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**REUTERSPIX**

## Economy may weaken in third quarter

**PETALING JAYA:** Malaysia's economy may soften in the third quarter (Q3) taking cue from the July Nikkei Manufacturing Purchasing Managers' Index (PMI), which contracted to 47.6 from 47.8 in June.

AmResearch said based on the historical reading, the current PMI level may keep the gross domestic product (GDP) growth at 4.5%, which is in line with its forecast.

"Nevertheless, our concern at this juncture is that we are still not seeing signs of global manufacturing sector bottoming out. As such, the risk to the economy is still tilted to the downside. Based on our assessment, our worst-case scenario suggests that GDP growth could hit as low as 4%, should the headwinds intensify," the research house said in a note last Friday.

It cautioned that the manufacturing players continued to report tougher business environment due to lacklustre demand conditions which had put a strain on production, and discourage firms from hiring.

Although Malaysian manufacturers have reported a net inflow of new

businesses from abroad, in particular from the US, Japan, and Turkey, the overall demand condition remains challenging on the back of stiff competition.

"As a result, the survey suggests that the local firms are having difficulties securing more new work, citing concerns over slowing global economic growth and geopolitical tensions as their key headwinds. However, manufacturers indicated that their business optimism remained strong in July, albeit a slight pullback from the peak in June, supported by new projects, expansion plans, and more aggressive marketing."

Meanwhile, MIDF Research opined that the Malaysian economy still remains on an upward track with leading economic index pointing towards a recovery path.

"The optimistic outlook for the second half of the year is underpinned by lower interest rates in developing and emerging economies, gradual pick-up in commodity prices and firm domestic demand."

The research house expects exports performance to be quite vulnerable especially with the latest abrupt decision by US President Donald Trump to impose 10% tariffs on a further US\$300 billion (RM1.24 trillion) worth of imports from China, which would mean that all trade with China will subject to new taxes.

"With the new tariffs in place, it could add more risks to the global economy including Malaysia due to the supply chain factor."

MIDF foresees Malaysia's exports growth to moderate further to 3.6% this year from 6.7% in 2018, due to higher base effects and continuous signs of faltering trade globally derived from rising protectionism and a loss of momentum in some major economies, especially in Europe.

Malaysia's exports in June saw a year-on-year (yoy) decline of 3.1% to RM76.2 billion, due to lower exports of electrical & electronic (E&E) products.

However, a larger trade surplus of RM10.3 billion was recorded as imports contracted at a faster pace of 9.2% to RM65.9 billion.