



12 November 2014

## MALAYSIA

### September IPI – Modest expansion pointing to slower 3Q14 GDP growth

*September IPI was unexpectedly higher than consensus but lower than the preceding month indicating a slowdown in momentum. All indices were slower except Mining which recorded higher than the previous month but this is due to a lower base effect. The IPI for the 3<sup>rd</sup> Quarter recorded modest expansion from the previous quarter signalling a lower economic activity for the period.*

**September IPI higher than expected but on a month-to-month basis its decelerating.** The September IPI grew modestly at 5.4% year-on-year (August 2014: 6.5% yoy; Consensus: +4.7% yoy) on slowdown in momentum in both the Manufacturing and Electricity indices. The Mining indices accelerated higher. Month-on-Month, the IPI expanded slightly to 0.9% mom driven by a rebound in the manufacturing indices at 2.1% mom. Both the mining and electricity indices declined, with Mining declining to -2.0% mom (August 14: 11.1% mom) and Electricity decelerating further to -2.2% mom.

**IPI for 3<sup>rd</sup> Quarter 2014 shows deceleration indicating the economic activity for the period will be lower than the preceding quarter.** For third quarter 2014, the IPI recorded a modest expansion at +4.1% yoy (2Q14: 5.9% yoy). The modest expansion was sustained by an expansion in the Electricity indices at +6.4% yoy (2Q14:+4.8% qoq). The other two indices saw deceleration in its momentum with both recorded a lower expansionary in the second quarter with Mining growing at 0.8% qoq (2Q14:+1.8% qoq) and Manufacturing increasing by +5.1% qoq (2Q14: +7.4 qoq)

**Manufacturing output slower for September signalling decelerating external and domestic demand.** Sub-indices in the Manufacturing output showed lower pace of growth for September as compared to previous month. The manufacturing output grew at +4.7% yoy for September (August 2014: +7.4% yoy). All the sub-indices except *Petroleum, Chemical, Rubber & Plastic Products* showed modest expansion. Notably *Food, Beverages & Tobacco Products* and *Transport Equipment & Other Manufacturers* significant deceleration at +6.2% yoy and +4.9% yoy respectively (August 14: +14.0% yoy and 18.8% yoy respectively). The *Petroleum, Chemical, Rubber & Plastic Products* declined in September at -1.0% yoy (+0.3% yoy).

**The Mining sector expanded year-on-year due to a lower base effect.** The Mining sector sub-indices expanded but . The Mining sector saw its output accelerated for a second month in a row to +7.1% yoy (August 14: +3.6% yoy) due to expansion in two of its sub-indices, *Extraction of Crude Oil & Natural Gas* and *Crude Petroleum* sub-indices. Both expanded further at +7.2% yoy and +9.4% yoy respectively (August14: +3.7% yoy and +0.4% yoy respectively). The higher growth was due to a lower base effect as exports for crude petroleum declined in September. The Natural gas sub-index slowed to +4.6% yoy (August14: +7.5 % yoy).

**IPI's modest expansion is matched by deceleration in trade.** The slower momentum of the IPI is also matched by the marginal increase in performance of exports for the month of September and the deceleration in imports at +2.0% yoy and +1.1% yoy respectively (August 14: +1.6% yoy and +7.6% yoy respectively). The slowdown in imports is reflected in the deceleration in imports of intermediate goods which indicate that the manufacturing sector is slowing down. Furthermore with the global manufacturing PMI of most major economies seemed to be either on a standstill or contracting the short-term outlook for the manufacturing sector does not indicate a favorable outlook.

**3Q14 GDP growth to slow down to 4.5 – 5.5%yoy.** IP growth in 3Q14 decelerated to +4.1% yoy (2Q14: +5.9% yoy), and declined by -0.1% qoq (2Q14 +4.4% qoq). The decelerating growth in industrial production underlines our view that GDP growth is easing. The trade numbers are also pointing to this. In 3Q14, exports grew by only 1.5%yoy, compared with 14.4%yoy in 2Q14. Hence, we reckon that 3Q14 real GDP growth to be released this Friday (14 Nov 2014) is likely to be in the range of 4.5 - 5.5%yoy after the +6.3%yoy expansion in 2Q14.

**Table 1: Malaysia: Monthly Industrial Production Index**

	Mar-14	Apr-14	May-14	Jun-14	July-14	Aug-14	Sep-14	YTD 2014	2013
Industrial Production	116.0	113.3	117.1	117.2	113.9	116.2	117.2	114.2	110.2
% YoY	4.3	4.7	5.9	6.9	0.6	6.5	5.4	4.9	3.3
% MoM	10.3	(2.3)	3.4	0.1	(2.8)	2.0	0.9		
Mining	101.2	97.3	99.6	96.5	89.0	98.9	96.9	97.0	96.7
% YoY	(0.9)	3.8	0.4	1.4	(7.9)	3.6	7.1	0.5	4.2
% MoM	10.6	(3.9)	2.4	(3.1)	(7.8)	11.1	(2.0)		
Manufacturing	122.1	119.9	124.3	125.9	124.1	123.4	126.0	121.4	116.0
% YoY	6.4	5.1	8.0	9.2	3.2	7.4	4.7	6.5	0.5
% MoM	9.9	(1.8)	3.7	1.3	(1.4)	(0.6)	2.1		
Electricity	121.6	119.1	122.9	123.0	122.9	121.0	118.3	118.5	113.1
% YoY	4.6	3.9	4.6	5.8	5.0	8.4	6.2	5.2	5.5
% MoM	15.2	(2.1)	3.2	0.1	(0.1)	(1.5)	(2.2)		

Source: DOS, MIDFR

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

	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14
Total	6.4	5.1	8.0	9.2	3.2	7.4	4.7
Food, Beverages & Tobacco	5.7	12.0	21.0	11.0	(1.2)	14.0	6.2
Textiles, Wearing Apparel, Leather Product, Footwear	10.2	12.4	22.7	10.1	13.5	15.7	14.2
Wood Products, Furniture, Paper Products, Printing	(0.4)	10.6	3.2	5.6	4.0	9.2	6.9
Petroleum, Chemical, Rubber & Plastic Products	1.9	(3.9)	(3.7)	4.0	(0.2)	0.3	(1.0)
Non-Metallic Mineral, Basic & Fabricated Metal Prod	4.4	3.9	4.5	5.3	1.3	8.3	7.9
Electrical & Electronic Products	14.3	15.2	10.7	14.4	7.9	11.9	9.7
Transport Equipment & Other Manufactures	14.1	3.3	75.5	26.9	12.1	18.8	4.9

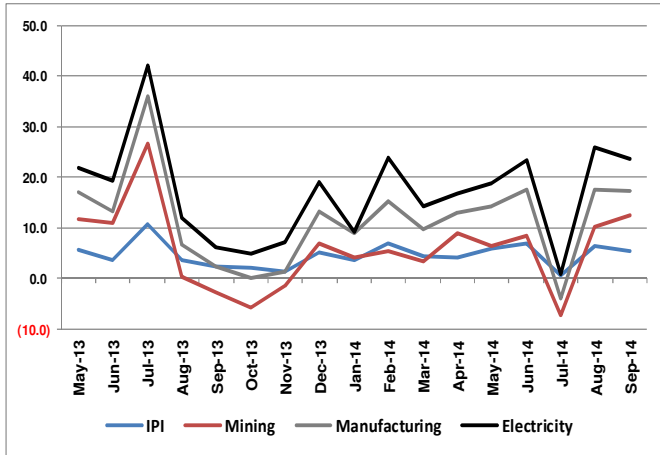
Source: DOS, MIDFR

**Table 4: Global Industrial Production (% YoY)**

	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14
US	3.2	3.7	3.9	4.3	4.4	4.8	4.1	4.3
Japan	7.0	7.4	3.8	1.0	3.1	(0.7)	(3.3)	0.6
Eurozone	1.9	0.3	1.9	0.7	0.3	1.6	(1.9)	n.a
France	(0.1)	(0.5)	(2.0)	(2.3)	(2.0)	(1.4)	(0.2)	(0.3)
Germany	4.7	2.9	1.8	1.1	(0.4)	2.7	(1.9)	(0.1)
UK	3.5	3.1	3.4	2.3	1.4	2.0	2.2	1.5
China	8.6	8.8	8.7	8.8	9.2	9.0	6.9	8.0
Russia	2.1	1.4	2.4	2.8	0.4	1.5	0.0	2.8
Brazil	5.0	(0.9)	(5.8)	(3.2)	(7.1)	(3.6)	(5.5)	(2.1)
India	(1.8)	(0.5)	3.7	5.6	3.9	0.4	0.4	n.a
S.Korea	3.9	2.8	2.5	(2.1)	0.5	3.9	(2.8)	(1.9)
Taiwan	6.8	3.2	5.3	5.4	8.6	6.1	7.0	10.3
Singapore	13.3	12.4	5.5	(1.7)	0.8	3.0	4.0	(1.2)
Malaysia	6.7	4.3	4.9	6.0	7.0	0.5	6.5	

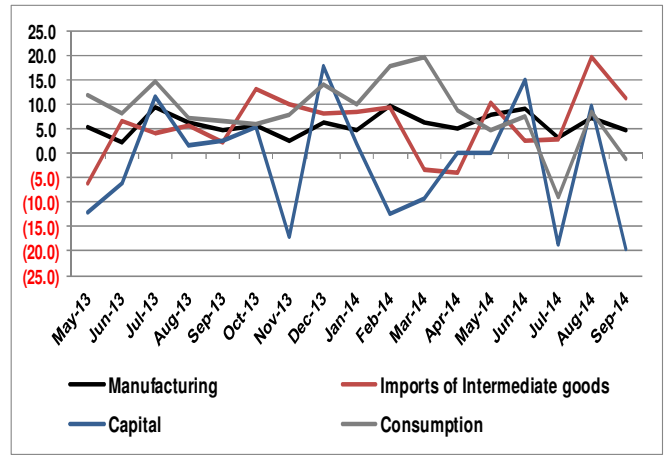
Source: Bloomberg, Trading Economics

Chart 1: Malaysia-IPI (% YoY)



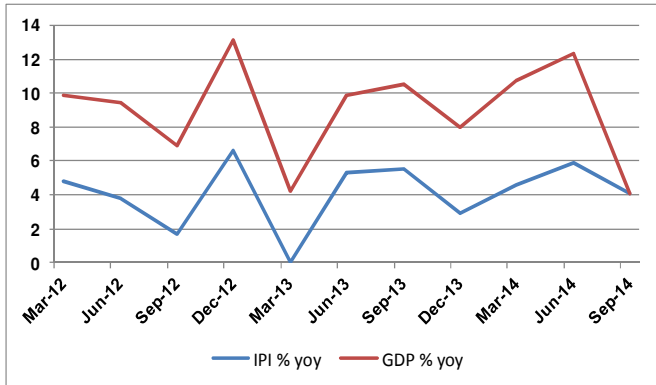
Source: MIDFR, DOS

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



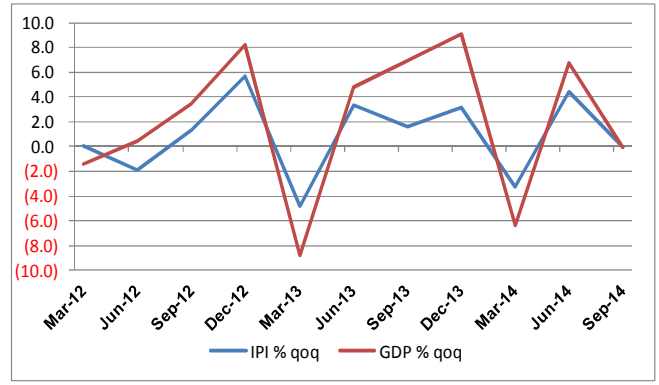
Source: MIDFR, DOS

Chart 3: Malaysia-GDP v IPI (% YoY)



Source: MIDFR, DOS

Chart 4: Malaysia-GDP v IPI (% QoQ)



Source: MIDFR, DOS

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