Economic Research, Strategic Management

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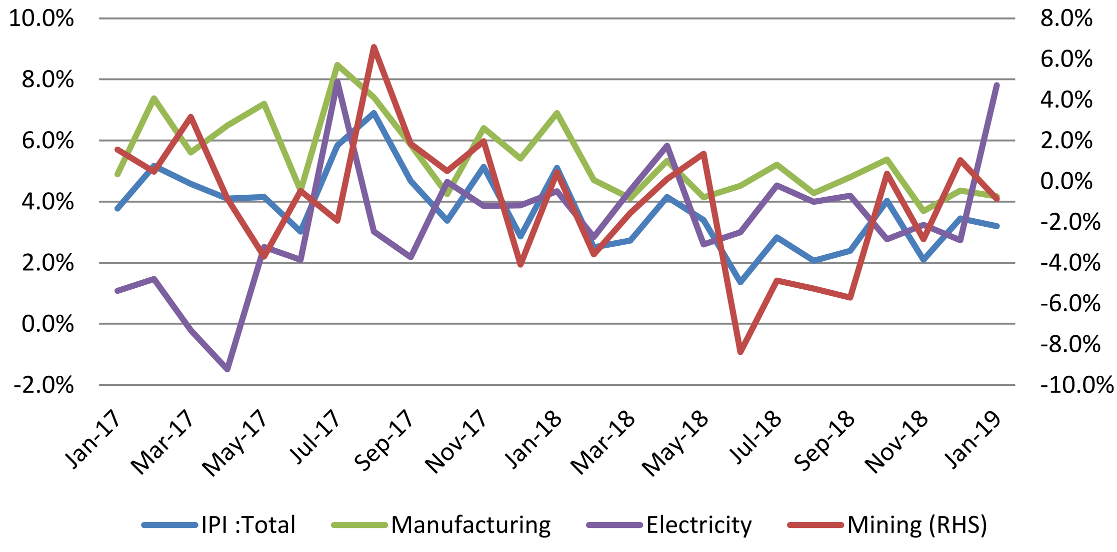
IPI grew 3.2% in January

Facts

- The Industrial Production Index (IPI) grew by 3.2% year-on-year (y-o-y) in January, slightly lower than 3.4% in the previous month (Bloomberg: 2.3%, Bank Islam: 2.3%). This was due to moderation in manufacturing output which recorded 4.2% growth during January (December: 4.4%). Further breakdown showed that Electrical & Electronics (E&E) which forms sizeable share in total IPI posted a modest growth of 3.2% for the month of January (December: 7.9%). Meanwhile, Petroleum, Chemical, Rubber and Plastics Products was growing quite decently at 4.0% against 3.6% previously, providing strong buffer to the overall manufacturing output.
- On the same note, mining sub index fell marginally by 0.9% after growing by 1.0% in the previous month. The decline in crude petroleum sub index by 2.2% in January was responsible for the drop in the overall mining index. Meanwhile, natural gas output managed to record smaller gains of 0.3% in January after two consecutive months of contraction.
- On the contrary, electricity sub index growth shot up to 7.8% in January after moderating to 2.7% in December 2018 (November: 2.7%).

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



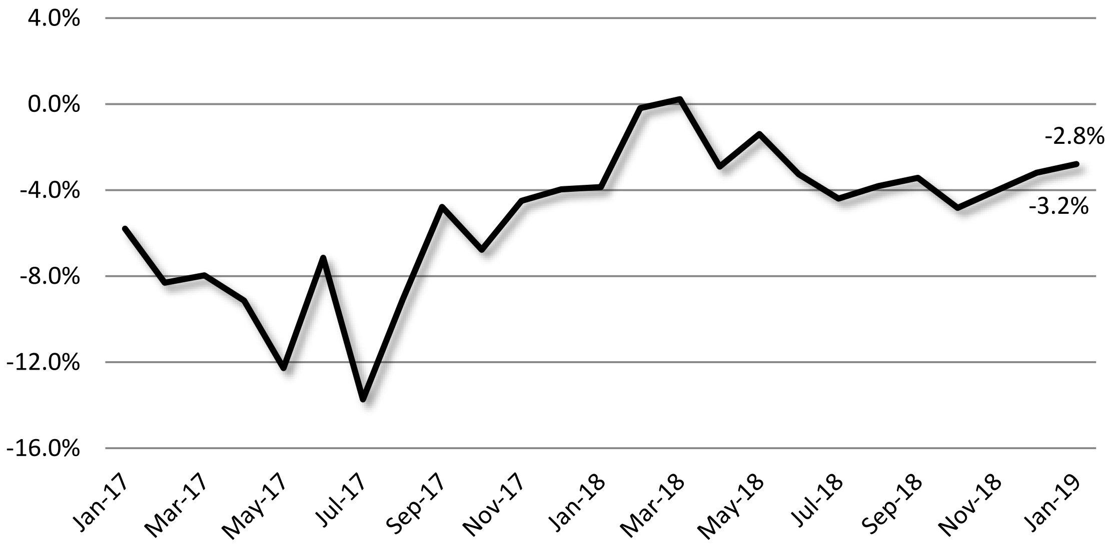
Source: CEIC

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

	Weight	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
IPI	**100.0%**	**2.4%**	**4.0%**	**2.1%**	**3.4%**	**3.2%**
Mining	**25.1%**	**-5.7%**	**0.4%**	**-2.8%**	**1.0%**	**-0.9%**
Crude Petroleum	12.2%	-7.0%	-1.9%	-4.9%	2.5%	-2.2%
Natural Gas	12.9%	-4.6%	2.4%	-1.0%	-0.2%	0.3%
Manufacturing	**68.3%**	**4.8%**	**5.4%**	**3.7%**	**4.4%**	**4.2%**
Food, Beverages and Tobacco	8.6%	6.9%	2.6%	-1.7%	-1.1%	2.6%
Textiles, Wearing Apparel, Leather and Footwear	1.3%	2.2%	2.2%	4.8%	4.2%	5.4%
Wood Products, Furniture, Paper Products, Printing	4.6%	6.4%	6.5%	2.8%	5.0%	5.7%
Petroleum, Chemical, Rubber and Plastic Products	20.6%	3.8%	4.1%	3.4%	3.6%	4.0%
Non-Metalic Mineral, Basic Mineral and Fabricated Metal Product	9.1%	4.6%	4.6%	4.1%	4.1%	4.3%
Electrical and Electronics Products	18.2%	5.5%	7.1%	5.3%	7.2%	3.9%
Transport Equipment and Other Manufactures	5.9%	2.3%	10.1%	8.3%	7.0%	6.3%
Electricity	**6.6%**	**4.2%**	**2.8%**	**3.2%**	**2.7%**	**7.8%**

Source: CEIC

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

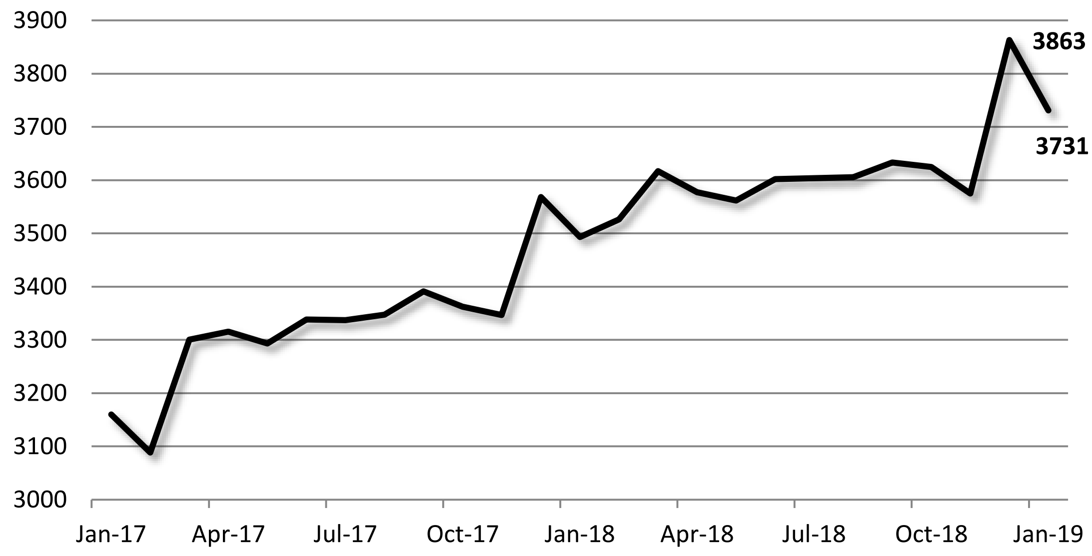


Source: CEIC

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

Source: CEIC

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



Source: DOS Malaysia, CEIC

Our view

It was a mixed feeling when assessing the latest IPI print as some components have been showing a decent readings. For instance, Textile, Wearing Apparel, Leather & Footwear, Wood Products, Furniture, Paper Products, Printing among others have been showing gradual improvement. Not to mention the extent of inventory level which has remain lean for quite a while. Our measures of inventory level which subtract the manufacturing sales and production growth have yielded favourable readings. The latest estimate showed that manufacturing sales growth have been exceeding production growth by a 2.8% margin. Additionally, manufacturers have been increasing labour input with total employment saw a 2.0% y-o-y growth in January to 1.1 million. Nonetheless, the average monthly salaries among the manufacturing workers were lower from RM3,863 to RM3,731 in January. Essentially, manufacturers have the means to increase their production activities. In fact, private firms have been expanding their production capacity (see Table 2).

Notwithstanding that, the sentiments among the manufacturers have been anything but weak. This was premised on the Nikkei Malaysia Manufacturing Purchasing Manager's Index (PMI), which decline from 47.9 points in January to 47.6 points in February. According to the survey, the health of Malaysia's goods producing economy has been deteriorating as output and new orders continued to drop. Against such backdrop, manufacturers are expected to be cautious in their production activities as outlook for the final demand has been murky. In particular, details on US-China trade deals have yet to be announced. In addition, talks of UK Brexit delay has been a welcoming news as indicated by the appreciation in pound sterling (GBP) against the greenback of 4.6% since the start of the year. Nonetheless, it remain to be seen how the whole scenarios would pan out especially in the context of European Parliament election in May 2019.

As such, we are maintaining **our 2019 IPI projection of 1.9% (2018: 3.4%).**

Table 2: Capacity expansion plan

Companies	Industries	Remarks
Metrod Holdings Bhd	Copper Rod, Manufacturing	Metrod Holdings Bhd injected RM1.1 billion capital expenditure to undertake a 6,300 metres plant expansion, hence emerging as the single largest copper rod plant with a capacity exceeding 300,000 tonnes in South-East Asia. The plant was adjacent to its existing manufacturing facility and the RM1.1 billion investment also included capital expenditure and working capital for day-to-day operations. Metrod manufactures copper rods, wires, strips and profiles, widely used in the production of cables, automotive, magnet wires, welding wires, transformers and in lightning protection systems.
YKGI Group	Steel, Manufacturing	YKGI Holdings Bhd, which owns manufacturing facilities in Sarawak and Sabah which produce metal roofing products, is expanding to Peninsular Malaysia. The expansion plans for this downstream business in the peninsular, via wholly-owned subsidiary Asteel group, would be through joint ventures or acquisitions of existing metal roofing firms.

Source: Media