Economy

AMB

GDP

1Q 2009 : Weaker than expected start for the year

28 MAY 2009

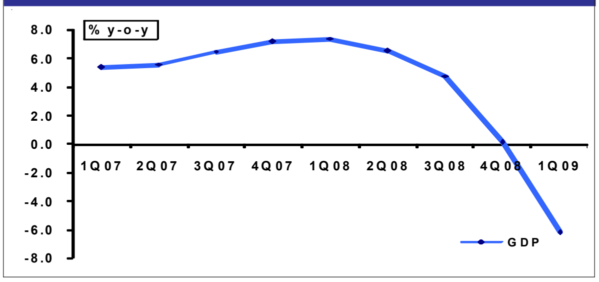
2009/0022

MALAYSIA'S GDP ECONOMIC ACTIVITY

% Y-O-Y	3Q08	4Q08	1Q09
Real GDP	4.8	0.1	-6.2
Agriculture	3.3	0.5	-4.3
Mining	-0.3	-5.7	-5.2
Manufacturing	1.8	-8.8	-17.6
Services	7.1	5.7	-0.1
Construction	1.2	-1.6	0.6

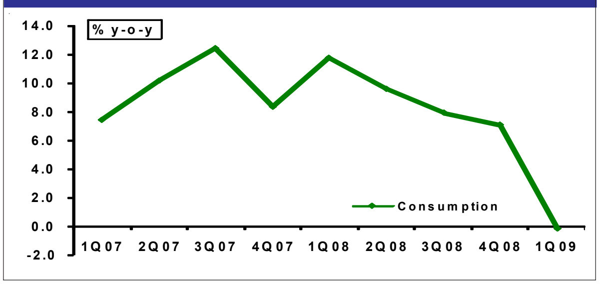
Source : Bank Negara Malaysia & Department of Statistics Malaysia

REAL GDP GROWTH



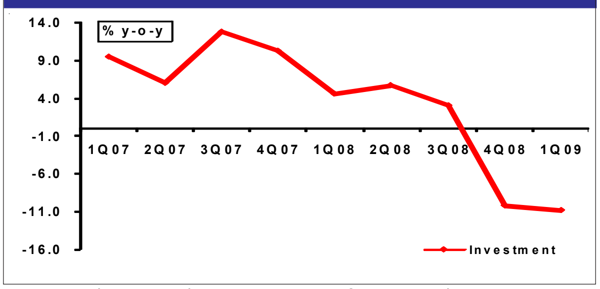
Source : Bank Negara Malaysia & Department of Statistics Malaysia

CONSUMPTION



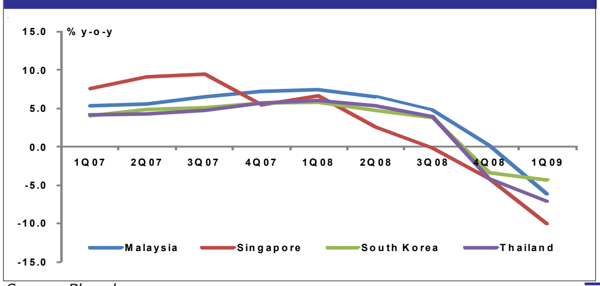
Source : Bank Negara Malaysia & Department of Statistics Malaysia

INVESTMENT



Source : Bank Negara Malaysia & Department of Statistics Malaysia

REAL GDP GROWTH FOR SELECTED COUNTRIES



Source : Bloomberg

- Malaysia's real gross domestic product (GDP) contracted by a large 6.2% y-o-y in the 1Q09, the worst since the 4Q98 (-11.2%) on the back of a meager growth of 0.1% in the 4Q08. The outcome was beyond market consensus as well as our own expectation of -3.9% and -3.0% respectively. On a quarterly basis, however, real GDP fell by a smaller 3.4% as against -7.7% in the preceding quarter.

- The large variance in estimates was largely on account of an unexpected 0.1% drop in the services sector as against our estimated growth of 6.0%. The services sector fell during the quarter, primarily affected by sub-sectors closely linked to the manufacturing sector as showed by the decline in the electricity, gas, water and transport and storage services. All other sectors except construction also posted declines. While the manufacturing sector declined 17.6%, agriculture and mining dropped by 4.3% and 5.2% respectively. In the final quarter of 2008, agriculture grew by 0.5% while manufacturing and mining contracted by 8.8% and 5.7% respectively. Construction while expanded by 0.6% during the quarter was not sufficient to contain the contraction in production and services.

- On the demand side, exports were the major contribution to the deterioration of Malaysia's economic performance when it fell by a large 20.4% y-o-y versus -13.3% y-o-y in the 4Q08. Domestically, gross capital formation fell 10.8% while private consumption declined by 0.7% and public consumption grew 2.1%.

- While domestic demand was severely curtailed by the rapid and sharp decline in exports, it is comforting to note the major reduction in inventories during the quarter. A lower level of inventories would facilitate and expedite new production activities should domestic and external demand recovers in the near term.

- Notwithstanding the sharp deterioration in the 1QGDP, we however believe that the 2Q period could post a slightly better performance due to several factors. Firstly, the positive trend from the global economic activity that had emerged lately. The monthly turnaround in exports and industrial production in March signaled some stability on the external front. Secondly, the manufacturing activity could also improve further based on higher order volume since April and firms are likely to begin replenishing their depleted inventories. Thirdly, the rising commodity prices in recent months would translate into better corporate and individual income, and subsequently spending. Global crude oil prices have accelerated from USD33/barrel in February 09 to above USD60/ barrel recently, while palm oil prices continued to trend higher to about RM2,500/per tonne presently.

- Going forward, the government stimulus package and lowering of interest rate should provide support to the domestic economy in the second half of this year. The liberalization measures on the other hand are only expected to bring positive results in the coming year and beyond. Our main concerns at present, would be whether the positive trend of the global economy could be sustained.

- On balance, we foresee another real GDP contraction in 2Q of 5.5-6.0% before easing in the 3Q. Any recovery, of a very modest magnitude in our opinion, could only be realized tentatively in the final quarter of this year. On the back of a weaker-than-expected 1Q performance that could continue in the second quarter, we have revised our entire year real GDP forecast to -4.0% to -4.5% from -1.5% which is in line with the government revised forecast of -4.0 to -5.0%.