

ECONOMIC REVIEW | 4Q2018 National Account**4Q18 GDP Growth above Market Expectations – Indicate Positive Developments Ahead**

- *GDP growth in 4Q18 exceeds market expectation. Malaysia's GDP growth expanded by 4.7%yoy in 4Q18, above market expectations of 4.5%yoy. Nevertheless, Malaysia's economy expands by 4.7% for the full-year 2018, meeting our forecast number. The 4Q18 GDP growth is the fastest GDP expansion since 1Q18. Recovery of economic growth is expected, thanks to improved performances of external trade, industrial activities and sustained solid domestic demand.*
- *Exports rebound as domestic exports improved. Exports of goods & services rose by 1.3%yoy, better than previous quarter. Domestic exports registered positive growth of 4.1%yoy in 4Q18, after recording contractions for the nine months last year. In addition, robust re-exports activity continued to provide support to the exports market as well as overall macroeconomic performance.*
- *Services and domestic sectors continue to support economic growth. Services sector accounting for 56% of total GDP expanded strongly at 6.9%yoy. Among services sub-sectors, the top three contributors are retail trade, restaurants and insurances. Low inflationary pressure, stable employment conditions and steady wage growth provides impetus for the domestic sector in 2018 as well as 2019.*
- *We forecast GDP growth of 4.9% for 2019. Based on the current developments and indicators, we expect Malaysia's economy to expand by 4.9% 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.*

GDP growth in 4Q18 exceeds market expectation. Malaysia's GDP growth expanded by 4.7%yoy in 4Q18, above market expectations of 4.5%yoy. Nevertheless, Malaysia's economy expands by 4.7% for the full-year 2018, meeting our forecast number. The 4Q18 GDP growth is the fastest GDP expansion since 1Q18. Recovery of economic growth is expected, thanks to improved performances of external trade, industrial activities and sustained solid domestic demand. From supply side, services and manufacturing sectors contribute 3.8% and 1.1% respectively. We opine the solid GDP growth is mainly due to external factors particularly receding trade war effects and modest recovery in mining sector especially crude petroleum and LNG. In addition, moderating inflationary pressure, strengthening domestic demand and accommodative economic policies as well as strong re-exports growth continue driving up the GDP performance in the last quarter of 2018. On a flip side, slowdown in government spending and total investments as well as sluggish agriculture sector is among dragging factors during the quarter.

Domestic spending remains intact. Private consumption rose steadily by 8.5%yoy in 4Q18, slightly lower than the 6-year high recorded in the previous quarter. Fundamentally, stable job market and moderate inflationary pressure still persists providing solid support to the domestic demand in 2019. As for investment side, public investment contracted for 5-consecutive quarters, -4.9%yoy in 4Q18. This is possibly due to revision of government's mega-infrastructure projects. Private investment meanwhile, increased by 4.4%yoy, its slowest in 3-quarter. Looking ahead, we expect the public investment to improve this year as fiscal position is more stable while gradual pick-up in global commodity prices would encourage private investment to improve especially in the petroleum-related industries.

Exports rebound as domestic exports improved. Exports of goods & services rose by 1.3%yoy, better than previous quarter. Domestic exports registered positive growth of 4.1%yoy in 4Q18, after recording contractions for the nine months last year. In addition, robust re-exports activity continued to provide support to the exports market as well as overall macroeconomic performance. Net exports jumped by 9.9%yoy to RM27.7b and contribute overall GDP growth by 0.8% during the quarter. We forecast performance of exports to remain on upward trajectory on the back of receding trade tension, gradual pick-up of commodity prices and sustained demand from major economies.

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

	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
Real GDP	5.8	6.2	5.9	5.4	4.5	4.4	4.7
Gross National Income	6.2	6.9	5.9	4.5	3.2	2.7	3.7
Final Consumption	6.4	6.6	6.9	5.7	7.0	8.3	7.5
<i>Government Consumption</i>	3.3	3.9	6.8	0.4	3.1	5.2	4.0
<i>Private Consumption</i>	7.1	7.2	7.0	6.9	8.0	9.0	8.5
Gross Fixed Capital Formation (GFCF)	4.1	6.7	4.3	0.1	2.2	3.2	0.3
<i>GFCF: Structure</i>	5.1	3.6	3.3	2.8	2.1	1.8	0.8
<i>GFCF: Machinery & Equipment</i>	4.4	11.5	8.3	(3.6)	3.6	5.9	(1.5)
<i>GFCF: Other Asset</i>	(3.8)	7.2	(6.8)	(0.2)	(2.9)	0.1	5.2
<i>GFCF: Public Investment</i>	(5.0)	4.1	(1.4)	(1.0)	(9.8)	(5.5)	(4.9)
<i>GFCF: Private Investment</i>	7.4	7.9	9.2	0.5	6.1	6.9	4.4
Net Exports (RMb)	20.9	26.6	25.2	29.5	21.3	24.6	27.7
<i>Exports of Goods & Services</i>	9.4	11.8	6.7	3.7	2.0	(0.8)	1.3
<i>Imports of Goods & Services</i>	10.4	13.3	7.3	(2.0)	2.1	0.1	0.2

Source: CEIC, MIDFR

Services and domestic sectors continue to support economic growth. Services sector accounting for 56% of total GDP expanded strongly at 6.9%yoy. Among services sub-sectors, the top three contributors are retail trade, restaurants and insurances. Low inflationary pressure, stable employment conditions and steady wage growth provides impetus for the domestic sector in 2018 as well as 2019. We maintain our forecast for private consumption and services sector to expand by 7.5% and 6.2% respectively in 2019.

Steady manufacturing performance while agriculture remains sluggish. Manufacturing sector expanded by 4.7%yoy. Key manufacturing sub-sectors, refined petroleum and E&E products rose by 3.6%yoy and 6.9%yoy (Highest in 5-quarter) respectively in 4Q18. As for agriculture sector, continuous contractions in oil palm industry for 3-consecutive quarters caused the sector to remain in negative growth. 50.8% of agriculture output is contributed by oil palm. Sluggish CPO price is the main causing factor.

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

	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
GDP	5.8	6.2	5.9	5.4	4.5	4.4	4.7
Agriculture, Forestry & Fishing (AF)	5.9	4.1	10.7	2.8	(2.5)	(1.4)	(0.4)
AF: Rubber	17.0	1.9	(2.8)	(28.5)	(20.0)	(0.2)	(17.5)
AF: Oil Palm	12.1	10.0	24.4	12.5	(6.0)	(8.0)	(2.7)
AF: Livestock	4.8	4.5	8.6	5.8	7.4	8.2	8.9
AF: Other Agriculture	2.4	1.5	2.0	4.5	4.9	6.0	7.9
AF: Forestry & Logging	(14.5)	(18.9)	(17.9)	(13.4)	(6.0)	2.7	(5.9)
AF: Marine Fishing	(3.9)	(3.8)	(9.4)	(3.1)	(1.4)	2.2	8.9
AF: Aquaculture	4.5	10.1	6.3	(2.3)	0.2	1.8	(5.9)
Mining & Quarrying	0.1	3.0	(0.3)	0.1	(2.2)	(4.6)	0.5
Manufacturing (Mfg)	6.0	7.0	5.4	5.4	4.9	5.0	4.7
Mfg: Vegetable & Animal Oil, Fats & Food Processing	10.5	11.5	9.7	9.1	4.2	2.2	(0.5)
Mfg: Beverages & Tobacco	6.5	4.5	5.5	1.4	3.7	3.3	1.8
Mfg: Textiles, Wearing Apparel & Leather Products	7.3	9.2	8.4	6.6	4.0	2.9	3.9
Mfg: Wood Prod, Furniture, Paper Prod, Print & Publish	5.6	2.5	1.9	4.1	4.1	6.1	4.3
Mfg: Petroleum, Chemical, Rubber & Plastic Products	3.2	5.2	4.5	5.0	3.8	3.9	3.6
Mfg: Non Metallic, Basic & Fabricated Metal Products	4.0	6.5	4.8	5.2	5.0	5.0	4.1
Mfg: Electrical & Electronic	9.7	8.8	5.7	6.1	6.2	6.4	6.9
Mfg: Transport Equipment & Other Manufactures	3.3	8.1	5.8	3.3	6.5	8.0	8.7
Construction	8.3	6.1	5.9	4.9	4.7	4.6	2.6
Services	6.3	6.5	6.2	6.5	6.5	7.2	6.9
Services: Electricity & Gas	1.2	2.0	3.7	3.9	4.6	4.9	4.2
Services: Water	5.9	6.2	6.0	5.9	6.4	6.4	7.5
Services: Wholesale Trade	5.9	6.9	7.4	7.9	7.3	7.2	6.9
Services: Retail Trade	11.4	10.3	8.2	7.4	8.1	12.3	12.0
Services: Motor Vehicles	1.0	0.4	0.3	(0.5)	3.8	8.4	2.5
Services: Restaurant	8.0	8.2	8.3	8.2	10.0	10.3	10.4
Services: Accommodation	5.0	5.4	5.6	5.7	5.7	5.8	6.0
Services: Transport & Storage	6.3	6.4	6.0	5.7	6.4	6.7	6.8
Services: Communication	8.6	8.8	8.1	8.3	8.6	8.4	8.1
Services: Finance	5.5	5.1	5.0	6.8	2.2	4.0	3.2
Services: Insurance	3.6	1.2	7.8	9.8	13.1	13.0	8.4
Services: Real Estate & Business Services	7.4	7.4	7.5	7.4	7.8	7.7	7.6
Services: Other Services	5.0	5.2	5.2	5.3	5.6	5.8	5.7
Services: Government Services	4.5	5.9	4.2	4.8	4.5	3.8	4.8
Import Duties	12.2	16.4	14.8	9.8	(3.5)	(33.3)	(17.2)

Source: CEIC, MIDFR

Slowdown in global economies. At glance, we notice developed and emerging economies experience economic slowdown in 4Q18 underpin by uncertainty over trade tension, geopolitical stress in EU and volatility in commodity prices. China grew by 6.4%yoy in the final quarter 2018, lowest ever since 2009. For full-year growth, China's 2018 GDP growth is the slowest since 1990. Nevertheless, the expansion pace remains above its official target of 6.5%. Moving forward, we foresee steady pace in economic growth globally in 1H19. As guided by manufacturing PMI figures for global, the indicator hints continuous expansion in global demand. In addition, progressive trade talks between the US & China, gradual pick-up in commodity prices, moderate inflationary pressure and slower normalization pace of Fed's interest rate are among positive impetus for global economic growth in 2019.

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

	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
Malaysia	5.8	6.2	5.9	5.4	4.5	4.4	4.7
Indonesia	5.0	5.1	5.2	5.1	5.3	5.2	5.2
Philippines	6.6	7.2	6.5	6.6	6.2	6.0	6.1
Thailand	3.9	4.3	4.0	4.9	4.6	3.3	
Singapore	2.8	5.5	3.6	4.5	4.1	2.3	2.2
Taiwan	2.5	3.4	3.5	3.2	3.3	2.4	1.8
South Korea	2.8	3.8	2.8	2.8	2.8	2.0	3.1
Japan	2.1	2.7	1.5	(1.3)	2.8	(2.6)	1.4
United Kingdom	1.9	2.0	1.6	1.3	1.4	1.6	1.3
EU	2.5	2.6	2.5	2.2	2.2	1.8	
China	6.8	6.7	6.7	6.8	6.7	6.5	6.4
United States	3.0	2.8	2.3	2.2	4.2	3.4	

Source: CEIC, MIDFR


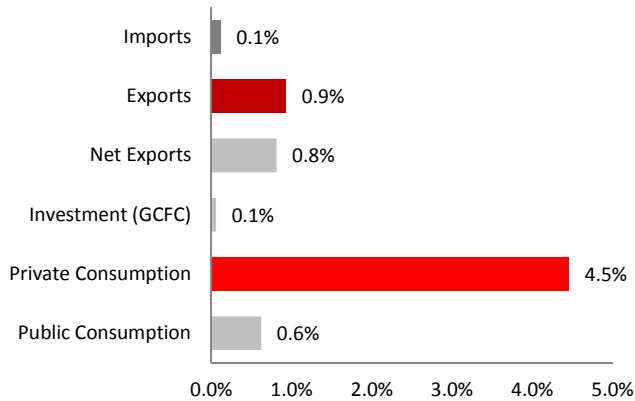
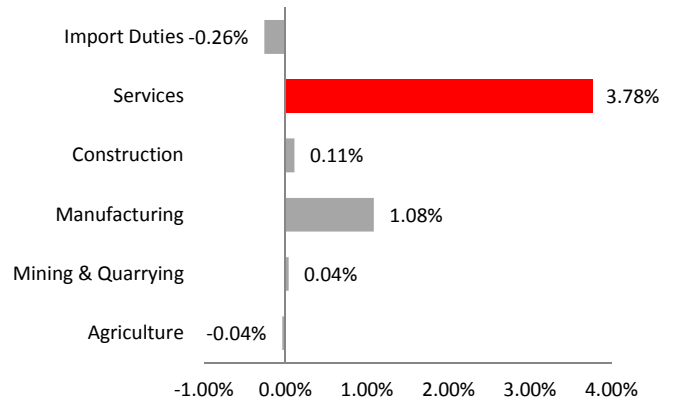
We forecast GDP growth of 4.9% for 2019. Based on the current developments and indicators, we expect Malaysia's economy to expand by 4.9% this year given the upbeat performance of domestic and external trade sectors. Besides, supportive economic policies, stable labour market, continued wage growth and moderating inflation will support and spur domestic economy. Moving forward, we foresee the economic performance in 1Q19 to expand amid better performance in global trade flows and continued robust domestic demand. 

Chart 1: Contribution by Expenditure Components (%)



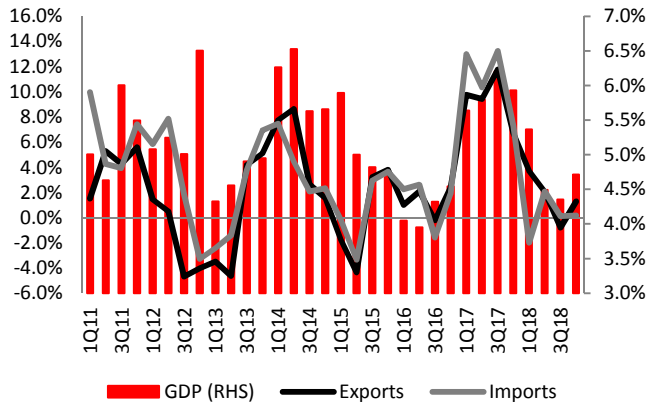
Source: CEIC, MIDFR

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



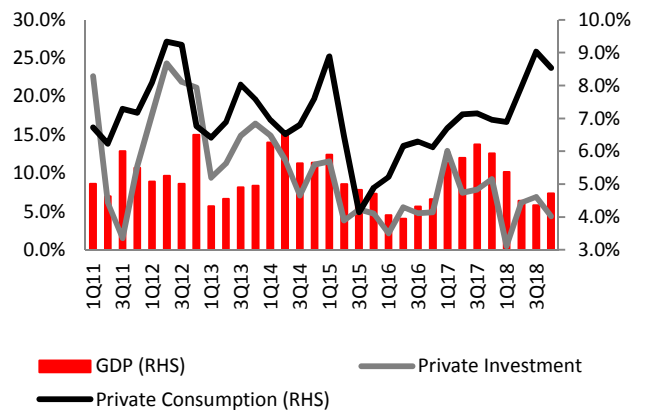
Source: CEIC, MIDFR

Chart 3: GDP vs External Trade (YoY%)



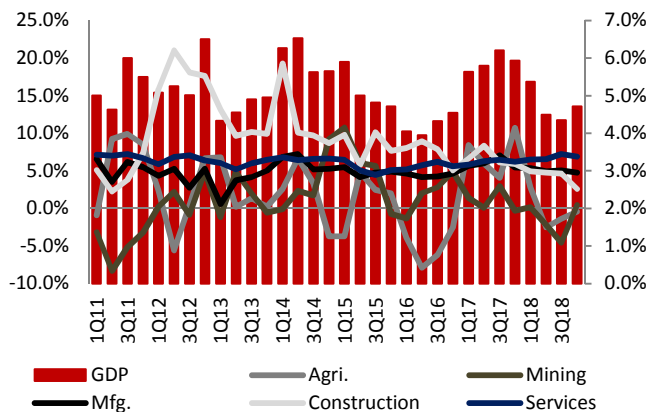
Source: CEIC, MIDFR

Chart 4: GDP vs Private Sector (YoY%)



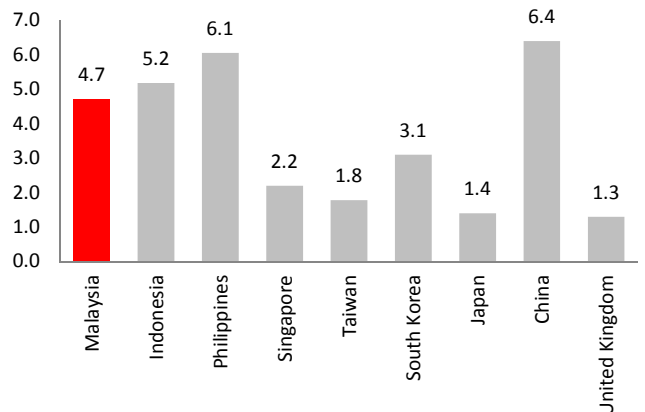
Source: CEIC, MIDFR

Chart 5: GDP by Supply-Side (YoY%)



Source: CEIC, MIDFR

Chart 6: GDP by Country 4Q18 (YoY%)



Source: CEIC, MIDFR

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