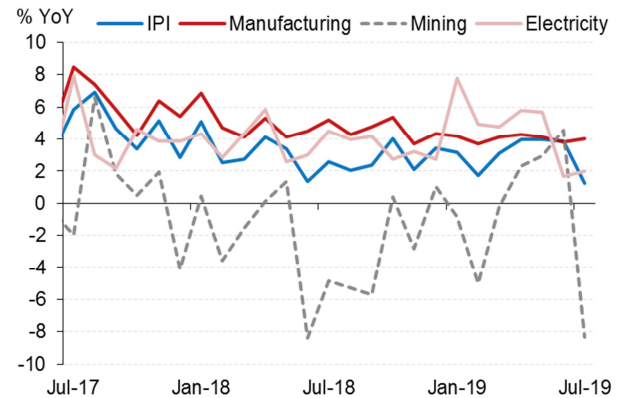


Malaysia Industrial Production

Output softens in July on dwindling mining production

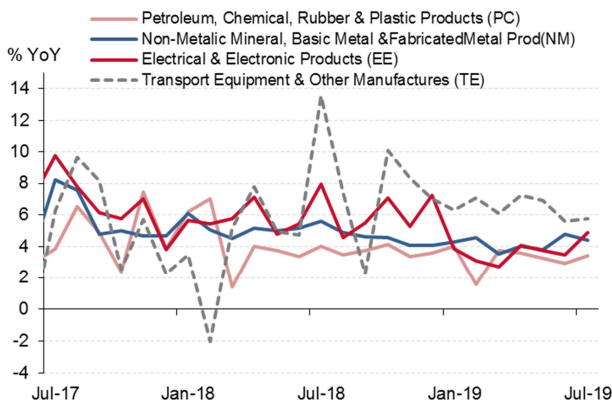
- The Industrial Production Index (IPI) charted a five-month low expansion of 1.2% YoY in July (Jun: 3.9%),** underperforming consensus and house estimate of 3.5% and 4.2%, respectively. The weaker performance was attributable to a slump in mining output. On a MoM basis, the IPI remained in contraction, albeit at a slower pace of -0.4% (Jun: -0.6%). Likewise, on a seasonally adjusted basis, the IPI narrowed its decline to -0.4% MoM (Jun: -1.1%). Year-to-date, the IPI growth softened to 3.0% YoY (Jan–Jul 2018: 3.2%), in line with our view of a moderating economic growth trend.
- Manufacturing index growth edged higher to 4.0% YoY (Jun: 3.8%), led by improvement in the export-oriented sub-sectors,** in particular electrical & electronic products (E&E) (4.9%; Jun: 3.5%) and petroleum, chemical, rubber and plastic products (3.4%; Jun: 3.0%). This was in line with the pick-up in manufacturing sales (6.0%; Jun: 5.3%) and a rebound in E&E exports to 4.5% (Jun: -6.0%), propelled by increased demand for electronic integrated circuits, defying the global semiconductor down cycle.
- Meanwhile, the mining index registered a downturn of -8.4% YoY (Jun: +4.6%), the steepest drop in 13 months.** The slowdown was broad based, led by a marked drop in crude petroleum output (-22.7%; Jun: -3.7%), followed by a negative flip in extraction of crude oil & natural gas (-8.4%; Jun: +4.6%) and softer expansion in natural gas output (7.3%; Jun: 13.0%). The bleak mining index figure came in against the backdrop of further decline in the average Brent crude oil price (-13.9%; Jun: +7.9%) to USD63.9/barrel. In the immediate term, the mining index will likely remain pressured, as the oil price decreased to USD59.0/barrel in August, weighed by unfavourable developments surrounding the US-China trade talks during the month. **The electricity index trended up, expanding by 2.0% YoY (Jun: 1.7%).** On a MoM basis, it rebounded to 7.2% (Jun: -7.9%).
- Looking ahead, we retain our view that the performance of industrial production would remain rather subdued.** This is premised upon the latest manufacturing Purchasing Manager's Index (PMI) reading, which worsened marginally to 47.4 in August (Jul: 47.6), driven by rocky demand conditions and growing cost pressures. In addition, continued uncertainty on whether a substantive deal could be finalised between the US and China as well as the faltering economic growth in major markets, including China and the EU, further contributed to our bleak external demand outlook. Along with an expectation of soft domestic activity, **GDP growth will likely extend its slowdown into the 3Q19 to 4.4% from 4.9% in 2Q19, adding to our whole year projection of a slower growth of 4.5% (2018: 4.7%).**

Graph 1: Industrial Production Growth Trend



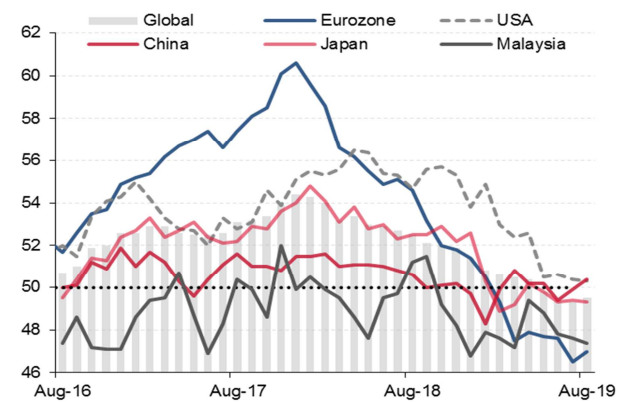
Source: Dept. of Statistics, Kenanga Research

Graph 2: 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 September 2019

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

	Weight		2016	2017	2018	Jul-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
IPI	100.00	% YoY	4.1	4.4	3.0	2.8	3.2	1.7	3.1	4.0	4.0	3.9	1.2
		% YoY SA	4.3	4.3	3.1	2.5	3.2	1.7	3.1	3.9	4.0	3.8	1.2
		% MoM				2.2	1.3	-11.6	11.4	-2.7	3.2	-0.6	-0.4
		3mma				2.5	2.9	2.8	2.7	3.0	3.7	3.9	3.0
Manufacturing	65.89	% YoY	4.3	6.1	4.8	5.2	4.2	3.7	4.1	4.3	4.2	3.8	4.0
		% YoY SA	4.1	6.1	4.6	5.2	4.1	3.7	4.1	4.2	4.2	3.8	4.1
		% MoM				1.8	1.6	-10.2	9.6	-2.0	3.1	1.2	2.0
		3mma				4.6	4.1	4.1	4.0	4.1	4.2	4.1	4.0
Mining	28.92	% YoY	2.4	0.4	-2.4	-4.9	-0.9	-5.0	-0.2	2.3	3.0	4.6	-8.4
		% MoM				1.9	-0.2	-16.2	16.4	-5.9	3.8	-3.9	-10.7
Electricity	5.19	% YoY	8.5	2.6	3.7	4.5	7.8	4.9	4.8	5.8	5.7	1.7	2.0
		% MoM				6.8	3.3	-10.6	14.0	-0.2	2.4	-7.9	7.2

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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