SMEBank-EconomicResearch@smebank.com.my
(603) 2615 2020

Lynette Lee
Mazlina Abdul Rahman
Syed Mohamad Bukhari
Uswatun Hasanah

Economic Research

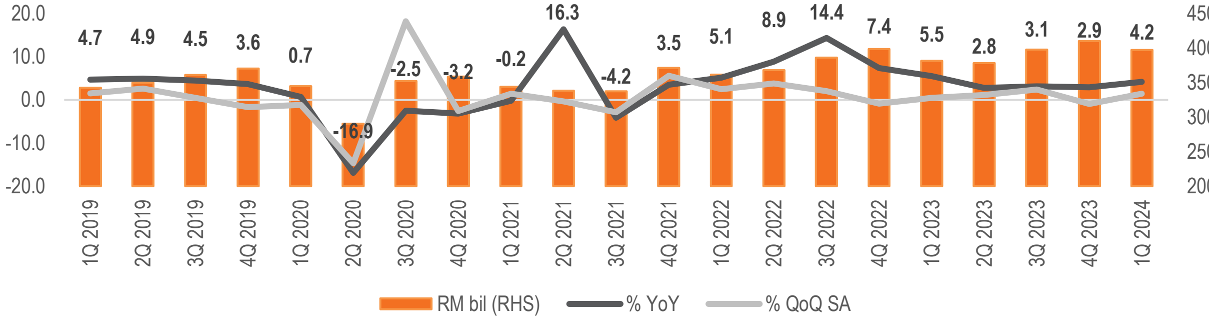
ECONOMIC DIGEST

21 MAY 2024

1Q 2024 GDP growth beat expectation

- Malaysia's economy **expanded by 4.2% YoY in 1Q 2024** (4Q 2023: 2.9%), slightly higher than in-house's estimation of 4.0% (DOSM's advance estimate & Bloomberg's median consensus: 3.9%), supported by 1) **higher household spending**; 2) **turnaround in goods exports and higher tourist arrivals**; and 3) **stronger investment activities**, among others. On a QoQ seasonally adjusted basis, the economy **rebounded by 1.4%** (4Q: -1.0%)
- By supply side, all sectors recorded growth, where the **construction sector chalked the highest increase** (11.9% YoY). Services sector which accounted for 59.2% of total GDP advanced by 4.7% while **manufacturing** (2nd largest sector) **rebounded to positive territory** of 1.9% after two consecutive quarters of negative growth (*refer to page 2-4 for sectoral deep-dive*).
- On the expenditure side (*refer to Table 1*), the expansion was **underpinned by firm domestic demand** (6.1% YoY), primarily in the private sector. **Private investment soared** 9.2%, the fastest pace since 4Q 2022 (10.3%) despite rising cost environment. Meanwhile, private consumption – which has the largest share of GDP – grew steadily by 4.7% yet **below 7.1% to 8.1% range seen in 2019**.
- **BNM is rather conservative on the impact** from the **withdrawal of EPF account 3** on consumer spending. In line, we believe current circumstances are not as bad compared to pandemic years, hence less need to utilise the funds. Nonetheless, we opine that **some EPF members may still opt for the one-off transfer** from account 2 to account 3 for **flexibility of additional cash**. Earlier, EPF has estimated around RM25 bil to RM30 bil of withdrawal for the first year, which could bring about a significant boost to private consumption. A more conservative estimate of **RM10 bil withdrawal will add 0.7ppt** to our GDP growth forecast for 2024.
- Externally, both **exports and imports have returned to growth** in 1Q, after a year of contraction. Exports of goods grew marginally (1.0%) while those of services rose remarkably (33.8%). Exports are expected to **gradually improve in the coming months,** supported by **resumption of oil and gas production** following maintenance last year; **increase in flight connectivity** and **visa exemptions**, among others. Moreover, **exports of E&E** – which contributes the largest share to total exports at 37% – has turned positive (0.6% YoY) in April, following eight straight months of decline.
- **Forward looking indicators** which include MIER consumer sentiment index, DOSM business tendency statistics (business expectation) as well as its leading index **all point to continued growth** for our economy. That said, we **remain cautious amid rising headwinds**, mainly stemming from the external side: 1) weaker than expected external demand; and 2) further escalation of geopolitical conflicts. Domestically, policy factors especially the potential review of fuel subsidies which offers longer-term benefit (e.g. reduce fiscal deficit), may **temporarily** result in **higher cost of doing business** and **limit consumers' purchasing power**.

Figure 1: Quarterly Real GDP



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

Table 1: GDP by expenditure components (2015p)	Share 2023 (%)	2023					2024
		1Q	2Q	3Q	4Q	Year	1Q
		Annual growth (%)					
Aggregate domestic demand	**93.9**	**4.8**	**4.4**	**4.5**	**4.9**	**4.6**	**6.1**
Private consumption	*60.7*	*6.1*	*4.4*	*4.2*	*4.2*	*4.7*	*4.7*
Public consumption	*13.2*	*(2.0)*	*3.3*	*5.3*	*5.8*	*3.3*	*7.3*
Private Investment	*15.5*	*4.7*	*5.1*	*4.5*	*4.0*	*4.6*	*9.2*
Public investment	*4.6*	*5.7*	*7.9*	*7.5*	*11.3*	*8.6*	*11.5*
Net exports	**4.4**	**71.2**	**(11.9)**	**(19.9)**	**(52.9)**	**(16.2)**	**(24.5)**
Exports of goods & services	*66.1*	*(2.9)*	*(9.0)*	*(12.0)*	*(7.9)*	*(8.1)*	*5.2*
Imports of goods & services	*61.7*	*(6.7)*	*(8.8)*	*(11.3)*	*(2.6)*	*(7.4)*	*8.0*
Real GDP	-	**5.5**	**2.8**	**3.1**	**2.9**	**3.6**	**4.2**

Economic Activity	Details
 **Services**	• Services sector growth improved to 4.7% YoY in 1Q (4Q 2023: 4.1%). • **All services sub-sectors expanded except insurance** (1Q: -7.5% YoY; 4Q: -11.4%). • **Accommodation** (12.2% YoY), **transportation & storage** (11.0%) and **real estate** (9.9%) posted **the highest growth,** among others. **Transportation & storage is likely to remain robust** on the back of potential increase in demand from subsidy rationalisation and recovery in export-import activities. • Meanwhile, higher approvals for housing construction in 2023 (78% YoY to 196k units and 129% above 2019's level) and steady OPR (less uncertainty) may **bode well for real estate's performance** moving forward. **Downside risks** include (1) the rising cost environment which may delay purchases of big-ticket items as well as (2) lower portion of EPF (up to 25% of savings vs 30% previously) to tap for house purchases amid implementation of account 3. • Growth in **retail trade** – largest share of services at 8.6% – ticked higher to 3.6% YoY (4Q: 2.8%) while those of motor vehicles and wholesale softened to 5.1% YoY and 3.8% YoY (4Q: 9.9% and 4.8%), respectively. • **Continuous recovery** is expected for **tourism related activities**. International passenger traffic at airports are moving closer to pre-pandemic level, currently at 87.9% of 2019's (4Q: 81.5%). Moreover, travel account posted a net surplus of RM6.6 bil in 1Q (4Q: RM6.4 bil), the highest since 3Q 2019. • Overall, we observe the **trend in consumer spending to lean towards services.** Service components made up 53.7% of CPI basket in 1Q 2024 (4Q 2023: 50.8%). In March, services contributed 1.1ppt to overall 1.8% YoY inflation. • **Individual savings registered a first increase** after 1.5 years, at 0.5% YoY in 1Q (4Q: -1.9%) despite **moderation in salary growth** (1Q: 2.4% YoY; 4Q: 3.1%; average 2017-2019: 5.8%). However, consumer spending seems to be unaffected as **growth momentum** of the services sector **remain strong**, suggesting that demand could have been **funded by debt and/or Govt's cash aids**. Notably, **household outstanding financing growth was higher in 1Q** at 6.2% YoY (4Q: 5.7%). Looking ahead, withdrawal of EPF account 3 and Govt cash aids will continue to be supportive of consumer spending. • Nonetheless, **purchasing power could be constrained** due to **rising cost** (e.g. higher and wider scope of service tax, higher utility bills).

Sources: DOSM, CEIC, BNM, SIA, S&P Global, EPF and SME Bank Economic Research

Economic Activity	Details
Manufacturing	• **Manufacturing sector rebounded by 1.9% YoY** (4Q: -0.3%), reversing 2 consecutive quarters of contraction. This was propelled by non-metallic mineral products, basic metal and fabricated metal products (7.2% YoY), followed by wood products, furniture, paper products and printing (4.2%), and petroleum, chemical, rubber and plastic products (1.1%). • **Electrical, electronic and optical products** which accounted for the highest share at 34.4%, also **rebounded by 0.7% YoY** in 1Q (4Q: -6.0%). Semiconductor related products contracted at a slower pace of -0.2% YoY (4Q: -10.0%) and is expected to **continue recovering moving forward** following **faster global semiconductor sales** (1Q: 15.2% YoY; 4Q: 11.6%). • Forward looking indicators such as manufacturing PMI has also improved to 49.0 in April (Mar: 48.4).
Agriculture	• Agriculture sector **growth moderated** to 1.6% YoY (4Q: 1.9%) dragged by slower production of rubber and food crops amid **hot weather** – rubber and other agriculture production growth eased to 3.6% and 0.3% (4Q: 3.8% and 2.5%), respectively. Moreover, forestry & logging and aquaculture continued to contract by -10.5% and -2.8% (4Q: -5.6% and -5.5%), respectively. • In contrast, **oil palm** GDP growth **improved** to 2.5% YoY (4Q: 1.6%). Production came in at 4.1 mil ton in 1Q 2024 (1Q 2023: 3.9 mil ton), supported by improving labour force, better harvesting yield (1Q 2024: 0.23 ton per hectare; 1Q 2023: 0.22 ton) and dry season prevention measures (e.g double fertilisation and irrigation). • Moving forward, palm oil production is expected **to remain strong** underpinned by easing labour shortages and peak harvesting season (Apr-Nov).
Mining and quarrying	• Mining & quarrying sector growth **accelerated to 5.7**% YoY (4Q: 3.5%) – in line with mining IPI which surged by 5.9% (4Q: 3.7%). The increase was mainly driven by improvement in natural gas production (1Q: 9.0% vs 4Q: 5.3%). Meanwhile, crude oil and condensate posted a modest growth of 1.3% YoY (4Q: 1.5%). • Performance of this sector is expected to **remain steady this year**. Crude oil production cuts by OPEC+ and ongoing geopolitical risks will keep the **Brent price hovering at current level or even higher**. However, **demand** seems to be **weak** given International Energy Agency's trim in forecast for 2024 to 1.1 mil bpd i.e. lowered by 140k bpd, mostly citing weak demand in developed OECD nations.

Sources: DOSM, CEIC, BNM, the Edge, Reuters, OPEC, and SME Bank Economic Research

Economic Activity	Details
 **Construction**	• Construction sector **soared by 11.9% YoY in 1Q** (4Q: 3.6%), the strongest growth since 3Q 2022, **attributed to stellar growth in all sub-sectors.** • Civil engineering recorded stronger double-digit growth of 23.5% YoY (4Q: 16.9%). Specialised construction activities spiked by 11.4% YoY (4Q: 0.8%) and residential buildings surged 8.0% (4Q: 1.3%). Furthermore, non-residential buildings returned to growth of 1.6% YoY (4Q: -4.7%), reversing 2 consecutive quarters of contraction. • In tandem, **construction work done recorded a sharp double-digit growth** of 14.2% YoY (4Q: 6.8%) which brought its overall level above **2019's pre-pandemic level** (1Q: 100.5%; 4Q: 93.3%). • While specialised construction and non-residential have comfortably exceeded 2019's level, **civil engineering** (1Q: 92%; 4Q: 87%) and **residential** (1Q: 87%; 4Q: 80%) are **still below, albeit gradually improving**. • Moving forward, performance of the construction sector will be supported by: **1) Continuous progress of major infrastructure projects** (e.g. ECRL, RTS, Pan Borneo Highway package 1a. **2) More govt project tenders** to be awarded and to start construction in 2H 2024 (e.g. Penang LRT, Sarawak-Sabah Link Road Phase 2, Pan Borneo Highway package 1b, flood mitigations projects, highways, schools and hospitals) . **3) Increase in private projects** (e.g approved investment worth RM329.5 bil in 2023 or +23% YoY, redevelopment of KL Sentral, higher approvals for housing construction in 2023).

Table 2: GDP by economic activity (2015p)	Share 2023 (%)	2023					2024
		1Q	2Q	3Q	4Q	Year	1Q
		Annual growth (%)					
Services	59.2	7.3	4.7	4.9	4.1	5.1	4.7
Manufacturing	23.4	3.2	0.1	(0.1)	(0.3)	0.7	1.9
Agriculture	6.4	1.0	(1.0)	0.3	1.9	0.7	1.6
Mining	6.2	2.4	(2.3)	(1.1)	3.5	0.5	5.7
Construction	3.6	7.4	6.2	7.2	3.6	6.1	11.9
Real GDP	-	**5.6**	**2.9**	**3.1**	2.9	3.6	4.2

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

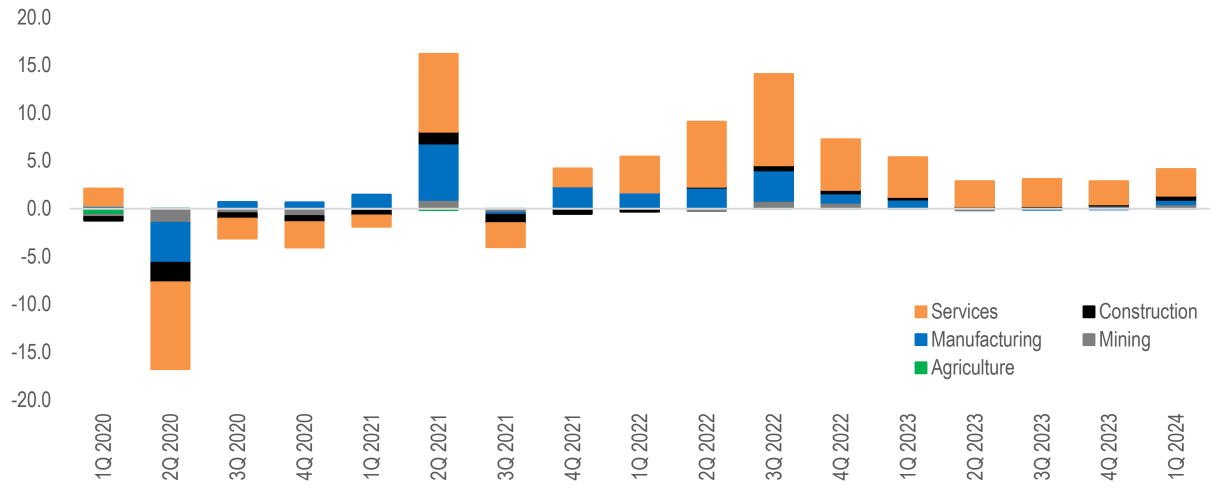


Figure 3: Top 5 contributors to services GDP performance in 1Q 2024 (ppt.)

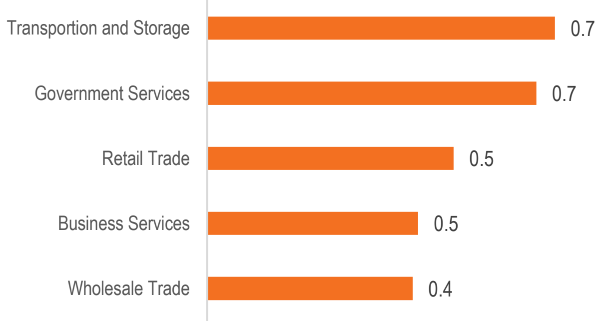


Figure 4: Bottom 5 contributors to services GDP performance in 1Q 2024 (ppt.)

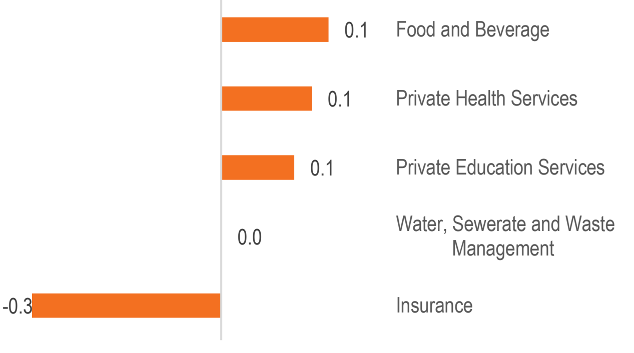


Figure 5: Top 5 contributors to manufacturing GDP performance in 1Q 2024 (ppt.)

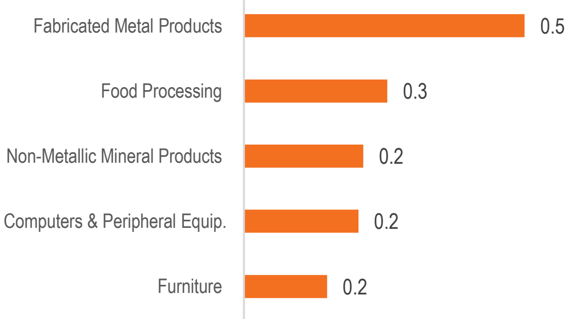
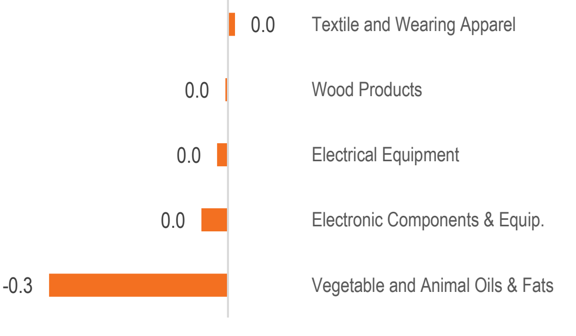


Figure 6: Bottom 5 contributors to manufacturing GDP performance in 1Q 2024 (ppt.)



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

Economic Research

DISCLAIMER

Economic Research, SME Bank