

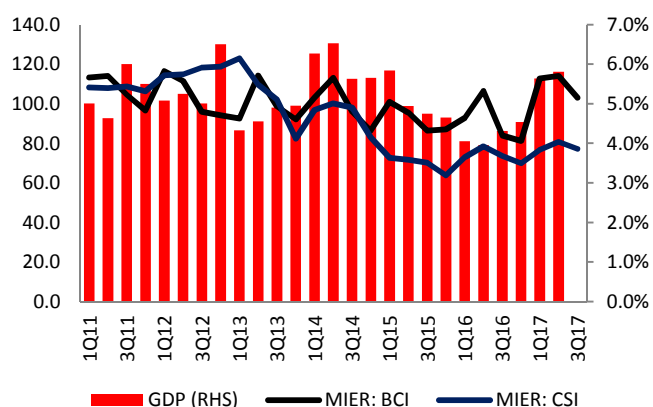
## ECONOMIC REPORT | National Account Preview

### 3Q17 GDP Expected to Remain Robust

- 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.
- Trade surplus widen to RM26.7 billion, highest so far in 2017. Exports and imports expanded by 22.4%yoy and 19.8%yoy respectively in the third quarter. Plus, it is the second consecutive quarters of exports growth outpacing imports.
- We forecast GDP growth for 3Q17 to hit 5.5%. Malaysia's economic activities maintain on upward trajectory amid of strong domestic spending and continuous surging in external trade performances.

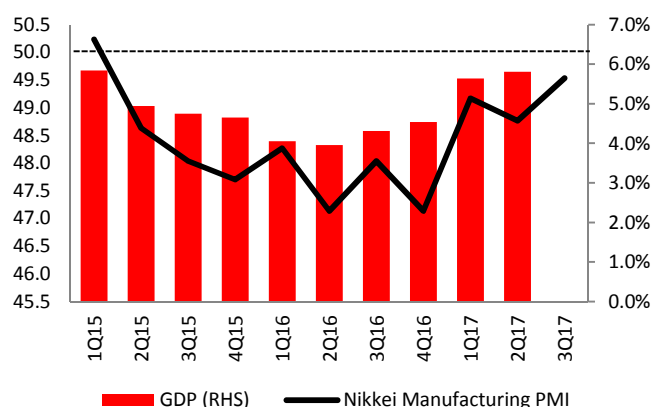
**Expecting slight slowdown in economic growth for the third quarter of 2017.** Based on the recently released MIER survey results, Business Condition Index and Consumer Sentiment Index showed slim downward trends in the third quarter as compared to previous quarters. BCI recorded at 103.1 points, slightly higher than 100-points of threshold line whereas CSI remains below the optimum line, 77.1 points in the quarter. On a flip side, average Malaysia's Nikkei Manufacturing PMI for the quarter continues to hover below 50 points for ten consecutive quarters. Henceforth, we anticipate Malaysia's GDP for the third quarter of 2017 to grow at a slower pace than the previous 2 quarters.

**Chart 1: MIER Survey Results vs GDP (YoY%)**



Source: CEIC, MIDFR

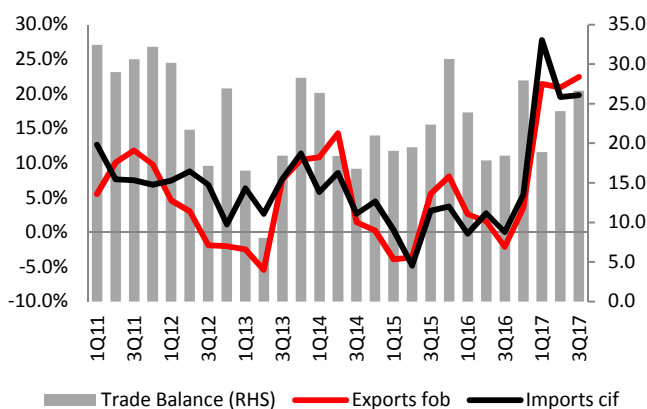
**Chart 2: Nikkei Manufacturing PMI vs GDP (YoY%)**



Source: DOSM, MIDFR  
 \*Dotted-Line refers to PMI (Above 50: Expansionary; Below 50: Contractionary)

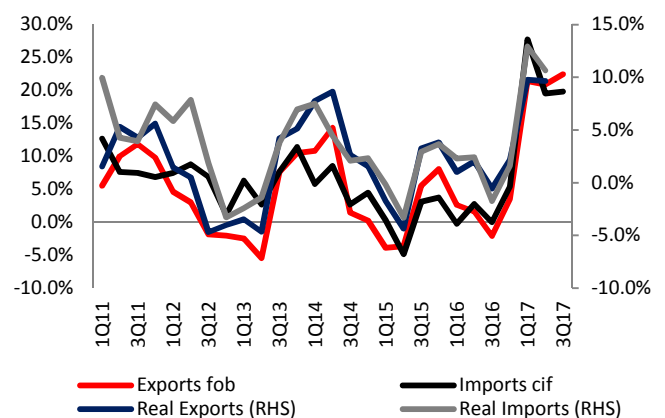
**Trade surplus widen to RM26.7 billion, highest so far in 2017.** Exports and imports expanded by 22.4%yoy and 19.8%yoy respectively in the third quarter. Plus, it is the second consecutive quarters of exports growth outpacing imports. Hence, this results into RM26.7 billion trade surplus and directly hint that Malaysia's net real exports to register above RM25 billion. In addition, we believe the continuous upbeat momentum in external trade activities have caused positive spill-over effects to the overall economic activity especially via industrial production, investment, employment and spending.

**Chart 3: Trade Balance (RMbn) vs External Trade (YoY%)**



Source: DOSM, MIDFR

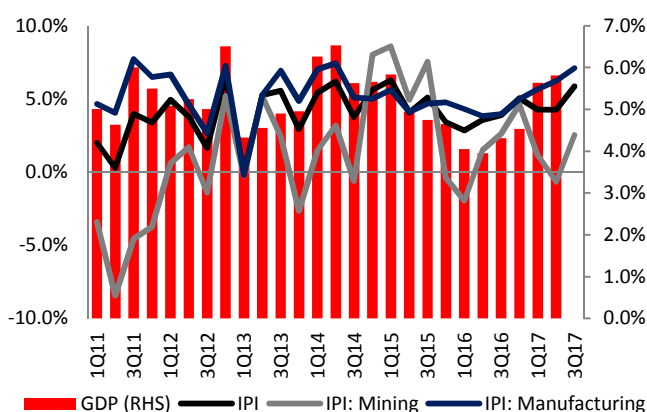
**Chart 4: External Trade; Nominal vs Real (YoY%)**



Source: DOSM, MIDFR

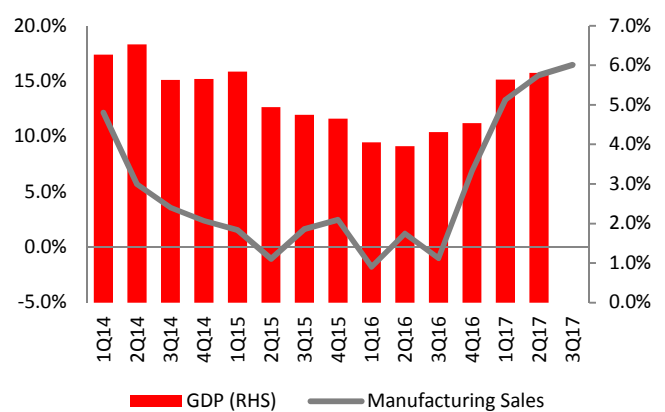
**Industrial production to remain robust for the rest of 2017.** Industrial production's average growth for the third quarter is 5.9%yoy, fastest in two years and a half. The solid expansion is driven by strong growth in manufacturing production by 7.1%yoy and sturdy pace in mining and electricity productions, 2.5%yoy and 4.4%yoy respectively. In addition, manufacturing sales growth reached its peak at 16.5%yoy, underpinned by strong export demand regionally and globally. For instance, Malaysia's exports to China and EU remain at above 20% growth for three consecutive quarters. Plus, we believe the gradual rise in commodities prices especially petroleum since July is another push factor for the robust industrial activity trends.

**Chart 5: GDP vs Industrial Production, IPI (YoY%)**



Source: CEIC, MIDFR

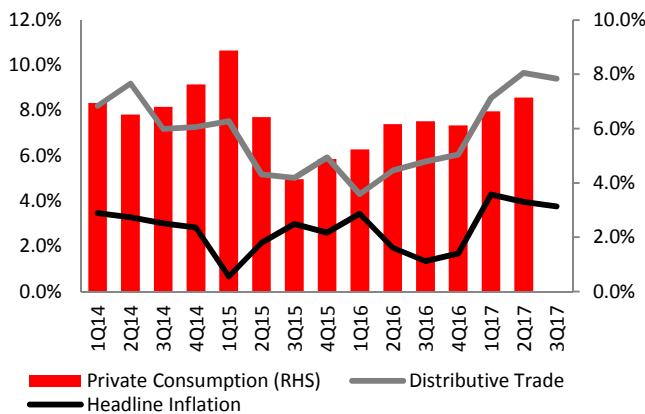
**Chart 6: GDP vs Manufacturing Sales (YoY%)**



Source: CEIC, MIDFR

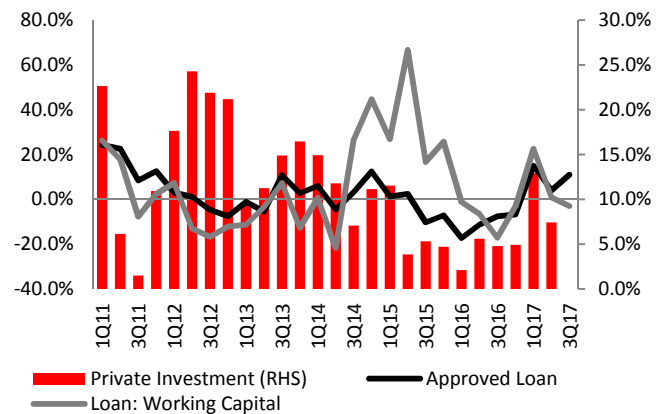
**Expecting a slight slowdown for private expenditures in 3Q17.** Referring to the average growth of distributive trade sales in the third quarter, we noticed the sales growth recorded slightly lower than the second quarter, 9.4%yoy vs 9.7%yoy accordingly. Among others, main dragging factors are dropped in motor vehicles sales and seasonality. Consumers generally ramp-up spending during year-end sales in the final quarter of 2017. Similarly, we foresee a decelerating pace in private investment given that key indicators such as working capital loan shrank by 3%yoy whereas imports of capital goods increase at tepid pace, 1.9%yoy during the quarter.

**Chart 7: Private Consumption vs Distributive Trade (YoY%)**




Source: CEIC, MIDFR

**Chart 8: Private Investment vs Loan (YoY%)**



Source: CEIC, MIDFR

**We forecast GDP growth for 3Q17 to hit 5.5%.** Malaysia's economic activities maintain on upward trajectory amid of strong domestic spending and continuous surging in external trade performances. However, unfavourable base effects and slight moderation in private spending will be among dragging factors for the third quarter GDP performance. 

**Table 1: Selected-Macroeconomic Data Updates**

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
MIER: Business Condition Index (Points)	92.9	106.4	83.9	81.2	112.7	114.1	103.1
MIER: Consumer Sentiment Index (Points)	72.9	78.5	73.6	69.8	76.6	80.7	77.1
Nikkei Manufacturing PMI (Points)	48.3	47.1	48.0	47.1	49.2	48.8	49.5
Trade Balance (RM Billion)	23.9	17.8	18.4	28.0	18.9	24.1	26.7
Exports fob	2.6	1.6	(2.1)	3.5	21.4	20.9	22.4
Imports cif	(0.2)	2.8	0.0	5.4	27.7	19.5	19.8
IPI:	2.8	3.6	3.9	5.1	4.3	4.3	5.9
<i>IPI: Mining</i>	(1.9)	1.5	2.6	4.6	1.2	(0.6)	2.5
<i>IPI: Manufacturing</i>	4.3	3.8	4.0	5.0	5.7	6.2	7.1
<i>IPI: Electricity</i>	8.6	9.3	8.5	7.6	0.7	1.0	4.4
Manufacturing Sales	(1.8)	1.2	(1.0)	6.9	13.3	15.5	16.5
Approved Loan	(17.4)	(11.4)	(7.7)	(6.8)	14.9	3.9	11.0
Working Capital Loan	(1.4)	(6.6)	(17.3)	(3.0)	22.5	0.8	(3.0)
Imports of Intermediate Goods	(3.3)	(1.1)	0.1	4.2	28.9	24.4	21.0
Imports of Capital Goods	(11.5)	10.7	16.9	7.1	41.1	7.4	1.9
Imports of Consumption Goods	24.3	10.3	(0.4)	(0.2)	3.9	1.4	15.1
Distributive Trade:	4.3	5.3	5.7	6.1	8.5	9.7	9.4
<i>Motor Vehicles</i>	(5.6)	(1.8)	(2.0)	(1.4)	4.6	2.7	2.1
<i>Wholesale Trade</i>	4.4	4.9	5.5	5.9	8.4	8.7	9.2
<i>Retail Trade</i>	7.9	8.7	9.1	9.1	10.1	13.5	12.2
Employment	0.7	0.4	0.7	0.6	1.5	1.9	1.8
Headline Inflation	3.4	1.9	1.3	1.7	4.3	4.0	3.8
Brent Oil Price (USD per barrel)	35.8	46.9	47.2	50.9	54.9	51.0	52.3
Brent Oil Price (YoY%)	(36.1)	(25.9)	(7.0)	15.7	54.9	9.3	10.6

Source: CEIC, MIDFR

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