

ECONOMIC REVIEW | December 2018 Industrial Production Index

Solid IPI Performance Hints Improvement in 4Q18 GDP Growth

- *Recovery in mining supports IPI performance. Malaysia's industrial production improves by 3.4%yoy in Dec-18. Among others, mining output returns to positive rate of growth at 1%yoy and 1.6%mom. Factory output grew by 4.4%yoy, better than the previous month. For 4Q18, we expect Malaysia's GDP to expand at a stronger pace of 5% given that overall IPI growth averaged at 3.5%yoy, fastest since 2Q18.*
- *Thanks to steady pace of external trade. In Dec-18, Malaysia's total exports rose by 4.8%yoy with re-exports and domestic exports at 16.2%yoy and 2.7%yoy respectively. Among others, robust expansion of crude petroleum exports contributes to the steady performances of both external trade and IPI.*
- *We forecast IPI growth of 2.9% for 2019. As guided by the recent Business Tendency Survey data, we believe the IPI growth will be growing between 3%-4% during the first half of 2019. Referring to the survey, services and manufacturing sectors are expected to continue to drive up Malaysia's economy while mining sector is predicted to recover modestly early of this year.*

Recovery in mining supports IPI performance. Malaysia's industrial production improves by 3.4%yoy in Dec-18. Among others, mining output returns to positive rate of growth at 1%yoy and 1.6%mom. Factory output grew by 4.4%yoy, better than the previous month. For 4Q18, we expect Malaysia's GDP to expand at a stronger pace of 5% given that overall IPI growth averaged at 3.5%yoy, fastest since 2Q18. In particular, mining output rebounded to 0.6%yoy in 4Q18 after two-consecutive quarters recording contraction. Moving forward, we foresee IPI performance to expand at steady pace in 2019 amid tapering trade tension, strong global demand, expected-improve business environment and gradual pick-up in global commodity prices & currencies.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%				YoY%			
	Sep-18	Oct-18	Nov-18	Dec-18	Sep-18	Oct-18	Nov-18	Dec-18
IPI	(0.4)	1.7	0.2	(1.6)	2.3	4.3	2.6	3.4
Mining	(6.0)	8.3	(2.5)	1.6	(6.2)	1.4	(0.7)	1.0
Manufacturing	1.5	0.2	1.3	(2.6)	4.8	5.4	3.7	4.4
Electricity	1.4	0.1	1.3	(0.9)	4.2	2.8	3.2	2.7

Source: CEIC, MIDFR

*MoM is Seasonally Adjusted

Thanks to steady pace of external trade. In Dec-18, Malaysia's total exports rose by 4.8%yoy with re-exports and domestic exports at 16.2%yoy and 2.7%yoy respectively. Among others, robust expansion of crude petroleum exports contributes to the steady performances of both external trade and IPI. The mining exports have been growing on double digit rate for 10-consecutive months. Looking ahead, we view IPI performance to be in good position in the first half of 2019 due to progressive trade negotiation between the US-China, steady global demand particularly in the US & China and gradual pick-up in global commodity prices & currencies. Domestically, firm domestic demand and stable job market would support domestic-oriented industries particularly consumer-based products.

Table 2: Changes in IPI Major Industries (YoY%)

	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
Mining;	(5.9)	(4.6)	(6.2)	1.4	(0.7)	1.0
Mining: Crude Petroleum	4.5	(0.6)	(6.3)	0.4	0.6	2.5
Mining: Natural Gas	(15.2)	(8.0)	(6.2)	2.3	(1.8)	(0.2)
Manufacturing;	5.2	4.3	4.8	5.4	3.7	4.4
Food Products	(3.7)	2.0	7.4	2.6	(2.0)	(1.8)
Refined Petroleum Products	0.7	3.0	3.2	5.1	5.3	1.7
Chemicals & Chemicals Products	7.8	2.5	2.9	1.0	0.4	2.9
Rubber Products	6.0	7.0	6.3	7.5	4.3	10.7
Basic Metals	3.5	4.0	3.7	4.7	4.0	3.4
Electrical & Electronic Products	8.0	4.5	5.5	7.1	5.3	7.2
Computers & Peripheral Equipment	2.7	13.6	6.3	7.5	0.3	5.3
Machinery & Equipment	2.8	0.1	2.5	4.5	3.9	4.8
Motor Vehicles, Trailers & Semi-Trailers	20.2	8.9	1.7	10.7	9.1	9.0

Source: CEIC, MIDFR

Table 3: Changes in IPI Major Industries (YoY%)

	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18
IPI: Export Oriented Industries	3.6	4.1	3.3	3.3	4.8	4.9	2.9
Electronic and Electrical Product	4.1	5.1	7.7	3.9	5.2	6.9	5.2
Chemicals and Chemical Pdts	3.8	4.6	6.8	3.4	3.9	2.4	1.1
Petroleum Products	3.1	1.5	0.7	3.4	3.4	5.2	5.3
Textiles & Wearing Apparel	2.1	6.1	3.6	2.9	2.2	2.2	4.8
Wood and Wood Products	1.8	4.8	5.1	7.0	9.1	8.3	1.4
Rubber Products	6.9	6.3	5.3	5.3	5.2	7.3	5.6
Off Estate Processing	0.4	(0.3)	(19.9)	(3.3)	7.4	(0.3)	(8.5)
Paper Products	4.6	6.1	6.7	5.9	2.3	4.0	2.6
IPI: Domestic Oriented Industries	5.4	5.5	9.7	6.4	4.7	6.4	5.1
Construction (CO)	4.8	5.1	5.5	4.9	4.8	4.7	4.0
CO: Non Metallic Mineral	5.9	5.8	7.5	5.3	5.4	4.1	4.2
CO: Iron and Steel	3.1	3.3	3.5	4.0	3.7	4.7	4.0
CO: Fabricated Metal	4.8	5.6	5.3	5.2	5.1	5.1	4.0
Consumer (CS)	5.9	5.9	13.5	7.6	4.6	7.8	6.0
CS: Food Products	5.7	7.0	16.0	7.2	6.7	6.0	3.7
CS: Transport Equipment	8.2	6.1	18.1	9.0	1.6	9.6	9.7
CS: Beverages	4.3	4.6	3.7	3.4	4.2	0.8	1.5
CS: Tobacco Products	1.7	1.9	2.6	2.3	3.3	5.5	(1.5)
CS: Others	3.3	4.8	5.8	7.9	7.2	10.7	6.1

Source: CEIC, MIDFR

*Data available as of Nov-18

Manufacturing sales at 7-month low. Manufacturing sales rose by 7.5%yoy in Nov-18, slowest since May-18. The slight decline trend is in line with re-exports growth of 16.2%yoy during the month. Overall 2018, manufacturing sales increases by 7.7%yoy (2017: 13.9%yoy). Nonetheless, we view the sales of factory output remains intact and on upward trajectory in 2019 as re-exports activities continue on expansionary direction. On a different note, wage growth of the sector grew by 10.1%yoy while employment grew steadily at 1.7%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 2019.

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

	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
Sales;	9.6	8.1	8.2	10.2	7.7	7.5
Refined Petroleum Products	3.5	7.2	11.2	14.6	17.8	1.2
Diodes, Transistor & Electronic Integrated Circuits Mic	19.1	12.0	12.6	17.9	25.8	33.1
Electrical Capacitor Resistor, Circuit Board & Display Comp	12.2	10.6	8.4	13.8	6.3	10.6
Employment	2.0	1.9	1.9	2.2	2.0	1.7
Wage	10.1	9.7	9.1	10.2	9.0	10.1

Source: CEIC, MIDFR

Decline business optimism affects global IPI. IPI performances across major and emerging economies are seen moderate in Dec-18 due to concerns over trade talks between the US & China, geopolitical stress in Europe, monetary normalisation pace in the US and volatility in global commodity prices. Manufacturing PMI for global and emerging economies continues on declining trend. In Jan-19, global PMI at 50.7 points, lowest since Aug-16 and emerging economies hit pessimistic zone at 49.5 points after 2½-year registering above 50 points. Looking ahead, we view slight pick-up in global demand especially with the US and China are moving progressively towards a trade deal, recovery in commodity prices and lower inflationary pressure in 2019. In addition, China's stimulus package which will be announced in the near term would be a significant boost for global trade activities in 2019. The stimulus package is expected to be more than USD370b, covering tax cuts and infrastructure spending.

Table 5: Global IPI (YoY%)

	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
Malaysia	1.1	2.6	2.2	2.3	4.3	2.6	3.4
Indonesia	(12.8)	0.5	0.0	0.2	(0.1)	1.5	
Philippines	11.3	11.5	4.5	3.6	3.5	2.4	(9.3)
Thailand	5.0	4.9	0.8	(2.7)	5.8	0.9	0.8
Singapore	8.3	6.7	3.5	0.4	5.2	7.6	2.7
India	7.0	6.5	4.8	4.5	8.4	0.5	
Japan	(1.6)	2.1	0.2	(2.5)	4.2	1.5	(1.9)
EU	2.7	1.2	1.3	0.9	1.1	(2.1)	
USA	3.5	4.2	5.5	5.7	4.0	4.0	3.6

Source: CEIC, MIDFR


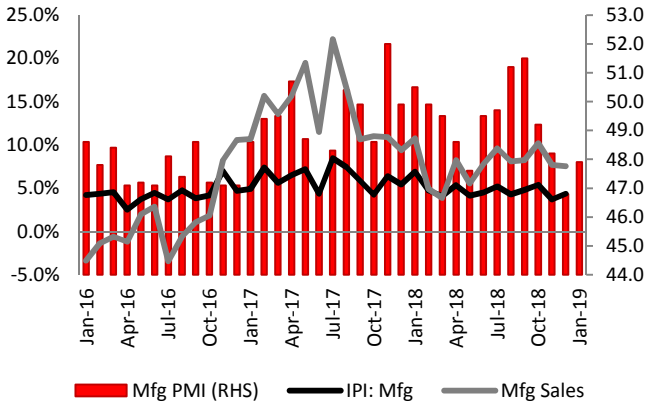
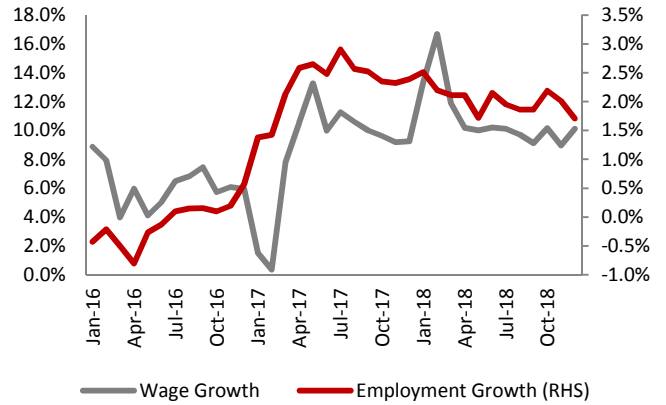
We forecast IPI growth of 2.9% for 2019. As guided by the recent Business Tendency Survey data, we believe the IPI growth will be growing between 3%-4% during the first half of 2019. Referring to the survey, services and manufacturing sectors are expected to continue to drive up Malaysia's economy while mining sector is predicted to recover modestly early of this year. Among others, steady 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 2.9% in 2019. 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)



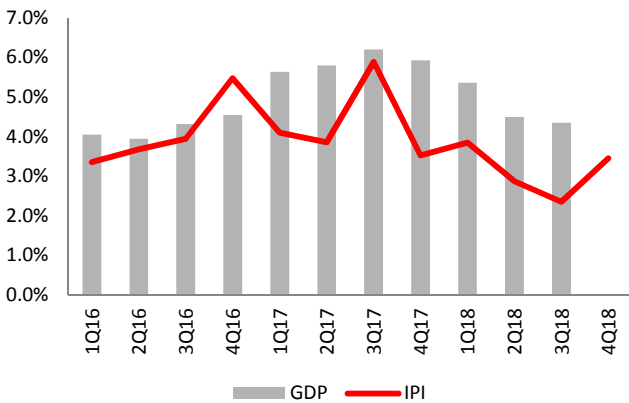
Source: CEIC, MIDFR

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



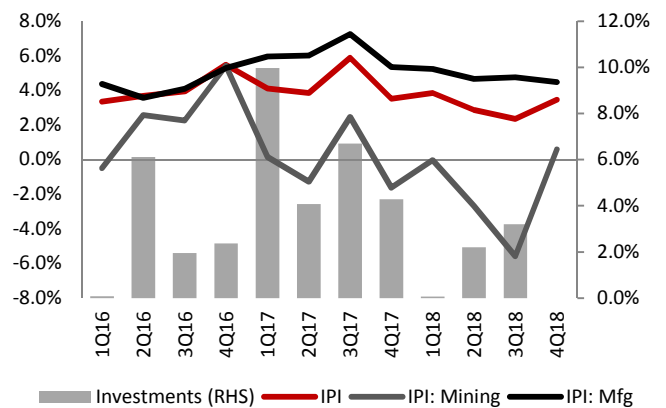
Source: CEIC, MIDFR

Chart 3: IPI vs GDP (YoY%)



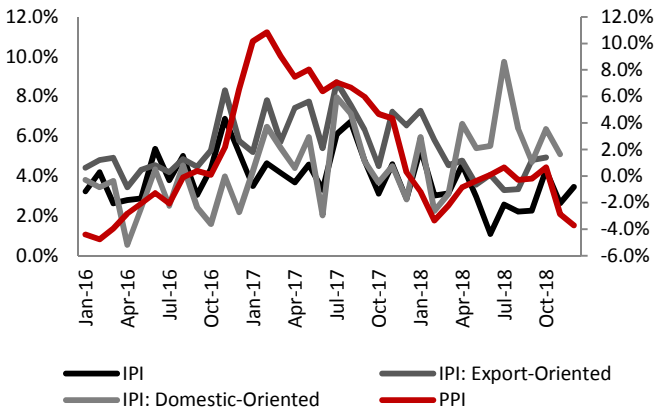
Source: CEIC, MIDFR

Chart 4: IPI vs Investments Performances (YoY%)



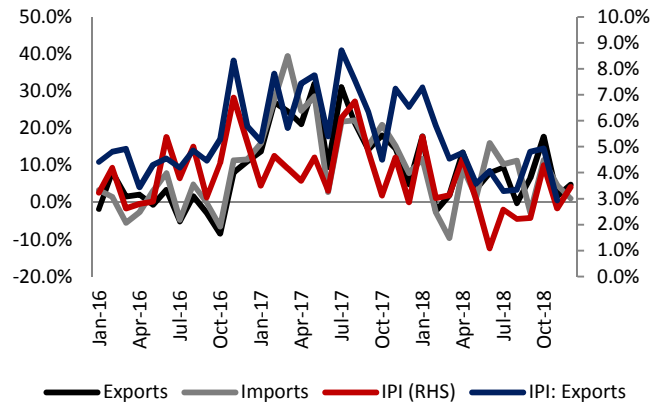
Source: CEIC, MIDFR

Chart 5: IPI vs PPI (YoY%)



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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