Malaysia Monitor

Not So Spooky

Malaysia's GDP surprised on the upside

May 13, 2016

- **Friday 13th may be a day with darker overtones, but the Q1 GDP data released today ought to put Malaysia on a cheerier spot.**
- **To be sure, at 4.2%yoy, it marks the slowest growth since mid-2009. Still, market had expected worse, with 4.0% pencilled in. Meanwhile, private consumption continued to hold up. Hence, if external risks do not blow up, we remain sanguine about the prospect of 4.4% growth this year.**
- **Overall, not a print that would spook BNM into trimming its policy rate anytime soon, much less when it meets next Thursday. The newly minted governor Muhammad Ibrahim has just hinted as much today.**

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Another Beat

Market had 4.0%yoy in mind, and we thought it would print a slightly more optimistic 4.1%. As it turns out, the actual data for Malaysia's Q1 GDP decided to best us both by printing 4.2%.

As some of you might recall, we have pointed out before that the GDP data of Malaysia have a tendency to beat expectations. (If you are curious, with today's beat, it marks the 17th time out of 21 quarters in which actual prints have bested market expectation).

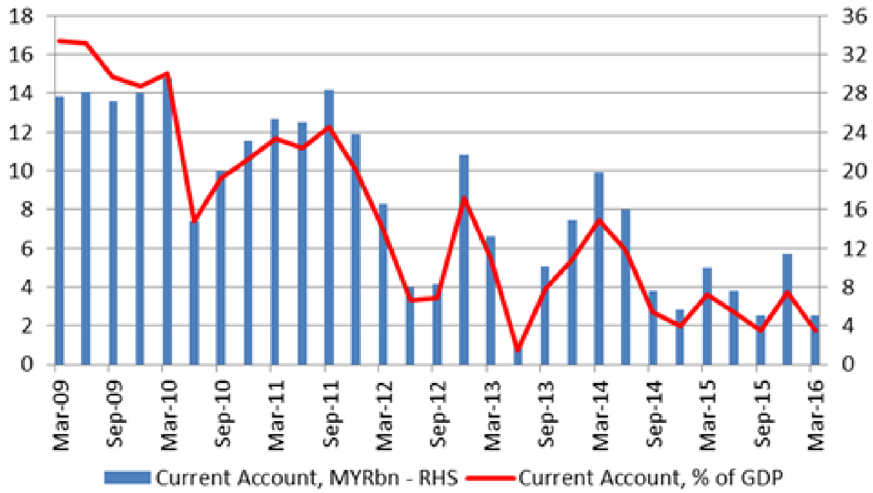
Of course, whether the GDP data is better than expectation, by how much, how often, for how long, are in some ways academic. Things that get intensely exciting only for economists with nothing better to do on a Friday afternoon perhaps. The reality is that the Malaysian economy has experienced some unfriendly headwinds lately, and that – despite the beat – the print does mark the most sluggish rate of growth since 2009.

Figure 1. Growing more slowly

Source: Bloomberg, OCBC.

Looking into the details, the challenging nature of eking out growth amid a tough environment is most evident in the external sector. The exports component of GDP showed a 0.5% yoy contraction in Q1, for instance, compared to an already-challenged 0.6% growth in the previous quarter. Commodities slowdown continued to be deadweight to the economy, even as exports of manufactured goods tried to keep the whole thing above water. As a result, despite a fairly steady growth in imports, the net exports registered a 12.4% yoy slump that hurts the overall growth print.

Figure 2. Current Account



Source: Bloomberg, OCBC.

Tellingly, the balance of payments data that was released today as well paints a similar story. Current account receipts for Q1 slumped to MYR5bn, compared to over 11bn the quarter before. As a proportion of GDP, this stood at a relatively thin surplus of 1.7%.

These are some sobering numbers to be sure, but it is important to note that there remain crucial pockets of resilience in the economy. In particular, private consumption continues to stage a robust recovery from last year’s post-GST slump. In year-on-year terms, household consumption grew by 5.3% in Q1, at a healthy clip that is comparable to Q4’s 4.9%. BNM highlighted support for this sector coming from continued wage and employment growth. At a time when external trade, especially on the commodities front, remains too much like fair-weather friends, the fact that domestic consumption has been a more dependable source of growth will not escape the attention of the central bank.

Hence, given the resilience of the private spending, it is not too surprising to see BNM remaining relatively sanguine about Malaysia’s growth prospects. The new governor, Muhammad Ibrahim, for one was quoted as saying today that the economy remains on track to expand by 4.0-4.5% this year, something that we agree as we keep to our 4.4% forecast.

For good measure, he also added that the current Overnight Policy Rate remains supportive of economic activities. That is as good a hint as any that the BNM governor is not at all keen to cut rate and shift away from the cautious and prudent policy stance that has been set in place by his predecessor, Dr. Zeti Aziz, any time soon.

In other words, the MPC meeting that he is about to chair for the first time on May 19th is unlikely to be setting off any fireworks. We will be on the lookout, however, for any more overt reference to global downside risks that might threaten the central bank’s growth outlook for the year. After all, if the BNM were to start paving any potential path for rate cuts later this year, it is going to be motivated by external – not internal – factors.