

## ECONOMIC REVIEW | May 2018 Industrial Production Index

### Moderating External Trade Caused IPI to Hit 3-Month Low at 3%

- *IPI meets market estimates. Malaysia's industrial production expands by 3%yoy in May-18, matched with market expectations and slightly above our forecast of 2.7%yoy. By major components, manufacturing and electricity outputs up by 4.1%yoy and 2.6%yoy respectively while mining contracted by -0.4%yoy.*
- *Effects of trade war to test performance of export-oriented industries. Brent crude oil price average at \$76.3, up by 59.7%yoy in Jun-18. The strong rise in commodity prices is due to strengthening global demand, supply disruption and continuous efforts to limit production among most oil-producing countries.*
- *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 second half of 2018.*

**IPI meets market estimates.** Malaysia's industrial production expands by 3%yoy in May-18, matched with market expectations and slightly above our forecast of 2.7%yoy. By major components, manufacturing and electricity outputs up by 4.1%yoy and 2.6%yoy respectively while mining contracted by -0.4%yoy. The moderating pace is mainly due to GE14 factor. Business uncertainties and extra holidays amid of the election caused IPI to increase at a moderate pace. 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%			
	Feb-18	Mar-18	Apr-18	May-18	Feb-18	Mar-18	Apr-18	May-18
IPI	(4.4)	(0.3)	1.6	0.2	3.0	3.1	4.5	3.0
Mining	(3.5)	1.4	(1.6)	0.0	(1.6)	0.0	1.9	(0.4)
Manufacturing	(5.1)	(0.9)	1.9	0.8	4.7	4.1	5.4	4.1
Electricity	(0.6)	0.7	0.9	(0.4)	2.8	4.4	5.8	2.6

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 May-18, total exports grew at tepid pace of 3.4%yoy, supported by expansion in re-exports by 21.4%yoy while domestic exports shrank by -0.3%yoy. By major output, production of E&E increase by 4.8%yoy, slowest in 5-month and machinery & equipment rose by 4.1%yoy, weakest since Jun-17. In fact, the decelerating IPI performance is in tandem with Malaysia's manufacturing PMI for May-18 which recorded at 17-month low of 47.6 points. As for Jun-18 and 2H18, we foresee continuous moderating trend for IPI underpin by escalating trade tension. On a flip side, post-GE14, business confidence is expected to rise modestly due to tax-holiday period, better domestic purchasing power and rising global commodity prices.

**Effects of trade war to test performance of export-oriented industries.** Brent crude oil price average at \$76.3, up by 59.7%yoy in Jun-18. The strong rise in commodity prices is due to strengthening global demand, supply disruption and continuous efforts to limit production among most oil-producing countries. Plus, average exports growth for the first four months in China recorded at 14.3%yoy, stronger than 2017's average of 6.4%yoy. Nevertheless, we foresee export-oriented and commodity-based industries to slightly moderate in 4Q18 partly due to trade war effects while domestic-driven industries to improve further underpin by moderating inflation, tax-holiday and stable labour market.

**Table 2: Changes in IPI Industries (YoY%)**

	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
Mining;	(4.1)	1.6	(1.6)	0.0	1.9	(0.4)
Mining: Crude Petroleum	(5.2)	1.7	0.5	1.1	4.4	4.8
Mining: Natural Gas	(3.2)	1.4	(3.5)	(0.9)	(0.4)	(4.8)
Manufacturing;	5.4	6.8	4.7	4.1	5.4	4.1
Food Products	18.4	18.6	2.4	7.0	4.6	3.4
Refined Petroleum Products	1.7	6.7	7.7	(1.0)	2.9	3.0
Chemicals & Chemicals Products	7.5	7.2	8.7	3.8	6.0	5.5
Rubber Products	3.2	3.7	2.0	1.1	(0.3)	6.7
Basic Metals	5.5	7.1	5.9	4.1	3.5	3.1
Electrical & Electronic Products	3.8	5.7	5.5	5.7	7.1	4.8
Computers & Peripheral Equipment	1.6	13.3	(6.4)	(1.5)	(2.0)	3.5
Machinery & Equipment	4.3	6.4	5.1	5.4	5.8	4.1
Motor Vehicles, Trailers & Semi-Trailers	(0.6)	1.8	(7.1)	6.9	9.8	5.4

Source: CEIC, MIDFR

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

	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18
<b>IPI: Export Oriented Industries</b>	7.2	6.5	7.3	5.8	4.5	4.8
Electronic and Electrical Products	7.0	4.3	5.1	5.7	6.7	6.7
Chemicals and Chemical Products	6.4	6.3	6.1	7.4	4.3	6.3
Petroleum Products	9.4	1.7	6.6	7.8	(1.2)	3.1
Textiles & Wearing Apparel	7.8	7.7	9.5	7.1	3.5	3.9
Wood and Wood Products	0.6	0.5	3.0	4.0	4.9	2.1
Rubber Products	4.3	3.4	3.6	3.0	(0.5)	(1.5)
Off Estate Processing	11.6	35.9	34.7	0.4	12.7	2.5
Paper Products	3.9	7.4	2.5	2.9	5.9	2.4
<b>IPI: Domestic Oriented Industries</b>	4.5	2.9	5.5	2.5	3.6	2.8
Construction (CO)	4.6	4.6	6.4	4.9	4.0	5.0
CO: Non Metallic Mineral	4.1	4.2	7.4	5.6	3.9	4.5
CO: Iron and Steel	5.0	5.4	7.1	6.0	4.1	3.5
CO: Fabricated Metal	4.6	4.4	5.4	3.8	4.0	6.3
Consumer (CS)	4.4	1.6	4.8	0.8	3.3	1.0
CS: Food Products	2.0	1.7	6.3	3.4	3.2	7.0
CS: Transport Equipment	5.2	1.7	0.7	(3.0)	7.0	11.9
CS: Beverages	6.5	5.0	3.4	2.0	10.5	3.5
CS: Tobacco Products	11.3	2.4	0.3	0.2	(1.2)	1.5
CS: Others	5.2	(0.5)	15.1	3.9	(5.8)	(41.8)

Source: CEIC, MIDFR

\*Data available only at Apr-18

**Manufacturing sales growth moderated to 5.5%.** Manufacturing sales rose by 5.5%yoy in May-18, lower than the previous month. The expansion rate in manufacturing sales is in line with the murky pick up in external trade performance for the month, recording exports and imports growth at 3.4%yoy and 0.1%yoy respectively. Among major products, refined petroleum products surge by 11.7%yoy, thanks to solid rise in commodity prices. On a different note, wage growth of the sector registered at 10%yoy while employment grew steadily at 1.7%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 2H18.

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

	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
<b>Sales;</b>	9.4	10.8	4.9	3.9	8.2	5.5
Refined Petroleum Products	22.8	13.7	14.8	(3.5)	9.4	11.7
Diodes, Transistor & Electronic Integrated Circuits Mic	3.6	9.5	6.5	17.2	16.0	5.2
Electrical Capacitor Resistor, Circuit Board & Display Comp	6.4	17.2	14.8	10.8	22.6	10.3
<b>Employment</b>	2.4	2.5	2.2	2.1	2.1	1.7
<b>Wage</b>	9.2	13.3	16.7	11.9	10.2	10.0


Source: CEIC; MIDFR

**Global demand remains intact.** Escalating trade tension and growing inflationary pressure are two major factors haunting global industrial and trade activities for the second half of 2018. Brent crude oil price returns to \$60 in Nov-17 after more than 2-year hovering below the price level. On top of that, the average oil price growth in 1H18 is 35.2%yoy, higher than 2017's average of 24.2%yoy. However, 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 Jun-18, 53 and 51.1 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.

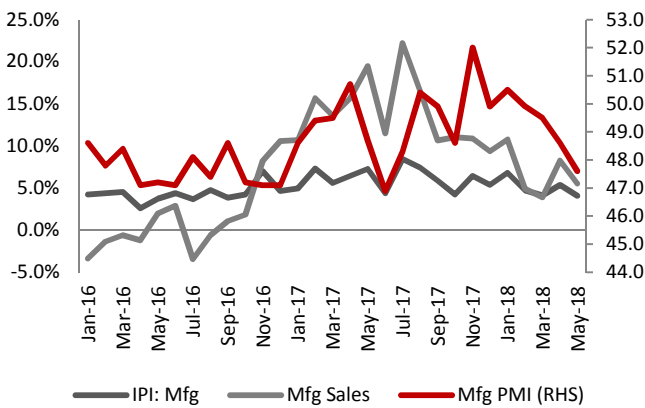
**Table 5: Global IPI (YoY %)**

	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
Malaysia	4.6	2.9	5.5	3.0	3.1	4.5	3.0
Indonesia	5.0	4.0	8.0	5.6	3.1	4.7	
Philippines	(10.6)	(7.1)	16.3	21.4	16.2	29.8	21.3
Thailand	6.3	5.8	4.7	4.6	3.2	3.1	3.2
Singapore	6.1	(2.4)	17.1	6.5	5.7	9.1	11.1
Korea	1.4	(0.8)	4.2	(1.2)	(0.6)	2.0	1.7
Japan	3.6	4.5	2.9	1.6	2.4	2.6	4.2
EU	4.5	4.7	3.5	2.9	3.0	1.7	
USA	3.5	3.1	3.2	3.8	3.6	4.6	3.5

Source: CEIC; MIDFR

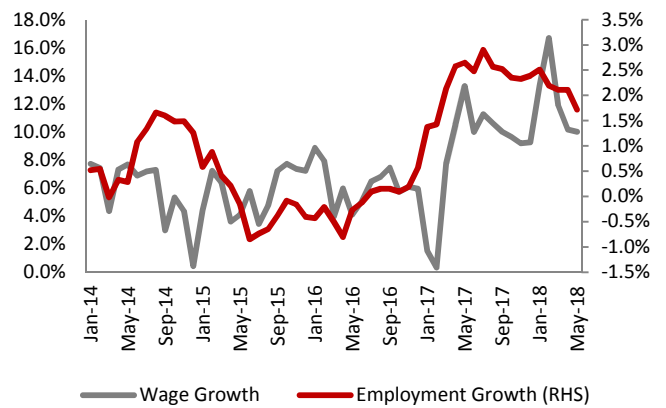
**We expect IPI growth of 4.3% for 2018.** As guided by the recent Business Tendency Index data, we believe the IPI growth will be growing between 3.5%-4.5% during the second half of 2018. Plus, encouraging trend of IPI growth in 2017 is expected to continue for 2018 supported by robust external trade 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 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)**



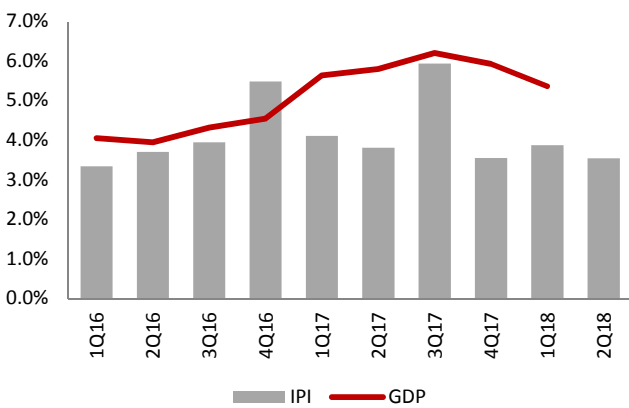
Source: CEIC, MIDFR

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



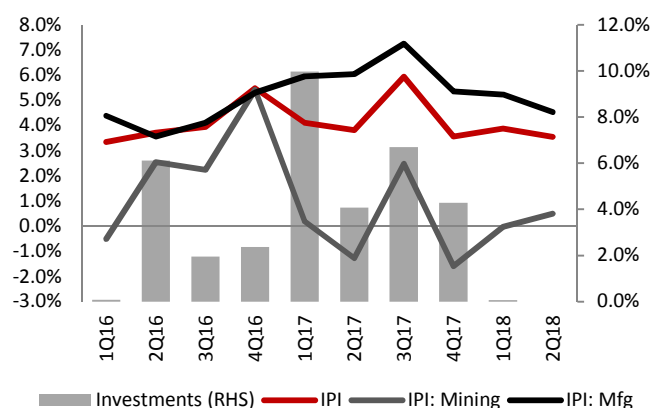
Source: CEIC, MIDFR

**Chart 3: IPI vs GDP (YoY%)**



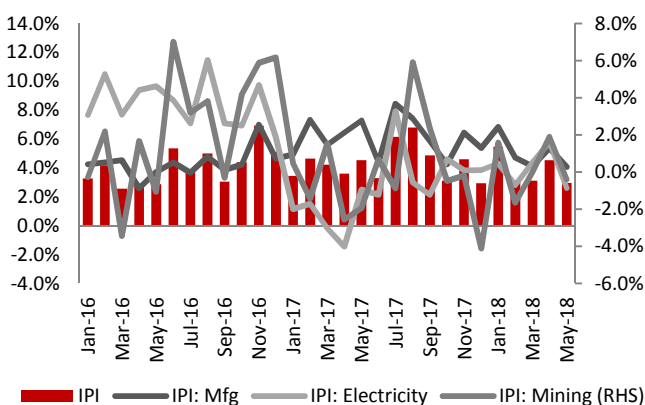
Source: CEIC, MIDFR

**Chart 4: IPI vs Investments Performances (YoY%)**



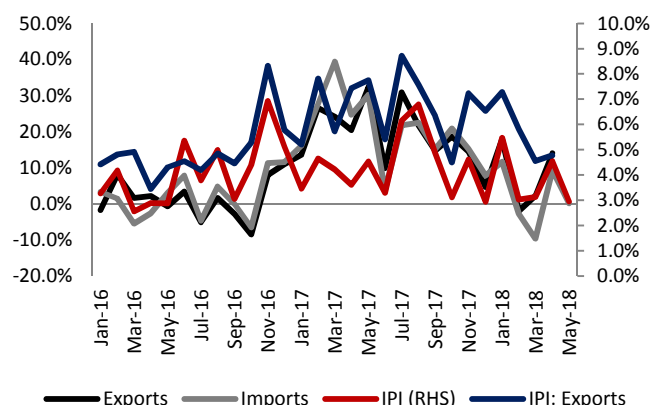
Source: CEIC, MIDFR

**Chart 5: Manufacturing PMI in ASEAN (Points)**



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

**MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)**

## **DISCLOSURES AND DISCLAIMER**

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.