

ECONOMIC REVIEW | September 2015 Industrial Production Index

Industrial Production Rebounding, Exceeding All Economists' Forecasts

- *IPI grew by 5.1%yoy in September, beating all of the economists' forecasts in Bloomberg with a median of 3.0%yoy. The high IPI growth was mainly contributed by the manufacturing production, which grew by 5.5%yoy.*
- *On a quarterly basis, IPI grew by 4.5%yoy in 3Q15, higher than 2Q15 at 4.3%yoy but still lower than 1Q15 at 6.5%yoy. However, the high IPI growth in the third quarter despite all of the economic and financial market volatility in the quarter is reflecting Malaysia's economic resilience towards economic uncertainty.*
- *We maintain our earlier target of IPI growth between 5.0-5.5% for year 2015 and GDP 3Q15 growth at 4.8% and 5.0% for full year 2015.*

September IPI beats all economists' forecast. IPI came in at 5.1%yoy in September, beating all of the economists' forecasts in Bloomberg with a median of 3.0%yoy. All major sub-indices had a positive growth, led by manufacturing index which grew by 5.5%yoy. On a seasonally adjusted basis, IPI had its highest month-on-month growth in September with 2.4%mom, the highest increment in 17 months.

IPI grew by 4.5%yoy in 3Q15, higher than 2Q15 at 4.3%. The slightly higher IPI growth in 3Q15 by 4.5% may be hinting towards a possibly higher GDP growth in 3Q15 relative to 2Q15. However, as we are expecting that private consumption growth is most likely to slowdown in the 3Q15 on year-on-year basis, we maintain our expectation of a slightly lower GDP growth in 3Q15 at 4.8%yoy, compared to 4.9%yoy in 2Q15, leading to an overall GDP growth for year 2015 at 5.0%. However, if the high IPI growth continues in the coming months, we may have to review our expectation of the 4Q15 GDP growth and hence our forecast for 2015 GDP.

All of the major indices had a positive growth. Mining, manufacturing and electricity indices all had a positive growth with 4.3%yoy, 5.5%yoy and 2.6%yoy respectively. As expected, the sudden contraction in the mining industry particularly for the LNG in August was temporary. Extraction of crude petroleum increased by 11.8%yoy in September relative to 4.5%yoy in August, while LNG contracted moderately by 3.8%yoy, after contracting as much as 11.8%yoy in August.

Table 1: Malaysia – Summary of Industrial Production Index

	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	3Q15	Jan-Sep 15 (Average)
Industrial Production Index	117.9	122.4	122.3	120.8	119.7	123.2	121.0	120.0
% YoY	4.1	4.5	4.4	6.1	3.0	5.1	4.5	5.1
% MoM/QoQ	(5.1)	3.8	(0.1)	(1.2)	(1.0)	3.6	0.1	-
Mining Index	101.1	108.6	100.3	101.5	95.5	101.1	99.4	103.3
% YoY	3.9	9.0	3.9	14.0	(3.4)	4.3	4.7	6.5
% MoM/QoQ	(9.2)	7.4	(7.6)	1.2	(5.9)	5.9	(3.8)	-
Manufacturing Index	124.9	128.3	132.1	129.3	128.7	133.1	130.4	127.2
% YoY	4.2	3.2	4.9	4.2	4.3	5.5	4.7	4.8
% MoM/QoQ	(3.8)	2.7	3.0	(2.1)	(0.5)	3.4	1.5	-
Electricity Index	122.6	124.4	120.1	121.4	140.2	121.4	122.2	120.7
% YoY	2.9	1.2	(2.4)	(1.2)	15.9	2.6	1.2	1.9
% MoM/QoQ	(2.9)	1.5	(3.5)	1.1	15.5	(1.9)	(0.2)	-

Source: Department of Statistics, Malaysia; MIDF Research

Electrical and Electronics (E&E) production continue its double digit growth in September. E&E production index grew by 12.2%yoy, after increasing as much as 11.8%yoy in August. The high increase in E&E production is in line with the continuous positive growth of Malaysia's E&E exports, which grew by 16.7%yoy and 13.6%yoy in August and September respectively. As mentioned in our external trade report, we believe Malaysia has benefit from the weaker Ringgit either by receiving higher value for our exports, or higher volume due to the cheaper price.

Most of the manufacturing sectors were having higher production in September relative to August. Out of all 130 smallest sub-index of manufacturing activity, 77 of the indices had a positive growth year-on-year, higher than previous month's of 74 sub-indices and 70 sub-indices for July. However, the increase on month-on-month basis is even more encouraging where 92 of the 130 sub-indices had higher production relative to August. Looking at these figures, we are expecting that private investment will start to rebound either in 3Q15 or 4Q15.

IPI may continue to grow moderately in the coming months on a seasonally adjusted basis. It would seem that the weaker Ringgit actually benefit our manufacturing sector by having higher value for their exports. As we are not expecting that Ringgit will significantly rebound in the near term, hence we could expect the benefit of weaker Ringgit will continue and the high production may persist, although in terms of growth, it should only grow moderately on a month-on-month basis. However, risk towards the downside remains as the global economic condition continues to be uncertain and global trade activity slowdown persists.



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