

ECONOMIC REVIEW | 4Q2017 National Account**Solid 4Q17 GDP Performance at 5.9% Push Economic Growth to 3-Year High in 2017**

- *GDP Growth 4Q17 beats market expectations. Malaysia's GDP growth expanded by 5.9%yoy in 4Q17, beats market expectations of 5.8%yoy. Among others, private consumption and private investment contribute 3.6% and 1.2% respectively to the robust growth during the quarter.*
- *Net exports remain above RM25 billion. Real net exports registered at RM25.97 billion, slightly lower than previous quarter of RM26.2 billion. Steady upward exports demands from developed and emerging economies as well as gradual recovery in commodities prices continue driving up Malaysia's external trade activities.*
- *Services and domestic sectors continue to support economic growth. Services sector accounting for 55% of total GDP expanded steadily at 6.2%yoy, 3-consecutive quarters above 6%. Among services sub-sectors, the top three contributors are wholesale trade, communication, government services and retail trade.*
- *We forecast GDP to average at 5.5% in 2018. Based on the current development and indicators, we are optimistic that Malaysia's economy to expand by 5.5% this year given the upbeat performance of domestic and global economy.*

GDP Growth 4Q17 beats market expectations. Malaysia's GDP growth expanded by 5.9%yoy in 4Q17, beats market expectations of 5.8%yoy. Among others, private consumption and private investment contribute 3.6% and 1.2% respectively to the robust growth during the quarter. From supply side, services and manufacturing sectors contributed significantly up by 3.4% and 1.2% respectively. We opine the upbeat momentum in GDP growth was in tandem with steady performances of industrial production, manufacturing sales, distributive trade and external trade during the last lap of 2017. Moderating inflationary pressure, strengthening domestic demand and upbeat external demand are the major anchors driving up GDP performance in overall 2017.

Private sectors remain the main contributor. Economic growth for 4Q17 was mainly contributed by private consumption and investment with both grew solidly by 7%yoy and 9.2%yoy respectively. Improvement in private consumption and investment was explained by the optimism in consumer and business confidence during 4Q17. We noticed strong growth in distributive trade sales by 8.4%yoy during the quarter indicates continuous steady upbeat trend in Malaysia's domestic spending. Stable labor market and uptick in wage growth provide a boost for private consumption. Plus, the outcomes are in line with optimistic signs in MIER's BCI and CSI survey results during the quarter. BCI maintains above 100-threshold points while CSI reached 3-year high at 82.6 points in 4Q17. In addition, manufacturing PMI for the quarter averaged at 51.7 points, highest ever marks.

Net exports remain above RM25 billion. Real net exports registered at RM25.97 billion, slightly lower than previous quarter of RM26.2 billion. Steady upward exports demands from developed and emerging economies as well as gradual recovery in commodities prices continue driving up Malaysia's external trade activities. We forecast the external trade sector will maintain on upbeat momentum this year and thus supporting further economic expansion and development in the country. We predict Malaysia's exports to grow by 9.3% in 2018.

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

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
Real GDP	4.2	4.0	4.3	4.5	5.6	5.8	6.2	5.9
Gross National Income	5.4	3.2	4.4	4.6	5.1	6.3	7.3	5.6
Final Consumption	4.8	6.0	5.5	3.5	6.8	6.4	6.6	6.9
<i>Government Consumption</i>	2.7	5.5	2.1	(4.2)	7.5	3.3	3.9	6.9
<i>Private Consumption</i>	5.2	6.2	6.3	6.1	6.6	7.1	7.2	7.0
Gross Fixed Capital Formation (GFCF)	0.1	6.1	2.0	2.4	10.0	4.1	6.7	4.3
<i>GFCF: Structure</i>	5.7	5.9	5.0	2.8	3.8	5.1	3.6	3.3
<i>GFCF: Machinery & Equipment</i>	(7.0)	8.1	0.9	2.9	21.8	4.4	11.6	8.3
<i>GFCF: Other Asset</i>	(3.2)	0.6	(12.6)	(2.0)	1.4	(3.7)	7.2	(6.7)
<i>GFCF: Public Investment</i>	(4.4)	7.7	(3.8)	(0.4)	3.2	(5.0)	4.1	(1.4)
<i>GFCF: Private Investment</i>	2.1	5.6	4.8	4.9	12.9	7.4	7.9	9.2
Net Exports	(7.9)	(1.2)	8.2	6.4	(14.5)	1.4	1.7	5.4
<i>Exports of Goods & Services</i>	1.0	2.0	(0.6)	2.2	9.8	9.6	11.8	7.1
<i>Imports of Goods & Services</i>	2.3	2.4	(1.8)	1.6	12.9	10.7	13.4	7.4

Source: CEIC; MIDFR

Services and domestic sectors continue to support economic growth. Services sector accounting for 55% of total GDP expanded steadily at 6.2%yoy, 3-consecutive quarters above 6%. Among services sub-sectors, the top three contributors are wholesale 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 moderating speed in private consumption amid of unfavorable base effects and the return in EPF's contributions from 8% to 11%. However, inflationary pressure amid of rising oil prices remains as downside risks towards domestic spending in 2018.

Thanks to upbeat momentum global economic activities. Manufacturing sector expanded by 5.4%yoy in the final quarter, 4-consecutive quarters achieving above 5%. Among others, robust global demand and gradual recovery in commodity prices are boosting factors for the solid expansion in export-oriented industries. We foresee commodity-related sectors to perform better in 2018 underpin by lesser market uncertainties and price volatilities.

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

	1Q16	2Q16	3Q16	4Q16	1Q16	2Q17	3Q17	4Q17
GDP	4.2	4.0	4.3	4.5	5.6	5.8	6.2	5.9
Agriculture, Forestry & Fishing (AF)	(3.8)	(7.8)	(6.1)	(2.5)	8.3	5.9	4.0	10.7
AF: Rubber	(12.9)	(4.5)	(8.1)	1.0	23.5	17.0	1.8	(2.8)
AF: Oil Palm	(9.9)	(19.2)	(13.7)	(7.2)	17.7	12.1	10.0	24.3
AF: Livestock	5.0	4.9	4.2	0.8	3.0	4.8	4.5	8.6
AF: Other Agriculture	6.2	5.1	4.3	4.6	2.3	2.6	1.5	2.1
AF: Forestry & Logging	(0.1)	(5.6)	(5.5)	0.3	(11.1)	(14.5)	(18.9)	(17.9)
AF: Marine Fishing	(1.1)	10.3	6.0	4.0	(4.1)	(3.9)	(3.8)	(9.4)
AF: Aquaculture	(4.3)	(0.1)	(3.0)	(4.2)	(3.5)	4.5	10.0	6.3
Mining & Quarrying	(1.2)	2.1	2.9	5.0	1.6	0.2	3.1	(0.5)
Manufacturing (Mfg)	4.6	4.2	4.3	4.7	5.6	6.0	7.0	5.4
Mfg: Vegetable & Animal Oil, Fats & Food Processing	5.5	(3.9)	1.1	6.2	8.2	10.4	11.4	9.7
Mfg: Beverages & Tobacco	7.2	6.2	6.9	6.0	9.0	6.5	4.5	5.5
Mfg: Textiles, Wearing Apparel & Leather Products	6.5	6.4	6.0	5.4	6.9	7.3	9.1	8.3
Mfg: Wood Prod, Furniture, Paper Prod, Print & Publish	7.4	7.0	5.7	5.3	8.6	5.6	2.4	1.9
Mfg: Petroleum, Chemical, Rubber & Plastic Products	2.7	5.6	4.7	5.0	3.1	3.0	5.0	4.6
Mfg: Non Metallic, Basic & Fabricated Metal Products	5.1	5.4	4.3	4.0	3.1	3.9	6.5	4.7
Mfg: Electrical & Electronic	5.9	8.8	6.8	7.3	7.9	9.8	8.7	5.7
Mfg: Transport Equipment & Other Manufactures	2.8	(6.1)	(2.6)	(3.1)	3.5	3.3	8.1	5.8
Construction	8.1	8.9	7.9	5.1	6.5	8.3	6.1	5.8
Services	5.1	5.7	6.2	5.5	5.8	6.3	6.6	6.2
Services: Electricity & Gas	6.6	5.0	5.1	3.4	1.3	1.1	2.0	3.7
Services: Water	7.7	6.5	6.6	6.2	6.0	5.9	6.2	6.1
Services: Wholesale Trade	8.1	8.7	9.0	7.1	5.5	6.0	6.9	7.4
Services: Retail Trade	5.5	7.1	7.6	7.9	7.8	11.4	10.3	8.2
Services: Motor Vehicles	(5.1)	(2.7)	(2.9)	(2.0)	3.5	0.9	0.4	0.2
Services: Restaurant	6.9	7.9	8.1	8.4	7.9	7.9	8.1	8.3
Services: Accommodation	4.2	3.7	4.9	5.3	4.8	4.9	5.5	5.5
Services: Transport & Storage	5.9	6.0	5.2	5.6	6.1	6.2	6.3	6.0
Services: Communication	8.4	8.7	7.5	7.7	8.2	8.5	8.8	8.1
Services: Finance	0.2	(0.2)	1.9	2.7	3.9	5.6	5.3	5.1
Services: Insurance	(0.5)	7.9	14.9	4.4	2.2	3.4	1.2	7.9
Services: Real Estate & Business Services	6.5	6.9	7.0	7.1	7.3	7.3	7.4	7.5
Services: Other Services	4.7	4.5	5.0	5.2	5.4	5.3	5.6	5.5
Services: Government Services	5.4	4.9	5.5	4.1	5.1	4.5	6.3	4.2
Import Duties	27.2	4.5	5.8	1.6	8.4	12.2	16.5	14.8

Source: CEIC; MIDFR

Upbeat global economic growth. Most of the global economies recorded solid economic growth for the final quarter of 2017. The US economy expanded by 2.5%yoy in 4Q17, higher than 2.3%yoy growth in the preceding month, however lower than market expectations as imports surged. Meanwhile, China, the second world's largest economy maintained its economic growth at 6.8%yoy, unchanged from the previous quarter thanks to strong growth in industry and exports, and a buoyant property market. With regards to full 2017, the economy expanded by 6.9%. Among ASEAN economies, economic expansion in 4Q17 is perceived stable, remaining on upward trend path. For instance, Indonesian economy grew above 5%yoy, the strongest pace of expansion since the fourth quarter of 2013 driven by fixed investment and private consumption while Philippines's economy expanded by 6.6%yoy however at a slower pace as investment relaxed while government spending, private consumption, and exports continued to increase. Moving ahead, we foresee steady expansion pace in developed and emerging economies for 2018 due to sanguine economic environment.

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

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
Malaysia	4.2	4.0	4.3	4.5	5.6	5.8	6.2	5.9
Philippines	6.9	7.1	7.1	6.6	6.4	6.7	7.0	6.6
Thailand	3.1	3.6	3.2	3.0	3.3	3.8	4.3	
Indonesia	4.9	5.2	5.0	4.9	5.0	5.0	5.1	5.2
Singapore	1.9	1.9	1.2	2.9	2.5	3.0	5.4	3.1
China	6.7	6.7	6.7	6.8	6.9	6.9	6.8	6.8
Japan	1.5	1.2	0.8	1.4	0.5	1.2	2.1	
EU	2.1	1.7	(0.3)	(0.4)	1.9	1.9	3.1	
United States	1.4	1.2	1.5	1.8	2.0	2.2	2.3	2.5

Source: CEIC; MIDFR


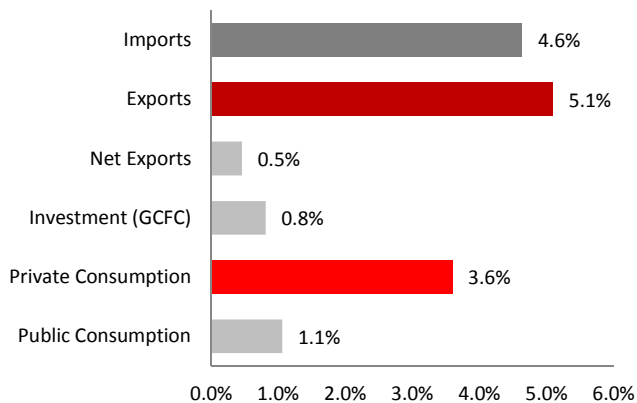
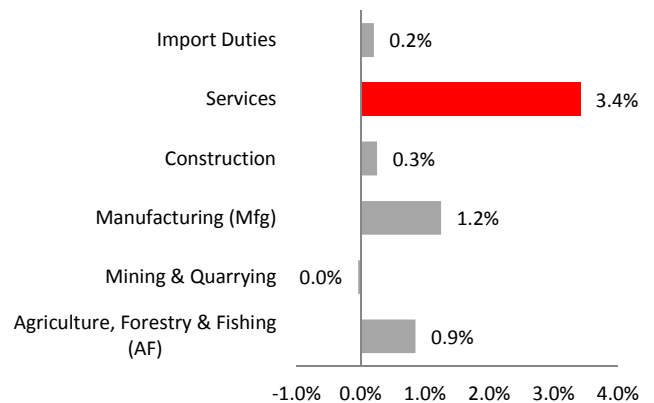
We forecast GDP to average at 5.5% in 2018. Based on the current development and indicators, we are optimistic that Malaysia's economy to expand by 5.5% this year given the upbeat performance of domestic and global economy. Besides, stable labour market, continued wage growth and moderating inflation will support and spur domestic economy. Moving forward, we foresee the economic performance in 1Q18 to expand at slower pace amid of unfavourable base effects. 

Chart 1: Contribution by Expenditure Components (%)



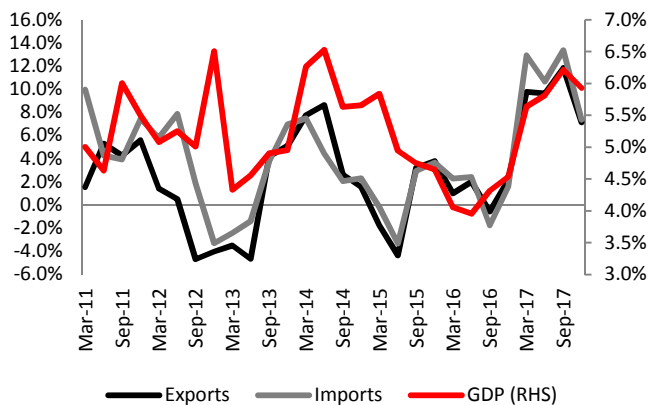
Source: CEIC; MIDFR

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



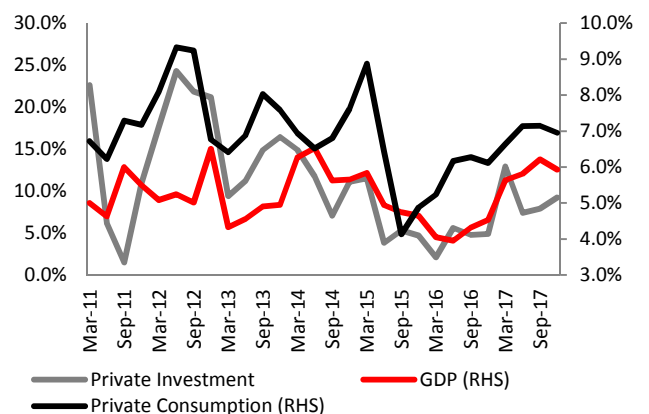
Source: CEIC; MIDFR

Chart 3: GDP vs External Trade (YoY%)



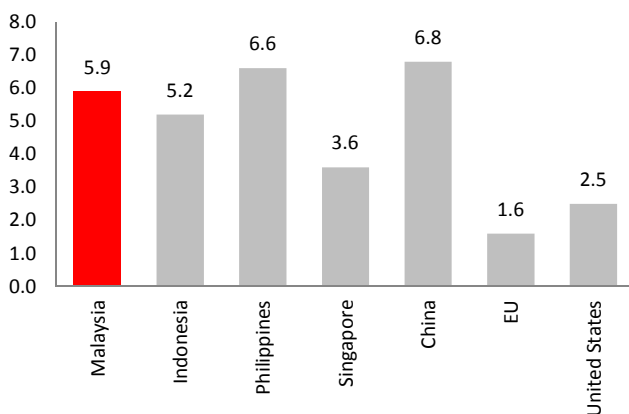
Source: CEIC; MIDFR

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



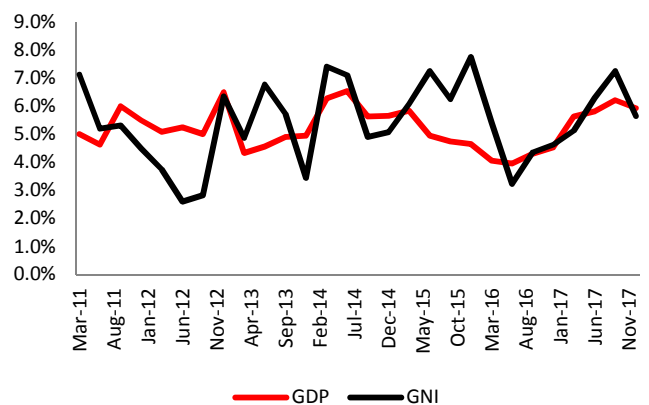
Source: CEIC; MIDFR

Chart 5: GDP Growth 4Q17 by Selected Economies (YoY%)



Source: CEIC, MIDFR

Chart 6: GDP vs GNI (YoY%)



Source: CEIC; MIDFR

**MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)**

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.