

Good MornING Asia - 14 March 2018

Malaysia's noisy activity data for January doesn't alter our view of a gradual normalisation of the central bank policy this year

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We reiterate our view of a gradual normalisation of Bank Negara monetary policy this year with one more 25bp interest rate hike in the third quarter

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Noisy January data

Malaysia's industrial production grew by a slower-than-expected 3.0% year-on-year in January. This was little changed from the 2.9% rate recorded in December and contrasts with an acceleration in exports volume growth (17.4% vs. 3.0%) and manufacturing sales growth (10.8% vs. 9.4%), reflecting strong demand for both. Growth of manufacturing salaries and wages hit an eight-month high of 13.3% (prior 9.2%), whereas employment growth edged up to 2.5% (prior 2.4%). Productivity growth, or growth of sales per employee, also improved to 8.0% (prior 6.8%).

January activity growth is noisy due to the timing of the Lunar New Year holiday, which fell in January in 2017 but in February this year. The combined January-February activity growth will provide an undistorted picture. For now, suffice it to say, based on sales, wages and employment growth, manufacturing continues to support GDP growth in 2018. Strong wage growth underpins private consumption, which remains the key expenditure-side GDP driver.

13%

Wage growth (an eight-month high)

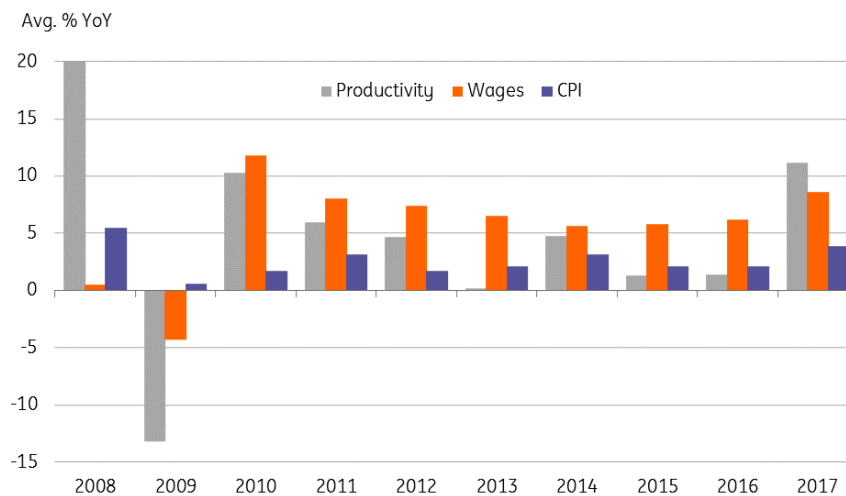
Year-on-year

Tight labour market

The tight labour market- with wage growth outpacing productivity growth since September 2017- could be potentially inflationary. Or, it may not be. 2017 was the first year in almost a decade in which average annual wage growth slowed below productivity growth and yet inflation accelerated (see chart). This shows that the supply-side push to prices, especially in food and fuel sectors, are more dominant than demand-side pressures in driving Malaysia's inflation. Absent any supply shock to food prices or an oil price shock to fuel prices, consumer price inflation will not be a policy worry this year, in our view.

That said, we reiterate our view of a gradual normalisation of Bank Negara monetary policy this year with one more 25bp interest rate hike in the third quarter, once the political uncertainty associated with general elections in August this year lifts.

Productivity, wages and inflation



Source: Bloomberg, ING

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