

## ECONOMIC REVIEW | February 2015 Industrial Production Index

### Stronger than Expected Manufacturing and Mining Output in February

- *The industrial output was solid in February, expanding by 3.9% year-on-year supported by stronger manufacturing and mining outputs. Both sectors grew 4.5%yoy and 1.1%yoy respectively. We expected that mining sector would contract in February due to plunging commodity prices but it continued to grow during the month, proving its resiliency. However, the expansion in electricity output is almost in line with our forecast of 11.0%..*
- *Malaysia's industrial production bucked regional downtrend. While most of its regional peers show a clear downtrend in industrial production, the industrial output in Malaysia expanded robustly in February. In the same month, all ASEAN countries reported contraction with Singapore being hit the worst at 4.69%yoy decline while Thailand's output was contracting further by 1.6%.*
- *We maintain our IPI forecast for year 2016 at 3.0-3.5% and GDP at 4.4%. Consequently, we remain with our expectation that GDP will grow by 4.2% in 1Q16.*

**IPI expanded by 3.9%, higher than expected.** The industrial output was solid in February, expanding by 3.9% year-on-year supported by stronger manufacturing and mining output. Both sectors grew 4.5%yoy and 1.1%yoy respectively. We expected that mining sector would contract in February due to plunging commodity prices but it continued to grow during the month, proving its resiliency. However, the expansion in electricity output is almost in line with our forecast of 11.0%. On a seasonally adjusted basis, IPI expanded by 0.89%mom, almost twice the growth recorded from the previous month. This has been the second consecutive months that all of the three sub-indices registered positive growth.

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

	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16
<b>Industrial Production Index</b>	<b>120.9</b>	<b>118.9</b>	<b>123.2</b>	<b>126.6</b>	<b>120.7</b>	<b>127.2</b>	<b>123.4</b>	<b>114.9</b>
YoY	6.15%	2.32%	5.12%	4.20%	1.86%	2.75%	3.26%	3.89%
MoM (SA)	0.99%	-1.79%	1.58%	-0.33%	-0.49%	1.48%	0.49%	0.89%
<b>Mining Index</b>	<b>101.5</b>	<b>95.5</b>	<b>101.1</b>	<b>102.9</b>	<b>103.0</b>	<b>107.8</b>	<b>111.2</b>	<b>101.1</b>
YoY	14.04%	-3.44%	4.33%	-1.44%	-4.10%	-1.55%	0.63%	1.10%
MoM (SA)	-1.52%	-6.47%	8.78%	-2.56%	-2.24%	2.99%	2.03%	0.38%
<b>Manufacturing Index</b>	<b>129.3</b>	<b>128.7</b>	<b>133.1</b>	<b>137.0</b>	<b>128.6</b>	<b>135.9</b>	<b>128.4</b>	<b>120.7</b>
YoY	4.19%	4.29%	5.55%	6.20%	4.05%	4.06%	3.97%	4.50%
MoM (SA)	0.78%	-0.31%	0.62%	0.54%	0.69%	-0.08%	0.46%	0.23%
<b>Electricity Index</b>	<b>121.4</b>	<b>123.7</b>	<b>121.4</b>	<b>125.8</b>	<b>118.3</b>	<b>124.4</b>	<b>128.0</b>	<b>118.9</b>
YoY	-1.22%	2.23%	2.62%	4.31%	1.98%	5.60%	7.74%	10.50%
MoM (SA)	1.19%	3.45%	0.00%	0.49%	0.41%	1.37%	3.74%	1.15%

Source: Department of Statistics, Malaysia; MIDF Research

**Expansion in manufacturing is in line with good exports figure in February.** Manufacturing sector recorded a higher growth of 4.5%yoy, back by stronger exports activity in the same. Exports grew by 6.7%, rebounding from a mild contraction of 2.8% in January. However, month-on-month manufacturing growth is rather tepid, expanding only 0.23% on a seasonally adjusted basis. Moving forward, we are expecting the manufacturing index to continue its uptrend coming onto the second and third quarter, in line with the yearly cyclical nature of manufacturing production.

**78.5% of the manufacturing industries experienced positive growth on year-on-year basis.** 102 out of 130 industries (78.5%) experienced a year-on-year growth while only 25 (19.2%) of industries grew in February relative to January 2016. We have noted that production of crude palm oil (CPO) continued to decline for two consecutive month year-on-year basis. This is to be expected as the change to hotter climate this year due to El Nino is expected to reduce production. Similarly, production for passenger vehicles was also declining, contracting by double digit at 17.9%yoy. This has been the third consecutive months that output from the industry shrank.

**Table 2: Changes in IPI Sub-Indices**

	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16
Crude Petroleum	7.52%	4.52%	11.84%	2.06%	-0.29%	-0.28%	0.91%	1.31%
Natural Gas	22.41%	-11.80%	-3.81%	-5.29%	-8.72%	-3.09%	0.36%	0.70%
Food, Beverages & Tobacco	-2.25%	4.73%	-0.76%	2.36%	4.65%	-0.25%	3.76%	5.43%
Textiles, Wearing Apparel, Leather Product, Footwear	6.57%	7.74%	10.15%	11.30%	3.53%	7.17%	5.96%	7.74%
Wood Products, Furniture, Paper Products, Printing	4.00%	4.78%	6.65%	3.90%	5.90%	6.02%	10.20%	9.60%
Petroleum, Chemical, Rubber & Plastic Products	3.25%	-0.26%	3.49%	3.33%	-1.11%	1.62%	1.06%	2.95%
Non-Metallic Mineral, Basic & Fabricated Metal Prod	3.29%	3.76%	4.74%	5.05%	4.19%	5.05%	5.98%	4.50%
Electrical & Electronic Products	7.18%	11.80%	12.19%	13.91%	9.32%	8.64%	6.21%	5.87%
Transport Equipment & Other Manufactures	8.87%	-1.31%	-1.11%	1.71%	8.36%	1.36%	1.07%	1.24%

Source: Department of Statistics, Malaysia; MIDF Research

**Electricity output jumped by 10.5%yoy, highest in more than four years.** Electricity index rose by double digit in February year-on-year basis, as festive month kept demand high for electricity. This was the highest yearly increment since March 2012. On a seasonally adjusted basis, the index expanded by 1.15% compared to January.

**Table 3: Changes in IPI Exports/Domestic Oriented Industries**

	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16
<b>Export Oriented Industries</b>	4.38%	5.15%	6.16%	6.76%	3.51%	3.78%	3.67%
Electronic and Electrical Product	7.31%	11.96%	12.43%	14.13%	9.35%	8.69%	6.34%
Chemicals and Chemical Products	1.15%	1.90%	1.74%	2.71%	0.86%	2.14%	2.29%
Petroleum Products	5.25%	-3.07%	4.45%	3.29%	-4.67%	0.42%	-0.60%
Textiles & Wearing Apparel	6.60%	7.79%	10.10%	11.27%	3.50%	7.11%	5.96%
Wood and Wood Products	5.54%	7.53%	9.03%	5.11%	6.43%	7.08%	10.24%
Rubber Products	5.26%	8.09%	7.38%	7.28%	9.05%	4.84%	6.74%
<b>Domestic Oriented Industries</b>	3.68%	1.59%	3.58%	4.38%	5.70%	4.81%	4.75%
Construction	3.28%	3.73%	4.66%	5.09%	4.25%	5.03%	6.01%
Consumer	4.08%	-0.52%	2.51%	3.73%	7.01%	4.62%	3.55%
Food Products	-6.14%	-1.30%	7.81%	5.68%	5.13%	8.50%	4.61%
Transport Equipment	8.84%	-1.32%	-1.11%	1.73%	8.33%	1.38%	1.01%
Beverages	15.03%	5.88%	6.54%	7.44%	7.79%	14.40%	13.63%
Tobacco Products	8.42%	9.51%	9.93%	15.00%	8.33%	5.62%	8.88%
Others	-10.16%	-19.50%	-21.51%	-16.31%	-9.72%	-3.86%	-8.38%


Source: Department of Statistics, Malaysia; MIDF Research

**Malaysia's industrial production bucked regional downtrend.** While most of its regional peers show a clear downtrend in industrial production, the industrial output in Malaysia expanded robustly in February. In the same month, all ASEAN countries reported contraction with Singapore being hit the worst at 4.69%yoy decline while Thailand's output was contracting further by 1.6%. On the other hand, advanced economies such as Japan and US were also shrinking by 1.5% and 1.9% respectively. China, despite showing an expansion, it was also in a clear downtrend, moderating to only 4.9% growth in February. Overall, major economies are being hit the most, which we expect due to slowing demand from emerging market economies.

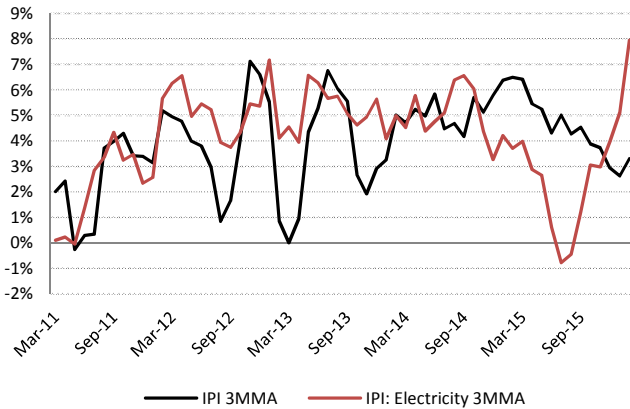
**Table 4: Global IPI**

	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16
Malaysia	6.15%	2.32%	5.12%	4.20%	1.86%	2.75%	3.26%	3.89%
Indonesia	4.41%	5.73%	2.01%	5.41%	5.68%	1.02%	2.94%	
Thailand	2.65%	0.50%	-0.33%	-0.83%	0.28%	1.41%	-3.49%	-1.62%
Philippines	-6.63%	-5.83%	-5.54%	-6.33%	-1.90%	-2.59%	26.45%	
Singapore	-6.06%	-4.70%	-6.30%	-3.27%	-2.78%	-11.89%	0.15%	-4.69%
EU	1.64%	2.34%	1.82%	2.44%	1.65%	-0.07%	2.68%	
China	5.98%	6.10%	5.71%	5.61%	6.17%	5.89%	5.87%	4.91%
Japan	0.00%	-0.45%	-0.78%	-1.38%	1.66%	-1.90%	-3.84%	-1.46%
United States	1.71%	1.61%	0.55%	0.63%	-1.14%	-2.09%	-1.31%	-1.87%

Source: Department of Statistics, Malaysia; MIDF Research

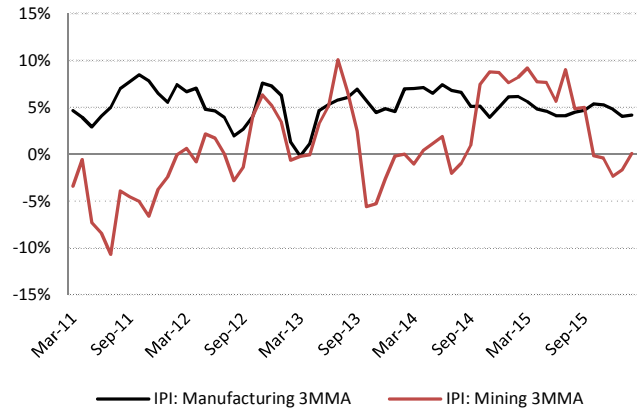
**We maintain our IPI growth forecast at 3.0-3.5% for year 2016 and GDP to grow by 4.2% in 1Q16.** We maintain our expectation that the overall economy is likely to slow down this year, pushing the IPI downward to 3.0-3.5% for year 2016. This would eventually translate into 4.4% for the GDP growth this year, with a 4.2% growth in 1Q16. 

**Chart 1: IPI vs Electricity IPI**



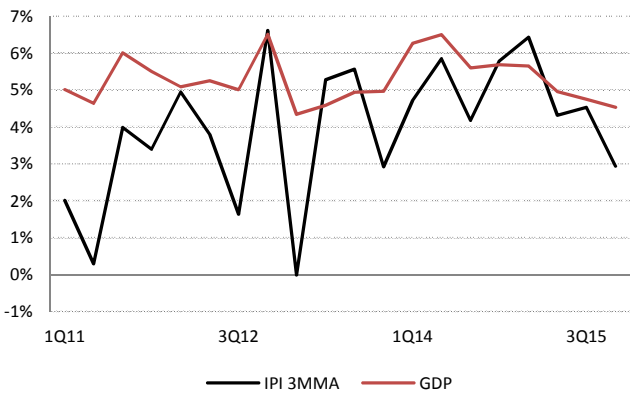
Source: Department of Statistics, Malaysia; MIDF Research

**Chart 2: Manufacturing IPI vs Mining IPI**



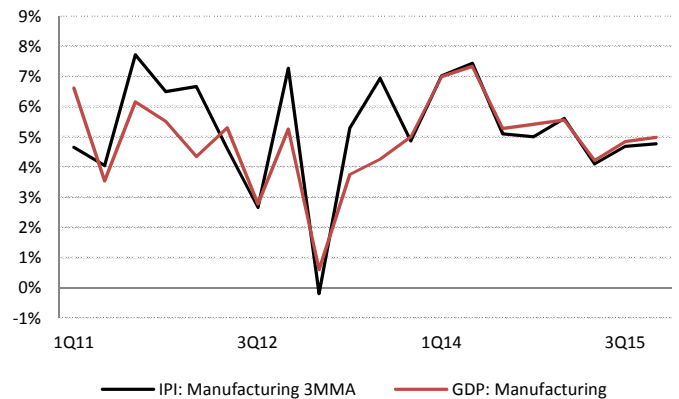
Source: Department of Statistics, Malaysia; MIDF Research

**Chart 3: IPI vs GDP**



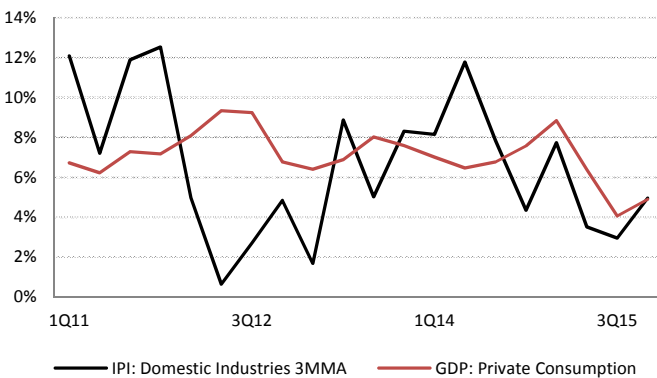
Source: Department of Statistics, Malaysia; MIDF Research

**Chart 4: Manufacturing IPI vs Manufacturing GDP**



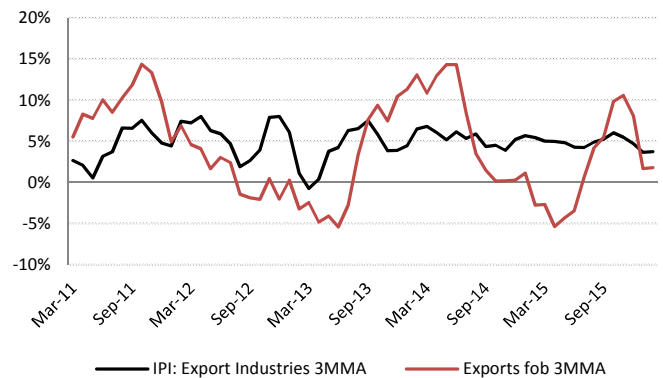
Source: Department of Statistics, Malaysia; MIDF Research

**Chart 5: Domestic IPI vs Private Consumption**



Source: Department of Statistics, Malaysia; MIDF Research

**Chart 6: Export IPI vs Exports fob**



Source: Department of Statistics, Malaysia; MIDF Research

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