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ECONOMIC REPORT | Business Tendency Index

GDP Growth to Improve in 3Q19 Underpin by Domestic and Mining Sectors

- *Business confidence continues trending upwards. According to the Business Tendency Survey, overall business performance is set to improve at 3.1% in 3Q19. Commodity based sectors such as agriculture and mining are predicted to recover in 3Q19. In addition, manufacturing sector is also expected to recover despite external headwinds. Henceforth, we expect GDP growth in 3Q19 to record above 5%.*
- *2H19 stays on expansionary path. Referring to business expectations for the next 6 months, overall business performance is expected to improve steadily. Overall business performance for the second half of 2019 is expected to enjoy steady pick-up especially for services, mining and manufacturing sectors. Strong domestic demand and low inflationary pressure are fundamental factors supporting the services sectors.*
- *Moderating global growth amid multiple headwinds. Major and emerging economies are predicted to expand at moderate pace in 2019. Continuation of the US-China trade war, fragmented EU, geopolitical risks and volatility of commodity prices are among key downside risks to global growth.*

Business confidence continues trending upwards. According to the Business Tendency Survey, overall business performance is set to improve at 3.1% in 3Q19. Commodity based sectors such as agriculture and mining are predicted to recover in 3Q19. In addition, manufacturing sector is also expected to recover despite external headwinds. Henceforth, we expect GDP growth in 3Q19 to record above 5%.

Sluggish CPO price puts pressures on agriculture sector. Confidence in agriculture sector improved to -3.1 but remained negative due to weak CPO price movements. In July-19, CPO priced approximately at RM1927, recovered slightly from 3-month low of RM1872 in the previous month. On the flip side, mining sector is expected to improve in 3Q19 supported by steady exports of LNG. Nevertheless, declining Brent crude oil price could influence the estimate.

Manufacturing at 3-month high. Manufacturers in Malaysia have started to show some optimism despite the US-China stalemate. In fact, GDP for the manufacturing sector expanded by 4.3%yoy, slightly better than 1Q19. So far, the trade negotiations between the US and China have failed to reach a deal. Both are imposing tariff hikes on each other and continue the threatening game. For Malaysia's trade outlook, we forecast exports and imports to continue growing at steady pace of 3.6% and 3% respectively in 2019. Recovery in domestic exports will contribute towards the exports growth this year.

Lower OPR to boost services sector. Business confidence for the services sector recorded at 11.5%, lower than 20.8% in the previous quarter. Temporarily high inflation foreseen in the 3Q19 due to low base effect amid the tax holiday period last year could limit the performance of services sector. Nevertheless, a stable labour market and lower OPR could provide support for private consumption. Domestic demand will remain firm in supporting Malaysia's economic growth in 2019.

Table 1: Business Confidences by Sector (%)

	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19
Overall	14.0	12.3	7.8	6.0	7.1	(2.2)	2.8	3.1
Industry	9.8	11.9	9.9	2.1	1.6	(3.6)	(6.7)	0.7
Agriculture	25.3	11.8	(3.3)	(7.9)	(2.2)	1.8	(5.0)	(3.1)
Mining	10.0	10.8	(17.9)	(21.5)	(26.7)	(21.5)	(15.9)	(8.3)
Manufacturing	6.2	10.7	19.7	9.3	7.4	(0.9)	(6.1)	1.8
Electricity and water	4.5	25.8	16.7	15.4	22.8	0.0	4.6	21.1
Construction	22.8	1.1	(24.8)	(7.7)	(21.5)	(18.9)	(9.3)	(12.8)
Wholesale and retail trade	8.3	0.0	7.4	3.6	13.2	(8.2)	6.7	(0.1)
Wholesale trade	10.7	1.2	13.5	2.0	20.5	0.4	3.9	5.8
Retail trade	3.0	(1.9)	(2.5)	6.3	2.5	(19.4)	10.7	(14.3)
Services	23.6	20.6	8.6	16.5	18.8	5.9	20.8	11.5
Hotels	12.3	26.2	2.7	(5.4)	2.0	(15.7)	3.8	10.8
Transport	14.7	29.9	5.6	13.8	20.9	23.2	13.0	3.5
Communications	26.2	11.5	26.2	9.5	28.6	(11.1)	51.3	26.7
Finance	31.4	29.4	5.6	28.2	21.8	15.2	13.3	14.4
Insurance	37.0	21.7	46.0	33.3	29.6	12.2	48.8	18.5
Real estate	(8.3)	(27.3)	(52.8)	(25.7)	(22.2)	(33.3)	0.3	(21.7)
Information and communications technology	11.7	20.4	15.5	3.7	5.6	(1.9)	(17.0)	(4.8)

Source: CEIC, MIDFR

2H19 stays on expansionary path. Referring to business expectations for the next 6 months, overall business performance is expected to improve steadily. Overall business performance for the second half of 2019 is expected to enjoy steady pick-up especially for services, mining and manufacturing sectors. Strong domestic demand and low inflationary pressure are fundamental factors supporting the services sectors. On the external front, we view the trade war will result in slower global trade flows hence affecting export-led economies including Malaysia. Manufacturing sector which is export-oriented is predicted to be affected by the slowing global demand. However, demand from the domestic market could partially offset that impact. Malaysia IPI has been expanding steadily since Mar-19. For the 1H19, IPI growth averaged at 3.3%yoy, higher than 2018's average of 3%. As for commodity-based sectors, we expect better performance in 2H19 particularly for LNG and palm oil.

Table 2: Business Expectations for Next 6-Month by Sector (%)

	3Q18-4Q18	4Q18-1Q19	1Q19-2Q19	2Q19-3Q19	3Q19-4Q19
Overall	11.6	12.3	0.6	14.2	18.2
Industry	5.3	9.3	0.5	7.3	18.9
Agriculture	(16.0)	0.0	4.0	(4.4)	30.5
Mining	(7.1)	6.7	(7.1)	33.3	12.5
Manufacturing	11.2	12.4	1.6	6.5	17.9
Electricity and water	30.8	9.1	0.0	(18.2)	15.8
Construction	(2.9)	(28.5)	(24.5)	(2.3)	(11.7)
Wholesale and retail trade	12.6	23.1	(6.4)	13.4	8.7
Wholesale trade	4.3	31.2	1.4	8.7	21.9
Retail trade	25.0	11.1	(16.6)	20.0	(21.5)
Services	25.3	18.7	7.5	30.5	25.6
Hotels	0.0	5.4	(16.7)	34.3	13.5
Transport	8.0	13.0	8.7	30.4	5.3
Communications	7.1	28.6	(22.2)	38.4	40.0
Finance	46.1	21.4	25.0	40.0	29.4
Insurance	55.6	33.3	16.6	25.0	55.6
Real estate	(15.4)	(16.6)	(20.0)	8.3	(8.7)
Information and communications technology	0.0	16.6	11.1	(42.9)	12.5

Source: CEIC, MIDFR

Moderating global growth amid multiple headwinds. Major and emerging economies are predicted to expand at moderate pace in 2019. Continuation of the US-China trade war, fragmented EU, geopolitical risks and volatility of commodity prices are among key downside risks to global growth. Conversely, global demand is expected to stay firm underpin by low unemployment rate in both major and emerging economies, high consumer optimism in the US and China and moderate inflationary pressure. In addition, Fed has embarked on expansionary monetary policy by cutting key rate in its latest FOMC meeting in July-19.

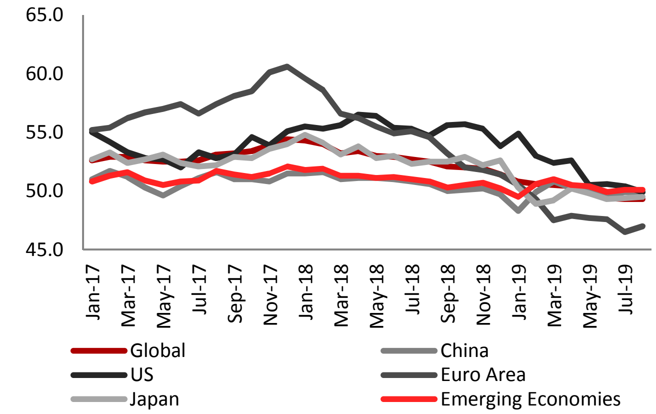
Declining business optimism. PMI figures for global and emerging economies have been on moderating trends since late last year. Uncertainties over trade negotiation between the US and China are the main factor causing optimism to decline gradually. Lesser interest rate pressure and China's stimulus package are not able to compensate the falling PMI figure. As for 2H19, we foresee further decline in manufacturing PMI across major and emerging economies due to trade war especially with higher tariff imposition by both the US and China.

Table 3: Manufacturing PMI by Selected Economies (Points)

	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
Global	52.0	51.9	51.4	50.8	50.6	50.5	50.4	49.8	49.4	49.3
China	50.1	50.2	49.7	48.3	49.9	50.8	50.2	50.2	49.4	49.9
US	55.7	55.3	53.8	54.9	53.0	52.4	52.6	50.5	50.6	50.4
Euro Area	52.0	51.8	51.4	50.5	49.3	47.5	47.9	47.7	47.6	46.5
Japan	52.9	52.2	52.6	50.3	48.9	49.2	50.2	49.8	49.3	49.4
Emerging Economies	50.5	50.7	50.2	49.5	50.6	51.0	50.5	50.4	49.9	50.1
Malaysia	49.2	48.2	46.8	47.9	47.6	47.2	49.4	48.8	47.8	47.6
Indonesia	50.5	50.4	51.2	49.9	50.1	51.2	50.4	51.6	50.6	49.6
Thailand	48.9	49.8	50.3	50.2	49.9	50.3	51.0	50.7	50.6	50.3
Philippines	54.0	54.2	53.2	52.3	51.9	51.5	50.9	51.2	51.3	52.1
Singapore	52.6	53.8	52.7	50.1	49.8	51.8	53.3	52.1	50.6	51.0

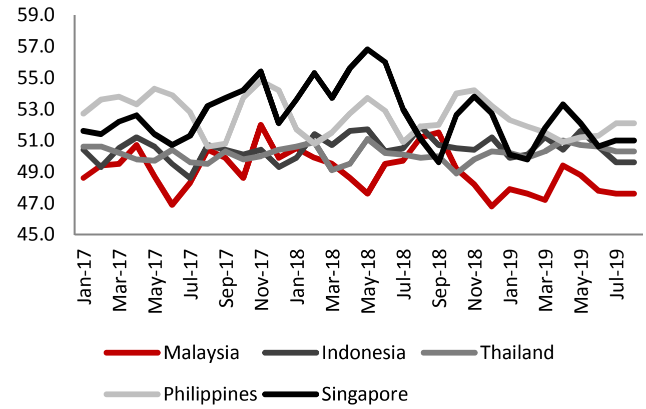
Source: Bloomberg, MIDFR
*Above 50: Expansion Line, Below 50: Contraction Line

Chart 1: Manufacturing PMI by Major Economies (Points)



Source: Bloomberg, MIDFR

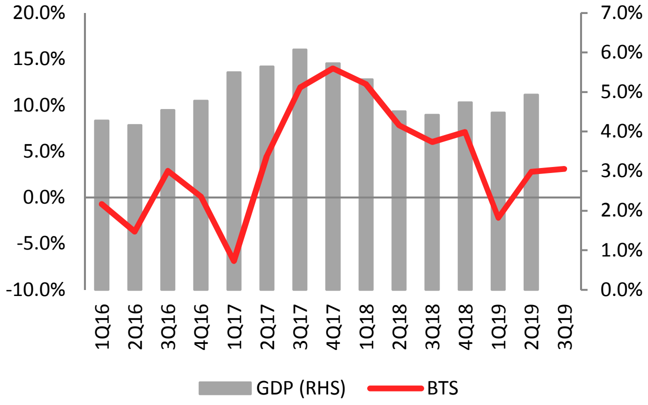
Chart 2: Manufacturing PMI by ASEAN Economies (Points)



Source: Bloomberg, MIDFR

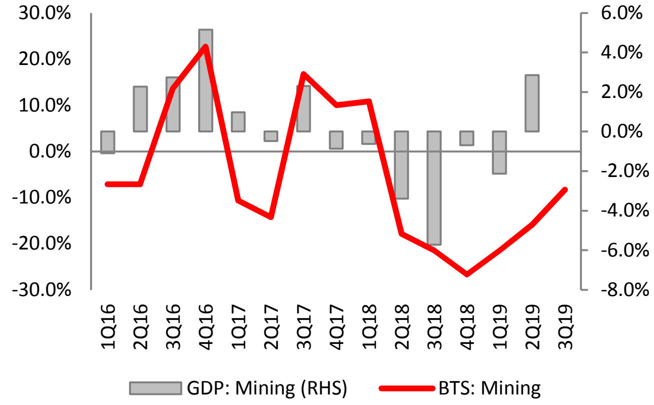
Malaysia's GDP to expand by 4.9% in 2019. Based on the current developments and indicators, we are maintaining our 2019 GDP growth forecast, the figure we had first published in Dec 2018, at 4.9%. This is due to the steady domestic demand amid lower OPR effects, low inflationary pressure, stable job market and positive progression in mining sector. In addition, GST refund payments will be fully paid to individuals and businesses by 3Q19, hence may lead to higher expenditure by private sector in 2H19. On external front, we foresee slight weakening trend due to trade war effects. Nevertheless, gradual pick-up in commodity prices would support the oversea sales of natural gas as well as palm oil in 2019.

Chart 3: BTS (%) vs GDP (YoY%)



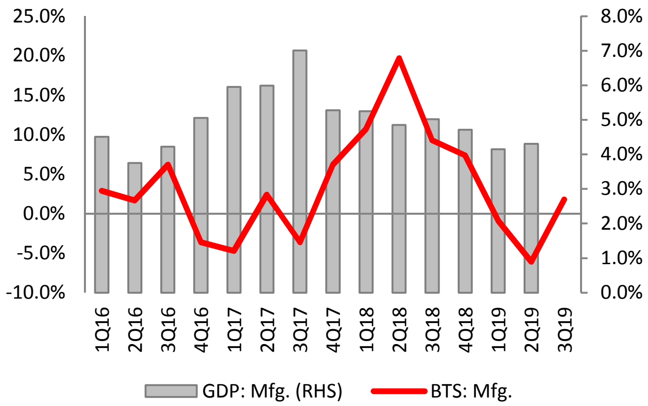
Source: CEIC, MIDFR

Chart 4: Mining & Quarrying: BTS (%) vs GDP (YoY%)



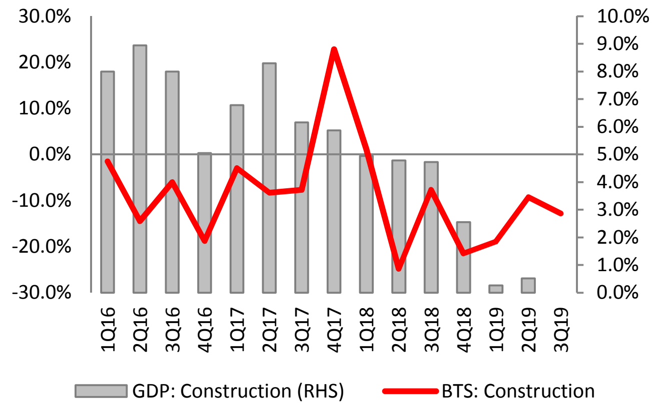
Source: CEIC, MIDFR

Chart 5: Manufacturing: BTS (%) vs GDP (YoY%)



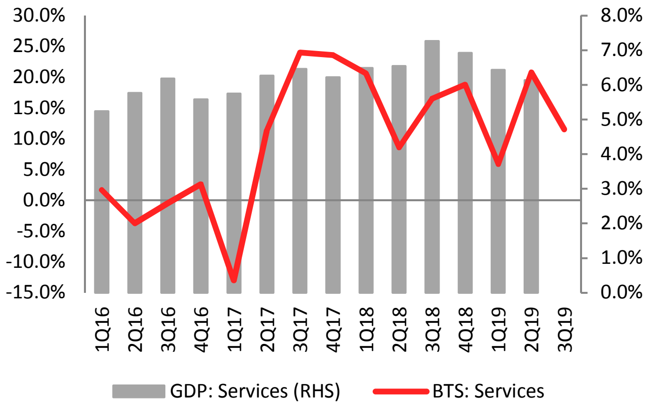
Source: CEIC, MIDFR

Chart 6: Construction: BTS (%) vs GDP (YoY%)



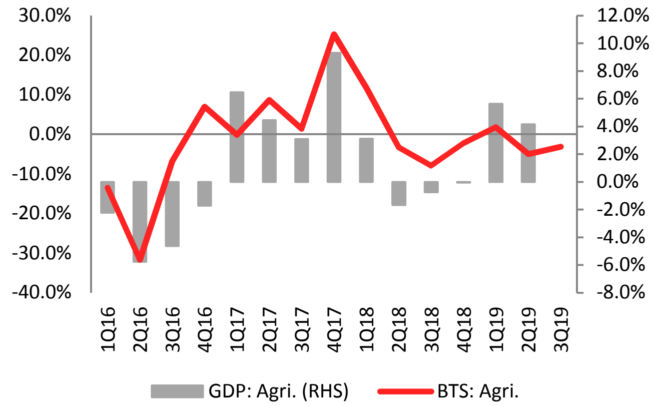
Source: CEIC, MIDFR

Chart 7: Services: BTS (%) vs GDP (YoY%)



Source: CEIC, MIDFR

Chart 8: Agriculture: BTS (%) vs GDP (YoY%)



Source: CEIC, MIDFR

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