

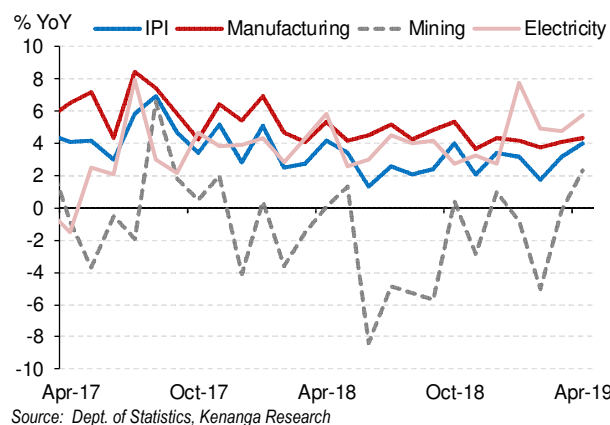
Malaysia Industrial Production

Expands in April on lower base impact and improved mining output

OVERVIEW

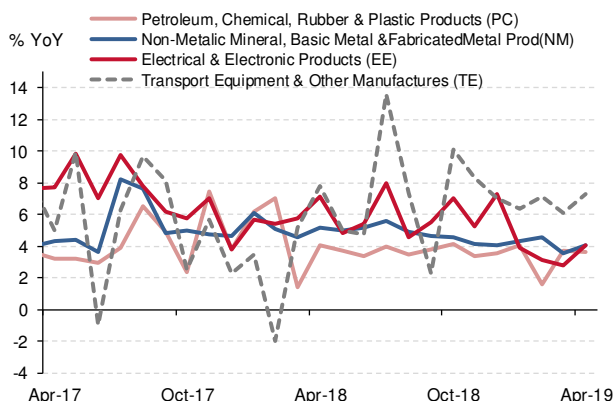
- The Industrial Production Index (IPI) grew by 4.0% YoY in April (Mar: +3.1%),** exceeding consensus and house estimate of 2.5% and 2.7% respectively. The month's better than expected growth was driven by sustained manufacturing output and a sharp rebound in mining output. A lower YoY base also partly helped to push for a higher growth. However, on a MoM basis, the IPI dropped by 2.7% after it registered a 4-year high of 11.4% in the preceding month. On a seasonally adjusted basis, the IPI grew by 2.0% MoM (Mar: +1.2%). **Year-to-date the IPI growth softened to 3.0% YoY (Jan-Apr 2018: 3.6%), supporting our view that the GDP growth will moderate going forward.**
- Manufacturing index expanded to 4.3% YoY (Mar: +4.1%), led by improvements in the export-oriented sub-sectors,** specifically electrical & electronic products (E&E) (+4.1% YoY; Mar: +2.7%) and transport equipment & other manufactures (+7.2% YoY; Mar: +6.1%) which collectively contributed 1.7 percentage point (ppt) to overall growth. However, it fell by 2.0% MoM (Mar:+9.6%). Meanwhile, growth moderation was recorded in food, beverages & tobacco sub-sector (+4.2% YoY; Mar: +6.8%) as well as petroleum, chemical, rubber & plastic products (+3.6% YoY; Mar: +3.7%). The month's growth was in line with improved manufacturing sales (+6.8% YoY; Mar: +5.7%) and a rebound in April's exports of E&E (+3.9%; Mar: -1.9%), driven by higher shipments of electronic integrated circuits (+6.4% YoY; Mar: +4.5%) alongside improved demand for Malaysia's exports to major destinations.
- Similarly, the mining index growth rebounded sharply to 2.3% YoY (Mar: -0.2%)** after falling for three straight months, propelled by improvement in the natural gas output (+6.1% YoY; Mar: +1.4%) and extraction of crude oil & natural gas (+2.3% YoY; Mar: -0.2%). The sharp turnaround of the overall mining index came on the back of a steady rise in the average Brent crude oil price (USD71.2/barrel; Mar: USD66.1/barrel). The oil price had rallied to its highest in five months following reports of declining oil inventory and heightened market perceptions of oil supply risk emanating from sanctions-hit Iran and Venezuela as well as output restraint by top exporter Saudi Arabia.
- Additionally, the electricity index expanded to 5.8% YoY (Mar: +4.8%).** On a MoM basis, however, it fell by 0.2% after it rebounded sharply by 14.0% YoY in the preceding month.
- Though April's figure remained solid, **we retain our view that the performance of industrial production would remain subdued going forward.** This is backed by the latest Purchasing Manager's Index (PMI) reading, which continued to decline in May (48.4; Apr: 49.4), remaining in a contractionary mode for eight straight months. Meanwhile, **heightened risk emanating from uncertainty surrounding the trade war** between the US and China may exert some downward pressure on the export-oriented sector. So far, the US has slapped duties on USD250.0b in Chinese products, while Beijing retaliated with tariffs on USD110.0b in American products. Recently, Trump has threatened to escalate the trade war with further tariffs on more than USD300.0b untaxed Chinese goods. Along with an expectation of economic growth moderation among major economies, especially China, the EU and the US, we expect GDP growth will likely extend its slowdown in 2Q19 to 4.2% (1Q19: 4.4%), adding to our full-year moderate growth projection of 4.5% (2018: 4.7%).

Graph 1: Industrial Production Growth Trend



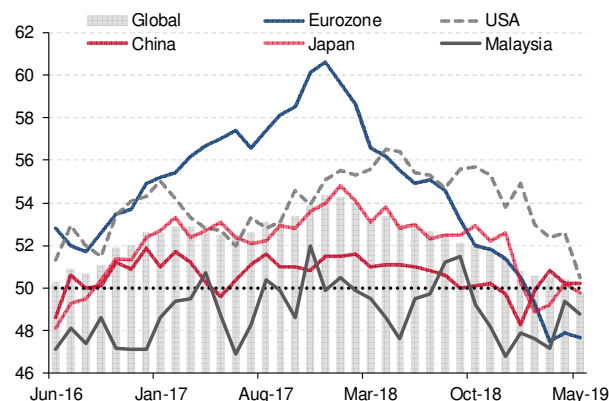
Source: Dept. of Statistics, Kenanga Research

Graph 2: Manufacturing Growth Trend by Sub-Sector



Source: Dept. of Statistics, Kenanga Research

Graph 3: Global Manufacturing PMI Trend



Source: IHS Markit, Bloomberg, Kenanga Research

12 June 2019

Table 1: Malaysia Industrial Production Trend (2015=100)

	Weight		2016	2017	2018	Apr-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
IPI	100.00	% YoY	4.1	4.4	3.0	4.1	4.0	2.1	3.4	3.2	1.7	3.1	4.0
		% MoM				-3.5	4.7	-2.7	1.5	1.3	-11.6	11.4	-2.7
		3mma				3.1	2.8	2.8	3.2	2.9	2.8	2.7	3.0
Manufacturing	65.89	% YoY	4.3	6.1	4.8	5.3	5.4	3.7	4.4	4.2	3.7	4.1	4.3
		% MoM				-2.1	2.1	-3.0	0.5	1.6	-10.2	9.6	-2.0
		3mma				4.7	4.8	4.6	4.5	4.1	4.1	4.0	4.1
Mining	28.92	% YoY	2.4	0.4	-2.4	0.1	0.4	-2.8	1.0	-0.9	-5.0	-0.2	2.3
		% MoM				-8.2	13.6	-1.6	4.6	-0.2	-16.2	16.4	-5.9
Electricity	5.19	% YoY	8.5	2.6	3.7	5.8	2.8	3.2	2.7	7.8	4.9	4.8	5.8
		% MoM				-1.2	4.6	-3.8	1.2	3.3	-10.6	14.0	-0.2

Source: Dept. of Statistics, Kenanga Research, 3mma= 3-month moving average (YoY growth)

Notes: Figures rebased by Department of Statistics on 11 June 2018

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