OCBC Bank

Malaysia Outlook

2017 Growth Marginally beats Expectations

Wednesday, February 14, 2018

Highlights

- **Malaysia's economy in 2017 grew at an extremely strong pace of 5.9%, YoY (2016: 4.2%, YoY) beating the median consensus forecast at 5.8%, YoY.** This is the fastest it has been since 2014 when growth was at 6.0%, YoY. Global trade has significantly picked up in 2017 and Malaysia's small open economy has significantly benefited from this with exports growing at an astounding pace of 9.6%, YoY. In particular, the manufacturing sector has experienced faster growth in 2017 at 6.0%, YoY (2016: 4.4%, YoY). Private consumption was once again the primary anchor of growth expanding at an accelerated pace of 7.0%, YoY (2016: 6.0%, YoY). This is possibly due to the strong economic environment, stable labour market conditions and government income support measures. Private fixed investment grew faster at 11.1%, YoY (2016: 6.4%, YoY) as businesses began feeling more optimistic about the state of the economy. As a note, the palm oil sector made a major recovery in growth at 16.0% in 2017 (2016: -12.7%) due to improved weather conditions.

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- **Growth in the final quarter of 2017 only marginally eased to 5.9%, YoY (Q3 2017: 6.2%).** This came on top of a slowdown in export growth at 7.1%, YoY (Q3 2017: 11.8%, YoY) and only a slight moderation in private consumption growth at 7.0%, YoY (Q3 2017: 7.2%, YoY). Regardless, private consumption remained the primary anchor of growth for the quarter. However, there was a reported major acceleration in growth for public consumption at 6.9%, YoY (Q3 2017: 3.9%, YoY) due to increased expenditure in supplies and services. Public fixed investment did interestingly decline at -1.4% (Q3 2017: 4.1%, YoY). Private fixed investment continued to remain strong growing at 9.2%, YoY (Q3 2017: 7.9%, YoY) possibly due to improving business sentiment amid the strong economy.
- **The current account widened to 3.3% of GDP for the year (2016: 2.4%) due to the strong external environment.** The goods surplus expanded to 9.6% of GDP (2016: 8.2%) as exports of manufacturing, particularly in the E&E sector, rose significantly. The services deficit increased to -1.9% of GDP (2016: -1.6%) as the deficit in construction and transportation services rose due to imports for projects related to oil & gas, utilities and the transportation sector. Both primary and secondary income as a percentage of GDP only experienced a marginal change at -4.5% (2016: -4.3%).
- **Going forward, we forecast growth to slow but to remain strong at 5.0%, YoY for 2018.** Economic performance would be heavily depended upon the growth performance of Malaysia's major trading partners. Growth in the major trading partners such as China and the EU is expected to slow. Private consumption would once again be expected to be the primary anchor of growth due to both stable labour market conditions and government income support measures. Private investment is also expected to remain strong due to rising

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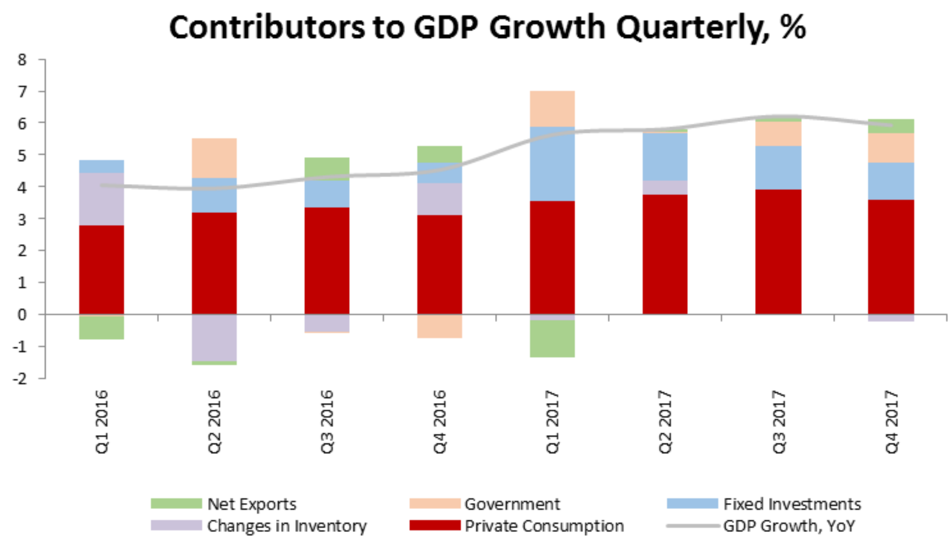
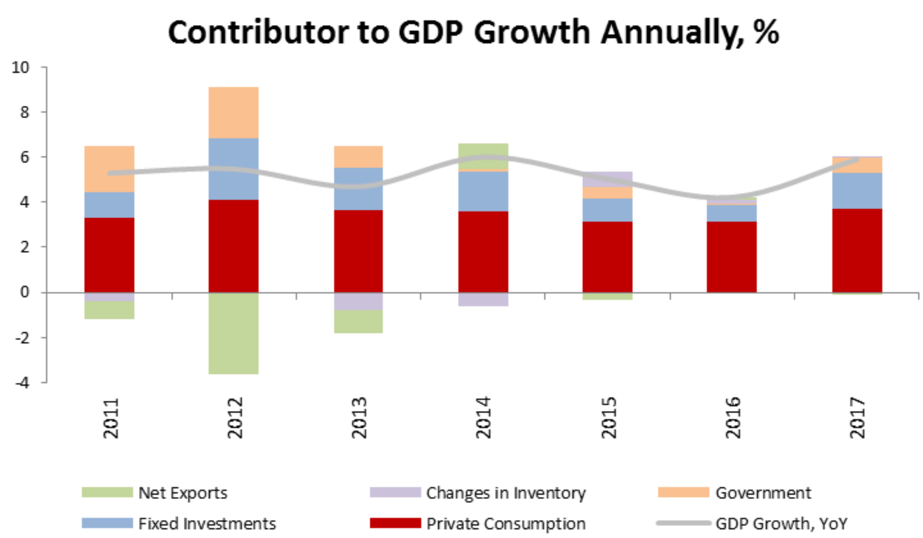
business optimism. The risks to this benign scenario though would include an unexpected fall in oil prices, political noise arising from looming elections and lower than expected growth in the major economies.

- **The effect of this result on the Ringgit value against the USD would probably be limited.** The actual result did not significantly beat the consensus forecast and export data in December 2017 had already shown a significant slowdown 4.7%, YoY (Nov 2017: 14.5%). It is more likely that any Ringgit strength going forward may be more heavily driven by USD-centric factors.

- **Given such a strong performance in 2017, it will come as no surprise if elections are called soon.** Aside the strong GDP numbers, the Employees Provident Fund (EPF) recently reported a significantly increased dividend rate of 6.90% for 2017 (2016: 5.70%). The Ringgit has generally shown an upward trend against the US Dollar since the beginning of 2017. Business sentiment has also been improving amid the strong economy. The government therefore may choose to ride on the wave of these excellent numbers to call elections soon.



Source: Department of Statistics Malaysia , CEIC and OCBC



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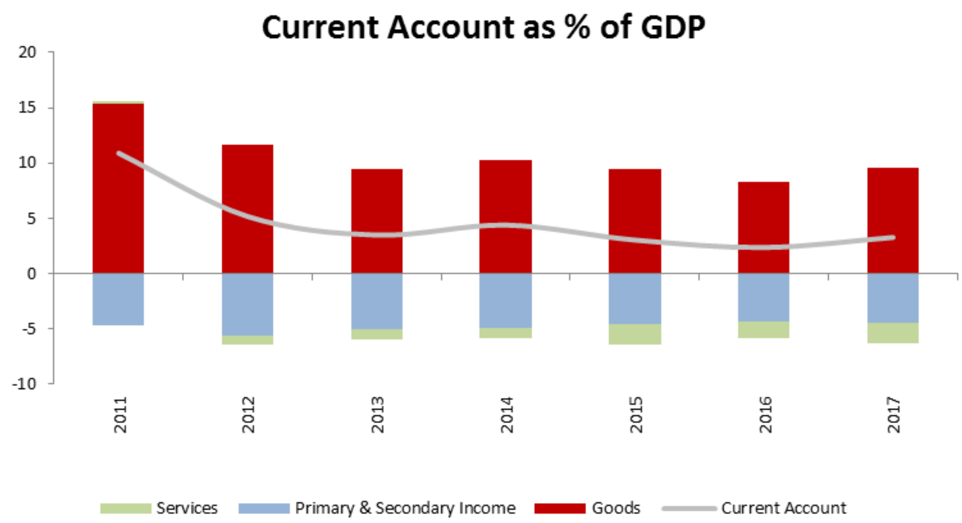

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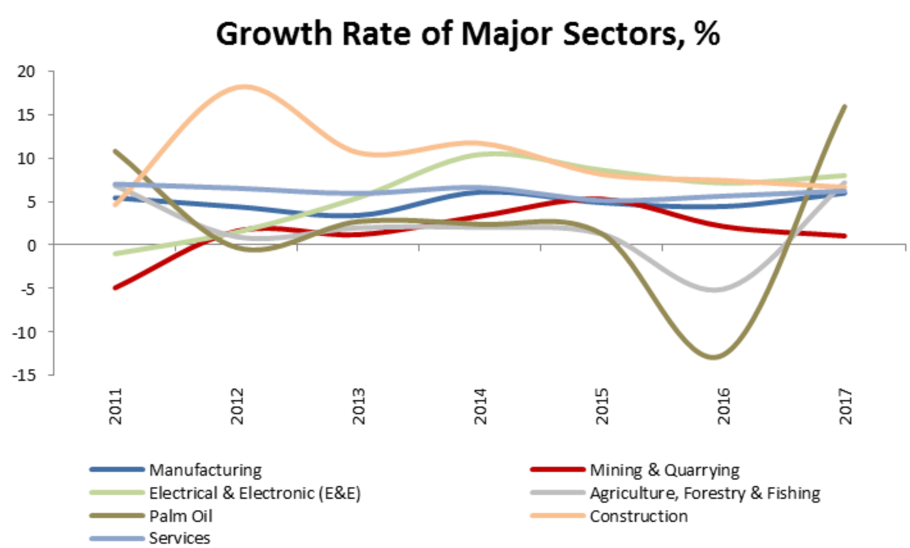

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