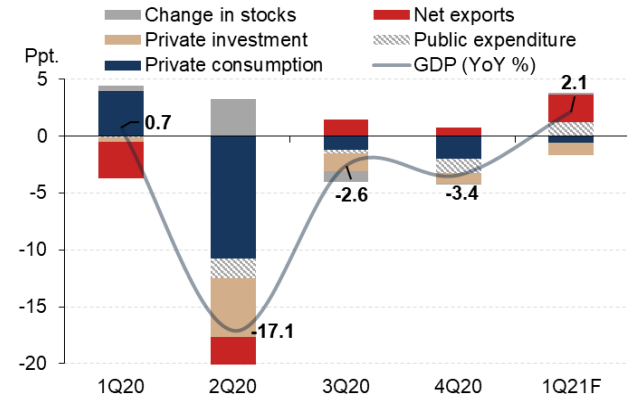


Malaysia 1Q21 GDP Preview

Strong exports to tip growth over to positive despite MCO 2.0 impact

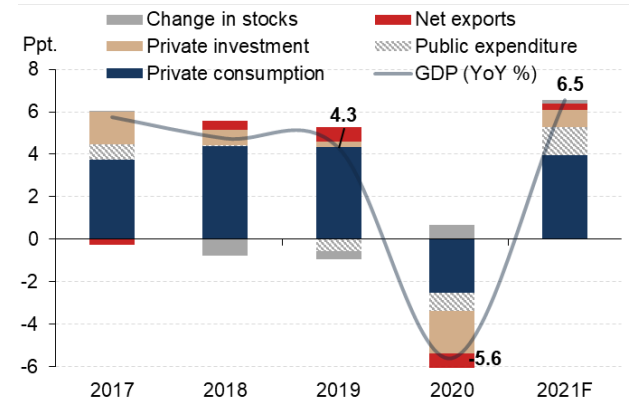
- **1Q21 GDP growth estimate revised up to 2.1% from -0.4%, following the sharper-than-expected exports growth in March (31.0% YoY) and 1Q21 (18.2%; 4Q20: 5.1%).**
- **The revision is based on the strong performance of the manufacturing export sector (22.7%; 4Q20: 7.6%), fuelled by the technology upcycle amid strong demand globally for IT-related products and commodities following the economic reopening.**
 - Electrical and electronics (E&E) exports jumped 27.9% YoY in 1Q21 (4Q20: 13.8%) mainly due to direct consequence of the COVID-19 pandemic which exceptionally revived demand for PCs as working and learning became home-based for many.
 - As E&E account for the bulk of manufacturing exports, we estimated that value-added manufacturing output could have expanded by 7.3% in 1Q21 (4Q20: 3.0%) and contributing 1.6 ppt to GDP growth (4Q20: 0.7 ppt).
- **Meanwhile, agriculture-based exports surged 43.8% in March and in aggregate sustained a relatively high growth of 15.2% in the 1Q21 (4Q20: 27.7%). As a result, value-added agriculture growth is estimated to have rebounded to 3.6% (4Q20: -0.7%), contributing 0.2 ppt (4Q20: 0.0 ppt) to 1Q21 GDP growth.**
- **The spillover from the manufacturing export growth is more pronounced on the demand side.**
 - We have estimated that value-added exports could have expanded by 13.5% (4Q20: -1.8%), contributing 8.2 ppt to overall 1Q21 GDP growth (4Q20: -1.1 ppt). Given that growth of value-added imports is estimated to come in lower at 10.5% (5.8 ppt), net exports is expected to surge to 44.4%, contributing 2.4 ppt (4Q20: 0.7 ppt) to GDP growth.
 - The higher contribution of net exports to 1Q21 GDP could have far outpaced the negative growth contribution from aggregate private expenditure (-1.7 ppt) which consequently dragged the overall domestic demand growth contribution to -0.3 ppt.
 - This was mainly due to the reimposition of the Movement Control Order (MCO 2.0) on 13 January which extended well into mid-March. Compared to the first MCO, we expect the impact would be less severe this time around given that more businesses are allowed to resume operation with tight standard operating procedures (SOPs).
- **The economy is expected to track a firmer recovery path from 2Q21 onwards due to the base effect and underpinned by sizeable fiscal measures and gradual reopening of the economy.**
 - Although we are concerned about the spread of new strains of COVID-19 and alarming rise in the number of infections locally and abroad, **the base effect and strong exports could aid 2Q21 GDP growth to accelerate to 14.3% or even higher depending on the impact of the stimulus spending and a smooth vaccine rollout.**

Graph 1: GDP By Expenditure (Percentage Contribution)



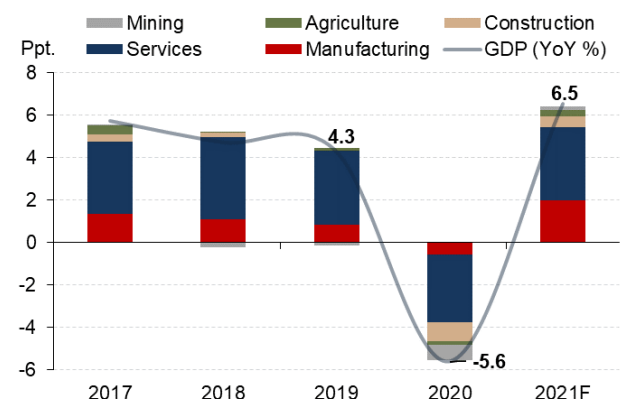
Source: Dept. of Statistics, Kenanga Research

Graph 2: GDP by Expenditure (Percentage Contribution)



Source: Dept. of Statistics, Kenanga Research

Graph 3: GDP by Sector (Percentage Contribution)



Source: Dept. of Statistics, Kenanga Research

04 May 2021

- Furthermore, the latest (and may not be the last) fiscal stimulus via PEMERKASA would support growth recovery and prevent further setbacks. This will be further bolstered by the wider progress of COVID-19 vaccination, the continuation of mega infrastructure projects and an improved consumer sentiment. Hence, barring an unforeseen risk of a major uncontrollable widespread of COVID-19 pandemic, **we maintain our 2021 GDP growth projection of a strong rebound of 6.5% (BNM: 6.0% to 7.5%) from -5.6% in 2020.**

Table 1: Malaysia GDP Growth (constant 2015 prices)

YoY %	2019	1Q20	2Q20	3Q20	4Q20	1H20	2H20	2020	1Q21F	2Q21F	KIBB			BNM
											1H21F	2H21F	2021F	2021F
By Sector														
Agriculture	2.0	-8.8	1.0	-0.5	-0.7	-3.9	-0.6	-2.2	3.6	6.2	5.0	3.0	3.9	4.2
Mining	-2.0	-2.0	-20.0	-6.8	-10.6	-11.0	-8.8	-10.0	-0.6	11.0	4.7	1.2	2.9	3.1
Manufacturing	3.8	1.4	-18.3	3.3	3.0	-8.7	3.2	-2.6	7.3	18.6	12.5	5.5	8.7	8.8
Construction	0.1	-7.9	-44.5	-12.4	-13.9	-25.9	-13.1	-19.4	3.1	29.5	12.8	12.6	12.7	13.4
Services	6.1	3.1	-16.2	-4.0	-4.9	-6.7	-4.4	-5.5	-0.1	13.1	5.9	6.0	5.9	6.6
Real GDP	4.3	0.7	-17.1	-2.6	-3.4	-8.3	-3.0	-5.6	2.1	14.3	7.7	5.5	6.5	6.0 - 7.5
By Expenditure														
Consumption	6.6	6.5	-15.1	-0.6	-2.2	-4.4	-1.4	-2.9	0.1	13.8	6.2	6.1	6.2	7.3
Public	2.0	5.0	2.3	6.9	2.7	3.6	4.5	4.1	1.5	5.3	4.8	3.6	4.2	4.4
Private	7.6	6.7	-18.5	-2.1	-3.4	-6.0	-2.7	-4.3	-0.9	16.1	6.6	6.7	6.6	8.0
Investment	-2.1	-4.6	-28.9	-11.6	-11.9	-17.3	-11.7	-14.5	-2.5	15.4	5.5	9.4	7.5	7.8
Public	-10.9	-11.3	-38.7	-18.6	-19.8	-24.2	-19.3	-21.4	11.1	25.0	16.4	13.5	14.7	15.2
Private	1.6	-2.3	-26.4	-9.3	-7.0	-15.2	-8.3	-11.9	-6.7	13.3	2.6	7.7	5.1	5.4
Public Spending	-2.8	-0.6	-10.6	-1.6	-5.4	-5.5	-3.8	-4.6	7.1	8.8	7.9	6.5	7.1	7.4
Private Spending	6.2	4.7	-20.5	-3.6	-4.1	-8.2	-3.9	-6.0	-2.1	15.4	5.7	6.9	6.3	7.4
Aggregate Demand	4.3	3.7	-18.7	-3.3	-4.4	-7.7	-3.9	-5.7	-0.5	14.2	6.1	6.8	6.5	7.4
Exports	-1.3	-7.1	-21.7	-4.7	-1.8	-14.4	-3.2	-8.8	13.5	15.7	14.5	9.0	11.6	13.1
Imports	-2.5	-2.5	-19.7	-7.8	-3.3	-11.2	-5.5	-8.3	10.5	16.2	13.1	11.6	12.3	14.1
Net exports	9.7	-37.0	-38.6	21.9	12.4	-37.7	17.3	-12.3	44.4	10.8	29.5	-10.1	5.0	4.8
Real GDP	4.3	0.7	-17.1	-2.6	-3.4	-8.3	-3.0	-5.6	2.1	14.3	7.7	5.5	6.5	6.0 - 7.5

Source: Dept. of Statistics, Kenanga Research, F: forecast

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