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## GDP preview - economic growth could contract by 7.0% in 2Q2020

Malaysia's Gross Domestic Product (GDP) for the second quarter of 2020 will be published tomorrow. We are projecting the 2Q2020 GDP to come in at -7.0% (Consensus: -10.7%) year-on-year (y-o-y), which is lower than the 0.7% growth recorded in 1Q2020. This will be the quarter with the most profound impact of the Movement Control Order (MCO). Sectors that are mainly vulnerable to the economic contraction include food and beverages, tourism, airlines, as well as construction industries.

F&N Holdings Berhad which could be a proxy for consumer spending recorded lower sales which declined by 13.9% during the 2Q2020. Meanwhile, the long-haul budget airline firm, Air Asia X had reported that it only carried 2,291 passengers in 2Q2020 versus 1.5 million passengers a year earlier with its fleet still in hibernation as international borders at its destinations remain closed. This suggests travelling industries have been badly impacted by the virus spread. This could have cascading effects to other industries such as hotels, tourists guide and events management. Despite the Recovery MCO beginning in June, we opine that it was not enough to cancel off the negative impacts seen in the previous two months.

Apart from that, the latest data print on regional GDP has also supported the view that the second quarter performance would likely to be weak. Singapore's GDP contracted by 13.2% y-o-y in 2Q2020, worsening from a 0.3% fall in the previous quarter. This was the steepest decline on record due to the Circuit Breaker (CB) measures implemented from 7 April to 1 June 2020 to contain the fast-spreading virus.

The International Monetary Fund (IMF) has revised its Malaysia 2020 gross domestic product (GDP) forecast to a 3.8% y-o-y contraction from the previously estimated 1.7% drop as the Covid-19 pandemic has had a more negative impact on global activity in the first half of 2020 than anticipated. This is very much in line with global growth which is expected to decline by 4.9% in 2020 (2019: +2.9%). Notwithstanding this, Malaysian Rating Corp Bhd has affirmed its foreign currency sovereign rating of AAA/stable for Malaysia under its national rating scale, reflecting the country's several credit strengths, including a competitive and well diversified economy. Malaysia was, for example, positioned relatively high at number 27 in the 2019 edition of the World Economic Forum's Global Competitiveness Index 4.0 rankings. In that sense, the government has flexibility to prescribe additional measures to pump prime the economy. The BNM too has the space to reduce the Overnight Policy Rate (OPR) in light of the lower inflation rate. From demand management perspective, the government has what it takes to stabilise the economy in the 2H2020.

## Domestic demand is expected to drop

The plunge in retail trade by -21.2% in 2Q2020 (1Q2020: 1.8%) implies that consumer spending may not be forthcoming. Private consumption growth is expected to ease by 3.3% in 2Q2020 after expanding 6.7% in the previous quarter. Apart from that, we envisage that spending momentum would be affected as the labour market has been severely hit (Unemployment rate – 2Q2020: 5.1% vs. 1Q2020: 3.5%) by the MCO measures. This was in tandem with the private sector wage growth for the manufacturing and service sector employees which has been declining by 5.3% in 2Q2020 from 2.4% in the preceding quarter. This suggests that households have been weak while demand for labour was nonexistence especially during April dan May.

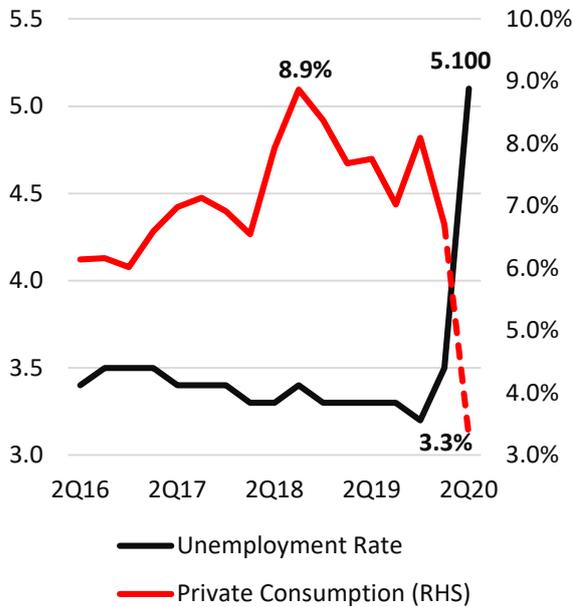
Meanwhile, private investment is estimated to contract by 16.5% in 2Q2020, weakening from a 2.3% fall in the same period last year. We believe that businesses are becoming more reluctant to explore new investment opportunities in light of Covid-19 pandemic. Similarly, exports (2Q2020: -13.1% vs. 1Q2020: -7.1%) and imports (2Q2020: -5.0% vs. 1Q2020: -2.5%) are expected to slump as measures to contain the fast-spreading virus have restricted trading activities globally.

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

Y-o-Y%	Share (2019)	2Q 2018	3Q 2018	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019	1Q 2020	2Q 2020F
<b>GDP</b>	<b>100.0%</b>	<b>4.7%</b>	<b>4.4%</b>	<b>4.8%</b>	<b>4.5%</b>	<b>4.8%</b>	<b>4.4%</b>	<b>3.6%</b>	<b>0.7%</b>	<b>-7.0%</b>
Domestic Demand (excluding stocks)	94.0%	5.5%	6.8%	5.7%	4.5%	4.5%	3.5%	4.8%	3.7%	-1.7%
<b>Private Sector</b>	<b>75.6%</b>	<b>7.3%</b>	<b>7.9%</b>	<b>7.9%</b>	<b>6.0%</b>	<b>6.1%</b>	<b>5.5%</b>	<b>7.4%</b>	<b>4.7%</b>	<b>-1.7%</b>
-Consumption	58.7%	7.9%	8.9%	8.4%	7.7%	7.8%	7.0%	8.1%	6.7%	3.3%
-Investment	16.8%	5.6%	5.0%	5.0%	0.6%	1.5%	0.4%	4.3%	-2.3%	-16.5%
<b>Public Sector</b>	<b>18.5%</b>	<b>-1.7%</b>	<b>2.0%</b>	<b>-0.1%</b>	<b>-1.6%</b>	<b>-2.4%</b>	<b>-4.8%</b>	<b>-2.3%</b>	<b>-0.7%</b>	<b>-1.8%</b>
-Consumption	12.2%	2.9%	5.0%	3.9%	6.3%	0.3%	1.0%	1.3%	5.0%	5.2%
-Investment	6.3%	-10.0%	-2.7%	-6.0%	-13.7%	-7.8%	-14.6%	-8.0%	-11.3%	-16.9%
<b>Net Exports of Goods and Services</b>	<b>7.0%</b>	<b>-13.6%</b>	<b>-14.7%</b>	<b>12.0%</b>	<b>13.0%</b>	<b>32.9%</b>	<b>12.0%</b>	<b>-12.4%</b>	<b>-37.0%</b>	<b>-80.5%</b>
-Exports	63.7%	2.0%	0.5%	2.9%	0.1%	0.5%	-2.1%	-3.4%	-7.1%	-13.1%
-Imports	56.7%	3.7%	2.3%	2.0%	-1.6%	-2.3%	-3.5%	-2.4%	-2.5%	-5.0%

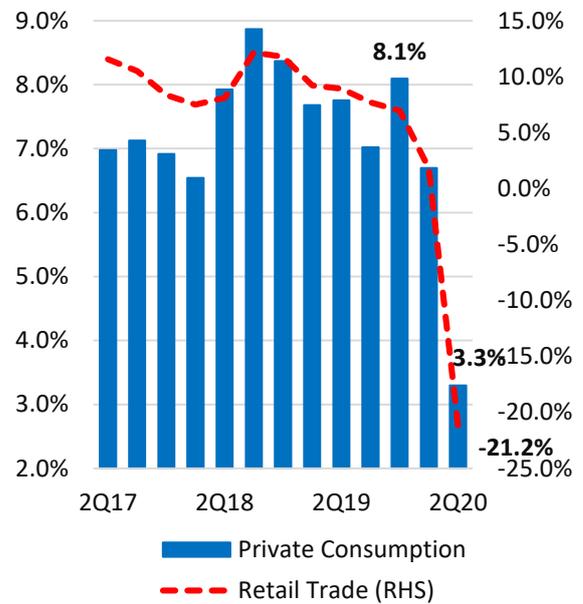
Sources: CEIC, Economic Research, Bank Islam Malaysia Berhad, BNM

**Chart 1: Private Consumption, y-o-y% vs. Unemployment Rate, %**



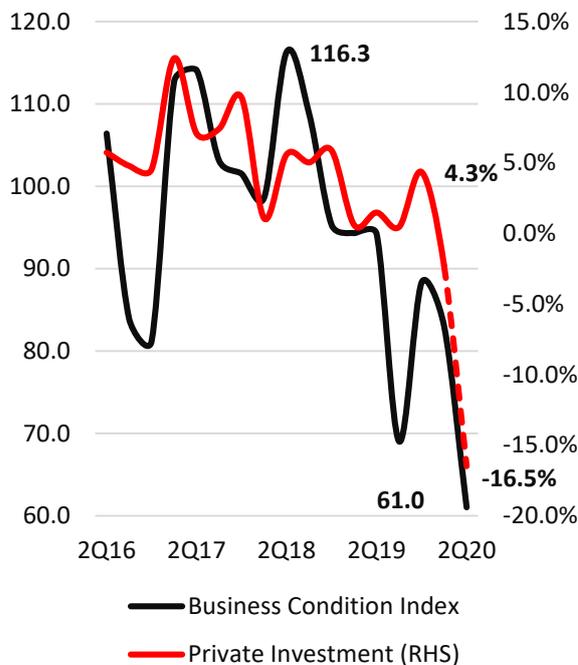
Sources: CEIC, Bank Islam

**Chart 2: Private Consumption, y-o-y% vs. Retail Trade, y-o-y %**



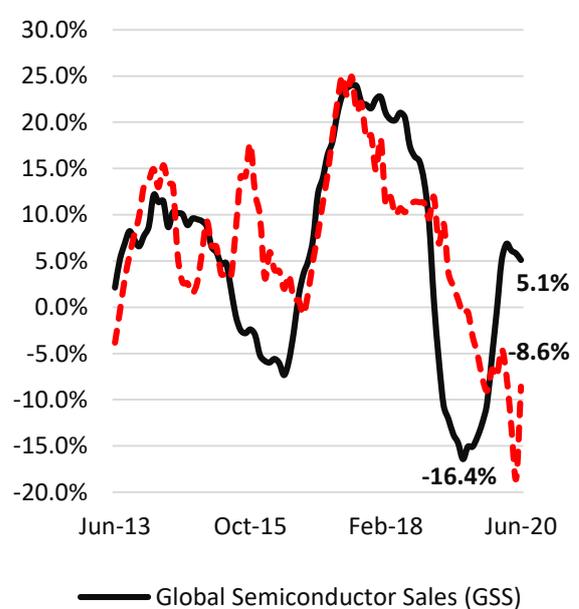
Sources: DOSM, CEIC

**Chart 3: Private Investment, y-o-y% vs. MIER Business Condition Index (BCI), points**



Sources: CEIC, Bank Islam

**Chart 4: GSS (%) vs. Nominal Export: E&E (%) – 3 Months Moving Average (MMA)**



Source: CEIC

## Supply side – Will definitely look ugly

**Table 2: GDP by Industry, y-o-y%**

Y-o-Y %	Share (2019)	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020F
Agriculture	7.1%	0.4%	4.3%	4.0%	-5.7%	-8.7%	9.0%
Mining & Quarrying	7.1%	4.1%	1.0%	-4.1%	-3.4%	-2.0%	-6.2%
Manufacturing	22.3%	-1.5%	4.3%	3.6%	3.0%	1.5%	-10.8%
Construction	4.7%	6.4%	0.5%	-1.4%	1.0%	-7.9%	-12.4%
Services	57.7%	5.8%	6.1%	5.8%	6.2%	3.1%	-9.1%

Sources: Bank Islam, CEIC, BNM

Turning to the supply side, the Manufacturing and Services which form sizeable share of 80.0% of total GDP in 2019 are expected to be the main culprits for the overall downturn. For the second quarter this year, the Services sector is anticipated to contract by 9.1% from a positive growth of 3.1% in 1Q2020. This is in tandem with the steep decline of Index of Services (IOS), falling by 21.5% in 2Q2020 from 2.2% growth in 1Q2020. On a similar note, we envisage Manufacturing to nosedive by 10.8% in 2Q2020 (1Q2020: 1.5%), mainly hammered by the slump in the Manufacturing Industrial Production Index (IPI) which saw a 18.1% decline in the 2Q2020 (1Q2020: 4.1%).

As for the Construction sector, it will likely plunge by 12.4% in 2Q2020, extending the 7.9% fall in the preceding quarter. This was on the back of enforcement of MCO which resulted in steep decrease in Construction Work Done, plummeting by 44.9% in 2Q2020 (1Q2020: -6.3%) while Property-related Construction deteriorated by 37.4% during 2Q2020 (1Q2020: -9.4%). One of the casualties was Hock Seng Lee which saw its 2Q2020 net profit declining by 76.0% y-o-y to RM3.9 million. In line with the decline in Construction Work Done, the number of domestic contract awards has also been low. Domestic contract awards to listed contractors dropped to RM1.1 billion in 2Q2020 from RM3.9 billion, representing a -71.0% quarter-on-quarter (q-o-q) decline. The drastic fall during 2Q2020 was mainly due to the enforcement of MCO which saw virtually no domestic contracts awarded in April 2020 to listed companies. On a y-o-y basis, value of contract awards fell by 66.4%, with infrastructure and building jobs declining by 21.4% and 80.4% respectively. The deterioration was far larger on the building side as most corporate offices were closed during the unrelaxed MCO.

Similarly, Mining & Quarrying are likely to drop further by 6.2% in 2Q2020 from -2.0% in 1Q2020 as production of Crude Petroleum (2Q2020: -21.2% vs. 1Q2020: -5.0%) and Natural Gas (2Q2020: -18.3% vs. 1Q2020: 7.1%) shrank significantly. However, we foresee the Agricultural sector to grow by 9.0% after posted negative growth of 8.7% thanks to higher CPO output (2Q2020: 5.2 million tonnes vs. 1Q2020: 3.9 million tonnes).

In relation to the equity market, we expect the FBM KLCI index to close higher if the actual GDP growth beats consensus. This was previously seen during the release of 1Q2020 GDP growth whereby the local bourse advanced 1.3% to close at 1,397.1 points on 13 May 2020. Meanwhile, the benchmark index should retreat if actual GDP growth was below estimating, similar to what happened during the 4Q2019 GDP data release which saw the local bourse decline by 0.6%.

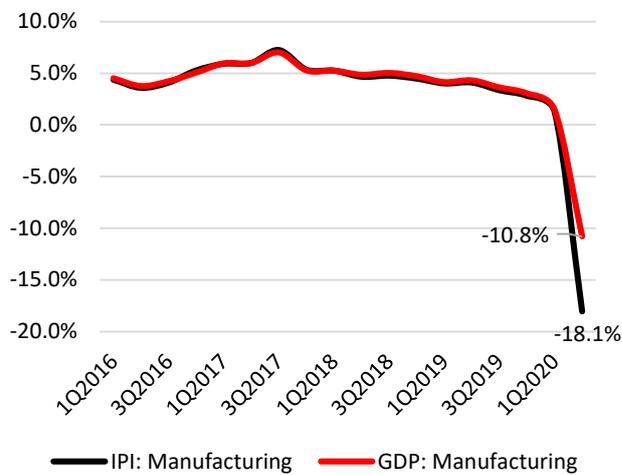
All in all, we believe Malaysia will be in recession this year with full year GDP to record at -1.5% due to massive output losses brought by the Covid-19 pandemic. The implementation of MCO and CMCO have caused the economic activities come to standstill while international trade activities are disrupted amid implementation of travel restrictions measures.

**Table 3: Movement of local bourse after GDP announcement**

Quarter	Date	Year-on-year (y-o-y) GDP Growth (%)	Consensus	Exceed/Meet/Below Consensus	KLCI movement
1Q2019	16-May-19	4.50%	4.30%	exceed	-0.76%
2Q2019	16-Aug-19	4.90%	4.70%	exceed	-0.07%
3Q2019	15-Nov-19	4.40%	4.40%	meet	0.08%
4Q2019	12-Feb-20	3.60%	4.10%	below	-0.55%
1Q2020	13-May-20	0.70%	-1.00%	exceed	1.25%

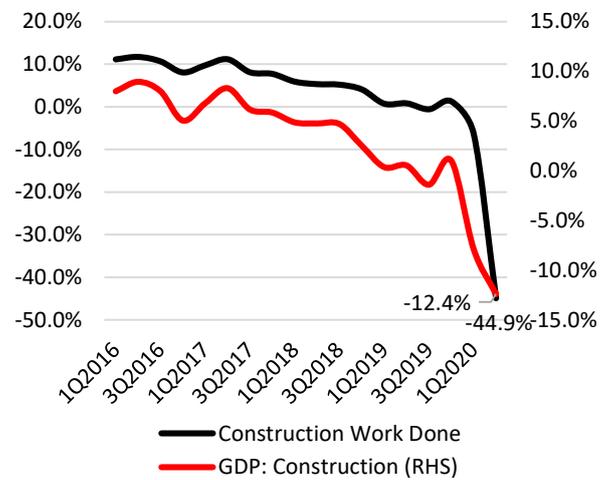
Source: Bloomberg

**Chart 5: IPI: Manufacturing, y-o-y% vs. GDP: Manufacturing, y-o-y%**



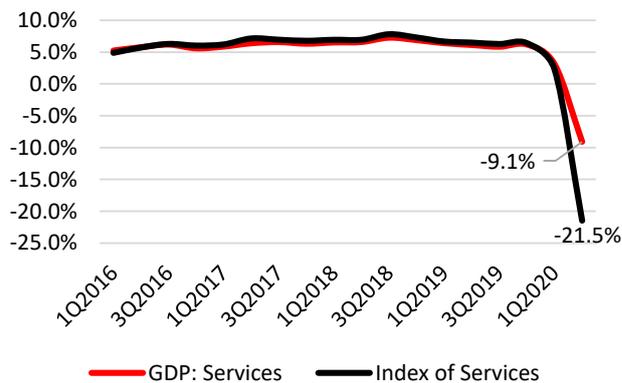
Sources: CEIC, DOSM

**Chart 6: Construction Work Done, y-o-y% vs. GDP: Construction, y-o-y%**



Sources: CEIC, DOSM

**Chart 7: Index of Services, y-o-y% vs. GDP: Services, y-o-y%**



Sources: CEIC, DOSM

**Table 4: Breakdown by type of domestic contracts (RM Million)**

Type of Domestic Award	2Q2019	1Q2020	2Q2020	Year-on-year (y-o-y) Growth (%)	Quarter-on-quarter (q-o-q) Growth (%)
Infrastructure	789.0	618.0	620.0	-21.4%	0.3%
Building	2,546.0	3,233.0	499.0	-80.4%	-84.6%
<b>Total</b>	<b>3,335.0</b>	<b>3,851.0</b>	<b>1,119.0</b>	<b>-66.4%</b>	<b>-70.9%</b>

Sources: Bursa Announcement

**Table 5: List of domestic contract awards for 2Q2020**

No.	Contract	Value (RM Million)	Awarded To	Awarded By
1	Construction of a 10-storey hospital extension block in Johor	164.0	Ireka Corp	Regency Specialist Hospital
2	Contract works for project located at Lot PT13825, Taman Teknologi Malaysia	13.0	Niche Emas	YDI Synergy Sdn. Bhd
3	Sub-Contract Works known as Construction and Completion of Elevated Stations and other Associated Works for MRT2	114.0	TRC	Not Available
4	Undertake reinforced concrete works under Parcel 2 of the superstructure works for the retail podium of the proposed PDH	105.0	Econpile	WCT
5	Design, manufacture, supply, deliver, supervise the installation, test and commission switchboards at 6 underground stations and 4 ancillary buildings	12.0	Powerwell	MMC-Gamuda JV
6	Subgrade, drainage and culvert works at the base camp of the project, ECRL Section 6	37.0	AQRS	China Communications Construction Company
7	Proposed construction of 214 units of condominium and 31 units of superlink villas together with ancillary facilities	96.0	Vizione	MRCB
8	Construction and completion of subgrade, drainage and culvert works on Section 5 & 6 of the ECRL	82.0	Gadang	China Communications Construction Company
9	Construction and completion of subgrade, drainage and culvert works on Section 6 of the ECRL	103.0	Ho Hup	China Communications Construction Company
10	Construction and development of Sunway International School	121.0	Sunway Construction	Sunway Berhad
11	Construction of a school in Perak	30.0	Minetech Resources	Mutual Premium
12	Construction and completion of earthworks and infrastructure works for Chuping Valley Industrial Area Phase 1	184.0	MTD ACPI	NCIS
13	Construction supervision services for the Raub bypass along the Central Spine Road, Package 5	6.0	HSS	Jabatan Kerja Raya
14	Construction, Completion and Commissioning of Water Supply Sarawak Water Supply Grid Program	53.0	KKB	Sarawak State
	<b>Total</b>	<b>1,119.0</b>		

Sources: Bursa Announcement

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