

ECONOMIC REVIEW | August 2017 Industrial Production Index

August IPI Beats Expectation – up 6.8%, Highest in 2 ½ Years.

- *IPI expanded above market expectations. Malaysia's industrial production rose by 6.8%yoy in August 2017, beating market expectations of 5.8%. The soaring IPI growth was supported by surged in mining production by 5.4%yoy during the month.*
- *Natural gas production boosted mining sector. Mining sector which consists of natural gas and crude petroleum productions surprised the market by growing at 5.4%yoy, fastest ever in 2017. The huge expansion was mainly driven by natural gas production growth of 14.6%yoy in August.*
- *We maintain IPI growth of 5.3% for 2017. Encouraging trend of IPI growth is expected to continue for the upcoming months given that robust external trade performance continues and modest increase in commodity price will boost up industrial activity in Malaysia.*

IPI expanded above market expectations. Malaysia's industrial production rose by 6.8%yoy in August 2017, beating market expectations of 5.8%. The soaring IPI growth was supported by surged in mining production by 5.4%yoy during the month. Plus, manufacturing and electricity productions grew at sustainable pace of 7.6%yoy and 3%yoy respectively. The upward trend in overall IPI performance is in tandem with upbeat performance of external trade activities which seen exports expanded by 21.5%yoy in August. The growth trend was also in line with the uptick manufacturing PMI figure in August which surpasses the 50 points expansion line. We opine continuous upbeat momentum in global demand remains as key driver in boosting up Malaysia's industrial activities.

Table 1: Malaysia – Summary of Industrial Production Index

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17
Industrial Production Index	127.7	120.3	133.6	126.4	131.6	133.9	133.5	133.2
YoY%	3.5	4.7	4.5	4.1	4.6	4.0	6.0	6.8
MoM%	(1.1)	2.0	(0.6)	(0.1)	0.6	1.9	1.4	(0.1)
Mining Index	112.4	101.5	110.7	99.8	104.9	109.2	107.8	105.0
YoY%	1.1	0.4	2.0	(2.0)	(2.3)	2.3	0.2	5.4
MoM%	(3.2)	(0.4)	(0.8)	(2.3)	1.0	8.2	(2.2)	(2.8)
Manufacturing Index	134.3	128.5	143.5	137.6	142.6	144.7	144.2	144.9
YoY%	4.6	6.5	5.8	6.7	7.2	4.7	8.0	7.6
MoM%	0.7	2.0	(0.4)	0.5	0.2	0.0	1.4	0.1
Electricity Index	129.3	120.6	135.6	132.2	139.8	133.3	140.4	142.0
YoY%	1.0	1.4	(0.2)	(1.5)	2.5	2.1	7.9	3.0
MoM%	(0.7)	0.5	(2.7)	0.2	3.3	(1.4)	5.6	(1.5)

Source: DOSM, MIDFR

*MoM is seasonally adjusted figures

Natural gas production boosted mining sector. Mining sector which consists of natural gas and crude petroleum productions surprised the market by growing at 5.4%yoy, fastest ever in 2017. The huge expansion was mainly driven by natural gas production growth of 14.6%yoy in August. In line with LNG exports performance, we opine the uptick trend in the commodity exports and production was partly due to the increase in Malaysia's LNG supply, in particular the Petronas Floating LNG Satu, started operation since April 2017. Plus, growing exports demand from LNG-importer countries such as Japan, South Korea and China place additional boost in the natural gas production. On the other hand, crude petroleum production contracted by 1.6%yoy, impacted by the agreed production cut and zero growth in exports of the commodity during the month.

Table 2: Changes in IPI Sub-Indices (YoY %)

	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17
Crude Petroleum	(4.7)	(2.6)	(6.6)	(5.4)	0.8	(3.8)	(1.6)
Natural Gas	7.0	7.8	4.1	1.4	4.4	5.5	14.6
Food, Beverages & Tobacco	16.0	5.6	15.5	12.9	6.7	19.1	9.4
Textiles, Wearing Apparel, Leather Product, Footwear	7.8	7.0	6.4	7.6	8.5	9.5	9.0
Wood Products, Furniture, Paper Products, Printing	11.3	10.3	7.1	8.4	2.1	4.0	2.0
Petroleum, Chemical, Rubber & Plastic Products	3.7	3.7	3.0	3.1	2.8	3.8	7.0
Non-Metallic Mineral, Basic & Fabricated Metal Prod	4.0	4.0	4.2	4.4	4.2	7.6	7.1
Electrical & Electronic Products	8.5	8.5	9.6	11.6	8.3	10.5	8.7
Transport Equipment & Other Manufactures	1.7	6.2	5.1	6.9	(1.0)	6.8	9.9

Source: DOSM, MIDF

Table 3: Changes in IPI Exports/Domestic Oriented Industries (YoY %)

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
Export Oriented Industries	5.2	7.1	5.9	7.6	7.8	5.4	8.2
Electronic and Electrical Product	7.0	8.1	8.5	9.8	11.7	8.4	10.6
Chemicals and Chemical Products	2.2	4.1	3.6	3.7	2.5	3.9	4.2
Petroleum Products	1.8	2.2	3.3	1.6	2.2	1.5	3.1
Textiles & Wearing Apparel	6.7	7.8	7.0	6.4	7.6	8.5	9.6
Wood and Wood Products	9.5	9.4	11.5	7.8	9.4	3.5	4.7
Rubber Products	5.6	11.1	4.2	7.2	10.7	5.4	5.2
Domestic Oriented Industries	2.5	4.3	5.7	4.2	5.6	2.6	7.2
Construction	2.7	3.9	4.0	4.3	4.4	4.1	7.6
Consumer	2.3	4.7	7.4	4.1	6.7	1.1	6.9
Food Products	0.4	7.3	7.4	1.9	5.9	3.0	7.6
Transport Equipment	3.2	1.7	6.2	5.0	6.9	(1.0)	6.8
Beverages	5.3	17.1	18.7	9.5	11.8	7.7	8.6
Tobacco Products	2.7	2.4	3.3	2.1	2.5	2.0	2.6
Others	(5.6)	4.9	3.7	(6.0)	(4.0)	(8.4)	(4.8)

Source: DOSM, MIDFR

Note: Export/Domestic production data is only available up to June 2017

Manufacturing sales growth remain on double digit pace. Manufacturing sales rose by 16.5%yoy in August, recording nine consecutive months of double digit expansion. Slight slowdown in the sales growth was in line with the performance of manufactured exports. Looking into details, major components of the sales such as refined petroleum products, transistor & electronic circuits and computers & peripherals equipment grew moderately compared to July 2017. Among others, the decelerating trend was due to unfavourable base effect and slightly slower exports demand especially from China and developed economies.

Manufacturing sector wage growth remain steady. Apart from manufacturing sales, wages of the sector rose by 10.6%yoy in August, five consecutive months of double digit growth. Additionally, employment growth remains on up-trend since November last year. Employment growth in August recorded at 2.6%yoy. For that reason, we opine better uptick in both wages and employment in the manufacturing provides a bright outlook for the economic activities in the second half of 2017. We also view the upward trend in the wage growth will positively contribute to domestic consumption.

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

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17
Manufacturing Sales	10.7	15.7	13.6	15.6	19.5	11.5	22.2	16.5
Refined Petroleum Products	37.9	29.0	30.1	29.5	36.2	32.9	43.5	37.7
Organic Chemicals & Inorganic Compounds excl. Fertilizer	11.5	12.9	15.6	14.2	10.6	(0.5)	0.1	0.1
Basic Iron & Steel Products	7.6	13.5	10.7	6.8	3.2	(10.7)	1.1	2.0
Diodes, Transistor & Electronic Integrated Circuits Mic	(0.7)	5.0	4.8	11.2	19.9	5.9	15.7	13.3
Electrical Capacitor Resistor, Circuit Board & Display Comp	65.4	67.9	58.8	55.4	64.3	49.8	58.2	45.6
Computers & Peripherals Equipment	(11.5)	(1.4)	7.5	13.4	8.4	8.5	17.6	8.1
Consumer Electronics	(16.3)	(17.2)	(21.4)	(3.0)	6.1	8.3	26.8	7.8
Employment	1.4	1.4	2.1	2.6	2.7	2.5	2.9	2.6
Wage	1.5	0.3	7.8	10.5	13.3	10.0	11.3	10.6

Source: CEIC; MIDFR

Impact of hurricanes Harvey and Irma on the US. The hurricanes led to shut down of oil refineries and other manufacturing plants especially along the Gulf Coast and in Texas. Hence, manufacturing PMI of the US in August went down to 52.8 points, thus causing industrial production to record at 1.4%yoy, slowest in four months. Across the globe, IPI growth for China and Japan continue on upswing momentum with expansion rate of 6%yoy and 5.4%yoy respectively. Among ASEAN, industrial production in Singapore grew the highest by 19.1%yoy, mainly supported by strong external trade activities.

Table 5: Global IPI (YoY %)

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17
Malaysia	3.5	4.8	4.5	4.1	4.6	4.0	6.0	6.8
Indonesia	3.4	3.8	6.1	6.7	6.9	(1.4)	3.3	2.3
Thailand	2.2	(1.1)	0.0	(1.8)	1.6	(0.3)	3.4	3.7
Philippines	14.0	8.7	12.3	2.2	7.3	5.1	(2.0)	2.4
Singapore	4.0	10.2	11.4	6.7	4.6	12.7	21.2	19.1
EU	1.0	2.1	2.7	1.4	3.9	2.8	3.2	
China	2.9	10.3	7.6	6.5	6.5	7.6	6.4	6.0
Japan	3.2	4.7	3.5	5.7	6.5	5.5	4.7	5.4
United States	(0.1)	0.3	1.9	0.7	2.1	1.9	2.6	1.4

Source: CEIC; MIDFR


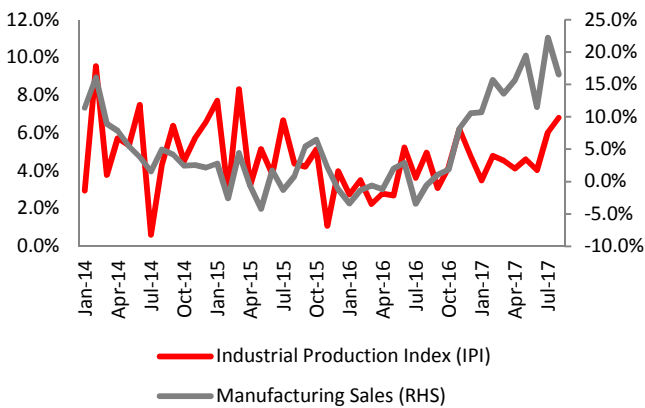
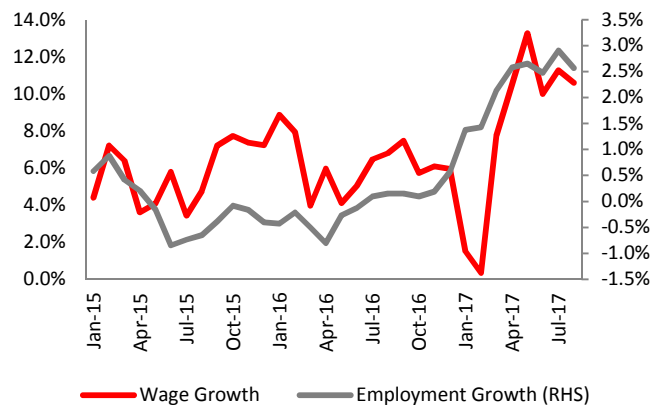
We maintain IPI growth of 5.3% for 2017. Encouraging trend of IPI growth is expected to continue for the upcoming months given that robust external trade performance continues and modest increase in commodity price will boost up industrial activity in Malaysia. Due to strong export performances for the past eight months of 2017 and optimistic business confidences, we believe the upbeat momentum will remain and thus causing positive spill over effects to Malaysia's industrial production this year. Hence, based on solid uptrend in trade activities and steady domestic consumption, we expect industrial production growth to hit 5.3% in 2017. 

Chart 1: IPI vs Manufacturing Sales (YoY%)



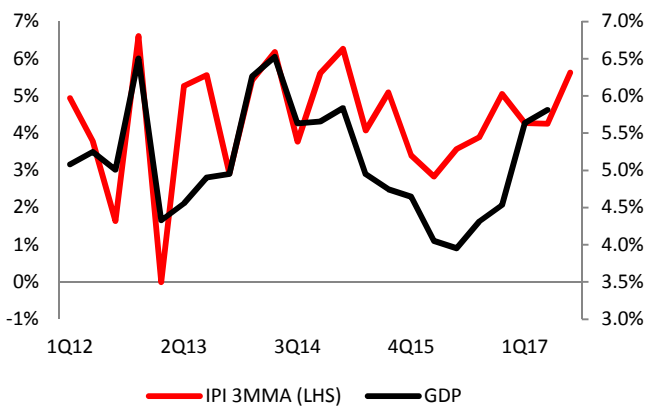
Source: DOSM, MIDFR

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



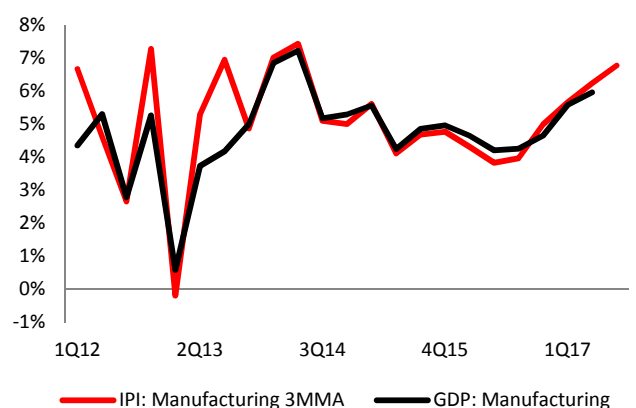
Source: DOSM, MIDFR

Chart 3: IPI vs GDP (YoY%)



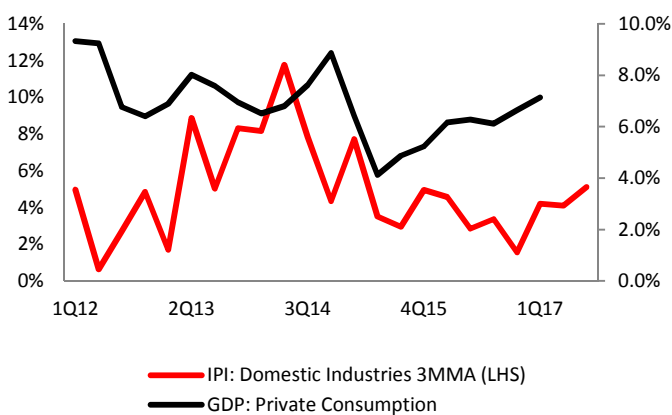
Source: DOSM, MIDFR

Chart 4: Manufacturing IPI vs Manufacturing GDP (YoY%)



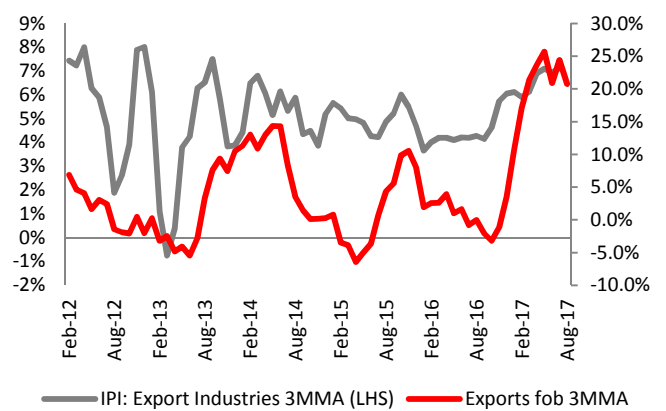
Source: DOSM, MIDFR

Chart 5: Domestic IPI vs Private Consumption (YoY%)



Source: DOSM, MIDFR

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



Source: DOSM, MIDFR

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