

ECONOMIC REVIEW | May 2017 Industrial Production Index

Robust Manufacturing Sector Performance Underpinned May IPI Growth

- IPI growth in May improved 4.6%yoy. Industrial production continued to expand above 4%yoy for four consecutive months. On monthly basis, IPI improved by 0.6%, better than the performance of the previous two months.
- Crude petroleum production shrank for fifth consecutive months. The main drag in mining output is attributed to production of crude petroleum in which decline by 5.4%yoy in May 2017. As for natural gas, the output increased modestly by 1.4%yoy.
- Manufacturing sales recorded the highest growth since January 2014. In May, manufacturing sales expanded by 19.5%yoy to RM61.9 billion. Similar to export growth, manufacturing sales growth has been growing by double digit rates for six consecutive months. The strong growth is supported by the main subsectors namely petroleum refinery, electrical & electronics, chemicals and iron & steel.
- We maintain IPI growth of 5.3% for 2017. Encouraging trend of IPI growth is expected to continue for the upcoming months. Due to strong export performances for the first five months of 2017, we believe the upbeat momentum in trade will have positive spill over effects to Malaysia's industrial production this year.

IPI growth in May improved 4.6%yoy. Industrial production continued to expand above 4%yoy for four consecutive months. On monthly basis, IPI improved by 0.6%, better than the performance of the previous two months. May's IPI figures saw an improvement with an exception to the Mining sector falling short from last month's figure of (2.3%)yoy contraction which mainly due to the decline in crude petroleum production. Manufacturing and Electricity both experienced tremendous growth of 7.2%yoy and 2.5%yoy respectively. Hence forth we expect Malaysia's industrial production to remain stable with upward bias, maintaining our IPI forecast in 2017 to grow by 5.3%.

Table 1: Malaysia – Summary of Industrial Production Index

	Jan-17	Feb-17	Mar-17	Apr-17	May-17
Industrial Production Index	127.7	120.3	133.6	126.4	131.6
YoY%	3.5	4.7	4.5	4.1	4.6
MoM% (SA)	(1.1)	2.0	(0.6)	(0.1)	0.6
Mining Index	112.4	101.5	110.7	99.8	104.9
YoY%	1.1	0.4	2.0	(2.0)	(2.3)
MoM% (SA)	(3.2)	(0.4)	(0.8)	(2.3)	1.0
Manufacturing Index	134.3	128.5	143.5	137.6	142.6
YoY%	4.6	6.5	5.8	6.7	7.2
MoM% (SA)	0.7	2.0	(0.4)	0.5	0.2
Electricity Index	129.3	120.6	135.6	132.2	139.8
YoY%	1.0	1.4	(0.2)	(1.5)	2.5
MoM% (SA)	(0.7)	0.5	(2.7)	0.2	3.3

Source: DOSM, MIDFR

Crude petroleum production shrank for fifth consecutive months. The main drag in mining output is attributed to production of crude petroleum in which decline by 5.4%yoy in May 2017. As for natural gas, the output increased modestly by 1.4%yoy. We believe the contraction in crude petroleum is mainly due to production cut by 20,000 barrel per day committed by Malaysia to OPEC and non-OPEC agreement back in November 2016. On the other hand, improved global trade activities which translate into higher export demand on Malaysian products could be seen in the surge of production of most manufactured goods. Looking ahead, we foresee Malaysia's industrial production to continue expanding at steady pace given manufacturing PMI in major and emerging economies are signalling upward trends. Hence, we could expect export demand to sustain for the coming months.

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

	Jan-17	Feb-17	Mar-17	Apr-17	May-17
Crude Petroleum	(2.4)	(4.7)	(2.6)	(6.6)	(5.4)
Natural Gas	5.3	7.0	7.8	4.1	1.4
Food, Beverages & Tobacco	6.8	16.0	5.6	15.5	12.9
Textiles, Wearing Apparel, Leather Product, Footwear	6.7	7.8	7.0	6.4	7.6
Wood Products, Furniture, Paper Products, Printing	8.8	11.3	10.3	7.1	8.4
Petroleum, Chemical, Rubber & Plastic Products	2.3	3.7	3.7	3.0	3.1
Non-Metallic Mineral, Basic & Fabricated Metal Prod	2.7	4.0	4.0	4.2	4.4
Electrical & Electronic Products	6.9	8.5	8.5	9.6	11.6
Transport Equipment & Other Manufactures	3.2	1.7	6.2	5.1	6.9

Source: DOSM, MIDF

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

	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17
Export Oriented Industries	7.9	5.2	5.2	7.1	5.9	7.6
Electronic and Electrical Product	8.9	5.3	7.0	8.1	8.5	9.8
Chemicals and Chemical Products	8.6	5.3	2.2	4.1	3.6	3.7
Petroleum Products	5.3	2.3	1.8	2.2	3.3	1.6
Textiles & Wearing Apparel	6.2	4.9	6.7	7.8	7.0	6.4
Wood and Wood Products	7.1	7.0	9.5	9.4	11.5	7.8
Rubber Products	0.6	6.7	5.6	11.1	4.2	7.2
Domestic Oriented Industries	2.0	1.4	2.5	4.3	5.7	4.2
Construction	5.7	2.0	2.7	3.9	4.0	4.3
Consumer	(1.2)	0.8	2.3	4.7	7.4	4.1
Food Products	3.4	1.5	0.4	7.3	7.4	1.9
Transport Equipment	(6.1)	(0.9)	3.2	1.7	6.2	5.0
Beverages	9.9	9.5	5.3	17.1	18.7	9.6
Tobacco Products	3.4	0.8	2.7	2.4	3.3	2.1
Others	3.3	2.2	(5.6)	4.9	3.7	(6.0)

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

Source: DOSM, MIDFR

Manufacturing sales recorded the highest growth since January 2014. In May, manufacturing sales expanded by 19.5%yoy to RM61.9 billion. Similar to export growth, manufacturing sales growth has been growing by double digit rates for six consecutive months. The strong growth is supported by the main subsectors namely petroleum refinery, electrical & electronics, chemicals and iron & steel. These subsectors make up about 50.2% of total manufacturing sales. Sales of electrical capacitor resistor, circuit board & display computer grew the highest during the month by 64.3%yoy and followed by refined petroleum products at 36.2%yoy. Continuous upbeat momentum in trade activities and optimistic confidences among businesses are two major factors boosting manufacturing sales for the past five months in 2017.

Manufacturing sector wage growth hits new high. Apart from manufacturing sales, wages of the sector rose by 13.3%yoy in May. The growth in wages marked a new high. The manufacturing wage also seen double digits growth for two consecutive months. Additionally, employment growth remain on up-trend since November last year. Employment growth in May recorded the highest at 2.7%yoy. For that reason, we opine better uptick in both wages and employment in the manufacturing could be a reflection of steady growth in our economic activities for the past five months of 2017. We also view the upward trend in the wage growth will positively contribute to domestic consumption.

Table 4: Manufacturing Sales, Employment and Payrolls (YoY%)

	Jan-17	Feb-17	Mar-17	Apr-17	May-17
Manufacturing Sales	10.7	15.7	13.6	15.6	19.5
Refined Petroleum Products	37.9	29.0	30.1	29.5	36.2
Diodes, Transistor & Electronic Integrated Circuits	(0.7)	5.0	4.8	11.2	19.9
Electrical Capacitor Resistor, Circuit Board & Display Computer	65.4	67.9	58.8	55.4	64.3
Organic Chemicals & Inorganic Compound exclude Fertilizer	11.5	12.9	15.6	14.2	10.6
Computer Sales & Peripherals Equipment	(11.5)	(1.4)	7.5	13.4	8.4
Basic Iron & Steel Products	7.6	13.5	10.7	6.8	3.2
Employment	1.4	1.4	2.1	2.6	2.7
Payroll	1.5	0.3	7.8	10.5	13.3

Source: CEIC; MIDFR

Global IPI shows convincing signs in May. Regionally, Singapore experienced a slight slowdown after months of growth in manufacturing production, falling to 5.0%yoy just short of April's 6.7%yoy. This slowdown can possibly be explained through Singapore's biomedical manufacturing dragging the IPI due to long periods of maintenance between batches of different drugs. While the US industrial production growth reaching up to 2.3%yoy in May. This trend is in line with the robust momentum in the US labour market activity as more jobs being added into the economy. China maintained similar growth in production output from previous month at 6.5%, whereas Japan managed to rack up 6.8%yoy growth, highest since 2015. We expect these boost in production output to continue in the coming months given confidence in manufacturing among major countries are strong.

Table 5: Global IPI (YoY %)

	Jan-17	Feb-17	Mar-17	Apr-17	May-17
Malaysia	3.5	4.8	4.5	4.2	4.6
Indonesia	3.6	3.8	5.7	7.0	4.0
Thailand	2.2	(1.1)	0.0	(1.8)	1.4
Philippines	15.8	8.0	11.6	2.5	3.6
Singapore	4.0	10.2	11.3	6.7	5.0
EU	1.0	2.2	2.7	1.5	
China	2.9	10.3	7.6	6.5	6.5
Japan	3.2	4.7	3.5	5.7	6.8
United States	(0.1)	0.3	1.8	0.8	2.3

Source: CEIC; MIDFR


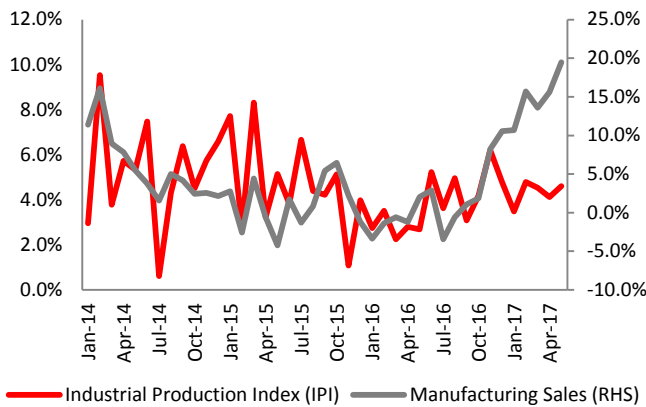
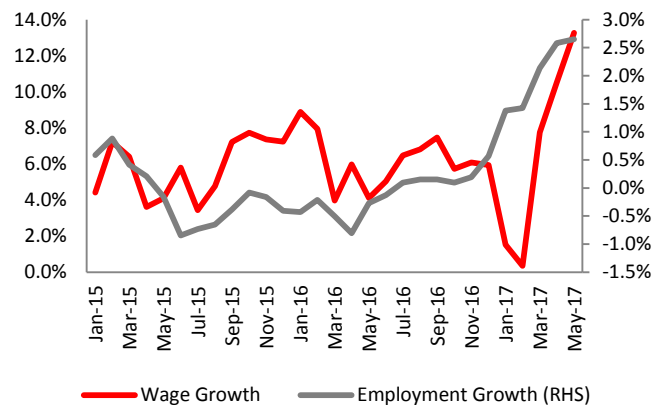
We maintain IPI growth of 5.3% for 2017. Encouraging trend of IPI growth is expected to continue for the upcoming months. Due to strong export performances for the first five months of 2017, we believe the upbeat momentum in trade will have positive spill over effects to Malaysia's industrial production this year. Hence, based on solid uptrend in trade activities and steady domestic consumption, we expect industrial production growth to hit 5.3% in 2017. 

Chart 1: IPI vs Manufacturing Sales (YoY%)



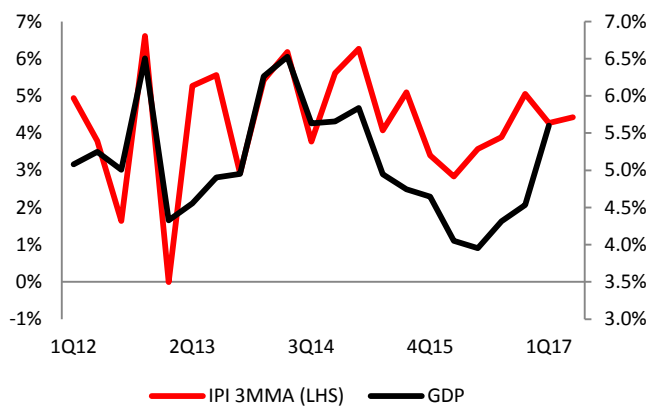
Source: DOSM, MIDFR

Chart 2: Manufacturing: Employment vs Wage (YoY%)



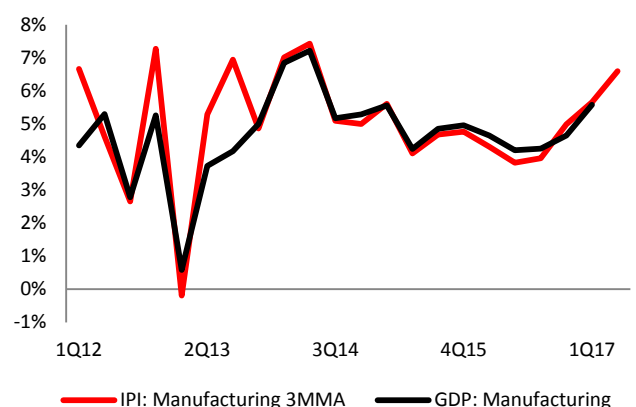
Source: DOSM, MIDFR

Chart 3: IPI vs GDP (YoY%)



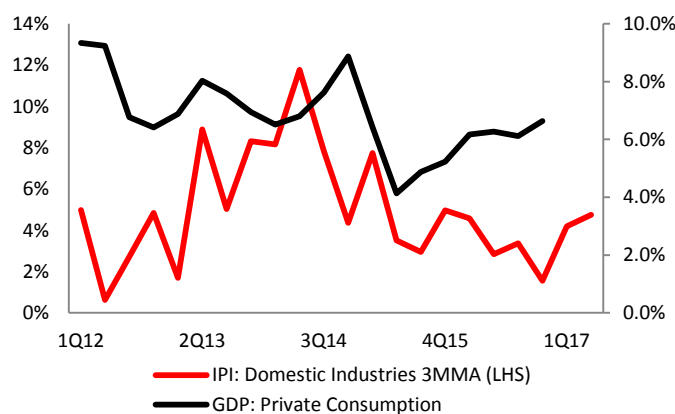
Source: DOSM, MIDFR

Chart 4: Manufacturing IPI vs Manufacturing GDP (YoY%)



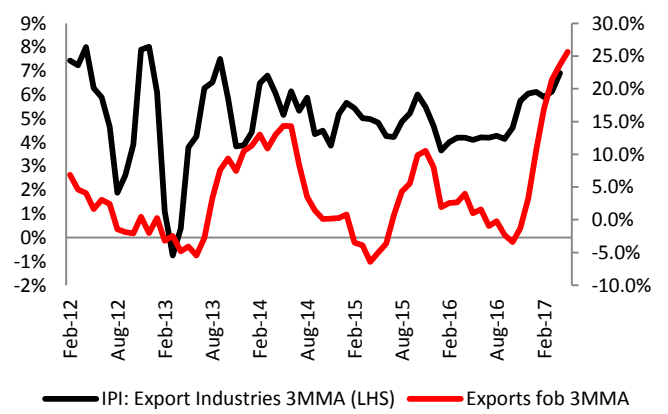
Source: DOSM, MIDFR

Chart 5: Domestic IPI vs Private Consumption (YoY%)



Source: DOSM, MIDFR

Chart 6: Export IPI vs Exports fob (YoY%)



Source: DOSM, MIDFR

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