



From the Desk
of the
Chief Economist

BANK ISLAM

GDP PREVIEW-ECONOMIC GROWTH TO CONTRACT BY 3.1% IN 4Q2020

10 FEBRUARY 2021

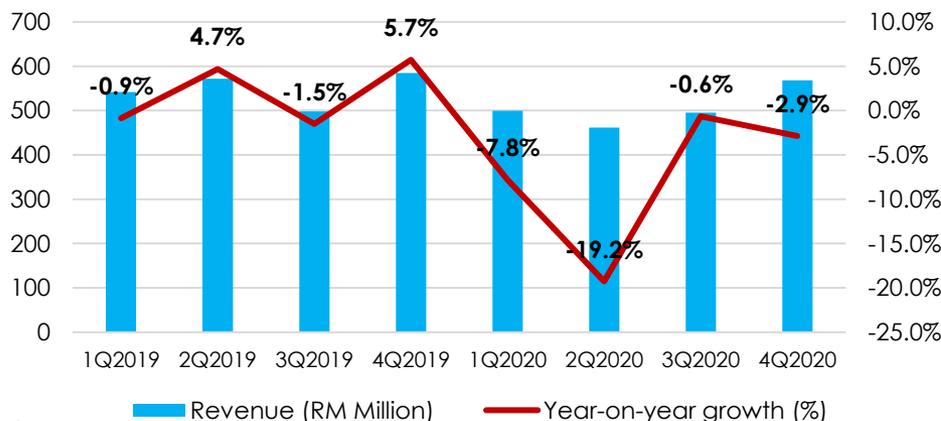
ECONOMIC RESEARCH

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

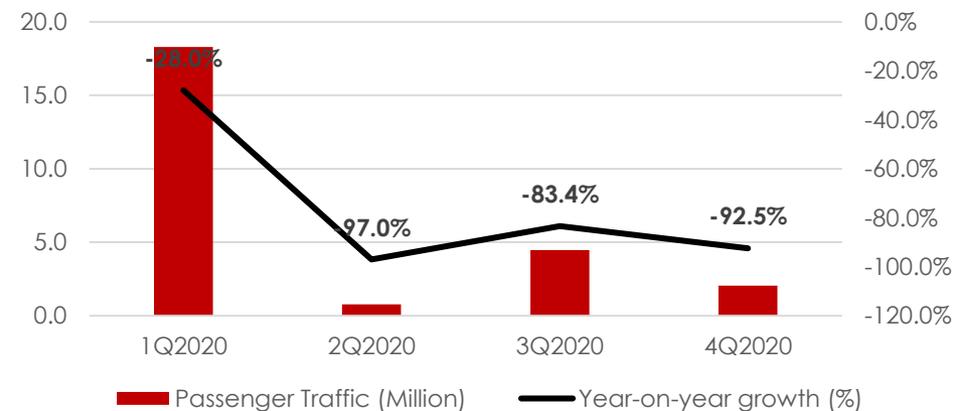
4Q2020 WILL SEE ANOTHER CONTRACTION IN ECONOMIC GROWTH

- ✓ Malaysia's Gross Domestic Product (GDP) for the fourth quarter of 2020 will be published on 11 February 2021. We are projecting the 4Q2020 GDP growth to come in at -3.1% year-on-year (y-o-y), (Consensus: -3.0%) which is a bigger drop than the -2.7% decline recorded in 3Q2020. This will be the third consecutive quarter of contractions amid the reimposition of the Conditional Movement Control Order (CMCO) in October and November last year. The manufacturing sector is likely to be a cushion for any further drop in economic growth during 4Q2020.
- ✓ Consumer related companies such as Fraser & Neave Holdings Berhad (F&N) recorded a wider decline of 2.9% y-o-y in terms of revenue in 4Q2020 (3Q2020: -0.6%), reflecting the weaker consumer sentiment in the country. This was in tandem with the 6.7% decline in Food, Beverages & Tobacco sub-sector which represents 8.6% of the total industrial production index (IPI) constituent.
- ✓ Despite the pent-up demand for travelling following the ban on interstate travel was lifted effective from 7 December 2020, it was insufficient to make up for the loss in the previous two months when the CMCO was under place. Such connotation was reinvigorated by the steep fall in Malaysia Airports Holdings Berhad's (MAHB) passenger traffic in 4Q2020 which saw a steeper decline of 92.5% y-o-y (3Q2020: -83.4%

Quarterly Revenue of F&N's Malaysia Business (RM Million)



Quarterly Passenger Traffic at Malaysian Airports operated by MAHB (Million)



PRIVATE SECTOR ECONOMY IS STILL IN DOLDRUMS

Y-o-Y%	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020F	2019	2020F
GDP	4.5%	4.8%	4.4%	3.6%	0.7%	-17.1%	-2.7%	-3.1%	4.3%	-5.5%
Domestic Demand (excluding stocks)	4.5%	4.5%	8.2%	6.1%	3.7%	-18.7%	-3.3%	-3.4%	5.8%	-5.5%
Private Sector	6.0%	6.1%	5.5%	7.4%	4.7%	-20.5%	-3.6%	-4.1%	6.2%	-6.0%
-Consumption	7.7%	7.8%	7.0%	8.1%	6.7%	-18.5%	-2.1%	-3.1%	7.6%	-4.2%
-Investment	0.6%	1.5%	0.4%	4.3%	-2.3%	-26.4%	-9.3%	-8.2%	1.6%	-12.2%
Public Sector	-1.6%	-2.4%	-4.8%	-2.3%	-0.6%	-10.6%	-1.6%	-1.4%	-2.8%	-3.3%
-Consumption	6.3%	0.3%	1.0%	1.2%	5.0%	2.3%	6.9%	6.5%	2.0%	5.3%
-Investment	-13.7%	-7.8%	-14.6%	-8.0%	-11.3%	-38.7%	-18.6%	-15.4%	-10.8%	-19.9%
Net Exports of Goods and Services	13.0%	32.9%	12.0%	-12.4%	-37.0%	-38.6%	21.9%	35.9%	9.7%	-7.0%
-Exports	0.1%	0.5%	-2.1%	-3.4%	-7.1%	-21.7%	-4.7%	-0.1%	-1.3%	-8.3%
-Imports	-1.6%	-2.3%	-3.5%	-2.4%	-2.5%	-19.7%	-7.8%	-3.9%	-2.5%	-8.5%

Sources: CEIC, Bank Islam

✓ **Private Consumption** is expected to decline further by 3.1% in 4Q2020 from a 2.1% contraction in the previous quarter.

✓ **Assumptions:**

- 1) Retail trade dropped by 1.9% in 4Q2020, extending the 1.3% fall in 3Q2020.
- 2) Manufacturing and Services sector wages plummeted by 1.2% and 4.5% in 4Q2020 from a 2.7% and 2.6% drop in the September quarter.
- 3) Higher unemployment rate in 4Q2020 at 4.8% compared 4.7% in the previous quarter.

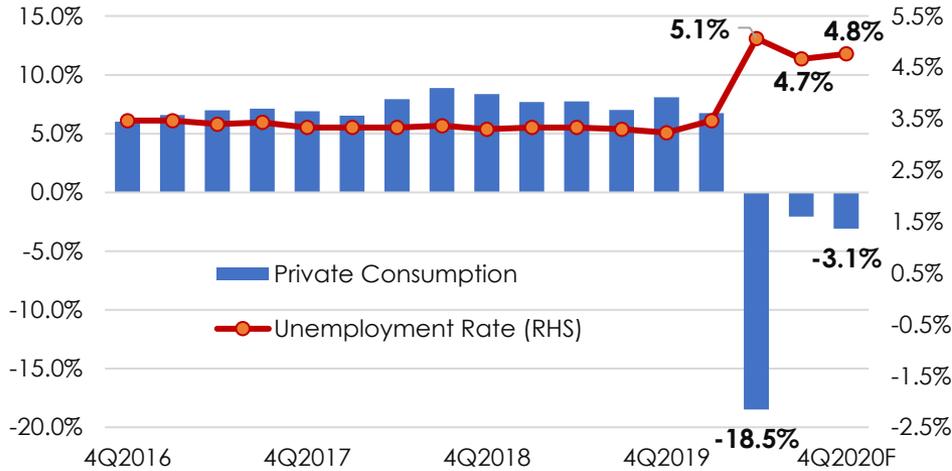
✓ Meanwhile, **Public Consumption** is forecasted to increase by 6.5% in the December quarter, moderating from a 6.9% growth in the preceding quarter following the introduction of stimulus and measures to rejuvenate the slowing economic activities due to the CMCO in October and November 2020.

✓ **Export** is anticipated to improve though still in the contractionary zone (4Q2020: -0.1% vs. 3Q2020: -4.7%).

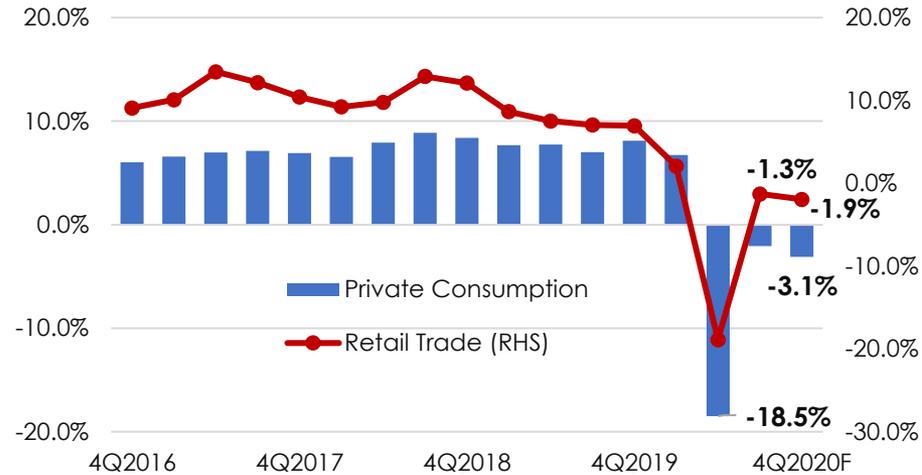
✓ **Assumptions:**

- 1) Nominal exports increased by 5.1% in 4Q2020 from a 4.4% growth in 3Q2020.
- 2) Global Semiconductor Sales (GSS) have been expanding for the eleventh straight month since February last year (December 2020: 8.3% vs. November: 7.0%). This would directly support the Electrical and Electronic Products (E&E) exports sales particularly in 4Q2020.
- 3) The payout for the first phase of Bantuan Prihatin Nasional in 4Q2020 of RM4.8 billion is higher than the last payout for Bantuan Sara Hidup of RM2.7 billion in 3Q2020.

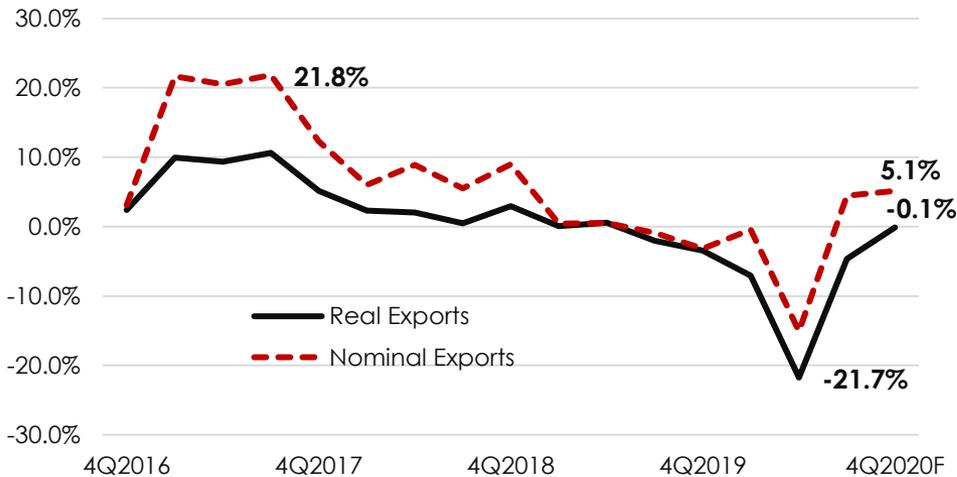
Private Consumption, y-o-y% vs. Unemployment Rate, %



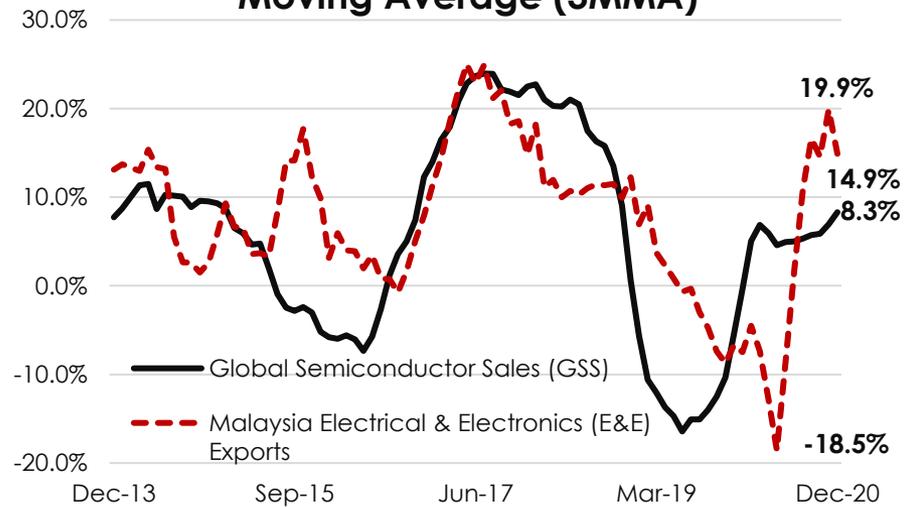
Private Consumption, y-o-y% vs. Retail Trade, y-o-y %



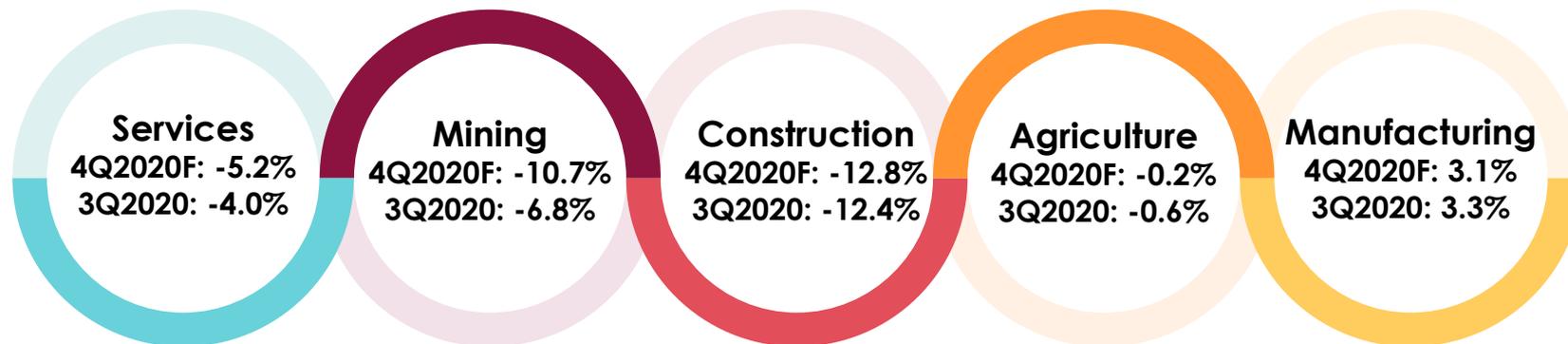
Real Exports, y-o-y % vs. Nominal Exports, y-o-y%



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



SUPPLY SIDE – HEAVILY WEIGHED BY SERVICES, MINING AND CONSTRUCTION SECTORS



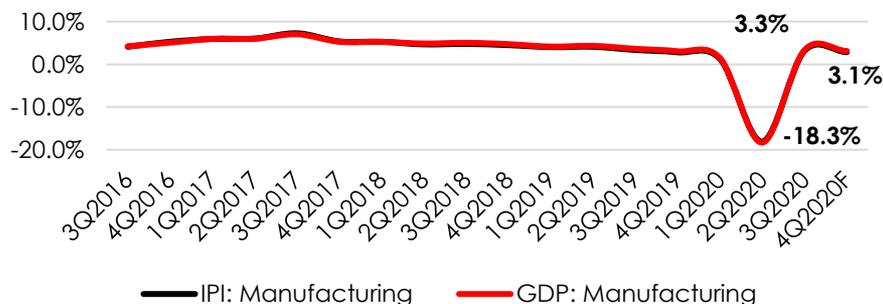
Sources: Bank Islam, CEIC

- ✓ Within the sector, services and mining activities are likely to deepen further by 5.2% (3Q2020: -4.0%) and 10.7% (3Q2020: -6.8%), weighing on overall GDP performance. As for services, the contraction was in line with the Volume Index of Service which fell further by 7.1% y-o-y in 4Q2020 from -5.6% in 3Q2020. Apart from that, the sharp drop in the industrial production index (IPI) of mining (4Q2020: -10.5% vs. 3Q2020: -6.5%) is anticipated to affect mining sector growth during 4Q2020.
- ✓ By the same token, the construction sector is expected to drop by 12.8% during 4Q2020 (3Q2020: -12.4%) in light of stricter Standard Operating Procedures (SOP) at construction sites that could result in hindrance of construction works. Similarly, we opine that the agriculture sector to remain in the negative territory at -0.2% (3Q2020: -0.6%) underpinned by lower CPO production at 4.5 million tonnes in 4Q2020 (3Q2020: 5.5 million tonnes). These economic sectors formed a sizeable share of total GDP at 76.6%.
- ✓ Nevertheless, we foresee manufacturing activities to grow positively by 3.1% in 4Q2020 though at a slower pace from 3.3% recorded in 3Q2020. This is tandem with slower increase seen in the IPI of manufacturing which grew by 2.8% in 4Q2020 compared to 3.1% in the preceding quarter.

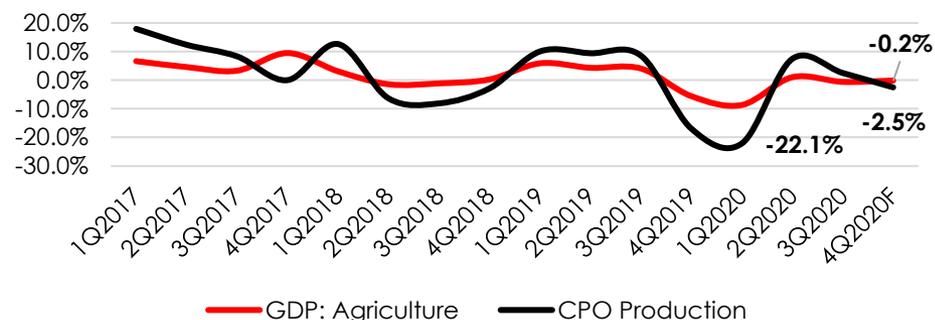
SUPPLY SIDE – HEAVILY WEIGHED BY SERVICES, MINING AND CONSTRUCTION SECTORS

Y-o-Y %	Share (2019)	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020F	2019	2020F
Agriculture	7.1%	0.4%	4.3%	4.0%	-5.7%	-8.7%	1.0%	-0.6%	-0.2%	2.0%	-2.1%
Mining	7.1%	4.1%	1.0%	-4.1%	-3.4%	-2.0%	-20.0%	-6.8%	-10.7%	-2.0%	-10.0%
Manufacturing	22.3%	-1.5%	4.3%	3.6%	3.0%	1.5%	-18.3%	3.3%	3.1%	3.8%	-2.6%
Construction	4.7%	6.4%	0.5%	-1.4%	1.0%	-7.9%	-44.5%	-12.4%	-12.8%	0.1%	-19.1%
Services	57.7%	5.8%	6.1%	5.8%	6.2%	3.1%	-16.2%	-4.0%	-5.2%	6.1%	-5.6%
GDP	100.0%	4.5%	4.8%	4.4%	3.6%	0.7%	-17.1%	-2.7%	-3.1%	4.3%	-5.5%

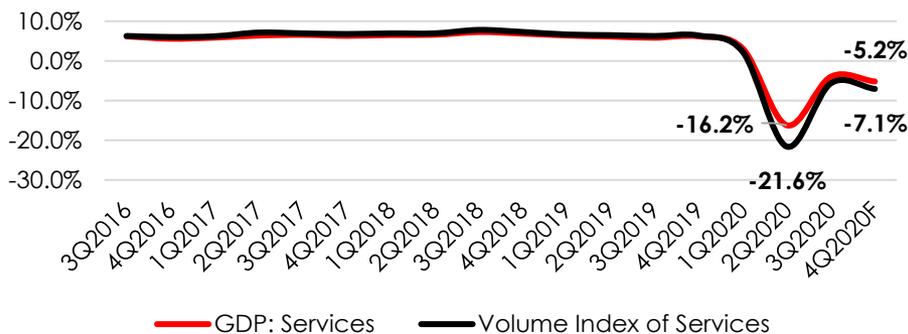
GDP: Manufacturing vs. IPI: Manufacturing, y-o-y%



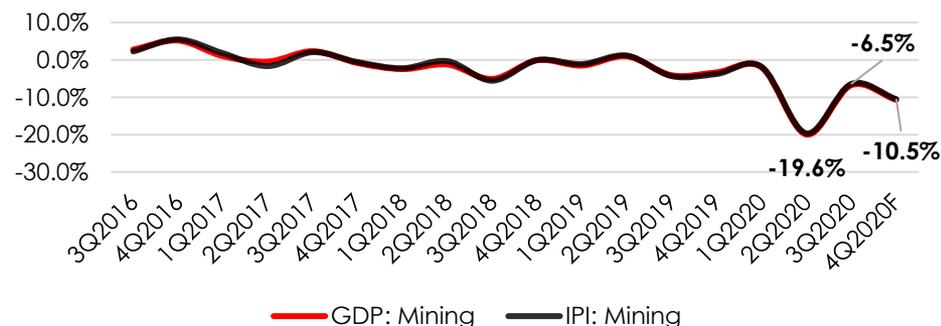
GDP: Agriculture vs. CPO Production, y-o-y%



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



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



- ✓ Thus far, the 4Q2020 GDP outturn has been quite mixed. We have seen China's GDP accelerate by 6.5% y-o-y in the final quarter of 2020 (3Q2020: 4.9%) based on preliminary estimates by the National Bureau of Statistics of China.
- ✓ Meanwhile, other jurisdictions such as Indonesia and the Philippines have been recording contractions in their 4Q2020 GDP print to a tune of 2.2% y-o-y (3Q2020: -3.5% y-o-y) and 8.3% y-o-y (3Q2020: -11.4% y-o-y) respectively.
- ✓ Therefore, another contraction in Malaysia's 4Q2020 GDP cannot be ruled out especially after considering the CMCO which took place in October and November 2020. Furthermore, there was a slew of factory closures in November and December 2020 involving companies within the manufacturing sector spanning from rubber glove makers to electronic manufacturing services providers. This was due to the Covid-19 infections discovered among factory workers.
- ✓ Other forms of headwinds came in the form of a lower retail and wholesale trade which extended its third consecutive quarterly drop in 4Q2020 after declining by 1.9% (3Q2020: -1.3%) and 0.7% (3Q2020: -4.2%) respectively. This came despite the boom in the online shopping trend.
- ✓ All in all, we believe Malaysia will be in a recession in 2020 with a full year GDP growth to record at -5.5% (2019: 4.3%) due to massive output losses brought by the Covid-19 pandemic especially in 2Q2020.

COMPANIES FACING CLOSURES OF PRODUCTION PLANTS DUE TO COVID-19 INFECTIONS

Company	Business	No. of Cases	Remarks
ATA IMS	Electronic manufacturing service provider	2	- Stopped operations from 18 December 2020 to 24 December 2020 for cleaning and disinfection, and all workers went for Covid-19 testing.
Kossan	Rubber glove maker	427 (6.0% of total workforce)	- Temporarily suspended operations at one of its plant in Klang and later resumed operations in stages starting from 21 December 2020.
Hartalega	Rubber glove maker	35 (0.4% of total workforce)	- Some production lines were temporarily shut down in December 2020. The capacity loss is estimated to be less than 0.5% of annual output.
V.S. industry	Electronic manufacturing service provider	1	- None.
Top Glove	Rubber glove make	5,147 (58.0% of total workforce)	- Cease operations in Klang factories for 4 weeks from 17 November.
Tiong Nam	Logistics	27 out of 267 in-house staff at Johor warehouse	- Temporarily halted operations of the warehouse and supporting vehicles and conducted thorough disinfection of premises and vehicles.

Sources: Various media

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 city. The overall mood is warm and serene.

BANK ISLAM

Assuring Trust. Delivering Value.

Thank You