13 March 2015

MALAYSIA

IPI staying robust in January as the stronger Mining production helped offset cooling off in Manufacturing

- **IPI growth eased in January but still relatively robust at 7%yoy (Dec: 7.4%), matching consensus expectations.**
- **The Mining sector production continued to surge while that of the Manufacturing sector eased. Electricity production growth also picked up pace given the strong industrial and domestic demand.**
- **Our tracking of the forward-looking indicator showed that industrial production activities may take a breather as the Manufacturing sector expected to stabilize at the current level in the coming months. Improved US demand may support but not fully offset the weak China's demand.**
- **Strong production in crude oil extraction from Gumusut-Kakap oil field which began in October 2014 may see 'Mining' sector to post strong yoy growth but as the high base factor kicks in, the impact would see growth to taper off towards the end of the year.**

Continued strength in IPI. While the industrial production index (IPI) growth eased in January, the pace was relatively robust at 7.0%yoy (Dec 14: +7.4%yoy) matching consensus expectations. 'Mining' index expanded by +8.3%yoy (Dec 14: 6.9%yoy) whilst the 'Manufacturing' index recorded slower growth of +6.5%yoy (Dec 14: 7.9%yoy). On the other hand, the 'Electricity' index expanded significantly by +6.3%yoy despite the high base registered in the same period last year (Jan 14: 9.8%yoy) and almost doubling the growth numbers registered in the last 3 months on 2014. 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.

Table 1. Malaysia – Summary of Industrial Production Index

	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	2014	Jan-15
Industrial Production Index	**113.9**	**116.2**	**117.2**	**121.5**	**118.5**	**123.8**	**116.0**	**119.5**
% YoY	*0.6*	*6.5*	*5.4*	*5.1*	*4.8*	*7.4*	*5.2*	*7.0*
% MoM	*(2.8)*	*2.0*	*0.9*	*3.6*	*(2.5)*	*4.6*	*--*	*(3.5)*
Mining Index	**89**	**98.9**	**96.9**	**104.4**	**107.5**	**109.5**	**99.5**	**110.5**
% YoY	*(7.9)*	*3.6*	*7.2*	*11.5*	*7.6*	*6.9*	*2.6*	*8.3*
% MoM	*(7.8)*	*11.1*	*(2.1)*	*7.7*	*2.9*	*1.9*	*--*	*0.9*
Manufacturing Index	**124.1**	**123.4**	**126.1**	**129**	**123.6**	**130.5**	**123.0**	**123.5**
%YoY	*3.2*	*7.4*	*4.7*	*3.2*	*3.7*	*7.9*	*6.0*	*6.5*
%MoM	*(1.4)*	*(0.6)*	*2.2*	*2.3*	*(4.3)*	*5.6*	*--*	*(5.5)*
Electricity Index	**122.9**	**121**	**118.3**	**120.6**	**116**	**117.8**	**118.4**	**118.8**
% YoY	*5.0*	*8.4*	*6.2*	*3.4*	*3.2*	*3.0*	*4.7*	*6.3*
% MoM	*(0.1)*	*(1.5)*	*(2.2)*	*2.0*	*(4.0)*	*1.6*	*--*	*0.9*

Source: Department of Statistics, Malaysia; MIDF Research

Manufacturing output slower in January but still robust. Growth in 'Manufacturing' index was largely driven by the increase in 'Textiles, Wearing Apparel, Leather Products and Footwear' sub-index which expanded by +10.9%yoy (Dec 14: +8.1%yoy) while 'Electric and Electrical Products' sub-index expanded at a slower pace of +10.3%yoy, compared to the previous month (Dec 14: +18.3%yoy). In addition, the 'Non-metallic Mineral Products, Basic Metal and Fabricated Metal Products' sub-index expanded significantly by +11.6%yoy (Dec 14: +4.35%yoy), the first double digit growth in recent years. However, growth for 'Food, Beverages & Tobacco' sub-index recorded 2nd month of contraction by 5.5%yoy (Dec 14: -4.0%yoy).

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

	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	2014	Jan-15
Manufacturing	**3.2**	**7.4**	**4.7**	**3.2**	**3.9**	**7.9**	**6.1**	**6.5**
Food, Beverages & Tobacco	(0.60)	14.0	5.9	8.5	1.4	(4.0)	6.5	(5.5)
Textiles, Wearing Apparel, Leather Products and Footwear	13.5	15.7	15.2	7.5	4.4	8.1	10.8	10.9
Wood Products, Furniture, Paper Products, Printing	4.0	9.2	6.8	5.5	3.5	4.2	3.7	6.4
Petroleum, Chemical, Rubber & Plastic, Products	(0.2)	0.3	(0.7)	3.9	2.3	5.2	1.6	5.3
Non-metallic Mineral Products, Basic Metal and Fabricated Metal Products	1.3	8.3	7.6	3.7	2.8	4.3	4.3	11.6
Electric and Electrical Products	7.9	11.9	9.7	1.4	10.3	18.3	11.8	10.3
Transport Equipment and Other Manufactures	12.1	18.8	4.5	(5.6)	(5.0)	14.5	14.4	9.5

Source: Department of Statistics, Malaysia; MIDF Research

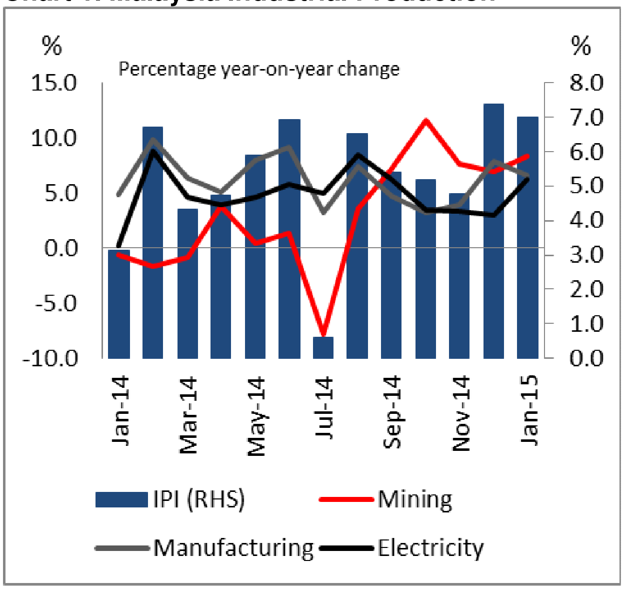
Mining output continues to record strong growth attributed to new oil field. The increase in output from the mining sector was due to the increase in the 'Crude oil' sub-index by +16.7%yoy. Since October 2014, the 'Crude oil' index has registered double digit growth (Oct 14: +16.8%yoy, Nov 14: +13.9%yoy, Dec 14: +12.0%yoy) which is to a large extent attributed to the new Gumusut-Kakap oil field.

Nonetheless, given its big weight (65.9%) of the overall index, the Manufacturing sector continued to be the main driver of the IPI growth. It added 4.5p.p. to that 7.0% growth in the IPI while that of the 'Mining' sector contributed 2.2p.p. and 'Electricity' added 0.3p.p.

Our tracking of the forward-looking indicator showed that industrial production activities may take a breather as the Manufacturing sector expected to stabilize at the current level in the coming months. The Chinese New Year festivities in mid- February would see manufacturing activities might have pulled back markedly and the high base factor for the month would see growth to come in much lower. It may rebound but to stay subdued in the near-term. Slowdown in China and many Asian countries would not be fully offset by the pick-up in the US. This could already be deduced from the recent performance in the Bursa Industrial index - our main choice of indicator for tracking the near-term outlook for industrial activities.

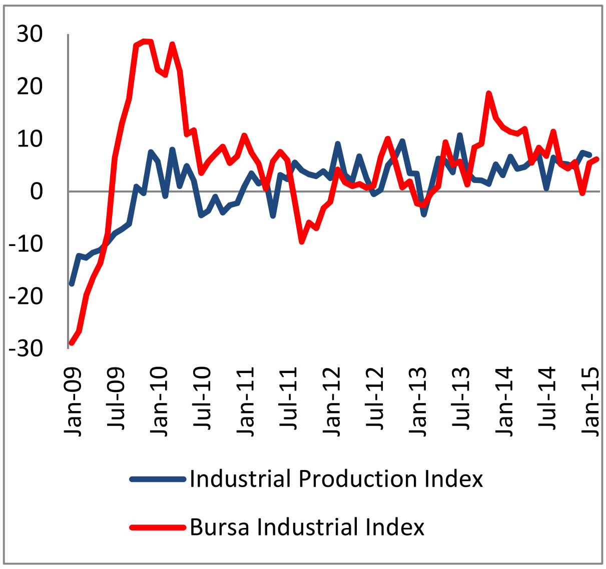
Increase in oil production and improved US demand should support IPI growth in 2015 though the impact may taper off towards the end of the year. Production in the Gumusut-Kakap oil field which began in October 2014 and is expected to reach an annual peak in oil production to around 135,000 barrels a day, would contribute to about 25% of Malaysia's oil output. As a result, the low base factor may continue to help generate strong yoy contribute significantly towards IPI. Once the production level matches or slightly higher than the output in the 4Q 14, yoy growth for 'Mining' index would taper off. At the same time, improved US demand would help offset the weaknesses in China's demand.

Chart 1. Malaysia Industrial Production



Source: Department of Statistics, Malaysia; MIDF Research

Chart 2. Bursa Industrial Index vs IPI



Source: Bloomberg; MIDF Research

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