

ECONOMIC REVIEW | April 2018 Industrial Production Index

IPI Up 4.6% in April Lifted by Broad-Based Recovery in External Trade

- *IPI growth hints solid macro outlook. Malaysia's industrial production expands by 4.6%yoy in Apr-18, slightly above our forecast of 4.4%yoy. By major components, manufacturing and electricity outputs up by 5.4%yoy and 5.8%yoy respectively while mining improves to 1.9%yoy from stagnant growth in the previous month.*
- *Gradual pick-up in global demand supports IPI performance. Among others, solid expansion in productions of E&E, refined petroleum and chemicals & chemical products by 6.6%yoy, 6%yoy and 2.9%yoy respectively are partly contributed by continuous upbeat momentum in global trade activities. Mining output supported by crude petroleum increase by 4.4%yoy, reaping from the strong rise of commodity prices.*
- *We expect IPI growth of 4.3% for 2018. As guided by the recent Business Tendency Index data, we believe the IPI growth will be growing between 3.5%-4.5% during the second half of 2018. Lower business cost partly due to moderating inflation, stable retail fuel prices and zero-rated GST will provide additional supports for industrial production growth to hit 4.3% in 2018.*

IPI growth hints solid macro outlook. Malaysia's industrial production expands by 4.6%yoy in Apr-18, slightly above our forecast of 4.4%yoy. By major components, manufacturing and electricity outputs up by 5.4%yoy and 5.8%yoy respectively while mining improves to 1.9%yoy from stagnant growth in the previous month. On monthly basis, manufacturing and electricity outputs expanded 1.7% and 2.1% respectively while mining shrank by -1.6%. Moving forward, we foresee IPI performances to expand at steady pace for the second half of 2018 amid escalating trade tension, moderating inflation and supportive policy changes for businesses such as zero-rated GST and stabilised retail fuel prices.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%				YoY%			
	Jan-18	Feb-18	Mar-18	Apr-18	Jan-18	Feb-18	Mar-18	Apr-18
IPI	5.2	(4.4)	(0.3)	1.6	5.5	3.0	3.1	4.6
Mining	1.6	(3.5)	1.4	(1.6)	1.6	(1.6)	0.0	1.9
Manufacturing	6.5	(5.1)	(0.9)	1.7	6.8	4.7	4.1	5.4
Electricity	(0.8)	(0.6)	0.7	2.1	4.3	2.8	4.4	5.8

Source: CEIC, MIDFR

*MoM is Seasonally Adjusted

Gradual pick-up in global demand supports IPI performance. Malaysia's external trade activity improved in Apr-18 with exports grew by 14%yoy, fastest in 3-month. Among others, solid expansion in productions of E&E, refined petroleum and chemicals & chemical products by 6.6%yoy, 6%yoy and 2.9%yoy respectively are partly contributed by continuous upbeat momentum in global trade activities. Mining output supported by crude petroleum increase by 4.4%yoy, reaping from the strong rise of commodity prices. As for May-18, we expect slight slowdown for overall IPI performance due to global trade tension and market uncertainties amid of GE14. Malaysia's manufacturing PMI for May-18 recorded at 17-month low of 47.6 points. Nevertheless, we predict the IPI performance will rebound in the second half of 2018 as threat of trade war tapers down, moderating business cost pressure and continuous gradual rise in commodity prices.

Export-oriented and commodity-based on spotlight. Brent crude oil price average at \$76.7, up by 49.2%yoy in May-18. The strong rise in commodity prices is due to strengthening global demand and continuous efforts of oil production limit among most oil-producing countries. Plus, average exports growth for the first four months in China recorded at 14.3%yoy, stronger than 2017's average of 6.4%yoy. Moving forward, we foresee export-oriented and commodity-based industries to stay on upward trajectory while domestic-driven industries to improve further underpin by moderating inflation, zero-rated GST and stable labour market.

Table 2: Changes in IPI Industries (YoY%)

	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18
Mining;	(0.2)	(4.1)	1.6	(1.6)	0.0	1.9
Mining: Crude Petroleum	(3.0)	(5.2)	1.7	0.5	1.1	4.4
Mining: Natural Gas	2.1	(3.2)	1.4	(3.5)	(0.9)	(0.4)
Manufacturing;	6.4	5.4	6.8	4.7	4.1	5.4
Food Products	7.2	18.4	18.6	2.4	7.0	4.6
Refined Petroleum Products	9.4	1.7	6.7	7.7	(1.0)	2.9
Chemicals & Chemicals Products	7.5	7.5	7.2	8.7	3.8	6.0
Rubber Products	3.7	3.2	3.7	2.0	1.1	(0.3)
Basic Metals	5.0	5.5	7.1	5.9	4.1	3.5
Electrical & Electronic Products	7.0	3.8	5.7	5.5	5.7	6.6
Computers & Peripheral Equipment	1.1	1.6	13.3	(6.4)	(1.5)	(2.0)
Machinery & Equipment	7.7	4.3	6.4	5.1	5.4	5.8
Motor Vehicles, Trailers & Semi-Trailers	4.2	(0.6)	1.8	(7.1)	6.9	9.8

Source: CEIC, MIDFR

Table 3: Changes in IPI Industries by Exports & Domestic (YoY%)

	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18
IPI: Export Oriented Industries	4.5	7.2	6.5	7.3	5.7	4.5
Electronic and Electrical Products	6.1	7.0	4.3	5.1	5.3	6.3
Chemicals and Chemical Products	2.4	6.4	6.3	6.1	7.3	4.7
Petroleum Products	0.7	9.4	1.7	6.6	7.8	(1.2)
Textiles & Wearing Apparel	9.3	7.8	7.7	9.5	7.1	3.5
Wood and Wood Products	1.3	0.6	0.5	3.0	4.0	4.9
Rubber Products	9.5	4.3	3.4	3.6	3.0	(0.5)
Off Estate Processing	10.1	11.6	35.9	34.7	0.4	12.7
Paper Products	0.9	3.9	7.4	2.5	2.9	5.9
IPI: Domestic Oriented Industries	3.7	4.5	2.9	5.5	2.5	3.6
Construction (CO)	4.9	4.6	4.6	6.4	4.9	4.0
CO: Non Metallic Mineral	3.9	4.1	4.2	7.4	5.6	3.9
CO: Iron and Steel	5.5	5.0	5.4	7.1	6.0	4.1
CO: Fabricated Metal	5.4	4.6	4.4	5.4	3.8	4.0
Consumer (CS)	2.7	4.4	1.6	4.8	0.8	3.3
CS: Food Products	3.4	2.0	1.7	6.3	3.4	3.2
CS: Transport Equipment	1.7	5.2	1.7	0.7	(3.0)	7.0
CS: Beverages	6.7	6.5	5.0	3.4	2.0	10.5
CS: Tobacco Products	0.5	11.3	2.4	0.3	0.2	(1.2)
CS: Others	2.3	5.2	(0.5)	15.1	3.9	(5.8)

Source: CEIC, MIDFR

Manufacturing sales growth rebounded to 3-month high. Manufacturing sales rose by 8.2%yoy in Apr-18, fastest since Feb-18. The rise in manufacturing sales is in line with the sound pick up in external trade performance for the month, recording exports and imports growth at 14%yoy and 9.1%yoy respectively. Among major products, strong surge in refined petroleum products and selected E&E products. On a different note, wage growth of the sector registered at 10.2%yoy while employment grew steadily at 2.1%yoy. Henceforth, we opine continuous uptrend in both wages and employment in the manufacturing provides a bright outlook for the economic activities and contribute positively towards domestic consumption in 2018.

Table 4: Manufacturing Sales, Employment and Payrolls (YoY%)

	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18
Sales;	10.9	9.4	10.8	4.9	3.9	8.2
Refined Petroleum Products	25.2	22.8	13.7	14.8	(3.5)	9.4
Diodes, Transistor & Electronic Integrated Circuits Mic	4.8	3.6	9.5	6.5	17.2	16.0
Electrical Capacitor Resistor, Circuit Board & Display Comp	5.7	6.4	17.2	14.8	10.8	22.6
Employment	2.3	2.4	2.5	2.2	2.1	2.1
Wage	9.2	9.2	13.3	16.7	11.9	10.2

Source: CEIC; MIDFR

Global demand remains intact. Growing inflationary pressure and rising trade tension are two major factors haunting global industrial and trade activities during the first half of 2018. Brent crude oil price returns to \$60 in Nov-17 after more than 2-year hovering below the price level. On top of that, the average oil price growth in 1H18 is 35.4%yoy, higher than 2017's average of 24.2%yoy. However, global demand remains intact amid of optimistic business environment and healthy domestic economic activities in developed and emerging economies. For instance, IPI growth in the US rose by 4.5%yoy in Apr-18, fastest since Feb-12. We view the global industrial activities to remain on steady path given that manufacturing PMI for both global and emerging economies stay above 50-points in May-18, 53.1 and 51.1 points respectively. Henceforth, we believe the second half of 2018 will see better trade and industrial performances across major and emerging economies due to receding trade tension effects, continuous strengthening in global demand and optimistic business confidence in major as well as emerging economies.

Table 5: Global IPI (YoY %)

	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18
Malaysia	3.1	4.6	2.9	5.5	3.0	3.1	4.6
Indonesia	6.4	5.0	4.0	8.0	5.6	3.1	4.7
Philippines	(6.0)	(10.7)	(7.0)	16.2	21.3	15.8	31.7
Thailand	1.0	6.3	5.8	4.7	4.6	3.2	4.0
Taiwan	2.7	1.4	1.4	10.7	(2.2)	3.1	
Singapore	15.3	6.1	(2.4)	17.1	6.6	6.1	9.1
Korea	(3.0)	1.4	(0.8)	4.2	(1.2)	(0.6)	2.0
Japan	5.7	3.6	4.5	2.9	1.6	2.4	2.5
EU	3.2	4.5	4.7	3.6	2.9	3.0	
USA	2.6	3.5	3.0	3.1	3.7	3.7	4.5

Source: CEIC; MIDFR


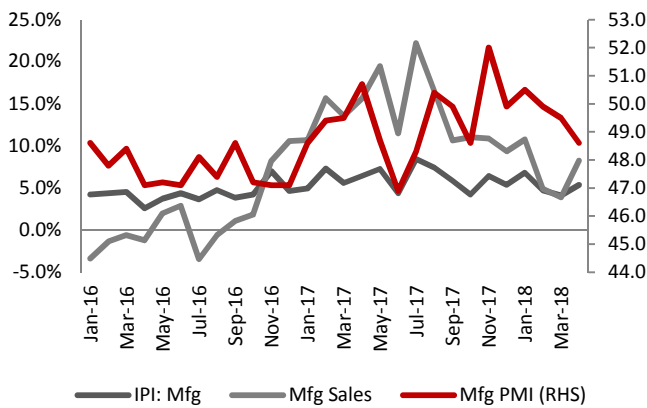
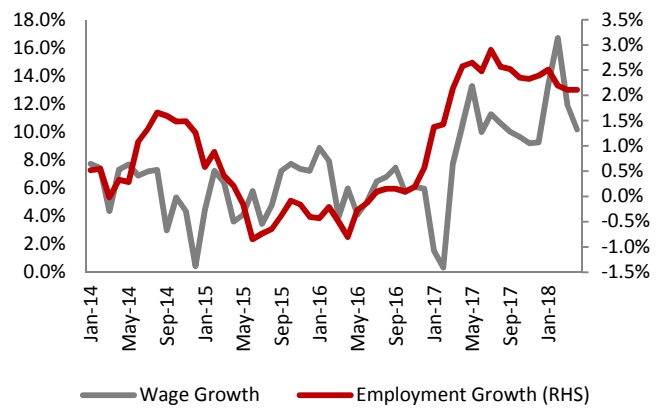
We expect IPI growth of 4.3% for 2018. As guided by the recent Business Tendency Index data, we believe the IPI growth will be growing between 3.5%-4.5% during the second half of 2018. Plus, encouraging trend of IPI growth in 2017 is expected to continue for 2018 supported by robust external trade performance and gradual increase in commodity price will boost up industrial activity in Malaysia. Lower business cost partly due to moderating inflation, stable retail fuel prices and zero-rated GST will provide additional supports for industrial production growth to hit 4.3% in 2018. Nevertheless, headwinds from global trade tension could pose possible threat to the estimate. 

Chart 1: Manufacturing IPI & Sales (YoY%) vs PMI (Points)



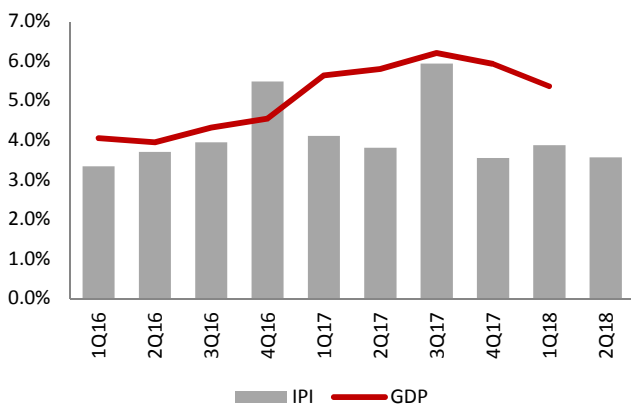
Source: CEIC, MIDFR

Chart 2: Manufacturing: Employment vs Wage (YoY%)



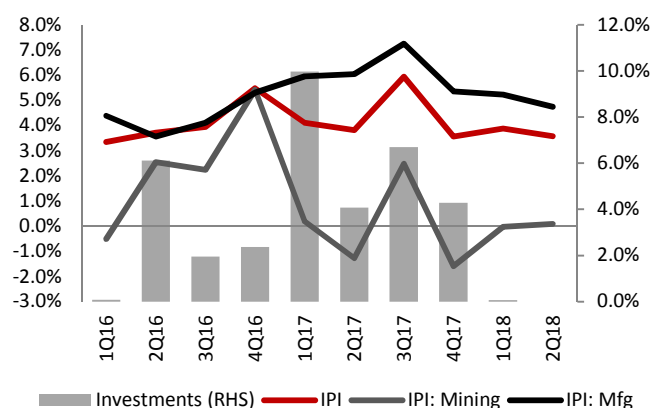
Source: CEIC, MIDFR

Chart 3: IPI vs GDP (YoY%)



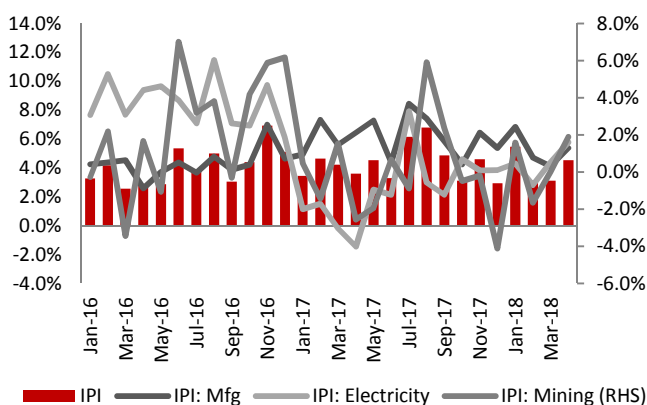
Source: CEIC, MIDFR

Chart 4: IPI vs Investments Performances (YoY%)



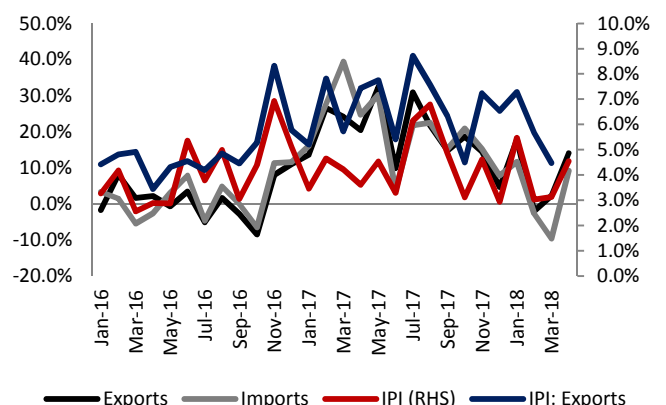
Source: CEIC, MIDFR

Chart 5: Manufacturing PMI in ASEAN (Points)



Source: CEIC, MIDFR

Chart 6: Export IPI vs Exports fob (YoY%)



Source: CEIC, MIDFR

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