

## ECONOMIC REVIEW | August 2015 Industrial Production Index

### Lower Natural Gas Production but Other Industries Improve

- IPI grew by 3.0% in August, significantly lower than the high growth of 6.1% in July. However both figures were highly affected by natural gas production, which we believe will start to normalize in the coming months.
- Mining index contracted by 3.4%yoy in August, after a surge by 14.0%yoy in the previous month. On the other hand, manufacturing index increased by 4.3%yoy while electricity index jumped to 15.9%yoy.
- For the period Jan-Aug 2015, IPI grew by 5.2% relative to the same period last year. We maintain our earlier target of 5.0-5.5% of IPI growth for the year 2015.

**IPI shrunk due to low natural gas production.** IPI shrunk to 119.7 in August, leading to a lower growth of 3.0%yoy for the month, significantly lower than 6.1%yoy growth in July. However there is nothing alarming with the difference between the two figures, as the high year-on-year growth in July 2015 was caused by a low natural gas production in July 2014. On the other hand, the low year-on-year growth in August 2015 is caused by low natural gas production for the month, which we believe is transitory in nature and IPI will return to 4.5-5.5% growth in the coming months. On a seasonally adjusted basis, IPI contracted by 0.9% on month-on-month basis, in line with our earlier expectation for a flattish figure.

**E&E production returns to double digit growth.** E&E production grew by 11.8%yoy in August, the first double digit growth in five months. The depreciation of Ringgit and strong demand for our E&E products from US and China could have contributed to the rebound for E&E production in August. Both countries are currently having very strong consumer spending power; as such we believe our E&E production will continue to grow positively in the coming months due to the high demand from these top two world economy.

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

	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Jan-Aug 15 (Average)
<b>Industrial Production Index</b>	<b>110.6</b>	<b>124.3</b>	<b>117.9</b>	<b>122.4</b>	<b>122.3</b>	<b>120.8</b>	<b>119.7</b>	<b>119.7</b>
% YoY	5.1	7.2	4.1	4.5	4.4	6.1	3.0	5.2
%MoM	(7.4)	12.4	(5.1)	3.8	(0.1)	(1.2)	(1.0)	-
<b>Mining Index</b>	<b>100.0</b>	<b>111.3</b>	<b>101.1</b>	<b>108.6</b>	<b>100.3</b>	<b>101.5</b>	<b>95.5</b>	<b>103.6</b>
% YoY	9.3	10.0	3.9	9.0	3.9	14.0	(3.4)	6.9
% MoM	(9.5)	11.3	(9.2)	7.4	(7.6)	1.2	(5.9)	-
<b>Manufacturing Index</b>	<b>115.5</b>	<b>129.8</b>	<b>124.9</b>	<b>128.3</b>	<b>132.1</b>	<b>129.3</b>	<b>128.7</b>	<b>126.5</b>
% YoY	4.0	6.3	4.2	3.2	4.9	4.2	4.3	4.7
% MoM	(6.5)	12.4	(3.8)	2.7	3.0	(2.1)	(0.5)	-
<b>Electricity Index</b>	<b>107.6</b>	<b>126.2</b>	<b>122.6</b>	<b>124.4</b>	<b>120.1</b>	<b>121.4</b>	<b>140.2</b>	<b>122.7</b>
% YoY	1.9	3.8	2.9	1.2	(2.4)	(1.2)	15.9	3.5
% MoM	(9.4)	17.3	(2.9)	1.5	(3.5)	1.1	15.5	-

Source: Department of Statistics, Malaysia; MIDF Research

**Despite the overall decrease, most of the sectors are growing.** Out of all 130 smallest sub-index of manufacturing activity, 74 of the indices had a positive growth year-on-year, higher than previous month's of 70 sub-indices. On the other hand, due to the lower production for most sectors in July, 75 of the sectors are having higher growth in August on month-on-month basis, compared to 55 sub-indices in July. The weaker Ringgit might have contributed through higher demand for our products, leading to a surge in industrial production activity in August. On a seasonally adjusted basis, the manufacturing index grew by 2.0% on month-on-month basis.

**IPI is expected to remain flat for the rest of the year.** Moving forward, we are expecting that IPI will remain flat for the rest of the year. Although there could be an uptick due to the possibility of gradual recovery in the global economy and higher domestic demand as the impact of GST begins to wear off, the low consumer and business sentiment will remain and as such it is unlikely that there will be a huge jump in the industrial production. Hence we maintain our earlier target of 5.0-5.5% IPI growth for the year 2015 with a bias towards the lower side.



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