

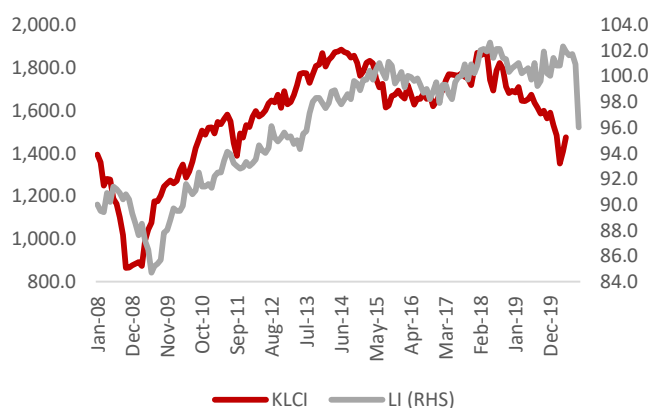
MONTHLY ECONOMIC REVIEW | May 2020

Malaysia Heading Into Recession Due to MCO Caused by Covid-19

- *Largest drop in leading index.* Malaysia’s leading economic index declined further to -4.9%mom in Mar-20 from -0.8%mom in the prior month, signalling economic recession for the July-Sep 2020 period. The hardest monthly fall since Nov-91 was mainly due to the first phase of MCO, an effort to contain Covid-19 pandemic. Five out of seven components which include real imports of semi-conductors, Bursa Malaysia Industrial Index and number of new companies registered declined.
- *IPI growth slumps to over a decade low.* Overall IPI declined by -4.9%yoy in Mar-20, first contraction since Dec-15 and the steepest since Sep-09. The slightly worse than market expectation performance was due to decline in all sub-indexes.
- *First contraction on record.* Malaysia’s distributive trade fell -5.7%yoy in Mar-20, first contraction since the start of the data in 2013. The fall was contributed by declining performances in all components: retail sales, wholesale trade and motor vehicles.

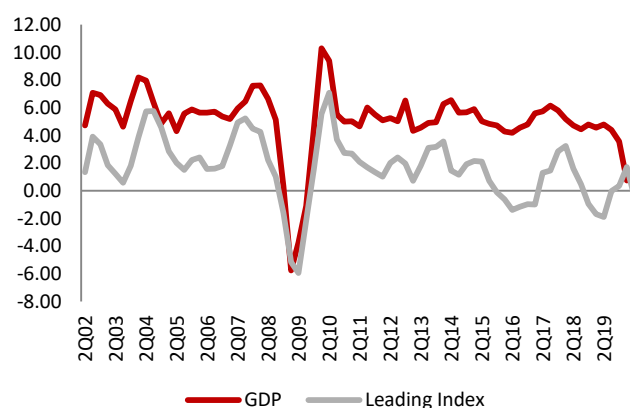
Largest drop in leading index. Malaysia’s leading economic index declined further to -4.9%mom in Mar-20 from -0.8%mom in the prior month, signalling economic recession for the July-Sep 2020 period. The hardest monthly fall since Nov-91 was mainly due to the first phase of MCO, an effort to contain Covid-19 pandemic. Five out of seven components which include real imports of semi-conductors, Bursa Malaysia Industrial Index and number of new companies registered declined. Annually, the index fell -3.6%yoy, following a +1.7%yoy gain in the preceding month. Economic contraction for 2Q20 is largely expected while we opine that there might be a gradual recovery starting 3Q20, depending on Malaysia’s progress in containing the outbreak. It would also depend on how the rest of the world particularly our key trading partners are combating the spreading virus as it will affect global demand for our products. The economic stimulus package is anticipated to provide some cushions to the adverse impact resulting from Covid-19.

Chart 1: Leading Index vs KLCI (Points)



Source: CEIC, MIDFR

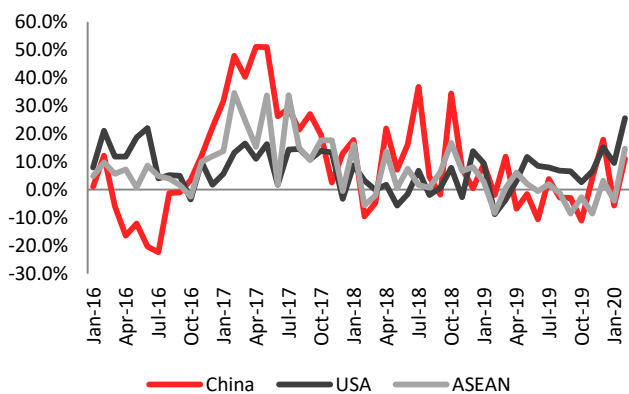
Chart 2: Leading Index vs GDP (YoY%)



Source: CEIC, MIDFR

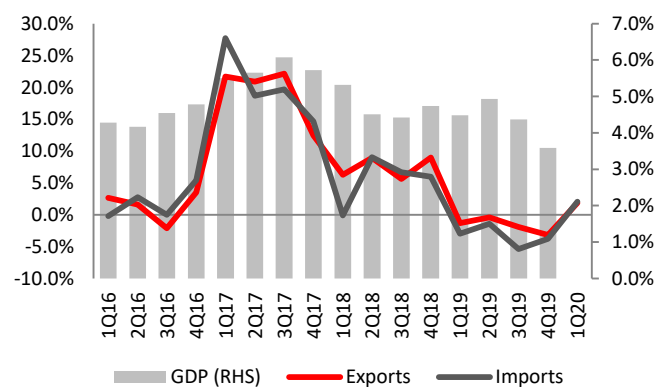
Export growth at 4-month low. Total trade fell by -3.8%yoy in Mar-20 with exports and imports plunged to contraction of -4.7%yoy and -2.7%yoy respectively, the lowest since Nov-19. Trade surplus continued to record above RM12b for four straight months. All three sectors recorded negative growth in exports. Exports of manufactured goods, which hold circa 85% of total export, fell to negative territory of -4.5%yoy compared to strong growth of +13.1%yoy in the previous month. Similarly, exports of agriculture and mining goods declined by -5%yoy and -4.4%yoy respectively. On a monthly basis however total trade expanded by +8.5%mom with both exports and imports grew by +7.6%mom and +9.6%mom respectively.

Chart 3: Exports Growth (YoY%) by Major Destination



Source: CEIC, MIDFR

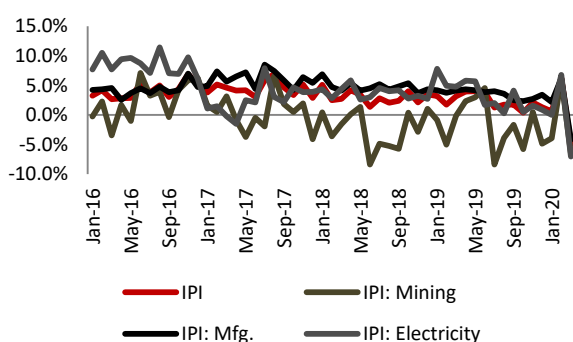
Chart 4: External Trade vs GDP, (YoY%)



Source: CEIC, MIDFR

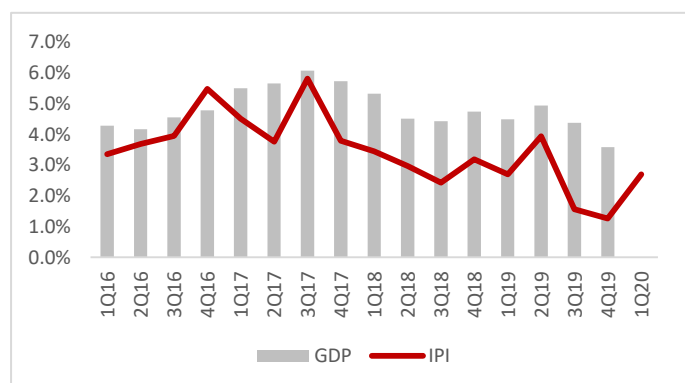
IPI growth slumps to over a decade low. Overall IPI declined by -4.9%yoy in Mar-20, first contraction since Dec-15 and the steepest since Sep-09. The slightly worse than market expectation performance was due to decline in all sub-indexes. The plunge was very much expected due to disruption in overall supply and demand chain domestically and globally due to the Covid-19. In particular, Malaysia begun its Movement Control Order (MCO) in March. Overall, in 1Q20, the IPI managed to record tepid growth albeit at a moderating pace of 0.6%yoy (4Q19: 1.3%yoy). Looking ahead, we expect IPI performance in 2Q20 to contract, owing to the extension of MCO and fluctuating commodity prices.

Chart 5: IPI Performances (YoY%)



Source: CEIC, MIDFR

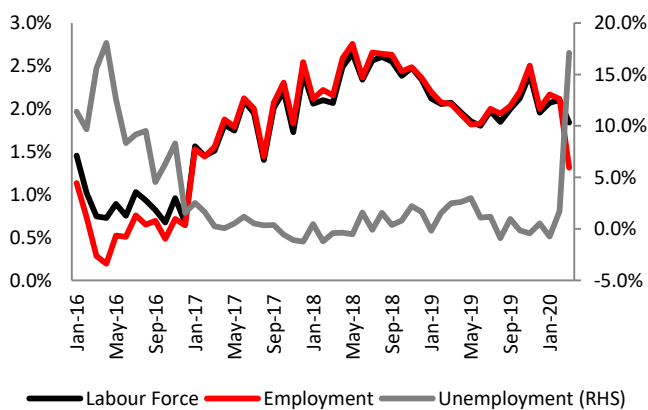
Chart 6: IPI vs GDP (YoY%)



Source: CEIC, MIDFR

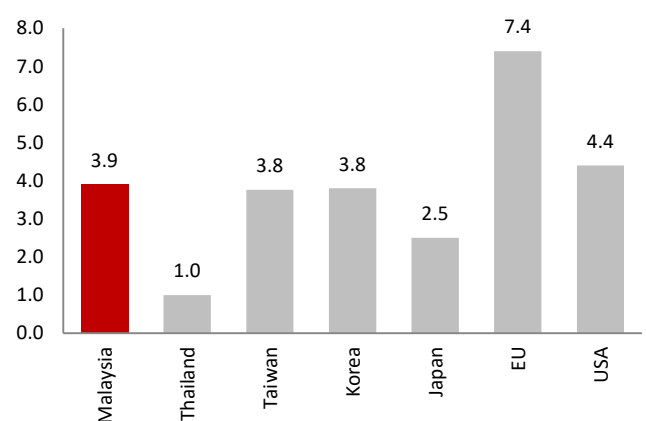
Employment growth plunges to an almost 3-year low. Malaysia's employment growth in Mar-20 decelerated to 1.3%yoy as compared to 2.1%yoy in Feb-20 while the labour force moderated to 1.8%yoy. This was the lowest recorded since Dec-16. Unemployment increased further to 17.1%yoy, resulting in an increase in its jobless rate to 3.9%, after 28 months of being below the 3.5% mark. The unemployment rate was also the highest since June-10. With the movement control order implemented in Mar-20, many businesses were out of operation, resulted in higher unemployment. In spite of the increase, the economy is still considered as under full employment condition. However, moving forward, we foresee unemployment rate to breach the 4% full employment condition in upcoming months. Nevertheless, we opine the job market will slowly recover as the Government starts to open up the economy and the fear surrounding Covid-19 begins to subside.

Chart 7: Labour Market Key Indicators (YoY%)



Source: CEIC, MIDFR

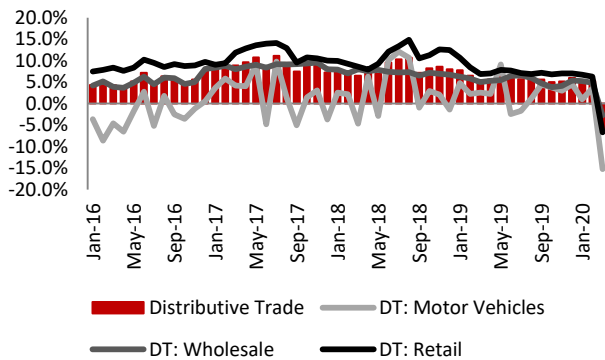
Chart 8: Global Unemployment Rates (%) in Mar-20



Source: CEIC, MIDFR

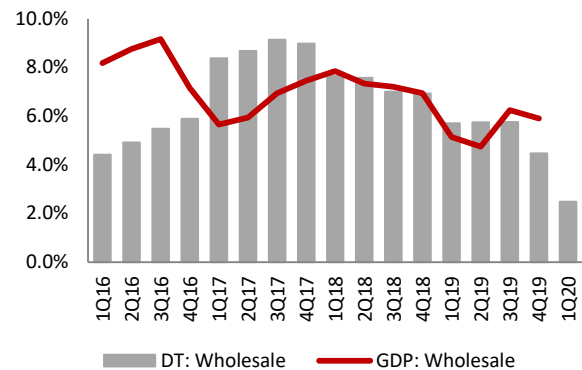
First contraction on record. Malaysia's distributive trade fell -5.7%yoy in Mar-20, first contraction since the start of the data in 2013. The fall was contributed by declining performances in all components: retail sales, wholesale trade and motor vehicles. Wholesale which accounted for the largest share of total distributive trade fell -2.7%yoy, followed by a larger drop in retail sales (-6.6%yoy) and motor vehicles (-15.3%yoy). Such weak performance was primarily due to the two weeks of MCO in Mar-20 which caused Rakyat to stay home and halted business operations. Similarly, on monthly basis, all components registered negative growths. Moving forward, we foresee weaker performance in distributive trade as MCO have been extended until mid-May-20. Motor vehicles sales in particular will continue to be hit harder for a longer period of time as consumers change spending pattern from discretionary to necessity, avoiding purchases of big ticket items.

Chart 9: Distributive Trade Sales, DT (YoY%)



Source: CEIC; MIDFR

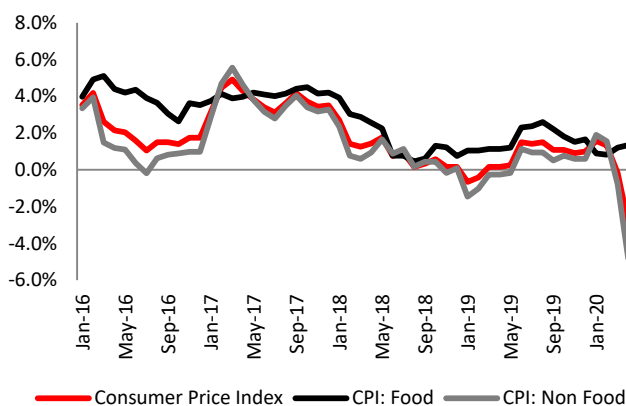
Chart 10: Wholesale Trade: GDP vs DT (YoY%)



Source: CEIC; MIDFR

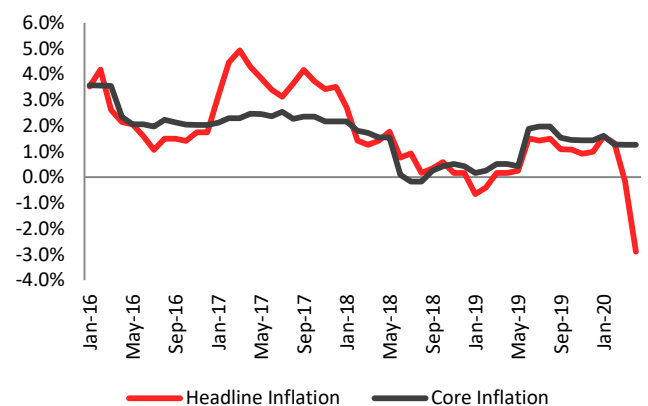
CPI rate at record low. Malaysia's consumer price deflation recorded at -2.9%yoy in Apr-20 compared to -0.2%yoy in Mar-20, far lower than market forecast of -1.5%yoy. The CPI rate reached an all-time low mainly due to declining prices of housing & utilities by -2.2%yoy (Mar-20: 1.6%yoy) and transport by -21.5%yoy (Mar-20: -8.9%yoy). On the other hand, inflation of food & non-alcoholic beverages, the biggest component of CPI remained at 1.2%yoy. Meanwhile, core inflation is maintained at 1.3%yoy. On monthly basis, CPI decreased -2.7%.

Chart 11: CPI: Headline vs Food & Non-food (YoY%)



Source: CEIC, MIDFR

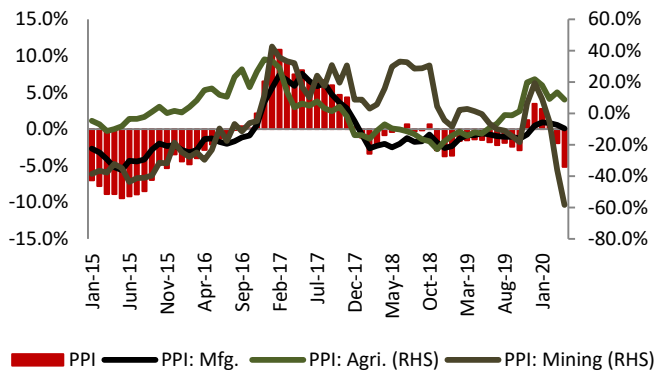
Chart 12: CPI: Headline vs Core (YoY%)



Source: CEIC, MIDFR

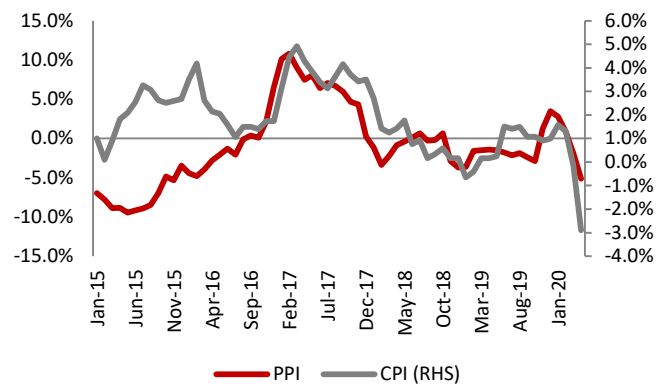
PPI drop further. Malaysia's producer cost declined further to -5.1%yoy in Apr-20, the lowest since Nov-15. The input prices of manufacturing which held around 80% of the total PPI recorded lower growth of +0.1%yoy in Apr-20 from +0.6%yoy in Mar-20. Similarly, cost inflation of agriculture, forestry & fishing moderated to +8.7%yoy (Mar-20: +13.4%yoy) while mining PPI recorded higher producer deflation at -58.3%yoy (Mar-20: -35.8%yoy), contributing to lower overall PPI. In contrast, electricity and gas recorded a price growth of +0.2%yoy in Apr-20 from -0.3%yoy in Mar-20. As a leading indicator of price changes at the consumer level, the latest PPI number suggests that Malaysia's inflationary pressure will remain low throughout 2020.

Chart 13: PPI (YoY%)



Source: CEIC, MIDFR

Chart 14: PPI vs CPI (YoY%)



Source: CEIC, MIDFR

Table 1: Macroeconomic Past Performances (%)

(YoY%) Unless Stated Otherwise	2016	2017	2018	2019	2020f
Real GDP	4.4	5.7	4.7	4.3	(2.1)
Govt. Consumption	1.6	5.5	3.2	2.0	4.7
Private Consumption	5.8	6.8	7.9	7.6	(0.5)
Govt. Investment	(0.8)	0.5	(5.0)	(10.9)	(9.0)
Private Investment	4.4	9.1	4.4	1.6	(6.5)
Exports of goods & services	1.3	8.8	2.2	(1.3)	(10.2)
Imports of goods & services	1.5	10.3	1.3	(2.5)	(8.7)
Net Exports	0.3	(3.9)	14.6	9.7	(22.4)
Agriculture etc.	(3.6)	5.8	0.2	2.0	(1.0)
Mining & Quarrying	2.3	0.5	(2.6)	(2.0)	(3.6)
Manufacturing	4.4	6.1	5.0	3.8	(4.0)
Construction	7.5	6.8	4.3	0.1	(0.7)
Services	5.7	6.2	6.8	6.1	(1.6)
Exports of Goods (f.o.b)	1.2	18.8	7.3	(1.7)	(8.3)
Imports of Goods (c.i.f)	1.9	19.7	5.2	(3.5)	(7.8)
Trade Balance - RMb	88.1	98.5	123.8	137.4	121.7
Consumer Price Index	2.1	3.8	1.0	0.7	(0.5)
Current Account - % of GDP	2.4	2.8	2.1	3.6	2.0
Fiscal Balance - % of GDP	(3.2)	(3.1)	(3.8)	(3.4)	(5.9)
Federal Government Debt - % of GDP	51.9	50.1	51.2	52.5	56.1
Year-End of Unless States Otherwise	2016	2017	2018	2019	2020f
Brent Crude Oil (Avg)	46.0	55.7	70.0	64.3	41.0
Crude Palm Oil (Avg)	2,630	2,690	2,320	2,079	2,300
USD/MYR (Avg)	4.14	4.30	4.00	4.14	4.22
USD/MYR	4.46	4.08	4.10	4.09	4.25
Overnight Policy Rate (%)	3.00	3.00	3.25	3.00	1.75

Source: MIDFR

May 2020 Key Economic Events

May 5 - Malaysia's major trade associations support Govt's decision to reopen economy.

The Federal Government's decision to allow the majority of businesses to resume operations under the conditional movement control order (MCO) has the support of 59 Malaysian chambers of commerce and industry associations. The presidents and chairmen representing the groups said that it was critical for business operations to resume and urged all state governments to collectively restart the economy due to the close interlinking of supply chains among states.

May 12 - Trump 'not interested' in reopening U.S.-China trade deal after report of Beijing discontent.

Trump, who himself has considered abandoning the pact signed in January, told a White House press briefing he wanted to see if Beijing lived up to the deal to massively increase purchases of U.S. goods. "No, not at all. Not even a little bit," Trump said when asked if he would entertain the idea of reworking Phase 1. "I'm not interested. We signed a deal. I had heard that too, they'd like to reopen the trade talk, to make it a better deal for them."

May 14 - Unemployment rate may go up to 5.5% this year, says Chief Statistician.

The country is projected to record an unemployment rate of between 3.5 percent and 5.5 percent this year due to the impact from COVID-19, the Department of Statistics Malaysia (DOSM) said. Chief statistician Datuk Seri Dr Mohd Uzir Mahidin said the Government's move to partially reopen the economy during the Movement Control Order period and the Prihatin Rakyat economic stimulus package would, however, assist workers and households in facing the critical situation caused by the coronavirus outbreak.

May 21 - Poor countries need more debt relief during pandemic, Germany's Merkel says.

Rich countries should help the world's poorest survive the coronavirus pandemic by keeping up development aid and mulling relief measures that go beyond a moratorium on debt payments, German Chancellor Angela Merkel said on Wednesday. Major international creditors agreed last month to relieve the poorest countries of debt payments this year to help them deal with the coronavirus crisis that has sparked the steepest downturn in the global economy since the 1930s.

May 8 - CMCO implemented after taking into account health and economy issues.

The need to balance health and the economy was the consideration of the Government before relaxing several aspects of the Movement Control Order (MCO) and implemented as the Conditional MCO (CMCO). Senior Minister (Security Cluster) Datuk Seri Ismail Sabri Yaakob said that if one looked at the economic situation during phase one of the MCO, the loss to the country was huge, at RM2.4 billion a day. "It (loss) is already RM24 billion in 10 days ... now it's 40 days (MCO), so the loss is huge.

May 13 - Govt to launch short-term economic recovery plan – Zafrul.

The Government will be implementing a short- and medium-term economic recovery plan to rejuvenate the country's economic growth soon, said Finance Minister Tengku Datuk Seri Zafrul Abdul Aziz. The plan will highlight health guidelines and safe operating procedures in the new norm, capacity building, hiring of workers, job creation as well as boosting consumer spending, especially through digital channels.

May 18 - Oil jumps to two-month high on easing lockdowns, positive vaccine results.

Oil prices on Monday jumped to their highest in over two months on positive early results on a potential coronavirus vaccine, optimism about a resumption in economic activity and signs producers were following through on planned output reductions. Brent LCOc1 futures for July delivery rose \$2.31, or 7.1%, to \$34.81 a barrel, while U.S. West Texas Intermediate (WTI) crude CLc1 rose \$2.39, or 8.1%, to \$31.82.

May 22 - China drops mention of GDP goal as parliament opens, COVID-19 slams economy.

China dropped its annual growth target for the first time on Friday (May 22) and pledged more government spending as the COVID-19 pandemic hammers the world's second-biggest economy, setting a sombre tone to this year's meeting of parliament. The omission from Premier Li Keqiang's work report marks the first time China has not set a target for gross domestic product (GDP) since the government began publishing such goals in 1990.

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