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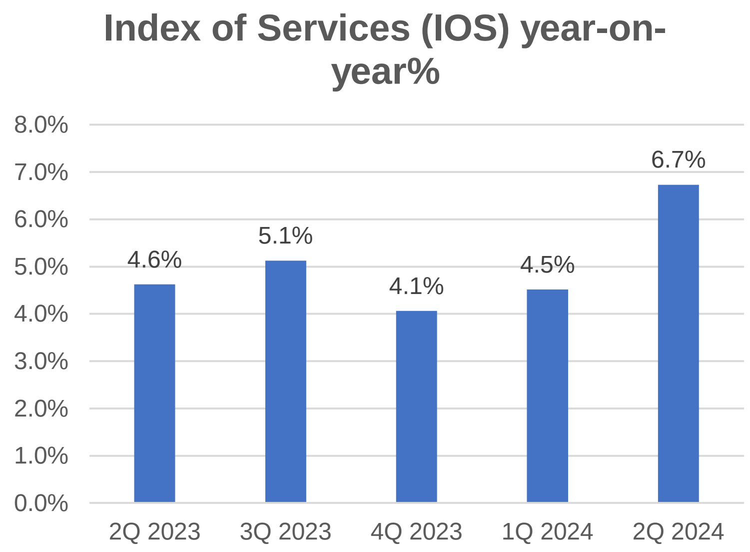
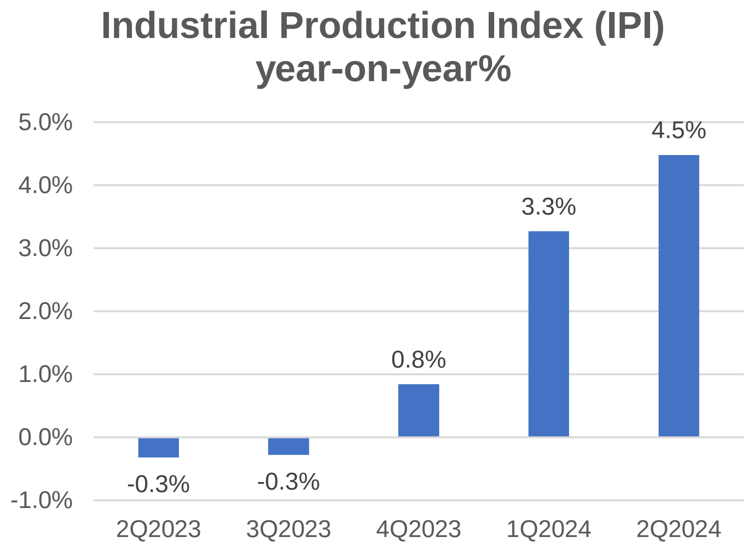
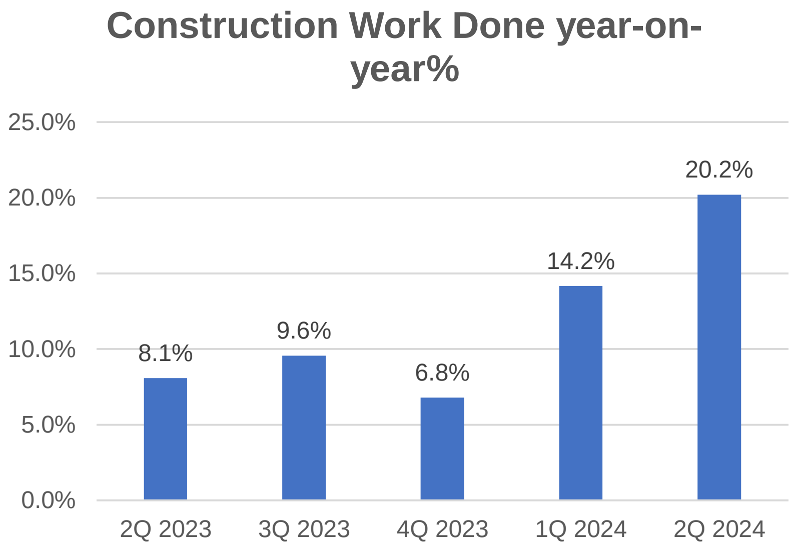
13 AUGUST 2024

# Preview of Malaysia’s 2Q2024 GDP




Sources: DOSM & CEIC

The Department of Statistics Malaysia (DOSM) will announce the final 2Q2024 GDP on Friday, 16 August 2024. Thus far, the indication from the high frequency data points have been positive. The Index of Services (IOS) accelerated by 6.7% year-on-year during the June quarter from 4.5% led by higher growth in Distributive Trade, Food & Beverages & Accommodation (2Q2024: 5.1% vs. 1Q2024: 3.9%) and Business Services and Finance (2Q2024: 10.4% vs. 1Q2024: 3.7%).

On a similar note, the Industrial Production Index (IPI) expanded further to 4.5% during the 2Q2024 (1Q2024: 3.3%) helped by strong growth in Manufacturing industries which increased by 4.9% (1Q2024: 2.1%). Construction sector was also demonstrating a lively activities during the 2Q2024 as the Total Work Done accelerated to 20.2% to RM38.9 billion after expanding 14.2% in the prior quarter. In a nutshell, Malaysian economy was vibrant between April to June quarter.

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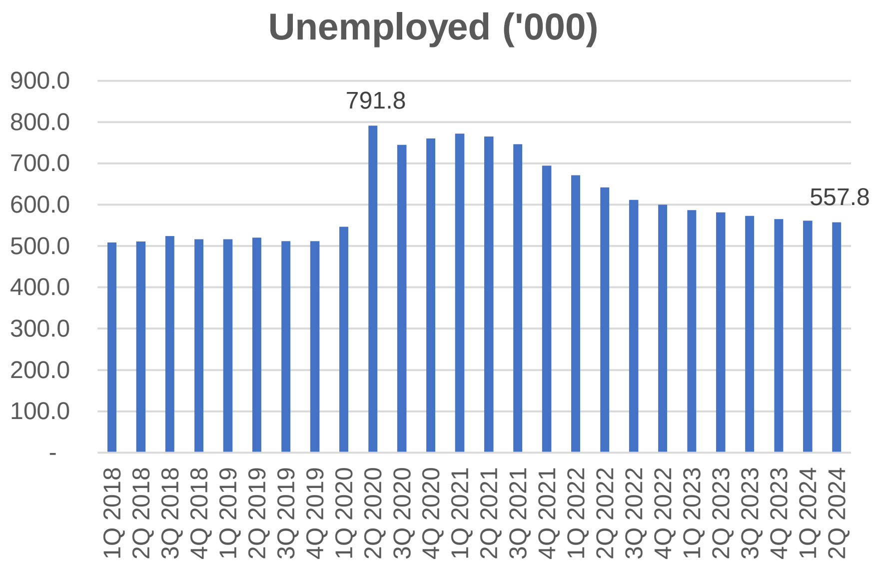
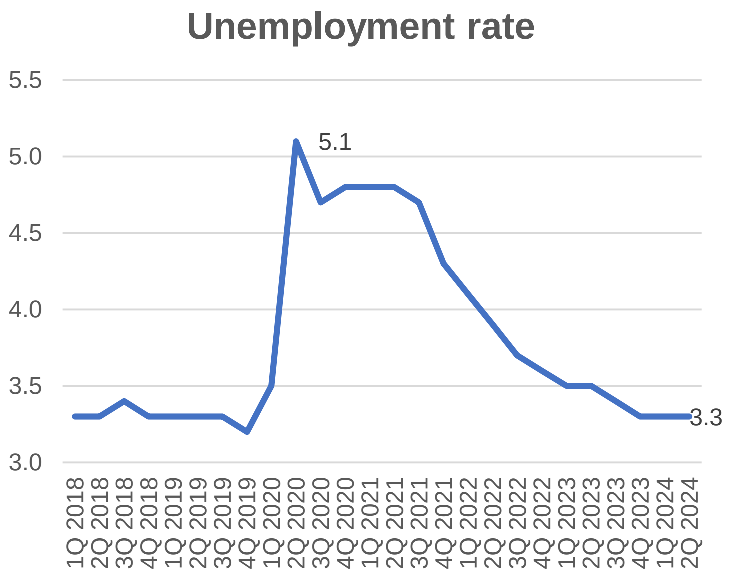
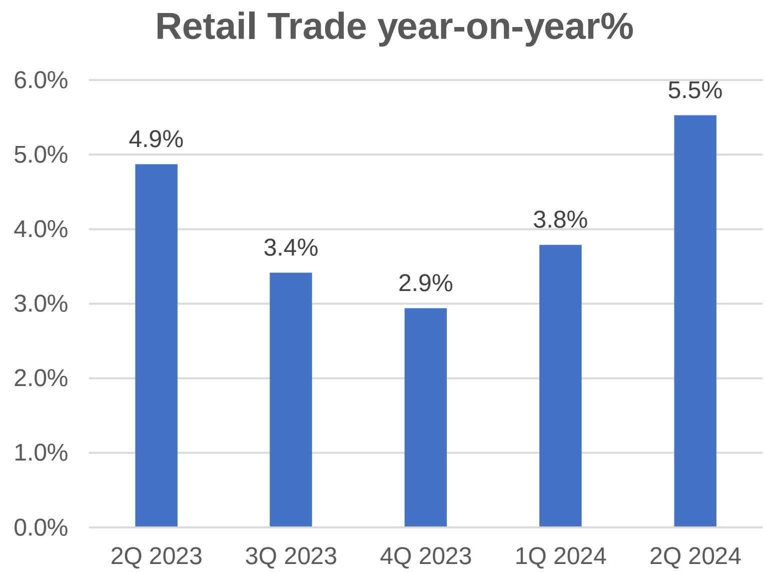
# Jobless rate is low now




Sources: DOSM & CEIC

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The labor market showed positive signs in the second quarter of 2024. The number of unemployed individuals declined steadily to 557.8k in 2Q2024, down from a peak of 791.8k in 2Q2020 when the Covid-19 pandemic struck. As a result, the unemployment rate has remained stable at 3.3% for three consecutive quarters, down from 3.5% in 1Q2023. This suggests that a significant portion of the Malaysian population is employed and earning a steady income, which has fueled consumer spending.

Retail Trade reflected this trend, growing by 5.5% between April and June, compared to 3.8% in the January to March period of the same year. Government initiatives like the Sumbangan Tunai Rahmah (STR) cash transfer program, with its second phase disbursed on April 3, 2024, and the introduction of the EPF Flexible Account withdrawal in May, also bolstered consumer spending. This spending is significant, given that private consumption accounted for 60.7% of Malaysia's GDP in 2023.

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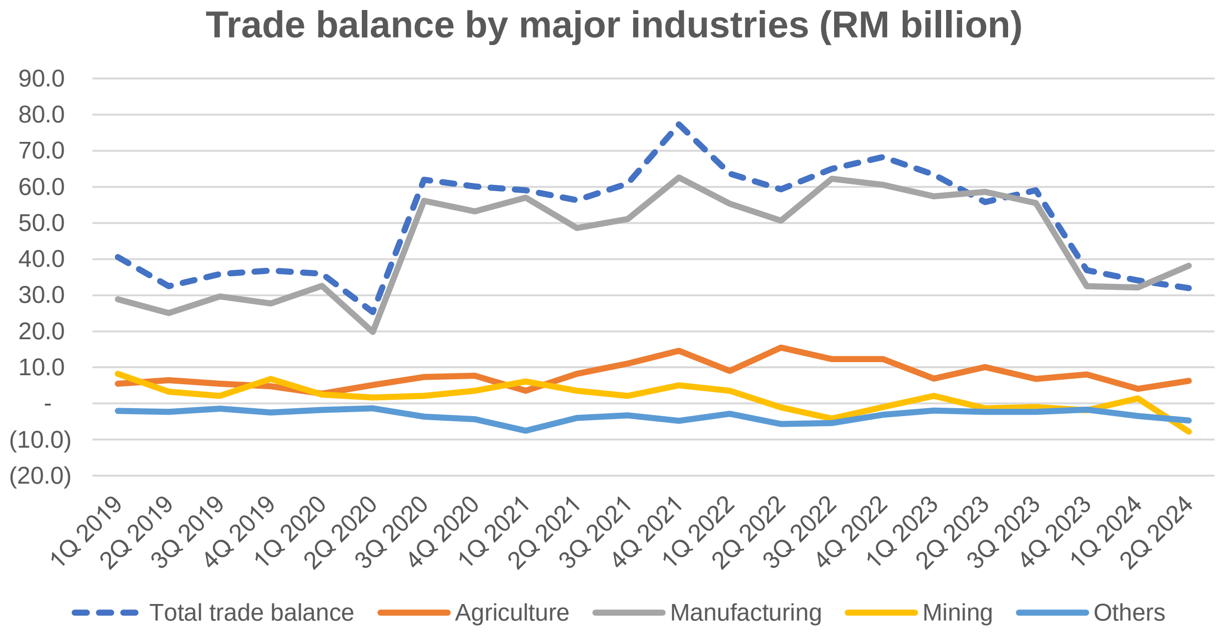
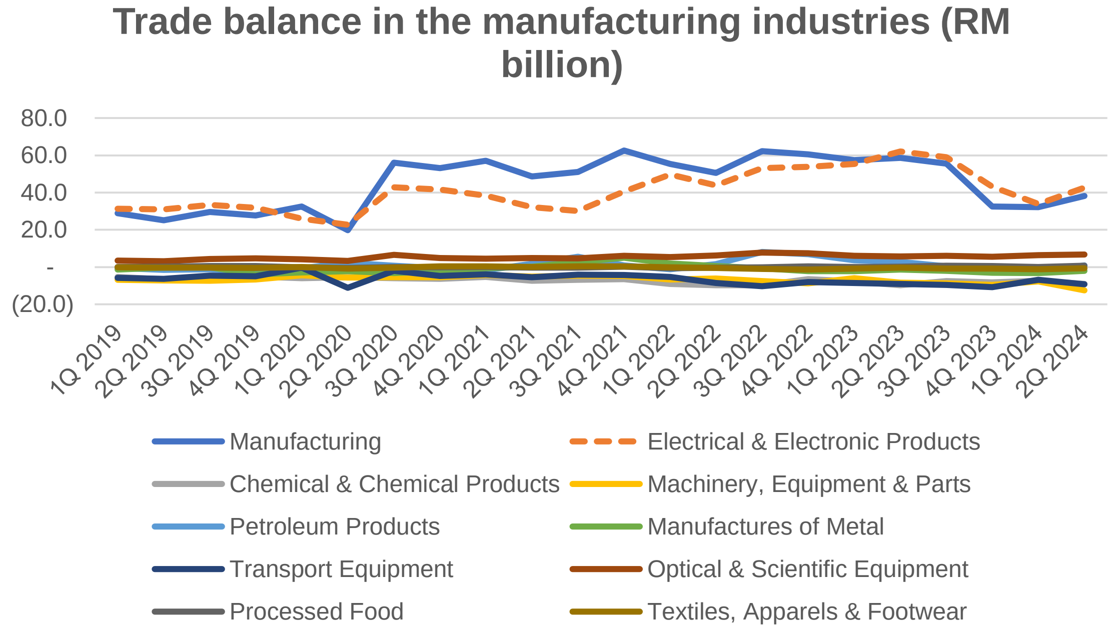
# External demand is healthy but higher imports would limit the upside for GDP.




Sources: DOSM & CEIC

Nominal exports grew by 5.8% year-on-year (compared to 2.0% in 1Q2024) to RM368.8 billion during 2Q2024, driven by robust growth in Agriculture (12.4% in 2Q2024 vs. -3.3% in 1Q2024), Manufacturing (5.2% in 2Q2024 vs. 2.4% in 1Q2024), and Mining (5.4% in 2Q2024 vs. 3.7% in 1Q2024). While exports continued to rise due to increased demand from abroad, the sharp growth in imports is likely to dampen GDP expansion. Total imports surged by 15.0% during 2Q2024, up from 12.5% in the previous quarter. This resulted in a lower trade surplus of RM32.0 billion in 2Q2024 (down from RM55.8 billion in 2Q2023) and RM34.1 billion in the previous quarter.A deeper analysis shows that the trade surplus largely originated from the Manufacturing sector, particularly the Electrical & Electronics industries. This underscores the country's increasing reliance on foreign sources to meet local demand, highlighting the need for more investment in upgrading productive capacity, acquiring new skills, and enhancing productivity.



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# We are penciling in 5.5% growth for 2Q2024 GDP.

| Y-o-Y% | 2Q 2023 | 3Q 23 | 4Q 23 | 1Q 24 | 2Q 24F |
|---|---|---|---|---|---|
| **GDP** | **2.8%** | **3.1%** | **2.9%** | **4.2%** | **5.5%** |
| *By demand* | | | | | |
| Domestic Demand | 4.4% | 4.5% | 4.9% | 6.1% | 7.4% |
| Consumption | 4.1% | 4.3% | 4.5% | 5.1% | 6.5% |
| -Private | 4.2% | 4.1% | 4.2% | 4.7% | 6.5% |
| -Public | 3.3% | 5.3% | 5.8% | 7.3% | 6.5% |
| Investment | 5.5% | 5.1% | 6.4% | 9.6% | 10.3% |
| -Private | 5.1% | 4.5% | 4.0% | 9.2% | 10.0% |
| -Public | 7.9% | 7.5% | 11.3% | 11.5% | 12.0% |
| Net Export | -11.9% | -19.9% | -52.9% | -24.5% | -12.5% |
| Exports | -9.0% | -12.0% | -7.9% | 5.2% | 5.5% |
| Imports | -8.8% | -11.3% | -2.6% | 8.0% | 6.5% |
| *By industry* | | | | | |
| Agriculture, Forestry & Fishing | -0.7% | 0.3% | 1.9% | 1.6% | 7.1% |
| Mining & Quarrying | -2.1% | -1.1% | 3.5% | 5.7% | 3.3% |
| Manufacturing | 0.1% | -0.1% | -0.3% | 1.9% | 4.3% |
| Construction | 6.2% | 7.2% | 3.6% | 11.9% | 17.2% |
| Services | 4.5% | 4.9% | 4.1% | 4.7% | 5.3% |

Source: BMMB’s Economics

We estimate that GDP growth for 2Q2024 could reach 5.5%, slightly below the 5.8% projected in the Advance Estimates released by DOSM on 19 July. The higher growth in imports is expected to constrain GDP expansion, as it will subtract from the national account calculation. While this impact may seem mechanical, the underlying message from the increase in imports suggests that the country needs to accelerate investment spending. Such investments would enhance the productive capacity of firms and create demand for highly skilled workers.

In this context, fiscal consolidation will be necessary, requiring the government to rearrange and reprioritize spending in critical areas such as education, healthcare, and infrastructure. Additionally, the gradual phasing out of monopolistic market structures will be essential to ensure that market economics can operate more efficiently, transparently, and fairly.



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