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# Preview for 2Q2019 GDP – expect growth to be sustained at 4.5%

The most anticipated statistical releases, Gross Domestic Product (GDP) for the June quarter, will be announced tomorrow. We are projecting the 2Q2019 GDP to grow at 4.5% year-on-year (y-o-y) which is similar to the one achieved in the previous quarter and slightly lower than the Bloomberg median estimates of 4.7%. The key factor affecting the overall economic performance is none other than the external sector. The global backdrop continues to look very challenging as trade tension between the US and China, which began in 1Q2018, has been fluid and unpredictable. The most recent announcement would be the imposition of import tariff on USD300 billion of Chinese goods which will become effective on 1 September 2019. Notwithstanding that, the US government has granted to delay some of the Chinese imports to 15 December. While this could spur hope that amicable solution would be concluded at some point in the future, it is never a sure bet nonetheless.

Such pessimism has been reflected in the manufacturers' sentiments which has worsened. The J.P. Morgan Global Manufacturing Purchasing Manager's Index (PMI) plummeted to below 50.0-point demarcation line and currently, the reading stood at 49.3 points in July (June: 49.4 points). This suggests the global demand is weak as manufacturers are very cautious in their business decision. By the same token, Malaysia's Manufacturing PMI has been below the 50.0-point threshold since October last year with July's reading stood at 47.6 points (June: 47.8 points). This indicates that the factory activities and output growth have decelerated following a slower demand from domestic and foreign clients.

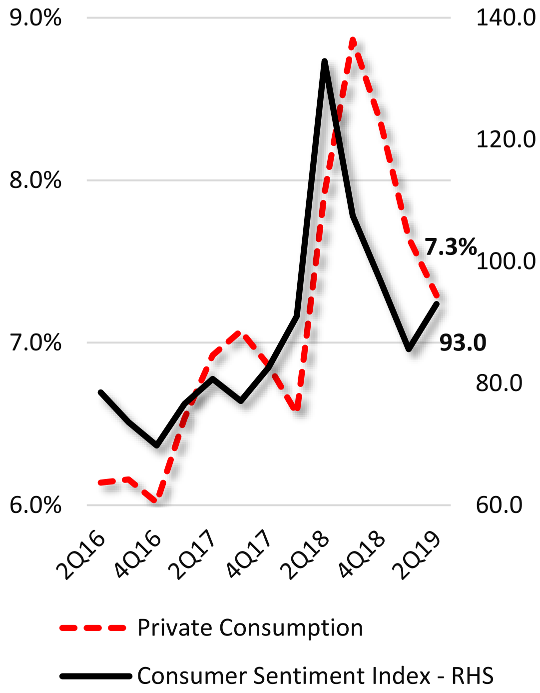
At the current juncture, several central banks have altered their policy rates lower in response to the slower economic conditions. The US Federal Reserve (Fed), Reserve Bank of India (RBI), Bank of Thailand (BoT), Reserve Bank of New Zealand (RBNZ) and Bangko Sentral Ng Pilipinas (BSP) have decided to slash their policy rates in July and August 2019. This indicates growing pessimism among the monetary authorities in order to counter the rising global risks. In that sense, we expect a volatility in the financial market to be persisted as heightened uncertainties in the global economic conditions continue to simmer.

While the external environment will continue to be wobbly, domestic economy is expected to be anchored by household spending. We have seen private consumption recorded a robust growth in the 1Q2019 at 7.6% y-o-y (4Q2018: 8.4% vs. Trend growth: 6.9%). Nonetheless, we anticipate that private consumption to grow at a moderate pace of 7.3% in 2Q2019 as consumers are expected to be cautious in their spending plans. Thus far, private sector wage growth for the manufacturing and services sector employees have softened from 4.9% y-o-y in 1Q2019 to 4.2% in 2Q2019 while unemployment rate in 2Q2019 has been fairly stable at 3.3% (1Q2019: 3.3%). Presently, consumer spending continued to be the main engine of growth as it accounted for at 58.2% share in the total GDP. As such, sustainability is the key issue as any hitches in household spending would certainly have significant repercussions to the overall growth.

Meanwhile, the private investment has eased to 0.4% in 1Q2019, declining from 5.8% in the preceding quarter, signaling capital expenditure among by businesses have been lethargic. We expect such dynamics would continue in the June quarter. This was premised on the MIER Business Condition Index which declined to 94.2 points in 2Q2019 from 94.3 points in 1Q2019. This indicates that the business owners have become more pessimistic on the current economic conditions. As such, private investment growth would remain low at 0.4% in 2Q2019.

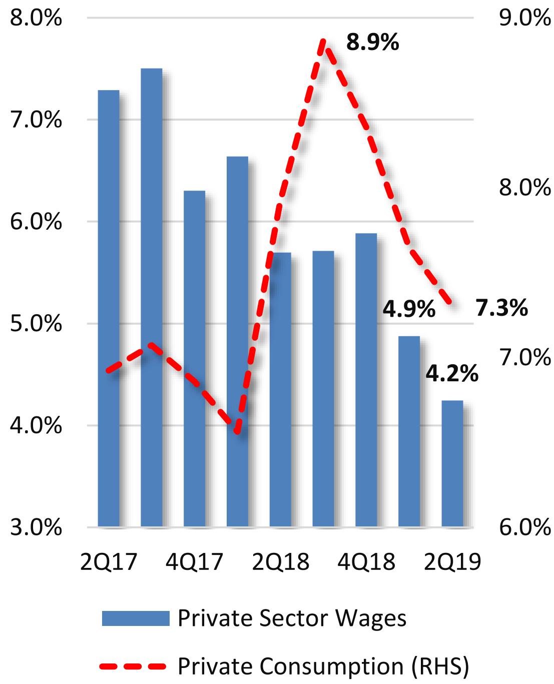
As for the external sector, real exports growth was flat at 0.1% (4Q2018: 3.1%) in 1Q2019 while real imports slumped by 1.4% (4Q2018: 1.8%). In view of slight improvement in the nominal exports and imports of 0.2% (1Q2019: -0.7%) and -1.2% (1Q2019: -2.5%), we expect real exports and imports to be at 1.0% and 1.7% in the June quarter. Despite that, net exports is expected to contract by 6.2% (1Q2019: 10.9%).

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



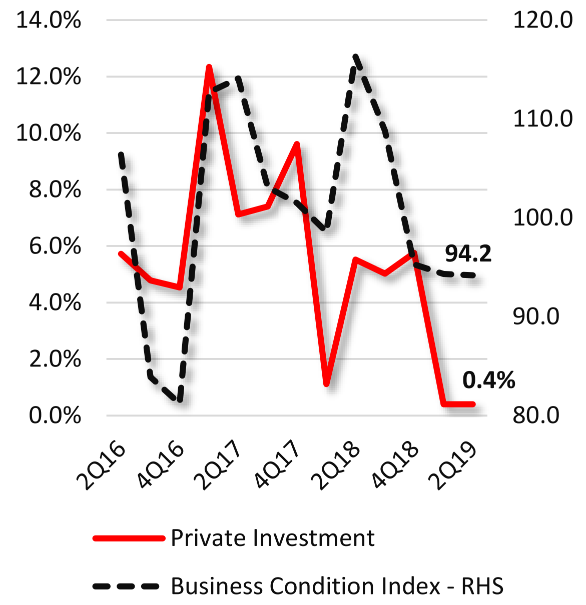

Source: CEIC

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



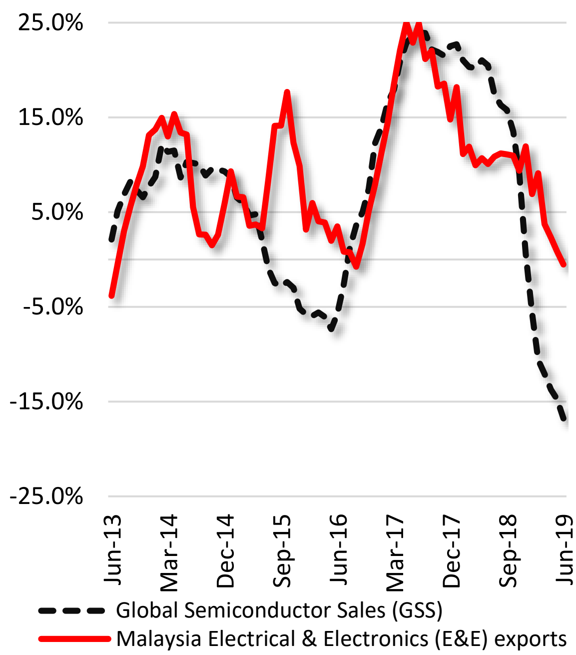

Source: DOSM, CEIC

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




Source: CEIC

**Chart 4: GSS (%) vs. Export: E&E (%)**



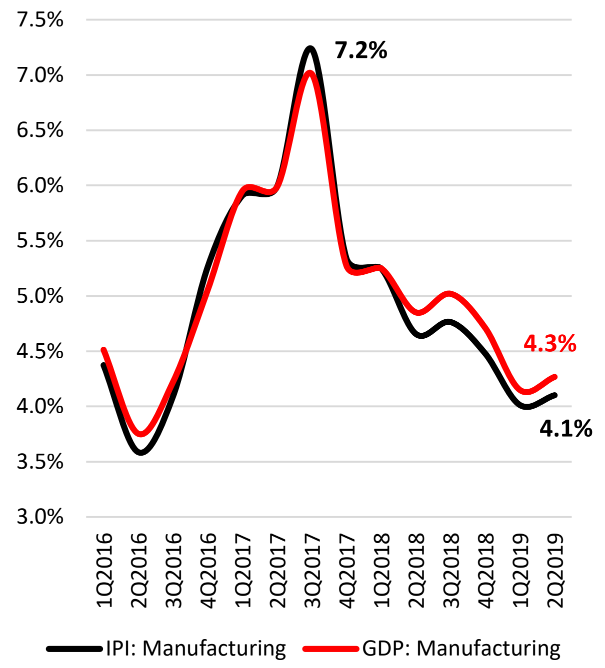

Source: CEIC

On the supply side, services and manufacturing sector contributed for 79.1% to the overall GDP during 1Q2019. As such, the two sectors are the key contributors to the nation's GDP. In 1Q2019, services sector grew by 6.4% during 1Q2019 (4Q2018: 6.9%) while manufacturing industries moderated by 4.1% (4Q2018: 4.7%). The latest indicator showed that the Index of Services (IOS) grew by 6.5% in 2Q2019, slightly lower than 6.6% previously. Meanwhile, Industrial Production Index (IPI) for manufacturing sector increased by 4.1% in 2Q2019 (1Q2019: 4.0%). Against such backdrop, we foresee services and manufacturing industries output to grow at a softer pace of 6.2% and 4.3% respectively.

As for the construction, the sector has remain lukewarm. Based on data from Department of Statistics Malaysia (DOSM), Construction Work Done posted marginal growth at 0.8% in 2Q2109 (1Q2019: 0.7%). This was due to the improvement in the Special Trades construction which grew by 5.9% versus 4.3% previously. Meanwhile, Property Related Construction, which has been in the negative territory for 6 straight quarter since 1Q2018, saw a smaller contraction of -5.5% in 2Q2019 (1Q2019: -5.9%). Such trend is predicated from the rising property overhang (completed, under construction and not constructed) which currently stood at 140,808 units in 1Q2019 (4Q2018: 133,162 units), representing an increase of 40.2% from the same corresponding period last year. Given that, construction sector's output growth would remain fairly weak at 0.4% in the June quarter.

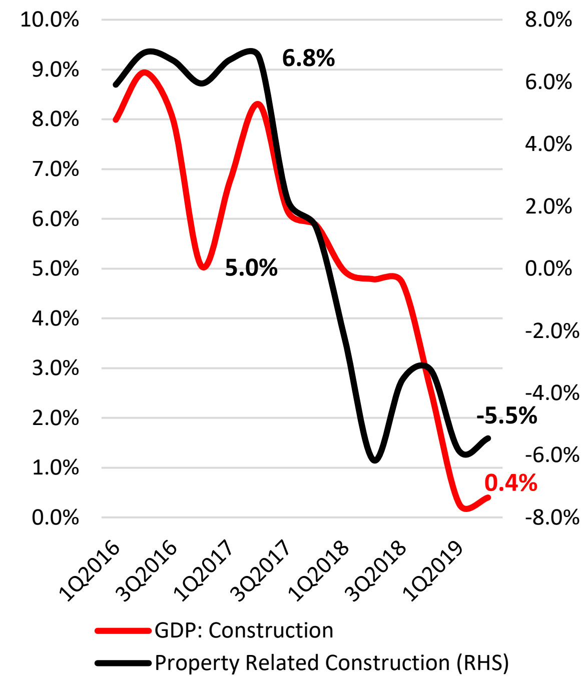
That said, economic growth is quite soft between April and June this year.

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



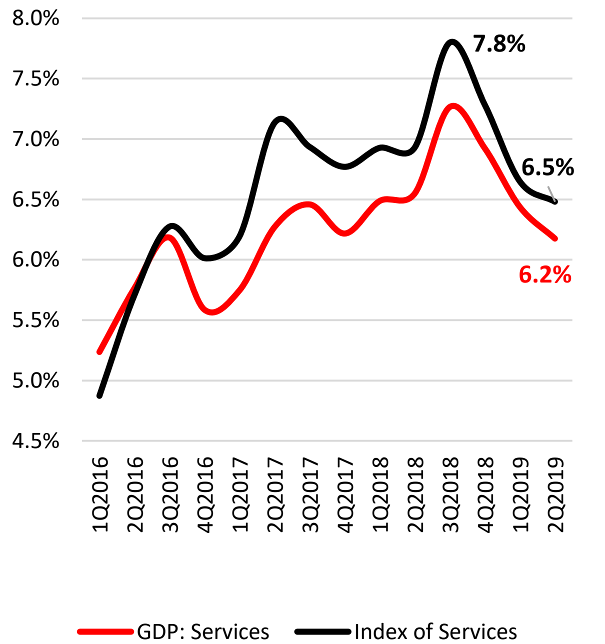

Source: CEIC, DOSM

**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