

2Q19 GDP Growth above Market Expectations – Bright Outlook on the Domestic Front & Commodity-Based Sectors

- *2Q19 GDP highest in 5-quarter. Malaysia's GDP growth expanded 4.9%yoy in 2Q19, marginally above market expectations and our forecast of 4.7%yoy and 4.8%yoy respectively. The strong pick-up in the economy is generally driven by continuous strong private consumption and recovery in commodity-based sectors. From expenditure side, private consumption and net exports contributed by 4.4% and 1.4% respectively.*
- *Optimistic prospect for domestic demand. Private consumption rose steadily by 7.8%yoy in 2Q19, better than 1Q19. Government expenditure rose slightly by 0.3%yoy, slowest in 10-quarter. Total investments shrank by -0.6%yoy, particularly due to government investment. Nevertheless, bright prospect for domestic demand underpin by lower OPR effects, low inflationary pressure and stable job market.*
- *External risks affect exports performance. Net exports jumped by 22.9%yoy, fastest in 5-quarters and recording 3-consecutive quarters recording double digit rate. Exports grew marginally while imports shrank further. 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, geopolitical risks in EU and Japan-South Korea trade dispute.*
- *We maintain our GDP growth forecast at 4.9% for 2019. Based on the current developments and indicators, we are maintaining our 2019 GDP growth forecast, the figure we had first published in Dec 2018, at 4.9%. This is due to the steady domestic demand amid lower OPR effects, low inflationary pressure, stable job market and positive progression in construction sector. In addition, GST refund payments will be fully paid to individuals and businesses by 3Q19.*

2Q19 GDP highest in 5-quarter. Malaysia's GDP growth expanded 4.9%yoy in 2Q19, marginally above market expectations and our forecast of 4.7%yoy and 4.8%yoy respectively. The strong pick-up in the economy is generally driven by continuous strong private consumption and recovery in commodity-based sectors. From expenditure side, private consumption and net exports contributed by 4.4% and 1.4% respectively. From supply side, services, mining and agriculture sectors contributed by 3.6%, 0.2% and 0.3% respectively during the quarter. External front remains weak due to global trade wars and decline in business optimism. On the other hand, domestic demand stays solid underpin by lower interest rate, stable labor market and low inflationary pressure.

Optimistic prospect for domestic demand. Private consumption rose steadily by 7.8%yoy in 2Q19, better than 1Q19. Government expenditure rose slightly by 0.3%yoy, slowest in 10-quarter. Total investments shrank by -0.6%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. In particular, private investment has shown improving trend by growing strongly by 15.8%qoq and 1.8%yoy in 2Q19.

External risks affect exports performance. Net exports jumped by 22.9%yoy, fastest in 5-quarters and recording 3-consecutive quarters recording double digit rate. Exports grew marginally while imports shrank further. 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, geopolitical risks in EU and Japan-South Korea trade dispute. However, the external trade performance is expected to improve modestly in 2H19 due to growing global demand, thanks to the easing monetary policy undertaken by developed and emerging markets. On top of that, commodity prices such as Brent crude oil and CPO are at encouraging levels for the producers to remain in business activity. Malaysia's mining production and exports are expected to improve in 2H19 as Keabangan Gas Field is predicted to operate at full-capacity in 3Q19.

Table 1: Summary of GDP by Expenditure Approach

	Quarterly Basis				Yearly Basis			
	3Q18	4Q18	1Q19	2Q19	3Q18	4Q18	1Q19	2Q19
GDP	3.8	3.5	(4.3)	2.1	4.4	4.7	4.5	4.9
Private Consumption	8.0	(2.6)	0.1	2.3	8.9	8.4	7.6	7.8
Govt. Consumption	2.1	33.8	(28.1)	2.2	5.2	4.0	6.3	0.3
Investments	(1.8)	(5.2)	(1.6)	8.4	2.8	0.6	(3.5)	(0.6)
Private Investment	(8.3)	(23.0)	24.7	15.8	5.0	5.8	0.4	1.8
Govt. Investment	20.8	41.3	(38.8)	(12.9)	(2.7)	(5.9)	(13.2)	(9.0)
Domestic Demand	3.1	2.7	(5.8)	4.1	5.6	4.0	3.9	3.8
Real Exports	3.9	2.5	(6.2)	0.1	0.7	3.1	0.1	0.1
Real Imports	2.8	1.3	(8.7)	3.0	2.0	1.8	(1.4)	(2.1)
Net Exports	15.4	14.3	14.7	(18.8)	(9.4)	15.5	10.9	22.9

Source: CEIC, MIDFR

Services and domestic sectors continue to support economic growth. Services sector accounting for 57.2% of total GDP expanded steadily at 6.1%yoy. Among services sub-sectors, the top three contributors are retail trade, ICT and finance. Lower OPR, low inflationary pressure, stable employment conditions and steady wage growth are 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 4.3%yoy, slightly better than 1Q19. The factory output is expected to slow down slightly in 2H19 due to global trade uncertainties and decline in business optimism. On the other hand, construction sector is predicted to stay on healthy pace underpin by the positive progression of the sector and revival of infrastructure projects.

Table 2: Summary of GDP by Supply-Side Approach

	QoQ%			YoY%		
	4Q18	1Q19	2Q19	4Q18	1Q19	2Q19
GDP	3.5	(4.3)	2.1	4.7	4.5	4.9
Agriculture, Forestry & Fishing	(4.0)	(5.2)	(1.6)	(0.1)	5.6	4.2
Rubber	(3.0)	15.3	(34.0)	(17.5)	12.0	2.2
Oil Palm	14.4	(14.1)	(6.6)	(2.7)	9.8	9.5
Livestock	(0.2)	(7.1)	4.4	7.6	4.8	6.1
Other Agriculture	(17.6)	8.5	6.3	3.5	1.4	3.4
Forestry & Logging	(18.7)	(2.9)	5.4	(6.0)	3.0	(5.8)
Marine Fishing	(23.8)	8.5	(9.7)	8.9	9.4	1.9
Aquaculture	(20.2)	(22.0)	11.1	(6.0)	(12.5)	(18.4)
Mining & Quarrying	12.8	(3.7)	(0.4)	(0.7)	(2.1)	2.9
Crude Oil	5.1	0.6	(3.3)	(2.9)	(4.4)	(4.2)
Natural Gas	21.8	(6.8)	1.2	0.7	(0.5)	9.4
Others	4.0	(6.4)	5.7	2.7	0.1	3.4
Manufacturing	2.8	(4.6)	4.4	4.7	4.1	4.3
Vegetable & Animal Oils & Fats	16.7	(16.3)	0.2	(5.6)	11.2	1.1
Food Proceession	(6.9)	(5.3)	15.7	6.0	0.6	7.3
Beverages	(1.8)	(13.6)	27.8	1.4	2.4	3.4
Tobbaco Products	(20.9)	3.7	46.9	3.3	8.2	5.9
Textile & Wearing Apparel	0.5	(4.4)	17.3	4.1	5.0	5.9
Leather Products	(18.3)	41.3	21.3	0.7	3.1	5.6
Wood Products	(1.7)	0.2	(0.3)	5.8	5.2	4.6
Paper Products	(15.5)	19.8	8.9	2.7	3.8	5.0
Printing	26.8	3.1	(16.4)	4.5	5.3	4.6
Refined Petroleum Products	7.6	(4.3)	2.5	4.0	2.9	3.0
Chemicals & Chemical Products	4.0	(9.0)	(1.4)	1.9	2.2	2.4
Rubber Products	2.6	(32.0)	36.0	7.3	6.6	7.8
Plastic Products	(19.6)	(4.7)	(1.2)	4.6	4.9	3.9
Non-Metallic Mineral Products	(10.0)	(4.7)	21.6	3.7	4.7	4.4
Basic Metals	(5.8)	(13.5)	28.1	4.0	3.4	4.1
Fabricated Metal Products	(5.8)	8.0	12.4	4.2	3.7	4.0
Machinery & Equipment	(8.6)	56.2	(27.4)	4.6	3.1	3.0
Computers & Peripheral Equipment	23.5	(5.0)	(2.5)	4.6	3.8	12.0
Electrical Equipment	23.5	(3.9)	16.1	3.4	4.9	2.5
Electronic Compo & Boards, Com Equip and Elect	4.5	3.6	(8.2)	7.6	4.5	4.1
Medical, Precision & Optical, Watches & Clocks	9.5	(34.9)	43.9	8.5	(6.4)	0.9
Motor Vehicles & Transport Equipment	24.6	(24.5)	21.5	8.5	6.5	7.2
Furniture	(5.3)	22.5	1.5	6.2	8.1	8.3
Other Mfg and Repair & Installation and Equipment	(15.9)	(21.8)	0.8	8.8	6.5	1.2
Construction	(4.6)	1.4	(3.6)	2.6	0.3	0.5
Residential	(1.6)	(0.1)	(9.6)	(9.2)	(7.2)	(1.1)
Non-Residential	14.8	(20.3)	(5.1)	2.8	(4.0)	(9.1)
Civil Engineering	(16.6)	16.2	(2.0)	11.0	7.1	5.4

Special Trades	(7.5)	9.5	2.9	6.4	2.9	4.7
Services	3.8	(4.6)	2.4	6.9	6.4	6.1
Electricity & Gas	(1.6)	2.1	3.9	4.2	6.3	5.9
Water, Sewerage and Waste Management	3.1	0.6	(0.6)	7.6	9.7	8.5
Wholesale Trade	0.3	(12.3)	9.4	6.9	5.1	4.8
Retail Trade	10.8	(6.0)	(0.5)	12.0	9.5	9.2
Motor Vehicles	(7.9)	(13.1)	2.5	2.5	4.9	4.6
Food & Beverage	9.7	(3.7)	2.0	10.3	10.4	10.1
Accommodation	1.6	(5.6)	4.2	6.3	6.4	6.6
Transportation & Storage	4.7	(2.3)	2.0	6.7	6.7	7.0
ICT	(2.5)	3.7	3.4	8.0	7.2	6.3
Finance	1.9	(0.2)	(0.1)	3.2	2.5	5.7
Insurance	8.1	(1.8)	(6.3)	8.4	11.0	2.2
Real Estate	0.2	0.4	2.0	4.2	4.5	4.8
Business Services	7.3	(1.0)	4.4	9.1	8.9	9.4
Private Health	0.5	(0.6)	7.1	5.7	5.6	5.5
Private Education	(0.5)	(4.9)	3.8	5.5	5.3	5.4
Other Services	1.1	1.9	0.2	5.5	5.6	5.2
Govt. Services	9.3	(11.0)	1.4	4.8	4.3	3.7
Import Duties	35.1	(5.1)	3.3	(17.2)	(19.3)	(4.3)

Source: CEIC, MIDFR

Moderating global growth. At glance, we notice developed and emerging economies experience further moderation pace of GDP growth in 2Q19 amid by escalating trade war between the US-China, trade dispute between Japan-South Korea, geopolitical stress in EU and volatility in commodity prices. China grew by 6.2%yoy, lowest in 27-year. Across the globe, the US economy expanded by 2.1% on annualized basis, outpacing market estimates of 1.8%. Private consumption grew 4.3%, fastest in 6-quarter and government expenditure jumped 5%, strongest gain in a decade. Regionally, ASEAN economies are seen moderating as Indonesia recorded GDP growth at 5.05%yoy (2-quarter low), Vietnam at 6.7%yoy (Weakest since 2Q17) and Philippines at 5.5%yoy (Weakest since 1Q15). Singaporean government trims down its GDP forecast to 0.0-1.0% as 2Q19 economic growth registered at 0.1%yoy, slowest pace in a decade. Moving forward, we foresee slight rebound in global as well as regional growth in 2Q19 and 2H19 underpin by easing monetary policy by developed and emerging markets. Nevertheless, escalating trade war between the US-China, trade dispute between Japan-South Korea, and geopolitical stress in EU remain as downside risks to global growth in 2H19.

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

	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19
Malaysia	5.3	4.5	4.4	4.7	4.5	4.9
Philippines	6.5	6.2	6.0	6.3	5.6	5.5
Indonesia	5.1	5.3	5.2	5.2	5.1	5.0
Thailand	5.0	4.7	3.2	3.6	2.8	
Vietnam	7.5	6.7	6.8	7.3	6.8	6.7
Singapore	4.6	4.2	2.6	1.3	1.1	0.1
Australia	3.0	3.1	2.6	2.1	1.7	
India	8.1	8.0	7.0	6.6	5.8	
Japan	1.3	1.5	0.1	0.3	1.0	1.2
China	6.8	6.7	6.5	6.4	6.4	6.2
EU	2.3	2.3	1.9	1.5	1.6	
USA	2.5	3.5	2.9	1.1	3.1	2.1

Source: CEIC, MIDFR


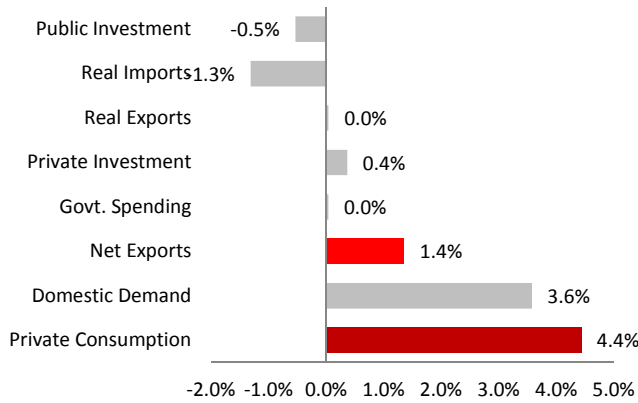
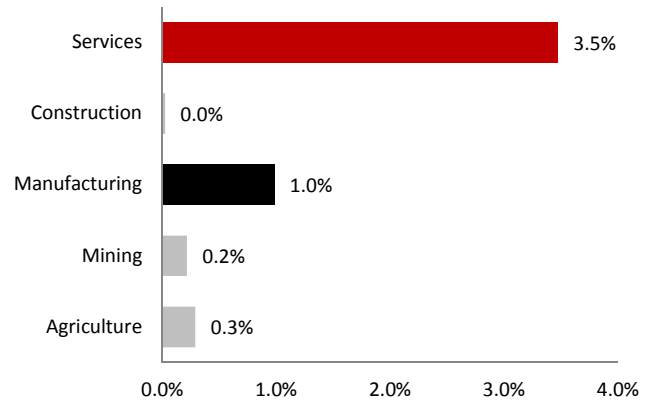
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Chart 1: Contribution by Expenditure Components (%)



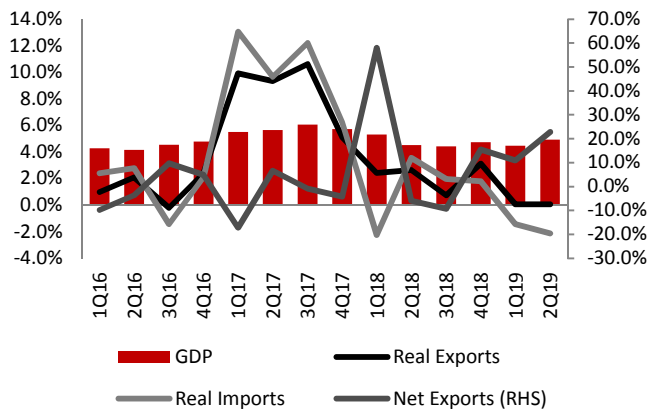
Source: CEIC, MIDFR

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



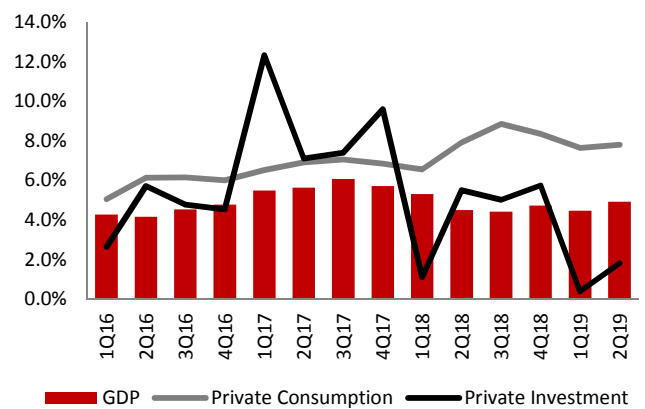
Source: CEIC, MIDFR

Chart 3: GDP vs External Trade (YoY%)



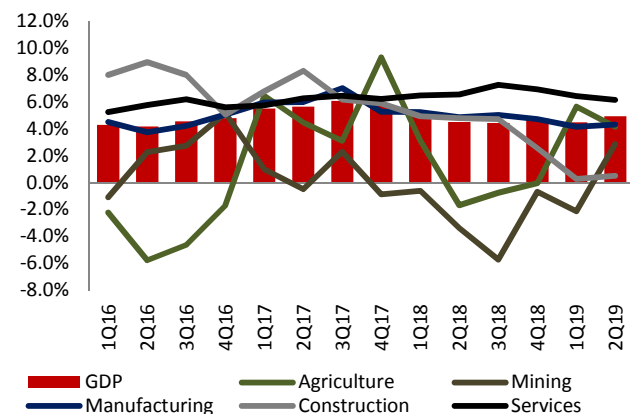
Source: CEIC, MIDFR

Chart 4: GDP vs Private Sector (YoY%)



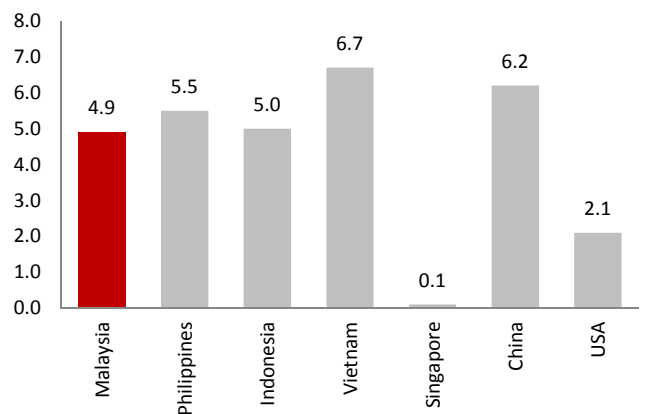
Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

Chart 6: GDP by Country 2Q19 (YoY%)



Source: CEIC, MIDFR

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