Economic Research, Strategic Management

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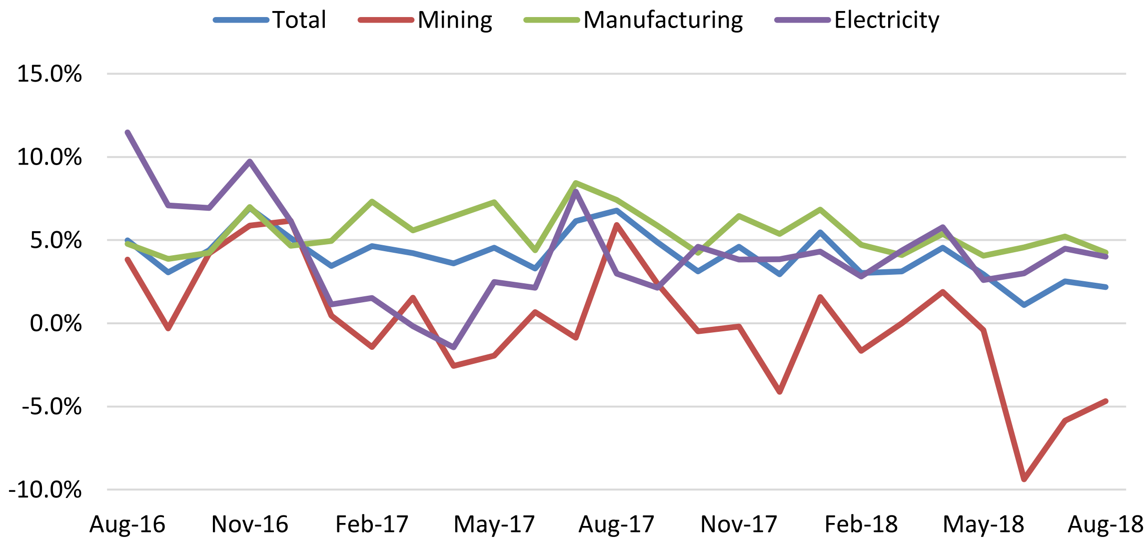
IPI grew moderately at 2.2% in August

Facts

- Malaysia Industrial Production Index (IPI) increased by 2.2% y-o-y in August, slowing from 2.6% gain in the previous month. This was lower compared to consensus estimates of 2.3% from the Bloomberg survey. Based on the observed data, Manufacturing and Electricity index grew moderately at 4.2% (July: 5.2%) and 4.0% (July: 4.5%) respectively.
- Growth in the manufacturing sector was mainly due to the strong expansion in food, beverages & tobacco at 2.1% in August (July: -2.8%) as well as wood products, furniture, paper products & printing industries also rose to 6.3% in August (July: 6.0%).
- Meanwhile, the Mining sector remained weak although the extent of contraction has been reduced to -4.7% in August (July: -5.9%). The improvement was contributed by the smaller decline in Natural Gas (-7.9% in August vs. -15.2% in July) while Crude Oil fell 0.6% (August: 4.4%). At 2.2%, IPI growth is lower compared to 8M2018 average of 3.1% (8M2017: 4.6%), suggesting the production activities are shifting into a lower gear in the 3Q2018.

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



Source: CEIC

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

	Weight	May-18	Jun-18	Jul-18	Aug-18	8M 2017	8M 2018
IPI	**100.0%**	**3.0%**	**1.1%**	**2.6%**	**2.2%**	**4.6%**	**3.1%**
Mining	**25.1%**	**-0.4%**	**-9.4%**	**-5.9%**	**-4.7%**	0.2%	-2.3%
-Crude petroleum	12.2%	4.8%	-2.2%	4.4%	-0.6%	-4.8%	1.8%
-Natural gas	12.9%	-4.8%	-15.7%	-15.2%	-7.9%	5.0%	-5.9%
Manufacturing	**68.3%**	**4.1%**	**4.6%**	**5.2%**	**4.2%**	**6.5%**	**4.9%**
-Food, Beverages & Tobacco	8.6%	3.3%	3.4%	-2.8%	2.1%	11.5%	4.4%
-Textiles, Wearing Apprarel, Leather & Footwear	1.3%	2.2%	6.2%	3.7%	2.9%	7.7%	4.9%
-Wood Products, Furniture, Paper Products, Printing	4.6%	2.6%	5.4%	6.0%	6.3%	6.5%	4.4%
-Petroleum, Chemical, Rubber & Plastic Products	20.6%	3.7%	3.4%	4.1%	3.5%	3.7%	4.2%
-Non-Metalic Mineral, Basic Metal &FabricatedMetal Prod	9.1%	5.0%	5.2%	5.6%	4.9%	5.0%	5.2%
-Electrical & Electronic Products	18.2%	4.8%	5.5%	8.0%	4.6%	8.2%	5.9%
-Transport Equipment & Other Manufactures	5.9%	5.0%	4.7%	13.5%	7.4%	6.1%	5.6%
Electricity	**6.6%**	**2.6%**	**3.0%**	**4.5%**	**4.0%**	**2.1%**	**3.9%**

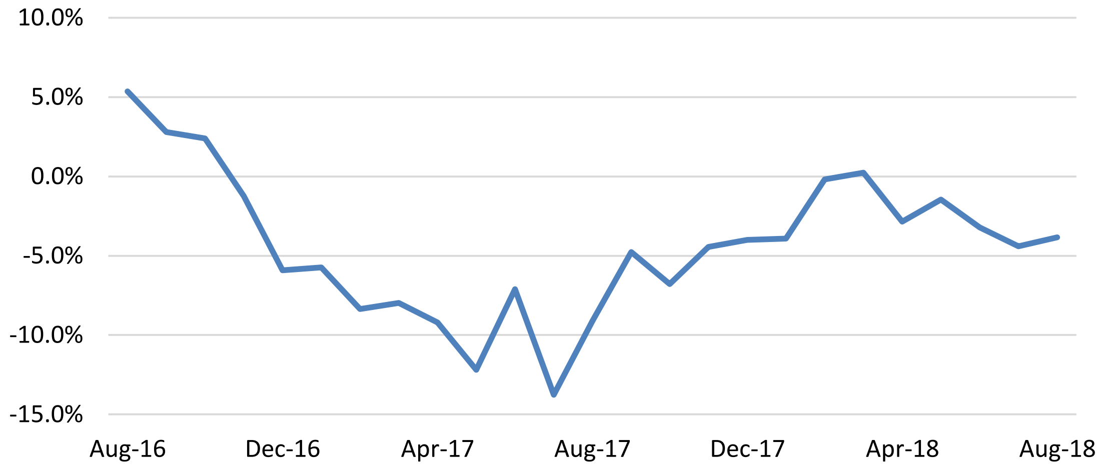
Source: CEIC

Our view

The latest IPI data suggests that the production activities have shifted into a moderate pace, judging from the 8M2018 growth. The difference between manufacturing production and manufacturing sales growth was at -3.8% in August from -4.4% in the previous month. This indicates that the inventory level has been fairly stable although somewhat at elevated levels compared to July 2017 (see Chart 2). The total employment growth in the manufacturing sector is also growing at a modest speed of 1.9% y-o-y in August from 2.0% in July. Meanwhile, the average monthly salaries earned by the manufacturing workers dropped from RM3,874 to RM3,872, suggesting that manufacturers are quite mindful on their production line. This is in view of the current economic conditions, which is highly uncertain especially with the ongoing trade tension between the Uncle Sam and China would morph into beyond commerce.

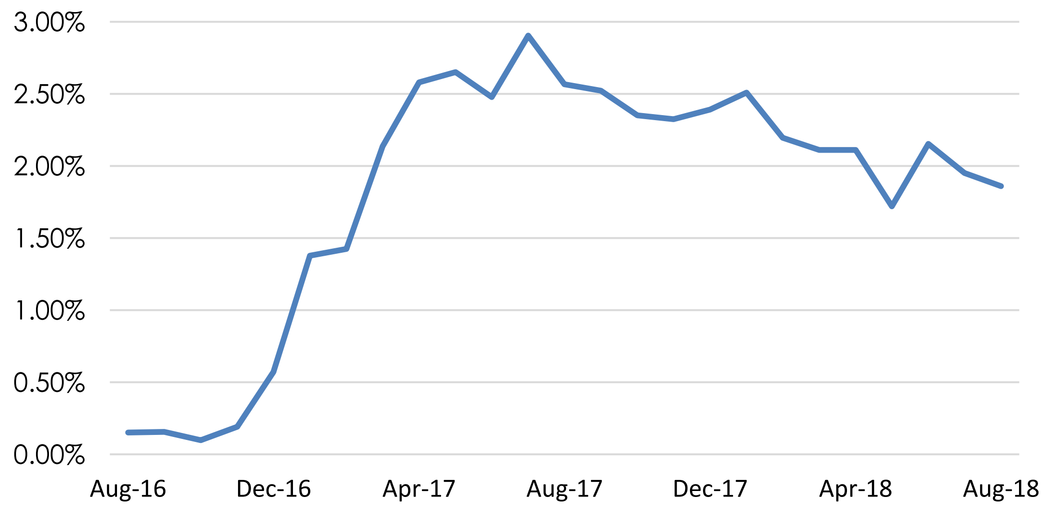
Notwithstanding that, some of the major players in different industries continue to expand their production capacity as there is strong demand domestically and internationally. Businesses are actively expanding their production capacity to boost up their outputs whilst some of the companies are already acquired factories in order to support their value chain (vertical and horizontal integration). The current Brent price of more than USD80 per barrel will give a brighter prospect to the Oil and Gas sector in particular the services companies which have been receiving new contracts from the oil majors.

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



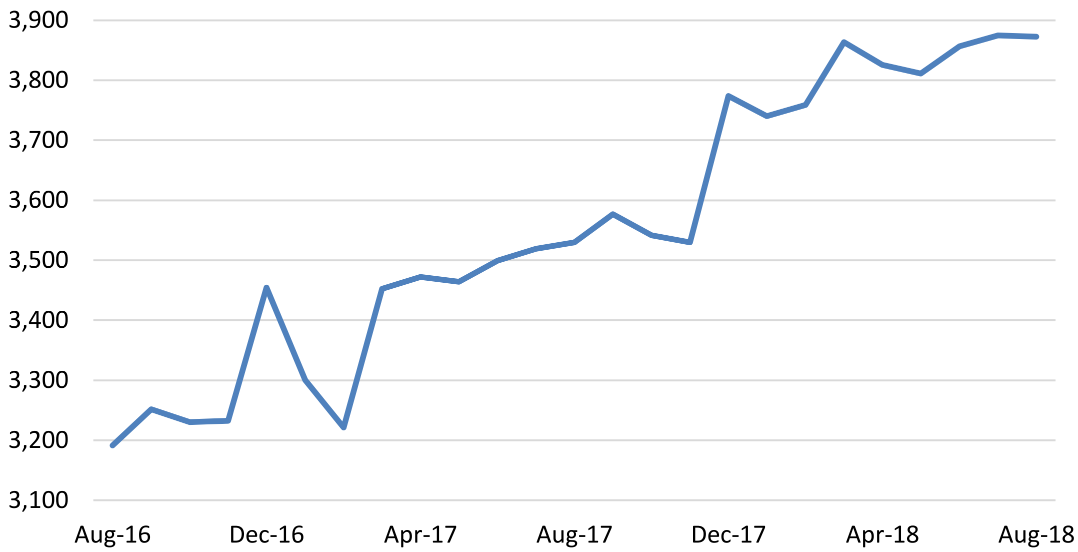
Source: CEIC

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



Source: CEIC

Chart 4: Average monthly salaries in the manfacturing sector



Source: CEIC

Table 2: Capacity expansion plans

Companies	Industries	Remarks
Supermax Corporation Berhad	Rubber gloves	Its revenue has increased quarterly as higher output arising from revamp work on its older production lines and increased output from newly commissioned production lines from Plant 10 and Plant 11 in Klang. The new plants are expected to increase Supermax's production capacity by 4.2 billion pieces per annum and targeted to be completed in the first half next year. In addition, there is higher demand coming from countries such as those in Eastern Europe, which are currently in the midst of upgrading their healthcare quality as a result of an increase in healthcare awareness.
Hartalega Holdings Berhad	Rubber gloves	New latex glove manufacturing plants, scheduled for completion in the second half of 2019, are expected to boost the company's production capacity by 15 per cent in three years' time. The production capacity would increase to over 44 billion premium latex gloves per year from the current 30 billion per annum.
Sime Darby Plantation Berhad	Plantation	It has acquired 100% in coconut oil exporter Markham Farming Co Ltd (MFCL) for USD 52.6 million (approximately RM215.6 million) cash as it seeks to expand its operations in Papua New Guinea. MFCL is the largest coconut oil exporter in Papua New Guinea and the acquisition enables Sime Darby Plantations to expand its lauric oils business into coconut oil production.
VS Industry Berhad	Manufacturing	The company has acquired RM28mil new factory, which has the capacity of eight assembly lines. The plant is under renovation and the first assembly line will likely commence operations next month. Meanwhile, the construction of RM70mil new facility with a total of 12 assembly lines is slated for completion this month. In the meantime, the company is on the lookout for potential merger and acquisition opportunities.

Sapura Industrial Bhd	Automotive	Plan to collaborate with Wada Aircraft Technology Co Ltd and Aero Inc in aerospace component manufacturing in Malaysia. Sapura Industrial said it has entered into a Memorandum of Understanding (MoU) with the two Japanese companies for the purpose of establishing a joint venture (JV).
Hup Seng Industries Bhd	Food	Bought a new production line for €2.5 million (RM12.13 million) from a European supplier, GEA Group. Introduction of high-tech European ovens as gradual replacements for existing ageing ovens is to improve efficiency and productivity by reducing wastage and improving energy savings Hup Seng share price gained one sen or 0.98% to close at RM1.03 today, giving it a market capitalisation of RM824 million.

Source: Media