Macroeconomic Outlook

HIGHLIGHTS

- In 2019, global growth is expected to moderate.
- The Malaysian economy will continue to remain on a steady growth path in 2019.
- Headline inflation is projected to average moderately higher in 2019.

More moderate global growth in 2019, with substantial downside risks

The global economy is expected to expand at a more moderate pace across advanced economies and emerging market economies (EMEs) in 2019.

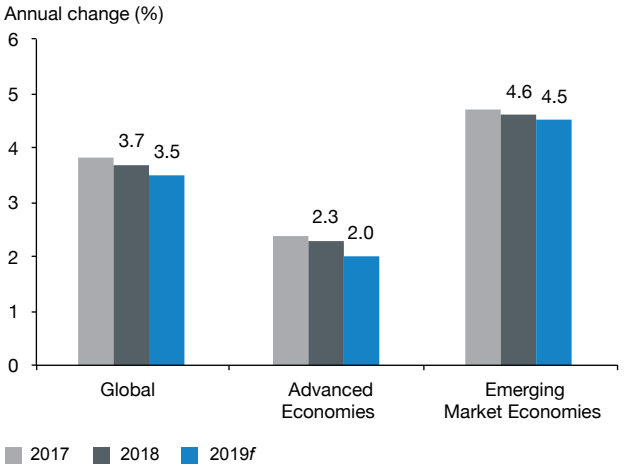
In advanced economies, growth prospects will continue to be driven by strong labour market conditions, lending sustained support to private consumption, amid more moderate investment activity. In the US, however, growth is expected to moderate as the stimulative effects of fiscal policies wane, and the impact of higher interest rates begins to affect the economy.

Growth in the Asian region is expected to moderate. Of significance, growth in PR China is expected to expand at a slower rate, reflecting ongoing structural reforms in the country, amid existing and potential trade actions. This will likely weigh on regional exports. However, domestic demand is expected to support growth in the region.

Overall, there is a higher downside risk to global growth in 2019. Any further deterioration or widening of trade tensions will drag down both global trade and growth. Tightening financial conditions and heightened volatility in financial markets, coupled with country-specific factors ranging from heightened political and policy uncertainty, and elevated debt levels, could also weigh on growth prospects.

Moderating global growth in 2019

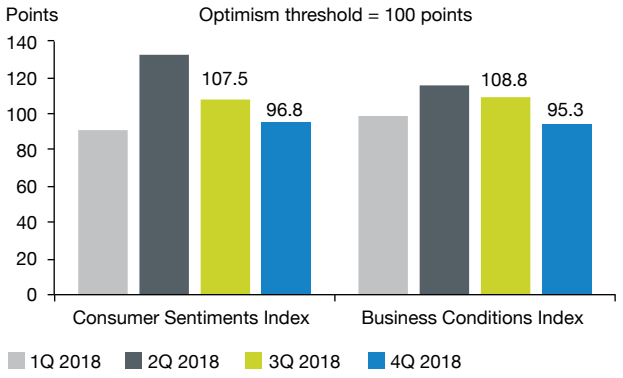
Chart 24: GDP Growth



Source: IMF World Economic Outlook (January 2019)

Moderation in sentiment indicators

Chart 25: MIER Consumer Sentiments and Business Conditions Index



Source: Malaysian Institute of Economic Research (MIER)

The Malaysian economy to remain on a steady growth path in 2019

Amid escalating trade tensions and tighter global financial conditions, the Malaysian economy recorded a respectable growth of 4.7% in 2018. Growth in 2018 was further affected by unanticipated supply disruptions in the commodity-related sectors.

For 2019, as the supply disruptions recede and new production facilities commence, the Malaysian economy is expected to continue to expand at a steady pace. Private sector demand is expected to remain the main driver of growth amid fiscal rationalisation while the external sector would be weighed down by weaker global demand. Although sentiments have moderated from recent highs, private sector expenditure will continue to be supported by fundamental factors such as continued income and employment growth.

Risks to growth remain tilted to the downside. These stem mainly from further escalation of trade tensions and tightening of global financial conditions.

Moderately higher headline inflation in 2019

In 2019, headline inflation is expected to average moderately higher. The consumption tax policy will exert a temporary impact on headline inflation in 2019, and will start to lapse towards the end of the year.

Recent developments in the global oil market have led to lower projected global oil prices. With the floating of domestic fuel prices in January 2019, the lower global oil prices would have a more direct impact on and help contain the increase in headline inflation. However, the trajectory of global oil prices remains uncertain, thereby presenting a risk to the inflation outlook.

Underlying inflation, which excludes the impact of the changes in consumption tax policy, is expected to be broadly stable in 2019 in the absence of strong demand pressure.