November 17, 2017

Global Markets Research

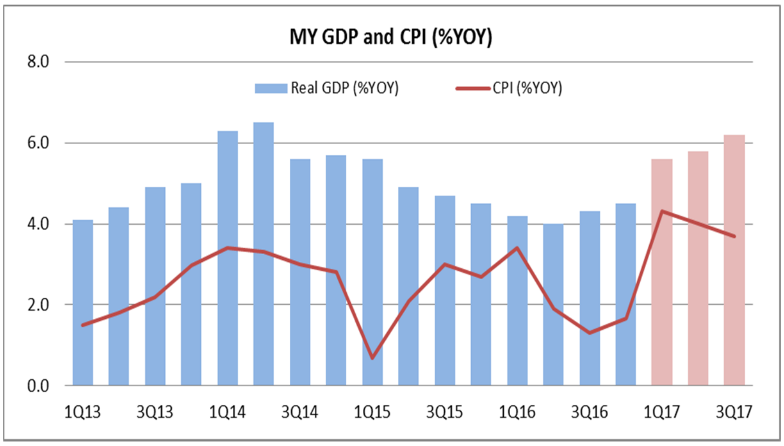
Economics - Malaysia

GDP growth accelerated for the fifth consecutive quarter

The Malaysian economy continued to accelerate relentlessly for the 5th consecutive quarter, rallying to 6.2% YOY in 3Q17 spurred by robust expansions in both the domestic and external sectors. Looking forward, we remain skeptical that the commendable pick-up in domestic demand in 3Q is sustainable but year end festive spending is expected to keep private consumption supported. More moderate domestic demand, coupled with slower growth anticipated in exports as a result of dissipating favourable base effect, are expected to push growth back below 6.0% towards low 5% in 4Q. Despite the imminent pullback, we are revising our full year GDP growth forecast higher to 5.7% for 2017 (previous estimate 5.4%) after taking into account the higher YTD growth of 5.9% in the first three quarters of the year. Taking cue from the still favourable macro backdrop and strong signals from the latest MPC statement, we expect BNM to raise OPR by 25bps in 1H2018, which could happen as early as the January MPC meeting. We believe concerns over potential outflows and risks of a softer MYR following possibility of slightly more aggressive policy normalization in the US could also be factors prompting BNM to review its monetary policy stance to ensure financial and currency stability.

Real GDP growth gained traction for the 5th straight quarter, increasing 6.2% YOY in 3Q17

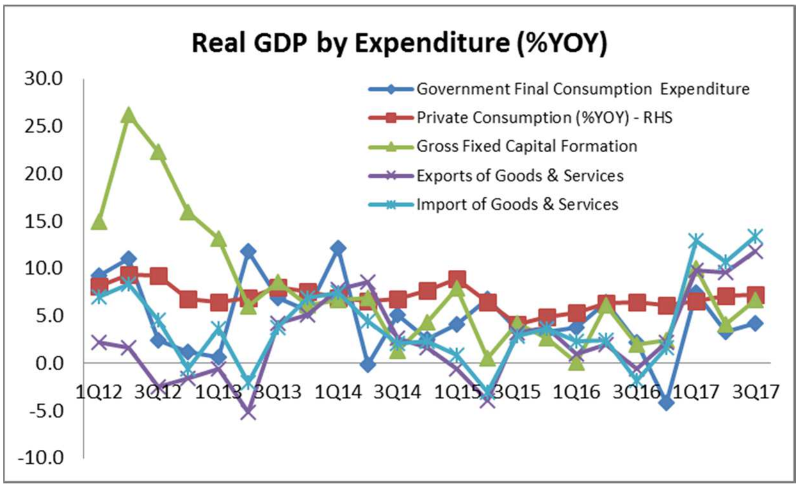
Growth in the Malaysian economy **continued to pick up relentlessly for the 5th consecutive quarter, growing faster than expected by 6.2% YOY in 3Q (2Q: +5.8%).** This marked its fastest growth pace in thirteen quarters, beating ours as well as consensus estimate, **spurred by commendable performance from both the domestic and external sectors.** The upside surprise comes mainly from surprisingly upbeat domestic demand, driven by quicker expansion in both consumption and investment spending from the private and public sectors. Continuous gains in net exports (+1.7% vs +1.4%) also added further impetus to growth in 3Q. **Growth in domestic demand gathered steam again, increasing at a surprisingly faster pace of 6.6% YOY in 3Q** (2Q: +5.7%), led by further acceleration in private consumption growth to 7.2% YOY in 3Q (2Q: +7.1%) while gross fixed capital formation also picked up to increase 6.7% YOY during the quarter (2Q: +4.1%). On a seasonally adjusted QOQ basis, real GDP increased at a faster pace of 1.8% in 3Q (2Q: +1.3%).



Domestic demand were surprisingly strong

The private sector remained in the forefront with additional support from the government sector. Private consumption growth quickened for the 3rd consecutive quarter to 7.2% YOY in 3Q (2Q: +7.1%), its best since 1Q15 driven by sustained labour market and wage growth. Private investment also grew at a faster pace of 7.9% YOY in 3Q (2Q: +7.4%), as a result of continuous investment in the manufacturing and services sectors. As a result, private sector activities saw increased momentum, rising 7.3% YOY during the quarter (2Q: +7.2%).

Public sector activities bounced back from a stagnant 2Q, increasing 4.1% YOY in 3Q, thanks to quicker increase in public consumption (+4.2% vs +3.3%) and a turnaround in public investment (+4.1% vs -5.0%) arising from higher fixed asset spending.

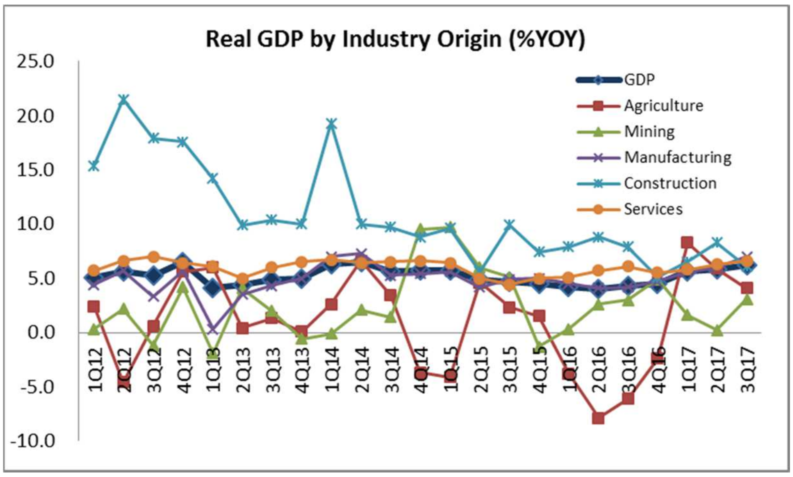


Services and manufacturing remain firmly in the driver seat; agriculture and construction decelerated

On the supply side, growth was broad-based with **quicker expansion in services, manufacturing, and mining while growth in the agriculture and construction sectors decelerated.** The services sector picked up for the 3rd consecutive quarter, increasing 6.6% YOY in 3Q (2Q: +6.3%). The wholesale & retail trade, information & communication as well as transport & storage sub-sectors remained the main growth pillar within the services sector.

Growth in the manufacturing sector also accelerated, quickening to 7.0% YOY in 3Q (2Q: +6.0%), spurred by both export- and domestic-oriented sectors namely E&E, food & beverages, construction-related materials, and transport equipment. However, construction activities grew at a slower pace of 6.1% YOY in 3Q (2Q: +8.3%), dampened by lower activities in the commercial sub-segment as oversupply concerns loomed.

Commodity-related sectors showed mixed performance. Growth in the mining sector witnessed stronger growth of 3.1% YOY in 3Q (2Q: +0.2%) underpinned by higher natural gas production in East Malaysia but growth in the agriculture sector softened to 4.1% YOY (2Q: +5.9%) as adverse weather conditions adversely affected crops such as CPO and rubber.



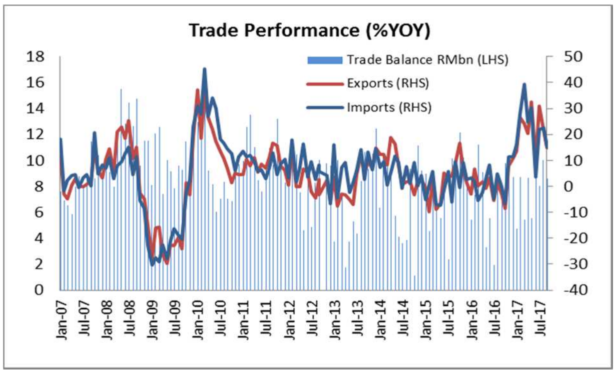
Higher current account surplus amid widening surplus in goods account

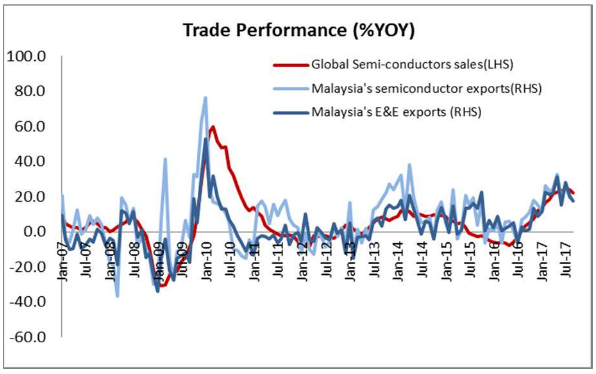
In a separate release, **Malaysia's current account surplus widened for the 2nd straight quarter, to RM12.5bn in 3Q** (2Q: RM9.6bn). Little change from previous trend, the higher surplus was due to **higher surplus in the goods account** (RM31.7bn vs RM27.0bn) as a result of faster growth in exports. This offset **continuous deficits in the services account** (-RM4.9bn vs –RM5.0bn) **and higher deficit in the income account** (-RM14.3bn vs -RM12.4bn). Despite higher tourism related receipts, the services account saw sustained deficits as a result of lower receipts in construction services while higher outward remittances by foreign workers aggravated the deficits in the income account. **The financial account took a turn and saw a net outflow of RM1.2bn in 3Q (2Q: net inflow of RM7.3bn), dragged by net outflow in portfolio investment (-RM5.1bn vs +**RM16.0bn in 2Q).

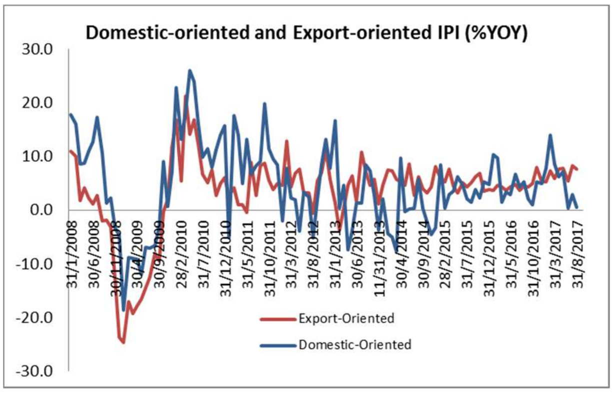
Prospects of sustained growth in 2H prompted an upward revision in full year growth to 5.7%

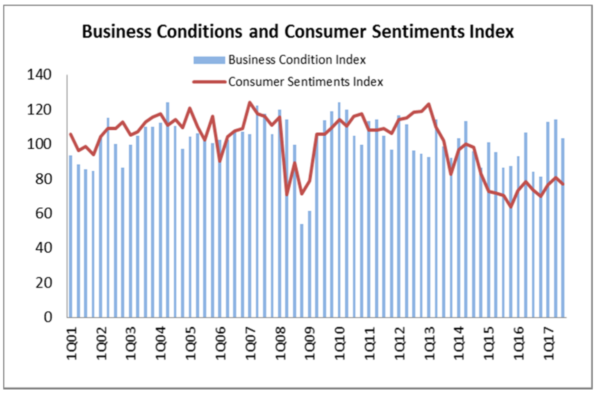
Looking forward, we remain skeptical that the sharp revival in domestic demand in 3Q is sustainable but year end festive spending is expected to keep private consumption supported. **More moderate domestic demand, coupled with slower growth anticipated in exports** as a result of dissipating favourable base effect, **are expected to push growth back below 6.0% towards low 5% in 4Q.** Despite the imminent pullback, **we are revising our full year GDP growth forecast higher to 5.7% for 2017** (previous estimate 5.4%) after taking into account the higher YTD growth of 5.9% in the first three quarters of the year.

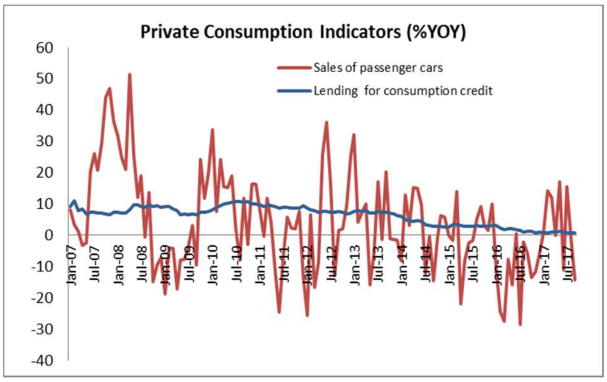
Stronger than expected growth to-date which has exceeded the potential growth levels have provided room for BNM to normalize its monetary policy, as evident in the more hawkish tone in its monetary policy statement last week. **Taking cue from the still favourable macro backdrop and strong signals from the latest MPC statement, we expect BNM to raise OPR by 25bps in 1H2018, which could happen as early as the January MPC meeting.** In addition, we believe concerns over potential outflows and risks of a softer MYR following possibility of slightly more aggressive policy normalization in the US could also be factors prompting BNM to review its monetary policy stance to ensure financial and currency stability.

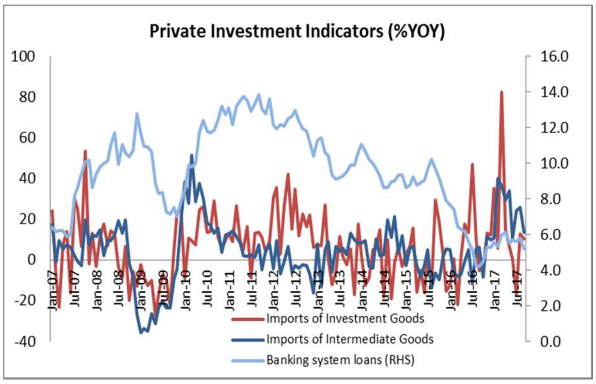

Trade Performance (%YOY)
Trade Balance RMbn (LHS)
Exports (RHS)
Imports (RHS)


Trade Performance (%YOY)
Global Semi-conductors sales(LHS)
Malaysia's semiconductor exports(RHS)
Malaysia's E&E exports (RHS)


Domestic-oriented and Export-oriented IPI (%YOY)
Export-Oriented
Domestic-Oriented


Business Conditions and Consumer Sentiments Index
Business Condition Index
Consumer Sentiments Index


Private Consumption Indicators (%YOY)
Sales of passenger cars
Lending for consumption credit


Private Investment Indicators (%YOY)
Imports of Investment Goods
Imports of Intermediate Goods
Banking system loans (RHS)

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