

#whatwethink: Malaysia's 2020 GDP Performance

Firdaos Rosli

+603-2717 2936

firdaos@marc.com.my

Lee Si Xin

+603-2717 2942

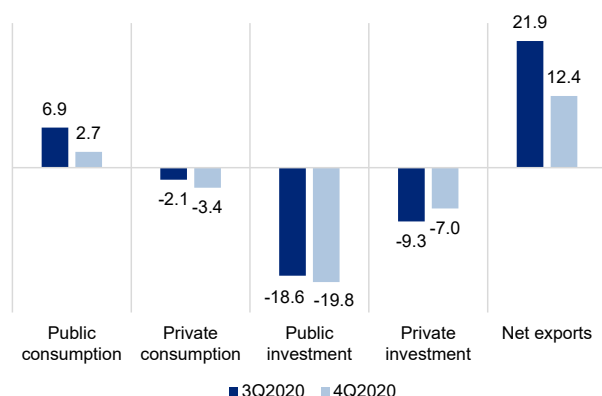
sixin@marc.com.my

Nor Lyana Zainal Abidin

+603-2717 2912

norlyana@marc.com.my

Chart 1: Malaysia's real GDP growth by expenditure (% y-o-y)



Sources: Department of Statistics Malaysia (DOSM), MARC Research

Table 1: Real GDP by economic activity

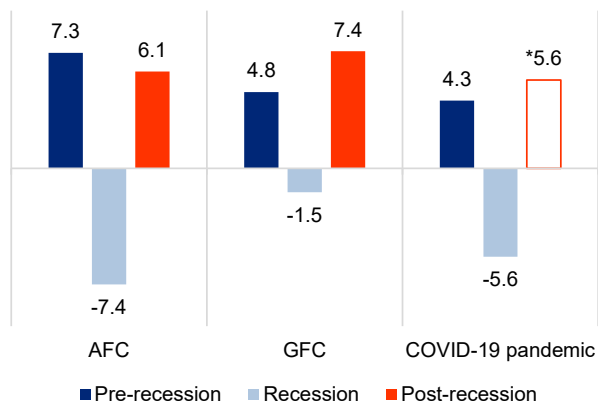
| | Share 2020 (%) | 2019 | | 2020 | | | | |
|---------------|----------------|---------|------|------|-------|-------|-------|-------|
| | | 4Q | Year | 1Q | 2Q | 3Q | 4Q | Year |
| | | % y-o-y | | | | | | |
| Services | 57.7 | 6.2 | 6.1 | 3.1 | -16.2 | -4.0 | -4.9 | -5.5 |
| Manufacturing | 23.0 | 3.0 | 3.8 | 1.5 | -18.3 | 3.3 | 3.0 | -2.6 |
| Agriculture | 7.4 | -5.7 | 2.0 | -8.7 | 1.0 | -0.5 | -0.7 | -2.2 |
| Mining | 6.8 | -3.4 | -2.0 | -2.0 | -20.0 | -6.8 | -10.6 | -10.0 |
| Construction | 4.0 | 1.0 | 0.1 | -7.9 | -44.5 | -12.4 | -13.9 | -19.4 |
| Real GDP | 100.0 | 3.6 | 4.3 | 0.7 | -17.1 | -2.6 | -3.4 | -5.6 |

Sources: DOSM, BNM, MARC Research

- Malaysia's 2020 GDP fell within our expectations. The economy contracted by 5.6% (2020f: -5.7%) year-on-year (y-o-y) in 2020, after recording a 4.3% expansion in 2019. The sharp downturn primarily reflects the unprecedented impact of COVID-19 containment measures rather than an abrupt material change in the economy's fundamentals.
- On a quarterly basis, the decline in real GDP in 4Q2020 (-3.4% y-o-y) was as anticipated, as the resurgence of COVID-19 cases which prompted the implementation of the Conditional Movement Control Order (CMCO) between mid-October and early December 2020 that act as a catalyst for the decline in GDP. However, the adverse impact of CMCO was much milder on the economy given the less stringent restrictive measures compared to those during MCO 1.0 in 2Q2020.
- Demand aggregates from the perspective of expenditures also faced slumps. Public investment fell further at -19.8% compared to -18.6% in the previous quarter. Private investment reduced to -7.0% primarily due to a deficiency in capital investment. Private consumption contracted further to -3.4% as tighter travel restrictions were imposed during the fourth quarter. Public consumption was still at a position of growth but at a lower magnitude of 2.7%. Net exports registered positive growth at 12.4%, parallel to the quarterly growth in manufacturing. The 4Q2020 performance points to an uneven recovery path ahead until a vaccine or a more effective treatment for COVID-19 becomes widely available.
- Mobility restrictions imposed during most parts of the year choked all sectors. The construction sector led the fall by -19.4% as the property market was ground to a halt. The services sector, which accounts for the largest share of the economy, declined by -5.5%. Mining and quarrying also suffered from a sharp reduction of -10% due to lack of demand in commodities. The manufacturing and agriculture sectors suffered smaller losses falling to -2.6% and -2.2%.

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Chart 2: Malaysia's real GDP growth during past crises (annual, % y-o-y)

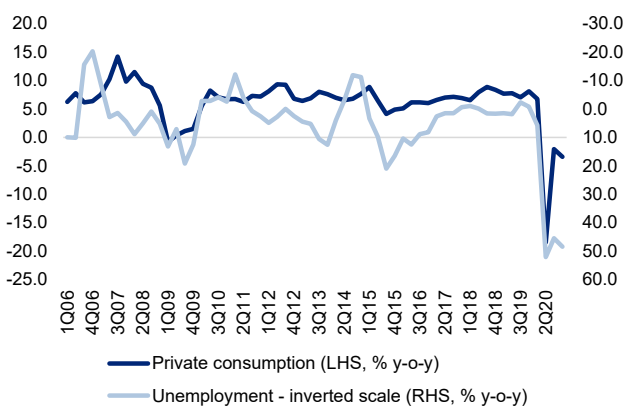


*MARC forecast

Note: AFC - Asian Financial Crisis, GFC - Global Financial Crisis

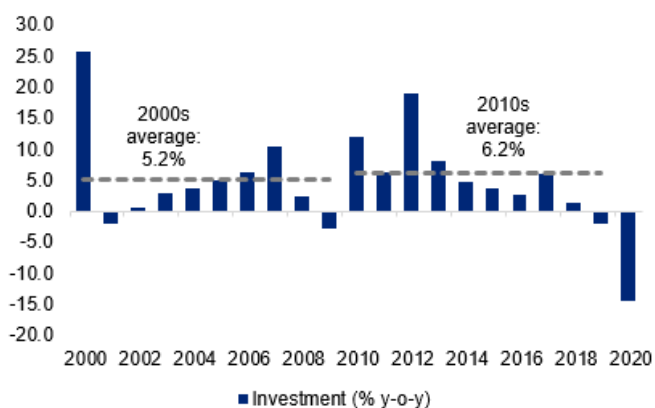
Sources: DOSM, MARC Research

Chart 3: Private consumption vs unemployment



Sources: CEIC, MARC Research

Chart 4: Investment (% y-o-y)

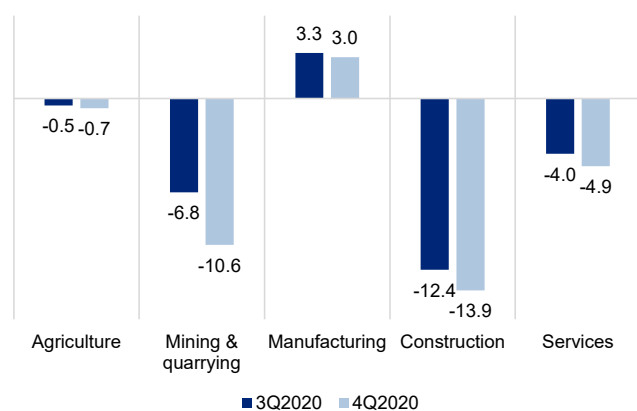


Sources: CEIC, MARC Research

- Going forward, we still envisage real GDP growth of 5.6% in 2021 due to the low base effect. The growth forecast has incorporated our expectations of a further contraction in 1Q2021 with the implementation of COVID-19 containment measures throughout the quarter. We are hopeful that the movement restrictions will be eased by 2Q2021 when we expect the economy to return to growth.
- The world is still reeling from the effects after a year of battling COVID-19. This has, in turn, prompted the possibility of a double-dip recession. However, the possibility of such a scenario is unlikely judging from past crises, as well as the gradual recovery from supply disruptions.
- We anticipate all expenditure components of GDP to rebound but the magnitude would inevitably be dependent on how the pandemic pans out worldwide. Private consumption will remain the key driver of Malaysia's growth, partly supported by policy stimulus. The country's growth, nevertheless, will be at a slower pace compared to the years before the pandemic given anaemic labour market conditions. Unemployment rate is expected to remain elevated at 4.0% in 2021.
- Investments are unlikely to return to the pre-pandemic level although a relatively sharp bounce back in growth is expected. Uncertainties surrounding the COVID-19 pandemic as well as political developments will hamper investment decisions as firms need to reassess the necessity for further investments.
- The landscape of trade will look more enticing in 2021 as external demand will start to pick up. World Trade Organisation (WTO) projected a 7.2% rise in the volume of merchandise trade for 2021, from a 9.2% decline in 2020. Malaysia's exports will remain driven by the global electronics upturn and the upward movement in commodity prices. At a time when there are less imports due to an ongoing crisis, trade surplus and a positive current account balance remain.
- We opine that recovery will take longer than anticipated as the unemployment rate has risen to a level not seen in almost three decades (2020: 4.5%). The gradual increase in global oil prices will trigger a higher inflation rate in the coming months. Hence, our recovery process and future growth prospects should be viewed equally.

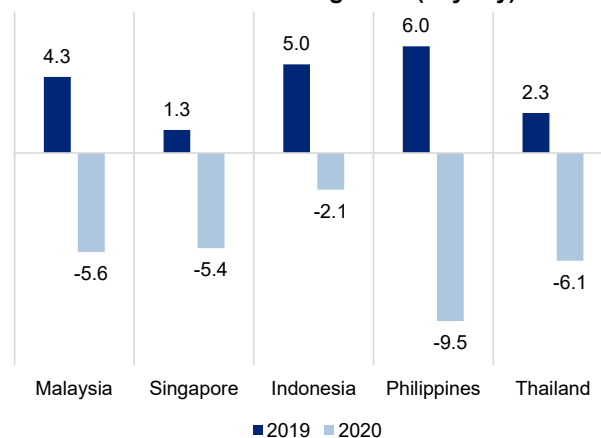
Appendix

Chart 5: Malaysia's real GDP growth by production (% y-o-y)



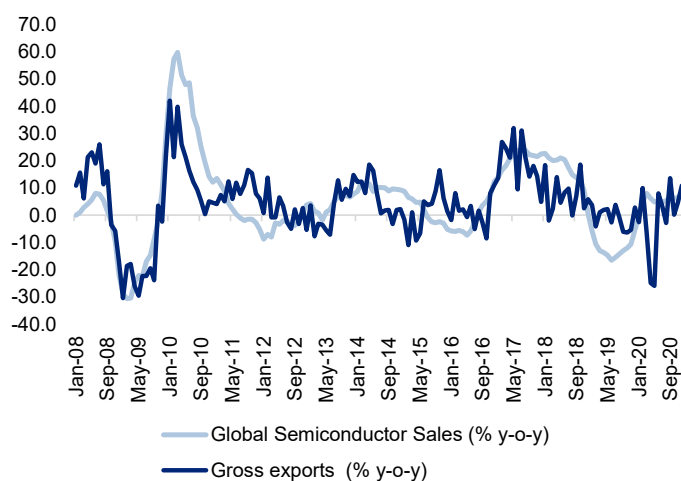
Sources: DOSM, BNM, MARC Research

Chart 6: ASEAN-5 real GDP growth (% y-o-y)



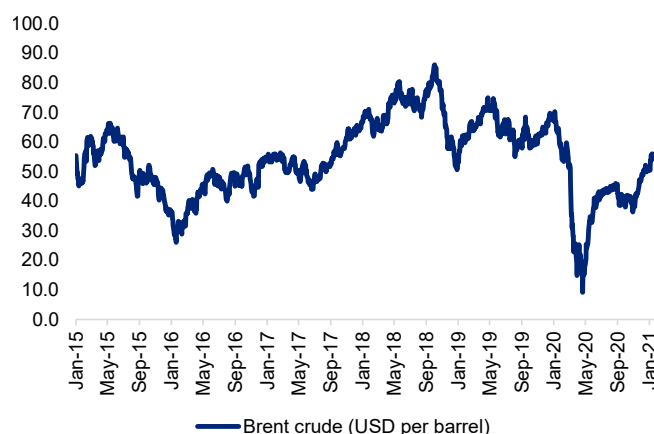
Sources: CEIC, MARC Research

Chart 7: Global semiconductor sales vs gross exports



Sources: Bloomberg, MARC Research

Chart 8: Brent crude oil prices



Sources: Bloomberg, MARC Research

Table 2: Real GDP by expenditure components

| | Share 2020 (%) | 2019 | | 2020 | | | | |
|--|----------------|---------|-------|-------|-------|-------|-------|-------|
| | | 4Q | Year | 1Q | 2Q | 3Q | 4Q | Year |
| | | % y-o-y | | | | | | |
| Aggregate domestic demand (excluding stocks) | 93.9 | 4.8 | 4.3 | 3.7 | -18.7 | -3.3 | -4.4 | -5.7 |
| Private sector | 75.2 | 7.4 | 6.2 | 4.7 | -20.5 | -3.6 | -4.1 | -6.0 |
| Consumption | 59.5 | 8.1 | 7.6 | 6.7 | -18.5 | -2.1 | -3.4 | -4.3 |
| Investment | 15.7 | 4.3 | 1.6 | -2.3 | -26.4 | -9.3 | -7.0 | -11.9 |
| Public sector | 18.7 | -2.3 | -2.8 | -0.6 | -10.6 | -1.6 | -5.4 | -4.6 |
| Consumption | 13.4 | 1.3 | 2.0 | 5.0 | 2.3 | 6.9 | 2.7 | 4.1 |
| Investment | 5.2 | -8.0 | -10.8 | -11.3 | -38.7 | -18.6 | -19.8 | -21.4 |
| Net exports | 6.5 | -12.4 | 9.7 | -37.0 | -38.6 | 21.9 | 12.4 | -12.3 |
| Exports of Goods and Services | 61.6 | -3.4 | -1.3 | -7.1 | -21.7 | -4.7 | -1.8 | -8.8 |
| Imports of Goods and Services | 55.1 | -2.4 | -2.5 | -2.5 | -19.7 | -7.8 | -3.3 | -8.3 |
| Real GDP | 100.0 | 3.6 | 4.3 | 0.7 | -17.1 | -2.6 | -3.4 | -5.6 |
| Real GDP (% q-o-q) | 0.0 | 0.6 | 0.0 | -2.0 | -16.5 | 18.2 | -0.3 | 0.0 |

Sources: DOSM, BNM, MARC Research

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Published and Printed by:

Malaysian Rating Corporation Berhad 199501035601 (364803-V)
19-07, Level 19, Q Sentral, 2A Jalan Stesen Sentral 2, Kuala Lumpur Sentral, 50470 KUALA LUMPUR
Tel.: +603 2717 2900 Fax: +603 2717 2920 Email: marc@marc.com.my
Website: www.marc.com.my