

## ECONOMIC REVIEW | November 2017 Industrial Production Index

### IPI Growth Beats Expectation – Underpinned by Robust Manufacturing Performance

- *IPI growth reached 3-month high. In November, industrial production rose by 5%yoy, higher than market expectations of 4.6%yoy. The solid increase in IPI was supported by the expansion of productions in manufacturing and electricity, 6.6%yoy and 3.9%yoy respectively.*
- *Manufacturing sales growth remains on double digit pace. Manufacturing sales rose by 10.9%yoy in November, recording ten consecutive months of double digit expansion.*
- *We expect IPI growth of 4.3% for 2018. 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.*

**IPI growth reached 3-month high.** In November, industrial production rose by 5%yoy, higher than market expectations of 4.6%yoy. The solid increase in IPI was supported by the expansion of productions in manufacturing and electricity, 6.6%yoy and 3.9%yoy respectively. Among others, continuous upbeat trend in external demand and positive business environment are key contributing factors on the performance of IPI. Moving forward, we foresee IPI growth for December will register at sturdy pace partly due to positive economic environment, rising commodity prices and solid global demand.

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

	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
<b>IPI</b>	<b>131.6</b>	<b>133.9</b>	<b>133.5</b>	<b>133.2</b>	<b>133.1</b>	<b>136.7</b>	<b>134.8</b>
YoY%	4.6	4.0	6.0	6.8	4.7	3.4	5.0
MoM%	0.6	1.9	1.4	(0.1)	(1.0)	(0.8)	1.9
<b>Mining</b>	<b>104.9</b>	<b>109.2</b>	<b>107.8</b>	<b>105.0</b>	<b>103.1</b>	<b>108.6</b>	<b>108.8</b>
YoY%	(2.3)	2.3	0.2	5.4	2.1	0.8	0.2
MoM%	1.0	8.2	(2.2)	(2.8)	0.7	0.4	0.1
<b>Manufacturing</b>	<b>142.6</b>	<b>144.7</b>	<b>144.2</b>	<b>144.9</b>	<b>146.3</b>	<b>148.7</b>	<b>146.1</b>
YoY%	7.2	4.7	8.0	7.6	5.7	4.2	6.6
MoM%	0.2	0.0	1.4	0.1	(0.2)	(1.2)	2.8
<b>Electricity</b>	<b>139.8</b>	<b>133.3</b>	<b>140.4</b>	<b>142.0</b>	<b>132.8</b>	<b>140.8</b>	<b>134.8</b>
YoY%	2.5	2.1	7.9	3.0	2.2	4.7	3.9
MoM%	3.3	(1.4)	5.6	(1.5)	(2.1)	2.0	0.8

Source: DOSM, MIDFR

\*MoM is seasonally adjusted figures

**External trade main IPI driver.** Malaysia's exports grew by 14.4%yoy in November amid of continuous strong demand from major economies and gradual rise in global commodity prices. Hence, this translates into further improvement in productions of E&E, transport equipment and petroleum products by 6.9%yoy, 6.9%yoy and 7.5%yoy respectively. Despite of the rebound in crude oil prices, production of the commodity remains tepid due to production limit as agreed during the OPEC and non-OPEC meeting late 2016. Nevertheless, we view the production of crude petroleum and other related commodities will expand at a higher rate in 2018, possibly due to growing global demand and further rising commodity prices.

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

	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Crude Petroleum	(5.4)	0.8	(3.8)	(1.6)	0.7	0.3	0.4
Natural Gas	1.4	4.4	5.5	14.6	3.9	1.4	0.0
Food, Beverages & Tobacco	12.9	6.7	19.1	9.4	8.0	7.0	8.2
Textiles, Wearing Apparel, Leather Product, Footwear	7.6	8.5	9.5	9.0	8.6	9.2	8.0
Wood Products, Furniture, Paper Products, Printing	8.4	2.1	4.0	2.0	1.3	0.2	2.1
Petroleum, Chemical, Rubber & Plastic Products	3.1	2.8	3.8	7.0	4.9	2.1	7.5
Non-Metallic Mineral, Basic & Fabricated Metal Prod	4.4	4.2	7.6	7.1	4.5	4.8	4.6
Electrical & Electronic Products	11.6	8.3	10.5	8.7	6.7	5.9	6.9
Transport Equipment & Other Manufactures	6.9	(1.0)	6.8	9.9	8.2	4.8	6.9

Source: DOSM, MIDFR

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

	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17
<b>Export Oriented Industries</b>	7.8	5.4	8.2	7.6	6.0	4.1
Electronic and Electrical Product	11.7	8.4	10.6	8.7	6.7	5.9
Chemicals and Chemical Products	2.5	3.9	4.2	3.3	4.9	2.4
Petroleum Products	2.2	1.5	3.1	10.2	5.1	0.7
Textiles & Wearing Apparel	7.6	8.5	9.6	9.0	8.6	9.2
Wood and Wood Products	9.4	3.5	4.7	3.1	2.0	0.5
Rubber Products	10.7	5.4	5.2	7.1	4.2	9.8
<b>Domestic Oriented Industries</b>	5.6	2.6	7.2	7.6	4.9	4.4
Construction	4.4	4.1	7.6	7.1	4.5	4.8
Consumer	6.7	1.1	6.9	8.1	5.2	4.0
Food Products	5.9	3.0	7.6	6.4	2.2	2.4
Transport Equipment	6.9	(1.0)	6.8	9.9	8.2	4.8
Beverages	11.8	7.7	8.6	11.2	5.7	6.7
Tobacco Products	2.5	2.0	2.6	(2.3)	(3.9)	0.5
Others	(4.0)	(8.4)	(4.8)	3.6	(2.9)	1.5

Source: DOSM, MIDFR

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

**Manufacturing sales growth remains on double digit pace.** Manufacturing sales rose by 10.9%yoy in November, recording ten consecutive months of double digit expansion. On the other hand, employment and wage growth of the sector went down marginally to 2.3%yoy and 9.2%yoy respectively during the month. Sales of manufacturing mainly supported by sales of refined petroleum products, computers & peripherals equipment and consumer electronics which expanded by 25.2%yoy, 12.7%yoy and 12.7%yoy respectively. Henceforth, we opine continuous uptrend in both wages and employment in the manufacturing provides a bright outlook for the economic activities in the last quarter 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%)**

	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
<b>Manufacturing Sales</b>	19.5	11.5	22.2	16.5	10.6	11.0	10.9
Refined Petroleum Products	36.2	32.9	43.5	37.7	24.4	26.0	25.2
Organic Chemicals & Inorganic Compounds excl. Fertilizer	10.6	(0.5)	0.1	0.1	0.8	3.3	7.7
Basic Iron & Steel Products	3.2	(10.7)	1.1	2.0	(0.9)	6.0	(1.7)
Diodes, Transistor & Electronic Integrated Circuits Mic	19.9	5.9	15.7	13.3	11.8	9.7	4.8
Electrical Capacitor Resistor, Circuit Board & Display Comp	64.3	49.8	58.2	45.6	7.3	5.7	5.7
Computers & Peripherals Equipment	8.4	8.5	17.6	8.1	0.5	(0.4)	12.7
Consumer Electronics	6.1	8.3	26.8	7.8	7.3	(2.8)	12.7
<b>Employment</b>	2.7	2.5	2.9	2.6	2.5	2.4	2.3
<b>Wage</b>	13.3	10.0	11.3	10.6	10.0	9.6	9.2


Source: CEIC; MIDFR

**Singapore suspends trade relations with North Korea following UN Sanctions.** In November, industrial production in Singapore slowed down to single-digit growth at 5.3%yoy from high 23.4%yoy in July. During the month, Singapore has suspended trade relations with North Korea as the UN and US seek ever tougher measures over its weapons programme. Across the globe, IPI growths in major economies like the US and China remain on solid pace amid of rosy business environment locally and globally. Moving forward, we expect the industrial production in developing and developed economies will continue on upbeat momentum for December as manufacturing PMI of global and emerging economies stay on above 50 points expansionary line.

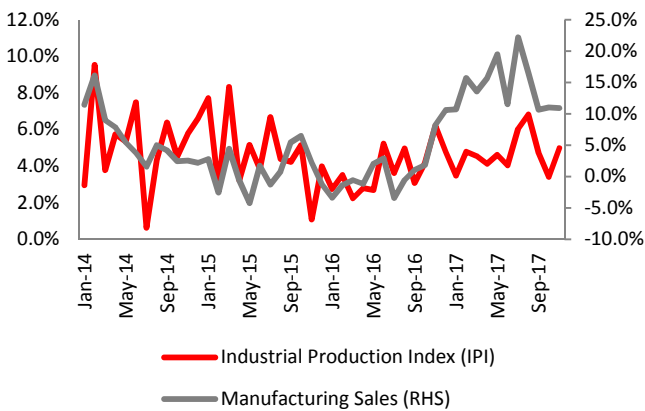
**Table 5: Global IPI (YoY %)**

	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Malaysia	4.6	4.0	6.0	6.8	4.7	3.4	5.0
Indonesia	6.6	(1.1)	3.9	5.2	7.7	6.4	
Thailand	1.6	(0.3)	3.4	4.2	4.6	(0.3)	4.2
Philippines	3.3	1.0	(4.9)	1.2	(4.7)	(5.7)	(9.3)
Singapore	4.6	13.9	23.4	20.2	14.6	14.5	5.3
EU	4.1	3.0	3.4	3.9	3.6	4.0	
China	6.5	7.6	6.4	6.0	6.6	6.2	6.1
Japan	6.5	5.5	4.7	5.3	2.6	5.9	3.7
United States	2.2	1.9	1.9	1.2	1.7	2.7	3.4

Source: CEIC; MIDFR

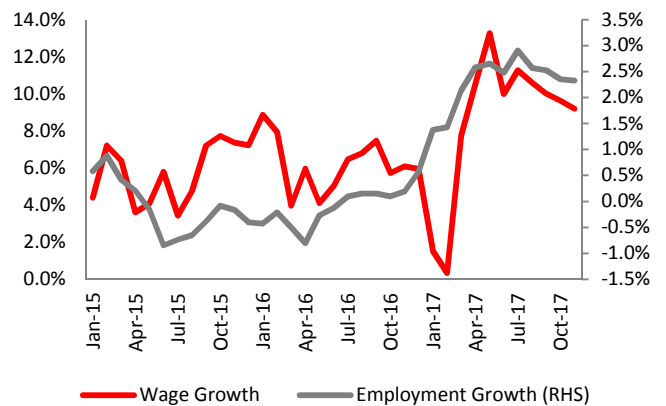
**We expect IPI growth of 4.3% for 2018.** Encouraging trend of IPI growth in 2017 is expected to continue for 2018 given that robust external trade performance continues and gradual increase in commodity price will boost up industrial activity in Malaysia. Plus, receding protectionism threat and expected spill-over effects from the US tax cuts will drive up global trade activities this year. Hence, based on solid uptrend in trade activities and further steady domestic consumption, we expect industrial production growth to hit 4.3% in 2018. 

**Chart 1: IPI vs Manufacturing Sales (YoY%)**



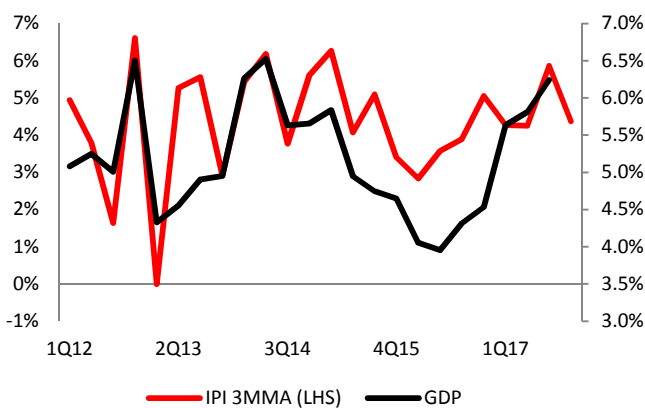
Source: DOSM, MIDFR

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



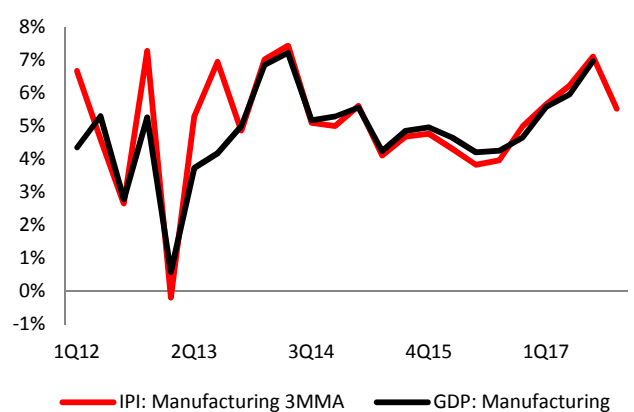
Source: DOSM, MIDFR

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



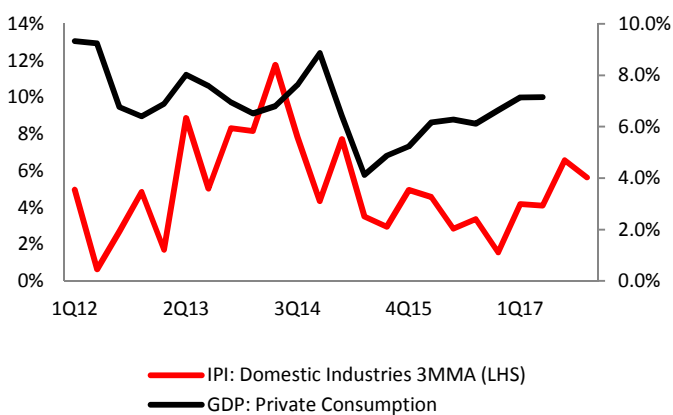
Source: DOSM, MIDFR

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



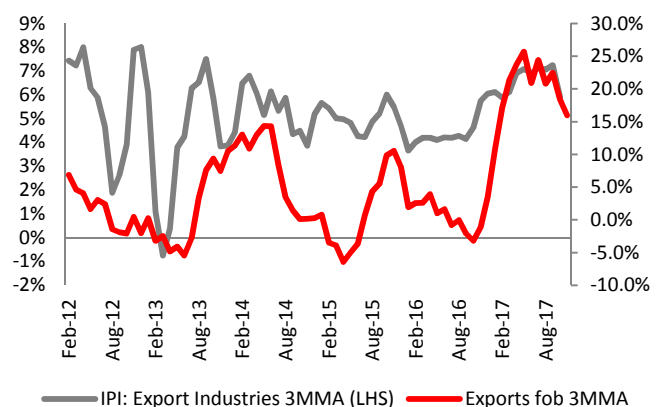
Source: DOSM, MIDFR

**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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