

## ECONOMIC REVIEW | November 2019 Industrial Production Index

### Expect Recovery of Mining Output to Continue in 2020

- *IPI growth rebounded to 5-month high. Malaysia's overall industrial production increases by 2%yoy, the strongest gain since Jul-19. The growth is mainly due to the return of mining output which expands by 0.5%yoy, the first growth after 4-straight months of contractions. Manufacturing and electricity outputs rose at moderate pace amid global trade war concerns. We expect IPI to continue expanding at better pace in the final month of 2019 due to stronger pick-up in commodity prices.*
- *Lukewarm for manufacturing sales. Manufacturing sales increased modestly by 2.3%yoy in Oct-19, marginally higher than the previous month. The deceleration is in tandem with the downward trends of re-exports performance. Among others sales of refined petroleum products continue on declining trend, -2.6%yoy and tepid growth of diodes, transistor & electronic circuits by 0.3%yoy which dragged down overall sales performance.*
- *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 this year's estimate 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.*

**IPI growth rebounded to 5-month high.** Malaysia's overall industrial production increases by 2%yoy, the strongest gain since Jul-19. The growth is mainly due to the return of mining output which expands by 0.5%yoy, the first growth after 4-straight months of contractions. Manufacturing and electricity outputs rose at moderate pace amid global trade war concerns. We expect IPI to continue expanding at better pace in the final month of 2019 due to stronger pick-up in commodity prices.

**Table 1: Malaysia – Summary of Industrial Production Index**

	MoM%				YoY%			
	Aug-19	Sep-19	Oct-19	Nov-19	Aug-19	Sep-19	Oct-19	Nov-19
IPI	0.8	(0.3)	(1.0)	1.8	1.7	1.7	0.3	2.0
Mining	9.9	(1.4)	0.8	5.5	(3.9)	(1.6)	(5.8)	0.5
Manufacturing	(1.3)	(1.3)	(0.4)	0.8	3.6	2.5	2.2	2.5
Electricity	(3.2)	3.5	(3.5)	1.2	0.3	4.1	0.5	1.6

Source: CEIC, MIDFR  
\*MoM is Seasonally Adjusted

**Manufacturing output growth remains below 3%yoy.** Expansionary rate of factory output plateaued below 3%yoy since Sep-19. Contractions of refined petroleum and computer & peripheral equipment products by -0.1%yoy and -9.7%yoy respectively are among major contributors to the slowdown in manufacturing sector. This is in line with the poor performance of external trade which exports growth stays on contractionary since Aug-19. As for 2020, we expect exports trend to rebound marginally especially with the support of commodity outbound shipments. Our in-house crude oil price is \$65pb for next year; hence, we believe the price level is supportive and accommodative for mining output recovery in 2020. Manufacturing output to grow at modest pace due to challenging external demand with the US is heading for its Presidential Elections by year-end.

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

	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19
Mining;	4.6	(8.4)	(3.9)	(1.6)	(5.8)	0.5
Mining: Crude Petroleum	(3.7)	(22.7)	(9.5)	(4.7)	(5.1)	(3.3)
Mining: Natural Gas	13.0	7.3	1.2	1.1	(6.3)	3.7
Manufacturing;	3.8	4.0	3.6	2.5	2.2	2.5
Food Products	3.9	0.4	1.9	1.4	0.8	1.9
Refined Petroleum Products	2.7	3.8	2.7	2.4	1.5	(0.1)
Chemicals & Chemicals Products	2.5	1.9	2.2	1.7	0.3	2.3
Rubber Products	7.8	8.0	7.6	5.1	4.8	5.1
Basic Metals	4.3	4.7	3.7	3.3	4.4	5.0
Electrical & Electronic Products	3.5	4.9	3.1	0.8	2.4	1.1
Computers & Peripheral Equipment	3.9	14.0	19.8	1.0	2.4	(9.7)
Machinery & Equipment	2.5	4.8	5.2	3.6	3.0	6.0
Motor Vehicles, Trailers & Semi-Trailers	8.0	7.5	8.0	8.3	4.7	3.5

Source: CEIC, MIDFR

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

	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
<b>IPI: Export Oriented Industries</b>	<b>3.7</b>	<b>3.7</b>	<b>3.3</b>	<b>3.7</b>	<b>2.0</b>	<b>0.6</b>	<b>1.6</b>
Electronic and Electrical Product	4.2	4.1	3.6	5.0	3.2	0.7	2.4
Chemicals and Chemical Products	2.5	2.9	1.9	1.8	1.9	1.1	(0.4)
Petroleum Products	4.0	1.8	2.8	3.8	2.7	2.4	1.6
Textiles & Wearing Apparel	5.7	5.8	5.5	5.8	6.0	4.0	5.4
Wood and Wood Products	3.7	6.6	4.7	3.4	3.6	5.5	5.7
Rubber Products	7.0	10.2	9.5	9.0	8.5	5.4	3.3
Off Estate Processing	0.3	1.1	0.4	(3.0)	(11.3)	(12.2)	(2.6)
Paper Products	4.6	5.3	4.1	4.9	5.0	4.7	2.7
<b>IPI: Domestic Oriented Industries</b>	<b>5.7</b>	<b>5.2</b>	<b>5.1</b>	<b>4.7</b>	<b>7.0</b>	<b>7.1</b>	<b>3.8</b>
Construction (CO)	4.2	4.2	4.8	4.5	4.2	3.8	3.1
CO: Non Metallic Mineral	4.5	4.0	5.1	4.2	5.1	4.1	3.2
CO: Iron and Steel	4.0	3.5	4.3	4.7	3.7	3.3	4.4
CO: Fabricated Metal	4.0	4.6	4.9	4.6	3.9	3.8	2.2
Consumer (CS)	7.0	6.1	5.4	4.9	9.2	9.8	4.4
CS: Food Products	7.3	7.7	6.2	3.5	15.2	16.8	5.1
CS: Transport Equipment	9.0	7.9	7.4	6.1	6.0	9.2	4.5
CS: Beverages	3.6	4.1	3.2	2.5	6.5	0.7	0.7
CS: Tobacco Products	8.2	4.7	4.3	3.8	4.3	5.5	3.5
CS: Others	2.6	(0.4)	0.7	6.6	6.7	1.7	4.3

Source: CEIC, MIDFR

\*Data available as of Oct-19

**Lukewarm for manufacturing sales.** Manufacturing sales increased modestly by 2.3%yoy in Oct-19, marginally higher than the previous month. The deceleration is in tandem with the downward trends of re-exports performance. Among others sales of refined petroleum products continue on declining trend, -2.6%yoy and tepid growth of diodes, transistor & electronic circuits by 0.3%yoy which dragged down overall sales performance. Meanwhile, wage and employment growths in the manufacturing sector improve by 3.1%yoy and 1.2%yoy respectively. Looking ahead, we foresee slight recovery for export-oriented products in 1Q20 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%)**

	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19
<b>Sales;</b>	6.7	5.3	6.0	4.5	2.9	2.2	2.3
Refined Petroleum Products	4.4	5.9	6.9	4.7	1.6	(2.6)	(3.5)
Diodes, Transistor & Electronic Integrated Circuits Mic	20.3	9.9	4.3	(0.4)	(3.8)	1.7	0.3
Electrical Capacitor Resistor, Circuit Board & Display Comp	3.7	2.0	8.3	6.9	4.6	3.7	4.7
<b>Employment</b>	1.4	1.1	1.3	1.3	1.2	1.0	1.2
<b>Wage</b>	4.1	3.1	3.4	3.3	2.8	2.5	3.1


Source: CEIC, MIDFR

**Contractionary IPI.** 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 -0.7%yoy, recording three-straight months of negative rates. Other developed economies like EU experienced 7-straight months of contractions and Japanese IPI declined further by -8.1%yoy, its worst performance since Feb-13. ASEAN economies namely Philippines, Thailand and Singapore shrank in Nov-19. Looking ahead, we expect IPI for Dec-19 should recover modestly as manufacturing PMI figures for global and emerging economies are pointing towards expansionary trajectory. The agreement to sign “Phase One” trade deal between the US and China provide trivial positive hope to global trade activities in early 2020.

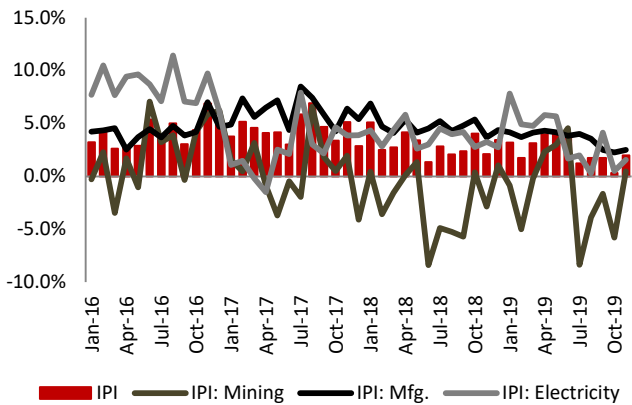
**Table 5: Global IPI (YoY%)**

	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19
Malaysia	4.0	3.8	1.2	1.7	1.7	0.3	2.0
Indonesia	4.0	3.6	4.6	4.0	4.5	4.8	
Philippines	(6.9)	(7.9)	(5.7)	(8.7)	(3.9)	(4.7)	(5.8)
Thailand	(3.6)	(5.4)	(3.4)	(5.1)	(5.2)	(7.9)	(9.1)
Singapore	(1.3)	(7.2)	2.1	(5.8)	0.7	3.6	(9.3)
India	4.5	1.3	4.9	(1.4)	(4.3)	(3.8)	
Japan	(2.1)	(3.8)	0.7	(4.7)	1.3	(7.7)	(8.1)
EU	(0.2)	(1.7)	(1.1)	(2.0)	(1.2)	(1.8)	
USA	1.6	1.0	0.3	0.4	(0.2)	(1.3)	(0.7)

Source: CEIC, MIDFR

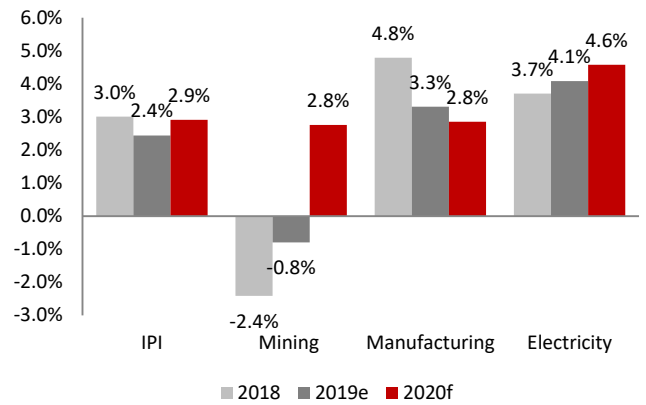
**We forecast IPI growth at 2.9% for 2020.** Industrial activities are expected to expand at solid pace underpin by recovery in mining output and strong growth of domestic-oriented industries. The 2020 forecast figure is slightly higher than this year’s estimate growth of 2.4%. Slight betterment of commodity 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 next year. Manufacturing output shall continue growing yet at slower pace next year due to global trade tension factor. 

**Chart 1: IPI Performances (YoY%)**



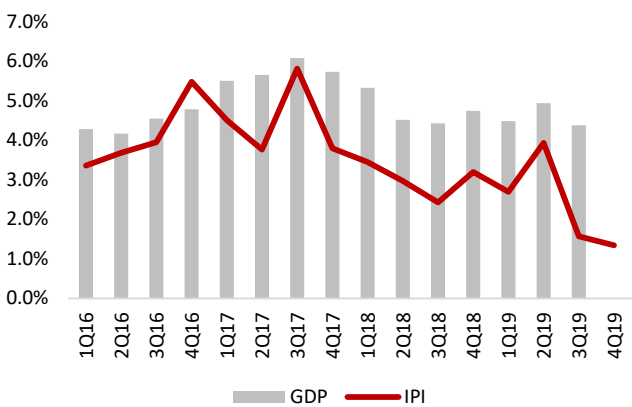
Source: CEIC, MIDFR

**Chart 2: 2020 IPI Forecast (YoY%)**



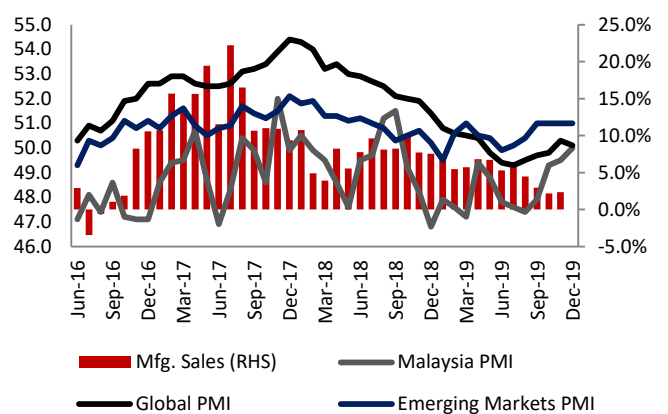
Source: CEIC, MIDFR

**Chart 3: IPI vs GDP (YoY%)**



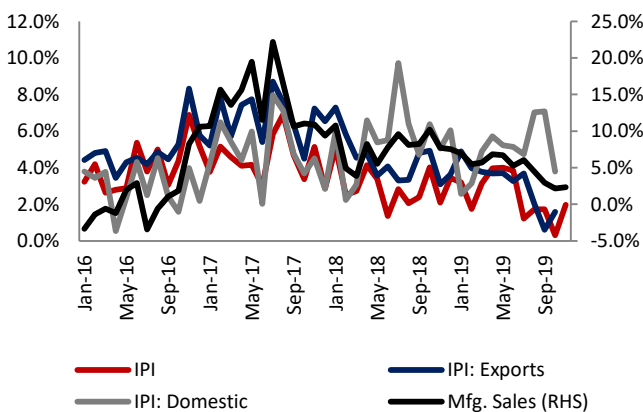
Source: CEIC, MIDFR

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



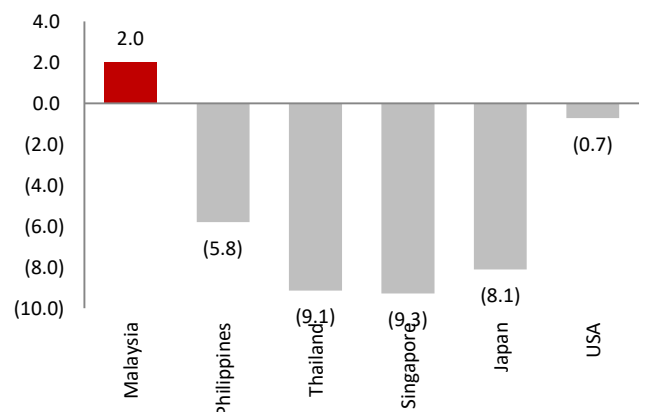
Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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