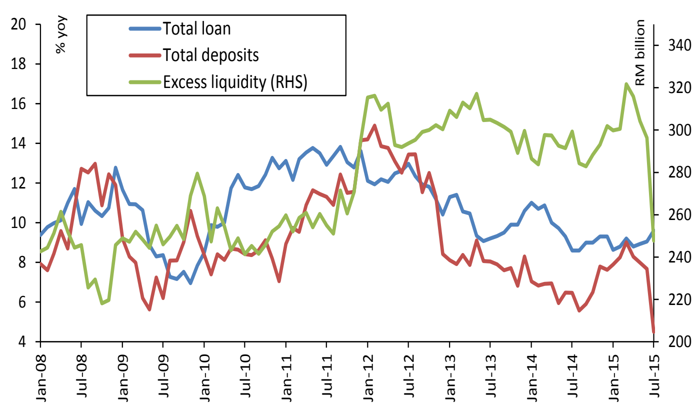
Economic Insight

2015/88 | 28 August 2015 Amanah Mutual Berhad

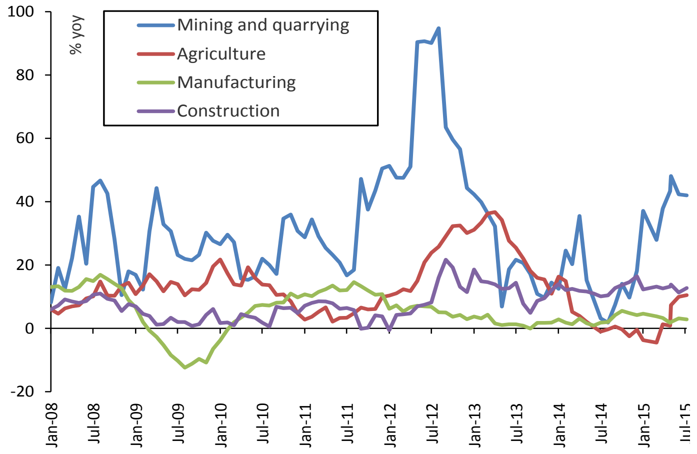
Malaysia: Business loan accelerates, household moderates

CHART 1: LOANS, DEPOSITS, AND EXCESS LIQUIDITY



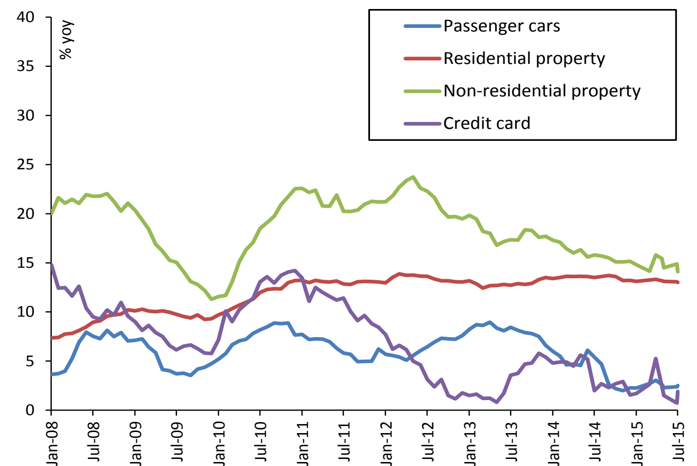
Source: Bank Negara Malaysia

CHART 2: LOANS OUTSTANDING BY SECTOR



Source: Bank Negara Malaysia

CHART 3: LOANS OUTSTANDING BY PURPOSES



Source: Bank Negara Malaysia

- Economic activity in July was slower as (M3) growth decelerated to 3.9% from 6.0% in June (May: 5.7%, April: 6.5%). M1 growth, which is made up of currency in circulation and demand deposits, decelerated to 4.3% yoy in July from 9.5% in June. Nevertheless, the still growing money supply indicated economic activities were sustained during the month.

- Overall, the growth in outstanding loans in July quickened to 9.6% yoy from 9% previously (May: 8.9%, April: 8.8%), again thanks to the faster business loans growth at 11.1% yoy (June: 9.5%, May: 8.8%, April: 8%). Such double-digit growth was last seen in February 2013 and augurs well for economic growth prospects and financial balance.

- Most key business segments grew on a yoy basis during the month (except only the electricity, gas, & water segment). Construction and real estate segments have been expanding by double-digits for more than one and a half years and we thus expect these segments to continue enjoying strong growth numbers given a slew of infrastructure projects in progress as Malaysia embarks on becoming a high income nation by 2020.

- As largely expected, outstanding household loans moderated for the fourth consecutive month to 8.6% yoy in July from 8.7% in June (May: 9%, April: 9.4%). We anticipate this segment to remain moderate as the 6-month moving average growth for loans applied in this segment continued to decline twelve months in a row. We also saw a downward trend in loans applied for hire purchase and residential property.

- Bank lending has been on a moderating trend since the beginning of last year. This could be attributed to measures implemented by BNM in curbing the escalating household indebtedness—one of the factors that investors consider when judging the sustainability of Malaysia's economy.

- On the other hand, total deposits in the banking system decelerated to 4.5% yoy in July, the slowest pace since 2007 being the oldest data in our database. Nevertheless, liquidity in the banking system remained healthy at surplus of RM247.8 billion, and individual deposits which made up nearly 37% of total deposits grew at a healthy pace of 6.7% yoy in July, higher than the average 6.4% it recorded during January 2014 to July 2015 period. This is indicative of the ability of households to save, providing them with ample flexibility to manoeuvre around unexpected financial challenges. Moreover, the loan-deposit ratio stood at 84.9%, a level deemed appropriate.

- Despite the global turmoil in stock markets currently, August's EC Survey indicates that the eurozone's economic recovery has continued in 3Q15. This coupled with the higher-than-expected 2Q15 GDP growth posted by the United States (which is a shining star among the advanced economies as of now) would provide a glimmer of hope to lift the performance of exports market globally including that of Malaysia.

- We project the Overnight Policy Rate (OPR) to be maintained at 3.25% throughout the remaining of 2015. We maintain our loans growth forecast of 7.2% for 2015 versus 9.3% realised in 2014.