Economic Research, Strategic Management

Thursday, May 14 2020 / 21 Ramadhan 1441H

Dr. Mohd Afzanizam Abdul Rashid | Chief Economist | 03-2088 8075 | afzanizam@bankislam.com.my
Shafiz Jamaluddin | Economic Analyst| 03-2088 8399 | shafiz@bankislam.com.my
Nor Jannah Abdullah | Economic Analyst | 03-2782 1417 | norjannah@bankislam.com.my
Nurrizque Addelina Zamanhuri | YLP | 03-2088 8753 | naddelina@bankislam.com.my

Malaysia's GDP growth was flat in the 1Q2020

Quick rundown on the numbers

The economic growth was bare minimum at merely 0.7% during the first three months of the year after 3.6% expansion in the previous quarter (Consensus: -1.0%, Bank Islam: +1.0%). Weak external demand was the primary factor as Covid-19 pandemic took a serious toll on major economies such as China especially during the early days of its discovery. Malaysia's net exports fell dramatically by 37.0% in the 1Q2020 after 12.4% contraction in the previous quarter. Investment activities were not forthcoming too with public investment persistently on a downward spiral for nine consecutive quarter to 11.3% in the 1Q2020 (4Q2019: -8.0%). Similarly, private investment declined by 2.3% during the March quarter after a brief respite of 4.3% in the prior quarter. The savior was none other than the consumer spending (61.7% of total GDP) which grew by 6.7% during the first three months albeit slower compared to 8.1% growth previously.

On the supply side, the main casualty were agriculture, construction and mining as the sector's output declined by 8.7% (4Q2019: -5.7%), 7.9% (4Q2019: 1.0%) and 2.0% (4Q2019: -3.4%) respectively in the 1Q2020. However, the manufacturing and services which accounted for 80% of the total economy managed to eke out 1.5% growth (4Q2019: 3.0%) and 3.1% (4Q2019: 6.2%) and during the quarter under review. In a nutshell, the economy was not in a great shape. At 0.7% growth, the economy was in need of a help as input factors such as labour and capital have been left idle as demand prospects are weak. This could explain the 50 basis points (bps) cut in the Overnight Policy Rate (OPR) during January and March Monetary Policy Committee (MPC) meeting.

Table 1: Gross Domestic Product (GDP) y-o-y%

Y-o-Y%	Share (2019)	1Q 2018	2Q 2018	3Q 2018	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019	1Q2020
GDP	**100.0%**	**5.2%**	**4.7%**	**4.4%**	**4.8%**	**4.5%**	**4.8%**	**4.4%**	**3.6%**	**0.7%**
Domestic Demand (excluding stocks)	94.0%	4.0%	5.5%	6.8%	5.7%	4.5%	4.5%	3.5%	4.8%	3.7%
Private Sector	**75.6%**	**5.2%**	**7.3%**	**7.9%**	**7.9%**	**6.0%**	**6.1%**	**5.5%**	**7.4%**	**4.7%**
-Consumption	58.7%	6.5%	7.9%	8.9%	8.4%	7.7%	7.8%	7.0%	8.1%	6.7%
-Investment	16.8%	1.1%	5.6%	5.0%	5.0%	0.6%	1.5%	0.4%	4.3%	-2.3%
Public Sector	**18.5%**	**-0.3%**	**-1.7%**	**2.0%**	**-0.1%**	**-1.6%**	**-2.4%**	**-4.8%**	**-2.3%**	**-0.7%**
-Consumption	12.2%	0.2%	2.9%	5.0%	3.9%	6.3%	0.3%	1.0%	1.3%	5.0%
-Investment	6.3%	-1.2%	-10.0%	-2.7%	-6.0%	-13.7%	-7.8%	-14.6%	-8.0%	-11.3%
Net Exports of Goods and Services	**7.0%**	**53.6%**	**-13.6%**	**-14.7%**	**12.0%**	**13.0%**	**32.9%**	**12.0%**	**-12.4%**	**-37.0%**
-Exports	63.7%	2.3%	2.0%	0.5%	2.9%	0.1%	0.5%	-2.1%	-3.4%	-7.1%
-Imports	56.7%	-2.0%	3.7%	2.3%	2.0%	-1.6%	-2.3%	-3.5%	-2.4%	-2.5%

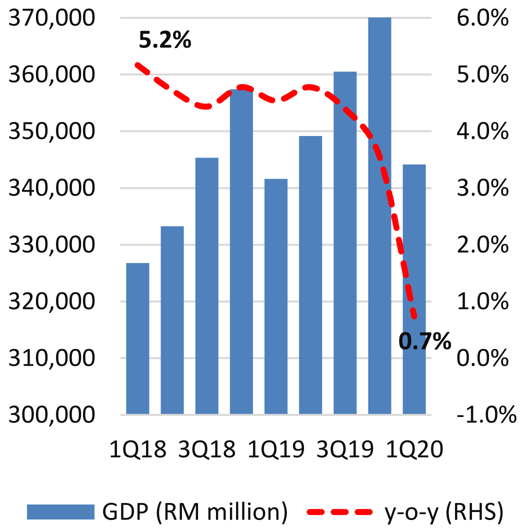
Source: CEIC, Bank Islam Malaysia Berhad

Table 2: Gross Domestic Product (GDP) y-o-y% by Industry

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

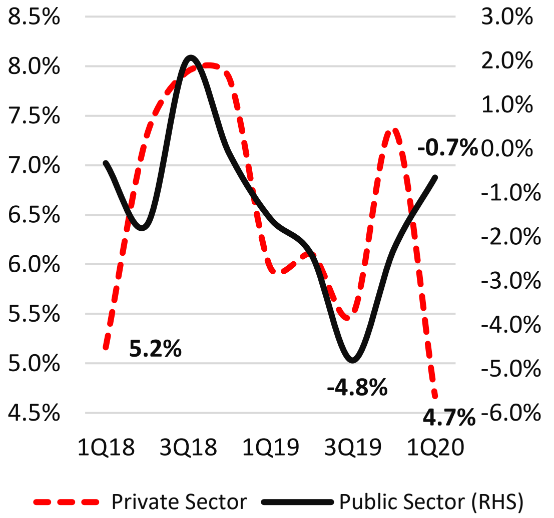
Source: CEIC, Bank Islam Malaysia Berhad

Chart 1: Gross Domestic Product (GDP) growth (y-o-y%) and Total (RM million)



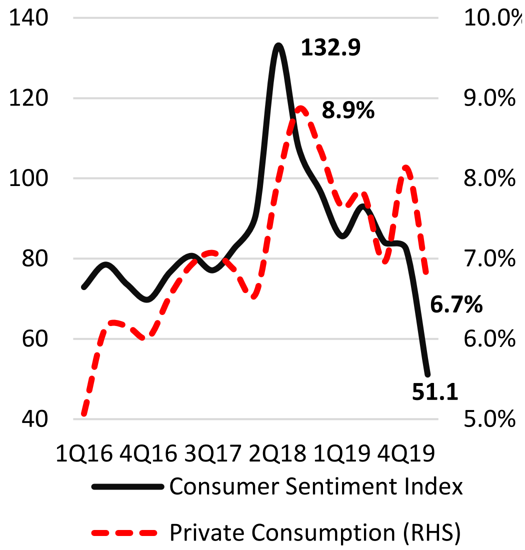
Source: CEIC

Chart 2: Private and Public Sector Growth (y-o-y %)



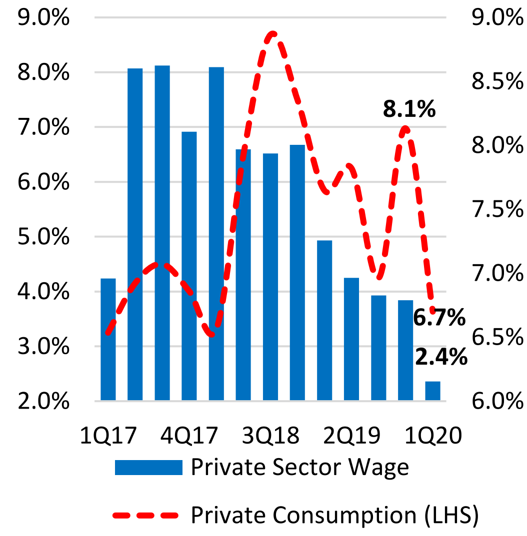
Source: CEIC

Chart 3: Private Consumption, y-o-y % Consumer Sentiment Index (CSI), poi



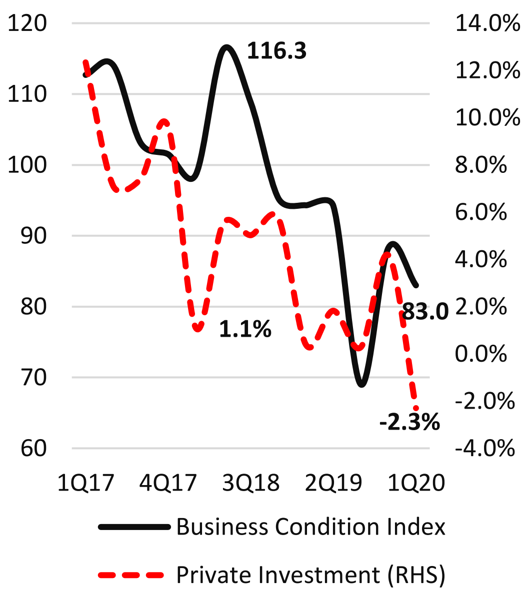
Source: CEIC

Chart 4: Private Consumption, y-o-y % Private Sector Wages growth, y-o-y



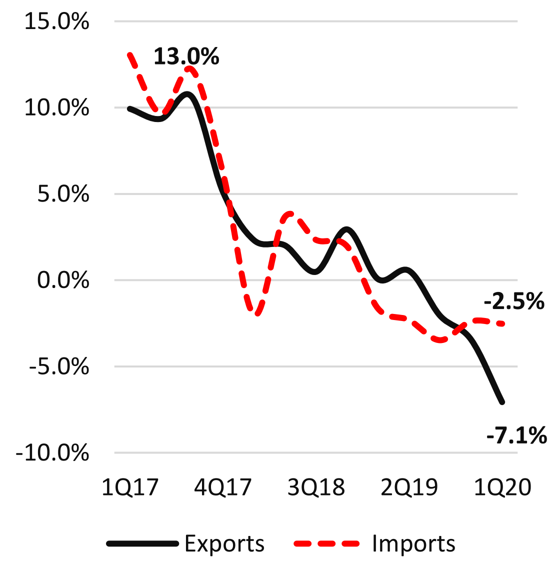
Source: CEIC

Chart 5: Private Investment, y-o-y % MIER Business Condition Index (BCI), poi



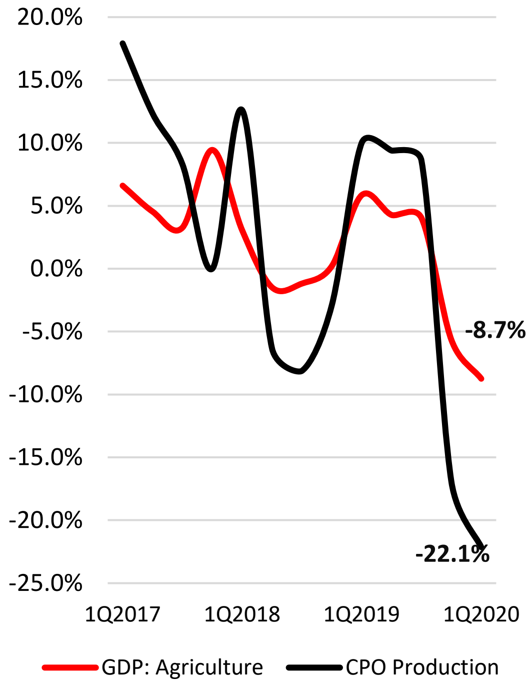
Source: CEIC

Chart 6: Export, y-o-y % vs. Imports, y-o-y %



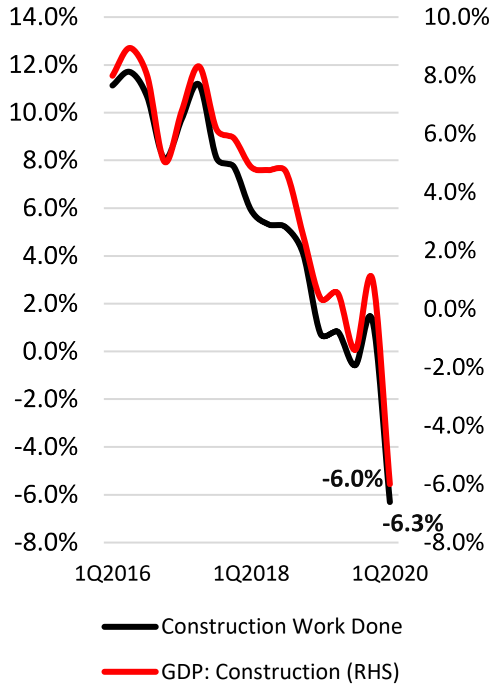
Source: CEIC

Chart 7: CPO Production (y-o- y%) vs. GDP: Agriculture (y-o-y%)



Source: CEIC, DOSM, MPOB

Chart 8: Construction Work Done (y-o-y%) vs. GDP: Construction (y-o-y%)



Source: CEIC, DOSM

Table 3: Balance of payments (RM million)

	1Q2018	2Q2018	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020
Current Account	**14,864**	**3,421**	**3,271**	**10,739**	**16,919**	**14,340**	**12,091**	**7,500**	**9,504**
% GDP	4.3%	1.0%	0.9%	2.8%	4.7%	3.9%	3.2%	1.9%	2.6%
Goods	33,606	24,573	24,777	31,665	33,396	28,290	29,371	32,277	28,873
Services	(5,758)	(5,456)	(2,757)	(3,544)	(1,670)	(3,433)	(1,815)	(4,005)	(7,953)
Primary Income	(8,302)	(10,692)	(14,049)	(12,039)	(9,229)	(5,861)	(9,939)	(15,238)	(5,993)
Seconday Income	(4,683)	(5,002)	(4,700)	(5,343)	(5,578)	(4,656)	(5,526)	(5,534)	(5,423)
Financial Account	**8,906**	**9,770**	**(1,951)**	**(5,295)**	**(13,287)**	**(18,878)**	**(1,511)**	**(120)**	**(13,335)**
Direct Investment	8,643	(1,122)	415	2,167	13,853	(9,186)	(3,447)	4,357	3,394
Assets	(3,351)	(5,498)	(5,362)	(9,220)	(8,520)	(11,830)	(5,910)	(5,647)	(1,770)
Liabilities	11,994	4,376	5,777	11,387	22,373	2,644	2,463	10,005	5,163
Portfolio Investment	(3,532)	(40,231)	864	(6,496)	6,470	(10,607)	(23,554)	(1,336)	(41,339)
Assets	(11,445)	(2,904)	4,735	(2,371)	(8,554)	(3,888)	(16,872)	(12,353)	(15,124)
Liabilities	7,913	(37,328)	(3,871)	(4,125)	15,024	(6,719)	(6,682)	11,017	(26,215)
Financial Derivatives	879	781	39	(718)	(237)	(453)	830	(618)	2,506
Other Investment	2,916	50,341	(3,269)	(247)	(33,375)	1,368	24,660	(2,524)	22,105
Errors and Omissions	**(5,538)**	**(14,058)**	**(4,735)**	**(11,547)**	**1,862**	**3,187**	**(4,131)**	**(9,887)**	**(4,745)**
Overall Balance	**18,232**	**(867)**	**(3,415)**	**(6,103)**	**5,494**	**(1,351)**	**6,449**	**(2,507)**	**(8,576)**

Source: CEIC, Bank Islam Malaysia Berhad

The surplus balance in the Current Account of the Balance of Payment (BOP), widened to RM9.5 billion (2.6% of GDP) in 1Q2020 from RM7.5 billion (1.9% of GDP) previously. This was mainly underpinned by Primary and Secondary Income whereby the deficits have narrowed to RM6.0 billion (4Q2019: –RM15.2 billion) and RM5.4 billion (4Q2019: -RM5.5 billion) respectively in 1Q2020. However, a significant net outflows were seen in Financial Account, registering a deficits of RM13.3 billion in 1Q2020 (4Q2019: –RM0.1 billion), owing to outflows of Portfolio Investment of RM41.3 billion during 1Q2020 (4Q2019: -RM1.3 billion). The Overall Balance deficit has widened to RM8.6 billion in 1Q2020 (4Q2019: -RM2.5 billion). Higher surplus balance in the current account balance should alleviate concern over twin deficits hypothesis (fiscal and current account deficits). Therefore, USDMYR should be able to linger around RM4.30 and RM4.35 in the immediate terms.

Our View

The BNM has been very explicit in their press statement that the economic activities will contract in the 2Q2020. In their presentation slides, the BNM shared some data that shows human mobility has been greatly impacted by the lockdown measures. For instance, Google Community Mobility Report of Malaysia (Retail & Recreation) showed mobility has declined by 78.2% in March from 36.1% drop in the prior month. Similarly, electricity generation was down by 22.3% in March from 9.9% contraction previously. The BNM also indicated some alteration to their assumption whereby the MCO duration has been changed from 4 weeks to 7 weeks. However, there was no mention about their existing GDP forecast of -2.0% and +0.5% for 2020. The central bank is obviously pinning their hope that the economic recovery would happen in the 2H2020 due to the following:

- ✓ Gradual lifting of containment measures as pandemic risk subsides
- ✓ Significant economic policy stimulus
- ✓ Gradual normalization of economic activity and financial conditions

In 2021, the BNM expect consumer and investor confidence will be restored thereby leading to a higher growth trajectory during the year. As such, we will maintain our 2020 GDP forecast at -1.5%. Our quarterly GDP estimates showed that the economy would contract by 7.0% and 2.8% in the 2Q2020 and 3Q2020 respectively before recovering to 2.7% growth in the final quarter of this year. We also believe that the BNM would maintain the OPR at 2.00% throughout the year given that the country has been successful in containing the Covid-19 spread. Nonetheless, we are also cognizant that the evolving outlook is extremely fluid as effective vaccine has yet to be discovered and those who have infected by the disease and subsequently cured has not develop antibody against the virus. Therefore, the potential relapse in the new infection cases is very much visible especially when social distancing measures and personal hygiene protocols are not adhered. The government has also warned that reverting to MCO is always an option. That could set the economy back to square one.

Having said that, the new normal theme is real. The work from home (WFH) seems to be a viable option since the implementation of MCO. According to the most recent survey by DOSM, 42.6% from the total respondents have been working from their house since the MCO was implemented on 18 March. This would mean demand for data will rise and the telco players would need to beef up their capital expenditure in order to upgrade their existing infrastructure. The healthcare would stand to benefit and we have seen the share price for the Rubber Gloves companies have skyrocketed. The country is also known for the production of medical devices such cardiac pacemakers, stents, orthopedic implantable devices, and electromedical, therapeutic and monitoring devices. Therefore, healthcare related manufacturing should see a sustain increase in their products demand. The proliferation of online transactions would mean higher demand for logistic services as goods need to travel from seller to buyer. This would also mean demand for commercial vehicles would rise.

As such, Covid-19 could be a blessing in disguise. The current pandemic would force companies to elevate their resilience by putting more resources to upgrade the existing skillset and capabilities. The journey towards digitalization will be more holistic and could result in total review in the way businesses are being conducted. For now, brace for impact as the economic data is not going to look pretty and would result in knee jerk reaction to the financial markets.