



From the Desk
of the
Chief Economist

BANK ISLAM

GDP PREVIEW-ECONOMIC GROWTH TO CONTRACT BY 1.5% IN 1Q2021

8 MAY 2021

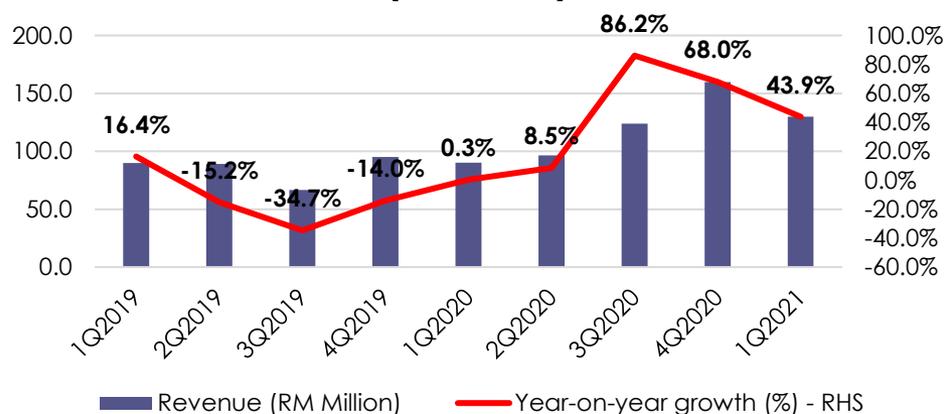
ECONOMIC RESEARCH

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NOR JANNAH ABDULLAH**

1Q2021 WILL SEE ANOTHER CONTRACTION IN ECONOMIC GROWTH ALBEIT SMALLER THAN THE PRECEDING QUARTER

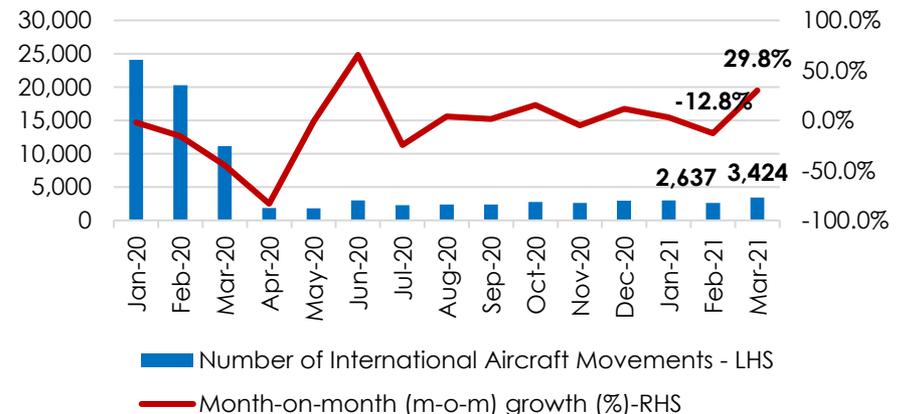
- ✓ Malaysia's Gross Domestic Product (GDP) for the first quarter of 2021 will be published on 11 May 2021. We are **projecting the 1Q2021 GDP growth to come in at -1.5% year-on-year (y-o-y), which is a smaller drop than the 3.4% decline recorded in 4Q2020**. This will be the fourth consecutive quarter of contractions amid the reimposition of the Movement Control Order (MCO) 2.0 in January and February this year. Notwithstanding this, the manufacturing sector, particularly the Electrical & Electronics (E&E) sector is likely to cushion any further drop in economic growth during 1Q2021, premised on the acceleration of the digital adoption amidst the ongoing Covid-19 pandemic.
- ✓ E&E related companies such as ViTrox Corporation Berhad recorded a 43.9% y-o-y increase in its revenue during 1Q2021 (4Q2020: 68.0%), marking its fifth consecutive quarter of gains. The continuous rise in revenue was mainly attributable to the strong demand for its machine vision system (MVS) products.
- ✓ With international travel restrictions still being in place, the higher number of international aircraft movements at KLIA which grew by 29.8% month-on-month (m-o-m) in March (February: -12.8%) could be contributed by air cargo planes transporting goods in and out of the country such as E&E products which are in high demand across the globe.

ViTrox Corporation Berhad's Revenue (RM Million)



Source: Bursa Malaysia
ECONOMIC RESEARCH

International Aircraft Movements at Kuala Lumpur International Airport



Source: Malaysia Airports Holdings Berhad

PRIVATE SECTOR ECONOMY CONTINUED TO BE AFFECTED BY THE PANDEMIC

Y-o-Y%	Share (2020)	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021F
GDP	100.0%	4.5%	4.8%	4.4%	3.6%	0.7%	-17.1%	-2.6%	-3.4%	-1.5%
Domestic Demand (excluding stocks)	93.9%	4.5%	4.5%	3.5%	4.8%	3.7%	-18.7%	-3.3%	-4.4%	-4.0%
Private Sector	75.2%	6.0%	6.1%	5.5%	7.4%	4.7%	-20.5%	-3.6%	-4.1%	-5.2%
-Consumption	59.5%	7.7%	7.8%	7.0%	8.1%	6.7%	-18.5%	-2.1%	-3.4%	-3.4%
-Investment	15.7%	0.6%	1.5%	0.4%	4.3%	-2.3%	-26.4%	-9.3%	-7.0%	-11.9%
Public Sector	18.7%	-1.6%	-2.4%	-4.8%	-2.3%	-0.6%	-10.6%	-1.6%	-5.4%	1.5%
-Consumption	13.4%	6.3%	0.3%	1.0%	1.2%	5.0%	2.3%	6.9%	2.7%	11.0%
-Investment	5.2%	-13.7%	-7.8%	-14.6%	-8.0%	-11.3%	-38.7%	-18.6%	-19.8%	-19.7%
Net Exports of Goods and Services	6.5%	13.0%	32.9%	12.0%	-12.4%	-37.0%	-38.6%	21.9%	12.4%	42.4%
-Exports	61.6%	0.1%	0.5%	-2.1%	-3.4%	-7.1%	-21.7%	-4.7%	-1.8%	12.9%
-Imports	55.1%	-1.6%	-2.3%	-3.5%	-2.4%	-2.5%	-19.7%	-7.8%	-3.3%	10.0%

Sources: CEIC, Bank Islam

✓ **Private Consumption** is expected to drop by 3.4% in 1Q2021 (4Q2020: -3.4%).

✓ **Assumptions:**

- 1) Manufacturing and Services sector wages declined by 0.6% and 3.1% in 1Q2021 from -1.3% and -4.6% in December quarter last year.
- 2) Unemployment rate is still at its elevated level of 4.8% in 1Q2021 (4Q2020: 4.8%), higher than average of 3.4%.
- 3) Consumer Sentiment Index (CSI) improved to 98.9 points in 1Q2021 from 85.2 points in the previous quarter. However, it remains below the optimism threshold of 100.0 points for the tenth straight quarter.

✓ Meanwhile, **Public Consumption** is forecasted to increase by 11.0% in March quarter, extending the 2.7% growth in the preceding quarter amid stimulus packages and measures introduced by the government. These include PERMAI (RM15.0 billion) and PEMERKASA (RM20.0 billion) stimulus packages during 1Q2021.

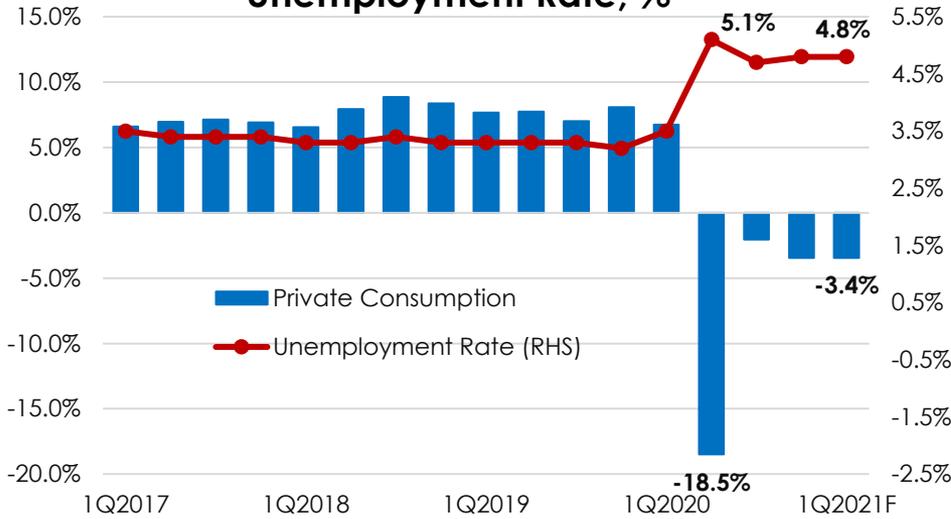
✓ **Export** is anticipated to rebound supported by strong demand conditions (1Q2021F: 12.9% vs. 4Q2020: -1.8%).

✓ **Assumptions:**

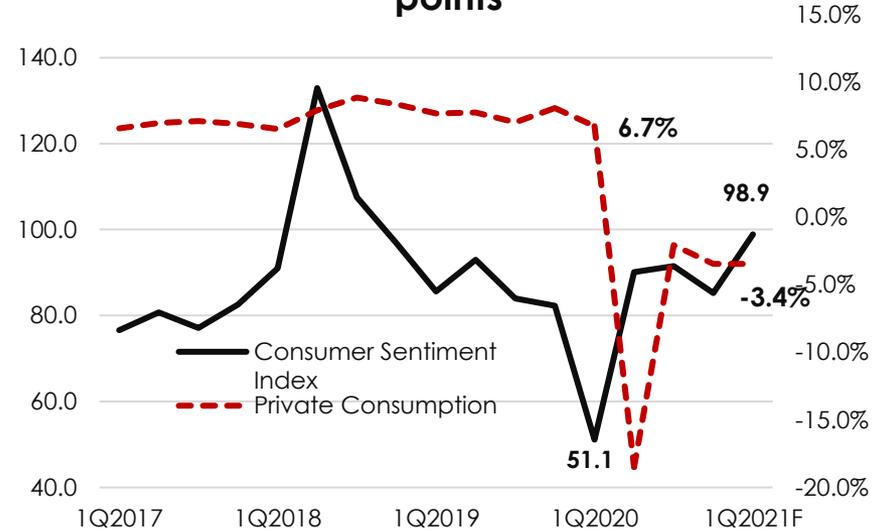
- 1) Nominal exports jumped by 18.2% in 1Q2021 from a 5.1% growth in 4Q2020.
- 2) Global Semiconductor Sales (GSS) have been increasing with a double-digit growth since January 2021 (March: 17.8% vs. February: 14.7%). This would provide support for the exports sales of E&E products in 2021.

DEMAND SIDE – EXPORT IS EXPECTED TO SUPPORT THE ECONOMIC ACTIVITIES

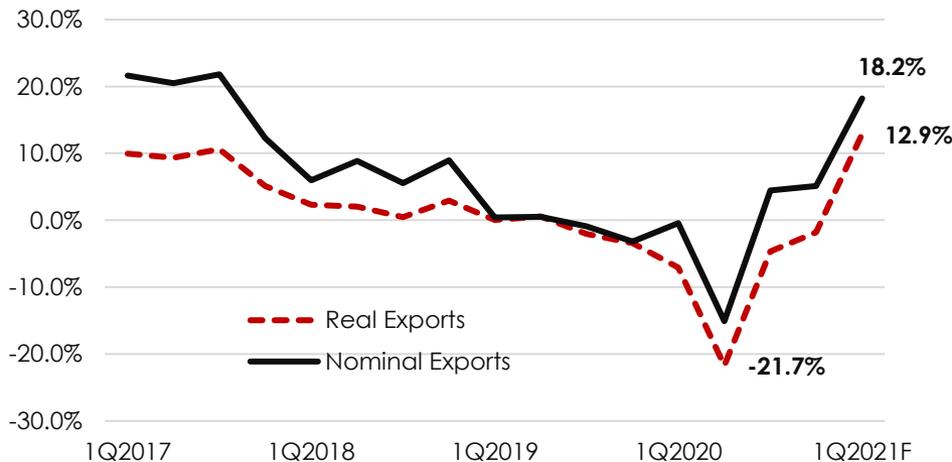
Private Consumption, y-o-y% vs. Unemployment Rate, %



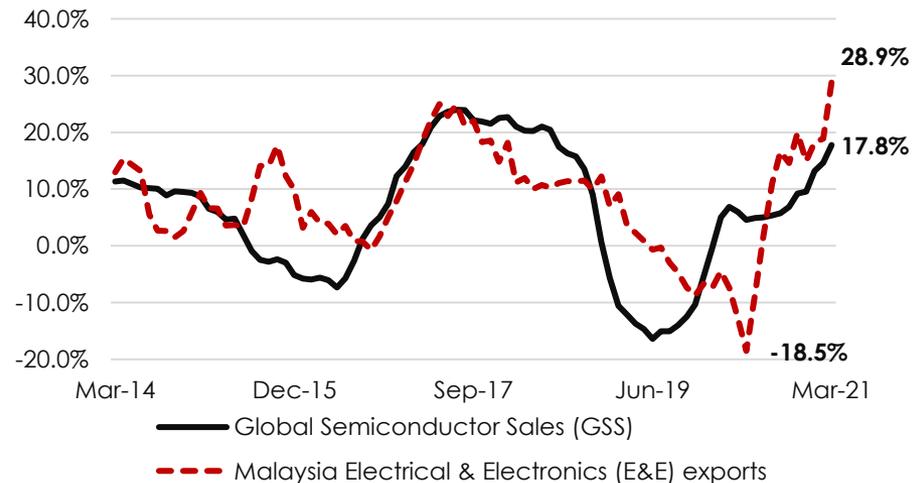
Private Consumption, y-o-y% vs. CSI, points



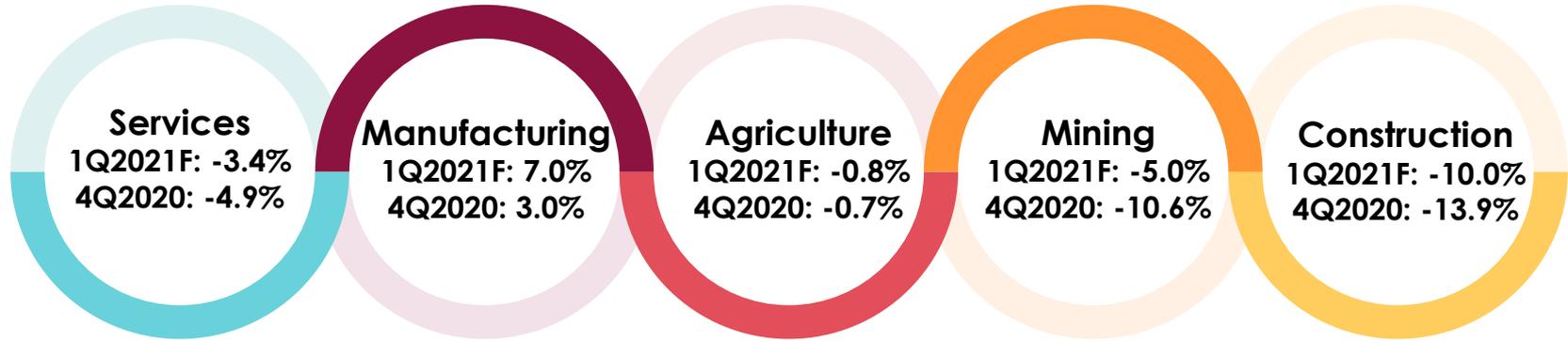
Real Exports, y-o-y % vs. Nominal Exports, y-o-y%



GSS (%) vs. Nominal Exports: E&E (%) – 3 Months Moving Average (3MMA)

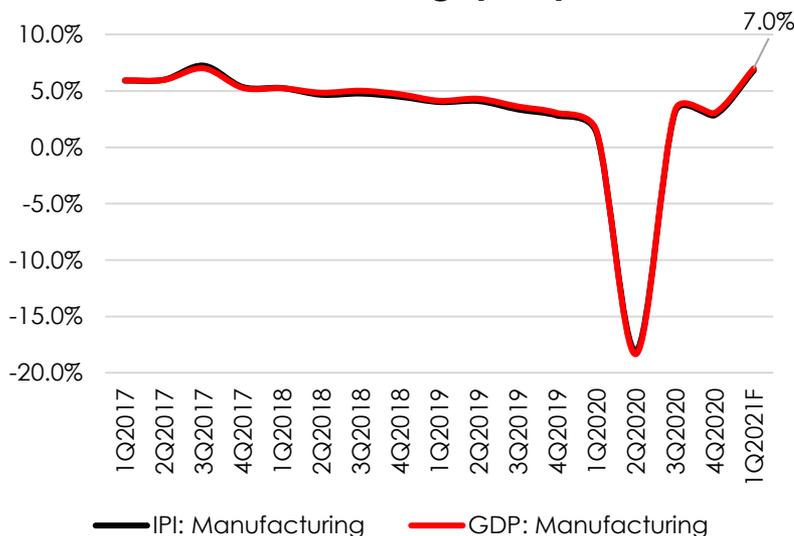


SUPPLY SIDE – SUPPORTED BY SIGNIFICANT INCREASE IN MANUFACTURING ACTIVITY



Sources: Bank Islam, CEIC

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



Sources: Bank Islam, CEIC

- ✓ Within the economic sector, the manufacturing is likely to rise further by 7.0% in 1Q2021 from 3.0% in the preceding quarter.
- ✓ This was in tandem with the significant growth in the IPI of the Manufacturing sector which increased by 6.8% in 1Q2021 (4Q2020: 2.8%) in the wake of sturdy demand for E&E products (1Q2020: 10.5% vs. 4Q2020: 7.8%), Transport Equipment & Other Manufacturers (1Q2021: 7.6% vs. 4Q2020: 6.1%) and Petroleum, Chemical, Rubber & Plastic Products (1Q2021: 9.2% vs. 4Q2020: 3.9%).

SUPPLY SIDE –SERVICES, CONSTRUCTION, MINING AND AGRICULTURE SECTORS ARE LIKELY TO REMAIN GLOOMY

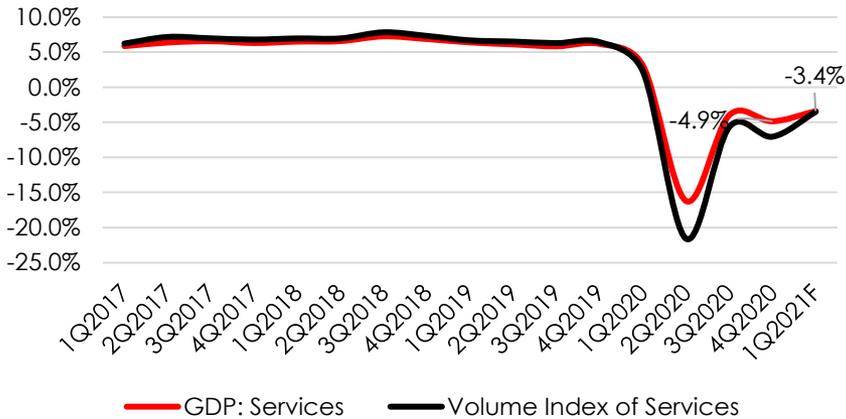
Economic Sector	Share 2020 (%)	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021F
Services	57.7%	3.1%	-16.2%	-4.0%	-4.9%	-3.4%
Manufacturing	23.0%	1.5%	-18.3%	3.3%	3.0%	7.0%
Agriculture	7.4%	-8.7%	1.0%	-0.5%	-0.7%	-0.8%
Mining	6.8%	-2.0%	-20.0%	-6.8%	-10.6%	-5.0%
Construction	4.0%	-7.9%	-44.5%	-12.4%	-13.9%	-10.0%
GDP, y-o-y%	100.0%	0.7%	-17.1%	-2.6%	-3.4%	-1.5%

Sources: Bank Islam, CEIC

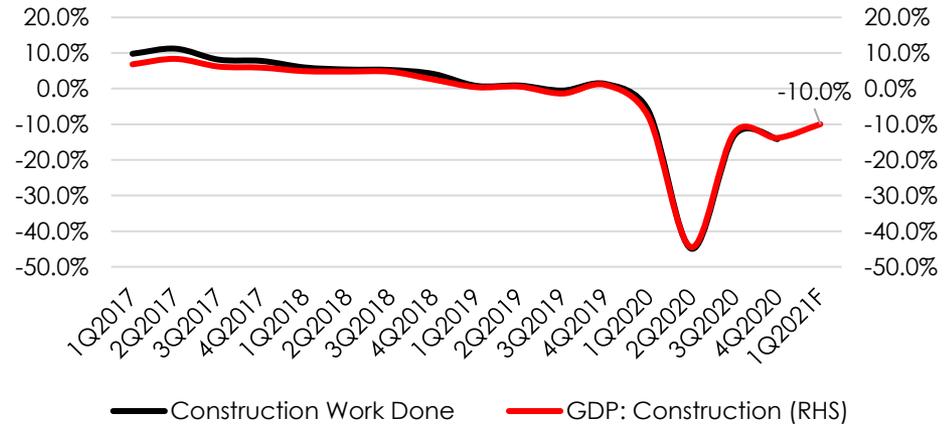
- ✓ On the other hand, the services and construction sector are expected to remain in the contractionary level at 3.4% (4Q2020: -4.9%) and 10.0% (4Q2020: -13.9%) during 1Q2021 amid implementation of the MCO 2.0 in January and February this year. In addition, the Volume Index of Services declined by 3.6% y-o-y in 1Q2021 albeit at a slower pace compared to a 7.1% decrease in 4Q2020.
- ✓ Similarly, the mining sector is anticipated to fall by 5.0% in 1Q2021 (4Q2020: -10.6%) following the drop in the IPI of mining at 4.1% in 1Q2021 (4Q2020: -11.1%).
- ✓ As for the agriculture sector, it will likely to deepen further by 0.8% (4Q2020: -0.7%) in 1Q2021, predominantly weighed by decline in CPO production to 3.7 million tonnes in 1Q2021 from 4.6 million tonnes in 4Q2020.

SUPPLY SIDE –SERVICES, CONSTRUCTION, MINING AND AGRICULTURE SECTORS ARE LIKELY TO REMAIN GLOOMY

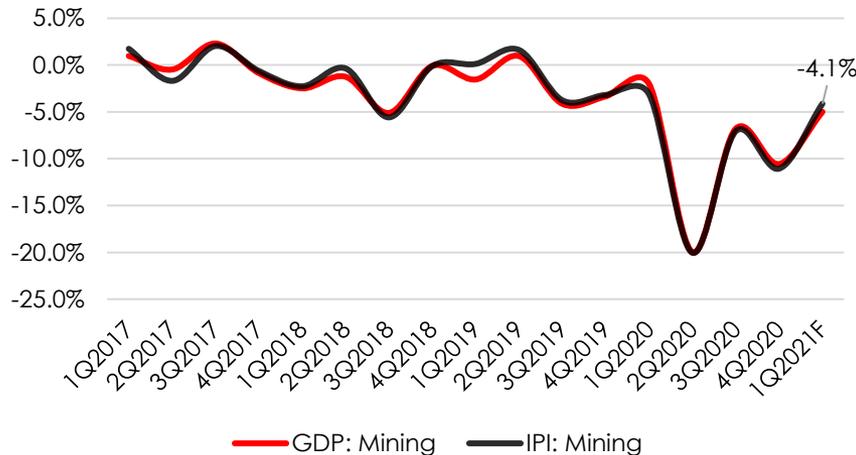
GDP: Services vs. Volume Index of Services, y-o-y%



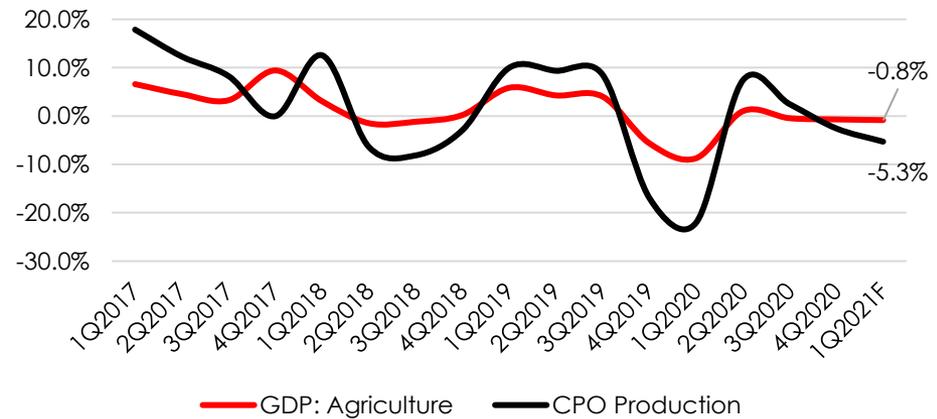
GDP: Construction vs. Construction Work Done, y-o-y%



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



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



Sources: Bank Islam, CEIC

- ✓ We estimated the monthly real GDP for January, February and March this year based on Malaysia's Coincident Index from the Department of Statistics Malaysia (DOSM) and the Key Production Index. We derived the Key Production Index via a weighted average of economic indicators namely, Industrial Production Index, the Distributive Trade Index and crude palm oil production.
- ✓ The reason for using the Coincident Index and Key Production Index is due to the high correlation with the monthly real GDP at 99.0% and 93.5% respectively.

Correlation Matrix Between Monthly Real GDP and Coincident Index

	Monthly Real GDP	Coincident Index
Monthly Real GDP	1.0000	
Coincident Index	0.9904	1.0000

Sources: Bank Islam, CEIC

Correlation Matrix Between Monthly Real GDP and Key Production Index

	Monthly Real GDP	Key Production Index
Monthly Real GDP	1.0000	
Key Production Index	0.9348	1.0000

- ✓ On further scrutiny, a regression analysis was carried out between the monthly real GDP and these two indexes. The monthly real GDP estimates obtained using Coincident Index and the Key Production Index was then averaged to derive the monthly real GDP for January, February and March this year as shown below:

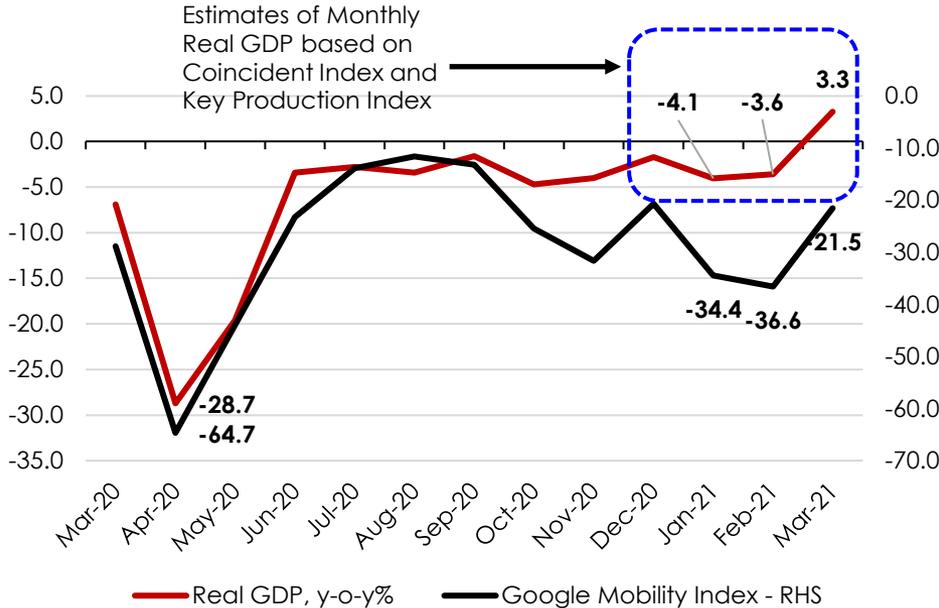
Regression between Monthly Real GDP, y-o-y% and:	Real GDP Estimates from Regression Analysis			
	Jan-21	Feb-21	Mar-21	1Q2021
Coincident Index	-4.1%	-3.7%	-1.2%	-3.0%
Key Production Index	-4.0%	-3.5%	7.7%	0.1%
Average	-4.1%	-3.6%	3.3%	-1.5%

Sources: Bank Islam, CEIC

- ✓ Monthly real GDP for January 2021 and February 2021 is estimated to be lower at -4.1% (January 2020: 2.5%*) and -3.6% (January 2020: 6.6%*). Nevertheless, the monthly real GDP is expected to grow by 3.3% in March 2021 (March 2020: -6.9%*).

* Rough extrapolation obtained from DOSM's quarterly GDP bulletin

Monthly Real GDP, y-o-y% vs. Malaysia's Monthly Google Mobility Index, % change from baseline



Sources: Bank Islam, CEIC

- 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.
 3. A positive change from the baseline indicate 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.

- It is also noteworthy that the monthly real GDP has a strong correlation with the Google Mobility Index at more than 94.0%.

Correlation Matrix Between Monthly Real GDP and Malaysia's Google Mobility Index

	Monthly Real GDP	Google Mobility Index
Monthly Real GDP	1.0000	
Google Mobility Index	0.9396	1.0000

Sources: Bank Islam, CEIC

- Judging from the latest trends in the Google Mobility Index, the percentage change from the baseline stood at -21.5% in April 2021 (April 2020: -64.7%). Perhaps such trends may indicate an improvement in GDP growth in 2Q2021.
- Nevertheless, the latest MCO 3.0 imposed in Kuala Lumpur and 6 districts in Selangor serves as a point of caution when observing the Google Mobility Index to gauge the economic growth trajectory.

- ✓ Malaysia's neighbouring country, Indonesia has announced its 1Q2021 GDP which shrank at a slower pace of 0.7% y-o-y (4Q2020: -2.2%). Indonesia's household consumption, the largest contributor to the country's economy, contracted by 2.2% y-o-y in 1Q2021 (4Q2020: -3.6%) as people returned to more typical economic activity, including retail.
- ✓ However, the same trend may not be applicable to Malaysia's GDP growth in 1Q2021. The impact of the MCO 1.0 was only felt towards the tail end of 1Q2020 as it came into effect on 18 March 2020 while the MCO 2.0 was reimposed beginning 13 January 2021 before transitioning to the Conditional Movement Control Order (CMCO) on 5 March 2021. Therefore, the impact from the MCO 2.0 in 1Q2021 is more prevalent compared to 1Q2020.
- ✓ With that, another contraction in Malaysia's 1Q2021 GDP is inevitable.
- ✓ On a positive note, there were tailwinds which came in the form of robust nominal exports growth of 18.2% in 1Q2021 (4Q2020: 5.1%), anchored by the manufacturing sector involving E&E and rubber products.
- ✓ Moving forward in 2Q2021, the GDP growth during the said quarter could see a significant jump following a more profound low base effect and continuous improvement in the global demand.
- ✓ All in all, we believe **Malaysia's GDP growth will rebound to the tune of 5.0% in 2021 (2020: -5.6%)** partly due to a brighter business sentiment provided that the vaccination campaign is carried out smoothly according to schedule.

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An aerial photograph of a city skyline at sunset, with a prominent pink bar at the bottom. The sky is filled with soft, golden light and scattered clouds. The city features numerous high-rise buildings, with a particularly tall, slender skyscraper on the left. A highway with traffic is visible in the foreground, winding through the urban landscape. The overall mood is warm and serene.

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