Malaysia Outlook

OCBC Bank

Expected slowdown in 1Q 2019

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Key Points

- **GDP growth for 1Q 2019 expanded at 4.5% yoy, beating both our forecast of 4.4% yoy and the Bloomberg median consensus forecast at 4.3% yoy.**
- **However, we view that the current data print continues to indicate sluggishness in the country's economy.**
- **Fixed investment fell by 3.5% yoy possibly due to business' concerns on the economic environment and ongoing government consolidation.**
- **Sector wise, mining and quarrying saw a decline amid production disruptions to the sector.**
- **Trade volumes were weaker as exports grew at 0.1% yoy and imports declined by 1.4% yoy possibly due to the subdued global trade environment and production slowdowns in the mining sector.**
- **Going forward, we still expect the entire 2019 growth to be at 4.4% yoy.**
- **With regards to BNM, we view the rate cut done last week as a pre-emptive measure and we don't expect further cuts in 2019 barring signs pointing to a bigger downturn in growth.**

GDP growth for 1Q 2019, slowed to 4.5% yoy (4Q 2018: 4.7% yoy), which was just slightly above both our forecast at 4.4% yoy and the Bloomberg median consensus forecast at 4.3% yoy. Private consumption was still the main contributor of growth as it expanded by 7.6% yoy

Fixed investment declined by 3.5% yoy, which was possibly due to business concerns on the economic environment and the ongoing government consolidation. Public investment declined by 12.6% yoy whilst private investment grew at a slow pace of 1.1% yoy. As economic concerns and government consolidation will likely continue for the rest of this year, we are still expecting at this point for investment to come out weaker for 2019. That said, the government did recently announce that the East Coast Rail Link and Bandar Malaysia projects would be carrying on and this may provide a boost to the economy but there is still no certain details on when it would actually restart.

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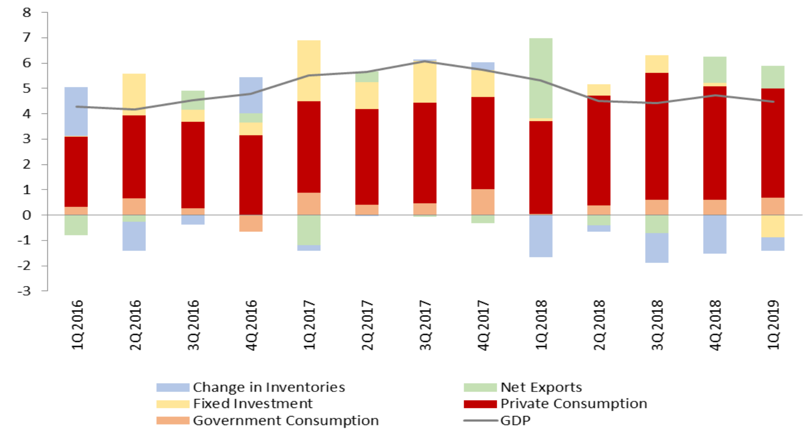
Mining and quarrying was the only sector to see a decline, at -2.1% yoy amid production disruptions to the sector. There are also additional concerns going forward that the sector may still face a number challenges as recent news reports have highlighted that there will be maintenance works on fields offshore Sabah in addition to a temporary shutdown of the Sabah – Sarawak LNG pipelines. Meanwhile, the construction sector experienced a slowdown in growth at 0.3% yoy. The other sectors were broadly stable with the exception of agriculture, which saw a pick-up 5.6% yoy, though this sector alone would not be able to sufficiently boost the country's growth.

Trade volumes were weaker as exports grew at 0.1% yoy whilst imports declined by 1.4% yoy. This is unsurprising given the subdued global trade situation and the already mentioned production weaknesses in the mining sector. There are also rising risks to the external environment given the escalating trade tensions although Malaysia to some extent may still be able to benefit from substitution effects. Net exports though was a positive contributor to growth.

That said, the current account surplus widened to RM16.4bn for the quarter (4Q 2018: RM10.8bn). This was a result of the lower imports in the intermediate and capital goods category. However, this category would contain items that feed into Malaysian exports and this would just be another reflection of the weak external environment that the country is facing.

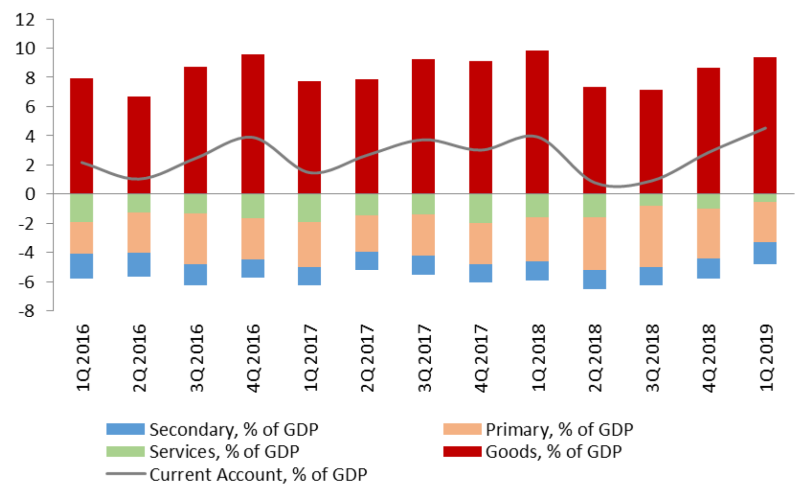
Going forward, we expect 2019 to be a weak growth year for Malaysia and we continue to see the entire 2019 growth to come out at 4.4% yoy. In our view, the current data print continues to indicate slow momentum in the Malaysian economy for the coming year amid the uncertain and weak global trade environment. **With regards to BNM, the rate cut done last week may be viewed as a pre-emptive measure to this slowdown and at this point, we don't expect further cuts in 2019 barring signs pointing to an even bigger downturn in growth.**

Chart 1: Contributors to GDP Growth, % yoy



Source: CEIC, Bloomberg and OCBC

Chart 2: Current Account Surplus/Deficit, % of GDP



Source: CEIC, Bloomberg and OCBC

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