



12 January 2014

MALAYSIA

November's IPI beat consensus, slowing down trend to continue

- **November's IPI growth decelerated although it beat consensus expectation. The Manufacturing output edged up marginally while the Mining index growth was still robust, albeit much lost momentum from the surge recorded in October.**
- **Forward-looking indicators showed that the Manufacturing production index is likely to slow down in the coming months, but the sustained strength in the US would help the index to be supported at the current level.**
- **We expect the index to average at about 4.0 – 4.5% in the 4Q 14, in line with our expectation of real GDP growth at about the same pace over the same period.**

November IPI proved production activities were stronger than expected. The index growth slowed but only marginally to +4.7% yoy (Oct 14: +5.1% yoy) being consensus expectation of only +3.7% yoy. The **Manufacturing** production index picked up slightly and while the **Mining** index lost momentum, it reflected a correction from a sharp surge in the preceding month and was still robust in November. Meanwhile, the **Electricity** index continued to post the third straight month of deceleration. Month-on-Month, the IPI declined by -2.5% mom (Oct 14: to +3.6% mom) dragged by decline in growth from the **Manufacturing** and **Electricity** indices at -4.3% mom and -4.0% mom (Oct 14: +2.3% mom and 2.0% mom) respectively. The **Mining** index was still positive mom at 2.9% although much slower than +7.7% previously.

As expected Manufacturing picked up pace in November on an annual basis. The manufacturing output in November picked up pace at +3.7% yoy (Oct 14:+3.2% yoy) due to a surge in growth from the **Electrical & Electronics** sub-sector at +10.2% yoy (Oct 14: +1.4% yoy). The other sub-sectors with the exception of **Transport, Equipment & Other Manufactures**, grew at a slower pace in November compared to the previous month. **Transport, Equipment & Manufactures**, declined by -3.5% yoy (Oct 14: -5.69% yoy) the second consecutive month of declined dragged by decline in *manufacture of other transport equipment and repair & installation of machinery & equipment*. The **Petroleum, Chemical, Rubber & Plastic Products** sub-sector slowed down to +1.8% yoy (Oct 14: +3.9% yoy) dragged by a decline in *manufacture of coke & refined petroleum products* by -0.1% yoy (Oct 14: +1.1% yoy) and modest expansion of *manufacture of chemicals & chemicals products* at +4.0% yoy (Oct 14:+14.8% yoy). The surge in growth in the **Electrical & Electronics** sub-sector was due to the surge in growth in the *manufacture of computer, electronics & optical* at +11.9% yoy (Oct 14: +0.5% yoy).

The Mining index correcting from the surge brought about by the low base effect in October. Despite the correction, the index still expanded at a robust pace of +7.6% yoy (Oct 14: 11.5% yoy) on the back of sustained strength in the sub-indices Crude oil index which posted slower growth of +13.9% yoy (Oct 14: +16.8% yoy). The Natural gas index, on the other hand slowed to +0.9% yoy from +6.1% yoy in the previous month.

The index to slow down in the coming months on although US improving economy may help to limit the downside. The forward looking indicator signalled that the **Manufacturing** index is likely to continue to be weak but we expect stronger US economy may help offset some of the weaknesses in other major markets of our manufactured goods exports. Meanwhile output from the Mining index is likely to be maintained at around the current level but the lower oil prices may see the value to be lower on yoy basis. We expect the index to average at about 4.0 – 4.5% in the 4Q 14, in line with our expectation of real GDP growth at about the same pace over the same period.

Table 1: Malaysia-Monthly Industrial Production Index

	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	YTD 2014	2013
Industrial Production	117.1	117.2	113.9	116.2	117.2	121.5	118.4	115.2	110.2
% YoY	5.9	6.9	0.6	6.5	5.4	5.1	4.7	4.9	3.3
% MoM	3.4	0.1	(2.8)	2.0	0.9	3.6	(2.5)		
Mining	99.6	96.5	89.0	98.9	96.9	104.4	107.4	98.6	96.7
% YoY	0.4	1.4	(7.9)	3.6	7.2	11.5	7.6	2.2	4.2
% MoM	2.4	(3.1)	(7.8)	11.1	(2.1)	7.7	2.9		
Manufacturing	124.3	125.9	124.1	123.4	126.1	129.0	123.4	122.3	116.0
% YoY	8.0	9.2	3.2	7.4	4.7	3.2	3.7	5.9	0.5
% MoM	3.7	1.3	(1.4)	(0.6)	2.2	2.3	(4.3)		
Electricity	122.9	123.0	122.9	121.0	118.3	120.6	115.8	118.4	113.1
% YoY	4.6	5.8	5.0	8.4	6.2	3.4	3.2	4.8	5.5
% MoM	3.2	0.1	(0.1)	(1.5)	(2.2)	2.0	(4.0)		

Source: DOS, MIDFR

Table 2: Breakdown of Manufacturing Sector Output by Industries (%YoY)

	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14
Total	8.0	9.2	3.2	7.4	4.7	3.2	3.7
Food, Beverages & Tobacco	21.0	11.0	(0.6)	14.0	5.9	8.5	1.2
Textiles, Wearing Apparel, Leather Product, Footwear	22.7	10.1	13.5	15.7	15.2	7.5	4.4
Wood Products, Furniture, Paper Products, Printing	3.2	5.6	4.0	9.2	6.8	5.5	3.0
Petroleum, Chemical, Rubber & Plastic Products	(3.7)	4.0	(0.2)	0.3	(0.7)	3.9	1.8
Non-Metallic Mineral, Basic & Fabricated Metal Prod	4.5	5.3	1.3	8.3	7.6	3.7	2.7
Electrical & Electronic Products	10.7	14.4	7.9	11.9	9.7	1.4	10.2
Transport Equipment & Other Manufactures	75.5	26.9	12.1	18.8	4.5	(5.6)	(3.5)

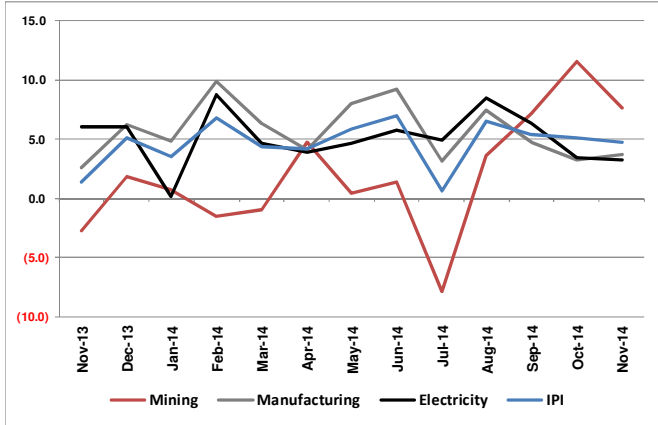
Source: DOS, MIDFR

Table 3: Global Industrial Production (% YoY)

	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14
US	3.9	4.3	4.4	4.8	4.1	4.3	4.0	5.2
Japan	3.8	1.0	3.1	(0.7)	(3.3)	0.8	(1.0)	(3.8)
Eurozone	1.9	0.7	0.3	1.6	(0.5)	0.6	0.7	n.a
France	(2.0)	(2.3)	(2.0)	(1.4)	(0.2)	(0.3)	(0.7)	(0.3)
Germany	1.8	1.1	(0.4)	2.7	(1.9)	(0.1)	1.2	(0.5)
UK	3.4	2.3	1.4	2.0	2.2	0.8	1.0	1.1
China	8.7	8.8	9.2	9.0	6.9	8.0	7.7	7.2
Russia	2.4	2.8	0.4	1.5	0.0	2.8	2.9	(0.4)
Brazil	(5.8)	(3.2)	(7.1)	(3.6)	(5.5)	(2.1)	(3.6)	(5.8)
India	3.7	5.6	3.9	0.4	0.4	2.5	(4.2)	n.a
S.Korea	2.5	(2.1)	0.5	3.9	(2.8)	1.9	(3.2)	(3.4)
Taiwan	5.3	5.4	8.6	6.1	7.0	10.3	9.0	6.9
Singapore	5.5	(1.7)	0.7	2.7	3.8	(1.0)	(0.2)	(2.8)
Malaysia	4.9	6.0	7.0	0.5	6.5	5.4	5.0	4.7

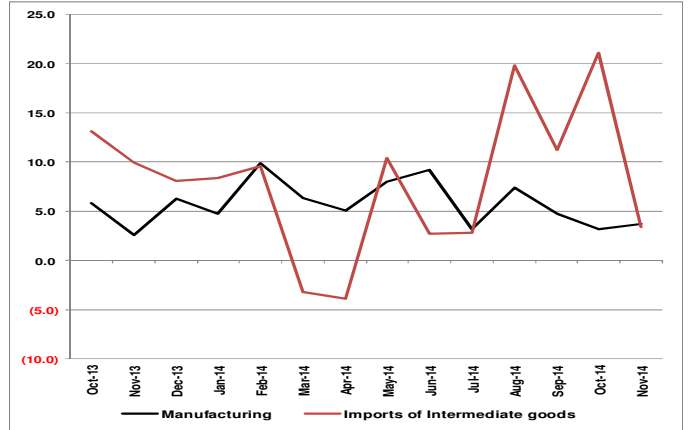
Source: Bloomberg, Trading Economics

Chart 1: Malaysia-IPI (% YoY)



Source: MIDFR, DOS

Chart 2: Malaysia's Manufacturing Output vs. Imports of Intermediate goods (% YoY)



Source: MIDFR, DOS

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