

**ECONOMIC REVIEW | 1Q 2017 National Account****1Q2017 GDP Growth Fastest in 2 Years at 5.6%**

- *GDP growth is slightly above our expectation of 5.4%yoy. Malaysia GDP reached 5.6%yoy in the first quarter, highest in two years. The strong growth is expected due to better performance in global as well as domestic economic activities for the first three months in 2017.*
- *Private sectors remain the main contributor. Economic growth for the first quarter is mainly contributed by private consumption and investment with both grew solidly by 6.6%yoy and 12.9%yoy respectively. Apart from that, total investment rose sharply by 10%yoy, triple than previous year's growth of 3.1%.*
- *Thanks to improved commodities prices. Agriculture, forestry and fishing sector recorded the highest growth among major economic sectors. The sector grew by 8.3%yoy after four consecutive quarters of contraction. Due to elevated commodities prices in global market, rubber and oil palm recorded a double digits growth of 23.5%yoy and 17.7%yoy respectively.*
- *Malaysia's economy on track for 4.9% growth. Based on the current indicators, we are optimistic that Malaysia's economy to expand by 4.9% this year given the upbeat performance of domestic and global economy. Moving forward, we opine steady improvement in major economies coupled with modest growth in commodities prices will provide a positive impact on Malaysia's economy via exports demand and increase in industrial production especially in the export-oriented industries.*

**GDP growth is slightly above our expectation of 5.4%yoy.** Malaysia GDP reached 5.6%yoy in the first quarter, highest in two years. The strong growth is expected due to better performance in global as well as domestic economic activities for the first three months in 2017. This is line with the upward trend in industrial production which grew by 4.3%yoy during the first quarter. We are maintaining our forecast for GDP growth this year at 4.9%.

**Private sectors remain the main contributor.** Economic growth for the first quarter is mainly contributed by private consumption and investment with both grew solidly by 6.6%yoy and 12.9%yoy respectively. Apart from that, total investment rose sharply by 10%yoy, triple than previous year's growth of 3.1%. Improvement in Malaysia's consumption and investment is possibly explained by the optimism in consumer and business confidence during the first quarter. According to Malaysian Institute of Economic Research, business confidence rose significantly from 81.2 point in 4Q2016 to 112.7 point in 1Q17 while consumer confidence grew firmly to 76.6 point. The commendable performance by private sector in the three months of the year validates the rise in both leading indicators.

**Net exports turned negative amid strong imports growth.** External trade performance for the first three months has been in upward trajectory and it is expected to continue for the rest of the year. This is mainly due to firming global demand and moderate pickup in global commodities prices. Even though net exports drag economic growth, steady growth in exports growth will result positive spill-over effects on exports-oriented industries via greater output, employment and income. We forecast net exports will reach positive growth at 4.1% in 2017.

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

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
<b>Real GDP</b>	4.2	4.0	4.3	4.5	5.6
<b>Gross National Income (GNI)</b>	5.5	3.2	4.3	4.7	5.1
Final Consumption	4.9	6.2	5.6	3.6	6.8
<i>Public Consumption</i>	2.8	5.5	2.3	-4.2	7.5
<i>Private Consumption</i>	5.3	6.3	6.4	6.2	6.6
Gross Fixed Capital Formation (GFCF)	0.1	6.1	2.0	2.4	10.0
<i>GFCF: Structure</i>	5.7	5.9	5.0	2.8	3.8
<i>GFCF: Machinery &amp; Equipment</i>	-7.1	8.1	0.9	2.9	21.8
<i>GFCF: Other Asset</i>	-3.3	0.8	-12.5	-2.1	1.4
<i>GFCF: Public Investment</i>	-4.5	7.5	-3.8	-0.3	3.2
<i>GFCF: Private Investment</i>	2.2	5.6	4.7	4.9	12.9
Net Exports	-12.4	-7.0	5.9	5.8	-14.5
<i>Exports of Goods &amp; Services</i>	-0.5	1.0	-1.3	1.3	9.8
<i>Imports of Goods &amp; Services</i>	1.3	2.0	-2.3	0.7	12.9

Source: DOSM, MIDFR

**Services and domestic sectors continue to support economic growth.** Services sector accounting more than 54% of total GDP expanded steadily at 5.8%yoy. The services sector contributed 55% of 5.6% in the three months GDP growth. Among services sub-sectors, the top three contributors are communication, restaurant and retail trade. Apart from private consumption, the steady performance in services reflects that domestic economic activity is currently on upbeat momentum.

**Thanks to improved commodities prices.** Agriculture, forestry and fishing sector recorded the highest growth among major economic sectors. The sector grew by 8.3%yoy after four consecutive quarters of contraction. Due to elevated commodities prices in global market, rubber and oil palm recorded a double digits growth of 23.5%yoy and 17.7%yoy respectively. For manufacturing, the sector expanded by 5.6%yoy. Gradual recovery in global demand and exports market are among the factors contributing towards the better growth in manufacturing sector. 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%)**

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
<b>GDP</b>	4.2	4.0	4.3	4.5	5.6
<b>Agriculture, Forestry &amp; Fishing (AF)</b>	-3.8	-7.9	-6.1	-2.4	8.3
AF: Rubber	-12.9	-4.5	-8.1	1.0	23.5
AF: Oil Palm	-9.9	-19.3	-13.8	-7.2	17.7
AF: Livestock	5.0	4.9	4.2	0.8	3.0
AF: Other Agriculture	6.2	4.9	4.2	4.6	2.3
AF: Forestry & Logging	0.0	-5.7	-5.6	1.2	-11.1
AF: Marine Fishing	-1.1	10.4	6.1	4.0	-4.1
AF: Aquaculture	-4.5	-0.1	-3.0	-4.2	-3.5
<b>Mining &amp; Quarrying</b>	0.3	2.6	3.0	4.9	1.6
<b>Manufacturing (Mfg)</b>	4.5	4.1	4.2	4.8	5.6
Mfg: Vegetable & Animal Oil, Fats & Food Processing	5.5	-4.0	0.8	6.6	8.2
Mfg: Beverages & Tobacco	7.2	6.2	6.8	6.0	9.0
Mfg: Textiles, Wearing Apparel & Leather Products	6.6	6.6	5.9	5.2	6.9
Mfg: Wood Prod, Furniture, Paper Prod, Print & Publish	7.2	7.0	5.6	5.4	8.6
Mfg: Petroleum, Chemical, Rubber & Plastic Products	2.7	5.5	4.7	5.1	3.1
Mfg: Non Metallic, Basic & Fabricated Metal Products	4.9	5.3	4.3	4.0	3.1
Mfg: Electrical & Electronic	5.7	8.8	6.6	7.5	7.9
Mfg: Transport Equipment & Other Manufactures	2.7	-6.2	-2.6	-3.1	3.5
<b>Construction</b>	7.9	8.8	7.9	5.1	6.5
<b>Services</b>	5.1	5.7	6.1	5.5	5.8
Services: Electricity & Gas	6.5	5.2	4.5	4.0	1.3
Services: Water	7.7	6.5	6.7	6.3	6.0
Services: Wholesale Trade	8.1	8.7	8.9	7.0	5.5
Services: Retail Trade	5.4	7.1	7.5	7.8	7.8
Services: Motor Vehicles	-5.1	-2.7	-3.1	-2.2	3.5
Services: Restaurant	6.8	7.9	8.2	8.5	7.9
Services: Accommodation	3.9	3.4	4.9	5.1	4.8
Services: Transport & Storage	5.8	5.9	5.2	5.5	6.1
Services: Communication	8.5	8.8	7.6	7.7	8.2
Services: Finance	0.2	-0.2	2.0	2.7	3.9
Services: Insurance	-0.1	7.7	14.3	4.6	2.2
Services: Real Estate & Business Services	6.4	6.8	7.0	7.2	7.3
Services: Other Services	4.6	4.4	5.1	5.2	5.4
Services: Government Services	5.3	4.9	5.5	4.1	5.1
<b>Import Duties</b>	27.0	4.0	5.6	1.3	8.4

Source: DOSM, MIDFR

**Gradual recovery in regional and global economic growth.** Most of regional and global economies recorded moderate economic growth for the first quarter 2017. US economy expanded by 0.7%yoy, higher than previous average growth of 2%. As well as China, the economy rose by 6.9%yoy which is higher than the official growth target of 6.5% in 2017. Among ASEAN economies, the Philippines registered the highest growth for the first quarter but slightly below than 2016's average growth. The main drivers for the improvement in economic growth among regional and global economies are gradual recovery in global demand especially in developed economies and also modest pick-up in global commodities prices. These drivers translated into better trade performance as we noticed that most economies registered double digit growth rate in exports during the first three months of 2017.


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

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Malaysia	4.2	4.0	4.3	4.5	5.6
Indonesia	4.9	5.2	5.0	4.9	5.0
Philippines	6.9	7.1	7.1	6.6	6.4
Thailand	3.1	3.6	3.2	3.0	3.3
Singapore	1.9	1.9	1.2	2.9	2.5
China	6.7	6.7	6.7	6.8	6.9
EU	2.1	1.6	-0.2	-0.5	
United States	0.8	1.4	3.5	2.1	0.7

Source: CEIC, MIDFR

**Geopolitical conflicts remain as downside risks.** Despite of firming improvement in global market, geopolitical conflicts in developed economies remain a challenge towards global economic activity. North Korea's missile test invites conflicts among major powers in particular the US, South Korea, Japan, China and Europe to intervene in which could cause instability in the global market.

**Our OPR forecast for 2017 remain unchanged at 3.00%.** Fundamentally, global economic condition has improved compared from a year ago given Malaysia's external trade performance as well as other economies' are reflecting arising trends. Despite rise in headline inflation, we are in the opinion 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 at 3.0%.

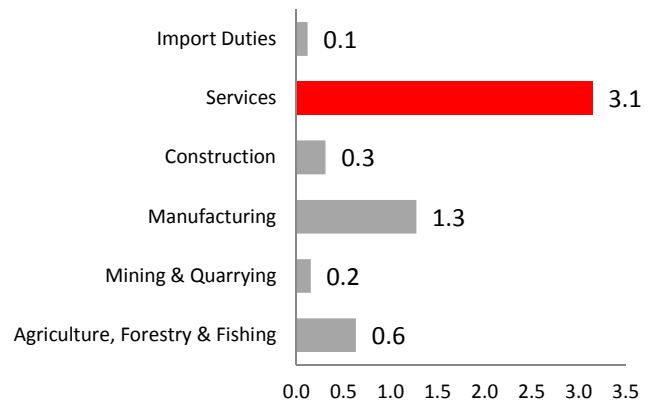
**Malaysia's economy on track for 4.9% growth.** Based on the current indicators, we are optimistic that Malaysia's economy to expand by 4.9% this year given the upbeat performance of domestic and global economy. Moving forward, we opine steady improvement in major economies coupled with modest growth in commodities prices will provide a positive impact on Malaysia's economy via exports demand and increase in industrial production especially in the export-oriented industries. Besides, improving labour market, continued wage growth and moderating inflation will support and spur domestic economy. 

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



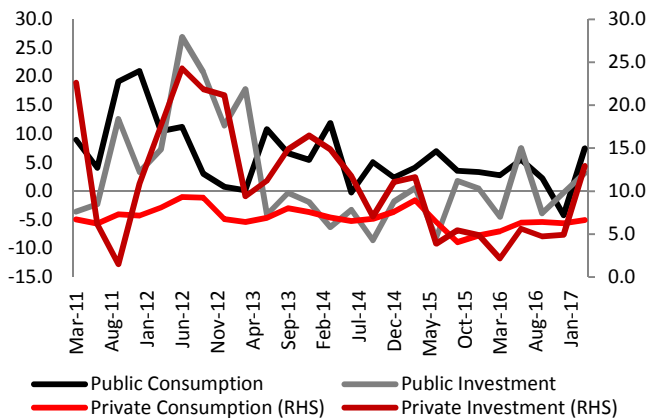
Source: DOSM, MIDFR

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



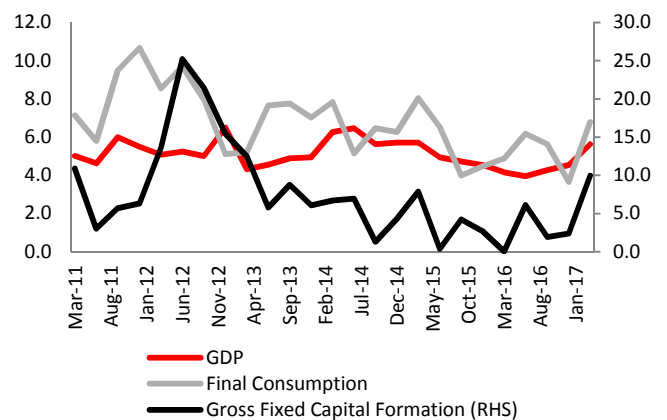
Source: DOSM, MIDFR

**Chart 3: Private vs Public (YoY%)**



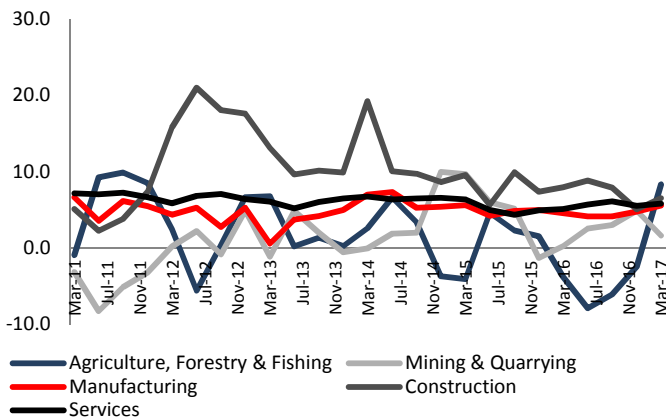
Source: DOSM, MIDFR

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



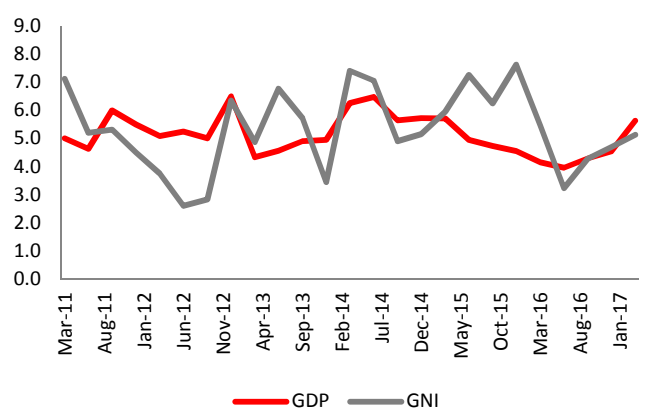
Source: DOSM, MIDFR

**Chart 5: GDP Growth by Sectors (YoY%)**



Source: DOSM, MIDFR

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



Source: DOSM, MIDFR

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