5 December 2017

MONTHLY ECONOMIC REVIEW | November 2017

Upbeat Macroeconomic Performance Continues in 3Q17

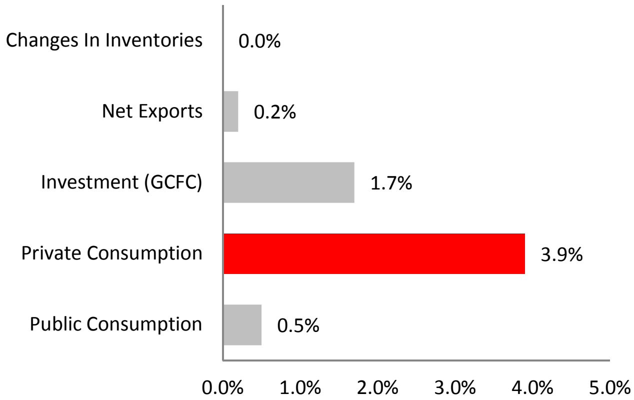
- *Expecting slight slowdown in economic growth for the third quarter of 2017. Based on the recently released MIER survey results, Business Condition Index and Consumer Sentiment Index showed slim downward trends in the third quarter as compared to previous quarters.*
- *Ensuring unity and economic growth, inclusive prudent spending, wellbeing of the Rakyat. Budget 2018 is viewed as expansionary in nature, aiming at supporting Malaysia's economic growth and at the same time ensuring better and efficient income distribution to cater for specific target groups. In addition, the Government continues on consolidating its fiscal plan in order to achieve its balanced budget by 2020.*
- *Headline inflation up as expected. Headline inflation rose by 4.3% in September, at par with market expectations. So far, the average inflation rate for three quarters in 2017 is 4%, slightly above our yearly forecast of 3.8%. The recent uptick in overall prices was mainly driven by rise in fuel and transport prices.*

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.

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.

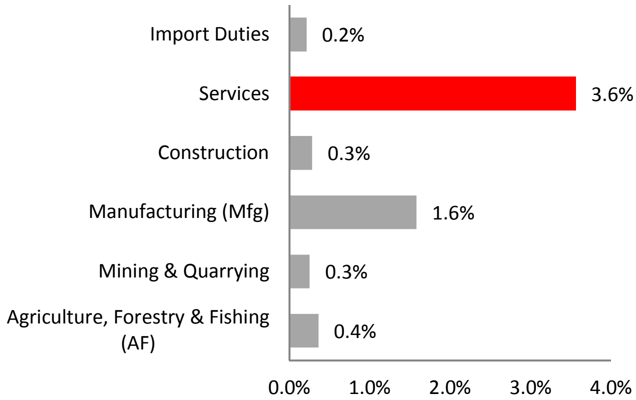
Broad-based uptick global economic growth. Developed and emerging economies remain on upbeat momentum for the past nine months albeit continuous strong external trade activities, modest retrieval in commodity prices and improvement in domestic spending. The US economy expanded by 2.3%yoy in 3Q17, while 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.

Chart 1: Contribution by Expenditure Components (%)



Source: CEIC, MIDFR

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

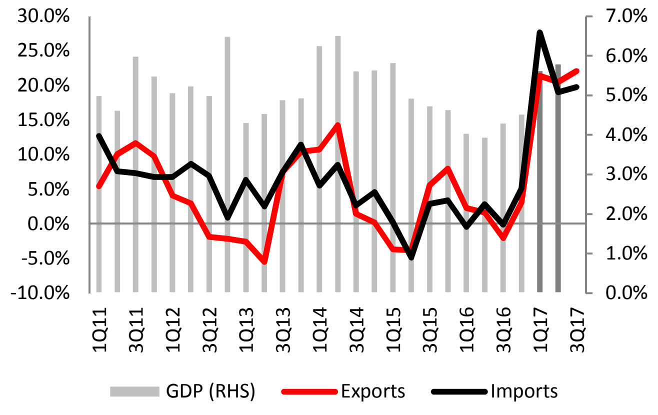


Source: CEIC, MIDFR

Exports growth lower than market expectations. Exports expanded by 14.8%yoy in September, well below market expectations of 20%. It is the tenth consecutive months of double digit expansion in exports since December 2016. Similarly, imports growth is moderating and registered at 15.2%yoy during the month. Trade surplus slightly lower than August, reaching RM8.6 billion. Among others, high base effect is a key factor for the deceleration in both exports and imports. On a flip side, exports and imports grew by 22%yoy and 19.8%yoy respectively in the third quarter of 2017. Moreover, trade surplus amounted to RM26.5 billion during the third quarter, the highest ever in 2017. Therefore, we can expect Malaysia's GDP growth to reach above 5% due to robust external trade performance during the quarter.

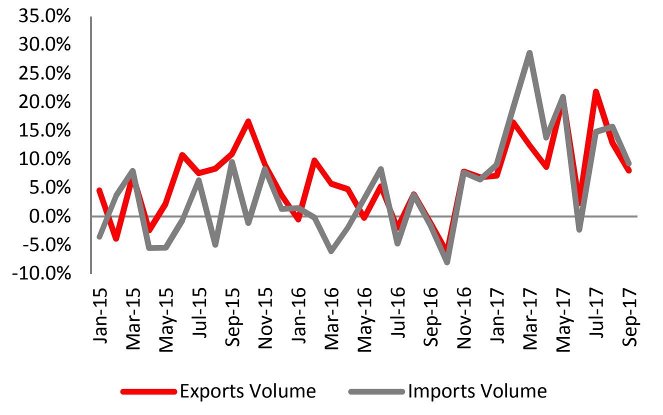
Exports volume surged highest on record. Malaysia's exports volume expanded by 7.9%yoy in September, thus resulting 14.2%yoy growth for the third quarter of 2017. In September, steady growth in exports volume is contributed by double digit expansion in manufactured goods and machinery & transport equipment by 13.7%yoy and 15.7%yoy respectively. However, exports volume of mineral fuel-related and chemical contracted by 5.7%yoy and 6.6%yoy respectively. Overall, the robust trend in exports volume indicates for another strong economic growth to be recorded in the third quarter of 2017.

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



Source: CEIC, MIDFR

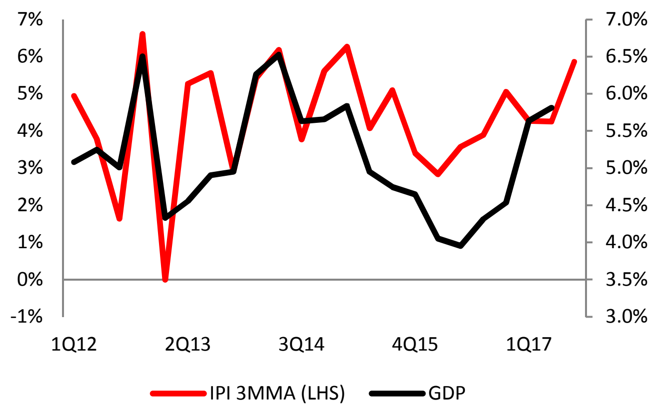
Chart 4: Exports vs Imports Volumes (YoY%)



Source: CEIC, MIDFR

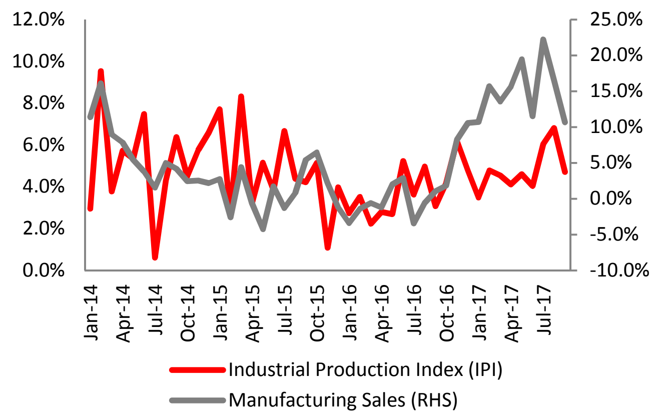
Robust expansion in overall IPI performance hints for solid economic growth in the third quarter. In September, industrial production rose by 4.7%yoy, slightly lower than the previous two months. Similar downward trends were seen in mining, manufacturing and electricity which up by 2.1%yoy, 7.1%yoy and 2.2%yoy respectively. Nevertheless, IPI growth in the third quarter recorded at 5.9%yoy, fastest in ten quarters. Moreover, productions of mining, manufacturing and electricity grew at highest pace so far in 2017, registering 2.5%yoy, 7.1%yoy and 4.4%yoy respectively. Hence, we expect Malaysia's GDP growth for the third quarter to hover above 5.5%. Among others, strong external demand and surged in commodities prices especially petroleum products are two major factors contributing to the upbeat economic activity.

Chart 5: IPI vs GDP (YoY%)



Source: CEIC; MIDFR

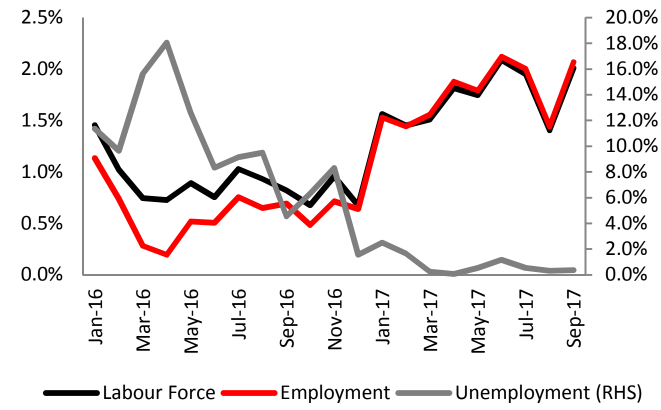
Chart 6: IPI vs Manufacturing Sales (YoY%)



Source: CEIC; MIDFR

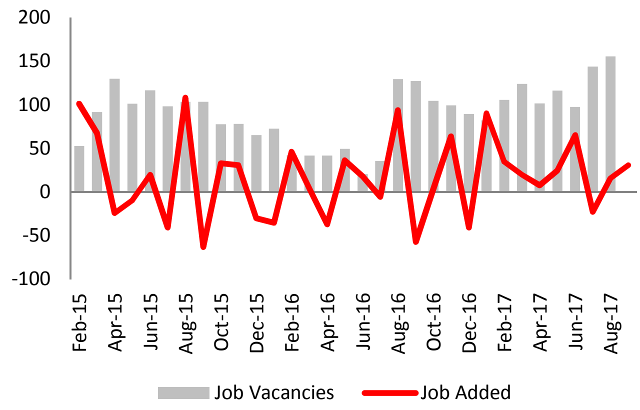
Malaysia's labour market remains healthy. Better performance in the labour market was due to healthy expansions in both labour force and employment by 2%yoy and 2.1%yoy accordingly in September. Plus, unemployed persons reduced from 519 thousands in July to 515 thousands in September. Hence, this positive development put Malaysia's unemployment at 3.4% during the month. As domestic economic activities are on upbeat momentum, growths in both labour force and employment have been outpacing unemployment growth for seven consecutive months since March 2017.

Chart 7: Labour Market Key Indicators (YoY%)



Source: CEIC; MIDFR

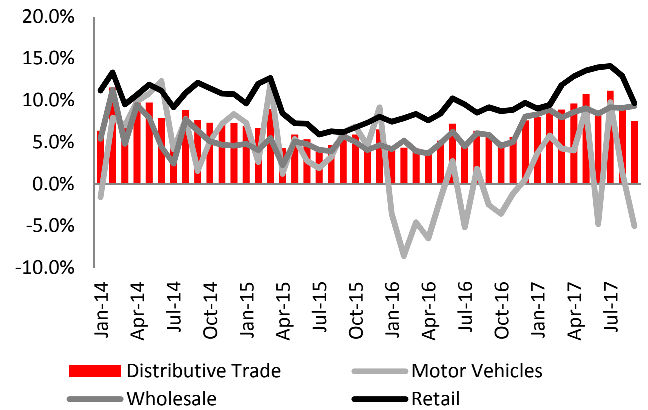
Chart 8: Jobs Added vs Vacancies ('000)



Source: CEIC; MIDFR

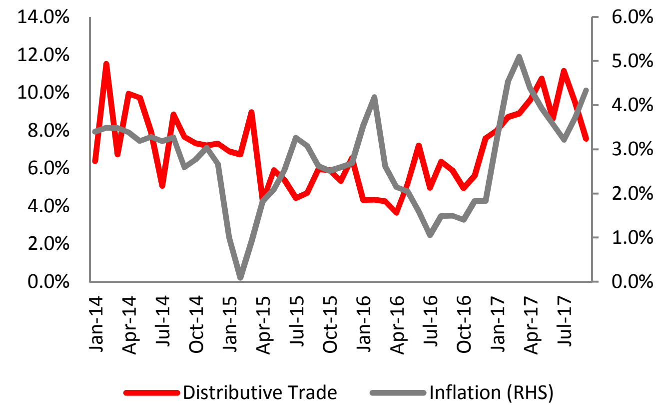
Distributive trade grew by 7.6%yoy, slowest in 2017. Moderating expansion in distributive trade is contributed by slowdown in retail sales growth and contraction by 5%yoy in sales of motor vehicles in September. Wholesale trade sales increase by 9.3%yoy, slightly higher than the previous month. Among others, we opine the rise in inflation which hits 5-months high during the month at 4.3% put pressure on domestic spending. Looking ahead, we predict distributive trade sales will moderate in October given that inflation is expected to rise due to surge in fuel price globally and locally. Nevertheless, the latest distributive trade figures still indicate that Malaysia's domestic demand remains on upbeat trajectory and we expect the trend will stay on until end of the year.

Chart 9: Distributive Trade, DT (YoY%)



Source: DOSM, MIDFR

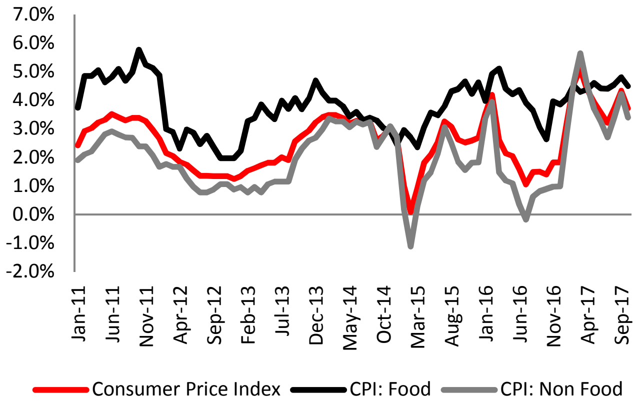
Chart 10: Distributive Trade vs Inflation Rate (YoY%)



Source: DOSM, MIDFR

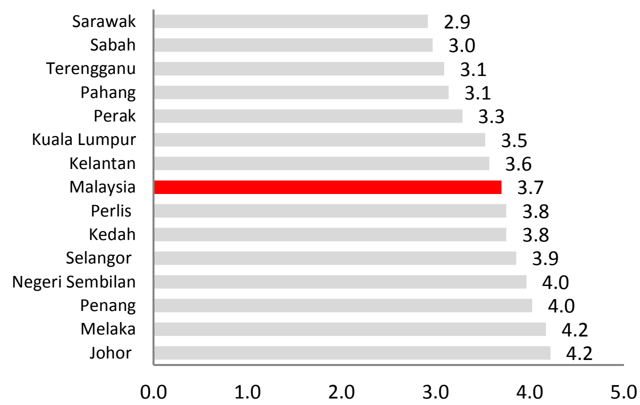
Headline inflation lower than expected. Headline inflation rose by 3.7%yoy in October, well below market expectations of 4.1%yoy. So far, the average inflation rate for the first ten months of 2017 is 4%yoy, slightly above our yearly forecast of 3.8%. The slight slowdown in inflation is in tandem with transport inflation trend which declined from 15.8%yoy in September to 12.1%yoy last month. However, we view the inflation will return to uptrend direction given that global crude oil and retail fuel prices are on high side in November. On a flip side, food and non-food up by 4.4%yoy and 3.4%yoy respectively while core inflation went down to 9-months low at 2.3%yoy in October.

Chart 11: CPI: Headline vs Food & Non-Food (YoY%)



Source: DOSM, MIDFR

Chart 12: Inflation by States in October (YoY%)



Source: DOSM, MIDFR

Table 1: Macroeconomic Data Updates

(YoY%) Unless Stated Otherwise	2015	2016	2017[f]	1Q17	2Q17	3Q17	4Q17[f]
Real GDP	5.0	4.2	5.8	5.6	5.8	6.2	5.7
Private Consumption	5.5	6.1	7.0	6.6	7.1	7.2	7.1
Public Consumption	4.7	1.0	5.0	7.5	3.3	4.2	5.2
Gross Fixed Capital Formation	3.4	2.7	5.7	10.0	4.1	6.7	1.8
Exports of goods & services	0.6	0.1	9.2	9.8	9.6	11.8	5.4
Imports of goods & services	1.2	0.4	10.3	12.9	10.7	13.4	4.3
Net Exports	(3.3)	(1.8)	0.4	(14.5)	1.4	1.7	13.2
Exports of Goods (f.o.b)	1.9	1.1	14.5	21.4	21.0	11.2	4.5
Imports of Goods (c.i.f)	0.4	1.9	15.5	27.7	19.6	11.0	3.7
Trade Balance - RMb	94.3	87.2	97.5	18.9	24.1	26.7	27.8
Consumer Price Index	2.1	2.1	3.8	4.3	4.0	3.4	3.3
Current Account - RMb	35.2	29.0	32.3	-	-	-	-
Current Account - % of GNI	2.8	2.1	2.2	-	-	-	-
Fiscal Balance - % of GDP	(3.2)	(3.1)	(3.0)	-	-	-	-
Federal Government Debt - % of GDP	54.3	53.8	53.0	-	-	-	-
Nominal GDP	4.5	6.2	7.2	-	-	-	-
End of Unless States Otherwise	**2015**	**2016**	**2017[f]**	**1Q17**	**2Q17**	**3Q17**	**4Q17[f]**
Brent Crude Oil (Avg)	53.6	43.6	53.0	54.7	51.0	52.3	54.0
Crude Palm Oil (Avg)	2,168	2,652	2,825	-	-	-	-
USD/MYR (Avg)	3.90	4.14	4.30	4.40	4.30	4.25	4.25
EUR/MYR (Avg)	4.33	4.58	4.65	4.70	4.50	4.75	4.65
JPY/MYR (Avg)	3.22	3.81	3.88	3.90	3.75	3.85	4.00
SGD/MYR (Avg)	2.84	3.00	3.23	3.10	3.10	3.25	3.45
Brent Crude Oil	37.3	56.8	50.0	-	-	-	-
Crude Palm Oil	2,200	3,218	2,725	-	-	-	-
USD/MYR	4.29	4.48	4.20	-	-	-	-
EUR/MYR	4.69	4.72	4.65	-	-	-	-
JPY/MYR	3.57	3.83	4.00	-	-	-	-
SGD/MYR	3.04	3.10	3.35	-	-	-	-
Yield on generic 10-year MGS (%)	4.19	4.22	4.29	4.10	4.05	4.35	4.65
3-month KLIBOR (%)	3.84	3.41	3.78	3.40	3.60	3.90	4.20
Overnight Policy Rate (%)	3.25	3.00	3.00	3.00	3.00	3.00	3.00

Source: MIDFR

November 2017 Key Economic Events

1 Nov: Trump Selects Powell for Fed Chairman, Replacing Yellen. In Powell, he'll select a former private-equity executive who favours continuing gradual interest-rate increases and sympathizes with White House calls to ease financial regulations. Market reaction to the news was muted, given broad expectations that Powell would be the pick. The dollar retreated slightly in Asian trading Thursday, and Treasury yields dipped. S&P 500 futures were down modestly as traders consider prospects for U.S. tax cuts.

2 Nov: Malaysia slips a spot to 24th in World Bank's business ranking. Malaysia's global ranking among 190 economies fell another notch to the 24th spot in the World Bank's Doing Business Report 2018 (DB 2018) after it slipped one spot to the 23rd place in the previous report released last year. However, World Bank's country manager in Malaysia Faris Hadad-Zervos said Malaysia recorded an improvement of 0.96 percentage points (ppts) in terms of overall distance to frontier (DTF) score this year to 78.43, from 77.47 last year. The DTF score measures the distance of each economy to the "frontier economy", which is the best performing country on each of the indicators measured in the ranking.

5 Nov: Saudi Arabia arrests princes, ministers and business figures in anti-corruption crackdown. Billionaire tycoon Prince Alwaleed bin Talal and National Guard chief Prince Miteb bin Abdullah among dozens of officials and businessmen detained. Dozens of Saudi government officials and businessmen have been detained in an anti-corruption crackdown, including Prince Alwaleed bin Talal, one of the kingdom's most prominent tycoons. The arrests came shortly after a new anti-corruption committee, headed by Crown Prince Mohammed bin Salman, was formed by a royal decree.

11 Nov: Remainder 11 TPP countries agree to move ahead by suspending 20 provisions. Malaysia, together with the 10 remaining Trans Pacific Partnership (TPP) trade deal countries, have agreed that 20 provisions of the TPP agreement -- more known as TPPA in Malaysia -- be suspended to revive the deal, according to Malaysia's Ministry of International Trade and Industry (MITI). The 11 members -- namely Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam -- also agreed on the text of the agreement, which has been renamed as the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership or CPTPP in short.

15 Nov: Mugabe's Era Comes to an End as Zimbabwe's Military Seizes Power. Zimbabwe's military seized power and detained 93-year-old President Robert Mugabe in a struggle over the succession of the only leader the African nation has ever known. Mugabe was confined at his home, while Zimbabwe Defense Forces spokesman Major-General Sibusiso Moyo said in a televised address that the military action was "targeting criminals around him who are committing crimes."

18 Nov: Bank Negara's dire warning for the property market. Bank Negara has characterised Malaysia's property market as one with an oversupply of non-affordable homes and idle commercial space. In the central bank's quarterly bulletin yesterday, the report also indicated that Malaysia had an undersupply of affordable homes. The number of unsold residential properties is currently at decade-high, primarily due to a mismatch between new housing launches and what households can afford to pay, the bank added.

21 Nov: Household savings growth 'not promising'. The growth of Malaysia's household savings — the difference between disposable income and consumption — is "not that promising", said the statistics department. Chief statistician Datuk Seri Dr Mohd Uzir Mahidin said household savings accounted for a meagre 0.9% or RM6 billion of the overall household income, which stood at RM638.8 billion in 2014. This was based on data from the newly constructed Social Accounting Matrix (SAM), the public release of which was launched by Mohd Uzir yesterday.

27 Nov: Malaysia's 3Q labour productivity up 4.2% y-o-y. Malaysia's labour productivity improved by 4.2% year on year to RM82,456, after rising 4% (RM79,693) in the preceding quarter. In a statement today, the Statistics Department said the agriculture sector recorded the highest labour productivity growth, followed by the manufacturing and construction sectors. Labour productivity in the mining and quarrying sector however recorded a value at RM999,423 in Q3 2017, the Statistics Department said, continuing its declining trend to a negative 8.5% (Q2 2017: -3.3%).

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