31 May 2019

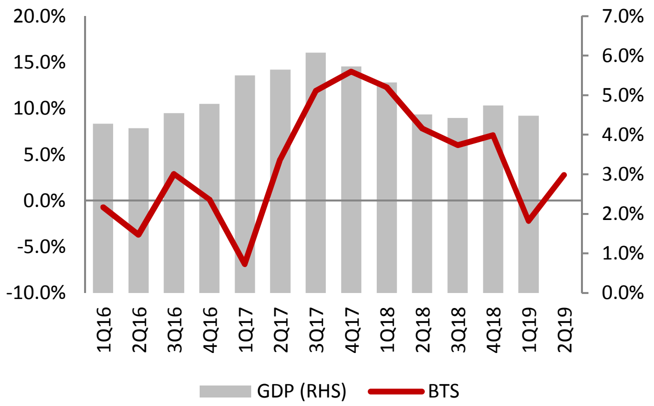
MONTHLY ECONOMIC REVIEW | May 2019

Malaysia's Economy Remains on Expansionary Path Supported by Domestic Factors

- *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.*
- *GDP growth in 1Q19 exceeds market expectation. Malaysia's GDP growth expanded 4.5%yoy in 1Q19, above market expectations of 4.3%yoy. From expenditure side, private consumption and government spending contributed by 4.3% and 0.7% respectively. From supply side, services and manufacturing sectors contribute 3.6% and 0.9% respectively during the quarter.*
- *Bank Negara Malaysia cuts OPR by 25 basis points. In line with market expectations, the overnight policy rate was cut from 3.25% to 3.00% by Bank Negara Malaysia (BNM). We had initially expected that there will no rate cut this year. Nevertheless, we expect no further change in OPR for the remaining of 2019, leaving the rate at 3.00% throughout the year.*

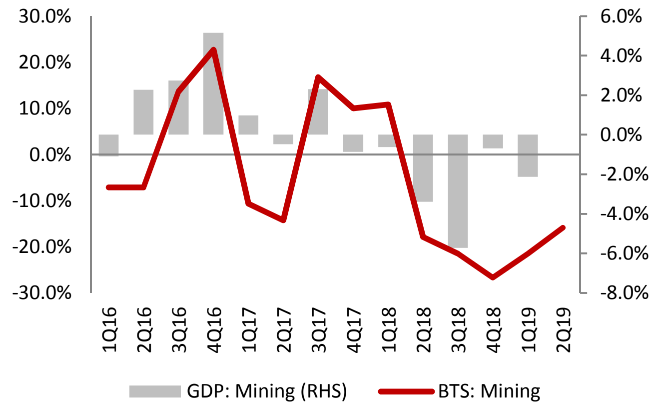
Overall business confidence rebounded smoothly. According to the Business Tendency Survey, overall business performance is set to improve at 2.8% in 2Q19. Domestic-oriented sectors such as services and construction and petroleum-based sector is predicted to recover in the quarter. On a flip side, export-oriented 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%.

Chart 1: BTS (%) vs GDP (YoY%)



Source: CEIC, MIDFR

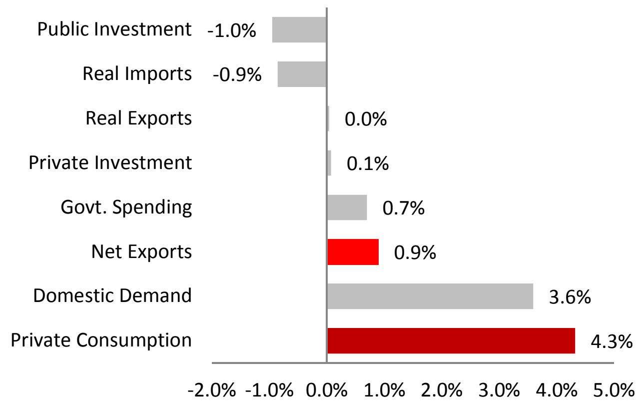
Chart 2: Mining & Quarrying: BTS (%) vs GDP (YoY%)



Source: CEIC, MIDFR

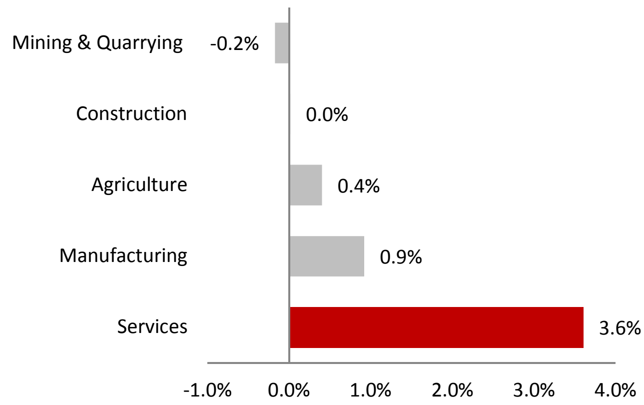
GDP growth in 1Q19 exceeds market expectation. Malaysia's GDP growth expanded 4.5%yoy in 1Q19, above market expectations of 4.3%yoy. From expenditure side, private consumption and government spending contributed by 4.3% and 0.7% respectively. From supply side, services and manufacturing sectors contribute 3.6% and 0.9% respectively during the quarter. The slight moderation in GDP growth is due to among others global trade uncertainties and volatility in commodity prices as real exports grew at tepid pace of 0.1%yoy, slowest in 10-quarter. On the other hand, domestic front stays solid given that domestic demand increased 3.9%yoy, supported by private consumption and government spending.

Chart 3: Contribution by Expenditure Components (%)



Source: CEIC, MIDFR

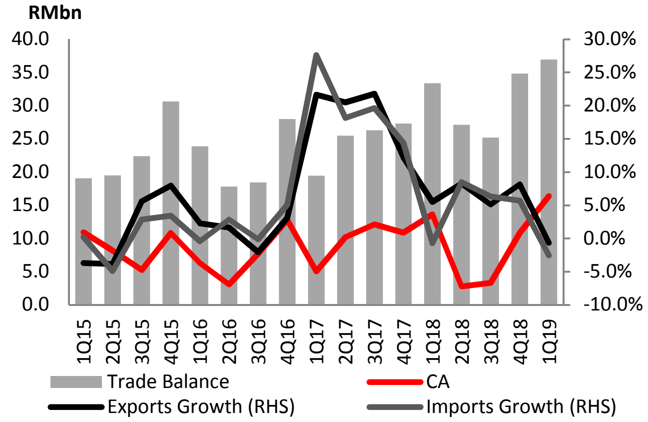
Chart 4: Contribution by Supply-Side Components (%)



Source: CEIC, MIDFR

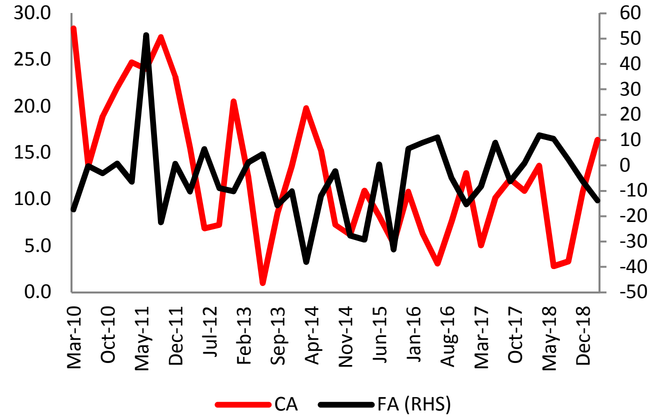
Current account surplus at 5-year high. Malaysia's current account surplus recorded a surplus of RM16.4b in the 1Q19, the largest reading since 1Q14. The surge was mainly attributable to higher increase in goods surplus due to a remarkable trade surplus of RM36.9b in 1Q19 resulting from bigger decline in imports compared to those of exports. Imports contracted -2.5%yoy in the 1Q19, exceeding -0.7%yoy drop in exports. Lower purchases of both intermediate and capital goods dragged overall imports down. In addition, significant decline in services deficit and primary income compared to previous quarter also contributed to the higher current account surplus. Hence, Malaysia strengthened its position as a net domestic saver built up from a record of current-account surpluses.

Chart 5: Current Account Balance vs External Trade



Source: CIEC, MIDFR

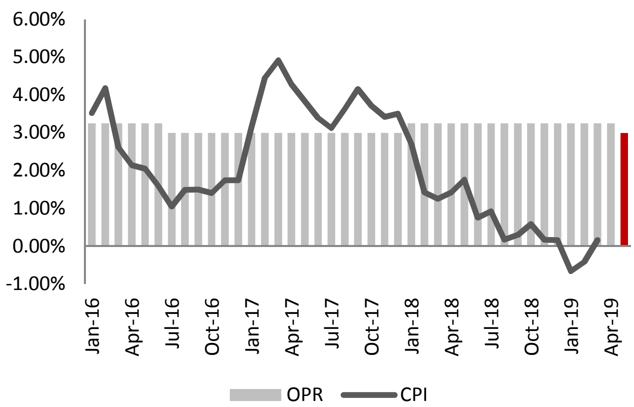
Chart 6: CA vs FA (RM Billion)



Source: CIEC, MIDFR

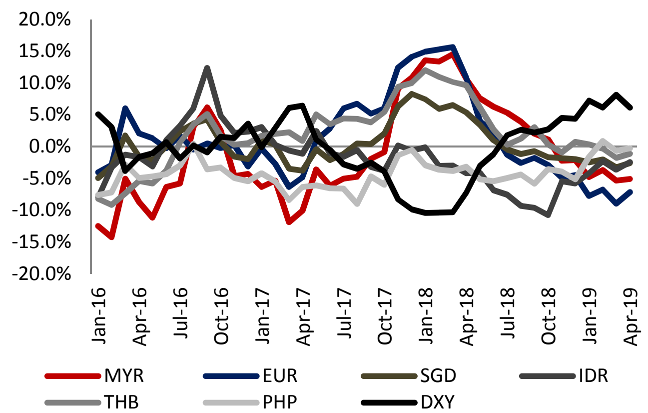
Bank Negara Malaysia cuts OPR by 25 basis points. In line with market expectations, the overnight policy rate was cut from 3.25% to 3.00% by Bank Negara Malaysia (BNM). We had initially expected that there will no rate cut this year. Nevertheless, we expect no further change in OPR for the remaining of 2019, leaving the rate at 3.00% throughout the year. With the cut, we can expect improvement in investment and domestic consumption activities in 2019 particularly in 2H19. On external front, Malaysia's external trade performance is recovering as both exports and imports rebounded strongly at 26.2%mom and 25.4%mom respectively in Mar-19. Trade tension between the US & China stays uncertain, gradual pick-up in commodity prices and steady rise in business optimism as reflected in PMI figures. Domestically, economic activities remain solid given that current jobless rate reflects full-employment condition, stable IPI and distributive trade performances as well as low inflationary pressure. We make no change to our 2019 GDP growth estimate of 4.9%.

Chart 7: Monetary Policy (%) vs CPI (YoY%)



Source: CEIC, MIDFR

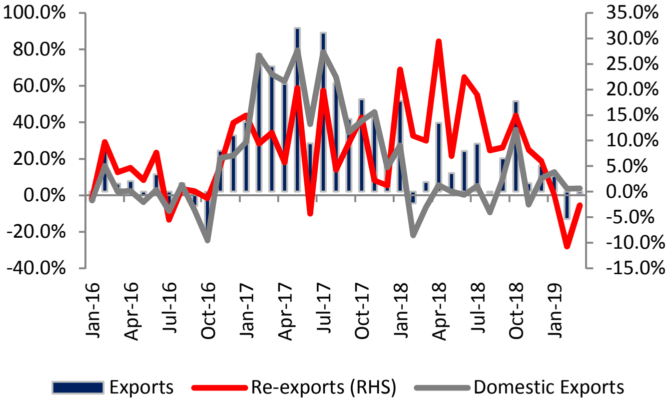
Chart 8: MYR Against Selected Currencies (YoY%)



Source: CEIC, MIDFR

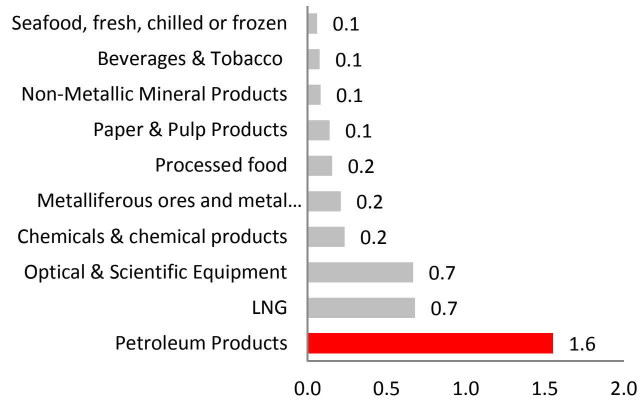
Trade surplus at 5-month high. Trade surplus recorded at RM14.4b in Apr-19, the largest gain since Oct-18. Exports contracted for the second consecutive month in Mar-19 however at a far lower pace of -0.5%yoy compared to -5.3%yoy in the previous month, gaining back the momentum as CNY holidays end. Similarly, imports posted a marginal drop of -0.1%yoy (Feb-19: -9.4%yoy). Sector wise, manufacturing exports rebounded to a positive growth of 1.5%yoy (Feb-19: -4.3%yoy) while agriculture posted smaller negative growth of -10.4%yoy (Feb-19: -13.7%yoy). In contrast, mining sector exports recorded a larger negative growth of -7.4%yoy (Feb-19: -5.5%yoy).

Chart 9: Total Exports: Domestic vs Re-exports (YoY%)



Source: CEIC, MIDFR

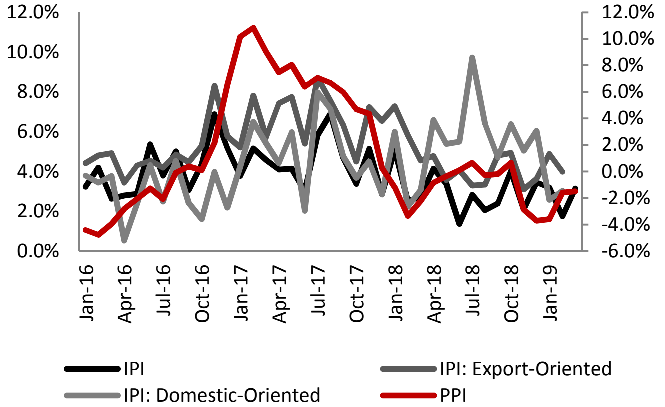
Chart 10: % Contribution to Exports Growth by Products



Source: CEIC, MIDFR

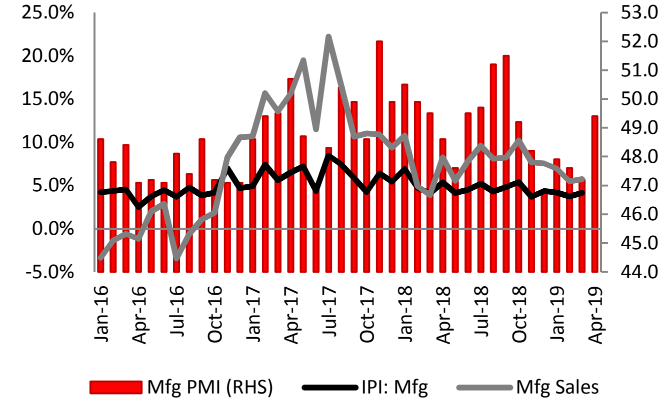
IPI growth beats market estimates. Malaysia's IPI grew gradually by 1.7%yoy in Mar-19, outpacing market expectation of 2.3%yoy. The growth is mainly attributed by manufacturing and electricity output while mining contracted at a lesser pace. The factory output grew 4.1%yoy and electricity output increased 4.8%yoy. Meanwhile, mining output remained in negative territory for three-straight months at -0.2%yoy in Mar-19. Moving forward, we foresee IPI performance to expand at a moderate pace in the 2Q19 and 2H19 underpin by lower OPR effects, low inflationary pressure, stable domestic demand, positive progression in construction sector and gradual pick-up in commodity prices. Trade talks between the US and China remains uncertain and downside risks to global trade activities as well as Malaysia's industrial activities.

Chart 11: IPI vs PPI (YoY%)



Source: CEIC, MIDFR

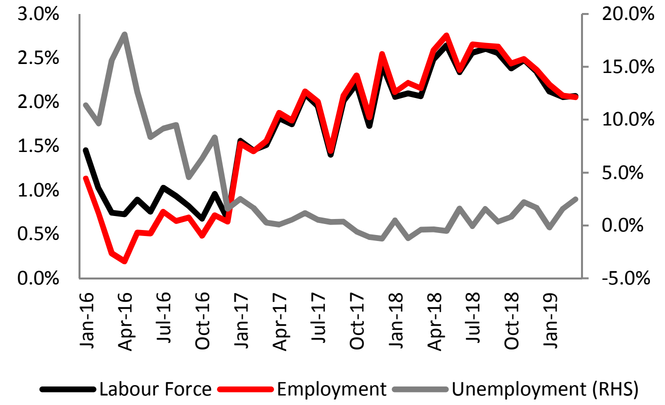
Chart 12: Manufacturing IPI & Sales (YoY%) vs PMI (Points)



Source: CEIC, MIDFR

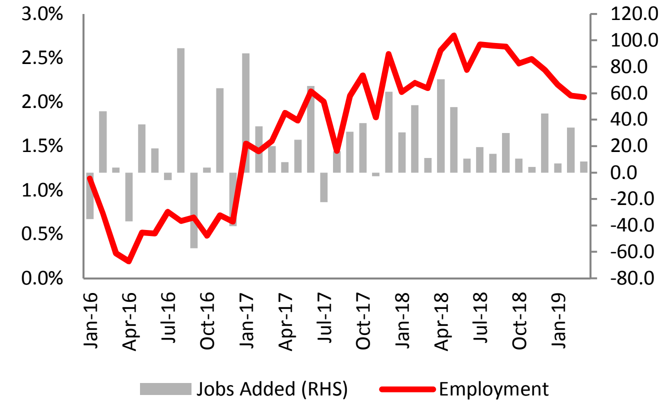
Labour market remains stable. Labour force growth has sustained at 2.1%yoy in Mar-19. Similarly, employment growth has maintained at 2.1%yoy while jobs added in the economy recorded at 8.4k. Meanwhile, the number of unemployment increased further by 2.5%yoy, outpacing growth in both labour force and employment for the first time after 2 years. Nevertheless, labour market remains steady as the economy is still under full-state of employment. The stable job market reflects healthy development of Malaysia's economy and provides solid support to domestic demand.

Chart 13: Labour Market Indicators (YoY%)



Source: CEIC, MIDFR

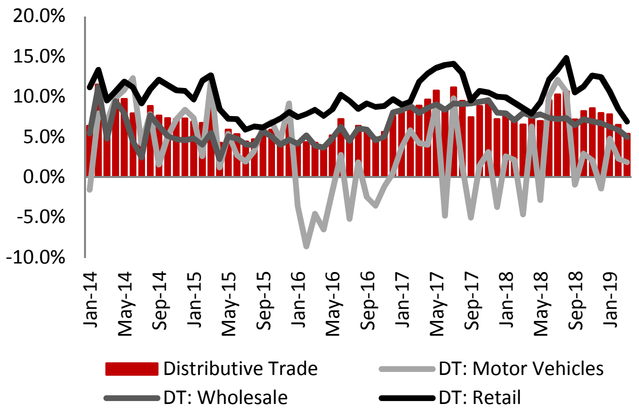
Chart 14: Jobs Added ('000) vs Empl. (YoY%)



Source: CEIC, MIDFR

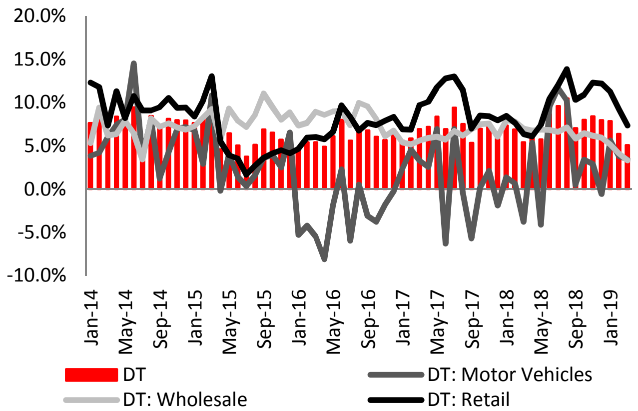
Distributive trade growth at over 2-year low. Distributive trade increased 5.4%yoy in Mar-19, the lowest gain since Oct-16 but sales value hit fresh record high at RM109.3. The growth has been on downward trend for the fourth consecutive month as all three components moderated further. Wholesale and retail sales grew 5%yoy and 6.9%yoy respectively but at a softer pace than preceding months. Similarly, motor vehicle sales growth eased to 1.8%yoy. Based on this latest performance, we could expect a moderation in GDP growth for 1Q19 as private consumption accounts for more than 50% share of total GDP. Looking ahead, we foresee domestic demand to increase in upcoming months buoyed by OPR cut, stable job market, wage growth and low inflationary pressure.

Chart 15: Distributive Trade, DT (YoY%)



Source: CEIC; MIDFR

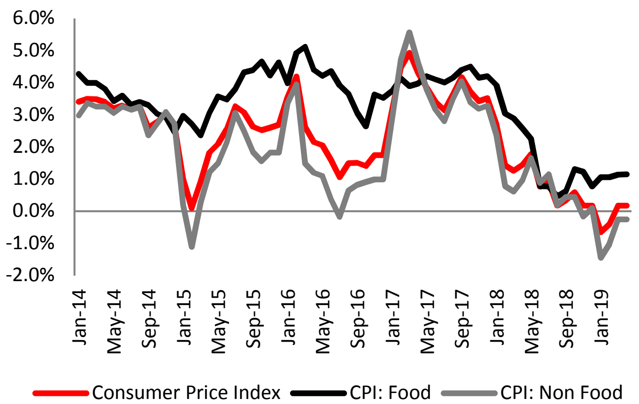
Chart 16: Distributive Trade Volume, DT (YoY%)



Source: CEIC; MAHB; MIDFR

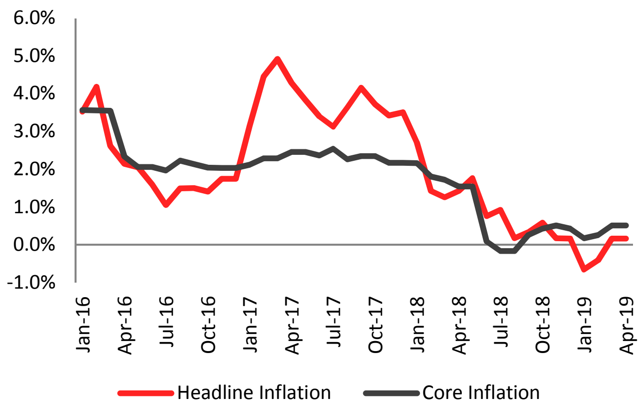
Muted inflationary pressure. Consumer price index increased 0.2%yoy in Apr-19, unchanged from previous month's figure. Contribution to the trivial increase came mainly from housing, water, electricity, gas & other fuels and food & non-alcoholic beverages, among others. Transport prices continued to drop, but at a softer pace of -2.6%yoy in Apr-19, registering six-consecutive months of negative growth. Similar to headline figure, core inflation stood at the same pace as in Mar-19. Looking ahead, Malaysia's consumer inflation is likely to stay low following the lower capped prices of RON95 and Diesel at RM2.08 and RM2.18 per litre respectively. Nevertheless, demand-push factor remains firm amid stable job market and steady wage growth.

Chart 17: CPI: Headline vs Food & Non-food (YoY%)



Source: CEIC, MIDFR

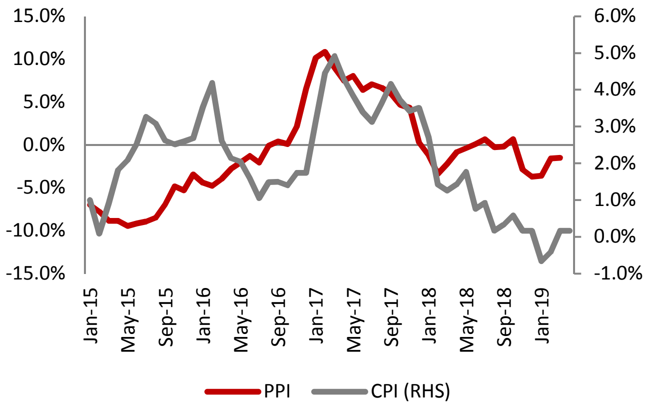
Chart 18: CPI: Headline vs Core (YoY%)



Source: CEIC, MIDFR

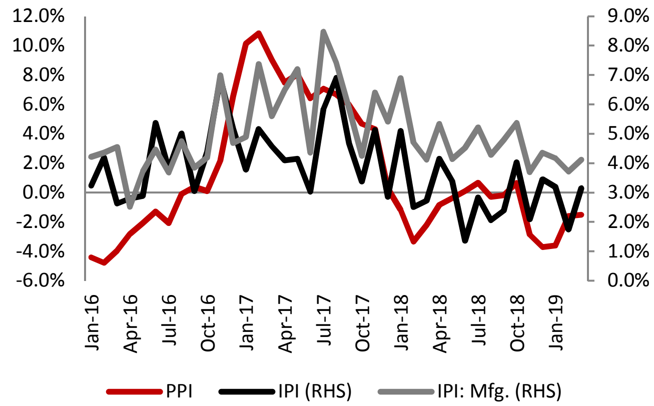
PPI stays on contractionary path. Malaysia's producer cost remains deflationary as PPI shrank by -1.4%yoy in Apr-19. This is mainly due to continuous falling input prices of agriculture and manufacturing sectors. Factory input price has been on negative growth for 16-consecutive months. Manufacturing sector still held the largest share at 81.6% in determining the producers' inflation. We expect the of PPI to remain low given that retail fuel prices of RON95 and Diesel are capped at lower levels than 2018's average price of RM2.20.

Chart 19: PPI vs CPI (YoY%)



Source: CEIC, MIDFR

Chart 20: PPI vs IPI (YoY%)



Source: CEIC, MIDFR

Table 1: Macroeconomic Data Updates

(YoY%) Unless Stated Otherwise	2016	2017	2018	2019f
Real GDP	4.4	5.7	4.7	4.9
Public Consumption	1.6	5.5	3.2	3.5
Private Consumption	5.8	6.8	7.9	7.2
Gross Fixed Capital Formation	2.5	6.1	1.3	1.7
Public Investment	(0.8)	0.5	(5.0)	(4.0)
Private Investment	4.4	9.1	4.4	4.2
Exports of goods & services	1.3	8.8	2.2	0.8
Imports of goods & services	1.5	10.3	1.3	0.7
Net Exports (RMb)	88.9	85.5	95.3	97.5
Agriculture etc.	(3.6)	5.8	0.2	1.5
Mining & Quarrying	2.3	0.5	(2.6)	2.1
Manufacturing	4.4	6.1	5.0	3.8
Construction	7.5	6.8	4.3	4.5
Services	5.7	6.2	6.8	6.5
Exports of Goods (f.o.b)	1.4	19.3	7.3	3.6
Imports of Goods (c.i.f)	2.0	20.2	5.6	3.0
Trade Balance - RMb	88.1	98.5	119.8	126.3
Consumer Price Index	2.1	3.8	1.0	1.1
End of Unless States Otherwise	**2016**	**2017**	**2018**	**2019f**
Brent Crude Oil (Avg)	46.0	55.7	71.6	75.0
Crude Palm Oil (Avg)	2642.0	2659.0	2293.0	2180.0
USD/MYR (Avg)	4.14	4.30	4.00	4.12
USD/MYR	4.46	4.08	4.10	4.10
Overnight Policy Rate (%)	3.00	3.00	3.25	3.00

Source: MIDFR

May 2019 Key Economic Events

2 May: Bank of England Set for Faster Rate Hikes If Brexit Resolved. Mark Carney said the Bank of England would raise interest rates by more than investors are predicting if the U.K. successfully manages a smooth exit from the European Union. "We're going through this period of uncertainty in the run up to some resolution around Brexit," the BOE governor told reporters after policy makers unanimously kept rates on hold. If "that resolution is some form of arrangement, with some form of relatively smooth transition to it, it will require interest rate increases over that period and it will require more and more frequent interest rate increases than the market currently expects."

7 May: PM rates his cabinet 5 out of 10, promises no reshuffle. The score was for their performance over the past one year following their appointment after Pakatan took over the government from Barisan Nasional in the 14th General Election on May 9. "Out of 10, five I think, [that] would be about 50%. I'm very conservative because I've been in the government for [over] 22 years. I know how government functions but these people are new, [so] they do not know how the government functions," he told a special press conference with the local media yesterday, ahead of the government's upcoming first anniversary.

8 May: Malaysia is no. 1 in Southeast Asia — on property obsession. Malaysia has topped the list as the most property-obsessed country in Southeast Asia. Globally, the country is fourth, behind UAE, USA and Taiwan. The findings were derived from an online survey by HSBC, which find that Malaysians spend an average 4.37 hours viewing properties, way longer than working out at the gym (1 hour), reading books (1.95 hours) or reading/watching the news (2.27 hours). Among them, more than a quarter (26%) of Malaysians are extreme property addicts who spend between seven and nine hours searching for properties online, with about one in five (19%) of them spending more than 10 hours reading property magazines.

15 May: Commercial and industrial property owners urged to explore solar tech. Hopes of luring back global investors to a battered stock market are dimming by the day for Malaysia. The benchmark FBM KLCI is down 14% from a record in May 2018 and it's the worst major market in the world so far this year, having slipped 3.4%. That's even amid a rally in global equities spurred by the Federal Reserve's dovish pivot and a potential trade deal between the United States and China. The gloomy outlook for Malaysian stocks isn't likely to end anytime soon, says Samsung Asset Management Co.

21 May: Malaysia, Singapore suspend RTS Link project until Sept 30. Malaysia and Singapore have signed a supplemental agreement (SA) for the suspension of the Rapid Transit System (RTS) link project until Sept 30. Transport Minister Anthony Loke said Malaysia would reimburse Singapore about RM2 million by July 31 as abortive costs incurred as a result of the six-month suspension. Loke and his Singapore counterpart Khaw Boon Wan sealed the agreement to formalise the suspension at the Singaporean Transport Ministry.

26 May: Dr M: Govt committed to strengthening Malaysia-China ties. The trade and investment growth between the two countries in recent years had been meteoric and this trend would continue to generate more opportunities in the areas of tourism, science and technology as well as cultural exchanges, the Prime Minister said in a message in the souvenir book published by the Malaysia-China Friendship Association, better known as PPMC, to mark the 45th anniversary of diplomatic ties between the two countries.

27 May: European Parliament Elections: 5 Biggest Takeaways. The most prominent takeaways from the results of the elections for the European Parliament are fragmentation and polarization. Fragmentation, because traditional mainstream parties of the center-right and center-left lost seats to smaller, more passionate parties like the Greens and a variety of populist groups. And polarization, because populists and euroskeptic parties increased their share of seats to 25 percent, up from about 20 percent five years ago. The feared populist wave was more of a large ripple, but populists did very well in major countries where they are in power, like Italy, Hungary and Poland.

29 May: Singapore, Malaysia, Vietnam added to US currency watchlist. The U.S. Treasury added Singapore, Malaysia and Vietnam to a watch list for currency manipulation, putting their foreign-exchange policies under scrutiny. Singapore made the list because of its large current account surplus and net foreign currency purchases of at least $17 billion in 2018, equivalent to 4.6% of GDP, according to the Treasury. Malaysia was cited for its bilateral trade surplus with the U.S. of $27 billion last year and its currency intervention, while Vietnam was highlighted for its large current account and bilateral trade surpluses.

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