



From the Desk
of the
Chief Economist

BANK ISLAM

GDP PREVIEW-MALAYSIA'S ECONOMY MAY CONTRACT BY 3.3% IN 3Q2021

11 NOVEMBER 2021

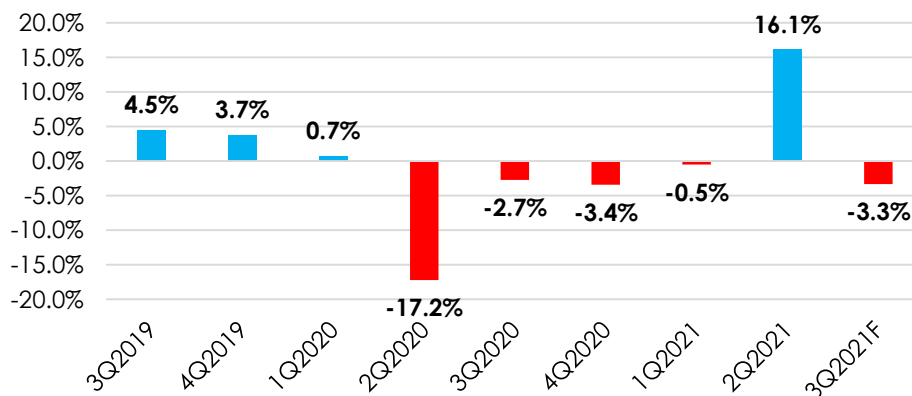
ECONOMIC RESEARCH

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RAJA ADIBAH RAJA HASNAN**

GDP GROWTH TO CONTRACT BY 3.3% DURING 3Q2021

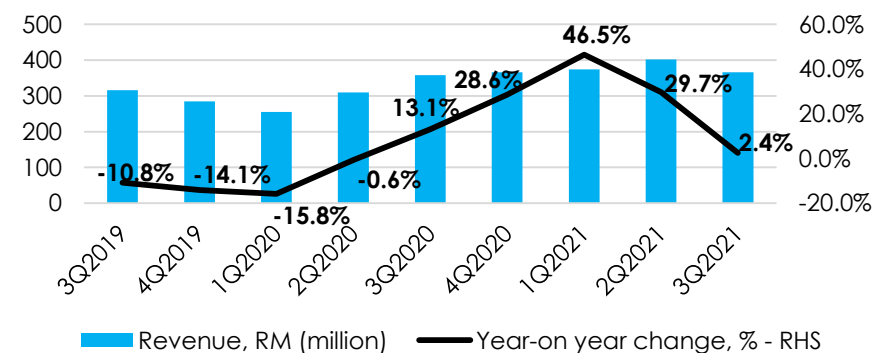
- ✓ Malaysia's Gross Domestic Product (GDP) for the third quarter of 2021 will be published on 12 November 2021. We are projecting the 3Q2021 GDP growth to come in at -3.3% year-on-year (y-o-y) after expanding by 16.1% in 2Q2021 given that the economy is still recovering from intermittent lockdowns, as well as the gradually dissipating base effect.
- ✓ The main drag for the 3Q2021 GDP growth would be the implementation of enhanced movement control order (EMCO) in eight districts Selangor during the first half of July, followed by several localities in six states such as Sabah, Kelantan, Terengganu, Pahang, Perak and Kedah. At this point of time, companies were allowed to operate at only 60.0% of work capacity with strict adherence to standard operating procedures (SOPs) while 40.0% were advised to continue working from home.
- ✓ As a result, electrical & electronics (E&E) related companies such as Unisem (M) Berhad recorded a softer revenue growth of 2.4% y-o-y in 3Q2021 (2Q2021: 29.7%) due to a strain on working capacity following the closure of the plant in Ipoh. Aside from that, the company was not able to ramp up production in September due to workforce limitations as some workers had to undergo mandatory quarantine leave together with sanitisation works. With that, the headcount was then limited to only 60.0% of workers.
- ✓ Similarly, rubber glove manufacturers such as Hartalega and Top Glove had to temporarily halt operations as their plants in Sepang and Klang were located in EMCO areas. Due to that, Hartalega and Top Glove experienced a 48.5% quarter-on-quarter (q-o-q) and 49.2% q-o-q decline in their revenue during 3Q2021 respectively.
- ✓ Food and beverage (F&B) manufacturers like Fraser & Neave Holdings Berhad (F&N) were not spared from the EMCO as the prohibition to dine-in at F&B outlets and restricted operating hours for convenience stores caused a 6.0% y-o-y drop in their sales in 3Q2021.

GDP growth, y-o-y%



Sources: CEIC, DOSM

Unisem (M) Berhad's Quarterly Revenue, RM million



Sources: Bursa Malaysia, Various Media & Unisem's 3Q2021 Analyst Briefing

ECONOMIC ACTIVITIES WERE AFFECTED AMID REINTRODUCTION OF A NATIONWIDE LOCKDOWN DURING 3Q2021

Y-o-Y%	Share (2020)	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021F
GDP	100.0%	4.5%	3.7%	0.7%	-17.2%	-2.7%	-3.4%	-0.5%	16.1%	-3.3%
Domestic Demand (excluding stocks)	93.8%	3.5%	4.9%	3.7%	-18.8%	-3.3%	-4.5%	-1.0%	12.3%	-3.6%
Private Sector	75.2%	5.5%	7.2%	4.9%	-20.4%	-4.0%	-4.0%	-0.9%	13.0%	-3.2%
-Consumption	59.5%	7.1%	8.2%	6.7%	-18.5%	-2.1%	-3.5%	-1.5%	11.6%	-4.1%
-Investment	15.7%	0.5%	3.4%	-1.1%	-26.1%	-10.8%	-6.6%	1.3%	17.4%	0.2%
Public Sector	18.6%	-4.9%	-1.9%	-1.8%	-11.1%	0.1%	-5.7%	-1.5%	9.7%	-5.4%
-Consumption	13.4%	0.7%	1.0%	4.9%	2.2%	6.8%	2.4%	5.9%	9.0%	3.9%
-Investment	5.2%	-14.3%	-6.7%	-14.4%	-40.1%	-13.1%	-20.4%	-18.6%	12.0%	-27.8%
Net Exports of Goods and Services	6.5%	15.3%	-11.1%	-36.8%	-37.9%	19.2%	10.0%	0.8%	34.3%	-21.7%
-Exports	61.5%	-1.6%	-3.3%	-7.2%	-21.7%	-4.9%	-2.1%	11.9%	37.4%	10.9%
-Imports	55.0%	-3.3%	-2.3%	-2.7%	-19.7%	-7.9%	-3.3%	13.0%	37.6%	16.0%

Sources: CEIC, Bank Islam

✓ **Private Consumption** is estimated to decline by 4.1% y-o-y in 3Q2021 (2Q2021: 11.6%).

✓ **Assumptions:**

- 1) Retail sales plummeted by 5.5% in 3Q2021 after surging by 19.8% in the previous quarter. This was mainly attributable to the contraction of sales in Non-specialized Stores (3Q2021: -6.3% vs. 2Q2021: 4.8%) and Household Equipment (3Q2021: -5.0% vs. 2Q2021: -4.0%) during September quarter.
- 2) Meanwhile, the services sector wages dropped by 2.6% in 3Q2021 (2Q2021: 0.4%), while wages in the manufacturing sector eased by 2.3% in 3Q2021 (2Q2021: 6.0%), suggesting businesses operations continued to be affected by the pandemic.
- 3) Moreover, the labour market has been impacted by stringent capacity production and SOPs. This can be reflected by the loss of employment (LOE) data produced by the SOCSO, increasing from 14,311 persons in 2Q2021 to 15,753 persons during 3Q2021. Apart from that, unemployment rate still at its elevated level at 4.7% in 3Q2021 (2Q2021: 4.8%) as compared to its average level of 3.4% during the pre-pandemic period.

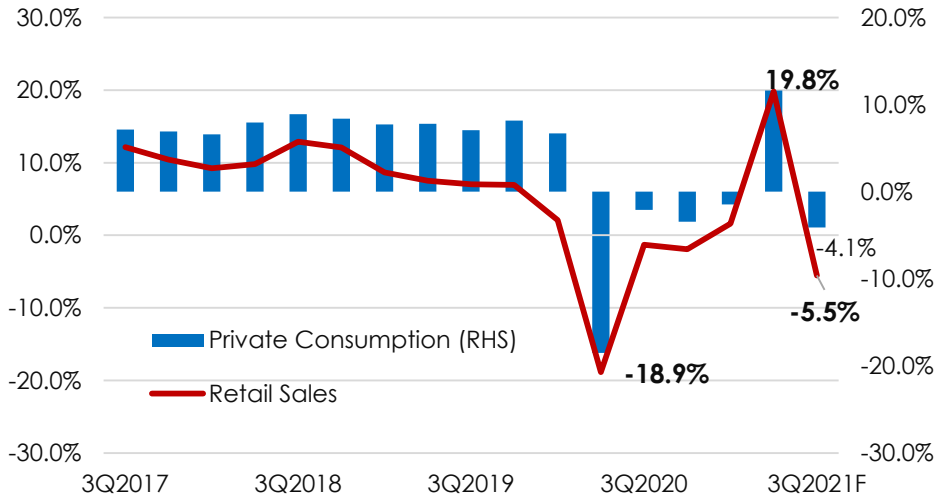
✓ On external trade, **Exports** are anticipated to increase moderately by 10.9% in 3Q2021 from a 37.4% growth in the preceding quarter.

✓ **Assumption:**

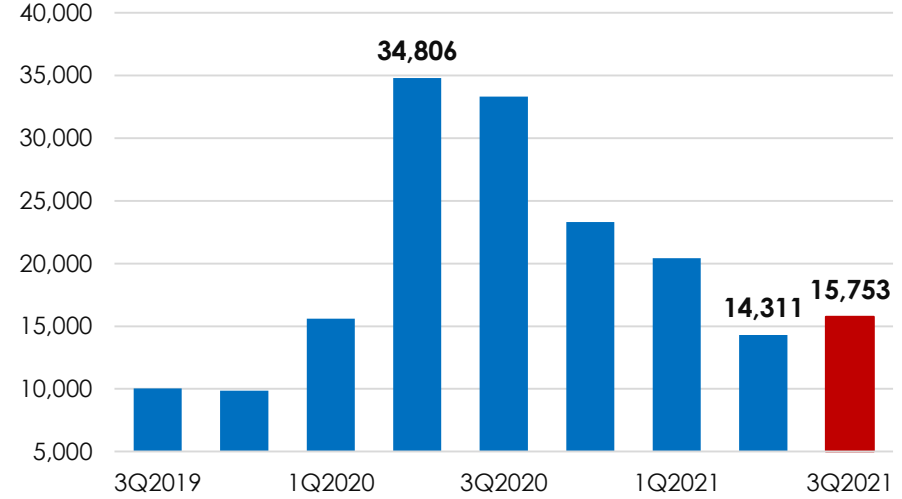
- 1) Gross exports eased by 15.8% in 3Q2021(2Q2021: 44.0%) as pandemic related restrictions dampened demand for both domestic and international market, together with disrupted supply chain globally.

DOMESTIC DEMAND AND EXTERNAL TRADE ARE EXPECTED TO RECORD NEGATIVE GROWTH DURING 3Q2021

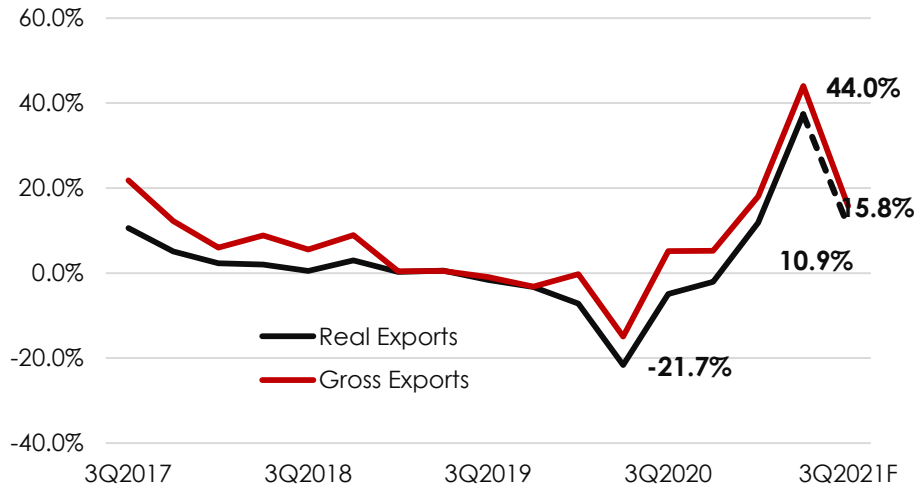
Private Consumption vs. Retail Sales, y-o-y%



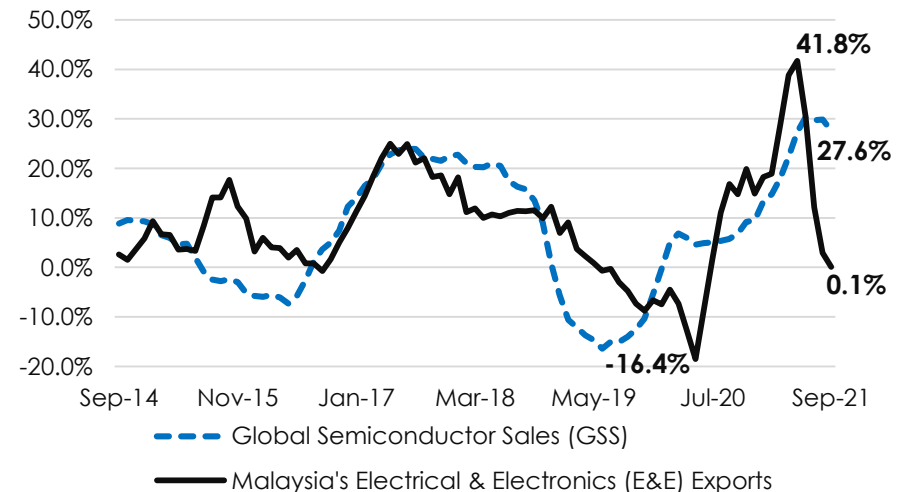
Loss of Employment (LOE), person



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



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



SUPPLY SIDE – CONTRACTION IN SERVICES AND CONSTRUCTION SECTORS ARE EXPECTED TO DRAG THE GDP PERFORMANCE DURING 3Q2021

Construction

3Q2021F: -16.9%
2Q2021: 40.3%
Share: 4.0%

- ✓ Within the economic sector, construction activities are anticipated to slip back by 16.9% y-o-y in 3Q2021 after increasing significantly by 40.3% in 2Q2021.
- ✓ This was due to reimplementation of national lockdown during the quarter. Following this, the Value of Construction Work Done also dipped by 21.0% y-o-y in 3Q2021 from a 42.6% expansion in 2Q2021.

Services

3Q2021F: -6.0%
2Q2021: 13.4%
Share: 57.7%

- ✓ The services sector which contributed a sizeable share of 57.7% of total GDP is projected to record a negative growth of 6.0% in 3Q2021 from a 13.4% growth in 2Q2021.
- ✓ The contraction was in line with the Volume Index of Services which declined by 7.5% y-o-y in 3Q2021 (2Q2021: 17.6%) amid strict lockdown measures were implemented following sudden surge of Covid-19 cases.

Mining

3Q2021F: -1.2%
2Q2021: 13.9%
Share: 6.8%

- ✓ Similarly, the mining sector is likely to fall by 1.2% in 3Q2021 from a double-digit growth of 13.9% in the preceding quarter.
- ✓ This was mainly affected by decline in Industrial Production Index (IPI) for mining which plummeted by 2.2% in 3Q2021 (2Q2021: 15.1%).

Agriculture

3Q2021F: -7.3%
2Q2021: -1.5%
Share: 7.4%

- ✓ On the same token, the agriculture sector is expected to drop by 7.3% in September quarter as shortages in workers have affected harvesting activities.
- ✓ In light of this, the production of Crude Palm Oil (CPO) decreased to 4.9 million tonnes in 3Q2021 (2Q2021: 4.7 million tonnes), representing a 10.8% decline on a y-o-y basis.

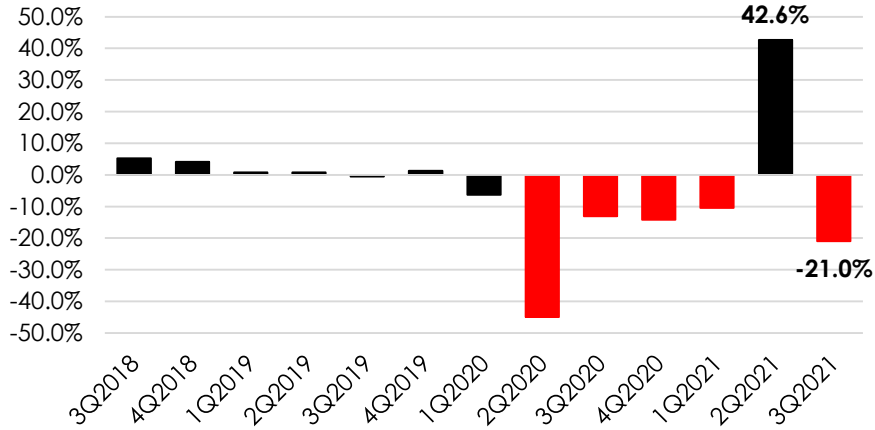
Manufacturing

3Q2021F: 0.0%
2Q2021: 26.6%
Share: 22.9%

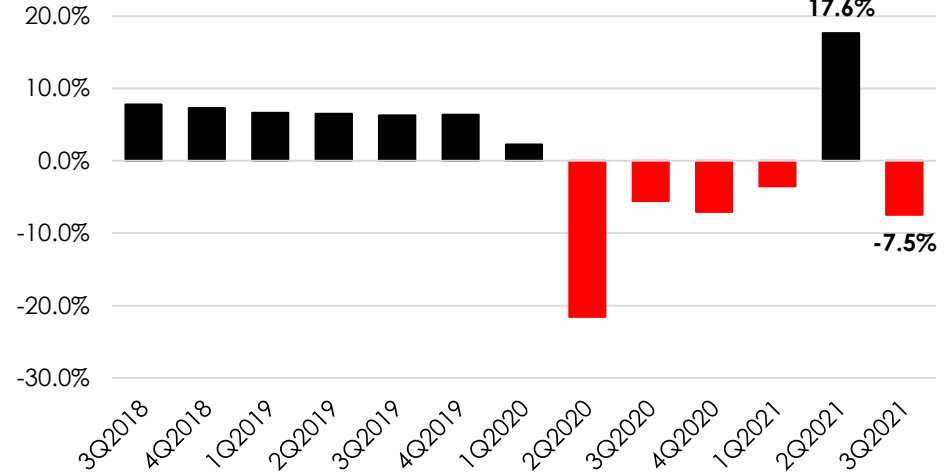
- ✓ Meanwhile, we foresee that manufacturing activities will record a flat growth of 0.0% in 3Q2021 from a 26.6% increase previously.
- ✓ Furthermore, the IPI for manufacturing activities also posted a negative print of 0.7% in 3Q2021 (2Q2021: 26.3%) as production activities were pressured by limited operating capacities.
- ✓ For instance, the manufacturing of transport equipment & other manufacturers fell tremendously by 30.4% in 3Q2021 from 40.0% in 2Q2021.

LATEST ECONOMIC INDICATORS REGISTERED NEGATIVE PRINT IN 3Q2021

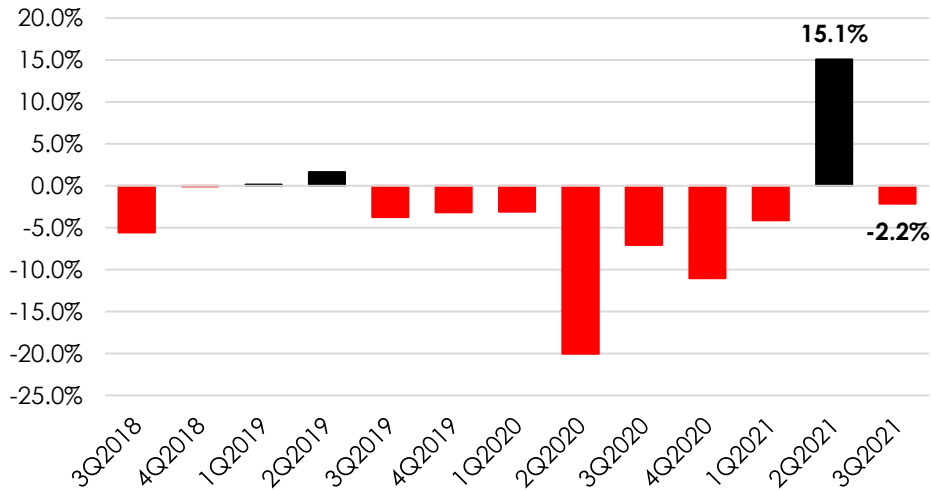
Value of Construction Work Done, y-o-y%



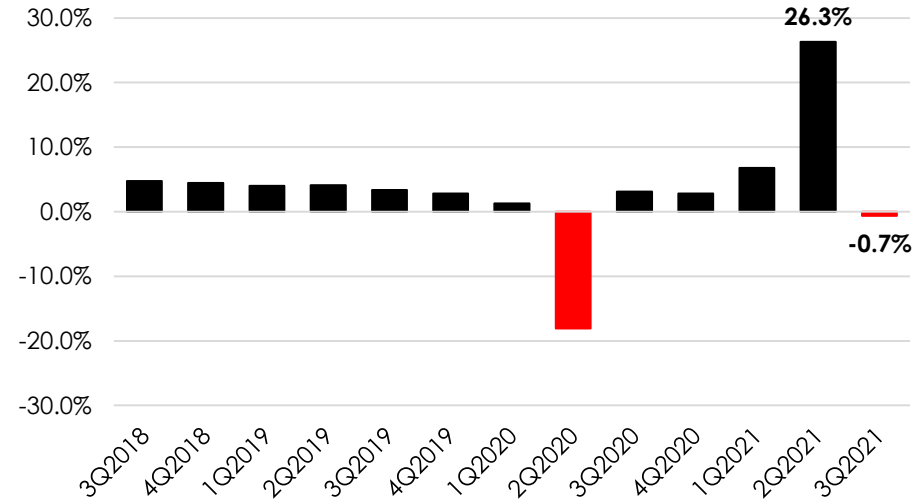
Volume Index of Services, y-o-y%



IPI: Mining, y-o-y%



IPI: Manufacturing, y-o-y%



Sources: Bank Islam, CEIC

- ✓ For the purpose of robustness checks, we estimated the monthly real GDP for July, August and September 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 99.6% and 94.1% respectively from March 2020 until June 2021.

Correlation Matrix Between Monthly Real GDP and Coincident Index Growth

	Monthly Real GDP	Coincident Index
Monthly Real GDP	1.0000	
Coincident Index	0.9964	1.0000

Sources: Bank Islam, CEIC

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	0.9413	1.0000

- ✓ 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 July, August and September this year as shown below:

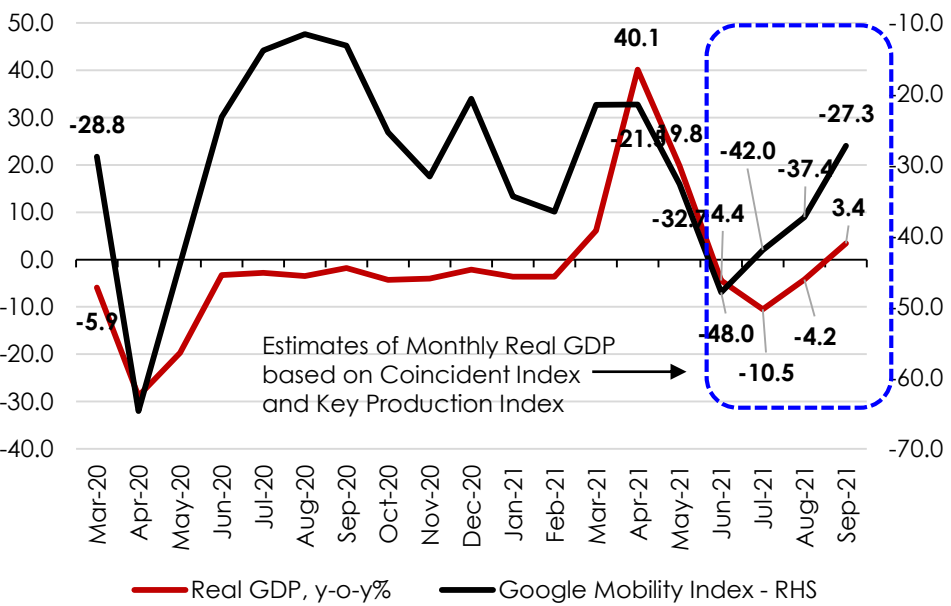
Regression between Monthly Real GDP, y-o-y% and:	Real GDP Estimates from Regression Analysis			
	Jul-21	Aug-21	Sep-21	3Q2021
Key Production Index Growth, y-o-y%	-11.3%	-5.7%	-2.8%	-6.6%
Coincident Index Growth, y-o-y%	-9.6%	-2.7%	9.6% *	-0.9%
Average	-10.5%	-4.2%	3.4%	-3.8%

Sources: Bank Islam, CEIC

- ✓ The 3Q2021 GDP growth derived from the average growth of the monthly real GDP growth from July to September this year was at -3.8%, which is very close to our estimates based on supply and demand components of -3.3%.

* Applied Auto Regressive Integrated Moving Average (ARIMA) forecasting technique to estimate Coincident Index for the month of September 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 estimated monthly real GDP has a reasonable correlation with the Google Mobility Index of 68.2%.

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	0.6823	1.0000

Sources: Bank Islam, CEIC

- ✓ The estimated monthly GDP of -10.5% in July this year (June 2021: -4.4%) was mainly due to the closure of factories especially rubber gloves manufacturers which predominantly operate in the EMCO areas such as Klang.
- ✓ The forecasted GDP contraction in August was somehow softer at -4.2% in the wake of the initial loosening of movement restrictions for fully vaccinated individuals.
- ✓ Later in September, the GDP growth is forecasted to expand by 3.4% as more states gradually transitioned into the remaining phases of the National Recovery Plan (NRP) which imposes less stricter rules especially on manufacturing activities.
- ✓ This also coincided with the smaller percentage change from the baseline of -27.3% in September (August: -37.4%) based on the Google Mobility Index, reflecting improved mobility.

- ✓ We observed that the 3Q2021 GDP growth of Malaysia's regional peers, namely the Philippines' (3Q2021: 7.1% vs. 2Q2021: 12.0%), Indonesia (3Q2021: 3.5% vs. 2Q2021: 7.1%) and China (3Q2021: 4.9% vs. 2Q2021: 7.9%) experienced a slower growth amid the impact from the surge in infections during the period due to the Delta variant.
- ✓ Nevertheless, these regional peers still maintained a positive GDP growth in 3Q2021 compared to Malaysia which is expected to record a -3.3% contraction during the said quarter after expanding by 16.1% in 2Q2021. Such differing growth trends between Malaysia and its peers is attributable to the fact that Malaysia was under the recovery movement control order (RMCO) during 3Q2020 which allowed interstate travel but was banned during 3Q2021 when infections were surging.
- ✓ On the other hand, 3Q2021 saw the imposition of the EMCO during the first half of July in certain localities in Selangor and Kuala Lumpur which led to the shutdown of factories in affected areas. At the same time, many states were still in the Phase 1 of the NRP which had very strict measures.
- ✓ Although the government later announced relaxation of movement restrictions for fully vaccinated individuals effective from 16 August, domestic tourism within states was only applicable for states in Phase 2 and beyond of the NRP. Major states such as Selangor and the Federal Territory of Kuala Lumpur remained under the Phase 1 of the NRP at that point of time and only transitioned to Phase 4 on 18 October.
- ✓ The increase in working capacity for the manufacturing sector was also allowed according to the number of fully vaccinated workers. However, the vaccination rate of Malaysia's adult population that had two doses stood at 47.2% as at 16 August, implying that vaccination efforts were still ongoing.
- ✓ Henceforth, we opine that our -3.3% forecasted growth for the 3Q2021 GDP is reasonable. Overall, we are maintaining Malaysia's full year GDP growth of 4.2% in 2021 (2020: -5.6%) at this juncture, barring any unforeseen changes required following tomorrow's GDP data release.

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A cityscape at sunset with a pink banner at the bottom. The sky is filled with soft, golden light and scattered clouds. The city buildings are silhouetted against the bright horizon. A multi-lane highway with cars is visible in the foreground. A solid pink banner runs across the bottom of the image.

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Economic Sector	Share (2020)	3Q2019	4Q2019	1Q2020	2Q2020F	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021F
Services	57.7%	5.9%	6.2%	3.1%	-16.2%	-4.0%	-4.8%	-2.3%	13.4%	-6.0%
Manufacturing	22.9%	3.6%	3.0%	1.4%	-18.3%	3.3%	3.0%	6.6%	26.6%	0.0%
Mining	6.8%	-2.8%	-2.5%	-2.9%	-20.8%	-7.8%	-10.4%	-5.0%	13.9%	-1.2%
Agriculture	7.4%	3.7%	-5.5%	-8.6%	0.9%	-0.3%	-1.0%	0.2%	-1.5%	-7.3%
Construction	4.0%	-1.4%	1.3%	-7.9%	-44.5%	-12.4%	-13.9%	-10.4%	40.3%	-16.9%
Total GDP	100.0%	4.5%	3.7%	0.7%	-17.2%	-2.7%	-3.4%	-0.5%	16.1%	-3.3%

Sources: Bank Islam, CEIC