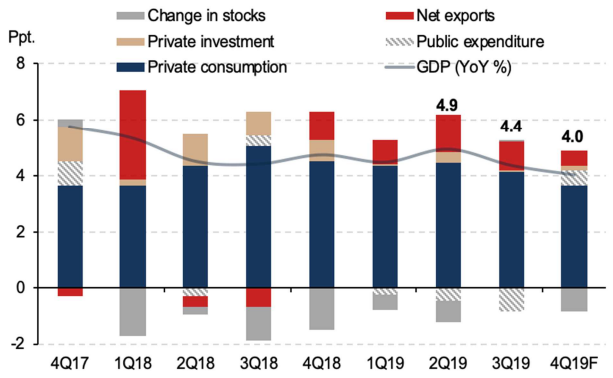
Malaysia 3Q19 GDP

Growth eased to a one-year low (4.4%) on an almost-broad based slowdown

- **Growth moderated to a four-quarter low in 3Q19 (4.4% YoY; 2Q19: 4.9%), matching consensus and house estimate**
  - QoQ: climbed to a three-quarter high (3.3%; 2Q19: 2.1%).
  - Seasonally adjusted QoQ: eased for the fourth straight quarters (0.9%; 2Q19: 1.0%), signalling subsiding growth momentum ahead.
- **Weaker growth was evident across external and domestic fronts, with the latter led by public investment and private consumption**
  - Domestic demand (3.5%; 2Q19: 4.6%): weakest since 4Q16 (3.2%)
    - Private spending (5.4%; 2Q19: 6.2%): eased on weaker private consumption (7.0%; 2Q19: 7.8%), as MIER Consumer Sentiment Index drifted further below the 100-point confidence threshold in 3Q19 (84 points; 2Q19: 93 points) and wage growth for both the services and manufacturing sectors tapered to 4.1% and 3.2% from 4.4% and 3.9% in the preceding quarter, respectively. Similarly, private investment withered to 0.3% (2Q19: 1.8%), way below the previous 3-year average of 5.9%, in line with the MIER Business Conditions Index which plunged to 69 points (2Q19: 94.2 points) suggesting a more wide-spread pessimism among businesses, amid heightened external uncertainties and bleak foreign demand.
    - Public spending (-4.6%; 2Q19: -2.8%): steeper decline, in contrast to our estimate of -3.0%, attributable to further deterioration of public investment (-14.1%; 2Q19: -9.0%), as capital outlays fell amid slower-than-expected resumption of construction of the revived infrastructure projects. This was partially offset by an improved public consumption (1.0%; 2Q19: 0.3%).
  - Net exports (15.9%; 2Q19: 22.9%): trade tensions, tech downcycle and growth moderation in major economies weighed on trade performance.
    - Exports (-1.4%; 2Q19: +0.1%): registered the second contraction in three years on marked drop in gross exports of E&E (-4.9%; 2Q19: -0.6%) and commodities (-12.8%; 2Q19: -0.6%).
    - Imports (-3.3%; 2Q19: -2.1%): deeper deterioration due to negative turnaround in retained-imports (-4.9%; 2Q19: +6.3%), consistent with the subdued domestic demand.

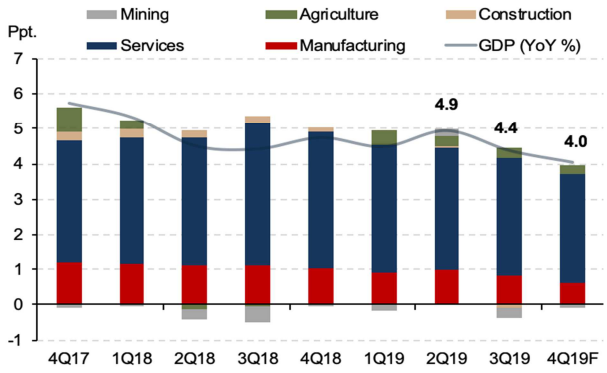
Graph 1: GDP by Expenditure



Source: Dept. of Statistics, Kenanga Research

- **Sector-wise, growth moderation was observed across the board, led by the mining and manufacturing sectors**
  - Mining (-4.3%; 2Q19: 2.9%): flipped into a contraction, as crude oil production was disrupted by plant maintenance activities in East Malaysia.
  - Manufacturing (3.6%; 2Q19: 4.3%): softened on tepid external demand, particularly for orders of E&E goods.
  - Services (5.9%; 2Q19: 6.1%): slowed as lower growth in retail trade and finance outweighed improvement in wholesale trade.
  - Construction (-1.5%; 2Q19: 0.5%): declined largely due to a major slowdown in specialised construction (0.9%; 2Q19: 4.7%) and non-residential segments (-12.0%; 2Q19: -9.1%), amid commercial property overhang. Civil engineering, its biggest component, held up (4.7%; 2Q19: 5.4%) but on a downward trend due to the higher base effect.
  - Agriculture (3.7%; 2Q19: 4.2%): eased on weaker oil palm production, reflective of the negative lag impact from the weak El-Niño phenomenon experienced since 4Q18 until 2Q19.

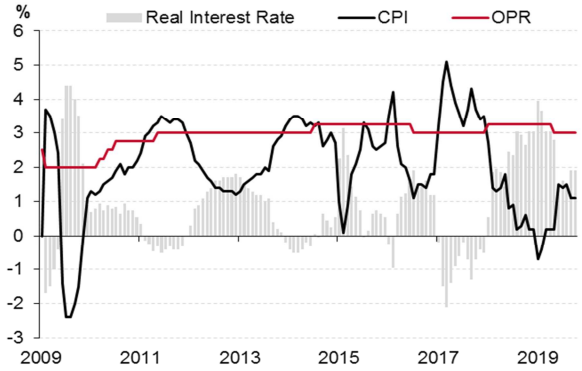
Graph 2: GDP by Sector



Source: Dept. of Statistics, Kenanga Research

- **GDP growth slowdown to extend into 4Q19 and 2020, with balance of risk remain tilted to the downside**
  - Continued elevated trade tensions, with the signing of the phase-1 US-China trade deal delayed and existing tariffs remain in place, exerting pressure on trade activities.
  - Geopolitical disputes (eg. US-Iran, US-North Korea, Brexit) to uplift financial market volatility and global policy uncertainty, weighing on commodity prices and resulting in delayed global investment and asset allocation decisions in both advanced and emerging markets.
  - These external factors would weigh on Malaysia's growth prospect, albeit partially weathered by domestic activities, in particular through improved contribution from public investment as the revived infrastructure projects resume construction works, providing favourable spillovers to other supporting sectors.
  - Against this backdrop, 4Q19 growth forecast maintained at 4.0% with a whole year projection of 4.5% (2018: 4.7%). As for 2020, growth is expected to moderate further to 4.3%.

Graph 3: Inflationary Trend and the OPR



Source: BNM, Department of Statistics, Kenanga Research

- **Heightened probability of a rate cut by the BNM in the 1H20, given the prevalent state of uncertainty in both the global and domestic economy**
  - With unfavourable economic data and prospects of deeper economic downturn, we opine BNM may want to act soon, with at least another rate cut of 25 basis points, bringing the OPR to settle at 2.75% by end-1Q20.

Table 1: Malaysia GDP Growth (constant 2015 prices)

% YoY Growth	2017	2018	1Q19	2Q19	3Q19	4Q19F	1H19	2H19F	Kenanga 2019F	Kenanga 2020F	MOF 2019F	MOF 2020F
By Sector												
Agriculture	5.7	0.1	5.6	4.2	3.7	3.6	4.9	3.7	4.2	2.8	4.3	3.4
Mining	0.4	-2.6	-2.1	2.9	-4.3	-1.2	0.3	-2.7	-1.2	0.5	0.6	0.3
Manufacturing	6.0	5.0	4.2	4.3	3.6	2.8	4.2	3.2	3.7	3.7	4.0	4.1
Construction	6.7	4.2	0.3	0.5	-1.5	-0.3	0.4	-0.9	-0.3	3.6	1.7	3.7
Services	6.2	6.8	6.4	6.1	5.9	5.4	6.3	5.6	5.9	5.5	6.1	6.2
Real GDP	**5.7**	**4.7**	**4.5**	**4.9**	**4.4**	**4.0**	**4.7**	**4.2**	**4.5**	**4.3**	**4.7**	**4.8**
Ppt. Contribution												
Agriculture	0.4	0.0	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.2
Mining	0.0	-0.2	-0.2	0.2	-0.3	-0.1	0.0	-0.2	-0.1	0.0	0.0	0.0
Manufacturing	1.3	1.1	0.9	1.0	0.8	0.6	1.0	0.7	0.8	0.8	0.9	0.9
Construction	0.3	0.2	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.2	0.1	0.2
Services	3.4	3.8	3.6	3.5	3.3	3.1	3.5	3.2	3.4	3.1	3.5	3.6
Real GDP	**5.7**	**4.7**	**4.5**	**4.9**	**4.4**	**4.0**	**4.7**	**4.2**	**4.5**	**4.3**	**4.7**	**4.8**
By Expenditure												
Consumption	6.6	7.1	7.4	6.5	6.0	5.8	7.0	5.9	6.4	6.0	5.9	5.9
Public	5.5	3.3	6.3	0.3	1.0	3.2	3.2	2.2	2.7	3.4	2.0	1.5
Private	6.9	8.0	7.6	7.8	7.0	6.5	7.7	6.7	7.2	6.5	6.8	6.9
Investment	6.1	1.4	-3.5	-0.6	-3.7	1.1	-2.0	-1.4	-1.7	3.2	-1.4	1.3
Public	0.3	-5.0	-13.2	-9.0	-14.1	1.0	-11.3	-5.3	-7.9	1.5	-8.1	-0.6
Private	9.0	4.3	0.4	1.8	0.3	1.2	1.2	0.7	0.9	3.9	1.5	2.1
Public Spending	3.4	0.1	-1.4	-2.8	-4.6	2.4	-2.1	-0.6	-1.3	2.7	-1.8	0.8
Private Spending	7.4	7.1	5.9	6.2	5.4	5.5	6.1	5.4	5.8	5.9	5.6	5.8
Aggregate Demand	6.5	5.5	4.4	4.6	3.5	4.7	4.5	4.1	4.3	5.3	4.0	4.8
Exports	8.7	2.2	0.1	0.1	-1.4	-0.5	0.1	-0.9	-0.5	1.5	-0.4	1.4
Imports	10.2	1.3	-1.4	-2.1	-3.3	-1.5	-1.8	-2.4	-2.1	2.1	-2.1	1.9
Real GDP	**5.7**	**4.7**	**4.5**	**4.9**	**4.4**	**4.0**	**4.7**	**4.2**	**4.5**	**4.3**	**4.7**	**4.8**
Ppt. Contribution												
Consumption	4.4	4.8	5.0	4.5	4.2	4.1	4.7	4.2	4.4	4.2	4.1	4.2
Public	0.7	0.4	0.7	0.0	0.1	0.5	0.4	0.3	0.3	0.4	0.2	0.2
Private	3.7	4.4	4.3	4.4	4.1	3.6	4.4	3.9	4.1	3.8	3.9	4.0
Investment	1.5	0.3	-0.9	-0.2	-0.9	0.3	-0.5	-0.3	-0.4	0.8	-0.3	0.3
Public	0.0	-0.4	-1.0	-0.5	-1.0	0.1	-0.7	-0.4	-0.6	0.1	-0.6	0.0
Private	1.5	0.7	0.1	0.4	0.1	0.2	0.2	0.1	0.2	0.7	0.3	0.3
Public Spending	0.7	0.0	-0.3	-0.5	-0.9	0.6	-0.4	-0.1	-0.2	0.5	-0.4	0.1
Private Spending	5.3	5.1	4.4	4.8	4.2	3.8	4.6	4.0	4.3	4.5	4.1	4.3
Aggregate Demand	6.0	5.2	4.1	4.3	3.3	4.3	4.2	3.8	4.0	5.0	3.8	4.5
Exports	5.8	1.5	0.0	0.0	-0.9	-0.3	0.0	-0.6	-0.3	0.9	-0.3	0.9
Imports	6.1	0.8	-0.9	-1.3	-2.0	-0.9	-1.1	-1.4	-1.3	1.2	-1.3	1.1
Real GDP	**5.7**	**4.7**	**4.5**	**4.9**	**4.4**	**4.0**	**4.7**	**4.2**	**4.5**	**4.3**	**4.7**	**4.8**

Source: Dept. of Statistics, Kenanga Research, F: forecast

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Atiqa Noor Azlan
Economist
atiqa.noorazlan@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may affect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my