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GDP growth could soften to 4.3% in 4Q2019

Malaysia's Gross Domestic Product (GDP) for the final quarter of 2019 will be published on 12 February 2020. **We are projecting the 4Q2019 GDP to be at 4.3% (Consensus: 4.1%) year-on-year (y-o-y),** which is slightly lower than 4.4% recorded in 3Q2019. Challenging external sector has been the main factor to the modest growth. The International Monetary Fund (IMF) has also downgraded their projection for the global economic growth by 0.1% for 2019 and 2020. Consequently, the global growth is forecasted to expand by 2.9% in 2019 and 3.3% in 2020 amid the weakening of global economic activities. The changes in their forecast were made after taking into considerations of few negative surprises in the emerging markets as well as the impact of social unrest in certain jurisdiction. Admittedly, the latest forecast has not taking into account the latest Coronavirus outbreak which seems to take a serious toll on China's economy and the rest of the world. The growing fear of novel Coronavirus (2019-nCoV) has caused turbulence in the market confidence, plunging down many economic and financial indicators across the region. The immediate impact on certain sectors are quite visible for tourism related sector namely the airlines, hotels & accommodation and traveling agencies. The disruption in the global supply chain following the ongoing virus outbreak could also potentially affect other important industries such as Semiconductor, Automotive and Plantation. In a nutshell, downside risk to global growth is very much visible.

As a result, the Bank Negara Malaysia (BNM) has decided to reduce the Overnight Policy Rate (OPR) by 25 basis points on 22 January 2020 from 3.00% to 2.75%. The move was said to be a pre-emptive measures to ensure domestic demand will continue to grow at reasonable speed and hopefully, could offset the weaknesses stemmed from the external sector. In addition, low inflation environment is expected to prevail with the postponement on targeted fuel subsidy and toll reduction in major highways by 18.0%. This has certainly provides more room for BNM to prescribe additional monetary easing in the near future.

Central Banks around the world have been actively reducing their interest rates to bolster the economy in tandem with Coronavirus outbreak in Wuhan City of Hubei Province, China. Regionally speaking, central bank in Thailand and Philippines have reduced their policy rates by 25 basis points in February 2020 to 1.00% and 3.75% respectively. China's PBOC has also pumped in more liquidity into the system in order to ensure an orderly correction in the financial markets.

Moreover, the J.P. Morgan Global Manufacturing Purchasing Manager's Index (PMI) has been lingering around 50.0 points since January 2019 (January 2020: 50.4 points vs. December 2019: 50.1 points). According to the survey, the business owners are taking a wait-and-see attitude over concerns on Coronavirus outbreak that could impact the global supply chain. On the local front, Malaysia's Manufacturing PMI has plummeted to 48.8 points in January 2020 after reaching the demarcation line of 50 points in the preceding month. Based on the survey, the lower demands from top export market such as China have dampened Malaysian manufacturing sector. The producers have slashed their input purchases to curb a build-up in the inventory level amid rising input cost inflation.

Other survey data also suggests that the domestic economy is expected to remain slow. Based on the Malaysian Institute of Economic Research (MIER) survey, the Consumer Sentiment Index (CSI) has dropped from 84.0 points in 3Q2019 to 82.3 points in 4Q2019. The index has been below the 100-points threshold for five consecutive quarters, indicating lower consumer confidence with regards to the current state of Malaysian economy. Therefore, we foresee private consumption would moderate at a pace of 6.8% in 4Q2019 from 7.0% in the 3Q2019. The projection was very much in line with the private sector wage growth for manufacturing and service sector employees which have been below than 4.0% for second straight month (4Q2019: 3.9% vs. 3Q2019: 3.8%). As such, consumers are most likely to be cautious in their spending pattern especially on discretionary items such as travelling in view of the ongoing Coronavirus outbreak.

Meanwhile, private investment is expected to be slightly better in the final quarter of 2019 to 1.0% growth from 0.3% previously. This was in line with improvement in the MIER Business Condition Index (BCI) to 88.3 points in 4Q2019 from 69.0 points in the September quarter although the index is still lingering below 100 points threshold for five consecutive quarters.

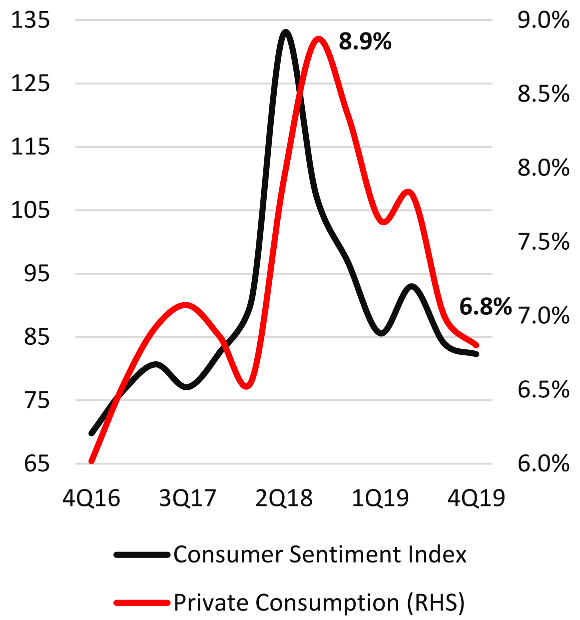
As for the external sector, real exports is envisaged to decline by 2.0% in the 4Q2019 after experiencing 1.4% contraction in the previous quarter, following the trade uncertainties and protectionists policies among the major countries. In a similar move, real imports continued to slump by 3.3% in 3Q2019, extending the 2.1% fall in 2Q2019. Likewise, real imports are likely to drop by 4.0% in December quarter from 3.3% decline previously.

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

Y-o-Y %	Share (2018)	1Q2018	2Q2018	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019F
GDP	**100.0%**	**5.3%**	**4.5%**	**4.4%**	**4.7%**	**4.5%**	**4.9%**	**4.4%**	**4.3%**
Domestic Demand	**94.1%**	**4.1%**	**5.5%**	**6.8%**	**5.7%**	**4.4%**	**4.6%**	**3.5%**	**3.4%**
Private Sector	**74.2%**	**5.2%**	**7.3%**	**7.9%**	**7.8%**	**5.9%**	**6.2%**	**5.4%**	**5.7%**
-Consumption	57.0%	6.6%	7.9%	8.9%	8.4%	7.6%	7.8%	7.0%	6.8%
-Investment	17.3%	1.1%	5.5%	5.0%	5.8%	0.4%	1.8%	0.3%	1.0%
Public Sector	**19.8%**	**-0.3%**	**-1.6%**	**2.1%**	**0.0%**	**-1.4%**	**-2.8%**	**-4.6%**	**-2.9%**
-Consumption	12.5%	0.4%	3.1%	5.2%	4.0%	6.3%	0.3%	1.0%	1.5%
-Investment	7.4%	-1.3%	-9.9%	-2.7%	-5.9%	-13.2%	-9.0%	-14.1%	-10.0%
Net Exports of Goods and Services	**7.0%**	**58.0%**	**-6.0%**	**-9.4%**	**15.5%**	**10.9%**	**22.9%**	**15.9%**	**14.4%**
-Exports	67.6%	2.4%	2.6%	0.7%	3.1%	0.1%	0.1%	-1.4%	-2.0%
-Imports	60.6%	-2.3%	3.6%	2.0%	1.8%	-1.4%	-2.1%	-3.3%	-4.0%

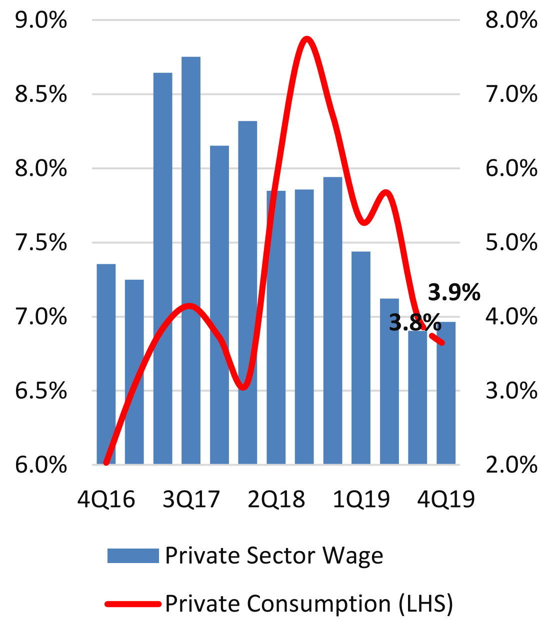
Sources: CEIC, Strategic Management, Bank Islam Malaysia Berhad

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



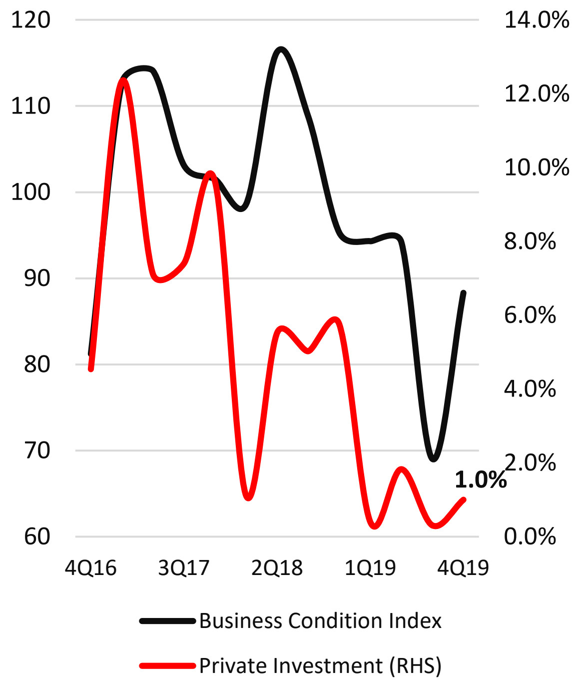
Source: CEIC

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



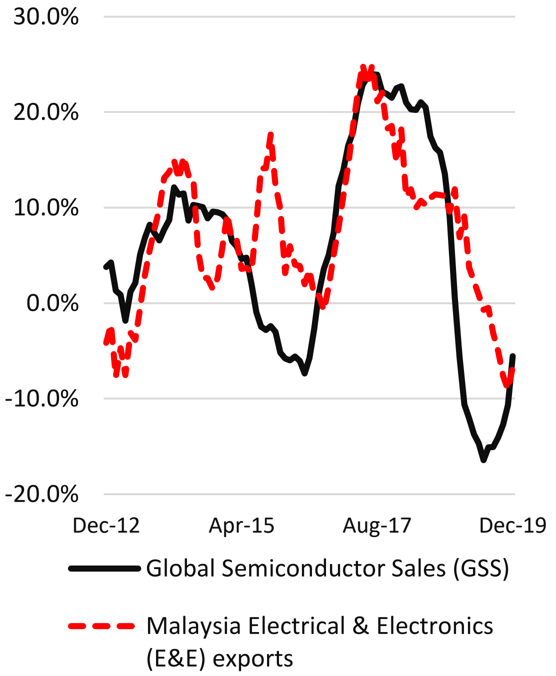
Sources: DOSM, CEIC

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 2: GDP by Industry (y-o-y %)

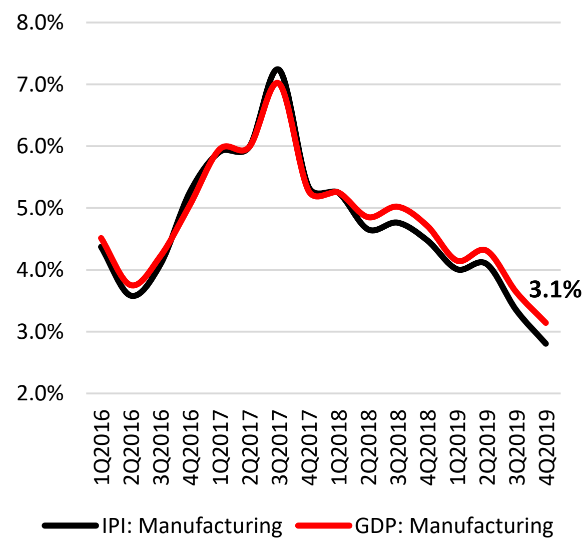
Y-o-Y %	Share (2018)	1Q2018	2Q2018	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019F
Agriculture	7.3%	4.9%	4.8%	4.7%	2.6%	0.3%	4.2%	3.7%	-4.7%
Mining & Quarrying	7.6%	5.3%	4.9%	5.0%	4.7%	4.1%	2.9%	-4.3%	-3.3%
Manufacturing	22.4%	-0.6%	-3.4%	-5.7%	-0.7%	-2.1%	4.3%	3.6%	3.1%
Construction	4.9%	6.5%	6.5%	7.3%	6.9%	6.4%	0.5%	-1.5%	2.5%
Services	56.7%	3.1%	-1.7%	-0.7%	-0.1%	5.6%	6.1%	5.9%	6.1%

Sources: Bank Islam, CEIC, Bank Negara Malaysia

On the supply side, the services and manufacturing sector continued to be the pillars of growth, forming a sizeable share of 79.1% of the overall GDP. For December quarter of 2019, services sector is expected to grow by 6.1% from 5.9% growth in the preceding quarter. This was in line with the Index of Services (IOS) which has grown by 6.4% from 6.3% previously. Meanwhile, manufacturing growth are expected to moderate to 3.1% in 4Q2019 from 3.6% in 3Q2019. This in tandem with the moderation in manufacturing IPI growth from 3.4% in the 3Q2019 to 2.8% in the 4Q2019.

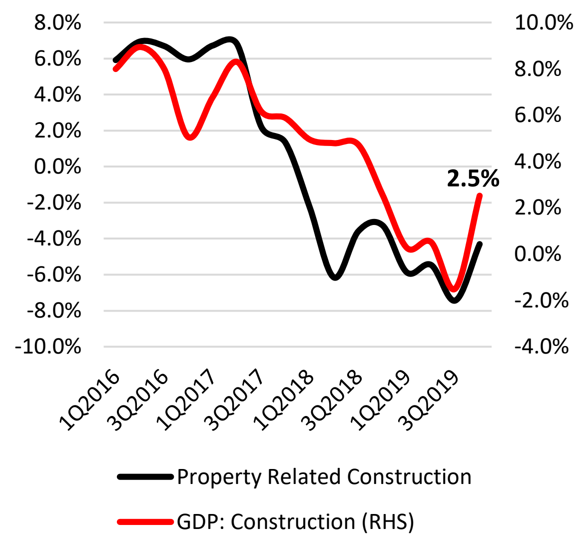
As for the construction sector, we foresee it would turnaround to 2.5% growth in the final quarter of 2019 from 1.5% contraction previously. Data on Construction Work Done has gone up by 1.3% growth in the 4Q2019 (3Q2019: -0.6%) led by 2.7% growth (3Q2019: -2.7%) in the Residential construction. Such trend is also in line with the decline in the property overhang for the residential markets (completed units) which fell to 31,092 units in the 3Q2019 from 32,936 units in the 1Q2019. Mining and Quarrying industries are likely to remain in negative territory to 3.3% in the 4Q2019 from 4.3% decline previously. Lower output growth for Crude Petroleum (-5.0% in 4Q2019 vs. -12.8% in 3Q2019) and Natural Gas (-2.1% in 4Q2019 vs. 3.1% in 3Q2019) are the main factors for lackluster performance in the mining industries. **All in all, we are projecting GDP in the 4Q2019 to grow a tad lower to 4.3% from 4.4% previously. If materialise, this would give us the full year growth of 4.5% in 2019 (2018: 4.7%).**

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



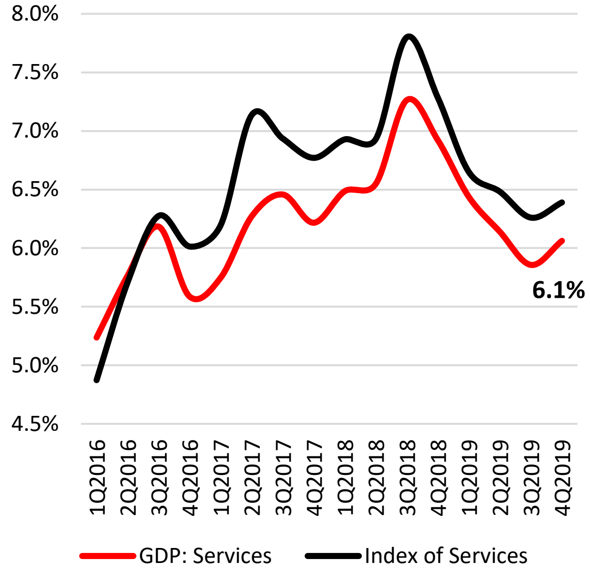
Sources: CEIC, DOSM

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



Sources: CEIC, DOSM

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



Sources: CEIC, DOSM