

ECONOMIC REVIEW | December 2016 Industrial Production Index

December Output Rose 4.7%, Suggests Higher GDP Growth for 4Q16

- December's production figure rose by 4.7% y-o-y from 6.2% in November as manufacturing and utilities sectors expanded at slower pace. Both sector expanded by 4.3%yoy and 6.1%yoy respectively. In contrast, mining sector accelerated to 5.8%yoy from 4.6%yoy in during the month. The factory output expansion in December capped off a resounding fourth quarter which could suggest the 4Q16 GDP could gain as high as 4.5%.
- Manufacturing to record accelerated expansion. With stronger external demand especially in the last two months of 2016, domestic production has trend upwards. IPI for the fourth quarter rose 5.0% and this suggests that manufacturing GDP to rise in line with that figure. If materialises, that will represent 0.8% jump from last quarter growth of 4.2%.
- December IPI suggests stronger GDP growth in 4Q16 and we forecast IPI to grow 3.5 – 4.0% in 2017.

IPI moderated to 4.7% in December. December's production figure rose by 4.7% y-o-y from 6.2% in November as manufacturing and utilities sectors expanded at slower pace. Both sector expanded by 4.3%yoy and 6.1%yoy respectively. In contrast, mining sector accelerated to 5.8%yoy from 4.7%yoy in during the month. The factory output expansion in December capped off a resounding fourth quarter which could suggest the 4Q16 GDP could gain as high as 4.5%.

Table 1: Malaysia – Summary of Industrial Production Index

	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
Industrial Production Index	125.8	128.7	125.9	124.7	127.1	132.2	128.4	133.9
YoY	2.7%	5.2%	3.6%	5.0%	3.1%	4.2%	6.2%	4.7%
MoM (SA)	0.9%	2.8%	-0.6%	-0.5%	-0.1%	0.8%	0.8%	0.9%
Mining Index	107.4	106.7	107.6	99.6	101.0	107.7	108.6	116.2
YoY	-1.5%	6.1%	3.9%	4.3%	-0.3%	3.6%	4.7%	5.8%
MoM (SA)	1.2%	4.4%	-0.9%	-8.9%	4.3%	2.1%	-0.7%	4.4%
Manufacturing Index	133.0	138.2	133.5	134.7	138.4	142.7	137.0	141.7
YoY	3.7%	4.6%	3.2%	4.7%	4.0%	4.2%	6.5%	4.3%
MoM (SA)	0.4%	2.2%	-1.7%	2.2%	0.1%	0.7%	1.7%	-1.2%
Electricity Index	136.4	130.6	130.1	137.8	129.9	134.5	129.8	132.0
YoY	9.6%	8.7%	7.2%	11.4%	7.0%	6.9%	9.7%	6.1%
MoM (SA)	-0.8%	-3.1%	-0.1%	8.2%	-3.9%	0.5%	1.4%	-0.5%

Source: Department of Statistics, Malaysia; MIDF Research

Agricultural industry reverses trend in 4Q16. The industry has had huge drawback in the first 9 months, especially in the palm oil and rubber sub-sector due to extreme dry and hot season brought by El Nino. However, as weather improved over time, production has ticked-up considerably. In particular, the contraction in crude palm oil output has narrowed sharply to 5.7%yoy in the fourth quarter compared to 14.0% decline in 3Q16. We estimate that the agriculture, forestry and fishing to record the first positive growth in the 4 quarters in 4Q16 at 9.5%. This could contribute as much as 0.5 – 0.7% point to GDP growth in the fourth quarter.

Manufacturing to record accelerated expansion. With stronger external demand especially in the last two months of 2016, domestic production has trend upwards. IPI for the fourth quarter rose 5.0% and this suggests that manufacturing GDP to rise in line with that figure. If materialises, that will represent 0.8% jump from last quarter growth of 4.2%.

Table 2: Changes in IPI Sub-Indices

	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
Crude Petroleum	-4.9%	9.1%	11.3%	7.7%	-1.5%	2.7%	-1.9%	0.1%
Natural Gas	3.2%	2.4%	-4.6%	0.2%	1.2%	4.5%	13.1%	12.7%
Food, Beverages & Tobacco	-5.1%	-6.8%	2.6%	-1.7%	-0.8%	2.5%	10.4%	8.8%
Textiles, Wearing Apparel, Leather Product, Footwear	5.9%	10.9%	6.0%	8.5%	5.8%	4.7%	6.2%	4.9%
Wood Products, Furniture, Paper Products, Printing	5.3%	10.2%	5.9%	7.1%	3.5%	2.4%	6.3%	6.2%
Petroleum, Chemical, Rubber & Plastic Products	5.1%	5.0%	3.6%	4.5%	4.4%	3.7%	6.1%	3.7%
Non-Metallic Mineral, Basic & Fabricated Metal Prod	5.8%	5.1%	4.1%	4.5%	3.2%	4.1%	5.7%	2.0%
Electrical & Electronic Products	8.4%	9.1%	4.1%	7.8%	6.5%	8.0%	8.9%	5.2%
Transport Equipment & Other Manufactures	-11.7%	-2.9%	-5.2%	-0.5%	0.3%	-5.4%	-6.1%	-0.9%

Source: Department of Statistics, Malaysia; MIDF Research

Table 3: Changes in IPI Exports/Domestic Oriented Industries

	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16
Export Oriented Industries	3.7%	4.3%	4.7%	3.6%	4.5%	4.3%	5.0%	7.9%
Electronic and Electrical Product	8.1%	8.4%	9.2%	4.2%	8.0%	6.5%	8.1%	8.9%
Chemicals and Chemical Products	3.6%	6.2%	4.9%	3.4%	7.9%	5.8%	7.0%	8.6%
Petroleum Products	5.1%	4.7%	5.1%	3.6%	2.1%	3.6%	2.1%	5.3%
Textiles & Wearing Apparel	5.5%	5.9%	10.9%	5.9%	8.4%	5.9%	4.8%	6.2%
Wood and Wood Products	3.6%	7.2%	12.9%	7.2%	8.6%	4.6%	3.4%	7.1%
Rubber Products	8.4%	0.4%	5.2%	3.7%	1.8%	3.2%	-3.0%	0.6%
Domestic Oriented Industries	2.1%	1.7%	4.7%	2.2%	4.9%	3.0%	1.3%	2.0%
Construction	4.1%	5.8%	5.0%	4.1%	4.6%	3.2%	4.0%	5.7%
Consumer	0.3%	-1.9%	4.4%	0.2%	5.2%	2.8%	-1.3%	-1.2%
Food Products	13.9%	15.1%	17.0%	7.8%	13.2%	4.1%	2.8%	3.4%
Transport Equipment	-7.5%	-11.7%	-2.9%	-5.2%	-0.5%	0.3%	-5.4%	-6.1%
Beverages	4.0%	9.5%	12.8%	8.7%	12.7%	13.6%	12.5%	9.9%
Tobacco Products	5.6%	3.6%	4.3%	2.1%	1.6%	2.5%	-7.9%	3.4%
Others	-9.6%	-1.7%	1.0%	2.7%	-1.1%	-1.6%	-8.4%	3.4%

Note: Export/Domestic production data is only available up to November 2016

Source: Department of Statistics, Malaysia; MIDF Research

Singapore, Philippines industrial production surged double-digit but China moderates. In December, Singapore and Philippines were far ahead from other countries, recording double-digit expansion of 21.3% and 19.5% growth respectively. Both were driven by surging E&E related production. In the case of Singapore, semiconductor output nearly doubled during the month – the fastest pace since 2010. We do not observed similar upshot in local E&E production but nonetheless, our E&E exports benefited from higher external demand, particularly from China and Singapore. Factory output in China moderated though to 6.0% from 6.2%, the weakest since July.

Table 4: Global IPI

	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
Malaysia	2.7%	5.2%	3.6%	5.0%	3.1%	4.2%	6.2%	4.8%
Indonesia	7.0%	8.0%	8.8%	6.1%	0.1%	0.1%	1.9%	4.3%
Thailand	2.7%	1.4%	-5.0%	3.2%	1.1%	0.0%	3.9%	0.5%
Philippines	4.4%	6.7%	8.8%	10.2%	7.4%	6.3%	11.4%	19.5%
Singapore	0.4%	1.1%	-3.3%	1.0%	7.7%	1.3%	11.8%	21.3%
EU	0.8%	0.9%	0.1%	2.2%	1.2%	0.6%	2.8%	-
China	6.0%	6.2%	6.0%	6.3%	6.1%	6.1%	6.2%	6.0%
Japan	-0.4%	-1.5%	-4.2%	4.5%	1.5%	-1.4%	4.6%	3.0%
United States	-1.3%	-0.4%	-0.9%	-1.0%	-0.6%	-0.7%	-0.8%	0.5%

Source: CEIC; MIDF Research


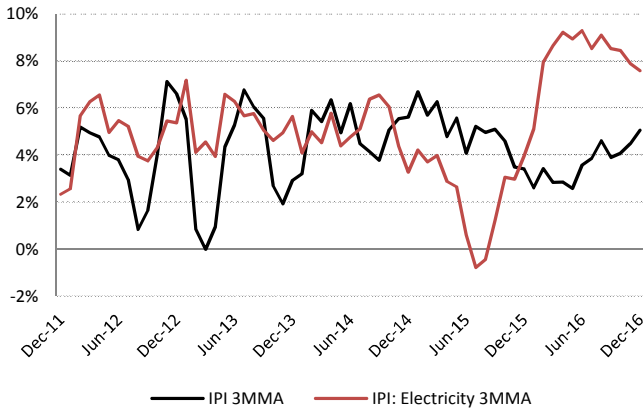
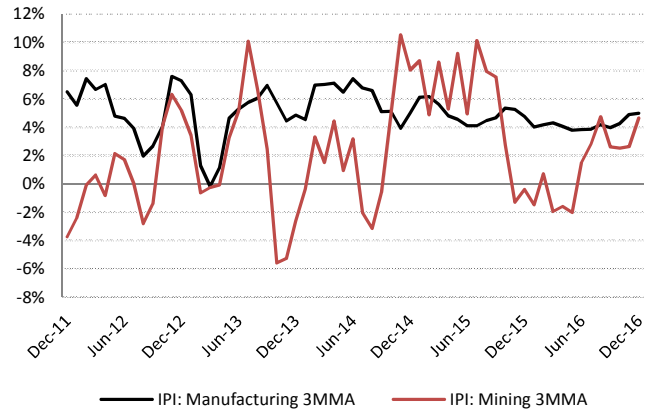
December IPI suggests stronger GDP growth in 4Q16 and we forecast IPI to grow 3.5 – 4.0% in 2017. Despite the factory output moderated in December, it capped off a convincing momentum in the final quarter of 2016. There is possibility that the 4Q16 could accelerate to 4.5%, higher than the 4.3% achieved in the third quarter. Regardless, we remain with our forecast that GDP will expand by 4.1% in that quarter. For 2017, we foresee production to healthily grow by 3.5 – 4.0%. 

Chart 1: IPI vs Electricity IPI



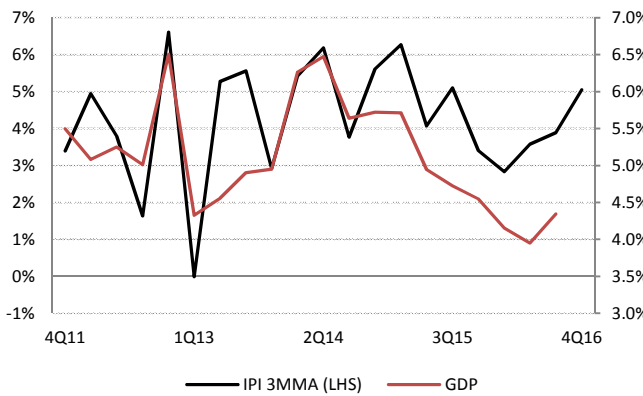
Source: Department of Statistics, Malaysia; MIDF Research

Chart 2: Manufacturing IPI vs Mining IPI



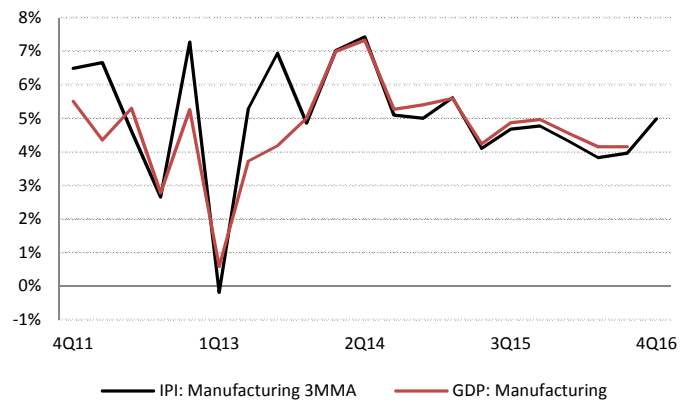
Source: Department of Statistics, Malaysia; MIDF Research

Chart 3: IPI vs GDP



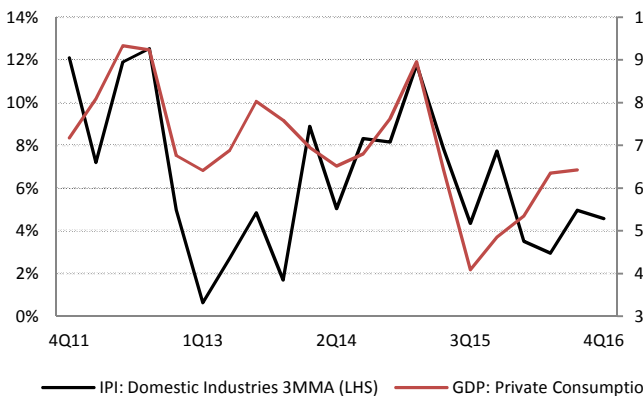
Source: Department of Statistics, Malaysia; MIDF Research

Chart 4: Manufacturing IPI vs Manufacturing GDP



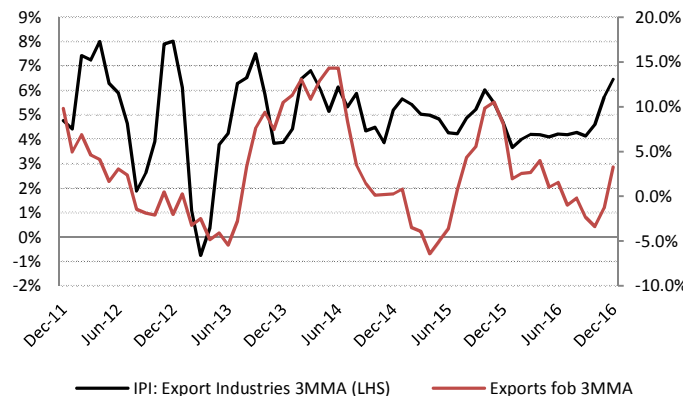
Source: Department of Statistics, Malaysia; MIDF Research

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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