

# Malaysia 1Q21 GDP

Contraction narrowed despite the reimposition of the MCO 2.0

- **GDP contraction narrowed in the 1Q21 (-0.5% YoY; 4Q20: -3.4%), lower than house estimate of 2.1%, but beating market expectation (consensus: -0.9%)**

- Seasonally adjusted QoQ (2.7%; 4Q20: -1.5%): bounced back into growth despite the reinstatement of the Movement Control Order (MCO 2.0) in COVID-19 hotspots for more than seven weeks.
- Even though inter-state travel ban is still in place, GDP growth improved markedly due to the loosened standard operating procedures (SOPs). The MCO 2.0 measures which started on 13<sup>th</sup> January can be considered as a more lenient version of MCO 1.0, since most economic sectors were allowed to operate.

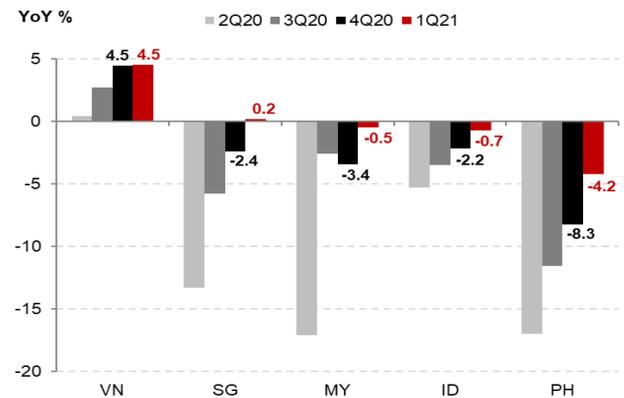
- **Broad-based improvement led by a recovery in domestic demand, specifically private and public investment**

- Domestic demand (-1.0%; 4Q20: -4.5%):
  - Private spending (-0.9%; 4Q20: -4.0%): fell at a much slower pace due to a rebound in private investment (1.3%; 4Q20: -6.6%) and a smaller growth contraction in private consumption (-1.5%; 4Q20: -3.5%), partially supported by the unleashing of pent-up demand post-MCO 2.0 in March. Private spending has shown a nascent sign of recovery despite a relatively high unemployment rate of 4.8% (4Q20: 4.8%), as Malaysia's COVID-19 vaccination drive which started on 24<sup>th</sup> Feb has provided a tailwind for consumer spending. This was evidenced by a jumped in the MIER Consumer Sentiments Index (98.9; 4Q20: 85.2), which reached a ten-quarter high.
  - Public spending (-1.5%; 4Q20: -5.7%): fell at a slower rate, supported by a less severe contraction in public investment (-18.6%; 4Q20: -20.4%) due to a higher spending on fixed assets by the Federal Government. On the other hand, public consumption grew at a faster pace (5.9%; 4Q20: 2.4%) on the back of increased government spending due to the introduction of PEMERKASA and PERMAI stimulus package in the 1Q21.
- Net exports (0.8%; 4Q20: 10.0%): moderated sharply as imports growth (5.6%) outpaced the increase in exports (3.9%) on a QoQ basis
  - Exports (11.9%; 4Q20: -2.1%): accelerated to the fastest since 3Q10, driven by a significant increase in the export of rubber gloves (265.7%; 4Q20: 184.1%) and a continuous double-digit surge in electrical and electronics (E&E) exports (27.9%; 4Q20: 13.8%), along with higher demand from US and China.
  - Imports (13.0%; 4Q20: -3.3%): rebounded to the highest level in three years after eight straight quarters of contraction, mainly due to a sharp rebound in retained imports growth (8.6%; 4Q20: -8.3%), predominantly in the intermediate goods segment (4.6%; 4Q20: -7.2%).

- **A broad improvement across all sectors, led by a recovery in the services and manufacturing sectors**

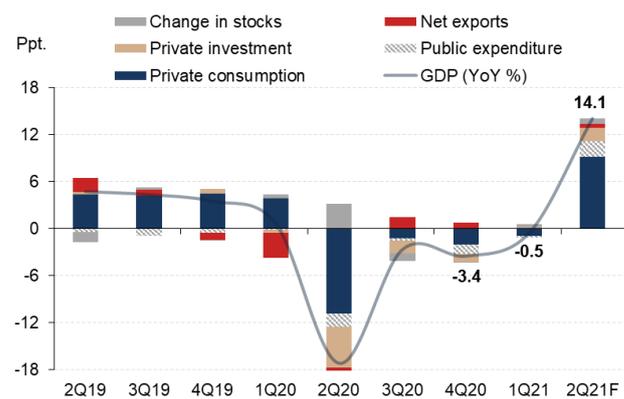
- Services (-2.3%; 4Q20: -4.8%): growth contraction eased, primarily supported by a pronounced improvement in the motor vehicles and retail sub-sector due to the continuation of Sales and Services Tax (SST) exemption for passenger vehicles and aggressive promotional campaigns.
- Manufacturing (6.6%; 4Q20: 3.0%): growth increased to more than doubled on increasing demand for E&E products on the back of an upswing in the global semiconductor cycle and in spite of the ongoing global chip shortage.

Graph 1: ASEAN-5 ex-TH (+VN) GDP Growth



Source: DoSM, CEIC, Kenanga Research

Graph 2: GDP by Expenditure



Source: DoSM, Kenanga Research

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- Mining (-5.0%; 4Q20: -10.4%): registered a smaller decline, driven by an increase in the crude oil and natural gas production. This was mainly due to a recovery in external demand and a resumption of the production activity post-MCO 2.0.
- Construction (-10.4%; 4Q20: -13.9%): contraction eased as there is a rise in construction activity for commercial projects that are nearing completion.
- Agriculture (0.4%; 4Q20: -1.0%): growth acceleration was steered by an expansion in the livestock, forestry and logging subsectors.

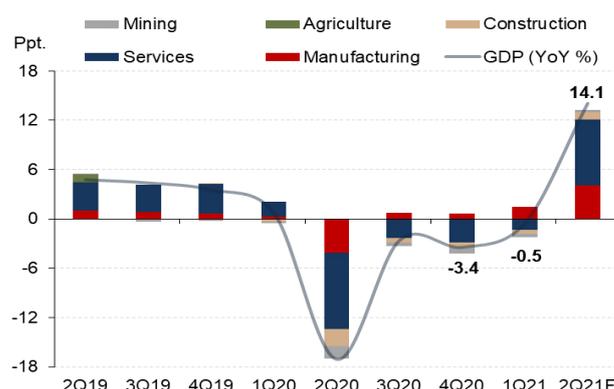
● **We maintain 2021 GDP forecast at 6.5% but revise down our 2Q21 forecast to 14.1% from 14.3% previously**

- This is largely to take into account the reimplementation of a nationwide Movement Control Order (MCO 3.0) from 12<sup>th</sup> May to 7<sup>th</sup> June, with SOPs that are almost similar with MCO 2.0, in which almost all economic sectors are allowed to operate with limited hours.
- While the impact is expected to be minimal due to a less stringent containment measures, we remain cautious as the ongoing rise in the number of local COVID-19 cases could continue to pose significant risks to Malaysia's economic recovery. Nevertheless, Malaysia's COVID-19 inoculation drive and a continued targeted policy support from the government is seen to boost consumer sentiment, providing support to domestic demand in the 2H21. Hence, our stronger growth expectation in the 2H21 at 6.4% versus a projected 6.2% in the 1H21.
- In addition, public investment is projected to continue to improve on the continuation of large infrastructure projects (e.g. ECRL, LRT3, Pan-Borneo Highway, JENDELA). On the external front, strong demand for COVID-19-related items and semiconductors, coupled with stable global crude oil price are expected to provide an additional boost to exports growth.
- Despite improving growth prospects, our outlook is contingent on multiple external and domestic risk factors, including the fierce new wave of COVID-19 pandemic both locally and abroad, slow progress of the national COVID-19 immunisation program, vaccines effectiveness against the COVID-19 variants, potential domestic political tussle and rising geopolitical uncertainty (e.g. US-CN, AU-CN).

● **BNM will continue to keep monetary policy accommodative for the rest of 2021**

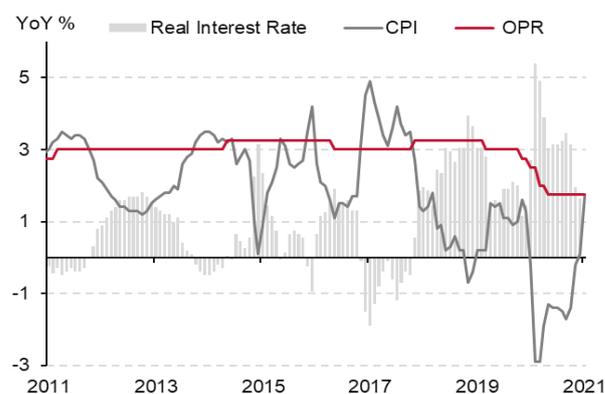
- The central bank is expected to keep the overnight policy rate (OPR) unchanged at 1.75% amid an uneven domestic economic recovery due to a resurgence in local COVID-19 cases and Malaysia's relatively slow vaccination rate.
- On the downside, if the current nationwide MCO 3.0 fails to curb the rise in local COVID-19 cases, Malaysia might once again be placed under the draconian MCO 1.0. Should this happen, we believe that BNM could adjust the OPR lower by at least 25 bps as the central bank still has ample room to maneuver in the 2H21. But before the monetary option is taken into consideration, we expect that the government might again opt for another stimulus package to support the economy.

Graph 3: GDP by Sector



Source: DoSM, Kenanga Research

Graph 4: OPR vs. Inflation



Source: BNM, DoSM, Kenanga Research

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Table 1: Malaysia GDP Growth (constant 2015 prices)

YoY %	2019	2Q20	3Q20	4Q20	2020	1Q21	KIBB			2021F	BNM 2021F
							2Q21F	1H21F	2H21F		
<b>By Sector</b>											
Agriculture	2.0	0.9	-0.3	-1.0	-2.2	0.4	4.9	2.7	4.2	3.5	4.2
Mining	-0.6	-20.8	-7.8	-10.4	-10.6	-5.0	4.1	-0.9	5.1	2.1	2.4
Manufacturing	3.8	-18.3	3.3	3.0	-2.6	6.6	18.6	12.1	5.5	8.6	8.8
Construction	0.4	-44.5	-12.3	-13.9	-19.4	-10.4	29.5	4.3	13.3	9.2	13.1
Services	6.2	-16.2	-4.0	-4.8	-5.5	-2.3	13.8	5.0	6.6	5.9	6.5
<b>Real GDP</b>	<b>4.4</b>	<b>-17.2</b>	<b>-2.7</b>	<b>-3.4</b>	<b>-5.6</b>	<b>-0.5</b>	<b>14.1</b>	<b>6.2</b>	<b>6.4</b>	<b>6.0 - 6.5</b>	<b>6.0 - 7.5</b>
<b>Ppt. Contribution</b>											
Agriculture	0.1	0.1	0.0	-0.1	-0.2	0.0	0.4	0.2	0.3	0.3	0.3
Mining	0.0	-1.6	-0.5	-0.7	-0.8	-0.4	0.3	-0.1	0.3	0.1	0.2
Manufacturing	0.8	-4.1	0.7	0.7	-0.6	1.5	4.1	2.7	1.3	2.0	2.0
Construction	0.0	-2.1	-0.6	-0.6	-0.9	-0.5	0.9	0.2	0.5	0.4	0.5
Services	3.5	-9.3	-2.3	-2.8	-3.2	-1.3	8.0	2.9	3.8	3.4	3.8
<b>Real GDP</b>	<b>4.4</b>	<b>-17.2</b>	<b>-2.7</b>	<b>-3.4</b>	<b>-5.6</b>	<b>-0.5</b>	<b>14.1</b>	<b>6.2</b>	<b>6.4</b>	<b>6.0 - 6.5</b>	<b>6.0 - 7.5</b>
<b>By Expenditure</b>											
Consumption	6.6	-15.1	-0.7	-2.3	-2.9	-0.3	13.8	6.0	6.2	6.1	7.3
Public	1.8	2.2	6.8	2.4	3.9	5.9	5.3	5.1	3.8	4.4	4.6
Private	7.7	-18.5	-2.1	-3.5	-4.3	-1.5	16.1	6.2	6.7	6.5	7.9
Investment	-2.1	-29.0	-11.4	-11.8	-14.5	-3.3	14.5	4.7	9.1	6.9	7.7
Public	-10.7	-40.1	-13.1	-20.4	-21.3	-18.6	37.0	2.7	17.1	11.3	14.9
Private	1.6	-26.1	-10.8	-6.6	-11.9	1.3	9.7	5.2	5.7	5.5	5.3
Public Spending	-2.8	-11.1	0.1	-5.7	-4.7	-1.5	11.2	4.5	7.8	6.3	7.5
Private Spending	6.3	-20.4	-4.0	-4.0	-6.0	-0.9	14.6	6.0	6.5	6.3	7.4
Domestic Demand	4.3	-18.8	-3.3	-4.5	-5.8	-1.0	14.0	5.7	6.8	6.3	7.4
Exports	-1.0	-21.7	-4.9	-2.1	-8.9	11.9	16.5	14.0	11.0	12.4	13.0
Imports	-2.4	-19.7	-7.9	-3.3	-8.4	13.0	17.1	14.9	11.9	13.3	14.1
Net exports	11.2	-37.9	19.2	10.0	-13.0	0.8	10.0	4.9	4.0	4.3	4.2
<b>Real GDP</b>	<b>4.4</b>	<b>-17.2</b>	<b>-2.7</b>	<b>-3.4</b>	<b>-5.6</b>	<b>-0.5</b>	<b>14.1</b>	<b>6.2</b>	<b>6.4</b>	<b>6.0 - 6.5</b>	<b>6.0 - 7.5</b>
<b>Ppt. Contribution</b>											
Consumption	4.6	-10.5	-0.5	-1.6	-2.1	-0.2	9.8	4.4	4.5	4.4	5.3
Public	0.2	0.2	0.8	0.4	0.5	0.7	0.6	0.7	0.5	0.6	0.6
Private	4.4	-10.8	-1.2	-2.0	-2.5	-0.9	9.2	3.7	4.0	3.9	4.7
Investment	-0.5	-7.2	-2.6	-2.6	-3.3	-0.7	3.1	1.0	1.8	1.4	1.6
Public	-0.8	-2.1	-0.7	-1.7	-1.3	-0.9	1.4	0.1	1.0	0.6	0.8
Private	0.3	-5.1	-1.8	-0.9	-2.0	0.2	1.7	0.9	0.8	0.9	0.8
Public Spending	-0.6	-1.8	0.0	-1.3	-0.9	-0.2	2.0	0.8	1.5	1.2	1.4
Private Spending	4.6	-15.8	-3.1	-2.9	-4.5	-0.7	10.9	4.6	4.8	4.7	5.5
Domestic Demand	4.1	-17.7	-3.1	-4.2	-5.4	-0.9	12.9	5.4	6.4	5.9	6.9
Exports	-0.7	-13.9	-3.1	-1.3	-5.7	7.2	10.0	8.5	6.9	7.6	8.0
Imports	-1.4	-11.3	-4.4	-1.9	-4.8	7.1	9.5	8.2	6.6	7.3	7.7
Net exports	0.7	-2.6	1.3	0.6	-0.9	0.0	0.5	0.3	0.3	0.3	0.3
<b>Real GDP</b>	<b>4.4</b>	<b>-17.2</b>	<b>-2.7</b>	<b>-3.4</b>	<b>-5.6</b>	<b>-0.5</b>	<b>14.1</b>	<b>6.2</b>	<b>6.4</b>	<b>6.0 - 6.5</b>	<b>6.0 - 7.5</b>

Source: DoSM, Kenanga Research, F: forecast, PPT: percentage point

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