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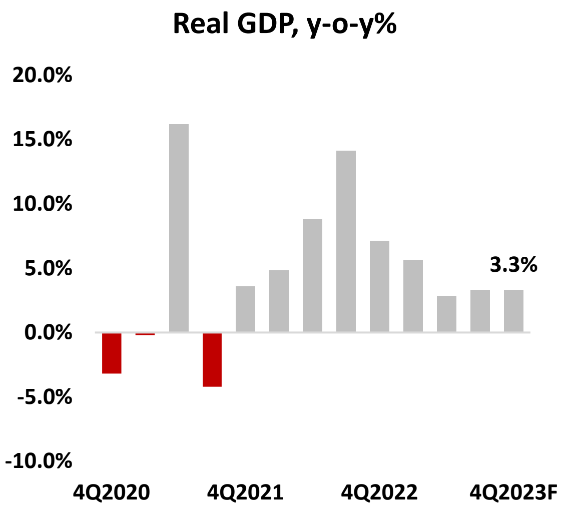
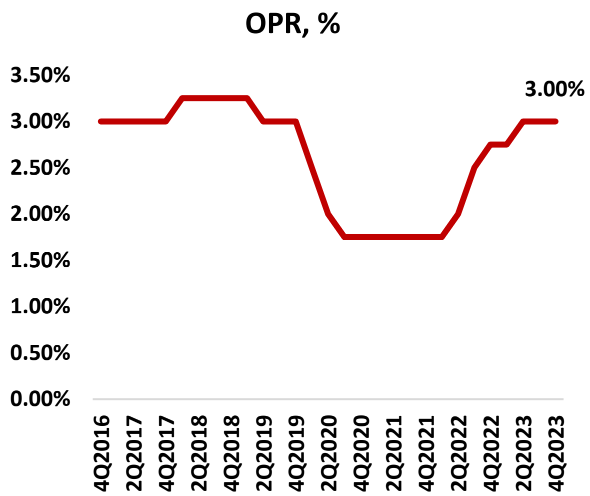
GDP 4Q2023 PREVIEW: GROWTH LIKELY TO FALL SLIGHTLY BEHIND GOVERNMENT'S ESTIMATE IN 2023





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

- **We expect GDP growth to be at 3.3% in 4Q2023, translating into a full-year growth of 3.7%, which fall short of the government's expectation of about 4.0%.** A reflection of further improvement in the labour market, the unemployment rate has returned to its pre-pandemic level (4Q2023: 3.3% vs. 3Q2023: 3.4%), a level that was last seen in 3Q2019. On top of that, we believe that a stable Overnight Policy Rate (OPR) of 3.00% since 2Q2023 may have supported consumer spending given the still double-digit growth in the disbursement of credit card (4Q2023: 11.1% vs. 3Q2023: 13.4%) during the quarter. Consumer spending could receive further support from the government's e-wallet assistance and the boost in tourist arrivals especially after the visa-free entry to citizens from China, India and several Middle Eastern countries beginning December 1, 2023.

- **Faltering external demand to drag growth, as exports nosedived 6.9% in 4Q2023, following a steeper 15.2% drop in 3Q2023.** The sharp 45.9% plunge in the trade balance in 4Q2023 (3Q2023: -9.3%) is likely to put a significant brake on net exports. Owing to the still-subdued external demand, factory output in Malaysia continued to fall, with the Industrial Production Index (IPI) down by 0.2% in 4Q2023 (3Q2023: -0.1%). The manufacturing Purchasing Managers' Index (PMI) has also been in the contraction zone for 17 months, signalling ongoing weakness in the sector. Nevertheless, trade deficits with major trading partners narrowed in 4Q2024, indicating a potential turnaround. Exports to the U.S. (4Q2023: -3.5% vs. 3Q2023: -6.0%), European Union (4Q2023: -11.8% vs. 3Q2023: -6.3%), and China (4Q2023: -5.7% vs. 3Q2023: -11.5%) showed improvement, declining at a slower pace than in 3Q2023.

- **After a bumpy 2023, we expect Malaysia's economy to hold up well in 2024, expanding at a faster pace at 4.7%, aligning with the official projection range of 4.0% and 5.0%.** Growth in 2024 will remain supported by still-robust domestic demand, although at a slightly moderated pace amid the restrictive fiscal policy including the 2.0% Service Tax rate hike from 6.0% to 8.0% and subsidy rationalisation. With the global semiconductor downcycle seemingly coming to an end, the net exports, which have been the main drag to growth in 2023, are bound to improve and even become a positive contributor in the coming quarters. Nevertheless, there are downside risks to our projections, and they mainly stem from external developments. Global growth could slow more sharply than expected, and the intensifying geopolitical tensions and the resulting fragmentation could amplify the slowdown.