

ECONOMIC REVIEW | September 2019 Industrial Production Index

3Q19 IPI Performance Weakens Due to Global Trade Tension & Volatility in Commodity Prices

- IPI continued on expansion. Malaysia's IPI growth recorded at 1.7%yoy in Sep-19, similar with previous month and slightly lower than market estimates of 1.9%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 at modest 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 growth at 3-year low. Manufacturing sales increased by 2.9%yoy in Sep-19, slowest expansion rate since Oct-16. The deceleration is in tandem with the downward trends of exports performance during the month. Among others tepid pace of sales of refined petroleum products by 1.6%yoy and contraction of diodes, transistor & electronic integrated circuits by -3.8%yoy that dragged down overall sales performance.*
- 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.*

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Table 1: Malaysia – Summary of Industrial Production Index

	MoM%				YoY%			
	Jun-19	Jul-19	Aug-19	Sep-19	Jun-19	Jul-19	Aug-19	Sep-19
IPI	(1.1)	(0.4)	0.8	(0.3)	3.8	1.2	1.7	1.7
Mining	(2.8)	(10.9)	9.9	(1.4)	4.6	(8.4)	(3.9)	(1.6)
Manufacturing	(0.4)	2.7	(1.3)	(1.3)	3.8	4.0	3.6	2.5
Electricity	(3.6)	4.5	(3.2)	3.3	1.7	2.0	0.3	4.1

Source: CEIC, MIDFR

*MoM is Seasonally Adjusted

Flattening commodity prices pressure mining output. Underpin by volatility of commodity prices, production of crude petroleum down by -4.7%yoy, registering 14-straight months of negative rate. Natural gas output grew 1.1%yoy, weakest gain in 7-month. IPI performance especially export-oriented industries are pressured down by sluggish external trade trend. Total exports fell by -6.8%yoy in Sep-19, the biggest contraction rate in 3-year. Re-exports and domestic exports slashed down by -22.4%yoy and -2.1%yoy respectively. On a flip side, domestic-oriented industries performed strongly as overall domestic IPI grew by 6.9%yoy, fastest in 13-month. Construction output expanded 4.4%yoy while consumer products jumped 8.8%yoy in Aug-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%)

	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
Mining;	2.3	3.0	4.6	(8.4)	(3.9)	(1.6)
Mining: Crude Petroleum	(1.9)	(2.0)	(3.7)	(22.7)	(9.5)	(4.7)
Mining: Natural Gas	6.1	7.6	13.0	7.3	1.2	1.1
Manufacturing;	4.3	4.2	3.8	4.0	3.6	2.5
Food Products	4.1	4.5	3.9	0.4	1.9	1.4
Refined Petroleum Products	4.0	2.0	2.7	3.8	2.7	2.4
Chemicals & Chemicals Products	1.0	2.6	2.5	1.9	2.2	1.7
Rubber Products	6.2	8.8	7.8	8.0	7.6	5.1
Basic Metals	4.0	3.5	4.3	4.7	3.7	3.3
Electrical & Electronic Products	4.1	3.7	3.5	4.9	3.1	0.8
Computers & Peripheral Equipment	11.5	20.6	3.9	14.0	19.8	1.0
Machinery & Equipment	3.0	3.3	2.5	4.8	5.2	3.6
Motor Vehicles, Trailers & Semi-Trailers	9.5	9.3	8.0	7.5	8.0	8.3

Source: CEIC, MIDFR

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

	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
IPI: Export Oriented Industries	4.0	3.8	3.7	3.7	3.3	3.7	2.4
Electronic and Electrical Product	4.1	3.1	4.2	4.1	3.6	5.0	3.6
Chemicals and Chemical Pdts	1.4	2.4	2.5	2.9	1.9	1.8	1.9
Petroleum Products	0.4	4.3	4.0	1.8	2.8	3.8	2.4
Textiles & Wearing Apparel	3.6	4.9	5.7	5.8	5.5	5.8	6.0
Wood and Wood Products	5.7	4.2	3.7	6.6	4.7	3.4	3.6
Rubber Products	8.0	7.7	7.0	10.2	9.5	9.0	8.5
Off Estate Processing	17.8	6.1	0.3	1.1	0.4	(3.0)	(9.0)
Paper Products	4.7	4.4	4.6	5.3	4.1	4.9	5.5
IPI: Domestic Oriented Industries	3.2	4.9	5.7	5.2	5.1	4.7	6.9
Construction (CO)	4.6	3.6	4.2	4.2	4.8	4.5	4.4
CO: Non Metallic Mineral	5.0	4.2	4.5	4.0	5.1	4.2	5.1
CO: Iron and Steel	3.6	3.0	4.0	3.5	4.3	4.7	3.7
CO: Fabricated Metal	5.0	3.5	4.0	4.6	4.9	4.6	4.2
Consumer (CS)	2.0	5.9	7.0	6.1	5.4	4.9	8.8
CS: Food Products	(2.0)	7.1	7.3	7.7	6.2	3.5	14.0
CS: Transport Equipment	8.0	6.6	9.0	7.9	7.4	6.1	6.0
CS: Beverages	3.0	1.7	3.6	4.1	3.2	2.5	7.1
CS: Tobacco Products	6.8	10.9	8.2	4.7	4.3	3.8	4.3
CS: Others	(3.8)	2.0	2.6	(0.4)	0.7	6.6	6.7

Source: CEIC, MIDFR

*Data available as of Aug-19

Manufacturing sales growth at 3-year low. Manufacturing sales increased by 2.9%yoy in Sep-19, slowest expansion rate since Oct-16. The deceleration is in tandem with the downward trends of exports performance during the month. Among others tepid pace of sales of refined petroleum products by 1.6%yoy and contraction of diodes, transistor & electronic integrated circuits by -3.8%yoy that dragged down overall sales performance. Meanwhile, wage and employment growths in the manufacturing sector continued improving by 2.8%yoy and 1.3%yoy respectively. Looking ahead, as guided by manufacturing PMI figures, we expect manufacturing sales to improve in 4Q19 amid slight cool off in US-China trade tension, trivial improvement in commodity prices and strong domestic demand.

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

	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
Sales;	5.7	6.8	6.7	5.3	6.0	4.5	2.9
Refined Petroleum Products	12.3	7.3	4.4	5.9	6.9	4.7	1.6
Diodes, Transistor & Electronic Integrated Circuits Mic	10.0	18.8	20.3	9.9	4.3	(0.4)	(3.8)
Electrical Capacitor Resistor, Circuit Board & Display Comp	(0.1)	2.1	3.7	2.0	8.3	6.9	4.6
Employment	1.8	1.7	1.4	1.1	1.3	1.3	1.3
Wage	5.1	4.4	4.1	3.1	3.4	3.3	2.8

Source: CEIC, MIDFR

Global IPI on weakening trend. IPI performances across major and emerging economies further moderated in Sep-19 due to global trade uncertainties, geopolitical stress in Europe, and volatility in global commodity prices. Overall IPI growth in the US shrank by -0.2%yoy, the worst performance since Nov-16. Among others, manufacturing output shrank by -0.9%yoy while mining output growth moderated to 2.9%yoy, slowest since Feb-17. Some ASEAN economies namely Philippines and Thailand continued to contract. Singapore returned to positive growth at marginal rate of 0.1%yoy. Looking ahead, we view global trade activities to improve slightly due to some recovery in manufacturing PMI of global, emerging economies and major economies like the US and China. In Oct-19, global manufacturing PMI remained in contractionary zone for 6-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%)

	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
Malaysia	3.1	4.0	4.0	3.8	1.2	1.7	1.7
Indonesia	7.9	3.2	4.0	3.6	4.6	4.0	4.5
Philippines	(4.4)	(11.9)	(6.7)	(7.7)	(6.1)	(8.3)	(2.3)
Thailand	(2.6)	1.6	(3.6)	(5.4)	(3.4)	(5.1)	(4.9)
Singapore	(4.5)	0.1	(1.8)	(7.9)	1.2	(6.4)	0.1
India	2.7	3.2	4.5	1.2	4.6	(1.1)	
Japan	(4.3)	(1.1)	(2.1)	(3.8)	0.7	(4.7)	1.1
EU	0.2	(0.1)	(0.1)	(1.6)	(1.0)	(1.9)	
USA	2.3	0.6	1.6	1.0	0.3	0.3	(0.2)

Source: CEIC, MIDFR


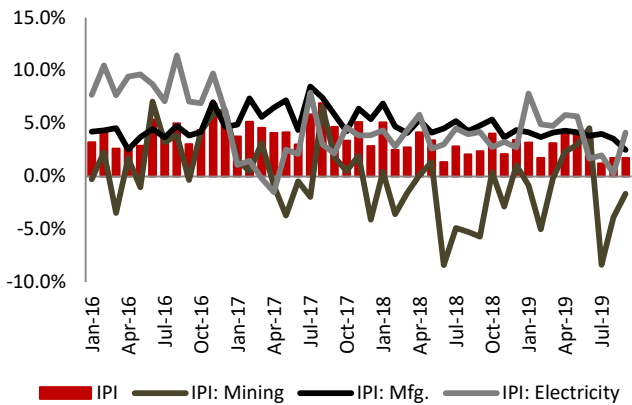
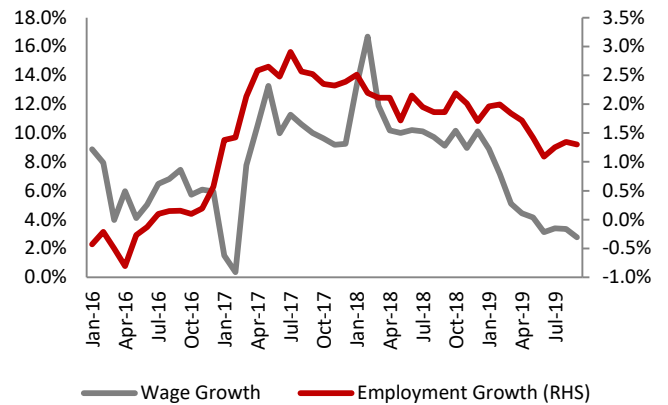
We maintain our forecast IPI growth of 2.9% for 2019. For the 1H19, IPI growth averaged at 3.3%yoy. Based on the latest macro trends and indicators, we maintain our forecast figure at 2.9%. Manufacturing sector which hold circa 70% of IPI weight are expected to perform modestly in 2H19 amid escalating 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%)



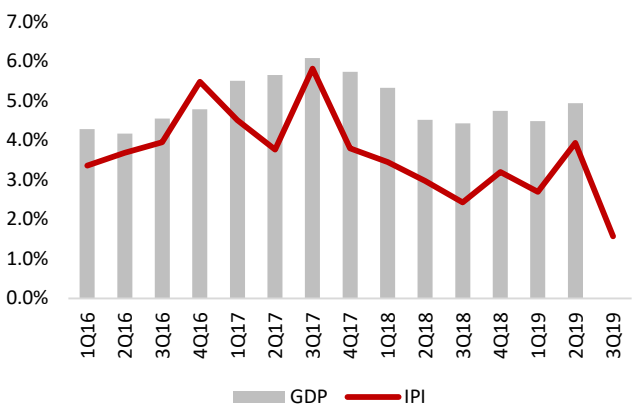
Source: CEIC, MIDFR

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



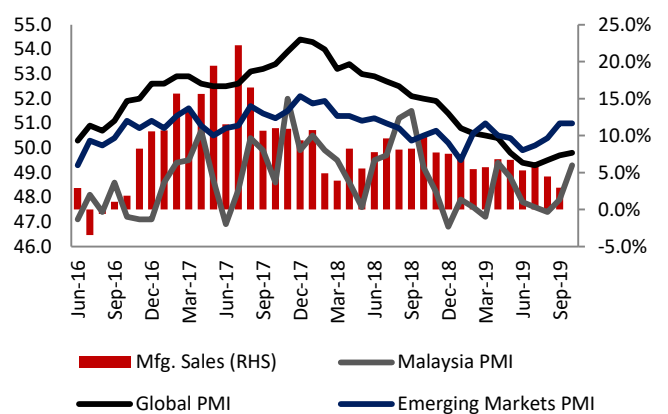
Source: CEIC, MIDFR

Chart 3: IPI vs GDP (YoY%)



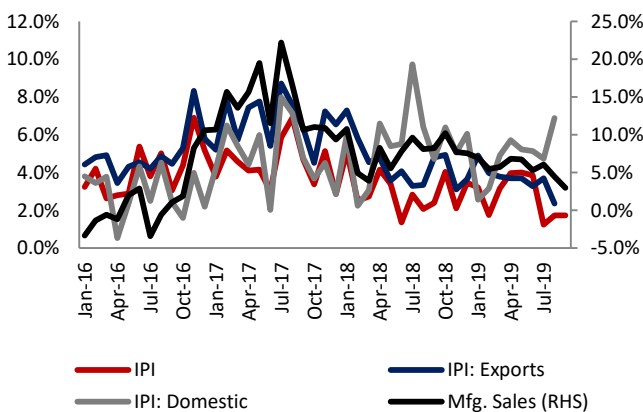
Source: CEIC, MIDFR

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



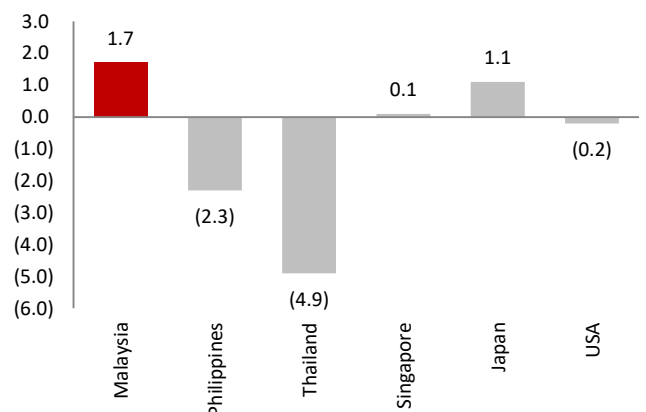
Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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