

Global Markets Research

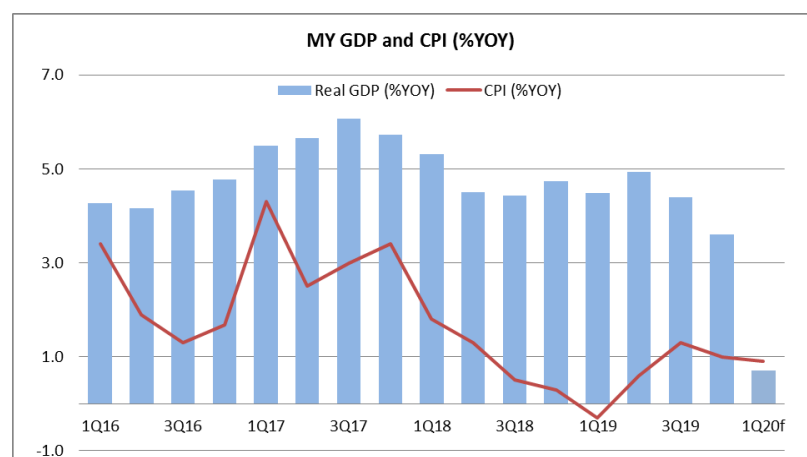
Economics - Malaysia

### At the brink of a recession

The Malaysian economy managed to register a small positive gain of 0.7% YOY in 1Q, a tad below our projection for a 1.2% growth but way better than consensus estimate for a 1.0% contraction. The sharp deceleration in growth was due to softer growth in domestic demand as well as a bigger drag from net exports, no thanks to the Covid-19 pandemic and Movement Control Order (MCO) in the second half of March. The macro landscape has become increasingly challenging amid protracted uncertainties surrounding the Covid-19 pandemic. Recent plunge in global crude oil prices as well as demand and supply disruption globally are expected to exacerbate the downside risks to domestic growth prospects, which are expected to hinge heavily on the containment of the pandemic, effectiveness of the recently introduced fiscal and monetary stimulus and how the world rides out of a global recession. Pessimism among the local business communities and consumers are expected to dampen investment and consumption activities, though some reliefs and supports are expected out of the PRIHATIN stimulus package. Against such an uncertain and unprecedented backdrop which requires reforms and new normal from all fronts, we believe Malaysia would not be able to spare itself from slipping into a recession this year. We are projecting a 4.3% YOY contraction in the Malaysian economy for 2020, expecting the sharp contraction in economic activities amid the MCO/ CMCO in 2Q to only recover gradually towards the end of the year. While there is still policy space to further support economic growth, we are of the view that BNM may opt to pause to assess the effectiveness of monetary and fiscal easing measures introduced todate, barring any escalation of downside growth risks.

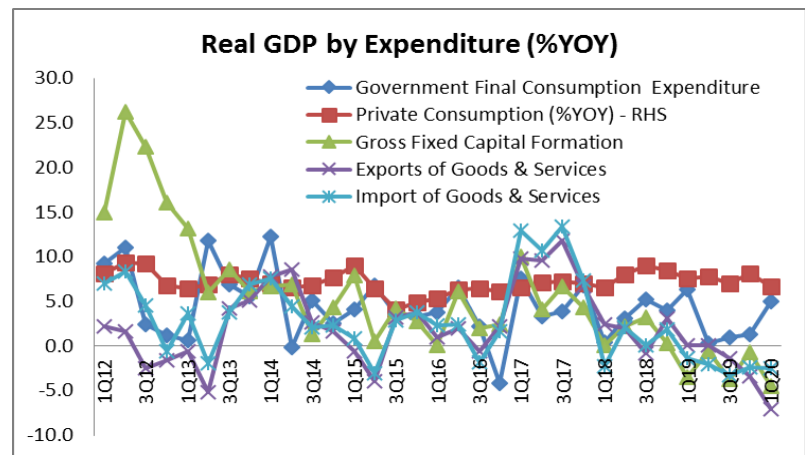
1Q GDP grew at its weakest pace since GFC, by a mere 0.7% YOY dampened by softer domestic demand and a bigger contraction in net exports

**The Malaysian economy lost steam for the 3<sup>rd</sup> straight quarter**, not surprisingly given how the world and the domestic economy had succumbed to the Covid-19 pandemic, a widely recognized health and socioeconomic crisis globally. **Growth decelerated sharply to a mere 0.7% YOY in 1Q20 (4Q19: +3.6% YOY)**, a tad below our forecast of +1.2% but beating consensus estimate for a 1.0% contraction. Understandably, **domestic demand expanded at a much weaker pace of 3.7% YOY in 1Q20 (4Q: +4.8% YOY)** amid softer private consumption and investment while **net exports also exerted a bigger drag (-37.0% vs -12.4% YOY)** in the wake of fast dwindling global demand. **On a seasonally adjusted basis, 1Q GDP contracted by 2.0% QOQ (4Q: +0.6%).**



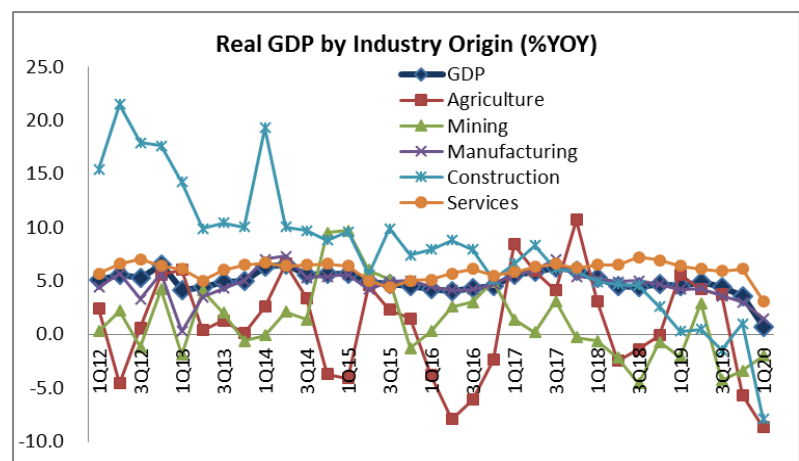
*Softer private consumption and extended fall in investment dampened overall domestic demand*

On the demand side, domestic demand slowed considerably as the pandemic curtailed consumer spending and business activities especially towards the later part of the quarter, where the MCO led to an almost complete halt on non-essential services. **The expansion in domestic demand, albeit softer at 3.7% YOY, was mainly underpinned by continuous growth in private consumption (+6.7% vs +8.1% YOY),** as consumers front-loaded purchases of consumer staples such as food and beverages as well as communication. This helped cushion the impact from a softer labour market and income. **Government spending, the only segment that registered bigger gain (+5.0% vs +1.3% YOY)** provided further support to overall growth. **Gross fixed capital formation extended its decline for the 5<sup>th</sup> consecutive quarter,** falling by 4.6% YOY in 1Q (4Q: -0.7% YOY), dragged by lower investments from both the private (-2.3%) and public (-11.3%) sectors, reflecting bleak growth outlook and pessimism among businesses.



*Services and manufacturing provided the much needed support, albeit growing at half the pace*

By economic sectors, the two key sectors, **services and manufacturing**, that contributed 58% and 22% to overall GDP respectively, **continued to see positive, albeit slower growth.** The services sector expanded 3.1% YOY in 1Q20, half the growth pace in 4Q19, supported by the information & communication, wholesale & retail, and finance & insurance subsectors. Coincidentally, growth in the manufacturing sector also halved to 1.5% YOY in 1Q20, supported by the E&E, optical equipment, petroleum, chemical, rubber & plastic products. Meanwhile, **mining and agricultural sectors continued to contract**, by 2.0% and 8.7% YOY respectively (4Q19: -3.4% and -5.7% YOY), as a result of continued declines in the production of crude oil due to supply disruption and palm oil. Construction GDP took a turn and fell 7.9% YOY in 1Q20 (4Q19: +1.0%), hit by slower activities in civil engineering, residential and non-residential buildings.

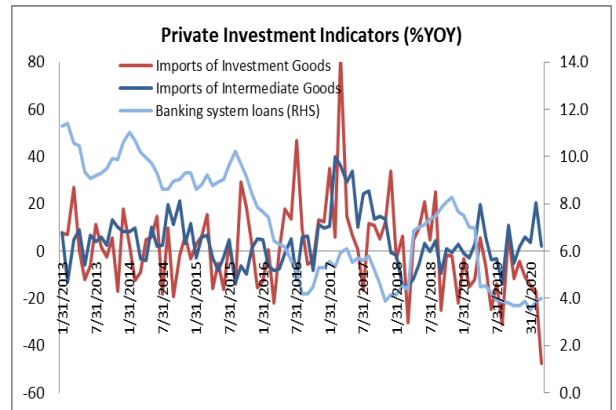
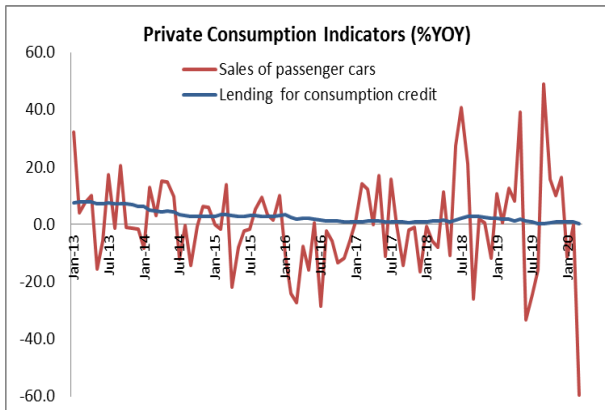
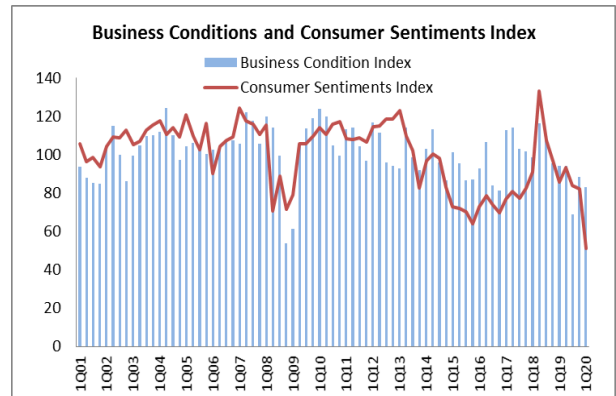
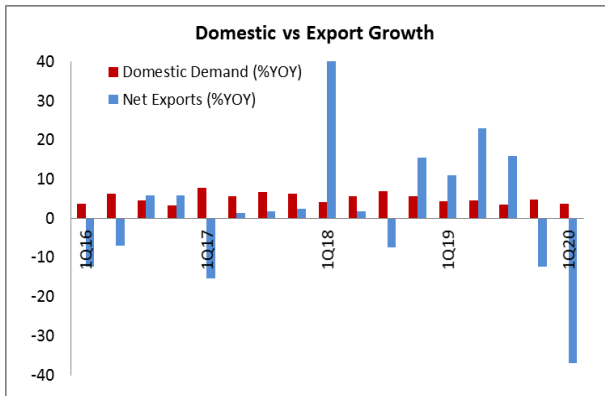
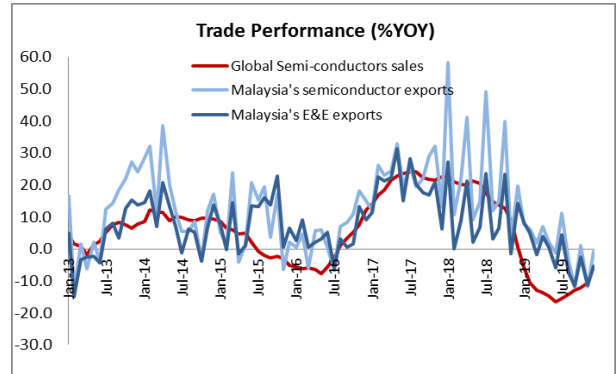
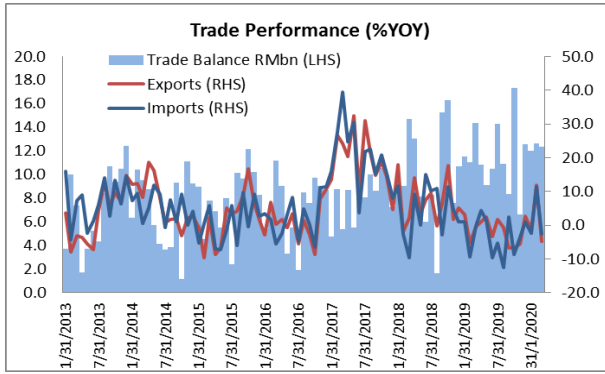


*Current account surplus widened again to RM9.5bn on smaller deficit in primary income account*

In a separate release, **Malaysia's current account surplus widened again for the first time in a year, to RM9.5bn in 1Q20 (4Q19: RM7.5bn), underpinned by continuous albeit smaller surplus in the goods account (RM28.9bn vs RM32.3bn) and smaller deficit in the primary income account (-RM6.0bn) as foreign companies operating in Malaysia were earning less. This offset a bigger deficit in the services account (RM8.0bn vs RM4.0bn) as the outbreak of the Covid-19 virus dented tourism receipts, which came in at its lowest since 3Q03 (during SARS epidemic) at RM2.1bn. On a separate note, the financial account continued to see net outflow for the 7<sup>th</sup> consecutive quarter.** Outflows jumped to RM13.3bn in 1Q20 (4Q19: RM0.1bn outflow) on the back of a **hefty outflows seen in portfolio investment** amounted to RM41.3bn during the quarter under review (4Q19: -RM1.3bn) amid redemption and selling by foreign investors during the reporting period.

*Tweaking full year 2020 growth forecast to -4.3%, first recession since the Global Financial Crisis*

**The macro landscape has become increasingly challenging** amid protracted uncertainties surrounding the Covid-19 pandemic. Recent plunge in global crude oil prices as well as demand and supply disruption globally are expected to exacerbate the downside risks to domestic growth prospects, which are expected to hinge heavily on the containment of the pandemic, effectiveness of the recently introduced fiscal and monetary stimulus and how the world rides out of a global recession. Pessimism among the local business communities and consumers are expected to dampen investment and consumption activities, though some reliefs and supports are expected out of the PRIHATIN stimulus package. Against such an uncertain and unprecedented backdrop which requires reforms and new normal from all fronts, we believe Malaysia would not be able to spare itself from slipping into a recession this year. **We are projecting a 4.3% YOY contraction in the Malaysian economy for 2020**, expecting the sharp contraction in economic activities amid the MCO/ CMCO in 2Q to recover gradually towards the end of the year. **While there is still policy space to further support economic growth, we are of the view that BNM may opt to pause** to assess the effectiveness of monetary and fiscal easing measures kickstarted todate, barring any escalation of downside growth risks.



**Hong Leong Bank Berhad**

Fixed Income &amp; Economic Research, Global Markets

Level 8, Hong Leong Tower

6, Jalan Damansara

Bukit Damansara

50490 Kuala Lumpur

Tel: 603-2081 1221

Fax: 603-2081 8936

Email: HLMarkets@hlbb.hongleong.com.my

**DISCLAIMER**

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad ("HLBB") to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group ("HLB Group"). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter. HLBB may, to the extent permitted by law, buy, sell or hold significantly long or short positions; act as investment and/or commercial bankers; be represented on the board of the issuers; and/or engage in 'market making' of securities mentioned herein. The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favorable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.