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## ECONOMIC REVIEW | 3Q2018 National Account

# Commodity-based Supply Side Disruption Lowered 3Q18 Growth to 4.4% Amid Robust Domestic Spending

- *GDP growth in 3Q18 missed market expectations. Malaysia's GDP growth expands by 4.4%yoy in 3Q18, slightly above our forecast of 4.2%yoy and below market expectations of 4.6%yoy. We have expected the GDP performance to moderate during the quarter as mentioned in our GDP preview report, highlighting strong domestic demand and contractions in commodity-based sectors such as agriculture and mining & quarrying.*
- *Strong consumer spending underpin by tax-holiday period. Private consumption jumped to 6-year high at 9%yoy in 3Q18. In fact, the expenditure component rose strongly by 8.2%qoq, fastest in 4-year. Improvement in the expenditure component is in line with the continuous optimism in consumer sentiment index during 3Q18.*
- *Domestic exports plateaued for the past nine months in 2018. Exports of goods & services shrank by -0.8%yoy, worst ever recorded since 2Q15 while imports up modestly by 0.1%yoy. Among others, we noticed tepid pace in domestic exports is a dragging factor for Malaysia's overall external trade performance.*
- *We forecast GDP growth of 4.8% for 2018. Based on the current developments and indicators, we expect Malaysia's economy to expand by 4.8% this year given the upbeat performance of domestic and external trade sectors.*

**GDP growth in 3Q18 missed market expectations.** Malaysia's GDP growth expands by 4.4%yoy in 3Q18, slightly above our forecast of 4.2%yoy and below market expectations of 4.6%yoy. We have expected the GDP performance to moderate during the quarter as mentioned in our GDP preview report, highlighting strong domestic demand and contractions in commodity-based sectors such as agriculture and mining & quarrying. It is the weakest growth in 7-quarters. Among others, tax holiday and stable retail fuel prices boost the growth as domestic demand contributes about 5% of the total growth during the quarter. From supply side, services and manufacturing sectors contribute 3.9% and 1.2% respectively. We opine the continuous slowdown in GDP growth is mainly due to external factors particularly escalating trade war effects and poor performances of commodity-based sectors. 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 last quarter of 2018.

**Strong consumer spending underpin by tax-holiday period**. Private consumption jumped to 6-year high at 9%yoy in 3Q18. In fact, the expenditure component rose strongly by 8.2%qoq, fastest in 4-year. Improvement in the expenditure component is in line with the continuous optimism in consumer sentiment index during 3Q18. MIER's CSI maintains above threshold line of 100 points at 107.5 underpinned by tax-holiday period, tightening labor market and stable wage growth. Similarly, in line with optimistic MIER's BCI reading, private investment improved to 6.9%yoy, highest so far this year. 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 and clearer national policy direction as guided by the Midterm Review of 11th Malaysia Plan and Budget 2019.

**Domestic exports plateaued for the past nine months in 2018.** Exports of goods & services shrank by -0.8%yoy, worst ever recorded since 2Q15 while imports up modestly by 0.1%yoy. Among others, we noticed tepid pace in domestic exports is a dragging factor for Malaysia's overall external trade performance. In addition, rising influence of re-exports activity is generating less value-add towards the domestic economy as well as net exports. Net exports contracted by -7.5%yoy and pull down overall GDP growth by -0.7% during the quarter. Supply disruption and sluggish global commodity prices will continue affecting mining & quarrying and agriculture sectors, thus tearing down domestic exports and trade balance of Malaysia in the last quarter of 2018.

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

| | 1Q17 | 2Q17 | 3Q17 | 4Q17 | 1Q18 | 2Q18 | 3Q18 |
|---|---|---|---|---|---|---|---|
| **Real GDP** | 5.6 | 5.8 | 6.2 | 5.9 | 5.4 | 4.5 | 4.4 |
| **Gross National Income** | 5.1 | 6.2 | 6.9 | 5.9 | 4.5 | 3.2 | 2.7 |
| Final Consumption | 6.8 | 6.4 | 6.6 | 6.9 | 5.7 | 7.0 | 8.3 |
| *Government Consumption* | 7.5 | 3.3 | 3.9 | 6.8 | 0.4 | 3.1 | 5.2 |
| *Private Consumption* | 6.7 | 7.1 | 7.2 | 7.0 | 6.9 | 8.0 | 9.0 |
| Gross Fixed Capital Formation (GFCF) | 10.0 | 4.1 | 6.7 | 4.3 | 0.1 | 2.2 | 3.2 |
| *GFCF: Structure* | 3.7 | 5.1 | 3.6 | 3.3 | 2.8 | 2.1 | 1.8 |
| *GFCF: Machinery & Equipment* | 21.8 | 4.4 | 11.5 | 8.3 | (3.6) | 3.6 | 5.9 |
| *GFCF: Other Asset* | 1.3 | (3.8) | 7.2 | (6.8) | (0.2) | (2.9) | 0.1 |
| *GFCF: Public Investment* | 3.2 | (5.0) | 4.1 | (1.4) | (1.0) | (9.8) | (5.5) |
| *GFCF: Private Investment* | 12.9 | 7.4 | 7.9 | 9.2 | 0.5 | 6.1 | 6.9 |
| Net Exports | (15.3) | 1.9 | 2.0 | 2.3 | 62.4 | 1.7 | (7.5) |
| *Exports of Goods & Services* | 9.8 | 9.4 | 11.8 | 6.7 | 3.7 | 2.0 | (0.8) |
| *Imports of Goods & Services* | 13.0 | 10.4 | 13.3 | 7.3 | (2.0) | 2.1 | 0.1 |

Source: CEIC, MIDFR

**Services and domestic sectors continue to support economic growth.** Services sector accounting for 56% of total GDP expanded strongly at 7.2%yoy, highest since 2011. Among services sub-sectors, the top three contributors are wholesale trade, retail trade and motor vehicles. Tax-holiday period, low inflationary pressure, stable employment conditions and steady wage growth provides impetus for the domestic sector during the quarter. Moving forward, despite of SST, we maintain our view the tax regime would not drag Malaysia's private consumption and services sector upbeat momentum due to strong underlying factors. We maintain our forecast for private consumption and services sector to expand by 7.2% and 6.5% respectively in 2018.

**Steady manufacturing performance while agriculture and mining remain sluggish.** Manufacturing sector expanded by 5%yoy, slightly better than the previous quarter. Key manufacturing sub-sectors, refined petroleum and E&E products rose by 3.9%yoy and 6.4%yoy respectively during the quarter. Looking ahead, we foresee better performance of global trade flows amid the results of the US midterm elections and imports tariff cut by China in the last quarter of 2018 and 2019. Henceforth, export-oriented sectors especially manufacturing would be benefited. As for commodity-based sectors, volatility in global prices and geopolitical risks remain as challenges to the sectors.

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

| | 1Q17 | 2Q17 | 3Q17 | 4Q17 | 1Q18 | 2Q18 | 3Q18 |
|---|---|---|---|---|---|---|---|
| **GDP** | 5.6 | 5.8 | 6.2 | 5.9 | 5.4 | 4.5 | 4.4 |
| **Agriculture, Forestry & Fishing (AF)** | 8.4 | 5.9 | 4.1 | 10.7 | 2.8 | (2.5) | (1.4) |
| AF: Rubber | 23.5 | 17.0 | 1.9 | (2.8) | (28.5) | (20.0) | (0.2) |
| AF: Oil Palm | 17.7 | 12.1 | 10.0 | 24.4 | 12.5 | (6.0) | (8.0) |
| AF: Livestock | 3.0 | 4.8 | 4.5 | 8.6 | 5.8 | 7.4 | 8.2 |
| AF: Other Agriculture | 2.4 | 2.4 | 1.5 | 2.0 | 4.5 | 4.9 | 6.0 |
| AF: Forestry & Logging | (11.1) | (14.5) | (18.9) | (17.9) | (13.4) | (6.0) | 2.7 |
| AF: Marine Fishing | (4.1) | (3.9) | (3.8) | (9.4) | (3.1) | (1.4) | 2.2 |
| AF: Aquaculture | (3.3) | 4.5 | 10.1 | 6.3 | (2.3) | 0.2 | 1.8 |
| **Mining & Quarrying** | 1.4 | 0.1 | 3.0 | (0.3) | 0.1 | (2.2) | (4.6) |
| **Manufacturing (Mfg)** | 5.6 | 6.0 | 7.0 | 5.4 | 5.4 | 4.9 | 5.0 |
| Mfg: Vegetable & Animal Oil, Fats & Food Processing | 8.3 | 10.5 | 11.5 | 9.7 | 9.1 | 4.2 | 2.2 |
| Mfg: Beverages & Tobacco | 9.0 | 6.5 | 4.5 | 5.5 | 1.4 | 3.7 | 3.3 |
| Mfg: Textiles, Wearing Apparel & Leather Products | 7.0 | 7.3 | 9.2 | 8.4 | 6.6 | 4.0 | 2.9 |
| Mfg: Wood Prod, Furniture, Paper Prod, Print & Publish | 8.6 | 5.6 | 2.5 | 1.9 | 4.1 | 4.1 | 6.1 |
| Mfg: Petroleum, Chemical, Rubber & Plastic Products | 3.3 | 3.2 | 5.2 | 4.5 | 5.0 | 3.8 | 3.9 |
| Mfg: Non Metallic, Basic & Fabricated Metal Products | 3.1 | 4.0 | 6.5 | 4.8 | 5.2 | 5.0 | 5.0 |
| Mfg: Electrical & Electronic | 7.9 | 9.7 | 8.8 | 5.7 | 6.1 | 6.2 | 6.4 |
| Mfg: Transport Equipment & Other Manufactures | 3.5 | 3.3 | 8.1 | 5.8 | 3.3 | 6.5 | 8.0 |
| **Construction** | 6.6 | 8.3 | 6.1 | 5.9 | 4.9 | 4.7 | 4.6 |
| **Services** | 5.8 | 6.3 | 6.5 | 6.2 | 6.5 | 6.5 | 7.2 |
| Services: Electricity & Gas | 1.3 | 1.2 | 2.0 | 3.7 | 3.9 | 4.6 | 4.9 |
| Services: Water | 6.0 | 5.9 | 6.2 | 6.0 | 5.9 | 6.4 | 6.4 |
| Services: Wholesale Trade | 5.6 | 5.9 | 6.9 | 7.4 | 7.9 | 7.3 | 7.2 |
| Services: Retail Trade | 7.9 | 11.4 | 10.3 | 8.2 | 7.4 | 8.1 | 12.3 |
| Services: Motor Vehicles | 3.5 | 1.0 | 0.4 | 0.3 | (0.5) | 3.8 | 8.4 |
| Services: Restaurant | 7.9 | 8.0 | 8.2 | 8.3 | 8.2 | 10.0 | 10.3 |
| Services: Accommodation | 4.8 | 5.0 | 5.4 | 5.6 | 5.7 | 5.7 | 5.8 |
| Services: Transport & Storage | 6.2 | 6.3 | 6.4 | 6.0 | 5.7 | 6.4 | 6.7 |
| Services: Communication | 8.3 | 8.6 | 8.8 | 8.1 | 8.3 | 8.6 | 8.4 |
| Services: Finance | 3.9 | 5.5 | 5.1 | 5.0 | 6.8 | 2.2 | 4.0 |
| Services: Insurance | 2.3 | 3.6 | 1.2 | 7.8 | 9.8 | 13.1 | 13.0 |
| Services: Real Estate & Business Services | 7.3 | 7.4 | 7.4 | 7.5 | 7.4 | 7.8 | 7.7 |
| Services: Other Services | 5.1 | 5.0 | 5.2 | 5.2 | 5.3 | 5.6 | 5.8 |
| Services: Government Services | 5.1 | 4.5 | 5.9 | 4.2 | 4.8 | 4.5 | 3.8 |
| **Import Duties** | 8.4 | 12.2 | 16.4 | 14.8 | 9.8 | (3.5) | (33.3) |

Source: CEIC, MIDFR

**Slowdown in global economies.** At glance, we notice developed and emerging economies experience economic slowdown in 3Q18 amid escalating trade tension and rising inflationary pressure. In the US, GDP growth of 3Q18 stood at annualized 3.5% with private consumption jumped to almost 4-year high at 4%. Domestic demand is seen strong given that imports expanded firmly by 9.1% during the quarter. In Sep-18, IPI growth hit 5.2%yoy, fastest since Dec-10. Despite trade tension, average exports and imports growths of 2018 registered higher than previous year's performance, 9.8% vs 6.4% and 11.8% vs 7.1% respectively. On the other hand, China grew by 6.5%yoy in 3Q18, slowest since 2009. Moving forward, we foresee modest pace in economic growth globally in 2H18. As guided by manufacturing PMI figures for global and emerging economies, the indicator hints continuous expansion in global demand and remain on optimistic territory. In addition, global trade flows to receive additional boost as the recent midterm elections in the US would soften its protectionist stance and reduction in overall import tariff by China from 9.8% to 7.5%.

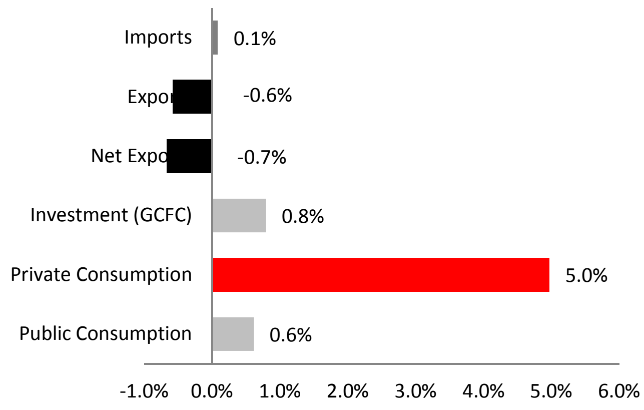
**Table 3: GDP Growth by Selected Economies (YoY%)**

| | 1Q17 | 2Q17 | 3Q17 | 4Q17 | 1Q18 | 2Q18 | 3Q18 |
|---|---|---|---|---|---|---|---|
| Malaysia | 5.6 | 5.8 | 6.2 | 5.9 | 5.4 | 4.5 | 4.4 |
| Indonesia | 5.0 | 5.0 | 5.1 | 5.2 | 5.1 | 5.3 | 5.2 |
| Philippines | 6.5 | 6.6 | 7.2 | 6.5 | 6.6 | 6.2 | 6.1 |
| Thailand | 3.4 | 3.9 | 4.3 | 4.0 | 4.9 | 4.6 | |
| Singapore | 2.5 | 2.8 | 5.5 | 3.6 | 4.6 | 4.1 | 2.6 |
| Taiwan | 2.6 | 2.3 | 3.2 | 3.4 | 3.1 | 3.3 | 2.3 |
| South Korea | 2.9 | 2.8 | 3.8 | 2.8 | 2.8 | 2.8 | 2.0 |
| Japan | 1.4 | 1.5 | 2.0 | 1.9 | 1.1 | 1.4 | 0.3 |
| United Kingdom | 1.5 | 1.7 | 2.2 | 1.6 | 2.1 | 1.0 | |
| EU | 2.6 | 2.0 | 2.7 | 2.4 | 2.2 | 2.3 | |
| China | 6.9 | 6.9 | 6.8 | 6.8 | 6.8 | 6.7 | 6.5 |
| United States | 1.8 | 3.0 | 2.8 | 2.3 | 2.2 | 4.2 | 3.5 |

Source: CEIC, MIDFR

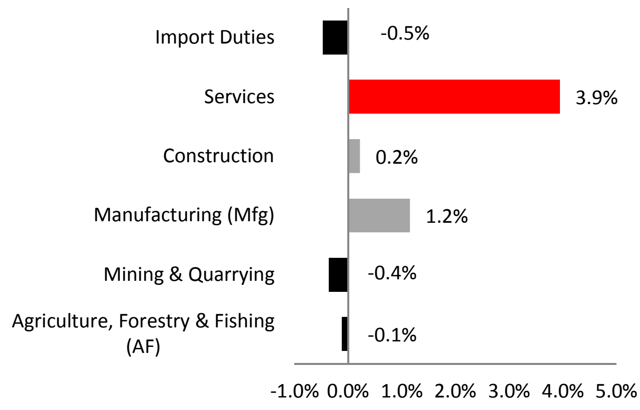
**We forecast GDP growth of 4.8% for 2018.** Based on the current developments and indicators, we expect Malaysia's economy to expand by 4.8% this year given the upbeat performance of domestic and external trade sectors. Besides, supportive economic policies, stable labour market, continued wage growth and moderating inflation will support and spur domestic economy. Moving forward, we foresee the economic performance in 4Q18 to expand amid better performance in global trade flows, clearer national policy direction and continued robust domestic demand.

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



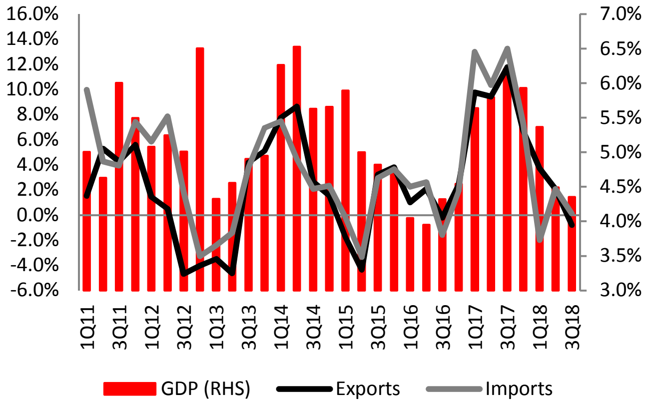

Source: CEIC, MIDFR

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



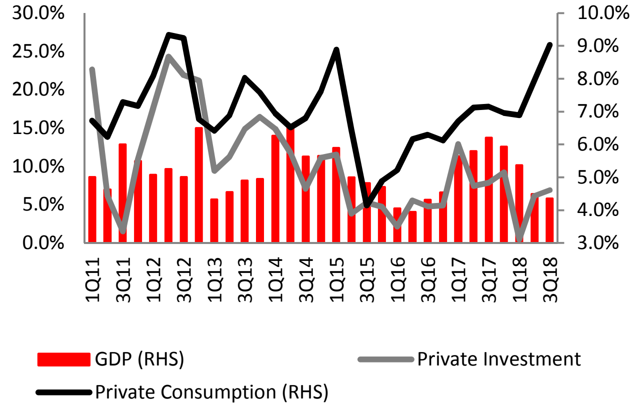

Source: CEIC, MIDFR

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



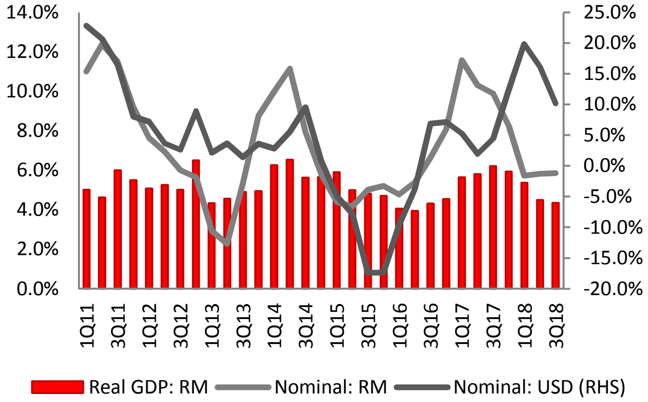

Source: CEIC, MIDFR

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



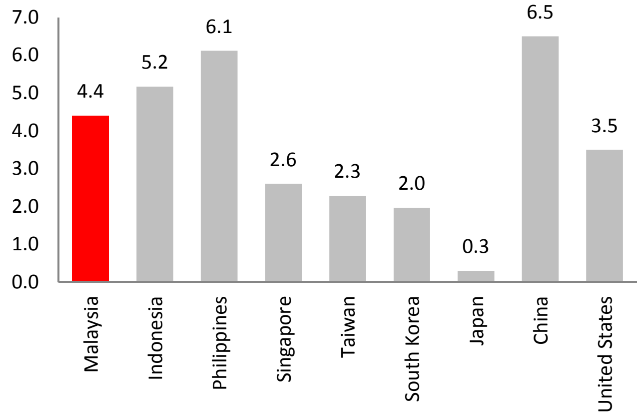

Source: CEIC, MIDFR

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




Source: CEIC, MIDFR

**Chart 6: GDP by Country 3Q18 (YoY%)**




Source: CEIC, MIDFR

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