

## ECONOMIC REVIEW | July 2019 Industrial Production Index

### Manufacturing Sector Stays Resilient Despite Global Trade Uncertainties

- IPI stays in positive track. Malaysia's IPI growth recorded at 1.2%yoy in Jul-19, the lowest expansion rate under the 2015-base year figures. The slowdown is mainly due to nosedived mining output by -8.4%yoy. Despite trade war, manufacturing and electricity output growth improved modestly to 4%yoy and 2%yoy respectively. Moving forward, we foresee IPI performance to continue expanding steady pace in 2H19 as trade war factor remains a major downside risk to global trade activities and manufacturing production in particular which has the highest weightage in the overall IPI index.*
- Mining output to rebound in Aug-19 onwards. The IPI performance is in tandem with the performance of Malaysia's external trade in Jul-19. Total exports increased by 1.7%yoy as domestic exports grew by 3.8%yoy whereas re-exports shrank by -4.1%yoy, 6-straight months of contractions since Feb-19. Both LNG and crude petroleum are expected to expand at steady pace as long as Brent crude oil price stays above \$60pb. In addition, production of LNG is expected to improve in 2H19 particularly when Keabangan gas field returns to full-capacity in Aug-19.*
- We maintain our forecast IPI growth of 2.9% for 2019. For the 1H19, IPI growth averaged at 3.3%yoy. Based on the latest macro trends and indicators, we maintain our forecast figure at 2.9%. Manufacturing sector which hold circa 70% of IPI weight are expected to perform modestly in 2H19 amid escalating trade tensions and that could drag the overall IPI performance this year.*

**IPI stays in positive track.** Malaysia's IPI growth recorded at 1.2%yoy in Jul-19, the lowest expansion rate under the 2015-base year figures. The slowdown is mainly due to nosedived mining output by -8.4%yoy. Despite trade war, manufacturing and electricity output growth improved modestly to 4%yoy and 2%yoy respectively. Moving forward, we foresee IPI performance to continue expanding steady pace in 2H19 as trade war factor remains a major downside risk to global trade activities and manufacturing production in particular which has the highest weightage in the overall IPI index. Nevertheless, effects of OPR cut, easing monetary measures globally, low inflationary pressure, positive progression in construction activities and stable domestic demand would provide support to the industrial production performance.

**Table 1: Malaysia – Summary of Industrial Production Index**

	MoM%				YoY%			
	Apr-19	May-19	Jun-19	Jul-19	Apr-19	May-19	Jun-19	Jul-19
IPI	2.0	(0.3)	(1.1)	(0.4)	4.0	4.0	3.9	1.2
Mining	3.1	(1.4)	(2.8)	(10.9)	2.3	3.0	4.6	(8.4)
Manufacturing	1.5	0.2	(0.4)	2.7	4.3	4.2	3.8	4.0
Electricity	1.7	0.4	(3.6)	4.5	5.8	5.7	1.7	2.0

Source: CEIC, MIDFR

\*MoM is Seasonally Adjusted

**Mining output to rebound in Aug-19 onwards.** The IPI performance is in tandem with the performance of Malaysia's external trade in Jul-19. Total exports increased by 1.7%yoy as domestic exports grew by 3.8%yoy whereas re-exports shrank by -4.1%yoy, 6-straight months of contractions since Feb-19. Both LNG and crude petroleum are expected to expand at steady pace as long as Brent crude oil price stays above \$60pb. In addition, production of LNG is expected to improve in 2H19 particularly when Kebabangan gas field returns to full-capacity in Aug-19. Despite global trade uncertainties, industrial productions of manufacturing output such as refined petroleum, rubber, basic metals, E&E and machinery & equipment performed better than previous months. Domestically, construction output rose by 4.8%yoy, fastest in 9-month and consumer output expanded by 5.4%yoy in Jun-19. Domestic output is expected to pick-up moving forward buoyed by OPR cut effects, low inflationary pressure, positive progression in construction sector and stable domestic demand.

**Table 2: Changes in IPI Major Industries (YoY%)**

	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
Mining;	(5.0)	(0.2)	2.3	3.0	4.6	(8.4)
Mining: Crude Petroleum	(4.3)	(2.0)	(1.9)	(2.0)	(3.7)	(22.7)
Mining: Natural Gas	(5.6)	1.4	6.1	7.6	13.0	7.3
Manufacturing;	3.7	4.1	4.3	4.2	3.8	4.0
Food Products	6.6	7.0	4.1	4.5	4.0	0.4
Refined Petroleum Products	0.2	4.3	4.0	2.0	2.7	3.8
Chemicals & Chemicals Products	0.5	1.7	1.0	2.6	2.5	1.9
Rubber Products	8.1	6.5	6.2	8.8	7.8	8.0
Basic Metals	3.6	3.0	4.0	3.5	4.3	4.7
Electrical & Electronic Products	3.1	2.7	4.1	3.7	3.5	4.9
Computers & Peripheral Equipment	6.2	6.0	11.5	20.6	3.9	14.0
Machinery & Equipment	2.2	1.3	3.0	3.3	2.5	4.8
Motor Vehicles, Trailers & Semi-Trailers	7.3	6.7	9.5	9.3	8.0	7.5

Source: CEIC, MIDFR

**Table 3: Changes in IPI Major Industries (YoY%)**

	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
<b>IPI: Export Oriented Industries</b>	<b>3.6</b>	<b>4.9</b>	<b>4.0</b>	<b>3.8</b>	<b>3.7</b>	<b>3.7</b>	<b>3.3</b>
Electronic and Electrical Product	7.1	4.6	4.1	3.1	4.2	4.1	3.6
Chemicals and Chemical Pdts	3.7	4.1	1.4	2.4	2.5	2.9	1.9
Petroleum Products	1.6	3.8	0.4	4.3	4.0	1.8	2.8
Textiles & Wearing Apparel	4.2	5.4	3.6	4.9	5.7	5.8	5.5
Wood and Wood Products	3.8	6.5	5.7	4.2	3.7	6.6	4.7
Rubber Products	11.4	3.7	8.0	7.7	7.0	10.2	9.5
Off Estate Processing	(9.6)	10.8	17.8	6.1	0.3	1.1	0.6
Paper Products	3.3	3.6	4.7	4.4	4.6	5.3	4.1
<b>IPI: Domestic Oriented Industries</b>	<b>6.0</b>	<b>2.6</b>	<b>3.2</b>	<b>4.9</b>	<b>5.7</b>	<b>5.2</b>	<b>5.1</b>
Construction (CO)	4.2	4.4	4.6	3.6	4.2	4.2	4.8
CO: Non Metallic Mineral	4.3	5.8	5.0	4.2	4.5	4.0	5.1
CO: Iron and Steel	3.4	3.2	3.6	3.0	4.0	3.5	4.3
CO: Fabricated Metal	4.6	4.1	5.0	3.5	4.0	4.6	4.9
Consumer (CS)	7.6	1.1	2.0	5.9	7.0	6.1	5.4
CS: Food Products	7.9	(4.9)	(2.0)	7.1	7.3	7.7	6.2
CS: Transport Equipment	7.7	6.7	8.0	6.6	9.0	7.9	7.4
CS: Beverages	1.7	2.6	3.0	1.7	3.6	4.1	3.2
CS: Tobacco Products	6.3	6.6	6.8	10.9	8.2	4.7	4.3
CS: Others	9.4	(1.6)	(3.8)	2.0	2.6	(0.4)	0.7

Source: CEIC, MIDFR

\*Data available as of Jun-19

**Manufacturing sales stay resilient despite global uncertainties.** Manufacturing sales increased by 6%yoy in Jul-19, better than the previous month. Among others the sales of refined petroleum products and electrical capacitor resistor which expanded by 6.9%yoy and 8.3%yoy respectively assisted in supporting overall Malaysia's manufacturing sales. Meanwhile, wage and employment growth in the manufacturing sector improved slightly by 3.4%yoy and 1.3%yoy respectively. Looking ahead, the prospect of manufacturing sales is slightly cloudy following the rising trade war effects and declining business optimism globally. In line, Malaysia manufacturing PMI in Aug-19 inched down further to 47.4, its five-month low.

**Table 4: Manufacturing Sales, Employment and Payrolls (YoY%)**

	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
<b>Sales;</b>	7.0	5.5	5.7	6.8	6.7	5.3	6.0
Refined Petroleum Products	12.6	4.6	12.3	7.3	4.4	5.9	6.9
Diodes, Transistor & Electronic Integrated Circuits Mic	18.0	12.8	10.0	18.8	20.3	9.9	4.3
Electrical Capacitor Resistor, Circuit Board & Display Comp	2.4	0.2	(0.1)	2.1	3.7	2.0	8.3
<b>Employment</b>	2.0	2.0	1.8	1.7	1.4	1.1	1.3
<b>Wage</b>	8.9	7.2	5.1	4.4	4.1	3.1	3.4


Source: CEIC, MIDFR

**Global trade uncertainties dim peer IPI performances.** IPI performances across major and emerging economies further moderated in Jul-19 due to global trade uncertainties, geopolitical stress in Europe, and volatility in global commodity prices. Overall IPI growth in the US recorded at 0.5%yoy, weakest gain since the first month of Trump became the President, Jan-17. Among others, manufacturing output shrank by -0.6%yoy while mining output growth returns to single digit rate of 6%yoy after 22-straight months registering double digit expansion rate. Japanese output indicated some improvement but remains in cloudy outlook amid global uncertainties and trade dispute with South Korea. Most of ASEAN economies namely Singapore, Philippines and Thailand continued to contract. Looking ahead, we view global trade activities to stay at modest pace amid trade war effects, volatility of commodity prices and declining business optimism. In Aug-19, global manufacturing PMI remained in contractionary zone for 4-straight months while PMI of emerging economies improved at 3-month high of 50.4 points. Global demand has the potential to return strongly if the US and China reach a deal and supported by easing monetary policies by developed and emerging economies.

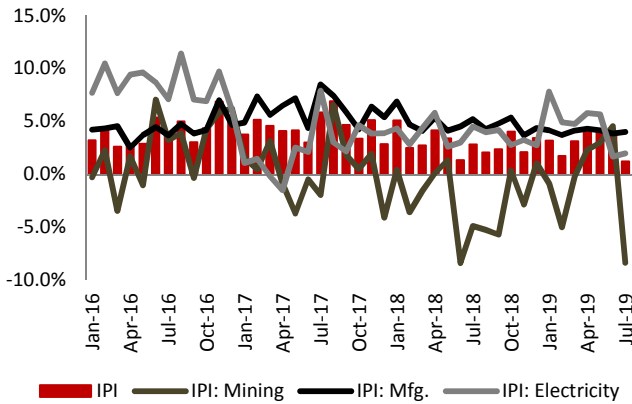
**Table 5: Global IPI (YoY%)**

	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
Malaysia	3.2	1.7	3.1	4.0	4.0	3.9	1.2
Indonesia	4.9	0.6	7.9	3.2	4.0	3.6	
Philippines	(0.3)	(7.1)	(5.5)	(12.8)	(9.2)	(10.2)	(7.3)
Thailand	0.3	(1.5)	(2.5)	1.7	(3.5)	(5.4)	(3.3)
Singapore	1.3	2.9	(4.4)	0.1	(1.8)	(8.1)	(0.4)
India	1.6	0.2	2.7	4.3	4.6	2.0	
Japan	0.7	(1.1)	(4.3)	(1.1)	(2.1)	(3.8)	0.7
EU	(0.3)	0.5	0.3	0.0	0.0	(1.6)	
USA	3.3	2.8	2.3	0.5	1.6	1.1	0.4

Source: CEIC, MIDFR

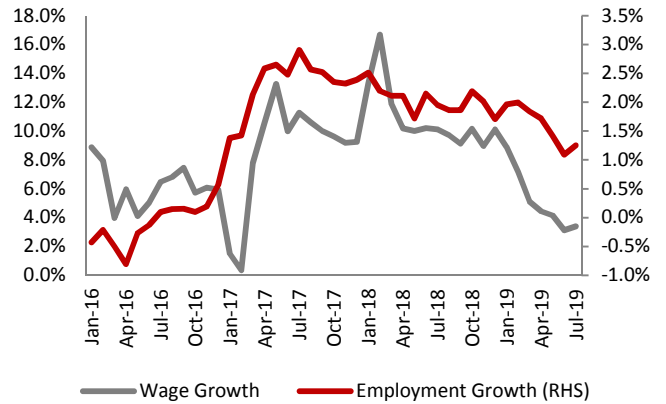
**We maintain our forecast IPI growth of 2.9% for 2019.** For the 1H19, IPI growth averaged at 3.3%yoy. Based on the latest macro trends and indicators, we maintain our forecast figure at 2.9%. Manufacturing sector which hold circa 70% of IPI weight are expected to perform modestly in 2H19 amid escalating trade tensions and that could drag the overall IPI performance this year. Nevertheless, support to the IPI growth would come from the OPR cut effects, easing monetary policy measures by developed and emerging economies, low inflationary pressure, stable domestic demand and positive progression in construction sectors. 

**Chart 1: IPI Performances (YoY%)**



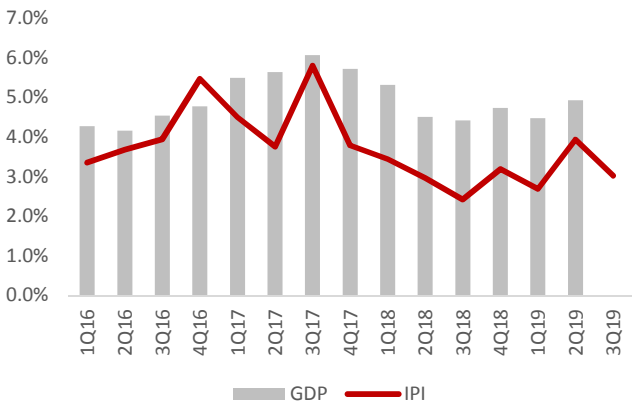
Source: CEIC, MIDFR

**Chart 2: Manufacturing: Employment vs Wage (YoY%)**



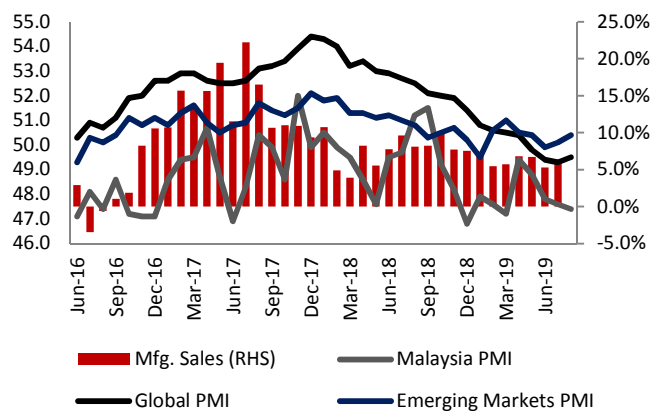
Source: CEIC, MIDFR

**Chart 3: IPI vs GDP (YoY%)**



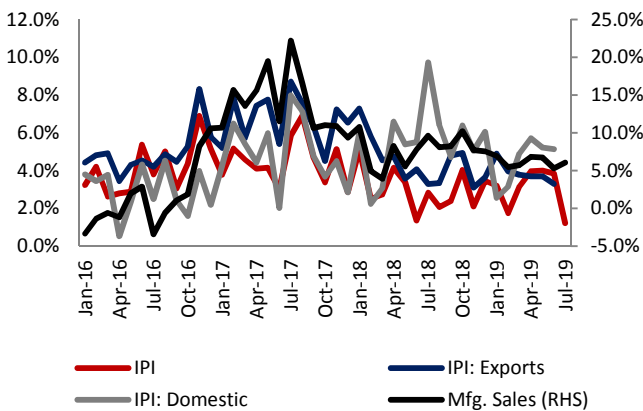
Source: CEIC, MIDFR

**Chart 4: Mfg. Sales (YoY%) vs PMI (Points)**



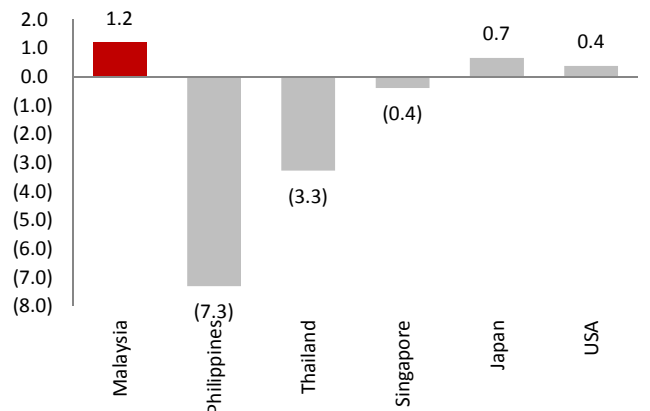
Source: CEIC, MIDFR

**Chart 5: IPI & Mfg. Sales (YoY%)**



Source: CEIC, MIDFR

**Chart 6: Global IPI in Jul-19 (YoY%)**



Source: CEIC, MIDFR

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