

## ECONOMIC UPDATE

### MALAYSIA – April IPI: Adjusting slower in line with trend

- *The IPI posted slower expansion following the strong surge in March that puts its expansion more in line with the long-term trend consistent with the 4.5 – 5.0% growth that we have projected for Malaysia. Growth was again driven by the Manufacturing sector which had pulled back a bit but relatively still strong despite the current weak external demand. Meanwhile, the Mining sector lost a great deal of momentum led by sharper decline in natural gas production.*
- *We continue to hold the view that the index is set to average at around 4.0 – 5.0% in the 2H 15 (1H 15: 5.0 – 5.5). That would bring the overall growth for 2015 to average at around 5.0 – 5.5%. That is still in line with our call of 4.7% growth for real GDP this year.*

**IPI eased after a strong surge in preceding month.** The overall index IPI growth eased to 4.0%yoy after rising by a robust 6.9% in March, close to our (4.3%) and consensus expectation (4.5%). The pullback may appear rather significant however it is worth to note that the pace had been relatively robust in the first few months. Despite the slower expansion, the pace of growth during the month reflects more of the long-term trend that is consistent with the 4.5 – 5.0% growth that we have projected for Malaysia.

**The Manufacturing sector remained as the main growth driver, contributing 2.9p.p.** The sub-index for Manufacturing recorded slower growth of 4.15 (March: 6.3%) in that it almost represent the movements in the overall index. It contributed 2.9p.p. or about 73% of the increase in the overall IPI. The slowdown could be on the back of downward adjustment following a strong recovery in production in March following the long Chinese New Year holidays.

**The Mining sector growth declined sharply on further pullback in the Natural Gas index.** The overall index rose by 3.9%yoy against 9.2% in March. As we had expected, the production of Crude Oil would eventually recorded slower increase as the base factor effect kicks in. The Crude Oil index growth eased from 20.3%yoy in March to 15.0% in April. On the other hand, the Natural Gas index declined further at a much faster pace of 8.1% (March: -2.4%).

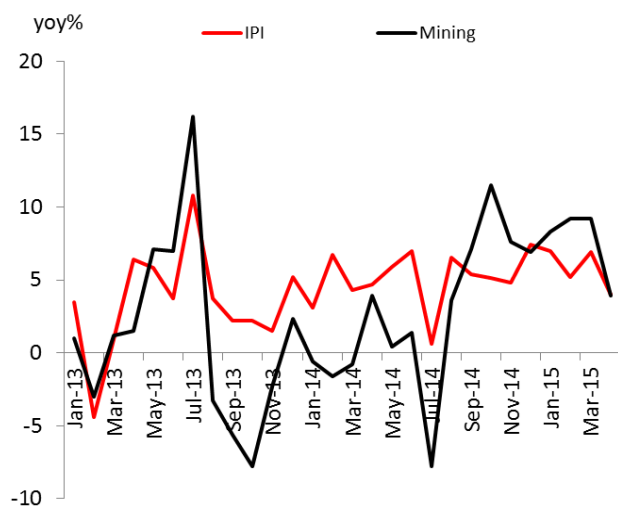
**Table 1. Malaysia – Summary of Industrial Production Index**

	Oct-14	Nov-14	Dec-14	2014	Jan-15	Feb-15	Mar-15	Apr-15
<b>Industrial Production Index</b>	<b>121.5</b>	<b>118.5</b>	<b>123.8</b>	<b>116.0</b>	<b>119.5</b>	<b>110.6</b>	<b>124.0</b>	<b>117.9</b>
% YoY	5.1	4.8	7.4	5.2	7.0	5.2	6.9	4.0
% MoM	3.6	(2.5)	4.6	--	(3.5)	(0.1)	0.6	-0.4
<b>Mining Index</b>	<b>104.4</b>	<b>107.5</b>	<b>109.5</b>	<b>99.5</b>	<b>110.5</b>	<b>100.0</b>	<b>110.5</b>	<b>101.1</b>
% YoY	11.5	7.6	6.9	2.6	8.3	9.2	9.2	3.9
% MoM	7.7	2.9	1.9	--	0.9	(0.3)	1.2	-1.9
<b>Manufacturing Index</b>	<b>129</b>	<b>123.6</b>	<b>130.5</b>	<b>123.0</b>	<b>123.5</b>	<b>115.5</b>	<b>129.8</b>	<b>124.8</b>
%YoY	3.2	3.7	7.9	6.0	6.5	4.0	6.3	4.1
%MoM	2.3	(4.3)	5.6	--	(5.5)	(0.3)	1.2	-1.0
<b>Electricity Index</b>	<b>120.6</b>	<b>116</b>	<b>117.8</b>	<b>118.4</b>	<b>118.8</b>	<b>107.6</b>	<b>126.2</b>	<b>122.6</b>
% YoY	3.4	3.2	3.0	4.7	6.3	1.9	3.8	3.0
% MoM	2.0	(4.0)	1.6	--	0.9	(2.6)	2.3	-1.0

Source: Department of Statistics, Malaysia; MIDF Research

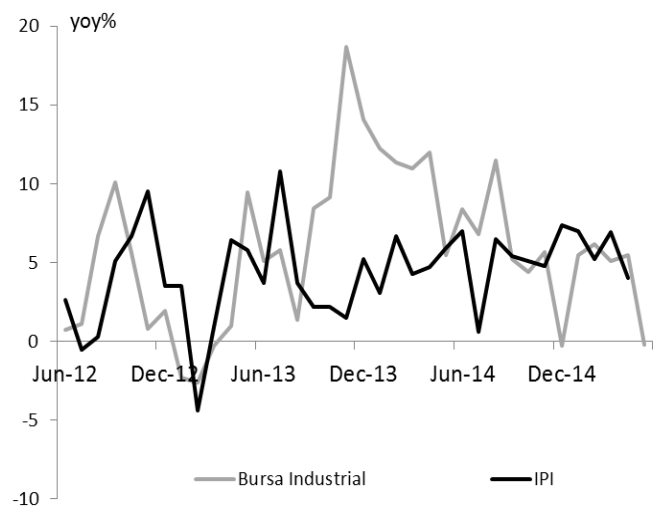
**We continue to hold the view that the index is set to average at around 4.0 – 5.0% in the 2H 15 (1H 15: 5.0 – 5.5).** That is indicated by the forward-looking indicators as well as in view of the likely flattish manufacturing exports demand in the months ahead as the ongoing recovery in the US would be much offset by the slackening China’s demand. The IPI would thus record average growth for the whole of 2015 of 5.0 – 5.5%. That is still in line with our call of 4.7% growth for real GDP this year.

**Chart 1: IPI and the Manufacturing index moving in tandem**



Source: DoS, BNM

**Chart 2: Leading indicator showed IPI may move within the 4.0 – 5.0% range in the months ahead**



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