

## ECONOMIC REPORT | National Account

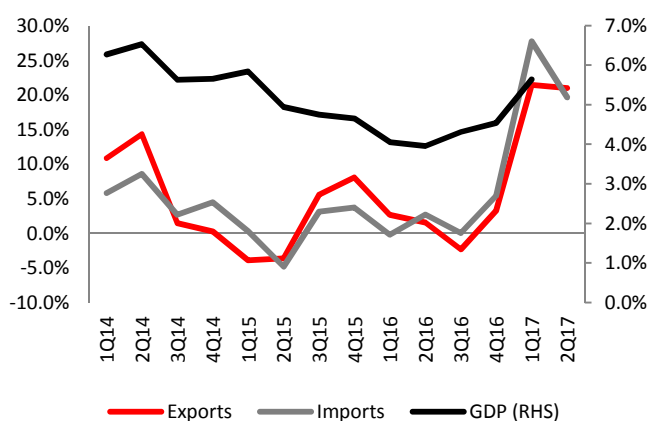
### 2Q17 GDP Growth Seen Slowing on Weaker Private Investment

- External trade performance remains under the spotlight. Despite of the slowdown, exports outpaced imports during 2Q17 which resulted into better trade surplus. Unlike 1Q17, net exports will be major contributors towards GDP growth in the 2Q17.
- Slowdown in private investment. Current trends of imports of capital and intermediate goods were pointed toward moderation in private investment. On the other hand, we also noticed sharp decline in loan approved as it went down from double digit growth of 13.6%yoy in 1Q17 to 2.5%yoy in 2Q17.
- GDP growth for 2Q17 to hit 5.1%. Malaysia's economic activities maintain on upward trajectory amid strong domestic spending and robust external trade performances. We opine private consumption and net exports will be the main drivers for the economic growth in second quarter of 2017.

**External trade performance remains under the spotlight.** Regarding external trade performances, we observed moderating trends in both exports and imports. For 2Q17, exports grew 21%yoy (1Q17: 21.4%yoy) while imports grew at 19.6%yoy (1Q17: 27.7%yoy). Despite of the slowdown, exports outpaced imports during 2Q17 which resulted into better trade surplus (Ave. Monthly Value for 1Q17 & 2Q17; RM6.3 billion vs RM8 billion). Unlike 1Q17, net exports will be major contributors towards GDP growth in the 2Q17.

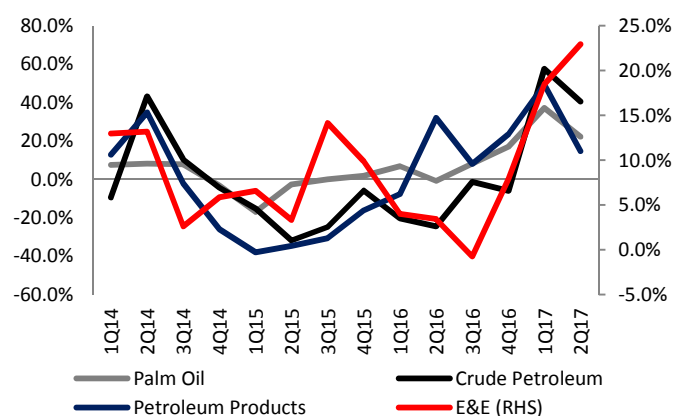
**Sustained global demand, lukewarm commodity prices in 2Q17.** By exports category, commodity-based products such as palm oil, crude petroleum and petroleum products were declining due to tepid recovery in prices during 2Q17. On a flip side, demand on manufactured goods remains upbeat reflecting robustness in global demand. Henceforth, we foresee higher trade balance will contribute positively towards Malaysia's GDP growth during 2Q17.

**Chart 1: External Trade vs GDP (YoY%)**



Source: DOSM, MIDFR

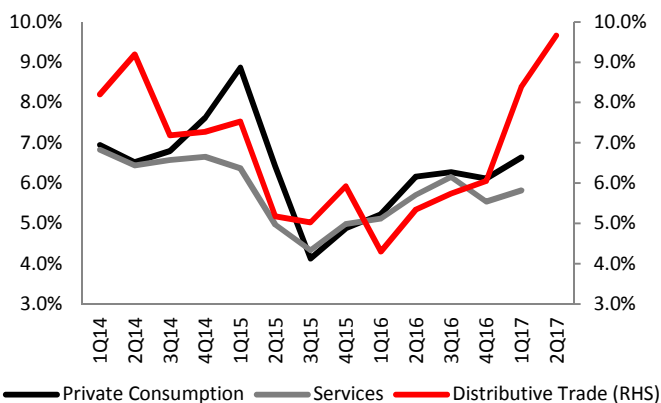
**Chart 2: Export by Products (YoY%)**



Source: DOSM, MIDFR

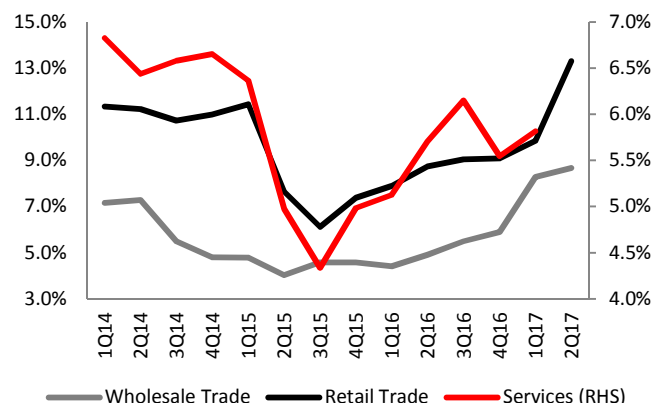
**Solid private consumption performance in the 2Q17.** Based on distributive trade performance, private consumption and services sector which contribute more than half of total GDP are expected to record higher growth as compared to 1Q17. Distributive trade increased by 9.7%yoy during 2Q17 (1Q17: 8.4%yoy) with the strong contributions by wholesale and retail trade which grew by 8.7%yoy and 13.3%yoy respectively (1Q17: 8.3%yoy & 9.8%yoy). Therefore, we believe private consumption and services sector will record solid growth, higher than 1Q17 result.

**Chart 3: DT vs Private Consumption vs Services (YoY%)**



Source: DOSM, MIDFR

**Chart 4: Services vs Wholesale & Retail Trade (YoY%)**

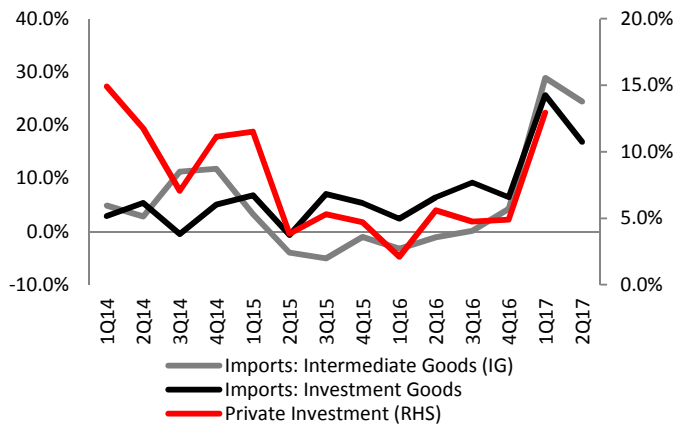


Source: DOSM, MIDFR

**Slowdown in private investment.** Current trends of imports of capital and intermediate goods were pointed toward moderation in private investment. Capital and intermediate goods expanded by 16.9%yoy and 24.4%yoy respectively in 2Q17 (1Q17: 25.6%yoy & 28.9%yoy). We believe the weaknesses in commodity prices in 2Q17 affect Malaysia's investment activities especially via less capital expenditure in the commodity-based sectors. Brent oil price improved modestly in 2Q17 by 9.3%yoy (4Q16: 15.7%yoy, 1Q17: 54.9%yoy).

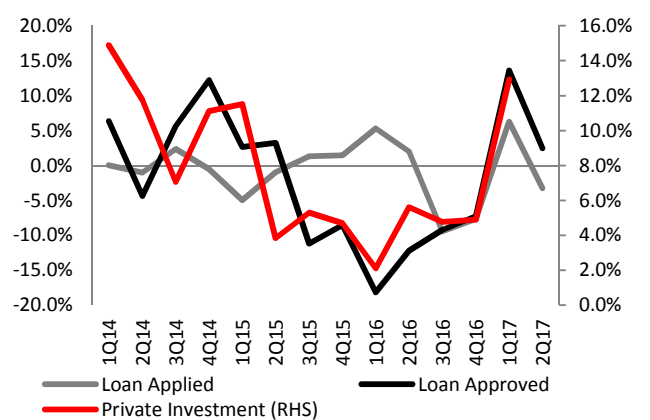
**Private investment – decline in loan approved .** On the other hand, we also noticed sharp decline in loan approved as it went down from double digit growth of 13.6%yoy in 1Q17 to 2.5%yoy in 2Q17. Looking into details, vehicle loans and working capital shrank by 4.8%yoy and 5.5%yoy during 2Q17, whereas both registered strong growth in the previous quarter. Hence, we view the slowing down in both imports and loan growths were signs of moderating private investment in 2Q17.

**Chart 5: Private Investment vs Imports (YoY%)**



Source: CEIC, MIDFR

**Chart 6: Private Investment vs Loan Growth (YoY%)**



Source: CEIC, MIDFR

**GDP growth for 2Q17 to hit 5.1%.** Malaysia's economic activities maintain on upward trajectory amid strong domestic spending and robust external trade performances. We opine private consumption and net exports will be the main drivers for the economic growth in second quarter of 2017. On the other hand, private investment is anticipated to moderate as compared to the last quarter. As for the whole year, we maintained our estimate of 5.1% GDP growth in 2017. 📈

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