

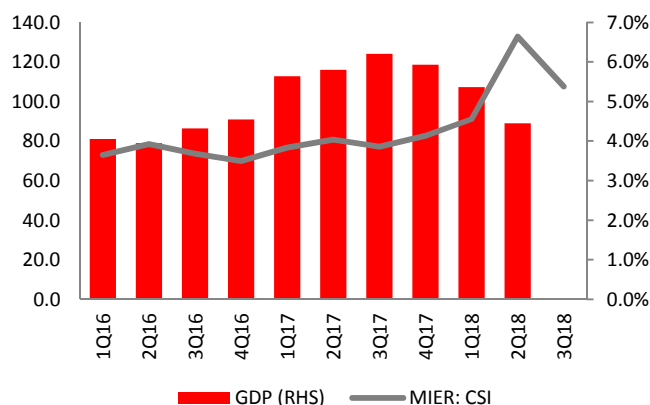
## ECONOMIC REPORT | National Account Preview

### 3Q18 GDP Growth to Ease to 4.2% amid Moderating Agricultural and Industrial Output

- *Moderating business confidences.* Looking at leading indicators, Malaysia's economic growth is expected to further moderate in 3Q18. Signs of optimism are still present yet slightly decline during the quarter. Heighten trade tension, volatility in commodities prices as well as domestic fiscal developments are among key factors influencing business confidences and Malaysia's economic growth in 3Q18.
- *Escalating trade war drags Malaysia's industrial activities.* Total trade expands at slower pace in 3Q18, 5.7%yoy as compared to 8.6%yoy in the previous quarter. Exports up 5.3%yoy (2Q18:8.4%yoy) and imports increase by 6.3%yoy (2Q18:8.9%yoy). Under the new base-year of 2015, IPI growth in 3Q18 is the slowest ever recorded at 2.3%yoy. This mainly pulled down by contraction in mining output of -5.6%yoy.
- *We forecast GDP growth for 3Q18 to moderate at 4.2%.* Malaysia's economic activities sustain on upward trajectory amid resilient domestic spending. However, heighten trade tension, slowdown in industrial activities and sluggish CPO prices are among dragging factors in economic growth for the third quarter. We opine the economy to expand by 4.2%yoy in 3Q18, the lowest in 9-quarter. As for the whole year, we revised our GDP estimate to 4.8% in 2018.

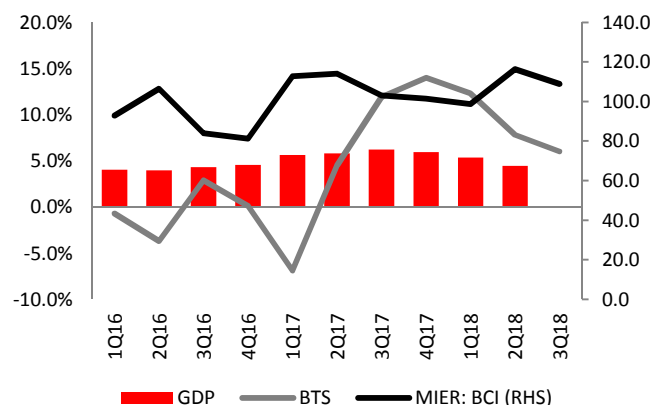
**Moderating business confidences.** Looking at leading indicators, Malaysia's economic growth is expected to further moderate in 3Q18. Signs of optimism are still present yet slightly decline during the quarter. MIER's consumer sentiment index is at 108.8 points in 3Q18, lower than 21-year high recorded in 2Q18. Similar to MIER's business condition index, both indicators remain on optimistic territory but at a lower level. Heighten trade tension, volatility in commodities prices as well as domestic fiscal developments are among key factors influencing business confidences and Malaysia's economic growth in 3Q18.

**Chart 1: Consumer Sentiment vs GDP (YoY%)**



Source: CEIC, MIDFR  
 \* >100 points: Optimism  
 \* <100 points: Pessimism

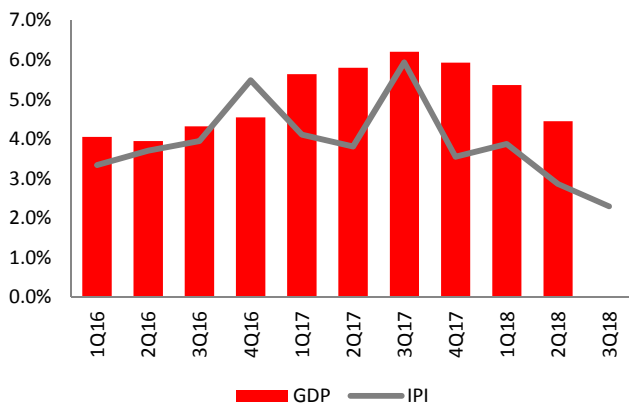
**Chart 2: Business Confidences vs GDP (YoY%)**



Source: CEIC, MIDFR

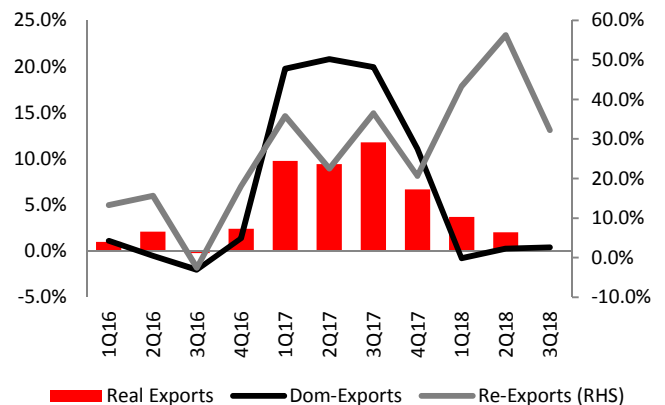
**Escalating trade war drags Malaysia's industrial activities.** Total trade expands at slower pace in 3Q18, 5.7%yoy as compared to 8.6%yoy in the previous quarter. Exports up 5.3%yoy (2Q18:8.4%yoy) and imports increase by 6.3%yoy (2Q18:8.9%yoy). Under the new base-year of 2015, IPI growth in 3Q18 is the slowest ever recorded at 2.3%yoy. This mainly pulled down by contraction in mining output of -5.6%yoy. The mining output has been on shrinking trend for 4-consecutive quarters despite of solid pick-up in global energy prices. Supply disruption and OPEC commitment are reasons affecting the poor performance of the sector. On a flip side, factory output and manufacturing sales show solid performance, 4.7%yoy and 8.6%yoy respectively in 3Q18. Robust performance of re-exports activity is the major factor driving up manufacturing sector particularly in term of sales growth. Domestic exports plateaued for the past nine months in 2018.

**Chart 3: IPI vs GDP (YoY%)**



Source: CEIC, MIDFR

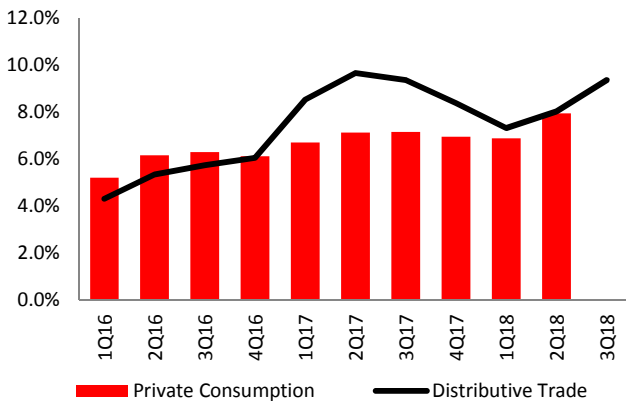
**Chart 4: External Trade; Nominal vs Real (YoY%)**



Source: CEIC, MIDFR

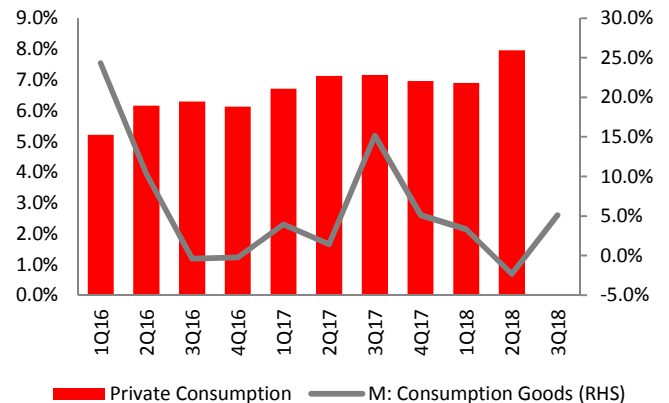
**Private consumption to drive up domestic growth.** Supported by stable labour market, tax holiday period boosts up private consumption in 3Q18. We expect the expenditure component to continue expanding above 7% during the quarter. Referring to distributive trade, total sales rose by 9.4%yoy. All sub-components of distributive trade grew strongly. Retail, wholesale and motor vehicles sales jumped 12.9%yoy, 7%yoy and 7.3%yoy respectively in 3Q18. In addition, imports of consumption goods rebound firmly by 5.1%yoy, reaching 1-year high. Apart from tax holiday period, stable retail fuel prices of RON95 and Diesel is another encouraging factor for the robust domestic spending in Malaysia.

**Chart 5: Distributive Trade vs Private Consumption (YoY%)**



Source: CEIC, MIDFR

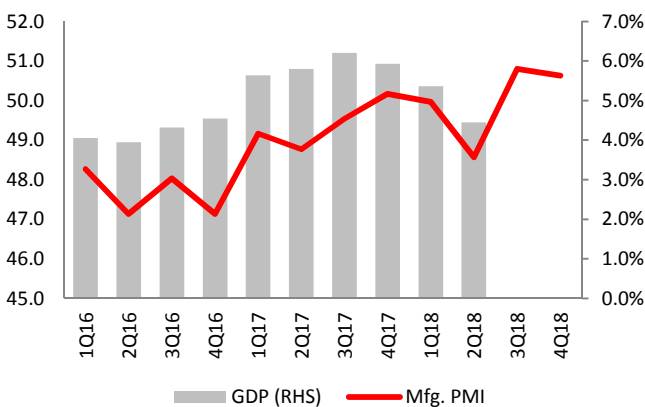
**Chart 6: Imports of Consumption Goods vs Private Consumption (YoY%)**



Source: CEIC, MIDFR

**Expecting improved global demand with sustained solid domestic spending.** Following the latest midterm elections in the US, we expect better improvement in global trade flows. Trump-led administration would face tougher route in implementing protectionist policies given that Democrats take control of the House, while Republicans maintain a majority in the Senate. In addition, slashing down overall imports tariff from 9.8% to 7.5% by China’s government is expected to boost global trade as well as global demand. Manufacturing PMI for global and emerging economies is still on expansionary path, registering above 50 points. In addition, Malaysia has wide rooms to grow in 2019 underpin by optimistic business environment, low inflationary pressure, stable job market and clearer policy direction as guided by the Midterm Review of 11<sup>th</sup> Malaysia Plan and Budget 2019.

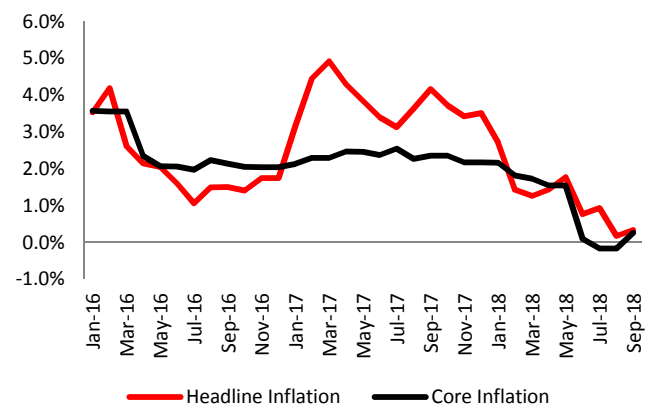
**Chart 7: GDP (YoY%) vs PMI (Points)**




Source: CEIC, MIDFR

\*>50 points: Expansionary, <50: Contractionary

**Chart 8: Headline vs Core Inflation (YoY%)**



Source: CEIC, MIDFR

**We forecast GDP growth for 3Q18 to moderate at 4.2%.** Malaysia’s economic activities sustain on upward trajectory amid resilient domestic spending. However, heighten trade tension, slowdown in industrial activities and sluggish CPO prices are among dragging factors in economic growth for the third quarter. We opine the economy to expand by 4.2%yoy in 3Q18, the lowest in 9-quarter. As for the whole year, we revised our GDP estimate to 4.8% in 2018. 

**Table 1: Selected-Macroeconomic Data Updates**

<b>YoY% Unless Stated Otherwise</b>	<b>1Q17</b>	<b>2Q17</b>	<b>3Q17</b>	<b>4Q17</b>	<b>1Q18</b>	<b>2Q18</b>	<b>3Q18</b>
MIER: BCI (Points)	112.7	114.1	103.1	101.5	98.6	116.3	108.8
MIER: CSI (Points)	76.6	80.7	77.1	82.6	91.0	132.9	107.5
Nikkei Manufacturing PMI (Points)	49.2	48.8	49.5	50.2	50.0	48.6	50.8
Trade Balance (RM Billion)	19.4	25.5	26.3	27.3	33.4	27.1	25.2
Exports fob	21.7	20.9	22.2	12.4	5.8	8.4	5.3
Imports cif	27.7	18.7	19.7	14.6	(0.2)	8.9	6.3
Domestic Exports	19.7	20.8	19.9	11.1	(0.8)	0.3	0.4
Re-Exports	35.8	22.5	36.5	20.6	43.3	56.3	32.2
IPI	4.1	3.8	5.9	3.6	3.9	2.9	2.3
IPI: Mining	0.2	(1.3)	2.5	(1.6)	(0.0)	(2.6)	(5.6)
IPI: Manufacturing	6.0	6.0	7.2	5.4	5.2	4.7	4.7
IPI: Electricity	0.8	1.1	4.4	4.1	3.8	3.8	4.2
Manufacturing Sales	13.3	15.5	16.5	10.4	6.5	7.2	8.6
Approved Loan	15.0	3.9	11.1	12.5	4.9	9.2	8.6
Loan: Working Capital	22.7	0.8	(2.6)	5.8	(17.5)	18.6	16.6
Imports of Intermediate Goods	28.9	24.4	21.0	9.4	(10.3)	(4.7)	(1.7)
Imports of Capital Goods	41.1	7.4	2.0	17.1	(9.0)	6.1	4.1
Imports of Consumption Goods	3.9	1.4	15.2	5.1	3.3	(2.4)	5.1
Distributive Trade	8.5	9.7	9.4	8.4	7.3	8.0	9.4
Motor Vehicles	4.6	2.7	2.1	0.3	0.0	4.5	7.3
Wholesale Trade	8.4	8.7	9.1	9.0	7.7	7.6	7.0
Retail Trade	10.1	13.5	12.2	10.4	9.2	9.8	12.9
Headline Inflation	4.2	3.8	3.6	3.6	1.8	1.3	0.5

Source: CEIC, MIDFR

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