

## 2Q GDP shattered by Covid-19 pandemic

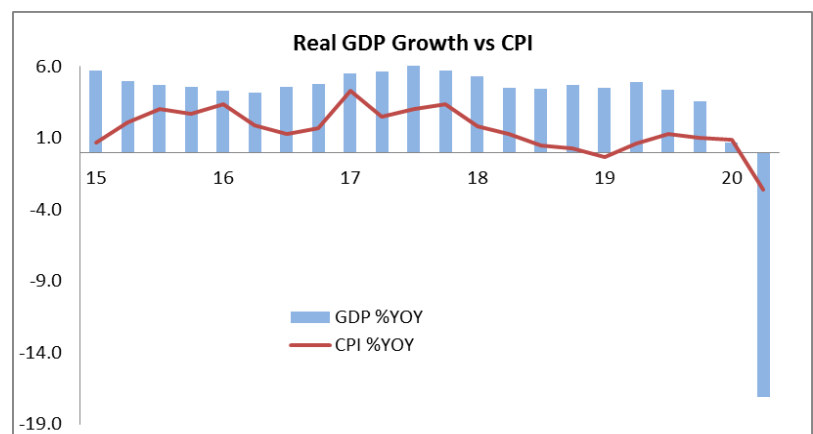
The Malaysian economy slipped into a technical recession following the 17.1% YOY and 16.5% QOQ contraction in 2Q GDP. This came in worse than expected as both domestic and external sectors were badly beaten down by the Covid-19 pandemic. Today's print suggests the economy has contracted 8.2% YOY in the first half 2020, and would require a marked improvement in the second half of the year in order to achieve BNM's latest revised growth forecast of -3.5% to -5.5%. We are maintaining our full year 2020 GDP forecast at -4.9% for now, awaiting clearer signs of the strength of the recovery momentum in the third quarter. Labour market health and wavering consumer demand are among the key concerns. Given uncertainties on the recovery outlook, we continue to see the case of another OPR cut by BNM in September.

2Q GDP plunged 17.1% YOY and 16.5% QOQ, pushing Malaysia into a technical recession for the first time since 2009

Full year growth forecasts lowered to -3.5% to -5.5%

**The Malaysian economy entered a technical recession, following the 17.1% YOY and 16.5% QOQ contraction in 2Q GDP** (1Q: +0.7% YOY and -2.0% QOQ). Today's GDP reading is the worst as far as record showed, and came in weaker than market as well as our expectations for a 10.7% and 12.3% YOY decline respectively. **Broad-based double-digit contractions** were evident across, save for the minor gains in agriculture sector (on the supply side) and government spending (on the demand side).

In conjunction with today's release of 2Q GDP, **BNM has revised its full year 2020 growth projection to -3.5% to -5.5%** (prior: -2.0% to +0.5%) while expecting full year inflation to be negative despite maintaining its projection of -1.5% to +0.5%. **This came in largely in line with our projection of -4.9% for GDP growth and -0.7% for CPI.** Extrapolating from BNM's latest forecast range, **growth is expected to average between -2.8% and +1.3% in the second half of the year**, a sharp improvement from the 8.2% YOY decline in 1H2020.



Newly introduced monthly GDP estimate showed much smaller contraction in June vs April

**Domestic demand contracted (-18.7% vs +3.7% YOY) for the first time since 2Q09 while net exports continued to see hefty falls (-38.6% vs -37.0% YOY)**, taking the brunt of Movement Control Order (MCO) and Conditional MCO locally as well as lockdowns globally that led to an abrupt and almost complete halt in economic activities during the height of the pandemic during the quarter. Even though it is comforting to know that most sectors have since bounced off the April's trough,

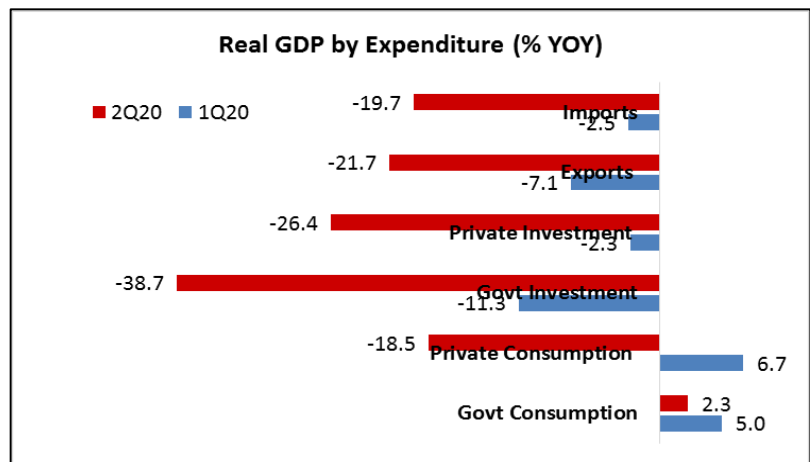
activities have remained weak. **Based on a latest improvisation by Department of Statistics of Malaysia on monthly GDP estimate, the data showed contractions have narrowed from April's -28.6% to May's -19.5% and further to a small contraction of 3.2% YOY in June.**

*Double whammy from domestic demand and exports*

**On the demand side, only government spending reported a minor 2.3% YOY gain in 2Q (1Q: +5.0%),** while all other demand components witnessed sharp double-digit contractions. The 18.7% YOY decline in **overall domestic demand exerted the biggest drag (-17.7ppt)** on overall growth in 2Q, followed by the negative drag from net exports (-2.7ppt), only to be saved by a positive contribution from change in stocks.

Contrary to the norm where **the private sector** has been a key growth driver, it **made an abrupt U-turn to be the biggest dampener on 2Q economic performance.** Private sector activities deep-dived 20.5% YOY in 2Q (1Q: +4.7%), dragged by steep falls in both consumption (-18.5% vs +6.7% YOY) and investment (-26.4% vs -2.3% YOY).

Comparatively, **the pullback in the public sector was more contained,** falling at almost half the pace of the private sector, by 10.6% YOY in 2Q (1Q: -0.2% YOY) as a result of slower growth in government spending (+2.3% vs +5.0% YOY) and bigger fall in government investment (-38.7% vs -11.3% YOY). **Net exports posed as an additional drag** as exports fell at a faster pace (-21.7% vs -7.1% YOY) vs imports (-19.7% vs -2.5%).

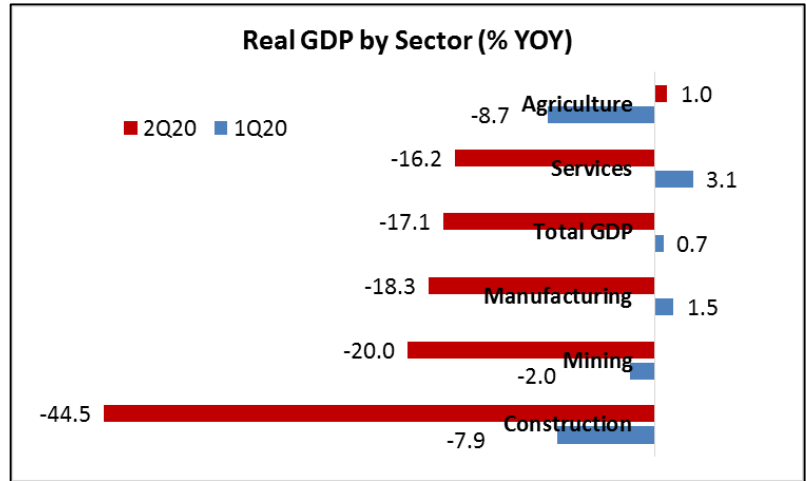


*All sectors reported sharp double-digit declines except for the small positive gain in agriculture*

**By economic sectors, all sectors reported steep deterioration except for agriculture** which managed a 1.0% YOY increase, a turnaround from 1Q's 8.7% YOY decline, due to higher oil palm production boosted by a recovery in FFB yield. **The two biggest sectors, services and manufacturing, slashed away 9.2ppt and 4.2ppt from 2Q's growth respectively.** The services sector contracted 16.2% YOY in 2Q (1Q: +3.1% YOY) while the manufacturing value-added plunged 18.3% YOY (1Q: +1.5% YOY). **Services activities were severely affected by lower consumer spending and tourism activities amid the lockdown,** and were evident in wholesale & retail trade, food & beverages, hotel & accommodation, transport & storage. Meanwhile, the finance and insurance subsector was hampered by lower net interest income, lower fee-based income amid subdued capital market activity.

**Within the manufacturing sector, the primary and consumer related manufacturing clusters were particularly hard hit.** However, the sector was somehow supported by ramp up in production due to backlog, especially in the E&E sector. **The construction sector** saw a huge plunge of 44.5% YOY in 2Q, as activities came to a complete halt in April and later **faced restarting issues** due to challenges

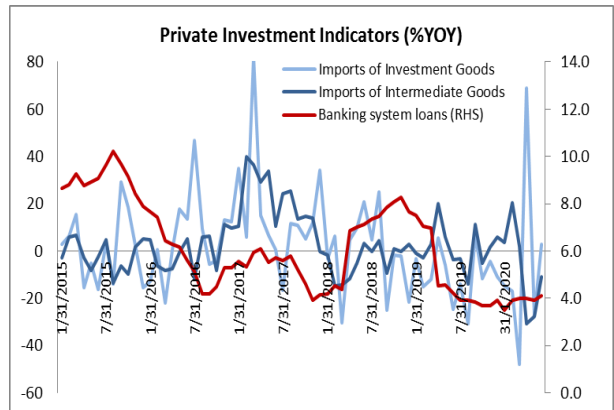
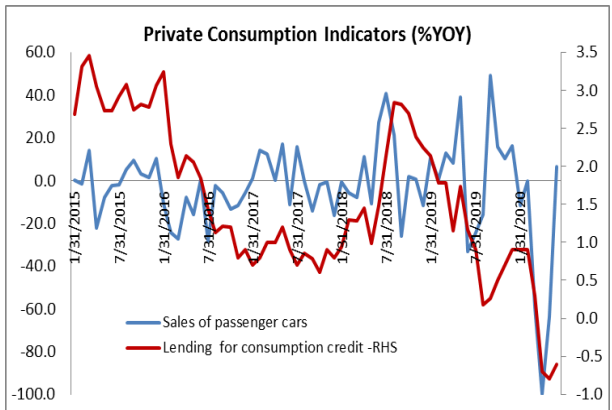
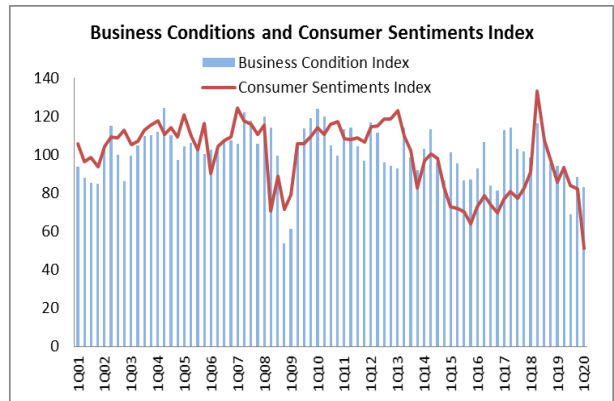
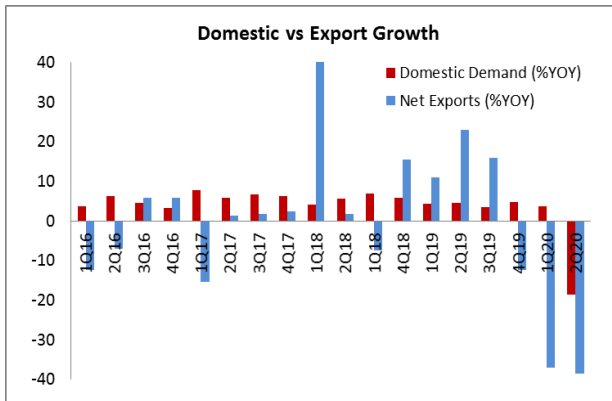
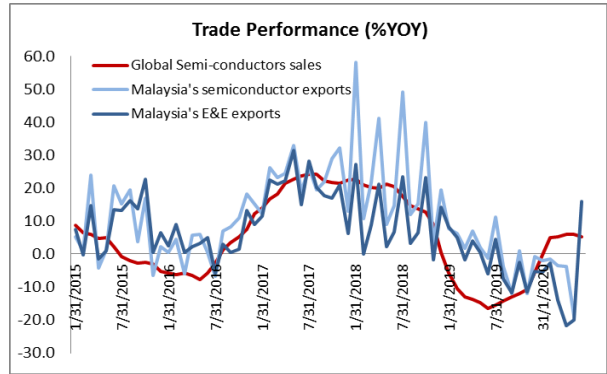
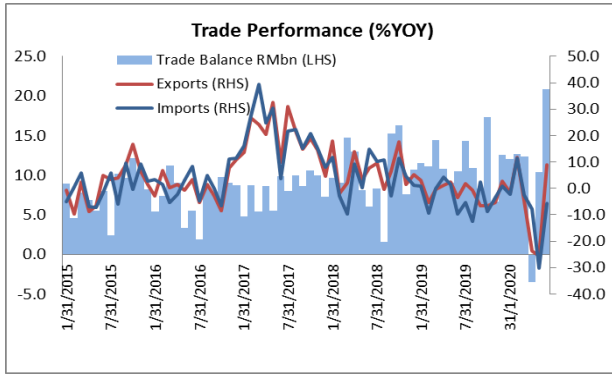
in complying with SOPs, financial constraints and supply disruption of construction materials. The mining sector was not spared, due to sharp decline in demand for oil & gas and plant maintenance work in East Malaysia.



*Uncertain recovery outlook risks a deeper contraction in 2020, paving the way for further OPR cut in September*

**The worse than expected economic performance in 2Q** reflecting the severity of the depth and breadth of the pullback in economic activities at the height of the pandemic during MCO and CMCO period **could have more far-reaching adverse implications, weakening job market and wavering consumer demand are among the key concerns.** Even though the virus situation is somewhat under control and is showing signs of a rebound from April's trough, the recovery path remains uncertain and bumpy ahead.

**Fear of another wave of the virus outbreak, social distancing and shift in consumer behavior and business practices in the new normal is expected to continue dampen sentiments and impede the extent and pace of the recovery.** Growth may not return to normal until the later part of 2021 even though we still expect the economic situation to improve gradually in the second half of the year, with narrower declines in GDP. **We are maintaining our full year 2020 GDP forecast at -4.9% for now,** awaiting clearer signs of the strength of the recovery momentum in the third quarter. **Given uncertainties on the recovery outlook, we continue to see the case of another OPR cut by BNM in September.**



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