

ECONOMIC REVIEW | 3Q2019 National Account**3Q19 GDP Growth Moderated – Expecting Further Expansionary Policies in 2020**

- *3Q19 GDP growth moderated to 1-year low. Malaysia's GDP growth expanded 4.4%yoy in 3Q19, matched market estimate. The economy remains in expansion mode supported by domestic demand particularly private consumption and government spending. On the other hand, sluggish investment activities and weak external sector continue dampening the growth. From expenditure side, private consumption and net exports contributed 4.1% and 1% respectively.*
- *Domestic demand stays resilient. Even though at 6-quarter low, growth of above 7%yoy for private consumption is still considered solid. Government expenditure rebounded slightly to 1%yoy. Total investments remain in contractionary so far in 2019, particularly due to lower government investment. Private investment indicated trivial improvement possibly due to OPR cut in May-19. Looking ahead, we foresee there would be further expansionary economic policies particularly via monetary tool in 2020.*
- *Export-oriented sectors affected. In line with external trade performance, manufacturing sector growth moderated to 3.6%yoy. Mining sector deteriorated due to sluggish crude oil price. Referring to Brent Crude Oil, its price has been on the decline since 4Q18. In 3Q19, the commodity price dropped by -20.2%yoy, worst performance in 3 years. On the other hand, agriculture sector is predicted to improve in 4Q19 and 2020 due to recovery in CPO price and steady demand of palm oil products from India and China.*
- *We downgrade our forecast from 4.9% to 4.6% for 2019. Based on the current developments and indicators, namely challenging external trade conditions, sluggish crude oil prices and tepid investment activities, we cut our 2019 GDP growth forecast to 4.6%. On a flip side, the economic growth is expected to be contributed by steady domestic demand and recovery in agriculture sector.*

3Q19 GDP growth moderated to 1-year low. Malaysia's GDP growth expanded 4.4%yoy in 3Q19, matched market estimate. The economy remains in expansion mode supported by domestic demand particularly private consumption and government spending. On the other hand, sluggish investment activities and weak external sector continue dampening the growth. From expenditure side, private consumption and net exports contributed 4.1% and 1% respectively. From supply side, services, manufacturing and agriculture sectors contributed 3.3%, 0.8% and 0.3% respectively during the quarter.

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Tough external sector shall continue. Real exports and imports shrank by -1.4%yoy and -3.3%yoy respectively in 3Q19. The decline in imports among others was in line with the sluggish investment activities. Global trade tension, market uncertainties over the future relationship between US & China, political instability in EU and flattening commodity prices are among the headwinds affecting Malaysia's external trade performance. Next year is expected to be more puzzling as the US is heading towards its Presidential Election in Nov-20 which will determine whether Donald Trump shall stay in power or not.

Table 1: Summary of GDP by Expenditure Approach

	Quarterly Basis				Yearly Basis			
	4Q18	1Q19	2Q19	3Q19	4Q18	1Q19	2Q19	3Q19
GDP	3.5	(4.3)	2.1	3.3	4.7	4.5	4.9	4.4
Private Consumption	(2.6)	0.1	2.3	7.1	8.4	7.6	7.8	7.0
Govt. Consumption	33.8	(28.1)	2.2	2.7	4.0	6.3	0.3	1.0
Investments	(5.2)	(1.6)	8.4	(4.8)	0.6	(3.5)	(0.6)	(3.7)
Private Investment	(23.0)	24.7	15.8	(9.7)	5.8	0.4	1.8	0.3
Govt. Investment	41.3	(38.8)	(12.9)	14.0	(5.9)	(13.2)	(9.0)	(14.1)
Domestic Demand	2.7	(5.8)	4.1	2.8	4.0	3.9	3.8	3.6
Real Exports	2.5	(6.2)	0.1	2.4	3.1	0.1	0.1	(1.4)
Real Imports	1.3	(8.7)	3.0	1.6	1.8	(1.4)	(2.1)	(3.3)
Net Exports	14.3	14.7	(18.8)	8.9	15.5	10.9	22.9	15.9

Source: CEIC, MIDFR

Services and domestic sectors continue to support economic growth. Services sector accounting for 57.8% of total GDP expanded steadily at 5.9%yoy. Among services sub-sectors, the top three contributors are retail trade, wholesale trade and ICT. Lower OPR, low inflationary pressure, stable employment conditions and steady wage growth are the impetus for the domestic sector growth in 4Q19 and 2020.

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Table 2: Summary of GDP by Supply-Side Approach

	QoQ%			YoY%		
	1Q19	2Q19	3Q19	1Q19	2Q19	3Q19
GDP	(4.3)	2.1	3.3	4.5	4.9	4.4
Agriculture, Forestry & Fishing	(5.2)	(1.6)	15.9	5.6	4.2	3.7
Rubber	15.3	(34.0)	45.1	12.0	2.2	7.2
Oil Palm	(14.1)	(6.6)	18.2	9.8	9.5	8.4
Livestock	(7.1)	4.4	10.6	4.8	6.1	7.0
Other Agriculture	8.5	6.3	8.4	1.4	3.4	3.0
Forestry & Logging	(2.9)	5.4	5.3	3.0	(5.8)	(12.4)
Marine Fishing	8.5	(9.7)	38.7	9.4	1.9	3.6
Aquaculture	(22.0)	11.1	22.7	(12.5)	(18.4)	(15.1)
Mining & Quarrying	(3.7)	(0.4)	(11.6)	(2.1)	2.9	(4.3)
Crude Oil	0.6	(3.3)	(16.3)	(4.4)	(4.2)	(14.4)
Natural Gas	(6.8)	1.2	(9.7)	(0.5)	9.4	3.7
Others	(6.4)	5.7	0.2	0.1	3.4	3.2
Manufacturing	(4.6)	4.4	1.2	4.1	4.3	3.6
Vegetable & Animal Oils & Fats	(16.3)	0.2	(6.4)	11.2	1.1	(8.4)
Food Proceession	(5.3)	15.7	8.9	0.6	7.3	11.0
Beverages	(13.6)	27.8	(4.8)	2.4	3.4	3.2
Tobbaco Products	3.7	46.9	(13.2)	8.2	5.9	4.6
Textile & Wearing Apparel	(4.4)	17.3	(6.3)	5.0	5.9	5.6
Leather Products	41.3	21.3	(24.1)	3.1	5.6	6.3
Wood Products	0.2	(0.3)	7.9	5.2	4.6	6.0
Paper Products	19.8	8.9	(4.9)	3.8	5.0	4.8
Printing	3.1	(16.4)	(3.6)	5.3	4.6	5.3
Refined Petroleum Products	(4.3)	2.5	(2.2)	2.9	3.0	3.2
Chemicals & Chemical Products	(9.0)	(1.4)	9.7	2.2	2.4	2.3
Rubber Products	(32.0)	36.0	12.7	6.6	7.8	7.1
Plastic Products	(4.7)	(1.2)	32.8	4.9	3.9	0.6
Non-Metallic Mineral Products	(4.7)	21.6	0.0	4.7	4.4	4.3
Basic Metals	(13.5)	28.1	(0.3)	3.4	4.1	4.0
Fabricated Metal Products	8.0	12.4	(9.2)	3.7	4.0	3.9
Machinery & Equipment	56.2	(27.4)	1.8	3.1	3.0	5.5
Computers & Peripheral Equipment	(5.0)	(2.5)	(2.3)	3.8	12.0	11.8
Electrical Equipment	(3.9)	16.1	(27.5)	4.9	2.5	0.0
Electronic Compo & Boards, Com Equip and Elect	3.6	(8.2)	2.9	4.5	4.1	2.3
Medical, Precision & Optical, Watches & Clocks	(34.9)	43.9	0.1	(6.4)	0.9	2.8
Motor Vehicles & Transport Equipment	(24.5)	21.5	(6.4)	6.5	7.2	6.8
Furniture	22.5	1.5	(9.1)	8.1	8.3	7.1
Other Mfg and Repair & Installation and Equipment	(21.8)	0.8	55.5	6.5	1.2	3.1
Construction	1.4	(3.6)	5.5	0.3	0.5	(1.5)
Residential	(0.1)	(9.6)	8.9	(7.2)	(1.1)	(3.2)
Non-Residential	(20.3)	(5.1)	1.4	(4.0)	(9.1)	(12.0)
Civil Engineering	16.2	(2.0)	10.2	7.1	5.4	4.7
Special Trades	9.5	2.9	(3.2)	2.9	4.7	0.9

Services	(4.6)	2.4	4.3	6.4	6.1	5.9
Electricity & Gas	2.1	3.9	0.5	6.3	5.9	5.0
Water, Sewerage and Waste Management	0.6	(0.6)	3.1	9.7	8.5	6.4
Wholesale Trade	(12.3)	9.4	10.5	5.1	4.8	6.3
Retail Trade	(6.0)	(0.5)	4.2	9.5	9.2	8.1
Motor Vehicles	(13.1)	2.5	24.9	4.9	4.6	2.4
Food & Beverage	(3.7)	2.0	2.2	10.4	10.1	10.2
Accommodation	(5.6)	4.2	6.6	6.4	6.6	6.6
Transportation & Storage	(2.3)	2.0	2.4	6.7	7.0	6.8
ICT	3.7	3.4	1.5	7.2	6.3	6.0
Finance	(0.2)	(0.1)	2.7	2.5	5.7	4.4
Insurance	(1.8)	(6.3)	4.3	11.0	2.2	3.8
Real Estate	0.4	2.0	2.0	4.5	4.8	4.7
Business Services	(1.0)	4.4	(1.6)	8.9	9.4	9.2
Private Health	(0.6)	7.1	(0.8)	5.6	5.5	6.1
Private Education	(4.9)	3.8	7.3	5.3	5.4	5.3
Other Services	1.9	0.2	2.1	5.6	5.2	5.5
Govt. Services	(11.0)	1.4	4.5	4.3	3.7	3.1
Import Duties	(5.1)	3.3	1.7	(19.3)	(4.3)	34.7

Source: CEIC, MIDFR

Mixed directions on global stage. At a glance, developed and emerging economies continue expanding in 3Q19 despite US-China trade war, political uncertainty in EU, flat commodity prices and decline in business optimism. Most of economies show sign of recoveries. For instance, economies like Philippines, Vietnam and Japan expanded better than in 2Q19. Singapore avoided technical recession as the economy rebounded from -2.7%qoq in 2Q19 to 0.6%qoq in 3Q19. On annual basis, Singapore's GDP growth remains flat at 0.1%yoy, weakest in 10 years. Due to trade tension, China's economic growth moderated further to 6%yoy, lowest since 1Q92. Across the globe, the US economy indicated slight moderation which among the reasons for the third rate cut in 2019. Moving forward, we foresee slight rebound in global as well as regional growth in 4Q19 and 2020 to be underpinned by easing monetary policy by developed and emerging markets. Nevertheless, market uncertainties over the future trade relationship between the US and China, political stability in EU and conflicts in oil producing economies remain as downside risks to global growth.

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

	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19
Malaysia	4.5	4.4	4.7	4.5	4.9	4.4
Philippines	6.2	6.0	6.3	5.6	5.5	6.2
Indonesia	5.3	5.2	5.2	5.1	5.1	5.0
Thailand	4.7	3.2	3.6	2.8	2.3	
Vietnam	6.7	6.8	7.3	6.8	6.7	7.3
Singapore	4.2	2.6	1.3	1.1	0.1	0.1
Australia	3.2	2.5	2.2	1.8	1.2	
India	8.0	7.0	6.6	5.8	5.0	
Japan	1.5	0.1	0.3	0.9	0.9	1.3

China	6.7	6.5	6.4	6.4	6.2	6.0
EU	2.3	1.8	1.7	1.7	1.3	
USA	3.5	2.9	1.1	3.1	2.0	1.9

Source: CEIC, MIDFR


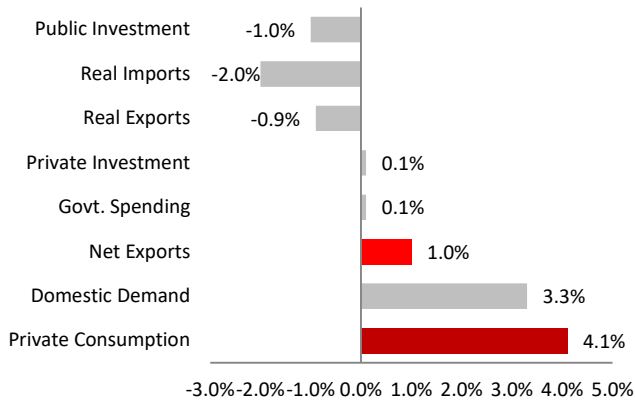
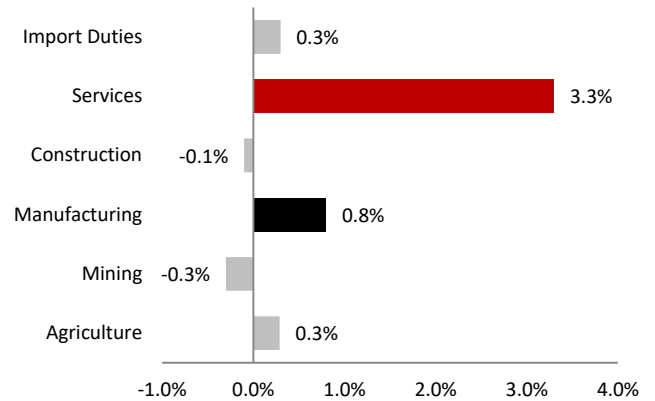
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Chart 1: Contribution by Expenditure Components (%)



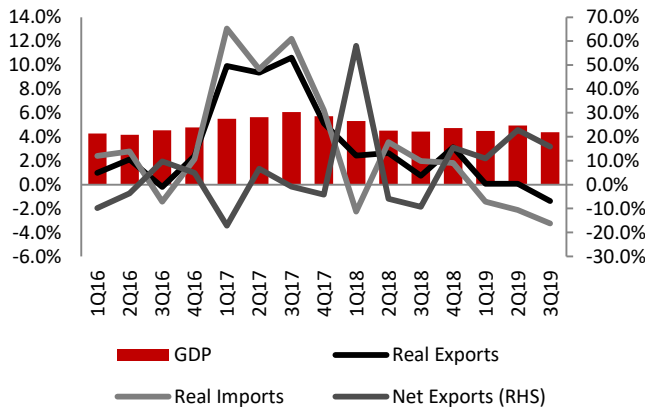
Source: CEIC, MIDFR

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



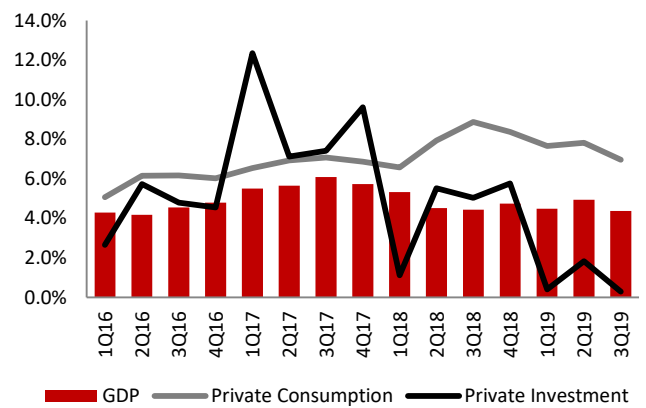
Source: CEIC, MIDFR

Chart 3: GDP vs External Trade (YoY%)



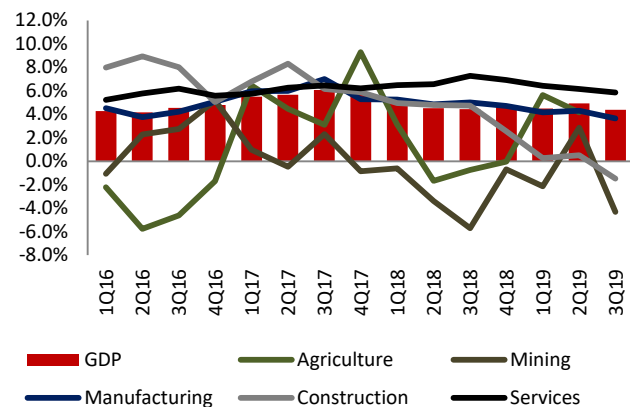
Source: CEIC, MIDFR

Chart 4: GDP vs Private Sector (YoY%)



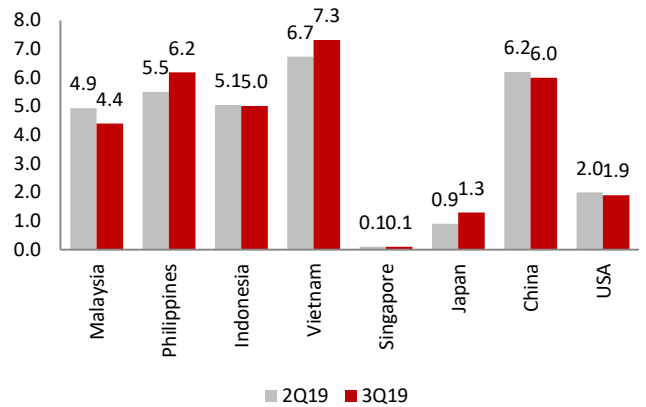
Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

Chart 6: GDP Growth by Selected Country (YoY%)



Source: CEIC, MIDFR

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