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ECONOMIC REVIEW | 4Q 2015 National Account

Malaysia GDP Grew by 5.0% in 2015, Higher Than Economist Consensus

- *GDP grew by 4.5% in the last quarter of 2015, leading to an overall GDP growth for the year at 5.0%. These figures are higher than the economist consensus by Bloomberg, where the median forecast was expecting a growth of 4.1% for 4Q15 and 4.8% for 2015. The higher than expected growth were contributed by the resilience in Malaysia private consumption and the rebound in exports activity, particularly since the shap depreciation of Ringgit in 3Q15.*
- *Private consumption experienced a rebound where it grew by 4.9%yoy, after the slower growth of 4.1%yoy in 3Q15. The figure is even more encouraging when we are looking at the quarter-on-quarter seasonally adjusted annualized rate (SAAR) basis where it grew by 9.8%, the highest in five quarters. Private consumption continues to show resilience despite various external and domestic headwinds.*
- *Current account experienced a rebound in the fourth quarter as we had previously anticipated to 6 quarters high at RM11.4 billion. Most of the contribution came from the increase in Goods and Services component, particularly due to the increasing trade balance for the period. Furthermore, financial account was the highest in 14 quarters at RM5.3 billion, mainly due to the positive inflow from both direct investment and portfolio investment.*
- *We maintain our expectation for GDP growth in 2016 at 4.4%, with the first quarter of 2016 to be at 4.2%. However, we admit that there is a higher downside risk due to the instability in global financial market and uncertainty in the global economy.*

GDP grew by 4.5% in the fourth quarter, higher than the median consensus at 4.1%. GDP grew by 4.5% in the fourth quarter, leading to an overall growth of 5.0% in 2015. Our forecast for the GDP was to grow at 4.6% in the last quarter and 5.0% for the whole 2015, while the median consensus by Bloomberg is expecting the GDP to grow by 4.1% in 4Q15 and 4.8% for year 2015. As a side note, Asian Development Bank, International Monetary Fund and World Bank were all expecting Malaysia to grow by 4.7% in 2015. The higher than expected GDP growth for year 2015 was due to the resilience in Malaysia's domestic economy and better exports performance since the sharp depreciation of Ringgit in August. On a quarter-on-quarter seasonally adjusted annualized rate (SAAR) basis, GDP grew by 6.2% in 4Q15, significantly higher than 2.6% in 3Q15.

Private consumption grew by 9.8%qoq on SAAR basis, the highest in five quarters. After the introduction of Goods and Services Tax (GST), there was a noticeable weakness in the private consumption where it contracted by -1.0%qoq in 2Q15 and rebounded slightly by 1.0%qoq in the 3Q15 on SAAR basis. However, it seems that the impact of GST has worn off after 6 months, where the private consumption surged by 9.8%qoq. Overall, the private consumption has been higher than the expectation of most economists, as it grew by 6.0% for the full year of 2015, only slightly lower compared to 7.0% growth in 2014 despite the introduction of the new tax system and an all-time low of consumer sentiment index which hit 63.8 in 4Q15.

Gross Fixed Capital Formation was relatively flat in the last quarter. Gross Fixed Capital Formation (GFCF) fell to 2.8% in 4Q15 relative to 4.3% in 3Q15. Private investment was relatively flat at 5.0%, slightly lower than 5.5% in the previous quarter. However, overall there was a clear weakness in investment activity for the full year 2015, where GFCF down from 4.8 % in 2015 to 3.7% in 2015 while private investment experienced a sharp drop from 11.0% to 6.4% last year. The slow investment activity was mainly due to the weakening global demand, leading to firms having less reason to expand their business activity. Investment activity is likely to continue growing at a moderate level as the global economy is yet to show any signs of recovery.

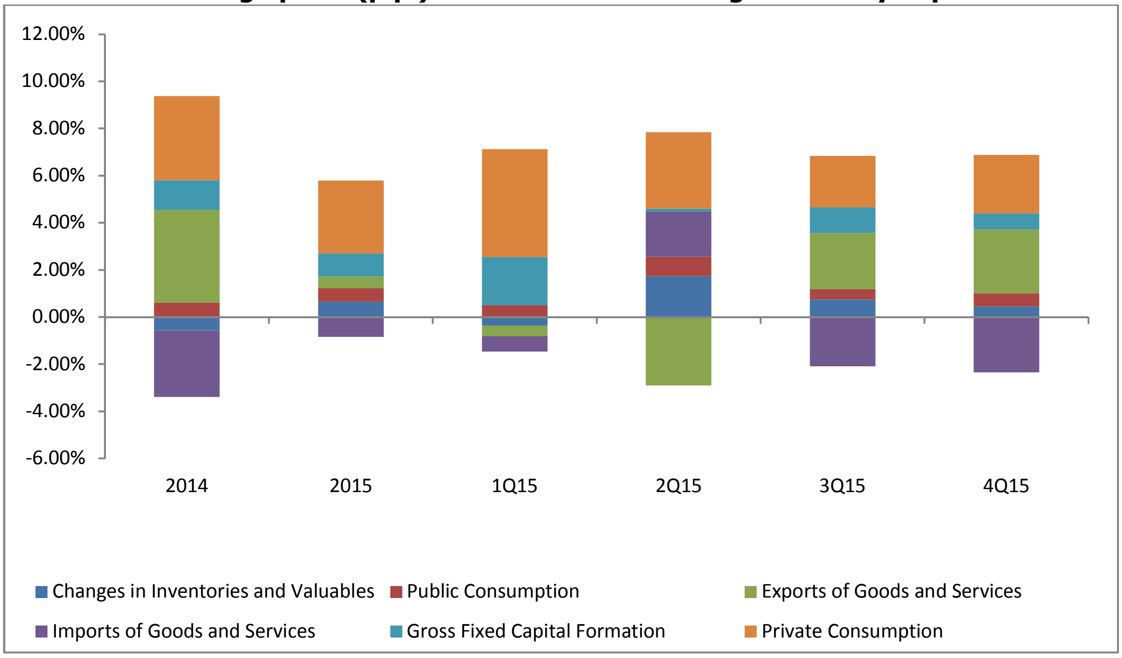
Table 1: Real GDP performance – by type of expenditure and economic activity

YoY%	2014	2015	1Q 15	2Q 15	3Q 15	4Q 15
Real GDP	6.0	5.0	5.6	4.9	4.7	4.5
Private consumption expenditure	7.1	6.1	8.8	6.4	4.1	4.9
Public consumption expenditure	4.4	4.1	4.1	6.8	3.5	3.3
Gross fixed capital formation	4.8	3.7	7.9	0.5	4.3	2.8
Structure	9.9	6.9	9.9	5.9	7.0	5.1
Machinery and equipment	-0.7	-0.3	5.8	-7.5	1.2	-0.1
GFCF - Public	-4.7	-1.0	0.4	-8.0	1.8	0.4
GFCF - Private	11.0	6.4	11.7	3.9	5.5	5.0
Net Exports	12.8	-3.7	-10.2	-10.5	3.3	4.2
Exports	5.1	0.7	-0.6	-3.7	3.2	3.7
Imports	4.2	1.3	1.0	-2.8	3.2	3.6
Agriculture	2.1	1.0	-4.7	4.6	2.4	1.3
Mining	3.3	4.7	9.6	6.0	5.3	-1.4
Manufacturing	6.2	4.9	5.6	4.2	4.8	5.0
Construction	11.8	8.2	9.7	5.6	10.0	7.5
Services	6.5	5.1	6.4	5.0	4.4	5.0

Source: Department of Statistics (DoS), CEIC

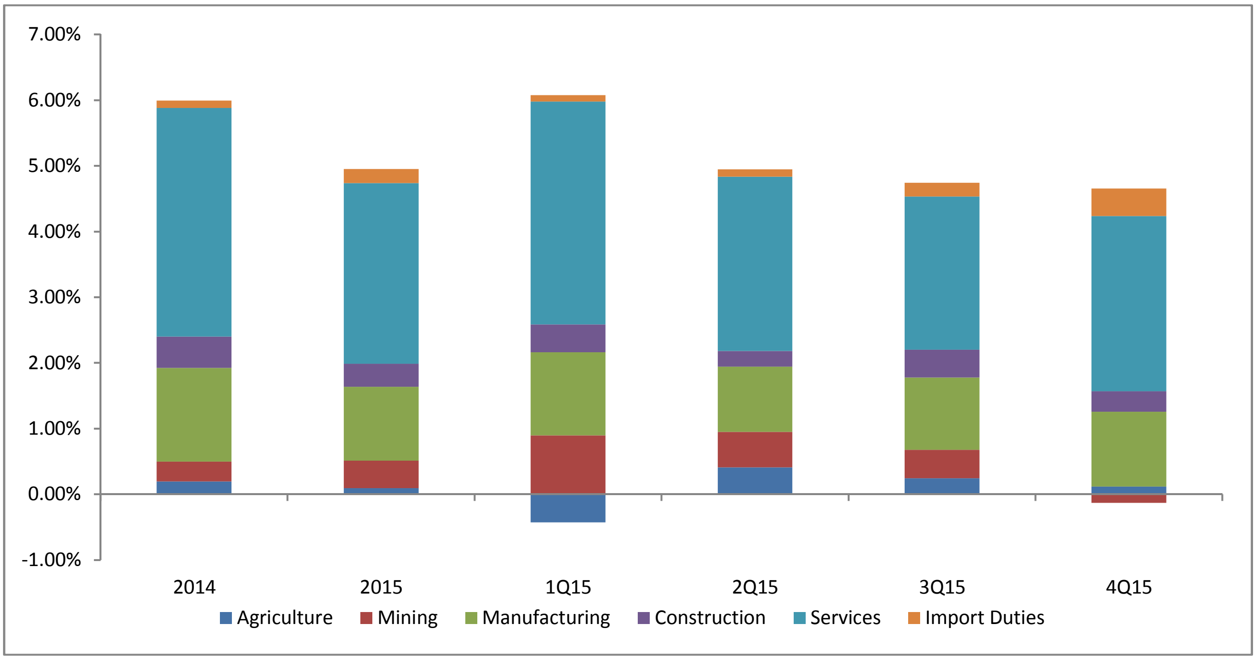
Net exports record good growth due to weaker Ringgit in the second half of 2015. Net exports grew in 4Q15 by 4.2%yoy in 4Q15, maintaining the growth seen in the previous quarter. The positive performance in this quarter means that net exports in the second half of 2015 grew by 3.8%yoy, rebounding from the negative figure as recorded in the first half at 10.4%yoy. The rebound in net exports has been widely expected as the trade balance for second half of the year was higher at RM52.6 billion, expanding by 26.2%yoy. Both exports and imports grew by 5.9%yoy and 2.1%yoy for the quarter and the faster growth of exports contributed to the higher trade balance recorded. However, on a seasonally adjusted quarter-on-quarter basis, net exports declined from RM23.9 billion in 3Q15 to RM22.3 billion in 4Q15 or 6.4%qoq.

Chart 1: Percentage point (p.p.) share contribution to growth – By expenditure



Source: DoS, MIDFR

Chart 2: Percentage point (p.p.) share contribution to growth – By economic activity



Source: DoS, MIDFR

Services sector strengthening supported by good growth in government, retail and motor sub-sectors. Services industry grew by 5.0%yoy mainly due to solid growth in the government, retail and motor trade sub-sectors. The three sub-sectors of services grew 4.6%, 4.2% and 5.0% year-on-year respectively. The improvement in the retail and motor trades are in line with the solid growth seen in private consumption. On the other hand, finance and insurance industry saw further contraction by 1.3%yoy and 2.0%yoy respectively. . While the two industries beat our expectation for the 4Q15, we expect that growth in 1Q16 to moderate due to high base effect in 1Q15 and challenging economic conditions ahead. With little sign of improvement, both finance and insurance industry is likely to see muted growth in FY16.

Highest current account balance in six quarters. Malaysia's current account surged to RM11.4 billion in 4Q15, the highest in six quarters. Most of the increase was contributed by the goods and services component, which increased to RM24.6 billion, the highest in six quarters. Furthermore, financial account was the highest in 14 quarters at RM5.3 billion, contributed by a rebound in both net direct investment (RM5.7 billion) and net portfolio investment (RM15.9 billion), which were both the highest in five and six quarters respectively. We believe that the sharp depreciation of Ringgit, which was making it significantly undervalued, were the main cause why there were a lot of inflow in the last quarter of 2015. Net errors and omission were still sizable at an opposite direction at –RM22.7 billion, which we believe mainly due to the Ringgit volatility. For the whole of 2015, the current account balance was relatively lower at RM34.0 billion, as compared to RM47.3 billion for year 2014.

We maintain our GDP forecast for year 2016 at 4.4%. We opine that the overall Malaysia economy has been doing relatively well last year, exceeding most of the forecast by economists and international institutions particularly for its private consumption and exports performance. However, moving forward, weaknesses in the global economy and financial market is likely to affect our domestic economy, particularly employment and income level. As such, we are expecting that the Malaysia economy will slow down to 4.4% this year, with the first quarter to be at 4.2%yoy. Currently, there exists higher downside risk on the economy as there seems to be imminent weaknesses in the global economy.

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