

# Economic Focus

## Firmly on path of recovery

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- **Government's focus to rebuild and restructure economy poised to start bearing fruits**
- **Recovery in external trade to boost growth momentum**
- **We are positive of 2024 growth prospects and expect 4.3% GDP growth**

### Brighter prospects ahead

Malaysia's economy remains firmly on a healthy growth trajectory as domestic demand is likely to strengthen further with sustained consumer spending and stronger investment activities. Its strong fundamentals and diversified economic structure, coupled with renewed government focus to spur higher economic growth will help ensure Malaysia's uptrend stays intact. Evidently, Jan 2024 credit demand has demonstrated robust y-o-y growth as loans for households and businesses grew by 6.1% and 5.1%, respectively. Solid overall banking system loans growth of 5.7% in Jan 2024 (vs 5.3% in Dec 2023, 5.0% in Jan 2023) signifies the upbeat economic outlook in 2024. Revival in tourism activities in 2024 will also likely provide a strong fillip, especially with the introduction of visa-free entry for tourists from China and India, further boosting domestic economy.

### Robust employment market

Malaysia's labour market has been growing from strength to strength with unemployment rate coming in at 3.3% as at Jan 2024, compared to 3.6% in Jan 2023. Notably, we are encouraged by the persistent growth in employment market outpacing the growth in labour force, lifting the labour participation rate to a record high of 70.2% in Jan 2024. This will certainly reinforce the positive economic outlook in 2024 given that domestic demand forms the bulk of our economy. In addition, business sentiment remains positive in 1Q24 with confidence indicator at the highest since 3Q22. The implementation of major projects announced in Budget 2024 such as RM10bn Penang LRT, RM11.8bn flood mitigation projects, RM 15.7bn Pan Borneo Sabah phase 1B and RM4.7bn LRT 3 expansion will also ensure stellar economic performance in 2024.

### Reversal of negative drag from external trade

Admittedly, Malaysia's 2023 GDP growth of 3.7% fell short of government's target of 4% which was largely due to the sluggish external trade which shaved off 0.6% of growth contribution. For 2024, this is set to reverse given the anticipated recovery in external trade especially in Asia which comprises ~70% of Malaysia's exports. In fact, Malaysia's Jan 2024 exports registered 8.7% y-o-y growth after 10 consecutive months of y-o-y contraction. We believe Malaysia will benefit from the recovery in global semiconductor shipment given our entrenched position in the global semiconductor supply chain, especially in the packaging, assembly, and testing services. Meanwhile, Malaysia's strategic push to leverage on the global trend of "China + 1" for industrial value chain diversification has been reflected in the record high approved investments in 2021-2023. Undeniably, this will further uplift Malaysia's industrial capabilities and boost its value-adding exports.

### Growth momentum remains intact

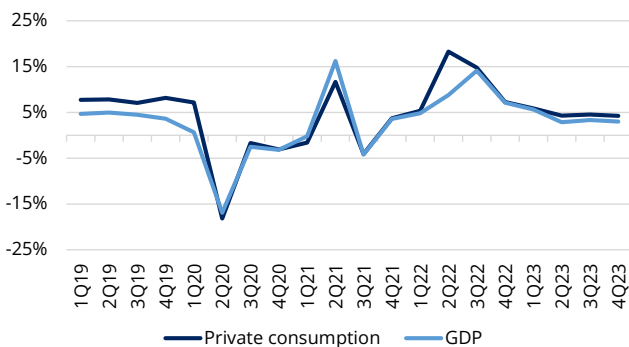
We remain optimistic of Malaysia's economic outlook which is expected to grow by 4.3% in 2024 – in line with government's forecast of 4%-5%. Fundamentals remain strong as Malaysia's economy continues to take comfort from its resilient domestic demand, underpinned by sustained household spending. Key downside risks include slower-than-expected recovery in external demand and heightened geopolitical tensions.

Malaysia is progressing well under Madani Economy

We expect Malaysia to register a stronger GDP growth of 4.3% in 2024 after a relatively weaker growth of 3.7% in 2023. This is also in line with the government’s 2024 GDP growth projection of 4.0%-5.0%. Private consumption, accounting for 60% of our economy, will continue to deliver satisfactory performance for Malaysia’s economy, underpinned by robust labour market and strong economic and social activities, especially the tourism-related activities.

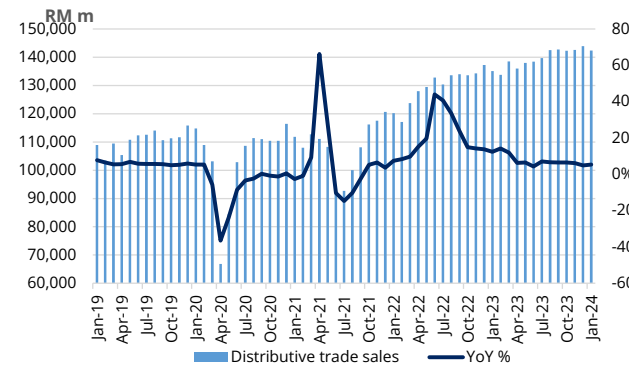
We believe the resilient household spending is likely to continue, in tandem with the continued recovery in the labour market. Meanwhile, the implementation of new and existing investment projects under the NETR and the NIMP 2030 are expected to have a positive impact to economic growth as more investment are expected from both domestic and foreign investors.

Malaysia’s GDP growth



Source: AllianceDBS, CEIC

Monthly distributive trade sales



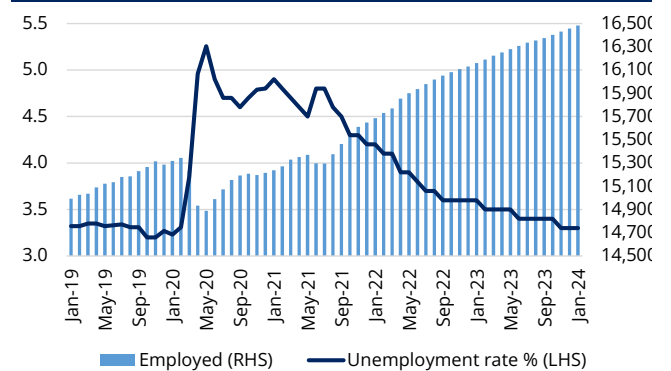
Source: AllianceDBS, CEIC

Robust labour market condition

Malaysia’s economic growth momentum will continue to be underpinned by the robust employment market which has been growing from strength to strength. Malaysia’s unemployment rate in Jan 2024 came in at 3.3%, compared to 3.6% in Jan 2023. Notably, we are encouraged by the continuous growth in employment market outpacing the growth in labour force, lifting the labour participation rate to a record high of 70.2% in Jan 2024. This will certainly bode well for the economic outlook in 2024 given that domestic demand forms the bulk of our economy.

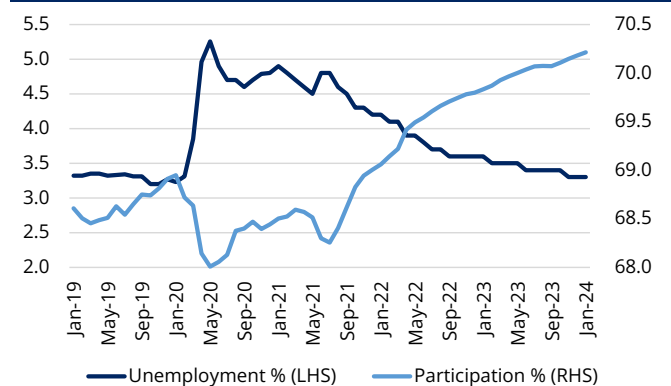
Going by the healthy growth momentum expected in 2024, the robust labour market condition will ensure that the growing working-age population is met with higher employment opportunities. We believe Malaysia’s unemployment rate will continue to decline further as more jobs are created with the realization of various investment activities.

Strong labour market



Source: AllianceDBS, CEIC

Favourable labour market dynamics

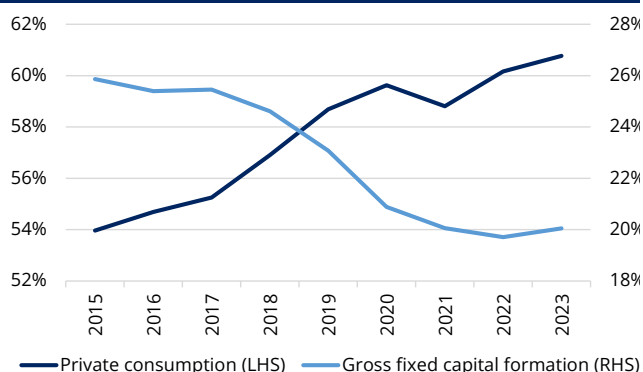


Source: AllianceDBS, CEIC

### New growth driver from investment spending

Madani Economy Framework has started the ball rolling on kickstarting the economic transformation that is long overdue to move up the industrial value chain in Malaysia. NER and NIMP 2030 have provided the key government framework to drive high value-adding industrialisation and green economy which will ultimately enable Malaysia to build a high-income economy if the well-curated strategic directions are successfully executed.

### GDP share of consumption vs investment



Source: AllianceDBS, BNM, CEIC

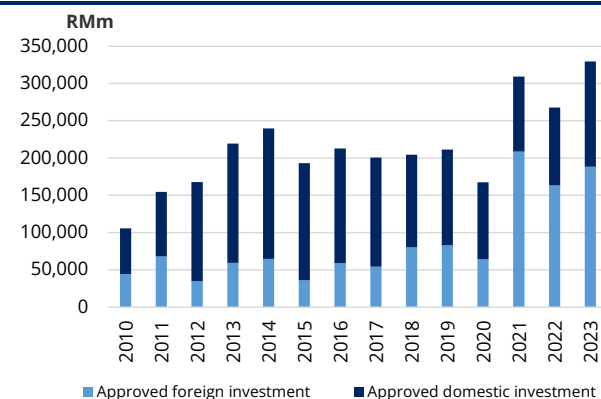
The NIMP 2030 particularly is poised to enhance the competitiveness of Malaysia’s manufacturing industry, leveraging on the global trend of “China + 1” strategy for industrial value chain diversification. In fact, the heightened US-China trade tensions has benefitted not only Malaysia but the entire ASEAN as a whole given the attractive value proposition offered.

The unity government has been able to attract various multinational corporates to set up businesses in Malaysia, thanks to the stable political climate as well as the pro-investment policy championed by the government. Therefore, it is no surprise that globally renowned brands such as Infineon AG, Nvidia, Tesla and Geely have all committed to step up their investments in Malaysia which will help to propel Malaysia’s industrial developments.

Meanwhile, the government is also committed to revive the economic growth by undertaking various large-scale infrastructure projects which will create positive spillover effects to the local businesses. Some of the major projects announced in Budget 2024 include RM10bn Penang LRT, RM11.8bn flood mitigation projects, RM 15.7bn Pan Borneo Sabah phase 1B and RM4.7bn LRT 3 expansion. We believe there will be more progress on the RM45bn MRT 3 in 2024

which will be an added impetus for Malaysia’s economy. All these come on top of the existing mega projects including the likes of RM50bn ECRL and RM3.7bn Johor-Singapore RTS which have progressed well so far.

### Record-high approved investments over 2021-2023



Source: AllianceDBS, BNM, CEIC

### Some of the major government projects

Project	Investment RMbn	Timeline
MRT 3	45.0	from 2024
Penang LRT	10.0	from 2024
Flood mitigation	11.8	2024
Pan Borneo Sabah phase 1B	15.7	2024
Sarawak-Sabah Link Road 2	7.4	2024
LRT 3 expansion	4.7	2024-2025
ECRL	50.0	2018-2026
Johor-SG RTS	3.7	2018-2026
My Digital 5G	16.5	2021-2031
Pan Borneo Sabah phase 1A	16.0	2016-2024
Johor BRT	2.5	2023-2025

Source: AllianceDBS, MoF

Signs of recovery for external trade

After weathering the external weakness in 2023 where total exports fell by 8% y-o-y, we believe 2024 will be a year of recovery for external trade. We are cautiously optimistic with external demand, considering the end of global monetary tightening, recovery of China’s demand as well as the rebound of global semiconductor shipments. In fact, Jan 2024 exports grew by 9% y-o-y after contracting for 10 months consecutively. We are encouraged by the nascent sign of exports recovery as this is set to bolster Malaysia’s overall GDP growth in 2024.

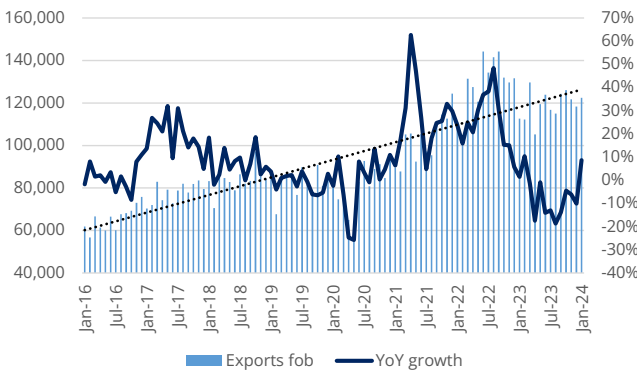
The manufacturing sector, contributing 24% of GDP, is expected to recover as well, in tandem with the improvement anticipated for external demand. This is corroborated by positive data from manufacturing PMI, industrial production as well as business confidence levels. In addition, the upticks in business loans since the end of 2023 lends further credence to our view that the manufacturing sector will have a better prospect this year.

In addition, most of the key exporting countries in Asia have begun to register improved numbers over the past few months. The weaker-than-expected recovery in China’s economy in 2023 may reverse in 2024 as its government continues to step up on its stimulus measures. Meanwhile, countries like South Korea, Singapore and Taiwan which have a relatively large exposure to the semiconductor sector like Malaysia have already been registering positive exports growth.

The turnaround in global semiconductor shipments suggests that the global technology sector is likely to rebound in 2024, which bodes well for Malaysia as E&E accounts for ~40% of Malaysia’s exports and it has a deep integration with the global supply chain which makes it vulnerable to the global trend.

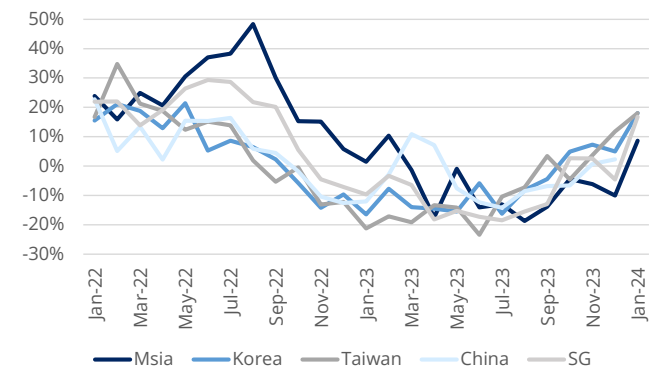
Therefore, we believe exports will recover on a gradual basis in 2024, underpinned by a recovery in the global tech cycle. The de-globalisation trend, especially in the technology sector, may instead result in more capital spending as countries rush to ensure supply security.

Malaysia’s monthly exports growth is recovering



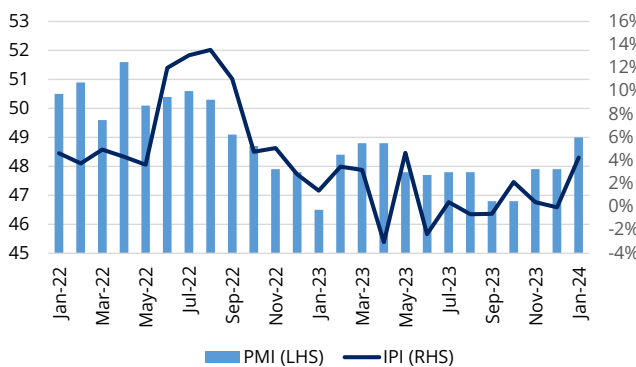
Source: AllianceDBS, CEIC

Signs of bottoming out for key Asian exporters



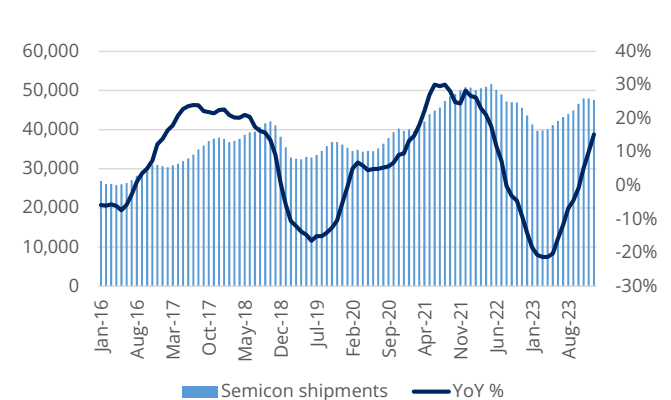
Source: AllianceDBS, CEIC

Industrial production is turning around



Source: AllianceDBS, CEIC

Global semiconductor shipments



Source: AllianceDBS, SIA, CEIC

### Strong loans growth momentum

Bank Negara Malaysia has been maintaining the current OPR rate of 3% which is similar to its pre-pandemic level. We believe that BNM will remain with this slightly accommodative interest rate in 2024 as the current monetary policy remains conducive to sustainable economic growth amid price stability.

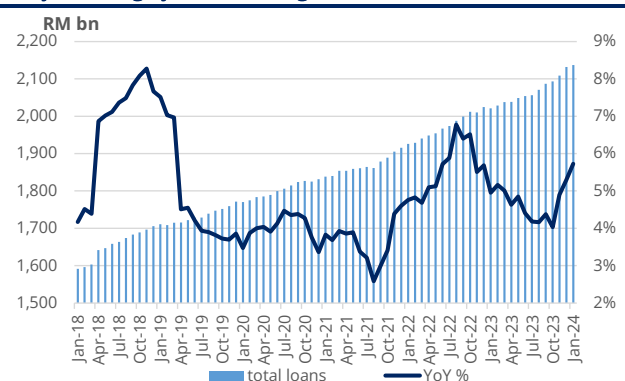
#### Interest rate vs inflation



Source: AllianceDBS, DOSM, CEIC

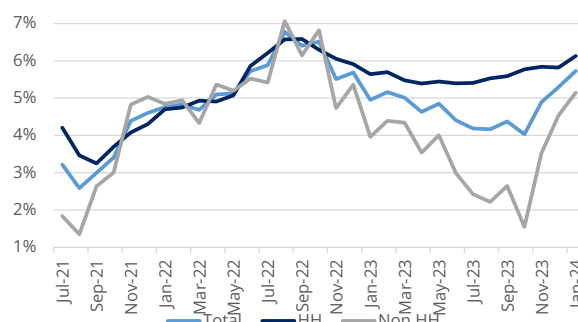
Our headline inflation has been moderating over the course of 2023, in tandem with the easing momentum of price increases. This has also resulted in positive real rates after staying negative for the past two years. Going forward, inflation outlook will be largely swayed by the global commodity price developments as well as the implementation of subsidy rationalisation in 2024.

#### Steady banking system loans growth



Source: AllianceDBS, BNM

#### Loans growth picking up strongly



Note: HH – refers to households. Source: AllianceDBS, BNM

Meanwhile, Malaysia’s banking system has been reporting rising loans growth for three months consecutively since the low of 4% in Oct 2023. Loans growth came in strongly at 5.7% in Jan 2024, similar to the level experienced in the aftermath of post-pandemic economic reopening. Positively, business loans rebounded, suggesting that overall business operating environment has started to pick up. On the other hand, the positive landscape of the property sector continues to bolster the loans growth for the household segment.

#### Normalising liquidity condition in the economy



Source: AllianceDBS, BNM

Meanwhile, M2 money supply continues to grow at a healthy level of 5.9% in Jan 2024 (vs 4.4% in Jan 2023), as the domestic economy grows steadily as the domestic economy gathers strength. It is likely that the domestic liquidity remains robust, with continued orderly functioning of the financial market. Household spending will continue to be underpinned by improvements labour market conditions and income prospects.

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