

Industrial production fell more than expected

Thursday, 24 March 2016

- Manufacturing production slumped more than anticipated by 4.7% yoy (-4.8% mom sa) in Feb, a reversal of the revised +0.1% yoy gain (+9.9% mom sa) in Jan. This brought the industrial production performance for the first two months of 2016 to -2.3% yoy, worse than the -0.6% yoy seen in the same period a year ago.
- The main culprits responsible for the Feb weakness were:
 - Electronics which contracted 8.4% yoy in Feb after resurfacing at +3.6% in Jan, possibly due to front-loading in semiconductors and other electronic modules ahead of the CNY holidays ie. if not for the Jan positive blip, electronics output had already shrunk for 11 straight months.
 - Transport engineering which declined by double-digits for the fourth consecutive months by 14.5% yoy, due to the weight of the marine and offshore engineering activities (-23.1% yoy) as well as land transport (-29.0% yoy).
 - Precision engineering also fell for 11 straight months by 7.5% yoy in Feb, with both machinery and modules and components underperforming.
- The star performer was the biomedical cluster which expanded for the second consecutive month by 5.8% yoy in Feb, after surging 29.6% yoy in Jan, buoyed by both pharmaceuticals (+4.0% yoy) and medical technology (+12.7% yoY). Trailing behind was the chemicals cluster which also saw a modest positive growth of 1.2% yoy in Feb, as stronger output in specialities and other chemicals offset weakness in petroleum and petrochemicals.
- We downgrade our 1Q16 GDP growth forecast from 2.3% yoy (+3.3% qoq sar) to 2.2% yoy (+2.5% qoq saar) to account for a weaker manufacturing performance (forecast: -2.1% yoy). The risk of a technical recession, if it materializes, may be revolve around 2Q-3Q this year. For now, we maintain our full-year growth forecast of 2% yoy.

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