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# ECONOMICS

**In this report:**

**Malaysia – 2Q growth crashes, L-shaped recovery taking shape**

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## Malaysia

### 2Q growth crashes, L-shaped recovery taking shape

**Crash landed, a dirty-L recovery is now more likely. The domestic economy has crashed into recession for the third time since Independence. The meltdown showcased the destructive impact of lockdowns and Malaysia's movement control order (MCO) beginning 18 March to curb the spread of the Covid-19 virus. In line with sharp contractions of other countries' 2Q GDP as a result of the containment measures on the virus spread, Malaysia's 2Q GDP was worse off than both the consensus and our estimation as well as that during the 1997 Asian financial crisis as it plunged by 17.1% y/y.**

**With uncertainties still lingering, the possibility of a second wave infections, the recent pick-up in the number of new cases, added with external and domestic challenges, the negative impact on the economy is still very much in the picture. It is unlikely to recover quickly and sustainably in the near term. Thus, the economy is likely to report another quarter of contraction in 3Q.**

**With a worse-off 2Q GDP contraction and looking at another negative growth in 3Q, we are factoring in another 25-basis-point (bps) OPR cut on 6 Sep with a 70% chance of a 50bps cut with the aim of supporting growth. For the full year, GDP growth is revised downwards to -3.6% (previously -2.0%) with the downside at -5.6% (previously -5.0%).**

- The domestic economy crash-landed into recession for the third time since Independence. The meltdown showcased the destructive impact of lockdowns and Malaysia's movement control order (MCO) beginning 18 March to curb the spread of the Covid-19 virus. The government eventually implemented a phased removal of restrictions as new daily Covid-19 infections started to ease. However, the impact from the lockdowns and MCO took a devastating hit on 2Q GDP which did not come as a surprise.
- In line with sharp contractions in other countries' 2QGDP brought about by the Covid-19 containment measures, Malaysia's 2Q GDP was worse off than both the consensus and our estimation. It plunged by 17.1% y/y from +0.7% y/y in 1Q2020, reporting the worst contraction since the 1997 Asian financial crisis and below both ours (-10% to -11%) and consensus (-10%).
- And just like other countries that have reported their 2Q GDP and are now in "technical" recession, the domestic economy is facing the same plight. This comes after the huge contraction of 2Q GDP on a quarterly basis by 16.5% following -2.0% in 1Q2020. This is not surprising.

- Such poor performance in the domestic economy comes from the destructive impact of lockdowns and movement control order (MCO), weak domestic demand and in particular, private consumption which is expected to anchor 2020's economic growth. Household spending, which accounts for 55% of GDP, slumped 18.5%. Business activities took a severe beating, impacting private investment. Meanwhile, government consumption spending was modest, but investment plunged. All the economic sectors reported contraction.
- With uncertainties still lingering, the possibility of a second wave infections, the recent pick-up in the number of new cases, added with external and domestic challenges, the negative impact on the economy is still very much in the picture. But the downside to the economic growth could be contained with the huge domestic stimulus measures amounting to RM295 billion.
- Besides, recent forward-looking indicators have shown a slight improvement both globally and domestically. Nevertheless, the modest improvement in data remains well below levels posted prior to Covid-19. Hence, it is unlikely for a quick and sustained recovery to emerge in the near term. The economy is likely to report another quarter of contraction in 3Q of 2020.
- With a worse-off 2Q GDP contraction and looking at another negative growth in 3Q, we are factoring in another 25bps OPR cut on 6 Sep with a 70% chance of a 50bps cut with the aim of supporting growth.
- Meanwhile, supported by the stimulus fiscal policy and monetary measures added with the gradual improvement of the global economy, the domestic economy is expected to see positive growth in 4Q2020. For the full year, the GDP growth has been revised downwards to -3.6% (previously -2.0%) with the downside at -5.6% (previously -5.0%). Meanwhile, the economy is likely headed for a base effect-induced bounce in 2021 and a return to a growth trajectory of 6.5% to 7.0%.

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

	Quarterly Basis (Q/Q%)					Yearly Basis (Y/Y%)				
	2Q19	3Q19	4Q19	1Q20	2Q	2Q19	3Q19	4Q19	1Q20	2Q20
GDP	2.2	3.2	2.7	-7.0	-15.9	4.8	4.4	3.6	0.7	-17.1
Private Consumption	2.3	7.3	-1.6	-1.1	-21.9	7.8	7.0	8.1	6.7	-18.5
Govt. Consumption	2.2	2.8	34.2	-25.6	-0.4	0.3	1.0	1.2	5.0	2.3
Private Investment	15.2	-9.3	-20.0	16.9	-13.2	1.5	0.4	4.3	-2.3	-26.4
Govt. Investment	-11.3	11.9	52.0	-41.2	-38.7	-7.8	-14.6	-8.0	-11.3	-38.7
Domestic Demand	3.8	3.6	2.5	-5.9	-18.6	4.5	3.5	4.8	3.7	-18.7
Real Exports	0.1	1.6	1.2	-9.6	-15.7	0.5	-2.1	-3.4	-7.1	-21.7
Real Imports	2.9	1.8	2.2	-9.0	-15.2	-2.3	-3.5	-2.4	-2.5	-19.7
Net Exports	-18.5	-0.5	-7.8	-15.8	-20.6	32.9	12.0	-12.4	-37.0	-38.6

Source: CEIC/DOSM/AmBank Research

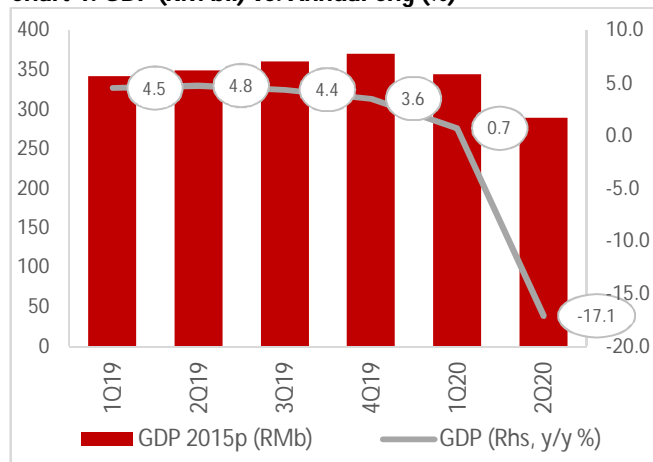
**Table 2: Summary of GDP by Supply-Side Approach (q/q, y/y%)**

	Q/Q %				Y/Y%			
	3Q19	4Q19	1Q20	2Q20	3Q19	4Q19	1Q20	2Q20
<b>GDP</b>	<b>3.2</b>	<b>2.7</b>	<b>-7.0</b>	<b>-15.9</b>	<b>4.4</b>	<b>3.6</b>	<b>0.7</b>	<b>-17.1</b>
<b>Agriculture, Forestry &amp; Fishing</b>	15.4	-12.3	-8.4	9.0	4.0	-5.7	-8.7	1.0
Rubber	45.1	-7.8	-7.4	-37.1	7.2	1.9	-18.2	-22.1
Oil Palm	18.2	-12.3	-19.5	28.9	8.4	-16.9	-22.0	7.5
Livestock	10.4	0.6	-6.7	-2.3	6.9	7.5	8.2	1.3
Other Agriculture	8.8	-15.5	8.4	4.7	3.9	6.1	6.4	4.5
Forestry & Logging	5.3	-20.3	-13.6	7.1	-9.5	-19.0	-23.5	-22.3
Marine Fishing	36.0	-25.8	0.7	-16.4	-1.4	-3.0	-10.6	-15.1
Aquaculture	16.2	-1.3	-24.7	14.6	-8.3	13.4	-0.5	-1.0
<b>Mining &amp; Quarrying</b>	<b>-11.1</b>	<b>13.7</b>	<b>-4.2</b>	<b>-17.3</b>	<b>-4.1</b>	<b>-3.4</b>	<b>-2.0</b>	<b>-20.0</b>
Crude Oil	-14.6	13.0	-1.0	-17.9	-12.5	-6.3	-5.2	-21.5
Natural Gas	-10.2	15.4	-5.8	-16.7	2.4	-2.6	0.0	-18.7
Others	0.2	7.6	-9.8	-18.0	3.2	6.8	2.7	-20.2
<b>Manufacturing</b>	<b>1.2</b>	<b>2.3</b>	<b>-6.1</b>	<b>-15.9</b>	<b>3.6</b>	<b>3.0</b>	<b>1.5</b>	<b>-18.3</b>
Vegetable & Animal Oils & Fats	-6.4	20.0	-25.7	38.6	-8.4	-5.8	-16.4	15.6
Food Procession	8.9	-8.8	-5.9	11.5	10.8	8.6	8.3	4.3
Beverages	-4.8	-1.9	-16.8	-19.6	3.2	3.1	-0.6	-37.5
Tobacco Products	-13.1	-20.5	-4.7	-51.8	4.6	5.1	-3.4	-68.2
Textile & Wearing Apparel	-6.4	0.9	-7.0	-33.3	5.5	5.9	3.0	-41.4
Leather Products	-24.4	-18.8	37.7	-35.6	5.7	4.9	3.0	-45.5
Wood Products	7.9	-3.0	-1.8	-42.5	6.0	4.6	2.5	-40.9
Paper Products	-4.9	-15.6	13.4	-11.8	4.8	4.6	-0.9	-19.8
Printing	-3.6	23.0	2.9	-41.7	5.3	2.1	1.9	-29.0
Refined Petroleum Products	-2.1	6.7	-3.1	-27.4	3.1	2.3	3.7	-26.5
Chemicals & Chemical Products	9.6	3.8	-8.8	-17.1	2.2	2.0	2.3	-14.0
Rubber Products	12.7	1.9	-22.8	66.7	7.1	6.3	20.6	47.8
Plastic Products	32.8	-18.2	-7.0	-8.9	0.6	2.3	-0.2	-8.0
Non-Metallic Mineral Products	-0.3	-9.9	-8.8	-34.8	4.3	4.2	-0.4	-46.6
Basic Metals	-0.2	-4.9	-16.8	-7.1	3.8	4.8	1.0	-26.7
Fabricated Metal Products	-9.2	-6.7	4.7	-34.9	3.9	2.9	-0.3	-42.3
Machinery & Equipment	1.8	-9.4	48.9	-30.3	5.5	4.5	-0.4	-4.3
Computers & Peripheral Equipment	-2.3	3.8	-5.2	-15.7	11.8	-6.0	-6.2	-19.0
Electrical Equipment	-27.4	28.3	-8.3	9.5	0.0	3.9	-0.9	-6.5
Electronic Compo & Boards, Com Equip and Elect	2.9	5.0	4.6	-19.5	2.3	2.8	3.8	-8.9
Medical, Precision & Optical, Watches & Clocks	0.1	10.1	-36.7	32.6	2.7	3.2	0.5	-7.3
Motor Vehicles & Transport Equipment	-6.4	21.1	-28.7	-13.4	7.4	4.3	-1.8	-30.0
Furniture	-9.0	-3.4	13.2	-37.9	6.9	9.0	0.9	-38.3
Other Mfg and Repair & Installation and Equipment	55.3	-13.1	-26.2	-34.7	3.1	6.7	0.6	-35.0

<b>Construction</b>	<b>5.6</b>	<b>-2.3</b>	<b>-7.4</b>	<b>-41.9</b>	<b>-1.4</b>	<b>1.0</b>	<b>-7.9</b>	<b>-44.5</b>
Residential	9.0	4.5	-10.8	-40.2	-3.1	3.1	-8.1	-39.2
Non-Residential	1.5	17.1	-21.6	-32.2	-11.9	-10.0	-11.7	-36.8
Civil Engineering	11.3	-15.5	3.5	-58.3	5.2	6.7	-5.1	-59.4
Special Trades	-4.8	-3.2	-4.9	-19.8	0.0	4.6	-9.0	-29.8
<b>Services</b>	<b>4.3</b>	<b>4.1</b>	<b>-7.3</b>	<b>-16.7</b>	<b>5.8</b>	<b>6.2</b>	<b>3.1</b>	<b>-16.2</b>
Electricity & Gas	0.6	-1.2	1.6	-14.1	5.0	5.4	4.9	-13.3
Water, Sewerage and Waste Management	3.1	3.0	0.1	2.3	6.3	6.2	5.6	8.8
Wholesale Trade	10.5	-0.1	-14.4	-15.8	6.2	5.9	3.4	-20.5
Retail Trade	4.2	10.2	-10.6	-22.9	8.0	7.3	2.1	-20.9
Motor Vehicles	25.1	-6.2	-19.1	-44.4	2.5	4.4	-2.9	-47.3
Food & Beverage	2.1	10.3	-10.3	-32.2	10.2	10.8	3.1	-31.5
Accommodation	6.6	1.9	-15.5	-77.0	6.6	6.9	-4.3	-78.9
Transportation & Storage	2.4	4.7	-11.0	-42.1	6.8	6.8	-2.7	-44.8
ICT	1.6	-1.8	3.5	1.6	6.1	6.8	6.7	4.9
Finance	2.7	3.4	-1.9	-11.8	4.3	5.9	4.2	-8.2
Insurance	2.9	7.2	3.2	-9.2	3.9	3.1	6.6	3.4
Real Estate	1.9	0.7	-4.4	-30.9	4.6	5.1	0.1	-32.2
Business Services	-1.6	7.6	-5.1	-22.7	9.2	9.4	4.9	-22.4
Private Health	-0.9	0.4	-4.2	-14.5	6.0	5.8	2.0	-18.5
Private Education	7.2	-0.2	-6.3	-13.5	5.5	5.9	4.2	-13.3
Other Services	2.1	1.3	-2.8	-22.9	5.5	5.8	0.7	-22.6
Govt. Services	4.5	9.8	-10.3	0.6	3.1	3.6	4.3	3.5
<b>Import Duties</b>	<b>1.7</b>	<b>-3.1</b>	<b>-17.5</b>	<b>1.3</b>	<b>34.7</b>	<b>-3.3</b>	<b>-16.0</b>	<b>-17.7</b>

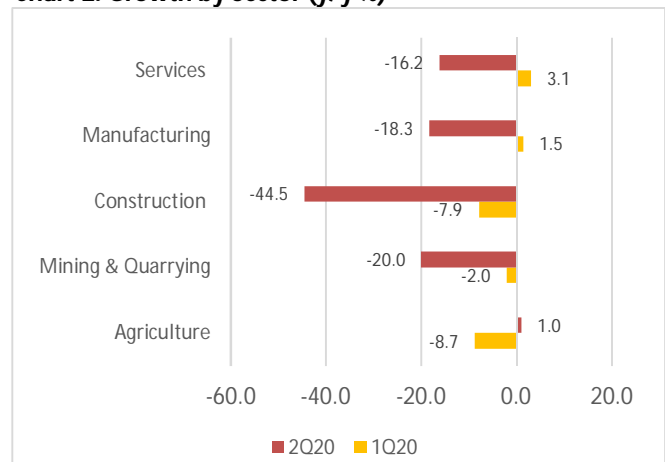
Source: CEIC/DOSM/AmBank Research

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



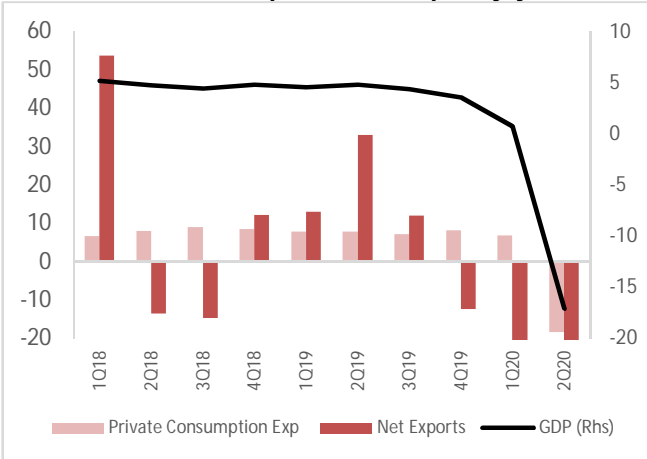
Source: CEIC/AmBank Research

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



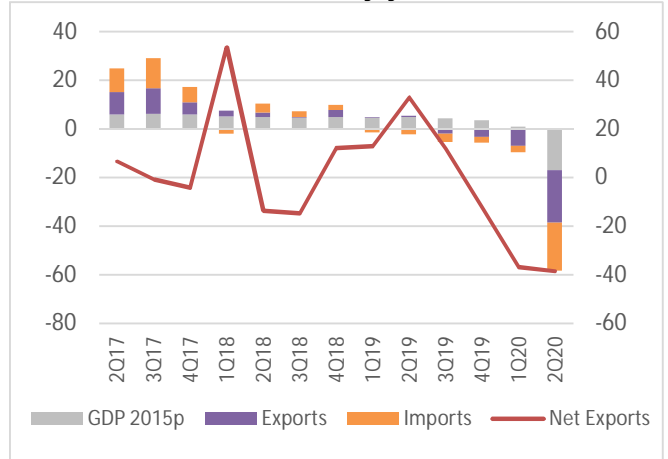
Source: CEIC/AmBank Research

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



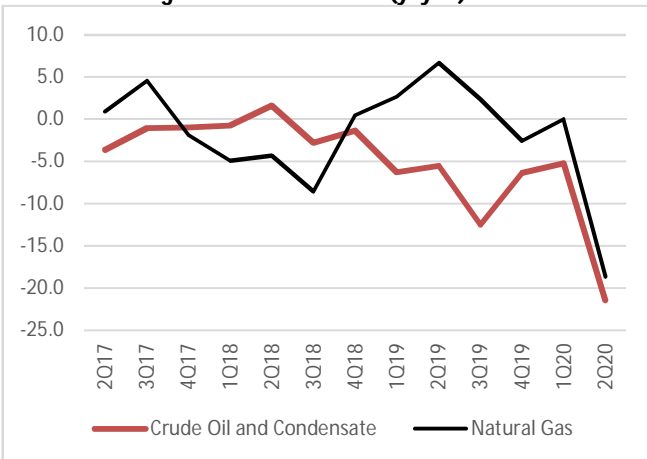
Source: CEIC/AmBank Research

**Chart 4: GDP vs External Trade (y/y %)**



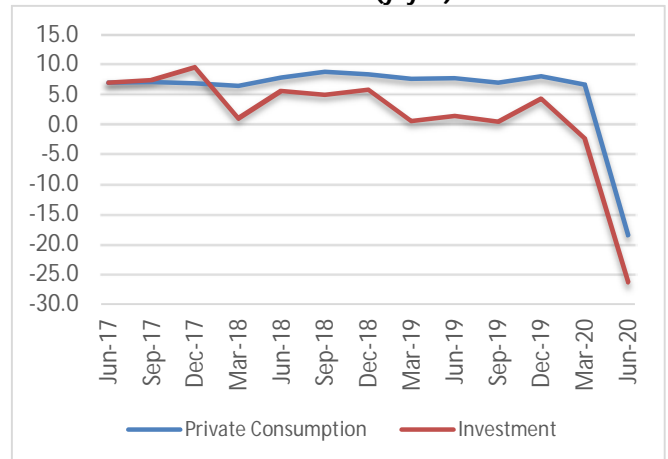
Source: CEIC/AmBank Research

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



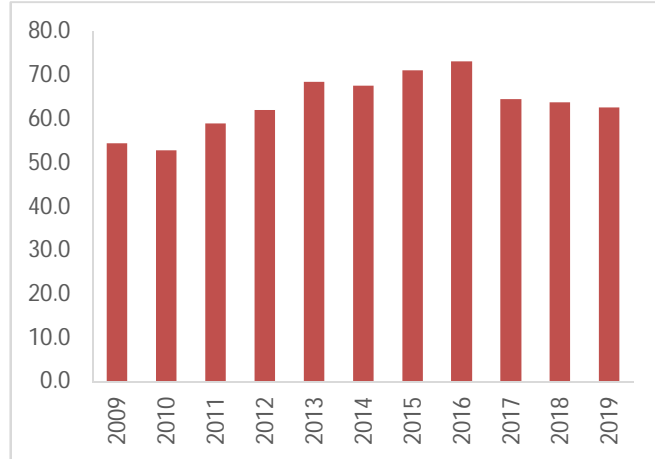
Source: CEIC/AmBank Research

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



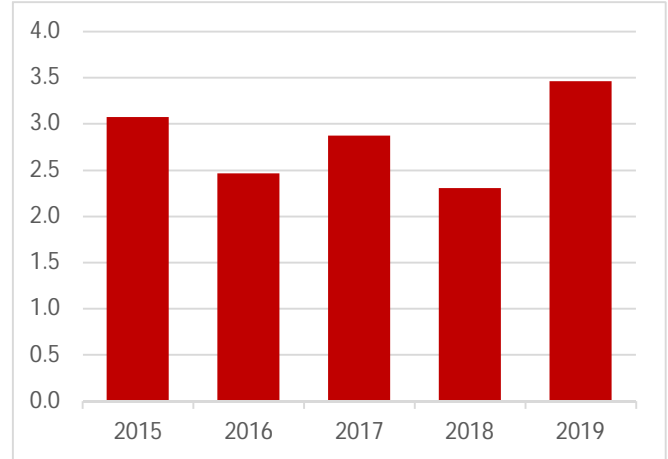
Source: CEIC/AmBank Research

**Chart 7: External Debt as % of Nominal GDP**



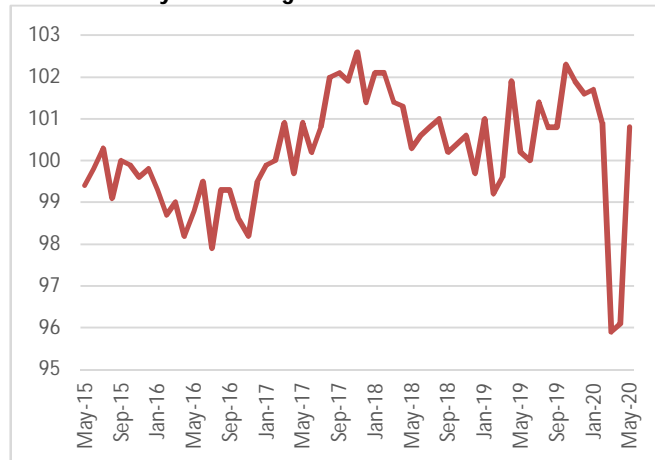
Source: CEIC/AmBank Research

**Chart 8: CABOP % GNI**



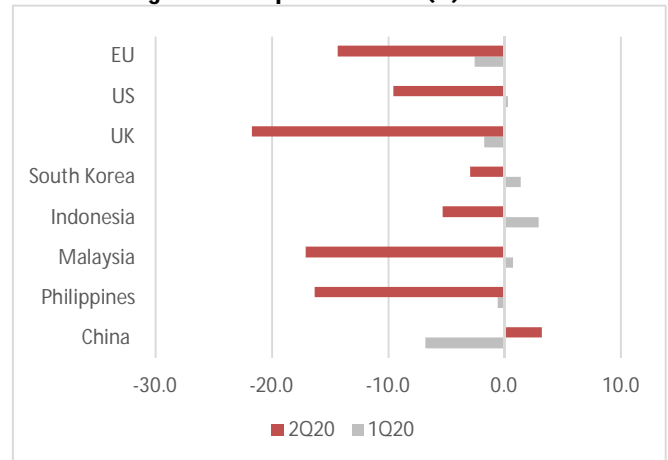
Source: CEIC/AmBank Research

**Chart 9: Malaysia Leading Index**



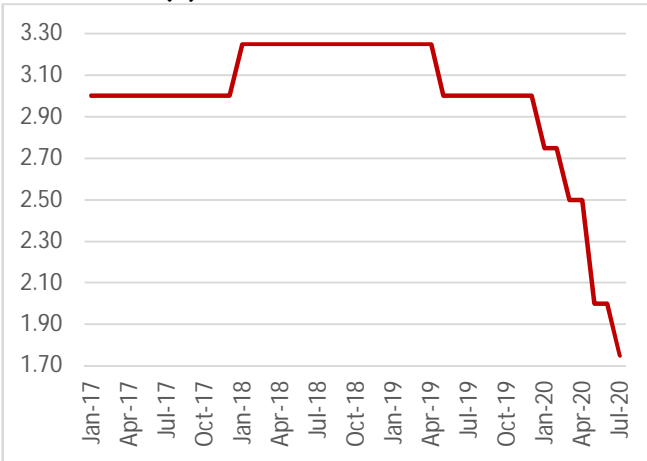
Source: CEIC/AmBank Research

**Chart 10: Regional GDP performance (%)**



Source: CEIC/AmBank Research

**Chart 11: OPR (%)**



Source: CEIC/AmBank Research



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