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IM BizWatch

NEWS·INFORMATION·OPPORTUNITIES

ISKANDAR REGIONAL DEVELOPMENT AUTHORITY

Malaysia 1Q2014 GDP at 6.2% : Going Strong

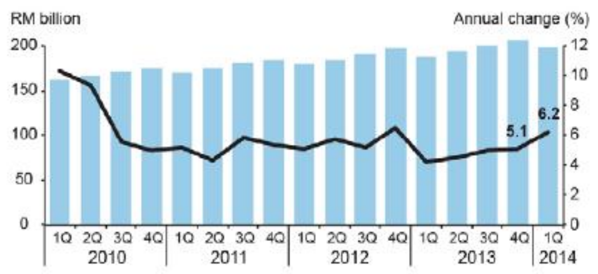
(Source: BNM 16th May 2014)

Highlights

BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

- Global economic activity expanded at a moderate pace in the first quarter.
- The US economy experienced a slower growth, mainly due to unusually adverse weather conditions.
- In the euro area, the recovery was supported by modest improvements in exports, while domestic demand remained sluggish due to structural constraints.
- Growth in several Asian economies expanded at a slower pace as domestic demand was affected by country-specific developments.
- The **Malaysian economy** registered a **strong growth of 6.2%** in the first quarter of 2014 (4Q 2013: 5.1%), driven by a stronger expansion in domestic demand and a turnaround in net exports.
- On the supply side, the major economic sectors grew further, supported by both domestic and trade activities.

Strong growth of 6.2% in the first quarter
(at constant 2005 prices)



Source: Department of Statistics, Malaysia

- On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 0.8% (4Q 2013: 1.9%).
- Private consumption growth remained strong at 7.1% (4Q 2013: 7.4%) in 1Q, supported by stable employment conditions and continued wage growth. Growth in public consumption increased to 11.2% (4Q 2013: 5.2%), reflecting higher Government spending on supplies and services. Gross fixed capital formation grew by 6.3% (4Q 2013: 6.5%), driven by robust private sector capital spending amidst a contraction in public investment growth.
- Growth in private investment remained strong at 14.1% (4Q 2013: 16.6%), underpinned by capital spending in the manufacturing and services sectors. Public investment declined by 6.4% (4Q 2013: -1.4%), reflecting the contraction in capital spending by both the Federal Government and the public enterprises.
- On the supply side, growth was supported by the major economic sectors.
- The services sector expanded further, driven by the improvement in finance and insurance and sustained growth in consumption- and production-related services.
- Growth in the manufacturing sector was underpinned by the strong performance in the export-oriented industries.
- The construction sector recorded stronger growth, driven mainly by the residential sub-sector.
- Meanwhile, the agriculture sector registered higher growth, underpinned by the production of food crops while the mining sector registered a lower decline due to a smaller contraction in the output of crude oil.

GDP by Expenditure Components
(at constant 2005 prices)

	2013			2014
	1Q	4Q	Year	1Q
	Annual change (%)			
Aggregate Domestic Demand (excluding stocks)	7.5	6.7	7.4	7.4
Consumption	5.3	6.8	7.0	7.8
Private sector	*6.4*	*7.4*	*7.2*	*7.1*
Public sector	*0.6*	*5.2*	*6.3*	*11.2*
Gross Fixed Capital Formation	13.0	6.5	8.5	6.3
Private sector	*10.0*	*16.6*	*13.1*	*14.1*
Public sector	*18.4*	*-1.4*	*2.2*	*-6.4*
Net Exports	-12.9	-6.8	-12.6	14.9
Exports of Goods and Services	*-3.4*	*5.7*	*0.6*	*7.9*
Imports of Goods and Services	*-2.2*	*7.1*	*2.0*	*7.1*
GDP	**4.2**	**5.1**	**4.7**	**6.2**
GDP (q-o-q growth, seasonally adjusted)	**-0.3**	**1.9**	**n.a.**	**0.8**

Source: Department of Statistics, Malaysia

GDP by Economic Activity
(at constant 2005 prices)

	Share 2013 (%)	2013			2014
		1Q	4Q	Year	1Q
		Annual change (%)			
Agriculture	7.1	6.2	0.2	2.1	2.3
Mining	8.1	-1.5	-1.2	0.7	-0.8
Manufacturing	24.5	0.4	5.2	3.5	6.8
Construction	3.8	14.2	9.8	10.9	18.9
Services	55.2	6.1	6.4	5.9	6.6
Real GDP	**100.0[1]**	**4.2**	**5.1**	**4.7**	**6.2**
Real GDP (q-o-q seasonally adjusted)	**-**	**-0.3**	**1.9**	**-**	**0.8**

[1] Numbers do not add up due to rounding and exclusion of import duties component

Source: Department of Statistics, Malaysia

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Malaysia 1Q2014 GDP : Going strong

- The headline inflation rate, as measured by the annual change in the Consumer Price Index (CPI) averaged 3.4% in the 1Q 2014, (4Q 2013: 3.0%). The increase was on account of higher inflation in the housing, electricity, water, gas and other fuels and transport categories.
- The Overnight Policy Rate (OPR) was maintained at 3.0% during the 1Q 2014. At the prevailing level of OPR, monetary conditions remain supportive of economic activity.
- Between 1 April and 14 May 2014, the ringgit appreciated against the USD (1.4%), Euro (1.6%) and other currencies.
- Bank Negara is expecting the growth for the Malaysian economy to remain anchored by domestic demand with support from the improvement in the external environment.

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The recent 1Q 2014 GDP performance of 6.2% yoy is the fastest GDP growth recorded since 1Q 2013, driven by the stronger domestic demand and improvement in the export sector.

With the strong growth registered in the 1Q 2014 and if the momentum continues, BizWatch is of the view that the full year 2014 GDP can exceed Bank Negara's 2014 GDP forecast of between 4.5% and 5.5%.

The stronger than expected GDP growth is likely to prompt Bank Negara to raise the OPR rate on the next meeting scheduled in July 2014 to soften the economic activities.

Already, the inflation rate which is on the rise of 3.4% currently (2013: 2.1%) may justify for Bank Negara to increase the OPR to cool down the inflation.

The market is expecting the OPR to increase by 25 basis points to 50 basis points by end of the year which will result the OPR to hike till 3.50%. It is generally expected that the small hike in the OPR will not dampen the economic growth moving forward.

Country	1Q2014 GDP (%)
Malaysia	**6.2**
Indonesia	5.2
Singapore	5.1
Thailand	na

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Country	1Q2014 GDP (%)
US	2.3
Japan	3.0
Euro	0.9

We can expect Malaysia together with the other ASEAN countries will continue to play an important role for the region to be among the top economic region in the future especially come 2015 where the ASEAN countries will be known as the ASEAN Economic Community (AEC).

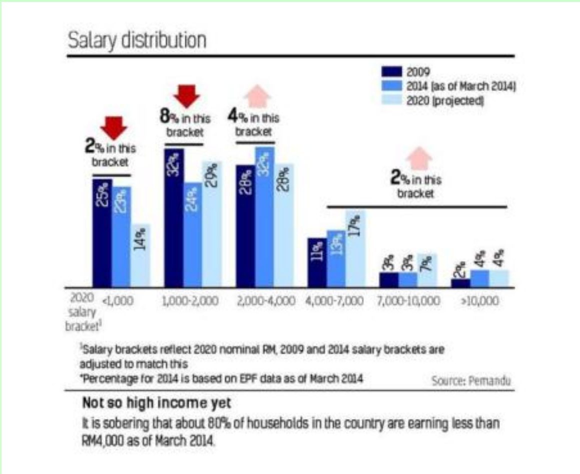
Rising Inflation and potential rise in interest rate

Adapted from The Star 24 May 2014 titled "Medium, low salary earners vulnerable to rising inflation, potential interest-rate hike'

A combination of low interest rate and easy access to credit has led to many households to borrow against future income to finance their private consumption. While this had helped to fuel the country's economic growth, it is not sustainable in the long run.

Statistics show the **bulk of Malaysia's household debt is made of home-mortgage loans**, as households take advantage of the prevailing low interest rates to buy properties, leading to increased demand, and eventually, the significant increase in property prices in the country in recent years.

At 86.8% of the country's gross domestic product (GDP), Malaysia's household debt level is the highest in Asia, slightly ahead of South Korea's household debt level at 86% of its GDP, and Singapore's 77% of GDP.



Data by the PEMANDU showed that 80% of Malaysian households are currently earning less than RM4,000 per month.

In a study conducted in Iskandar Malaysia, bottom 40% of households are earning average monthly income below RM3,000.

In Iskandar Malaysia, investments in retail property constituted some 25% (RM33.25 bil) of the comulative committed investments of RM131.64 billion (from 2006 to Dec 2013). While the small hike in the OPR will not dampen significantly the overall economic growth in Iskandar Malaysia, the rising inflation and potential hike in interest rate will have an impact on the following:

i. slower growth in the investments in residential property although the growth will be more impacted with the increase in Real Property Gains Tax rate, Bank Negara's tightening policies on credit and the increased threshold for foreigners to buy property in Iskandar Malaysia

Ii. social disparity between middle income and lower income group with increase in cost of living and interest costs

2013 ETP Annual Report : Strong results

(PEMANDU: 12th May 2014)

The 2013 ETP Annual Report (AR) showed commendable results in terms of implementation of on-going projects although the announcement of new projects remains in low gear as compared to previous years.

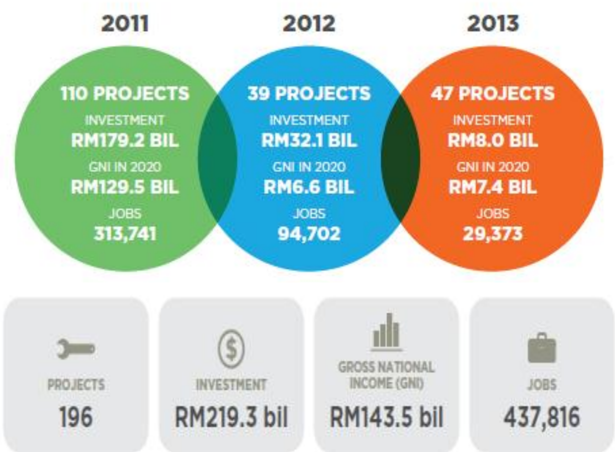
About 83.4% or RM18.1bn of the planned ETP investments for 2013 was realized (RM11.6bn in 2012).

Accordingly, private investment continues to sustain robust momentum of 13.6% in 2013, with the services sector leading the pack.

The overall KPI rate for the NKEAs was 102% in 2013 (118% in 2012 and 123% in 2011), while the rate for SRIs was 95% (93% in 2012).

Some of the commendable achievements in the 3-year period were:

- Commitment to 196 projects worth RM219.3bn since the ETP was launched in Oct 10 2009, which will contribute RM143.5bn to GNI and create 437,816 new jobs by 2020.



- An increase in GNI per capita by 42.5% to US$10,060 in 2013 from US$7,059 in 2009
- An increase in the ratio of employee compensation to GDP to 32.9% in 2012 (29.3% in 2008). Improved salary distribution across the labour market helped to expand domestic private consumption, which now accounts for 51.2% of GDP (vs. 49% in 2009).
- A revitalised private-investment cycle, with its annual growth rate tripling from 4.7% in 2008-10 to 15.3% in 2010-13. This helped to lift private investment to RM161.1bn in 2013, or 8.6% above the RM148.4bn target, to form 61% of total investments in 2013 (vs. 51.7% in 2009).

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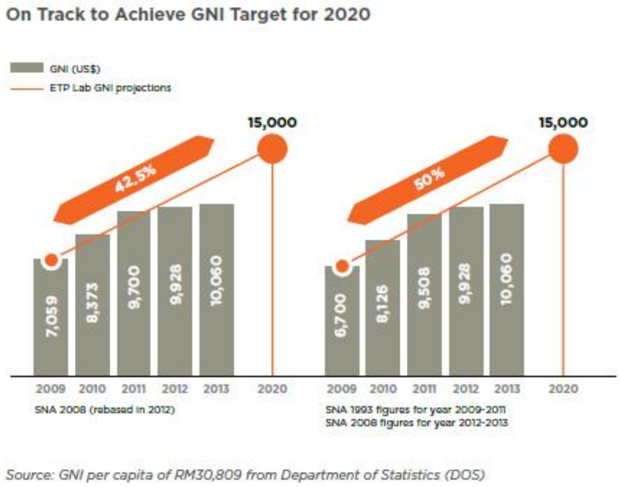
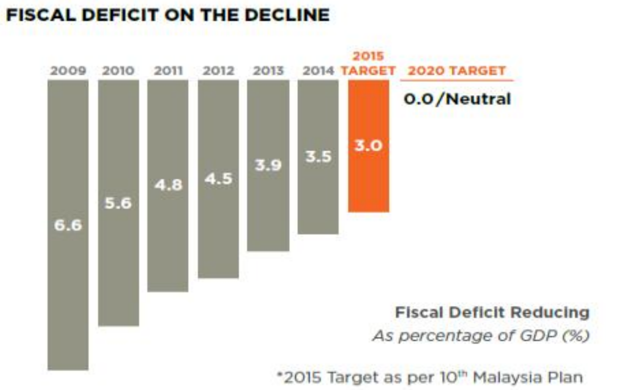


- Realised investments of RM18.1bn or 83.4% of the RM21.7bn planned ETP investments for 2013 (88.6% in 2012 and 84% in 2011).
- A narrowing of the fiscal deficit to 3.9% of GDP in 2013 from 6.6% of GDP in 2009. Fiscal-deficit targets have been set at 3.5% of GDP for 2014 and 3.0% for 2015, with a balanced budget envisaged by 2020.



The NKEAs' inspiring results included:

- The commencement of Petronas's LNG Regasification Terminal in Sg Udang, Malacca;
- Presentation of the final implementation plan for MRT Lines 2 and 3 by SPAD to the Economic Council in Jun 13
- The establishment of 15 MNCs to Malaysia from North America, Europe and Asia.

The SRIs made strong progress with:

- The proposed introduction of the 6% Goods and Services Tax (GST) from Apr 15 2015
- The enforcement of the Minimum Wages Order 2012 and Minimum Retirement Age Act 2012 in Jan 2013
- Divestments of DiGi.Com by Khazanah Nasional in Oct 2013 and Stadium First Sdn Bhd by Stadium Malaysia Corporation in Jun 2013 as part of the divestment programme by Government –linked companies.

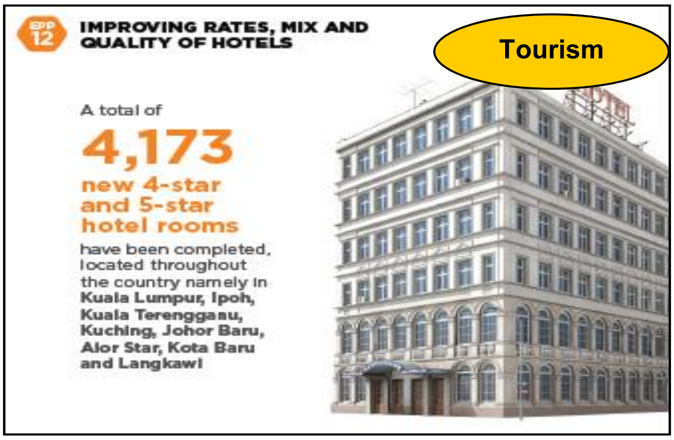
2013 ETP Annual Report : Strong results

ETP in Iskandar Malaysia

Some of the projects below are within Iskandar Malaysia and have contributed to the achievements of the ETP.

Oil & Gas

Tourism



In 2013, more than 800 hotel rooms from 4 star hotels were added in Iskandar Malaysia. These were from Granada Hotel (190 rooms), Traders Nusajaya (280 rooms) and Renaissance Hotel (344 rooms). The Double Tree by Hilton will have its soft opening by 3Q2014.

Business Services

Aerokwai, a specialist high technology MRO started operations near Senai International Airport in Aug 2013.
The Data Centre Taskforce was set up to identify suitable sites to attract big Data Centres (DC) to Malaysia and they have identified a site in Iskandar Malaysia to complement existing regional DCs in Singapore.

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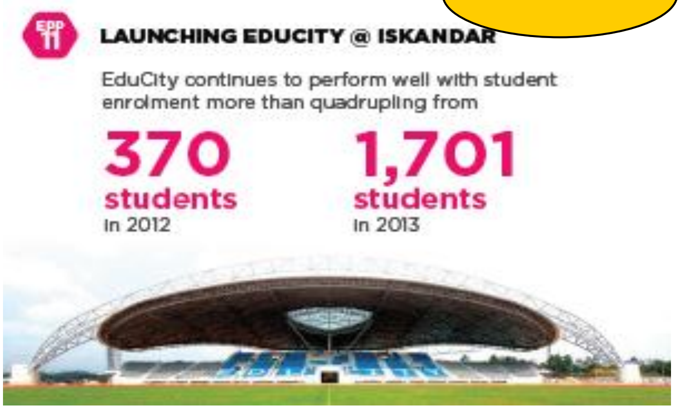
Education



In 2013, Marlborough College Malaysia and University of Southampton Malaysia Campus held their official opening ceremony signifying the completion of the crucial first step of investing in Iskandar Malaysia. University of Reading held its groundbreaking ceremony and todate, the construction of the new campus is in progress to be ready by 2Q2015.

Moving forward, the strategy for education in Iskandar Malaysia is to continue to position and market Iskandar Malaysia as an education hub with focus on skills and technical training for the next three years as well as to enhance collaboration between Malaysia-based education instittuions with international education institutions.

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We are excited to note a continued stream of projects in Iskandar Malaysia being recognised as Entry Point Projects (EPPs) and contributing to the nation's economic growth.

While some of the EPP projects are on going, some are new projects such as development in the aviation maintenance, repair and overhaul services segment and development of data centre parks.

With the current GNI per capita of USD10,060, BizWatch is optimistic that Malaysia will achieve the GNI target of USD15,000 by the year 2020.

We can expect new projects in Iskandar Malaysia under the different EPPs will drive more investments into the different economic sectors and thus, contributing to the increase in GNI for Iskandar Malaysia.

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