

ECONOMIC REVIEW | March 2019 Industrial Production Index

IPI on Upward Path Underpinned by Lower OPR Effects & Positive Domestic Developments

- *IPI growth beats market estimates. Malaysia's IPI grew gradually by 1.7%yoy in Mar-19, outpacing market expectation of 2.3%yoy. The growth is mainly attributed by manufacturing and electricity output while mining contracted at a lesser pace.*
- *Significant comeback by external trade. The IPI performance is in tandem with the rebound of Malaysia's external trade in Mar-19. Total exports fell -0.5%yoy, lesser than the previous month of -5.3%yoy. On monthly basis, the total outbound shipments skyrocketed by 26.2%mom. Domestic exports grew slightly by 0.7%yoy, fourth consecutive month of positive growth while re-exports shrank by -5.4%yoy.*
- *We maintain our forecast IPI growth of 2.9% for 2019. Based on the latest 1Q19 macro performances, 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 beats market estimates. Malaysia's IPI grew gradually by 1.7%yoy in Mar-19, outpacing market expectation of 2.3%yoy. The growth is mainly attributed by manufacturing and electricity output while mining contracted at a lesser pace. The factory output grew 4.1%yoy and electricity output increased 4.8%yoy. Meanwhile, mining output remained in negative territory for three-straight months at -0.2%yoy in Mar-19. Moving forward, we foresee IPI performance to expand at a moderate pace in the 2Q19 and 2H19 underpin by lower OPR effects, low inflationary pressure, stable domestic demand, positive progression in construction sector and gradual pick-up in commodity prices. Trade talks between the US and China remains uncertain and downside risks to global trade activities as well as Malaysia's industrial activities.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%				YoY%			
	Dec-18	Jan-19	Feb-19	Mar-19	Dec-18	Jan-19	Feb-19	Mar-19
IPI	0.2	1.2	(2.0)	1.2	3.4	3.2	1.7	3.1
Mining	(0.5)	0.3	(6.8)	6.4	1.0	(0.9)	(5.0)	(0.2)
Manufacturing	0.3	1.3	(0.3)	(0.4)	4.4	4.2	3.7	4.1
Electricity	(0.1)	4.0	(3.1)	0.3	2.7	7.8	4.9	4.8

Source: CEIC, MIDFR

*MoM is Seasonally Adjusted

Significant comeback by external trade. The IPI performance is in tandem with the rebound of Malaysia's external trade in Mar-19. Total exports fell -0.5%yoy, lesser than the previous month of -5.3%yoy. On monthly basis, the total outbound shipments skyrocketed by 26.2%mom. Domestic exports grew slightly by 0.7%yoy, fourth consecutive month of positive growth while re-exports shrank by -5.4%yoy. Among others, exports of refined petroleum products and LNG expanded at solid pace of 16.2%yoy and 17.2%yoy respectively in Mar-19. On a flip side, oversea sales of crude petroleum and E&E contracted by -33.5%yoy and -1.9%yoy respectively. 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.

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

	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
Mining;	0.4	(2.8)	1.0	(0.9)	(5.0)	(0.2)
Mining: Crude Petroleum	(1.9)	(4.9)	2.5	(2.2)	(4.3)	(2.0)
Mining: Natural Gas	2.4	(1.0)	(0.2)	0.3	(5.6)	1.4
Manufacturing;	5.4	3.7	4.4	4.2	3.7	4.1
Food Products	2.6	(2.0)	(1.8)	2.4	6.6	7.0
Refined Petroleum Products	5.1	5.3	1.7	3.9	0.2	4.3
Chemicals & Chemicals Products	1.0	0.4	2.9	2.6	0.5	1.7
Rubber Products	7.5	4.3	10.7	5.2	8.1	6.5
Basic Metals	4.7	4.0	3.4	3.2	3.6	3.0
Electrical & Electronic Products	7.1	5.3	7.2	3.9	3.1	2.7
Computers & Peripheral Equipment	7.5	0.3	5.3	(1.2)	6.2	6.0
Machinery & Equipment	4.5	3.9	4.8	2.9	2.2	1.3
Motor Vehicles, Trailers & Semi-Trailers	10.7	9.1	9.0	6.5	7.3	6.7

Source: CEIC, MIDFR

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

	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
IPI: Export Oriented Industries	3.3	4.8	4.9	3.1	3.6	4.9	4.0
Electronic and Electrical Product	3.9	5.2	6.9	5.2	7.1	4.6	4.2
Chemicals and Chemical Pdts	3.4	3.9	2.4	1.1	3.7	4.1	1.4
Petroleum Products	3.4	3.4	5.2	5.3	1.6	3.8	0.4
Textiles & Wearing Apparel	2.9	2.2	2.2	4.8	4.2	5.4	3.6
Wood and Wood Products	7.0	9.1	8.3	1.4	3.8	6.5	5.7
Rubber Products	5.3	5.2	7.3	5.6	11.4	3.7	8.0
Off Estate Processing	(3.3)	7.4	(0.3)	(6.7)	(9.6)	10.8	17.8
Paper Products	5.9	2.3	4.0	2.6	3.3	3.6	4.7
IPI: Domestic Oriented Industries	6.4	4.7	6.4	5.0	6.0	2.6	3.0
Construction (CO)	4.9	4.8	4.7	4.0	4.2	4.4	4.6
CO: Non Metallic Mineral	5.3	5.4	4.1	4.2	4.3	5.8	5.0
CO: Iron and Steel	4.0	3.7	4.7	4.0	3.4	3.2	3.6
CO: Fabricated Metal	5.2	5.1	5.1	4.0	4.6	4.1	5.0
Consumer (CS)	7.6	4.6	7.8	5.9	7.6	1.1	1.8
CS: Food Products	7.3	6.8	6.1	3.5	7.9	(4.9)	(2.6)
CS: Transport Equipment	9.0	1.6	9.6	9.7	7.7	6.7	8.0
CS: Beverages	3.4	4.2	0.8	1.5	1.7	2.6	5.8
CS: Tobacco Products	2.3	3.3	5.5	(1.5)	6.3	6.6	7.4
CS: Others	7.9	7.2	10.7	6.1	9.4	(1.6)	(4.8)

Source: CEIC, MIDFR

*Data available as of Feb-19

Manufacturing sales improved marginally. Manufacturing sales increased 5.7%yoy in Mar-19, slightly higher than the 10-month low recorded in the previous month. The softer pace is in line with the continuous negative growth of re-exports at -5.4%yoy during the 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 Mar-19. Nevertheless, wage growth in the manufacturing sector grew by 5.1%yoy while employment growth at 1.8%yoy.

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

	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
Sales;	8.2	10.2	7.7	7.5	7.0	5.5	5.7
Refined Petroleum Products	11.2	14.6	17.8	1.2	12.6	4.6	12.3
Diodes, Transistor & Electronic Integrated Circuits Mic	12.6	17.9	25.8	33.1	18.0	12.8	10.0
Electrical Capacitor Resistor, Circuit Board & Display Comp	8.4	13.8	6.3	10.6	2.4	0.2	(0.1)
Employment	1.9	2.2	2.0	1.7	2.0	2.0	1.8
Wage	9.1	10.2	9.0	10.1	8.9	7.2	5.1

Source: CEIC, MIDFR

Uncertainty over US-China trade talks dim global IPI. IPI performances across major and emerging economies moderated in Mar-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 2.8%yoy in Mar-19, lowest growth in 10-month. Across the globe, ASEAN countries such as Philippines, Thailand and Singapore experienced contractions in the final month of 1Q19. Looking ahead, we view global trade activities to stay at modest pace amid uncertain and directionless trade talks between the two major economic powers. In Apr-18, manufacturing PMI figures for global and emerging economies remain above expansionary line, 50.3 and 50.5 points respectively.

Table 5: Global IPI (YoY%)

	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
Malaysia	2.4	4.0	2.1	3.4	3.2	1.7	3.1
Indonesia	3.1	8.7	6.2	6.5	(0.7)	(4.0)	
Philippines	3.5	4.4	2.6	(8.0)	1.1	(5.4)	(5.4)
Thailand	1.5	7.6	3.0	0.7	0.4	(1.5)	(2.4)
Singapore	0.5	5.2	6.8	1.8	1.2	2.6	(4.8)
India	4.6	8.4	0.2	2.6	1.4	0.1	
Japan	(2.5)	4.2	1.9	(2.0)	0.7	(1.1)	(4.6)
EU	0.9	1.0	(2.0)	(2.5)	(0.3)	0.4	
USA	5.4	3.8	3.9	3.4	3.4	3.5	2.8

Source: CEIC, MIDFR


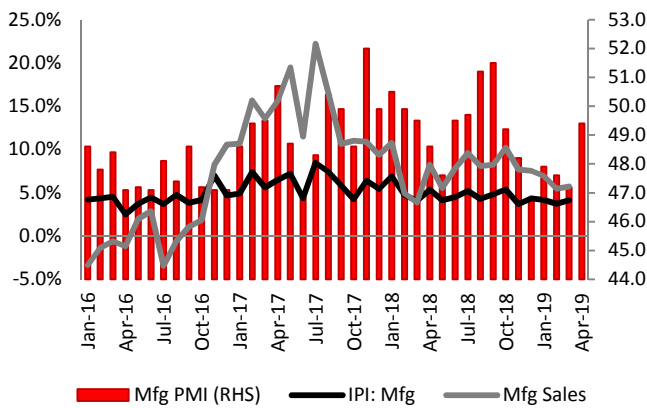
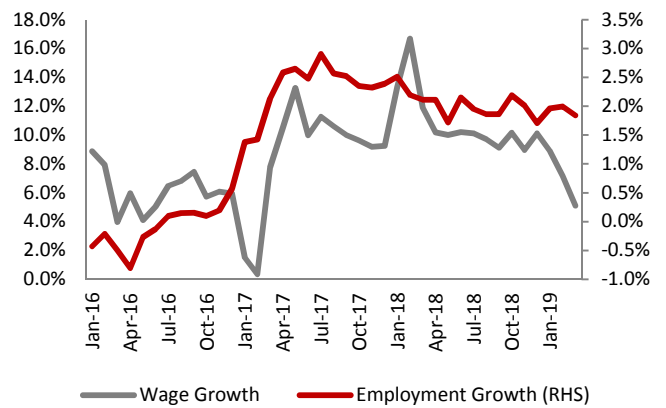
We maintain our forecast IPI growth of 2.9% for 2019. Based on the latest 1Q19 macro performances, we maintain our forecast figure at 2.9%. The IPI growth among others would be attributed by effects of lower OPR, low inflationary pressure, stable domestic demand, positive progression in construction 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 the estimate. 

Chart 1: Manufacturing IPI & Sales (YoY%) vs PMI (Points)



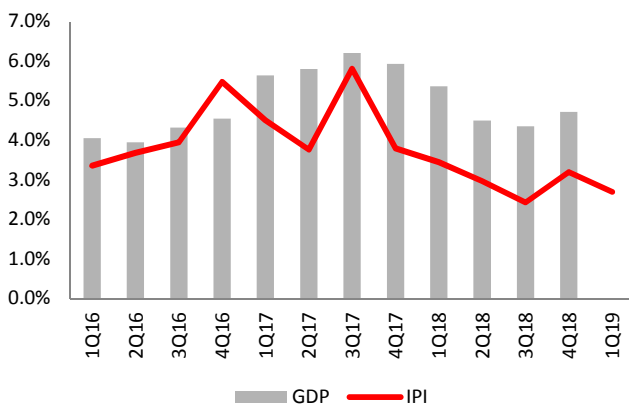
Source: CEIC, MIDFR

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



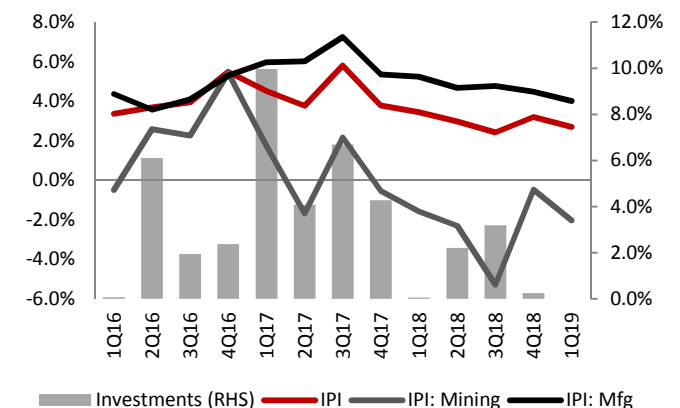
Source: CEIC, MIDFR

Chart 3: IPI vs GDP (YoY%)



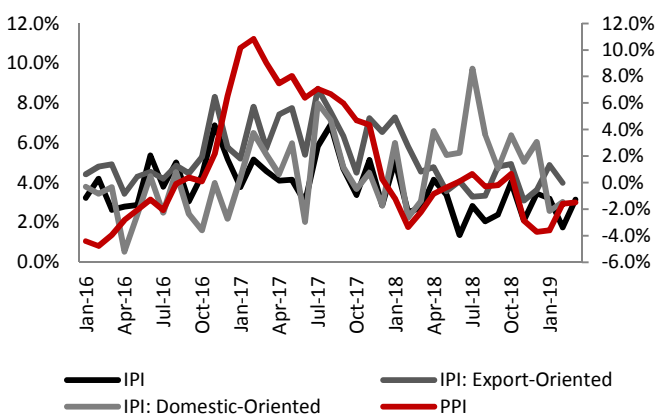
Source: CEIC, MIDFR

Chart 4: IPI vs Investments Performances (YoY%)



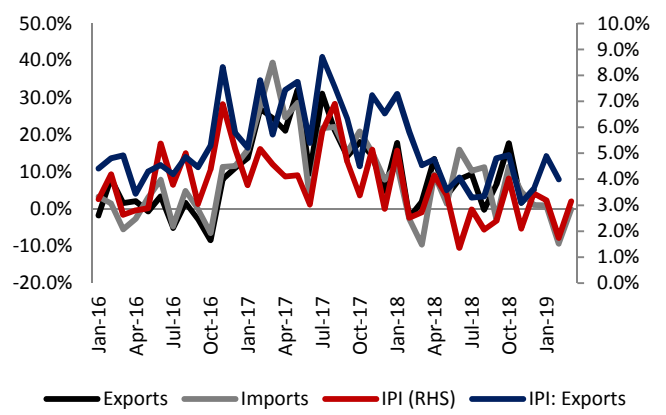
Source: CEIC, MIDFR

Chart 5: IPI vs PPI (YoY%)



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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