ECONOMY

GDP grows faster than expected at 3.3% in 3Q

Expansion in services, construction and agri sectors

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MALAYSIA'S economy grew at a faster pace in the third quarter of 2023 (3Q23), beating street expectations, thanks to strong domestic demand, which offset weaker exports, according to data from Bank Negara and the Statistics Department.

The country's gross domestic product (GDP) was up 3.3% year-on-year (y-o-y) in 3Q23, bouncing from a near two-year low growth of 2.9% in 2Q23, and beating analysts' estimates for a 3% y-o-y expansion.

On a nine-month basis, GDP expanded 3.9% y-o-y.

The strong performance in the July-to-September period was due to growth in the services, construction and agriculture sectors, according to the Statistics Department.

However, it says the mining and quarrying, and manufacturing sectors contracted in the quarter.

Bank Negara governor Datuk Abdul Rasheed Ghaffour says household spending remains supported by continued growth in employment and wages while investment activity is underpinned by the progress of multi-year projects and capacity expansion by firms.

"Exports remained soft amid prolonged weakness in external demand. This, however, was partially offset by the recovery in inbound tourism," he adds.

The headline inflation continues to moderate to 2% in 3Q23 versus 2.8% in the immediate preceding quarter, with further decline in core inflation to 2.5%.

The moderation in core inflation is largely contributed by selected services, including food away from home, expenditure in restaurants and cafes, and personal transport repair and maintenance.

Overall, Abdul Rasheed says headline inflation is expected to average between 2.5% and 3% in 2023 and between 2.1% and 3.6% in 2024.

"The risks to the inflation outlook remain highly subject to changes to domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments," he says.

On the weakening ringgit, which had fallen 6% against the US dollar year-to-date, he says it was mainly due to external factors and did not reflect the strength of the economy.

"In the longer run, we believe that the ringgit will reflect the underlying fundamentals that have been quite strong," he adds.

The US dollar appreciation extended into the third quarter and the ringgit ended up depreciating by 0.2% alongside other regional currencies.

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However, the local note appreciated by 1.4% against a basket of major trading partner currencies, as indicated by the ringgit nominal effective exchange rate, according to the central bank.

Moving forward, Malaysia's economic growth is expected to meet the government's target of 4% this year and between 4% and 5% in 2024.

Abdul Rasheed says growth will continue to be driven by the expansion in domestic demand amid steady employment and income prospects, particularly in domestic-oriented sectors.

"This growth performance along with other favourable economic developments would provide support to the ringgit.

"Improvements in tourist arrivals and spending are expected to continue. Investment will be supported by further progress of multi-year infrastructure projects and the implementation of catalytic initiatives," he explains.

Measures under Budget 2024 will also provide additional impetus to economic activity but the growth outlook could be dragged by weaker-than-expected external demand as well as larger and more protracted declines in commodity production.

Bank Muamalat Malaysia Bhd chief economist Mohd Afzanizam Abdul Rashid tells *StarBizWeek* that the economy has more room to grow.

"Tourist arrivals have yet to reach the pre-pandemic levels and the technology sector has been negative this year but expected to improve in 2024.

"All in all, I think next year's growth projection of 4% to 5% is an attainable target. On that note, monetary policy is anticipated to be accommodative next year while expansionary fiscal policies should accelerate domestic spending.

"Downside risks are mostly emanated from abroad such as geopolitical tension, commodity prices and tight global monetary conditions," he adds.

When asked if there is room for a rate hike in the near term, Afzanizam said, "I doubt it because at this juncture, the economy is still quite vulnerable to the external sector and rising cost of living could result in cautious spending among the consumers.

"So, further hike in the overnight policy rate (OPR) could do more harm than good."

The OPR was maintained at 3% at the November monetary policy committee meeting as its stance remained supportive of the economy and was consistent with the current assessment of the inflation and growth prospects.

Rosier economy in 4Q

RHB Research, in its report, expects rosier economic prospects for the country in 4Q23, and maintains its overall 2023 GDP growth projection at 4.3% y-o-y.

"Domestic demand is expected to be driven by continued resilience in investment spending, spurred by the continuation of large-scale transport-related projects and business-friendly policies.

"Consumer spending momentum is anticipated to rise amid robust labour market conditions, while consumer sentiment is expected to improve," the brokerage says, noting higher necessities and discretionary spending by households in the 3Q23 data.

On the external front, RHB Research says, early recovery of trade performance in 4Q23 would positively impact the manufacturing sector activities.

"More solid recovery is expected by the first half of 2024, as we begin to see signs of dissipation in the downside risks, namely, the global technology cycle downturn might have close to the end, and there are early signs of recovery in China's economy," it explains.

Further out, the external demand would be bolstered by continued resilience in the US economy and improved economic momentum in the Asean region by 1Q24, it adds.

Recovery in external trade

Meanwhile, MIDF Research reiterates its expectation that the economy will grow 4.2% for the full-year of 2023, underpinned by the recovery in external trade from 4Q23 onwards.

"We expect Malaysia's economic growth to pick up next year as we assume the trade recovery will continue, driven by pick-up in demand for electrical and electronics products and semiconductors," the brokerage says.

"In addition, the positive employment and income growth, including cash assistance from the government, will support domestic spending to continue growing next year," it adds.

However, MIDF Research views inflation risk mainly because of planned policy changes by the government as the key downside risk to household spending, which had been one of the main concerns affecting consumer sentiment.

"Moreover, other developments like the geopolitical and trade tensions, volatility in the financial markets, slowdown in the US economy and fragility of China's economic recovery are among downside risks that could also derail Malaysia's growth outlook," it adds.