

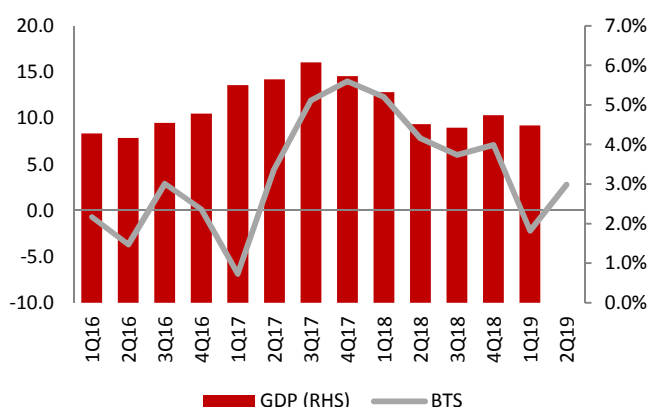
ECONOMIC REPORT | National Account Preview

Steady Domestic Demand & Recovery in Commodity Sectors Will Drive GDP Growth to 4.8% in 2Q19

- Sentiments point towards steady improvement. Referring at leading indicators, signs of optimism are returning and 2Q19 GDP growth is expected to record higher than the previous quarter. Both MIER's Consumer Sentiment Index (CSI) improved slightly from 1Q19 while Business Condition Index (BCI) remains at above 90 points. Business tendency survey indicates optimistic rebound in 2Q19.
- IPI reflects higher GDP growth. IPI expanded by 3.9%yoy in 2Q19, highest in almost 2-year. Solid rebound in mining output, among others, contributed towards the overall IPI growth. Mining output growth registered at 3.3%yoy, after 6-consecutive quarters of contractions. Factory output grew by 4.1%yoy, slightly higher than 1Q19 while electricity output stays at stable pace, at 4.4%yoy growth.
- We forecast GDP growth for 2Q19 at 4.8%. Malaysia's economic activities are predicted to continue expanding at a moderate pace amid resilient domestic spending and steady 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.

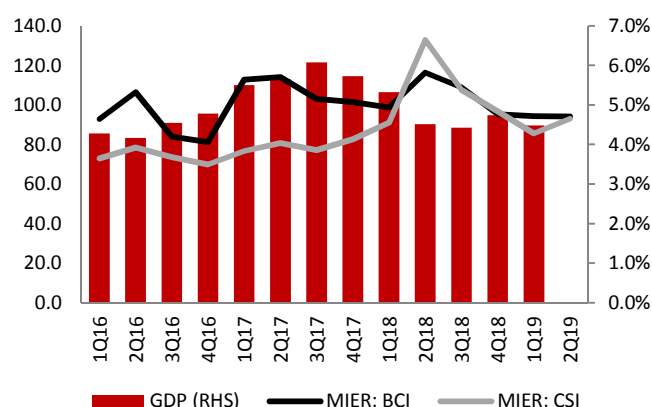
Sentiments point towards steady improvement. Referring at leading indicators, signs of optimism are returning and 2Q19 GDP growth is expected to record higher than the previous quarter. Both MIER's Consumer Sentiment Index (CSI) improved slightly from 1Q19 while Business Condition Index (BCI) remains at above 90 points. Business tendency survey indicates optimistic rebound in 2Q19. Among others, rebound in Malaysia's GDP growth is due to lower OPR effects, steady domestic demand and gradual pick-up by commodity-based sectors namely mining and agriculture.

Chart 1: Business Tendency Survey (Points) vs GDP (YoY%)



Source: CEIC, MIDFR

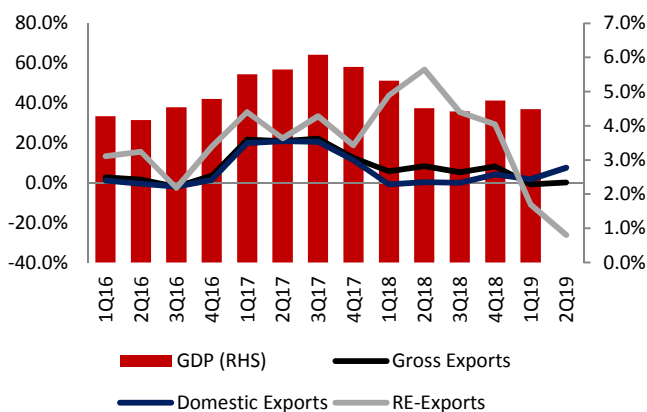
Chart 2: Economic Sentiment (Points) vs GDP (YoY%)



Source: CEIC, MIDFR

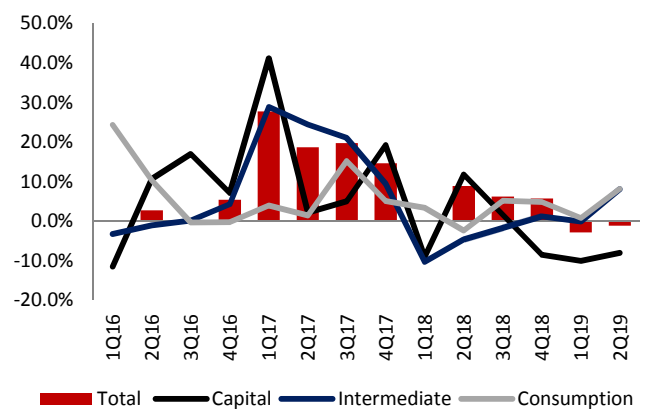
Domestic exports at 6-quarter high. Despite the trade tension, Malaysia's external trade performance shows signs of improvement particularly for domestic exports. This exports segment jumped 7.4%yoy in 2Q19, fastest since 1Q18. Oversea sales of palm oil, crude petroleum and LNG are among key products that support the strong growth in domestic exports. Re-exports which constitute less than 20% of total exports continued shrinking at double digit rate. On the other hand, imports of intermediate and consumptions goods rose firmly in 2Q19 by 8.1%yoy each. Moving forward, we expect the external trade performance to expand steadily amid further recovery in commodity-based sectors and growing global demand as several developed and emerging markets adopt easing monetary policy. Nevertheless, the ongoing trade negotiation between the US-China remains as a downside risk to global trade as well as Malaysia's external activities.

Chart 3: GDP vs Exports (YoY%)



Source: CEIC, MIDFR

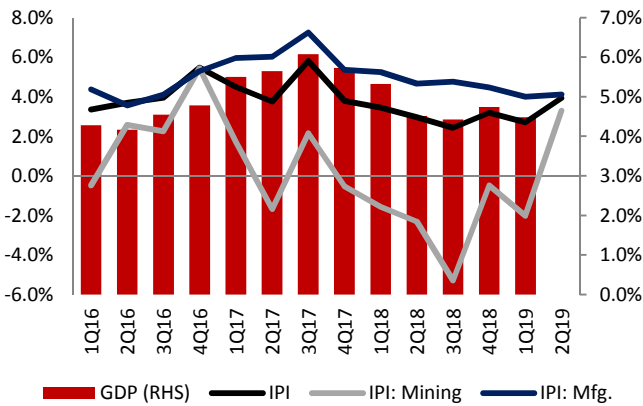
Chart 4: Imports by End-Use (YoY%)



Source: CEIC, MIDFR

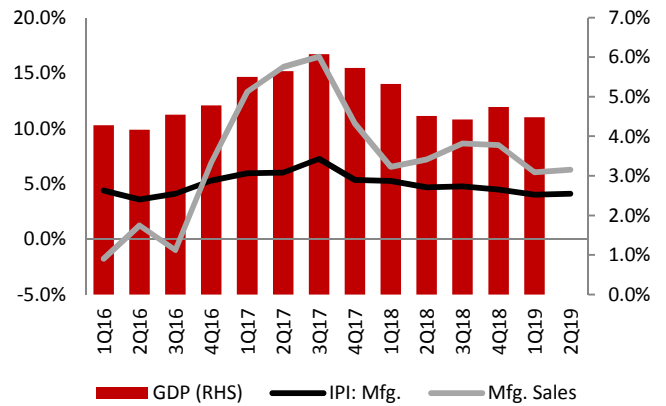
IPI reflects higher GDP growth. IPI expanded by 3.9%yoy in 2Q19, highest in almost 2-year. Solid rebound in mining output, among others, contributed towards the overall IPI growth. Mining output growth registered at 3.3%yoy, after 6-consecutive quarters of contractions. Factory output grew by 4.1%yoy, slightly higher than 1Q19 while electricity output stays at stable pace, at 4.4%yoy growth. Similarly, manufacturing sales rose by 6.3%yoy (1Q19: 6%yoy). Moving forward, we expect overall IPI and manufacturing sales to continue growing at steady pace underpin by growing global demand, encouraging commodity prices, lower OPR effects and resilient domestic demand.

Chart 5: IPI vs GDP (YoY%)



Source: CEIC, MIDFR

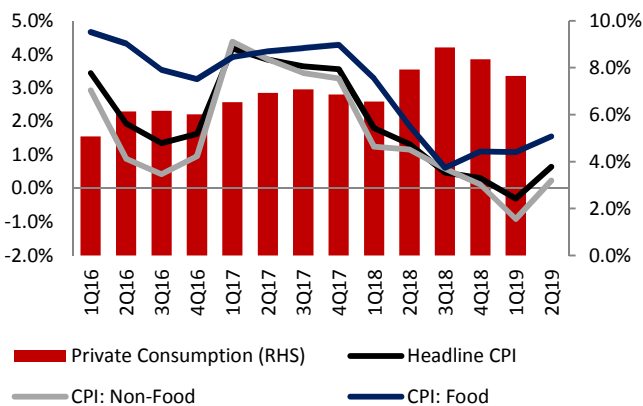
Chart 6: GDP vs Mfg. Activity (YoY%)



Source: CEIC, MIDFR

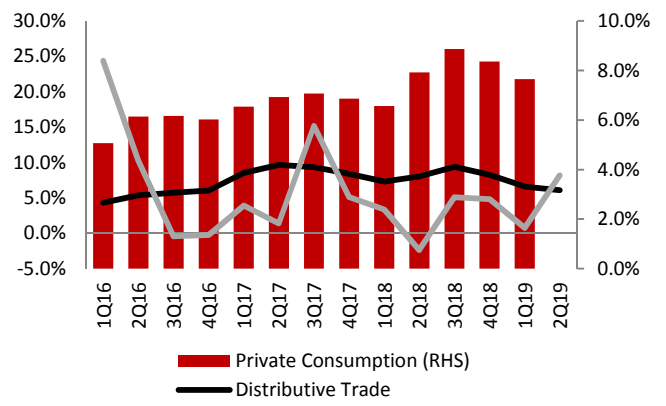
Low inflationary pressure, tight labor market and optimistic domestic demand. Overall headline and core CPI for 2Q19 are 0.6% and 0.9% respectively. The low inflationary pressure is mainly due to subsidized retail fuel prices for RON95 and Diesel, at RM2.08 and RM2.20 respectively for 2019. On labor market, full-employment condition is still present as jobless rate averaged at 3.3% and employment increased steadily by 1.9%yoy in 2Q19. 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: Private Spending vs Inflation (YoY%)



Source: CEIC, MIDFR

Chart 8: Private Spending (YoY%)



Source: CEIC, MIDFR

We forecast GDP growth for 2Q19 at 4.8%. Malaysia's economic activities are predicted to continue expanding at a moderate pace amid resilient domestic spending and steady 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. In addition, there are chances for export-oriented economies to rebound in contingent trade tension between the US-China cool off and hence providing spaces for the easing monetary policy by developed and emerging markets to kick-in. We opine the economy to expand by 4.8%yoy in 2Q19. Nevertheless, 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	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19
MIER: BCI (Points)	98.6	116.3	108.8	95.3	94.3	94.2
MIER: CSI (Points)	91.0	132.9	107.5	96.8	85.6	93.0
Business Tendency Survey (Points)	12.3	7.8	6.0	7.1	(2.2)	2.8
Nikkei Manufacturing PMI (Points)	50.0	48.6	50.8	48.1	47.6	48.7
Exports fob	5.8	8.4	5.2	8.2	(0.9)	0.1
Domestic Exports	(0.8)	0.2	(0.1)	4.1	1.7	7.4
Re-Exports	43.7	56.8	35.3	29.2	(11.0)	(26.2)
Imports cif	(0.2)	8.9	6.2	5.7	(2.9)	(1.1)
Trade Balance (RM Billion)	33.4	27.1	25.2	34.8	37.0	30.1
IPI	3.4	3.0	2.4	3.2	2.7	3.9
IPI: Mining	(1.6)	(2.3)	(5.3)	(0.5)	(2.0)	3.3
IPI: Manufacturing	5.2	4.7	4.8	4.5	4.0	4.1
IPI: Electricity	3.9	3.8	4.2	2.9	5.8	4.4
Manufacturing Sales	6.5	7.2	8.6	8.5	6.0	6.3
Distributive Trade	7.3	8.0	9.4	8.3	6.6	6.1
Motor Vehicles	0.0	4.5	7.3	1.2	3.2	3.0
Wholesale Trade	7.7	7.6	7.0	6.9	5.7	5.7
Retail Trade	9.2	9.8	12.9	12.1	8.7	7.5
Employment	2.2	2.6	2.6	2.4	2.1	1.9
Headline Inflation	1.8	1.3	0.5	0.3	(0.3)	0.6
Core Inflation	1.9	1.1	(0.0)	0.5	0.3	0.9
USDMYR (Average)	3.92	3.95	4.09	4.17	4.09	4.15
Brent Oil (USD per barrel)	68.4	77.4	78.1	62.7	64.0	67.9
CPO (RM per tonne)	2492	2372	2205	2104	2210	2038

Source: CEIC, MIDFR

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