Malaysia's April manufacturing plunges 32%

As Malaysia's industrial production tumbles by 32% in April, the case for more rate cuts seems to be getting stronger and stronger. We expect another 100bp rate cut by the end of 3Q

-32%

April industrial production growth

Year-on-year

Worse than expected

Exports dent manufacturing

Malaysia's industrial production tumbled 32% in April from a year ago, surpassing consensus centred around a -15.4% year on year and our estimate of -25%.

A sharp plunge in exports, by 24% in April, explains the weakness. These are the worse readings for exports and manufacturing since the 2009 global financial crisis.

But its wasn't just exports weakness that dragged manufacturing down. The Covid-19 movement restrictions also depressed domestic demand. Manufacturing sales - a proxy for retail sales, also posted a 33% YoY fall in April as employment and wages fell.

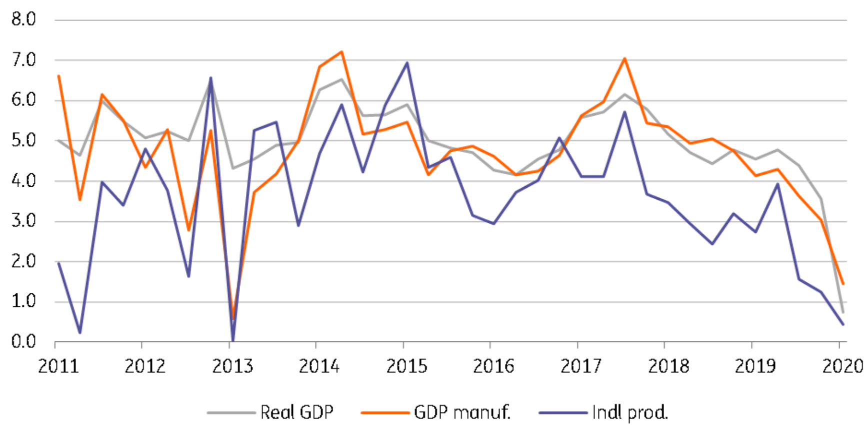
Today's data is a harbinger for poor GDP data

Industrial production growth closely tracks manufacturing GDP growth, which in turn drives total GDP growth. Undoubtedly, today's data is a harbinger for a sharp GDP fall in the current quarter, thanks to the Covid-19 movement control measures that spanned almost the entire quarter. We recently cut our 2Q20 GDP growth forecast to -8.3% YoY from -6.6%, and the full-year 2020 forecast to -3.9% from -2.9%.

The case for further monetary policy easing by the central bank in this cycle is just getting stronger. The central bank has cut its policy rate by a total of 100 basis points so far this year and we anticipate an additional 100bp cut by end-3Q20, taking it to an all-time low of 1%.

The next scheduled meeting is on 7 July.

Manufacturing and GDP growth (% year-on-year)



Source: CEIC, ING

Quarterly data.