

GDP PREVIEW-ECONOMIC GROWTH COULD REACH POSITIVE TERRITORY IN 3Q2020

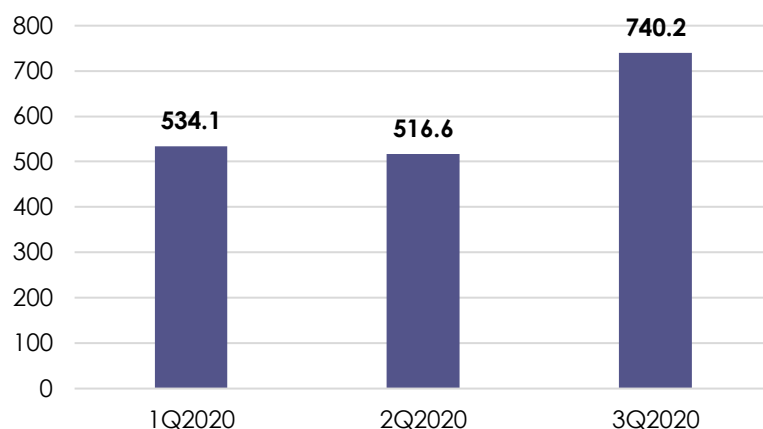
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ECONOMIC RESEARCH

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

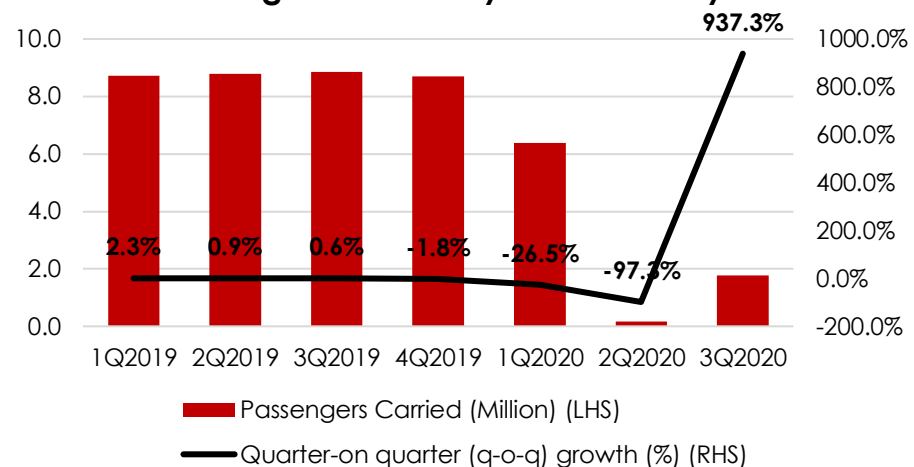
- ✓ Malaysia's Gross Domestic Product (GDP) for the third quarter of 2020 will be published tomorrow. We are projecting the 3Q2020 GDP to come in at 1.3% (Consensus: -4.6%) year-on-year (y-o-y), which is higher than the -17.1% decline recorded in 2Q2020. This will be the quarter exhibiting a rebound from the impacts of the Movement Control Order (MCO). Sectors that are likely to improve include food and manufacturing, agriculture and construction.
- ✓ Consumer related companies such as F&N Holdings Berhad saw a 3.9% quarter-on-quarter (q-o-q) increase in revenue during 3Q2020. In the same vein, Mr. D.I.Y. continued to see an uptick in quarterly revenue during the same period backed by pent-up consumer demand following an MCO-hit quarter. Performance of these companies reflects the upbeat consumer sentiment in 3Q2020.
- ✓ With the relaxation of inter-state travel, local domestic travel thrived in 3Q2020 as seen in AirAsia Malaysia's 937.3% q-o-q increase in passengers carried in 3Q2020. However, the trend of passengers flown will see a breather in 4Q2020 due to the Conditional Movement Control Order (CMCO) in all states except for Pahang, Perlis and Kelantan.

Mr. D.I.Y. Quarterly Revenue (RM Million)



Sources: Mr. D.I.Y., Bursa Malaysia

Passengers Carried by AirAsia Malaysia



Source: AirAsia Group Berhad

Y-o-Y%	Share (2019)	1Q 2019	2Q 2019	3Q 2019	4Q 2019	1Q2020	2Q2020	3Q2020F
GDP	100.0%	4.5%	4.8%	4.4%	3.6%	0.7%	-17.1%	1.3%
Domestic Demand (excluding stocks)	94.0%	4.5%	4.5%	3.5%	4.8%	3.7%	-18.7%	-4.3%
Private Sector	75.6%	6.0%	6.1%	5.5%	7.4%	4.7%	-20.5%	-6.7%
-Consumption	58.7%	7.7%	7.8%	7.0%	8.1%	6.7%	-18.5%	-4.5%
-Investment	16.8%	0.6%	1.5%	0.4%	4.3%	-2.3%	-26.4%	-14.3%
Public Sector	18.5%	-1.6%	-2.4%	-4.8%	-2.3%	-0.6%	-10.6%	6.9%
-Consumption	12.2%	6.3%	0.3%	1.0%	1.3%	5.0%	2.3%	23.3%
-Investment	6.3%	-13.7%	-7.8%	-14.6%	-8.0%	-11.3%	-38.7%	-26.1%
Net Exports of Goods and Services	7.0%	13.0%	32.9%	12.0%	-12.4%	-37.0%	-38.6%	63.6%
-Exports	63.7%	0.1%	0.5%	-2.1%	-3.4%	-7.1%	-21.7%	-5.3%
-Imports	56.7%	-1.6%	-2.3%	-3.5%	-2.4%	-2.5%	-19.7%	-13.4%

Sources: CEIC, Bank Islam

✓ **Private Consumption** is expected to decline modestly (3Q2020F: -4.5% vs. 2Q2020: -18.5%) as compared to the previous quarter:

✓ **Assumptions:**

- 1) Retail trade fell moderately (3Q2020: -2.5% vs. 2Q2020: -21.2%).
- 2) Manufacturing and Services sector wages dropped by 2.7% and 2.5% in 3Q2020 respectively, lesser than -4.0% and -6.4% growth in 2Q2020.
- 3) MIER Consumer Sentiment Index (CSI) improved to 91.5 points in 3Q2020 from 90.1 points in 2Q2020.

✓ **Export** is anticipated to fall by 5.3% in 3Q2020, better than the 21.7% contraction in the previous quarter.

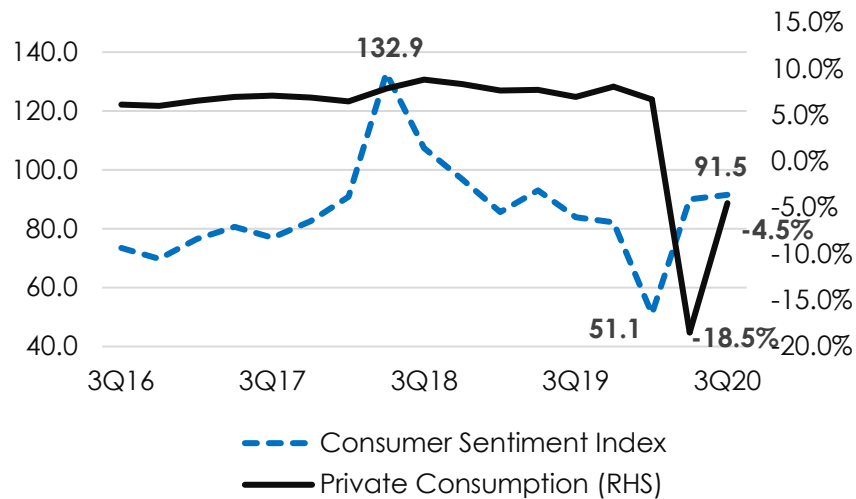
✓ **Assumptions:**

- 1) Nominal exports rebounded by 4.4% in 3Q2020 from the 15.1% decline in 2Q2020.
- 2) Global Semiconductor Sales (GSS) continued to record positive growth after enduring series of contraction since January last year (September: 5.8% vs. August: 4.9%).
- 3) Coronavirus-related restrictions have been eased which could improve supply chain.

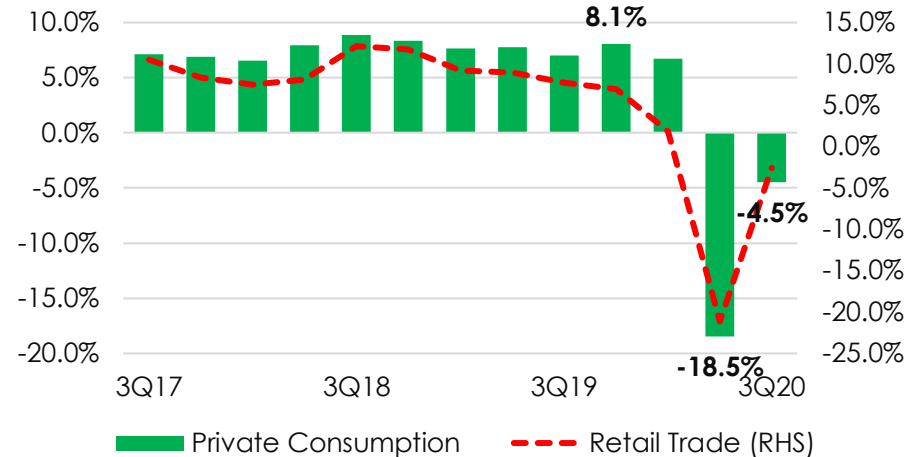
✓ Meanwhile, the **Public Sector** is forecasted to drive the growth in 3Q2020, jumping by 6.9% from -10.6% in 2Q2020 as the government introduced stimulus packages to rejuvenate the slowdown in economic activities.

DEMAND SIDE – GRADUALLY IMPROVING

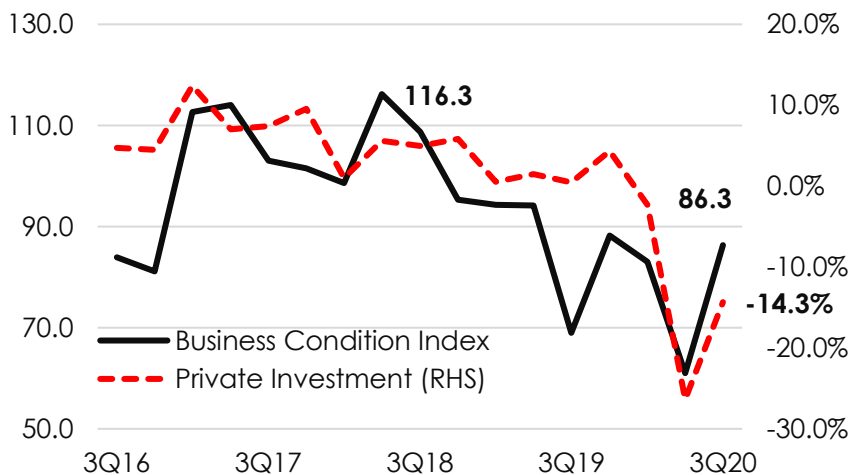
Private Consumption, y-o-y% vs. CSI, points



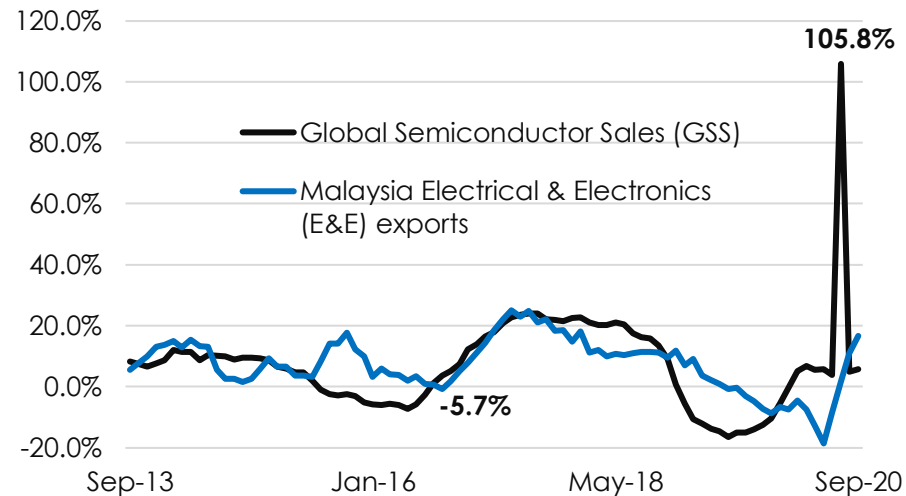
Private Consumption, y-o-y% vs. Retail Trade, y-o-y %



Private Investment, y-o-y % vs. Business Condition Index (BCI), points



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



SUPPLY SIDE – MANUFACTURING AND AGRICULTURE ARE THE CRUXES OF GROWTH

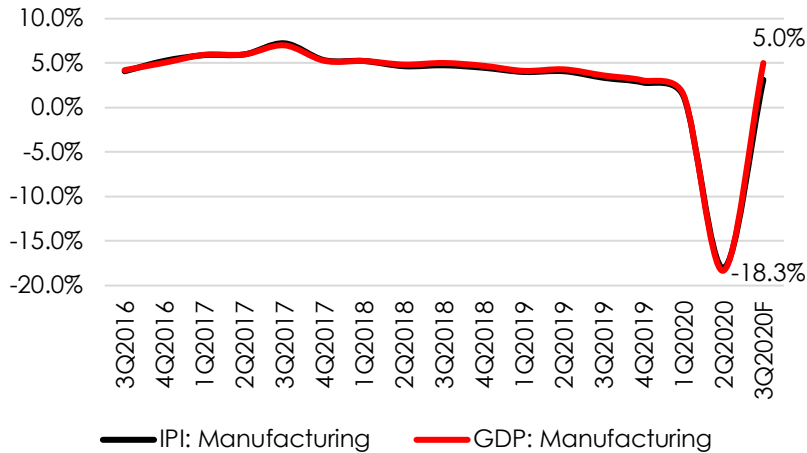
Y-o-Y %	Share (2019)	1Q2018	2Q2018	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020F
Agriculture	7.1%	4.9%	4.8%	4.7%	2.5%	0.4%	4.3%	4.0%	-5.7%	-8.7%	1.0%	7.1%
Mining	7.1%	5.2%	4.8%	5.0%	4.7%	4.1%	1.0%	-4.1%	-3.4%	-2.0%	-20.0%	-2.4%
Manufacturing	22.3%	-2.5%	-1.3%	-5.1%	-0.1%	-1.5%	4.3%	3.6%	3.0%	1.5%	-18.3%	5.0%
Construction	4.7%	6.5%	6.6%	7.3%	6.9%	6.4%	0.5%	-1.4%	1.0%	-7.9%	-44.5%	-10.0%
Services	57.7%	3.1%	-1.5%	-1.2%	0.2%	5.8%	6.1%	5.8%	6.2%	3.1%	-16.2%	-0.8%

Sources: Bank Islam, CEIC

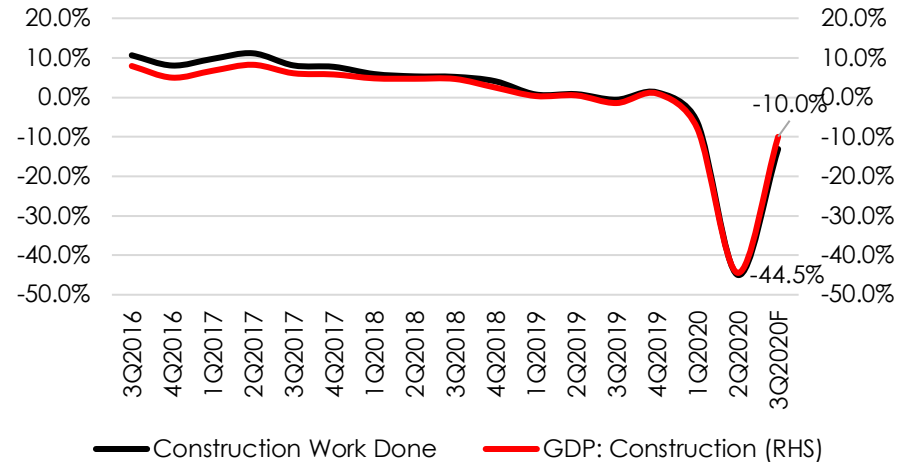
- ✓ Within the economic sector, the Manufacturing and Agriculture are expected to be the anchors of growth, rising by 5.0% (2Q2020: -18.3%) and 7.1% (2Q2020: 1.0%) in 3Q2020 respectively. As for the Manufacturing sector, the increase will likely be supported by higher production activities during 3Q2020 with the latest IPI for Manufacturing edging up by 3.1% y-o-y in 3Q2020, reversing its negative growth of 18.1% in 2Q2020. Similarly, the production of CPO rose to 5.5 million tonnes in 3Q2020 from 5.2 million in 2Q2020, providing some support to the Agriculture sector. Moreover, palm oil exports to China have increased by 34.0% y-o-y in 3Q2020 amid restocking activities due to low inventories in China.
- ✓ However, we foresee that the Services activities to record slower decline at 0.8% in 3Q2020 from -16.2% previously amid the easing of restriction measures which allows business to continue its operation. In addition, the Wholesale & Retail Trade, Food & Beverages and Accommodation sub-sector jumped by 31.0% in 3Q2020 on quarterly basis (2Q2020: -26.3%), reflecting that the services activities are recovering from the economic fallout due to the Covid-19 pandemic. An underlying factor for the recovery in this sub-sector is the boom in online sales. For example, Shopee recorded RM200.0 million worth of sales by local retailers and traders through the Shop Malaysia Online initiative under the Short-Term Economic Recovery Plan (Penjana) as at 31 August 2020. Following from this situation, the online retail sales index remained above 180.0 points (pre-MCO levels stood at a maximum of 160.1 points) for the third straight month in August.
- ✓ As for Mining, we opine that the sector will remain in the negative level at 2.4% in 3Q2020 (2Q2020: -20.0%) ascribed to low production of Crude Petroleum (3Q2020: -5.4% vs. 2Q2020: -21.2%) and Natural Gas (3Q2020: -7.3% vs. 2Q2020: -18.3%) during third quarter this year.
- ✓ Similarly, the Construction is likely to fall by 10.0% in 3Q2020 albeit at a slower pace as compared to -44.5% in 2Q2020. This is in tandem with softer contraction recorded in Construction Work Done, registering at -13.1% y-o-y in 3Q2020 from -44.9% in 2Q2020 due to the MCO implementation. As such, earnings of the sector is expected to rebound in 3Q2020 as progress billings accelerate with the resumption in works up to 80.0% to 90.0% efficiency for ongoing mega projects.

SUPPLY SIDE – MANUFACTURING AND AGRICULTURE ARE THE CRUXES OF GROWTH

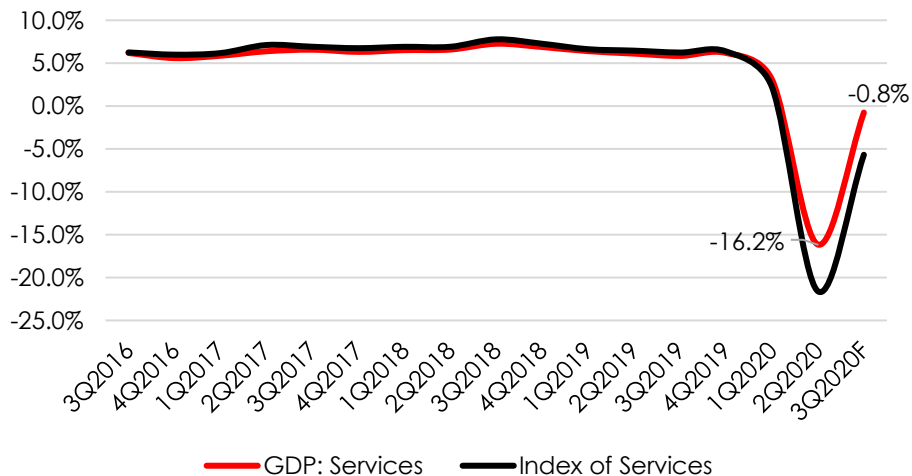
**GDP: Manufacturing vs. IPI:
Manufacturing, y-o-y%**



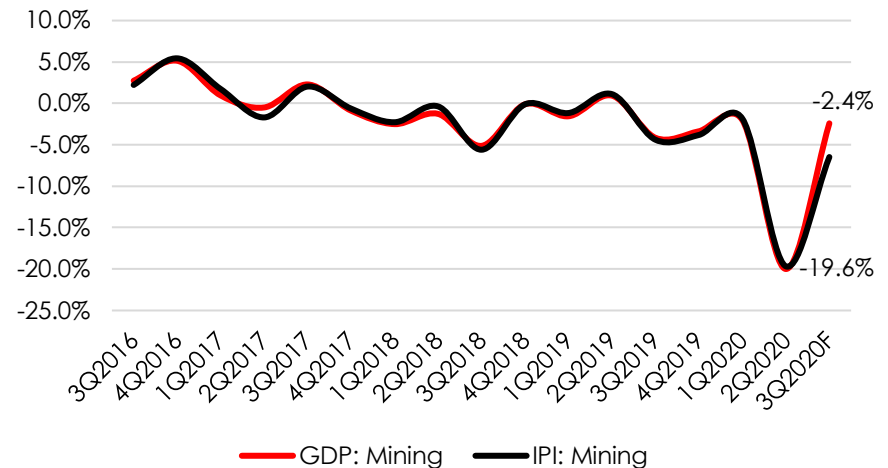
**GDP: Construction vs. Construction Work Done,
y-o-y%**



GDP: Services vs. IOS, y-o-y%



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



Sources: Bank Islam, CEIC

- ✓ Looking at major economies such as China, the country is expected to see an economic growth of 4.9% y-o-y in 3Q2020 based on preliminary estimates by the National Bureau of Statistics of China. This is a recovery from a 6.8% decline in GDP growth in 1Q2020 when more than half of the country shut down temporarily in an effort to limit the spread of Covid-19.
- ✓ As for the US, its Gross Domestic Product (GDP) advance estimate dropped by 2.9% y-o-y in 3Q2020, much slower than the 9.0% contraction in the previous quarter. The narrower decline in economic growth follows the resumption in business activities after the Covid-19-related restrictions have been lifted.
- ✓ Therefore, we do not discount the possibility of the upward trajectory seen in these major economies during 3Q2020 to spill over to the Malaysian economy.
- ✓ On a broader scale, the International Monetary Fund (IMF) in October 2020 projected that global growth would contract by 4.4% in 2020, 0.5 percentage points higher than the June 2020 World Economic Outlook (WEO) forecast.
- ✓ Despite the upbeat mood expected in 3Q2020, we believe Malaysia will be in recession this year with a full year GDP to record at -4.0% due to massive output losses brought by the Covid-19 pandemic. Recall that the daily output loss in 2Q2020 during the MCO was approximately at RM0.6 billion per day. The implementation of the CMCO beginning in October 2020 until early December 2020 is expected to dampen economic growth in 4Q2020 albeit by a lower magnitude compared to the earlier phase of MCO from March to May this year.

THANK YOU

Bank Islam ensures that social and environmental considerations are consistently its top priority governed by the Bank's core values and Shariah principles. More initiatives will be developed by the Bank as the Bank strives to make a positive difference for its financial and social performance.

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