

ECONOMIC REVIEW | October 2017 Industrial Production Index

IPI Growth Moderated to 13-Months Low Despite of Sturdy Improvement in Manufacturing Sales

- *Slowdown in IPI growth partly due to unfavourable base effect. In October, industrial production rose by 3.4%yoy, lower than market expectations of 4.1%yoy. Nevertheless, the declining trend is dragged down by slower growth in manufacturing production by 4.2%yoy, lowest so far in 2017.*
- *Weak China's demand caused moderation in IPI. Malaysia's exports to China grew at 11-months low in October. The exports growth is in line with slowdown in China's IPI and retail sales performances during the month.*
- *We expect IPI growth of 4.8% for 2017. Encouraging trend of IPI growth is expected to continue for the rest of 4Q17 given that robust external trade performance continues and modest increase in commodity price will boost up industrial activity in Malaysia.*

Slowdown in IPI growth partly due to unfavourable base effect. In October, industrial production rose by 3.4%yoy, lower than market expectations of 4.1%yoy. During the same month of previous year, IPI growth recorded at 4.2%yoy, higher than 2016's average of 3.8%yoy. Nevertheless, the declining trend is dragged down by slower growth in manufacturing production by 4.2%yoy, lowest so far in 2017. On a flip side, electricity production grew firmly by 4.7%yoy while mining production improved marginally on monthly basis underpinned by rising global commodity prices. Among others, weaker demand from top trade destinations namely China and EU are major factors for the slowdown in Malaysia's industrial production. Moving forward, we foresee Malaysia's IPI performance will sustain at healthy pace for the last two months of 2017 due to year-end sales globally and rising commodity prices.

Table 1: Malaysia – Summary of Industrial Production Index

	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17
IPI	126.4	131.6	133.9	133.5	133.2	133.1	136.7
YoY%	4.1	4.6	4.0	6.0	6.8	4.7	3.4
MoM%	(0.1)	0.6	1.9	1.4	(0.1)	(1.0)	(0.8)
Mining	99.8	104.9	109.2	107.8	105.0	103.1	108.6
YoY%	(2.0)	(2.3)	2.3	0.2	5.4	2.1	0.8
MoM%	(2.3)	1.0	8.2	(2.2)	(2.8)	0.7	0.4
Manufacturing	137.6	142.6	144.7	144.2	144.9	146.3	148.7
YoY%	6.7	7.2	4.7	8.0	7.6	7.1	4.2
MoM%	0.5	0.2	0.0	1.4	0.1	(0.2)	(1.2)
Electricity	132.2	139.8	133.3	140.4	142.0	132.8	140.8
YoY%	(1.5)	2.5	2.1	7.9	3.0	2.2	4.7
MoM%	0.2	3.3	(1.4)	5.6	(1.5)	(2.1)	2.0

Source: DOSM, MIDFR

*MoM is seasonally adjusted figures

Weak China's demand caused moderation in IPI. Malaysia's exports to China grew at 11-months low in October. The exports growth is in line with slowdown in China's IPI and retail sales performances during the month. Hence, manufacturing production such as E&E, petroleum-related products and transport machinery & other manufactures recorded lower growth as compared to September's. However, we predict the manufacturing production as well as the overall IPI performance will return to solid pace in November as China's external trade grew by double digit rate, exports and imports by 12.3%yoy and 17.7%yoy respectively. On a flip side, mining production which supported by crude petroleum and natural gas surged by 0.3%yoy and 1.4%yoy respectively in October. With petroleum prices on the rise, crude petroleum production is projected to rise steadily throughout the final quarter of 2017.

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

	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17
Crude Petroleum	(6.6)	(5.4)	0.8	(3.8)	(1.6)	0.7	0.3
Natural Gas	4.1	1.4	4.4	5.5	14.6	3.9	1.4
Food, Beverages & Tobacco	15.5	12.9	6.7	19.1	9.4	8.0	7.0
Textiles, Wearing Apparel, Leather Product, Footwear	6.4	7.6	8.5	9.5	9.0	8.6	9.2
Wood Products, Furniture, Paper Products, Printing	7.1	8.4	2.1	4.0	2.0	1.3	0.2
Petroleum, Chemical, Rubber & Plastic Products	3.0	3.1	2.8	3.8	7.0	4.9	2.1
Non-Metallic Mineral, Basic & Fabricated Metal Prod	4.2	4.4	4.2	7.6	7.1	4.5	4.8
Electrical & Electronic Products	9.6	11.6	8.3	10.5	8.7	6.7	5.9
Transport Equipment & Other Manufactures	5.1	6.9	(1.0)	6.8	9.9	8.2	4.8

Source: DOSM, MIDFR

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

	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17
Export Oriented Industries	7.6	7.8	5.4	8.2	7.6	6.0
Electronic and Electrical Product	9.8	11.7	8.4	10.6	8.7	6.7
Chemicals and Chemical Products	3.7	2.5	3.9	4.2	3.3	4.9
Petroleum Products	1.6	2.2	1.5	3.1	10.2	5.1
Textiles & Wearing Apparel	6.4	7.6	8.5	9.6	9.0	8.6
Wood and Wood Products	7.8	9.4	3.5	4.7	3.1	2.0
Rubber Products	7.2	10.7	5.4	5.2	7.1	4.2
Domestic Oriented Industries	4.2	5.6	2.6	7.2	7.6	4.9
Construction	4.3	4.4	4.1	7.6	7.1	4.5
Consumer	4.1	6.7	1.1	6.9	8.1	5.2
Food Products	1.9	5.9	3.0	7.6	6.4	2.2
Transport Equipment	5.0	6.9	(1.0)	6.8	9.9	8.2
Beverages	9.5	11.8	7.7	8.6	11.2	5.7
Tobacco Products	2.1	2.5	2.0	2.6	(2.3)	(3.9)
Others	(6.0)	(4.0)	(8.4)	(4.8)	3.6	(2.9)

Source: DOSM, MIDFR

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

Manufacturing sales growth remains on double digit pace. Manufacturing sales rose by 11%yoy in October, recording eleven consecutive months of double digit expansion. On the other hand, employment and wage growth of the sector registered at 7-months low. Wages of the sector rose by 9.6%yoy while employment growth remains on up-trend since November last year. 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%)

	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17
Manufacturing Sales	15.6	19.5	11.5	22.2	16.5	10.7	11.0
Employment	2.6	2.7	2.5	2.9	2.6	2.5	2.4
Wage	10.5	13.3	10.0	11.3	10.6	10.0	9.6

Source: CEIC; MIDFR

One week off in China. In October, industrial production in the world's second largest economy slowed down to 6.2%yoy amid of long holidays. During the month, China celebrated its National Golden Week holidays, 9 days in total. In spite of this, we foresee industrial activity in China will return to robust pace given that external trade performance in November recorded at solid pace, exports and imports grew by 12.3%yoy and 17.7%yoy respectively. Across the globe, manufacturing PMI of global and emerging economies stay on upward trajectory recording at 54 and 51.7 points respectively in November. Hence, we expect industrial production in developed and developing economies will expand at strong pace in November.

Table 5: Global IPI (YoY %)

	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17
Malaysia	4.1	4.6	4.0	6.0	6.8	4.7	3.4
Indonesia	6.4	6.6	(0.5)	3.3	5.0	7.8	
Thailand	(1.8)	1.6	(0.3)	3.4	4.2	4.6	0.1
Philippines	1.3	7.2	4.7	(2.0)	1.2	(4.3)	
Singapore	6.7	4.6	13.7	21.6	20.0	14.4	14.6
EU	1.3	4.1	3.0	3.4	3.9	3.6	
China	6.5	6.5	7.6	6.4	6.0	6.6	6.2
Japan	5.7	6.5	5.5	4.7	5.3	2.6	5.9
United States	0.8	2.2	1.9	2.0	1.3	1.9	2.8

Source: CEIC; MIDFR


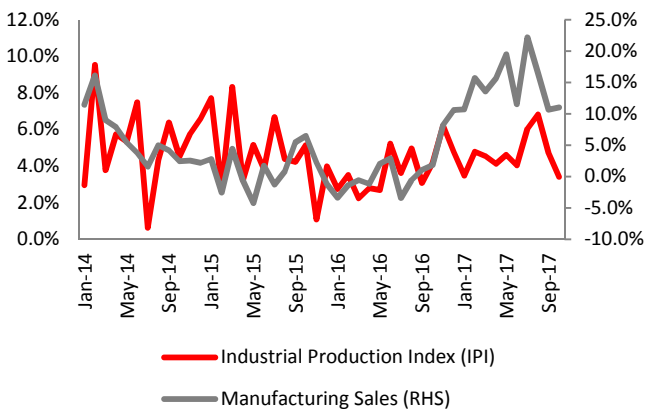
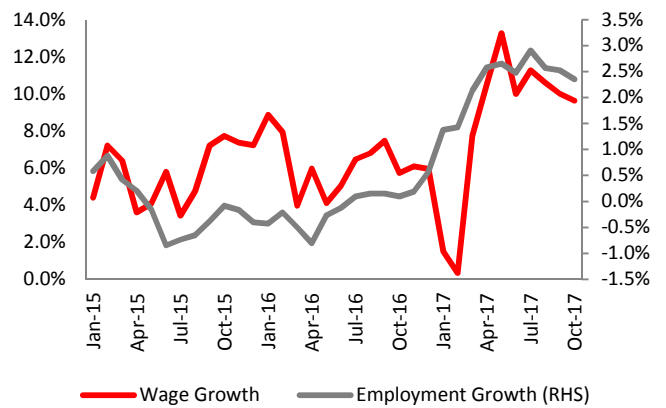
We expect IPI growth of 4.8% for 2017. Encouraging trend of IPI growth is expected to continue for the rest of 4Q17 given that robust external trade performance continues and modest increase in commodity price will boost up industrial activity in Malaysia. Due to strong export performances for the past ten months of 2017 and optimistic business confidences, we believe the upbeat momentum will remain and thus causing positive spill over effects to Malaysia's industrial production this year. Hence, based on solid uptrend in trade activities and steady domestic consumption, we expect industrial production growth to hit 4.8% in 2017. 

Chart 1: IPI vs Manufacturing Sales (YoY%)



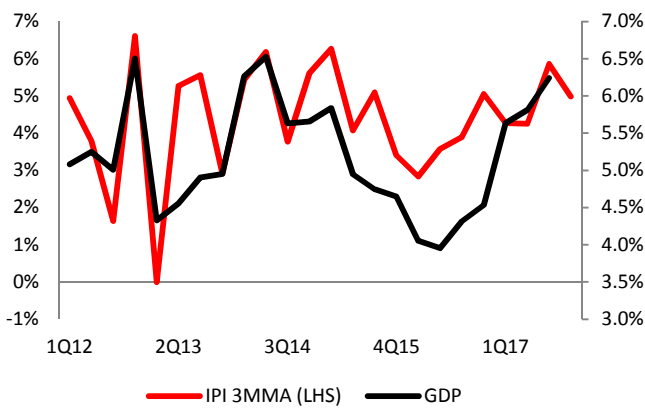
Source: DOSM, MIDFR

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



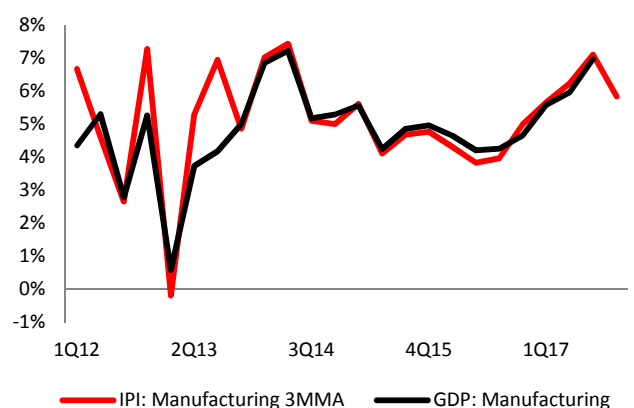
Source: DOSM, MIDFR

Chart 3: IPI vs GDP (YoY%)



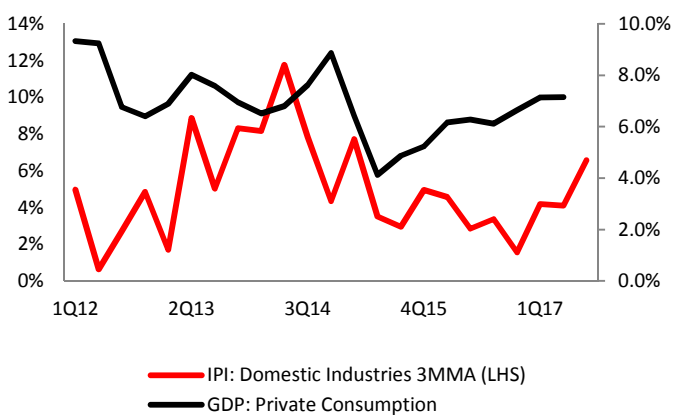
Source: DOSM, MIDFR

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



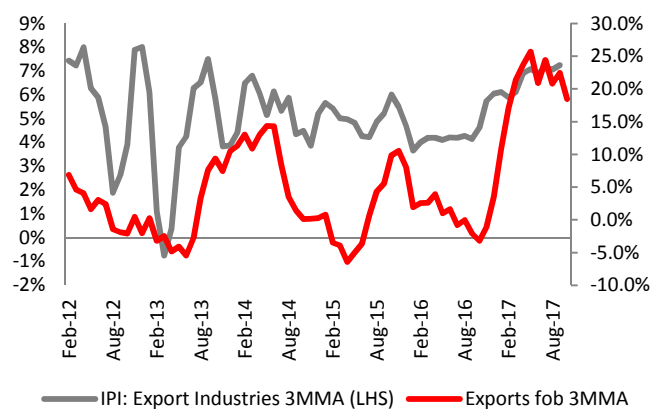
Source: DOSM, MIDFR

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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