The recent declining GDP growth of major economies in the world has caused fear among many as some analysts have opined that it will be a recurring situation in the coming quarters with the continuous spread of the coronavirus and general uncertainty in the market.

According to the Organisation for Economic Cooperation and Development (OECD), the projected global growth of 3% could no longer be valid should the virus outbreak spread across the Asia- Pacific, Europe and North America. The revised value as of March 2020 is 1.5%, half of that initially projected figure. The rapid spread of the virus has closed down many factories around the world and has affected the global tourism sectors of these countries, with some of it facing the risk of bankruptcy. Moreover, many governments have restricted within and out-of-country travelling, putting a strain on the hospitality and aviation industry.

In Malaysia, Affin Hwang Capital Research believes that the drastic economic slowdown in the fourth quarter of 2019 will continue in the first quarter of 2020 as the virus has had a negative impact on the country's economic activities. Besides that, the GDP growth of China has been increasing at a lower rate, impacting Malaysia's exports industry. This does not come as a surprise as Bank Negara has recently released a report claiming that there has been an increasing dependency from Malaysia on China for exports, with an increase of 11% of exports contribution from China since 2000.

Top Export Destinations of Malaysia as of 2017.
Source: The Observatory of Economic Complexity (OEC)

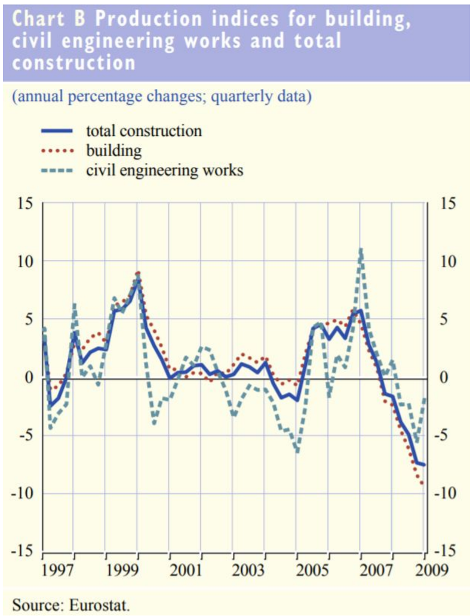
Besides the manufacturing and tourism industries that are expected to be affected by the slowdown, we now explore other sectors that will most likely be impacted.

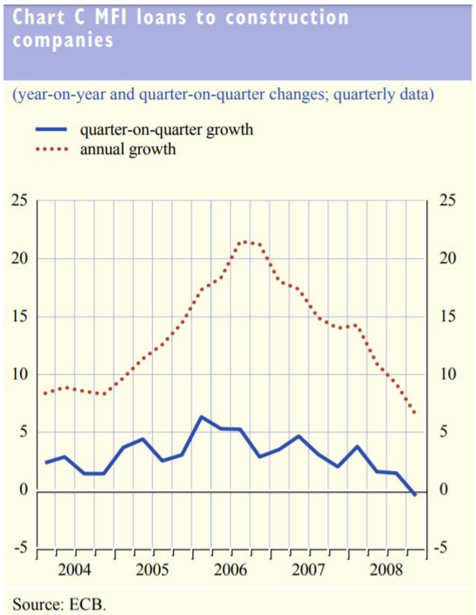
Electronics Industry

As some manufacturers in Malaysia supply materials to the Chinese companies, which then export their good to the major economies, the slowdown in global consumption will have an impact on some Malaysian companies. Given that consumer spending globally is declining, the rate of purchase of electronic items, for instance, is expected to be lower than before as many of them are facing the risk of lay-off and pay cut, spending is mostly reserved for the necessities. Therefore, Malaysian companies that supply integrated circuits to the Chinese companies will experience a decrease in volume ordered, potentially affecting the company's revenue.

Construction Industry

Typically, construction companies are responsible for the projects of commercial and residential buildings. This ranges from a condominium to an industrial park. The performance of an economy at a given time influences the decisions made in property development companies. For example, during a downturn where the market is rather quiet, companies will most likely put a pause on launching condominium projects as the take-up rate for such projects will not be as favourable as compared to a booming economy. Such behaviour in effect reduces the demand for the services provided by the construction companies.





Both charts above graphically explain the slower pace of business in the Europe construction sector during the recession, specifically between 2000-2001 and 2007- 2009. It is observed from Chart B that the growth of construction activities during the period of low GDP growth is at a declining rate. As construction companies are receiving contracts at a slower pace, the need for external financing will be growing at a declining rate as well, as depicted in Chart C.

The lower demand in the construction sector has a domino effect on other sectors too, such as building materials, lumber and cement manufacturing companies. These companies provide the "raw materials" of a building to the construction companies. Therefore, it is justified that the impact of slower growth in the construction sector will be extended to the other related sectors in the economy.

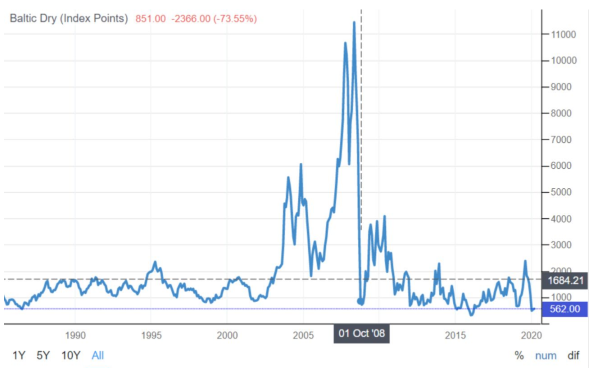
In the Malaysian context, such effects may be minimised through the stimulus packages rolled out by the government during the Movement Control Order (MCO). As the government placed more focus on domestic investment activities that have high multiplier effects, the construction companies will certainly be benefiting from the RM 4bil worth of infrastructure projects contracts distributed by the government.

<u>Port Industry</u>

As production systems become more fragmented, it is made easier for companies to source for materials globally, according to each country's competitive advantage. Along with the advancement of international transportation systems and increasing trade agreement between countries, the port industry has experienced a great deal of prosperity, especially during an upward business cycle.

When the economic activities start to slow down, the port industry will take the hit as well. This is because the aggregate demand of countries falls, decreasing the frequency and volume of both, import and export.

The port activity is usually measured by the Baltic Dry Index (BDI). This index reveals the average price to ship raw materials. The index is deemed as a leading indicator of economic activities because it involves events taking place at the earlier stages of global commodity chains. For example, the shipment of oil will have to take place before manufacturing activities begin. Therefore, the decline of the BDI (as a result of lower shipping demand) foretells a recession since producers have substantially cut down on their demand, forcing shippers to respond by decreasing their rates since shipment capacity cannot be reduced in the short run.



Source: Trading Economics

Based on the graph above, it is obvious that when the economy was doing well around 2005-2006, the BDI increased exponentially, reflecting the bustling economic activities that were happening in various countries. However, when the global financial crisis started kicking in around 2007-2008, the BDI fell tremendously, indicating the fall in trading activities as a result of weaker consumer sentiment.

Despite having a negative tone in the above discussion, it is not certain that the slowdown of the GDP growth is here to stay or to leave. However, as participants in the economy, it is beneficial for us to have a deeper understanding of the topic rather than consuming the information as it is. It is when we have a better picture of a situation that we get to seize new opportunities because after all, there is a silver lining in every circumstance.