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Global Markets Research

Malaysia - Economics

Slightly bigger contraction in 4Q GDP

- **The Malaysian economy contracted 3.4% y/y in 4Q; full year 2020 at -5.6%**
- **Manufacturing and net exports the key growth engine**
- **Tweaking 2021 growth forecast to +5.0% taking into account MCO 2.0 impact**

Summary

The Malaysian economy contracted for the third straight quarter in 4Q20, although the pace of the decline came in better than our expectation but weaker than consensus estimate. Real GDP fell 3.4% y/y in 4Q, a slightly bigger contraction when compared to 3Q20's -2.7% y/y, as the reinstatement of Conditional Movement Control Order (CMCO) in selected states since mid-October, as well as commodity supply disruption, curtailed economic activities.

The weaker performance was evident in both the domestic and external front (Figure 2), with all segments seeing extended declines save for the manufacturing sector (supply side) and government spending (demand side). On a seasonally adjusted basis, real GDP contracted again after the hefty rebound in 3Q (-0.3% vs +18.2%).

Domestic demand lost steam

Domestic demand saw a bigger contraction of 4.4% y/y in 4Q (3Q: -3.3% y/y). All sectors, save for government spending, continued declining, while growth in government spending slowed considerably to 2.7% y/y (3Q: +6.9% y/y). Private consumption, that accounted for close to 60.0% of total GDP, posted a bigger fall of 3.4% y/y during the quarter (3Q: -2.1%), due to lower household spending amid movement restrictions during CMCO period. Investment activities also remained weak despite the smaller decline seen in private sector investment, underpinned by continued investment on existing projects and on export-oriented industries.

Smaller contribution from net exports

Net exports stayed positive for the second quarter in a row, albeit with a smaller 12.4% y/y increase (3Q: +21.9%), and contributed 0.7ppt to 4Q GDP, but was wiped off by the 4.2ppt drag from domestic demand. Smaller contraction in imports (-3.3% vs -7.8% y/y) contributed to the narrower net exports gain, even as exports saw a smaller decline of 1.8% y/y compared to 3Q's -4.7% y/y.

Manufacturing remains in the forefront

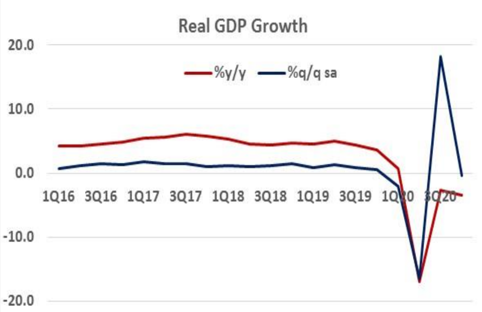
By economic sectors on the supply side, performance in all sectors turned a tad weaker (Figure 4). Manufacturing remained the only sector with positive growth, albeit at a slightly slower pace of 3.0% y/y (3Q: -3.3%). Overall growth was supported by continued robust demand for E&E products.

The services and construction sectors were adversely affected by CMCO, the former from greater mobility restrictions and the latter from projects delay due to labour shortages. The mining sector registered a bigger fall of 10.6% y/y in 4Q (3Q: -6.8%) as a result of closure of oil and gas facilities for maintenance. Meanwhile, the agriculture sector posted a 0.7% y/y decline due to labour shortages issue and poor weather condition that affected palm output.

Outlook

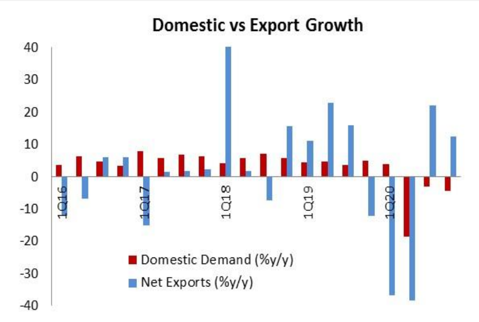
Second straight quarter of pleasant surprises in GDP suggests resiliency in the Malaysian economy and continuous recovery from the slump in 2Q, though the

Figure 1: Malaysia GDP turned a tad weaker in 4Q



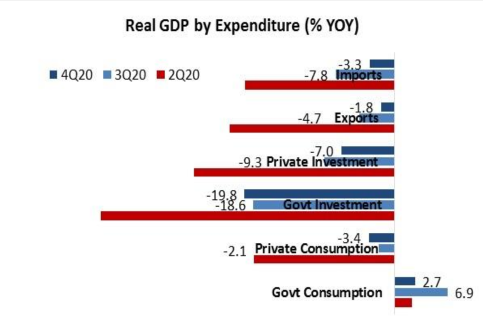
Source: BNM

Figure 2: Moderation in both domestic and external sectors



Source: BNM

Figure 3: All demand components except government spending contracted



Source: BNM

recovery path remains bumpy punctuated by resurgence in Covid-19 cases (Figure 5).

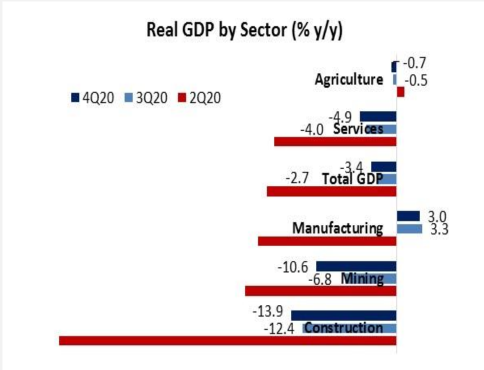
The manufacturing sector, supported by both domestic and export-oriented sectors, is expected to remain in the driver seat spearheading recovery as selected segments of the services sector remain confronted by challenges in the new normal with physical distancing and standard operating procedures in place.

Moving into 2021, uncertainties surrounding recovery in the global economy is expected to have some chain effect on prospects of the Malaysian economy. New containment measures in selected major economies coupled with the reinstatement of Movement Control Orders (MCO) in Malaysia to tackle the recent spike in infection cases is expected to adversely impact recovery in 1Q2021. That said, the impact should be less damaging this time around as the government allows more and more economic sectors to operate during the MCO period.

Recognizing less severe economic fallout compared to the MCO in last March/ April, and taking into account the less severe than expected fall in 2020 GDP (-5.6% vs our estimate of -6.0%), we have tweaked our full year 2021 GDP growth forecast from 5.4% to 5.0%. Accommodative monetary policy and expansionary fiscal policy notably the earlier stimulus packages will continue to underpin growth in 2021.

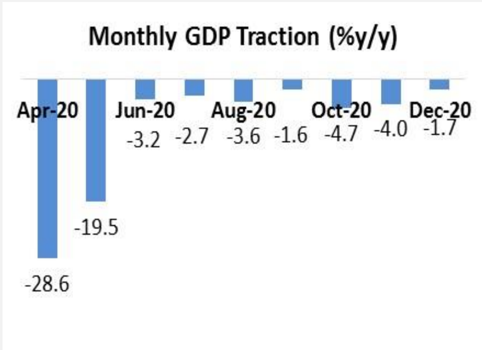
On the monetary policy front, while our base case do not expect further OPR cut by BNM, we believe BNM stands ready to act again as early as the March MPC meeting should the need arise. The current state of the recovery remains uneven and fragile and could be complicated by labour market weakness and soft consumer and business sentiments. Vaccination rollout could however help mitigate some downside, smoothening the road to recovery.

Figure 4: Manufacturing the only sector expanding



Source: BNM

Figure 5: Movement restrictions a key influence on GDP



Source: BNM

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