IPI slowed to 4.0% yoy, but exceeded expectations

Economic Update

Malaysia-IPI

Mining output turned around from -2.3% yoy in May to 2.4% in June

Growth in Malaysia's industrial production index (IPI) slowed from 4.6% yoy in May to 4% in June, but was higher than market expectations of 3%. This was reflected in slower production of manufacturing and electricity sectors, distorted partly by seasonal factors, due to the Eid al-fitr festival during the month. However, growth in the mining sector turned around from -2.3% yoy in May to 2.4% in June, due to higher production of crude oil and natural gas.

Growth in the manufacturing sector slowed down from 7.3% yoy in May to 4.7% in June, while electricity output from 2.5% yoy to 2.1% during the same period. On a seasonally adjusted basis, growth in IPI rose by 1.9% mom, with mining output accelerating by 8.2% mom, but the flat growth in the manufacturing output reflected the slowdown in June was due partly to the festive season during the month.

Fig 1: Industrial production by industry (June 2017)

		Total IPI		Manufacturing		Mining		Electricity	
Weight (%)		100		65.89		28.92		5.19	
Annual		% yoy		% yoy		% yoy		% yoy	
	2015	4.7		4.8		5.0		2.4	
	2016	3.8		4.3		1.6		8.5	
Quarterly		% yoy	%qoq	% yoy	%qoq	% yoy	%qoq	% yoy	%qoq
2016	2Q	3.6	2.7	3.9	4.0	1.4	-1.5	9.3	4.8
	3Q	3.9	0.5	4.0	1.6	2.6	-2.4	8.5	-0.8
	4Q	5.0	4.4	4.9	3.6	4.7	7.9	7.6	-0.4
2017	1Q	4.3	-3.2	5.7	-3.6	1.2	-2.4	0.7	-2.7
	2Q	4.3	2.7	6.2	4.6	-0.6	-3.3	1.0	5.1
Monthly		% yoy	% mom	% yoy	% mom	% yoy	% mom	% yoy	% mom
2016	Oct	4.2	3.9	4.2	3.1	3.5	6.6	6.9	3.5
	Nov	6.2	-2.8	6.5	-4.0	4.7	0.9	9.7	-3.5
	Dec	4.7	4.2	4.3	3.5	5.8	7.0	6.1	1.7
2017	Jan	3.5	-4.6	4.6	-5.3	1.1	-3.3	1.1	-2.0
	Feb	4.7	-5.7	6.6	-4.2	0.4	-9.7	1.5	-6.8
	Mar	4.6	11.0	5.9	11.6	2.0	9.1	-0.2	12.4
	Apr	4.2	-5.4	6.7	-4.1	-2.0	-9.8	-1.5	-2.5
	May	4.6	4.1	7.3	3.6	-2.3	5.2	2.5	5.7
	Jun	4.0	1.8	4.7	1.5	2.4	4.1	2.1	-4.6

Source: Department of Statistics (DOS)

E&E output remained strong in June despite the festive season

Despite the festive season, output of electrical and electronic (E&E) products remained strong, expanding by 8.3% yoy in June, albeit slower than 11.6% in May, where the moderation in yearly growth was due partly to the higher base effect in the corresponding period of last year. Production of E&E products was supported mainly by the increase in the output of computer, electronics & optical products (which includes ICT products such as semiconductors and integrated circuits). This was in tandem with the performance of the global semiconductor sales, which improved further to 23.7% yoy in June (22.8% in May), with strong growth from all major economies, including China, the US, Japan and Europe.

Production in the domestic-oriented industries moderated in June, with food and beverages output slowing sharply from 12.9% yoy in May to 6.7% in June, while transport equipment contracted by 1% yoy in June, after a strong 6.9% growth in May. However, production of textiles, wearing apparel, leather products & footwear improved further to 8.5% yoy in June (7.6% in May), where higher growth was also due to seasonality, see Fig 2.

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Fig 2: Manufacturing industry breakdown (June 2017)

Breakdown of manufacturing production	Weights	Apr-17	May-17 %yoy	Jun-17	Apr-17	May-17 %mom	Jun-17
TOTAL INDUSTRIAL PRODUCTION	**100.00**	**4.2**	**4.6**	**4.0**	**-5.4**	**4.1**	**1.9**
MANUFACTURING	**65.89**	**6.7**	**7.3**	**4.7**	**-4.1**	**3.6**	**1.5**
Food, Beverages & Tobacco	**7.37**	**15.4**	**12.9**	**6.7**	**6.8**	**-0.1**	**-2.7**
Textiles, Wearing Apparel, Leather Products & Footwear	**0.87**	**6.4**	**7.6**	**8.5**	**-0.4**	**8.1**	**-8.6**
Wood Products, Furniture, Paper products, Printing	**4.62**	**7.1**	**8.4**	**2.2**	**0.7**	**-0.7**	**0.6**
Petroleum, Chemical, Rubber & Plastic Products	**25.37**	**3.0**	**3.1**	**2.8**	**-8.8**	**6.3**	**2.1**
Coke & Refined Petroleum Products	13.87	1.6	2.3	1.5	-12.6	7.4	3.0
Chemicals and Chemical Products	6.91	4.4	3.5	3.8	-7.5	6.2	3.2
Basic Pharmaceutical Products & Pharmaceutical Preparations	0.29	6.5	5.9	1.6	5.1	25.9	-12.0
Rubber & Plastic Product	4.30	4.4	4.3	5.1	-1.8	2.6	-0.4
Non-metallic Mineral Products, Basic Metal & Fabricated Metal Products	**7.46**	**4.3**	**4.4**	**4.1**	**-0.7**	**0.5**	**0.7**
Electrical & Electronics Products	**16.57**	**9.7**	**11.6**	**8.3**	**-3.9**	**3.5**	**4.3**
Computer, Electronics & Optical	13.80	10.1	12.1	8.7	-4.6	4.1	5.5
Electrical Equipment	1.19	8.3	11.3	7.3	1.4	0.3	-1.2
Machinery & Equipment n.e.c	1.59	7.1	7.4	5.2	0.1	0.1	-3.4
Transport Equipment and Other Manufacturers	**3.63**	**5.0**	**6.9**	**-1.0**	**-7.1**	**5.1**	**-2.9**

Source: DOS

Real GDP growth is estimated to expand by 5.2% yoy in 2Q17

On a quarterly basis, the overall IPI rose by 4.3% yoy in 2Q17, the same rate of increase in 1Q17, but growth in manufacturing production rose to 6.2% yoy in 2Q17 (5.7% in 1Q17), reflecting steady real GDP growth in 2Q17, which will be released on 18 August 2017. We estimate that Malaysia's real GDP growth is likely to have grown at the steady pace of 5.2% yoy estimated for 2Q17 (5.6% in 1Q17), supported by healthy trade activity and strong manufacturing output, but dragged by slower mining output.

For the whole of 2017, we maintain our real GDP growth forecast at 5.2% (vs. 4.2% in 2016). The more moderate growth envisaged for 2H17 (estimated at 4.8%) is mainly on account of the higher base effect in the corresponding period of last year. However, we expect growth in domestic demand, especially private consumption, to remain supportive of economic growth, backed by sustained income growth, favourable labour market conditions, as well as higher number of tourist arrivals to Malaysia in 2H17. According to Tourism Malaysia, tourist receipts are expected to rise to RM118bn in 2017 as compared to RM82.1bn in 2016, with the number of tourists increasing to 31.8m in 2017 (26.76m in 2016), due to the 2017 SEA and Para ASEAN Games in August and September this year.

On the external front, the global manufacturing PMI improved slightly from 52.6 in June to 52.7 in July, which was also reflected in the OECD composite leading indicators (CLIs), where it trended near the 100 mark in June for the fifth consecutive month, pointing to stable growth momentum in the OECD economies. Importantly, Malaysia's exports will benefit from the sustained expansion in global demand for electrical & electronic (E&E) products, where global semiconductor sales remained resilient, averaging around 19.3% yoy growth in Jan-June 17 (-6.1% in Jan-June 16), on track to achieve the SIA's forecast for the industry worldwide sales of US$378bn for 2017.

Focus Charts

Chart 1: IPI vs exports growth

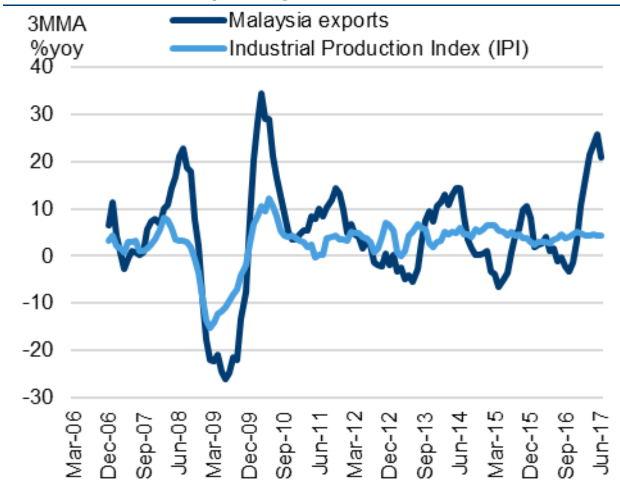


Chart 2: IPI by sectors

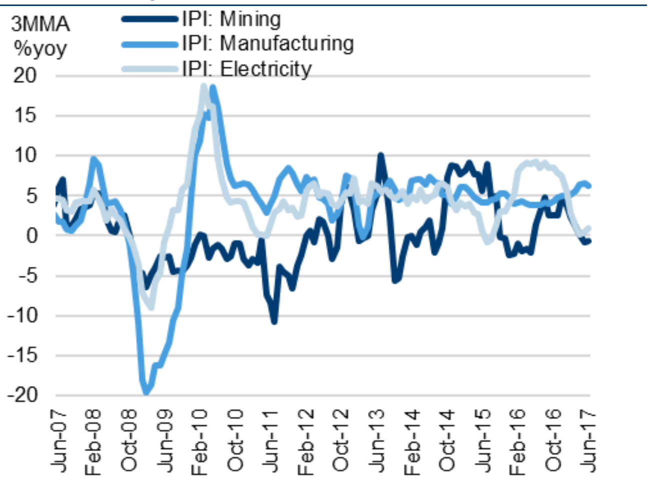


Chart 3: IPI breakdown

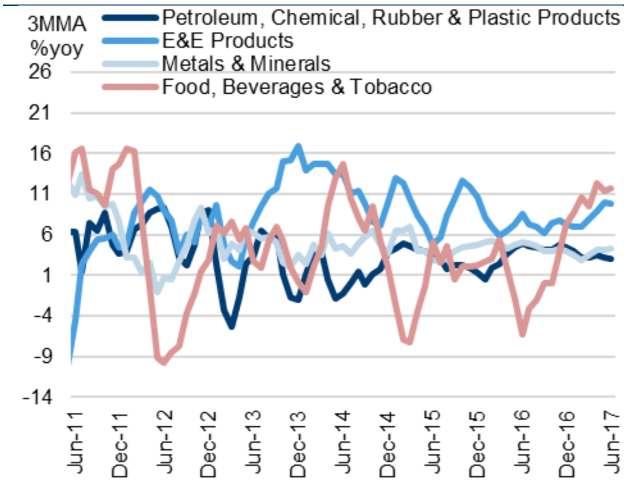


Chart 4: Global PMI vs OECD CLI

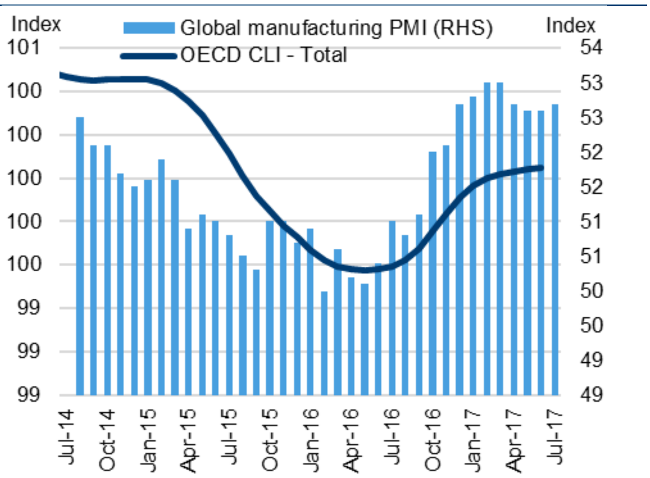


Chart 5: PMI vs exports

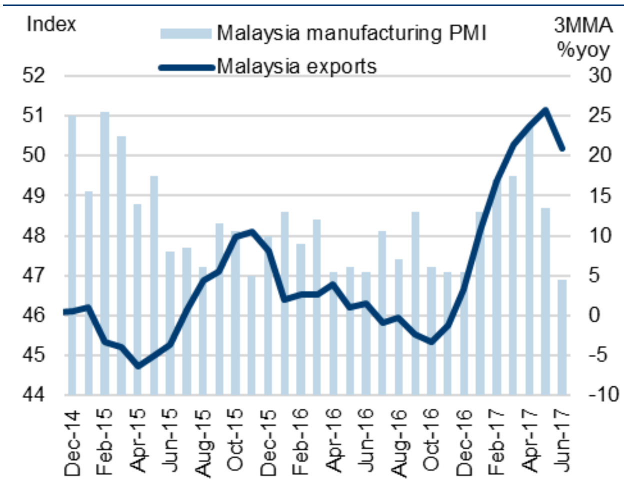
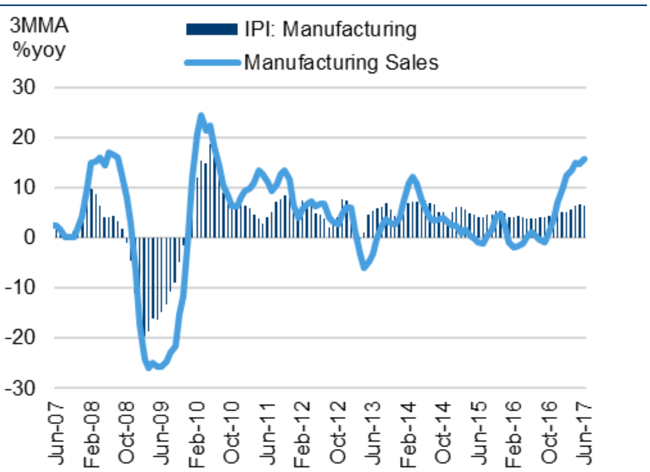


Chart 6: IPI component comparison



Source: All data for charts sourced from CEIC and DoS

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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