

ECONOMIC REVIEW | December 2019 Industrial Production Index

Challenging 1Q20 for Export-Oriented Sectors

- Manufacturing sector improved. Manufacturing production rose by 3.4%yoy, fastest in 4-month while the sales growth registered at 5-month high in the final month of 2019. Overall IPI growth moderated to 1.3%yoy amid contraction in mining output. The improvement of manufacturing sector in Dec-19 among others was due to positive sentiment of easing trade tension between the US and China.*
- As for 1Q20, we view external trade and export-oriented sectors to experience slight moderation due to the coronavirus outbreak, Lunar New Year celebration and off-peak cycle for semiconductor industry. After 2Q20 we expect to see trivial improvement underpin by Phase One trade deal effects and waning of the coronavirus.*
- We forecast IPI growth at 2.9% for 2020. Industrial activities are expected to expand at solid pace underpin by recovery in mining output and strong growth of domestic-oriented industries. The 2020 forecast figure is slightly higher than last year's estimated growth of 2.4%.*

Manufacturing sector improved. Manufacturing production rose by 3.4%yoy, fastest in 4-month while the sales growth registered at 5-month high in the final month of 2019. Overall IPI growth moderated to 1.3%yoy amid contraction in mining output. The improvement of manufacturing sector in Dec-19 among others was due to positive sentiment of easing trade tension between the US and China. Nevertheless, the effects of Phase One trade deal may not be seen in 1Q20 amid Lunar New Year celebration, coronavirus and off-peak cycle for semiconductor industry. For 2019, overall IPI growth was 2.4% while manufacturing expanded by 3.6% and mining shrank by -1.7%, two-consecutive years of negative rate.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%				YoY%			
	Sep-19	Oct-19	Nov-19	Dec-19	Sep-19	Oct-19	Nov-19	Dec-19
IPI	(0.3)	(1.0)	1.8	(0.4)	1.7	0.4	2.1	1.3
Mining	(1.4)	0.8	5.5	(1.1)	(1.6)	(5.8)	0.5	(4.9)
Manufacturing	(1.3)	(0.4)	0.8	(0.5)	2.5	2.3	2.7	3.4
Electricity	3.5	(3.5)	1.2	1.6	4.1	0.5	1.6	0.9

Source: CEIC, MIDFR

*MoM is Seasonally Adjusted

Rebound in exports market. In Dec-19, total exports growth rebounded by 2.7%yoy after four-straight months recording contractions. Domestic exports particularly rose firmly by 4.2%yoy. Better production growth of refined petroleum, rubber, E&E and motor vehicles products supported the strong pick-up in manufacturing output during the month. As for 1Q20, we view external trade and export-oriented sectors to experience slight moderation due to the coronavirus outbreak, Lunar New Year celebration and off-peak cycle for semiconductor industry. After 2Q20 we expect to see trivial improvement underpin by Phase One trade deal effects and waning of the coronavirus.

Table 2: Changes in IPI Major Industries (YoY%)

	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
Mining;	(8.4)	(3.9)	(1.6)	(5.8)	0.5	(4.9)
Mining: Crude Petroleum	(22.7)	(9.5)	(4.7)	(5.1)	(3.3)	(6.6)
Mining: Natural Gas	7.3	1.2	1.1	(6.3)	3.7	(3.4)
Manufacturing;	4.0	3.6	2.5	2.3	2.7	3.4
Food Products	0.4	1.9	1.4	0.8	1.9	(0.1)
Refined Petroleum Products	3.8	2.7	2.4	2.1	1.2	3.6
Chemicals & Chemicals Products	1.9	2.2	1.7	0.4	2.6	2.0
Rubber Products	8.0	7.6	5.1	4.8	5.1	8.5
Basic Metals	4.7	3.7	3.3	4.4	5.0	5.2
Electrical & Electronic Products	4.9	3.1	0.8	2.4	1.1	3.1
Computers & Peripheral Equipment	14.0	19.8	1.0	2.4	(9.7)	(11.9)
Machinery & Equipment	4.8	5.2	3.6	3.0	6.0	4.2
Motor Vehicles, Trailers & Semi-Trailers	7.5	8.0	8.3	4.7	3.8	4.7

Source: CEIC, MIDFR

Table 3: Changes in IPI Major Industries (YoY%)

	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19
IPI: Export Oriented Industries	3.7	3.3	3.7	2.0	0.6	1.6	1.5
Electronic and Electrical Product	4.1	3.6	5.0	3.2	0.7	2.4	1.2
Chemicals and Chemical Pdts	2.9	1.9	1.8	1.9	1.1	(0.4)	3.5
Petroleum Products	1.8	2.8	3.8	2.7	2.4	1.6	(0.1)
Textiles & Wearing Apparel	5.8	5.5	5.8	6.0	4.0	5.4	6.4
Wood and Wood Products	6.6	4.7	3.4	3.6	5.5	5.7	6.7
Rubber Products	10.2	9.5	9.0	8.5	5.4	3.3	4.2
Off Estate Processing	1.1	0.4	(3.0)	(11.3)	(12.2)	(2.5)	(4.9)
Paper Products	5.3	4.1	4.9	5.0	4.7	2.7	4.4
IPI: Domestic Oriented Industries	5.2	5.1	4.7	7.0	7.1	3.8	4.8
Construction (CO)	4.2	4.8	4.5	4.2	3.8	3.1	3.9
CO: Non Metallic Mineral	4.0	5.1	4.2	5.1	4.1	3.2	4.2
CO: Iron and Steel	3.5	4.3	4.7	3.7	3.3	4.4	5.0
CO: Fabricated Metal	4.6	4.9	4.6	3.9	3.8	2.2	3.1
Consumer (CS)	6.1	5.4	4.9	9.2	9.8	4.4	5.5
CS: Food Products	7.7	6.2	3.5	15.2	16.8	5.1	9.4
CS: Transport Equipment	7.9	7.4	6.1	6.0	9.2	4.5	3.5
CS: Beverages	4.1	3.2	2.5	6.5	0.7	0.7	4.6
CS: Tobacco Products	4.7	4.3	3.8	4.3	5.5	3.5	4.0
CS: Others	(0.4)	0.7	6.6	6.7	1.7	4.3	3.1

Source: CEIC, MIDFR

*Data available as of Nov-19

Big jump in manufacturing sales. Manufacturing sales increased strongly by 5.2%yoy in Dec-19, highest gain since Aug-19. The acceleration was in tandem with the slower downward trends of re-exports performance. Among others sales of refined petroleum products rebounded, 9.4%yoy and diodes & transistor etc. rose by 3%yoy while electrical capacitor etc. by 5.6%yoy. Meanwhile, wage and employment growths in the manufacturing sector improved by 4.2%yoy and 1.4%yoy respectively. Looking ahead, we foresee slight recovery for export-oriented products in 2Q20 due to positive sentiments from Trump and Xi "Phase One" trade deal to be signed in middle of Jan-20. This is confirmed by the upward trajectories shown by global and emerging economies' manufacturing PMI figures. Sales of domestic-oriented manufacturing products are predicted to pick up next year as domestic demand remains firm and strong.

Table 4: Manufacturing Sales, Employment and Payrolls (YoY%)

	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
Sales;	5.3	6.0	4.5	2.9	2.4	2.5	5.2
Refined Petroleum Products	5.9	6.9	4.7	1.6	(1.1)	(2.6)	9.4
Diodes, Transistor & Electronic Integrated Circuits Mic	9.9	4.3	(0.4)	(3.8)	1.7	0.3	3.0
Electrical Capacitor Resistor, Circuit Board & Display Comp	2.0	8.3	6.9	4.6	3.7	4.7	5.6
Employment	1.1	1.3	1.3	1.2	1.0	1.3	1.4
Wage	3.1	3.4	3.3	2.8	2.6	3.2	4.2

Source: CEIC, MIDFR

Cloudy IPI outlook for 1Q20. IPI performances across major and emerging economies remain sluggish due to global trade uncertainties, political instability in Europe, and volatility in global commodity prices. Overall IPI growth in the US shrank by -0.9%yoy, recording four-straight months of negative rates. Other developed economies like EU experienced 7-straight months of contractions and Japanese IPI declined by -3%yoy. ASEAN economies namely Philippines, Thailand and Singapore shrank in Dec-19. Looking ahead, we expect IPI for Jan-20 and 1Q20 to stay sluggish amid Coronavirus attack and Lunar New Year festival in China and other Asian economies. The impacts of “Phase One” trade deal between the US and China are expected to materialise in 2Q20 especially when the coronavirus attack wanes.

Table 5: Global IPI (YoY%)

	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
Malaysia	3.8	1.2	1.7	1.7	0.3	2.0	1.3
Indonesia	3.6	4.6	4.0	4.5	6.0	3.0	
Philippines	(7.7)	(8.0)	(11.1)	(6.4)	(5.8)	(7.4)	(9.5)
Thailand	(5.4)	(3.4)	(5.1)	(5.2)	(7.9)	(9.3)	(4.0)
Singapore	(6.8)	2.3	(5.6)	1.0	2.8	(8.9)	(0.7)
India	1.3	4.9	(1.4)	(4.3)	(4.0)	1.8	
Japan	(3.8)	0.7	(4.7)	1.3	(7.7)	(8.2)	(3.0)
EU	(1.7)	(1.1)	(1.9)	(1.1)	(2.0)	(1.2)	
USA	1.0	0.3	0.4	(0.2)	(1.0)	(0.7)	(0.9)

Source: CEIC, MIDFR


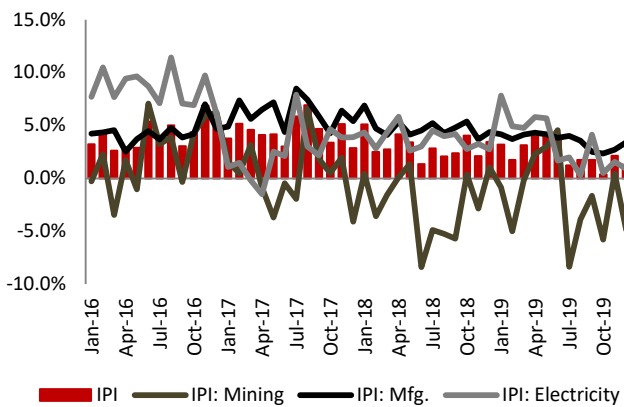
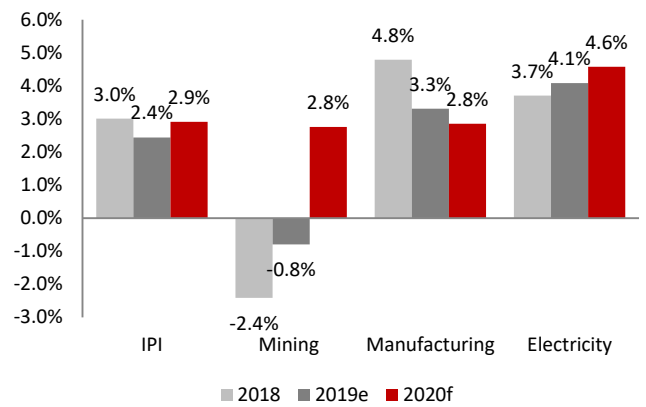
We forecast IPI growth at 2.9% for 2020. Industrial activities are expected to expand at solid pace underpin by recovery in mining output and strong growth of domestic-oriented industries. The 2020 forecast figure is slightly higher than last year’s estimated growth of 2.4%. Slight betterment of commodity prices and the release of Petronas’s Floating Liquefied Natural Gas – 2 (PFLNG – 2) will support the rebound in mining output in 2020. Steady domestic demand and improve government & private investments would spur domestic-oriented industries this year. Manufacturing output shall continue growing yet at slower pace this year due to global trade tension factor. 

Chart 1: IPI Performances (YoY%)



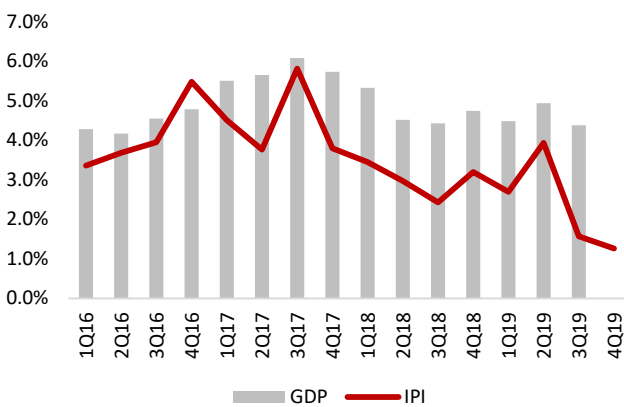
Source: CEIC, MIDFR

Chart 2: 2020 IPI Forecast (YoY%)



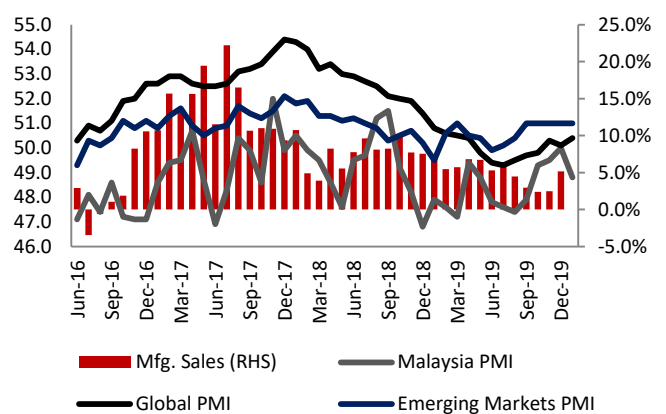
Source: CEIC, MIDFR

Chart 3: IPI vs GDP (YoY%)



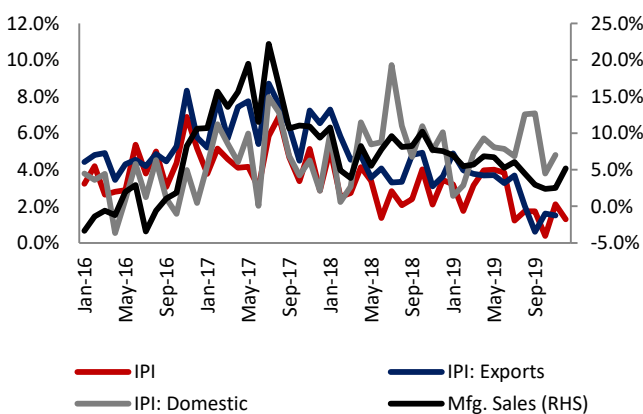
Source: CEIC, MIDFR

Chart 4: Mfg. Sales (YoY%) vs PMI (Points)



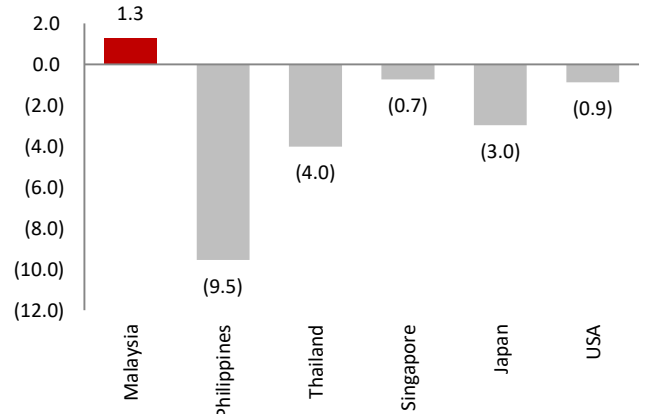
Source: CEIC, MIDFR

Chart 5: IPI & Mfg. Sales (YoY%)



Source: CEIC, MIDFR

Chart 6: Global IPI in Dec-19 (YoY%)



Source: CEIC, MIDFR

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