

## ECONOMIC REVIEW | February 2017 Industrial Production Index

### February Factory Output Accelerated to 4.7% - Backed by Strong Manufacturing Activity

- February factory output accelerated to 4.7% - backed by strong manufacturing activity. Industrial output in February rose by 4.7%yoy better than corresponding period last year of 3.8%. Manufacturing production is the main contributor, expanding at 6.5% followed by electricity and mining at 1.5% and 0.4% respectively.
- Development in global economy affects Malaysia's industrial production. Late 2016, OPEC and non-OPEC countries had agreed to reduce oil production in order to support oil prices. Malaysia is one of the non-OPEC countries committed to the agreement which saw 20,000 barrel cut per day starting on 1st January 2017.
- We reiterate GDP and IPI growth of 4.9% and 5.3% respectively for 2017.

**February factory output accelerated to 4.7% - backed by strong manufacturing activity.** Industrial output in February rose by 4.7%yoy better than corresponding period last year of 3.8%. Manufacturing production is the main contributor by expanding at 6.5% and followed by electricity and mining at 1.5% and 0.4% respectively. Despite slowdown in electricity and mining productions, overall industrial production performance reflects modest recovery in the overall economy. With commendable performance in IPI, we believe 2017 GDP growth is on course to achieve 4.9% this year.

**Table 1: Malaysia – Summary of Industrial Production Index**

	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17
<b>Industrial Production Index</b>	<b>125.9</b>	<b>124.7</b>	<b>127.1</b>	<b>132.2</b>	<b>128.4</b>	<b>133.9</b>	<b>127.7</b>	<b>120.3</b>
YoY	3.6%	5.0%	3.1%	4.2%	6.2%	4.7%	3.5%	4.7%
MoM (SA)	-0.6%	-0.4%	0.1%	2.1%	-0.3%	0.4%	-1.2%	-5.8%
<b>Mining Index</b>	<b>107.6</b>	<b>99.6</b>	<b>101.0</b>	<b>107.7</b>	<b>108.6</b>	<b>116.2</b>	<b>112.4</b>	<b>101.5</b>
YoY	3.9%	4.3%	-0.3%	3.6%	4.6%	5.7%	1.1%	0.4%
MoM (SA)	-3.1%	-5.3%	2.4%	2.1%	-0.3%	2.7%	-3.2%	-9.7%
<b>Manufacturing Index</b>	<b>133.5</b>	<b>134.7</b>	<b>138.4</b>	<b>142.7</b>	<b>137.0</b>	<b>141.7</b>	<b>134.3</b>	<b>128.5</b>
YoY	3.2%	4.7%	4.0%	4.2%	6.5%	4.3%	4.6%	6.5%
MoM (SA)	-1.6%	0.1%	0.8%	2.8%	-1.2%	-0.1%	0.7%	-4.3%
<b>Electricity Index</b>	<b>130.1</b>	<b>137.8</b>	<b>129.9</b>	<b>134.5</b>	<b>129.8</b>	<b>132.0</b>	<b>129.3</b>	<b>120.6</b>
YoY	7.2%	11.4%	7.0%	6.9%	9.7%	6.1%	1.0%	1.5%
MoM (SA)	-1.7%	5.0%	-2.6%	3.5%	-1.5%	-0.2%	-0.7%	-6.8%

Source: Department of Statistics, Malaysia; MIDF Research

**Development in global economy affects Malaysia's industrial production.** In late 2016, OPEC and non-OPEC countries had agreed to reduce oil production in order to support oil prices. Malaysia is one of the non-OPEC countries committed to the agreement which saw 20,000 barrel cut per day starting on 1<sup>st</sup> January 2017. Due to the cut, crude petroleum production shrank by 2.4% and 4.7% for the past January and February respectively. If OPEC does extend its production beyond June this year, it could mark the second year of consecutive decline in crude petroleum output. However, rising natural production spurred by buoyant external demand could offset some of the loss. On the other hand, productions of other sectors show optimistic results in which in line with the recent jump in trade activity. The production of Malaysia's major exports products, E&E expands by 8.1% in February.

**Improving external trade may push for higher industrial production.** We estimate export-oriented production will drive 2017's industrial production given the global economic environment is on upward trend. The export-oriented production grew at steady rate of 5.2% in January and this was supported by solid growth in E&E and wood & wood products production growth, 7.0% and 9.5% respectively. As for domestic-oriented production, stable growth in the consumer and construction sectors is a reflection of steady performance in domestic spending, in particular private consumption.

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

	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17
Crude Petroleum	11.3	7.7	-1.5	2.7	-1.9	0.1	-2.4	-4.7
Natural Gas	-4.6	0.2	1.2	4.5	13.1	12.7	5.3	7.0
Food, Beverages & Tobacco	2.6	-1.7	-0.8	2.5	10.4	8.8	6.8	16.0
Textiles, Wearing Apparel, Leather Product, Footwear	6.0	8.5	5.8	4.7	6.2	4.9	6.7	7.8
Wood Products, Furniture, Paper Products, Printing	5.9	7.1	3.5	2.4	6.3	6.2	8.8	11.3
Petroleum, Chemical, Rubber & Plastic Products	3.6	4.5	4.4	3.7	6.1	3.7	2.3	3.7
Non-Metallic Mineral, Basic & Fabricated Metal Prod	4.1	4.5	3.2	4.1	5.7	2.0	2.7	4.0
Electrical & Electronic Products	4.1	7.8	6.5	8.0	8.9	5.2	6.9	8.1
Transport Equipment & Other Manufactures	-5.2	-0.5	0.3	-5.4	-6.1	-0.9	3.2	1.7

Source: Department of Statistics, Malaysia; MIDF Research

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

	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17
<b>Export Oriented Industries</b>	4.7	3.6	4.5	4.3	5.0	7.9	5.2	5.2
Electronic and Electrical Product	9.2	4.1	8.0	6.5	8.1	8.9	5.3	7.0
Chemicals and Chemical Products	4.9	3.4	7.9	5.8	7.1	8.6	5.3	2.3
Petroleum Products	5.1	3.6	2.1	3.6	2.1	5.3	2.3	1.7
Textiles & Wearing Apparel	10.9	6.0	8.4	5.9	4.8	6.2	4.9	6.7
Wood and Wood Products	12.9	7.2	8.7	4.6	3.4	7.1	7.0	9.5
Rubber Products	5.2	3.7	1.8	3.2	-3.0	0.6	6.7	5.5
<b>Domestic Oriented Industries</b>	4.7	2.2	4.9	3.0	1.3	2.0	1.4	2.5
Construction	5.1	4.1	4.6	3.2	4.0	5.7	2.0	2.7
Consumer	4.3	0.2	5.3	2.8	-1.3	-1.2	0.8	2.2
Food Products	17.0	7.8	13.2	4.1	2.8	3.4	1.5	0.1
Transport Equipment	-2.9	-5.2	-0.5	0.3	-5.4	-6.1	-0.9	3.3
Beverages	12.8	8.7	12.7	13.6	12.5	9.9	9.5	5.3
Tobacco Products	4.3	2.1	1.6	2.5	-7.9	3.4	0.8	2.7
Others	0.9	2.7	-1.0	-1.6	-8.4	3.3	2.2	-5.6

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

Source: Department of Statistics, Malaysia; MIDF Research

**Global IPI is on an upward trajectory.** Industrial production growths across many economies are signalling healthy economic activities. For example, industrial production of US had a huge turnaround after almost 2 years of contraction. Even with marginal growth rate, IPI of US grew at 0.4% in February. In addition, China's IPI expanded by 6.3% in February higher than last year's average of 6.1%. Recent positive global IPI performance indicates broad recovery in global economy especially among the major economies.

**Table 4: Global IPI (YoY %)**

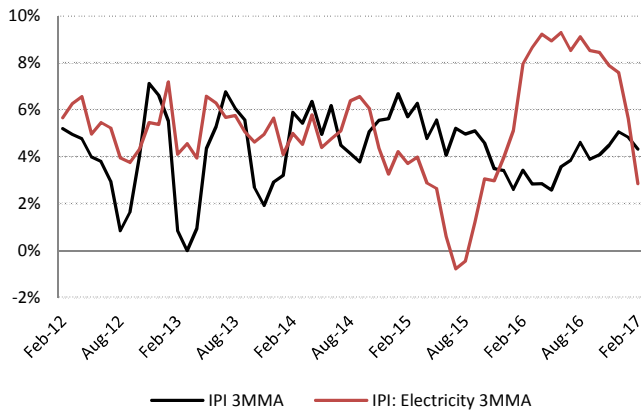
	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17
Malaysia	3.6	5.0	3.1	4.2	6.2	4.8	3.5	4.7
Indonesia	8.8	6.1	0.1	0.1	2.0	4.3	4.5	
Thailand	-5.0	3.2	1.1	0.0	3.9	0.5	2.2	-1.5
Philippines	8.8	9.6	7.4	6.4	11.7	18.8	9.6	13.6
Singapore	-3.3	1.0	7.9	1.2	11.7	22.1	3.8	12.6
EU	-0.4	2.4	1.3	0.9	3.3	2.5	0.6	
China	6.0	6.3	6.1	6.1	6.2	6.0	6.3	6.3
Japan	-4.2	4.5	1.5	-1.4	4.6	3.2	3.7	4.8
United States	-0.9	-1.1	-0.7	-0.6	-0.4	0.8	0.1	0.4

Source: CEIC; MIDF Research

**We reiterate GDP and IPI growth of 4.9% and 5.3% respectively for 2017.** Encouraging trend of IPI growth is expected to continue for the upcoming months and we predict IPI for this year to perform better than 2016. Industrial production is expected to see accelerated expansion based supported solid uptrend in trade activity, recovery in agriculture output and steady domestic consumption. In line with the recent revision of our 2017 GDP forecast (4.9% from 4.3%), we have revised IPI projection to 5.3% for this year from 4.8% previously.

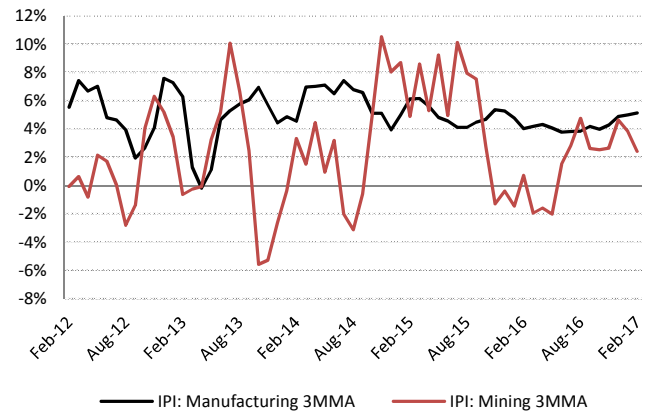


**Chart 1: IPI vs Electricity IPI**



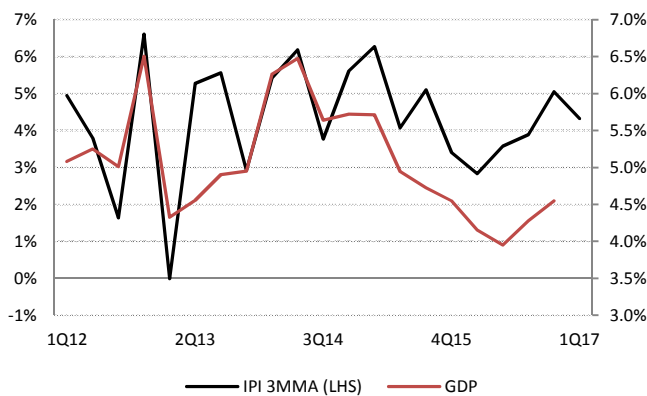
Source: Department of Statistics, Malaysia; MIDF Research

**Chart 2: Manufacturing IPI vs Mining IPI**



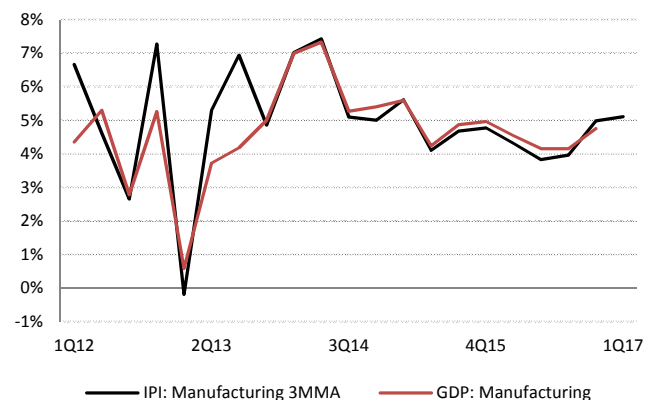
Source: Department of Statistics, Malaysia; MIDF Research

**Chart 3: IPI vs GDP**



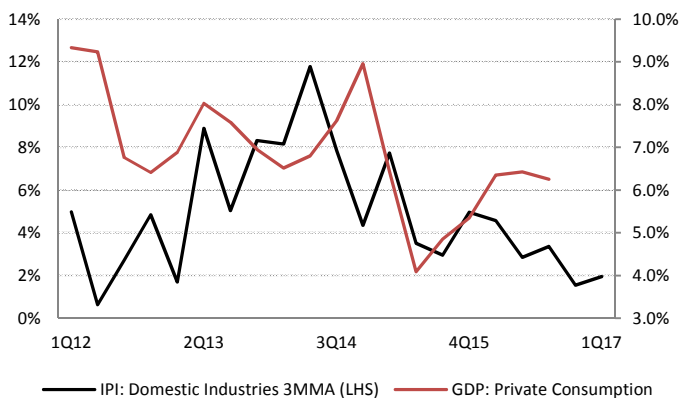
Source: Department of Statistics, Malaysia; MIDF Research

**Chart 4: Manufacturing IPI vs Manufacturing GDP**



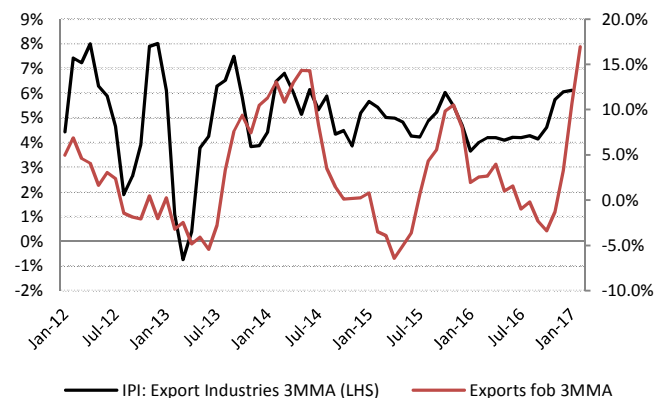
Source: Department of Statistics, Malaysia; MIDF Research

**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

**MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)**

## **DISCLOSURES AND DISCLAIMER**

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.