

# Malaysia

## IPI Climbs Further in April

- ◆ Malaysia's IPI picked up for the second consecutive month to 4.6% YoY in April (+3.1% in March and consensus estimate of +4.4%). Similarly, manufacturing sales accelerated to 8.2% in April (March: +3.9%).
- ◆ April's strong IPI numbers mainly reflected the surge in exports during the month, indicating that trade volumes continued to be healthy.
- ◆ Overall, we estimate 2Q18 GDP growth of 5.3% YoY, slowing slightly from +5.4% in 1Q18. We maintain Malaysia's 2018 GDP growth forecast at 5.2% (2017: +5.9%), on the back of a slowdown in external trade but supported by resilient domestic demand.

**Economist**

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Malaysia's Industrial Production Index (IPI) continued to grow at a steady pace of 4.6% YoY in April, exceeding consensus estimate of 4.4% and picking up from +3.1% in March and 3% in February. April's strong IPI numbers were mainly a reflection of the surge in exports to 14% YoY during the month (March: +2.2%). This is an indication that trade volumes continued to be healthy, despite global and regional trade and economic indicators pointing to a slowdown in recent months.

As it stands, April's IPI showed a broad-based improvement in all three sectors – manufacturing, electricity and mining. Mining activity output rose in April, on the back of higher crude oil output, while natural gas output declined at a slower clip. Likewise, electricity and manufacturing output picked up in April. The latter was driven by stronger growth of output in electrical & electronic (E&E) products, transport equipment and petroleum, chemicals, rubber & plastic products.

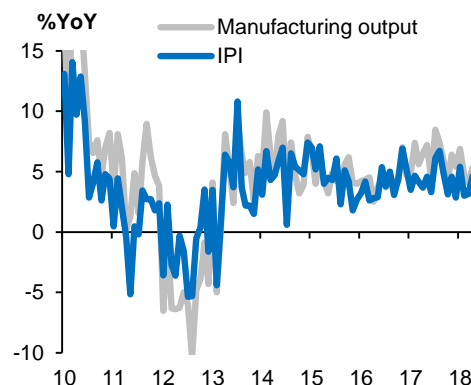
Overall, we estimate 2Q18 GDP growth of 5.3% YoY, slowing slightly from the +5.4% registered in 1Q18. We maintain Malaysia's 2018 GDP growth forecast at 5.2%, easing from +5.9% in 2017, on the back of a slowdown in external trade but supported by resilient domestic demand.

Separately, manufacturing sales accelerated to 8.2% in April, compared to +3.9% in March, mainly driven by higher output growth in textiles & clothing, petroleum, chemicals, rubber & plastic products, transport equipment & others, but partly offset by the easing in sales of food, beverages & tobacco and wood, paper & printing products.

As a result, factories maintained their pace of hiring, as employee headcount in the sector remained at 2.1% YoY in April, similarly to the preceding month. Meanwhile, salaries and wages paid to workers moderated to 10.2% YoY in April, from 11.9% in March, although sequential growth showed a jump to 2.5% MoM after falling 0.5% in March.

As manufacturing sales rose at a quicker pace MoM than worker headcount during the month, the manufacturing sector's productivity (as measured by the sales value of manufactured products per employee) jumped to 6% YoY in April, from +1.7% in the previous month.

### IPI and manufacturing output grow at a steady pace



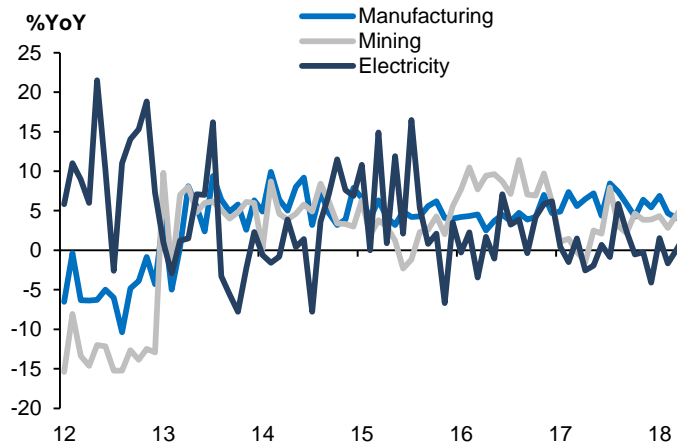
Source: Department of Statistics Malaysia (DOSM), RHB

### Industrial and manufacturing indicators

% YoY	2015	2016	2017	Dec 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018
Industrial production	4.7	3.8	4.5	2.9	5.4	3.0	3.1	4.6
Manufacturing	4.8	4.3	6.1	5.3	6.9	4.7	4.1	5.3
Electricity	2.4	8.5	2.6	3.9	4.3	2.8	4.4	5.8
Mining	4.1	2.7	0.4	-4.1	1.5	-1.6	0.0	1.8
Manufacturing sales	1.2	1.3	13.7	9.4	10.8	4.9	3.9	8.2
Sales/Worker	1.3	1.4	11.2	6.8	8.0	2.6	1.7	6.0
Salaries/Worker	5.9	6.3	6.1	6.7	10.5	14.2	9.6	7.9

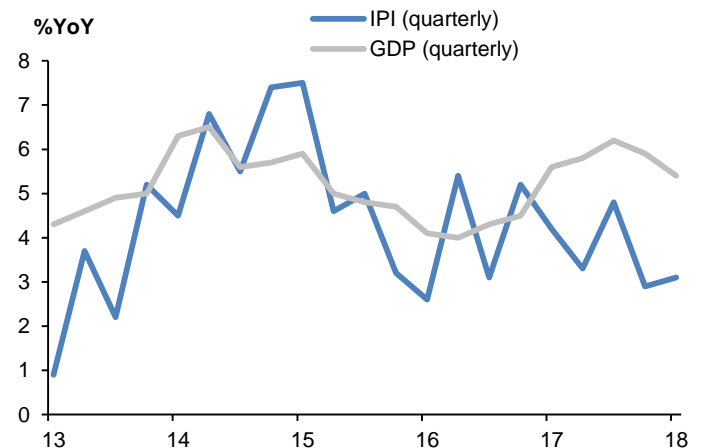
Source: Bank Negara Malaysia (BNM), RHB

**Figure 1: Broad-based increase in all industrial sectors pushed IPI growth higher**



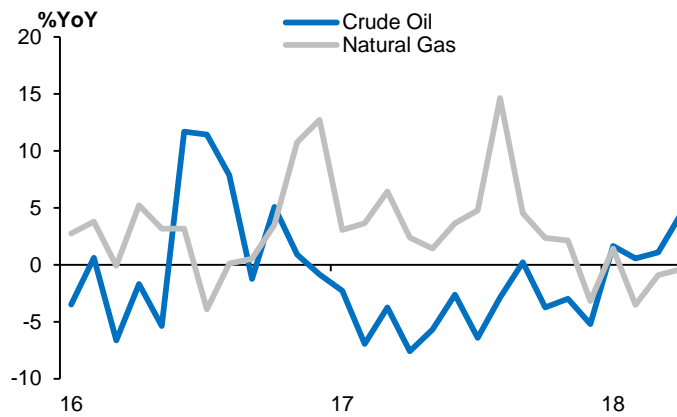
Source: DOSM, RHB

**Figure 2: IPI to slow for the rest of the year in line with GDP growth**



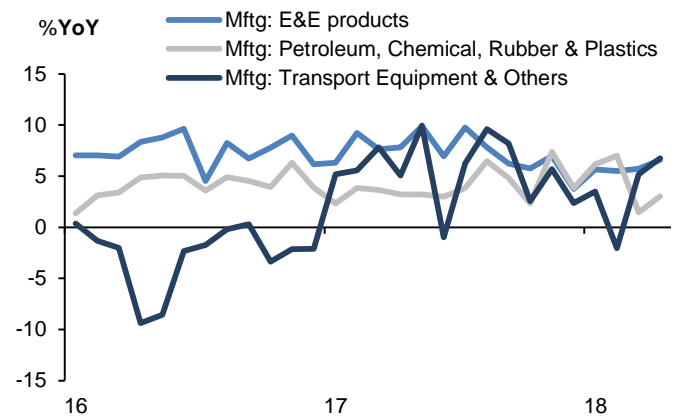
Source: DOSM, RHB

**Figure 3: Crude oil and natural gas production trending up although the latter remained in decline during April**



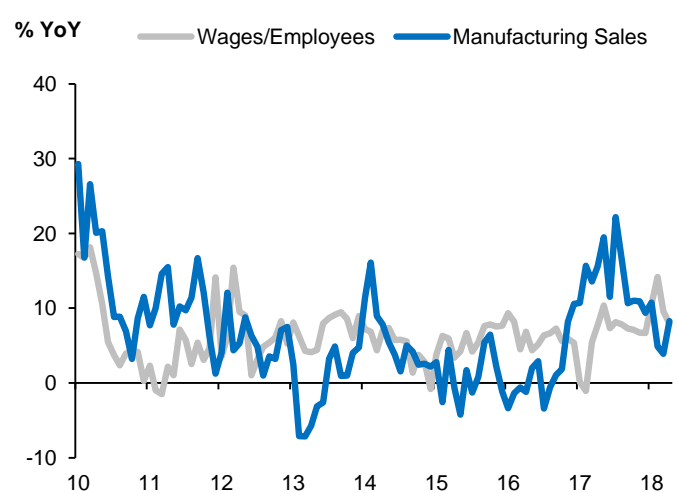
Source: DOSM, RHB

**Figure 4: Export-oriented manufacturing production maintained positive momentum**



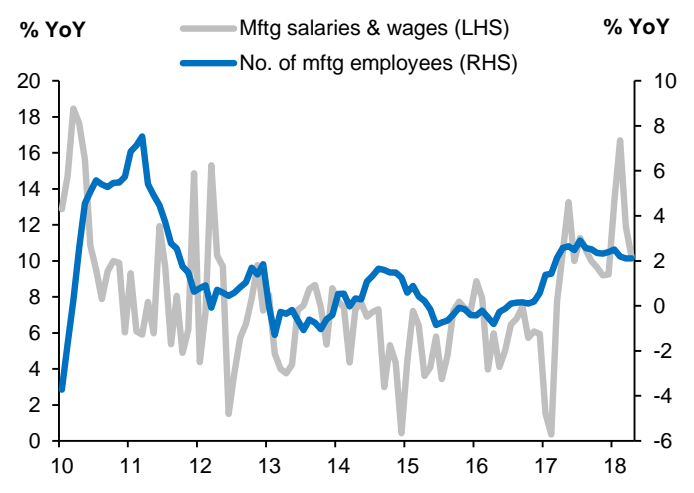
Source: DOSM, RHB

**Figure 5: Manufacturing sales soared, along with healthy wage growth**



Source: DOSM, RHB

**Figure 6: Manufacturing wages eased while employee headcount grew steadily**



Source: DOSM, RHB

Figure 7: Regional economic indicators

ASEAN & CHINA ECONOMIC INDICATORS																
Country	GDP growth (%)				Inflation (%)				Policy rate (end period,%)				Exchange rate (end period, vs. USD)			
	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018F	2019F
Indonesia	5.0	5.1	5.3	5.5	3.5	3.8	3.5	3.5	4.75	4.25	5.00	5.00	13540	13588	14400	14500
Malaysia	4.2	5.9	5.2	5.0	2.1	3.7	1.9	2.5	3.00	3.00	3.50	3.75	4.49	4.06	3.98	4.00
Philippines	6.8	6.7	6.5	6.6	1.8	3.2	4.0	3.5	3.00	3.00	3.50	3.50	49.62	49.83	49.79	50.00
Singapore	2.4	3.6	3.0	2.8	-0.5	0.6	1.6	1.6	-	-	-	-	1.45	1.34	1.33	1.34
Thailand	3.2	3.9	4.2	3.7	0.2	0.7	1.2	1.4	1.50	1.50	1.50	1.50	35.85	32.57	32.20	32.50
Vietnam*	6.2	6.8	6.3	6.2	2.7	3.5	3.4	3.6	6.50	6.00	6.00	6.00	22770	22709	22700	22700
China**	6.7	6.9	6.6	6.4	2.0	1.6	2.5	2.6	4.35	4.35	4.35	4.35	6.95	6.51	6.45	6.50

\*prime rate; \*\*1-yr lending rate

Country	Exports growth (%)				Imports growth (%)				Industrial Production growth (%)				Unemployment rate (% labour force)			
	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018F	2019F
Indonesia	-3.9	16.2	10.0	11.0	-4.9	15.6	11.0	12.0	5.0	5.1	5.3	5.6	5.6	5.5	5.4	5.3
Malaysia	1.1	18.9	6.5	4.7	1.9	19.9	6.2	5.1	3.8	5.2	4.5	3.8	3.5	3.4	3.3	3.2
Philippines	-2.4	9.5	8.0	9.0	18.3	10.2	9.0	10.0	6.4	6.2	3.6	6.2	5.5	5.7	5.6	5.5
Singapore	-4.4	8.5	6.7	5.2	-4.2	10.6	10.9	6.5	3.7	10.1	7.6	5.0	2.2	2.1	2.0	2.0
Thailand	0.5	9.9	7.0	5.4	-3.9	14.7	8.6	6.1	1.6	1.6	2.9	2.0	0.9	1.0	0.9	0.9
Vietnam	9.2	21.4	9.5	9.1	5.6	21.4	8.7	8.2	6.9	10.0	8.1	7.8	3.3	3.5	3.6	3.1
China	1.8	6.8	5.2	5.0	3.8	7.3	5.6	5.5	6.1	6.5	5.5	5.2	4.1	4.1	4.1	4.2

Country	Fiscal Balance (% GDP)				Current Acc. (% GDP)				Forex Reserves (USD bn)				External Debt (USD bn)			
	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018	2019F	2016	2017E	2018F	2019F
Indonesia	-2.5	-2.5	-2.7	-2.5	-1.8	-1.7	-1.9	-2.0	116	130	137	142	320	353	380	400
Malaysia	-3.1	-3.0	-2.8	-2.7	2.4	3.0	2.7	2.9	95	102	114	112	201	213	222	231
Philippines	-2.4	-2.2	-2.8	-2.8	-0.4	-0.8	-1.0	-0.7	81	82	83	83	75	73	71	70
Singapore	1.3	0.5	0.8	0.2	19.0	18.8	17.8	16.7	247	280	265	312	-	-	-	-
Thailand	-2.6	-1.8	-2.9	-3.0	11.4	10.8	7.7	6.9	172	203	208	227	152	155	159	164
Vietnam	-5.0	-5.3	-5.2	-4.8	2.7	1.9	2.1	2.2	43	40	45	49	76	79	83	84
China	-3.5	-3.6	-3.3	-2.6	1.8	1.3	1.1	1.3	3010	3140	3000	3000	1400	1450	1400	1380

Country	Deposit Growth (%)				Loan Growth (%)				L/D Ratio (%)				Money Supply* (%)			
	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018F	2019F
Indonesia	9.6	8.3	9.9	11.0	7.8	10.0	12.8	12.0	92.7	91.9	94.3	93.5	10.0	11.0	12.4	12.4
Malaysia	1.5	5.7	4.6	5.0	5.3	4.1	5.2	5.5	89.8	90.5	90.9	92.2	3.0	4.7	5.0	5.2
Philippines	14.3	11.9	11.8	12.0	16.1	18.1	18.0	18.5	70.7	74.1	74.1	78.7	12.8	11.9	10.0	11.0
Singapore	2.7	3.2	5.4	5.0	0.5	8.0	5.8	5.2	107.9	104.5	104.9	105.0	8.1	4.1	4.5	4.2
Thailand	3.8	4.1	5.3	5.0	3.6	4.1	5.1	4.8	93.3	93.1	92.9	93.0	4.2	5.2	5.3	5.0
Vietnam	15.0	10.0	11.2	10.8	18.0	15.0	13.5	12.9	79.6	81.0	83.0	83.5	16.0	17.0	18.0	17.2
China	11.0	10.7	9.6	8.5	13.5	12.1	10.5	9.5	70.8	71.7	72.2	73.0	11.3	8.2	8.0	7.5

Note: As at 30 May 2018

Note 2: \*M2 is used for all countries except for Thailand M1 is used and Philippines M3 is used instead.

Note 3: \*\*Starting 3 Jun 2016, the Philippines' policy rate was changed to purely 'Bangko Sentral ng Pilipinas' overnight reverse repurchase (RRP) facility at 3%

Source: International Monetary Fund (IMF), Oxford Economics, Various central banks, RHB

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