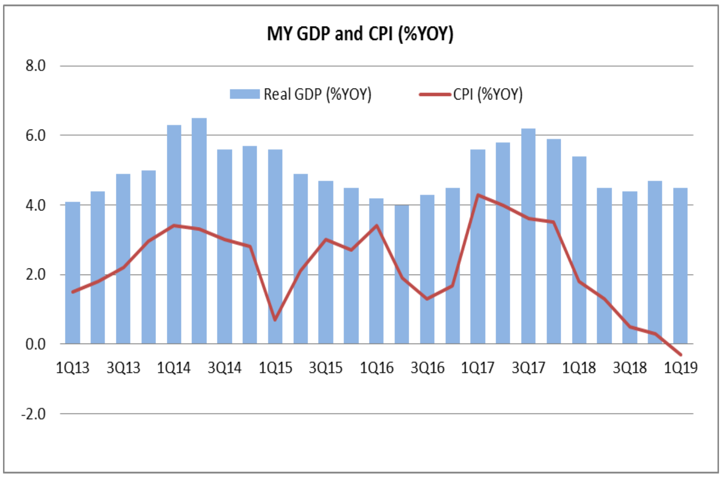
Softer 1Q growth amid easier domestic demand and exports

Growth in the Malaysian economy tapered off to 4.5% YOY as expected in 1Q (4Q: +4.7%), dampened by a more challenging external environment and normalization in domestic demand. Despite the pullback, domestic demand remained the main growth pillar, with added support from net exports as imports dwindled. Looking ahead, growth prospects would, most likely than not, soften further amid unrelenting escalation in external risks that would inevitably spill over to the domestic sectors, of which much would depend on the pace of recovery in investment spending following the revival of mega projects namely the ECRL and Bandar Malaysia, to mitigate prospects of soft commodity prices and more moderate consumer spending. We foresee downside risks to our full year 2019 growth forecast of 4.7% and will be reviewing this in due course pending more clarity from both external and domestic development.

Growth in the Malaysian economy moderated somewhat to 4.5% YOY in 1Q as expected

The Malaysian economy recorded a slightly softer growth of 4.5% YOY in 1Q as expected (4Q: +4.7%), confirming concerns over softening growth in 2019 amid escalating external headwinds and normalization in domestic growth conditions. Domestic demand pulled back for the second straight quarter and expanded at its slowest pace in a year, by 4.4% YOY in 1Q (4Q: +5.7% YOY), despite maintaining its lead position contributing 4.1ppt to overall growth during the quarter under review (4Q: +5.2ppt). Positive albeit smaller gain in net exports (+10.9 vs +15.5% YOY) offered an added support, contributing 0.9ppt to overall growth in 1Q (4Q: +1.0ppt) while inventories continued to exert a drag (-0.5ppt vs -1.5ppt). On a seasonally adjusted QOQ basis, real GDP growth moderated somewhat to increase 1.1% in 1Q (4Q: +1.3%).



Domestic demand continued to moderate as both private and public sectors lost steam

Domestic demand, specifically private sector activities, remained firmly in the driver seat, even though the pace of expansion was evidently softer compared to the preceding quarter. Growth in domestic demand pulled back to 4.4% YOY in 1Q (4Q: +5.7%), as growth in the private sector tapered off to 5.9% YOY (4Q: +7.8%) while the government sector saw its activities contracted 1.4% YOY (4Q: +0.1%).

Slower growth in private sector on broad-based moderation in consumer spending and business investment

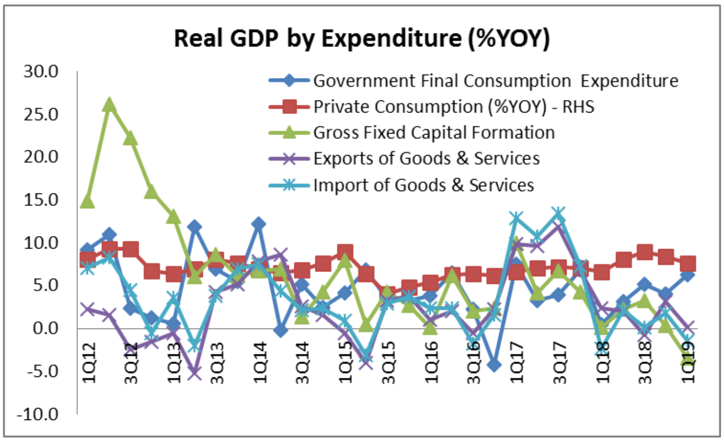
Within the private sector, both consumer spending and business investment moderated, with consumption growth easing off to 7.6% YOY in 1Q (4Q: +8.4%), its slowest in a year as the pre-tax holiday spending dissipated. Private investment meanwhile barely grew in 1Q and the +0.4% YOY increase (4Q: +5.8% YOY), was indeed the weakest in nearly three years, no thanks to the protracted trade uncertainties, prevailing weakness in the property sector as well as lack of positive sentiments among the business community amid a gloomier growth backdrop and policy uncertainties.

Contraction in the government sector dampened by steeper fall in investment…offsetting faster growth in government spending

The government sector however offered a different story despite a similar easing trajectory. **While the contraction in public investment steepened to 13.2% YOY in 1Q (4Q: -5.9% YOY),** following review and rescheduling of numerous mega projects, **public consumption however saw quicker growth of 6.3% YOY** during the quarter (4Q: +4.0%) attributable to higher growth in spending on supplies and services.

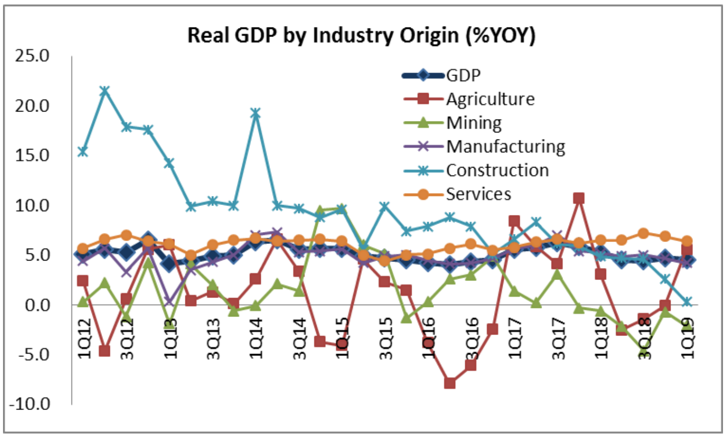
Net exports stayed positive despite softer external demand, as imports fell implying soft domestic demand

Following through from the preceding quarter, net exports continued to stay positive, albeit at a slower rate of 10.9% YOY in 1Q (4Q: +15.5%). Despite near stagnant exports (+0.1% vs +3.1% YOY) as a result of moderating global demand compounded by uncertainties in trade protectionism policies, the 1.4% YOY decline in imports (4Q: +1.8%) helped keep net exports in positive territory. This is not at all a positive sign as **the decline in imports signified a drop in domestic demand, which tied with the softer traction seen in domestic economic activities.** Imports of capital goods registered a steeper fall while consumption goods imports barely grew in 1Q. Meanwhile, the decline in imports of intermediate goods is expected to translate into softer exports going forward.



Agriculture rebounded… but services, manufacturing and construction softened; mining still contracting

On the supply side, only the agriculture sector performed better during 1Q whereas all other sectors registered slower growth while the mining sector fell deeper into negative territory. The agriculture sector halted three straight quarters of decline and grew 5.6% YOY in 1Q (4Q: -0.1%), driven by a strong recovery in oil palm yields and higher rubber production. Meanwhile, the mining sector contracted for the 6th straight quarter, falling 2.1% YOY (4Q: -0.7%) dragged by lower oil and gas production due to unplanned plant closure. Growth in the construction sector was near stagnant, growing a mere 0.3% YOY in 1Q (4Q: +2.6%), dragged by slower activities in the property, civil engineering and special trade sectors. The services and manufacturing sectors remained the two biggest growth sectors despite the pullback in growth to 6.4% and 4.2% YOY respectively (4Q: +6.9% and +4.7%). Slower growth in the wholesale & retail trade sector following post-tax holiday spending normalization was partially offset by sustained growth in the finance and insurance subsector while the slowdown in E&E and primary-related cluster led to moderation in the manufacturing sector.



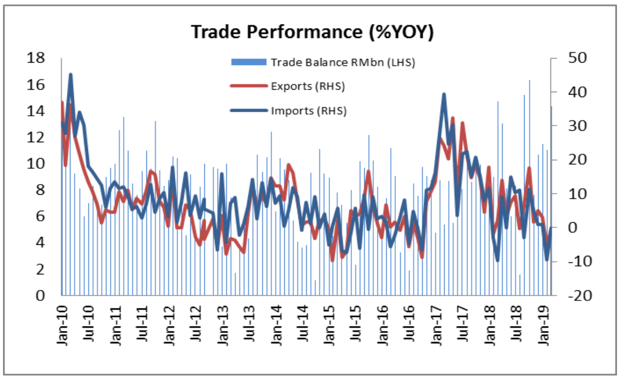
Current account surplus jumped to a five-year high of RM16.4bn in1Q

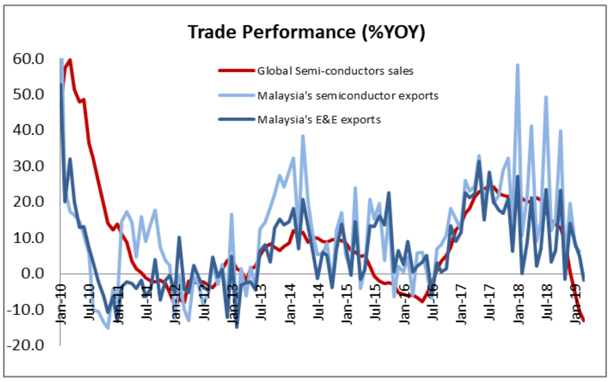
In a separate release, **Malaysia's current account surplus widened commendably for the second consecutive quarter, to RM16.4bn in 1Q (4Q: RM10.8bn), its highest in five years, thanks to sustained surplus in the goods account and smaller deficits in the services and income accounts.** Surplus in the goods account, slightly higher at RM33.8bn (4Q: RM32.7bn) continued to underpin overall surplus position in the current account as lower imports of capital and intermediate goods offset lower exports. The services account saw a smaller deficit of RM1.8bn in1Q (4Q: -RM3.8bn) thanks to lower net payments for foreign transportation services and higher surplus in the travel account. Income account also registered a smaller deficit of RM15.6bn (4Q: -RM18.1bn), on account of lower portfolio investment payments and outward remittances by foreign workers. The financial account registered a bigger net outflow of RM13.8bn in1Q (4Q: -RM6.1bn), marking its second straight quarter of net outflow due mainly to repayment of interbank borrowings by domestic financial institutions.

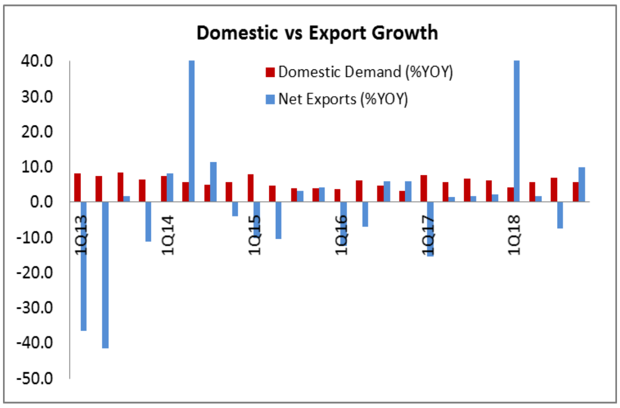
Foresee downside risks to our full year 2019 growth forecast of 4.7% YOY

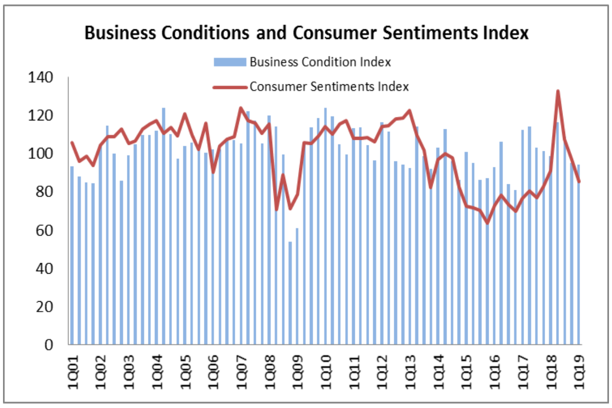
The softer 1Q GDP print along with broad-based moderation seen in key sectors signified the Malaysian economy is not spared from the brunt of both external and domestic fallouts. Looking ahead, growth prospects would, most likely than not, soften further amid unrelenting escalation in external risks that would inevitably spill over to the domestic sectors. Trade protectionism disputes between the US and China remained stubbornly unresolved and high in the watch list, exerting increasing downside risks to world trade and the global supply chain.

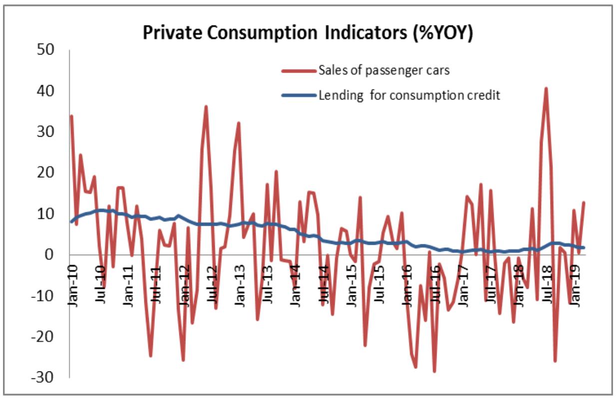
Trade tensions and its related policy uncertainties aside, tightening financial conditions and geopolitical risks are other key risk factors that could destabilize and weigh on global growth outlook. Domestically, much would depend on the pace of recovery in investment spending most notably following the revival of mega projects namely the ECRL and Bandar Malaysia (though the bulk of the effect is expected to kick in next year), to mitigate prospects of soft commodity prices and more moderate consumer spending. **Amid expectations of increasing downside risks in the global backdrop that would undoubtedly hamper growth in the Malaysian economy, we foresee downside risks to our full year 2019 growth forecast of 4.7**% and will be reviewing this in due course pending more clarity from both external and domestic development.

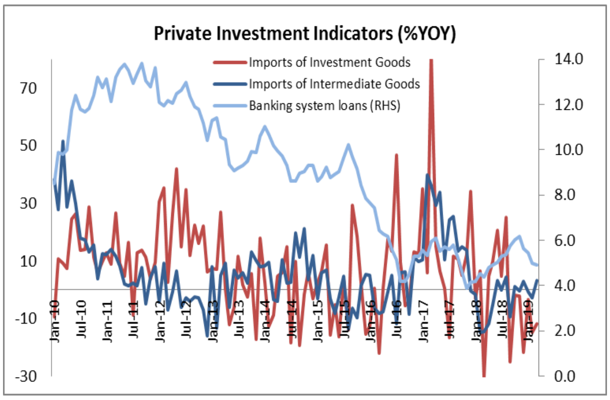

Trade Performance (%YOY)
Trade Balance RMbn (LHS)
Exports (RHS)
Imports (RHS)


Trade Performance (%YOY)
Global Semi-conductors sales
Malaysia's semiconductor exports
Malaysia's E&E exports


Domestic vs Export Growth
Domestic Demand (%YOY)
Net Exports (%YOY)


Business Conditions and Consumer Sentiments Index
Business Condition Index
Consumer Sentiments Index


Private Consumption Indicators (%YOY)
Sales of passenger cars
Lending for consumption credit


Private Investment Indicators (%YOY)
Imports of Investment Goods
Imports of Intermediate Goods
Banking system loans (RHS)

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