

ECONOMIC REVIEW | February 2020 Industrial Production Index

Covid-19 & Global Oil War to Pressure Malaysia's IPI in 1H20

- *IPI growth hit 2.5 year high. Overall IPI grew by 5.8%yoy in Feb-20, biggest gain since Aug-17 and way above market estimates of 0.7%yoy. The sudden pick-up is not unexpected as it is due to low-base effect factor. Previous year's CNY was celebrated in February while this year's was in January.*
- *Bleak outlook for manufacturing sector. On monthly basis, overall manufacturing sales shrank by -6.3%mom. Major manufacturing products like refined petroleum, chemicals & E&E experienced similar downwards pressures during the month. Looking ahead, we view manufacturing sales to continue recording negative growth especially in 1H20.*
- *We downgrade our IPI forecast from 1.5%yoy to -2.8%yoy in 2020. Due to challenging external environment, we revise down overall IPI growth forecast to -2.8%yoy in 2020. Covid-19 and slowdown in global demand thus affecting Malaysia's manufacturing output while oil price war causes average global oil price to decline. Our in-house average Brent crude oil price for this year had been revised down earlier from USD51pbd to USD41pbd.*

IPI growth hit 2.5 year high. Overall IPI grew by 5.8%yoy in Feb-20, biggest gain since Aug-17 and way above market estimates of 0.7%yoy. The sudden pick-up is not unexpected as it is due to low-base effect factor. Previous year's CNY was celebrated in February while this year's was in January. In addition, Covid-19 fear effects have not taken place yet during the month and global trade was on optimism path amid the Phase One trade deal agreement between USA and China. Moving ahead, we expect IPI performance in 1Q20 and 2Q20 to contract, thanks to 1.5 months Movement Control Order (MCO) and the collapse of global crude oil prices.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%				YoY%			
	Nov-19	Dec-19	Jan-20	Feb-20	Nov-19	Dec-19	Jan-20	Feb-20
IPI	1.0	(0.2)	(0.0)	3.2	2.1	1.3	0.6	5.8
Mining	3.8	(3.8)	0.6	3.0	0.5	(4.9)	(3.9)	6.1
Manufacturing	0.3	0.9	(0.2)	3.2	2.7	3.4	2.2	5.6
Electricity	0.8	(0.7)	3.2	3.5	1.6	0.9	(0.0)	6.8

Source: CEIC, MIDFR
*MoM is Seasonally Adjusted

Low base assisted external trade. Due to the different month of CNY celebration, total exports rebounded strongly by 11.8%yoy and domestic exports growth at 27-month high in Jan-20. As for 1H20, we view external trade and export-oriented sectors to remain sluggish due to the Covid-19 fear effect, oil price war impact and off-peak cycle for semiconductor industry. In addition, travel bans and lockdowns in major economies globally will drag down Malaysia's exports performance. After 2H20, we expect to see trivial improvement underpin by betterment in commodity prices, subsiding Covid-19 fear effects and slight rebound in global demand.

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

	MoM%			YoY%		
	Dec-19	Jan-20	Feb-20	Dec-19	Jan-20	Feb-20
Mining;	(0.9)	0.8	(7.5)	(4.9)	(3.9)	6.1
Mining: Crude Petroleum	(1.1)	2.3	(9.3)	(6.6)	(5.9)	(0.5)
Mining: Natural Gas	(0.8)	(0.5)	(6.0)	(3.4)	(2.3)	12.0
Manufacturing;	1.2	0.4	(7.1)	3.4	2.2	5.6
Food Products	1.4	(9.0)	(1.5)	(0.1)	(6.4)	4.5
Refined Petroleum Products	(1.2)	7.4	(4.2)	3.6	3.7	6.5
Chemicals & Chemicals Products	2.9	(1.8)	0.3	2.0	2.1	4.2
Rubber Products	13.5	(3.7)	(1.7)	8.5	11.0	14.4
Basic Metals	(1.7)	(2.1)	3.2	5.2	3.7	8.5
Electrical & Electronic Products	2.2	(0.4)	(15.5)	3.1	3.2	5.1
Computers & Peripheral Equipment	(1.8)	10.3	(16.7)	(11.9)	(5.1)	(12.9)
Machinery & Equipment	(0.4)	3.6	3.5	4.2	3.8	5.7
Motor Vehicles, Trailers & Semi-Trailers	1.7	15.1	(9.9)	4.7	(0.4)	5.2

Source: CEIC, MIDFR

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

	MoM%			YoY%		
	Nov-19	Dec-19	Jan-20	Nov-19	Dec-19	Jan-20
IPI: Export Oriented Industries	(3.8)	0.8	(0.8)	1.8	2.0	0.8
Electronic and Electrical Product	(6.5)	1.4	0.4	1.2	2.7	3.0
Chemicals and Chemical Pdts	(3.6)	1.4	(3.4)	3.7	2.4	1.6
Petroleum Products	(0.1)	(1.1)	7.5	1.2	3.5	3.6
Textiles & Wearing Apparel	7.9	(7.1)	(3.1)	6.4	4.9	3.2
Wood and Wood Products	(2.6)	3.3	(0.4)	6.7	4.8	2.9
Rubber Products	(4.9)	14.3	(4.3)	4.2	8.0	12.4
Off Estate Processing	(8.1)	(8.0)	(14.4)	(4.9)	(11.8)	(26.2)
Paper Products	6.9	7.3	(7.5)	4.4	2.8	2.7
IPI: Domestic Oriented Industries	0.1	2.1	2.9	4.8	6.7	5.2
Construction (CO)	(1.0)	0.2	4.1	3.9	5.0	4.0
CO: Non Metallic Mineral	(0.5)	2.3	(2.6)	4.2	5.0	4.3
CO: Iron and Steel	(0.2)	(1.7)	(2.1)	5.0	5.2	3.7
CO: Fabricated Metal	(1.9)	(0.4)	13.1	3.1	4.8	3.9
Consumer (CS)	1.1	3.7	1.9	5.6	8.1	6.3
CS: Food Products	3.2	9.8	(4.1)	9.4	12.2	15.7
CS: Transport Equipment	0.5	(0.6)	11.6	3.7	3.9	0.9
CS: Beverages	3.6	1.8	(8.9)	4.6	3.9	1.6
CS: Tobacco Products	1.6	6.6	1.9	4.0	7.3	(1.7)
CS: Others	(2.6)	0.5	(1.4)	3.1	10.8	5.1

Source: CEIC, MIDFR

*Data available as of Jan-20

Bleak outlook for manufacturing sector. On monthly basis, overall manufacturing sales shrank by -6.3%mom. Major manufacturing products like refined petroleum, chemicals & E&E experienced similar downwards pressures during the month. Looking ahead, we view manufacturing sales to continue recording negative growth especially in 1H20. We may see slight improvement in 2H20 particularly demand from China given that PMI figures of services and manufacturing in the world's second largest economy recovered to optimistic path in Mar-20.

Table 4: Changes in IPI Major Industries (YoY%)

	MoM%			YoY%		
	Dec-19	Jan-20	Feb-20	Dec-19	Jan-20	Feb-20
Manufacturing Sales	1.5	(1.0)	(6.3)	3.7	2.4	7.0
Refined Petroleum Products	5.7	8.7	(15.1)	9.1	10.0	12.2
Chemicals and Chemical Products	(0.8)	(1.1)	(6.7)	5.0	5.6	4.0
Iron & Steel Products	(1.1)	(0.2)	(2.3)	11.7	8.6	1.5
Diodes, Transistor & Electronic Integrated Circuits Mic	10.0	(3.3)	(9.7)	3.0	11.7	7.0
Electrical Capacitor Resistor, Circuit Board & Display Comp	8.4	(3.2)	(1.3)	5.6	5.1	13.6
Computers & Peripherals Equipment	2.7	(3.1)	(4.1)	(4.7)	(1.8)	(11.7)
Consumer Electronics	(1.7)	(9.8)	(4.8)	(2.9)	(7.0)	1.4
Motor Vehicles	(0.8)	(14.6)	(6.5)	5.9	(4.5)	9.5

Source: CEIC, MIDFR

Cloudy IPI outlook for 1H20. IPI performances across major and emerging economies remain sluggish. Manufacturing PMI figures of Global and Emerging Economies are pointing towards pessimistic paths in 1H20. Movement controls and lockdowns in major economies like USA, EU and Asia will impede global demand and exports performances. On top of that, plunge in global crude oil prices would pressure oil-exporting economies like Malaysia, Australia and Saudi Arabia. Looking ahead, we expect IPI for 1H20 to remain sluggish amid Covid-19 fear effects and global oil prices collapsed.

Table 5: Global IPI (YoY%)

	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
Malaysia	1.7	1.7	0.4	2.1	1.3	0.6	5.8
Indonesia	4.0	4.5	6.7	3.3	1.5	(0.8)	
Philippines	(11.2)	(6.5)	(5.8)	(7.5)	(6.9)	(5.2)	(1.8)
Thailand	(5.1)	(5.2)	(7.8)	(9.1)	(4.3)	(3.7)	(3.8)
Singapore	(7.3)	(1.4)	3.9	(12.3)	(3.7)	3.5	(1.1)
India	(1.4)	(4.6)	(6.6)	2.1	0.1	2.1	4.5
Japan	(4.7)	1.3	(7.7)	(8.2)	(3.1)	(2.3)	(4.7)
EU	(1.8)	(1.1)	(1.5)	(1.4)	(2.8)	(1.6)	
USA	0.3	(0.2)	(0.9)	(0.5)	(0.7)	(1.2)	0.1

Source: CEIC, MIDFR


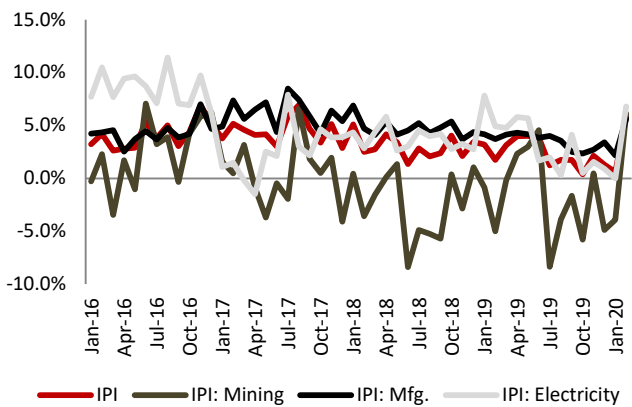
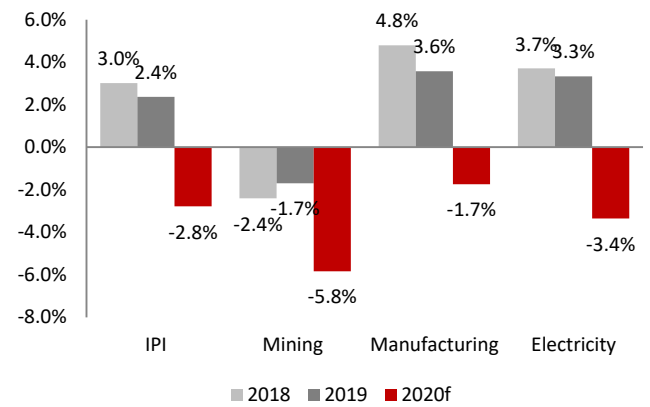
We downgrade our IPI forecast from 1.5%yoy to -2.8%yoy in 2020. Due to challenging external environment, we revise down overall IPI growth forecast to -2.8%yoy in 2020. Covid-19 and slowdown in global demand thus affecting Malaysia's manufacturing output while oil price war causes average global oil price to decline. Our in-house average Brent crude oil price for this year had been revised down earlier from USD51pbd to USD41pbd. On the flip side, we opine domestic-oriented industries to continue expanding at steady pace underpin by firm domestic demand. Lower OPR, higher disposable income, low inflationary pressure and stable job market among key fundamental factors supporting private consumption in 2020. 

Chart 1: IPI Performances (YoY%)



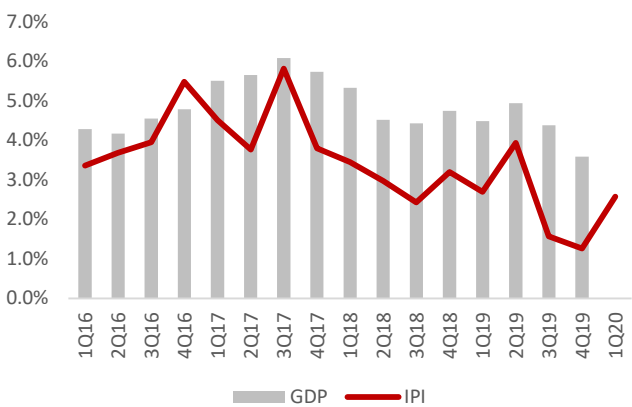
Source: CEIC, MIDFR

Chart 2: 2020 IPI Forecast (YoY%)



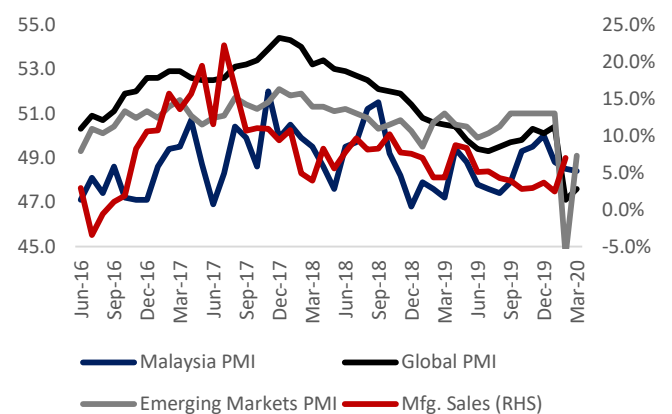
Source: CEIC, MIDFR

Chart 3: IPI vs GDP (YoY%)



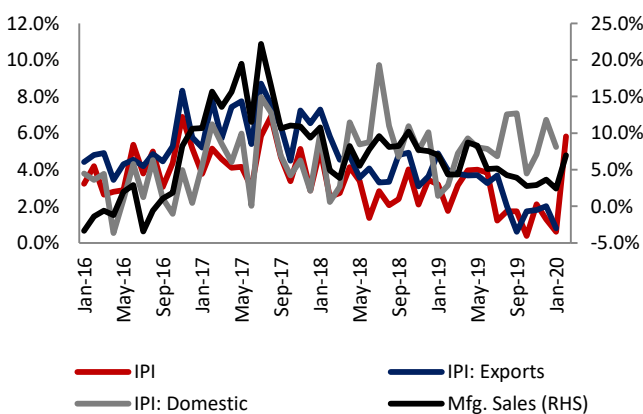
Source: CEIC, MIDFR

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



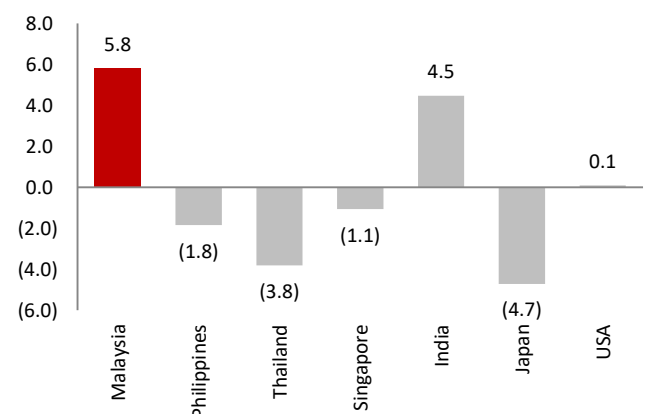
Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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