

ECONOMIC UPDATE

MALAYSIA – May IPI: Set for sub-par GDP growth in 2Q 15.

- The IPI rebounded slightly to 4.5% yoy in May (April: 4.0%) which is still in line with the long-term trend consistent with the 4.5 – 5.0% growth that we have projected for Malaysia. The growth in the Manufacturing production index continued to ease but that of Mining continued to be volatile as it resumed its strong growth during the month, making it to contribute slightly more than that by the Manufacturing sector to the overall index growth.
- We continue to hold the view that the index is unlikely to show much acceleration in growth hereafter for the rest of 2015, but to remain within the 4.0 – 5.0% pace (1H 15: 5.0 – 5.5). That would bring the overall growth for 2015 to average at around 5.0 – 5.5%. That is still in line with our call of 4.7% growth for real GDP this year.
- Domestic demand growth, particularly consumer spending is expected to have moderated further in the 2Q 15. Combined with the weaker industrial production activities, we expect real GDP growth in the 2Q 15 to be at 4.5 – 5.0%.

Key takeaways of the data released:

The Manufacturing production index which accounts for about 66% of the index slowed down further to post 3.2% yoy growth in May even as the sub-index of Electronics & Electricals recorded flattish growth of 4% during the month. **The Mining sector rebounded significantly** to grow by 9% yoy led by the stronger Crude oil production index at 18.8% yoy (April: 15%) while the Natural gas production continued to decline albeit at a slower pace of 1.9% yoy (April: -8.1%). **Electricity index showed dismal growth** of 1.2% (April: 3.0%) mainly reflecting the slower Manufacturing production activities and domestic demand.

Table 1. Malaysia – Summary of Industrial Production Index

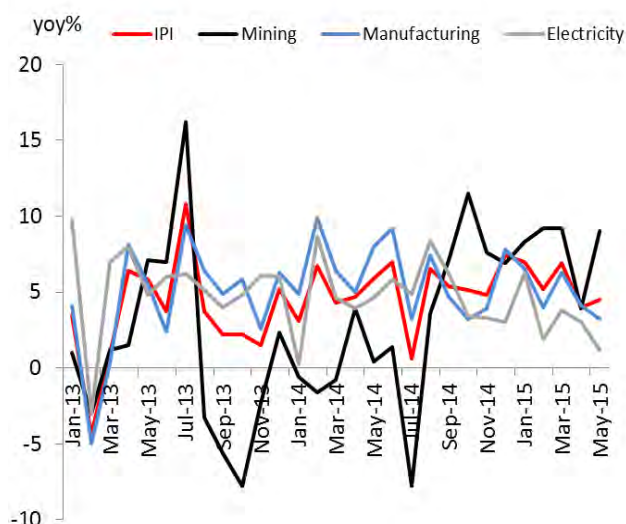
	Nov-14	Dec-14	2014	Jan-15	Feb-15	Mar-15	Apr-15	May-15
Industrial Production Index	118.5	123.8	116.0	119.5	110.6	124.0	117.9	122.4
% YoY	4.8	7.4	5.2	7.0	5.2	6.9	4.0	4.5
% MoM	(2.5)	4.6	--	(3.5)	(0.1)	0.6	-0.4	1.5
Mining Index	107.5	109.5	99.5	110.5	100.0	110.5	101.1	108.6
% YoY	7.6	6.9	2.6	8.3	9.2	9.2	3.9	9.0
% MoM	2.9	1.9	--	0.9	(0.3)	1.2	-1.9	4.0
Manufacturing Index	123.6	130.5	123.0	123.5	115.5	129.8	124.8	128.3
%YoY	3.7	7.9	6.0	6.5	4.0	6.3	4.1	4.5
%MoM	(4.3)	5.6	--	(5.5)	(0.3)	1.2	-1.0	0.4
Electricity Index	116	117.8	118.4	118.8	107.6	126.2	122.6	124.4
% YoY	3.2	3.0	4.7	6.3	1.9	3.8	3.0	1.2
% MoM	(4.0)	1.6	--	0.9	(2.6)	2.3	-1.0	-1.3

Source: Department of Statistics, Malaysia; MIDF Research

Our views:

- Due to the pullback in the Manufacturing production index and the very robust production growth in the Mining index, the latter contributed slightly higher contribution of 2.2p.p. to the 4.55 growth for the overall index. Manufacturing contributed 2.1p.p. while the Electricity index contributed 0.07p.p.
- We believe much of the slowdown in the manufacturing sector was led by the slowdown in China although the E&E sector may not be badly affected given its relative strength as compared to others sub-sector of the manufacturing. We believe the slower domestic demand could have also contributed to the slowdown.
- The rebound in the Mining index was despite the higher base last year as mom changes showed such rapid increase, led by crude oil production. However, taken into account the significant slowdown in April, the overall growth for the index stood at 6.5%, still well below the average pace of 8.9% recorded in the 1Q 15. While price decline in the 2Q 15 was less steep at about 41% vs 48.7% in the 1Q 15, the overall value-added for the sector in the 2Q 15 is unlikely to be much different from that in the previous quarter.
- We continue to hold the view that the index is unlikely to show much acceleration in growth hereafter for the rest of 2015, but to remain within the 4.0 – 5.0% pace (1H 15: 5.0 – 5.5). That would bring the overall growth for 2015 to average at around 5.0 – 5.5%. That is still in line with our call of 4.7% growth for real GDP this year.
- Domestic demand growth, particularly consumer spending is expected to have moderated further in the 2Q 15. Combined with the weaker industrial production activities, we expect real GDP growth in the 2Q 15 to be at 4.5 – 5.0%.

Chart 1: The strong rebound in Mining production supported IPI



Source: DoS, BNM

Chart 2: Leading indicator showed IPI may slow further in the months ahead



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