

ECONOMIC REVIEW | November 2018 Industrial Production Index

IPI Growth Beats Market Expectation as Global Demand Remains Intact

- Moderating manufacturing growth drags overall IPI performance. Malaysia's industrial production expands by 2.5%yoy in Nov-18, slightly above market estimate of 2.3%yoy and our forecast of 2.4%yoy. Factory output grew by 3.6%yoy, slowest pace since Apr-16. In addition, mining output shrank by -0.7%yoy as a result of drop in global oil prices during the month. Nevertheless, overall IPI performance remains at healthy pace despite of trade war and decline in business optimism.*
- Slowdown in IPI amid modest pace in external trade. Malaysia's total exports growth declines to 3-month low at 1.6%yoy while domestic exports contracted by -2.6%yoy in Nov-18. Among others, exports of E&E products which constitute about 37% of total exports plunged to 2-year low. It is the first contraction since Mar-18 and lowest since Aug-16 for the outbound shipments of E&E.*
- We forecast IPI growth of 2.9% for 2019. As guided by the recent Business Tendency Survey data, we believe the IPI growth will be growing between 3%-4% during the first half of 2019. Referring to the survey, services and manufacturing sectors are expected to continue to drive up Malaysia's economy while mining sector is predicted to recover modestly early of this year. Among others, steady external trade performance, upbeat domestic demand and gradual increase in energy prices will boost up industrial activity in Malaysia.*

Moderating manufacturing growth drags overall IPI performance. Malaysia's industrial production expands by 2.5%yoy in Nov-18, slightly above market estimate of 2.3%yoy and our forecast of 2.4%yoy. Factory output grew by 3.6%yoy, slowest pace since Apr-16. In addition, mining output shrank by -0.7%yoy as a result of drop in global oil prices during the month. Nevertheless, overall IPI performance remains at healthy pace despite of trade war and decline in business optimism. The IPI performance is in tandem with the modest pace of Malaysia's external trade in Nov-18. Moving forward, we foresee IPI performance to expand at steady pace in 2019 amid tapering trade tension, strong global demand, expected-improve business environment and gradual pick-up in global commodity prices & currencies.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%				YoY%			
	Aug-18	Sep-18	Oct-18	Nov-18	Aug-18	Sep-18	Oct-18	Nov-18
IPI	(0.4)	(0.4)	1.7	0.1	2.2	2.3	4.3	2.5
Mining	5.7	(6.0)	8.3	(2.5)	(4.6)	(6.2)	1.4	(0.7)
Manufacturing	(2.3)	1.5	0.2	1.2	4.3	4.8	5.4	3.6
Electricity	(3.0)	1.4	0.1	1.3	4.0	4.2	2.8	3.2

Source: CEIC, MIDFR

*MoM is Seasonally Adjusted

Slowdown in IPI amid modest pace in external trade. Malaysia's total exports growth declines to 3-month low at 1.6%yoy while domestic exports contracted by -2.6%yoy in Nov-18. Among others, exports of E&E products which constitute about 37% of total exports plunged to 2-year low. It is the first contraction since Mar-18 and lowest since Aug-16 for the outbound shipments of E&E. On the other hand, production of natural gas fell by -1.8%yoy, thus push down mining output during the month. Looking ahead, we view IPI performance to be in good position in the first half of 2019 due to progressive trade negotiation between the US-China, steady global demand particularly in the US & China and gradual pick-up in global commodity prices & currencies. Domestically, steady domestic demand will support domestic-oriented industries particularly consumer-based products.

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

	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18
Mining;	(9.4)	(5.9)	(4.6)	(6.2)	1.4	(0.7)
Mining: Crude Petroleum	(2.2)	4.5	(0.6)	(6.3)	0.4	0.6
Mining: Natural Gas	(15.7)	(15.2)	(8.0)	(6.2)	2.3	(1.8)
Manufacturing;	4.5	5.2	4.3	4.8	5.4	3.6
Food Products	3.5	(3.7)	2.0	7.4	2.6	(3.0)
Refined Petroleum Products	1.4	0.7	3.0	3.2	5.1	5.3
Chemicals & Chemicals Products	4.9	7.8	2.5	2.9	1.0	0.4
Rubber Products	7.0	6.0	7.0	6.3	7.5	4.3
Basic Metals	3.3	3.5	4.0	3.7	4.7	4.0
Electrical & Electronic Products	5.4	8.0	4.5	5.5	7.1	5.3
Computers & Peripheral Equipment	6.8	2.7	13.6	6.3	7.5	0.3
Machinery & Equipment	6.7	2.8	0.1	2.5	4.5	3.9
Motor Vehicles, Trailers & Semi-Trailers	6.4	20.2	8.9	1.7	10.7	9.1

Source: CEIC, MIDFR

Table 3: Changes in IPI Major Industries (YoY%)

	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
IPI: Export Oriented Industries	4.8	3.6	4.1	3.3	3.3	4.8	4.9
Electronic and Electrical Products	6.7	4.1	5.1	7.7	3.9	5.2	6.9
Chemicals and Chemical Products	6.3	3.8	4.6	6.8	3.4	3.9	2.4
Petroleum Products	3.1	3.1	1.5	0.7	3.4	3.4	5.2
Textiles & Wearing Apparel	3.9	2.1	6.1	3.6	2.9	2.2	2.2
Wood and Wood Products	1.9	1.8	4.8	5.1	7.0	9.1	8.3
Rubber Products	(1.5)	6.9	6.3	5.3	5.3	5.2	7.3
Off Estate Processing	2.5	0.4	(0.3)	(19.9)	(3.3)	7.4	(0.3)
Paper Products	2.4	4.6	6.1	6.7	5.9	2.3	4.0
IPI: Domestic Oriented Industries	6.6	5.4	5.5	9.7	6.4	4.7	6.4
Construction (CO)	5.3	4.8	5.1	5.5	4.9	4.8	4.7
CO: Non Metallic Mineral	5.4	5.9	5.8	7.5	5.3	5.4	4.1
CO: Iron and Steel	3.5	3.1	3.3	3.5	4.0	3.7	4.7
CO: Fabricated Metal	6.3	4.8	5.6	5.3	5.2	5.1	5.1
Consumer (CS)	7.7	5.9	5.9	13.5	7.6	4.6	7.8
CS: Food Products	6.6	5.7	7.0	16.0	7.2	6.7	6.0
CS: Transport Equipment	8.7	8.2	6.1	18.1	9.0	1.6	9.6
CS: Beverages	7.5	4.3	4.6	3.7	3.4	4.2	0.8
CS: Tobacco Products	1.5	1.7	1.9	2.6	2.3	3.3	5.5
CS: Others	9.7	3.3	4.8	5.8	7.9	7.2	10.7

Source: CEIC, MIDFR

*Data available as of Oct-18

Manufacturing sales grow at steady pace. Manufacturing sales rose by 7.7%yoy in Nov-18, slowest in 6-month. The steady trend is in line with re-exports growth of 24.5%yoy during the month. Among others, sales of refined petroleum and E&E products which expand by double digit rate support the solid manufacturing sales performance. On a different note, wage growth of the sector grew by 9%yoy while employment grew steadily at 2%yoy. Henceforth, we opine that the 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 2019.

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

	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18
Sales;	7.8	9.6	8.1	8.2	10.2	7.7
Refined Petroleum Products	3.9	3.5	7.2	11.2	14.6	17.8
Diodes, Transistor & Electronic Integrated Circuits Mic	14.8	19.1	12.0	12.6	17.9	25.8
Electrical Capacitor Resistor, Circuit Board & Display Comp	9.1	12.2	10.6	8.4	13.8	6.3
Employment	2.2	2.0	1.9	1.9	2.2	2.0
Wage	10.2	10.1	9.7	9.1	10.2	9.0

Source: CEIC, MIDFR

Slowdown in global IPI due to weakening commodity prices and trade war. IPI performances across major and emerging economies are seen moderate in Nov-18 as Brent crude oil price declined sharply from \$75.5pbd in Oct-18 to \$58.7pbd. On annual basis, the oil price contracted by -7.6%yoy during the month, worst in almost 2.5-years. Moving forward, we foresee gradual rebound and pick-up in global IPI given that Trump-led administration and China are progressing towards a trade deal and Brent oil price is on recovery path nearing \$60pbd since early of this year. On top of that, domestic economic activity in major economies such as the US, EU and China remain steady as jobless rate in each economy stays at low level, hence supporting global demand as well as trade activities. Manufacturing PMIs for global and emerging economies remain on expansionary path at 51.5 and 50.3 points respectively in Dec-18.

Table 5: Global IPI (YoY%)

	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18
Malaysia	3.0	1.1	2.6	2.2	2.3	4.2	2.5
Indonesia	5.5	1.0	0.3	0.5	0.5	0.6	
Philippines	15.1	11.3	13.1	9.8	6.4	4.9	2.1
Thailand	2.9	5.0	4.9	0.8	-2.7	5.8	1.0
Singapore	13.3	8.5	6.8	3.8	0.6	5.5	7.6
India	3.8	7.0	6.5	4.7	4.5	8.1	
Japan	3.3	-1.6	2.1	0.2	-2.5	4.2	1.4
EU	2.5	2.6	1.2	1.3	1.0	1.2	
USA	3.0	3.5	4.2	5.5	5.6	3.7	3.8

Source: CEIC, MIDFR


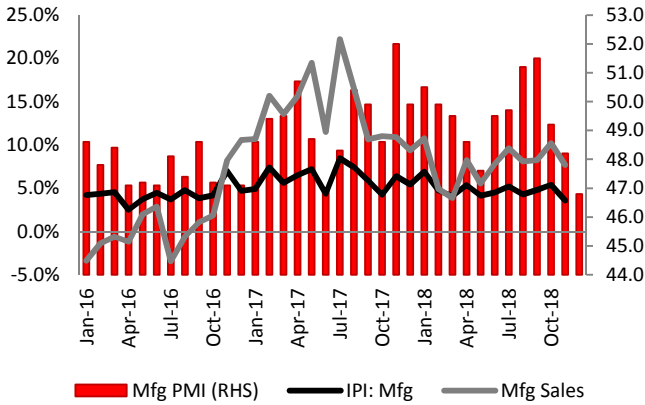
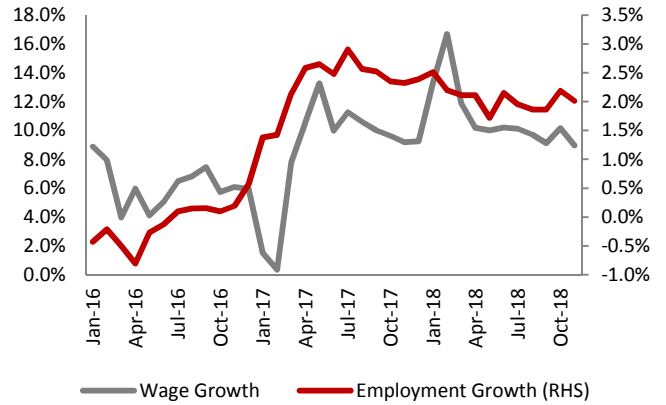
We forecast IPI growth of 2.9% for 2019. As guided by the recent Business Tendency Survey data, we believe the IPI growth will be growing between 3%-4% during the first half of 2019. Referring to the survey, services and manufacturing sectors are expected to continue to drive up Malaysia's economy while mining sector is predicted to recover modestly early of this year. Among others, steady external trade performance, upbeat domestic demand and gradual increase in energy prices will boost up industrial activity in Malaysia. Lower business cost partly due to moderating inflation and stable retail fuel prices will provide additional boost for industrial production growth to hit 2.9% in 2019. Nevertheless, headwinds from global trade tension and supply disruption for commodities based sectors could pose downside risk to the estimate. 

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



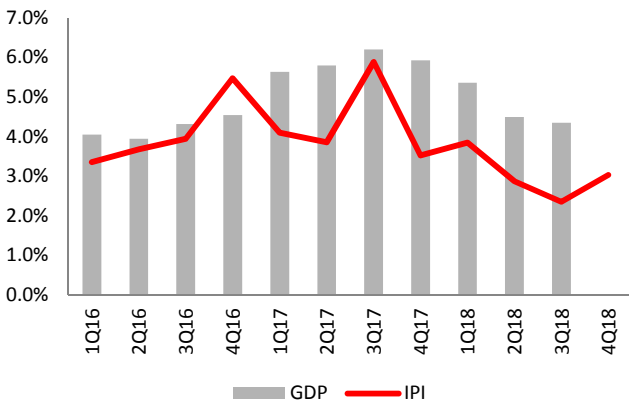
Source: CEIC, MIDFR

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



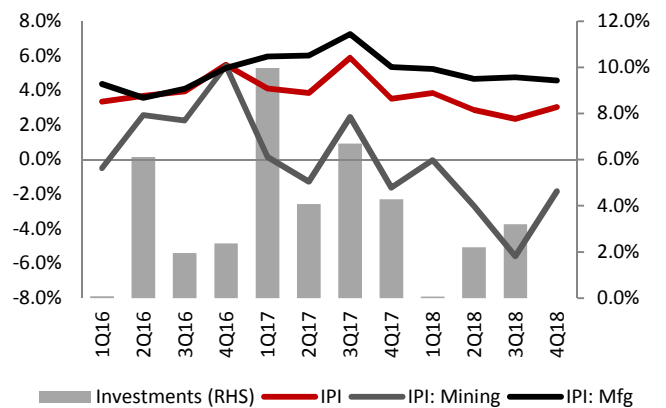
Source: CEIC, MIDFR

Chart 3: IPI vs GDP (YoY%)



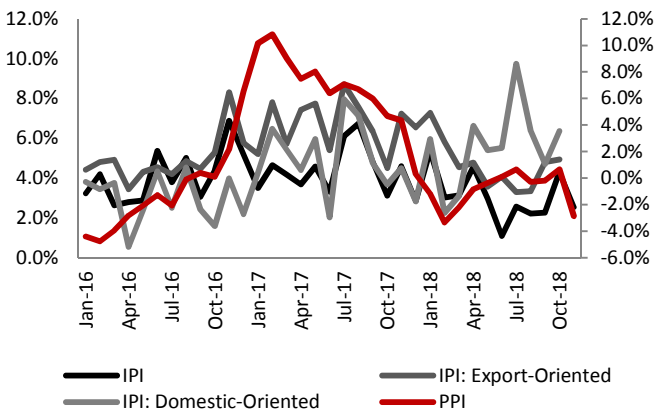
Source: CEIC, MIDFR

Chart 4: IPI vs Investments Performances (YoY%)



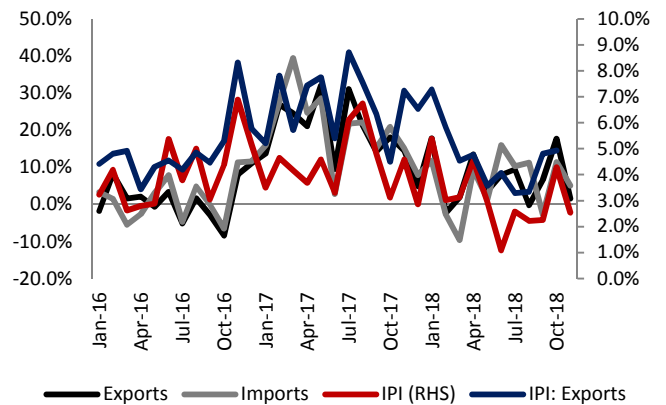
Source: CEIC, MIDFR

Chart 5: IPI vs PPI (YoY%)



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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