

ECONOMIC REVIEW | April 2019 Industrial Production Index

Domestic & Mining Sectors to Continue to Support IPI Upward Trend in 2H19

- *IPI growth at 6-month high. Malaysia's IPI expanded steadily by 4%yoy in Apr-19, highest since Oct-18 and outpacing market expectation of 2.5%yoy. The growth is mainly attributed by rebound in mining output and continuous expansion in manufacturing and electricity output. Mining output improved by 2.3%yoy, fastest gain in 20-month. The factory output grew 4.3%yoy (4-month high) and electricity output increased 5.8%yoy (3-month high).*
- *External trade made a significant comeback. The IPI performance is in tandem with the rebound of Malaysia's external trade in Mar-19. Total exports returned to positive growth at 1.1%yoy in Apr-19 after 2-straight months recording contractions. Domestic exports grew strongly by 11.9%yoy, fastest in 6-month.*
- *We maintain our forecast IPI growth of 2.9% for 2019. Based on the latest macro trends and indicators, we maintain our forecast figure at 2.9%. The IPI growth among others would be attributed by effects of lower OPR, low inflationary pressure, stable domestic demand, positive progression in construction sector and gradual pick-up in commodity prices.*

IPI growth at 6-month high. Malaysia's IPI expanded steadily by 4%yoy in Apr-19, highest since Oct-18 and outpacing market expectation of 2.5%yoy. The growth is mainly attributed by rebound in mining output and continuous expansion in manufacturing and electricity output. Mining output improved by 2.3%yoy, fastest gain in 20-month. The factory output grew 4.3%yoy (4-month high) and electricity output increased 5.8%yoy (3-month high). Moving forward, we foresee IPI performance to expand at a moderate pace in 2H19 underpin by lower OPR effects, low inflationary pressure, stable domestic demand, positive progression in construction sector and gradual pick-up in commodity prices. Nevertheless, trade war factor remains as downside risk to global trade activities as well as Malaysia's industrial activities.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%				YoY%			
	Jan-19	Feb-19	Mar-19	Apr-19	Jan-19	Feb-19	Mar-19	Apr-19
IPI	1.2	(2.0)	1.2	2.0	3.2	1.7	3.1	4.0
Mining	0.3	(6.8)	6.4	3.1	(0.9)	(5.0)	(0.2)	2.3
Manufacturing	1.3	(0.3)	(0.4)	1.5	4.2	3.7	4.1	4.3
Electricity	4.0	(3.1)	0.3	1.7	7.8	4.9	4.8	5.8

Source: CEIC, MIDFR

*MoM is Seasonally Adjusted

External trade made a significant comeback. The IPI performance is in tandem with the rebound of Malaysia's external trade in Mar-19. Total exports returned to positive growth at 1.1%yoy in Apr-19 after 2-straight months recording contractions. Domestic exports grew strongly by 11.9%yoy, fastest in 6-month. Among others, exports of refined petroleum products and LNG expanded at solid pace of 22.3%yoy and 26.3%yoy respectively in Apr-19. Looking ahead, we opine IPI performance to improve in 2H19 underpin by lower OPR effects, low inflationary pressure, stable domestic demand, positive progression in construction sector and gradual pick-up in commodity prices. Production of crude petroleum is expected to improve in 2H19 particularly when Keabangsan gas field returns to full-capacity.

Table 2: Changes in IPI Major Industries (YoY%)

	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
Mining;	(2.8)	1.0	(0.9)	(5.0)	(0.2)	2.3
Mining: Crude Petroleum	(4.9)	2.5	(2.2)	(4.3)	(2.0)	(1.9)
Mining: Natural Gas	(1.0)	(0.2)	0.3	(5.6)	1.4	6.1
Manufacturing;	3.7	4.4	4.2	3.7	4.1	4.3
Food Products	(2.0)	(1.8)	2.4	6.6	7.0	4.1
Refined Petroleum Products	5.3	1.7	3.9	0.2	4.3	4.0
Chemicals & Chemicals Products	0.4	2.9	2.6	0.5	1.7	1.0
Rubber Products	4.3	10.7	5.2	8.1	6.5	6.2
Basic Metals	4.0	3.4	3.2	3.6	3.0	4.0
Electrical & Electronic Products	5.3	7.2	3.9	3.1	2.7	4.1
Computers & Peripheral Equipment	0.3	5.3	(1.2)	6.2	6.0	11.5
Machinery & Equipment	3.9	4.8	2.9	2.2	1.3	3.0
Motor Vehicles, Trailers & Semi-Trailers	9.1	9.0	6.5	7.3	6.7	9.5

Source: CEIC, MIDFR

Table 3: Changes in IPI Major Industries (YoY%)

	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
IPI: Export Oriented Industries	4.8	4.9	3.1	3.6	4.9	4.0	3.8
Electronic and Electrical Product	5.2	6.9	5.2	7.1	4.6	4.1	3.1
Chemicals and Chemical Pdts	3.9	2.4	1.1	3.7	4.1	1.4	2.4
Petroleum Products	3.4	5.2	5.3	1.6	3.8	0.4	4.3
Textiles & Wearing Apparel	2.2	2.2	4.8	4.2	5.4	3.6	4.9
Wood and Wood Products	9.1	8.3	1.4	3.8	6.5	5.7	4.2
Rubber Products	5.2	7.3	5.6	11.4	3.7	8.0	7.7
Off Estate Processing	7.4	(0.3)	(6.7)	(9.6)	10.8	17.8	6.1
Paper Products	2.3	4.0	2.6	3.3	3.6	4.7	4.4
IPI: Domestic Oriented Industries	4.7	6.4	5.0	6.0	2.6	3.2	4.9
Construction (CO)	4.8	4.7	4.0	4.2	4.4	4.6	3.6
CO: Non Metallic Mineral	5.4	4.1	4.2	4.3	5.8	5.0	4.2
CO: Iron and Steel	3.7	4.7	4.0	3.4	3.2	3.6	3.0
CO: Fabricated Metal	5.1	5.1	4.0	4.6	4.1	5.0	3.5
Consumer (CS)	4.6	7.8	5.9	7.6	1.1	2.0	5.9
CS: Food Products	6.8	6.1	3.5	7.9	(4.9)	(2.0)	7.1
CS: Transport Equipment	1.6	9.6	9.7	7.7	6.7	8.0	6.6
CS: Beverages	4.2	0.8	1.5	1.7	2.6	3.0	1.7
CS: Tobacco Products	3.3	5.5	(1.5)	6.3	6.6	6.8	10.9
CS: Others	7.2	10.7	6.1	9.4	(1.6)	(3.8)	2.0

Source: CEIC, MIDFR

*Data available as of Mar-19

Manufacturing sales improved marginally. Manufacturing sales increased 6.8%yoy in Apr-19, highest in 3-month. We notice sales of refined petroleum products and E&E' sub-products such as diodes, transistor & electronic circuit are among key contributing products in Apr-19. Wage growth in the manufacturing sector grew by 4.4%yoy while employment growth at 1.7%yoy. However, the prospect of manufacturing sales is slightly cloudy following the rising trade war effects and declining business optimism globally.

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

	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
Sales;	10.2	7.7	7.5	7.0	5.5	5.7	6.8
Refined Petroleum Products	14.6	17.8	1.2	12.6	4.6	12.3	7.3
Diodes, Transistor & Electronic Integrated Circuits Mic	17.9	25.8	33.1	18.0	12.8	10.0	18.8
Electrical Capacitor Resistor, Circuit Board & Display Comp	13.8	6.3	10.6	2.4	0.2	(0.1)	2.1
Employment	2.2	2.0	1.7	2.0	2.0	1.8	1.7
Wage	10.2	9.0	10.1	8.9	7.2	5.1	4.4

Source: CEIC, MIDFR

Global trade uncertainties dim IPI performances. IPI performances across major and emerging economies moderated in Apr-19 due to concerns over trade talks between the US & China, geopolitical stress in Europe, and volatility in global commodity prices. IPI in the US moderated to 0.7%yoy in Mar-19, lowest growth in 2-year. The slowdown is mainly due to contraction in manufacturing output, -0.2%yoy while mining output remains expanding at solid pace, 10.4%yoy in Apr-19. Across the globe, ASEAN economies such as Philippines stay in contractionary path for 3-straight months whereas Thailand and Singapore rebounded in the first month of 2Q19. Looking ahead, we view global trade activities to stay at modest pace amid trade war effects, volatility of commodity prices and declining business optimism. In May-18, Global manufacturing PMI went down to 49.8 points, lowest since Oct-12 while PMI for emerging economies stay on expansionary path, 50.4 points.

Table 5: Global IPI (YoY%)

	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
Malaysia	4.0	2.1	3.4	3.2	1.7	3.1	4.0
Indonesia	8.7	6.2	6.5	4.9	0.6	7.9	
Philippines	4.4	2.6	(8.2)	0.0	(6.3)	(5.4)	(10.8)
Thailand	7.9	3.2	0.8	0.4	(1.5)	(2.5)	2.3
Singapore	5.2	6.8	1.8	1.1	3.0	(4.3)	0.1
India	8.4	0.2	2.5	1.4	0.1	(0.1)	
Japan	4.2	1.9	(2.0)	0.7	(1.1)	(4.3)	(1.1)
EU	1.0	(1.9)	(2.4)	(0.1)	0.7	0.3	
USA	3.8	3.9	3.3	3.2	2.8	2.4	0.7

Source: CEIC, MIDFR


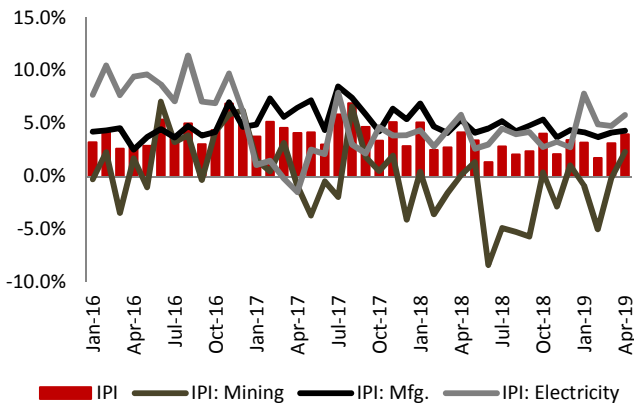
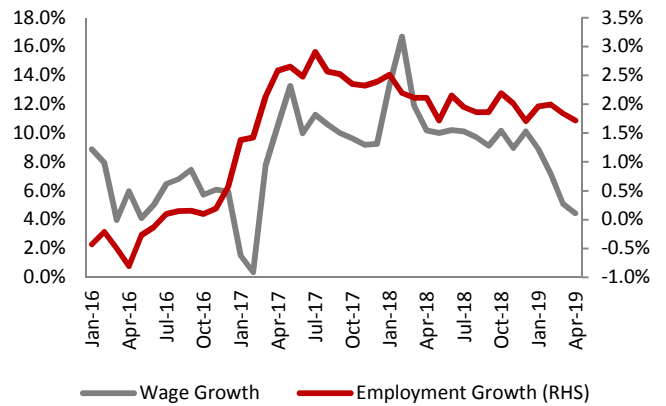
We maintain our forecast IPI growth of 2.9% for 2019. Based on the latest macro trends and indicators, we maintain our forecast figure at 2.9%. The IPI growth among others would be attributed by effects of lower OPR, low inflationary pressure, stable domestic demand, positive progression in construction sector and gradual pick-up in commodity prices. Nevertheless, headwinds from global trade tension and supply disruption for commodities based sectors could pose downside risk to this estimate. 

Chart 1: IPI Performances (YoY%)



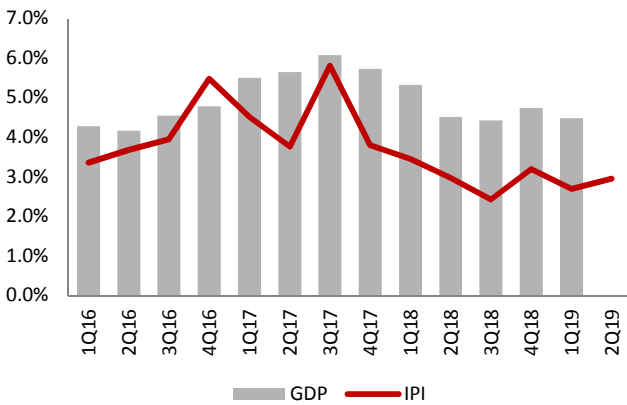
Source: CEIC, MIDFR

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



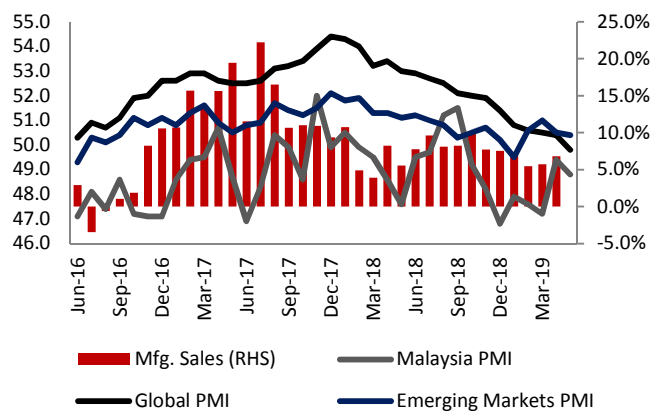
Source: CEIC, MIDFR

Chart 3: IPI vs GDP (YoY%)



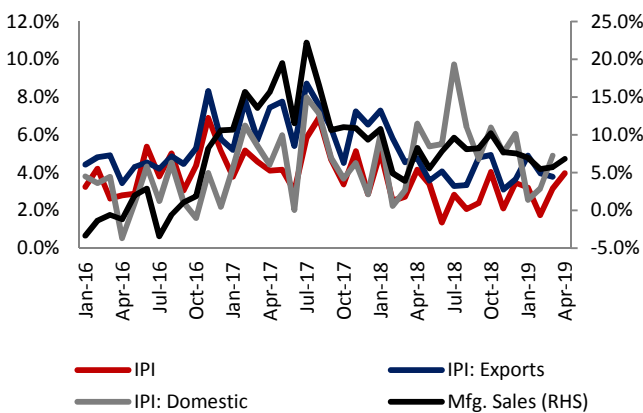
Source: CEIC, MIDFR

Chart 4: Mfg. Sales (YoY%) vs PMI (Points)



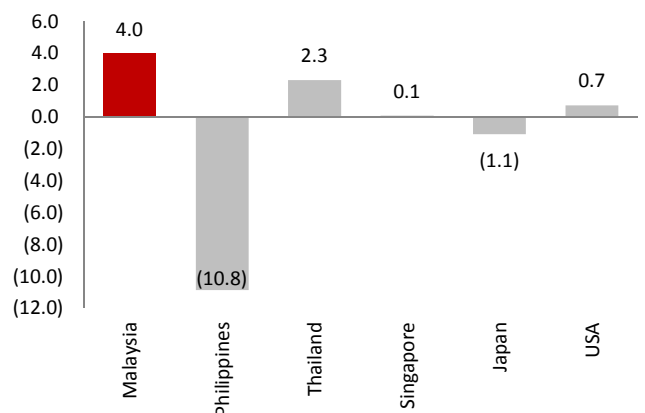
Source: CEIC, MIDFR

Chart 5: IPI & Mfg. Sales (YoY%)



Source: CEIC, MIDFR

Chart 6: Global IPI in Apr-19 (YoY%)



Source: CEIC, MIDFR

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