

## Growth is picking up steam!

Friday, 17 November 2017

### Highlights:

- **Malaysia's 3Q17 growth surprised higher at 6.2% y/y (+1.8% qoqsa)**, higher than market expectation of +5.7% y/y (+1.1% qoqsa). This marks Malaysia's fastest year-on-year growth since 2Q14, suggesting that growth remains robust, underpinned by the uptick in global trade activities amid positive spill-over effects into its domestic environment.
- **Delving into the data, it is obvious that Malaysia's growth has picked up steam in the first 9 months of this year.** Overall growth is driven largely by Malaysia's key growth pillars, including trade, private consumption, investment and public sector spending. More importantly, private consumption, which makes up more than 50% of Malaysia's GDP, grew 7.2% y/y and thus marking the fastest pace since 1Q15. Note that recent data also showed that industrial production grew a 3-month average of 5.9% y/y in September, the fastest print since 1Q15, while salaries of manufacturing sales continue to grow at double-digit for six consecutive months into Sept 2017.
- **Note that BNM commented its "flexibility to adjust the degree of monetary policy accommodativeness"** should growth continues to stay positive while inflation is "within what we've expected". BNM governor Ibrahim however iterated specifically that any adjustment to its monetary policy is "not a tightening, but rather, a normalisation of interest rate". BNM added that headline inflation may remain elevated in the coming months on higher global oil prices.
- **Today's growth print has indeed shown Malaysia's ability to accelerate further into the next year.** Importantly, growth is not only backed merely by the recovery of its external environment, but also by the transmission into its domestic environment especially in the consumption and investment sectors. Moreover, BNM's persistent rhetoric in indicating its want to adjust monetary policy suggests to us that the central bank is gearing up market expectation for an eventual rate hike in its upcoming meetings. Barring the intensification of geopolitical wildcard events and the deceleration of global growth, we remain optimistic on Malaysia's growth into 2018 especially given today's growth print, as well as the positive spill-over effects from Malaysia's Budget 2018 which spelt tax cuts and bonus payments to government workers, which will surely spur consumer spending into the next year. As such, we upgrade our full-year GDP outlook to 5.5% (up from 5.2%) for 2017, and look BNM to deliver at least a one-time rate hike into 2018 then.

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