

Malaysia 2Q09 GDP

Contraction moderated to 3.9%, sets pace for 2H09 recovery

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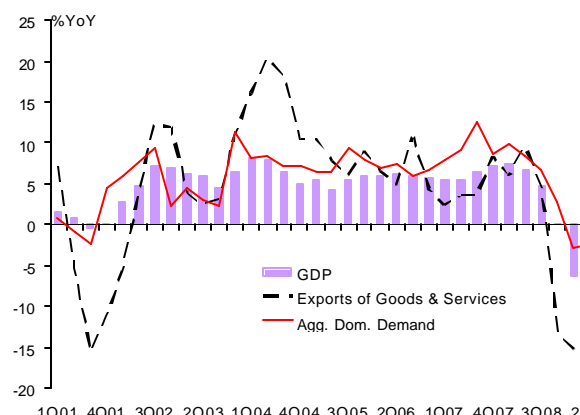
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HIGHLIGHTS

- The 2Q09 GDP contracted at a slower annual rate of -3.9% compared with -6.2% on higher public spending and a surprising turnaround in private consumption. While it was a tad better than our estimate of -4.0%, it was surprisingly higher than the consensus estimate of -5.0%. After two quarters of QoQ contraction, 2Q09 GDP rebounded 4.8% from 1Q09, suggesting that the worst of the recessionary cycle is over.
- Stabilising labour market conditions and lower price levels supported consumer spending which largely helped private consumption growth to turn positive at 0.5%. Together with positive contribution from public consumption and investment helped mitigate a further contraction in domestic demand (-2.3% Vs. -2.9% in 1Q09). However, sluggish external demand and private investment continue to weigh on overall GDP growth.
- Leading the key sectors growth is services which rebounded to 1.6% from -0.2% in 1Q09. The agriculture sector also turned positive (+0.3%) while higher fiscal spending helped boost construction growth to 2.8%. Both manufacturing and mining declined at a slower pace which helped put the brakes on further decline in overall GDP growth.
- With nascent signs of the US economy coming out from its worst growth downturn since the Depression sooner than expected, we may see a gradual pick up in external demand. **This will complement the multiplier effect of the fiscal stimulus and**

GDP, Domestic Demand and Export Growth Trend



Source: Dept. of Statistics, BNM, Kenanga Research

the impact of interest rate cuts as it gathers speed and support our projection that the economy would turn around and grow by 2.3% in 2H09. Hence, we maintain our GDP forecast of -1.3% for 2009.

Receding downturn. Malaysia's 2Q09 GDP contracted at a slower annual rate of -3.9% compared with -6.2% on higher public spending and a surprising turnaround in private consumption. While it was a tad better than our estimate of -4.0%, it was surprisingly higher than the consensus estimate of -5.0% (*Bloomberg survey*). The average contraction in growth for the 1H09 is 5.1% compared with a positive growth of 7.0% in the corresponding period last year and 2.4% in 2H08. After two quarters of QoQ contraction, 2Q09 GDP rebounded 4.8% from 1Q09, suggesting that the worst of the recessionary cycle will come to an end.

Domestic demand on the mend. The main reason behind the less severe contraction in 2Q09 was due

Table 1 : Real GDP Growth By Aggregate Demand (%YoY) - Base Year = 2000

By Aggregate Demand	2004	2005	2006	2007	2008	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09
Consumption	9.4	8.5	6.1	9.9	9.0	7.4	10.2	12.5	8.4	11.8	9.6	7.9	7.1	-0.2	0.6
Public	7.6	6.5	4.9	6.6	10.9	7.2	10.3	6.0	4.0	14.1	10.3	6.4	12.7	2.1	1.0
Private	9.8	9.1	6.5	10.8	8.5	7.5	10.2	14.2	9.9	11.3	9.4	8.2	5.3	-0.7	0.5
Investment	3.6	5.0	7.9	9.6	0.8	9.5	6.0	12.7	10.2	4.6	5.6	3.1	-10.2	-10.8	-9.8
Aggregate Demand (ex-stock)	7.7	7.6	6.6	9.6	6.8	8.0	9.0	12.5	8.8	9.8	8.4	6.6	2.8	-2.9	-2.3
Exports	16.1	8.3	7.0	4.2	1.3	2.4	3.5	3.5	8.3	5.9	9.5	4.5	-13.3	-15.2	-17.3
Imports	19.6	8.9	8.5	5.4	1.9	4.9	3.4	4.3	11.4	3.2	8.1	7.7	-10.2	-23.5	-19.7
Real GDP	6.8	5.3	5.8	6.3	4.6	5.4	5.6	6.5	7.2	7.4	6.6	4.8	0.1	-6.2	-3.9

Source: Dept of Statistics (DOS), Kenanga Research

Table 2 : Real GDP Growth By Sectors (%YoY) - Base Year = 2000

By Sector	2004	2005	2006	2007	2008	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09
Agriculture	4.7	2.6	5.4	1.4	4.0	3.0	-2.3	1.1	3.9	6.5	6.3	3.3	0.5	-4.3	0.3
Mining	4.1	-0.4	-2.7	2.0	-0.8	-1.1	5.9	0.6	2.9	3.6	-0.5	-0.3	-5.7	-5.2	-2.6
Manufacturing	9.6	5.2	7.1	3.1	1.3	2.1	1.6	3.3	5.5	7.0	5.6	1.8	-8.8	-17.9	-14.5
Construction	-0.9	-1.5	-0.5	4.7	2.1	4.2	5.0	4.9	4.9	5.3	3.9	1.2	-1.6	1.1	2.8
Services	6.4	7.2	7.3	9.6	7.2	9.3	9.5	10.4	9.3	8.4	7.9	7.1	5.7	-0.2	1.6
Real GDP	6.8	5.3	5.8	6.2	4.6	5.4	5.6	6.5	7.2	7.4	6.6	4.8	0.1	-6.2	-3.9

Source: Dept of Statistics (DOS), Kenanga Research,

to improvement in domestic demand as well as a large buildup in inventories mainly due to pick up in demand for electronics and electrical (E&E) products. Stabilising labour market conditions and lower price levels supported consumer spending which largely helped private consumption growth to turn positive to 0.5% from -0.7% in 1Q09. Together with positive contribution from public consumption and fiscal investment helped mitigate a further contraction in domestic demand which moderated to -2.3% from -2.9% in 1Q09.

Exports and investments remains a drag. However, sluggish external demand and private investment continue to weigh on overall GDP growth. **We believe that exports contractionary trend could have peaked in 2Q09 at -17.3%, its third consecutive quarterly decline.** As decline in imports (-19.7%) outpaced exports, net exports declined by 0.7%. Meanwhile, gross fixed capital expenditure or total investments fell less sharply at -9.8% from -10.8% in 1Q09 following continued decline in private investments mainly in the manufacturing sector due to prevailing excess capacity as global demand weakens.

Services sector rebounded. With the exception of manufacturing and mining all major sectors performed better during the quarter. **Leading the key sectors growth is services which rebounded to 1.6% from -0.2% in 1Q09. This added 0.3 percentage point to the overall GDP growth in 2Q09.** Agriculture sector also turned positive (+0.3%) while higher fiscal spending helped boost construction growth to 2.8%. Both manufacturing and mining declined at a slower pace which helped put the brakes on further decline in overall GDP growth. Manufacturing continue to decline at a slower pace of -14.5% from -17.9% in 1Q09. Mining fell 2.6% albeit slower than -5.2% in 1Q09.


Outlook

A trend reversal in 2H09. With nascent signs of the US economy coming out from its worst growth downturn since the Depression sooner than expected, we may see a gradual pick up in external demand. **This will complement the multiplier effect of the fiscal stimulus and the impact of interest rate cuts as it gathers speed and support our projection that the economy would turn around and grow by 2.3% in 2H09. Hence, we maintain our GDP forecast of -1.3% for 2009.**

Table 3: GDP Growth Forecast - KIBB

By Sector	2005	2006	2007	2008	1H09	2H09F	2009F
Agriculture	2.6	5.4	1.4	4.0	-4.8	0.4	-2.1
Mining	-0.4	-2.7	2.0	-0.8	-4.1	1.2	-1.5
Manufacturing	5.2	7.1	3.1	1.3	-15.0	-1.0	-8.2
Construction	-1.5	-0.5	4.7	2.1	1.1	5.0	3.0
Services	7.2	7.3	9.6	7.2	0.2	4.0	2.1
Real GDP	5.3	5.8	6.2	4.6	-5.1	2.3	-1.3

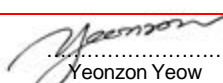
Source: Dept. of Statistics, Kenanga Research, F= denotes forecast by Kenanga Research

Out from the deepest recession into a weak recovery. The huge global Government debt to fix the structural financial mess and boost ailing economy along with the on going process of deleveraging, if prolonged, may dampen and weaken any global recovery process going forward. This may put a cap on US as well as global economic recovery and prompt us to project Malaysia to register below its potential economic growth of 3.0% to 4.0% in 2010. 

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