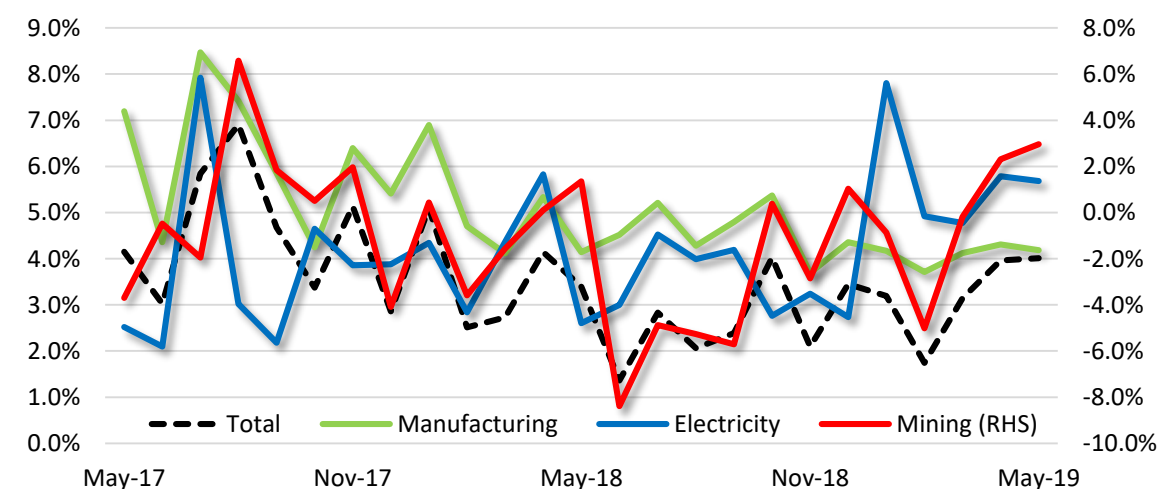


IPI maintained at 4.0% in May. Cautious view advised

Facts

- Malaysia's Industrial Production Index (IPI) grew by 4.0% year-on-year (y-o-y) in May (April: 4.0%), sustaining its growth from the preceding month (Consensus: 3.5%, Bank Islam: 3.5%). On sectoral basis, Manufacturing index gained 4.3% in May from 4.2% in the previous month while Mining grew steadily to 3.0% (April: 2.3%). On the other hand, Electricity index was slightly lower to 5.7% from 5.8%.
- Within mining sector, Natural Gas output has been recording respectable growth of 7.6% in May from 6.1% in the previous month. The low base factor last year following the supply disruption in 2018 has been the main factor for the strong growth.
- The outturn for the Manufacturing sector was fairly decent with exports-oriented industries such as Textile, Wearing Apparel, Leather & Footwear (1.3% of IPI) and Wood Products, Furniture, Paper Products, Printing (4.6% of IPI) growing at a rate of 5.8% (April: 5.7%) and 6.5% (April: 5.2%) respectively.
- However, Electrical & Electronics (18.2% of total IPI) saw a slight deceleration from 4.1% in April to 3.7% in May. Such performance was in tandem with the Global Semiconductor Sales (GSS) which has declined for five consecutive months. The latest print showed GSS fell by 14.6% during the month of May.
- Cumulatively, the IPI for the first five months of 2019 grew by an average of 3.2%. This was lower compared to 3.6% growth in the same period of 2018, suggesting the momentum has shifted into lower gear.

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



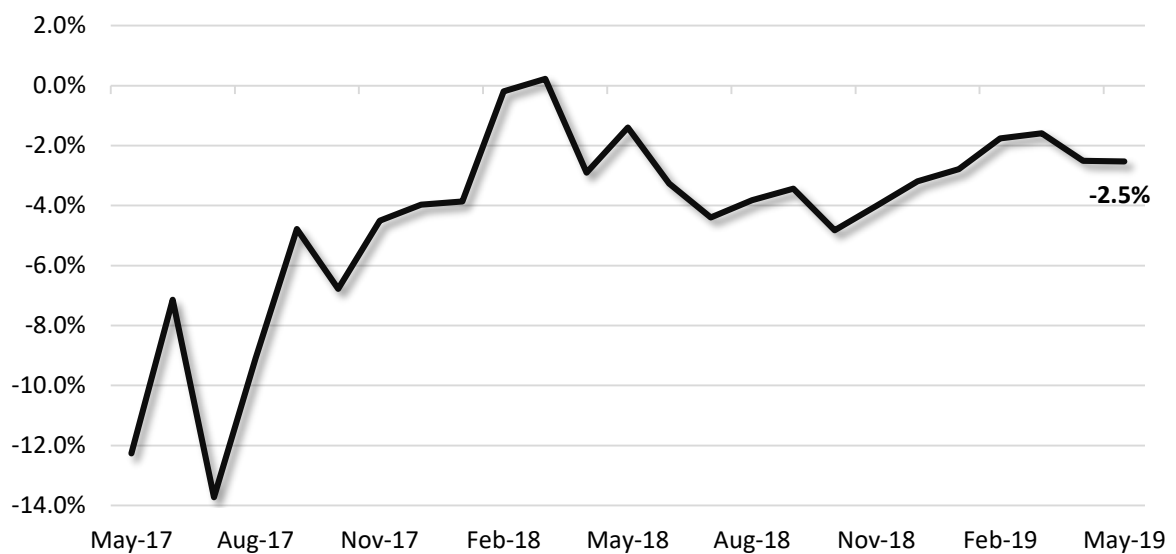
Source: CEIC

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

	Weight	Jan-19	Feb-19	Mar-19	Apr-19	May-19	5M2018	5M2019
IPI	100.0%	3.2%	1.7%	3.1%	4.0%	4.0%	3.6%	3.2%
Mining	25.1%	-0.9%	-5.0%	-0.2%	2.3%	3.0%	-0.7%	-0.1%
Crude Petroleum	12.2%	-2.2%	-4.3%	-2.0%	-1.9%	-2.0%	-1.5%	-2.5%
Natural Gas	12.9%	0.3%	-5.6%	1.4%	6.1%	7.6%	0.1%	1.9%
Manufacturing	68.3%	4.2%	3.7%	4.1%	4.3%	4.2%	5.0%	4.1%
Food, Beverages and Tobacco	8.6%	2.6%	6.3%	6.8%	4.2%	4.7%	6.4%	4.9%
Textiles, Wearing Apparel, Leather Products & Footwear	1.3%	5.4%	3.6%	4.9%	5.7%	5.8%	5.1%	5.1%
Wood Products, Furniture, Paper Products, Printing	4.6%	5.7%	5.5%	5.0%	5.2%	6.5%	3.6%	5.6%
Petroleum, Chemical, Rubber & Plastic Products	20.6%	4.0%	1.6%	3.7%	3.6%	3.2%	4.4%	3.2%
Non-Metallic Mineral Products, Basic Mineral & Fabricated Metal Products	9.1%	4.3%	4.6%	3.5%	4.0%	3.8%	5.2%	4.0%
Electrical and Electronics Products	18.2%	3.9%	3.1%	2.7%	4.1%	3.7%	5.8%	3.5%
Transport Equipment & Other Manufactures	5.9%	6.3%	7.1%	6.1%	7.2%	6.9%	3.8%	6.7%
Electricity	6.6%	7.8%	4.9%	4.8%	5.8%	5.7%	4.0%	5.8%

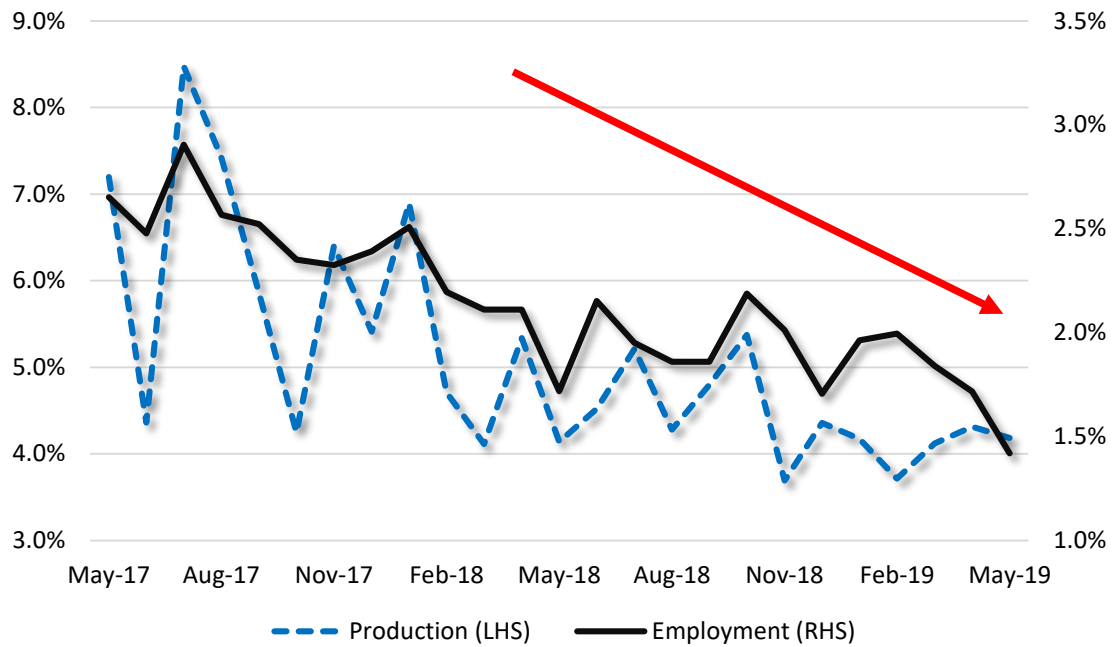
Source: CEIC

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



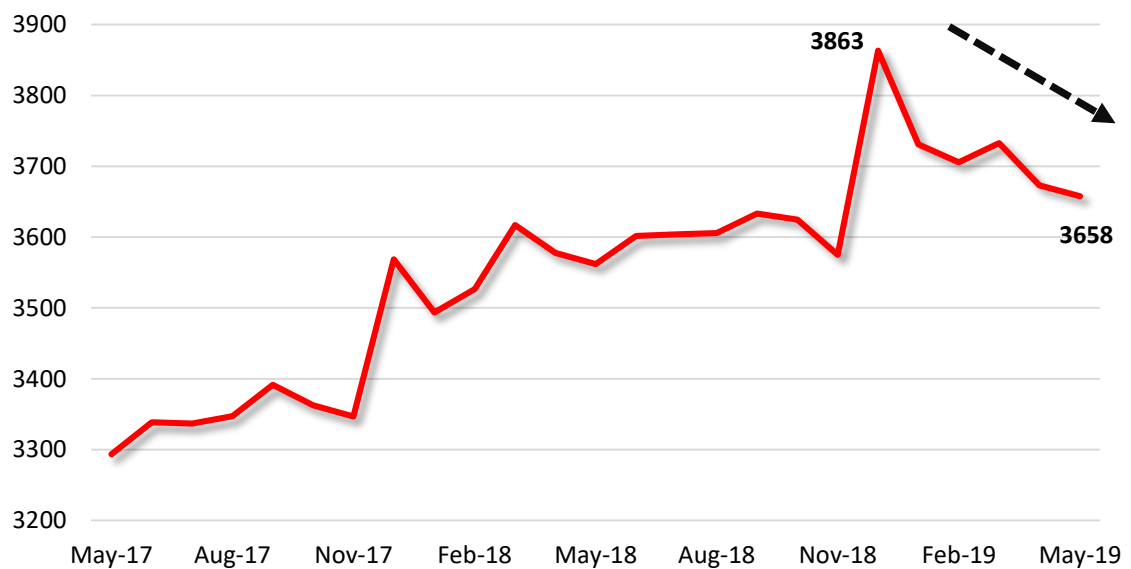
Source: CEIC

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



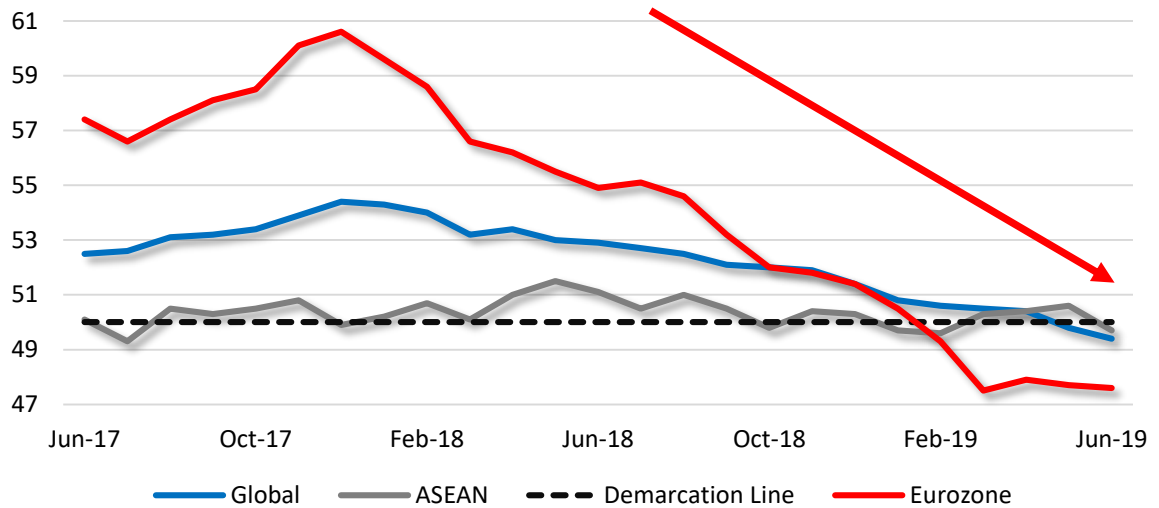
Source: CEIC

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



Source: DOS Malaysia, CEIC

Chart 5: PMI for Manufacturing (points)



Source: Bloomberg

Our view

While the IPI growth has been fairly decent, the rise in cost of doing business would likely affect profit margin among the manufacturers. These include the cost of electricity, gas and labour. In the recent announcement, Tenaga Nasional Berhad (TNB) has maintained the current Imbalance Cost Pass Through (ICPT) surcharge at 2.55 sen/kWh for a period 1 July 2019 until 31 December 2019. The surcharge was aimed to recover higher generation cost amounting to RM1,592 million of which RM1,148 million will be passed-through to non-domestic customers. Similarly, Gas Malaysia Berhad has announced upward revision to the natural gas base tariff from RM32.69 per mmbtu to RM32.74 per mmbtu for a period between 15 July until 31 December 2019. As such, we have seen manufacturers have been very strict in managing their input cost. This was reflected in the tepid growth of total employment growth in the manufacturing industries from 1.7% y-o-y in April to 1.4% in May. As of May, the total employment in the manufacturing industries stood at 1,085,179 people. Consequently, the average monthly salaries earned by the manufacturing workers have dropped significantly from RM3,863 in December last year to RM3,658 in May 2019.

Apart from that, business optimism about the future prospects have also weakened by worries over prolonged trade disputes between the US and China. Recently, Japan's threat to remove preferential treatment on exports to South Korea could also compromise the state of the technology sector and its value chain. Also, the J. P. Morgan Global Manufacturing Purchasing Manager's Index (PMI) has continued to decline to 49.4 points in June from 49.8 points in the preceding month. This was the lowest reading posted this year, signalling the slowdown in the global manufacturing activities for the second quarter of 2019. Slower output production (June: 49.5 points vs. May: 50.1 points) and new orders (June: 49.0 points vs. May 49.5 points) were the main reason for such weak performance.

On the same note, the Euro Zone Manufacturing PMI fell further to 47.6 points in June (May: 47.7 points), breaching the demarcation line of 50.0 points for five consecutive months since February 2019. According to the survey, the ongoing fall in the output and new orders have weighed heavily on the manufacturing activities during June. Yesterday's announcement on Singapore GDP in the 2Q2019 has bolstered the case for a cautious outlook. The city state recorded a flat 0.1% y-o-y GDP growth in the 2Q2019 (1Q2019: 1.1%) owing to further contraction in the manufacturing industries to 3.8% from 0.4% decline in the previous quarter. **Having said that, we are projecting IPI to grow at 2.3% in 2019 from 3.0% growth in 2018**

Table 2: Singapore's GDP growth

	2Q18	3Q18	4Q18	2018	1Q19	2Q19*
Percentage change over corresponding period of previous year						
Overall GDP	4.2	2.6	1.3	3.1	1.1	0.1
Goods Producing Industries						
Manufacturing	10.6	3.5	4.6	7.0	-0.4	-3.8
Construction	-4.3	-2.6	-1.2	-3.7	2.7	2.2
Services Producing Industries	2.9	2.8	1.5	2.9	1.2	1.2
Quarter-on-quarter annualised growth rate, seasonally-adjusted						
Overall GDP	0.7	0.8	-0.8	3.1	3.8	-3.4
Goods Producing Industries						
Manufacturing	7.8	1.1	-3.4	7.0	-6.4	-6.0
Construction	-7.8	0.2	5.3	-3.7	13.3	-7.6
Services Producing Industries	-1.5	1.7	0.4	2.9	4.4	-1.5

*Advance estimates

Source: Ministry of Trade and Industry (MTI)

Produced and issued by BANK ISLAM MALAYSIA BERHAD (Bank Islam) for private circulation only or for distribution under circumstances permitted by applicable laws. All information, opinions and estimates contained herein have been compiled or arrived at based on sources and assumptions believed to be reliable and in good faith at the time of issue of this document. This document is for information purposes only and has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. No representation or warranty, expressed or implied is made as to its adequacy, accuracy, completeness or correctness. All opinions and the content of this document are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of Bank Islam as a result of using different assumptions and criteria. No part of this document may be used, reproduced, distributed or published in any form or for any purpose without Bank Islam's prior written permission