

18 February, 2024

## Slower GDP Growth in 4Q23

- GDP grew 3.0% YoY in 4Q23
- Full year 2023 economy expanded by 3.7%
- Growth underpinned by continued household spending and tourism activities
- Softer services and construction growth together with sluggish manufacturing output weighed overall 4Q23 growth
- Current account surplus dropped to the lowest level at RM0.3bn
- Economic growth momentum to improve in 2024

Malaysia's economy expanded slightly slower in 4Q23 as resilient household spending and investment activities cushioned subdued exports. Malaysia's GDP growth moderated to 3.0% YoY in 4Q23 (3Q23: 3.3%). The monthly GDP performance showed a stable growth of 3.9% in October and 3.8% in November, before slowing to 1.4% in December. Looking at the quarter-to-quarter change, after adjusting for seasonal factors, Malaysia's economic growth contracted -2.1% QoQ from the previous quarter (3Q23: +2.6%). The moderation in 4Q23 growth was underpinned by a continued and steeper contraction in external demand, while the sustained growth was anchored by still upbeat domestic demand conditions.

For the full year 2023 growth for the Malaysian economy normalised to 3.7% (2022: 8.7%). Growth moderated amid a challenging external environment, due mainly to slower global trade, the global tech downcycle, geopolitical tensions and tighter monetary policies. On the domestic front, despite the lapse of large policy support provided as the economy started to open up in 2022, the continued recovery in economic activity and labor market conditions supported growth

**Table 2: Quarterly GDP Growth (%YoY)**

	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
<b>GDP (YoY, %)</b>	<b>14.1</b>	<b>7.1</b>	<b>5.6</b>	<b>2.9</b>	<b>3.3</b>	<b>3.0</b>
Manufacturing	13.1	3.9	3.2	0.1	-0.1	-0.3
Services	16.7	9.1	7.3	4.7	5.0	4.2
Agriculture	1.2	1.1	1.0	-1.0	0.9	1.9
Mining	9.1	6.3	2.4	-2.3	-0.1	3.8
Construction	15.3	10.1	7.4	6.2	7.2	3.6
<b>Domestic Demand</b>	<b>13.2</b>	<b>6.8</b>	<b>4.6</b>	<b>4.5</b>	<b>4.8</b>	<b>5.2</b>
Private Consumption	14.8	7.3	5.9	4.3	4.6	4.2
Public Consumption	6.5	3.0	-2.2	3.8	5.8	7.3
<b>Gross Fixed Capital Formation</b>	<b>13.1</b>	<b>8.8</b>	<b>4.9</b>	<b>5.5</b>	<b>5.1</b>	<b>6.4</b>
Private Investment	13.2	10.3	4.7	5.1	4.5	4.0
Public Investment	13.1	6.0	5.7	7.9	7.5	11.3
<b>Net Exports</b>	<b>26.2</b>	<b>23.0</b>	<b>54.4</b>	<b>-3.7</b>	<b>-22.7</b>	<b>-35.6</b>
Exports of Goods & Services	21.5	8.6	-3.3	-9.4	-12.0	-6.3
Imports of Goods & Services	21.1	7.2	-6.5	-9.7	-11.1	-2.9

Source: Bank Negara Malaysia, Department of Statistics, BIMB Securities

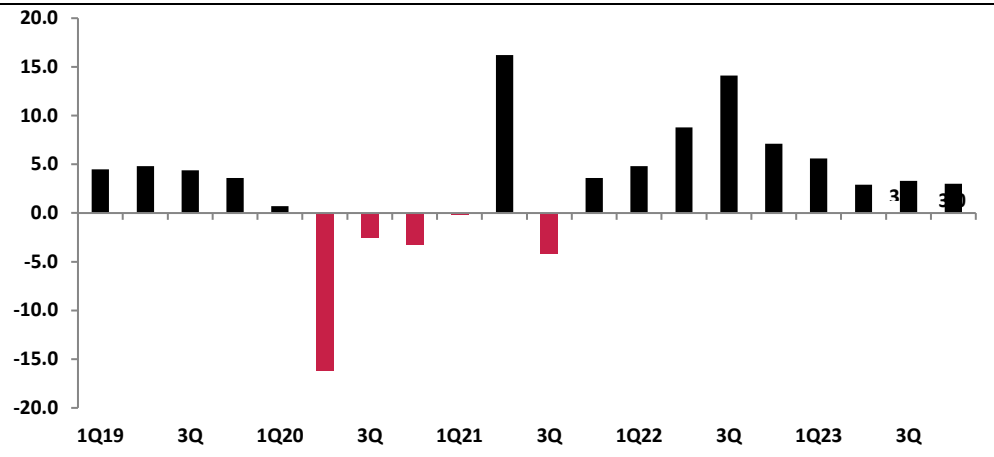
**Table 1: Msia Key Economic Indicator**

	2022	2023	2024F
GDP growth (%)	8.7	3.7	4.7
Unempl. Rate (%)	3.5	3.3	3.3
CPI (%)	3.3	2.5	2.7
OPR (%)	2.75	3.00	3.00
IPI (%)	6.9	0.9	3.5
CPO (RM/MT)	5,161	3,810	3,600
Brent (USD/bbl)	85.9	82.0	85.0
Exports Growth (%)	24.9	-8.0	4.1
Imports Growth (%)	31.0	-6.4	3.9
Trade Surplus (RM bln)	256.2	214.1	252.0
Ringgit per Dollar	RM4.40	RM4.59	RM4.45

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Chart 1: Quarterly GDP Growth (YoY, %)



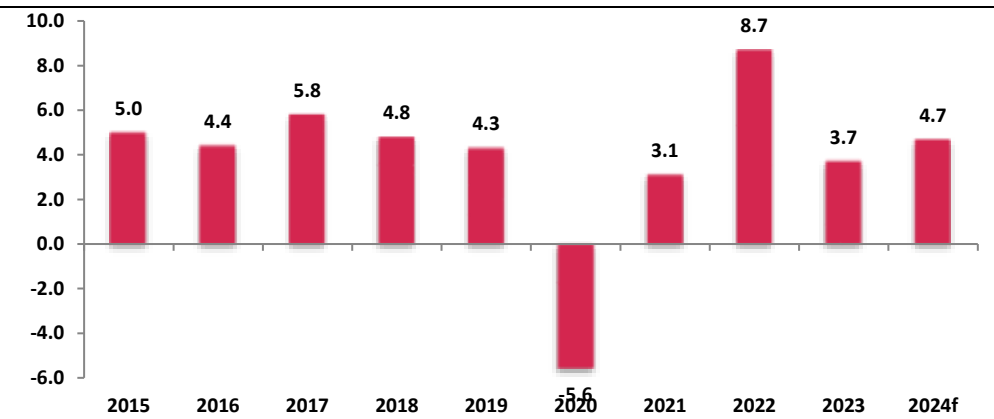
Source: Bank Negara Malaysia, Department of Statistics, BIMB Securities

Table 3: Annual GDP Growth (YoY, %)

	2018	2019	2020	2021	2022	2023
<b>GDP (YoY, %)</b>	4.8	4.4	-5.5	3.3	8.7	3.7
Manufacturing	5.0	3.8	-2.7	9.5	8.1	0.7
Services	6.9	6.2	-5.2	2.2	10.9	5.3
Agriculture	0.1	2.0	-2.4	-0.1	0.1	0.7
Mining	-2.2	-0.6	-9.7	0.9	2.6	1.0
Construction	4.2	0.4	-19.3	-5.1	5.0	6.1
<b>Domestic Demand</b>	5.5	4.3	-5.8	1.9	9.2	4.8
Private Consumption	8.0	7.7	-3.9	1.9	11.2	4.7
Public Consumption	3.4	1.8	4.1	6.4	4.5	3.9
<b>Gross Fixed Capital Formation</b>	1.4	-2.1	-14.4	-0.8	6.8	5.5
Private Investment	4.3	1.6	-11.9	2.7	7.2	4.6
Public Investment	-5.0	-10.7	-21.2	-11.1	5.3	8.6
Exports of Goods & Services	1.9	-1.0	-8.6	18.5	14.5	-7.9
Imports of Goods & Services	1.5	-2.4	-7.9	21.2	15.9	-7.6

Source: Bank Negara Malaysia, Department of Statistics, BIMB Securities

Chart 2: Annual GDP Growth (YoY, %)



Source: Bank Negara Malaysia, Department of Statistics, BIMB Securities

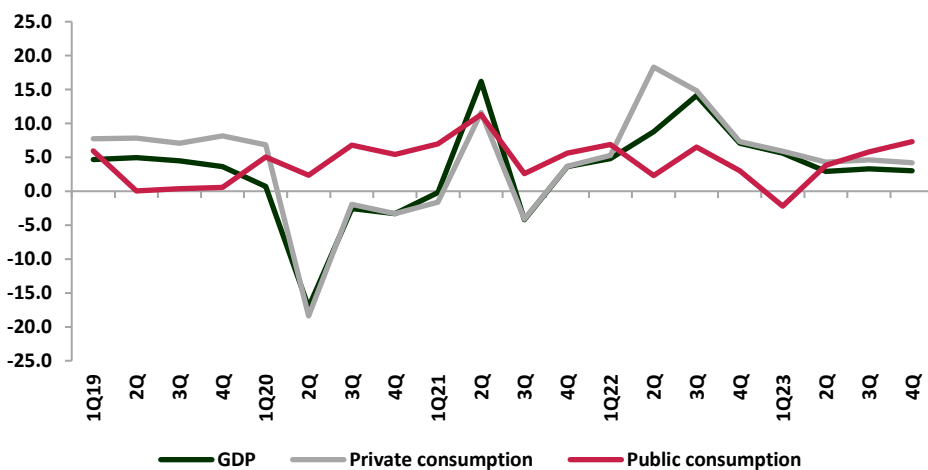
**Growth underpinned by household spending and tourism activities**

On the demand side, domestic demand improved for the second consecutive quarter to a one year high of 5.2% YoY with an uptick in public consumption and investment activity.

Higher domestic demand in 4Q23 was largely thanks to higher government expenditure (4Q23: +8.4%, 3Q23: +6.2%) with public consumption rising 7.3% (3Q23: 5.8%) due to higher supplies and services spending by the Government, and public investment jumped by 11.3% (3Q23: 7.5%) driven by higher capital expenditure by Government and public corporations. Private consumption remained expansionary, albeit moderating slightly to 4.2% YoY (3Q23: 4.6%), backed by robust labour market conditions and moderating inflation. Support from capacity expansion by firms and further progress in ongoing projects saw private investment growth moderating to 4.0% (3Q23: +4.5%). Overall investment growth picked up to 6.4% (3Q23: 5.1%), underpinned by capacity expansion, project execution and higher government spending. Looking ahead, we expect private consumption to remain supported by low unemployment, as well as a gradual subsidy rationalisation and welfare transfers while investment is expected to maintain on an expansionary trend backed by progress in various infrastructure projects on the back of still encouraging domestic economic condition.

On the external front, exports in this quarter registered a small contraction of 6.3% as against to a decline of 12.0% in the preceding quarter influenced by the performance exports of goods and services. Imports shrank 2.9% from a decline of 11.1% in the previous quarter due to the performance of imports of goods. Net exports falling further for the fourth straight quarter and plunged -35.6% YoY (3Q23: -22.7%). For the year 2023, both exports and imports fell 7.9% (2022: 14.5%) and 7.6% (2022: 15.9%), respectively and resulted in the larger full-year contraction in trade surplus at -11.3% YoY (2022: -1.0%).

**Chart 3: Expenditure on GDP (YoY, %)**



Source: Bank Negara Malaysia, Department of Statistics, BIMB Securities

**Table 4: GDP Growth by Demand (YoY, %)**

	3Q23	3Q23	Details
GDP (%YoY)	3.0	3.3	Malaysia’s economy expanded by 3.0% in 4Q23, as compared to 3.3% in the previous quarter. Private consumption and gross fixed capital formation were the main catalyst on the demand side. In terms of seasonally adjusted, the economy shrank by 2.1% (3Q23: 2.6%)

Domestic Demand	5.2	4.8	Domestic demand grew by 5.2% and remained the largest contributor to overall growth (+4.8% pts)
Private Consumption	4.2	4.6	Private consumption remained expansionary, albeit moderating slightly to 4.2%YoY, backed by robust labor market conditions and moderating inflation
Public Consumption	7.3	5.8	Government consumption strengthened to 7.3% from 5.8% in the previous quarter, led by spending on supplies and services
Gross Fixed Capital Formation (GFCF)	6.4	5.1	GFCF growth picked up to 6.4% (3Q23: +5.1%), underpinned by capacity expansion, project execution and higher government spending
Private Investment	4.0	4.5	Private sector which contributed 79.8% to total GFCF moderated 4.5% (2Q23: 5.1%), supported by continued capacity expansion by businesses
Public Investment	11.3	7.5	Public investment registered a robust growth of 11.3% from 7.5% in the preceding quarters driven by higher capital expenditure by Government and public corporations
Exports of Goods & Services	-6.3	-12.0	Exports registered a small contraction of 6.3% as against to a decline of 12.0% in the preceding quarter influenced by the performance exports of goods and services
Imports of Goods & Services	-2.9	-11.1	Imports shrank 2.9% from a decline of 11.1% in the previous quarter due to the performance of imports of goods

### Supply side growth dragged by moderate growth in services and larger fall in manufacturing sector

On the supply side, softer services and construction growth together with sluggish manufacturing output were key factors weighing on overall GDP growth in 4Q23, offsetting the improvement in agriculture and mining & quarrying.

Services sector growth moderated to 4.2% YoY (3Q23: 4.7%), in line with the moderation in private consumption spending. The favourable performance was contributed by the Wholesale & retail trade (4.4%) and Transportation & storage (12.2%) sub-sectors. However, the Finance & insurance sub-sector recorded a contraction of 4.7% (3Q23: -0.6%) in this quarter.

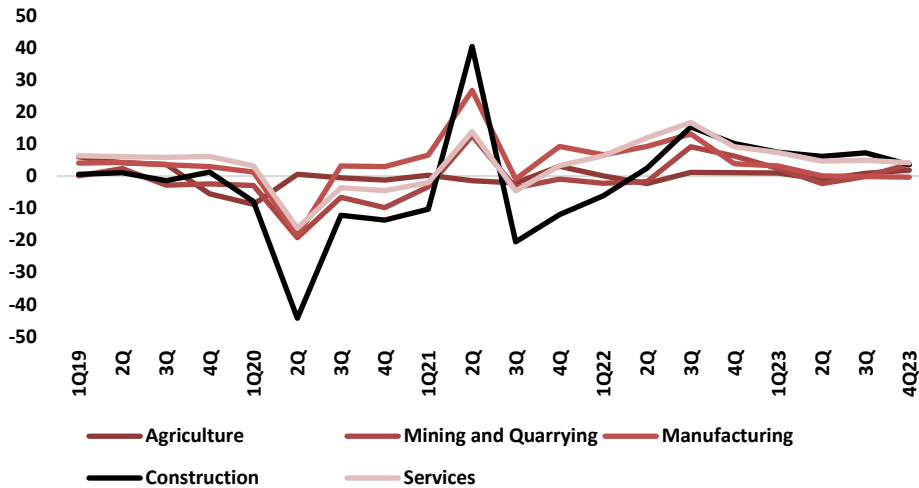
The manufacturing sector (4Q23: -0.3%, 3Q23: -0.1%) recorded two consecutive quarters of declines owing to weak external demand. The decrease was mainly influenced by export-oriented industries such as Electrical, electronic & optical products (-6.0%); and Petroleum, chemical, rubber & plastic products (-0.6%). Meanwhile, domestic-oriented industries continued to grow.

The Mining & quarrying sector showed a significant increase of 3.8% after recording a contraction of 0.1% in 3Q23. The increase was backed by all sub-sectors, primarily the Natural gas and Crude & condensate sub-sectors which expanded 4.6% and 3.3%, respectively.

The Agriculture sector experienced growth of 1.9% in 4Q23, led by higher production in the Oil palm sub-sector. In addition, other agriculture, livestock, fishing and rubber sub-sectors also showed an increase in this quarter. The Forestry sub-sector continued to decline in 4Q23 after recording contractions in the last three quarters of 2023.

The Construction sector grew at a slower pace of 3.6% (3Q23: 7.2%). The moderation was influenced by the Specialised construction activities sub-sector which increased marginally 0.5% (3Q23: 10.4%). Nevertheless, Civil engineering sub-sector grew further by 16.8% (3Q23: 14.6%) in 4Q23.

**Chart 4: Sector Growth Trend (YoY, %)**



Source: Bank Negara Malaysia, Department of Statistics, BIMB Securities

**Table 5: GDP Growth by Sectors (YoY, %)**

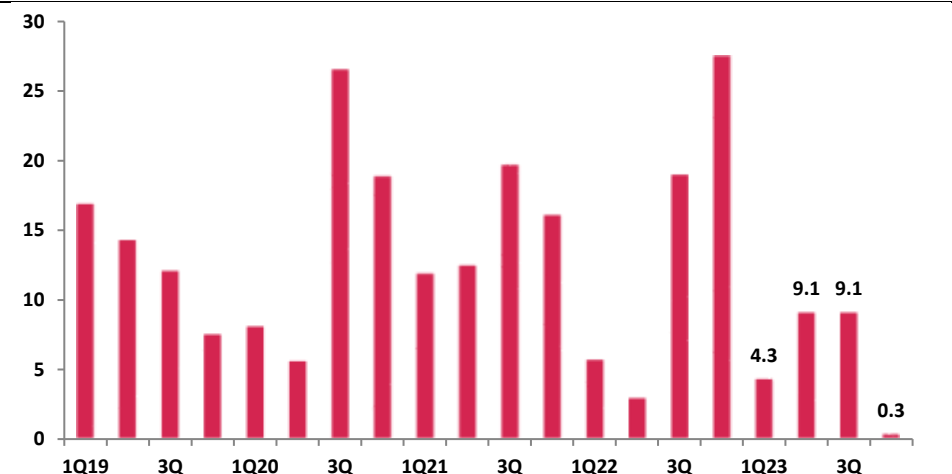
	3Q23	3Q23	Details
GDP (%YoY)	3.0	3.3	GDP growth moderated to +3.0% YoY in 4Q23 (3Q23: +3.3%). The Services sector remained as the main impetus for the economic growth in this quarter, with all other sectors experienced positive growth except for the Manufacturing sector
Manufacturing	-0.3	-0.1	Manufacturing sector slightly dropped 0.3%. The contraction of the Manufacturing sector was due to continued weakness in E&E cluster amid tech downcycle, offsetting resilient growth in domestic-oriented clusters
Services	4.2	5.0	Services sector posted a growth of 4.2%. Ongoing recovery of tourism activities weighed by contraction in finance and insurance subsector
Agriculture	1.9	0.9	Agriculture sector grew 1.9%. The growth was mainly attributed to expansion in oil palm production amid improved labour supply
Mining & quarrying	3.8	-0.1	Mining & quarrying sector rebounded at 3.8% from a marginal decline of 0.1% in 3Q23 supported by improvement in natural gas and oil production
Construction	3.6	7.2	Construction sector moderated 3.6% as further expansion in civil engineering subsector weighed by weak non-residential activities

**Significant narrowing in current account surplus in 4Q23**

Malaysia’s current account balance remained in surplus but the size shrank to RM0.3bn or 0.1% of GDP in 4Q23 (3Q23: RM9.1bn or 2.0% of GDP), the lowest since Asian Financial Crisis (AFC), dragged by higher direct investment income accrued to foreign investors and a

smaller trade surplus which outweighed higher tourist receipts. This was due to a wider deficit in the primary income (4Q23: -RM20.9bn, 3Q23: -RM11.0bn) and secondary income (4Q23: -RM2.3bn, 3Q23: -RM2.2bn) accounts amid a smaller surplus in goods account (4Q23: +RM30.8bn, 3Q23: +RM32.7bn) and continued deficit in services account (4Q23: -RM7.4bn, 3Q23: -RM10.3bn). With the historically small surplus in 4Q23, Malaysia's current account registered the smallest yearly surplus of +RM22.8bn, with the ratio to GDP also fell to a new low of +1.3%.

**Chart 5: Current Account (RM'bn)**



Source: Bank Negara Malaysia, Department of Statistics, BIMB Securities

**Table 6: Current Account Figures (RM'bn)**

	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
Goods Account	47.3	57.7	39.9	29.5	32.7	30.8
Services Account	-11.2	-12.1	-12.8	-11.3	-10.3	-7.4
Primary Income Account	-14.3	-11.6	-16.9	-6.3	-11.0	-20.9
Secondary Income Account	-2.8	-6.5	-5.9	-2.8	-2.2	-2.3
<b>Current Account Balance</b>	<b>19.0</b>	<b>27.5</b>	<b>4.3</b>	<b>9.1</b>	<b>9.1</b>	<b>0.3</b>

Source: Bank Negara Malaysia, Department of Statistics, BIMB Securities

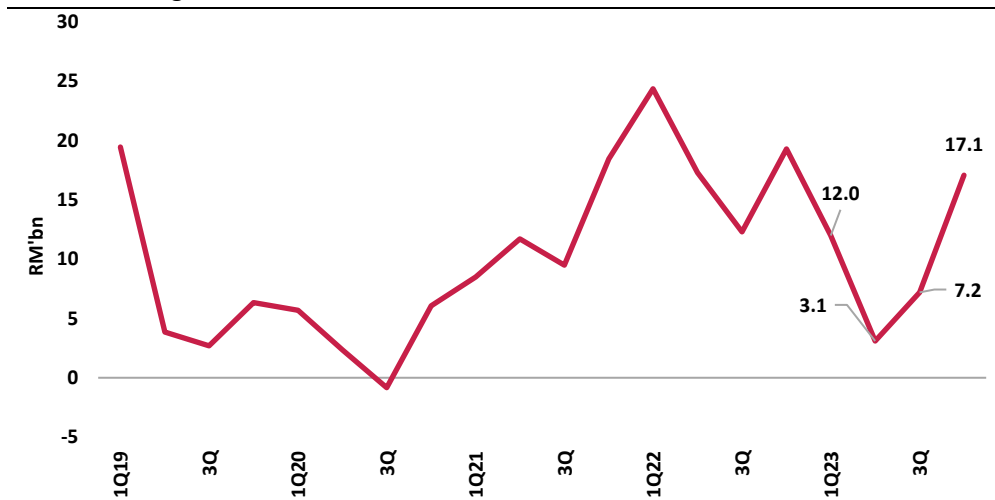
The financial account (FA) succumbed to net outflows once again (4Q23: -RM19.9bn) – the sixth in the past seven quarters – after a temporary uplift in 3Q23 (+RM14.9bn), due to higher repayment for interbank borrowing by onshore banks and portfolio outflows which outweighed higher FDI inflows. For the full year of 2023, the financial account posted a net outflow of MYR18.9bn.

### FDI posted higher net inflow

Foreign Direct Investment (FDI) net inflows surged from RM7.2bn to RM17.1bn in 4Q23, driven by higher inflows in equity and debt instruments. Services remained the dominant sector of FDI, mainly in health and information & communication sub-sectors, followed by manufacturing. The major FDI sources were Singapore, Hong Kong and Japan. On the other hand, direct investment abroad (DIA) registered a lower net outflow of RM12.4bn (3Q23: -RM13.4bn), which was mainly weighed by outflows in equity & investment fund shares.

For the full year of 2023, FDI inflows narrowed to RM39.5bn (2022: +RM74.6bn) while DIA outflows tapered off to RM34.9bn (2022: -RM58.6bn).

Chart 7: Foreign Direct Investment



Source: Bank Negara Malaysia, Department of Statistics, BIMB Securities

#### Economic growth momentum to improve in 2024

After a bumpy 2023, we expect Malaysia's economy to hold up well in 2024, expanding at a faster pace at 4.7%, aligning with the official projection range of 4.0% and 5.0%. Growth in 2024 will remain supported by still-robust domestic demand, although at a slightly moderated pace amid the restrictive fiscal policy including the 2.0% Service Tax rate hike from 6.0% to 8.0% and subsidy rationalisation. Slower growth outturn in 2023 will also provide a favorable base effect for this year's economic outlook. With the global semiconductor downcycle seemingly coming to an end, the net exports, which have been the main drag to growth in 2023, are bound to improve and even become a positive contributor in the coming quarters. Household spending will be supported by continued growth in employment and wages. Tourist arrivals and spending are expected to improve further. Moreover, investment activity would be supported by continued progress of multi-year projects in both the private and public sectors, and the implementation of catalytic initiatives under national master plans. Budget 2024 measures will also provide additional support to economic activity.

Nevertheless, there are downside risks to our projections, and they mainly stem from external developments. Global growth could slow more sharply than expected, and the intensifying geopolitical tensions and the resulting fragmentation could amplify the slowdown.

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<b>BUY</b>	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
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<b>HOLD</b>	Share price may fall within the range of +/- 10% over the next 12 months
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<b>SELL</b>	Share price may fall by more than 10% over the next 12 months.
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