

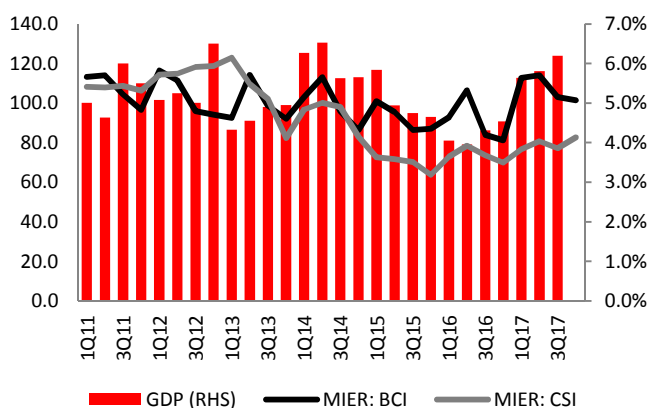
ECONOMIC REPORT | National Account Preview

4Q17 GDP Growth to Remain Strong at 5.6%

- *Upbeat business and consumer confidences in 4Q17. Based on the recently released MIER survey results, BCI maintains above 100-threshold line at 101.5 points and CSI hits 3-year high at 82.6 points. In addition, average Malaysia's Nikkei Manufacturing PMI continues to hover above 50 points for 2-consecutive quarters since 2H17.*
- *Trade surplus widen to RM27.6 billion, highest so far in 2017. Thanks to the robust external trade performance this year, trade surplus registered close to RM30 billion marks in the final quarter of 2017.*
- *Moderating industrial activities. Overall industrial production's average growth for 4Q17 is 3.7%yoy, slowest in 5-quarters. The continuous expansion is driven by sturdy growth in manufacturing and electricity productions by 5.4%yoy and 4.1%yoy respectively.*
- *We forecast GDP growth for 4Q17 to hit 5.6%. Malaysia's economic activities maintain on upward trajectory amid of strong domestic spending and continuous surging in external trade performances.*

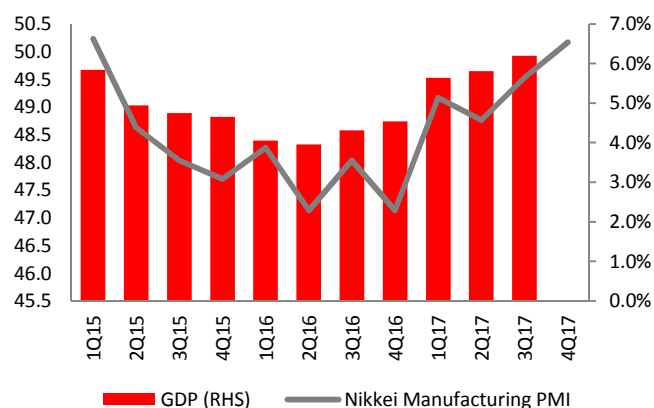
Upbeat business and consumer confidences in 4Q17. Based on the recently released MIER survey results, BCI maintains above 100-threshold line at 101.5 points and CSI hits 3-year high at 82.6 points. In addition, average Malaysia's Nikkei Manufacturing PMI continues to hover above 50 points for 2-consecutive quarters since 2H17. The positive upward trends indicate businesses and consumers are optimistic on current as well as future economic outlook and hint for better performance in domestic demand in the final quarter of 2017.

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



Source: CEIC, MIDFR

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

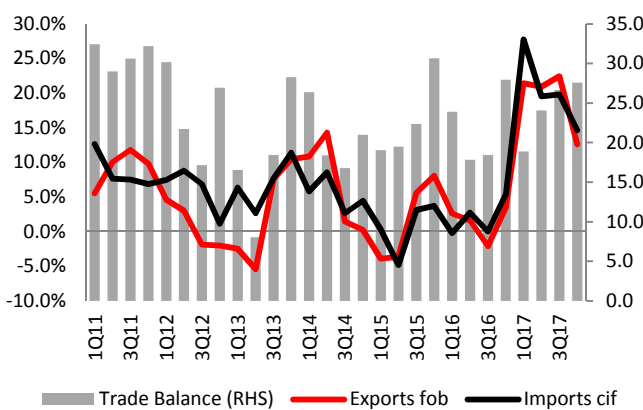


Source: BLOOMBERG, CEIC, MIDFR

*Dotted-Line refers to PMI (Above 50: Expansionary; Below 50: Contractionary)

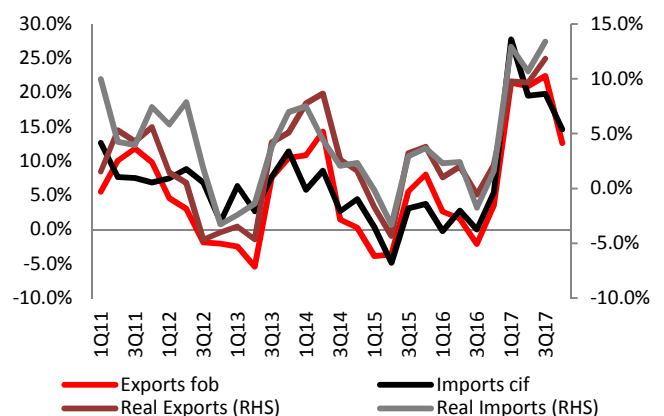
Trade surplus widen to RM27.6 billion, highest so far in 2017. Thanks to the robust external trade performance this year, trade surplus registered close to RM30 billion marks in the final quarter of 2017. The large size of trade surplus will translate into higher size of real trade balance and thus supporting GDP growth in the final quarter. Albeit of unfavourable base effect, exports and imports growths slowdown to 12.6%yoy and 14.6%yoy respectively in 4Q17. We foresee the deceleration in external trade performance would drag economic growth in the final quarter of 2017.

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



Source: CEIC, MIDFR

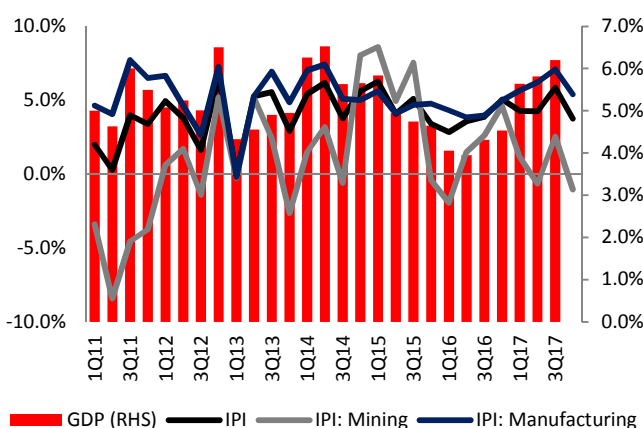
Chart 4: External Trade; Nominal vs Real (YoY%)



Source: CEIC, MIDFR

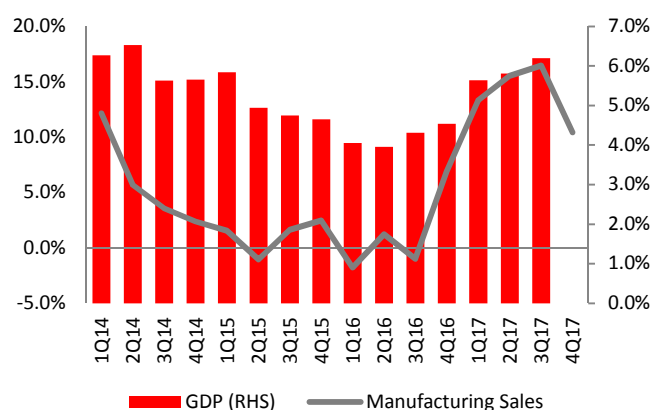
Moderating industrial activities. Overall industrial production's average growth for 4Q17 is 3.7%yoy, slowest in 5-quarters. The continuous expansion is driven by sturdy growth in manufacturing and electricity productions by 5.4%yoy and 4.1%yoy respectively. On a flip side, contraction in mining production by 1%yoy among others is biting overall IPI performance during the quarter. Moreover, manufacturing sales growth toned down to 10.4%yoy after reaching its peak at 16.5%yoy in 3Q17. The overall slowdown in IPI and manufacturing sales are mainly due to high base effects. Nevertheless, regional and global macro indicators are still indicating optimistic signs and hence reflecting upbeat demand remains in global trade radar. Plus, we believe the gradual rise in commodity prices will further in rebounding commodity-related industries in 4Q17 as well as 2018.

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



Source: CEIC, MIDFR

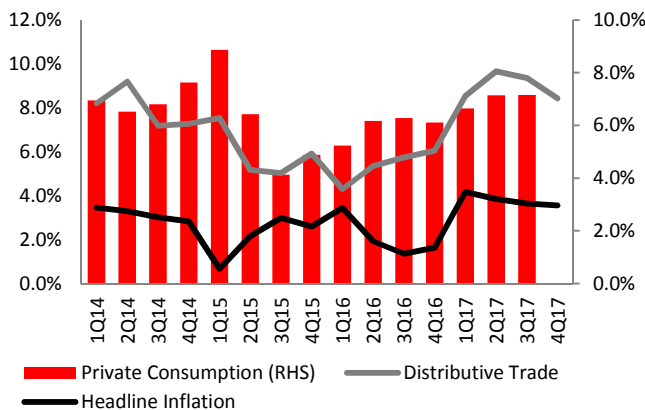
Chart 6: GDP vs Manufacturing Sales (YoY%)



Source: CEIC, MIDFR

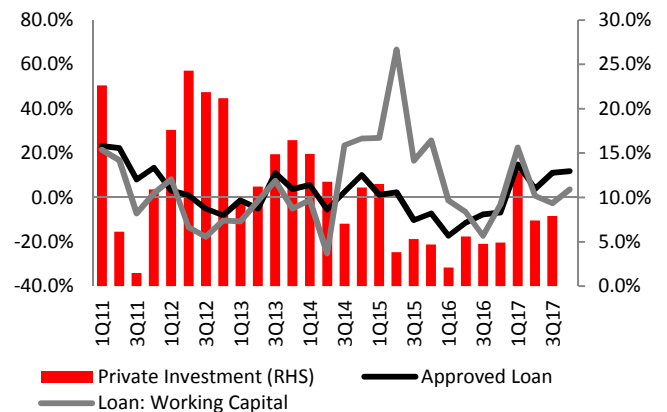
Domestic demand remains steady. We noticed distributive trade expanded at a slower pace of 8.4%yoy in 4Q17 as compared to 9.4%yoy in 3Q17. However, we opine the expansion pace remains at healthy condition and reflecting steady domestic demand. On the other hand, private investment is predicted to pick-up higher in the final quarter amid of sturdy increase in both approved loans and working capital loans growths by 11.8%yoy and 3.7%yoy respectively. We believe private consumption and private investment will drive up GDP growth in 4Q17.

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 4Q17 to hit 5.6%. Malaysia's economic activities maintain on upward trajectory amid of strong domestic spending and continuous surging in external trade performances. However, unfavourable base effects, inflationary pressure and slight deceleration in private spending will be among dragging factors in economic growth for the third quarter. As for the whole year, we remain firmly on our call of GDP growth to record 5.8% in 2017. 

Table 1: Selected-Macroeconomic Data Updates

YoY% Unless Stated Otherwise	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
MIER: BCI (Points)	92.9	106.4	83.9	81.2	112.7	114.1	103.1	101.5
MIER: CSI (Points)	72.9	78.5	73.6	69.8	76.6	80.7	77.1	82.6
Nikkei Manufacturing PMI (Points)	48.3	47.1	48.0	47.1	49.2	48.8	49.5	50.3
Trade Balance (RM Billion)	23.9	17.8	18.4	28.0	18.9	24.1	26.7	27.6
Exports fob	2.6	1.6	(2.1)	3.5	21.4	20.9	22.4	12.6
Imports cif	(0.2)	2.8	0.0	5.4	27.7	19.5	19.8	14.6
IPI:	2.8	3.6	3.9	5.1	4.3	4.3	5.9	3.7
<i>IPI: Mining</i>	(1.9)	1.5	2.6	4.6	1.2	(0.6)	2.5	(1.0)
<i>IPI: Manufacturing</i>	4.3	3.8	4.0	5.0	5.7	6.2	7.1	5.4
<i>IPI: Electricity</i>	8.6	9.3	8.5	7.6	0.7	1.0	4.4	4.1
Manufacturing Sales	(1.8)	1.2	(1.0)	6.9	13.3	15.5	16.5	10.4
Approved Loan	(17.4)	(11.4)	(7.7)	(6.8)	14.9	3.9	11.0	11.8
Working Capital Loan	(1.4)	(6.6)	(17.3)	(3.0)	22.5	0.8	(3.0)	3.7
Imports of Intermediate Goods	(3.3)	(1.1)	0.1	4.2	28.9	24.4	21.0	9.3
Imports of Capital Goods	(11.5)	10.7	16.9	7.1	41.1	7.4	1.9	17.5
Imports of Consumption Goods	24.3	10.3	(0.4)	(0.2)	3.9	1.4	15.1	5.1
Distributive Trade:	4.3	5.3	5.7	6.1	8.5	9.7	9.4	8.4
<i>Motor Vehicles</i>	(5.6)	(1.8)	(2.0)	(1.4)	4.6	2.7	2.1	0.4
<i>Wholesale Trade</i>	4.4	4.9	5.5	5.9	8.4	8.7	9.2	9.0
<i>Retail Trade</i>	7.9	8.7	9.1	9.1	10.1	13.5	12.2	10.4
Employment	0.7	0.4	0.7	0.6	1.5	1.9	1.8	2.2
Headline Inflation	3.4	1.9	1.3	1.7	4.3	4.0	3.8	3.6
Brent Oil (USD per barrel)	35.8	46.9	47.2	50.9	54.9	51.0	52.3	61.8
Brent Oil Growth	(36.1)	(25.9)	(7.0)	15.7	54.9	9.3	10.6	22.0

Source: CEIC, MIDFR

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