

ECONOMIC REVIEW | March 2020 Industrial Production Index

IPI Fell Into Negative Territory as the MCO Halts Production

- *IPI growth slumps to over a decade low. Overall IPI declined by -4.9%yoy in Mar-20, first contraction since Dec-15 and the steepest since Sep-09. The slightly worse than market expectation performance was due to decline in all sub-indexes.*
- *A downturn in manufacturing sales. Manufacturing sales went down by -3%yoy in Mar-20. Major manufacturing products such as E&E, chemicals and motor vehicles recorded decline during the month. Meanwhile, refined petroleum and iron & steel products continued on positive note.*
- *We foresee our IPI performance at -2.8%yoy in 2020. Due to challenging domestic and external environment, we forecast IPI to decline by -2.8%yoy in 2020. Covid-19 and slowdown in global demand thus affecting Malaysia's industrial output and exports while oil price war causes average global oil price to decline.*

IPI growth slumps to over a decade low. Overall IPI declined by -4.9%yoy in Mar-20, first contraction since Dec-15 and the steepest since Sep-09. The slightly worse than market expectation performance was due to decline in all sub-indexes. The plunge was very much expected due to disruption in overall supply and demand chain domestically and globally due to the Covid-19. In particular, Malaysia begun its Movement Control Order (MCO) in March. Overall, in 1Q20, the IPI managed to record tepid growth albeit at a moderating pace of 0.6%yoy (4Q19: 1.3%yoy). Looking ahead, we expect IPI performance in 2Q20 to contract, owing to the extension of MCO and fluctuating commodity prices.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%				YoY%			
	Dec-19	Jan-20	Feb-20	Mar-20	Dec-19	Jan-20	Feb-20	Mar-20
IPI	(0.2)	(0.0)	3.6	(8.9)	1.3	0.6	6.2	(4.9)
Mining	(3.8)	0.6	3.0	(5.8)	(4.9)	(3.9)	6.1	(6.5)
Manufacturing	0.9	(0.2)	3.7	(9.6)	3.4	2.2	6.2	(4.2)
Electricity	(0.7)	3.2	3.5	(12.3)	0.9	(0.0)	6.8	(7.0)

Source: CEIC, MIDFR
*MoM is Seasonally Adjusted

Drop in IPI in line with external trade performance. Due to the effort of flattening the Covid-19 curve, total exports fell by -4.7%yoy with domestic exports dropped -8.7%yoy, almost 4 year low in Mar-20. Exports of E&E products in particular, which hold the largest share of total exports contracted by -13.9%yoy. As for 2Q20, we view export-oriented sectors to continue on weaker note due to the Covid-19 fear effect, oil price war impact 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 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%)

	MoM%			YoY%		
	Jan-20	Feb-20	Mar-20	Jan-20	Feb-20	Mar-20
Mining;	0.8	(7.5)	2.6	(3.9)	6.1	(6.5)
Mining: Crude Petroleum	2.3	(9.3)	5.6	(5.9)	(0.5)	(7.1)
Mining: Natural Gas	(0.5)	(6.0)	0.2	(2.3)	12.0	(6.0)
Manufacturing;	0.4	(6.6)	(1.1)	2.2	6.2	(4.2)
Food Products	(9.0)	(1.6)	(3.4)	(6.4)	4.4	(9.8)
Refined Petroleum Products	7.4	(4.2)	(2.0)	3.7	6.5	0.8
Chemicals & Chemicals Products	(1.8)	1.0	(0.6)	2.1	4.9	(1.3)
Rubber Products	(3.7)	(1.7)	28.2	11.0	14.4	35.3
Basic Metals	(2.1)	3.2	(9.0)	3.7	8.5	(8.6)
Electrical & Electronic Products	(0.4)	(14.0)	3.1	3.2	7.0	(5.0)
Computers & Peripheral Equipment	10.3	(9.2)	2.1	(5.1)	(5.0)	(9.5)
Machinery & Equipment	3.6	3.5	(4.1)	3.8	5.7	(9.1)
Motor Vehicles, Trailers & Semi-Trailers	15.1	(9.9)	(3.6)	(0.4)	5.2	(9.1)

Source: CEIC, MIDFR

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

	MoM%			YoY%		
	Dec-19	Jan-20	Feb-20	Dec-19	Jan-20	Feb-20
IPI: Export Oriented Industries	0.8	(0.8)	(7.0)	2.0	0.8	4.9
Electronic and Electrical Product	1.4	0.4	(16.1)	2.7	3.0	5.0
Chemicals and Chemical Pdts	1.4	(3.4)	0.8	2.4	1.6	4.2
Petroleum Products	(1.1)	7.5	(4.1)	3.5	3.6	6.5
Textiles & Wearing Apparel	(7.1)	(3.1)	(0.6)	4.9	3.2	6.6
Wood and Wood Products	3.3	(0.4)	3.3	4.8	2.9	8.4
Rubber Products	14.3	(4.3)	(2.2)	8.0	12.4	14.6
Off Estate Processing	(8.0)	(14.4)	0.6	(11.8)	(26.2)	(7.6)
Paper Products	7.3	(7.5)	(1.1)	2.8	2.7	5.5
IPI: Domestic Oriented Industries	2.1	2.9	(7.3)	6.7	5.2	7.3
Construction (CO)	0.2	4.1	(9.1)	5.0	4.0	6.2
CO: Non Metallic Mineral	2.3	(2.6)	(7.3)	5.0	4.3	5.9
CO: Iron and Steel	(1.7)	(2.1)	3.2	5.2	3.7	8.5
CO: Fabricated Metal	(0.4)	13.1	(16.5)	4.8	3.9	5.0
Consumer (CS)	3.7	1.9	(5.9)	8.1	6.3	8.2
CS: Food Products	9.8	(4.1)	(2.8)	12.2	15.7	15.2
CS: Transport Equipment	(0.6)	11.6	(9.9)	3.9	0.9	4.6
CS: Beverages	1.8	(8.9)	(8.5)	3.9	1.6	5.4
CS: Tobacco Products	6.6	1.9	6.0	7.3	(1.7)	4.5
CS: Others	0.5	(1.4)	(4.9)	10.8	5.1	4.1

Source: CEIC, MIDFR

*Data available as of Feb-20

A downturn in manufacturing sales. Manufacturing sales went down by -3%yoy in Mar-20. Major manufacturing products such as E&E, chemicals and motor vehicles recorded decline during the month. Meanwhile, refined petroleum and iron & steel products continued on positive note. On monthly basis however, overall manufacturing sales shrank by -0.9%mom, lower than -5.7%mom in Feb-20. Nevertheless, looking ahead, we view manufacturing sales to continue recording negative growth especially in Apr-20 as we had a full month of MCO. We may see improvement in 2H20 as fears from Covid-19 wanes and the sentiments improve. 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.

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

	MoM%			YoY%		
	Jan-20	Feb-20	Mar-20	Jan-20	Feb-20	Mar-20
Manufacturing Sales	(1.0)	(5.7)	(0.9)	2.4	7.6	(3.0)
Refined Petroleum Products	8.7	(15.1)	2.9	10.0	12.2	2.5
Chemicals and Chemical Products	(1.1)	(6.7)	(1.2)	5.6	4.0	(7.8)
Iron & Steel Products	(0.2)	(2.3)	2.1	8.6	1.5	6.6
Diodes, Transistor & Electronic Integrated Circuits Mic	(3.3)	(9.7)	(2.1)	11.7	7.0	(4.0)
Electrical Capacitor Resistor, Circuit Board & Display Comp	(3.2)	(1.3)	(4.9)	5.1	13.6	(3.9)
Computers & Peripherals Equipment	(3.1)	12.3	(9.1)	(1.8)	3.5	(11.4)
Consumer Electronics	(9.8)	(4.8)	2.6	(7.0)	1.4	(9.5)
Motor Vehicles	(14.6)	(6.5)	(15.2)	(4.5)	9.5	(3.3)

Source: CEIC, MIDFR

Downward trend, globally. IPI performances across major and emerging economies remain sluggish. The US's industrial production slipped into negative territory of -5.5%yoy following a tepid growth in the previous month. Likewise, all other key countries recorded negative growth in industrial production except Singapore. Singapore's production grew the most since Jan-18 boosted by higher output in biomedical engineering. Movement controls and lockdowns in major economies like USA, EU and Asia will impede global demand and eventually exports performances. On top of that, plunge in global crude oil prices would pressure oil-exporting economies like Malaysia.

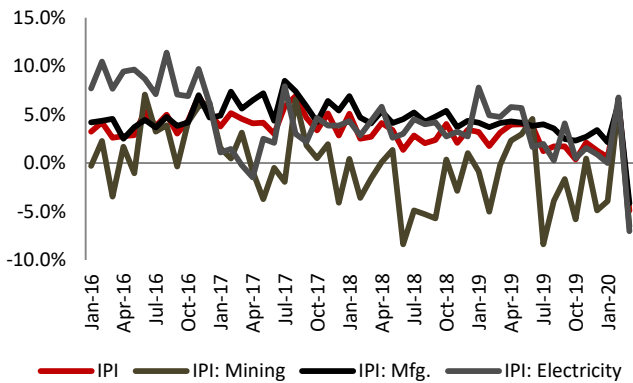
Table 5: Global IPI (YoY%)

	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
Malaysia	1.7	0.4	2.1	1.3	0.6	6.2	(4.9)
Indonesia	4.5	6.7	3.2	0.9	(0.8)	2.0	n/a
Philippines	(6.5)	(5.8)	(7.5)	(6.9)	(4.6)	(1.0)	(11.3)
Thailand	(5.0)	(7.7)	(9.0)	(4.3)	(3.8)	(3.0)	(9.0)
Singapore	(1.4)	3.9	(12.3)	(3.7)	3.7	(0.7)	16.5
India	(4.6)	(6.6)	2.1	0.1	2.1	4.5	n/a
Japan	1.2	(8.2)	(8.5)	(3.7)	(2.4)	(5.7)	(5.2)
EU	(1.1)	(1.5)	(1.3)	(2.7)	(1.5)	n/a	n/a
USA	(0.2)	(0.9)	(0.5)	(0.7)	(1.1)	0.1	(5.5)

Source: CEIC, MIDF

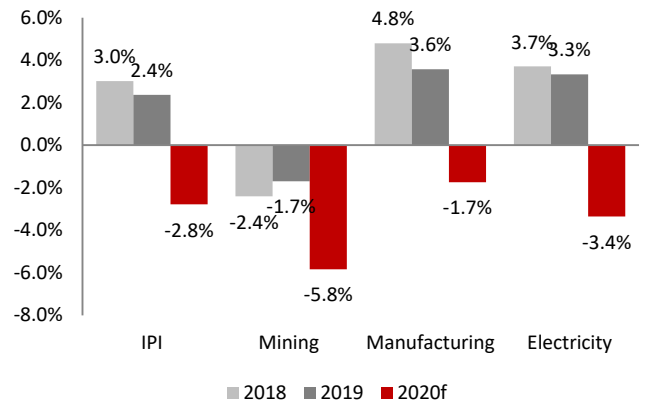
We foresee our IPI performance at -2.8%yoy in 2020. Due to challenging domestic and external environment, we forecast IPI to decline by -2.8%yoy in 2020. Covid-19 and slowdown in global demand thus affecting Malaysia's industrial output and exports while oil price war causes average global oil price to decline. Our in-house average Brent crude oil price for this year is USD41pb. 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%)



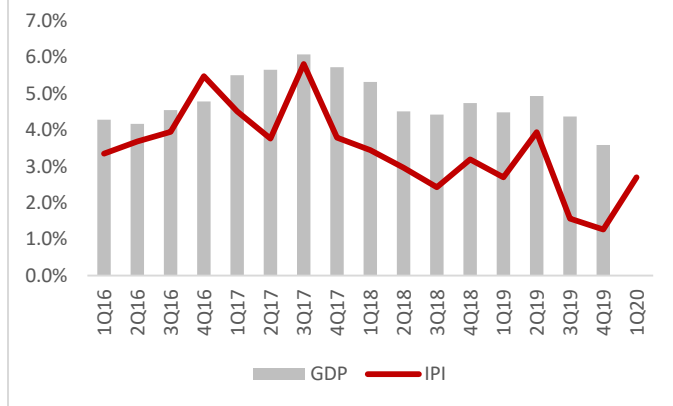
Source: CEIC, MIDFR

Chart 2: 2020 IPI Forecast (YoY%)



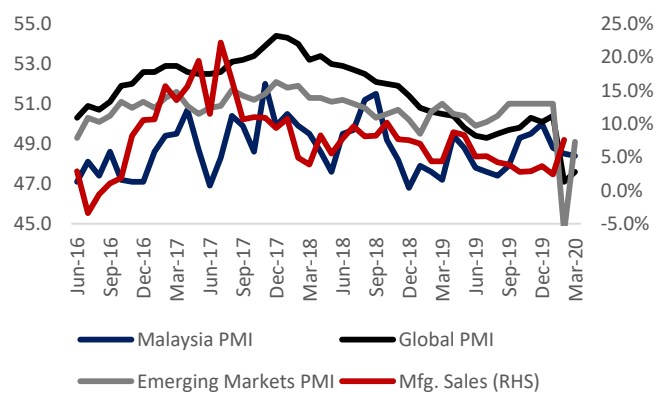
Source: CEIC, MIDFR

Chart 3: IPI vs GDP (YoY%)



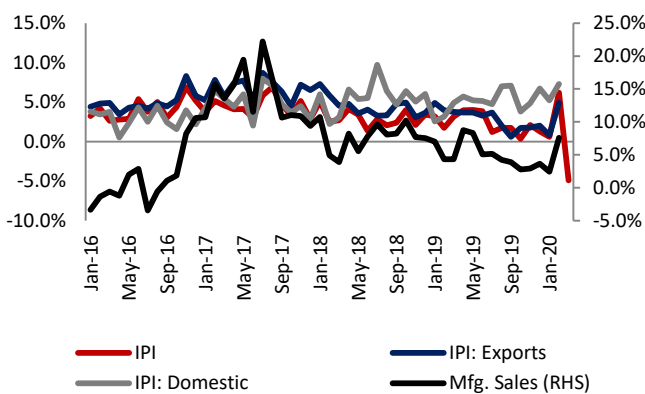
Source: CEIC, MIDFR

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



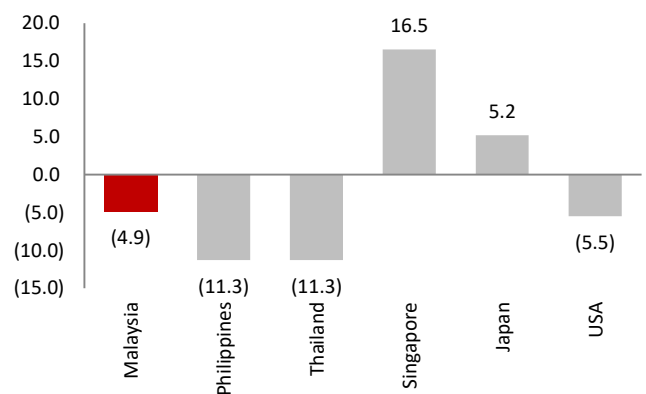
Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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