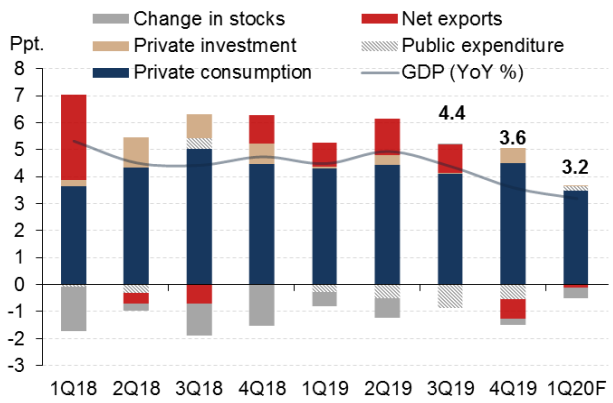
Malaysia 4Q19 GDP

Growth unexpectedly slowed to 3.6%, lowest since 2009

- **Growth moderated in the final quarter of 2019 (3.6% YoY; 3Q19: 4.4%) and below expectation (consensus: 4.1%; KIBB: 4.0%)**
  - QoQ: soften after a bump in preceding quarter (2.7%; 3Q19: 3.3%).
  - Seasonally adjusted QoQ: moderated for the fifth straight quarters (0.6%; 3Q19: 0.9%), signalling subsiding growth momentum ahead.
  - 2019: Overall, growth eased to 4.3% (2018: 4.7%), the lowest level since the 2009 Global Financial Crisis, undershooting house and the consensus forecast of 4.5%.

Graph 1: GDP by Expenditure

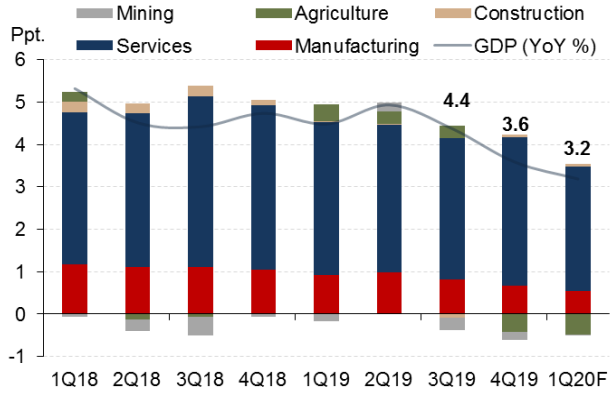


Source: Dept. of Statistics, Kenanga Research

- **Weaker growth on external front outweighed higher domestic demand led by private and public consumption**
  - Net exports (-9.8%; 3Q19: 15.9%): fell to a five-quarter low amid the prolonged trade war, tech downcycle, and growth moderation of major trading partners, subsequently weighed on trade performance
    - Exports (-3.1%; 3Q19: -1.4%): sharper decline, attributable to a marked decrease in gross exports of E&E (-6.5%; 3Q19: -4.9%) amid lower shipment to the US, China, and regional economies. Additionally, exports of commodities (-14.3%; 3Q19: -10.0%) registered a more substantial decline following supply disruption of LNG.
    - Imports (-2.3%; 3Q19: -3.3%): remained in a negative territory, albeit lesser, mainly due to improved imports of intermediate goods (0.9%; 3Q19: -3.0%) and a smaller decline in capital goods (-8.9%; 3Q19: -15.5%). Meanwhile, consumption goods rebounded marginally (0.04%; 3Q19: -0.9%).
  - Domestic demand (4.9%; 3Q19: 3.5%): fastest growth since 1Q19
    - Private spending (7.4%; 3Q19: 5.4%): rose to a four-quarter high on expansion in private consumption (8.1%; 3Q19: 7.0%) driven mainly by positive income and employment growth amid low unemployment rate environment (3.2%; 3Q19: 3.3%). In addition, sustained spending due to year-end festive season holiday may partly boost the growth rate. In a similar trend, private investment rose to a four-quarter high (4.2%; 3Q19: 0.3%), in line with the MIER Business Conditions Index, which expanded to 88.3 points in 4Q19 (3Q19: 69 points) suggesting a recovery in sentiment among businesses, amid heightened external uncertainties.
    - Public spending (-2.2%; 3Q19: -4.6%): remained in a contraction for four straight quarters but with a lesser drop due to a smaller decline in public investment (-7.7%; 3Q19: -14.1%) on the back of revived infrastructure projects and partly offset by an improved public consumption (1.3%; 3Q19: 1.0%).

- **Sector-wise, the growth moderation was mainly weighed down by the agriculture and manufacturing sectors, while partially supported by the expansion in the services sector**
  - Agriculture (-5.7%; 3Q19: 3.7%): fell to a 14-quarter low due to weaker oil palm output on the back of severe dry weather conditions and a cutback in fertilizer application during early 2019.
  - Manufacturing (3.0%; 3Q19: 3.6%): moderated on lacklustre external demand evidenced by a weakness in the global semiconductor sales as well as the impact of supply disruptions in the agriculture sector on downstream manufacturing activities.
  - Mining (-2.5%; 3Q19: -4.3%): lesser declined due to improved oil production, which partially cushioned the impact of disruption in natural gas output following temporary facility closures.
  - Construction (1.0%; 3Q19: -1.5%): rebounded to the highest level since 1Q19. Primarily attributable to the improved residential sub-sector which was supported by affordable housing activities, larger transportation

Graph 2: GDP by Sector



Source: Dept. of Statistics, Kenanga Research

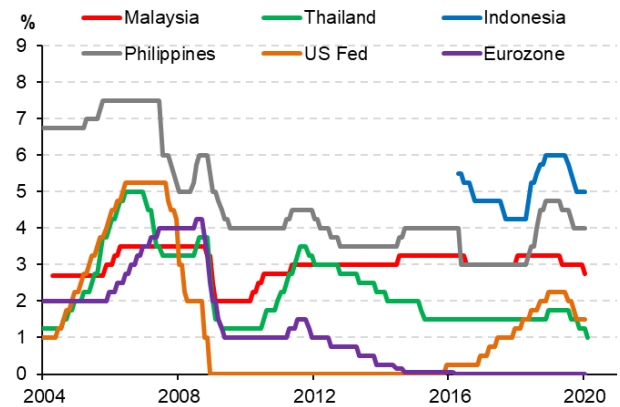
projects, ongoing solar projects as well as higher growth in the special trade sub-sector. Meanwhile, the non-residential sub-sector retained its contraction due to continued supply glut of commercial properties.

- Services (6.1%; 3Q19: 5.9%): The biggest surprise as we had initially projected services to slow further to 5.4%. However, it expanded on a broad-based improvement in consumer-related spending, led by motor vehicles and finance sub-sector.

- **Growth slowdown to extend into 1H20, with downside risks arising from the COVID-19 outbreak and weak external sector, before gradually recover in the 2H20**
  - The effect of the coronavirus outbreak or also known as COVID-19, is expected to weigh on 1Q20 growth and possibly to spillover into 2Q20 through demand and confidence channel. The services sector, specifically the tourism-related industry and transportation would be affected the most, thus making the Visit Malaysia 2020 campaign incredibly challenging. Besides, the impact of the outbreak is seeping into the manufacturing sector, disrupting the global supply chain, evidenced by factory shutdowns in China.
  - The prolonged trade feud between the US and China would continue to exert pressure on global trade amid positive progress of the phase-one agreement. Though both countries have announced a tariff cut, which may provide a little relief to the global trade tension, existing tariff remains on the bulk of the products for and from both countries.
  - Geopolitical unrest set to rise with regards to post-Brexit concerns over the trade and future relations, as well as the US-Iran conflict, which may shake commodity and financial market going forward.
  - Nonetheless, the immediate weaker outlook is expected to be partially weathered by the potential uptick in domestic activities in the 2H20, mainly through a substantial contribution from government fiscal measures and the lagged impact of further monetary easing. The federal government is expected to announce the stimulus package soon in a bid to boost the economy following the fast-spreading outbreak.
  - Against this backdrop, we revise our 1Q20 growth forecast to 3.2% (4Q19: 3.6%), from an initial projection of 3.8% with a whole year GDP growth slowed to 4.0% (initial 2020F: 4.3%; 2019: 4.3%).

- **Higher probability of another OPR cut by the BNM at the next MPC meeting**
  - The central bank has hinted of a possible rate cut, citing ample room for another round of overnight policy rate (OPR) adjustment given current economic challenges after announcing the 4Q19 GDP performance yesterday.
  - As heightened uncertainty prevails in both the global and domestic economy associated with the rising geopolitical risk and the impact of COVID-19, which have now surpassed 1,000 death tolls globally, we reckon the central bank may want to lean towards further easing and act soon.
  - Therefore, the house expects BNM to slash the OPR by 25 basis points at the next Monetary Policy Committee (MPC) meeting, bringing the OPR to settle at 2.50% in 1H20. The next MPC meeting will be held on 3rd March 2020.

Graph 3: Global Policy Rate Trend



Source: BNM, Department of Statistics, Kenanga Research

Table 1: Malaysia GDP Growth (constant 2015 prices)

% YoY Growth	2018	2019	1Q19	2Q19	3Q19	4Q19	1H19	2H19	Kenanga 1Q20F	Kenanga 2020F	MOF 2020F
By Sector											
Agriculture	0.1	1.8	5.6	4.1	3.7	-5.7	4.9	-0.9	-6.7	-2.1	3.4
Mining	-2.6	-1.5	-2.1	2.9	-4.3	-2.5	0.3	-3.4	0.0	0.5	0.3
Manufacturing	5.0	3.8	4.1	4.3	3.6	3.0	4.2	3.3	2.4	3.7	4.1
Construction	4.2	0.1	0.3	0.5	-1.5	1.0	0.4	-0.3	1.2	3.2	3.7
Services	6.8	6.1	6.4	6.1	5.9	6.1	6.3	6.0	5.2	5.5	6.2
Real GDP	**4.7**	**4.3**	**4.5**	**4.9**	**4.4**	**3.6**	**4.7**	**4.0**	**3.2**	**4.0**	**4.8**
Ppt. Contribution											
Agriculture	0.0	0.1	0.4	0.3	0.3	-0.4	0.3	-0.1	-0.5	-0.2	0.2
Mining	-0.2	-0.1	-0.2	0.2	-0.3	-0.2	0.0	-0.2	0.0	0.0	0.0
Manufacturing	1.1	0.8	0.9	1.0	0.8	0.7	1.0	0.7	0.5	0.8	0.9
Construction	0.2	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.1	0.1	0.2
Services	3.8	3.5	3.6	3.5	3.3	3.5	3.5	3.4	2.9	3.2	3.6
Real GDP	**4.7**	**4.3**	**4.5**	**4.9**	**4.4**	**3.6**	**4.7**	**4.0**	**3.2**	**4.0**	**4.8**
By Expenditure											
Consumption	7.1	6.6	7.4	6.5	6.0	6.7	7.0	6.3	5.3	6.0	5.9
Public	3.3	2.0	6.3	0.3	1.0	1.3	3.2	1.1	1.0	2.7	1.5
Private	8.0	7.6	7.6	7.8	7.0	8.1	7.7	7.5	6.0	6.6	6.9
Investment	1.4	-2.1	-3.5	-0.6	-3.7	-0.7	-2.0	-2.3	-0.1	1.2	1.3
Public	-5.0	-10.8	-13.2	-9.0	-14.1	-7.7	-11.3	-10.4	-1.1	0.5	-0.6
Private	4.3	1.5	0.4	1.8	0.3	4.2	1.2	2.0	0.3	1.4	2.1
Public Spending	0.1	-2.7	-1.4	-2.8	-4.6	-2.2	-2.1	-3.2	0.9	2.0	0.8
Private Spending	7.1	6.2	5.9	6.2	5.4	7.4	6.1	6.4	4.7	5.5	5.8
Aggregate Demand	5.5	4.3	4.4	4.6	3.5	4.9	4.5	4.2	4.0	4.8	4.8
Exports	2.2	-1.1	0.1	0.1	-1.4	-3.1	0.1	-2.3	-3.7	-0.4	1.4
Imports	1.3	-2.3	-1.4	-2.1	-3.3	-2.3	-1.8	-2.8	-4.1	-0.5	1.9
Real GDP	**4.7**	**4.3**	**4.5**	**4.9**	**4.4**	**3.6**	**4.7**	**4.0**	**3.2**	**4.0**	**4.8**
Ppt. Contribution											
Consumption	4.8	4.6	5.0	4.5	4.2	4.7	4.7	4.5	3.7	4.2	4.2
Public	0.4	0.3	0.7	0.0	0.1	0.2	0.4	0.2	0.2	0.3	0.2
Private	4.4	4.3	4.3	4.4	4.1	4.5	4.4	4.3	3.5	3.9	4.0
Investment	0.3	-0.5	-0.9	-0.2	-0.9	-0.2	-0.5	-0.5	0.0	0.3	0.3
Public	-0.4	-0.8	-1.0	-0.5	-1.0	-0.7	-0.7	-0.8	-0.1	0.0	0.0
Private	0.7	0.3	0.1	0.4	0.1	0.6	0.2	0.3	0.1	0.2	0.3
Public Spending	0.0	-0.5	-0.3	-0.5	-0.9	-0.5	-0.4	-0.7	0.2	0.4	0.1
Private Spending	5.1	4.6	4.4	4.8	4.2	5.1	4.6	4.6	3.5	4.1	4.3
Aggregate Demand	5.2	4.1	4.1	4.3	3.3	4.5	4.2	3.9	3.7	4.5	4.5
Exports	1.5	-0.8	0.0	0.0	-0.9	-2.1	0.0	-1.5	-2.4	-0.3	0.9
Imports	0.8	-1.4	-0.9	-1.3	-2.0	-1.4	-1.1	-1.7	-2.3	-0.3	1.1
Real GDP	**4.7**	**4.3**	**4.5**	**4.9**	**4.4**	**3.6**	**4.7**	**4.0**	**3.2**	**4.0**	**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

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