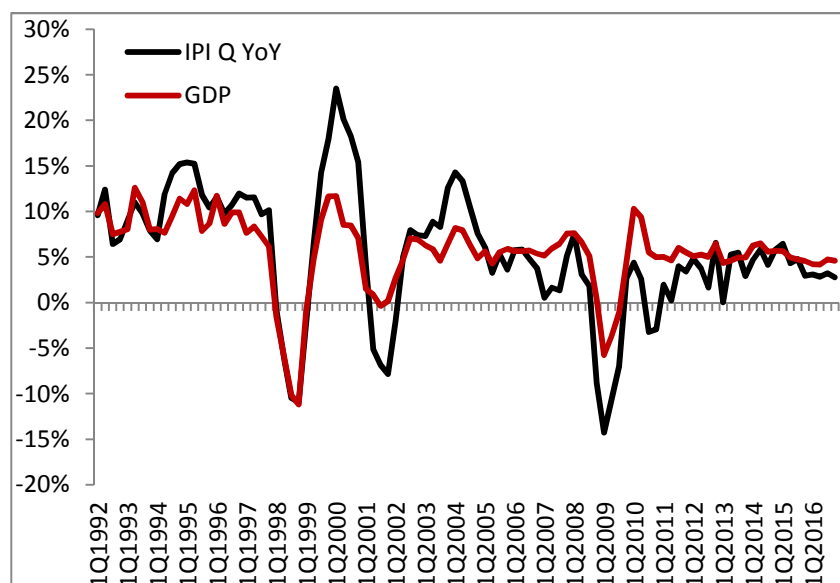


ECONOMIC REVIEW | December 2015 Industrial Production Index

IPI to Moderate in 2016 due to Expected Slower Economic Growth

- *IPI reach record figure in December supported by front loading production. IPI was recorded at 127.2 in December, expanding by 2.8%yoy due to robust production in manufacturing and utilities.*
- *Overall the expectation for year 2016 has been downbeat, as we are not expecting much progress in the global trade activity and domestic demand is likely to remain weak due to the low employment and consumer sentiment index.*
- *We are expecting a slower economic growth in 2016 at 4.4% and consequently revising our IPI forecast to 3.0% - 3.5%.*

IPI reach record figure in December supported by front loading production. IPI was recorded at 127.2 in December, expanding by 2.8%yoy supported by robust production in manufacturing and utilities. Both sectors expanded by 4.1%yoy and 5.6%yoy respectively while mining continued to contract for the third straight months at 1.6%yoy. The overall production growth could be largely seasonal as front loading usually occurs in December to meet up demand for the upcoming festive period of New Year, Thaipusam and Chinese New Year. This was evident by looking at the seasonally adjusted data which shows IPI expanded strongly in the past 4 years in December.



Production to moderate in 2016 due to expected slower economic growth. Overall the expectation for year 2016 has been downbeat, as we are not expecting much progress in the global trade activity and domestic demand is likely to remain weak due to the slow growth in employment and income and high living cost.

E&E production could expand faster in 2016 based on better projected growth for semi-conductors industry by WSTS. E&E exports grew by 8.5% in 2015 whilst production expanded by 9.1% for the same period. The World Semiconductor Trade Statistics (WSTS) projected a better growth figure in 2016 at 1.4%

compared to 0.2% in 2015 citing the assumption of a rebound in the macro health of the global economy. However, we believe there is a substantial downside risk to the forecast made by WSTS due to turbulence in the global economy of late driven by volatile financial markets; weak commodities market which hurt emerging markets and the continued slowdown of China.

Mining production driven by resilient crude oil sector despite contraction in LNG's sector. Production in the mining sector remained resilient despite the huge drop in crude oil and LNG in 2015. Overall, mining sector expanded by 4.7%yoy. Crude oil's production expanded by 11.1%yoy while LNG saw production decreased by 2.3%yoy. With both commodities prices are expected to remain weak in the short term, mining production is expected to contract in the first half of 2016.

Manufacturing production continued to expand but growth momentum decelerated. Manufacturing production grew by 4.9%yoy in 2015 compared to 5.9% in 2014. With most of the manufacturing are geared for exports and headwinds in the global trade to remain in 2016, manufacturing production could see weaker growth this year. The front loading effect in December is also the weakest in recent years thus pointing to further weakness in the global trade in the coming months.

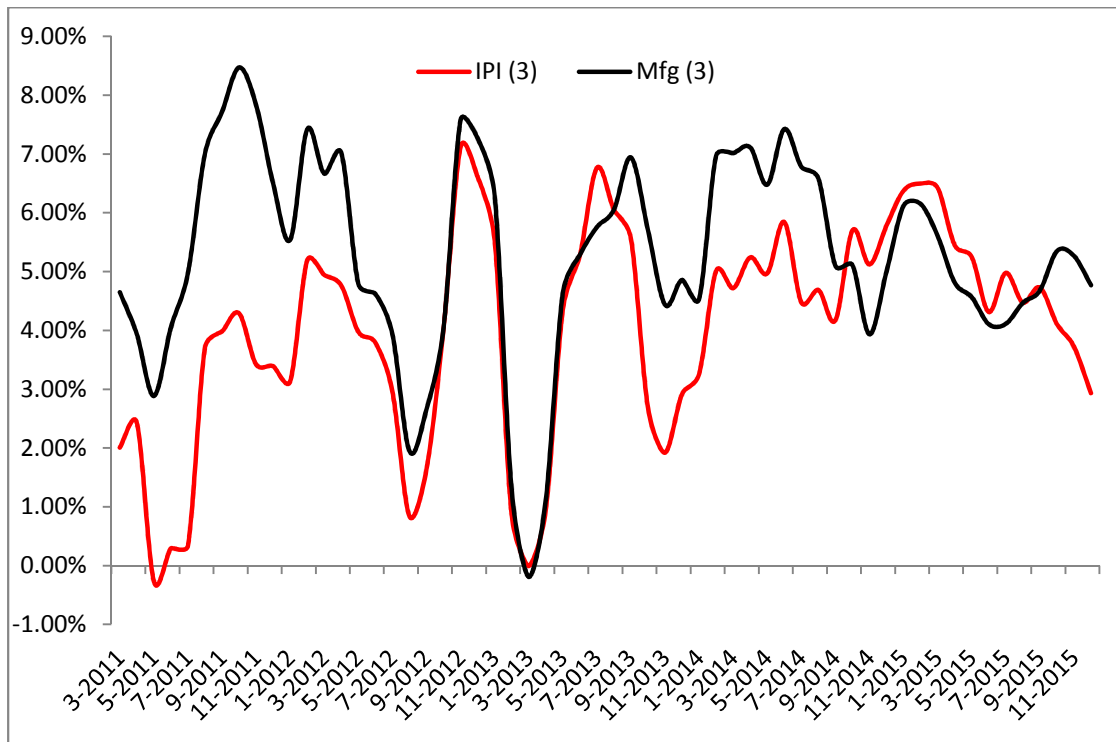


Table 1: Malaysia – Summary of Industrial Production Index

	Sep-15	Oct-15	Nov-15	Dec-15	2013	2014	2015
Industrial Production Index	123.2	126.0	120.7	127.2	109.9	115.3	120.7
% YoY	5.1	4.2	1.9	2.8	3.2	4.9	4.7
% MoM	3.6	2.8	(4.6)	5.4			
Mining Index	101.1	102.9	103.0	107.8	96.5	98.6	103.3
% YoY	4.3	(1.4)	(4.1)	(1.6)	0.8	2.2	4.7
% MoM	5.9	1.8	0.1	4.7			
Manufacturing Index	133.1	137.0	128.6	135.9	115.5	122.3	128.3
% YoY	5.5	6.2	4.1	4.1	4.0	5.9	4.9
% MoM	3.4	2.9	(6.1)	5.7			
Electricity Index	121.4	125.8	118.3	124.4	112.9	118.4	120.9
% YoY	2.6	4.3	2.0	5.6	5.4	4.9	2.1
% MoM	(1.9)	3.6	(6.0)	5.2			

Source: Department of Statistics, Malaysia; MIDF Research

We are expecting a slower economic growth in 2016 at 4.4% and consequently IPI could moderate. As IPI has always been relatively in tandem with GDP, with a tendency to overshoot, we are revising our IPI forecast to 3.0-3.5% for year 2016, reflecting an overall weaker economic activity for this year.



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