



12 December 2014

MALAYSIA

October IPI – higher than expected but momentum slowing

- IPI growth at 5.0% beat consensus estimate (4.1%) on the back of the surge in Mining sector (11.5%).
- Nonetheless, the momentum slowed down from September's pace (5.4%), dragged down by the Manufacturing sector.
- The surge in Mining is unlikely to be sustained, given its volatile trend, although we can expect the low oil prices translating to higher production going forward.
- Manufacturing sector is likely to rebound modestly on the back of strong growth in imports of intermediate goods.
- Against its regional peers, Malaysia's IPI was still relatively strong as some key exporting countries such as Singapore and South Korea are already in contraction trend.

October IPI higher than expected but on a year-to-year basis it is decelerating. The October IPI grew modestly at +5.0% yoy (Sep 14: +5.4% yoy; Consensus +4.1% yoy) with the 11.5% surge in Mining production index explaining 54% of the growth in the IPI for the month. Nonetheless, the pace in October was a deceleration from the 5.4% pace in September, due the continued slowdown in the Manufacturing sector. Month-on-Month, the IPI expanded higher to +3.5% mom (Sep 14: to 0.9% mom) driven by a rebound in both the Mining and Electricity indices at 7.1% mom 2.0% mom respectively. The Manufacturing indices was unchanged at 2.2% mom.

The surge in the Mining sector was mainly due to low base factor. The Mining sector saw its output accelerated for the third consecutive month but this is partly due to a lower base. The sharp acceleration was driven by expansion in extraction of crude oil & natural gas at +11.5% yoy (Sep 14: +7.1% yoy) and expansion in extraction of crude petroleum at +16.8% yoy (Sep 14: +9.5% yoy). The strong production numbers in recent months were already reflected in the volume of exports of crude petroleum and natural gas in October.

Manufacturing continued to decelerate in October indicating slowdown in external demand. The manufacturing output grew modestly by +3.0% yoy in October (Sep 14:+4.7% yoy). Most of the sub-indices except for *Food, Beverages & Tobacco and Petroleum, Chemical, Rubber & Plastic Products* grew at a slower pace in October compared to the previous month. *Food, Beverages & Tobacco* grew +6.8% yoy (Sep 14: 5.9% yoy) led by higher growth of manufacturing of food products ay +5.0% yoy (Sep 14: +4.0% yoy). *Petroleum, Chemical, Rubber & Plastic Products rebounded in October to +3.6% yoy* (Sep 14: -0.7% yoy) led by higher pace of growth from the manufacturing of chemicals and chemical at +14.6% yoy (sep 14: +8.8% yoy). Most significant slowdown was in the *Electrical & Electronics* sub-indices where it slowed to +1.9% yoy (Sep 14: +9.7% yoy) drag down by a slower pace of growth in the manufacture of computer, electronics and optical at +1.1% yoy (Sep 14: +11.0% yoy).


Manufacturing may rebound modestly in coming months but would still be a drag. The sharp rise in imports of intermediate goods for October signals that the Manufacturing production will rebound in the coming months although we expect the upturn is likely to be modest. The slowdown if persists into the last 2 months of the year would see the Manufacturing sector posing a drag given that it was relatively strong during the corresponding period last year. 

Table 1: Malaysia-Monthly Industrial Production Index

	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	YTD 2014	2013
Industrial Production	113.3	117.1	117.2	113.9	116.2	117.2	121.3	114.9	110.2
% YoY	4.7	5.9	6.9	0.6	6.5	5.4	5.0	4.9	3.3
% MoM	(2.3)	3.4	0.1	(2.8)	2.0	0.9	3.5		
Mining	97.3	99.6	96.5	89.0	98.9	96.9	104.4	97.7	96.7
% YoY	3.8	0.4	1.4	(7.9)	3.6	7.2	11.5	1.6	4.2
% MoM	(3.9)	2.4	(3.1)	(7.8)	11.1	(2.1)	7.7		
Manufacturing	119.9	124.3	125.9	124.1	123.4	126.1	128.8	122.2	116.0
% YoY	5.1	8.0	9.2	3.2	7.4	4.7	3.0	6.1	0.5
% MoM	(1.8)	3.7	1.3	(1.4)	(0.6)	2.2	2.2		
Electricity	119.1	122.9	123.0	122.9	121.0	118.3	120.6	118.7	113.1
% YoY	3.9	4.6	5.8	5.0	8.4	6.2	3.4	5.0	5.5
% MoM	(2.1)	3.2	0.1	(0.1)	(1.5)	(2.2)	2.0		

Source: DOS, MIDFR

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

	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14
Total	5.1	8.0	9.2	3.2	7.4	4.7	3.0
Food, Beverages & Tobacco	12.0	21.0	11.0	(0.6)	14.0	5.9	6.8
Textiles, Wearing Apparel, Leather Product, Footwear	12.4	22.7	10.1	13.5	15.7	15.2	7.5
Wood Products, Furniture, Paper Products, Printing	10.6	3.2	5.6	4.0	9.2	6.8	5.3
Petroleum, Chemical, Rubber & Plastic Products	(3.9)	(3.7)	4.0	(0.2)	0.3	(0.7)	3.6
Non-Metalic Mineral, Basic & Fabricated Metal Prod	3.9	4.5	5.3	1.3	8.3	7.6	3.7
Electrical & Electronic Products	15.2	10.7	14.4	7.9	11.9	9.7	1.9
Transport Equipment & Other Manufactures	3.3	75.5	26.9	12.1	18.8	4.5	(5.6)

Source: DOS, MIDFR

Table 3: Global Industrial Production (% YoY)

	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14
US	3.7	3.9	4.3	4.4	4.8	4.1	4.3	4.0
Japan	7.4	3.8	1.0	3.1	(0.7)	(3.3)	0.8	(1.0)
Eurozone	0.3	1.9	0.7	0.3	1.6	(0.5)	0.6	n.a
France	(0.5)	(2.0)	(2.3)	(2.0)	(1.4)	(0.2)	(0.3)	(1.0)
Germany	2.9	1.8	1.1	(0.4)	2.7	(1.9)	(0.1)	0.8
UK	3.1	3.4	2.3	1.4	2.0	2.2	0.8	1.1
China	8.8	8.7	8.8	9.2	9.0	6.9	8.0	7.7
Russia	1.4	2.4	2.8	0.4	1.5	0.0	2.8	2.9
Brazil	(0.9)	(5.8)	(3.2)	(7.1)	(3.6)	(5.5)	(2.1)	(3.6)
India	(0.5)	3.7	5.6	3.9	0.4	0.4	2.5	n.a
S.Korea	2.8	2.5	(2.1)	0.5	3.9	(2.8)	1.9	(3.2)
Taiwan	3.2	5.3	5.4	8.6	6.1	7.0	10.3	9.0
Singapore	12.4	5.5	(1.7)	0.7	2.7	3.8	(1.0)	0.2
Malaysia	4.3	4.9	6.0	7.0	0.5	6.5	5.4	5.0

Source: Bloomberg, Trading Economics

Chart 1: Malaysia- Industrial Production Index - YoY%

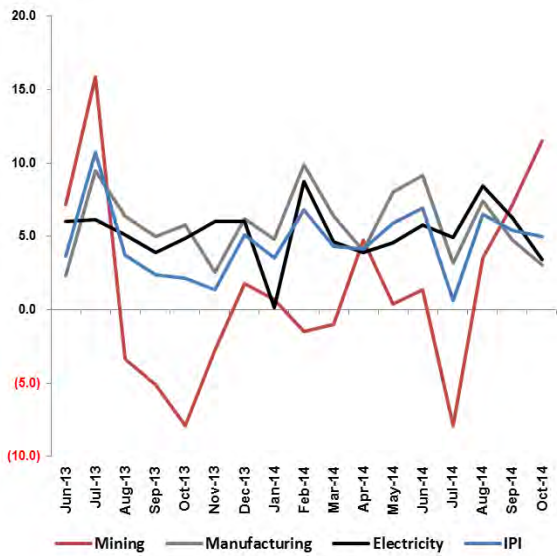
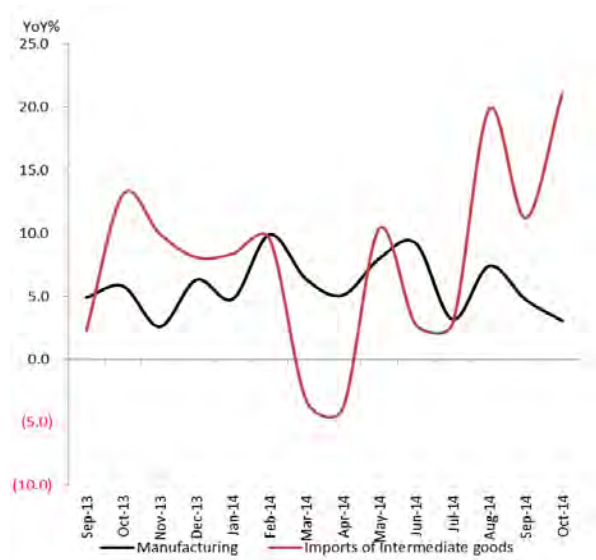


Chart 2: Pick up in Imports of Intermediate goods signals rebound in the Manufacturing Production Index



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