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GDP growth could moderate to 4.3% in 3Q2019

Malaysia's Gross Domestic Product (GDP) for the September quarter will be announced on 15 November 2019. **We are projecting the 3Q2019 GDP to come in at 4.3% year-on-year (y-o-y),** which is lower than the preceding quarter of 4.9% (Consensus: 4.4%). The main drivers for the slower growth will be predominantly from the external sector while domestic engine will continue to buffer albeit at moderate pace. The recent downward revision to global growth projection by the International Monetary Fund (IMF) has essentially vindicated such view. The world economy is projected to grow moderately by 3.0% in 2019, a 0.2% lower from the previous estimates in July this year. In a similar move, global trade volume in goods and services is anticipated to increase by 1.1% in 2019. Again, this represents a downward revision from the previous estimates of 2.5% in July 2019. In addition, regional GDP trends have also recorded a slowdown during the 3Q2019. The reason is none other than the spillover impacts from the protracted trade disputes between the US and China.

Table 1: Regional Gross Domestic Product (GDP) y-o-y%

Countries	3Q 18	4Q 18	1Q 19	2Q 19	3Q 19	9M2018	9M2019
China	6.5	6.4	6.4	6.2	6.0	6.7	6.2
India	7.0	6.6	5.8	5.0	-	7.7	-
Thailand	3.2	3.6	2.8	2.3	-	4.3	-
Philippines	6.0	6.3	5.6	5.5	6.2	6.2	5.8
South Korea	2.1	2.9	1.7	2.0	2.0	2.6	1.9
Singapore	2.6	1.3	1.1	0.1	0.1	3.8	0.4
Indonesia	5.2	5.2	5.1	5.1	5.0	5.2	5.1
Malaysia	**4.4**	**4.7**	**4.5**	**4.9**	-	**4.7**	**-**

Source: Bloomberg

Additionally, business sentiments have remained pessimistic. This can be seen from the J.P. Morgan Global Manufacturing Purchasing Manager's Index (PMI), which has fallen to below 50.0-points demarcation line for 6 consecutive months. Currently, the PMI reading stood at 49.8 points in October (September: 49.7 points). This would mean manufacturers globally may not ramp up their production line in order to avoid inventory buildup. By the same token, Malaysia's Manufacturing PMI has been below the 50.0-points threshold for more than 13 months with October's reading registered at 49.3 points (September: 47.9 points). This indicates that the sputtering domestic and foreign demand have weighed heavily on the factory activities and output growth. As such, this has bolstered our conviction that the Malaysian economy would expand moderately in 2019.

While the global policy rates were on downward trend, the Bank Negara Malaysia (BNM) decided for a pause in the Overnight Policy Rate (OPR) during its meeting on 5 November 2019. The decision was made as domestic economy is deemed to be in healthy condition and therefore, additional monetary support is unwarranted at the current juncture. However, the Statutory Reserve Requirement (SSR) was slashed by 50 basis points (bps) to 3.0%, effective 16 November 2019. According to the statement, the move was to ensure that the liquidity conditions remained sufficient.

High frequencies data suggests that the domestic economy is shifting into a lower gear. Based on the Malaysian Institute of Economic Research (MIER) survey, the Consumer Sentiment Index (CSI) has dropped from 93.0 points in 2Q2019 to 84.0 points in 3Q2019. The index has been below the 100-point threshold for 4 consecutive quarters, indicating consumers have been very pessimistic for quite a while. Therefore, we foresee private consumption would moderate at a pace of 7.0% in 3Q2019 (2Q2019: 7.8%). The projection was very much in line with the private sector wage growth for manufacturing and service sector employees which have softened from 4.2% in 2Q2019 to 3.8% in 3Q2019. It suggests that the Malaysian might have lower means to spend in the next foreseeable future.

Meanwhile, the private investment has increased to 1.8% in 2Q2019 from 0.4% in the preceding quarter, signaling fixed assets investment were improving. Notwithstanding that, the MIER Business Condition Index (BCI) has declined quite steeply to 69.0 points in 3Q2019 from 94.2 points in the preceding quarter. This indicates that the business owners have become more pessimistic on the current economic conditions. As such, we anticipate that private investment growth to be lower at 0.5% in 3Q2019.

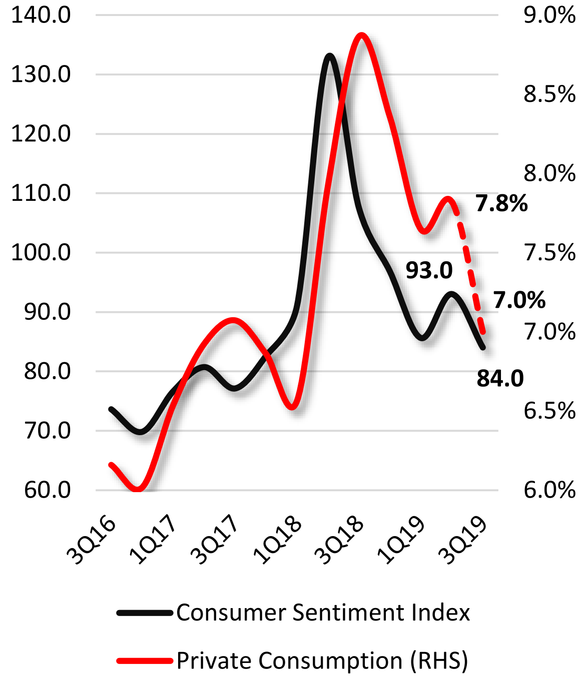
As for the external sector, real exports have been timid at 0.1% (1Q2019: 0.1%) in 2Q2019 while real imports continued to contract by 2.1% in 2Q2019 (1Q2019: -1.4%). In view of weak performance recorded in the nominal exports and imports of -1.9% (2Q2019: -0.4%) and -5.8% (2Q2019: -1.4%) during the 3Q2019, we expect real exports and imports to be at -1.0% and -2.5% in September quarter. As such, net export is expected to expand by 12.9%, lower than the previous quarter of 22.9%.

Table 2: Gross Domestic Product (GDP) y-o-y%

Y-o-Y%	Share (2018)	3Q18	4Q18	1Q19	2Q19	3Q19F
GDP	**100.0%**	**4.4%**	**4.7%**	**4.5%**	**4.9%**	**4.3%**
Domestic Demand	94.1%	6.8%	5.7%	4.4%	4.6%	3.5%
Consumption	**69.4%**	**8.2%**	**7.4%**	**7.4%**	**6.5%**	**5.8%**
-Private	57.0%	8.9%	8.4%	7.6%	7.8%	7.0%
-Public	12.5%	5.2%	4.0%	6.3%	0.3%	0.0%
Investment	**24.6%**	**2.8%**	**0.6%**	**-3.5%**	**-0.6%**	**-0.6%**
-Private	17.3%	5.0%	5.8%	0.4%	1.8%	0.5%
-Public	7.4%	-2.7%	-5.9%	-13.2%	-9.0%	-13.0%
Net Export	**7.0%**	**-9.4%**	**15.5%**	**10.9%**	**22.9%**	**12.9%**
Exports	67.6%	0.7%	3.1%	0.1%	0.1%	-1.0%
Imports	60.6%	2.0%	1.8%	-1.4%	-2.1%	-2.5%

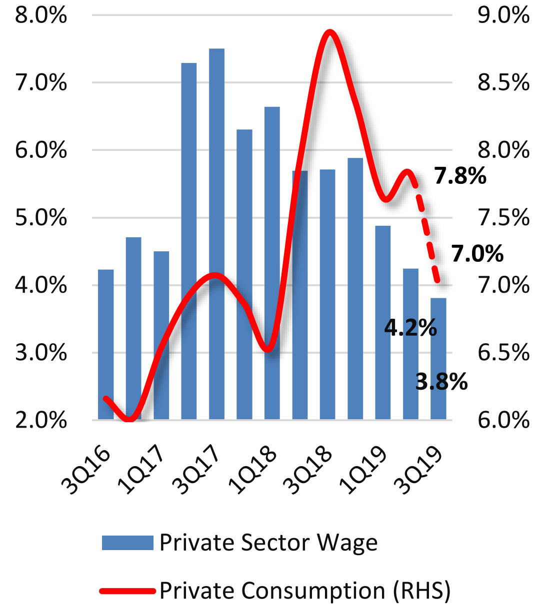
Source: CEIC, Strategic Management, Bank Islam Malaysia Berhad

Chart 1: Private Consumption, y-o-y % vs. Consumer Sentiment Index (CSI), points



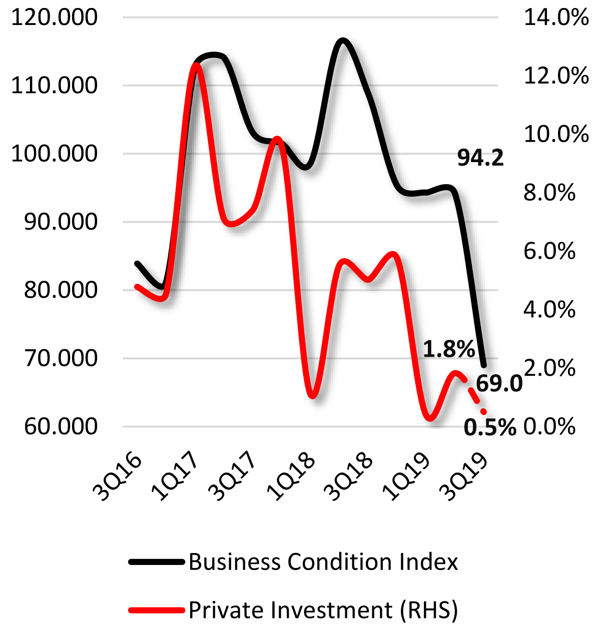
Source: CEIC

Chart 2: Private Consumption, y-o-y % vs. Private Sector Wages growth, y-o-y %



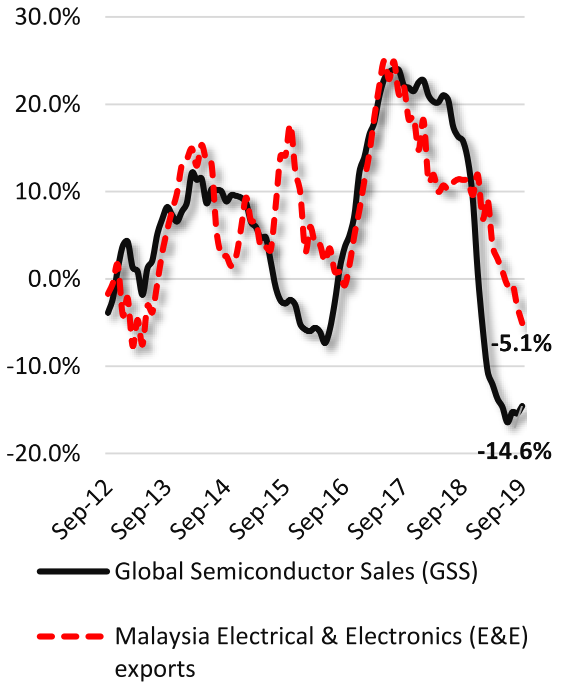
Source: DOSM, CEIC

Chart 3: Private Investment, y-o-y % vs. MIER Business Condition Index (BCI), points



Source: CEIC

Chart 4: GSS (%) vs. Nominal Export: E&E (%) – 3 Months Moving Average (MMA)



Source: CEIC

Table 3: GDP by Industry (y-o-y %)

Y-o-Y %	Share (2018)	1Q2018	2Q2018	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019
Agriculture	7.3%	3.1%	-1.7%	-0.7%	-0.1%	5.6%	4.2%	-4.0%
Mining & Quarrying	7.6%	-0.6%	-3.4%	-5.7%	-0.7%	-2.1%	2.9%	1.6%
Manufacturing	22.4%	5.3%	4.9%	5.0%	4.7%	4.1%	4.3%	3.7%
Construction	4.9%	4.9%	4.8%	4.7%	2.6%	0.3%	0.5%	0.2%
Services	56.7%	6.5%	6.5%	7.3%	6.9%	6.4%	6.1%	6.0%
GDP (y-o-y%)	**100.0%**	**5.3%**	**4.5%**	**4.4%**	**4.7%**	**4.5%**	**4.9%**	**4.3%**

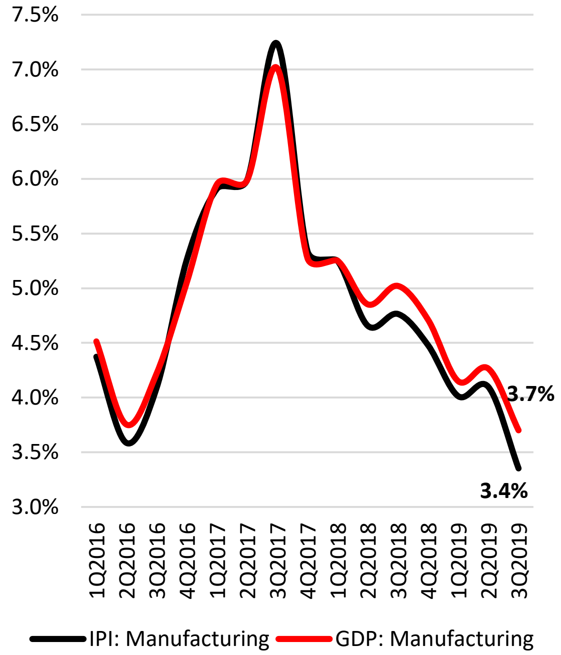
Source: Bank Islam, CEIC, Bank Negara Malaysia

On the supply side, the services and manufacturing sector form a sizeable share of 79.9% of the overall GDP during the 2Q2019. Therefore, the two sectors will continue to play critical roles to the nation's GDP performance. In 2Q2019, services sector grew moderately by 6.1% (1Q2019: 6.4%) while manufacturing registered higher growth of 4.3% in 2Q2019 (1Q2019: 4.1%). Thus far, the latest indicator showed that the Index of Services (IOS) has grown by 6.3% in 3Q2019, slightly slower than 6.5% previously. On the other hand, the Industrial Production Index (IPI) grew by 3.4% in 3Q2019, softening from 4.1% growth in the previous quarter. As such, we foresee services and manufacturing industries output to grow at a gentler pace of 6.0% and 3.7% respectively in 3Q2019.

As for the construction sector, the industry's growth has been very timid during the 2Q2019. The sector grew by a flattish growth of 0.5% (1Q2019: 0.3%). Based on the Department of Statistics Malaysia (DOSM) data, the Construction Work Done grew negatively by 0.6% in 3Q2019 (2Q2019: 0.8%). This was due to the Property Related Construction which remained in the negative territory for 7 straight quarters since 1Q2018 (3Q2019: -7.4% vs. 2Q2019: -5.5%). The weak outturn was due to the property overhang (completed, under construction and not constructed), which has been rising by 3.5% to 130,517 units in 2Q2019 from 126,118 units in 2Q2018. Given that, construction sector's output growth would remain fairly weak at 0.2% (2Q2019: 0.5%) in the September quarter.

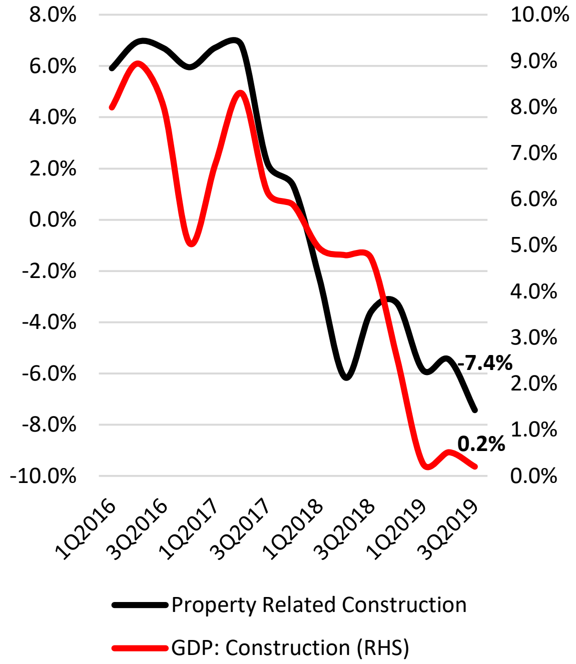
The IPI for mining industry has declined by 4.7% in 3Q2019 from 3.3% expansion in 2Q2019. Therefore, we estimates mining & quarrying industry to grow at a modest rate of 1.6% in 3Q2019 from 2.9% growth previously, primarily driven by the decline in crude petroleum output.

Chart 5: IPI: Manufacturing (y-o-y %) vs. GDP: Manufacturing (y-o-y %)



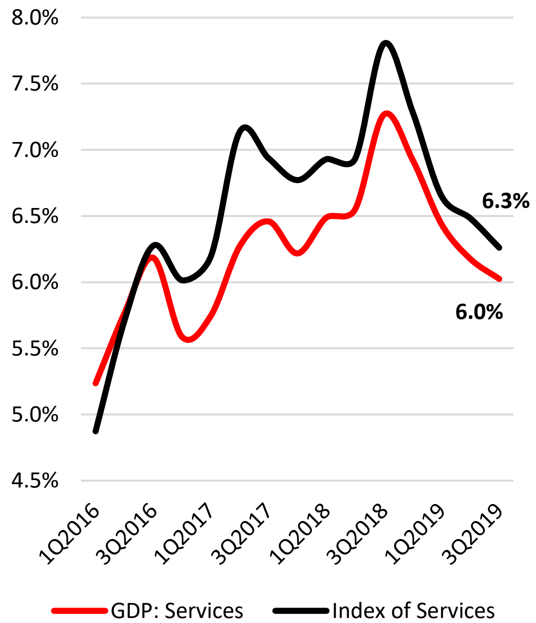
Source: CEIC, DOSM

Chart 6: Property Related Construction (y-o-y %) vs. GDP: Construction (y-o-y %)



Source: CEIC, DOSM

Chart 7: Index of Services (y-o-y %) vs. GDP: Services (y-o-y %)



Source: CEIC, DOSM