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ECONOMICS

In this report:

Malaysia – A grey 2Q before recovery in 3Q2020

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Malaysia

A grey 2Q before recovery in 3Q2020

The economy reported its weakest growth since 3Q2009 with 1Q2020 GDP coming in at +0.7% y/y, better than both the market's and our expectations of -1.0% and -2.8% respectively. After a steady expansion in the first two months of 2020, the overall economic activity fell sharply following the outbreak of Covid-19, and the measures taken to contain the spread of the virus in the form of the movement control order (MCO) on 18 March that disrupted the supply chain, dragged down demand and fuelled unemployment.

However, looking at the details of 1Q2020 figures, it can be deduced that the economy already inherited a weak performance from selected sectors since 2019. The pandemic virus impact, added with the collapse in oil prices, only exacerbated some of these already weak sectors while dampening new areas of economic activities such as services. The real challenge will be in 2Q2020 when the economy is expected to sink further due to the sudden and historic shutdown as the country responds to the coronavirus pandemic. Social distancing measures have upended normal life in much of the economy.

However, the economy is expected to bounce back in the third quarter and grow stronger in the fourth quarter supported by fiscal and monetary stimulus measures, the conditional MCO, and the rolling out of large transportation projects in 2H2020 such as the MRT, SUKE and DUKE 3, a recovery in commodity production and inventory build-up, which will provide some impetus to domestic growth.

With global recession now perceived to be unlike the 1930s as the current world economy is being supported by the monetary and fiscal measures, and the gradual relaxation of lockdowns, these should provide some positive impetus to exports. On that note, we believe the 2020 GDP growth could range between +0.4% and -2.0%. Based on the current set of indicators, the GDP is more likely to hover around -1.1%.

- The economy reported its weakest growth since 3Q2009. 1Q2020 GDP of +0.7%y/y came in better than both the market's and our expectations of -1.0% and -2.8% respectively. After a steady expansion in the first two months of 2020, the overall economic activity fell sharply following the outbreak of Covid-19 that disrupted the global supply chain, dragged down demand and fuelled unemployment.
- To contain the pandemic virus, the government imposed a nationwide MCO starting from 18 March. As a result of the MCO, both the demand and supply took a hit. Service activities were particularly hit, slowing down sharply to 3.1% from 6.2% in 4Q2019. However, the virus impact and containment measures saw a big jump in public consumption spending, which surged 5.0% (+1.2% in 4Q2019) while private consumption grew moderately by 6.7% y/y (8.1% y/y in 4Q2019).

- Meanwhile, other areas of economic activities were already weak even before the outbreak of the virus. For instance, manufacturing has been struggling for much of 2019, slowing to 1.5% y/y (+3.0% y/y in 4Q2020). Likewise, construction activities have been facing headwinds since in 2019, plunging 7.9% in 1Q2020, the second negative growth reported after -1.4% in 3Q2019.
- Furthermore, investment, which has been in the negative growth trajectory since 1Q2019, fell by 4.6% during the quarter. Agriculture reported its second consecutive negative growth of -8.7% (-5.7% in 4Q2019), while the weak mining activities since 4Q2017 shrank by 2.0% y/y. On the trade front, both weak exports since 3Q2019 and imports since 1Q2019 contracted by 7.1% and 2.5% respectively during the quarter.
- Looking at the results of 1Q2020, it can be deduced that the economy already inherited a weak performance from selected sectors since 2019. The pandemic virus impact, added with the collapse in oil prices, just aggravated some of the already weak sectors while dampening new areas of economic activities such as services.
- The real challenge will be in 2Q2020 when the economy is expected to sink further due to the sudden and historic shutdown as the country responds to the coronavirus pandemic. Social distancing measures have upended normal life in much of the economy. Reports pointed to a sudden surge in layoffs and a collapse in spending, both historic in size and speed, as well as the closures of many schools, stores, offices, manufacturing plants, construction sites, etc.
- However, the economy is expected to bounce back in the third quarter and grow stronger in the fourth quarter. With fiscal and monetary stimulus measures, compounded with the conditional MCO, these are expected to provide positive impetus to the economic growth. The rolling out of large transportation projects in 2H2020 such as the MRT, SUKE and DUKE 3; a recovery in commodity production, and inventory build-up will add some impetus to domestic growth.
- Besides, the global recession is now perceived to be unlike the 1930s since the current world economy is being supported by stimulus monetary and fiscal measures, plus the gradual relaxation of lockdowns should provide some positive impetus to exports. On that note, we believe 2020 GDP growth could range between +0.4% and -2.0%. Based on the current set of indicators, the GDP is more likely to hover around -1.1%.

Table 1: Malaysia GDP Growth (Demand Side: y/y %)

	1Q17	2Q	3Q	4Q	1Q18	2Q	3Q	4Q	1Q19	2Q	3Q	4Q	1Q20
GDP	5.6	5.7	6.1	5.8	5.2	4.7	4.4	4.8	4.5	4.8	4.4	3.6	0.7
Exports	9.9	9.3	10.6	5.1	2.3	2.0	0.5	2.9	0.1	0.5	-2.1	-3.4	-7.1
Imports	13.0	9.6	12.2	6.2	-2.0	3.7	2.3	2.0	-1.6	-2.3	-3.5	-2.4	-2.5
GFCF	9.5	3.9	6.6	4.4	0.4	1.6	2.8	0.6	-3.5	-0.6	-3.7	-0.7	-4.6
Pvt. Cons	6.6	7.0	7.1	6.9	6.5	7.9	8.9	8.4	7.7	7.8	7.0	8.1	6.7
Public. Cons	7.8	3.5	4.2	7.0	0.2	2.9	5.0	3.9	6.3	0.3	1.0	1.2	5.0
Net Exports	-17.2	6.6	-0.9	-4.2	53.6	-13.6	-14.7	12.0	13.0	32.9	12.0	-12.4	-37.0

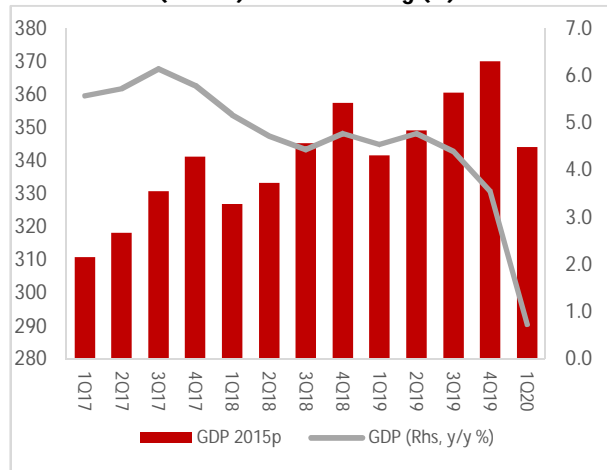
Source: CEIC/AmBank Research

Table 2: Supply Side of Economy (y/y %)

	1Q17	2Q	3Q	4Q	1Q18	2Q	3Q	4Q	1Q19	2Q	3Q	4Q	1Q20
Agriculture	6.6	4.5	3.3	9.4	3.1	-1.5	-1.2	0.2	5.8	4.3	4.0	-5.7	-8.7
Mining	1.0	-0.5	2.3	-0.9	-2.5	-1.3	-5.1	-0.1	-1.5	1.0	-4.1	-3.4	-2.0
Construction	6.8	8.3	6.2	5.9	4.9	4.8	4.7	2.5	0.4	0.5	-1.4	1.0	-7.9
Manufacturing	5.9	6.0	7.0	5.3	5.2	4.8	5.0	4.7	4.1	4.3	3.6	3.0	1.5
Services	5.9	6.4	6.6	6.3	6.5	6.6	7.3	6.9	6.4	6.1	5.8	6.2	3.1

Source: CEIC/AmBank Research

Chart 1: GDP (RM bil) vs. Annual Chg (%)



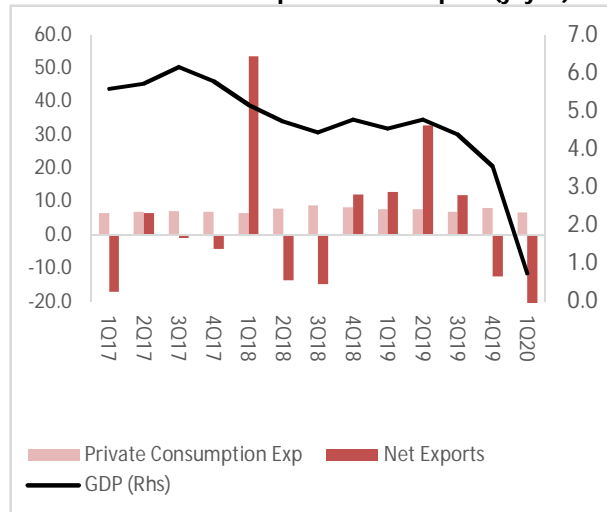
Source: CEIC/AmBank Research

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



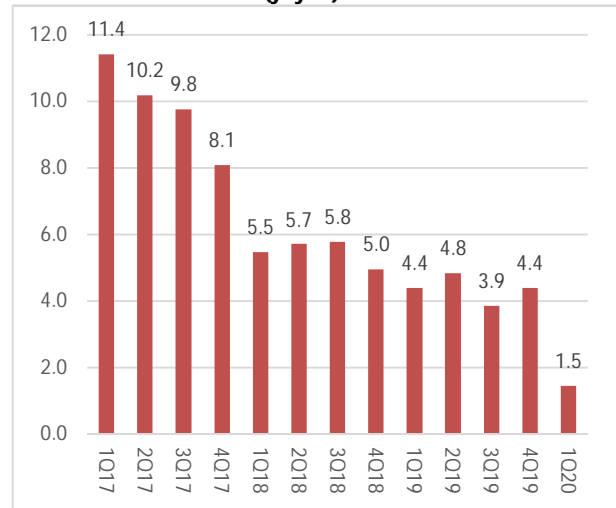
Source: CEIC/AmBank Research

Chart 3: Private Consumption & Net Export (y/y %)



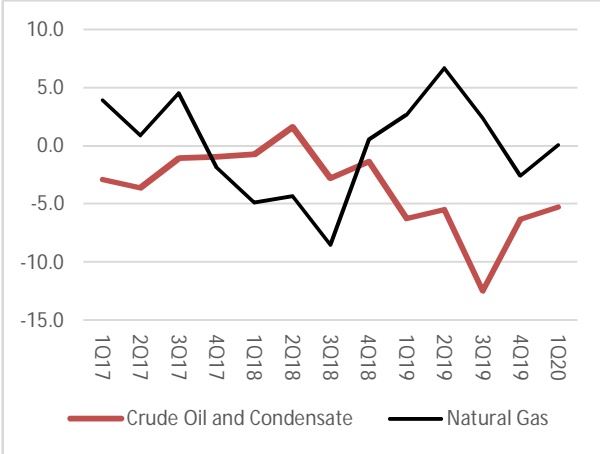
Source: CEIC/AmBank Research

Chart 4: Nominal GDP (y/y %)



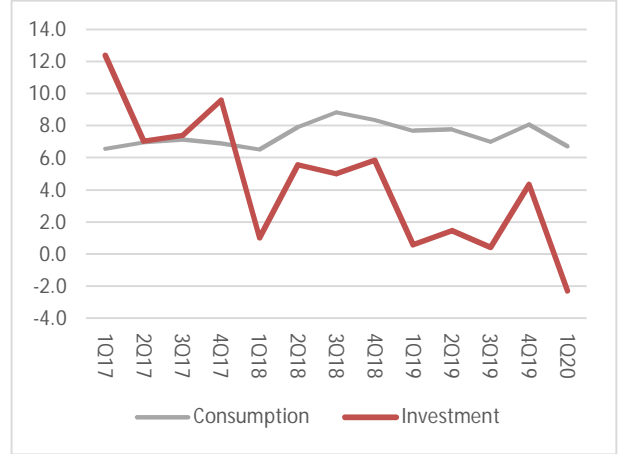
Source: CEIC/AmBank Research

Chart 5: Mining Sector Breakdown (y/y %)



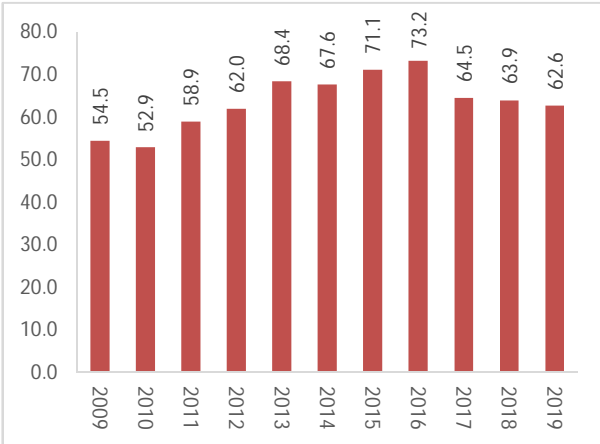
Source: CEIC/AmBank Research

Chart 6: Private Sector Activities (y/y %)



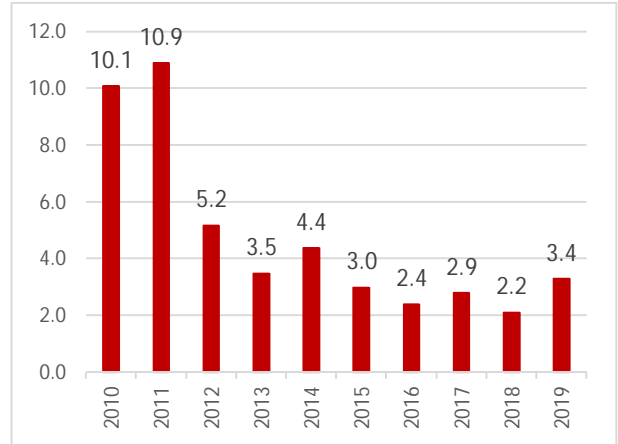
Source: CEIC/AmBank Research

Chart 7: External Debt % GDP



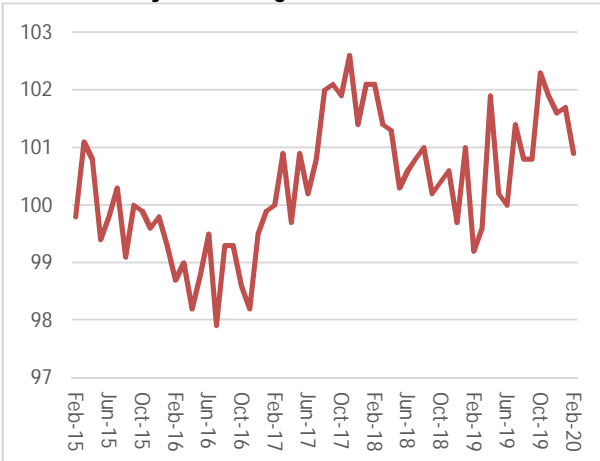
Source: CEIC/AmBank Research

Chart 8: CABOP % GNI



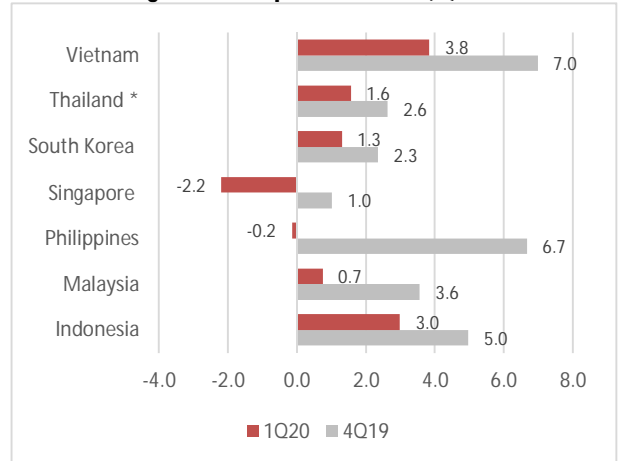
Source: CEIC/AmBank Research

Chart 9: Malaysia Leading Index



Source: CEIC/AmBank Research

Chart 10: Regional GDP performance (%)



Source: CEIC/AmBank Research; Thailand*; 3Q19&4Q19.

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