

ECONOMIC REVIEW | July 2018 Industrial Production Index

July IPI up 2.6% Despite Fall in Mining Outputs for 3 Consecutive Month

- *IPI growth slightly above our estimate. Malaysia's industrial production expands by 2.6%yoy in Jul-18, above our forecast of 2.5%yoy and beating market estimates of 1.4%yoy. By major components, manufacturing and electricity outputs up by 5.2%yoy and 4.5%yoy respectively while mining contracted sharply by -5.9%yoy.*
- *Manufacturing sales rose to 6-month high. Manufacturing sales rose by 9.6%yoy in Jul-18, strongest gain since Jan-18. The expansion rate in manufacturing sales is in line with the steady pick up in external trade performance for the month, recording exports and imports growth at 9.4%yoy and 10.3%yoy respectively.*
- *We forecast IPI growth at 3.8% for 2018. As guided by the recent Business Tendency Survey data, we believe the IPI growth will be growing between 3.5%-4.5% during the second half of 2018. Lower business cost partly due to moderating inflation, stable retail fuel prices and tax-holiday will provide additional boost for industrial production growth to hit 3.8% in 2018.*

IPI growth slightly above our estimate. Malaysia's industrial production expands by 2.6%yoy in Jul-18, above our forecast of 2.5%yoy and beating market estimates of 1.4%yoy. By major components, manufacturing and electricity outputs up by 5.2%yoy and 4.5%yoy respectively while mining contracted sharply by -5.9%yoy. On monthly basis, all components expand at healthy pace during the month. Solid expansion in IPI performance is in tandem with the latest external trade and distributive trade performances. Moving forward, we foresee IPI performance to expand at steady pace for the second half of 2018 amid escalating trade tension, easing inflationary pressure and volatility risks in global commodity prices & currencies.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%				YoY%			
	Apr-18	May-18	Jun-18	Jul-18	Apr-18	May-18	Jun-18	Jul-18
IPI	1.6	0.2	(1.0)	2.6	4.5	3.0	1.1	2.6
Mining	(1.6)	0.0	(3.7)	1.4	1.9	(0.4)	(9.4)	(5.9)
Manufacturing	1.9	0.8	(0.3)	3.1	5.4	4.1	4.6	5.2
Electricity	0.9	(0.4)	0.4	3.9	5.8	2.6	3.0	4.5

Source: CEIC, MIDFR

*MoM is Seasonally Adjusted

Rebound in domestic exports support IPI. Rebound in domestic exports from -0.5%yoy in Jun-18 to 1.1%yoy in Jul-18 indirectly contributes toward the solid pace in IPI and manufacturing sales. During the month, total exports grew by 9.4%yoy, mainly supported by expansion in re-exports by 55.1%yoy. By major output, production of natural gas remains on contractionary zone for 6-consecutive months whereas on manufacturing side, production of E&E and chemicals & chemicals products increase steadily by 8%yoy and 7.8%yoy. Looking ahead, we view IPI performance in Aug-18 to be in good position as manufacturing PMI for the month touches 7-month high.

Table 2: Changes in IPI Industries (YoY%)

	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Mining;	(1.6)	0.0	1.9	(0.4)	(9.4)	(5.9)
Mining: Crude Petroleum	0.5	1.1	4.4	4.8	(2.2)	4.4
Mining: Natural Gas	(3.5)	(0.9)	(0.4)	(4.8)	(15.7)	(15.2)
Manufacturing;	4.7	4.1	5.4	4.1	4.6	5.2
Food Products	2.4	7.0	4.6	3.4	3.5	(3.7)
Refined Petroleum Products	7.7	(1.0)	2.9	3.0	1.5	0.8
Chemicals & Chemicals Products	8.7	3.8	6.0	5.5	4.9	7.8
Rubber Products	2.0	1.1	(0.3)	6.7	7.0	6.1
Basic Metals	5.9	4.1	3.5	3.1	3.3	3.5
Electrical & Electronic Products	5.5	5.7	7.1	4.8	5.5	8.0
Computers & Peripheral Equipment	(6.4)	(1.5)	(2.0)	3.5	6.8	2.8
Machinery & Equipment	5.1	5.4	5.8	4.1	6.6	2.8
Motor Vehicles, Trailers & Semi-Trailers	(7.1)	6.9	9.8	5.4	6.4	20.1

Source: CEIC, MIDFR

Slight moderation in 2H18. According to 3Q18 Business Tendency Survey, overall business confidence in Malaysia is expected to decelerate modestly in the next 3-6 months. All sectors particularly agriculture, mining & quarrying and construction experience business pessimism due to weakening CPO prices, supply disruption and revision of government-backed infrastructure projects accordingly. Manufacturers remain on positive territory despite trade tension while business confidence in services sector improve underpinned by tax holiday, stable fuel prices and steady labour market. Moving forward, we foresee trivial slowdown in export-oriented industries and on flip side, strong improvement for domestic-driven industries especially non-construction related.

Table 3: Changes in IPI Industries by Exports & Domestic (YoY%)

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
IPI: Export Oriented Industries	7.3	5.8	4.5	4.8	3.6	4.1
Electronic and Electrical Product	5.1	5.7	6.7	6.7	4.1	5.1
Chemicals and Chemical Pdts	6.1	7.4	4.3	6.3	3.8	4.6
Petroleum Products	6.6	7.8	(1.2)	3.1	3.1	1.5
Textiles & Wearing Apparel	9.5	7.1	3.5	3.9	2.1	6.1
Wood and Wood Products	3.0	4.0	4.7	1.9	1.8	4.8
Rubber Products	3.6	3.0	(0.5)	(1.5)	6.9	6.3
Off Estate Processing	34.7	0.4	12.7	2.5	0.4	(0.3)
Paper Products	2.5	2.9	5.9	2.4	4.6	6.1
IPI: Domestic Oriented Industries	6.0	2.2	3.1	6.6	5.4	5.5
Construction (CO)	6.4	4.9	4.4	5.3	4.8	5.1
CO: Non Metallic Mineral	7.4	5.6	5.2	5.4	5.9	5.8
CO: Iron and Steel	7.1	6.0	4.1	3.5	3.1	3.3
CO: Fabricated Metal	5.4	3.8	4.0	6.3	4.8	5.6
Consumer (CS)	5.6	0.3	2.1	7.7	5.9	5.9
CS: Food Products	6.3	3.4	2.7	6.6	5.7	7.0
CS: Transport Equipment	2.4	(4.3)	5.6	8.7	8.2	6.1
CS: Beverages	3.4	2.0	2.2	7.5	4.3	4.6
CS: Tobacco Products	0.3	0.2	(1.2)	1.5	1.7	1.9
CS: Others	15.1	3.9	(5.8)	9.7	3.3	4.8

Source: CEIC, MIDFR

*Data available only at Jun-18

Manufacturing sales rose to 6-month high. Manufacturing sales rose by 9.6%yoy in Jul-18, strongest gain since Jan-18. The expansion rate in manufacturing sales is in line with the steady pick up in external trade performance for the month, recording exports and imports growth at 9.4%yoy and 10.3%yoy respectively. On a different note, wage growth of the sector grew above 10%yoy for 7-consecutive quarters while employment grew steadily 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 2H18.

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

	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Sales;	4.9	3.9	8.2	5.5	7.8	9.6
Refined Petroleum Products	14.8	(3.5)	9.4	11.7	3.9	3.5
Diodes, Transistor & Electronic Integrated Circuits Mic	6.5	17.2	16.0	5.2	14.8	19.1
Electrical Capacitor Resistor, Circuit Board & Display Comp	14.8	10.8	22.6	10.3	9.1	12.2
Employment	2.2	2.1	2.1	1.7	2.2	2.0
Wage	16.7	11.9	10.2	10.0	10.2	10.1

Source: CEIC, MIDFR

Robust IPI performance in the US. Despite escalating trade tension, industrial production in the US rose steadily by 4.2%yoy, underpinned by mining output. Production in mining sector jumped 12.6%yoy in Jul-18, slightly below 42-year high at 12.8%yoy in the previous month while factory output increases by 3%yoy. The robust uptrend in mining production in the US is in tandem with the average oil price growth, 38.2%yoy for the past 8-month, higher than 2017's average of 24.2%yoy. Looking ahead, global demand remains intact as business environment in developed and emerging economies remain optimistic as reflected in both manufacturing PMI for both global and emerging economies, staying above 50-points in Aug-18, 52.5 and 50.8 points respectively. Moving forward, we expect global trade activities to moderate particularly in 4Q18 amid heighten trade tension and market uncertainties over the mid-terms election in the US.

Table 5: Global IPI (YoY %)

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Malaysia	5.5	3.0	3.1	4.5	3.0	1.1	
Indonesia	8.5	5.5	2.1	6.5	5.5	1.0	
Philippines	10.9	15.6	10.6	22.5	15.2	11.6	12.2
Thailand	4.7	4.6	3.2	3.1	2.9	5.0	4.6
Singapore	18.3	7.3	7.1	10.9	13.0	8.0	6.0
Korea	4.2	(1.2)	(0.6)	1.9	1.7	0.2	1.2
Japan	2.9	1.6	2.4	2.6	4.2	(0.9)	2.3
EU	3.6	2.9	3.1	1.9	2.6	2.6	
USA	3.2	3.9	3.6	4.8	3.1	3.8	4.2

Source: CEIC, MIDFR


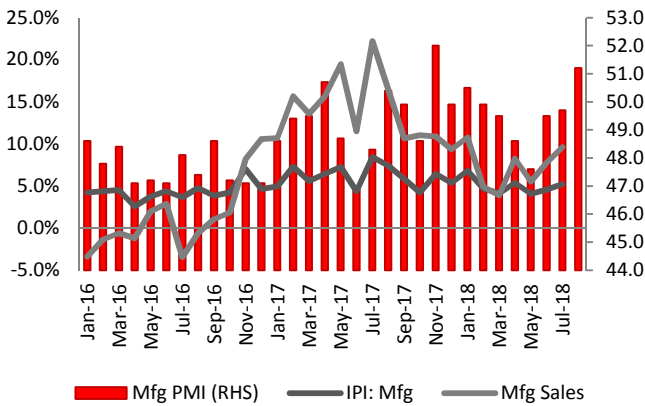
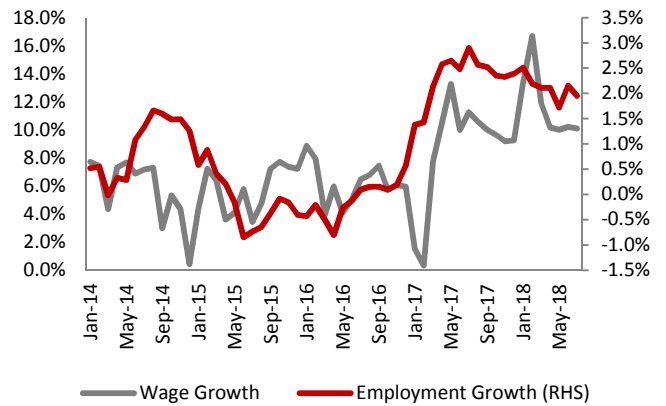
We forecast IPI growth at 3.8% for 2018. As guided by the recent Business Tendency Survey data, we believe the IPI growth will be growing between 3.5%-4.5% during the second half of 2018. Plus, encouraging trend of IPI growth in 2017 is expected to continue for 2018 supported by robust external trade performance, upbeat domestic demand and gradual increase in commodity price will boost up industrial activity in Malaysia. Lower business cost partly due to moderating inflation, stable retail fuel prices and tax-holiday will provide additional boost for industrial production growth to hit 3.8% in 2018. 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)



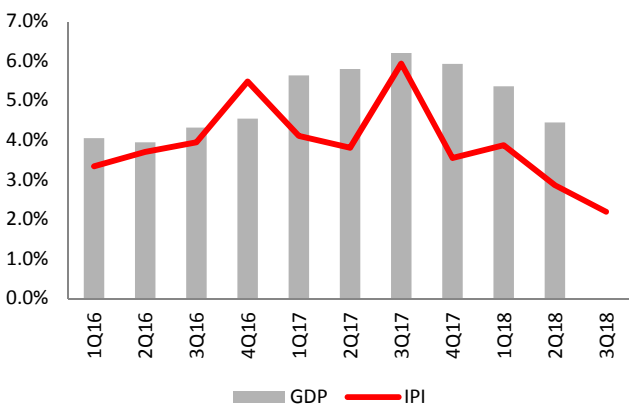
Source: CEIC, MIDFR

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



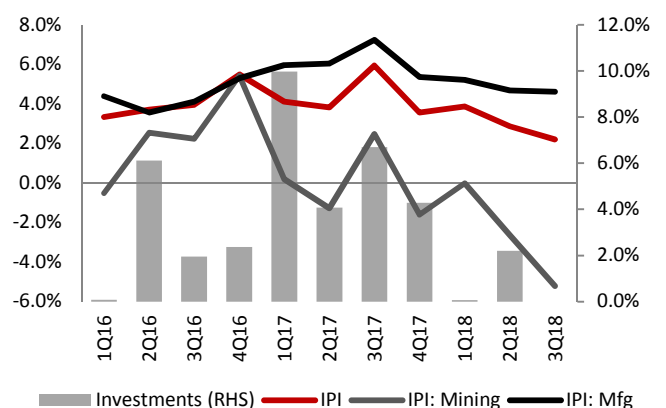
Source: CEIC, MIDFR

Chart 3: IPI vs GDP (YoY%)



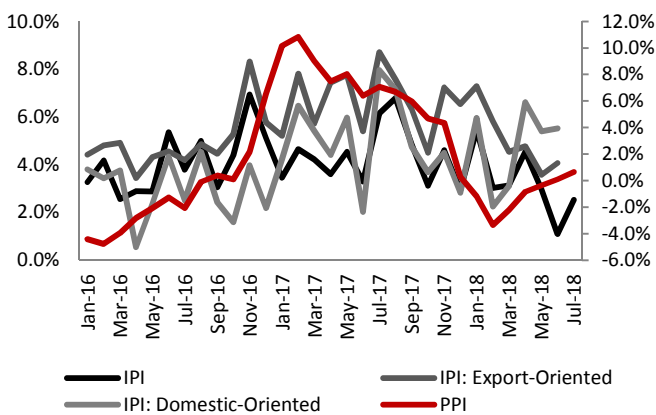
Source: CEIC, MIDFR

Chart 4: IPI vs Investments Performances (YoY%)



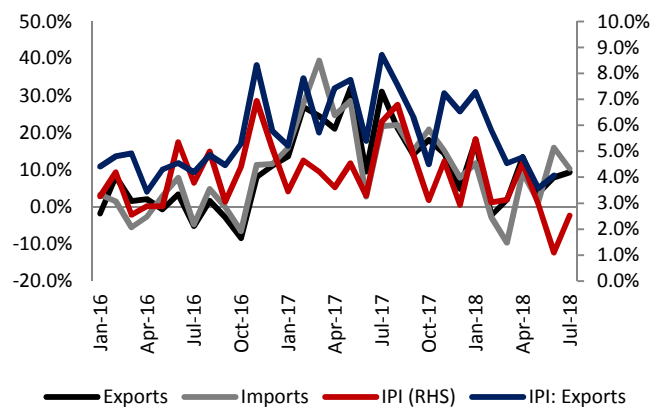
Source: CEIC, MIDFR

Chart 5: IPI vs PPI (YoY%)



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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