

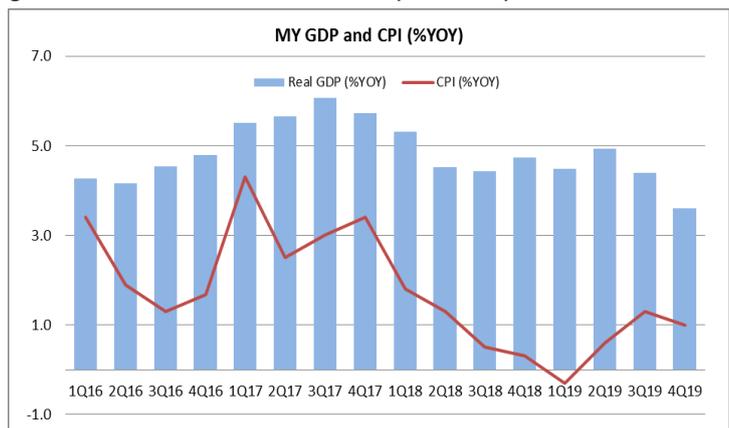
Global Markets Research
Economics - Malaysia

Further deceleration in 4Q19 GDP growth to a decade-low

The Malaysian economy surprised on the downside with a sub-4.0% growth in 4Q (+3.6% vs 3Q's +4.4%), as a decline in net exports offset improvement in domestic demand. For the whole of 2019, growth moderated to 4.3% YOY (2018: +4.7%), its lowest print since the 2008/09 global financial crisis. Moving forward, we see increasing headwinds surrounding the world as well as the Malaysian economy. In addition to existing external challenges on trade protectionism policy, geopolitical risks, heightened financial market volatility, slower growth in China, as well as domestic challenges namely weakness in the commodity sectors and sluggish progress in investment activities, the world and Malaysian would now need to brace for uncertainties surrounding the Coronavirus outbreak. We estimate that the outbreak could potentially shave 0.3-0.5% off GDP growth this year, depending on the extent and duration of the epidemic. Taking into consideration its economic impact on slower China growth (and potentially world growth), disruption to global supply chain and trade and tourism-related activities, we have trimmed our full year 2020 real GDP growth by 0.3ppt from 4.3% to 4.0%. Bearing in mind today's weaker than expected 4Q GDP print suggests growth has already been losing momentum prior to the virus outbreak, we are mindful of downside risks to our growth projection, and foresee room for further policy easing to support overall growth going forward.

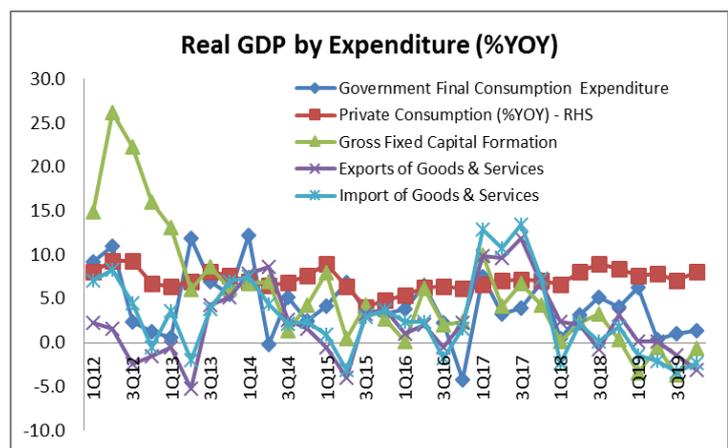
Growth in the Malaysian economy tapered off more than expected to 3.6% YOY in 4Q...as negative net exports offset reacceleration in domestic demand

The Malaysian economy decelerated further, and by a more than expected pace to print only a 3.6% YOY growth in 4Q19 (3Q: +4.4% YOY). This came in below expectations and marked its worst growth since 2009. **For the full year 2019, growth also moderated for the 2nd straight year to 4.3% (2018: +4.7%),** missing our estimate of 4.5%. As expected, **the domestic sector remained the main growth pillar, staging a commendable pick-up to 4.9% YOY in 4Q (3Q: +3.5%),** spearheaded by the private sector. **Surprisingly resilient domestic demand was however offset by the contraction in net exports and inventories,** which shaved 0.7ppt and 0.2ppt off total GDP growth. Net exports fell for the first time in five quarters, by 9.8% YOY in 4Q, a sharp reversal from the 15.9% YOY increase in the preceding quarter, pressured by a sharper fall in exports and smaller decline in imports. **On a seasonally adjusted basis, 4Q GDP growth softened further to 0.6% QOQ (3Q: +0.9%).**



Domestic demand regained momentum as private consumption growth reaccelerated and investment picked up

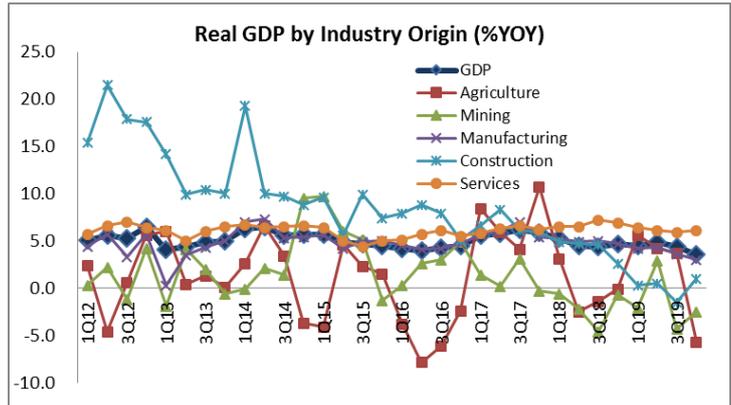
On the demand side, **domestic demand regained traction and grew at a faster pace of 4.9% YOY in 4Q (3Q: +3.5%), thanks to quicker growth in private sector activities, as well as smaller contraction in the government sector.** Expansion in private sector activities jumped by 2.0ppt to 7.4% YOY (3Q: +5.4%), driven by more robust consumption and investment. Private consumption grew at a faster rate of 8.1% YOY (3Q: +7.0%) supported by a stable labour market, cash assistance as well as festive demand. Meanwhile, private investment also gathered some steam to register a 4.2% YOY increase (3Q: +0.3%), driven by investment in the construction-related manufacturing and transport services sectors. The government sector saw a smaller contraction of 2.2% YOY in 4Q (3Q: -4.6%), helped by slightly higher gain in government spending (+1.3% vs +1.0%) and narrower decline in public investment (-7.7% vs -14.1%) arising from smaller decline in capex by public corporation.



Services sector was the savior; construction rebounded; agriculture and mining fell

By economic sectors, services sector that contributed 58% to overall GDP outshined other sectors and was the savior. **Growth in services activities picked up to 6.1% YOY in 4Q (3Q: +5.9%),** driven by consumer-related sectors such as food & beverages, accommodation, and other sectors namely finance & insurance (due to higher fee-based income), and ICT. **Construction sector GDP managed to turn around** from its contraction in the preceding quarter, eking out a 1.0% YOY growth (3Q: -1.5%), thanks to rebound in the residential sub-sector with support from affordable housing segment, as well as higher civil engineering activities related to large transportation projects.

The manufacturing sector recorded a slower growth of 3.0% YOY in 4Q (3Q: +3.6%), very much as expected amid ongoing lackluster world growth and global trade. Growth was impacted by continued weakness in the global semiconductor sector, in addition to disruptions in the commodity sectors that spilled over to commodity-related downstream manufacturing. Both the agriculture and mining sectors experienced contraction in activities – the agriculture fell for the first time in a year by 5.7% YOY (3Q: +3.7%) while the mining sector fell for the 2nd straight quarter (-2.5% vs -4.3%) and indeed in eight out of the preceding nine quarters. The decline in oil palm output due to dry weather and lower yield dampened growth in the agriculture sector while maintenance work at oil fields and closure of gas plant entailed further contraction in the mining sector.

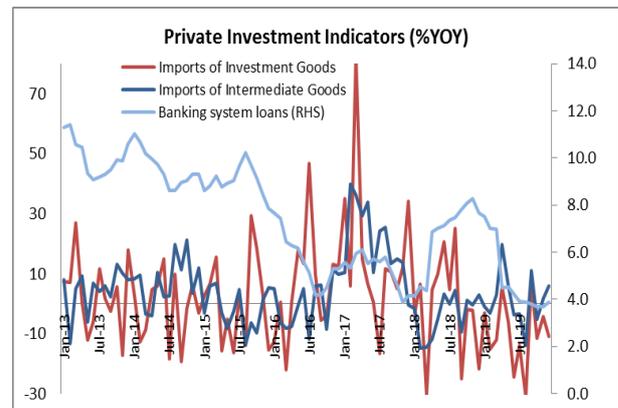
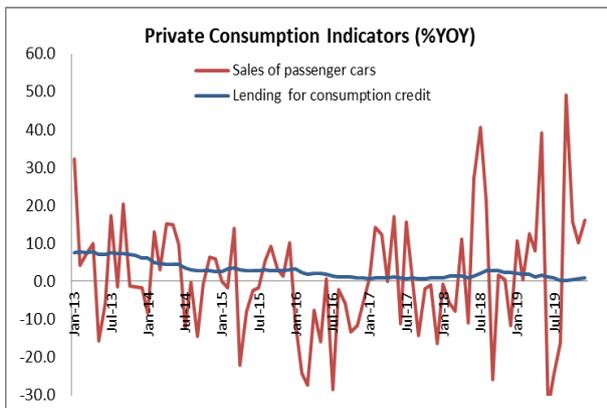
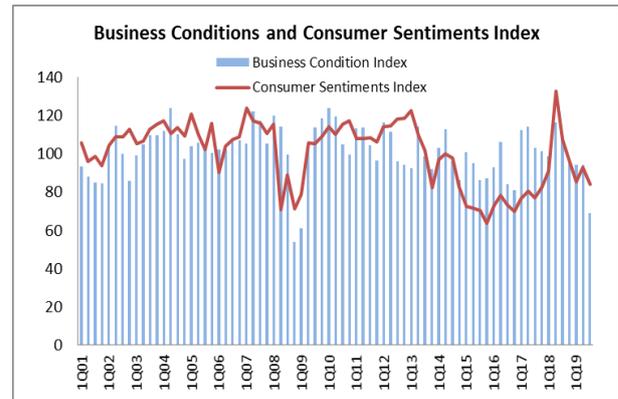
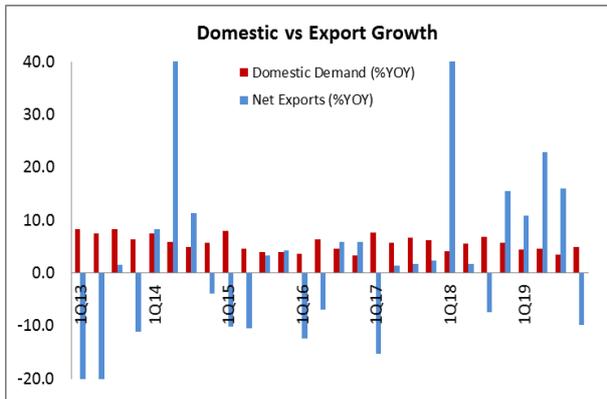
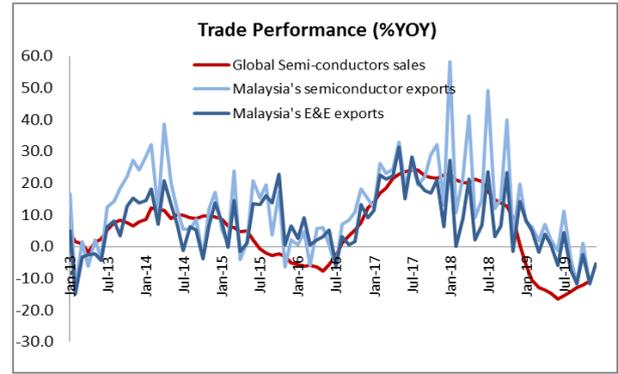
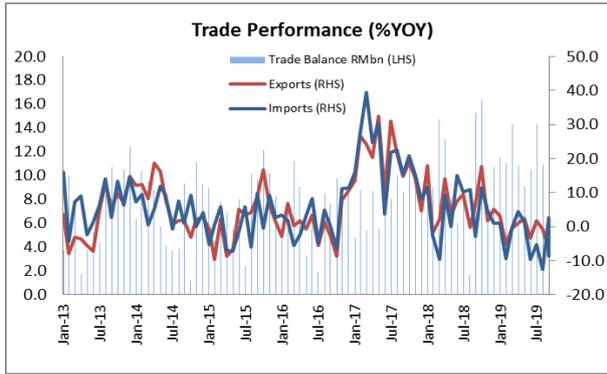


Current account surplus further narrowed further to RM7.6bn or 2.0% of GNI

In a separate release, **Malaysia's current account surplus narrowed for the 3rd consecutive quarter to RM7.6bn or 2.0% of GNI** (3Q: RM11.5bn or 3.1% of GNI), as higher goods surplus was offset by bigger deficits in the income and services accounts. Surplus in the goods account widened to RM32.8bn (3Q: RM30.8bn) as imports fell at a bigger quantum than the decline in exports. Meanwhile, deficit in the services account almost tripled to RM4.0bn (3Q: -RM1.6bn), dragged by lower surplus in the travel account amid lower tourist arrivals. In the income account, primary income account saw a bigger deficit of RM15.7bn in 4Q (3Q: -RM12.2bn) as a result of higher investment income accrued to foreign investors in Malaysia while the secondary income account saw no QOQ change in its deficit at RM5.5bn, as foreign workers continued their outward remittances. On a separate note, **the financial account continued to see net outflow for the 5th consecutive quarter, but narrowing further to RM0.6bn in 4Q (3Q: -RM1.3bn; 2Q: -RM18.6bn)** as a result of smaller net outflows in portfolio investment as foreign investors returned, and a reversal to net inflow in the direct investment account .

Tweaking full year 2020 growth forecast to 4.0%, foresee room for further policy easing this year

Moving forward, we see increasing headwinds surrounding the world as well as the Malaysian economy. In addition to existing external challenges on trade protectionism policy, geopolitical risks, heightened financial market volatility, slower growth in China, as well as domestic challenges namely weakness in the commodity sectors and sluggish progress in investment activities, the world and Malaysian would now need to brace for uncertainties surrounding the Coronavirus outbreak. **We estimate that the outbreak could potentially shave 0.3-0.5% off GDP growth this year, depending on the extent and duration of the epidemic.** Taking into consideration its economic impact on slower China growth (and potentially world growth), disruption to global supply chain and trade and tourism-related activities, **we have trimmed our full year 2020 real GDP growth by 0.3ppt from 4.3% to 4.0%.** Bearing in mind today's weaker than expected 4Q GDP print suggests growth has already been losing momentum prior to the virus outbreak, **we are mindful of downside risks to our growth projection, and foresee room for further policy easing to support overall growth going forward.**



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