

Malaysia's Q3 GDP growth slips to 4.4 percent for fourth straight quarter

Nonetheless, having said the above, according to BNM governor, Nur Shamsiah Mohd Yunus, growth has bottomed and on upside going forward.



She forecast the economy to expand 4.9 percent next year, following 4.8 percent for full-year 2018.

The central bank said growth in the third quarter was supported by a nine percent increase in household spending and 6.9 percent gain in private spending. The sharp increase was largely due the three-month tax holiday marked by the abolishment of GST in June 2018.

Nonetheless, the growth above was

Malaysia's economy grew at its slowest pace in two years in the third quarter of 2018 as the country grappled with weak external demand and what the central bank called "supply shocks" for liquefied natural gas and palm oil.

dragged by falling exports and weak government spending.

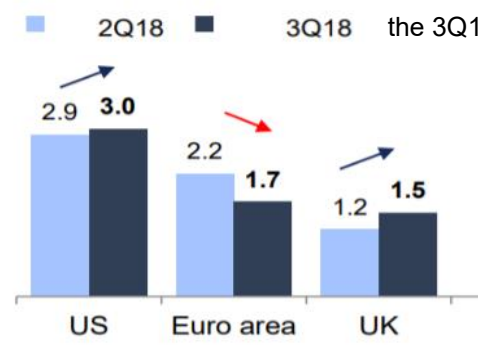
The fourth straight quarter of slowing growth presents a challenge for the administration of Prime Minister, Tun Dr. Mahathir Mohamad, who in May ended six-decade-long single party rule in Southeast Asia's third-largest economy.

Bank Negara Malaysia (BNM), the central bank, forecast a slight recovery in economic growth for next year, but some private economists said a rebound was unlikely, citing a combination of slowing external growth and domestic demand.

Annual growth in July - September was 4.4 percent, BNM said. That was below the forecast of 4.6 percent in a Reuters poll and April - June's pace of 4.5 percent.

According to BNM, global trade tensions could drag the country's growth down by 0.3 - 0.5 percent next year if it gets worse.

Advanced Economies
GDP, Annual change (%)



Meanwhile, trade tensions between US and China peaked in the 3Q18, which may have partly influenced a decline in exports (-0.8% YoY). Along with an increase in imports albeit

slowing (0.1%), net exports saw a sharp decline of 7.5%, shaving off 0.7 ppt of the overall GDP growth. .

Regional Economies
GDP, Annual change (%)

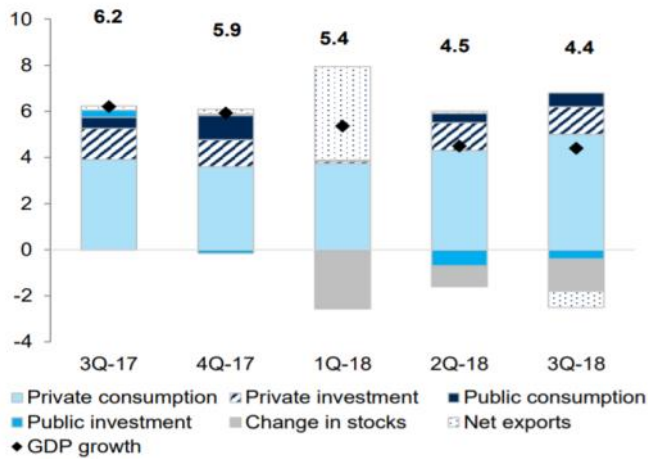


Malaysia's Q3 GDP growth slips to 4.4 percent for fourth straight quarter (cont.)



Economic Growth on Demand Side: Anchored with Higher Private Sector Spending

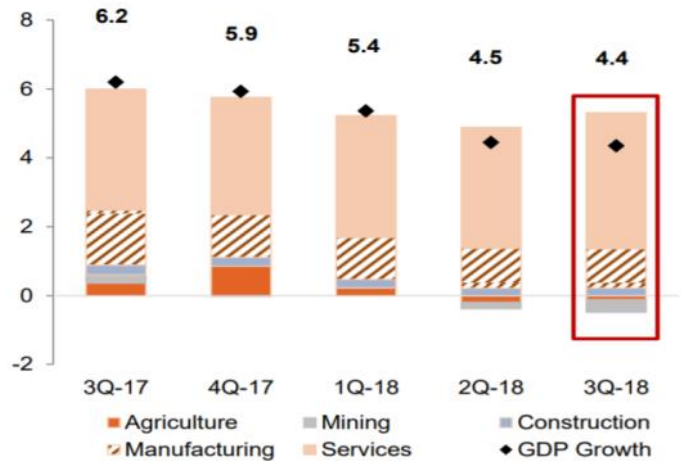
Annual change, % / Ppt contribution to GDP



On top of that, growth slack in the supply side due to commodity-specific shock may soon run its course. Output constraints and adverse weather conditions in the oil palm sub sector and weak rubber output performance continue to cause the agriculture sector to fall by 1.4 per cent YoY (2Q18: -2.5 per cent). We reckon the worse is probably over for the agriculture sector once the monsoon season is over by year end or early next year. However, the same can't be said about the mining sector whereby high crude prices are not sustainable as supply remains relatively abundant and global demand is expected to wane in tandem with slower global growth. As in the preceding quarter, declining natural gas output following unplanned supply outages and pipeline repairs in Sarawak LNG facilities led the mining sector to fall by 4.6 per cent (2Q18: -2.2 per cent). Also import duties fell sharply by 33.3 per cent, dragging the GDP growth down by 0.5 ppt.

Economic Growth on Supply Side: Services and Manufacturing Sectors Remained the Key Driver of Growth

Annual change, % / Ppt contribution to GDP¹



The services and manufacturing sectors mitigate commodity-led supply shock. With a combined 77 per cent share of total real GDP growth, the three sectors, led by the services sector continue to mitigate the slack in the GDP growth brought about by declines in mining and agriculture. The services sector expanded to a seven-year high of 7.2 per cent in 3Q18, mainly attributable to expansion in the retail and wholesale trade, as well as the communication subsector. Meanwhile, the manufacturing sector's growth edged up to 5.0 per cent in 3Q18, on continued support from the electrical and electronics sector as well as from increased petroleum and chemical production. Despite the new government's policy to review and defer some of the major infrastructure projects the construction sector's growth remained stable at 4.6 per cent (2Q18: 4.7 per cent), contributing a steady 0.2 ppt to the overall GDP growth for the third consecutive quarter, underpinned by steady progress in existing transportation, petrochemical and power plant projects. However, residential sub-sector remained weak amidst the high number of unsold residential properties.



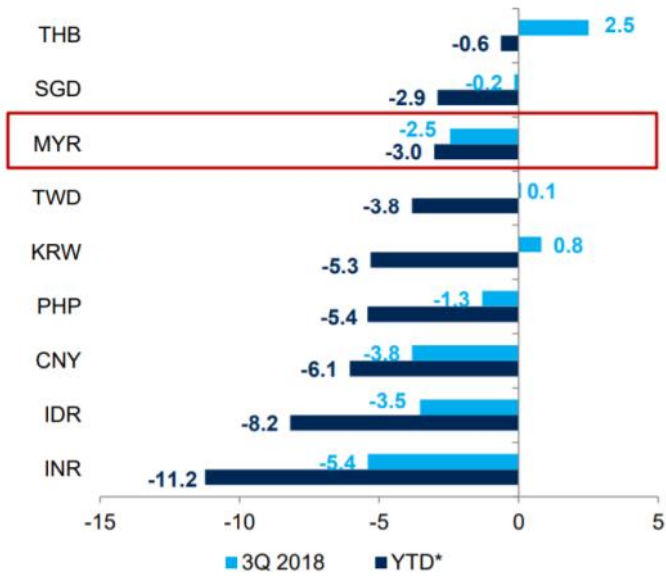
BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA



JABATAN PERANGKAAN MALAYSIA
DEPARTMENT OF STATISTICS MALAYSIA

Malaysia's Q3 GDP growth slips to 4.4 percent for fourth straight quarter (cont.)

Performance of Selected Regional Currencies Against USD



*as at 15 November 2018

Source: Department of Statistics Malaysia and Bank Negara Malaysia

In line with most regional currencies, the ringgit depreciated against the US dollar in the third quarter of 2018 as external uncertainties continue to drive non-resident portfolio outflows amid a strengthening US dollar. The continued strength in the US dollar was supported by positive US economic data and outlook.

Investor sentiments were also negatively affected by rising trade tensions and concerns over contagion risk from vulnerable emerging market economies.

Going forward, the ringgit will continue to be influenced by external uncertainties as well as the trajectory of the US dollar.

Bizwatch

Global external headwinds such as the trade war between the US and China, faster than expected increase in the US benchmark rates which caused outflow of money from emerging markets such as Argentina, where its currency plunged more than 50% as well as the renewed uncertainties about Brexit have taken its toll to the global growth so far.

The International Monetary Fund (IMF) had recently lowered down its global growth forecast from 3.9 per cent to 3.7 per cent in 2018, taking into considerations

BizWatch

BizWatch (cont.)

the said headwinds.

Malaysia is also taking cues from the above development where economic growth for Malaysia has been trimmed down to 4.8 percent in 2018 as compared with the previous forecast of between 5.5 percent to 6.0 percent.

On the local front, on top of what happened globally, the slowdown in the public spending since the new government taking over had resulted uncertainties in the market thus affecting economic growth.

Going forward, BizWatch is of the opinion that the global economic growth will remain soft next year over continuous trade war between US and China and also the progress of Brexit.

Nonetheless, for Malaysia, BizWatch is of the view that the Malaysian economy to be well supported by its private sector segment comprise of private spending and investment.

For 2019, global growth is expected to stagnant around 3.7 per cent, while Malaysian economy is expected to register growth of 4.9 per cent.

The development within Iskandar Malaysia is expected to contribute positively to the national and Johor growth moving forward. Bear in mind that Iskandar Malaysia is contributing close to 70 per cent to the Johor economy. Johor in return contributing to almost 10 per cent to the Malaysian economy.

Iskandar Malaysia in 2017 had registered growth of 6.5 per cent which is higher than Johor and Malaysia economic growth of 6.3 per cent and 5.9 per cent respectively.

Hence, BizWatch is confident that Iskandar Malaysia will be the main contributor to Johor and Malaysia economic



growth in 2018 boosted by the developments that are taking place within

the region such as Toppen Shopping Mall, Johor Golf Country Club major facelift, Sungai Pulai Bridge, Shattuck St.Mary Forest City and Pinetree Marina Resort.

New bridge between Johor Bahru and Pontian to cut travel time and enhance Iskandar Malaysia connectivity

Pontian's connectivity is set to be further enhanced with a new RM568 million bridge that is expected to be ready within the next two years.

Hasni said Pontian was well known for its tourism and this would be further improved with better infrastructure and connectivity.



We will continue to get spillovers from Iskandar Malaysia which is just next to us," he added.

On talks about having an airport and seaport in the area, Hasni said those were part of long-term plans.

He added that some RM6mil had been set aside for the upgrading works of the Mersing airport, including building a proper tarmac and other

Johor Public Works, Rural and Regional Development committee chairman, Datuk Hasni Mohammad said the 3km bridge linking Port of Tanjung Pelepas (PTP) to Kampung Sungai Boh across Sungai Pulai is scheduled to be completed by October 2020.

The bridge will reduce travel time from PTP to Kukup to only 15 minutes, compared to the almost one-hour long journey currently.

From Kota Iskandar, it will take only 30 minutes instead of 50 minutes," he said, adding that there would be long-term economic benefits with the completion of the project.

Hasni said the bridge, which would not have any tolls, was a privatised project.

The contractor will ensure that besides building the 3km bridge, they will build some 4km of road connecting existing roads to the bridge," he said, adding that on-site works had started.

The Benut assemblyman and Pontian MP added that three other bridges in Pontian were also being widened.

"The bridges are located in Pontian Besar, Pontian Kecil and Parit Semerah," he said, adding that roads leading to and from Pontian were also being upgraded.

families.

"The airport now is in Sekakap and aircraft land on the grassy landing strip," he said.



Mersing Airport

Editorial

Economics & Investment
Iskandar Regional Development Authority

Low Mei Leong
Arif Kasmuri

meileong@irda.com.my
arif.kasmuri@irda.com.my

Articles are adapted from public documents. Comments are personal views of authors and professional advice should be sought when making business decisions. IRDA will not be liable for the accuracy and/or validity of the above statements.