

## ECONOMIC REVIEW | March 2015 Industrial Production Index

### March Industrial Production Moderated, Dragged By Mining Sector

- Industrial output moderated to 2.8% in March, slightly lower than economist consensus at 3.0%. The low output was dragged by the mining sector, which contracted by 2.5%. Out of the three sub-indices, only manufacturing index experienced a positive growth on month-on-month seasonally adjusted basis, while the mining and electricity index continued to contract.
- The subdued Malaysia industrial production was in line with other countries, reflecting an overall slowdown in global demand. In March, Singapore and United States experienced a contraction in their output production, while Philippines and Indonesia moderated relative to February.
- We maintain our IPI forecast for year 2016 at 3.0-3.5% and GDP at 4.4%. Consequently, we remain with our expectation that GDP will grow by 4.2% in 1Q16.

**IPI moderated below 3.0% in March, weighed by mining sector.** On a seasonally adjusted basis, the industrial output slipped -0.4%mom and subsequently moderated to 2.82%yoy in March. This was due to contraction in the mining sector which declined by -2.52%yoy. On the bright side, the manufacturing and electricity index remain robust, expanded by 4.47%yoy and 7.69%yoy respectively. Nonetheless, we note that electricity output actually shrank month-on-month on seasonally adjusted basis for the first time in 9 months. The last time it occurred, the overall IPI only grew marginally by 0.33%mom.

**Table 1: Malaysia – Summary of Industrial Production Index**

	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16
<b>Industrial Production Index</b>	<b>118.9</b>	<b>123.2</b>	<b>126.6</b>	<b>120.7</b>	<b>127.2</b>	<b>123.4</b>	<b>114.9</b>	<b>127.8</b>
YoY	2.3%	5.1%	4.2%	1.9%	2.7%	3.3%	3.9%	2.8%
MoM (SA)	-1.8%	1.6%	-0.3%	-0.5%	1.5%	0.5%	0.9%	-0.4%
<b>Mining Index</b>	<b>95.5</b>	<b>101.1</b>	<b>102.9</b>	<b>103.0</b>	<b>107.8</b>	<b>111.2</b>	<b>101.1</b>	<b>108.5</b>
YoY	-3.4%	4.3%	-1.4%	-4.1%	-1.6%	0.6%	1.1%	-2.5%
MoM (SA)	-6.5%	8.8%	-2.6%	-2.2%	3.0%	2.0%	0.4%	-2.2%
<b>Manufacturing Index</b>	<b>128.7</b>	<b>133.1</b>	<b>137.0</b>	<b>128.6</b>	<b>135.9</b>	<b>128.4</b>	<b>120.7</b>	<b>135.6</b>
YoY	4.3%	5.6%	6.2%	4.0%	4.1%	4.0%	4.5%	4.5%
MoM (SA)	-0.3%	0.6%	0.5%	0.7%	-0.1%	0.5%	0.2%	1.4%
<b>Electricity Index</b>	<b>123.7</b>	<b>121.4</b>	<b>125.8</b>	<b>118.3</b>	<b>124.4</b>	<b>128.0</b>	<b>118.9</b>	<b>135.9</b>
YoY	2.2%	2.6%	4.3%	2.0%	5.6%	7.7%	10.5%	7.7%
MoM (SA)	3.5%	0.0%	0.5%	0.4%	1.4%	3.7%	1.2%	-1.0%

Source: Department of Statistics, Malaysia; MIDF Research

**Contrasting manufacturing output and exports of manufacturing goods performance suggest demand was domestic driven.** Manufacturing sector production remained solid in March at 4.5%yoy despite manufacturing exports moderated significantly in the same month. This reiterates expectation that the demand was domestically driven as global demand moderated due to slower economic growth in China and other trading partners. This is in tandem with domestically sensitive production such as rice milling and other food products which were up double digits while exports oriented production such as (E&E) saw moderated expansion.

**69.2% of the sub-manufacturing industries experienced positive growth on year-on-year basis.** 90 out of 130 industries (69.2%) experienced a year-on-year growth while only 40 (30.8%) of industries contracted in March relative to February 2016. Production of crude palm oil (CPO) took hit further (-18.5%yoy), the sharpest in 14 months. This was the fourth consecutive month in decline. This is expected as high temperature remained during the month due to El Nino. On the other hand, production for passenger vehicles also declined for the fourth successive month, shrinking by 23.1%yoy as consumer sentiment remained downbeat.

**Table 2: Changes in IPI Sub-Indices**

	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16
Crude Petroleum	4.52%	11.84%	2.06%	-0.29%	-0.28%	0.91%	1.31%	-3.56%
Natural Gas	-11.80%	-3.81%	-5.29%	-8.72%	-3.09%	0.36%	0.70%	-1.18%
Food, Beverages & Tobacco	4.73%	-0.76%	2.36%	4.65%	-0.25%	3.76%	5.43%	6.79%
Textiles, Wearing Apparel, Leather Product, Footwear	7.74%	10.15%	11.30%	3.53%	7.17%	5.96%	7.74%	8.92%
Wood Products, Furniture, Paper Products, Printing	4.78%	6.65%	3.90%	5.90%	6.02%	10.20%	9.60%	2.81%
Petroleum, Chemical, Rubber & Plastic Products	-0.26%	3.49%	3.33%	-1.11%	1.62%	1.06%	2.95%	3.33%
Non-Metallic Mineral, Basic & Fabricated Metal Prod	3.76%	4.74%	5.05%	4.19%	5.05%	5.98%	4.50%	4.30%
Electrical & Electronic Products	11.80%	12.19%	13.91%	9.32%	8.64%	6.21%	5.87%	5.53%
Transport Equipment & Other Manufactures	-1.31%	-1.11%	1.71%	8.36%	1.36%	1.07%	1.24%	3.51%

Source: Department of Statistics, Malaysia; MIDF Research

**Production of crude petroleum and natural gas are back into the red.** Productions of both items gained in the last two months but were back in red in March. For crude petroleum, this might indicate deteriorating global demand despite prices were significantly higher than January and February's lows. We note thought that natural gas were still in long secular demand downtrend as Japan's economy i.e our biggest importer remained in stagnation. The recent earthquake events which occurred in April might dampened future demand and could be reflected in future IPI readings.

**Table 3: Changes in IPI Exports/Domestic Oriented Industries**

	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16
<b>Export Oriented Industries</b>	4.4%	5.1%	6.2%	6.8%	3.5%	3.8%	3.7%	4.6%
Electronic and Electrical Product	7.3%	12.0%	12.4%	14.1%	9.3%	8.7%	6.3%	5.9%
Chemicals and Chemical Products	1.1%	1.9%	1.7%	2.7%	0.9%	2.1%	2.3%	3.8%
Petroleum Products	5.2%	-3.1%	4.4%	3.3%	-4.7%	0.4%	-0.6%	2.0%
Textiles & Wearing Apparel	6.6%	7.8%	10.1%	11.3%	3.5%	7.1%	6.0%	7.8%
Wood and Wood Products	5.5%	7.5%	9.0%	5.1%	6.4%	7.1%	10.2%	9.5%
Rubber Products	5.3%	8.1%	7.4%	7.3%	9.0%	4.8%	6.7%	5.1%
<b>Domestic Oriented Industries</b>	3.7%	1.6%	3.6%	4.4%	5.7%	4.8%	4.7%	4.2%
Construction	3.3%	3.7%	4.7%	5.1%	4.3%	5.0%	6.0%	4.5%
Consumer	4.1%	-0.5%	2.5%	3.7%	7.0%	4.6%	3.5%	3.9%
Food Products	-6.1%	-1.3%	7.8%	5.7%	5.1%	8.5%	4.6%	7.1%
Transport Equipment	8.8%	-1.3%	-1.1%	1.7%	8.3%	1.4%	1.0%	1.2%
Beverages	15.0%	5.9%	6.5%	7.4%	7.8%	14.4%	13.6%	9.4%
Tobacco Products	8.4%	9.5%	9.9%	15.0%	8.3%	5.6%	8.9%	7.7%
Others	-10.2%	-19.5%	-21.5%	-16.3%	-9.7%	-3.9%	-8.4%	-3.0%

Source: Department of Statistics, Malaysia; MIDF Research

**The moderation in IPI was not unique to Malaysia.** Most of our regional peers show a clear downtrend in industrial production. Indonesia which recorded expansion above 6.0% in February also moderated in March to only 4.1%yoy. United States have been in decline for 7 consecutive months while Singapore was also still in negative. Most notably, Philippines's IPI eased significantly, down to 1.85% from 5.63% in February. Overall, major economies are being hit the most, which we expect due to slowing demand from China and emerging market economies.

**Table 4: Global IPI**

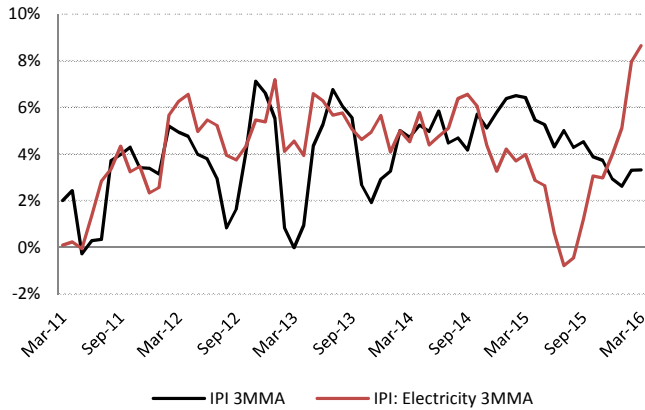
	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16
Malaysia	2.3%	5.1%	4.2%	1.9%	2.7%	3.3%	3.9%	2.8%
Indonesia	5.7%	2.0%	6.2%	6.6%	1.5%	1.5%	6.8%	4.1%
Thailand	0.5%	-0.3%	-0.8%	0.3%	1.4%	-3.5%	-1.7%	1.8%
Philippines	-5.8%	-5.4%	-6.2%	-2.2%	-2.9%	26.1%	5.6%	1.9%
Singapore	-4.7%	-6.3%	-3.3%	-2.8%	-11.9%	1.1%	-3.8%	-0.5%
EU	2.6%	1.9%	2.5%	2.2%	0.5%	2.8%	1.0%	
China	6.1%	5.7%	5.6%	6.2%	5.9%	5.9%	4.9%	
Japan	-0.9%	-1.2%	-1.6%	1.4%	-2.1%	-4.2%	-1.2%	0.1%
United States	0.6%	-0.6%	-0.4%	-2.0%	-2.6%	-1.4%	-2.0%	-2.5%

Source: Department of Statistics, Malaysia; MIDF Research

**We maintain our IPI growth forecast at 3.0-3.5% for year 2016 and GDP to grow by 4.2% in 1Q16.** We maintain our expectation that the overall economy is likely to slow down this year, pushing the IPI downward to 3.0-3.5% for year 2016. This would eventually translate into 4.4% for the GDP growth this year, with a 4.2% growth in 1Q16.

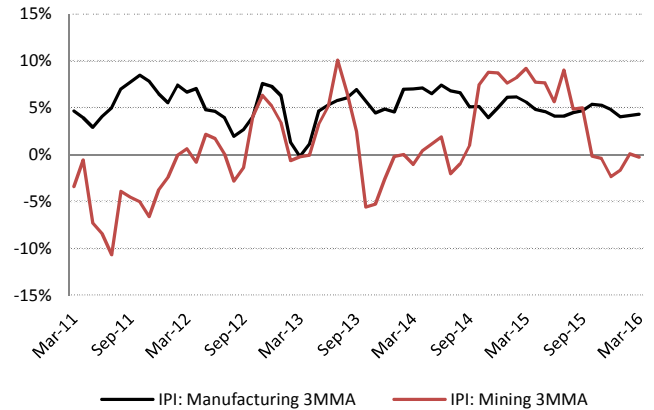


**Chart 1: IPI vs Electricity IPI**



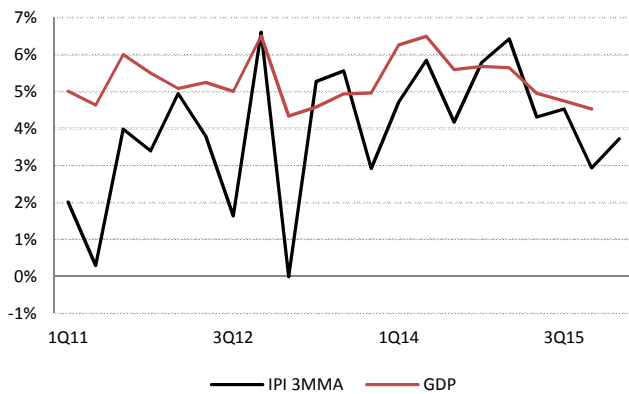
Source: Department of Statistics, Malaysia; MIDF Research

**Chart 2: Manufacturing IPI vs Mining IPI**



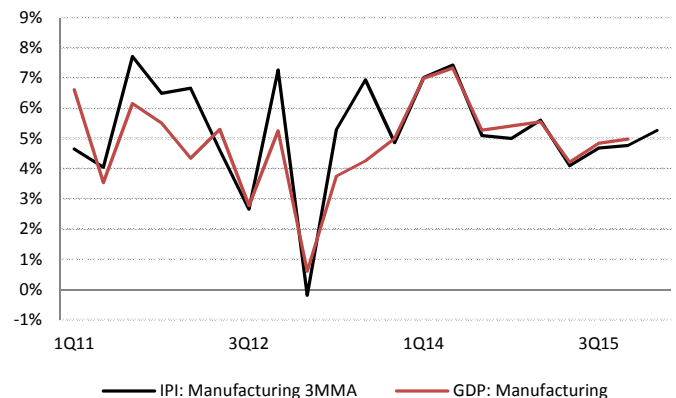
Source: Department of Statistics, Malaysia; MIDF Research

**Chart 3: IPI vs GDP**



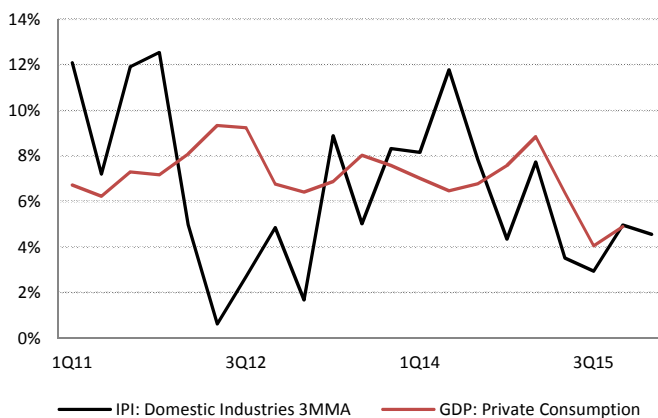
Source: Department of Statistics, Malaysia; MIDF Research

**Chart 4: Manufacturing IPI vs Manufacturing GDP**



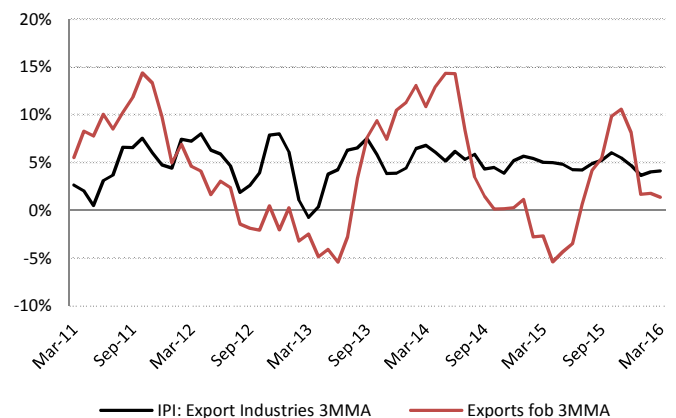
Source: Department of Statistics, Malaysia; MIDF Research

**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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