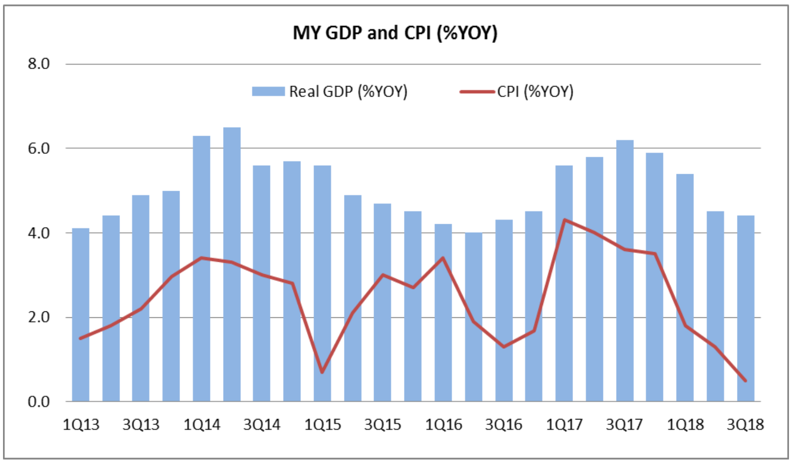
Further moderation in 3Q growth

Growth in the Malaysian economy continued to taper off for the 4th straight quarter, but at a less than expected pace to 4.4% YOY in 3Q as a sharp boost in domestic demand from tax holiday cushioned the drag from negative net exports. Looking ahead, expansion in the Malaysian economy remains at risk of further moderation, dampened by a softer external environment while the domestic economy has to grapple with policy adjustments that have resulted in short term swings in consumption and investment. The tax holiday related consumption boost that has brought forward purchases to 3Q would mean 4Q will be payback time which will likely make it the weakest quarter for the year, compounded by noticeable weakening in global demand. As a result, we expect further moderation in 4Q growth but full year growth is being tweaked higher to 4.6% YOY for 2018 taking into account the stronger than expected 3Q performance. We however foresee downside risks to our 4.8% growth forecast for 2019, much would depend on the momentum in private sector activities and the extent of global fallout.

Real GDP growth moderated for the 4th straight quarter to 4.4% YOY in 3Q, dampened by negative net exports even as domestic demand picked up nicely

The Malaysian economy witnessed further moderation in growth as expected, growing at a slightly slower pace of 4.4% YOY in 3Q (2Q: +4.5%). This came above our expectation for a slowdown to 4.2% YOY but against market consensus for a pick-up to 4.6% YOY. This marked its 4th straight quarter of easier growth, and its slowest in two years, **as the drag from negative net exports offset further acceleration in domestic demand.** Net exports turned negative for the first time since 1Q17, contracting 7.5% YOY in 3Q (2Q: +1.7% YOY) as a result of decline in exports while aggregate domestic demand picked up steam for the 2nd straight quarter, expanding at a faster rate of 6.9% YOY in 3Q (2Q: +5.6%), its best pace in 1.5 years. On a seasonally adjusted QOQ basis, real GDP growth gained pace to increase 1.6% in 3Q (2Q: +0.3%).



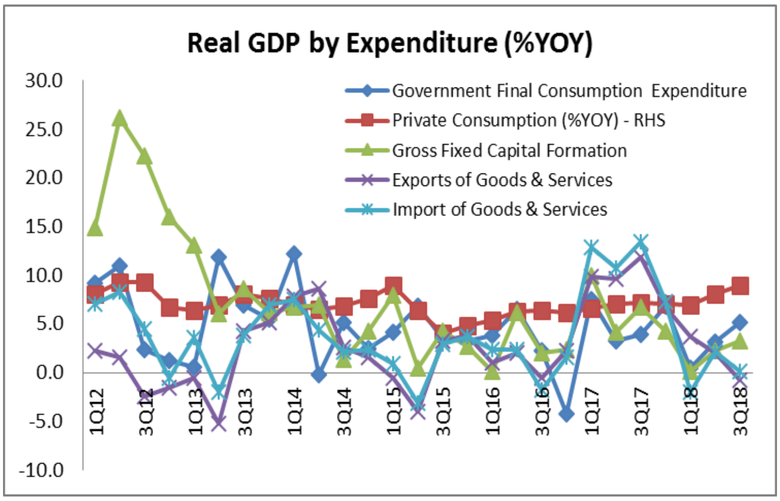
Private consumption grew a whopping 9.0% YOY in 3Q, its fastest since 1Q15, as consumers took advantage of the tax holiday

Within the domestic sphere, the private sector continued to be the biggest growth catalyst. Private sector activities gained further traction, increasing 8.5% YOY in 3Q (2Q: +7.5%), thanks to acceleration in both the consumption and investment levels. **Private consumption grew by a whopping 9.0% YOY in 3Q** (2Q: +8.0% YOY), its quickest since 1Q15, **as consumers ramped up purchases taking advantage of the post-GST and pre-SST tax holiday.** In line with positive development on the consumer side, **businesses also increased capital spending**

to cater to positive demand, reflected in the quicker private investment growth of 6.9% YOY for the quarter (2Q: +6.1% YOY).

Turnaround in public sector activities growth lent support to overall growth

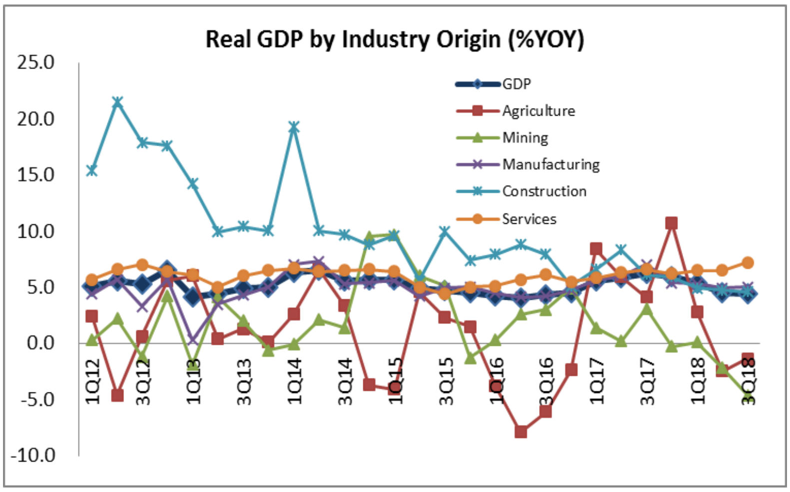
As a result of higher spending and smaller contraction in investment, the public sector as a whole managed to turn around in 3Q, growing 1.1% YOY after two consecutive quarters of contraction, providing further support to domestic demand. Despite mounting talks of streamlining and rationalization in the public sector, government spending grew at a faster pace of 5.2% YOY in 3Q (2Q: +3.1%) as a result of higher spending on supplies and services, which offset slower growth in emoluments. **Public investment also saw a smaller contraction**, declining only 5.5% YOY during the quarter, narrowing from the 9.8% YOY fall in 2Q due to higher capex in general government spending.



Services and manufacturing remained the main pillars; agriculture and mining remained a drag

On the supply side, the services and manufacturing sector remained the main growth pillars, while the agriculture and mining sectors continued to exert a drag. Services sector growth jumped to a 8-year high of 7.2% YOY in 3Q, picking up from 2Q's 6.5% YOY increase, as tax holidays spurred greater activities in wholesale and retail trade, finance and insurance especially in motor vehicles. Other services subsector namely transport and storage, and information and communication, also saw improvement. Meanwhile, the manufacturing sector expanded at a slightly faster rate of 5.0% YOY in 3Q (2Q: +4.9%) mainly driven by the E&E and consumer-related production clusters while the construction-related materials production saw sustained gains, in line with sustained growth in the construction sector (+4.6% vs +4.7%).

On the contrary, **the mining and agriculture sectors continued to contract for the 2nd straight quarter,** the former due to unplanned supply outages and gas pipeline repairs in East Malaysia while the latter due to low production and softer commodity prices. The mining sector posted a deeper decline of 4.6% YOY in 3Q (2Q: -2.2%) while the agriculture sector saw more modest decline of 1.4% YOY (2Q: -2.5%)

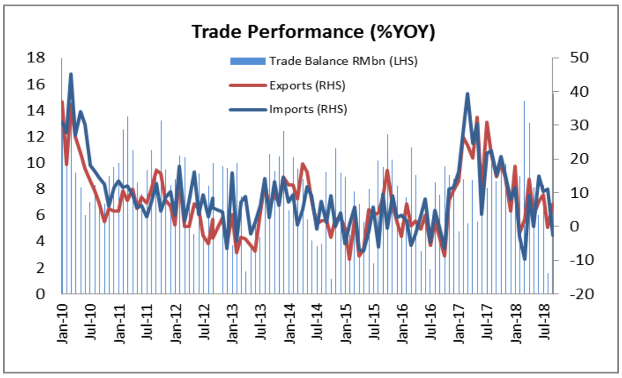


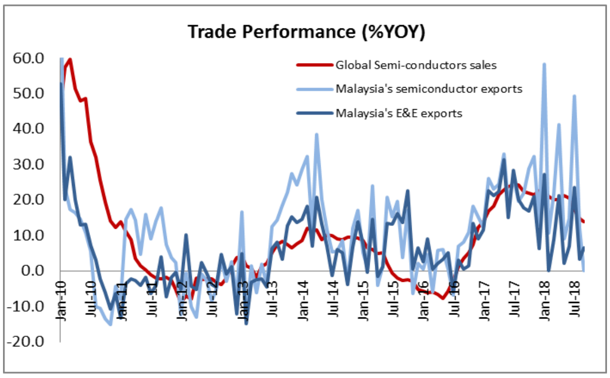
Current account surplus hovered at a 2-year low of RM3.8bn in 3Q

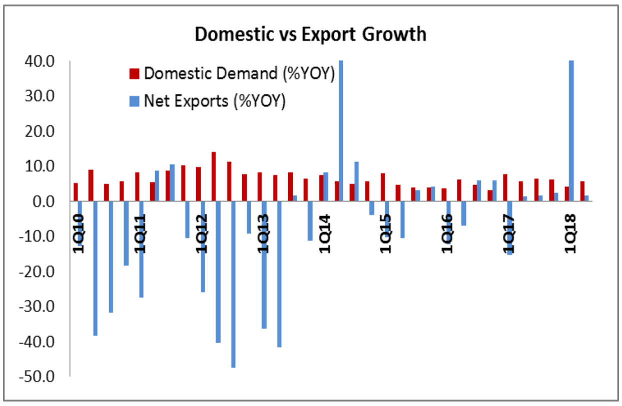
In a separate release, **Malaysia's current account surplus narrowed marginally to RM3.8bn in 3Q, from 2Q's RM3.9bn. Surplus in the goods account remained the biggest support to current account, standing at RM26.6bn in 3Q (2Q: RM26.1bn), with further support from lower deficit in the services account (-RM3.3bn in 3Q vs –RM6.2bn in 2Q)** as a result of larger surplus in the travel account thanks to higher tourist arrivals, and lower construction services deficit following the cancellation and postponement of numerous major projects. Meanwhile, the income account registered wider deficit, primarily as a result of bigger deficit in the primary income account (-RM15.0bn vs –RM11.2bn) as profits earned by foreign investors in Malaysia far outpaced that of domestic investment abroad. Deficit in the secondary income account was little changed at RM4.5bn in 3Q, only marginally lower than the RM4.7bn deficit in 2Q, as a result of continued outward remittances by foreign workers**. On a more positive note and defying concerns of recent outflow from EMs and global volatility, portfolio investment registered a small net inflow of RM0.6bn in 3Q, a sharp reversal from the RM38.3bn net outflow in 2Q.**

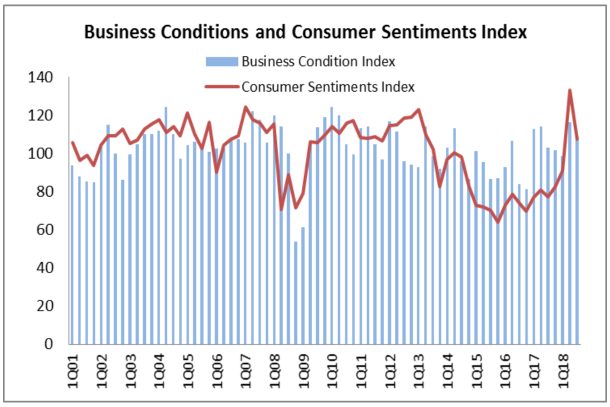
Revising 2018 growth upwards to 4.6%, still below MOF's forecast of 4.8%

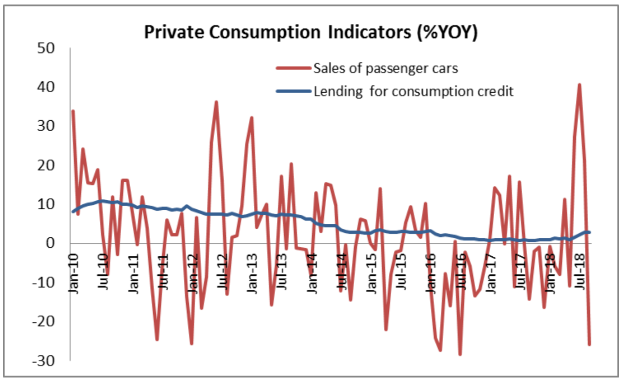
Looking ahead, expansion in the Malaysian economy remains at risk of further moderation, dampened by a softer external environment while the domestic economy has to grapple with policy adjustments that have resulted in short term swings in consumption and investment. **The tax holiday related consumption boost that has brought forward purchases to 3Q would mean 4Q will be payback time which will likely make it the weakest quarter for the year, compounded by noticeable weakening in global demand. We are tweaking our full year growth higher to 4.6% YOY taking into account the stronger than expected 3Q but foresee downside risks to our 4.8% growth forecast for 2019, much would depend on the momentum in private sector activities and the extent of global fallout.**

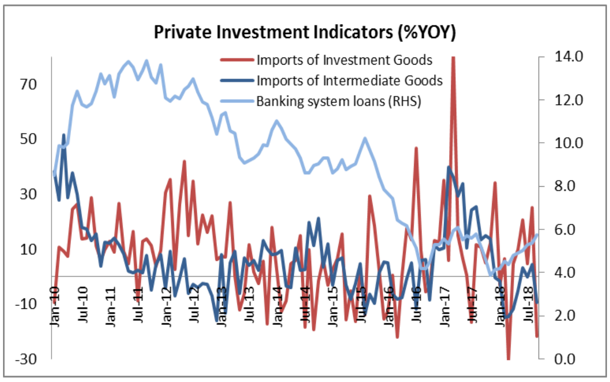

Trade Performance (%YOY)
Trade Balance RMbn (LHS)
Exports (RHS)
Imports (RHS)


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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