

ECONOMIC REVIEW | July 2015 Industrial Production Index

July IPI Higher Than Forecast Despite Remains Flattish

- IPI grew by 6.1%yoy in July, higher than economists' forecast of 5.0% and significantly higher than June's YoY growth of 4.4%. Despite that, the overall index remains flattish, with the seasonally adjusted IPI contracted marginally by -0.1%mom.
- Mining index experienced the highest YoY growth with 14.0%yoy and 1.2%mom. However it should be noted that the sharp increase in YoY basis was due to the fact that mining industry experienced a sharp contraction back in July 2014.
- We expect IPI continue to be flattish in August and September on a seasonally adjusted basis and began to rebound in the fourth quarter. The IPI is expected to regain its momentum once the GST rebate problem is solved, however the low consumer sentiment will put a pressure on the IPI.
- As at Jan-Jul 2015, IPI grew by 5.5% relative to the same period last year. We maintain our earlier target of 5.0-5.5% of IPI growth for the year 2015.

No sign of slowdown in petroleum products production. It is a relief to see that crude petroleum index did not change much on MoM basis, where it only contracted by 0.1%mom and grew by 7.5%yoy. This should reflect that the sudden increase in crude petroleum and petroleum products imports in July was more likely to be due to strategical reason, rather than a drop in petroleum production. Combined with the Ringgit depreciation, we expect to see a better trade balance figure in August. On the other hand, natural gas index surged by 22.4%yoy albeit a moderate figure of 2.6%mom. It should be noted that the high YoY increase was due to the sudden drop in natural gas index last year.

E&E index remains high due to higher exports. Manufacturing index grew by 4.2%yoy despite it contracted marginally by 2.1%mom. Malaysia's main manufacturing sector i.e. E&E index maintained its sudden increase in June with 7.2%yoy, relative to last month's figure of 6.1%yoy. The high E&E index is contributed by the rebound in E&E activity globally, particularly due to higher demand from the US, China and Singapore.

Table 1: Malaysia – Summary of Industrial Production Index

	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Jan-Jul 15
Industrial Production Index	119.5	110.6	124.3	117.9	122.4	122.3	120.8	119.7
% YoY	7.0	5.1	7.2	4.1	4.5	4.4	6.1	5.5
%MoM	(3.5)	(7.4)	12.4	(5.1)	3.8	(0.1)	(1.2)	-
Mining Index	110.5	100.0	111.3	101.1	108.6	100.3	101.5	104.8
% YoY	8.3	9.3	10.0	3.9	9.0	3.9	14.0	8.4
% MoM	0.9	(9.5)	11.3	(9.2)	7.4	(7.6)	1.2	-
Manufacturing Index	123.5	115.5	129.8	124.9	128.3	132.1	129.3	126.2
% YoY	6.6	4.0	6.3	4.2	3.2	4.9	4.2	4.8
% MoM	(5.4)	(6.5)	12.4	(3.8)	2.7	3.0	(2.1)	-
Electricity Index	118.8	107.6	126.2	122.6	124.4	120.1	121.4	120.2
% YoY	6.3	1.9	3.8	2.9	1.2	(2.4)	(1.2)	1.8
% MoM	0.8	(9.4)	17.3	(2.9)	1.5	(3.5)	1.1	-

Source: Department of Statistics, Malaysia; MIDF Research

Despite the overall increase, most of the sectors are facing a slowdown. Out of all 130 smallest sub-index of manufacturing activity, 69 of the indices had a positive growth YoY, lower than previous month's of 72 sub-indices. Furthermore, only 54 of all the sub-indices had a positive growth on MoM basis. This reflects that despite the increase on YoY basis, there are more industries experiencing a slowdown in July relative to June. The slowdown was possibly due to the low consumer sentiment, weaker Ringgit pushing up the cost of production and delay in GST rebate causing some of the companies facing liquidity problem.

On seasonally adjusted basis, IPI is expected to remain flattish for the rest of third quarter. We expect IPI to remain flattish for the remaining of the third quarter growth due to:

- i. lower consumer sentiment;
- ii. Ringgit depreciation leading to higher cost of production and;
- iii. a delay in GST rebate causing cash flow problems to some businesses.

We maintain our earlier target of 5.0-5.5% of IPI growth for the year 2015.



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