

ECONOMIC REVIEW | August 2016 Industrial Production Index

Factory Output Rises 4.9% in August, In Line with Stronger Exports Demand

- August's production figure rose by 4.9% year on year from 4.1% in July as manufacturing and utilities sectors expanded stronger. Both sector expanded by 4.7%yoy and 11.4%yoy respectively. Mining sector continue to moderate during the month to 4.3%yoy from 6.0%yoy in July.
- Recall that the agriculture sector was a major drag to 2Q16 GDP. Based on our estimate, the sector has shed 0.7% point to the overall growth (2Q16:4.0%). This was so due to production crunch that was affected by the severe El-Nino that occurred earlier this year. With climate turns for the better, the crude palm oil production has gained momentum, increasing for 6 straight months.
- We are maintaining our expectation that the industrial output will grow in the range of 3.5-4.0% and GDP to reach 4.0% in 2016. Moving forward, we opine that the growth of Malaysia industrial production will moderate slightly while it will begin to rebound in the first half of 2017, driven by the rebounding China's manufacturing sector.

August factory output grew 4.9%, faster than July. August's production figure rose by 4.9% year on year from 4.1% in July as manufacturing and utilities sectors expanded stronger. Both sector expanded by 4.7%yoy and 11.4%yoy respectively. Mining sector continue to moderate during the month to 4.3%yoy from 6.0%yoy in July. Overall, the production gain during the month was loosely within our expectation for the month. We think that the rebound in external demand drive higher factory output during the month.

Table 1: Malaysia – Summary of Industrial Production Index

| | Jan-16 | Feb-16 | Mar-16 | Apr-16 | May-16 | Jun-16 | Jul-16 | Aug-16 |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Industrial Production Index | 123.4 | 114.9 | 127.8 | 121.4 | 125.8 | 128.7 | 125.9 | 124.7 |
| YoY | 3.3% | 3.9% | 2.8% | 3.0% | 2.8% | 5.2% | 4.1% | 4.9% |
| MoM (SA) | 0.5% | 0.9% | -0.4% | -0.8% | 0.9% | 2.8% | -0.6% | -0.5% |
| Mining Index | 111.2 | 101.1 | 108.5 | 101.8 | 107.4 | 106.7 | 107.6 | 99.6 |
| YoY | 0.6% | 1.1% | -2.5% | 0.7% | -1.1% | 6.4% | 6.0% | 4.3% |
| MoM (SA) | 2.0% | 0.4% | -2.2% | 1.7% | 1.2% | 4.4% | -0.9% | -8.9% |
| Manufacturing Index | 128.4 | 120.7 | 135.6 | 128.9 | 133.0 | 138.2 | 133.5 | 134.7 |
| YoY | 4.0% | 4.5% | 4.5% | 3.2% | 3.7% | 4.6% | 3.2% | 4.7% |
| MoM (SA) | 0.5% | 0.2% | 1.4% | -2.1% | 0.4% | 2.2% | -1.7% | 2.2% |
| Electricity Index | 128.0 | 118.9 | 135.9 | 134.2 | 136.4 | 130.6 | 130.1 | 137.8 |
| YoY | 7.7% | 10.5% | 7.7% | 9.5% | 9.6% | 8.7% | 7.2% | 11.4% |
| MoM (SA) | 3.7% | 1.2% | -1.0% | 1.1% | -0.8% | -3.1% | -0.1% | 8.2% |

Source: Department of Statistics, Malaysia; MIDF Research

Momentum in crude palm oil production points to better 3Q16 GDP. Recall that the agriculture sector was a major drag to 2Q16 GDP. Based on our estimate, the sector has shed 0.7% point to the overall growth (2Q16:4.0%). This was so due to production crunch that was affected by the severe El-Nino that occurred earlier this year. With climate turns for the better, the crude palm oil production has gained momentum, increasing for 6 straight months. Production growth had accelerated to 7.4%mom in August from 3.4% in July and we believe this trend could continue until end of October due to Deepavali festival. In particular, India has been the major driver for the demand growth and this is reflected by the surge in exports to the country in August, rising 100%mom from July.

In contrast, crude petroleum production decelerates. In August, production growth moderated to 6.4%yoy from 13.9%yoy in July. On month-on-month basis, production fell 7.4%, the sharpest monthly contraction in 6 months. However, production wise, we remain sanguine on the sector as prices basically maintain above USD45pb in September. Better yet, price is on a short-term uptrend as OPEC agrees to production cap in the Algiers meeting. Russia has voiced its moral support to the cartel and crude oil prices have since closed above USD50 in October.

Table 2: Changes in IPI Sub-Indices

| | Jan-16 | Feb-16 | Mar-16 | Apr-16 | May-16 | Jun-16 | Jul-16 | Aug-16 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|
| Crude Petroleum | 0.9% | 1.3% | -3.6% | -1.5% | -5.2% | 8.8% | 13.9% | 6.4% |
| Natural Gas | 0.4% | 0.7% | -1.2% | 3.7% | 4.4% | 3.6% | -2.8% | 1.5% |
| Food, Beverages & Tobacco | 3.8% | 5.4% | 6.8% | -7.1% | -5.1% | -6.8% | 2.6% | -1.7% |
| Textiles, Wearing Apparel, Leather Product, Footwear | 6.0% | 7.7% | 8.9% | 5.4% | 5.9% | 10.9% | 6.0% | 8.5% |
| Wood Products, Furniture, Paper Products, Printing | 10.2% | 9.6% | 2.8% | 3.5% | 5.3% | 10.2% | 5.9% | 7.1% |
| Petroleum, Chemical, Rubber & Plastic Products | 1.1% | 3.0% | 3.3% | 4.9% | 5.1% | 5.0% | 3.6% | 4.5% |
| Non-Metallic Mineral, Basic & Fabricated Metal Prod | 6.0% | 4.5% | 4.3% | 4.2% | 5.8% | 5.1% | 4.1% | 4.5% |
| Electrical & Electronic Products | 6.2% | 5.9% | 5.5% | 8.0% | 8.4% | 9.1% | 4.1% | 7.8% |
| Transport Equipment & Other Manufactures | 1.1% | 1.2% | 3.5% | -7.5% | -11.7% | -2.9% | -5.2% | -0.5% |

Source: Department of Statistics, Malaysia; MIDF Research

Table 3: Changes in IPI Exports/Domestic Oriented Industries

| | Dec-15 | Jan-16 | Feb-16 | Mar-16 | Apr-16 | May-16 | Jun-16 | Jul-16 |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Export Oriented Industries | 3.8% | 3.7% | 4.6% | 4.3% | 3.7% | 4.3% | 4.7% | 3.6% |
| Electronic and Electrical Product | 8.7% | 6.3% | 5.9% | 5.6% | 8.1% | 8.4% | 9.2% | 4.2% |
| Chemicals and Chemical Products | 2.1% | 2.3% | 3.8% | 3.8% | 3.6% | 6.2% | 4.9% | 3.4% |
| Petroleum Products | 0.4% | -0.6% | 2.0% | 2.3% | 5.1% | 4.7% | 5.1% | 3.6% |
| Textiles & Wearing Apparel | 7.1% | 6.0% | 7.8% | 8.8% | 5.5% | 5.9% | 10.9% | 5.9% |
| Wood and Wood Products | 7.1% | 10.2% | 9.5% | 3.8% | 3.6% | 7.2% | 12.9% | 7.2% |
| Rubber Products | 4.8% | 6.7% | 5.1% | 8.5% | 8.4% | 0.4% | 5.2% | 3.7% |
| Domestic Oriented Industries | 4.8% | 4.7% | 4.2% | 4.8% | 2.1% | 1.7% | 4.7% | 2.2% |
| Construction | 5.0% | 6.0% | 4.5% | 4.3% | 4.1% | 5.8% | 5.0% | 4.1% |
| Consumer | 4.6% | 3.5% | 3.9% | 5.2% | 0.3% | -1.9% | 4.4% | 0.2% |
| Food Products | 8.5% | 4.6% | 7.1% | 9.2% | 13.9% | 15.1% | 17.0% | 7.8% |
| Transport Equipment | 1.4% | 1.0% | 1.2% | 3.6% | -7.5% | -11.7% | -2.9% | -5.2% |
| Beverages | 14.4% | 13.6% | 9.4% | 2.3% | 4.0% | 9.5% | 12.8% | 8.7% |
| Tobacco Products | 5.6% | 8.9% | 7.7% | 6.7% | 5.6% | 3.6% | 4.3% | 2.1% |
| Others | -3.9% | -8.4% | -3.0% | -1.1% | -9.6% | -1.7% | 1.0% | 2.7% |

Source: Department of Statistics, Malaysia; MIDF Research

August marks a global comeback except for the United States. We note that most countries under our observation recorded better factory output except for Indonesia and the United States. The latter saw its industrial production fell 1.1%yoy in August, worse than the 0.6% contraction in July. EU gained notably during the month led by Germany, the Eurozone's largest exporter. The rebound in August seems to allay the economists' concern on the impact of the Brexit shock which set huge uncertainties and caused industrial production to contract by 0.5% in the previous month. China also deliver good news with higher production growth at 6.3%, higher than the 6.0% recorded in July and consensus expectation of 6.2%.

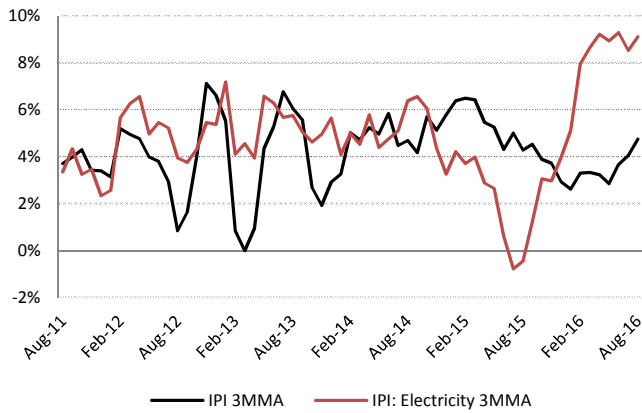
Table 4: Global IPI

| | Jan-16 | Feb-16 | Mar-16 | Apr-16 | May-16 | Jun-16 | Jul-16 | Aug-16 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Malaysia | 3.3% | 3.9% | 2.8% | 3.0% | 2.8% | 5.2% | 4.1% | 4.9% |
| Indonesia | 2.6% | 7.4% | 2.6% | 0.1% | 7.0% | 7.9% | 8.6% | 4.8% |
| Thailand | -3.5% | -1.7% | 2.2% | 0.9% | 2.7% | 1.4% | -5.0% | 3.1% |
| Philippines | 25.9% | 5.4% | 0.8% | 6.8% | 2.5% | 6.0% | 6.6% | 8.4% |
| Singapore | 1.0% | -3.4% | 0.7% | 2.7% | 0.7% | 0.7% | -3.5% | 0.1% |
| EU | 3.3% | 1.2% | 0.1% | 2.1% | 0.7% | 0.9% | -0.1% | |
| China | 5.4% | 5.4% | 6.8% | 6.0% | 6.0% | 6.2% | 6.0% | 6.3% |
| Japan | -4.2% | -1.2% | 0.2% | -3.3% | -0.4% | -1.5% | -4.2% | 4.6% |
| United States | -1.5% | -1.7% | -2.6% | -0.9% | -1.3% | -0.4% | -0.6% | -1.1% |

Source: CEIC; MIDF Research

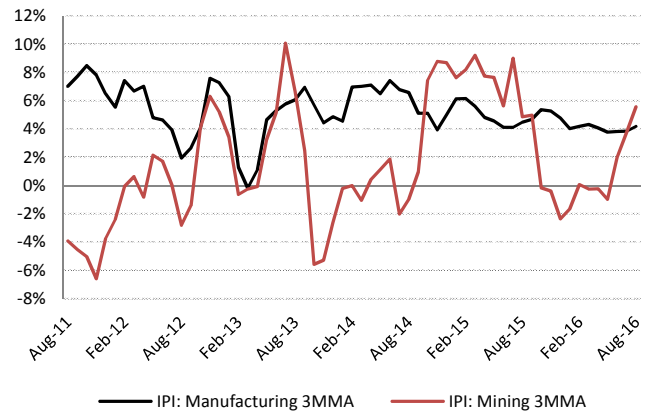
We are maintaining our IPI growth forecast at 3.5% to 4.0% for this year and GDP forecast at 4.0%. We are maintaining our expectation that the industrial output will grow in the range of 3.5-4.0% and GDP to reach 4.0% in 2016. Moving forward, we opine that the growth of Malaysia industrial production will moderate slightly while it will begin to rebound in the first half of 2017, driven by the rebounding China's manufacturing sector. 

Chart 1: IPI vs Electricity IPI



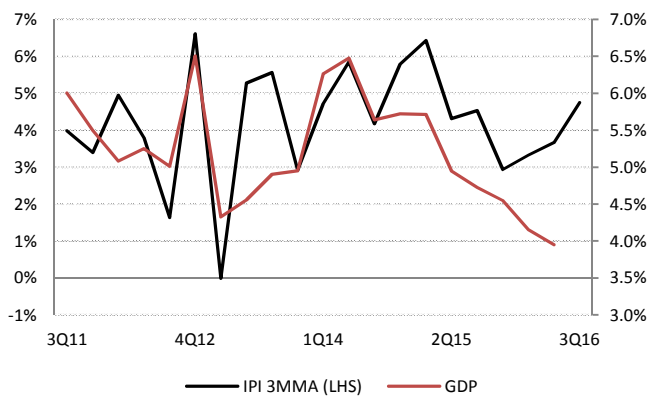
Source: Department of Statistics, Malaysia; MIDF Research

Chart 2: Manufacturing IPI vs Mining IPI



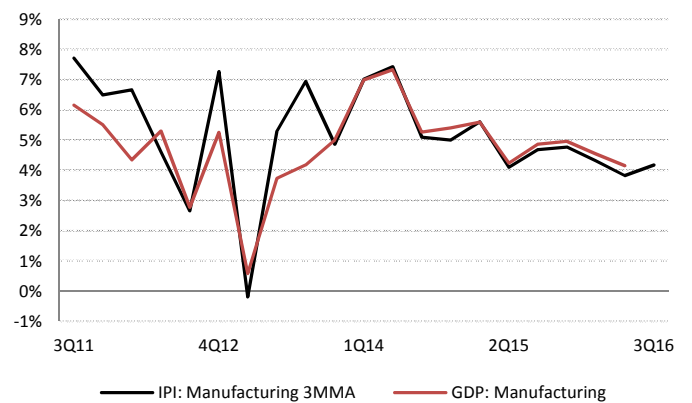
Source: Department of Statistics, Malaysia; MIDF Research

Chart 3: IPI vs GDP



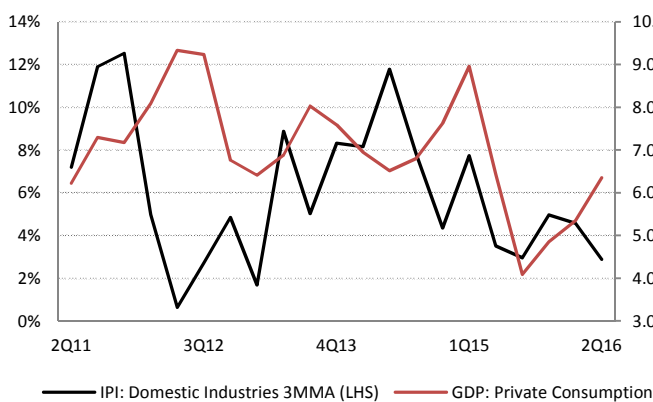
Source: Department of Statistics, Malaysia; MIDF Research

Chart 4: Manufacturing IPI vs Manufacturing GDP



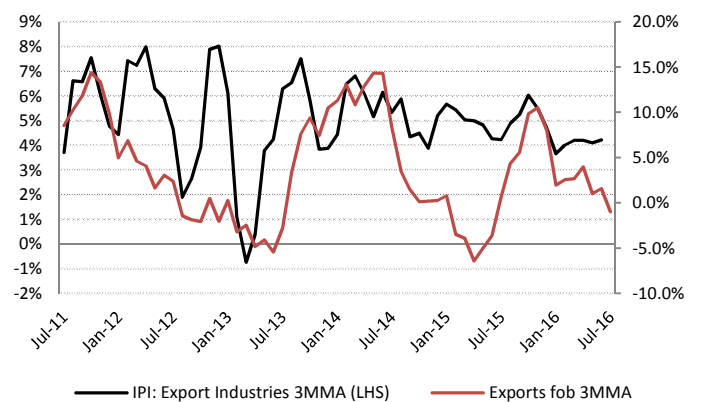
Source: Department of Statistics, Malaysia; MIDF Research

Chart 5: Domestic IPI vs Private Consumption



Source: Department of Statistics, Malaysia; MIDF Research

Chart 6: Export IPI vs Exports fob



Source: Department of Statistics, Malaysia; MIDF Research

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