

Malaysia: Growth momentum strengthened further in 3Q09

Malaysia's GDP contracted by 1.2%/y/y in 3Q09 vs market's expectation of a decline of 2.0%/y/y and an improvement from the 3.9%/y/y fall in 2Q09. The strong growth momentum was sustained for two consecutive quarters after the Malaysian economy emerges out of its 'technical' recession. This was in line with the economic recovery pace that we have seen in other parts of Asia during the quarter.

Manufacturing, construction and services sectors registered improvement in the quarter which contributed to the narrower growth contraction in 3Q09. Nonetheless, the government noted the slow recovery in electrical and electronic manufacturing, an indication of still weak external demand. Construction sector was boosted by the accelerated roll-out of the government stimulus measures while all services sub-sectors except transport & storage saw positive growth. By expenditure, the bulk of the improvement can be attributed to pick-up in domestic demand. Despite the positive growth in public and private consumption, fixed investment, exports and inventory change continued to be a drag on the overall growth rate in 3Q. Going into 2010, we expect the government stimulus effect to wane. Particularly, the high base effect of government consumption will set in from 4Q09. Without more improvement in the external demand, the growth momentum is set to weaken in the next two quarters. Nonetheless, on year GDP growth is on track to turn positive in 4Q09.

Better-than-expected 3Q09 GDP data suggests that the full-year growth contraction could be around 2.2% instead of the 3% which we have penned down earlier. Bank Negara is keeping its forecast for GDP contraction of 3% this year as it still sees risk of a significant drop in major economies' performance in 4Q09. We are keeping our 2010 GDP growth forecast at 4.9%.

Implication on Monetary Policy

Despite the better GDP data today, Bank Negara is expected to maintain its OPR at 2.0% at its scheduled meeting on 24 Nov. BNM governor Zeti suggests that there is no urgency to hike interest rates due to still manageable inflation risks. We are maintaining our forecast for BNM to begin normalising interest rates in 3Q10.

3Q09 GDP: Domestic Demand Supported Growth					
	2008	4Q08	1Q09	2Q09	3Q09
<u>y/y% change</u>					
GDP	4.6	0.1	-6.2	-3.9	-1.2
Consumption	9.0	7.1	-0.2	0.6	3.3
Public	10.9	12.7	2.1	1.0	10.9
Private	8.5	5.3	-0.7	0.5	1.5
GFCF	0.8	-10.2	-10.8	-9.6	-7.9
Change in Stocks (as % of GDP)	-1.3	-0.9	-12.3	-3.5	-1.1
Net Exports	-3.5	-39.5	39.1	-0.7	-16.9
Exports	1.3	-13.3	-15.2	-17.3	-13.4
Imports	1.9	-10.2	-23.5	-19.7	-12.9

Source: Malaysia Department of Statistics, UOB

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