

# Economic Focus

## 3Q23 GDP: Solid fundamentals supporting growth

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### Research Analysts

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

Kirubha Sanmugam  
+603 2604 3915  
kirubhas@alliancefg.com

- **3Q23 GDP grew +3.3% y-o-y driven by resilient domestic spending amid weaker external demand**
- **Domestic tailwinds from healthy private and public consumption led to steady growth**
- **We remain cautiously optimistic of Malaysia's prospects and maintain our 2023 GDP growth projection of 4.1% y-o-y**

### Sustained domestic demand

Malaysia's economy grew 3.3% y-o-y and 2.6% q-o-q on a seasonally adjusted (SA) basis in 3Q23 (2Q23: +2.9% y-o-y; +1.5% SA q-o-q) – driven by healthy improvement in domestic demand given the sustained labour market recovery. This takes 9M23 GDP growth to 3.9% which is within our expectation. For 3Q23, the steady growth momentum has clearly reflected the solid fundamentals of Malaysia as the vibrant domestic economy has more than offset weaker external demand for goods.

### Robust labour market conditions

Solid domestic demand continues to be underpinned by sustained expansion in the labour market as unemployment rate inched lower to 3.38% in Sep 2023 (from 3.44% in Jun 2023), resulting in a strong private consumption y-o-y growth of 4.6%. 3Q23 employment growth has also continued to outpace the growth in labour force, thanks to the favourable economic growth. It is worth noting that the share of private consumption in 3Q23 stood at a record high of 62%, demonstrating the resilience of Malaysia's domestic demand.

### Domestic economy firing on all cylinders

Within the Services sector (59% of 3Q23 GDP; +5.0% y-o-y), the Wholesale & Retail Trade sub-sector grew by 5.4% y-o-y (vs 4.7% in 2Q23) while the Transportation and Storage sub-sector remained strong at 13% y-o-y (vs 13% in 2Q23). 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 77% of pre-pandemic level in 3Q23, compared to 70% in 2Q23. Meanwhile, the Construction sector is the other outperformer with a 7.2% y-o-y growth due to continued progress of large infrastructure projects.

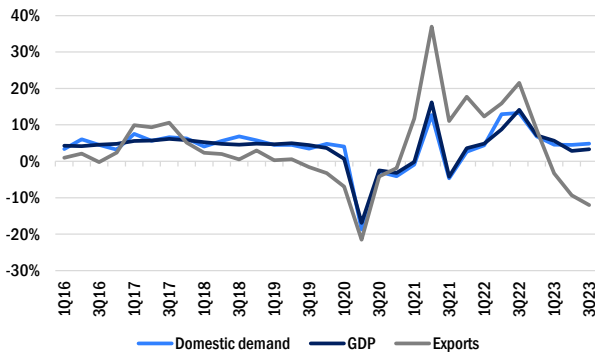
### External demand dragged manufacturing sector

The Manufacturing sector declined by 0.1% y-o-y in 3Q23 (vs +0.1% in 2Q23) due to further weakness in E&E amid tech downcycle and lower production of refined petroleum products. Nevertheless, 3Q23 manufacturing sector climbed 3.5% on a quarterly basis as manufacturing production improved for both domestic and export-oriented industries. There are also signs of recovery momentum in external trade given the improving trend of global semiconductor shipments as well as narrowing exports decline among key Asian trading hubs. We believe that Malaysia's diversified export base and deep integration into global supply chain will ensure our trade resilience going forward.

### Maintain 2023 GDP growth of 4.1%

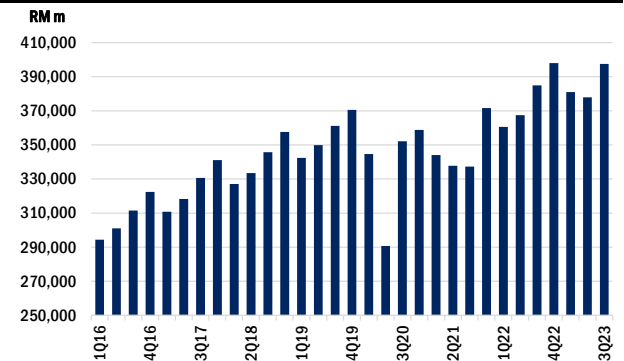
Malaysia could take comfort from the relatively resilient domestic demand as private consumption continues to be the key growth driver, underpinned by robust labour market and strong economic and social activities, especially tourism-related activities. Meanwhile, private investment is expected to benefit from improved external environment and positive response to the National Energy Transition Roadmap (NETR) and New Industrial Master Plan (NIMP 2030) while the government continues with its expansionary fiscal policy to drive economic growth.

**GDP: 3.3% growth in 3Q23 on strong domestic demand**



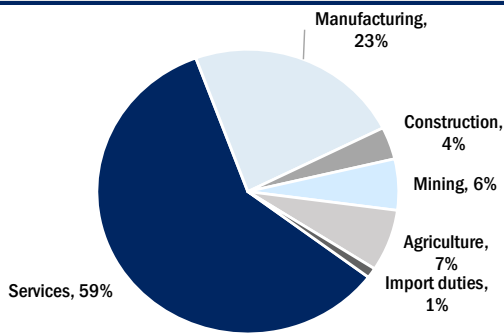
Source: Department of Statistics, AllianceDBS

**Quarterly real GDP (RMm): Resilient economy**



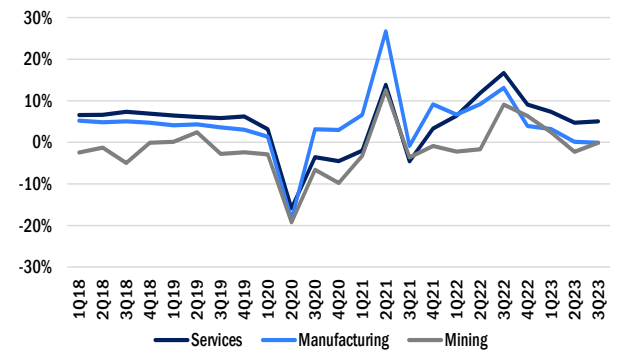
Source: Department of Statistics, AllianceDBS

**Supply side: Composition of 3Q23 GDP**



Source: Department of Statistics, AllianceDBS

**Supply side: GDP growth (y-o-y) by sector**



Source: Department of Statistics, AllianceDBS

**Supply side GDP components**

	% share		% change y-o-y			
	2022	3Q22	4Q22	1Q23	2Q23	3Q23
Services	58.3	16.7	9.1	7.3	4.7	5.0
Manufacturing	24.1	13.1	3.9	3.2	0.1	-0.1
Agriculture	6.6	1.2	1.1	0.9	-1.1	0.8
Mining	6.4	9.1	6.3	2.4	-2.3	-0.1
Construction	3.5	15.3	10.1	7.4	6.2	7.2
<b>GDP*</b>	<b>100</b>	<b>14.1</b>	<b>7.1</b>	<b>5.6</b>	<b>2.9</b>	<b>3.3</b>

\* Import Duties accounts for 1.1% of GDP

Source: Department of Statistics, AllianceDBS

**Demand side GDP components**

	% share		% change y-o-y			
	2022	3Q22	4Q22	1Q23	2Q23	3Q23
Domestic Demand	93.1	13.1	6.8	4.6	4.5	4.8
Private Consumption	60.2	15.1	7.4	5.9	4.3	4.6
Private Investment	15.3	13.2	10.3	4.7	5.1	4.5
Public Consumption	13.2	4.5	2.4	-2.2	3.8	5.8
Public Investment	4.4	13.1	6	5.7	7.9	7.5
Net exports	5.5	18.7	23.4	54.4	-3.7	-22.7
<b>GDP*</b>	<b>100</b>	<b>14.2</b>	<b>7</b>	<b>5.6</b>	<b>2.9</b>	<b>3.3</b>

\* Changes in inventories accounts for 1.4% of GDP

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](mailto:general@alliancedbs.com)