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# ECONOMICS

**In this report:**

**Malaysia – Economy expected to turn around in 1Q21**

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## Malaysia

### Economy expected to turn around in 1Q21

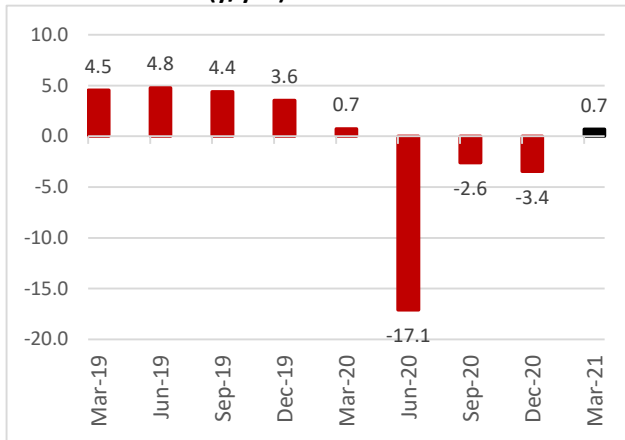
Despite the recent resurgence of Covid cases and restrictive measures introduced, the economic performance in 1Q21 is poised to improve. Our base case projection suggests an expansion of 0.7% y/y and could surpass the 1.0% level to reach 1.2%, which appears to be the best case. While the restrictive measures will have some knock-on effects, especially on the services side, damage to the economy will not be as severe as in the MCO 1.0. Economic sectors are still allowed to operate with strict SOPs.

Looking ahead, the domestic economy is expected to continue recovering. However, the pace of recovery will depend on the vaccination rollout and management of Covid cases, both domestically and abroad. Our base case suggests the domestic economy could expand around 6.0% in 2021. Stronger global growth and trade, an up cycle of global semiconductors, stronger demand for manufactured goods, firm commodity prices, a pick-up in investments, capital expansion, the rollout of vaccination, benefits from the stimulus measures and a low base will all support growth. Nevertheless, the downside to our projection (primarily taking into account of Covid cases and the vaccination rollout) is at the 5.0% level while the best case is at 7.0%.

- Despite the recent resurgence of Covid cases and the restrictive measures introduced, the economic performance in 1Q21 is poised to improve. Estimation shows 1Q21 GDP should bounce back to positive growth after being in contraction for the past three quarters, beginning from 2Q2020, severely inflicted by the Covid-19 pandemic crisis.
- Our base case projection suggests an expansion of 0.7% y/y and could surpass the 1.0% level to reach a 1.2%, which appears to be the best case. While the restrictive measures will have some knock-on effects, especially on the services side, the damage to the economy will not be as severe as in the MCO 1.0. Economic sectors are still allowed to operate with strict SOPs.
- More importantly, the primary growth catalysts for 1Q21 GDP are underpinned by strong trade data. Exports grew by 18.2% y/y in 1Q21 supported by improving global growth and trade, an up cycle of global demand for semiconductors, improved demand for manufactured goods and firmer commodity prices. The rollout of vaccinations and management of Covid cases saw our major trading partners' economy recover faster than expected.
- Recovery is also witnessed in domestic activities. Huge stimulus measures amounting to RM340 billion via fiscal, monetary and non-monetary measures since April 2020 boosted growth. This is reflected by the improved Leading Index, up 8.5% in February, loan growth (+3.9% y/y in 1Q21), March manufacturing PMI of 49.9, supported by improved orders and higher capacity utilisation.

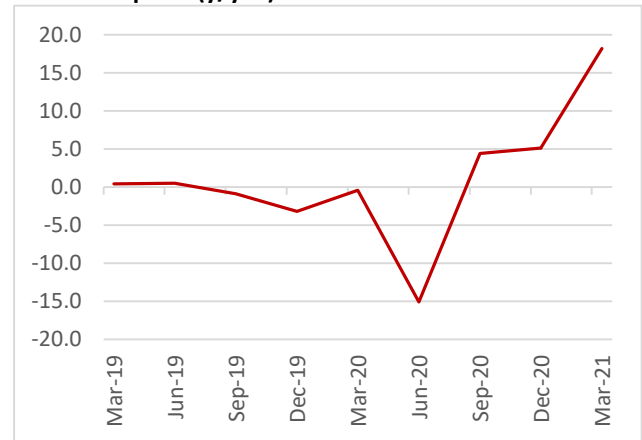
- Besides, industrial production grew 4.0% in 1Q21 primarily supported by manufacturing activities which expanded 6.9% y/y. Manufacturing output was bolstered by export-oriented products (+7.5% y/y in 1Q21) benefitting from E&E-related clusters and primary-related commodities. Key components that supported the export-led manufacturing activities in 1Q21 are computer, electronics and optical products (11.9% y/y), electrical equipment (7.0% y/y), furniture (5.7% y/y), rubber products (69.7% y/y), and chemicals and chemical products (4.5% y/y).
- Domestic-oriented activities grew (5.3% y/y in 1Q21), enjoyed mainly by consumer-related segments. Key consumer-related components that supported domestic-led activities in 1Q21 are food products (8.6% y/y), manufacture of motor vehicles, trailers and semi-trailers (13.4% y/y), and leather and related products (5.2% y/y). As for construction-related segments they are the manufacture of other non-metallic mineral products (2.5% y/y), basic metals (3.7% y/y) and manufacture of fabricated metal products, except machinery and equipment (-1.3% y/y)
- Looking ahead, the domestic economy is expected to continue recovering. However, the pace of recovery will depend on the vaccination rollout and management of Covid cases, both domestically and abroad. Our base case suggests the domestic economy could expand around 6.0% in 2021. Stronger global growth and trade, an up cycle of global semiconductors, stronger demand for manufactured goods, firm commodity prices, a pick-up in investments, capital expansion, the rollout of vaccinations, benefits from the stimulus measures and a low base will support growth.
- Nevertheless, the downside to our projection (primarily taking into account of Covid cases and vaccination rollout) is at the 5.0% level, with the best case at 7.0%.

**Chart 1: Real GDP (y/y %)**



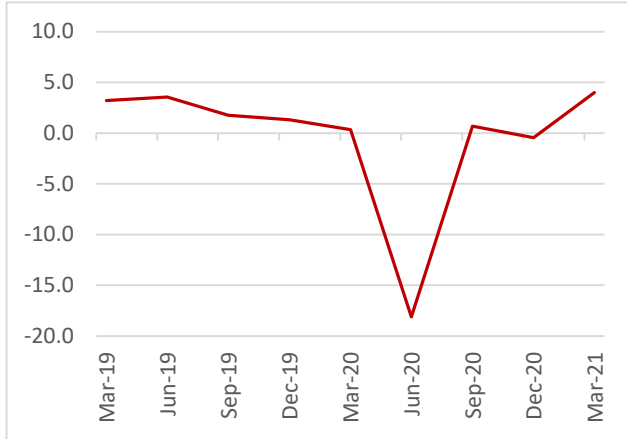
Source: CEIC/AmBank Research

**Chart 2: Exports (y/y %)**



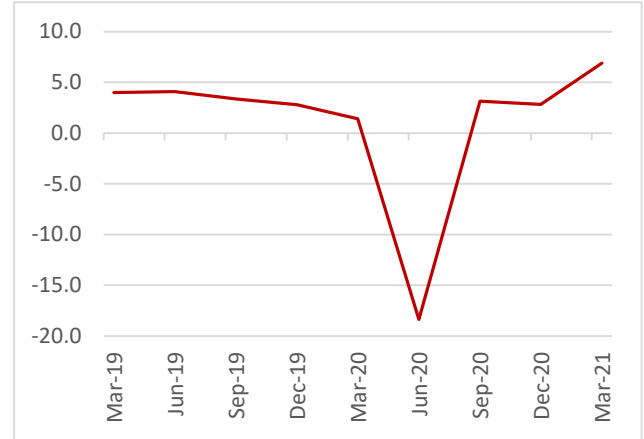
Source: CEIC/AmBank Research

**Chart 3: Industrial Production (y/y %)**



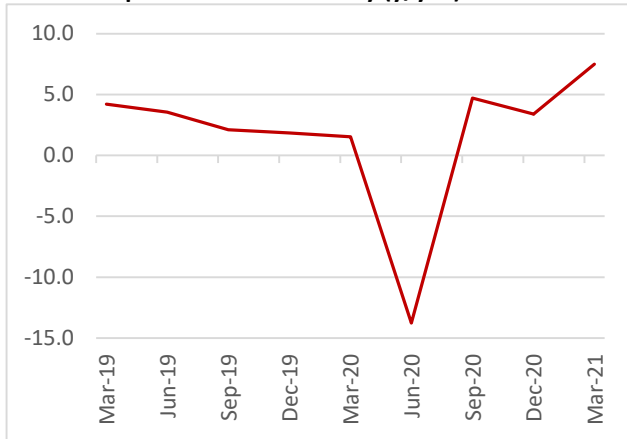
Source: CEIC/AmBank Research

**Chart 4: Manufacturing Output (y/y %)**



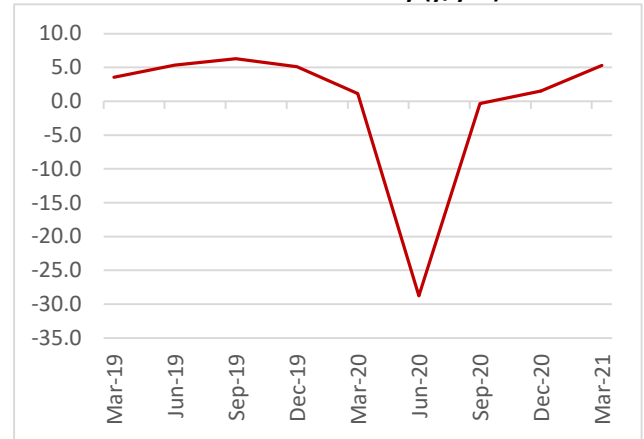
Source: CEIC/AmBank Research

**Chart 5: Export-Oriented Industry (y/y %)**



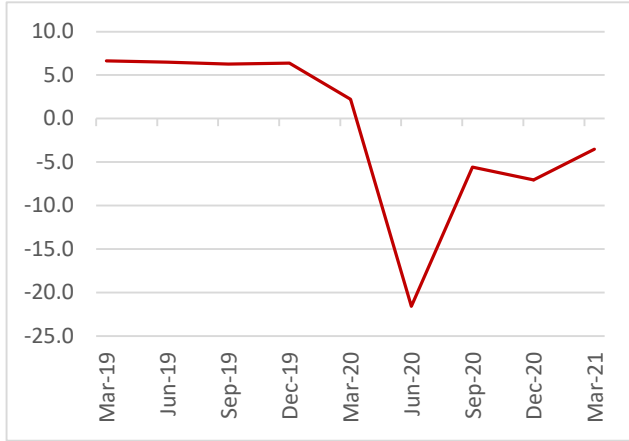
Source: CEIC/DOSM/AmBank Research

**Chart 6: Domestic-Oriented Industry (y/y %)**



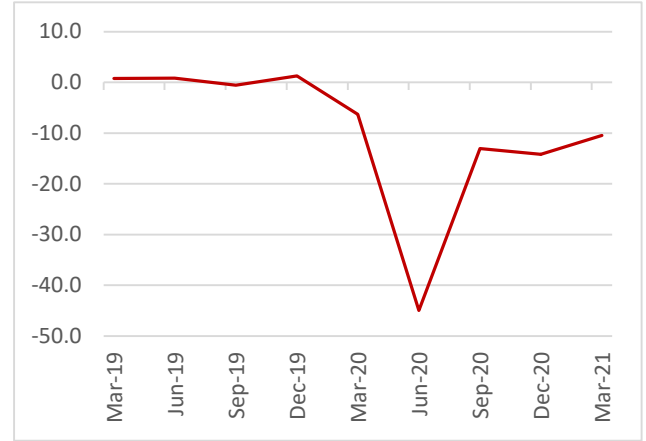
Source: CEIC/DOSM/AmBank Research

**Chart 7: Services Index (y/y %)**



Source: CEIC/AmBank Research

**Chart 8: Construction Work Done (y/y %)**



Source: CEIC/AmBank Research

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