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Malaysia

# 4Q 14 real GDP stronger despite oil price slump and worsening external position

- **4Q 14 Real GDP growth accelerated to 5.8% (3Q 14: 5.6%) boosted by private consumption and modest pick-up in Gross Fixed Capital Formation while net exports declined. Services growth was marginally higher while mining sector picked up significantly. Manufacturing and construction sectors slowed down while agriculture sector contracted during the quarter. Overall, real GDP grew by 6.0% in 2014 (2013: 4.7%)**
- **The balance of payments posted bigger deficits hence in the FX reserves recorded a drawdown of RM36b at the end of 2014. However, external debt edged up by RM48.1b at the same time.**
- **On fiscal position, revenue declined but operating and net development expenditure rebounded slightly, resulting in bigger deficits. Nonetheless, the much smaller deficits in the preceding 3 quarters helped to bring the overall deficit to 3.5% of GDP.**

**The economy proved to be resilient in the 4Q 14 mainly on consumer spending**. Real GDP growth accelerated to 5.8% (3Q 14: 5.6%) boosted by private consumption expenditure which grew by 7.8% yoy (3Q 14: 6.7%) – the strongest since 4Q 13 - and modest growth pick-up to 4.3% yoy in Gross Fixed Capital Formation (3Q 14: 1.1%). The rebound in consumer spending was in spite of the high base factor in the corresponding quarter of last year and falling consumer confidence reported for the period. The 4 sen fall in RON95 prices could partially explained the stronger growth, however, consumers have switched to RON 97 given the much bigger drop i.e. 29 sen and that should imply not much added purchasing power. We reckon that the faster growth was mainly due to higher income growth and BR1M support by the government. Government spending growth decelerated while net exports surplus declined by 9.8% (3Q 14: +11.4%).

**By activity, mining sector was the star performer.** Services growth was only marginally higher at 6.4% yoy (3Q 14: 6.2%) despite stronger consumer spending, dragged by slower growth in finance and insurance as well as government services sub-sectors. Nonetheless, the mining sector growth picked up significantly to 9.6% yoy (3Q 14: 1.4%) on higher crude oil production. The manufacturing and construction sectors slowed down (5.2% and 8.7% respectively vs 5.4% and 9.6% in the 3Q 14, respectively) while agriculture sector contracted by 2.8% during the quarter (3Q 14: +4.0%).

**Table 1: Real GDP performance – by type of expenditure and economic activity**

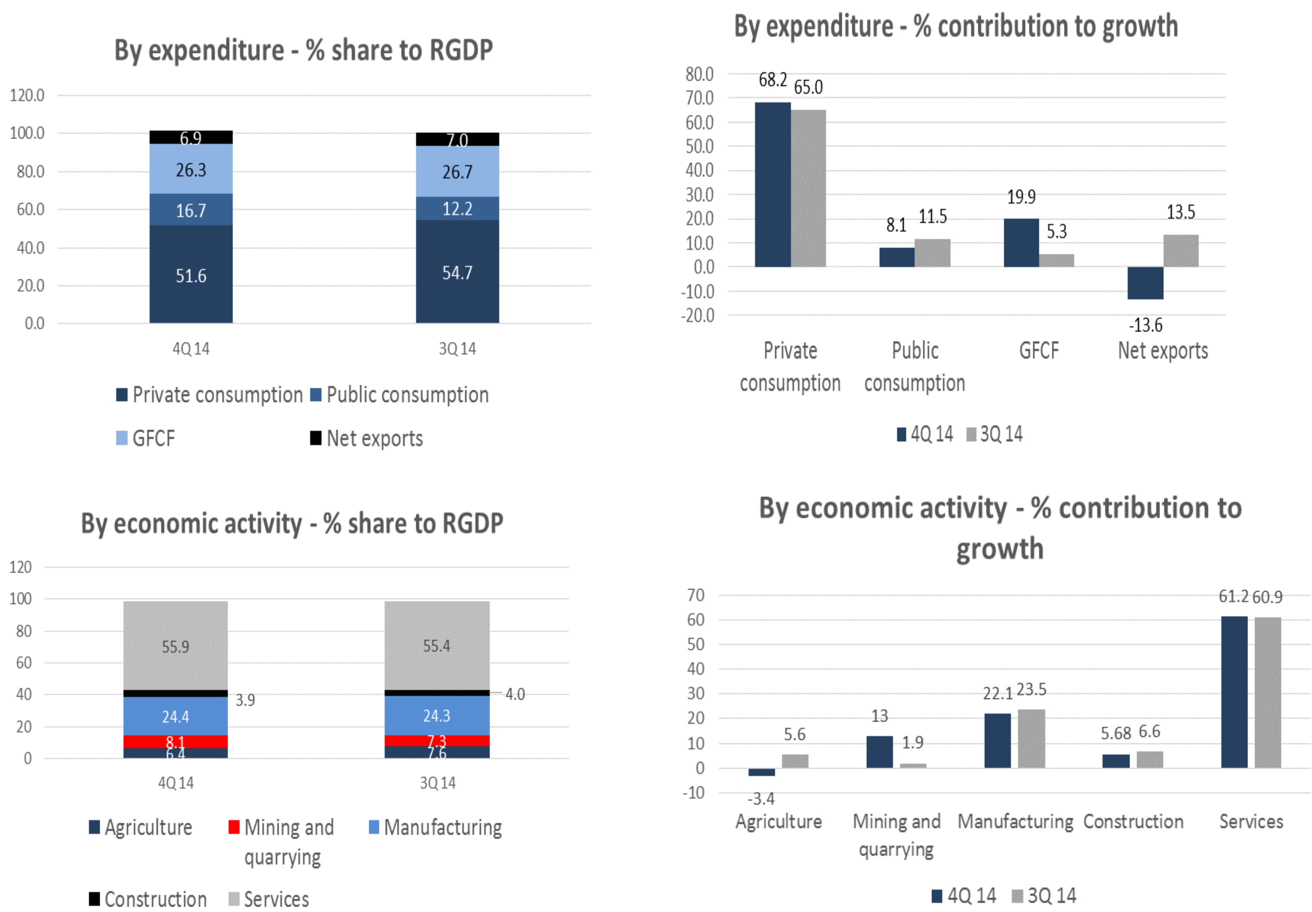
| | 2013 | 2014 | 1Q 14 | 2Q 14 | 3Q 14 | 4Q 14 |
|---|---|---|---|---|---|---|
| Real GDP | 4.7 | 6.0 | 6.2 | 6.5 | 5.6 | 5.8 |
| Private consumption expenditure | 7.2 | 7.1 | 7.1 | 6.5 | 6.7 | 7.8 |
| Public consumption expenditure | 6.3 | 4.4 | 12.3 | -0.5 | 5.3 | 2.7 |
| Gross fixed capital formation | 8.5 | 4.7 | 6.3 | 7.2 | 1.1 | 4.3 |
| *Structure* | 11.0 | 9.9 | 14.7 | 6.7 | 8.3 | 10.8 |
| *Machinery and equipment* | 5.8 | -0.3 | -1.8 | 9.1 | -7.5 | -0.4 |
| *Other assets* | 8.7 | 0.4 | 4.1 | 1.0 | 4.7 | -7.0 |
| | | | | | | |
| Exports | 0.6 | 5.1 | 7.9 | 8.8 | 2.8 | 1.5 |
| Imports | 2.0 | 3.9 | 7.1 | 3.9 | 2.2 | 2.6 |
| | | | | | | |
| Agriculture | 2.1 | 2.6 | 2.3 | 7.1 | 4.0 | -2.8 |
| Mining | 0.7 | 3.1 | -0.8 | 2.1 | 1.4 | 9.6 |
| Manufacturing | 3.5 | 6.2 | 6.8 | 7.3 | 5.4 | 5.2 |
| Construction | 10.9 | 11.6 | 18.9 | 9.9 | 9.6 | 8.7 |
| Services | 5.9 | 6.3 | 6.6 | 6.2 | 6.2 | 6.4 |

Source: Department of Statistics (DoS), BNM

**Monthly indicators showed the pick-up in the 4Q 14 was mostly contributed in December month** when the oil prices started to decline rapidly, floods hit the east coast of the country and Ringgit started to weaken. This was reflected in the December industrial production index which picked up to rise by 7.8% yoy (Oct – Nov'14: 5%) on the back of a pick-up in the manufacturing production index by 7.8% in December 2014 (Nov: 3.9%) and the sustained strong output of the Mining sector of 6.9% yoy in December (Nov: 7.6%). The strong growth was due to the increase in Crude Oil index (12.0%) and Natural Gas index (1.4%), perhaps to boost value when prices were slumping. Tapis crude oil price dipped to US$ 73.4p.b. on average in the 4Q 14 from the average of US$104.3p.b. in the previous quarter.

**In terms of contribution to growth, recent trend was significantly different than that for the whole year.** While the 4Q 14 period showed bigger contributions from domestic demand and net exports posting a drag, for the whole of 2014, the contribution from domestic demand was smaller relative to 2013 while that of net exports turned positive. Meanwhile, in terms of sectors, it showed that contribution coming from the Mining sector gained weight significantly in the last quarter of the year, following dismal performance in the first 3 quarters. The manufacturing sector contributed bigger share to growth in 2014 relative to 2013 in line with the net exports performance

**Chart 1: Share to real GDP and contribution to growth – By expenditure**




*Source: BNM, DoS*

**The balance of payments posted bigger deficits on smaller current account surplus and bigger outflows from the financial account.** During the quarter, current account surplus narrowed to RM6.1b or 2.3% of GNI from RM7.6b (2.9% of GNI) in the 3Q 14. While the goods account showed the surplus was higher by RM4b to RM32.7b during the quarter, the income and services accounts posted larger deficits, at RM18.8b and RM7.9b respectively (3Q 14: -RM14.7b and –RM6.4b, respectively). The pullback in the financial account was much more dramatic. The financial account showed an outflow of RM24.4b in the 4Q 14 against an outflow of RM2.8b in the previous quarter. That was on the back of an outflow of RM20.4b in portfolio investment (3Q 14: -RM11.0b) and RM0.2b in net FDI (3Q 14: +RM2.1b). The sharper outflow led to the overall balance of payments positing a drawdown of FX reserves by as much as RM11.4b (3Q 14: -RM6.7b). For the whole year, current account surplus stood at RM49.5b or 4.8% of GNI, with most of the positive contribution came in the first half of the year. The FX reserves which stood at RM405.5b (US$116b) at at end-2014 is enough to cover 1.1x short-term debt (based on the new definition by BNM) and about 8 months of retained imports. As at end-January this year, FX reserves actually slipped further to RM386.5b (US$110.6b), but still enough to cover 1.1x the short-term debt and 7.9 months of retained imports.

**However, external debt edged up at the same time.** The increase in total external debt has somewhat moderated, as it rose by RM4b over the quarter, against RM11.2b in the 3Q 14. Overall, total debt rose by RM48.1b in 2014 to RM744.7b. The short-term debt stood at RM358.9b or 48.2% of total external debt, reflecting an increase of RM20.1b from the 2013 level. The amount could be much higher if not for the sharp slowdown in the non-residents holdings of domestic securities. The medium- to long-term debt rose by RM27.7b in 2014 to RM385.8b.

**On fiscal position, revenue declined but operating and net development expenditure rebounded slightly, resulting in bigger deficits.** The revenue of the Federal Government declined by 2.3% yoy in the 4Q 14 following an increase of 3.8% in the 3Q 14. That set against the operating expenditure which rose by 1.6% yoy (3Q 14: -0.9%) and net development expenditure that grew by 2.1% (3Q 14: -10.3%), has resulted in the budget deficit to widen to RM16.5b during the quarter against RM1.9b in the 3Q 14. Nonetheless, the much smaller deficits in the preceding 3 quarters helped to bring the overall deficit for 2014 to RM37.4b or 3.5% of GDP.

**Going forward, it is hard to maintain the current pace of growth, although we are not as bearish**. Looking at the growing importance in the Mining sector in contributing to the production side of growth, we could deduce that, growth is certain to slow down considerably. The output from the mining sector in the best case scenario would turn flattish – if volume and prices remain at the 4Q 14 levels. The volume seen in the 4Q was the highest since 2Q 10 when Tapis was at RM77p.b. On the GFCF side, the performance in the 4Q 14 was mainly driven by non-residential properties. Infrastructure works have moderated as reflected in the Construction indicators tracked by BNM. With oil and gas investments likely to pull back sharply in 2015 on the back of lower oil prices, GFCF in turn will see growth moderating unless other types of GFCF rebound on the back of low oil prices. The wild card remains on the consumer spending side. It is hard to portend the magnitude (while the trend most of time is likely to show an uptrend), given the lack of forward-looking indicators that can predict well consumption spending.

**Real GDP to continue to be boosted by consumer spending in the 1Q 15 ahead of GST but to fizzle off in the following quarters.** We expect real GDP to stay strong around 5 - 5.5% in 1Q 14 despite the high base factor in 2014 to be driven by consumer spending, ahead of the GST which will kick off effective April 1. Thereafter, the impact of GST and the likely stable but low oil prices would see growth moderating. We expect real GDP growth to slow down to 4.7% in 2015 from the 6.0% growth recorded in 2014.

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