**11 December 2015**

## ECONOMIC REVIEW | October 2015 Industrial Production Index

# Industrial Production Maintained Solid Growth

- *Manufacturing sector and electricity index produced one of the better performance in 2015 with 6.2%yoy and 4.3%yoy respectively while mining contracted by 1.4%yoy. The mixed result edged the IPI higher by 4.2% in October.*
- *On monthly basis, IPI grew by 2.8%yoy in October, lower than the September and May 2015 performance but suggesting the industrial productivity continued to resilient with the volatility of the global market and the slowing down of China's growth.*
- *We maintain our earlier target of IPI growth between 5.0-5.5% for year 2015 and 4.5% - 5.0% in 2016.*

**Strong performance in export supported October's IPI growth.** IPI came in at 4.2%yoy in October, Manufacturing index led the growth with stellar growth at 6.2%yoy followed by Electricity Index at 4.3% while mining contracted by 1.4%yoy. On a seasonally adjusted basis, IPI contracted albeit marginally at 0.4% month-on-month in October and this was the 5$^{th}$ time it had contracted in the year.

**Overall, most manufacturing industry are still growing in both year-on-year and month-on-month basis**. On year-on-year basis, 89 out of 130 manufacturing industry grow positively on year-on-year basis, which is the highest number of industry growth for year 2015. The figure also looks positive for the month-on-month basis, where 78 of the industries are growing in October 2015 relative to the previous month. This should help the economic recovery next year, particularly starting the second half of 2016.

**Production of E&E marked the third consecutive months of double-digit growth.** The E&E recorded another heathy production in October, growing by 13.9%yoy.The weaker Ringgit had helped to push our export industry of E&E particularly on consumer electronics and optical instruments productions. Both sub-sector of the E&E manufacturing grew by 60.3%yoy and 61.3%yoy respectively.

**Mining contracted but other indices maintained growth.** The manufacturing and electricity indices had a robust growth with 6.2%yoy and 4.3%yoy respectively while mining contracted marginally by 1.4%yoy. The volatility in the mining industry continued, largely due to persistent contraction in LNG (October: 5.29%yoy) which begun in August. The sustained low global crude oil price had dampened of mining industry of crude oil which saw of the weakest performance of the year, growing only by 2.1%yoy

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

| | May-15 | Jun-15 | Jul-15 | Aug-15 | Sep-15 | Oct-15 | Jan-Oct 15 (Average) |
|---|---|---|---|---|---|---|---|
| **Industrial Production Index** | **122.4** | **122.3** | **120.8** | **119.7** | **123.2** | **126.0** | **120.7** |
| % YoY | 4.5 | 4.4 | 6.1 | 3.0 | 5.1 | 4.2 | 5.0 |
| % MoM | 3.8 | (0.1) | (1.2) | (1.0) | 3.6 | 2.8 | - |
| **Mining Index** | **108.6** | **100.3** | **101.5** | **95.5** | **101.1** | **102.9** | **103.3** |
| % YoY | 9.0 | 3.9 | 14.0 | (3.4) | 4.3 | (1.4) | 5.7 |
| % MoM | 7.4 | (7.6) | 1.2 | (5.9) | 5.9 | 1.8 | - |
| **Manufacturing Index** | **128.3** | **132.1** | **129.3** | **128.7** | **133.1** | **137.0** | **128.2** |
| % YoY | 3.2 | 4.9 | 4.2 | 4.3 | 5.5 | 6.2 | 4.9 |
| % MoM | 2.7 | 3.0 | (2.1) | (0.5) | 3.4 | 2.9 | - |
| **Electricity Index** | **124.4** | **120.1** | **121.4** | **140.2** | **121.4** | **125.8** | **121.2** |
| % YoY | 1.2 | (2.4) | (1.2) | 15.9 | 2.6 | 4.3 | 2.1 |
| % MoM | 1.5 | (3.5) | 1.1 | 15.5 | (1.9) | 3.6 | - |

Source: Department of Statistics, Malaysia; MIDF Research

**Commodity based manufacturing and mining industry hampered by low prices and lower demand from China.** In contrary to the strong showing of the E&E industry, production of commodity based manufacturing contracted particular related to refined palm-oil, concrete and iron steel products. The contraction in palm-oil was by large due to the presently low palm oil prices. On the other hand, production of concrete and iron steel continued to decline as local demand for the products were uninspiring due to slower property market.

**Flattish on coming months due to mixed global outlook**. In our external trade report, we highlighted that October was the month that Malaysia recorded the highest trade balance since 2011, backed by strong export growth and weak ringgit. We expect that with exports to continue to deliver especially to United States which has seen trade expanded fasted in recent months to continue drive industrial production's growth. However, as China's slowing down remain unabated to potentially off set demand by US, our forecast remained flattish for the coming months. We maintain our expectation of 5.0%-5.5% growth for year 2015, and 4.5%-5.0% in year 2016.

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