Flash Wound

Wellian Wiranto
+65 6530 6818
WellianWiranto@ocbc.com

Malaysia's Q3 GDP miss an unfriendly reminder of the virus impact

- Given how bad the pandemic resurgence was and how long-lasting the restriction orders were to contain the virus uptick in Q3, it should be no surprise to see growth slumping sizably during the period. As it turns out, the impact was nonetheless much greater, with the economy contracting by 4.5% yoy, instead of 2.3% that we had in mind, from growth of 16.1% in Q2.
- Drilling down further, private consumption bore the brunt of the hit, shrinking as Malaysians stayed home due to MCO restrictions. Exports offered a brighter spot, but the degree of uplift was more curtailed than expected. Given the relatively strong imports, net trade turned out to be a drag on growth rather than a boost. Investment activities slumped too.
- Overall, even though the data was obviously a miss and is a constant reminder of the havoc that the virus can still cause for the economy, Malaysia is in an undoubtedly better place now in large part due to the high level of vaccination rate that should offer the economy at least some immunity from future resurgence bouts.

Echoes of the Pandemic

We had -2.3% yoy in mind, and the market had pencilled in -2.6%. As it turns out, Malaysia's Q3 GDP came in a lot weaker with a contraction of 4.5% yoy. Looking at the details, the downtick in most components such as private consumption and investment activities came broadly in line with our expectations, given the reality presented by MCO restriction orders in Q3.

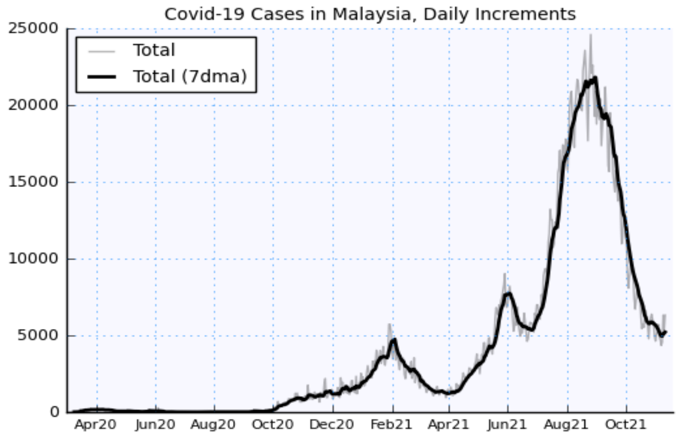
By the start of the quarter, Malaysia had imposed MCO for a month already, but it tightened the measures considerably starting from early July especially for some states including the economic heavyweight Selangor. With malls and most factories shut in the name of curbing the virus spread, both consumer and business confidence levels suffered.

Private consumption, for one, declined by 4.2% yoy, compared to a sizable growth of 11.7% in Q2. In terms of net contribution to headline growth, consumption deducted a chunky 2.6 percentage points (ppt), compared to a net addition of 6.7ppt before.

Meanwhile, investment activities slumped during the period as well, with growth of -10.8%yoy compared to 16.5% in the prior quarter – signalling how businesses were, understandably, shying away from plonking down capital on new projects and business expansion at a time of elevated uncertainties.

While the shrinkage in consumption and investment activities was considerable, it was not out-of-whack with what we had expected, given the trying circumstances facing the country. With the same lens, however, the performance of the external sector was subpar and may have inadvertently contributed to the miss in the overall data.

From the GDP data, exports grew by 5.1% yoy in real and 14.8% yoy in nominal terms, which appear to be quite staid compared to the exports growth suggested by the monthly customs data. Combined with the fact that imports growth remained relatively strong – at 11.7% yoy – the trade front deducted a good chunk of 3.13ppt from headline growth in net terms.



Source: OCBC, Bloomberg.

Overall, despite the miss in Q3 GDP, the authorities would likely still put on a brave face and focus on the improving outlook instead. To the extent that the pandemic resurgence appears to have come under better control, and that vaccination rate in Malaysia has climbed rapidly with 76% of its total population having received both shots, the confident tone is warranted.

Still, the outlook may not be as smooth sailing as the central scenario might have it. The government is pencilling in growth of 5.5-6.5% in 2022, which strikes us as being rather optimistic, especially given the lingering structural headwinds facing consumption recovery.

To be sure, the reopening initiatives – the travel lanes with Singapore and Indonesia being the most evident example – would give some boost to the economy. However, we remain watchful of the fact that the EPF withdrawal schemes that were an integral part of the stimulus packages have resulted in a cleaving out of savings for households that might take a while to rebuild, resulting in curtailed consumption growth in the coming years.

Hence, as much as we agree and do hope that the worst is now over, we are of the view that the recovery pace may not be as robust as assumed by the government. We see growth coming in at a more conservative 5.0% yoy in 2022, higher than our previous forecast of 4.3% in part due to the deeper base effect from this year. Owing to the Q3 GDP miss, we see full-year 2021 growth at 3.2% against 3.6% before.

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Howie Lee
Thailand & Commodities
HowieLee@ocbc.com

Herbert Wong
Hong Kong & Macau
herberthtwong@ocbcwh.com

FX/Rates Strategy

Frances Cheung
Rates Strategist
FrancesCheung@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com