Malaysia Monitor

Malaysia's GDP

# A good print that leaves little room for improvement

Feb 18, 2016

- **Just as in life, a solid performance in economic data in the past can be a double-edged sword sometimes. It sets the benchmark for comparison at a high, leaving any chance to beat expectation in the future that much lower.**
- **Malaysia's Q4 2015 GDP is a case in point here. At 4.5%yoy, it comfortably beat expectation of 4.1% and just a tad lower than Q3's 4.7%, as private consumption tenaciously clawed back up to some semblance of a recovery.**
- **While heartening, the print does not alter the sense that the economy would still be facing a tough slog ahead, with uncertainties surrounding oil, China, and central bank succession still offering considerable headwinds.**

**Thanks to consumers**

We have pointed out before that there is a curious incidence of the propensity for market players to under-estimate Malaysia's GDP growth prints in recent years. If we include the latest episode, whereby growth clocked 4.5%yoy in Q4 vs. market expectation of 4.1%, in our little tally, there have been 16 out of 20 times that actual quarterly prints bettered market expectations. That is an interesting 80% beat rate.

Given the roster of unfavourable headlines out of domestic politics in Malaysia, combined with the tendency for investors to equate low oil price and high China anxiety with challenges for the economy, the relatively subdued expectation for growth is understandable.

How, then, did growth manage to perform better than expected in the latest period?

The quick answer appears to be the strength in private consumption. At around 52% of the economy, how household spending fares has been an important determining factor for overall growth, especially given the lacklustre global trade environment. And, in this instance, private consumption has clawed back to life, after two quarters of being stuck in the doldrums after the implementation of GST in April last year. Indeed, on a seasonally adjusted basis, the sequential growth rate of private consumption in Q4 was at a strong 2.4%, matching the rate that was recorded in Q1 last year which was flattered by frontloading of purchases.

Elsewhere, capital spending remained strong as well, growing by 4.6% sequentially on a seasonally adjusted basis, in line with 4.5% of the prior quarter. Bank Negara, in a report accompanying today's GDP data release, noted investment spending in the manufacturing and services sectors as being the driver.

Meanwhile, apart from GDP data, Malaysia has also released its current account prints. Q4 saw a fairly strong print, at a surplus of MYR11.4bn compared to 5.7bn the year before. As a proportion of GDP, this marked the strongest quarterly data for the whole of 2015.


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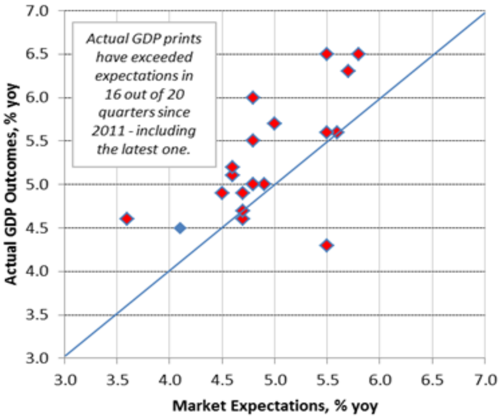
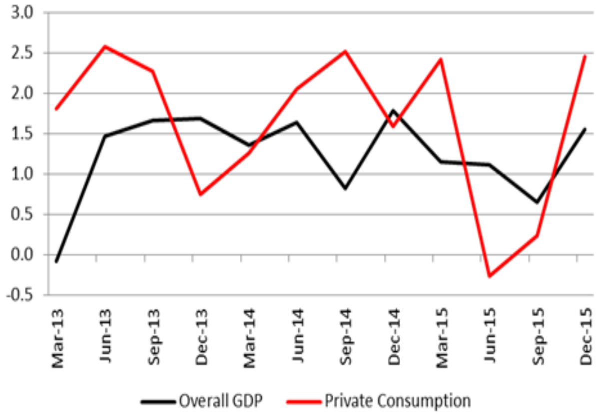
*Fig 1. Beating expectations again*



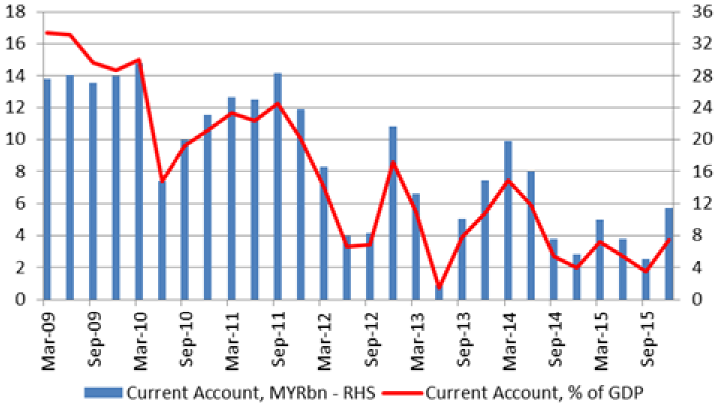

*Source: Bloomberg, OCBC. Note: Latest observation in blue.*

*Fig 2. Sequential growth*




*Source: CEIC, OCBC.*

*Fig 3. Current Account*




*Source: Bloomberg, OCBC.*

With all these favourable-looking Q4 prints across both GDP and current account, it is easy to get carried away into thinking that the coast is clear. Things might be more complicated, however. As we mentioned in our Jan 28th note, "*Moving On?*", the reality of lower oil price and (some) fiscal consolidation have compelled us to reduce our expectation of growth for this year from 4.7% to 4.4%. While the strength of private consumption is laudable, it is hard to see it being sustained at such a strong sequential spurt in the coming quarters. On the external front, a likely adjustment of prices for Malaysia's natural gas exports would also start to weigh more unforgivingly on both GDP and current account in the coming months.

All in all, the helpful prints corroborate our view that Bank Negara will not be looking at a rate cut in the near term, including at the next meeting on March 9th, even if further liquidity support measures such as another SRR cut is possible.

In the interim, market will likely be focusing more and more on the central bank succession process. The well-respected Governor Zeti is due to retire in April, and has voiced her opinion that no politician should be appointed to succeed her. As quoted in a Malay Mail report on Feb 17th, she reportedly said that, "Even for financial institutions, we do not have politicians on the board, so least of all should be the central bank." Perhaps in relation to that, PM Najib said that the appointment decision is "for the government to make." Until the succession process is finalized, it will make for yet another area of potential concern for investors – much more than how many fractions of a percentage point had the economy outperformed expectation, in the past.

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