

ECONOMIC REVIEW | June 2017 Industrial Production Index

IPI Grows 4% in June – Beats Consensus Estimate

- IPI growth slightly higher than our expectation. Industrial production recorded a growth of 4%yoy, slightly higher than our estimate of 3.9%yoy in June 2017. The slowdown in IPI was mainly driven by decline in manufacturing output to 4.7%yoy from 7.2%yoy in May.
- Crude petroleum rebounded after five consecutive months of contractions. Production of two major components in mining, crude petroleum and natural gas expanded by 0.8%yoy and 4.4%yoy respectively in the final month of second quarter.
- Manufacturing sector wage growth remains steady. Apart from manufacturing sales, wages of the sector rose by 10%yoy in June. The manufacturing wage also seen double digits growth for three consecutive months. Additionally, employment growth remains on up-trend since November last year.
- We maintain IPI growth of 5.3% for 2017. 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.

IPI growth slightly higher than our expectation. Industrial production recorded a growth of 4%yoy, slightly higher than our estimate of 3.9%yoy in June 2017. The IPI growth surpassed market consensus of 3%yoy. The slowdown in IPI was mainly driven by decline in manufacturing output to 4.7%yoy from 7.2%yoy in May. Similarly, electricity output rose lower than the previous month, 2.1%yoy in June vs 2.5%yoy in May. In spite of this, after two consecutive months of contractions, mining production increased by 2.3%yoy during the month of June. In fact, on monthly basis, mining output soar by 8.2%yoy. We opine continued robust demand from global trade activities remain in play affecting industrial performance in Malaysia to stay on steady pace.

Table 1: Malaysia – Summary of Industrial Production Index

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

Source: DOSM, MIDFR

Crude petroleum rebounded after five consecutive months of contractions. Production of two major components in mining, crude petroleum and natural gas expanded by 0.8%yoy and 4.4%yoy respectively in the final month of second quarter. We view the surge in mining production is in line with the strong export growth of mining goods in June, 40.3%yoy while export of agriculture and manufacturing goods only rose by single digit respectively during the month. Hence, we noted that the production of E&E and other manufacturing products experienced slowdown in June. Notably, Malaysia's Nikkei Manufacturing PMI in June was the lowest in five years.

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

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

Source: DOSM, MIDF

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

	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17
Export Oriented Industries	5.0	7.9	5.2	5.2	7.1	5.9	7.6	7.8
Electronic and Electrical Product	8.1	8.9	5.3	7.0	8.1	8.5	9.8	11.7
Chemicals and Chemical Products	7.1	8.6	5.3	2.2	4.1	3.6	3.7	2.5
Petroleum Products	2.1	5.3	2.3	1.8	2.2	3.3	1.6	2.2
Textiles & Wearing Apparel	4.8	6.2	4.9	6.7	7.8	7.0	6.4	7.6
Wood and Wood Products	3.4	7.1	7.0	9.5	9.4	11.5	7.8	9.4
Rubber Products	(3.0)	0.6	6.7	5.6	11.1	4.2	7.2	10.7
Domestic Oriented Industries	1.3	2.0	1.4	2.5	4.3	5.7	4.2	5.6
Construction	4.0	5.7	2.0	2.7	3.9	4.0	4.3	4.4
Consumer	(1.3)	(1.2)	0.8	2.3	4.7	7.4	4.1	6.7
Food Products	2.8	3.4	1.5	0.4	7.3	7.4	1.9	5.9
Transport Equipment	(5.4)	(6.1)	(0.9)	3.2	1.7	6.2	5.0	6.9
Beverages	12.5	9.9	9.5	5.3	17.1	18.7	9.5	11.8
Tobacco Products	(7.9)	3.4	0.8	2.7	2.4	3.3	2.1	2.5
Others	(8.4)	3.3	2.2	(5.6)	4.9	3.7	(6.0)	(4.0)

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

Source: DOSM, MIDFR

Slowdown in manufacturing sales expected. In tandem with moderating export performance in June, manufacturing sales grew by 11.5%yoy, lower than previous month's record. The slowdown in manufacturing sales among others are dragged down by contraction in sales of organic chemicals & inorganic compound and basic iron & steel products, 0.5%yoy and 10.7%yoy respectively. Based on historical trend, we think the slowdown was partly due to high base effect as June 2016 manufacturing sales rose by 2.9%yoy, higher than the average sales growth for 2016 of 1.3%yoy.

Manufacturing sector wage growth remains steady. Apart from manufacturing sales, wages of the sector rose by 10%yoy in June. The manufacturing wage also seen double digits growth for three consecutive months. Additionally, employment growth remains on up-trend since November last year. Employment growth in May recorded at 2.5%yoy. For that reason, we opine better uptick in both wages and employment in the manufacturing was a reflection of steady growth in our economic activities for the first 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
Manufacturing Sales	10.7	15.7	13.6	15.6	19.5	11.5
Refined Petroleum Products	37.9	29.0	30.1	29.5	36.2	32.9
Diodes, Transistor & Electronic Integrated Circuits	(0.7)	5.0	4.8	11.2	19.9	5.9
Electrical Capacitor Resistor, Circuit Board & Display Computer	65.4	67.9	58.8	55.4	64.3	49.8
Organic Chemicals & Inorganic Compound exclude Fertilizer	11.5	12.9	15.6	14.2	10.6	(0.5)
Computer Sales & Peripherals Equipment	(11.5)	(1.4)	7.5	13.4	8.4	8.5
Basic Iron & Steel Products	7.6	13.5	10.7	6.8	3.2	(10.7)
Employment	1.4	1.4	2.1	2.6	2.7	2.5
Payroll	1.5	0.3	7.8	10.5	13.3	10.0

Source: CEIC; MIDFR

Singapore's IPI surged to double digit in June. Singapore rebounded at solid pace in June by 13.1%yoy, the highest ever in 2017. This was mainly driven by the increase in production of biomedical and transport engineering while electronic production remain with double digit expansion of 25.5%yoy. Looking at major economies, IPI of China rose steadily at 7.6%yoy while Japan and the US experienced slight slowdown in the industrial output during the month. In spite of this, we view the upbeat momentum regionally as well as globally derived from strong global demand is still in play and expected to sustain until the end of the year. Plus, risk of trade war is receding, thus placing global trade activities into better position.

Table 5: Global IPI (YoY %)

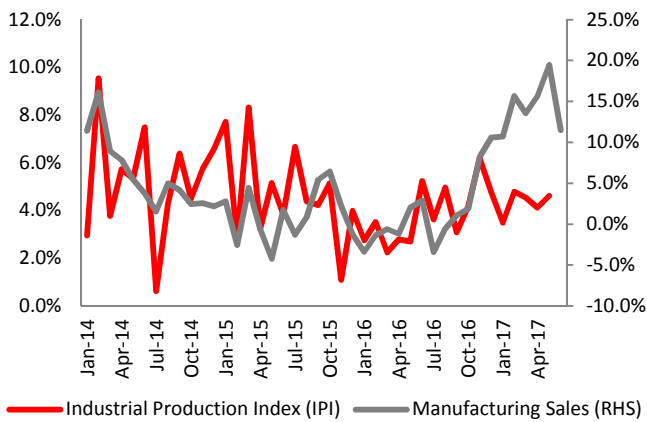
	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Malaysia	4.2	6.2	4.8	3.5	4.8	4.5	4.1	4.6	4.0
Indonesia	0.1	2.0	4.3	3.6	3.8	5.5	7.0	4.0	
Thailand	0.5	3.9	0.5	2.2	(1.1)	0.0	(1.8)	1.6	(0.2)
Philippines	4.5	9.6	16.6	14.0	8.7	12.3	2.2	7.3	5.1
Singapore	1.2	11.7	22.4	4.0	10.2	11.0	6.7	4.4	13.1
EU	0.8	3.2	2.9	1.0	2.1	2.8	1.4	4.0	
China	6.1	6.2	6.0	2.9	10.3	7.6	6.5	6.5	7.6
Japan	(1.2)	4.4	3.1	3.2	4.7	3.5	5.7	6.5	4.9
United States	(0.7)	-0.5	1.0	(0.1)	0.2	2.1	0.5	2.0	1.8

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. 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.

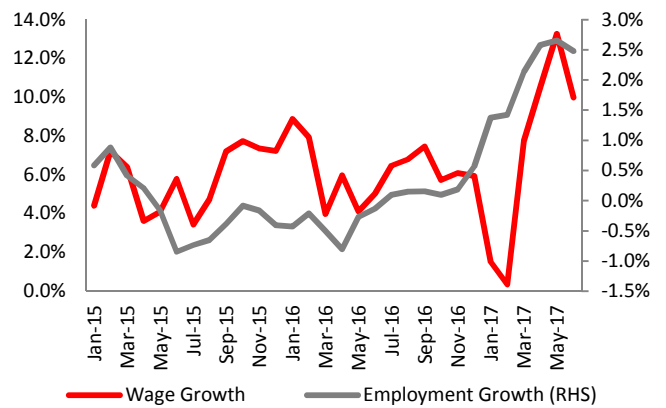


Chart 1: IPI vs Manufacturing Sales (YoY%)



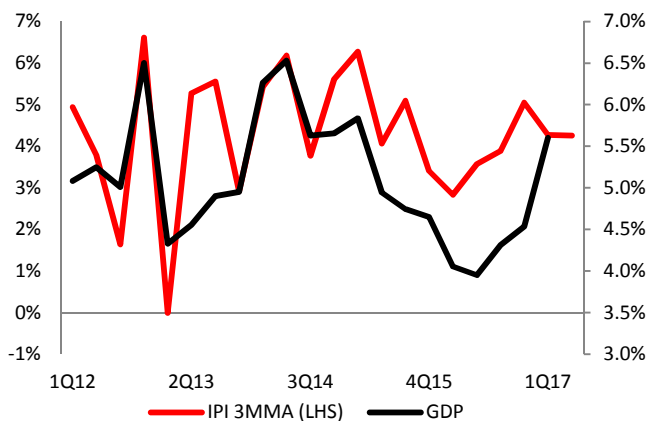
Source: DOSM, MIDFR

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



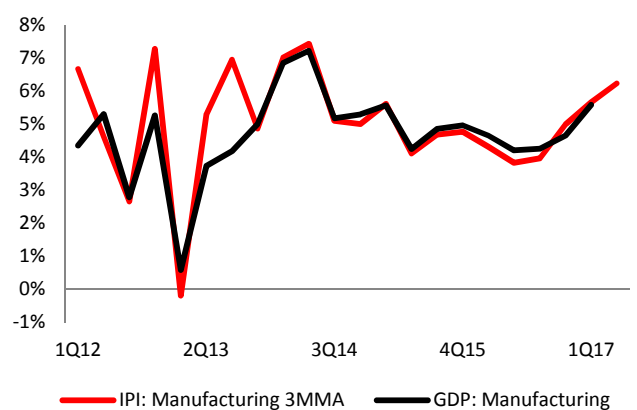
Source: DOSM, MIDFR

Chart 3: IPI vs GDP (YoY%)



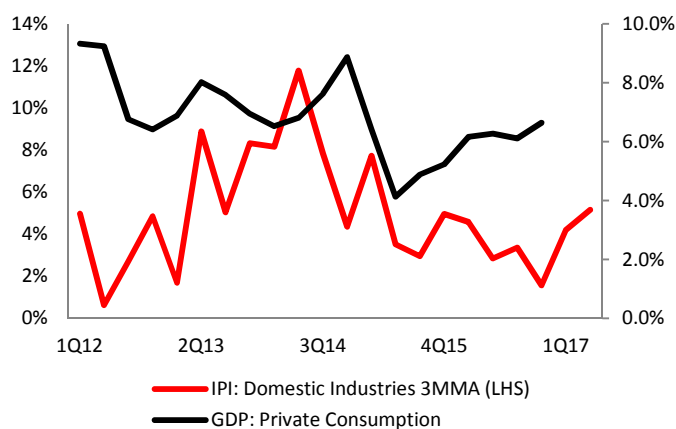
Source: DOSM, MIDFR

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



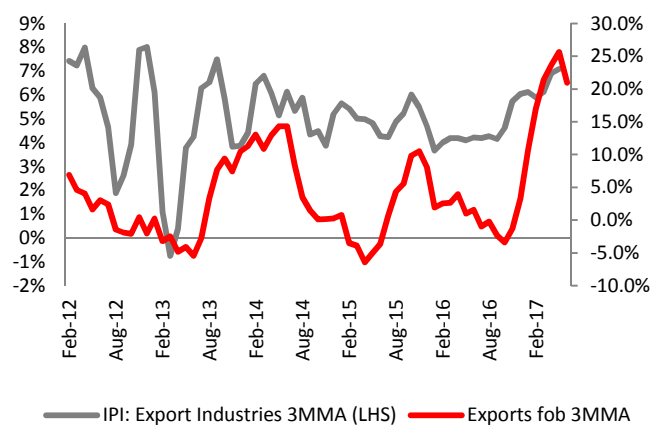
Source: DOSM, MIDFR

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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