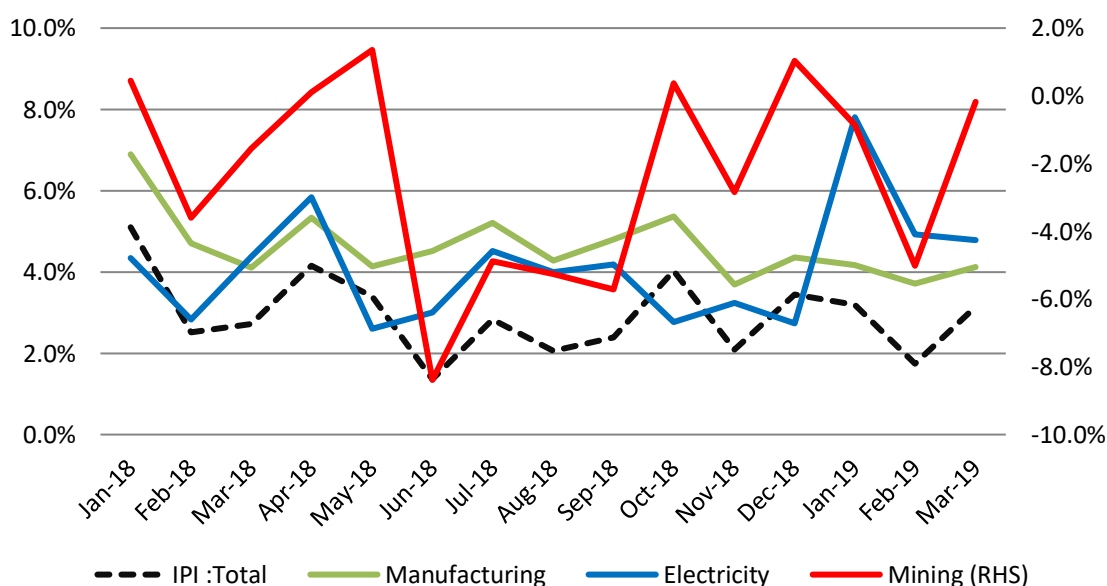


IPI higher by 3.1% in March

Facts

- Malaysia's Industrial Production Index (IPI) rose by 3.1% year-on-year (y-o-y) in March (Feb: 1.7%), overshooting market consensus of 2.3% (Bank Islam: 1.4%). This was contributed by the expansion in the Manufacturing sector which grew by 4.1% from 3.7% previously. Apart from that, Electricity grew by 4.8% in March, a tad lower compared to 4.9% growth in February. Meanwhile, Mining sector still declining at slower rate of 0.2% (Feb: -5.0%) helped by positive growth in natural gas (Mar: 1.4% vs. -5.6%).
- Higher print in the Manufacturing sector was led by Petroleum, Chemical, Rubber & Plastic Products which increased by 3.7% in March after 1.6% growth in the preceding month. This followed by Food, Beverages & Tobacco (Mar: 6.8% vs. Feb: 6.3%) as well as Textiles, Wearing Apparel, Leather Products & Footwear (Mar: 4.9% vs. Feb: 3.6%).
- However, softer growth were seen in Wood Products, Furniture, Paper Products & Printing (Mar: 5.0% vs. Feb: 5.5%), Non-Metallic Mineral, Basic Metal & Fabricated Metal Product (Mar: 3.5% vs. Feb: 4.6%), Electrical & Electronic (E&E) Products (Mar: 2.7% vs. Feb: 3.1%) and Transport Equipment & Other Manufacturers (Mar: 6.1% vs. Feb: 7.1%).
- Cumulatively, IPI grew by an average of 2.7% in the first three months of 2019. This is lower compared to 3.5% growth in 1Q2018, suggesting the industrial production activities is softening.

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



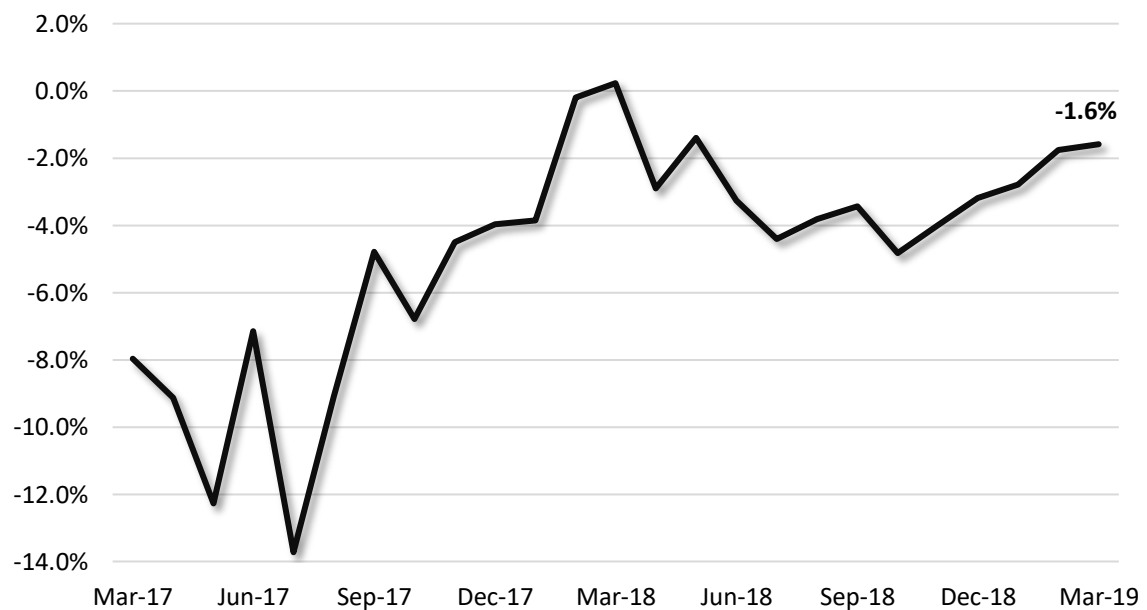
Source: CEIC

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

	Weight	Dec-18	Jan-19	Feb-19	Mar-19	1Q2018	1Q2019
IPI	100.0%	3.4%	3.2%	1.7%	3.1%	3.5%	2.7%
Mining	25.1%	1.0%	-0.9%	-5.0%	-0.2%	-1.5%	-1.9%
Crude Petroleum	12.2%	2.5%	-2.2%	-4.3%	-2.0%	-3.5%	-2.8%
Natural Gas	12.9%	-0.2%	0.3%	-5.6%	1.4%	0.3%	-1.1%
Manufacturing	68.3%	4.4%	4.2%	3.7%	4.1%	5.2%	4.0%
Food, Beverages and Tobacco	8.6%	-1.1%	2.6%	6.3%	6.8%	8.1%	5.2%
Textiles, Wearing Apparel, Leather Products and Footwear	1.3%	4.2%	5.4%	3.6%	4.9%	6.6%	4.6%
Wood Products, Furniture, Paper Products, Printing	4.6%	5.0%	5.7%	5.5%	5.0%	4.0%	5.4%
Petroleum, Chemical, Rubber and Plastic Products	20.6%	3.6%	4.0%	1.6%	3.7%	4.8%	3.1%
Non-Metallic Mineral Products, Basic Mineral and Fabricated Metal Products	9.1%	4.1%	4.3%	4.6%	3.5%	5.2%	4.1%
Electrical and Electronics Products	18.2%	7.2%	3.9%	3.1%	2.7%	5.6%	3.3%
Transport Equipment and Other Manufactures	5.9%	7.0%	6.3%	7.1%	6.1%	2.3%	6.5%
Electricity	6.6%	2.7%	7.8%	4.9%	4.8%	3.9%	5.8%

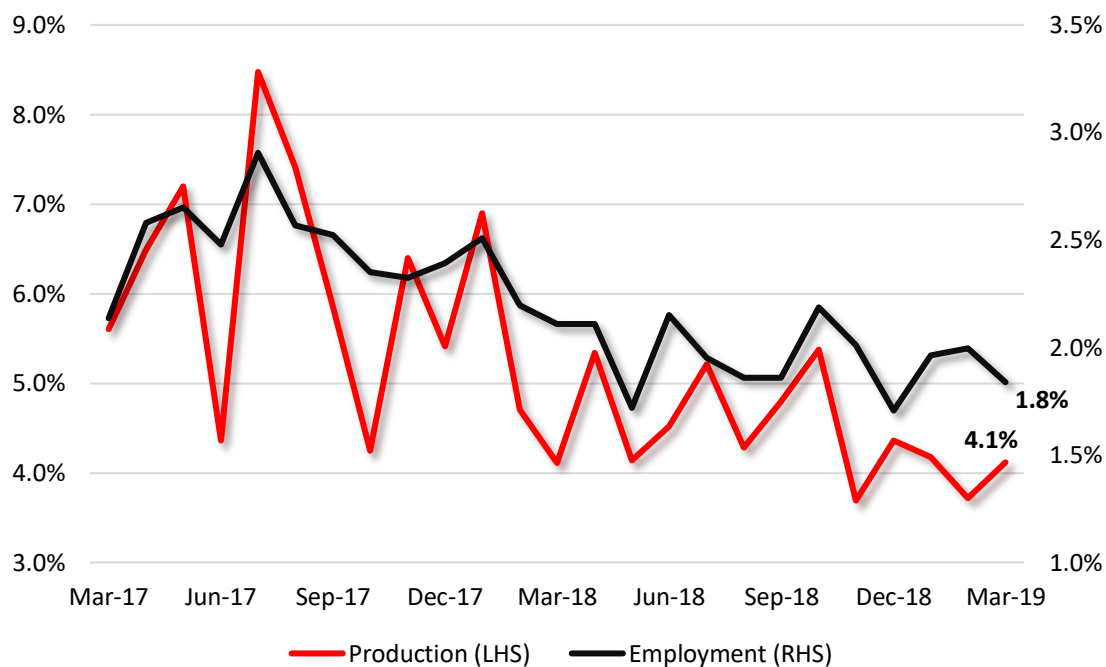
Source: CEIC

Chart 2: Estimates of Inventory level in manufacturing (production less sales)



Source: CEIC

Chart 3: Total production and employment growth in manufacturing sector y-o-y%



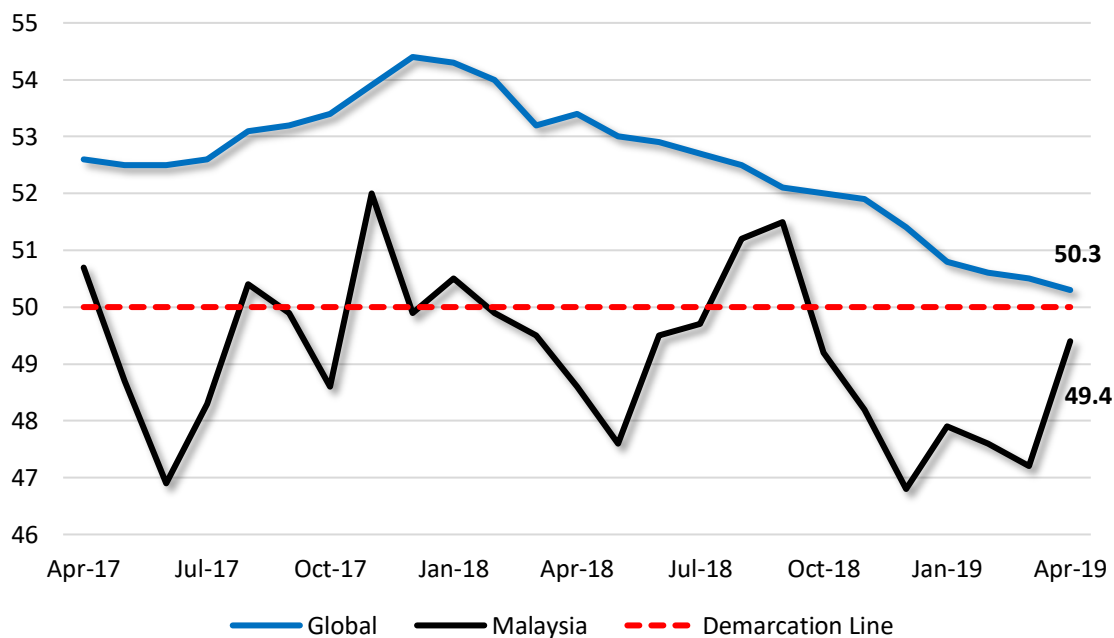
Source: CEIC

Chart 4: Average monthly salaries in the manufacturing sector (RM)



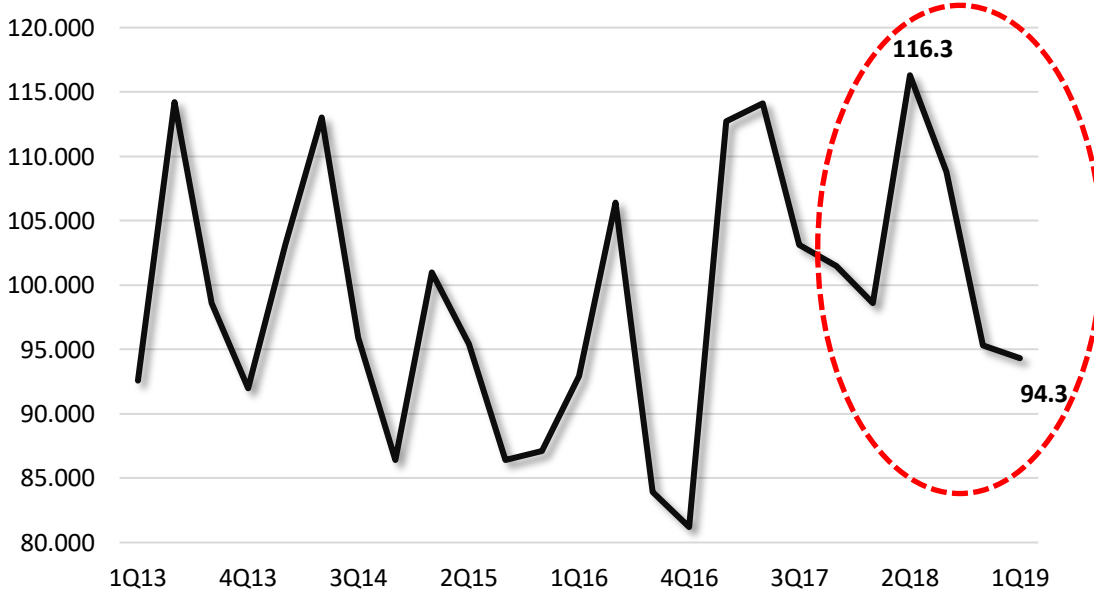
Source: DOS Malaysia, CEIC

Chart 5: PMI for Manufacturing (points)



Source: Bloomberg

Chart 6: MIER Business Condition Index



Source: CEIC

Our view

While the IPI appears to be moderating in the 1Q2019, the overall picture, to some degree is still fairly mixed in our view. We noticed that export-oriented industries such as Textiles, Wearing Apparel, Leather & Footwear and Wood Products, Paper Products, Printing have been decent during the 1Q2019 with both sub-indices growing 4.6% (4Q2018: 3.7%) and 5.4% (4Q2018: 4.8%) respectively. As for E&E, the production has been moderating to 3.3% in the 1Q2019 from 6.5% previously. This is in line with the Global Semiconductor Sales (GSS) which dropped to 13.0% y-o-y in March, the third consecutive month of decline. Similar narrative was also seen in the J.P. Morgan Global Purchasing Manager's Index (PMI) which currently stands at 50.3 points in April (See Chart 5). The prevailing PMI index was very close to its demarcation line of 50 points, suggesting business sentiments are very vulnerable to shocks. The latest result from Malaysian Institute of Economic Research (MIER) on business condition index also declined from 95.3 points in 4Q2018 to 94.3 points in 1Q2019 (See Chart 6). This indicates that the manufacturers remain cautious on their production line amid heightened uncertainties in the global market.

The recent development between the US and China on their trade negotiation remains a main concern to the industry players. The US has raised additional tariff on the Chinese goods worth USD200 billion from 10% to 25% which will take effect on 10 May 2019. It remains to be seen whether the friction can be resolved especially China is expected to retaliate. It's extremely overwhelming and increasingly difficult to foresee whether the two economic giants would find amicable solutions as the issues could go beyond economics.

In light of this, **the 1Q2019 GDP could come in at 4.3% y-o-y (4Q2018: 4.7%)**. Slower export growth, cautious business spending and limited government expenditure are likely to drag GDP growth in the first three months of this year. However, consumer spending should hold up as evidenced by the sharp rise in the passenger vehicle sales which grew by 8.3% y-o-y in the 1Q2019 to 131,114 units after declining 3.6% in the preceding quarter. The 1Q2019 GDP will be announced on 16 May.

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