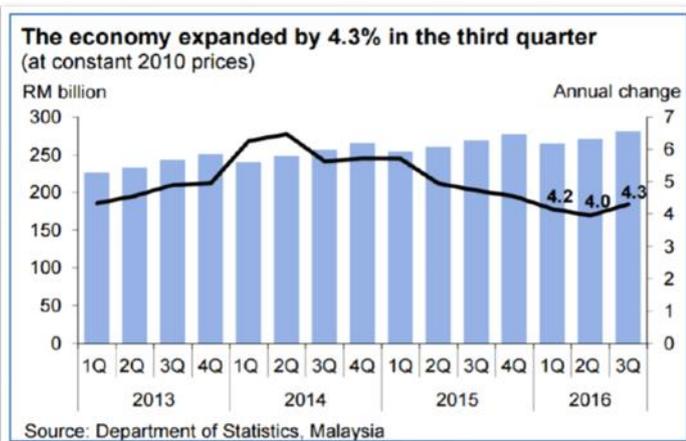


## Malaysia's Third Quarter GDP Sees Slight Uptick After Record Low

(Source: Bank Negara 11 November 2016)

The Malaysian economy expanded by 4.3% in the third quarter of 2016 (2Q 2016: 4.0%), underpinned mainly by continued expansion in private sector spending and additional support from net exports.



On the supply side, growth continued to be driven by the major economic sectors. On a quarter-on-quarter seasonally adjusted basis, the economy recorded a growth of 1.5% (2Q 2016: 0.7%).

Overall, domestic demand grew at a more moderate pace, as the sustained growth in private sector activity was more than offset by the slower growth in public spending. Private consumption grew by 6.4% (2Q 2016: 6.3%), supported by continued wage and employment growth as well as the increase in minimum wage effective 1 July 2016. Private investment registered a growth of 4.7% in the third quarter (2Q 2016: 5.6%), supported primarily by continued capital spending in the services and manufacturing sectors.

Growth of public consumption moderated to 3.1% during the quarter (2Q 2016: 6.5%) due to lower spending on supplies and services, which partially offset the higher spending on emoluments. Public investment growth contracted by 3.8% (2Q 2016: 7.5%), attributable mainly to lower spending on fixed assets by the Federal Government.

## GDP by Expenditure Components

Real GDP (Annual change, %)	Share, % (2015)	2015		2016		
		3Q	4Q	1Q	2Q	3Q
<b>Domestic demand (excluding stocks)</b>	<b>91.6</b>	<b>4.1</b>	<b>4.0</b>	<b>3.6</b>	<b>6.3</b>	<b>4.7</b>
<b>Private Sector</b>	<b>69.2</b>	<b>4.4</b>	<b>4.9</b>	<b>4.5</b>	<b>6.1</b>	<b>6.0</b>
<i>Consumption</i>	52.4	4.1	4.9	5.3	6.3	6.4
<i>Investment</i>	16.9	5.5	4.9	2.2	5.6	4.7
<b>Public Sector</b>	<b>22.4</b>	<b>2.9</b>	<b>2.1</b>	<b>0.4</b>	<b>6.9</b>	<b>0.3</b>
<i>Consumption</i>	13.5	3.6	3.3	3.8	6.5	3.1
<i>Investment</i>	8.9	1.8	0.4	-4.5	7.5	-3.8
<b>Net exports of goods and services</b>	<b>8.6</b>	<b>3.4</b>	<b>4.3</b>	<b>-12.4</b>	<b>-7.0</b>	<b>5.9</b>
<i>Exports</i>	72.9	3.2	4.0	-0.5	1.0	-1.3
<i>Imports</i>	64.3	3.1	4.0	1.3	2.0	-2.3
<b>Change in stocks (RM billion)</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-1.3</b>	<b>2.4</b>	<b>-1.1</b>	<b>-1.6</b>
<b>GDP (y-o-y)</b>	<b>100<sup>1</sup></b>	<b>4.7</b>	<b>4.5</b>	<b>4.2</b>	<b>4.0</b>	<b>4.3</b>
<b>GDP (q-o-q growth, seasonally adjusted)</b>	-	<b>0.9</b>	<b>1.2</b>	<b>1.0</b>	<b>0.7</b>	<b>1.5</b>

On the supply side, growth in the third quarter was supported mainly by the services and manufacturing sectors, while the agriculture sector remained weak.

The expansion in the services sector was underpinned primarily by private consumption activity, while growth in the manufacturing sector was supported by export-oriented industries. In the construction sector, growth continued to be driven by civil engineering activity, while the mining sector expanded at a faster pace on account of higher crude oil production.

Growth in the agriculture sector, however, remained in contraction, attributable largely to the lagged impact of El Niño on crude palm oil (CPO) yields.

## GDP by Economic activity

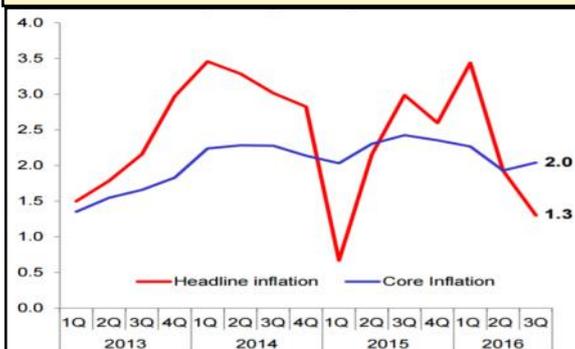
	2015 (Share, %)	2015		2016		
		3Q	4Q	1Q	2Q	3Q
Services	53.5	4.4	5.0	5.1	5.7	6.1
Manufacturing	23.0	4.9	5.0	4.5	4.1	4.2
Mining	9.0	5.1	-1.3	0.3	2.6	3.6
Agriculture	8.9	2.3	1.5	-3.8	-7.9	-5.9
Construction	4.4	9.9	7.4	7.9	8.8	7.9
<b>GDP</b>	<b>100<sup>1</sup></b>	<b>4.7</b>	<b>4.5</b>	<b>4.2</b>	<b>4.0</b>	<b>4.3</b>



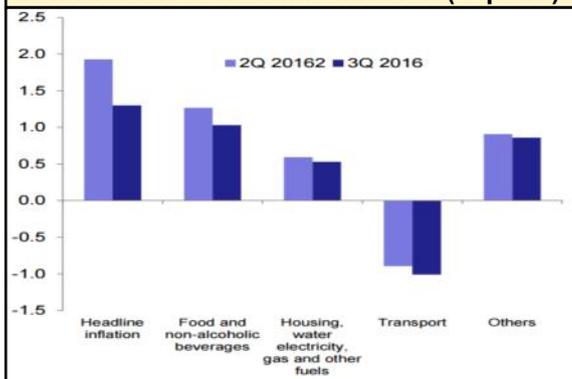
## Malaysia's Third Quarter GDP Sees Slight Uptick After Record Low (cont.)

Inflation, as measured by the annual change in the Consumer Price Index (CPI), moderated further to 1.3% in the third quarter of 2016 (2Q 2016: 1.9%). During the quarter, inflation in the food and non-alcoholic beverages category was lower at 3.4% (2Q 2016: 4.2%). This was due mainly to an increase in the supply of vegetables and fish and seafood following an improvement in the weather conditions. Inflation in the transport category also registered a larger decline of 7.4% in the third quarter of 2016 (2Q 2016: -6.6%) due mainly to a larger increase in the prices of RON 97 and RON 95 petrol during the base period in the third quarter of 2015 (3Q 2016: average increase of 3 sen/ litre; 3Q 2015: average increase of 7 sen/litre).

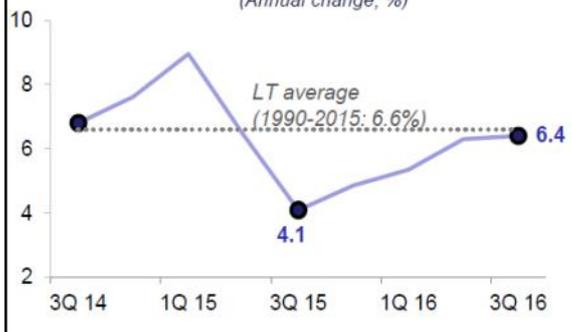
### Inflation (Annual growth, %)



### Contribution to Headline Inflation (% point)



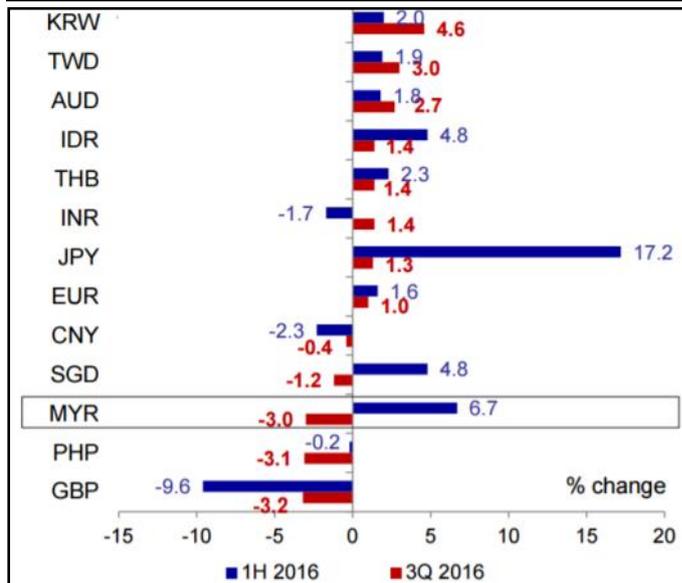
### Real Private Consumption Growth (Annual change, %)



Private consumption is supported by continued wage and employment growth.

# BizWatch

## Performance of Selected Currencies vs. USD



In the quarter under review, the Ringgit depreciated against major currencies as external developments led to shifts in portfolio flows and investors sentiments.

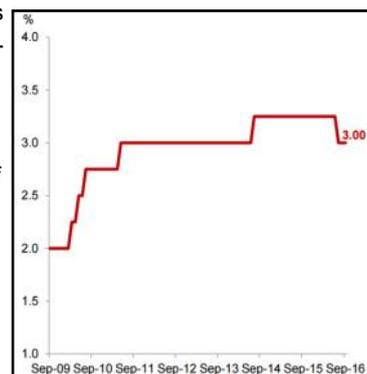
Going forward the Ringgit is expected to face further volatility mainly because of the following factors:

1. Expectation of few interest rate hikes by the Fed in 2017
2. Continued volatility in global crude oil prices
3. Uncertainty over PR China's economic outlook and Renminbi.
4. Geopolitical risks, particularly with regards to risks associated with the EU referendum in the UK.

As the ringgit is not non-internationalized currency, offshore trading of ringgit such as ringgit non-deliverable forward is not recognized by Bank Negara. While no new drastic measures have been introduced to curb the sliding ringgit, Bank Negara is taking active steps to ensure on shore banks comply with all existing regulations on the trading of ringgit under the Foreign Exchange Administration rules.

The international reserves of Bank Negara Malaysia amounted to RM407.8 billion (equivalent to USD98.3 billion) as at 15 November 2016. The reserves position is sufficient to finance 8.4 months of retained imports and is 1.2 times the short-term external debt.

The stance of the monetary policy remains supportive of the economy with the overnight policy rate (OPR) maintained at 3.00%



## Malaysia's Third Quarter GDP Sees Slight Uptick After Record Low (cont.)

### BizWatch

The latest announcement on Malaysia's third quarter GDP of 2016 at 4.3% came as a surprise as consensus was expecting the growth to be around 4% on the back of many external headwinds happening across the globe.

A comparison of growth between Malaysia and its neighbouring countries are illustrated below:

Except for Indonesia and Philippines where the economy are largely driven by continuous investment by the government in mega infrastructures and higher consumer spending, Malaysia third quarter growth of 4.3% is much higher when compared with Singapore and Thailand. Malaysia's 2016 GDP is expected to be 4.0–4.5% and the better than expected Q3 growth reaffirms that the final number should be within the target.

	3Q 2016 (%)	2Q 2016 (%)
Malaysia	4.3	4.0
Singapore	1.1	2.0
Thailand	3.2	3.5
Indonesia	5.02	5.19
Philippines	7.0	7.1

Source: Bank Negara / Trading Economics

For Iskandar Malaysia, the Johor Economic Report 2015/2016 released recently had shown that the GDP growth for Iskandar Malaysia is much higher than State and National driven by the mega projects embarked within the region. The growth between Iskandar Malaysia, Johor and Malaysia is tabulated below:

	2015 (%)	2014 (%)
Iskandar Malaysia	6.5	7.1
Johor	5.6	6.5
Malaysia	5.0	6.0

Source: Johor Economic Report 2015/2016

The Comprehensive Development Plan ii has projected the growth for Iskandar Malaysia be at 7.5% (2016-2020) and 7.7% (2021-2025). Given the headwinds in Europe (Brexit etc), USA and China and the not so positive market sentiment within Malaysia, we can expect more pressure on growth in 2017. Presently, the Government is projecting a 4.0%–5.0% growth for 2017.

The slower growth is likely to impact the growth in Iskandar Malaysia although the effect may be mitigated by the rapid development taking place in the waterfront projects as well as the implementation of manufacturing and other projects in Iskandar Malaysia.

# BizWatch

## Iskandar Malaysia Investment Performance, 2006 - Sept 2016

From January 2016 to September 2016, Iskandar Malaysia has managed to attract a total of committed investments of RM28.55 billion, making a total cumulative committed investments of RM218.84 billion for the period of 2006 to September 2016.



Out of the total cumulative committed investments of RM218.84 billion, 51% or RM113.36 billion had been realized to-date.

Retail / Mixed development is the largest contributor of committed investments at 27% or RM58.20 billion followed by manufacturing at 26% or RM56.03 billion and residential properties at 20% or RM42.92 billion.

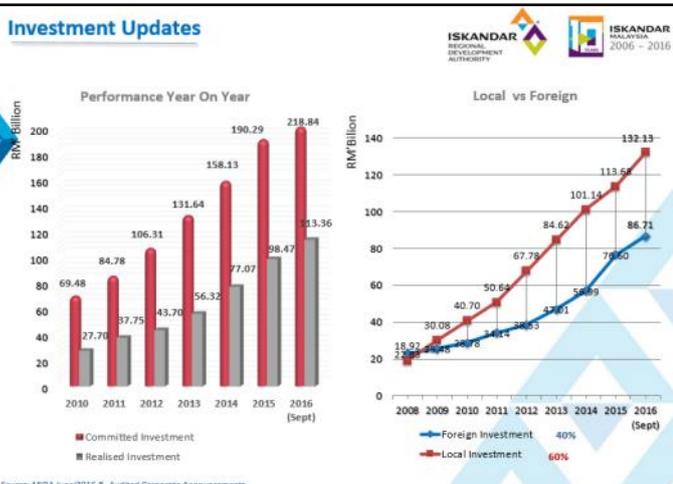


Manufacturing remained a significant contributor. Based on approved manufacturing statistics released by MIDA (Jan - Aug 2016), Johor remained in the top five states in attracting manufacturing investments of RM17.99 billion in 137 projects. Johor has been the top state for attracting manufacturing investments for the last three years. The implementation of these projects together with the mixed, industrial and residential development is expected to drive the economic growth for Johor and Iskandar Malaysia in the next 5 years.

## Iskandar Malaysia Investment Performance, 2006—Sept 2016

Local investments continued to dominate the investment landscape in Iskandar Malaysia, accounting for 60% or RM132.13 billion of the total cumulative committed investment of RM218.84 billion, while foreign investors took up the balance of 40% which equivalent to RM86.71 billion.

China, with total investments of RM23.78 billion is now the largest foreign investor in Iskandar Malaysia with strong presence in the properties sector, overtaking Singapore. Singapore with total investments of RM20.01 billion has strong presence in the manufacturing (especially in food processing) and services (in education and healthcare) as well as in the property sectors.



The USA and Japan with total investments of RM7.06 billion and RM4.50 billion are Iskandar Malaysia's third and fourth largest foreign investors and are largely in the manufacturing sector.

BizWatch is of the opinion that the investments into Iskandar Malaysia in the next few years will be heavily dominated by China and Singapore, supported with investments from Japan, Korea and Indonesia given that these countries are currently being actively engaged by Iskandar Regional Development Authority (IRDA), to promote Iskandar Malaysia towards potential investors. IRDA led a trade mission to Japan in October and brought back exciting potentials which will be followed up by reciprocal visits from the Japanese companies in 2017. IRDA also participated in the investment seminar in Seoul, Korea organized by Ascendas Singbridge to attract investments from Korea. Investments from Korea have risen from 12th to 6th position in 2016. The successful Iskandar Malaysia Indonesia Trans Regional Investment Promotion (IMITRA) saw strong interest from investors from second tier cities in Indonesia and culminated with a collaboration arrangement between IRDA and Metro TV Indonesia to promote Iskandar Malaysia in Indonesia.

For the United States, BizWatch is of the opinion that investments will be slower considering that the new President of the United States, Donald Trump would implement policies to attract back United States investments back to the country, making it less attractive for US based companies to invest overseas.

# BizWatch



The Iskandar Malaysia Thought Leadership Roundtable held end October 2016 brought together a select group of 12 top and prominent leaders from the private and public sectors in Iskandar Malaysia together to deliberate on pertinent issues and opportunities in the global economy and to develop strategies and collaborations to achieve stakeholders' global business objectives and Iskandar Malaysia's vision to be a Strong and Sustainable Metropolis of International Standing.

Watch out for business articles of the views of these top leaders coming soon.



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