

ECONOMIC REVIEW | January 2017 Industrial Production Index

Factory Output Growth Moderated to 6 Months Low in January

- January's factory output was up by 3.5% y-o-y, weaker than the 4.7% expansion in December as both mining and electricity sectors saw a sharp slowdown. Both sector expanded by 1.1%yoy and 1.1%yoy respectively. Bucking the monthly trend, manufacturing sectors grew faster at 4.6%yoy during the month, in line with the relative robust external market performance.*
- Waning domestic production a telling signal for local consumption. Our projection for the manufacturing was almost right on the dot for 4Q16 i.e 5.0% vs 4.7% (actual). For now, we note that IPI numbers are headlining a much weaker private consumption in the coming quarters due to modest rebound seen in consumer related production at 0.8%.*
- We reiterate GDP and IPI growth of 4.3% and 4.8% respectively for 2017.*

Production growth slowed in January. January's factory output was up by 3.5% y-o-y, weaker than the 4.7% expansion in December as both mining and electricity sectors saw a sharp slowdown. Both sector expanded by 1.1%yoy and 1.1%yoy respectively. Bucking the monthly trend, manufacturing sectors grew faster at 4.6%yoy during the month, in line with the relative robust external market performance. 2017 starts on a weaker note after registering a good fourth quarter last year which saw GDP accelerated to 4.5% growth from 4.3% in 3Q16.

Table 1: Malaysia – Summary of Industrial Production Index

	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17
Industrial Production Index	128.7	125.9	124.7	127.1	132.2	128.4	133.9	127.7
YoY	5.2%	3.6%	5.0%	3.1%	4.2%	6.2%	4.7%	3.5%
MoM (SA)	2.3%	-0.6%	-0.4%	0.1%	2.1%	-0.3%	0.4%	-1.2%
Mining Index	106.7	107.6	99.6	101.0	107.7	108.6	116.2	112.4
YoY	6.1%	3.9%	4.3%	-0.3%	3.6%	4.6%	5.7%	1.1%
MoM (SA)	5.8%	-3.1%	-5.3%	2.4%	2.1%	-0.3%	2.7%	-3.2%
Manufacturing Index	138.2	133.5	134.7	138.4	142.7	137.0	141.7	134.3
YoY	4.6%	3.2%	4.7%	4.0%	4.2%	6.5%	4.3%	4.6%
MoM (SA)	2.6%	-1.6%	0.1%	0.8%	2.8%	-1.2%	-0.1%	0.7%
Electricity Index	130.6	130.1	137.8	129.9	134.5	129.8	132.0	129.3
YoY	8.7%	7.2%	11.4%	7.0%	6.9%	9.7%	6.1%	1.0%
MoM (SA)	-0.2%	-1.7%	5.0%	-2.6%	3.5%	-1.5%	-0.2%	-0.7%

Source: Department of Statistics, Malaysia; MIDF Research

Palm oil production grew for 2 consecutive months in January and it will be stretching to its 3rd month as data from Malaysian Palm Oil Board (MPOB) show good production figure in February. Despite a slip in exports due to lower demand from China, local consumption has remained robust. This is evident from change in inventories, which dropped by 0.6% on a seasonally adjusted basis. The recovery in this sector has partly boosted GDP growth in the fourth quarter and this particular area to be turn into a tailwind for the local economy come next quarter data.

Waning domestic production a telling signal for local consumption. Our projection for the manufacturing was almost right on the dot for 4Q16 i.e 5.0% vs 4.7% (actual). For now, we note that IPI numbers are headlining a much weaker private consumption in the coming quarters due to modest rebound seen in consumer related production at 0.8%. Meanwhile, sub-sector food products grew a mere 1.5%, the weakest expansion in almost 3 years while beverages were down to a 5-month low at 9.5%yoy. We reckon private consumption growth to moderate to 5.5% in the first quarter, shedding 0.2% point from total GDP growth.

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

	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17
Crude Petroleum	9.1	11.3	7.7	-1.5	2.7	-1.9	0.1	-2.4
Natural Gas	2.4	-4.6	0.2	1.2	4.5	13.1	12.7	5.3
Food, Beverages & Tobacco	-6.8	2.6	-1.7	-0.8	2.5	10.4	8.8	6.8
Textiles, Wearing Apparel, Leather Product, Footwear	10.9	6.0	8.5	5.8	4.7	6.2	4.9	6.7
Wood Products, Furniture, Paper Products, Printing	10.2	5.9	7.1	3.5	2.4	6.3	6.2	8.8
Petroleum, Chemical, Rubber & Plastic Products	5.0	3.6	4.5	4.4	3.7	6.1	3.7	2.3
Non-Metallic Mineral, Basic & Fabricated Metal Prod	5.1	4.1	4.5	3.2	4.1	5.7	2.0	2.7
Electrical & Electronic Products	9.1	4.1	7.8	6.5	8.0	8.9	5.2	6.9
Transport Equipment & Other Manufactures	-2.9	-5.2	-0.5	0.3	-5.4	-6.1	-0.9	3.2

Source: Department of Statistics, Malaysia; MIDF Research

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

	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
Export Oriented Industries	4.3	4.7	3.6	4.5	4.3	5.0	7.9	5.2
Electronic and Electrical Product	8.4	9.2	4.1	8.0	6.5	8.1	8.9	5.3
Chemicals and Chemical Products	6.2	4.9	3.4	7.9	5.8	7.1	8.6	5.3
Petroleum Products	4.7	5.1	3.6	2.1	3.6	2.1	5.3	2.3
Textiles & Wearing Apparel	5.9	10.9	6.0	8.4	5.9	4.8	6.2	4.9
Wood and Wood Products	7.3	12.9	7.2	8.7	4.6	3.4	7.1	7.0
Rubber Products	0.3	5.2	3.7	1.8	3.2	-3.0	0.6	6.7
Domestic Oriented Industries	1.7	4.7	2.2	4.9	3.0	1.3	2.0	1.4
Construction	5.8	5.1	4.1	4.6	3.2	4.0	5.7	2.0
Consumer	-1.9	4.3	0.2	5.3	2.8	-1.3	-1.2	0.8
Food Products	15.1	17.0	7.8	13.2	4.1	2.8	3.4	1.5
Transport Equipment	-11.7	-2.9	-5.2	-0.5	0.3	-5.4	-6.1	-0.9
Beverages	9.5	12.8	8.7	12.7	13.6	12.5	9.9	9.5
Tobacco Products	3.6	4.3	2.1	1.6	2.5	-7.9	3.4	0.8
Others	-1.7	0.9	2.7	-1.0	-1.6	-8.4	3.3	2.2

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

Source: Department of Statistics, Malaysia; MIDF Research

Singapore factory output sharply down in January. After a startling vertical output growth in December, Singapore saw firms cutting production sharply in January. On year-on-year terms, production grew 2.2% and fell 6.0% on a monthly basis (seasonally adjusted basis). This was in fact, a larger contraction than the economist consensus surveyed by Bloomberg and Reuters poll. However, excluding the more volatile biomedical manufacturing, growth was better 7.0%, down from 17.0% recorded in the previous month. For China, output growth re-tests the 6.0% level in December, moderating from 6.2% growth in November. However, we expect for the Jan-Feb period to show an uptick, based on the most recent Chinese external data which was rather encouraging.

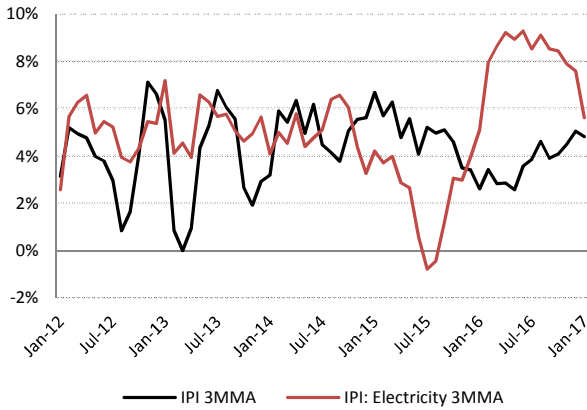
Table 4: Global IPI (YoY %)

	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17
Malaysia	5.2	3.6	5.0	3.1	4.2	6.2	4.8	3.5
Indonesia	8.0	8.8	6.1	0.1	0.1	2.0	4.3	4.5
Thailand	2.8	-2.8	3.9	1.9	0.0	3.7	0.0	1.3
Philippines	6.7	8.8	9.6	7.4	6.4	11.6	19.5	11.6
Singapore	1.1	-3.3	1.0	7.9	1.2	11.7	22.1	2.2
EU	0.9	0.1	2.2	1.2	0.8	3.0	2.4	
China	6.2	6.0	6.3	6.1	6.1	6.2	6.0	
Japan	-1.5	-4.2	4.5	1.5	-1.4	4.6	3.2	3.2
United States	-0.4	-0.9	-1.1	-0.7	-0.6	-0.4	0.7	0.1

Source: CEIC; MIDF Research

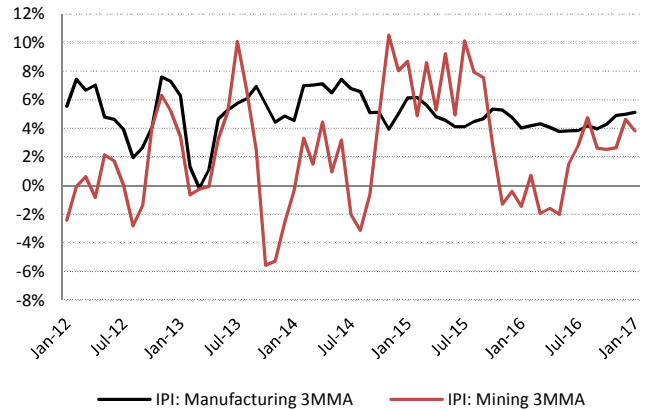
We reiterate GDP and IPI growth of 4.3% and 4.8% respectively for 2017. The moderation in factory output in January is expected after positive momentum recorded for the past 3 months. We opine the monthly production 'correction' i.e in the mining and electricity sector to show a positive rebound. This is expected as such that the oil prices remain elevated at an average of USD56pb in February while manufacturing industry, the major user for electricity to remain solid in the near future. 

Chart 1: IPI vs Electricity IPI



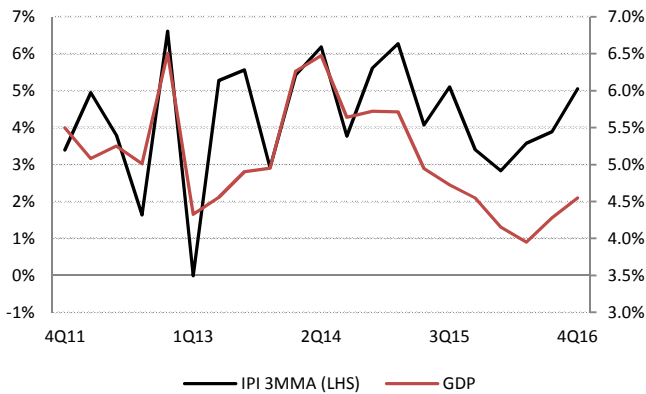
Source: Department of Statistics, Malaysia; MIDF Research

Chart 2: Manufacturing IPI vs Mining IPI



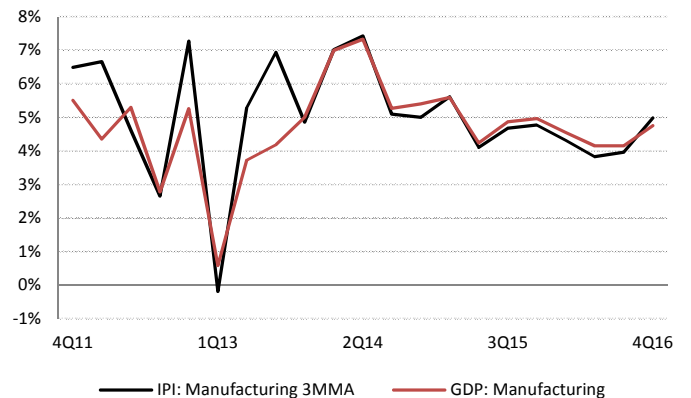
Source: Department of Statistics, Malaysia; MIDF Research

Chart 3: IPI vs GDP



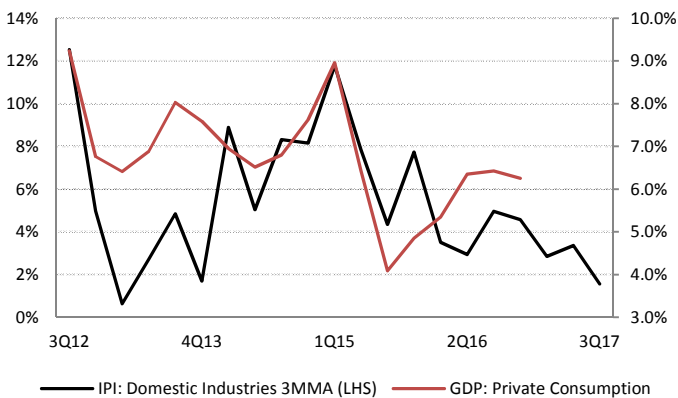
Source: Department of Statistics, Malaysia; MIDF Research

Chart 4: Manufacturing IPI vs Manufacturing GDP



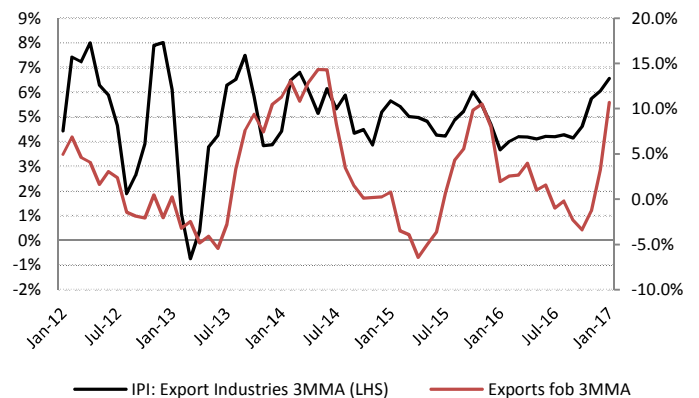
Source: Department of Statistics, Malaysia; MIDF Research

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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