

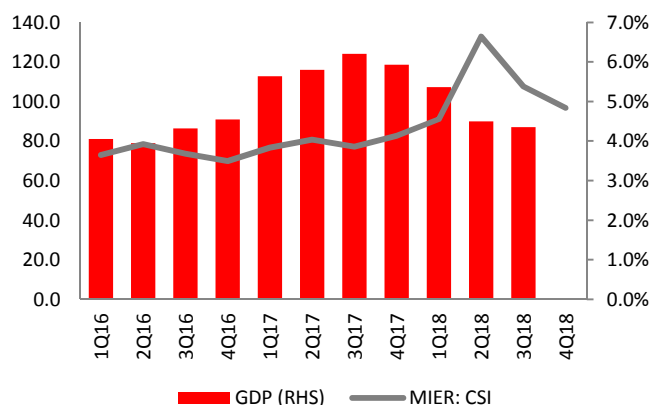
ECONOMIC REPORT | National Account Preview

4Q18 GDP Growth to Rebound at 5% Underpin by Improving External Trade & Solid Domestic Demand

- *Rebound in external trade. Total exports grew by 8%yoy in 4Q18, higher than 3Q18. Most importantly, domestic exports returned to positive growth of 4.1%yoy after experiencing contraction during the first 9-months of 2018. Re-exports maintains at robust pace, registering high double digit growth rates for almost 2½ years. In addition, trade balance hits RM34.6b in 4Q18, highest since 1Q10.*
- *Encouraging IPI and retail sales. IPI expanded by 3.5%yoy in 4Q18, fastest in 3-quarter while retail sales have been recording double digit growth rate since the zero-rated GST in Jun-18. Better performance of external trade and steady domestic demand translate into faster expansion in export-oriented and domestic-driven industries.*
- *We forecast GDP growth for 4Q18 to improve at 5.0%. Malaysia's economic activities sustain on upward trajectory amid resilient domestic spending and improved external trade performance. Moving forward, we view continuous expansionary momentum particularly with solid domestic demand, low inflationary, receding trade tension and gradual pick-up of commodity prices this year. We opine the economy to expand by 5%yoy in 4Q18. As for the whole year, our GDP estimate to 4.8% in 2018.*

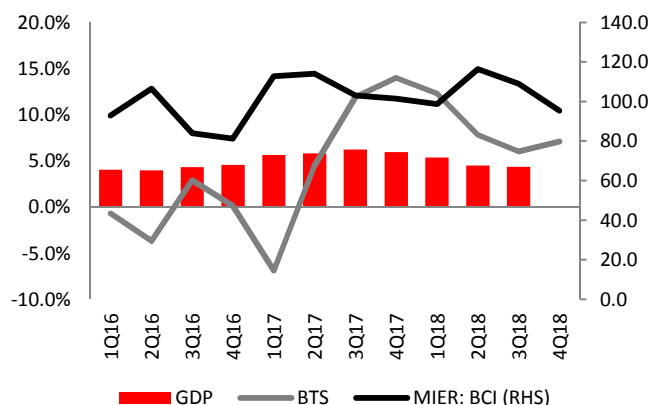
Economic performance to remain upbeat despite slight moderation in sentiments. Referring at leading indicators, signs of optimism are still present yet slightly decline in the final quarter of 2018. Both MIER's consumer sentiment index and business condition index declined marginally to below 100-threshold line. On a flip side, business tendency survey points to improvement in overall economic performance during the quarter. Low inflationary pressure, recovery in upstream petroleum-related sectors, receding trade war effects and solid domestic demand are among fundamental reasons contributing towards GDP growth in 4Q18.

Chart 1: Consumer Sentiment vs GDP (YoY%)



Source: CEIC, MIDFR
 * >100 points: Optimism
 * <100 points: Pessimism

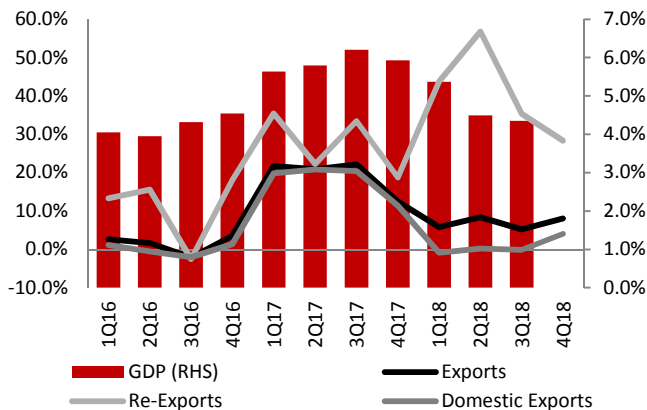
Chart 2: Business Confidences vs GDP (YoY%)



Source: CEIC, MIDFR

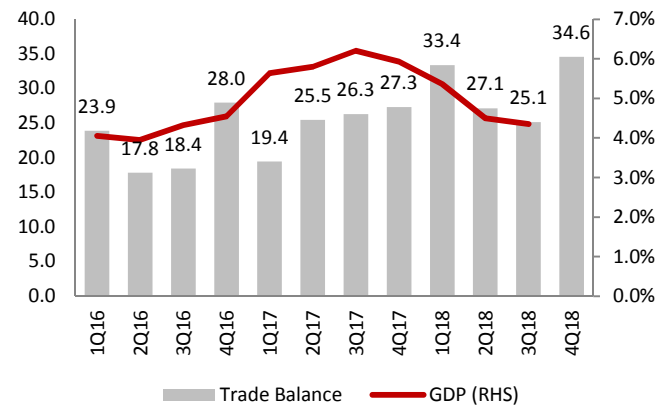
Rebound in external trade. Total exports grew by 8%yoy in 4Q18, higher than 3Q18. Most importantly, domestic exports returned to positive growth of 4.1%yoy after experiencing contraction during the first 9-months of 2018. Re-exports maintains at robust pace, registering high double digit growth rates for almost 2½ years. In addition, trade balance hits RM34.6b in 4Q18, highest since 1Q10. Hence, we foresee stronger GDP growth in the final quarter amid solid contribution by higher pace of exports and trade balance value.

Chart 3: GDP vs Exports (YoY%)



Source: CEIC, MIDFR

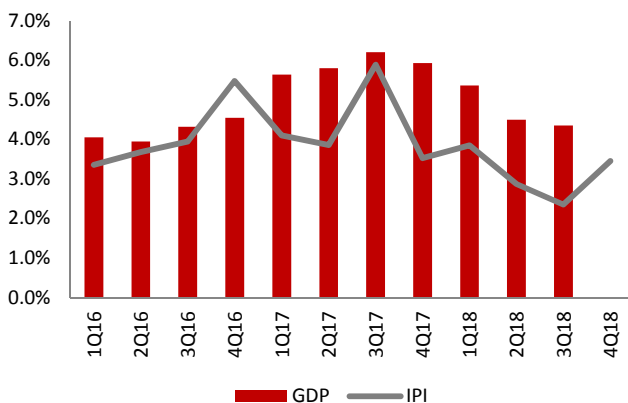
Chart 4: GDP (YoY%) vs Trade Balance (RMb)



Source: CEIC, MIDFR

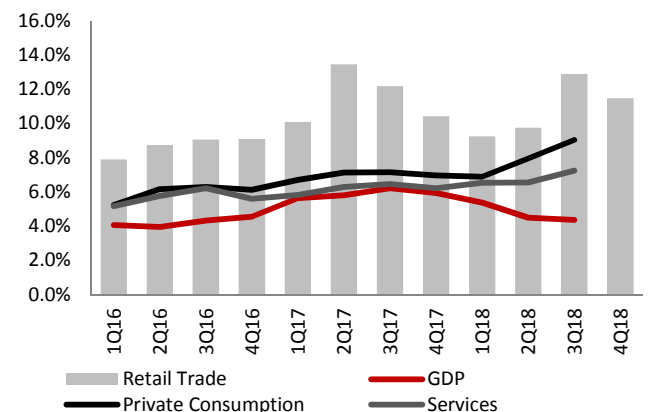
Encouraging IPI and retail sales. IPI expanded by 3.5%yoy in 4Q18, fastest in 3-quarter while retail sales have been recording double digit growth rate since the zero-rated GST in Jun-18. Better performance of external trade and steady domestic demand translate into faster expansion in export-oriented and domestic-driven industries. With solid IPI and domestic demand, Malaysia’s economic growth in 4Q18 is predicted to improve at faster pace as compared to the previous two quarters.

Chart 5: IPI vs GDP (YoY%)



Source: CEIC, MIDFR

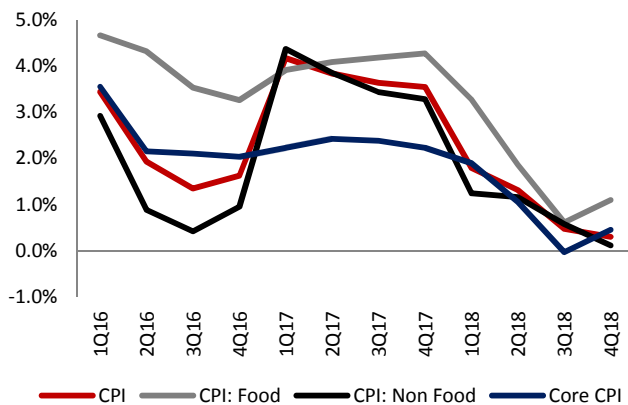
Chart 6: GDP vs Retail Trade (YoY%)



Source: CEIC, MIDFR

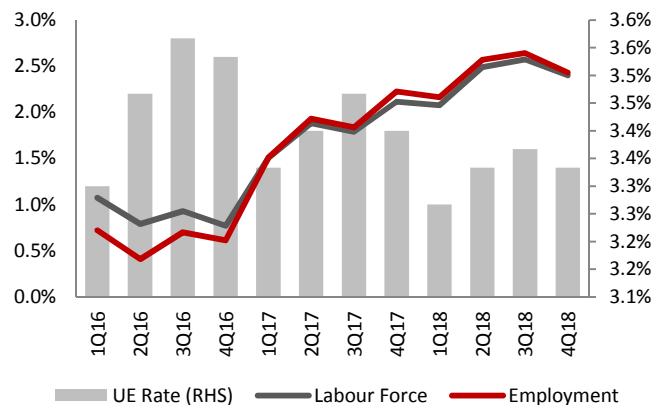
Solid labor market & low inflationary pressure. Following slight slowdown in global energy prices in 4Q18 and subsidized retail fuel prices, inflationary pressure in Malaysia is fading. For the full-year 2018, headline CPI hits 9-year low at 1%. Core inflation averaged at below 1% and transport price fell by -1% during the quarter. Moving forward, we foresee continuous strong domestic demand on the back of low inflationary pressure and stable job market. Jobless rate remains at 3.3%, reflecting full-employment condition while labor force and employment expand at solid pace of 2.4%yoy and 2.5%yoy respectively in 2018.

Chart 7: Headline vs Core Inflation (YoY%)



Source: CEIC, MIDFR

Chart 8: Labour Market Performance (YoY%)



Source: CEIC, MIDFR

We forecast GDP growth for 4Q18 to improve at 5.0%. Malaysia's economic activities sustain on upward trajectory amid resilient domestic spending and improved external trade performance. Moving forward, we view continuous expansionary momentum particularly with solid domestic demand, low inflationary, receding trade tension and gradual pick-up of commodity prices this year. We opine the economy to expand by 5%yoy in 4Q18. As for the whole year, our GDP estimate to 4.8% in 2018. 📈

Table 1: Selected-Macroeconomic Data Updates

YoY% Unless Stated Otherwise	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
MIER: BCI (Points)	114.1	103.1	101.5	98.6	116.3	108.8	95.3
MIER: CSI (Points)	80.7	77.1	82.6	91.0	132.9	107.5	96.8
Nikkei Manufacturing PMI (Points)	48.8	49.5	50.2	50.0	48.6	50.8	48.1
Exports fob	20.9	22.2	12.4	5.8	8.4	5.2	8.0
Re-Exports	22.2	33.4	18.8	43.7	56.8	35.3	28.3
Domestic Exports	20.8	20.4	11.4	(0.8)	0.2	(0.1)	4.1
Imports cif	18.7	19.7	14.6	(0.2)	8.9	6.2	5.7
<i>Trade Balance (RM Billion)</i>	25.5	26.3	27.3	33.4	27.1	25.1	34.6
<i>IPI</i>	3.9	5.9	3.5	3.8	2.9	2.4	3.5
<i>IPI: Mining</i>	(1.3)	2.5	(1.6)	(0.0)	(2.7)	(5.6)	0.6
IPI: Manufacturing	6.0	7.2	5.4	5.2	4.7	4.8	4.5
IPI: Electricity	1.0	4.4	4.1	3.9	3.8	4.2	2.9
Manufacturing Sales	15.5	16.5	10.4	6.5	7.2	8.6	8.5
Approved Loan	3.9	11.1	12.5	4.9	9.2	8.6	(0.6)
Loan: Working Capital	0.8	(2.6)	5.8	(17.5)	18.6	16.6	(4.4)
Distributive Trade	9.7	9.4	8.4	7.3	8.0	9.4	8.0
Motor Vehicles	2.7	2.1	0.3	0.0	4.5	7.3	1.4
<i>Wholesale Trade</i>	8.7	9.1	9.0	7.7	7.6	7.0	6.9
<i>Retail Trade</i>	13.5	12.2	10.4	9.2	9.8	12.9	11.5
<i>Employment</i>	1.9	1.8	2.2	2.2	2.6	2.6	2.4
Headline Inflation	3.8	3.6	3.6	1.8	1.3	0.5	0.3
Brent Oil (USD per barrel)	50.0	56.0	63.9	68.4	77.4	78.1	62.7
CPO (RM per tonne)	2,488.7	2,722.8	2,640.3	2,492.0	2,372.3	2,205.3	2,103.7

Source: CEIC, MIDFR

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