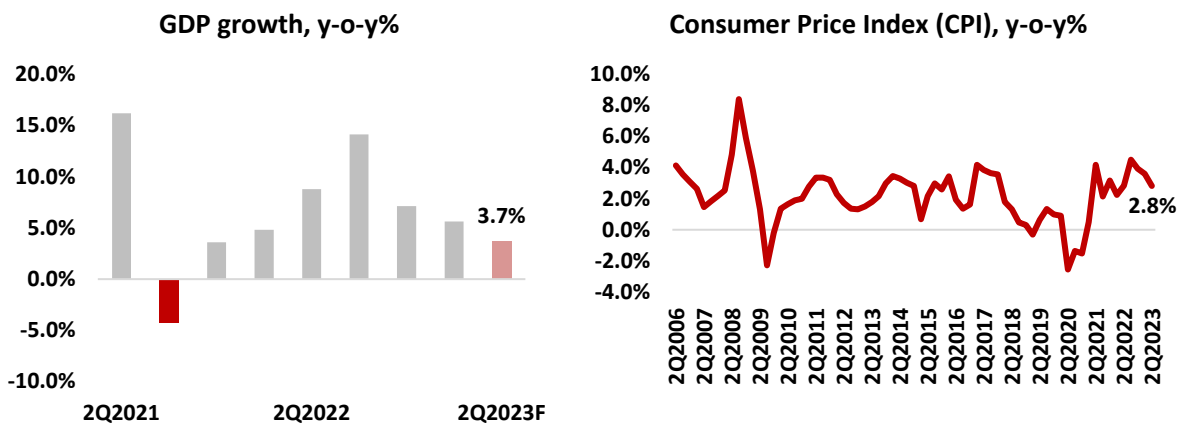


Firdaos Rosli | Chief Economist | [firdaos@bankislam.com.my](mailto:firdaos@bankislam.com.my)  
 Lee Si Xin | Economic Analyst | [sxlee@bankislam.com.my](mailto:sxlee@bankislam.com.my)  
 Raja Adibah Raja Hasnan | Economic Analyst | [radibah@bankislam.com.my](mailto:radibah@bankislam.com.my)  
 Nor Lyana Zainal Abidin | Economic Analyst | [nlyanaz@bankislam.com.my](mailto:nlyanaz@bankislam.com.my)

## GDP 2Q2023 PREVIEW: SLOWER GROWTH AMID EXTERNAL HEADWINDS



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

- We expect GDP growth to moderate to 3.7% in 2Q2023 (1Q2023: 5.6%) as high base effect kicks in.** This would mark the slowest y-o-y growth since 4Q2021, when the government lifted most of the covid restrictions. Private consumption, the mainstay of the economy, looks to have remained robust, supported by festive spending, gradually easing inflation, solid labour market conditions, and improved tourist arrivals. However, the growth rate is likely slower on tighter financial conditions, with retail sales decelerating to 7.8% in 2Q2023 (1Q2023: 19.5%). Private investment will also provide some support, although likely weighed by the decline in Industrial Production Index (IPI) (2Q2023: -0.3% vs. 1Q2023: 2.9%) and the subdued manufacturing Purchasing Managers' Index (PMI) that has remained in the contraction zone for the whole of 2Q2023.
- Weaker external demand to weigh down on growth.** The gloomy growth prospects of major trading partners and the downtrend in export prices have dragged down Malaysia's export growth. In 2Q2023, exports slumped by 11.1% in 2Q2023 (1Q2023: +3.0%) as the outbound shipments to major trading partners in 2Q2023 deteriorated with exports to the U.S. (2Q2023: -10.6% vs. 1Q2023: 7.9%), European Union (2Q2023: -21.0% vs. 1Q2023: -2.3%) and China (2Q2023: -9.6% vs. 1Q2023: -8.1%) continued to post negative growth. Consequently, trade surplus declined 8.8% in 2Q2023 (1Q2023: +1.2%). Based on this, net exports will likely drag on the GDP in the said quarter.
- The official growth target for 2023 is still within reach.** While the 1H2023 may be volatile due to the global environment, Malaysia's economy is anticipated to sail through the 2H2023 with strong households and intact economic fundamentals. We posit that the domestic sector will still be the main driver, boosted by a stable labour market condition that will continue supporting household spending. Apart from that, moving forward, policy clarity will pave the way to improving sentiments for both businesses and consumers – this will be one of the crucial catalysts for economic growth. Despite challenges arising from the external front, we believe that Malaysia's full-year growth for this year is still achievable within the Bank Negara Malaysia (BNM)'s projection range of 4.0% to 5.0%, but at the lower bound of this range.