

ECONOMIC REVIEW | September 2017 Industrial Production Index

3Q17 IPI Growth Highest Since 2Q15 Amid Moderating Industrial Output in September – 4.7%

- *Robust expansion in overall IPI performance hints for solid economic growth in the third quarter. IPI growth in the third quarter recorded at 5.9%yoy, fastest in ten quarters. Hence, we expect Malaysia's GDP growth for the third quarter to hover above 5.5%.*
- *Manufacturing sales growth remains on double digit pace. Manufacturing sales rose by 16.5%yoy in September, recording ten consecutive months of double digit expansion. Slight slowdown in the sales growth was in line with the performance of manufactured exports.*
- *We maintain IPI growth of 5.3% for 2017. Encouraging trend of IPI growth is expected to continue for the upcoming months given that robust external trade performance continues and modest increase in commodity price will boost up industrial activity in Malaysia.*

Robust expansion in overall IPI performance hints for solid economic growth in the third quarter. In September, industrial production rose by 4.7%yoy, slightly lower than the previous two months. Similar downward trends were seen in mining, manufacturing and electricity which up by 2.1%yoy, 5.7%yoy and 2.2%yoy respectively. Nevertheless, IPI growth in the third quarter recorded at 5.9%yoy, fastest in ten quarters. Moreover, productions of mining, manufacturing and electricity grew at highest pace so far in 2017, registering 2.5%yoy, 7.1%yoy and 4.4%yoy respectively. Hence, we expect Malaysia's GDP growth for the third quarter to hover above 5.5%. Among others, strong external demand and surged in commodities prices especially petroleum products are two major factors contributing to the upbeat economic activity.

Table 1: Malaysia – Summary of Industrial Production Index

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17
Industrial Production Index	127.7	120.3	133.6	126.4	131.6	133.9	133.5	133.2	133.1
YoY%	3.5	4.7	4.5	4.1	4.6	4.0	6.0	6.8	4.7
MoM%	(1.1)	2.0	(0.6)	(0.1)	0.6	1.9	1.4	(0.1)	(1.0)
Mining Index	112.4	101.5	110.7	99.8	104.9	109.2	107.8	105.0	103.1
YoY%	1.1	0.4	2.0	(2.0)	(2.3)	2.3	0.2	5.4	2.1
MoM%	(3.2)	(0.4)	(0.8)	(2.3)	1.0	8.2	(2.2)	(2.8)	0.7
Manufacturing Index	134.3	128.5	143.5	137.6	142.6	144.7	144.2	144.9	146.3
YoY%	4.6	6.5	5.8	6.7	7.2	4.7	8.0	7.6	5.7
MoM%	0.7	2.0	(0.4)	0.5	0.2	0.0	1.4	0.1	(0.2)
Electricity Index	129.3	120.6	135.6	132.2	139.8	133.3	140.4	142.0	132.8
YoY%	1.0	1.4	(0.2)	(1.5)	2.5	2.1	7.9	3.0	2.2
MoM%	(0.7)	0.5	(2.7)	0.2	3.3	(1.4)	5.6	(1.5)	(2.1)

Source: DOSM, MIDFR

*MoM is seasonally adjusted figures

Steady upward momentum continues. In tandem with external trade performance, productions of manufactured goods stay on expanding at moderating pace. Amid of unfavourable base effect, we noticed slight slowing down in term of pace in manufacturing as well as mining activities. In spite of this, we opine upbeat momentum in external trade activities will remain given that global economic activities in particular in the US and China are indicating positive developments. For example, Trump’s proposed tax cut plan and reaffirmation of China’s long term economic vision to rebalance its economy from export-led to consumption-led will have significant impacts on Malaysia’s exports. On a flip side, mining production which supported by crude petroleum and natural gas surged by 0.7%yoy and 3.9%yoy respectively in September. 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 %)

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17
Crude Petroleum	(2.4)	(4.7)	(2.6)	(6.6)	(5.4)	0.8	(3.8)	(1.6)	0.7
Natural Gas	5.3	7.0	7.8	4.1	1.4	4.4	5.5	14.6	3.9
Food, Beverages & Tobacco	6.8	16.0	5.6	15.5	12.9	6.7	19.1	9.4	8.0
Textiles, Wearing Apparel, Leather Product, Footwear	6.7	7.8	7.0	6.4	7.6	8.5	9.5	9.0	8.6
Wood Products, Furniture, Paper Products, Printing	8.8	11.3	10.3	7.1	8.4	2.1	4.0	2.0	1.3
Petroleum, Chemical, Rubber & Plastic Products	2.3	3.7	3.7	3.0	3.1	2.8	3.8	7.0	4.9
Non-Metallic Mineral, Basic & Fabricated Metal Prod	2.7	4.0	4.0	4.2	4.4	4.2	7.6	7.1	4.5
Electrical & Electronic Products	6.9	8.5	8.5	9.6	11.6	8.3	10.5	8.7	6.7
Transport Equipment & Other Manufactures	3.2	1.7	6.2	5.1	6.9	(1.0)	6.8	9.9	8.2

Source: DOSM, MIDF

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

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17
Export Oriented Industries	5.2	7.1	5.9	7.6	7.8	5.4	8.2	7.6
Electronic and Electrical Product	7.0	8.1	8.5	9.8	11.7	8.4	10.6	8.7
Chemicals and Chemical Products	2.2	4.1	3.6	3.7	2.5	3.9	4.2	3.3
Petroleum Products	1.8	2.2	3.3	1.6	2.2	1.5	3.1	10.2
Textiles & Wearing Apparel	6.7	7.8	7.0	6.4	7.6	8.5	9.6	9.0
Wood and Wood Products	9.5	9.4	11.5	7.8	9.4	3.5	4.7	3.1
Rubber Products	5.6	11.1	4.2	7.2	10.7	5.4	5.2	7.1
Domestic Oriented Industries	2.5	4.3	5.7	4.2	5.6	2.6	7.2	7.6
Construction	2.7	3.9	4.0	4.3	4.4	4.1	7.6	7.1
Consumer	2.3	4.7	7.4	4.1	6.7	1.1	6.9	8.1
Food Products	0.4	7.3	7.4	1.9	5.9	3.0	7.6	6.4
Transport Equipment	3.2	1.7	6.2	5.0	6.9	(1.0)	6.8	9.9
Beverages	5.3	17.1	18.7	9.5	11.8	7.7	8.6	11.2
Tobacco Products	2.7	2.4	3.3	2.1	2.5	2.0	2.6	(2.3)
Others	(5.6)	4.9	3.7	(6.0)	(4.0)	(8.4)	(4.8)	3.6

Source: DOSM, MIDFR

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

Manufacturing sales growth remains on double digit pace. Manufacturing sales rose by 16.5%yoy in September, recording ten consecutive months of double digit expansion. Slight slowdown in the sales growth was in line with the performance of manufactured exports. On the other hand, employment and wage growth in the sector remains stable. Wages of the sector rose by 10%yoy in September, sixth consecutive months of double digit growth. Additionally, employment growth remain on up-trend since November last year. Employment growth in September recorded at 2.5%yoy. For that reason, we opine better uptick in both wages and employment in the manufacturing provides a bright outlook for the economic activities in the second half 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%)

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17
Manufacturing Sales	10.7	15.7	13.6	15.6	19.5	11.5	22.2	16.5	10.7
Employment	1.4	1.4	2.1	2.6	2.7	2.5	2.9	2.6	2.5
Wage	1.5	0.3	7.8	10.5	13.3	10.0	11.3	10.6	10.0

Source: CEIC; MIDFR

Back to work in the US. As hurricanes Harvey and Irma end, manufacturing activity in particular refineries and petroleum-based factories return to operation in September as industrial production expanded by 1.5%yoy in September. In line with the US's manufacturing PMI figure which rose to 53.1 points in September from 52.8 points in August. Looking forward, we foresee the US's IPI growth will continue increasing at steady pace due to upward trend in the PMI figure and sanguine business environment amid of proposed huge tax cut under Trump's fiscal policy. Across the board, manufacturing PMI of global and emerging economies stay on upward trajectory recording at 53.5 and 51.2 points respectively in October. Hence, we expect industrial production in developed and developing economies will expand at healthy pace in October.

Table 5: Global IPI (YoY %)

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17
Malaysia	3.5	4.8	4.5	4.1	4.6	4.0	6.0	6.8	4.7
Indonesia	3.4	3.8	6.1	6.4	6.6	(0.5)	3.3	2.3	
Thailand	2.2	(1.1)	0.0	(1.8)	1.6	(0.3)	3.4	4.2	4.2
Philippines	13.6	8.2	11.7	1.3	7.2	4.7	(2.0)	2.4	
Singapore	4.0	10.2	11.4	6.7	4.6	13.7	21.6	19.5	14.6
EU	1.1	2.1	2.8	1.3	4.1	3.0	3.4	3.8	
China	2.9	10.3	7.6	6.5	6.5	7.6	6.4	6.0	6.6
Japan	3.2	4.7	3.5	5.7	6.5	5.5	4.7	5.3	2.5
United States	(0.1)	0.3	1.9	0.8	2.2	1.9	2.0	0.9	1.5

Source: CEIC; MIDFR


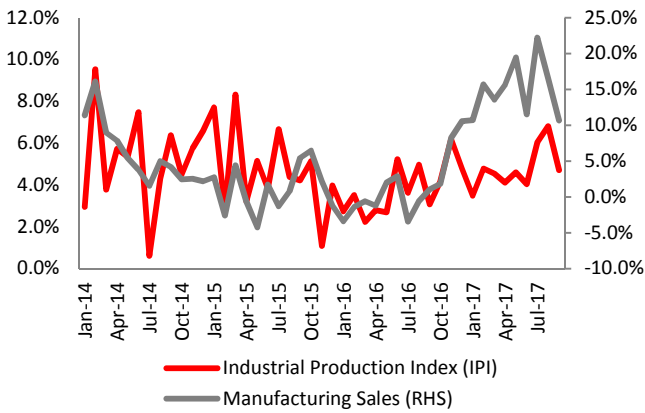
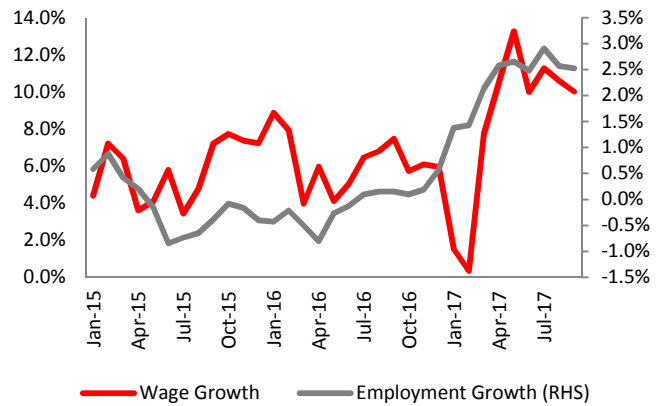
We maintain IPI growth of 5.3% for 2017. Encouraging trend of IPI growth is expected to continue for the upcoming months given that robust external trade performance continues and modest increase in commodity price will boost up industrial activity in Malaysia. Due to strong export performances for the past nine 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 5.3% in 2017. 

Chart 1: IPI vs Manufacturing Sales (YoY%)



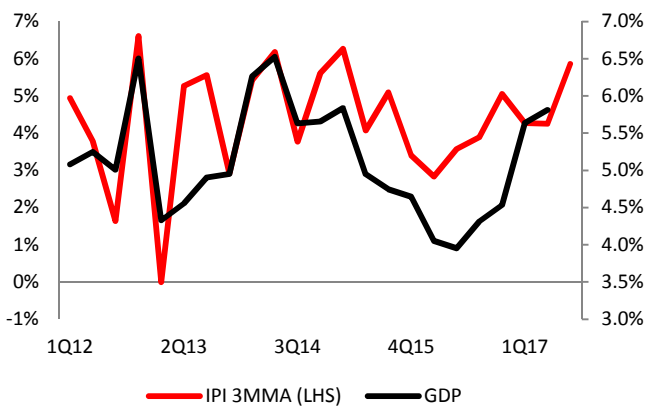
Source: DOSM, MIDFR

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



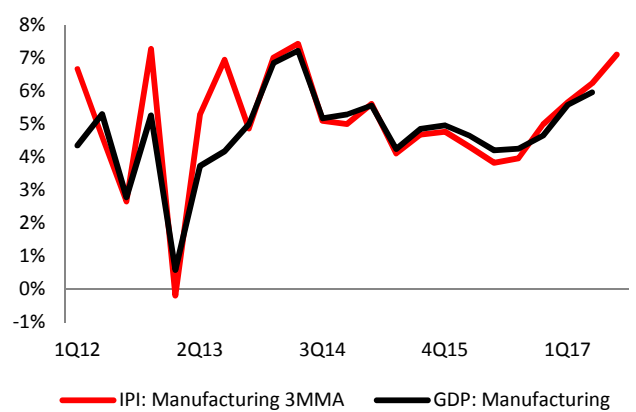
Source: DOSM, MIDFR

Chart 3: IPI vs GDP (YoY%)



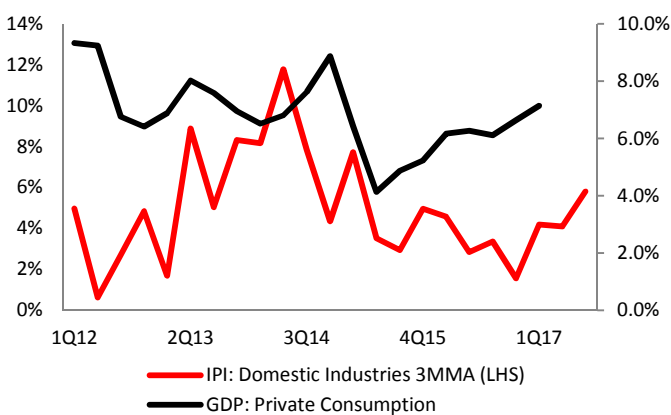
Source: DOSM, MIDFR

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



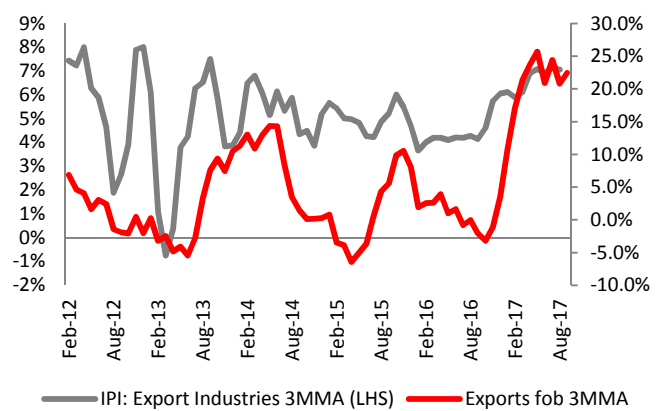
Source: DOSM, MIDFR

Chart 5: Domestic IPI vs Private Consumption (YoY%)



Source: DOSM, MIDFR

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



Source: DOSM, MIDFR

**MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)**

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.