

**ECONOMIC REVIEW | 1Q2019 National Account****1Q19 GDP Growth above Market Expectations – Bright Outlook on the Domestic Front While External Stays Cloudy**

- *GDP growth in 1Q19 exceeds market expectation. Malaysia's GDP growth expanded 4.5%yoy in 1Q19, above market expectations of 4.3%yoy. From expenditure side, private consumption and government spending contributed by 4.3% and 0.7% respectively. From supply side, services and manufacturing sectors contribute 3.6% and 0.9% respectively during the quarter.*
- *Positive prospect for domestic demand. Private consumption rose steadily by 7.6%yoy in 1Q19, lowest in 3-quarter. Government spending rose strongly by 6.3%yoy, fastest since 4Q17. Total investments shrank by -3.5%yoy, particularly due to government investment. Nevertheless, bright prospect for domestic demand underpin by lower OPR effects, low inflationary pressure and stable job market.*
- *Uncertain trade talks. Net exports increased strongly by 10.9%yoy and 14.7%qoq. Exports grew marginally while imports contracted after 3-consecutive quarters of positive growth. The moderating pace of Malaysia's external trade is mainly due to global trade uncertainties resulting from the directionless negotiation between the US and China.*
- *We maintain our GDP growth forecast at 4.9% for 2019. Based on the current developments and indicators, we expect Malaysia's economy to expand by 4.9% this year due to steady domestic demand amid lower OPR effects, low inflationary pressure, stable job market and positive progression in construction sector. On external front, we foresee slight weakening trend due to trade war effects.*

**GDP growth in 1Q19 exceeds market expectation.** Malaysia's GDP growth expanded 4.5%yoy in 1Q19, above market expectations of 4.3%yoy. From expenditure side, private consumption and government spending contributed by 4.3% and 0.7% respectively. From supply side, services and manufacturing sectors contribute 3.6% and 0.9% respectively during the quarter. The slight moderation in GDP growth is due to among others global trade uncertainties and volatility in commodity prices as real exports grew at tepid pace of 0.1%yoy, slowest in 10-quarter. On the other hand, domestic front stays solid given that domestic demand increased 3.9%yoy, supported by private consumption and government spending.

**Positive prospect for domestic demand.** Private consumption rose steadily by 7.6%yoy in 1Q19, lowest in 3-quarter. Government spending rose strongly by 6.3%yoy, fastest since 4Q17. Total investments shrank by -3.5%yoy, particularly due to government investment. Nevertheless, bright prospect for domestic demand underpin by lower OPR effects, low inflationary pressure and stable job market. We opine the 2H19 will see a significant rebound in investment activities and continuous upward trajectory for domestic consumption. In addition, positive progression in infrastructure projects such as ECRL would boost government's spending and investment in the medium and long term.

**Uncertain trade talks.** Net exports increased strongly by 10.9%yoy and 14.7%qoq. Exports grew marginally while imports contracted after 3-consecutive quarters of positive growth. The moderating pace of Malaysia's external trade is mainly due to global trade uncertainties resulting from the directionless negotiation between the US and China. The external trade performance is expected to further moderate as the US and China have started imposing tariff hikes on each other following the failure to seal a deal. Nevertheless, overseas sales of commodity-based products are expected to improve amid gradual pick-up in commodity prices.

**Table 1: Summary of GDP by Expenditure Approach**

	Quarterly Basis				Yearly Basis			
	2Q18	3Q18	4Q18	1Q19	2Q18	3Q18	4Q18	1Q19
GDP	1.6	3.8	3.5	(4.3)	4.5	4.4	4.7	4.5
Private Consumption	2.2	8.0	(2.6)	0.1	7.9	8.9	8.4	7.6
Govt. Consumption	8.3	2.1	33.8	(28.1)	3.1	5.2	4.0	6.3
Investments	5.3	(1.8)	(5.2)	(1.6)	1.6	2.8	0.6	(3.5)
Private Investment	14.2	(8.3)	(23.0)	24.7	5.5	5.0	5.8	0.4
Govt. Investment	(17.0)	20.8	41.3	(38.8)	(9.9)	(2.7)	(5.9)	(13.2)
Domestic Demand	4.2	3.1	2.7	(5.8)	5.3	5.6	4.0	3.9
Real Exports	0.1	3.9	2.5	(6.2)	2.6	0.7	3.1	0.1
Real Imports	3.8	2.8	1.3	(8.7)	3.6	2.0	1.8	(1.4)
Net Exports	(26.7)	15.4	14.3	14.7	(6.0)	(9.4)	15.5	10.9

Source: CEIC, MIDFR

**Services and domestic sectors continue to support economic growth.** Services sector accounting for 57% of total GDP expanded steadily at 6.4%yoy. Among services sub-sectors, the top three contributors are retail trade, ICT and government services. Lower OPR, low inflationary pressure, stable employment conditions and steady wage growth will be the impetus for the domestic sector growth in 2019. We maintain our forecast for private consumption and services sector to expand by 7.5% and 6.2% respectively in 2019.

**Expecting slight slowdown for manufacturing.** Manufacturing sector expanded by 4.1%yoy, slowest in 10-quarter. The factory output is expected to slow down slightly in 2H19 due to trade war effects. Construction sector is predicted to stay on healthy pace underpin by the positive progression of the sector and revival of infrastructure projects. As for commodity-based sectors, we forecast steady pick-up due to low-base factor and gradual pick-up in commodity prices especially for crude oil. Sluggish CPO price remains as downside risk to agriculture's largest product, oil palm.

**Table 2: Summary of GDP by Supply-Side Approach**

	Quarterly Basis			Yearly Basis		
	3Q18	4Q18	1Q19	3Q18	4Q18	1Q19
<b>Agriculture</b>	<b>16.3</b>	<b>(4.0)</b>	<b>(5.2)</b>	<b>(0.7)</b>	<b>(0.1)</b>	<b>5.6</b>
Rubber	38.3	(3.0)	15.3	(0.1)	(17.5)	12.0
Oil palm	19.4	14.4	(14.1)	(8.0)	(2.7)	9.8
Livestock	9.6	(0.2)	(7.1)	7.2	7.6	4.8
Other agriculture	8.9	(17.6)	8.5	3.8	3.5	1.4
Forestry and logging	13.2	(18.7)	(2.9)	2.6	(6.0)	3.0
Marine fishing	36.6	(23.8)	8.5	2.1	8.9	9.4
Aquaculture	17.9	(20.2)	(22.0)	1.9	(6.0)	(12.5)
<b>Mining and quarrying</b>	<b>(5.0)</b>	<b>12.8</b>	<b>(3.7)</b>	<b>(5.7)</b>	<b>(0.7)</b>	<b>(2.1)</b>
Crude oil and condensate	(6.3)	5.1	0.6	(3.9)	(2.9)	(4.4)
Natural gas	(4.7)	21.8	(6.8)	(8.8)	0.7	(0.5)
Other mining & quarrying and supporting services	0.4	4.0	(6.4)	2.7	2.7	0.1
<b>Manufacturing</b>	<b>1.8</b>	<b>2.8</b>	<b>(4.6)</b>	<b>5.0</b>	<b>4.7</b>	<b>4.1</b>
Vegetable and animal oils & fats	3.3	16.7	(16.3)	(6.9)	(5.6)	11.2
Food processing	5.3	(6.9)	(5.3)	10.9	6.0	0.6
Beverages	(4.6)	(1.8)	(13.6)	3.7	1.4	2.4
Tobacco products	(12.1)	(20.9)	3.7	2.7	3.3	8.2
Textile and wearing apparel	(6.0)	0.5	(4.4)	2.8	4.1	5.0
Leather and related products	(24.6)	(18.3)	41.3	2.9	0.7	3.1
Wood products	6.5	(1.7)	0.2	7.0	5.8	5.2
Paper and paper products	(4.7)	(15.5)	19.8	5.1	2.7	3.8
Printing and reproduction of recorded media	(4.3)	26.8	3.1	4.8	4.5	5.3
Refined petroleum products	(2.3)	7.6	(4.3)	2.4	4.0	2.9
Chemicals & chemical products and pharmaceutical products	9.7	4.0	(9.0)	4.7	1.9	2.2
Rubber products	13.5	2.6	(32.0)	6.1	7.3	6.6
Plastics products	37.1	(19.6)	(4.7)	4.5	4.6	4.9
Non-metallic mineral products	0.1	(10.0)	(4.7)	6.1	3.7	4.7
Basic metals	(0.2)	(5.8)	(13.5)	3.4	4.0	3.4
Fabricated metal products	(9.1)	(5.8)	8.0	5.6	4.2	3.7
Machinery and equipment	(0.6)	(8.6)	56.2	4.4	4.6	3.1
Computers and peripheral equipment	(2.2)	23.5	(5.0)	7.3	4.6	3.8
Electrical equipment	(25.7)	23.5	(3.9)	(0.8)	3.4	4.9
Electronic components & boards, communication equipment and consumer electronics	4.7	4.5	3.6	7.0	7.6	4.5
Manufacture of medical, precision & optical instruments, watches & clocks	(1.7)	9.5	(34.9)	8.3	8.5	(6.4)
Motor vehicles and transport equipment	(6.0)	24.6	(24.5)	8.3	8.5	6.5
Furniture	(8.0)	(5.3)	22.5	7.7	6.2	8.1
Other manufacturing	52.5	(15.9)	(21.8)	5.6	8.8	6.5

<b>Construction</b>	<b>7.7</b>	<b>(4.6)</b>	<b>1.4</b>	<b>4.7</b>	<b>2.6</b>	<b>0.3</b>
Residential buildings	11.3	(1.6)	(0.1)	(7.2)	(9.2)	(7.2)
Non-residential buildings	4.7	14.8	(20.3)	0.8	2.8	(4.0)
Civil engineering	11.0	(16.6)	16.2	14.5	11.0	7.1
Specialised construction activities	0.4	(7.5)	9.5	9.0	6.4	2.9
<b>Services</b>	<b>4.6</b>	<b>3.8</b>	<b>(4.6)</b>	<b>7.3</b>	<b>6.9</b>	<b>6.4</b>
Electricity and gas	1.4	(1.6)	2.1	5.0	4.2	6.3
Water, sewerage and waste management	5.2	3.1	0.6	6.4	7.6	9.7
Wholesale trade	8.9	0.3	(12.3)	7.2	6.9	5.1
Retail trade	5.3	10.8	(6.0)	12.4	12.0	9.5
Motor vehicles	27.5	(7.9)	(13.1)	8.3	2.5	4.9
Food and beverage	2.1	9.7	(3.7)	10.2	10.3	10.4
Accommodation	6.7	1.6	(5.6)	6.0	6.3	6.4
Transportation and storage	2.6	4.7	(2.3)	6.7	6.7	6.7
Information and communication	1.8	(2.5)	3.7	8.4	8.0	7.2
Finance	4.0	1.9	(0.2)	3.9	3.2	2.5
Insurance	2.7	8.1	(1.8)	13.0	8.4	11.0
Real estate	2.1	0.2	0.4	4.6	4.2	4.5
Business services	(1.4)	7.3	(1.0)	9.2	9.1	8.9
Private health services	(1.4)	0.5	(0.6)	5.9	5.7	5.6
Private education services	7.3	(0.5)	(4.9)	6.2	5.5	5.3
Other services	1.8	1.1	1.9	5.5	5.5	5.6
Government services	5.2	9.3	(11.0)	3.8	4.8	4.3
<b>plus Import duties</b>	<b>(27.7)</b>	<b>35.1</b>	<b>(5.1)</b>	<b>(33.3)</b>	<b>(17.2)</b>	<b>(19.3)</b>


Source: CEIC, MIDFR

**Moderating global growth.** At glance, we notice developed and emerging economies experience moderation pace of GDP growth in 1Q19 amid by trade war uncertainties, geopolitical stress in EU and volatility in commodity prices. China grew by 6.4%yoy, similar to the last quarter of 2018. The growth contributed by higher than expected IPI growth and domestic consumption, possibly due to optimistic consumer sentiment in China during the first quarter. Across the globe, the US economy expanded by 3.1% on annualized basis, outpacing market estimates of 2%. Better public expenditure and exports performances supported the growth while its largest component, private consumption has lost speed. Regionally, ASEAN economies are seen moderating as Indonesia recorded GDP growth at 5.07%yoy, slowest in 4-quarter and Singapore registered 1.3%yoy, weakest gain since 4Q15. Moving forward, we foresee continuous moderation in global as well as regional growth in 2Q19 and 2H19. The tariff hikes by the US and China in May-19 indicated the failure of trade talks between the two. Trade war is the major factor to drag down global trade flows. On top of that, geopolitical uncertainty in EU and volatility in commodity prices will continue to affect sentiment and global demand in 2019.

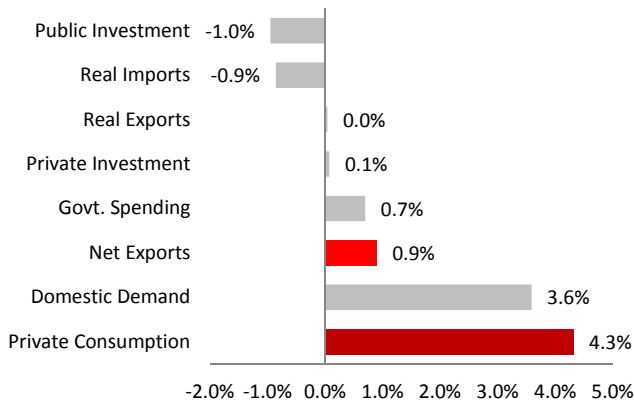
**Table 3: GDP Growth by Selected Economies (YoY%)**

	1Q18	2Q18	3Q18	4Q18	1Q19
Malaysia	5.3	4.5	4.4	4.7	4.5
Philippines	6.5	6.2	6.0	6.3	5.6
Indonesia	5.1	5.3	5.2	5.2	5.1
Thailand	5.0	4.7	3.2	3.7	
Vietnam	7.5	6.7	6.8	7.3	6.8
Singapore	4.7	4.2	2.4	1.9	1.3
Australia	3.0	3.1	2.6	2.1	
India	8.1	8.0	7.0	6.6	
Japan	1.3	1.5	0.1	0.3	
China	6.8	6.7	6.5	6.4	6.4
EU	2.2	2.3	1.9	1.5	
USA	2.2	4.2	3.4	2.2	3.2

Source: CEIC, MIDFR

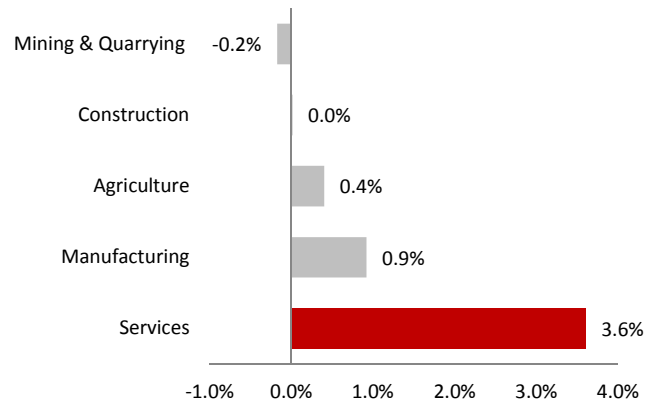
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**Chart 1: Contribution by Expenditure Components (%)**



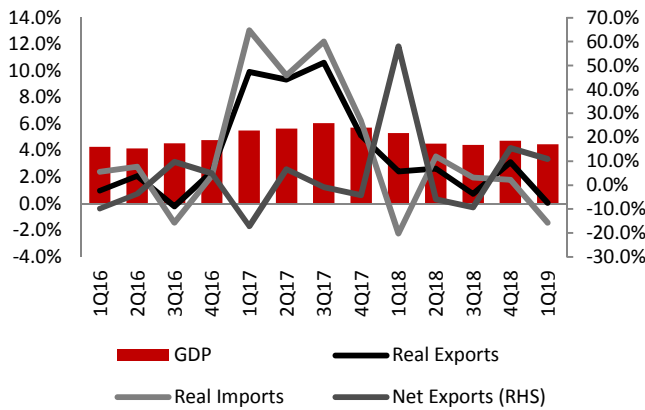
Source: CEIC, MIDFR

**Chart 2: Contribution by Supply-Side Components (%)**



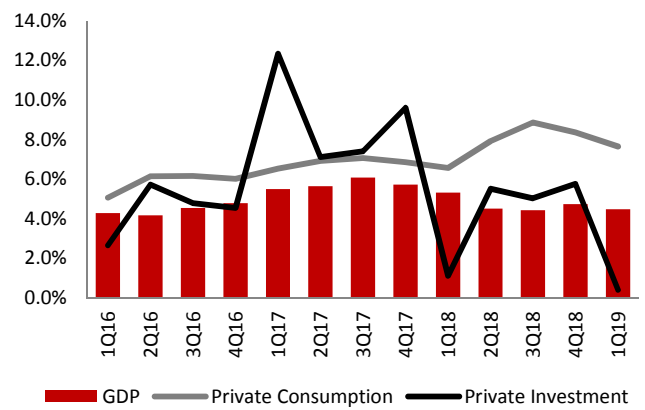
Source: CEIC, MIDFR

**Chart 3: GDP vs External Trade (YoY%)**



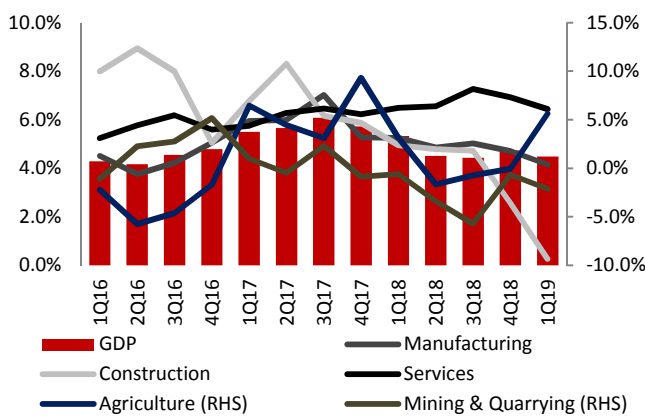
Source: CEIC, MIDFR

**Chart 4: GDP vs Private Sector (YoY%)**



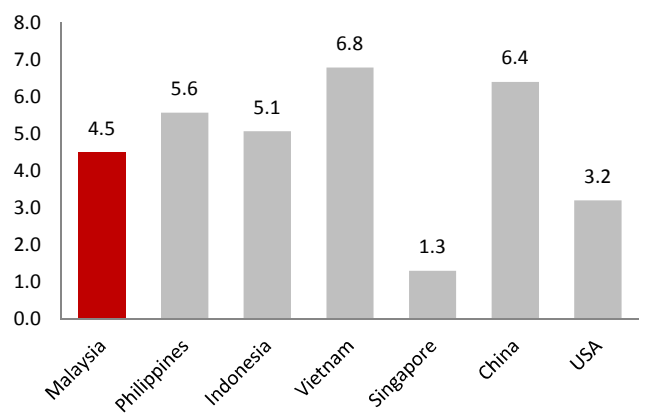
Source: CEIC, MIDFR

**Chart 5: GDP by Supply-Side (YoY%)**



Source: CEIC, MIDFR

**Chart 6: GDP by Country 1Q19 (YoY%)**



Source: CEIC, MIDFR

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