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ECONOMIC REPORT | Business Tendency Index

GDP Growth to Improve in 2Q19 Underpin by Domestic and Mining Sectors

- *Overall business confidence rebounded smoothly. According to the Business Tendency Survey, overall business performance is set to improve at 2.8% in 2Q19. Domestic-oriented sectors such as services and construction and petroleum-based sector is predicted to recover in the quarter*
- *2H19 stays on expansionary path. Referring to business expectations for the next 6 months, overall business performance is expected to improve steadily. Overall business performance for the second half of 2019 is expected to enjoy steady pick-up especially for services, mining and construction sectors.*
- *Moderating global growth amid multiple headwinds. Major and emerging economies are predicted to expand at moderate pace in 2019. Continuation of the US-China trade war, fragmented EU, geopolitical risks and volatility of commodity prices are among key downside factors on global growth.*

Overall business confidence rebounded smoothly. According to the Business Tendency Survey, overall business performance is set to improve at 2.8% in 2Q19. Domestic-oriented sectors such as services and construction and petroleum-based sector is predicted to recover in the quarter. On a flip side, export-oriented sectors to experience moderation amid volatility commodity prices and rising trade war effects. Henceforth, we expect GDP growth in 2Q19 to record above 4.5%.

Construction moving towards the bright side. Business confidence in construction sector remains in negative territory but yet in recovery trend. We opine the confidence level in the sector will rebound further as the government has confirmed the revival of ECRL project and announcements of other public infrastructure projects. In addition, RM11b allocation by the Sarawak Chief Minister for infrastructure projects in the state would also fuel optimism in the sector.

Sluggish CPO price puts pressures on agriculture sector. Confidence in agriculture sector returns to negative due to weakening CPO price movements. In Apr-19, the CPO price approximately at RM2,095, lowest in 5-month. The price has been on contractionary pattern for 16-month. On a flip side, mining sector is expected to improve in 2Q19 particularly thanks to steady exports of LNG and gradual pick-up in Brent crude oil price. The Brent oil price has been on uptrend path since Dec-18 and hovering between $65-70.

Manufacturing at 10-year low. Pessimism among manufacturers in Malaysia deepens due to uncertainties on the future of global trade activities. So far, the trade negotiations between the US and China have failed to reach a deal. Both are imposing tariff hikes on each other and continue the threatening game. Indirectly, the trade war causes business optimism to fall in major and emerging economies. For Malaysia's trade outlook, we forecast exports and imports to continue growing at steady pace of 3.6% and 3% respectively in 2019. Recovery in domestic exports shall contribute towards the exports growth this year.

Lower OPR boosts services sector. Business confidence for the sector increases to 6-quarter high at 20.8% in 2Q19. On top of low inflationary pressure and stable job market, lower OPR contributes towards the strong optimistic condition. Domestic demand remains firm in supporting Malaysia's economic growth in 2019.

Table 1: Business Confidences by Sector (%)

	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19
Overall	11.9	14.0	12.3	7.8	6.0	7.1	(2.2)	2.8
Industry	3.1	9.8	11.9	9.9	2.1	1.6	(3.6)	(6.7)
Agriculture	1.4	25.3	11.8	(3.3)	(7.9)	(2.2)	1.8	(5.0)
Mining	16.7	10.0	10.8	(17.9)	(21.5)	(26.7)	(21.5)	(15.9)
Manufacturing	(3.6)	6.2	10.7	19.7	9.3	7.4	(0.9)	(6.1)
Electricity and water	36.4	4.5	25.8	16.7	15.4	22.8	0.0	4.6
Construction	(7.7)	22.8	1.1	(24.8)	(7.7)	(21.5)	(18.9)	(9.3)
Wholesale and retail trade	20.7	8.3	0.0	7.4	3.6	13.2	(8.2)	6.7
Wholesale trade	30.5	10.7	1.2	13.5	2.0	20.5	0.4	3.9
Retail trade	24.6	3.0	(1.9)	(2.5)	6.3	2.5	(19.4)	10.7
Services	24.0	23.6	20.6	8.6	16.5	18.8	5.9	20.8
Hotels	29.4	12.3	26.2	2.7	(5.4)	2.0	(15.7)	3.8
Transport	33.3	14.7	29.9	5.6	13.8	20.9	23.2	13.0
Communications	31.0	26.2	11.5	26.2	9.5	28.6	(11.1)	51.3
Finance	15.7	31.4	29.4	5.6	28.2	21.8	15.2	13.3
Insurance	37.5	37.0	21.7	46.0	33.3	29.6	12.2	48.8
Real estate	22.2	(8.3)	(27.3)	(52.8)	(25.7)	(22.2)	(33.3)	0.3
Information and communications technology	10.4	11.7	20.4	15.5	3.7	5.6	(1.9)	(17.0)

Source: CEIC, MIDFR

2H19 stays on expansionary path. Referring to business expectations for the next 6 months, overall business performance is expected to improve steadily. Overall business performance for the second half of 2019 is expected to enjoy steady pick-up especially for services, mining and construction sectors. Strong domestic demand and low inflationary pressure are fundamental factors supporting the services sectors. On external front, we view the trade war will result in global trade flows to slow modestly and hence affecting export-led economies including Malaysia. Manufacturing sector which is export-oriented sector is predicted to experience moderation following the global trade slowdown. As for commodity-based sectors, we expect better performance in 2H19 particularly for mining sectors, LNG and crude petroleum.

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

	2Q18-3Q18	3Q18-4Q18	4Q18-1Q19	1Q19-2Q19	2Q18-3Q19
Overall	4.4	11.6	12.3	0.6	14.2
Industry	(0.3)	5.3	9.3	0.5	7.3
Agriculture	0.0	(16.0)	0.0	4.0	(4.4)
Mining	(14.3)	(7.1)	6.7	(7.1)	33.3
Manufacturing	4.0	11.2	12.4	1.6	6.5
Electricity and water	(8.3)	30.8	9.1	0.0	(18.2)
Construction	(26.6)	(2.9)	(28.5)	(24.5)	(2.3)
Wholesale and retail trade	9.5	12.6	23.1	(6.4)	13.4
Wholesale trade	21.9	4.3	31.2	1.4	8.7
Retail trade	(9.3)	25.0	11.1	(16.6)	20.0
Services	15.3	25.3	18.7	7.5	30.5
Hotels	10.8	0.0	5.4	(16.7)	34.3
Transport	25.0	8.0	13.0	8.7	30.4
Communications	14.3	7.1	28.6	(22.2)	38.4
Finance	16.6	46.1	21.4	25.0	40.0
Insurance	55.6	55.6	33.3	16.6	25.0
Real estate	(50.0)	(15.4)	(16.6)	(20.0)	8.3
Information and communications technology	5.0	0.0	16.6	11.1	(42.9)

Source: CEIC, MIDFR

Moderating global growth amid multiple headwinds. Major and emerging economies are predicted to expand at moderate pace in 2019. Continuation of the US-China trade war, fragmented EU, geopolitical risks and volatility of commodity prices are among key downside factors on global growth. On a flip side, global demand to stay firm underpin by low unemployment rate in both major and emerging economies, high consumer optimism in the US and China and moderate inflationary pressure. In addition, less monetary pressure as the Fed reverted from two time hikes to zero hike in 2019.

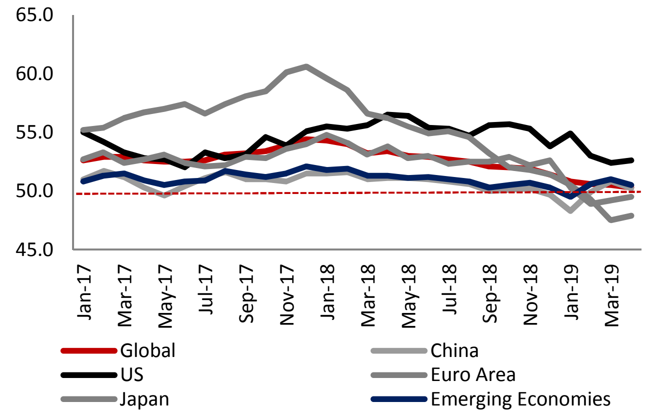
Declining business optimism. PMI figures for global and emerging economies have been on moderating trends since late last year. Uncertainties over trade negotiation between the US and China are the main factor causing optimism to decline gradually. Lesser interest rate pressure and China's stimulus package are not able to compensate the falling PMI figure. Moving towards 2H19, we foresee further decline in manufacturing PMI across major and emerging economies due to trade war especially with higher tariff imposition by both the US and China.

Table 3: Manufacturing PMI by Selected Economies (Points)

	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
Global	52.7	52.5	52.1	52.0	51.9	51.4	50.8	50.6	50.5	50.3
China	50.8	50.6	50.0	50.1	50.2	49.7	48.3	49.9	50.8	50.2
US	55.3	54.7	55.6	55.7	55.3	53.8	54.9	53.0	52.4	52.6
Euro Area	55.1	54.6	53.2	52.0	51.8	51.4	50.5	49.3	47.5	47.9
Japan	52.3	52.5	52.5	52.9	52.2	52.6	50.3	48.9	49.2	49.5
Emerging Economies	51.0	50.8	50.3	50.5	50.7	50.3	49.5	50.6	51.0	50.5
Malaysia	49.7	51.2	51.5	49.2	48.2	46.8	47.9	47.6	47.2	49.4
Indonesia	50.5	51.9	50.7	50.5	50.4	51.2	49.9	50.1	51.2	50.4
Thailand	50.1	49.9	50.0	48.9	49.8	50.3	50.2	49.9	50.3	51.0
Philippines	50.9	51.9	52.0	54.0	54.2	53.2	52.3	51.9	51.5	50.9
Singapore	53.0	51.1	49.6	52.6	53.8	52.7	50.1	49.8	51.8	51.8

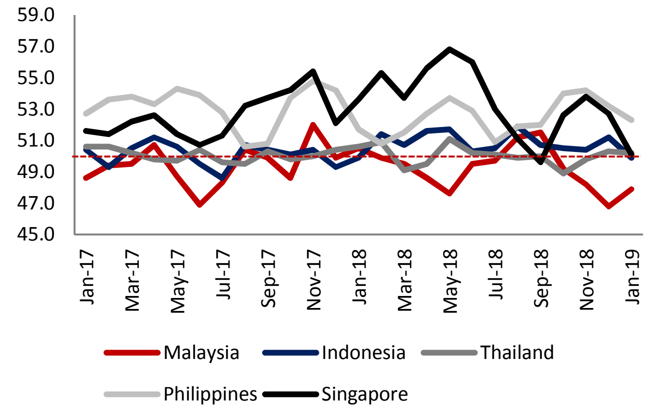
Source: Bloomberg, MIDFR
*Above 50: Expansion Line, Below 50: Contraction Line

Chart 1: Manufacturing PMI by Major Economies (Points)



Source: Bloomberg, MIDFR

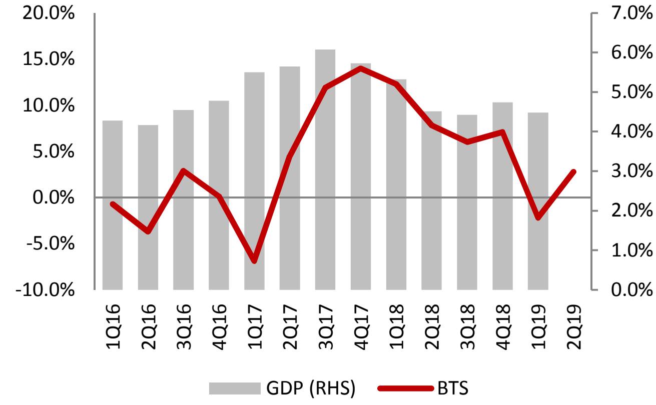
Chart 2: Manufacturing PMI by ASEAN Economies (Points)



Source: Bloomberg, MIDFR

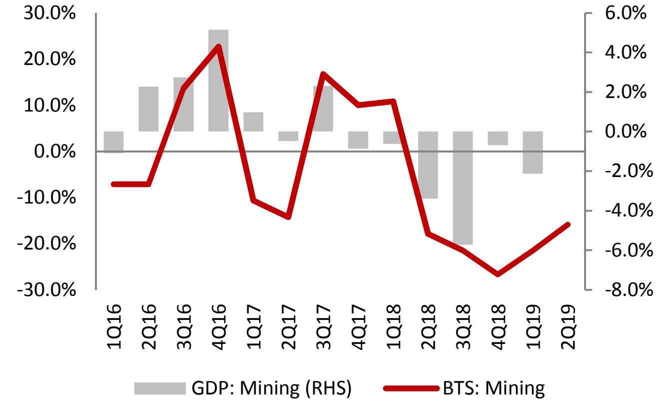
Malaysia's GDP to expand by 4.9% in 2019. Based on the current developments and indicators, we anticipate Malaysia's economy to expand by 4.9% this year given the upbeat performance of domestic sectors. In addition, gradual pick-up in global commodity prices would lend another boosting factor to the economic growth this year. Besides, supportive economic policies, stable labour market, continued wage growth and moderating inflation will support and spur domestic economy.

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



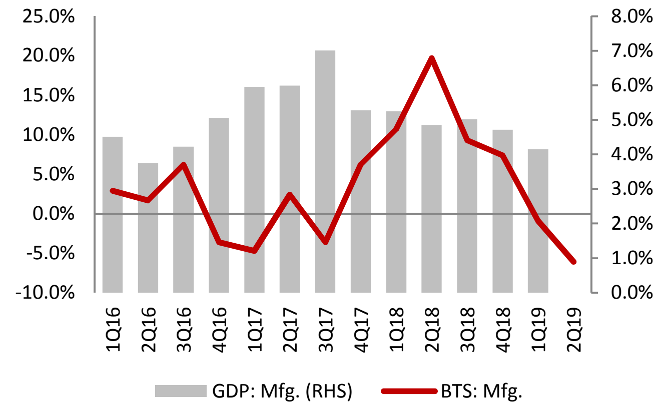
Source: CEIC, MIDFR

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



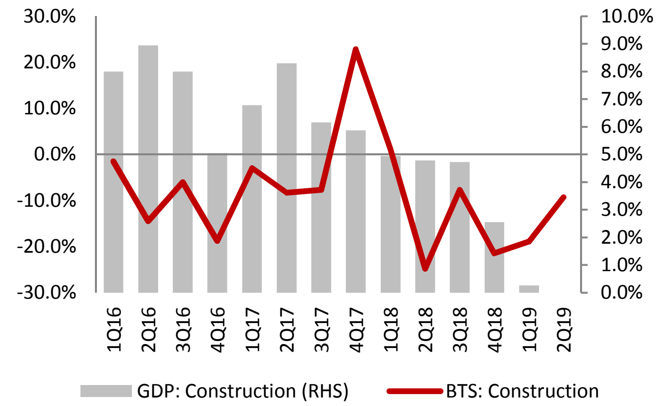
Source: CEIC, MIDFR

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



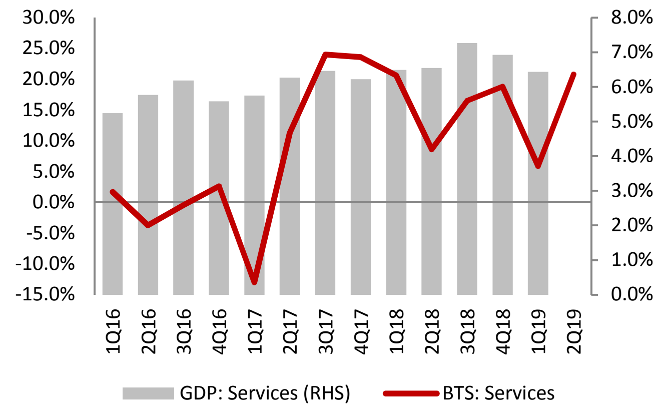
Source: CEIC, MIDFR

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



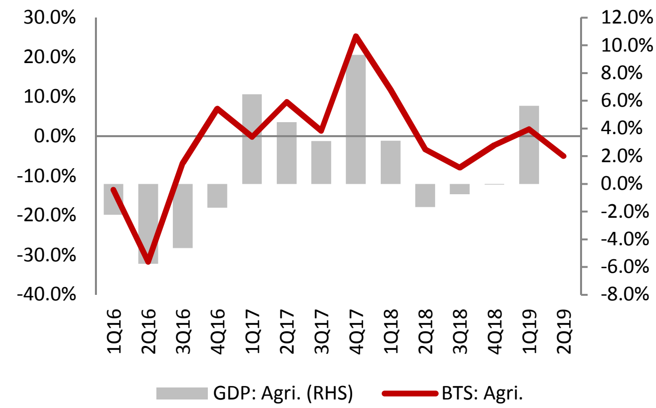
Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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