Goldilocks economy

Sentiment on Malaysia’s economy not so positive but is there a silver lining?

By GANESHWARAN KANA

ganeshwaran@thestar.com.my

The sentiment on the Malaysian economy may not be so positive, but it is far from entering a recession.

In the words of Deputy International Trade and Industry Minister Hamzah Zainudin, a recession is nowhere on the horizon for the country.

While the World Bank has lowered the country’s gross domestic product growth forecast to 4.7% in 2019, it remains higher compared to most major economies, which is yet to recover this year, will also be an important catalyst for growth.

With more O&G activities expected from national oil producer Petronas Nasional Bhd and higher Brent crude oil prices this year, local O&G players stand to benefit significantly. This will raise confidence in the industry and could spur further capital expenditure by the companies.

Moreover, the research projects Brent crude oil to average at US$65 per barrel this year.

Higher crude oil prices also mean that the government has less to worry about its revenue. It will not be forced to recalibrate Budget 2019, or compromise and accept a budget deficit higher than the Finance Ministry’s expected 3.4% for this year.

Meanwhile, the latest report on Malaysia’s economic indicators by BNM shows that the country’s manufacturing sector (54% of 200,000 vacancies), Manokaran Mottin

sighs of a growth slowdown. The oil and gas sector, which is expected to recover this year, will also be an important catalyst for growth.

With more O&G activities expected from national oil producer Petronas Nasional Bhd and higher Brent crude oil prices this year, local O&G players stand to benefit significantly. This will raise confidence in the industry and could spur further capital expenditure by the companies.

Moreover, the research projects Brent crude oil to average at US$65 per barrel this year.

Higher crude oil prices also mean that the government has less to worry about its revenue. It will not be forced to recalibrate Budget 2019, or compromise and accept a budget deficit higher than the Finance Ministry’s expected 3.4% for this year.

Meanwhile, the latest report on Malaysia’s economic indicators by BNM shows that the country’s manufacturing sector (54% of 200,000 vacancies), Manokaran Mottin

There are still a high amount of vacancies especially in the manufacturing sector (54% of 200,000 vacancies).

that there are still a high amount of vacancies, especially in the manufacturing sector (54% of 200,000 vacancies).”

On trade, Ong says that “StarBizWeek” that lower export and trade growth is likely in 2019.

“Most of the ministry has not made its internal projections on what our trade growth expectations are for 2019 but with global economic uncertainties, as well as rising protectionist pressures in developed countries, we can expect trade growth to moderate somewhat,” he says.

Based on RHB Research Institute’s latest projection, Malaysia’s export growth will slow further to 4% in 2019 from the 5.7% estimated for 2018, on account of a weaker global trade outlook and slowdown in demand from China.

On trade performance between January and November 2018, Ong says that the figures look promising. Total trade in the first 11 months of 2018 grew 6.4% to RM1.72 trillion from RM1.62 trillion during the same period in 2017.

“We are likely to exceed the initial trade target growth of 5% for 2018,” he adds.

In order to spur trade growth and help Malaysia’s exporters, Ong says that the International Trade and Industry Ministry is currently reviewing its international trade strategy for 2019 and beyond. A total of 29 strategies have been identified and these strategies are developed for 14 of Malaysia’s key trading markets.

The strategies will be rolled out throughout 2019.

There are also some strategies that will be reviewed every year to take into account Malaysia’s competitiveness and the changing market conditions.

Some of these strategies include reviewing our current free trade agreements to reduce non-tariff measures, enhancing the use of various e-commerce platforms (which would be helpful for our small and medium enterprises) and expanding our market share in the hald segment.

Ong also needs to review their strategies at appropriate times in 2019 with our agencies and relevant stakeholders,” he says.

The local property market is also saddled with many challenges, with huge unsold units being the major problem in 2019. As at Sept 30, 2018, unsold completed residential units had risen 48.3% to 360,115 units. Should serv-

The property industry’s subdued sentiment level is clearly shown by the number of incoming residential units. In the third quarter of 2018 (Q3), the National Property Information Centre categorised 401,544 units as “incoming residential supply”.

This figure marks a steep decline from the 870,442 incoming residential supply in Q318.

A property agent tells

“Prices have gone too high, causing buyers to be unable to purchase homes. Unless the property developers take a cut in their profit margins or sell at a loss, it will be difficult to dispose of the unsold stocks,” he says.

Meanwhile, Malaysia’s retail industry could also take a hit due to the moderate in overall economic growth.

property sales are expected to remain flat in 2019, with most developers either lowering or maintaining their sales targets.

The property industry’s subdued sentiment level is clearly shown by the number of incoming residential units. In the third quarter of 2018 (Q3), the National Property Information Centre categorised 401,544 units as “incoming residential supply”.

A property agent tells StarBizWeek that many property developers are struggling.

“Prices have gone too high, causing buyers to be unable to purchase homes. Unless the property developers take a cut in their profit margins or sell at a loss, it will be difficult to dispose of the unsold stocks,” he says.

Meanwhile, Malaysia’s retail industry could also take a hit due to the moderate in overall economic growth.

The property industry’s subdued sentiment level is clearly shown by the number of incoming residential units. In the third quarter of 2018 (Q3), the National Property Information Centre categorised 401,544 units as “incoming residential supply”.

A property agent tells StarBizWeek that many property developers are struggling.

“Prices have gone too high, causing buyers to be unable to purchase homes. Unless the property developers take a cut in their profit margins or sell at a loss, it will be difficult to dispose of the unsold stocks,” he says.

Meanwhile, Malaysia’s retail industry could also take a hit due to the moderate in overall economic growth.

property sales are expected to remain flat in 2019, with most developers either lowering or maintaining their sales targets.
Room for improvement: Mohd Redza says there is still hope for Corporate Malaysia to improve.

According to Retail Group Malaysia managing director Tan Sai Hsin, all retail sub-sectors and retail sales will be affected on the back of the economic slowdown. "Retail Group Malaysia is projecting a 4.5% growth rate in retail sales for Malaysia in 2019. Consumer spending patterns in this new year are highly dependent on the economic performance and cost of living during the year."

"No particular retail sub-sector will be the key driver of the retail industry in 2019," he says. Tan also hints that small-scale retail players risk winding up their business if the economy weakens further.

"During an economic slowdown, the closure rate of small retail stores is usually higher as compared to national chain retailers. This is due mainly to their limited resources (including capital and purchasing power from suppliers)."

Weak corporate Malaysia earnings

It is safe to say that small businesses will not be the only ones affected due to the current challenging business environment.

The earnings of corporate Malaysia – public-listed companies – will likely be lower year-on-year, as MIFP head of research Mohd Redza Abdul Rahman states. He says that plantation, manufacturing and technology companies would export less this year due to lower commodity prices and declining export numbers. This could affect their earnings.

Meanwhile, the property and construction sector players could also see underperforming earnings. "However, consumer and consumables (gloves and aviation) players will likely see favourable numbers, owing to strong retail sales as well as the higher number of passengers carried by AirAsia, supported by the moderating cost of fuel."

"The depreciation of the ringgit or most of the fourth quarter will be good for export players with high domestic raw material content," he says.

Softer corporate earnings prospects are not unique to Malaysia alone. On Jan 11, Bloomberg reported that more than half a dozen corporate giants in the US have either lowered their profit forecasts, announced massive job cuts or pulled the plug on plans in the face of market volatility. This includes Jaguar Land Rover, BlackRock Inc, Apple Inc and FedEx Corp. among others.

Moving forward, Mohd Redza says there is still hope for Corporate Malaysia to improve.

"Assuming a solution is found during the trade war negotiations, an accommodative monetary policy stance in the US and a recovery in commodity prices, we can expect 2019 to see earnings growth."

"This is premised on their impact on the ringgit’s appreciation. We expect the ringgit to appreciate to the RM4.00 level by end-2019. The higher commodity prices will significantly reduce the pressure on government coffers. A much clearer government direction as Budget 2019 hits the ground will also be useful," he says.

A few days ago, Nomura Research downgraded the outlook of the Malaysian equity market to “underweight” from “neutral” previously. The international brokerage cited poor macro/micro fundamentals and a lack of major expansionary reforms so far as reasons for the downgrade in its recommendation.

"With the new government more than six months in power already, while there have been efforts to fix fiscal leakages, there has not been a significant reform push which can potentially lead to expansionary economic activity," it explained.

In response to Nomura Research’s claims that Malaysia’s fiscal deficit for 2018 would deteriorate to 3.9% – higher than the official guidance of 3.7% – Finance Minister Lim Guan Eng slammed the report as “untrue”. When asked whether a peaceful ending to the US-China trade war will raise the country’s GDP projection, Alliance’s Mohd Noor says it is unlikely.

"We are of the view that even if trade dispute negotiations end well between the US and China, global growth moderation is here to stay, which will have a negative impact on oil and gas-related stocks."