

## ECONOMIC REVIEW | March 2017 Industrial Production Index

### March Industrial Output at 4.6% - Dragged by Lower Electricity Production

- *Industrial production in March slightly below market expectation – 4.6%yoy vs 5.3%yoy. For the first quarter 2017, IPI recorded an average growth of 4.3%, higher than 2016’s average at 3.5%. The slight slowdown in the IPI figure for March was partly due to contraction in electricity output, -0.2%yoy during the month.*
- *Global IPI is on an upward trajectory. Solid growth in industrial production among major and regional economies was seen in March 2017. According to Nikkei Manufacturing PMI, countries like Japan, Singapore, Indonesia and Malaysia recorded above 50 points in April which indicate positive business confidence especially among manufacturers.*
- *We reiterate GDP and IPI growth of 4.9% and 5.3% respectively for 2017. Encouraging trend of IPI growth is expected to continue for the upcoming months and we forecast IPI for this year to perform better than 2016.*

**Industrial production in March rose slightly below market expectation – 4.6%yoy vs 5.3%yoy.** For the first quarter 2017, IPI recorded an average growth of 4.3%yoy, higher than 2016’s average at 3.5%. The slight slowdown in the IPI figure for March was partly due to contraction in electricity output, -0.2%yoy during the month. Mining output saw a rebound from 0.4%yoy in February to 2%yoy in March while manufacturing output grew at 5.9%yoy. Despite of the slowdown, overall performance of IPI remains on steady path. We maintain our forecast on GDP and IPI to expand by 4.9% and 5.3% respectively in 2017.

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

	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17
<b>Industrial Production Index</b>	<b>132.2</b>	<b>128.4</b>	<b>133.9</b>	<b>127.7</b>	<b>120.3</b>	<b>133.6</b>
YoY	4.2%	6.2%	4.8%	3.5%	4.7%	4.6%
MoM (SA)	2.1%	-0.3%	0.4%	-1.1%	2.0%	-0.6%
<b>Mining Index</b>	<b>107.7</b>	<b>108.6</b>	<b>116.2</b>	<b>112.4</b>	<b>101.5</b>	<b>110.7</b>
YoY	3.6%	4.6%	5.7%	1.1%	0.4%	2.0%
MoM (SA)	2.1%	-0.3%	2.7%	-3.2%	-0.4%	-0.8%
<b>Manufacturing Index</b>	<b>142.7</b>	<b>137.0</b>	<b>141.7</b>	<b>134.3</b>	<b>128.5</b>	<b>143.5</b>
YoY	4.2%	6.5%	4.3%	4.6%	6.5%	5.9%
MoM (SA)	2.8%	-1.2%	-0.1%	0.7%	2.0%	-0.4%
<b>Electricity Index</b>	<b>134.5</b>	<b>129.8</b>	<b>132.0</b>	<b>129.3</b>	<b>120.6</b>	<b>135.6</b>
YoY	6.9%	9.7%	6.1%	1.0%	1.4%	-0.2%
MoM (SA)	3.5%	-1.5%	-0.2%	-0.7%	0.5%	-2.7%

Source: DOSM, MIDFR

**Mining production improved amid strong oil exports.** Production of crude petroleum shrank by 2.6%yoy in March, slightly better than 4.7%yoy contraction recorded in February. This could be due to strong oil exports performance in March. Crude petroleum exports increased to RM3.1bn with a growth rate of 74.1%yoy in March. However, the 20,000 barrel per day cut in oil production still in play impacting the crude petroleum production to rise higher. If OPEC and non-OPEC to continue with the oil production limit after June, we predict mining production will be further impacted.

**Improving external trade pushes for higher industrial production.** The export-oriented production grew at steady rate of 7.1%yoy in February and this was supported by solid performance in E&E and rubber products which registered growth of 8.1%yoy and 11.1%yoy respectively. As for domestic-oriented production, the consumer and construction sectors which grew by 4.7%yoy and 3.9%yoy reflect a steady performance in domestic sectors, in particular private consumption. We maintain our estimate that export-oriented production will drive 2017's industrial production given positive outlook in the global economy. Based on the trade performance in March, industrial production in E&E, petroleum, chemicals & chemical and rubber products recorded higher growth in March as compared to February's.

**Table 2: Changes in IPI Sub-Indices (YoY %)**

	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17
Crude Petroleum	2.7	-1.9	0.1	-2.4	-4.7	-2.6
Natural Gas	4.5	13.1	12.7	5.3	7.0	7.8
Food, Beverages & Tobacco	2.5	10.4	8.8	6.8	16.0	5.6
Textiles, Wearing Apparel, Leather Product, Footwear	4.7	6.2	4.9	6.7	7.8	7.0
Wood Products, Furniture, Paper Products, Printing	2.4	6.3	6.2	8.8	11.3	10.3
Petroleum, Chemical, Rubber & Plastic Products	3.7	6.1	3.7	2.3	3.7	3.7
Non-Metallic Mineral, Basic & Fabricated Metal Prod	4.1	5.7	2.0	2.7	4.0	4.0
Electrical & Electronic Products	8.0	8.9	5.2	6.9	8.5	8.5
Transport Equipment & Other Manufactures	-5.4	-6.1	-0.9	3.2	1.7	6.2

Source: DOSM, MIDFR

**Table 3: Changes in IPI Exports/Domestic Oriented Industries (YoY %)**

	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17
<b>Export Oriented Industries</b>	4.3	5.0	7.9	5.2	5.2	7.1
Electronic and Electrical Product	6.5	8.1	8.9	5.3	7.0	8.1
Chemicals and Chemical Products	5.8	7.1	8.6	5.3	2.2	4.1
Petroleum Products	3.6	2.1	5.3	2.3	1.8	2.2
Textiles & Wearing Apparel	5.9	4.8	6.2	4.9	6.7	7.8
Wood and Wood Products	4.6	3.4	7.1	7.0	9.5	9.4
Rubber Products	3.2	-3.0	0.6	6.7	5.6	11.1
<b>Domestic Oriented Industries</b>	3.0	1.3	2.0	1.4	2.5	4.3
Construction	3.2	4.0	5.7	2.0	2.7	3.9
Consumer	2.8	-1.3	-1.2	0.8	2.3	4.7
Food Products	4.1	2.8	3.4	1.5	0.4	7.3
Transport Equipment	0.3	-5.4	-6.1	-0.9	3.2	1.7
Beverages	13.6	12.5	9.9	9.5	5.3	17.1
Tobacco Products	2.5	-7.9	3.4	0.8	2.7	2.4
Others	-1.6	-8.4	3.3	2.2	-5.6	4.9

Note: Export/Domestic production data is only available up to February 2017


Source: DOSM, MIDFR

**Global IPI is on an upward trajectory.** Solid growth in industrial production among major and regional economies was seen in March 2017. This is in line with the current positive development in global trade activity. The US's IPI recorded 1.5%yoy for March 2017, the highest in 2 years. Across the globe, China's IPI which expanded by 7.6%yoy was the fastest since December 2014. According to Nikkei Manufacturing PMI, countries like Japan, Singapore, Indonesia and Malaysia recorded above 50 points in April which indicate positive business confidence especially among manufacturers. As for Europe, the Business Climate Indicator rose to 1.1 point in April, the highest record ever recorded in 6 years. Therefore, we opine global IPI will remain growing at steady pace in the upcoming months and will register better performance in 2017 as compared to previous year.

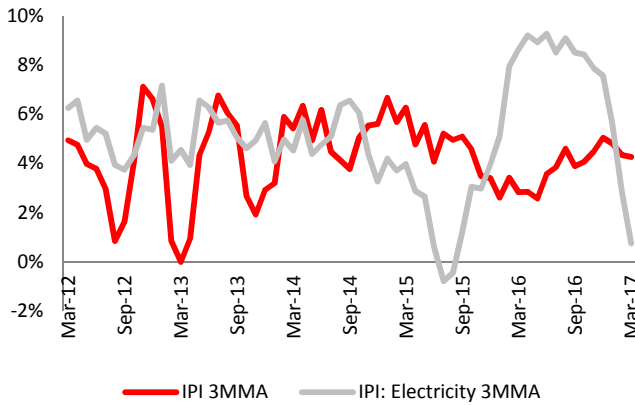
**Table 4: Global IPI (YoY %)**

	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17
Malaysia	5.0	3.1	4.2	6.2	4.8	3.5	4.7	4.6
Indonesia	6.1	0.1	0.1	2.0	4.3	3.6	3.7	5.5
Thailand	3.2	1.1	0.0	3.9	0.5	2.2	-1.1	-0.5
Philippines	9.6	7.3	6.4	11.7	18.8	9.6	12.2	12.2
Singapore	1.0	7.9	1.2	11.7	22.4	3.9	10.2	10.2
EU	2.3	1.3	0.8	3.3	2.7	0.2	1.2	
China	6.3	6.1	6.1	6.2	6.0	6.1	6.6	7.6
Japan	4.5	1.5	-1.2	4.4	3.1	3.2	4.7	3.3
United States	-1.3	-1.2	-0.8	-0.4	0.8	0.1	0.3	1.5

Source: CEIC; MIDFR

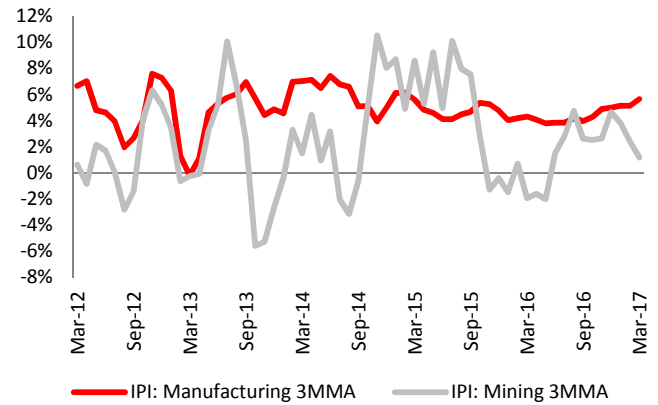
**We reiterate GDP and IPI growth of 4.9% and 5.3% respectively for 2017.** Encouraging trend of IPI growth is expected to continue for the upcoming months and we forecast IPI for this year to perform better than 2016. Stronger global demand, coupled with modest recovery in commodities prices provide a good platform for Malaysia's GDP and IPI to expand at 4.9% and 5.3% this year. Industrial production is expected to see accelerated expansion based on solid uptrend in trade activity, recovery in commodities-based output and steady domestic consumption. 

**Chart 1: IPI vs Electricity IPI (%yoy)**



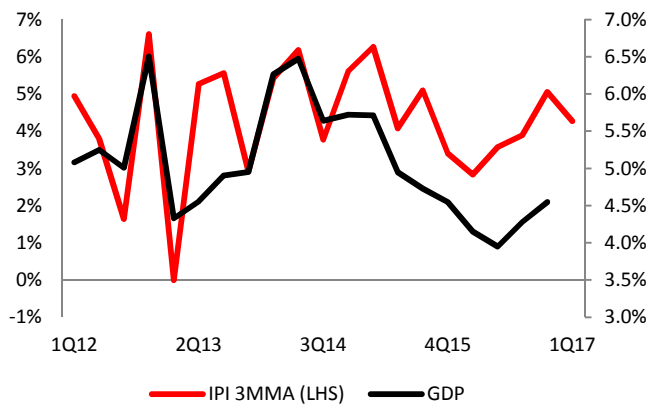
Source: DOSM, MIDFR

**Chart 2: Manufacturing IPI vs Mining IPI (%yoy)**



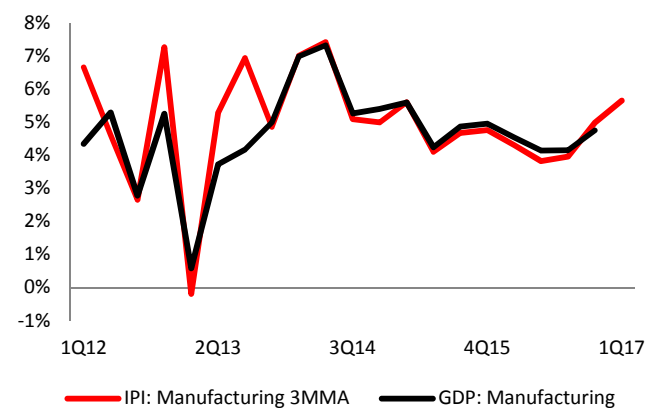
Source: DOSM, MIDFR

**Chart 3: IPI vs GDP (%yoy)**



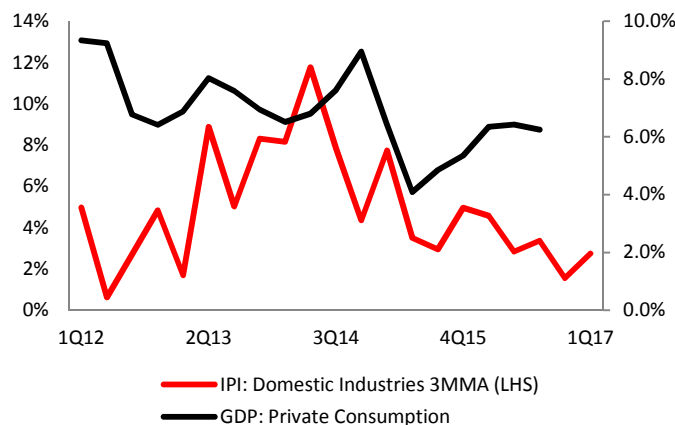
Source: DOSM, MIDFR

**Chart 4: Manufacturing IPI vs Manufacturing GDP (%yoy)**



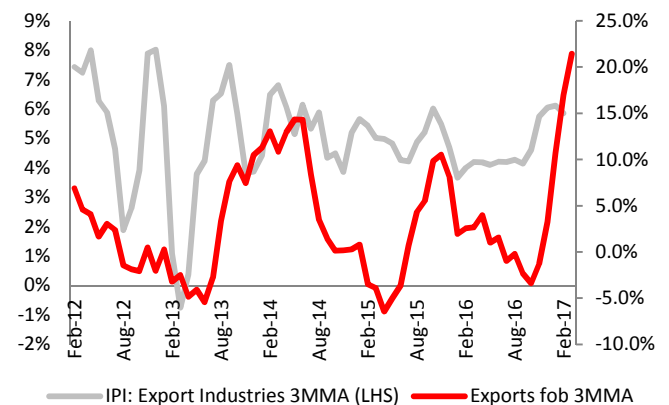
Source: DOSM, MIDFR

**Chart 5: Domestic IPI vs Private Consumption (%yoy)**



Source: DOSM, MIDFR

**Chart 6: Export IPI vs Exports fob (%yoy)**



Source: DOSM, MIDFR

**MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)**

## **DISCLOSURES AND DISCLAIMER**

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.