Malaysia Monitor

OCBC Bank

Need a lift?

Malaysia's growth momentum slows

Aug 12, 2016

- **Malaysia printed growth of 4.0% yoy in Q2, in line with market expectations but marking the lowest rate since 2009. Moreover, sequential momentum is weak, at just 0.7% qoq, compared to 1.0-1.2% of the previous two quarters.**
- **Exports weakness looks to be the chief culprit. In net export terms, this is exacerbated by a pick-up in imports growth, resulting in a 0.6ppt net drag to headline growth. Inventories drawdown did not help too.**
- **Hence, domestic demand will increasingly be depended upon to keep growth respectable overall. Indeed, with buffer against the lower 4% limit of the official 2016 growth target running thinner and thinner now, BNM is inching closer to another rate cut.**

Treasury Advisory

Corporate FX &

Structured Products

Tel: 6349-1888 / 1881

Fixed Income &

Structured Products

Tel: 6349-1810

Interest Rate

Derivatives

Tel: 6349-1899

Investments &

Structured Products

Tel: 6349-1886

Wellian Wiranto

Economist

Treasury Research &
Strategy,
Global Treasury,
OCBC Bank

+65 6530-5949

wellianwiranto@ocbc.com

Growing Dependency

The tendency for Malaysia's actual growth data to be better than market expectation appears to have run its course. At 4.0%, it came right in line with the number that consensus has pencilled in, although softer than the 4.2% that we had in mind.

While there is no downside surprise to speak of, the fact that the growth print marks the slowest expansion Malaysia has seen since a good seven years ago will nonetheless bring a relatively dour atmosphere to it all.

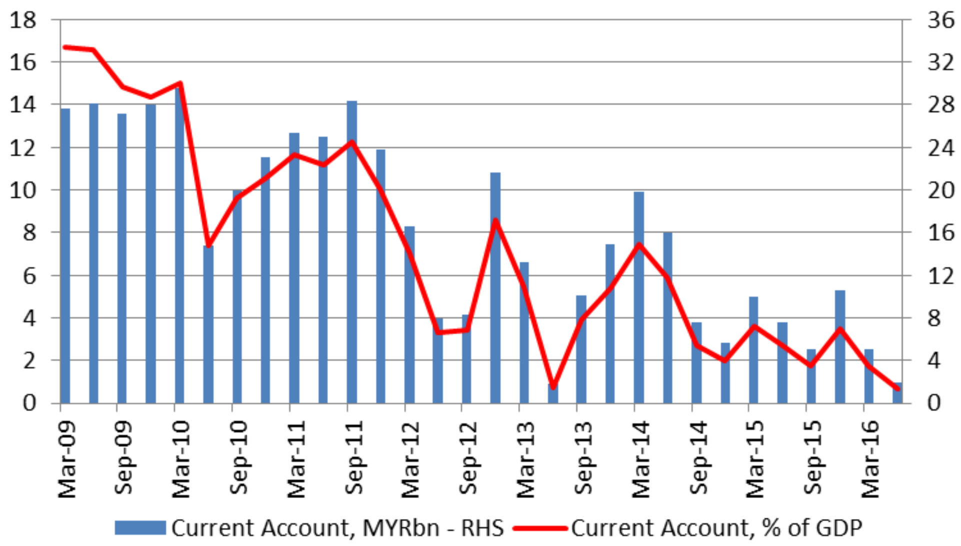
This is especially so if we consider that, on a seasonally adjusted basis, the sequential growth momentum appears to have softened. At 0.7% qoq growth, the sequential growth rate is considerably lower than the 1.0-1.2% achieved in the previous two quarters.

With a rather dismal roster of global headlines month in and month out, there should not be any prize for guessing why Malaysia's growth momentum has slowed. Not surprisingly, exports have not been all that robust.

Although the sector did inch out a growth rate of 1.0%yoy in Q2 – which is better than a 0.5% contraction in Q1 – any little help that it could give to overall growth has been more than negated by a sizable uptick in imports. Growing by 2.0% yoy in Q2 versus 1.3% in Q1, the strength in imports appears to have been driven in part by stronger investment activity.

In and of its own, a pick-up in investment activity may be a good thing, but the effect on ballooning imports, right when export receipts are notably insufficient to balance things out is problematic as well.

Already, today saw the release of Malaysia's current account numbers, as well. At MYR1.9bn, it fell well short of expectation. As a proportion of this quarter's GDP, the current account surplus stands at just 0.6%, which is the lowest since at least 2005.



Source: Bloomberg, OCBC.

On the brighter side of things, it is undeniable that private consumption has more than moved on from the post-GST malaise of early last year. It contributed a solid 3.3 percentage points to the headline growth rate, higher compared to the 2.8ppt contribution in the previous quarter.

Well-targeted goodies by the government indubitably helped to goose household consumption during the period. Special Aidilfitri cash allowance was given out to civil servants, which comprise more than 1 in 10 members of the working population. Cash assistance to the under-privileged, in the form of BR1M disbursement, was also dished out in late April and mid-June. Combined with wage growth that remains relatively favourable, it should not be too surprising, therefore, to see the average Malaysian consumer being the hero of economic growth resilience thus far.

Obviously, in economics as with in life, there is no such thing as a free lunch. How the Malaysian government can continue to support private consumption via such largesse will come to be tested again when it tables another budget this October. This is especially so if commodity price remains a wild unknown variable. If oil price goes up, then market will be more assured that fiscal support for growth – and domestic consumption growth, in particular – would remain. On the flip side, the reliability of that support would get invariably tested if global oil price slumps again, for whatever reason, as was the case soon after the previous two budgets were tabled.

This degree of uncertainty about fiscal support might therefore play an increasingly important role in the determination of Bank Negara's next move. Now that the central bank had unexpectedly cut rate last month on concerns about exports outlook, we know that it is very much concerned with external factors. If it thinks that the domestic sector thus needs all the help it can get – especially if fiscal support thins out – then it would reach for another rate cut this year.

Hence, even as it might wait out in the next meeting on September 9th, it could cut rate on November 23rd once it has better clarity on the fiscal situation after the tabling of 2017 budget in October. It has already started to offer more reassurances against any factor preventing it from pursuing further monetary policy accommodation. Apart from touching on how inflation has remained stable, it mentions today that growth in household debt has continued to moderate, for instance. Given the weak underlying momentum – sobering enough for us to revise our 2016 growth forecast from 4.3% to 4.1% - such preparatory groundwork for further rate cut by the central bank is par for the course.