Malaysia Outlook

Growth slows further albeit only slightly

Monday, November 19, 2018

Highlights

- **Growth slowed for 3Q 2018 at 4.4% yoy from 4.5% yoy the previous quarter.**
- **Current account surplus slightly narrowed to 1.04% of GDP for the quarter from 1.12% of GDP in the prior quarter.**
- **Private consumption was again the main driver and grew at an astounding rate of 9.0% yoy amid the tax holiday.**
- **We expect the 4Q 2018 to come out at 4.2% yoy whilst we revise the entire year growth forecast down from 4.8% yoy to 4.6% yoy.**

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GDP growth slowed further for 3Q 2018 at 4.4% yoy (2Q 2018: 4.5% yoy) as the mining and quarrying sector continued to struggle whilst private consumption surged. The growth this quarter is the slowest it has been since the 3Q 2016 when the economy grew at 4.3% yoy. Private consumption as usual was the biggest contributor to growth followed on by fixed investment. Government consumption expanded positively this time around but net exports saw a decline.

It came though as little surprise that private consumption grew at an astounding rate of 9.0% yoy (2Q 2018: 8.0% yoy). The quarter saw a tax holiday for two out of three months as GST was abolished and SST was only introduced starting from 1st September 2018. Hence, consumers probably frontloaded expenditure for the year. However, as a result of this and with few factors to boost private consumption for the remainder of the year, this would obviously mean that it would most probably ease in the final quarter. We are expecting growth for this category to be at 5.0% yoy.

There were still weaknesses in the commodities sector for the quarter. The mining and quarrying sector continuing to struggle as it further declined by 4.6% yoy (2Q 2018: -2.2% yoy). Production of crude oil & condensate and natural gas continued. The agricultural sector also saw a decline of 1.4% yoy but this decrease was lower than the prior quarter (2Q 2018: -2.5% yoy). However, the palm oil sector continued to see weaknesses. The central bank had already earlier warned in their November monetary policy statement of “prolonged weakness in the mining and agriculture sectors”. Hence, we remain wary of these sectors going into the final quarter.

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Net exports declined this quarter by 7.5% yoy (2Q 2018: 1.7% yoy) as exports declined by 0.8% yoy (2Q 2018: 2.0% yoy). This occurred as commodities exports continued to see a contraction albeit smaller at 3.0% yoy

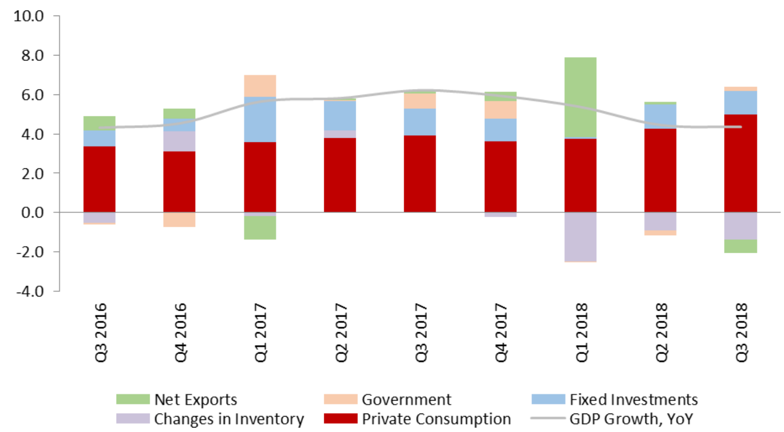
(2Q 2018: -3.8% yoy). Crude palm oil exports continued to decline whist growth in exports of mineral resources, particularly in crude petroleum improved. However, non E&E exports particularly in petroleum products did moderate. E&E exports growth was stronger at 10.7% yoy (2Q 2018: 9.8% yoy). Going forward, as mentioned in the previous, it is difficult to just immediately see a pick-up in the commodities sector given the statement from BNM and therefore, exports may not significantly pick-up in the final quarter.

The silver lining for the quarter is that growth of gross fixed capital formation actually accelerated to 3.2% yoy (2Q 2018: 2.2% yoy). Furthermore, this growth was driven by private sector investment which continued to grow strongly at 6.9% yoy (2Q 2018: 6.1% yoy) whilst public sector investment continued to decline by 5.5% yoy (2Q 2018: -9.8% yoy). The latter was probably due to the ongoing fiscal consolidation taking place. It is interesting to see that private investment continued to grow even as the MIER business condition index declined this quarter to 108.8 (2Q 2018: 116.3) although it continues to remain at the optimistic level. Going forward, investment may still exhibit some strength although there are certainly risks such as global uncertainty that could mean growth may not be as strong.

The current account surplus slightly narrowed to 1.04% of GDP for the quarter (2Q 2018: 1.12% of GDP). This was mainly the result of the primary income account recording a larger deficit at RM15.0bn (2Q 2018: -RM11.2bn) due to profits being earned by foreign investors in Malaysia outpacing that earned by Malaysian firms abroad, especially in the mining and manufacturing sector. The goods surplus did expand to RM26.6bn (2Q 2018: RM26.1bn) due to higher E&E exports.

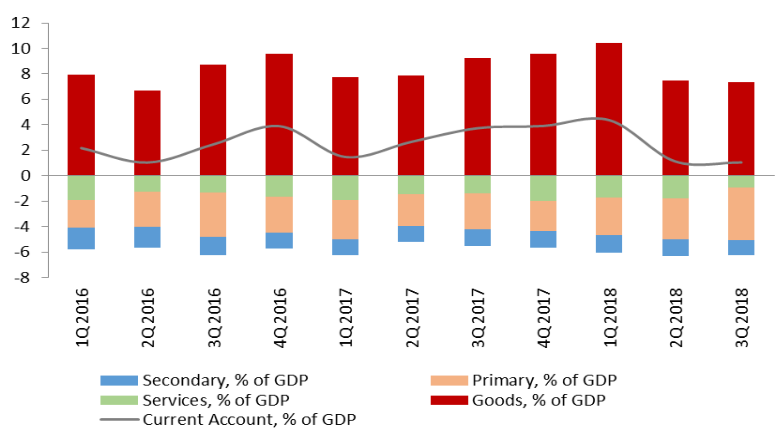
For the final quarter, we are now expecting growth to moderate to 4.2% yoy whilst we revise the entire year growth forecast down from 4.8% yoy to 4.6% yoy. The main driver of this slowdown would obviously be that we foresee private consumption growth slowing down significantly as the tax holiday comes to an end and consumers had frontloaded expenditure in the previous quarter. Exports will probably see some recovery although not significantly whilst investment growth should still continue to exhibit some strength.

Chart 1: Contributors to GDP Growth, % yoy



Source: Department of Statistics Malaysia, CEIC and OCBC

Chart 2: Current Account, % of GDP



Source: Department of Statistics Malaysia, CEIC and OCBC

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