

**Global Markets Research**
**Malaysia - Economics**

## 3Q GDP growth moderated to 5.3% as expected

**Quicker investment and government spending growth cushioned slower growth in private consumption**

**Domestic demand remained the key growth pillar; net exports turned negative again**

**Twinking our full year GDP growth forecast a notch lower to 5.2%; no change to OPR pause view**

### Summary

The Malaysian economy registered softer growth for the first time in three quarters, expanding by 5.3% y/y in 3Q (2Q: +5.9% y/y), unchanged from the advanced reading and in line with ours as well as consensus estimates. Although growth remained predominantly domestic-driven, we noted a marked slowdown in private consumption growth (+4.8% vs +6.0% y/y), which was cushioned by faster growth in government spending and a pick-up in gross fixed capital formation following the implementation of investment projects. The moderation in 3Q growth was also a result of a net drag from net exports, which turned negative again during the quarter (-8.8% vs +3.4% y/y), as imports growth outpaced exports growth.

Looking ahead, we are cautiously optimistic the Malaysian economy will be able to sustain a similar growth pace in 4Q (Figure 3) underpinned by year end spending and the civil servant pay rise but external risks remain a wild card. We have therefore adjusted our full year growth forecast 0.2ppt lower from 5.4% to 5.2%, which remains well within MOF's growth forecast of 4.8-5.3% for 2024.

### Slight improvement in domestic demand; net exports turned negative

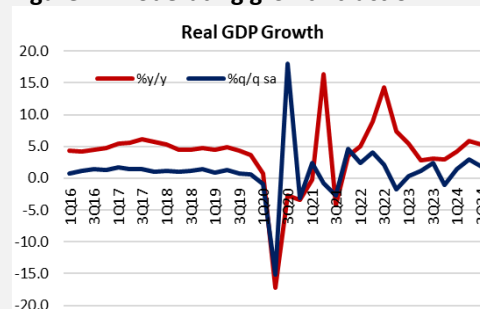
Domestic demand gained speed for the 5<sup>th</sup> straight quarter to increase at a slightly faster pace of 7.0% y/y in 3Q (2Q: +6.9% y/y), its fastest growth in two years. Public sector stepped up to register a slightly faster growth (+7.1% y/y) compared to the private sector (+7.0% y/y), boosted by better traction from both government consumption (+4.9% vs +3.9% y/y) and government investment (+14.4% vs +9.1% y/y). Growth in the private sector was however negated by slower growth in private consumption as mentioned above (+4.8% vs +6.0% y/y), which far outweighs the quicker expansion seen in private investment (+15.5% vs +12.0% y/y).

Net exports failed to maintain the turnaround seen in the preceding quarter. Net exports fell again, by 8.8% y/y in 3Q (2Q: +3.4% y/y), as higher growth in the imports (+13.5% vs +8.7% y/y) overshadowed the increase in exports (+11.8% vs +8.4% y/y). On a more comforting note, the increase in imports was due to higher imports of intermediate and capital goods, which should translate into higher exports and investment activities going forward.

### Quicker growth in manufacturing and construction

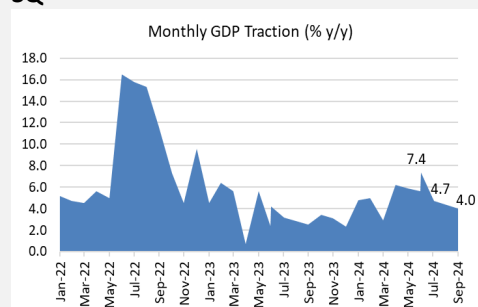
On the supply side (Figure 6), growth was broad-based across all sectors except for mining which contracted 3.9% y/y in 3Q (2Q: +2.7% y/y), hit by the decline in oil and gas production due to plant maintenance activity. Construction and manufacturing value-added saw quicker growth, amid robust growth in non-residential and residential subsectors (for construction), and stronger production for export-oriented sectors in the manufacturing sector especially E&E and optical products (+5.6% vs +3.0%

**Figure 1: Moderating growth traction**



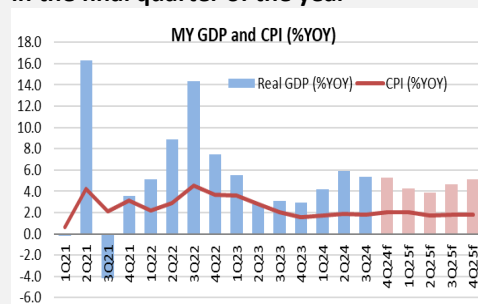
Source: DOSM, BNM

**Figure 2: Evident slowdown towards end-3Q**



Source: DOSM, BNM

**Figure 3: Expect sustained growth traction in the final quarter of the year**



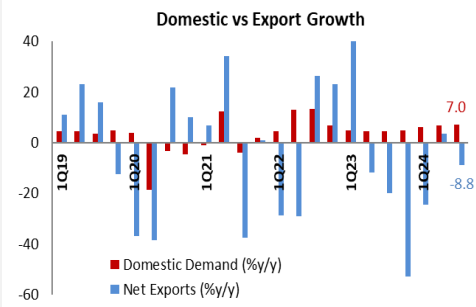
Source: DOSM, HLBB Global Markets Research

y/y), and petroleum, chemical, rubber & plastic (+4.4% vs +4.1% y/y). Meanwhile, the slower expansion in the services sector was a result of slower growth in the wholesale & retail subsector (+4.2% vs +4.8% y/y). Transportation & storage (+10.6% vs +10.5% y/y) and business services (+8.5% vs +8.4% y/y) reported slightly higher growth. In the agriculture sector, slower production of FFB dampened growth in the oil palm subsector (+7.3% vs +19.0% y/y).

**Outlook**

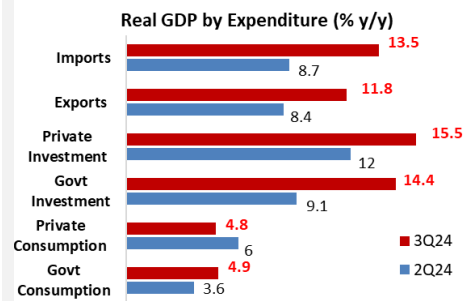
We remain cautiously optimistic that the Malaysian economy will continue to expand at a steady pace in the near future, supported by sustained household spending and faster implementation of investment projects on the domestic front. A steady labour market, continued wage growth, cash assistance, and civil servants payrise in December are all expected to underpin consumption. This should be further supported by continuous growth in exports, piggybacking on the global tech upcycle, and potential trade diversion. That said, the Malaysian economy remains susceptible to downside risks such as a weaker than expected global economy, renewed inflationary pressure and the resultant policy risks, financial market volatility, trade tension, and geopolitical uncertainties. That said, continued moderate growth outlook, coupled with manageable inflationary outlook, are expected to allow BNM to keep OPR unchanged at 3.00% probably through the whole of next year.

**Figure 4: Further acceleration in domestic demand but net exports turned negative**



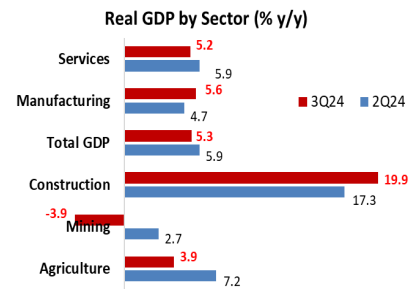
Source: DOSM, BNM

**Figure 5: Slower growth in private consumption; pick-up in other sectors**



Source: DOSM, BNM

**Figure 6: Faster growth in manufacturing and construction sectors**



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	Jul	Aug	Sept				
		5.1			8.9			14.4			7.5			5.5			2.8			3.1			2.9			4.2			5.9			5.3	Real GDP			
5.2	4.7	4.5	5.6	5.0	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	5.6	7.4	4.7	4.0	Monthly 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	4.4	3.8	3.7	5.2	4.0		Leading indicator			
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	12.3	12.0	-0.3	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	25.4	26.2	10.9	Imports			
18.4	19.8	26.7	23.5	12.6	21.9	15.5	16.9	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	6.4	5.5	13.2	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	5.3	4.1	2.3	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	7.7	6.5	3.2	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	2.4	1.5	1.2	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	3.4	3.4	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.2	3.2	Unemployment rate (%)			
5.7	6.2	8.6	11.5	11.7	19.3	20.6	16.0	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	5.5	3.7	3.7	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	6.4	5.9	5.4	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	11.5	-0.1	-14.0	Passenger car sales			
1.7	2.0	2.3	2.3	2.8	4.8	6.5	6.0	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	8.0	7.8	7.6	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	2.0	1.9	1.8	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	1.3	0.3	-2.1	PPI			

Source: BNM; DOSM; HLBB Global Markets Research

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