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ECONOMIC REVIEW | December 2017 Industrial Production Index

December IPI Growth Hints Towards Moderate 4Q17 GDP Performance

- *IPI growth decelerated to 19-months low. In December, industrial production rose by 2.8%yoy, slowest since May 2016. The slowdown in the month was due to unfavourable base effects, year-end holidays and moderating exports growth.*
- *Manufacturing sales growth hits highest on record. After 12-consecutive months of double digit growth, sales growth of manufacturing sector tone down to single digit in December. However, the average growth of last year stood at 13.9%, fastest ever recorded.*
- *We expect IPI growth of 4.3% for 2018. Encouraging trend of IPI growth in 2017 is expected to continue for 2018 given that robust external trade performance continues and gradual increase in commodity price will boost up industrial activity in Malaysia.*

IPI growth decelerated to 19-months low. In December, industrial production rose by 2.8%yoy, slowest since May 2016. The slowdown in the month was due to unfavourable base effects, year-end holidays and moderating exports growth. By component, manufacturing and electricity productions up by 5.4%yoy and 3.9%yoy respectively whereas mining output contracted by 4.1%yoy despite of rising global commodity prices. On annual term, IPI growth averaged at 4.5% in 2017, improved from 3.8% in 2016. The solid increase in IPI was supported by the expansion of productions in manufacturing and electricity, 6.1% and 2.6% respectively last year. Mining production in 2017 stays sluggish due to oil production limit agreed by OPEC and non-OPEC countries in late 2016.

Table 1: Malaysia – Summary of Industrial Production Index

	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
IPI	**133.5**	**133.2**	**133.1**	**136.7**	**134.8**	**137.7**
YoY%	6.0	6.8	4.7	3.4	5.0	2.8
MoM%	1.4	(0.1)	(1.0)	(0.8)	1.9	(1.3)
Mining	**107.8**	**105.0**	**103.1**	**108.6**	**108.8**	**111.4**
YoY%	0.2	5.4	2.1	0.8	0.2	(4.1)
MoM%	(2.2)	(2.8)	0.7	0.4	0.1	(2.7)
Manufacturing	**144.2**	**144.9**	**146.3**	**148.7**	**146.1**	**149.3**
YoY%	8.0	7.6	5.7	4.2	6.6	5.4
MoM%	1.4	0.1	(0.2)	(1.2)	2.8	(0.7)
Electricity	**140.4**	**142.0**	**132.8**	**140.8**	**134.8**	**137.1**
YoY%	7.9	3.0	2.2	4.7	3.9	3.9
MoM%	5.6	(1.5)	(2.1)	2.0	0.8	(0.5)

Source: CEIC, MIDFR
*MoM is seasonally adjusted figures

Mining output expected to improve this year. Production of crude petroleum and natural gas shrank by 5%yoy and 3.2%yoy respectively in the final month of last year. On annual terms, crude petroleum output decreased by 2.5% while production of natural gas up 4.4% in 2017, hence sending mining output growth at 6-year low of 0.5%. As for non-mining output, we noticed slight slowdown underpinned by moderating external trade performance in 4Q17. Moving forward, we foresee IPI performance to continue expand at steady pace in line with the expected-moderating exports growth. We forecast exports to grow by 9.3% in 2018.

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

	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Crude Petroleum	(3.8)	(1.6)	0.7	0.3	0.4	(5.0)
Natural Gas	5.5	14.6	3.9	1.4	0.0	(3.2)
Food, Beverages & Tobacco	19.1	9.4	8.0	7.0	8.2	17.0
Textiles, Wearing Apparel, Leather Product, Footwear	9.5	9.0	8.6	9.2	8.0	7.1
Wood Products, Furniture, Paper Products, Printing	4.0	2.0	1.3	0.2	2.1	2.6
Petroleum, Chemical, Rubber & Plastic Products	3.8	7.0	4.9	2.1	7.5	3.5
Non-Metallic Mineral, Basic & Fabricated Metal Prod	7.6	7.1	4.5	4.8	4.6	4.7
Electrical & Electronic Products	10.5	8.7	6.7	5.9	6.9	4.2
Transport Equipment & Other Manufactures	6.8	9.9	8.2	4.8	6.9	5.4

Source: CEIC, MIDFR

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

	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Export Oriented Industries	5.4	8.2	7.6	6.0	4.1	7.3
Electronic and Electrical Product	8.4	10.6	8.7	6.7	5.9	6.9
Chemicals and Chemical Products	3.9	4.2	3.3	4.9	2.4	6.3
Petroleum Products	1.5	3.1	10.2	5.1	0.7	9.4
Textiles & Wearing Apparel	8.5	9.6	9.0	8.6	9.2	7.9
Wood and Wood Products	3.5	4.7	3.1	2.0	0.5	1.3
Rubber Products	5.4	5.2	7.1	4.2	9.8	3.5
Domestic Oriented Industries	2.6	7.2	7.6	4.9	4.4	4.6
Construction	4.1	7.6	7.1	4.5	4.8	4.6
Consumer	1.1	6.9	8.1	5.2	4.0	4.6
Food Products	3.0	7.6	6.4	2.2	2.4	(0.0)
Transport Equipment	(1.0)	6.8	9.9	8.2	4.8	6.9
Beverages	7.7	8.6	11.2	5.7	6.7	6.5
Tobacco Products	2.0	2.6	(2.3)	(3.9)	0.5	11.4
Others	(8.4)	(4.8)	3.6	(2.9)	1.5	1.9

Source: CEIC, MIDFR
Note: Export/Domestic production data is only available up to November 2017

Manufacturing sales growth hits highest on record. After 12-consecutive months of double digit growth, sales growth of manufacturing sector tone down to single digit in December. However, the average growth of last year stood at 13.9%, fastest ever recorded. This is line with the robust trend in global demand and gradual recovery in commodities prices. Sales of manufacturing in December mainly supported by sales of refined petroleum products, computers & peripherals equipment and consumer electronics which expanded by 22.8%yoy, 14.9%yoy and 19%yoy respectively. Over the next page, employment and wage growth of the sector stay on sturdy speed at 2.4%yoy and 9.2%yoy respectively during the final month. Henceforth, we opine continuous uptrend in both wages and employment in the manufacturing provides a bright outlook for the economic activities and possibly contribute towards domestic consumption.

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

	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Manufacturing Sales	22.2	16.5	10.6	11.0	10.9	9.4
Refined Petroleum Products	43.5	37.7	24.4	26.0	25.2	22.8
Organic Chemicals & Inorganic Compounds excl. Fertilizer	0.1	0.1	0.8	3.3	7.7	(7.6)
Basic Iron & Steel Products	1.1	2.0	(0.9)	6.0	(1.7)	6.4
Diodes, Transistor & Electronic Integrated Circuits Mic	15.7	13.3	11.8	9.7	4.8	3.6
Electrical Capacitor Resistor, Circuit Board & Display Comp	58.2	45.6	7.3	5.7	5.7	6.4
Computers & Peripherals Equipment	17.6	8.1	0.5	(0.4)	12.7	14.9
Consumer Electronics	26.8	7.8	7.3	(2.8)	12.7	19.0
Employment	2.9	2.6	2.5	2.4	2.3	2.4
Wage	11.3	10.6	10.0	9.6	9.2	9.2

Source: CEIC; MIDFR

Singapore IPI lowest in 2-years. In December, industrial production in Singapore shrank by 3.9%yoy amid of unfavourable base effects and year-end holidays. Among others, productions of E&E decelerated to 4.2%yoy (22-months low) and machinery & equipment contracted by 5.2%yoy, worst in 13-months are major dragging factors the overall industrial performance during the month. On a flip side, industrial activity in major economies like the US, China and Japan remain on steady speed, thanks to continuous expansionary global trade activities. Looking forward, we foresee IPI performance will stay on uptick direction in January particularly in China due to Chinese New Year festival. Plus, manufacturing PMI of global and emerging economies remain on above 50-points level in January at 54.4 and 51.9 points in the first month of 2018.

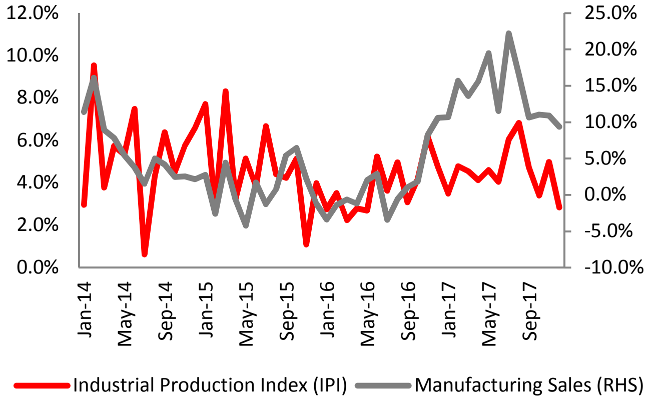
Table 5: Global IPI (YoY %)

	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Malaysia	6.0	6.8	4.7	3.4	5.0	2.8
Indonesia	3.9	4.8	8.0	6.8	5.0	
Thailand	3.4	4.2	4.6	0.1	4.1	2.3
Philippines	(4.9)	1.2	(4.7)	(5.7)	(9.3)	(10.3)
Singapore	23.3	20.1	14.3	14.5	5.6	(3.9)
EU	3.5	3.9	3.7	4.3	3.4	
China	6.4	6.0	6.6	6.2	6.1	6.2
Japan	4.7	5.3	2.6	5.9	3.6	4.2
United States	1.8	1.1	1.5	3.2	3.5	3.6

Source: CEIC; MIDFR

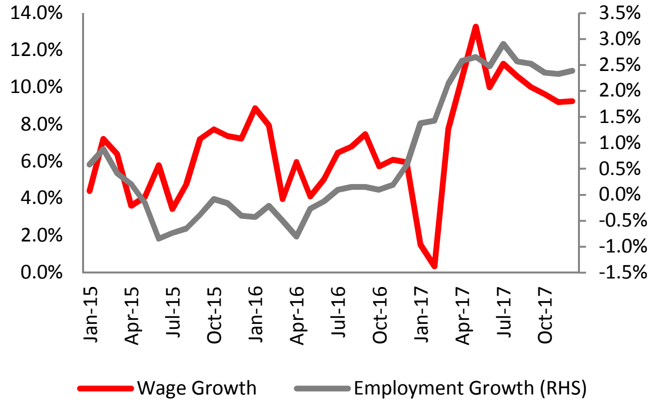
We expect IPI growth of 4.3% for 2018. Encouraging trend of IPI growth in 2017 is expected to continue for 2018 given that robust external trade performance continues and gradual increase in commodity price will boost up industrial activity in Malaysia. Plus, receding protectionism threat and expected spill-over effects from the US tax cuts will drive up global trade activities this year. Hence, based on solid uptrend in trade activities and further steady domestic consumption, we expect industrial production growth to hit 4.3% in 2018.

Chart 1: IPI vs Manufacturing Sales (YoY%)



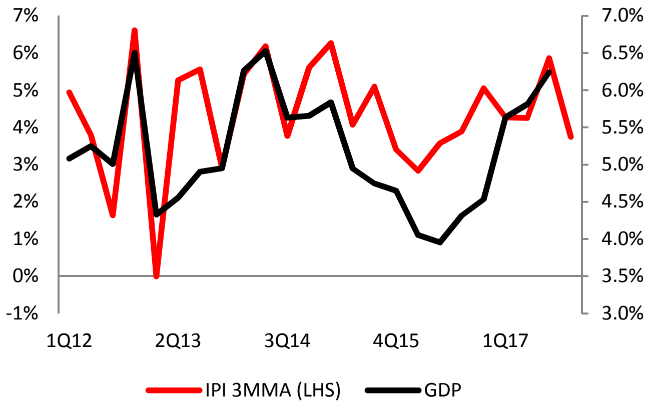
Source: CEIC, MIDFR

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



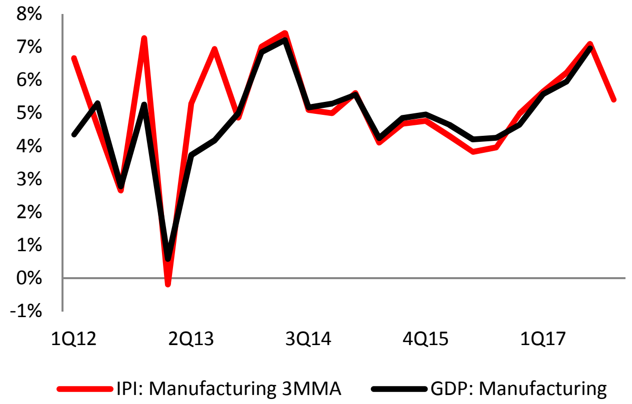
Source: CEIC, MIDFR

Chart 3: IPI vs GDP (YoY%)



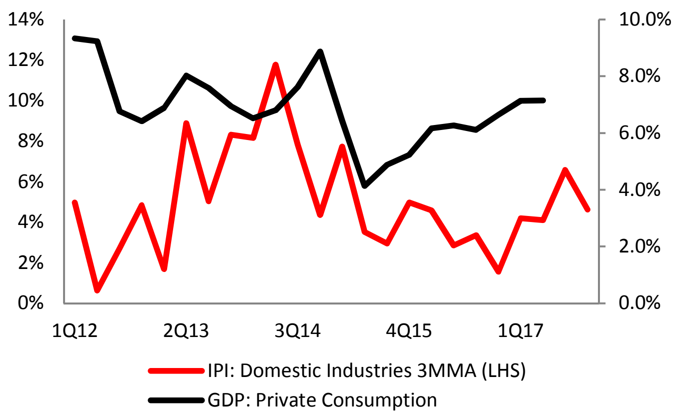
Source: CEIC, MIDFR

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



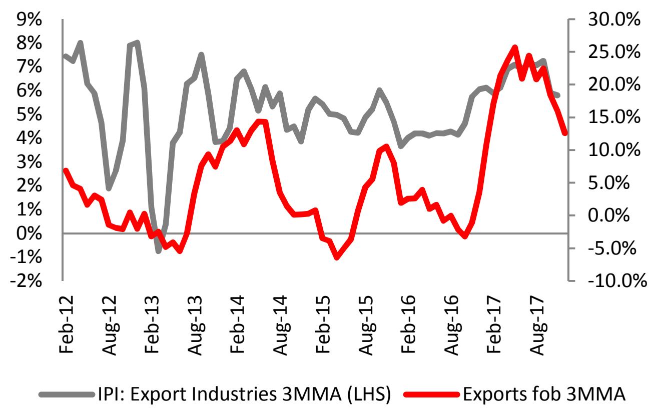
Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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