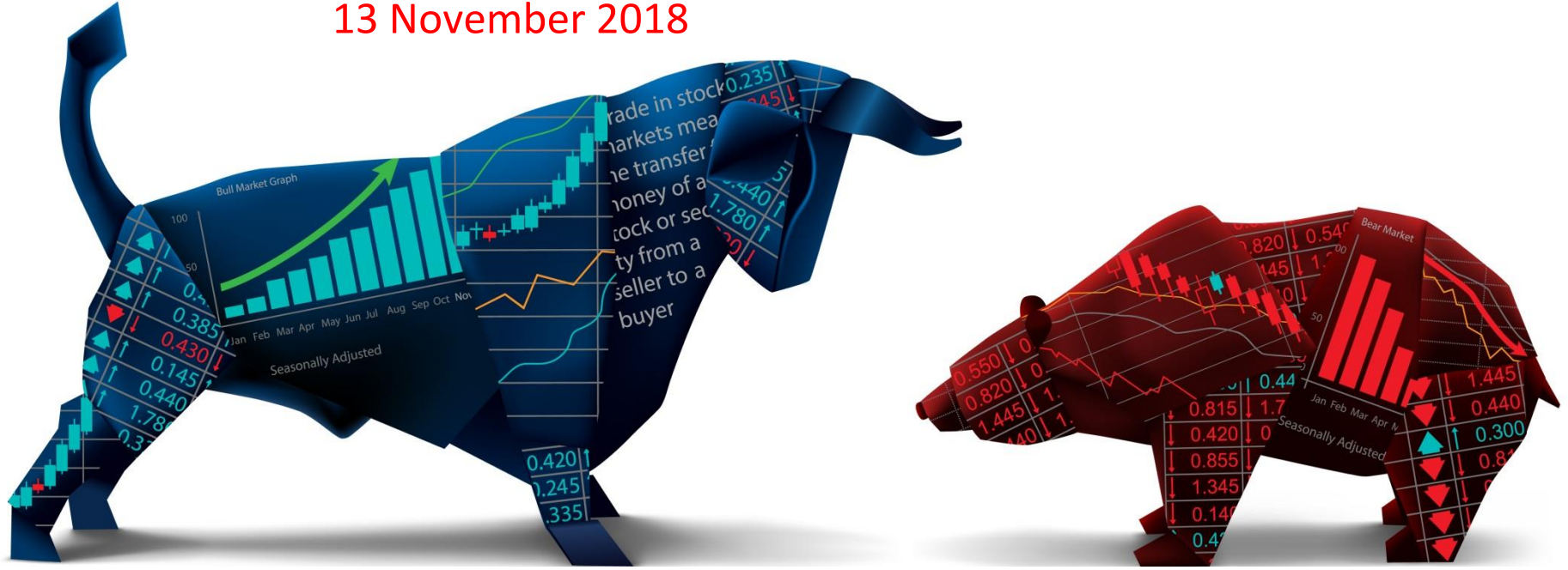


# 2019 Economic Outlook

*MIDF Research*

**Manufacturing and Services Sector (Trends & Opportunity)**

13 November 2018



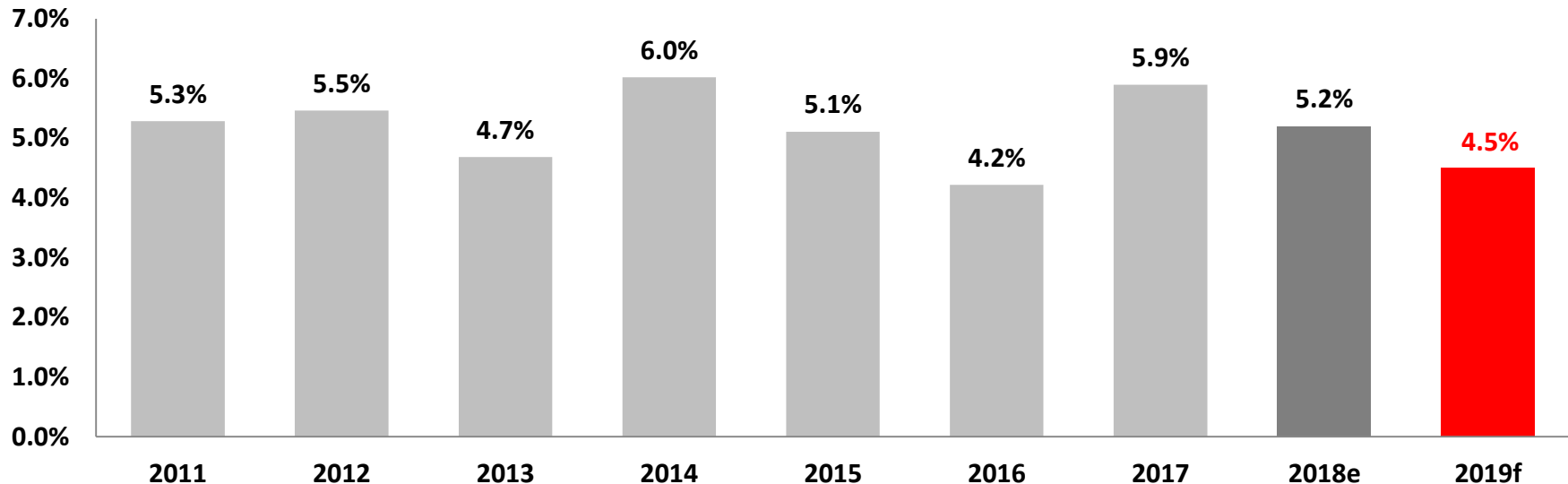
# Presentation Flows

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# Cautious Global & Domestic Economics Outlook

*Moderating growth in 2019*



## Growth factors of Malaysia's economy

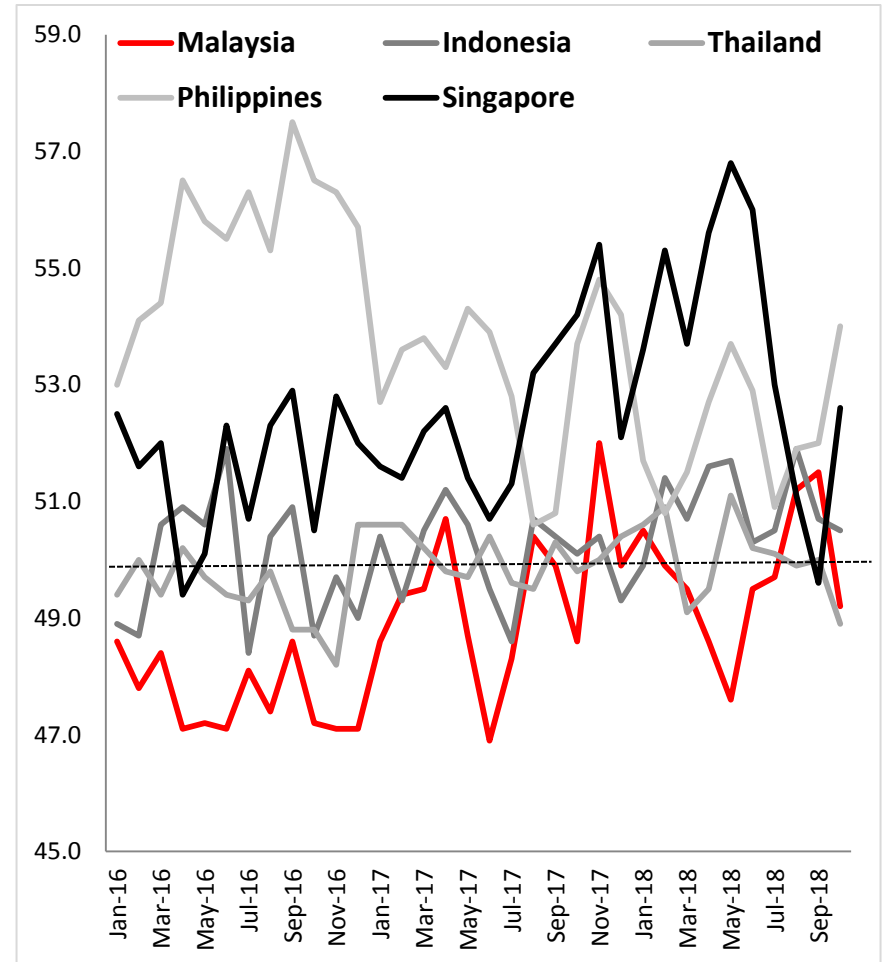
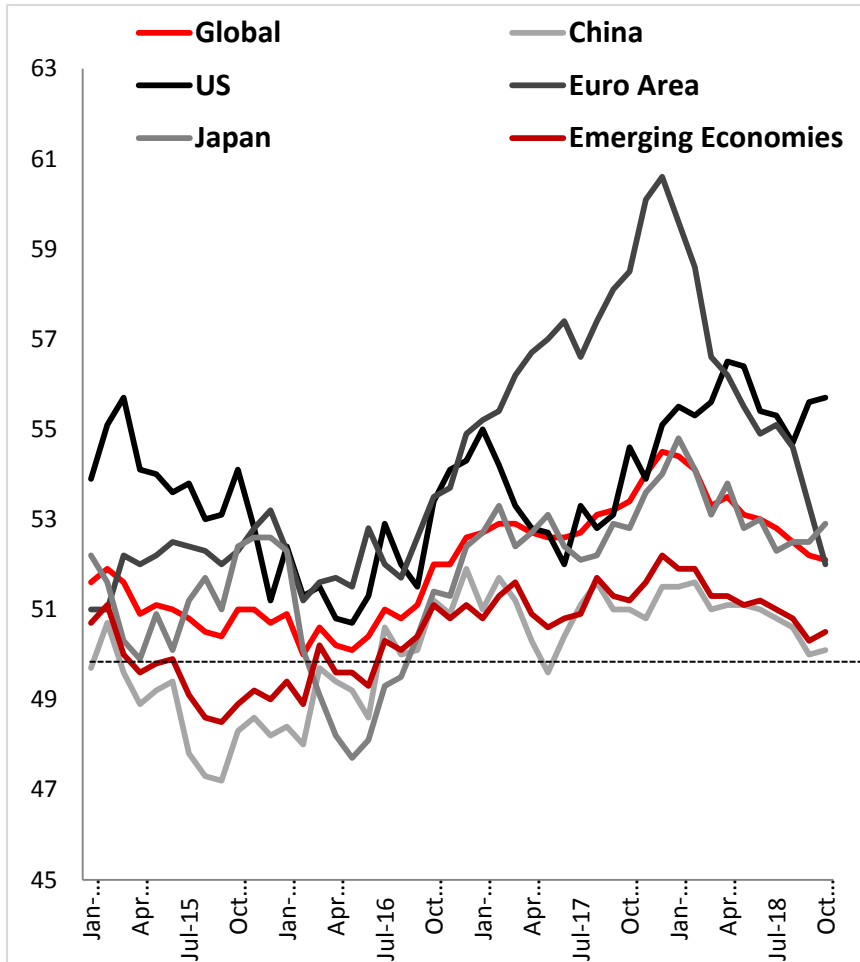
- Sustained global growth and trade
- Recovery of commodity based sectors
- Favorable labor market conditions
- Upbeat business sentiment
- Strong consumer sentiment

## Downside risks on Malaysia's economy:

- Worsening trade tension
- Financial market volatility
- Declining commodity prices
- Geopolitical and policy uncertainty
- Major slowdown in major markets namely China, US & EU
- Drastic fiscal consolidation exercise

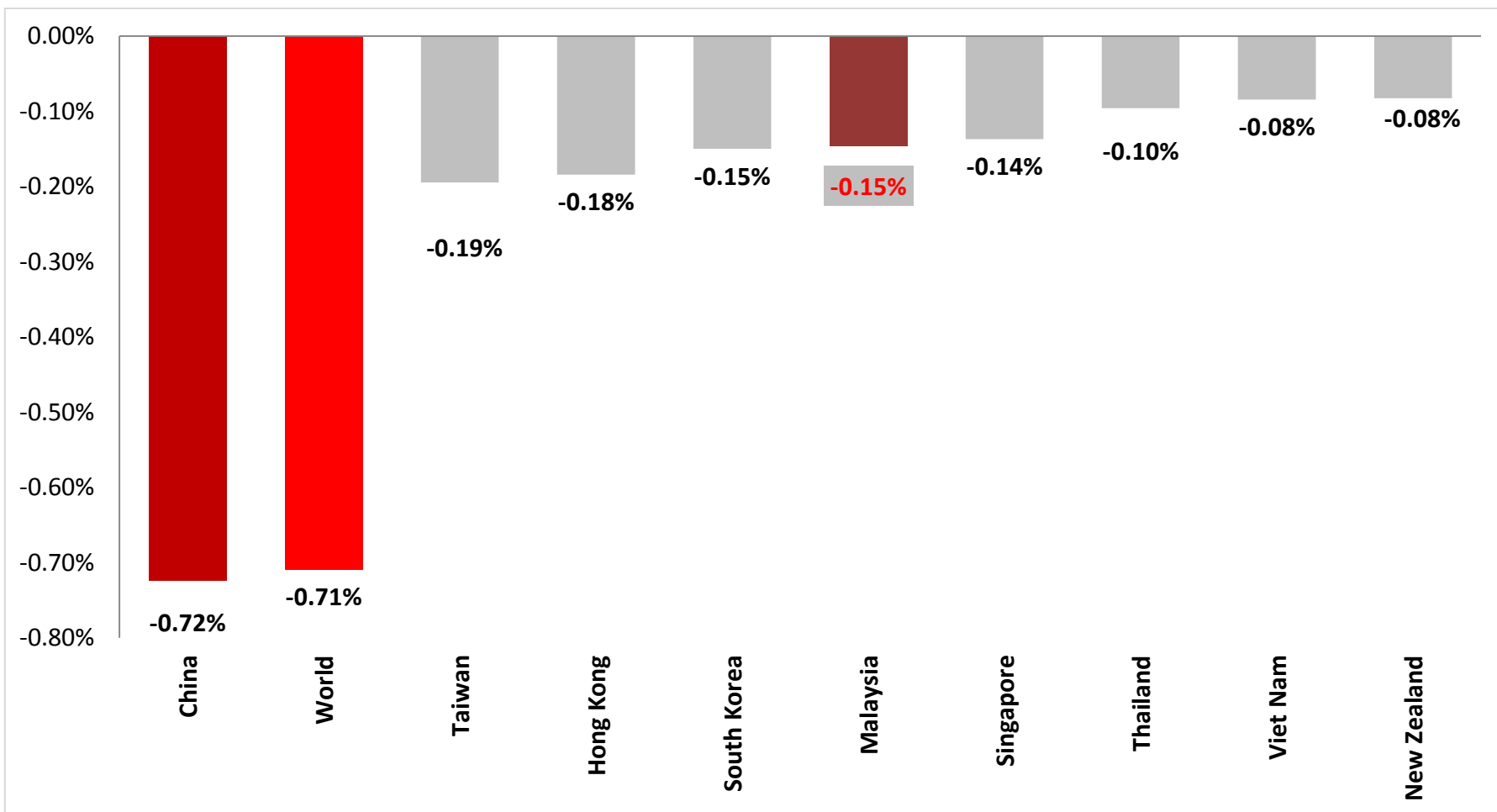
# Leading Indicators - Global

## Overall Manufacturing PMI Pointing Downwards



# Impact Analysis on Trade War

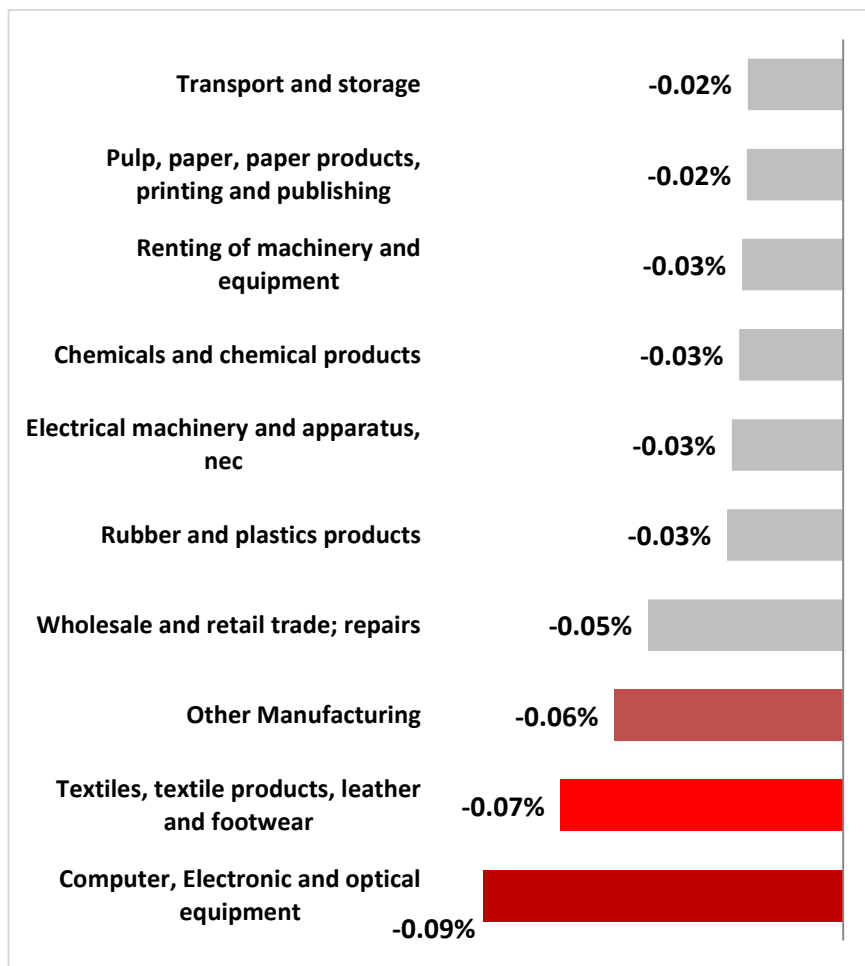
*Scenario 1: Global impacts of 1% drop of USA demand on China's goods & services*



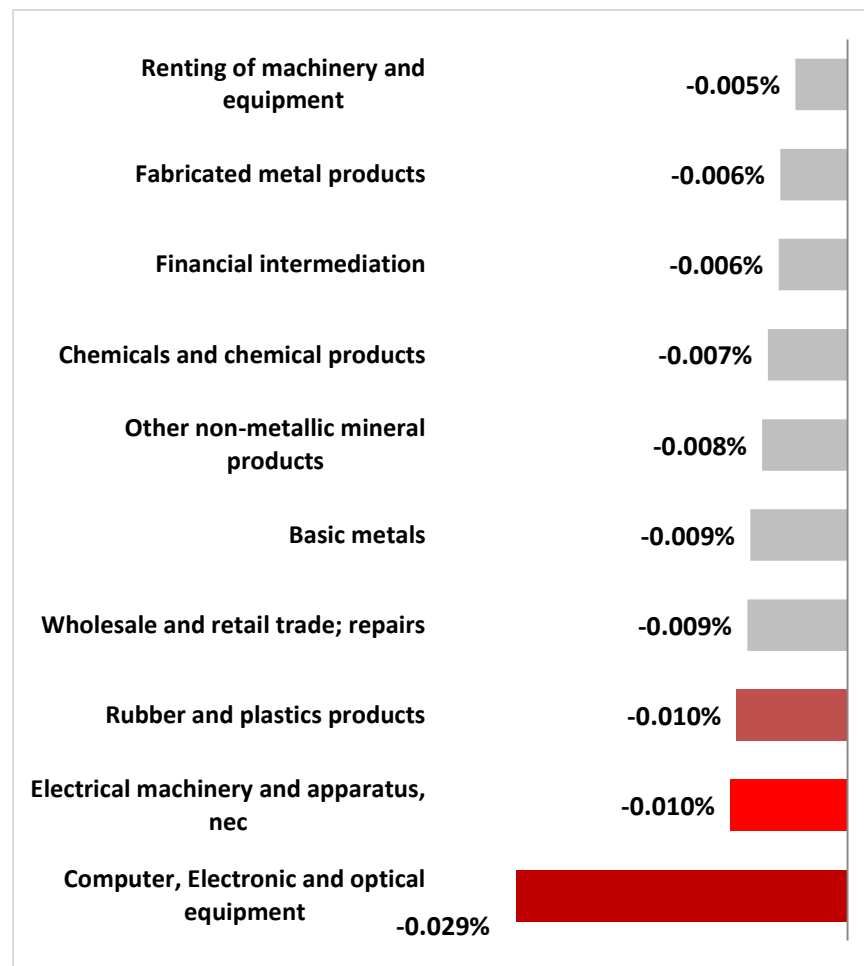
# Impact Analysis on Trade War: Sectoral Breakdown

Scenario 2: Global impacts of 1% drop of USA demand on China's goods & services

## China

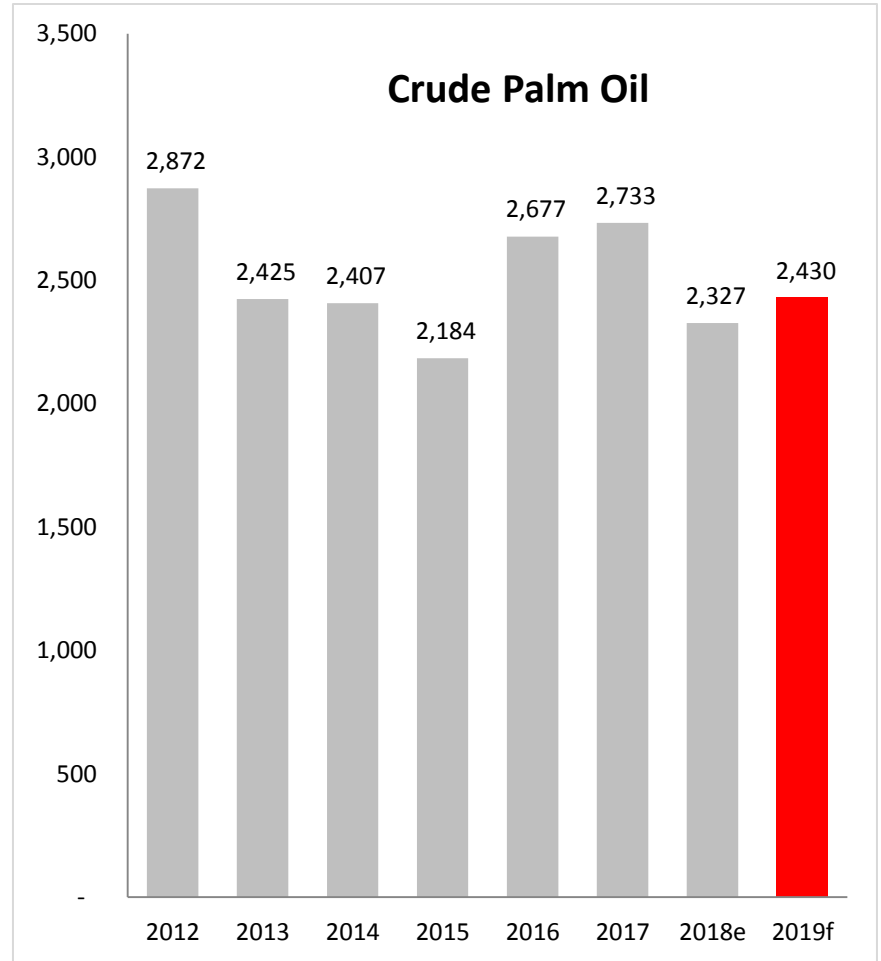
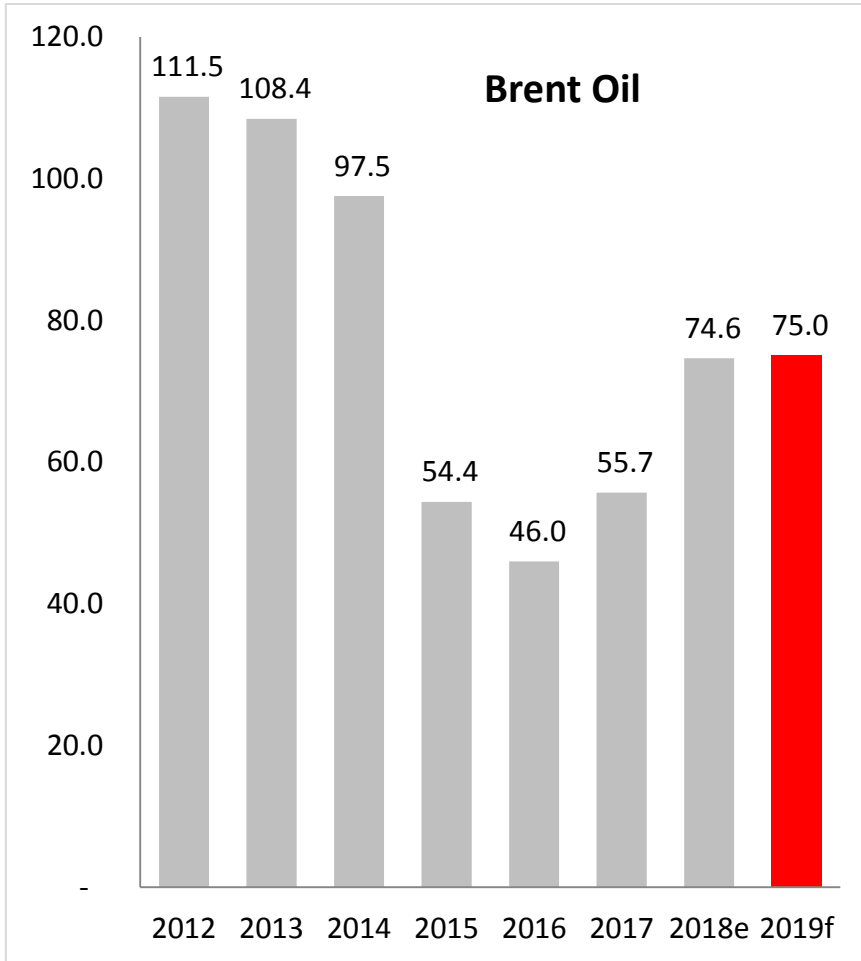


## Malaysia



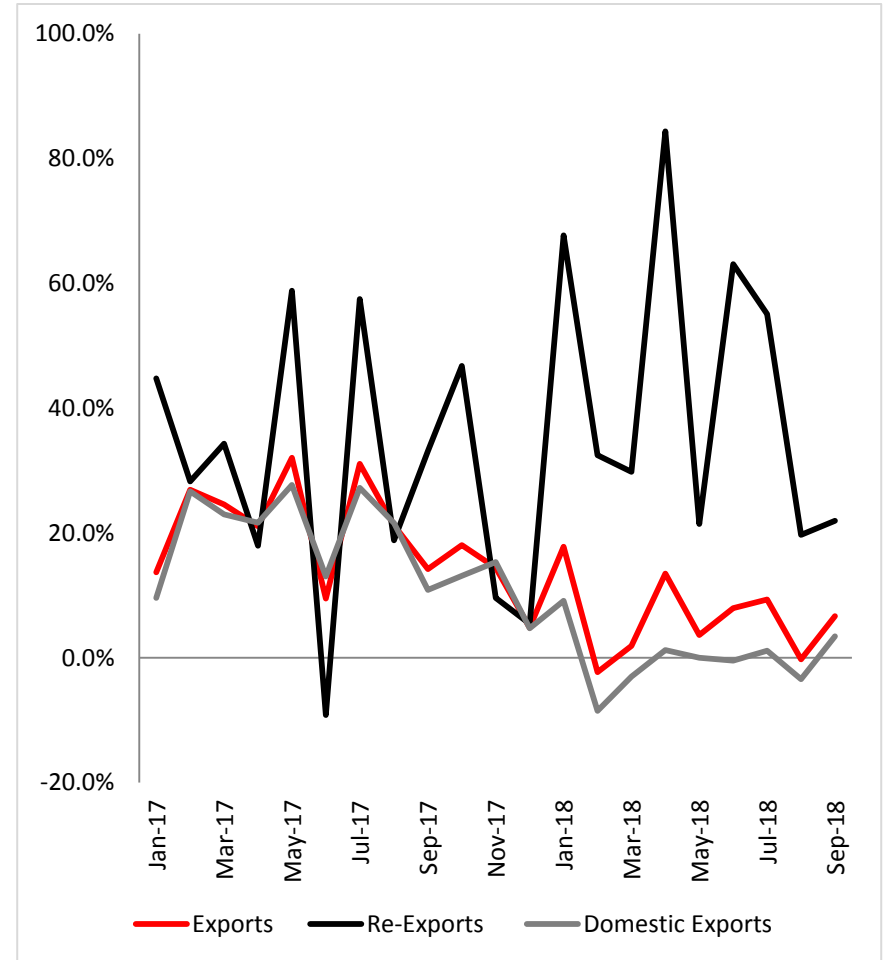
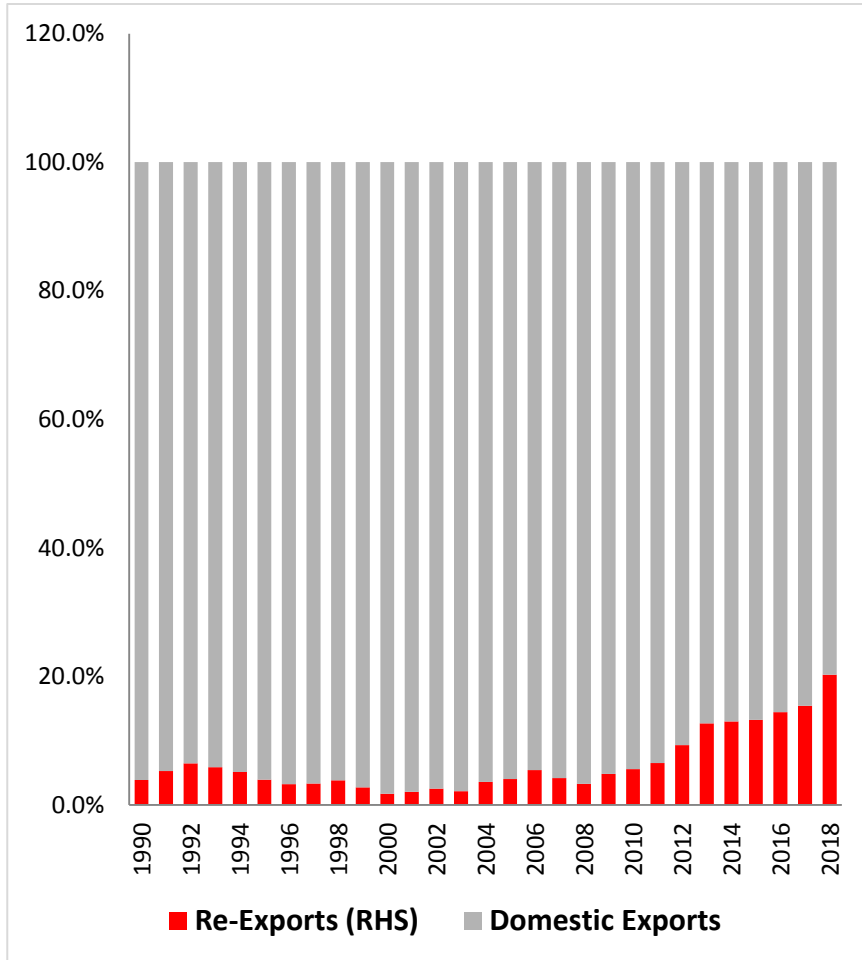
# Global Commodity Prices

*Ave. Brent Oil at \$75pbd & CPO at RM2,430 in 2019*



# ..... Exports Growth to Remain Steady

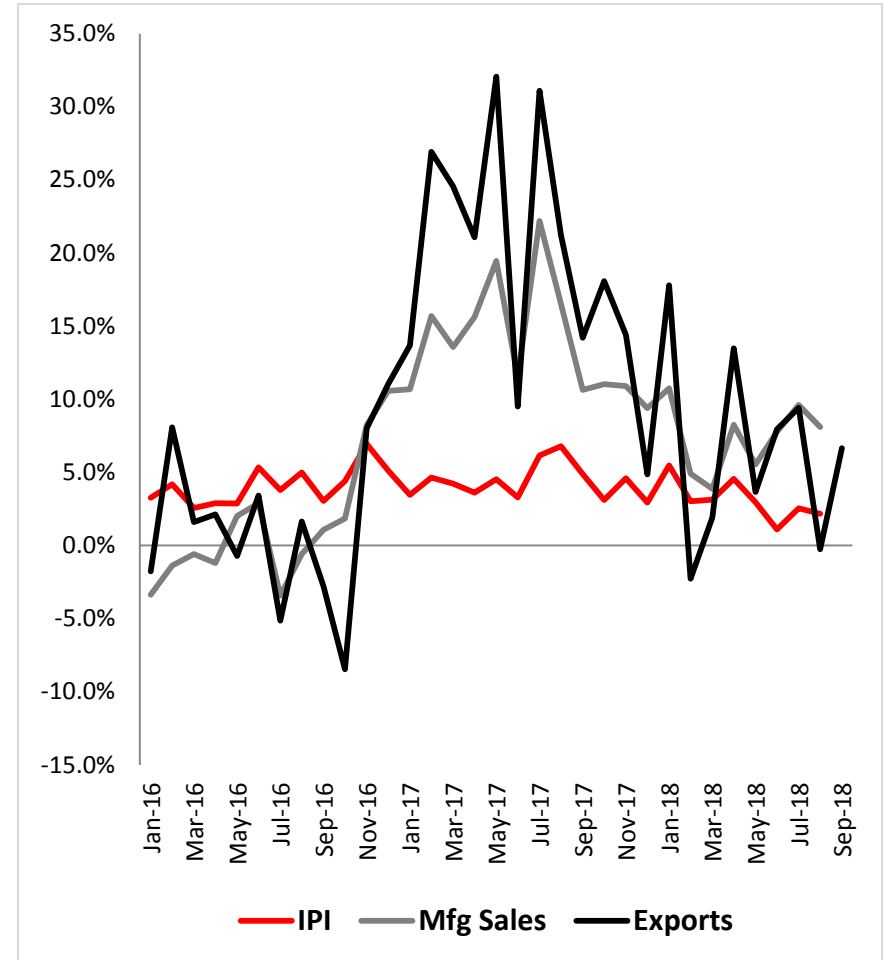
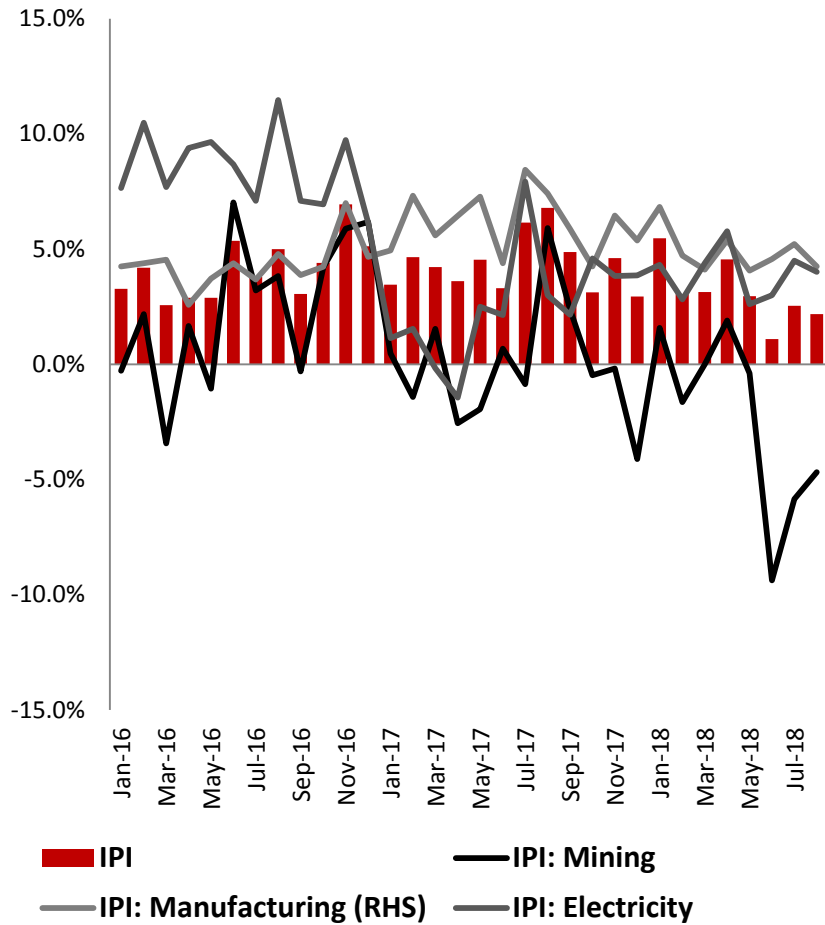
*Mainly Driven by Re-Exports, Healthy Demand & Recovery Commodity Prices*





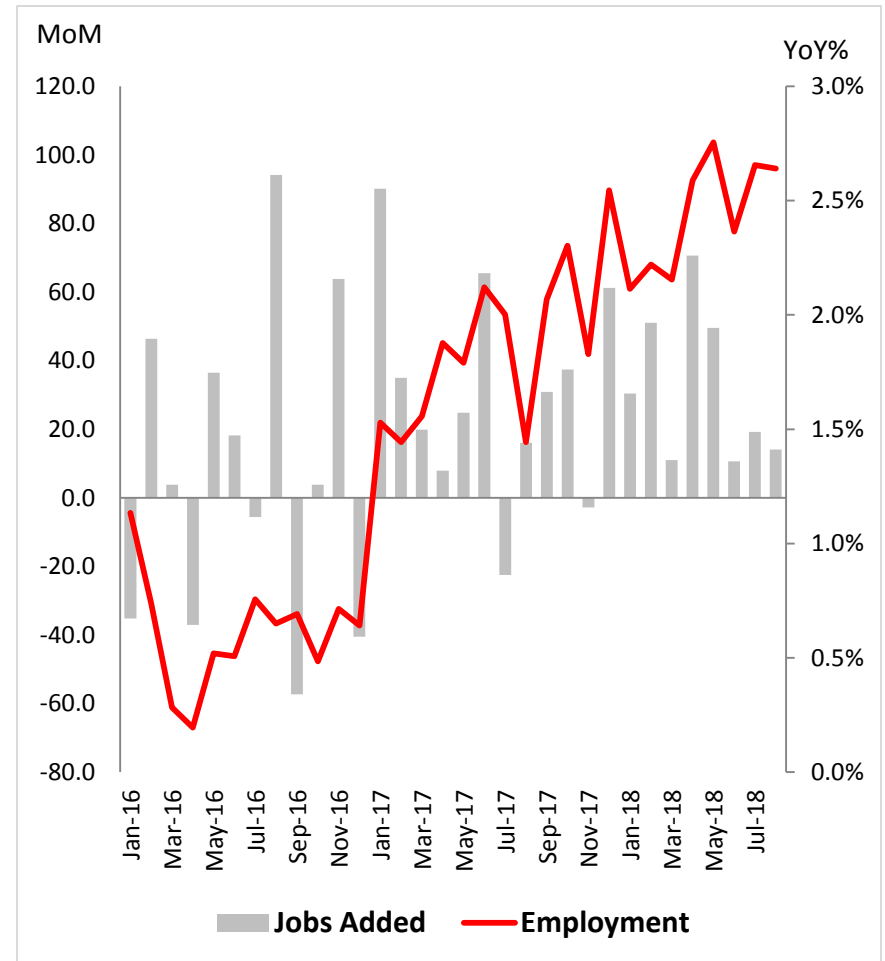
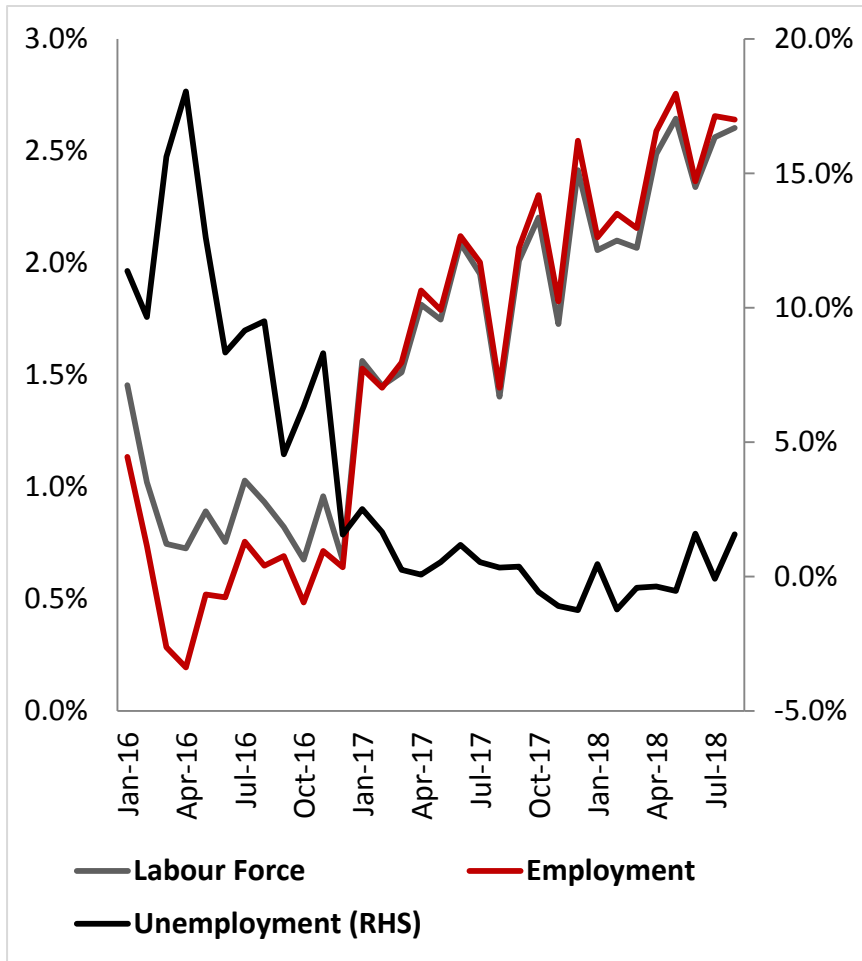
# Moderating Industrial Production Performance

## Re-Exports Drive-Up Manufacturing Sales



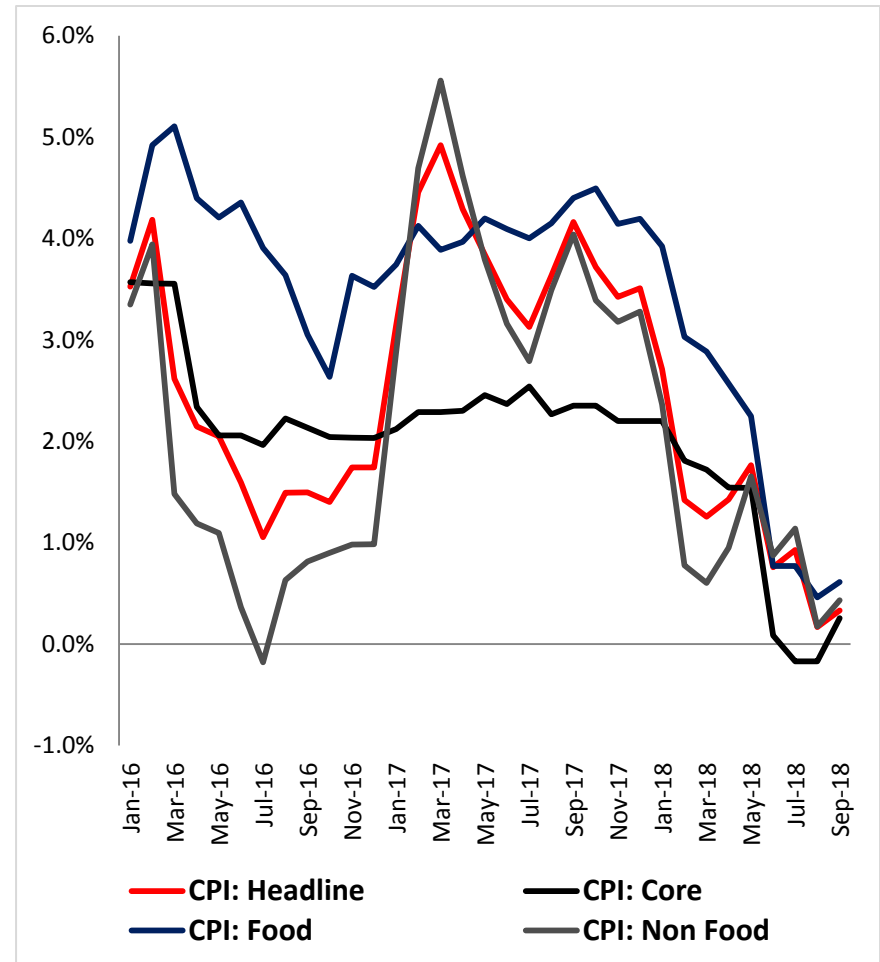
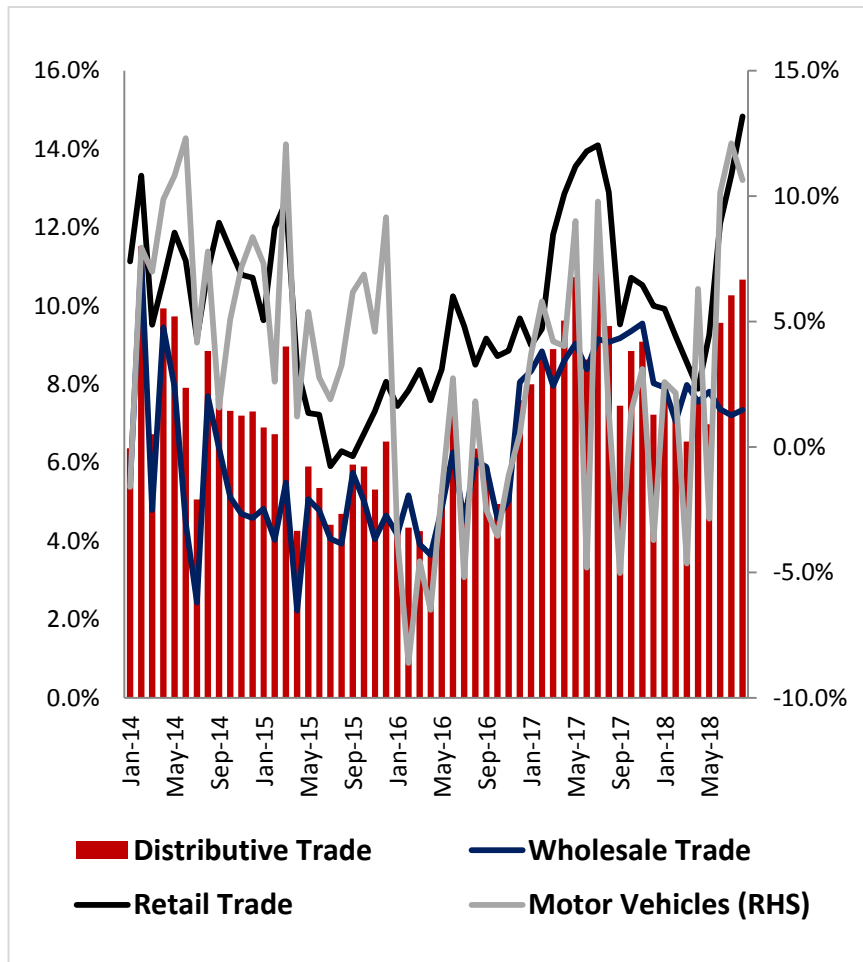
# Strengthening Labour Market

*Among Malaysia's Strong Economic Fundamentals*



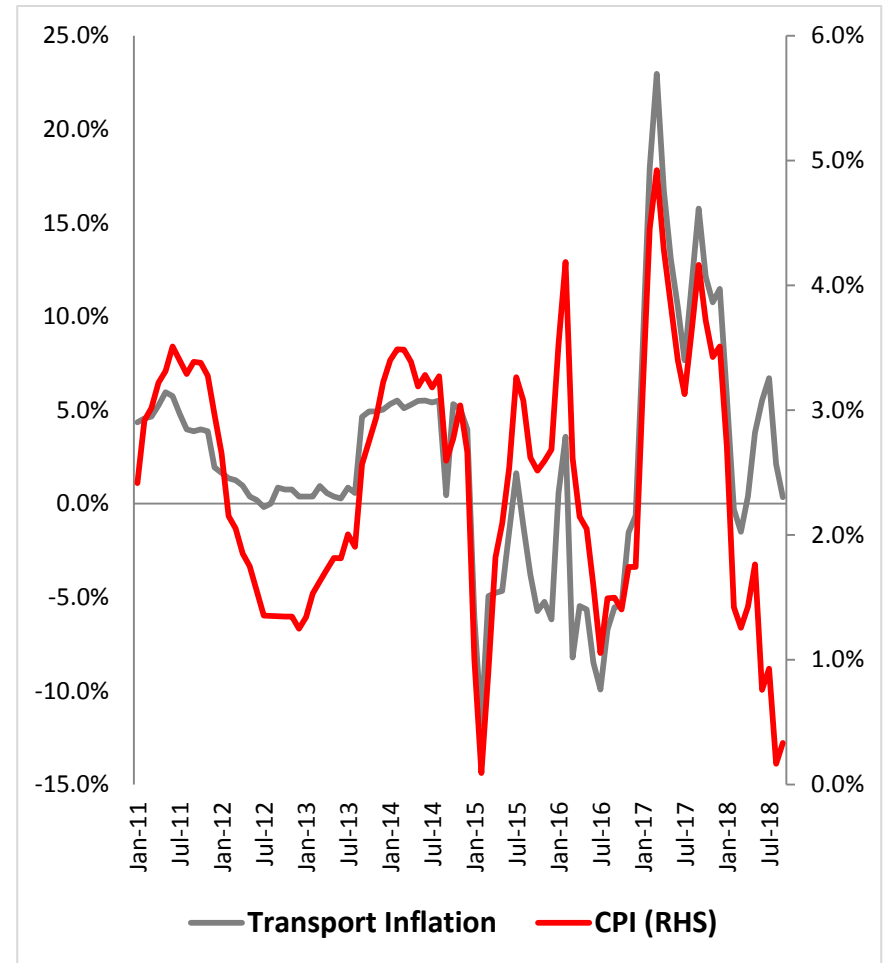
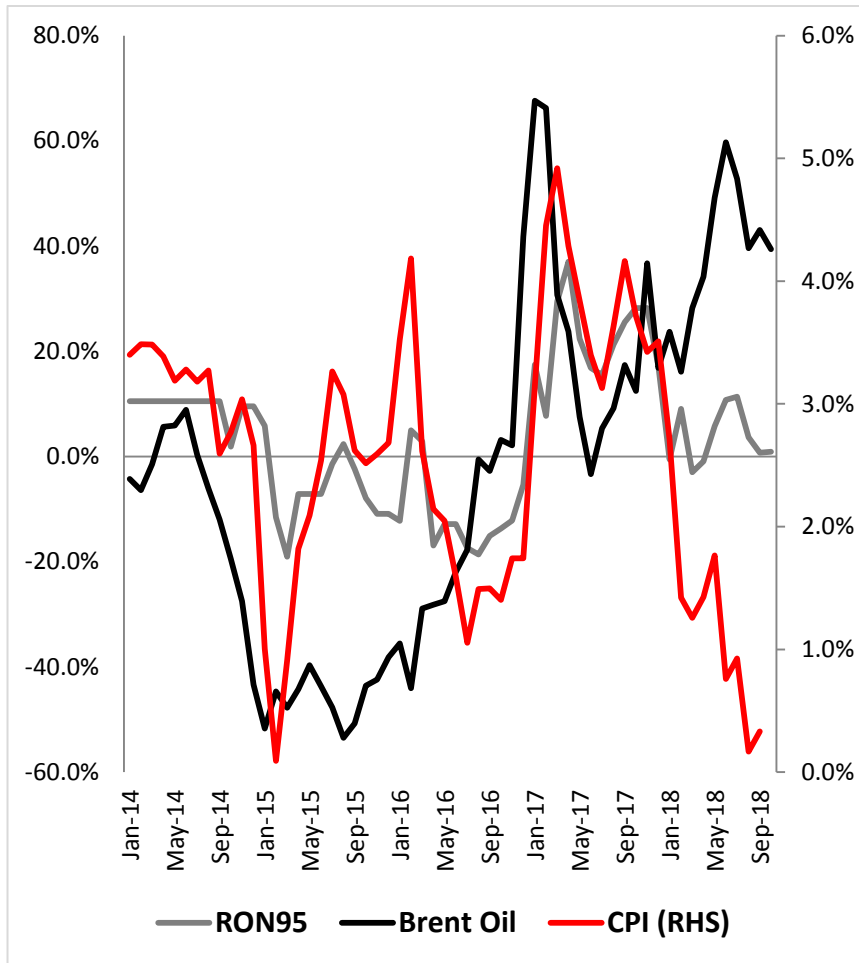
# Steady Domestic Spending

*Supported by Healthy Labor Market & Easing Inflationary Pressure*



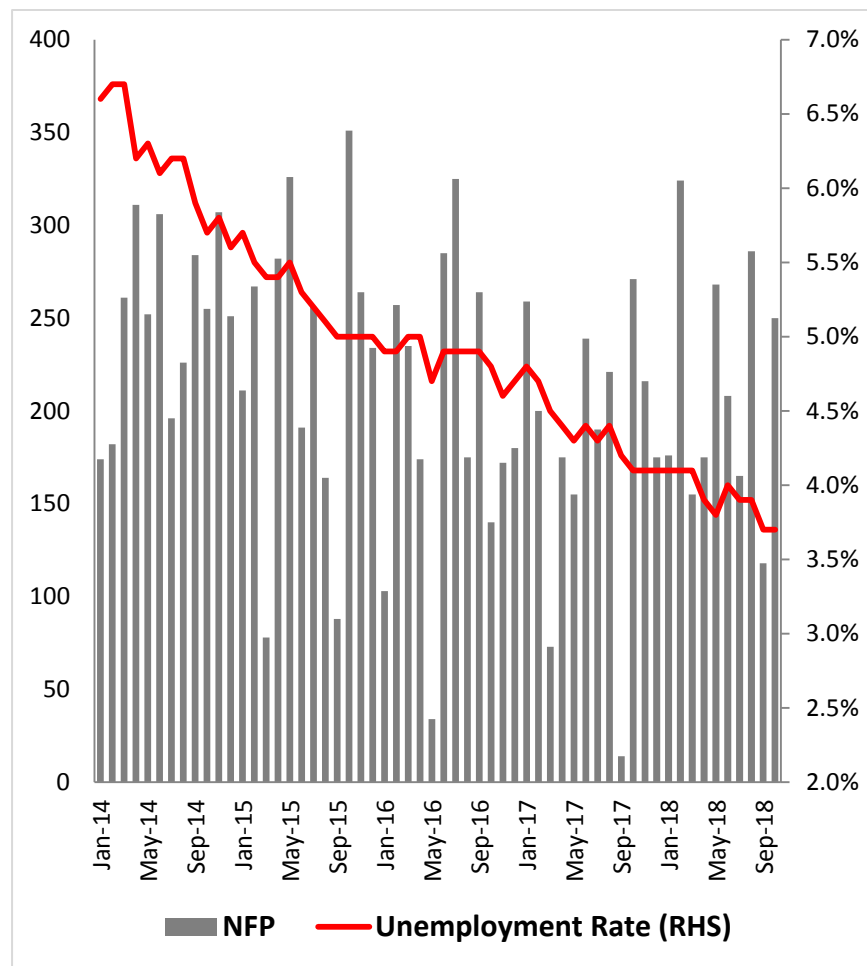
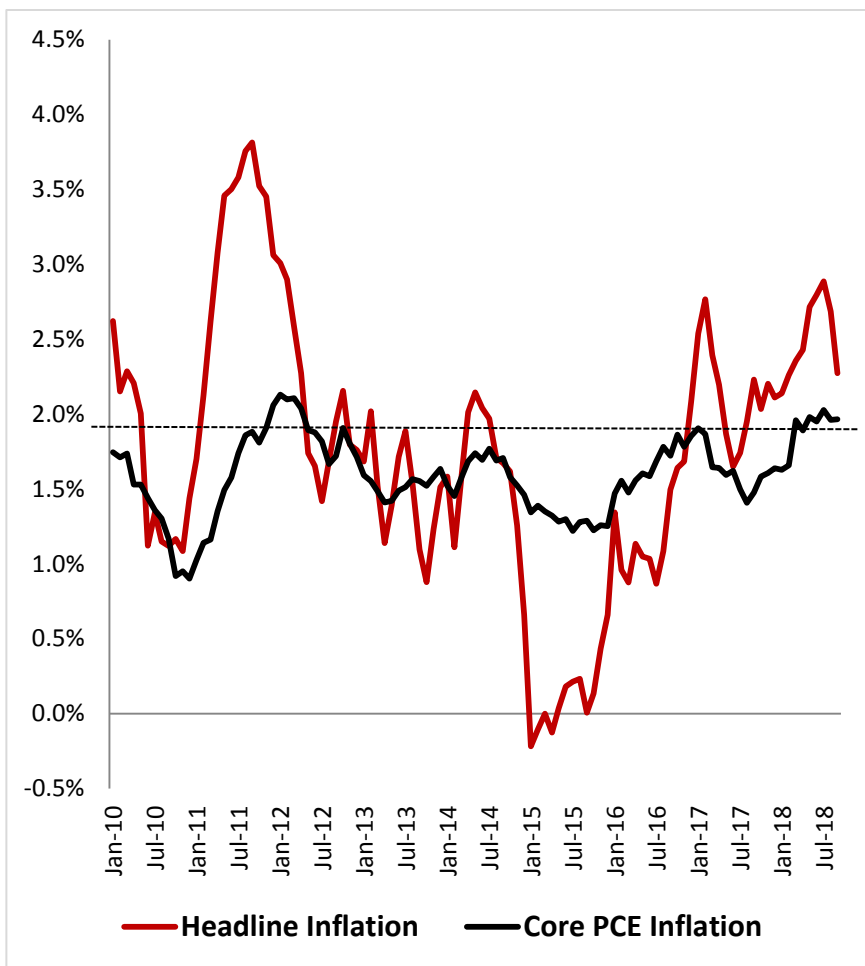
# Moderating Inflationary Pressure

*Push Down by Stable Retail Fuel Prices*



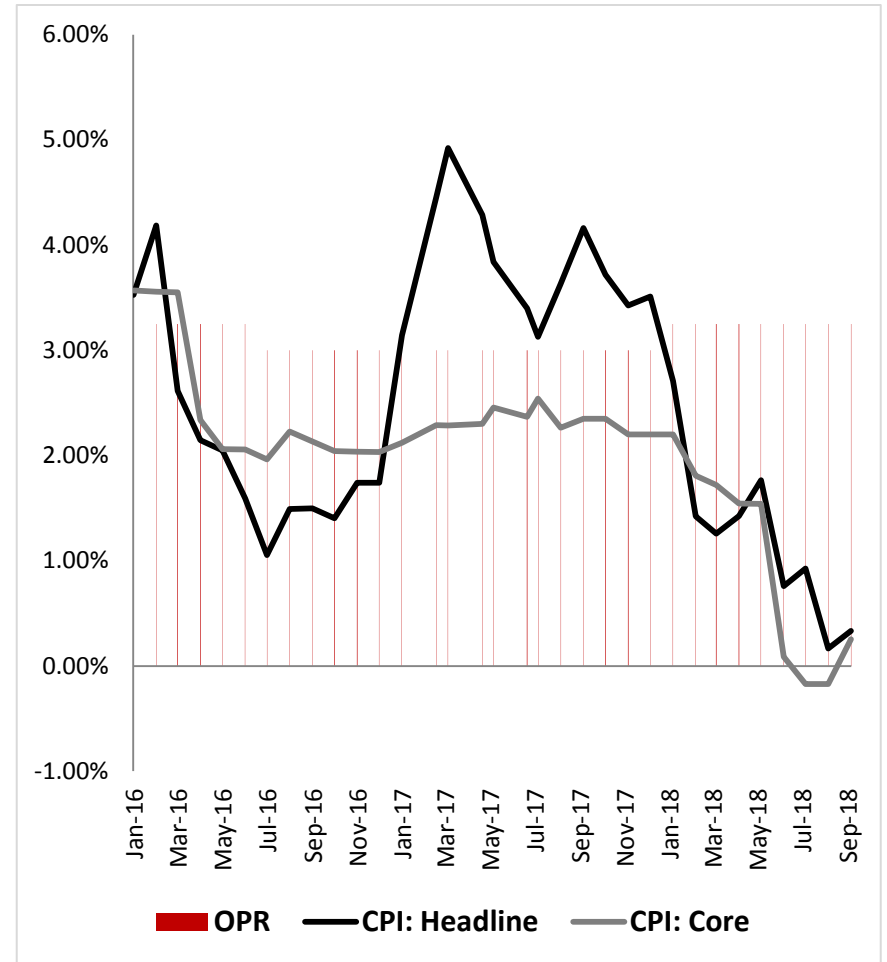
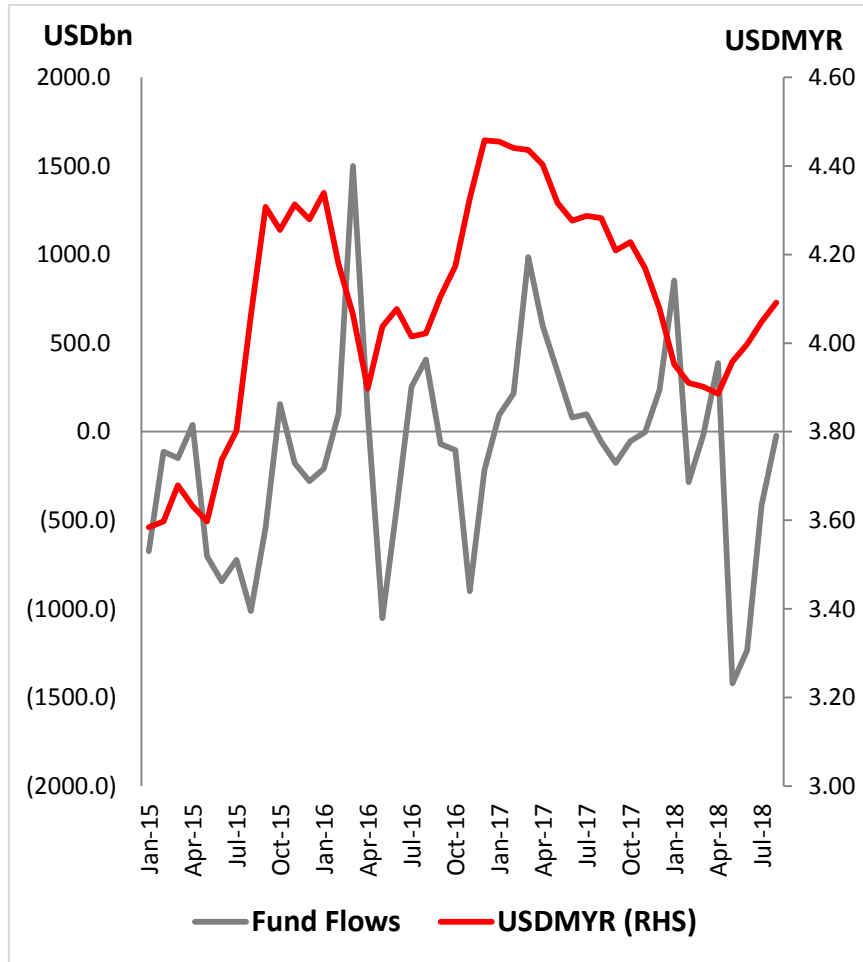
# US Monetary Policy: Three Rate Hikes in 2019

*Solid economic growth, inflationary pressure and stable job market*



# Baseline: OPR at 3.25% in 2019

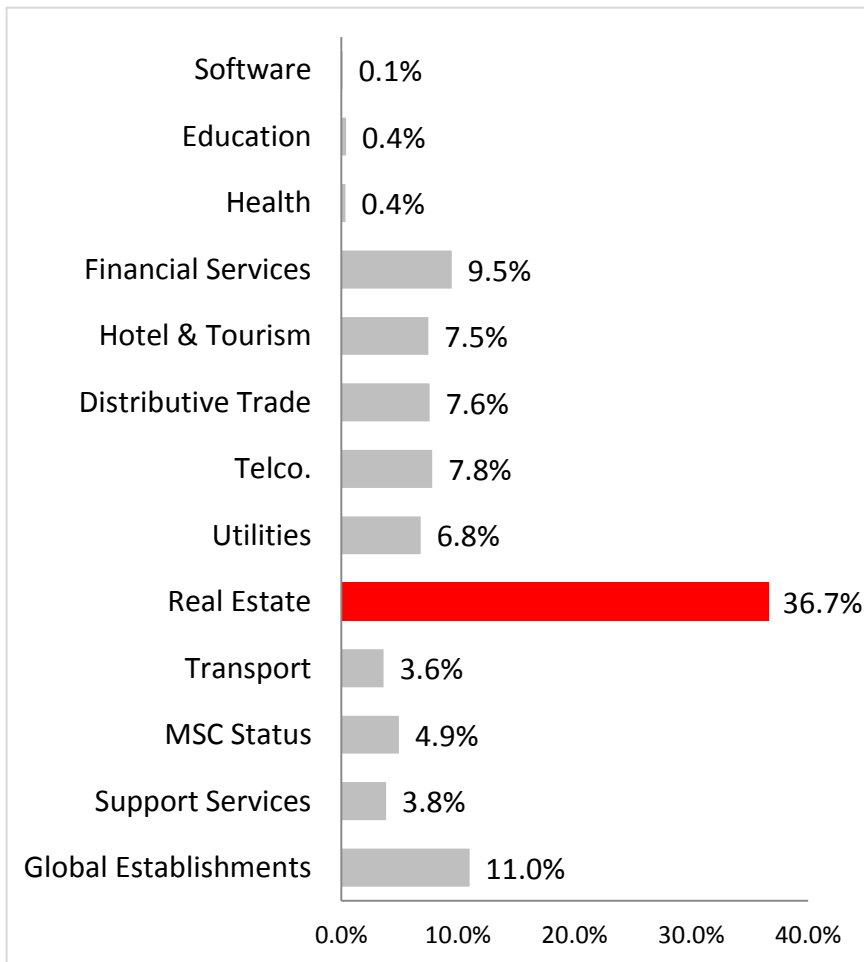
## Monetary Stance to Remain Accommodative



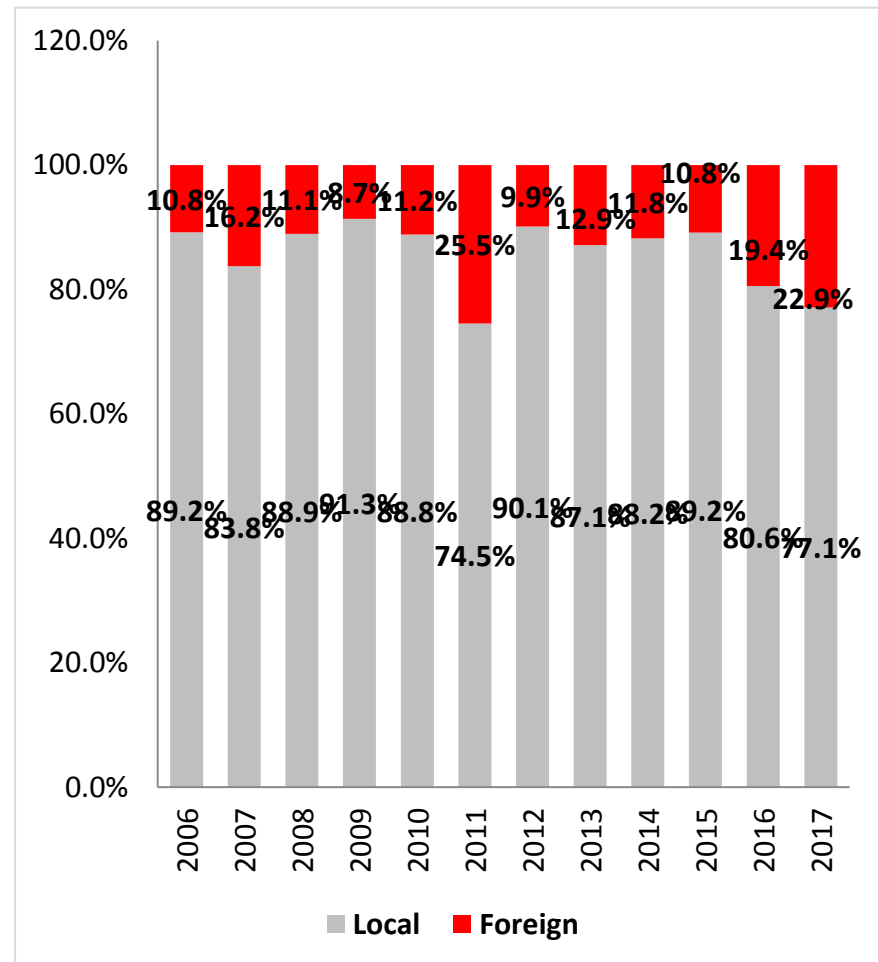
# Services Investments in 2017: RM124.5b

*Growing Interest by Foreign Investors*

## Services Investment Share by Sector (%)



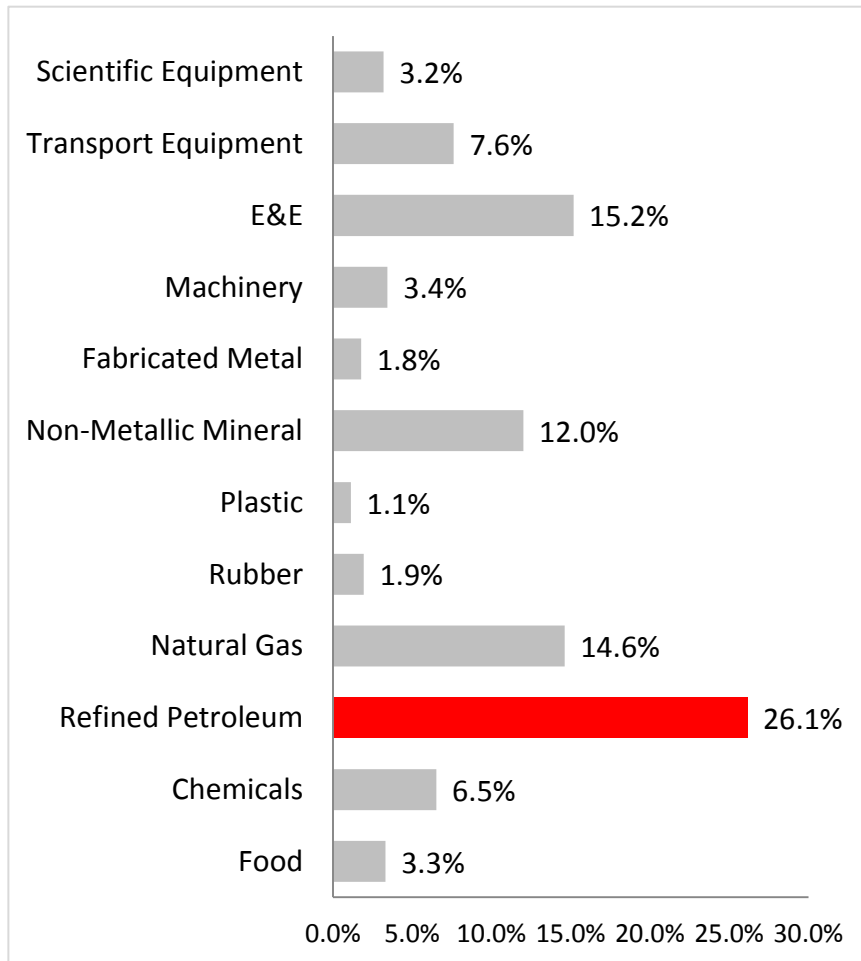
## Services Investment Share by Source (%)



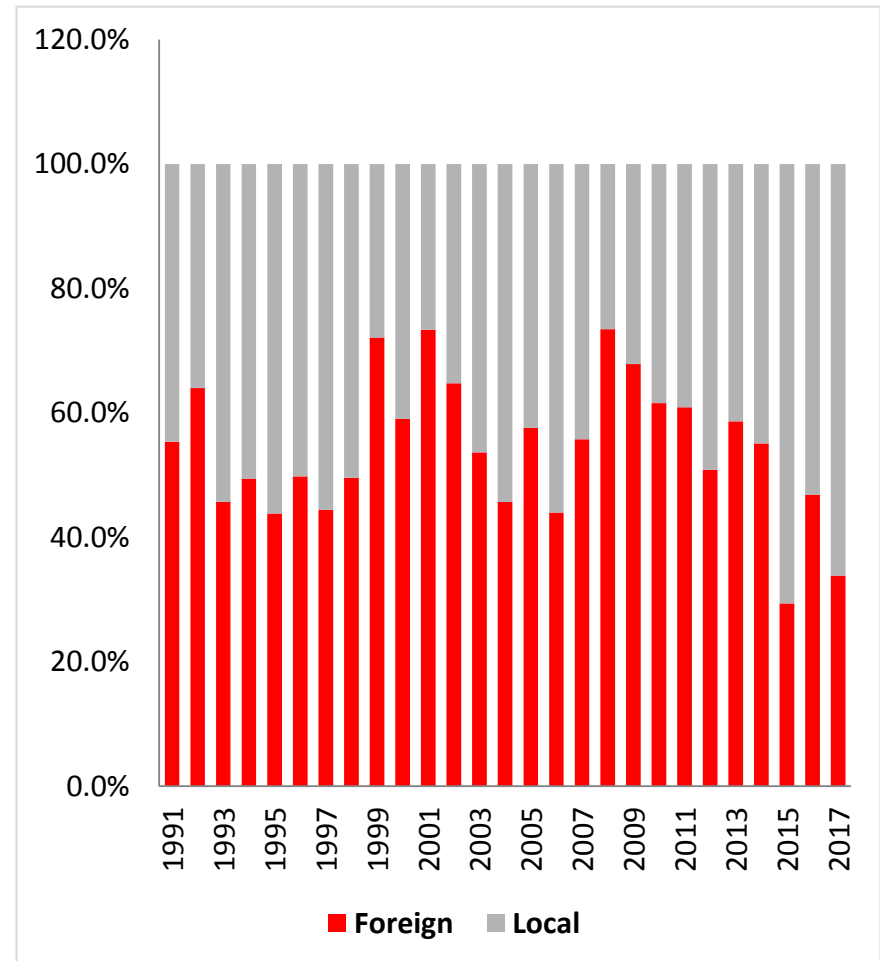
# Manufacturing Investments in 2017: RM63.7b

## Declining Interest by Foreign Investors

### Mfg. Investment Share by Sector (%)



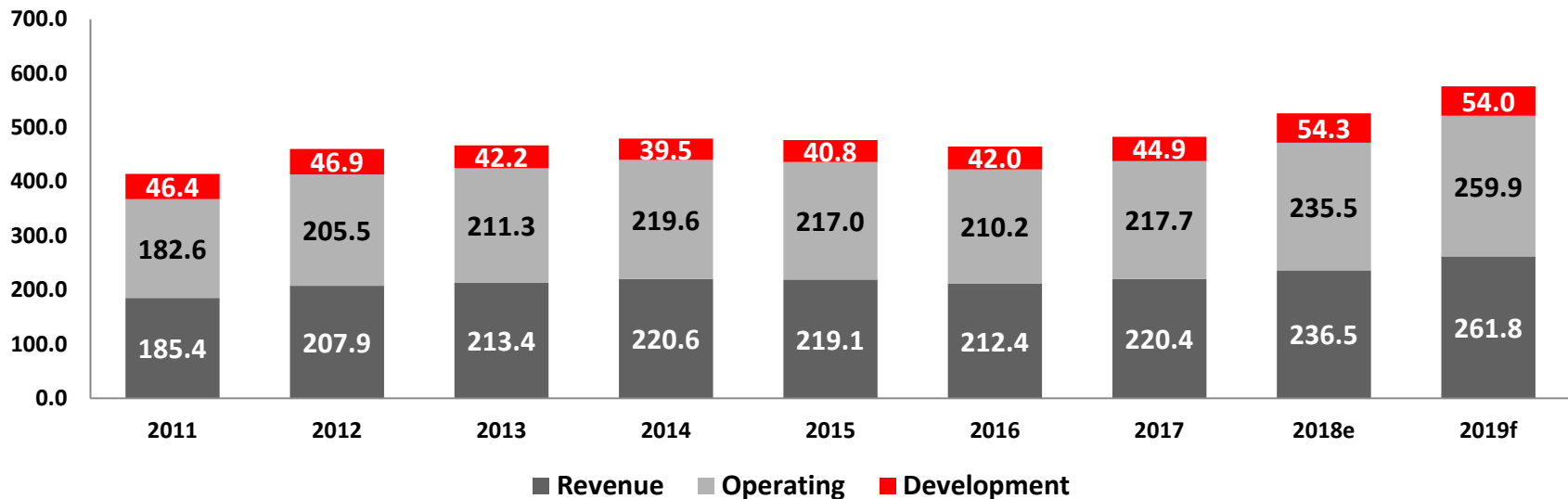
### Mfg. Investment Share by Source (%)





# Budget 2019 A New Malaysia

*Optimal mix of stimulus, incentives and safeguards*



## Growth factors of Malaysia's economy

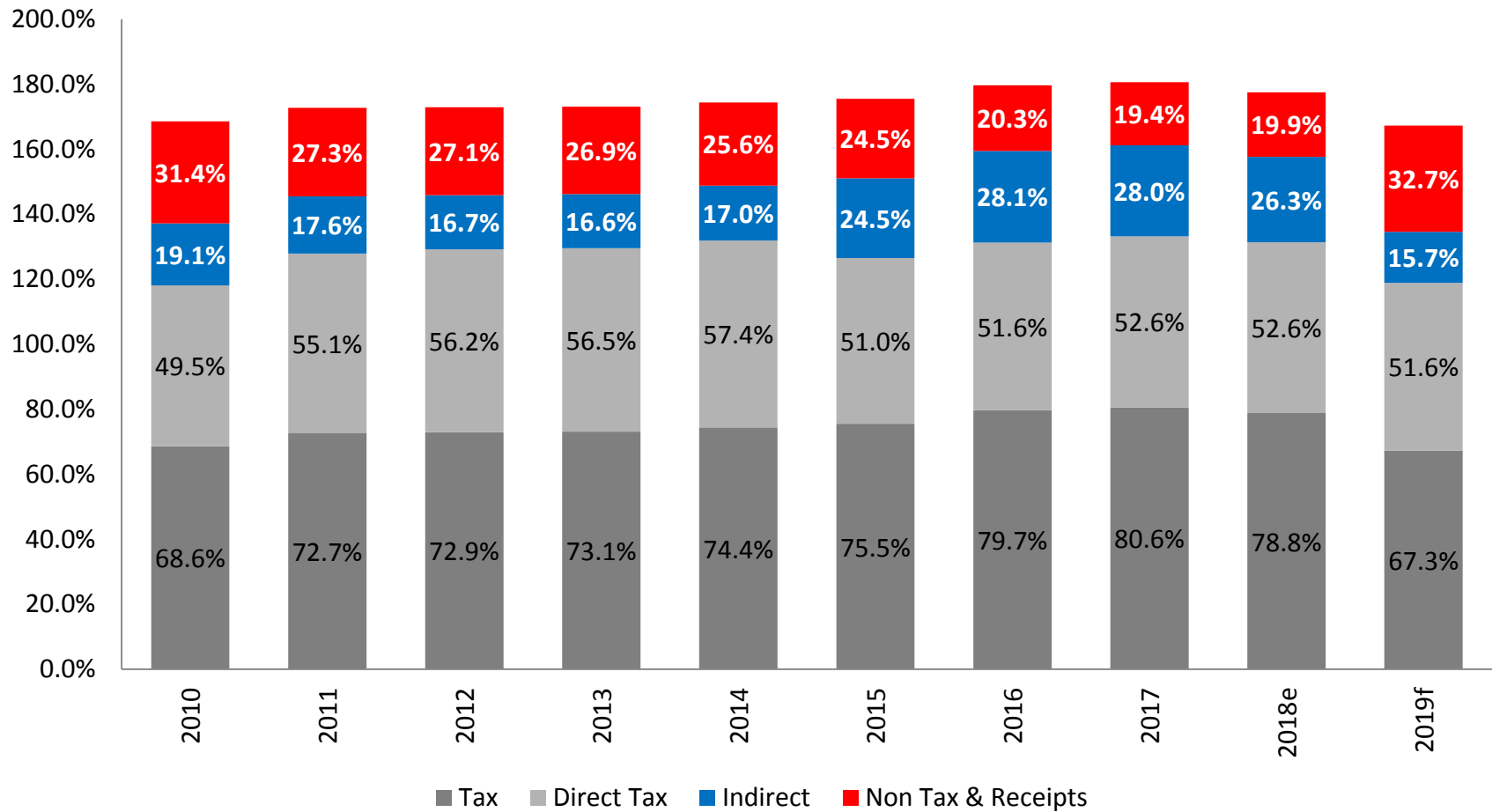
- Sustained global growth and trade
- Recovery of commodity based sectors
- Favorable labor market conditions
- Upbeat business sentiment
- Strong consumer sentiment
- **Increase in Development Expenditure to above RM50b for 2018 & 2019**

## Govt. Finance Remains Resilient:

- 3.4% Federal Government deficit for 2019 is a reasonable target
- Provide clarity for the market
- Revenue is expected to grow 10.7% to RM261.814 billion in 2019
- Broad based rise in all major revenue components and non-tax revenue sources

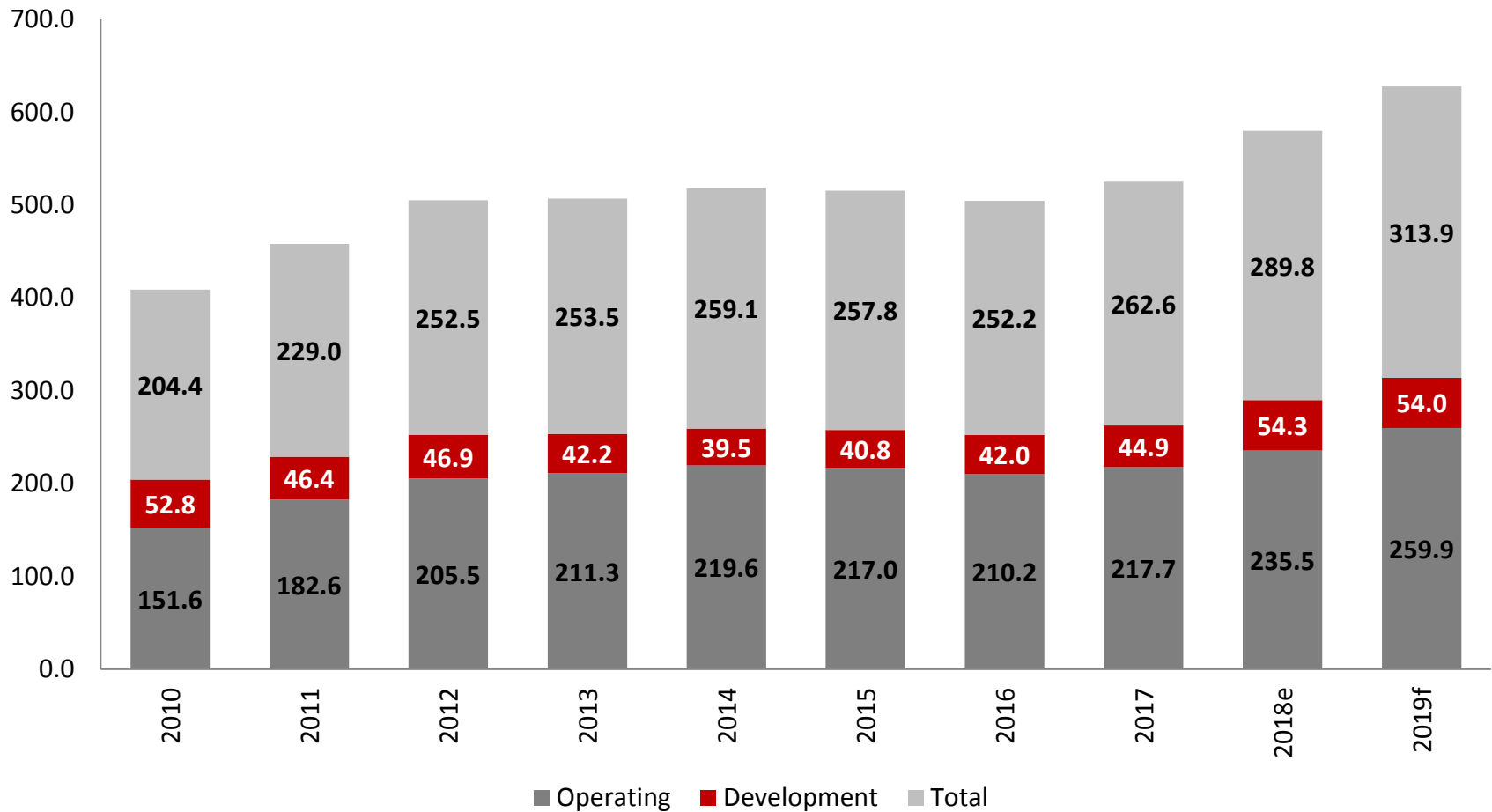
# Government Revenue

*Higher revenue in 2019 despite GST removal*



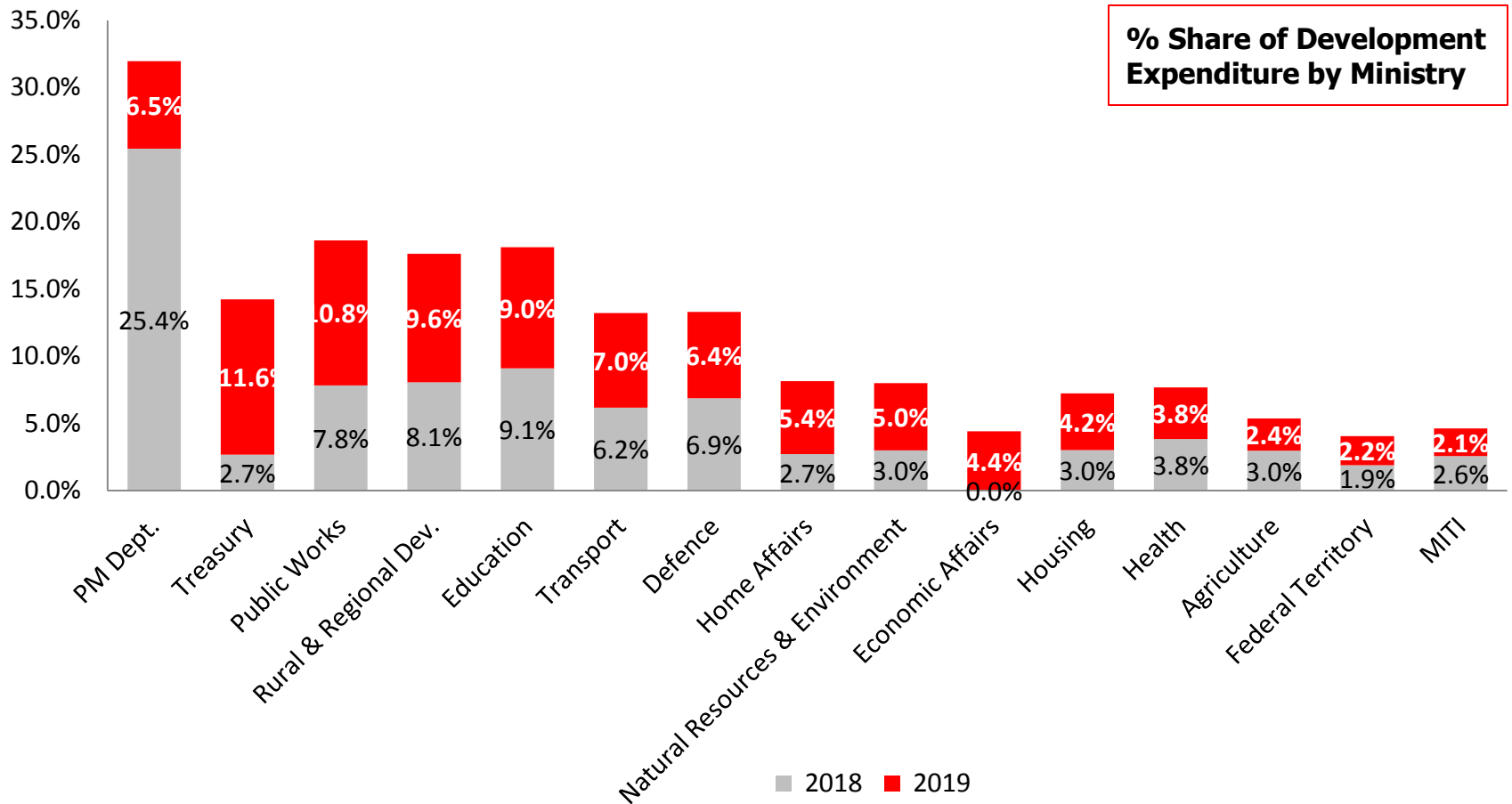
# Government Expenditure

*More focus given to social development*



# Reforms in Development Expenditure

*Sharp decline in Budget Allocations for PM Department*



# Budget 2019 A New Malaysia

*Optimal mix of stimulus, incentives and safeguards*

## Incentives for manufacturing

- Knowledge Resource for Science and Technology Excellence (KRSTE.my) to enable collaboration between public and private sector.
- Researcher-Mapping program to place at least 100 researchers at the Government's research facilities with the private sector
- incentivize SMEs to invest in automation & modernization.
- RM2b to be allocated under the Business Loan Guarantee Scheme in which the Government provides guarantees of up to 70%.

## Boosts for services

- Bantuan Sara Hidup (BSH) cash handout to B40, extensive to children below 18 years & limited to 4.
- Targeted fuel subsidy.
- Minimum wage at RM1,100 in 2019.
- Monthly electricity subsidy to be given only to the poor and hardcore poor.
- RM500m worth of loan facilities via the SME Tourism Fund, assisting handicraft makers and homestay operators.
- RM20 million for the Malaysia Healthcare Tourism Council (MHTC) to enable the branding of Malaysia as a destination of choice for medical tourism.

# Budget 2019 A New Malaysia

*Optimal mix of stimulus, incentives and safeguards*

## Challenges for manufacturing

- Increase minimum wage to RM1,100 in 2019.
- Tiered levy on foreign workers.
- Moderating global growth.
- Rise in input prices.
- Political criticism in the short term especially in the transition process from labor-intensive to capital-intensive.
- Volatility in global energy & commodity prices to affect downstream activities.

## Risks for services

- Rise in unemployment rate.
- Further depreciation of MYR will influence prices of imported goods to spike particularly foods and other consumption goods.
- Slower wage growth due to rising business cost.

Thank you!  
Jim

