Gross Domestic Product (GDP)

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4Q23: Looking forward external demand to support 2024's growth

Another quarter of subpar growth. Malaysia 4Q23 Real GDP expanded +3.0% yoy, marking a slight slowdown (vs 3Q23: +3.3% yoy) recorded in the preceding quarter, primarily due to declining exports. Full-year GDP for 2023 recorded slight growth of +3.7% yoy. While the said growth rate was sharply lower against +8.7% yoy recorded in 2022, the figure was in tune with the average across ASEAN countries. Considering seasonal adjustments, the Malaysian economy rose +2.0% qoq (vs 3Q23: +2.36%). The aforementioned performance fell below both the markets' and our in-house expectations, which ranged from +3.4% to +3.5% yoy. This was mainly attributed to sluggish exports throughout the quarter, stemming from persistent weakness in external demand, coupled with robust imports.

Sluggish trade performance. In October to December period, Malaysia's exports fell by -6.3% yoy, while imports declined -2.9% yoy. This led to a -3.2% yoy decrease in trade, with the trade surplus contracting approximately 46% yoy. On a brighter note, household spending remained the key driver of Malaysia's economy, supported by an improved labour market and easing cost pressures (the unemployment rate in 4Q23 was at 3.6% compared to 3.4% in 3Q23). Meanwhile, on the supply side, the Services sector remained as the primary driving force behind economic growth, while all other sectors, except for Manufacturing, saw positive growth. Private final consumption expenditure and Gross fixed capital formation were the main driving forces on the demand side.

Aggregate supply side performances

Service sector grew by +4.2% yoy in 4Q23 (vs 3Q23: +5.0% yoy) and +3.5% qoq (vs 3Q2: +4.9% qoq). Growth was driven by wholesale & retail trade (+4.4% yoy), Transportation & storage sub-sector (+12.2% yoy), and Business services (+8.2% yoy). However, the Finance and insurance sub-sector experienced a further deterioration, contracting by -4.7% yoy. On an annual basis, the Services sector expanded by +5.3% yoy in 2023, reversing from a decrease of -10.9% registered in the previous year.

Manufacturing sector remained in the red, contracting by -0.3% yoy but showed a positive growth of +3.2% qoq in 4Q23, compared to -0.1% yoy and +3.5% qoq in 3Q23. We opine the decline in qoq growth in the sector mainly attributed to the electrical, electronic, and optical products sub-sector, which further dropped by -6.0% yoy from -2.5% yoy in 3Q23. However, there were improvements in Vegetable and animal oils & fats, food processing, and Non-metallic mineral products, basic metal & fabricated metal products with growth rates which increased +7.2% yoy (3Q23: +4.1% yoy) and +6.2% yoy (3Q23: +5.5% yoy), respectively, helping to offset the sector's overall decline.

Construction Sector slowed to register growth rate of +3.6% yoy and -1.8% qoq in 4Q23, down from +7.2% yoy and +6.4% qoq in 3Q23. Improvement was mainly driven by the Civil engineering sub-sector which saw an impressive growth of +16.8% yoy (vs 3Q23: +14.6% yoy). However, growth was hindered by decreases in Residential buildings and Specialised construction activities, which experienced declines of -1.3% yoy (vs 3Q23: +6.2% yoy) and -0.5% yoy (3Q23: +10.4% yoy), respectively. Also, Non-residential buildings declined -4.9% yoy (3Q23: -4.7% yoy) during the quarter.

Mining and Quarrying sector experienced recovery, with growth notching +3.8% yoy and +13.7% qoq in 4Q23, rebounding from -1.0% yoy and -0.1% qoq in 3Q223. The improved performance was largely driven by the Natural gas sub-sector, which expanded +4.6% yoy (vs 3Q23: -2.2% yoy) due to higher gas production, while the Crude and condensate sub-sector also improved +3.3% yoy (vs 3Q23: +2.1% yoy) during the quarter.

Agriculture sector recorded +1.9% yoy and -7.9% qoq during the quarter, compared to +0.8% yoy and +19.9% qoq in the preceding quarter. This improvement on yearly basis was mainly due to better performance of Oil palm sub sector (+1.6% yoy), which is riding onto the recovery of CPO prices and higher production of fresh fruit bunches.

Aggregate demand performances

Final consumption expanded +4.9% yoy and +3.1% qoq in 4Q23, from +4.8% yoy to +7.6% qoq in 3Q23. **Private consumption** stood at +4.2% yoy and -2.3% in 4Q23 vs. 3Q23: +4.6% yoy and +7.7% qoq. The better performance was mainly supported by higher expenditure on transport, food & non-alcoholic beverages, and housing, water, electricity, gas & other fuels sub-segment. **Government consumption** strengthened to +7.3% yoy and +29.3% qoq, from +5.8% yoy and +7.3% qoq in the previous quarter thanks to higher spending on supplies and services.

Gross Fixed Capital Formation (GFCF) grew +6.4% yoy and rebounded to +2.9% qoq in 4Q23, compared to +5.5% yoy and -2.9% qoq in 3Q23. The better performance was mainly attributed to the expansion in the Structure and Machinery & equipment sub-segment which recorded +4.3% yoy and +9.7% yoy respectively, vs. 3Q23: +6.9% and +4.0% yoy respectively. Private investment, constituting 65.5% of total GFCF, experienced moderating growth to +4.4% yoy from +4.5% yoy in previous quarter, while Public investment grew by +11.3% yoy (3Q23: +7.5% yoy).

Recovery on the cards in external trade. Malaysia's external trade was sluggish in line with the worldwide economic slowdown but showed improving in term of qoq. **Exports** posted -6.3% yoy (3Q23: -12.0% yoy), but further expanded to +4.2% qoq (3Q23: +2.8% qoq). The improved export performance was mainly attributed to better export on non-E&E and commodities products. In 4Q23, Malaysia's export performance lagged behind that of regional countries such as Vietnam, Thailand, and Singapore, which posted positive export growth. This was attributed to Malaysia's heavier reliance on external trade with China, which experienced slower economic growth in 2023. **Imports** posted -2.9% yoy in 4Q23 (3Q23: -11.1% yoy) but improved +4.2% qoq supported by higher imports of capital and intermediate goods. For full year 2023, Export registered -7.8% yoy (2022: +13% yoy) and Import registered -7.6% yoy (2022: +14.4% yoy) dragged by various factors such as declining commodity prices, geopolitical uncertainties, high inflation rates, and a downturn in the semiconductor sector. Despite the challenging external headwinds, Malaysia could be able to mitigate part of the impact of the economic slowdown, supported stability of economic outlook within Southeast Asia, alongside diversified products and trade partners.

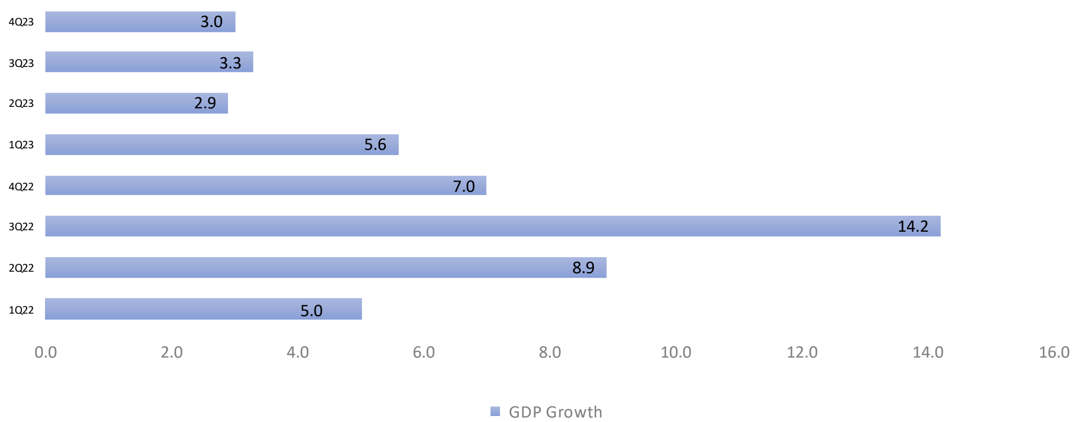
External trade and resilient domestic demand support growth in 2024. 4Q23 and 2023 witnessed a moderate growth with +3.7% yoy which in line with our inhouse forecast of +3.8% amid a challenging external environment. The slower global trade with China, ongoing global tech downturn, geopolitical tensions, and tighter monetary policies were some of the key challenges in 2023. Looking ahead, we remained positive over Malaysia economic growth in 2024, mainly driven by recovery in external trade. IMF forecasts a rebound in global trade growth from +0.4% yoy in 2023 to +3.3% yoy in 2024. Meanwhile, government efforts to strengthen external trade and sustain economic growth momentum by initiatives outlined under the 12MP Mid-Term Review, the National Trade Blueprint (NTBp), and the National Investment and Industrial Master Plan 2030 (NIMP 2030) coupled with the tech upcycle and ongoing improvements in the tourism sector is expected to bolster Malaysia's exports. Domestically, 2024 economic will remain supported by the resilient domestic expenditure by improved household spending with sustained employment rate and wage growth. With that, we reiterate our **2024 GDP forecast on +4.1% yoy**.

Headline inflation further moderate. 4Q23 headline inflation at +1.6% yoy, moderated from +2.0% yoy in 3Q23, mainly thanks to the lower food and fuel from the high base effect. Overall, 2023 inflation rate is within our expectations by posting +2.5% yoy (forecast: +2.6% yoy) underpinned by the easing cost and commodities in tandem with the slower consumer spending. Moving into 2024, we expect inflation will remain modest to reflect the stable cost and demand environment. However, we stressed that during the tabling of Budget 2024, government intentions and measures including the hike of SST to 8.0%, higher excise duties on tobacco & sugar contained beverages, subsidies rationalisations, intention to review price controls expected to set the stage for higher inflation in 2024 comparing to 2023. We maintained our 2024 CPI forecast at **+3.2% yoy**, against the government's forecast range of 2.5%-3.0%.

Local currency. In 4Q23, our domestic currency has appreciated +2.1% yoy against USD mainly driven by tail-end of the interest rate hike cycle from the US Federal Reserve and expectations of interest rate cut in 2024. This is premised to signs that inflation is approaching the US Federal Reserve target.

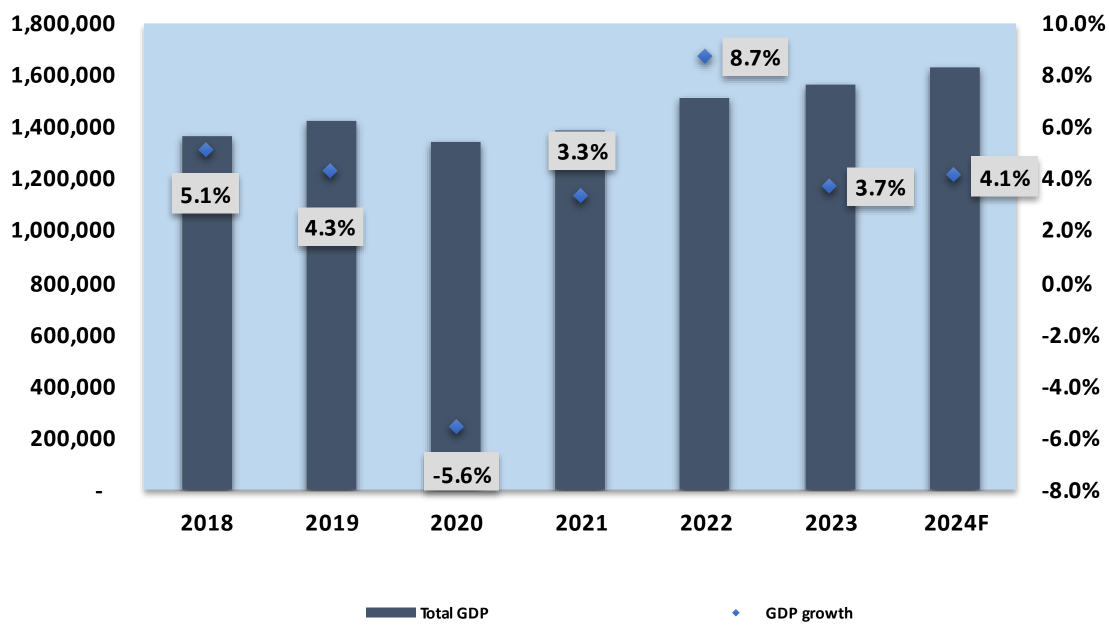
OPR rate. Expectedly, Malaysia central bank maintained the Overnight Policy Rate (OPR) at 3.0% in the latest Monetary Policy Committee (MPC) meeting in January 2024. As global central banks approaches the tail-end of the interest rate hike cycle, we anticipate Bank Negara Malaysia (BNM) to maintain OPR 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%	17.4	7.1%	-2.3%
Aug		-0.3%	2.0%	17.2	6.7%	-1.8%
Sep		-0.5%	1.9%	24.5	6.5%	0.2%
Oct		2.4%	1.8%	12.9	6.5%	-0.3%
Nov		0.6%	1.5%	12.2	6.2%	-1.5%
Dec		-0.1%	1.5%	11.8	4.8%	-1.3%

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	4Q23
Agriculture	0.2	-2.4	1.2	1.1	0.9	-1.0	0.9	1.9
Mining and quarrying	-1.1	-0.5	9.2	6.8	2.4	-2.3	-0.1	3.8
Manufacturing	6.6	9.2	13.2	3.9	3.2	0.1	-0.1	-0.3
Construction	-6.2	2.4	15.3	10.1	7.4	6.2	7.2	3.6
Services	6.5	12.0	16.7	8.9	7.3	4.7	5.0	4.2

Source: Department of Statistics (DS,), BNM, Apex Securities
Note: Figures in yoy 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	4Q23
GDP Growth	5.0	8.9	14.2	7.0	5.6	2.9	3.3	3.0
Public Consumption	6.7	2.6	4.5	2.4	-2.2	3.8	5.8	7.3
Private Consumption	5.5	18.3	15.1	7.4	5.9	4.3	4.6	4.2
GFCF (Investment)	0.2	13.1	5.8	8.8	4.9	5.5	5.1	6.4
Exports	8.0	10.4	23.9	9.6	-3.3	-9.4	-12.0	-6.3
Import	11.1	14.0	24.4	8.1	-6.5	-9.7	-11.1	-2.9

Source: Department of Statistics (DS,), BNM, Apex Securities
Note: Figures in yoy 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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