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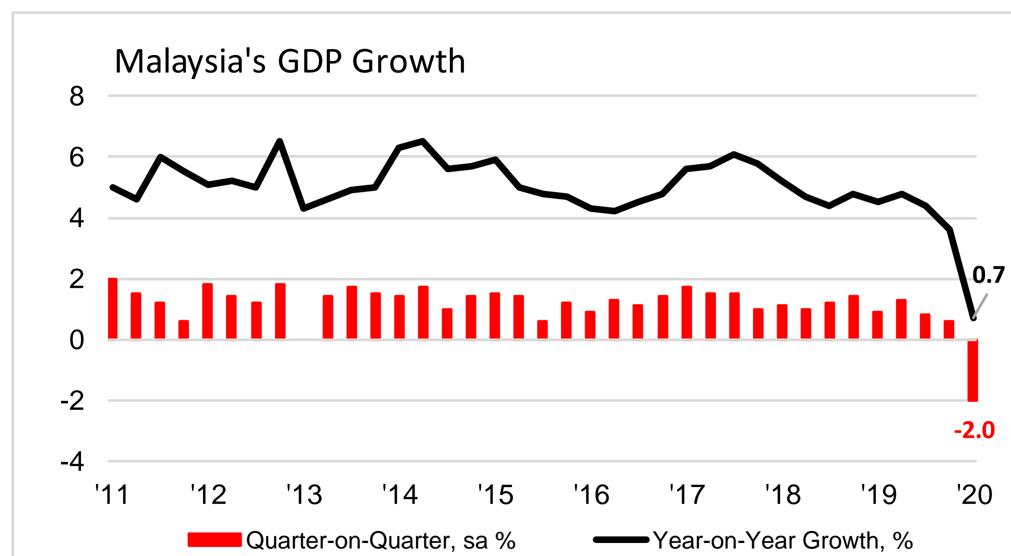
Malaysia surprised on the upside by eking out a positive Q1 growth

- Going into the data release, we expected the whole gamut of headwinds – from low oil price, supply chain disruptions, political drama and virus outbreak – to leave the Malaysian economy no choice to shrink in Q1.
- However, the data surprised on the upside in the end, showing growth of 0.7% yoy against the street's median expectation of -1.0% and -4.0% of ours. It appears that we had all underestimated the strength of the consumers to power on, come what may, at least back in Q1.
- Going into Q2, the consumer strength would have been tested to the brink, bearing the brunt of the MCO partial lockdown measures and looming job concerns. Still, there is enough juice from Q1 for any expectation for further OPR cuts from BNM in the immediate months to be more muted for now.

A Sign of Times

In normal times, if Malaysia were to announce a GDP data showing anything below 2% or even 3% year-on-year (yoy) growth, we would have assumed there is an error somewhere. As a sign of how drastic all our viewpoints have changed, today's 0.7% print has – rather wistfully – brought us some cheers.

While it is easily the lowest yoy print since late 2009, you would hear many thinking, "Well, at least it's still positive!". If nothing else, it tells you how subdued the expectations were. In a broad range of forecast expectations of between -4.2% to 1%, we had belonged to the lower end at -4% due to concerns about consumption growth, especially, amid the multitude of negative news flow hitting Malaysia during the period.



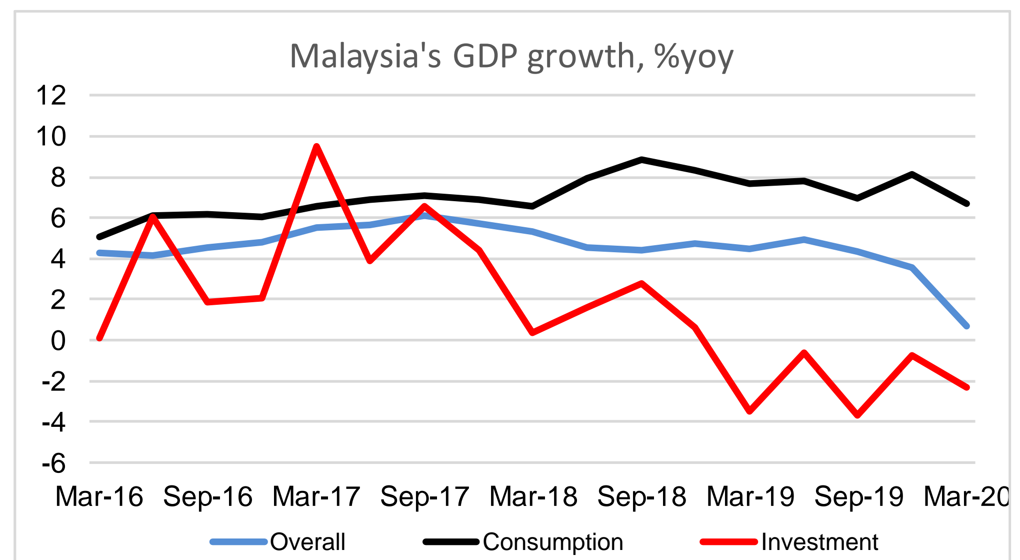
Source: OCBC, CEIC, Bloomberg.

To be sure, the momentum did weaken considerably in Q1. In seasonally-adjusted sequential terms, growth shrank by 2% in Q1. This is the first time it has dipped into an outright contraction mode in at least a decade.

Looking at some of the sub-components of the economy, any sense of joy would look terribly out of place, as well.

For one, the exports segment bore the hallmarks of damage from supply chain disruption from the beginning of Q1 and an unforgiving combination of production shutdown and demand evaporation in the later part. It shrank by 7.1% yoy, and essentially lopped off a chunky 4.7 percentage points from the headline growth. Despite some shrinkage in imports to balance things out, net exports nonetheless showed a hefty 37% yoy drop in Q1.

Meanwhile, investment activities shrank considerably too, at -2.3 yoy growth rate. While it is not a tremendous drop from the -2.1% average for 2019, it has nonetheless been a drag in Q1, and can only be even more so in Q2 given the greater challenges.

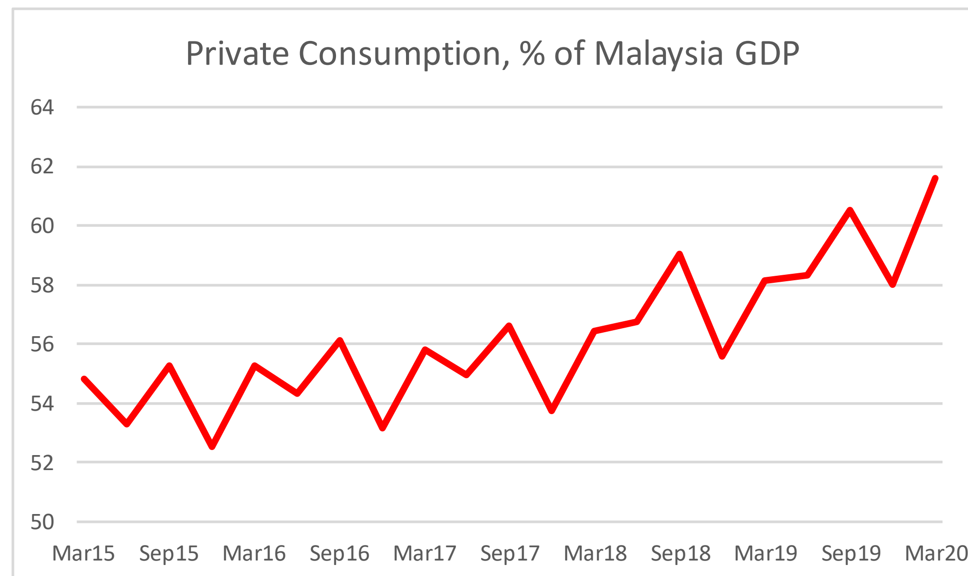


Source: OCBC, CEIC, Bloomberg.

Compared to the other components, it must be said that private consumption has held up remarkably well. In yoy terms, it grew by 6.7% in Q1. While that is obviously a downtick from the 7.6% we saw on average in 2019, the print jumps out more in its resilient strength than anything else, given the backdrop of economic and health uncertainties.

Going forward, given the increasing share that private consumption commands – at nearly 62% now compared to 57% and 59% averages of the last two years – it is both heartening to see its lingering strength in Q1 and concerning to think about its prospects in Q2. For one, if the bulk of the private consumption strength has been due to frontloaded purchases ahead of the MCO imposition in mid-March, that obviously leaves a gap in Q2. No

less importantly, there is also the much poorer employment prospects to contend with now versus just a few months ago. Already, the statistics office noted a pickup in unemployment rate in March to 3.9%, compared to 3.3% in February. April would have most likely see it cross above 4%, portending a much less benign landscape of purchasing power, especially against the structural backdrop of high household indebtedness.



Source: OCBC, CEIC, Bloomberg.

In short, as much as we take comfort in the resilience in Q1's GDP data overall and the private consumption print specifically, we are concerned about Q2.

Already, BNM has noted that it expects an outright yoy contraction in Q2. Our sense is that the economy may see a contraction as deep as 6% yoy during the period, before eking out some gains in H2 to allow it to post growth of -0.5% for the year. Having implemented a 100bps rate cut this year, we see Bank Negara keeping its powder dry and leaves the OPR unchanged at 2%, if such baseline scenario holds. If there is any indication that growth momentum would suffer more deeply despite the easing of the MCO, BNM would not be hesitant to cut rate further below the now-historic low to 1.5%.

This is important to note given that, even though the baseline scenario we have in mind is already fairly subdued, the outlook still comes with tons of caveats, unfortunately. This would include no more need for any re-imposition of restriction orders after the existing one runs its course. With political temperature rising yet again ahead of the reopening of the Parliament, any further uptick will inadvertently hurt the path towards recovery, as well. On the global front, there is also the base assumption that the major economies can recover enough grounds without endangering second waves of outbreaks that threaten to shut them all once more.

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