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ECONOMIC REVIEW | 1Q2020 National Account

Malaysian Economy Managed to Record Expansion in 1Q20 but More Pain Ahead

- *The weakest GDP growth since 3Q09 but still beat market expectations. As we had expected, Malaysia's GDP managed to escape contraction in 1Q20 and registered growth albeit at a significantly moderated pace of +0.7%yoy. The figure came in a shade below MIDF's forecast of 0.8%yoy but it was better than market expectations of a contraction. The expansionary mode was supported by domestic demand which maintained growth above 4%yoy. On the other hand, external trade activities became a key drag to the growth.*
- *Tepid moderation in domestic demand. Domestic demand expanded by 4.3%yoy in 1Q20, marginally lower than 4.8%yoy in the previous quarter buoyed by both private and public consumption. Private consumption remain the major driver of the economy, expanding by 6.7%yoy, the lowest in 2 years while those of government surged to 1-year high of 5%yoy. However, both private and public investment fell -2.3%yoy and -11.3%yoy respectively as Covid-19 outbreak and the resultant MCO affected business sentiment and shifted government priorities.*
- *Continuous disruption to external sector. Real exports and imports shrank by -7.1%yoy and -2.5%yoy respectively in 1Q20. Exports in particular fell harder mainly due to the services side (-23.1%yoy vs -2.2%yoy in 4Q19), in line with lower tourist arrivals. Airport passenger movements in 1Q20 plunged by -26.8% compared to 6.7%yoy growth in the preceding quarter. On the other hand, Covid-19 remains a downside risk to global trade as lockdowns and movement controls around the world cause reduction in economic activities thus lower demand for exports.*
- *We forecast -2.1% contraction for the economy in 2020. Based on the current developments and indicators, we revise our expectation for the Malaysian economy this year. We now expect the GDP to contract by -2.1%yoy in 2020, a downward revision from 1%yoy growth initially expected.*

The weakest GDP growth since 3Q09 but still beat market expectations. As we had expected, Malaysia's GDP managed to escape contraction in 1Q20 and registered growth albeit at a significantly moderated pace of +0.7%yoy. The figure came in a shade below MIDF's forecast of 0.8%yoy but it was better than market expectations of a contraction. The expansionary mode was supported by domestic demand which maintained growth above 4%yoy. On the other hand, external trade activities became a key drag to the growth. By sector, services and manufacturing continued to back the economy with positive growths while the rest contributed negatively. On seasonally adjusted quarterly basis however, the economy fell -2%qoq, suggesting that recession is on the road. Looking ahead into 2Q20, the economy is anticipated to contract on annual basis with the extension of MCO in Malaysia and imposition of lockdowns in other key economies globally.

Tepid moderation in domestic demand. Domestic demand expanded by 4.3%yoy in 1Q20, marginally lower than 4.8%yoy in the previous quarter buoyed by both private and public consumption. Private consumption remain the major driver of the economy, expanding by 6.7%yoy, the lowest in 2 years while those of government surged to 1-year high of 5%yoy. However, both private and public investment fell -2.3%yoy and -11.3%yoy respectively as Covid-19 outbreak and the resultant MCO affected business sentiment and shifted government priorities. Moving forward, we foresee domestic demand to continue trending downward especially with the multiple extension of the MCO in 2Q20.

Continuous disruption to external sector. Real exports and imports shrank by -7.1%yoy and -2.5%yoy respectively in 1Q20. Exports in particular fell harder mainly due to the services side (-23.1%yoy vs -2.2%yoy in 4Q19), in line with lower tourist arrivals. Airport passenger movements in 1Q20 plunged by -26.8% compared to 6.7%yoy growth in the preceding quarter. On the other hand, Covid-19 remains a downside risk to global trade as lockdowns and movement controls around the world cause reduction in economic activities thus lower demand for exports. Besides that, US-China trade war and other protectionism practices remain in the air along with volatility in commodity prices.

Table 1: Summary of GDP by Expenditure Approach

	Quarterly Basis				Yearly Basis			
	2Q19	3Q19	4Q19	1Q20	2Q19	3Q19	4Q19	1Q20
GDP	2.2	3.2	2.7	(7.0)	4.8	4.4	3.6	0.7
Private Consumption	2.3	7.3	(1.6)	(1.1)	7.8	7.0	8.1	6.7
Govt. Consumption	2.2	2.8	34.2	(25.6)	0.3	1.0	1.2	5.0
Private Investment	15.2	(9.3)	(20.0)	16.9	1.5	0.4	4.3	(2.3)
Govt. Investment	(11.3)	11.9	52.0	(41.2)	(7.8)	(14.6)	(8.0)	(11.3)
Domestic Demand	4.2	3.5	3.4	(6.5)	3.2	3.9	4.8	4.3
Real Exports	0.1	1.6	1.2	(9.6)	0.5	(2.1)	(3.4)	(7.1)
Real Imports	2.9	1.8	2.2	(9.0)	(2.3)	(3.5)	(2.4)	(2.5)
Net Exports	(18.5)	(0.5)	(7.8)	(15.8)	32.9	12.0	(12.4)	(37.0)

Note: QoQ is non-seasonally adjusted
Source: CEIC, MIDFR

MCO and lower tourist arrivals affect services sector. Services sector which accounts approximately 58% of total GDP expanded by 3.1%yoy in 1Q20. However, this was a sharp slowdown from the solid 6.2%yoy in 4Q19. This was mainly due to lower consumption activities resulting from lower tourist arrivals and consumers staying home. The impact was reflected in the major sub-sectors such as wholesale trade and retail sales which recorded significant moderations. In addition, motor vehicles fell -2.9%yoy as uncertainties over Covid-19 put purchase decisions of big ticket items on hold. Nevertheless, low inflationary pressure, OPR cuts and some measures announced in government stimulus package such as loan moratorium, EPF withdrawal and cash assistances remain supportive to consumption.

Export-oriented sectors affected. In line with external trade performance, manufacturing sector growth moderated further to 1.5%yoy. Mining sector remain in negative territory but showed some improvement driven by LNG. PFLNG2 is expected to be operational in 2H20, an impetus to the mining sector and expected to cushion some of the impact resulting from Covid-19. On the other hand, agriculture sector contracted by -8.7%yoy largely pushed down by palm oil which fell -22.0%yoy, partially attributed to disruption in global palm oil supply chain led by the pandemic along with India-Malaysia cold relationship.

Table 2: Summary of GDP by Supply-Side Approach

	QoQ%			YoY%		
	3Q19	4Q19	1Q20	3Q19	4Q19	1Q20
GDP	**3.2**	**2.7**	**(7.0)**	**4.4**	**3.6**	**0.7**
Agriculture, Forestry & Fishing	**15.4**	**(12.3)**	**(8.4)**	**4.0**	**(5.7)**	**(8.7)**
Rubber	45.1	(7.8)	(7.4)	7.2	1.9	(18.2)
Oil Palm	18.2	(12.3)	(19.5)	8.4	(16.9)	(22.0)
Livestock	10.4	0.6	(6.4)	6.9	7.5	8.5
Other Agriculture	8.8	(15.5)	8.3	3.9	6.1	6.3
Forestry & Logging	5.3	(20.3)	(13.6)	(9.5)	(19.0)	(23.5)
Marine Fishing	36.0	(25.8)	0.7	(1.4)	(3.0)	(10.6)
Aquaculture	16.2	(1.3)	(24.7)	(8.3)	13.4	(0.5)
Mining & Quarrying	**(11.1)**	**13.7**	**(4.2)**	**(4.1)**	**(3.4)**	**(2.0)**
Crude Oil	(14.6)	13.0	(1.0)	(12.5)	(6.3)	(5.2)
Natural Gas	(10.2)	15.4	(5.8)	2.4	(2.6)	0.0
Others	0.2	7.6	(9.8)	3.2	6.8	2.7
Manufacturing	**1.2**	**2.3**	**(6.1)**	**3.6**	**3.0**	**1.5**
Vegetable & Animal Oils & Fats	(6.4)	20.0	(25.7)	(8.4)	(5.8)	(16.4)
Food Procession	8.9	(8.8)	(5.9)	10.8	8.6	8.3
Beverages	(4.8)	(1.9)	(16.8)	3.2	3.1	(0.6)
Tobbaco Products	(13.1)	(20.5)	(4.7)	4.6	5.1	(3.4)
Textile & Wearing Apparel	(6.4)	0.9	(7.0)	5.5	5.9	3.0
Leather Products	(24.4)	(18.8)	37.7	5.7	4.9	3.0
Wood Products	7.9	(3.0)	(1.8)	6.0	4.6	2.5
Paper Products	(4.9)	(15.6)	13.4	4.8	4.6	(0.9)
Printing	(3.6)	23.0	2.9	5.3	2.1	1.9
Refined Petroleum Products	(2.1)	6.7	(3.1)	3.1	2.3	3.7
Chemicals & Chemical Products	9.6	3.8	(8.8)	2.2	2.0	2.3
Rubber Products	12.7	1.9	(22.8)	7.1	6.3	20.6
Plastic Products	32.8	(18.2)	(7.0)	0.6	2.3	(0.2)
Non-Metallic Mineral Products	(0.3)	(9.9)	(8.8)	4.3	4.2	(0.4)
Basic Metals	(0.2)	(4.9)	(16.8)	3.8	4.8	1.0
Fabricated Metal Products	(9.2)	(6.7)	4.7	3.9	2.9	(0.3)
Machinery & Equipment	1.8	(9.4)	48.9	5.5	4.5	(0.4)
Computers & Peripheral Equipment	(2.3)	3.8	(5.2)	11.8	(6.0)	(6.2)
Electrical Equipment	(27.4)	28.3	(8.3)	0.0	3.9	(0.9)
Electronic Compo & Boards, Com Equip and Elect	2.9	5.0	4.6	2.3	2.8	3.8
Medical, Precision & Optical, Watches & Clocks	0.1	10.1	(36.7)	2.7	3.2	0.5

	QoQ%			YoY%		
	3Q19	4Q19	1Q20	3Q19	4Q19	1Q20
Motor Vehicles & Transport Equipment	(6.4)	21.1	(28.7)	7.4	4.3	(1.8)
Furniture	(9.0)	(3.4)	13.2	6.9	9.0	0.9
Other Mfg and Repair & Installation and Equipment	55.3	(13.1)	(26.2)	3.1	6.7	0.6
Construction	**5.6**	**(2.3)**	**(7.4)**	**(1.4)**	**1.0**	**(7.9)**
Residential	9.0	4.5	(10.8)	(3.1)	3.1	(8.1)
Non-Residential	1.5	17.1	(21.6)	(11.9)	(10.0)	(11.7)
Civil Engineering	11.3	(15.5)	3.5	5.2	6.7	(5.1)
Special Trades	(4.8)	(3.2)	(4.9)	0.0	4.6	(9.0)
Services	**4.3**	**4.1**	**(7.3)**	**5.8**	**6.2**	**3.1**
Electricity & Gas	0.6	(1.2)	1.6	5.0	5.4	4.9
Water, Sewerage and Waste Management	3.1	3.0	0.1	6.3	6.2	5.6
Wholesale Trade	10.5	(0.1)	(14.4)	6.2	5.9	3.4
Retail Trade	4.2	10.2	(10.6)	8.0	7.3	2.1
Motor Vehicles	25.1	(6.2)	(19.1)	2.5	4.4	(2.9)
Food & Beverage	2.1	10.3	(10.3)	10.2	10.8	3.1
Accommodation	6.6	1.9	(15.5)	6.6	6.9	(4.3)
Transportation & Storage	2.4	4.7	(11.0)	6.8	6.8	(2.7)
ICT	1.6	(1.8)	3.5	6.1	6.8	6.7
Finance	2.7	3.4	(1.9)	4.3	5.9	4.2
Insurance	2.9	7.2	3.4	3.9	3.1	6.8
Real Estate	1.9	0.7	(4.4)	4.6	5.1	0.1
Business Services	(1.6)	7.6	(5.1)	9.2	9.4	4.9
Private Health	(0.9)	0.4	(4.2)	6.0	5.8	2.0
Private Education	7.2	(0.2)	(6.3)	5.5	5.9	4.2
Other Services	2.1	1.3	(2.8)	5.5	5.8	0.7
Govt. Services	4.5	9.8	(10.3)	3.1	3.6	4.3
Import Duties	**1.7**	**(3.1)**	**(17.5)**	**34.7**	**(3.3)**	**(16.0)**

Note: QoQ is non-seasonally adjusted
Source: CEIC, MIDFR

Downward trend, globally. Most of the economies contracted or grew but at a significantly slower pace as Covid-19 outbreak disturbs global economic and financial structures. The US recorded tepid economic growth of 0.5%yoy in 1Q20 while China's plunged -6.8%yoy. The severity of damages caused by Covid-19 was more evident in China for 1Q20 as it first started in the country and intensified within the quarter before subsiding in 2Q20. Similarly, downward trend was observed in all key ASEAN countries with Singapore and Philippines slipping into negative territory while Indonesia and Vietnam moderated sharply. Looking ahead, economic performance in 2Q20 will see a greater negative impact as more countries imposed lockdowns or restrict economic activities. In addition, both consumer and business sentiment will remain weak for a substantial period of time due to huge uncertainty over the duration of Covid-19, further weighing on economic growth. Deteriorating travel sentiment will be a blow to ASEAN countries in particular as tourism plays a vital role in the economy.

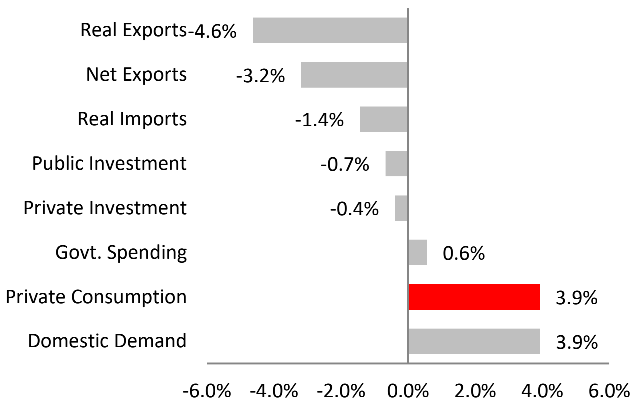
Table 3: GDP Growth by Selected Economies (YoY%)

	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Malaysia	4.7	4.5	4.9	4.4	3.6	0.7
Philippines	6.4	5.7	5.4	6.3	6.7	-0.2
Indonesia	5.2	5.1	5.1	5.0	5.0	3.0
Thailand	3.8	2.9	2.4	2.6	1.6	n.a.
Vietnam	7.3	6.8	6.7	7.5	7.0	3.8
Singapore	1.3	1.0	0.2	0.7	1.0	-2.2
Australia	2.2	1.9	1.4	1.7	2.1	n.a.
India	5.6	5.7	5.6	5.1	4.7	n.a.
Japan	-0.3	0.8	0.9	1.7	-0.7	n.a.
China	6.5	6.4	6.2	6.0	6.0	-6.8
EU	1.7	1.7	1.3	1.7	1.2	n.a.
USA	2.4	2.7	2.3	1.9	2.2	0.5

n.a. = not yet available
Source: CEIC, MIDFR

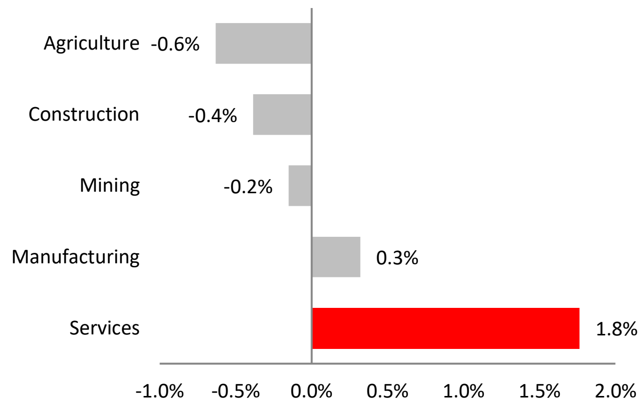
We forecast -2.1% contraction for the economy in 2020. Based on the current developments and indicators, we revise our expectation for the Malaysian economy this year. We now expect the GDP to contract by -2.1%yoy in 2020, a downward revision from 1%yoy growth initially expected. Private consumption, the biggest driver of the economy on top of private investment are foreseen to be significantly affected following extension of MCO and further influenced by deteriorating sentiments while government-side will see better performances as reflected in both their consumption and investment. Stimulus packages and OPR cuts will cushion some of the adverse impacts. In addition, low inflationary pressure will continue to be supportive to the growth, particularly when the sentiments improve.

Chart 1: Contribution by Expenditure Components (%)



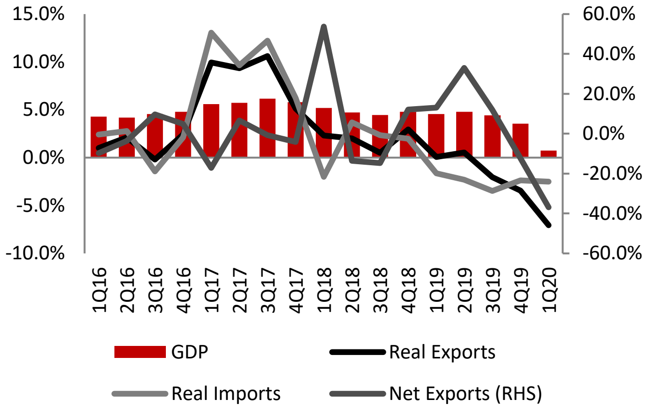
Source: CEIC, MIDFR

Chart 2: Contribution by Supply-Side Components (%)



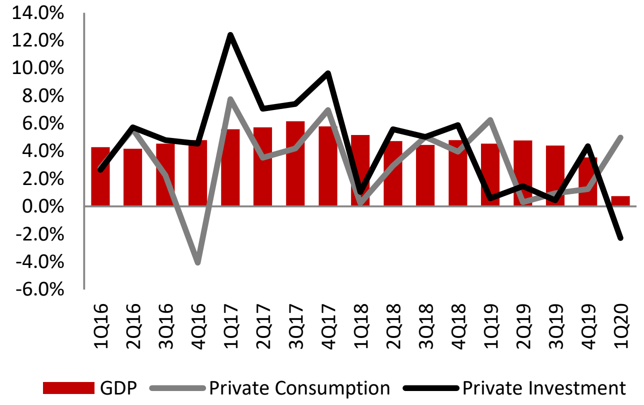
Source: CEIC, MIDFR

Chart 3: GDP vs External Trade (YoY%)



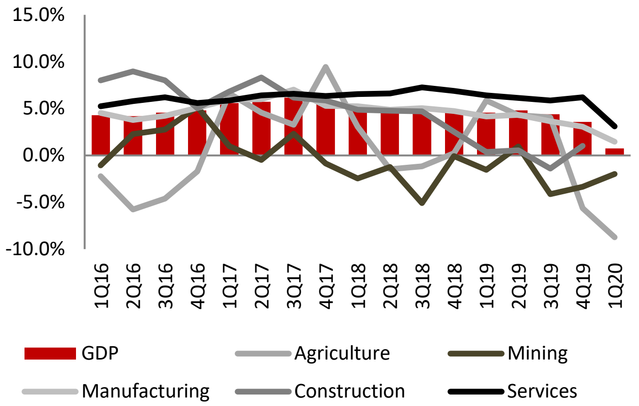
Source: CEIC, MIDFR

Chart 4: GDP vs Private Sector (YoY%)



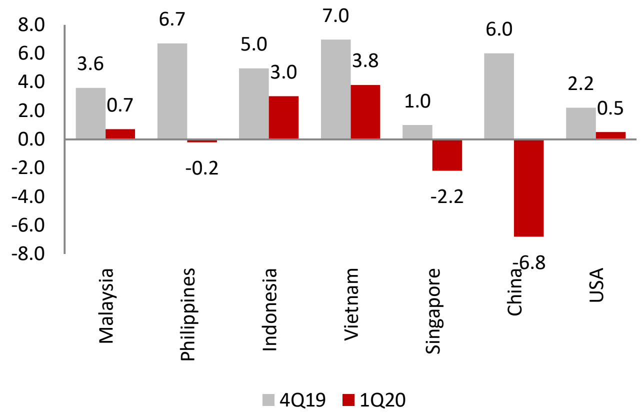
Source: CEIC, MIDFR

Chart 5: GDP by Supply-Side (YoY%)



Source: CEIC, MIDFR

Chart 6: GDP Growth by Selected Country (YoY%)



Source: CEIC, MIDFR

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