ECONOMY

GDP up 4.2% in 1Q24

Growth exceeds expectations and advance estimate

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THE country's gross domestic product (GDP) grew by 4.2% in the first quarter (1Q) of this year, exceeding initial estimates and signalling that the economy is coping well amid a still volatile external environment.

The final 1Q24 GDP growth number is higher than the 3.9% advance estimate as well as the median forecast in a *Bloomberg* survey.

It represented an acceleration from 2.9% in 4Q23, aided by the positive turnaround in exports on higher external demand and stronger private expenditure domestically. In 1Q23, the GDP grew 5.6%.

The government says it is optimistic that the GDP is well placed to expand within the official forecast range of 4% to 5%.

Prime Minister and Finance Minister Datuk Seri Anwar Ibrahim says the domestic economy's encouraging performance in 1Q24 indicates its policies and economic management are effective in promoting growth.

"In spite of the turbulent global economy, Malaysia's economy has performed strongly. Within the first full year in office, the Madani Government initiated a full set of policy reforms and remain committed to our reform agenda to transform the economy and public delivery," Anwar says in a statement.

"The government is committed to see through the policy implementation set forth in the Madani economic framework in the months and years ahead.

"The optimism springing in the domestic capital markets, exemplified by the FBM KLCI etching new highs, reflects global investors' renewed interest in Malaysia's reform narrative," Anwar adds.

Moving forward, the government says efforts are being made to further strengthen public service delivery as well as increase productivity.

In its 1Q report card, Bank Negara says household spending was supported by the continued growth in employment and wages while better investment activities was seen on the higher capital spending by both the private and public sectors.

"Global growth in 1Q remained sustained – as resilient labour markets continued to support consumption activities. Regional exports saw a turnaround amid further improvement in both electrical and electronics (E&E) and non-E&E industries.

"However, global trade as a whole remained soft due to the continued shift in spending from goods to services and ongoing trade restrictions," Bank Negara governor Datuk Abdul Rasheed Ghaffour says at a press conference.

Stronger growth was also seen in the services sector on higher retail trade activities and continued support from the transport and storage sub-sectors.

The economy expanded by 1.4% on a quarter-on-quarter seasonally-adjusted basis, Bank Negara says in a statement.

Advanced estimates by the Statistics Department issued mid-April initially expected the economy to have grown by 3.9% in 1Q.

The central bank says GDP for the rest of the year will be driven by resilient domestic expenditure with additional support from the recovery in external demand while on the domestic front, continued employment and wage growth will support household spending.

The improvement in tourist arrivals and spending are also expected to continue and investment activities will be driven by progress in multi-year projects in the private and public sectors, supported by catalytic initiatives announced in national masterplans as well as the higher realisation of approved investments, Bank Negara says.

But it also cautions the growth outlook remains subject to downside risks stemming from weaker-than-expected external demand, further escalation in geopolitical conflicts and larger declines in commodity production domestically.

Nonetheless, it notes of upside risks from greater spillover from the tech upcycle, more robust tourism activities and faster implementation of existing and new investment projects.

Meanwhile, Bank Negara's expectation for inflation is for it to remain controlled for the rest of the year, with headline inflation for 2024 expected to be at 2% to 3.5% and core inflation estimated at between 2% and 3%.

These inflation expectations also take into account some of the impact from the fuel subsidy rationalisation that is expected to take place soon, Abdul Rasheed says.

"The current environment of good (economic) growth numbers and the moderating trend in inflation provides a very good window of opportunity to undertake the planned subsidy rationalisation.

"The short-term impact to growth from this (rationalisation) may be felt in terms of consumption and investments but this could be mitigated by the income or cash transfer the government is planning to do," Abdul Rasheed says.

"But in the longer run, this could be positive for the country as it will help in the fiscal position and will lead to households being more fuel efficient, which is very positive for the country.

"It will also encourage companies to invest more into energy-efficient production operations," he adds.

> **"Both headline and core inflation continued to trend downward, driven by disinflation in advanced economies."**
>
> Datuk Abdul Rasheed Ghaffour

He notes that it is important for a fair and equitable income transfer to the targeted segments of society when carrying out the subsidy rationalisation process.

Headline inflation remained moderate at 1.7% in 1Q24 compared with 1.6% in 4Q23 while core inflation moderated to 1.8% from 2% in 4Q23, mainly due to the continued contained inflation in the food and beverages segment.

"Both headline and core inflation continued to trend downward, driven by disinflation in advanced economies," Abdul Rasheed says.

The central bank says modest increase in headline inflation reflects the policy adjustments to water tariffs in February and services tax for high-usage electricity in March, which increased by 20.8% and 0.7%, respectively.

Bank Negara says inflation pervasiveness edged higher, as the share of consumer price index (CPI) items, recording monthly price increases, rose to 44.2% during the quarter compared with 36.3% in 4Q23.

Asked if the CPI is an accurate gauge for true inflation on the ground, Abdul Rasheed says: "It is representative (of inflation) as it is based on a basket of goods that is used by the people.

"But there are differences of perception with regards to what we see as inflation expectations by the public – this is different."

Meanwhile, MIDF Research is optimistic that the positive GDP growth momentum will continue in the coming quarters.

In a report, the brokerage says it maintains its 2024 GDP forecast of 4.7%. This compared with the 3.6% growth last year.

"Domestic spending activities will continue to grow on the back of positive labour market conditions, positive income growth and increased tourist arrivals.

"In addition, external demand will recover as Malaysia stands to benefit from improvements in the global production and international trade, especially growing demand from major trading partners such as China and the United States," it points out.