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ECONOMIC DIGEST

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Economic Outlook 2024

Global Economy

- **Global economy continues to recover** from the pandemic however the **momentum is being derailed** by evolving factors such as wars (e.g. Russia-Ukraine; Middle East Countries), 'higher for longer' interest rate environment and rising protectionism which are weighing on sentiment and causing disruptions to energy and food market.
- Besides that, the **growth has been quite uneven across the world** where the US remain surprisingly strong underpinned by resilient consumption and investment while China struggles with the ripple effects of its property market crisis as well as weak consumer confidence. International Monetary Fund (IMF) in its latest economic outlook (October 2024) foresee the **global economy to continue growing in 2024 albeit at a slightly slower pace** of 2.9% YoY (2023e: 3.0%) – *refer Table 1*. Economic growth for the advanced economies is expected to edge lower to 1.4% YoY (2023e: 1.5%) where the US will experience slower growth at 1.5% (2023e: 2.1%). Likewise, economic growth for emerging and developing Asia is anticipated to clock in at a lower rate of 4.8% (5.2%) with China to grow by 4.2% (2023e: 5.0%).
- Notwithstanding the lower projections of gross domestic product (GDP) growth for 2024, **world merchandise trade volumes are expected to be higher** at 3.3% YoY (2023e: 0.8%), to be driven by goods linked to the business cycle such as machinery and consumer durables which generally recover when economic growth stabilise. In line, **demand for global electric and electronic (E&E) products particularly of semiconductors is anticipated to rebound** – World Semiconductor Trade Statistics (WSTS) foresee global semiconductor market to expand by 13.1% YoY in 2024 (2023e: -9.4%).
- Meanwhile, **global consumer inflation continues to decelerate** as shown by IMF's projection of headline inflation to 5.8% YoY in 2024 (2023e: 6.9%) partially due to effects of monetary policy tightening. Nonetheless, it **remains above the pre-pandemic** (2017-19) average of approximately 3.5% and a full recovery toward pre-pandemic trends appears to be unattainable in the near term due to still tight labor market conditions and stickier-than-expected services inflation on top of supply disruptions resulting from Russia-Ukraine war as well as rising protectionism such as in India (export ban/restriction on rice, wheat and sugar). The rise in food and fuel prices will hurt lower income households globally and could even significantly increase the risk of social unrest if not managed well.

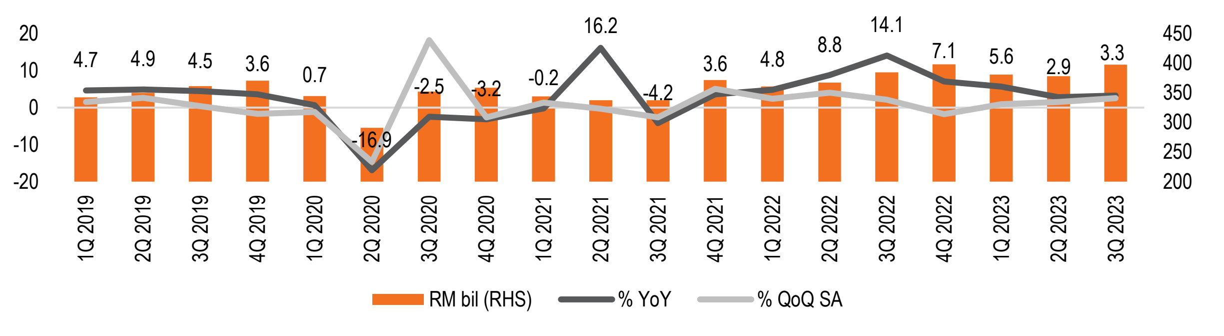
Table 1: IMF's Real GDP Forecast (% YoY)	2022	2023e	2024f
World	**3.5**	**3.0**	**2.9**
Advanced Economies	**2.6**	**1.5**	**1.4**
United States	*2.1*	*2.1*	*1.5*
Emerging Market & Developing Economies	**4.1**	**4.0**	**4.0**
Emerging & Developing Asia	*4.5*	*5.2*	*4.8*
China	*3.0*	*5.0*	*4.2*
Malaysia	*8.7*	*4.0*	*4.3*

Sources: DOSM, CEIC, BNM, IMF, WTO, WSTS and SME Bank Economic Research

Domestic Economy

- For the 9M 2023, GDP growth was registered at 3.9% and the expectation for the final quarter (4Q 2023) remain modest partially attributed to high base effect last year which may push full year 2023 GDP growth to be at the lower end of in house forecast of 4.0% to 5.0%. 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 provide some support.
- For 2024, our **GDP forecast ranges between 4.0% - 5.0%** unchanged from this year and an exact match to Govt's forecast unveiled in Budget 2024. Nonetheless, we foresee the **growth to be at the mid-to-upper tail** of our forecast range, supported by **solid domestic demand, continued improvement in the labour market, rebound in export growth** and **better prospect in commodity sector** (Brent crude oil and crude palm oil), among others. This is somehow in line with IMF's higher projection of GDP growth for Malaysia in 2024 at 4.3% YoY compared to 4.0% estimated for this year. The growth envisaged to be **broad-based though some subsectors may still lag**.
- **Services sector will continue to be the primary engines** of growth in 2024 propelled by sustained domestic consumption and higher trade-related activities. Various incentives (e.g. RM 1k – RM2k to civil servants and pensioners) and cash handouts (e.g. Sumbangan Tunai Rahmah and Rahmah Basic Contribution) are likely to increase household disposable income which may spur consumer spending. However, some unfavourable measures announced in the Budget 2024 including higher service tax of 8% (current: 6%), wider scope of service tax and high value goods (luxury goods) tax at a rate of 5% - 10% will generally limit consumers' demand for broad-based services.
- Tourism sector which was severely hit by the pandemic has been gradually recovered since then. However, it has yet to reach its pre-pandemic level especially without an influx of Chinese tourists. For the first 9M 2023, tourist arrivals managed to only recover to 55.4% of 2019 levels. Nonetheless, various incentives and promotions introduced in Budget 2024 such as 1) Multiple Entry Visa for tourists and investors especially from China, India and the Middle East; 2) Muslim-friendly tourism; and 3) reduction in entertainment duty for theme parks, recreation centres and stage performances may provide some boost to expedite full recovery.

Figure 1: Malaysia Quarterly Real GDP



- **Consumer inflation remains a key concern** to Malaysia's economic outlook in 2024 especially with Govt's forecast range of 2.1% to 3.6% (SME Bank: 2.5% - 3.5%) which indicates some uncertainty as the rate can be lower or higher than this year's estimate of 2.5% - 3.0% depending on the **impact of targeted subsidy, fluctuations in Ringgit** as well as **supply-related factors**. Targeted subsidy mechanism will be implemented in phases next year. For a start, diesel subsidies will be rationalised where selected users such as freight operators will continue to enjoy the subsidy while others will need to pay higher prices. Based on our estimate, **1% increase in diesel price will increase CPI inflation by 0.1 percentage point (ppt).** A complete removal of diesel subsidy may push the price up to 71% from current retail price of RM2.15 per litre. Nonetheless, taking cue from govt's inflation forecast, we foresee a **managed float of retail fuel prices** instead of a free float as the latter can easily overshoot the inflation projection.

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

- For the first 10 months of 2023, average headline inflation moderated to 2.7% YoY (10M 2022: 3.3%). However, core inflation went up to 3.2% YoY (10M 2022: 2.8%) suggesting that the price pressures are broad-based and that it will eventually **affect household budgets and their purchasing powers**. For this year, Bank Negara Malaysia (BNM) has only raised its overnight policy rate (OPR) by 25bps to 3.0% in its May's policy meeting and has since maintained it at that level up to the final scheduled meeting of the year in Nov. We expect the **rate to be maintained at 3.0% in 2024**. However, Ringgit depreciation against USD and some other key ASEAN currencies (e.g. SGD, THB), fund outflows and interest rate differential with the US Fed Fund Rate could be a concern for BNM in finalising its decision.
- We **remain cautious** moving forward **amid rising headwinds**, mainly from the external-side: **(1) slower GDP growth in key trading partners** (China and the US), **(2) ongoing Russia-Ukraine war, (3) possible escalation of Israel-Hamas war**, **(4) US-China conflict, (5) 'higher for longer' interest rate environment (6) financial market volatility and (7) rising protectionism over food security**. Slowdown in China is seen as a significant threat to Malaysia as the country is one of our biggest trading partners. In 2022, China alone accounted for around 14% of our total trade (2019: 17%). In fact, IMF in its latest October outlook mentioned slower growth in China as an important risk to the global economy as their real estate crisis could deepen further and that the policy challenge to restore confidence is complex.

Figure 2: Malaysia Inflation (% YoY)

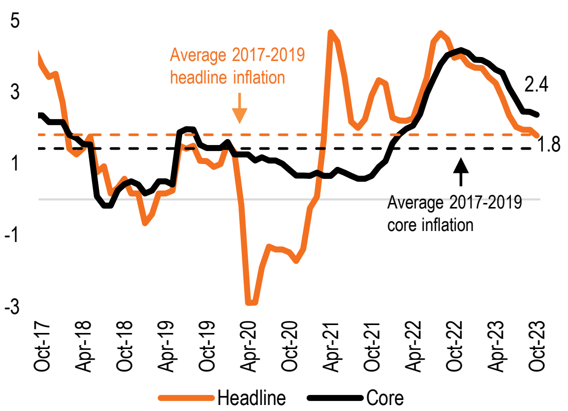


Figure 3: Malaysia OPR (%)

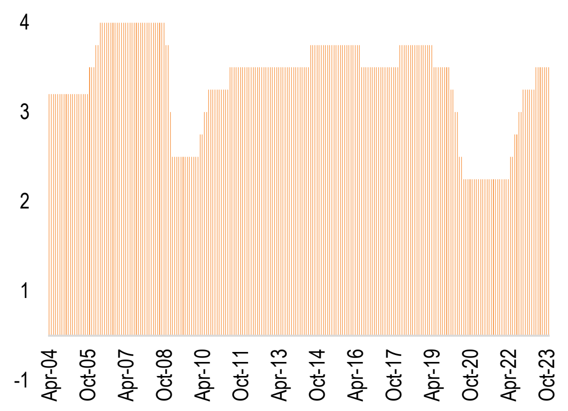


Table 2: Key Macroeconomic Forecasts	2022	YTD 2023	2023e		2024f	
			In-house	MOF	In-house	MOF
Real GDP (% YoY)	8.7	3.9	4.0 – 5.0	4.0	**4.0 – 5.0**	4.0 – 5.0
OPR* (%)	2.75	3.0	3.00	-	**3.00**	-
Inflation (% YoY)	3.3	2.7	2.5 - 3.5	2.5 – 3.0	**2.5 – 3.5**	2.1 – 3.6
USD/MYR (average)	4.40	4.56	4.50 – 4.60	-	**4.45 – 4.55**	-
Brent crude oil (USD/bbl)	99	82.1	75 – 85	80	**75 – 85**	85

*Note:*end 2024 forecast. YTD 2023 data as of 15/12/2023*

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

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