

**ECONOMIC REVIEW | 1Q2018 National Account****GDP Moderates to 5.4% amid Softer Business Confidence in the First Quarter 2018**

- *GDP Growth remains above 5%. Malaysia's GDP growth expanded by 5.4%yoy in 1Q18, slightly below our forecast and market expectations of 5.5%yoy. It is the weakest growth in 5-quarters and less than previous year's average of 5.9%.*
- *Net exports highest in 6½ years. Real net exports registered at RM29.5 billion, largest since 3Q11. Steady upward exports demands from developed and emerging economies as well as gradual recovery in commodities prices continue driving up Malaysia's external trade activities.*
- *Services and domestic sectors continue to support economic growth. Zero-rated GST and stable retail fuel price will taper inflationary pressure and thus supporting domestic demand this year. We maintain our forecast for private consumption and services sector to expand by 6.5% and 6.2% respectively in 2018.*
- *We forecast GDP to average at 5.5% in 2018. Based on the current developments and indicators, we are optimistic that Malaysia's economy to expand by 5.5% this year given the upbeat performance of domestic and global economy.*

**GDP Growth remains above 5%.** Malaysia's GDP growth expanded by 5.4%yoy in 1Q18, slightly below our forecast and market expectations of 5.5%yoy. It is the weakest growth in 5-quarters and less than previous year's average of 5.9%. Among others, domestic demand contributes about 3.8% of the total growth during the quarter. From supply side, services and manufacturing sectors contributed significantly by 3.5% and 1.2% respectively. We opine the upbeat momentum in GDP growth was in tandem with steady performances of industrial production, manufacturing sales, distributive trade and external trade during the quarter. Moderating inflationary pressure, strengthening domestic demand and accommodative economic policies as well as sturdy external demand are the expected major anchors driving up GDP performance in the first quarter 2018.

**Solid private consumption while investments stay shy due to political uncertainties.** Economic growth for 1Q18 was mainly contributed by private consumption which grew solidly by 6.9%yoy. Improvement in private consumption is in line with the optimism in consumer sentiment index during 1Q18. MIER's CSI returned to 3.5-year high at 91 points underpinned by tightening labor market and stable wage growth. On a flip side, private investment decelerated to 0.5%yoy, slowest ever recorded. Among others, less optimistic business condition as reflected in MIER's BCI and greater market uncertainties amid of GE14 are factors dragging down investment activity. Moving forward, we predict private investment will pick up by modest pace especially better political stability and rising commodity prices. As for public investment, we expect further slowdown given that the newly-formed government will review and reassess various public projects.

**Net exports highest in 6½ years.** Real net exports registered at RM29.5 billion, largest since 3Q11. Steady upward exports demands from developed and emerging economies as well as gradual recovery in commodities prices continue driving up Malaysia’s external trade activities. In addition, shrank in imports and 3.7%yoy in outbound shipments during the quarter pushed the net exports higher. After 4-consecutive quarters, exports outpaced imports growths in the first quarter of 2018. We forecast the external trade sector will maintain on upbeat momentum this year and thus supporting further economic expansion and development in the country. We predict Malaysia’s exports to grow by 9.3% in 2018.

**Table 1: Summary of GDP by Expenditure Approach (YoY%)**

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18
<b>Real GDP</b>	4.2	4.0	4.3	4.5	5.6	5.8	6.2	5.9	5.4
<b>Gross National Income</b>	5.4	3.2	4.4	4.6	5.1	6.3	7.3	5.6	4.5
Final Consumption	4.8	6.0	5.5	3.5	6.8	6.4	6.6	6.9	5.7
<i>Government Consumption</i>	2.7	5.5	2.1	(4.2)	7.5	3.3	3.9	6.9	0.4
<i>Private Consumption</i>	5.2	6.2	6.3	6.1	6.6	7.1	7.2	7.0	6.9
Gross Fixed Capital Formation (GFCF)	0.1	6.1	2.0	2.4	10.0	4.1	6.7	4.3	0.1
<i>GFCF: Structure</i>	5.7	5.9	5.0	2.8	3.8	5.1	3.6	3.3	2.8
<i>GFCF: Machinery &amp; Equipment</i>	(7.0)	8.1	0.9	2.9	21.8	4.4	11.6	8.3	(3.6)
<i>GFCF: Other Asset</i>	(3.2)	0.6	(12.6)	(2.0)	1.4	(3.7)	7.2	(6.7)	(0.2)
<i>GFCF: Public Investment</i>	(4.4)	7.7	(3.8)	(0.4)	3.2	(5.0)	4.1	(1.4)	(1.0)
<i>GFCF: Private Investment</i>	2.1	5.6	4.8	4.9	12.9	7.4	7.9	9.2	0.5
Net Exports	(7.9)	(1.2)	8.2	6.4	(14.5)	1.4	1.7	5.4	62.4
<i>Exports of Goods &amp; Services</i>	1.0	2.0	(0.6)	2.2	9.8	9.6	11.8	7.1	3.7
<i>Imports of Goods &amp; Services</i>	2.3	2.4	(1.8)	1.6	12.9	10.7	13.4	7.4	(2.0)

Source: CEIC; MIDFR

**Services and domestic sectors continue to support economic growth.** Services sector accounting for 55% of total GDP expanded steadily at 6.5%yoy, 4-consecutive quarters above 6%. Among services sub-sectors, the top three contributors are wholesale trade, communication, government services and retail trade. Apart from private consumption, the steady performance in services reflects that domestic economic activity is currently on upbeat momentum. Stable and improved employment conditions and higher private sector wage growth provides impetus for the domestic sector. Moving forward, zero-rated GST and stable retail fuel price will taper inflationary pressure and thus supporting domestic demand this year. We maintain our forecast for private consumption and services sector to expand by 6.5% and 6.2% respectively in 2018.

**Thanks to upbeat momentum global economic activities.** Manufacturing sector expanded by 5.4%yoy in the final quarter, 5-consecutive quarters achieving above 5%. Among others, robust global demand and gradual recovery in commodity prices are boosting factors for the solid expansion in export-oriented industries. We foresee commodity-related sectors to perform better in 2018 underpinned by lesser market uncertainties and price volatilities. On top of that, we view the global trade war impacts is receding given that business indicators in major and emerging economies are still showing optimistic signals on both global economic activities. Global and emerging economies manufacturing PMI figures remain above expansionary line of 50 points as of Apr-18.

**Table 2: Summary of GDP by Supply-Side Approach (YoY%)**

	1Q17	2Q17	3Q17	4Q17	1Q18
<b>GDP</b>	5.6	5.8	6.2	5.9	5.4
<b>Agriculture, Forestry &amp; Fishing (AF)</b>	8.3	5.9	4.0	10.7	2.8
AF: Rubber	23.5	17.0	1.8	(2.8)	(28.5)
AF: Oil Palm	17.7	12.1	10.0	24.3	12.5
AF: Livestock	3.0	4.8	4.5	8.6	5.8
AF: Other Agriculture	2.3	2.6	1.5	2.1	4.5
AF: Forestry & Logging	(11.1)	(14.5)	(18.9)	(17.9)	(13.4)
AF: Marine Fishing	(4.1)	(3.9)	(3.8)	(9.4)	(3.1)
AF: Aquaculture	(3.5)	4.5	10.0	6.3	(2.3)
<b>Mining &amp; Quarrying</b>	1.6	0.2	3.1	(0.5)	0.1
<b>Manufacturing (Mfg)</b>	5.6	6.0	7.0	5.4	5.4
Mfg: Vegetable & Animal Oil, Fats & Food Processing	8.2	10.4	11.4	9.7	9.1
Mfg: Beverages & Tobacco	9.0	6.5	4.5	5.5	1.4
Mfg: Textiles, Wearing Apparel & Leather Products	6.9	7.3	9.1	8.3	6.6
Mfg: Wood Prod, Furniture, Paper Prod, Print & Publish	8.6	5.6	2.4	1.9	4.1
Mfg: Petroleum, Chemical, Rubber & Plastic Products	3.1	3.0	5.0	4.6	5.0
Mfg: Non Metallic, Basic & Fabricated Metal Products	3.1	3.9	6.5	4.7	5.2
Mfg: Electrical & Electronic	7.9	9.8	8.7	5.7	6.1
Mfg: Transport Equipment & Other Manufactures	3.5	3.3	8.1	5.8	3.3
<b>Construction</b>	6.5	8.3	6.1	5.8	4.9
<b>Services</b>	5.8	6.3	6.6	6.2	6.5
Services: Electricity & Gas	1.3	1.1	2.0	3.7	3.9
Services: Water	6.0	5.9	6.2	6.1	5.9
Services: Wholesale Trade	5.5	6.0	6.9	7.4	7.9
Services: Retail Trade	7.8	11.4	10.3	8.2	7.4
Services: Motor Vehicles	3.5	0.9	0.4	0.2	(0.5)
Services: Restaurant	7.9	7.9	8.1	8.3	8.2
Services: Accommodation	4.8	4.9	5.5	5.5	5.7
Services: Transport & Storage	6.1	6.2	6.3	6.0	5.7
Services: Communication	8.2	8.5	8.8	8.1	8.3
Services: Finance	3.9	5.6	5.3	5.1	6.8
Services: Insurance	2.2	3.4	1.2	7.9	9.8
Services: Real Estate & Business Services	7.3	7.3	7.4	7.5	7.4
Services: Other Services	5.4	5.3	5.6	5.5	5.3
Services: Government Services	5.1	4.5	6.3	4.2	4.8
<b>Import Duties</b>	8.4	12.2	16.5	14.8	9.8


Source: CEIC; MIDFR

**Continuous upbeat global economic growth.** Most of the global economies recorded solid economic growth for the first quarter of 2018. The US economy expanded by 2.9%yoy in 1Q17, fastest since 3Q15. Meanwhile, China, the second world's largest economy maintained its economic growth at 6.8%yoy, unchanged from the previous quarters, thanks to strong growth in China's domestic and external fronts. Among ASEAN economies, economic expansion in 1Q17 is perceived stable, remaining on upward trend path. For instance, Indonesian economy continues expanding at above 5%yoy for 5-consecutive quarters and Singapore hits 6.8%yoy in 1Q18. Moving forward, we foresee slight slowdown in 2Q18 particularly in the US and China amid of global trade war effects. Nevertheless, we view the gradual rise in global commodity prices to benefit commodities-based economies such as Australia and Malaysia in the medium terms. Most preferred commodity price, average Brent crude oil touched \$76 in May-18, highest since Nov-14.

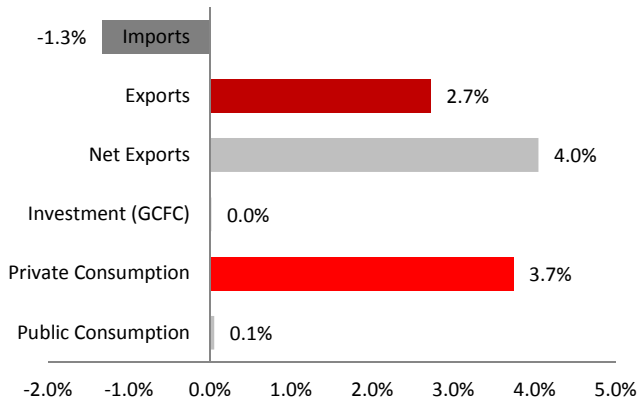
**Table 3: GDP Growth by Selected Economies (YoY%)**

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18
Malaysia	4.1	4.0	4.3	4.5	5.6	5.8	6.2	5.9	5.4
Philippines	6.7	7.0	7.1	6.7	6.5	6.6	7.2	6.5	6.8
Indonesia	4.9	5.2	5.0	4.9	5.0	5.0	5.1	5.2	5.1
Thailand	3.4	3.6	3.1	3.0	3.4	3.9	4.3	4.0	
Singapore	2.1	2.0	1.7	3.7	2.5	2.8	5.5	3.6	
Taiwan	(0.3)	1.0	2.0	2.8	2.6	2.3	3.2	3.3	3.0
South Korea	3.0	3.5	2.7	2.6	2.9	2.8	3.8	2.8	2.8
Australia	2.7	3.3	1.9	2.6	1.8	2.1	3.0	2.2	
Japan	0.6	0.8	0.9	1.5	1.4	1.5	1.9	1.8	0.9
China	6.7	6.7	6.7	6.8	6.9	6.9	6.8	6.8	6.8
EU	1.7	2.4	1.6	1.6	2.7	1.8	2.5	2.5	
United States	1.4	1.2	1.5	1.8	2.0	2.2	2.3	2.6	2.9

Source: CEIC; MIDFR

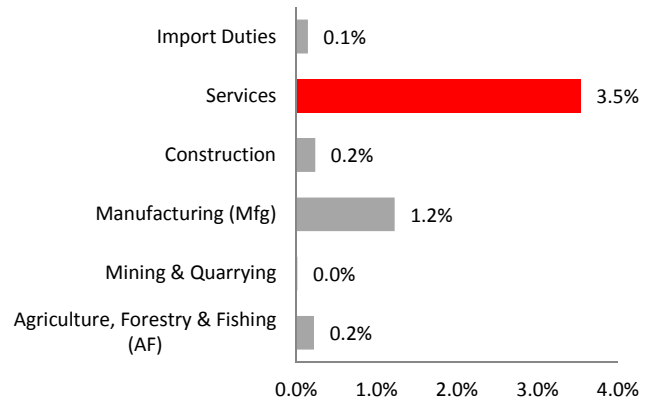
**We forecast GDP to average at 5.5% in 2018.** Based on the current developments and indicators, we are optimistic that Malaysia's economy to expand by 5.5% this year given the upbeat performance of domestic and global economy. Besides, supportive economic policies, stable labour market, continued wage growth and moderating inflation will support and spur domestic economy. Moving forward, we foresee the economic performance in 2H18 to expand at slower pace amid of unfavourable base effects. 

**Chart 1: Contribution by Expenditure Components (%)**



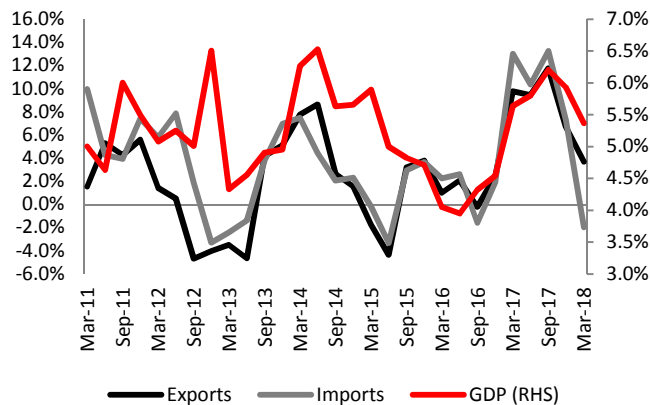
Source: CEIC; MIDFR

**Chart 2: Contribution by Supply-Side Components (%)**



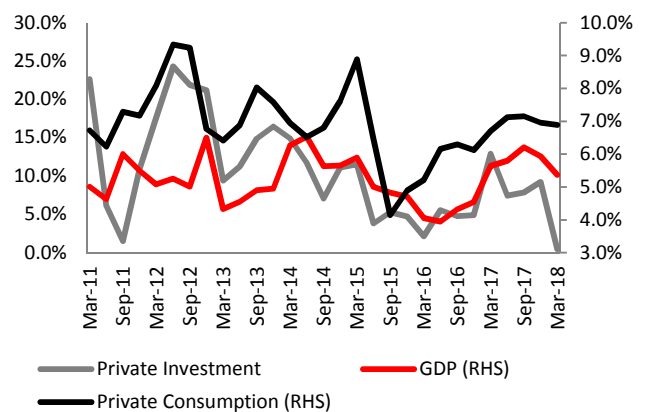
Source: CEIC; MIDFR

**Chart 3: GDP vs External Trade (YoY%)**



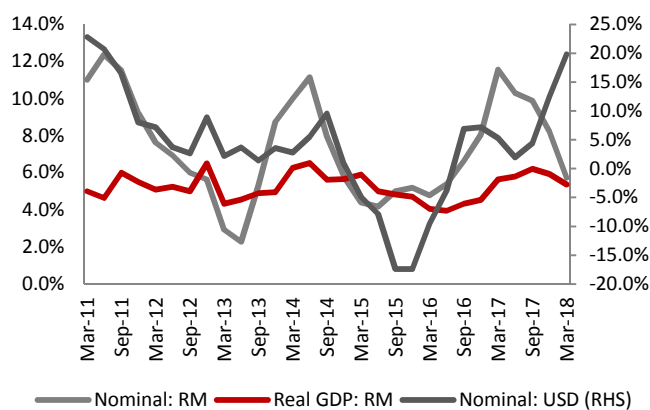
Source: CEIC; MIDFR

**Chart 4: Consumption & Investment Drive-Up GDP (YoY%)**



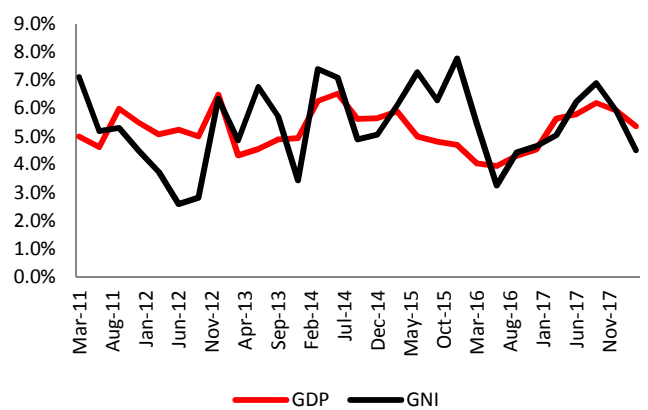
Source: CEIC; MIDFR

**Chart 5: Real vs Nominal GDP (YoY%)**



Source: CEIC; MIDFR

**Chart 6: GDP vs GNI (YoY%)**



Source: CEIC; MIDFR

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