



13 October 2014

MALAYSIA

August IPI – Unexpected breather

August IPI was unexpectedly higher at 6.5% YOY. We believe this is only a blip. All three indices showed expansion YOY but on a MoM basis, Manufacturing and Mining indices recorded the second consecutive month of decline. Looking at global PMI and industrial production of major economies, global economic activities seem to be on a downward trend and indicating the IPI will be slowing down for the rest of the year.

The Industrial Production Index (IPI) was unexpectedly higher in August with all three indices expanding. The IPI was at + 6.5% YoY for August 2014, (July 2014: +0.6% YoY; Consensus: +4.2% YoY) on accelerated momentum in all three indices, Mining Manufacturing and Electricity. The faster pace of annualized growth in all three indices, indicate a higher expansion in both external and domestic demand. MoM, the IPI rebounded to +2.0% MoM after a July decline of -2.8% MoM. Although MOM the IPI rebounded, both the Manufacturing and Electricity indices recorded the second consecutive month of decline at -0.6% and -1.5% respectively. July 2014: -1.4% and -0.1% respectively. The Mining index rebounded at 11.1% MoM after July's decline of -7.8% MoM.

Strong growth for the January to August period. During the period of January to August 2014, Malaysia's Industrial Production Index expanded 4.8% YoY on an annualized basis. The expansion was contributed by the increase in Manufacturing Index and Electricity Index of +6.7% YoY and +5.1% YoY respectively. The Mining index decreased by -0.2% YoY.

Sub-indices in the Manufacturing output showed higher pace of growth. The manufacturing output grew at +7.4% YoY for August (July 2014: +3.2% YoY). All the sub-indices except *Petroleum, Chemical, Rubber & Plastic Products* showed higher expansion. Notably was the *Food, Beverages & Tobacco Products* which rebounded 12.9% YoY (July 2014: -1.2% YoY). Others that saw double digit growth was the *Textiles, Wearing Apparel, Leather Product, Footwear* sub-indices which showed a growth of +15.9% (July 2014: 13.5% YoY); *Electrical & Electronic products* registering 11.8% YoY (July 2014: 7.9% YoY) and *Transport Equipment & Other Manufacturers* which grew at +18.6% YoY (July 2014: +12.1% YoY)

Mining sector sub-indices expanded. The Mining sector saw its output accelerated by +3.6% in August 2014 (July 2014: -7.9% YoY) due to expansion in all its sub-indices. *Extraction of Crude Oil index & Natural Gas* and *Crude Petroleum* sub-indices grew at +3.7% YoY and 0.4% YoY respectively (July 2014: -7.6% YoY and 0.0% respectively) while the Natural gas sub-index rebounded to +7.5% YoY (July 2014: -15.7% YoY).

Electricity output continues its expansion slightly. The Electricity output recorded a lower expansion of 5.1% YoY for August 2014 (July 2014: 8.4% YoY). In seasonally adjusted terms, Electricity output increased by 2.5% YoY in August 2014 compared to the previous month.

IPI's expansion is matched by the performance of the exports. The higher momentum of the IPI is also matched by the performance of exports for the month of August which recorded a higher growth of +1.6 YoY (July 2014: +0.6% YoY). Rebounds in exports can be seen in the *Electrical & Electronic products* at 3.9% (July 2014: -1.0%); *Chemicals & Chemical* at 1.4% YoY (July 2014: -7.0% YoY) and the LNG sector which rebounded to +1.9% YoY (July 2014: -22.9% YoY). For the month of August, both exports and IPI expanded which is also in reflected in the higher growth of imports in intermediate goods at 19.8% YoY (July 2014: +2.8% YoY).

Global manufacturing activities appears to slowing down in September 2014. Global purchasing managers index (PMI) continues its modest at 52.6 for August (July 2014: 52.5). This is reflective of most major economies PMI which showed expansion for August. However PMI in September for most major economies decreased. Most notable weakness are the Eurozone (September 2014: 50.7, August 2014: 50.3) and Japan (September 2014:

51.7; August 2014: 52.2). China is at a standstill (September 2014: 51.1; August 2014: 51.1) while the USA decreased (September 2014: 56.6; August 2014: 59.0). Any recovery in global manufacturing activities is further constraint by weakness in the emerging markets with Brazil, India and South Korea manufacturing activities continues to be uneven and heading south. Looking forward, global trade seems to heading south for the rest of the year.

Table 1: Malaysia: Monthly Industrial Production Index

	Feb-14	Mar-14	Apr-14	May-14	Jun-14	July-14	Aug-14	YTD 2014	2013
Industrial Production	105.2	116.0	113.3	117.1	117.2	113.9	116.2	113.8	110.2
% YoY	6.8	4.3	4.7	5.9	7.0	0.6	6.5	4.8	3.3
% MoM	(5.8)	10.3	(2.3)	3.4	0.1	(2.8)	2.0		
Mining	91.5	101.2	97.3	99.6	96.5	89.0	98.9	97.2	96.7
% YoY	(1.7)	(0.9)	3.8	0.4	1.4	(7.9)	3.6	(0.2)	4.2
% MoM	(10.3)	10.6	(3.9)	2.4	(3.1)	(7.8)	11.1		
Manufacturing	111.1	122.1	119.9	124.3	125.9	124.1	123.4	113.3	116.0
% YoY	9.9	6.4	5.1	8.0	9.2	3.2	7.4	6.7	0.5
% MoM	(4.1)	9.9	(1.8)	3.7	1.3	(1.4)	(0.6)		
Electricity	105.6	121.6	119.1	122.9	123.0	122.9	121.0	112.8	113.1
% YoY	8.8	4.6	3.9	4.6	5.8	5.0	8.4	5.1	5.5
% MoM	(5.5)	15.2	(2.1)	3.2	0.1	(0.1)	(1.5)		

Source: DOS, MIDFR

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

	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Total	9.9	6.4	5.1	8.0	9.1	3.2	7.4
Food, Beverages & Tobacco	10.7	5.7	12.0	20.9	10.7	(1.2)	12.9
Textiles, Wearing Apparel, Leather Product, Footwear	11.2	10.2	12.4	22.7	10.8	13.5	15.9
Wood Products, Furniture, Paper Products, Printing	1.3	(0.4)	10.6	3.2	4.5	4.0	9.1
Petroleum, Chemical, Rubber & Plastic Products	3.5	1.9	(3.9)	(3.7)	4.8	(0.2)	0.7
Non-Metallic Mineral, Basic & Fabricated Metal Prod	10.1	4.4	3.9	4.5	5.4	1.3	7.9
Electrical & Electronic Products	14.7	14.3	15.2	10.7	13.7	7.9	11.8
Transport Equipment & Other Manufactures	47.3	14.1	3.3	75.5	25.4	12.1	18.6

Source: DOS, MIDFR

Table 3: Global Manufacturing PMI

	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14
Global	53	53.2	52.4	51.9	52.2	52.6	52.5	52.6	n.a
US*	51.3	53.2	53.7	54.9	56.4	57.3	55.8	57.9	57.5
US	51.3	53.2	53.7	54.9	55.4	55.3	57.1	59.0	56.6
Eurozone*	54.4	53.8	53.5	53.9	52.2	51.8	51.8	50.7	50.3
Japan*	56.6	55.5	53.9	49.4	49.9	51.5	50.5	52.2	51.7
China*	49.5	48.5	48	48.1	49.4	50.7	51.7	50.2	50.2
China	50.5	50.2	50.3	50.4	50.8	51.0	51.7	51.1	51.1
Brazil*	50.8	50.4	50.6	49.3	48.8	48.7	49.1	50.2	49.3
India*	51.4	52.5	51.3	51.3	51.4	51.5	53	52.4	51.0
Russia*	48	48.5	48.3	48.5	48.9	49.1	51.0	51.0	50.4
S.Korea*	50.9	49.8	50.4	50.2	49.5	48.4	49.3	50.3	48.8
Taiwan*	55.5	54.7	52.7	52.3	52.4	54	55.8	56.1	53.3
Singapore	50.5	50.9	50.8	51.1	50.8	50.5	51.5	49.7	50.5
Indonesia*	51	50.5	50.1	51.1	52.4	52.7	52.7	49.5	50.7

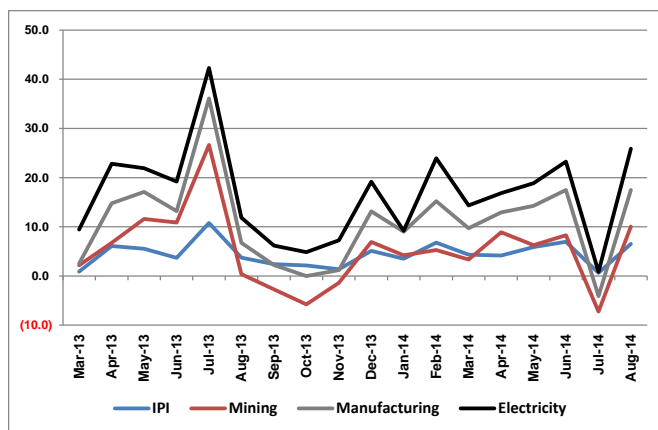
Source: Bloomberg, Markit*

Table 4: Global Industrial Production (% YoY)

	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
US	2.9	3.2	3.7	3.9	4.3	4.3	5.0	4.1
Japan	10.6	7.0	7.4	3.8	1.0	3.1	(0.7)	(2.9)
France	0.3	(0.6)	(0.6)	(2.1)	(2.3)	(2.0)	(1.4)	(0.2)
Germany	4.9	4.4	2.7	1.3	1.1	(0.4)	2.5	(2.8)
Italy	1.3	0.4	(0.1)	1.5	(1.7)	0.4	(1.8)	(0.7)
China	-	-	8.8	8.7	8.8	9.2	9.0	6.9
Russia	(0.2)	2.1	1.4	2.4	2.8	0.4	1.5	0.0
Brazil	(2.1)	4.4	(0.8)	(5.8)	(3.4)	(7.1)	(3.6)	(5.4)
India	1.1	(2.0)	(0.5)	3.4	4.7	3.4	0.5	0.4
S.Korea	(4.3)	3.9	2.8	2.5	(2.7)	2.9	1.1	(3.8)
Taiwan	(1.8)	6.8	3.2	5.3	5.4	8.6	6.1	7.0
Singapore	4.2	13.3	12.3	5.9	(1.9)	0.8	3.3	4.2
Malaysia	3.5	6.7	4.3	4.9	6.0	7.0	0.6	1.6

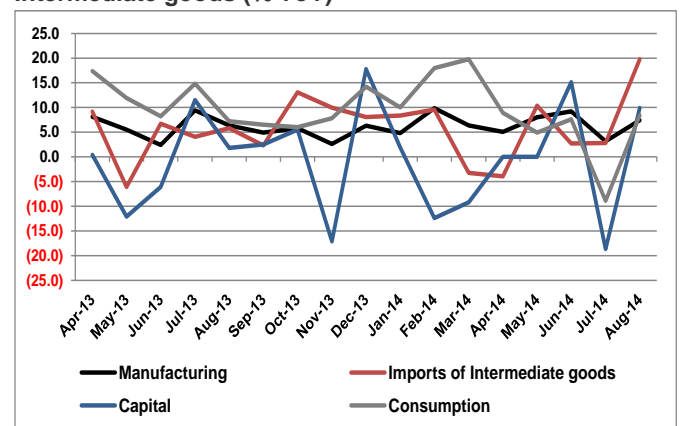
Source: Bloomberg, Trading Economics

Chart 1: Malaysia-IPI (% YoY)



Source: MIDFR, DOS

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



Source: MIDFR, DOS

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