16 May 2016

ECONOMIC REVIEW | 1Q 2016 National Account

Malaysia GDP Grew by 4.2% in 1Q16, Higher Than Economist Consensus

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- *High base effect and negative net exports weighed on first quarter performance. Recall that GST was implemented on 1 April 2015 and there was a rush of investments and consumptions prior to the implementation.*
- *Net exports turned negative as services net outflow went dipper into the red. Net exports contracted by -12.4%yoy in in the first quarter of 2016, after notching a good expansion in the second half of last year at 7.7%yoy. The contraction was not expected as the merchandise trade balance actually grew 12.2%yoy for the quarter from RM21.3 billion to RM23.9 billion.*
- *We maintain our GDP forecast for year 2016 at 4.4% but downside risk exists. We opine that the overall Malaysia economy has been doing relatively well in 1Q16, given the backdrop of global economic slowdown and moderating global trade. We forecast the next quarter growth to maintain at 4.2% and for the whole year at 4.4%.*

GDP grew by 4.2% 1Q16, higher than economist consensus. GDP grew by 4.2% in the first quarter. While the consensus predicted slower growth at 4.1%, our forecast for the GDP was on right the dot i.e 4.2%, matching exactly the actual growth registered in this quarter.

High base effect and negative net exports weighed on first quarter performance. Recall that GST was implemented on 1 April 2015 and there was a rush of investments and consumptions prior to the implementation. As a result, 1Q15 recorded strong private consumption and investments, expanding by 9.0%yoy (highest in 10 quarters) and 7.9%yoy respectively (highest in 6 quarters) and this ultimately created a high base effect. In 1Q16, private consumption grew by 5.3%yoy while investments still expanded albeit marginally by only 0.1%yoy. On a seasonally adjusted basis, private consumption edged higher by 2.9%, highest in 17 quarters. This is a great improvement and within expectation as the effect of initial GST shock continues to wane off.

Gross Fixed Capital Formation grew albeit marginally. Gross Fixed Capital Formation (GFCF) fell further to only 0.1%yoy in 1Q16, slower than the growth recorded in 4Q15 at 2.8%yoy. The lackluster was due to shrinking investments in machinery which contracted by -7.1%yoy despite investments in structure remained robust with 5.7% growth. Quarter-on-quarter data (seasonally adjusted) confirms the weakness in this quarter which registered contraction of -1.5%qoq. This was the first quarterly contraction after strong growth in the past two quarters. This could be a point of concern considering the investments scenario took a beating post-GST implementation. However, negative sentiment could be at play, with many off-putting event occurred in the first quarter such as rout in China and global stock market in January, oil prices slid to lowest in many years et cetera.

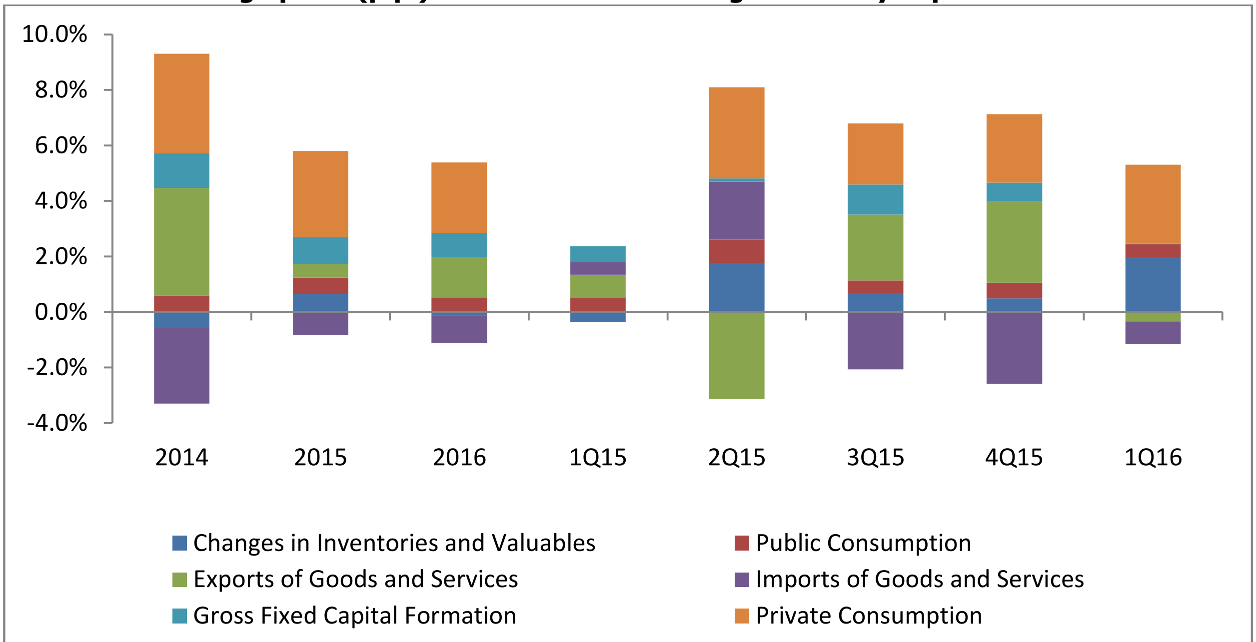
Table 1: Real GDP performance – by type of expenditure and economic activity

YoY%	2014	2015	1Q 15	2Q 15	3Q 15	4Q 15	1Q 16
Real GDP	6.0	5.0	5.6	4.9	4.7	4.5	4.2
Private consumption expenditure	7.1	6.0	8.8	6.4	4.1	4.9	5.1
Public consumption expenditure	4.4	4.4	4.1	6.8	3.5	3.3	3.8
Gross fixed capital formation	4.7	3.7	7.9	0.5	4.3	2.7	0.1
Structure	6.6	9.3	9.9	5.9	7.0	7.2	8.1
Machinery and equipment	0.2	0.1	5.8	-7.5	1.2	0.5	-6.8
GFCF - Public	-3.2	0.6	0.4	-8.0	1.8	2.0	-2.7
GFCF - Private	13.0	8.1	11.7	3.9	5.5	6.5	4.0
Net Exports	13.2	-3.8	-10.2	-10.5	3.3	4.3	-12.4
Exports	5.0	0.6	-0.6	-3.7	3.2	4.0	-0.5
Imports	4.0	1.2	1.0	-2.8	3.2	4.0	1.3
Agriculture	2.1	1.2	-4.7	4.6	2.4	1.5	-3.8
Mining	3.5	4.7	9.6	6.0	5.3	-1.3	0.3
Manufacturing	6.2	4.9	5.6	4.2	4.8	5.0	4.5
Construction	11.7	8.2	9.7	5.6	3.8	7.4	7.9
Services	6.6	5.1	6.4	5.0	4.4	5.0	5.1

Source: Department of Statistics (DoS), CEIC

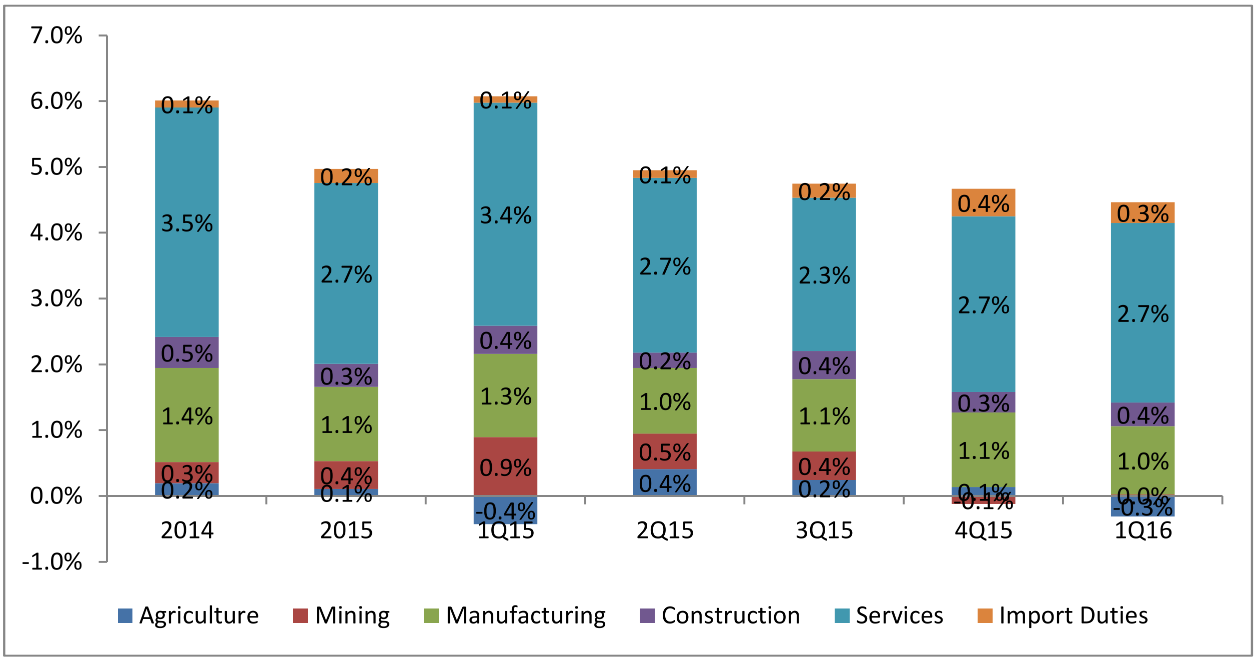
Net exports turned negative as services net outflow went dipper into the red. Net exports contracted by -12.4%yoy in in the first quarter of 2016, after notching a good expansion in the second half of last year at 7.7%yoy. The contraction was not expected as the merchandise trade balance actually grew 12.2%yoy for the quarter from RM21.3 billion to RM23.9 billion. Balance of payments revealed this was due to higher net services outflow which stood at -RM6.8 billion compared to only just –RM3.5 billion in the same period last year. Exports declined marginally by -0.5%yoy while imports moderated to 1.3%yoy for the quarter. On A seasonally adjusted basis, both exports and imports shrank by 4.5%qoq and 2.6%qoq respectively. Thus, net exports also declined by 1.5%qoq.

Chart 1: Percentage point (p.p.) share contribution to growth – By expenditure



Source: DoS, MIDFR

Chart 2: Percentage point (p.p.) share contribution to growth – By economic activity



Source: DoS, MIDFR

Services and construction sector remained robust, financial industry rebounded. The services and construction sector expanded faster in 1Q16, notching 7.9%yoy and 5.1% growth respectively. Positive expansion was observed across majority of the services sector universe such as utilities, retail trade, restaurant et cetera. Most notably was the rebound in the financial industry, expanding by 0.2%yoy after two consecutive quarters in decline. This reflected the major downsizing in the industry has shown positive result due to cutting cost measures and had resulted in increased in efficiency.

Agriculture declined in 1Q16, hit by El-Nino. The agriculture sector shrank by -3.8%yoy for the quarter with the rubber sector took the most beating, declining by -12.9%yoy. This was rather expected as high temperature and drier climate caused production in the sector to reduce significantly. Decline in the sector contributed about -0.3% drag to the overall growth. There could be slight improvements in the following quarter as temperature moderated marginally while rain volume has increased.

Sharp moderation observed in the E&E sector, partly weighs by appreciating Ringgit. Malaysia's main exports industry i.e. E&E products, grew by only 5.7%yoy as appreciating Ringgit led to lower exports value for the industry. This is a reverse situation to 2H15 performance, where the sector benefited greatly from depreciating Ringgit. The drag in the E&E industry caused manufacturing sector to ease to 4.5%yoy from 5.0% registered in the last quarter.

We maintain our GDP forecast for year 2016 at 4.4% but downside risk exists. We opine that the overall Malaysia economy has been doing relatively well in 1Q16, given the backdrop of global economic slowdown and moderating global trade. We forecast the next quarter growth to maintain at 4.2% and for the whole year at 4.4%. Currently, there exists higher downside risk on the economy as there seems to be imminent weaknesses in the global economy.

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