



NATIONAL ECONOMIC OUTLOOK CONFERENCE

2017-2018

Malaysian Economic Outlook
(3rd Quarter Update)

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Putra World Trade Centre,
Kuala Lumpur
6th – 7th December 2016*

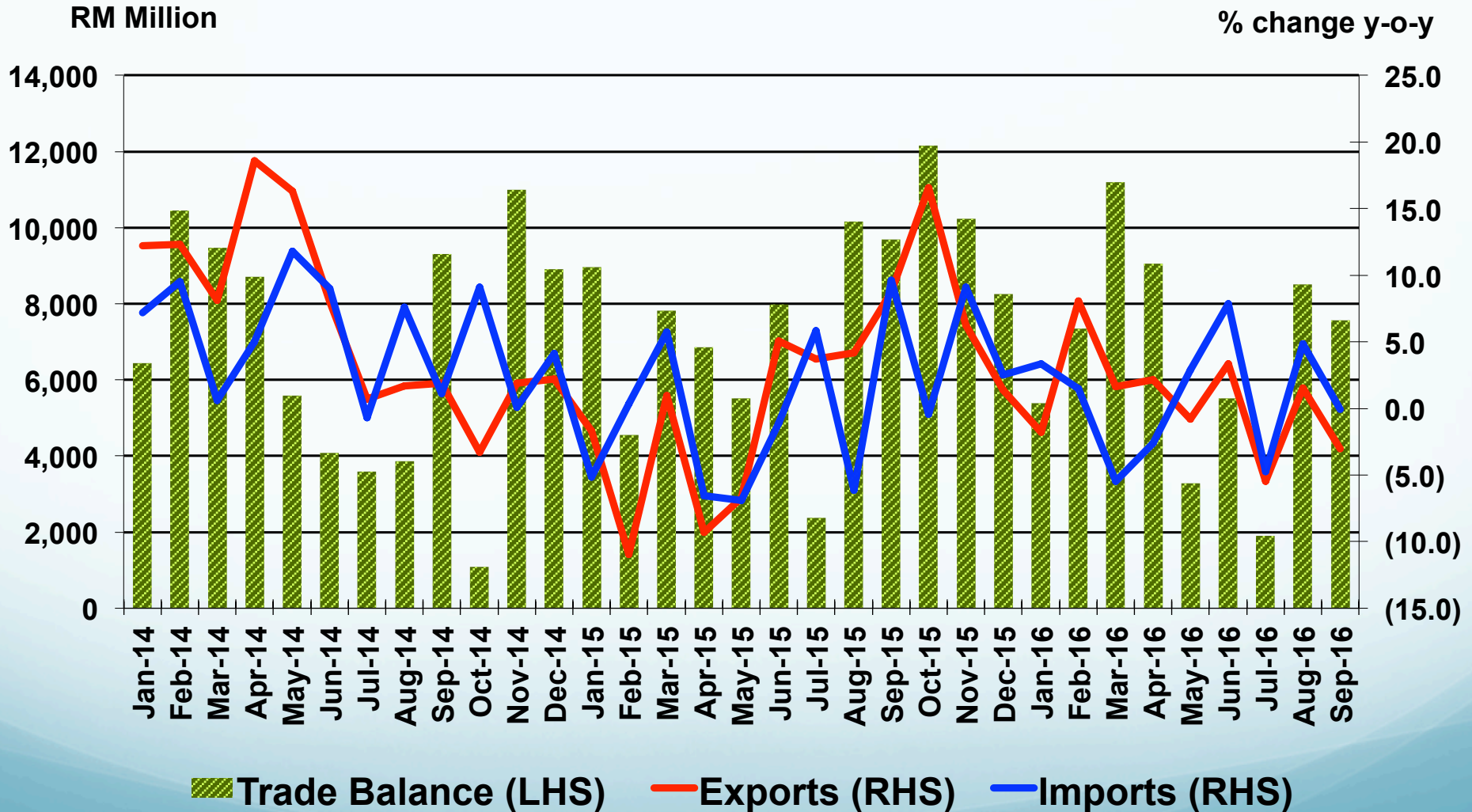
Presentation Outline

- ❖ **Selected key economic indicators**
- ❖ **MIER 3Q 2016 surveys**
- ❖ **Near-term outlook**
- ❖ **Downside risks**

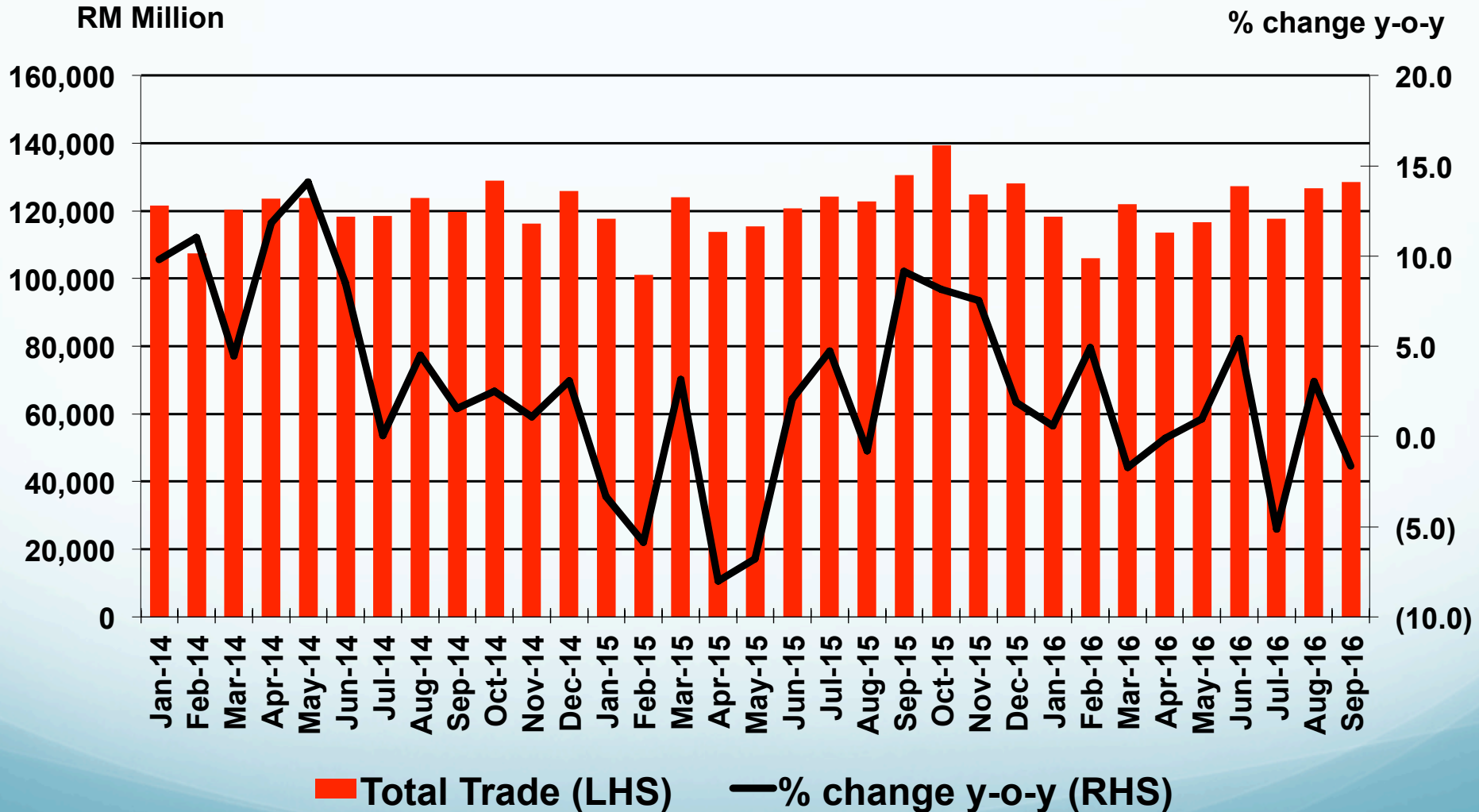
Key Economic Indicators

- ❖ External Trade
- ❖ Foreign Direct Investment (FDI)
- ❖ Industrial Production Index (IPI)
- ❖ Monetary Indicators
- ❖ International Reserves
- ❖ Exchange Rate
- ❖ Inflation
- ❖ Unemployment

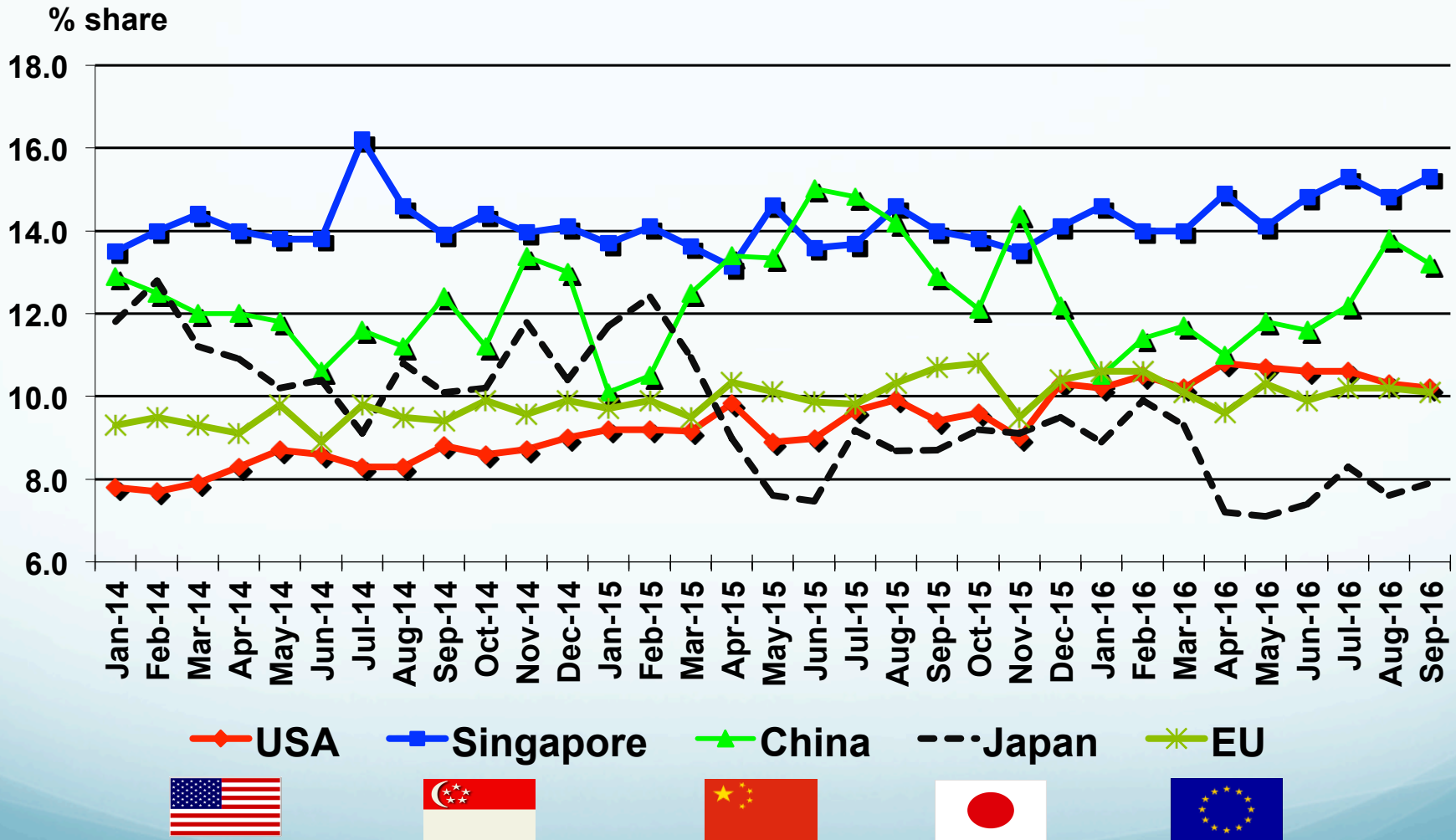
External Trade



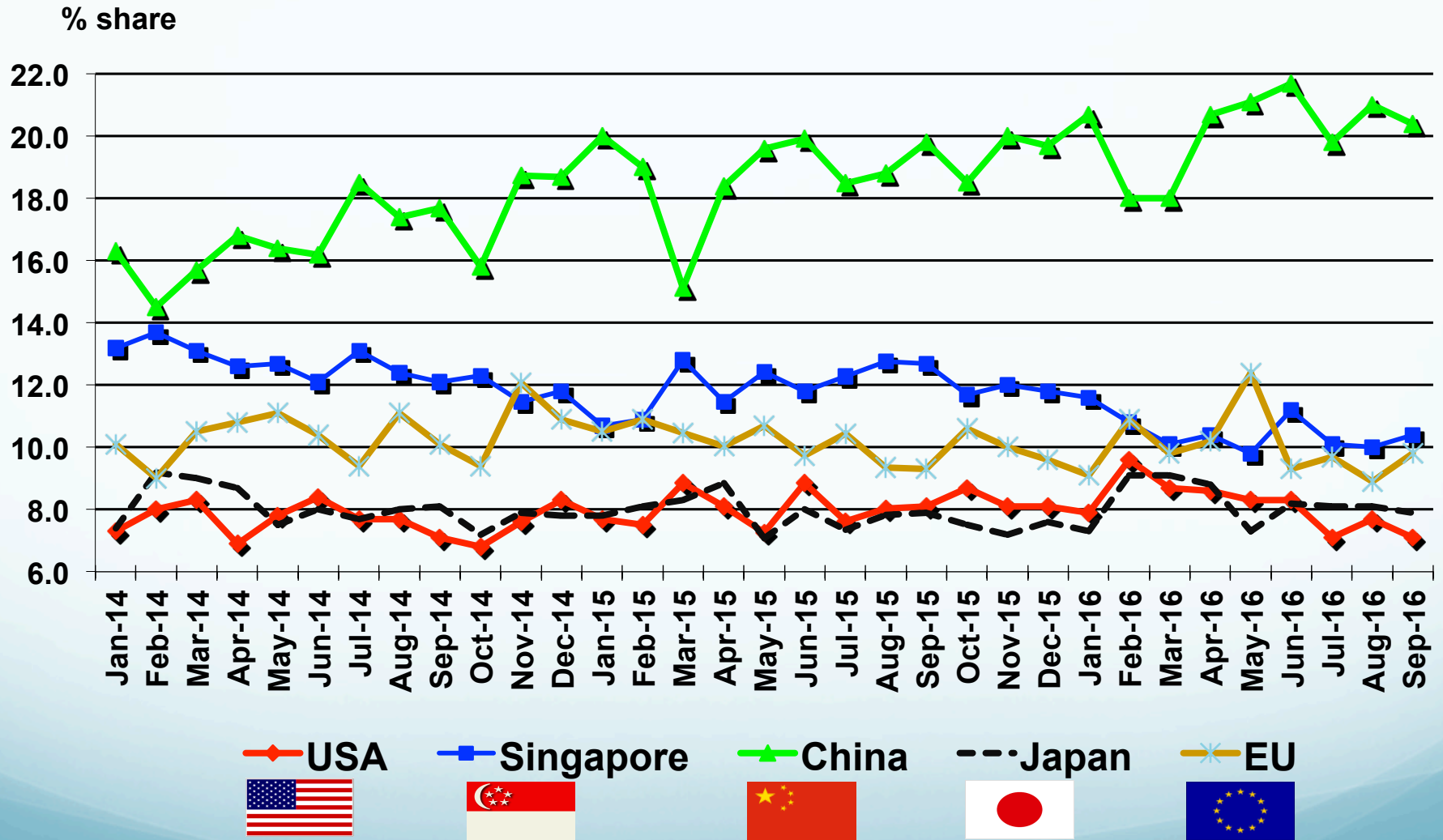
External Trade (cont...)



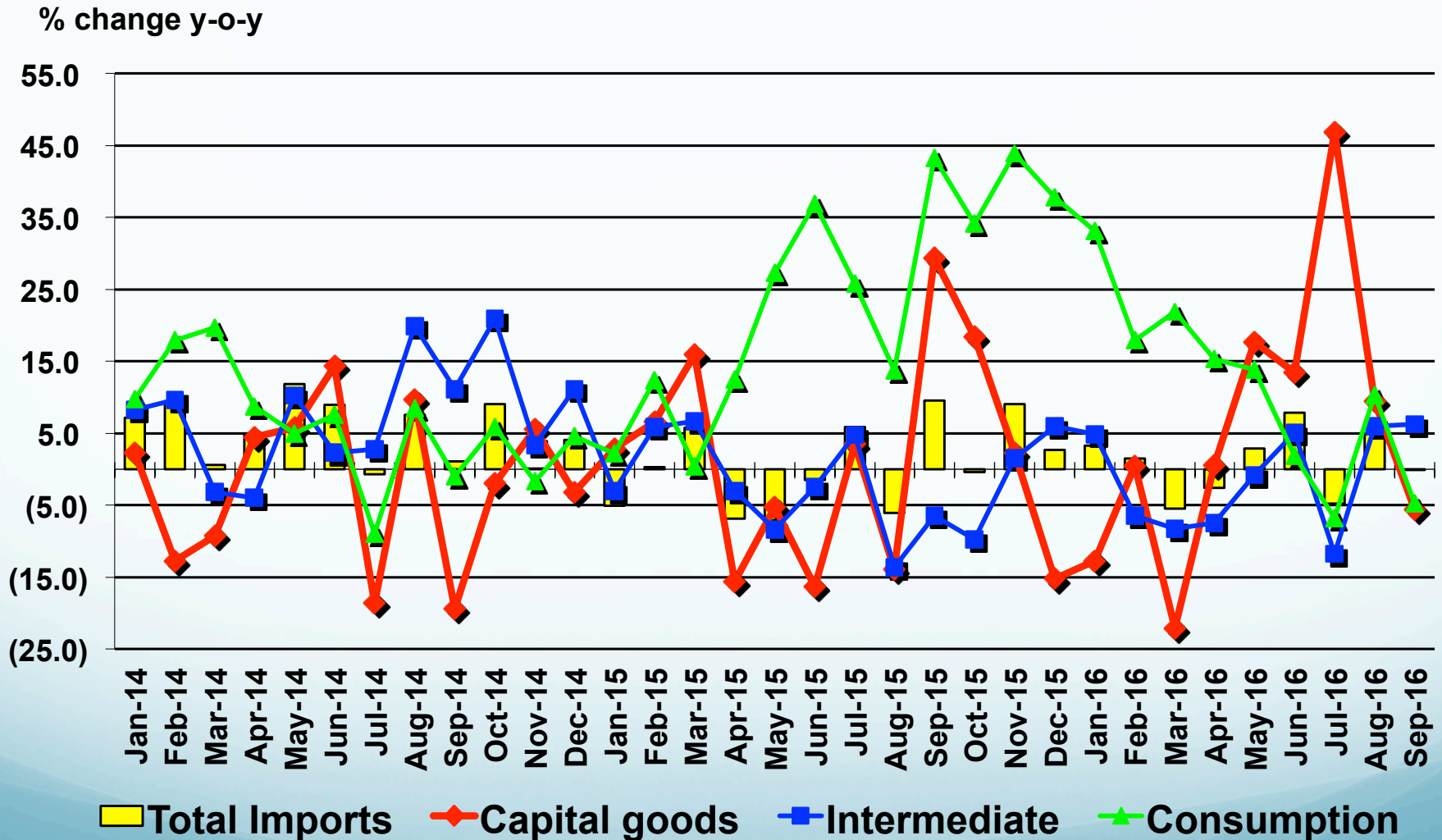
Exports to Major Partners



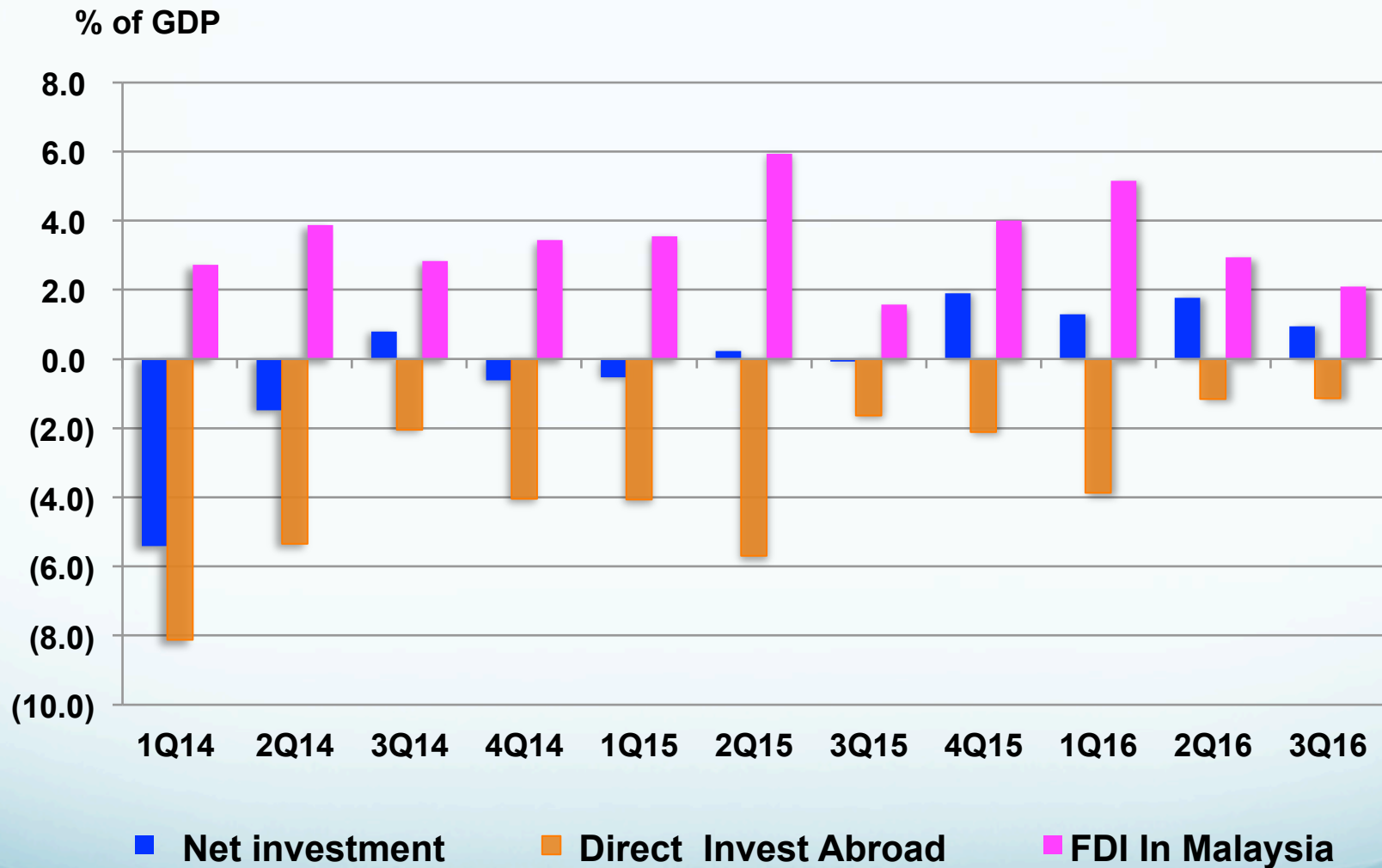
Import Sources



Imports by Category



Investment



Investment Approvals

Sector		Primary	Manufacturing	Services	Total
Jan - June 2016	Number of Projects	25	368	2,106	2,499
	Potential Employment	386	32,307	44,269	76,962
	Total Investment (RM Million)	1,292	19,621	67,564	88,478
	Domestic Investment	660	7,078	52,487	60,224
	Foreign Investment	633	12,544	15,077	28,254
2015	Number of Projects	57	680	4,470	5,207
	Potential Employment	1,556	66,494	112,194	180,244
	Total Investment (RM Million)	3,787	74,693	114,548	193,028
	Domestic Investment	2,010	52,751	102,124	156,886
	Foreign Investment	1,776	21,942	12,424	36,142

Investment Approvals (Primary Sector)

Industry		Agriculture	Mining	Plantation & Commodities	Total
Jan - June 2016	Number of Projects	12	12	1	25
	Potential Employment	370	16	0	386
	Total Investment (RM Million)	61	1,020	211	1,292
	Domestic Investment	61	388	211	660
	Foreign Investment	0	633	0	633
2015	Number of Projects	27	26	4	57
	Potential Employment	929	156	471	1,556
	Total Investment (RM Million)	261	2,813	712	3,787
	Domestic Investment	261	1,166	583	2,010
	Foreign Investment	0	1,647	129	1,776

Investment Approvals (by Industry, Manufacturing Sector)

Industry		Jan - June 2016				2015			
		No.	Total Investment (RM Million)	Domestic Investment	Foreign Investment	No.	Total Investment (RM Million)	Domestic Investment	Foreign Investment
1	Electronics & Electrical Products	40	5,854	599	5,255	93	8,926	722	8,204
2	Food Manufacturing	40	2,782	1,753	1,029	51	2,647	2,057	590
3	Petroleum Products (Incl.Petrochemicals)	7	2,218	107	2,110	12	26,975	25,113	1,862
4	Chemical & Chemical Products	42	1,667	691	976	50	2,283	1,087	1,196
5	Transport Equipment	33	1,370	1,149	221	55	6,509	6,002	507
6	Scientific & Measuring Equipment	16	1,192	144	1,048	25	846	338	508
7	Rubber Products	16	1,162	520	642	22	1,338	382	956
8	Others	174	3,376	2,115	1,263	372	25,169	17,050	8,119
	TOTAL	368	19,621	7,078	12,544	680	74,693	52,751	21,942

Investment Approvals (by Country, Manufacturing Sector)

Country		Jan - June 2016		2015	
		No.	Foreign Investment (RM Million)	No.	Foreign Investment (RM Million)
1	United Kingdom	7	2,068	11	146
2	China	16	1,577	17	1,875
3	Korea, Rep	4	1,523	22	1,353
4	Singapore	47	1,458	87	1,395
5	Japan	27	916	60	4,009
6	Netherlands	8	879	9	976
7	Belgium	3	585	0	0
8	Others	256	3,538	474	12,188
	TOTAL	368	12,544	680	21,942

Investment Approvals (Services Sector)

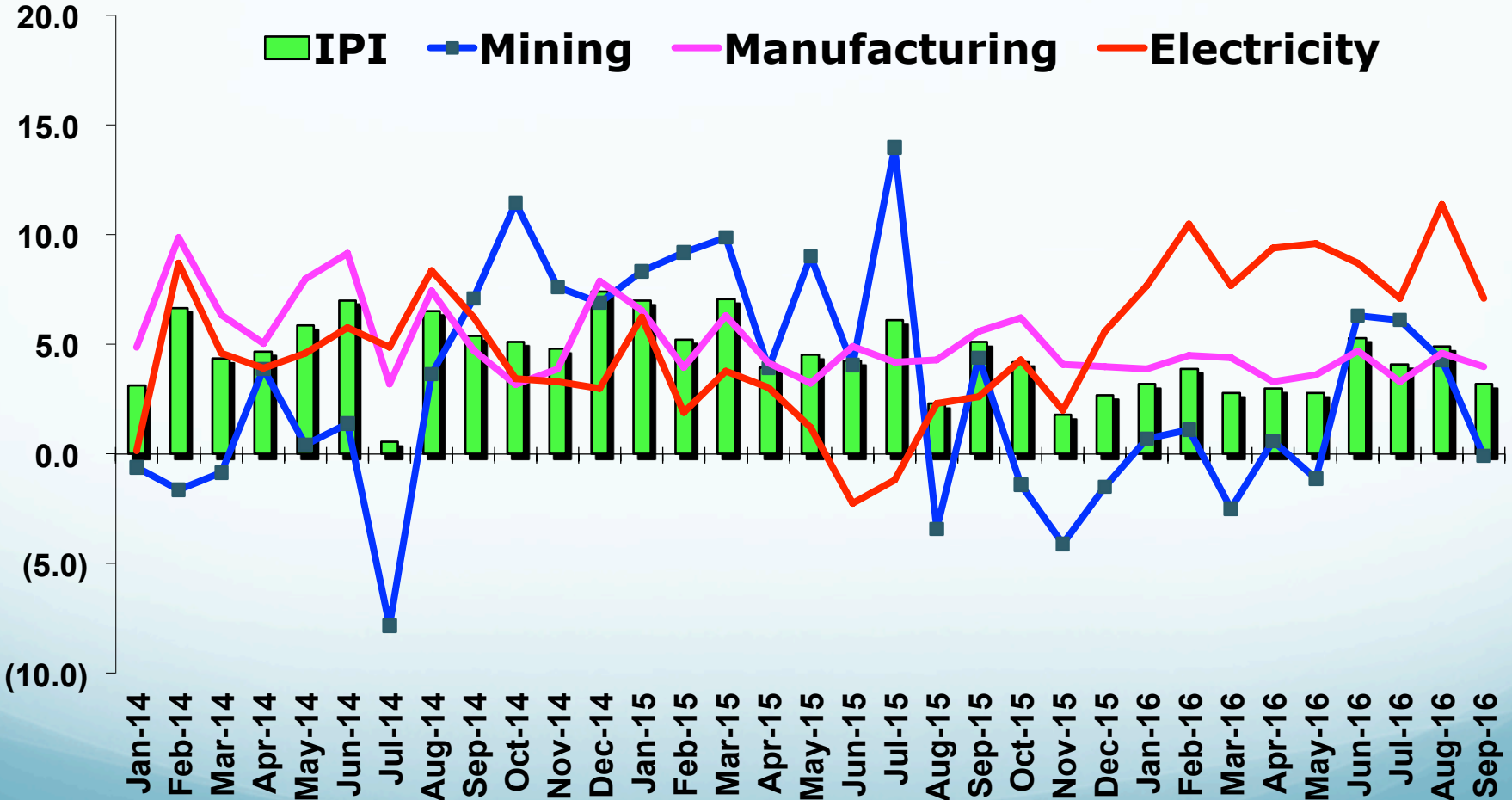
Services Sub-Sector	Jan - June 2016				2015			
	No.	Total Investment (RM Million)	Domestic Investment	Foreign Investment	No.	Total Investment (RM Million)	Domestic Investment	Foreign Investment
Global Establishments	128	7,348	2,067	5,281	224	8,222	4,362	3,860
Support Services	133	2,740	2,011	729	251	3,681	2,979	702
MSC Status	161	4,519	2,973	1,546	249	4,570	2,502	2,068
Transport	8	325	310	15	57	15,983	15,858	125
Real Estate	309	29,269	28,570	699	911	26,895	26,256	639
Utilities	0	4,291	4,291	0	0	11,707	11,707	0
Telecommunications*	133	1,317	1,317	0	620	8,940	8,940	0
Distributive Trade	824	5,424	1,700	3,724	1,317	6,812	4,219	2,594
Hotel & Tourism	53	2,003	1,600	404	118	5,413	4,933	480
Financial Services	21	9,687	7,216	2,470	48	15,371	14,143	1,229
Health Services	1	63	63	0	26	3,679	3,670	9
Education Services	326	485	330	155	621	1,562	1,122	440
Bionexus Status & Software	9	95	40	55	28	1,714	1,436	277
Sub-total	2,106	67,564	52,487	15,077	4,470	114,548	102,124	12,424

Note: * Data for telecommunications is only up to March 2016

Source: MIDA

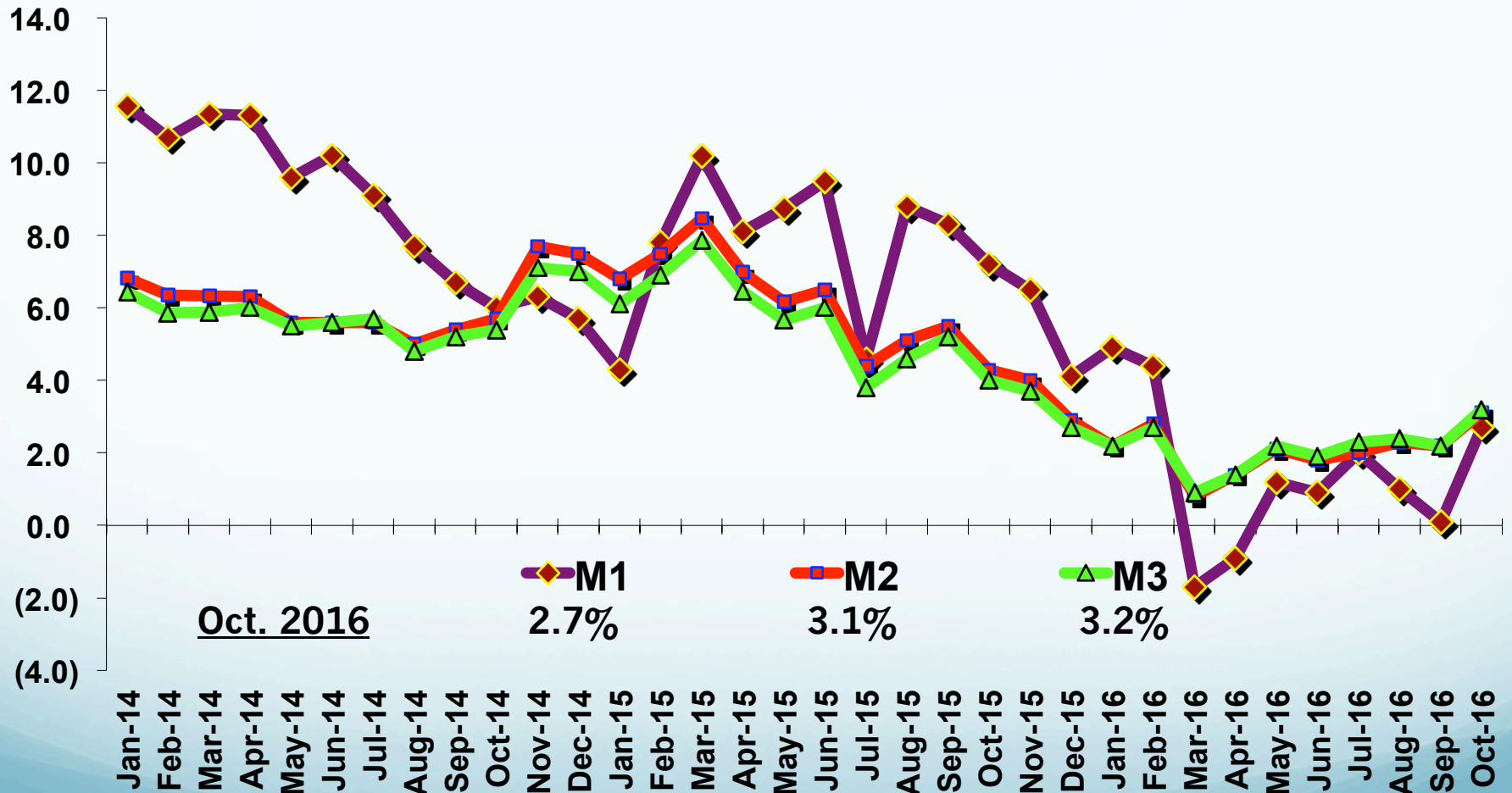
Industrial Production Index (IPI)

% change y-o-y

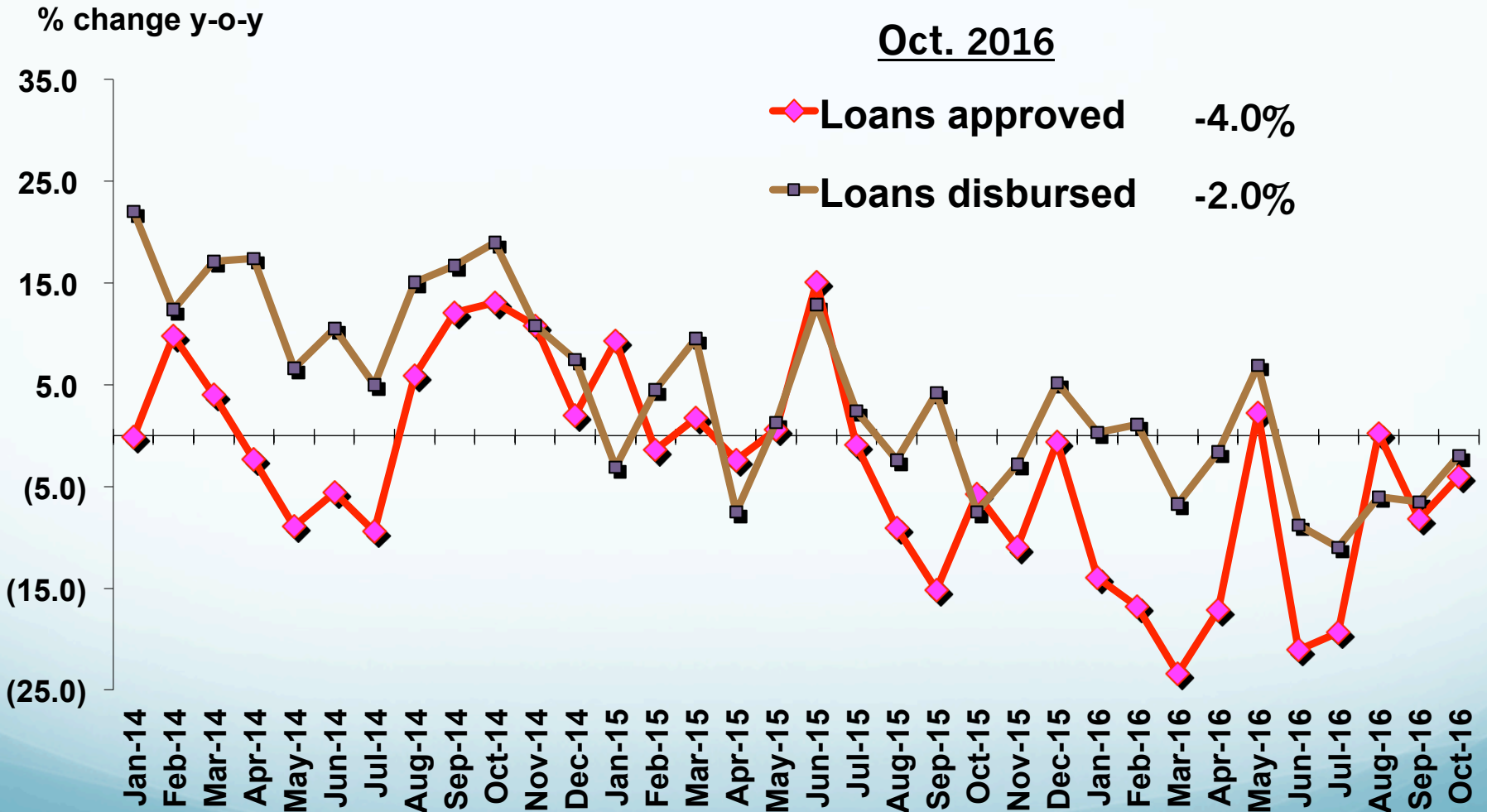


Monetary Indicators

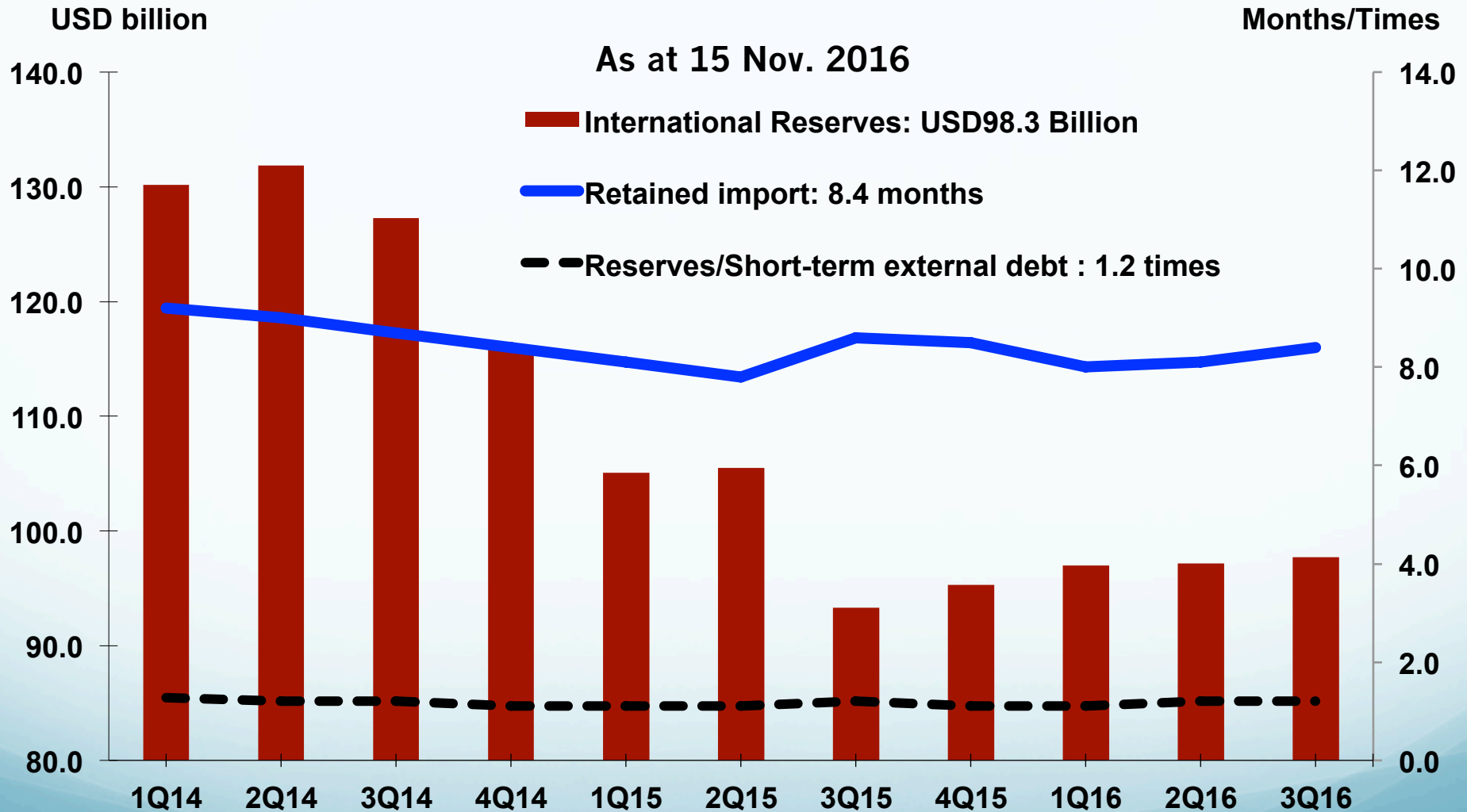
% change y-o-y



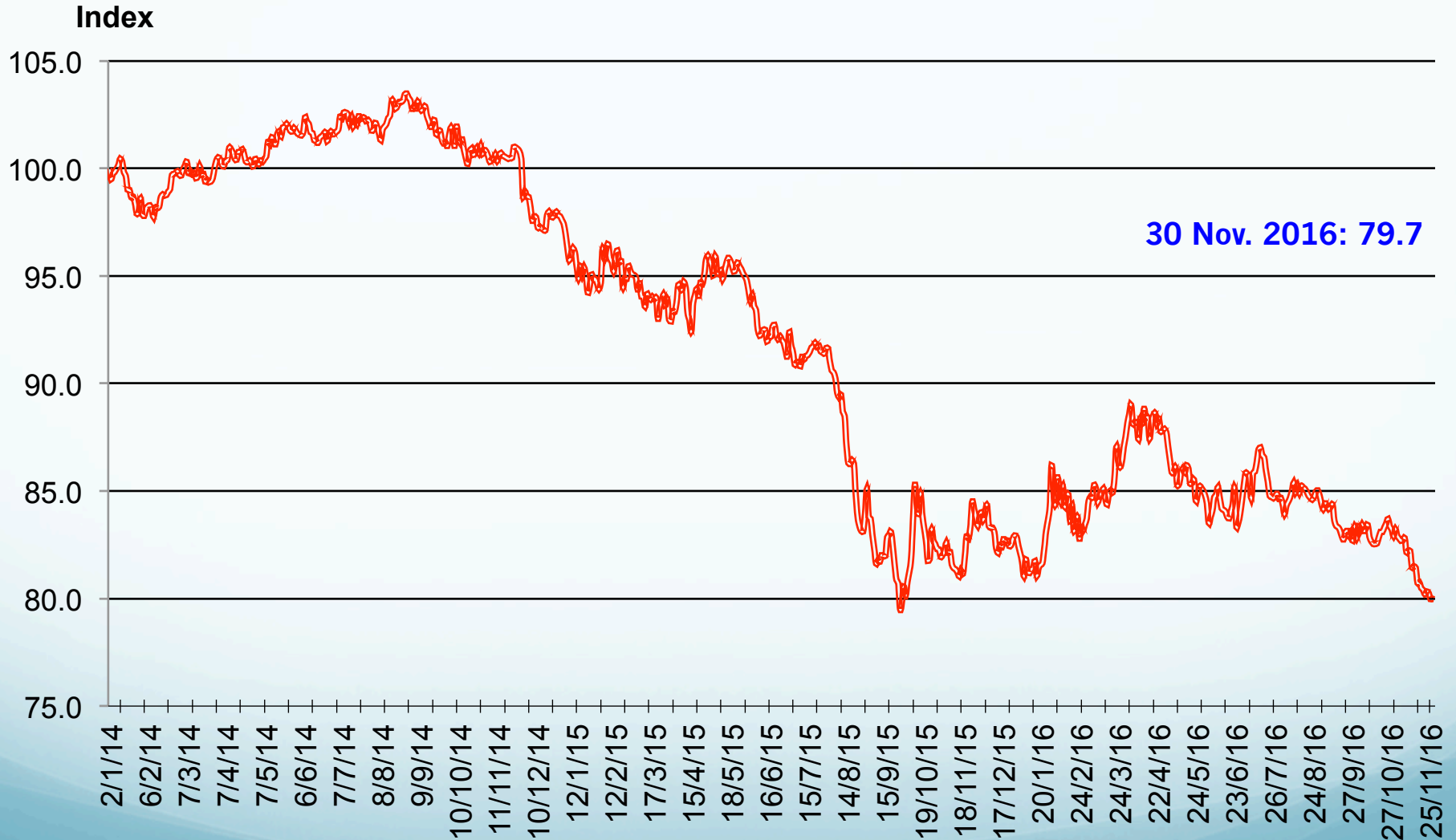
Loans Approved and Disbursed



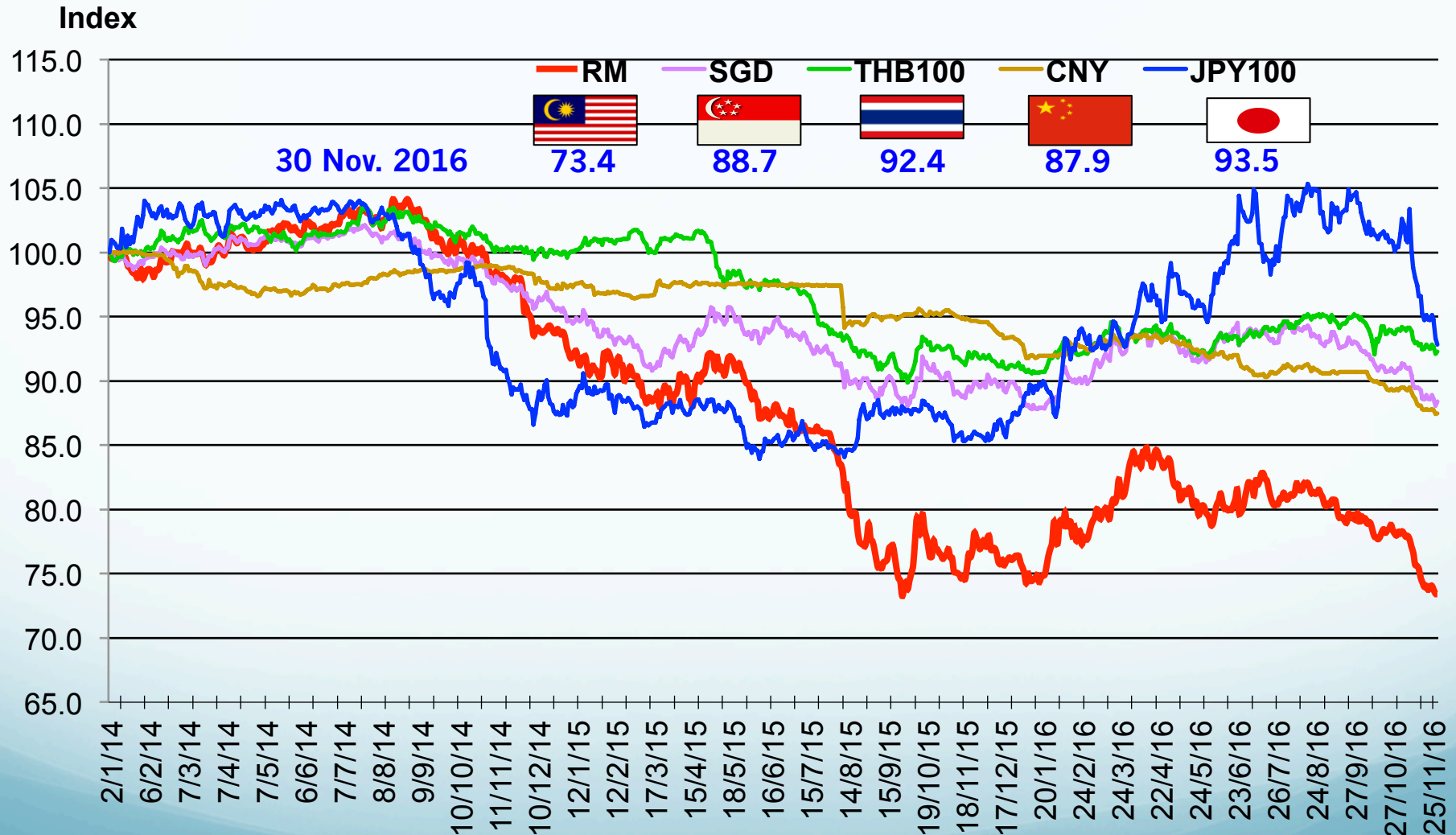
International Reserves



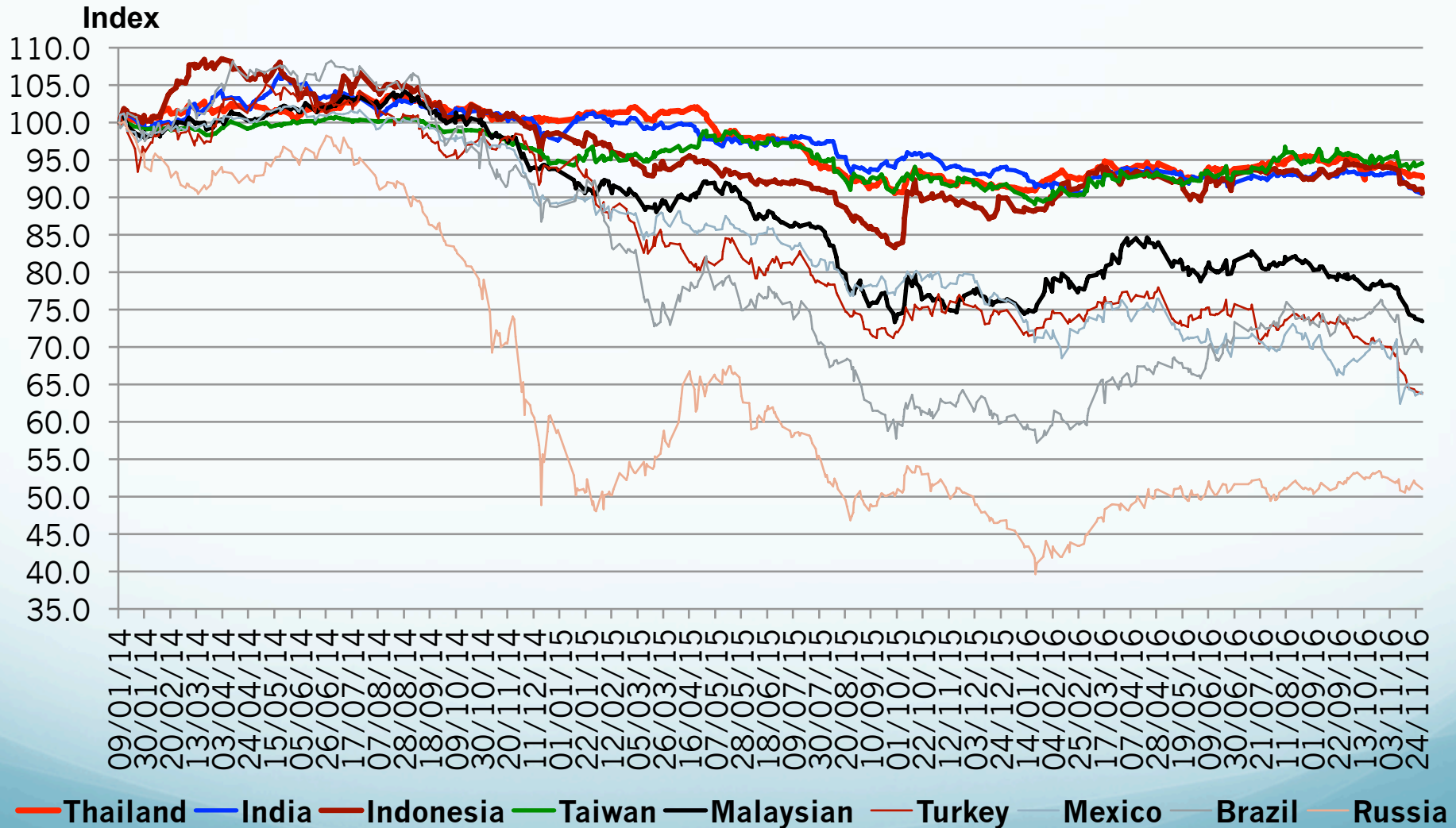
Ringgit against basket of currencies of major trading partners*



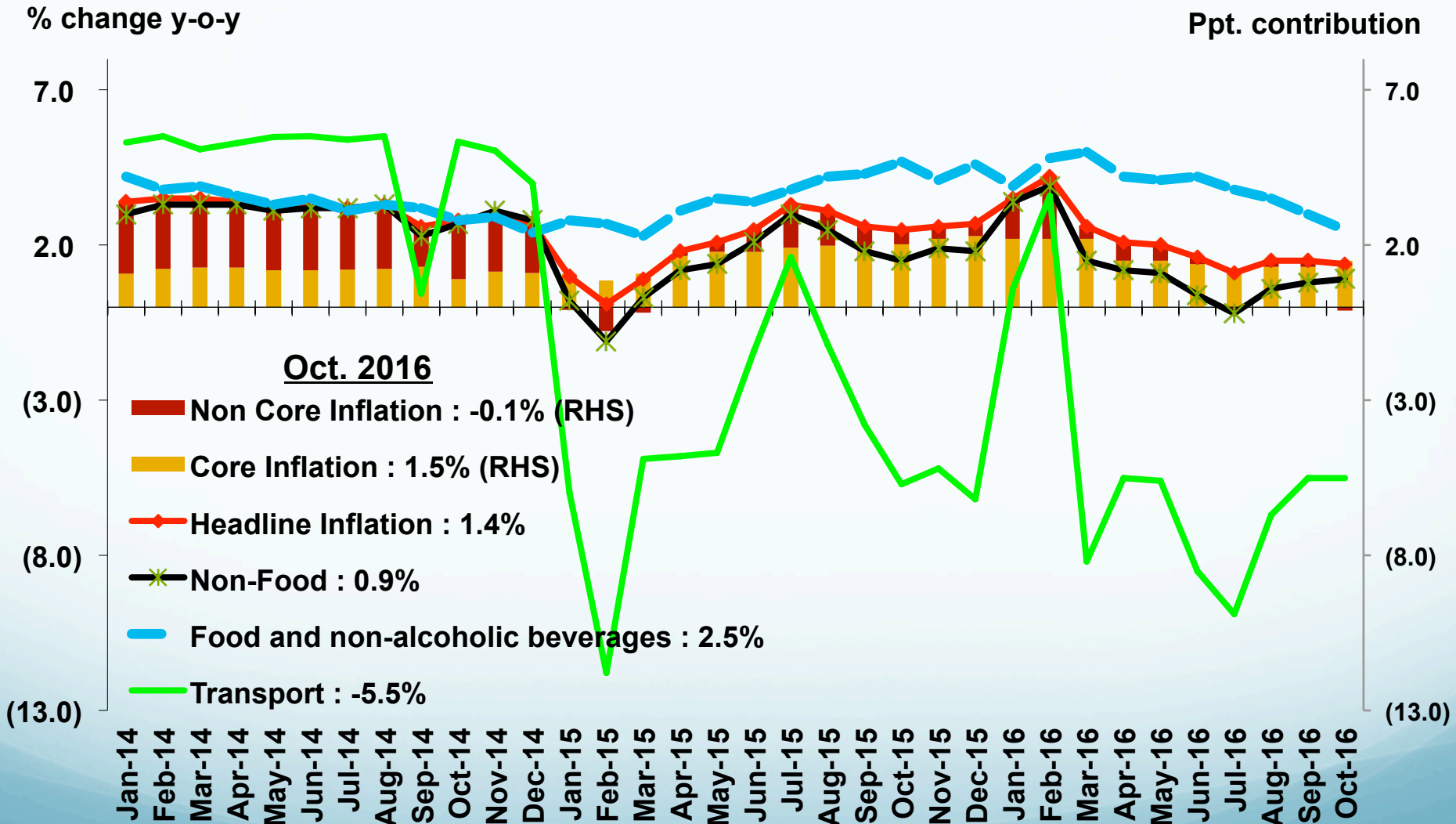
Exchange rates against the USD – selected currencies



Exchange rates against the USD – emerging market currencies



Inflation Rate



Unemployment Rate

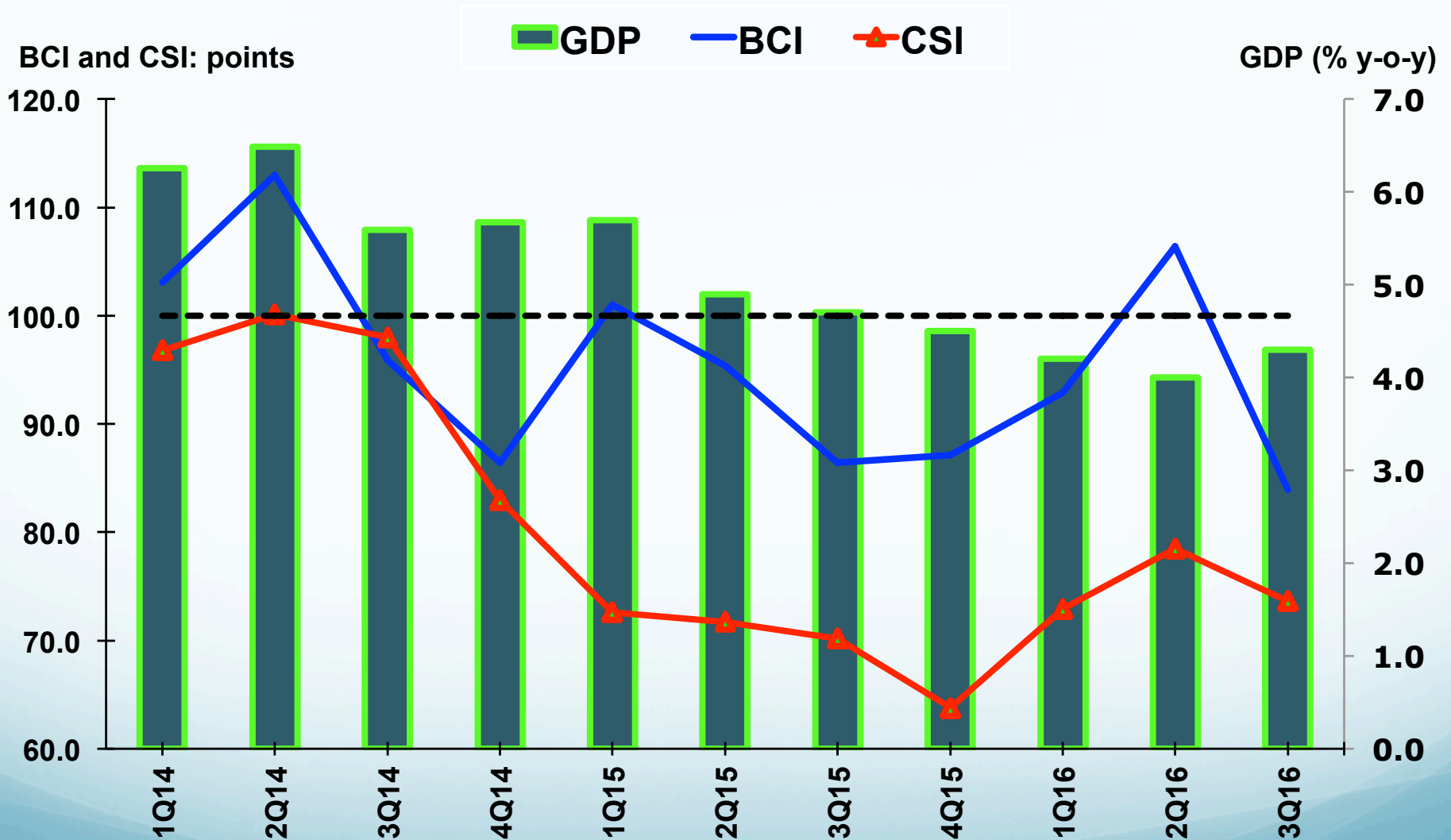
Sept. 2016



Presentation Outline

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- ❖ Near-term outlook
- ❖ Downside risks

BCI, CSI and Real GDP Growth



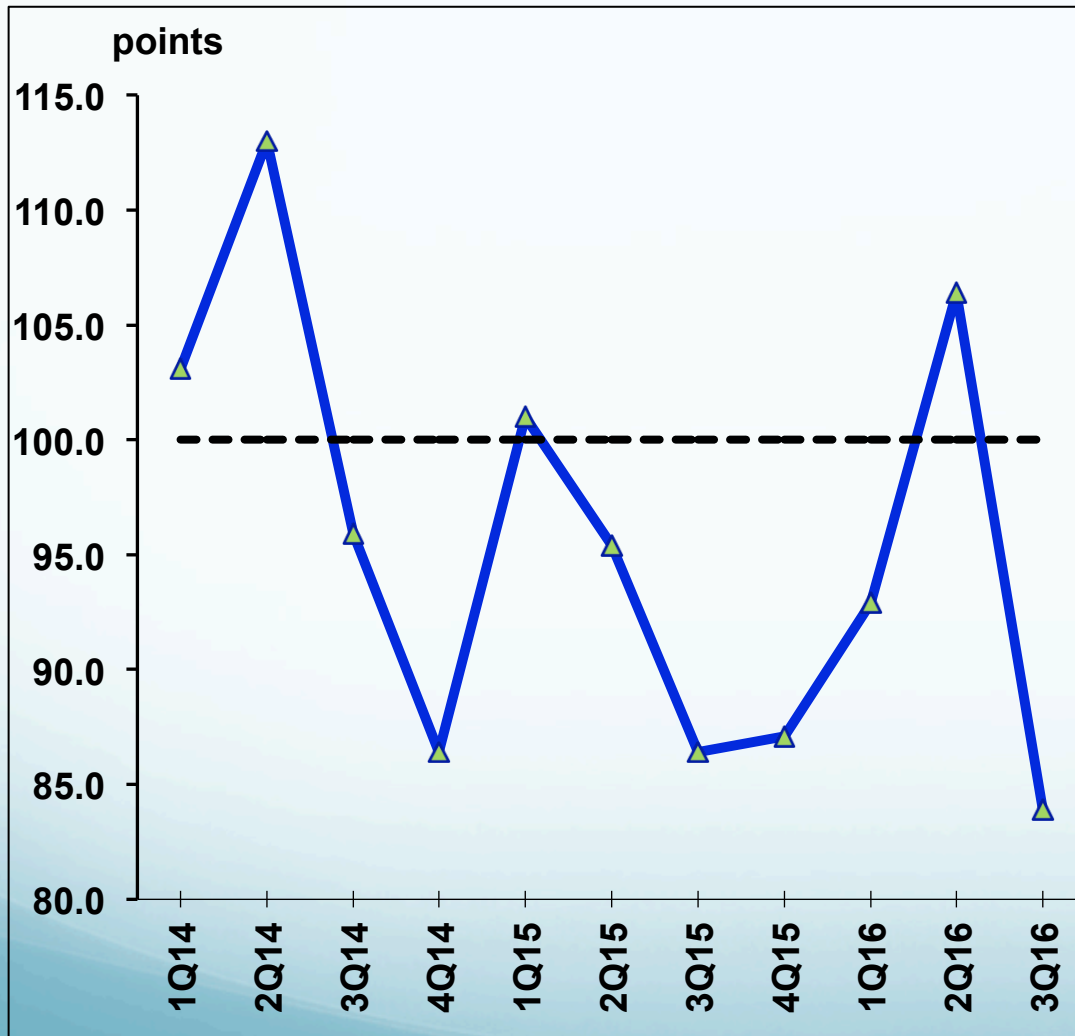
MIER 3Q2016

Survey Results:

BCI & CSI

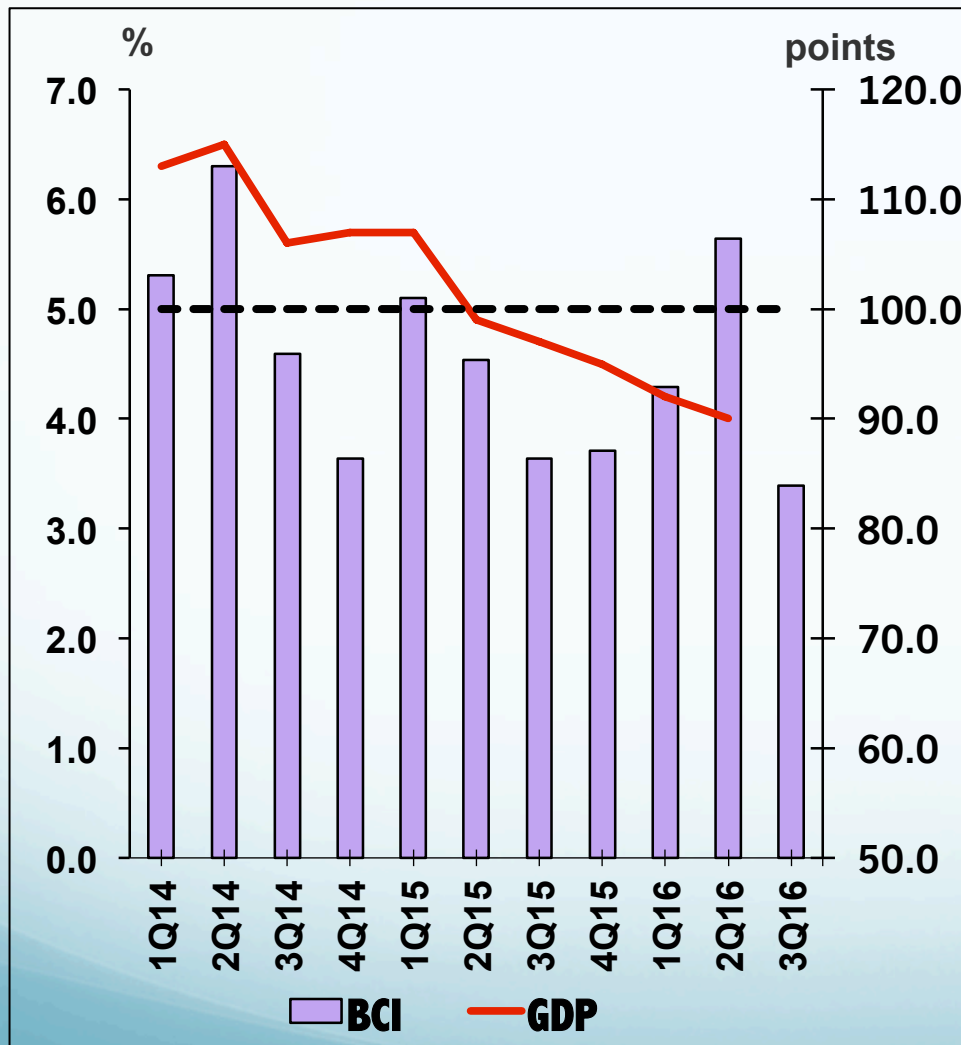
Business Conditions Survey

...in contractionary mode...



- BCI dives below threshold to settle at 83.9 points down by 22.5 points.
- Year-on-year, the index fell by 2.6 points.
- The decline in BCI is largely due to the weakening in both Current Index (CI) and Expectation Index (EI).
- All of the eight component sub-indices of the BCI suffered q-o-q decline.

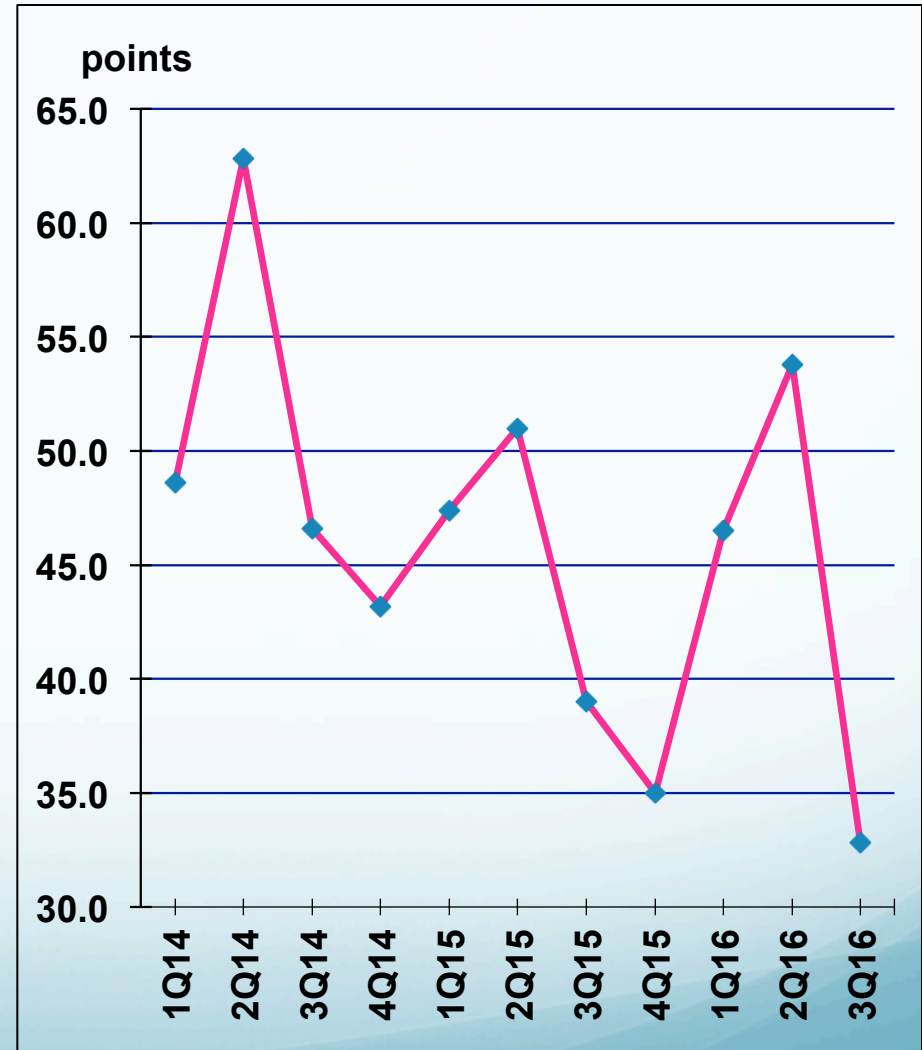
BCI and Quarterly GDP Growth



Quarter	BCI (points)	GDP (%)
1Q2014	103.1	6.3
2Q2014	113.0	6.5
3Q2014	95.9	5.6
4Q2014	86.4	5.7
1Q2015	101.0	5.7
2Q2015	95.4	4.9
3Q2015	86.4	4.7
4Q2015	87.1	4.5
1Q2016	92.9	4.2
2Q2016	106.4	4.0
3Q2016	83.9	4.3

Dip in Sales

- The manufacturing, sales component sub-index of the BCI settled at 32.8 points, lower by 21.0 points. Y-o-y, the sub index was lower by 6.2 points.
- Percentage of respondents reporting “good” sales dropped to 10 per cent from 33 per cent reported increasing in sales in the second quarter.
- Across the eleven sectors, only paper & paper products industry did relatively better q-o-q in terms of overall sales performance while all of the other sectors were worse off.



New Domestic Orders Decline

- The sub-index ended 18.1 points lower q-o-q to read 30.4 points. On a y-o-y basis it was also lower by 5.7 points.
- Nine out of eleven sectors covered in this survey, posted declines in local orders, while only three sectors, namely textile & clothing, chemical and heavy machinery and transport did relatively better q-o-q in terms of new local orders.



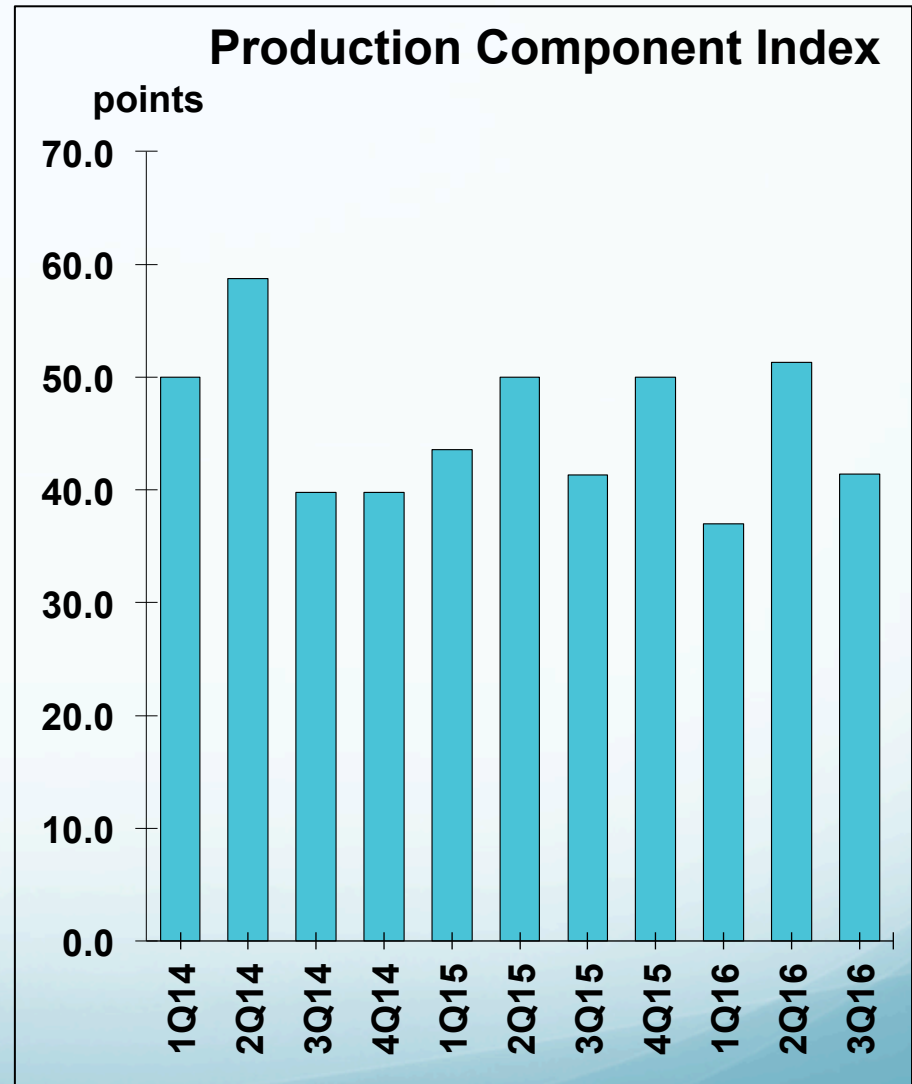
External Orders Dipped Lower

- The sub-index dropped 17.3 points to settle at 39.1 points, q-o-q and also lower by 6.5 points y-o-y.
- With the exception of wood & wood products and chemical products industry, all the other nine sectors covered in the survey saw a significant drop in export orders.



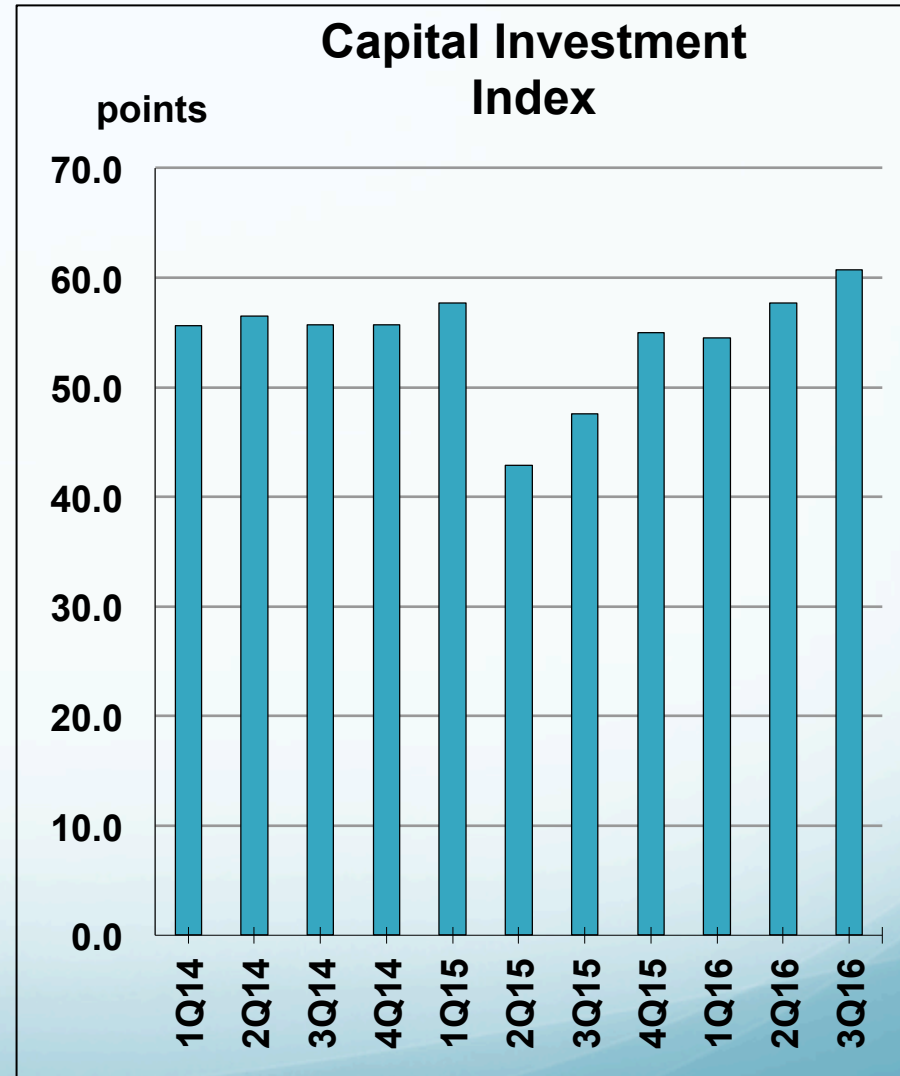
Less Vibrant Manufacturing Activities

- The production volume component index of the BCI dropped 9.9 points in this quarter to read 41.4 points. However, it was marginally higher by 0.1 points compared to a year ago.
- Of the eleven sectors, the deceleration in output activities was most obvious in plastics, non-metallic, metal, and heavy machinery & transport sectors.
- While, rubber and electrical & electronics sectors saw their production volume was slightly lower in this quarter.



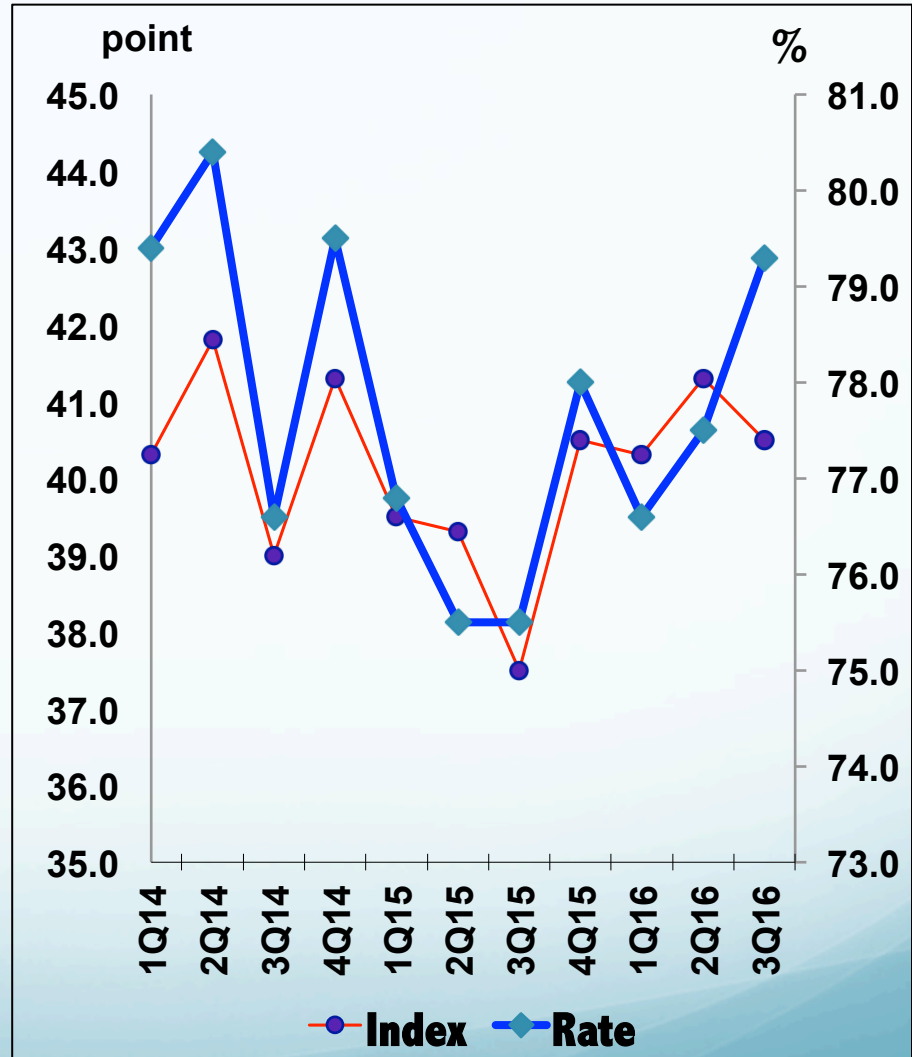
Investment Goes Up Marginally

- Capital investment sub-index of the BCI rose by 3.0 points over the previous quarter to read 60.7 points. On a y-o-y basis it was up by 13.1 points.
- Investment spending was noticeably higher on the paper & paper products and chemicals products sectors.
- Other sectors that saw acceleration include rubber, plastics and electrical & electronics products industry .



Capacity Utilization Index Slightly Lower

- The capacity utilization index of the BCI registered slightly lower by 0.8 points to read 40.5 points.
- However, the rate of capacity utilisation trended marginally higher at 79.3 per cent versus 77.5 per cent previously.
-
- Thirty-four per cent of the manufacturers (23% previously) producing at near-maximum capacity. Meanwhile, 38 per cent of the manufacturers were operating within 61-80 per cent capacity.



Business Expectations

...for 4Q2016...

- **Sign of slowdown will become more apparent in the final quarter of 2016.**
- **Production is expected to fall in the coming months.**
- **Export sales showing a declining trend.**
- **Local sales expected to increase.**
- **Price outlook in the next quarter will increase slightly.**
- **Employment prospects remained unexciting.**
- **Wage pressure to ease over the next three months.**

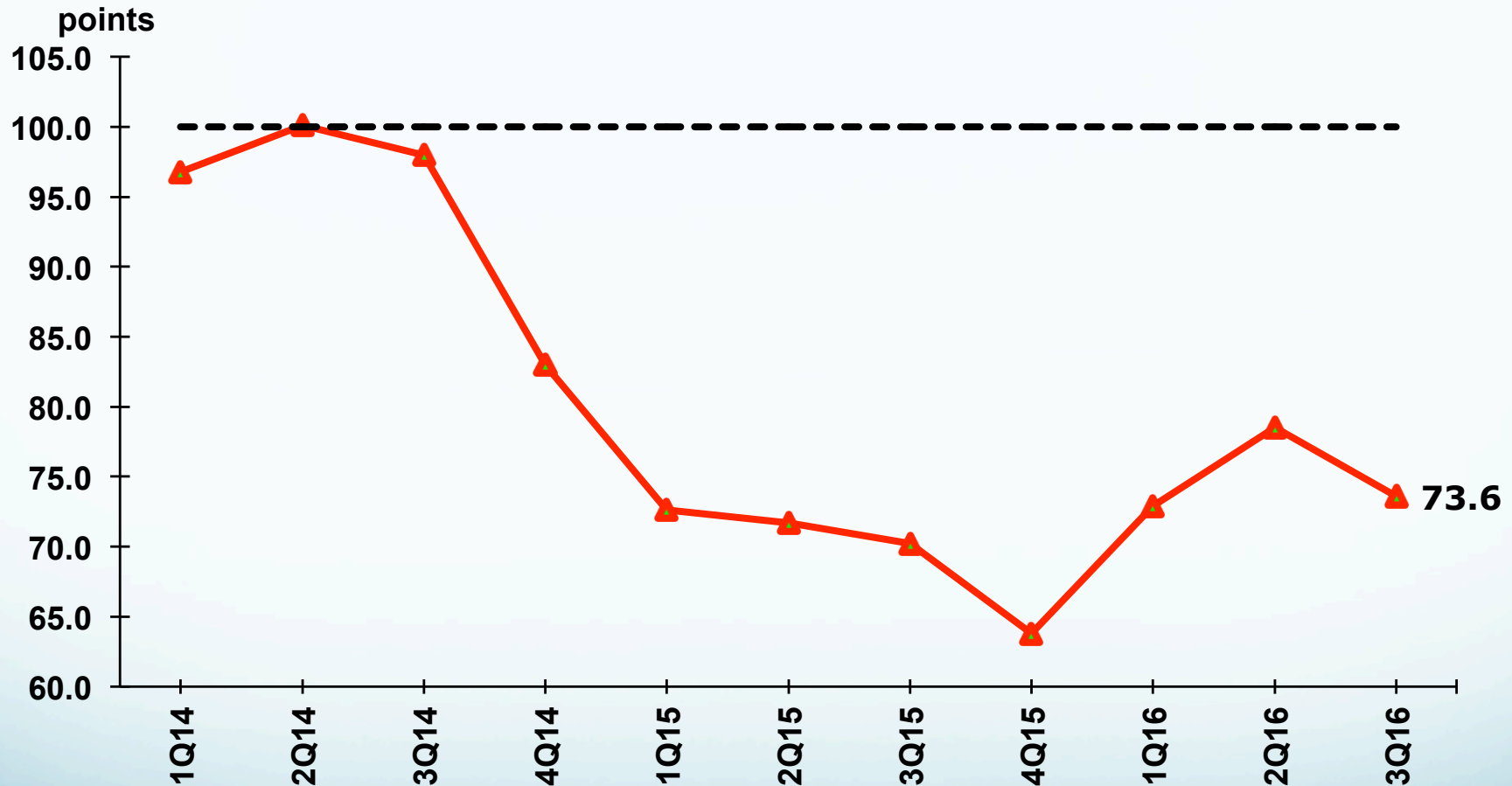
MIER 3Q2016

Survey Results:

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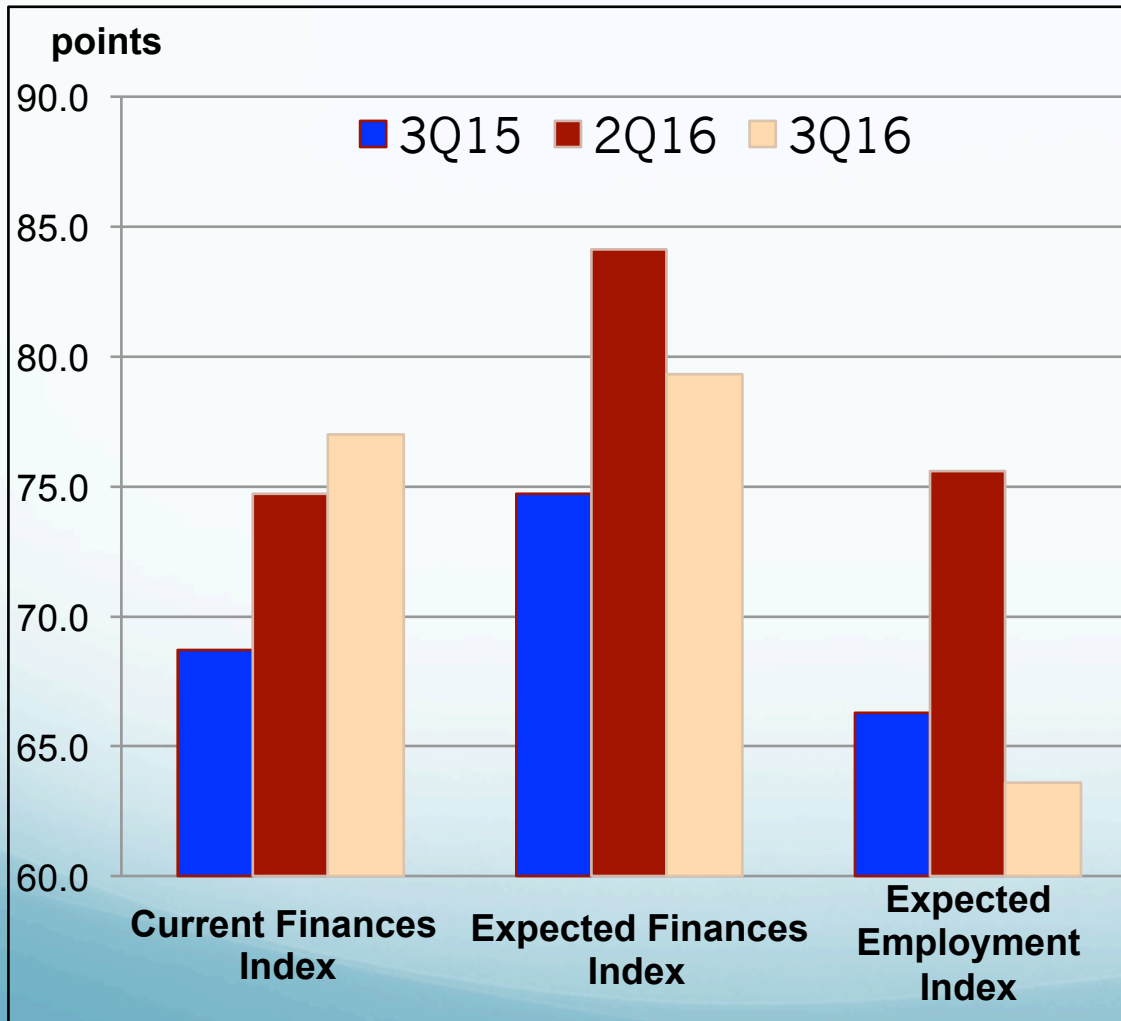
Consumer Sentiments Index

...retreating again...



- **CSI falls further below 100-point threshold of optimism to 73.6**
- **Consumer sentiments remain fragile**

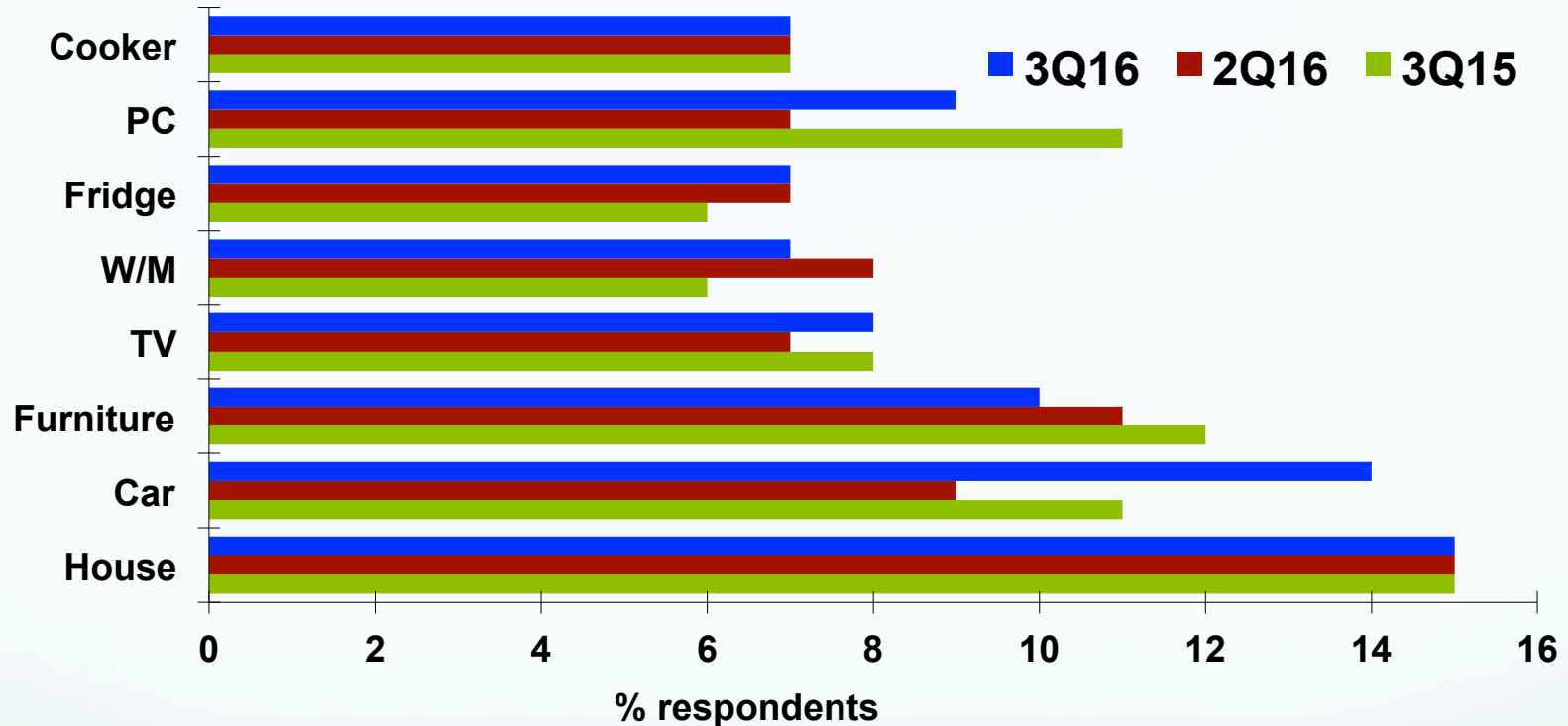
Components of Consumer Sentiments Index



- Household income in 3Q16 better than 2Q16
- Employment and financial outlook lackluster

Spending Plans

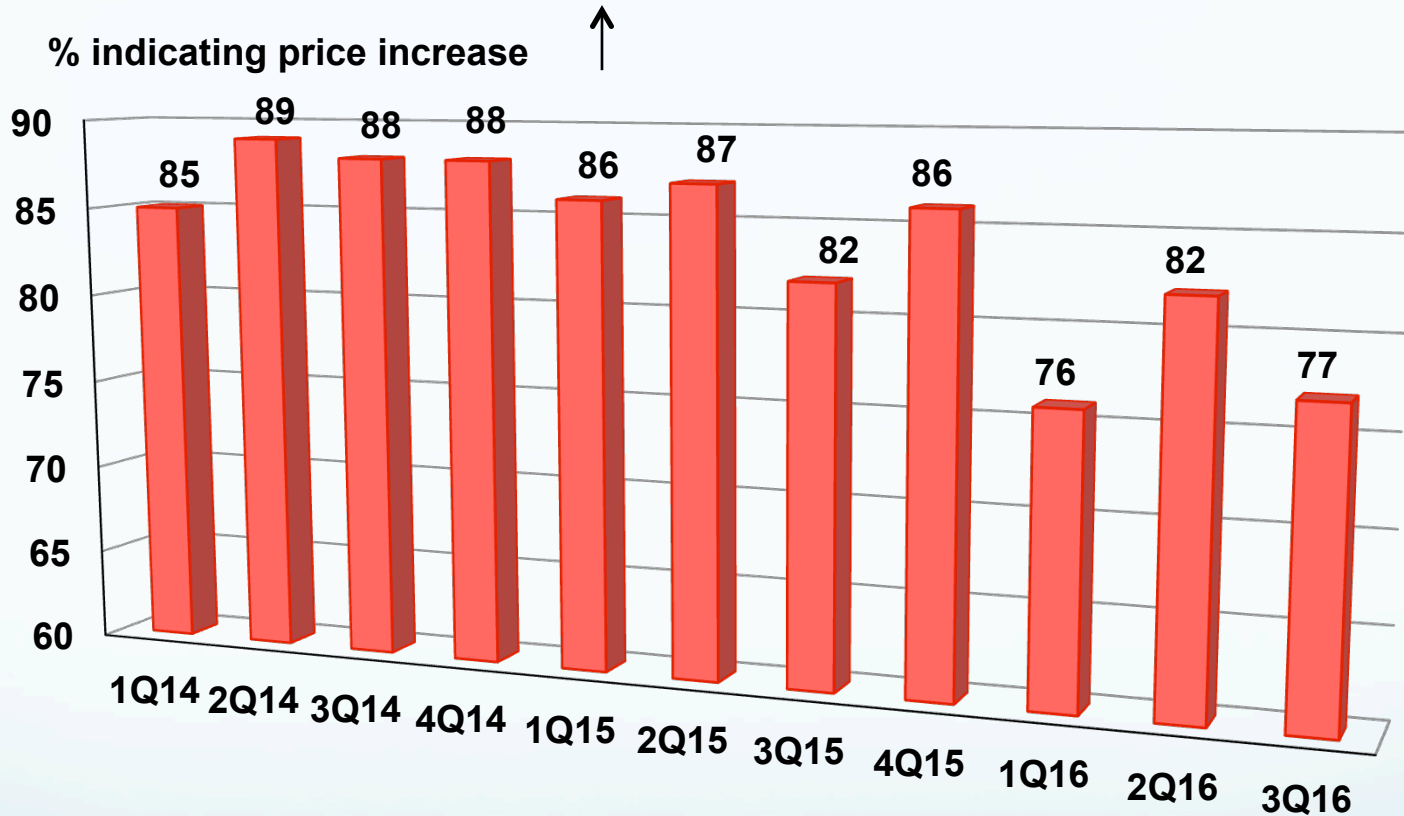
...to go on...



- Housing plans most ambitious among consumers in the low-income group and residing in the rural areas and central region
- Demand for cars, TVs and PCs expected to pick up
- Plans for refrigerators and cookers remain flat
- Interest in washing machines and furniture wanes

Inflationary Expectations

...settling down...



- 77% of respondents foresee higher prices soon, down from 82% in 2Q16 and 3Q15
- Worries over rising prices most apparent among households in the north, rural areas and middle-income group

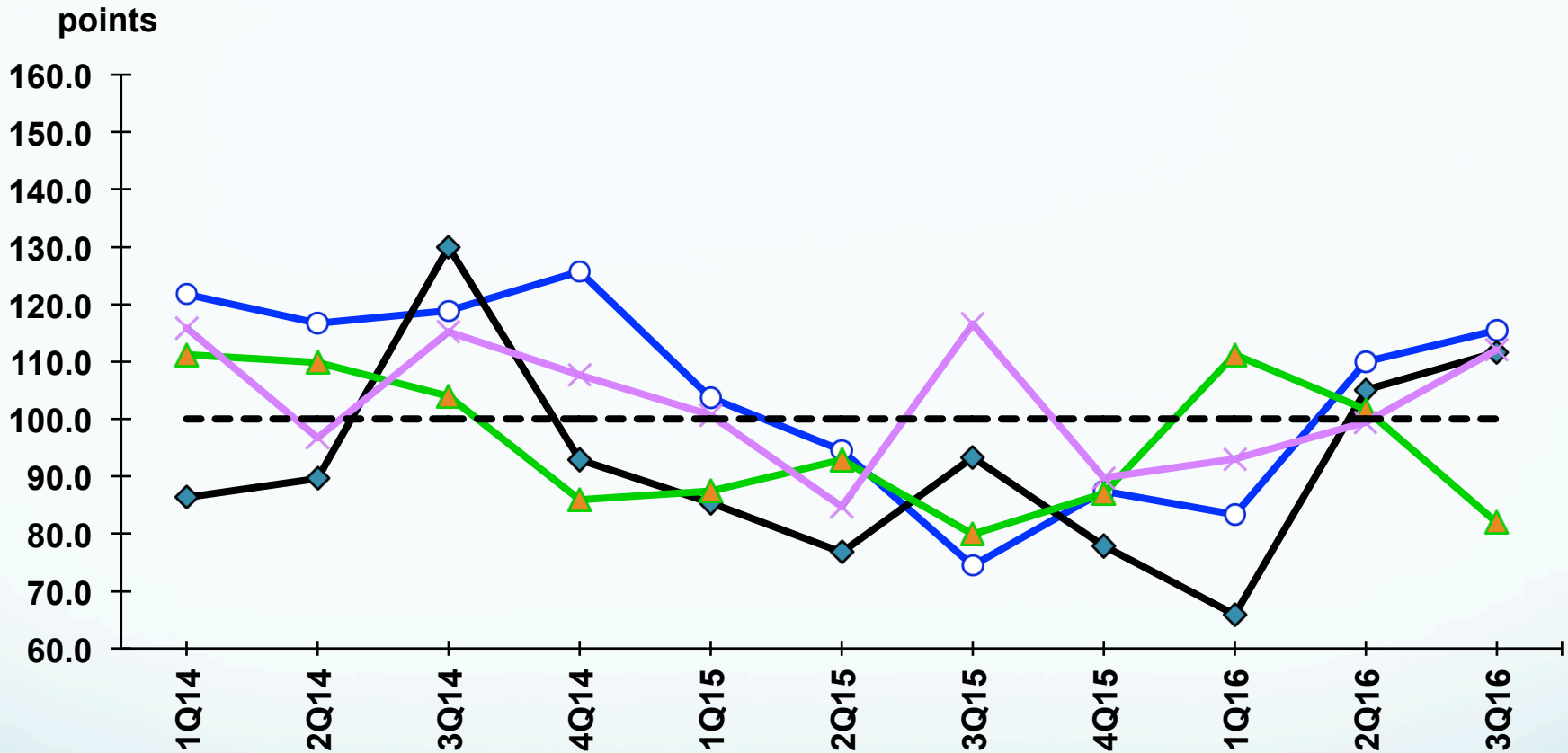
Consumer Expectations

...for 4Q2016...

- **Income expectations shift lower**
- **Fewer job openings expected**
- **Inflationary anxieties remain high but moderating**
- **Consumers to go shopping soon**

MIER 3Q2016
Sectoral Survey
Results

MIER's Sectoral Indices



Auto Industry Index - up

Retail Trade Index - up

Residential Property Index - down

Tourism Market Index - up

Residential Property Index (RPI)

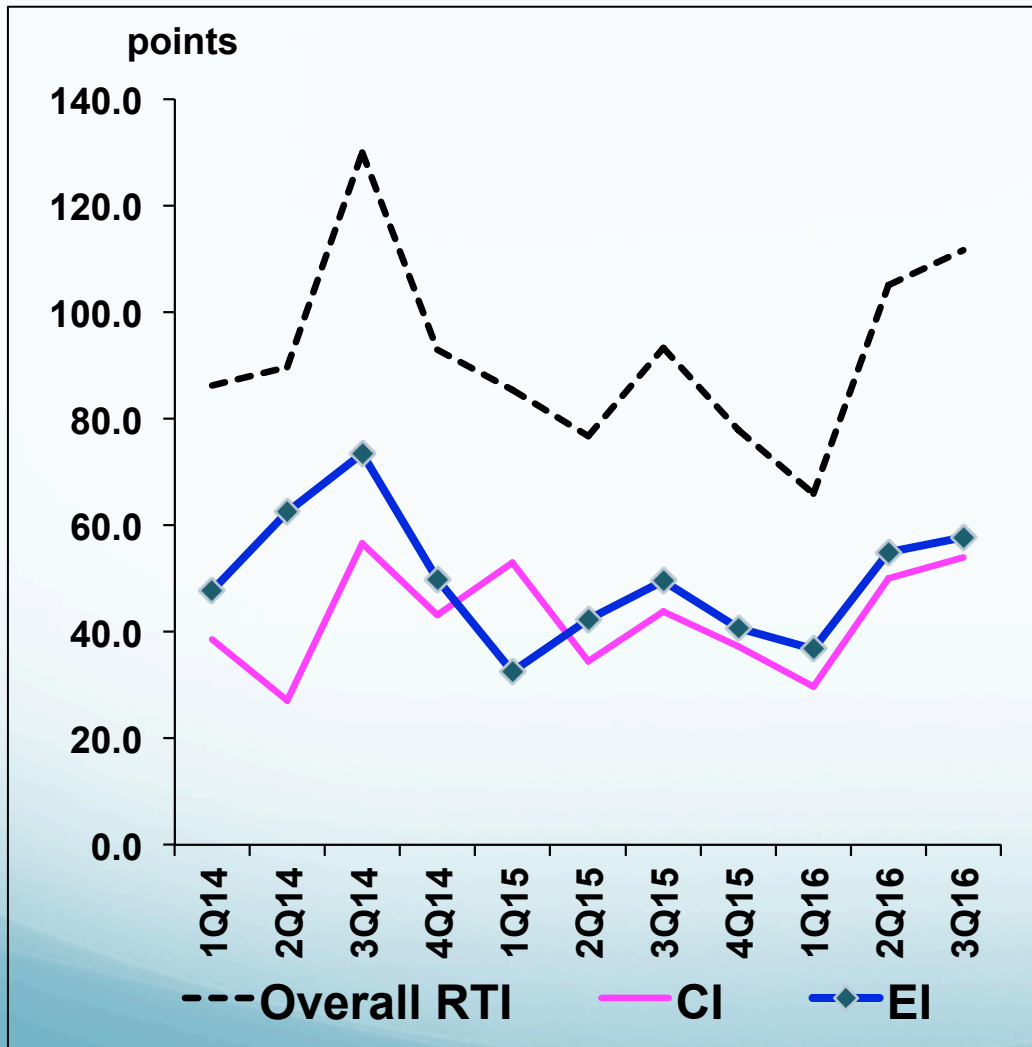
...softening...



- RPI falls 19.6 points q-o-q to 82
- Home sales weak, construction flat
- New bookings slow down, prices trending up
- Home loan applications and approvals down
- Residential overhang downsizes
- Outlook remains tame in the coming months

Retail Trade Index

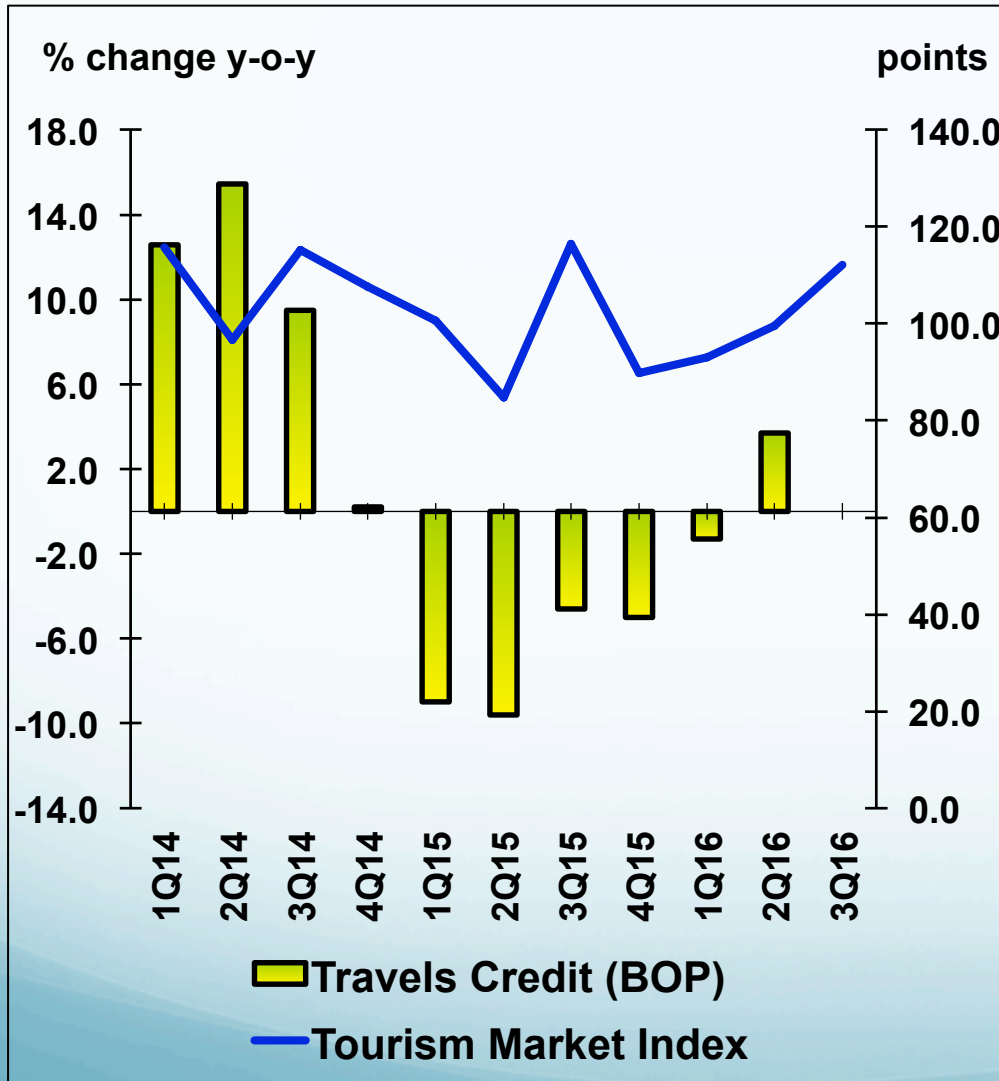
...cautious gains...



- The RTI settled higher at 111.6 points
- 3Q16 RTI strengthens by 6.6 points from 2Q16 RTI, and gains 18.3 points y-o-y
- Current Performance Index improves from 50.0 points to 53.9 points
- Expectations Performance Index improves from 55.0 points to 57.7 points
- Seasonal showings (Raya, Holidays, Mega Sales)

Tourism Market Index

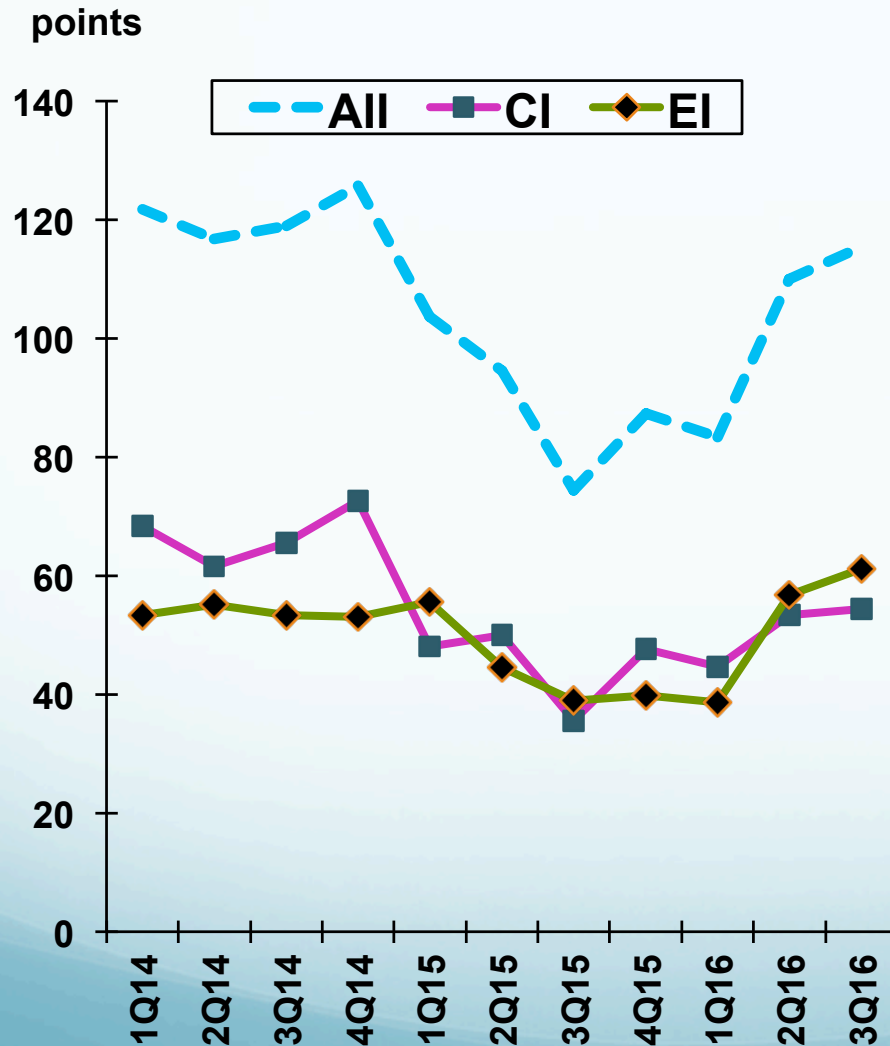
...back on track...



- Tourism Market Index (TMI) moving up by 12.6 points to settle at 112.1.
- Hotels Operators Index (HOI) increased by 11.2 points.
- Travel Agencies Index (TAI) gaining 15.3 points.
- Positive outlook in the coming quarter

Automotive Industry Index

...hitting speed bumps...



- The Automotive Industry Index (All) reads higher at 115.5 points in 3Q16, from 110.0 in 2Q16
- Current Performance Index gains 1.1 points to settle at 54.4 points
- Expectations Performance Index strengthens by 4.4 points to settle at 61.1 points
- Contraction narrows in August
- Expect Improvements in 2H16

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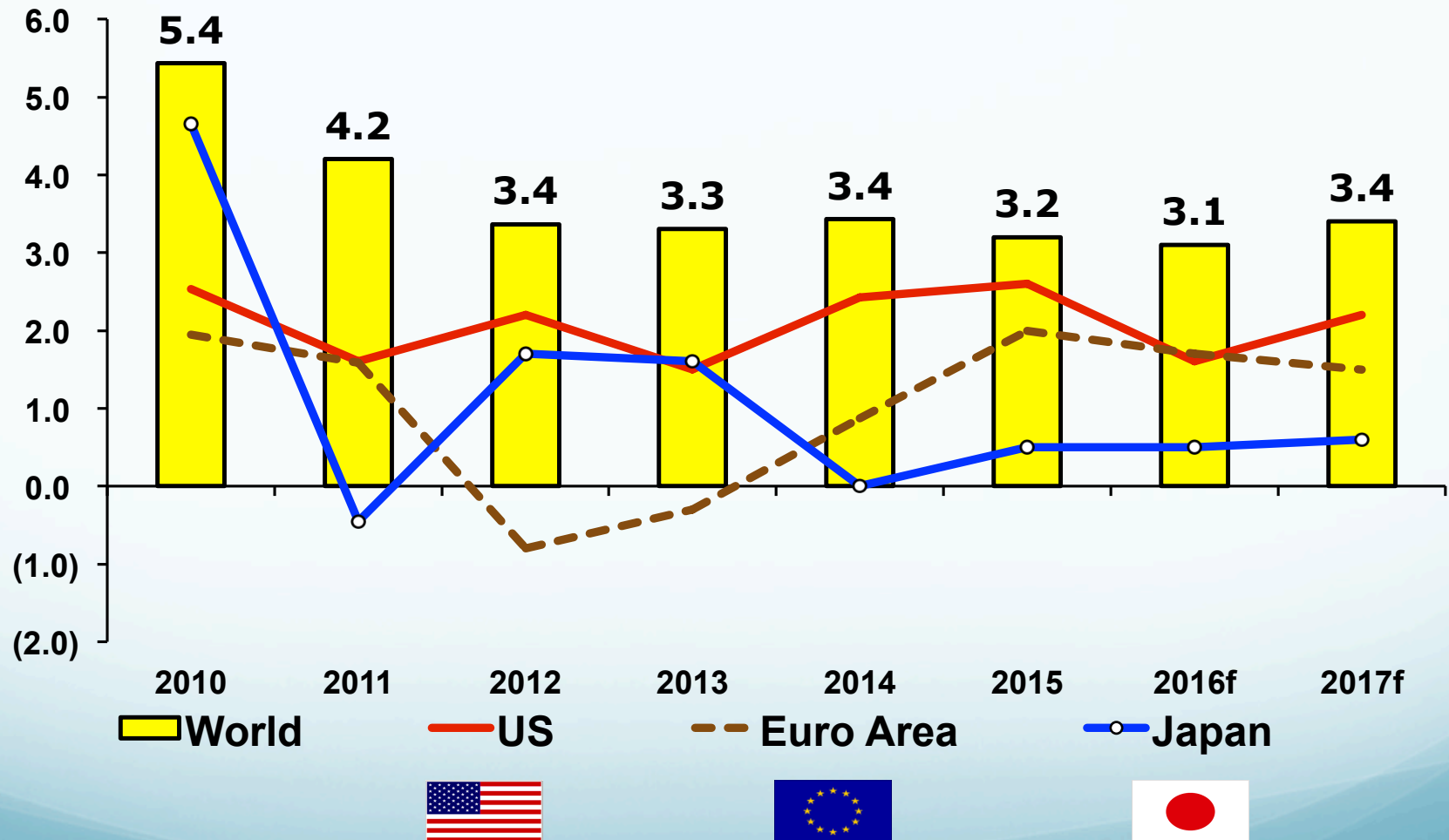
Crude Oil Price:

OPEC's production cut

- Algiers Meeting: OPEC to cap production at between 32.5 mil. bpd to 33.0 mil. bpd
- November 30 Vienna deal: OPEC to cut production by 1.2 mil. bpd by January 2017
- Shale-oil producers' efficiency improves - total oilrig counts increased in 2H2016
- Non-OPEC production is expected to increase
- Price is expected to remain within \$45 – \$55 per barrel for the remaining 2016
- Price is expected to ease up in 2017 but remain below USD60 per barrel

Global Economy

GDP growth %



Note: f forecast

Source: IMF WEO Update (October 2016)

ASEAN-5 Economy Output Growth

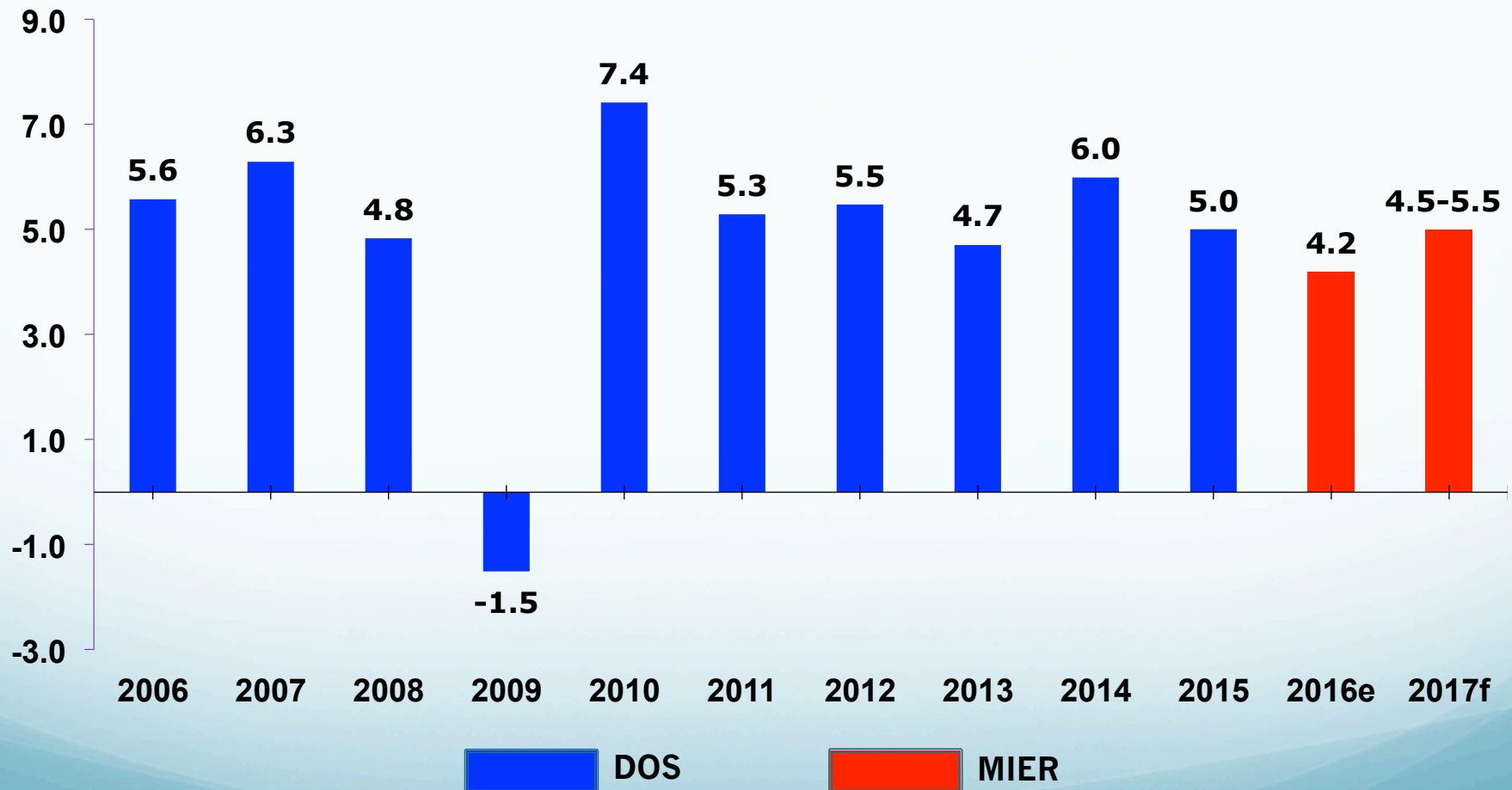
Countries	1Q15	2Q15	3Q15	4Q15	2015	1Q16	2Q16	3Q16	2016 ^f	2017 ^f
Indonesia	4.7	4.7	4.7	5.0	4.8	4.9	5.2	5.0	4.9	5.1
Malaysia	5.7	4.9	4.7	4.5	5.0	4.2	4.0	4.3	4.3	4.6
Philippines	5.0	5.9	6.2	6.5	5.9	6.9	7.0	7.1	6.4	6.7
Thailand	3.0	2.7	2.9	2.8	2.9	3.2	3.5	3.2	3.2	3.3
Vietnam	6.1	6.5	6.9	7.0	6.6	5.5	5.8	6.4	6.1	6.2

Note: ^f forecast

Source: MIER, MOF, IMF WEO Update (October 2016)

Malaysia: Real GDP Growth

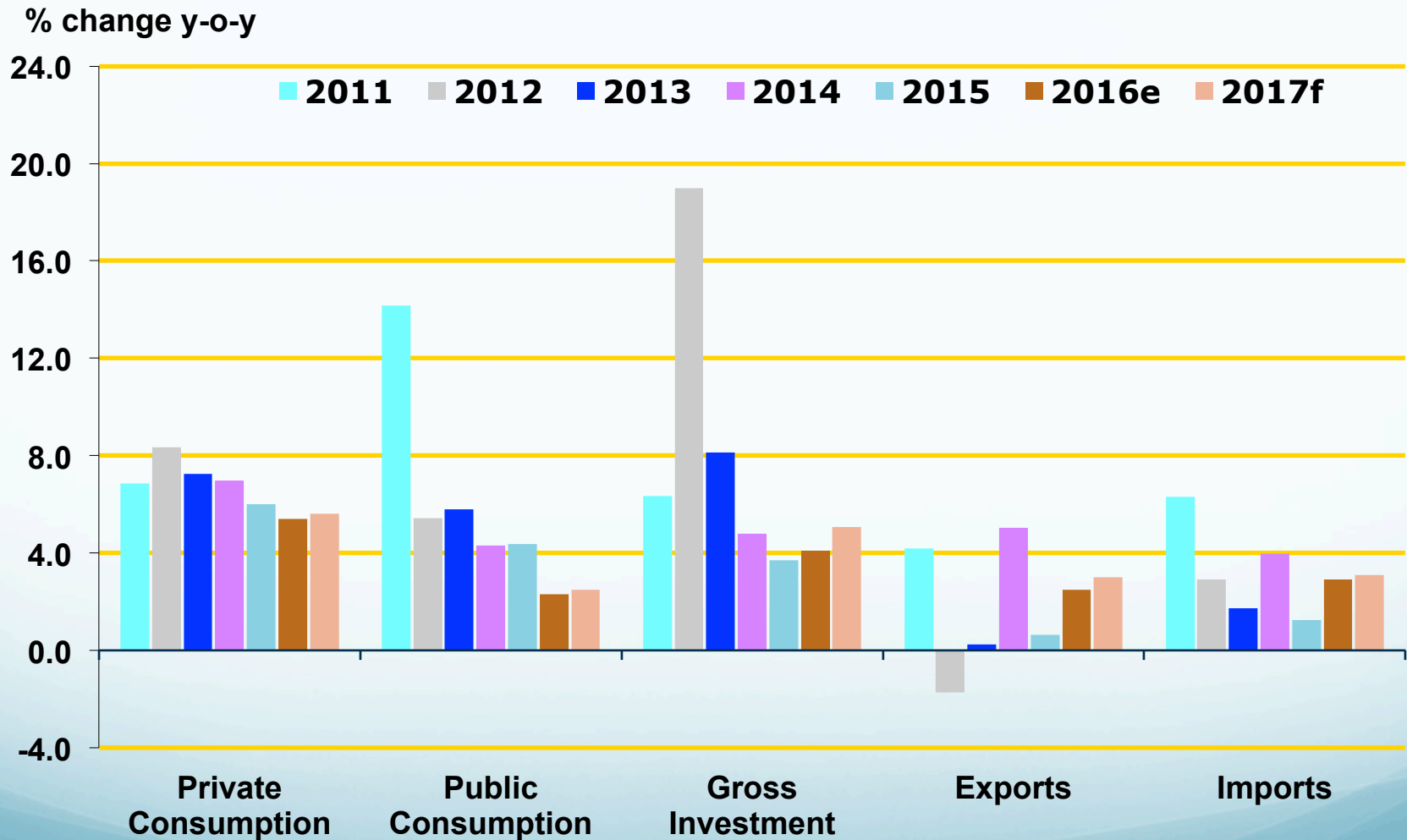
% change y-o-y



Note: ^e estimate, ^f forecast

Source: DOS, MIER

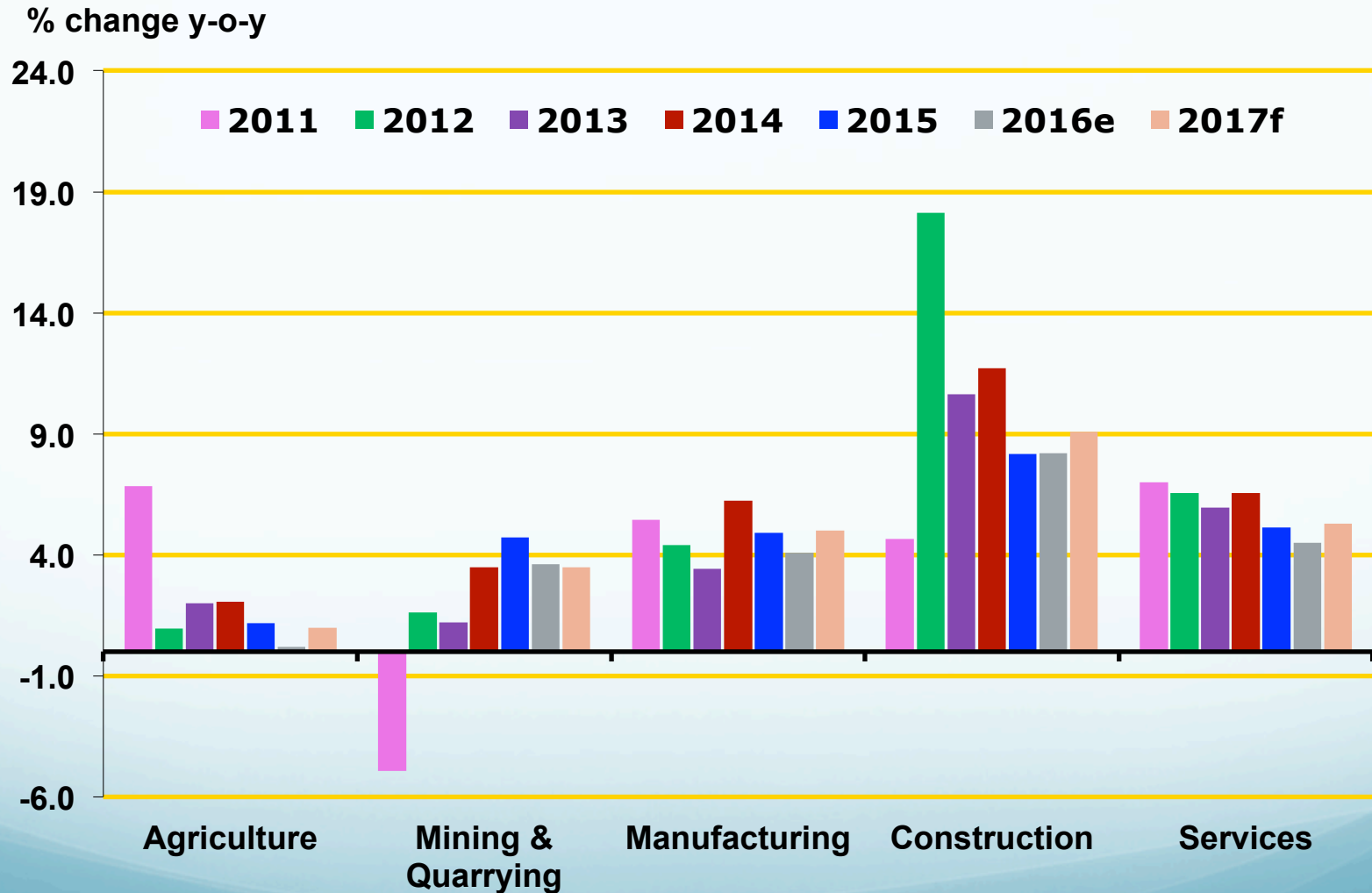
Malaysia: Growth by expenditure



Note: ^e estimate, ^f forecast

Source: DOS, MIER

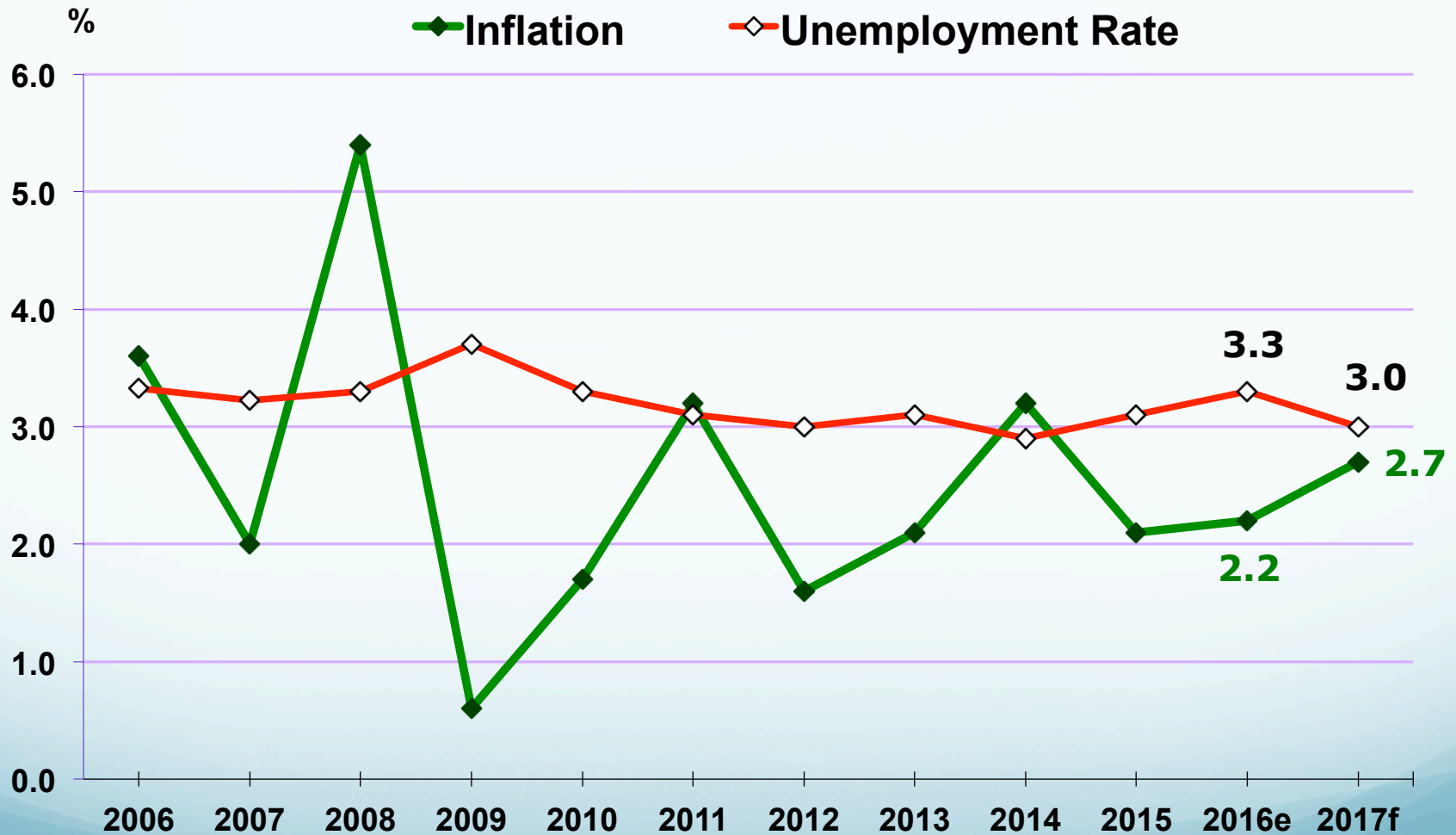
Malaysia: Growth by sector



Note: ^e estimate, ^f forecast

Source: DOS, MIER

Malaysia: Inflation and Unemployment Rate



Note: ^e estimate, ^f forecast

Source: DOS, MIER

Malaysia: Summary of Economic Performance, 3Q2016

- **Real GDP growth** improved in 3Q2016, registering 4.3% compared to 4.0% in 2Q2016
- **Private investment** in 3Q2016 moderated a bit, recording 4.7% (2Q2015: 5.6%)
- **Private consumption** grew steadily at 6.4% (2Q2016: 6.3%)
- Growth is supported by **domestic demand** which grew by 4.7% in 3Q2016 against weak **external demand**

Malaysia: Summary of Economic Performance, 3Q2016

- **NCAB of BOP** improved in 3Q2016 recorded RM6.0 bil. (2Q2016: RM1.9 bil.)
- **Unemployment rate** rose to 3.5% in September 2016 (September 2015: 3.3%)
- Average **Headline inflation** in the first ten months of 2016 is 2.2%
- **Core inflation** remains relatively stable for the first ten months of 2016
- **Food inflation** moderated to 2.5% in October (September: 3.0%)

Malaysia: Economic Outlook and Key Issues, 2016 – 2017

- **External demand** for 2016 is weaker than expected. IMF for the second time downgraded its Oct world trade growth projection for this year to 2.3% (earlier projections: in Apr: 3.1%; in July: 2.7). Trade will improve next year (2015: 2.9%; 2017: 3.9%)
- **World growth** is flat at 3.1% in 2015 and 2016; improve to 3.4% in 2017
- **Oil price** trending upwards after hitting low in January 2016 as supply declining and demand does not improve
- BOP: **Current account** surplus shrinking (2012: 5.4% of GNI; 2015: 3.0% of GNI; 2016: 1-2% of GNI); Financial account deficit increasing trend

Malaysia: Economic Outlook and Key Issues, 2016 – 2017

- Domestic demand will continue to be the engine of the growth in 2017
- Expansionary fiscal policy to boost spending in 2017 & accommodative monetary policy continues
- High inflation expectation due the high consumer spending
- Private investment is expected to moderate as reflected in moderation of import of intermediate goods and pessimistic expectations on BCI in the third quarter
- Government spending on capacity building is expected to continue

Malaysia: Key economic forecasts

% growth, year-on-year	DOS		BNM	MOF		MIER	
	2014	2015	2016 ^f	2016 ^e	2017 ^f	2016 ^e	2017 ^f
Real GDP	6.0	5.0	4.0-4.5	4.0-4.5	4.0-5.0	4.2	4.5-5.5
By Expenditure Components:							
Private Consumption	7.0	6.0	5.1	6.1	6.3	5.4	5.6
Public Consumption	4.3	4.4	2.1	0.2	0.4	2.3	2.5
Gross Investment	4.8	3.7	4.0	4.1	4.2	4.1	5.1
Private Investment	11.1	6.4	5.5	5.3	5.8	5.5	6.6
Public Investment	(4.7)	(1.0)	1.1	1.7	1.1	1.4	2.0
Domestic Demand	5.9	5.1	4.4	4.7	4.9	4.6	5.0
Exports of Goods & Services	5.0	0.6	3.3	0.7	2.5	2.5	3.0
Imports of Goods & Services	4.0	1.2	3.6	1.4	2.6	2.9	3.1
By Economic Activity:							
Agriculture Sector	2.1	1.2	(0.6)	(3.3)	1.5	0.2	1.0
Mining Sector	3.5	4.7	3.2	1.1	1.3	3.6	3.5
Manufacturing Sector	6.2	4.9	4.1	4.0	4.1	4.1	5.0
Construction Sector	11.7	8.2	8.1	8.7	8.3	8.2	9.1
Services Sector	6.6	5.1	4.4	5.6	5.7	4.5	5.3

Note: ^e estimate, ^f forecast

Source: DOSM, BNM, MOF (*ER 2016/2017), MIER

Balance of Payments (RM billion)

Net	2015				2015	2016			2016*	2017*
	Q1	Q2	Q3	Q4		Q1	Q2	Q3		
Goods & Services	24.1	18.7	21.1	24.7	88.6	16.7	15.2	21.4	75.7	77.0
Goods	27.7	23.6	27.2	31.1	109.5	23.5	19.8	26.5	97.9	100.1
Services	(3.5)	(5.0)	(6.0)	(6.4)	(21.0)	(6.8)	(4.6)	(5.1)	(22.1)	(23.1)
Primary Income	(7.7)	(4.6)	(10.6)	(9.1)	(32.0)	(6.7)	(8.2)	(10.8)	(35.4)	(37.4)
Secondary Income	(5.1)	(5.9)	(5.9)	(5.0)	(21.9)	(4.9)	(5.1)	(4.6)	(23.9)	(24.8)
Balance on Current Account	11.3	8.1	4.7	10.5	34.7	5.0	1.9	6.0	16.4	14.8
Capital Account	(0.0)	(1.1)	(0.0)	(0.0)	(1.1)	(0.0)	0.1	(0.0)	-	-
Financial Account	(29.8)	5.7	(30.7)	3.9	(50.9)	5.8	9.5	(6.3)	-	-
Direct Investment	(1.4)	0.7	(0.2)	5.8	4.8	3.7	5.3	3.0	-	-
Abroad	(11.3)	(16.1)	(4.8)	(6.4)	(38.7)	(11.3)	(3.5)	(3.6)	-	-
In Malaysia	9.9	16.8	4.6	12.2	43.4	15.0	8.8	6.5	-	-
Portfolio Investment	(7.9)	(11.8)	(24.4)	15.9	(28.2)	13.1	0.1	(10.6)	-	-
Financial Derivatives	0.0	(0.4)	(0.1)	(0.1)	(0.7)	0.5	0.0	(0.1)	-	-
Other Investment	(20.5)	17.3	(5.9)	(17.6)	(26.8)	(11.5)	4.1	1.4	-	-
Error & Omissions	2.8	(4.3)	43.0	(20.4)	21.1	(38.4)	(2.7)	14.9	-	-
Overall Balance	(15.7)	8.4	17.0	(6.0)	3.8	(27.6)	8.8	14.6	-	-
International Reserves (USD)	105.1	105.5	93.3	95.3	95.3	97.0	97.2	97.7	-	-
Retained import (months)	8.1	7.8	8.6	8.5	8.5	8.0	8.1	8.4	-	-
Res./S-term external debt (times)	1.1	1.1	1.2	1.1	1.1	1.1	1.2	1.2	-	-

Source: DOSM, BNM, MOF (*ER 2016/2017)

Federal Government Finance (RM billion)

	2015				2015	2016			2016*	2017*
	Q1	Q2	Q3	Q4		Q1	Q2	Q3		
Revenue	51.5	55.3	56.3	56.0	219.1	48.8	47.5	56.3	212.6	219.7
Operating expenditure	55.4	51.8	52.3	57.5	217.0	57.4	52.1	50.7	207.1	214.8
Current balance	(3.9)	3.4	4.0	(1.4)	2.1	(8.6)	(4.6)	5.6	5.5	4.9
Gross development exp.	8.0	7.3	8.8	16.6	40.8	9.5	10.6	7.5	45.0	46.0
Loan recoveries	0.1	0.1	0.4	0.9	1.5	0.3	0.2	0.1	0.8	0.7
Net development exp.	7.9	7.3	8.4	15.7	39.3	9.2	10.4	7.4	44.2	45.3
Overall balance	(11.8)	(3.8)	(4.5)	(17.1)	(37.2)	(17.7)	(15.0)	(1.8)	(38.8)	(40.3)
% to GDP	(4.2)	(1.4)	(1.6)	(5.6)	(3.2)	(6.1)	(5.0)	(0.6)	(3.1)	(3.0)
Memo item:										
Total Fed. Govt. debt. (end of period)	596.8	627.5	623.3	630.5	630.5	626.9	655.7	643.6	-	-
% to GDP	51.6	54.2	53.9	54.5	54.5	50.9	53.2	52.2	-	-
Domestic debt	418.9	429.2	435.1	433.1	433.1	416.7	424.9	411.4	-	-
% to GDP	36.2	37.1	37.6	37.4	37.4	33.8	34.5	33.4	-	-
External Debt*	177.9	198.3	188.3	197.4	197.4	210.2	230.8	232.2	-	-
% to GDP	15.4	17.1	16.3	17.1	17.1	17.1	18.7	18.8	-	-

Source: DOSM, BNM, MOF (*ER 2016/2017)

Presentation Outline

- ❖ Selected key economic indicators
- ❖ MIER 3Q 2016 surveys
- ❖ Near-term outlook
- ❖ **Downside risks**

Downside Risks

- Slower than expected recovery in the advanced economies and continued slowdown in China and emerging economies weaken global demand
- Contagious effect of Brexit leads to more uncertainty in EU
- Trump's economic policy - the return of protectionism among developed economies
- Prolong geopolitical conflicts may influence world trade and investment flows, including political upheavals in the middle east, South China Sea territory dispute and migration crisis
- Unresponsive/less responsive transfer payments to boost private consumption
- Further drop in oil prices due to cheaper production cost for shale oil producers and OPEC quota is not effective

THANK YOU