

**ECONOMIC REVIEW | 2Q 2017 National Account****2Q2017 GDP Growth Expands 5.8% - Fastest in 2 Years**

- *GDP Growth 2Q17 beats market expectations. Malaysia's GDP growth expanded by 5.8%yoy in 2Q17, beats market expectations of 5.4%yoy and it is the fastest pace since 1Q15. The strong growth mainly supported by private consumption which grew by 3.8% and followed by investment at 1.1%.*
- *Private sectors remain the main contributor. Economic growth for 2Q17 was mainly contributed by private consumption and investment with both grew solidly by 7.1%yoy and 7.4%yoy respectively. Improvement in Malaysia's consumption and investment was explained by the optimism in consumer and business confidence during 2Q17*
- *Net exports growth turned positive. We observed growth in exports outpaced growth in imports twice during 2Q17, in May and June. Solid momentum in exports growth coupled with slowdown in imports for 2Q17 leads to positive performance of net exports. Net exports improved from RM18.3 billion in 1Q17 to RM21 billion in 2Q17.*
- *We maintain our GDP forecast of 5.1% in 2017. Based on the current indicators, we are optimistic that Malaysia's economy to expand by 5.1% this year given the upbeat performance of domestic and global economy. Moving forward, we foresee the economic performance in the second half of 2017 to expand at slower pace.*

**GDP Growth 2Q17 beats market expectations.** Malaysia's GDP growth expanded by 5.8%yoy in 2Q17, beats market expectations of 5.4%yoy and it is the fastest pace since 1Q15. The strong growth mainly supported by private consumption which grew by 3.8% and followed by investment at 1.1%. From supply side, services and manufacturing sectors contributed significantly by 3.4% and 1.4% respectively. We view the upbeat momentum in GDP growth was reflected in the steady performances of industrial production, distributive trade and external trade in the first half of 2017. We opine strengthening domestic demand and upbeat external demand are the major anchors driving up GDP performance in 2Q17.

**Private sectors remain the main contributor.** Economic growth for 2Q17 was mainly contributed by private consumption and investment with both grew solidly by 7.1%yoy and 7.4%yoy respectively. Improvement in Malaysia's consumption and investment was explained by the optimism in consumer and business confidence during 2Q17. According to Malaysian Institute of Economic Research (MIER), business confidence rose from 112.7 point in 1Q17 to 114.1 point in 2Q17 while consumer confidence grew firmly to 80.7 point from 76.6 point in the first quarter. The commendable performance of private sector in the first six months of the year validates the cue in both leading indicators.

**Net exports growth turned positive.** We observed growth in exports outpaced growth in imports twice during 2Q17, in May and June. As compared to the previous quarter, January to March saw the opposite trends. Solid momentum in exports growth coupled with slowdown in imports for 2Q17 leads to positive performance of net exports. Net exports improved from RM18.3 billion in 1Q17 to RM21 billion in 2Q17. Looking at export products, manufactured goods remain as the main contributor and this followed by mining and agriculture goods amid sanguine global demand as well as modest recovery in commodity prices.

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

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

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 6.3%yoy, highest in two years. Among services sub-sectors, the top three contributors are retail 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 second half of 2017 would see sturdy momentum in domestic spending to continue given that festive seasons such as Eid-Adha, Deepavali and Christmas as well as events such as the SEA Games 2017 and long school holidays will occur during the half.

**Weakening in commodity prices.** Agriculture and mining sectors grew modestly by 5.9%yoy and 0.2%yoy in 2Q17, indicating slight slowdown as compared to the previous quarter. The trend is in line with the weakening in commodity prices in 2Q17. For instance, Brent oil rose tepidly by 1.7%yoy whereas during 1Q17, the price growth was 49.4%yoy. For manufacturing, the sector expanded by 6%yoy, underpinned by continuous strong external trade performances. Gauging by current momentum in external demand, we reckon manufacturing sector will continue to perform better for the rest of the year.

**Construction rose 8.3%yoy in 2Q17.** The fastest growing economic sector grew 8.3%yoy in 2Q17. The growth is contributed by firming performances in civil engineering, special trades and non-residential which expanded by 19.3%yoy, 11.6%yoy and 9.7%yoy respectively. On the long term, we could expect the construction sector to rise steadily due to rising construction activities which include infrastructure projects such as railway construction.

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

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

Source: DOSM, MIDFR

**Solid recovery in regional and global economic activities.** Developed and emerging economies remain on upbeat momentum for both 1Q17 and 2Q17 albeit continuous strong external trade activities, modest retrieval in commodity prices and improvement in domestic spending. The US economy expanded by 2.1%yoy in 2Q17, higher than previous year average growth of 1.5%yoy. As for China, the second world largest economy rose by 6.9%yoy for two consecutive quarters, beating the official growth target of 6.5%. Among ASEAN economies, economic expansion in 2Q17 is seen stable staying on upward trend path. For instance, Indonesia's economy rose steadily at 5%yoy for the 1H17, maintaining same pace with 2016's momentum while Singapore posted 2.9%yoy during the 2Q17, highest in ten quarters. Moving forward, we foresee moderating expansion pace in developed and emerging economies for the 2H17 due to tapering off of high base effect.


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

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Malaysia	4.2	4.0	4.3	4.5	5.6	5.8
Indonesia	4.9	5.2	5.0	4.9	5.0	5.0
Philippines	6.9	7.1	7.1	6.6	6.4	6.5
Thailand	3.1	3.6	3.2	3.0	3.3	
Singapore	1.9	1.9	1.2	2.9	2.5	2.9
Japan	1.4	1.3	0.9	1.6	0.6	1.7
China	6.7	6.7	6.7	6.8	6.9	6.9
United States	1.4	1.2	1.5	1.8	2.0	2.1
Euro Area	1.7	1.6	1.7	1.9	1.9	2.2

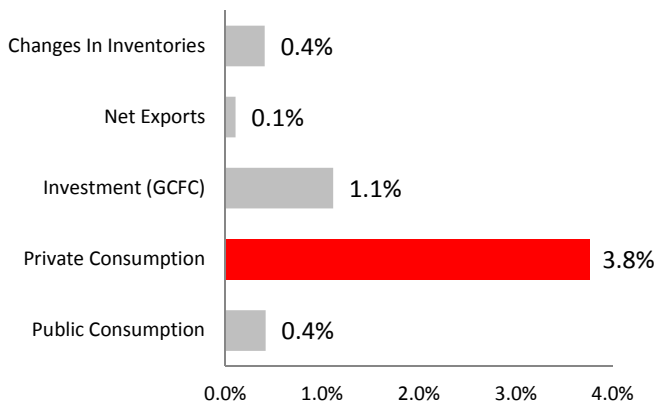
Source: CEIC, MIDFR

**Geopolitical conflicts remain as potential downside risks.** Despite of firming improvement in global market, geopolitical conflicts in developed and developing economies remain a challenge to global economic activity. The US-North Korea conflicts, terrorist attacks in Europe and Middle East tensions are some of the possible risks towards global growth. On the other hand, sluggish commodity prices will posed downward pressure on commodity-related industries. Hence, risks on global economy and weakening commodity prices will affect Malaysia's economy via external trade and investment.

**Our OPR forecast for 2017 remain unchanged at 3.00%.** Fundamentally, global economic condition has improved compared from a year ago. Upbeat economic performance seen in the first half of the year is expected to continue albeit at the slower pace. We maintain our stance that Bank Negara will continue with the current supportive monetary stance. We are maintaining our expectation of no change in BNM's monetary stance for 2017 with OPR remain at 3.0%.

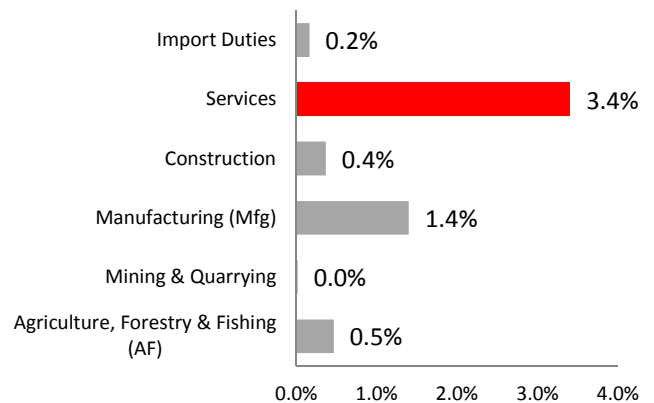
**We maintain our GDP forecast of 5.1% in 2017.** Based on the current indicators, we are optimistic that Malaysia's economy to expand by 5.1% this year given the upbeat performance of domestic and global economy. Besides, improving labour market, continued wage growth and moderating inflation will support and spur domestic economy. Moving forward, we foresee the economic performance in the second half of 2017 to expand at slower pace. 

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



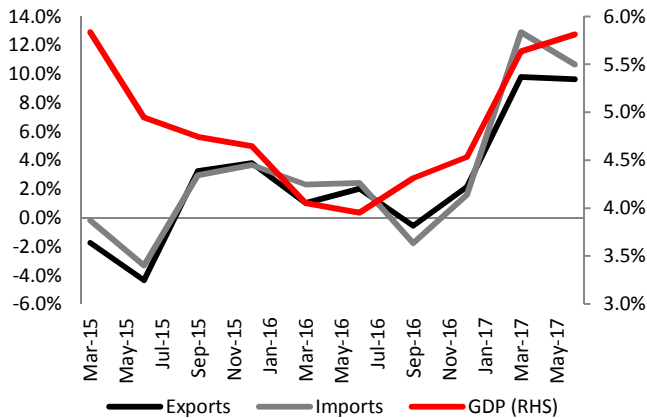
Source: DOSM, MIDFR

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



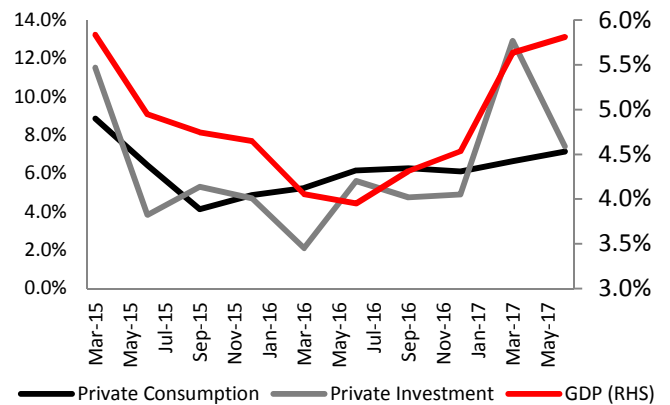
Source: DOSM, MIDFR

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



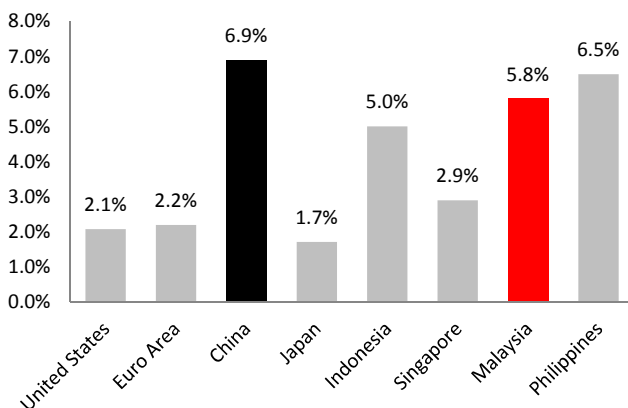
Source: DOSM, MIDFR

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



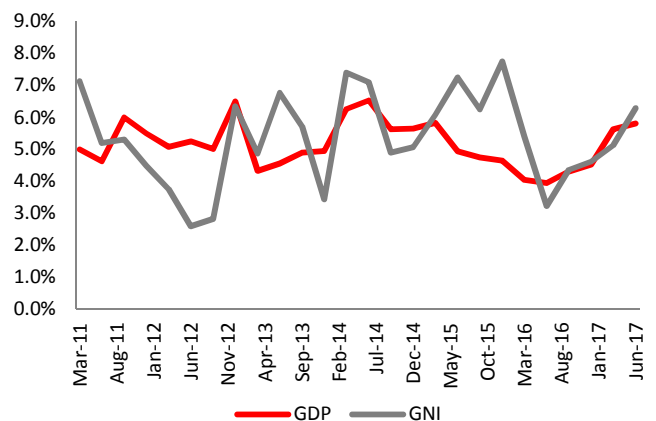
Source: DOSM, MIDFR

**Chart 5: GDP Growth 2Q17 by Selected Economies (YoY%)**



Source: DOSM, MIDFR

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



Source: DOSM, MIDFR

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