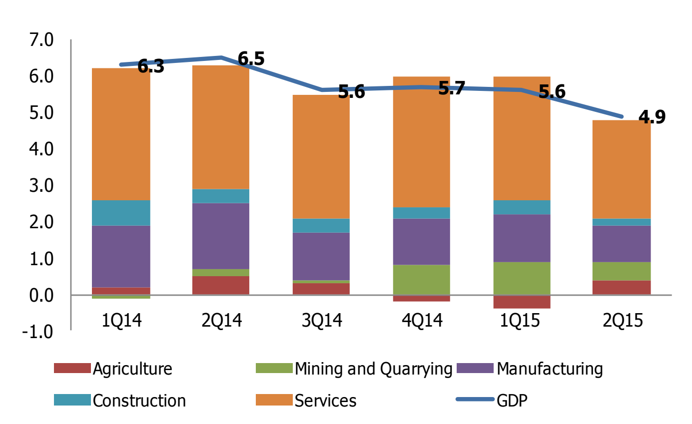
# Economic Insight

**2015/82 | 13 August 2015** Amanah Mutual Berhad

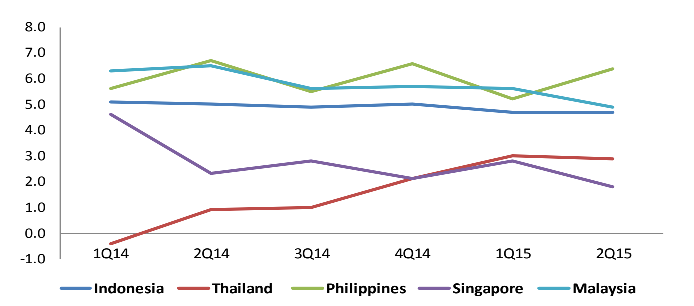
## Malaysia: GDP surprises on the upside, beating expectation

**CHART 1: GDP (PERCENTAGE CONTRIBUTION TO GROWTH)**




*Source: DOSM*

**CHART 2: GDP COMPARISON WITH OTHER COUNTRIES (%YOY)**




*Source: Bloomberg, DOSM*

**CHART 3: BALANCE OF PAYMENTS**

| | 2Q14 | 3Q14 | 4Q14 | 1Q15 | 2Q15 |
|---|---|---|---|---|---|
| **Current account** | **14,986** | **7,148** | **5,666** | **9,968** | **7,582** |
| *Goods* | 27,295 | 25,540 | 29,384 | 27,547 | 23,315 |
| *Services* | (1,556) | (3,570) | (5,547) | (3,762) | (4,586) |
| *Primary income* | (7,961) | (9,610) | (13,173) | (8,539) | (5,099) |
| *Secondary income* | (2,792) | (5,213) | (4,998) | (5,278) | (6,047) |
| **Capital account** | **(1)** | **(2)** | **276** | **(2)** | **(1,104)** |
| **Financial account** | **(10,956)** | **(5,849)** | **(26,558)** | **(29,664)** | **2,273** |
| *Direct investment* | (3,826) | 2,261 | (2,480) | (1,235) | (3,941) |
| *Portfolio investment* | 7,167 | (11,161) | (20,326) | (7,878) | (11,759) |
| *Financial derivatives* | 229 | 49 | 234 | 3 | (449) |
| *Other investment* | (14,525) | 3,003 | (3,985) | (20,554) | 18,442 |
| **Reserve assets** | **974** | **6,710** | **11,530** | **15,696** | **(8,450)** |

*Source: DOSM*

- Malaysia's GDP growth surpassed both market and in-house expectation of 4.5% yoy and 4.4% yoy growth respectively, expanding by an unexpected 4.9% yoy in 2Q15. On a quarterly basis, GDP expanded by 2.6% vs -4.3% in 1Q15. 1H15 growth thus stands at 5.3% yoy (1H14: +6.4% yoy).

- All major sectors registered positive contributions to GDP growth during the quarter: **Services (+2.7 percentage points vs +3.4 percentage points in 1Q15), manufacturing (+1.0 ppt vs +1.3 ppts in 1Q15), mining and quarrying (+0.5 ppt vs +0.9 ppt in 1Q15), agriculture (+0.4 ppt vs -0.4 ppt in 1Q15), and construction (+0.2 ppt vs +0.4 ppt in 1Q15).**

- From the expenditure side, the private sector remained the key driver of growth while public sector contribution to growth narrowed during the quarter: **Private consumption (+3.3 ppts vs +4.6 ppts in 1Q15), private investment (+0.8 ppt vs +2.0 ppts in 1Q15), public consumption (+0.8 ppt vs +0.5 ppt in 1Q15), public investment (-0.7 ppt vs +0.0 ppt in 1Q15) and net exports (-1.0 ppt vs -1.1 ppt in 1Q15).**

- The agriculture sector showed impressive expansion as it rebounded by 4.6% yoy in 2Q15 vs -4.7% yoy in 1Q15. The significant recovery made in the sector was chiefly attributable to CPO output growth for 2Q15 which had jumped by 237.6% yoy (1Q15: +10.8% yoy) as the effect of flooding in the East Coast began to wane. Since CPO production is expected to surpass forecast as El Nino failed to curb output growth in the latter half of the year, we believe agriculture sector would continue to register positive contribution to GDP growth in subsequent quarters. Agriculture sector experienced lacklustre performance after charting two continuous quarters of contraction in 4Q14 and 1Q15 due to the flood.

- The dampening effect of Goods and Services Tax (GST) on the domestic economy could be seen in the deteriorating domestic demand contribution to growth in 2Q15 as it declined to 4.2 ppts vs 7.1 ppts in 1Q15. On the upside, we take comfort in recovery possibly underway following improving performance of some private consumption and private investment indicators (eg: passenger and commercial vehicles sales, consumption credit and consumption goods' imports growth). We are certain that domestic demand would continue to anchor growth going forward, given the uncertainties in the external environment.

- In 2Q15, current account (CA) surplus narrowed to RM7.6 bil vs RM10.0 bil in 1Q15, while financial account rebounded to record inflows of RM2.3 bil vs outflows amounting to RM29.7 bil in 1Q15. This is primarily attributable to the significant inflows in other investment, in contrast with the huge outflows during the previous quarter.

- At this juncture, it seems probable for 2015’s full-year GDP growth forecast to achieve the upper bound of 5.0% yoy level of our 4.5%-5.0% yoy growth range given the still solid fundamentals in spite of the hiccups stemming from both external and financial markets.

- However, we reiterate that the volatility experienced in the external environment and financial markets could negatively impact Malaysia’s economic growth potentials to a greater degree. It is also worthy to note that weakening consumer sentiment to 71.2 in 2Q15 (MIER 1Q15: 72.6), aside from the slightly higher unemployment rate of 3.1% in May vs 3.0% in Apr could offset the potential recovery made in consumption appetite. Hence, this poses a downside risk to our growth projection of 4.5%-5.0% yoy in 2015.