Macro Note

Malaysia: Improved GDP growth of 4.2% in 1Q24

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- The 1Q24 final GDP growth came in at 4.2% y/y (4Q23: +2.9%), stronger than the advance estimate (+3.9%) and Bloomberg consensus (+3.9%) but closer to our estimate (+4.3%). On a seasonally adjusted basis, the economy staged a growth rebound to +1.4% q/q (from revised -1.0% in 4Q23).

- All sectors expanded with higher growth rates across most segments particularly the construction sector, services, and mining sectors. Domestic demand continued to be the key driver of overall growth, offsetting the drag from net trade and stock withdrawal activities. The current account surplus improved to MYR16.2bn or 3.5% of GDP (4Q23: +MYR0.9bn or 0.2% of GDP).

- Given the positive growth momentum and further growth catalysts including robust investment activity and supportive consumption trends, we maintain our 2024 full-year real GDP growth forecast at 4.6% (BNM est: 4.0%-5.0% or mid-point forecast of 4.5%, 2023: 3.6%). Pending details of the upcoming subsidy rationalization plans, we have kept our inflation forecast of 2.6% (excluding subsidy effects) and expect the overnight policy rate (OPR) to be left unchanged at 3.00% for the rest of the year. The Monetary Policy Committee will next meet on 10-11 Jul.

1Q24 GDP growth shifted higher

The final print of real GDP growth showed an uptick to 4.2% y/y in 1Q24 (from a downwardly revised +2.9% in 4Q23 vs +3.0% previously), higher than the advance estimate and Bloomberg consensus of 3.9% but closer to our estimate of 4.3%. The monthly GDP performance showed a higher GDP growth of 4.8% in Jan and 5.0% in Feb, before easing to 2.9% in Mar. On a seasonally adjusted basis, the economy turned around to expand by 1.4% q/q (from revised -1.0% in 4Q23, initial: -2.1%).

All sectors recorded positive growth momentum in 1Q24, with the construction sector posting the highest gain among the five major economic sectors.

- **Services** sector rose by 4.7% y/y in 1Q24 (4Q23: +4.1%), supported by wholesale & retail trade (+3.8%), transportation & storage (+11.0%) and business services (+8.4%) activities. The finance & insurance subsector showed a marginal gain of 0.1% (4Q23: -5.0%), thanks to improvement in the finance activity.
- **Manufacturing** sector turned around to gain 1.9% y/y (4Q23: -0.3%), driven by improvement in production of non-metallic mineral products, metals, petroleum, chemical, rubber & plastics products, and wood products. The export-oriented manufacturing production recovered by 0.6% in 1Q24 (4Q23: -2.8%) while domestic-oriented manufacturing output continued to expand by 5.1% (4Q23: +5.5%).
- **Mining & quarrying** sector grew by 5.7% y/y (4Q23: +3.5%), thanks to higher production of natural gas (1Q24: +9.0%, 4Q23: +5.3%) and crude oil & condensate (1Q24: +1.3%, 4Q23: +1.5%).

- **Agriculture** sector growth eased slightly to 1.6% y/y (4Q23: +1.9%), marking the only sector to record a moderation due to declines in the forestry & logging segments. This was cushioned by higher palm oil production (which accounted for 33.5% of the sector and expanded 2.5% vs +1.6% in 4Q23) as well as improvement in the livestock (+4.5%) and fishing (+3.5%) sub-sectors.
- **Construction** sector staged a strong growth rebound to 11.9% in 1Q24 (4Q23: +3.6%) with robust civil engineering (1Q24: +23.5%, 4Q23: +16.9%) and specialized construction (1Q24: +11.4%, 4Q23: +0.8%) activities. Residential buildings activities rose 8.0% (4Q23: +1.3%) while non-residential buildings activities rebounded by +1.6% (4Q23: -4.9%).

Domestic demand remained the key contributor to overall growth amid a smaller decline in net trade contribution and stock withdrawal activities.

- **Private consumption** rose 4.7% y/y in 1Q24 (4Q23: +4.2%), thanks to consumption of housing, water, electricity, gas & other fuels, food & non-alcoholic beverage and transport. Compared to the previous quarter, consumption grew by seasonally adjusted 1.8% q/q (4Q23: -1.0%).
- **Government consumption** expanded 7.3% y/y (4Q23: +5.8%), led by spending on supplies & services.
- Overall **investment** growth accelerated to 9.6% y/y (4Q23: +6.4%) and 2.8% q/q seasonally adjusted (4Q23: +1.0%) as a result of strong growth in structure and machinery equipment spending at 10.7% and 9.2% respectively, while other assets expanded 4.6% y/y. Private investments (which accounted for 80.2% of total investments) rose 9.2% y/y (4Q23: +4.0%) while public investments registered 11.5% y/y growth (4Q23: +11.3%).
- **Exports of goods & services** rebounded by 5.2% y/y (4Q23: -7.9%) against **imports of goods & services** which accelerated by 8.0% y/y (4Q23: -2.6%). Higher exports was due to increased E&E and non-E&E shipments as well as improved commodity prices. Imports was driven by higher intermediate imports and robust domestic demand for capital and consumption goods. Given the improvement in exports, net trade shaved just 1.4ppts off overall growth in 1Q24 (vs -4.0ppts in 4Q23), marking the fourth quarter of negative net trade contribution to real GDP growth.
- **Changes in inventories** fell 24.1% y/y and subtracted 0.1ppt off overall GDP (4Q23: +977.1% y/y and +2.4ppts).

Current account surplus widened to 3.5% of GDP in 1Q24

The **current account surplus** staged a strong rebound to MYR16.2bn or 3.5% of GDP in 1Q24 (4Q23: MYR0.9bn or 0.2% of GDP), marking the largest surplus in five quarters. This was attributed to 1) a smaller primary income deficit (1Q24: -MYR8.8bn vs 4Q23: -MYR20.3bn) as a consequence of higher income from loans and deposits abroad and lower profits accrued to foreign investors; 2) a turnaround in secondary income to a surplus of MYR0.3bn (from –MYR2.2bn in 4Q23); 3) higher goods surplus (1Q24: +MYR32.0bn, 4Q23: +MYR30.8bn) amid improved exports; and 4) a narrower services deficit (1Q24: -MYR7.3bn, 4Q23: -MYR7.4bn) which reflected higher tourism revenue and arrivals.

The **financial account** deficit narrowed to MYR18.7bn (4Q23: -MYR20.1bn) following net inflows in other investments (1Q24: +MYR9.8bn, 4Q23: -MYR15.5bn) that was on account of loan repayments and settlement of trade credits. This partially cushioned the impact from 1) higher net outflows in portfolio investments (1Q24: -MYR23.7bn, 4Q23: -MYR6.0bn) which were driven by higher residents' investments in equity and debt securities abroad; and 2) net outflows in direct investments abroad (DIA) that outpaced foreign direct investment (FDI) inflows.

DIA posted a net outflow of MYR11.5bn (4Q23: -14.3bn), attributed to outflows in equity & investment fund shares and debt instruments. The main sectors of DIA were services, financial activities, mining & quarrying and construction. DIA flows were mainly channeled to Singapore, Indonesia, and Cayman Islands. **FDI** fell to MYR5.5bn in 1Q24 (4Q23: +MYR19.6bn) amid lower inflows in equity & investment fund shares and shift in debt instruments. Most of the FDI were directed into services sector (mainly in information & communication and financial activities), mining & quarrying and manufacturing sectors. The major FDI sources were HK, USA and Germany.

Net errors and omissions rose to MYR11.3bn (4Q23: MYR9.3bn) or 1.6% of total trade.

For 2024, we maintain our current account surplus estimate of MYR39.0bn or 2.0% of GDP (BNM est: +MYR41.5bn or 1.8%-2.8% of GDP).

On track for 4.6% GDP growth this year

Since the 1Q24 GDP outturn was closely in line with our expectation with several growth catalysts still in place, we maintain our 2024 full-year real GDP growth forecast at 4.6% (BNM est: 4.0%-5.0% or mid-point forecast of 4.5%, 2023: 3.6%). The anticipated MYR20bn-30bn (or 1.0%-1.5% of GDP) withdrawals from Employees Provident Fund (EPF) Account 3 starting 11 May will provide a boost to private consumption in 2H24. The pre-announced salary increment of over 13% for about 95% performing civil servants starting 1 Dec this year, which is projected to cost the government MYR10bn (or 0.5% of GDP), will also invigorate private consumption. This is in addition to the government's progressive wage project that will commence from Jun to Aug this year for five key sectors (i.e. construction, manufacturing, wholesale & retail trade (including motor vehicle and motorcycle repair), information & communication as well as professional, scientific & technical activities).

Investments are also gaining traction with increasing news flow about FDIs into Malaysia's integrated circuit (IC) design parks, data centres and renewable energy projects to date. To foster the semiconductor industries and accelerate the transition up the supply chain, the government is drawing up a comprehensive semiconductor blueprint that is expected to be launched in 2H24. The Ministry of Economy will present a progressive regulatory framework for carbon capture, utilisation and storage (CCUS) in Parliament next week (20-24 May) and the Bill is expected to be passed in Parliament in Nov. The progress of plans and positive newsflow is in line with the New Industrial Master Plan (NIMP) 2030 (details in report) and National Energy Transition Roadmap (NETR, details in report).

Other key growth catalysts include the upturn in global tech cycle, increasing tourism activities and continued implementation of budget measures such as infrastructure projects and cash aids. That said, the potential impact of Malaysia's subsidy rationalization, escalation in geopolitical risks (including trade protectionism) and slower-than-expected global economic landscape are wildcards for Malaysia's near-term growth prospects.

With a balance of risks between domestic growth and inflation, our forecast for the overnight policy rate (OPR) is kept unchanged at 3.00% through 2024. Furthermore, the Monetary Policy Committee (MPC) did not signal any potential changes to their monetary policy settings during last week (8-9 May)'s meeting (details in report). The MPC will meet again on 10-11 Jul.

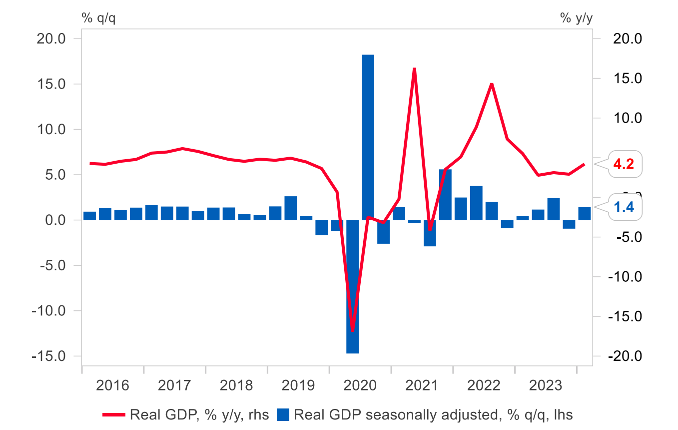
Our forecast for BNM rates

Source: Global Economics & Markets Research

%	As of 17 May	2Q24	3Q24	4Q24	1Q25
Overnight Policy Rate	3.00	3.00	3.00	3.00	3.00
Statutory Reserve Requirement	2.00	2.00	2.00	2.00	2.00

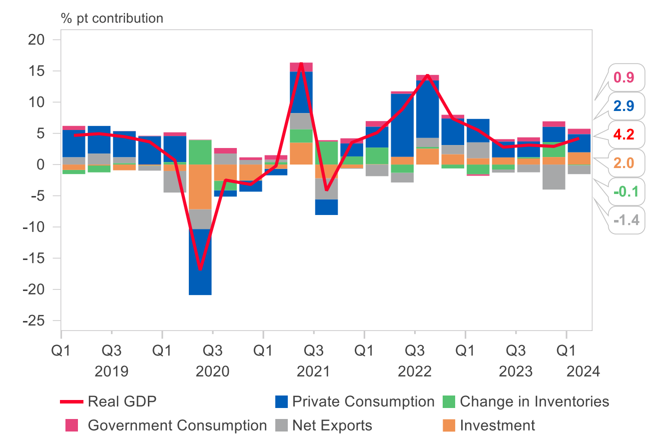
Real GDP growth edged up to 4.2% y/y in 1Q24

Source: Macrobond, UOB Global Economics & Markets Research



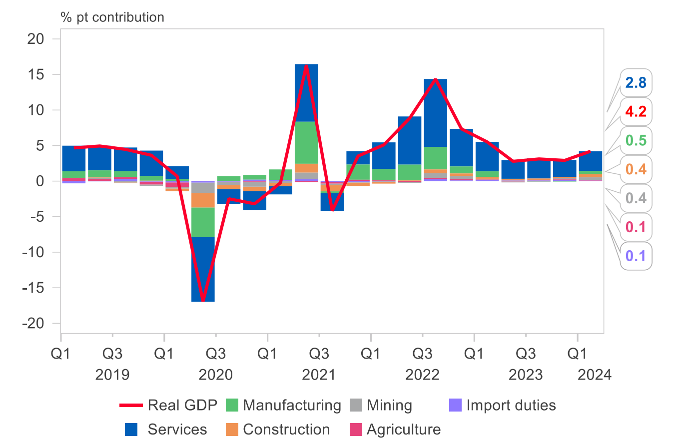
Domestic demand held up the overall GDP growth in 1Q24

Source: Macrobond, UOB Global Economics & Markets Research



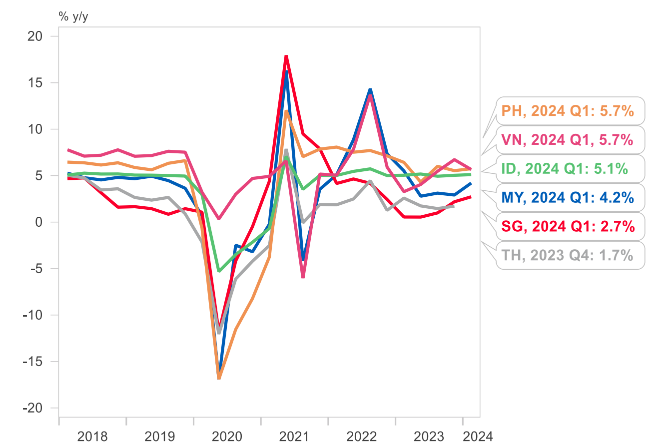
All sectors contributed positively to the 1Q24 GDP growth

Source: Macrobond, UOB Global Economics & Markets Research



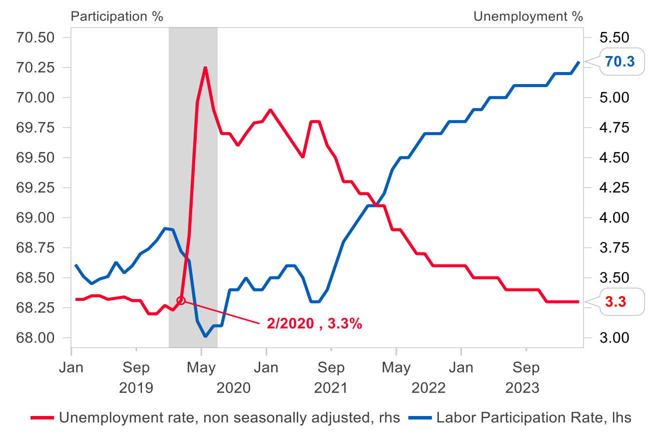
Regional GDP performance

Source: Macrobond, UOB Global Economics & Markets Research



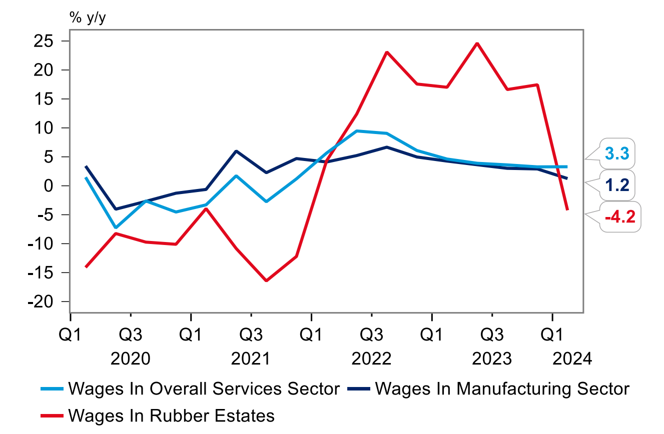
Unemployment rate steadied at 3.3%

Source: Macrobond, UOB Global Economics & Markets Research



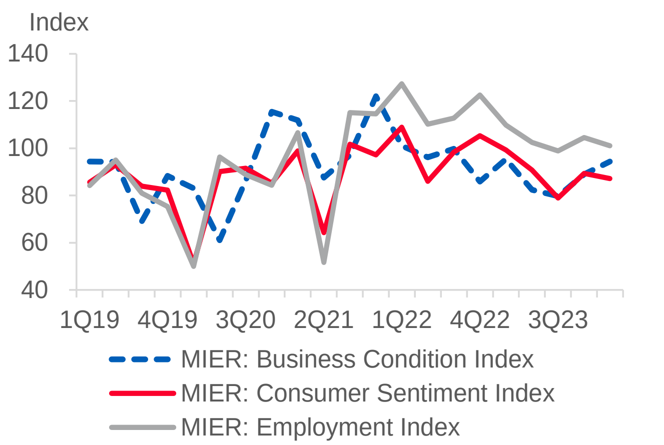
Nominal private sector wage growth

Source: Macrobond, UOB Global Economics & Markets Research



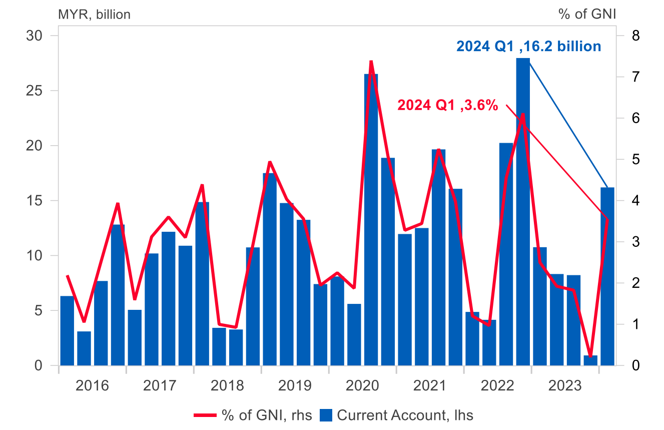
Business and consumer sentiment

Source: CEIC, MIER, UOB Global Economics & Markets Research



Wider current account surplus of MYR16.2bn in 1Q24

Source: Macrobond, UOB Global Economics & Markets Research

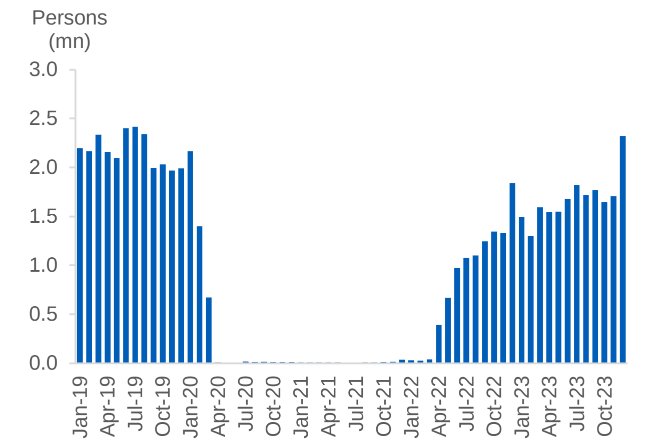


Inflation picked up slightly

Source: Macrobond, UOB Global Economics & Markets Research

Rising inbound tourist arrivals

Source: CEIC, DOSM, UOB Global Economics & Markets Research



Real GDP By Aggregate Demand, 2023-2024F (%)

*Total may not add up to 100% due to rounding and excluding change in stocks components.
Source: DOSM, BNM, UOB Global Economics & Markets Research

Component	% Share 2023*	2023	1Q23	2Q23	3Q23	4Q23	1Q24	2024F	
								BNM	UOB
Domestic Demand	**93.9**	**4.6**	**4.8**	**4.4**	**4.5**	**4.9**	**6.1**	**5.4**	**6.1**
Private expenditure	***76.2***	***4.6***	***5.8***	***4.4***	***4.2***	***4.1***	***5.7***	***5.8***	***6.1***
Consumption	60.7	4.7	6.1	4.2	4.1	4.2	4.7	5.7	5.5
Investment	15.5	4.6	4.7	5.1	4.5	4.0	9.2	6.1	8.5
Public Expenditure	***17.8***	***4.6***	***(0.2)***	***4.3***	***5.9***	***7.4***	***8.4***	***4.0***	***6.8***
Consumption	13.2	3.3	(2.0)	3.3	5.3	5.8	7.3	3.2	6.0
Investment	4.6	8.6	5.7	7.9	7.5	11.3	11.5	6.2	9.0
External Sector	***4.4***	***(16.2)***	***71.2***	***(11.9)***	***(19.9)***	***(52.9)***	***(24.5)***	***2.1***	***0.2***
Exports	66.1	(8.1)	(2.9)	(9.0)	(12.0)	(7.9)	5.2	4.0	3.0
Imports	61.7	(7.4)	(6.7)	(8.8)	(11.3)	(2.6)	8.0	4.1	3.2
Real GDP	**100.0**	**3.6**	**5.5**	**2.8**	**3.1**	**2.9**	**4.2**	**4.0 - 5.0**	**4.6**

Real GDP By Sector, 2023-2024F (%)

*Total may not add up to 100% due to rounding and exclusion of import duties components.
Source: DOSM, BNM, UOB Global Economics & Markets Research

Component	% Share 2023*	2023	1Q23	2Q23	3Q23	4Q23	1Q24	2024F	
								BNM	UOB
Agriculture	6.4	0.7	1.4	(0.7)	0.3	1.9	1.6	(0.5)	1.0
Mining	6.2	0.5	1.6	(2.1)	(1.1)	3.5	5.7	3.5	5.5
Manufacturing	23.4	0.7	3.2	0.1	(0.1)	(0.3)	1.9	3.5	3.0
Construction	3.6	6.1	7.4	6.2	7.2	3.6	11.9	6.7	9.8
Services	59.2	5.1	7.1	4.5	4.9	4.1	4.7	5.5	5.0
Real GDP	**100.0**	**3.6**	**5.5**	**2.8**	**3.1**	**2.9**	**4.2**	**4.0 - 5.0**	**4.6**

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