

ECONOMIC REVIEW | December 2019 Industrial Production Index

IPI to Improve in 2020 Underpin by Domestic Demand & Exports from Commodity-Based Sectors

- *IPI growth at 4-year low. Malaysia's IPI grew marginally by 0.3%yoy in Oct-19, slowest since Dec-15 and below market estimates of 1.6%yoy. The slowdown is mainly due to further contraction in mining output and moderation in factory and electricity productions. Moving forward, we foresee IPI performance to continue expanding at modest pace in 2020 as trade war factor remains a major downside risk to global trade activities and manufacturing production in particular.*
- *Manufacturing sales growth at 3-year low. Manufacturing sales increased by 2.2%yoy in Oct-19, slowest expansion rate since Oct-16. The deceleration is in tandem with the downward trends of exports performance during the month. Among others sales of refined petroleum products declined by -2.6%yoy and tepid growth of electrical capacitor resistor etc. by 3.7%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 at 4-year low. Malaysia's IPI grew marginally by 0.3%yoy in Oct-19, slowest since Dec-15 and below market estimates of 1.6%yoy. The slowdown is mainly due to further contraction in mining output and moderation in factory and electricity productions. Moving forward, we foresee IPI performance to continue expanding at modest pace in 2020 as trade war factor remains a major downside risk to global trade activities and manufacturing production in particular, which has the highest weightage in the overall IPI index. Nevertheless, firm domestic demand and slight betterment of commodity prices would support domestic-oriented industries and rebound in mining output next year.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%				YoY%			
	Jul-19	Aug-19	Sep-19	Oct-19	Jul-19	Aug-19	Sep-19	Oct-19
IPI	(0.4)	0.8	(0.3)	(1.0)	1.2	1.7	1.7	0.3
Mining	(10.9)	9.9	(1.4)	0.8	(8.4)	(3.9)	(1.6)	(5.8)
Manufacturing	2.7	(1.3)	(1.3)	(0.5)	4.0	3.6	2.5	2.2
Electricity	4.5	(3.2)	3.5	(3.5)	2.0	0.3	4.1	0.5

Source: CEIC, MIDFR

*MoM is Seasonally Adjusted

Manufacturing output growth at 3-year low. Overall production of manufacturing expands by 2.2%yoy, weakest gain since Jan-16. Among others productions of refined petroleum, chemicals and machinery & equipment increase at modest pace of 1.5%yoy, 0.3%yoy and 3%yoy respectively in the first month of 4Q19. The slowdown is in tandem with the poor performance of external trade. Total exports was down by -6.7%yoy as domestic exports and re-exports shrank by -4.6%yoy and -10.2%yoy respectively. As for 2020, we expect exports and imports 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 to recover 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%)

	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
Mining;	3.0	4.6	(8.4)	(3.9)	(1.6)	(5.8)
Mining: Crude Petroleum	(2.0)	(3.7)	(22.7)	(9.5)	(4.7)	(5.1)
Mining: Natural Gas	7.6	13.0	7.3	1.2	1.1	(6.3)
Manufacturing;	4.2	3.8	4.0	3.6	2.5	2.2
Food Products	4.5	3.9	0.4	1.9	1.4	0.7
Refined Petroleum Products	2.0	2.7	3.8	2.7	2.4	1.5
Chemicals & Chemicals Products	2.6	2.5	1.9	2.2	1.7	0.3
Rubber Products	8.8	7.8	8.0	7.6	5.1	4.8
Basic Metals	3.5	4.3	4.7	3.7	3.3	4.4
Electrical & Electronic Products	3.7	3.5	4.9	3.1	0.8	2.4
Computers & Peripheral Equipment	20.6	3.9	14.0	19.8	1.0	2.4
Machinery & Equipment	3.3	2.5	4.8	5.2	3.6	3.0
Motor Vehicles, Trailers & Semi-Trailers	9.3	8.0	7.5	8.0	8.3	4.7

Source: CEIC, MIDFR

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

	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
IPI: Export Oriented Industries	3.8	3.7	3.7	3.3	3.7	2.0	0.6
Electronic and Electrical Product	3.1	4.2	4.1	3.6	5.0	3.2	0.7
Chemicals and Chemical Products	2.4	2.5	2.9	1.9	1.8	1.9	1.1
Petroleum Products	4.3	4.0	1.8	2.8	3.8	2.7	2.4
Textiles & Wearing Apparel	4.9	5.7	5.8	5.5	5.8	6.0	4.0
Wood and Wood Products	4.2	3.7	6.6	4.7	3.4	3.6	5.5
Rubber Products	7.7	7.0	10.2	9.5	9.0	8.5	5.4
Off Estate Processing	6.1	0.3	1.1	0.4	(3.0)	(11.3)	(12.2)
Paper Products	4.4	4.6	5.3	4.1	4.9	5.0	4.7
IPI: Domestic Oriented Industries	4.9	5.7	5.2	5.1	4.7	7.0	7.1
Construction (CO)	3.6	4.2	4.2	4.8	4.5	4.2	3.8
CO: Non Metallic Mineral	4.2	4.5	4.0	5.1	4.2	5.1	4.1
CO: Iron and Steel	3.0	4.0	3.5	4.3	4.7	3.7	3.3
CO: Fabricated Metal	3.5	4.0	4.6	4.9	4.6	3.9	3.8
Consumer (CS)	5.9	7.0	6.1	5.4	4.9	9.2	9.8
CS: Food Products	7.1	7.3	7.7	6.2	3.5	15.2	16.8
CS: Transport Equipment	6.6	9.0	7.9	7.4	6.1	6.0	9.2
CS: Beverages	1.7	3.6	4.1	3.2	2.5	6.5	0.7
CS: Tobacco Products	10.9	8.2	4.7	4.3	3.8	4.3	5.5
CS: Others	2.0	2.6	(0.4)	0.7	6.6	6.7	1.7

Source: CEIC, MIDFR

*Data available as of Sep-19

Manufacturing sales growth at 3-year low. Manufacturing sales increased by 2.2%yoy in Oct-19, slowest expansion rate since Oct-16. The deceleration is in tandem with the downward trends of exports performance during the month. Among others sales of refined petroleum products declined by -2.6%yoy and tepid growth of electrical capacitor resistor etc. by 3.7%yoy which dragged down overall sales performance. Meanwhile, wage and employment growths in the manufacturing sector improved by 2.5%yoy and 1%yoy respectively. Looking ahead, we foresee challenging period for manufacturing sales to improve next year due to bleak external outlook. 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%)

	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
Sales;	6.8	6.7	5.3	6.0	4.5	2.9	2.2
Refined Petroleum Products	7.3	4.4	5.9	6.9	4.7	1.6	(2.6)
Diodes, Transistor & Electronic Integrated Circuits Mic	18.8	20.3	9.9	4.3	(0.4)	(3.8)	1.7
Electrical Capacitor Resistor, Circuit Board & Display Comp	2.1	3.7	2.0	8.3	6.9	4.6	3.7
Employment	1.7	1.4	1.1	1.3	1.3	1.2	1.0
Wage	4.4	4.1	3.1	3.4	3.3	2.8	2.5

Source: CEIC, MIDFR

Uncertain outlook for global IPI. IPI performances across major and emerging economies remain weak due to global trade uncertainties, political instability in Europe, and volatility in global commodity prices. Overall IPI growth in the US shrank by -1.1%yoy, the worst performance in 3-year. Other developed economies like EU experienced 6-straight months of contractions and Japanese IPI declined by -7.4%yoy, worst performance since January 2013. Some ASEAN economies namely Philippines and Thailand continued to contract. Singapore hit 11-month high at 4%yoy while Indonesia touched 9-month high at 4.8%yoy. Looking ahead, we view global IPI for next year to continue moderate amid global trade tension and political instability in developed economies especially the US and EU.

Table 5: Global IPI (YoY%)

	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
Malaysia	4.0	4.0	3.8	1.2	1.7	1.7	0.3
Indonesia	3.2	4.0	3.6	4.6	4.0	4.5	4.8
Philippines	(11.8)	(6.8)	(7.7)	(5.5)	(8.6)	(3.4)	(4.3)
Thailand	1.6	(3.6)	(5.4)	(3.4)	(5.1)	(5.2)	(8.2)
Singapore	0.3	(1.5)	(7.6)	1.6	(6.0)	0.7	4.0
India	3.2	4.5	1.3	4.6	(1.4)	(4.3)	
Japan	(1.1)	(2.1)	(3.8)	0.7	(4.7)	1.3	(7.4)
EU	(0.1)	(0.1)	(1.6)	(1.0)	(2.0)	(1.2)	
USA	0.6	1.6	0.9	0.3	0.3	(0.1)	(1.1)

Source: CEIC, MIDFR


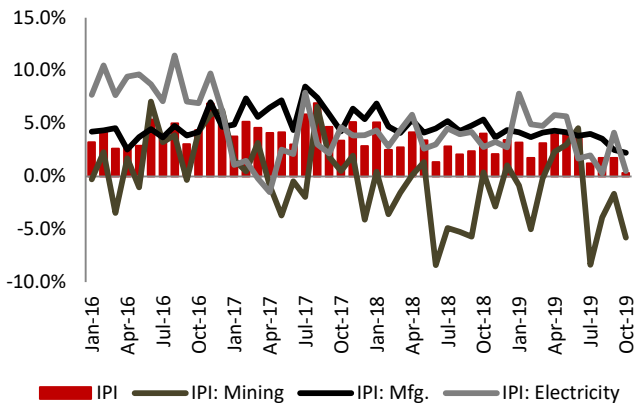
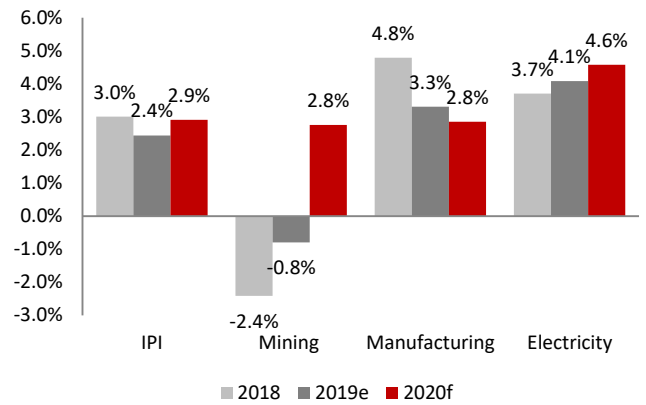
We forecast IPI growth at 2.9% for 2020. Industrial activities are expected to expand at solid pace underpin by recovery in mining output and strong growth of domestic-oriented industries. The 2020 forecast figure is slightly higher than this year's estimate growth of 2.4%. Slight betterment of commodity 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%)



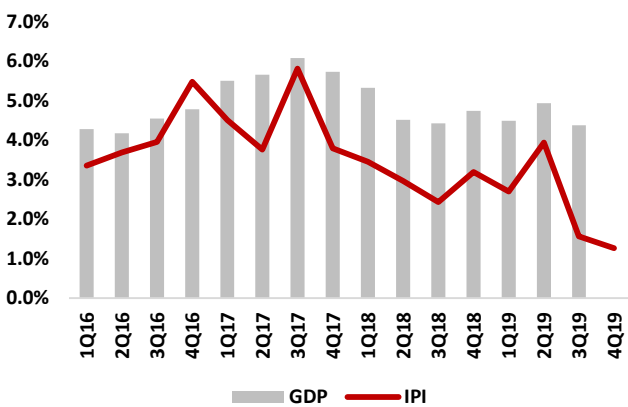
Source: CEIC, MIDFR

Chart 2: 2020 IPI Forecast (YoY%)



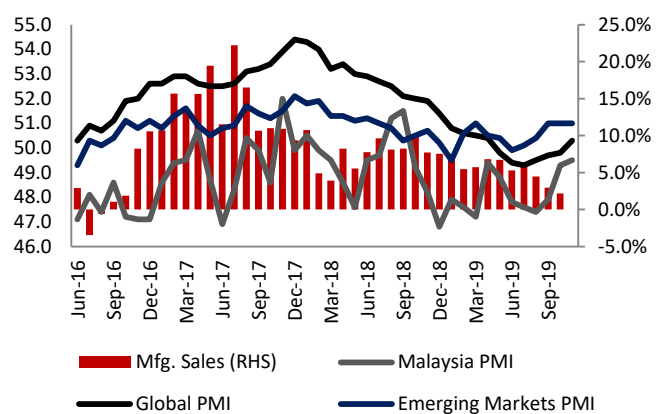
Source: CEIC, MIDFR

Chart 3: IPI vs GDP (YoY%)



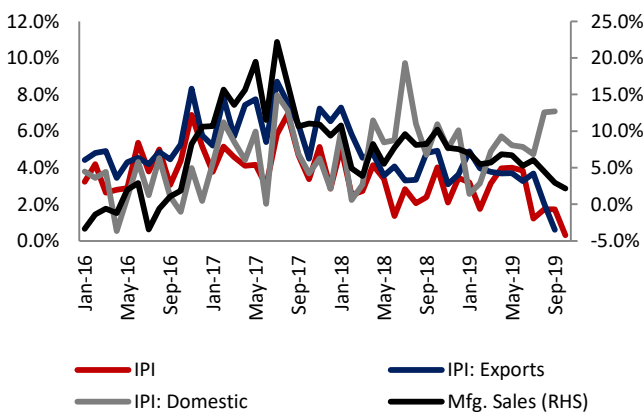
Source: CEIC, MIDFR

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



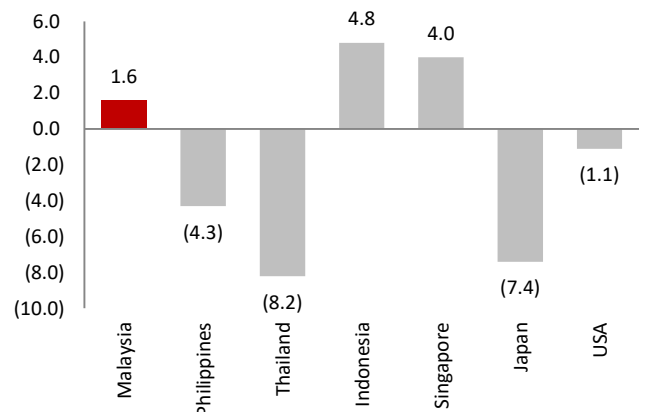
Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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