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Economic Research

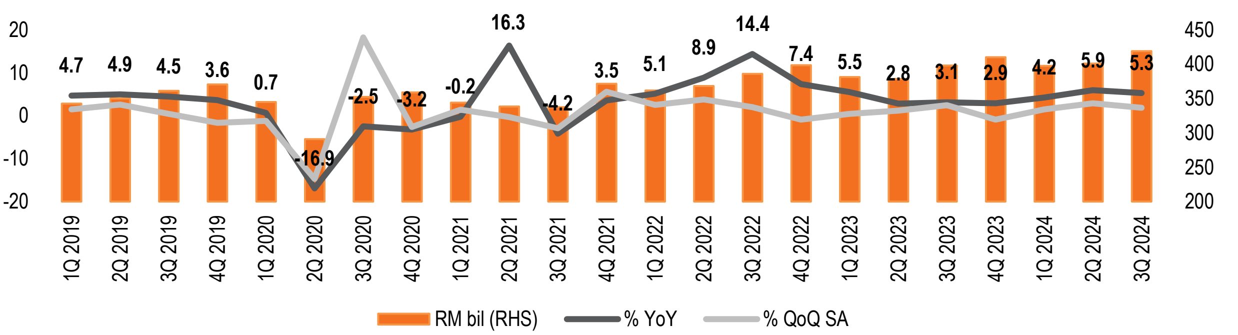
ECONOMIC DIGEST

19 NOVEMBER 2024

3Q 2024 GDP on track to achieve full year target

- Malaysia's economy grew by 5.3% YoY, **matched the advance estimate but slowed from the previous quarter** (2Q: 5.9%; 9M 2024: 5.2%; average 2017-2019: 5.0%). The continuous growth were sustained by 1) positive labour market, 2) supportive policies, 3) stronger investment activities, and 4) steady inbound tourism, among others. On a QoQ seasonally adjusted basis, the economy eased to 1.8% (2Q: 2.9%).
- In line with our expectation, **services** (5.2% YoY) **and agriculture** (3.9% YoY) **expanded at a slower pace** while **mining fell** (-3.9%) after three consecutive quarters of growth, **due to maintenance activities**. On the other hand, construction and manufacturing sector continued growing at a higher pace.
- On the expenditure side *(refer Table 1)*, **the expansion were underpinned by investment**, which improved in both public and private sectors, reflecting improved investor confidence. To note, FDI inflow to Malaysia rebounded by 21.3% YoY in 1H 2024 (1H 2023: -25.6%). Besides that, public consumption grew at a faster pace of 4.9%. However, these were **insufficient to fully offset the moderation in private consumption** (4.8%) as it accounted for the largest share of GDP at 60.7%. Slower private spending came in despite one-time transfer of funds from Account 2 to Account 3 in the Employees Provident Fund (EPF), suggesting that members may have used it to settle their financial debts, set it aside for rainy days or invested it.
- Moreover, as the **gap between import** (3Q: 13.5% vs 2Q: 8.7%) **and export** (3Q: 11.8% vs 2Q: 8.4%) **became more pronounced** in 3Q, net exports declined -8.8% (2Q 3.4%). Nonetheless, **stronger import growth was driven by higher demand for capital** (3Q: 46.7% YoY; 2Q: 24.0%) and **intermediate goods** (3Q: 33.3%; 2Q: 28.7%).
- YTD, GDP grew by 5.2% YoY, **on track to land within our in-house GDP forecast range of 4.3% - 5.3%** (MOF: 4.8% - 5.3%) for 2024. For **2025**, we foresee **GDP to expand at a slightly higher range of 4.5% - 5.5%,** propelled by 1) continuous improvement in the labour market; 2) civil servants' salary revision; 3) expansionary Budget 2025, 4) acceleration of 12MP's projects in the final year; 5) relatively strong Ringgit; and 5) full recovery of tourism activities.
- Under **Budget 2025,** various cash aids (e.g. Rahmah cash & basic contribution, RM500 for civil servants & RM250 for pensioners) and higher minimum wage of RM1.7k (current: RM1.5k) are positive for consumer spending. However, other measures including the expansion of SST to non-essential goods, business-to-business commercial services and RON95 subsidy rationalisation weigh on consumption.
- We **remain cautious amid rising headwinds**, mainly stemming from the external side: 1) weaker-than-expected external demand; 2) potential escalation of US – China trade war following Trump's election win; 3) worsening geopolitical conflicts; and 4) lower-than-expected commodity production and prices.

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	2Q	3Q
		Annual growth (%)							
Aggregate domestic demand	**93.9**	**4.8**	**4.4**	**4.5**	**4.9**	**4.6**	**6.1**	**6.9**	**7.0**
Private consumption	*60.7*	*6.1*	*4.4*	*4.2*	*4.2*	*4.7*	*5.7*	*6.0*	*4.8*
Public consumption	*13.2*	*(2.0)*	*3.3*	*5.3*	*5.8*	*3.3*	*7.3*	*3.6*	*4.9*
Private Investment	*15.5*	*4.7*	*5.1*	*4.5*	*4.0*	*4.6*	*9.2*	*12.0*	*15.5*
Public investment	*4.6*	*5.7*	*7.9*	*7.5*	*11.3*	*8.6*	*11.5*	*9.1*	*14.4*
Net exports	**4.4**	**71.2**	**(11.9)**	**(19.9)**	**(52.9)**	**(16.2)**	**(24.5)**	**3.4**	**(8.8)**
Exports of goods & services	*66.1*	*(2.9)*	*(9.0)*	*(12.0)*	*(7.9)*	*(8.1)*	*5.2*	*8.4*	*11.8*
Imports of goods & services	*61.7*	*(6.7)*	*(8.8)*	*(11.3)*	*(2.6)*	*(7.4)*	*8.0*	*8.7*	*13.5*
Real GDP	-	**5.5**	**2.8**	**3.1**	**2.9**	**3.6**	**4.2**	**5.9**	**5.3**

Economic Activity	Details
 **Services**	• Services sector growth **ticked slower** to 5.2% YoY in 3Q (2Q: 5.9%; 3Q avg 2017-19: 6.6%). **Growth decelerated for motor vehicles** (3Q: 3.5%; 2Q: 8.2%) and **retail trade** (3Q: 4.0%; 2Q: 5.6%). Moreover, **water, sewerage and waste management continued to decline** for second consecutive quarters albeit at a slightly slower pace (3Q: -3.9% YoY; 2Q: -4.0%). • Meanwhile, **accommodation** posted the highest growth of 14.3% YoY, followed by **real estate** (14.2%), and **transportation and storage** (10.6%). In addition, **wholesale trade,** one of the largest contributor (12.4%) to services sector, accelerated to 4.4% YoY (2Q: 3.0%). • **Tourism recovery on track:** 1. For Jan-Sep 2024, **tourist arrivals** recorded 18.4 mil persons which stood at 91% of pre-pandemic's Jan-Sep 2019. a. Among the top 3 countries, tourists from China (105%) has surpassed 2019 level, while Indonesia (96%) and Singapore (83%) continued to recover. • **Improving household disposable income** will support spending next year: • 1) Improving labour market condition, 2) civil servant salary revision, 3) increased govt cash aids (e.g. STR, SARA, JKM, Budi Madani); and 4) higher minimum wage of RM1.7k (current: RM1.5k). • Private sector (service & manufacturing) wage growth improved to 2.9% YoY in 3Q (2Q: 2.6%). Additionally, household sector debt growth moderated marginally to 6.1% YoY (2Q: 6.2%). • Nevertheless, **purchasing power could be constrained** by **rising cost of living** (e.g. higher Diesel prices, upcoming RON95 subsidy rationalisation, subsidy removal for T15 household in public healthcare and education, progressive SST which will expand to non-essential goods (e.g. imported premium items) and fee-based financial services) • In 3Q, CPI inflation continued to lean towards services where it contributed 1.2ppt to overall 1.9% YoY inflation, unchanged from 2Q.

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

<table>
<tr><th>Economic Activity</th><th>Details</th></tr>
<tr><td>Manufacturing</td><td>

Manufacturing sector increased by 5.6% YoY in 3Q (2Q: 4.7%), the fastest pace since 3Q 2022 (13.1%). Highest growth was recorded by computers and peripheral equipment (16.1% YoY), tobacco products (15.7%), and vegetable and animal oils & fats (15.5%).
Electronic components & boards (semiconductor) – which makes up the largest share of manufacturing at 22.2% – rose faster by 5.7% YoY (2Q: 3.2%).
Likewise, manufacturing indicators showed <u>positive</u> performance:

Manufacturing IPI +5.8% YoY in 3Q (2Q: 4.9%), the strongest in 2 years.
Manufacturing sales expanded +6.5% YoY (2Q: 5.7%), underpinned by food, beverages & tobacco (12.3% YoY) and electrical & electronics products (8.1%). Besides that, exports sales growth (3Q: 6.7% YoY; 2Q: 4.7%) has outpaced domestic sales (3Q: 6.2% YoY; 2Q: 8.3%) for the first time since 4Q 2022.
Global uptrend in semiconductor sales persisted for the 4th consecutive quarter with a robust double-digit growth of 23.2% YoY in 3Q (2Q: 18.3%).

Even though manufacturing PMI remain contracted in Oct 2024 at 49.5, new orders had grown for the first time since Jun and foreign sales rose for the 7th month. Besides that, import of capital goods and intermediate goods expanded at a faster pace in 3Q, signaling a better outlook for the sector in the coming months.

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<tr><td>Agriculture</td><td>

Agriculture sector growth moderated to 3.9% YoY (2Q: 7.3%). While aquaculture subsector contracted (-2.2% YoY), all other subsectors grew. Palm oil growth softened (3Q: 7.3%; 2Q: 19.0%) while rubber subsector rebounded (3Q: 13.0% YoY; 2Q: -1.0%).
All palm oil indicators showed <u>moderate</u> performance;

Slower fresh fruit bunches received by mills, up 7.4% YoY to 28.6 mil tonne in 3Q (2Q: 19.6%).
CPO production increased by 7.0% YoY to 5.6 mil ton in 3Q (2Q: 15.9%).
CPO prices averaged slightly lower in 3Q at RM3,894 (2Q: RM3,982).

European Commission has proposed to delay the enforcement of the EU Deforestation Regulation to 30 Dec 2025 (previous: Dec 2024) which may prompt restocking activity.
While palm oil demand is expected to stay robust in the near term, production may face some challenges. Local palm oil production for Oct 2024 dropped by 1.3% MoM and 7.2% YoY to 1.8 mil tonne, which is also below historical average during the month of Oct (2017-2019: 1.9 mil tonne).

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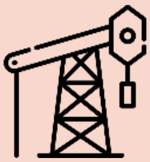
Economic Activity	Details
 **Mining and quarrying**	• Mining & quarrying sector **contracted** by 3.9% YoY (2Q: 2.7%), dragged down by negative growth of both oil and condensate (3Q: -7.3%, 2Q: 1.6%) and natural gas production (3Q: -2.8% YoY; 2Q: 2.9%), Conversely, other mining (3Q: 2.6% YoY; 2Q: 7.2%) increased but at a slower pace. • **Mining IPI contracted** by -4.6% YoY in 3Q (2Q: 2.4%), the weakest since 4Q 2020 (-10.0%). **Production plunged the most in Aug** (Sep: -2.2% YoY; Aug: -6.4%; Jul: -5.0%). • The mining sector's **lackluster performance is expected to continue next year** as the sector is projected to experience a **negative growth** of -1.0% YoY in 2025 (2024e: 2.2%) under Budget 2025. • IEA forecasts global oil to face **oversupply** condition by 1 mil barrels per day (bpd) or 1% of total global output in 2025. Growing **supply outside OPEC+** and sluggish demand (due to **transitioning to renewable energy & electric vehicles** and **slower China growth** – the world's 2nd largest oil consumer after the US) are double whammy to global oil performance in 2025. • On the other hand, OPEC+ has delayed the phase out of supply cut to Dec (supposed to start in Oct) in order to support global oil prices. • OPEC+ still expects **global oil demand** to grow in 2025 but **at a slower pace** of 1.54 mil bpd (previous 2025f: 1.64 mil bpd; 2024e: 1.82 mil bpd). Some other upside potential include wider geopolitical conflicts & US policy shifts (e.g. oil sanctions, delay climate policy).
 **Construction**	• Construction sector growth **augmented by 19.9% YoY in 3Q** (2Q: 17.3%), the strongest growth since 2Q 2021 (40.3%). This was **attributed to <u>stellar growth in all subsectors</u>:** 1. Growth in **non-residential building** activities jumped to 28.1% YoY in 3Q (2Q: 2.8%). **2.** **Residential building** maintained double-digit growth of 22.7% YoY (2Q: 14.1%). **3.** **Specialized construction** continued double-digit growth for the 3rd consecutive quarter at 21.7% YoY (2Q: 27.0%). **4.** **Civil engineering** grew slower at 10.7% YoY (2Q: 23.6%). • Likewise, construction **work done** surged by 22.9% YoY in 3Q (2Q: 20.2%), the highest since 3Q 2022 (23.2%). The robust performance was driven by all segment. Only **civil engineering** (3Q: 92.5%: 2Q: 92.4%) has yet to return to pre-pandemic's 2019 level. • Looking ahead, construction sector performance will continue to be supported by: **1.** **Continued progress of major infrastructure projects** (e.g. ECRL, RTS, Nenggiri Hydro, Pan Borneo Highway package 1a) **2.** **Major projects to begin construction** (i.e LRT Penang, Pan Borneo Highway package 1b) **3.** **Increase in private projects** (MIDA investment approval went up by 18% YoY in 1H 2024 to RM160 bil) 4. The govt is expected to **accelerate the roll out of projects next year** (final year of 12th Malaysia Plan). As of Dec 2023, 2,433 projects (29% of total) are still needed to reach the 12th MP target.

Sources: DOSM, CEIC, BNM, OPEC, MIDA, IEA and SME Bank Economic Research

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Table 2: GDP by economic activity (2015p)	Share 2023 (%)	2023					2024		
		1Q	2Q	3Q	4Q	Year	1Q	2Q	3Q
		Annual growth (%)							
Services	59.2	7.3	4.7	4.9	4.1	5.1	4.8	5.9	5.2
Manufacturing	23.4	3.2	0.1	(0.1)	(0.3)	0.7	1.9	4.7	5.6
Agriculture	6.4	1.0	(1.0)	0.3	1.9	0.7	1.7	7.3	3.9
Mining	6.2	2.4	(2.3)	(1.1)	3.5	0.5	5.7	2.7	(3.9)
Construction	3.6	7.4	6.2	7.2	3.6	6.1	11.9	17.3	19.9
Real GDP	-	**5.6**	**2.9**	**3.1**	**2.9**	**3.6**	**4.2**	**5.9**	**5.3**

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

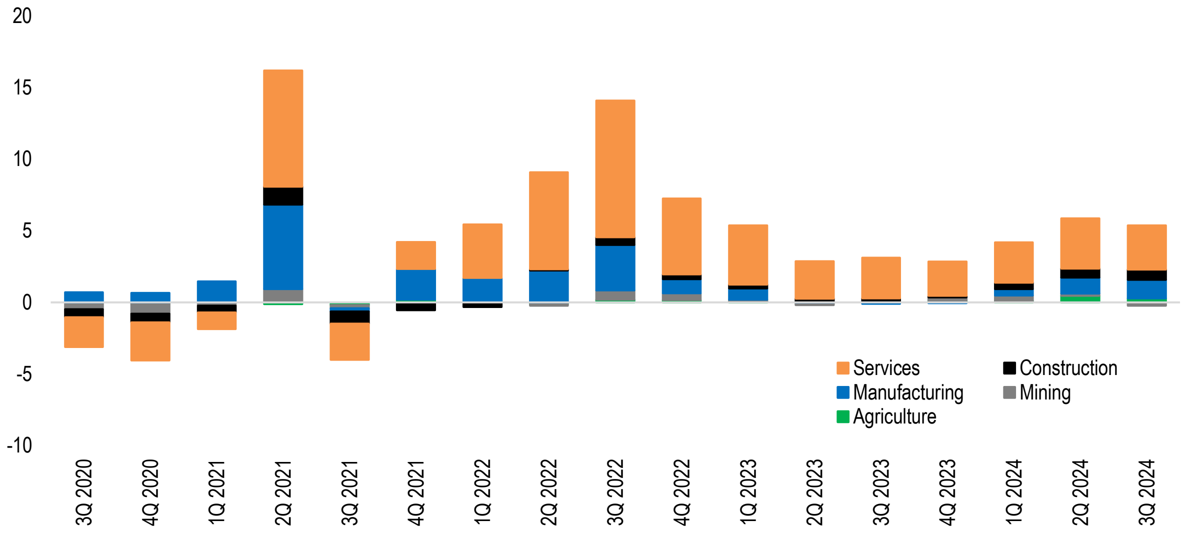


Figure 3: Top 5 contributors to services GDP performance in 3Q 2024 (ppt.)

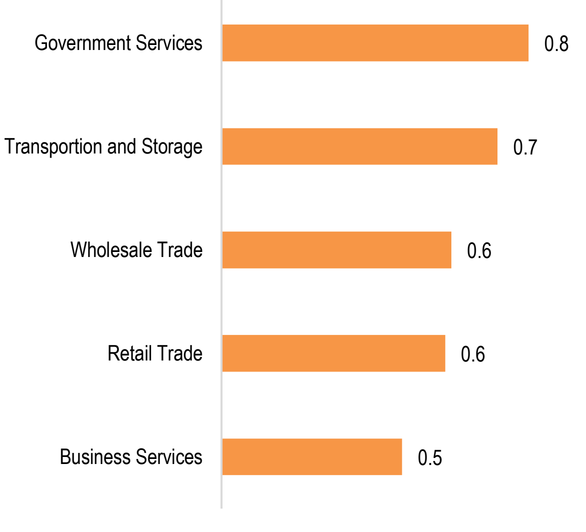
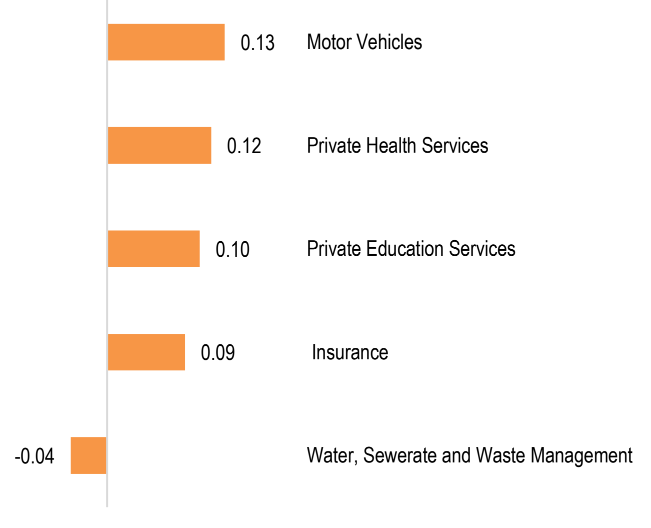


Figure 4: Bottom 5 contributors to services GDP performance in 3Q 2024 (ppt.)



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

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

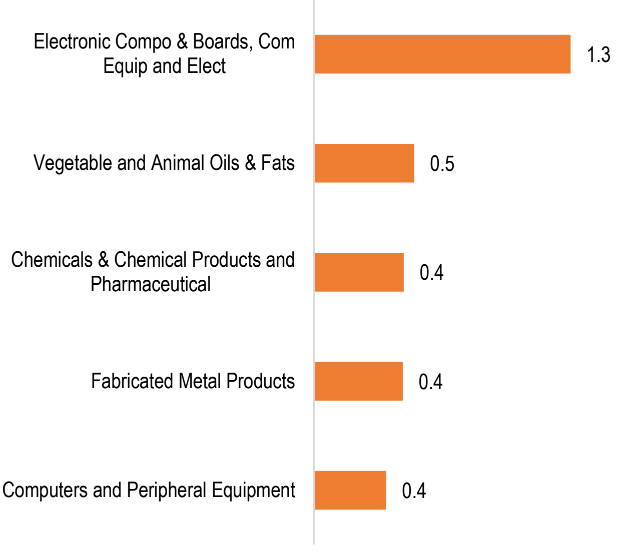
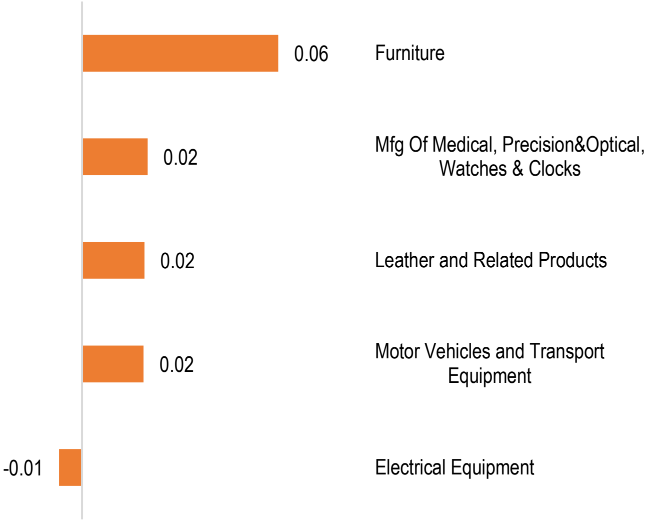


Figure 6: Bottom 5 contributors to manufacturing GDP performance in 3Q 2024 (ppt.)



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