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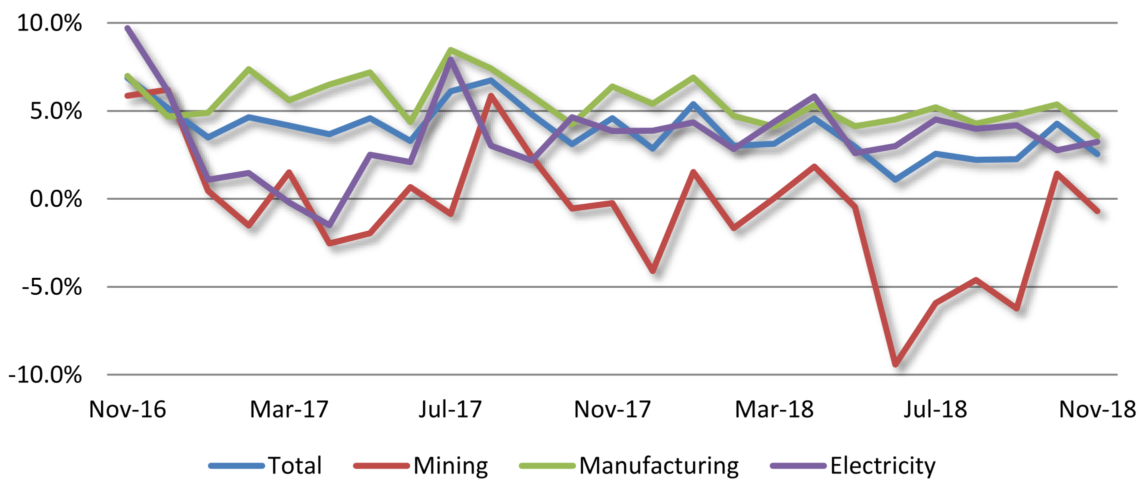
IPI grew moderately at 2.5% in November

Facts

- Malaysia's Industrial Production Index (IPI) registered 2.5% y-o-y gain in November, lower than 4.3% growth in the previous month (Bloomberg: 2.3% vs. Bank Islam: 2.3%). The slower momentum was largely due to contraction in Mining index by 0.7% in November (Oct: 1.4%) as well as slower growth in Manufacturing index (Nov: 3.6% vs. Oct: 5.4%). On the flip side, Electricity index grew by 3.2% in November after expanding 2.8% in the prior month.
- Manufacturing index which accounted for 68.3% of IPI has been softening during November. Five out of seven major components within manufacturing sector have recorded slower output growth. This was led by Petroleum, Chemical, Rubber & Plastics (20.6% of total IPI) and Electrical & Electronics (18.2% of total IPI) which grew 3.4% (Oct: 4.1%) and 5.3% (Oct: 7.1%) respectively. Additionally, contraction in food, beverages and tobacco by 2.6% in November (Oct: 2.6%) has also dragged down the manufacturing index. Notwithstanding that, textiles, wearing apparels, leather and footwear has managed to eked out respectable gains of 4.8% in November (Oct: 2.2%), providing support to the overall manufacturing output .
- Meanwhile, the Mining sector contracted by 0.7% in November after rebounded 1.4% in the preceding month. Natural gas sub-index has turned into negative growth of 1.8% for November after growing briefly at 2.3% in October. Natural gas output has been negative in the most part of 2018 following supply disruption which has yet to be fully resolved.
- All in all, total IPI growth has averaged at 3.1% between January and November 2018 (11M2017: 4.5%), suggesting production activities have been slow during the year.

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



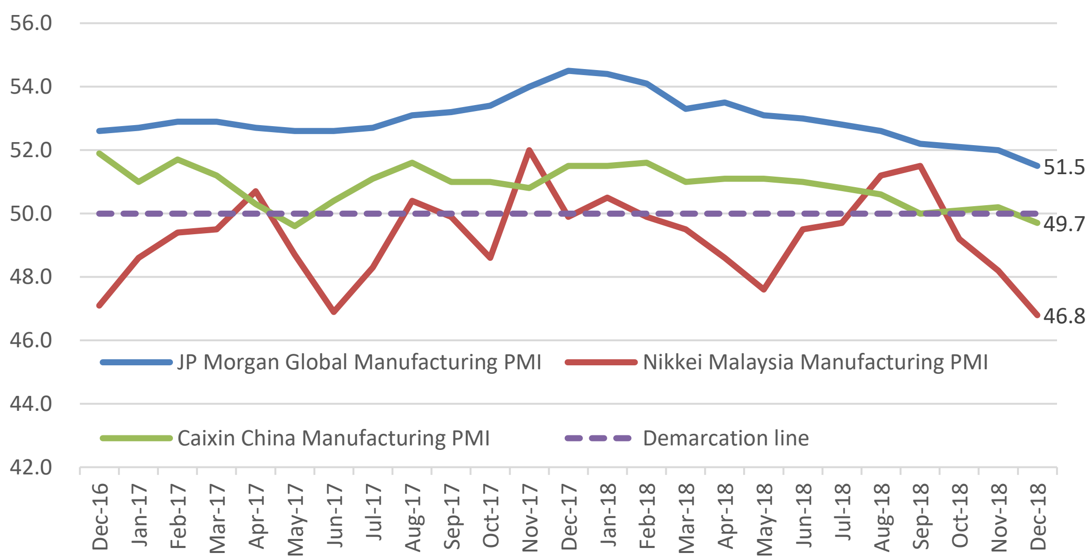
Source: CEIC

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

	Weight	Aug-18	Sep-18	Oct-18	Nov-18	11M 2017	11M 2018
IPI	**100.0%**	**2.2%**	**2.3%**	**4.3%**	**2.5%**	**4.5%**	**3.1%**
Mining	**25.1%**	**-4.6%**	**-6.2%**	**1.4%**	**-0.7%**	**0.3%**	**-2.2%**
-Crude petroleum	12.2%	-0.6%	-6.3%	0.4%	0.6%	-4.1%	0.8%
-Natural gas	12.9%	-8.0%	-6.2%	2.3%	-1.8%	4.3%	-4.8%
Manufacturing	**68.3%**	**4.3%**	**4.8%**	**5.4%**	**3.6%**	**6.2%**	**4.8%**
-Food, Beverages & Tobacco	8.6%	2.1%	6.9%	2.6%	-2.6%	10.3%	3.6%
-Textiles, Wearing Apprarel, Leather & Footwear	1.3%	2.9%	2.2%	2.2%	4.8%	8.0%	4.3%
-Wood Products, Furniture, Paper Products, Printing	4.6%	6.3%	6.4%	6.5%	2.8%	5.0%	4.7%
-Petroleum, Chemical, Rubber & Plastic Products	20.6%	3.5%	3.8%	4.1%	3.4%	4.0%	4.0%
-Non-Metalic Mineral, Basic Metal &FabricatedMetal Prod	9.1%	4.9%	4.6%	4.6%	4.1%	4.9%	5.0%
-Electrical & Electronic Products	18.2%	4.5%	5.5%	7.1%	5.3%	7.6%	5.9%
-Transport Equipment & Other Manufactures	5.9%	7.4%	2.3%	10.1%	8.3%	5.8%	5.9%
Electricity	**6.6%**	**4.0%**	**4.2%**	**2.8%**	**3.2%**	**2.5%**	**3.8%**

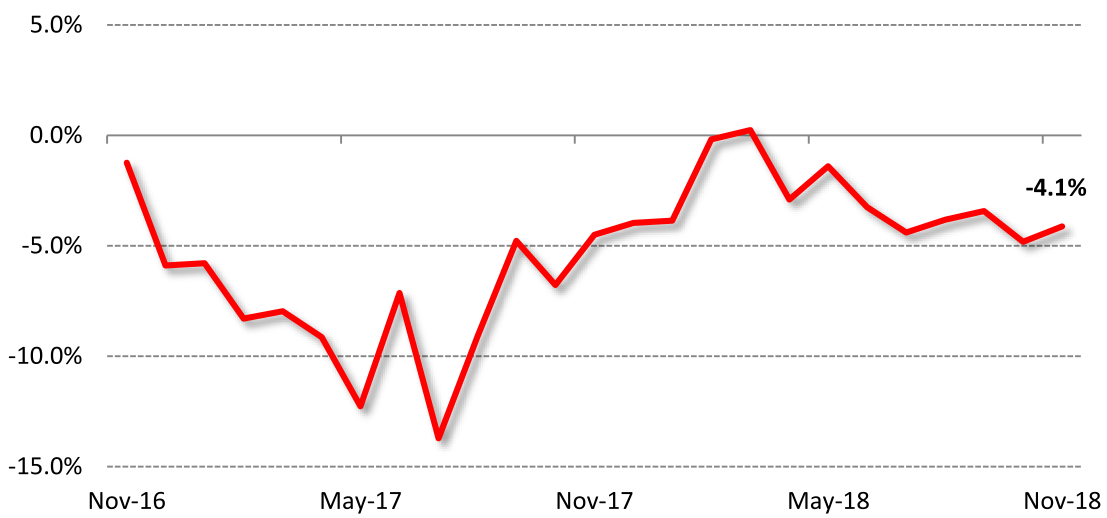
Source: CEIC

Chart 2: Purchasing Manager Index (PMI)



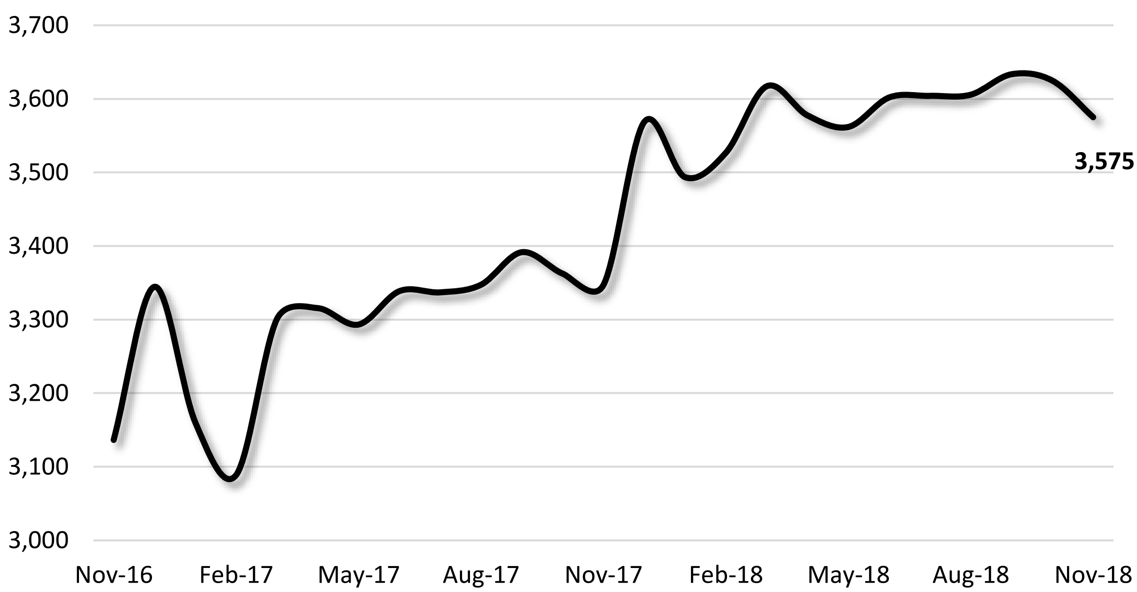
Sources: Bloomberg & IHS Markit

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



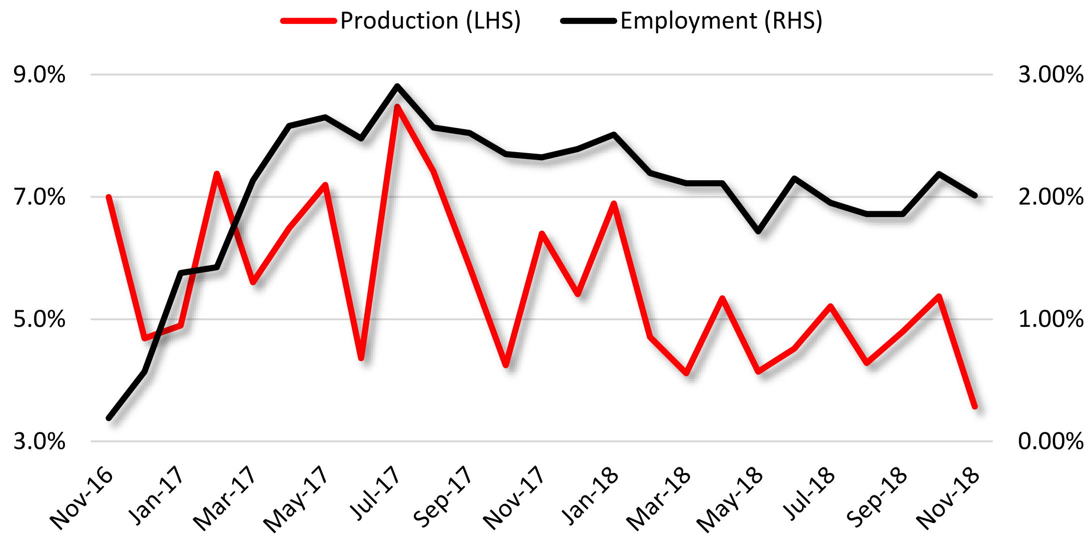
Source Economic Research, Bank Islam

Chart 4: Average monthly salaries in the manfacturing sector



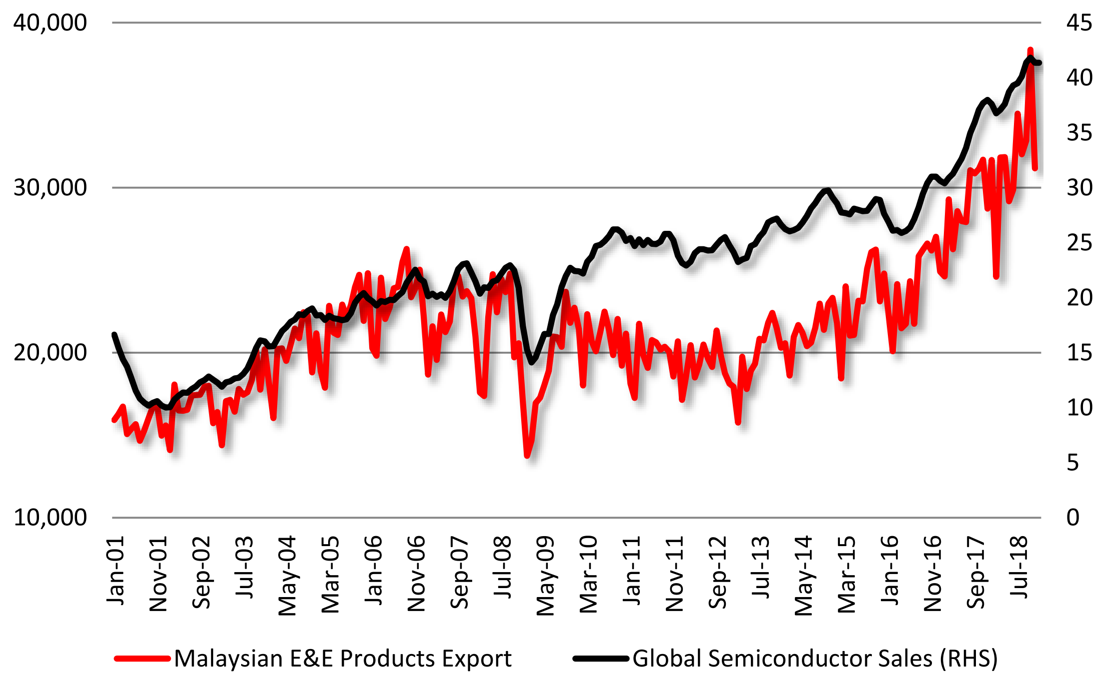
Sources: DOS Malaysia, CEIC

Chart 5: Total production and employment growth in manufacturing sector y-o-y%



Source: CEIC

Chart 6: Global Semiconductor Sales vs. Malaysian E&E Exports (RM million)



Source: CEIC

Our view

The latest IPI series in November suggests that manufacturers have scaled down their production activities as final demand outlook appears to be increasingly challenging. Such notion was premised on the decline in the Malaysia's Nikkei Purchasing Manager Index (PMI) from 48.2 points in November to 46.8 points in December (see Chart 2). According to the PMI's survey, firms were reducing their inputs buying and stocks purchases as both production and new orders fell at a quicker pace.

Despite that, inventory level in the manufacturing sector is not alarming as sales growth continue to exceed production growth (see Chart 3). This indicates that the inventory level has been fairly stable and there is no excess inventory levels posted amid the ongoing trade disputes between China and the US. Meanwhile, the average monthly salaries earned by the manufacturing workers have dropped from RM3,625 in October to RM3,575 in November. The employment growth has also declined from 2.2% in October to 2.0% in November. This would mean manufacturers have been very cautious in their hiring decision in order to contain their overhead cost while keeping reasonable economies of scale.

Be that as it may, we could see some of the private companies are still expanding their production capacity (see Table 2). This could be a strategic decision as companies would want to retain their market share and be able to fulfill customer orders in larger scale with shorter time frame. However, weaker sentiments will continue to prevail as the operating environment looks very challenging. This would affect the production activities in most industries. As such, **we are projecting IPI to grow 1.9% in 2019 from an estimated growth of 3.2% in 2018.**

Table 2: Capacity expansion plans

Companies	Industries	Remarks
Toyo Tire and Rubber Co Ltd	Rubber	The company plans to invest 21 billion yen to expand their tire production capacity in Malaysia as the hub for the global product supply. Toyo Tires said expected the new building will have an annual production capacity equivalent to 4.8 million passenger vehicle tires. For the initial phase of the project, Toyo Tires will first install equipment to produce half of this volume, which is 2.4 million tires (converted for passenger vehicle tires).The production is scheduled to start in October 2019.

Hartalega Holdings Berhad	Rubber gloves	Rubber gloves management remain confident on the outlook ahead for the Group, given robust demand in the glove sector which continues to grow at 8% to 10% per annum. Tapping on this through its continuous expansion plans via Next Generation Integrated Glove Manufacturing Complex (NGC), they expect to see earnings growth moving forward. Three production lines at Plant 5 of the NGC are currently operational, with remaining lines to be progressively commissioned and fully completed by March 2019. This will see Hartalega's total installed capacity increase to 37 billion pieces per annum. Concurrently, construction of Plant 6 is underway, with the first production line targeted to be operational by the second half of 2019. Once fully completed, Plant 6 will add another 4.7 billion pieces of gloves per annum to the Group's production capacity.
Nestle (Malaysia) Berhad	Food and Beverages	Nestle will be investing more than RM100 million to expand their existing factory in Chembong, Negeri Sembilan and establish world largest Milo Manufacturing Centre of Excellence. This investment also in order to upgrade their production facilities and at the same time to improve the operational efficiencies. The project is expected to complete by the end of 2019

Source: Media