

## ECONOMIC REVIEW | January 2019 Industrial Production Index

### IPI Growth Exceeds Market Expectation as Global Demand Remains Solid

- *1-1/2-year-high electricity growth supports IPI performance. Malaysia's industrial production expanded 3.2%yoy in Jan-19 supported by the increase in the index of electricity and manufacturing. The electricity sector index advanced 7.8%yoy, the highest since Jul-17 while factory output grew 4.1%yoy, moderated from 4.4%yoy in the previous month.*
- *Steady pace of external trade. The IPI performance is in tandem with the modest pace of Malaysia's external trade in Jan-19. Malaysia's total exports rose by 3.1%yoy with re-exports and domestic exports at 0.4%yoy and 3.9%yoy respectively.*
- *We forecast IPI growth of 2.9% for 2019. As guided by the recent Business Tendency Survey data, we believe the IPI growth will be growing 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.*

**1-1/2-year-high electricity growth supports IPI performance.** Malaysia's industrial production expanded 3.2%yoy in Jan-19 supported by the increase in the index of electricity and manufacturing. The electricity sector index advanced 7.8%yoy, the highest since Jul-17 while factory output grew 4.1%yoy, moderated from 4.4%yoy in the previous month. Meanwhile, mining output returned to negative rate of growth at -0.9%yoy as a result of drop in global oil prices during the month. Moving forward, we foresee IPI performance to expand at a steady pace in 2019 amid tapering trade tension, strong global demand, expected-improve business environment and gradual pick-up in global commodity prices & currencies.

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

	MoM%				YoY%			
	Oct-18	Nov-18	Dec-18	Jan-19	Oct-18	Nov-18	Dec-18	Jan-19
IPI	0.4	0.2	0.2	1.2	4.3	2.6	3.4	3.2
Mining	5.3	(1.0)	(0.5)	0.3	1.4	(0.7)	1.0	(0.9)
Manufacturing	(0.2)	0.4	0.3	1.3	5.3	3.6	4.4	4.1
Electricity	(0.1)	0.2	(0.1)	4.0	2.7	3.2	2.7	7.8

Source: CEIC, MIDFR

\*MoM is Seasonally Adjusted

**Steady pace of external trade.** The IPI performance is in tandem with the modest pace of Malaysia's external trade in Jan-19. Malaysia's total exports rose by 3.1%yoy with re-exports and domestic exports at 0.4%yoy and 3.9%yoy respectively. Among others, E&E products which constituted circa 40% of total exports continued to post positive growth of 8.2%yoy in Jan-19 however lower than 14.2%yoy growth seen in the previous month. Looking ahead, we view IPI performance to be in a good position in the 1H19 due to progressive trade negotiations between the US and China, steady global demand particularly in the US & China and gradual pick-up in global commodity prices & currencies. Domestically, firm domestic demand and stable job market would support domestic-oriented industries particularly consumer-based products.

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

	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Mining;	(4.6)	(6.2)	1.4	(0.7)	1.0	(0.9)
Mining: Crude Petroleum	(0.6)	(6.3)	0.4	0.6	2.5	(2.2)
Mining: Natural Gas	(8.0)	(6.2)	2.3	(1.8)	(0.2)	0.3
Manufacturing;	4.3	4.8	5.4	3.7	4.4	4.2
Food Products	2.0	7.4	2.6	(2.0)	(1.8)	2.4
Refined Petroleum Products	3.0	3.2	5.1	5.3	1.7	3.9
Chemicals & Chemicals Products	2.5	2.9	1.0	0.4	2.9	2.6
Rubber Products	7.0	6.3	7.5	4.3	10.7	5.2
Basic Metals	4.0	3.7	4.7	4.0	3.4	3.2
Electrical & Electronic Products	4.5	5.5	7.1	5.3	7.2	3.9
Computers & Peripheral Equipment	13.6	6.3	7.5	0.3	5.3	(1.2)
Machinery & Equipment	0.1	2.5	4.5	3.9	4.8	2.9
Motor Vehicles, Trailers & Semi-Trailers	8.9	1.7	10.7	9.1	9.0	6.5

Source: CEIC, MIDFR

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

	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
<b>IPI: Export Oriented Industries</b>	<b>4.1</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>
Electronic and Electrical Product	5.1	7.7	3.9	5.2	6.9	5.2	7.1
Chemicals and Chemical Pds	4.6	6.8	3.4	3.9	2.4	1.1	3.7
Petroleum Products	1.5	0.7	3.4	3.4	5.2	5.3	1.6
Textiles & Wearing Apparel	6.1	3.6	2.9	2.2	2.2	4.8	4.2
Wood and Wood Products	4.8	5.1	7.0	9.1	8.3	1.4	3.7
Rubber Products	6.3	5.3	5.3	5.2	7.3	5.6	11.4
Off Estate Processing	(0.3)	(19.9)	(3.3)	7.4	(0.3)	(6.7)	(9.6)
Paper Products	6.1	6.7	5.9	2.3	4.0	2.6	3.3
<b>IPI: Domestic Oriented Industries</b>	<b>5.5</b>	<b>9.7</b>	<b>6.4</b>	<b>4.7</b>	<b>6.4</b>	<b>5.1</b>	<b>6.0</b>
Construction (CO)	5.1	5.5	4.9	4.8	4.7	4.0	4.2
CO: Non Metallic Mineral	5.8	7.5	5.3	5.4	4.1	4.2	4.3
CO: Iron and Steel	3.3	3.5	4.0	3.7	4.7	4.0	3.4
CO: Fabricated Metal	5.6	5.3	5.2	5.1	5.1	4.0	4.6
Consumer (CS)	5.9	13.5	7.6	4.6	7.8	6.0	7.5
CS: Food Products	7.0	16.0	7.2	6.7	6.0	3.7	7.8
CS: Transport Equipment	6.1	18.1	9.0	1.6	9.6	9.7	7.7
CS: Beverages	4.6	3.7	3.4	4.2	0.8	1.5	1.7
CS: Tobacco Products	1.9	2.6	2.3	3.3	5.5	(1.5)	6.3
CS: Others	4.8	5.8	7.9	7.2	10.7	6.1	9.4

Source: CEIC, MIDFR

\*Data available as of Nov-18

**Manufacturing sales at 8-month low.** Manufacturing sales rose by 7%yoy in Jan-19, slowest since May-18. The declining pace is in line with meagre re-exports growth of 0.4%yoy during the month. Nonetheless, we view the sales of factory output remains intact and on upward trajectory in 2019 as re-exports activities continue on expansionary direction. On a different note, wage growth of the sector grew by 8.9%yoy while employment grew steadily at 2%yoy. Henceforth, we opine that the 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 2019.

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

	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
<b>Sales;</b>	8.1	8.2	10.2	7.7	7.5	7.0
Refined Petroleum Products	7.2	11.2	14.6	17.8	1.2	12.6
Diodes, Transistor & Electronic Integrated Circuits Mic	12.0	12.6	17.9	25.8	33.1	0.0
Electrical Capacitor Resistor, Circuit Board & Display Comp	10.6	8.4	13.8	6.3	10.6	0.0
<b>Employment</b>	1.9	1.9	2.2	2.0	1.7	2.0
<b>Wage</b>	9.7	9.1	10.2	9.0	10.1	8.9


Source: CEIC, MIDFR

**Decline business optimism affects global IPI.** IPI performances across major and emerging economies moderated in Jan-18 due to concerns over trade talks between the US & China, geopolitical stress in Europe, and volatility in global commodity prices. Manufacturing PMI for global continues on declining trend while emerging economies recovered slightly. In Feb-19, global PMI was at 50.7 points, lowest since Jun-16 while emerging economies back to above 50 points. Looking ahead, we view slight pick-up in global demand especially with the US and China are moving progressively towards a trade deal, recovery in commodity prices and lower inflationary pressure in 2019. In addition, China's stimulus package announced in the first session of the 13th National People's Congress would be a significant boost for global trade activities in 2019. The stimulus package is worth more than USD600b, covering tax & fee cuts and infrastructure spending.

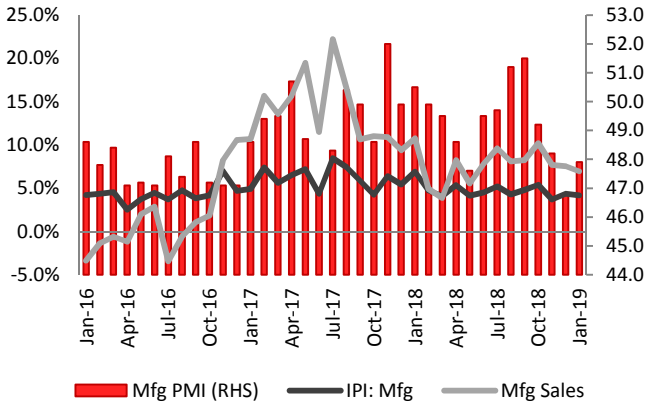
**Table 5: Global IPI (YoY%)**

	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Malaysia	2.6	2.2	2.3	4.3	2.6	3.4	3.2
Indonesia	4.5	3.9	3.1	8.6	6.1	6.4	5.2
Philippines	11.4	4.4	2.8	3.4	2.3	(11.1)	(0.7)
Thailand	4.8	2.3	(0.1)	5.7	0.8	1.2	0.2
Singapore	6.7	3.4	0.5	5.2	7.1	1.7	(3.1)
India	6.5	4.8	4.6	8.4	0.3	2.6	1.7
Japan	2.1	0.2	(2.5)	4.2	1.5	(1.9)	0.0
EU	1.2	1.2	0.9	1.0	(2.0)	(2.5)	(0.6)
USA	4.2	5.5	5.7	4.2	4.3	3.7	3.7

Source: CEIC, MIDFR

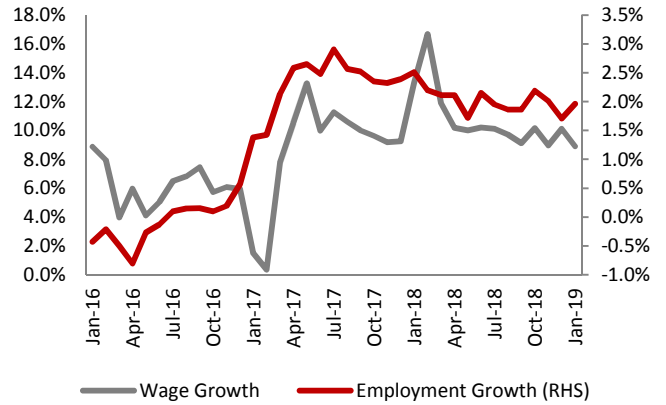
**We forecast IPI growth of 2.9% for 2019.** As guided by the recent Business Tendency Survey data, we believe the IPI growth will be growing between 3%-4% during the first half of 2019. Referring to the survey, services and manufacturing sectors are expected to continue to drive up Malaysia's economy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



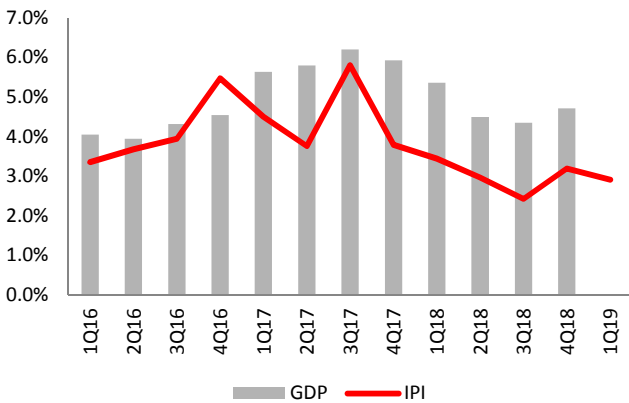
Source: CEIC, MIDFR

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



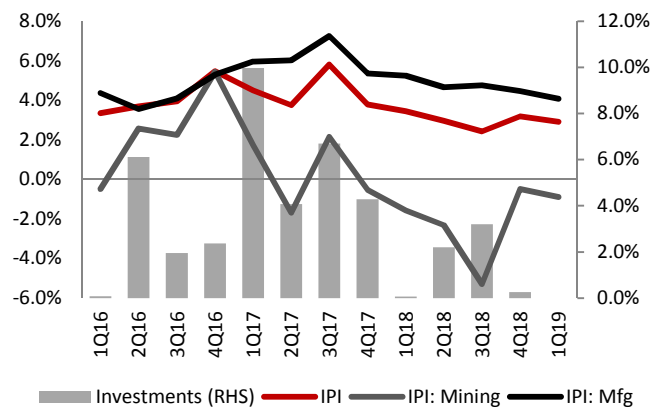
Source: CEIC, MIDFR

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



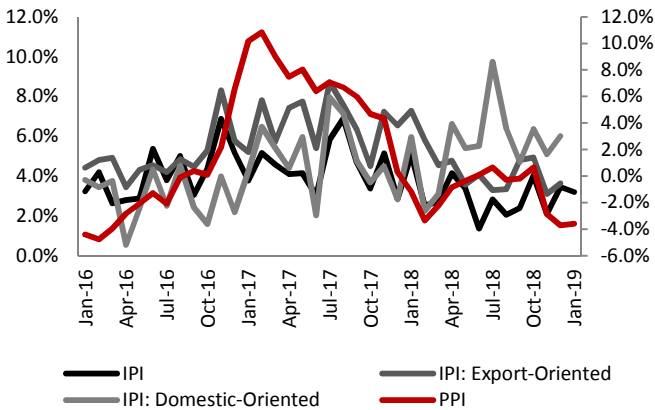
Source: CEIC, MIDFR

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



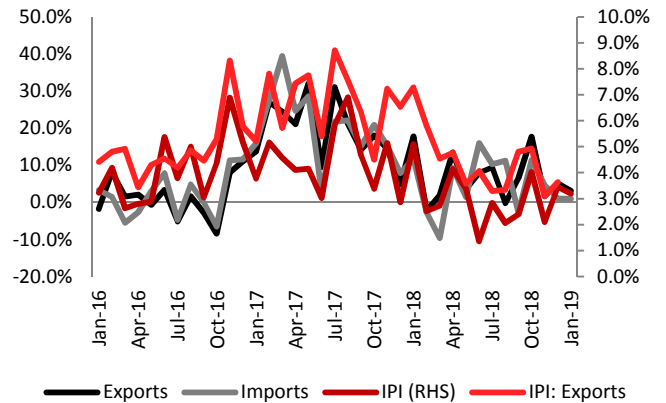
Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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