

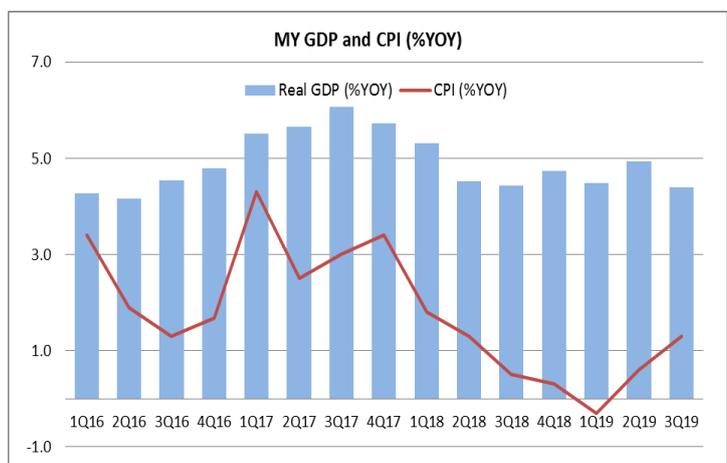
Global Markets Research
Economics - Malaysia

Broad-based slowdown in 3Q GDP growth

The Malaysian economy grew at a slower pace of 4.4% YOY in 3Q (2Q: +4.9%), amid broad-based slowdown from both the domestic and external front. Domestic demand expanded at its slowest pace in nearly three years while contribution from net exports narrowed. Looking ahead, overall growth outlook of the Malaysian economy is expected to remain subdued tracking slower growth in the world economy. Even as we expect mounting challenges ahead, we are of view that year-end festive spending, government cash assistance, the kicking-in effects from the preemptive OPR cut back in May, as well as improving CPO prices, will keep overall growth supported in 4Q. We are therefore tweaking our full year real GDP growth forecast slightly lower from 4.7% to 4.5% for 2019. The still decent growth outlook suggests a near term adjustment in the OPR is not imminent. However, we believe BNM would stand ready to act should there be worsening financial conditions and bigger than expected escalation in external risks that could subject the domestic economy to further downside risks.

The Malaysian economy registered slower growth of 4.4% YOY in 3Q...amid broad-based slowdown in both the domestic and external front

The Malaysian economy expanded at its slowest pace in a year, growing 4.4% YOY in 3Q19 (2Q: +4.9% YOY), as moderating global growth spilled over to the domestic economy. This was a tad below our expectation for a 4.5% growth but in line with consensus. **Growth in domestic demand tapered off rather substantially to 3.5% YOY in 3Q19 (2Q: +4.6%)** to mark its slowest growth in eleven quarters, amid slower growth momentum in the private sector and bigger contraction in the public sector. **Contribution from net exports (+1.0ppt vs +1.4ppt) also narrowed** as exports succumbed to global trade headwinds and fell 1.4% YOY during the quarter (2Q: +0.1% YOY), even on the back of a bigger decline in net imports (-3.3% vs -2.1% YOY). **On a seasonally adjusted basis, 3Q GDP sustained a 0.9% QOQ increase (2Q: +1.0%).**

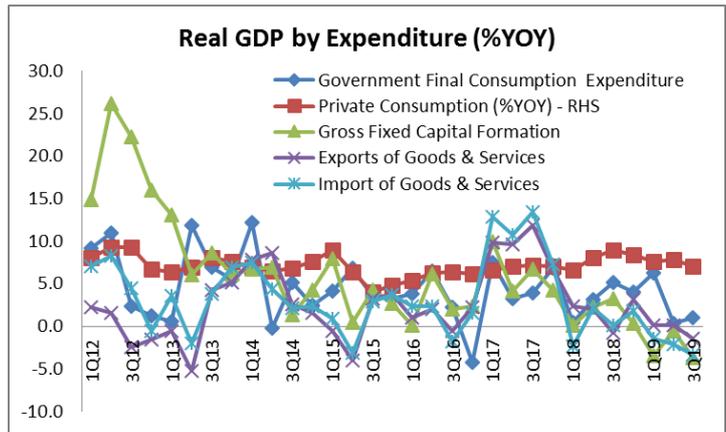


Domestic demand grew at its slowest pace in nearly three years as private consumption normalized from

On the domestic front, despite the more moderate growth of 5.4% YOY in 3Q (2Q: +6.2%), the private sector continued to be the key pillar anchoring growth as the public sector saw extended decline.

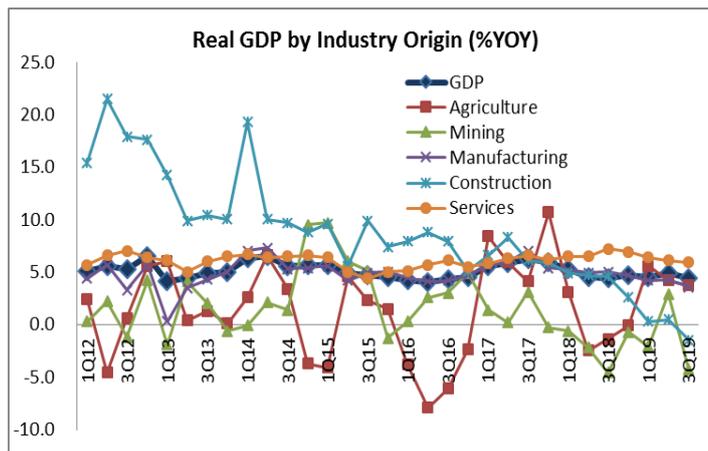
tax holiday spending and amid extended decline in investment activities

Contraction in the public sector deepened to 4.6% YOY (2Q: -2.8%; 1Q: -1.4%), primarily dragged by bigger declines in investment (-14.1% vs -9.0% YOY) which offset the slightly quicker gain in government consumption (+1.0% vs +0.3%) as a result of higher emoluments. Back to the private sector, we noticed slower growth from both the consumption and investment front. **The increase in private consumption remained healthy at 7.0% YOY in 3Q, although this marked a moderation from 2Q's 7.8% YOY increase, and was also partly attributable to the normalization from last year's high base from tax holiday spending.** Private investment also expanded at a slower pace of 0.3% YOY, easing from the 1.8% YOY increase in 2Q, as external uncertainties and weakness in the broad property sector continued to impede investment activities.



Broad-based slowdown with contraction seen in the mining and construction sectors

On the supply side, we noted broad-based slowdown across key sectors with the mining and construction sectors slipping into the red. The services sector, that contributed 57% share to total GDP, remained the biggest growth engine contributing 3.3ppt to overall growth in 3Q (2Q: +3.5ppt), followed by the manufacturing sector (+0.8ppt vs +1.0ppt). The services sector moderated for the 4th straight quarter to increase 5.9% YOY in 3Q (2Q: +6.1% YOY), its slowest since 1Q17, amid slower growth across all key subsectors namely wholesale & retail, transport & storage, and finance & insurance. The manufacturing sector also grew at a slower pace of 3.6% YOY in 3Q (2Q: +4.3%), its slowest in six years, due to slower growth in the E&E and consumer-related sectors. Meanwhile, the agriculture sector expanded 3.7% YOY in 3Q (2Q: +4.2%) dragged by slower oil palm production. On the contrary, the mining sector contracted again after the brief growth in 2Q, down 4.3% YOY in 3Q, as a result of lower oil production amid plant maintenance, which partially offset the recovery in gas production. In addition, and not surprising, the construction sector fell for the first time on record based on base-year adjusted data, by 1.5% YOY (2Q: +0.5%), due to extended declines in both residential and non-residential construction as well as slower growth in the civil engineering subsector.



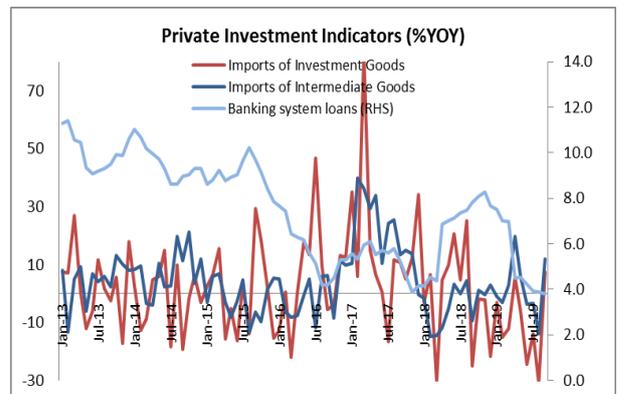
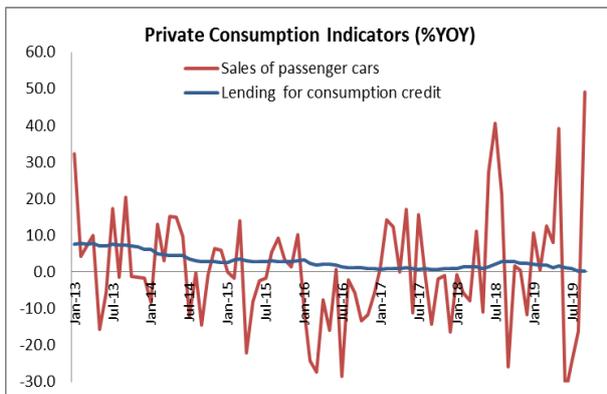
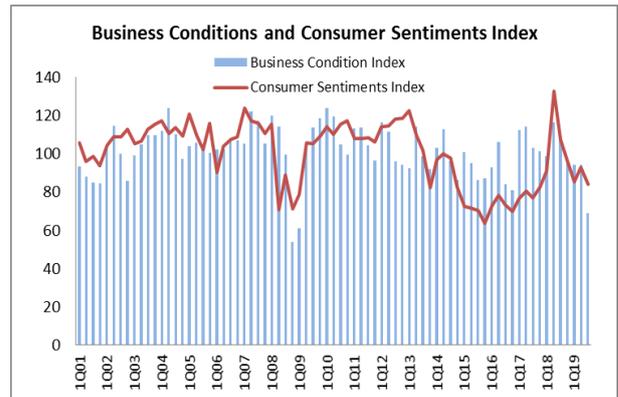
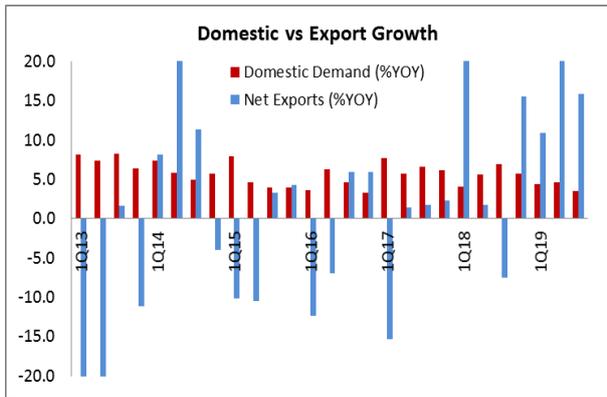
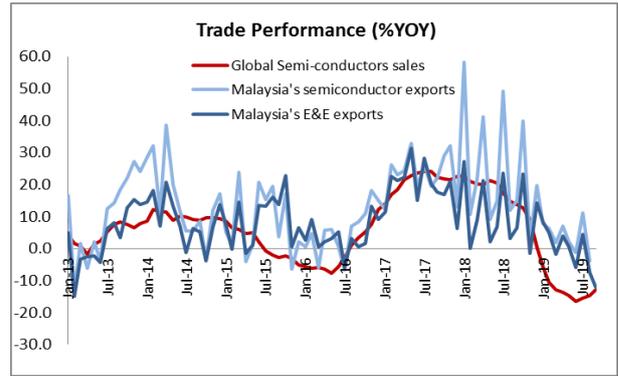
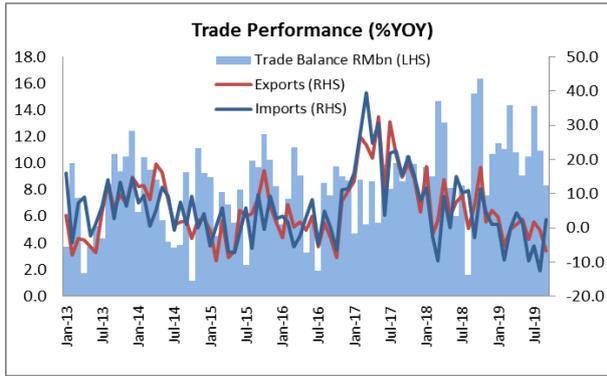
Current account surplus further narrowed to RM11.5bn in 3Q (3.1% of GNI)

In a separate release, **Malaysia's current account surplus narrowed for the 2nd straight quarter to RM11.5bn or 3.1% of GNI in 3Q19 (2Q: RM14.3bn or 3.9% of GNI), mainly a result of bigger deficits in the income accounts, that offset bigger surplus in the goods account and smaller services deficit.** Surplus in the goods & services account moderated to RM29.2bn in 3Q (2Q: RM24.7bn) as the decline in imports growth outpaced exports growth. The services account deficit narrowed to RM1.6bn (2Q: -RM3.4bn) due to higher surplus in the travel account (RM9.5bn vs 2Q: RM7.1bn) on the back of higher tourist arrivals and per capital tourist spending. The income account however recorded a bigger deficit of RM17.7bn in 3Q (2Q: -RM10.4bn) due to lower investment income earned by Malaysian firms abroad and higher outflow from foreign worker remittances. On a separate note, **the financial account continued to see net outflow for the 4th consecutive quarter, albeit much smaller at RM1.3bn in 3Q (2Q: -RM18.6bn)** as outflows in direct investment and portfolio investment were offset by inflows in other investment accounts.

Tweaking full year growth forecast slightly lower to 4.5% for 2019; and 4.3% for 2020

Looking ahead, overall growth outlook of the Malaysian economy is expected to remain subdued tracking slower growth in the world economy. Roiling trade-related setback, geopolitical risks, and policy uncertainties are expected to continue cloud the macro landscape globally, instilling further volatilities into the financial markets and unnerving consumer and business confidence, which will eventually spill over to the domestic economy. Even as we expect mounting challenges ahead, we are of view that year-end festive spending, government cash assistance, the kicking-in effects from the earlier OPR cut back in May, as well as improving CPO prices, will keep overall growth supported in 4Q. **We are therefore tweaking our full year real GDP growth forecast slightly lower from 4.7% to 4.5% for 2019.**

Moving into 2020, we acknowledge increasing challenges arising from greater spillover from the disruption in global supply chain and softer world growth outlook to the domestic front, hence the revision in our 2020 growth projection from 4.6% to 4.3%. We however expect additional stimulus from the government expansionary fiscal policies to help cushion fallout from the external front. **The still decent growth outlook suggests a near term adjustment in the OPR is not imminent. However, we believe BNM would stand ready to act** should there be worsening financial conditions and bigger than expected escalation in external risks that could subject the domestic economy to further downside risks.



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