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 on track to register higher growth in 2017.**
- **Inflation may have peaked in the first quarter, outlook remains contingent upon movements in oil prices.**

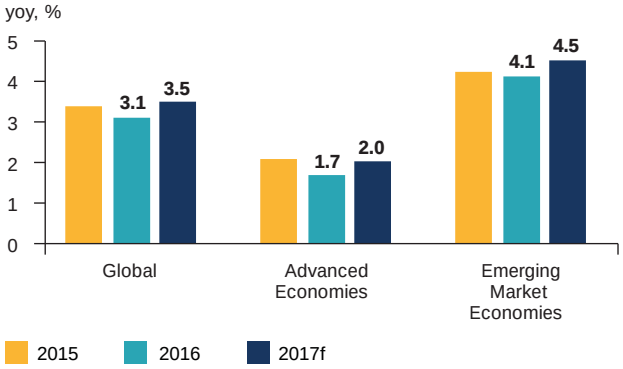
Global growth to expand at a faster pace, supported by improvements across regions

Global growth enters the year 2017 on a stronger footing with positive economic data releases across regions. In the advanced economies, private consumption continues to support domestic activity amid improvement in the labour market conditions and recovery in household wealth. Recent data suggests a more favourable outlook for investment compared to 2016, which will translate into stronger global trade. Growth in the emerging market economies is benefiting from the recovery in commodity prices as external demand improves. This outlook is reinforced by sustained domestic demand against a supportive policy environment. Against this backdrop, global growth is expected to expand at a faster pace in 2017.

Despite these developments, the balance of risks to global growth remain tilted to the downside. Of immediate concern are the developments in Europe which are generating policy uncertainties, as indicated by the higher reading in the economic policy uncertainty index in the first quarter. The short-term impact is likely to be felt more in the financial markets. However, over a longer term, changes in financing conditions will affect real economic activity. The threat of protectionism and negative developments in the prices of key commodities are also risk factors that the Bank is monitoring.

Chart 44: Real GDP Growth

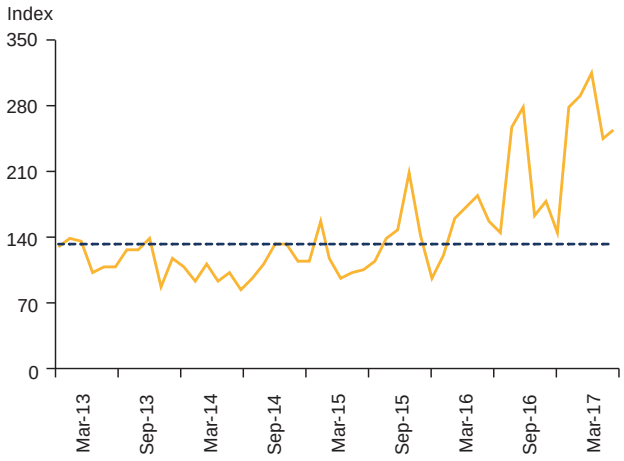
Growth Improvements Projected Across Regions in 2017



Source: International Monetary Fund

Chart 45: Global Economic Policy Uncertainty Index

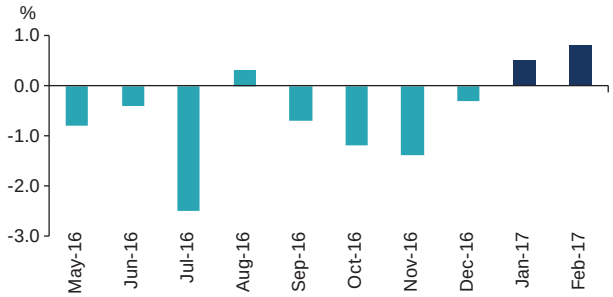
Heightened Global Economic Policy Uncertainty



Source: Baker, Bloom and Davis

Chart 46: Composite Leading Index

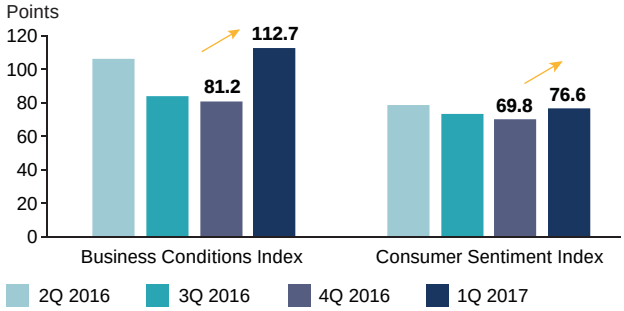
Leading Indicator Points to Continued Expansion in the Domestic Economy



Source: Department of Statistics, Malaysia

Chart 47: MIER Business Conditions and Consumer Sentiment Indices

Sentiment Indicators Improved in 1Q 2017



Source: Malaysian Institute of Economic Research

The Malaysian economy on track to register higher growth in 2017

The Malaysian economy continued to expand in the first quarter of 2017, driven mainly by domestic demand activity. Looking ahead, leading indicators such as the Department of Statistics Malaysia's composite leading index, MIER Business Conditions Index and MIER Consumer Sentiments Index, point to continued expansion of the domestic economy. Private consumption will be sustained by continued wage and employment growth, with additional lift coming from various policy measures to raise disposable income. Investment activity is projected to expand, driven mainly by the implementation of new and ongoing projects in the manufacturing and services sectors. The stabilisation of commodity prices is also expected to lend support to investment activity 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 remains on track to expand as projected in 2017.

On the supply side, the improvement in external trade will benefit the export-oriented industries in the manufacturing and services sectors, particularly the E&E industry and trade-related services. The agriculture sector will continue to recover as CPO yields improve post-El Niño. Growth in the mining sector is projected to be supported by output from the ramping up of production in new oil and gas facilities. In the construction sector, new and existing civil engineering projects will drive the sector going forward.

Inflation expected to moderate from second quarter onwards

Inflation increased to 4.3% in the 1Q 2017 driven by higher costs, but is expected to moderate in the second quarter onwards. However, compared to the forecast at the beginning of the year, the upside risks to global oil prices have increased given the rising geopolitical tensions in the Middle East and the possibilities of an extension to OPEC's output cut agreement. While the impact of these developments on global oil prices remain limited at this juncture, if they persist, inflation could average higher than forecasted.