

Malaysia's manufacturing improves prospects for 3Q GDP

On the back of improved industrial production and exports, we revise our 3Q20 GDP growth forecast from -11.8% to -8.4%, but rising cases dent prospects of economic recovery well into 2021



A train moves past skyscraper buildings in Kuala Lumpur Malaysia

Source: Shutterstock

1.0% Industrial production growth
In September (YoY)

September industrial production up only by 1%

Malaysia's September industrial production surprised on the downside with a 1.0% year-on-year rise, slower than our forecast of 2.7%. On a positive note, it was an increase over the 0.2% YoY growth seen in August and also the third consecutive month of expansion.

It was all about the export-led acceleration in manufacturing as output grew to 4.3% YoY from

2.2% in August, [mainly supported by the surge in exports](#). The output of other main industrial sectors, mining and utilities, however, continued to contract.

Manufacturing sales, the indicator of domestic spending also improved in September to 3.7% YoY from 1.6% in August. However, falling employment and wages in the sector, by -2.3% YoY and -1.7% YoY respectively, provide little hope of an imminent turnaround in domestic demand as a driver of growth in the near-term.

[Malaysia's exports stage a strong rebound in September](#)

Better 3Q GDP than expected

September figures bring average 3Q20 industrial production growth of 0.8% YoY and sales growth of 2.4%, up from their record plunges of -18% YoY and -16% respectively in 2Q due to the lockdowns. Such a sharp turnaround in activity bodes well for 3Q GDP growth just ahead of the official release of this data later in the week (Friday, 13 November).

However, as observed elsewhere in the region, the activity rebound is unlikely to be enough to revert GDP growth to positive territory from the -17.1% YoY crash it suffered in 2Q.

We have revised our 3Q GDP growth forecast in light of the latest data. We now estimate growth coming in at -8.4% YoY - a significant improvement over our earlier forecast of -11.8%.

Increased downside risk

Unfortunately, the second-wave of the virus dents prospects of economic recovery for the remainder of the year and probably well into 2021. As such, we see no imminent end to the negative GDP growth trend at least over the next couple of quarters. That said, we have also revised our 4Q growth view from -8.9% to -6.2% and the full-year forecast from -9.3% to -7.8%.

The deficit as a proportion of GDP is targeted to narrow to 5.4% in 2021 from 6.0% this year, but this assumption appears optimistic

As expected, Finance Minister Zafrul Abdul Aziz announced an expansionary budget for 2021 on Friday with increased social and infrastructure spending to help the recovery after a record slump this year. The deficit as a proportion of GDP is targeted to narrow to 5.4% in 2021 from 6.0% this year. However, this hinges on projected 6.5-7.5% GDP bounce next year, up from about -4.5% contraction this year.

These assumptions appear to be optimistic, given the continued local and global spread of the pandemic.