

Malaysia: Slower GDP growth, but still strong

Continued Economic strength vindicates market resilience to last week's political surprise, but potential policy risks under the new government keep us cautious on the ringgit



Source: Shutterstock

Slower growth, but still among the fastest in Asia

Notwithstanding the slowdown, Malaysia's GDP growth is still strong among Asian economies. This vindicates markets' resilience to last week's surprise election results. However, policy risk under the new administration is keeping us cautious on local financial assets and the ringgit. If not domestic, there are plenty of external influences that could cause the MYR to weaken. The 0.5% MYR depreciation against the USD since election supports our forecast of the pair soon breaching the 4.00 level (spot 3.97).

5.4%

GDP growth in 1Q18

Year-on-year

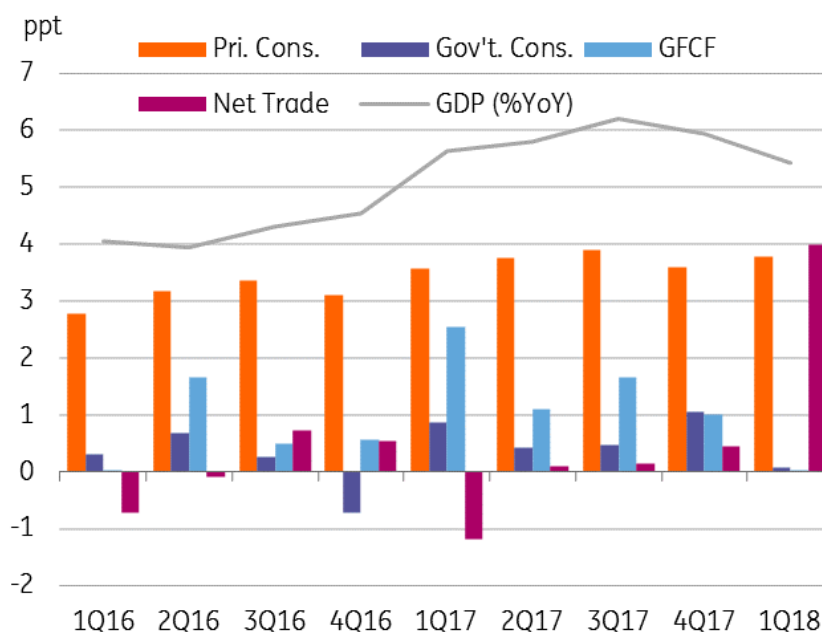
Lower than expected

Below-expected 1Q18 GDP growth

Malaysia's GDP growth slowed more than expected to 5.4% year-on-year in the first quarter of 2018 from 5.9% in the previous quarter. The consensus forecast was 5.6% growth, which makes it the first downside surprise in almost five years. A sliver-lining is an acceleration in quarter-on-quarter (seasonally adjusted) growth to 1.4% in 1Q18 from a revised figure of 1.0% for 4Q17 (revised from 0.9%).

The real surprise in this data, however, was in the expenditure-side GDP composition, showing net exports returning as a driver of year-on-year GDP growth after almost four years and accounting for 4 percentage points of total GDP growth (see figure). This was at odds with expectations of a surge in government spending ahead of the election. In the event, government spending and gross fixed capital formation turned out to be a drag on growth, while the rundown of inventories also contributed to the GDP slowdown (see figure). Agriculture, mining and construction were the industry-side sources of GDP slowdown.

Net exports displace domestic demand as GDP driver



Source: Bloomberg, ING

Outlook for the rest of 2018

The first quarter growth on its own shaves off a tenth of a percentage point from our forecast of 5.5% GDP growth in all of 2018, which we are now reviewing for a downgrade. We expect

uncertainties about economic policies under the new government to weigh on domestic demand, even though the reduction in the goods and services tax to zero percent from June should support consumer spending. The story on the export front appears positive for now as rising oil prices will continue to support what is already a strong story as reflected by the 20% YoY surge in the USD-term customs-basis exports in 1Q18.

We continue to anticipate Malaysia's central bank (BNM) normalizing policy, with a further 25bp rate hike in 3Q18.