

## ECONOMIC REVIEW | August 2019 Industrial Production Index

### IPI Growth Stays Resilient Despite Global Trade Uncertainties & Volatility in Commodity Prices

- IPI continued on expansion. Malaysia's IPI growth recorded at 1.9%yoy in Aug-19, higher than the previous month and slightly lower than market estimates of 2.0%yoy. The slowdown is mainly due to further contraction in mining output and moderation in factory and electricity productions. Moving forward, we foresee IPI performance to continue expanding steady pace in 2H19 as trade war factor remains a major downside risk to global trade activities and manufacturing production in particular which has the highest weightage in the overall IPI index.*
- Manufacturing sales at 17-month low. Manufacturing sales increased by 4.7%yoy in Aug-19, slowest expansion rate since Mar-18. The deceleration is in tandem with the downward trends of exports performance during the month. Among others the sales of refined petroleum products and electrical capacitor resistor increased at a slower pace of 4.7%yoy and 6.9%yoy respectively. Meanwhile, wage and employment growths in the manufacturing sector improved slightly by 3.3%yoy and 1.3%yoy respectively.*
- We maintain our forecast IPI growth of 2.9% for 2019. For the 1H19, IPI growth averaged at 3.3%yoy. Based on the latest macro trends and indicators, we maintain our forecast figure at 2.9%. Manufacturing sector which hold circa 70% of IPI weight are expected to perform modestly in 2H19 amid escalating trade tensions and that could drag the overall IPI performance this year.*

**IPI continued on expansion.** Malaysia's IPI growth recorded at 1.9%yoy in Aug-19, higher than the previous month and slightly lower than market estimates of 2.0%yoy. The slowdown is mainly due to further contraction in mining output and moderation in factory and electricity productions. Moving forward, we foresee IPI performance to continue expanding steady pace in 2H19 as trade war factor remains a major downside risk to global trade activities and manufacturing production in particular which has the highest weightage in the overall IPI index. Nevertheless, effects of OPR cut, easing monetary measures globally, low inflationary pressure, positive progression in construction activities and stable domestic demand would provide support to the industrial production performance.

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

	MoM%				YoY%			
	May-19	Jun-19	Jul-19	Aug-19	May-19	Jun-19	Jul-19	Aug-19
IPI	(0.3)	(1.1)	(0.4)	0.9	4.0	3.8	1.2	1.9
Mining	(1.4)	(2.8)	(10.9)	9.9	3.0	4.6	(8.4)	(3.9)
Manufacturing	0.2	(0.4)	2.7	(1.1)	4.2	3.8	4.0	3.7
Electricity	0.4	(3.6)	4.5	(3.2)	5.7	1.7	2.0	0.3

Source: CEIC, MIDFR  
\*MoM is Seasonally Adjusted

**Crude petroleum remains sluggish.** Underpin by volatility of commodity prices, production of crude petroleum down by -3.9%yoy, registering 8-straight months of negative rate. Natural gas output grew 1.2%yoy, weakest gain in 6-month. However, the IPI performed better than external trade which both domestic and re-exports reduced by -0.6%yoy and -0.3%yoy respectively. Both LNG and crude petroleum are expected to expand at steady pace as long as Brent crude oil price averaged at above \$60pb. Despite global trade uncertainties, industrial productions of manufacturing output such as chemicals & chemical products, computers & peripheral equipment, machinery & equipment and motor vehicles performed better than previous month. Domestically, construction output rose by 4.5%yoy and consumer output expanded by 4.9%yoy in Jul-19. Domestic output is expected to pick-up moving forward buoyed by OPR cut effects, low inflationary pressure, positive progression in construction sector and stable domestic demand.

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

	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
Mining;	(0.2)	2.3	3.0	4.6	(8.4)	(3.9)
Mining: Crude Petroleum	(2.0)	(1.9)	(2.0)	(3.7)	(22.7)	(9.5)
Mining: Natural Gas	1.4	6.1	7.6	13.0	7.3	1.2
Manufacturing;	4.1	4.3	4.2	3.8	4.0	3.7
Food Products	7.0	4.1	4.5	3.9	0.4	2.5
Refined Petroleum Products	4.3	4.0	2.0	2.7	3.8	2.4
Chemicals & Chemicals Products	1.7	1.0	2.6	2.5	1.9	2.2
Rubber Products	6.5	6.2	8.8	7.8	8.0	7.6
Basic Metals	3.0	4.0	3.5	4.3	4.7	3.7
Electrical & Electronic Products	2.7	4.1	3.7	3.5	4.9	3.5
Computers & Peripheral Equipment	6.0	11.5	20.6	3.9	14.0	19.8
Machinery & Equipment	1.3	3.0	3.3	2.5	4.8	5.2
Motor Vehicles, Trailers & Semi-Trailers	6.7	9.5	9.3	8.0	7.5	8.0

Source: CEIC, MIDFR

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

	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
<b>IPI: Export Oriented Industries</b>	<b>4.9</b>	<b>4.0</b>	<b>3.8</b>	<b>3.7</b>	<b>3.7</b>	<b>3.3</b>	<b>3.7</b>
Electronic and Electrical Product	4.6	4.1	3.1	4.2	4.1	3.6	5.0
Chemicals and Chemical Pds	4.1	1.4	2.4	2.5	2.9	1.9	1.8
Petroleum Products	3.8	0.4	4.3	4.0	1.8	2.8	3.8
Textiles & Wearing Apparel	5.4	3.6	4.9	5.7	5.8	5.5	5.8
Wood and Wood Products	6.5	5.7	4.2	3.7	6.6	4.7	3.4
Rubber Products	3.7	8.0	7.7	7.0	10.2	9.5	9.0
Off Estate Processing	10.8	17.8	6.1	0.3	1.1	0.6	(3.0)
Paper Products	3.6	4.7	4.4	4.6	5.3	4.1	4.9
<b>IPI: Domestic Oriented Industries</b>	<b>2.6</b>	<b>3.2</b>	<b>4.9</b>	<b>5.7</b>	<b>5.2</b>	<b>5.1</b>	<b>4.7</b>
Construction (CO)	4.4	4.6	3.6	4.2	4.2	4.8	4.5
CO: Non Metallic Mineral	5.8	5.0	4.2	4.5	4.0	5.1	4.2
CO: Iron and Steel	3.2	3.6	3.0	4.0	3.5	4.3	4.7
CO: Fabricated Metal	4.1	5.0	3.5	4.0	4.6	4.9	4.6
Consumer (CS)	1.1	2.0	5.9	7.0	6.1	5.4	4.9
CS: Food Products	(4.9)	(2.0)	7.1	7.3	7.7	6.2	3.5
CS: Transport Equipment	6.7	8.0	6.6	9.0	7.9	7.4	6.1
CS: Beverages	2.6	3.0	1.7	3.6	4.1	3.2	2.5
CS: Tobacco Products	6.6	6.8	10.9	8.2	4.7	4.3	3.8
CS: Others	(1.6)	(3.8)	2.0	2.6	(0.4)	0.7	6.6

Source: CEIC, MIDFR

\*Data available as of Jul-19

**Manufacturing sales at 17-month low.** Manufacturing sales increased by 4.7%yoy in Aug-19, slowest expansion rate since Mar-18. The deceleration is in tandem with the downward trends of exports performance during the month. Among others the sales of refined petroleum products and electrical capacitor resistor increased at a slower pace of 4.7%yoy and 6.9%yoy respectively. Meanwhile, wage and employment growths in the manufacturing sector improved slightly by 3.3%yoy and 1.3%yoy respectively. Looking ahead, the prospect of manufacturing sales is slightly cloudy following the ongoing trade war effects and declining business optimism globally. In line, Malaysia manufacturing PMI remains in contractionary zone for 1-year, 47.9 points in Aug-19.

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

	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
<b>Sales;</b>	5.5	5.7	6.8	6.7	5.3	6.0	4.7
Refined Petroleum Products	4.6	12.3	7.3	4.4	5.9	6.9	4.7
Diodes, Transistor & Electronic Integrated Circuits Mic	12.8	10.0	18.8	20.3	9.9	4.3	(0.4)
Electrical Capacitor Resistor, Circuit Board & Display Comp	0.2	(0.1)	2.1	3.7	2.0	8.3	6.9
<b>Employment</b>	2.0	1.8	1.7	1.4	1.1	1.3	1.3
<b>Wage</b>	7.2	5.1	4.4	4.1	3.1	3.4	3.3


Source: CEIC, MIDFR

**Global IPI on declining trend.** IPI performances across major and emerging economies further moderated in May-19 due to global trade uncertainties, geopolitical stress in Europe, and volatility in global commodity prices. Overall IPI growth in the US recorded at 0.3%yoy, weakest gain since the first month of Trump became the President, Jan-17. Among others, manufacturing output shrank by -0.4%yoy while mining output growth moderated to 5.5%yoy, slowest since Mar-17. Other developed economies like Japan and EU also experiencing slowdown in IPI. Most of ASEAN economies namely Singapore, Philippines and Thailand continued to contract. Philippines registering negative growth for 9-straight months while Singapore and Thailand experienced contraction since May-19. Looking ahead, we view global trade activities to grow at weak pace amid trade war effects, volatility of commodity prices and declining business optimism. In Sep-19, global manufacturing PMI remained in contractionary zone for 5-straight months while PMI of emerging economies improved at 6-month high of 51.0 points. Global demand has the potential to return strongly if the US and China reach a deal and supported by easing monetary policies by developed and emerging economies.

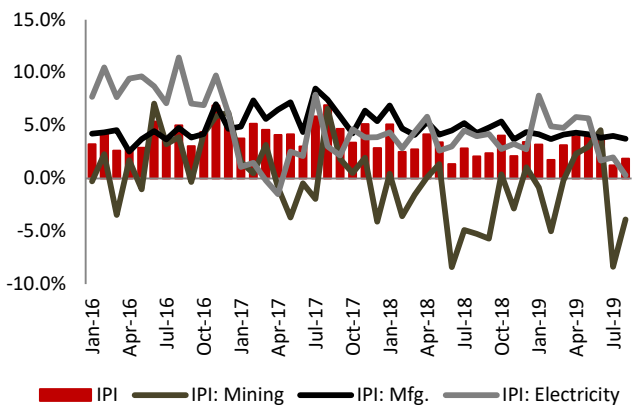
**Table 5: Global IPI (YoY%)**

	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
Malaysia	1.7	3.1	4.0	4.0	3.9	1.2	1.9
Indonesia	0.6	7.9	3.2	4.0	3.6	8.1	
Philippines	(6.2)	(4.4)	(12.0)	(6.7)	(8.1)	(5.5)	(7.8)
Thailand	(1.5)	(2.5)	1.7	(3.6)	(5.4)	(3.4)	(5.0)
Singapore	2.8	(4.6)	0.1	(1.8)	(7.9)	(0.1)	(8.0)
India	0.2	2.7	3.2	4.6	1.2	4.3	
Japan	(1.1)	(4.3)	(1.1)	(2.1)	(3.8)	0.7	(4.7)
EU	0.5	0.3	(0.1)	(0.1)	(1.6)	(1.0)	
USA	2.8	2.3	0.6	1.6	1.0	0.4	0.3

Source: CEIC, MIDFR

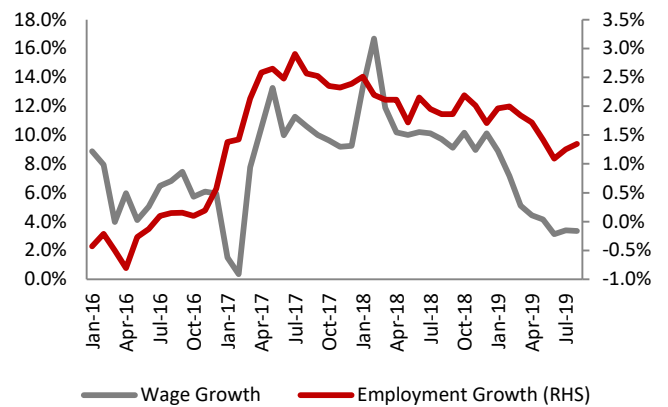
**We maintain our forecast IPI growth of 2.9% for 2019.** For the 1H19, IPI growth averaged at 3.3%yoy. Based on the latest macro trends and indicators, we maintain our forecast figure at 2.9%. Manufacturing sector which hold circa 70% of IPI weight are expected to perform modestly in 2H19 amid escalating trade tensions and that could drag the overall IPI performance this year. Nevertheless, support to the IPI growth would come from the OPR cut effects, easing monetary policy measures by developed and emerging economies, low inflationary pressure, stable domestic demand and positive progression in construction sectors. 

**Chart 1: IPI Performances (YoY%)**



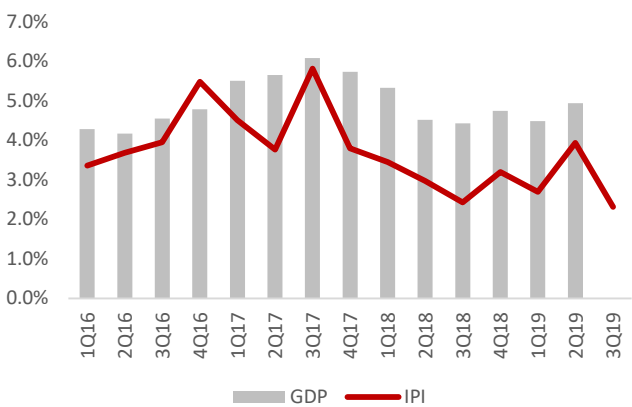
Source: CEIC, MIDFR

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



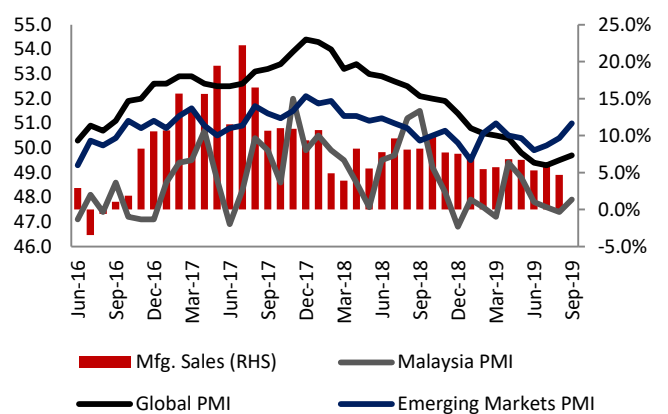
Source: CEIC, MIDFR

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



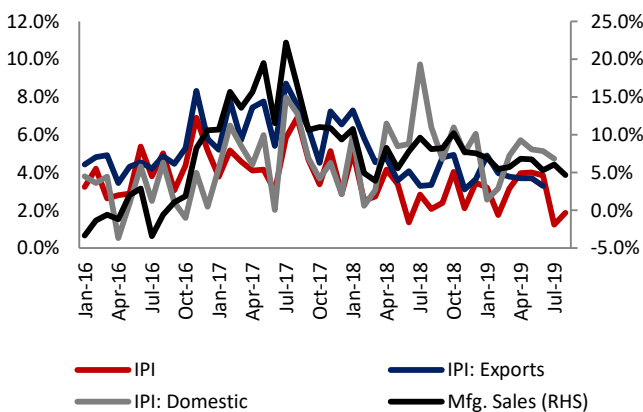
Source: CEIC, MIDFR

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



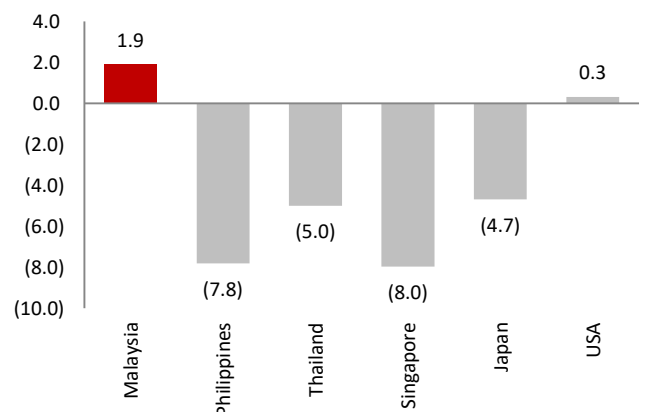
Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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