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GDP grew by 3.6% in 4Q2019, slowest quarterly growth since 2009

Again, consumer is the saviour

The fourth quarter GDP came in at 3.6% y-o-y (Bank Islam: 4.3%), which is lower than 4.1% growth based on the Bloomberg median estimates. Sources of growth were mainly from the private sector especially the consumer spending which grew by 8.1% (3Q2019: 7.0%), higher than the trend growth of 7.0%. To a large degree, this was quite bizarre considering the MIER Consumer Sentiment Index (CSI) has been below 100-point threshold for five quarters in row. So consumers have been persistently pessimistic but this has yet to be translated into actual spending, at least for now. Our estimates showed that should private consumption growth reverts to its trend level of 7.0%, holding other factors constant, the economy could be growing at a snail pace of 3.0%! So kudos to consumers everyone.

Private investment was also growing at a decent rate of 4.2%. (3Q2019: 0.3%), owing to higher capital expenditure in transport services and construction-related manufacturing. We sincerely hope that companies would continue to spend on capital goods as monetary policy has been very accommodative and it will remain to be supportive to growth in the near future. However, the public sector and net exports fell 2.2% (3Q2019: -4.6%) and 9.8% (3Q2019: 15.9%) respectively. In other words, the government are not really spending while the external sector has been weak. The two factors have been the main drags to the overall economy in the final quarter of last year. Understandably, the external sector was beyond government's control. Being an open economy, Malaysia will definitely be susceptible to gyrations in the external demand. Notwithstanding that, it was disheartening to note that the government has not been forthcoming in their investment activities. Perhaps, the fiscal stimulus, touted to be announced by end of February or early March, would do the trick.

For the whole year of 2019, Malaysia's GDP growth moderated to 4.3% from 4.7% in 2018. Again, we could see the role of private sector has been instrumental in driving the economic growth last year in particular the consumer spending. Given that, it is critical for the government to spend a bit more this year. The private sector is likely to take a back seat in view of the global economic uncertainties brought by multiple factors such as the trade war, geopolitical development in the Middle East, excess supply of crude oil and most recently, is the outbreak of Coronavirus which is expected to take a serious toll on China's economy.

We are cognizant that China has become so entrenched with the global economy via the supply chain. The exogenous shock due to the virus outbreak could potentially undermine the production activities in China. This, in turn, would have a ripple effect for companies that rely on China's markets for exports as well as a source of raw materials. Therefore, there is a strong case for the government to craft a timely and targeted fiscal stimulus to ensure domestic economy will continue to grow at a reasonable speed and be able to offset weaknesses from abroad.

At the moment, **we are maintaining our 2020 GDP forecast of 4.3%,** pending further development of coronavirus outbreak. Thus far, the number of new cases seems to have peaked at 3.9k as of 5 February 2020. The current reading on the new confirmed cases stood at 2.5k as of 11 February. Perhaps, 2H2020 GDP growth could be in much better much shape.

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

Y-o-Y %	Share (2019)	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019	2018	2019
GDP	**100.0%**	**4.7%**	**4.5%**	**4.9%**	**4.4%**	**3.6%**	**4.7%**	**4.3%**
Domestic Demand	**94.1%**	**5.7%**	**4.4%**	**4.6%**	**3.5%**	**4.9%**	**5.5%**	**4.3%**
Private Sector	**75.6%**	**7.8%**	**5.9%**	**6.2%**	**5.4%**	**7.4%**	**7.1%**	**6.2%**
-Consumption	58.8%	8.4%	7.6%	7.8%	7.0%	8.1%	8.0%	7.6%
-Investment	16.8%	5.8%	0.4%	1.8%	0.3%	4.2%	4.3%	1.5%
Public Sector	**18.5%**	**0.0%**	**-1.4%**	**-2.8%**	**-4.6%**	**-2.2%**	**0.1%**	**-2.7%**
-Consumption	12.2%	**4.0%**	**6.3%**	**0.3%**	**1.0%**	**1.3%**	3.3%	2.0%
-Investment	6.3%	-5.9%	-13.2%	-9.0%	-14.1%	-7.7%	-5.0%	-10.8%
Net Exports of Goods and Services	**7.3%**	**15.5%**	**10.9%**	**22.9%**	**15.9%**	**-9.8%**	**11.4%**	**8.9%**
-Exports	64.0%	3.1%	0.1%	0.1%	-1.4%	-3.1%	2.2%	-1.1%
-Imports	56.7%	1.8%	-1.4%	-2.1%	-3.3%	-2.3%	1.3%	-2.3%

Sources: CEIC, Strategic Management, Bank Islam Malaysia Berhad

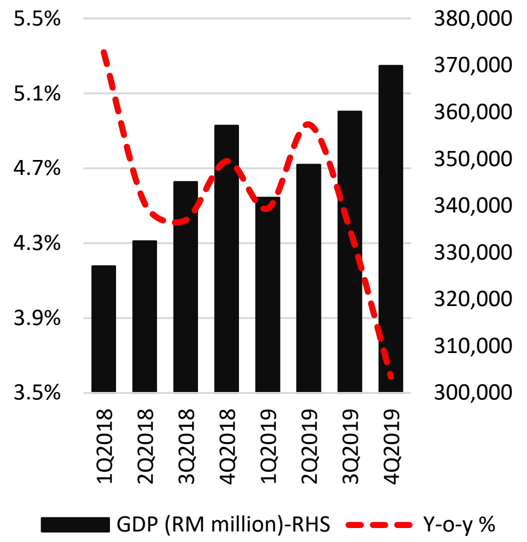
Assessment of the demand side

From the demand side, the slump in net exports of goods and services (4Q2019: -9.8% vs. 3Q2019: 15.9%) were one of the factors that pulled down Malaysia's GDP. Real exports contracted by 3.1% in 4Q2019, extending the 1.4% fall in the September quarter, while imports registered a smaller contraction at 2.3% in 4Q2019 as compared to the previous quarter (3Q2019: -3.3%). Apart from that, the public sector was also in dire straits (4Q2019: -2.2% vs. 3Q2019: -4.6%), particularly the public investment (4Q2019: -7.7% vs. 3Q2019: -14.1%). This was due to contraction in capital spending (albeit smaller) by public corporations amid weak investment by the General Government.

On the contrary, consumer spending, which is the main engine of growth, continued to record stellar performance, accelerating from 7.0% in 3Q2019 to 8.1% in 4Q2019. This was anchored by the positive income and employment growth (4Q2019: 2.2% vs. 3Q2019: 2.1%). In addition, the private sector wage growth for the manufacturing and service sector employees rose from 3.8% in 3Q2019 to 3.9% in 4Q2019. This suggests that consumers have the necessary means to spend following an improvement in income and employment opportunities. Additionally, the Gross Fixed Capital Formation (GFCF) has shown some improvement (4Q2019: -0.7% vs. 3Q2019: -3.7%). This was underpinned by higher capital spending in the private sector (4Q2019: 4.2% vs. 3Q2019: 0.3%) especially in the services and manufacturing industry. By type of assets, investment in structures rebounded by 0.1% in 4Q2019 from 2.4% contraction previously. This was supported by the implementation of civil engineering projects and the turnaround in the residential segment.

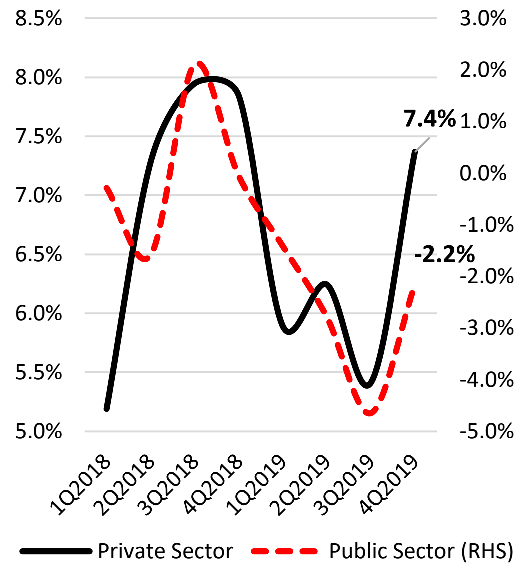
All in all, domestic demand has increased significantly from 3.5% in 3Q2019 to 4.9% in 4Q2019. This has cushioned the slowing expansion in the overall economy following weaknesses in the external sector in the period under review.

Chart 1: Gross Domestic Product (GDP) growth (y-o-y%) and Total (RM million)



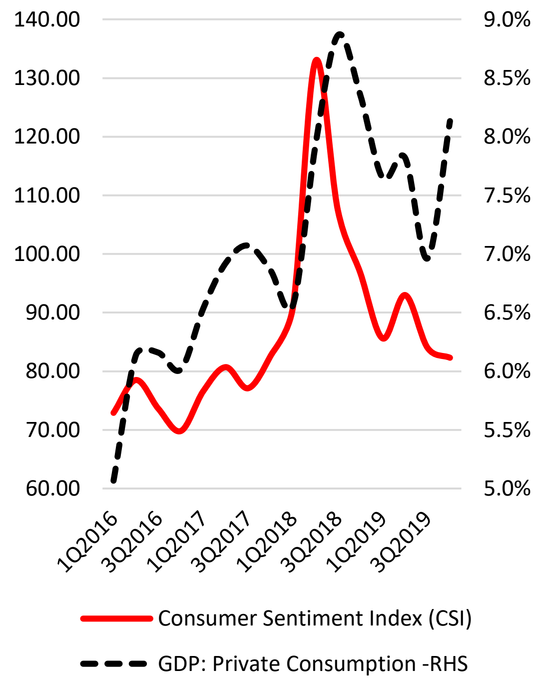
Source: CEIC

Chart 2: Private and Public Sector Growth (y-o-y %)



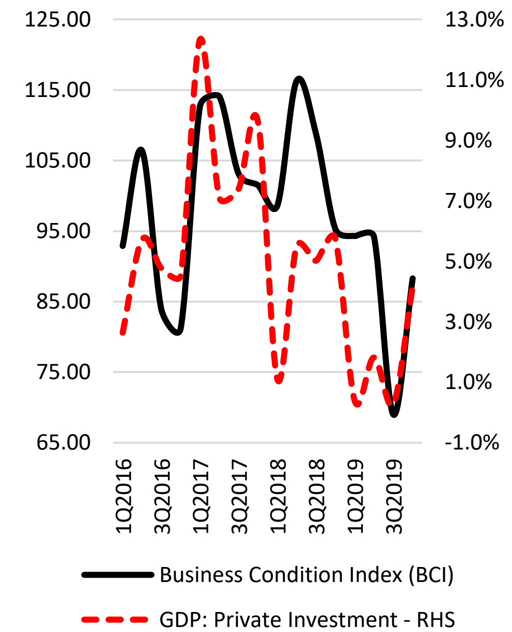
Source: CEIC

Chart 3: Private Consumption (%) vs. MIER Consumer Sentiment Index (points)



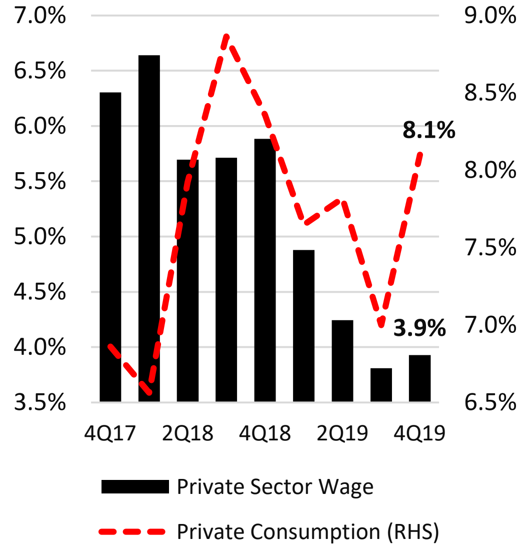
Source: CEIC

Chart 4: Private Investment (y-o-y%) vs. MIER: Business Condition Index (points)



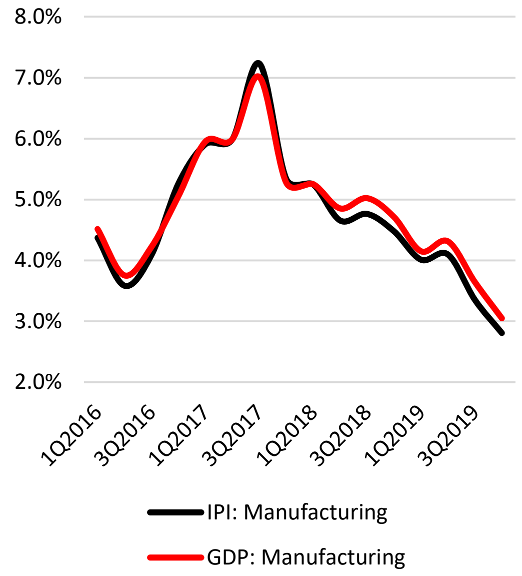
Source: CEIC

Chart 5: Private Consumption (y-o-y%) vs. Private Sector Wages Growth (y-o-y%)



Sources: CEIC, DOSM

Chart 6: IPI: Manufacturing (y-o-y%) vs. GDP: Manufacturing (y-o-y%)



Sources: CEIC, DOSM

Supply-side GDP – Negative growth in agriculture and mining & quarrying have impinged the overall performance

On the supply side, the overall growth was weighed down by agriculture and mining & quarrying sectors. The agriculture activities have contracted by 5.7% in 4Q2019 after posted a positive growth of 3.7% in 3Q2019. This was mainly driven by sharp drop in production of crude palm oil (4Q2019: -16.9% vs. 3Q2019: 8.4%) due to cutback in fertilizer application accompanied by severe dry weather conditions. In addition, the forestry & logging (4Q2019: -14.1% vs. 3Q2019: -12.4%) continued to plummet for 3 consecutive quarters which have dragged the overall performance in agricultural sector. Meanwhile, mining & quarrying fell by a smaller margin of 2.5% in 4Q2019 compared to the previous quarter (3Q2019: -4.3%), reflecting moderate decline in oil production as output gradually improved from major maintenance work which was done in the previous quarter. However, growth in natural gas contracted during quarter under review following temporary facility closures.

Nonetheless, the services (4Q2019: 6.1% vs. 3Q2019: 5.9%) and construction sectors (4Q2019: 1.0% vs. 3Q2019: -1.5%) increased further during the final quarter of 2019, cushioning the downturn in agriculture, as well as mining & quarrying. This was on the back of improvement in services for motor vehicles, restaurants, accommodation, communication and finance, expanding by 4.3% (3Q2019: 2.4%), 10.8% (3Q2019: 10.2%), 6.9% (3Q2019: 6.6%), 6.7% (3Q2019: 6.0%) and 5.9% (3Q2019: 4.4%) respectively during 4Q2019. Meanwhile, construction activities have reversed its performance as Construction Work Done rebounded by 1.3% during 4Q2019 (3Q2019: -0.6%). On further scrutiny, construction for residential edged up to 2.7% in 4Q2019 from -2.7% in 3Q2019 while special trade rose by 3.8% (3Q2019: 2.8%).

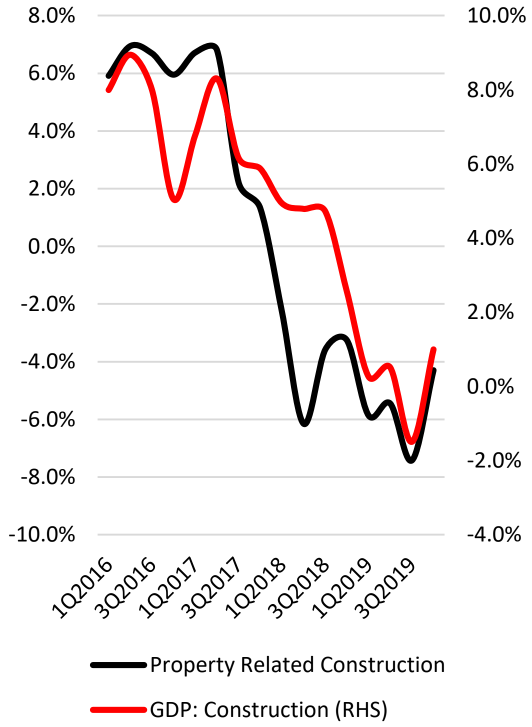
Nonetheless, manufacturing sector has moderated by 3.0% in 4Q2019 from 3.6% in previous quarter. This was largely attributed by weak expansion in manufacturing of machinery & equipment (4Q2019: 4.5% vs. 3Q2019: 5.5%) and motor vehicles (4Q2019: 4.0% vs. 3Q2019: 6.8%).

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

Y-o-Y %	Share (2019)	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019	2018	2019
Agriculture	7.1%	-0.1%	5.6%	4.2%	3.7%	-5.7%	0.1%	1.8%
Mining & Quarrying	7.1%	-0.7%	-2.1%	2.9%	-4.3%	-2.5%	-2.6%	-1.5%
Manufacturing	22.3%	4.7%	4.1%	4.3%	3.6%	3.0%	5.0%	3.8%
Construction	4.7%	2.6%	0.3%	0.5%	-1.5%	1.0%	4.2%	0.0%
Services	57.7%	6.9%	6.4%	6.1%	5.9%	6.1%	6.8%	6.1%

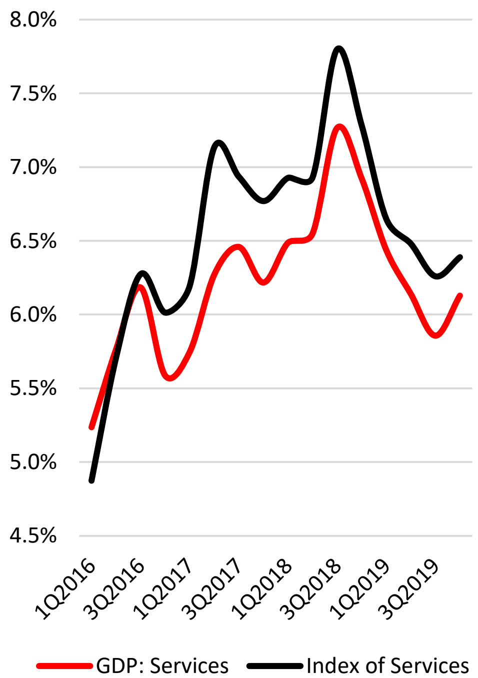
Sources: CEIC, Strategic Management, Bank Islam Malaysia Berhad

Chart 7: Property Related Construction (y-o- y%) vs. GDP: Construction (y-o-y%)



Sources: CEIC, DOSM

Chart 8: Index of Services (y-o-y%) vs. GDP: Services (y-o-y%)



Source: CEIC, DOSM

Other indicators such as the Current Account in the Balance of Payments (BOP) has recorded a lower surplus balance from RM11.5 billion or 3.1% of GDP in 3Q2019 to RM7.6 billion or 2.0% of GDP in 4Q2019. Lower surplus balance was attributed by the larger deficit in Primary Income (4Q2019: -RM15.7 billion vs. 3Q2019: -RM12.2 billion) and Services (4Q2019: -RM4.0 billion vs. 3Q2019: -RM1.6 billion). The deficit in Primary Income was primarily due to higher investment income accrued to foreign investors in Malaysia, while higher deficit in Services was due to a decline in the travel account surplus following lower tourist arrival (4Q2019: RM6.4 billion vs. 3Q2019: RM9.5 billion). Nonetheless, Current Account surplus balance widened from RM30.6 billion (2.1% of GDP) in 2018 to RM49.7 billion (3.3% of GDP) during 2019. The larger surplus balance was underpinned by the higher Goods balance from RM119.2 billion in 2018 to RM125.5 billion in 2019. Apart from that, the deficits in Services and Primary Income have been declining to RM10.9 billion (2018: RM17.7) and RM43.5 billion (2018: RM51.6 billion) respectively.

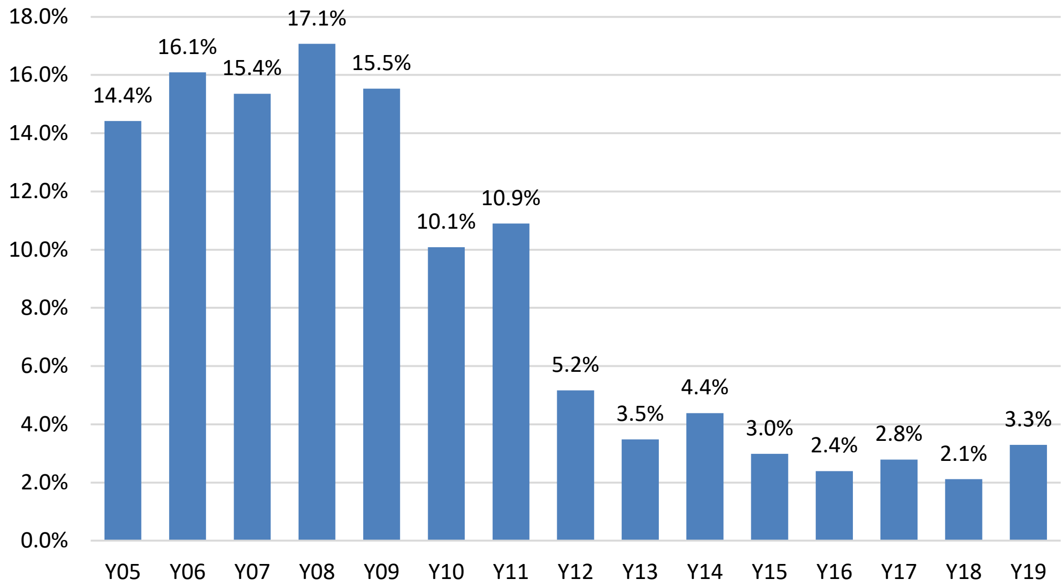
Meanwhile, Financial Account registered net outflows of RM0.6 billion in 4Q2019, lower than RM1.3 billion deficits in the previous quarter. This was contributed by the inflows in Direct Investment (4Q2019: RM2.2 billion vs. 3Q2019: -RM0.8) and lower outflows in Portfolio Investment (4Q2019: RM2.2 billion vs. 3Q2019: RM26.8). However, Financial Account recorded a deficit balance of RM34.3 in 2019 from a surplus balance of RM18.6 in 2018. Following this, the surplus in the Overall Balance rose from RM7.8 billion in 2018 to RM8.2 billion in 2019. In a nutshell, wider Current Account balance should give us some comfort that there is ample liquidity in the system and the country is not dependent on the external funding.

Table 3: Balance of payments (RM million)

	1Q 2018	2Q 2018	3Q 2018	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019	2018	2019
Current Account	**13,609**	**2,801**	**3,342**	**10,835**	**16,387**	**14,257**	**11,452**	**7,643**	**30,588**	**49,740**
% GDP	4.0%	0.8%	0.9%	3.0%	4.7%	3.9%	3.1%	2.0%	2.1%	3.3%
Goods	34,156	25,919	26,373	32,733	33,849	28,104	30,773	32,807	119,182	125,533
Services	(5,510)	(5,572)	(2,886)	(3,757)	(1,836)	(3,437)	(1,627)	(3,954)	(17,726)	(10,856)
Primary Income	(10,396)	(12,751)	(15,517)	(12,922)	(10,115)	(5,540)	(12,171)	(15,683)	(51,586)	(43,509)
Secondary Income	(4,666)	(4,736)	(4,628)	(5,219)	(5,511)	(4,870)	(5,521)	(5,527)	(19,282)	(21,428)
Financial Account	**11,910**	**10,536**	**2,307**	**(6,145)**	**(13,816)**	**(18,552)**	**(1,334)**	**(625)**	**18,609**	**(34,326)**
Direct Investment	9,230	(493)	524	2,080	16,260	(8,236)	(788)	2,194	11,341	9,430
Asset	(3,187)	(4,486)	(5,573)	(10,044)	(6,881)	(11,475)	(3,238)	(6,024)	(23,290)	(27,618)
Liabilities	12,417	3,993	6,097	12,124	23,141	3,239	2,450	8,218	34,632	37,049
Portfolio Investment	(1,500)	(37,919)	786	(5,769)	2,053	(10,160)	(26,773)	(2,775)	(44,402)	(37,655)
Asset	(9,563)	(724)	4,427	(3,252)	(11,423)	(5,039)	(18,851)	(13,350)	(9,112)	(48,663)
Liabilities	8,062	(37,194)	(3,641)	(2,517)	13,476	(5,121)	(7,922)	10,575	(35,290)	11,008
Financial Derivatives	846	780	32	(687)	(237)	(456)	920	(618)	971	(390)
Other Investment	3,334	48,168	965	(1,769)	(31,892)	300	25,307	574	50,699	(5,711)
Errors and Omissions	**(7,287)**	**(14,204)**	**(9,064)**	**(10,792)**	**2,923**	**2,948**	**(3,667)**	**(9,407)**	**(41,348)**	**(7,203)**
Overall Balance	**18,233**	**(867)**	**(3,415)**	**(6,102)**	**5,494**	**(1,347)**	**6,451**	**(2,388)**	**7,849**	**8,210**

Sources: CEIC, Strategic Management, Bank Islam Malaysia Berhad

Chart 9: Current Account in BOP % of GDP



Source: Bank Islam

Forward Looking View – OPR to be cut by 25 basis points in May

We attended a briefing by BNM officials with regards to the GDP releases today. The most pressing matters were none other than the current Coronavirus outbreak which is likely to have significant impact to China's economy. The BNM has indicated from their survey among the private economists. The impact of virus outbreak to Malaysian economy was in the region of 0.2 – 1.3 percentage points from the baseline growth. Such estimates was very much in line with the central bank view and it seems it would have significant impact during the 1H2020. However, such notion was predicated on the duration of the outbreak. There was also questions on the recent decision to reduce the Overnight Policy Rate (OPR) by 25 basis points during 22 January meeting, whether the impact of the virus spread has been taken into consideration. Obviously it was not a major issue back then since the World Health Organisation (WHO) only declared the Public Health Emergency of International Concern (PHEIC) on 30 January.

In that sense, we feel that the BNM would be inclined to cut the OPR again in the near future. There was also questions on the upcoming fiscal stimulus which was likely to be announced at the end of February or early March. However, the BNM was not privy to the details yet and therefore, it would be difficult to quantify the impact to the economic growth. In spite of that, the BNM concurs that infrastructure spending such as ECRL, LRT3, Pan Borneo Highway and Double Track Gemas-JB railway would be GDP-accretive. Given the BNM's role as the economic advisor to the government, the fiscal stimulus would be a matter of time to be announced and the size of the program. During SARS outbreak in 2003, the fiscal stimulus package amounted to RM8.3 billion whereby RM1.7 billion was derived from the government coffers, RM2 billion from BNM while incentives and tax exemptions totaling RM800 million and the balance was from Development Financial Institutions (DFIs).

As indicated earlier, **we are maintaining our 2020 GDP forecast at 4.3%** and would make the necessary adjustment based on the new information. **However, we would like to alter our stand on the OPR whereby another 25 basis points cut could be delivered during Monetary Policy Committee (MPC) meeting on 5 May 2020**. This would complement the fiscal stimulus which could propel the economic growth in the 2H2020.