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GDP preview - economic growth could ease to 1.0% in 1Q2020

Malaysia's Gross Domestic Product (GDP) for the first quarter of 2020 will be published today. We are projecting the 1Q2020 GDP could come in at 1.0% (Consensus: -1.0%) year-on-year (y-o-y), which is lower than 3.6% growth recorded in 4Q2019. The unprecedented Covid-19 pandemic had taken a serious toll on Malaysian economy as lockdown measures has paralyzed the economic activities. Sectors such as food and beverages, tourism, airlines, as well as construction industries are the most affected by the Movement Control Order (MCO) since 18 March. Nestle Malaysia Berhad which could be a proxy for consumer spending recorded lower domestic sales which declined by 3.4% during the first quarter of 2020. Meanwhile, the long-haul budget airline firm, Air Asia X had reported 25% less passengers during the first three months. This suggests travelling industries were badly impacted by the virus spread. This could have cascading effects to other industries such as hotels, tourists guide and events management.

The latest data print on regional GDP has vindicated the view that the first quarter this year will likely to be weak. The GDP for China, Hong Kong and Singapore were seen plummeted into negative territory to -6.8% (4Q2019: 6.0%), -8.9% (4Q2019: -3.0%) and -2.2% (4Q2019: 1.0%) in 1Q2020 respectively. In addition, the sharp decline in crude oil prices is expected to have significant impact to oil exporting countries such as Malaysia.

The International Monetary Fund (IMF) has also downgraded their projection on Malaysian economy. Malaysia's GDP is expected to contract by 1.7% in 2020 before growing at a rate of 9.0% in 2021. This is very much in line with global growth which is expected to decline by -3.0% in 2020. Meanwhile, Fitch Rating has placed a rather more conservative forecast on Malaysian economy with GDP contraction to be at -1.0% this year before accelerating to 5.8% in 2021. Despite that, the rating agency has revised its outlook on Malaysia's Long-Term Foreign-Currency Issuer Default Rating (IDR) to Negative from Stable while it has affirmed Malaysian sovereign rating at 'A-' on 9 April 2020.

Domestic demand is expected to moderate

According to the Malaysian Institute of Economic Research (MIER) survey, the Consumer Sentiment Index (CSI) dropped significantly to 51.1 points in 1Q2020 from 82.3 points in the previous quarter. This was the lowest figure ever recorded as consumers' confidence on future economic outlook has been deteriorating following economic fallouts from Covid-19. As such, we foresee private consumption would moderate at a pace of 4.0% in 1Q2020 from 8.1% in the December quarter last year. We anticipate that spending momentum would likely to be affected in the 1H2020 as labour market has been badly hit (Unemployment rate – 1Q2020: 3.5% vs. 4Q2019: 3.2%) by the MCO restrictions. This was in line with the private sector wage growth for the manufacturing and service sector employees which has been expanding at a modest pace of 2.4% in 1Q2020 from 3.8% in the 4Q2019. It has been below than the trend level of 4.0% for three straight quarters (3Q2019: 3.9% vs. 2Q2019: 4.2%), suggesting income growth has been lethargic.

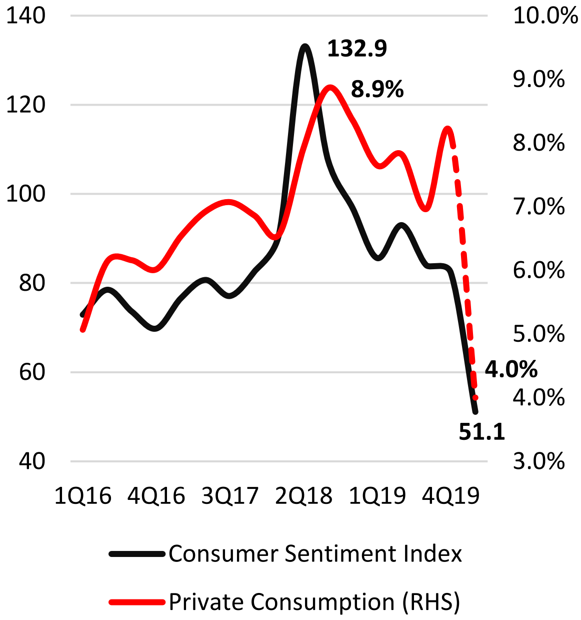
Private investment is estimated to contract by 2.0% in 1Q2020 from 4.2% growth previously. This was in tandem with the decline in the MIER Business Condition Index (BCI), edging down from 88.3 points in 4Q2019 to 83.0 points in the first three months of 2020. It has been below than the 100-point threshold for the sixth consecutive quarters. This would mean businesses would refrain themselves from incurring large capital expenditure as the payback period from their investment could be longer than anticipated. Real exports and imports are expected to improve to 1.0% (4Q2019: -3.1%) and 2.5% (4Q2019: -2.3%) respectively. This was largely on account of better performance during January and February which, to some degree, has masked the weak performance during March.

Table 1: Gross Domestic Product (GDP) y-o-y%

Y-o-Y%	Share (2019P)	2Q 2018	3Q 2018	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019	1Q 2020F
GDP	**100.0%**	**4.5%**	**4.4%**	**4.7%**	**4.5%**	**4.9%**	**4.4%**	**3.6%**	**1.0%**
Domestic Demand (excluding stocks)	94.1%	5.5%	6.8%	5.7%	4.4%	4.6%	3.5%	4.9%	-0.7%
Private Sector	**75.6%**	**7.3%**	**7.9%**	**7.8%**	**5.9%**	**6.2%**	**5.4%**	**7.4%**	**-2.7%**
-Consumption	58.8%	7.9%	8.9%	8.4%	7.6%	7.8%	7.0%	8.1%	4.0%
-Investment	16.8%	5.5%	5.0%	5.0%	0.4%	1.8%	0.3%	4.2%	-2.0%
Public Sector	**18.5%**	**-1.6%**	**2.1%**	**0.0%**	**-1.4%**	**-2.8%**	**-4.6%**	**-2.2%**	**8.6%**
-Consumption	12.2%	3.1%	5.2%	4.0%	6.3%	0.3%	1.0%	1.3%	6.0%
-Investment	6.3%	-9.9%	-2.7%	-5.9%	-13.2%	-9.0%	-14.1%	-7.7%	4.0%
Net Exports of Goods and Services	**7.3%**	**-6.0%**	**-9.4%**	**15.5%**	**10.9%**	**22.9%**	**15.9%**	**-9.8%**	**-8.8%**
-Exports	64.0%	2.6%	0.7%	3.1%	0.1%	0.1%	-1.4%	-3.1%	1.0%
-Imports	56.7%	3.6%	2.0%	1.8%	-1.4%	-2.1%	-3.3%	-2.3%	2.5%

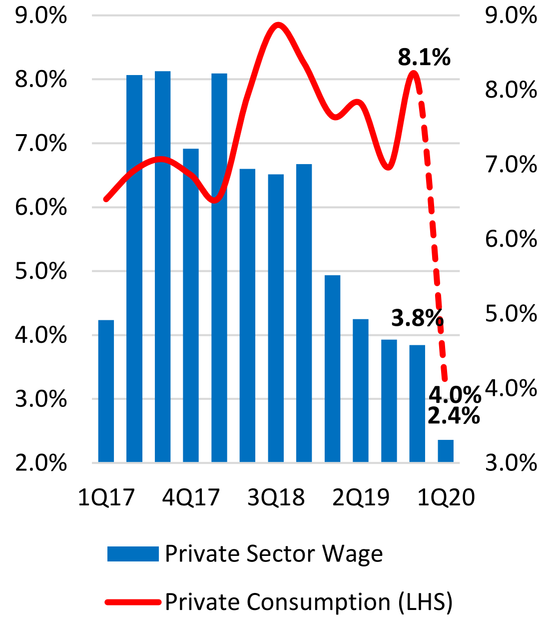
Sources: CEIC, Economic Research, Bank Islam Malaysia Berhad, BNM

Chart 1: Private Consumption, y-o-y % vs. Consumer Sentiment Index (CSI), points



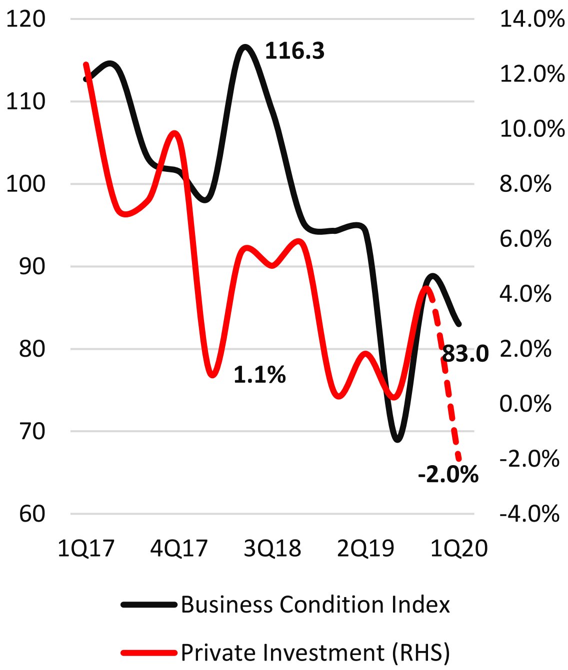
Sources: CEIC, Bank Islam

Chart 2: Private Consumption, y-o-y % vs. Private Sector Wages growth, y-o-y %



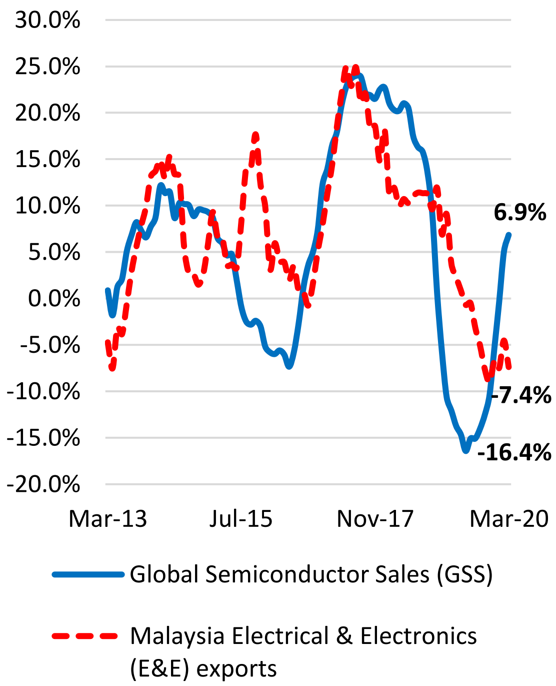
Sources: DOSM, CEIC

Chart 3: Private Investment, y-o-y % vs. MIER Business Condition Index (BCI), points



Sources: CEIC, Bank Islam

Chart 4: GSS (%) vs. Nominal Export: E&E (%) – 3 Months Moving Average (MMA)



Source: CEIC

Supply side - ain't looking good

Table 2: GDP by Industry (y-o-y %)

Y-o-Y %	Share (2019)	2Q2018	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020F
Agriculture	7.1%	4.8%	4.7%	2.6%	0.3%	4.2%	3.7%	-5.7%	-7.0%
Mining & Quarrying	7.1%	4.9%	5.0%	4.7%	4.1%	2.9%	-4.3%	-2.5%	-1.7%
Manufacturing	22.3%	-3.4%	-5.7%	-0.7%	-2.1%	4.3%	3.6%	3.0%	1.5%
Construction	4.7%	6.5%	7.3%	6.9%	6.4%	0.5%	-1.5%	1.0%	-6.0%
Services	57.7%	-1.7%	-0.7%	-0.1%	5.6%	6.1%	5.9%	6.1%	1.9%

Sources: Bank Islam, CEIC, BNM

On the supply side, the services and manufacturing sectors were the main anchor for growth, contributing for 80.0% of the total GDP in 2019. For the first quarter of 2020, the services sector is projected to grow by 1.9% from 6.1% expansion in 4Q2019. This was in tandem with the moderation of Index of Services (IOS), registering 2.3% expansion in 1Q2020 from 6.4% growth in the preceding quarter. On the same token, we envisage the manufacturing sector to soften by 1.5% in March quarter (4Q2019: 3.0%), largely weighed by modest production in the manufacturing Industrial Production Index (IPI) at 1.3% in 1Q2020 from 2.8% growth in 4Q2019. On the other hand, the mining and quarrying industries are likely to contract by 1.7% in 1Q2020 albeit at a softer pace as compared to 2.5% fall previously. Improving in production of Natural Gas (1Q2020: 0.6% vs. 4Q2019: -2.1%) will be the primary driver.

As for the construction sector, it will likely to fall into negative territory at 6.0% in 1Q2020 from positive growth of 1.0% in 4Q2019. This is mainly on account of Construction Work Done which has plunged by 6.3% in 1Q2020 (4Q2019: 1.3%), largely underpinned by further drop of property-related construction at 9.4% in 1Q2020 (4Q2019: -4.3%). On a similar note, the agricultural sector is expected to fall by -7.0% in 1Q2020, extending 5.7% contraction in final quarter of 2019. Lower output growth of Crude Palm Oil (CPO) during the first three month at 3.9 million tonnes versus 4.7 million tonnes in 4Q2019 was the main factor for the lackluster performance.

Table 3: Industrial Production Index (y-o-y %)

	Weight	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	4Q2019	1Q2020
IPI	**100.0%**	**2.1%**	**1.3%**	**0.6%**	**6.2%**	**-4.9%**	**1.3%**	**0.4%**
Mining	**25.1%**	**0.5%**	**-4.9%**	**-3.9%**	**6.1%**	**-6.5%**	**-3.4%**	**-1.8%**
Crude Petroleum	12.2%	-3.3%	-6.6%	-5.9%	-0.5%	-7.1%	-5.0%	-4.7%
Natural Gas	12.9%	3.7%	-3.4%	-2.3%	12.0%	-6.0%	-2.1%	0.6%
Manufacturing	**68.3%**	**2.7%**	**3.4%**	**2.2%**	**6.2%**	**-4.2%**	**2.8%**	**1.3%**
Food, Beverages and Tobacco	8.6%	2.2%	0.6%	-5.5%	4.4%	-9.9%	1.2%	-3.9%
Textiles, Wearing Apparel, Leather Products and Footwear	1.3%	6.4%	4.9%	3.2%	6.7%	-1.2%	5.6%	2.8%
Wood Products, Furniture, Paper Products, Printing	4.6%	5.5%	4.9%	3.0%	6.3%	-6.1%	5.0%	1.0%
Petroleum, Chemical, Rubber and Plastic Products	20.6%	2.7%	3.6%	3.6%	6.5%	3.6%	2.5%	4.6%
Non-Metallic Mineral Products, Basic Mineral and Fabricated Metal Products	9.1%	3.7%	4.6%	3.9%	6.2%	-9.8%	3.8%	-0.1%
Electrical and Electronics Products	18.2%	1.1%	3.1%	3.2%	7.0%	-5.0%	2.2%	1.5%
Transport Equipment and Other Manufactures	5.9%	4.5%	4.7%	1.4%	4.9%	-10.2%	4.5%	-1.6%
Electricity	**6.6%**	**1.6%**	**0.9%**	**0.0%**	**6.8%**	**-7.0%**	**1.0%**	**-0.4%**

Source: DOSM

The IPI has plummeted by 4.9% y-o-y in March from positive growth of 6.2% in the prior month. This was led by contraction in the manufacturing and mining sector with both industries declined by 4.2% (February: 6.2%) and 6.5% (February: 6.1%) respectively in March. Within the manufacturing industry, production of Transport Equipment & Other Manufacturers (March: -10.2% vs. February: 4.9%), Food Beverages & Tobacco (March: -9.9% vs. February: 4.4%) and Non-Metallic Mineral Products, Basic Mineral & Fabricated Metal Products (March: -9.8% vs. February: 6.2%) have declined significantly in March. On mining activities, production of Crude Petroleum and Natural Gas dropped by 7.1% (February: -0.5%) and 6.5% (February: 6.1%) respectively in March. On cumulative basis, the IPI grew by 0.4% during 1Q2020 from 1.3% growth in the preceding quarter. The moderation in the industrial production activities have been very much expected as some jurisdictions are also exhibiting similar trend (See table 4).

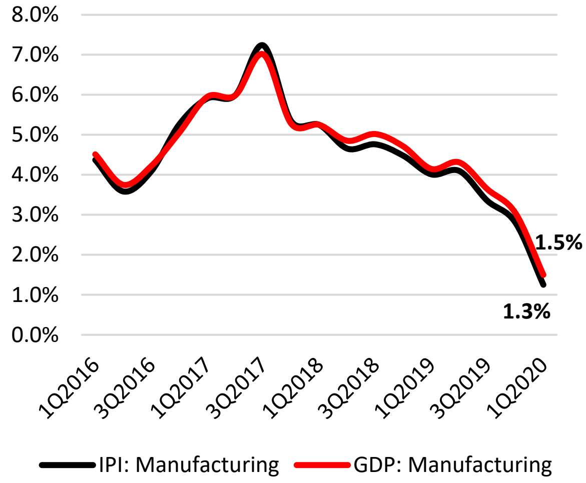
Table 4: Regional Industrial Production Index (y-o-y %)

IPI	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
US	1.0	0.4	0.3	-0.2	-0.8	-0.4	-0.9	-0.9	0.0	-5.5
China	6.3	4.8	4.4	5.8	4.7	6.2	6.9	n/a	-13.5	-1.1
Japan	-3.9	0.8	-5.5	1.2	-8.2	-8.5	-3.7	-2.4	-5.7	-5.2
Singapore	-3.1	4.7	-7.3	-1.4	3.9	-12.3	-3.7	3.7	-0.7	16.5
India	1.3	4.9	-1.4	-4.6	-6.6	2.1	0.1	2.1	4.6	-16.7
Indonesia	3.6	4.6	4.0	4.5	6.7	3.2	0.9	-0.8	n/a	n/a
Thailand	-5.1	-3.2	-4.4	-5.0	-8.0	-8.0	-4.4	-4.0	-4.2	-11.2
South Korea	-2.0	1.6	-2.4	1.8	-0.8	1.3	6.1	-2.8	11.3	7.1
Taiwan	-0.7	4.1	2.5	-0.6	-2.6	2.0	6.3	-2.1	20.7	10.4

Source: Bloomberg

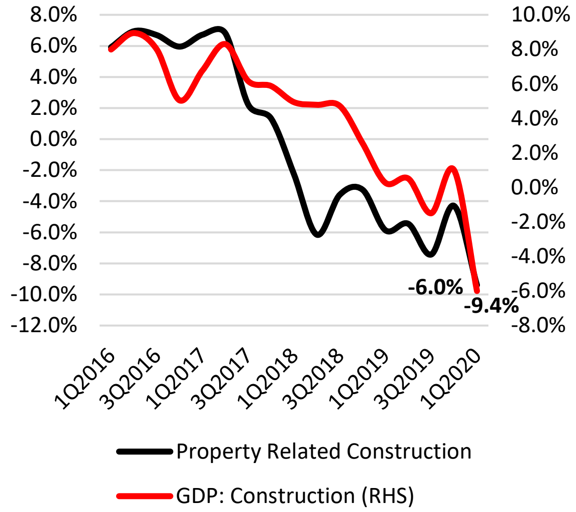
All in all, we are projecting GDP in the 1Q2020 to be at 1.0% growth, significantly slower compared to 3.6% expansion in the previous quarter. We expect GDP in the 2Q2020 to experience a sharp decline as the effects MCO and CMCO will be more apparent. At the moment, we are still maintaining our full year GDP forecast of -1.5%. We will review our estimation should there be significant deviation in the 1Q2020 GDP.

Chart 5: IPI: Manufacturing (y-o-y %) vs. GDP: Manufacturing (y-o-y %)



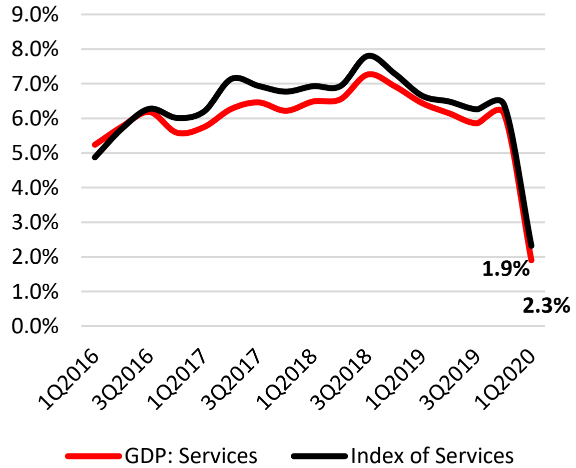
Sources: CEIC, DOSM

Chart 6: Property Related Construction (y-o-y %) vs. GDP: Construction (y-o-y %)



Sources: CEIC, DOSM

Chart 7: Index of Services (y-o-y %) vs. GDP: Services (y-o-y %)



Sources: CEIC, DOSM