

ECONOMIC REVIEW | July 2016 Industrial Production Index

July's Production Output Came in Within Expectation

- July production came in loosely within analysts forecast. July's production figure moderated broadly to 4.1% in July from 5.3% in June as growth decelerated across all sectors. Mining sector continues to lead in terms of growth but it moderated during the month to 6.0%yoy from 6.4%yoy in June. Manufacturing and electricity also saw production growth reduced to 3.2%yoy and 7.2%yoy respectively. Overall, the production gain during the month was loosely within the median analysts forecast surveyed by Bloomberg at 4.5%.
- Crude petroleum production hits double-digit growth while LNG contracted. We observed that crude petroleum output expanded by 13.9%yoy while LNG hit the opposite direction with a contraction by 2.8%yoy. The diverging trend was possibly driven by a stronger demand for crude petroleum exports in July. On the other hand, LNG production was dragged by a continued sluggish demand abroad especially from Japan.
- We maintained our IPI growth forecast between 3.5% to 4.0% for this year and GDP forecast at 4.0%.

July production came in loosely within analysts forecast. July's production figure moderated broadly to 4.1% in July from 5.3% in June as growth decelerated across all sectors. Mining sector continues to lead in terms of growth but it moderated during the month to 6.0%yoy from 6.4%yoy recorded in June. Manufacturing and electricity also saw production growth reduced to 3.2%yoy and 7.2%yoy respectively. Overall, the production gain during the month was loosely within the median analysts forecast surveyed by Bloomberg at 4.5%.

Table 1: Malaysia – Summary of Industrial Production Index

	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16
Industrial Production Index	127.2	123.4	114.9	127.8	121.4	125.8	128.7	125.9
YoY	2.7%	3.3%	3.9%	2.8%	3.0%	2.8%	5.2%	4.1%
MoM (SA)	1.5%	0.5%	0.9%	-0.4%	-0.8%	0.9%	2.8%	-0.6%
Mining Index	107.8	111.2	101.1	108.5	101.8	107.4	106.7	107.6
YoY	-1.6%	0.6%	1.1%	-2.5%	0.7%	-1.1%	6.4%	6.0%
MoM (SA)	3.0%	2.0%	0.4%	-2.2%	1.7%	1.2%	4.4%	-0.9%
Manufacturing Index	135.9	128.4	120.7	135.6	128.9	133.0	138.2	133.5
YoY	4.1%	4.0%	4.5%	4.5%	3.2%	3.7%	4.6%	3.2%
MoM (SA)	-0.1%	0.5%	0.2%	1.4%	-2.1%	0.4%	2.2%	-1.7%
Electricity Index	124.4	128.0	118.9	135.9	134.2	136.4	130.6	130.1
YoY	5.6%	7.7%	10.5%	7.7%	9.5%	9.6%	8.7%	7.2%
MoM (SA)	1.4%	3.7%	1.2%	-1.0%	1.1%	-0.8%	-3.1%	-0.1%

Source: Department of Statistics, Malaysia; MIDF Research

Narrowing electricity generation-demand gap suggests future boost in electricity index. We have observed that the gap between electricity demand and generation has reached 4 months low in June thus we suspect that a potential gain in coming months in order to create adequate production buffer in case of a surge in demand. However, this may not happen if manufacturing output experienced slower growth in the future. Presently, we believe there is a slightly higher chance of a pickup as China is showing signs of improvement in their domestic economy. This is reflected in imports figures from China which rose for the first time in August by 1.5% in dollar terms, reversing the 12.5% fall in July.

Crude petroleum production hits double-digit growth while LNG contracted. We observed that crude petroleum output expanded by 13.9%yoy while LNG hit the opposite direction with a contraction by 2.8%yoy. The diverging trend was possibly driven by a stronger demand for petroleum products in July especially from Vietnam which consequently pulled higher production of crude petroleum. On the other hand, LNG production was dragged by a continued sluggish demand abroad especially from Japan.

Table 2: Changes in IPI Sub-Indices

	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16
Crude Petroleum	-0.3%	0.9%	1.3%	-3.6%	-1.5%	-5.2%	8.8%	13.9%
Natural Gas	-3.1%	0.4%	0.7%	-1.2%	3.7%	4.4%	3.6%	-2.8%
Food, Beverages & Tobacco	-0.3%	3.8%	5.4%	6.8%	-7.1%	-5.1%	-6.8%	2.6%
Textiles, Wearing Apparel, Leather Product, Footwear	7.2%	6.0%	7.7%	8.9%	5.4%	5.9%	10.9%	6.0%
Wood Products, Furniture, Paper Products, Printing	6.0%	10.2%	9.6%	2.8%	3.5%	5.3%	10.2%	5.9%
Petroleum, Chemical, Rubber & Plastic Products	1.6%	1.1%	3.0%	3.3%	4.9%	5.1%	5.0%	3.6%
Non-Metallic Mineral, Basic & Fabricated Metal Prod	5.1%	6.0%	4.5%	4.3%	4.2%	5.8%	5.1%	4.1%
Electrical & Electronic Products	8.6%	6.2%	5.9%	5.5%	8.0%	8.4%	9.1%	4.1%
Transport Equipment & Other Manufactures	1.4%	1.1%	1.2%	3.5%	-7.5%	-11.7%	-2.9%	-5.2%

Source: Department of Statistics, Malaysia; MIDF Research

Table 3: Changes in IPI Exports/Domestic Oriented Industries

	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
Export Oriented Industries	3.5%	3.8%	3.7%	4.6%	4.3%	3.7%	4.3%	4.7%
Electronic and Electrical Product	9.4%	8.7%	6.3%	5.9%	5.6%	8.0%	8.4%	9.2%
Chemicals and Chemical Products	0.8%	2.1%	2.3%	3.8%	3.8%	3.6%	6.2%	4.9%
Petroleum Products	-4.6%	0.5%	-0.6%	2.0%	2.3%	5.1%	4.7%	5.1%
Textiles & Wearing Apparel	3.5%	7.1%	6.0%	7.8%	8.9%	5.5%	5.9%	10.9%
Wood and Wood Products	6.4%	7.1%	10.3%	9.5%	3.8%	3.6%	7.3%	12.9%
Rubber Products	9.1%	4.8%	6.7%	5.1%	8.5%	8.4%	0.3%	5.2%
Domestic Oriented Industries	5.7%	4.8%	4.8%	4.2%	4.8%	2.1%	1.7%	4.7%
Construction	4.2%	5.0%	6.0%	4.5%	4.3%	4.1%	5.8%	5.0%
Consumer	7.0%	4.6%	3.6%	3.9%	5.2%	0.2%	-1.9%	4.4%
Food Products	5.1%	8.5%	4.6%	7.1%	9.2%	13.8%	15.1%	17.0%
Transport Equipment	8.3%	1.4%	1.0%	1.3%	3.6%	-7.5%	-11.7%	-2.9%
Beverages	7.8%	14.4%	13.6%	9.4%	2.3%	4.0%	9.5%	12.9%
Tobacco Products	8.4%	5.6%	8.9%	7.7%	6.7%	5.6%	3.6%	4.3%
Others	-9.7%	-3.9%	-8.3%	-3.0%	-1.0%	-9.5%	-1.7%	0.9%

Source: Department of Statistics, Malaysia; MIDF Research

Thailand, Singapore reverse course in July while production in Japan slumped. Thailand's production turned south in July by 5.1%yoy after seeing production gain in the past 4 consecutive months. Plunge in textile and vehicle production contributed to the huge fall during the month. Meanwhile, Singapore's factory output hits 5-year low. There was more a broad-based deterioration in all sectors except for E&E sector which saw modest gain. This highlights the headwinds faced by the country as global demand continued to remain weak. Singapore's non-oil domestic's exports deepened in July, tumbling by 10.6%yoy - the most in four months.

Meanwhile, we note factory's output in China moderated slightly and there could be further slowdown as latest PMI data suggests new orders were not forthcoming. Philippine was the only country that saw faster production output in July. In general, we believe this month's data still point to a fragile demand globally.

Table 4: Global IPI

	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16
Malaysia	2.7%	3.3%	3.9%	2.8%	3.0%	2.8%	5.2%	4.1%
Indonesia	1.5%	2.6%	7.4%	2.6%	0.2%	7.4%	9.1%	
Thailand	1.4%	-3.5%	-1.7%	2.2%	0.9%	2.7%	1.4%	-5.1%
Philippines	-2.7%	25.9%	5.4%	0.6%	6.8%	2.5%	5.4%	5.5%
Singapore	-11.9%	0.9%	-3.5%	0.6%	2.5%	0.7%	0.6%	-3.6%
EU	0.9%	3.3%	1.2%	0.1%	2.1%	0.7%	0.7%	
China	5.9%	5.4%	5.4%	6.8%	6.0%	6.0%	5.5%	5.1%
Japan	-2.1%	-4.2%	-1.2%	0.2%	-3.3%	-0.4%	-1.5%	-3.8%
United States	-2.6%	-1.5%	-1.7%	-2.6%	-0.9%	-1.3%	-0.4%	-0.5%

Source: CEIC; MIDF Research


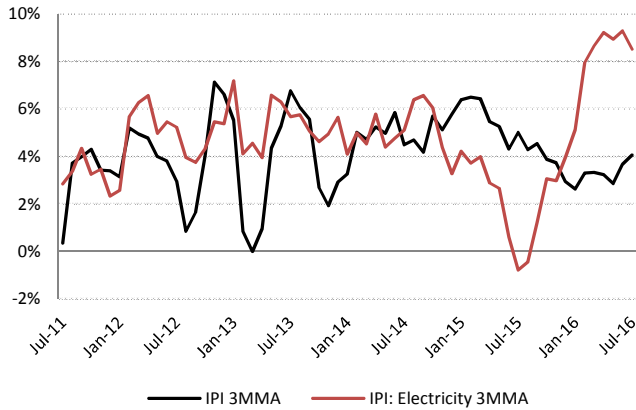
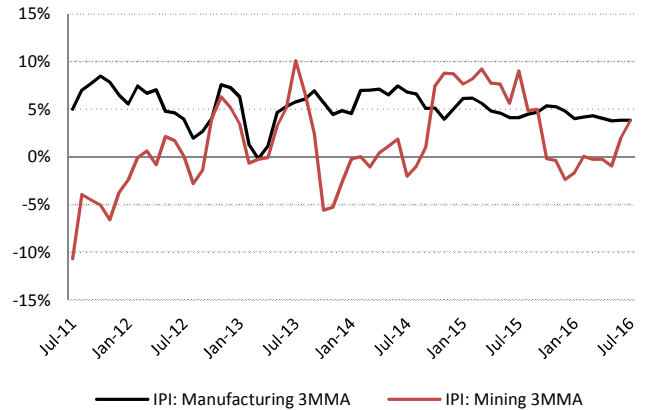
We maintained our IPI growth forecast of between 3.5% to 4.0% for this year and GDP forecast at 4.0%. We have maintained our expectation that the industrial output will grow in the range of 3.5-4.0% and GDP to grow at 4.0% in 2016. Factory output steadied in July despite the surprised contraction in exports demand during the same month. We like to highlight that there was a divergence in the domestic production and private consumption in the second quarter thus it could indicates lower future consumption. 

Chart 1: IPI vs Electricity IPI



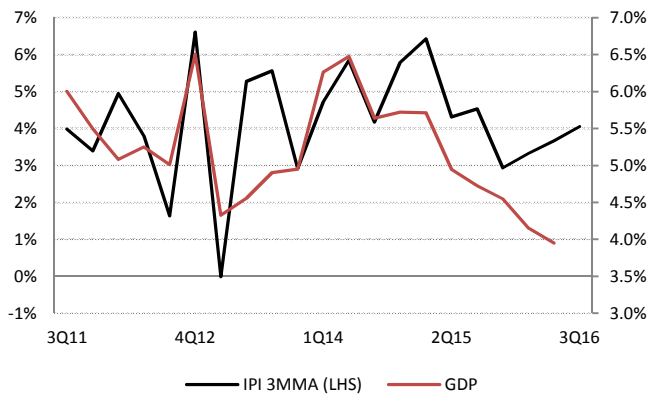
Source: Department of Statistics, Malaysia; MIDF Research

Chart 2: Manufacturing IPI vs Mining IPI



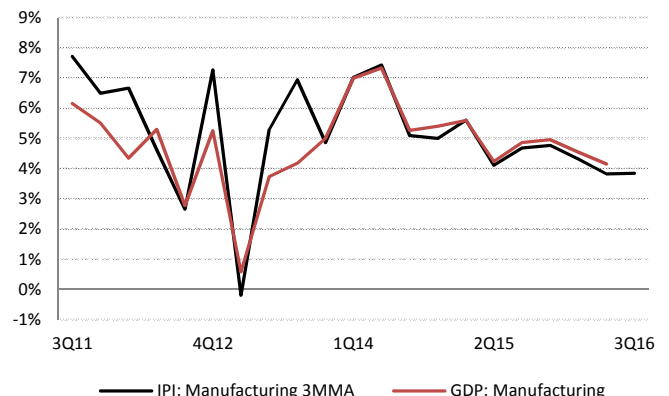
Source: Department of Statistics, Malaysia; MIDF Research

Chart 3: IPI vs GDP



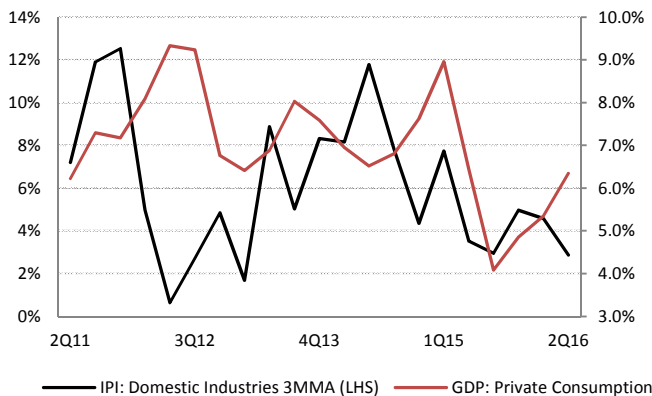
Source: Department of Statistics, Malaysia; MIDF Research

Chart 4: Manufacturing IPI vs Manufacturing GDP



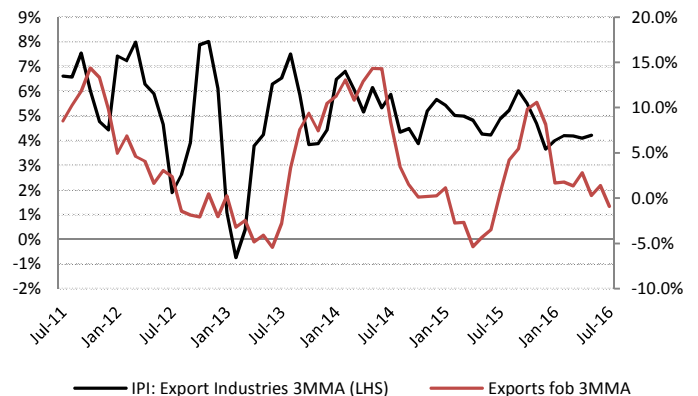
Source: Department of Statistics, Malaysia; MIDF Research

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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