Economic Insight

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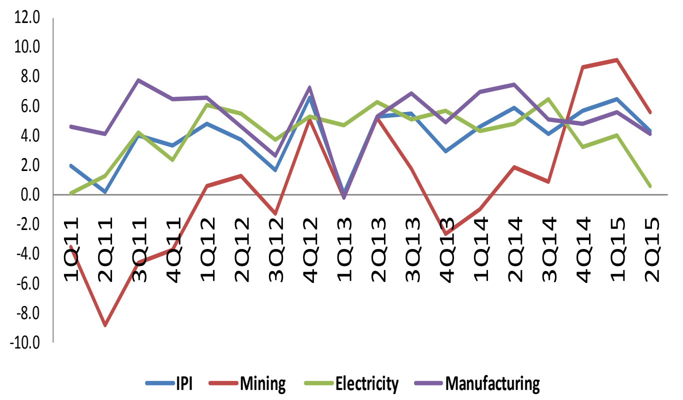
Malaysia: Industrial output growth slows in 2Q15

TABLE 1: INDUSTRIAL PRODUCTION INDEX

	June '15		May '15	
	%yoy	%mom	%yoy	%mom
Total IPI	4.3	-0.1	4.5	3.8
Manufacturing	4.9	3.0	3.2	2.7
Electricity	-2.3	-3.4	1.2	1.4
Mining	4.0	-7.6	9.0	7.4
Total IPI s.a.	4.2	-0.1	4.6	1.5
Manufacturing s.a.	5.0	2.5	3.0	0.4
Electricity s.a.	-2.4	-2.0	1.3	-1.3
Mining s.a.	3.5	-3.7	8.5	4.0

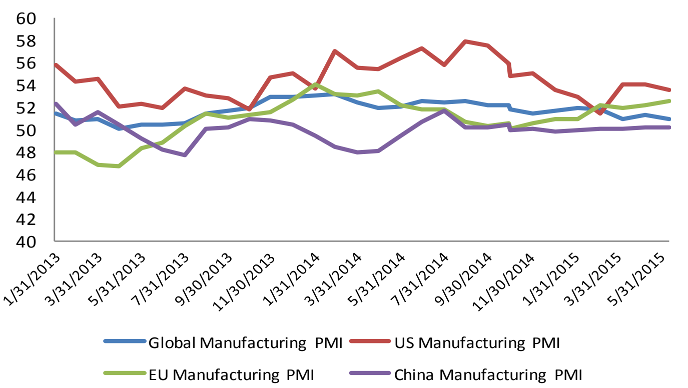
Source: DOSM, CEIC

CHART 1: IPI GROWTH MODERATED IN 2Q15 (%YOY)



Source: DOSM

CHART 2: GLOBAL PMI SOFTENS



Source: Bloomberg

- Industrial production index maintained its growth at 4.3% yoy in June vs 4.5% yoy in May, almost meeting consensus expectation of a 4.4% yoy growth for the month. In June '14 however, it grew faster at 7.0% yoy. The output expansion was buoyed chiefly by the rise in manufacturing output. However, output growth was slightly capped by the unexpected fall in electricity production during the month.

- Overall IPI for 2Q15 thus stood at 4.3% yoy, moderating from 6.5% yoy expansion registered in the previous quarter (2Q14: +5.9% yoy). We believe that this slowdown paints a moderating GDP growth for 2Q15.

- During the quarter, manufacturing production grew by 4.1% yoy (1Q15: +5.6% yoy), in contrast with the contraction registered in exports by 3.7% yoy (1Q15: -2.4% yoy). Despite the still healthy overall IPI growth in 2Q15, demand from both domestic and external fronts had weakened due to GST implementation and the slowing global economy respectively, apart from unattractive commodity prices. If the softer demand environment persists, we believe that it would drag the economy further in the near future.

- On the upside, the gradual recovery in the U.S. economy remains the bright spot for Malaysia's exports market at this juncture. We think that Malaysia is well positioned to benefit from the U.S. growth, particularly considering the more competitive currency position the country currently holds. (Note: Ringgit closed at RM3.94 against the dollar on Monday's closing). E&E market would be the primary beneficiary when ringgit declines, as shown in the jump of E&E exports in June by 13.5% yoy (May: -0.6% yoy), in line with the expansion in the U.S. economy during the period. Furthermore, the global semiconductor market also is forecasted to be at $347 bil in 2015, an increment by 3.4% yoy as compared to 2014. The anticipation of a better semiconductor growth in 2015 would certainly augur well with manufacturing output expansion this year.

- On the downside, we remain cautious of the dismal liquefied natural gas (LNG) exports performance during the past months (June: -45.2% yoy; May: -47.9% yoy) as this would negatively impact mining output correspondingly. Mining output has been on the rise since the beginning of the year, mainly owing to the commencement of new oil fields, yet natural gas output had declined by 4.3% yoy in 2Q15. However, now that Brent is trending below $50/barrel, aside from LNG price halving to a mere $7.6/MMBtu, further drops in commodity prices might jeopardize mining output going forward.

- We maintain our view of a moderating GDP growth in 2Q15 to 4.6% yoy vs 5.6% yoy in 1Q15. Nevertheless, we opine that GDP expansion would sustain its momentum during the latter half of the year; thus, we keep our overall forecast ranging between 4.5%-5.0% for 2015.