

ECONOMIC REVIEW | July 2017 Industrial Production Index

July IPI up 6.1% as Manufacturing Sales Recorded Highest Growth

- *IPI growth surprised market. Malaysia's industrial production rose by 6.1%yoy in July 2017, beating market expectations of 5.1%. The soaring IPI growth is supported by sharp increase in manufacturing and electricity productions, 8%yoy and 7.9%yoy during the month.*
- *Manufacturing sales breached new record high. Manufacturing sales skyrocketed by 22.2%yoy in July, highest ever recorded. In line with external trade performance, the manufacturing sales are contributed by robust sales of refined petroleum products and E&E related products.*
- *We maintain IPI growth of 5.3% for 2017. Encouraging trend of IPI growth is expected to continue for the upcoming months given that robust external trade performance continues and modest increase in commodity price will boost up industrial activity in Malaysia.*

IPI growth surprised market. Malaysia's industrial production rose by 6.1%yoy in July 2017, beating market expectations of 5.1%. The soaring IPI growth is supported by sharp increase in manufacturing and electricity productions, 8%yoy and 7.9%yoy during the month. Manufacturing growth recorded the highest in three years. Mining production grew marginally by 0.2%yoy but continues to register positive growth for two consecutive months. The upward trend in overall IPI performance is in tandem with upbeat performance of external trade activities which seen exports expanded by 30.9%yoy in July. The growth trend was also in line with the uptick manufacturing PMI figure in July. We opine continuous upbeat momentum in global demand remains as key driver boosting up Malaysia's industrial activity.

Table 1: Malaysia – Summary of Industrial Production Index

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
Industrial Production Index	127.7	120.3	133.6	126.4	131.6	133.9	133.5
YoY%	3.5	4.7	4.5	4.1	4.6	4.0	6.1
MoM%	(1.1)	2.0	(0.6)	(0.1)	0.6	1.9	1.4
Mining Index	112.4	101.5	110.7	99.8	104.9	109.2	107.8
YoY%	1.1	0.4	2.0	(2.0)	(2.3)	2.3	0.2
MoM%	(3.2)	(0.4)	(0.8)	(2.3)	1.0	8.2	(2.2)
Manufacturing Index	134.3	128.5	143.5	137.6	142.6	144.7	144.2
YoY%	4.6	6.5	5.8	6.7	7.2	4.7	8.0
MoM%	0.7	2.0	(0.4)	0.5	0.2	0.0	1.4
Electricity Index	129.3	120.6	135.6	132.2	139.8	133.3	140.4
YoY%	1.0	1.4	(0.2)	(1.5)	2.5	2.1	7.9
MoM%	(0.7)	0.5	(2.7)	0.2	3.3	(1.4)	5.6

Source: DOSM, MIDFR

*MoM is seasonally adjusted figures

Crude petroleum shrank amid contraction in exports. In July, production of crude petroleum shrank by 3.9%yoy, due to slowdown in exports of the mining product by 2.1%yoy. Brent oil price as referred globally, hovering below \$50 per barrel and only grew at 5.3%yoy in July. Slow growth in the oil price and lower production were the main reasons for a contraction for mining sector. However, the production of natural gas rose 5.5% from a year prior compared to 4.4% increased recorded in June. The better performance of natural gas in July helps neutralize weak performance of crude in the mining sector. As for other productions, F&B products jumped to the top list by recording 19.1%yoy and followed by E&E products of 10.5%yoy. Apart of modest recovery in commodity prices, upbeat momentum in global demand still in play which will have positive spill over effects for the remaining of second half this year.

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

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
Crude Petroleum	(2.4)	(4.7)	(2.6)	(6.6)	(5.4)	0.8	(3.9)
Natural Gas	5.3	7.0	7.8	4.1	1.4	4.4	5.5
Food, Beverages & Tobacco	6.8	16.0	5.6	15.5	12.9	6.7	19.1
Textiles, Wearing Apparel, Leather Product, Footwear	6.7	7.8	7.0	6.4	7.6	8.5	9.5
Wood Products, Furniture, Paper Products, Printing	8.8	11.3	10.3	7.1	8.4	2.1	4.0
Petroleum, Chemical, Rubber & Plastic Products	2.3	3.7	3.7	3.0	3.1	2.8	3.8
Non-Metallic Mineral, Basic & Fabricated Metal Prod	2.7	4.0	4.0	4.2	4.4	4.2	7.6
Electrical & Electronic Products	6.9	8.5	8.5	9.6	11.6	8.3	10.5
Transport Equipment & Other Manufactures	3.2	1.7	6.2	5.1	6.9	(1.0)	6.8

Source: DOSM, MIDF

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

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Export Oriented Industries	5.2	7.1	5.9	7.6	7.8	5.4
Electronic and Electrical Product	7.0	8.1	8.5	9.8	11.7	8.4
Chemicals and Chemical Products	2.2	4.1	3.6	3.7	2.5	3.9
Petroleum Products	1.8	2.2	3.3	1.6	2.2	1.5
Textiles & Wearing Apparel	6.7	7.8	7.0	6.4	7.6	8.5
Wood and Wood Products	9.5	9.4	11.5	7.8	9.4	3.5
Rubber Products	5.6	11.1	4.2	7.2	10.7	5.4
Domestic Oriented Industries	2.5	4.3	5.7	4.2	5.6	2.6
Construction	2.7	3.9	4.0	4.3	4.4	4.1
Consumer	2.3	4.7	7.4	4.1	6.7	1.1
Food Products	0.4	7.3	7.4	1.9	5.9	3.0
Transport Equipment	3.2	1.7	6.2	5.0	6.9	(1.0)
Beverages	5.3	17.1	18.7	9.5	11.8	7.7
Tobacco Products	2.7	2.4	3.3	2.1	2.5	2.0
Others	(5.6)	4.9	3.7	(6.0)	(4.0)	(8.4)

Source: DOSM, MIDFR

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

Manufacturing sales breached new record high. Manufacturing sales skyrocketed by 22.2%yoy in July, highest ever recorded. In line with external trade performance, the manufacturing sales are contributed by robust sales of refined petroleum products and E&E related products. For instance, electrical capacitor resistor, circuit board & display computer rose by 58.2%yoy and refined petroleum products climbed to 43.5%yoy, fastest ever seen. Moving forward, we foresee manufacturing sales will remain expanding but on moderating tone due to unfavourable base effect.

Manufacturing sector wage growth remains steady. Apart from manufacturing sales, wages of the sector rose by 11.3%yoy in July. The manufacturing wage also seen double digits growth for four consecutive months. Additionally, employment growth remains on up-trend since November last year. Employment growth in July recorded at 2.9%yoy, a new record high. For that reason, we opine better uptick in both wages and employment in the manufacturing provides a bright outlook for the economic activities in the second half of 2017. We also view the upward trend in the wage growth will positively contribute to domestic consumption.

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

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
Manufacturing Sales	10.7	15.7	13.6	15.6	19.5	11.5	22.2
Refined Petroleum Products	37.9	29.0	30.1	29.5	36.2	32.9	43.5
Diodes, Transistor & Electronic Integrated Circuits	(0.7)	5.0	4.8	11.2	19.9	5.9	15.7
Electrical Capacitor Resistor, Circuit Board & Display Computer	65.4	67.9	58.8	55.4	64.3	49.8	58.2
Organic Chemicals & Inorganic Compound exclude Fertilizer	11.5	12.9	15.6	14.2	10.6	(0.5)	0.1
Computer Sales & Peripherals Equipment	(11.5)	(1.4)	7.5	13.4	8.4	8.5	17.6
Basic Iron & Steel Products	7.6	13.5	10.7	6.8	3.2	(10.7)	1.1
Employment	1.4	1.4	2.1	2.6	2.7	2.5	2.9
Payroll	1.5	0.3	7.8	10.5	13.3	10.0	11.3

Source: CEIC; MIDFR

Singapore's IPI surged to seven-months high. Singapore registered its IPI at solid pace in July by 21%yoy, the highest ever in 2017. This was mainly driven by the increase in production of electronics, machinery & equipment and refined petroleum products by 49.1%yoy, 19.4%yoy and 5.9%yoy respectively. Looking at major economies, IPI of China and the US rose steadily at 6.4%yoy and 2.4%yoy respectively during the month. We expect IPI of the US to slowdown in August due to hurricane Harvey and Irma. As for September, the IPI will strike back as impacted refineries and factories will restart production and added with reconstruction and repairmen of affected areas. In spite of this, we foresee industrial activity across most economies will record solid performance this year given that upbeat momentum in global demand remains on healthy path, coupled with modest recovery in commodity prices.

Table 5: Global IPI (YoY %)

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
Malaysia	3.5	4.8	4.5	4.1	4.6	4.0	6.1
Indonesia	3.4	3.8	6.1	6.7	6.9	(1.4)	
Thailand	2.2	(1.1)	0.0	(1.8)	1.6	(0.3)	3.7
Philippines	14.0	8.7	12.3	2.2	7.3	5.1	
Singapore	4.0	10.2	11.4	6.7	4.6	12.7	21.0
EU	1.0	2.1	2.7	1.4	3.9	2.8	
China	2.9	10.3	7.6	6.5	6.5	7.6	6.4
Japan	3.2	4.7	3.5	5.7	6.5	5.5	4.7
United States	(0.1)	0.3	1.9	0.7	2.1	1.9	2.4

Source: CEIC; MIDFR


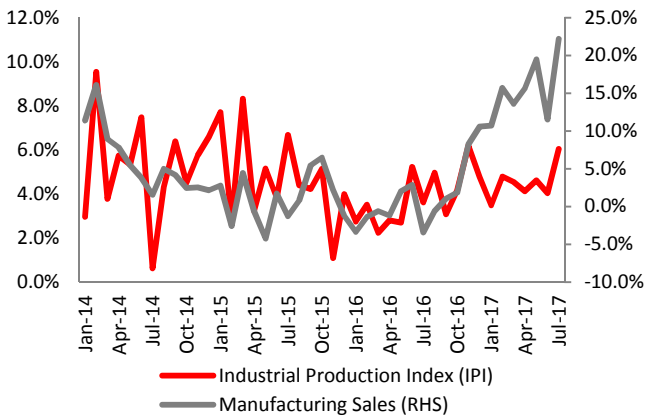
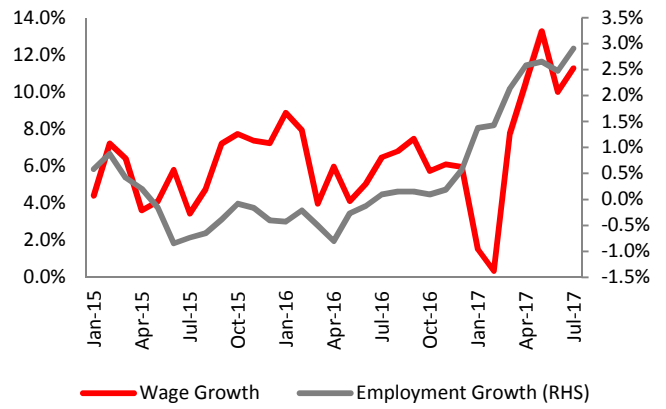
We maintain IPI growth of 5.3% for 2017. Encouraging trend of IPI growth is expected to continue for the upcoming months given that robust external trade performance continues and modest increase in commodity price will boost up industrial activity in Malaysia. Due to strong export performances for the first half of 2017 and optimistic business confidences, we believe the upbeat momentum will remain and thus causing positive spill over effects to Malaysia's industrial production this year. Hence, based on solid uptrend in trade activities and steady domestic consumption, we expect industrial production growth to hit 5.3% in 2017. 

Chart 1: IPI vs Manufacturing Sales (YoY%)



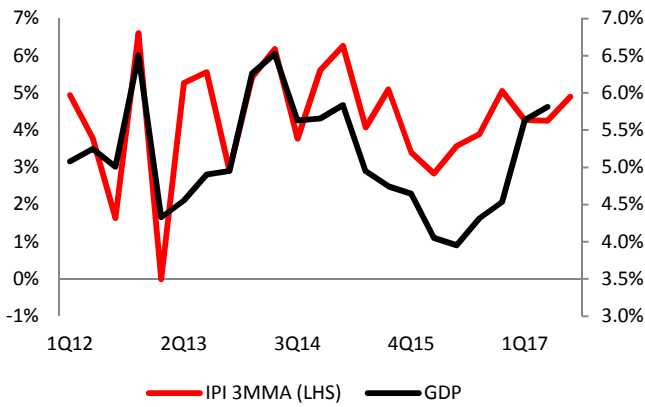
Source: DOSM, MIDFR

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



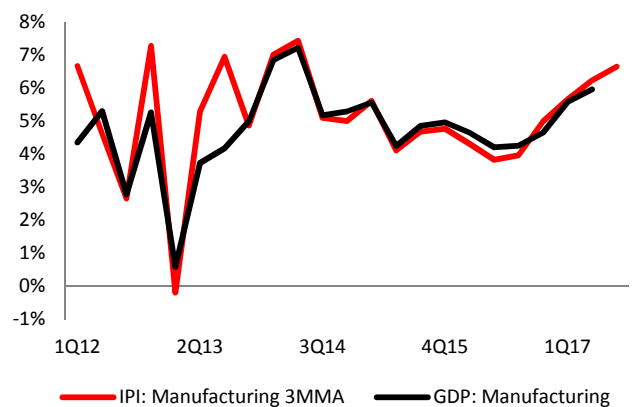
Source: DOSM, MIDFR

Chart 3: IPI vs GDP (YoY%)



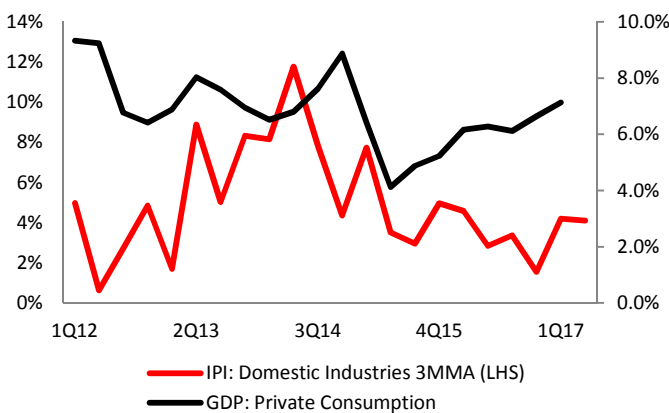
Source: DOSM, MIDFR

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



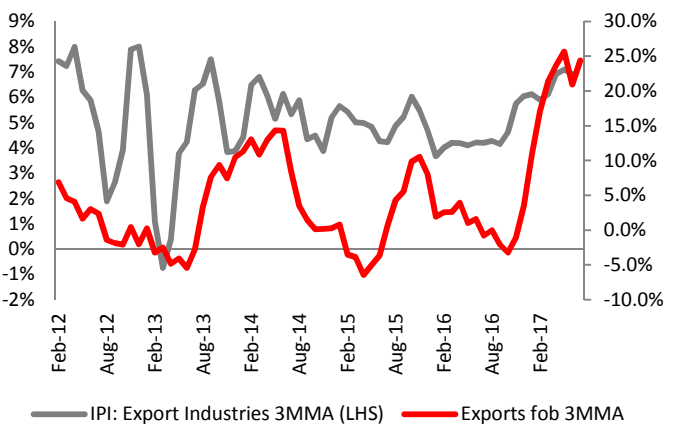
Source: DOSM, MIDFR

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



Source: DOSM, MIDFR

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



Source: DOSM, MIDFR

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