

ECONOMIC REVIEW | November 2016 Industrial Production Index

Strong Industrial Production in November could be an Early Sign of Economic Rebound

- November production output boost by 6.2%yoy, marks the highest thus far in 2016. November's mining figures rose from 3.6%yoy in October to 4.6%yoy in November due to the increased demand on natural gas production by 13.1% during the month. Meanwhile, manufacturing and electricity sector remain positive and stable with an increase of 6.5%yoy and 9.7%yoy respectively.*
- We note that most countries under our observation recorded a clear yearly rebound in November, with an exception of United States and China. In fact, Thailand, Singapore and Japan's production growth in November was strongest since at least early 2014. Most of the growth is contributed to the recovery of global trade activity, which at the moment we are expecting it to continue until at least the first quarter of 2017.*
- We are maintaining our expectation that the industrial output will grow in the range of 3.5-4.0% in 2016 and is currently expecting output production will improve to a range of 4.0-4.5%yoy in 2017. This is in line with our expectation of a stronger global trade activity for this year (2017 forecast: 3.0%yoy) and slightly stronger GDP growth of 4.3% against 4.1% in 2016.*

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Table 1: Malaysia – Summary of Industrial Production Index

	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16
Industrial Production Index	121.4	125.8	128.7	125.9	124.7	127.1	132.2	128.4
YoY	3.0%	2.8%	5.2%	4.1%	4.9%	3.1%	4.2%	6.2%
MoM (SA)	-0.8%	0.9%	2.8%	-0.6%	-0.5%	-0.1%	0.8%	0.8%
Mining Index	101.8	107.4	106.7	107.6	99.6	101.0	107.7	108.6
YoY	0.7%	-1.1%	6.4%	6.0%	4.3%	-0.3%	3.6%	4.6%
MoM (SA)	1.7%	1.2%	4.4%	-0.9%	-8.9%	4.3%	2.1%	-0.7%
Manufacturing Index	128.9	133.0	138.2	133.5	134.7	138.4	142.7	137.0
YoY	3.2%	3.7%	4.6%	3.2%	4.7%	4.0%	4.2%	6.5%
MoM (SA)	-2.1%	0.4%	2.2%	-1.7%	2.2%	0.1%	0.7%	1.7%
Electricity Index	134.2	136.4	130.6	130.1	137.8	129.9	134.5	129.8
YoY	9.5%	9.6%	8.7%	7.2%	11.4%	7.0%	6.9%	9.7%
MoM (SA)	1.1%	-0.8%	-3.1%	-0.1%	8.2%	-3.9%	0.5%	1.4%

Source: Department of Statistics, Malaysia; MIDF Research

Electrical and electronic products had its highest output growth in five months. E&E production grew by approximately 8.9%yoy in November, the highest growth in five months. Among the components, semiconductors experienced 11.7% growth, the strongest yearly increase since May 2014. Due to the rebound of China's manufacturing activity, we are expecting the strong momentum of E&E products would continue in the short term. However, in the longer term the lacklustre of global trade activity and lack of new innovation in the sector could dampen the future growth of the sector.

Rebound in commodity prices could be a boon to Malaysia's industrial production. Production of crude palm oil improves to -4.7%yoy in November. Despite the negative yearly growth, it is actually the strongest in 10 months. Moving forward, other data source showed that production of crude palm oil will increase to 5.3%yoy in December 2016, its first positive growth for the whole year. Similarly, the mining activity has been in an uptrend with 4.6%yoy growth, particularly for natural gas which surged 13.1%yoy. As the price of natural gas will usually follow behind crude petroleum with some lag, it should have ample room for growth in the coming months. However, it should be noted that the exports of LNG in November actually fell by 21.3%yoy, which reflects the possibility of stockpiling activity by producers in wait of the expected higher price.

Table 2: Changes in IPI Sub-Indices

	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16
Crude Petroleum	-1.5%	-5.2%	8.8%	13.9%	6.4%	-1.5%	2.7%	-1.9%
Natural Gas	3.7%	4.4%	3.6%	-2.8%	1.5%	1.2%	4.5%	13.1%
Food, Beverages & Tobacco	-7.1%	-5.1%	-6.8%	2.6%	-1.7%	-0.8%	2.5%	10.4%
Textiles, Wearing Apparel, Leather Product, Footwear	5.4%	5.9%	10.9%	6.0%	8.5%	5.8%	4.7%	6.2%
Wood Products, Furniture, Paper Products, Printing	3.5%	5.3%	10.2%	5.9%	7.1%	3.5%	2.4%	6.3%
Petroleum, Chemical, Rubber & Plastic Products	4.9%	5.1%	5.0%	3.6%	4.5%	4.4%	3.7%	6.1%
Non-Metallic Mineral, Basic & Fabricated Metal Prod	4.2%	5.8%	5.1%	4.1%	4.5%	3.2%	4.1%	5.7%
Electrical & Electronic Products	8.0%	8.4%	9.1%	4.1%	7.8%	6.5%	8.0%	8.9%
Transport Equipment & Other Manufactures	-7.5%	-11.7%	-2.9%	-5.2%	-0.5%	0.3%	-5.4%	-6.1%

Source: Department of Statistics, Malaysia; MIDF Research

Table 3: Changes in IPI Exports/Domestic Oriented Industries

	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16
Export Oriented Industries	4.3%	3.7%	4.3%	4.7%	3.6%	4.5%	4.3%	5.0%
Electronic and Electrical Product	5.6%	8.1%	8.4%	9.2%	4.2%	8.0%	6.5%	8.1%
Chemicals and Chemical Products	3.8%	3.6%	6.2%	4.9%	3.4%	7.9%	5.8%	7.1%
Petroleum Products	2.3%	5.1%	4.7%	5.1%	3.6%	2.1%	3.6%	2.1%
Textiles & Wearing Apparel	8.8%	5.5%	5.9%	10.9%	5.9%	8.4%	5.9%	4.8%
Wood and Wood Products	3.8%	3.6%	7.2%	12.9%	7.2%	8.7%	4.6%	3.4%
Rubber Products	8.5%	8.4%	0.4%	5.2%	3.7%	1.8%	3.2%	-3.0%
Domestic Oriented Industries	4.8%	2.1%	1.7%	4.7%	2.2%	4.9%	3.0%	1.3%
Construction	4.3%	4.1%	5.8%	5.0%	4.1%	4.6%	3.2%	4.0%
Consumer	5.2%	0.3%	-1.9%	4.4%	0.2%	5.3%	2.8%	-1.3%
Food Products	9.2%	13.9%	15.1%	17.0%	7.8%	13.2%	4.1%	2.8%
Transport Equipment	3.6%	-7.5%	-11.7%	-2.9%	-5.2%	-0.5%	0.3%	-5.4%
Beverages	2.3%	4.0%	9.5%	12.8%	8.7%	12.7%	13.6%	12.5%
Tobacco Products	6.7%	5.6%	3.6%	4.3%	2.1%	1.6%	2.5%	-7.9%
Others	-1.1%	-9.6%	-1.7%	1.0%	2.7%	-1.0%	-1.6%	-8.4%

Source: Department of Statistics, Malaysia; MIDF Research

Most of the economies had significant comeback in November. We note that most countries under our observation recorded a clear yearly rebound in November, with an exception of United States and China. In fact, Thailand, Singapore and Japan's production growth in November was strongest since at least early 2014. Most of the growth is contributed to the recovery of global trade activity, which at the moment we are expecting it to continue until at least the first quarter of 2017. However, we remain cautious with any imports substitution policy by both US and China, which could potentially put another blow to the

Table 4: Global IPI

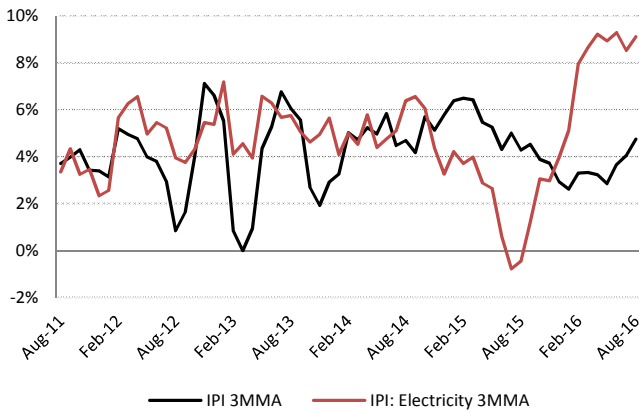
	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16
Malaysia	3.0%	2.8%	5.2%	4.1%	5.0%	3.1%	4.2%	6.2%
Indonesia	0.1%	7.0%	7.9%	8.6%	6.1%	0.6%	-2.7%	
Thailand	0.9%	2.7%	1.4%	-5.0%	3.2%	1.1%	0.0%	3.8%
Philippines	6.8%	2.5%	6.0%	6.6%	9.9%	7.4%	7.0%	10.6%
Singapore	2.7%	0.7%	0.7%	-3.5%	0.8%	7.6%	1.3%	11.9%
EU	2.1%	0.7%	0.9%	-0.1%	2.2%	1.2%	0.4%	
China	6.0%	6.0%	6.2%	6.0%	6.3%	6.3%	6.3%	6.4%
Japan	-3.3%	-0.4%	-1.5%	-4.2%	4.5%	1.5%	-1.4%	4.6%
United States	-0.9%	-1.3%	-0.4%	-0.6%	-1.0%	-0.5%	-0.7%	-0.7%

Source: CEIC; MIDF Research

We are maintaining our IPI growth forecast at 3.5% to 4.0% for year 2016 and expecting it to grow slightly higher at 4.0-4.5% in 2017. We are maintaining our expectation that the industrial output will grow in the range of 3.5-4.0% in 2016 and is currently expecting output production will improve to a range of 4.0-4.5%yoy in 2017. This is in line with our expectation of a stronger global trade activity for this year (2017 forecast: 3.0%yoy) and slightly stronger GDP growth of 4.3% against 4.1% in 2016. However, once again we reiterate that the global economic activity could be vulnerable to any significant change in US and China's policy, particularly if it is related to protectionism measures and imports substitution policy.

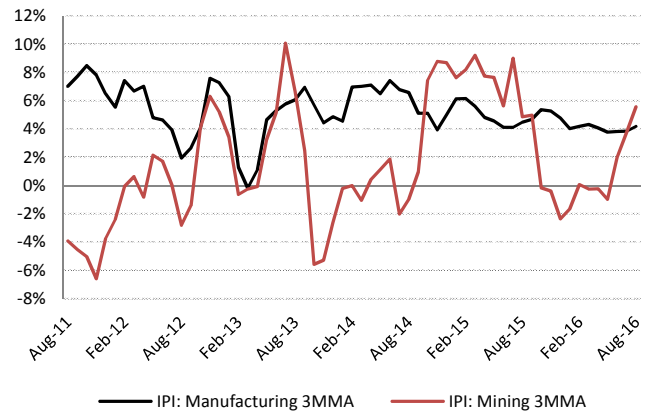


Chart 1: IPI vs Electricity IPI



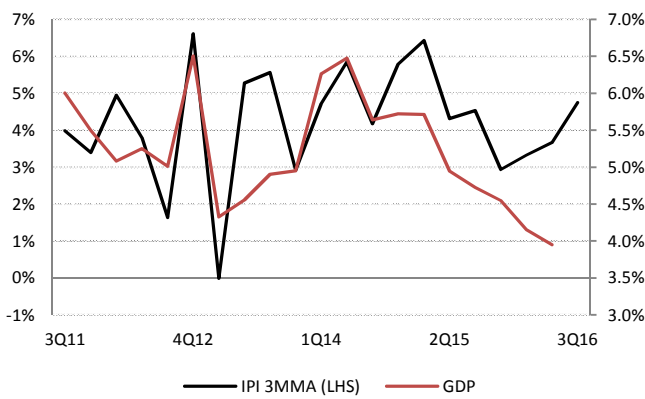
Source: Department of Statistics, Malaysia; MIDF Research

Chart 2: Manufacturing IPI vs Mining IPI



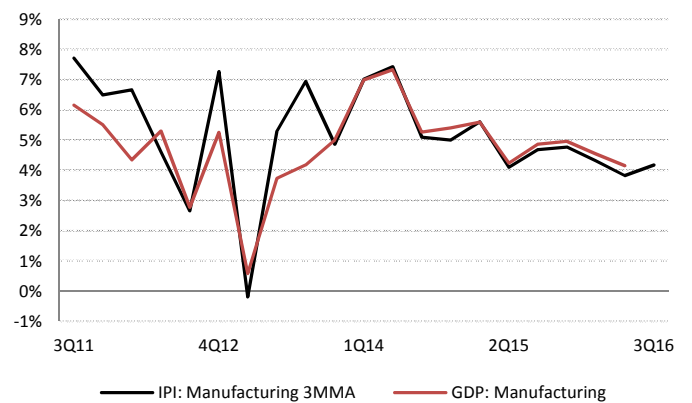
Source: Department of Statistics, Malaysia; MIDF Research

Chart 3: IPI vs GDP



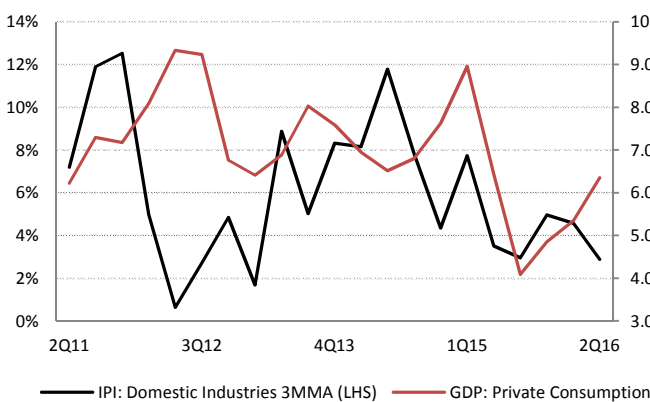
Source: Department of Statistics, Malaysia; MIDF Research

Chart 4: Manufacturing IPI vs Manufacturing GDP



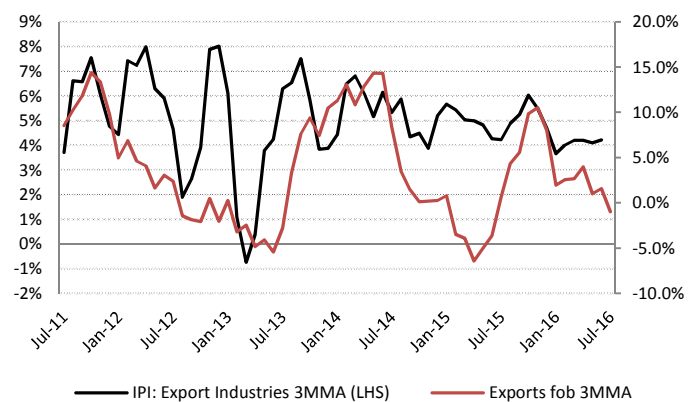
Source: Department of Statistics, Malaysia; MIDF Research

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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