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Stagnating growth on the cards for Malaysia, says Fitch

PETALING JAYA: Fitch Solutions projected the Malaysian economy would stagnate on the back of Covid-19 disruption to economic recovery, as 2Q'21 GDP performance fell far below its expectations with a 2% quarter-on-quarter (q-o-q) decline and a 16.1% jump year-on-year (yoy).

Therefore it has revised the year's real growth forecast to 0% from an earlier projection of 4.9%.

"In particular, the daily caseloads have not improved despite lockdown measures imposed nationwide and continues to set new records throughout the first half of August," said the research arm of Fitch Ratings.

Despite a 16.1% expansion in the second quarter, it believes the true picture of the economy is reflected by a 2% quarterly decline due to stringent containment measures culminating in a nationwide lockdown on June 1 which continues to be in effect until today.

Furthermore, the statistics department figures revealed GDP contracted 4.4% y-o-y in June due to the lockdown.

The research arm also noted that low base effects has resulted in a positive growth for all expenditure components of GDP, led by private consumption at 6.6 percentage points (pp).

"However, based on our calculations, private consumption in fact contracted by 11.5% q-o-q compared to the five-year average q-o-q growth rate of 2.4% pre-pandemic for Q2," it said.

"This demonstrates the severe impact the third wave of infections has had on the key growth engine of the economy – private consumption accounts for around 70% of GDP."

In regard to the lockdown, a risk that Fitch has consistently pointed out, new daily cases have seen consecutive records in recent weeks despite the lockdown with an all time high of 21,668 cases as of Aug 13.

In its view, the nationwide lockdown is likely to last for most of the remaining second half of 2021 and localised lockdown could even run into 2022, as the country is unlikely to achieve herd immunity by end-2021 despite the accelerated vaccination efforts.

As of Aug 11, Malaysia's vaccination rate stands at 80 doses per 100 people, below the estimated 140 to 160 doses per 100 people needed to achieve herd immunity.

"Furthermore, we see risks that the vaccination drive could see a slowdown after this initial surge that began in June, as the experience in other countries such as the US and Singapore suggests due to a variety of factors including vaccine hesitancy."

Given the lockdown assumptions for the second half of 2021, the research arm has revised its forecast for private consumption to decline by 2% from a 3% growth, while gross fixed capital formation growth is expected to slow to 1.5% from 4%.

It also believes unemployment is likely to rise over the second half as it has gone up to 4.8% in June from 4.5% in May as per statistics department data.

On the external front, Fitch has dialed back exports expectations, a key contributor to growth in 2021, subtracting 0.2pp from headline from a positive contribution of 1.7pp previously.

"While the government has opted to allow more industries to operate in spite of the lockdown, external demand is likely to prove less strong than we had previously expected, given the serious outbreaks of Covid-19 elsewhere in the region including Thailand, the Philippines, Vietnam and Indonesia."

It noted even China is facing the risk of sharper slowdown in 2H'21 due to a surge in infections caused by the Delta variant.

Meanwhile, imports will remain supported by the need for medical supplies to combat the pandemic and high prices for refined fuels in which it is a net importer of.

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