

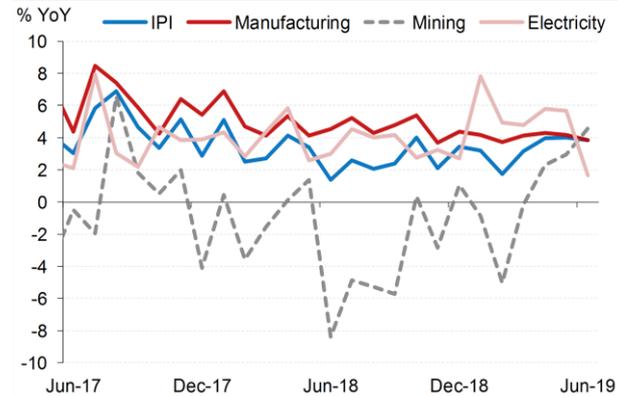
Malaysia Industrial Production

Output slows marginally in June, but mining bucked the trend

OVERVIEW

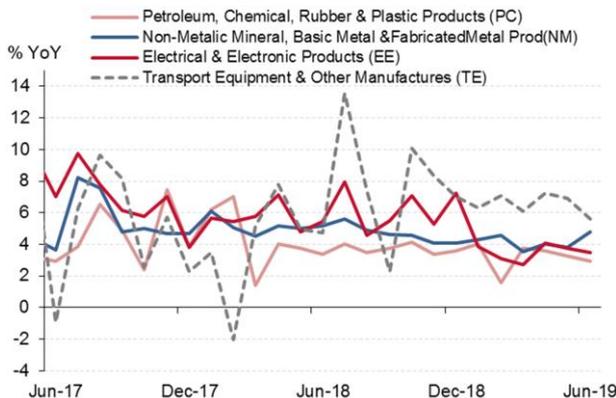
- The Industrial Production Index (IPI) grew 3.9% YoY in June (May: 4.0%),** lower than consensus (4.1%) but slightly higher than house estimate of 3.3%. The marginally slower performance compared to the previous month was due to slowing manufacturing and electricity output despite a sharp increase in mining output. On a MoM basis, the IPI fell to 0.6% after a sharp rebound in May 3.2%. On a seasonally adjusted basis, the IPI fell by 1.1% MoM (May: -0.3). Year-to-date, the IPI growth surprisingly expanded to 3.3% YoY from the same period a year ago (Jan-Jun 2018: 3.2%).
- Manufacturing index YoY growth eased for the third consecutive month to 3.8% (May: 4.2%), led by the slowdown in the export-oriented sub-sectors,** mainly the electrical & electronics (E&E) (3.5%, May: 3.7%), petroleum, chemical, rubber and plastic products (3.0%; May: 3.2%), wood products, furniture, paper products, printing (4.7%; May: 6.5%), and transport equipment & other manufacturers (5.6%; May: 6.9%). This was in line with the slightly lower manufacturing sales (5.3%; May: 6.7%) and the fall in E&E exports (-6.0%, May: 0.6%), weighed mainly by lower demand for thermionic valves and tubes, parts and accessories for office machines, and others due to the cyclical slowdown in the global E&E demand as well as prolonged trade war.
- Meanwhile, the mining index continued its uptrend to a 22-month high of 4.6% YoY (May: 3.0%),** driven by sharper expansion in the natural gas output (13.0%; May: 7.6%) and extraction of crude oil & natural gas (4.6%; May: 3.0%). The increase in the overall mining index came despite a slight drop in the average Brent crude oil price (USD64.2/barrel Vs. May: USD71.2/barrel). So far, oil price has dropped to USD63.9/barrel in July and currently trading below USD60/barrel on rising concerns over trade tensions between the US and China. However, we foresee crude oil prices to hold up supported by the OPEC's decision to extend the oil output curbs until March 2020 and geopolitical tensions between Iran and the west, while Saudi Arabia reportedly planned to slash exports. However, **the electricity index softened sharply to 1.7% YoY (May: 5.7%).** On a MoM basis, it fell sharply to 7.9% (May: 2.4%).
- The slowdown in June's IPI is indicative that its growth performance is expected to remain subdued going forward.** This is backed by the latest Purchasing Manager's Index (PMI) reading, which reported a sustained contraction of the manufacturing sector in July (47.6; June: 47.8), due to softer demand conditions. Furthermore, a further escalation of the trade war between the US and China as well as the ongoing economic moderation in major global markets, including China and the EU, contributes to our cautious outlook on external demand. Along with an expectation of soft domestic activity, we expect **GDP growth to extend its slowdown to 4.3% in 2Q19 from 4.5% in 1Q19, adding to our whole year projection of a slower growth of 4.5% (2018: 4.7%).**

Graph 1: Industrial Production Growth Trend



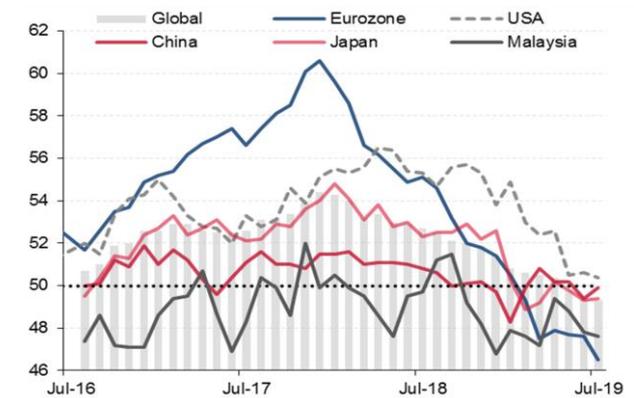
Source: Dept. of Statistics, Kenanga Research

Graph 2: Mfg Growth Trend by Sub-Sector



Source: Dept. of Statistics, Kenanga Research

Graph 3: Global Manufacturing PMI Trend



Source: IHS Markit, Bloomberg, Kenanga Research

13 August 2019

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

	Weight		2016	2017	2018	Jun-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
IPI	100.00	% YoY	4.1	4.4	3.0	1.4	3.4	3.2	1.7	3.1	4.0	4.0	3.9
		% YoY SA	4.3	4.3	3.1	4.6	3.5	3.2	1.7	3.1	3.9	4.0	3.8
		% MoM				-0.5	1.5	1.3	-11.6	11.4	-2.7	3.2	-0.6
		3mma				2.9	3.2	2.9	2.8	2.7	3.0	3.7	3.9
Manufacturing	65.89	% YoY	4.3	6.1	4.8	4.5	4.4	4.2	3.7	4.1	4.3	4.2	3.8
		% YoY SA	4.1	6.1	4.6	4.5	4.3	4.1	3.7	4.1	4.2	4.2	3.8
		% MoM				1.5	0.5	1.6	-10.2	9.6	-2.0	3.1	1.2
		3mma				4.7	4.5	4.1	4.1	4.0	4.1	4.2	4.1
Mining	28.92	% YoY	2.4	0.4	-2.4	-8.4	1.0	-0.9	-5.0	-0.2	2.3	3.0	4.6
		% MoM				-5.4	4.6	-0.2	-16.2	16.4	-5.9	3.8	-3.9
Electricity	5.19	% YoY	8.5	2.6	3.7	3.0	2.7	7.8	4.9	4.8	5.8	5.7	1.7
		% MoM				-4.3	1.2	3.3	-10.6	14.0	-0.2	2.4	-7.9

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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