

ECONOMIC REPORT | Business & Consumer Confidence**Improved Macroeconomic Conditions Boost Consumer Sentiment to Its Highest Level in 3½-Year**

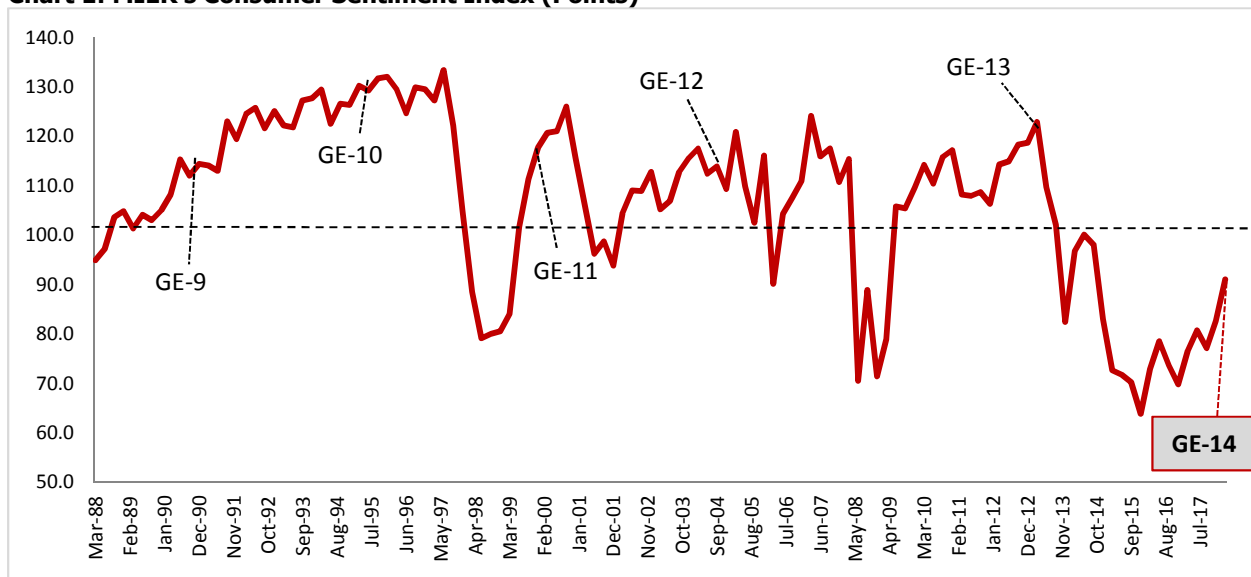
- *MIER's CSI rebounded to 3.5-year high. Underpin by strengthening labour market and positive global and Malaysia's 2018 economic outlook, MIER's consumer sentiment index rose firmly to 91 points, highest since 3Q14.*
- *First-time ever election to be held during consumer morale below threshold line. GE14 will be the first time ever election held when MIER's CSI below its threshold line of 100 points. Referring to historical data, since 1990 till 2013, the sentiment index of the quarter before election period was above 100 points.*
- *BCI indicates slight slowdown in GDP for 1Q18. After 4-consecutive quarters registering above 100 points, the MIER's business condition index went down to 98.6 points. We opine the marginal tone down in the business survey is temporary and mainly affected due to threat of trade war and GE14.*

MIER's CSI rebounded to 3.5-year high. Underpin by strengthening labour market and positive global and Malaysia's 2018 economic outlook, MIER's consumer sentiment index rose firmly to 91 points, highest since 3Q14. The CSI has been on the uptrend since plunged to its lowest reading of 63.8 points in 4Q15. Moving forward, we foresee the consumer sentiment will further improve and breach the threshold line of 100 points in the 2nd half of 2018. Among others, better political stability, stable job market and moderating inflationary pressure are factors boosting up the consumer sentiment index.

First-time ever election to be held during consumer morale below threshold line. GE14 will be the first time ever election held when MIER's CSI below its threshold line of 100 points. Referring to historical data, since 1990 till 2013, the sentiment index of the quarter before election period was above 100 points. However, the index has been below 100-points level since the third quarter of 2014 partly due to the falling global crude oil prices and slowdown in macroeconomic activities. On a flip side, the index rebounded since the first quarter of 2016 but yet at slow and steady pace. Looking ahead, the overall economic performance after GE14 is expected to improve further as business confidence remains on optimistic mood and supported with the recovery of commodity prices and global demand.

Highly-perceived rising cost of living. The latest Household Income & Expenditure Survey for 2016 saw expenditure-to-income ratio rose from 59.3% in 2014 to 61.1% in 2016. In a simple word, for every RM1 of income, 61 cents is spent for necessity-related expenditures. The upsurge in expenditure among others partly due to the implementation of GST, subsidy rationalization plan and increase of minimum wage from RM900 to RM1,000. The negative implications of raising minimum wage indirectly pose pressure on business cost and on the final round translate into higher prices for consumers.

Chart 1: MIER's Consumer Sentiment Index (Points)



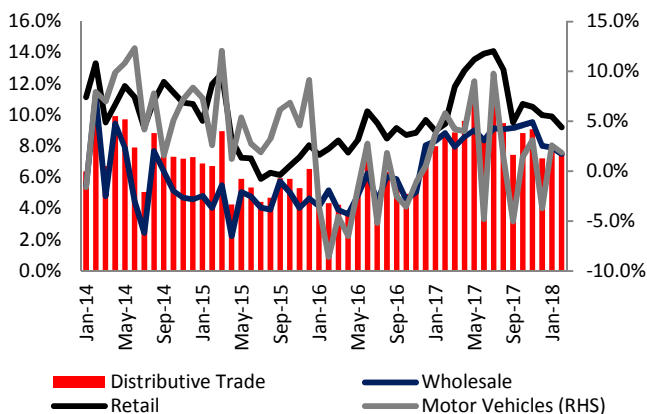
Source: CEIC, MIDFR
*Threshold Line: 100 Points

Distributive trade sales returned to below RM100bn value. Distributive trade rose by 7.5%yoy to RM97.3 billion in Feb-18 lifted by retail trade. However, the figure was slightly lower than previous month's reading of 8%yoy, in line with our expectation on a trivial slowdown in Feb-18 following short working days due to the Chinese New Year festive holidays. Retail trade expands by 9.2%yoy to RM39.2 billion, followed by wholesale trade which grew by 7.5%yoy to RM47.6 billion and motor vehicles businesses rose by 1.9%yoy to RM10.5 billion. We opine the overall slowdown is only temporary. Hence, we foresee distributive trade sales to remain on steady momentum underpin by stable job market, strengthening Ringgit, decelerating inflationary pressure, tourism activities and accommodative economic policies.

Modest domestic spending amid of contraction in external trade activities. Exports fell by -2%yoy to RM70.3 billion in Feb-18, after robust 17.9%yoy gain in the preceding month. This translated into moderating industrial production and manufacturing sales by 3%yoy and 4.9%yoy respectively. On top of that, macroeconomic variable such as employment in the manufacturing sector also eased by 2.2%yoy. However, other variables are favorable toward domestic spending with wage growth went up 16.7%yoy and inflation rate further slowed to 1.4%yoy. Hence, we foresee Malaysia's domestic spending will continue expanding at steady pace in 2018 in line with external trade activities and tourism performances.

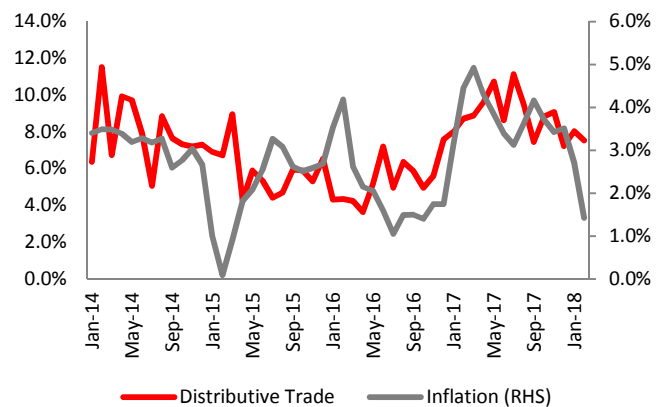
Expecting a slight slowdown for private consumption and services sector in 1Q18. Despite tourism activity dynamics, unfavorable base effect is likely to affect moderating speed in distributive sales performances in 1Q18. MAHB's passenger movements in 1Q18 saw a 3.4% growth, the slowest since 2Q16. Therefore, we forecast private consumption and services sector grow marginally lower in 1Q18 as compared to 4Q17.

Chart 2: Distributive Trade Sales Performance (YoY%)



Source: CEIC, MIDFR

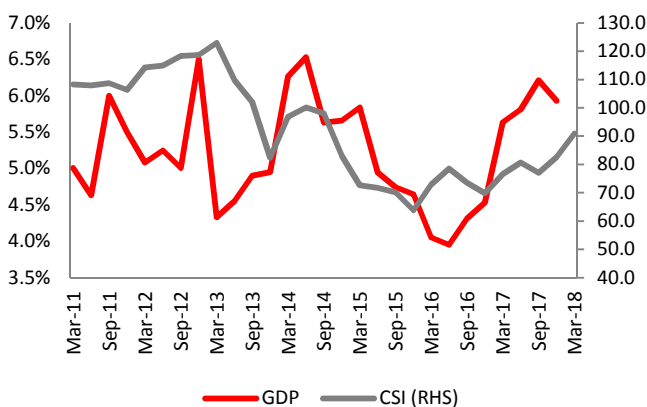
Chart 3: Distributive Trade vs Inflation (YoY%)



Source: CEIC, MIDFR

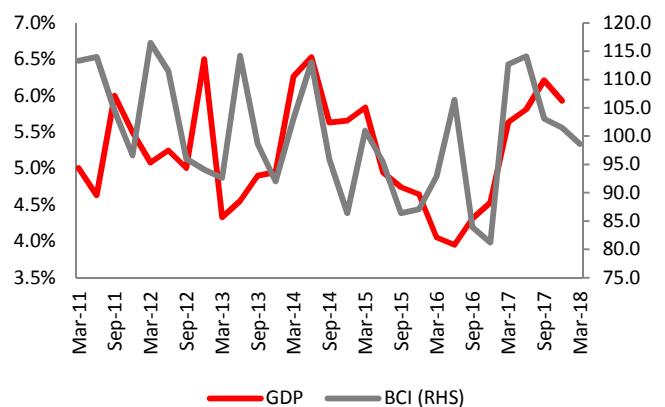
BCI indicates slight slowdown in GDP for 1Q18. After 4-consecutive quarters registering above 100 points, the MIER's business condition index went down to 98.6 points. We opine the marginal tone down in the business survey is temporary and mainly affected due to threat of trade war and GE14. Market uncertainties arose from the US would cause global trade activities to decelerate and hence indirectly effect on Malaysia's external trade performance. In addition, political uncertainty prior to 14th General Election is considered normal for the business condition index to slide down. In spite of this, we view business and industrial activity in Malaysia to continue moving upwards especially after the GE14 and supported with the gradual rise in global commodity prices.

Chart 4: CSI (Points) vs GDP (YoY%)



Source: CEIC, MIDFR

Chart 5: BCI (Points) vs GDP (YoY%)



Source: CEIC, MIDF

Upbeat business momentum to taper down underpinned by threat of trade war. Business sentiments and confidences are seen responded negatively on recent protectionist trade policies by Trump-led administration. In Mar-18, NFIB Business Optimism Index and ISM Manufacturing PMI in the US went down to 104.7 points (Feb-18: 107.6, 2nd Highest Record) and 59.3 points (Feb-18: 60.8, 14-year high). Nevertheless, we view the trivial decline is only temporary given that business confidence levels in global and emerging economies are still steadily above 50 points expansionary line. On top of that, the latest speech by China's Xi Jinping pledges to remain on opening up the Chinese economy for better competition and healthy economic expansion process.

Regional PMI remains intact. Business confidences in emerging economies as well as Asean have been on uptick trends since mid-2016. Latest by Mar-18, manufacturing PMI for emerging economies remains above expansion line for 21-consecutive months while major ASEAN economies except Indonesia and Malaysia 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.

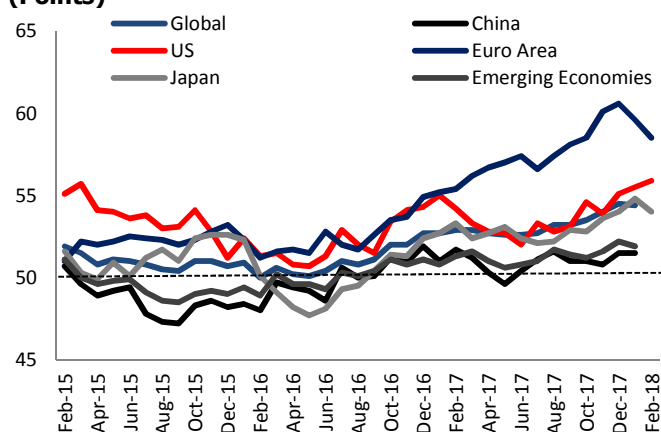
Table 1: Manufacturing PMI by Selected Economies (Points)

	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18
Global	53.2	53.4	54.0	54.5	54.4	54.1	53.4
China	51.0	51.0	50.8	51.5	51.5	51.6	51.0
US	53.1	54.6	53.9	55.1	55.5	55.3	55.6
Euro Area	58.1	58.5	60.1	60.6	59.6	58.6	56.6
Japan	52.9	52.8	53.6	54.0	54.8	54.1	53.1
Emerging Economies	51.4	51.2	51.6	52.2	51.9	51.9	51.3
Malaysia	49.9	48.6	52.0	49.9	50.5	49.9	49.5
Indonesia	50.4	50.1	50.4	49.3	49.9	51.4	50.7
Thailand	50.3	49.8	50.0	50.4	50.6	50.9	49.1
Philippines	50.8	53.7	54.8	54.2	51.7	50.8	51.5
Singapore	53.7	54.2	55.4	52.1	53.6	55.3	53.7

Source: Bloomberg, MIDFR

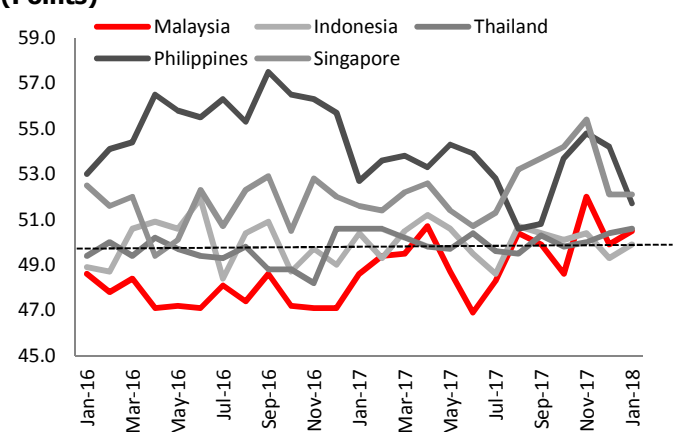
*Above 50: Expansion Line, Below 50: Contraction Line

Chart 6: Manufacturing PMI by Major Economies (Points)




Source: Bloomberg, MIDFR

Chart 7: Manufacturing PMI by Regional Economies (Points)



Source: Bloomberg, MIDF

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. 

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