

Economic Focus

4Q23 GDP: Dented by sluggish external trade

19 February 2024

Research Analysts

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

Kirubha Sanmugam
+603 2604 3915
kirubhas@alliancefg.com

- **4Q23 GDP grew +3.0% y-o-y driven by resilient domestic spending amid weaker external demand**
- **Brighter prospects in 2024 underpinned by robust investment activities, healthy household spending and subsiding external headwinds**
- **We remain cautiously optimistic of Malaysia's prospects and maintain our 2024 GDP growth projection of 4.3% y-o-y**

Moderation in December

Malaysia's economy grew 3.0% y-o-y but fell 2.1% q-o-q on a seasonally adjusted (SA) basis in 4Q23 (3Q23: +3.3% y-o-y; +2.6% SA q-o-q), taking 2023 GDP growth to 3.7% (vs 8.7% in 2022). The weaker-than-expected 4Q23 was largely due to continued weakness in export-oriented industries which offset the robust growth from domestic expenditure. In terms of monthly GDP, December recorded a substantially lower y-o-y growth of 1.4% (3.9% in Oct, 3.8% in Nov), attributed to shorter school holiday and weak manufacturing activities. Nevertheless, it is noteworthy that 4Q23 domestic demand grew by 5.2% y-o-y – the strongest quarterly growth in 2023.

Robust labour market conditions

Domestic demand remains fundamentally strong due to sustained expansion in the labour market as unemployment rate inched lower to 3.3% in Dec 2023 (from 3.4% in Sep 2023) with historic high labour force participation rate, resulting in strong private consumption y-o-y growth of 4.2%. 4Q23 employment growth has also continued to outpace the growth in labour force, thanks to the favourable economic growth. We believe domestic demand in 2024 will remain resilient given the robust labour market conditions which have matched pre-pandemic levels.

Sustained expansion in domestic economy

Within the Services sector (59% of 4Q23 GDP; +4.2% y-o-y), the Wholesale & Retail Trade sub-sector grew by 4.4% y-o-y (vs 5.4% in 3Q23) while the Transportation and Storage sub-sector remained strong at 12.2% y-o-y (vs 12.8% in 3Q23). 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 78% of pre-pandemic level in 4Q23 (77% in 3Q23). Meanwhile, the Mining sector is the other outperformer with a 3.8% y-o-y growth due to improvement in natural gas and oil production.

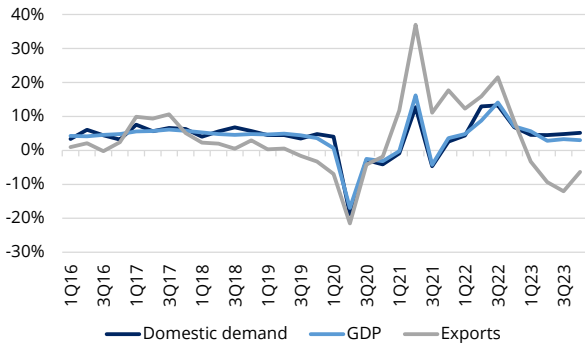
External demand dragged manufacturing sector

The Manufacturing sector declined by a weaker-than-expected 0.3% y-o-y in 4Q23 (vs -0.1% in 3Q23) due to continued weakness in E&E amid the tech downcycle, offsetting resilient growth in domestic-oriented industries. Nevertheless, 4Q23 manufacturing sector climbed 3.2% q-o-q, marking two successive quarterly expansion. We are encouraged by the improving trend of global semiconductor shipments as well as positive trade data among key Asian trading hubs. Confidence indicators among manufacturers are also pointing toward a recovery in 2024. Therefore, we believe Malaysia's manufacturing sector should register a marked improvement in 2024, leveraging on its diversified export base and deep integration into global supply chain.

Maintain 2024 GDP growth of 4.3%

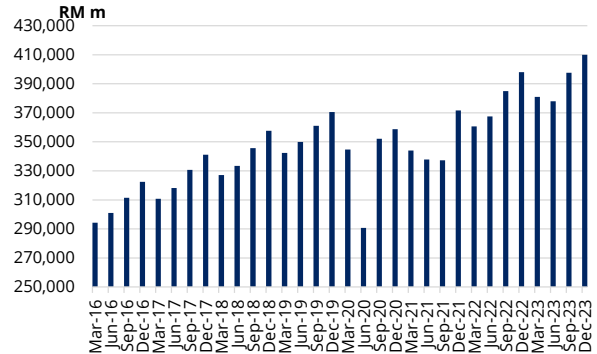
Despite the weaker growth momentum in 4Q23, Malaysia could take comfort from the resilient domestic demand as private consumption continues to be the key growth driver, underpinned by robust labour market and strong economic and social activities, especially tourism-related activities. Meanwhile, private investment is expected to benefit from improved external environment and positive response to the NETR and NIMP 2030 while the government continues with its expansionary fiscal policy to drive economic growth.

GDP: 3.0% growth in 4Q23 on strong domestic demand



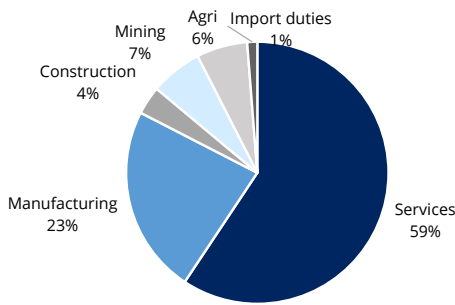
Source: Department of Statistics, AllianceDBS

Quarterly real GDP (RMm): Resilient economy



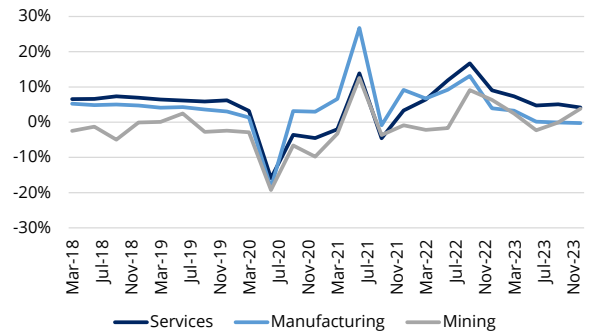
Source: Department of Statistics, AllianceDBS

Supply side: Composition of 4Q23 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	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
Services	58.2%	16.7%	9.1%	7.3%	4.7%	5.0%	4.2%
Manufacturing	24.2%	13.1%	3.9%	3.2%	0.1%	-0.1%	-0.3%
Agriculture	6.6%	1.2%	1.1%	0.9%	-1.1%	0.8%	1.9%
Mining	6.4%	9.1%	6.3%	2.4%	-2.3%	-0.1%	3.8%
Construction	3.5%	15.3%	10.1%	7.4%	6.2%	7.2%	3.5%
GDP		14.1%	7.1%	5.6%	2.9%	3.3%	3.0%

Source: Department of Statistics, AllianceDBS

Demand side GDP components

YoY %	2022 share	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
Domestic Demand	93%	13.1%	6.8%	4.6%	4.5%	4.8%	5.2%
Private Consumption	60%	15.1%	7.4%	5.9%	4.3%	4.6%	4.2%
Private Investment	15%	13.2%	10.3%	4.7%	5.1%	4.5%	4.0%
Public Consumption	13%	4.5%	2.4%	-2.2%	3.8%	5.8%	7.3%
Public Investment	4%	13.1%	6.0%	5.7%	7.9%	7.5%	11.3%
Net exports	5%	18.7%	23.4%	54.4%	-3.7%	-22.7%	-35.6%
GDP		14.1%	7.1%	5.6%	2.9%	3.3%	3.0%

Source: Department of Statistics, AllianceDBS

DISCLAIMER

The information herein is published by AllianceDBS Research Sdn Bhd ("ADBSR"), a subsidiary of Alliance Bank Malaysia Berhad ("ABMB") and an associate of DBS Vickers Securities Holdings Pte Ltd ("DBSVH") (each and/or collectively, the "Company").

It is based on information obtained from sources believed to be reliable, but the Company does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness for any particular purpose. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained herein does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee.

The information herein is published for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. The Company, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof.

The information herein is not to be construed as an offer or a solicitation of an offer to buy or sell any securities, futures, options or other financial instruments or to provide any investment advice or services. The Company and its associates, their directors, officers and/or employees may have positions or other interests in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking or financial services for these companies. The information herein is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident of or located in any locality, state, country, or other jurisdiction (including but not limited to citizens or residents of the United States of America) where such distribution, publication, availability or use would be contrary to law or regulation. The information is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction (including but not limited to the United States of America) where such an offer or solicitation would be contrary to law or regulation.

Published and Printed by

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