12.3	15.9	21.5	10.1	14.5	5.3	3.1	0.8
Imports	21.2	16.1	20.1	21.1	11.5	15.9	4.7	2.7	-0.2
Net exports	-4.0	-29.0	-29.0	26.1	23.0	-1.0	54.4	10.4	13.8
Real GDP	**3.3**	**4.8**	**8.8**	**14.1**	**7.1**	**8.7**	**5.6**	**6.0**	**4.7**
Ppt. Contribution									
Consumption	2.0	4.1	10.4	9.9	4.7	7.2	3.3	5.2	3.8
Public	0.9	0.9	0.3	0.9	0.5	0.6	-0.3	0.3	0.1
Private	1.1	3.3	10.0	9.0	4.2	6.6	3.6	4.8	3.7
Investment	-0.2	0.0	1.2	2.5	1.6	1.4	1.0	1.4	1.2
Public	-0.6	0.0	0.1	0.5	0.4	0.2	0.2	0.2	0.3
Private	0.4	0.1	1.1	2.0	1.3	1.1	0.8	1.1	0.9
Public Spending	0.3	0.8	0.4	1.4	0.9	0.9	-0.1	0.6	0.4
Private Spending	1.5	3.3	11.2	11.0	5.5	7.7	4.4	6.0	4.6
Domestic Demand	1.8	4.2	11.6	12.4	6.3	8.5	4.3	6.5	5.0
Exports	11.4	8.4	11.4	15.5	6.2	10.3	-2.4	2.4	0.6
Imports	11.7	10.0	13.1	14.1	4.7	10.3	-4.5	1.9	-0.1
Net exports	-0.3	-1.6	-1.7	1.5	1.5	-0.1	2.1	0.4	0.8
Real GDP	**3.3**	**4.8**	**8.8**	**14.1**	**7.1**	**8.7**	**5.6**	**6.0**	**4.7**

Source: DoSM, BNM, Kenanga Research
F: forecast, PPT: percentage point

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