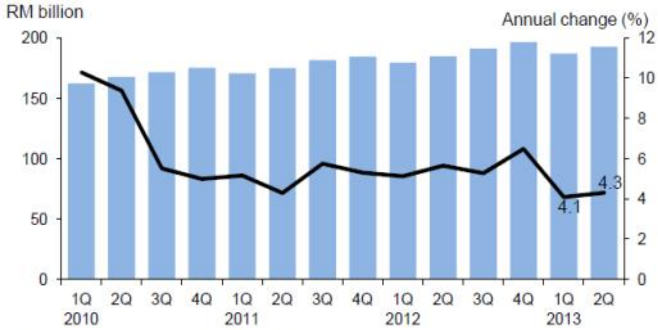
IM BizWatch
NEWS·INFORMATION·OPPORTUNITIES
Issue 8/2013 31 August 2013
ISKANDAR REGIONAL DEVELOPMENT AUTHORITY

- Malaysia: 2Q2013 GDP
- Singapore's plans to relocate port and military airport
- Johor Economic Growth Strategic Plan

Highlights and Review of Malaysia 2Q2013 GDP

- The global economy continued to experience modest growth in the second quarter of 2013.
- The US economy expanded at moderate pace, while economic activity in the Euro area remained weak amid austerity measures and ongoing sovereign debt concerns.
- In Asia, growth of several economies moderated in the second quarter, as prolonged weakness in the external environment had begun to affect domestic economic activity, particularly in the more opened economies.
- While domestic demand in the Malaysian economy has remained strong, the overall growth performance was affected by the weak external sector.
- In the 2Q 2013, the Malaysian economy expanded by 4.3% as compared to 4.1% in the previous quarter.

The economy expanded in the second quarter
(at constant 2005 prices)



Source: Department of Statistics, Malaysia

GDP by Expenditure Components
(at constant 2005 prices)

	2012		2013		
	2Q	1H	1Q	2Q	1H
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	14.0	11.8	8.2	7.3	7.7
Consumption	9.1	8.4	6.1	8.0	7.1
Private sector	*8.6*	*8.0*	*7.5*	*7.2*	*7.4*
Public sector	*11.0*	*10.1*	*0.1*	*11.1*	*5.8*
Gross Fixed Capital Formation	26.2	20.7	13.1	6.0	9.3
Private sector	*25.6*	*22.4*	*10.8*	*12.7*	*11.8*
Public sector	*27.2*	*17.9*	*17.3*	*-6.4*	*4.7*
Net Exports	-40.4	-33.1	-36.4	-41.6	-38.7
Exports of Goods and Services	*1.6*	*1.9*	*-0.6*	*-5.2*	*-2.9*
Imports of Goods and Services	*8.3*	*7.7*	*3.6*	*-2.0*	*0.8*
GDP	**5.6**	**5.4**	**4.1**	**4.3**	**4.2**
GDP (q-o-q growth, seasonally adjusted)	**1.3**	**-**	**-0.4**	**1.4**	**-**

Source: Department of Statistics, Malaysia

GDP by Economic Activity
(at constant 2005 prices)

	Share 2012 (%)	2012		2013		
		2Q	1H	1Q	2Q	1H
		Annual change (%)				
Agriculture	7.3	-4.6	-1.3	6.0	0.4	3.1
Mining	8.4	2.2	1.2	-1.9	4.1	1.0
Manufacturing	24.9	5.7	5.1	0.3	3.3	1.9
Construction	3.5	21.5	18.5	14.2	9.9	12.0
Services	54.6	6.6	6.2	5.9	4.8	5.4
Real GDP	**100.0[1]**	**5.6**	**5.4**	**4.1**	**4.3**	**4.2**
Real GDP (q-o-q seasonally adjusted)	-	1.3	-	-0.4	1.4	-

[1] Numbers do not add up due to rounding and exclusion of import duties component
Source: Department of Statistics, Malaysia

- While domestic demand remained firm, growing at 7.3% as compared to 8.2% in the 1Q 2013, exports registered larger decline, amid weakness across most export products.
- Private consumption expanded by 7.2%, supported by stable employment conditions and sustained wage growth in the domestic-oriented sectors.
- Public consumption growth improved to 11.1% as compared to 0.1% in the 1Q 2013 indicating higher Government spending on supplies and services and sustained spending on emoluments.
- On the supply side, the major economic sectors expanded further in the 2Q 2013, supported by the continued strength in domestic demand.
- The services and manufacturing sectors continued to expand, driven largely by sub-sectors catering to the domestic market.
- Growth of the mining sector rebounded following higher production of both natural gas and crude oil.
- However, the agriculture sector moderated, weighed down by a sharp reduction in natural rubber output and slower growth in crude palm oil production.
- In the construction sector, growth remained firm, led by the civil engineering and residential sub-sectors.
- Headline inflation rate as measured by the Consumer Price Index (CPI) was higher at 1.8% in the 2Q 2013 as compared to 1.5% in the 1Q 2013. The increase is mainly due to price increases in food and non-alcoholic beverages and housing, water, electricity, gas and other fuels categories.
- The Overnight Policy Rate (OPR) was maintained at 3.00% during the quarter. At this level of OPR, monetary conditions remain supportive of economic activity.

Outlook

Recent indication has indicated a positive growth not just USA, but a rebound in Europe as well.
Based on the seasonally adjusted annual rate, the US GDP expanded better than expected at 1.7% as business have begun spending more and the worst of government cuts is over.

Malaysia: 2Q2013 GDP

- Europe has at last gotten out of an 18-month recession, growing at 0.3% in the 1Q 2013 on strength led by Germany and France.
- With signs of recovery in developed nations, there is possibility that China economy which posted a 7.5% annualized GDP growth in 2Q 2013 could be improving and be able to achieve its official target of 7.5% growth for the whole year and effectively averting a hard landing.
- With demand from advanced economies likely to improve in 2H 2013, BizWatch are of the opinion that exports will rebound and add on to manufacturing growth in the coming months.
- Nonetheless, Bank Negara has lowered its 2013 GDP growth for Malaysia from between 5% and 6% to 4.5% to 5% to factor in the current prolonged external weakness.

Comparison of Malaysia's GDP with its peers

Country	2Q 2013 %	1Q 2013 %	2012 %	2011 %
Malaysia	4.3	4.2	5.6	5.1
Singapore	3.8	0.2	1.3	5.2
Thailand	2.8	5.4	6.4	0.1
Indonesia	5.8	6.0	6.2	6.5

Source: IMF / Bank Negara

BizWatch

Though Malaysia's 2Q 2013 GDP of 4.3% was below the market expectations of 4.9%, Malaysia's GDP growth is still higher when compared to rest of its neighboring countries like Singapore and Thailand. Amongst the ASEAN countries, Indonesia continued to lead with strong growth.

The prolong weakness in the external environment has been identified to be the major factor for the lower growth in the 2Q 2013 as this has affected our exports thus lowering growth in the current quarter.

The lower growth is moderated by strong domestic demand.
The slower 2Q growth has resulted in Bank Negara reviewing its original growth forecast of 5% - 6% to 4.5% - 5%. BizWatch in our May issue 5/2013 has similar conservative expectation on our growth of 4.5%-5.0% and we maintain our view on this.

In view of the above, it is therefore vital for Malaysia as well as Iskandar Malaysia in particular to make sure that the current projects be implemented as soon as possible so that the multiplier effect of the economy can be translated into growth.

We need to leverage on our neighbor Indonesia both as a source of new investments as well as the demand market. Thus, the implementation of our target promotion activities to Indonesia since Sept 2012 should bring in more investments as well as Indonesian visitors.

Europe recovering, South Korea and Malaysia stand to gain

BNP Paribas Securities says Europe's economy appears to be on the mend, and Asian countries with significant manufactured exports to Europe stood to be the biggest beneficiaries of European recovery.

It named South Korea and Malaysia as among the countries most likely to benefit, followed by China and India, for whom the positive effect would be somewhat diffused because their export baskets are a diverse mix of staples and cyclicals.

According to the BNP Paribas research team, the Eurozone is growing again, with GDP expanding 0.3% in 2Q 2013 after falling for six long quarters. Moreover, this growth was stronger than expected and spread across most Eurozone members.

Germany bested BNP Paribas's forecast of 0.1% growth in 2Q 2013 by turning in a figure of 0.7% GDP growth qoq and 0.9% yoy.

BNP Paribas's expects the improvement in both external and domestic conditions to persist as 1) financial market stress has been kept relatively low for around a year, and 2) notwithstanding the continued fiscal tightening across Europe, the severity of the adjustment is easing.

It added that while tepid growth for much of the last decade has resulted in the proportion of exports to Europe declining for most Asian countries, Europe was nevertheless still among the top export destinations for countries like China and India.

But the biggest beneficiaries would likely be Korea and Malaysia since manufactured goods constituted the bulk of their exports to Europe – up to 60% according to 2011 figures.

In terms of individual companies that will likely benefit, BNP Paribas said it picked those with large exposure to Europe – mainly those with more than 15% revenue contribution from Europe and whose stock received Buy recommendation from its analysts.

Among these are South Korea's Samsung Electronics, Samsung Heavy Industries, Kia Motors and Hyundai Motors; India's Tata Motors, HCL Tech and Wipro; Japan's Seiko Epson, Sumitomo Heavy Industries, Ricoh, Canon, Olympus and Hitachi High Tech; Hong Kong's HSBC, Prada and L'Occitane; and Taiwan's Hiwin.

As Malaysia's exposure to the Eurozone is relatively limited, with exports there constituting less than 10% of total exports, no Malaysian companies were picked.

Singapore unveils master plan for port, airport, waterfront (Singapore National Day Rally)

The Singapore government unveiled a master plan to double capacity at Southeast Asia's busiest airport, build a new waterfront city, move its massive port and relocate a military airbase to free up land for development.

The plan announced by Prime Minister Lee Hsien Loong follows mounting discontent in one of the world's wealthiest nations over an influx of foreign workers and expatriates blamed for a range of problems - from strained infrastructure to among the highest living costs in Asia.

Lee sought to allay those fears, elaborating on a trove of long-term plans that appear intended to counter a growing voter backlash against the People's Action Party (PAP) that has ruled Singapore for more than half a century.

These include changes to Singapore's health-care and education systems, and the move of its port - the world's second-busiest hub for container shipping - to a new location in Tuas in western Singapore from 2027.

That would free up land in Tanjong Pagar, next to the central business district, for a sprawling new waterfront city.

He also unveiled plans for a fourth runway at Changi Airport, Southeast Asia's busiest.

This will alllow the government to move a military airbase in central Singapore to Changi after 2030 and free up 800 hectares (1,980 acres) of land for homes, factories and businesses.

By doing these, it is hoped that we can stay the hub in Southeast Asia and create many more opportunities for Singaporeans, citing competition from Kuala Lumpur and Bangkok.

BizWatch

On home ownership, prices would not be cut for new Housing and Development Board (HDB) apartments - subsidised homes where the bulk of the population live. But more grants would be provided to help lower- and middle-income Singaporeans buy new homes.

BizWatch

Singapore's 2013 Master Plan for its port, airport and waterfront can be viewed as an opportunity for Iskandar Malaysia.

Where are the opportunities?
Proposal to move Singapore Port (second busiest container hub after Shanghai) to Tuas (timeline: 2027)

- **This will directly benefit our development in Nusajaya in Flagship B and Flagship C. The Port will have many supporting services and eco-systems which will now be nearer to Iskandar Malaysia via the Second Link. We can expect more investments in these supporting services especially logistics and transportation services either as new investments or relocation from Singapore.**
- **Synergistic Development of Port of Tanjung Pelepas and Singapore Port**
  The relocation of Singapore Port will brings it nearer to Port of Tg Pelepas (ranked No 17's busiest container port in the world). There will be competition but there will also be much potential synergy and co-petition in the likes of Rotterdam and Amsterdam.
- **When more investments are located nearby, there will be need for good housing and residential development. This demand can be met by the development in Nusajaya and further afield, Danga Bay and Johor City Centre (through the Coastal Highway) as well as in Senai-Kulai (through the Second Link).**

Proposal to move the military airport at Payar Lebar to Changi (timeline: 2030)

These are long term plans to be executed in 2027 and 2030 and will give us time to review our development plans o take these opportunities. Planning will need to be in the following areas:

i. Review of Masterplan for Transportation (various modes)
ii. Border crossings (immigration, connectivity)
iii. Human capital development
iv. Social inclusion programmes

Johor To Introduce Economic Growth Strategic Plan

The Johor government will introduce the economic growth strategic plan based on the economic resource strength of each district in the state.

Menteri Besar Datuk Seri Mohamed Khaled Nordin said the effort was aimed at creating balanced development and to prove that the state government did not neglect any district when it came to development.

The direction of seven potential districts had been identified with the District Local Plan to be implemented in Johor Baharu, Muar, Batu Pahat, Kluang, Segamat, Kota Tinggi and Mersing.

Khaled said Johor Baharu was planned to be developed as an international-class trade and service centre, Muar as a heritage tourism destination and centre for agro and wood-based industries, and Batu Pahat as a textile industry and agro resource centre.

Kluang will be developed as a manufacturing, wood-based and modern agricultrue centre, Segamat as an agrotourism and ecotourism, orchard and agriculture centre, Kota Tinggi as a natural haven and coastal tourism centre, and Mersing as another tourism centre with its beaches and islands.

Quote Of The Month

Know what you want to do, hold the thought firmly, and do every day what should be done, and every sunset will see you that much nearer to your goal.

BizWatch

BizWatch comment

The Johor Economic Growth Strategic Plan is viewed as a vital plan for the overall economic sustainability of the state of Johor for the future.

Iskandar Malaysia with its Comprehensive Development Plan (CDP) which is currently under reviewed should therefore complement with the Johor Economic Growth Strategic Plan in crafting the overall economic landscape of Johor once completed.

This would place Johor amongst the top growth state in Malaysia and thus attracting investments to the state of Johor, particularly Iskandar Malaysia.

What is important is to synchronize the two strategic plans so that the economic growth targets for Johor as well as Iskandar Malaysia can be achieved.

Editorial
Economic Intelligence
Iskandar Regional Development Authority

Low Mei Leong meileong@irda.com.my
Arif Kasmuri arif.kasmuri@irda.com.my