

Malaysia: Exports lifted manufacturing as 2020 wound down

Even so, the rapid spread of Covid-19 leads us to expect a steeper fall in Malaysia's GDP in 4Q20, while 2021 is off to a weak start as well. We are more confident than ever that the central bank will cut rates by 25 basis points in March



1.7%

December IP growth
year-on-year

Higher than expected

Above-expected December output

Malaysia's December industrial production surprised on the upside. A 1.7% year-on-year rise in output was slightly better than our 1.5% growth forecast for the month but stood in stark contrast to the consensus of a -1.0% YoY fall. The rise followed a brief negative spell in the previous two months; -0.5% YoY in October and -2.2% in November.

IP continued to derive strength from exports, which rose 10.8% YoY in December following a 4.6% rise in November. Aligning with this, growth in the manufacturing component of IP more than doubled to 4.1% YoY from 2.0% over the same months. Yet the pick up was broad-based, and declines moderated in mining (to -5.4% YoY from -15.4%) and electricity output (to -0.2% from -2.5%).

Manufacturing sales growth also improved in December to 4.5% YoY from 2.1% in November. However, still-falling employment and wages in the sector in December, by -2.0% YoY and -0.8% YoY respectively, provided little hope of an imminent turnaround in domestic demand as a driver of Malaysia's GDP growth in the near-term, while an acceleration in the pandemic has now made things much worse.

Still, not a good end to 2020

The December figures bring average 4Q20 industrial production growth to -0.3% YoY, a negative swing from +0.8% in 3Q. This will contribute to a steeper GDP contraction in the last quarter of 2020. The GDP report for 4Q20 report is due later this week on Thursday, 11 February. We are looking for a -5.2% YoY GDP contraction, down from -2.7% in 3Q.

Even as the export recovery gathered pace in the last quarter of 2020, the accelerating spread of Covid-19 and tighter movement restrictions continued to depress domestic demand. The number of Covid-19 infections jumped exponentially over the quarter, from about 11k at end-3Q to over 113k at end-4Q.

Hence, our view of a steeper GDP contraction in the last quarter.

And a bad start to 2021

There are no signs yet of the Covid-19 outbreak subsiding – the latest tally puts total infections at over 242k. Almost the entire nation is under a strict Movement Control Order (MCO 2.0), which started on 22 January for two weeks and was further extended until 18 February. A month of inactivity will mean a significant hit to the economy and even steeper fall in GDP in the current quarter.

Our GDP forecast for 1Q21 is -6.2% YoY. We are more confident than ever of our view that Bank Negara Malaysia, the central bank, will cut the policy rate by 25 basis points at the next policy meeting in March.