

ECONOMIC REVIEW | May 2019 Industrial Production Index

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

- *IPI grew higher than expected. Malaysia's IPI expanded steadily by 4%yoy in May-19, outpacing market expectation of 3.5%yoy. The growth is mainly attributed by the continuous rebound in mining output and expansion in manufacturing and electricity output. Mining output increased significantly by 3%yoy, the fastest since Aug-17.*
- *Mining and domestic-oriented industries to pick-up in 2H19. Domestically, domestic-oriented output rose at 4-month high, driven by consumer and consumer products. 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.*
- *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 grew higher than expected. Malaysia's IPI expanded steadily by 4%yoy in May-19, outpacing market expectation of 3.5%yoy. The growth is mainly attributed by the continuous rebound in mining output and expansion in manufacturing and electricity output. Mining output increased significantly by 3%yoy, the fastest since Aug-17. 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%			
	Feb-19	Mar-19	Apr-19	May-19	Feb-19	Mar-19	Apr-19	May-19
IPI	(2.0)	1.2	2.0	(0.3)	1.7	3.1	4.0	4.0
Mining	(6.8)	6.4	3.1	(1.4)	(5.0)	(0.2)	2.3	3.0
Manufacturing	(0.3)	(0.4)	1.5	0.2	3.7	4.1	4.3	4.2
Electricity	(3.1)	0.3	1.7	0.4	4.9	4.8	5.8	5.7

Source: CEIC, MIDFR
*MoM is Seasonally Adjusted

Mining and domestic-oriented industries to pick-up in 2H19. The IPI performance is in tandem with the rebound of Malaysia's external trade in May-19. Total exports continued its positive growth at 2.5%yoy in May-19, highest in 4-month. Domestic exports grew strongly by 8.8%yoy. We expect Malaysia's external trade and industrial activities to stay on upward trajectory amid the support from the mining sector. Both LNG and crude petroleum are expected to expand at steady pace as long as Brent crude oil price stays above \$60pbd. In addition, production of crude petroleum is expected to improve in 2H19 particularly when Keabangan gas field returns to full-capacity. Domestically, domestic-oriented output rose at 4-month high, driven by consumer and consumer products. 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%)

	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19
Mining;	1.0	(0.9)	(5.0)	(0.2)	2.3	3.0
Mining: Crude Petroleum	2.5	(2.2)	(4.3)	(2.0)	(1.9)	(2.0)
Mining: Natural Gas	(0.2)	0.3	(5.6)	1.4	6.1	7.6
Manufacturing;	4.4	4.2	3.7	4.1	4.3	4.2
Food Products	(1.8)	2.4	6.6	7.0	4.1	4.8
Refined Petroleum Products	1.7	3.9	0.2	4.3	4.0	2.0
Chemicals & Chemicals Products	2.9	2.6	0.5	1.7	1.0	2.6
Rubber Products	10.7	5.2	8.1	6.5	6.2	8.8
Basic Metals	3.4	3.2	3.6	3.0	4.0	3.5
Electrical & Electronic Products	7.2	3.9	3.1	2.7	4.1	3.7
Computers & Peripheral Equipment	5.3	(1.2)	6.2	6.0	11.5	20.6
Machinery & Equipment	4.8	2.9	2.2	1.3	3.0	3.3
Motor Vehicles, Trailers & Semi-Trailers	9.0	6.5	7.3	6.7	9.5	9.3

Source: CEIC, MIDFR

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

	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
IPI: Export Oriented Industries	4.9	3.1	3.6	4.9	4.0	3.8	3.7
Electronic and Electrical Product	6.9	5.2	7.1	4.6	4.1	3.1	4.2
Chemicals and Chemical Pdts	2.4	1.1	3.7	4.1	1.4	2.4	2.5
Petroleum Products	5.2	5.3	1.6	3.8	0.4	4.3	4.0
Textiles & Wearing Apparel	2.2	4.8	4.2	5.4	3.6	4.9	5.7
Wood and Wood Products	8.3	1.4	3.8	6.5	5.7	4.2	3.7
Rubber Products	7.3	5.6	11.4	3.7	8.0	7.7	7.0
Off Estate Processing	(0.3)	(6.7)	(9.6)	10.8	17.8	6.1	0.3
Paper Products	4.0	2.6	3.3	3.6	4.7	4.4	4.6
IPI: Domestic Oriented Industries	6.4	5.0	6.0	2.6	3.2	4.9	5.7
Construction (CO)	4.7	4.0	4.2	4.4	4.6	3.6	4.2
CO: Non Metallic Mineral	4.1	4.2	4.3	5.8	5.0	4.2	4.5
CO: Iron and Steel	4.7	4.0	3.4	3.2	3.6	3.0	4.0
CO: Fabricated Metal	5.1	4.0	4.6	4.1	5.0	3.5	4.0
Consumer (CS)	7.8	5.9	7.6	1.1	2.0	5.9	7.0
CS: Food Products	6.1	3.5	7.9	(4.9)	(2.0)	7.1	7.3
CS: Transport Equipment	9.6	9.7	7.7	6.7	8.0	6.6	9.0
CS: Beverages	0.8	1.5	1.7	2.6	3.0	1.7	3.6
CS: Tobacco Products	5.5	(1.5)	6.3	6.6	6.8	10.9	8.2
CS: Others	10.7	6.1	9.4	(1.6)	(3.8)	2.0	2.6

Source: CEIC, MIDFR

*Data available as of Apr-19

Manufacturing sales growth still at stable pace. Manufacturing sales increased 6.7%yoy in May-19, slightly lower than the previous month. Among others, we observed the moderating sales growth of refined petroleum products are the main dragging factors during the month. Wage growth in the manufacturing sector grew by 4.1%yoy while employment growth at 1.4%yoy. Looking ahead, 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%)

	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19
Sales;	7.7	7.5	7.0	5.5	5.7	6.8	6.7
Refined Petroleum Products	17.8	1.2	12.6	4.6	12.3	7.3	4.4
Diodes, Transistor & Electronic Integrated Circuits Mic	25.8	33.1	18.0	12.8	10.0	18.8	20.3
Electrical Capacitor Resistor, Circuit Board & Display Comp	6.3	10.6	2.4	0.2	(0.1)	2.1	3.7
Employment	2.0	1.7	2.0	2.0	1.8	1.7	1.4
Wage	9.0	10.1	8.9	7.2	5.1	4.4	4.1

Source: CEIC, MIDFR

Global trade uncertainties dim IPI performances. IPI performances across major and emerging economies moderated in May-19 due to global trade uncertainties, geopolitical stress in Europe, and volatility in global commodity prices. IPI in the US improved modestly to 1.9%yoy, mainly due to rebound in manufacturing output. Mining activity in the US remains at robust performance, registering 21-straight months of more than 9%yoy growth rate. Across the globe, ASEAN economies such as Philippines, Thailand and Singapore experienced contractions in May-19. 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 Jun-18, Global manufacturing PMI went down to 49.4 points, lowest since Oct-12 while PMI for emerging economies stays on expansionary path, 49.9 points, 5-month low.

Table 5: Global IPI (YoY%)

	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19
Malaysia	2.1	3.4	3.2	1.7	3.1	4.0	4.0
Indonesia	6.2	6.5	5.2	1.0	8.3	1.1	
Philippines	2.6	(8.2)	0.8	(5.9)	(4.4)	(11.3)	(2.1)
Thailand	2.9	0.7	0.3	(1.5)	(2.5)	1.7	(4.0)
Singapore	6.8	1.8	1.0	2.5	(4.0)	0.1	(2.4)
India	0.2	2.5	1.6	0.1	0.4	3.4	
Japan	1.9	(2.0)	0.7	(1.1)	(4.3)	(1.1)	(1.8)
EU	(1.9)	(2.5)	0.0	0.8	0.3	0.2	
USA	3.9	3.3	3.3	2.7	2.2	0.7	1.9

Source: CEIC, MIDFR


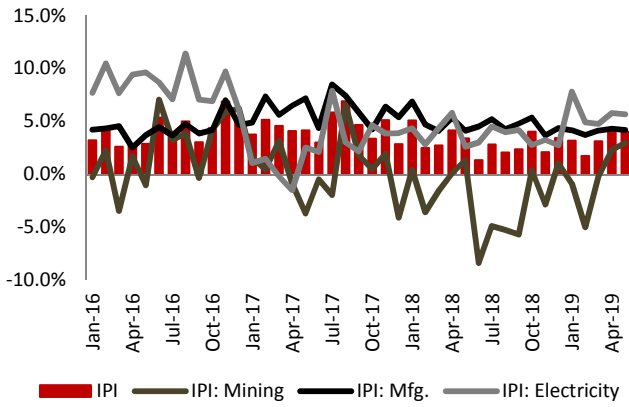
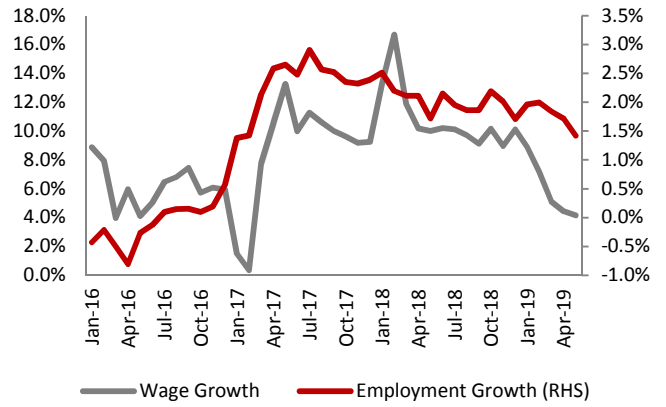
We maintain our forecast IPI growth of 2.9% for 2019. Based on the latest macro trends and indicators, we maintain our forecast figure at 2.9%. The IPI growth among others would be attributed by effects of lower OPR, low inflationary pressure, stable domestic demand, positive progression in construction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



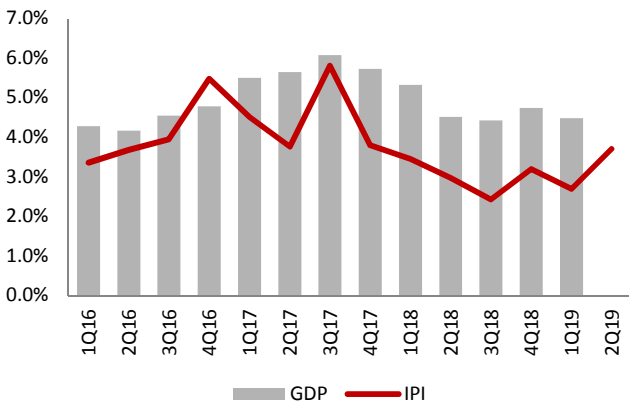
Source: CEIC, MIDFR

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



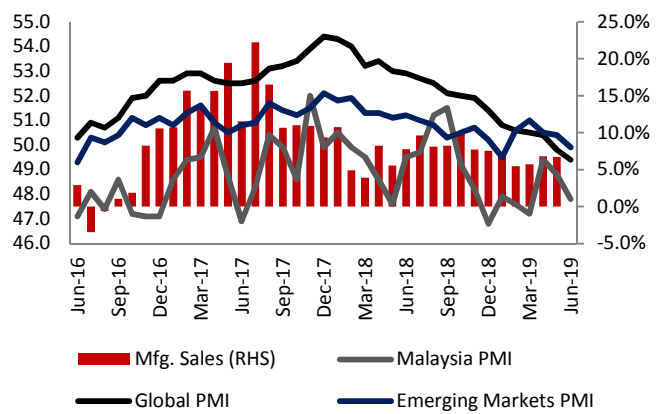
Source: CEIC, MIDFR

Chart 3: IPI vs GDP (YoY%)



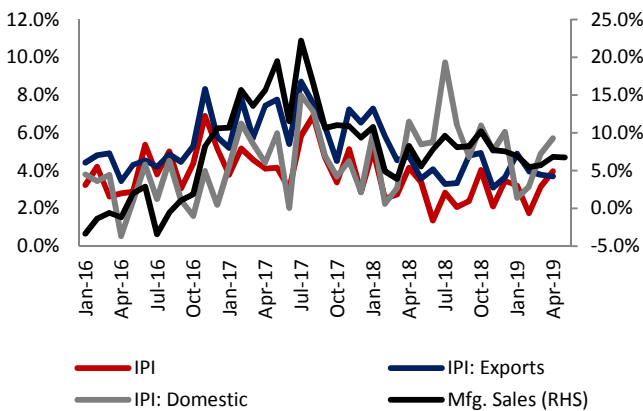
Source: CEIC, MIDFR

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



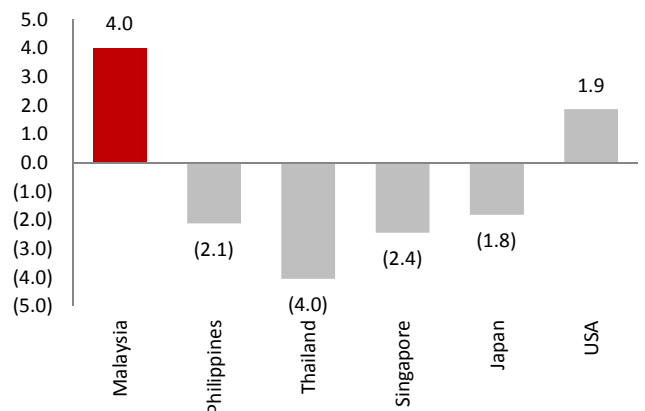
Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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