

## ECONOMIC REPORT | Malaysia Economic Outlook

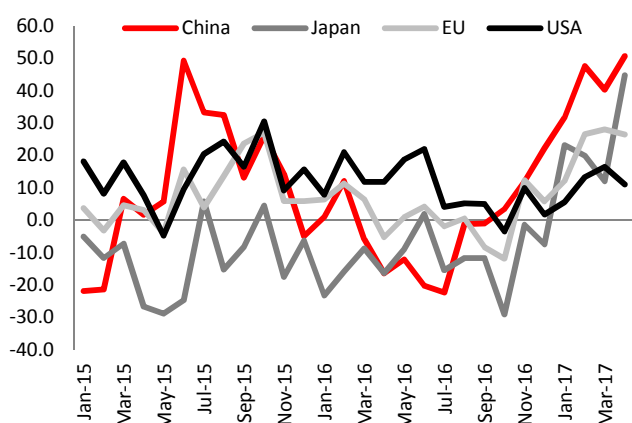
### 2017 GDP Forecast Revised to 5.1%, up from 4.9%

- Soaring trade performance is a booster. For fifth consecutive months, export has been growing by double digits. The latest data released for April saw exports grew 20.6%yoy while imports expanded by 24.7%yoy. Trade balance improved to RM8.75 billion, better than the first quarter average of RM6.3 billion.
- Business Tendency Report 2Q17 reflects optimism in the domestic economy. Business confidence for the second quarter this year indicates the highest confidence ever recorded at +4.5%. This is a steep jump from -6.9% points during the first quarter 2017. Among major sectors, business confidences in the manufacturing and services sectors registered positive indication for the second quarter at +2.4% and +11.3% respectively.
- GDP and exports forecast up to 5.1% and 14.5% respectively in 2017. Strong trade performances from January to April give reasons to believe that the uptrend in global trade activity could sustain for the year. Exports have been recording double digits growth for 5 consecutive months.
- Current account to improve, reiterate USD/MYR forecast of 4.20 by year-end.

**Soaring trade performance is a booster.** For fifth consecutive months, export has been growing by double digits. The latest data released for April saw exports grew 20.6%yoy while imports expanded by 24.7%yoy. Trade balance improved to RM8.75 billion, better than the first quarter average of RM6.3 billion. Business and consumer confidences in developed and emerging economies are indicating optimism for the coming months. China's manufacturing and non-manufacturing PMI for instance have indicated an expansion for both PMI figures in May. Moreover, University of Michigan's consumer sentiment for the US recorded at 97.1 in May, the highest in four months. Based on the current trends, we believe robust global demand will sustain and support Malaysia's trade performances for the rest of 2017.

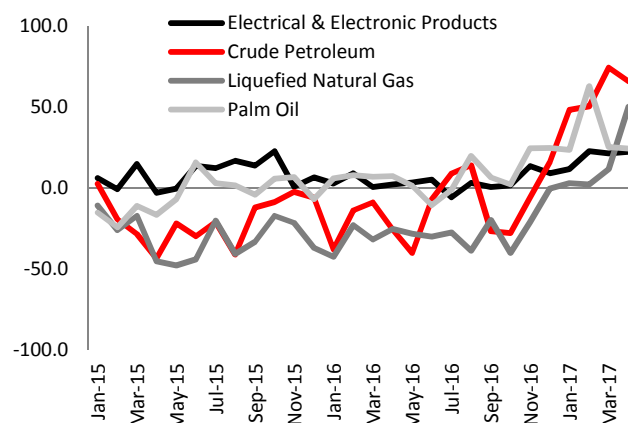
**The strong trade performance were observed in all sectors** with E&E being the major contributor, followed by LNG, refined and crude petroleum products and chemical products, as well as a rebound in palm oil.

**Chart 1: Solid rebound in trade activity among major economies (YoY%)**



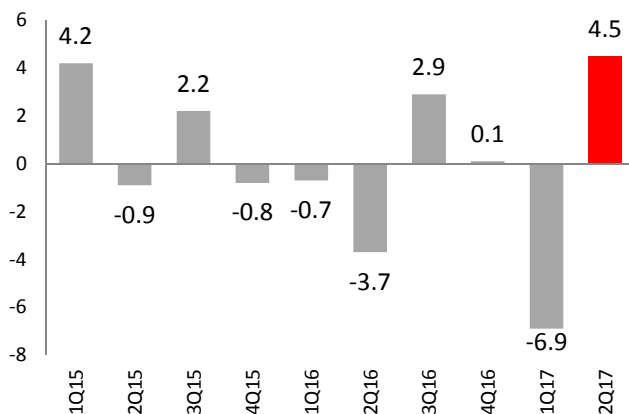
Source: CEIC; MIDFR

**Chart 2: Strong growth among major export products (YoY%)**

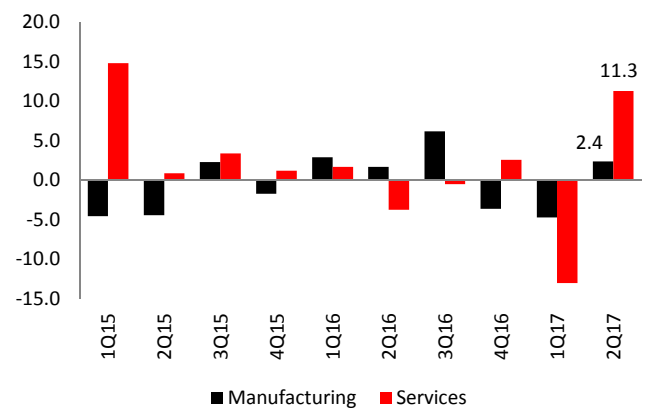


**Business Tendency Report 2Q17 reflects optimism in the domestic economy.** Business confidence for the second quarter this year indicates the highest confidence ever recorded at +4.5%. This is a steep jump from -6.9% points during the first quarter 2017. Among major sectors, business confidences in the manufacturing and services sectors registered positive indication for the second quarter at +2.4% and +11.3% respectively. Manufacturing and services sectors constitute about 22.8% and 54.2% of Malaysia's total GDP. Hence, we opine Malaysia economy will remain expanding above 5%yoy for the second quarter given that business confidences for overall as well as major sectors indicate stronger optimism level. Improvement in global trade activities and strengthening domestic economic activities are major factors driving up Malaysia's economic growth for the upcoming quarters in 2017.

**Chart 3: Business Tendency Index (%)**



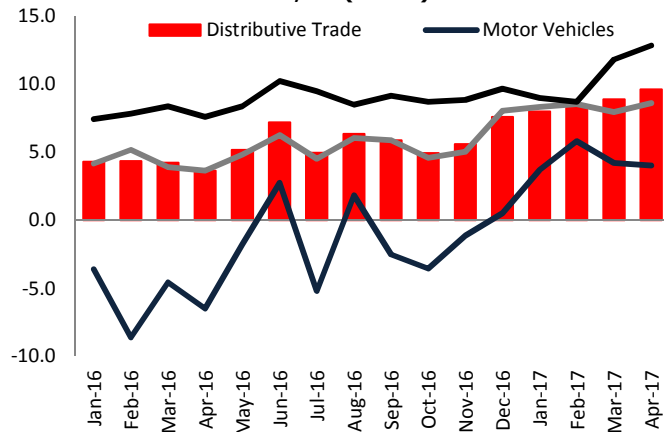
**Chart 4: Confidence Indicators by Selected Sectors (%)**



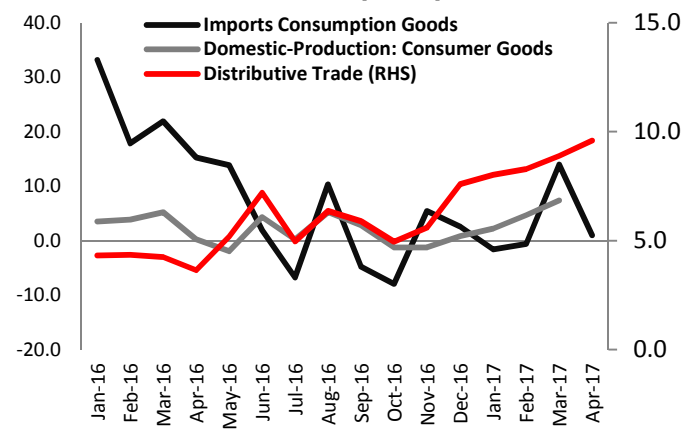
Source: CEIC; MIDFR

**Distributive trade surged to almost 3-year high.** Distributive trade and retail trade expanded by 9.6%yoy and 12.9%yoy respectively in April 2017, the highest since May 2014. As for other components of distributive trade, wholesale trade and motor vehicles increased by 8.6%yoy and 4%yoy respectively, significantly better than previous year average. We notice strong uptick in the distributive trade since middle of 2016 and hence provide a solid signal on the current momentum in Malaysia's domestic spending. Apart of external trade, strong expansion in domestic economic activities especially via private consumption and services sector will drive Malaysia's economic growth this year. We expect Malaysia's private consumption and services sector to grow by 6.3% and 5.4% respectively in 2017.

**Chart 5: Distributive Trade, DT (YoY%)**



**Chart 6: DT vs Consumer Goods (YoY%)**

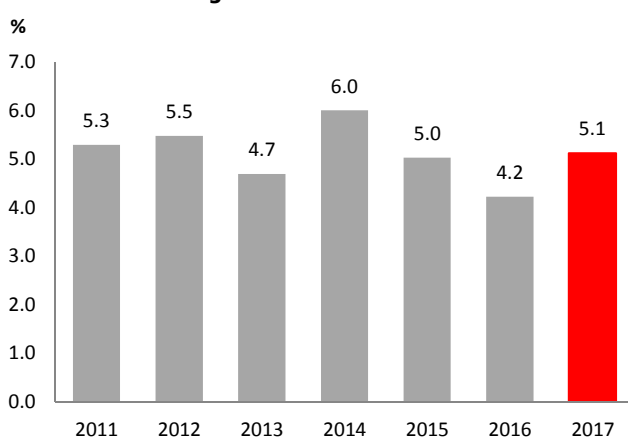


Source: CEIC; MIDFR

**Current account to improve, reiterate USD/MYR forecast of 4.20 by year-end.** We reckon current account will improve this year, bucking the downtrend established since 2011. In 2016, current account to GNI ratio was 2.1%. This could lend some support to Ringgit to strengthen from the current level of USD/MYR 4.20 by year-end of 2017. Higher commodity prices have so far translated into better terms of trade which in turn drive bigger trade surplus. For the first four months of the year, trade balance reached RM27.6 billion

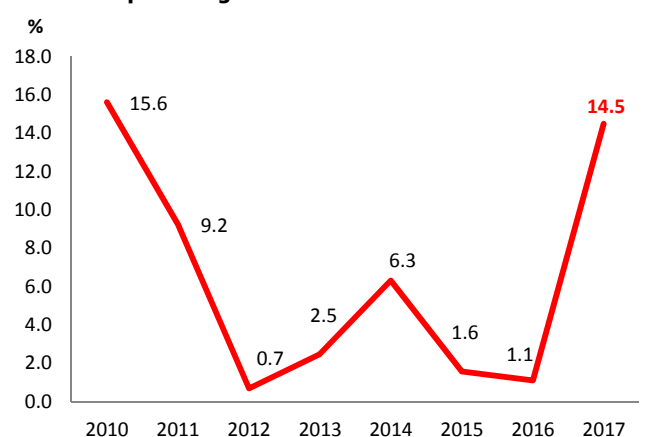
**GDP and exports forecast up to 5.1% and 14.5% respectively in 2017.** Strong trade performances from January to April give reasons to believe that the uptrend in global trade activity could sustain for the year. Exports have been recording double digits growth for 5 consecutive months. The windfall from surging trade is a boon especially for exports-oriented industries i.e E&E, chemicals, petroleum products and palm oil. Hence, there will be a positive trickle-down effect to domestic economic activities via output production, investment, employment, income and consumption. With all these factors considered, we revise our 2017 GDP growth projection to 5.1%, up 0.2% percentage point from our previous forecast of 4.9% while exports forecast is upgraded to 14.5% from 8.5% previously. 📈

**Chart 7: 2017 GDP growth revised to 5.1% from 4.9%**



Source: CEIC; MIDFR

**Chart 8: Exports to grow 14.5% in 2017**



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