BANK ISLAM

Economic Research

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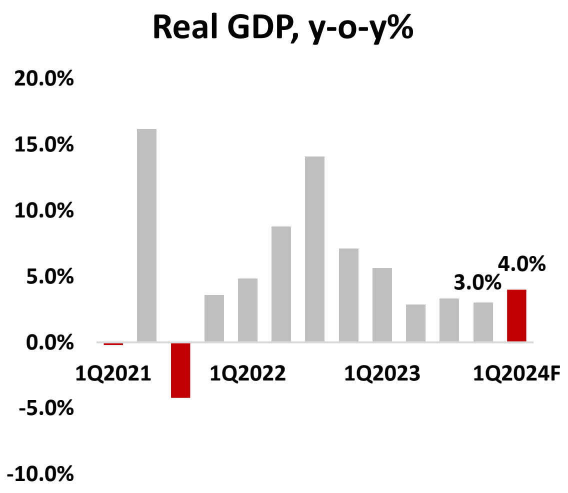
GDP 1Q2024 PREVIEW: MALAYSIA GDP GROWTH STARTS 2024 ABOVE EXPECTATIONS



Sources: Department of Statistics Malaysia (DOSM), Bank Islam

- **We foresee GDP growth to be at 4.0% in 1Q2024.** Should this materialise, it implies that Malaysian economic growth accelerated from the 3.0% y-o-y in the previous quarter. On the whole, private consumption is the main driving force for the positive growth during the first quarter as labour market remains stable, with the unemployment rate maintaining at pre-pandemic level of 3.3%. Spending is also supported by increased tourism as the country welcomed 5.8 million foreign tourist in 1Q2024 (4Q2023: 5.7 million), translating to an increase of more than 30.0% from last year. Additionally, festive demand and the government's cash transfers have also helped to lift up the growth.

- **There were signs of improvement in external demand in 1Q2024, with exports rising by 2.2% after a decline of 6.9% in the previous quarter.** Of note, exports to the U.S. (1Q2024: +8.0% vs. 4Q2023: -3.5%) shifted to the positive territory. In addition, exports to the European Union (1Q2024: -2.4% vs. 4Q2023: -11.8%), and China (1Q2024: -3.3% vs. 4Q2023: -5.7%) indicated a less severe contraction relative to 4Q2023. Malaysian factory activity showed signs of picking up in 1Q2024 as the Industrial Production Index (IPI) rose by 2.1% compared to a decline of 0.2% in 4Q2023. Despite remaining in contraction territory for the past 20 months, the manufacturing Purchasing Managers' Index (PMI) readings in Malaysia are inching closer to the 50.0 points mark, suggesting a potential recovery for the sector on the horizon.

- **Both public and private investments are expected to have sustained their positive trends**. This is given the ongoing development projects includes the Rapid Transit System Link (RTS Link) between Johor Bahru and Singapore, the East Cost Rail Link (ECRL), the Pan-Borneo Highway projects and the Kuching Autonomous Rail Transit. In addition to these, other mega infrastructure projects in the pipeline includes the Kuala Lumpur-Singapore High Speed Rail (HSR), Johor – Singapore Special Economic Zone (SEZ), Penang Light Rail Transit (LRT) and Mass Rapid Transit (MRT) Circle Line. On the technology sector front, Microsoft's has pledged an investment of USD2.2 billion towards Malaysia's artificial intelligence (AI) and cloud services, to be staggered across four years. We believe that Malaysia would reap the benefits of said investment multifold due to investors' growing confidence in our technological capabilities following the tech giant's interest in Malaysia's technology sector. Furthermore, we expect the RE prospects in Malaysia to attract RE-related investments, in line with the the government's goals in the National Energy Transition Roadmap (NETR). Malaysia's RE landscape thus far has been on a positive momentum, driven by various supportive government measures and development of RE infrastructures such as the Kerian Integrated Green Industrial Park (KIGIP) and Tenaga Nasional Berhad (TNB)'s centralised solar parks.

- **Looking ahead, Malaysia's GDP growth is poised to pick up further in 2Q2024** due mainly to the year-ago low base effect marked by a global trade downcycle. Private consumption will remain the key driver of growth, with the newly implemented Employee Provident Fund (EPF) Flexible Account 3 which allows anytime withdrawals likely to provide some support. The strength of the pick-up in GDP growth will depend on how global uncertainty and growth in key trading partner economies such as the U.S. and China evolve. Latest PMI data showed that foreign sales in Malaysia's manufacturing sector improved for the first time in a year, rising at the fastest pace since April 2021. We are still expecting the net exports, which have been the main drag to growth in 2023, to improve further and even become a positive contributor in the coming months, riding on the recovery of global semiconductor demand. Our growth forecast for 2024 stands at 4.7%. The upsides to growth include better-than-expected consumption and tourism activities, higher spillovers of the uptrend in the technology sector and accelerating implementation of new and existing projects. Downside risks are a lower-than-expected recovery of external demand and worsening geopolitical tensions that can lead to a rise in commodity prices