13 April 2015

MALAYSIA

February IPI: Taking a breather or a beginning of a slowdown?

- **The overall index lost momentum mainly due to the cool off in the manufacturing sector which could be partly attributed to the long CNY break. That was also reflected in the Electricity index which posted meagre growth during the month.**
- **On the other hand, the mining sector continued to churn big volume of production, relative to that of last year's at a faster pace compared to that in January.**
- **We believe that while February's performance could be affected by the CNY, we do not think that the manufacturing production would rebound much stronger given the still lackluster external demand. On the other hand, the mining sector may continue to show strong growth due to the low base factor. Overall, the index is expected to average at 4.5 – 5.5% in line with our call of 4.7% growth for real GDP this year.**

IPI could have taken a breather on long CNY break. IPI growth slowed to +5.2%yoy in February (Jan 15: +7.0%yoy) mainly due to the slowdown in the 'Manufacturing' index (+4.0%yoy vs 6.5%yoy) and 'Electricity' index (1.9%yoy vs 6.3%yoy), while that of the 'Mining' index expanded at a faster pace (+9.2%yoy vs 8.3%yoy). On a month-on-month basis, IPI contracted by 3.5% largely due to the decline in the 'Manufacturing' index by 5.5%. Meanwhile, the 'Mining' and 'Electricity' index accelerated at the same pace by 0.9%mom. The long CNY break (which in many businesses establishments lasted more than a week) could be the biggest factor behind the slowdown in the manufacturing sector and in turn, the electricity production.

Table 1. Malaysia – Summary of Industrial Production Index

	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	2014	Jan-15	Feb-15
Industrial Production Index	**116.2**	**117.2**	**121.5**	**118.5**	**123.8**	**116.0**	**119.5**	**110.6**
% YoY	*6.5*	*5.4*	*5.1*	*4.8*	*7.4*	*5.2*	*7.0*	*5.2*
% MoM	*2.0*	*0.9*	*3.6*	*(2.5)*	*4.6*	--	*(3.5)*	*(0.1)*
Mining Index	**98.9**	**96.9**	**104.4**	**107.5**	**109.5**	**99.5**	**110.5**	**100.0**
% YoY	*3.6*	*7.2*	*11.5*	*7.6*	*6.9*	*2.6*	*8.3*	*9.2*
% MoM	*11.1*	*(2.1)*	*7.7*	*2.9*	*1.9*	--	*0.9*	*(0.3)*
Manufacturing Index	**123.4**	**126.1**	**129**	**123.6**	**130.5**	**123.0**	**123.5**	**115.5**
%YoY	*7.4*	*4.7*	*3.2*	*3.7*	*7.9*	*6.0*	*6.5*	*4.0*
%MoM	*(0.6)*	*2.2*	*2.3*	*(4.3)*	*5.6*	--	*(5.5)*	*(0.3)*
Electricity Index	**121**	**118.3**	**120.6**	**116**	**117.8**	**118.4**	**118.8**	**107.6**
% YoY	*8.4*	*6.2*	*3.4*	*3.2*	*3.0*	*4.7*	*6.3*	*1.9*
% MoM	*(1.5)*	*(2.2)*	*2.0*	*(4.0)*	*1.6*	--	*0.9*	*(2.6)*

Source: Department of Statistics, Malaysia; MIDF Research

Nonetheless, the external conditions signalled that the manufacturing production may rebound, but the pace may be somewhat more moderate, closer to its long-term trend. The forward looking indicators showed that industrial production activities are likely to remain strong in the next few months but the lacklustre external demand suggests that the key manufactured export items that are mainly going to China may continue to show a pullback and given the smaller share of exports to the US now, we do not stand to gain much from the recovery that is ongoing in that country.

Table 2. Manufacturing Indices at Division Level (% YoY)

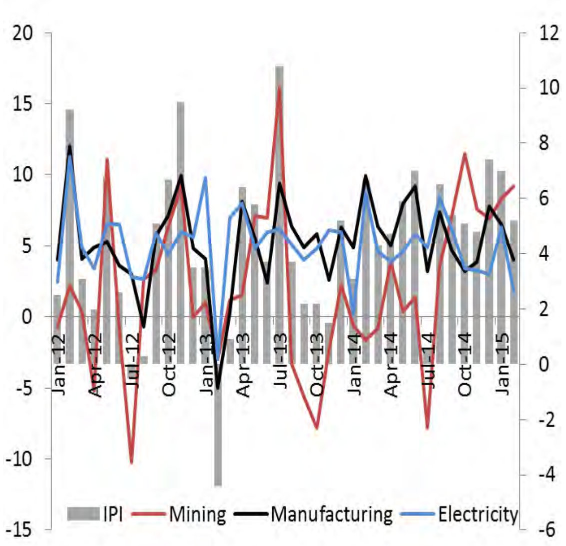
	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	2014	Jan-15	Feb-15
Manufacturing	**7.4**	**4.7**	**3.2**	**3.9**	**7.9**	**6.1**	**6.5**	**4.0**
Food, Beverages & Tobacco	14.0	5.9	8.5	1.4	(4.0)	6.5	(5.5)	(11.1)
Textiles, Wearing Apparel, Leather Products and Footwear	15.7	15.2	7.5	4.4	8.1	10.8	10.9	6.8
Wood Products, Furniture, Paper Products, Printing	9.2	6.8	5.5	3.5	4.2	3.7	6.4	6.4
Petroleum, Chemical, Rubber & Plastic, Products	0.3	(0.7)	3.9	2.3	5.2	1.6	5.3	4.2
Non-metallic Mineral Products, Basic Metal and Fabricated Metal Products	8.3	7.6	3.7	2.8	4.3	4.3	11.6	3.0
Electric and Electrical Products	11.9	9.7	1.4	10.3	18.3	11.8	10.3	8.3
Transport Equipment and Other Manufactures	18.8	4.5	(5.6)	(5.0)	14.5	14.4	9.5	8.7

Source: Department of Statistics, Malaysia; MIDF Research

Mining output continues to record strong growth on yoy basis, although on mom basis it is already showing signs of losing momentum. The increase in output from the mining sector was mainly due to the continued strong crude oil production which is to a large extent attributed to the new Gumusut-Kakap oil field. The 'Crude oil' sub-index posted a 19.7%yoy increase (Jan: 16.7%) but that of 'Natural Gas' contracted further by 1.6%yoy (Jan: -0.6%). That new oil field factor would continue to show the mining sector churning robust growth contributed by crude oil extraction, until the base factor kicks in some time in the 3Q 2015. On month to month basis, the overall mining production has already cooled off.

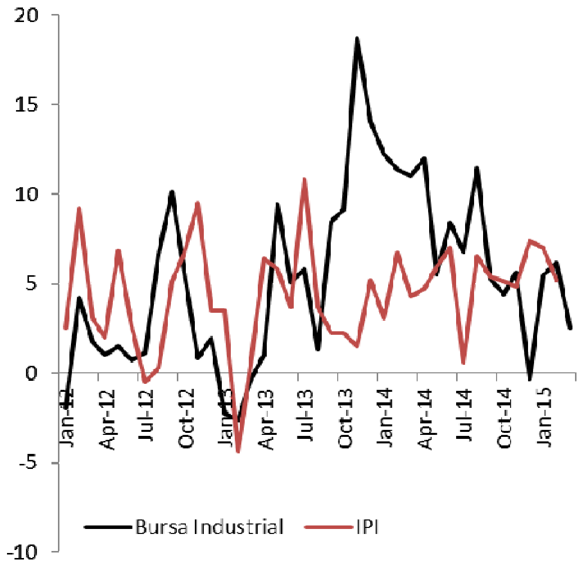
Our leading indicator points to IPI growth to ease closer to long-term trend Our main forward looking indicator, i.e. Bursa Industrial index slumped yoy in March after rebounding in Jan-Feb, indicating that the IPI is set to rebound in March and the next few months but the pace may be offset by a sharp slowdown thereafter, bringing the index closer to its long-term trend, i.e. at around 4.5 – 5.5%. That is in line with our real GDP call of 4.7% this year.

Chart 1.: Malaysia Industrial Production – yoy%



Source: Department of Statistics, Malaysia; MIDF Research

Chart 2: Bursa Industrial Index vs IPI – yoy%



Source: Bloomberg; MIDF Research

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER