

ECONOMIC REVIEW | January 2018 Industrial Production Index

January Outputs up 3% - Hints Moderating Trend for Industrial Activity

- *IPI growth below market estimates. Malaysia's industrial production expanded by 3%yoy in Jan-18, lower than market expectations of 6.8%yoy. On monthly basis, IPI shrank by 4.5% which mainly pulled down by manufacturing and electricity productions, contracted by 5.8% and 1.5% respectively.*
- *Manufacturing sales growth returned to double-digit. Manufacturing sales rose by 10.8%yoy in Jan-18, slightly lower than 2017's average growth of 13.9%. The continuous solid increase in manufacturing sales is in line with the robust external trade performance in Jan-18, recording exports and re-exports growths at 17.9%yoy and 67.7%yoy respectively.*
- *We expect IPI growth of 4.3% for 2018. Despite of 3%yoy growth in the first month 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 Jan-18, lower than market expectations of 6.8%yoy. On monthly basis, IPI shrank by 4.5% which mainly pulled down by manufacturing and electricity productions, contracted by 5.8% and 1.5% respectively. On a flip side, mining output grew by 1.5%yoy, fastest in 4-months amid of improving commodity prices globally whereas manufacturing and electricity output grew by 4.8%yoy and 4.4%yoy respectively in Jan-18. Moving forward, we foresee IPI performances to trend upward underpin by continuous upbeat momentum in global trade activities and gradual rise in commodity prices.

Table 1: Malaysia – Summary of Industrial Production Index

	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18
IPI	133.5	133.2	133.1	136.7	134.8	137.7	131.5
YoY%	6.0	6.8	4.7	3.4	5.0	2.8	3.0
MoM%	1.4	(0.1)	(1.0)	(0.8)	1.9	(1.3)	(4.5)
Mining	107.8	105.0	103.1	108.6	108.8	111.4	114.1
YoY%	0.2	5.4	2.1	0.8	0.2	(4.1)	1.5
MoM%	(2.2)	(2.8)	0.7	0.4	0.1	(2.7)	2.4
Manufacturing	144.2	144.9	146.3	148.7	146.1	149.3	140.7
YoY%	8.0	7.6	5.7	4.2	6.6	5.4	4.8
MoM%	1.4	0.1	(0.2)	(1.2)	2.8	(0.7)	(5.8)
Electricity	140.4	142.0	132.8	140.8	134.8	137.1	135.0
YoY%	7.9	3.0	2.2	4.7	3.9	3.9	4.4
MoM%	5.6	(1.5)	(2.1)	2.0	0.8	(0.5)	(1.5)

Source: CEIC, MIDFR

Mining output rebounded to positive growth. Productions of crude petroleum and natural gas improve by 1.8%yoy and 1.4%yoy respectively in Jan-18. The increase is in line with the recovery trends in commodity prices especially Brent. Oil price started to record above \$60 since Nov-17. As for non-mining output, we noticed slight slowdown amid of unfavourable base effects. For instance, productions of E&E grew at tepid pace of 4%yoy, slowest in 3-year. Nevertheless, we view IPI performance to continue expanding at steady pace in line with the expected-moderating exports growth. We forecast exports to grow by 9.3% in 2018.

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

	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18
Crude Petroleum	(1.6)	0.7	0.3	0.4	(5.0)	1.8
Natural Gas	14.6	3.9	1.4	0.0	(3.2)	1.4
Food, Beverages & Tobacco	9.4	8.0	7.0	8.2	17.0	14.4
Textiles, Wearing Apparel, Leather Product, Footwear	9.0	8.6	9.2	8.0	7.1	2.9
Wood Products, Furniture, Paper Products, Printing	2.0	1.3	0.2	2.1	2.6	1.3
Petroleum, Chemical, Rubber & Plastic Products	7.0	4.9	2.1	7.5	3.5	2.1
Non-Metallic Mineral, Basic & Fabricated Metal Prod	7.1	4.5	4.8	4.6	4.7	17.3
Electrical & Electronic Products	8.7	6.7	5.9	6.9	4.2	4.0
Transport Equipment & Other Manufactures	9.9	8.2	4.8	6.9	5.4	28.1

Source: CEIC, MIDFR

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

	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Export Oriented Industries	8.2	7.6	6.0	4.1	7.3	5.8
Electronic and Electrical Product	10.6	8.7	6.7	5.9	6.9	4.2
Chemicals and Chemical Products	4.2	3.3	4.9	2.4	6.3	6.2
Petroleum Products	3.1	10.2	5.1	0.7	9.4	1.7
Textiles & Wearing Apparel	9.6	9.0	8.6	9.2	7.9	7.1
Wood and Wood Products	4.7	3.1	2.0	0.5	1.3	1.4
Rubber Products	5.2	7.1	4.2	9.8	3.5	2.8
Domestic Oriented Industries	7.2	7.6	4.9	4.4	4.6	3.7
Construction	7.6	7.1	4.5	4.8	4.6	4.7
Consumer	6.9	8.1	5.2	4.0	4.6	2.8
Food Products	7.6	6.4	2.2	2.4	(0.0)	(2.2)
Transport Equipment	6.8	9.9	8.2	4.8	6.9	5.4
Beverages	8.6	11.2	5.7	6.7	6.5	4.7
Tobacco Products	2.6	(2.3)	(3.9)	0.5	11.4	2.4
Others	(4.8)	3.6	(2.9)	1.5	1.9	2.1

Source: CEIC, MIDFR

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

Manufacturing sales growth returned to double-digit. Manufacturing sales rose by 10.8%yoy in Jan-18, slightly lower than 2017's average growth of 13.9%. The continuous solid increase in manufacturing sales is in line with the robust external trade performance in Jan-18, recording exports and re-exports growths at 17.9%yoy and 67.7%yoy respectively. Among others, sales of manufacturing in Jan-18 mainly supported by sales of refined petroleum products and computers & peripherals equipment which expanded by 13.7%yoy and 26.8%yoy respectively. Furthermore, wage growth of the sector registered at fastest pace of 13.3%yoy while employment growth hits 4-month high at 2.5%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 4: Manufacturing Sales, Employment and Payrolls (YoY%)

	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18
Manufacturing Sales	16.5	10.6	11.0	10.9	9.4	10.8
Refined Petroleum Products	37.7	24.4	26.0	25.2	22.8	13.7
Organic Chemicals & Inorganic Compounds excl Fertilizer	0.1	0.8	3.3	7.7	(7.6)	5.1
Basic Iron & Steel Products	2.0	(0.9)	6.0	(1.7)	6.4	11.0
Diodes, Transistor & Electronic Integrated Circuits Mic	13.3	11.8	9.7	4.8	3.6	9.5
Electrical Capacitor Resistor, Circuit Board & Display Comp	45.6	7.3	5.7	5.7	6.4	17.2
Computers & Peripherals Equipment	8.1	0.5	(0.4)	12.7	14.9	26.8
Consumer Electronics	7.8	7.3	(2.8)	12.7	19.0	5.8
Employment	2.6	2.5	2.4	2.3	2.4	2.5
Wage	10.6	10.0	9.6	9.2	9.2	13.3

Source: CEIC; MIDFR

Singapore IPI hits 5-month high. In Jan-18, Singapore's IPI growth rebounded from contractionary zone to skyrocketing 17.9%yoy growth. The surge is in tandem with optimistic manufacturing PMI shown during the month, 53.1 points highest since Dec-09. On a flip side, industrial activity in major economies especially in the US and China remain on steady speed, thanks to continuous expansionary global trade activities and recovery in commodity prices. Looking forward, we foresee IPI performance will stay on upward bias in the first half of 2018 given that manufacturing PMI of global and emerging economies remain on above 50-points level in Feb-18 at 54.2 and 52 points respectively.

Table 5: Global IPI (YoY %)

	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18
Malaysia	6.8	4.7	3.4	5.0	2.8	3.0
Indonesia	4.8	7.7	6.4	5.1	1.7	(0.4)
Thailand	4.2	4.6	0.1	4.1	2.3	
Philippines	0.1	(5.8)	(5.6)	(9.6)	(9.8)	20.4
Singapore	20.1	14.4	14.5	5.7	(3.4)	17.9
EU	4.0	3.8	4.4	3.8	4.8	
China	6.0	6.6	6.2	6.1	6.2	
Japan	5.3	2.6	5.9	3.6	4.4	2.7
United States	1.1	1.5	3.2	3.9	3.4	4.2

Source: CEIC; MIDFR


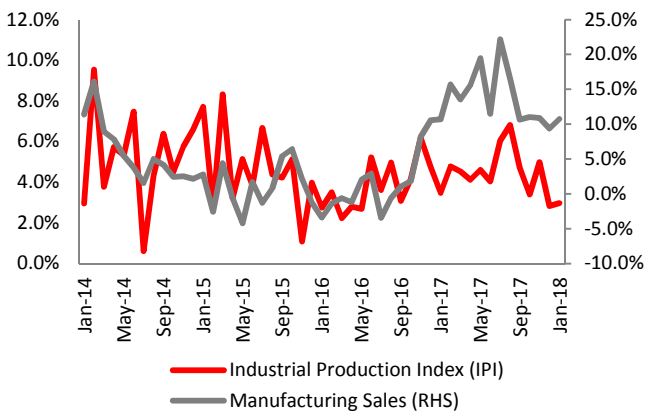
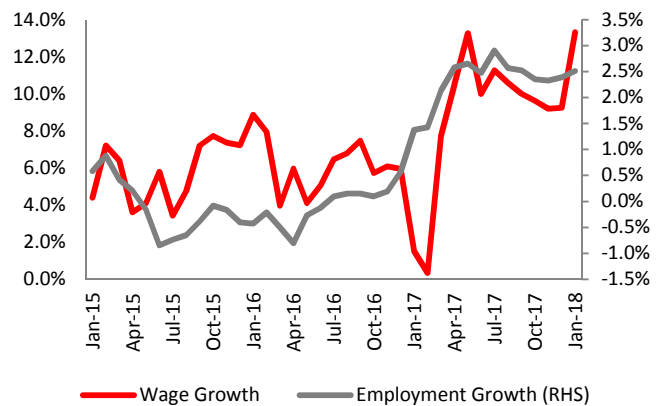
We expect IPI growth of 4.3% for 2018. Despite of 3%yoy growth in the first month of 2018, we remain optimistic on IPI performance this year. As guided by the recent Business Tendency Index data, we believe the IPI growth will be growing between 3.5%-4.5% during the first half of 2018. Plus, encouraging 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. Plus, expected spill-over effects from the US tax cuts will drive up global trade activities this year. 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 possible trade tension could posed possible threat to the estimate. 

Chart 1: IPI vs Manufacturing Sales (YoY%)



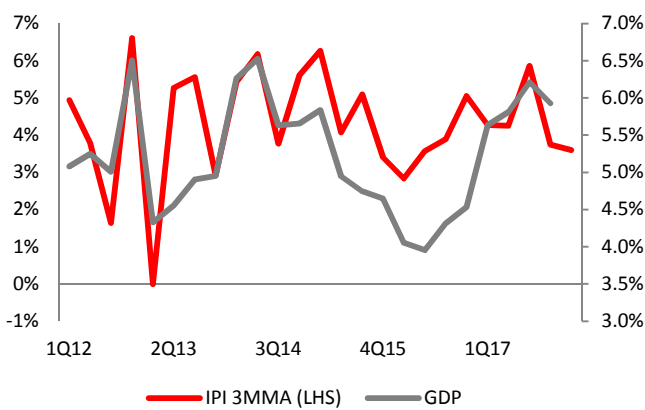
Source: CEIC, MIDFR

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



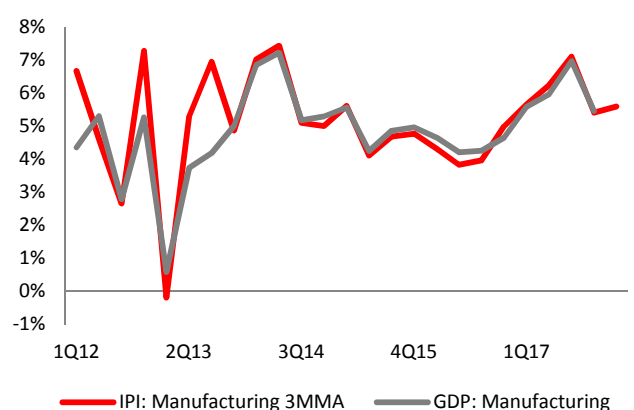
Source: CEIC, MIDFR

Chart 3: IPI vs GDP (YoY%)



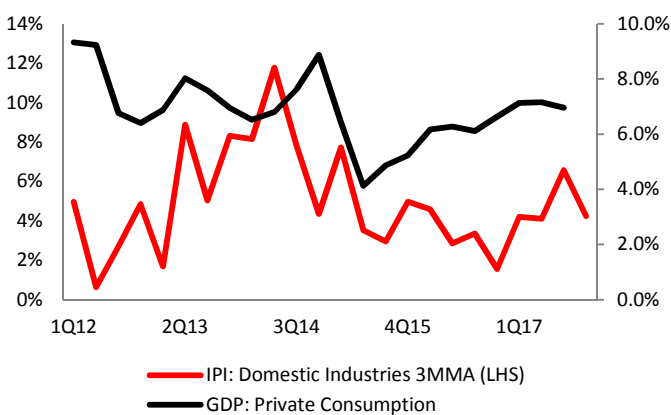
Source: CEIC, MIDFR

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



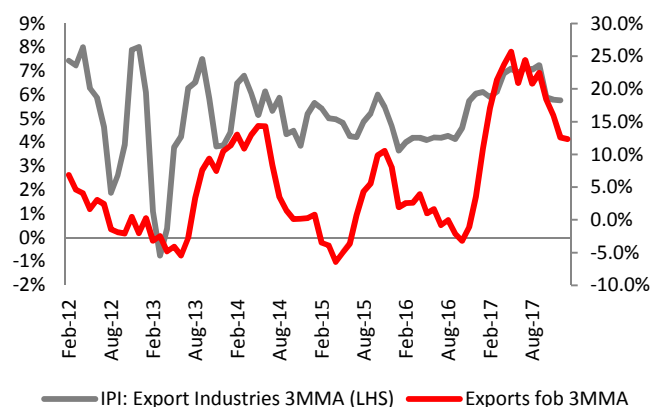
Source: CEIC, MIDFR

Chart 5: Domestic IPI vs Private Consumption (YoY%)



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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