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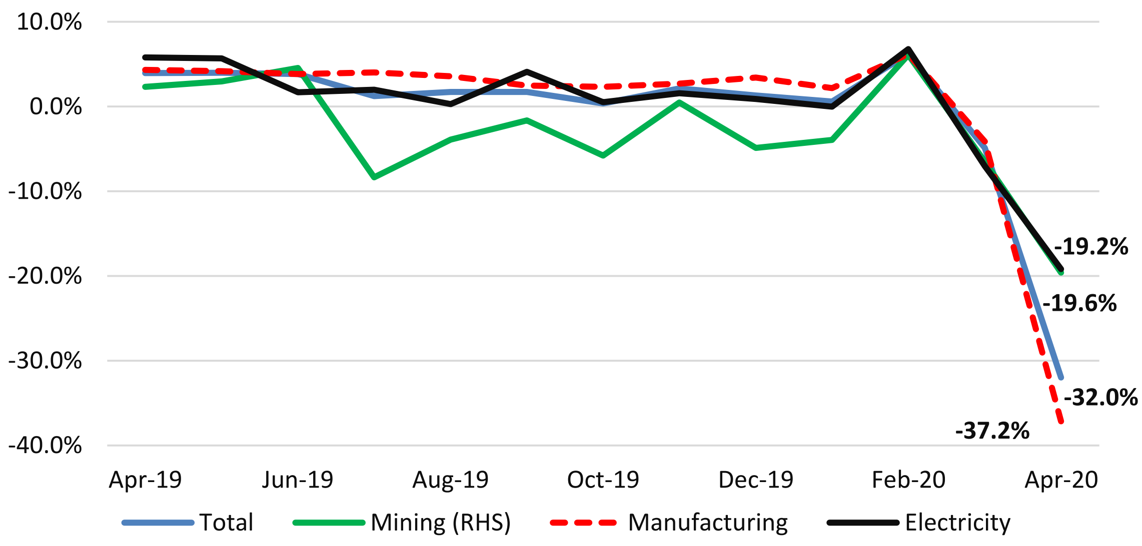
IPI slumped 32.0% in April, an all-time low

Facts

- Malaysia's Industrial Production Index (IPI) plunged 32.0% year-on-year (y-o-y) in April, extending 4.9% fall in the preceding month (Consensus: -15.4%, Bank Islam: -18.0%). All sectors were down and out led by Manufacturing industry (April: -37.2% vs. March: -4.1%). Mining and Electricity have also plummeted by 19.6% and 19.2% during April from -6.5% and -7.0% respectively in the previous month.
- Within manufacturing sector, all sub-indices registered a negative growth in April. Textile, Wearing Apparel, Leather Products & Footwear (April: -73.8% vs. March: -1.2%), Transport Equipment & Other Manufactures (April: -69.3% vs. March: -10.1%), Wood Products, Furniture, Paper Products, Printing (April: -68.4% vs. March: -6.1%) and Non-Metallic Mineral, Basic Metal & Fabricated Metal Products (April: -62.7% vs. March: -9.8%) dropped significantly during April. This was followed by Electrical & Electronic (E&E) Products (April: -34.1% vs. March: -4.9%), Petroleum, Chemical, Rubber & Plastic Products (April: -21.4% vs. March: 3.6%) and Food, Beverages & Tobacco (April: -9.0% vs. March: -9.8%).
- Similarly, within the Mining sub-indices, Crude Petroleum and Natural Gas nosedived by 20.2% and 19.0% in April from -7.1% and -6.0% in March.
- Cumulatively, industrial production declined by 7.7% in the first four months of 2020. This was lower as compared to 3.0% growth in the same period last year, suggesting sluggish factory output during Movement Control Order (MCO) period in April.

Chart 1: Industrial Production Index y-o-y%



Source: CEIC

Table 1: Industrial Production Index (IPI) y-o-y%

	Weight	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	4M2019	4M2020
IPI	**100.0%**	**1.3%**	**0.6%**	**6.2%**	**-4.9%**	**-32.0%**	**3.0%**	**-7.7%**
Mining	**25.1%**	**-4.9%**	**-3.9%**	**6.1%**	**-6.5%**	**-19.6%**	**-0.9%**	**-6.2%**
-Crude petroleum	12.2%	-6.6%	-5.9%	-0.5%	-7.1%	-20.2%	-2.6%	-8.5%
-Natural gas	12.9%	-3.4%	-2.3%	12.0%	-6.0%	-19.0%	0.6%	-4.3%
Manufacturing	**68.3%**	**3.4%**	**2.2%**	**6.2%**	**-4.1%**	**-37.2%**	**4.1%**	**-8.4%**
-Food, Beverages & Tobacco	8.6%	0.6%	-5.5%	4.4%	-9.8%	-9.0%	4.9%	-5.2%
-Textiles, Wearing Apprarel, Leather & Footwear	1.3%	4.9%	3.2%	6.7%	-1.2%	-73.8%	4.9%	-16.6%
-Wood Products, Furniture, Paper Products, Printing	4.6%	4.9%	3.0%	6.3%	-6.1%	-68.4%	5.3%	-15.9%
-Petroleum, Chemical, Rubber & Plastic Products	20.6%	3.6%	3.6%	6.5%	3.6%	-21.4%	3.2%	-1.7%
-Non-Metalic Mineral, Basic Metal & Fabricated Metal Product	9.1%	4.6%	3.9%	6.2%	-9.8%	-62.7%	4.1%	-16.0%
-Electrical & Electronic Products	18.2%	3.1%	3.2%	7.0%	-4.9%	-34.1%	3.5%	-7.7%
-Transport Equipment & Other Manufactures	5.9%	4.7%	1.4%	4.9%	-10.1%	-69.3%	6.7%	-18.0%
Electricity	**6.6%**	**0.9%**	**0.0%**	**6.8%**	**-7.0%**	**-19.2%**	**5.8%**	**-5.3%**

Source: CEIC

Our view

Malaysia's industrial activities recorded the steepest fall as the knock-on effects from Covid-19 has severely impeded the production activities following the implementation of MCO on 18 March. Other economies were also experiencing similar fate. The industrial production in major economies such as the US and Germany have plummeted by 15.0% y-o-y (March: -4.9%) and 25.3% (March: -11.3%) respectively during April. On a similar note, France's industrial production was badly impacted, falling by 34.2% y-o-y in April (March: -17.3%) weighed by manufacturing sector (April: -37.1% vs. March: -19.4%). Within the manufacturing, sharp drop was seen in production of transport equipment (April: -66.8% vs. March: -38.6%) and machinery & equipment goods (April: -43.9% vs. March: -23.7%) in April.

The Total Industry Volume (TIV) in automotive industry has also exhibited similar trends with IPI. The TIV plunged 99.7% y-o-y in April to 141 units, extending the 59.0% fall in the preceding month. The automotive sector was not deemed as high priority sectors during MCO and therefore, production has grind to a halt during April. In light of the ongoing Covid-19 pandemic, the Malaysian Automotive Association (MAA) has revised down its TIV forecast for 2020, lowering it from the 607,000 units (projection made in January 2020) to 400,000 units (2019: 604,287 units).

Recent company's earnings were also not impressive. For example, Inari Amertron Bhd revenue declined to RM242.6 million for third quarter ending 31 March (3QFY2020), representing a 5.4% decrease y-o-y while the Profit After Tax (PAT) has dropped by 9.5% to RM35.1 million in 3QFY2020. The lower revenue was associated with the abrupt stop in their operations due to MCO, as well as languish demand in optoelectronic products which have translated into lower production volume. The company was of the view that their performance will continue to be affected by the ongoing Covid-19 pandemic which has brought massive disruptions to the global economy.

Meanwhile, the Organization for Economic Cooperation and Development (OECD) anticipates that the global economy to contract by 7.6% in 2020 (2021: 2.8%) from 2.7% growth in 2019. In the absence of vaccines, as well as possibility of the second outbreak, the balance of risks are tilted on the downside. However, in another scenario, where the second wave can be avoided, the global GDP is expected to fall by 6.0% in 2020 (2021: 5.2%). The OECD opined that the global economy is experiencing the deepest recession since the Great Depression in the 1930s with Gross Domestic Product (GDP) would decline more than 20.0% in various advanced countries. Apart from that, the unemployment rate in the developed economies are expected to jump to 10.0% in 2020 from 5.4% in the previous year. Against such backdrop, the central banks in the advanced countries are likely to adopt a very accommodative monetary policies.

In light of this, we have revised our IPI for this year from -5.9% to -11.2% (2019: 2.4%) fall in 2020. We believe the IPI in the coming months would record slower contraction. The gradual reopening of the economy should helped ease the extent of IPI contraction especially in the 2H2020.