

13 May 2020



ECONOMICS

In this report:

Malaysia – Heading for first GDP contraction since 2009

KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES

Dr. Anthony Dass

Chief Economist/Head
anthony-dass@ambankgroup.com
03-20322972

Munesh Nair Muralidharan

Economist
munesh-nair@ambankgroup.com
03-20362255

Nur Iman Binti Mohamed Azhar

Economist
iman-azhar@ambankgroup.com
03-20363020

Malaysia

Heading for first GDP contraction since 2009

Poor industrial production (IP) in March falls in tandem with other recent macro data such as labour, distributive trade and exports, all impacted by the Covid-19 pandemic. The outbreak of the virus has resulted in supply disruptions, a collapse in demand and job losses brought about by containment measures.

March IP fell by 4.9% y/y from 6.2% y/y in February, marking the lowest level since September 2009. The drag in the IP was from across the sub-indices. Manufacturing, mining, and electricity output contracted by 4.2% y/y, 6.5% y/y and 7.0% y/y respectively from +6.2%y/y, +6.1% y/y and +6.8% y/y, respectively in February.

A weak March labour data, reflected by the 3.9% unemployment rate with 112.1K of net job losses, a fall in distributive trade, which was down by 5.7% to bring 1Q2020 to 1.6%, a slow IP growth at 0.6% in 1Q2020, exports for the first quarter at 1.9% and a weaker PMI print in 1Q2020 at 48.6 with March PMI standing at 48.4, are pointing to a slower GDP growth for the quarter.

Our estimates suggest that 1Q2020 GDP could hover around -2.8% to -3.5%. However, we feel that the GDP should drop by 3.5%. It will be the first contraction since 2009.

- Poor industrial production (IP) in March falls in tandem with other recent macro data impacted by the pandemic Covid-19. It resulted in supply disruptions, collapse in demand and job losses brought about by containment measures.
- In March, the IP fell by 4.9% y/y from 6.2% y/y in February, marking the lowest level since September 2009. The drag in the IP was from across the sub-indices. Manufacturing, mining, and electricity output contracted by 4.2% y/y, 6.5% y/y and 7.0% y/y respectively from +6.2%y/y, +6.1% y/y and +6.8% y/y, respectively in February.
- Looking at manufacturing, the sharp drop in out was seen from: (1) E&E, down 5.0% y/y from 7.0% y/y in February – the lowest since April 2011; (2) food, beverages & tobacco, falling by 9.9% y/y from +4.4% y/y in February; and (3) transport equipment and other manufacturers, dropping by 10.2% y/y from 4.9% y/y. However, rubber gloves output jumped by 60.3% y/y from 21.1% y/y in February largely due to strong demand during the virus pandemic.
- In March, mining output was affected by the decline in crude oil and natural gas production. Their respective output slid by 7.1% y/y from -0.5% y/y in February; and to -6.0% y/y from +12.0% y/y in March.

- A weak March labour data, reflected by the 3.9% unemployment rate with 112.1K of net job losses, a fall in distributive trade, which was down by 5.7% to bring 1Q2020 to 1.6%, a slow IP growth at 0.6% in 1Q2020, exports for the first quarter at 1.9% and a weaker PMI print in 1Q2020 at 48.6 with March PMI standing at 48.4, are pointing to a slower GDP growth for the quarter.
- Our estimates suggest that 1Q2020 GDP could hover around -2.8% to -3.5%. However, we feel that the GDP should drop by 3.5%. It will be the first contraction since 2009.

Table 1: Key Industrial Production Data (y/y)

	Mar'19	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan'20	Feb	Mar
IP y/y	3.1	4.0	4.0	3.8	1.2	1.7	1.7	0.4	2.1	1.3	0.6	6.2	-4.9
Mfg y/y	4.1	4.3	4.2	3.8	4.0	3.6	2.5	2.3	2.7	3.4	2.2	6.2	-4.2
Mining y/y	-0.2	2.3	3.0	4.6	-8.4	-3.9	-1.6	-5.8	0.5	-4.9	-3.9	6.1	-6.5
Electricity y/y	4.8	5.8	5.7	1.7	2.0	0.3	4.1	0.5	1.6	0.9	0.0	6.8	-7.0
Mfg Sales y/y	5.7	6.8	6.7	5.3	6.0	4.5	2.9	2.4	2.5	3.9	2.4	7.6	-3.0

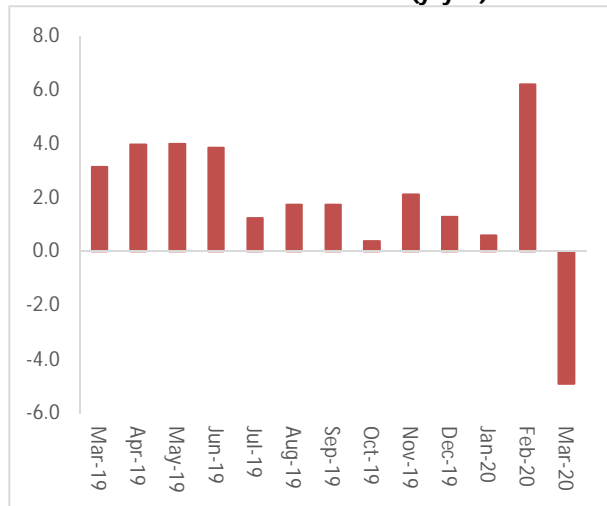
Source: CEIC/AmBank Research

Table 2: USD/MYR and PMI

	Apr'19	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan'20	Feb	Mar	Apr
MYR/USD avg	4.114	4.171	4.162	4.124	4.188	4.185	4.188	4.159	4.149	4.080	4.163	4.296	4.355
MYR/USD y/y	5.9	5.2	4.0	1.9	2.4	1.1	0.7	-0.7	-0.6	-0.9	2.2	5.3	5.9
PMI	49.4	48.8	47.8	47.6	47.4	47.9	49.3	49.5	50.0	48.8	48.5	48.4	31.3

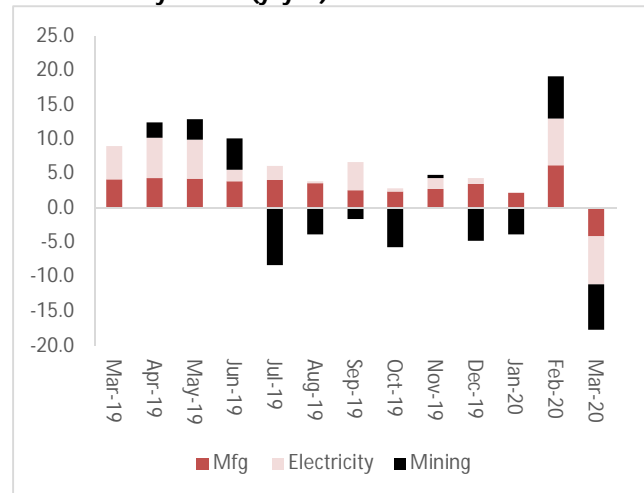
Source: CEIC/AmBank Research & - implies appreciation for the MYR

Chart 1: Industrial Production Index (y/y %)



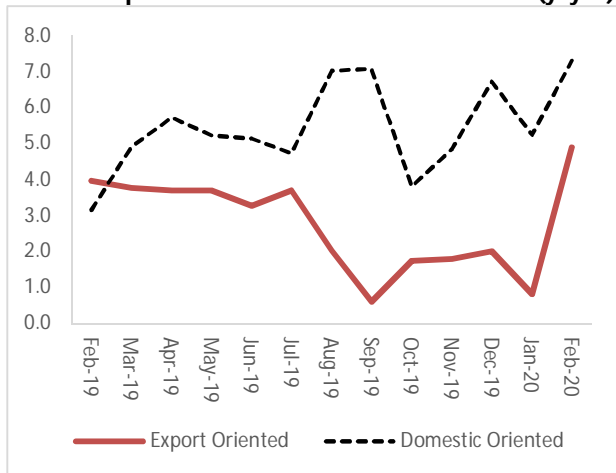
Source: CEIC/AmBank Research

Chart 2: IPI by Sector (y/y %)



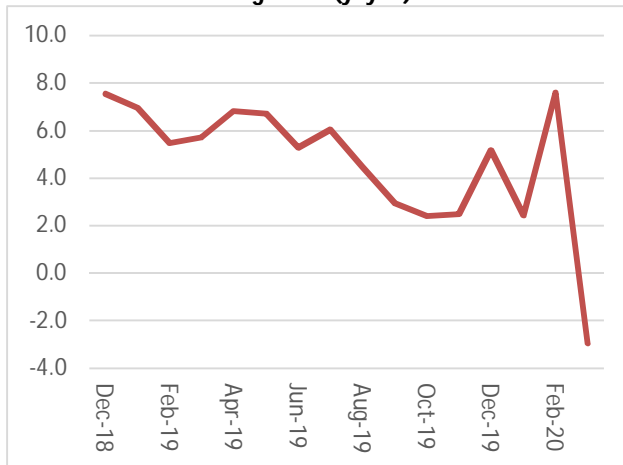
Source: CEIC/AmBank Research

Chart 3: Export & Domestic-Oriented Industries (y/y %)



Source: CEIC/AmBank Research

Chart 4: Manufacturing Sales (y/y %)



Source: CEIC/AmBank Research

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmBank (M) Berhad (“AmBank”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures, investment or other products. AmBank recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmBank believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmBank has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmBank’s views as of this date and are subject to change without notice. Notwithstanding that, AmBank has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmBank’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmBank’s prior written consent. AmBank, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmBank is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.