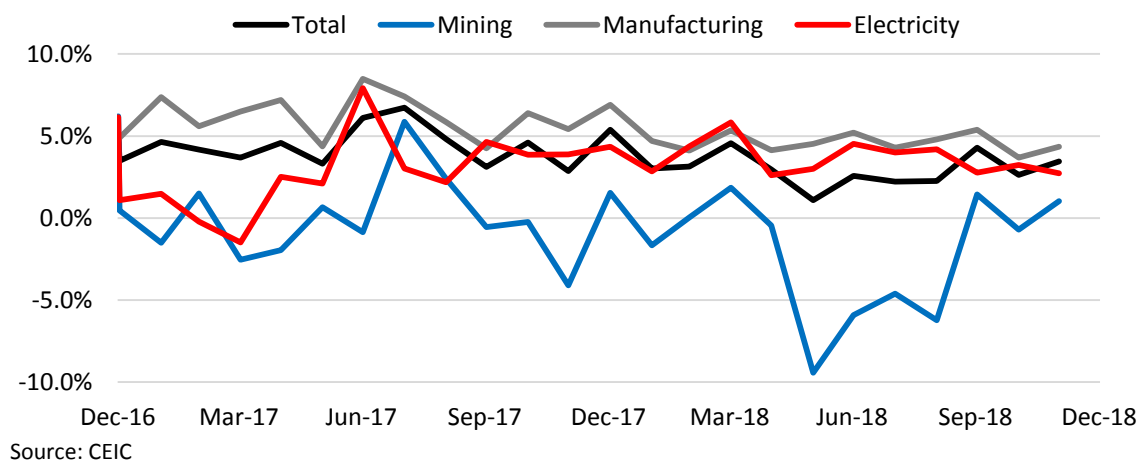


IPI accelerated to 3.4% in December 2018

Facts

- Malaysia Industrial Production Index (IPI) rose by 3.4% y-o-y in December, higher than 2.5% growth in the previous month (Bloomberg: 2.7%, Bank Islam: 3.5%). The increase in IPI was mainly contributed by Mining (25.2% of total IPI) and Manufacturing (68.3% of total IPI) indices which grew by 1.0% (Nov:-0.7%) and 4.4% (Nov: 3.7%) respectively. However, Electricity index posted a slower growth of 2.7% in December (Nov: 3.2%).
- The expansion in the mining sector was mainly driven by the strong performance in Crude Petroleum (Dec: 2.5% vs. Nov: 0.6%) followed by Natural Gas production which recorded slower contraction of 0.2% in December against 1.8% decline in the preceding month.
- Meanwhile, strong output growth in the manufacturing sector was supported by Electrical and Electronic Products (E&E) (Dec: 7.2% vs. Nov: 5.3%), Woods Products, Furniture, Paper Products and Printing (Dec: 5.0% vs. Nov: 2.8%) as well as Petroleum, Chemical, Rubber & Plastic Products (Dec: 3.6 vs. Nov: 3.4%).
- Cumulatively, the 2018 IPI growth moderated from 4.3% in 2017 to 3.1% in 2018, suggesting production activities have been slowing during the year. This was on account of moderate growth in both Manufacturing and Electricity Index by 4.8% (2017: 6.1%) and 3.7% (2017: 2.6%) in 2018. Nevertheless, Mining Index contracted further by 1.9% for 2018 (2017: -0.1%) due to decline Liquid Natural Gas (LNG) output growth following pipeline leakages in Sabah during January 2018¹. Such incidence has caused supply shocks in the mining index.

Chart 1: Industrial Production Index y-o-y%



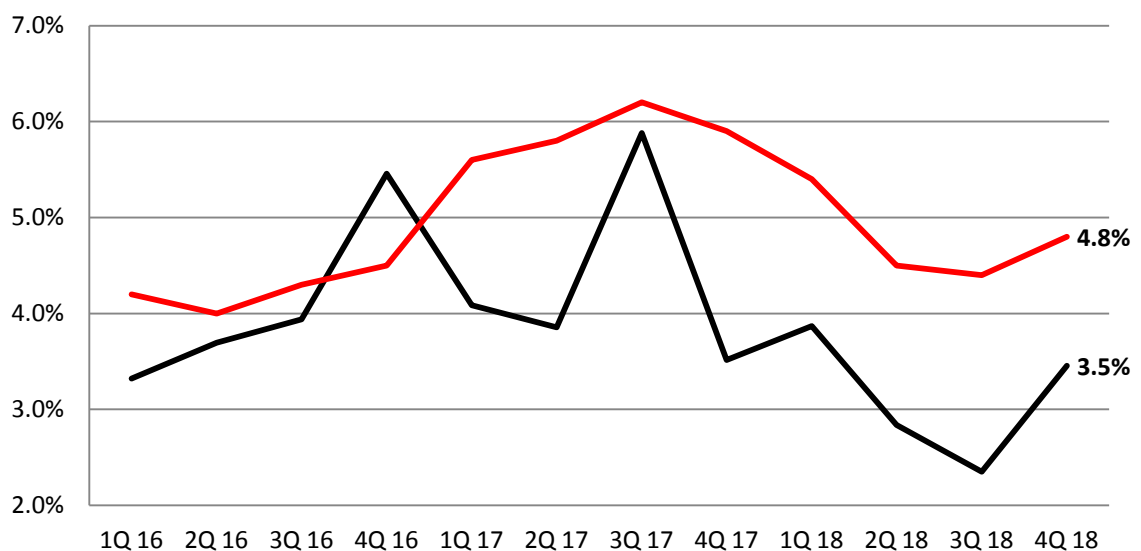
¹ <https://www.freemalaysiatoday.com/category/nation/2018/08/08/malaysia-lng-exports-hit-4-year-low-on-pipeline-issues/>

Table 1: Industrial Production Index (IPI) y-o-y%

	Weight	Sep-18	Oct-18	Nov-18	Dec-18	2017	2018
IPI	100.0%	2.3%	4.3%	2.6%	3.4%	4.3%	3.1%
Mining	25.1%	-6.2%	1.4%	-0.7%	1.0%	-0.1%	-1.9%
-Crude petroleum	12.2%	-6.3%	0.4%	0.6%	2.5%	-4.2%	0.9%
-Natural gas	12.9%	-6.2%	2.3%	-1.8%	-0.2%	3.8%	-4.4%
Manufacturing	68.3%	4.8%	5.4%	3.6%	4.4%	6.1%	4.8%
-Food, Beverages & Tobacco	8.6%	6.9%	2.6%	-2.6%	-1.1%	10.9%	3.4%
-Textiles, Wearing Apparel, Leather & Footwear	1.3%	2.2%	2.2%	4.8%	4.2%	8.0%	4.3%
-Wood Products, Furniture, Paper Products, Printing	4.6%	6.4%	6.5%	2.8%	5.0%	5.0%	4.7%
-Petroleum, Chemical, Rubber & Plastic Products	20.6%	3.8%	4.1%	3.4%	3.6%	4.0%	4.0%
-Non-Metallic Mineral, Basic Metal & Fabricated Metal Product	9.1%	4.6%	4.6%	4.1%	4.1%	4.9%	4.9%
-Electric & Electronic Products	18.2%	5.5%	7.1%	5.3%	7.2%	7.3%	6.0%
-Transport Equipment & Other Manufactures	5.9%	2.3%	10.1%	8.3%	7.0%	5.6%	6.1%
Electricity	6.6%	4.2%	2.8%	3.2%	2.7%	2.6%	3.7%

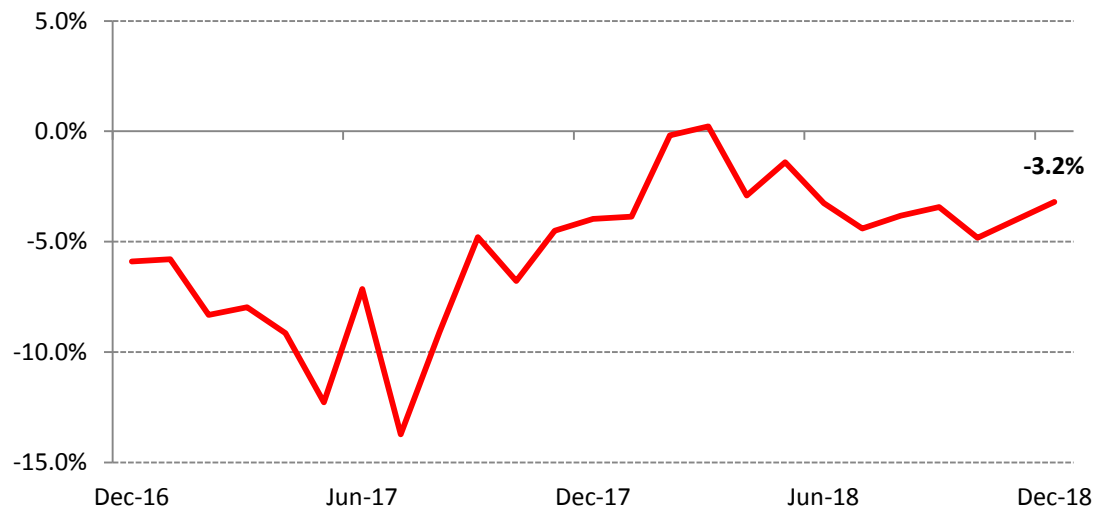
Source: CEIC

Chart 2: IPI growth (%) vs. Gross Domestic Product (GDP) growth (%)



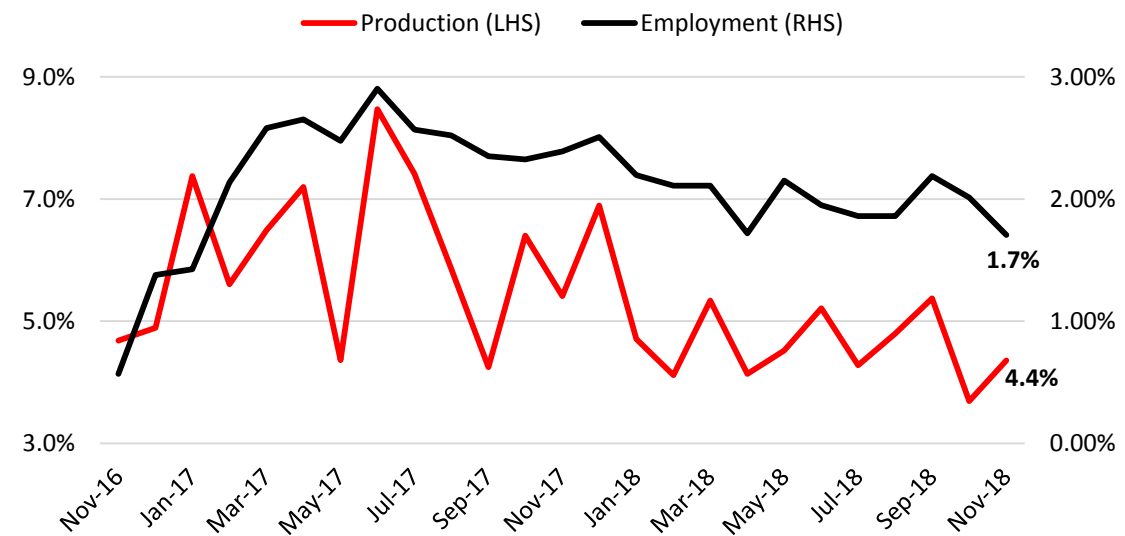
Source: CEIC

Chart 3: Estimates of Inventory level in manufacturing (production less sales)



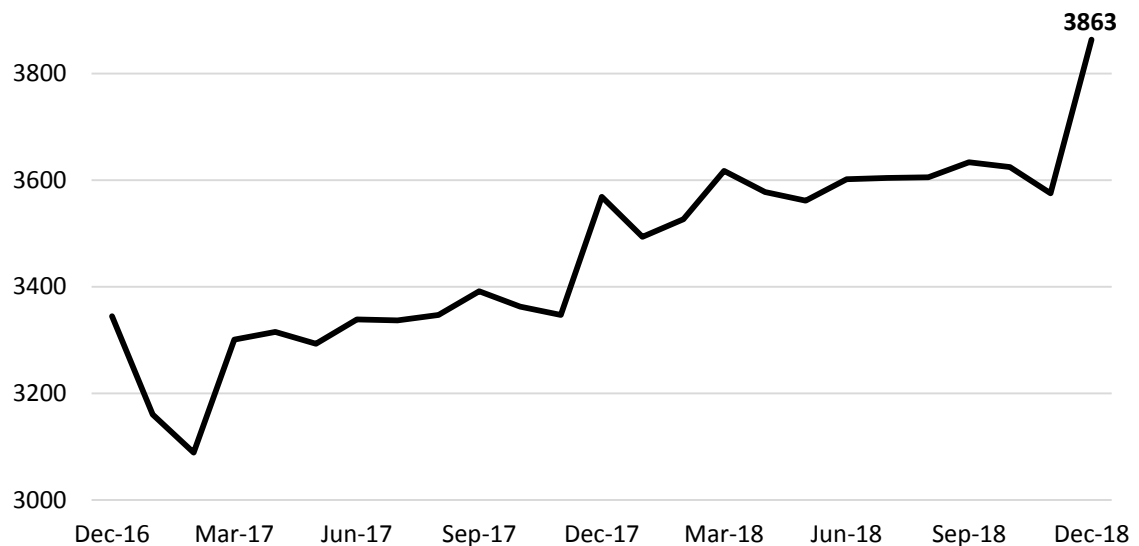
Source: CEIC

Chart 4: Total production and employment growth in manufacturing sector y-o-y%



Source: CEIC

Chart 5: Average monthly salaries in the manufacturing sector



Source: DOS Malaysia, CEIC

Our view

The latest IPI print suggests that the production activities have regained its momentum in the final quarter of 2018. The IPI posted 3.5% y-o-y growth in the 4Q2018 from 2.4% in the preceding quarter. This happened amidst challenging economic prospects brought by the uncertainty in the trade war between the US and China, UK Brexit negotiations and slowing China's economic growth. Thus far, inventory level in the manufacturing sector is not alarming as sales growth continued to exceed production growth (see chart 3). As such, there is no excessive inventory and manufacturer has the leeway to produce additional output. Meanwhile, the average monthly salaries earned by the manufacturing workers increased significantly from RM3,575 in November to RM3,863 in December 2018. The employment growth also improved from 3.7% in November to 4.4% in December, indicating continuous enhancement in the labor market condition especially workers in the manufacturing sector.

While the economic outlook has been increasingly challenging, foreign investors conviction on Malaysian economy has been encouraging. The latest update from the Malaysian Investment Development Authorities (MIDA) showed that the total approved foreign investment stands at RM64.1 billion for a period between January and September 2018. This is higher compared to full year of 2017 with approved foreign investment of RM54.2 billion. Manufacturing sector saw the highest approved foreign investment which doubled from RM21.5 billion in 2017 to RM48.8 billion in the first nine months of 2018. This followed by the Primary sector which rose from RM4.4 billion in 2017 to RMRM5.8 billion in 9M2018 while Services sector dropped from RM28.5 billion to RM9.5 billion in 9M2018. The primary foreign investors include China, Indonesia, Netherlands and the US which total approved investment of RM15.6 billion (2017: RM3.9 billion), RM9.0 billion (2017: RM0.5 million), RM8.3 billion (2017: RM2.0 billion) and RM3.1 billion (2017: RM1.1 billion) respectively. Apart from that, we can see some of the main players in different industries have been considering expanding their production capacity although it may construe as a reverse investment in the case of Top Gloves (see Table 2).

Be that as it may, we are projecting Malaysian economy in the **4Q2018 GDP to grow by 4.8% y-o-y** (3Q2018: 4.4%). This would give us the **full year 2018 GDP growth of 4.7%** (2017: 5.9%). The announcement will be made on 14 February 2019. **As for IPI, we expect it will grow moderately by 1.9% in 2019 (2018: 3.1%)** as companies will be mindful of their inventory level.

Table 2: Capacity expansion plan

Companies	Industries	Remarks
Top Glove Corp. Bhd	Rubber gloves	Top Glove is also looking to expand its operations to Vietnam and has entered into an agreement to acquire a piece of land for a factory which is expected to commence operations within the next two years. Besides Vietnam, Top Glove has indicated the possibility of setting up a factory in Turkey, which already imports 70% of its demand for gloves from the company. Currently, the glove maker has 40 factories in total. Out of which, 35 factories are located in Malaysia, four in Thailand and one in China.
FGV Holdings Bhd	Foods	FGV Holdings Bhd and Samyang Foods Co Ltd have sealed a memorandum of understanding (MoU) to establish a Halal ramen (noodles) manufacturing facility in Malaysia for the local and global markets. The collaboration was part of its strategic direction to expand the downstream business by diversifying product offerings and penetrating new markets.

Source: Media

Table 3: Approved private investments in various economic sectors, January-September 2018 & 2017

Summary	Number		Potential Employment		Domestic Investment (RM million) *		Foreign Investment (RM million) *		Total Investment (RM million) *	
	Jan-Sept 2018	2017(R)	Jan-Sept 2018	2017(R)	Jan-Sept 2018	2017(R)	Jan-Sept 2018	2017(R)	Jan-Sept 2018	2017(R)
Primary Sector	54	48	1,450	930	4,520.10	8,049.40	5,789.70	4,368.40	10,309.80	12,417.80
Manufacturing Sector	468	687	41,033	56,431	10,306.00	42,136.40	48,764.40	21,544.70	59,070.40	63,681.10
Services Sector	2,721	4,873	50,896	82,150	60,434.50	96,032.00	9,511.30	28,506.80	69,945.70	124,538.80
Total	3,243	5,608	93,379	139,511	75,260.60	146,217.70	64,065.30	54,420.00	139,325.90	200,637.70

Source: Malaysian Investment Development Authority (MIDA)

Table 4: Projects approved by states, January-September 2018 & 2017

State	Jan - Sept 2018				2017 (R)			
	No.	Domestic Investment (RM)	Foreign Investment (RM)	Total Proposed Capital Investment (RM)	No.	Domestic Investment (RM)	Foreign Investment (RM)	Total Proposed Capital Investment (RM)
Pahang	11	127.2	8,848.40	8,975.50	19	2,138.90	823.1	2,962.00
Selangor	143	2,407.80	5,839.10	8,246.90	202	3,427.60	2,164.90	5,592.50
Terengganu	7	119.9	4,163.60	4,283.50	4	37.5	35.6	73.1
Pulau Pinang	80	1,668.50	2,156.70	3,825.20	120	2,271.50	8,542.20	10,813.70
Sarawak	4	45.7	2,238.80	2,284.40	20	10,182.90	351.5	10,534.40
Negeri Sembilan	27	686	1,186.60	1,872.60	28	382.3	724.1	1,106.50
Melaka	28	278.9	721.3	1,000.10	37	2,396.90	2,257.80	4,654.70
Kedah	32	400.8	594.4	995.2	41	1,374.90	1,160.10	2,535.00
Perak	22	439.8	162.6	602.4	45	1,673.10	334	2,007.10
Sabah	8	118.6	22.3	140.9	14	740.2	45	785.2
W.P. Kuala Lumpur	8	104.7	25.6	130.3	7	156.3	3.6	159.9
Kelantan	5	73.1	24.6	97.7	1	4.2	0	4.2
W.P. Labuan	1	81	0	81	-	-	-	-
Perlis	1	8	0	8	3	525	0	525
Total	468	10,306.00	48,764.40	59,070.40	687	42,136.40	21,544.70	63,681.10

Source: Malaysian Investment Development Authority (MIDA)

Table 5: Projects approved by major country, January-September 2018 & 2017

Country	Jan - Sept 2018		2017 (R)	
	No.	Foreign Investment (RM)	No.	Foreign Investment (RM)
China	29	3,772.40	20	948.70
Indonesia	6	2,172.50	1	0.10
Netherlands	8	2,006.90	13	501.00
USA	17	756.7	18	272.70
British Virgin Island	3	654	2	10.20
Korea, Republic	6	591.5	7	156.80
Japan	34	507.8	41	322.80

Source: Malaysian Investment Development Authority (MIDA)

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