

## ECONOMIC REPORT | National Account

### Private Investment to Spur Growth in 2017

- *GDP and private investment to grow by 5.1% and 5.6% in 2017. Due to favourable global and domestic economic activities, we expect Malaysia's economy to grow stronger this year as compared to 2016. With recovery in global commodity prices, we opine private investment will reach its inflection point this year after five years of deceleration.*
- *Demand-driven factors to propel investment upwards. On a demand side, positive performances in loan approvals, working capital and motor vehicles sales provide strong hint about the direction of private investment in Malaysia.*
- *Thanks to recovery in global trade activities. We believe the strong trade performance has positive spill-over effects on Malaysia's economy in particular on private investment.*

**2017 A Rebounding Year.** Based on current macroeconomic condition, most indicators are reflecting strong and robust recovery since middle of 2016. For instance, Malaysia's GDP growth recorded at 5.6%yoy in the first quarter this year, the highest in two years. Additionally, private investment grew at three-year's high of 12.9%yoy during the quarter. Looking at private investment's indicators, we opine that the expenditure component will break its five consecutive years of deceleration in annual growth. We expect private investment to expand by 5.6% in 2017 due to solid improvement of economic activities in Malaysia.

**Table 1: Performance of Selected Indicators for Private Investment (YoY%)**

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17*
GDP	5.8	4.9	4.7	4.6	4.1	4.0	4.3	4.5	5.6	5.0 <sup>f</sup>
Private Investment	11.5	3.8	5.3	4.7	2.1	5.6	4.8	4.9	12.9	3.0 <sup>f</sup>
Import of Investment Goods	6.8	(0.6)	7.1	5.4	2.4	6.4	9.2	6.4	25.6	30.7
Import of Intermediate Goods	8.2	(13.0)	5.9	1.5	(11.5)	10.6	17.0	7.2	41.0	34.6
Loan Approvals	3.2	4.4	(8.4)	(5.8)	(18.0)	(12.0)	(9.1)	(6.6)	13.7	9.0
Sales of Commercial Vehicles	10.2	(13.9)	(6.4)	(2.7)	(26.3)	3.9	(9.4)	(16.8)	(6.1)	(1.2)

Source: CEIC, MIDFR

\*Figures are 3MMA except for GDP & Private Investment

f: MIDFR Forecast Estimates

**Thanks to recovery in global trade activities.** We believe the strong trade performance has positive spill-over effects on Malaysia's economy in particular on private investment. Based on the first quarter performance, surged in external trade have restored business confidence and reinvigorating investment climate as reflected in MIER's Second Quarter Business Confidence Index which rose above 100-threshold points during the quarter at 112.7 points. We also observed industrial production figures in 2017 perform better than previous year's. As a result, private investment particularly investment in machinery & equipment expanded by 12.9%yoy and 21.8%yoy respectively in the first quarter of 2017. The growth in private investment recorded in the first quarter 2017 was the highest in four years.

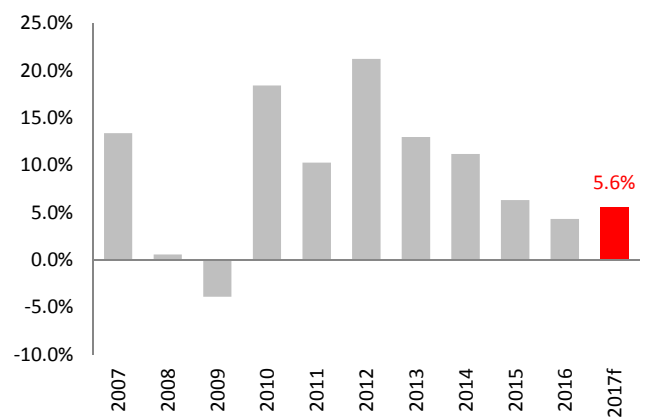
**Private investment to hit 5.6% in 2017.** Since 2012, private investment has been moderating. Tepid growth in the volume of world trade in goods & services is among major factors dragging down investment activities globally. However, given that robust global demand and recovery in commodity price this year, we foresee private investment will break its silence by registering 5.6% growth in 2017. In fact, International Monetary Fund (IMF) forecast world GDP growth to improve to 3.5% in 2017 as compared to 3.2% in 2016. We believe further investment via capital expenditure will take place especially in manufacturing and mining sectors with installation of new machineries, technologies and equipment.

**Chart 1: GDP Forecast for 2017**



Source: MIDFR

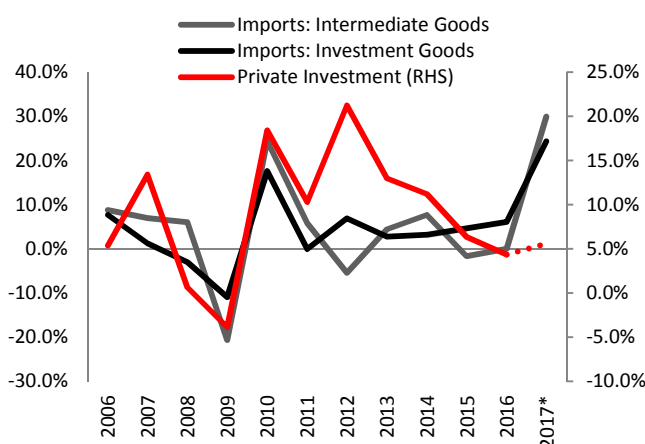
**Chart 2: Private Investment to Rebound by 5.6% in 2017**



Source: MIDFR

**Rapid surges in import – Driven by Investment and Intermediate Goods.** Among others, import of investment and intermediate goods are indicators for private investment performance. Import of capital goods as well as machinery and transport equipment are major components of investment goods. Since November 2016, both import of investment and intermediate goods have been expanding strongly at double digit rate. In fact, we noticed that the average growth for the first five months of 2017 for both import goods is well above 20%yoy.

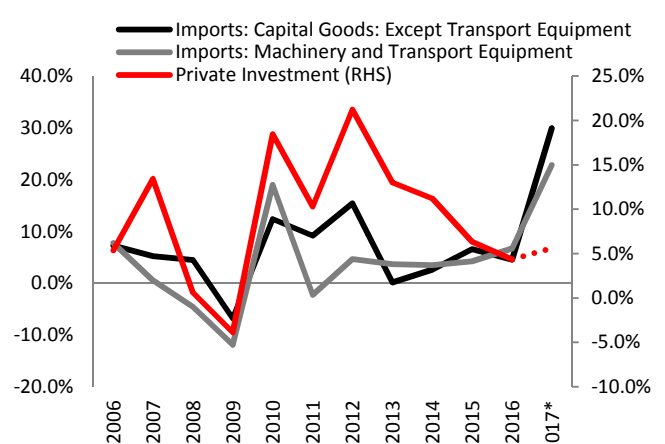
**Chart 3: Private Investment vs Imports (YoY%)**



Source: CEIC, MIDFR

\* Average growth for the past five months of 2017  
\* MIDFR Forecast for Private Investment at 5.6%

**Chart 4: Private Investment vs Investment Goods (YoY%)**

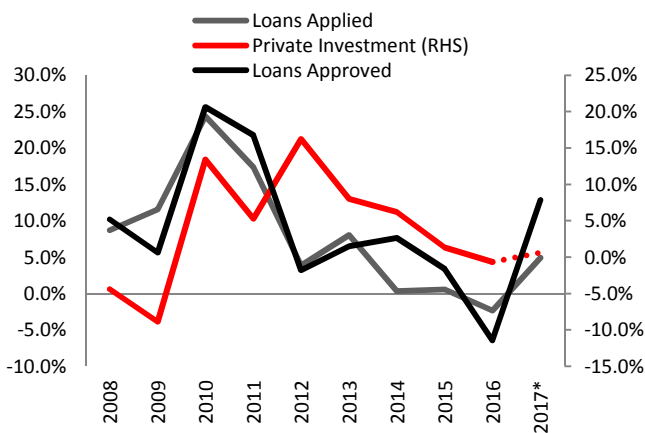


Source: CEIC, MIDFR

\* Average growth for the past five months of 2017  
\* MIDFR Forecast for Private Investment at 5.6%

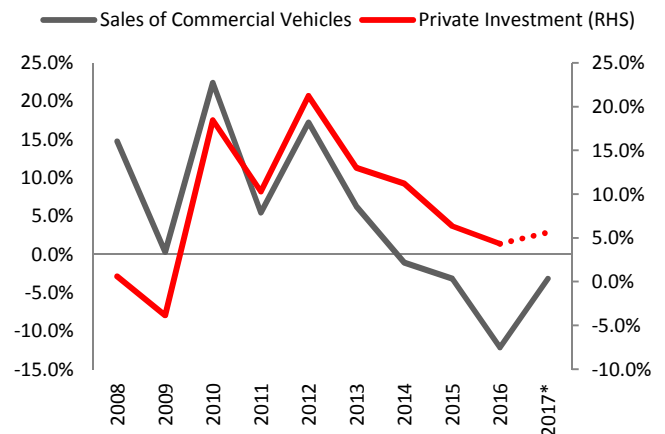
**Demand-driven factors to propel investment upwards.** On a demand side, positive performances in loan approvals, working capital and motor vehicles sales provide strong hint about the direction of private investment in Malaysia. Loan growth for the first 5 months of 2017 recorded better performance than the average loan growth in 2016, 7.8%yoy vs -11.4%yoy respectively. The surge in the loan growth is contributed by loan approvals for purchase of securities, fixed assets, mortgages, vehicles and credit cards. By sector, mining, manufacturing and construction sectors are the main contributors towards higher loan growth.

**Chart 5: Private Investment vs Loans Growth (YoY%)**



Source: MIDFR  
 \* Average growth for the past five months of 2017  
 \* MIDFR Forecast for Private Investment at 5.6%

**Chart 6: Private Investment vs Motor Vehicles Sales (YoY%)**



Source: MIDFR  
 \* Average growth for the past five months of 2017  
 \* MIDFR Forecast for Private Investment at 5.6%

**GDP and private investment to grow by 5.1% and 5.6% in 2017.** Due to favourable global and domestic economic activities, we expect Malaysia's economy to grow stronger this year as compared to 2016. With recovery in global commodity prices, we opine private investment will change its direction upwards this year after five years of deceleration. Investment in commodity-based and export-oriented sectors such as manufacturing, mining and agriculture sectors are expected to rise in 2017. 📈

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