SERC SDN BHD
Socio-Economic Research Centre

# QUARTERLY ECONOMY TRACKER

## Malaysia's Policy Setting and Reckoning

11 January 2024

Oct-Dec 2023

# World Economic Outlook Update

## HOW THE GLOBAL ECONOMY LOOKS LIKE IN 2024

- **Global growth was held up in 2023.** The global economy has held up pretty well in 2023, supported by the US economy, which has pulled off recession fears while China is falling below growth expectations after reopening, dragged down by debt and credit malaise in the real estate sector. These two economies' decent economic outturn has outweighed uneven growth in Japan and a sharp slowdown in Europe.

  It is heartening that global monetary tightening has tamed strong inflationary pressures though both headline and core inflation are still above the central banks' desired level. This means that major central banks in advanced economies would continue to remain nimble, and their battle against inflation is not over yet.

- **Higher interest rates have tamed inflation but rates will stay high.** While major central banks have paused their interest rate hiking cycles in recent monetary policy meetings, their narrative is keeping higher interest rates longer. Geopolitical tensions continue unabated; there is no end in sight for the prolonged war in Ukraine as well as a near-term truce in the Israel-Hamas war erupted recently; and de-dollarisation is gaining traction.

- **How is the 2024 global economic landscape shaping up?** 2023 was a year of macro, market, and policy pivots; 2024 will be a year of reckoning as investors and markets begin digesting the lag impact of these dynamics.

- In 2023, the global economy remained resilient amid high inflation and rising interest rates. There remain many lingering concerns and risks in 2024. Will there be a delayed recession in the US economy; and will the economic risks accelerate in China?

- Amid the Federal Reserve (Fed)'s insistence on keeping a restrictive monetary stance for a longer while, when is the timing of the Fed rate cuts in 2024; and by how much? Will the Bank of Japan consider ditching its prolonged period of negative interest rate in 2024?

- **We expect the global economy to slow to an estimated 2.7% in 2024** from an estimated 3.0% in 2023 as the lag impact of higher interest rates is fully felt in some advanced economies amid the weakening economic data.

  a) **We expect the US economy to grow at a slower pace of 1.5% in 2024** from an estimated 2.6% in 2023. It may experience a mild technical recession in 1H 2024 as the lag impact of higher interest rates has a broader effect on consumer spending and business activity. Higher mortgage rates have dampened activity in the housing sector, which has flattened out.

     **It must be noted that certain favourable economic trends to unwind in 2024.** There are diminished excess households' savings value (from US$2.7 trillion in 2020 to US$2.2 trillion in 2021; to US$807 billion in 2022; and to US$768.6 billion at end-October 2023); plateauing wage gains, and less pent-up demand; reinstatement of student loans repayment; and fiscal largesse may recede in 2024 as major spending programs (the CHIPS and Science Act and the Infrastructure Investment and Jobs Act) have heavily front-loaded.

While the Fed has signalled that the policy rate is likely at or near its peak for this tightening cycle, it is prepared to tighten policy further if appropriate as the 2% inflation target is not fully assured. The monetary decision in 2024 will be data dependent, based on its implications for the outlook for economic activity and inflation as well as the balance of risks.

We assume the hiking cycle is over, leaving the Fed funds rate on hold at 5.25%-5.50% until Q1 2024. If the economy slows and inflation continues its moderating trajectory over the coming quarters, it is likely that **the Fed will start to slowly normalise policy rates in Q2, taking the Fed funds rate to 4.50%-4.75% at end-2024**.

b) **The risk of a recession in the euro area has increased** with economic activity data pointing to stagnation. GDP dipped 0.1% qoq in Q3 (+0.1% in Q2) due to the worsening external demand and higher interest rates. The measurement for the manufacturing and services have fallen into contraction territory while business confidence declined in November and consumer sentiment improved mildly.

We expect economic conditions in the euro area to remain subdued in the first half-year of 2024, restrained by higher interest rates and cautious domestic demand. Economic stabilisation is likely in 2H 2024 as the industries rebuild depleted inventories, and consumer confidence could improve on abating price pressures. **Real GDP is estimated to grow by 0.8% in 2024** compared to an estimated 0.5% in 2023.

The European Central Bank (ECB) reiterated that its policy rates will be set at sufficiently restrictive levels for as long as necessary. Though inflation has decelerated sharply to 2.4% in November 2023, labour costs (wages) are still growing by 5.3% in Q3, which could add risk to inflation.

Sagging growth in the euro area should ensure the ECB's rate-hiking journey is over. The concern is the wage pressures that still exist, and hence, it needs to wait for evidence that this is rolling over too before bringing rates down. Hence, **we think any rate cut by the ECB is likely to happen in the second half-year of 2024, taking the deposit facility rate to 3.50%-3.75% by end-2024** (4.00% at end-2023).

c) **Japan's economy will continue to face headwinds in 2024** (estimated GDP growth of 1.2% in 2024 vs. 1.5% in 2023), leading to more fiscal and monetary stimulus ahead. Its GDP had shrunk by 2.9% annualised qoq in Q3 2023 (+3.6% in Q2 and +5.0% in Q1), marking its first economic contraction in four quarters, as inflation weighed on private consumption and corporate investment slowed as well as a deceleration in exports. The government unveiled a stimulus package worth JPY17 trillion (around 3% of last year's GDP).

Amid a weak economic recovery, the Bank of Japan (BOJ) may not rush into scrapping its negative interest rate policy, which started in 2016 though the current prolonged period of above-target inflation provides the Bank a window of opportunity to finally get rid of ultra-loose monetary policy.

While BOJ will wait for concrete evidence that wages will rise broadly, we expect BOJ to lay the groundwork for the ending of negative interest rates policy in the first half-year of 2024. The ending of negative interest rates could unwind the yen carry trade and spark a return of Japanese capital to its domestic bond markets, a move that could trigger volatility in the exchange rate and financial markets.

d) **The anticipated strong economic recovery in China did not materialise in 1H 2023** though assisted by a lower base effect in 2022. The economy grew by 5.2% yoy in the first nine months of 2023 (4.9% yoy in Q3 2023) amid a raft of unresolved risks from the real estate sector.

The China authorities have implemented monetary and fiscal policies to avert a prolonged economic slowdown while standing at the crossroads of economic risks. Consumer and producer prices are falling, the real estate stress is still on the mend, and local governments and property developers are still struggling with high debt.

Recent slew of economic data has shown some economic stabilisation, albeit risks are still prevalent in the real estate sector. Industrial output grew by 6.6% yoy in November from +4.6% in October. Retail sales climbed 10.1% in November (7.6% in October), the fastest pace of growth since May though below market estimates despite a low base in 2022. However, fixed asset investment in urban areas cumulatively grew by 2.9% in the first eleven months of 2023, of which investments in infrastructure and manufacturing increased by 5.8% and 6.3%, respectively, while real estate development investment dropped by 9.4%.

**We expect China's economy to grow by 4.6% in 2024 compared to an estimated 5.2% in 2023.** This is attributable to the continued growth of the global economy, which helps to revive exports, and also China's approval of a 1 trillion-yuan sovereign bond issue and the implementation of measures aimed at bolstering the economy, technological innovation in the industrial system, boosting domestic consumption, and expanding high-level foreign investment.

- **What are the risks to the global economy in 2024?** Geopolitical risks are always a wild card for the global economy, especially in the US Presidential election year in 2024. Elevated trade tensions between the US and China, the ongoing conflict in Ukraine, and the recent outbreak of war between Israel and Hamas in the Middle East could have a significant impact on the global economy, financial and commodities markets. Amid the softening of crude oil prices on oversupply concerns in 2024, the risks of geopolitical and climate change could induce a supply shock of commodities, energy, and food.

# Global Economic and Monetary Conditions

## Real GDP growth (%, Y-o-Y)

| | 2021 | 2022 | 2023 Q1 | 2023 Q2 | 2023 Q3 | 2024F (IMF) | 2024F (WB) |
|---|---|---|---|---|---|---|---|
| **World** | 6.3 | 3.5 | N/A | N/A | N/A | 2.9 | 2.4 |
| **United States** | 5.8 | 1.9 | 1.7 | 2.4 | 2.9 | 1.5 | 0.8 |
| **Euro Area** | 5.9 | 3.4 | 1.3 | 0.6 | 0.0 | 1.2 | 1.3 |
| **China** | 8.4 | 3.0 | 4.5 | 6.3 | 4.9 | 4.2 | 4.4 |
| **Japan** | 2.6 | 1.0 | 2.5 | 2.2 | 1.5 | 1.0 | 0.7 |
| **India** | 9.1 | 7.2 | 6.1 | 7.8 | 7.6 | 6.3 | 6.4 |
| **Malaysia** | 3.3 | 8.7 | 5.6 | 2.9 | 3.3 | 4.3 | 4.3 |
| **Singapore** | 8.9 | 3.6 | 0.5 | 0.6 | 1.0 | 2.1 | N/A |
| **Indonesia** | 3.7 | 5.3 | 5.0 | 5.2 | 4.9 | 5.0 | 4.9 |
| **Thailand** | 1.5 | 2.6 | 2.6 | 1.8 | 1.5 | 3.2 | 3.5 |
| **Philippines** | 5.7 | 7.6 | 6.4 | 4.3 | 5.9 | 5.9 | 5.8 |
| **Vietnam** | 2.6 | 8.0 | 3.4 | 4.3 | 5.5 | 5.8 | 5.5 |

Note: *World GDP growth for 2021-2022 by IMF; Annual GDP for India is on fiscal year basis; N/A = Not applicable or not available*

Source: *Officials (unadjusted data except quarterly GDP for Euro Area); IMF (World Economic Outlook (WEO), Article IV); World Bank (Global Economic Prospects)*

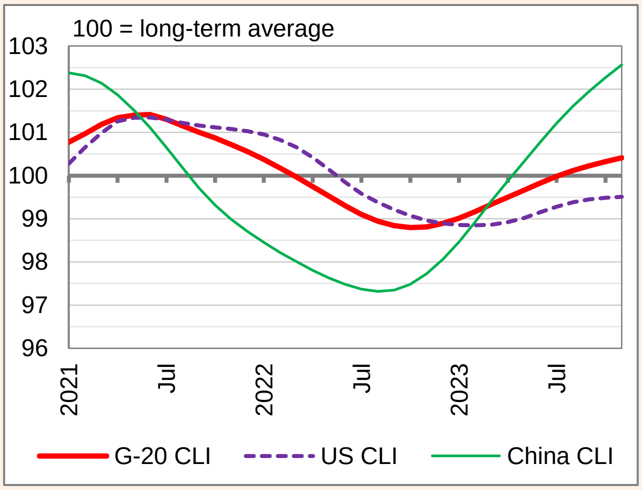
## Policy rate (%)

| End-period of | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024*f* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **US, Fed**<br>Federal Funds Rate | 0.00-0.25 | 0.25-0.50 | 0.50-0.75 | 1.25-1.50 | 2.25-2.50 | 1.50-1.75 | 0.00-0.25 | 0.00-0.25 | 4.25-4.50 | 5.25-5.50 | 4.50-4.75 |
| **Euro Area, ECB**<br>Deposit Facility | -0.20 | -0.30 | -0.40 | -0.40 | -0.40 | -0.50 | -0.50 | -0.50 | 2.00 | 4.00 | 3.50-3.75 |
| **Japan, BOJ**<br>Short-term Policy Interest Rate | 0.00-0.10 | 0.00-0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | 0.00-0.10 |
| **China, PBC**<br>1-Year Loan Prime Rate | 5.60 | 4.35 | 4.35 | 4.35 | 4.35 | 4.15 | 3.85 | 3.80 | 3.65 | 3.45 | 3.45 |
| **India, RBI**<br>Policy Repo Rate (LAF) | 8.00 | 6.75 | 6.25 | 6.00 | 6.50 | 5.15 | 4.00 | 4.00 | 6.25 | 6.50 | 6.50 |
| **Korea, BOK**<br>Base Rate | 2.00 | 1.50 | 1.25 | 1.50 | 1.75 | 1.25 | 0.50 | 1.00 | 3.25 | 3.50 | 2.75 |
| **Malaysia, BNM**<br>Overnight Policy Rate | 3.25 | 3.00 | 3.00 | 3.00 | 3.25 | 3.00 | 1.75 | 1.75 | 2.75 | 3.00 | 3.00 |
| **Indonesia, BI**<br>BI-Rate | 7.75 | 7.50 | 4.75 | 4.25 | 6.00 | 5.00 | 3.75 | 3.50 | 5.50 | 6.00 | 5.00 |
| **Thailand, BOT**<br>1-Day Bilateral Repo Rate | 2.00 | 1.50 | 1.50 | 1.50 | 1.75 | 1.25 | 0.50 | 0.50 | 1.25 | 2.50 | 2.25 |
| **Philippines, BSP**<br>Target RRP Rate | 4.00 | 4.00 | 3.00 | 3.00 | 4.75 | 4.00 | 2.00 | 2.00 | 5.50 | 6.50 | 5.75 |

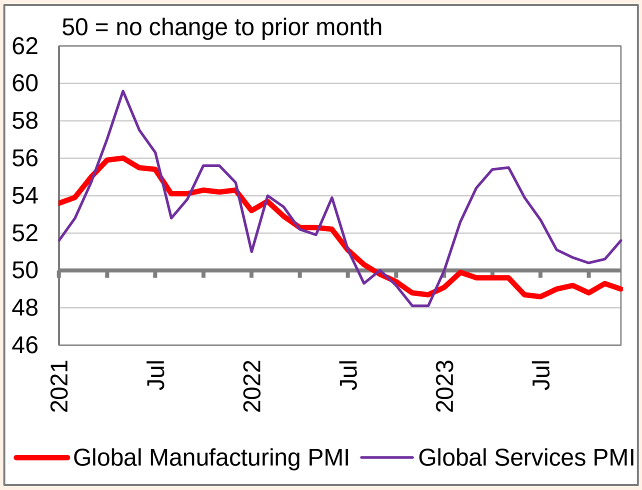
Source: *Officials; SERC*

# Global Current and Forward Indicators

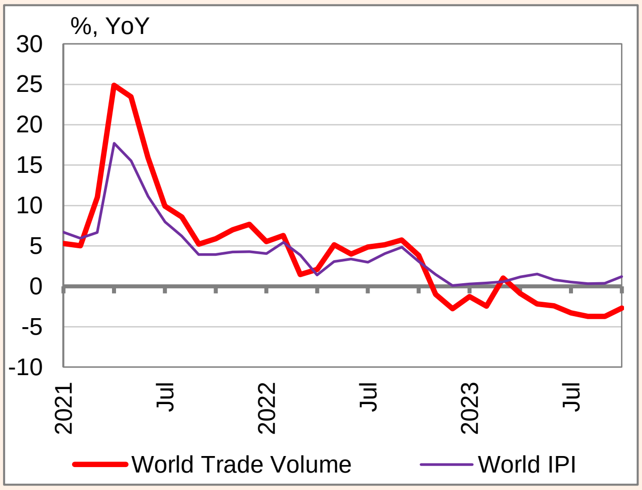
## OECD composite leading indicators showed an expansionary outlook ahead



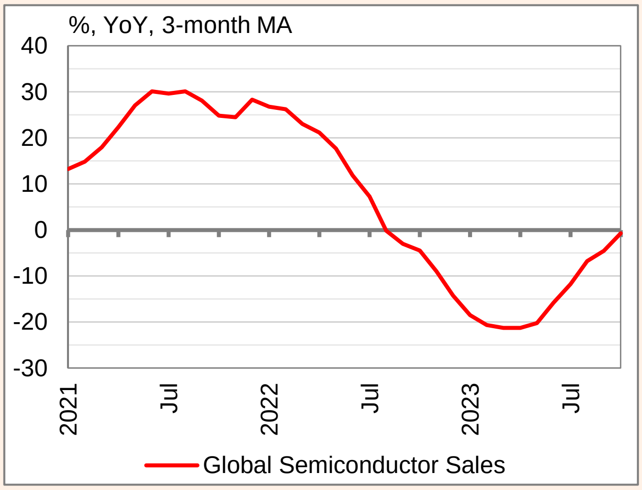

## Global manufacturing PMI remained weak since Sep 2022



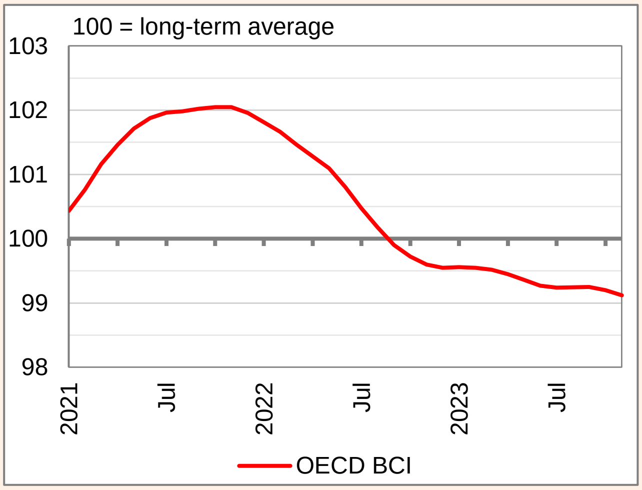

## Global trade volume growth showed early signs of bottoming out



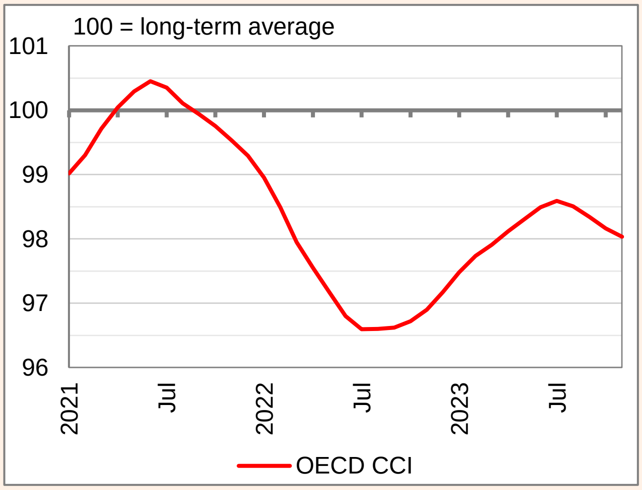

## Global semiconductor sales is gearing for an upturn



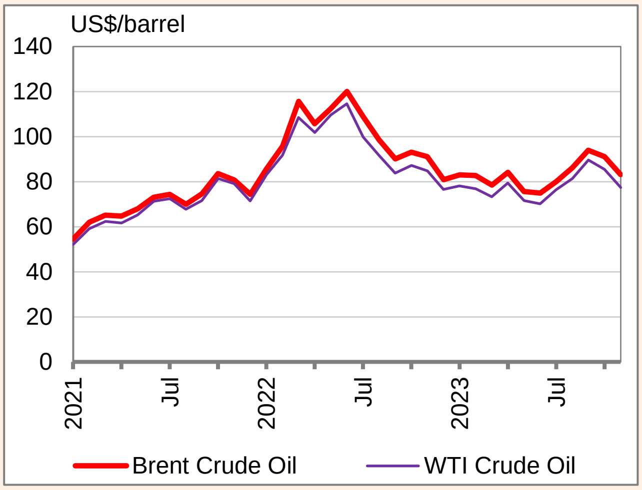

## OECD Business Confidence Index



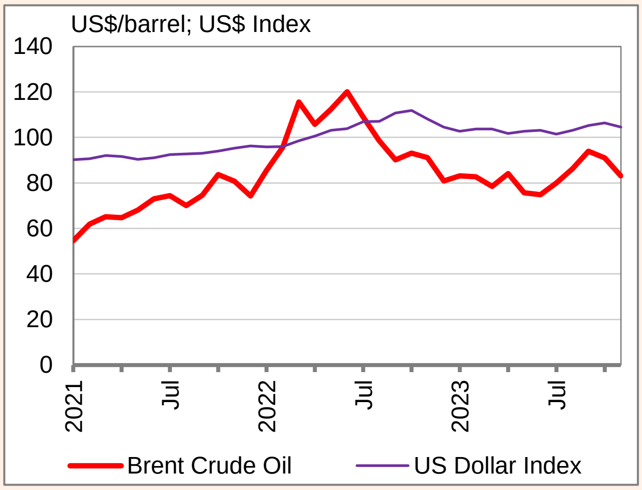

## OECD Consumer Confidence Index



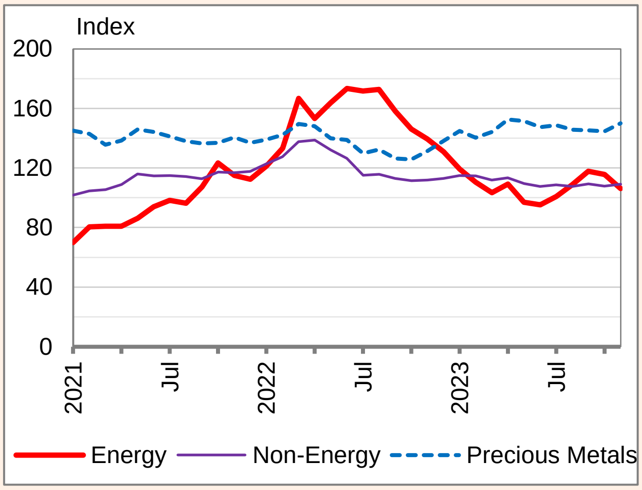
**Crude oil prices softening on concerns of oversupply relative to demand**



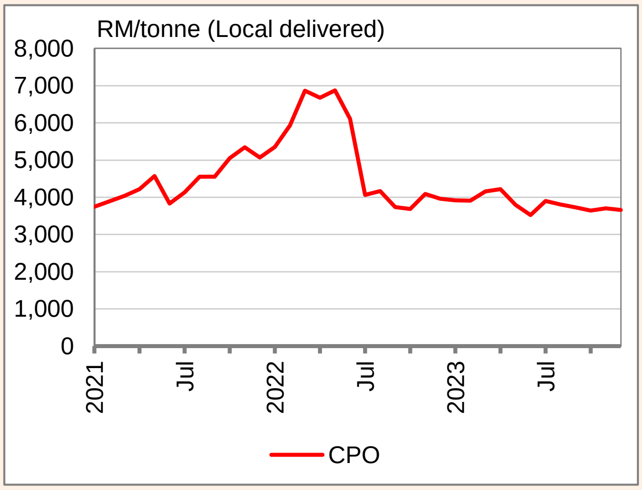

**Brent crude oil price vs. the US dollar index**




**Non-energy prices are broadly stable amid lower energy prices**



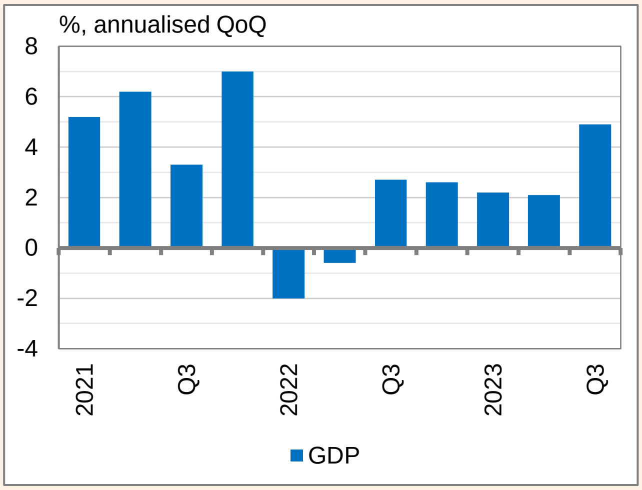

**Crude palm oil prices on a mild descent**



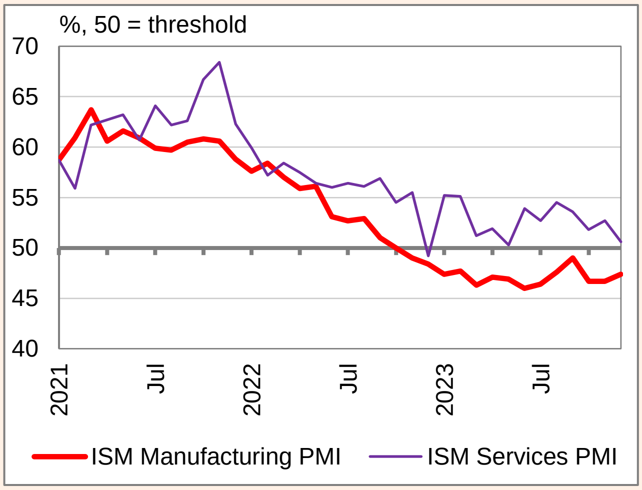

*Source: Organisation for Economic Co-operation and Development (OECD); S&P Global; CPB Netherlands Bureau for Economic Policy Analysis; Semiconductor Industry Association (SIA); World Bank; The Wall Street Journal; Malaysian Palm Oil Board (MPOB)*

# The US – Diminishing favourable catalysts

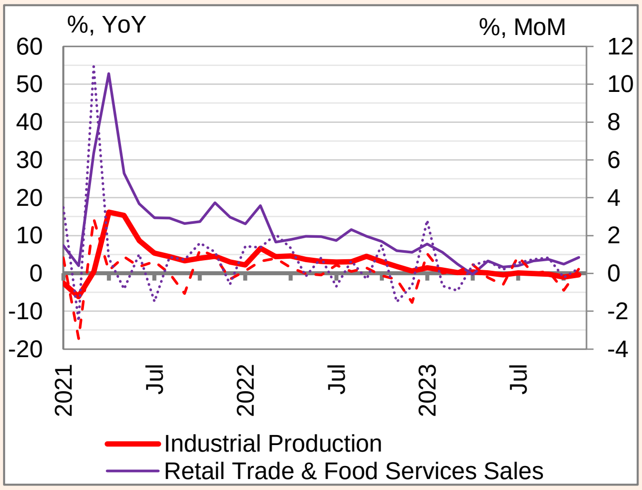
### The US economy boosted by consumer spending and inventory investment



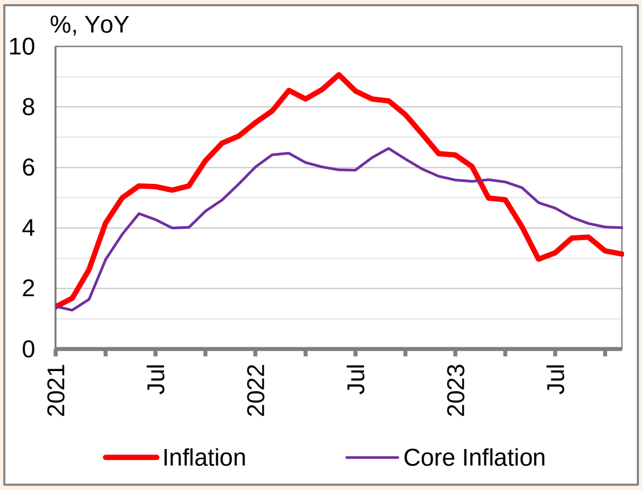

### Manufacturing PMI stayed below the expansion threshold since Nov 2022



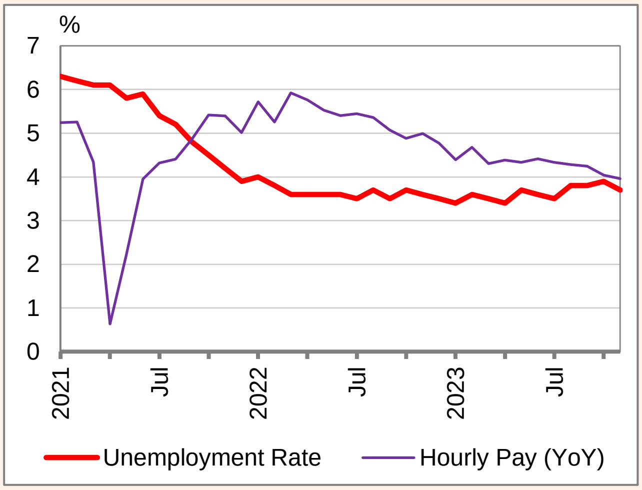

### Both industrial production and retail sales growth remained sluggish



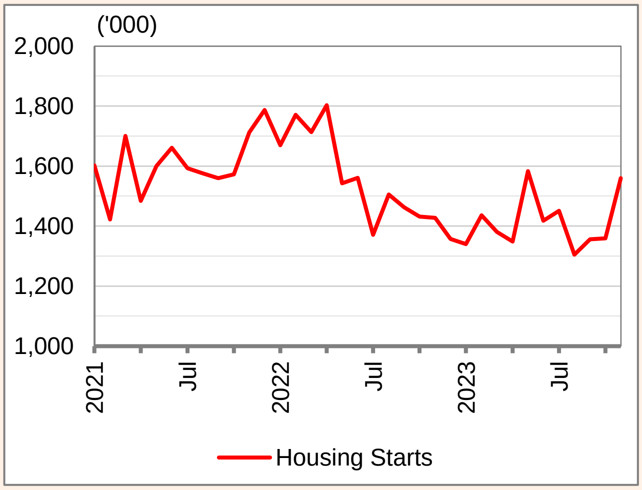

### Core PCE inflation at 1.9% on a six-month basis, closer to the Fed's target




### Unemployment rate below 4% for nearly two years



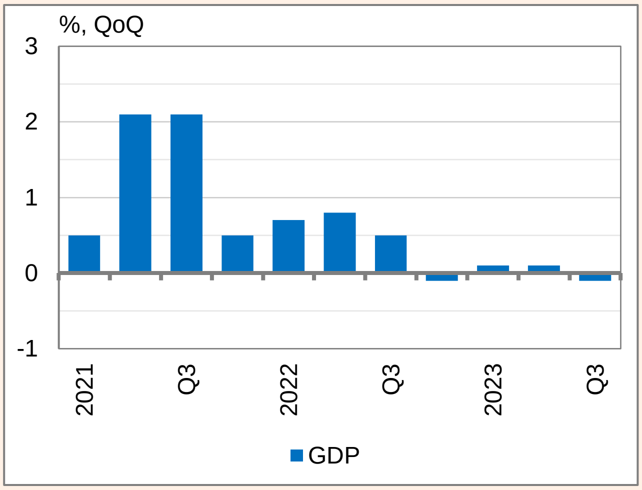

### Housing starts picked up in 2H 2023



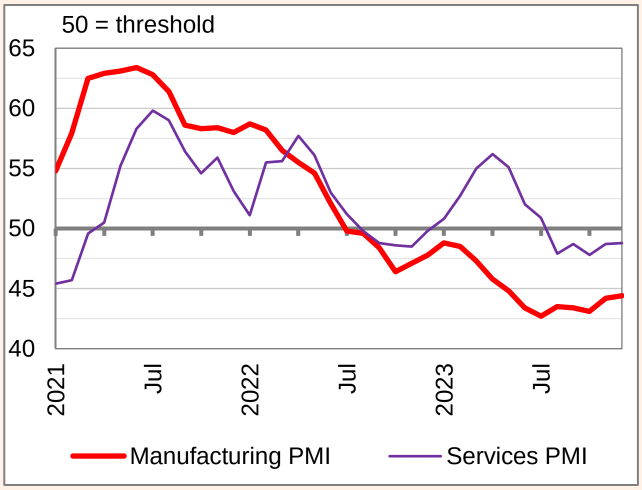

*Source: Bureau of Economic Analysis (BEA); Institute for Supply Management (ISM); Federal Reserve System; US Census Bureau; US Bureau of Labor Statistics*

# Euro Area – High recessionary risk

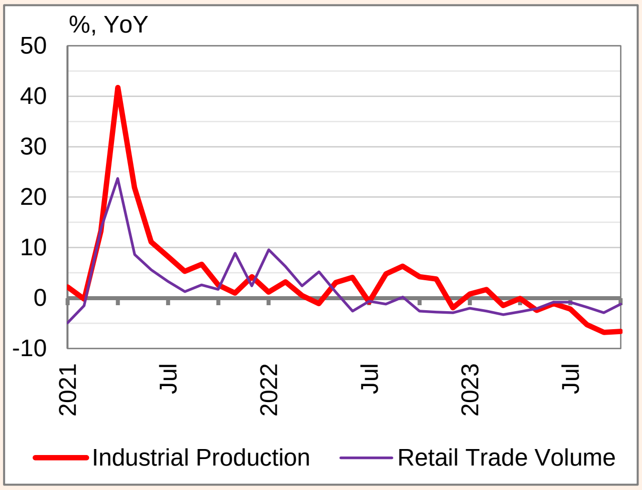
### Mild economic contraction in Q3 2023



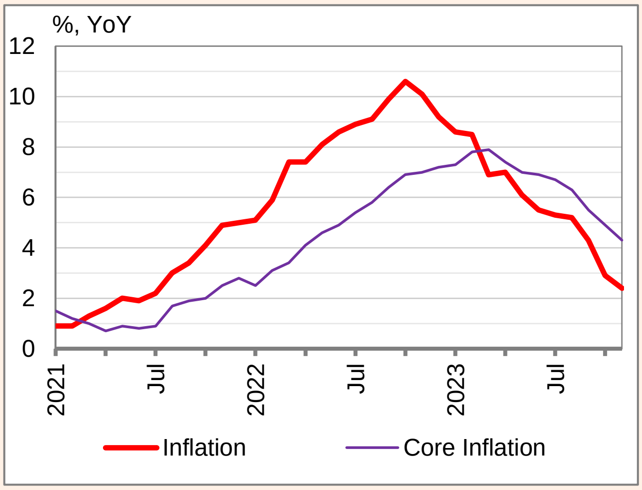

### Both manufacturing and services PMI below 50-pt expansion threshold for months



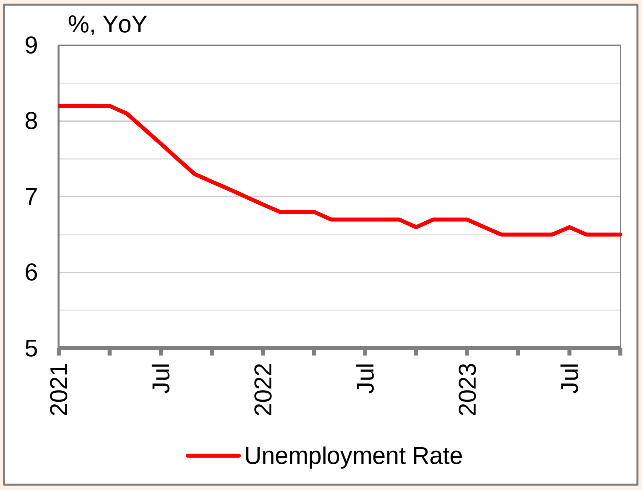

### Lethargic industrial production and retail activities



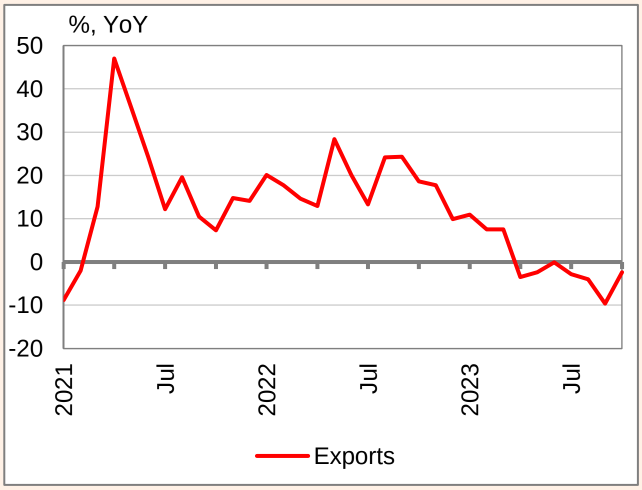

### Inflationary pressure eased off




### Unemployment rate remains stable amid high wage pressure



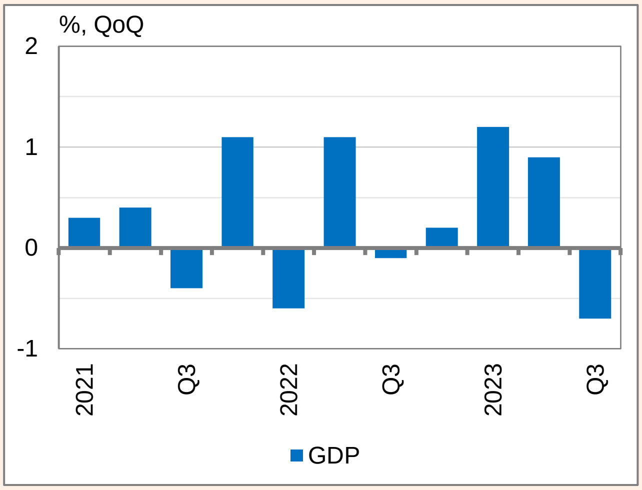

### Exports contraction continues, albeit smaller



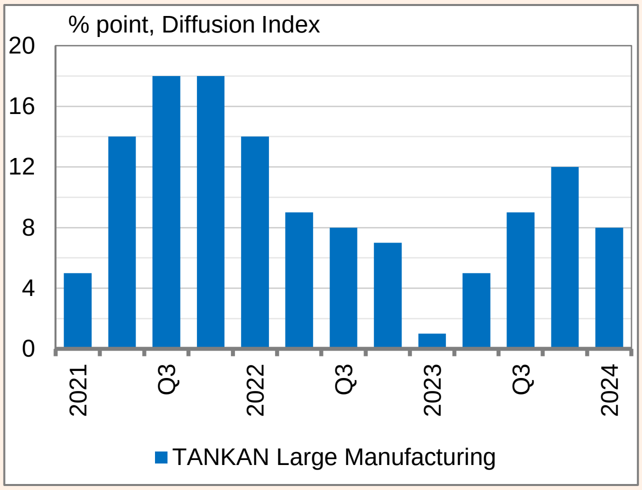

*Source: Eurostat; S&P Global*

# Japan – Grappling with inflation pressures

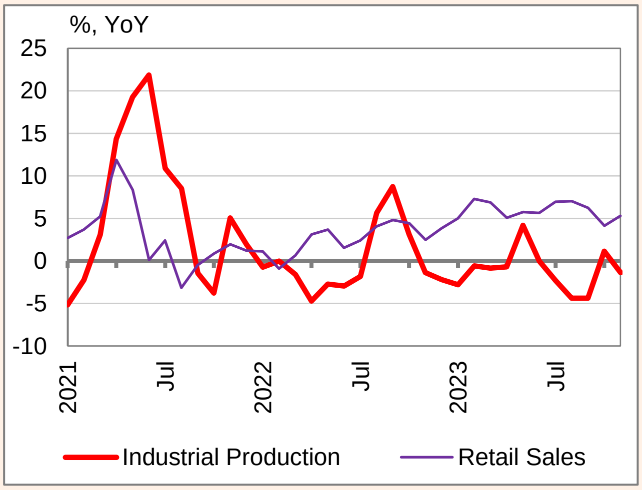
## A mixed economic performance in recent quarters



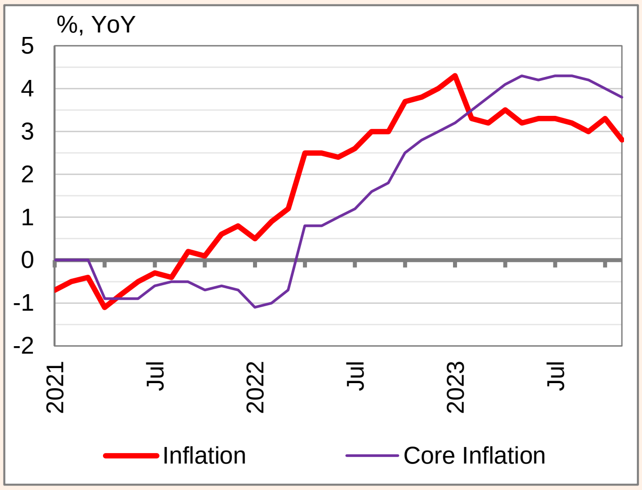

## TANKAN survey signals a continued expansion in the manufacturing sector



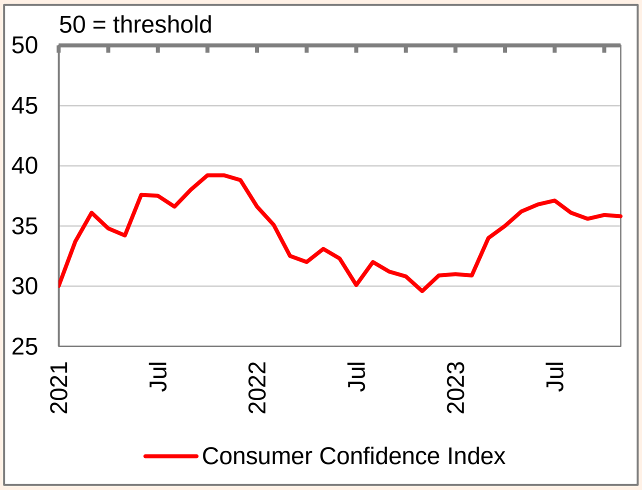

## Industrial production performed weakly



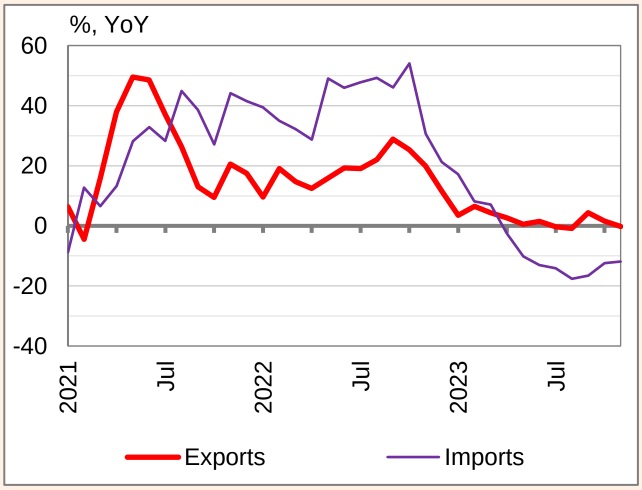

## High inflation has restrained economic activities




## Consumer confidence hampered by inflationary pressure



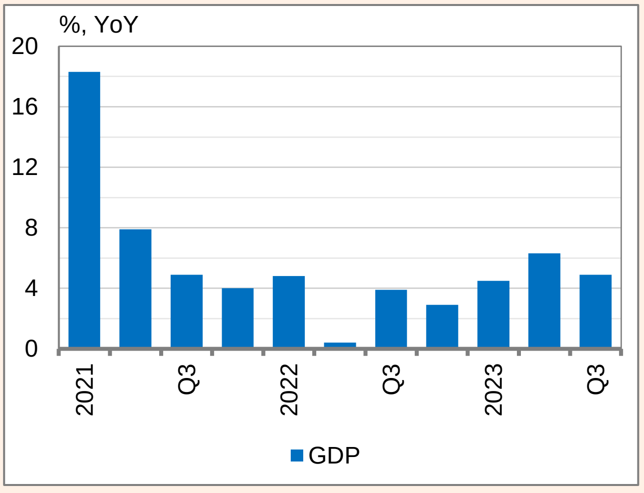

## Muted exports growth; imports growth declined for eight straight months



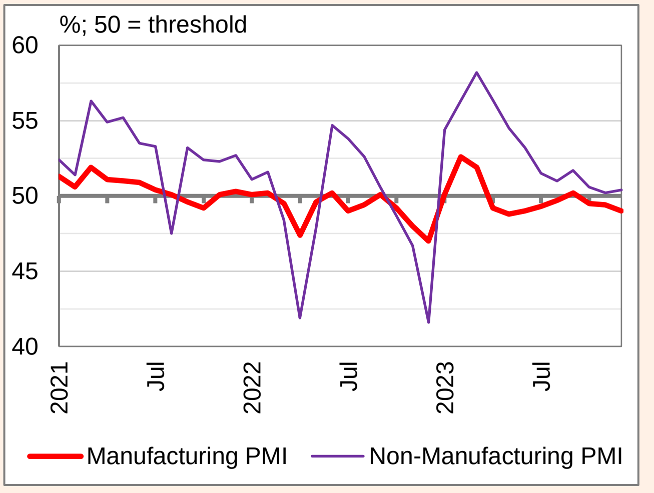

*Source: Economic and Social Research Institute (ESRI), Cabinet Office of Japan; Bank of Japan (BOJ); Ministry of Economy, Trade and Industry (METI), Japan; Statistics Bureau, Japan; Japan Customs*

# China – Lingering risks in real estate sector

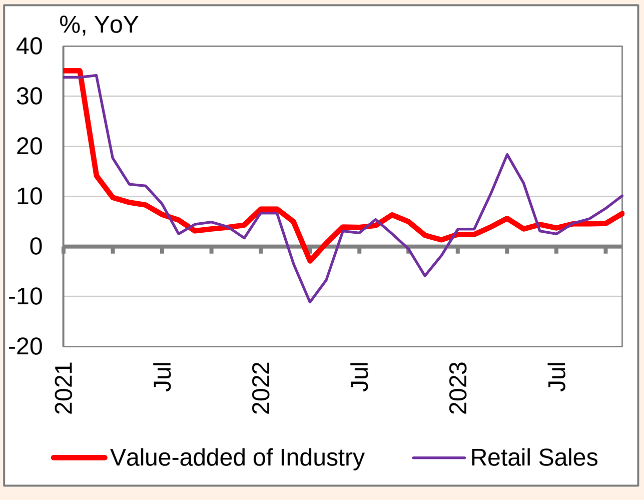
## Economic growth is seemingly stabilise amid lingering risks in real estate sector



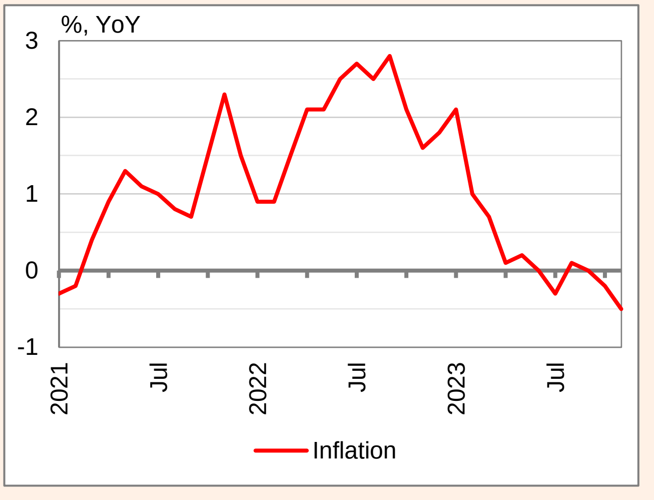

## Manufacturing PMI indicates weakening signs ahead



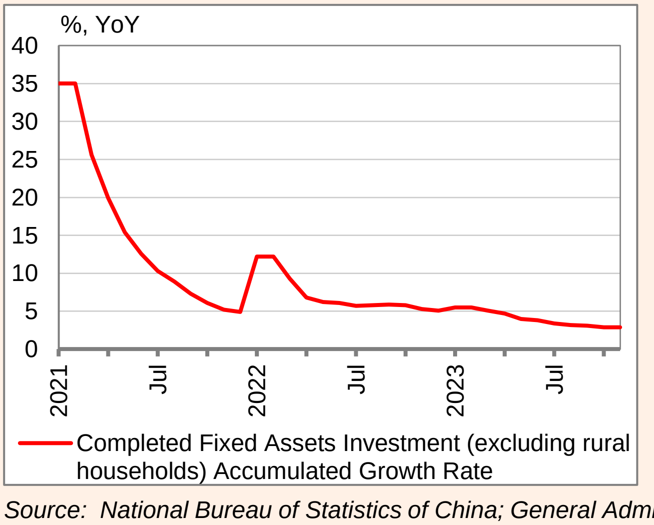

## Both industrial and retail performed, aided by low base effect



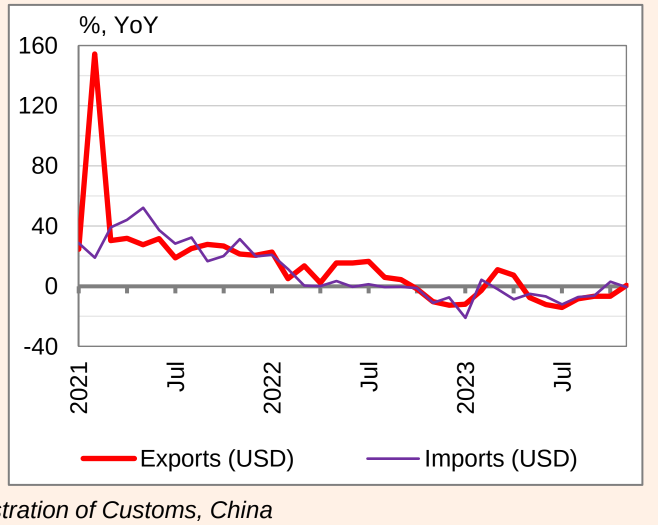

## Deflation for two consecutive months in Nov 2023




## Fixed investment growth still weakening



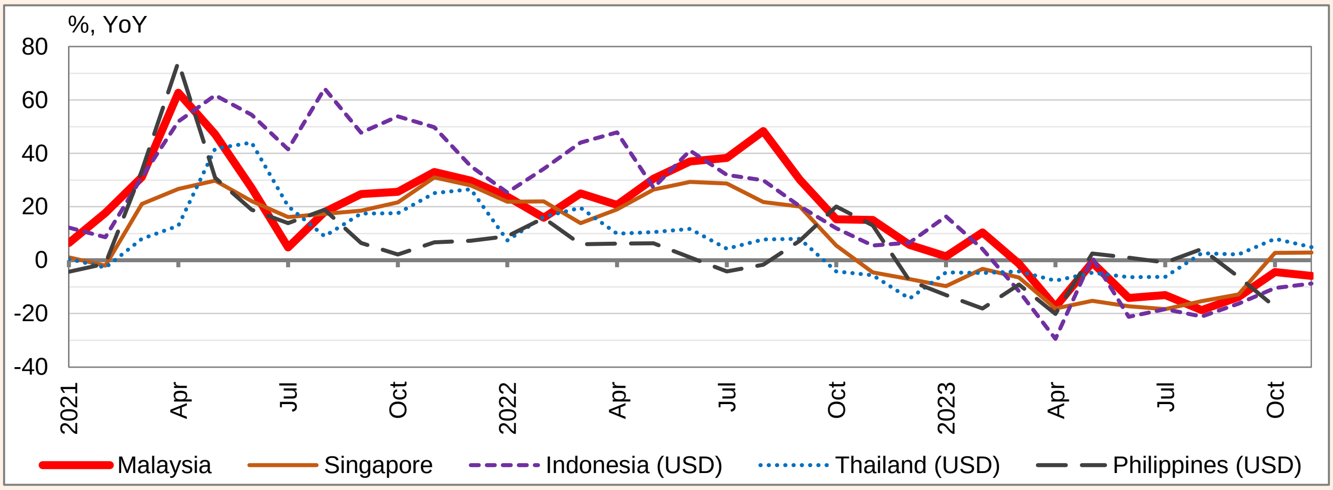

## Exports contraction seen bottoming out



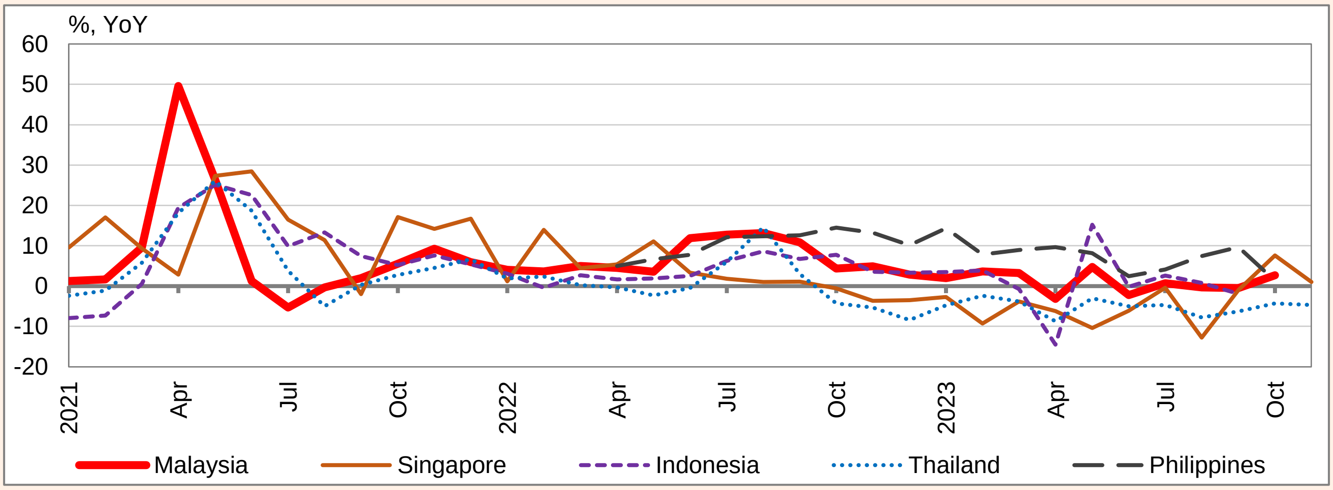

*Source: National Bureau of Statistics of China; General Administration of Customs, China*

# ASEAN Key Economic Indicators

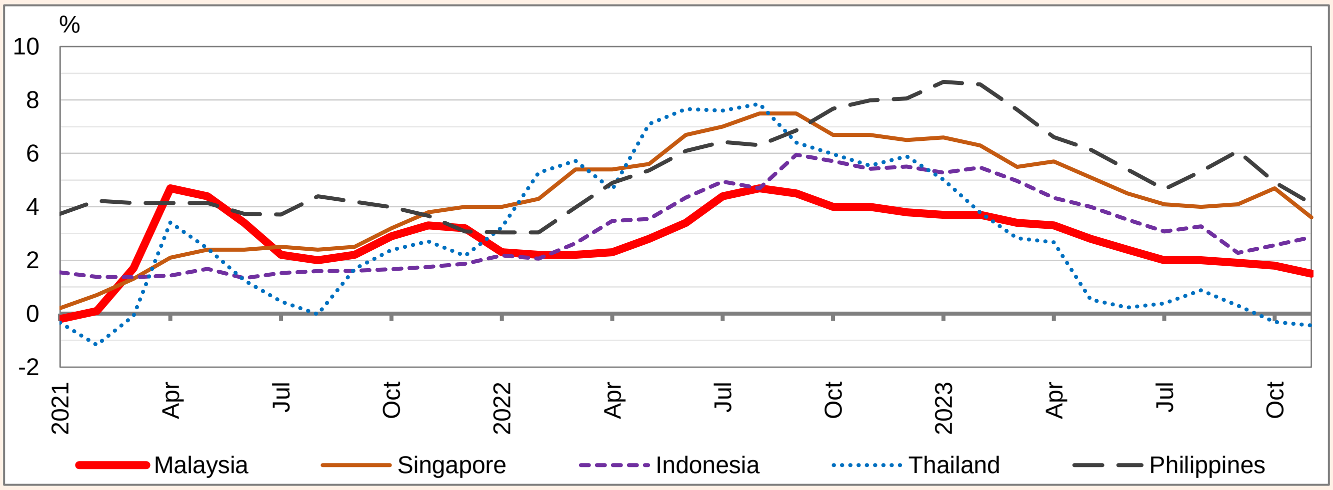
### Export growth trend




### Industrial production growth trend




### Inflation trend




*Source: Department of Statistics, Malaysia; Singapore Department of Statistics; Statistics Indonesia; Bank Indonesia; Office of Industrial Economics, Thailand; Ministry of Commerce, Thailand; Philippine Statistics Authority*

*Note: Industrial production growth for the Philippines only showed from April 2022 due to exceptional data prior to that*

## 2024 MALAYSIA ECONOMIC OUTLOOK: DRIVERS AND RISKS

- Amid slowing global economic growth and rising interest rates globally, the Malaysian economy has succumbed to the impact of declining exports and slowing domestic demand, growing by 3.9% in the first nine months of 2023. Headline inflation has moderated from the peak while core inflation also eased.

  With incipient signs of exports contraction bottoming out (smaller rate of declines) and a stronger revival in tourism, real GDP growth will gain further traction to an estimated 3.7%-4.0% (3.3% in Q3 and 2.9% in Q2), bringing the full-year estimate to about 4.0% in 2023 (8.7% in 2022).

  a) **We estimate domestic economic growth to grow by 4.5% in 2024, aided by a recovery in exports and continued growth in domestic demand**, albeit cautiously. Domestic demand will contribute 4.3 percentage points to GDP growth while exports of goods and services will contribute 1.4 percentage points. Both fiscal and monetary policies would remain supportive of the economy.

     We estimate exports to recover gradually to 4.0% in 2024, a turnaround from the estimated decline of 7.4% in 2023. The positive factors underpinning our export outlook are improving global demand, a recovery in the tech downturn cycle, and increasing demand for chips for electric vehicles (EVs), artificial intelligence (AI), and the fifth generation (5G).

     We forecast the global economy to muddle through a soft landing in 2024, albeit macro risks remain. These include elevated trade tensions between the US and China, the ongoing conflict in Ukraine, and the recent outbreak of war between Israel and Hamas in the Middle East.

     Some leading indicators (Global PMI for manufacturing (49.3 in November 2023 vs. 48.8 in October) and services (50.6 in November vs. 50.4 in October)) have seen improvement while the global semiconductor prolonged downturn has bottomed out.

     With sequential integrated circuits sales declines beginning to moderate, the global semiconductor industry appears to be nearing the end of a downcycle and is expected to begin recovering in 2024. What further drives the semiconductor industry and chip demand is the gaining popularity of EVs, AI, and the 5G network, all of which require some form of chips.

  b) **The 2024 Budget's budgetary operations are expected to provide moderate fiscal support to the economy through a development expenditure allocation of RM90 billion.** The fiscal deficit will reduce to RM85.4 billion or -4.3% of GDP in 2024 from an estimated deficit of RM93.2 billion or 5.0% of GDP in 2023. There were allocations for industrial development, green investment, road construction and maintenance, public infrastructure and utilities, flood mitigation projects, building of schools, and public housing development.

c) **We expect households and consumers to bend and be cautious in their discretionary spending.** Private consumption growth has normalised to an estimated 5.3% growth in 2023 and will grow by 4.6% in 2024 (11.2% in 2022; 7.1% pa in 2011-2019). There are numerous reasons to expect consumer spending growth to slow in 2024: targeted subsidy rationalisation, high cost of living and inflation risk as well as higher service tax rate for some services. Tight labour market condition (estimated unemployment rate at 3.3% in 2024 (estimated 3.4% in end-December 2023) continues to support employment and income levels (average increment of 5.1% in 2024 according to Mercer's Total Remuneration Survey 2023).

   **We look to higher private investment growth in 2024**, supported by some realisation of approved investments averaging RM288.6 billion per year in 2021-2022 and RM225.0 billion in Jan-Sep 2023, mainly in the electronics and electrical products, AI, technology, transport equipment, real estate, and information and communications subsectors.

   Catalysts to drive foreign direct investment (FDI) and domestic direct investment (DDI) will come from the implementation of the New Industrial Master Plan (NIMP) 2030, the National Energy Transition Roadmap (NETR), and the Mid-Term Review of the 12th Malaysia Plan (2021-2025).

   We see a number of factors that could dampen business investments: the implementation of subsidy rationalisation in phases, concerns about business costs pressure; impact of the weakening ringgit on imported raw materials as well as machinery and equipment. In addition, the implementation of the Progressive Wage Model and the multi-tiered levy would mean increased employment costs. Costs associated with ESG compliance and climate change-induced disruptions could restrain SMEs from undertaking investment.

   Considering the cross currents, we expect private investment to increase by 5.5% in 2024 from an estimated 4.6% in 2023 (7.2% in 2022), but still below 8.8% pa in 2011-2019.

d) **The key drivers of our estimated GDP growth of 4.5% in 2024 will be primarily driven by the services sector (estimated 5.3% in 2024 vs. 5.5% in 2023)**, underpinned by sustained domestic consumption supporting retailing, restaurants, accommodation, and communication segments. We expect free-visa entry for China, India, and several Middle Eastern countries starting December 2023 to boost a stronger revival in the tourism segment in 2024 and beyond. In the first nine months of 2023, Malaysia recorded a total of 14.5 million tourist arrivals, and the government has revised the tourism target to 19.1 million by end-2023, from 16.1 million previously. For 2024, we expect international tourists to reach 24 million, and the Government is likely to revise higher the 26.1 million tourists target set for the 2026 Visit Malaysia Year.

   **The manufacturing sector is poised to improve stronger** (estimated 3.9% in 2024 vs. 1.3% in 2023), thanks to a gradual recovery in external demand for electronics and electrical products, chemical and chemical products, and refined petroleum products. Domestic-market-oriented industries will be backed by higher output in transport equipment and construction-related segments, in line with continued growth in consumption and investment.

**We expect continued higher growth in the construction sector** (estimated 7.2% in 2024 vs. 6.5% in 2023), underpinned by strategic infrastructure and utilities projects, including ongoing projects, e.g. Central Spine Road (CSR), Pan Borneo Sabah Highway and the acceleration of projects under the Twelfth Malaysia Plan as well as the development of affordable public and private housing.

Over the medium term, the construction sector will be supported by (a) The construction of public infrastructure: LRT Pulau Pinang to Seberang Perai (RM10bn); reinstatement of 5 cancelled LRT stations in Klang Valley (RM4.7bn); (b) RM2.5 bn for public housing development; (c) Road maintenance and building: Federal roads and bridges (RM2.8bn); build and upgrade village roads (RM1.63bn); and the widening of the PLUS highway from Sedenak to Simpang Renggam (RM931m); and (d) Others: the construction of 33 high priority flood mitigation projects (RM11.8bn); building of 26 new schools (RM2.6bn); build, maintain and refurbish the quarters of civil servants (RM2.4bn); the supply of water to 5,150 households and electricity to 2,200 households (RM939m), and the construction of USM teaching hospital (RM938m).

e) **Both headline and core inflation have moderated significantly to an average of 2.5% and 3.2% respectively, in Jan-Nov 2023**, mainly due to easing cost of living measures such as menu Rahmah and continued subsidies and price controls for rice, eggs, sugar and cooking oil as well as slower prices of transportation. While food prices have eased, services inflation remained high.

**Inflation is expected to increase higher to 2.8%-3.5% in 2024** (estimated 2.5% in 2023). A number of factors could add to inflation risk: The Government’s intention to review price controls and subsidies will affect the inflation outlook and demand conditions; a gradual shift towards a targeted subsidy mechanism starting in the first quarter of 2024, the expansion of service tax (includes logistic, brokerage, underwriting and karaoke services) with rate increases to 8% from 6% (excluding food and beverages, telecommunication services, parking and logistic services); and risks come from fluctuation in exchange rates and supply-related factors, such as global commodity prices, geopolitical uncertainties and climatic conditions.

f) **We expect Bank Negara Malaysia (BNM) to keep the Overnight Policy Rate (OPR) steady at 3.00% throughout 2024** amid there are upside risks to inflation as the government contemplates revising subsidies and price controls. BNM does not normally react to cost-pushed inflation unless it sets off demand pressures due to the wage-price spiral. The central bank is unlikely to loosen monetary policy as this might risk destabilising the Ringgit.

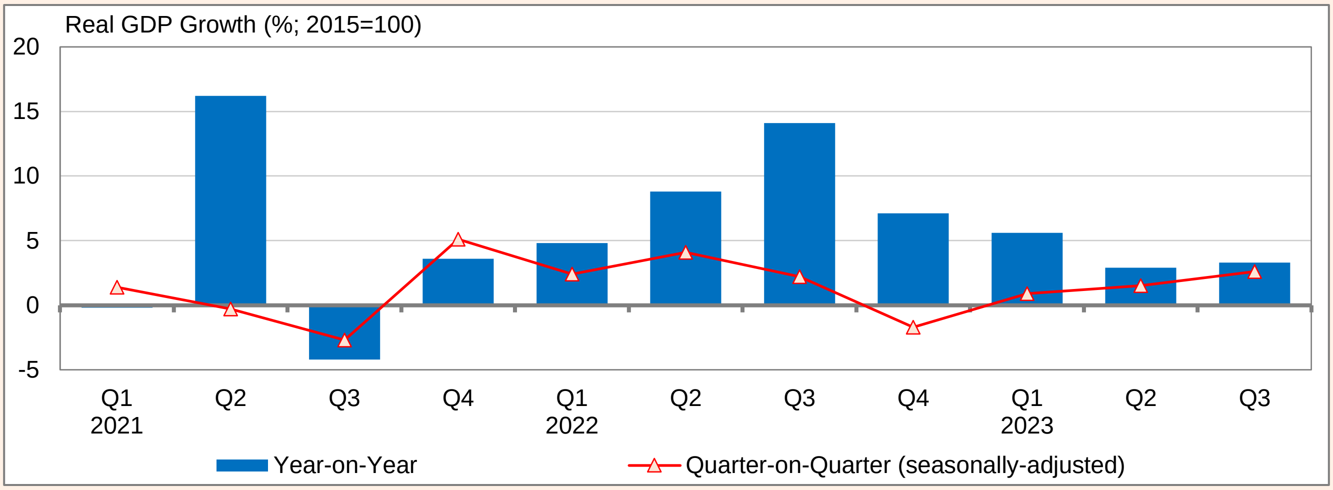
**Real GDP growth (%, Y-o-Y)**

| **Economic Sector** [% share to GDP in 2022] | **2022** | **2023 Q1** | **2023 Q2** | **2023 Q3** | **2023E (SERC)** | **2024F (MOF)** | **2024F (SERC)** |
|---|---|---|---|---|---|---|---|
| **By kind of economic activity** | | | | | | | |
| Agriculture [6.6%] | 0.1 | 1.0 | -1.0 | 0.8 | 0.8 | 1.2 | 1.3 |
| Mining & Quarrying [6.4%] | 2.6 | 2.4 | -2.3 | -0.1 | 1.3 | 2.7 | 1.4 |
| Manufacturing [24.1%] | 8.1 | 3.2 | 0.1 | -0.1 | 1.3 | 4.2 | 3.9 |
| Construction [3.5%] | 5.0 | 7.4 | 6.2 | 7.2 | 6.5 | 6.8 | 7.2 |
| Services [58.3%] | 10.9 | 7.3 | 4.7 | 5.0 | 5.5 | 5.6 | 5.3 |
| **By type of expenditure** | | | | | | | |
| Private Consumption [60.2%] | 11.2 | 5.9 | 4.3 | 4.6 | 5.3 | 5.7 | 4.6 |
| Public Consumption [13.2%] | 4.5 | -2.2 | 3.8 | 5.8 | 1.3 | 2.6 | 2.6 |
| Private Investment [15.3%] | 7.2 | 4.7 | 5.1 | 4.5 | 4.6 | 5.4 | 5.5 |
| Public Investment [4.4%] | 5.3 | 5.7 | 7.9 | 7.5 | 7.8 | 8.3 | 7.0 |
| Exports of Goods and Services [74.6%] | 14.5 | -3.3 | -9.4 | -12.0 | -7.3 | 4.1 | 4.1 |
| Imports of Goods and Services [69.1%] | 15.9 | -6.5 | -9.7 | -11.1 | -7.0 | 3.9 | 3.9 |
| **Overall GDP** | **8.7** | **5.6** | **2.9** | **3.3** | **4.0** | **4.0-5.0** | **4.5** |

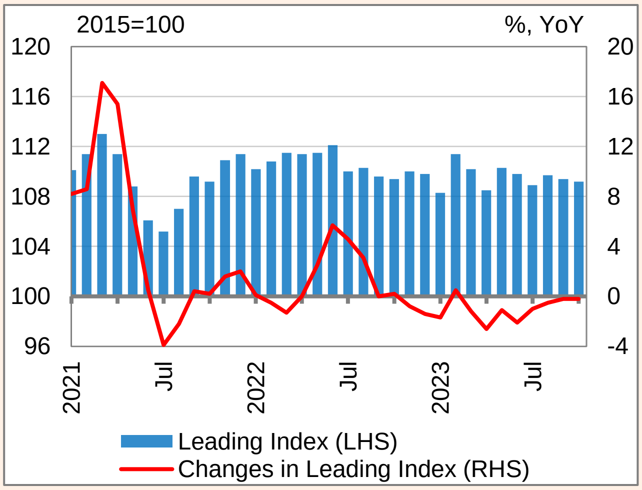
*Source: Department of Statistics, Malaysia (DOSM); SERC estimates and forecast*

# Spotlight on the Malaysian Economy

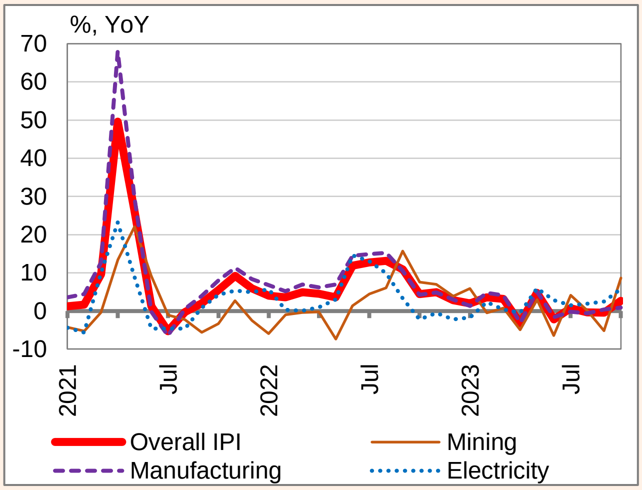
**Malaysia's GDP expanded by 3.9% yoy in the first nine months of 2023, supported by domestic demand, albeit slower while external demand remained sluggish.**




**Leading Index (LI) signalled a modest growth outlook**

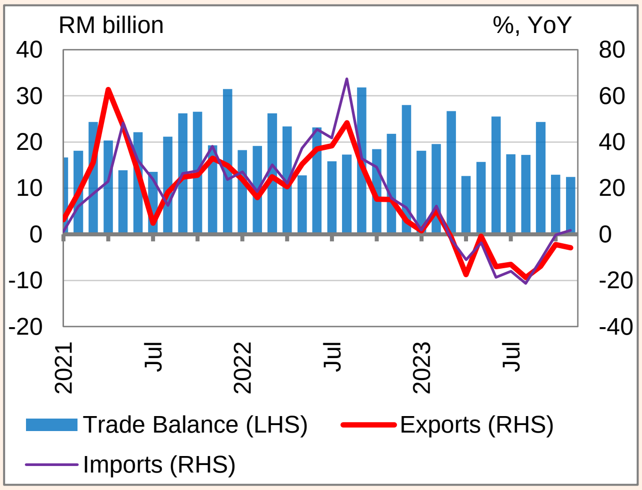



**Industrial production growth returned to positive in Oct, helped by manufacturing**

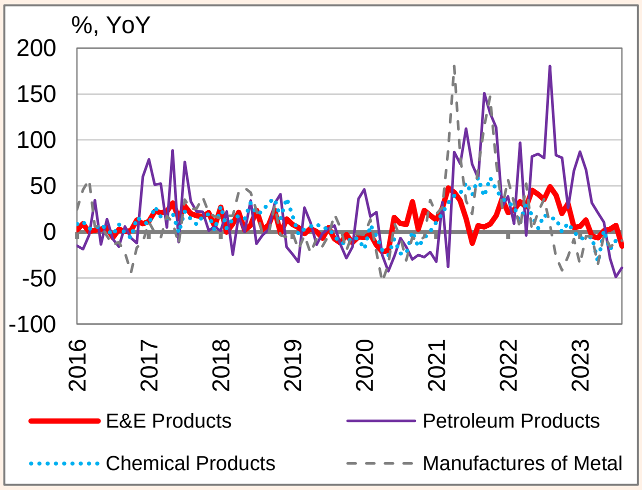



## External Sector

**Exports contraction has narrowed; expect a gradual recovery in 2024**

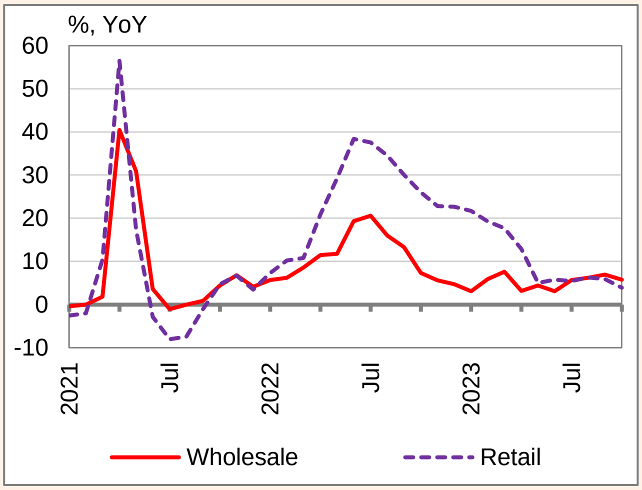



**Exports by major products**

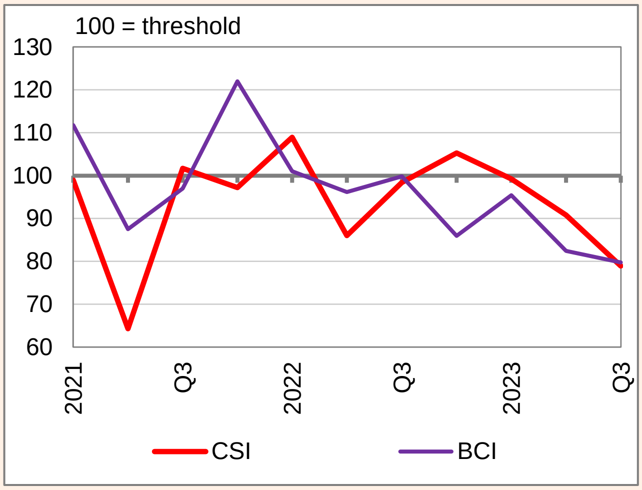


## Domestic Demand

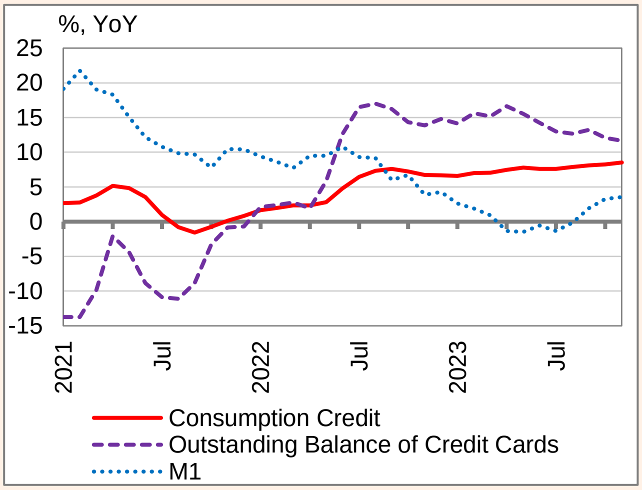
**Both wholesale and retail sales growth were broadly stable**



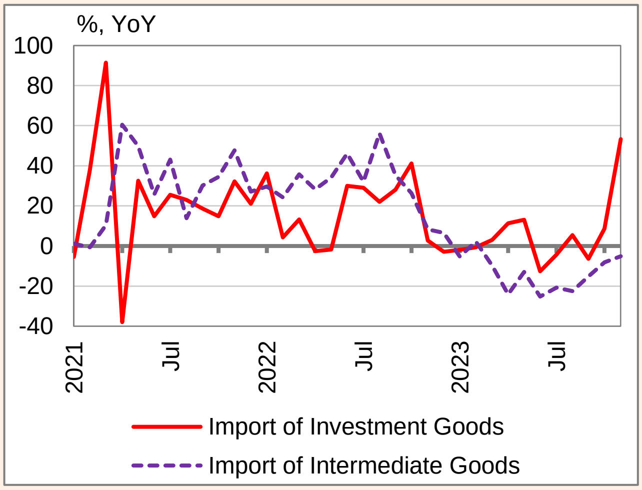

**Both consumers and businesses remained pessimistic**



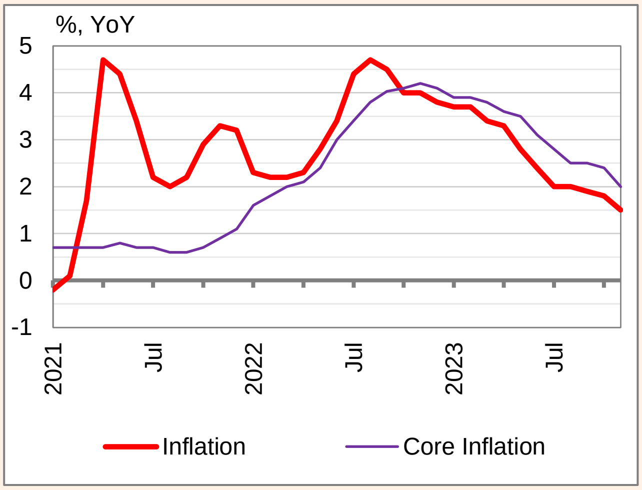

**Selected private consumption indicators**



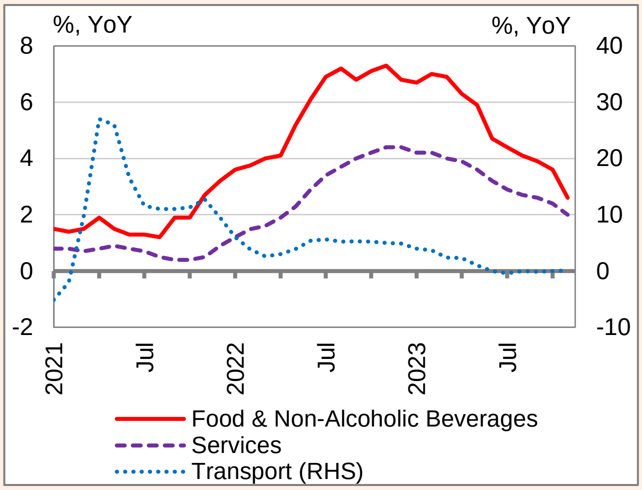

**Selected private investment indicators**



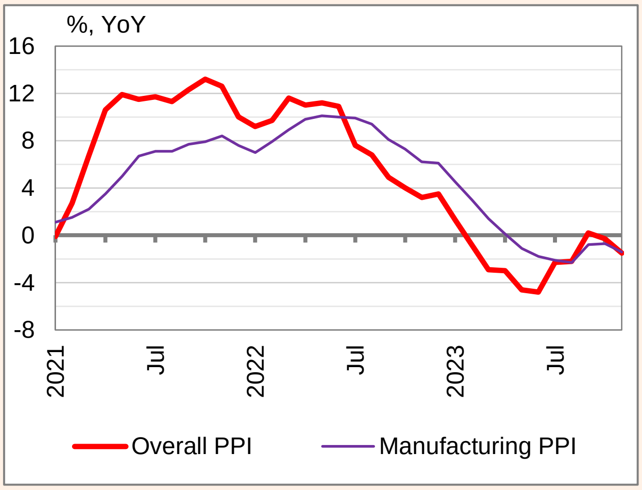

**Inflation prospects remain uncertain due to the expected domestic policy changes**



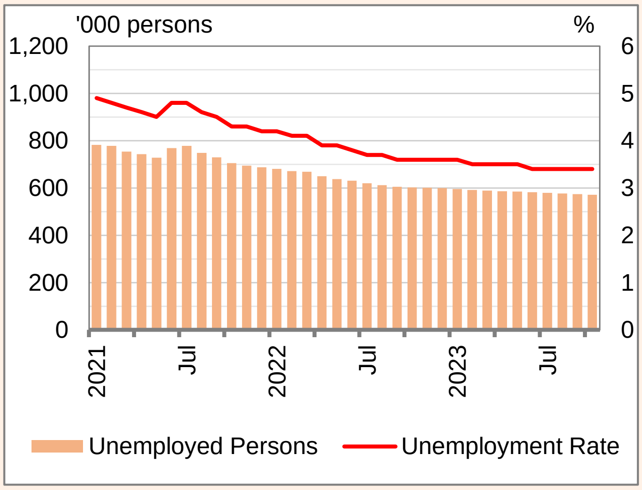

**Inflation trend eased off, but general price levels still high**




**Producer prices declined due to lower prices of intermediate goods**

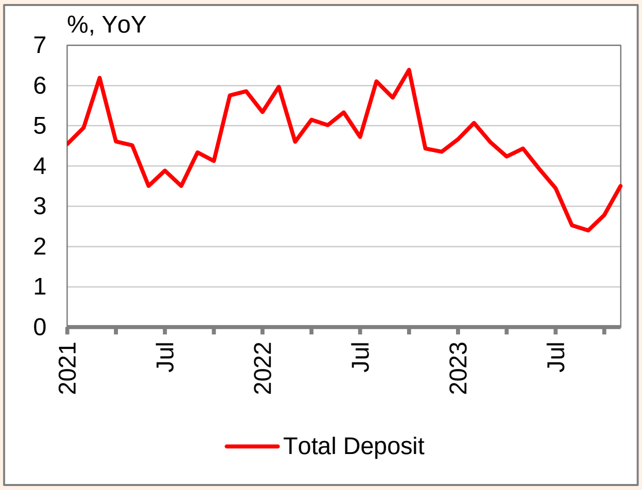



**Unemployment rate has stabilised**

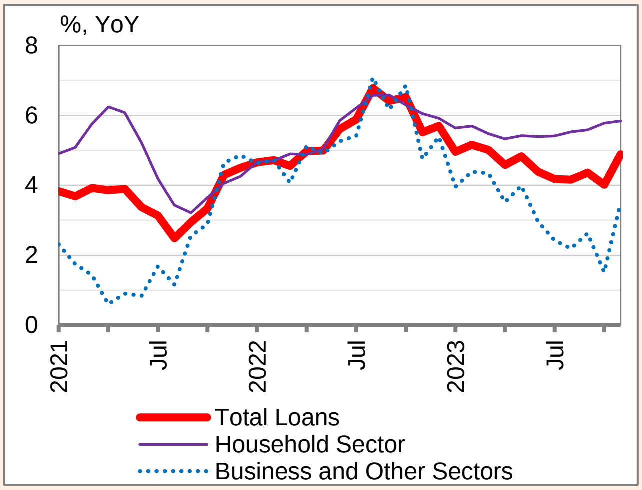



# Banking and Financial Indicators

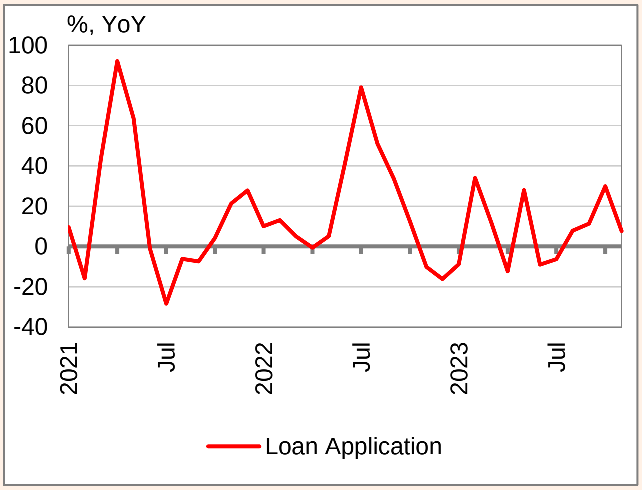
## Banking deposit growth started to pick up



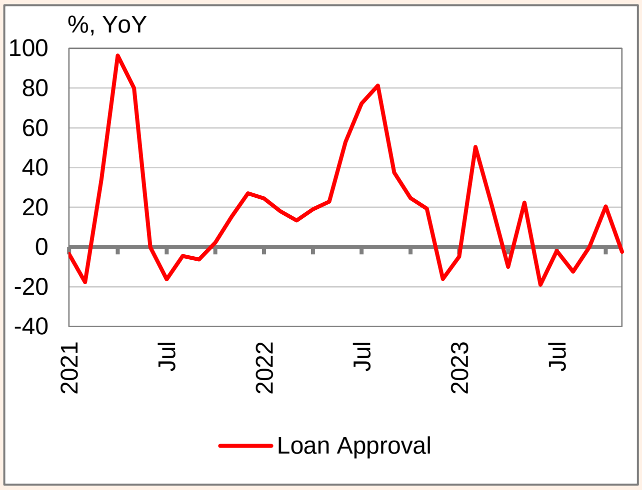

## Households loan growth stable; higher business loan growth



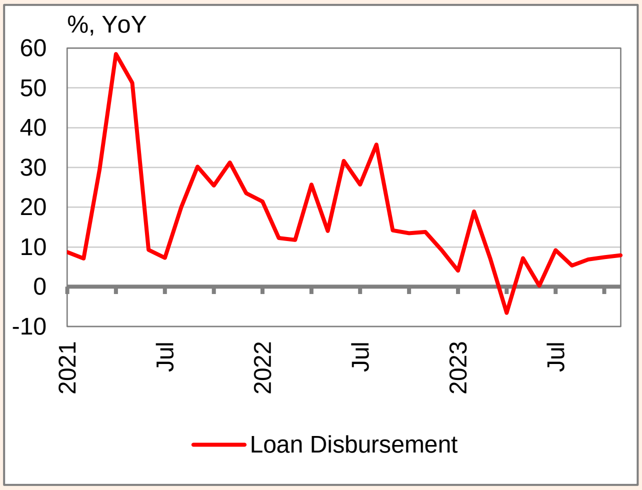

## Loan applications growth



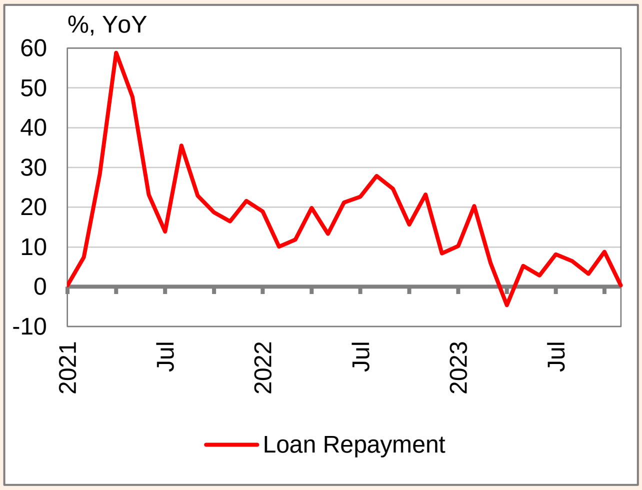

## Loan approvals growth




## Loan disbursements growth

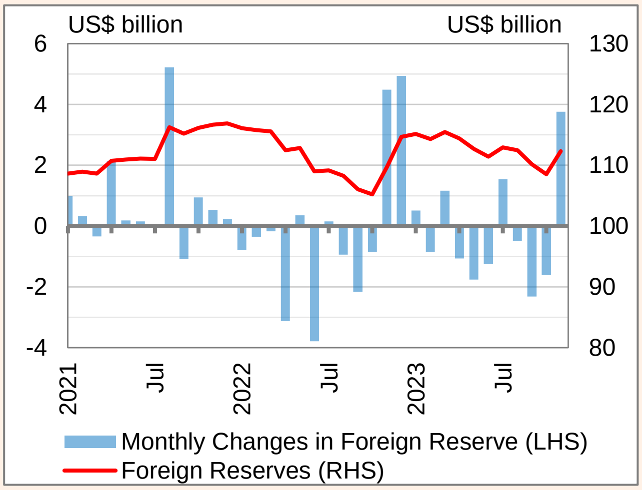



## Loan repayments growth

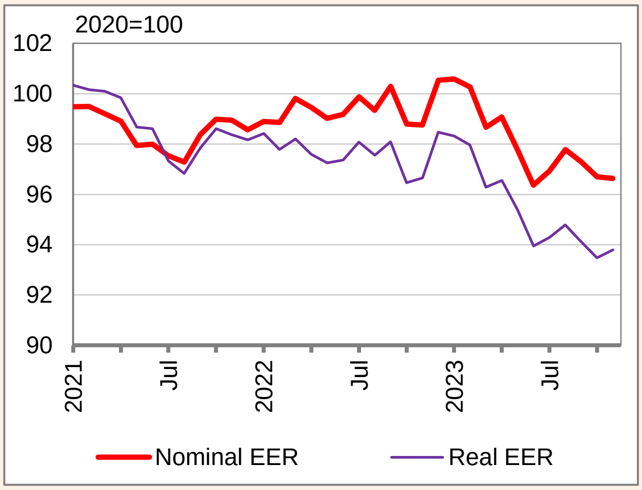



*Note:: Loan data from July 2022 onwards was revised and expanded based on the latest requirements with more accurate data definition and reporting methodology. Outstanding loan excludes DFI.*

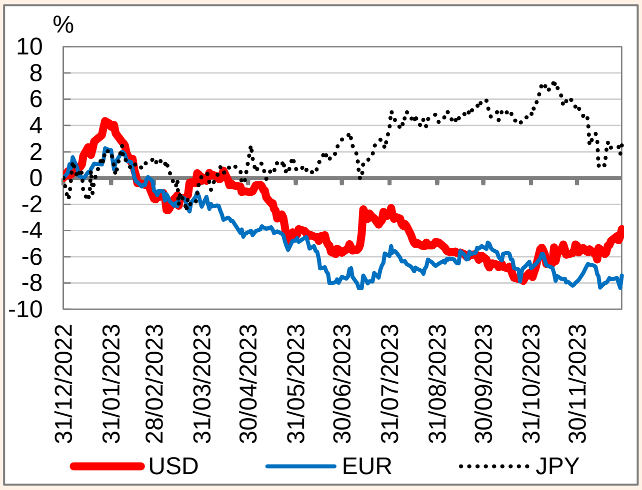
### Foreign reserves amounted to US$112.8 billion as at 15 Dec 2023



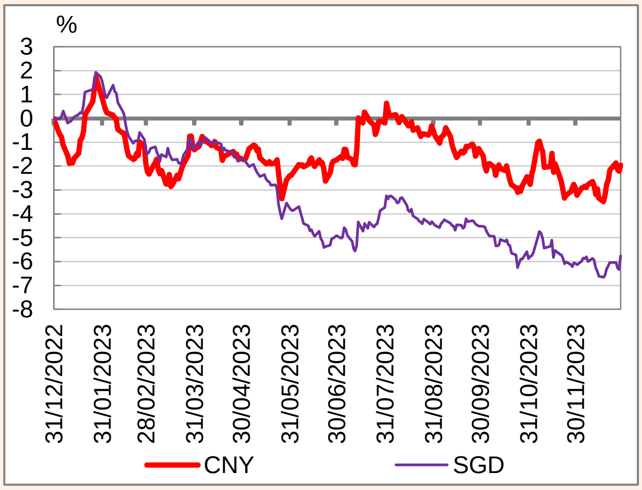

### Ringgit's Effective Exchange Rate (EER)



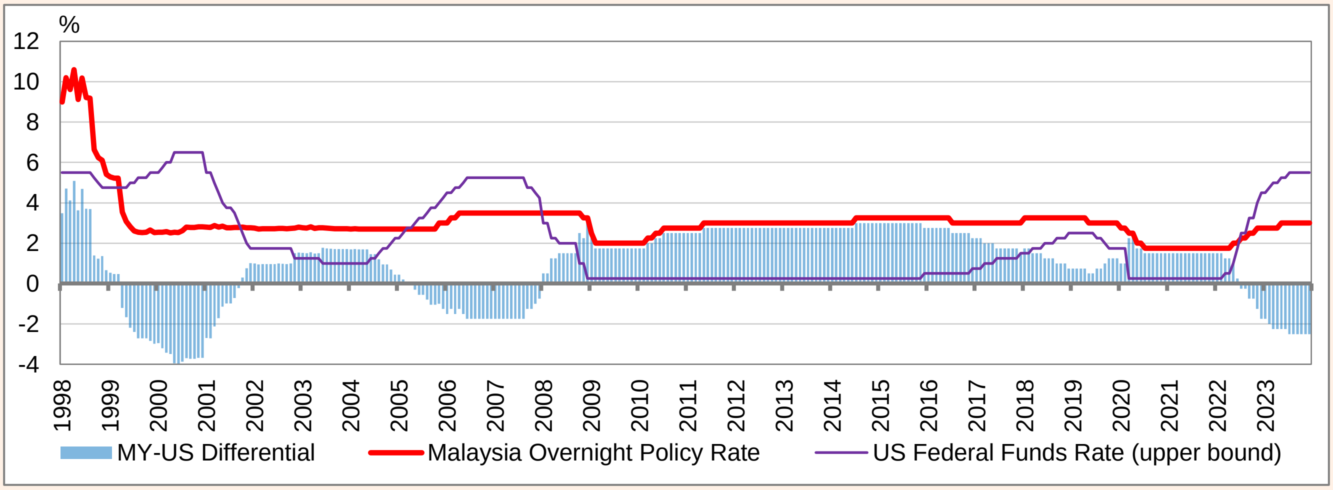

### The Ringgit against the US dollar, euro and Japanese yen




### The Ringgit against the Chinese renminbi and Singapore dollar




### Malaysia-US's interest rate differentials




*Source: Department of Statistics, Malaysia (DOSM); Malaysian Institute of Economic Research (MIER); Bank Negara Malaysia (BNM); Bank for International Settlements; Federal Reserve*

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## About SERC

The Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM)'s Socio-Economic Research Centre (SERC Sdn. Bhd.) was established as an independent and non-profit think tank on 19 October 2010. Officiated by YAB Prime Minister on 28 April 2011, SERC is funded by ACCCIM SERC Trust.

SERC is tasked with carrying out in-depth research and analysis on a wide range of economic, business and social issues in support of the formulation of public policies to shape Malaysia's national socio-economic and industrial development agenda.

The organization will identify and explore issues and future trends that impact domestic economic and business environments. It will also focus on sharing knowledge and promoting public understanding of socio-economic issues of national importance.

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