

27 May 2020



ECONOMICS

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Malaysia – 2Q to bear the brunt of MCO

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Malaysia

2Q to bear the brunt of MCO

March's Leading Indicator (LI) reported the biggest drop since November 1991. LI declined further to negative 4.9% in March 2020 from negative 0.8% in the previous month while on y/y, it fell by 3.6% against 1.7% in February 2020.

Thus, it is expected that the economy will be facing a sharp slowdown in the near future. It is because the biggest impact of the movement control order (MCO) will be felt in 2Q2020 despite transitioning from the MCO to the CMCO (conditional control movement order).

However, looking ahead, the outlook of the LI will depend much on how both the consumer and business confidence are restored. Focus will be on the impact of the relief and recovery measures, whether will the MCO will be reimposed, SOP issues and the two-week extension, all of which will impact business and consumer confidence.

- March's Leading Indicator (LI) reported the biggest drop since November 1991. LI declined further to negative 4.9% in March 2020 from negative 0.8% in the previous month while on y/y it fell by 3.6% against 1.7% in February 2020.
- The poor performance did not come as a surprise. The imposition of the two-week movement control order (MCO) which began on March 18 to curb the spread of Covid-19 dragged down manufacturing expected sales, shutting down non-essential business activities while the number of new companies registered was -1.7% and -1.6% respectively.
- Thus, it is expected that the economy will be facing a sharp slowdown in the near future. It is because the biggest impact of MCO will be felt in 2Q2020 despite transitioning from the MCO to the CMCO (conditional control movement order).
- We expect continued weak consumer confidence and business sentiments in view of the SOPs and the fear of virus infections. Besides, issues of job certainty and wage/salary reduction are expected to further weigh on demand and supply. On that note, 2QGDP is expected to contract by double digits.

- However, looking ahead, the outlook of LI will depend much on how both the consumer and business confidence are restored. Focus will be on the impact of the relief and recovery measures, whether will the MCO will be reimposed, SOP issues and the two-week extension, all of which will impact business and consumer confidence.

Table 1: Key Coincident, Leading, and Lagging Indicators (%)

	Mar'19	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan'20	Feb	Mar	Apr
Coincident y/y	2.4	3.3	3.7	2.4	2.1	2.6	2.2	2.0	2.5	2.4	2.0	3.4	-3.6	n.a.
Leading y/y	-1.8	0.6	-0.1	-0.6	0.6	-0.2	0.6	1.9	1.3	1.9	0.7	1.7	-3.6	n.a.
Lagging y/y	2.4	2.4	3.1	2.0	2.3	1.8	2.8	1.5	1.3	2.2	1.2	-0.6	-4.6	n.a.
Coincident m/m	-0.2	0.8	0.4	-0.2	0.5	0.4	-0.3	0.4	0.3	0.2	0.2	0.7	-6.9	n.a.
Leading m/m	0.4	2.3	-1.7	-0.2	1.4	-0.6	0.0	1.5	-0.4	-0.3	0.1	-0.8	-4.9	n.a.
Lagging m/m	-2.3	0.8	0.3	-1.5	1.5	-0.3	0.3	0.6	-0.3	0.8	-0.2	-0.4	-6.2	n.a.
IP	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	n.a.
Mfg PMI	47.2	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

Table 2: Coincident Index Breakdown (m/m %)

	Nov'19	Dec	Jan'20	Feb	Mar
Total Employment, Mfg	0.1	0.0	0.2	0.2	-0.3
Real Salaries & Wages, Mfg	0.1	0.1	0.0	0.1	-0.3
Industrial Production	0.1	0.0	0.0	0.3	-0.9
Real Contributions, EPF	0.0	0.1	0.1	0.1	-0.3
Capacity Utilisation, Mfg	-0.2	-0.1	-0.2	0.1	-2.4
Volume Index, Retail Trade	0.2	0.1	0.1	-0.1	-2.7

Source: CEIC/AmBank Research

Table 3: Leading Index Breakdown (m/m %)

	Nov'19	Dec	Jan'20	Feb	Mar
Real Money Supply, M1	0.0	0.0	-0.1	-0.1	1.0
KLSE Industrial Index	0.0	0.0	0.1	-0.2	-0.5
Real Imports of Semi Conductors	0.3	-0.2	0.0	0.3	-1.1
Real Imports of Other Metals	-0.4	-0.1	-0.1	0.4	-1.0
Housing Permits, Approved	-0.3	0.1	0.0	-0.8	0.0
Expected Sales Value, Mfg	0.0	-0.2	0.5	-1.2	-1.7
New Companies Registered	0.0	0.1	-0.3	0.8	-1.6

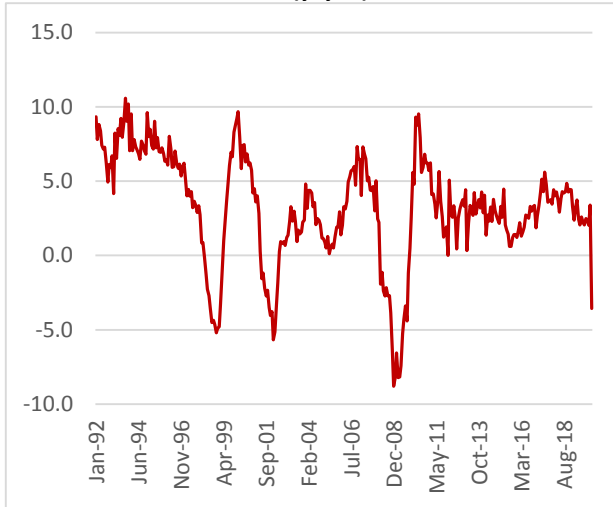
Source: CEIC/AmBank Research

Table 4: Lagging Indicator Breakdown (m/m %)

	Nov'19	Dec	Jan'20	Feb	Mar
Unit Labour Cost, Mfg	0.0	0.0	0.0	-0.4	0.8
No of Investment Projects Approved	-0.3	0.4	-0.3	-0.5	0.4
New Vehicles Registered	0.0	0.0	-0.3	0.4	-7.0
Export, Natural Gas & Crude Oil	-0.2	0.3	0.1	0.2	-0.6
CPI, Service	0.2	0.1	0.2	-0.1	0.2

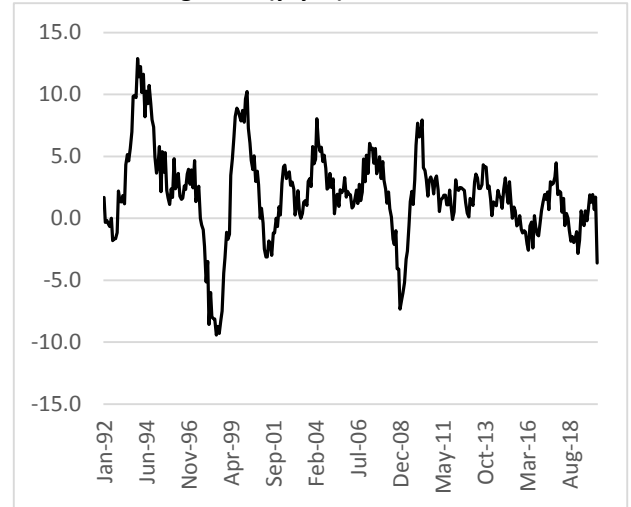
Source: CEIC/AmBank Research

Chart 1: Coincident Index (y/y %)



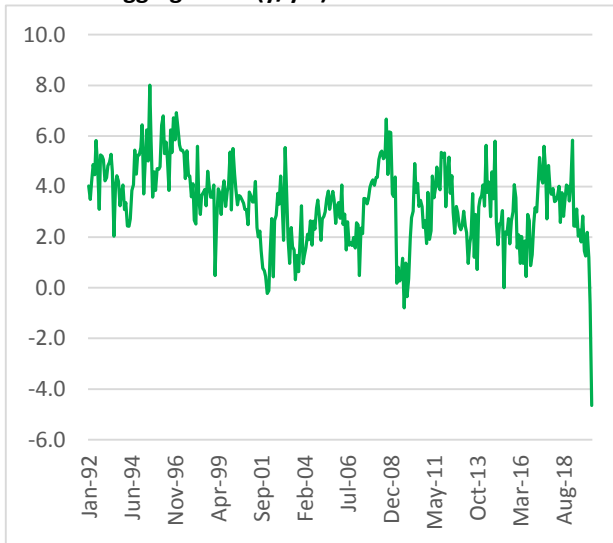
Source: CEIC/AmBank Research

Chart 2: Leading Index (y/y %)



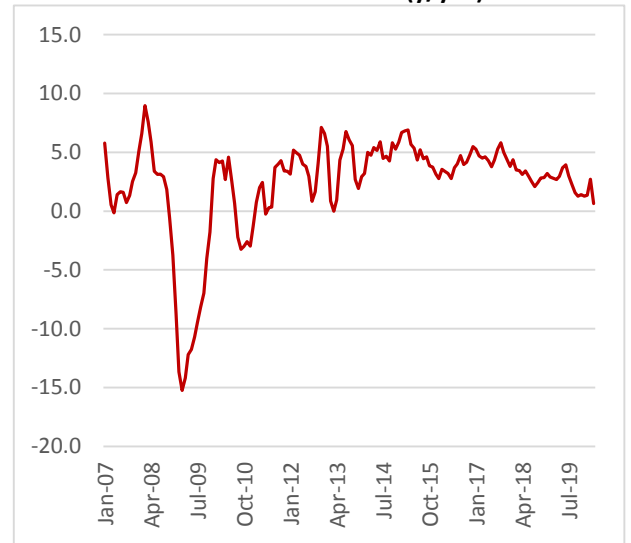
Source: CEIC/AmBank Research

Chart 3: Lagging Index (y/y%)



Source: CEIC/AmBank Research

Chart 4: Industrial Production 3MA (y/y %)



Source: CEIC/AmBank Research

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