

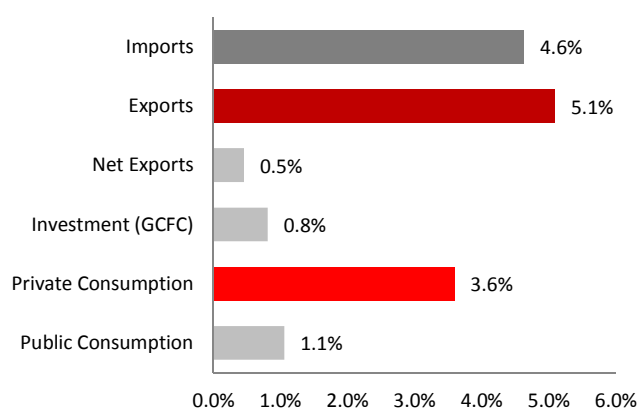
## MONTHLY ECONOMIC REVIEW | February 2018

# Buoyant Business Sentiment Hints Promising 1H18 Macroeconomic Outlook

- *GDP Growth 4Q17 beats market expectations. Malaysia's GDP growth expanded by 5.9%yoy in 4Q17, beats market expectations of 5.8%yoy.*
- *Malaysia's current account balance hit 3-years high. Current account balance jumped to RM40.3 billion in 2017 from RM29.0 billion in prior year.*
- *Stronger business confidence in 1Q18. According to the Business Tendency Survey, overall business performance is expected to continue at strong pace given that overall business confidence registered at double digit growth for 3-consecutive quarters.*

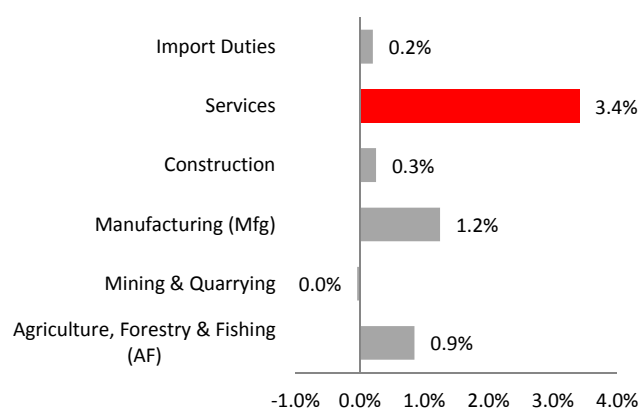
**GDP Growth 4Q17 beats market expectations.** Malaysia's GDP growth expanded by 5.9%yoy in 4Q17, beats market expectations of 5.8%yoy. Among others, private consumption and private investment contribute 3.6% and 1.2% respectively to the robust growth during the quarter. From supply side, services and 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.

**Chart 1: Contribution by Expenditure Components (%)**



Source: CEIC, MIDFR

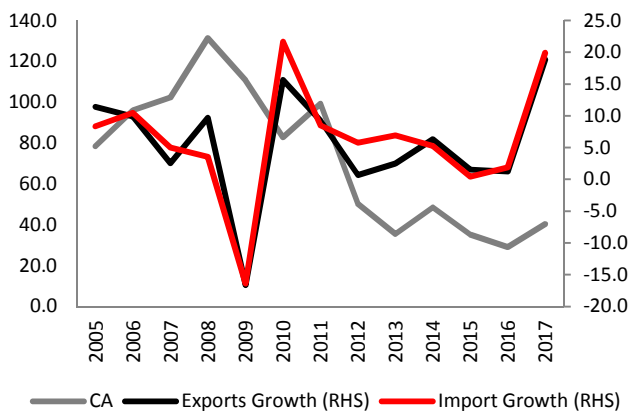
**Chart 2: Contribution by Supply-Side Components (%)**



Source: CEIC, MIDFR

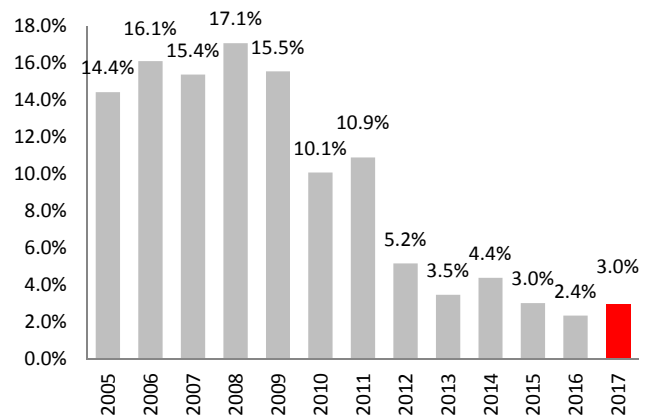
**Malaysia's current account balance hit 3-years high.** Current account balance jumped to RM40.3 billion in 2017 from RM29.0 billion in prior year. In the last quarter of 2017, Malaysia's current account performed well recording RM12.9 billion worth of balance of payment compared to RM12.5 billion recorded in the previous quarter which helped in reinforcing Malaysia's position as a net lender. It is also the largest current account balance since the 3Q14. The upsurge was driven by surplus in net goods at RM34.1 billion, far above the RM31.7 billion registered in the preceding quarter making it the largest surplus since the 4Q11. Robust trade surplus for 2017 with 18.9% exports growth has contributed significantly towards our current account surplus.

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



Source: CEIC, MIDFR

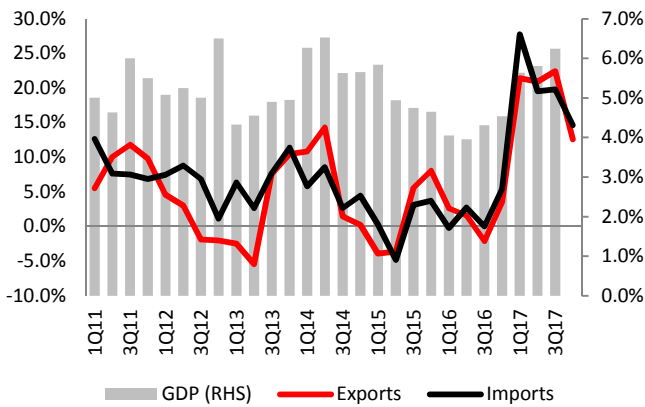
**Chart 4: Current Account-to-GDP Ratio (%)**



Source: CEIC, MIDFR

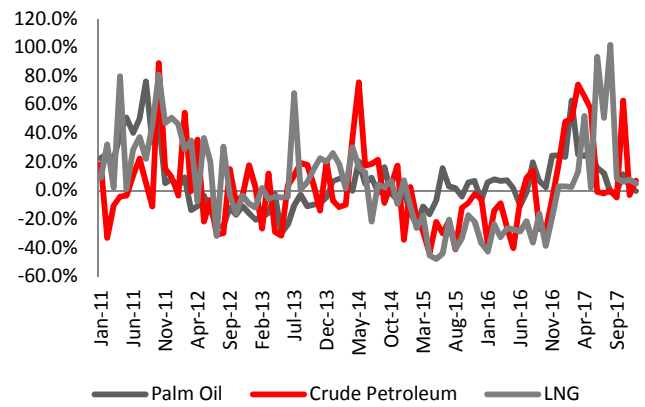
**Exports growth in 2017, fastest in 12-years.** For the whole of 2017, Malaysia's exports advanced by 18.9%yoy, higher than our initial forecast of 14.5%yoy. Trade surplus in 2017 widened by 10.3% to RM97.25 billion, the highest surplus recorded since 2012. However, Malaysia's outbound shipments expanded at slower pace in the final month of 2017 by 4.7%yoy. It is the slowest in 14-months and fell to single digit rate after 12-consecutive months of double digit speed. Similarly, imports rose by 7.9%yoy during the same month, lowest since mid-2017. The deceleration in December 2017 is mainly due to unfavorable base effects. On a flip side, similar to 2017, we foresee upbeat momentum in global trade activities will continue and supported with gradual rise in commodity prices as well as receding of protectionism threat. Hence, we are optimistic that Malaysia's external trade performance will continue expanding at steady pace in 2018.

**Chart 5: External Trade vs GDP (YoY%)**



Source: CEIC, MIDFR

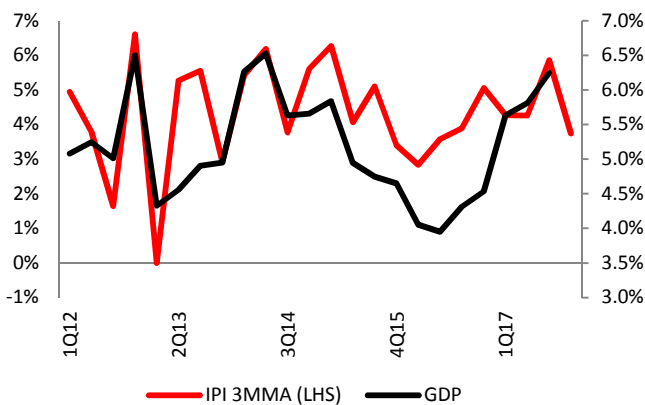
**Chart 6: Exports by Commodity Product (YoY%)**



Source: CEIC, MIDFR

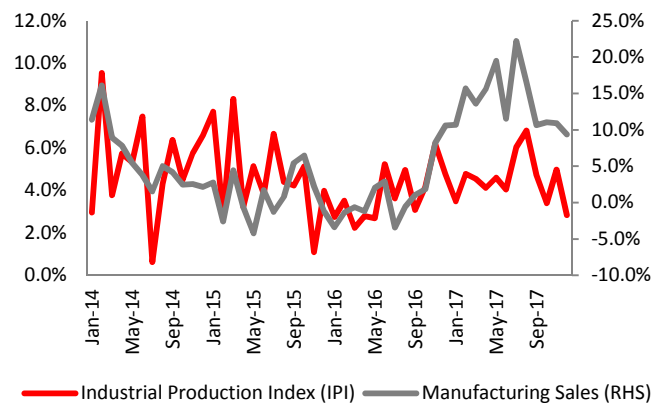
**IPI growth moderated to 19-months low.** In December, industrial production rose by 2.8%yoy, slowest since May 2016. The slowdown in the month was due to unfavourable base effects, year-end holidays and moderating exports growth. By component, manufacturing and electricity productions up by 5.4%yoy and 3.9%yoy respectively whereas mining output contracted by 4.1%yoy despite of rising global commodity prices. On annual term, IPI growth averaged at 4.5% in 2017, improved from 3.8% in 2016. The solid increase in IPI was supported by the expansion of productions in manufacturing and electricity, 6.1% and 2.6% respectively last year. Mining production in 2017 stays sluggish due to oil production limit agreed by OPEC and non-OPEC countries in late 2016.

**Chart 7: IPI vs GDP (YoY%)**



Source: CEIC, MIDFR

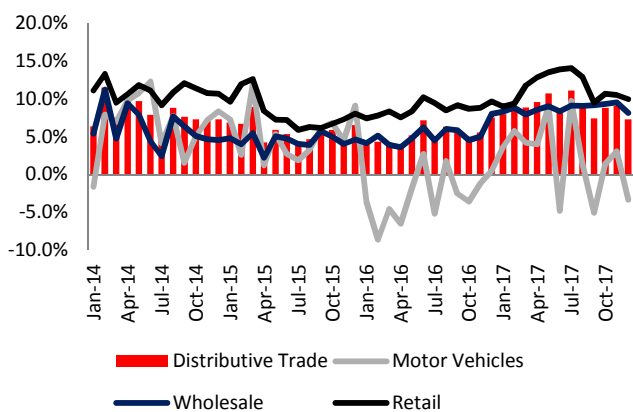
**Chart 8: IPI vs Manufacturing Sales (YoY%)**



Source: CEIC, MIDFR

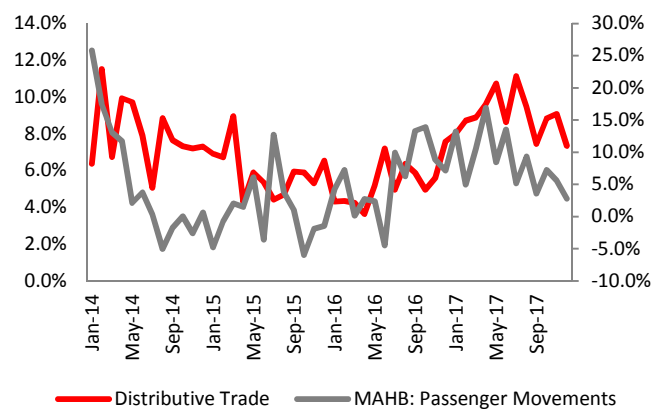
**Three consecutive months of double digit growth for retail sales.** Sales in retail trade rose by 10%yoy to RM 39.7 billion in December of 2017. Month-on-month, retail trade soared by 4.4% from 0.8% recorded in November mainly due to robust year-end sales and buoyant tourism activities. Besides that, wholesale trade went up by 8.2%yoy while motor vehicles sales plunged down by 3.3%yoy. Overall, distributive trade expanded by 7.3%yoy to RM 101 billion in December. The constant positive trends were mainly driven by improved consumer confidence, stable wage growth and continuous rising in passenger movements besides strengthening of Ringgit and stronger oil price. Moving ahead, we foresee distributive trade sales will remain robust in January mostly due to strengthening ringgit which increases purchasing power.

**Chart 9: Distributive Trade, DT (YoY%)**



Source: CEIC; MIDFR

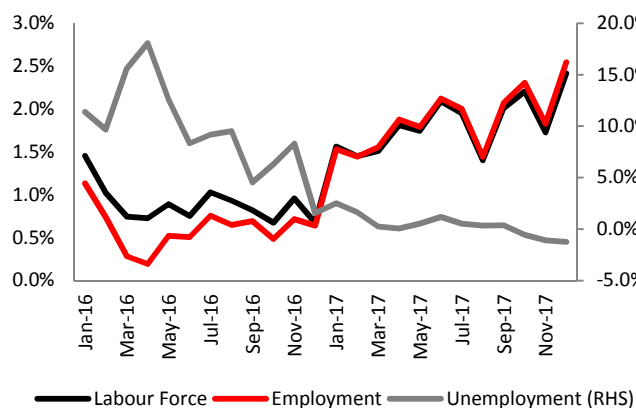
**Chart 10: DT vs Passenger Movements (YoY%)**



Source: CEIC; MIDFR

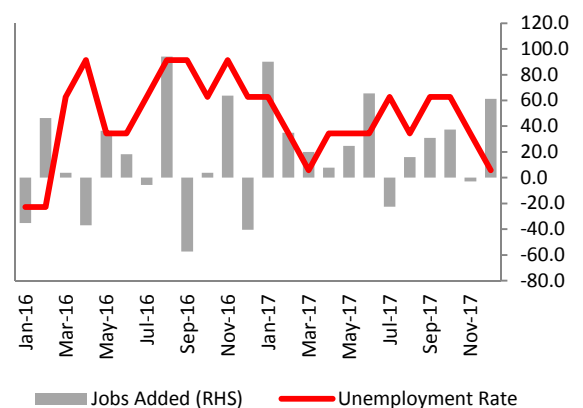
**Employment grew at faster pace.** Employment increased by 2.5%yoy in December, higher than 1.8%yoy in previous month. Similarly, labour force grew by 2.4%yoy to 15.14 million, higher than 1.7%yoy in November. Hence, unemployment rate maintained at 3.3% underpin by solid economic performance in 2017. Growths in both labour force and employment have been outperforming unemployment growth for ten consecutive months since March 2017 on upbeat momentum of both domestic and external economic activities.

**Chart 11: Labour Market Key Indicators (YoY%)**



Source: CEIC; MIDFR

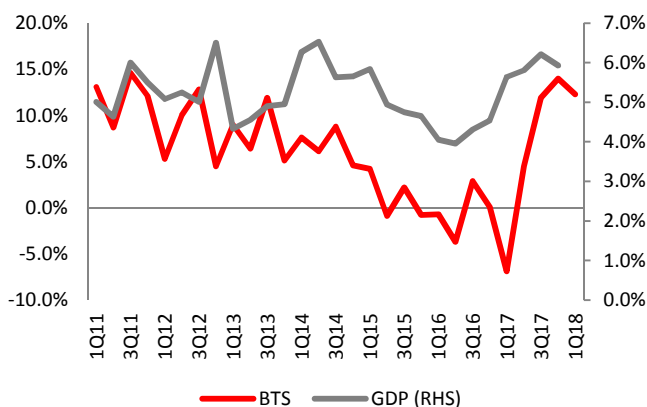
**Chart 12: Jobs Added ('000) vs Unemployment Rate**



Source: CEIC; MIDFR

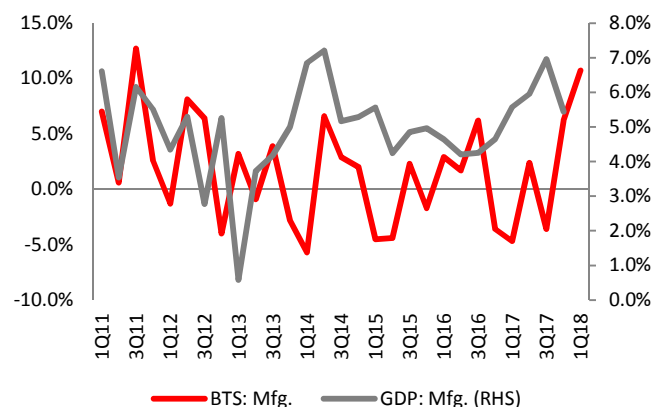
**Stronger business confidence in 1Q18.** According to the Business Tendency Survey, overall business performance is expected to continue at strong pace given that overall business confidence registered at double digit growth for 3-consecutive quarters. Business confidence in 1Q18 registered at 12.3%, slightly lower than 7-year high of 14% recorded in the previous quarter. With continuous optimistic business confidence, we forecast GDP growth for 1Q18 to surge above 5.5%.

**Chart 13: BTS (%) vs GDP (YoY%)**



Source: CEIC, MIDFR

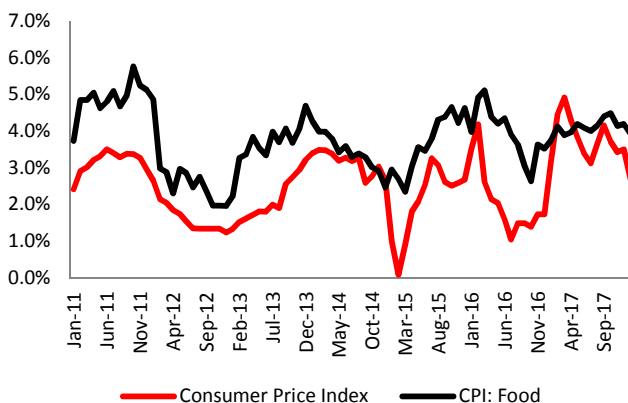
**Chart 14: Manufacturing: BTS (%) vs GDP (YoY%)**



Source: CEIC; MIDFR

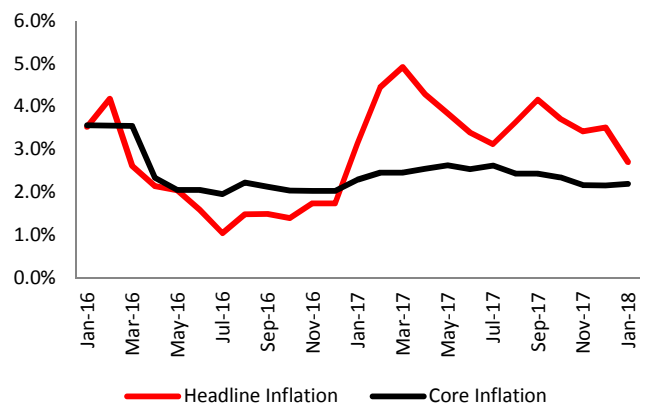
**Inflation went down to 13-month low.** Headline inflation rate rose by 2.7%yoy in January, lowest in 13 months. The slowdown in price movement is in tandem with slowing inflationary trend of most of the goods and services with transport inflation contributed the highest decline from 11.5%yoy in December to 5.7%yoy last month. Similarly, transport price grew at a slower pace on monthly basis by 0.4% from 3.3% in the preceding month underpinned by declining retail fuel prices. Meanwhile, core inflation maintained at 11-month low at 2.2%yoy in January.

**Chart 15: CPI: Headline vs Food (YoY%)**



Source: CEIC, MIDFR

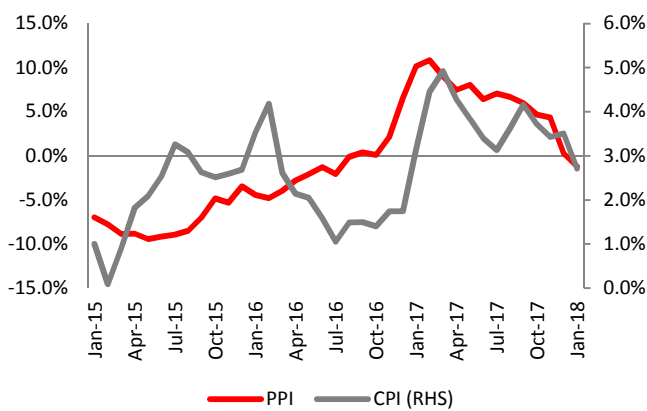
**Chart 16: CPI: Headline vs Core (YoY%)**



Source: CEIC; MIDFR

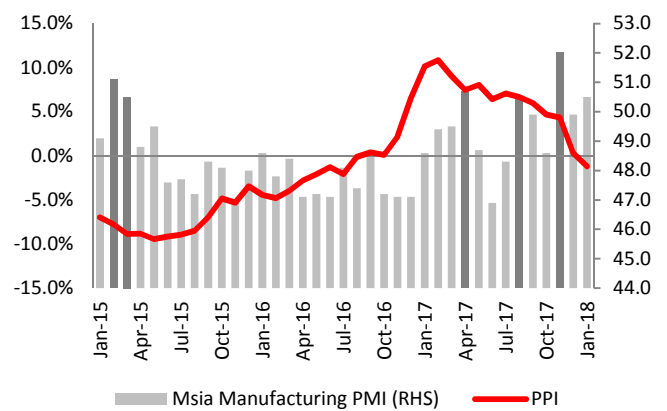
**Producer prices dipped 1.2% in the first month of 2018.** On a yearly basis, Malaysia’s producer inflation recorded the steepest decline since Jul-16, mainly due to unfavourable base effects. Nevertheless, on a monthly basis, input prices surged to positive reading as compared to a month earlier. The decline is offset by the manufacturing and electricity and gas industry which slumped to negative territories. In addition, we noticed other sectors experienced a steady growth in input price change in January. Moving forward, we foresee the slowdown inflationary pressure will stay throughout the year. Therefore, we maintain our stance of no change in OPR in 2018.

**Chart 17: PPI vs CPI (YoY%)**



Source: CEIC, MIDFR

**Chart 18: PPI (YoY%) vs Manufacturing PMI (Points)**



Source: CEIC, MIDFR

**Table 1: Macroeconomic Data Updates**

<b>(YoY%) Unless Stated Otherwise</b>	<b>2016</b>	<b>2017<sup>e</sup></b>	<b>2018<sup>f</sup></b>	<b>1Q18<sup>f</sup></b>	<b>2Q18<sup>f</sup></b>	<b>3Q18<sup>f</sup></b>	<b>4Q18<sup>f</sup></b>
Real GDP	4.2	5.8	5.5	5.8	5.4	5.5	5.3
Private Consumption	6.1	7.0	6.5	5.9	6.1	6.9	7.0
Public Consumption	1.0	5.0	3.3	(2.0)	0.5	3.7	11.2
Gross Fixed Capital Formation	2.7	5.7	3.9	(2.9)	3.5	4.2	10.8
Exports of goods & services	0.1	9.2	5.0	5.6	6.7	2.3	5.5
Imports of goods & services	0.4	10.3	4.8	0.6	6.4	3.7	8.5
Net Exports - RMb	92.6	93.4	99.6	27.5	23.1	24.5	24.5
Exports of Goods (f.o.b)	1.1	14.5	9.3	10.3	12.1	5.8	9.0
Imports of Goods (c.i.f)	1.9	15.5	8.9	6.0	12.4	6.6	10.8
Trade Balance - RMb	87.2	97.5	112.1	29.9	27.1	26.4	28.7
Consumer Price Index	2.1	3.8	2.6	3.5	2.4	2.6	2.0
Current Account - RMb	29.0	36.6	39.6	-	-	-	-
Current Account - % of GNI	2.7	3.2	3.2	-	-	-	-
Fiscal Balance - % of GDP	(3.1)	(3.0)	(2.9)	-	-	-	-
Federal Government Debt - % of GDP	53.8	53.0	52.5	-	-	-	-
Nominal GDP	6.2	7.2		-	-	-	-
<b>Year-End of Unless States Otherwise</b>	<b>2016</b>	<b>2017<sup>e</sup></b>	<b>2018<sup>f</sup></b>	<b>1Q18<sup>f</sup></b>	<b>2Q18<sup>f</sup></b>	<b>3Q18<sup>f</sup></b>	<b>4Q18<sup>f</sup></b>
Brent Crude Oil (Avg)	43.6	53.0	60.0	-	-	-	-
Crude Palm Oil (Avg)	2,652	2,825	2,900	-	-	-	-
USD/MYR (Avg)	4.15	4.32	4.00				
USD/MYR	4.46	4.05	3.95	-	-	-	-
Yield on generic 10-year MGS (%)	3.85	4.00	4.10	4.20	4.10	4.00	4.05
3-month KLIBOR (%)	3.54	3.43	3.60	3.60	3.50	3.50	3.70
Overnight Policy Rate (%)	3.00	3.00	3.25	3.25	3.25	3.25	3.25

Source: MIDFR

## February 2018 Key Economic Events

**2 Feb: The U.S. Poses a Bigger Danger Than China to Asia's Markets.** Asia's economies may be increasingly bound to China, but the risks to the region's markets may be more linked to the U.S. as Chinese policy makers make progress in arresting a record run-up in the country's debt. A deeper danger than China for emerging Asian markets is a rapid increase in U.S. interest rates and a surge in the dollar, according to Zhang Zhiming, head of China research at HSBC Holdings Plc.

**14 Feb: Malaysia's GDP expanded 5.9% in Q4 2017.** Malaysia's economy expanded at 5.9% in the fourth quarter of 2017 (Q4 2017) as compared to 6.2% in the preceding quarter, according to Department of Statistics. Last year, Malaysia's economy accelerated at a faster pace with the gross domestic product (GDP) grew 5.9% (2016: 4.2%) with a value of RM1,173.6 billion at constant prices and RM1,352.5 billion at current prices, it said in a statement today. On a quarter-on-quarter seasonally adjusted, GDP posted a growth of 0.9%, compared with 1.8% in Q3 2017.

**19 Feb: Singapore Plans to Boost Goods and Services Tax to 9%.** Singapore Finance Minister Heng Swee Keat announced a range of tax increases in his budget, including a surprise hike in property levies, as he seeks to shore up savings to cope with a rapidly aging population. The stamp duty on residential properties in excess of S\$1 million (\$761,600) was increased to 4 percent from 3 percent, effective from Tuesday, Heng said in a speech in Parliament. The government also plans to raise the goods and services tax by 2 percentage points to 9 percent sometime from 2021 to 2025, he said.

**24 Feb: SL1M monthly allowance up from RM1,500 to RM2,000.** Prime Minister Datuk Seri Najib Razak today announced an increase in the monthly allowance of the 1Malaysia Training Scheme (SL1M) to RM2,000, from RM1,500 previously. Besides motivating the trainees, he said the allowance was increased because the government understood their needs, with most of them coming from various backgrounds. Najib also regarded SL1M as a "key" that would open opportunities for a better life for the young generation.

**5 Feb: Powell Sworn In as Fed Chief Pledging to Explain Policy Moves.** Federal Reserve Chairman Jerome Powell, minutes after being sworn in as the central bank's 16th leader, pledged to support continued growth and price stability, while emphasizing a commitment to better communication with the public. "As I begin my term, I want to stress my commitment to explaining what we're doing and why we are doing it," Powell said in a video message released Monday.

**17 Feb: China Warns It May Retaliate If U.S. Imposes Metal Tariffs.** China said proposed U.S. tariffs on imported steel and aluminum products are groundless and that it reserves the right to retaliate if they are imposed. The U.S. recommendations, unveiled by the Commerce Department on Friday, aren't consistent with the facts, Wang Hejun, chief of the trade remedy and investigation bureau at China's Ministry of Commerce, said in a statement posted on its website. Commerce Secretary Wilbur Ross said the U.S. may impose quotas on imports of aluminum and steel, including a tariff of at least 24 percent on steel imports from all countries.

**22 Feb: Singapore's Central Bank Gets a Trigger for Tightening.** Singapore's government may have given the central bank a green light to charge ahead with monetary policy tightening this year. Economists are more confident in their calls that the Monetary Authority of Singapore will exit its neutral stance as soon as the next scheduled decision in April. They're encouraged after Finance Minister Heng Swee Keat said Monday that the budget position for 2018 will "remain expansionary" as Singapore incurs a small deficit amid greater spending and delayed tax increases.

**26 Feb: The hidden poor: Kuala Lumpur's children in low-cost flats.** Kuala Lumpur may have a per capita income matching that of developed countries, but its children living in low-cost flats are deprived in terms of nutrition, education, safety and living conditions, a Unicef study has found. "Children Without: A study of urban child poverty and deprivation in low-cost flats in Kuala Lumpur" released today found that 97% of low-cost flat households, earning a median income of RM2,500 a month, said high food prices prevented them from preparing healthy meals. Fifty-two per cent of households said they did not have enough money to buy food in recent months, and 15% said they "experienced this frequently", while 12% of children ate less than three meals a day..



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