

3Q2017 Business Confidence Highest in 4 Years

- *Stronger business confidence anticipated in the 3rd Quarter 2017. According to the Business Tendency Survey, overall business performances in the third quarter of 2017 is expected to advance more than triple compared to the same period last year.*
- *Heighten business confidence signals continuous growth. Moving forward, we foresee GDP growth as well as private investment and consumption to expand steadily in the third quarter given the overall business confidence is at four-year high, 11.9% and across most sectors shown sanguine outlook.*
- *We maintain our GDP forecast at 5.1% in 2017. Due to high base effect, we expect external trade performance especially exports growth to moderate in the second half of year. Volatility in commodity prices remains as global challenge in the price recovery process and hence put pressure on commodity-based economies including Malaysia to expand. Geopolitical threats as well as policy uncertainties remain as possible headwinds in the near term.*

Stronger business confidence anticipated in the 3rd Quarter 2017. According to the Business Tendency Survey, overall business performances in the third quarter of 2017 is expected to advance more than triple compared to the same period last year. Based on the confidence indicator, third quarter performances was forecasted to increase by 11.9%, an improvement since the first quarter this year which saw one of the worst negative growth at 6.9%. The upbeat momentum from first half is expected to carry on into the second half of the year indicating favourable investment climate for businesses.

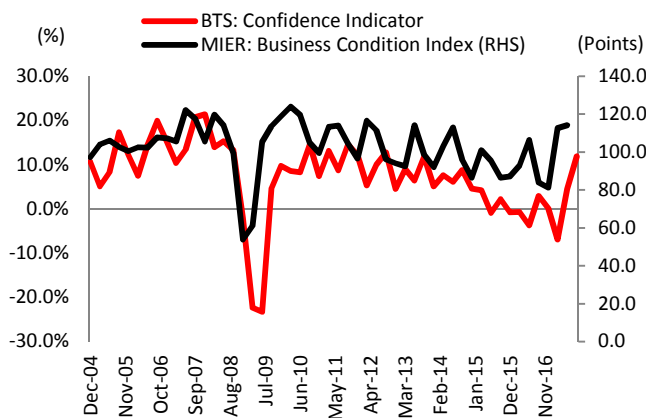
Heighten business confidence signals continuous growth. Malaysia's GDP growth recorded at 5.8%yoy for the second quarter of 2017, expanding above 5.5% for two consecutive quarters. The strong growth in the second quarter is in line with the previous overall business confidence which stood at 4.5%. Moving forward, we foresee GDP growth as well as private investment and consumption to expand steadily in the third quarter given the overall business confidence is at four-year high, 11.9% and across most sectors shown sanguine outlook.

Table 1: Business Confidences by Sector (%)

	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
Overall	2.2	(0.8)	(0.7)	(3.7)	2.9	0.1	(6.9)	4.5	11.9
Agriculture	9.2	3.5	(13.5)	(31.7)	(6.8)	7.0	(0.1)	8.7	1.4
Mining & Quarrying	(4.2)	(10.7)	(7.1)	(7.1)	13.6	22.7	(10.7)	(14.3)	16.7
Manufacturing	2.3	(1.7)	2.9	1.7	6.2	(3.6)	(4.7)	2.4	(3.6)
Construction	(5.3)	(2.9)	(1.5)	(14.5)	(6.0)	(18.8)	(3.0)	(8.3)	(7.7)
Services	3.4	1.2	1.7	(3.7)	(0.5)	2.6	(13.0)	11.3	24.0

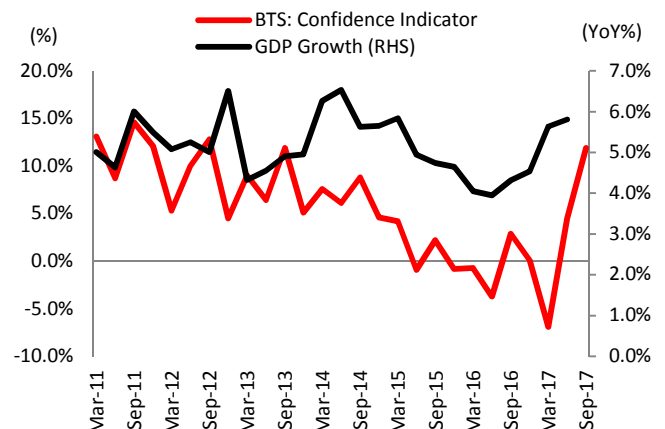
Source: DOSM, MIDFR

Chart 1: Uptrend in business confidences remain



Source: DOSM, CEIC, MIDFR

Chart 2: Improved business confidence drives up GDP



Source: DOSM, MIDFR

Rebound confidence in mining sector. Mining sector expanded by 1.6%yoy and 0.2%yoy respectively for the first and second quarters in 2017. Sluggish recovery in commodity prices and poor confidences are among major factors dragging the sector growth in the second quarter. However, we noticed Brent oil price in particular has been crawling up since middle of June from the bottom of \$45 barrel. So far, the average Brent price for July-August is \$50.5 per barrel. By annual growth, the oil price contracted in June by 3.5%yoy while in July it increases by 24%yoy. Hence, we opine the slight improvement in commodity prices boost business confidences in commodity-based sectors such as mining and agriculture. Based on the price movements and confidences, we can expect economic growth for these sectors to rise steadily in the third quarter.

Moderating external demand, uptick in domestic demand. Contraction in business confidence for manufacturing sector is most possibly due to deceleration in external trade performance. As mentioned earlier, we already expect there will be a slowdown in exports growth due to high base effect, volatility in commodity prices and moderating global demand. As for services sector, business confidence registered at 24% in the third quarter, highest ever in four years. The optimistic result is driven by upbeat momentum in wholesale & retail trade, hotels, transportation, communications and insurances industries.

Table 2: Manufacturing PMI by Selected Economies (Points)

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
Global	52.8	53.0	53.0	52.7	52.6	52.6	52.7
China	51.0	51.7	51.2	50.3	49.6	50.4	51.1
US	55.0	54.2	53.3	52.8	52.7	52.0	53.3
Euro Area	55.2	55.4	56.2	56.7	57.0	57.4	56.6
Japan	52.7	53.3	52.4	52.7	53.1	52.4	52.1
Emerging Economies	50.8	51.3	51.6	50.9	50.6	50.8	50.9
Malaysia	48.6	49.4	49.5	50.7	48.7	46.9	48.3
Indonesia	50.4	49.3	50.5	51.2	50.6	49.5	48.6
Thailand	50.6	50.6	50.2	49.8	49.7	50.4	49.6
Philippines	52.7	53.6	53.8	53.3	54.3	53.9	52.8
Singapore	51.6	51.4	52.2	52.6	51.4	50.7	51.3

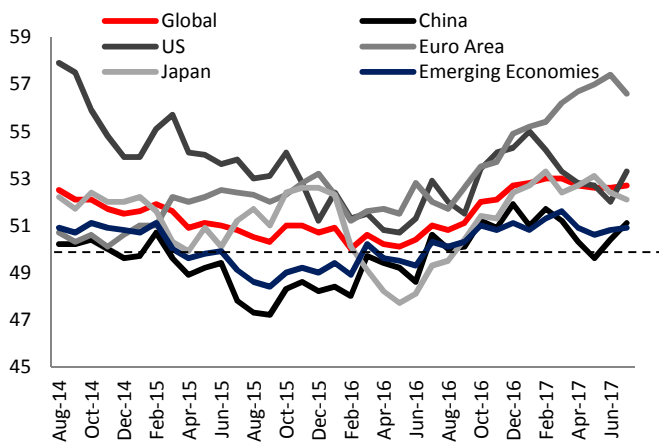
Source: Bloomberg, MIDFR

*Above 50: Expansion Line, Below 50: Contraction Line

US PMI spurred by stronger demand. Since the start of 2017, we saw the US successfully maintaining its PMI above the expansion line, despite the slowdown recorded in August 2017 at 52.5. Stronger demand locally and from abroad help fuelled production to maintain its PMI above 50 points since the start of 2017. As oil prices stabilized, production of oil and gas managed to spur on the US’s manufacturing. Meanwhile, both the Euro Area and Japan both portrayed similar performances throughout the year, with an upwardly revised figure in August respectively reaching 57.4 and 52.8.

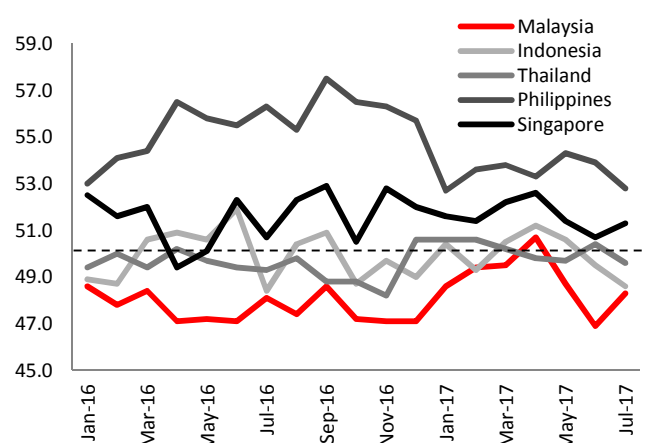
Regional PMI indicates promising performances. Singapore and the Philippines both showed consistency by maintaining above expansion line throughout the year with recent figures recorded at 51.3 and 52.8 respectively in July 2017. In addition, Thailand and Indonesia have had their fair share of expansions, however faced contraction in the past month which saw both PMIs under the 50 point expansion line. Looking ahead, optimistic business environment in China and developed economies will fuel up global demand further and hence translating into upward trends in ASEAN’s PMIs.

Chart 3: Manufacturing PMI by Major Economies (Points)



Source: Bloomberg, MIDFR

Chart 4: Manufacturing PMI by Regional Economies (Points)



Source: Bloomberg, MIDFR


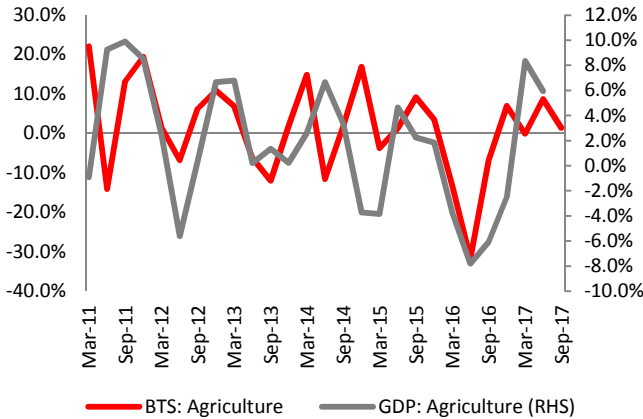
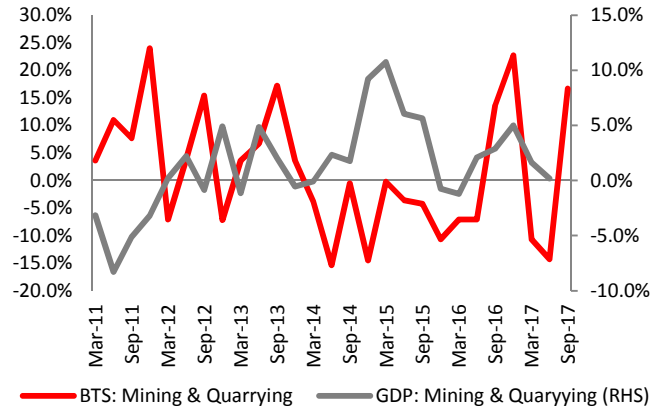
We maintain our GDP forecast at 5.1% in 2017. Amid strong business confidences, we maintain our estimates of Malaysia’s economy to grow by 5.1% this year. Due to high base effect, we expect external trade performance especially exports growth to moderate in the second half of year. Volatility in commodity prices remains as global challenge in the price recovery process and hence put pressure on commodity-based economies including Malaysia to expand. Geopolitical threats as well as policy uncertainties remain as possible headwinds in the near term. 

Chart 5: Agriculture: BTS (%) vs GDP (YoY%)



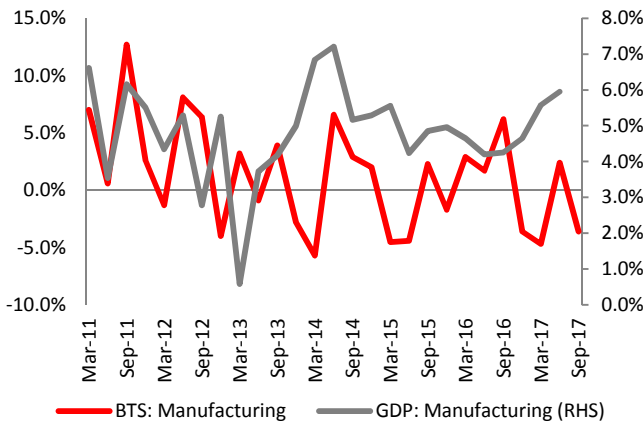
Source: DOSM, MIDFR

Chart 6: Mining & Quarrying: BTS (%) vs GDP (YoY%)



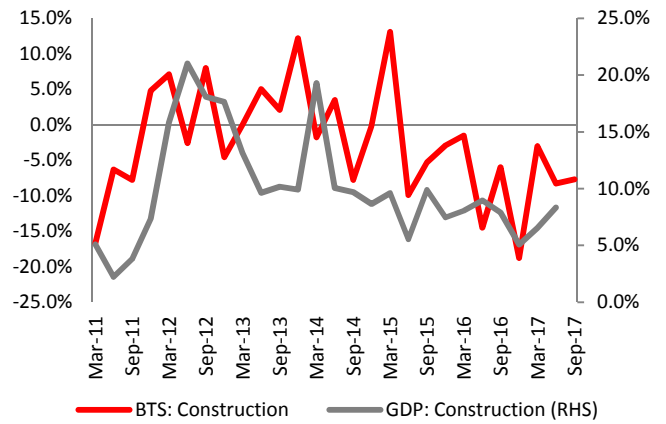
Source: DOSM, MIDFR

Chart 7: Manufacturing: BTS (%) vs GDP (YoY%)



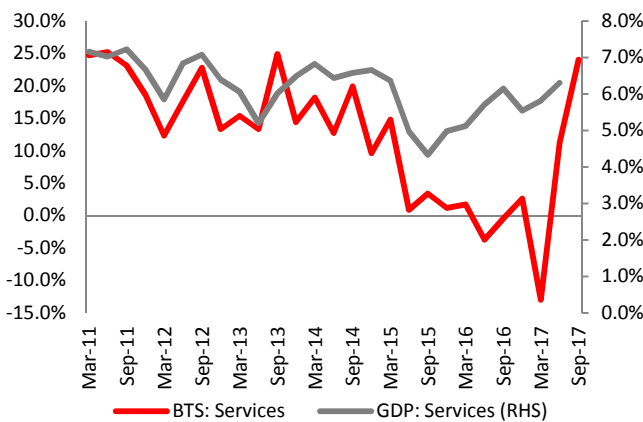
Source: DOSM, MIDFR

Chart 8: Construction: BTS (%) vs GDP (YoY%)



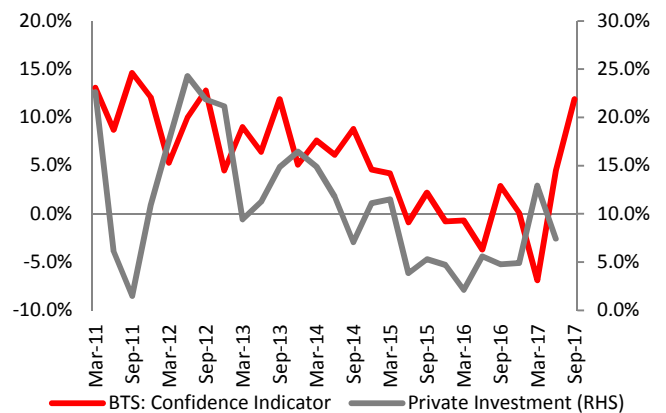
Source: DOSM, MIDFR

Chart 9: Services: BTS (%) vs GDP (YoY%)



Source: DOSM, MIDFR

Chart 10: BTS (%) vs Private Investment (YoY%)



Source: DOSM, MIDFR

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