

## Gross Domestic Product (GDP)

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### 3Q23: On Course to Recovery Path despite Global Challenges Persists

**Another quarter of lacklustre growth** – Malaysia 3Q23 Real GDP grew +3.3% yoy (vs 2Q22: +2.9% yoy), while GDP increased 5.2% qoq (2Q23: -0.8% qoq). The aforementioned performance came above market's expectations which stood at +3.0% yoy, mainly attributed by the slightly stronger than expected household spending and growth in investment which registered improvement of +4.6% yoy and +5.1% yoy respectively. This is underpinned by sustained growth of household spending, driven by improvements in the labor market (unemployment rate in 3Q23 was at 3.4% compared to 2Q23 at 3.5%), as well as advancements in multi-year projects and capacity expansion initiatives undertaken by businesses. Meanwhile in the supply side, improved performance was led by Services, Agriculture and Construction sectors. Cumulatively, the Malaysian economy grew +3.9% yoy for 9M23 as compared to +9.6% yoy in 9M22.

#### **Aggregate supply side performances**

**Service sector** grew +5.0% yoy in 3Q23 (vs 2Q23: +4.7% yoy) and +4.9% qoq (vs 2Q23 -0.5% qoq). Growth of the segment was mainly driven by wholesale & retail trade (+5.4% yoy) and Transportation & storage sub-sector (+12.8% yoy).

**Manufacturing sector** fell to the red territory which contracted -0.1% yoy but registered +3.5% qoq in 3Q23 compared to +0.1% yoy and -0.9% qoq in 2Q23. We opine the qoq recovery in the sector was mainly attributed by the improved demand of external export, especially in E&E products.

**Construction Sector** rose +7.2% yoy and +5.8% qoq in 3Q23, from +6.2% yoy and -0.7% qoq in 2Q23. Improvement in the sector was mainly boosted by Civil engineering sub-sector which registered a double-digit growth of +14.6% yoy (vs 2Q23: +10.0% yoy). Growth was also boosted by certain large infrastructure projects that are in progress such like ECRL, LRT 3 and etc, given that Specialised construction activities grew +10.4% yoy (2Q23: +6.4% yoy). Elsewhere, Residential buildings rose +6.2% yoy, but non-Residential buildings contracted -4.7% yoy.

**Mining and Quarrying sector** contractions eased to -0.1% yoy and +0.0% qoq in 3Q23, from 2Q23 at -2.3% yoy and -6.5% qoq. The improved performance of the sector was attributed to the relatively steady commodities prices during the quarter.

**Agriculture sector** rebounded slightly with growth of +0.8% yoy and +4.5% qoq, compared to -1.0% yoy and -3.5% qoq in the last quarter. The improved performance of the sector mainly attributed to better performance from Oil palm sub sector (+2.2% yoy) that is riding onto the recovery of CPO prices and higher production of fresh fruit bunches.

#### **Aggregate demand performances**

**Final consumption** grew +4.8% yoy and +7.6% qoq for 3Q23, from +4.2% yoy +1.1% qoq in 2Q23. **Private consumption** growth was sustained at +4.6% yoy and +7.7% qoq in 3Q23 vs. 2Q23: +4.3% yoy and -2% qoq. The better performance was mainly supported by higher expenditure on housing, water, electricity, gas & other fuels and transport sub-segment. **Government consumption** further expanded to +5.8% yoy and +7.3% qoq, from +3.8% yoy and +3.3% qoq in previous quarter thanks to higher spending of supplies and services.

**Gross Fixed Capital Formation (GFCF)** grew at +5.5% yoy, but fell -2.9% qoq in 3Q23, against 2Q23 +5.6% yoy and +3.1% qoq). The better performance mainly attributed by structure and machinery & equipment sub-segment which recorded +6.9% yoy and +4.0% qoq vs. 2Q23 +6.0% and +4.4% respectively. Private investment, which constitute 79.8% of total GFCF recorded moderating growth to +4.5% yoy, from +5.1% yoy in previous quarter, while Public investment grew +7.5% yoy (2Q23: +7.9% yoy).

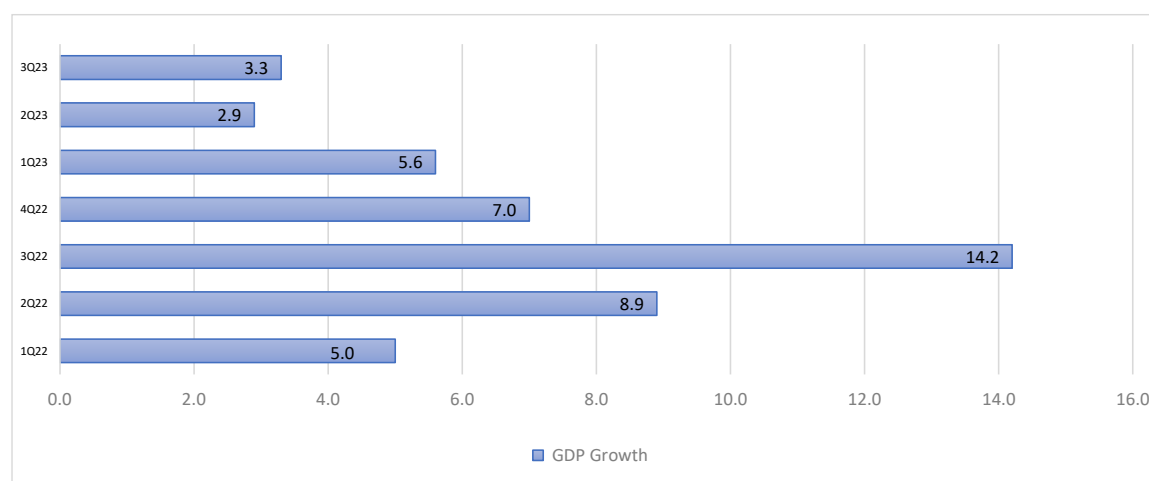
**External trade improved on qoq.** Malaysia’s external trade decelerated in line with the worldwide economic slowdown. **Exports** further declined -12.0% yoy (2Q23: -9.4% yoy), but expanded +2.8% qoq (2Q23: -0.1% qoq), mainly attributed to unstable in commodity prices and a high base effect. The performance is in tandem with Malaysia’s major trading partners such as Korea, China, Indonesia that recorded negative growth in their imports data. **Imports** plummeted -11.1% yoy in 3Q23 (2Q23: -9.4%) but improved +0.9% qoq. This reflects the moderation in domestic demand and slower pace of inventory build-up. Despite the challenging external headwinds, Malaysia could mitigate the impact of the economic slowdown, supported stability of economic outlook within Southeast Asia, alongside diversified products and trade partners.

**Recovery on track.** 3Q23 witnessed some degree of recovery from 2Q23. Still, growth rate remained subdued, aligning with global economic slowdown and challenging external trade conditions, notably from the weaker-than-expected economic growth in China. Looking ahead, we anticipate GDP growth in final quarter to demonstrate further improvement, primarily driven by resilient domestic demand stemming from improving job market condition. Additionally, inbound tourists in year-end may contribute towards further improvement. Anticipated recovery in external trade, particularly exports for Electronics and Electrical (E&E) products may be present in line with the global market recovery. Consequently, we are **revising up our full-year 2023 GDP forecast to +3.8% yoy, from +3.2% yoy previously.** This adjustment follows the 3Q23 performance which exceeded of our expectations and this highlights that the recovery momentum is better than initially anticipated.

**Headline inflation further moderate.** 3Q23 headline inflation registered at +2.0% yoy, which was lower than 2Q23 at +2.8%, mainly thanks to the lower food and fuel inflation from the high base effect. We expect inflation remain on course to trend lower in 4Q23, underpinned by the easing cost and commodities environment in tandem with the slower consumer spending. **We keep our 2023 CPI forecast at +2.6% yoy.** The forecast of full year 2023F headline inflation +2.6 yoy moderated from +3.4% yoy in 2022. However, we stressed that during the tabling of Budget 2024, several measures including the hike of SST to 8.0%, higher excise duties on tobacco & sugar contained beverages, subsidies rationalisations, lifting of price ceiling in certain items are expected to set the stage for higher inflation in 2024F.

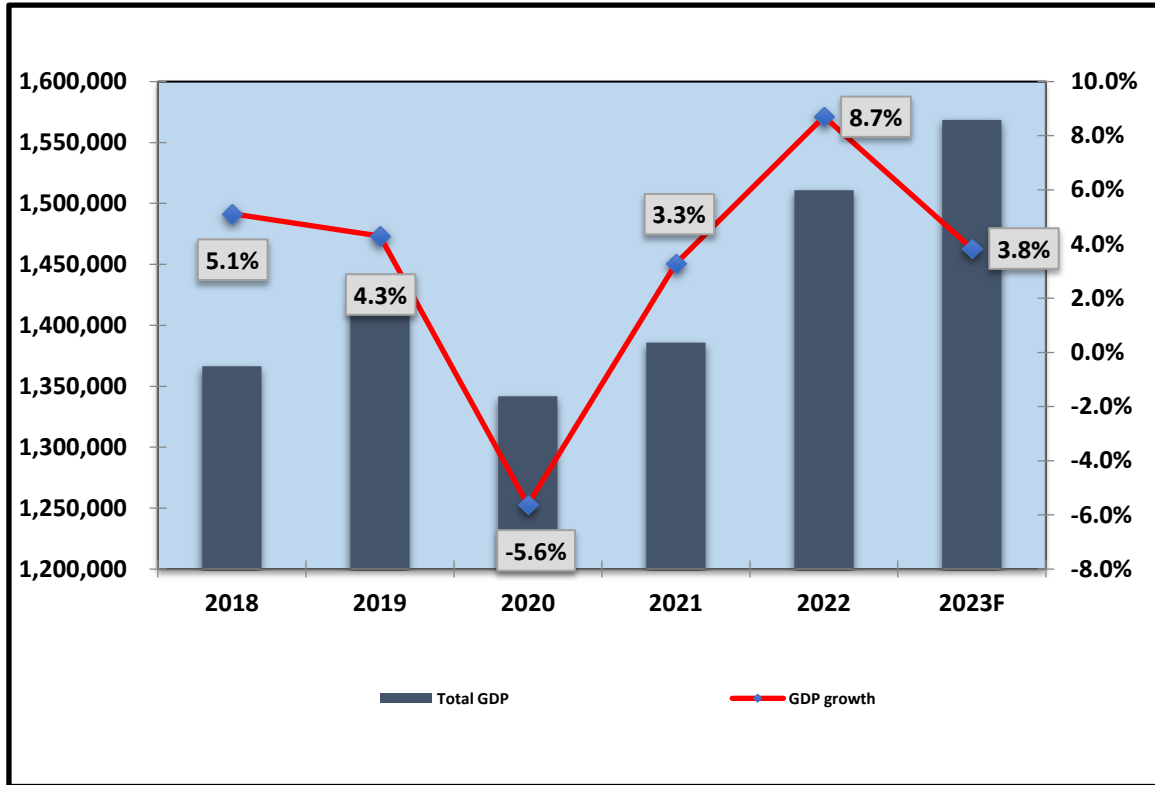
**OPR rate.** The Malaysia central bank has maintained the Overnight Policy Rate (OPR) at 3.0% in the latest Monetary Policy Committee (MPC) meeting on 2<sup>nd</sup> November 2023, indicating their commitment to spur economic growth, rather than prioritising the defence against the local currency's depreciation. As global central banks approach the tailend of the interest rate hike cycle, we anticipate Bank Negara Malaysia (BNM) to maintain OPR at 3.0% as the terminal rate before a potential cut, which is expected to take place in 4Q24.

**Table 1: GDP (Quarterly)**



Source of Data: Department of Statistics, Apex Securities

**Table 2: GDP (Yearly)**



Source of Data: Department of Statistics, Apex Securities

**Table 3: IPI, CPI, Trade Surplus, Wholesale & retail trade and PPI**

Months	Year	IPI (YoY %)	CPI (YoY %)	Trade Surplus (RM'bil)	Wholesale and retail trade value (YoY %)	PPI (YoY %)
Jan	2023	1.8%	3.7%	18.1	12.4%	1.3%
Feb		3.6%	3.7%	19.6	14.3%	-0.8%
Mar		3.1%	3.4%	26.7	11.9%	-2.9%
Apr		-3.3%	3.3%	12.6	6.3%	-3.0%
May		4.7%	2.8%	15.7	6.6%	-4.6%
Jun		-2.2%	2.4%	25.6	4.3%	-4.8%
Jul		0.7%	2.1%	17.1	7.1%	-2.3%
Aug		-0.3%	2.0%	17.3	6.7%	-1.8%
Sep		-0.5%	1.9%	17.2	6.5%	0.2%

Source of Data: Department of Statistics, Apex Securities

## Table 4: GDP Components and Sectors

Table 4.1: Supply Side of GDP Components at Constant Price (% Change)

Supply side							
QUARTERLY							
SECTOR (YoY/%)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
Agriculture	0.2	-2.4	1.2	1.1	0.9	-1.0	0.8
Mining and quarrying	-1.1	-0.5	9.2	6.8	2.4	-2.3	-0.1
Manufacturing	6.6	9.2	13.2	3.9	3.2	0.1	-0.1
Construction	-6.2	2.4	15.3	10.1	7.4	6.2	7.2
Services	6.5	12.0	16.7	8.9	7.3	4.7	5.0

Source: Department of Statistics (DS), BNM, Apex Securities

Note: Figures in y-o-y change (%) is subject to change by the DS

Table 4.2: Demand Side of GDP Components (% Change)

Demand Side							
QUARTERLY							
(YoY) (%)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
GDP Growth	5.0	8.9	14.2	7.0	5.6	2.9	3.3
Public Consumption	6.7	2.6	4.5	2.4	-2.2	3.8	5.8
Private Consumption	5.5	18.3	15.1	7.4	5.9	4.3	4.6
GFCF (Investment)	0.2	13.1	5.8	8.8	4.9	5.5	5.1
Exports	8.0	10.4	23.9	9.6	-3.3	-9.4	-12.0
Import	11.1	14.0	24.4	8.1	-6.5	-9.7	-11.1

Source: Department of Statistics (DS), BNM, Apex Securities

Note: Figures in y-o-y change (%) is subject to change by the DS

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**RESEARCH RECOMMENDATION FRAMEWORK**

**STOCK RECOMMENDATIONS**

**BUY:** Total returns\* are expected to exceed 10% within the next 12 months.  
**HOLD:** Total returns\* are expected to be within +10% to – 10% within the next 12 months.  
**SELL:** Total returns\* are expected to be below -10% within the next 12 months.  
**TRADING BUY:** Total returns\* are expected to exceed 10% within the next 3 months.  
**TRADING SELL:** Total returns\* are expected to be below -10% within the next 3 months.  
 \*Capital gain + dividend yield

**SECTOR RECOMMENDATIONS**

**OVERWEIGHT:** The industry defined by the analyst is expected to exceed 10% within the next 12 months.  
**NEUTRAL:** The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.  
**UNDERWEIGHT:** The industry defined by the analyst, is expected to be below -10% within the next 12 months.

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