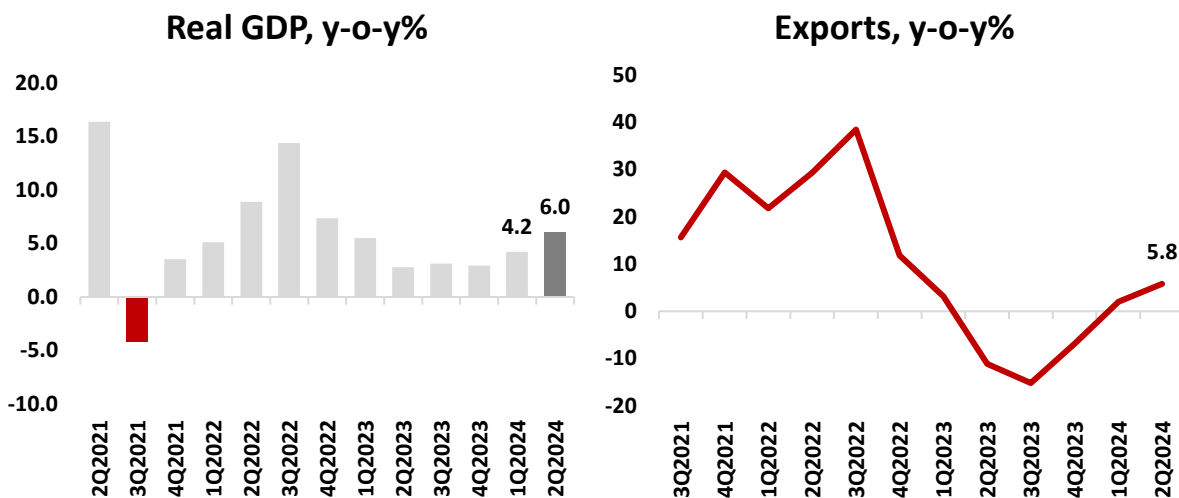


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2Q2024 GDP PREVIEW: ACCELERATION IN GROWTH EXPECTED



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

- We anticipate GDP growth to reach 6.0% in 2Q2024, slightly higher than the advance estimate by DOSM at 5.8%.** Should this materialise, this would indicate that Malaysia's economic growth has accelerated from the 4.2% y-o-y recorded in the previous quarter. Overall, private consumption has been the key driver of positive growth in the second quarter, supported by a stable labour market, with the unemployment rate holding steady at the pre-pandemic level of 3.3%. Spending was further boosted by a rise in tourism, as the country saw 9.5 million foreign tourists in 5M2024 (5M2023: 7.5 million), marking an increase of over 25% compared to the previous year. Despite expectations of moderation in private consumption due to subsidy rationalisation, growth has been sustained by government cash transfers, withdrawals from EPF Account 3, and festive demand.
- External demand escalated in 2Q2024, with exports expanded by 5.8%, surpassing the 2.0% growth in the prior quarter.** Notably, exports to the U.S. (2Q2024: +16.2% vs. 1Q2024: +8.0%) sustained strength. Meanwhile, exports to the European Union (2Q2024: +2.9% vs. 1Q2024: -2.4%), and China (2Q2024: +1.2% vs. 1Q2024: -3.5%) recovered, shifting into positive territory. In addition, Malaysia's manufacturing sector gained momentum in 2Q2024, with the manufacturing Industrial Production Index (IPI) climbed by 4.9% relative to the expansion of 2.1% in 1Q2024. The manufacturing Purchasing Managers' Index (PMI) readings in Malaysia emerged to expansion zone in May at 50.2 points after being in the contraction zone for 20 consecutive months. However, it edged down slightly to below 50.0 points mark in June at 49.9 points.
- The construction sector is expected to expand further, backed by strong investment momentum.** Official estimates point to another double-digit growth for 2Q2024 at 17.2% and we stand to agree that another strong performance is in store for the sector. Of note, the value of work done in the construction sector surged by 20.2% y-o-y in 2Q2024 (1Q2024: 14.2%). This is attributable to the realized investment projects as well as the roll out of the multiple infrastructure development projects, including the Rapid Transit System Link (RTS Link) between Johor Bahru and Singapore, the East Coast Rail Link (ECRL), the Pan-Borneo Highway

projects, the Sabah-Sarawak Link Road and the Kuching Autonomous Rail Transit. In addition to these, other mega infrastructure projects in the pipeline includes the Johor – Singapore Special Economic Zone (SEZ), the the Penang Light Rail Transit (LRT) and Mass Rapid Transit (MRT) Circle Line. Additionally, investments into data centres and Renewable Energy (RE) infrastructures had also bolstered growth of the sector. Moving forward, we believe that the government’s policy reforms such as the fuel subsidy rationalisation would increase the government’s fiscal space, thus providing ample room for more development projects.

- **Looking ahead, we expect Malaysia’s GDP growth to remain steady but to moderate slightly in 3Q and 4Q 2024**, amid a more challenging global economic backdrop, including anticipated slowdowns in the U.S. and China. Private consumption will continue to drive growth, though sentiment may be weighed down by concerns over higher living costs. Trade is likely to improve further following the slump from 2Q2023 to 1Q2024, supported by a recovery in the global semiconductor market, while investment is expected to benefit from several development projects in the pipeline. However, the outlook faces several downside risks from global developments, including the U.S. presidential election, intensified U.S.-China trade tensions, and escalating tensions in the Middle East. Hence, we maintain our growth forecast for 2024 at 4.7%.