Bank Negara: Economy to grow 5.5% to 6% in 2018

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Malaysia's economy is expected to grow at a firm pace of between 5.5% and 6% in 2018.

KUALA LUMPUR: Malaysia's economy is expected to grow at a firm pace of between 5.5% and 6% in 2018 versus 5.9% in 2017 with domestic demand remaining the anchor of growth, says Bank Negara Malaysia.

In its annual report released on Wednesday, it said private sector expenditure will remain the key driver of growth, underpinned mainly by continued growth in wages and employment, business optimism and favourable demand.

Bank Negara said that public sector expenditure is expected to decline due to the contraction in public investment amid more moderate growth in public consumption.

The external sector is expected to benefit from better global growth, and is likely to generate positive spill overs to domestic economic activity.

Private consumption growth is expected to be sustained at 7.2% in 2018. The key factors that will support consumption spending during the year include continued growth in employment and income, lower inflation, and improving sentiments.

In particular, robust export performance is expected to support wages in the export-oriented industries amid continued growth in domestic economic activity.

In 2018, labour market conditions are expected to remain favourable and supportive of growth. This is underpinned by continued strong economic activity and improving hiring sentiments.

Employment is expected to remain expansionary, and job growth will be sufficiently robust to absorb new entrants into the labour force.

Hence, unemployment rate is expected to be relatively unchanged (3.2% - 3.5%; 2017: 3.4%).

As for private investment, Bank Negara sees its growth sustained at 9.1% in 2018, supported by ongoing and new capital spending in both the manufacturing and services sectors, and strengthened by continued positive business sentiments.

Mining investment, while remaining moderate, is estimated to exert a lesser drag to growth following the improvement in commodity prices.

Investments in the export-oriented industries (for example, the electrical and electronic (E&E) and resource-based industries) would continue to benefit from the expected expansion in global growth.

By type of asset, investments in machinery and equipment (M&E) are expected to receive further impetus from the recent government measures to encourage automation and innovation.

Investments in structures would be supported mainly by ongoing multi-year projects in the broad property sector.

Public consumption is expected to grow a marginal 0.6% in 2018 due to more moderate growth in emoluments amid prudent spending on supplies and services. This is in line with the government’s commitment to reprioritise and rationalise non-critical expenditure.

However, public investment is projected to decline by 3.2% due to lower capital spending by public corporations following the near completion of large-scale projects.

As for the services sector, it is expected to record sustained expansion of 6.1%, slightly slower than the 6.2% in 2017. This sector accounted for 54.4% of the country's GDP in 2017.

The wholesale and retail trade, food and beverages and accommodation sub-sectors are anticipated to benefit from favourable labour market conditions.

Growth in the information and communication sub-sector is expected to remain strong, reflecting sustained demand for telecommunication and computer services.

In the transport and storage subsector, growth will be driven by continued strength in trade activity.

Growth in the manufacturing sector is projected to be sustained at 5.9%, slightly slower from the 6% in 2017. This sector accounts for 23% of GDP.

In the export-oriented industries, growth will be supported mainly by continued demand for chemical-related products in the primary-related cluster.

Production of E&E products will be sustained, in line with the expected normalisation in global semiconductors demand.

Growth will also be supported by new production capacity in the resource-based industries such as petrochemicals and rubber gloves.

In the domestic-oriented industries, growth will be driven by higher production of construction-related materials for new and on-going infrastructure projects as well as continued strength in demand for food-related products.

Bank Negara sees a stronger growth for the construction sector, expanding by 7.3% compared with 6.7% in 2017. This sector accounts for 4.6% of GDP.

Underpinning the growth will be large new and existing multi-year civil engineering projects. These projects are mainly in the transportation and utilities segment.

In the commodities sector, the mining sector is projected to grow at a faster pace of 1.8% from just 1.1% in 2017 due to the continued pick up of natural gas production from the new gas fields and production facilities. This sector contributes to 8.4% of GDP.

Agriculture sector to register a more moderate growth of 3.6% in 2018 from 7.2% in 2017 . This accounts for 8.2% of the GDP.

The slower growth in the agriculture sector mainly reflects the normalisation in crude palm oil production growth following the exceptional post-El Niño rebound in 2017.

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