Malaysia: Manufacturing slows in May

We have cut the 2018 GDP growth forecast for Malaysia from 5.5% to 5.2%. It is still a respectable result likely to sustain the MYR performance for the remainder of 2018

3% Industrial production growth in May

As expected

Exports depress manufacturing

Malaysia's industrial production (IP) is a good guide to the country's GDP growth and the slower IP growth in May supports our view of more moderate GDP growth in the second quarter.

In line with the consensus forecast, IP growth has slowed to 3% YoY in May from 4.6% in the previous month. While growth was driven off the high base effect, weak exports have contributed to the slowdown. Export growth contracted to 3.4% YoY in May from 14% in April, dragging the expansion of the manufacturing IP component to 4.1% from 5.3% over the same period. Aside from manufacturing, mining and utility sectors also registered slower growth in May.

Manufacturing sales, employment, and wages also posted weaker growth in May. Manufacturing sales slowed to 5.5% YoY from 8.2% in April, while employment growth eased to 1.7% from 2.1% and wage growth contracted slightly to 10% from 10.2% over the same period.

Slower manufacturing points to slower GDP growth

Average April-May IP growth of 3.7% YoY is a modest slowdown from the 3.9% average in the first quarter. This is consistent with our forecast of a modest GDP slowdown to 5.2% in 2Q18 from 5.4% in 1Q18.

> *With weakening export support to the economy, GDP growth is poised to moderate this year*

We have revised our full-year 2018 growth forecast to 5.2% from 5.5% as the ensuing global trade war will continue to erode the country's export strength for the rest of the year. It is still a respectable result likely to sustain the Malaysian ringgit's performance relative to other Asian currencies for the remainder of 2018. We are not forecasting any change to the central bank's (BNM) policy through end-2018.