

## Malaysia: The best is behind us

We see no threat to our forecast of continued Bank Negara monetary policy normalisation with one more 25bp rate hike this year



### Exports drag manufacturing lower

Malaysia's industrial production growth slowed more than expected to 2.9% year-on-year in December, down from 5.0% in the previous month (consensus 4.6%, ING forecast 3.5%). The slowdown isn't a complete surprise though, as growth in the volume of exports dipped to 3.0% from 9.7% over the same months.

Nevertheless, the growth of manufacturing sales and employment in the sector held up quite well in December at 9.4% and 2.4% respectively, possibly supported by strong domestic spending. Salaries and wages growth at 9.4% was also pretty good..

### High base effect dampens activity growth

This latest production data puts fourth quarter 2017 IP growth at 3.7%YoY, down from 5.9% in the previous quarter. The corresponding figures for export volume are 8.5% and 13.9%. The high base effect has been dampening the year-over-year activity growth pretty much everywhere in Asia, including Malaysia. And this is associated with a slowdown in GDP growth. We have already observed a GDP slowdown in other Asian regional economies in 4Q17 (Korea, Singapore, Philippines). China's growth was steady while there was a modest uptick in Indonesia's and

Taiwan's growth. Malaysia is likely to join the majority.

The key message here is that the best of Malaysia's GDP growth in the current cycle, 6.2% in 3Q17, which is the fastest in more than three years, is behind us. The 4Q17 GDP report is due next week, February 14. We forecast a slowdown to 5.5%, in line with the consensus median. This still implies a faster full-year 2017 pace of 5.8% than the official forecast of 5.2-5.7%.

### **No impact on BNM policy normalisation**

The best may be behind us, though rising commodity prices will continue to support exports and election spending will support domestic demand, sustaining a 5%-plus pace of GDP growth through 2018. This should keep Bank Negara Malaysia (BNM) on the policy normalization path that started in January with a 25 basis point interest rate hike. We have pencilled in one more 25bp BNM policy rate hike in the third quarter of 2018.