Slower growth in fourth quarter

Consumers still affected by higher cost of living

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	2014	2015					
GDP by economic activity (% year-on-year)	Q4	Q1	Q2	Q3	Q4	Year	Share of GDP
Services	6.6	6.4	5.0	4.4	**5.0**	5.1	53.5
Manufacturing	5.4	5.6	4.2	4.8	**5.0**	4.9	23.0
Agriculture	-3.7	-4.7	4.6	2.4	**1.3**	1.0	8.8
Mining	9.5	9.6	6.0	5.3	**-1.4**	4.7	8.9
Construction	8.8	9.7	5.6	9.9	**7.4**	8.2	4.4

PETALING JAYA: Malaysia's economy continues to slow down, with consumers still feeling the strain from the higher cost of living brought about by the goods and services tax (GST) and the removal or cuts in subsidies.

According to data released by Bank Negara, the economy as measured by gross domestic product (GDP) expanded by 4.5% in the fourth quarter of 2015 compared to the same quarter of the previous year.

This was above the 4.1% median expectations of economists.

For the full year, GDP came in at 5%, marginally higher than the median expectations of a 4.9% rise.

As a comparison, the country's economy expanded by 6.0% in the previous year. Compared to the third quarter, GDP expanded by 1.5% in the quarter under review.

While private consumption in the fourth quarter was higher than the third quarter, most economists expect consumers to hold back on spending this year and businesses to hold back on expansion due to the uncertain economic climate.

Compared to 2014, private sector consumption and investments have weakened. On the other hand, public sector investment moderated in the fourth quarter on lower spending in fixed assets but public sector consumption was sustained by stronger growth in emoluments.

On the supply side of the economy, the services and manufacturing sectors showed resilience but the mining sector contracted, while the construction and agriculture sectors saw declines in growth.

Citigroup Inc economist Kit Wei Zheng said in a report that although the latest data showed that the economy has been better able to resist weak oil prices than expected, there would still be further weakening ahead with growth slowing to between 4.0% and 4.5% in the first-half of this year.

"Fading base effects from the GST and policy support from the Employees Provident Fund contribution cuts and Bantuan Rakyat 1Malaysia will support consumption, but could be offset by slower consumption credit growth.

External demand may also cap the positive contribution from net exports, and Petronas' announced cuts in oil and gas capital expenditure will inevitably weigh on investments," Kit noted.

quarter from RM22.2bil in the third quarter. The current account surplus narrowed to 2.9% of GDP from 4.5% in the previous year. "Further falls in liquefied natural gas prices in the first-half of 2016 will also narrow the current account surplus," Kit added.

On the external front, gross exports registered a stronger growth of 8.1% from 5.5% in the third quarter supported mainly by the non-resource-based manufactured products, particularly machinery, appliances and parts, as well as metal products. Gross imports expanded further by 3.7% from 2.9% in the third quarter, reflecting higher imports across major categories.

Standard Chartered Bank economists Jeff Ng and Edward Lee said the continued fall in oil prices poses downside risks to the house forecast.

They expect growth to slow to 4.7% this year. "Both business and consumer sentiment are negative and may weigh on growth this year," they said, adding that some support would come from external demand.

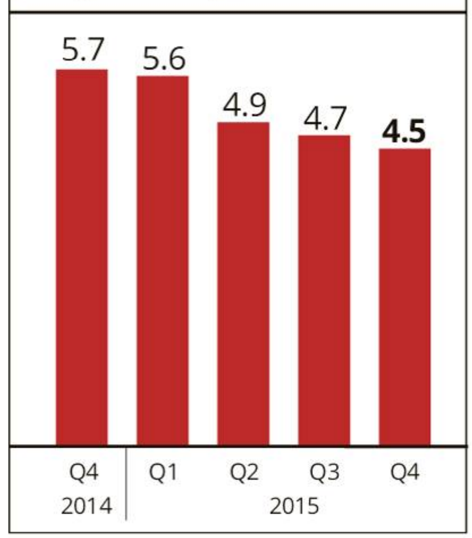
RAM Ratings economist Kristina Fong, who expects growth to moderate to 4.4%, said this year would see elevated risks and challenges.

"In particular, persistently sluggish global demand and emerging Asia's more pronounced weakness, along with uncertain and divergent global monetary policies amid volatile financial markets, will pose downside risks to growth sustainability," she said.

Fong pointed out that the main challenges for the Malaysian economy this year would largely be related to policy flexibility in dealing with the changing pace of growth, as the economy transitions to a landscape of weaker domestic demand amid uneven global growth prospects.

dline inflation has the steep drop in oil

GDP growth
(% year-on-year)



prices, discretionary spending showed rising prices with inflationary spending expected to exceed the 2.1% rise in inflation last year, especially with the weaker ringgit.

"We expect inflation to average 3.0% in 2016 amid such a scenario and domestic policy-led changes to prices - similar to the trend in 2014, when several subsidy-rationalisation measures were introduced.

The main difference between then and now is the growth trajectory of the domestic economy.

The more robust growth of 6.0% in 2014 as opposed to the projected 4.4% for 2016 will necessitate a different set of considerations when devising policies," Fong added.