

Malaysia: Manufacturing contracts by 22% in May

The relaxation of Covid-19 movement control might have contributed to some pick-up in activity in recent months but it's still a bumpy road ahead



22.1

May industrial production fall (%)

Year-on-year

Better than expected

Easing of Covid-19 restrictions helped activity

Malaysia industrial production (IP) slumped by another 22.1% year-on-year in May, on top of the 32% YoY fall reported in the previous month. The good news is that this was less negative than the consensus view at -29% (and our -30% forecast) and that output, in fact, bounced 18% on the month, clawing back some of April's 30.5% MoM fall.

The IP performance contrasts with exports where the year-on-year decline deepened in May (to

-25.5% vs. -23.9% in April) and month-on-month growth continued to be negative (at -3.2% vs. -19.1%). This suggests that manufacturing probably drew its strength more from domestic demand, thanks to the relaxation of Covid-19 movement control orders (MCO) at the start of May.

Manufacturing sales growth, the proxy for retail sales that serves as a guide to domestic spending, also recovered in May - to -19.8% YoY from -33% YoY in April (up 19% MoM). There was also some momentum seen in jobs and wage growth.

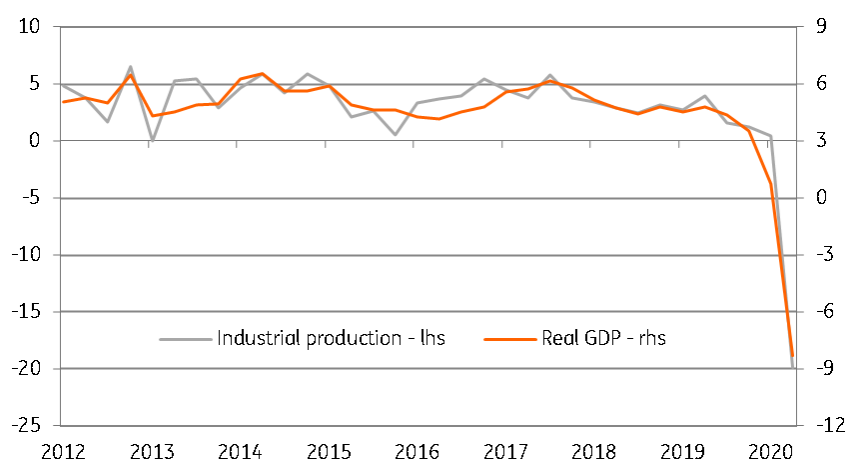
Still a bumpy road ahead

We could see further manufacturing recovery in June, with the further reopening of the economy. Even so, it's unlikely to be enough to pull annual growth into positive territory just yet, and probably not for the rest of the year either, even if month-on-month growth reverts to behaving in line with the average of recent years.

We estimate an approximate 20% IP contraction in 2Q, which supports our view of an 8.2% YoY GDP contraction in 2Q20 - the largest since the 1998 Asian crisis. A possible bigger hit to services activity tips the balance of risk more to the downside than to the upside. Persistently weak exports, standstill tourism, and anaemic domestic demand combine to keep continued negative GDP growth as the baseline for the second half of the year. Our full-year GDP growth forecast for 2020 is -3.9%.

Bank Negara Malaysia, the central bank, scaled back monetary easing with a 25bp policy rate cut to 1.75% earlier this week, after a 50bp cut at its last meeting in May. We expect at least one more rate cut in this cycle, probably in September.

Manufacturing drives real GDP growth (% year-on-year, quarterly data)



Source: CEIC, ING

Note: ING forecasts for 2Q20.