

## Gross Domestic Product (GDP)

Jayden Tan

[kd.tan@apexsecurities.com.my](mailto:kd.tan@apexsecurities.com.my)

Chelsea Chew

[chelsea.chew@apexsecurities.com.my](mailto:chelsea.chew@apexsecurities.com.my)

### 1Q24: Malaysia's Economy Off to a Strong Start

**Substantial growth observed in the latest quarter.** In the first quarter of 2024, Malaysia's Real GDP expanded by +4.2% yoy, a significant improvement from the preceding quarter (4Q23: +2.9% yoy, mainly driven by the services and manufacturing sectors. This aligns with the Economic Outlook for ASEAN countries, standing at 4.5% according to IMF. Following seasonal adjustments, the Malaysian economy saw a quarterly increase of +1.4% qoq (vs 4Q23 at +1.0% qoq), meeting both market and our in-house expectations ranging from +4.3% to +4.1% yoy. The favourable performance from the services sector, coupled with expansion in the manufacturing sector, as well as increased household final consumption expenditure and gross fixed capital formation, largely contributed to the said growth.

**Improved employment rate stimulates household spending.** Malaysia's economy grew by +4.8% yoy and +5.0% yoy in January and February, respectively, but easing in March to +2.9% yoy. Higher household consumption expenditure, buoyed by stable labour market conditions and a low unemployment rate (1Q24 was at 3.3% compared to 3.6% in 4Q23), supported the economy. Festive seasons, the start of the 2024 school sessions, and government incentives attributed to increased household spending. Additionally, a surge in tourist arrivals boosted tourism-related activities. Economic performance was further bolstered by large-scale projects, data center investments, and improvements in the application period for foreign workers, particularly in the plantation sector. Throughout the quarter, the services and manufacturing sectors drove economic growth on the supply side, while private final consumption expenditure and gross fixed capital formation were key drivers of demand.

#### Aggregate supply side performances

**Service sector** surged by +4.7% yoy in 1Q24 (vs 4Q23: +4.1% yoy) and +1.2% qoq (vs 4Q23: -1.1% qoq). We advocate that the sector was mainly driven by wholesale & retail trade, which moderated to +3.8% yoy (vs 4Q23: +4.4%). Meanwhile, the transportation & storage sub-sector maintained robust growth at +11.0% yoy, and business services improved to +8.4% yoy. Meanwhile, the finance and insurance sub-sector experienced marginal growth of 0.1% yoy, buoyed by improvements in the financial segment.

**Manufacturing sector** rebounded during the quarter, with a +1.9% yoy improvement compared to a -0.3% yoy contraction in the previous quarter. We opine that the growth was due to a better performance in non-metallic mineral products, basic metal, and fabricated metal products, which grew at +7.2% yoy (vs 4Q23: +6.2% yoy). In addition, petroleum, chemical, rubber, and plastic products recovered +1.1% yoy (vs 4Q23: -0.6% yoy), coupled with wood products, furniture, paper products, and printing which rose +4.2% yoy (vs 4Q23: +3.8% yoy). Nevertheless, vegetable and animal oils & fats and food processing slowed to +0.4% yoy (vs 4Q23: +7.2% yoy), due to a downfall in production.

**Construction Sector** exhibited impressive growth of +11.6% yoy and +8.3% qoq in 1Q24, rebounding from +3.6% yoy and -1.8% qoq in 4Q23. The substantial improvement was supported by strong momentum across all segments. The main drivers were the Civil Engineering and Specialised Construction Activities sub-sector, which experienced impressive growth of +23.5% yoy (vs 4Q23: +16.9% yoy) and +11.4% yoy (vs 4Q23: +0.8% yoy), respectively. Residential buildings maintained consistent growth from the preceding quarter, increasing from +1.3% yoy to +8.0% yoy, while Non-residential buildings rebounded to +1.6% yoy after experiencing a +4.9% yoy decline in the last quarter.

**Mining and Quarrying sector** recovery trend stayed on course, notching +5.7% yoy and +2.2% qoq growth in 1Q24, rebounding from +1.6% yoy and +3.5% qoq in 4Q23. The improved performance was largely backed by all sub-sector, such as the Natural gas sub-sector, which expanded +9.0% yoy (vs 4Q23: +4.6% yoy) due to higher gas production. Besides, the Crude and Condensate sub-sector also improved by +1.3% yoy (vs 4Q23: +1.5% yoy) during the quarter. Other supporting services in this sector also rose by +4.9% yoy (vs 4Q23: 1.3% yoy).

**Agriculture sector** slowed to +1.6% yoy and -0.3% qoq, compared to +1.9% yoy and -7.9% qoq in the preceding quarter. The slowdown was due to enhancements in the Livestock and Fishing sub-sectors at +4.5% yoy (vs 4Q23: +3.6%) and +3.5% (vs 4Q23: +2.2%), respectively. The Oil Palm sub-sector (+2.5% yoy), benefited from the recovery

of CPO prices and higher production of fresh fruit bunches. However, the Forestry and Logging continues to decline, dropping to -10.5% (vs 4Q23: -5.7% yoy).

### **Aggregate demand performances**

**Final consumption** expanded +5.1% yoy and +0.6% qoq in 1Q24, from +4.5% yoy to +3.1% qoq in 4Q23. **Private consumption** stood at +4.7% yoy in 1Q24 and +0.5% qoq (vs. 4Q23: +4.2% yoy and -2.3% qoq). The better performance was mainly supported by higher expenditure on housing, water, electricity, gas & other fuels, food & non-alcoholic beverages and transport sub-segments. **Government consumption** strengthened to +7.3% yoy and +1.5% qoq, from +5.8% yoy and +0.5% qoq in the previous quarter thanks to higher spending on supplies and services.

**Gross Fixed Capital Formation (GFCF)** hastened to +9.6% yoy and rebounded to +3.2% qoq in 1Q24, compared to +6.4% yoy and +0.9% qoq in 4Q23. The rise in GFCF was propelled by the significant growth in the Structure and Machinery & equipment sub-segment, which recorded +10.7% yoy and +9.2% yoy respectively, (vs. 4Q23: +4.2% and +9.7% yoy), respectively. Private investment, constituting 80.2% of total GFCF, experienced substantial growth to +9.2% yoy from +4.0% yoy in the previous quarter, while public investment grew by +11.5% yoy (4Q23: +11.3% yoy).

**External trade recovered.** Malaysia's external trade recovered in 1Q24 with gross export growth 2.2% yoy (4Q23: -6.9% yoy) and gross imports further expand to 13.1% yoy (4Q23: +1.3% yoy). Export performance has seen increased with strong Machinery equipment part. Similarly, strong growth in import was benefitted from exports recovery with the imports of capital and intermediate goods for the manufacturing of products for exports has seen a growth. In term of trade partner, exports to Asean (+1.1% yoy) and US (+8% yoy) improved. However, the exports recovery was behind our expectations in Q1 due mainly due to weaker than expected export to China. Nevertheless, despite several 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.

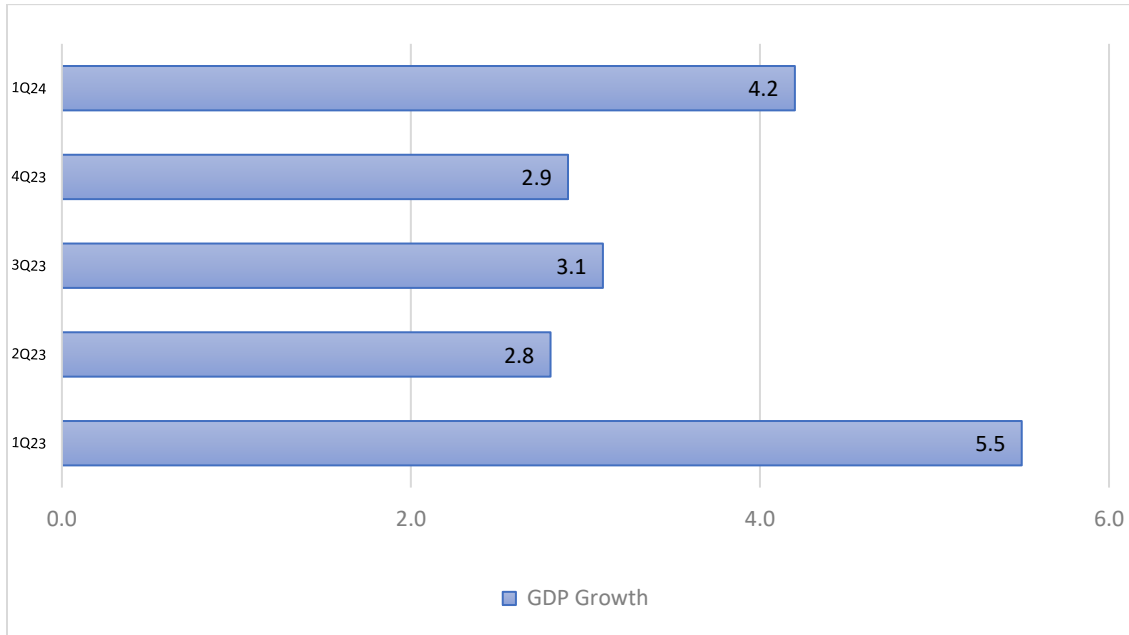
**Malaysia's Economy Off to a Strong Start in 1Q24.** The Malaysian economy has witnessed a stellar start in the 1Q24. Looking ahead, we remain positive about Malaysia's economic growth for the remainder of year, primarily fuelled by robust domestic expenditure and a recovery in external demand. Private consumption is expected to remain resilient, supported by steady employment and wage growth, particularly due to government policies such as the civil servants' wage hike and EPF Account 3 withdrawals. Further improvements in inbound tourism are also expected to support the economy. Additionally, investment activities will gain momentum from the ongoing progress of multi-year projects in both the private and public sectors. This will be boosted by the execution of strategic initiatives under NIMP 2030 and an increase in the realization of approved investments. With these factors in mind, we reiterate our **full-year GDP forecast of +4.1%** yoy growth for 2024.

**Inflation Inched Up in 1Q24.** 1Q24 headline inflation +1.7% yoy, slightly higher than the previous quarter's +1.6% yoy increase. This uptick partly reflects higher water tariffs and service taxes on increased electricity consumption. We are maintaining our forecast for headline inflation to grow by **+3.2% yoy in 2024**, driven by the implementation of subsidy rationalisation, hike of the SST to 8%, and resilient domestic demand.

**Local currency.** In 1Q24, the MYR depreciated by -2.9% yoy against the USD, in line with most currencies in the region. This depreciation was mainly due to shifting expectations regarding the US Federal Reserve's monetary policy, anticipating a prolonged high interest rate environment. However, against to other regional peers, the MYR demonstrated resilience, supported by steady economic improvements and positive impacts from domestic structural reforms. We anticipate that the MYR will recover against the USD as we approach the end of the year, in expectation of more concrete US Federal Reserve's interest rate cut path.

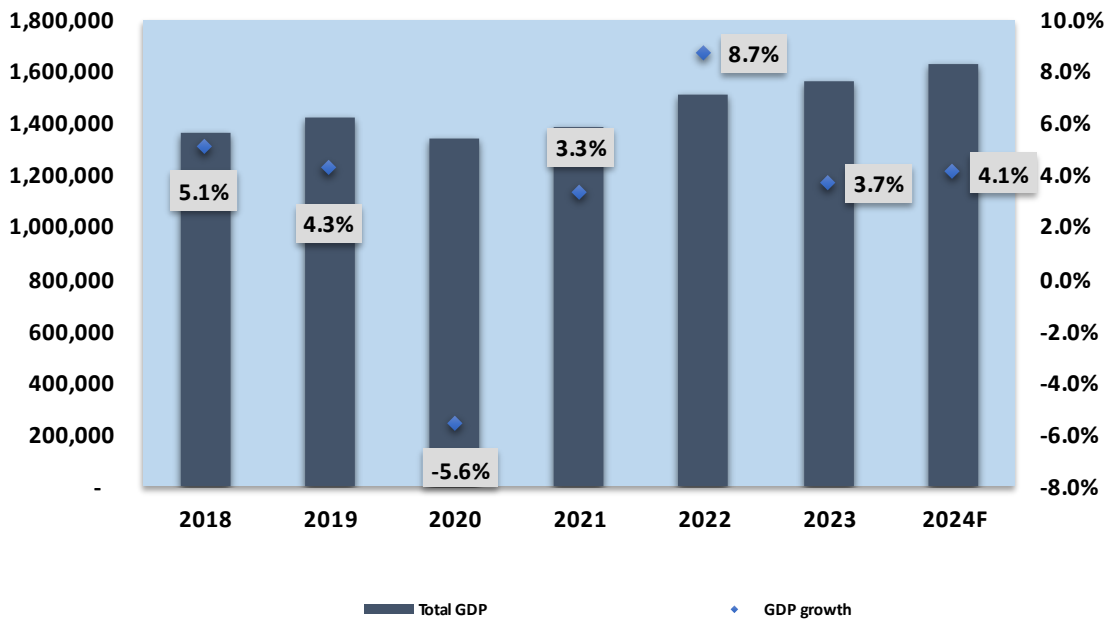
**OPR rate.** As expected, Malaysia's central bank maintained the OPR at 3.0% in the latest MPC meeting in March 2024. Considering the resilient domestic economy and inflationary pressures, we have revised our expectation and now anticipate that BNM will keep the OPR unchanged at 3.0% throughout 2024, contrary to our previous expectation of a potential cut 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 volume (YoY %)	PPI (YoY %)
Jan	2024	4.3%	1.5%	10.2	3.5%	-0.6%
Feb		3.1%	1.8%	11.2	3.9%	0.3%
Mar		2.4%	1.8%	12.8	3.5%	1.6%

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/%)	1Q23	2Q23	3Q23	4Q23	1Q24
Agriculture	0.9	-1.0	0.9	1.9	1.6
Mining and quarrying	2.4	-2.3	-0.1	3.8	5.7
Manufacturing	3.2	0.1	-0.1	-0.3	1.9
Construction	7.4	6.2	7.2	3.6	11.6
Services	7.3	4.7	5.0	4.1	4.7

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) (%)	1Q23	2Q23	3Q23	4Q23	1Q24
GDP Growth	5.5	2.8	3.1	2.9	4.2
Public Consumption	-2.0	3.3	5.3	5.8	7.3
Private Consumption	6.1	4.2	4.1	4.2	4.7
GFCF (Investment)	4.9	5.5	5.1	6.4	9.6
Exports	-2.9	-9.0	-12.0	-7.9	5.2
Import	-6.7	-8.8	-11.3	-2.6	8.0

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

Note: Figures in yoy change (%) is subject to change by the DS

**APEX SECURITIES BERHAD – CONTACT LIST**

<b>APEX SECURITIES BHD</b>	<b>DEALING TEAM</b>	<b>RESEARCH TEAM</b>
<p><b>Head Office:</b> 5th Floor Menara UAC, 12, Jalan PJU 7/5, Mutiara Damansara, 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7890 8899</p> <p><b>Petaling Jaya Office:</b> 16th Floor, Menara Choy Fook Onn, No.1B Jalan Yong Shook Lin, 46050 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7620 1118</p>	<p><b>Head Office:</b> Kong Ming Ming (ext 2002) Shirley Chang (ext 2026) Norisam Bojo (ext 2027) Ahmad Mujib (ext 2028)</p> <p><b>Institutional Dealing Team:</b> Siti Nur Nadhirah (ext 2032)</p> <p><b>PJ Office:</b> General Line: (603) 7620 1118 Azfar Bin Abdul Aziz (Ext 822)</p>	<p><b>Head Office:</b> Kenneth Leong (ext 2093) Steven Chong (ext 2068) Jayden Tan (ext 2069) Chelsea Chew (ext 2070)</p>

**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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