

Economic Focus

Riding on resilient consumer spending

14 May 2024

- Malaysia's economic activity remains supported by resilient domestic demand. Sustained consumer spending amid revival of tourism industry and strong investment activities are expected to bolster growth momentum.
- Robust employment market with high labour participation rate continues to underpin steady growth in the Services sector.
- Weakness in external trade has bottomed out. We believe the Manufacturing sector is set to benefit from stronger external demand.

Sustained domestic demand in Malaysia

- Malaysia's economy grew 3.9% y-o-y in 1Q24 (based on advance estimates), supported by the Services sector.
- The Services sector, accounting for 59% of the economy, is expected to remain healthy in 2024, driven by healthy household spending as employment continue to increase amid a robust labour market.
- The implementation of major projects in Budget 2024 and catalytic developments under various national policy blueprints will underpin strong investment spending.

Manufacturing sector to benefit from external demand recovery

- Malaysia's exports recorded its recent low in April 2023. Since then, exports have gradually improved.
- This is broadly consistent with the gradual improvement for key Asian exporters.
- Malaysia is likely to benefit from the global technology upcycle given its position in the semiconductor industry.

Regional Highlights

The below highlights some of the recent interesting DBS regional reports.

Please go to www.alliancebank.com.my/alliance-blog for the detailed reports.

- Growth resilience in the face of high interest rates and geopolitical uncertainty has been a feature of the global economy during the past couple of years. Looking at high frequency data available so far, as well as leading indicators, DBS expects this trend to continue through 2Q24. *(From [Macro Insights Weekly: Global growth looks good for 2Q24](#))*
- Global fixed income markets have been volatile as the 2024 US rate cut scenario is priced in and out. How does the inflation and labour market developments align with two rate cuts in 2H24? Read this report for DBS' view on the US rate cut scenarios. *(From [Macro Insights Weekly: A year without rate cuts?](#))*

Research Analysts

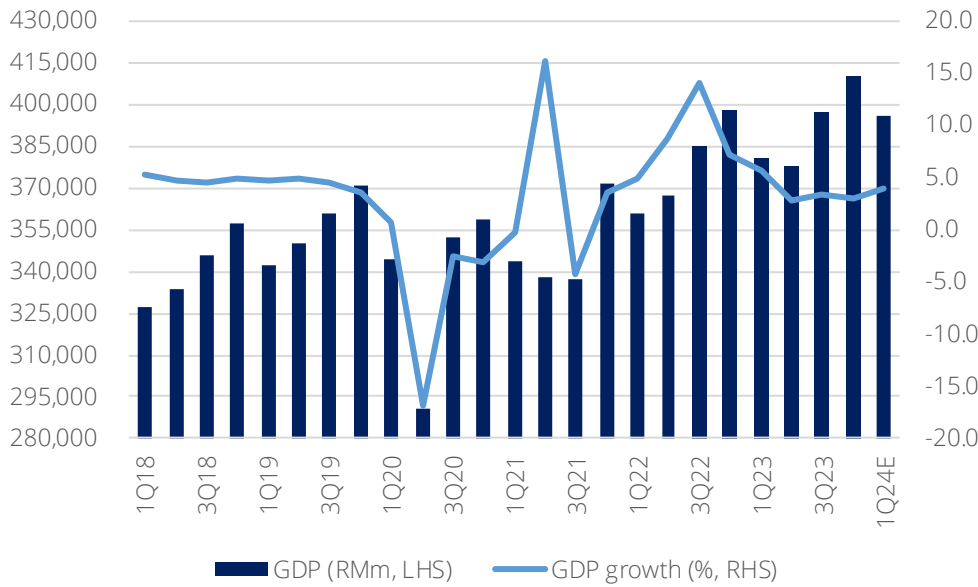
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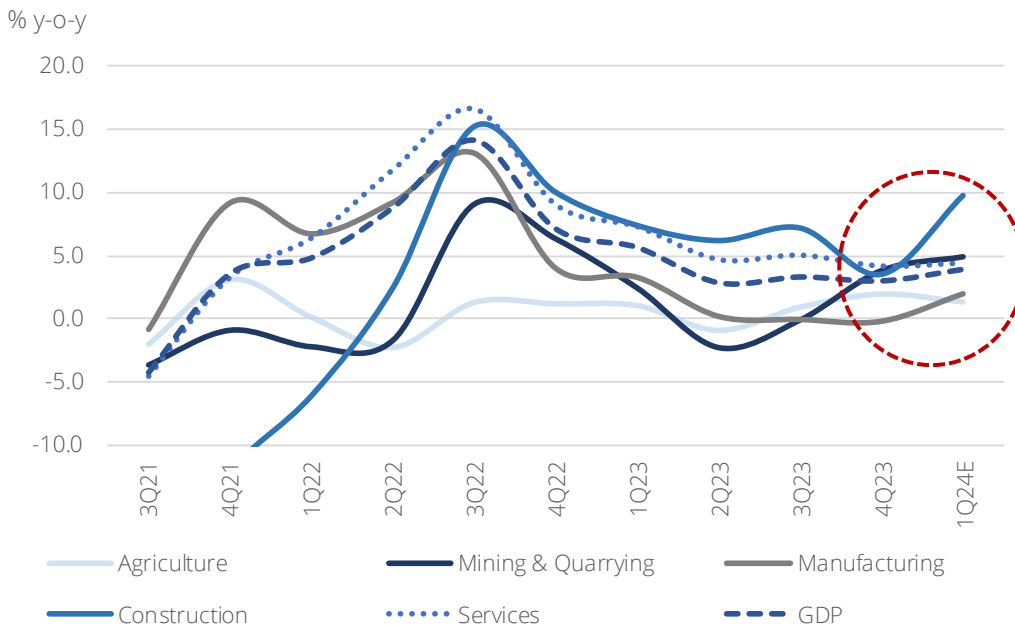
Figure 1: Expect moderated but still healthy economic growth



- 1Q24 advance estimate GDP grew 3.9% y-o-y. We look forward to GDP growth of 4.3% y-o-y in 2024.

Source: Department of Statistics Malaysia

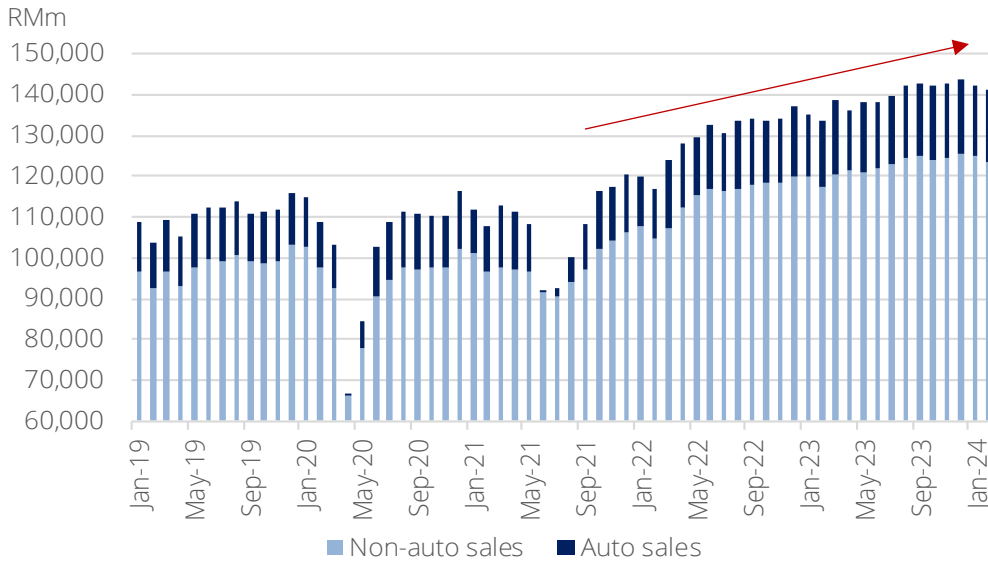
Figure 2: GDP performance by sector: Services the key growth driver



- Advance estimates of GDP growth in 1Q2024 was driven by the Services sector which was supported by resilient consumer spending.
- Growth for the manufacturing sector grew 1.9% y-o-y in 1Q24. The recovery in global semiconductor shipments should provide support for stronger growth in 2024.
- Construction sector grew strongly by 9.8% y-o-y. The acceleration of infrastructure projects should support the sector in 2024.

Source: Department of Statistics Malaysia

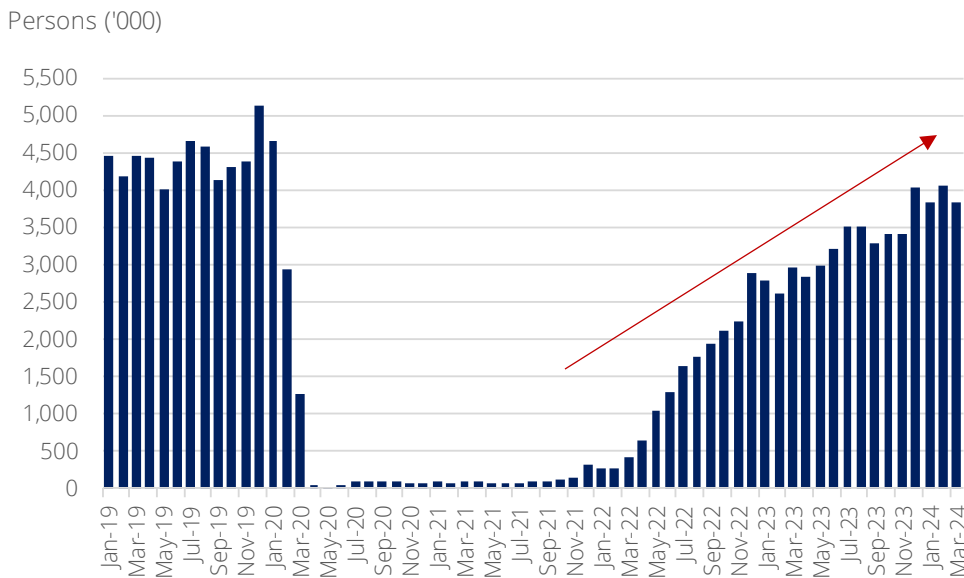
Figure 3: Steady increase in Wholesale & Retail Trade sales



- In February 2024, Wholesale & Retail trade (WRT) sales gained 5.5% y-o-y (-1.1% m-o-m) reflecting resilient consumer spending.
- WRT sales increased to a high of RM143.9bn in December 2023 (2023 growth: 7.7% y-o-y).
- This was mainly driven by relatively steady non-auto sales (2023: 7.0%) and improvement in auto sales (2023: 12.3%).

Source: Department of Statistics Malaysia

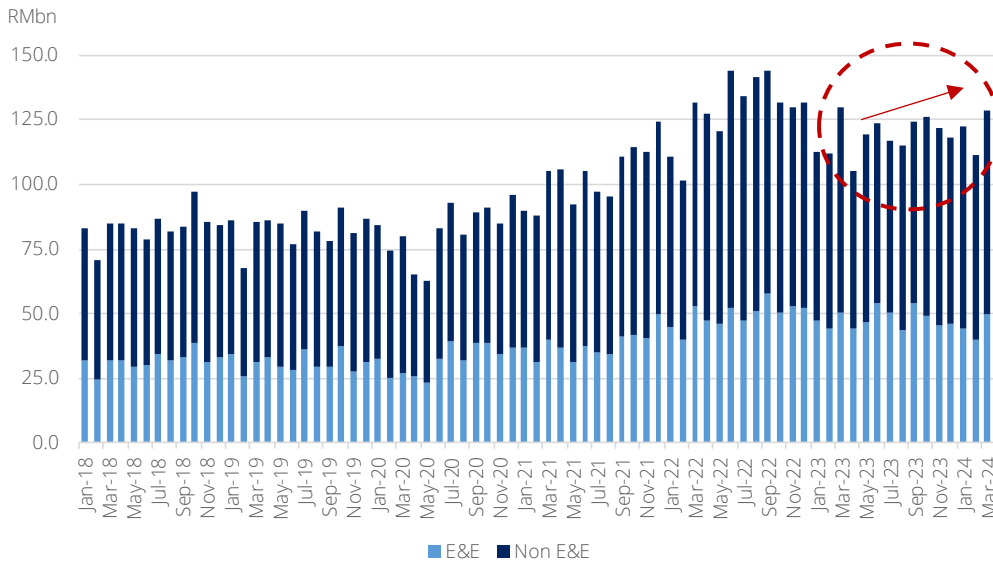
Figure 4: Malaysia's international air passenger movements on an uptrend



- International air passenger movements are improving at a steady pace. Improving tourist arrivals support stronger spending.
- Average monthly air passenger movements in 1Q2024 were 12% below 2019 average with room for further improvement in the coming months.

Source: Malaysia Airport Holdings Berhad (MAHB)

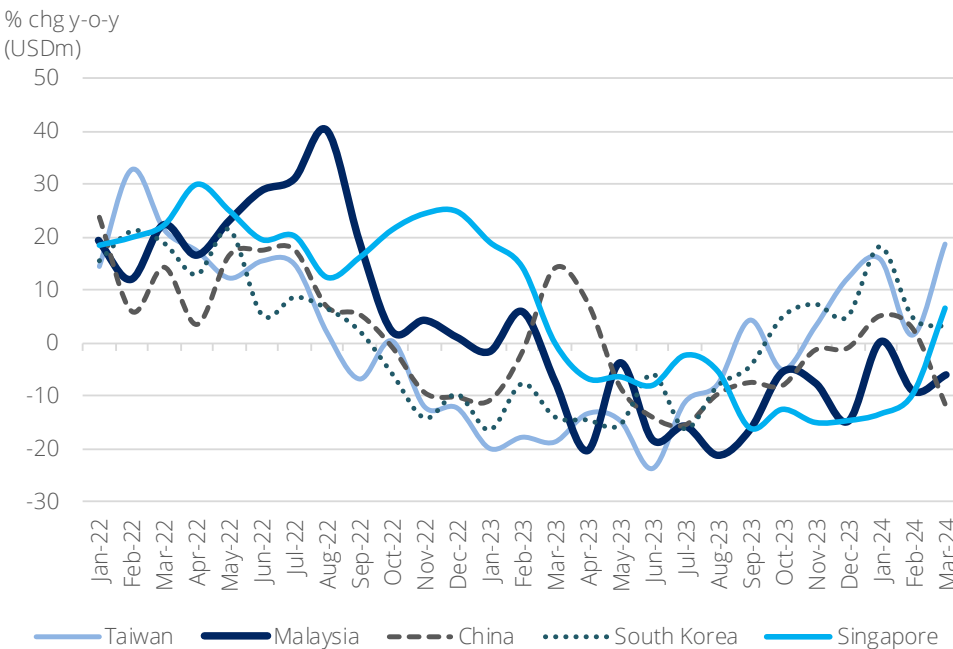
Figure 5: Malaysia's exports have gradually recovered from low in April 2023



- Malaysia's exports recorded its recent low in absolute terms in April 2023.
- Since then, exports have gradually improved. Although slightly lower y-o-y (-0.8%), March's exports rose 15.5% m-o-m to RM129bn.
- In 2023, Malaysia's E&E exports account for 40% of exports.

Source: Department of Statistics Malaysia

Figure 6: Gradual improvement seen in exports for key Asian exporters



- Exports for key regional markets have seen a gradual improvement.
- This broadly tracks global semiconductor shipments, which has steadily increased since its recent low in March 2023.

Source: Department of Statistics Malaysia

Figure 7: Implied market pricing of US Fed Fund Rates (FFR) indicates expectations of fewer rate cuts in 2024



- Recent market-implied policy rates indicate two rounds of rate cuts by end-2024.
- By end-2024, markets are pricing in a 61bps cut in FFR (being the difference between the upper bound of FFR target range of 5.50% and current implied FFR pricing of 4.89%).
- We believe the Overnight Policy Rate (OPR) remains supportive of sustainable economic growth and expect Bank Negara Malaysia to maintain the OPR at 3.00% in 2024.

Source: Federal Reserve Board, Bloomberg

Figure 8: USD has strengthened on expectations of delayed rate cuts



- USD gained strength following strong economic data (industrial production, retail sales, inflation), which renewed expectations of delayed US Federal Fund Rate cuts.
- Consensus and DBS is forecasting RM4.60/USD and RM4.70/USD by end of 2024, respectively.

Source: Bloomberg, DBS

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