

Economic Focus

Refer to important disclosures at the end of this report

Malaysia Economics Research

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Economics Team

QUAH He Wei, CFA +603 2604 3966
hewei@alliancedbs.com

Kirubha Sanmugam +603 2604 3915
kirubhas@alliancefg.com

Moderated growth in 2Q23

- **2Q23 GDP grew +2.9% y-o-y driven by resilient domestic spending despite challenging external demand**
- **Domestic tailwinds from healthy private consumption supported by sustained employment strength to offset weaker external trade**
- **We remain cautiously optimistic of Malaysia's prospects and maintain our 2023 GDP growth projection of 4.1% y-o-y**

Normalising economic growth on high base

Malaysia's economy grew 2.9% y-o-y and 1.5% q-o-q on a seasonally adjusted (SA) basis in 2Q23 (1Q23: +5.6% y-o-y; +0.9% SA q-o-q) – driven by steady expansion in domestic demand given the sustained labour market recovery. This takes 1H23 GDP growth to 4.2% which is within our expectation but below consensus'. For 2Q23, growth momentum has understandably moderated given the impressive recovery last year, but healthy expansion was observed in domestic demand (+4.5% y-o-y), only to be dragged by a slowdown in net exports (-3.7% y-o-y) amid a global technology downcycle.

Robust labour market

Domestic demand continues to be underpinned by sustained expansion in the labour market as unemployment rate inched lower to 3.4% in Jun 2023, adding the much-needed impetus to private consumption (+4.3% y-o-y). Real wages growth remained steady at 1% y-o-y in 2Q23 (vs 0.9% in 1Q23), indicating a largely resilient economy. Despite the relatively weaker economic growth in 2Q23, the continuous improvement in the employment market with record high labour force participation of 70% will ensure Malaysia's 2H23 economic growth prospect remains encouraging.

Resilient domestic economy

Within the Services sector (59% of 2Q23 GDP; +4.7% y-o-y), the Wholesale & Retail Trade sub-sector grew by 4.7% y-o-y (vs 9.4% in 1Q23) while the Transportation and Storage sub-sector climbed 13% y-o-y (vs 17% in 1Q23). Apart from continued strength in household spending, continuous improvement in the tourism industry also contributed to the growth momentum in the Services sector as international passenger traffic at KLIA recovered to 70% of pre-pandemic level in 2Q23, compared to 65% in 1Q23. Meanwhile, the Construction sector is the other outperformer with a 6.2% y-o-y growth due to continued progress of large infrastructure projects.

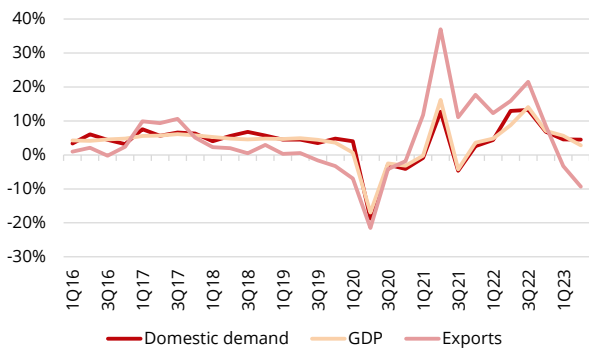
Dampened by weak external demand

The Manufacturing sector reported a relatively flattish y-o-y growth of 0.1% in 2Q23 (vs 3.2% in 1Q23) given weaker production output from the E&E and petrochemical industries. In addition, external trade remained weak in 2Q23 amid a global slowdown affecting export-oriented enterprises, and the subdued condition is likely to persist in the near term going by the weaker-than-expected recovery in China. Nevertheless, Malaysia's diversified export base and deep integration into global supply chain will ensure our trade resilience.

Maintain 2023 GDP growth of 4.1%

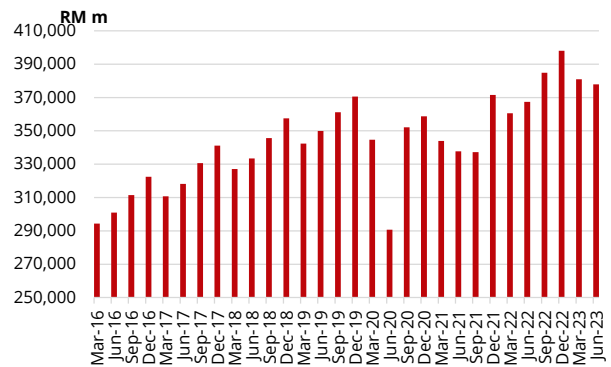
Malaysia could take comfort from the relatively resilient domestic demand as private consumption continues to be the key growth driver, underpinned by robust labour market and strong economic and social activities, especially tourism-related activities. The sustained expansion in employment, steady increase in private sector wages and continued policy support will ensure consumption expenditure remains healthy. With the conclusion of the state elections, we believe this will allow the federal government to put in greater effort to implement its economic reform initiatives. The launch of the Madani Economy framework signifies the first step to undertake the strategic reform to further enhance Malaysia's economic competitiveness. Therefore, we remain cautiously optimistic of the growth prospects of Malaysia in 2023.

GDP: 2.9% growth in 2Q23 on strong domestic demand



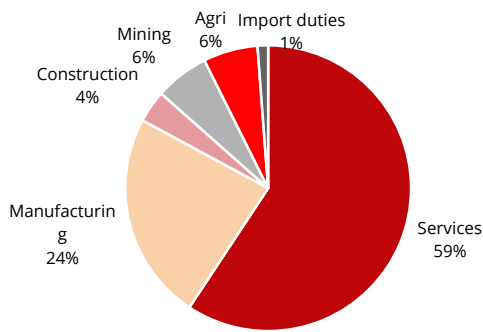
Source: Department of Statistics, AllianceDBS

Quarterly real GDP (RMm): Normalising from high base



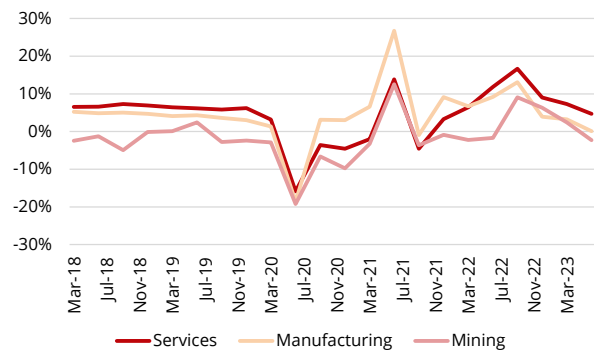
Source: Department of Statistics, AllianceDBS

Supply side: Composition of 2Q23 GDP



Source: Department of Statistics, AllianceDBS

Supply side: y-o-y GDP growth by sector



Source: Department of Statistics, AllianceDBS

Supply side GDP components

	2022 share	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23
Services	58.2%	6.4%	11.9%	16.7%	9.1%	7.3%	4.7%
Manufacturing	24.2%	6.7%	9.2%	13.1%	3.9%	3.2%	0.1%
Agriculture	6.6%	0.1%	-2.3%	1.2%	1.1%	0.9%	-1.1%
Mining	6.4%	-2.2%	-1.7%	9.1%	6.3%	2.4%	-2.3%
Construction	3.5%	-6.1%	2.5%	15.3%	10.1%	7.4%	6.2%
GDP		4.8%	8.8%	14.1%	7.1%	5.6%	2.9%

Source: Department of Statistics, AllianceDBS

Demand side GDP components

	2022 share	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23
Domestic Demand	93%	4.4%	13.0%	13.1%	6.8%	4.6%	4.5%
Private Consumption	60%	5.5%	18.3%	15.1%	7.4%	5.9%	4.3%
Private Investment	15%	0.4%	6.3%	13.2%	10.3%	4.7%	5.1%
Public Consumption	13%	6.7%	2.6%	4.5%	2.4%	-2.2%	3.8%
Public Investment	4%	-0.9%	3.2%	13.1%	6.0%	5.7%	7.9%
Net exports	5%	-26.5%	-28.7%	18.7%	23.4%	54.4%	-3.7%
GDP		5.0%	8.9%	14.2%	7.0%	5.6%	2.9%

Source: Department of Statistics, AllianceDBS

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AllianceDBS Research Sdn Bhd (128540 U)

19th Floor, Menara Multi-Purpose, Capital Square, 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia.

Tel.: +603 2604 3333 Fax: +603 2604 3921 email: general@alliancedbs.com