



From the Desk
of the
Chief Economist

BANK ISLAM

GDP PREVIEW-MALAYSIA'S ECONOMY TO EXPAND BY 16.5% IN 2Q2021

12 AUGUST 2021

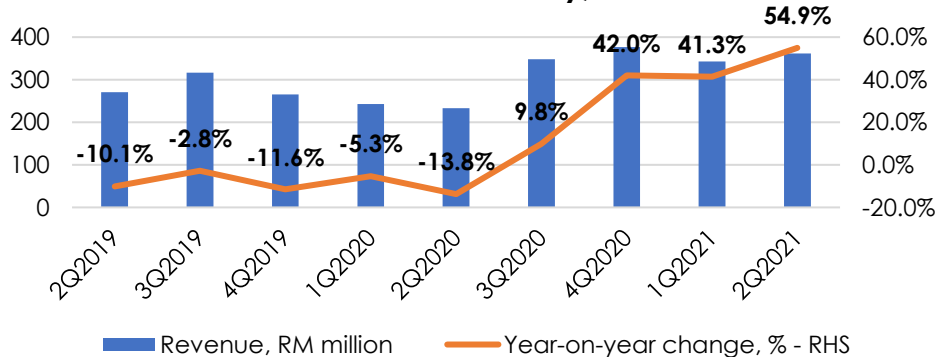
ECONOMIC RESEARCH

**DR. MOHD AFZANIZAM ABDUL RASHID
ADAM MOHAMED RAHIM
SHAFIZ BIN JAMALUDDIN
NOR JANNAH ABDULLAH
RAJA ADIBAH RAJA HASNAN**

2Q2021 WILL SHOW A STRONGER GROWTH UNDERPINNED BY THE MANUFACTURING SECTOR

- ✓ Our initial estimates showed that Malaysia's economy could grow by 9.8% year-on-year (y-o-y) in 2Q2021. However, after taking into account the latest statistical data such as the Volume Index of Services, Industrial Production Index (IPI) and external trade, Malaysia's Gross Domestic Product (GDP) could accelerate by 16.5% y-o-y in 2Q2021(1Q2021: -0.5%). A low base effect is also inevitable as the GDP slumped by 17.2% in 2Q2020 due to the impact of the first movement control order (MCO) last year.
- ✓ This will be the first economic expansion after four consecutive quarters of contractions as more businesses acclimatise to the ongoing pandemic via digitalisation. More importantly, the Electrical & Electronics (E&E) sector remains as a bellwether in the manufacturing sector amid the high demand for electronic components such as gadgets like laptops continue to be used widely in light of the pandemic.
- ✓ For instance, E&E related companies such as Inari Amertron Berhad that is involved in semiconductor manufacturing recorded a 54.9% y-o-y growth in revenue during 2Q2021 (1Q2021: 41.3%). This was mainly underpinned by the growth in the radio frequency business segment.
- ✓ Despite threats from the Delta variant of the Covid-19 virus, vaccination efforts for the manufacturing sector have been picking up lately, which could help reduce infection risks at work sites. The Public-Private Partnership Covid-19 Industry Immunisation Programme (PIKAS) has so far fully vaccinated 179,637 workers or 13.8% of the number of workers registered under the programme.

Inari Amertron's Quarterly, RM million



Source: Bursa Malaysia
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Public-Private Partnership Covid-19 Industry Immunisation Programme (PIKAS) Statistics As At 10 August 2021

Number of workers registered under PIKAS	1,300,000*
Number of workers vaccinated with first dose under PIKAS	700,132
Number of workers fully vaccinated under PIKAS	179,637

Source: Ministry of International Trade And Industry (MITI)
*<https://www.theedgemarkets.com/article/17053-companies-have-registered-under-pikas>

Y-o-Y%	Share (2020)	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021F
GDP	100.0%	5.0%	4.5%	3.7%	0.7%	-17.2%	-2.7%	-3.4%	-0.5%	16.5%
Domestic Demand (excluding stocks)	93.8%	4.5%	3.5%	4.9%	3.7%	-18.8%	-3.3%	-4.5%	-1.0%	14.0%
Private Sector	75.2%	6.1%	5.5%	7.2%	4.9%	-20.4%	-4.0%	-4.0%	-0.9%	16.0%
-Consumption	59.5%	7.8%	7.1%	8.2%	6.7%	-18.5%	-2.1%	-3.5%	-1.5%	20.6%
-Investment	15.7%	1.5%	0.5%	3.4%	-1.1%	-26.1%	-10.8%	-6.6%	1.3%	1.0%
Public Sector	18.6%	-2.5%	-4.9%	-1.9%	-1.8%	-11.1%	0.1%	-5.7%	-1.5%	5.5%
-Consumption	13.4%	0.0%	0.7%	1.0%	4.9%	2.2%	6.8%	2.4%	5.9%	6.6%
-Investment	5.2%	-7.6%	-14.3%	-6.7%	-14.4%	-40.1%	-13.1%	-20.4%	-18.6%	1.4%
Net Exports of Goods and Services	6.5%	32.5%	15.3%	-11.1%	-36.8%	-37.9%	19.2%	10.0%	0.8%	104.9%
-Exports	61.5%	0.6%	-1.6%	-3.3%	-7.2%	-21.7%	-4.9%	-2.1%	11.9%	39.3%
-Imports	55.0%	-2.3%	-3.3%	-2.3%	-2.7%	-19.7%	-7.9%	-3.3%	13.0%	33.2%

Sources: CEIC, Bank Islam

✓ **Private Consumption** is expected to rebound by 20.6% in 2Q2021 (1Q2021: -1.5%).

✓ **Assumptions:**

- 1) Retail sales rose by 19.8% y-o-y in 2Q2021, extending the 1.6% growth in the previous quarter. This was mainly driven by higher sales in Household Equipment (2Q2021: 38.2% vs. 1Q2021: 1.9%).
- 2) Manufacturing and Services sector wages recovered by 6.0% and 0.4% during 2Q2021 from a 0.6% and 3.1% contraction in the preceding quarter.
- 3) Loss of employment (LOE) declined from 20,418 persons in 1Q2021 to 14,311 persons in 2Q2021.

✓ Meanwhile, **Public Consumption** is forecasted to increase by 6.6% in 2Q2021, higher than a 5.9% growth in 1Q2021 following stimulus packages and measures introduced by the government. These include PEMERKASA PLUS (RM40.0 billion) and PEMULIH (RM150.0 billion) during 2Q2021.

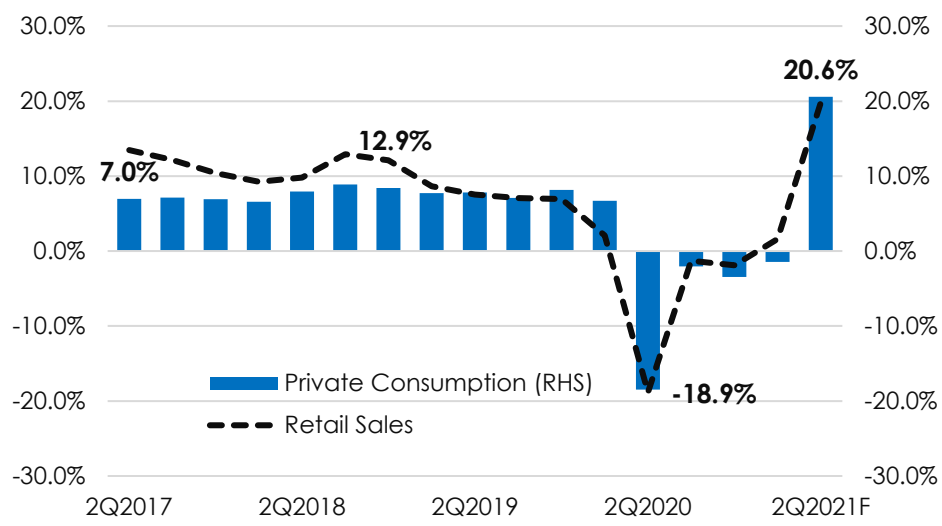
✓ **Export** is anticipated to jump by 39.3% in 2Q2021 (1Q2021:11.9%) amid improving demand conditions globally.

✓ **Assumptions:**

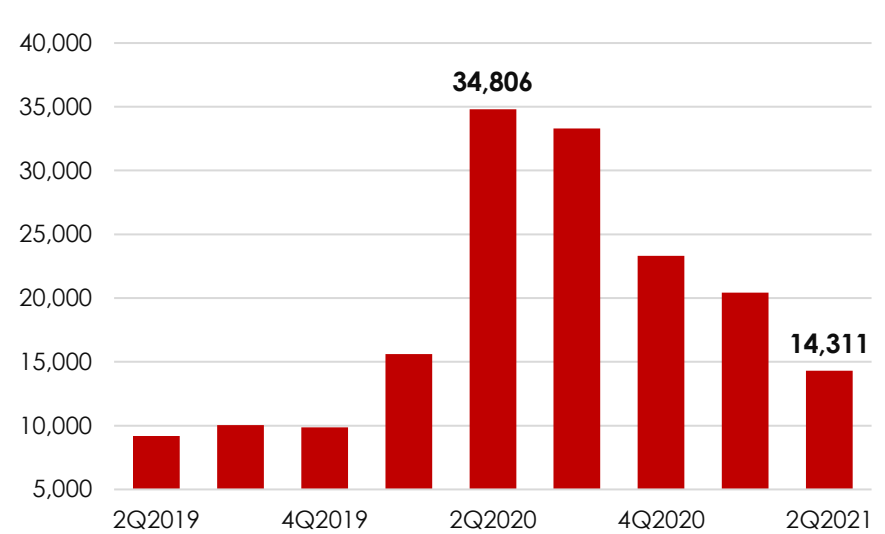
- 1) Nominal export surged by 44.0% in 2Q2021 from a 18.0% expansion in 1Q2021.
- 2) Global Semiconductor Sales (GSS) have been growing with a double digit growth since January this year (June: 29.2% vs. May: 26.2%) amid higher demand for chips due to the adoption of digitalization and new technologies worldwide. This is going to have positive impacts on Malaysia's Electrical and Electronic Products (E&E) production and export sales in 2021.

DEMAND SIDE – EXTERNAL TRADE IS ALSO EXPECTED TO SUPPORT THE ECONOMIC ACTIVITIES

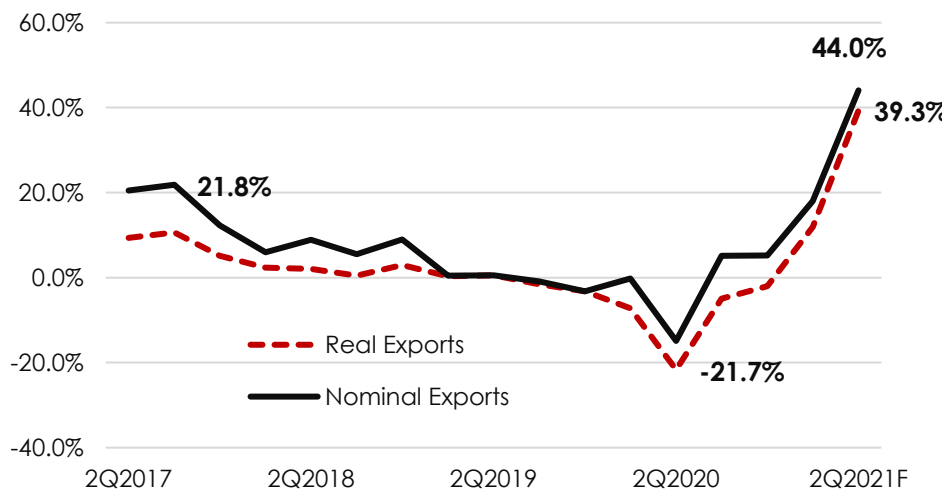
Private Consumption vs. Retail Sales, y-o-y%



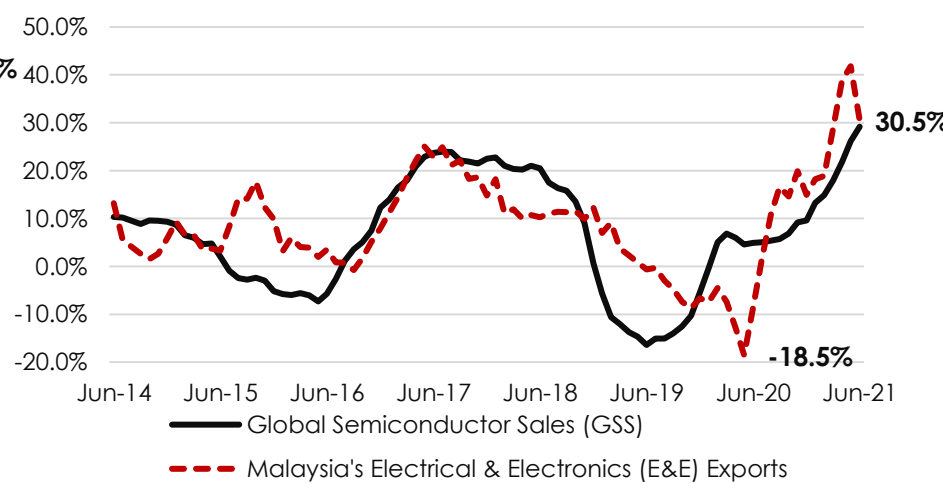
Loss of Employment (LOE), person



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



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



Sources: CEIC, Bank Islam
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SUPPLY SIDE – SUPPORTED BY RECOVERY IN SERVICES, MINING AND CONSTRUCTION ACTIVITIES IN 2Q2021

Services
2Q2021F: 14.4%
1Q2021: -2.3%

- ✓ Services sector which forms sizeable share of 57.7% of total GDP is likely to rebound by 14.4% in second quarter this year after declining by 2.3% in 1Q2021.
- ✓ This was mainly supported by improvement in Volume Index of Services (2Q2021: 17.6% y-o-y vs. 1Q2021: -3.6%) as Wholesale & Retail Trade, Food & Beverages and Accommodation went up by 20.3% in the same quarter (1Q2021: -3.7%).

Mining
2Q2021F: 14.3%
1Q2021: -5.0%

- ✓ On the same token, Mining is projected to record a firm growth at 14.3% in 2Q2021 from -5.0% in 1Q2021.
- ✓ The stronger momentum in mining sector was in tandem with IPI of Mining which improved by 15.1% in 2Q2021 (1Q2021: -4.1%) amid recovery in energy consumption as many economies continued to reopen.

Construction
2Q2021F: 42.8%
1Q2021: -10.4%

- ✓ Similarly, construction activities are anticipated to surge by 42.8% in 2Q2021 after registering a steep fall at 10.4% in 1Q2021.
- ✓ This was partly due to a very low base effect in second quarter last year. In addition, ease in restriction measures in early part of 2Q2021 has supported this sector as reflected by Value of Construction Work Done which soared by 42.6% y-o-y in 2Q2021 from -10.5% previously.

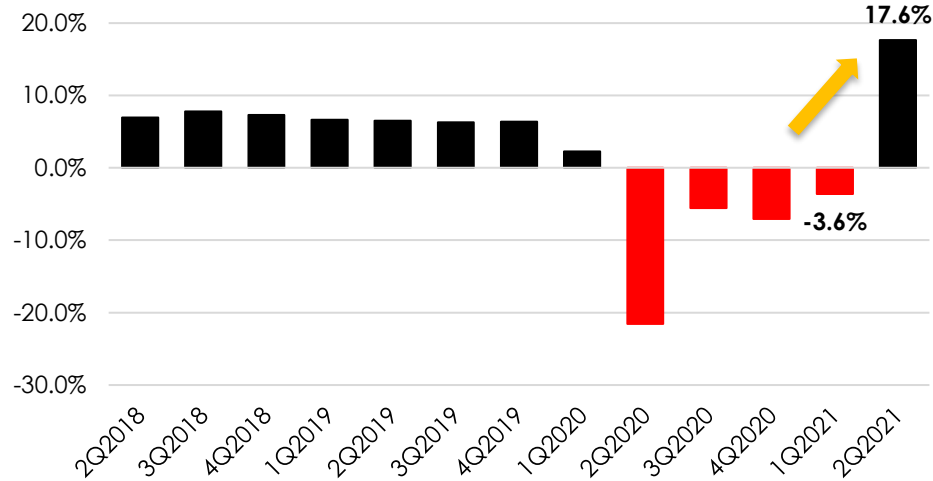
Manufacturing
2Q2021F: 26.0%
1Q2021: 6.6%

- ✓ Manufacturing activities are expected to increase further by 26.0% in 2Q2021 (1Q2021: 6.6%) largely fuelled by significant increase in IPI of Manufacturing (2Q2021: 26.3% vs. 1Q2021: 6.8%).
- ✓ Furthermore, production of E&E Products (2Q2021: 27.2% vs. 1Q2021: 10.5%) was the main culprit as it retained a double-digit pace in 2Q2021 amid higher adoption of technology across the world.

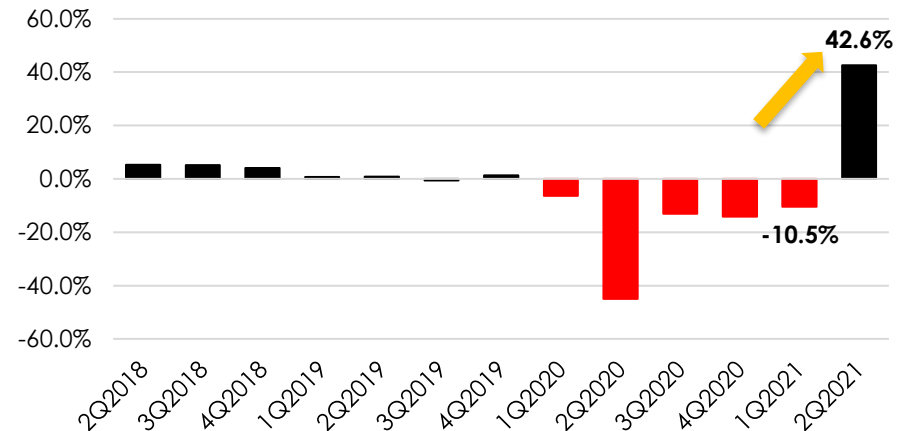
Agriculture
2Q2021F: 0.2%
1Q2021: 0.4%

- ✓ As for agriculture, it will likely to record a soft growth of 0.2% in 2Q2021 from 0.4% previously mainly weighed by decline in CPO production to 4.7 million tonnes in 2Q2021 from 5.2 million tonnes in the same period last year.

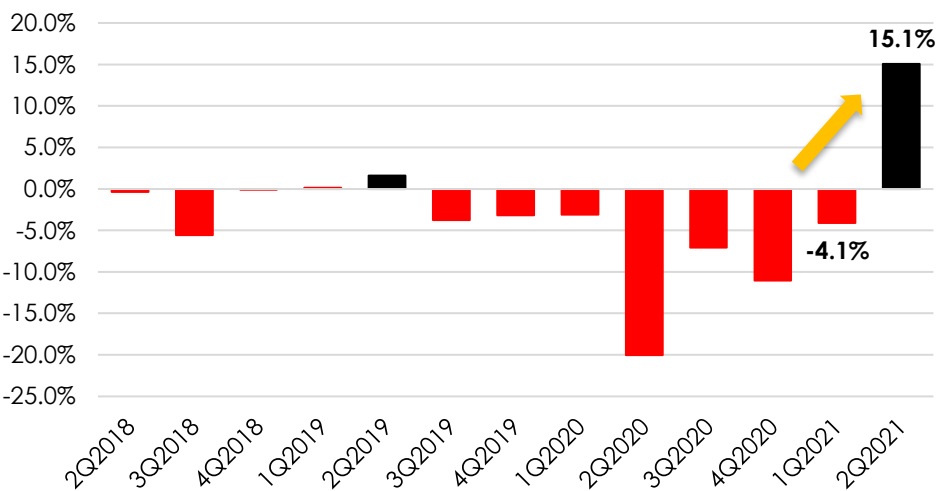
Volume Index of Services, y-o-y%



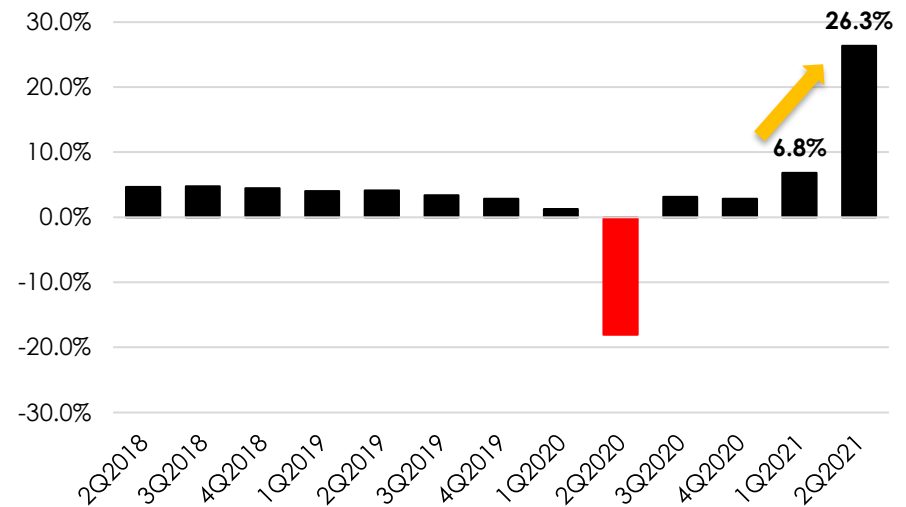
Value of Construction Work Done, y-o-y%



IPI: Mining, y-o-y%



IPI: Manufacturing, y-o-y%



- ✓ For the purpose of robustness checks, we estimated the monthly real GDP for April, May and June this year 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, IPI, the 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 reasonable correlation with the monthly real GDP growth at 99.1% and 82.8% respectively.

Correlation Matrix Between Monthly Real GDP and Coincident Index Growth

	Monthly Real GDP	Coincident Index
Monthly Real GDP	1.0000	
Coincident Index	0.9911	1.0000

Correlation Matrix Between Monthly Real GDP and Key Production Index Growth

	Monthly Real GDP	Key Production index
Monthly Real GDP	1.0000	
Key Production Index	0.8287	1.0000

Sources: Bank Islam, CEIC

- ✓ On further scrutiny, a 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 April, May and June this year as shown below:

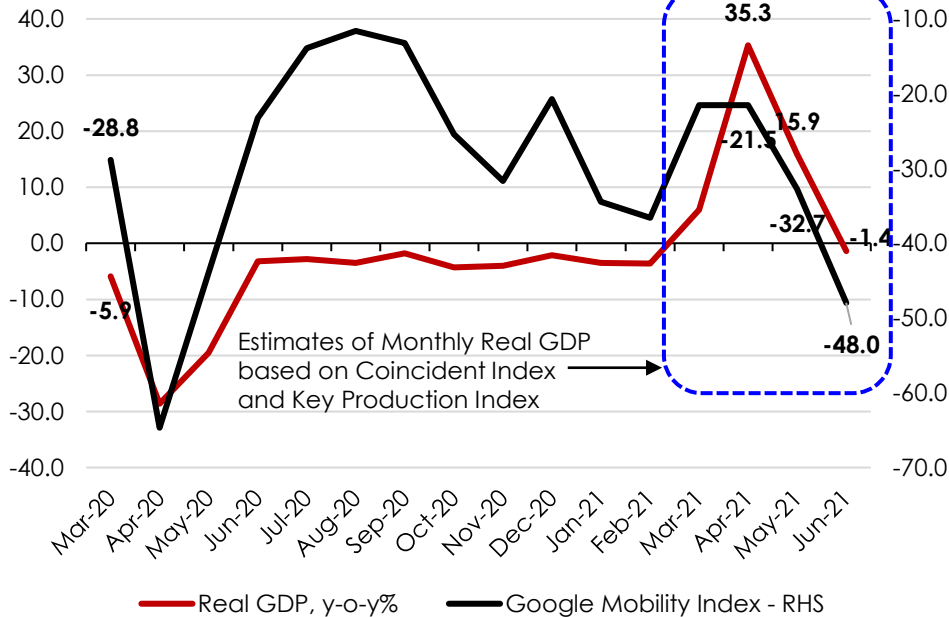
Regression between Monthly Real GDP, y-o-y% and:	Real GDP Estimates from Regression Analysis			
	Apr-21	May-21	Jun-21	2Q2021
Key Production Index Growth, y-o-y%	34.6%	14.1%	-9.1%	13.2%
Coincident Index Growth, y-o-y%	35.9%	17.6%	6.4%*	20.0%
Average	35.3%	15.9%	-1.4%	16.6%

Sources: Bank Islam, CEIC

- ✓ The 2Q2021 GDP growth derived from the average growth of the monthly real GDP growth from April to June this year was at 16.6%, which is very close to our estimates based on supply and demand components at 16.5%.

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

Monthly Real GDP, y-o-y% vs. Monthly Google Mobility Index



Sources: Bank Islam, CEIC, Ministry of Finance

- 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 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.

- ✓ It is also noteworthy that the monthly real GDP has a strong correlation with the Google Mobility Index at more than 83.6%.

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	0.8361	1.0000

Sources: Bank Islam, CEIC

- ✓ The estimated monthly GDP of 35.3% in April this year (March 2021: 6.0%) was mainly due to Ramadan and preparation for Hari Raya Aidilfitri festivities. However, the Movement Control Order (MCO) 3.0 in May dampened mobility during the month whereby the percentage change from the baseline was at -32.7% in May (April: -21.5%) based on the Google Mobility Index.
- ✓ Later in June, a nationwide total lockdown was imposed on all economic and social sectors. Only essential economic and social services listed by the National Security Council were allowed to operate at a restricted working capacity.
- ✓ As such, it was no surprise that the GDP is expected to contract by 1.4% in June (May: 15.9%), coinciding with the wider percentage change from the baseline of -48.0% in June (May: -32.7%) based on the Google Mobility Index.

- ✓ Malaysia's regional peer, the Philippines' recorded a 11.8% y-o-y growth in its GDP during 2Q2021 (1Q2021: -3.9%), posting the biggest y-o-y expansion since the fourth quarter of 1988. The rebound was underpinned by a recovery in household spending which jumped 7.2% y-o-y in 2Q2021 compared to a 15.3% contraction in the same quarter last year.
- ✓ A similar growth trend is expected to be seen in Malaysia's GDP for 2Q2021. Although there were hurdles coming from series of movement restrictions, the nation's economy continued to experience tailwinds from the strong external demand seen from the 44.0% y-o-y exports growth in 2Q2021 (1Q2021: 18.0%).
- ✓ On further scrutiny, the export and import container throughput at major ports such as Westports' Port Klang recorded a 16.0% y-o-y growth in 2Q2021 (1Q2021: 5.0% y-o-y). The growth contribution of Asia-America trade lanes towards Westports' overall container throughput remained commendable at 32.0% y-o-y in 2Q2021 (1Q2021: 32.0%), in line with the gradual economic expansion seen in the U.S boosted by its stimulus packages.
- ✓ Moving forward in 3Q2021, the GDP growth during the said quarter could see a slower growth amid the enhanced movement control order (EMCO) in certain parts of Kuala Lumpur and Selangor imposed in the first half of July. The EMCO led to closures of factories of rubber glove makers which predominantly operate in areas affected by the EMCO.
- ✓ Nevertheless, there have been states which have transitioned to Phase 2 and Phase 3 under the National Recovery Plan (NRP) which has lesser restrictions especially in terms of working capacity for certain industries.
- ✓ All in all, we reiterate that **Malaysia's GDP growth will rebound to the tune of 4.2% in 2021 (2020: -5.6%) provided that the goal to vaccinate 100.0% of the adult population by October is met. The recent relaxation of restrictions covering all phases of the NRP announced by the government such as inter-state and inter-district travel for long-distance married couples and parents who need to visit their children below 18 years old in other locations could provide some upside to the economy as mobility gradually improves.**

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GDP	Share 2020 (%)	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020F	3Q2020	4Q2020	1Q2021	2Q2021F
Services	57.7%	6.2%	5.9%	6.2%	3.1%	-16.2%	-4.0%	-4.8%	-2.3%	14.4%
Manufacturing	22.9%	4.3%	3.6%	3.0%	1.4%	-18.3%	3.3%	3.0%	6.6%	26.0%
Mining	7.4%	2.9%	-2.8%	-2.5%	-2.9%	-20.8%	-7.8%	-10.4%	-5.0%	14.3%
Agriculture	6.8%	4.2%	3.7%	-5.5%	-8.6%	0.9%	-0.3%	-1.0%	0.4%	0.2%
Construction	4.0%	1.1%	-1.4%	1.3%	-7.9%	-44.5%	-12.4%	-13.9%	-10.4%	42.8%
Real GDP	100.0%	5.0%	4.5%	3.7%	0.7%	-17.2%	-2.7%	-3.4%	-0.5%	16.5%

Sources: Bank Islam, CEIC