

Economic Focus

Domestic economy remains resilient

15 November 2023

- Malaysia's economic activity remains supported by resilient domestic demand. Based on advance estimates, 3Q2023 GDP grew 3.3% y-o-y, taking 9M2023 GDP growth to 3.9%.
- The Services sector continues to be the key growth driver given sustained strength in household spending and steady improvement in the tourism industry.
- The Manufacturing sector contracted in 3Q2023 as the resilient domestic demand was more than offset by weak external demand. However, the weakness in the sector may have bottomed out.

Sustained domestic demand in Malaysia

- Malaysia's economy grew 3.3% y-o-y and 5.2% q-o-q in 3Q2023, underpinned by healthy household spending as wages and employment continued to increase.
- The Services sector, accounting for 59% of the economy, staged a strong recovery of 4.9% q-o-q after two successive quarters of contraction, reflecting Malaysia's resilient fundamentals.
- 9M2023 GDP growth of 3.9% is on track to meet the government's revised forecast of 4.0% (from a range of 4.0%-5.0% previously) for 2023.

External weakness dragged manufacturing sector

- Slow external demand spilled over to the manufacturing sector in 3Q2023 as export-oriented industries contracted.
- On a q-o-q basis, 3Q2023 manufacturing sector climbed 3.5% as manufacturing production improved for both domestic and export-oriented industries.
- Narrowing exports decline among key Asian trading hubs suggests that the manufacturing downturn may be bottoming out.

Regional Highlights

The below highlights some of the recent interesting DBS regional reports. Please go to www.alliancebank.com.my/alliance-blog for the detailed reports.

- 2023 was going to be the year when the dollar peaked until the higher-for-longer narratives set in. This report examines the risks of USD strength on Asian currencies. *(From Macro Insights Weekly: USD strength and Asian FX: Manageable risks)*
- The economic horizon is clouded by wars and ever rising rates. Asset markets have held up remarkably well, but are risks insufficiently priced? *(From Macro Insights Weekly: Wars, high rates, asset prices)*
- Asia's exporters have had a sobering year and a half since the post-pandemic recovery through early 2022. This report examines the timing for an inflection point. *(From Macro Insights Weekly: When will Asia's export engine hum?)*

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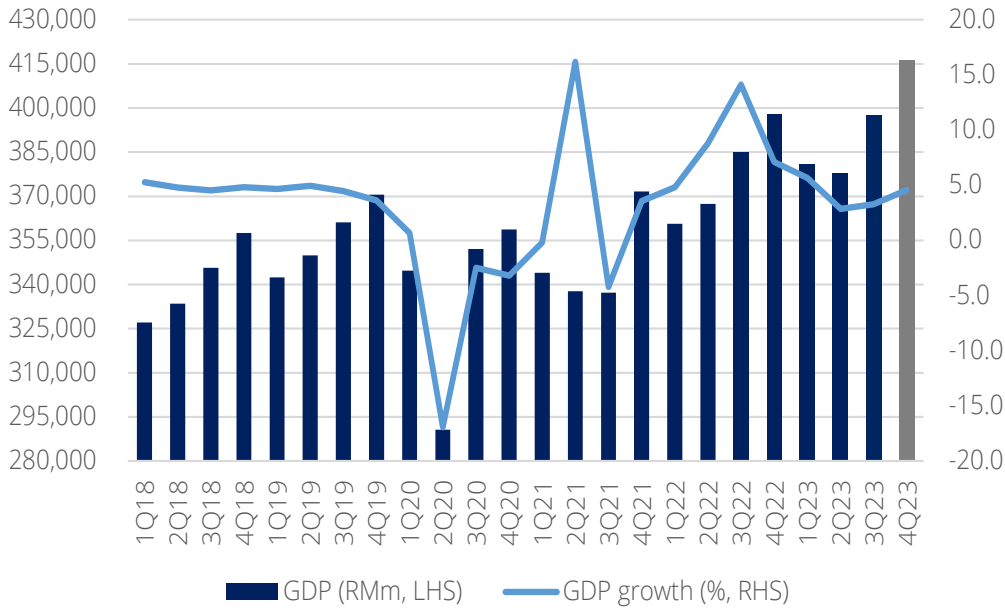
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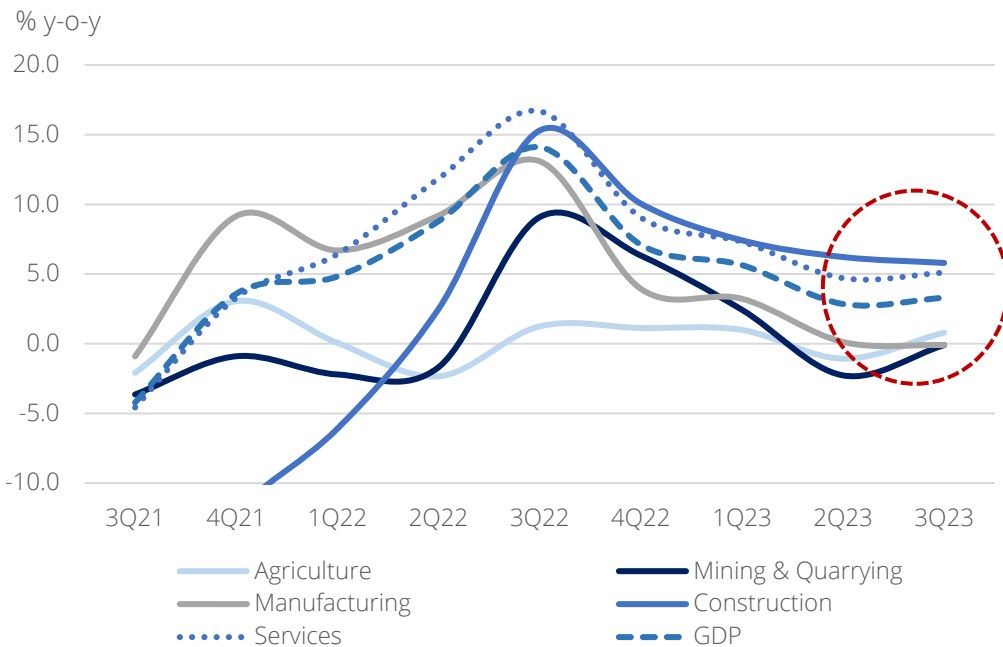
Figure 1: Expect moderated but still healthy economic growth



- GDP grew 3.3% y-o-y in 3Q2023, based on advance estimates. For 9M2023, Malaysia's GDP grew by 3.9% y-o-y. We expect GDP to grow 4.1% y-o-y for 2023.
- In the government's recent economic report, the government expects GDP growth of 4.0% in 2023 from a range of 4.0-5.0% previously.

Source: Department of Statistics Malaysia, AllianceDBS Research

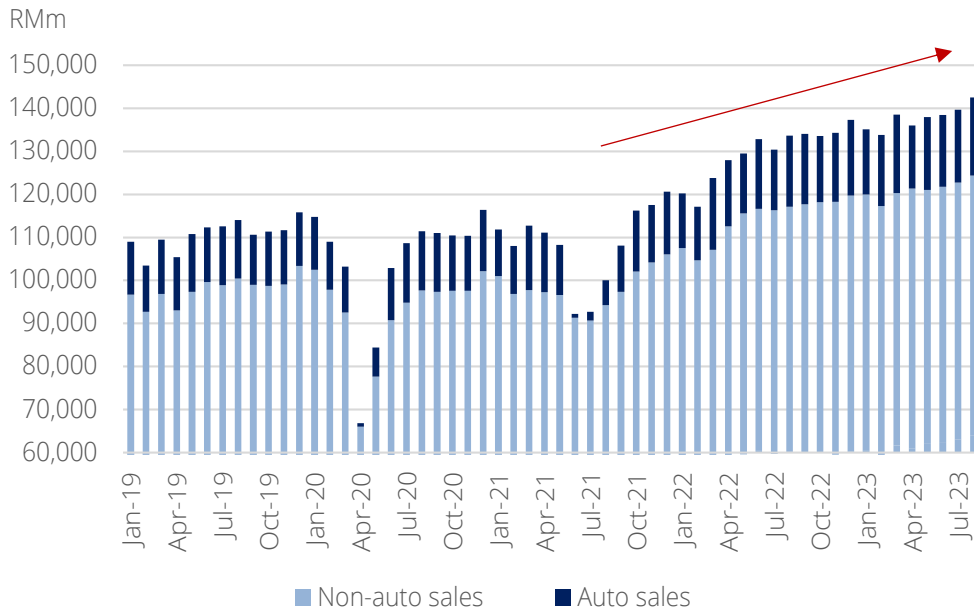
Figure 2: GDP performance by sector: Services remain key growth driver



- 3Q2023 GDP growth was mainly driven by the Services sector which was supported by resilient consumer spending.
- Growth for the manufacturing sector moderated (-0.1% y-o-y) due to weaker global demand, especially for E&E. The rebound in global semiconductor shipments should provide support for stronger growth in 1H2024.
- The construction sector is recovering from a low base. The acceleration of infrastructure projects should support growth in 2024.

Source: Department of Statistics Malaysia

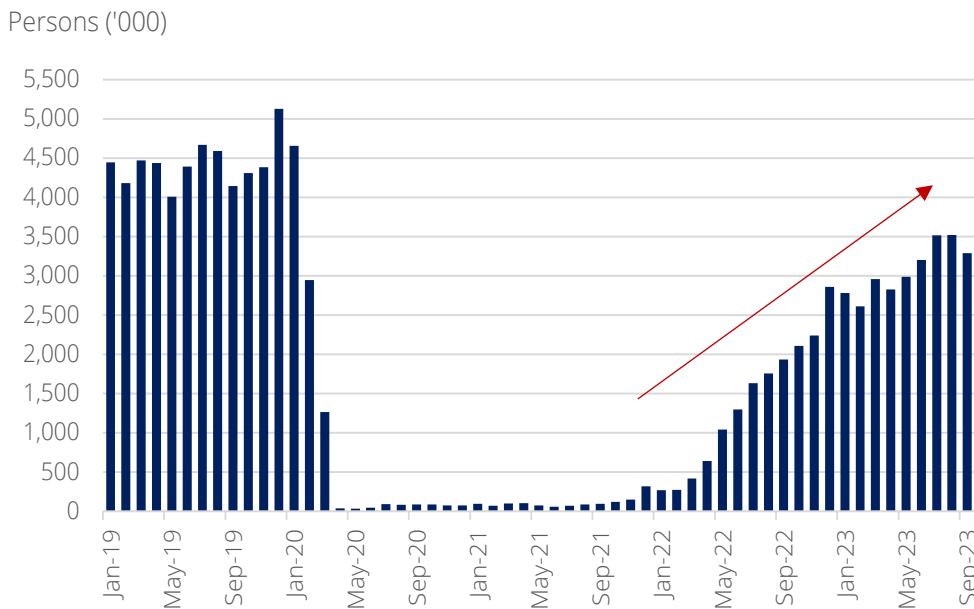
Figure 3: Steady increase in Wholesale & Retail Trade sales



- Wholesale & Retail trade sales increased to a record high of RM142.7bn in September 2023 (+0.1% m-o-m, +6.9% y-o-y, YTD 2023: 8.4%).
- This was mainly driven by relatively resilient non-auto sales (YTD: 7.9%) and improvement in auto sales (YTD: 13.2%).
- Wholesale & Retail trade sales in September was 29.1% higher than the 2019 average. Auto sales was 39.1% higher.

Source: Department of Statistics Malaysia

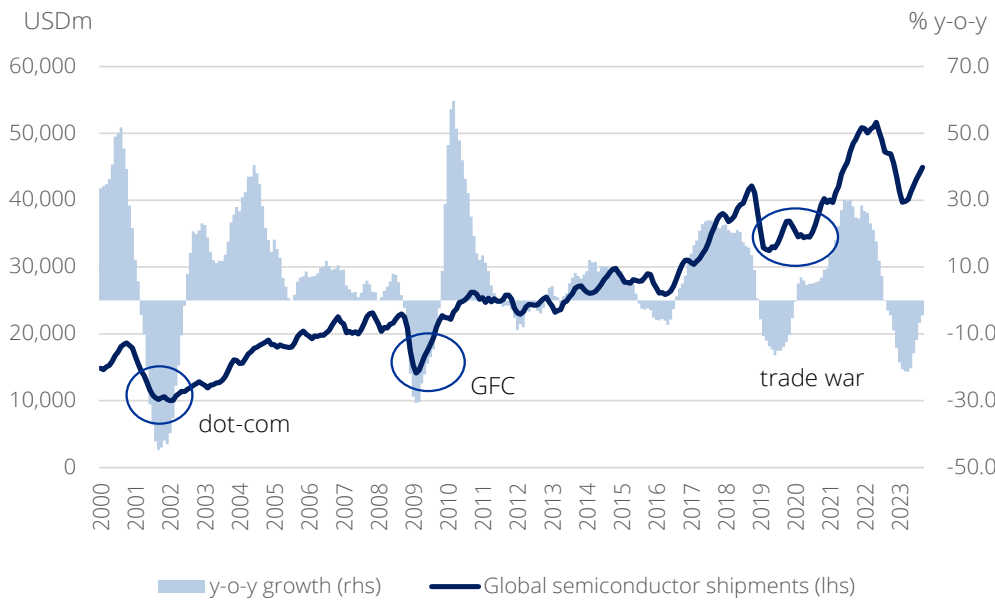
Figure 4: Malaysia's monthly tourist arrivals on an uptrend



- Tourist arrivals are improving on a steady pace and contributes to stronger tourist spending in 2023.
- 2Q2023 arrivals were 22% below 2019 average indicating room for further improvement.

Source: Malaysia Airport Holdings Berhad (MAHB)

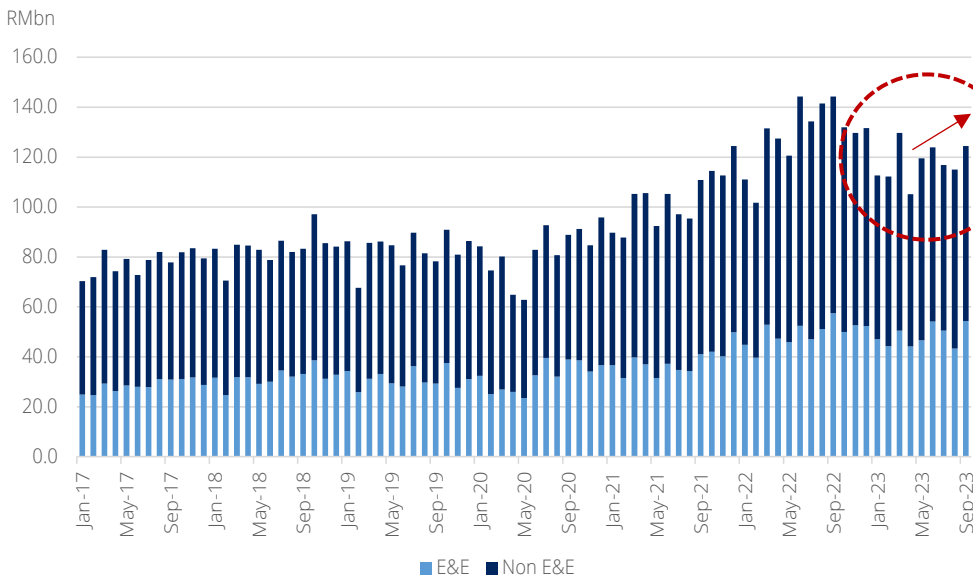
Figure 5: Global semiconductor shipments growth gradually recovering



- Worldwide semiconductor shipments have eased from the peak of 28% y-o-y growth in Dec 2021 to -21% y-o-y in Mar 2023.
- Since the trough in Mar 2023, there has been seven consecutive months of sequential growth in shipments.
- Sep 2023 shipments grew 1.9% m-o-m (-4.5% y-o-y) to US\$44.9bn. Shipments were 11.7% lower compared to peak levels in Dec 2021.

Source: Semiconductor Industry Association (SIA)

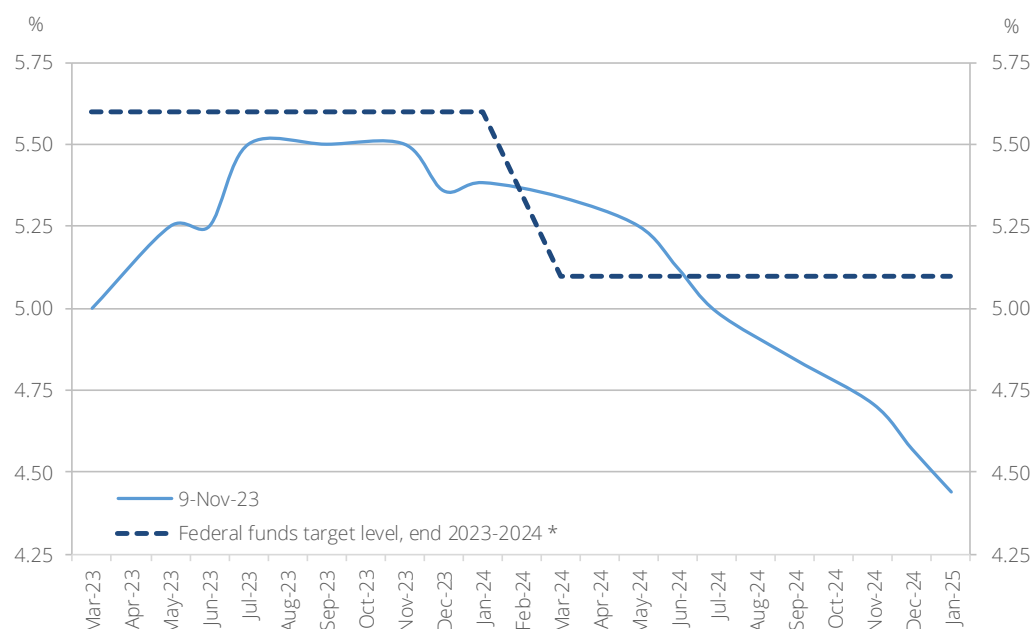
Figure 6: Absolute level of exports have recovered from a low in April 2023



- Malaysia's exports was at its lowest absolute level in April 2023.
- Since then, exports have gradually improved. Exports rebounded by 8.2% m-o-m (-13.7% y-o-y) to RM125bn in Sep 2023.
- YTD E&E exports account for 41% of exports.

Source: Department of Statistics Malaysia

Figure 7: Implied market pricing of US Fed Fund Rates (FFR) lower in 2024



- Although US Fed projection implies another 25bps increase in FFR by year-end (from current 5.25-5.50%), the markets are pricing in that Fed fund rates are largely maintained for the rest of 2023.
- By end-2024, markets are pricing in a 93bps point cut in FFR.
- We expect Bank Negara Malaysia to maintain the Overnight Policy Rate (OPR) at 3.00% in 2024.

*Median Fed Funds Rate target level for end-2023 from the Federal Reserve's Summary of Economic Projections, 20 September 2023. Source: Federal Reserve Board, Bloomberg

Figure 8: Exchange Rate forecasts

Currency pair	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24
USD/CNY	6.90	6.87	7.12	7.29	7.38	7.26	7.14	7.02	6.90
USD/HKD	7.80	7.85	7.84	7.83	7.84	7.83	7.81	7.80	7.70
USD/INR	82.70	82.20	82.20	83.20	84.00	83.80	83.60	83.40	83.20
USD/IDR	15,573	14,996	14,930	15,380	15,500	15,350	15,200	15,050	14,900
USD/MYR	4.40	4.42	4.60	4.70	4.75	4.70	4.65	4.60	4.55
USD/PHP	55.70	54.40	56.40	56.90	58.00	57.40	56.90	56.30	55.80
USD/SGD	1.34	1.33	1.35	1.37	1.38	1.37	1.36	1.35	1.34
USD/KRW	1,260	1,302	1,310	1,330	1,360	1,340	1,310	1,290	1,260
USD/THB	34.60	34.10	34.90	35.90	36.50	35.90	35.30	34.60	34.00
USD/VND	23,633	23,471	23,500	24,210	24,310	24,140	23,980	23,810	23,560
AUD/USD	0.68	0.67	0.66	0.64	0.62	0.64	0.65	0.67	0.69
EUR/USD	1.07	1.08	1.07	1.06	1.05	1.07	1.09	1.11	1.12
USD/JPY	131	133	140	148	152	148	144	140	136
GBP/USD	1.21	1.23	1.24	1.24	1.21	1.23	1.25	1.27	1.29

- Clearer signals suggesting that US inflation has peaked should dampen the USD strength.
- Expectations for US rate cuts in 2024 underpin forecasts for weaker USD.
- DBS is forecasting RM4.75/USD by end of 2023, and RM4.55/USD in 2024.

Source: DBS Economics & Strategy Research

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