Macroeconomic Outlook

HIGHLIGHTS

- Global growth to expand at a faster pace in 2018, supported by synchronised growth in both advanced and emerging market economies.
- Growth in the Malaysian economy is expected to remain favourable in 2018.
- Headline inflation is expected to moderate in 2018 due mainly to a smaller contribution from global cost factors and a stronger ringgit compared to 2017.

Global growth to expand at a faster pace

Global growth is projected to strengthen in 2018. This outlook is underpinned by synchronised expansions in both the advanced and emerging market economies.

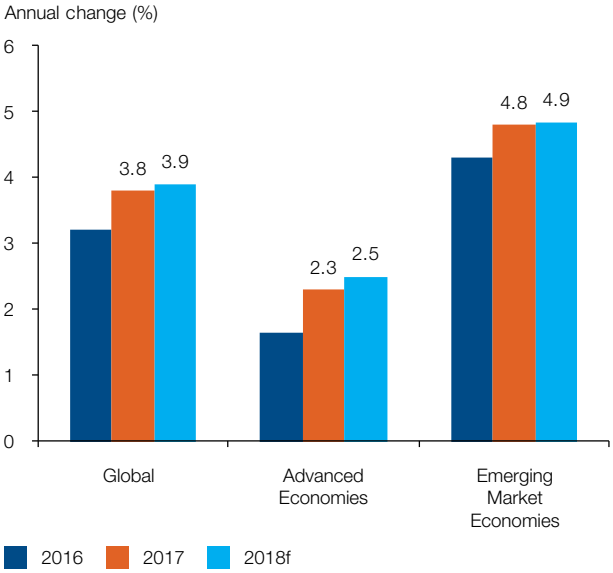
In advanced economies, economic activity will be supported by continued improvements in labour market conditions, with expectations for wage growth to pick up and boost private consumption. In the US, the Tax Cuts and Jobs Act is likely to encourage further investment in the near term, as businesses benefit from corporate tax cuts and increased deductions for capital spending. Higher public spending is expected, following the February 2018 bipartisan budget agreement.

The Asian region, through trade channels, will continue to benefit from strong domestic demand in the advanced economies. Expansionary fiscal measures, namely higher infrastructure spending, will complement the strength in external demand throughout 2018.

However, there remain risks to the global growth outlook. Upside risks include higher-than-expected investment growth due to the pro-cyclical fiscal policy in the US and stronger wage growth in the advanced economies, which can also lead to positive spillovers to the rest of the world through trade. On the downside, a significant risk stems from trade conflict between major economies. While the direct impact of

Growth improvements projected across regions

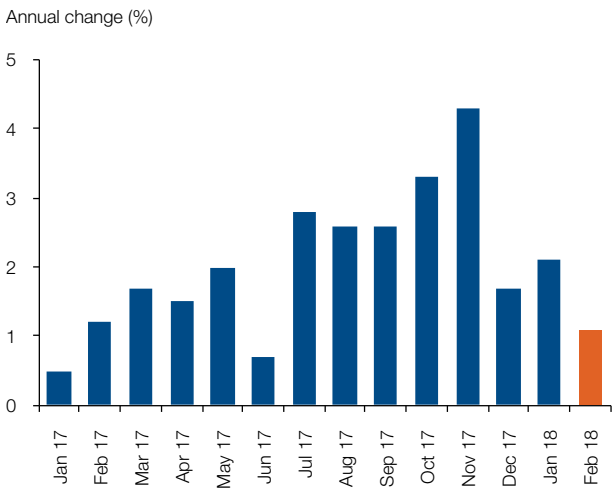
Chart 35: GDP Growth



Source: IMF World Economic Outlook (April 2018)

Leading indicators suggest continued expansion in the domestic economy

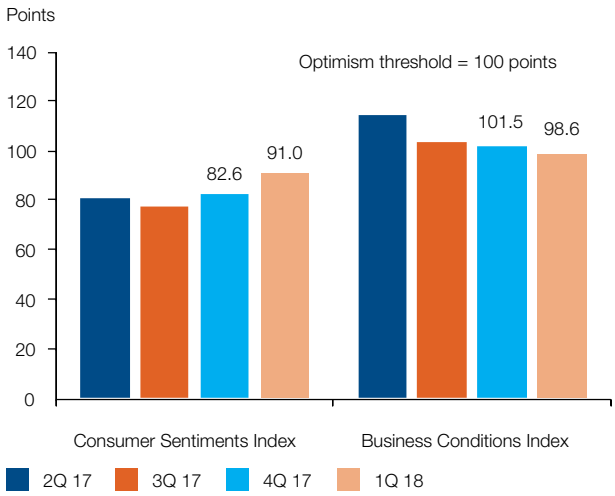
Chart 36: Composite Leading Index



Source: Department of Statistics, Malaysia

Consumer Sentiments Index continued to improve

Chart 37: MIER Consumer Sentiments and Business Conditions Index



Source: Malaysian Institute of Economic Research (MIER)

the measures implemented so far is expected to be small, an escalation of current tensions may dampen investor sentiment, triggering financial market volatility. Uncertainty regarding the timing, pace and magnitude of monetary policy normalisation in major economies, potential reversals of capital flows in emerging markets, and a sudden escalation of geopolitical tensions also pose downside risks to the global economic outlook.

Growth in the Malaysian economy to remain favourable in 2018

In 2018, growth is projected to remain favourable, with domestic demand as the key driver of growth. The positive growth prospects are supported by continued spillovers from the external sector to domestic economic activity. Trade performance is expected to benefit from favourable global demand, new export production capacity and exposure to the global technology cycle.

On the domestic front, leading indicators such as the Department of Statistics Malaysia's Composite Leading Index, MIER Business Conditions Index and MIER Consumer Sentiments Index point toward continued expansion of the economy. Private consumption will be underpinned by continued wage and employment growth, with support from Government measures. Investment activity will be supported by capital spending for new and ongoing projects amid positive business sentiments.

Headline inflation to moderate in 2018 due mainly to a smaller contribution from global cost factors

For 2018 as a whole, headline inflation is projected to average within the range of 2 to 3%, given expectations of a smaller contribution from global cost factors and a stronger ringgit exchange rate compared to 2017.

While inflation is expected to moderate in 2018, the trajectory will depend on future global oil prices which remain highly uncertain. In particular, the near-term upside risks to global oil prices have increased, amid the rising geopolitical tensions in the Middle East and the potential extension to OPEC's oil output cut agreement.

Underlying inflation, as measured by core inflation, is also expected to remain moderate in 2018, due to a smaller cost pass-through to retail prices compared to the previous year. Given the lack of persistent and broad-based wage pressures, and on-going investments for capacity expansion, demand-driven inflationary pressures are expected to be contained.