

## ECONOMIC REVIEW | April 2017 Industrial Production Index

### IPI Pulled Down by Lower Mining & Electricity Productions

- IPI growth in April stable at 4.2%yoy. Industrial production continued to expand above 4%yoy range with April saw IPI growth recorded higher than previous year average of 3.8%. IPI April figure was slightly lower than March's, mainly due to contraction in mining and electricity output at 2%yoy and 1.5%yoy respectively.
- Mining output contracted as crude petroleum dropped sharply. For four consecutive months, production of crude petroleum recorded negative growth. As for May, the petroleum output shrank by 6.6%yoy whereas natural gas rose by 4.1%yoy. Slowdown in crude petroleum exports from RM3.1bn in March to RM2.4bn in April is among the reasons dragging down the petroleum production.
- 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 four months of 2017, we believe the upbeat momentum in trade will have positive spill over effects on Malaysia's industrial production this year.

**IPI growth in April stable at 4.2%yoy.** Industrial production continued to expand above 4%yoy range with April saw IPI growth recorded higher than previous year average of 3.8%. IPI April figure was slightly lower than March's, mainly due to contraction in mining and electricity output at 2%yoy and 1.5%yoy respectively. Manufacturing output grew by 6.7%yoy, highest in more than 2-years. Stellar performance in Malaysia's trade activities is the factor which pushing up manufacturing production. Overall, we opine the performance of Malaysia's industrial production remain stable with upward bias. Hence, we forecast IPI to grow by 5.3% in 2017.

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

	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17
<b>Industrial Production Index</b>	<b>128.4</b>	<b>133.9</b>	<b>127.7</b>	<b>120.3</b>	<b>133.6</b>	<b>126.4</b>
YoY (%)	6.2	4.8	3.5	4.7	4.5	4.2
MoM (SA)	(0.3)	0.4	(1.1)	2.0	(0.6)	(0.1)
<b>Mining Index</b>	<b>108.6</b>	<b>116.2</b>	<b>112.4</b>	<b>101.5</b>	<b>110.7</b>	<b>99.8</b>
YoY (%)	4.6	5.7	1.1	0.4	2.0	(2.0)
MoM (SA)	(0.3)	2.7	(3.2)	(0.4)	(0.8)	(2.3)
<b>Manufacturing Index</b>	<b>137.0</b>	<b>141.7</b>	<b>134.3</b>	<b>128.5</b>	<b>143.5</b>	<b>137.6</b>
YoY (%)	6.5	4.3	4.6	6.5	5.8	6.7
MoM (SA)	(1.2)	(0.1)	0.7	2.0	(0.4)	0.5
<b>Electricity Index</b>	<b>129.8</b>	<b>132.0</b>	<b>129.3</b>	<b>120.6</b>	<b>135.6</b>	<b>132.2</b>
YoY (%)	9.7	6.1	1.0	1.4	(0.2)	(1.5)
MoM (SA)	(1.5)	(0.2)	(0.7)	0.5	(2.7)	0.2

Source: DOSM, MIDFR

**Mining output contracted as crude petroleum dropped sharply.** For four consecutive months, production of crude petroleum recorded negative growth. As for May, the petroleum output shrank by 6.6%yoy whereas natural gas rose by 4.1%yoy. Slowdown in crude petroleum exports from RM3.1bn in March to RM2.4bn in April is among the reasons dragging down the petroleum production. In spite of this, we foresee the production of mining especially crude petroleum will improve further as global oil price is gradually improving. Apart from mining, continued improvement in Malaysia's exports performance causes positive spill over effects on sub-group of manufacturing productions. Several manufacturing outputs increase higher than the previous month as such food, electric & electronic and non-metallic mineral products.

**Industrial production improves as external trade surges.** Malaysia's exports growth recorded above 20%yoy for two consecutive months since February 2017. The solid performance in trade will have positive domino effects on the export-oriented sectors. The export-oriented production grew at steady rate of 5.9%yoy in March and this was supported by solid performance in Electrical & Electronics and Woods & Wood products which registered growth of 8.5%yoy and 11.5%yoy respectively. As for domestic-oriented production, the consumer and construction sectors which grew by 7.4%yoy and 4.0%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.

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

	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17
Crude Petroleum	(1.9)	0.1	(2.4)	(4.7)	(2.6)	(6.6)
Natural Gas	13.1	12.7	5.3	7.0	7.8	4.1
Food, Beverages & Tobacco	10.4	8.8	6.8	16.0	5.6	15.5
Textiles, Wearing Apparel, Leather Product, Footwear	6.2	4.9	6.7	7.8	7.0	6.4
Wood Products, Furniture, Paper Products, Printing	6.3	6.2	8.8	11.3	10.3	7.1
Petroleum, Chemical, Rubber & Plastic Products	6.1	3.7	2.3	3.7	3.7	3.0
Non-Metallic Mineral, Basic & Fabricated Metal Prod	5.7	2.0	2.7	4.0	4.0	4.2
Electrical & Electronic Products	8.9	5.2	6.9	8.5	8.5	9.6
Transport Equipment & Other Manufactures	(6.1)	(0.9)	3.2	1.7	6.2	5.1

Source: DOSM, MIDFR

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

	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17
<b>Export Oriented Industries</b>	5.0	7.9	5.2	5.2	7.1	5.9
Electronic and Electrical Product	8.1	8.9	5.3	7.0	8.1	8.5
Chemicals and Chemical Products	7.1	8.6	5.3	2.2	4.1	3.6
Petroleum Products	2.1	5.3	2.3	1.8	2.2	3.3
Textiles & Wearing Apparel	4.8	6.2	4.9	6.7	7.8	7.0
Wood and Wood Products	3.4	7.1	7.0	9.5	9.4	11.5
Rubber Products	(3.0)	0.6	6.7	5.6	11.1	4.2
<b>Domestic Oriented Industries</b>	1.3	2.0	1.4	2.5	4.3	5.7
Construction	4.0	5.7	2.0	2.7	3.9	4.0
Consumer	(1.3)	(1.2)	0.8	2.3	4.7	7.4
Food Products	2.8	3.4	1.5	0.4	7.3	7.4
Transport Equipment	(5.4)	(6.1)	(0.9)	3.2	1.7	6.2
Beverages	12.5	9.9	9.5	5.3	17.1	18.7
Tobacco Products	(7.9)	3.4	0.8	2.7	2.4	3.3
Others	(8.4)	3.3	2.2	(5.6)	4.9	3.7

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

Source: DOSM, MIDFR

**Global IPI grew moderately in April.** Despite of positive development in global trade activities, industrial production among regional and global economies saw slight slowdown during the month of April. The US's IPI growth dropped to 0.9%yoy. This is possibly explained by the decrease in the US business confidence which US ISM Manufacturing PMI fell to 54.8 in April, the lowest in 2017. Across the globe, China's IPI growths remain stable expanding at 6.5%yoy. Regionally, Thailand saw a contraction by 1.7%yoy in its industrial output, partly due to slowdown in exports performance in April 2017. In spite of this, we are anticipating global IPI to grow at steady pace in the upcoming months and will register better performance as compared to previous year. Looking ahead, we note that business confidences in major economies are signalling positive signs. China's manufacturing and non-manufacturing PMI index for example remain above expansionary line of 50 point marks in May.

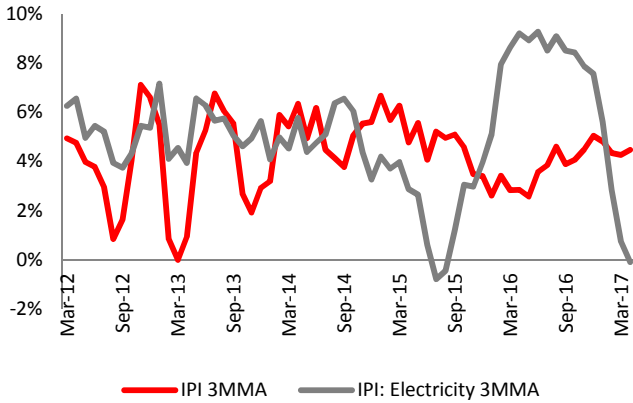
**Table 4: Global IPI (YoY %)**

	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17
Malaysia	4.2	6.2	4.8	3.5	4.8	4.5	4.2
Indonesia	0.1	2.0	4.3	3.6	3.8	5.5	
Thailand	0.5	3.9	0.5	2.2	(1.1)	0.0	(1.7)
Philippines	6.4	11.7	18.8	9.9	12.3	12.2	3.7
Singapore	1.2	11.7	22.4	4.0	10.2	11.0	6.7
EU	0.8	3.2	2.9	1.0	2.1	2.5	
China	6.1	6.2	6.0	2.9	10.3	7.6	6.5
Japan	(1.2)	4.4	3.1	3.2	4.7	3.5	5.7
United States	(0.7)	(0.5)	1.0	(0.1)	0.2	2.1	0.9

Source: CEIC; MIDFR

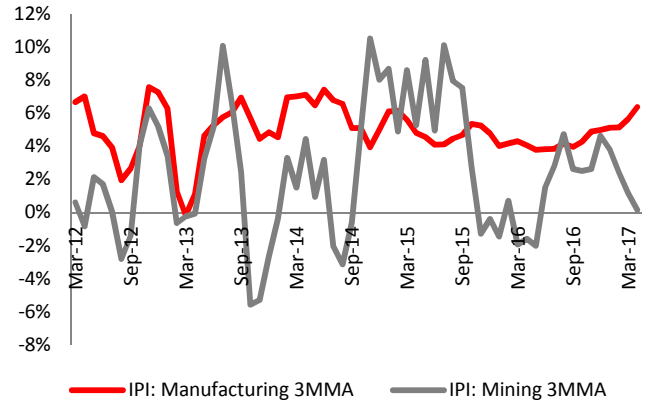
**We maintain IPI growth of 5.3% for 2017.** Encouraging trend of IPI growth is expected to continue for the upcoming months. Due to strong export performances for the first four months of 2017, we believe the upbeat momentum in trade will have positive spill over effects on Malaysia's industrial production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

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



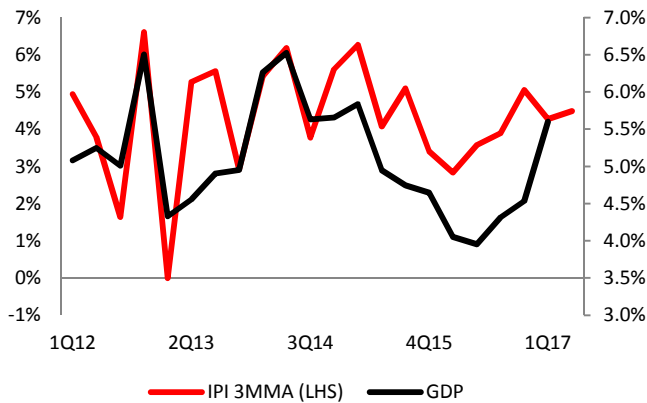
Source: DOSM, MIDFR

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



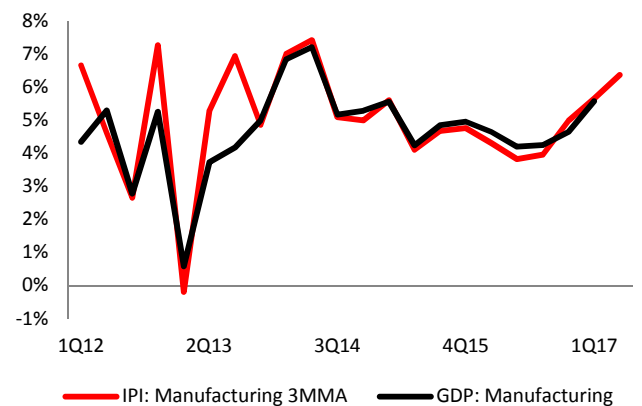
Source: DOSM, MIDFR

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



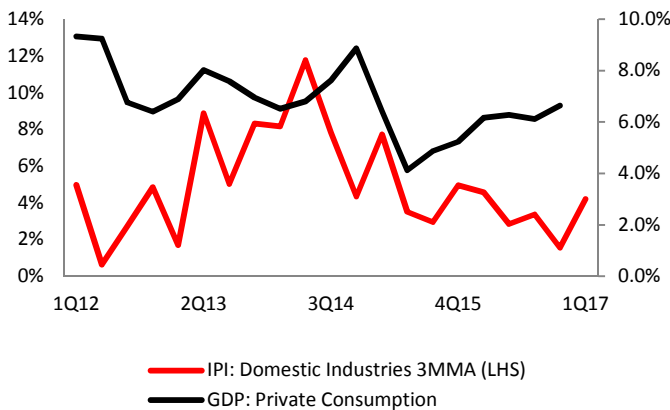
Source: DOSM, MIDFR

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



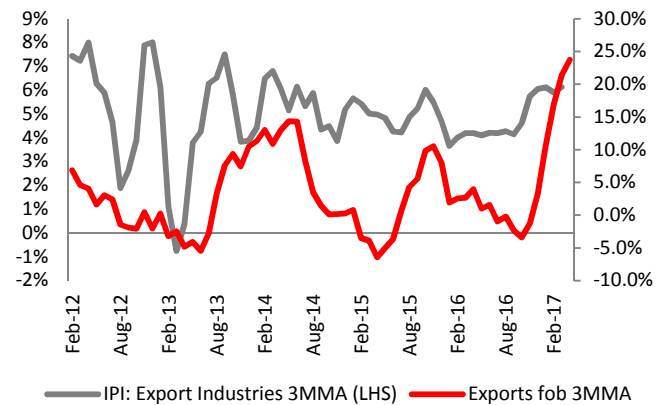
Source: DOSM, MIDFR

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



Source: DOSM, MIDFR

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



Source: DOSM, MIDFR

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