



Tuesday, 7 June 2016

Malaysia's IPI gauge seen rising on low-base effect

PETALING JAYA: Malaysia's industrial production index (IPI) is likely to post a rise on a low-base effect although continued economic growth will ensure that the IPI will remain in expansion mode in the coming quarters.

The Statistics Department will release the IPI data, which measures factory output and overall manufacturing activity, this Friday. The median in a survey of economists show the IPI rising to 3.5% year-on-year in April from March's 2.8%.

Citigroup Inc expects the IPI to accelerate on a low-base effect. However, it cautioned that weak export numbers would likely weigh on mining and manufacturing activities, while falling liquefied natural gas prices as a lag response to the earlier oil price decline may extend the drag on mining activities.

AmlInvestment Bank Bhd economist Patricia Oh told *StarBiz* that productivity levels and growth "look ok".

She expected gross domestic product (GDP) growth of 4.3% this year, putting the house's expectation in the middle of the official GDP forecast band of 4% to 4.5%.

But the Nikkei Malaysia manufacturing purchasing managers' index remains in contracting mode, with the headline gauge coming in at 47.2 in May. Anything below 50 indicates a contraction and the gauge has been below the threshold since the beginning of the year. Although reflecting sentiments rather than actual manufacturing production, the gauge gives an insight into manufacturers' stocking activity and therefore, manufacturing activity in coming months.

In an earlier report, Oh said the sustainability of IPI growth and a rebound in manufacturing sales would be highly dependent on the improvement in terms of domestic growth amid positive outlook ahead. Latest exports data showed shipments grew 1.6% in April from 0.2% in the previous month while on a year-to-date basis, trade surplus was 17% higher compared to the corresponding period last year.

However, external demand remains volatile, with a consumer confidence survey conducted by Nielsen showing consumer confidence declined in May after decreasing in April. According to

the Conference Board, a global independent business membership and research association, consumers remain cautious about the outlook for business and labour market conditions. "Thus, they continue to expect little change in economic activity in the months ahead," the association's director of economic indicators, Lynn Franco, noted in a statement.

April's imports also gives an indication to activity in the coming months. Although contracting at a slower pace, the contraction of intermediate and capital goods indicate that manufacturing activity would remain volatile, especially given a slowdown in global growth.