

ECONOMIC REVIEW | September 2018 Industrial Production Index

Easing IPI Performance Signals Moderating GDP Growth in 3Q18

- *IPI growth was slightly below market estimates. Malaysia's industrial production expands by 2.3%yoy in Sep-18, lower than market estimates of 2.4%yoy. By major components, manufacturing and electricity outputs were up 4.7%yoy and 4.2%yoy respectively while mining continues declining for 5-consecutive months. On quarterly performance, overall IPI growth indicates further moderation in GDP expansion pace in the third quarter.*
- *US Mid-term elections and China's import tariff cut cue for stronger global trade. Higher dominance of Democrats in both the Senate and House in the US would give significant challenge for Trump-led administration to further escalate its protectionist trade policies as well as populist measures. It is an indirect boost to market confidence and global trade activities.*
- *We forecast IPI growth at 3.8% for 2018. As guided by the recent Business Tendency Survey data, we believe the IPI growth will be growing between 3%-4% during the second half of 2018. Among others, steady external trade performance, upbeat domestic demand and gradual increase in energy prices will boost up industrial activity in Malaysia.*

IPI growth slightly below market estimates. Malaysia's industrial production expands by 2.3%yoy in Sep-18, lower than market estimates of 2.4%yoy. By major components, manufacturing and electricity outputs were up 4.7%yoy and 4.2%yoy respectively while mining continues to decline for 5-consecutive months. On quarterly performance, overall IPI growth indicates further moderation in GDP expansion pace in the third quarter. Contraction in mining output at -5.6%yoy during 3Q18 is the major dragging factor whereas factory and electricity output increase at a steady pace. The modest pick-up in IPI performance is in tandem with the improvement of Malaysia's external trade in Sep-18. Moving forward, we foresee IPI performance to expand at steady pace for the fourth quarter of 2018 and 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%			
	Jun-18	Jul-18	Aug-18	Sep-18	Jun-18	Jul-18	Aug-18	Sep-18
IPI	(1.0)	2.6	(0.4)	(0.4)	1.1	2.5	2.2	2.3
Mining	(3.7)	1.4	5.7	(5.9)	(9.4)	(5.9)	(4.7)	(6.3)
Manufacturing	(0.3)	3.1	(2.4)	1.6	4.6	5.2	4.2	4.7
Electricity	0.4	3.9	(3.0)	1.4	3.0	4.5	4.0	4.2

Source: CEIC, MIDFR

*MoM is Seasonally Adjusted

Improvement in exports boost IPI performance. Malaysia's total and domestic exports expand by 6.7%yoy and 3.4%yoy respectively during the month. The rebound is mainly due to outbound shipments of manufactured goods. Henceforth, this translates into higher production of major industrial products such as refined petroleum, E&E, machinery & equipment and computers & peripheral equipment. On a flip side, mining output, especially crude petroleum and natural gas remain in negative territories, at -6.4%yoy and -6.2%yoy respectively in Sep-18. Looking ahead, we view IPI performance in the final quarter of 2018 to be in good position as the latest US mid-term elections would result in softer protectionist stance in the US, stronger demand from China and optimistic business environment globally. Domestically, the tabling of the Midterm Review of 11th Malaysia Plan and Budget 2019 provide clearer economic direction of the economy at least for the next 2 years.

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

	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
Mining;	1.9	(0.4)	(9.4)	(5.9)	(4.7)	(6.3)
Mining: Crude Petroleum	4.4	4.8	(2.2)	4.4	(0.6)	(6.4)
Mining: Natural Gas	(0.4)	(4.8)	(15.7)	(15.2)	(7.9)	(6.2)
Manufacturing;	5.4	4.1	4.6	5.2	4.2	4.7
Food Products	4.6	3.4	3.5	(3.7)	2.0	7.3
Refined Petroleum Products	2.9	3.0	1.5	0.8	3.0	3.1
Chemicals & Chemicals Products	6.0	5.5	4.9	7.8	2.5	2.9
Rubber Products	(0.3)	6.7	7.0	6.1	7.0	6.4
Basic Metals	3.5	3.1	3.3	3.5	4.0	3.7
Electrical & Electronic Products	7.1	4.8	5.5	8.0	4.6	5.4
Computers & Peripheral Equipment	(2.0)	3.5	6.8	2.8	13.7	6.3
Machinery & Equipment	5.8	4.1	6.6	2.8	0.0	2.5
Motor Vehicles, Trailers & Semi-Trailers	9.8	5.4	6.4	20.1	8.9	1.7

Source: CEIC, MIDFR

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

	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
IPI: Export Oriented Industries	5.8	4.5	4.8	3.6	4.1	3.9	3.3
Electronic and Electrical Product	5.7	6.7	6.7	4.1	5.1	7.7	3.9
Chemicals and Chemical Pdts	7.4	4.3	6.3	3.8	4.6	6.8	3.4
Petroleum Products	7.8	(1.2)	3.1	3.1	1.5	0.7	3.4
Textiles & Wearing Apparel	7.1	3.5	3.9	2.1	6.1	25.2	2.9
Wood and Wood Products	4.0	4.7	1.9	1.8	4.8	5.1	7.0
Rubber Products	3.0	(0.5)	(1.5)	6.9	6.3	5.3	5.3
Off Estate Processing	0.4	12.7	2.5	0.4	(0.3)	(19.9)	(3.3)
Paper Products	2.9	5.9	2.4	4.6	6.1	6.7	5.9
IPI: Domestic Oriented Industries	2.2	3.1	6.6	5.4	5.5	9.7	6.4
Construction (CO)	4.9	4.4	5.3	4.8	5.1	5.5	4.9
CO: Non Metallic Mineral	5.6	5.2	5.4	5.9	5.8	7.5	5.3
CO: Iron and Steel	6.0	4.1	3.5	3.1	3.3	3.5	4.0
CO: Fabricated Metal	3.8	4.0	6.3	4.8	5.6	5.3	5.2
Consumer (CS)	0.3	2.1	7.7	5.9	5.9	13.5	7.6
CS: Food Products	3.4	2.7	6.6	5.7	7.0	16.0	7.2
CS: Transport Equipment	(4.3)	5.6	8.7	8.2	6.1	18.1	9.0
CS: Beverages	2.0	2.2	7.5	4.3	4.6	3.7	3.4
CS: Tobacco Products	0.2	(1.2)	1.5	1.7	1.9	2.6	2.3
CS: Others	3.9	(5.8)	9.7	3.3	4.8	5.8	7.9

Source: CEIC, MIDFR

*Data available as of Aug-18

Manufacturing sales grow at steady pace. Manufacturing sales rose by 8.2%yoy in Sep-18, slightly higher than previous month. The steady trend is in line with re-exports growth of 22%yoy during the month. Among others, sales of refined petroleum and E&E products support the solid manufacturing sales performance. On a different note, wage growth of the sector grew by 9.1%yoy while employment grew steadily at 1.9%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 2H18.

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

	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
Sales;	8.2	5.5	7.8	9.6	8.1	8.2
Refined Petroleum Products	9.4	11.7	3.9	3.5	7.2	11.2
Diodes, Transistor & Electronic Integrated Circuits Mic	16.0	5.2	14.8	19.1	12.0	12.6
Electrical Capacitor Resistor, Circuit Board & Display Comp	22.6	10.3	9.1	12.2	10.6	8.4
Employment	2.1	1.7	2.2	2.0	1.9	1.9
Wage	10.2	10.0	10.2	10.1	9.7	9.1

Source: CEIC, MIDFR

US Mid-term elections and China's import tariff cut cue for stronger global trade. Higher dominance of Democrats in both the Senate and House in the US would provide significant challenge for Trump-led administration to escalate its protectionist trade policies as well as populist measures. It is an indirect boost to market confidence and global trade activities. In Sep-18, IPI growth in the US registered at 8-year high of 5.2%yoy. Across the globe, China announced in late Sep-18, its plan to reduce overall import tariff rate from 9.8% to 7.5%. In addition, Chinese external trade performance expands at robust speed in Oct-18 as exports grow by 15%yoy, fastest in 8-month while imports growth at 21.5%yoy, 8-consecutive months of double digit expansion rate. Henceforth, we foresee sanguine market outlook for both developed and emerging economies particularly in the medium terms. Manufacturing PMI for global and emerging economies remains on expansionary path, 52.5 and 50.5 points respectively in Oct-18.

Table 5: Global IPI (YoY%)

	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
Malaysia	3.0	3.1	4.5	3.0	1.1	2.5	2.2	2.3
Indonesia	5.5	2.1	7.0	6.0	(4.0)	3.9	4.9	
Philippines	15.6	10.6	22.6	15.3	12.0	12.1	8.6	3.7
Thailand	4.6	3.2	3.1	2.9	5.0	4.9	0.8	(2.6)
Singapore	7.4	7.1	11.0	13.0	8.4	7.3	3.7	(0.2)
Korea	(1.2)	(0.6)	1.9	1.7	0.2	1.4	1.6	(4.8)
Japan	1.6	2.4	2.6	4.2	(0.9)	2.2	0.2	(2.9)
EU	2.8	3.0	1.9	2.6	2.6	1.0	1.2	
USA	3.9	3.6	4.8	3.0	3.5	4.1	4.9	5.2

Source: CEIC, MIDFR


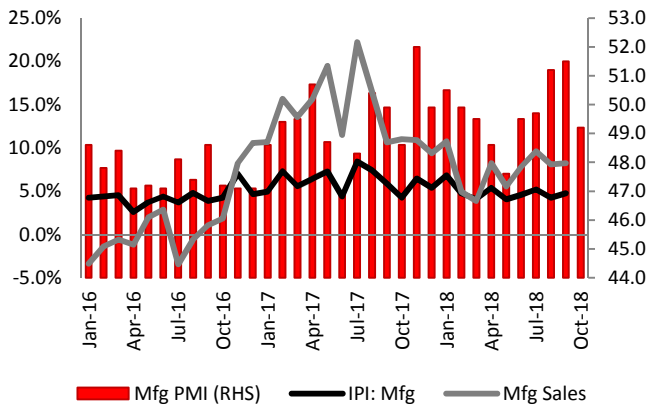
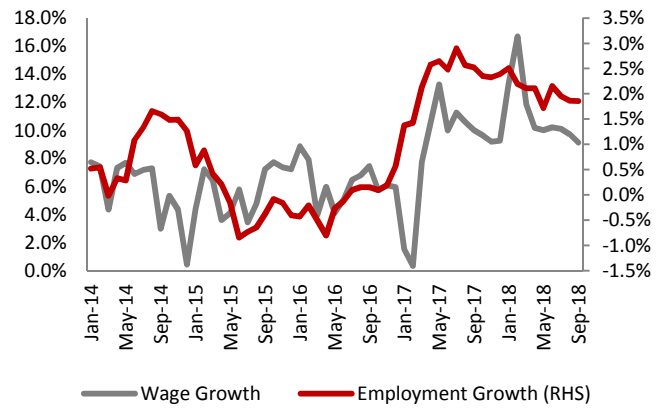
We forecast IPI growth at 3.8% for 2018. As guided by the recent Business Tendency Survey data, we believe the IPI growth will be growing between 3%-4% during the second half of 2018. Among others, steady external trade performance, upbeat domestic demand and gradual increase in energy prices will boost 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 3.8% in 2018. 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)



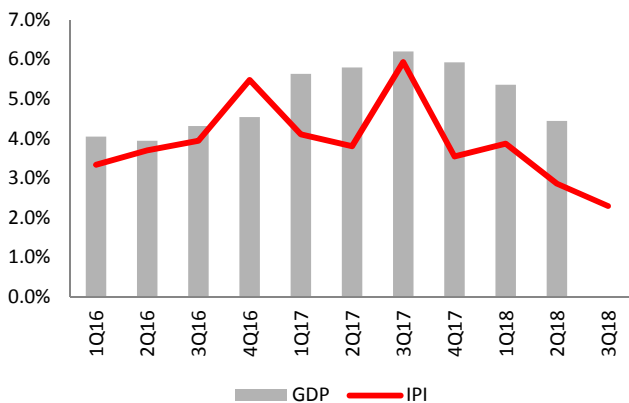
Source: CEIC, MIDFR

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



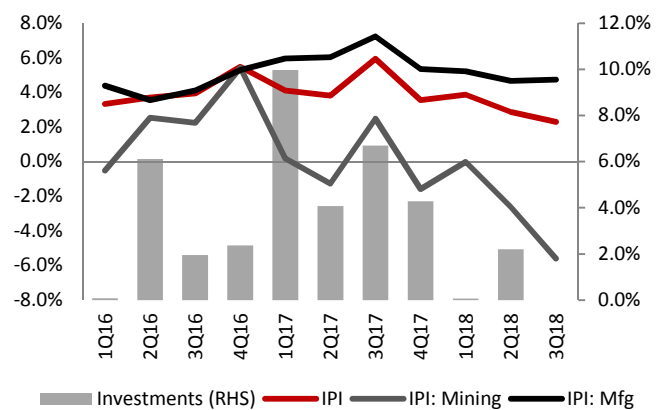
Source: CEIC, MIDFR

Chart 3: IPI vs GDP (YoY%)



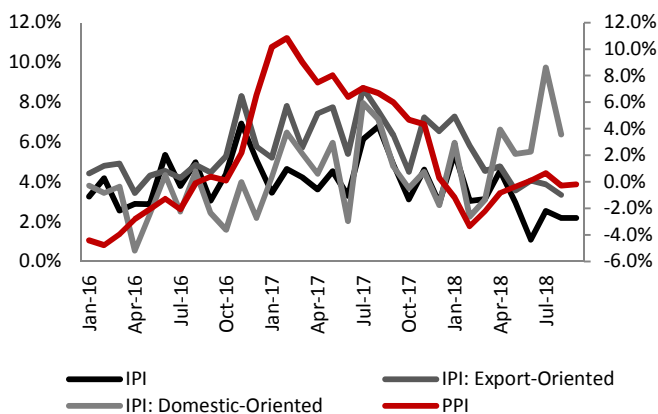
Source: CEIC, MIDFR

Chart 4: IPI vs Investments Performances (YoY%)



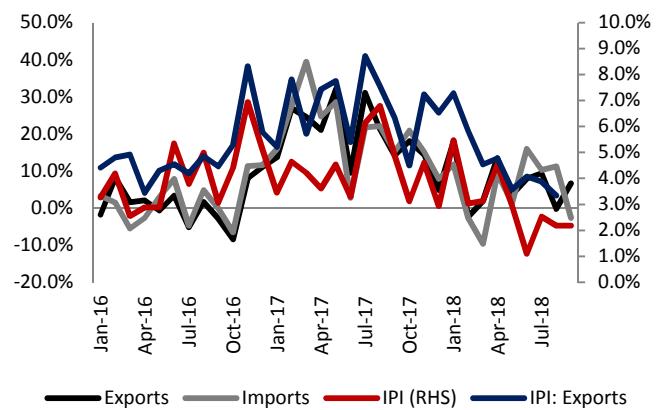
Source: CEIC, MIDFR

Chart 5: IPI vs PPI (YoY%)



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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