Macroeconomic Outlook

HIGHLIGHTS

- In 2019, global growth is expected to moderate.
- Economic growth in Malaysia to remain on a steady path.
- Headline inflation is expected to be broadly stable in 2019.

More moderate global growth in 2019

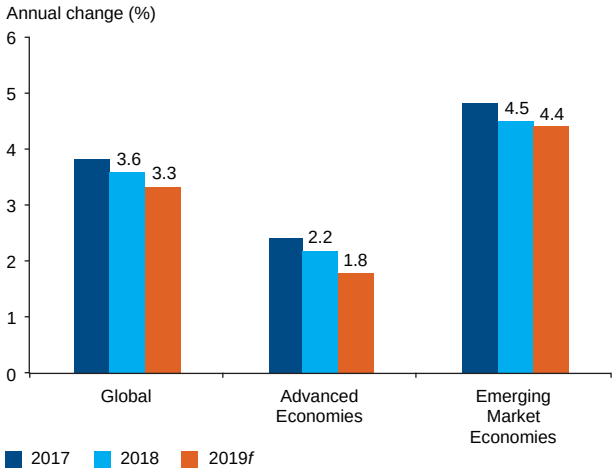
The global economy is expected to expand at a more moderate pace in 2019.

The temporary boost to US growth from fiscal stimulus is expected to fade, while domestic demand in the euro area is slowing. Economic activity in the Asian region is also expected to be lower, given softer external demand. Nevertheless, in PR China, active counter-cyclical policy will provide some support to the outlook as the government seeks to manage the external headwinds.

On balance, risks to the outlook remain tilted to the downside. Policy support in PR China could lead to stronger-than-expected growth and spillovers to emerging markets. However, downside risks predominate from prolonged weaknesses in the euro area, further delays and uncertainties in Brexit negotiations, as well as a potential escalation of trade disputes.

Moderating global growth in 2019

Chart 24: GDP Growth

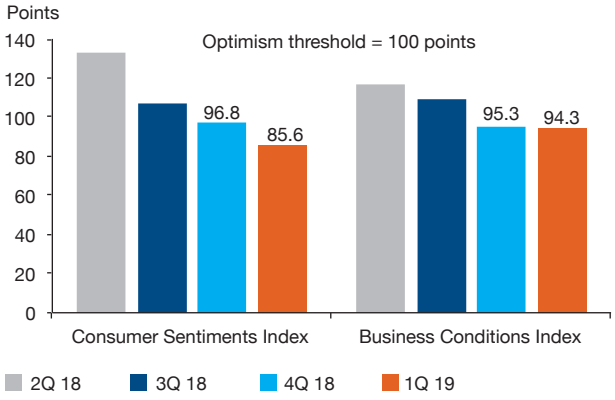


f Forecast

Source: IMF World Economic Outlook (April 2019)

Moderating sentiments in 1Q 2019

Chart 25: MIER Consumer Sentiments and Business Conditions Index



Source: Malaysian Institute of Economic Research (MIER)

Growth in the Malaysian economy to remain steady in 2019

Against the backdrop of a challenging global environment, growth in the Malaysian economy is expected to remain broadly sustained for the year. Growth will be supported by continued expansion in domestic demand amid a moderate support from the external sector.

Private sector spending is expected to remain the key driver of growth. Although consumer sentiments have moderated from its recent peak, household spending will be underpinned by continued income and employment growth. Investment activity is estimated to improve, driven by ongoing capacity expansion in key sectors, with additional support from new manufacturing investments, as reflected by the high MIDA investment approvals. Nevertheless, overall growth may be partially weighed down by lower public sector spending.

Risks to growth remain tilted to the downside, arising mainly from external uncertainties such as further weakening of global growth and heightened financial market volatility. On the domestic front, unexpected interruptions in commodity production could also affect Malaysia's growth prospects.

Broadly stable average headline inflation in 2019

In 2019, headline inflation is expected to average between 0.7% - 1.7%. Domestic cost factors[8] are expected to result in moderate upward pressures on headline inflation. However, the upward impact would be offset by the expected lower global oil prices than in 2018 and the price ceilings on domestic retail fuel prices.

While headline inflation could remain low in the immediate term due to key policy measures, it will increase from the current rate as the impact of changes in the consumption tax policy begins to lapse.

There are several key risks to the inflation outlook. On the upside, global oil prices could rise higher than expected. However, the impact on domestic fuel prices would be limited to some extent by the price ceilings in the near-term although input costs for firms could increase. On the downside, the expansion in the list of controlled food items and the extension of the enforcement period for festive season price controlled scheme could limit fluctuations in food inflation.

Underlying inflation, which excludes the impact of the changes in consumption tax policy, is expected to remain stable, supported by the continued expansion in economic activity and in the absence of strong demand pressures.

[8] Domestic cost factors include the lapse in the combined impact of the changes in consumption tax policy, increase in the minimum wage and higher electricity tariff surcharge for businesses.