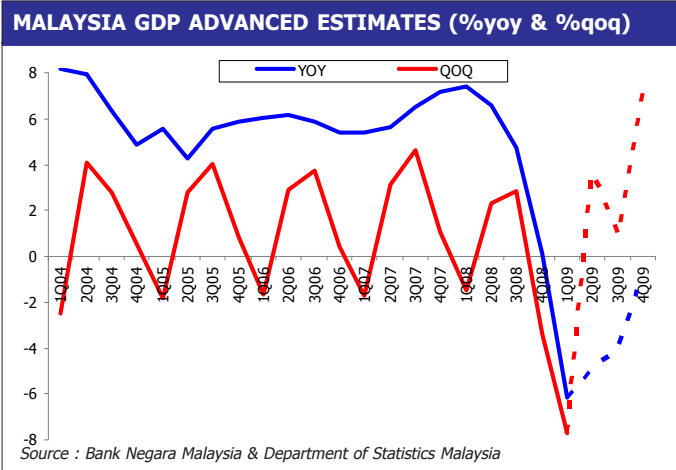


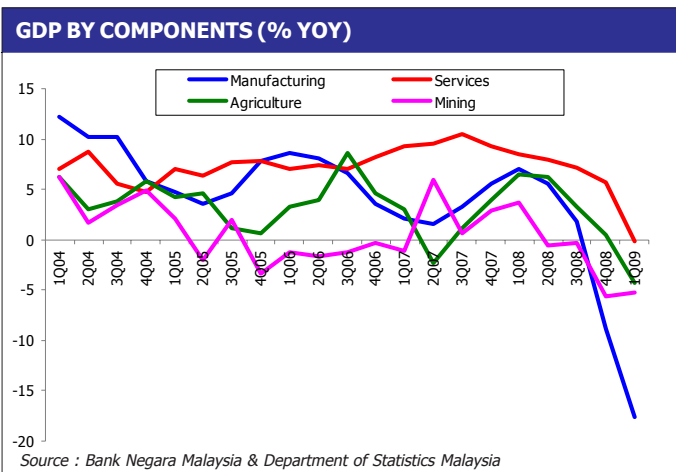
Malaysia: 2Q09 GDP - still in deep water but heading north

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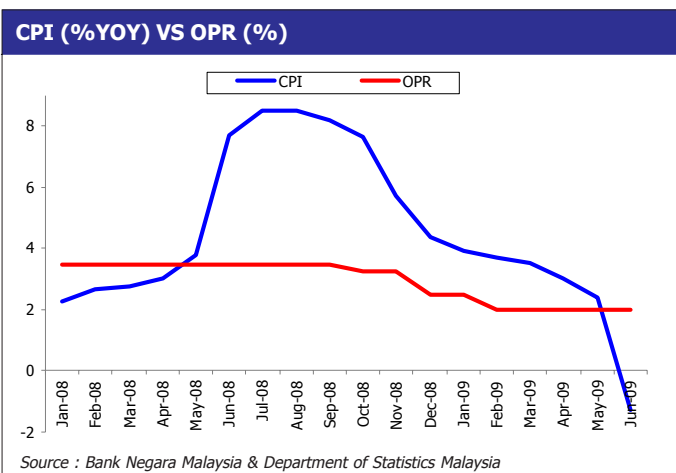
- **Malaysia's real GDP could have registered a smaller annualized contraction of -4.9% in the 2Q09 as against -6.2% in the 1Q09.** Compared with the level in the preceding quarter, real GDP could have expanded by 3.7% following two consecutive quarters of decline. (Advanced estimates on the basis of April-May 09 figures and actual estimates will be computed following the release of June 09 statistics in early August. Official figures on the other hand will only be announced by BNM on 27 August 09.)

- A smaller decline in industrial activity, manufacturing in particular (estimated at -14.6% in 2Q09 versus -17.6% in 1Q09) could have contributed to the better overall economic performance during the period. As exports would have weakened further during the 2Q (estimated at -27.0% in 2Q09 versus -20.0% in 1Q09), the better output and overall GDP figures only suggest inventory restocking to possibly satisfy new orders and demand.



- Domestic demand could have also strengthened somewhat during the period, supported by the higher Government expenditure. The two pro-growth stimulus packages and Budget 2009 allocation, implemented intensely would have contributed to a better industrial and construction activity, and helped contain the downturn in exports.

- Furthermore, the expected improvement in industrial production would lead towards slower retrenchments in the current quarter and provide a cushion in terms of consumer spending growth. The marked recovery in stock market (21.9% q-o-q in 2Q09) and commodity prices (29.6% y-t-d for palm oil), amidst a low interest rate environment, in turn could have also sustained domestic consumer spending.



- Elsewhere, Malaysia's positive 2Q09 development seemed in tandem with better announcements emerging in several other key economies.

- Singapore recently reported that its economy rebounded strongly by 20.4% in the 2Q09 from the preceding quarter, to result in a sharply better yearly contraction of -3.7% versus a revised -9.6% in 1Q09. The unexpected outcome had encouraged the Singapore Government to raise its 09 GDP forecast to a contraction of between 4% and 6% from the previous forecast of -6% and -9%.

- Singapore's revised forecast is now very much close to Malaysia's 2009 official projection of -4% and -5%.
- Similarly, the US government is now more optimistic, cautiously however, with respect to the 2Q09 performance and going forward. The White House, according to one of its officials, envisaged a smaller 2Q09 GDP contraction compared with the -5.5% y-o-y posted in the earlier quarter. The Federal Reserve chairman, Ben Bernanke, also delivered a comforting tone on the prospect of the economy during his latest congress testimonial, repeating the Fed's forecast that the economy should start growing again in the second half of this year, but warned growth would be slight, and therefore would continue to worsen the unemployment condition (9.5% as at May 09).
- In the same light, China's GDP growth had further supported the global stabilizing theme, clocking an impressive 7.9% y-o-y in the 2Q09 and surpassing economists' expectations about the Chinese economic recovery. Officially, the Chinese government is still forecasting 8% growth for 2009, down from last year's 10.6%, but still a remarkably strong performance given the plunge in exports, a key growth driver in the past.
- Looking forward, although we are seeing some lights and greater stability in several countries, the recovery of the global economy is like to be very gradual and modest. **The better performance anticipated in the 2Q09 and 3Q09 will initially be driven by industrial activity and to be followed by external demand at a later stage.** High unemployment rate, especially in the US where consumer spending accounts for almost a quarter of the global GDP, is not expected

to improve significantly at least until early next year when companies start to re-hire, and hence will continue to drag the recovery process.

- We therefore expect the contribution from Malaysia's external sector, although improving, would likely to remain weak and lethargic in the remaining two quarters of this year.
- As such, whether improvements seen in the 2Q09 could be sustained or fade, hinges on the recovery of Malaysia key trade partners while the cushioning effect would depend on the timely implementation of the public sector development spending.
- A timely execution would help reduce the real GDP contraction to -4.0% and -0.8% respectively in the 3Q09 and 4Q09. **Our real GDP forecast for the whole of 2009 at this juncture remained unchanged at -4.0%, before the economy could be expected to expand by 2.0% and 3.0% in the coming year (2010).**
- Inflation, meanwhile, turned negative in June that provided even greater comfort for the monetary to support growth. **We believe there will be no change in the current accommodative stance until end of the year as Bank Negara are quite comfortable with the current interest rate level.**
- The present policy rates are sufficiently accommodative to support loan demand, reflected by the stable loan growth in April and May (10.6% and 8.9% y-o-y respectively). Low NPLs, profitable banking system, positive real rate of return to depositors as inflation turned negative in 2H, and supporting exchange rate would be other reasons for the central bank to maintain the loose monetary stance.

