IM BizWatch
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ISKANDAR REGIONAL DEVELOPMENT AUTHORITY

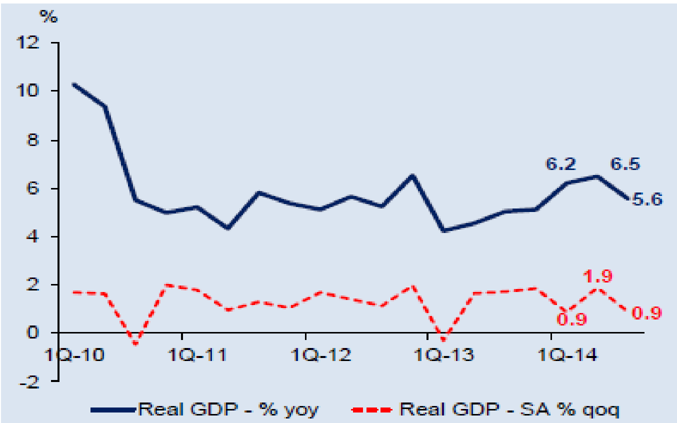
Malaysia 3Q 2014 GDP:
Beginning of slower growth ahead...

Highlights

Malaysia's real GDP growth moderated to 5.6% yoy in 3Q 2014 (2Q 2014: +6.5% yoy) which is broadly in line with market expectations of +5.6%.

Seasonally adjusted basis, economic growth dipped to 0.9% qoq (2Q 2014: +1.9% qoq).

Malaysia: GDP growth (%)



Source: BNM & DOSM

The slower growth was on account of moderation in both domestic demand and exports as a result of uneven growth performances across economies.

While the US economy continued to show broader signs of improvements, growth in the Euro area remained subdued amid persistent structural constraints and weakening sentiments.

In Asia, economic activity continued to expand, although growth was more moderate in several economies.

Private sector activity remained the key driver of growth during the quarter. Private consumption registered a growth of 6.7% in the third quarter (2Q 2014: 6.5%), supported by stable labour market conditions and continued wage growth.

Private investment expanded at a slower pace of 6.8% (2Q 2014: 12.1%), attributed to a decline in spending on machinery and equipment, particularly in the transportation segment.

Public consumption turned positive to 5.3% (2Q 2014: -0.5%), reflecting higher Government spending on supplies and services.

Public investment, however, declined further by 8.9% (2Q 2014: -3.3%), attributed mainly to the near completion of a few projects by public enterprises and the continued contraction in the Federal Government development expenditure.

Going forward, investment activity will be supported by continued flow of ongoing and new projects by the private and public sectors.

GDP by Expenditure Components
(at constant 2005 prices)

	2013		2014		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	8.4	6.7	7.5	5.8	4.8
Private Sector	9.8	9.1	8.8	8.1	6.7
Consumption	*8.0*	*7.4*	*7.1*	*6.5*	*6.7*
Investment	*15.6*	*16.6*	*14.1*	*12.1*	*6.8*
Public sector	4.1	2.1	3.3	-1.6	-1.2
Consumption	*7.8*	*5.2*	*12.3*	*-0.5*	*5.3*
Investment	*-0.1*	*-1.4*	*-6.4*	*-3.3*	*-8.9*
Net Exports	9.9	-8.8	14.9	91.0	11.4
Exports of Goods and Services	*4.6*	*5.7*	*7.9*	*8.8*	*2.8*
Imports of Goods and Services	*4.2*	*7.1*	*7.1*	*3.9*	*2.2*
GDP	**5.0**	**5.1**	**6.2**	**6.5**	**5.6**
GDP (q-o-q growth, seasonally adjusted)	**1.7**	**1.9**	**0.9**	**1.9**	**0.9**

Source: Department of Statistics, Malaysia

On the supply side, positive growth was experienced across all economic sectors in the third quarter.

The services sector recorded sustained growth, supported mainly by the consumption and production related services subsectors.

Similarly, growth in the construction sector also remained sustained, driven by the residential and non-residential sub-sectors.

After an exceptionally strong performance in the second quarter, the manufacturing sector expanded at a more moderate pace amid slower domestic-oriented activity.

The agriculture sector registered a slower growth following weaker output of palm oil and rubber, while the mining sector grew at a more moderate pace amidst lower production of natural gas and condensates.

BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Malaysia 3Q 2014 GDP: Beginning of slower growth ahead…(cont.)

GDP by Economic Activity (at constant 2005 prices)

	Share 2013 (%)	2013 3Q	2013 4Q	2014 1Q	2014 2Q	2014 3Q
		Annual change (%)				
Agriculture	7.1	2.0	0.2	2.3	7.1	4.0
Mining	8.1	1.4	-1.2	-0.8	2.1	1.4
Manufacturing	24.5	4.3	5.2	6.8	7.3	5.3
Construction	3.8	10.2	9.8	18.9	9.9	9.6
Services	55.2	6.0	6.4	6.6	6.2	6.1
Real GDP	100.0[1]	5.0	5.1	6.2	6.5	5.6
Real GDP (q-o-q seasonally adjusted)	-	1.7	1.9	0.9	1.9	0.9

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

Source: Department of Statistics, Malaysia

The inflation rate, as measured by the annual change in the Consumer Price Index (CPI), averaged lower at 3.0% in the third quarter (2Q 2014: 3.3%).

The international reserves of Bank Negara Malaysia (BNM) amounted to RM416.9 billion (equivalent to USD127.3 billion) as at 30 September 2014.

This reserves level has taken into account the quarterly adjustment for foreign exchange revaluation changes.

As at 31 October 2014, the reserves position amounted to RM419.7 billion (equivalent to USD128.1 billion), sufficient to finance 8.8 months of retained imports and is 1.2 times the short-term external debt.

Going forward, global growth is expected to remain moderate. Growth across the advanced economies is expected to remain uneven.

In Asia, growth will be underpinned by a continued expansion in domestic demand and exports.

Nevertheless, there remains a considerable downside risk to global growth.

These include prolonged weakness in domestic demand and low inflation in a number of major economies, uncertainty over monetary policy adjustments in the key advanced economies and persistent geopolitical tensions that could heighten financial market volatility.

While risks to growth have increased, the Malaysian economy is expected to remain on a steady growth path.

Although exports will benefit from the recovery in the advanced economies and from regional demand, the trend is likely to moderate reflecting both the high base effect from 2013 and lower commodity prices.

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While private consumption may moderate, investment activity will be supported by continued flow of ongoing and new projects by the private and public sectors.

Going forward, domestic demand will remain the key driver of growth.

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The Malaysian economy has moderated to 5.6% yoy in the 3Q 2014 as a result of slower domestic demand and exports due to uneven economic recovery across the globe.

Regional yearly growth

Country	2013 (%)	2014E (%)	2015F (%)
Malaysia	4.7	5.5 – 6.0	5.0 – 6.0
Singapore	3.9	2.5 - 3.5	3.0
Indonesia	5.8	5.2	5.5
Thailand	2.9	1.0	4.9

Regional quarterly growth

Country	1Q 2014 (%)	2Q 2014 (%)	3Q 2014 (%)
Malaysia	6.2	6.5	5.6
Singapore	4.8	2.4	2.4
Indonesia	5.2	5.1	5.0
Thailand	-0.5	0.4	0.6

Nonetheless, BizWatch is of the opinion that the slower growth is not alarming given Malaysia's strong growth in the previous quarters. The final performance will exceed the growth achieved in 2013 with domestic consumption being the main driver.

Comparison between our close neighbor countries namely Singapore and etc. showed that the Malaysian economic growth is well ahead of these countries reflecting continuous government's efforts to sustain economic growth together with the private sector. It is interesting to note that for the first time in more than 5 years, Malaysia GDP growth will exceed Indonesia in 2014.

As for Iskandar Malaysia, currents projects such as Hershey's Malaysia, D&Y Textile, Vantage Bay, Astaka Padu, Fastrack Iskandar Malaysia are expected to drive the region's economy.

What is more important is to make sure that all these projects can be completed on time and this can be done through close collaboration by all the agencies.

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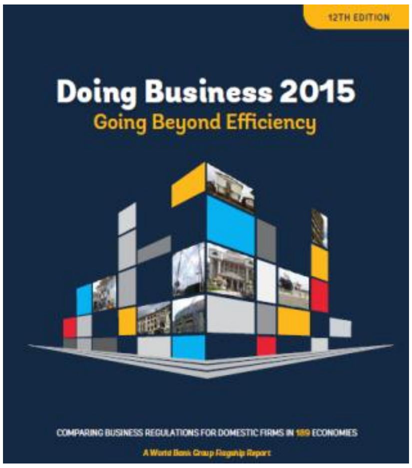
Malaysia Improves to 18th Spot in Ease of Doing Business



Malaysia has improved its ranking in the Ease of Doing Business Report 2015 from 20th in 2014 to 18th spot, ahead of economies such as Taiwan, Switzerland, Thailand, the Netherlands and Japan, according to World Bank.

Malaysia is ranked 4th in Asia after Singapore, Hong Kong and South Korea.

Malaysia made improvements in five of the indicators namely starting a business, dealing with construction permits, getting electricity, registering property and resolving insolvency.

These improvements reflects the initiatives undertaken by the government through the government transformation and economic transformation programmes as well as the work undertaken by the joint public-private sector task force to facilitate business (Pemudah).

2015 Doing Business report has introduced a number of methodological refinements and ranking is now based on the 'Distance to Frontier' (DTF) score rather than percentile rank, where the DTF score shows the gap between an economy's performance and the best performance on each indicators.

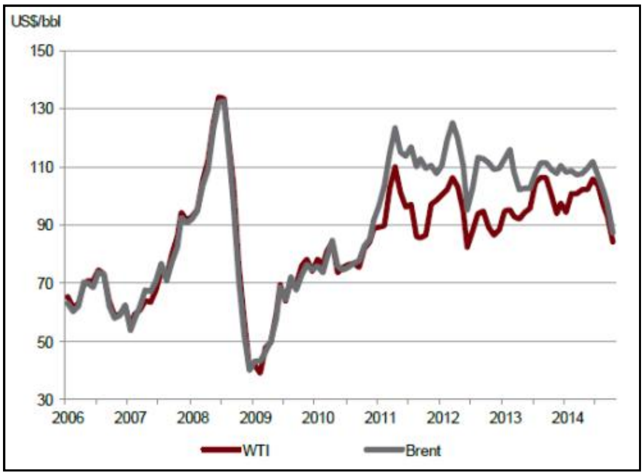
Rank	Economy	DTF score	
1	Singapore	88.27	
2	New Zealand	86.91	↑
3	Hong Kong SAR, China	84.97	↑
4	Denmark	84.20	↑
5	Korea, Rep.	83.40	↑
6	Norway	82.40	↑
7	United States	81.98	↑
8	United Kingdom	80.96	↑
9	Finland	80.83	
10	Australia	80.66	
11	Sweden	80.60	↑
12	Iceland	80.27	
13	Ireland	80.07	↑
14	Germany	79.73	
15	Georgia	79.46	
16	Canada	79.09	
17	Estonia	78.84	↑
18	Malaysia	78.83	↑
19	Taiwan, China	78.73	↑
20	Switzerland	77.78	↑

Float RON95 and Diesel

On November 21, 2014, the Domestic Trade, Cooperatives and Consumerism Minister announced that effective from December 1, fuel subsidies for RON95 petrol and diesel will be abolished and their prices will follow a managed float under the Automated Price Mechanism (APM), similar to the mechanism in place for RON97 petrol price.

At prevailing global oil prices of around USD80 per barrel, RON95 prices could be maintained or revised down by 5 - 10 sen.

Global Crude Oil Price



Datuk Seri Abdul Wahid Omar, Minister in the Prime Minister's Office said that if the global crude oil price is around USD80 per barrel for the whole month of November 2014, then RON95 will likely to be priced three sen lower at RM2.27 per liter starting December 1, 2014.

This will have a benign direct impact on overall inflation, but this might possibly change if oil prices continue to decline.

According to an economist, it is estimated that every 5 sen decline in RON95 prices shaves off about 0.2% of Consumer Price Index, which monitors the inflation level.

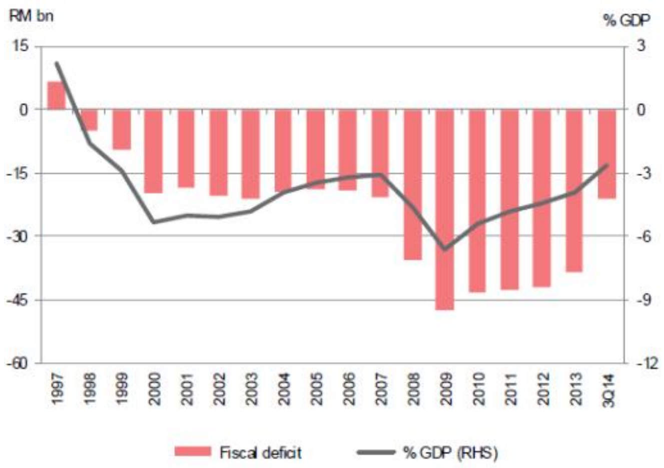
If oil prices decline further, this would help defray the spike in inflation as a result of the GST's implementation.

Float RON95 and Diesel (cont.)

On that note, Bank Negara is likely to keep the Overnight Policy Rate (OPR) at the current rate of 3.25% amid a moderate growth outlook and higher external risks.

This should help the government achieve its fiscal deficit target of 3.5% of GDP for this year as well as further reinforces next year's target of 3%.

Fiscal deficit reduction remains on track



The savings from the government's subsidy bill will allow it to better dictate the direction of the fiscal deficit.

If government revenue streams from oil-related revenues, GST and income tax collections remain intact, the government can re-channel the RM12 billion earmarked for fuel subsidies through BR1M cash handouts or other means of targeted assistance.

Otherwise, the savings can be used to offset any potential declines in revenue as a result of slower growth or lower oil prices in order to keep its deficit reduction on target.

At a time of declining global crude oil prices, BizWatch believes that the move will help loosen the otherwise tightened purse strings of a large majority of Malaysian households who have had to cope with rising costs through the year.

The tightening purse strings of majority of Malaysian households is represented by MIER consumer sentiment index which gauged the consumer spending strength that has fallen below 100 in the past three quarters since 3Q 2013.

Although resilient thus far, private consumption has seen some moderation (2013 - 2014 average: 7.0% vs. 2011 - 2012 average: 7.6%).

Consumer sentiments remains less optimistic

Thus any hike in interest rate next year is slim, given the moderating growth and higher external risks.

Therefore, the government is expected to leave the interest rates at the current level to spur the domestic economy.

Private consumption growth moderates

The low interest will also help sustain the property sector which has been a major growth contributor.

It is interesting to note that Indonesia under its new President Jokowi has also embarked on the removal of fuel subsidy which will increase the prices of petrol and diesel by some 30%. This initiative will cost the Indonesian government USD8—USD10 billion per year and the savings from the removal of subsidy can be used to fund new infrastructure need to bring the Indonesian economy to the next level.

Editorial
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