

ECONOMIC REVIEW | March 2018 Industrial Production Index

IPI Rises 3.1% in March Supported by Rebound in External Trade Performance

- *IPI growth below market estimates. Malaysia's industrial production expands by 3.1%yoy in Mar-18, slightly lower than our forecast of 3.2%yoy. On monthly basis, overall IPI as well as all components rebound strongly especially mining and electricity productions of 10.7%mom and 14.2%mom respectively.*
- *Gradual pick-up in global demand supports IPI performance. Malaysia's external trade activity improved in Mar-18 given that exports grew by 2.2%yoy from contraction in Feb-18 of -2%. On top of that, exports value reached the highest ever at RM84.5b and trade balance skyrocketed to 10-year high at RM14.7b during the final month of 1Q18.*
- *We expect IPI growth of 4.3% 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 first half of 2018.*

IPI growth below market estimates. Malaysia's industrial production expands by 3.1%yoy in Mar-18, slightly lower than our forecast of 3.2%yoy. By major components, manufacturing and electricity outputs up by 4.1%yoy and 4.4%yoy respectively. On monthly basis, overall IPI as well as all components rebound strongly especially mining and electricity productions of 10.7%mom and 14.2%mom respectively. As for the average 1Q18, overall IPI rose by 3.9%yoy, pointing towards steady GDP expansion. Moving forward, we foresee IPI performances to expand at moderating pace for the first half of 2018 amid threat of trade war and declining trend of external trade.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%			YoY%		
	Jan-18	Feb-18	Mar-18	Jan-18	Feb-18	Mar-18
IPI	1.5	(10.4)	9.9	5.5	3.0	3.1
Mining	1.8	(12.6)	10.7	1.6	(1.6)	0.0
Manufacturing	1.8	(9.8)	9.2	6.8	4.7	4.1
Electricity	(1.6)	(8.1)	14.2	4.3	2.8	4.4

Source: CEIC, MIDFR

Gradual pick-up in global demand supports IPI performance. Malaysia's external trade activity improved in Mar-18 given that exports grew by 2.2%yoy from contraction in Feb-18 of -2%. On top of that, exports value reached the highest ever at RM84.5b and trade balance skyrocketed to 10-year high at RM14.7b during the final month of 1Q18. As for Apr-18 and May-18, we expect slight slowdown for overall IPI performance due to global trade war factor and market uncertainties amid of GE14. Malaysia's manufacturing PMI for Apr-18 recorded at 7-month low of 48.6 points. Nevertheless, we predict the IPI performance will rebound in the second half of 2018 as trade war tapers down, lesser market uncertainty post-GE14 and continuous gradual rise in commodity prices.

Table 2: Changes in IPI Industries (YoY %)

	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18
Mining;	(0.5)	(0.2)	(4.1)	1.6	(1.6)	0.0
Crude Petroleum	(3.7)	(3.0)	(5.2)	1.7	0.5	1.1
Natural Gas	2.3	2.1	(3.2)	1.4	(3.5)	(0.9)
Manufacturing;	4.2	6.4	5.4	6.8	4.7	4.1
Food Products	6.9	7.2	18.4	18.6	2.4	7.0
Refined Petroleum Products	0.6	9.4	1.7	6.7	7.7	(1.0)
Chemicals & Chemicals Products	1.9	7.5	7.5	7.2	8.7	3.8
Rubber Products	9.7	3.7	3.2	3.7	2.0	1.1
Basic Metals	5.5	5.0	5.5	7.1	5.9	4.1
Electrical & Electronic Products	5.8	7.0	3.8	5.7	5.5	5.7
Computers & Peripheral Equipment	(12.4)	1.1	1.6	13.3	(6.4)	(1.5)
Machinery & Equipment	9.4	7.7	4.3	6.4	5.1	5.4
Motor Vehicles, Trailers & Semi-Trailers	(0.1)	4.2	(0.6)	1.8	(7.1)	6.9

Source: CEIC, MIDFR

Manufacturing sales growth went down to 17-month low. Manufacturing sales rose by 3.9%yoy in Mar-18, slowest since Nov-16. The decline in manufacturing sales is in line with the slow pick up in external trade performance for the month, recording exports and imports growth at 2.2%yoy and -9.6%yoy respectively. On a different note, wage growth of the sector registered at 11.9%yoy while employment grew steadily at 2.1%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 2018.

Table 3: Manufacturing Sales, Employment and Payrolls (YoY%)

	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18
Sales	11.0	10.9	9.4	10.8	4.9	3.9
Employment	2.4	2.3	2.4	2.5	2.2	2.1
Wage	9.6	9.2	9.2	13.3	16.7	11.9

Source: CEIC; MIDFR

Expecting further slowdown in global industrial activities. Growing inflationary pressure and rising trade war are two major factors haunting global industrial and trade activities during the first quarter of 2018. Since Nov-17, Brent crude oil price has been hovering between \$60-70 level amid of strengthening global demand and continuous efforts of oil production limit among most oil-producing countries as well as Iran nuclear deal's impact on supply side. On a flip side, global trade war which sparked by Trump's administration is expected to lower optimism level in the US as well as major and emerging economies. Nevertheless, we view the global industrial activities to remain on steady path given that manufacturing PMI for both global and emerging economies stay above 50-points in Apr-18, 53.5 and 51.3 points respectively. Henceforth, we believe the second half of 2018 will see better trade and industrial performances across major and emerging economies due to receding trade war effects, continuous strengthening in global demand and optimistic business confidence in major as well as emerging economies.

Table 4: Global IPI (YoY %)

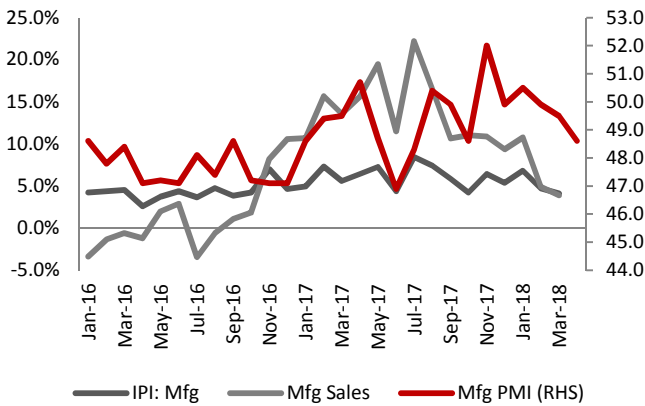
	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18
Malaysia	4.9	3.1	4.6	2.9	5.5	3.0	3.1
Indonesia	7.7	6.4	5.0	4.0	8.5	5.5	1.1
Philippines	(6.2)	(5.7)	(9.7)	(5.6)	17.4	22.5	12.8
Thailand	5.3	1.0	6.3	5.8	4.7	4.6	2.6
Taiwan	5.0	2.7	1.4	1.4	10.7	(2.2)	3.1
Singapore	14.6	15.3	6.1	(2.4)	17.3	6.7	5.9
Korea	7.4	(3.0)	1.4	(0.8)	4.2	(1.2)	(1.0)
Japan	2.5	5.7	3.6	4.5	2.9	1.6	2.2
EU	4.3	3.2	4.5	4.7	3.7	3.1	
USA	1.1	2.6	3.6	3.1	3.4	4.6	4.3

Source: CEIC; MIDFR

We expect IPI growth of 4.3% 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 first half of 2018. Plus, encouraging trend of IPI growth in 2017 is expected to continue for 2018 given that robust external trade performance continues and gradual increase in commodity price will boost up industrial activity in Malaysia. Hence, based on solid uptrend in trade activities and further steady domestic consumption, we expect industrial production growth to hit 4.3% in 2018. Nevertheless, headwinds from global trade tension could pose possible threat to the estimate.

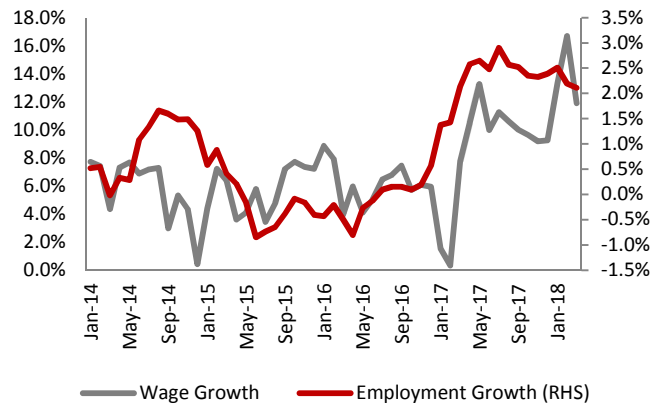


Chart 1: Manufacturing IPI & Sales (YoY%) vs PMI (Points)



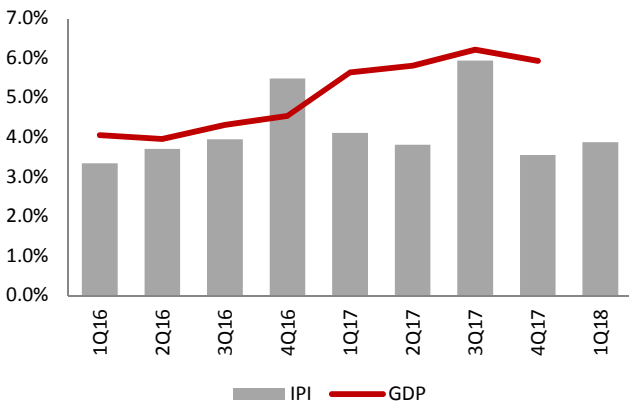
Source: CEIC, MIDFR

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



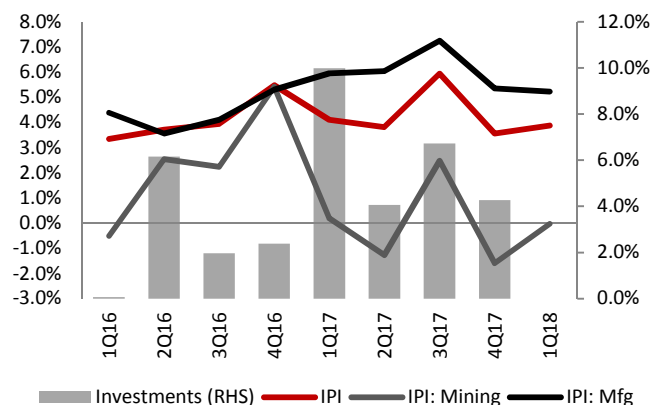
Source: CEIC, MIDFR

Chart 3: IPI vs GDP (YoY%)



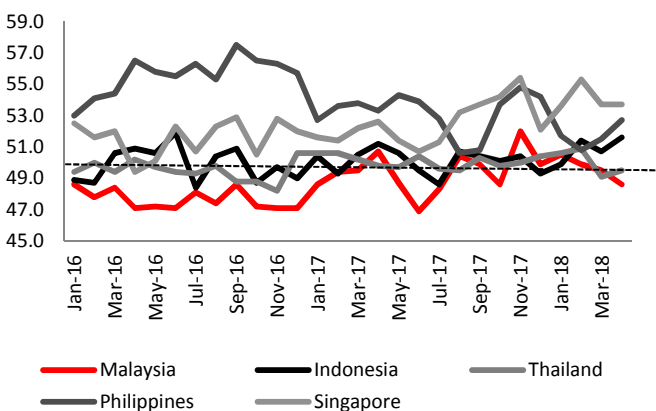
Source: CEIC, MIDFR

Chart 4: IPI vs Investments Performances (YoY%)



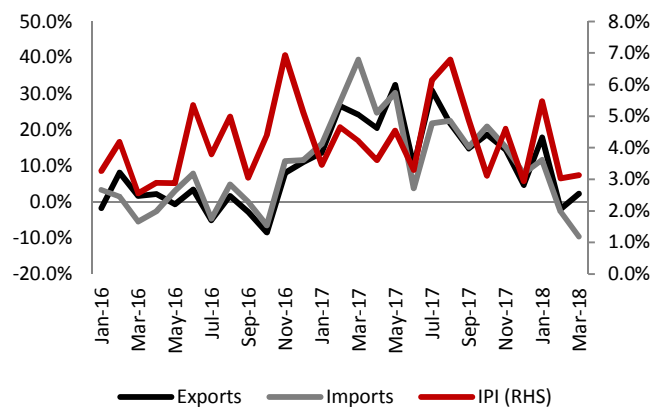
Source: CEIC, MIDFR

Chart 5: Manufacturing PMI in ASEAN (Points)



Source: CEIC, MIDFR
 *Below 50: Contractionary
 *Above 50: Expansionary

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



Source: CEIC, MIDFR

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