

# **GDP PREVIEW – MALAYSIA'S ECONOMY TO EXPAND BY 3.1% IN 4Q2021**

**9 FEBRUARY 2022**

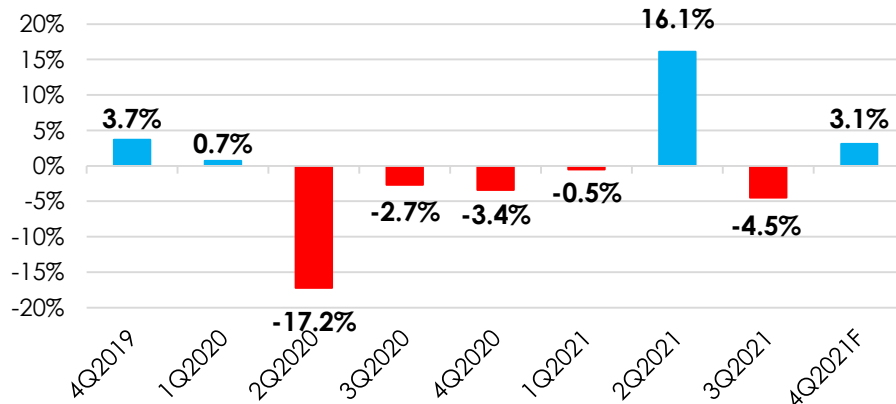
## **ECONOMIC RESEARCH**

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# MALAYSIAN ECONOMY IS EXPECTED TO IMPROVE IN 4Q2021

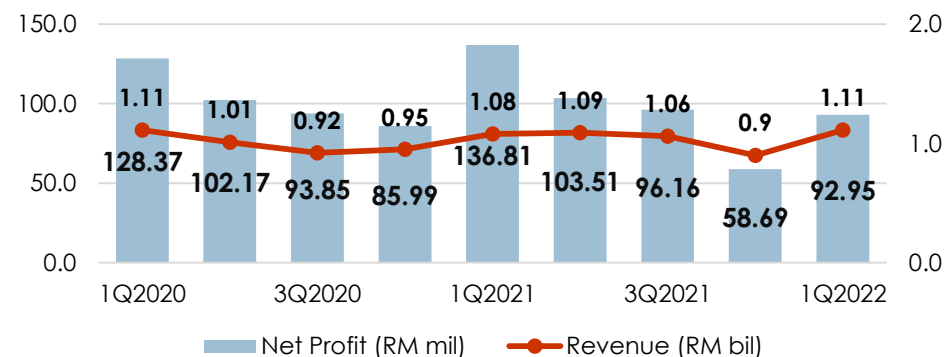
- ✓ Malaysia's Gross Domestic Product (GDP) for the fourth quarter of 2021 will be published on 11 February 2022. **We are penciling in GDP to come in at 3.1% year-on-year (y-o-y).** This is a rebound from the previous period when the economy suffered a 4.5% decline during the September quarter following the MCO 3.0 which was implemented in late June last year.
- ✓ The continuous double-digit growth in exports (4Q2021: 29.0% vs. 3Q2021: 15.8%) would be the main driver for the country's economy given the persistent recovery in the global demand. Total exports were largely underpinned by strong growth in electrical and electronic products (E&E) and commodities related exports. On the same note, Malaysia's Industrial Production Index (IPI) expanded by 6.9% y-o-y in 4Q2021 (3Q2021: -1.1%) and the increment was contributed by the positive performance in Manufacturing index (4Q2021: 9.2% vs. 3Q2021: -0.7%) and Electricity index (4Q2021: 4.3% vs. 3Q2021: -3.1%). This suggests a better prospect for manufacturers coming into 2022.
- ✓ One examples would be **Ancom Berhad**, a chemical manufacturing company which saw its net profit nearly doubled to RM12.08 million in the 2QFY2022 ended 30 November 2021 from RM6.19 million in the preceding year. In addition, the company's revenue surged by 49.2% y-o-y in the same quarter contributed by significant growth in industrial chemicals products in Malaysia and Singapore due to eased economic restrictions.
- ✓ As for an olefins and polyolefins producer, **Lotte Chemical Titan Holding Berhad** 4QFY2021 revenue grew by 40.0% y-o-y in view of higher average product prices following the supply chain disruptions.
- ✓ Apart from that, net profit for **Westports Holdings Berhad** in 4QFY2021 soared by 36% y-o-y due to the higher container revenue and progressive insurance reimbursement for a vessel incident took place in 2019.
- ✓ Similarly, **Fraser & Neave Holdings Berhad (F&N)**, one of Malaysia's leading companies in food and beverages industry, recorded a 2.2% y-o-y growth in revenue in the first financial quarter ended 31 December 2021 (1Q2022: RM1.1 billion vs 1Q2021: RM1.08 billion). **So we can safely say that the economy is gaining good traction in October to December 2021.**

**GDP growth, y-o-y%**



ECONOMIC RESEARCH

**F&N Quarterly Earnings**



Source: F&N Holdings Bread's Quarterly Financial Report 4QFY2021

# MALAYSIAN ECONOMY WILL BE ANCHORED BY BOTH ENGINES – DOMESTIC DEMAND AND THE EXTERNAL SECTOR

Y-o-Y%	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021F	2020	2021F
<b>GDP</b>	<b>0.7%</b>	<b>-17.2%</b>	<b>-2.7%</b>	<b>-3.4%</b>	<b>-0.5%</b>	<b>16.1%</b>	<b>-4.5%</b>	<b>3.1%</b>	<b>-5.6%</b>	<b>3.0%</b>
Domestic Demand (excluding stocks)	3.7%	-18.8%	-3.3%	-4.5%	-1.0%	12.4%	-4.1%	2.7%	-5.8%	2.0%
<b>Private Sector</b>	<b>4.9%</b>	<b>-20.4%</b>	<b>-4.0%</b>	<b>-4.0%</b>	<b>-0.9%</b>	<b>13.0%</b>	<b>-4.4%</b>	<b>5.8%</b>	<b>-6.0%</b>	<b>2.9%</b>
-Consumption	6.7%	-18.5%	-2.1%	-3.5%	-1.5%	11.7%	-4.2%	3.7%	-4.3%	1.9%
-Investment	-1.2%	-26.1%	-10.8%	-6.6%	1.3%	17.4%	-4.8%	13.2%	-11.9%	6.2%
<b>Public Sector</b>	<b>-1.8%</b>	<b>-11.1%</b>	<b>0.1%</b>	<b>-5.7%</b>	<b>-1.5%</b>	<b>9.7%</b>	<b>-2.8%</b>	<b>-7.3%</b>	<b>-4.7%</b>	<b>-1.4%</b>
-Consumption	4.9%	2.2%	6.8%	2.4%	5.9%	9.0%	8.0%	2.2%	3.9%	6.0%
-Investment	-14.4%	-40.1%	-13.1%	-20.4%	-18.6%	12.0%	-28.9%	-29.4%	-21.3%	-20.2%
<b>Net Exports of Goods and Services</b>	<b>-36.8%</b>	<b>-37.9%</b>	<b>19.2%</b>	<b>10.0%</b>	<b>0.8%</b>	<b>34.3%</b>	<b>-37.5%</b>	<b>1.5%</b>	<b>-13.0%</b>	<b>-6.1%</b>
-Exports	-7.2%	-21.7%	-4.9%	-2.1%	11.9%	37.4%	5.1%	15.1%	-8.9%	16.4%
-Imports	-2.7%	-19.7%	-7.9%	-3.3%	13.0%	37.6%	11.7%	18.7%	-8.4%	19.6%

Sources: CEIC, Bank Islam

✓ **Private Consumption** is estimated to increase by 3.7% y-o-y in 4Q2021 (3Q2021: -4.2%).

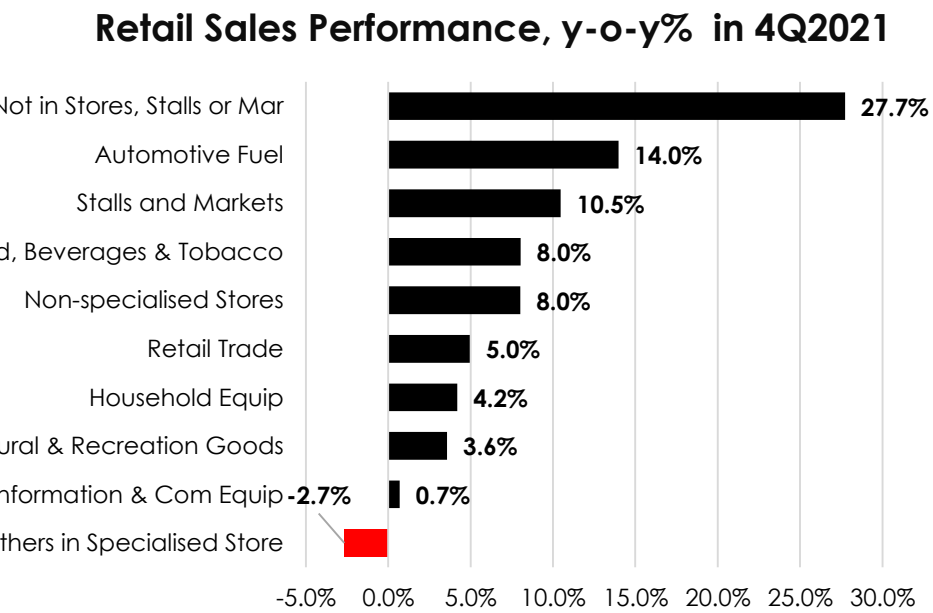
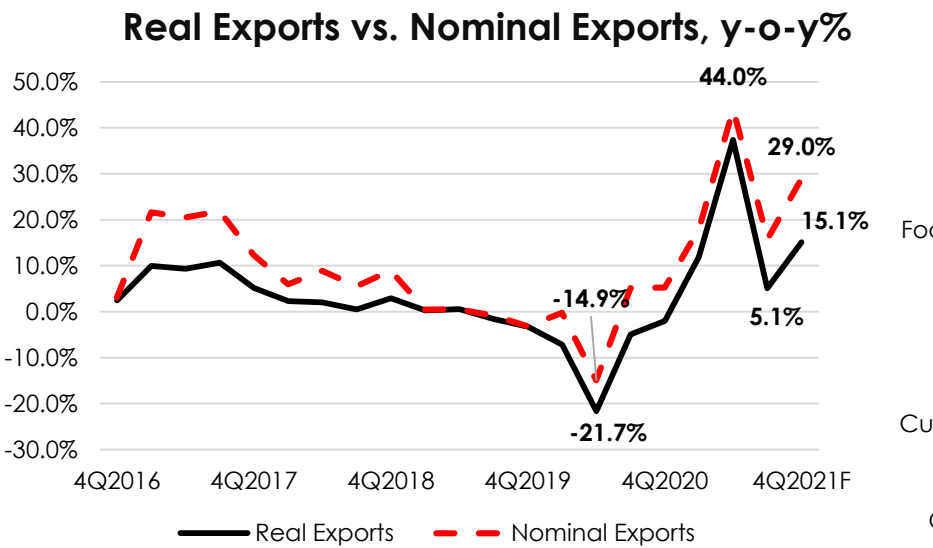
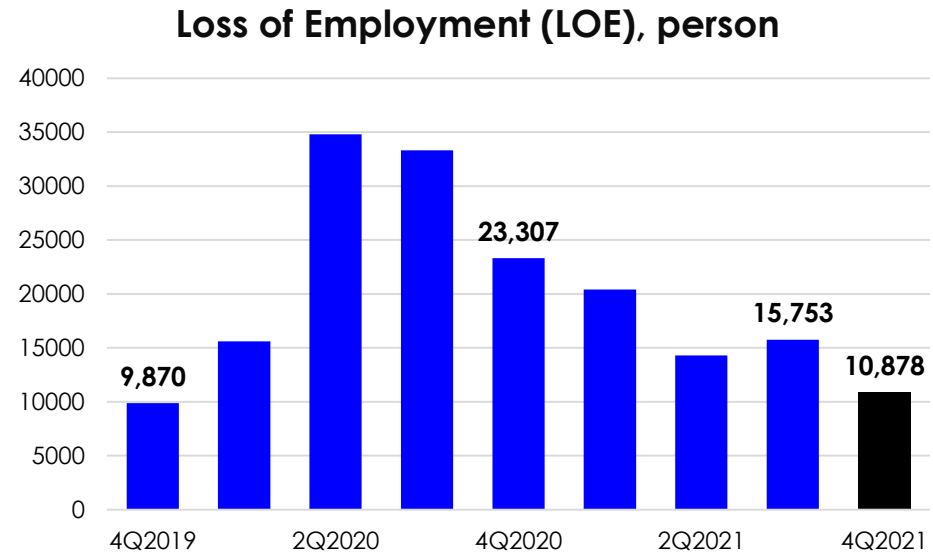
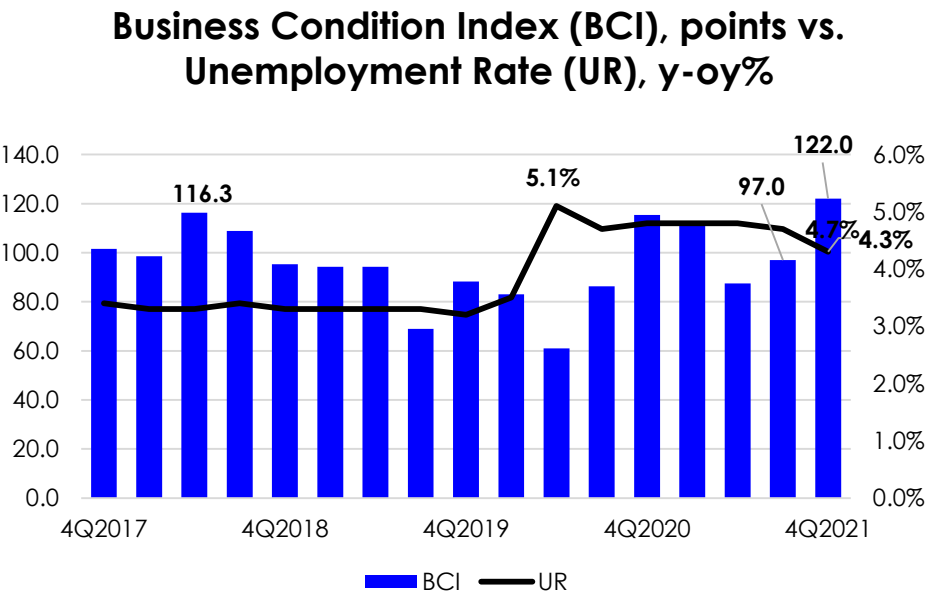
✓ **Assumptions:**

- 1) **Retail sales** rebounded by 5.0% in 4Q2021 following a contraction of 5.5% in the previous quarter, mainly attributable to positive improvement seen in Non-specialised Stores (4Q2021: 8.0% vs. 3Q2021: -6.3%), Household Equipment (4Q2021: 4.2% vs. 3Q2021: -5.0%), as well as Information & Computer Equipment (4Q2021: 0.7% vs. 3Q2021: -0.3%) during the said quarter.
- 2) In addition, the **labour market** has improved amid an announcement of ease restrictions nationwide from 1 October 2021 which allow more businesses and social activities to resume with longer business hours for fully-vaccinated people. As such, the loss of employment (LOE) by SOCSO saw a reduction from 15,753 persons in 3Q2021 to 10,878 persons in 4Q2021. Similarly, the unemployment rate continued to drop (4Q2021: 4.3% vs. 3Q2021: 4.7%) due to creation of more job opportunities.
- 3) **Business Condition Index (BCI)** has improved by 25.0 points to settle at 122.0 points in 4Q2021 (3Q2021: 97.0 points), driven by an increase in sales, both domestic and external orders, as well as capital investment.

✓ On the external sector, **Exports** are expected to increase significantly to reach a double digit-growth of 15.1% in 4Q2021 from a 5.1% expansion in the previous quarter.

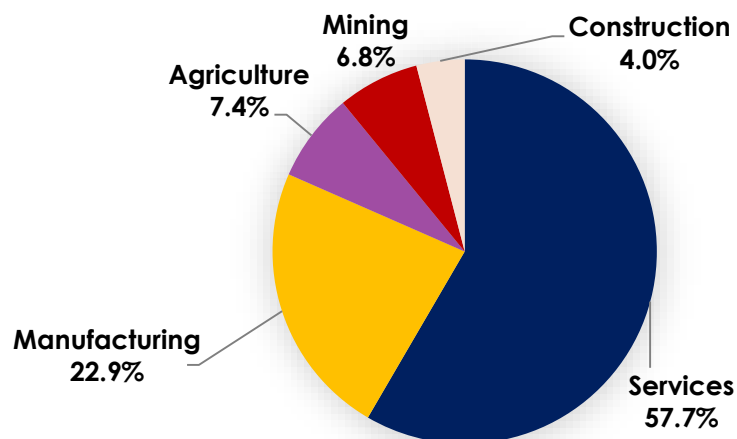
✓ **Assumptions:**

- 1) Nominal exports increased further by 29.0% in 4Q2021 from a 15.8% growth in 3Q2021.



# SUPPLY SIDE – RECOVERY IN SERVICES, MANUFACTURING AND AGRICULTURE WILL BE THE ANCHORS OF GROWTH DURING 4Q2021

GDP Share (2020), %



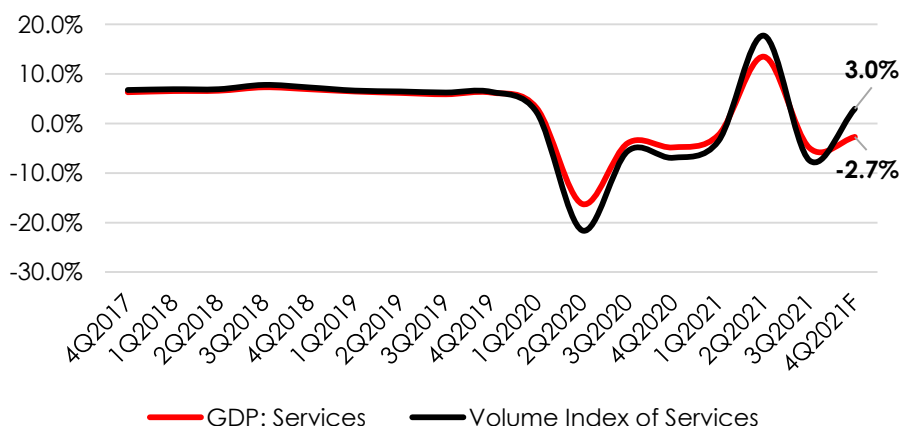
## Services

- ✓ Services sector which contributed a sizeable share of 57.7% of total GDP is projected to **grow positively by 2.7% in 4Q2021** (3Q2021: -4.9%).
- ✓ The upturn was supported by Volume Index of Services which recovered by 3.0% in final quarter of 2021 (3Q2021: -7.5%) as bans on interstate travel were lifted on 11 October 2021.

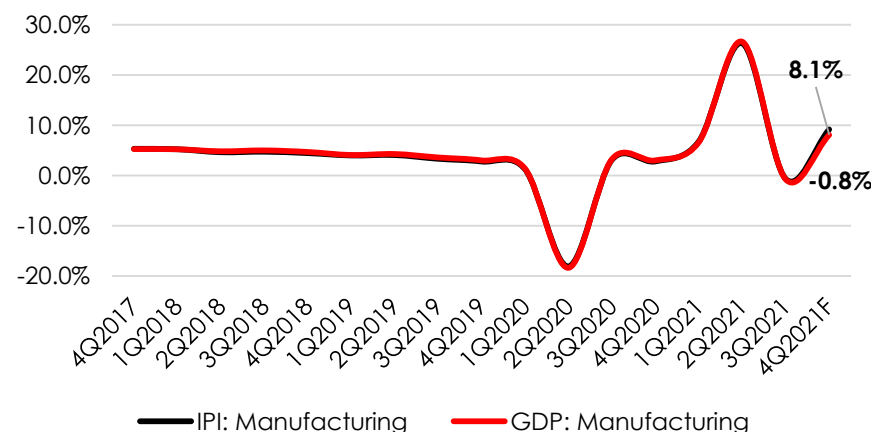
## Manufacturing

- ✓ Manufacturing sector is likely to reverse its negative growth, **rising by 8.1% in 4Q2021** from -0.8% in 3Q2021.
- ✓ This was in tandem with Industrial Production Index (IPI) performance which rebounded by 9.2% in 4Q2021 (3Q2021: -0.7%).

GDP: Services vs. Volume Index of Services, y-o-y%



GDP: Manufacturing vs. IPI: Manufacturing, y-o-y%



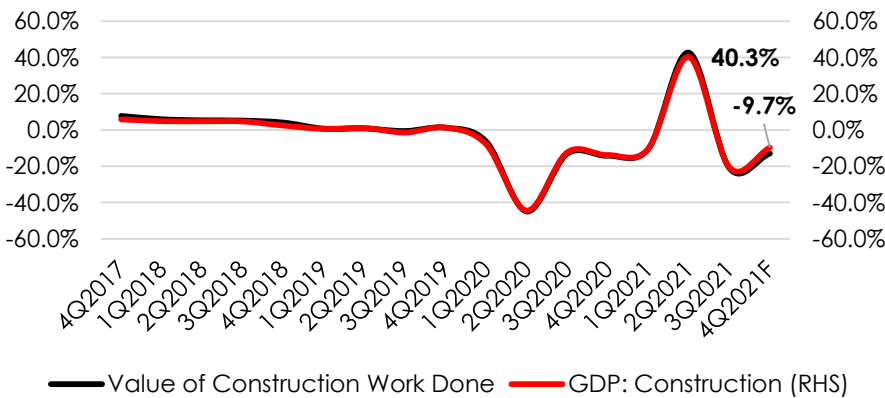
Sources: Bank Islam, CEIC, DOSM, BNM

# SUPPLY SIDE – RECOVERY IN SERVICES, MANUFACTURING AND AGRICULTURE WILL BE THE ANCHORS OF GROWTH DURING 4Q2021 (CONT'D)

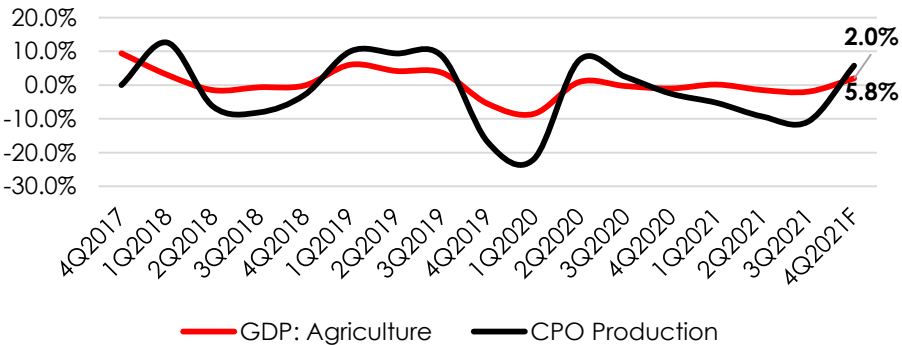
## Agriculture

- ✓ Agriculture sector is expected to rebound by 2.0% in 4Q2021 (3Q2021: -1.9%) supported by higher production of Crude Palm Oil (CPO) at 4.8 million ton in 4Q2021 compared to 4.5 million tones in the same period of 2020.

**GDP: Construction vs. Construction Work Done, y-o-y%**



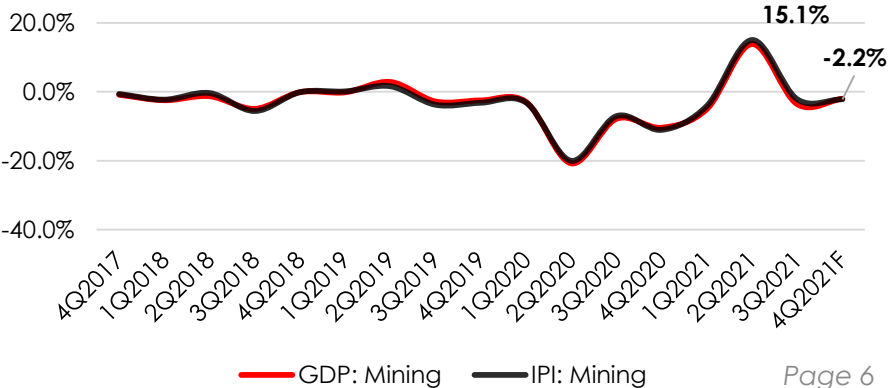
**GDP: Agriculture vs. CPO Production, y-o-y%**



## Construction

- ✓ Construction activities are anticipated to decline at a slower rate of 9.7% in 4Q2021 (3Q2021: -20.6%).
- ✓ This is mainly due to lesser restriction imposed to the sector which has allowed more projects to be implemented.
- ✓ Following this, the Value of Construction Work Done recorded a softer contraction at 12.9% in 4Q2021 (3Q2021: -21.0%).

**GDP: Mining vs. IPI: Mining, y-o-y%**



## Mining

- ✓ Mining sector is likely to fall by 2.0% in 4Q2021 from -3.6% previously.
- ✓ This was mainly affected by decline in IPI for mining which plummeted by 0.8% in 4Q2021 (3Q2021: -2.2%).



- ✓ For the purpose of robustness checks, we estimated the monthly real GDP for October, November, December 2021 based on the growth in Malaysia's Coincident Index from the Department of Statistics Malaysia (DOSM) and the growth in the Key Production Index.
- ✓ We derived the growth of the Key Production Index via a weighted average growth of economic indicators namely, Industrial Production Index (IPI), Distributive Trade Index and Crude Palm Oil Production.
- ✓ The reason for using the growth of the Coincident Index and Key Production Index is due to the **higher correlation with the monthly real GDP growth at 99.5% and 93.5% respectively from Jan 2020 until September 2021.**

**Correlation Matrix Between Monthly Real GDP and Coincident Index Growth:**

Variables	Monthly Real GDP	Coincident Index
Monthly Real GDP	1.0000	
Coincident Index	0.9947	1.0000

**Correlation Matrix Between Monthly Real GDP and Key Production Index Growth:**

Variables	Monthly Real GDP	Key Production index
Monthly Real GDP	1.0000	
Key Production Index	0.9350	1.0000

Sources: Bank Islam, CEIC

- ✓ Regression analysis was carried out between the monthly real GDP growth and the growth of these two indexes. The monthly real GDP estimates obtained using the growth of the Coincident Index and the Key Production Index was then averaged to derive the monthly real GDP growth for October, November, December 2021 as shown below:

Regression between Monthly Real GDP, y-o-y% and:	Real GDP Estimates from Regression Analysis			
	Oct-21	Nov-21	Dec-21	4Q2021
Key Production Index Growth, y-o-y%	1.4%	6.2%	4.1%	3.9%
Coincident Index Growth, y-o-y%	2.8%	4.4%	0.8%*	2.7%
<b>Average</b>	<b>2.1%</b>	<b>5.3%</b>	<b>2.5%</b>	<b>3.3%</b>

- ✓ **The 4Q2021 GDP growth derived from the average growth of the monthly real GDP growth from October to December last year was at 3.3%, which is very close to our estimates based on supply and demand components of 3.1%.**

\* Applied Auto Regressive Integrated Moving Average (ARIMA) forecasting technique to estimate Coincident Index for the month of December 2021.

GDP, y-o-y%	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021	2020	2021
U.S.	2.6	0.6	-9.1	-2.9	-2.3	0.5	12.2	4.9	<b>5.5</b>	-3.4	<b>5.3</b>
U.K.	1.2	-2.1	-21.2	-7.8	-6.4	-5.1	24.2	6.8	<b>N/A</b>	-9.8	<b>N/A</b>
Eurozone	1.1	-3.0	-14.5	-4.0	-4.4	-1.1	14.4	3.9	<b>4.6</b>	-6.4	<b>5.2</b>
Japan	-1.4	-2.1	-10.1	-5.5	-0.9	-1.3	7.6	1.4	<b>N/A</b>	-4.6	<b>N/A</b>
Germany	0.9	-1.9	-11.3	-3.7	-2.9	-2.7	10.4	2.9	<b>1.4</b>	-4.9	<b>2.8</b>
France	0.9	-5.5	-18.6	-3.6	-4.3	1.7	19.0	3.5	<b>5.4</b>	-8.0	<b>7.0</b>
China	5.8	-6.8	3.2	4.9	6.5	18.3	7.9	4.9	<b>4.0</b>	2.2	<b>8.1</b>
Thailand	1.3	-2.1	-12.1	-6.4	-4.2	-2.6	7.6	-0.3	<b>N/A</b>	-6.1	<b>N/A</b>
Philippines	6.6	-0.7	-17.0	-11.6	-8.3	-3.9	12.0	6.9	<b>7.7</b>	-9.6	<b>5.6</b>
South Korea	2.3	1.5	-2.6	-1.0	-1.1	1.9	6.0	4.0	<b>4.1</b>	-1.0	<b>4.0</b>
Singapore	1.0	0.0	-13.3	-5.8	-2.4	1.6	15.3	7.1	<b>5.9</b>	-5.4	<b>7.2</b>
Indonesia	5.0	3.0	-5.3	-3.5	-2.2	-0.7	7.1	3.5	<b>5.0</b>	-2.1	<b>3.7</b>
Malaysia	3.7	0.7	-17.2	-2.7	-3.4	-0.5	16.1	-4.5	<b>N/A</b>	-5.6	<b>N/A</b>

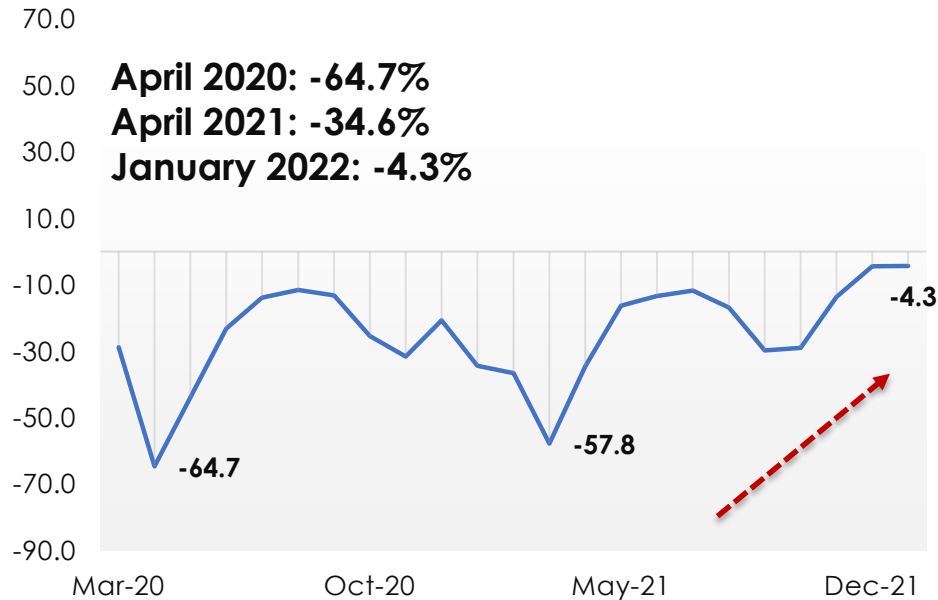
Sources: Official Website, Bloomberg, World Bank

- ✓ Most countries have recorded positive GDP growth during 4Q2021. This is in tandem with the economic recovery trajectory since 2H2021. As such, global economies have rebounded in 2021 from a contraction in 2020 following the adverse impacts from the coronavirus.
- ✓ Among the regional peers, the Philippines posted the largest expansion rate, growing by 5.6% in 2021 after logging in a 7.7% growth in the final quarter of 2021. This was mainly attributable by the loosening pandemic-related restrictions which had supported business activities last year. As for Indonesia, the country returned to growth in 2021, recovering from its first contraction (2021: 3.7% vs. 2020: -2.1%) in two decades as coronavirus-induced restrictions had been eased and business operations normalizes.

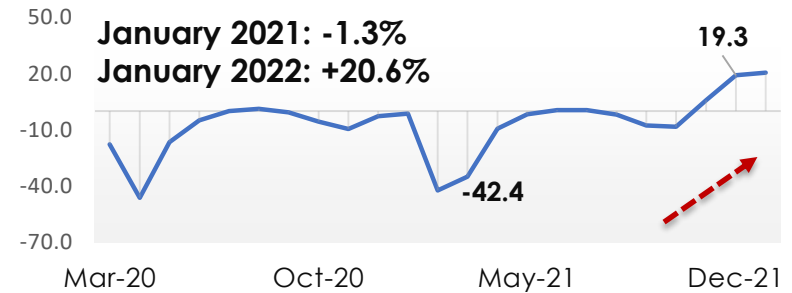


# OUR VIEW (CONT'D) – REOPENING OF THE ECONOMY IS GAINING STEAM BASED ON GOOGLE MOBILITY INDEX

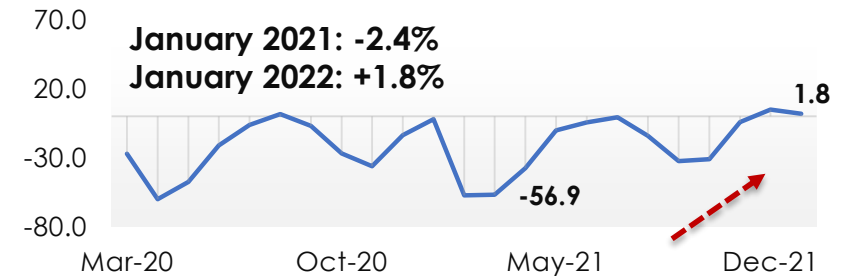
## Monthly Google Mobility Index



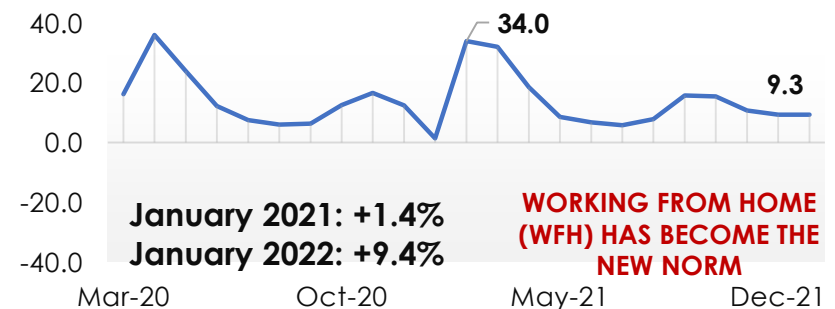
## Grocery & Pharmacy



## Parks



## Residential



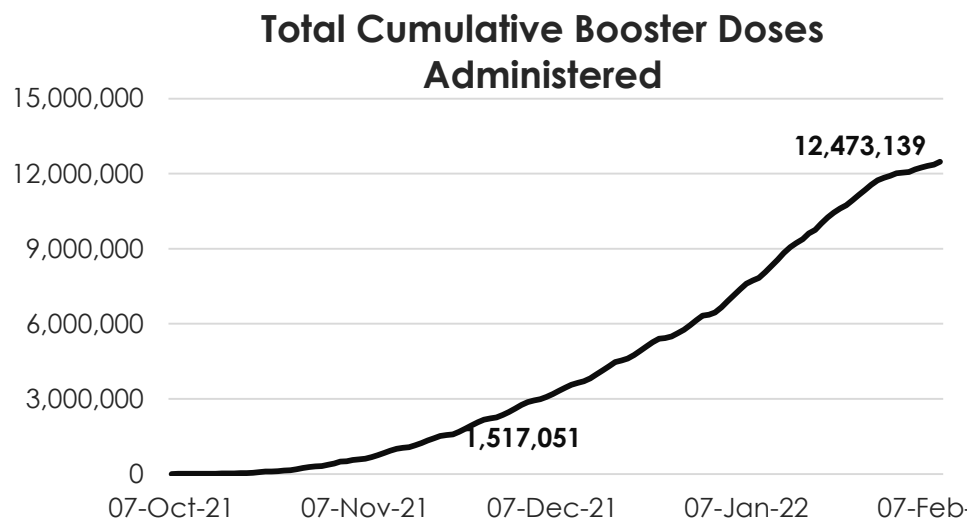
Sources: Covid-19 Community Mobility Reports, Bank Islam

Note: 1. The chart above shows the change in movements of people at different locations i.e., Retail & Recreation; Transit Stations; Workplaces; Grocery & Pharmacy; Parks compared to the baseline (pre-pandemic period).

2. **Monthly Google Mobility Index is the simple average of the daily indices for Retail & Recreation; Transit Stations; Workplaces; Grocery & Pharmacy; Parks. (excluding residential)**

3. A positive change from the baseline indicates more people are at a location than the pre-pandemic period. Meanwhile, a negative change from the baseline indicates that more people are staying away from a particular place compared to pre-pandemic periods.

## CONCLUSION – OUR 4Q2021 GDP ESTIMATES OF 3.1% LOOKS FAIRLY REASONABLE



Source: CEIC

- ✓ **Brighter economic prospects in 2022** - High vaccination rate together with additional booster shots administered would mean a more lively economic activities this year. The National Recovery Council (NRC) has mooted the idea of lifting up the international borders in March. Should this materializes, tourism related sector would turnaround meaningfully. Thus far, the MIER's BCI increased by 21.0 points to settle at 122.0 points in 4Q2021 (3Q2021: 97.0 points), suggesting that businesses have begun to regain confidence in the manufacturing sector. Perhaps, similar optimism could be shared in the services sector.
- ✓ **Be that as it may, downside risks remain** – Uncertainties over the impacts from the Omicron virus have become protracted with more than 10,000 people are being infected daily in Malaysia. This would pose a threat to domestic economic recovery as restriction measures could be reinstated. As such, we believe the recovery path will be very much depending on how Malaysia is managing the Covid-19 infections. Apart from that, supply chain disruptions, geopolitical risks, as well as uncertainties over domestic political environment are also expected to deter economic performance moving forward.
- ✓ **All in all, we are projecting 3.1% growth for the 4Q2021 GDP.** This is after taking into account the flash floods that had devastated in the key states at the end of December last year, which have caused an estimated of RM6.1 billion in overall losses. **We are also maintaining our Malaysia's full year GDP growth target of 3.0% in 2021, barring any unforeseen changes required following 4Q2021 GDP data release on 11 February 2022.**

Economic Sector	Share 2020 (%)	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021F	2020	2021F
Services	57.7%	3.1%	-16.2%	-4.0%	-4.8%	-2.3%	13.5%	-4.9%	2.7%	-5.5%	1.8%
Manufacturing	22.9%	1.4%	-18.3%	3.3%	3.0%	6.6%	26.6%	-0.8%	8.1%	-2.6%	9.3%
Agriculture	7.4%	-8.6%	0.9%	-0.3%	-1.0%	0.2%	-1.5%	-1.9%	2.0%	-2.2%	-0.4%
Mining	6.8%	-2.9%	-20.8%	-7.8%	-10.4%	-5.0%	13.9%	-3.6%	-2.0%	-10.6%	0.4%
Construction	4.0%	-7.9%	-44.5%	-12.4%	-13.9%	-10.4%	40.3%	-20.6%	-9.7%	-19.4%	-4.5%
Import Duties		-15.9%	-20.3%	0.1%	13.4%	19.1%	24.7%	-21.6%	-1.5%	-5.6%	3.1%
<b>Total GDP, y-o-y%</b>	<b>100.0%</b>	<b>0.7%</b>	<b>-17.2%</b>	<b>-2.7%</b>	<b>-3.4%</b>	<b>-0.5%</b>	<b>16.1%</b>	<b>-4.5%</b>	<b>3.1%</b>	<b>-5.6%</b>	<b>3.0%</b>

Sources: Bank Islam, CEIC

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