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# ECONOMICS

**In this report:**

**Malaysia – Smaller decline in 3Q; challenge is 4Q**

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## Malaysia

### Smaller contraction in 3Q; challenge is 4Q

After a 17.1% y/y contraction in 2Q due to health measures to contain the spread of the pandemic virus, the economy in 3Q improved with a slower contraction of 2.7% y/y, slightly higher than our projection of -2.5% y/y. This now brings the average first three quarters to -6.3% y/y. The slower contraction in 3Q is well within expectations, supported by the easing of the restrictive measures and also the RM305 billion stimulus measures.

This improving trend is likely to be short-lived with the rising number of new Covid-19 cases since October that resulted in the imposition of more restrictive measures. Such measures are hurting the economy, as reflected by the forward-looking indicators presented in October, which showed signs of cooling off. And with the number of new cases still high in November, the restrictive measures in place now until 6 December could be extended. Should that happen, 4Q2020 GDP is expected to shrink more from 3Q's -2.7%. Preliminary estimations based on the current set of data suggest that the contraction could be around 3.0% to 3.5%. This would translate to a full-year contraction of 5.3% to 5.7% from our earlier projection of -3.6% to -5.6%.

- After reporting the worst contraction in 2Q by 17.1% y/y as a result of the health measures to contain the spread of the pandemic virus via lockdowns and movement control order (MCO), the economy in 3Q improved with a slower contraction of 2.7% y/y, slightly higher than our projection of -2.5% y/y. This now brings the average first three quarters to -6.3% y/y.
- The slower contraction in 3Q is well within expectations. It was partly due to the relaxation of the restrictive measures to contain the spread of the pandemic virus. Following the relaxation, business operations started to pick up with new export and domestic orders. Also, it was due to the clearing of the backlog orders.
- At the same time, consumer spending gained momentum, supported by pent-up demand. Besides, the RM305 billion stimulus measures also provided support to both the business and consumer spending. This is reflected by the surge in 3Q2020 GDP by 18.2% q/q from -16.5% q/q in 2Q2020.
- This improving trend is likely to be short-lived. The rising number of new Covid-19 cases since October has resulted in the imposition of a more restrictive measure i.e. the CMCO. Such measure is already impacting the domestic economy. Forward-looking indicators are presenting signs of cooling off in the month of October.

- And with the number of new cases still high in November, the restrictive measures in place now until 6 December could be extended. Should that happen, 4Q2020 GDP is expected to contract more compared to 3Q's -2.7%. Preliminary estimations based on the current set of data suggest that the contraction could be around 3.0% to 3.5%. This would translate to a full-year contraction of 5.3% to 5.7% from our earlier projection of -3.6% to -5.6%

**Table 1: Malaysia GDP Growth (Demand Side)**

	Quarterly Basis (Q/Q%)						Yearly Basis (Y/Y%)					
	2Q19	3Q19	4Q19	1Q20	2Q	3Q	2Q19	3Q19	4Q19	1Q20	2Q	3Q
GDP	1.3	0.8	0.6	-2.0	-16.5	18.2	4.8	4.4	3.6	0.7	-17.1	-2.7
Private Consumption	2.3	7.3	-1.6	-1.1	-21.9	28.9	7.8	7.0	8.1	6.7	-18.5	-2.1
Govt. Consumption	2.2	2.8	34.2	-25.6	-0.4	7.5	0.3	1.0	1.2	5.0	2.3	6.9
Private Investment	15.2	-9.3	-20.0	16.9	-13.2	11.8	1.5	0.4	4.3	-2.3	-26.4	-9.3
Govt. Investment	-11.3	11.9	52.0	-41.2	-38.7	48.6	-7.8	-14.6	-8.0	-11.3	-38.7	-18.6
Domestic Demand	3.8	3.6	2.5	-5.9	-18.6	23.3	4.5	3.5	4.8	3.7	-18.7	-3.3
Real Exports	0.1	1.6	1.2	-9.6	-15.7	23.7	0.5	-2.1	-3.4	-7.1	-21.7	-4.7
Real Imports	2.9	1.8	2.2	-9.0	-15.2	16.9	-2.3	-3.5	-2.4	-2.5	-19.7	-7.8
Net Exports	-18.5	-0.5	-7.8	-15.8	-20.6	97.5	32.9	12.0	-12.4	-37.0	-38.6	21.9

Source: CEIC/DOSM/AmBank Research

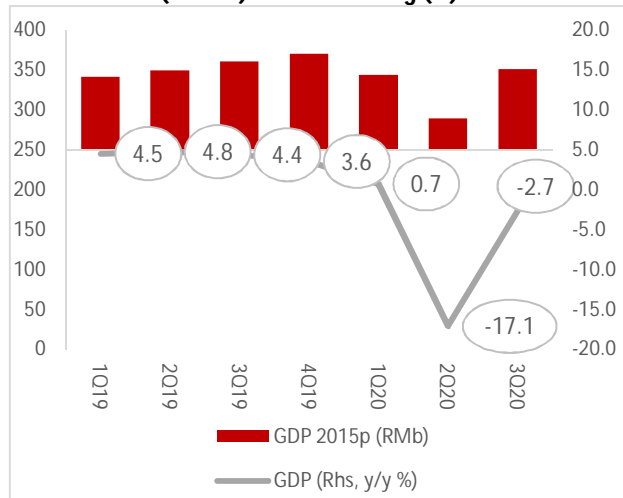
**Table 2: Summary of GDP by Supply-Side Approach (q/q, y/y%)**

	QoQ%					YoY%				
	3Q19	4Q19	1Q20	2Q20	3Q20	3Q19	4Q19	1Q20	2Q20	3Q20
<b>GDP</b>	<b>3.2</b>	<b>2.7</b>	<b>-7.0</b>	<b>-15.9</b>	<b>21.3</b>	<b>4.4</b>	<b>3.6</b>	<b>0.7</b>	<b>-17.1</b>	<b>-2.7</b>
Agriculture, Forestry & Fishing	15.4	-12.3	-8.4	9.0	13.5	4.0	-5.7	-8.7	1.0	-0.6
Rubber	45.1	-7.8	-7.4	-37.1	41.7	7.2	1.9	-18.2	-22.1	-23.9
Oil Palm	18.2	-12.3	-19.5	28.9	12.8	8.4	-16.9	-22.0	7.5	2.6
Livestock	10.4	0.6	-6.7	-2.3	11.2	6.9	7.5	8.2	1.3	2.0
Other Agriculture	8.8	-15.5	8.4	4.7	9.4	3.9	6.1	6.4	4.5	5.0
Forestry & Logging	5.3	-20.3	-13.6	7.1	10.0	-9.5	-19.0	-23.5	-22.3	-18.9
Marine Fishing	36.0	-25.8	0.7	-16.4	34.3	-1.4	-3.0	-10.6	-15.1	-16.2
Aquaculture	16.2	-1.3	-24.7	14.6	19.0	-8.3	13.4	-0.5	-1.0	1.3
<b>Mining &amp; Quarrying</b>	<b>-11.1</b>	<b>13.7</b>	<b>-4.2</b>	<b>-17.3</b>	<b>3.5</b>	<b>-4.1</b>	<b>-3.4</b>	<b>-2.0</b>	<b>-20.0</b>	<b>-6.8</b>
Crude Oil	-14.6	13.0	-1.0	-17.9	2.9	-12.5	-6.3	-5.2	-21.5	-5.4
Natural Gas	-10.2	15.4	-5.8	-16.7	1.9	2.4	-2.6	0.0	-18.7	-7.6
Others	0.2	7.6	-9.8	-18.0	15.4	3.2	6.8	2.7	-20.2	-8.1
<b>Manufacturing</b>	<b>1.2</b>	<b>2.3</b>	<b>-6.1</b>	<b>-15.9</b>	<b>28.0</b>	<b>3.6</b>	<b>3.0</b>	<b>1.5</b>	<b>-18.3</b>	<b>3.3</b>
Vegetable & Animal Oils & Fats	-6.4	20.0	-25.7	38.6	-9.9	-8.4	-5.8	-16.4	15.6	11.4
Food Procession	8.9	-8.8	-5.9	11.5	9.5	10.8	8.6	8.3	4.3	4.8
Beverages	-4.8	-1.9	-16.8	-19.6	37.5	3.2	3.1	-0.6	-37.5	-9.8
Tobacco Products	-13.1	-20.5	-4.7	-51.8	188.2	4.6	5.1	-3.4	-68.2	5.4
Textile & Wearing Apparel	-6.4	0.9	-7.0	-33.3	48.5	5.5	5.9	3.0	-41.4	-7.1
Leather Products	-24.4	-18.8	37.7	-35.6	7.5	5.7	4.9	3.0	-45.5	-22.6
Wood Products	7.9	-3.0	-1.8	-42.5	68.8	6.0	4.6	2.5	-40.9	-7.6
Paper Products	-4.9	-15.6	13.4	-11.8	24.9	4.8	4.6	-0.9	-19.8	5.4
Printing	-3.6	23.0	2.9	-41.7	40.6	5.3	2.1	1.9	-29.0	3.7
Refined Petroleum Products	-2.1	6.7	-3.1	-27.4	22.1	3.1	2.3	3.7	-26.5	-8.2
Chemicals & Chemical Products	9.6	3.8	-8.8	-17.1	22.5	2.2	2.0	2.3	-14.0	-3.9
Rubber Products	12.7	1.9	-22.8	66.7	24.0	7.1	6.3	20.6	47.8	62.6
Plastic Products	32.8	-18.2	-7.0	-8.9	57.1	0.6	2.3	-0.2	-8.0	8.9
Non-Metallic Mineral Products	-0.3	-9.9	-8.8	-34.8	71.7	4.3	4.2	-0.4	-46.6	-8.0
Basic Metals	-0.2	-4.9	-16.8	-7.1	41.0	3.8	4.8	1.0	-26.7	3.6
Fabricated Metal Products	-9.2	-6.7	4.7	-34.9	39.4	3.9	2.9	-0.3	-42.3	-11.4
Machinery & Equipment	1.8	-9.4	48.9	-30.3	13.6	5.5	4.5	-0.4	-4.3	6.8
Computers & Peripheral Equipment	-2.3	3.8	-5.2	-15.7	35.4	11.8	-6.0	-6.2	-19.0	12.3
Electrical Equipment	-27.4	28.3	-8.3	9.5	-17.0	0.0	3.9	-0.9	-6.5	6.9
Electronic Compo & Boards, Com Equip and Elect	2.9	5.0	4.6	-19.5	24.6	2.3	2.8	3.8	-8.9	10.2
Medical, Precision & Optical, Watches & Clocks	0.1	10.1	-36.7	32.6	9.7	2.7	3.2	0.5	-7.3	1.6
Motor Vehicles & Transport Equipment	-6.4	21.1	-28.7	-13.4	42.3	7.4	4.3	-1.8	-30.0	6.3
Furniture	-9.0	-3.4	13.2	-37.9	54.1	6.9	9.0	0.9	-38.3	4.6
Other Mfg and Repair & Installation and Equipment	55.3	-13.1	-26.2	-34.7	140.3	3.1	6.7	0.6	-35.0	0.5
<b>Construction</b>	<b>5.6</b>	<b>-2.3</b>	<b>-7.4</b>	<b>-41.9</b>	<b>66.7</b>	<b>-1.4</b>	<b>1.0</b>	<b>-7.9</b>	<b>-44.5</b>	<b>-12.4</b>
Residential	9.0	4.5	-10.8	-40.2	57.1	-3.1	3.1	-8.1	-39.2	-12.3
Non-Residential	1.5	17.1	-21.6	-32.2	34.2	-11.9	-10.0	-11.7	-36.8	-16.4
Civil Engineering	11.3	-15.5	3.5	-58.3	128.3	5.2	6.7	-5.1	-59.4	-16.7
Special Trades	-4.8	-3.2	-4.9	-19.8	38.0	0.0	4.6	-9.0	-29.8	1.8

<b>Services</b>	<b>4.3</b>	<b>4.1</b>	<b>-7.3</b>	<b>-16.8</b>	<b>19.6</b>	<b>5.8</b>	<b>6.2</b>	<b>3.1</b>	<b>-16.2</b>	<b>-4.0</b>
Electricity & Gas	0.6	-1.2	1.6	-14.1	11.5	5.0	5.4	4.9	-13.3	-3.9
Water, Sewerage and Waste Management	3.1	3.0	0.1	2.3	2.3	6.3	6.2	5.6	8.8	7.9
Wholesale Trade	10.5	-0.1	-14.4	-15.8	32.9	6.2	5.9	3.4	-20.5	-4.4
Retail Trade	4.2	10.2	-10.6	-22.9	28.2	8.0	7.3	2.1	-20.9	-2.7
Motor Vehicles	25.1	-6.2	-19.1	-44.4	150.9	2.5	4.4	-2.9	-47.3	5.8
Food & Beverage	2.1	10.3	-10.3	-32.2	14.5	10.2	10.8	3.1	-31.5	-23.2
Accommodation	6.6	1.9	-15.5	-77.0	132.9	6.6	6.9	-4.3	-78.9	-53.9
Transportation & Storage	2.4	4.7	-11.0	-42.1	54.5	6.8	6.8	-2.7	-44.8	-16.6
ICT	1.6	-1.8	3.5	1.6	2.1	6.1	6.8	6.7	4.9	5.4
Finance	2.7	3.4	-1.9	-12.6	21.9	4.3	5.9	4.2	-9.0	7.9
Insurance	2.9	7.2	3.2	-9.2	-2.1	3.9	3.1	6.6	3.4	-1.7
Real Estate	1.9	0.7	-4.4	-30.9	22.1	4.6	5.1	0.1	-32.2	-18.8
Business Services	-1.6	7.6	-5.1	-22.7	8.0	9.2	9.4	4.9	-22.4	-14.8
Private Health	-0.9	0.4	-4.2	-14.5	15.0	6.0	5.8	2.0	-18.5	-5.5
Private Education	7.2	-0.2	-6.3	-13.5	12.1	5.5	5.9	4.2	-13.3	-9.3
Other Services	2.1	1.3	-2.8	-22.9	16.0	5.5	5.8	0.7	-22.6	-12.0
Govt. Services	4.5	9.8	-10.3	0.6	6.1	3.1	3.6	4.3	3.5	5.1
<b>Import Duties</b>	<b>1.7</b>	<b>-3.1</b>	<b>-17.5</b>	<b>1.3</b>	<b>22.9</b>	<b>34.7</b>	<b>-3.3</b>	<b>-16.0</b>	<b>-17.7</b>	<b>-0.5</b>

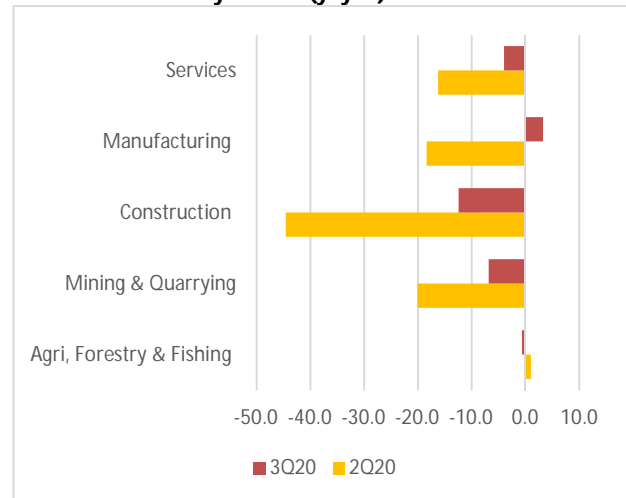
Source: CEIC/DOSM/AmBank Research

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



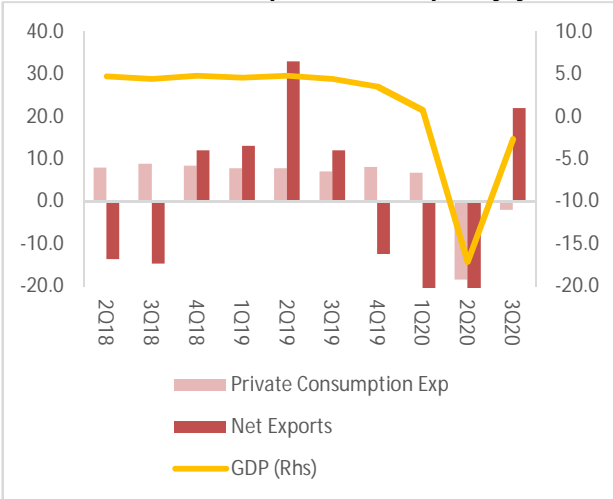
Source: CEIC/AmBank Research

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



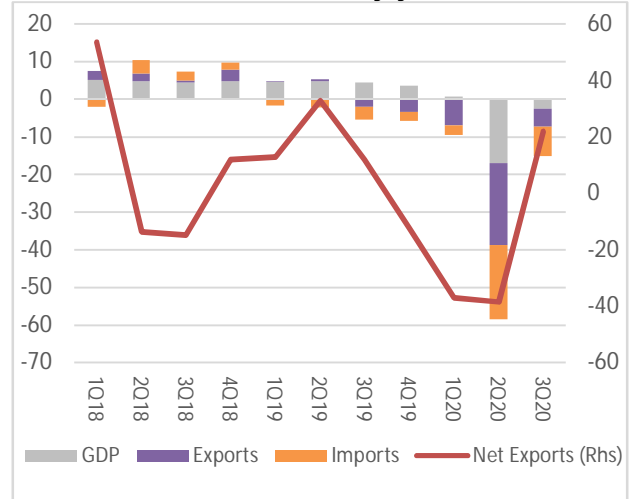
Source: CEIC/AmBank Research

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



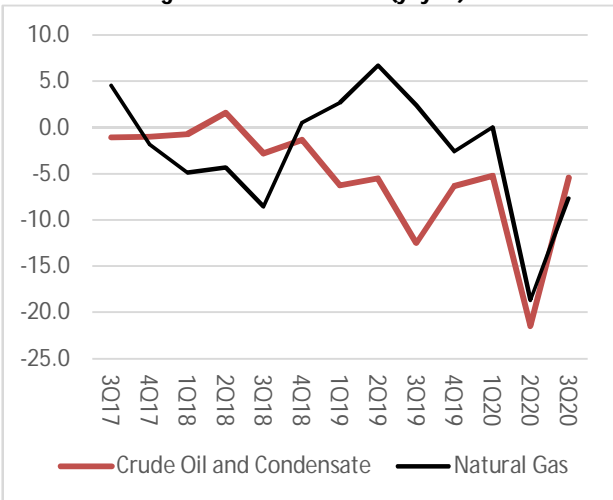
Source: CEIC/AmBank Research

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



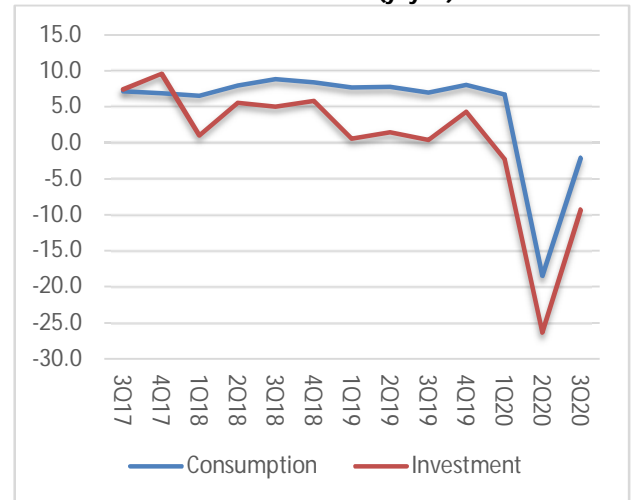
Source: CEIC/AmBank Research

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



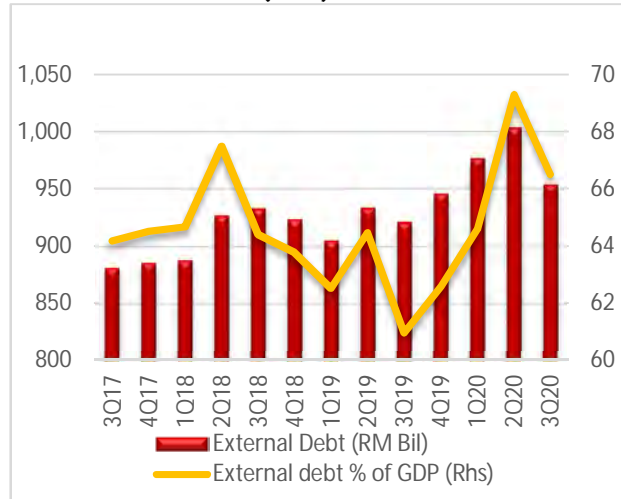
Source: CEIC/AmBank Research

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



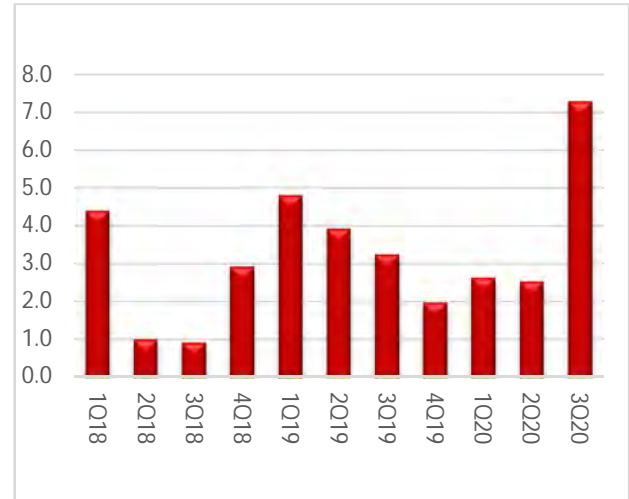
Source: CEIC/AmBank Research

**Chart 7: External Debt (RMb)**



Source: CEIC/AmBank Research

**Chart 8: CABOP % GNI**



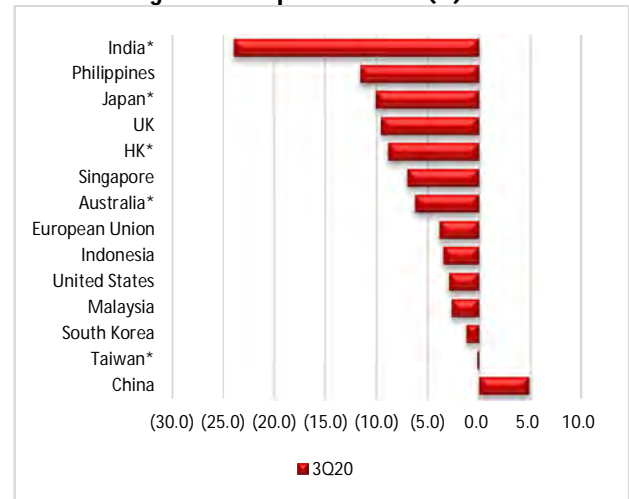
Source: CEIC/AmBank Research

**Chart 9: Malaysia Leading Index**



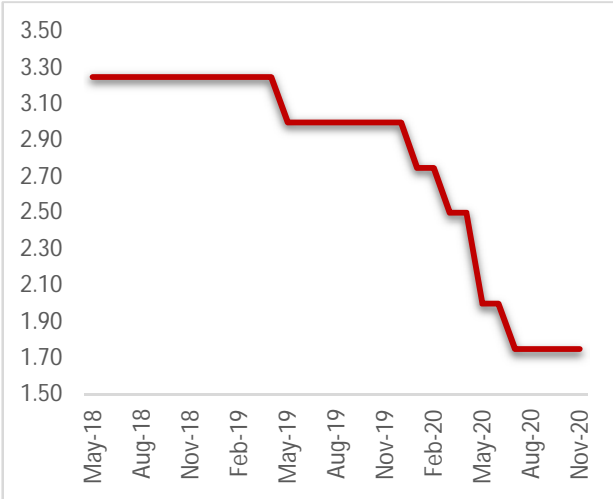
Source: CEIC/AmBank Research

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



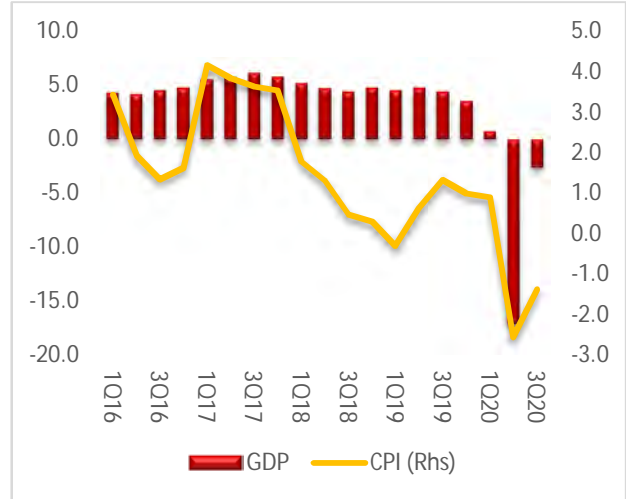
Source: CEIC/AmBank Research; Notes: Countries marked with asterisk (\*) represent growth rate as at 2Q20

**Chart 11: OPR (%)**



Source: CEIC/AmBank Research

**Chart 12: GDP vs. CPI (%)**



Source: CEIC/AmBank Research



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