

## ECONOMIC REVIEW | April 2020 Industrial Production Index

### Record Low Decline in IPI but Recovery Expected Soon

- Record decline in IPI. Overall IPI slumped -32%yoy in Apr-20, the steepest fall on record and worse than market expectation as all sub-indexes recorded double digit drop. Among the sub-indexes, manufacturing sector chalked the largest decline of -37.2%yoy. Mining sector in particular contracted by -19.6%yoy mainly due to lower oil prices following oil price war besides the weak demand resulting from movement restrictions worldwide.*
- Manufacturing sales in a nosedive. Manufacturing sales plummeted by -33%yoy in Apr-20, also a record low. All major products including E&E, refined petroleum and motor vehicles recorded double digit decline during the month. Similarly, on monthly basis, manufacturing sales shrank by -31.2%yoy. Nevertheless, looking ahead, we view manufacturing sales to gradually improve in upcoming months amid relaxation of restrictions. Malaysia manufacturing PMI surged to 45.6 in May-20 from record low of 31.3 in the previous month.*
- We revised downward IPI growth forecast to -5.4%. Year-to-date, IPI contraction averaged at -7.5%yoy. Due to larger than expected fall in Apr-20 and anticipation on slow recovery amid challenging domestic and external environment, we forecast IPI to decline by -5.4%yoy in 2020, a downward revision from -2.8%yoy initially estimated. Covid-19, slowdown in global demand and lower global oil prices affect Malaysia's industrial output and exports.*

**Record decline in IPI.** Overall IPI slumped -32%yoy in Apr-20, the steepest fall on record and worse than market expectation as all sub-indexes recorded double digit drop. Among the sub-indexes, manufacturing sector chalked the largest decline of -37.2%yoy. Mining sector in particular contracted by -19.6%yoy mainly due to lower oil prices following oil price war besides the weak demand resulting from movement restrictions worldwide. Severe contraction was largely expected for the month as Malaysia had its full month of Movement Control Order (MCO) where most of the businesses were out of operations and consumers stayed home. Looking ahead, we expect IPI performance to remain weak in upcoming months albeit at improving rate, in line with easing restrictions and opening up of the economy.

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

	MoM%				YoY%			
	Jan-20	Feb-20	Mar-20	Apr-20	Jan-20	Feb-20	Mar-20	Apr-20
IPI	(0.0)	3.6	(8.9)	(27.5)	0.6	6.2	(4.9)	(32.0)
Mining	0.6	3.0	(5.8)	(12.5)	(3.9)	6.1	(6.5)	(19.6)
Manufacturing	(0.2)	3.7	(9.6)	(33.7)	2.2	6.2	(4.1)	(37.2)
Electricity	3.2	3.5	(12.3)	(12.4)	(0.0)	6.8	(7.0)	(19.2)

Source: CEIC, MIDFR

\*MoM is Seasonally Adjusted

**Drop in IPI in line with external trade performance.** Malaysia's exports dived -23.8%yoy in Apr-20, the hardest fall since Sep-09, manifesting the impact of a full month of MCO. Domestic exports which involved high value-added activities declined to a record low of -35.4%yoy, dragged down by deteriorating performances of commodity-based sectors and E&E. E&E which hold the biggest share of total exports, further declined by -21.7%yoy, continuing its negative streak for the ninth month. As for 2Q20, we view export-oriented sectors to continue on weaker note due to the Covid-19 fear effect, fluctuation in commodity prices and off-peak cycle for semiconductor industry. Lockdowns in major economies globally will lower demand hence drag down Malaysia's exports performance in 2Q20. As of 2H20, we expect to see vibrant improvement underpin by betterment in commodity prices, subsiding Covid-19 fear effects and gradual rebound in global demand.

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

	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
<b>Mining;</b>	0.5	(4.9)	(3.9)	6.1	(6.5)	(19.6)
Mining: Crude Petroleum	(2.9)	(6.6)	(5.9)	(0.5)	(7.1)	(20.2)
Mining: Natural Gas	3.4	(3.4)	(2.3)	12.0	(6.0)	(19.0)
<b>Manufacturing;</b>	2.7	3.4	2.2	6.2	(4.1)	(37.2)
Food Products	1.9	(0.1)	(6.4)	4.4	(9.8)	0.4
Refined Petroleum Products	1.2	3.6	3.7	6.5	0.8	(36.3)
Chemicals & Chemicals Products	2.6	2.0	2.1	4.9	(1.3)	(24.7)
Rubber Products	5.1	8.5	11.0	14.4	35.3	37.3
Basic Metals	5.0	5.2	3.7	8.5	(8.6)	(51.0)
Electrical & Electronic Products	1.1	3.1	3.2	7.0	(4.9)	(34.1)
Computers & Peripheral Equipment	(9.7)	(11.9)	(5.1)	(5.0)	(9.5)	(51.3)
Machinery & Equipment	6.0	4.2	3.8	5.7	(8.5)	(25.1)
Motor Vehicles, Trailers & Semi-Trailers	3.8	4.7	(0.4)	5.2	(9.1)	(70.0)

Source: CEIC, MIDFR

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

	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
<b>IPI: Export Oriented Industries</b>	<b>1.7</b>	<b>1.8</b>	<b>2.0</b>	<b>0.8</b>	<b>6.0</b>	<b>(2.3)</b>
Electronic and Electrical Product	2.4	1.2	2.7	3.0	7.0	(4.9)
Chemicals and Chemical Pds	(0.3)	3.7	2.4	1.6	4.7	(1.7)
Petroleum Products	2.2	1.2	3.5	3.6	6.5	0.9
Textiles & Wearing Apparel	5.4	6.4	4.9	3.2	6.7	(1.2)
Wood and Wood Products	5.7	6.7	4.8	2.9	8.4	(3.8)
Rubber Products	3.3	4.2	8.0	12.4	14.6	37.9
Off Estate Processing	(2.5)	(4.9)	(11.8)	(26.1)	(3.2)	(18.1)
Paper Products	2.7	4.4	2.8	2.7	5.5	(7.7)
<b>IPI: Domestic Oriented Industries</b>	<b>3.8</b>	<b>4.8</b>	<b>6.7</b>	<b>5.2</b>	<b>6.5</b>	<b>(8.3)</b>
Construction (CO)	3.1	3.9	5.0	4.0	6.2	(10.2)
CO: Non Metallic Mineral	3.2	4.2	5.0	4.3	5.9	(11.1)
CO: Iron and Steel	4.4	5.0	5.2	3.7	8.5	(8.6)
CO: Fabricated Metal	2.2	3.1	4.8	3.9	5.1	(10.3)
Consumer (CS)	4.4	5.6	8.1	6.3	6.8	(6.9)
CS: Food Products	5.1	9.4	12.2	15.7	11.0	(1.3)
CS: Transport Equipment	4.5	3.7	3.9	0.9	4.6	(11.0)
CS: Beverages	0.7	4.6	3.9	1.6	5.4	(8.5)
CS: Tobacco Products	3.5	4.0	7.3	(1.7)	4.5	(12.9)
CS: Others	4.3	3.1	10.8	5.1	4.1	(6.1)

Source: CEIC, MIDFR

\*Data available as of Mar-20

**Manufacturing sales in a nosedive.** Manufacturing sales plummeted by -33%yoy in Apr-20, also a record low. All major products including E&E, refined petroleum and motor vehicles recorded double digit decline during the month. Similarly, on monthly basis, manufacturing sales shrank by -31.2%yoy. Nevertheless, looking ahead, we view manufacturing sales to gradually improve in upcoming months amid relaxation of restrictions. Malaysia manufacturing PMI surged to 45.6 in May-20 from record low of 31.3 in the previous month. Global containment would also play a vital role in the recovery expected. Based on the latest developments, more countries started to ease their restrictions as of May-20, may contribute positively to production. In line, global and emerging markets manufacturing PMI in May-20 went up to 42.4 and 45.4 (Apr-20: 39.6 and 42.7) respectively.

**Table 4: Manufacturing Sales (YoY%)**

	MoM%			YoY%		
	Feb-20	Mar-20	Apr-20	Feb-20	Mar-20	Apr-20
<b>Manufacturing Sales</b>	<b>-5.7</b>	<b>-1.0</b>	<b>-31.2</b>	<b>7.6</b>	<b>-3.0</b>	<b>-33.0</b>
Refined Petroleum Products	-15.1	2.0	-23.5	12.2	1.5	-13.9
Chemicals and Chemical Products	-6.7	-1.2	-19.5	4.0	-7.8	-19.1
Iron & Steel Products	-2.3	2.1	-76.1	1.5	6.6	-73.5
Diodes, Transistor & Electronic Integrated Circuits Mic	-9.7	-2.1	-33.0	7.0	-4.0	-34.7
Electrical Capacitor Resistor, Circuit Board & Display Comp	-1.3	-4.9	-42.4	13.6	-3.9	-42.9
Computers & Peripherals Equipment	12.3	-9.1	-29.1	3.5	-11.4	-32.3
Consumer Electronics	-4.8	2.6	-61.3	1.4	-9.5	-63.1
Motor Vehicles	-6.5	-15.2	-97.7	9.5	-3.3	-97.9

Source: CEIC, MIDF


**Downward trend, globally.** IPI performances across major and emerging economies were worse in Apr-20 as most of the lockdowns globally took place in Apr-20. The US's industrial production tumbled -15.8%yoy, the biggest decline since June-09. Likewise, most of other key countries recorded double digit negative growth in IPI except Singapore. Singapore's production grew by 13%yoy, moderated from 16.5%yoy in Mar-20 driven by output of biomedical manufacturing and precision engineering. Looking ahead, we foresee overall global IPI performance to improve as economies start to open up, eventually contributing to better exports performances.

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

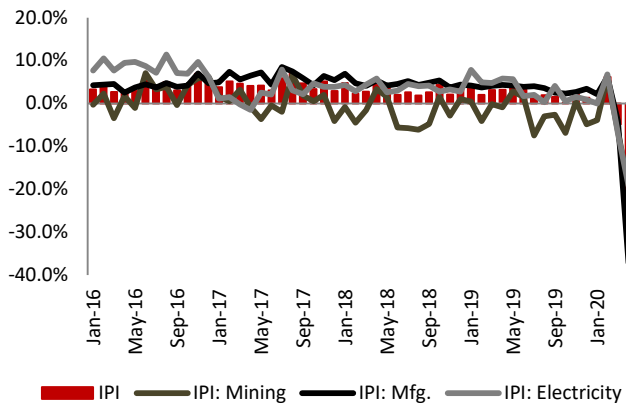
	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
Malaysia	0.1	2.1	1.3	0.6	6.2	(4.9)	(32.0)
Indonesia	6.7	3.2	0.9	(0.8)	2.0	n.a.	n.a.
Philippines	(5.8)	(8.0)	(7.4)	(4.7)	(1.1)	(12.4)	(61.4)
Thailand	(8.0)	(8.0)	(4.4)	(4.0)	(4.2)	(10.5)	(17.2)
Singapore	3.9	(12.3)	(3.7)	3.7	(0.7)	16.5	13.0
India	(6.6)	2.1	0.4	2.1	4.6	(16.7)	n.a.
Japan	(8.2)	(8.5)	(3.7)	(2.4)	(5.7)	(5.2)	(14.4)
EU	(1.9)	(1.3)	(3.0)	(2.1)	(1.9)	(12.8)	n.a.
USA	(0.9)	(0.5)	(0.7)	(1.1)	(0.2)	(4.9)	(15.8)

Source: CEIC, MIDF

\*n.a.: not available

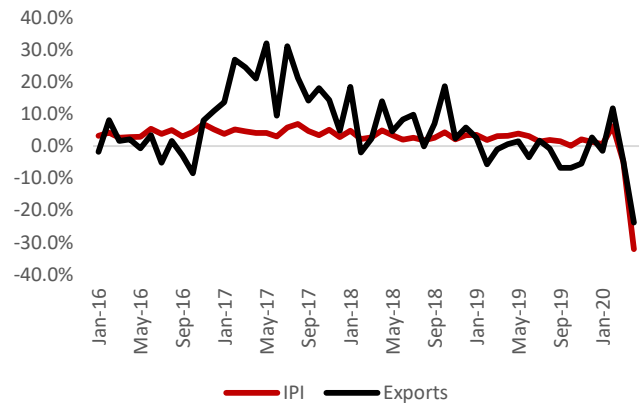
**We revised downward IPI growth forecast to -5.4%.** Year-to-date, IPI contraction averaged at -7.5%yoy. Due to larger than expected fall in Apr-20 and anticipation on slow recovery amid challenging domestic and external environment, we forecast IPI to decline by -5.4%yoy in 2020, a downward revision from -2.8%yoy initially estimated. Covid-19, slowdown in global demand and lower global oil prices affect Malaysia's industrial output and exports. Our in-house average Brent crude oil price for this year is USD41pb. The re-escalation of US-China trade spat will also influence the production and trade flows. Nevertheless, lower OPR and government stimulus package which includes loan moratorium, additional financial aids to companies and wage subsidy would provide some support to the continuous production. 

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



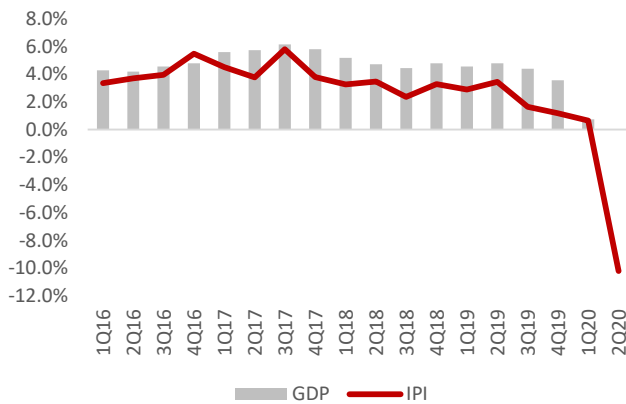
Source: CEIC, MIDFR

**Chart 2: IPI vs Exports (YoY%)**



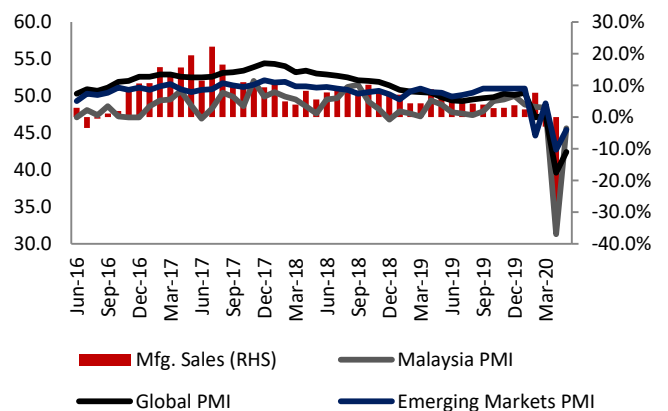
Source: CEIC, MIDFR

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



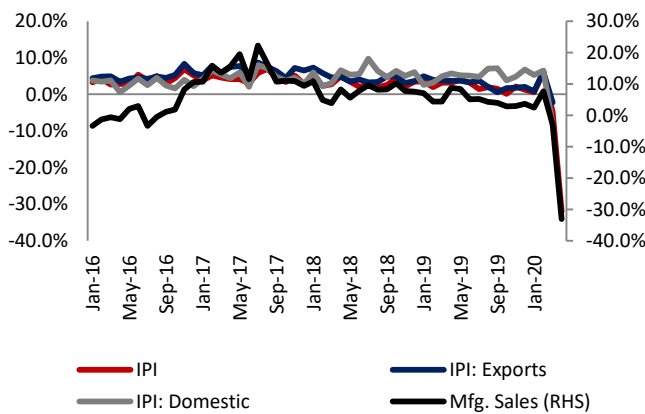
Source: CEIC, MIDFR

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



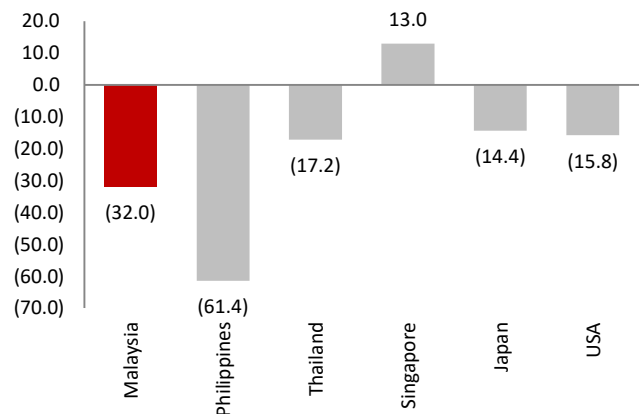
Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

**Chart 6: Global IPI in Mar-20 (YoY%)**



Source: CEIC, MIDFR

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