

Business Confidence Remains Broadly Stable – Signalling Upbeat Outlook for 1H18

- *Stronger business confidence in 1Q18. According to the Business Tendency Survey, overall business performance is expected to continue at strong pace given that overall business confidence registered at double digit growth for 3-consecutive quarters.*
- *Bright outlook for 1H18. Referring to business expectations for the next 6 months, overall business performance is expected to grow at steady pace. Overall business performance for 1H18 is expected to experience slight slowdown especially dragged down by manufacturing, mining and services sectors.*
- *We maintain our GDP forecast at 5.5% in 2018. Amid strong business confidences, we maintain our estimates of Malaysia's economy to grow by 5.5% this year. Due to high base effect, we expect external trade performance especially exports growth to moderate in the second half of year.*

Stronger business confidence in 1Q18. According to the Business Tendency Survey, overall business performance is expected to continue at strong pace given that overall business confidence registered at double digit growth for 3-consecutive quarters. Business confidence in 1Q18 registered at 12.3%, slightly lower than 7-year high of 14% recorded in the previous quarter. With continuous optimistic business confidence, we forecast GDP growth for 1Q18 to surge above 5.5%.

Manufacturing sector to stay robust. By sector, business confidence in manufacturing sector up by 10.7%, highest in 6.5-years. In fact, all sectors except for construction recorded double digit improvement indicating strong expansionary momentum in the first lap of 2018. Among others, continuous upbeat momentum in global demand and gradual recovery in commodity prices are key contributing factors for the solid rise in business confidences in sectors such as manufacturing, mining and agriculture. As for domestic-driven sectors, wholesale & retail saw business confidence level stays unchanged in 1Q18. In spite of this, services sector remains sanguine given that business confidence rose by 20.6%. Henceforth, the rosy business confidences in 1Q18 signal solid momentum in the economy underpinned by both domestic and external demands.

Table 1: Business Confidences by Sector (%)

	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18
Overall	2.9	0.1	(6.9)	4.5	11.9	14.0	12.3
Industry	8.3	4.2	(2.7)	2.2	3.1	9.8	11.9
Agriculture	(6.8)	7.0	(0.1)	8.7	1.4	25.3	11.8
Mining	13.6	22.7	(10.7)	(14.3)	16.7	10.0	10.8
Manufacturing	6.2	(3.6)	(4.7)	2.4	(3.6)	6.2	10.7
Electricity and water	51.5	26.1	27.8	22.7	36.4	4.5	25.8
Construction	(6.0)	(18.8)	(3.0)	(8.3)	(7.7)	22.8	1.1
Wholesale and retail trade	(8.5)	(16.0)	(11.7)	3.3	20.7	8.3	0.0
Wholesale trade	(0.4)	(10.2)	(7.1)	7.1	30.5	10.7	1.2
Retail trade	(16.4)	(22.5)	(17.2)	(3.3)	24.6	3.0	(1.9)
Services	(0.5)	2.6	(13.0)	11.3	24.0	23.6	20.6
Hotels	6.5	16.2	8.8	25.3	29.4	12.3	26.2
Transport	15.9	19.0	8.3	11.8	33.3	14.7	29.9
Communications	3.3	3.7	(24.2)	12.8	31.0	26.2	11.5
Finance	(7.7)	(5.6)	(24.4)	12.8	15.7	31.4	29.4
Insurance	27.5	36.1	30.1	33.3	37.5	37.0	21.7
Real estate	(28.2)	(21.9)	(35.6)	(30.3)	22.2	(8.3)	(27.3)
Information and communications technology	(22.2)	(21.3)	(5.4)	7.4	10.4	11.7	20.4

Source: CEIC, MIDFR

Bright outlook for 1H18. Referring to business expectations for the next 6 months, overall business performance is expected to grow at steady pace. Overall business performance for 1H18 is expected to experience slight slowdown especially dragged down by manufacturing, mining and services sectors. Business performance in manufacturing sector is expected to rise but at moderating pace of 18%. With gradual recovery in commodity prices, business performance in mining sector is seen to rise at tepid speed of 6.7% for 1H18. This is in line with our initial expectations of moderating economic growth in 2018 as compared to 2017 partly due to unfavorable base effects.

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

	3Q16-4Q16	4Q16-1Q17	1Q17-2Q17	2Q17-3Q17	3Q17-4Q17	4Q17-1Q18	1Q18-2Q18
Overall	7.9	6.0	3.5	11.5	21.0	29.9	17.1
Industry	7.9	10.5	8.8	11.8	22.1	30.2	15.4
Agriculture	(5.0)	5.0	11.5	13.0	25.0	32.0	8.7
Mining	9.1	0.0	(14.3)	(14.3)	6.7	20.0	6.7
Manufacturing	4.9	9.8	8.0	12.4	23.7	33.6	18.0
Electricity and water	63.6	54.5	63.6	63.6	36.4	18.2	27.3
Construction	(14.7)	(29.4)	(5.6)	13.9	18.6	24.0	17.4
Wholesale and retail trade	(12.5)	(22.1)	(11.8)	10.0	13.4	26.1	7.5
Wholesale trade	(10.5)	(20.0)	(8.7)	14.3	19.5	26.0	6.2
Retail trade	(14.5)	(24.5)	(15.5)	2.5	8.7	25.0	9.3
Services	21.0	16.0	2.1	11.4	22.8	32.1	25.0
Hotels	38.7	42.4	2.9	20.7	29.4	36.9	25.0
Transport	47.6	42.9	37.5	23.5	32.0	48.0	45.5
Communications	20.0	22.2	(27.3)	23.1	42.9	42.9	28.6
Finance	15.4	0.0	(6.7)	0.0	11.8	23.5	23.5
Insurance	22.2	50.0	55.6	62.5	25.0	33.3	33.3
Real estate	0.0	(20.0)	(30.0)	(45.5)	8.3	8.3	(27.3)
Information and communications technology	0.0	12.5	18.8	11.1	25.0	45.0	25.0

Source: CEIC, MIDFR

Upbeat manufacturing activity in the US. Flash US composite PMI rose to almost 2.5-year high at 55.9 points in Feb-18. The rise is supported by both manufacturing and services PMI figures. Manufacturing PMI recorded at 40-month high of 55.9 points while services PMI touched 55.9 points, highest in 6-month. Among others, the strong rise is driven by the tax cuts, Trump's protectionist moves and steady global demand. Apart from US, flash manufacturing PMI for Euro Area and Japan maintain above 50 points in Feb-18. Hence, we opine global demand derived from advanced economies to remain sanguine for 1H18 and indirectly will affect Malaysia's external trade performance this year. We forecast Malaysia's exports growth at 9.3% in 2018.

Regional PMI indicates promising outlook. Business confidences in emerging economies as well as Asean have been on uptick trends since mid-2016. Latest Jan-18, manufacturing PMI for emerging economies remains above expansion line for 19-consecutive months while major Asean economies except Indonesia registered above 50 points. Therefore, we foresee regional demand in 1Q18 stays on intact and solid, thus will support expanding regional as well as global trade activities. We believe continuous upbeat momentum in global trade growth will spur appreciation of MYR from average 4.32 in 2017 to 4.00 in 2018.

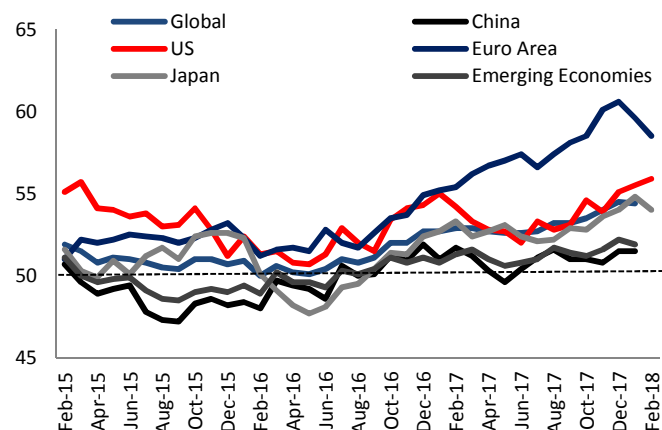
Table 3: Manufacturing PMI by Selected Economies (Points)

	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18
Global	52.6	52.7	53.2	53.2	53.5	54.0	54.5	54.4	
China	50.4	51.1	51.6	51.0	51.0	50.8	51.5	51.5	51.6
US	52.0	53.3	52.8	53.1	54.6	53.9	55.1	55.5	55.9
Euro Area	57.4	56.6	57.4	58.1	58.5	60.1	60.6	59.6	58.5
Japan	52.4	52.1	52.2	52.9	52.8	53.6	54.0	54.8	54.1
Emerging Economies	50.8	51.0	51.7	51.4	51.2	51.6	52.2	51.9	
Malaysia	46.9	48.3	50.4	49.9	48.6	52.0	49.9	50.5	49.9
Indonesia	49.5	48.6	50.7	50.4	50.1	50.4	49.3	49.9	51.4
Thailand	50.4	49.6	49.5	50.3	49.8	50.0	50.4	50.6	
Philippines	53.9	52.8	50.6	50.8	53.7	54.8	54.2	51.7	50.8
Singapore	50.7	51.3	53.2	53.7	54.2	55.4	52.1	52.1	53.6

Source: Bloomberg, MIDFR

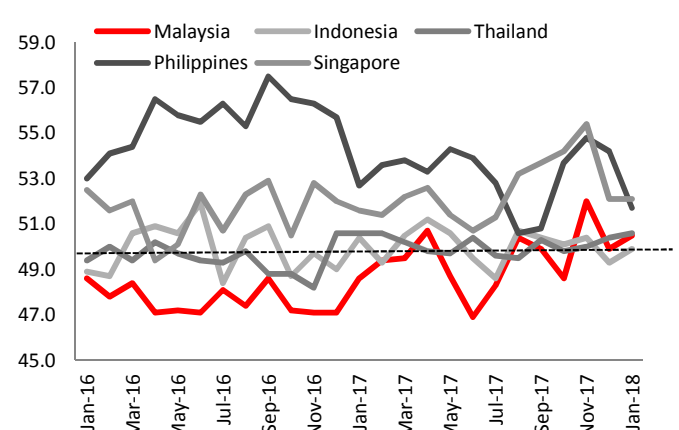
*Above 50: Expansion Line, Below 50: Contraction Line

Chart 1: Manufacturing PMI by Major Economies (Points)



Source: Bloomberg, MIDFR

Chart 2: Manufacturing PMI by Regional Economies (Points)



Source: Bloomberg, MIDFR


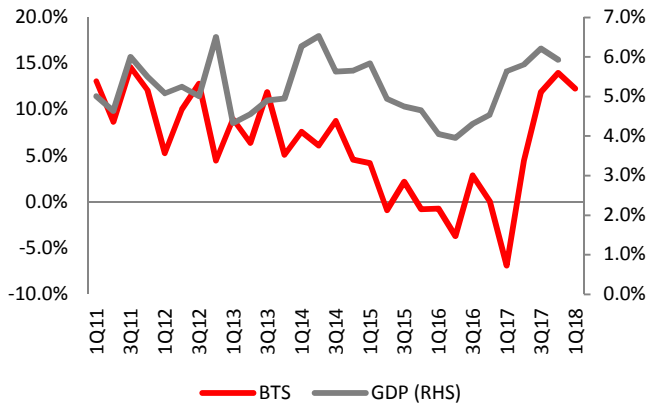
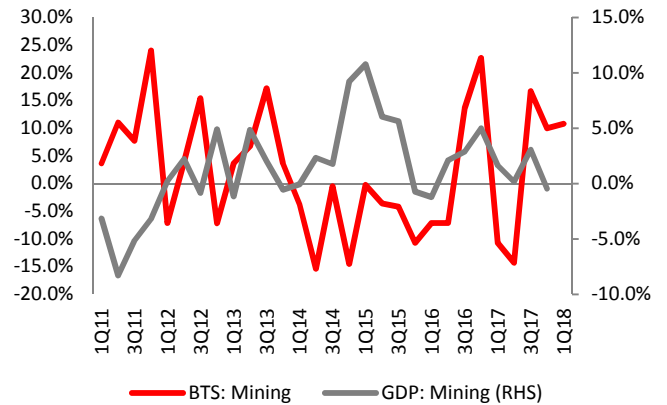
We maintain our GDP forecast at 5.5% in 2018. Amid strong business confidences, we maintain our estimates of Malaysia's economy to grow by 5.5% this year. Due to high base effect, we expect external trade performance especially exports growth to moderate in the second half of year. Volatility in commodity prices remains as global challenge in the price recovery process and hence put pressure on commodity-based economies including Malaysia to expand. Geopolitical threats as well as policy uncertainties remain as possible headwinds in the near term. 

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



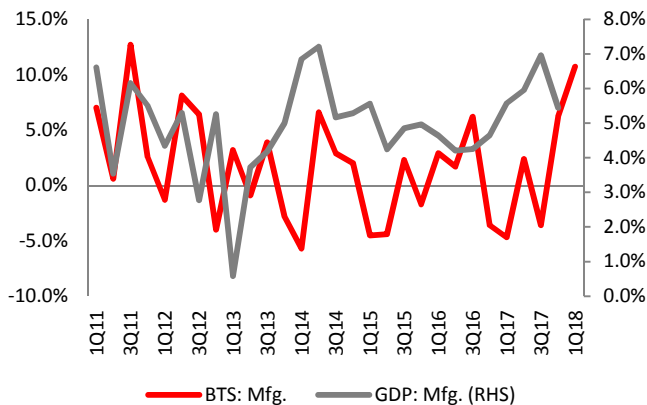
Source: CEIC, MIDFR

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



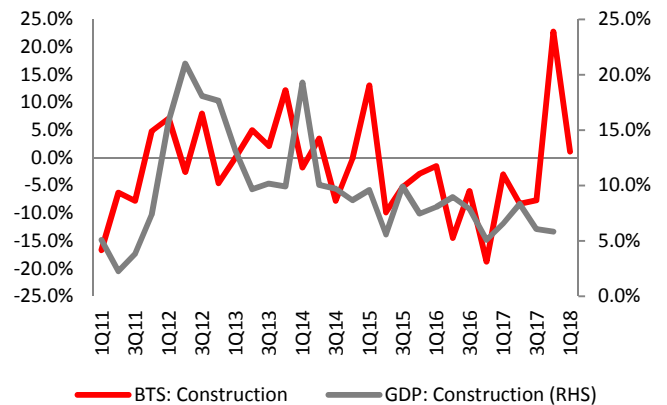
Source: CEIC, MIDFR

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



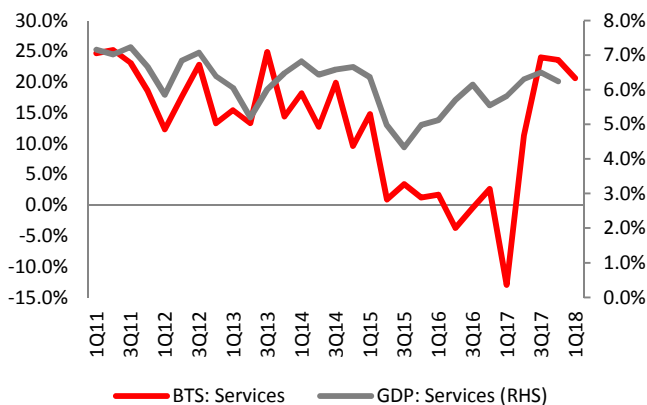
Source: CEIC, MIDFR

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



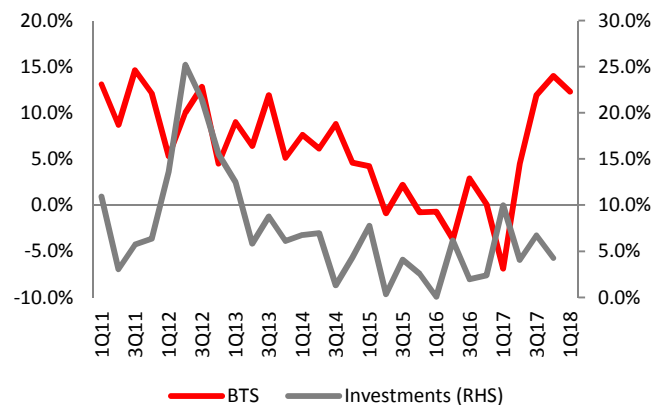
Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

Chart 8: BTS (%) vs Private Investment (YoY%)



Source: CEIC, MIDFR

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