

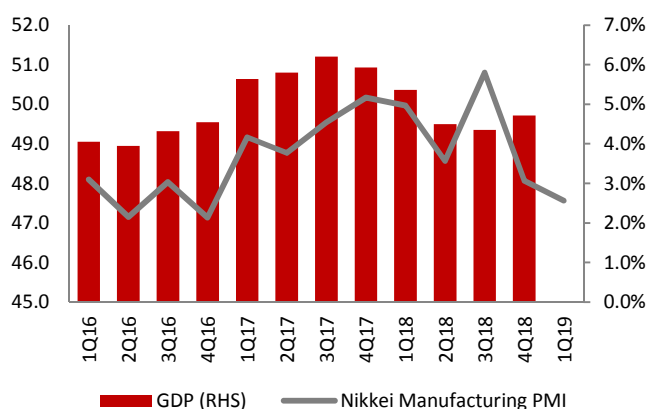
ECONOMIC REPORT | National Account Preview

1Q19 GDP Growth to Moderate to 4.3%, mostly due to Global Trade Uncertainties

- *Economic sentiments are pointing downwards. Referring at leading indicators, signs of optimism are fading and 1Q19 GDP growth is expected to record lower than the previous quarter. Both MIER's consumer sentiment index (CSI) and business condition index (BCI) continue hovering below 100-threshold line during the first quarter. CSI is at 5-quarter low of 85.6 points and BCI is at 9-quarter low of 94.3 points.*
- *Slowdown in external trade flows. Malaysia's total exports contracted in Feb-19 and Mar-19 particularly dragged by tepid re-exports activity. Re-exports shrank by -11%yoy, the first contraction after 9-straight quarters of robust growth whereas domestic exports stay on healthy pace of 1.7%yoy in 1Q19. On positive note, trade surplus widened to 9-year high at RM36.9 billion.*
- *We forecast GDP growth for 1Q19 at 4.3%. Malaysia's economic activities are predicted to continue expanding at a moderate pace amid resilient domestic spending and tepid external trade performances. Moving forward, we view continuous expansionary momentum particularly with solid domestic demand, lower OPR effects, stable job market, low inflationary pressure and gradual pick-up of commodity prices this year.*

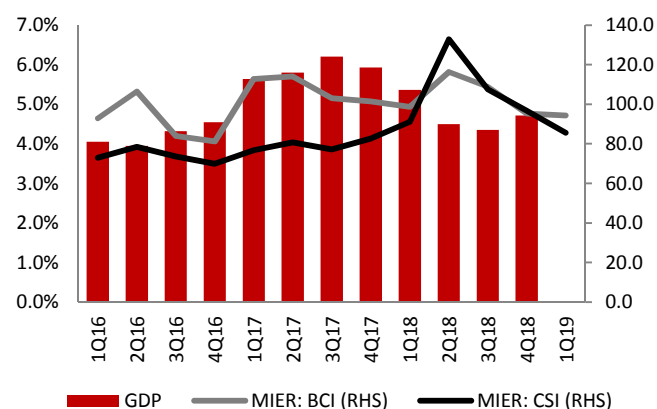
Economic sentiments are pointing downwards. Referring at leading indicators, signs of optimism are fading and 1Q19 GDP growth is expected to record lower than the previous quarter. Both MIER's consumer sentiment index (CSI) and business condition index (BCI) continue hovering below 100-threshold line during the first quarter. CSI is at 5-quarter low of 85.6 points and BCI is at 9-quarter low of 94.3 points. In addition, Nikkei's manufacturing PMI for Malaysia registered at 2-year low in 1Q19. The declines in economic confidences are mainly due to external factors; global uncertainties over the US-China trade talks and volatility in commodity prices.

Chart 1: Mfg. PMI (Points) vs GDP (YoY%)



Source: CEIC, MIDFR
 * >100 points: Optimism
 * <100 points: Pessimism

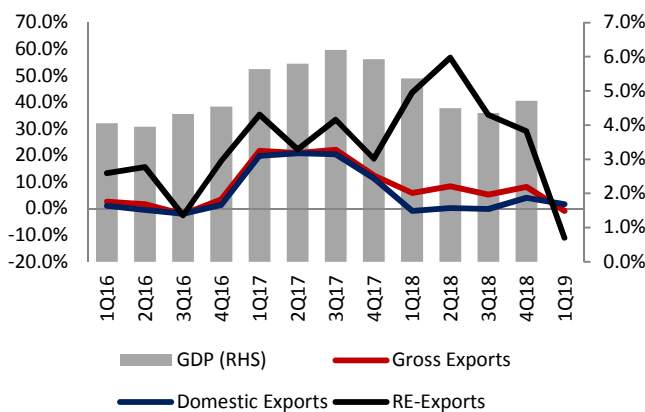
Chart 2: Economic Sentiment (Points) vs GDP (YoY%)



Source: CEIC, MIDFR

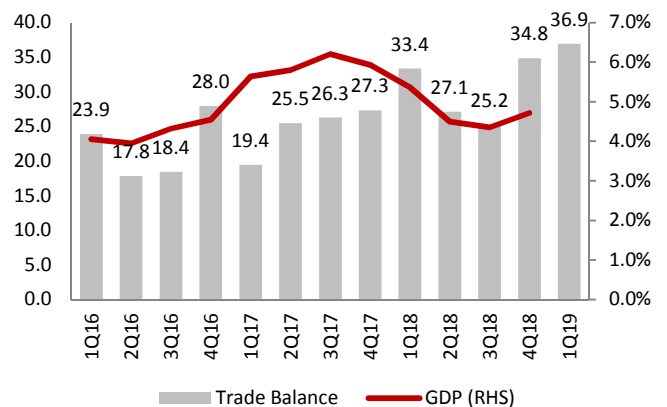
Slowdown in external trade flows. Malaysia's total exports contracted in Feb-19 and Mar-19 particularly dragged by tepid re-exports activity. Re-exports shrank by -11%yoy, the first contraction after 9-straight quarters of robust growth whereas domestic exports stay on healthy pace of 1.7%yoy in 1Q19. On positive note, trade surplus widened to 9-year high at RM36.9 billion. Moving forward, we foresee further moderation in external trade performance amid the failure of trade talks between the US and China. The impacts of tariff hikes by both economies will result into slower global demand and weaken trade flows.

Chart 3: GDP vs Exports (YoY%)



Source: CEIC, MIDFR

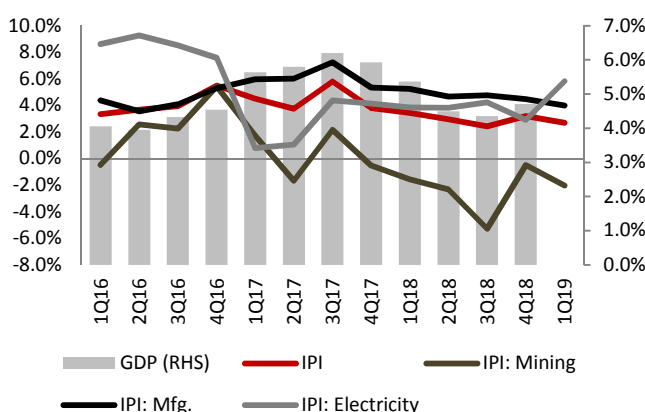
Chart 4: GDP (YoY%) vs Trade Balance (RMb)



Source: CEIC, MIDFR

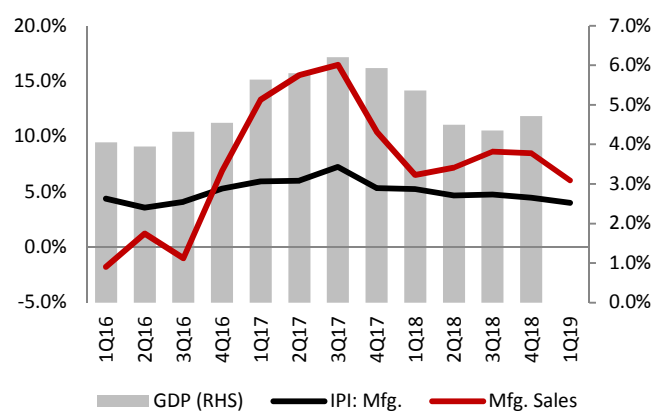
Moderating IPI & manufacturing sales. IPI expanded by 2.7%yoy in 1Q19, slower than 4Q18. The moderating trend is due to slowdown in manufacturing output which grew 4%yoy, weakest gain since 2Q16. Mining production remains in contractionary for 6-consecutive quarters since 4Q17. In tandem with weakening re-exports, manufacturing sales growth weakened to 10-quarter low at 6%yoy in 1Q19. Moving forward, we expect further moderation in IPI especially manufacturing sector amid trade tension. As for mining sector, gradual pick-up in commodity prices with Brent crude oil prices stay above \$60pbd would support higher production in the sector.

Chart 5: IPI vs GDP (YoY%)



Source: CEIC, MIDFR

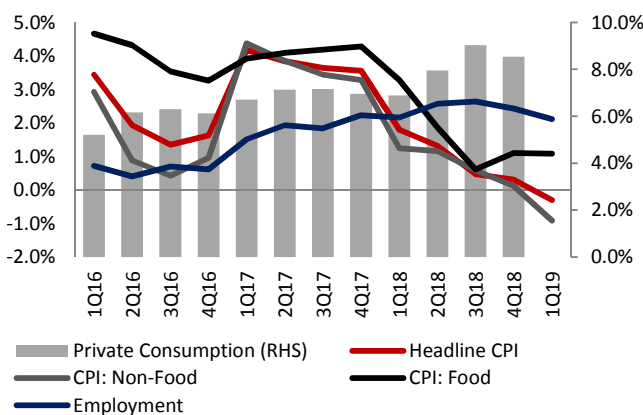
Chart 6: GDP vs Mfg. Activity (YoY%)



Source: CEIC, MIDFR

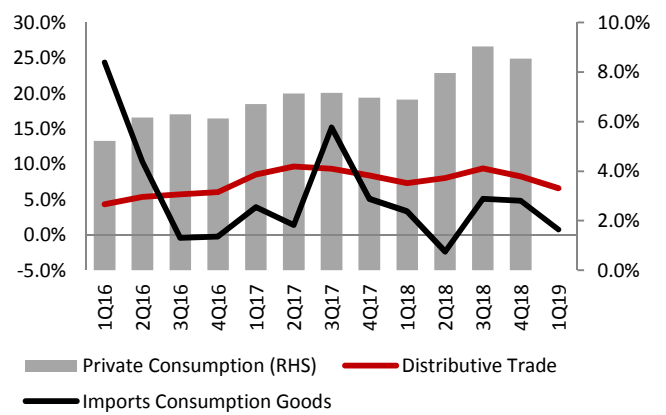
Low inflationary pressure, tight labor market and optimistic domestic demand. Malaysia recorded price deflation in Jan-19 at -0.7%, the first deflation since 2009. Overall headline CPI for 1Q19 is -0.3%. The low inflationary pressure is mainly due to subsidized retail fuel prices, RON95 and Diesel at RM2.08 and RM2.20 respectively for 2019. On labor market, full-employment condition is still present as jobless rate averaged at 3.3% and employment increased by 2.1%yoy in 1Q19. We notice there is a trivial moderation in domestic spending as reflected by trends of distributive trade and imports of consumption goods during the quarter. Nevertheless, moving forward, we view domestic demand is expected to pick-up steadily amid lower OPR effects, low inflationary pressure and stable job market.

Chart 7: Domestic Activity (YoY%)



Source: CEIC, MIDFR

Chart 8: Domestic Spending (YoY%)



Source: CEIC, MIDFR

We forecast GDP growth for 1Q19 at 4.3%. Malaysia's economic activities are predicted to continue expanding at a moderate pace amid resilient domestic spending and tepid external trade performances. Moving forward, we view continuous expansionary momentum particularly with solid domestic demand, lower OPR effects, stable job market, low inflationary pressure and gradual pick-up of commodity prices this year. We opine the economy to expand by 4.3%yoy in 1Q19. On a flip side, rising trade tension between the US and China would impede the progression of global growth as well as trade flows and remain as downside risks to export-oriented countries including Malaysia. 📈

Table 1: Selected-Macroeconomic Data Updates

| YoY% Unless Stated Otherwise | 3Q17 | 4Q17 | 1Q18 | 2Q18 | 3Q18 | 4Q18 | 1Q19 |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| MIER: BCI (Points) | 103.1 | 101.5 | 98.6 | 116.3 | 108.8 | 95.3 | 94.3 |
| MIER: CSI (Points) | 77.1 | 82.6 | 91.0 | 132.9 | 107.5 | 96.8 | 85.6 |
| Nikkei Manufacturing PMI (Points) | 49.5 | 50.2 | 50.0 | 48.6 | 50.8 | 48.1 | 47.6 |
| Exports fob | 22.2 | 12.4 | 5.8 | 8.4 | 5.2 | 8.2 | (0.9) |
| Re-Exports | 33.4 | 18.8 | 43.7 | 56.8 | 35.3 | 29.2 | (11.0) |
| Domestic Exports | 20.4 | 11.4 | (0.8) | 0.2 | (0.1) | 4.1 | 1.7 |
| Imports cif | 19.7 | 14.6 | (0.2) | 8.9 | 6.2 | 5.7 | (2.9) |
| Trade Balance (RM Billion) | 26.3 | 27.3 | 33.4 | 27.1 | 25.2 | 34.8 | 36.9 |
| IPI | 5.8 | 3.8 | 3.4 | 3.0 | 2.4 | 3.2 | 2.7 |
| IPI: Mining | 2.2 | (0.5) | (1.6) | (2.3) | (5.3) | (0.5) | (2.0) |
| IPI: Manufacturing | 7.2 | 5.4 | 5.2 | 4.7 | 4.8 | 4.5 | 4.0 |
| IPI: Electricity | 4.4 | 4.1 | 3.9 | 3.8 | 4.2 | 2.9 | 5.8 |
| Manufacturing Sales | 16.5 | 10.4 | 6.5 | 7.2 | 8.6 | 8.5 | 6.0 |
| Distributive Trade | 9.4 | 8.4 | 7.3 | 8.0 | 9.4 | 8.3 | 6.6 |
| Motor Vehicles | 2.1 | 0.3 | 0.0 | 4.5 | 7.3 | 1.2 | 3.0 |
| Wholesale Trade | 9.1 | 9.0 | 7.7 | 7.6 | 7.0 | 6.9 | 5.7 |
| Retail Trade | 12.2 | 10.4 | 9.2 | 9.8 | 12.9 | 12.1 | 8.7 |
| Headline Inflation | 3.6 | 3.6 | 1.8 | 1.3 | 0.5 | 0.3 | (0.3) |
| Employment | 1.8 | 2.2 | 2.2 | 2.6 | 2.6 | 2.4 | 2.1 |
| USDMYR (Average) | 4.26 | 4.16 | 3.92 | 3.95 | 4.10 | 4.17 | 4.09 |
| Brent Oil (Ave. USD per barrel) | 54.2 | 63.9 | 68.4 | 77.4 | 78.1 | 62.7 | 65.4 |
| CPO (Ave. RM per tonne) | 2,692.0 | 2,640.3 | 2,492.0 | 2,372.3 | 2,205.3 | 2,103.7 | 2,175.3 |

Source: CEIC, MIDFR

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