Macroeconomic Outlook

HIGHLIGHTS

- **Global growth to expand at a faster pace in 2017, supported by improvements in both advanced and emerging market economies.**
- **The Malaysian economy is expected to record a stronger growth in 2017.**
- **Headline inflation is expected to moderate further in the second half of 2017, and to average within the forecast range of 3.0% - 4.0% for 2017 as a whole.**

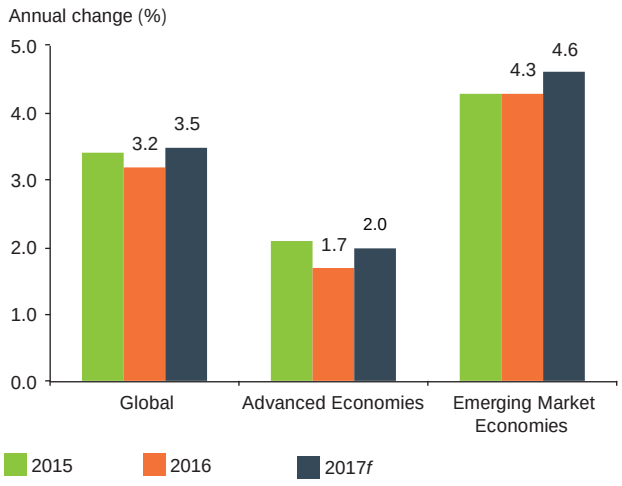
Global growth to expand at a faster pace, supported by improvements across regions

Continued strengthening of the global economy in the second quarter, reaffirms the positive outlook of global growth in 2017. In the advanced economies, growth prospects remain favourable. Economic data releases point to a positive investment outlook. Of significance, labour market conditions are projected to tighten further, lending impetus to private consumption. Growth in the emerging market economies is expected to continue benefitting from strong external demand amid sustained domestic activity. As export growth remains robust, potential spillovers to the domestic economy reinforce the possibility of stronger momentum going forward.

Nevertheless, the growth outlook remains subject to several risks. These arise mainly from the pace of monetary policy tightening in major economies, protectionist policies, and political uncertainty in parts of Europe. Geopolitical tensions and swings in oil price also pose risks to global growth prospects.

Growth Improvements Projected Across Regions

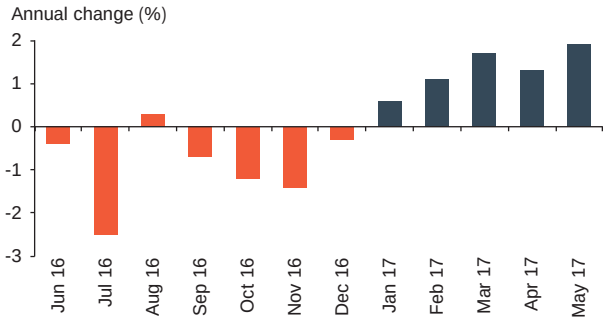
Chart 36: Real GDP Growth



Source: IMF World Economic Outlook (July 2017)

Leading Indicators Point to Continued Expansion in the Domestic Economy

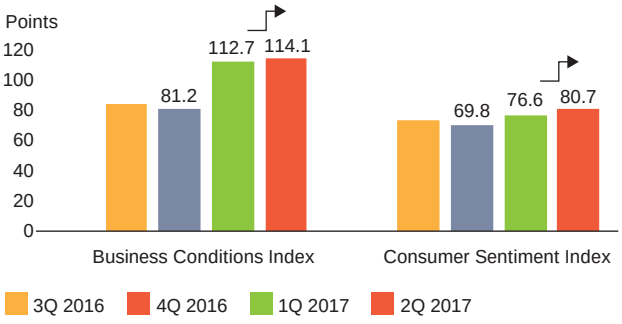
Chart 37: Composite Leading Index



Source: Department of Statistics, Malaysia

Sentiment Indicators Improved in 2Q 2017

Chart 38: MIER Business Conditions and Consumer Sentiment Indices



Source: Malaysian Institute of Economic Research

The Malaysian economy is expected to register higher growth in 2017

Given the continued strong performance in the second quarter of 2017, the Malaysian economy recorded a strong growth of 5.7% in first half of 2017. At this point, compared to the beginning of the year, there are considerable improvements in the operating environment of the economy. Looking ahead, it is likely for the Malaysian economy to expand by more than 4.8% for the whole year of 2017. Leading indicators such as the Department of Statistics Malaysia's composite leading index, MIER Business Conditions Index and MIER Consumer Sentiments Index, suggest continued expansion of the domestic economy. Private consumption will be underpinned by continued wage and employment growth, with support from various policy measures to raise disposable income. Investments will be driven by the implementation of new and ongoing infrastructure projects, and higher capacity expansion in the manufacturing and services sectors. The stabilisation of commodity prices is also expected to lend support to investments in the mining sector. On the external front, exports are expected to benefit from the improvement in global growth, especially among Malaysia's key trading partners. Overall, the economy is expected to record a stronger growth in 2017.

On the supply side, the improvement in both external and domestic demand conditions will benefit the manufacturing and services sectors. The agriculture sector's growth will be underpinned by a recovery in CPO yields post-El Niño. Growth in the mining sector is projected to be mainly supported by output from the ramping up of production in new gas facilities. In the construction sector, new and existing civil engineering projects will drive the sector going forward.

Headline inflation for 2017 will average within the forecast range of 3.0% - 4.0%

Headline inflation is expected to moderate further in the second half of 2017 due mainly to lower contribution from fuel products. The stronger recovery in the production of US shale oil is expected to contain the upward pressures on global oil prices. In addition, the base effect from lower fuel prices in 2016 will diminish given the relatively higher fuel prices in the fourth quarter of 2016. Headline inflation is expected to average within the forecasted range of 3% - 4% for 2017 as a whole.