MALAYSIA WEEKLY ECONOMIC NEWS

(1 October 2018 – 5 October 2018)

Topics	Highlights
World Bank sees slower growth for Malaysia but fiscal deficit narrowing	The World Bank sees Malaysia's economy growing at a slower pace from this year up to 2020 but it also expects the fiscal deficit to narrow. The World Bank expected growth to moderate to 4.9% this year and 4.7% in 2019 and at 4.6% in 2020. As for the fiscal deficit, it sees its narrowing from 2.9% this year to 2.8% in 2019 and 2.5% in 2020. Malaysia's stronger outlook for household spending primarily reflects the three-month tax holiday following the zero rating of the GST and one-off payouts to civil servants and pensioners. Gross fixed capital formation is expected to expand modestly, with lower public capital expenditure than previously projected, dampening growth prospects. However, the external sector will continue to benefit from the rebound in global investment and manufacturing activity, although this cycle is beginning to mature. As for the fiscal deficit target of 2.8% of GDP, higher subsidy expenditures and the revenue shortfall from the removal of GST are expected to be counterbalanced by higher oil-related revenues, as well as reduced outlays for non-priority current expenditure and deferment of capital expenditures. *(Source: The Star Online, 4 October 2018)*
Malaysia's exports growth seen slowing to 3.3% in August	Credit rating agency, RAM Rating Services Bhd. has projected that Malaysia's exports growth will decelerate to 3.3% in August (July'18: 9.4%), as sales of goods abroad starts to slow on the back of more cautious sentiment amid escalating trade tensions between the US and China. After the second round of tit-for-tat tariffs imposed by the two economic giants in August, the risk to trade momentum was heightened further when the US imposed a third round of tariffs on Chinese imports. Malaysia is among countries expected to benefit from the trade diversion effect of the tariffs imposed by the two economic giants - with the biggest potential gain seen in the E&E products space - though competition from other markets in the region may dilute some of the potential gains. There is further potential for E&E trade diversion for Malaysia in the third round of US-China tariffs, despite not being a main beneficiary of the overall basket of goods tariffed, RAM said. Electronic components under both US and China's set of tariffs, respectively, constitute 6.8% and 16.4% of Malaysia's overall exports. E&E products constituted 36.7% of Malaysia's total exports in 2017. *(Source: The Edge Markets, 3 October 2018)*
Malaysia manufacturing conditions improve in September, PMI rises to 51.5	The September Nikkei Malaysia Manufacturing PMI data signalled the strongest improvement in Malaysian manufacturing conditions for ten months, driven by a faster rate of job creation. IHS Markit, who compiles the survey said the rate of job creation in the manufacturing sector was the strongest since the first month of the survey's operation in July 2012. Firms reported taking on more staff in preparation for expected workloads. The volume of new work received by Malaysian manufacturers rose for the second month running in September, despite the introduction of the new Sales & Service Tax (SST) at the start of the month. In fact, it was the first back-to-back rise in new business in the goods producing sector for nearly four years. Meanwhile, output & new business continued to rise at comparatively solid rates. The latest survey also revealed an inflationary impact from the recently-introduced SST. The impact of the SST is being felt on the pricing side, with input cost inflation jumping up to a six-month high in September and output charges being raised for a third successive month. *(Source: The Edge Markets, 1 October 2018)*

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