

ECONOMIC REVIEW | June 2018 Industrial Production Index

Mining Sector Drags June IPI to Its Lowest Level in 2018 at 1.1%

- *IPI misses market estimates. Malaysia's industrial production expands by 1.1%yoy in Jun-18, lower than market expectations of 3.2%yoy. For 1H18, average IPI growth recorded at 3.4%yoy, lower than previous year growth of the same period, 4%yoy.*
- *Slow pace in external trade drags IPI performance. Slowdown in Malaysia's external trade activities particularly domestic exports derails overall IPI, factory output and also manufacturing sales. In Jun-18, total exports grew by 7.6%yoy, mainly supported by expansion in re-exports by 63.1%yoy while domestic exports shrank by -0.8%yoy.*
- *We lower our forecast on IPI growth from 4.3% to 3.8% for 2018. As guided by the recent Business Tendency Index data, we believe the IPI growth will be growing between 3.5%-4.5% during the second half of 2018.*

IPI misses market estimates. Malaysia's industrial production expands by 1.1%yoy in Jun-18, lower than market expectations of 3.2%yoy. By major components, manufacturing and electricity outputs up by 4.6%yoy and 3%yoy respectively while mining contracted sharply by -9.4%yoy. The declining trend is partly due to tepid growth in domestic exports which shrink by -0.8%yoy in Jun-18. For 1H18, average IPI growth recorded at 3.4%yoy, lower than previous year growth of the same period, 4%yoy. Moving forward, we foresee IPI performances to expand at steady pace for the second half of 2018 amid escalating trade tension, moderating inflation and supportive policy changes for businesses such as tax-holiday and stable retail fuel prices.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%				YoY%			
	Mar-18	Apr-18	May-18	Jun-18	Mar-18	Apr-18	May-18	Jun-18
IPI	(0.3)	1.6	0.2	(1.0)	3.1	4.5	3.0	1.1
Mining	1.4	(1.6)	0.0	(3.7)	0.0	1.9	(0.4)	(9.4)
Manufacturing	(0.9)	1.9	0.8	(0.3)	4.1	5.4	4.1	4.6
Electricity	0.7	0.9	(0.4)	0.4	4.4	5.8	2.6	3.0

Source: CEIC, MIDFR
*MoM is Seasonally Adjusted

Slow pace in external trade drags IPI performance. Slowdown in Malaysia's external trade activities particularly domestic exports derails overall IPI, factory output and also manufacturing sales. In Jun-18, total exports grew by 7.6%yoy, mainly supported by expansion in re-exports by 63.1%yoy while domestic exports shrank by -0.8%yoy. By major output, production of crude petroleum and natural gas contracted by -2.2%yoy and -15.7%yoy respectively whereas on manufacturing side, production of E&E and refined petroleum increase steadily by 5.5%yoy and 1.5%yoy. In fact, the decelerating IPI performance is in tandem with Malaysia's manufacturing PMI for Jun-18 which still hovering below expansionary-line of 50 points.

Highly optimistic consumer sentiment. As a result of GE14, the PH government abolish the GST, along with sound macroeconomic environment, push up the sentiment to optimistic level at 132.9 point, highest in 21-year. Furthermore, a survey conducted by Nielsen Malaysia showed 82% of Malaysian consumers are optimistic about the country's economic outlook and perceive the zero-rated GST period will benefit consumers. Henceforth, we opine domestic-oriented industries to benefit the upbeat momentum in consumer spending particularly in 2H18. Even though SST to take place in Sep-18, we foresee minimal impact on consumer spending as the effects of SST is indirect towards consumers. Solid economic fundamentals in the Malaysian economy particularly stable labour market, moderating inflationary pressure and upbeat industrial activity will continue support the domestic demand to stay robust.

Table 2: Changes in IPI Industries (YoY%)

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
Mining;	1.6	(1.6)	0.0	1.9	(0.4)	(9.4)
Mining: Crude Petroleum	1.7	0.5	1.1	4.4	4.8	(2.2)
Mining: Natural Gas	1.4	(3.5)	(0.9)	(0.4)	(4.8)	(15.7)
Manufacturing;	6.8	4.7	4.1	5.4	4.1	4.6
Food Products	18.6	2.4	7.0	4.6	3.4	3.5
Refined Petroleum Products	6.7	7.7	(1.0)	2.9	3.0	1.5
Chemicals & Chemicals Products	7.2	8.7	3.8	6.0	5.5	4.9
Rubber Products	3.7	2.0	1.1	(0.3)	6.7	7.0
Basic Metals	7.1	5.9	4.1	3.5	3.1	3.3
Electrical & Electronic Products	5.7	5.5	5.7	7.1	4.8	5.5
Computers & Peripheral Equipment	13.3	(6.4)	(1.5)	(2.0)	3.5	6.8
Machinery & Equipment	6.4	5.1	5.4	5.8	4.1	6.6
Motor Vehicles, Trailers & Semi-Trailers	1.8	(7.1)	6.9	9.8	5.4	6.4

Source: CEIC, MIDFR

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

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

Source: CEIC, MIDFR

*Data available only at May-18

Manufacturing sales growth averaged at 6.8% in 1H18. Manufacturing sales rose by 7.8%yoy in Jun-18, higher than the previous month. 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 7.6%yoy and 14.9%yoy respectively. On a different note, wage growth of the sector grew above 10%yoy for 6-consecutive quarters while employment grew steadily at 2.2%yoy, fastest in 4-month. 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%)

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
Sales;	10.8	4.9	3.9	8.2	5.5	7.8
Refined Petroleum Products	13.7	14.8	(3.5)	9.4	11.7	3.9
Diodes, Transistor & Electronic Integrated Circuits Mic	9.5	6.5	17.2	16.0	5.2	14.8
Electrical Capacitor Resistor, Circuit Board & Display Comp	17.2	14.8	10.8	22.6	10.3	9.1
Employment	2.5	2.2	2.1	2.1	1.7	2.2
Wage	13.3	16.7	11.9	10.2	10.0	10.2

Source: CEIC; MIDFR

Global demand remains intact. Despite of escalating trade war tension, industrial production in the US rose steadily by 3.6%yoy, underpin by mining output. Production in mining sector jumped to 42-month high at 12.7%yoy in Jun-18 while factory output increases by 2%yoy. The robust uptrend in mining production in the US is in tandem with the average oil price growth, 35.2%yoy in 1H18, 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 Jul-18, 52.7 and 51 points respectively. Moving forward, we expect global trade activities are expected to moderate particularly in 4Q18 amid of further imposition of tariff by the US as well as counter-tariff measures by China and EU. The trade war between major economies consequently will indirectly affect global demand and growth as well as inflationary pressure.

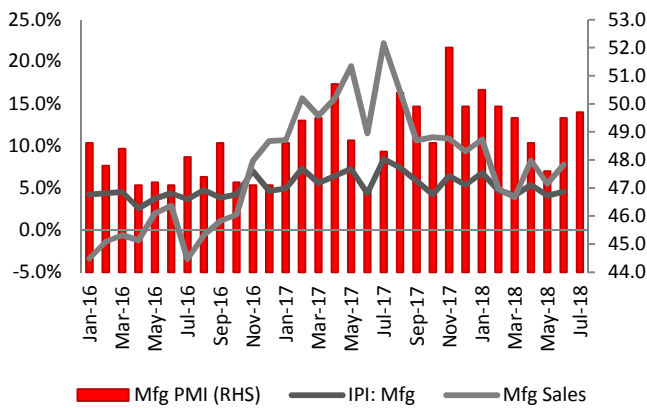
Table 5: Global IPI (YoY %)

	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
Malaysia	2.9	5.5	3.0	3.1	4.5	3.0	1.1
Indonesia	4.0	8.5	5.5	1.1	11.8	11.6	
Philippines	(7.1)	16.2	21.3	15.8	29.6	21.9	18.9
Thailand	5.8	4.7	4.6	3.2	3.1	2.9	4.7
Singapore	(2.4)	18.3	7.2	7.0	10.8	12.9	7.4
Korea	(0.8)	4.2	(1.2)	(0.6)	1.9	1.6	0.0
Japan	4.5	2.9	1.6	2.4	2.6	4.2	(1.2)
EU	4.7	3.6	2.9	3.1	1.9	2.4	
USA	3.1	3.2	3.8	3.6	4.7	3.2	3.6

Source: CEIC; MIDFR

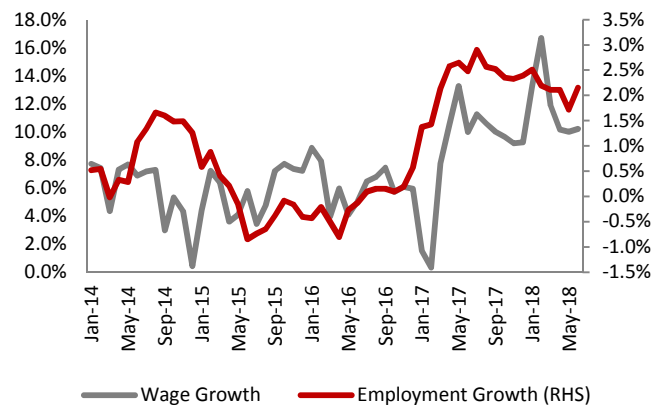
We lower our forecast on IPI growth from 4.3% to 3.8% for 2018. As guided by the recent Business Tendency Index data, we believe the IPI growth will be growing between 3.5%-4.5% during the second half of 2018. Plus, encouraging trend of IPI growth in 2017 is expected to continue for 2018 supported by robust external trade performance 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 could pose downside risk to the estimate. 

Chart 1: Manufacturing IPI & Sales (YoY%) vs PMI (Points)



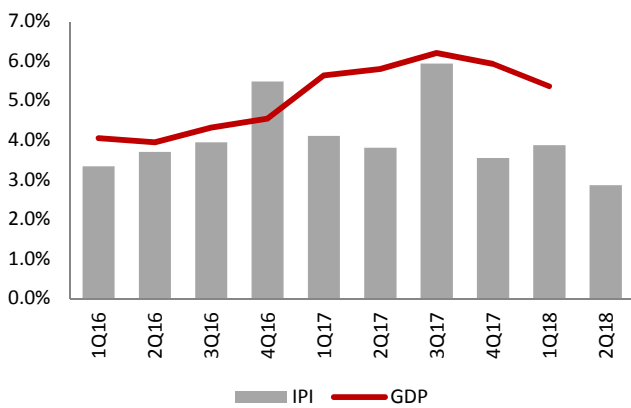
Source: CEIC, MIDFR

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



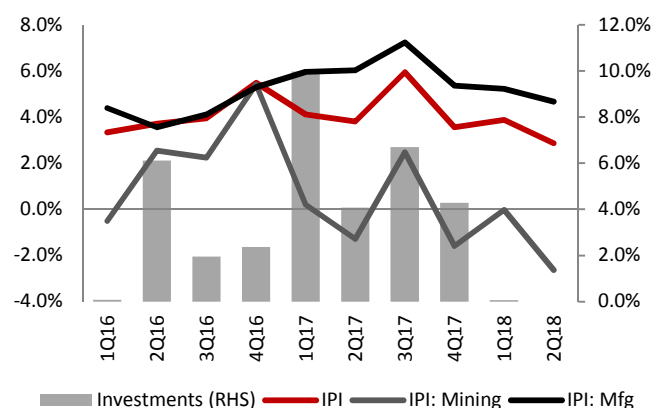
Source: CEIC, MIDFR

Chart 3: IPI vs GDP (YoY%)



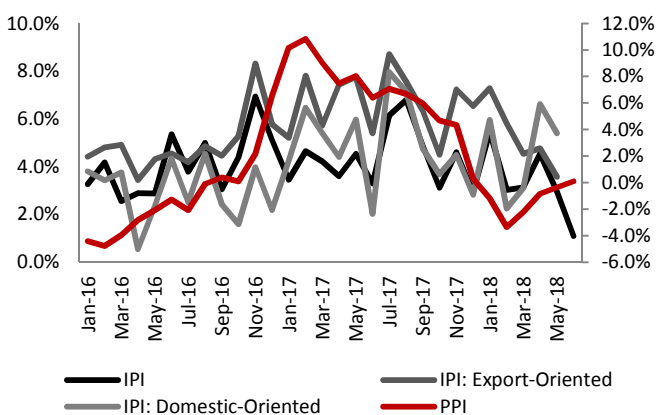
Source: CEIC, MIDFR

Chart 4: IPI vs Investments Performances (YoY%)



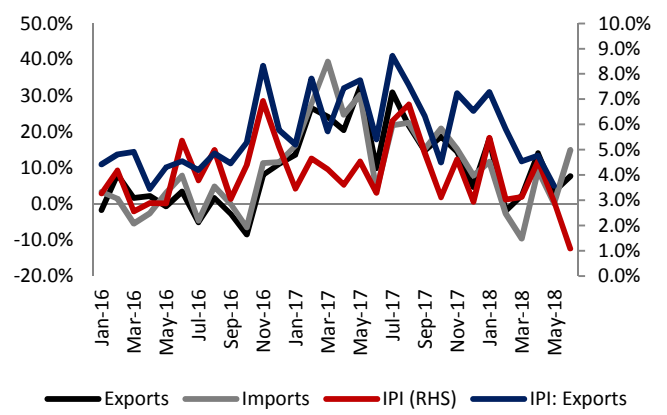
Source: CEIC, MIDFR

Chart 5: IPI vs PPI (YoY%)



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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