

**Global Markets Research**
**Malaysia - Economics**

# First positive GDP growth since the pandemic

- The Malaysian economy grew faster than expected by 16.1% y/y in 2Q21
- Lift from low base effect helped cushion impact from movement restrictions
- BNM downgraded 2021 growth forecast to 3-4% amid prevailing uncertainties

**Summary**

The Malaysian economy staged a stronger than expected expansion of 16.1% y/y in 2Q21 (1Q: -0.5%), spurred by hefty rebound in both domestic and external demand. This first positive GDP print since the pandemic, was augmented by the low base in 2Q20 when the country went through the strictest form of lockdown back then. Economic activities however fell 2.0% q/q on a seasonally adjusted basis while monthly GDP showed a contraction of 4.4% y/y in June, a sharp reversal from the double-digit gains in April (+40.1%) and May (+19.8%), taking the hit from stricter movement restrictions nationwide.

**Revival in domestic demand the biggest growth driver**

Domestic demand turned around and grew 12.3% y/y in 2Q (1Q: -1.0%), contributing 11.4ppt to overall growth. The private sector continued to lead, growing 13.0% y/y during the quarter as the government sector expanded 9.7% y/y. Private consumption increased 11.6% y/y, driven by broad-based expansion in both necessity and discretionary items prior to the reimposition of movement restrictions. Improving labour market condition, ongoing policy support and cash handouts provided additional lift to consumer spending. Investment activities also posted double-digit rebound (Figure 3), led by capital spending in telecommunication, automation and digitalization initiatives, as well as export-oriented sectors including E&E. The rebound in 2Q growth was also underpinned by a jump in net export gain (+34.3% vs +0.8%), which contributed 1.8ppt to overall GDP growth.

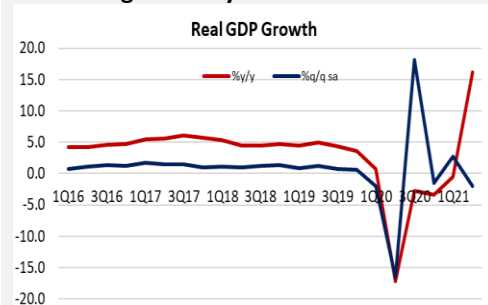
**Robust growth across all sectors except agriculture**

By economic sectors on the supply side, all sectors registered better growth except for the contraction in agriculture value-added (Figure 4). The services sector rebounded with a 13.4% y/y increase, led by consumer-related services, ICT and finance & insurance subsector. The manufacturing sector was the only sector that saw back-to-back gains, underpinned by continuous demand from export-oriented sectors including E&E, petrochemicals, and rubber products. Growth in the construction sector was driven by strong gains across all subsectors – large infrastructure projects and some smaller scales projects under the economic packages. Meanwhile, higher production of crude oil and natural gas contributed to the turnaround in the mining sector. On the contrary, value-added in the agriculture sector was dragged by lower oil palm output as a result of labour shortages.

**Outlook**

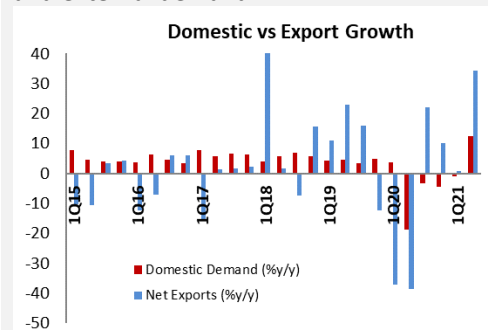
Recovery outlook ahead will be highly dependable on Covid-19 related risks, both domestic and abroad. More specifically, the extent of the economic fallout in the second half of the year will hinge on the duration and the stringency of the containment measures i.e. successful migration to the next

**Figure 1: Robust YOY growth skewed by base effect; QOQ contraction reflects weakening recovery momentum**



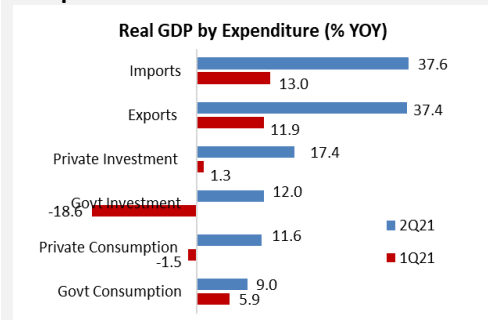
Source: BNM

**Figure 2: Recovery led by both domestic and external demand**



Source: BNM

**Figure 3: Hefty growth in all expenditure components**



Source: BNM

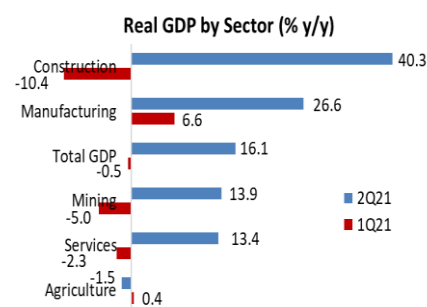
phase of the National Recovery Plan, which in turn is dependable on vaccination rate, vaccination efficacy, and ICU utilization.

Resiliency in the Malaysian economy and the boost from low base effect that had resulted in a 7.8% y/y growth in the first half of the year should help provide the much needed shield to weather downside risks in the second half, particularly the third quarter of the year. We foresee greater challenges in the third quarter of the year as only selective states have moved on to Phase 2 and Phase 3 of the National Recovery Plan while the greater Klang Valley, Kedah, Negeri Sembilan, Malacca, and Johor which collectively account for over 60% of Malaysia's economy remained in Phase 1 to-date. While the required vaccination rate could be within reach for most states within the next month or so, we do not foresee ICU utilisation to ease anytime soon and this could hold back the transition from one phase to another.

We are projecting economic activities to contract in 3Q21 before some recovery in 4Q21. This would translate into a full year GDP growth of 2.7% y/y (revised from +3.7%), slightly below BNM's revised baseline growth forecast of 3-4%. We are less optimistic that all states would be able to move on to Phase 3 by October and Phase 4 by November as projected by BNM, hence a slower recovery path.

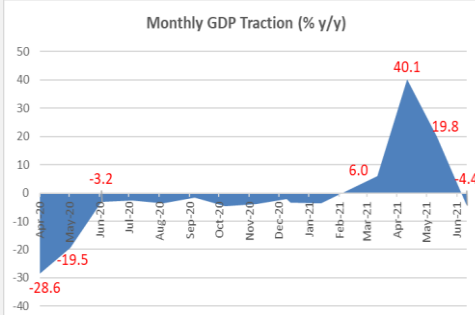
Despite the downward revision in GDP forecasts and prevailing downside risks, BNM commented that the current growth scenario has been taken into account in its July MPC decision, hence suggesting the bar is high for any policy move in the near future unless the situation turns significantly against its projection. We therefore see reduced odds of any policy move for the remaining of the year although we believe BNM stands ready to act if any changes in the highly fluid situation warrants a move. BNM reiterated that future policy decision will be dependent on new data and information.

**Figure 4: All sectors registered growth except agriculture**



Source: BNM

**Figure 5: GDP took a big leap up but fell again in June amid stricter movement controls**



Source: DOSM

### Malaysia Key Economic Metrics

	2020												2021					
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Leading indicator	0.8	3.5	-3.8	-6.0	0.8	5.0	8.1	8.2	9.1	6.5	7.5	7.6	8.2	8.5	17.3	15.7	6.9	
Exports	-2.4	10.2	-6.4	-24.7	-25.8	8.1	3.3	-0.9	13.6	0.4	4.7	10.9	6.3	17.4	30.9	62.7	47.0	27.2
Imports	-2.3	11.9	-1.4	-6.7	-29.5	-4.0	-8.6	-6.4	-3.6	-6.0	-9.0	1.7	1.1	12.1	17.5	22.9	48.4	32.1
Trade balance	12.0	12.6	12.3	-3.6	10.4	20.9	25.2	13.2	22.0	22.1	17.1	20.7	16.6	17.9	24.2	20.4	13.8	22.2
Industrial production	0.3	5.7	-5.1	-32.1	-21.8	-0.4	1.3	-0.2	0.9	-0.6	-2.4	1.7	1.2	1.5	9.3	50.1	26.0	1.4
Manufacturing production	2.2	6.2	-4.1	-37.2	-22.6	4.7	2.9	2.2	4.3	2.4	2.0	4.1	3.5	4.5	12.7	68.0	29.8	-0.2
Wages (manufacturing)	4.1	4.4	1.8	-6.2	-3.9	-2.0	-3.2	-3.2	-1.7	-1.5	-1.3	-1.1	-1.4	-1.3	0.8	8.2	6.4	3.5
Unemployment rate	3.2	3.3	3.9	5.0	5.3	4.9	4.7	4.7	4.6	4.7	4.8	4.8	4.9	4.8	4.7	4.6	4.5	4.8
Wholesale trade	5.2	4.9	-2.7	-26.3	-23.6	-8.7	-4.5	-3.9	-4.2	-0.9	-0.7	-0.6	-0.4	-0.1	1.8	40.4	30.8	3.5
Retail trade	6.7	6.3	-6.6	-32.4	-16.1	-9.2	-3.8	-1.5	1.6	-1.5	-2.3	-2.0	-2.5	-2.1	10.5	56.4	17.3	-2.9
Passenger car sales	-11.5	-0.1	-59.6	-99.7	-63.4	6.3	12.8	1.7	27.7	5.7	7.2	26.0	-26.3	3.3	183.9	40074.0	105.3	-95.5
Consumption credit	0.9	0.9	0.3	-0.7	-0.8	-0.6	0.8	2.1	3.3	3.3	3.1	3.3	3.1	3.2	4.2	5.6	4.9	3.5
CPI	1.6	1.3	-0.2	-2.9	-2.9	-1.9	-1.3	-1.4	-1.4	-1.5	-1.7	-1.4	-0.2	0.1	1.7	4.7	4.4	3.4
PPI	2.8	0.9	-1.9	-5.1	-5.5	-4.0	-3.5	-2.8	-3.9	-3.6	-3.0	-2.1	-0.1	2.7	6.7	10.6	11.9	11.5

Source: BNM; DOSM; HLBB Global Markets Research

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