

Global Markets Research

Malaysia - Economics

Slight upward revision to 2Q GDP growth

The Malaysian economy picked up further and grew 5.9% y/y in 2Q; its fastest in 1½ years

Robust domestic demand continued spearheading growth; reinforced by exports recovery

Upgrading our above consensus 2024 growth forecast to 5.4%; expect BNM to stand pat on OPR

Summary

The Malaysian economy registered improved momentum for the second straight quarter, expanding at a robust 5.9% y/y pace in 2Q24 (1Q: +4.2% y/y). This marked a slight upward revision from the +5.8% y/y advance estimate released last month and was relatively in line with consensus (+5.8% y/y) as well as our (+6.0% y/y) estimates. There was good traction on a quarterly (+2.9% vs +1.5% q/q) and a monthly basis, despite some moderation towards June (Figure 2).

Without any surprises, growth was predominantly driven by continued expansion in domestic demand and exports recovery. All major sectors registered positive growth. This brings growth to average +5.1% y/y in the first half of the year (2H23: +3.0% y/y). Barring any unforeseen external shocks, we expect sustained growth traction in the next two quarters (Figure 3), suggesting our already above consensus growth forecast of 4.9% could be conservative, with upside potential to +5.4% y/y for 2024 as a whole.

Further pick-up in domestic demand; net exports turned positive

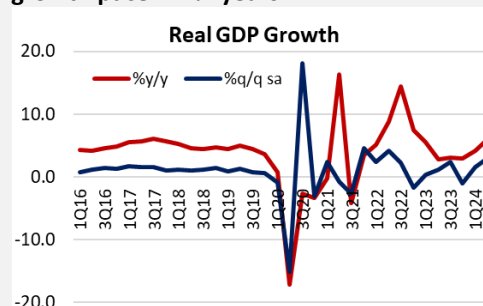
Domestic demand accelerated for the 4th straight quarter to grow 6.9% y/y in 2Q (1Q: +6.1% y/y), its fastest growth since 3Q22 primarily led by the private sector (+7.3% vs +5.7% y/y). Growth was broad-based underpinned by faster expansion across the board (Figure 5), except the public sector which saw more moderate expansion. Growth in private consumption quickened to 6.0% y/y in 2Q (1Q: +4.7% y/y), its fastest in five quarters while growth in private investment chalked up its best growth since 3Q22, at 12.0% y/y in 2Q (1Q: +9.2% y/y). Positive labour market condition and policy support spearheaded growth in consumer spending while robust capacity expansion by businesses drove increases in private investment. On the flip side, the government sector saw slower growth of 4.9% y/y in 2Q (1Q: +8.4% y/y), amid slower expansions from both consumption (+3.6% vs +7.3% y/y) and investment (+9.1% vs +11.5% y/y).

Net exports which reported positive growth for the first time in five quarters, provided an added impetus. Net exports turned in positive at 3.4% y/y in 2Q (1Q: -24.5% y/y), halted the negative drag in the last four quarters. Exports gained speed to increase 8.4% y/y during the quarter (1Q: +5.2% y/y) underpinned by higher external demand and global tech upcycle, while imports picked up at a lesser quantum to 8.7% y/y (1Q: +8.0% y/y).

Quicker growth from all sectors except mining

On the supply side (Figure 6), growth was broad-based and four out of the five sectors saw better growth momentum. Growth in the services industries quickened from +4.8% to +5.9% y/y, thanks to broad-based improvement in consumer- and business-related services sectors. Manufacturing value-added growth more than doubled from 1.9% to 4.7%

Figure 1: Encouraging traction; fastest y/y growth pace in 1½ years



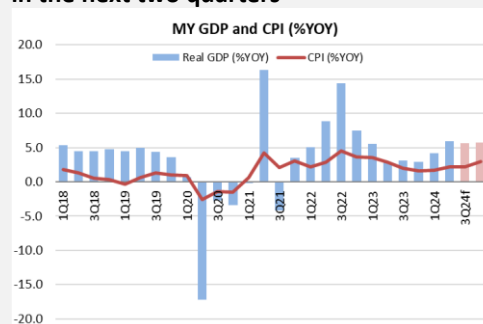
Source: DOSM, BNM

Figure 2: Stronger momentum in 2Q overall despite the slight easing towards June



Source: DOSM, BNM

Figure 3: Expect sustained growth traction in the next two quarters



Source: DOSM, HLBB Global Markets Research

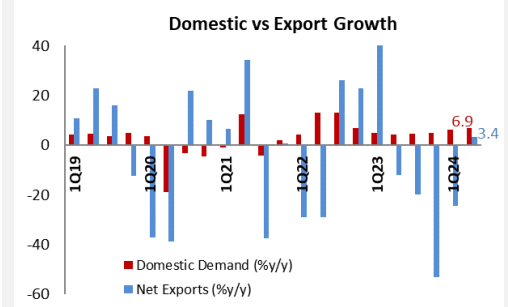
y/y during the quarter, driven by higher growth across both export- and domestic-oriented sectors. The construction sector saw double-digit expansion for the 2nd straight quarter (+17.3% vs +11.9% y/y), thanks to higher activities particularly from civil engineering and special trade subsectors. Meanwhile, growth in the agriculture sector was driven by the oil palm and fisheries subsector while the slower growth in mining was due to production disruption in the oil and gas subsector in May.

Outlook

We remain cautiously optimistic that outlook of the Malaysian economy will remain favourable going into the second half of the year, barring significant blowout from geopolitical conflicts and hard landing from the US and China economies. Externally, we expect continuous expansion in external demand reinforced by global tech upcycle. Domestically, sustained household spending and faster implementation of investment projects, coupled with greater spillovers from the global tech upcycle and tourism activities, shall all augur well with growth prospects of the Malaysian economy. Continued wage growth and policy support aside, increased spending from EPF Account 3 withdrawal and civil servants payrise in December is expected to further reinforced the consumption momentum.

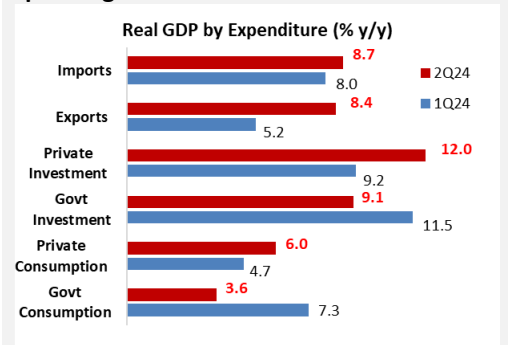
We therefore foresee upside risk to our already above consensus growth forecast of 4.9%, with full year growth likely settle at 5.4% for 2024, with average 1H growth of 5.1% already in the bag, and our expectation for a pick-up in 2H on the aforesaid factors. Positive growth outlook, coupled with manageable inflationary outlook, are expected to allow BNM to keep OPR unchanged at 3.00% for the year, helping safeguard MYR assets as other central banks embark on an easing cycle.

Figure 4: Further acceleration in domestic demand reinforced by a rebound in net exports



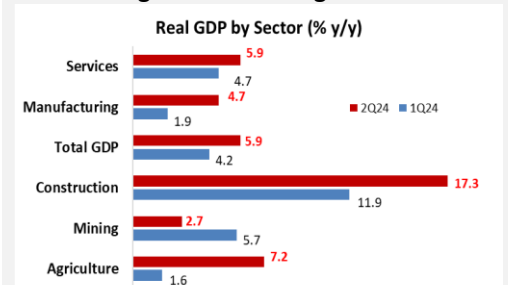
Source: DOSM, BNM

Figure 5: Private-sector led growth amid more moderate expansion in public spending and investment



Source: DOSM, BNM

Figure 6: Broad-based pick-up except for the slower growth in mining



Source: DOSM, BNM

Malaysia Key Economic Metrics

2022												2023												2024							
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun		
5.2	4.7	4.5	5.6	5.0	8.9	16.5	15.8	15.3	11.6	7.3	4.5	9.6	4.5	6.4	5.6	0.7	5.6	2.4	4.2	3.2	2.5	3.4	3.1	2.3	4.8	5.0	2.9	6.2	5.9	5.9	Real GDP
0.1	-0.4	-1.4	-0.5	2.3	5.3	4.0	4.1	0.3	0.1	-0.9	-1.5	-1.8	0.4	-1.2	-2.7	-1.1	-2.1	-1.0	-0.5	-0.2	-0.1	-0.1	0.4	3.4	2.1	2.3	4.5	3.8		Monthly Real GDP	
23.5	16.8	25.4	20.7	30.5	38.8	38.0	48.2	30.1	15.0	15.6	5.9	1.6	9.8	-1.4	-17.4	-0.9	-14.1	-13.1	-18.7	-13.8	-4.5	-6.1	-10.1	8.7	-0.8	-0.9	9.1	7.1	1.7	Exports	
26.4	18.4	29.9	22.0	37.3	49.3	41.9	67.6	32.8	29.1	15.6	11.5	2.2	12.4	-1.8	-11.1	-3.7	-18.7	-15.9	-21.2	-11.1	-0.3	1.5	2.9	18.7	8.0	12.5	15.5	13.4	17.8	Imports	
18.4	19.8	26.7	23.5	12.6	21.9	15.5	16.92	31.8	18.1	22.3	27.8	18.1	19.6	26.7	12.8	15.7	25.6	17.1	17.2	24.4	12.9	12.2	11.8	10.2	11.2	12.7	7.7	10.0	14.3	Trade balance (RMbn)	
4.3	4.0	5.1	4.6	4.1	12.1	12.5	13.5	10.8	4.6	4.8	3.0	1.8	3.5	3.2	-3.3	4.8	-2.2	0.7	-0.3	-0.5	2.4	0.6	-0.1	4.3	3.1	2.4	6.1	2.4	5.0	Industrial production	
6.8	5.2	6.9	6.2	6.9	14.5	14.9	15.2	10.4	4.2	4.8	3.0	1.3	4.8	4.1	-3.0	5.1	-1.6	-0.2	-0.6	0.4	0.9	-0.1	-1.4	3.7	1.2	1.3	4.9	4.6	5.2	Manufacturing production	
4.1	3.9	4.4	4.5	5.0	6.2	7.1	7.5	5.4	4.8	4.7	5.4	4.0	4.6	4.2	4.0	4.0	3.0	2.9	3.0	3.2	3.4	3.3	2.1	2.0	1.0	0.7	1.2	1.1	1.8	Wages (manufacturing)	
4.2	4.1	4.1	3.9	3.9	3.8	3.7	3.7	3.6	3.6	3.6	3.6	3.6	3.5	3.5	3.5	3.5	3.4	3.4	3.4	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	Unemployment rate (%)
5.7	6.2	8.6	11.5	11.7	19.3	20.6	16	13.3	7.3	5.6	4.7	3.1	5.9	7.6	3.2	4.4	3.1	5.7	6.2	6.9	5.7	6.2	4.4	5.5	5.2	4.0	4.8	4.7	4.0	Wholesale trade	
7.3	10.2	10.8	20.9	29.9	38.4	37.5	34.5	30.0	26.0	22.8	22.7	21.7	19.2	17.7	12.9	5.0	5.8	5.5	6.3	5.9	3.9	4.4	5.0	2.6	5.8	7.1	5.5	8.7	7.9	Retail trade	
16.6	2.4	14.6	-5.3	4.1	2999.6	780.9	296.8	56.8	-4.2	9.4	19.6	30.8	43.1	7.7	-16.9	26.1	-2.4	32.9	8.1	2.5	23.8	13.4	2.9	34.9	4.4	-8.7	28.7	14.0	-5.8	Passenger car sales	
1.7	2.0	2.3	2.3	2.8	4.8	6.5	6	7.5	7.1	6.7	6.7	6.6	7.0	7.1	7.5	7.8	7.6	7.6	7.9	8.1	8.2	8.5	8.6	9.0	9.1	8.9	8.6	8.4	8.2	Consumption credit	
2.3	2.2	2.2	2.3	2.8	3.4	4.4	4.7	4.5	4.0	4.0	3.8	3.7	3.6	3.4	3.3	2.8	2.4	2.0	2.0	1.9	1.8	1.5	1.5	1.5	1.8	1.8	1.8	2.0	2.0	CPI	
9.2	9.7	11.6	11.0	11.2	10.9	7.6	6.8	4.9	4.0	3.2	3.5	1.3	-0.8	-2.9	-3.0	-4.6	-4.8	-2.3	-2.2	0.2	-0.3	-1.5	-1.3	-0.6	0.3	1.6	1.9	1.4	1.6	PPI	

Note: Figures are %YOY unless otherwise stated

Source: BNM; DOSM; HLBB Global Markets Research

Hong Leong Bank Berhad

Fixed Income & Economic Research, Global Markets

Level 8, Hong Leong Tower

6, Jalan Damansara

Bukit Damansara

50490 Kuala Lumpur

Tel: 603-2081 1221

Fax: 603-2081 8936

Email: HLMarkets@hlbb.hongleong.com.my**DISCLAIMER**

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad ("HLBB") to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group ("HLB Group"). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter.

Potential and actual conflict of interest may arise from the activities of HLB Group. HLB Group constitute a diversified financial services group. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, hedging transactions and other activities for their own account or the account of others. In the ordinary course of their business, HLB Group may effect transactions for their own account or for the account of their customers and hold long or short positions in the financial instruments. HLB Group, in connection with its business activities, may possess or acquire material information about the financial instruments. Such activities and information may involve or have an effect on the financial instruments. HLB Group have no obligation to disclose such information about the financial instruments or their activities.

The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favorable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.