

**ECONOMIC REVIEW | 3Q2017 National Account****Pleasant Upward Surprise – GDP Up 6.2% in 3Q2017  
Fastest in 3 Years**

- *GDP Growth 3Q17 beats market expectations. Malaysia's GDP growth expanded by 6.2%yoy in 3Q17, beats market expectations of 5.7%yoy. It is the first time since second quarter 2014 the quarterly GDP growth reached above 6%.*
- *Private sectors remain the main contributor. Economic growth for 3Q17 was mainly contributed by private consumption and investment with both grew solidly by 7.2%yoy and 7.9%yoy respectively. Improvement in Malaysia's consumption and investment was explained by the optimism in consumer and business confidence during 3Q17.*
- *Net exports highest in fourteen quarters. Real net exports registered at RM26.2 billion, highest since second quarter 2014. We observed stronger exports growth than imports for the past two quarters contribute towards the widening trade surplus.*
- *We forecast GDP to average at 5.8% in 2017. Based on the current development and indicators, we are optimistic that Malaysia's economy to expand by 5.8% this year given the upbeat performance of domestic and global economy.*

**GDP Growth 3Q17 beats market expectations.** Malaysia's GDP growth expanded by 6.2%yoy in 3Q17, beats market expectations of 5.7%yoy. It is the first time since second quarter 2014 the quarterly GDP growth reached above 6%. Among others, private consumption and total investment contribute 3.9% and 1.7% respectively to the robust growth during the quarter. From supply side, services and manufacturing sectors contributed significantly up by 3.6% and 1.6% respectively. We opine the upbeat momentum in GDP growth was in tandem with steady performances of industrial production, manufacturing sales, distributive trade and external trade during the third quarter. Moderating inflationary pressure, strengthening domestic demand and upbeat external demand are the major anchors driving up GDP performance in 3Q17.

**Private sectors remain the main contributor.** Economic growth for 3Q17 was mainly contributed by private consumption and investment with both grew solidly by 7.2%yoy and 7.9%yoy respectively. Improvement in Malaysia's consumption and investment was explained by the optimism in consumer and business confidence during 3Q17. We noticed strong growth in distributive trade sales by 9.4%yoy during the quarter indicates steady upbeat trend in Malaysia's domestic spending. Stable labor market and uptick in wage growth provide a boost for private consumption. We opine the SEA Games 2017 which held in August this year is possibly one of major factors pushing up consumption in particular via increase in tourist expenditure. Optimism in manufacturing sector was indicated by Nikkei manufacturing PMI figure at 49.5, highest in more than two years. Notably, the PMI figure breached to 50.4 points in August.

**Net exports highest in fourteen quarters.** Real net exports registered at RM26.2 billion, highest since second quarter 2014. We observed stronger exports growth than imports for the past two quarters contribute towards the widening trade surplus. For instance, exports expanded by 22.4%yoy whereas imports grew by 19.8%yoy during the quarter. Steady and robust exports demands from developed and emerging economies remain driving up Malaysia's external trade activities. In 3Q17, exports to China stays on growing at double digit pace, 25.7%yoy while demand from the US, EU and ASEAN increase by 13.2%yoy, 24%yoy and 21.1%yoy respectively.

**Table 1: Summary of GDP by Expenditure Approach (YoY%)**

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
<b>Real GDP</b>	4.2	4.0	4.3	4.5	5.6	5.8	6.2
<b>Gross National Income</b>	5.5	3.2	4.3	4.7	5.1	6.3	7.3
Final Consumption	4.9	6.2	5.6	3.6	6.8	6.4	6.6
<i>Government Consumption</i>	2.8	5.5	2.3	(4.2)	7.5	3.3	4.2
<i>Private Consumption</i>	5.3	6.3	6.4	6.2	6.6	7.1	7.2
Gross Fixed Capital Formation (GFCF)	0.1	6.1	2.0	2.4	10.0	4.1	6.7
<i>GFCF: Structure</i>	5.7	5.9	5.0	2.8	3.8	5.1	3.6
<i>GFCF: Machinery &amp; Equipment</i>	(7.1)	8.1	0.9	2.9	21.8	4.4	11.6
<i>GFCF: Other Asset</i>	(3.3)	0.8	(12.5)	(2.1)	1.4	(3.7)	7.2
<i>GFCF: Public Investment</i>	(4.5)	7.5	(3.8)	(0.3)	3.2	(5.0)	4.1
<i>GFCF: Private Investment</i>	2.2	5.6	4.7	4.9	12.9	7.4	7.9
Net Exports	(12.4)	(7.0)	5.9	5.8	(14.5)	1.4	1.7
<i>Exports of Goods &amp; Services</i>	(0.5)	1.0	(1.3)	1.3	9.8	9.6	11.8
<i>Imports of Goods &amp; Services</i>	1.3	2.0	(2.3)	0.7	12.9	10.7	13.4

Source: DOSM, MIDFR

**Services and domestic sectors continue to support economic growth.** Services sector accounting for more than 54% of total GDP expanded steadily at 6.6%yoy, fastest since early 2015. Among services sub-sectors, the top three contributors are wholesale trade, communication, government services and retail trade. Apart from private consumption, the steady performance in services reflects that domestic economic activity is currently on upbeat momentum. Stable and improved employment conditions and higher private sector wage growth provides impetus for the domestic sector. Moving forward, we foresee the fourth quarter of 2017 would see sturdy momentum in domestic spending to continue given that long school holidays and year-end sales will occur during the quarter. However, inflationary pressure amid of rising oil prices is seen as downside risk towards the domestic consumption in the final lap of 2017.

**Steady improvement in commodity prices.** Mining and petroleum-related sectors grew modestly by 3.1%yoy and 5%yoy in 3Q17, thanks to gradual rise in crude oil prices. In 3Q17, Brent oil price rose by 10.6%yoy to average price of \$52.3 per barrel. Looking ahead, we foresee bright outlook for petroleum-related sectors as Brent oil price has been hovering at \$60 since October. For manufacturing, the sector expanded by 7%yoy, underpinned by continuous strong external trade performances. Gauging by current momentum in external demand, we reckon manufacturing sector will continues to perform better for the rest of the year.

**Table 2: Summary of GDP by Supply-Side Approach (YoY%)**

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
<b>GDP</b>	4.2	4.0	4.3	4.5	5.6	5.8	6.2
<b>Agriculture, Forestry &amp; Fishing (AF)</b>	(3.8)	(7.8)	(6.1)	(2.5)	8.3	5.9	4.0
AF: Rubber	(12.9)	(4.5)	(8.1)	1.0	23.5	17.0	1.8
AF: Oil Palm	(9.9)	(19.2)	(13.7)	(7.2)	17.7	12.1	10.0
AF: Livestock	5.0	4.9	4.2	0.8	3.0	4.8	4.5
AF: Other Agriculture	6.2	5.1	4.3	4.6	2.3	2.6	1.5
AF: Forestry & Logging	(0.1)	(5.6)	(5.5)	0.3	(11.1)	(14.5)	(18.9)
AF: Marine Fishing	(1.1)	10.3	6.0	4.0	(4.1)	(3.9)	(3.8)
AF: Aquaculture	(4.3)	(0.1)	(3.0)	(4.2)	(3.5)	4.5	10.0
<b>Mining &amp; Quarrying</b>	(1.2)	2.1	2.9	5.0	1.6	0.2	3.1
<b>Manufacturing (Mfg)</b>	4.6	4.2	4.3	4.7	5.6	6.0	7.0
Mfg: Vegetable & Animal Oil, Fats & Food Processing	5.5	(3.9)	1.1	6.2	8.2	10.4	11.4
Mfg: Beverages & Tobacco	7.2	6.2	6.9	6.0	9.0	6.5	4.5
Mfg: Textiles, Wearing Apparel & Leather Products	6.5	6.4	6.0	5.4	6.9	7.3	9.1
Mfg: Wood Prod, Furniture, Paper Prod, Print & Publish	7.4	7.0	5.7	5.3	8.6	5.6	2.4
Mfg: Petroleum, Chemical, Rubber & Plastic Products	2.7	5.6	4.7	5.0	3.1	3.0	5.0
Mfg: Non Metallic, Basic & Fabricated Metal Products	5.1	5.4	4.3	4.0	3.1	3.9	6.5
Mfg: Electrical & Electronic	5.9	8.8	6.8	7.3	7.9	9.8	8.7
Mfg: Transport Equipment & Other Manufactures	2.8	(6.1)	(2.6)	(3.1)	3.5	3.3	8.1
<b>Construction</b>	8.1	8.9	7.9	5.1	6.5	8.3	6.1
<b>Services</b>	5.1	5.7	6.2	5.5	5.8	6.3	6.6
Services: Electricity & Gas	6.6	5.0	5.1	3.4	1.3	1.1	2.0
Services: Water	7.7	6.5	6.6	6.2	6.0	5.9	6.2
Services: Wholesale Trade	8.1	8.7	9.0	7.1	5.5	6.0	6.9
Services: Retail Trade	5.5	7.1	7.6	7.9	7.8	11.4	10.3
Services: Motor Vehicles	(5.1)	(2.7)	(2.9)	(2.0)	3.5	0.9	0.4
Services: Restaurant	6.9	7.9	8.1	8.4	7.9	7.9	8.1
Services: Accommodation	4.2	3.7	4.9	5.3	4.8	4.9	5.5
Services: Transport & Storage	5.9	6.0	5.2	5.6	6.1	6.2	6.3
Services: Communication	8.4	8.7	7.5	7.7	8.2	8.5	8.8
Services: Finance	0.2	(0.2)	1.9	2.7	3.9	5.6	5.3
Services: Insurance	(0.5)	7.9	14.9	4.4	2.2	3.4	1.2
Services: Real Estate & Business Services	6.5	6.9	7.0	7.1	7.3	7.3	7.4
Services: Other Services	4.7	4.5	5.0	5.2	5.4	5.3	5.6
Services: Government Services	5.4	4.9	5.5	4.1	5.1	4.5	6.3
<b>Import Duties</b>	27.2	4.5	5.8	1.6	8.4	12.2	16.5

Source: DOSM, MIDFR


**Broad-based uptick global economic growth.** Developed and emerging economies remain on upbeat momentum for the past nine months albeit continuous strong external trade activities, modest retrieval in commodity prices and improvement in domestic spending. The US economy expanded by 2.3%yoy in 3Q17, while China, the second world's largest economy rose by 6.8%yoy beating the official growth target of 6.5%. Among ASEAN economies, economic expansion in 3Q17 is seen stable staying on upward trend path. For instance, Singapore posted 4.6%yoy during the 3Q17, highest in fourteen quarters while Indonesian economy stable growing at above 5%yoy. Moving forward, we foresee steady expansion pace in developed and emerging economies for the 4Q17 will continue due to sanguine economic environment, receding of protectionism threat and gradual rise in commodity prices.

**Table 3: GDP Growth by Selected Economies (YoY%)**

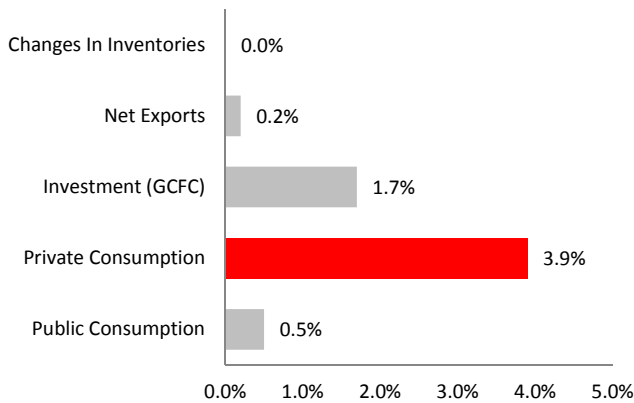
	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
Malaysia	4.2	4.0	4.3	4.5	5.6	5.8	6.2
Philippines	6.9	7.1	7.1	6.6	6.4	6.7	6.9
Thailand	3.1	3.6	3.2	3.0	3.3	3.7	
Indonesia	4.9	5.2	5.0	4.9	5.0	5.0	5.1
Singapore	1.9	1.9	1.2	2.9	2.5	2.9	4.6
China	6.7	6.7	6.7	6.8	6.9	6.9	6.8
Japan	1.4	1.3	0.9	1.6	0.6	1.1	1.7
EU	2.1	1.7	(0.3)	(0.5)	1.8	1.7	
United States	1.4	1.2	1.5	1.8	2.0	2.2	2.3

Source: CEIC, MIDFR

**Rate hikes in 2018 on the card.** Due to strong economic growth, averaging 5.86% for the last three consecutive quarters we view there is a room of possible rate hike in 2018. Moreover, inflationary pressure coming from uptick in fuel-related prices and further normalisation of monetary policy in developed economies are another factors for the possible rate hike next year.

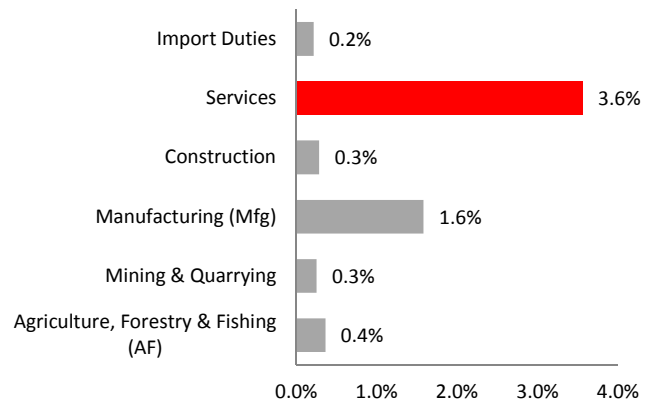
**We forecast GDP to average at 5.8% in 2017.** Based on the current development and indicators, we are optimistic that Malaysia's economy to expand by 5.8% this year given the upbeat performance of domestic and global economy. Besides, stable labour market, continued wage growth and moderating inflation will support and spur domestic economy. Moving forward, we foresee the economic performance in the fourth quarter of 2017 to expand at slower pace. 

**Chart 1: Contribution by Expenditure Components (%)**



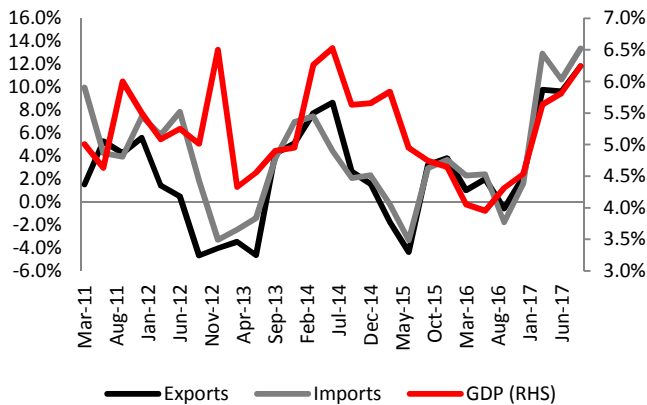
Source: DOSM, MIDFR

**Chart 2: Contribution by Supply-Side Components (%)**



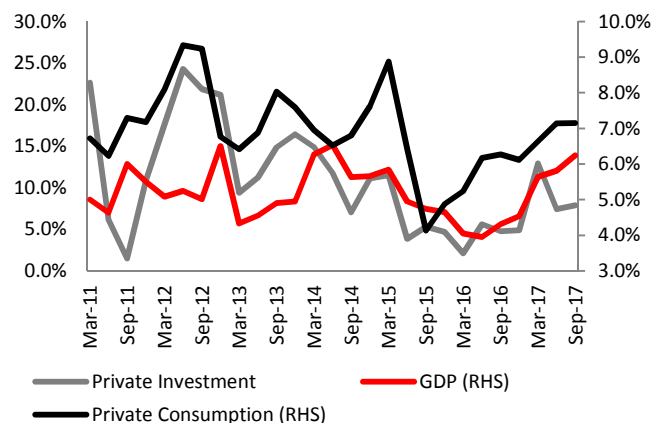
Source: DOSM, MIDFR

**Chart 3: GDP vs External Trade (YoY%)**



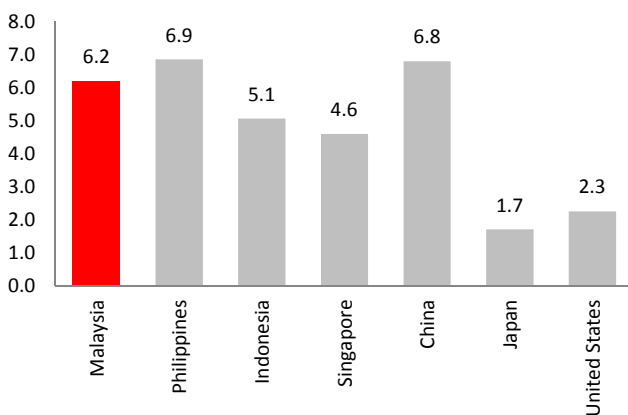
Source: DOSM, MIDFR

**Chart 4: Consumption & Investment Drive-Up GDP (YoY%)**



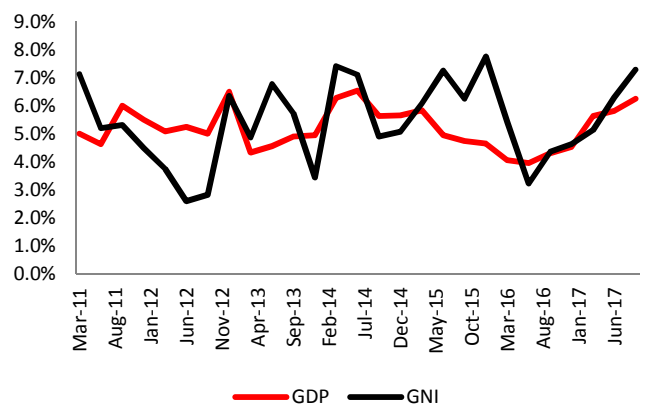
Source: DOSM, MIDFR

**Chart 5: GDP Growth 3Q17 by Selected Economies (YoY%)**



Source: DOSM, MIDFR

**Chart 6: GDP vs GNI (YoY%)**



Source: DOSM, MIDFR

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