

ECONOMIC REVIEW | February 2018 Industrial Production Index

Threat of Trade War Casts Doubt over IPI's Trajectory

- *IPI growth below market estimates. Malaysia's industrial production expanded by 3%yoy in Feb-18, lower than market expectations of 3.2%yoy. On monthly basis, IPI shrank by -7.9% which mainly pulled down by manufacturing, mining and electricity productions, contracted by -6.2%, -12.5%yoy and -8.1% respectively. However, IPI growth for Jan-18 was revised upwards from 3%yoy to 5.4%yoy.*
- *Global trade war to affect Malaysia's IPI performance. Nevertheless, we predict the IPI performance will rebound in the second half of 2018 as trade war tapers down, lesser market uncertainty post-GE14 and continuous gradual rise in commodity prices.*
- *We expect IPI growth of 4.3% for 2018. Despite of 4.2%yoy growth in the first two months of 2018, we remain optimistic on IPI performance this year. As guided by the recent Business Tendency Index data, we believe the IPI growth will be growing between 3.5%-4.5% during the first half of 2018.*

IPI growth below market estimates. Malaysia's industrial production expanded by 3%yoy in Feb-18, lower than market expectations of 3.2%yoy. On monthly basis, IPI shrank by -7.9% which mainly pulled down by manufacturing, mining and electricity productions, contracted by -6.2%, -12.5%yoy and -8.1% respectively. However, IPI growth for Jan-18 was revised upwards from 3%yoy to 5.4%yoy. Moving forward, we foresee IPI performances to expand at moderating pace for the first half of 2018 amid threat of trade war and declining trend of external trade.

Table 1: Malaysia – Summary of Industrial Production Index

	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18
IPI	133.2	133.1	136.7	134.8	137.7	134.6	124.0
YoY%	6.7	4.7	3.2	5.0	2.8	5.4	3.0
MoM%	(0.2)	(0.1)	2.7	(1.4)	2.2	(2.3)	(7.9)
Mining	104.9	103.1	108.6	108.8	111.4	114.1	99.9
YoY%	4.8	2.3	0.2	0.1	(4.1)	1.5	(1.6)
MoM%	(2.7)	(1.7)	5.3	0.2	2.4	2.4	(12.5)
Manufacturing	144.9	146.3	148.7	146.1	149.3	143.6	134.6
YoY%	7.6	5.7	4.2	6.6	5.4	6.9	4.7
MoM%	0.5	1.0	1.6	(1.7)	2.2	(3.8)	(6.2)
Electricity	142.0	132.8	140.8	134.8	137.1	134.9	124.0
YoY%	3.0	2.2	4.7	3.9	3.9	4.3	2.8
MoM%	1.1	(6.5)	6.0	(4.3)	1.7	(1.6)	(8.1)

Source: CEIC, MIDFR

Global trade war to affect Malaysia's IPI performance. As the Lunar Year Celebrations occurred in Feb-18, fewer working days in Malaysia as well as other Asian countries affected industrial activities in each economy. Plus, Malaysia's external trade performance experienced its first contraction since Oct-16 in the second month of 2018. Looking ahead, we expect further slowdown in Malaysia's IPI growth amid of the rising trade war between the US and China, further deceleration in trade performance and less optimistic business sentiment. Malaysia's manufacturing PMI in Mar-18 went down to 49.5 points, lowest in 5-month. Nevertheless, we predict the IPI performance will rebound in the second half of 2018 as trade war tapers down, lesser market uncertainty post-GE14 and continuous gradual rise in commodity prices.

Table 2: Changes in IPI Exports/Domestic Oriented Industries (YoY %)

	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18
Export Oriented Industries	7.6	6.0	4.1	7.3	5.8	6.4
Electronic and Electrical Product	8.7	6.7	5.9	6.9	4.2	8.1
Chemicals and Chemical Products	3.3	4.9	2.4	6.3	6.2	2.6
Petroleum Products	10.2	5.1	0.7	9.4	1.7	2.1
Textiles & Wearing Apparel	9.0	8.6	9.2	7.9	7.1	4.8
Wood and Wood Products	3.1	2.0	0.5	1.3	1.4	1.5
Rubber Products	7.1	4.2	9.8	3.5	2.8	2.2
Domestic Oriented Industries	7.6	4.9	4.4	4.6	3.7	7.8
Construction	7.1	4.5	4.8	4.6	4.7	6.8
Consumer	8.1	5.2	4.0	4.6	2.8	8.9
Food Products	6.4	2.2	2.4	(0.0)	(2.2)	(3.5)
Transport Equipment	9.9	8.2	4.8	6.9	5.4	17.1
Beverages	11.2	5.7	6.7	6.5	4.7	12.4
Tobacco Products	(2.3)	(3.9)	0.5	11.4	2.4	0.2
Others	3.6	(2.9)	1.5	1.9	2.1	13.0

Source: CEIC, MIDFR

Note: Export/Domestic production data is only available up to January 2018

Manufacturing sales growth went down to 16-month low. Manufacturing sales rose by 4.9%yoy in Feb-18, slowest since Nov-16. The decline in manufacturing sales is in line with the contractionary external trade performance in Feb-18, recording exports and imports growth at -2%yoy and -2.8%yoy respectively. In spite of this, sales of manufacturing in Feb-18 mainly supported by sales of refined petroleum products and computers & peripherals equipment which expanded by 14.8%yoy and 16.8%yoy respectively. Furthermore, wage growth of the sector registered at fastest ever pace of 16.7%yoy while employment growth steady at 2.2%yoy. Henceforth, we opine 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 2018.

Table 3: Manufacturing Sales, Employment and Payrolls (YoY%)

	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18
Manufacturing Sales	10.6	11.0	10.9	9.4	10.8	4.9
Refined Petroleum Products	24.4	26.0	25.2	22.8	13.7	14.8
Organic Chemicals & Inorganic Compounds excl. Fertilizer	0.8	3.3	7.7	(7.6)	5.1	(2.6)
Basic Iron & Steel Products	(0.9)	6.0	(1.7)	6.4	11.0	11.9
Diodes, Transistor & Electronic Integrated Circuits Mic	11.8	9.7	4.8	3.6	9.5	6.5
Electrical Capacitor Resistor, Circuit Board & Display Comp	7.3	5.7	5.7	6.4	17.2	14.8
Computers & Peripherals Equipment	0.5	(0.4)	12.7	14.9	26.8	16.8
Consumer Electronics	7.3	(2.8)	12.7	19.0	5.8	(10.6)
Employment	2.5	2.4	2.3	2.4	2.5	2.2
Wage	10.0	9.6	9.2	9.2	13.3	16.7

Source: CEIC; MIDFR

Expecting slight slowdown in global industrial activities. Growing inflationary pressure and rising trade war are two major factors haunting global industrial and trade activities during the first half of 2018. Since Nov-17, Brent crude oil price has been hovering between \$60-70 level amid of strengthening global demand and continuous efforts of oil production limit among most oil-producing countries. On a flip side, trade war which sparked by Trump's administration is expected to lower optimism level in the US as well as major and emerging economies. For instance, business confidence indicators in the US such as NFIB Business Optimism Index, ISM Manufacturing PMI and Dallas Fed Manufacturing Index shown declining trends in Mar-18 partly due to the recent tariff hikes and gradual rise in inflationary pressure. Nevertheless, we view the global industrial activities to remain on steady path given that manufacturing PMI for both global and emerging economies stay above 50-points in Mar-18, 53.4 and 51.3 points respectively.

Table 4: Global IPI (YoY %)

	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18
Malaysia	4.7	3.2	5.0	2.8	5.4	3.0
Indonesia	7.7	6.4	5.7	3.4	(0.4)	
Thailand	5.3	1.0	6.3	5.8	4.7	4.7
Philippines	(5.9)	(5.7)	(9.8)	(5.6)	17.2	23.6
Singapore	14.6	15.3	6.3	(2.4)	16.9	8.9
EU	3.8	4.4	3.8	4.8	2.7	
China	6.6	6.2	6.1	6.2	7.2	7.2
Japan	2.6	5.9	3.6	4.4	2.5	1.4
United States	1.1	2.6	3.5	3.0	3.3	4.5

Source: CEIC; MIDFR


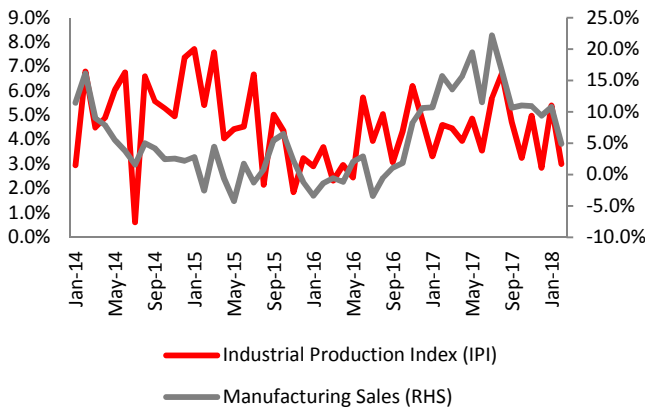
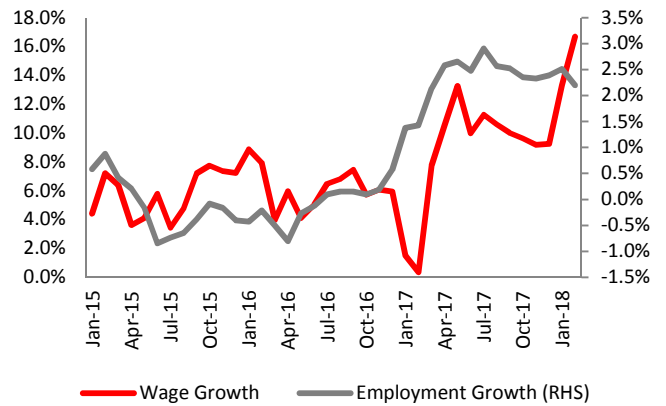
We expect IPI growth of 4.3% for 2018. Despite of 4.2%yoy growth in the first two months of 2018, we remain optimistic on IPI performance this year. As guided by the recent Business Tendency Index data, we believe the IPI growth will be growing between 3.5%-4.5% during the first half of 2018. Plus, encouraging 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. Hence, based on solid uptrend in trade activities and further steady domestic consumption, we expect industrial production growth to hit 4.3% in 2018. Nevertheless, headwinds from global trade tension could pose possible threat to the estimate. 

Chart 1: IPI vs Manufacturing Sales (YoY%)



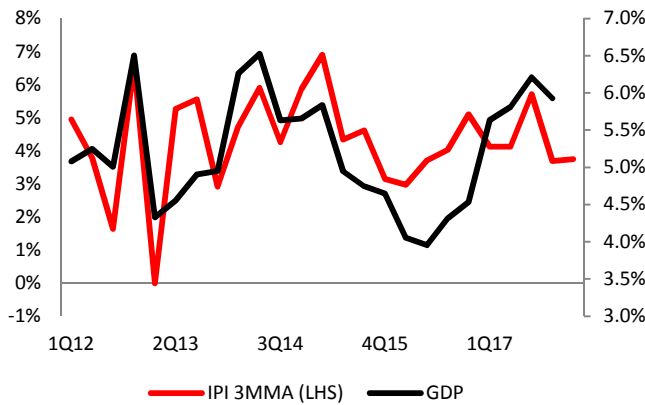
Source: CEIC, MIDFR

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



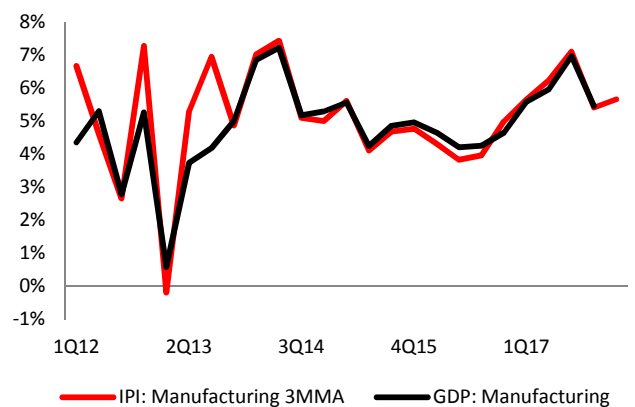
Source: CEIC, MIDFR

Chart 3: IPI vs GDP (YoY%)



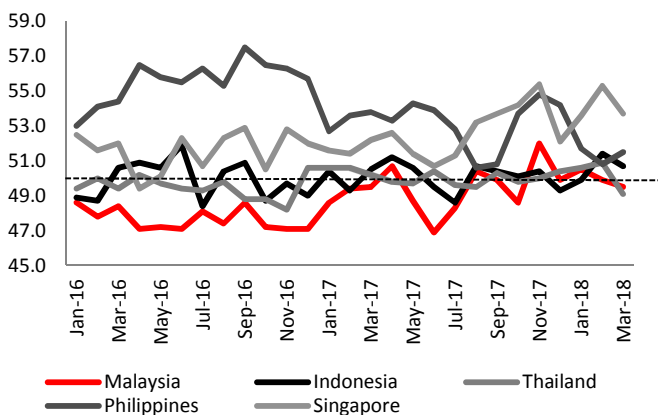
Source: CEIC, MIDFR

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



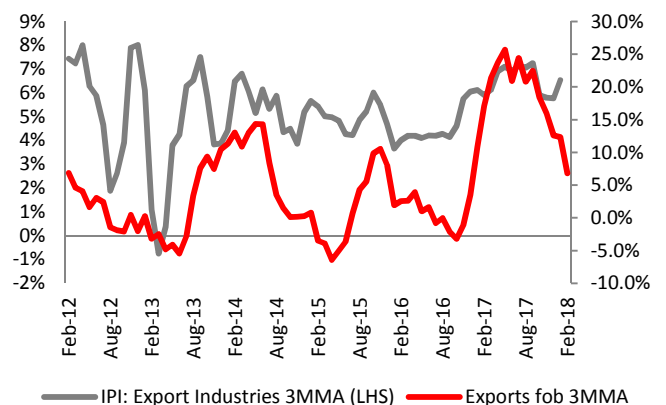
Source: CEIC, MIDFR

Chart 5: Manufacturing PMI in ASEAN (Points)



Source: CEIC, MIDFR
*Below 50: Contractionary
*Above 50: Expansionary

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



Source: CEIC, MIDFR

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