MALAYSIA WEEKLY ECONOMIC NEWS

(21 March 2016 – 25 March 2016)

Topics	Highlights
China Railway's US$2 billion investment in Bandar Malaysia will lead to more FDIs	The USD2 billion (US$1 = RM4.07) investment commitment from China Railway Group Ltd (CREC) in Bandar Malaysia will lead to more foreign direct investments (FDIs) flowing into the country, says YAB Prime Minister Datuk Seri Najib Tun Razak. As a major multinational player, CREC's confidence in Bandar Malaysia as a valuable investment underlies its confidence in Malaysia's economy. CREC acted as an impressive first mover in Bandar Malaysia with its commitment that would attract more international players, many of whom had already expressed interests in the development. (Source: Bernama, 21 March 2016)
MAA shows weakness for February 2016 TIV	As expected, the Malaysian Automotive Association's (MAA) February 2016 data showed further weakness from January 2016, with total industry volume (TIV) sales at 37,900 (down 24.8% year-on-year (y-o-y) and down 15.1% month-on-month) on weaker consumer sentiment, long holidays (Chinese New Year) as well as increased car prices for selective models. Nevertheless, Hong Leong Investment Bank Research maintained their 2016 TIV assumption at 666,100 units (0.1% lower y-o-y), on the expectation of a strong demand in the second half of 2016, high demand for new model launches by Proton and Perodua, as well as ongoing promotions and freebies to boost sales of existing models by original equipment manufacturers. Key risks for the sector are prolonged tightening of banks' hire purchase rules, a slowdown in the Malaysian economy, global automotive supply chain disruption and a sudden jump in fuel prices and interest rates. (Source: The Edge Financial Daily, 22 March 2016)
Government to pay RM1 billion in compensation to highway concessionaires if toll rates remain in 2016	The Government may have to fork out more than RM1 billion in compensation to highway concessionaires if it decides not to increase toll rates in 2016. Works Minister Datuk Seri Fadhillah Yusof said the RM500 million set aside by the government may not be sufficient due to the increased cost incurred due to the postponement of the toll rate review (toll rate supposed to be raised in January 2016). He said the Government has not decided on the toll hike yet as it is still studying the agreements and looking at various aspects including the high cost of living, Government's financial capability, and highway traffic volume, among others. (Source: NST, 23 March 2016)
Best ringgit rally since 1998	Malaysia's ringgit headed for its biggest monthly rally since 1998 on speculation that investors are turning less bearish on the currency as oil stabilises. Ringgit rose as much as 1.2% to 3.9597 a dollar before paring its gains as the US dollar climbed in the European session on signs of a recovery in U.S. manufacturing, said Sim Moh Siong (foreign-exchange strategist at Bank of Singapore Ltd.). Ringgit has appreciated 5.3% in March 2016 and it is Asia's best performer in 2016, recorded an increase of 7.5%. The currency has appreciated by 11% from its 2016 low in January and sentiment is improving after indebted state-investment company 1Malaysia Development Bhd. completed the sale of its power assets to China General Nuclear Power Corp. (Source: Bloomberg, 23 March 2016)
Domestic demand to moderate amid challenges	According to the BNM Annual Report 2015, the Malaysian economy is expected to grow at a slower pace of 4.0 - 4.5% in 2016 compared with 5.0% in 2015 and will continue to be anchored by domestic demand. The pace of expansion in domestic demand, however, is projected to moderate to 4.3% in 2016 from 5.1% in 2015 amid ongoing adjustments by consumers and investors to the challenging economic environment. Private consumption growth is projected to trend below its long-term average to 5.1% in 2016 (2015: 6.0%) as households continue to make expenditure adjustments in response to the lingering effects of the GST implementation and changes in administered prices. Additionally, household spending will be affected by weaker consumer sentiment due to uncertainty over labour market condition, financial markets and ringgit performance. (Source: The Edge Financial Daily, 24 March 2016)

Retailers not bullish on sector's growth	Local retailers are not too optimistic about retail sector in the 1Q 2016 as they were expecting a negative year-on-year growth of 0.4%, after growing by a mere 1.4% in 2015 (their worst performance since 2010) according to an industry report compiled by Retail Group Malaysia (RGM). This was due to higher pre-GST sales during 1Q 2015 as well as weak Chinese New year sales in February 2016. Despite of low fuel prices, the weak ringgit had led to higher prices of mostly imported raw materials, semi-finished goods and finished goods that are meant for final consumption by Malaysians. Prices of retail goods and services had been increasing gradually since the beginning of 2016 which has further deteriorated the spending power of Malaysian consumers. However, RGM maintained its forecast for retail industry of 4% growth for 2016. (Source: NST, 24 March 2016)
Rising trend in impaired loans remains a concern	Malaysian Ratings Corp Bhd. (MARC) remains concerned about the rising trend of impaired loans and expects it to climb in 2016 while Bank Negara Malaysia (BNM) maintained the overnight policy rate (OPR). Based on MARC calculations and BNM statistics, total impaired loans growth in the banking system climbed by 9.3% as at end-Jan 2016 from a historical low of RM21.3 billion in April 2015. Going forward, with deteriorating corporate credit (risk) metrics arising from slower corporate earnings and rising corporate debt as well as a weaker household balance sheet, there is a possibility of higher impaired loans in 2016. (Source: The Edge Financial Daily, 25 March 2016)
Higher food prices push February 2016 inflation above forecast	Malaysia's inflation rate rose at a faster-than-expected pace of 4.2% in February 2016 to 114.5 compared with 109.9 a year ago. The economists had forecast a 4.1% increase. The rise in the CPI was due to increases in all 12 major groups particularly, alcoholic beverages & tobacco (increased by 22.6%); miscellaneous goods and services (increased by 5.2%); food & non-alcoholic beverages (increased by 4.8%); furnishing, household equipment & routine household maintenance (increased by 4.7&); restaurants & hotels (increased by 4.7%); and health (increase by 4.5%). Meanwhile, on a monthly basis, the CPI for February 2016 remained unchanged at 114.5. AllianceDBS Research said the pick-up in inflation in February 2016 was due to the low-base effect from 1Q 2015. Nevertheless, the adjustments in administered prices for utilities, transport, cigarettes and food products since 2015 (partly attributed to the government's on-going fiscal consolidation measures) continue to keep inflation elevated due to the nature of the cost-push inflation. However, the research house said the inflation continues to be cushioned by low fuel prices and expected inflation to increase by 3% in 2016 (BNM's inflation target: 2.5 – 3.5%). (Source: NST, 25 March 2016)

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28 March 2016