ALLIANCEDBS RESEARCH

Economic Focus

Strong tailwinds

25 June 2024

Research Analysts

QUAH He Wei, CFA
+603 2604 3966
hewei@alliancedbs.com

- **Sustained revitalisation of private investments emerges as a strong pillar of economic growth**
- **Turnaround in external trade to boost growth momentum in 2H2024**
- **We are positive of 2024 growth prospects and expect 4.5% GDP growth**

All stars aligned

Malaysia is on the cusp of a multi-year growth cycle as the Madani government's focus to rebuild and restructure the economy has started bearing fruits. We believe Malaysia remains firmly on a healthy growth trajectory as domestic demand is likely to strengthen further with sustained consumer spending and stronger investment activities in tandem with concerted government effort to drive various strategic developments under national blueprints. In addition, a major turnaround in external trade will serve as a strong growth catalyst for Malaysia in 2H2024. Therefore, Malaysia's solid fundamentals and diversified economic structure, coupled with renewed government focus to spur higher economic growth will help ensure Malaysia's uptrend stays intact.

Booming credit demand

The strong growth momentum has also been reflected in the banking system loans growth which stood at a commendable 6% in Apr 2024 (vs 4.6% in Apr 2023, 5.3% in Dec 2023). More importantly, the robust credit demand was attributable to both household and business segments which grew by 6.4% and 5.6% respectively, signifying the upbeat economic outlook in 2024. Meanwhile, Malaysia's equity market has outperformed regionally, gaining RM225bn in total market capitalisation in 5M2024 (~25% 1H2024 GDP) which could have further reinforced the feel-good sentiment on Malaysia's economy. The positive wealth effect arising from the stock market rally may help to spur more consumption in the domestic economy which remains supported by a robust labour market.

External trade is on the mend

The anticipated recovery in external trade since early 2024 has now come into realisation as Malaysia's 5M2024 exports and imports rose 4% and 14% respectively. We believe the prospects for external trade in 2H2024 should come in stronger as Malaysia benefits from the global technology upcycle given our entrenched position in the global semiconductor supply chain, especially in the packaging, assembly, and testing services. Continued recovery in tourist arrivals which stood at c.90% of pre-pandemic levels in 1Q24 will also contribute to better exports, supported by higher flight connectivity and visa exemptions. Meanwhile, Malaysia's strategic push to leverage on the global trend of "China + 1" industrial value chain diversification has been reflected in the record high approved investments in 2021-2023, helping to uplift Malaysia's industrial capabilities and boost its value-adding exports.

Growth momentum remains intact

We remain optimistic of Malaysia's economic outlook which is expected to grow by 4.5% in 2024 – in line with government's forecast of 4%-5%. Fundamentals remain strong as Malaysia's economy continues to take comfort from its resilient domestic demand, underpinned by sustained household spending. Private investment is expected to benefit from improved external environment and positive response to the NETR and NIMP 2030 while the government continues with its expansionary fiscal policy to drive economic growth. Key downside risks include slower-than-expected recovery in external demand and heightened geopolitical tensions.

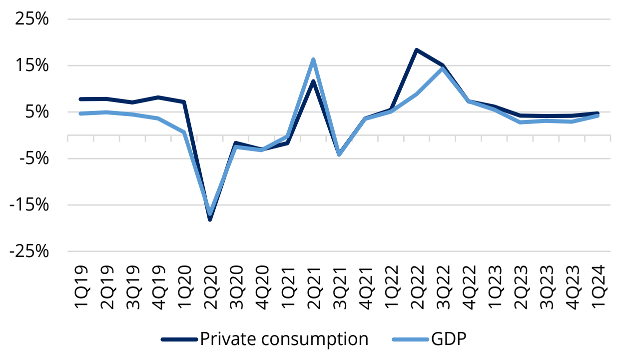
Malaysia is progressing well under Madani Economy

We expect Malaysia to register a stronger GDP growth of 4.5% in 2024 after a relatively weaker growth of 3.7% in 2023. This is also in line with the government's 2024 GDP growth projection of 4.0%-5.0%. Private consumption, accounting for 60% of our economy, will continue to deliver satisfactory performance for Malaysia's economy, underpinned by robust labour market and strong economic and social activities, especially the tourism-related activities.

Malaysia's economy grew 4.2% y-o-y and 1.4% q-o-q on a seasonally adjusted basis in 1Q24 (4Q23: +2.9% y-o-y; -1.0% SA q-o-q), which was higher than the advance estimate of 3.9%. The higher-than-expected 1Q24 GDP was largely due to the resilient domestic market, notably driven by the Services, Construction and Mining sectors.

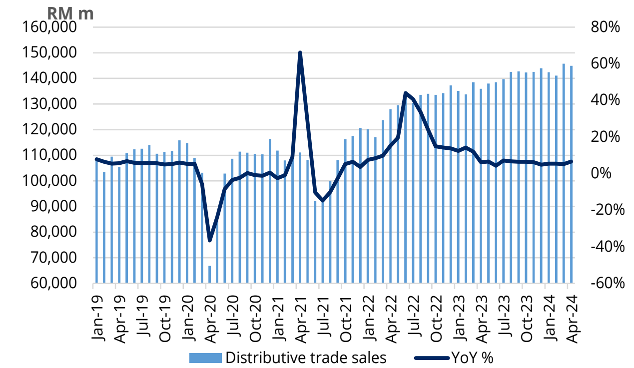
We believe the resilient household spending is likely to continue, in tandem with the continued recovery in the labour market. Meanwhile, the implementation of new and existing investment projects under the NETR and the NIMP 2030 are expected to have a positive impact to economic growth as more investment are expected from both domestic and foreign investors.

Malaysia's GDP growth



Source: AllianceDBS, CEIC

Monthly distributive trade sales



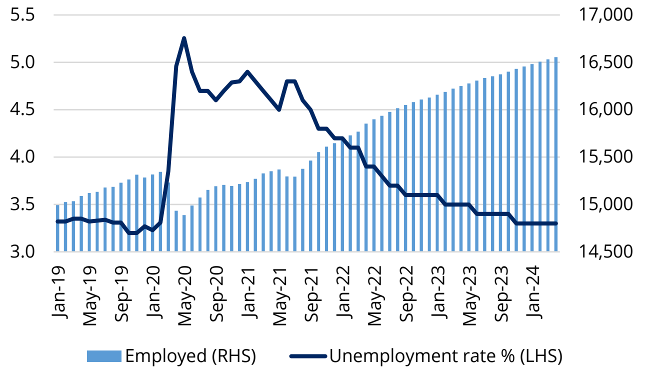
Source: AllianceDBS, CEIC

Robust labour market condition

Malaysia's economic growth momentum will continue to be underpinned by the robust employment market which has been growing from strength to strength. Malaysia's unemployment rate in Apr 2024 came in at 3.3%, which is rather impressive considering our growing workforce. Notably, we are encouraged by the continuous growth in employment market outpacing the growth in labour force, lifting the labour participation rate to a record high of 70.3% in Apr 2024. This will certainly bode well for the economic outlook in 2024 given that domestic demand forms the bulk of our economy.

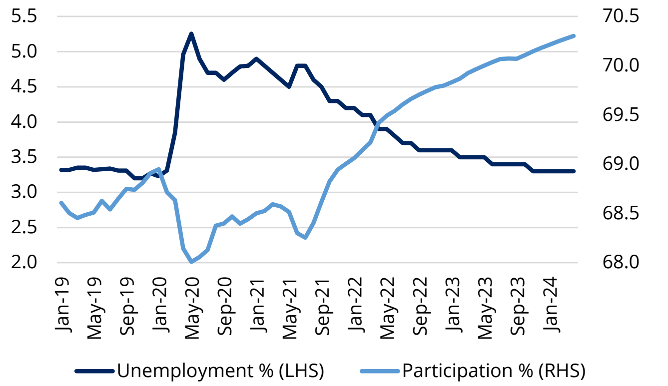
Going by the healthy growth momentum expected in 2024, the robust labour market condition will ensure that the growing working-age population is met with higher employment opportunities. We believe Malaysia's unemployment rate will continue to decline further as more jobs are created with the realization of various investment activities.

Strong labour market



Source: AllianceDBS, CEIC

Favourable labour market dynamics



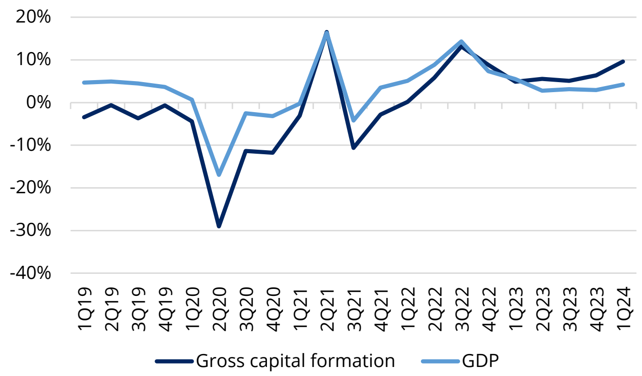
Source: AllianceDBS, CEIC

New growth driver from investment spending

Madani Economy Framework has started the ball rolling on kickstarting the economic transformation that is long overdue to move up the industrial value chain in Malaysia. NETR and NIMP 2030 have provided the key government framework to drive high value-adding industrialisation and green economy which will ultimately enable Malaysia to build a high-income economy if the well-curated strategic directions are successfully executed.

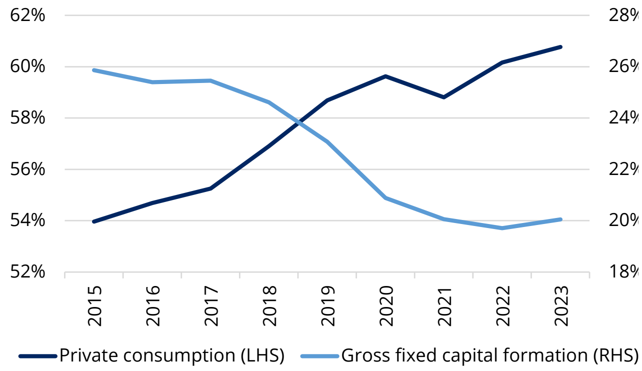
Indeed, the proactive strategy adopted by the government to revitalize the domestic economy has started to bear results as 1Q24 capital expenditure surged to a multi-year high growth of 9.6%. This signifies the positive impact arising from record-high approved investments in 2021-2023 and various government-led strategic developments under national blueprints.

GDP vs gross capital formation



Source: AllianceDBS, BNM, CEIC

GDP share of consumption vs investment



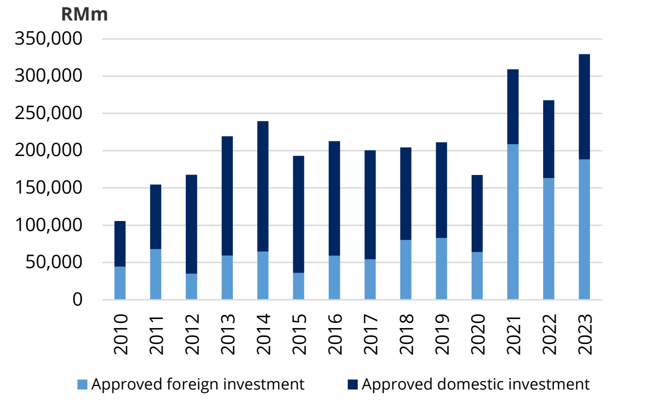
Source: AllianceDBS, BNM, CEIC

The NIMP 2030 particularly is poised to enhance the competitiveness of Malaysia's manufacturing industry, leveraging on the global trend of "China + 1" strategy for industrial value chain diversification. In fact, the heightened US-China trade tensions has benefitted not only Malaysia but the entire ASEAN as a whole given the attractive value proposition offered.

In addition, the government has recently launched the National Semiconductor Strategy with a government allocation of RM25bn which is aimed at further advancing the development of semiconductor ecosystem, moving up the value chain to capture a larger share of global investments. Therefore, it is no surprise that globally renowned technology giants such as Infineon AG, Nvidia, Microsoft and Google have all committed to step up their investments in Malaysia which will help to cement Malaysia's global position as one of the world's key semiconductor hubs.

Meanwhile, the government is also committed to revive the economic growth by undertaking various large-scale infrastructure projects which will create positive spillover effects to the local businesses. Some of the major projects announced in Budget 2024 include RM10bn Penang LRT, RM11.8bn flood mitigation projects, RM 15.7bn Pan Borneo Sabah phase 1B and RM4.7bn LRT 3 expansion. We believe there will be more progress on the RM45bn MRT 3 in 2024 which will be an added impetus for Malaysia's economy. All these come on top of the existing mega projects including the likes of RM50bn ECRL and RM3.7bn Johor-Singapore RTS which have progressed well so far.

Record-high approved investments over 2021-2023



Source: AllianceDBS, BNM, CEIC

Notable government projects

Project	Investment RMbn	Timeline
MRT 3	45.0	from 2024
Penang LRT	10.0	from 2024
Flood mitigation	11.8	2024
Pan Borneo Sabah phase 1B	15.7	2024
Sarawak-Sabah Link Road 2	7.4	2024
LRT 3 expansion	4.7	2024-2025
ECRL	50.0	2018-2026
Johor-SG RTS	3.7	2018-2026
My Digital 5G	16.5	2021-2031
Pan Borneo Sabah phase 1A	16.0	2016-2024
Johor BRT	2.5	2023-2025

Source: AllianceDBS, MoF

External trade is recovering

The anticipated recovery in external trade since early 2024 has now come into realisation as Malaysia's 5M2024 exports and imports rose 4% and 14% respectively. We believe the prospects for external trade in 2H2024 should come in stronger as Malaysia benefits from the global technology upcycle given our entrenched position in the global semiconductor supply chain, especially in the packaging, assembly, and testing services.

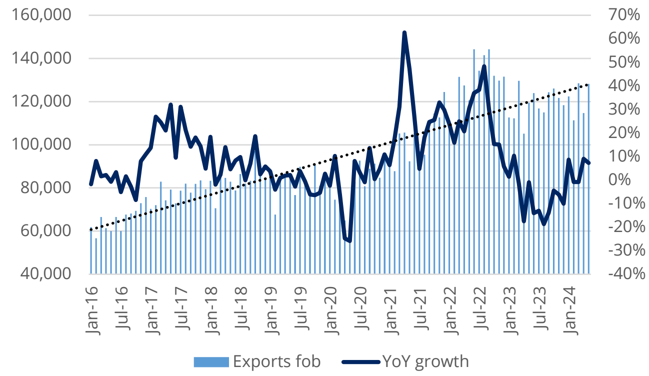
Notably, the E&E industry has yet to pick up meaningfully despite the global tech cycle rebound due to Malaysia's large exposure in the back-end of the semiconductor value chain. Nevertheless, we are encouraged by the improving trend of global semiconductor shipments as well as positive trade data among key Asian trading hubs which will ultimately spill over to Malaysia given our deep integration with the global supply chain. The de-globalisation trend, especially in the technology sector, will also result in more capital spending as countries rush to ensure supply security.

In addition, continued recovery in tourist arrivals which stood at c.90% of pre-pandemic levels in 1Q24 will also contribute to better exports, supported by higher flight connectivity and visa exemptions. Meanwhile, Malaysia's strategic push to leverage on the global trend of "China + 1" industrial value chain diversification has been reflected in the record high approved investments in 2021-2023, helping to uplift Malaysia's industrial capabilities and boost its value-adding exports.

Most of the key exporting countries in Asia have begun to register improved numbers over the past few months. The weaker-than-expected recovery in China's economy in 2023 has also reversed in 2024 as its government continues to step up on its stimulus measures. Meanwhile, countries like South Korea, Singapore and Taiwan which have a relatively large exposure to the semiconductor sector like Malaysia have already been registering positive exports growth.

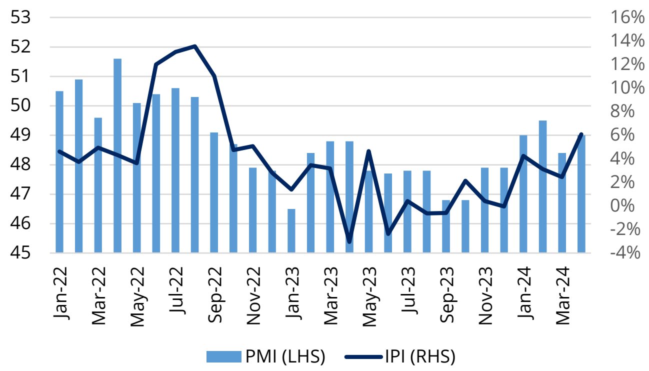
Therefore, we believe that the manufacturing sector, contributing 24% of GDP, is expected to recover as well, in tandem with the improvement anticipated for external demand. This is corroborated by positive data from manufacturing PMI, industrial production as well as business confidence levels. In addition, the upticks in business loans since the end of 2023 lends further credence to our view that the manufacturing sector will have a better prospect this year

Malaysia's monthly exports growth is recovering



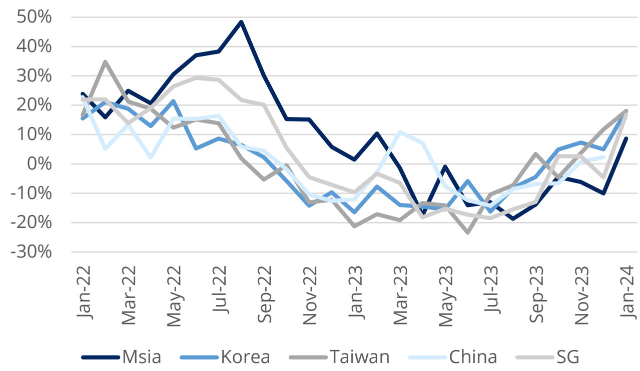
Source: AllianceDBS, CEIC

Industrial production has bottomed out



Source: AllianceDBS, CEIC

Signs of bottoming out for key Asian exporters

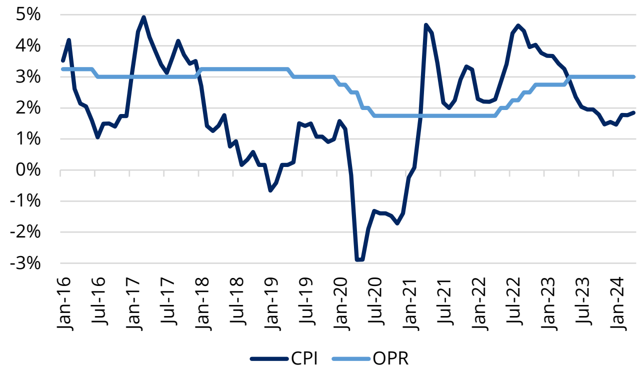


Source: AllianceDBS, CEIC

Strong loans growth momentum

Bank Negara Malaysia has been maintaining the current OPR rate of 3% which is similar to its pre-pandemic level. We believe that BNM will remain with this slightly accommodative interest rate in 2024 as the current monetary policy remains conducive to sustainable economic growth amid price stability.

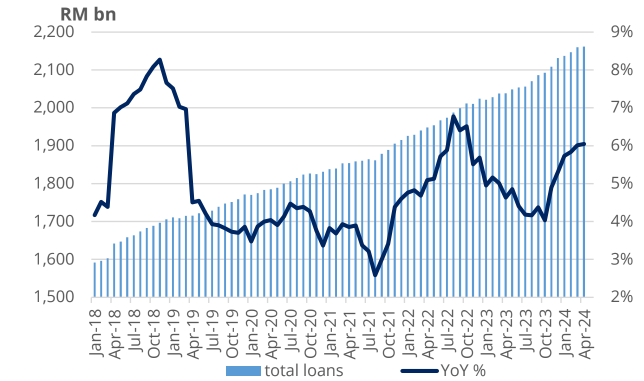
Interest rate vs inflation



Source: AllianceDBS, DOSM, CEIC

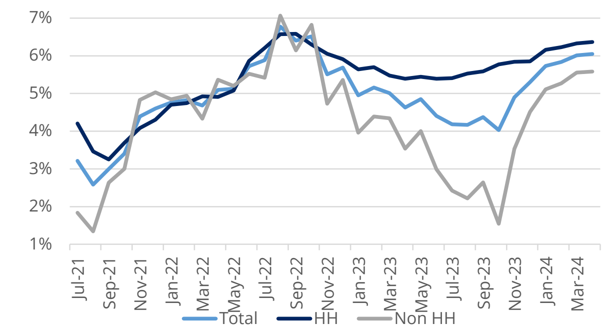
Our headline inflation has been moderating over the course of 2023, in tandem with the easing momentum of price increases. This has also resulted in positive real rates after staying negative for the past two years. Going forward, inflation outlook will be largely swayed by the global commodity price developments as well as the implementation of subsidy rationalisation in 2024.

Accelerating banking system loans growth



Source: AllianceDBS, BNM

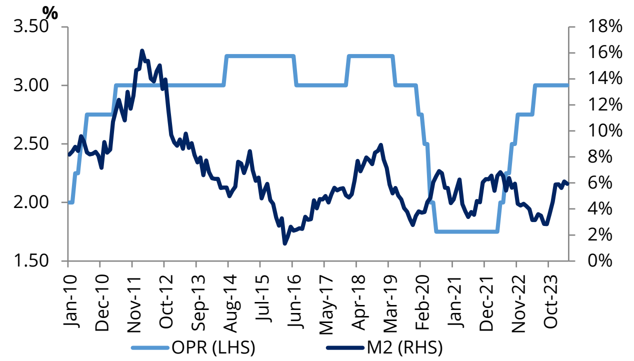
Loans growth picking up strongly



Source: AllianceDBS, BNM

Meanwhile, Malaysia's banking system has been reporting rising loans growth for six months consecutively since the low of 4% in Oct 2023. Loans growth came in strongly at 6.0% in Apr 2024, similar to the level experienced in the aftermath of post-pandemic economic reopening. Positively, business loans rebounded, suggesting that overall business operating environment has started to pick up. On the other hand, the positive landscape of the property sector continues to bolster the loans growth for the household segment.

Normalising liquidity condition in the economy



Source: AllianceDBS, BNM

Meanwhile, M2 money supply continues to grow at a healthy level of 5.9% in Apr 2024 (vs 4.4% in Jan 2023), as the domestic economy grows steadily as the domestic economy gathers strength. It is likely that the domestic liquidity remains robust, with continued orderly functioning of the financial market. Household spending will continue to be underpinned by improvements labour market conditions and income prospects.

DISCLAIMER

Published and Printed by
AllianceDBS Research Sdn Bhd (128540 U)
19th Floor, Menara Multi-Purpose, Capital Square, 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia.
Tel.: +603 2604 3915 email : general@alliancedbs.com