18 January 2021

THEMATIC

In this report:

Emergency measures to hit harder on virus but less severe on economy

Dr. Anthony Dass
Chief Economist/Head
anthony-dass@ambankgroup.com
03-20322972

Emergency measures to hit harder on virus but less severe on economy

The MCO 2.0 and state of emergency may not impact the economic significantly as compared to the previous MCO. With the focus on supporting the economy and addressing the pandemic virus, the MCO 2.0 is seen as a less restrictive measure that allows key sectors to operate. Furthermore, potential easing on the list of economic sectors allowed to operate during the movement control order remains on the table. Some micro businesses that have already been adhering to the SOP could be allowed to operate as well.

Besides, from our past experience with the MCO, there would be a more well-defined SOP, logistics and work-from-home infrastructure. There will be less disruption to businesses. And the public will be better prepared with heightened awareness. Combined with the RM325 billion stimulus measures which are expected to be implemented faster and effectively , steady exports growth from improving global GDP and trade, and firmer commodity prices with an upwards revision of 2021 are anticipated. Brent crude oil price is seen to average between US$50 and US$53 per barrel (previously US$42–45 per barrel) while CPO is expected to average RM3,000–3,200 per tonne (previously RM2,500–2,600 per tonne).

Furthermore, with a view that the pandemic virus spread dust should settle in 6–12 months, the domestic economy should, on the whole, hold up well. However, it is important to recognise that there will be some initial setback from the restrictive measures which is more likely to be felt in 1H2021.

Assuming the overall economic capacity during this period operates around 50%–60% in 1Q2021 and improves to 70%–80% in 2Q2021 with a gradual easing of the restrictive measures, and the economy operates as usual in 2H2021, the reduction in domestic GDP would be between 0.6% and 1.3%. This would mean the 2021 GDP projection of 6.5% growth would now be hovering around 5.2% and 5.9%. Upside to growth still remains, depends on external and domestic.

A. Recap

- The severity of the Covid-19 impact on the economy, businesses and people was significant. It was due to the unprecedented measures taken to contain the virus spread through lockdowns and movement control orders (MCOs). Such unprecedented measures had led to a weak economic and poor financial results, cutbacks in demand and supply chain disruptions with knock-on effects of troubled sectors on employment both globally and in Malaysia.

- Covid-19 impacted businesses i.e both large and SMEs as well as the labour market and society in several areas:
    1. Financial – delay in receivables and payments to vendor; fall in revenue projection; shortfall in liquidity
    2. Customer – drop in demand; poor access to customers; lower capacity; poor post-sales obligations
    3. Technology – poor communication with suppliers and customers; data and infrastructure issues; lack of familiarity with online applications; work-from-home connectivity challenges
    4. Supply chain – delay in the delivery and fulfilment; delay in receiving supplies; inventory pile-up
    5. People – operations downtime; delay in completing tasks and projects; deferment in upskilling and training; disruptions due to illness
    6. Labour market – spike in unemployment; crippled informal sector, especially those self-employed

7. Social – The B40 are worst hit while the M40 experienced loss or reduction of income; urban and rural poor

- The economic impact from the MCO which came into force from 18 March until end-April 2020 caused an estimated revenue loss of RM63 billion or RM1.4 billion per day. During this period, the economy is projected to be operating around 40% capacity. Importantly, during this pandemic period, online sales of fast-moving grew rapidly, estimated at about 40%.

- However, the relaxation of the restrictive measures both globally and in Malaysia in May created some breathing space. In Malaysia, business activities started to pick up while consumer spending gained momentum. The 2Q2020 GDP fell by 17.1% y/y, the worst contraction since the 1997 Asian financial crisis. The contraction was somewhat contained following the easing of the restrictive measures and supported by the stimulus measures.

- Meanwhile, business activities and consumer spending continued to improve in 3Q2020. The economy benefitted from a well contained spread of the pandemic virus that had allowed the easing of the restrictive measures and supported by the stimulus measures as well as improving trade from the recovery of global GDP and trade. The 3Q2020 GDP registered a slower contraction of 2.4% y/y.

- Meanwhile, the upside growth momentum was slightly dented following the rise in the number of Covid-19 cases. It resulted in the imposition of targeted restrictive measures in certain states. As a result of the conditional movement control order (CMCO), the estimated loss of revenue was RM17 billion from 7 October till 6 December 2020, which translated to a per day loss of around RM0.3 billion.

- For the 4Q2020 GDP, the impact from the CMCO is likely to result in a contraction of 3.2 to 3.5%, which will be slightly worse than -2.7% y/y reported in the 3Q2020 GDP. On that note, the full-year 2020 GDP is estimated to contract around 5.5% to 5.7%.

B. MCO 2.0 and state of emergency

- After a steep decline in early 2020, the global economy, including Malaysia, gained momentum in May from the gradual easing of the restrictive measures and supported by the stimulus measures. While this may have softened the downside risk on global economy, the risk remains high. Should the restrictions be extended or should disruptions to economic activity be prolonged, the recession could be deeper. While looking at a global GDP contraction of 4.5 % in 2020, the downside could reach -8.0%.

- However, the possibilities for global GDP to perform better than our -5.0% projection for 2020 remains on the cards. Underpinned by such a scenario, the world economy in 2021 is seen to set the stage for better growth. The major economies have shaken off the impact of the pandemic and lockdowns with relatively little long-term economic damage. It was supported by the substantial monetary and fiscal support. Wage subsidies and job retention schemes have prevented unemployment rates from rising significantly in most countries.

- The global GDP outlook for 2021 is projected to rebound to 5.5% with Malaysia's growth forecasted at 6.5%. Optimism surrounding a global economic rebound in 2021 bodes well for Malaysia, which is a trading nation. Growth will be supported on the back of a vaccine rollout that sever the link between the Covid-19 virus and mobility. A widespread distribution of vaccines should be in place in 3Q2021. Apart from vaccines, the support from non-pharmaceutical measures remains vital.

- The rebound in both global and domestic economy will continue to be underpinned by consumers. Investment, which acts as a reflection of the private corporate sector's risk tolerance and a key feature of any self-sustaining recovery, will bounce back as well.

- Furthermore, global trade is poised to pick up as demand recovers. With Covid-19 restrictions easing, trade is poised to bounce back. But some pandemic virus-related disruptions to transport capacity will take time to unwind, and cause a persistent drag even as demand recovers.

- Lockdowns and social distancing will remain. How well the global economy, including Malaysia, will rebound in 2021 will depend on how smooth the rollout of vaccines is. Vaccine progress is a key step towards restoring consumer and investment confidence over the course of 2021.

- Also, the speed of rebound depends on how fast and effectively the stimulus measures are implemented. In the case of Malaysia, it is the effectiveness and implementation of the RM325 billion stimulus measures. Should there be a prolonged period of restrictive measures, then there is a need for the governments to keep spending to help shore up their economies in the face of this unprecedented crisis – even if that means adopting a more relaxed attitude to managing national budget. Raising the debt level is a high cost for the economy now, but as the economy improves, this high cost could be reduced with prudent policies.

- On the whole, in taking into consideration of 2021 global economy including Malaysia's rebound, there is a need for another six to nine months or probably 12 months before the pandemic virus spread starts to ease. Still, the outlook is that the global economy including Malaysia's is set to rebound.

C. Will MCO 2.0 & SOE derail Malaysia's 2021 rebound?

- On 11 January 2021, Malaysia reintroduced the movement control order (MCO 2.0). A state of emergency (SOE) was declared by the King on 12 January 2021. This raised concerns as to whether the economic recovery would de delayed. While some dent could be expected on the immediate term, it is unlikely for the economy to report an extremely slower growth in 2021.

- For a start, the MCO 2.0 was imposed on five states i.e. Selangor, Penang, Melaka, Johor and Sabah, and the three federal territories (FTs) of Kuala Lumpur, Putrajaya and Labuan due to the worsening Covid-19 situation. These five states and three FTs account for about 66% of the national GDP. Their manufacturing and services activities account for 14.6% and 42% of the national GDP respectively.

- Another 6 states remain under the CCMCO while two other states will see softer restrictions under the recovery MCO (RMCO), which is the mildest form of mobility restrictions. The restrictive measures will be in place for at least two weeks from 13–26 January.

- Looking at the MCO 2.0 this time around, it appears to be less restrictive. Key sectors like manufacturing, industrial, construction, services, distribution and trade, plantation and commodities are allowed to operate. These sectors play a key role to support the supply of basic necessities, ensure uninterrupted supply chains and support critical infrastructure and emergency work.

- And the potential easing on the list of economic sectors allowed to operate during the restrictive movement period remains on the table. Room for several key manufacturing sectors which are not under the essential services list as part of the economic sectors — textile and apparel manufacturers, ceramic product manufacturers, glass and footwear manufacturers as they are mainly export-oriented industries — could be included. Likewise, some of micro businesses that have already been adhering to the SOP could be allowed to operate.

- The SOE declared on 12 January until 1 August 2021 (it could end earlier) by the King is to help battle Covid-19. How long the SOE will remain in place depends on the special independent committee's view on the pandemic. The SOE is not a military coup. There is no curfew. Public administration is not affected. It allows the government to gain access to the nation's private healthcare system for the treatment of Covid-19 patients and empower the military to aid the police force in the enforcement of law and border control during this period.

- The parliament and state legislative assemblies will not convene during this period. Elections and by-elections will also be put off until the state of emergency is over. And elections can be held when the committee is of the view that the pandemic is over.

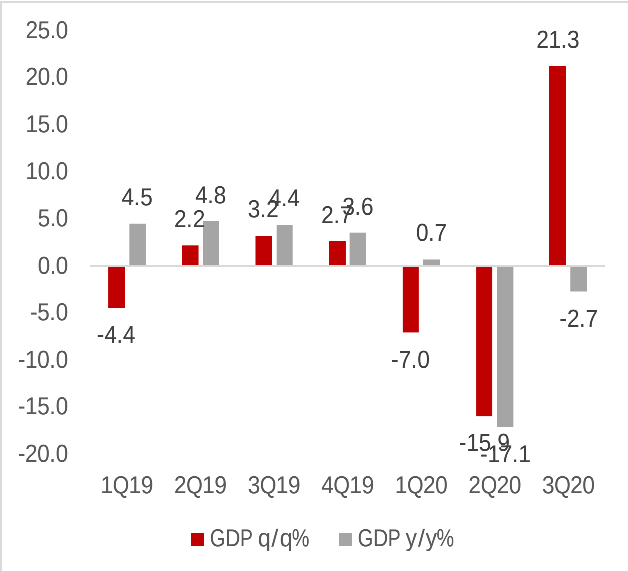
- Given that the MCO 2.0 and SOE's aim is to control the pandemic virus spread while the economy operates as usual, the downside risk on the overall economy could be less severe than envisaged. Besides, from our past experience with the MCO, there would be a more well-defined SOP, logistics and work-from-home infrastructure. There will be less disruption to businesses. And the public will be better prepared with heightened awareness.

- And combined with the RM325 billion stimulus measures which are expected to be implemented faster and effectively, steady export growth from improving global GDP and trade, and firmer commodity prices with an upwards revision of 2021 are anticipated. Brent crude oil price is seen to average between US$50 and US$53 per barrel (previously US$42–45 per barrel) while CPO is expected to average RM3,000–3,200 per tonne (previously RM 2,500–2,600 per tonne). The view that the pandemic virus spread dust will settle in 6–12 months should see the domestic economy on the whole hold up well.

- However, it is important to recognise that there will be some initial setback from the restrictive measures which is more likely to be felt in 1H2021.

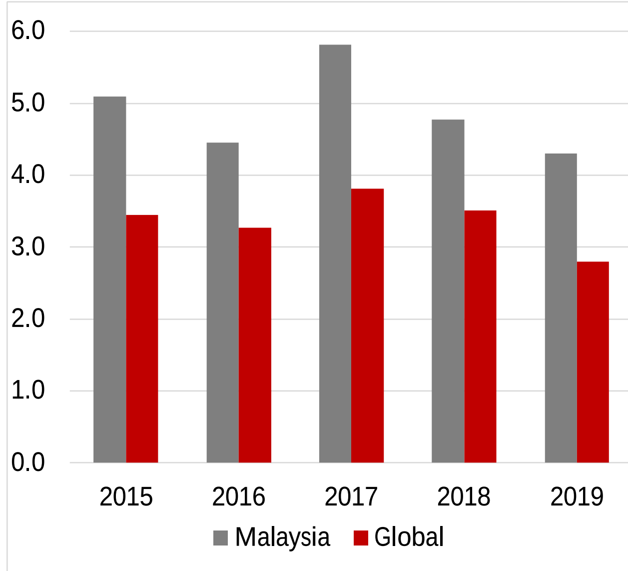
- Assuming the overall economic capacity during this period operates around 50%–60% in 1Q2021 and improves to 70%–80% in 2Q2021 with a gradual easing of the restrictive measures, and the economy operates as usual in 2H2021, the reduction in domestic GDP would be between 0.6% and 1.3.%. This would mean the 2021 GDP projection of 6.5% growth would now be hovering around 5.2% and 5.9%. Upside to growth still remains, depends on external and domestic.

Chart 1: MY GDP



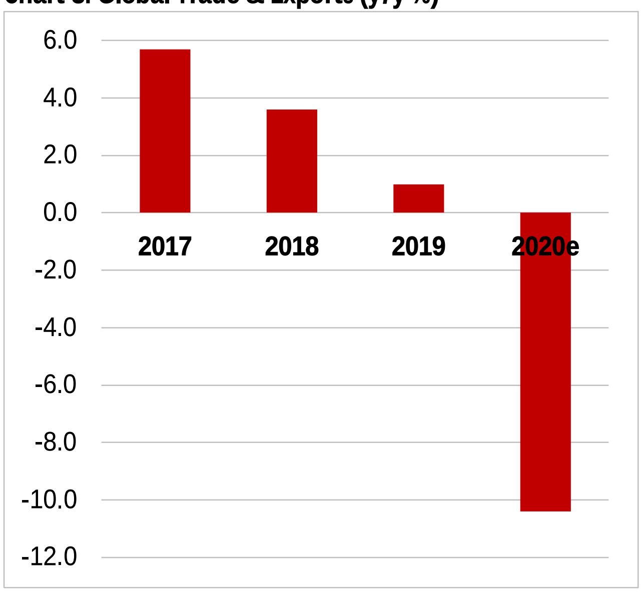
Source: CEIC/ AmBank Research

Chart 2: Global & Malaysia GDP (y/y %)



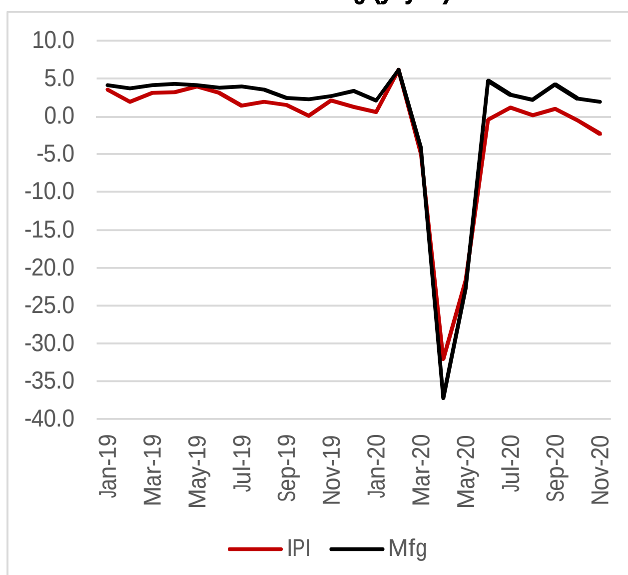
Source: IMF/ CEIC/ AmBank Research

Chart 3: Global Trade & Exports (y/y %)



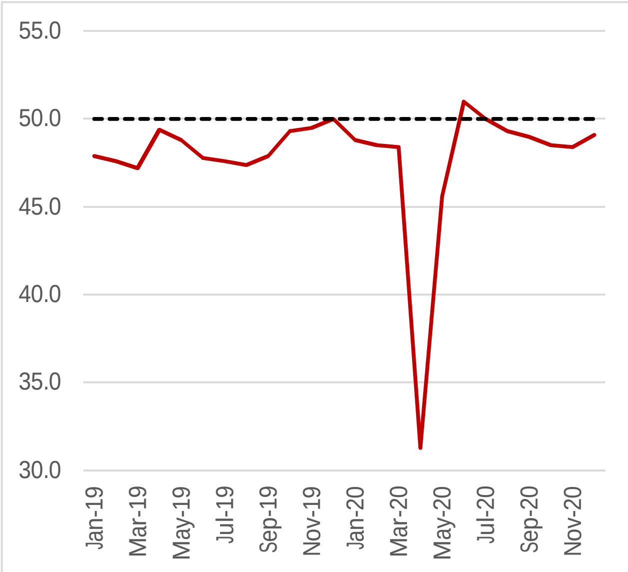
Source: IMF/ CEIC/ AmBank Research

Chart 4: IPI & IPI: Manufacturing (y/y %)



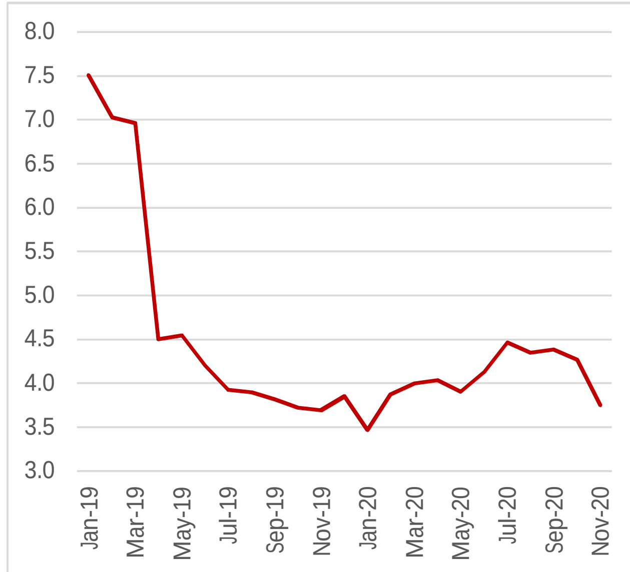
Source: CEIC/ AmBank Research

Chart 5: MY Manufacturing PMI



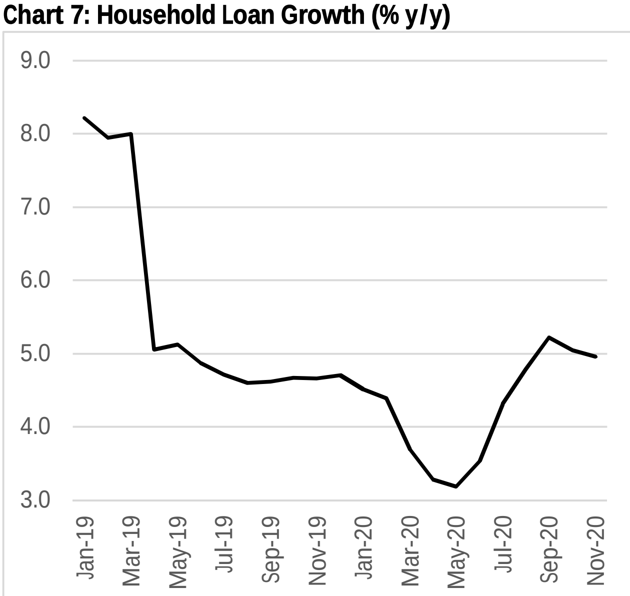
Source: CEIC/ AmBank Research

Chart 6: Total Loan Growth (% y/y)



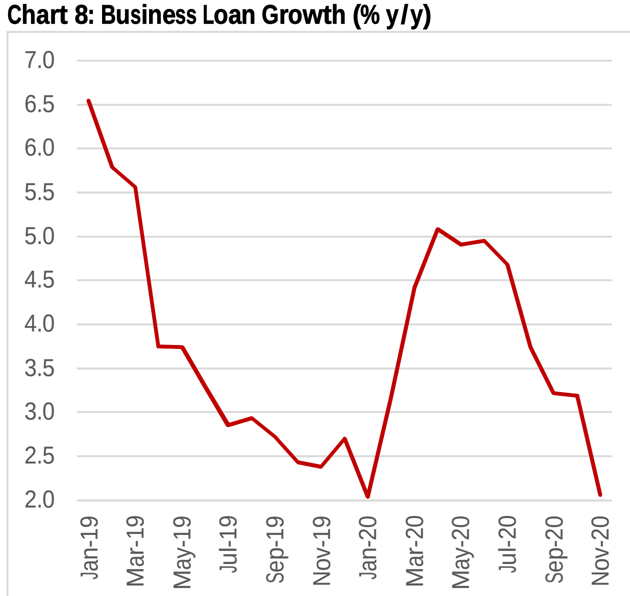
Source: CEIC/ AmBank Research

Chart 7: Household Loan Growth (% y/y)



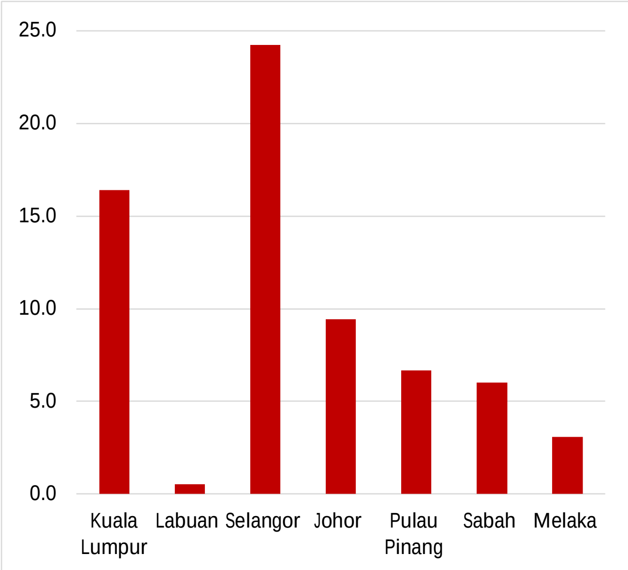
Source: CEIC/ AmBank Research

Chart 8: Business Loan Growth (% y/y)



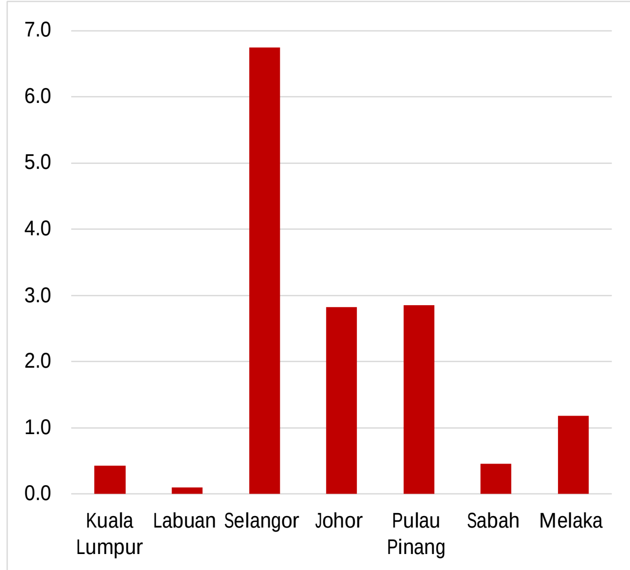
Source: CEIC/ AmBank Research

Chart 9: GDP contribution of selected states in 2019 (% of national GDP)



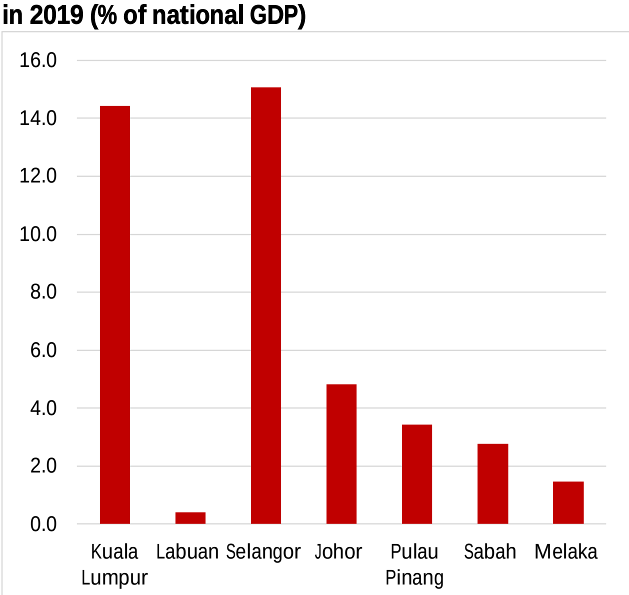
Source: CEIC/ AmBank Research

Chart 10: Mfg sector contribution of selected states in 2019 (% of national GDP)



Source: CEIC/ AmBank Research

Chart 11: Services sector contribution of selected states in 2019 (% of national GDP)



Source: CEIC/ AmBank Research

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmBank (M) Berhad ("AmBank") without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures, investment or other products. AmBank recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmBank believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmBank has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmBank's views as of this date and are subject to change without notice. Notwithstanding that, AmBank has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmBank's affiliates and/or related corporations (collectively, "AmBank Group").

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmBank's prior written consent. AmBank, AmBank Group and its respective directors, officers, employees and agents ("Relevant Person") accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmBank is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.