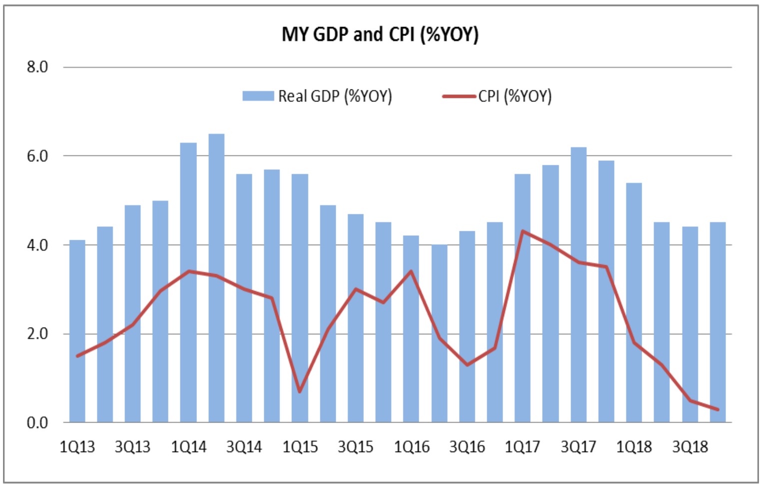
Pleasant surprise in 4Q growth

The Malaysian economy snapped a four straight quarters of moderating growth, picking up to increase 4.7% YOY in 4Q (3Q: +4.4%), thanks to a revival in net exports that offset softer growth in domestic demand. Today's GDP reading came as a pleasant surprise, even as the 4.7% YOY growth for full year 2018 marked a sizeable pullback from the 5.9% expansion last seen in 2017. Going forward, we however remain cautious on the growth outlook of the Malaysian economy in lieu of looming downside risks stemming from trade tensions, tightening financial conditions, political and policy uncertainties across the world. We are maintaining our view for sustained growth of 4.7% YOY in 2019, underpinned by continuous expansion in domestic demand as the external environment takes on a more challenging path.

The Malaysian economy bounced back from a 2-year low to expand 4.7% YOY in 4Q, thanks to a sharp lift from net exports

The Malaysian economy managed to arrest four straight quarters of softening growth, bouncing back more than expected to increase 4.7% YOY in 4Q, up from a two-year low of +4.4% YOY in 3Q, alleviating concern growth could dip to 4.0% for now. The upside surprise in 4Q growth was **lifted by a hefty 9.9% YOY rebound in net exports** during the quarter (3Q: -7.5% YOY) thanks to a revival in exports growth, **that helped offset slower growth in domestic demand (+5.6% vs +6.9% YOY)** as a result of slower expansion in both private and public sector activities post tax-holiday boost and further pullback in investment. **This brings full year real GDP growth to 4.7% YOY as expected, a tad below MOF's forecast of 4.8%** released in conjunction with the tabling of 2019 Budget back in Nov-18. On a seasonally adjusted QOQ basis, real GDP growth moderated somewhat to increase 1.4% in 4Q (3Q: +1.6%).



Sharp rebound in net exports spurred by frontloading shipment ahead of higher US-China trade tariffs

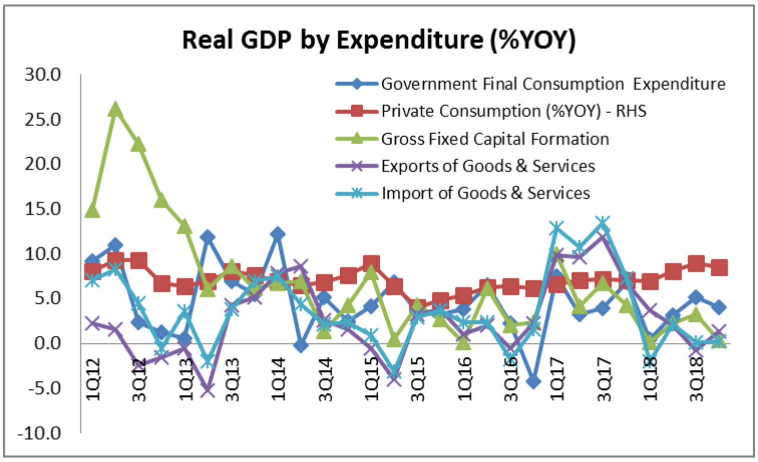
Despite a more challenging external environment, **net exports bounced back strongly to increase 9.9% YOY in 4Q (3Q: -7.5%), due to a rebound in exports (+1.3% vs -0.8% YOY) spurred by front-loading shipment ahead of the kickoff of higher US-China tariffs.** Meanwhile, imports grew a meager 0.2% YOY in 4Q (3Q: +0.1% YOY) as rebound in consumption and intermediate goods imports were cushioned by decline in capital goods imports amid lower investment activities.

Domestic demand moderated considerably as both private and public sectors pressed the brakes

On the domestic front, the private sector remained firmly in the driver seat despite expanding at a slower pace of 7.7% YOY in 4Q (3Q: +8.5%), as a result of slower increases in both consumer spending and investment. Private consumption grew at a slower but nonetheless still robust pace of 8.5% YOY in 4Q (3Q: +9.0%) supported by continuous income and job growth with additional boost from government assistance to the targeted group, the groups with the highest propensity to consume. Private investment meanwhile pulled back to grow 4.4% YOY in 4Q (3Q: +6.9%), dampened by slower capital spending amid increased uncertainties and softer business sentiments.

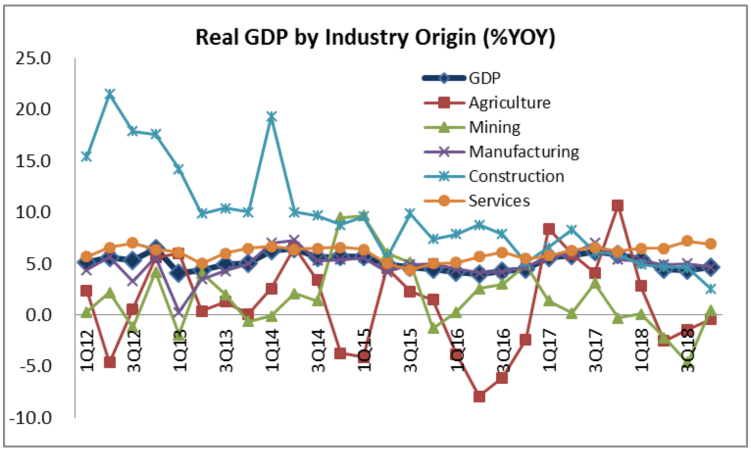
Public sector barely grew on the back of slower spending and decline in investment

The public sector saw weaker growth of 0.4% YOY in 4Q (3Q: +1.1%), due to slower increase in government spending and continued contraction in public sector investment. Government spending expanded at a slower pace of 4.0% YOY (3Q: +5.2%) amid more moderate growth in supplies and services on the back of ongoing government reform efforts. Public investment contracted for the 5th straight quarter, albeit at a slower rate of 4.9% YOY (3Q: -5.5%), but there are no concrete signs this is going to recover anytime soon as the government continues to embark on its cost and fiscal rationalization programme.



Agriculture and mining improved but services, manufacturing and construction softened

On the supply side, improvement in the commodity-based sectors helped shore up overall growth in 4Q as growth in non-commodity related sectors registered easier growth. Value-added in the agriculture sector contracted at a smaller rate of 0.4% YOY in 4Q (3Q: -1.4%) while higher oil and natural gas production helped revive growth in the mining sector (+0.5% vs -4.6% YOY). The services and manufacturing sectors, the two biggest contributors to GDP, expanded at slower rates of 6.9% and 4.7% YOY respectively (3Q: +7.2% and 5.0%). ICT, transport & storage, and finance & insurance underpinned growth in services while growth in the manufacturing sector was supported by the E&E and transport-related production. Growth in the construction sector tapered off more than expected to a mere 2.6% YOY in 4Q (3Q: +4.6%), its slowest since 2Q11, dampened by moderation in civil engineering and special trade construction while residential construction remained weak amid oversupply in the market.

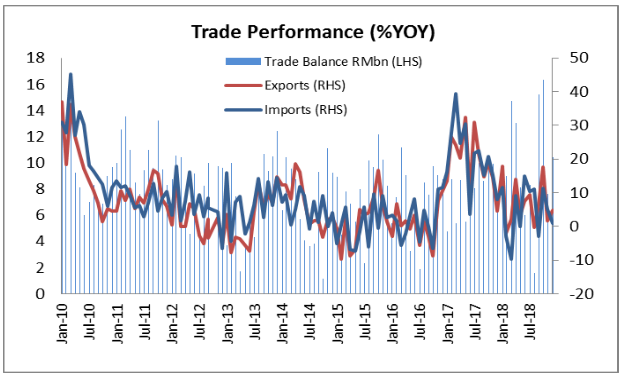


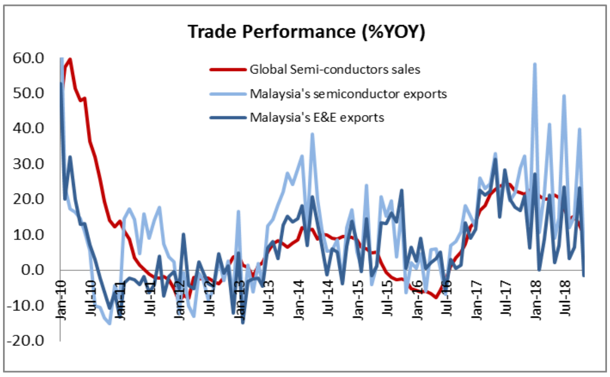
Current account surplus hovered at a 2-year low of RM3.8bn in 3Q

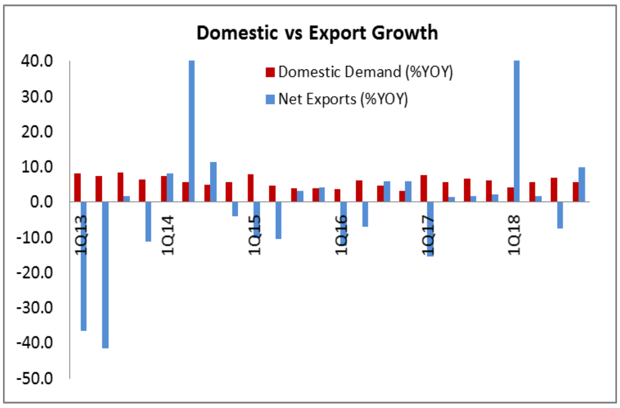
In a separate release, **Malaysia's current account surplus widened significantly to RM10.8bn in 4Q, from 3Q's RM3.8bn, its highest in three quarters.** Surplus in the goods account remained the biggest support to current account, standing at RM33.0bn in 4Q (3Q: RM26.6bn), thanks to higher manufacturing exports. Income account also registered a smaller deficit of RM17.9bn (3Q: -RM19.5bn), which together with the higher surplus in goods account, more than offset the bigger deficit in the services account iRM4.3bn in 4Q vs –RM3.3bn in 3Q) as a result of higher net payments for intellectual properties, foreign engineering and architectural services. Tracking recent trend in shift in portfolio flows, the financial account registered a net outflow of RM6.1bn in 4Q, reversing from the net inflow of RM2.3bn seen in 3Q.

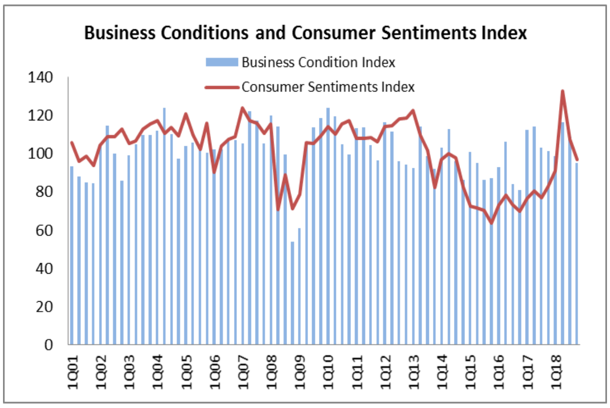
Maintaining our view for a sustained 4.7% YOY growth in 2019

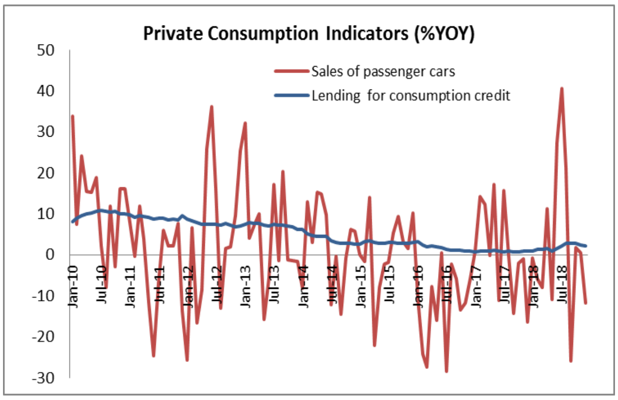
Today's GDP reading came as a pleasant surprise, even as the 4.7% YOY growth for full year 2018 marked a sizeable pullback from the 5.9% expansion last seen in 2017. **Going forward, we remain cautious on the growth outlook of the Malaysian economy in lieu of looming downside risks** stemming from trade tensions, tightening financial conditions, political and policy uncertainties across the world. **We are maintaining our view for sustained growth of 4.7% YOY in 2019,** underpinned by continuous expansion in domestic demand as the external environment takes on a more challenging path.

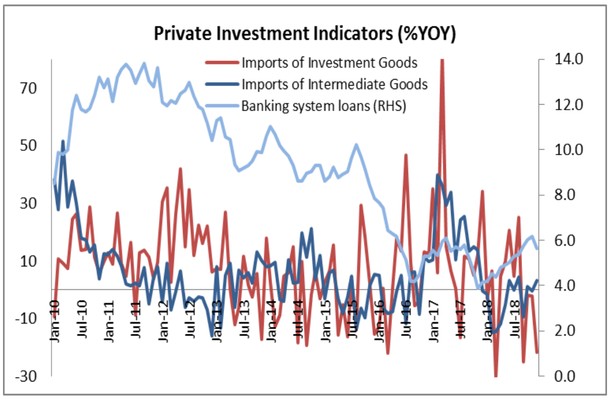

Trade Performance (%YOY)
Trade Balance RMbn (LHS)
Exports (RHS)
Imports (RHS)


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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