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Week Ahead Economic Preview

Global manufacturing PMI, US payrolls and eurozone inflation

25 August 2023

The US August labour market report will be released next week alongside comprehensive manufacturing PMI data across the world. Additionally, the focus will be on inflation numbers from the eurozone, Germany and parts of Asia. India will also be releasing their GDP data for the April to June quarter.

Ahead of the highly anticipated Jackson Hole symposium this week, the market remains watchful of any data which challenges the 'soft landing' scenario. In that respect, US consumer spending had notably been a key concern at the start of the week following disappointing earnings reports from retailers, thereby weighing on risk sentiment. PCE data due during the week will be important to assess, as will the second estimate of second quarter GDP, the initial estimates of which had surprised to the upside to encourage further Fed hawkishness.

Flash PMI data further alluded to a stagnating labour market in August, both in the US and Europe, validating some concerns with regards to consumption as well as raising hopes of moderating wage growth. Next week's non-farm payrolls figures will provide official insights into the US job market trend. Wage growth data will also be closely watched given the importance of rising staff costs in contributing to stubborn inflation thus far.

On prices, updated official CPI numbers for the eurozone, including Germany, will also be due in the week ahead. These data come after the HCOB Flash Eurozone PMI indicated rising inflation in the eurozone. The latest developments outlined the risk for stubborn inflation especially at a time when the downturn for the eurozone also deepened midway into the third quarter, creating greater uncertainty with regards to the monetary policy trajectory.

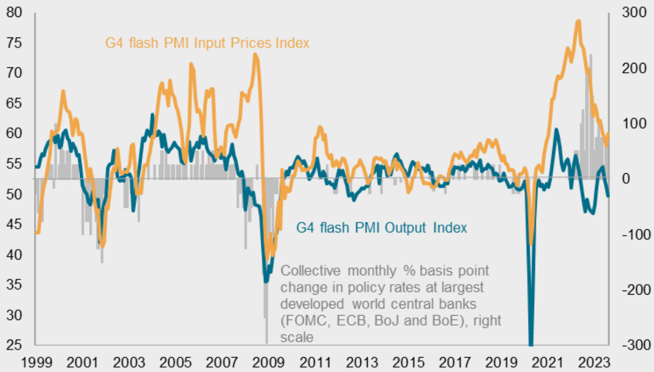
In APAC, PMI releases will be closely watched in the coming week, especially for mainland China, which saw a weak start to the third quarter. Any extended slowdown will weigh on the region and would not bode well for risk assets. In contrast, India had been an outperformer up until July and any extension of this outperformance will be worth watching. The solid performance in the year-to-date also underscores the expectations for stronger GDP growth in the Q1 FY23-24 period with the data to be released next Thursday.

Assessing policy impact and wage-price spirals

The flash PMI releases for the major developed economies hinted at a growing toll on economic growth from rising interest rates. In the US, business activity growth came close to stalling, while the UK joined the eurozone in a new downturn. Only in Japan, which has been spared the aggressive hiking of interest rates, has strong services-led growth persisted.

The upside is that the tightening of policy appears to be also helping drive inflation down, though the persistence of wage-related service sector price rises remained a feature of the August PMIs across the board. As a result, the surveys broadly hint at inflation sticking around the 3% mark.

G4 flash PMI output and prices vs. monetary policy



Data compiled August 23, 2023.
PMI (50 = no change on prior month) covers manufacturing and services in the US, Eurozone, UK and Japan.
Sources: S&P Global PMI, S&P Global Market Intelligence.
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The final leg of the inflation fight down to central bank 2% targets therefore still looks problematic. A key ingredient of this fight will likely be the cooling of labour markets. In this respect, the surveys brought some encouraging news of a near-stalling of hiring as companies grew increasingly concerned about excess capacity. We will know more about the US labour market with the upcoming Employment Report, but as far as the survey data are concerned there is possibly some good news around the corner for those concerned about wage-price spiral. *See our Special Report on page 4 for more details.*

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Key diary events

Monday 28 Aug
United Kingdom, Philippines Market Holiday
Australia Retail Sales (Jul, prelim)
Malaysia PPI (Jul)
Japan Leading Economic Index (Jun, final)

Tuesday 29 Aug
Japan Unemployment Rate (Jul)
Germany GfK Consumer Confidence (Sep)
United States S&P/Case-Shiller Home Prices (Jun)
United States House Price Index (Jun)
United States JOLTs Job Openings (Jul)
United States CB Consumer Confidence (Aug)

Wednesday 30 Aug
Australia Building Permits (Jul, prelim)
Japan Consumer Confidence (Aug)
United Kingdom Mortgage Lending and Approvals (Jul)
Eurozone Economic Sentiment (Aug)
Eurozone Consumer Confidence (Aug, final)
Germany Inflation Rate (Aug, prelim)
United States ADP Employment Change (Aug)
United States Goods Trade Balance (Jul, adv)
United States Wholesale Inventories (Jul, adv)
United States Q2 GDP (2nd est.)
United States Pending Home Sales (Jul)

Thursday 31 Aug
Malaysia Market Holiday
South Korea Industrial Production (Jul)
Japan Industrial Production (Jul, prelim)
Japan Retail Sales (Jul)
China (Mainland) NBS PMI (Aug)
Thailand Industrial Production (Jul)
Japan Housing Starts (Jul)
Germany Retail Sales (Jul)
France Inflation and Q2 GDP
Germany Unemployment (Aug)
Eurozone Inflation (Aug, flash)
India GDP (Q2)
United States Core PCE (Jul)
United States Personal Income and Spending (Jul)

Friday 1 Sep
Worldwide Manufacturing PMIs, incl. global PMI* (Aug)
South Korea Trade (Aug)
Australia Home Loans (Jul)
Indonesia Inflation (Aug)
Switzerland Inflation (Aug)
Canada GDP (Q2)
United States Non-farm Payrolls, Average Earnings, Unemployment Rate (Aug)
United States ISM Manufacturing PMI (Aug)

* Press releases of indices produced by S&P Global and relevant sponsors can be found here.

What to watch

Worldwide manufacturing PMI releases

Following flash PMI updates, we will be looking to the worldwide manufacturing PMI releases next week for a global view on conditions within the goods producing sector.

As seen via July's surveys, global growth momentum slowed with the manufacturing sector showing deepening contraction. Whether this continued in August, and which regions saw the biggest changes, will be keenly watched.

Additionally, the theme of destocking among manufacturers has been a key cause for falling demand for goods and we will be assessing both the PMI figures and panel comment indications for signs of any turnaround.

Americas: US labour market report, Q2 GDP, July core PCE, personal income and spending data, August ISM manufacturing PMI and Canada Q2 GDP

A packed week of data releases is expected for the US with the second estimate of Q2 GDP, core PCE and labour market updates all due next week. Consensus expectations point to resilient jobs additions in July, close to the 187k in July, though the S&P Global Flash US Composite PMI employment index revealed a near-stagnating jobs market situation in August. Unemployment and wage growth rates are expected to remain steady.

Europe: Eurozone inflation, Germany inflation, GfK consumer confidence and trade data

Besides the final manufacturing PMIs for the eurozone and UK, economic releases to watch from Europe will include inflation figures from both the eurozone and Germany. As it is, the HCOB Flash Eurozone PMI revealed price gauges having ticked up higher in August. UK bank lending data will also be eagerly awaited, especially on mortgages.

Asia-Pacific: China NBS PMIs, India GDP, Japan industrial production data

In APAC, the focus is expected to be with PMI releases, particularly after the weak start to the third quarter for China was signalled by the Caixin PMI. That said, regions including ASEAN also saw slower growth coupled with business confidence falling to a three-year low that will be worth studying. Besides these, India's GDP will be due with the consensus pointing to stronger growth in line with the PMI output trend for India. Also watch out for industrial production numbers for Japan and South Korea.

Special reports:

Flash PMI Signal Developed World Contraction as Higher Interest Rates Exert a Growing Toll | Chris Williamson| page 4

Malaysian Economy Moderates in Mid-2023 | Rajiv Biswas | page 8

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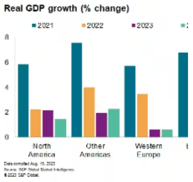
Recent PMI and economic analysis from S&P Global

Global	Global inflation and growth: what to watch for in the upcoming August PMI surveys	16-Aug	Jingyi Pan
	Easing growth momentum keeps price inflation subdued across emerging markets	11-Aug	Jingyi Pan
	Monthly PMI Bulletin: August 2023	10-Aug	Jingyi Pan
	Global trade downturn accelerates in July	8-Aug	Jingyi Pan
	PMI surveys show global inflation pressures ticking higher in July on rising staff costs	4-Aug	Chris Williamson
Europe	UK Flash PMI data signal renewed economic downturn in August, selling price inflation cools	23-Aug	Chris Williamson
	Eurozone downturn deepens according to flash PMI but inflation pressures tick higher	23-Aug	Chris Williamson
US	US economy close to stalling in August as flash PMI falls to 50.4	23-Aug	Chris Williamson
Asia-Pacific	Japan's economic growth quickens in August as service sector counters factory decline	23-Aug	Jingyi Pan
	India's economy continues to show strong growth in mid-2023	18-Aug	Rajiv Biswas
Commodities	Weekly Pricing Pulse: Commodities down as demand continues to falter	17-Aug	Michael Dall

S&P Global Economics & Country Risk highlights

Divergence in monetary policy becoming more apparent



S&P Global Market Intelligence's global real GDP growth forecast for 2023 has again edged higher — from 2.4% to 2.5% in August — primarily owing to upward revisions to the US forecast. The 2024 global growth forecast is unchanged at 2.4%, also supported by an upward revision to the US forecast.

Click here to read our research and analysis

PMI Insights: Divergent trends in goods and services

Our Purchasing Managers' Index team compiles data for more than 40 economies around the world. In this episode, the economists explore the divergence in the performance of the manufacturing and services sectors in countries including Australia and Greece. They zero in on how this is showing up in labour markets, looking at employment growth and wages.

Click here to listen to this podcast by S&P Global Market Intelligence

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Special Focus

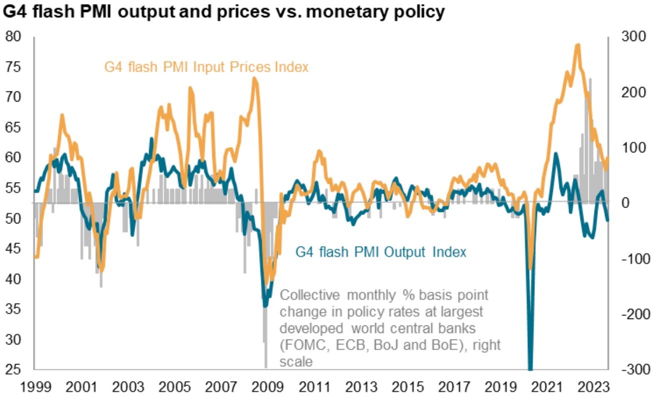
Flash PMI Signal Developed World Contraction as Higher Interest Rates Exert a Growing Toll

Early PMI survey data for August from S&P Global showed the major developed economies collectively slipping into contraction for the first time since January. Falling business activity in the Eurozone and UK, and a near-stalling of growth in the US, contrasted with robust growth in Japan and underscored how tighter monetary policy in the west is dampening demand.

Price pressures meanwhile showed signs of stickiness, especially in the service sector, adding to concerns that the battle to get inflation down to 2% remains far from won.

However, while employment continued to grow, a further deterioration in order books and the demand environment led to a near-stalling of employment across the G4, which should help bring wage-related inflation pressures down in the months ahead.

G4 flash PMI output and prices vs. monetary policy



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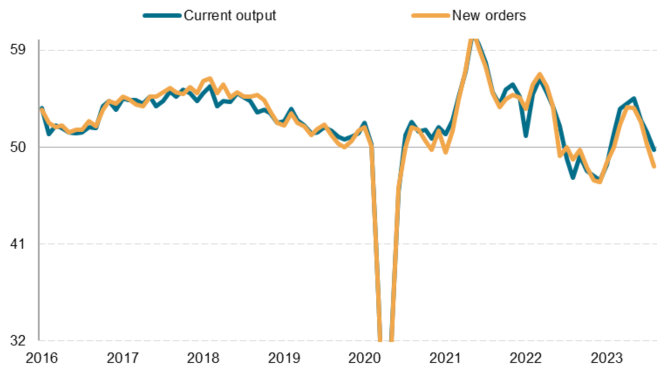
Major developed economies contract

Business activity across the four largest developed world economies (the "G4") fell into decline in August after six months of continual output growth, according to the provisional 'flash' PMI data compiled by S&P Global Market Intelligence.

Although only marginal, the decline in output represents a major change from the robust expansion which peaked in May. Worse also looks set to come, after new orders fell across the four economies in August at a relatively steeper rate than output.

Flash PMI output and new orders indicators of 'G4' economies



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Source: S&P Global PMI with HCOB, CIPS and au Jibun Bank.
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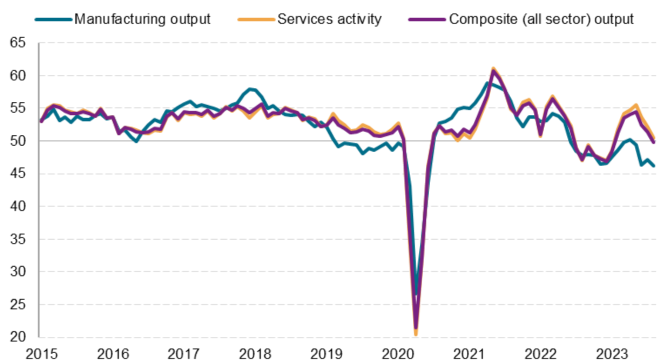
The rate of service sector expansion slowed in the G4 for a third successive month to its weakest since the sector's current upturn began in February. The resultant near-stalling of service sector growth represents a faltering of a recent key area of support to the global economy, and hints at a growing impact of higher interest rates on demand notably from consumers, hitting demand for activities such as recreation, travel and tourism especially hard. These sectors had seen the strongest expansion earlier in the year, according to S&P Global's detailed sector PMI data, buoyed by the full removal of worldwide COVID-19 containment measures in 2023 compared to prior years. New orders for services fell in August for the first time since January.

Flash PMI output of 'G4' developed economies



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G4 PMI covers the US, Eurozone, UK and Japan. 50 = no change on prior month.
Sources: S&P Global PMI with HCOB, CIPS and au Jibun Bank.
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Manufacturing output in the G4 economies meanwhile contracted for a fourth successive month, and for the fourteenth time in the past 15 months. The rate of factory output decline accelerated to one of the sharpest rates seen since the global financial crisis. New orders for goods likewise fell sharply, notably continuing to deteriorate at a considerably steeper rate than output to hint at further

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downward production adjustments in the coming months as producers scaled back capacity. Companies reported lower final demand from customers as well as an ongoing trend towards inventory reduction, which further stymied orders.

Europe leads slowdown

Both the Eurozone and the UK reported falling output in August and growth slowed to near-stagnation in the US, leaving Japan as the only major developed economy to report expansion.

All four economies reporting falling manufacturing output, with the Eurozone and UK seeing especially sharp declines, but growth was more mixed in the service sector. Increasingly robust growth of services activity in Japan contrasted with falling activity in the Eurozone and the UK and a much-weakened expansion in the US.

These service sector growth variations can be partly explained by monetary policy differences, with interest rates having been hiked aggressively in the US, Eurozone and UK but remaining unchanged in Japan. The service sector is typically the most interest rate sensitive part of the economy.

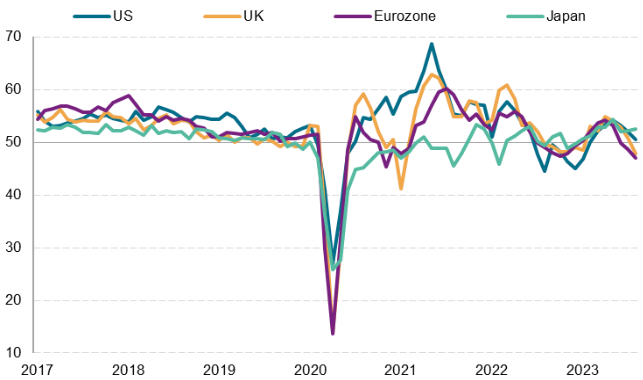
The Eurozone consequently led the overall G4 downturn, registering a fall in the combined output of manufacturing and services for a third straight month with the rate of decline accelerating to the fastest since lowest since November 2020. If pandemic months are excluded, the latest reading signaled the steepest downturn since April 2013, commensurate with GDP falling by approximately 0.3% on a quarter-on-quarter basis.

Overall business output meanwhile fell in the United Kingdom at the fastest rate since January 2021 and, if the lockdown months are excluded, at one of the fastest rates since the global financial crisis. The UK flash PMI data signal a similar rate of GDP decline to that seen at the Eurozone, at around 0.3%.

While growth continued to be recorded in the United States, the overall expansion was only marginal and the weakest since February, indicative of a near-stalled economy midway through the third quarter.

Japan's overall expansion meanwhile accelerated thanks to the ongoing resurgence of service sector activity, albeit continuing to run below May's recent peak. The latest composite output reading, covering both sectors, is broadly consistent with Japan's GDP growing at a solid annual rate of around 2%.

Flash PMI output indicators of 'G4' economies



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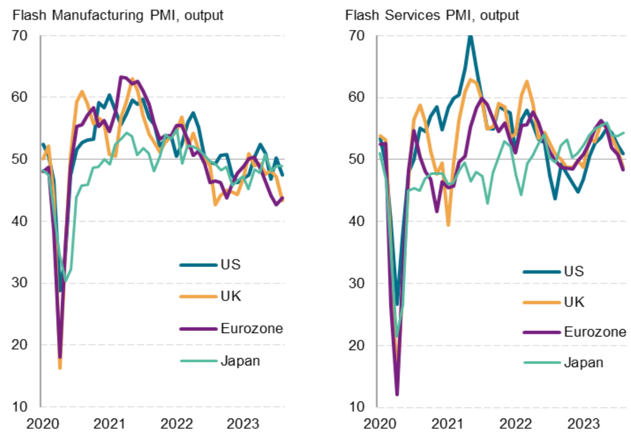

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Sticky inflation

On the inflation front, the surveys collectively pointed to some stickiness of both input costs and average selling price inflation, albeit with rates of increase well down on the strong rates seen over the two years prior to mid-2023. Input cost inflation even ticked slightly higher across the G4 on average, commonly linked to higher wage costs and increased energy prices.

Looking at selling prices across the G4, average prices charged for goods by factories fell slightly for a second successive month, albeit with the rate of decline moderating compared to July. Service sector charges meanwhile continued to rise at an historically elevated pace, though even here the rate of increase has cooled in recent months to some of the weakest seen since early 2021. Some upward pressure on costs from energy prices was reported, as well as higher wages.

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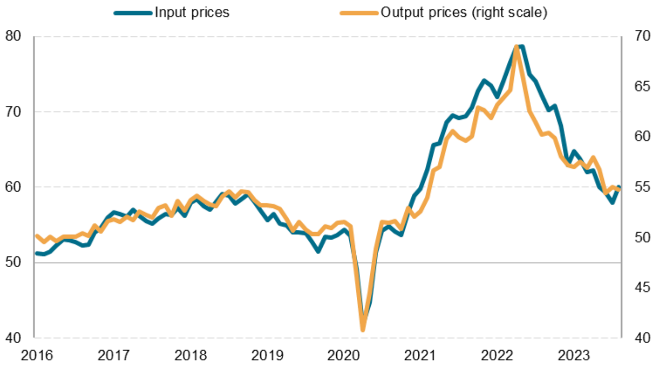
Flash PMI price indicators of 'G4' economies



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Flash PMI output prices, 'G4' developed economies

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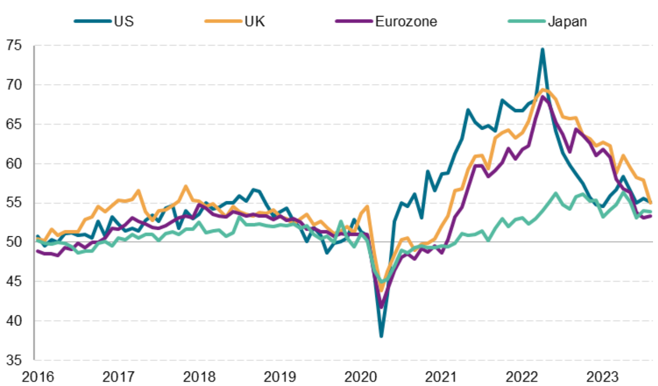
The UK was notable is seeing overall selling price inflation moderate substantially in August, though the slowing merely brought the rate of inflation more in line with the rate seen in the US and still above that of the Eurozone and Japan. Largely unchanged readings in the US and Eurozone, as well as the continued elevated reading in Japan, point to some stickiness of consumer price inflation in the months ahead, all largely driven by the service sector.

Flash PMI output price indicators of 'G4' economies



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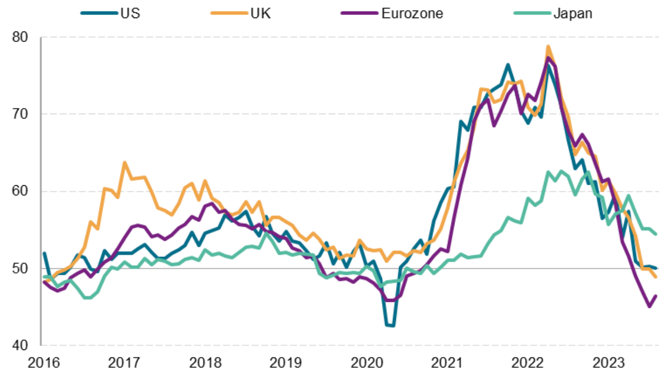
In the US and Eurozone, annual CPI rates of around 3% are indicated and in the UK the rate looks set to dip below 4% in the coming months. In Japan, inflation is signalled to remain around the 2% mark.

Flash manufacturing PMI output prices



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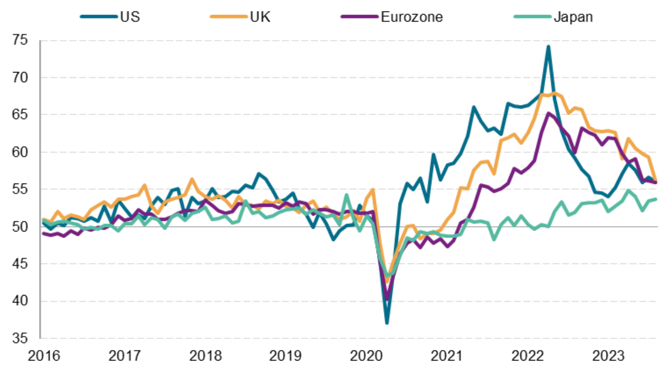
Flash services PMI output prices



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Labour markets stall

With the stickiness of inflation in the service sector largely linked to wages, policymakers will be encouraged to see signs of further cooling jobs markets. Across the G4 economies as a whole, employment barely rose in August, registering the smallest increase for almost three years and contrasting markedly with the robust jobs gains seen earlier in the year. Jobs growth has almost stalled in the US, Eurozone and the UK.

Broadly speaking, companies are reassessing their hiring needs and adjusting their recruitment lower in the face of dwindling demand. Backlogs of work across the G4, for example, are now falling at the sharpest rate since May 2020, and at one of the steepest rates yet recorded by the surveys, in a sign that excess capacity is developing to an extent that companies will start to reduce headcounts in the coming months. Such a labour market cooling should in theory feed through to lower pay pressures.

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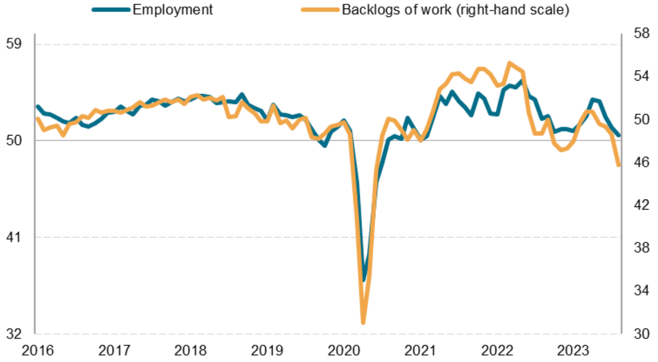
Flash PMI employment and backlogs of work indicators of 'G4' economies



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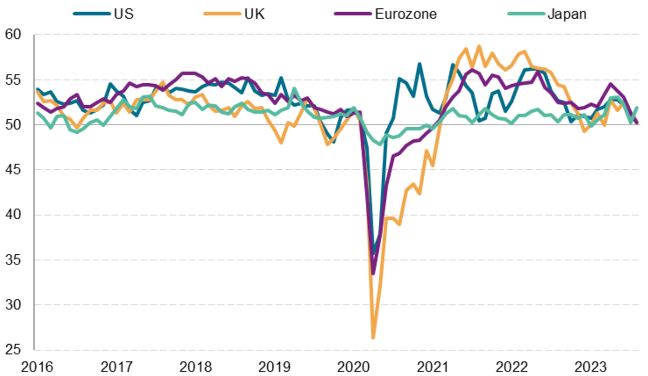
Flash PMI employment indicators of 'G4' economies



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Outlook

The August survey data, and in particular the divergences between the weakness appearing in the US and European economies relative to Japan, therefore suggest strongly that higher interest rates from the Federal Open Market Committee (FOMC), European Central Bank (ECB) and Bank of England (BOE) are exerting an increasing toll on demand. Third quarter contractions of GDP are now being signaled for the Eurozone and UK and a near stalling of growth in the US is evident.

However, price pressures have meanwhile shown signs of settling at levels indicative of inflation running ahead of targets in the US and Europe. A further softening of the inflation picture is only likely to occur with a downturn in labour markets. In that respect, some encouragement comes from the fact that hiring has now all but stalled in the US and Europe, and forward-looking data suggest that net job losses could soon be indicated by the PMI survey panels.

How the central banks will assess these trends remains uncertain, but the August data certainly raise the bar for further rate hikes in the US and Europe as it is becoming increasingly clear that demand is being squeezed to an extent that should cool inflation in the months ahead.

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Special Focus

Malaysian Economy Moderates in Mid-2023

Malaysian economic growth moderated to a pace of 2.9% year-on-year (y/y) in the second quarter of 2023, compared to growth of 5.6% y/y in the first quarter of 2023. However, when measured on a quarter-on-quarter (q/q) basis, the pace of growth improved to 1.5% q/q in the second quarter of 2023, compared to 0.9% q/q in the first quarter of 2023.

Merchandise exports have been weak during the first seven months of 2023, declining by 5.9% y/y. However, an important positive factor during the second half of 2023 and into 2024 is expected to be the continued gradual recovery of international tourism visits from Asia, the Middle East and Europe.

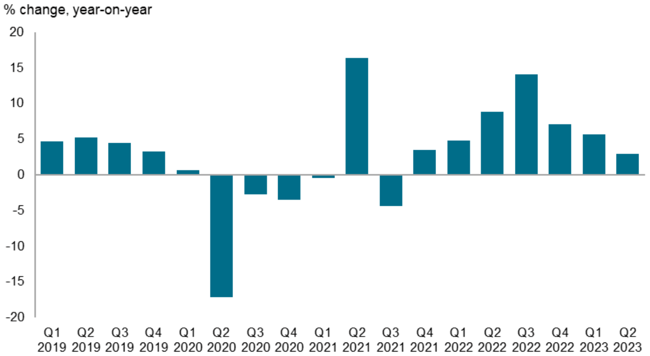
Malaysian economy moderates in Q2 2023

The pace of expansion of the Malaysian economy measured on a year-on-year basis has moderated due to a number of headwinds, including the impact of high base year effects and slowing merchandise export growth. In the second quarter of 2022, Malaysian GDP growth had surged by 8.8% y/y and had risen by 4.1% q/q, which created high base year effects for the year-on-year growth rate for GDP in the second quarter of 2023.

However, measured on a quarter-on-quarter basis, the Malaysian economy grew by 1.5% q/q in the second quarter of 2023, improving significantly on the 0.9% q/q pace in the first quarter of 2023. Growth momentum has been improving during the first half of 2023, marking a significant turnaround compared with contraction of 1.7% q/q in the fourth quarter of 2022.

Malaysia GDP growth

% change, year-on-year



Source: S&P Global Market Intelligence.

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The Malaysian services sector continued to show firm growth of 4.7% y/y in the second quarter of 2023, albeit moderating from the 7.3% y/y pace recorded in the first quarter of 2023.

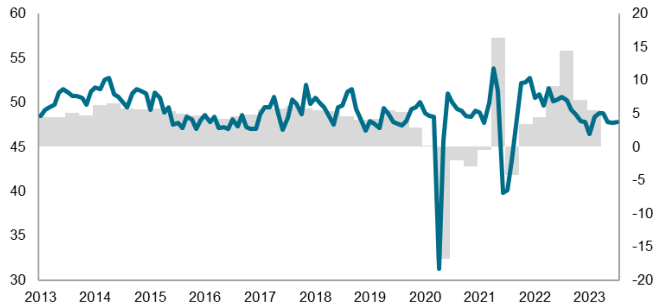
The pace of expansion in the construction sector also remained strong, growing by 6.2% y/y in the second quarter of 2023, after growth of 7.4% y/y in the first quarter of 2023. However, growth in the manufacturing sector has slowed, showing only a marginal increase of 0.1% y/y in the second quarter of 2023, after growth of 3.2% y/y in the first quarter of 2023.

The seasonally adjusted S&P Global Malaysia Manufacturing Purchasing Managers' Index (PMI) posted 47.8 in July, up slightly from 47.7 in June, but still indicating weak operating conditions for the manufacturing sector.

The latest PMI reading is consistent with expansion in both manufacturing production and GDP, although there are signs that growth has dampened somewhat since the start of the year. A key contributor to the sub-50.0 reading in July was a significant reduction in new order volumes. Demand has now moderated in each of the last 11 months, with the latest slowdown the most marked since January. A number of firms noted that client confidence remained subdued in both domestic and international markets.

S&P Global Malaysia Manufacturing PMI

Survey index, 50 = no change on prior month



Source: S&P Global PMI, Department of Statistics Malaysia via S&P Global Market Intelligence.

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During 2022, an important positive factor for the Malaysian manufacturing sector was the strength of manufacturing exports. Overall, Malaysian merchandise exports performed strongly during 2022, with exports rising by 25% y/y. Exports of manufactured goods rose by 22% y/y during 2022, boosted by exports of electrical and electronic products, which rose by 30%. Rising world commodity prices also boosted commodities exports, with mining exports up by 68% y/y due to strong exports of oil and gas, while agricultural exports rose by 23%.

However, in 2023, the pace of export growth for goods has weakened, reflecting base year effects as well as the economic slowdown in key markets, notably the EU and mainland China. Goods exports in the first seven months of 2023 fell by 5.9% year-on-year. In July 2023, the decline in goods exports was even more sharp, falling by 13.1% y/y. This reflected a large decline in exports of petroleum products, which fell by 48.7% y/y, as well as a 34.4% y/y drop in exports of palm oil and palm-oil based products.

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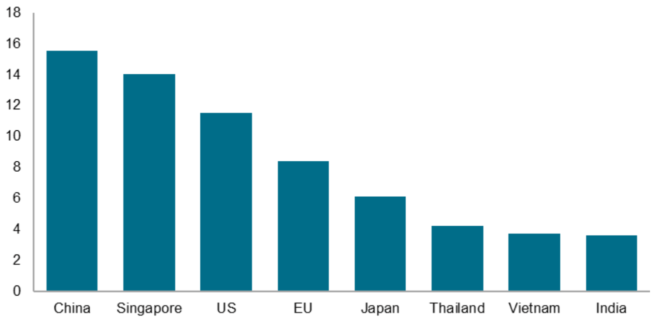
As mainland China is Malaysia's largest export market, accounting for 15.5% of total exports, the weak momentum of the rebound in mainland China's economy during the first half of 2023 has also been a significant headwind to Malaysia's exports. Malaysian merchandise exports to mainland China fell by 6.8% y/y in the first seven months of 2023. However, exports to mainland China for the month of July showed a rebound, rising by 6.1% y/y.

A positive factor for services exports is that international tourism has been strengthening, as tourist arrivals from major tourism markets in ASEAN, Middle East and Europe continue to recover, while Chinese tourist arrivals gradually improve. Tourism Malaysia is targeting 16.1 million international visitor arrivals for 2023, a 60% increase compared with the estimated 10.1 million international visitor arrivals in 2022. This compares with the pre-pandemic level of 26.1 million international visitor arrivals in 2019. In 2019, total domestic and international tourism was estimated to have accounted for around 16% of gross value added in Malaysia's total GDP.

Malaysia's major export markets

% of exports



Source: Matrade, EC via S&P Global Market Intelligence.
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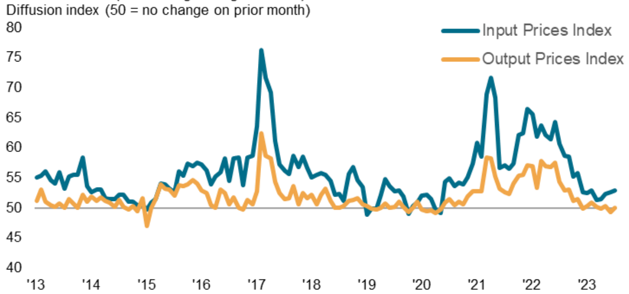
Inflation pressures have been gradually easing

Malaysia Manufacturing PMI: Input and Output Prices

S&P Global PMI (Purchasing Managers' Index) Index
Diffusion index (50 = no change on prior month)



Source: S&P Global Market Intelligence, S&P Global PMI surveys
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On the price front, average costs rose at a modest pace. Survey members mentioned that raw material prices continued to rise amid ringgit exchange rate weakness against the US dollar. Firms meanwhile reported that prices charged for goods were broadly unchanged, although some panellists signalled that selling prices were reduced in order to stimulate demand.

CPI inflation pressures have been gradually moderating, easing to a pace of 2.4% in June compared with 2.8% y/y in May and compared with 4.5% y/y in September 2022.

During 2022, Malaysia's central bank, Bank Negara Malaysia (BNM), had reduced the degree of monetary accommodation in a series of tightening steps. The most recent monetary policy tightening was on 3rd May 2023, when the Monetary Policy Committee decided to increase the Overnight Policy Rate (OPR) by 25 basis points to 3.0 percent.

The MPC expects that both headline and core inflation will moderate over the course of 2023, averaging between 2.8% – 3.8%. However, core inflation will remain at elevated levels amid firm demand conditions. Existing price controls and fuel subsidies will continue to partly contain the extent of upward pressures to inflation.

Moderating global electronics demand adds to headwinds

The electrical and electronics (E&E) sector has been an important driver of Malaysia's manufacturing exports. Exports of E&E products, which accounted for 38% of merchandise exports, rose by 30% y/y in 2022. This rapid growth was driven by robust global demand for semiconductors, reflecting technological trends such as 5G rollout, cloud computing, and the Internet of Things. Exports of integrated circuits grew by 33% y/y in 2022, while exports of parts for integrated circuits rose by 120% y/y. The combined exports of integrated circuits and parts accounted for 58% of Malaysia's total exports of E&E products in 2022.

The global electronics manufacturing industry has slowed since mid-2022 due to the weakening pace of economic growth in the US, EU and China. Malaysian exports of electrical and electronic products have shown some weakness in recent months, but showed a rebound in July, rising by 7.3% y/y.

However, recent S&P Global survey data continues to indicate that the global electronics manufacturing industry is facing headwinds from weak economic conditions in key markets. The headline seasonally adjusted S&P Global Electronics PMI was at 47.6 in July, continuing to show contractionary conditions across the global electronics manufacturing sector as key consumer markets for electronics, notably mainland China and the EU, remained weak.

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S&P Global Electronics PMI

S&P Global PMI (Purchasing Managers' Index) Output Index
Diffusion index (50 = no change on prior month)

Source: S&P Global Market Intelligence, S&P Global PMI surveys
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Economic outlook

The Malaysian economy rebounded strongly during 2022, with economic growth momentum boosted by the easing of COVID-19 restrictive measures as well as buoyant exports of electrical and electronic products, palm oil products as well as oil and gas exports.

In 2022, higher world oil and gas prices as a result of the Russia-Ukraine war boosted Malaysian energy exports and contributed to higher fiscal revenues. Malaysia also benefited from higher average palm oil prices, due to disruptions to world edible oil markets, including Ukrainian exports of sunflower oil.

During 2023, growth momentum has moderated when measured on a year-on-year basis, due to base year effects and the slowdown of merchandise exports. However, the reopening of international borders across the Asia-Pacific region, notably in mainland China, will help the continued gradual recovery of the international tourism industry, which was an important part of the Malaysian economy prior to the pandemic. This will help to mitigate the impact of slower growth for merchandise exports. Domestic demand has remained resilient during the first half of 2023, helped by the improvement in labour market conditions. Easing of restrictions on entry of migrant labour are also gradually helping to support industry sectors that are reliant on foreign workers.

There are a number of downside risks to the near-term growth outlook, particularly due to the weak economic conditions in the EU and the weak pace of recovery in mainland China. Malaysia's export sector is vulnerable to the risk of protracted weak economic growth momentum in 2024 in the US and EU, which together account for around one-fifth of total exports, as well as downside risks to the pace of mainland China's recovery.

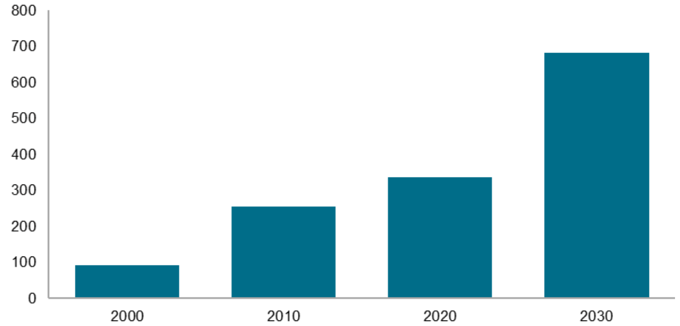
Despite the slowdown in global electronics orders in the first half of 2023, the medium-term economic prospects for Malaysia's electronics industry are favourable. The outlook for electronics demand is underpinned by major technological developments, including 5G rollout over the next five years, which will drive demand for 5G mobile phones.

Demand for industrial electronics is also expected to grow rapidly over the medium term, helped by Industry 4.0, as industrial automation and the Internet of Things boosts rapidly growth in demand for industrial electronics.

Malaysia's competitiveness as a global electronics hub has been highlighted by the decision of a number of electronics multinationals to invest in large-scale new projects. Intel is investing USD 7 billion in a new semiconductors packaging plant in Penang, which is estimated to be completed by 2024 and create thousands of new jobs in Malaysia. Infineon Technologies is constructing a new state-of-the-art wafer fab module in Kulim, with around Ringgit 8 billion of investment. The new module, which is expected to be completed in 2024, will add significant manufacturing capacity in power semiconductors.

Malaysia long-term GDP forecast

USD billion



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Overall, the medium to long-term growth outlook for Malaysia remains favourable, with total nominal GDP measured in USD terms forecast to rise from around USD 400 billion in 2022 to USD 680 billion by 2030 and USD 780 billion by 2032. Meanwhile per capita GDP is projected to rise from USD 12,000 in 2022 to USD 18,600 by 2030, which will help to drive the growth of the domestic consumer market.

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