Slower growth seen in Q4 2015

Brokerage expects Bank Negara to leave rates unchanged unless downside risk worsens

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PETALING JAYA: Economic growth in the fourth quarter is expected to slow to 4.2% from 4.7% in the third quarter, but Citi Research sees Bank Negara holding interest rate steady unless the downside risk worsens.

"While the ringgit may find support from attractive valuations, we remain cognizant of risks from political developments and falling oil prices," said Citi Research.

It noted that a slowdown in external demand would moderate growth in manufacturing exports, including electrical and electronics (E&E), although cushioned by the weak ringgit and US demand.

December industrial production index (IPI) rebounded to 2.7% year-on-year (y-o-y) against November's 1.8%, above consensus and Citi's expectations of 1% and 2.3%, respectively.

A broad-based pick-up across all sectors was observed, as official seasonally adjusted data flashed a sequential expansion (December's 2.8% month-on-month as opposed to November's -1.1%).

Electricity accelerated to 5.6% y-o-y, with fourth-quarter levels of 1.9%, up from the third quarter, while mining fell 1.5% y-o-y.

Crude oil and natural gas production fell 0.3% and 3% y-o-y, followed by fourth-quarter mining production down 0.8% as opposed to the third quarter.

On the bright side, manufacturing rose 4.1% y-o-y, with fourth-quarter levels 1.4% above the third quarter.

Beyond expectation: A man works at a steel plant in Serendah, Selangor. December industrial production index (IPI) rebounded to 2.7% year-on-year against November's 1.8%, above consensus and Citi's expectations of 1% and 2.3%, respectively.

A sequential jump in manufacturing was led by E&E followed by transport equipment and other manufactures, chemical, rubber and plastic products and non-metallic mineral products, as well as basic metals and fabricated metals.

Going forward, with construction in the bright spot lifted by civil engineering projects, Citi Research said liquefied natural gas prices may continue falling through the first half of 2016, which could drag on mining.

The agricultural sector growth remained sluggish on weaker crude palm oil production, while weaker loan volumes added a toll on financial services, despite a rebound in capital market activities in the fourth quarter.

Meanwhile, JF Apex Research opined that the IPI would continue to grow at a moderate pace of 2.6% y-o-y amid weaker manufacturing data posted by China in January 2015.

"The IPI continued to show improvement on a quarterly basis after its fourth-quarter 2015 performance increased by 2.9% y-o-y, backed by positive growth in manufacturing and the electricity index.

"Nonetheless, higher growth in E&E products will continue to support IPI expansion," said the research firm.

The electricity index posted positive growth for five consecutive months after expanding 5.6% y-o-y in December versus November's 2%.

Steady positive momentum was noted in manufacturing, up 4% y-o-y, supported by textiles, wearing apparel, leather products and footwear, petroleum, chemical as well as rubber and plastic products.

A continued upward trend in the manufacturing subsectors was lifted by wood products, furniture, paper products and printing, as well as non-metallic mineral products, basic metal and fabricated metal products, said the research firm.

"E&E products sustained their uptrend despite negative performance in semiconductor sales, while a continued downtrend was observed in mining, dragged by negative expansion in the subsectors," it added.