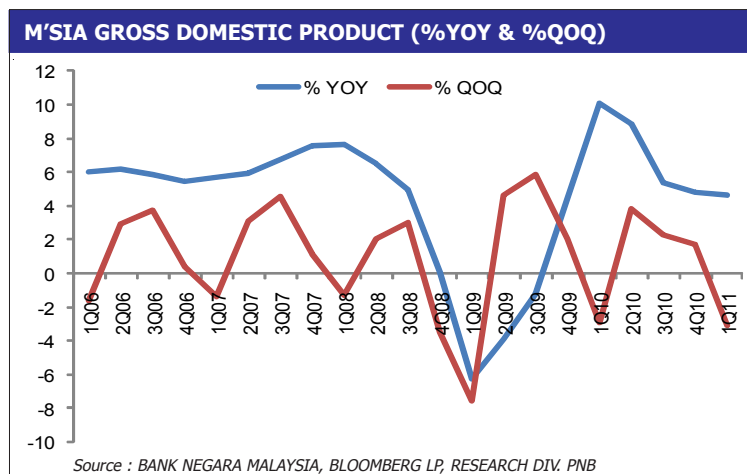


## MALAYSIA - ECONOMIC GROWTH SUSTAINED ON DOMESTIC DEMAND

20 MAY 2010  
2010/011

- Malaysia's Gross Domestic Product (GDP) growth moderated to 4.6% yoy in the 1Q11 from 4.8% yoy in 4Q10. This is also slower than our and consensus estimate of 4.8% and also the weakest pace charted since 4Q09 (+4.6%). Growth was generally led by the further expansion in domestic demand following stronger private and public consumption. On the supply side, economic growth was propelled by the services and manufacturing sectors.



### Private and public spending supported growth in domestic demand.

- Backed by stronger private and public consumption, domestic demand grew faster from 5.9% yoy in 4Q10 to 6.6% in 1Q11. On a q-o-q basis, it fell 8.5%, but the drop was smaller than a 9.0% contraction seen in the same quarter last year. Domestic demand contributed 5.6 percentage points (pp) to overall GDP growth.
- In particular, private consumption expenditure grew stronger by 6.7% yoy in 1Q11 from 6.4% yoy in 4Q10, supported by the sustained increase in income levels and improvement in the employment conditions as well as surging commodity prices. The importance of private consumption expenditure in supporting domestic demand and the economy during the 1Q11 was evidenced through its 3.6 pp contribution to overall GDP growth.
- The expansion in domestic demand however was limited by a slowing investment or gross fixed capital formation. Growth in total investment slowed from 10.0% yoy in 4Q10 to 6.5% yoy in 1Q11 following a 5.7% qoq drop. To a certain extent, the mom drop was larger compared to the 1.9% in 4Q10 and 2.7% in 1Q10. Latest MIER BCI (Business Confidence Index) however stood above 100-point threshold in 1Q11, suggesting the optimism among businesses on economic conditions going forward.

### Strong growth in imports compared to exports weighed down its contribution to overall GDP growth.

- The performance in the external sector was fairly encouraging when exports charted a stronger growth of 3.7% in the 1Q11 from 1.7% in the 4Q10. However, it was well below the 19.1% growth charted in the same quarter last year, a period when the economy rebounded from the recession. On a qoq basis, exports declined by 0.1% from +0.7% in 4Q10, but slower compared with the -2.0% drop recorded in 1Q10. The rate of decline in 1Q11 was much smaller compared to an average of 4.2% during the first quarter of the pre-crisis period (2002-2007), suggesting of continuing recovery.

#### GDP - DEMAND SIDE

	% YOY							% Contribution		
	1Q10	2Q10	3Q10	4Q10	1Q11	2010	2011f	1Q11	2010	2011f
<b>Real GDP</b>	10.1	9.0	5.3	4.8	4.6	7.2	5.3-5.5	4.6	7.2	5.5
<b>Public Consumption</b>	6.8	7.3	-9.8	0.1	6.1	0.5	14.9	0.7	0.1	2.0
<b>Private Consumption</b>	5.2	7.9	6.7	6.4	6.7	6.5	4.5	3.6	3.5	2.4
<b>Investment</b>	5.8	12.9	10.1	10.0	6.5	9.8	3.2	1.3	2.1	0.7
<b>Exports</b>	19.1	14.0	6.8	1.7	3.7	9.9	5.9	4.1	10.3	6.5
<b>Imports</b>	27.8	22.6	11.2	3.5	8.4	15.1	4.1	8.1	14.1	4.1

Source : BANK NEGARA MALAYSIA

**GDP - SUPPLY SIDE**

	% YOY							% Contribution		
	1Q10	2Q10	3Q10	4Q10	1Q11	2010	2011f	1Q11	2010	2011f
<b>Real GDP</b>	<b>10.1</b>	<b>9.0</b>	<b>5.3</b>	<b>4.8</b>	<b>4.6</b>	<b>7.2</b>	<b>5.3-5.5</b>	<b>4.6</b>	<b>7.2</b>	<b>5.5</b>
<b>Agriculture</b>	<b>7.3</b>	<b>2.8</b>	<b>3.0</b>	<b>-3.9</b>	<b>-0.3</b>	<b>2.1</b>	<b>2.6</b>	<b>0.0</b>	<b>0.2</b>	<b>0.2</b>
<b>Mining</b>	<b>1.0</b>	<b>1.5</b>	<b>-0.7</b>	<b>-1.2</b>	<b>-3.0</b>	<b>0.2</b>	<b>7.1</b>	<b>-0.2</b>	<b>0.0</b>	<b>0.5</b>
<b>Construction</b>	<b>8.6</b>	<b>16.0</b>	<b>7.6</b>	<b>6.2</b>	<b>5.4</b>	<b>11.4</b>	<b>6.6</b>	<b>1.5</b>	<b>3.0</b>	<b>1.8</b>
<b>Manufacturing</b>	<b>17.1</b>	<b>4.1</b>	<b>2.8</b>	<b>5.6</b>	<b>3.8</b>	<b>5.1</b>	<b>2.2</b>	<b>0.1</b>	<b>0.2</b>	<b>0.1</b>
<b>Services</b>	<b>8.6</b>	<b>7.4</b>	<b>5.3</b>	<b>6.1</b>	<b>5.9</b>	<b>6.8</b>	<b>5.5</b>	<b>3.4</b>	<b>3.9</b>	<b>3.2</b>

Source : BANK NEGARA MALAYSIA

- Imports on the other hand grew faster at 8.4% yoy in 1Q11 (4Q10: +3.5% yoy). Notable increase in imports of intermediate goods following the pick-up of manufactured exports during the quarter helped support the rise in overall imports. On qoq, imports fell 4.7%, lesser compared to the -9.0% in 1Q10, attributed to the improved domestic demand condition.
- As exports grew slower relative to imports, net trade subtracted 4.0% pp from 1Q11 GDP growth.

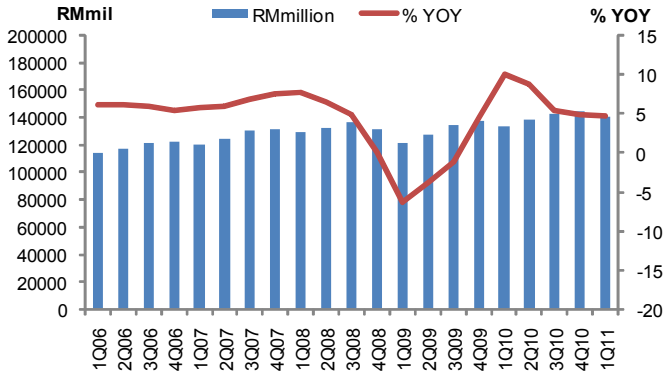
**Services and manufacturing propel growth.**

- On the supply side, both the services and manufacturing sectors supported the increase in GDP in 1Q11. Growth in services sector was sustained at 5.9% yoy, albeit slower than 6.1% yoy in 4Q10 mainly following improvement in domestic condition. Services sector added 3.4 pp to overall GDP growth, the largest contribution compared to other sectors. The performance of the services sector however remained weak during 1Q11, judging from the 3.9% qoq decline. The pace of decline widened from 3.7% in the same quarter last year and was larger compared to rate of drop in the five year (2002-2007) before the financial crisis of 2.7%. Manufacturing sector also slowed, recording a growth of 5.4% yoy in 1Q11 from 6.2% yoy in 4Q10, mainly supported by the domestic-oriented industries.
- Growth in construction sector also slowed on a yoy basis to 3.8% in 1Q11 as activities in the sector fell by a large 8.2% qoq. Meanwhile, both the agriculture and mining sectors continued to chart contraction in 1Q11.

**GDP to weaken in the 2Q11.**

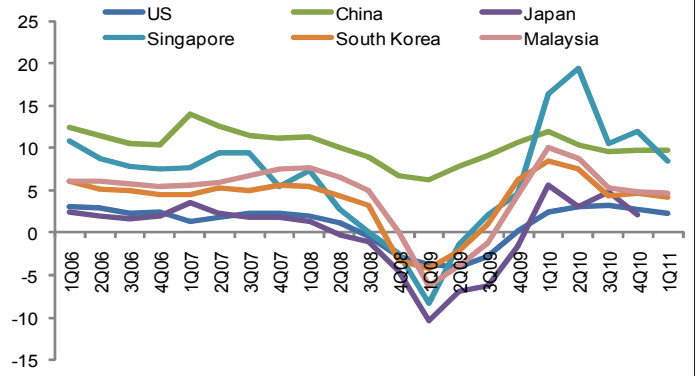
- We expect the domestic economy to continue the downtrend in the 2Q11 as the global economy faces the challenges of rising commodity prices, especially oil, and contracting Japan's economic activity due to the tsunami and nuclear crisis. While exports could see a weakening trend, domestic demand is expected to support the overall GDP expansion of an estimated 4.0% in the quarter to end June 2011. For the 2H11, we expect the economy to chart an improvement and to record growth of between 6.0-6.5%, mainly on account of the positive spillover effects from the Economic Transformation Program (ETP). Apart from the base effect, a stronger GDP growth during the second half of this year would also be supported by better exports once the reconstruction activities begin in Japan. Hence, we are expecting GDP to grow by 5.4% for the whole of this year from 7.2% in 2010.
- While domestic GDP growth is expected to moderate, we believe that the stance of the monetary policy will be biased towards inflation based on the potential upside risks on inflation going forward. This came on expectation of a stronger domestic demand led by consumption and further subsidy rationalization by the government amidst the rising global oil as well as other commodity prices. The CPI growth rate is thus can potentially rise above 3.5% in the coming months, if the Government were to resume the subsidy rationalization programme on petroleum products. At this juncture, we are projecting the overall inflation for 2011 to average 3.2%. As such, this will likely cause BNM to raise again the OPR, probably by 25-50 bps to 3.25-3.50% towards the end of 2011.

### M'SIA GROSS DOMESTIC PRODUCT



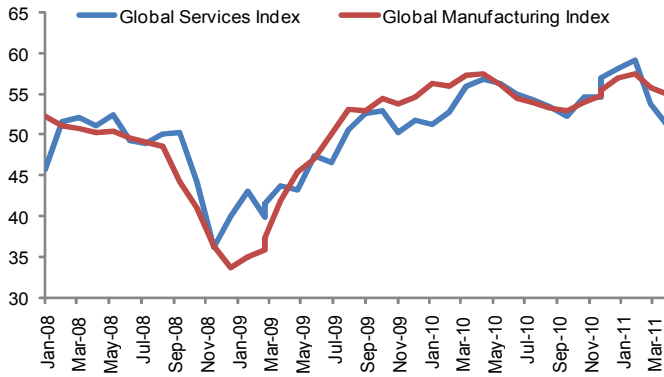
Source : BANK NEGARA MALAYSIA, BLOOMBERG LP, RESEARCH DIV. PNB

### GDP FOR SELECTED COUNTRIES (%YOY)



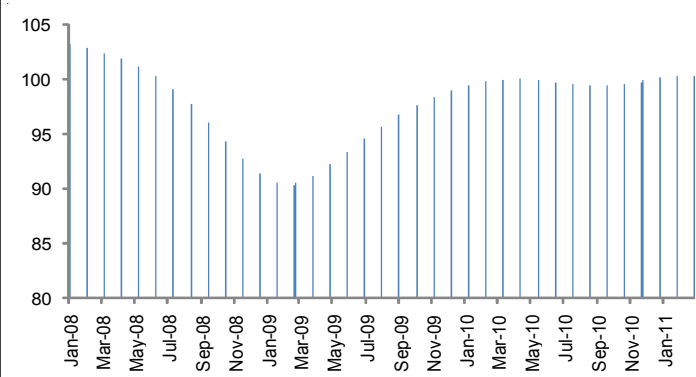
Source : BANK NEGARA MALAYSIA, BLOOMBERG LP, RESEARCH DIV. PNB

### GLOBAL PMI SERVICES & MANUFACTURING



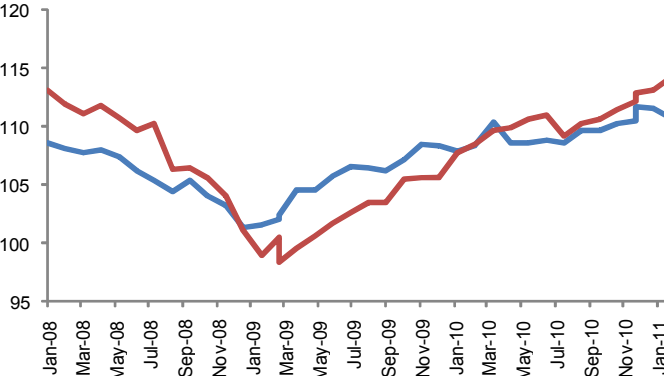
Source : BANK NEGARA MALAYSIA, BLOOMBERG LP, RESEARCH DIV. PNB

### OECD COMPOSITE LEADING INDICATOR INDEX



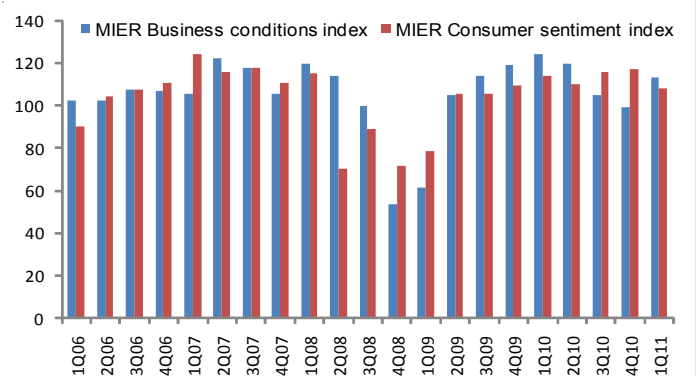
Source : BANK NEGARA MALAYSIA, BLOOMBERG LP, RESEARCH DIV. PNB

### M'SIA LEADING & COINCIDENT INDEX



Source : BANK NEGARA MALAYSIA, BLOOMBERG LP, RESEARCH DIV. PNB

### M'SIA BUSINESS & CONSUMER SENTIMENT INDEX



Source : BANK NEGARA MALAYSIA, BLOOMBERG LP, RESEARCH DIV. PNB