

Malaysia

Economics Update

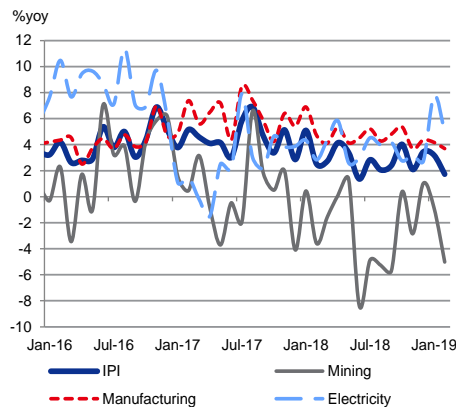
Feb 2019 industrial production

IPI growth in Feb undershot expectations

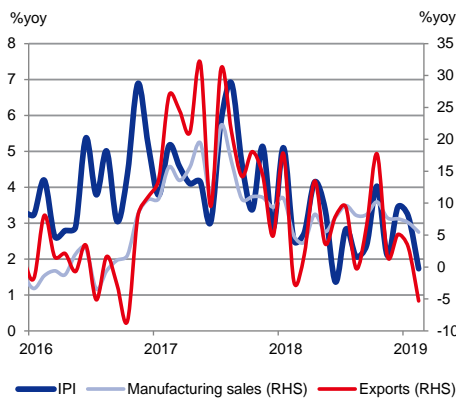
	Actual	Forecast	
	Feb-19	CIMB	Cons.*
IPI (%yoy)	1.7	4.2	2.2

*Bloomberg median consensus

Weaker readings across all segments



The fragile IPI growth mirrored weak export performance



- IPI growth undershot expectations at 1.7% yoy in Feb.
- While slower growth in manufacturing growth tallied with our expectations, the 5% contraction in mining output threw our forecasts off course.
- We expect the recovery in agriculture output to cushion 1Q19 GDP growth from disappointments in mining output and weaker manufacturing expansion.

IPI growth missed forecasts in Feb...

The industrial production index (IPI) grew at a slower-than-expected pace of 1.7% yoy in Feb (+3.2% yoy in Jan), the weakest pace since Jun 2018. The fragile reading mirrored the weak export growth (-5.3% yoy in Feb vs. +3.1% yoy in Jan) as well as manufacturing PMI (47.2 in Mar vs. 47.6 in Feb), which has stayed below the 50-dividing point in the past six months.

... on weaker readings across all segments

At a 5% yoy contraction in Feb (-0.9% yoy in Jan), mining production markedly undershot our forecasts. The slowdown in manufacturing output expansion (+3.7% yoy vs. +4.2% yoy in Jan) and electricity (+4.9% yoy vs. +7.8% yoy in Jan) depressed IPI growth further. The seasonally-adjusted IPI growth fell 2.0% mom in Feb (-1.2% mom in Jan), against an average of 0.5% mom increase in 2014-2018.

Upstream O&G output declined

The underperforming mining activity was dragged by the decline in natural gas production (-5.6% yoy in Feb vs. +0.3% yoy in Jan), and decline in crude petroleum output which deepened to 4.3% yoy (-2.2% yoy in Jan). Weak readings also spilled over to the downstream segment, which saw the production of refined petroleum products rising by only 0.2% yoy (+3.9% yoy in Jan).

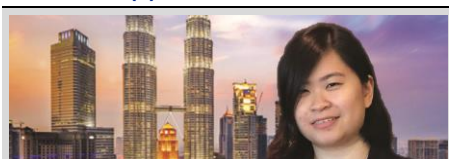
Export-oriented industries trailed manufactured export performance

Trailing manufactured export performance, the output growth rates of export-oriented industries were generally weaker in Feb, such as E&E (+3.1% yoy in Feb vs. +3.9% yoy in Jan), chemicals & chemical products (+0.5% yoy vs. +2.6% yoy in Jan), and rubber & plastic products (+5.8% yoy vs. +6.3% yoy in Jan). Resilient food output (+6.3% yoy vs. +2.4% yoy in Jan) was supported by continued improvements in the output of vegetable, animal oil & fats (+17.6% yoy in Feb vs. +10.0% yoy in Jan), while the manufactures of passenger cars rose at a slower pace during the shorter working month (+8.7% yoy vs. +10.3% yoy in Jan).

Downside to industrial sector cushioned by agriculture recovery

IPI growth in 2M19 (+2.5% yoy) is tracking below 4Q18's (+3.2% yoy). Unless mining output and factory activity accelerate sharply in Mar, the segment's contribution to real GDP growth could weaken in 1Q19. Nonetheless, the downside is cushioned by a recovery in the agriculture sector, particularly palm oil production. We maintain our 2019 forecasts for IPI growth (+3.7%) and GDP growth (+4.7%).

Economist(s)



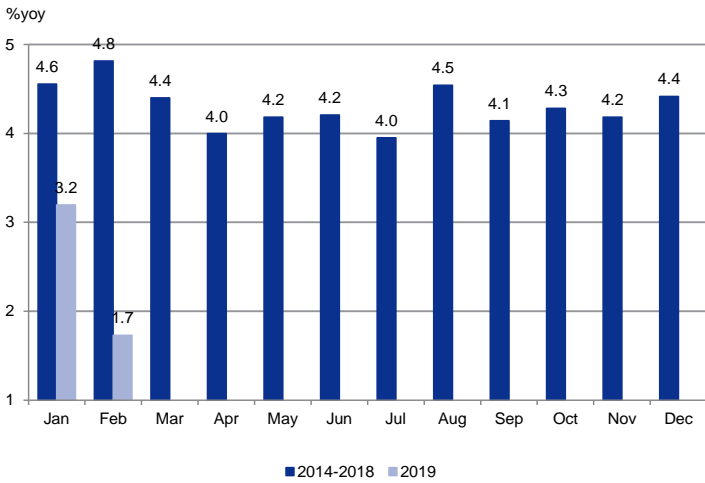
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Figure 1: Malaysia's industrial production index

	Weight	Dec-18	Jan-19	Feb-19	2M19
	%	% yoy	% yoy	% yoy	% yoy
Industrial production index	100.00	3.4	3.2	1.7	2.5
Mining	25.14	1.0	-0.9	-5.0	-2.8
Electricity	6.61	2.7	7.8	4.9	6.4
Manufacturing	68.25	4.4	4.2	3.7	3.9
Food, beverages and tobacco	8.55	-1.1	2.6	6.3	4.3
Textiles, apparel, and footwear	1.33	4.2	5.4	3.6	4.5
Wood and paper products	4.56	5.0	5.7	5.5	5.6
Petroleum, chemical, rubber and plastic products	20.60	3.6	4.0	1.6	2.8
Non-metallic mineral, basic and fabricated metal products	9.11	4.1	4.3	4.6	4.4
Electrical and electronic products	18.23	7.2	3.9	3.1	3.5
Transport equipment and other manufactures	5.87	7.0	6.3	7.1	6.7

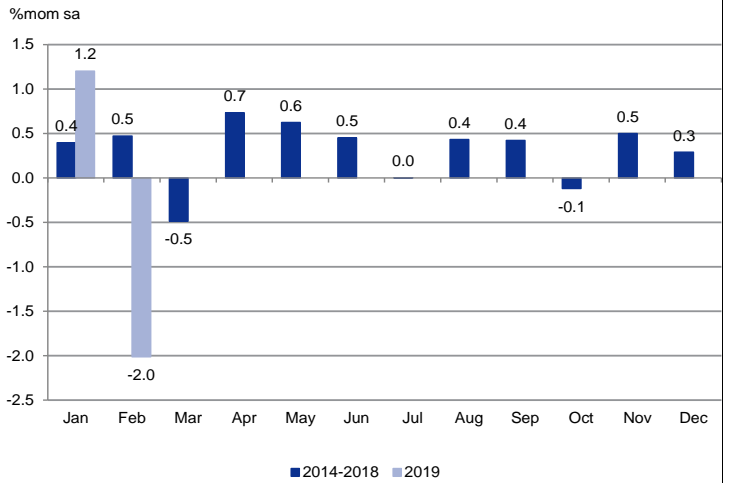
SOURCES: DEPARTMENT OF STATISTICS (DOS), CEIC, CIMB RESEARCH

Figure 2: IPI growth vs. average performance in 2014-2018



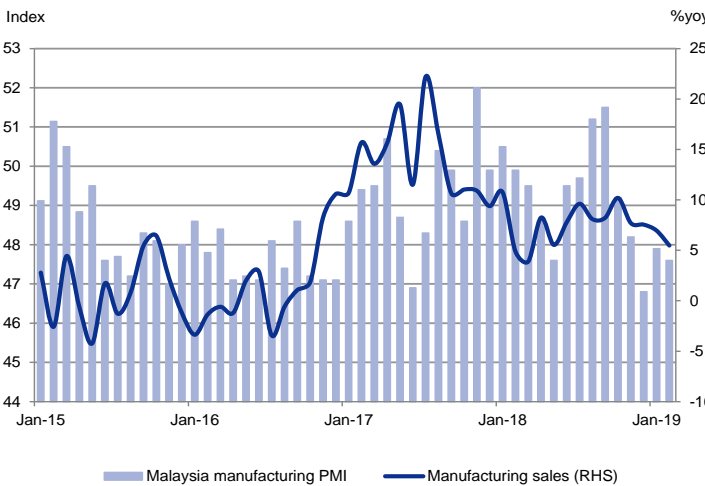
SOURCES: DOS, CEIC, CIMB RESEARCH

Figure 3: IPI growth (% mom seasonally adjusted)



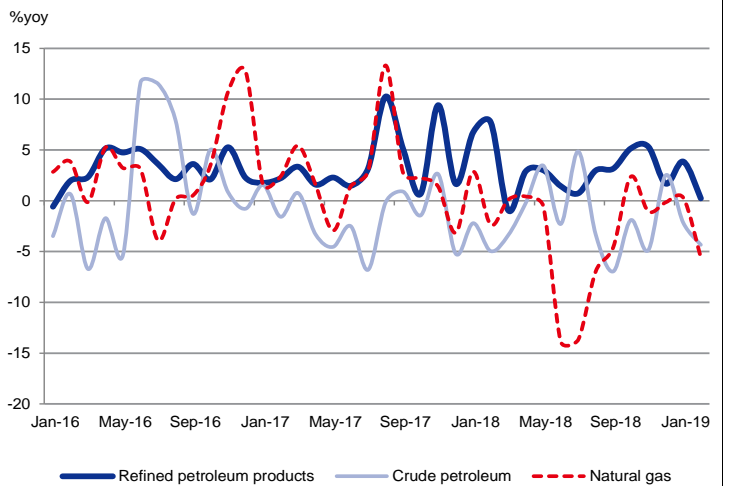
SOURCES: DOS, CEIC, CIMB RESEARCH

Figure 4: Manufacturing PMI and manufacturing sales growth also trended lower



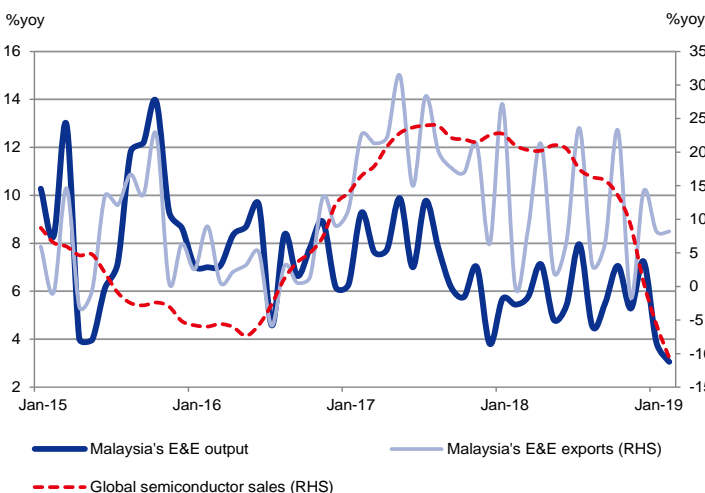
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Figure 5: Output in the upstream O&G sector declined



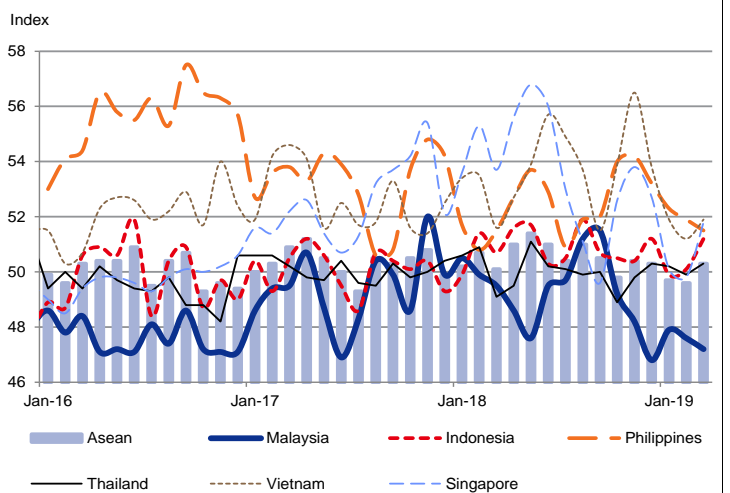
SOURCES: DOS, CEIC, CIMB RESEARCH

Figure 6: E&E output growth slowed further



SOURCES: DOS, CEIC, CIMB RESEARCH

Figure 7: Manufacturing PMI for key ASEAN countries improved in Mar, except for Malaysia and Philippines



SOURCES: BLOOMBERG, CIMB RESEARCH

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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