

ECONOMIC REVIEW | August 2018 Industrial Production Index

IPI Growth at 2.2%yoy – Moderating Trend amid Trade Tensions & Market Uncertainties

- *IPI growth matched our estimate. Malaysia's industrial production expands by 2.2%yoy in Aug-18, meeting our forecast but lower than market estimates of 2.5%yoy. By major components, manufacturing and electricity outputs were up 4.2%yoy and 4%yoy respectively while mining continues declining for 4-consecutive months.*
- *Manufacturing sales grow at steady pace. Manufacturing sales rose by 8.1%yoy in Aug-18, lower than 6-month high recorded in Jul-18. The slight deceleration in manufacturing sales is in line with the contraction in external trade performance for the month. Among others, slower pace in sales of E&E products was a drag for overall manufacturing sales during the month.*
- *We forecast IPI growth at 3.8% for 2018. As guided by the recent Business Tendency Survey data, we believe the IPI growth will be growing between 3%-4% during the second half of 2018. In addition, encouraging trend of IPI growth in 2017 is expected to continue for 2018 supported by robust external trade performance, upbeat domestic demand and gradual increase in energy prices will boost up industrial activity in Malaysia.*

IPI growth matched our estimate. Malaysia's industrial production expands by 2.2%yoy in Aug-18, meeting our forecast but lower than market estimates of 2.5%yoy. By major components, manufacturing and electricity outputs were up 4.2%yoy and 4%yoy respectively while mining continues declining for 4-consecutive months. On monthly basis, mining output rose strongly by 5.7%mom underpin by rising global energy prices. Moderating trend in IPI performance is in tandem with the slowdown of Malaysia's external trade in Aug-18. Moving forward, we foresee IPI performance to expand at slower pace for the second half of 2018 amid escalating trade tension, declining business optimism and volatility risks in global commodity prices & currencies.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%				YoY%			
	May-18	Jun-18	Jul-18	Aug-18	May-18	Jun-18	Jul-18	Aug-18
IPI	0.2	(1.0)	2.6	(0.4)	3.0	1.1	2.5	2.2
Mining	0.0	(3.7)	1.4	5.7	(0.4)	(9.4)	(5.9)	(4.7)
Manufacturing	0.8	(0.3)	3.1	(2.4)	4.1	4.6	5.2	4.2
Electricity	(0.4)	0.4	3.9	(3.0)	2.6	3.0	4.5	4.0

Source: CEIC, MIDFR

*MoM is Seasonally Adjusted

Contraction in exports drag IPI performance. Malaysia's total and domestic exports shrank by 0.3%yoy and 3.4%yoy respectively during the month. The contraction is mainly due to tepid growth in exports of agriculture and manufactured goods. Henceforth, this translates into deceleration in production of major industrial products such as chemicals, E&E, machinery & equipment and motor vehicles. On a flip side, mining output, especially crude petroleum showed improving trend. Year-to-date, production of crude petroleum grew on monthly average of 1.8%yoy against -4.8%yoy over the same period of last year. Looking ahead, we view IPI performance in Sep-18 to be in good position as manufacturing PMI hits 10-month at 51.5 points and strong pick up in global energy prices.

Table 2: Changes in IPI Industries (YoY%)

	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
Mining;	0.0	1.9	(0.4)	(9.4)	(5.9)	(4.7)
Mining: Crude Petroleum	1.1	4.4	4.8	(2.2)	4.4	(0.6)
Mining: Natural Gas	(0.9)	(0.4)	(4.8)	(15.7)	(15.2)	(7.9)
Manufacturing;	4.1	5.4	4.1	4.6	5.2	4.2
Food Products	7.0	4.6	3.4	3.5	(3.7)	2.0
Refined Petroleum Products	(1.0)	2.9	3.0	1.5	0.8	3.0
Chemicals & Chemicals Products	3.8	6.0	5.5	4.9	7.8	2.5
Rubber Products	1.1	(0.3)	6.7	7.0	6.1	7.0
Basic Metals	4.1	3.5	3.1	3.3	3.5	4.0
Electrical & Electronic Products	5.7	7.1	4.8	5.5	8.0	4.6
Computers & Peripheral Equipment	(1.5)	(2.0)	3.5	6.8	2.8	13.7
Machinery & Equipment	5.4	5.8	4.1	6.6	2.8	0.0
Motor Vehicles, Trailers & Semi-Trailers	6.9	9.8	5.4	6.4	20.1	8.9

Source: CEIC, MIDFR

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

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
IPI: Export Oriented Industries	7.3	5.8	4.5	4.8	3.6	4.1	3.3
Electronic and Electrical Product	5.1	5.7	6.7	6.7	4.1	5.1	7.7
Chemicals and Chemical Pdts	6.1	7.4	4.3	6.3	3.8	4.6	6.8
Petroleum Products	6.6	7.8	(1.2)	3.1	3.1	1.5	0.7
Textiles & Wearing Apparel	9.5	7.1	3.5	3.9	2.1	6.1	3.6
Wood and Wood Products	3.0	4.0	4.7	1.9	1.8	4.8	5.1
Rubber Products	3.6	3.0	(0.5)	(1.5)	6.9	6.3	5.3
Off Estate Processing	34.7	0.4	12.7	2.5	0.4	(0.3)	(19.9)
Paper Products	2.5	2.9	5.9	2.4	4.6	6.1	6.7
IPI: Domestic Oriented Industries	6.0	2.2	3.1	6.6	5.4	5.5	9.7
Construction (CO)	6.4	4.9	4.4	5.3	4.8	5.1	5.5
CO: Non Metallic Mineral	7.4	5.6	5.2	5.4	5.9	5.8	7.5
CO: Iron and Steel	7.1	6.0	4.1	3.5	3.1	3.3	3.5
CO: Fabricated Metal	5.4	3.8	4.0	6.3	4.8	5.6	5.3
Consumer (CS)	5.6	0.3	2.1	7.7	5.9	5.9	13.5
CS: Food Products	6.3	3.4	2.7	6.6	5.7	7.0	16.0
CS: Transport Equipment	2.4	(4.3)	5.6	8.7	8.2	6.1	18.1
CS: Beverages	3.4	2.0	2.2	7.5	4.3	4.6	3.7
CS: Tobacco Products	0.3	0.2	(1.2)	1.5	1.7	1.9	2.6
CS: Others	15.1	3.9	(5.8)	9.7	3.3	4.8	5.8

Source: CEIC, MIDFR

*Data available only at July-18

Manufacturing sales grow at steady pace. Manufacturing sales rose by 8.1%yoy in Aug-18, lower than 6-month high recorded in Jul-18. The slight deceleration in manufacturing sales is in line with the contraction in external trade performance for the month. Among others, slower pace in sales of E&E products was a drag for overall manufacturing sales during the month. On a different note, wage growth of the sector grew by 9.7%yoy while employment grew steadily at 1.9%yoy. Henceforth, we opine that the 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 2H18. Manufacturing sales particularly E&E products is expected to further moderate due to trade tension. Based on our previous estimates, trade war between the US and China will affect Malaysia's sales of E&E products, optical equipment, electrical machinery, rubber & plastic products the most.

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

	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
Sales;	3.9	8.2	5.5	7.8	9.6	8.1
Refined Petroleum Products	(3.5)	9.4	11.7	3.9	3.5	7.2
Diodes, Transistor & Electronic Integrated Circuits Mic	17.2	16.0	5.2	14.8	19.1	12.0
Electrical Capacitor Resistor, Circuit Board & Display Comp	10.8	22.6	10.3	9.1	12.2	10.6
Employment	2.1	2.1	1.7	2.2	2.0	1.9
Wage	11.9	10.2	10.0	10.2	10.1	9.7

Source: CEIC, MIDFR

Soaring IPI performance in the US but moderating trends in other economies. Despite escalating trade tension, industrial production in the US rose steadily by 4.9%yoy, fastest since Dec-10. The solid uptrend is mainly supported by production in mining sector which jumped 13.8%yoy in Aug-18, highest ever recorded while factory output increases by 3.5%yoy. The robust uptrend in mining production in the US is in tandem with the average oil price growth, 38.7%yoy for the past 9-month, higher than 2017's average of 24.2%yoy. On the other hand, IPI performances in developed and emerging economies, indicate signs of moderation amid trade tension and rising inflationary pressure. For instance, Singapore's IPI growth registered at 3.3%yoy, slowest ever in 2018 so far. Even though above expansionary line, manufacturing PMI for global and emerging economies is on descending trends, 52.2 points (22-month low) and 50.3 points (25-month low). Moving forward, we expect global trade activities to moderate particularly in 4Q18 amid heighten trade tension and market uncertainties over the mid-terms election in the US.

Table 5: Global IPI (YoY %)

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
Malaysia	5.5	3.0	3.1	4.5	3.0	1.1	2.5	2.2
Indonesia	8.5	5.5	2.1	7.0	6.0	(1.1)	9.0	
Philippines	10.9	15.6	10.6	22.6	15.3	12.0	12.1	8.8
Thailand	4.7	4.6	3.2	3.1	2.9	5.0	4.9	0.7
Singapore	18.3	7.3	7.1	10.9	13.0	8.1	6.7	3.3
Korea	4.2	(1.2)	(0.6)	1.9	1.7	0.2	1.3	1.5
Japan	2.9	1.6	2.4	2.6	4.2	(0.9)	2.2	0.6
EU	3.6	2.9	3.1	1.9	2.6	2.5	0.8	
USA	3.2	3.9	3.6	4.7	3.0	3.4	4.0	4.9

Source: CEIC, MIDFR


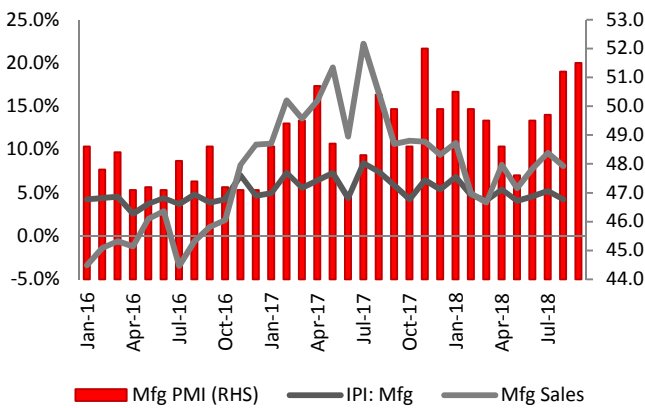
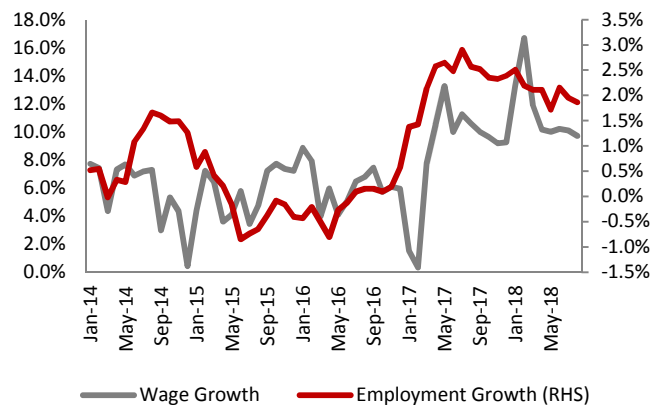
We forecast IPI growth at 3.8% for 2018. As guided by the recent Business Tendency Survey data, we believe the IPI growth will be growing between 3%-4% during the second half of 2018. In addition, encouraging trend of IPI growth in 2017 is expected to continue for 2018 supported by robust external trade performance, upbeat domestic demand and gradual increase in energy prices will boost up industrial activity in Malaysia. Lower business cost partly due to moderating inflation and stable retail fuel prices will provide additional boost for industrial production growth to hit 3.8% in 2018. Nevertheless, headwinds from global trade tension and supply disruption for commodities based sectors could pose downside risk to the estimate. 

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



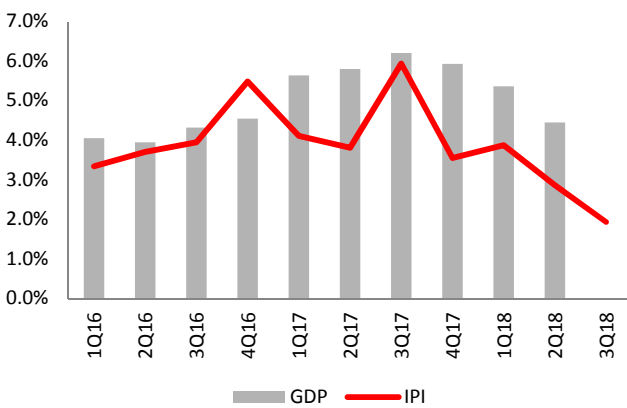
Source: CEIC, MIDFR

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



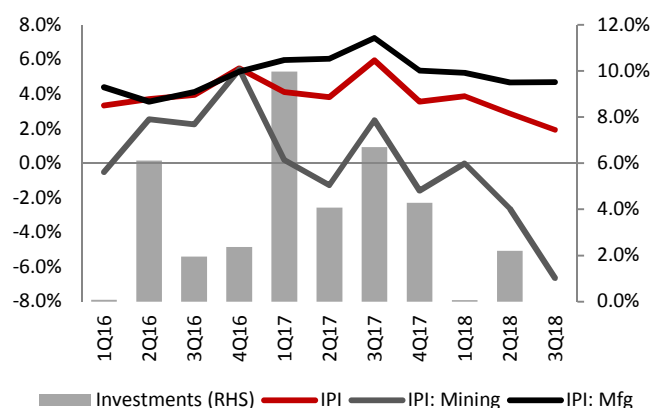
Source: CEIC, MIDFR

Chart 3: IPI vs GDP (YoY%)



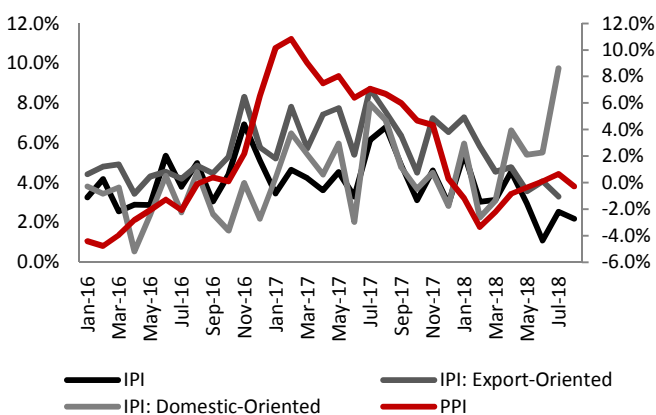
Source: CEIC, MIDFR

Chart 4: IPI vs Investments Performances (YoY%)



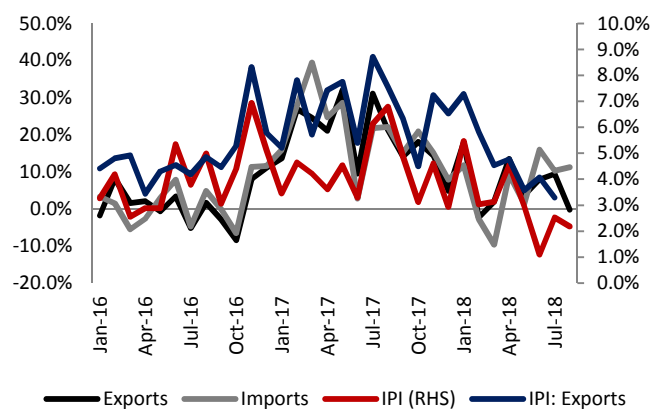
Source: CEIC, MIDFR

Chart 5: IPI vs PPI (YoY%)



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

**MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)**

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.