

## ECONOMIC REVIEW | Feb 2019 Industrial Production Index

### IPI Hit 8-Month Low of 1.7% Due To Weak External Trade

- *IPI grew the lowest since Jun-18. Malaysia's IPI grew only by 1.7%yoy in Feb-19 as manufacturing and electricity sector index expanded at a softer pace while mining posted larger negative growth. The factory output grew 3.7%yoy, moderated from 4.1%yoy in the prior month..*
- *Slowdown in IPI amid weak external trade performances. The IPI performance is in tandem with the slowdown of Malaysia's external trade in Feb-19. Malaysia's total exports dropped -5.3%yoy, the lowest in more than 2 years attributable to long Chinese New Year (CNY) holidays.*
- *We forecast IPI growth of 2.9% for 2019. As guided by the recent Business Tendency Survey data, we believe Malaysia's IPI will be growing at 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.*

**IPI grew the lowest since Jun-18.** Malaysia's IPI grew only by 1.7%yoy in Feb-19 as manufacturing and electricity sector index expanded at a softer pace while mining posted larger negative growth. The factory output grew 3.7%yoy, moderated from 4.1%yoy in the prior month. Meanwhile, mining output remained in negative territory for two-straight months at -5.0%yoy in Feb-19 as a result of drop in global oil prices during the month. Moving forward, we foresee IPI performance to expand at a moderate pace in the 1Q19 amid ongoing trade uncertainties and slowing global demand.

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

	MoM%				YoY%			
	Nov-18	Dec-18	Jan-19	Feb-19	Nov-18	Dec-18	Jan-19	Feb-19
IPI	0.2	0.2	1.2	(2.0)	2.6	3.5	3.2	1.7
Mining	(1.0)	(0.5)	0.3	(6.8)	(0.7)	1.0	(0.9)	(5.0)
Manufacturing	0.4	0.3	1.3	(0.3)	3.6	4.3	4.1	3.7
Electricity	0.2	(0.1)	4.0	(3.1)	3.2	2.7	7.8	4.9

Source: CEIC, MIDFR

\*MoM is Seasonally Adjusted

**Slowdown in IPI amid weak external trade performances.** The IPI performance is in tandem with the slowdown of Malaysia's external trade in Feb-19. Malaysia's total exports dropped -5.3%yoy, the lowest in more than 2 years attributable to long Chinese New Year (CNY) holidays. Domestic exports grew slightly by 0.6%yoy, third consecutive month of positive growth while re-exports which have low domestic value-added posted a double digit contraction, worst since Aug-14. Among others, exports of E&E and LNG expanded at a slower pace of 4.9%yoy and 8.6%yoy respectively in Feb-19. However, looking ahead, we view Malaysia's IPI performance to remain in a good position due to firm domestic demand and stable job market which would support domestic-oriented industries particularly consumer-based products. In addition, it would be supported by steady global demand particularly in the US & China besides gradual pick-up in global commodity prices & currencies.

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

	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
Mining;	(5.7)	0.4	(2.8)	1.0	(0.9)	(5.0)
Mining: Crude Petroleum	(7.0)	(1.9)	(4.9)	2.5	(2.2)	(4.3)
Mining: Natural Gas	(4.6)	2.4	(1.0)	(0.2)	0.3	(5.6)
Manufacturing;	4.8	5.4	3.7	4.4	4.2	3.7
Food Products	7.4	2.6	(2.0)	(1.8)	2.4	6.3
Refined Petroleum Products	3.2	5.1	5.3	1.7	3.9	0.2
Chemicals & Chemicals Products	2.9	1.0	0.4	2.9	2.6	0.5
Rubber Products	6.3	7.5	4.3	10.7	5.2	8.1
Basic Metals	3.7	4.7	4.0	3.4	3.2	3.6
Electrical & Electronic Products	5.5	7.1	5.3	7.2	3.9	3.1
Computers & Peripheral Equipment	6.3	7.5	0.3	5.3	(1.2)	6.2
Machinery & Equipment	2.5	4.5	3.9	4.8	2.9	2.5
Motor Vehicles, Trailers & Semi-Trailers	1.7	10.7	9.1	9.0	6.5	7.3

Source: CEIC, MIDFR

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

	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
<b>IPI: Export Oriented Industries</b>	<b>3.3</b>	<b>3.3</b>	<b>4.8</b>	<b>4.9</b>	<b>3.1</b>	<b>3.6</b>	<b>4.9</b>
Electronic and Electrical Product	7.7	3.9	5.2	6.9	5.2	7.1	4.6
Chemicals and Chemical Pdts	6.8	3.4	3.9	2.4	1.1	3.7	4.1
Petroleum Products	0.7	3.4	3.4	5.2	5.3	1.6	3.8
Textiles & Wearing Apparel	3.6	2.9	2.2	2.2	4.8	4.2	5.4
Wood and Wood Products	5.1	7.0	9.1	8.3	1.4	3.8	6.5
Rubber Products	5.3	5.3	5.2	7.3	5.6	11.4	3.7
Off Estate Processing	(19.9)	(3.3)	7.4	(0.3)	(6.7)	(9.6)	10.8
Paper Products	6.7	5.9	2.3	4.0	2.6	3.3	3.6
<b>IPI: Domestic Oriented Industries</b>	<b>9.7</b>	<b>6.4</b>	<b>4.7</b>	<b>6.4</b>	<b>5.0</b>	<b>6.0</b>	<b>2.6</b>
Construction (CO)	5.5	4.9	4.8	4.7	4.0	4.2	4.4
CO: Non Metallic Mineral	7.5	5.3	5.4	4.1	4.2	4.3	5.8
CO: Iron and Steel	3.5	4.0	3.7	4.7	4.0	3.4	3.2
CO: Fabricated Metal	5.3	5.2	5.1	5.1	4.0	4.6	4.1
Consumer (CS)	13.5	7.6	4.6	7.8	5.9	7.6	1.1
CS: Food Products	15.9	7.3	6.8	6.1	3.5	7.9	(4.9)
CS: Transport Equipment	18.1	9.0	1.6	9.6	9.7	7.7	6.7
CS: Beverages	3.7	3.4	4.2	0.8	1.5	1.7	2.6
CS: Tobacco Products	2.6	2.3	3.3	5.5	(1.5)	6.3	6.6
CS: Others	5.8	7.9	7.2	10.7	6.1	9.4	(1.6)

Source: CEIC, MIDFR

\*Data available as of Nov-18

**Manufacturing sales at 10-month low.** Manufacturing sales increased 5.5%yoy in Feb-19, the slowest since May-18. The softer pace is in line with negative growth of re-exports at -28.1%yoy during the month. Nevertheless, wage growth in the manufacturing sector grew by 7.2%yoy in Feb-19 while employment maintained at 2%yoy from the previous month. For the first two months, employment and wage growth averaged at 2%yoy and 8%yoy respectively. Henceforth, we foresee the positive trend in both wages and employment in the manufacturing sector provides a bright outlook for the economic activities and contribute positively towards domestic consumption in 1Q19.

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

	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
<b>Sales;</b>	8.2	10.2	7.7	7.5	7.0	5.5
Refined Petroleum Products	11.2	14.6	17.8	1.2	12.6	4.6
Diodes, Transistor & Electronic Integrated Circuits Mic	12.6	17.9	25.8	33.1	18.0	12.8
Electrical Capacitor Resistor, Circuit Board & Display Comp	8.4	13.8	6.3	10.6	2.4	0.2
<b>Employment</b>	1.9	2.2	2.0	1.7	2.0	2.0
<b>Wage</b>	9.1	10.2	9.0	10.1	8.9	7.2


Source: CEIC, MIDFR

**Decline business optimism affects global IPI.** IPI performances across major and emerging economies moderated in Feb-19 due to concerns over trade talks between the US & China, geopolitical stress in Europe, and volatility in global commodity prices. IPI growth in the US moderated slightly to 3.6%yoy in Feb-19 from 3.7%yoy in the previous month. Meanwhile, ASEAN countries such as Philippines saw their IPI dropped by -5.5%yoy in Feb-19. In Mar-19, global PMI was at 50.6 points, remained unchanged for two-consecutive months, while the PMI for emerging economies increased slightly to 51.0 points. Looking ahead, we view a slight pick-up in global demand especially with the US and China expected to sign a trade deal in the near time.

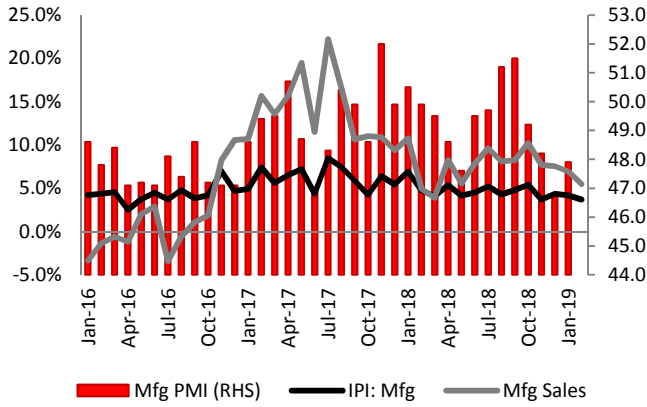
**Table 5: Global IPI (YoY%)**

	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
Malaysia	2.1	2.4	4.0	2.1	3.4	3.2	1.7
Indonesia	3.9	3.1	8.6	6.1	6.4	5.2	
Philippines	4.4	3.4	3.8	2.0	(8.4)	0.7	(5.5)
Thailand	0.8	(2.7)	5.8	0.9	0.8		
Singapore	3.3	0.5	5.2	6.8	1.8	(0.4)	0.7
India	4.8	4.6	8.4	0.3	2.6	1.7	
Japan	0.2	(2.5)	4.2	1.5	(1.9)	0.3	(1.0)
EU	1.2	0.9	1.1	(2.0)	(2.5)	(0.6)	
USA	5.2	5.4	3.7	3.9	3.3	3.7	3.6

Source: CEIC, MIDFR

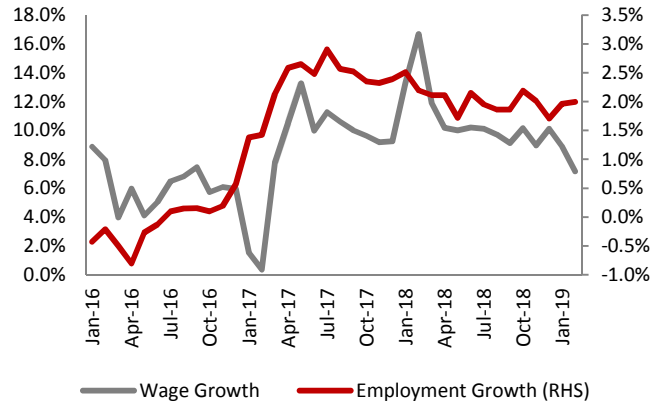
**We forecast IPI growth of 2.9% for 2019.** As guided by the recent Business Tendency Survey data, we believe Malaysia's IPI will be growing at between 3%-4% during the first half of 2019. Referring to the survey, services and manufacturing sectors are expected to continue to drive up Malaysia's economy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



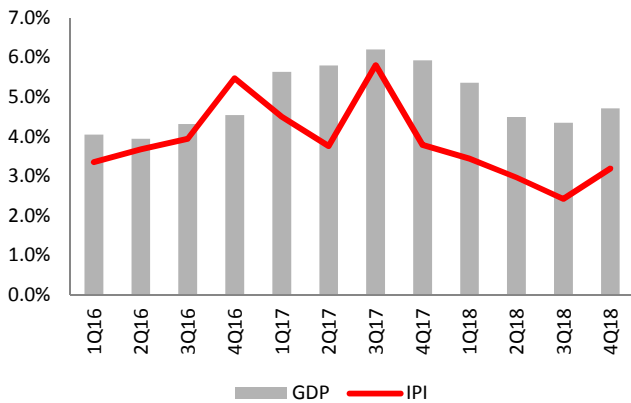
Source: CEIC, MIDFR

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



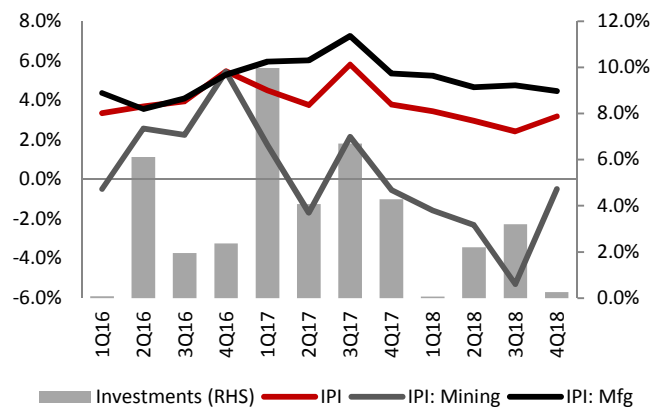
Source: CEIC, MIDFR

**Chart 3: IPI vs GDP (YoY%)**



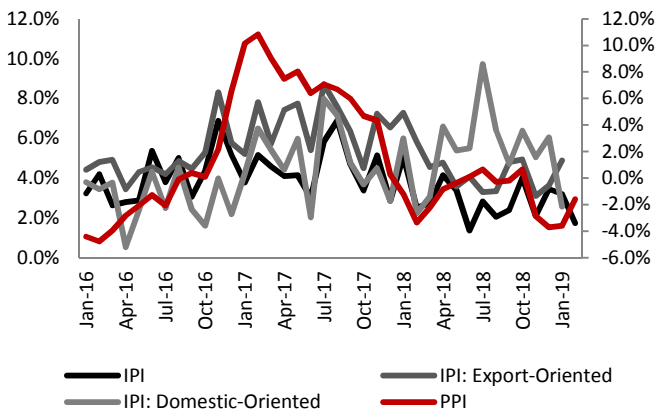
Source: CEIC, MIDFR

**Chart 4: IPI vs Investments Performances (YoY%)**



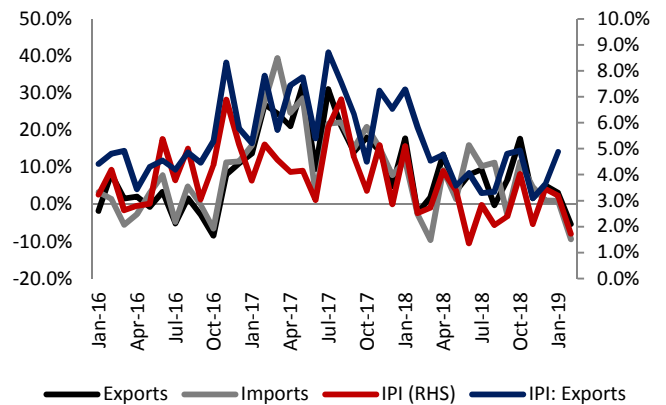
Source: CEIC, MIDFR

**Chart 5: IPI vs PPI (YoY%)**



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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