Malaysia Outlook

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1Q18 GDP growth comes out at 5.4%, just 0.1% higher than our forecast

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Highlights

- **1Q 2018 GDP forecast came out at 5.4% yoy, just slightly above our forecast of 5.3% yoy.**
- **The current account widened to 4.36% of GDP.**
- **At this juncture, we still stick to our forecast of 5.5% yoy for 2018.**

1Q 2018 GDP forecast came out at 5.4% yoy, just slightly above our forecast of 5.3% yoy. This was a slowdown from the 4Q 2017 growth at 5.9% yoy. Once again, private consumption was the primary anchor of growth, registering an increase of 6.9% yoy. Government spending increased at a slow pace of 0.4% yoy due to lower spending on supplies and services. As expected, growth in exports was more subdued at 3.7% yoy whilst imports declined at 2.0% yoy. Investment growth came out weak at 0.1% yoy. Private investment though did increase by 0.5% yoy whilst public investment declined by 1.0% yoy.

At this juncture, we still stick to our forecast of 5.5% yoy for the entire 2018. Private consumption growth has potential to strengthen further during the year as the effects from items such as government handouts and civil service bonuses could come after the first quarter. Also, reintroducing fuel subsidies and raising minimum wages may provide support to private consumption growth. Investment should pick up later in the year as confidence in the Malaysian economy will still be strong. However, this optimism may be tempered by the need for further clarity regarding the policies of the new government.

The current account recorded a larger surplus at RM15.0bn (4Q 2017: RM13.9bn) with a widening to 4.36% of GDP (4Q 2017: 3.61%). There was a larger surplus in goods at RM10.4bn (4Q 2017: RM9.6bn) whilst the services deficit narrowed to -RM1.7bn (4Q 2017: -RM1.9bn). Trade data in the first quarter had already earlier shown there was a small positive increase in exports whilst imports experienced a decline. The primary and secondary income recorded an increase deficit of –RM4.3bn (4Q 2017: -RM4.0bn). This was mainly due to a widening of the primary income account deficit to –RM10.2bn (4Q 2017: -RM8.4bn) that in turn was largely driven by lower profits earned by Malaysian firms investing abroad mainly in the finance and insurance and wholesale and retail trade services sub-sector.

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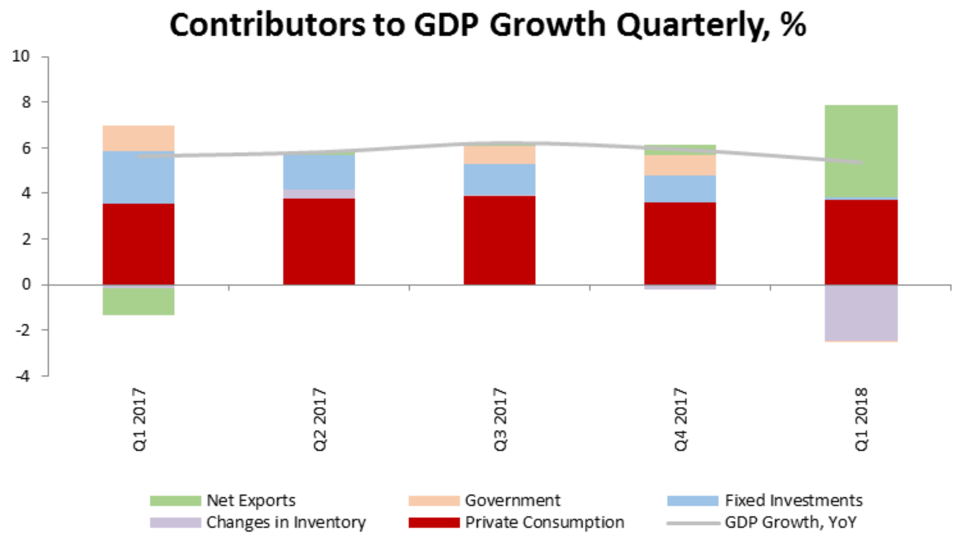
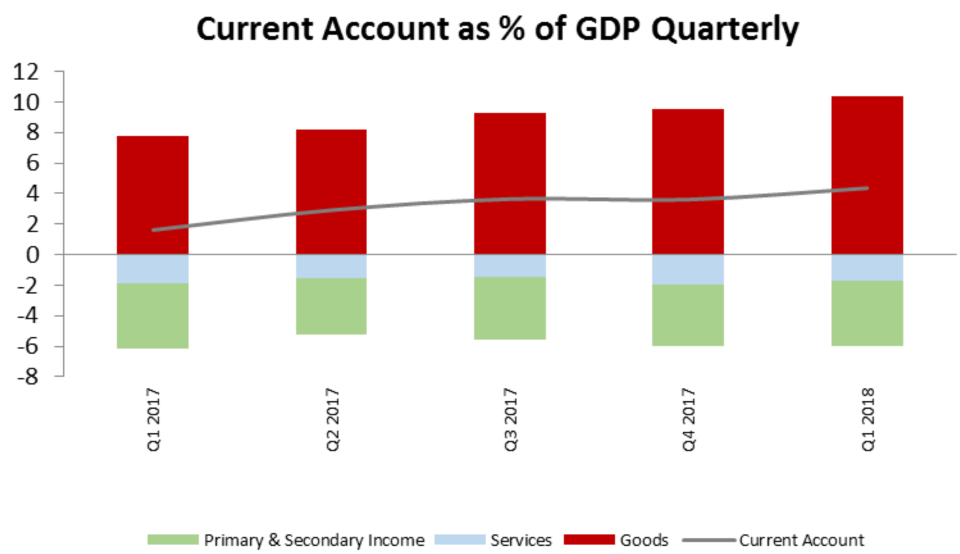
In other developments, the government has announced that the sales and service tax would be brought back after the GST was cut to 0% effective from 1st June 2018. The Ministry of Finance has also mentioned that it would be taking steps to rationalize expenditure and improve efficiency. Prime Minister Mahathir Mohamad has said that the new government would be reviewing the employment of 17,000 political appointees. Revenue for the 2018 budget was calculated on the assumption of oil price at $52/barrel and with the price much higher so far this year, there may actually be some fiscal space to absorb these changes.



Source: Department of Statistics Malaysia, CEIC and OCBC



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