31 March 2017

ECONOMICS

In this report:

US – 2017 growth may not be smooth sailing

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AmBank Research

Friday, 31 March 2017

Anthony Dass
Chief Economist/Head
anthony-dass@ambankgroup.com
03-20322972

Ummi Kalsom Yaacub
Executive Research Support
ummi-kalsom-yaacub@ambankgroup.com
03-20362372

US

2017 growth may not be smooth sailing

In the final reading of the 4Q2016, it showed an improvement, posting a 2.1% growth on an annualised rate compared to its previous estimate of 1.9%q/q. This brings the full-year 2016 GDP growth at 1.6%y/y which is the slowest growth since 2011 and is in line with our estimate.

For 2017, we have revised downwards the GDP growth to 1.7%-1.9% from previously 2.2%-2.5% following the defeat of the GOP's bill to reform Obamacare which has raised doubts on whether the US president's economic agenda will be pushed through. Obamacare will limit tax reforms which is the linchpin that saw the equity market rally to a new high but is now weakening. We expect some budgetary constraints to emerge. A potential interest rate hike by the Fed could end up with three alternative scenarios: (1) 90% chance for another rate hike in 2H2017; (2) 80% chance for two rate hikes i.e. July and December 2017; and (3) no rate hike after the March hike is now at 40%.

Looking at Malaysia, we expect BNM to maintain its current 3.00% OPR with a 30% chance for it to be raised by 25bps in 2H2017. The economy is envisaged to be in negative real returns throughout 2017. We reiterate Malaysia's GDP growth at 4.5% for 2017, supported by exports (semiconductors and resource-based activities) as well as domestic demand. We maintain our ringgit against the US dollar at 4.44-4.48 for 2017.

Slowest growth since 2011

- In the final reading of the 4Q2016, the economy expanded by 2.1% on an annualised rate compared to its previous estimate of 1.9%. Despite the upward revision, the 4Q2016 growth was slower than 3Q2016 growth of 3.5%. Thus, for the full year, the GDP posted a growth of 1.6%y/y from 2.6%y/y in 2015, maintaining its slowest growth since 2011 and is in line with our estimate.

- Private consumption was revised upwards to 3.5% from previously 3.0%. Meanwhile, investments grew 9.4% on the back of a lower decline in non-residential structures, down 1.9% in 4Q2016 versus previous estimates of a 4.5% decline. There was an upward revision to inventory investment with businesses accumulated inventories at a rate of US$49.6 bil instead of the previously reported US$46.2 bil. Inventory investment added 1.01 percentage points to GDP growth, up from the 0.94 percentage point estimated previously.

- Growth was also partly offset by a downward revision of government consumption expenditure and gross investment, which posted a weak growth of 0.2%q/q in 4Q2016 from 0.8%q/q in 3Q2016. Net trade deficit reduced GDP growth by 1.82 percentage points.

Speed breaks to reduce GDP growth

- For 2017, we have revised downwards the US GDP growth to 1.7%-1.9% from previously 2.2%-2.5%. Our decision to reduce the GDP growth comes after the defeat of the GOP's bill to reform Obamacare. It has raised doubts on whether the US president's economic agenda would be pushed through. The reason being with the Obamacare still in place, it limits a budget crunch that could make tax reform tougher to be instituted. The tax reform was the linchpin of a brisk rally that saw the equity market rally to a new high which is now weakening.

- We expect some budgetary constraints to emerge. Investors may not enjoy the 15% to 20% in corporate tax and marginal tax rates. Instead, they could end up somewhat close to what Obama worked out i.e. around a 30% tax rate. In addition, bank lending has slowed down. Companies have been issuing less debt on concerns over the uncertainty on to tax cuts, spending policy, high debt and rising interest rates.

- On the US interest rate outlook, we reiterate our view of a 90% chance for another rate hike in 2H2017 and 80% chance for two rate hikes i.e. July and December 2017. Prospects for no rate hike after the March hike is now at 40%. As for BNM, we expect it to maintain its current 3.00% OPR with a 30% chance for it to be raised by 25bps in 2H2017. In the case of Malaysia, we envisage negative real returns throughout 2017. We reiterate Malaysia's GDP growth at 4.5% for 2017, supported by exports (semiconductors and resource-based activities) as well as domestic demand.

- Furthermore, we expect the US dollar to take off some heat as it will not bode well with the lower rate hike expectations. Yet, we feel the dollar will still benefit as the US Fed is the only G10 central bank which plans to further scale back its accommodative monetary policy in 2017. We reiterate our US dollar view of 102 for the full-year average of 2017 and the ringgit average against the dollar at 4.44-4.48 for 2017.

Table 1: Key Economic Growth (q/q%)

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16
GDP	-1.2	4.0	5.0	2.3	2.0	2.6	2.0	0.9	0.8	1.4	3.5	2.1
Private Consumption	1.9	3.8	3.7	4.6	2.4	2.9	2.7	2.3	1.6	4.3	3.0	3.5
Gross Private Domestic Investment	-6.6	11.2	8.9	2.6	9.9	1.0	2.0	-2.3	-3.3	-7.9	3.0	9.4
Exports	-2.7	8.7	2.1	4.5	-5.8	2.9	-2.8	-2.7	-0.7	1.8	10.0	-4.5
Imports	4.9	9.9	-1.2	11.2	5.6	2.9	1.1	0.7	-0.6	0.2	2.2	9.0
Govt Consumption Exp & Gross Invt	-1.0	0.1	2.5	-0.4	2.6	3.2	1.9	1.0	1.6	-1.7	0.8	0.2

Source: CEIC/AmBank Group

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