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ECONOMIC REVIEW | 2Q2018 National Account

GDP Moderates to Slowest Pace in 6th Quarter at 4.5% amid Supply Side Disruption in Mining and Agricultural Sectors

- *GDP growth slowest to 1½ years. Malaysia's GDP growth expands by 4.5%yoy in 2Q18, below our forecast of 4.9%yoy and market expectations of 5.2%yoy. It is the weakest growth in 6-quarters and less than previous year's average of 5.4%.*
- *Strong consumer spending underpin by tax-holiday period. Private consumption jumped 13-quarter high at 8%yoy in 2Q18. Improvement in the expenditure component is in line with the optimism in consumer sentiment index during 2Q18. MIER's CSI returned to 21-year high at 132.9 points underpinned by tax-holiday period, tightening labor market and stable wage growth.*
- *Weakening domestic exports pushes down net exports. Real net exports registered at RM21.3 billion, lowest in 1-year. Exports of goods & services rose by 2%yoy, slowest since 3Q16 whereas imports rebound to 2.1%yoy from -2%yoy in the previous quarter. For 1H18, total exports of goods increase by 7.2%yoy while domestic exports shrinks by -0.1%yoy and on a flip side, re-exports skyrockets by 49.8%yoy.*
- *We revise our GDP forecast from 5.5% to 5.2% for 2018. Based on the current developments and indicators, we predict Malaysia's economy to expand by 5.2% this year given the upbeat performance of domestic and external trade sectors.*

GDP growth slowest to 1½ years. Malaysia's GDP growth expands by 4.5%yoy in 2Q18, below our forecast of 4.9%yoy and market expectations of 5.2%yoy. It is the weakest growth in 6-quarters and less than previous year's average of 5.4%. Among others, domestic demand contributes about 4.3% of the total growth during the quarter. From supply side, services and manufacturing sectors contribute 3.5% and 1.2% respectively. We opine the slowdown in GDP growth was in tandem with moderating 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 strong re-exports growth are the expected to be major drivers for GDP performance in the second half 2018.

Strong consumer spending underpin by tax-holiday period. Private consumption jumped 13-quarter high at 8%yoy in 2Q18. Improvement in the expenditure component is in line with the optimism in consumer sentiment index during 2Q18. MIER's CSI returned to 21-year high at 132.9 points underpinned by tax-holiday period, tightening labor market and stable wage growth. Similarly, in line with 6-year high MIER's BCI, private investment improved to 6%yoy. Moving forward, we believe domestic demand especially private consumption will continue supporting economic growth amid of lower marginal propensity to tax, increase disposable income, moderating inflationary pressure and stable labor market. As for investment side, public investment to further contract in 2H18 as the current PH government will review and restructure fiscal planning as well as government-backed infrastructure projects. Private investment to expand at steady pace particularly with the expanding of re-exports activity.

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

	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
Real GDP	5.6	5.8	6.2	5.9	5.4	4.5
Gross National Income	5.1	6.2	6.9	5.9	4.5	3.2
Final Consumption	6.8	6.4	6.6	6.9	5.7	7.0
Government Consumption	7.5	3.3	3.9	6.8	0.4	3.1
Private Consumption	6.7	7.1	7.2	7.0	6.9	8.0
Gross Fixed Capital Formation (GFCF)	10.0	4.1	6.7	4.3	0.1	2.2
GFCF: Structure	3.7	5.1	3.6	3.3	2.8	2.1
GFCF: Machinery & Equipment	21.8	4.4	11.5	8.3	(3.6)	3.6
GFCF: Other Asset	1.3	(3.8)	7.2	(6.8)	(0.2)	(2.9)
GFCF: Public Investment	3.2	(5.0)	4.1	(1.4)	(1.0)	(9.8)
GFCF: Private Investment	12.9	7.4	7.9	9.2	0.5	6.1
Net Exports	(15.3)	1.9	2.0	2.3	62.4	1.7
Exports of Goods & Services	9.8	9.4	11.8	6.7	3.7	2.0
Imports of Goods & Services	13.0	10.4	13.3	7.3	(2.0)	2.1

Source: CEIC; MIDFR

Services and domestic sectors continue to support economic growth. Services sector accounting for 55.3% of total GDP expanded steadily at 6.5%yoy, 5-consecutive quarters above 6%. Among services sub-sectors, the top three contributors are wholesale trade, retail trade and communication. Apart from private consumption, the steady performance in services reflects that domestic economic activity is currently on upbeat momentum. Tax-holiday period, accommodative economic policies, stable improved employment conditions and steady wage growth provides impetus for the domestic sector. We maintain our forecast for private consumption and services sector to expand by 7.2% and 6.5% respectively in 2018.

Escalating trade war affects manufacturing output. Manufacturing sector expanded by 4.9%yoy, lowest since 4Q16. Among others, weakening domestic exports and tapering optimism among business globally are dragging factors for the slowdown in manufacturing sector. Key manufacturing sub-sectors, refined petroleum and E&E products rose by 3.8%yoy and 6.2%yoy respectively during the quarter. Looking ahead, we view the heightening trade war tension will drag down domestic business activity as well as other trading countries gradually. We opine the Lira crisis is an exceptional case as it involves diplomatic disputes between Turkey and the US over pastor Andrew arrest. Even though Trump-led administration had imposed tariffs early this year, yet global and emerging economies manufacturing PMI figures remain above expansionary line of 50 points.

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

	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
GDP	5.6	5.8	6.2	5.9	5.4	4.5
Agriculture, Forestry & Fishing (AF)	8.4	5.9	4.1	10.7	2.8	(2.5)
AF: Rubber	23.5	17.0	1.9	(2.8)	(28.5)	(20.0)
AF: Oil Palm	17.7	12.1	10.0	24.4	12.5	(6.0)
AF: Livestock	3.0	4.8	4.5	8.6	5.8	7.4
AF: Other Agriculture	2.4	2.4	1.5	2.0	4.5	4.9
AF: Forestry & Logging	(11.1)	(14.5)	(18.9)	(17.9)	(13.4)	(6.0)
AF: Marine Fishing	(4.1)	(3.9)	(3.8)	(9.4)	(3.1)	(1.4)
AF: Aquaculture	(3.3)	4.5	10.1	6.3	(2.3)	0.2
Mining & Quarrying	1.4	0.1	3.0	(0.3)	0.1	(2.2)
Manufacturing (Mfg)	5.6	6.0	7.0	5.4	5.4	4.9
Mfg: Vegetable & Animal Oil, Fats & Food Processing	8.3	10.5	11.5	9.7	9.1	4.2
Mfg: Beverages & Tobacco	9.0	6.5	4.5	5.5	1.4	3.7
Mfg: Textiles, Wearing Apparel & Leather Products	7.0	7.3	9.2	8.4	6.6	4.0
Mfg: Wood Prod, Furniture, Paper Prod, Print & Publish	8.6	5.6	2.5	1.9	4.1	4.1
Mfg: Petroleum, Chemical, Rubber & Plastic Products	3.3	3.2	5.2	4.5	5.0	3.8
Mfg: Non Metallic, Basic & Fabricated Metal Products	3.1	4.0	6.5	4.8	5.2	5.0
Mfg: Electrical & Electronic Products	7.9	9.7	8.8	5.7	6.1	6.2
Mfg: Transport Equipment & Other Manufactures	3.5	3.3	8.1	5.8	3.3	6.5
Construction	6.6	8.3	6.1	5.9	4.9	4.7
Services	5.8	6.3	6.5	6.2	6.5	6.5
Services: Electricity & Gas	1.3	1.2	2.0	3.7	3.9	4.6
Services: Water	6.0	5.9	6.2	6.0	5.9	6.4
Services: Wholesale Trade	5.6	5.9	6.9	7.4	7.9	7.3
Services: Retail Trade	7.9	11.4	10.3	8.2	7.4	8.1
Services: Motor Vehicles	3.5	1.0	0.4	0.3	(0.5)	3.8
Services: Restaurant	7.9	8.0	8.2	8.3	8.2	10.0
Services: Accommodation	4.8	5.0	5.4	5.6	5.7	5.7
Services: Transport & Storage	6.2	6.3	6.4	6.0	5.7	6.4
Services: Communication	8.3	8.6	8.8	8.1	8.3	8.6
Services: Finance	3.9	5.5	5.1	5.0	6.8	2.4
Services: Insurance	2.3	3.6	1.2	7.8	9.8	9.7
Services: Real Estate & Business Services	7.3	7.4	7.4	7.5	7.4	7.8
Services: Other Services	5.1	5.0	5.2	5.2	5.3	5.6
Services: Government Services	5.1	4.5	5.9	4.2	4.8	4.5
Import Duties	8.4	12.2	16.4	14.8	9.8	(3.5)

Source: CEIC; MIDFR

US economy hits 4-year high while other economies experience slight deterioration. The US economy expanded by 4.1%yoy in 2Q18, fastest ever since 4Q14 underpin by solid consumer spending. However, we noticed there are signals of slowing down in the economy. For instance, business fixed investment up 5.4%yoy, slowest in 3-quarter. Imports which include capital and intermediate goods rose marginally by 0.5%yoy, the weakest growth in 2.5-year. Among others, rising inflationary pressure and market uncertainties amid of escalating trade war tension are dragging factors for the US economy in the coming months. On the other hand, China grew by 6.7%yoy in 2Q18, slowest since 3Q16. Moving forward, we foresee slight slowdown in economic growth globally in 2H18. As guided by manufacturing PMI figures for global and emerging economies, both figures recorded at 1-year low in Jul-18, 52.7 and 51 points respectively. Apart from trade war fear, volatility in commodity prices, geopolitical tension and rising interest rate level are downside risks for the next economic recession globally.

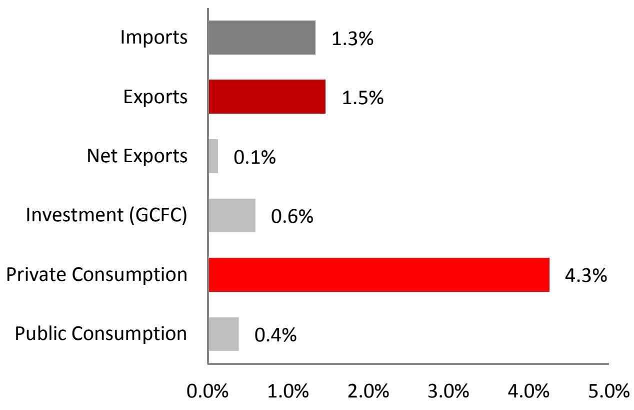
Table 3: GDP Growth by Selected Economies (YoY%)

	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
Malaysia	5.6	5.8	6.2	5.9	5.4	
Indonesia	5.0	5.0	5.1	5.2	5.1	5.3
Philippines	6.5	6.6	7.2	6.5	6.6	6.0
Thailand	3.4	3.9	4.3	4.0	4.8	
Singapore	2.5	2.8	5.5	3.6	4.5	3.9
Taiwan	2.6	2.3	3.2	3.4	3.0	3.3
South Korea	2.9	2.8	3.8	2.8	2.8	2.9
Japan	1.5	1.6	2.0	2.0	1.0	1.0
United Kingdom	1.8	1.7	2.1	1.1	1.8	
EU	2.6	2.0	2.7	2.4	2.2	
China	6.9	6.9	6.8	6.8	6.8	6.7
United States	1.8	3.0	2.8	2.3	2.2	4.1

Source: CEIC; MIDFR

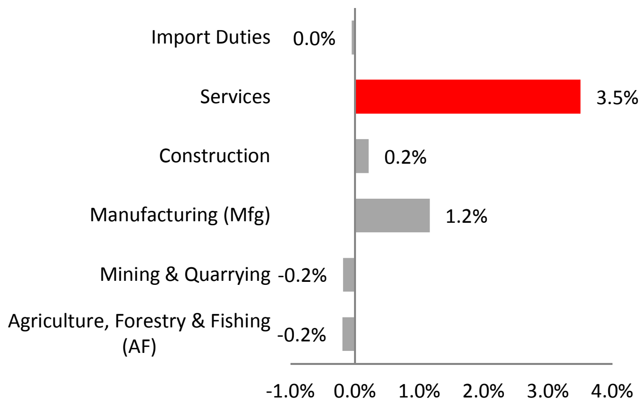
We revise our GDP forecast from 5.5% to 5.2% for 2018. Based on the current developments and indicators, we predict Malaysia's economy to expand by 5.2% this year given the upbeat performance of domestic and external trade sectors. Besides, supportive economic policies, stable labour market, continued 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 escalating trade war tension.

Chart 1: Contribution by Expenditure Components (%)



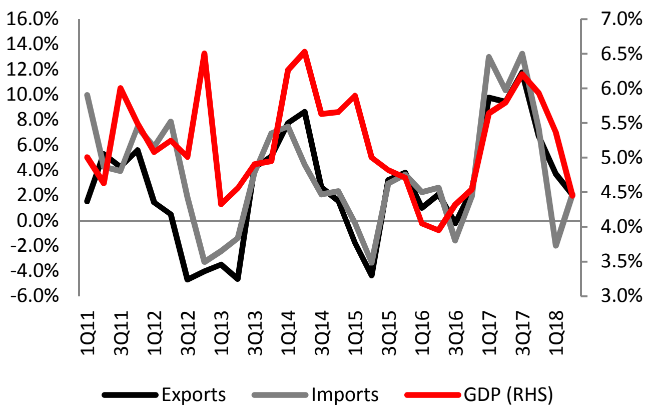
Source: CEIC; MIDFR

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



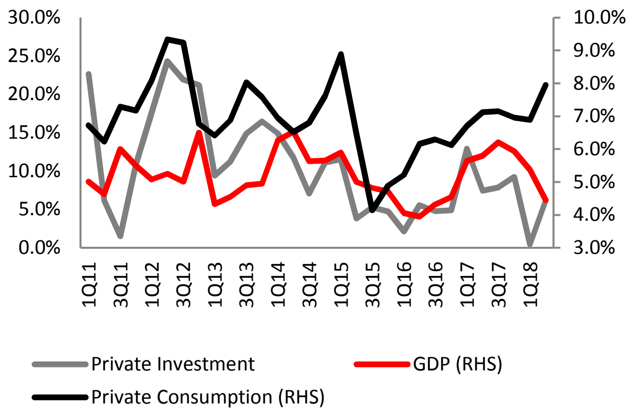
Source: CEIC; MIDFR

Chart 3: GDP vs External Trade (YoY%)



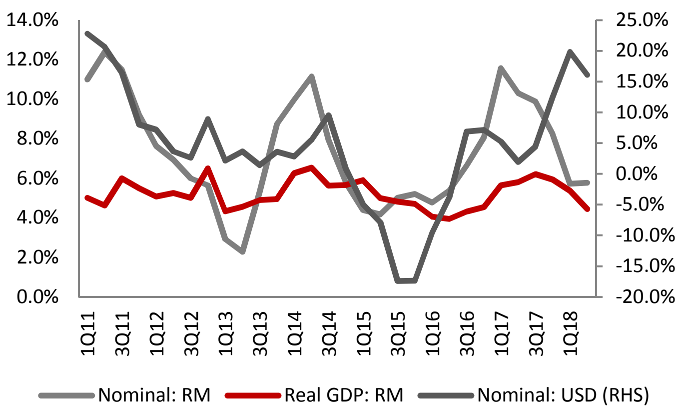
Source: CEIC; MIDFR

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



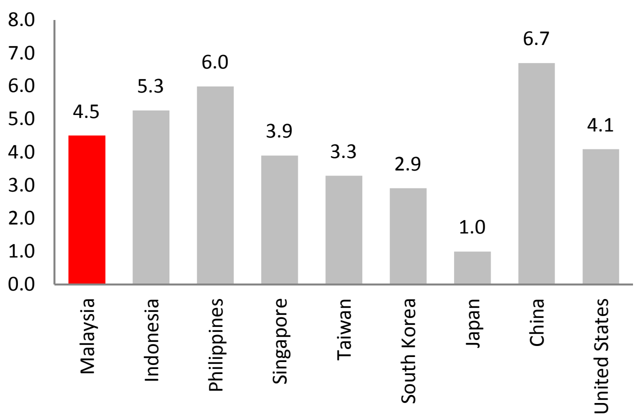
Source: CEIC; MIDFR

Chart 5: Real vs Nominal GDP (YoY%)



Source: CEIC, MIDFR

Chart 6: GDP by Country 2Q18 (YoY%)



Source: CEIC; MIDFR

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