MALAYSIA WEEKLY ECONOMIC NEWS

(17 April 2017 – 21 April 2017)

Topics	Highlights
Growth in spending for test equipment to benefit Malaysia	Malaysia stands to benefit from the growth in the spending for semiconductor equipment this year, which is expected to grow by 5% to 9% from US$3.6 billion in 2016. This is because most of the top semiconductor test equipment players are located in Penang. The spending for test equipment sector in South-East Asia is projected to increase by 5% to 9% also from US$580 million in 2016. On the prospects of the semiconductor industry in the near future, the current data did not support a reversal unless other economic factors dislodged the projected positive World GDP growth for 2018. Meanwhile, some of the Penang-based test-equipment and sensor manufacturing companies are projecting strong growth for 2017. *(The Star, 17 April 2017)*
Ministry challenged to increase contribution to GDP to 5%	The Ministry of Agriculture and Agro-based industry is being challenged to increase its share of the country's Gross Domestic Product to 5% before the end of Eleventh Malaysia Plan in 2020. Deputy Prime Minister Datuk Seri Dr Ahmad Zahid Hamidi said the sector's performance last year was encouraging as it contributed RM36.5 billion or 3% to GDP. The deputy prime minister also said the value of food items imported into the country stood at RM46.8 billion last year compared with RM30.2 billion in 2015. *(The Star, 17 April 2017)*
30% chance Bank Negara will raise key interest rate in Q4	Rising costs and fewer global uncertainties pose a 30% chance for Bank Negara to lift the overnight policy rate (OPR) by 25% in the fourth quarter of 2017, according to AmBank Research. This is primarily attributed to the ongoing uncertainties on the external front. Currently, the central bank has maintained the OPR at 3%. "Nevertheless, in our probability assessment, we found a 30% chance for Bank Negara to potentially raise the OPR by 25% to 3.25% possibly around the fourth quarter of 2017. In July 2016, the central bank lowered the OPR by 25% to the current level of 3%. The unexpected move in nine years was catalysed by rising risks from Britain's exit from the European Union. The inflationary pressure was expected to remain in the coming months of 2017, implying that the headline Consumer Price Index (CPI) could breach more than 4% on annual basis. To note, the average inflation for the first two months of 2017 was at 3.9%. With the headline CPI numbers envisaged to stay high for most of 2017, they foresee the economy to be in negative real returns on the assumption that the central bank maintains the overnight policy rate at 3% throughout this year. *(The Star, 18 April 2017)*
MIER sees stronger exports as external demand picks up	Malaysia is set to benefit from higher exports of goods and services this year as external demand strengthens, said the Malaysian Institute of Economic Research (MIER). The country will see stronger demand from its major trading partners, leading to the export of goods and services to grow by 1.8% per annum, an upward revision of a 0.5% from its earlier forecast. However, it maintained its forecast for growth in imports at 1.5%. MIER executive director Prof Dr. Zakariah Abdul Rashid said MIER's first quarter survey on business sentiments found that businesses were increasingly optimistic about external demand. The MIER Business Conditions Index (BCI) registered a level of 112.7%, the highest in the past 10 quarters. Malaysian manufacturers showed buoyant sentiments as they entered the first quarter of 2017. The quarter survey results also gave signs of a positive outlook for the manufacturing sector over the next three months. *(The Star, 18 April 2017)*

MIER pegs ringgit's fair value at RM4.20 versus US$	MIER estimates the ringgit's fair value based on economic fundamentals to be at RM4.20 to the US dollar. Senior research fellow Dr Zulkiply Omar said the value is based on the strength of the economy and the demand for ringgit as exports grow in tandem with the global economic growth. "Sentiment normally influences the ringgit through capital flow. Every time something happens, economically related or whatever the factor, the sentiment influences people and their decision to move capital in and out of the country," he added. Zulkiply said Bank Negara's measures to clamp down on the ringgit non-deliverable forward (NDF) trades and aimed at curbing speculative activity on the offshore market in November last year had helped reduce volatility in the ringgit. Going forward, he said the ringgit is expected to improve in line with the global economy. "The World Bank and International Monetary Fund expect world demand this year to grow when compared to last year. So, the expectation is that, Malaysia's exports will increase and influence demand for the ringgit, which is expected to improve in turn," he added. *(The Star, 18 April 2017)*
Malaysia's timber exports to improve 5% this year	Malaysia's timber exports are expected to increase 5% this year from RM21.86 billion in 2016, supported by demand from India, said Plantation Industries and Commodities Deputy Minister YBhg. Datuk Datu Nasrun Datu Mansur. He said the export value of sawn timber, plywood and medium density fibreboard to India recorded an increase of more than 25% last year compared to 2015. He said the office will also serve as a gateway for Malaysian exporters to tap India's growing market as well as penetrate it's highly populated neighbours such as Pakistan, Sri Lanka and Bangladesh. Besides India, Japan is another big importer of Malaysian timber at RM3.73 billion last year, and comprising mainly veneers, fibreboards and chipboards. The timber industry in a major contributor to the nation's export earnings. Timber and timber products accounted for 17.92% of the total export earnings by the commodities sector and 2.78% of Malaysia''s total export earnings in 2016. *(The Star, 19 April 2017)*
Malaysian property prices remain steady	House prices have remained steady despite a slowdown in property sales and a huge overhang of unsold units. According to the Valuation & Property Services Department's (JPPH) Property Market Report 2016, prices of residential property continued to grow, albeit moderately despite the current market glut. "The Malaysian House Price Index (MHPI) continued its moderating trend. As at the fourth quarter of 2016, the MHPI stood at 243.3%, up by 5.5% on an annual basis. "The responsible lending measures by the central bank have shown a positive outcome in ensuring sustainable price growth in years to come." The quarterly movements had shown a contraction of 0.7% in the fourth quarter of 2016. It added that the slow market absorption of the primary market led to the increase in the residential overhang. According to the Property Market Report 2016, the local property sector recorded 11.5% decline in volume and a 3% drop in value last year compared with 2015. "The residential sub-sector dominated the overall market, with a 63.4% contribution in volume and 45.1% in value." *(The Star, 19 April 2017)*
Malaysia's CPI up 5.1% on year in March, hitting 8-year high	Malaysia's consumer price index (CPI) jumped 5.1% in March 2017, the highest in eight years due to the low base last year and higher retail fuel prices compared to March 2016. The latest index, however, was marginally lower than Bloomberg survey of a 5.2% rise. The Statistics Department said the March CPI, a broad measure of inflation, increased by 5.1%. However, it said core inflation remained stable at 2.5%. *(The Star, 19 April 2017)*

Digital economy could add more than 20% to Malaysia's GDP before 2020	The contribution of the digital economy to Malaysia's gross domestic product (GDP) at about 17% currently, is expected to exceed the projected target of 20% earlier than 2020, said Treasury Secretary-General YBhg. Tan Sri Dr Mohd Irwan Serigar Abdullah. He expressed confidence that the level could be achieved earlier as Malaysia had started making waves in the digital economy arena this year, first with the launch of the Digital Free Trade Zone or DFTZ on March 22 and now, the Malaysia Digital Hub. "Seeing the rate at which Digital Economy Corp Sdn Bhd (MDEC) is bringing in the investments, we can achieve it (target of 20% to GDP) earlier than 2020," he said after officiating the Malaysia Digital Hub and Malaysia Tech Entrepreneur Programme in Kuala Lumpur. (The Star, 19 April 2017)
Malaysian economy to keep growing over next few months - Statistics Dept	The Malaysian economy is expected to continue expanding four to six months ahead based on the annual change of the Leading Index (LI), said the Statistics Department. It said in a statement that the annual (year-on-year) change of LI, which monitors the economic performance in advance, rose to 0.8% in February from 0.5% in the previous month. LI's components include real money supply, Bursa Malaysia Industrial Index and expected manufacturing sales value, among others. This marked the second month in a row that the year-on-year LI had been positive. Last year, the index spent 11 months in negative territory (except for August). However, the department said, LI showed a month-on-month drop of 0.9% in February. Meanwhile, the Coincident Index, which measures the current economic activity, increased 1.3% in February. Among the five components that contributed to the growth was capacity utilisation in manufacturing sector and volume index of retail trade. The Statistics Department said gross domestic product at constant price for the fourth quarter of 2016 continued to expand with a growth of 4.5% versus 4.3% in the previous quarter. (The Star, 21 April 2017)

Economics and Policy Division
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26 April 2017