

## Malaysian 2017 GDP forecast revised upwards

We revise our GDP growth forecast but still don't expect any tightening before 3Q18



Source: istock

# 5.6%

2017 GDP forecast

revised upwards from 5.4%

### Industrial production surprises

Industrial production (IP) growth surprisingly accelerated to 6.8% year-on-year in August from 6.1% in July with the consensus being 5.8% and ING forecast even lower at 5.5%. Firmer IP growth came despite a slowdown in exports.

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*We forecast the first 25bp OPR hike to 3.25% in 3Q18*

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The 12.8% YoY export volume growth in August was down from 21.8% in July, though it's still a strong pace. Manufacturing sales growth slowed to 16.5% in August from 22.2% in July, but it's still stronger than our 13% expectation.

Data is showing signs of export and IP growth recoupling as 12.6% YoY year-to-date August export volume growth was a sharp acceleration from 2.5% a year ago, while IP growth of 4.8% YTD only modestly picked up from 3.5%. We believe the best of Malaysia's export surge this year is over. However, we expect firmer domestic spending to continue to support manufacturing and GDP growth through the rest of the year.

## Our revised forecast

IP growth tracks manufacturing GDP growth and manufacturing sales growth tracks services GDP growth. Assuming both IP and sales run at their July-August averages in September points to 5.7% GDP growth in 3Q17 to which we revise our forecast from 5.0% (consensus: 5.0%, prior: 5.8%, 3Q data due mid-November). We also revise our full-year 2017 growth forecast to 5.6% from 5.4% while consensus is 5.1%.

### What does this mean for the Bank Negara Malaysia?

The third consecutive quarter of strong GDP growth put against elevated inflation and an undervalued Malaysian Ringgit (MYR), strengthens the case for a Bank Negara Malaysia tightening.

Our baseline, however, is that increasingly populist policy settings in the run-up to general elections in 2018 will keep BNM from tightening at least until after elections. We forecast the first 25bp Overnight Policy Rate (OPR) hike to 3.25% in 3Q18.

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