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ECONOMIC REPORT | Business Tendency Index

Business Confidence Fell To 2-Year Low, Indicating Moderating GDP Growth in 1Q19

- *Overall business confidence fell for the first time in 2 years. According to the latest Business Tendency Survey, overall business performance weakens at -2.2%, lowest since 1Q17. The main dragging factors are construction, mining, manufacturing and services sectors*
- *1H19 stays on expansionary path. Referring to business expectations for the next 6 months, overall business performance is expected to improve modestly. Overall business performance for the first half of 2019 is expected to enjoy steady pick-up especially for agriculture, manufacturing and services sectors.*
- *Malaysia's GDP to expand by 4.9% in 2019. Based on the current developments and indicators, we anticipate Malaysia's economy to expand by 4.9% this year given the upbeat performance of domestic and external trade sectors. In addition, gradual pick-up in global commodity prices would lend another boosting factor to the economic growth this year.*

Overall business confidence fell for the first time in 2 years. According to the latest Business Tendency Survey, overall business performance weakens at -2.2%, lowest since 1Q17. The main dragging factors are construction, mining, manufacturing and services sectors. Uncertainty on trade war, volatility of global commodity prices and reform measures by the federal government are reasons for the fell in overall business confidence in 1Q19. Henceforth, we expect higher GDP growth the first quarter this year to remain below 5%.

Construction stays gloomy for 4 consecutive quarters. Business confidence in construction sector remains in negative territory since 2Q18. Revision of government-backed infrastructure projects and fiscal consolidation as mentioned in the Budget 2019 are among factors for the continuous pessimism in the sector. We opine confidence in the sector will rebound should the government confirms to revive the ECRL project. In addition, recent announcement by the Sarawak Chief Minister of RM11b allocation for infrastructure projects in the state would fuel optimism in the sector.

Rebound for agriculture sector. Confidence in agriculture sector turns positive amid slight recovery in CPO price. For the first two months of 2019, the commodity price averaged at RM2,220/MT, highest in 2 quarters. Following the cut of import taxes by India, palm oil industry in Malaysia is expected to gain via higher exports revenue. Duty for crude palm oil was slashed from 44% to 40% while tax on refined products was cut by 4% to 50%. On a flip side, mining sector stays on pessimism as Brent crude oil price declined to below $USD60/pb in Dec-18. Moving forward, we expect both commodity-based sectors to expand at healthy pace underpin by gradual pick-up in commodity prices and steady global demand.

Manufacturing at 6-quarter low. Manufacturers in Malaysia turn pessimistic in the first quarter due to uncertainty on the future of international trade. The US and China were on trade truce since Nov-18 and expecting to reach a trade deal soon. Hence, the result of the trade talk would support business optimism in both major and emerging economies including Malaysia. For Malaysia's trade outlook, we forecast exports and imports to continue growing at solid pace of 3.6% and 3% respectively in 2019. Recovery in domestic exports and continued expansion in re-exports shall contribute towards the exports growth this year.

Services sector remains positive. Business confidence for the sector stays positive at 5.9% in 1Q19. Tepid inflationary pressure and stable job market support the optimistic condition. In addition, lowering capped price of RON95 and maintaining Diesel price will drag down inflation level in 2019. In Jan-19, Malaysia saw its first deflation at -0.7% since 2009. Overall, domestic demand is seen to stay strong in 2019, contributing solid support for economic growth.

Table 1: Business Confidences by Sector (%)

	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19
Overall	4.5	11.9	14.0	12.3	7.8	6.0	7.1	(2.2)
Industry	2.2	3.1	9.8	11.9	9.9	2.1	1.6	(3.6)
Agriculture	8.7	1.4	25.3	11.8	(3.3)	(7.9)	(2.2)	1.8
Mining	(14.3)	16.7	10.0	10.8	(17.9)	(21.5)	(26.7)	(21.5)
Manufacturing	2.4	(3.6)	6.2	10.7	19.7	9.3	7.4	(0.9)
Electricity and water	22.7	36.4	4.5	25.8	16.7	15.4	22.8	0.0
Construction	(8.3)	(7.7)	22.8	1.1	(24.8)	(7.7)	(21.5)	(18.9)
Wholesale and retail trade	3.3	20.7	8.3	0.0	7.4	3.6	13.2	(8.2)
Wholesale trade	7.1	30.5	10.7	1.2	13.5	2.0	20.5	0.4
Retail trade	(3.3)	24.6	3.0	(1.9)	(2.5)	6.3	2.5	(19.4)
Services	11.3	24.0	23.6	20.6	8.6	16.5	18.8	5.9
Hotels	25.3	29.4	12.3	26.2	2.7	(5.4)	2.0	(15.7)
Transport	11.8	33.3	14.7	29.9	5.6	13.8	20.9	23.2
Communications	12.8	31.0	26.2	11.5	26.2	9.5	28.6	(11.1)
Finance	12.8	15.7	31.4	29.4	5.6	28.2	21.8	15.2
Insurance	33.3	37.5	37.0	21.7	46.0	33.3	29.6	12.2
Real estate	(30.3)	22.2	(8.3)	(27.3)	(52.8)	(25.7)	(22.2)	(33.3)
Information and communications technology	7.4	10.4	11.7	20.4	15.5	3.7	5.6	(1.9)

Source: CEIC, MIDFR

1H19 stays on expansionary path. Referring to business expectations for the next 6 months, overall business performance is expected to improve modestly. Overall business performance for the first half of 2019 is expected to enjoy steady pick-up especially for agriculture, manufacturing and services sectors. Strong domestic demand and low inflationary pressure are fundamental factors supporting services sectors. On external front, we view the US and China will reach a deal soon and the effects of trade war are gradually contained by most economies including Malaysia. Business confidence among manufacturers is on improving trend, expecting better performance for the next six months. As for commodity-based sectors, we expect better performance in 1H19 amid gradual pick-up in global commodity prices.

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

	1Q18-2Q18	2Q18-3Q18	3Q18-4Q18	4Q18-1Q19	1Q19-2Q19
Overall	17.1	4.4	11.6	12.3	0.6
Industry	15.4	(0.3)	5.3	9.3	0.5
Agriculture	8.7	0.0	(16.0)	0.0	4.0
Mining	6.7	(14.3)	(7.1)	6.7	(7.1)
Manufacturing	18.0	4.0	11.2	12.4	1.6
Electricity and water	27.3	(8.3)	30.8	9.1	0.0
Construction	17.4	(26.6)	(2.9)	(28.5)	(24.5)
Wholesale and retail trade	7.5	9.5	12.6	23.1	(6.4)
Wholesale trade	6.2	21.9	4.3	31.2	1.4
Retail trade	9.3	(9.3)	25.0	11.1	(16.6)
Services	25.0	15.3	25.3	18.7	7.5
Hotels	25.0	10.8	0.0	5.4	(16.7)
Transport	45.5	25.0	8.0	13.0	8.7
Communications	28.6	14.3	7.1	28.6	(22.2)
Finance	23.5	16.6	46.1	21.4	25.0
Insurance	33.3	55.6	55.6	33.3	16.6
Real estate	(27.3)	(50.0)	(15.4)	(16.6)	(20.0)
Information and communications technology	25.0	5.0	0.0	16.6	11.1

Source: CEIC, MIDFR

Trade negotiation on the watch. Global manufacturing PMI has been on declining trend since Nov-18, as the US and China agreed on trade truce. Despite of progressive comments by both governments, market uncertainties remain until the deal is sealed. Manufacturing PMI for USA stays on uptick direction amid robust domestic demand in the economy. As for EU, geopolitical stress in the region such as Brexit and Italy-France diplomatic dispute are pressuring economic sentiment. In addition, global trade activities may be affected if conflict between India and Pakistan prolongs. Nevertheless, manufacturing PMI for global and developed economies is still on optimistic path, indicating continuous expansion in global growth in 2019.

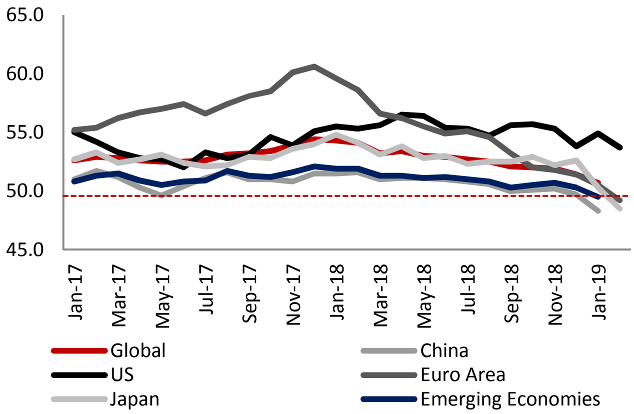
Optimism remains in ASEAN. Business confidences in ASEAN remain in optimistic path as most economies recording above expansionary line of 50 points. Among the top 5 ASEAN economies, manufacturing PMI Indonesia, Philippines and Singapore registered above 50 points in Jan-19. The result of trade talks between the US and China would improve global demand and indirectly benefit ASEAN economies. On top of that, we predict the overall import tariff cut from 9.8% to 7.5% by China will benefit ASEAN economies in 2019. The official tariff cut was effective since 1st Nov-18.

Table 3: Manufacturing PMI by Selected Economies (Points)

	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Global	**53.4**	**53.0**	**52.9**	**52.7**	**52.5**	**52.1**	**52.0**	**51.9**	**51.4**	**50.7**
China	51.1	51.1	51.0	50.8	50.6	50.0	50.1	50.2	49.7	48.3
US	56.5	56.4	55.4	55.3	54.7	55.6	55.7	55.3	53.8	54.9
Euro Area	56.2	55.5	54.9	55.1	54.6	53.2	52.0	51.8	51.4	50.5
Japan	53.8	52.8	53.0	52.3	52.5	52.5	52.9	52.2	52.6	50.3
Emerging Markets	**51.3**	**51.1**	**51.2**	**51.0**	**50.8**	**50.3**	**50.5**	**50.7**	**50.3**	**49.5**
Malaysia	48.6	47.6	49.5	49.7	51.2	51.5	49.2	48.2	46.8	47.9
Indonesia	51.6	51.7	50.3	50.5	51.9	50.7	50.5	50.4	51.2	49.9
Thailand	49.5	51.1	50.2	50.1	49.9	50.0	48.9	49.8	50.3	50.2
Philippines	52.7	53.7	52.9	50.9	51.9	52.0	54.0	54.2	53.2	52.3
Singapore	55.6	56.8	56.0	53.0	51.1	49.6	52.6	53.8	52.7	50.1

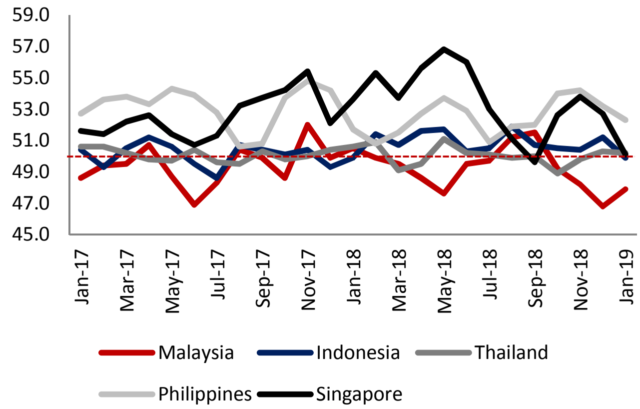
Source: Bloomberg, MIDFR
*Above 50: Expansion Line, Below 50: Contraction Line

Chart 1: Manufacturing PMI by Major Economies (Points)



Source: Bloomberg, MIDFR

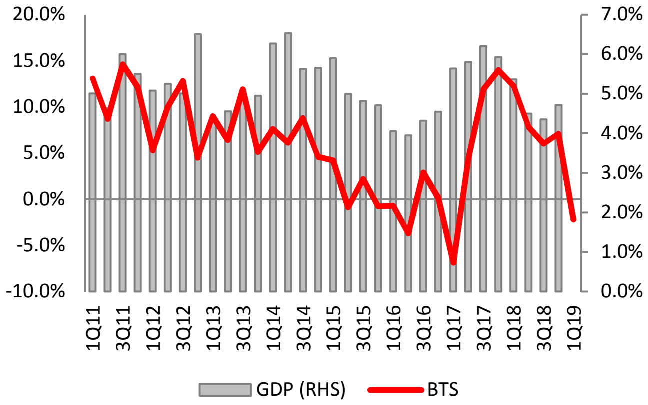
Chart 2: Manufacturing PMI by ASEAN Economies (Points)



Source: Bloomberg, MIDFR

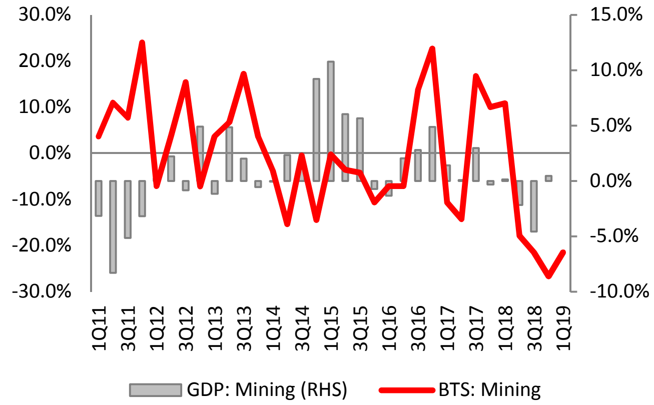
Malaysia's GDP to expand by 4.9% in 2019. Based on the current developments and indicators, we anticipate Malaysia's economy to expand by 4.9% this year given the upbeat performance of domestic and external trade sectors. In addition, gradual pick-up in global commodity prices would lend another boosting factor to the economic growth this year. Besides, supportive economic policies, stable labour market, continued wage growth and moderating inflation will support and spur domestic economy.

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



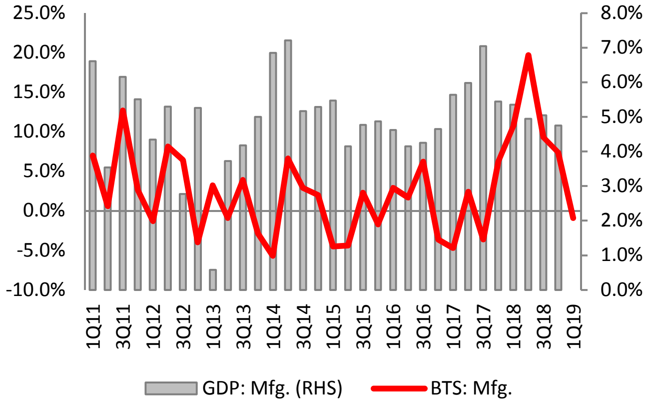
Source: CEIC, MIDFR

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



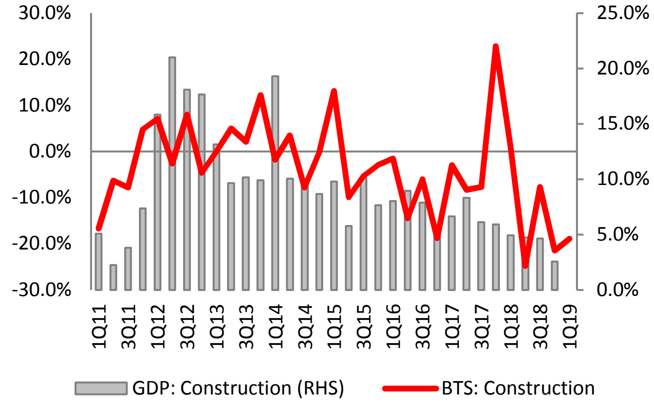
Source: CEIC, MIDFR

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



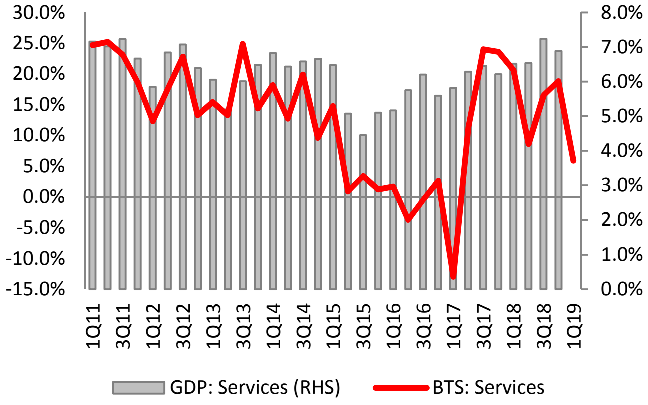
Source: CEIC, MIDFR

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



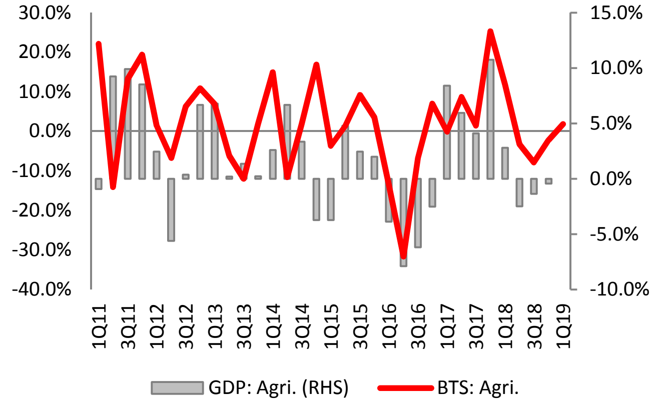
Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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