

ECONOMIC REVIEW | October 2018 Industrial Production Index

Solid Pick-Up in IPI as Global Demand Remains Intact

- *IPI growth fastest in 6-month. Malaysia's industrial production expands by 4.2%yoy in Oct-18, above market estimate of 3.3%yoy and slight higher than our forecast of 4%yoy. Rebound in mining output and continuous expansion in manufacturing and electricity productions contribute towards the upward surprise.*
- *Robust exports contribute to solid IPI expansion. Malaysia's total and domestic exports expand by 17.7%yoy (fastest in 9-month) and 12.8%yoy (fastest in 11-month) respectively during the month. The rebound is mainly due to outbound shipments of manufactured and mining goods.*
- *We forecast IPI growth at 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 next year.*

IPI growth fastest in 6-month. Malaysia's industrial production expands by 4.2%yoy in Oct-18, above market estimate of 3.3%yoy and slight higher than our forecast of 4%yoy. Rebound in mining output and continuous expansion in manufacturing and electricity productions contribute towards the upward surprise. Mining output turns to positive growth rate after 5-consecutive months of contractions while factory output expansion rate jumped to 9-month high. The solid pick-up in IPI performance is in tandem with the robust pace of Malaysia's external trade in Oct-18. Moving forward, we foresee IPI performance to expand at steady pace in the fourth quarter of 2018 and in 2019 amid tapering trade tension effects, strong global demand, optimistic business environment and volatility risks in global commodity prices & currencies.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%				YoY%			
	Jul-18	Aug-18	Sep-18	Oct-18	Jul-18	Aug-18	Sep-18	Oct-18
IPI	2.6	(0.4)	(0.4)	1.7	2.6	2.2	2.3	4.2
Mining	1.3	5.7	(6.0)	8.3	(5.9)	(4.6)	(6.2)	1.4
Manufacturing	3.1	(2.3)	1.5	0.2	5.2	4.3	4.8	5.4
Electricity	3.9	(3.0)	1.4	(0.6)	4.5	4.0	4.2	2.1

Source: CEIC, MIDFR

*MoM is Seasonally Adjusted

Robust exports contribute to solid IPI expansion. Malaysia's total and domestic exports expand by 17.7%yoy (fastest in 9-month) and 12.8%yoy (fastest in 11-month) respectively during the month. The rebound is mainly due to outbound shipments of manufactured and mining goods. Henceforth, this translates into higher production of major industrial products such as refined petroleum, E&E, machinery & equipment and computers & peripheral equipment. Production of natural gas rose by 2.3%yoy, the second month registering positive growth so far in 2018. In addition, following the latest OPEC decision, Malaysia will cut 15K barrels per day starting 1st Jan-19, lower than previous arrangement of 20K. Hence, the 5K barrels per day additional production will translate into higher mining output in 2019. Looking ahead, we view IPI performance in the final quarter of 2018 to be in good position supported by the US-China trade truce with expectation of reaching a trade deal before Mar-18, stronger demand from China and optimistic business environment globally. Domestically, steady domestic demand will support domestic-oriented industries particularly consumer-based products.

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

	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
Mining;	(0.5)	(9.4)	(5.9)	(4.6)	(6.2)	1.4
Mining: Crude Petroleum	4.7	(2.2)	4.5	(0.6)	(6.3)	0.4
Mining: Natural Gas	(4.8)	(15.7)	(15.2)	(8.0)	(6.2)	2.3
Manufacturing;	4.1	4.5	5.2	4.3	4.8	5.4
Food Products	3.4	3.5	(3.7)	2.0	7.4	2.6
Refined Petroleum Products	3.0	1.4	0.7	3.0	3.2	5.1
Chemicals & Chemicals Products	5.5	4.9	7.8	2.5	2.9	1.0
Rubber Products	6.7	7.0	6.0	7.0	6.3	7.5
Basic Metals	3.1	3.3	3.5	4.0	3.7	4.7
Electrical & Electronic Products	4.8	5.4	8.0	4.5	5.5	7.1
Computers & Peripheral Equipment	3.4	6.8	2.7	13.6	6.3	7.5
Machinery & Equipment	4.1	6.7	2.8	0.1	2.5	4.5
Motor Vehicles, Trailers & Semi-Trailers	5.4	6.4	20.2	8.9	1.7	10.7

Source: CEIC, MIDFR

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

	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
IPI: Export Oriented Industries	4.5	4.8	3.6	4.1	3.3	3.3	4.8
Electronic and Electrical Product	6.7	6.7	4.1	5.1	7.7	3.9	5.2
Chemicals and Chemical Pdts	4.3	6.3	3.8	4.6	6.8	3.4	3.9
Petroleum Products	(1.2)	3.1	3.1	1.5	0.7	3.4	3.4
Textiles & Wearing Apparel	3.5	3.9	2.1	6.1	3.6	2.9	2.2
Wood and Wood Products	4.7	1.9	1.8	4.8	5.1	7.0	9.1
Rubber Products	(0.5)	(1.5)	6.9	6.3	5.3	5.3	5.2
Off Estate Processing	12.7	2.5	0.4	(0.3)	(19.9)	(3.3)	7.4
Paper Products	5.9	2.4	4.6	6.1	6.7	5.9	2.3
IPI: Domestic Oriented Industries	3.1	6.6	5.4	5.5	9.7	6.4	4.7
Construction (CO)	4.4	5.3	4.8	5.1	5.5	4.9	4.8
CO: Non Metallic Mineral	5.2	5.4	5.9	5.8	7.5	5.3	5.4
CO: Iron and Steel	4.1	3.5	3.1	3.3	3.5	4.0	3.7
CO: Fabricated Metal	4.0	6.3	4.8	5.6	5.3	5.2	5.1
Consumer (CS)	2.1	7.7	5.9	5.9	13.5	7.6	4.6
CS: Food Products	2.7	6.6	5.7	7.0	16.0	7.2	6.7
CS: Transport Equipment	5.6	8.7	8.2	6.1	18.1	9.0	1.6
CS: Beverages	2.2	7.5	4.3	4.6	3.7	3.4	4.2
CS: Tobacco Products	(1.2)	1.5	1.7	1.9	2.6	2.3	3.3
CS: Others	(5.8)	9.7	3.3	4.8	5.8	7.9	7.2

Source: CEIC, MIDFR

*Data available as of Sep-18

Manufacturing sales grow at steady pace. Manufacturing sales rose by 10.2%yoy in Oct-18, highest since Jan-18. The steady trend is in line with re-exports growth of 39.7%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 10.2%yoy while employment grew steadily at 2.2%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%)

	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
Sales;	5.5	7.8	9.6	8.1	8.2	10.2
Refined Petroleum Products	11.7	3.9	3.5	7.2	11.2	14.6
Diodes, Transistor & Electronic Integrated Circuits Mic	5.2	14.8	19.1	12.0	12.6	17.9
Electrical Capacitor Resistor, Circuit Board & Display Comp	10.3	9.1	12.2	10.6	8.4	13.8
Employment	1.7	2.2	2.0	1.9	1.9	2.2
Wage	10.0	10.2	10.1	9.7	9.1	10.2

Source: CEIC, MIDFR

Trade truce boosts overall global production. Towards the end of G20 summit in Argentina, Donald Trump and Xi Jinping agreed to hold tariff hike and looking forward to reach a trade deal before Mar-18. In fact, China has proposed to cut tariff on US-made cars from 40% to 15%. Moving forward, we are hopeful the trade war between the 2 largest economies would cool off and reach a deal before the deadline. Nevertheless, flip flop US trade policies under Trump-led administration remains a risk to global trade activities. Henceforth, we foresee sanguine market outlook for both developed and emerging economies particularly in the medium term. Manufacturing PMIs for global and emerging economies remain on expansionary path at 52.0 and 50.8 points respectively in Nov-18.

Table 5: Global IPI (YoY%)

	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
Malaysia	3.1	4.6	3.0	1.1	2.6	2.2	2.3	4.2
Indonesia	2.1	6.5	1.9	(12.8)	0.5	0.6	0.7	0.6
Philippines	10.6	21.9	14.9	11.0	10.9	8.0	4.5	3.3
Thailand	3.2	3.1	2.9	5.0	4.9	0.8	(2.7)	4.1
Singapore	6.9	10.9	12.8	8.3	7.3	3.6	(0.1)	4.3
India	5.3	4.5	3.8	7.0	6.5	4.7	4.5	
Japan	2.5	2.1	3.3	(1.6)	2.1	0.2	(2.5)	4.2
EU	3.0	1.9	2.4	2.5	1.1	1.1	0.9	
USA	3.6	4.8	3.0	3.5	4.2	5.5	5.7	4.0

Source: CEIC, MIDFR


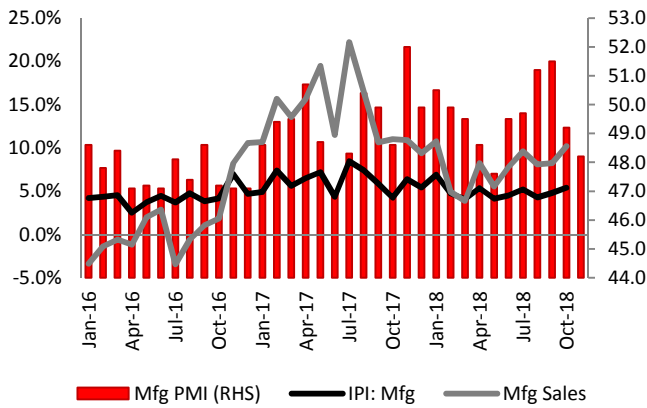
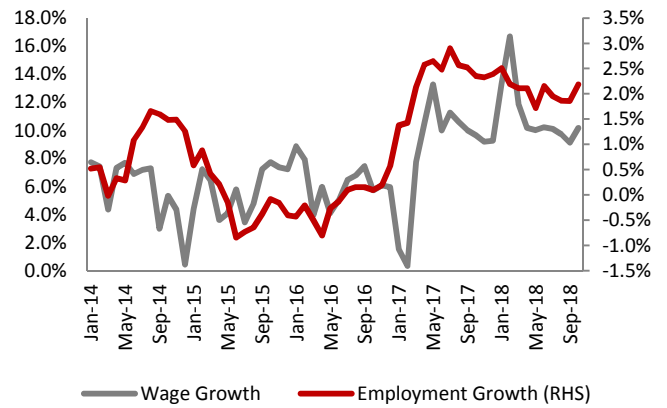
We forecast IPI growth at 2.9% for 2019. As guided by the recent Business Tendency Survey data, we believe the IPI growth will be growing between 3%-4% during the first half of 2019. Referring to the survey, services and manufacturing sectors are expected to continue to drive up Malaysia's economy while mining sector is predicted to recover modestly early next 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)



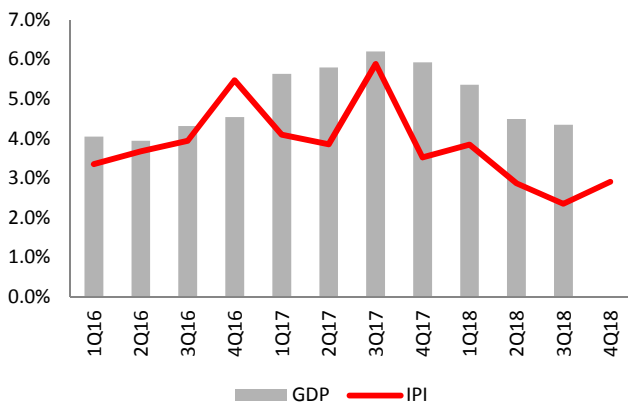
Source: CEIC, MIDFR

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



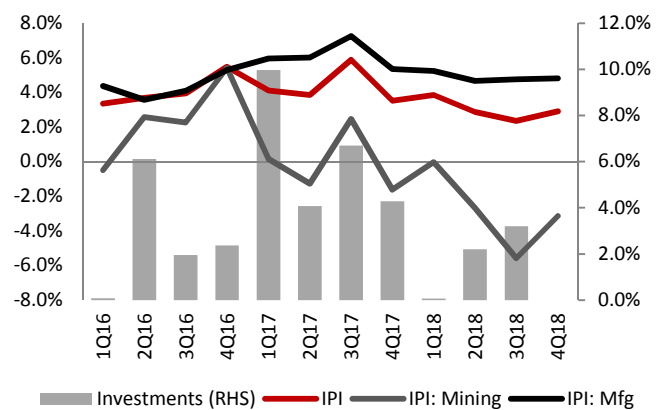
Source: CEIC, MIDFR

Chart 3: IPI vs GDP (YoY%)



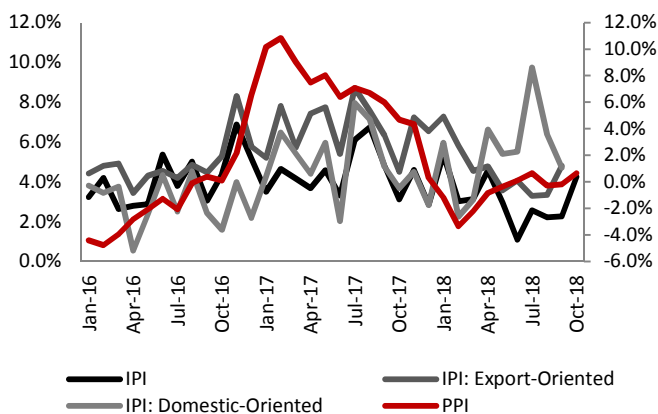
Source: CEIC, MIDFR

Chart 4: IPI vs Investments Performances (YoY%)



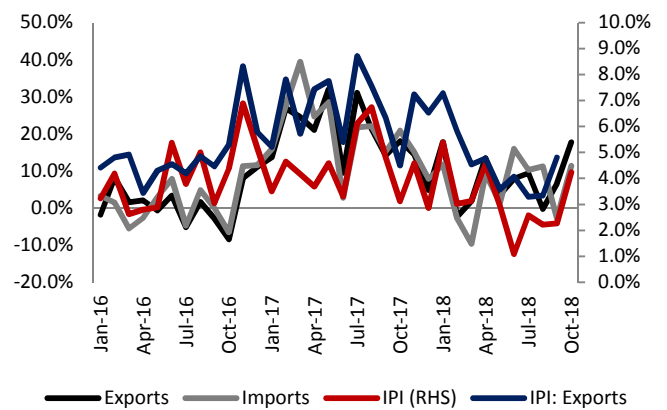
Source: CEIC, MIDFR

Chart 5: IPI vs PPI (YoY%)



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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