12 May 2023

ECONOMIC REVIEW | 1Q23 National Account

Malaysia's GDP Grew by +5.6%yoy in 1QCY23 Continued to be Driven by Domestic Demand

- *GDP growth moderated to +5.6%yoy in 1Q, but better than expected. Malaysia's economic growth moderated to +5.6%yoy in 1QCY23 (4QCY22: +7.1%yoy), slightly above ours and exceeded market expectations of +5.1%yoy. We assumed more moderate growth in view of slower expansion in exports and industrial production, compared to the previous quarter. As expected, domestic demand remained as the major driver of growth, cushioning the impact of weaker external demand.*
- *Robust private consumption continues. On the demand side, private consumption growth remained resilient expanding by +5.9%yoy and +2%qoq. Moderated inflationary pressure to +3.6%yoy during the quarter (4QCY23: +3.9%yoy) and continued improvement in jobless rate from 3.6% to 3.5% supported the robust private consumption growth.*
- *Current account surplus at more than 3-quarter low. Malaysia's current account remained in surplus but descended to +RM4.3b, the lowest since 3QCY22. In terms of percentage to GDP, the current account moderated to +1% (4QCY22: +5.9%). The slight deterioration was due to smaller surplus ratio of goods trade +9% of GDP (4QCY22: +12.3%). Services trade recorded 3-month high deficit ratio -2.9%.*
- *We keep our 2023 GDP growth forecast at +4.2%. Considering external headwinds and tightening monetary policy in many economies, we foresee Malaysia's GDP growth to moderate at +4.2% in 2023. The softer growth is mainly due to deceleration in external trade performance, taking into account anticpated slowdown in global demand.*

GDP growth moderated to +5.6%yoy in 1Q, but better than expected. Malaysia's economic growth moderated to +5.6%yoy in 1QCY23 (4QCY22: +7.1%yoy), slightly above ours and exceeded market expectations of +5.1%yoy. We assumed more moderate growth in view of slower expansion in exports and industrial production, compared to the previous quarter. As expected, domestic demand remained as the major driver of growth, cushioning the impact of weaker external demand. On another note, the sharper fall in real imports kept net exports contributing positively to the 1Q growth. On quarter-to-quarter basis, Malaysia's seasonally adjusted GDP rebounded and rose by +0.9%qoq, alleviating concerns over overall growth outlook after growth momentum weakened in the final quarter last year (4QCY22: -1.7%qoq). Nevertheless, the quarterly jump which was largely driven by increased consumer spending (+2%qoq) was limited by declines in government spending (-1.7%qoq), fixed investment (-1.4%qoq), and even weaker exports (-8.9%qoq) from previous quarter.

Robust private consumption continues. On the demand side, private consumption growth remained resilient expanding by +5.9%yoy and +2%qoq. Moderated inflationary pressure to +3.6%yoy during the quarter (4QCY23: +3.9%yoy) and continued improvement in jobless rate from 3.6% to 3.5% supported the robust private consumption growth. Meanwhile, investment activities still on steady expansionary path with private and public grew by +4.7%yoy and +5.7%yoy respectively in the first quarter of 2023. We opine the public investment and expenditure could have been much higher if the Budget 2023 have not delayed. Nevertheless, we foresee

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investment activities to stay on an upward trajectory particularly driven by expansionary Budget 2023, China's reopening effects and encouraging global commodity prices.

Real exports growth at more than 2-year low. On the external front, real exports shrank by -3.3%yoy, the lowest since 3QCY20. Continued contraction in agriculture exports -13.2%yoy (4QCY22: -6.1%yoy) and 11-quarter low manufacturing exports +2.9%yoy contributed to the slowdown of exports. On a flip side, services exports sustained strong double-digit growth of +58.2%yoy (4QCY22: +75.8%yoy), gaining from the continued recovery in tourism sector with the increased number of foreign tourists' arrivals. On the other hand, real imports growth at 10-quarter low -6.5%yoy. This was in tandem with the moderation in export-oriented sectors and weak inbound shipments of capital and intermediate goods in 1QCY23. As a result, net exports surplus descended to +RM21.3b from +RM30.4b in the previous quarter.

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Table 1: Summary of GDP by Expenditure Approach

	Quarterly Basis (QoQ %)				Yearly Basis (YoY %)			
	2Q22	3Q22	4Q22	1Q23	2Q22	3Q22	4Q22	1Q23
GDP	1.9	4.7	3.4	(4.3)	8.8	14.1	7.1	5.6
Domestic Demand	1.8	2.2	1.9	(2.2)	11.2	13.4	6.0	3.7
Private Consumption	(0.6)	7.5	2.0	2.0	18.3	14.8	7.3	5.9
Govt. Consumption	(2.6)	5.2	14.0	14.0	2.3	6.5	3.0	(2.2)
Private Investment	5.8	(6.1)	0.7	0.7	6.3	13.2	10.3	4.7
Govt. Investment	(11.4)	15.4	2.0	2.0	3.2	13.1	6.0	5.7
Real Exports	6.6	5.9	(0.0)	(0.1)	15.9	21.5	8.6	(3.3)
Real Imports	6.7	2.5	(0.0)	(0.1)	20.1	21.1	7.2	(6.5)
Net Exports	4.9	67.5	0.3	(0.3)	(29.0)	26.1	23.0	54.4

Note: QoQ is non-seasonally adjusted
Source: Macrobond, MIDFR

Still strong growth for services sector on the back of firm domestic spending. On the supply side, the expansion in services sector remained robust at +7.3%yoy (4QCY22: +9.1%yoy), above roughly +6%yoy average growth typically recorded during the pre-pandemic period. Demand for services expanded among others contributed by pick-up in accommodation (on the back of rising tourist arrivals); retail trade; business services; and transport & storage. More than three-quarter of growth during the quarter was from services sector alone, contributing +4.2ppt out of +5.6%yoy growth in 1QCY23. Growth for other major sectors like manufacturing, construction, agriculture and mining all remained in the positives albeit slower than the previous quarter. Manufacturing benefited among others from increased output of E&E, refined petroleum products and motor

vehicles & transport equipment. In addition, construction activities continued to increase despite slower activities in the residential sector. Meanwhile, agriculture sector grew by +0.9%yoy, mainly backed by sustained growth in the oil palm sector. Output in the mining sector also rose by +2.4% during the quarter backed by crude oil production, while the moderate growth was a result of sharper moderation in natural gas production.

Table 2: Summary of GDP by Supply-Side Approach

	QoQ%			YoY%		
	3Q22	4Q22	1Q23	3Q22	4Q22	1Q23
GDP	**4.7**	**3.4**	**(4.3)**	**14.1**	**7.1**	**5.6**
Agriculture, Forestry & Fishing	**17.7**	**(8.9)**	**(9.6)**	**1.2**	**1.1**	**0.9**
Rubber	42.2	(18.0)	(4.2)	(16.7)	(21.9)	(13.3)
Oil Palm	23.0	2.5	(25.5)	5.1	9.6	3.4
Livestock	12.6	(5.3)	(5.5)	2.7	(2.2)	(2.6)
Other Agriculture	9.1	(20.3)	12.5	(3.7)	(4.9)	2.6
Forestry & Logging	21.0	(13.4)	(14.4)	1.9	(5.4)	(2.1)
Marine Fishing	34.9	(21.5)	8.1	(2.0)	(1.9)	(1.6)
Aquaculture	16.1	(11.6)	(23.9)	14.8	2.0	(0.9)
Mining & Quarrying	**(2.3)**	**9.4**	**(2.5)**	**9.1**	**6.3**	**2.4**
Crude Oil	(6.0)	8.3	0.8	1.9	4.3	3.9
Natural Gas	(3.4)	8.4	(2.6)	13.7	7.3	0.6
Others	25.7	19.8	(13.6)	13.7	8.4	7.3
Manufacturing	**3.8**	**3.4**	**(5.8)**	**13.1**	**3.9**	**3.2**
Vegetable & Animal Oils & Fats	4.7	11.2	(19.5)	(0.4)	1.8	13.5
Food Processing	7.1	(9.8)	(6.6)	8.3	6.0	4.1
Beverages	(3.9)	(2.5)	(15.3)	22.6	2.1	(1.6)
Tobacco Products	(39.2)	27.6	25.3	201.4	(12.9)	15.4
Textile & Wearing Apparel	7.8	7.3	(1.5)	5.9	(2.2)	(0.2)
Leather Products	(22.0)	(15.8)	36.9	81.7	18.1	7.6
Wood Products	6.0	(3.3)	(2.1)	18.6	(7.6)	(8.5)
Paper Products	11.0	(17.8)	12.8	11.8	1.7	3.6
Printing	(7.2)	39.7	1.9	8.3	5.8	3.6
Refined Petroleum Products	16.5	(5.6)	(5.4)	10.5	4.6	6.3
Chemicals & Chemical Products	14.3	4.1	(7.3)	3.8	1.5	2.6
Rubber Products	1.9	(10.0)	(29.3)	(12.9)	(8.6)	(7.2)
Plastic Products	42.9	(27.2)	(8.8)	5.2	(3.9)	(8.7)
Non-Metallic Mineral Products	4.1	6.7	(0.1)	18.7	1.9	3.3
Basic Metals	0.9	6.3	(14.8)	9.1	0.1	1.6
Fabricated Metal Products	(5.7)	9.2	5.8	12.3	3.3	4.4
Machinery & Equipment	6.9	(10.9)	36.7	11.0	1.6	1.1
Computers & Peripheral Equipment	4.6	(8.3)	(8.1)	9.9	(6.2)	(7.8)
Electrical Equipment	(25.0)	24.6	(8.7)	13.5	7.5	2.0
Electronic Compo & Boards, Com Equip and Elect	5.2	5.9	1.5	19.1	11.4	5.0
Medical, Precision & Optical, Watches & Clocks	3.7	14.2	(38.8)	19.2	12.3	7.6
Motor Vehicles & Transport Equipment	(20.0)	40.6	(25.9)	42.2	5.0	8.3
Furniture	(33.5)	12.2	23.8	25.2	(6.7)	(11.0)
Other Mfg and Repair & Installation and Equipment	37.4	(0.9)	(24.3)	17.9	4.0	4.4

	QoQ%			YoY%		
	3Q22	4Q22	1Q23	3Q22	4Q22	1Q23
Construction	**5.4**	**1.7**	**0.1**	**15.3**	**10.1**	**7.4**
Residential	2.9	2.2	0.8	9.9	2.8	(3.4)
Non-Residential	(2.2)	13.8	(13.7)	30.5	10.7	6.4
Civil Engineering	17.2	(7.5)	11.6	10.1	18.1	16.0
Special Trades	3.2	0.8	1.8	13.7	7.9	8.7
Services	**4.6**	**4.3**	**(3.5)**	**16.7**	**9.1**	**7.3**
Electricity & Gas	1.2	(1.0)	(4.9)	8.4	(1.1)	(0.9)
Water, Sewerage and Waste Management	6.8	(0.5)	(2.7)	4.7	2.5	4.0
Wholesale Trade	9.8	0.3	(10.2)	7.2	0.6	3.3
Retail Trade	3.3	12.3	(7.8)	28.0	19.2	14.5
Motor Vehicles	22.4	0.2	(10.9)	132.6	7.3	11.2
Food & Beverage	0.4	1.0	1.7	31.0	14.9	3.7
Accommodation	25.6	21.7	(2.8)	295.1	78.6	55.7
Transportation & Storage	3.0	7.0	3.9	41.1	23.1	17.0
ICT	1.2	0.1	1.9	4.5	4.2	3.8
Finance	3.4	(1.2)	(2.2)	8.1	4.1	2.8
Insurance	4.1	10.2	5.0	(5.9)	(5.1)	(0.2)
Real Estate	0.8	0.7	(0.0)	34.7	34.0	1.9
Business Services	3.7	3.8	1.6	35.4	23.6	16.2
Private Health	2.4	2.9	2.7	6.7	6.0	8.7
Private Education	4.8	1.9	(0.2)	8.9	9.5	9.5
Other Services	2.0	1.5	2.4	19.8	6.3	5.9
Govt. Services	4.7	8.6	(7.4)	4.2	5.0	5.1
Import Duties	**(1.3)**	**9.7**	**(8.0)**	**24.0**	**8.1**	**10.6**

Note: QoQ is non-seasonally adjusted
Source: Macrobond, MIDFR

Trade-dependent countries hit by weaker international trade. While growth for most countries has been more moderate compared to previous quarters, trade dependent economies like Taiwan, South Korea, Singapore and even Japan recorded weaker growth since 4QCY22. The slower growth reflects softening global demand (as well as production) for manufactured goods, which translated to softer demand for technology and E&E products. Meanwhile, major economies like the US and euro area, despite the ongoing struggle with high inflation, growth prospects for these economies were on a moderating trend on the back of aggressive policy tightening to contain high inflation. China was an exception as its growth picked up to +4.5%yoy in 1QCY23 due to increased domestic economic activities after the economic reopening since late last year. Going forward, we expect the tightening of policy in many countries will result in a moderate growth this year, hence global growth is expected to grow below 3% for 2023 particularly due to slower growth in more advanced economies. As a result, weaker final demand will continue to affect growth for trade-dependent economies. Meanwhile, continued expansion in domestic demand will help to support growth for most emerging market economies, with growth outlook is expected to be back to a more normal pace for respective economies.

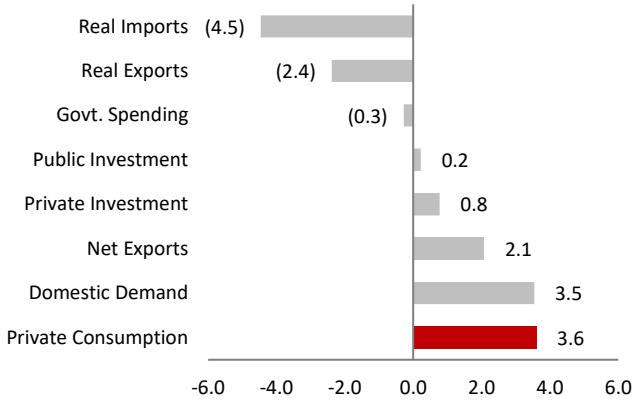
Table 3: GDP Growth by Selected Economies (YoY%)

	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23
Malaysia	(4.5)	3.6	5.0	8.9	14.2	7.1	5.6
Indonesia	3.5	5.0	5.0	5.5	5.7	5.0	5.0
Philippines	7.0	7.8	8.2	7.5	7.7	7.1	6.4
Thailand	(0.2)	2.0	2.2	2.5	4.6	1.4	n.a.
Singapore	7.5	6.1	4.0	4.5	4.0	2.1	0.1
Taiwan	4.4	5.3	3.9	3.0	3.6	(0.4)	(3.0)
South Korea	4.0	4.2	3.0	2.9	3.1	1.3	0.8
China	5.2	4.3	4.8	0.4	3.9	2.9	4.5
Japan	1.8	0.8	0.5	1.7	1.5	0.4	n.a.
UK	8.5	8.9	10.6	3.8	2.0	0.6	n.a.
Euro area	4.0	4.8	5.5	4.4	2.4	1.8	1.3
USA	5.0	5.7	3.7	1.8	1.9	0.9	1.6

n.a. = not yet available
Source: CEIC, MIDFR

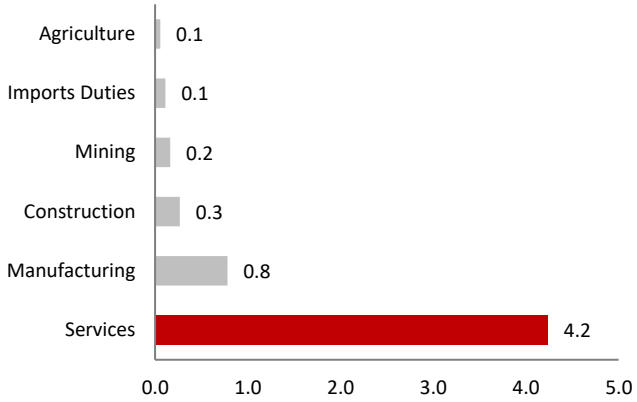
We keep our 2023 GDP growth forecast at +4.2%. Considering external headwinds and tightening monetary policy in many economies, we foresee Malaysia's GDP growth to moderate at +4.2% in 2023. The softer growth is mainly due to deceleration in external trade performance, taking into account anticpated slowdown in global demand. Due to higher interest rates, pessimistic business sentiment as reflected in S&P Global PMI surveys and elevated inflationary pressure, domestic demand in the US and EU will dampen this year. Malaysia's real exports growth is projected at +3% (2022: +12.8%), partially supported by improving services exports via tourism activity. As China reopens sooner than predicted, we are sanguine this will provide extra boost to Malaysia's services exports as well as tourism activity. However, we believe Malaysia's external trade to continue benefiting from commodity exports especially palm oil, crude petroleum and LNG as the prices of CPO and Brent crude oil to stay elevated at RM3,500 per tonne and USD86pbd for 2023. Agriculture and mining sectors are projected to expand at +1% each while manufacturing output to grow modestly by +2.7% for 2023. As for domestic sectors, construction sector to post stronger growth on the back of high development expenditure levels set by the government while services sector to gain from softening inflationary pressure and improving labour market conditions.

Chart 1: Contribution to 1QCY23 GDP Growth by Expenditure Components (%-point)



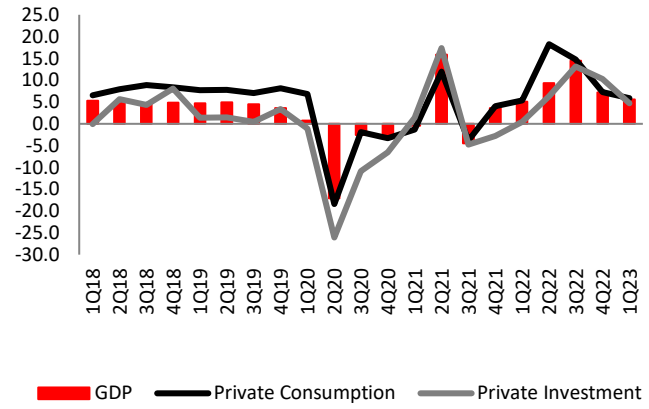
Source: Macrobond, MIDFR

Chart 2: Contribution to 1QCY23 GDP Growth by Supply-Side Components (%-point)



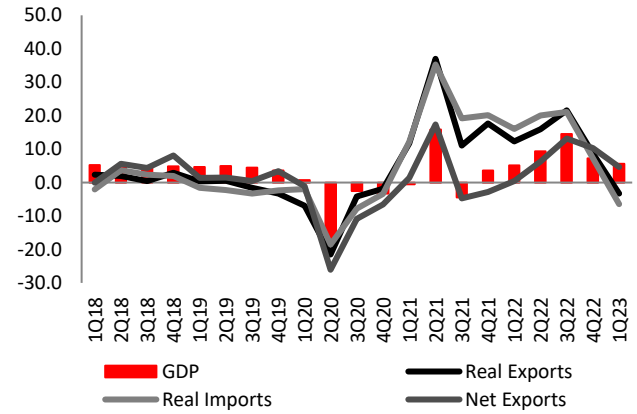
Source: Macrobond, MIDFR

Chart 3: GDP vs Private Sector (YoY%)



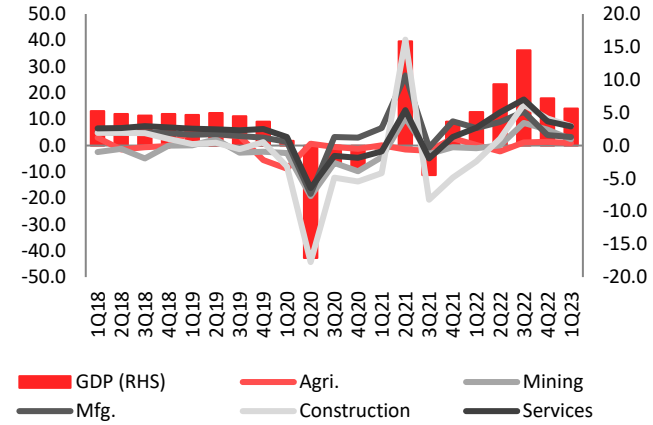
Source: Macrobond, MIDFR

Chart 4: GDP vs External Trade (YoY%)



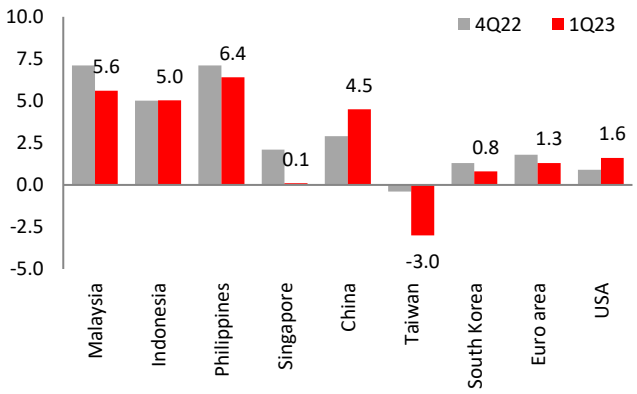
Source: Macrobond, MIDFR

Chart 5: GDP by Supply-Side (YoY%)



Source: Macrobond, MIDFR

Chart 6: GDP Growth for Selected Countries (YoY%)



Source: Macrobond, MIDFR

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