Malaysia

15 November 2019

Glimpses of 2020

Wellian Wiranto
+65 6530 6818
WellianWiranto@ocbc.com

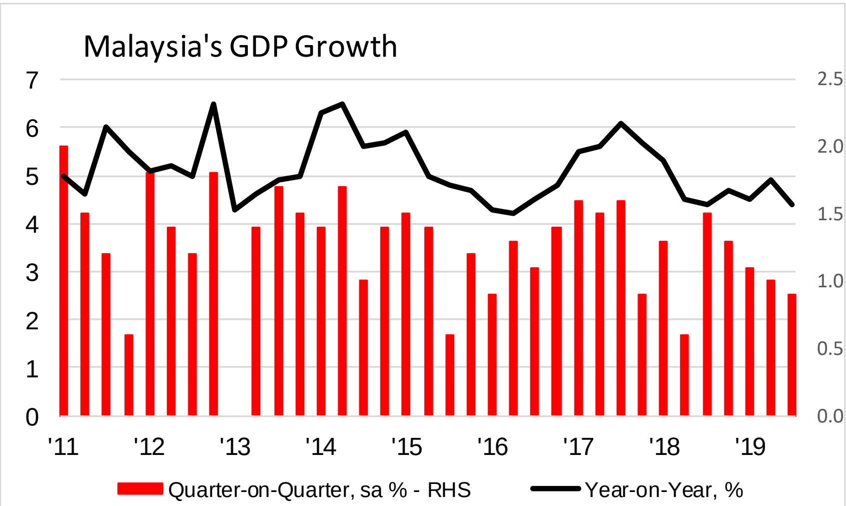
Malaysia's Q3 GDP data shows what challenges lie ahead

- GDP data came in at 4.4% yoy in Q3, in line with market consensus but slightly lower than our expectation of 4.5% yoy and Q2's 4.9% yoy.
- Private consumption bore the heaviest burden of shouldering growth up, but investment slowdown shaved off almost a percentage point off the headline print, showing impact of uncertainties on domestic businesses in particular.
- Exports slumped heavily, countered only by a sharp contraction in imports. With global factors being the swing factor, reaching the 4.8% 2020 target of the government would require a US-China trade deal very soon.

Mellowing momentum

While Malaysia happily surprised the market a quarter ago when it announced the 4.9% yoy growth for Q2 GDP (against expectation of 4.7%), there is unfortunately a less merry release today with Q3 GDP coming right in line with broad market consensus at 4.4% yoy. We had pencilled in 4.5% growth, predicated on more relative support from FDI investment activities.

Even though it is by no means a poor set of data, the Q3 GDP release nonetheless shows some signals of a slowing sequential growth momentum that signal tougher roads ahead. On a seasonally adjusted basis, for instance, the quarter-on-quarter growth rate came in at 0.9%, the slowest momentum in over a year.



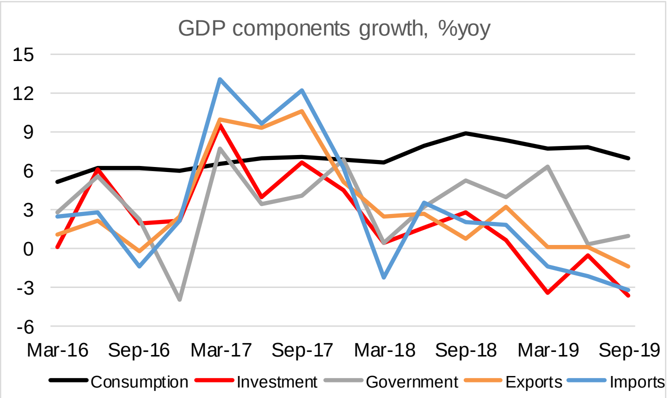
Source: CEIC, Bloomberg, OCBC.

What's behind the relative slowdown?

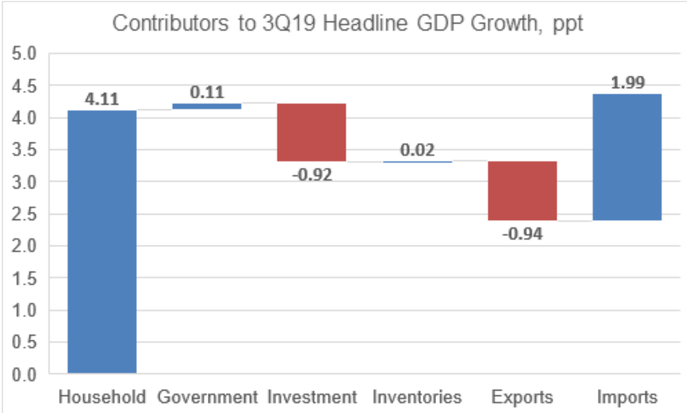
The short gist of it is that helpful growth components of prior quarters turned less energetic, even as 'problematic' areas became even more so.

To start with, even though private consumption which has been the anchoring overall GDP growth over the past year or so remains supportive, its growth has slowed in Q3. On a year-on-year basis, private consumption growth came in at 7.0% in Q3, but lower than 7.8% and the slowest since early 2018. In terms of its contribution to the headline 4.37% GDP growth, private consumption came in at 4.11

percentage points, compared to an average of 4.4ppt in the first half of this year. Given that the tailwinds of GST removal from 2018 are now no longer with us, this should not come as a surprise, but nonetheless gives us a reminder that this big portion of growth contributor can no longer be counted on to pull the oars as hard as before.



Source: CEIC, Bloomberg, OCBC.



Source: CEIC, Bloomberg, OCBC.

Meanwhile, investment activities have declined significantly, pointing to the first challenge faced by the government in achieving its lofty growth target of 4.8% for 2020. In year-on-year terms, investment GDP grew by -3.72%, the deepest contraction this year. The slump pulled headline GDP growth down by 0.92ppt, compared to an average of half a percent deduction in H1. As alluded to at the start, the shortfall in investment activities in Q3 is also one reason why our expectation of 4.5% headline growth fell short. We had anticipated that a relatively strong FDI inflows of H1 would enjoy a strong enough momentum into Q3 to lift this portion of GDP up, but it appears that it might have been counteracted by still-lacklustre domestic investment activities.

Elsewhere, while it is not surprising to see export activities being a net negative contributor to growth in the soft global environment, the fact that exports took headline growth down by 0.94ppt – as opposed to a flat contribution in H1 – may be an area that we need to increasingly look out for. In net trade terms, it took a heavy contraction in imports to negate the effect of the slump in exports. With imports contracting substantially by 3.26% yoy, it alone contributed two full percentage points to headline growth. That is to say, if imports have been flat instead of contracting by this amount, the overall GDP growth would have been 2.4% instead of 4.4% yoy.

A few areas from today's GDP prints continue to point to us that the most likely path for Malaysia's growth in 2020 remains one of downtick rather than the other way round. Instead of an acceleration to 4.8% yoy that the government has targeted in its budget, we still see it slowing down to 4.2% instead, compared to what is likely to be 4.5% for the whole of this year.

At the broader level, the slowing sequential growth momentum as evidenced by the continually decreasing seasonally adjusted qoq rate is one factor to consider. The absence of new catalyst for private consumption is another. Elsewhere, while a relatively supportive fiscal stance should help, at just one-tenth of the economy, government consumption uptick in 2020 can only do so much, as evidenced by its minuscule 0.11ppt contribution to headline growth in today's Q3 GDP number.

Most importantly, as much as Malaysia's own domestic drivers can help buffer the impact, the global situation is still the biggest swing factor, with unavoidable impact on investment and trade. As mentioned in our discussion on Bank Negara's latest MPC decision, even though the central bank appears to subscribe to the view that domestic growth remains largely favourable, it is still very much subjected to the ripple effects from global events.

Given the lack of strong countervailing domestic factors and the increasingly tricky negotiations between US and China trade representatives, BNM continues to be watchful. Already, Governor Shamsiah Yunus reminded markets today that the central bank under her watch is "not on a preset" course and will continue to monitor incoming data.

As much as we believe (and hope) that the baseline is for some US-China deal to come through such that central banks like BNM do not need to reach for the easing trigger in the immediate months ahead, it is very much still a day-by-day recalibration depending on news flow on the progress, if any, of the negotiations.

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Dick Yu
Hong Kong & Macau
dicksnyu@ocbcwh.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com