

ECONOMIC REPORT | Business Tendency Index**Business Expectations Improve Slightly in 4Q18 as Services Sector Remains Upbeat**

- *Slight improvement in 4Q18. According to the latest Business Tendency Survey, overall business performance is expected to remain positive at a better pace given that overall business confidence registered at 7.1%, higher than the previous quarter. The improvement is supported by services and distributive trade amid robust domestic demand.*
- *Favorable economic outlook for 1H19. Referring to business expectations for the next 6 months, overall business performance is expected to improve. Overall business performance for 4Q18-1Q19 is expected to enjoy steady pick-up especially for mining & quarrying, manufacturing, and services sectors.*
- *Malaysia's GDP to expand by 4.8% in 2018. Based on the current developments and indicators, we anticipate Malaysia's economy to expand by 4.8% this year given the upbeat performance of domestic and external trade sectors.*

Slight improvement in 4Q18. According to the latest Business Tendency Survey, overall business performance is expected to remain positive at a better pace given that overall business confidence registered at 7.1%, higher than the previous quarter. The improvement is supported by services and distributive trade amid robust domestic demand. On the other hand, main sectors such construction, agriculture and mining & quarrying are still in pessimistic territory while manufacturing sector remains in upward trajectory despite trade war. Henceforth, we expect higher GDP growth in 4Q18 of more than 5% underpinned by solid domestic demand.

Construction stays gloomy for 3-consecutive quarters. Business confidence in construction sector went down further to -21.5% in 4Q18. 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.

Bleak outlook for commodity-based sectors. For 3-consecutive quarters, business confidences in agriculture and mining & quarrying remain in pessimistic territory. For agriculture sector, continuous decline in CPO price put a drag on the expansion of agricultural output. For the ten months of 2018, CPO price shrank on monthly average by -17.6%yoy against 8.5%yoy during the same period of previous year. As for mining & quarrying, global energy price volatility and supply disruption are key factors pulling down output production. Unlike CPO, Brent crude oil price surges strongly by 39.6%yoy in during the first ten months this year against 23.3%yoy in the same period of last year.

Re-exports support manufacturing confidence. Despite of trade tension, confidence level in manufacturing sector stays on optimistic path. However, the confidence index registered at 7.4% in 4Q18 is lowest ever in 2018. Uncertainty over Trump's trade policy and possible retaliation by China cause uncertainty on global trade activity in the short and medium term. Nevertheless, solid activity in re-exports boost up Malaysia's manufacturing sector so far this year. For instance, re-exports increase on average growth of 43.9%yoy whereas domestic exports plateaued for the first nine months of 2018.

Services sector continues soaring. Business confidence for the sector increases to 18.8%, highest in 3-quarter. Tepid inflationary pressure and stable job market support the optimistic condition. As guided by the midterm review of 11th Malaysia Plan and Budget 2019, enlarging consumer's purchasing power is among key pillars under the new government to spur domestic demand as well as overall economic activity. Overall, domestic demand is seen to stay strong in 2019, contributing solid support for economic growth.

Table 1: Business Confidences by Sector (%)

	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
Overall	(6.9)	4.5	11.9	14.0	12.3	7.8	6.0	7.1
Industry	(2.7)	2.2	3.1	9.8	11.9	9.9	2.1	1.6
Agriculture	(0.1)	8.7	1.4	25.3	11.8	(3.3)	(7.9)	(2.2)
Mining	(10.7)	(14.3)	16.7	10.0	10.8	(17.9)	(21.5)	(26.7)
Manufacturing	(4.7)	2.4	(3.6)	6.2	10.7	19.7	9.3	7.4
Electricity and water	27.8	22.7	36.4	4.5	25.8	16.7	15.4	22.8
Construction	(3.0)	(8.3)	(7.7)	22.8	1.1	(24.8)	(7.7)	(21.5)
Wholesale and retail trade	(11.7)	3.3	20.7	8.3	0.0	7.4	3.6	13.2
Wholesale trade	(7.1)	7.1	30.5	10.7	1.2	13.5	2.0	20.5
Retail trade	(17.2)	(3.3)	24.6	3.0	(1.9)	(2.5)	6.3	2.5
Services	(13.0)	11.3	24.0	23.6	20.6	8.6	16.5	18.8
Hotels	8.8	25.3	29.4	12.3	26.2	2.7	(5.4)	2.0
Transport	8.3	11.8	33.3	14.7	29.9	5.6	13.8	20.9
Communications	(24.2)	12.8	31.0	26.2	11.5	26.2	9.5	28.6
Finance	(24.4)	12.8	15.7	31.4	29.4	5.6	28.2	21.8
Insurance	30.1	33.3	37.5	37.0	21.7	46.0	33.3	29.6
Real estate	(35.6)	(30.3)	22.2	(8.3)	(27.3)	(52.8)	(25.7)	(22.2)
Information and communications technology	(5.4)	7.4	10.4	11.7	20.4	15.5	3.7	5.6

Source: CEIC, MIDFR

Favorable economic outlook for 1H19. Referring to business expectations for the next 6 months, overall business performance is expected to improve. Overall business performance for 4Q18-1Q19 is expected to enjoy steady pick-up especially for mining & quarrying, manufacturing, and services sectors. Strong domestic demand and low inflationary pressure are fundamental factors supporting services sectors. On external front, we opine the effects of trade war are gradually contained by most economies including Malaysia. The gradual pace of tariff hikes by the US provides enough rooms for economies to absorb impacts and manage risks. Business confidence among manufacturers is on improving trend, expecting better performance for the next six months. As for commodity-based sectors, uncertain future for agriculture remains while mining & quarrying players are expecting improve outlook for the next six months.

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

	4Q17-1Q18	1Q18-2Q18	2Q18-3Q18	3Q18-4Q18	4Q18-1Q19
Overall	29.9	17.1	4.4	11.6	12.3
Industry	30.2	15.4	(0.3)	5.3	9.3
Agriculture	32.0	8.7	0.0	(16.0)	0.0
Mining	20.0	6.7	(14.3)	(7.1)	6.7
Manufacturing	33.6	18.0	4.0	11.2	12.4
Electricity and water	18.2	27.3	(8.3)	30.8	9.1
Construction	24.0	17.4	(26.6)	(2.9)	(28.5)
Wholesale and retail trade	26.1	7.5	9.5	12.6	23.1
Wholesale trade	26.0	6.2	21.9	4.3	31.2
Retail trade	25.0	9.3	(9.3)	25.0	11.1
Services	32.1	25.0	15.3	25.3	18.7
Hotels	36.9	25.0	10.8	0.0	5.4
Transport	48.0	45.5	25.0	8.0	13.0
Communications	42.9	28.6	14.3	7.1	28.6
Finance	23.5	23.5	16.6	46.1	21.4
Insurance	33.3	33.3	55.6	55.6	33.3
Real estate	8.3	(27.3)	(50.0)	(15.4)	(16.6)
Information and communications technology	45.0	25.0	5.0	0.0	16.6

Source: CEIC, MIDFR

Effects of trade war are easing. 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 deal and Italy's populist budget are pressuring economic sentiment. Business confidence in China remains on moderation mood, thanks to tariff hikes by the US. Among major risks, retaliation by China via withdrawal of its holdings in the US government debt may cause global financial market destabilization. However, manufacturing PMI for both global, developed and emerging economies are still on optimistic path, indicating continuous expansion in global growth in 2019.

Optimism remains in ASEAN. Business confidences in emerging economies as well as 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 Oct-18. Looking ahead, we predict the overall import tariff cut from 9.8% to 7.5% by China will benefit ASEAN economies in the next 3-6 months. The official tariff cut is effectively on 1st Nov-18.

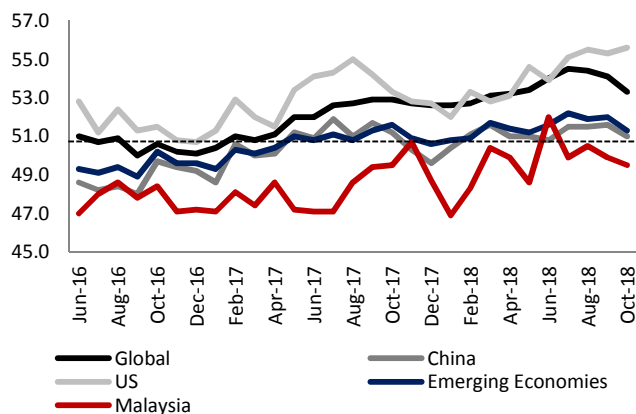
Table 3: Manufacturing PMI by Selected Economies (Points)

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
Global	52.6	52.7	53.1	53.2	53.4	54.0	54.5	54.4	54.1	53.3
China	50.4	51.1	51.6	51.0	51.0	50.8	51.5	51.5	51.6	51.0
US	52.0	53.3	52.8	53.1	54.6	53.9	55.1	55.5	55.3	55.6
Euro Area	57.4	56.6	57.4	58.1	58.5	60.1	60.6	59.6	58.6	56.6
Japan	52.4	52.1	52.2	52.9	52.8	53.6	54.0	54.8	54.1	53.1
Emerging Economies	50.8	50.9	51.7	51.4	51.2	51.6	52.2	51.9	52.0	51.3
Malaysia	46.9	48.3	50.4	49.9	48.6	52.0	49.9	50.5	49.9	49.5
Indonesia	49.5	48.6	50.7	50.4	50.1	50.4	49.3	49.9	51.4	50.7
Thailand	50.4	49.6	49.5	50.3	49.8	50.0	50.4	50.6	50.9	49.1
Philippines	53.9	52.8	50.6	50.8	53.7	54.8	54.2	51.7	50.8	51.5
Singapore	50.7	51.3	53.2	53.7	54.2	55.4	52.1	53.6	55.3	53.7

Source: Bloomberg, MIDFR

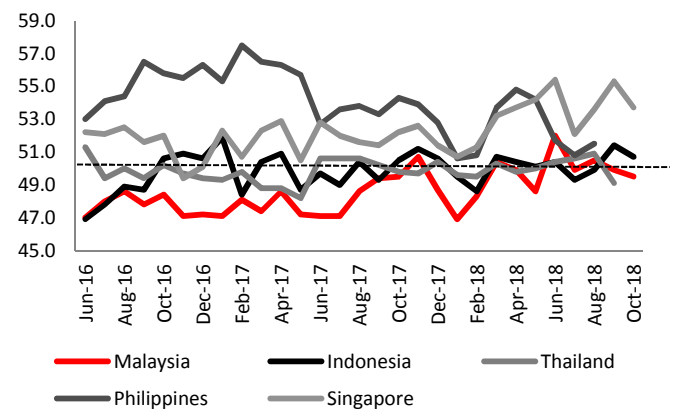
*Above 50: Expansion Line, Below 50: Contraction Line

Chart 1: Manufacturing PMI by Major Economies (Points)



Source: Bloomberg, MIDFR

Chart 2: Manufacturing PMI by Regional Economies (Points)



Source: Bloomberg, MIDFR


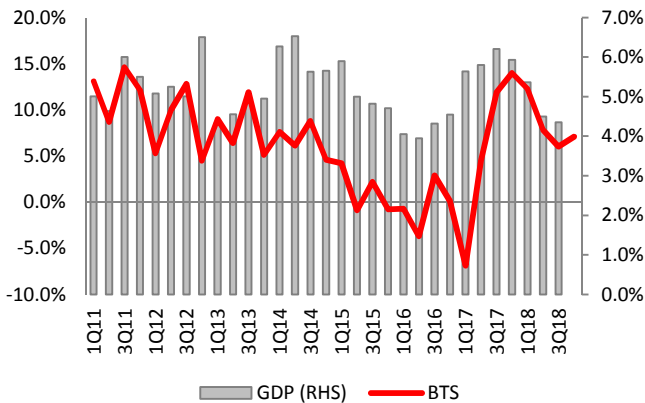
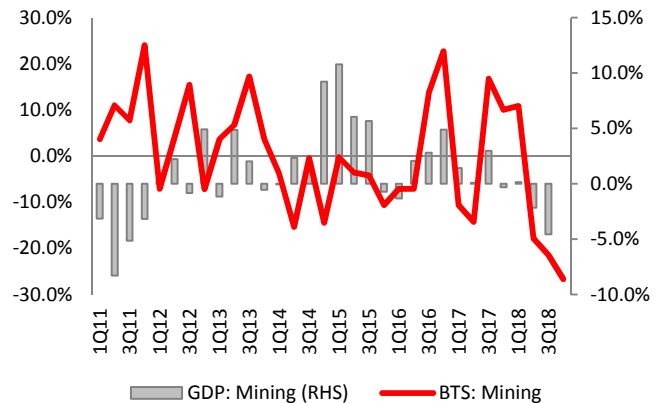
Malaysia's GDP to expand by 4.8% in 2018. Based on the current developments and indicators, we anticipate Malaysia's economy to expand by 4.8% this year given the upbeat performance of domestic and external trade sectors. Besides, supportive economic policies, stable labour market, continued wage growth and moderating inflation will support and spur domestic economy. 

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



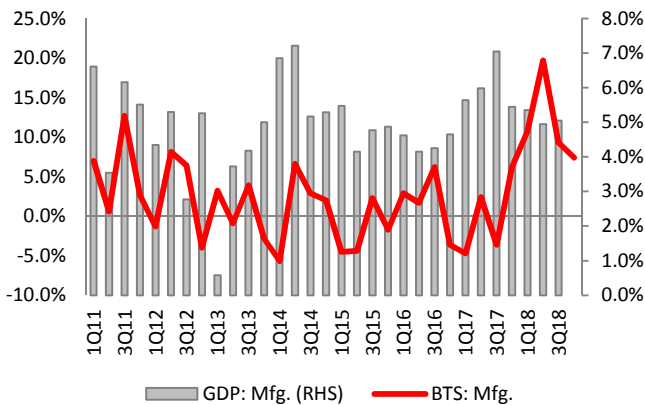
Source: CEIC, MIDFR

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



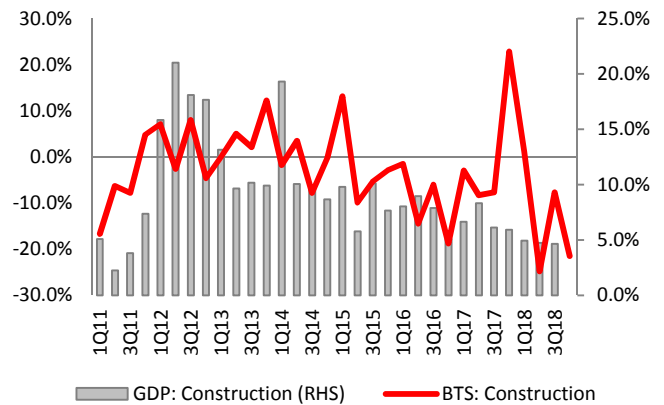
Source: CEIC, MIDFR

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



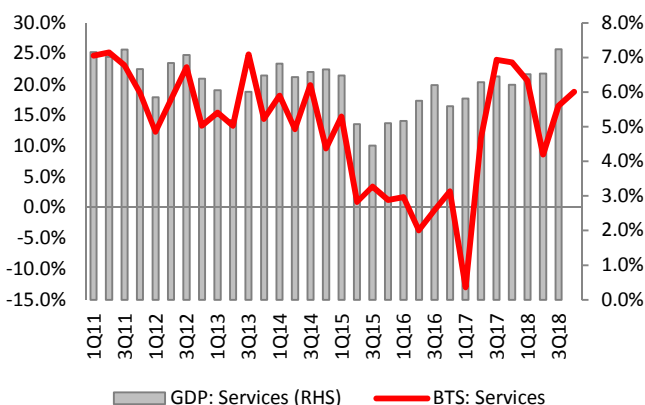
Source: CEIC, MIDFR

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



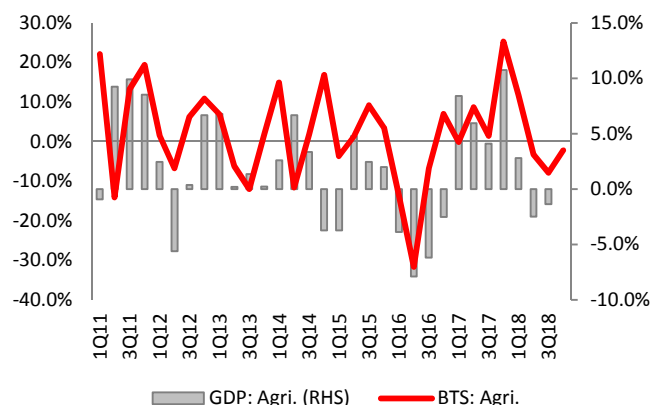
Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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