

ECONOMIC REPORT | Business Tendency Index**Business Confidence Fell To 1-Year Low, Indicating Weak GDP Growth in 1Q20**

- *Business confidence at 1-year low. Based on the Business Tendency Survey, overall business confidence further weakened to -2.1% in the first quarter of 2020. It is the lowest point since 1Q19. The slump in business confidence indicates 1Q20 GDP to remain below 4%yoy amid challenging economic environment from both external and domestic fronts.*
- *Tourism and domestic trade affected significantly. Slowdown in tourism activity can be observed as business confidence in hotels, transport and retail trade slumped. We think the stimulus package may offset some of the Covid-19 impact especially via better domestic tourist movements. Special incentives will be given and the reduction in EPF Employee's contribution by 4%-pts will encourage domestic spending in our opinion.*
- *We downgrade our GDP forecast from 4.5% to 3.8%-4.2% in 2020. At current juncture, we are reviewing our 2020 GDP growth forecast, with a downward bias to a range of 3.8%-4.2%. We expect the external front to stay challenging due to the effects of Covid-19, a moderate commodity prices, trade tension and political uncertainty in USA as well as EU. Domestically, we opine the stimulus package and easing monetary policy will support private consumption in 2020. We expect slight rebound in private and public investments.*

Business confidence at 1-year low. Based on the Business Tendency Survey, overall business confidence further weakened to -2.1% in the first quarter of 2020. It is the lowest point since 1Q19. The slump in business confidence indicates 1Q20 GDP to remain below 4%yoy amid challenging economic environment from both external and domestic fronts. Despite Phase One trade deal boosted positive sentiment globally, the outbreak of Covid-19 had reduced any momentum the global economic activity might have had. This also had an effect to commodity prices which struggled to move up. Domestically, political turmoil and the collapse of PH-led government cause uncertainty in the economy. However, an economic stimulus package worth RM20 billion had been announced, and we think the fiscal plan will continue regardless of the leadership of the new government.

Commodity-based sectors remain negative. Confidence in agriculture and mining sector remain pessimistic, -10.8% and -6.3% respectively in 1Q20. Despite encouraging CPO price, palm oil is particularly affected by the Malaysia-India diplomatic matters and lower demand from China due to Covid-19. Meanwhile, Brent Crude Oil price declined to almost 3-year low at \$51pbd in Feb-20. The virus has spread to Western countries and Middle East regions which caused global demand to weaken.

Mixed factors for manufacturing. Business confidence improved among Malaysian manufacturers in 1Q20. We believe the rise in optimism is possibly due to the positive reaction over the agreement of Phase One trade deal between the US and China. We expect business confidence and factory output to deteriorate following the Covid-19 impact. On the flip side, domestic-oriented industries will stay positive, thanks to the stimulus package announcement. For instance, RM1 billion allocation for food production activities in order to meet domestic and exports demand.

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Table 1: Business Confidences by Sector (%)

	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Overall	7.8	6.0	7.1	(2.2)	2.8	3.1	(0.5)	(2.1)
Industry	9.9	2.1	1.6	(3.6)	(6.7)	0.7	(2.2)	(1.5)
Agriculture	(3.3)	(7.9)	(2.2)	1.8	(5.0)	(3.1)	(7.5)	(10.8)
Mining	(17.9)	(21.5)	(26.7)	(21.5)	(15.9)	(8.3)	(15.5)	(6.3)
Manufacturing	19.7	9.3	7.4	(0.9)	(6.1)	1.8	0.2	2.1
Electricity and water	16.7	15.4	22.8	0.0	4.6	21.1	20.0	13.3
Construction	(24.8)	(7.7)	(21.5)	(18.9)	(9.3)	(12.8)	(8.1)	(13.8)
Wholesale and retail trade	7.4	3.6	13.2	(8.2)	6.7	(0.1)	(4.9)	(5.3)
Wholesale trade	13.5	2.0	20.5	0.4	3.9	5.8	(2.6)	(1.3)
Retail trade	(2.5)	6.3	2.5	(19.4)	10.7	(14.3)	(11.5)	(16.7)
Services	8.6	16.5	18.8	5.9	20.8	11.5	5.9	1.0
Hotels	2.7	(5.4)	2.0	(15.7)	3.8	10.8	4.0	(21.2)
Transport	5.6	13.8	20.9	23.2	13.0	3.5	(1.5)	(13.0)
Communications	26.2	9.5	28.6	(11.1)	51.3	26.7	12.1	15.2
Finance	5.6	28.2	21.8	15.2	13.3	14.4	0.0	(0.5)
Insurance	46.0	33.3	29.6	12.2	48.8	18.5	55.6	4.2
Real estate	(52.8)	(25.7)	(22.2)	(33.3)	0.3	(21.7)	(21.8)	(3.7)
Information and communications technology	15.5	3.7	5.6	(1.9)	(17.0)	(4.8)	7.1	14.3

Source: CEIC, MIDFR

Less favorable outlook for 1H20. Referring to business expectations for the next 6 months, overall business performance is expected to experience slight slowdown dragged down by services, manufacturing, construction and mining sectors. Expected lower foreign tourist arrival and Covid-19 are among the downside factors. Conversely, domestic demand is expected to stay resilience underpin by lower OPR, stable job market, moderate inflationary pressure and stimulus incentives for domestic consumption. On the external front, the virus spread will affect global market sentiment in the first half. Second half remains uncertain especially with the USA Presidential Election. Protectionism may resurface in 2H20 during the election campaign.

Table 2: Business Expectations for Next 6-Month by Sector (%)

	1Q19-2Q19	2Q19-3Q19	3Q19-4Q19	4Q19-1Q20	1Q20-2Q20
Overall	0.6	14.2	18.2	6.4	1.1
Industry	0.5	7.3	18.9	6.1	1.9
Agriculture	4.0	(4.4)	30.5	2.9	3.3
Mining	(7.1)	33.3	12.5	21.4	(8.3)
Manufacturing	1.6	6.5	17.9	2.7	2.4
Electricity and water	0.0	(18.2)	15.8	10.0	26.6
Construction	(24.5)	(2.3)	(11.7)	(9.1)	0.0
Wholesale and retail trade	(6.4)	13.4	8.7	(3.9)	(2.9)
Wholesale trade	1.4	8.7	21.9	0.0	1.9
Retail trade	(16.6)	20.0	(21.5)	(15.4)	(16.7)
Services	7.5	30.5	25.6	14.1	2.4
Hotels	(16.7)	34.3	13.5	9.1	(13.7)
Transport	8.7	30.4	5.3	18.2	(4.4)
Communications	(22.2)	38.4	40.0	36.4	18.2
Finance	25.0	40.0	29.4	0.0	0.0
Insurance	16.6	25.0	55.6	50.0	12.5
Real estate	(20.0)	8.3	(8.7)	(12.5)	0.0
Information and communications technology	11.1	(42.9)	12.5	13.4	25.0

Source: CEIC, MIDFR

PMI expected to decline. Manufacturing PMI was on the uptick direction in 4Q19 following the progressive development of USA-China trade deal negotiation. Global PMI surged to 9-month high at 50.4 points in Jan-20. Moving forward, we shall expect deterioration in PMI figures across developed and emerging economies 1Q20. Covid-19 outbreak is the main reason for the decline especially due to the huge economic size of China and the spread went to western economies namely USA and EU.

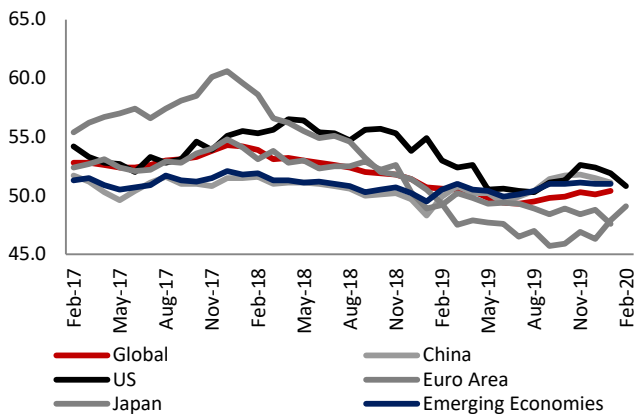
Table 3: Manufacturing PMI by Selected Economies (Points)

	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
Global	49.4	49.3	49.5	49.8	49.9	50.3	50.1	50.4	
China	49.4	49.9	50.4	51.4	51.7	51.8	51.5	51.1	
US	50.6	50.4	50.3	51.1	51.3	52.6	52.4	51.9	50.8
Euro Area	47.6	46.5	47.0	45.7	45.9	46.9	46.3	47.9	49.1
Japan	49.3	49.4	49.3	48.9	48.4	48.9	48.4	48.8	47.6
Emerging Economies	49.9	50.1	50.4	51.0	51.0	51.1	51.0	51.0	
Malaysia	47.8	47.6	47.4	47.9	49.3	49.5	50.0	48.8	
Indonesia	50.6	49.6	49.0	49.1	47.7	48.2	49.5	49.3	
Thailand	50.6	50.3	50.0	50.6	50.0	49.3	50.1	49.9	
Philippines	51.3	52.1	51.9	51.8	52.1	51.4	51.7	52.1	
Singapore	50.6	51.0	48.7	48.3	47.4	50.4	51.0	51.4	

Source: BLOOMBERG, MIDFR

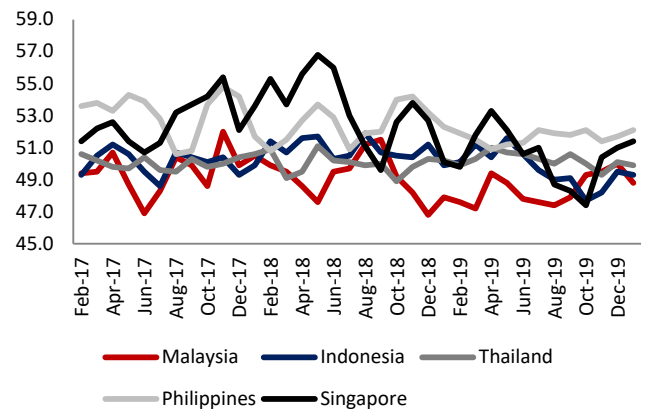
*Above 50: Expansion Line, Below 50: Contraction Line

Chart 1: Manufacturing PMI by Major Economies (Points)



Source: BLOOMBERG, MIDFR

Chart 2: Manufacturing PMI by ASEAN Economies (Points)

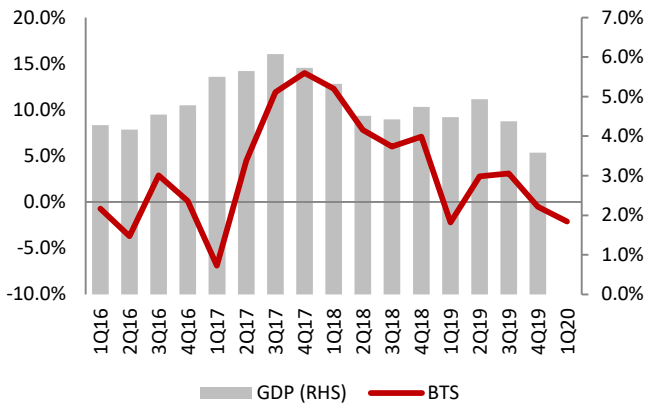


Source: BLOOMBERG, MIDFR

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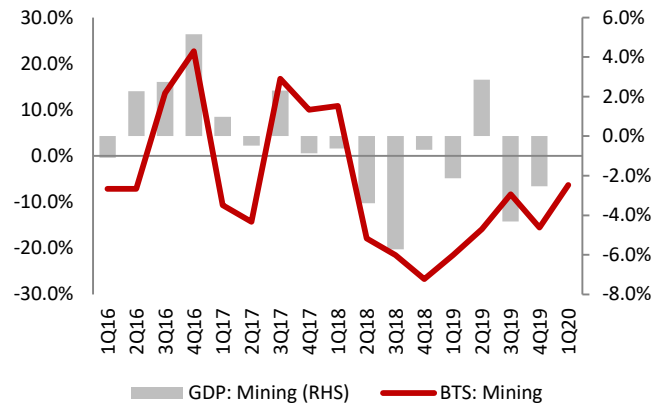


Chart 3: BTS (%) vs GDP (YoY%)



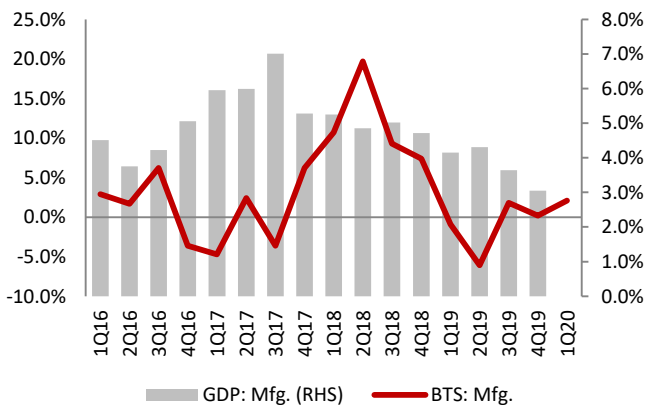
Source: CEIC, MIDFR

Chart 4: Mining & Quarrying: BTS (%) vs GDP (YoY%)



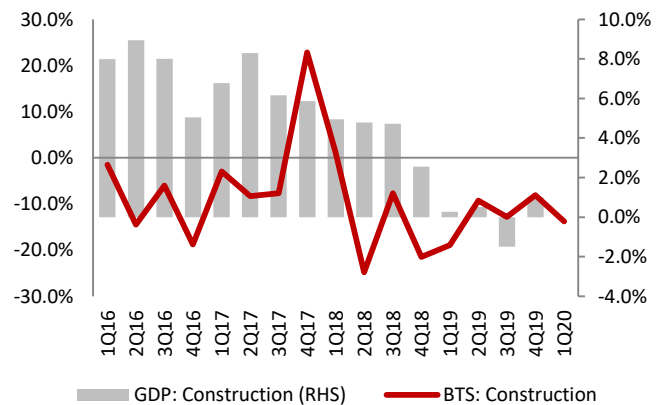
Source: CEIC, MIDFR

Chart 5: Manufacturing: BTS (%) vs GDP (YoY%)



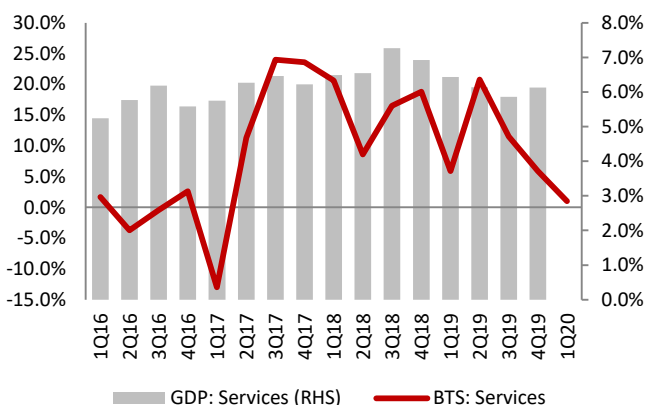
Source: CEIC, MIDFR

Chart 6: Construction: BTS (%) vs GDP (YoY%)



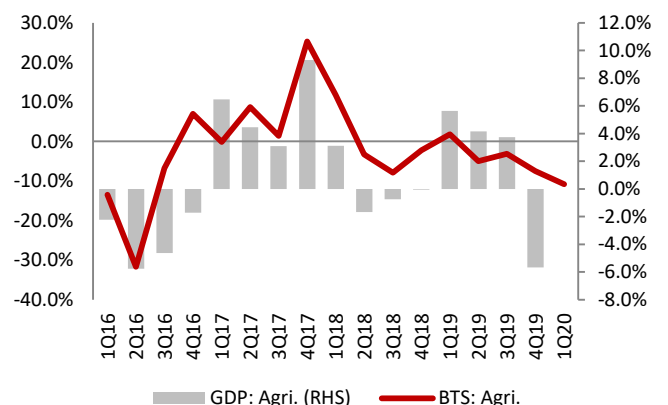
Source: CEIC, MIDFR

Chart 7: Services: BTS (%) vs GDP (YoY%)



Source: CEIC, MIDFR

Chart 8: Agriculture: BTS (%) vs GDP (YoY%)



Source: CEIC, MIDFR

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