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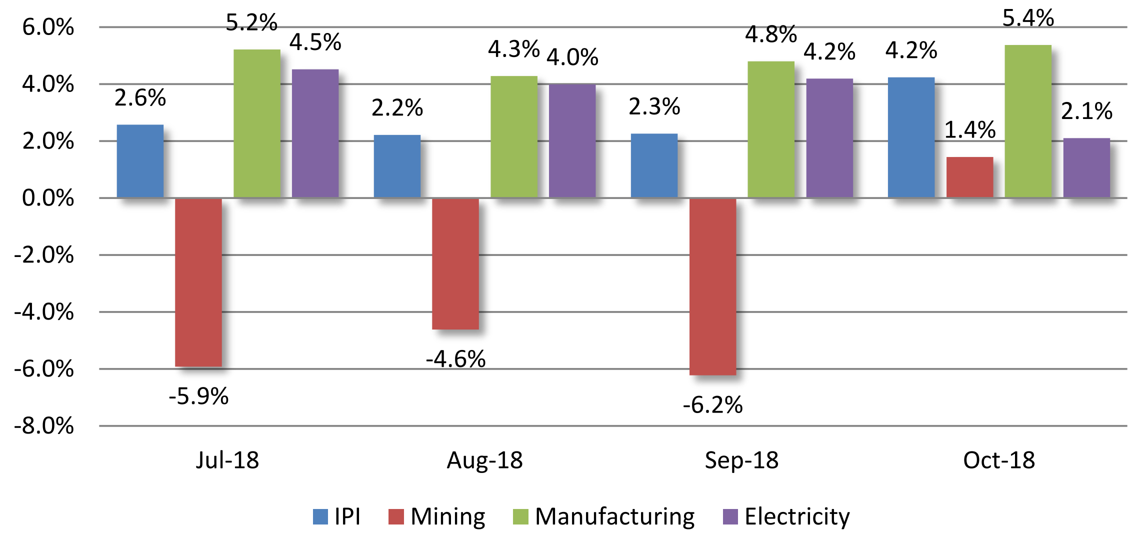
IPI boosted at 4.2% in October

Facts

- Malaysian Industrial Production Index (IPI) in October grew rapidly at 4.2% (Sept: 2.3%), higher than the consensus estimates of 3.0% (Bank Islam: 3.5%). This was mainly contributed by the expansion in the Mining index (Oct: 1.4% vs. Sept: -6.2%) and the Manufacturing index (Oct: 5.4% vs. Sept: 4.8%).
- The strong growth in the Manufacturing sector was largely underpinned by Electric and Electrical (E&E) products as well as the Transport Equipment and other Manufactures. Both sub-indices climbed 7.1% (Sept: 5.5%) and 10.1% (Sept: 2.3%) in October respectively. However, Electricity index posted a moderate growth at 2.1% in October (Sept: 4.2%) while Wood Products, Furniture, Paper Products and Printing increased steadily at 6.5% in October (Sept: 6.4%).
- Meanwhile, Mining sector recovered after 3 consecutive months of contractions. Crude Petroleum output grew by 0.4% in October from 6.3% contraction in the preceding month. Similarly, Natural Gas index improved by 2.3% in October from the previous month declined of 6.2%.
- For the first ten months in 2018, IPI moderated at 3.1% as compared to same period last year of 4.5%. This suggests the production activities are shifting into lower gear this year. On further scrutiny, slower IPI growth was driven by the Manufacturing index and Mining index which registered at 4.9% (10M2017: 6.2%) and -2.3% (10M2017: 0.3%), growth in 10M2018 respectively. Notwithstanding that, Electricity index has performed favourably in the 10M2018, recording 3.8% growth compared to 2.3% expansion in the same period last year.

Chart1: Industrial Production Index y-o-y%



Source: CEIC, DOSM

Table 1: Malaysian Industrial Production Index (IPI)

	Weight	Jul-18	Aug-18	Sep-18	Oct-18	10M2017	10M2018
IPI	**100.0%**	**2.6%**	**2.2%**	**2.3%**	**4.2%**	**4.5%**	**3.1%**
Mining	**25.1%**	**-5.9%**	**-4.6%**	**-6.2%**	**1.4%**	**0.3%**	**-2.3%**
Crude Petroleum	12.2%	4.5%	-0.6%	-6.3%	0.4%	-4.2%	0.8%
Natural Gas	12.9%	-15.2%	-8.0%	-6.2%	2.3%	4.7%	-5.1%
Manufacturing	**68.3%**	**5.2%**	**4.3%**	**4.8%**	**5.4%**	**6.2%**	**4.9%**
Food, Beverages and Tobacco	8.6%	-2.9%	2.1%	6.9%	2.6%	10.7%	4.4%
Textiles, Wearing Apparel, Leather and Footwear	1.3%	3.6%	2.9%	2.2%	2.2%	8.0%	4.3%
Wood Products, Furniture, Paper Products, Printing	4.6%	6.0%	6.3%	6.4%	6.5%	5.5%	4.8%
Petroleum, Chemical, Rubber and Plastic Products	20.6%	4.0%	3.5%	3.8%	4.1%	3.7%	4.1%
Non-Metalic Mineral, Basic Mineral and Fabricated Metal Product	9.1%	5.6%	4.9%	4.6%	4.6%	4.9%	5.1%
Electric and Electrical Products	18.2%	8.0%	4.5%	5.5%	7.1%	7.7%	5.9%
Transport Equipment and Other Manufactures	5.9%	13.5%	7.4%	2.3%	10.1%	5.9%	5.7%
Electricity	**6.6%**	**4.5%**	**4.0%**	**4.2%**	**2.1%**	**2.3%**	**3.8%**

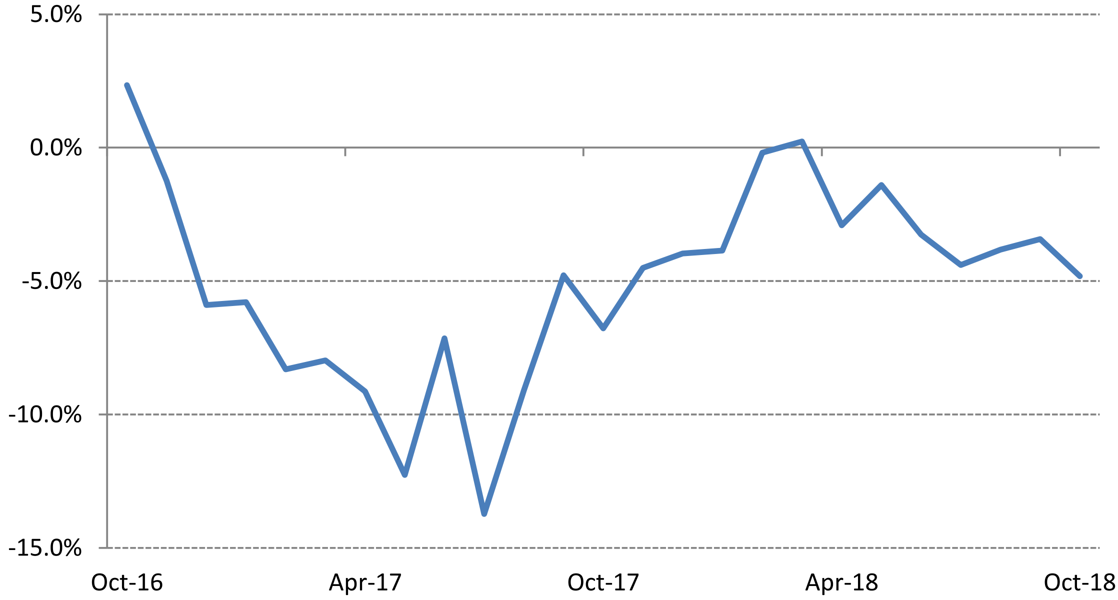
Source: CEIC, DOSM

Our view

The latest IPI print suggests that the production activities are still forthcoming despite the ongoing worries over trade friction between two economic giants – the US and China. In so far, there is no inventory build up allowing for more production activities to take place. This was premise on the difference between the manufacturing production and manufacturing sales growth at -4.8% in October from -3.4% in the previous month. This indicates that the inventory level has been fairly stable as there is strong demand for the manufactured goods especially for foods, beverages & tobacco as well as E&E products.

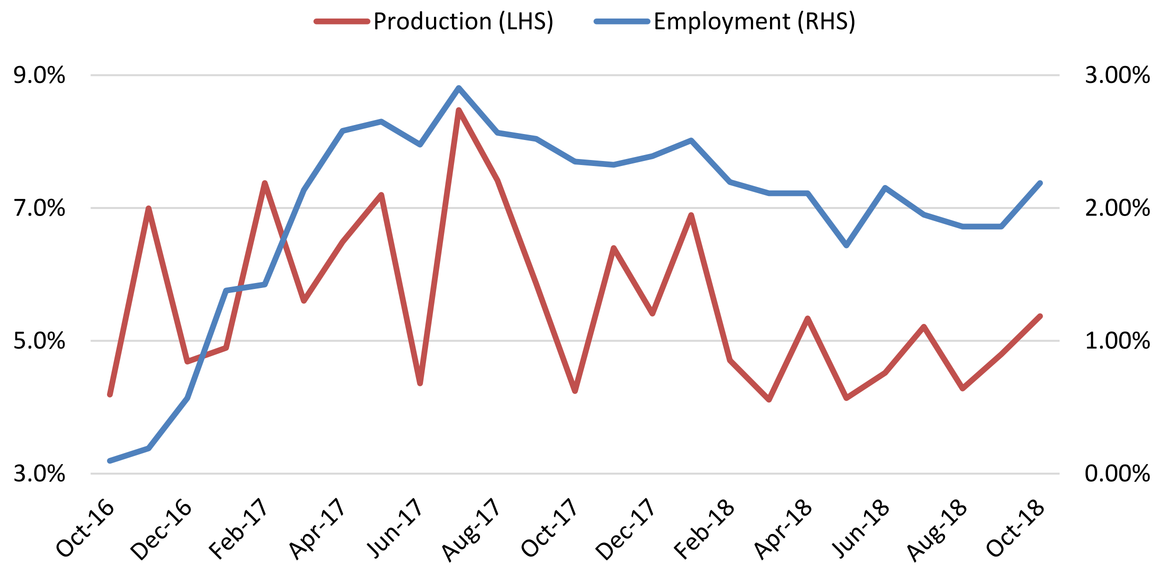
Additionally, manufacturing firms have registered further increase in employment growth by 2.2% y-o-y in October from 1.9% in September, as greater production activities have led the manufacturers to hire more workers. Meanwhile, the average monthly salaries earned by the manufacturing workers dropped slightly from RM3,633 to RM3,625 in October. However, the figure remains at elevated levels implying the manufacturers are still offering competitive wage rate to attract new and to retain the existing talents. There seem to be ongoing plans for manufacturers to upgrade their production capacity in particular the rubber gloves industry (See Table 2). This would increase their economies of scale in the long run although they could be running the risk of excess capacity should the global demand falters in the immediate terms.

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



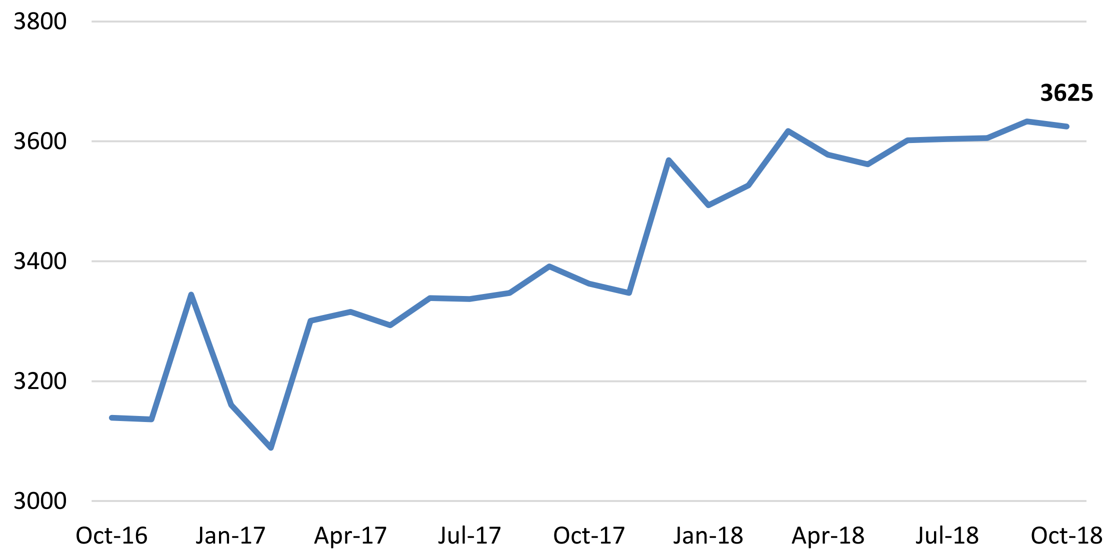
Source: CEIC

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



Source: CEIC

Chart 4: Average monthly salaries in the manfacturing sector



Source: DOS Malaysia

Table 2: Capacity expansion plans

Companies	Industries	Remarks
Top Glove Corp. Bhd	Rubber gloves	Expansion of several existing facilities: Factory 32 (Phases 1 & 2 to be completed early and end 2019 respectively), Factory 33 (to be completed early 2019) and Factory 5A (to be completed end 2019) was currently in progress. Meanwhile, its newest factory, Factory 8A, in Thailand, is scheduled to be operational early 2020. These will boost the group's total number of production lines by an additional 98 lines and production capacity by 9.8 billion gloves per annum. By 2020, Top Glove is projected to have 746 production lines and a production capacity of 69.1 billion gloves per annum. Latest news mentioned that the Top Glove Corp. Bhd has potential to be included in the FBM KLCI under the semi-annual review of the 30-stocks in the index.
Hartalega Holdings Berhad	Rubber gloves	Hartalega's expansion plans are on track with the commissioning of its latest next generation integrated glove manufacturing complex plant, Plant 5 and the beginning stages of constructing Plant 6. Plants 5 and 6 are expected to increase capacity by 4.5 billion pieces per annum each. With the latest commissioning of the second line of Plant 5 in Sept 2018, the current total capacity is at 31.7 billion pieces per annum. Plant 7 is in the initial planning stages, which would raise capacity by 2.6 billion pieces per annum.

Source: Media