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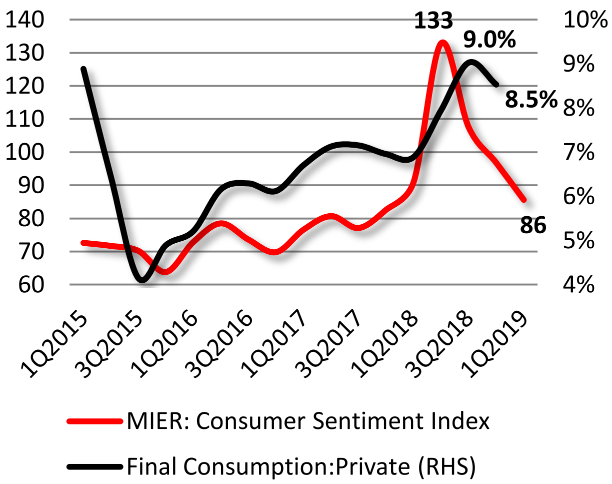
1Q2019 GDP preview - Moderate growth to prevail

Malaysia's 1Q2019 Gross Domestic Product (GDP) growth will be announced tomorrow. Consensus estimates surveyed by Bloomberg ranging between 3.9% and 4.5% with median forecast of 4.3%. **We are projecting 4.3% which is lower compared to 4.7% growth achieved in the preceding quarter.** Factors that would result in moderate expansion is none other than the external sector as global demand has been very cautious. The ensuing trade spat between the US and China have caused manufacturers across the globe become so edgy as cost of doing business are expected to rise. By extension, consumer prices would rise especially those in the US, leading to weak demand especially for products that has high price elasticity.

At the current juncture, the BNM has recently responded to the prevailing economic condition with 25 basis points reduction in the Overnight Policy Rate (OPR) on May 7. Apart from that, the government has announced the revival of East Cost Rail Link (ECRL) and Bandar Malaysia, suggesting the government is taking a proactive step to pump prime the economy. Despite that, foreign investors have remained a net sellers in Bursa Malaysia, amounting to RM253.1 million as of yesterday. The FBMKLCI tumbled more than 20 points in the early morning session but managed to close at 1,599.19 points, lower by 1.90 points from the previous closing. The 10-year MGS yields were also higher by 4 basis points to end the day at 3.80%.

In that sense, market confidence has been very guarded. Therefore, expect market volatility to persist in view of the potential headwinds in the horizon.

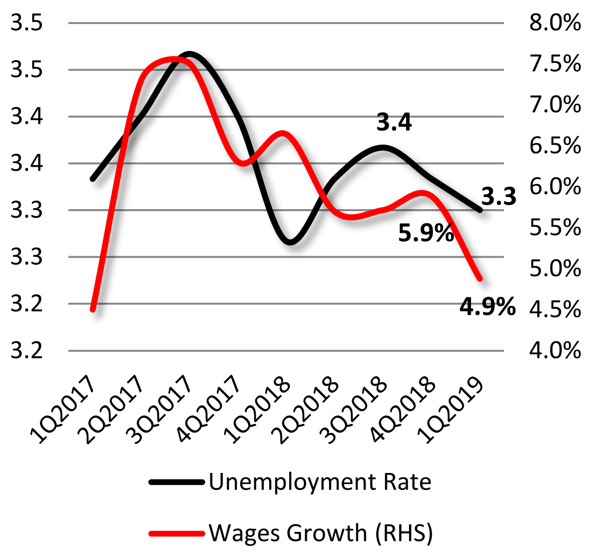
Chart 1: Private Consumption (y-o-y %) vs. CSI (points)



Source: CEIC, Department of Statistics Malaysia (DOSM)

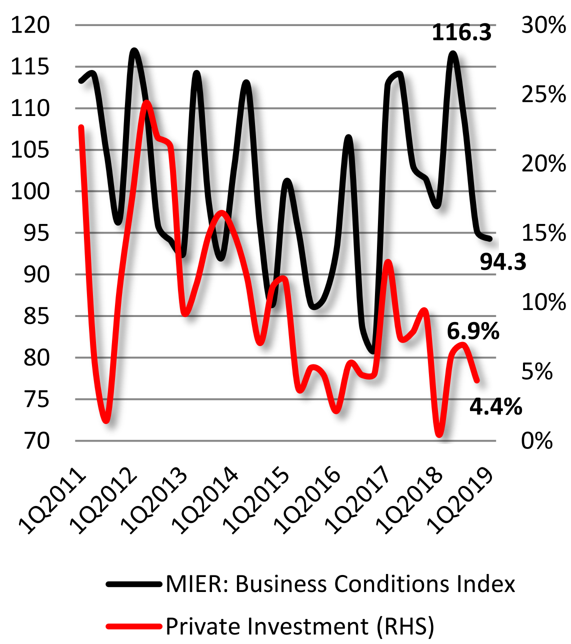
To recap, private consumption recorded a strong growth in 4Q2018, growing by 8.5% year-on-year (y-o-y) (3Q2018: 9.0% vs. 2018: 8.1%). At 54.1% share in GDP, consumer spending is obviously the linchpin for the Malaysian economy. Therefore, any hiccups in household spending would certainly have significant impact to growth. Thus far, unemployment rate in the 1Q2019 remain steady at 3.3% (4Q2018: 3.3%) while wage growth for services and manufacturing sector employees moderated from 5.9% y-o-y in 4Q2018 to 4.9% in the 1Q2019 (see Chart 2). As such, we projected the private consumption to grow at slower pace of 6.8% in the first three month of 2019 as consumers are expected to be cautious in their spending plans.

Chart 2: Unemployment Rate (y-o-y %) vs. Services and Manufacturing Sector Wages Growth (y-o-y %)



Source: CEIC, Department of Statistics Malaysia (DOSM)

Chart 3: Private Investment (y-o-y %) vs. BCI (points)



Source: CEIC, Department of Statistics Malaysia (DOSM)

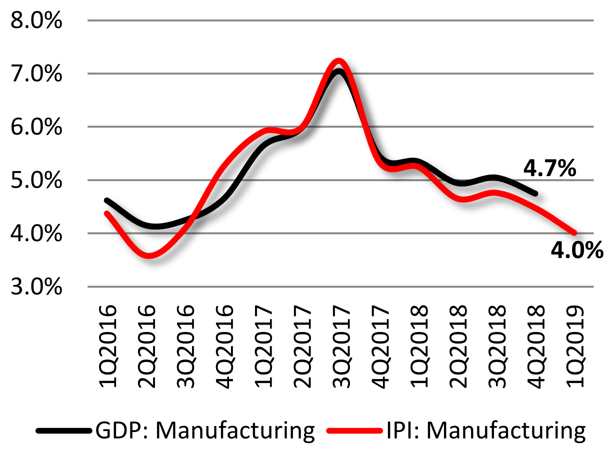
Meanwhile, the private investment growth has moderated to 4.4% in the 4Q2018, slower than 6.9% growth in the preceding quarter as business sentiments became increasingly cautious. We expect similar trajectory to prevail between January and March this year with MIER Business Conditions Index (1Q2019: 94.3 points vs. 4Q2018: 95.3 points) and DOSM Business Tendency (1Q2019: -2.2% vs. 4Q2018: 7.1%) have further deteriorated in the first quarter of 2019, signaling the business owners have become more pessimistic. As such, we opine that the nation's private investment to remain tepid at 3.0%.

Services and manufacturing sector contributed for 78.8% to the overall GDP. Effectively, the two sectors are the main underpinning factors for GDP from the supply side. In 4Q2018, services sector grew by 6.9% (3Q2018: 7.2%) while manufacturing industries increased by 4.7% (3Q2018: 5.0%). The latest indicator showed that the Index of Services (IOS) grew by 13.9% in 1Q2019, slightly lower than 14.4% previously. Meanwhile, Industrial Production Index (IPI) for manufacturing sector has softened to 4.0% in 1Q2019 (4Q2018: 4.5%). Against such backdrop, we foresee services and manufacturing industries output to grow at a modest pace of 6.6% and 4.3% respectively.

As for the construction, the sector would likely to lose its momentum in 1Q2019. Based on DOSM, Construction Work Done increased marginally by 0.7% in 1Q2109 as compared to 4.1% growth in 4Q2018. This was due to slower growth in Property Related Construction which has been in the contractionary zone for five consecutive quarters since 3Q2018 (1Q2019: -5.9% vs. 4Q2018: -3.3%). Such trend is predicated from the rising property overhang (completed, under construction and not contstructed) which currently stood at 133,162 units in 2018, representing an increase of 34.2% from the previous year. Given that, construction sector's output growth would moderate further to 1.8%.

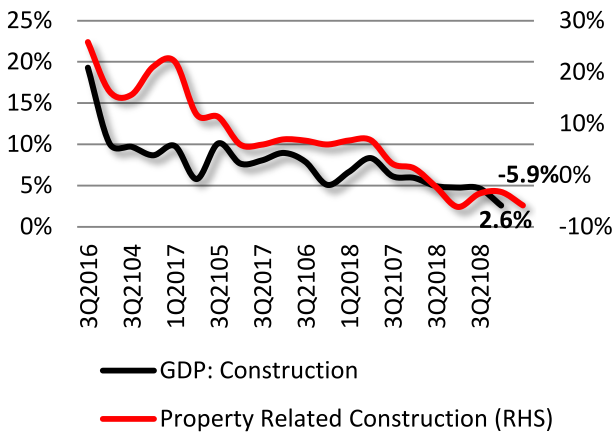
All in all, economic growth is softening between January and March this year.

Chart 4: IPI: Manufacturing (y-o-y %) vs. GDP: Manufacturing (y-o-y %)



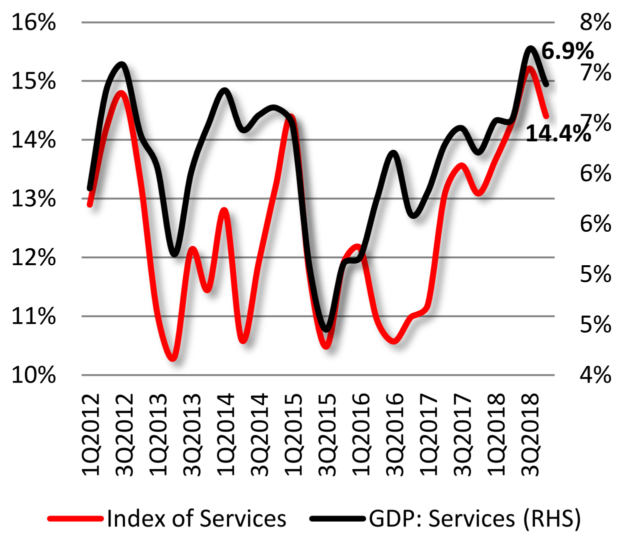
Source: CEIC, Department of Statistics Malaysia (DOSM)

Chart 5: Property Related Construction (y-o-y %) vs. GDP: Construction (y-o-y %)



Source: CEIC, Department of Statistics Malaysia (DOSM)

Chart 6: Index of Services (y-o-y %) vs. GDP: Services (y-o-y %)



Source: CEIC, Department of Statistics Malaysia (DOSM)