

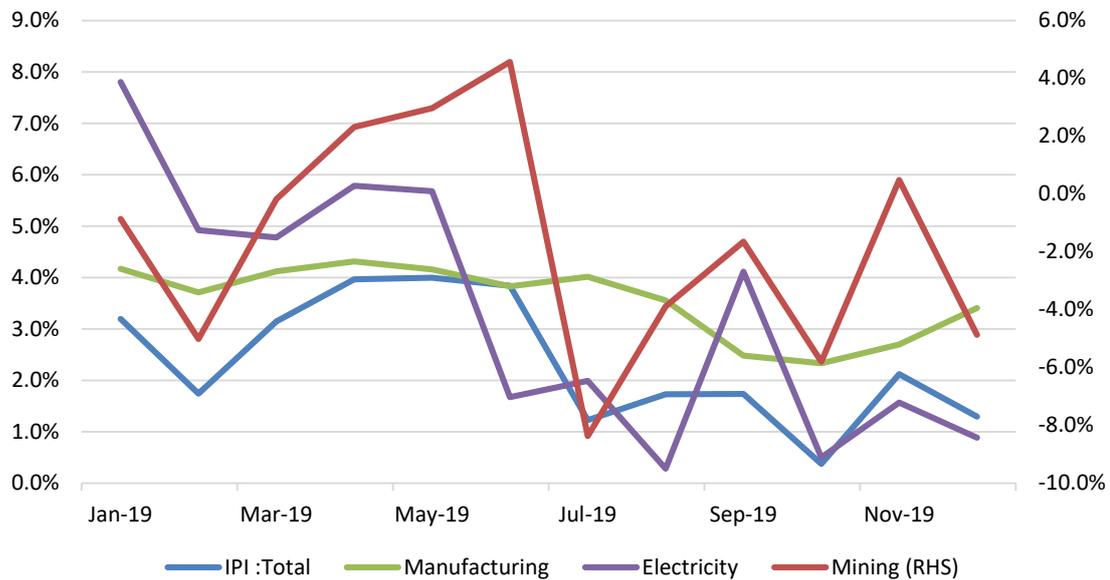
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IPI growth was modest in December 2019

Facts

- ✓ Malaysia's Industrial Production Index (IPI) registered a moderate growth of 1.3% year-on-year (y-o-y) in December 2019 from 2.1% expansion in the preceding month (Consensus: 2.0%, Bank Islam: 1.2%). The modest performance was underpinned by Mining activities which has fallen by 4.9% in December (November: 0.5%) while Electricity softened to 0.9% in December (November: 1.6%). However, the Manufacturing sector posted a higher production growth of 3.4% in December last year from 2.7% in November, cushioning the downturn in Mining sector.
- ✓ Within the Mining sub-indices, both the Natural Gas and Crude Petroleum output slipped into negative territory at 6.6% (November: -3.3%) and 3.4% (November: 3.7%) respectively in December 2019.
- ✓ Within the Manufacturing sub-indices, expansion in output was seen in Petroleum, Chemical, Rubber & Plastic Products (December: 3.6% vs. November: 2.7%), Non-Metallic Mineral Products, Basic Mineral & Fabricated Metal Products (December: 4.6% vs. November: 3.7%), Electrical & Electronic (E&E) products (December: 3.1% vs. November: 1.1%) and Transport Equipment & Other Manufacturers (December: 4.7% vs. November: 4.5%).
- ✓ On the other hand, softer production growth was seen in Food, Beverages & Tobacco (December: 0.6% vs. November: 2.2%), Textile, Wearing Apparel, Leather Products & Footwear (December: 4.9% vs. November: 6.4%) and Wood Products, Furniture, Paper Products, Printing (December: 4.9% vs. November: 5.5%).
- ✓ For the year of 2019, industrial production growth has moderated to 2.4% from 3.0% in 2018, reflecting the industrial activities have softened amidst the global uncertainties.

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



Source: CEIC, Bank Islam

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

	Weight	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	2018	2019
IPI	100.0%	1.7%	1.7%	0.4%	2.1%	1.3%	3.0%	2.4%
Mining	25.1%	-3.9%	-1.6%	-5.8%	0.5%	-4.9%	-2.4%	-1.7%
Crude Petroleum	12.2%	-9.5%	-4.7%	-5.1%	-3.3%	-6.6%	-1.6%	-5.7%
Natural Gas	12.9%	1.2%	1.1%	-6.3%	3.7%	-3.4%	-3.0%	1.9%
Manufacturing	68.3%	3.6%	2.5%	2.3%	2.7%	3.4%	4.8%	3.6%
Food, Beverages and Tobacco	8.6%	2.4%	1.5%	0.8%	2.2%	0.6%	3.7%	3.2%
Textiles, Wearing Apparel, Leather Products and Footwear	1.3%	6.0%	4.0%	5.4%	6.4%	4.9%	4.3%	5.3%
Wood Products, Furniture, Paper Products, Printing	4.6%	5.6%	5.8%	4.6%	5.5%	4.9%	4.7%	5.4%
Petroleum, Chemical, Rubber and Plastic Products	20.6%	3.0%	2.1%	1.3%	2.7%	3.6%	4.0%	2.9%
Non-Metallic Mineral Products, Basic Mineral and Fabricated Metal Products	9.1%	4.1%	3.8%	3.1%	3.7%	4.6%	4.9%	4.1%
Electrical and Electronics Products	18.2%	3.1%	0.8%	2.4%	1.1%	3.1%	6.0%	3.0%
Transport Equipment and Other Manufactures	5.9%	5.9%	6.3%	4.3%	4.5%	4.7%	6.0%	5.9%
Electricity	6.6%	0.3%	4.1%	0.5%	1.6%	0.9%	3.7%	3.3%

Source: CEIC, DOSM, Bank Islam

Table 2: Industrial Production Index (IPI) by Country (y-o-y %)

IPI (y-o-y %)	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	11M2018	11M2019
Malaysia	3.8%	1.2%	1.7%	1.7%	0.4%	2.1%	3.0%	2.5%
Indonesia	3.6%	4.6%	4.0%	4.5%	6.0%	3.0%	4.3%	4.2%
India	1.3%	4.9%	-1.4%	-4.3%	-4.0%	1.8%	5.4%	0.9%
Philippines	-9.0%	-8.7%	-12.4%	-6.4%	-5.0%	-7.8%	9.2%	-8.5%
Thailand	-5.4%	-3.4%	-5.1%	-5.2%	-7.9%	-9.3%	4.6%	-3.9%
Singapore	-6.8%	2.3%	-5.6%	1.0%	2.8%	-8.9%	7.5%	-1.5%
United Kingdom	-3.5%	1.6%	-3.8%	1.2%	-0.4%	-4.1%	0.6%	-0.8%
United States	1.0%	0.3%	0.4%	-0.2%	-1.0%	-0.7%	4.0%	0.9%

Source: CEIC, DOSM, Bank Islam

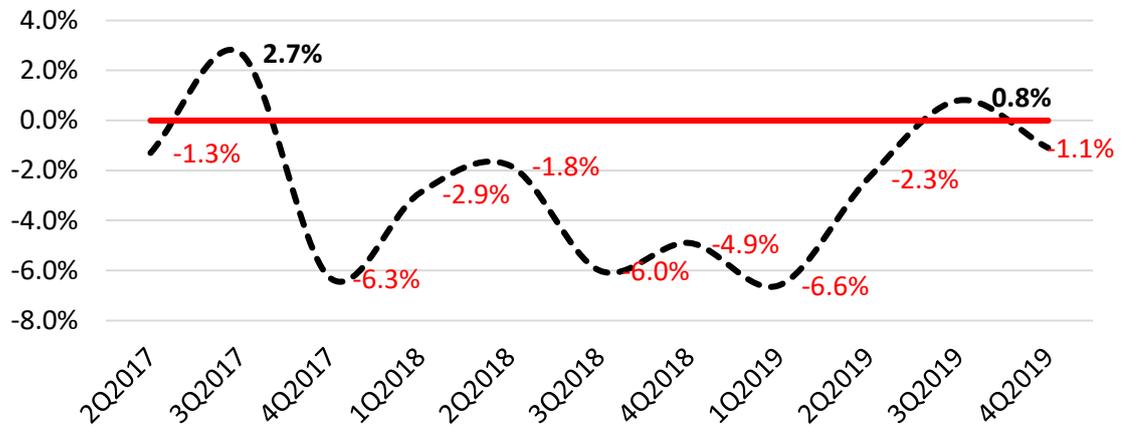
Our view

Malaysia's industrial activities have been modest during 2019. The slowdown was not unique to Malaysia as regional economies were also struggling to record higher growth in production. Countries in South East Asia (SEA) such as Philippines, Thailand and Singapore have recorded lower IPI growth of 8.5% (11M2018: 9.2%), 3.9% (11M2018: 4.6%) and 1.5% (11M2018: 7.5%) respectively in the first eleven month of 2019. Meanwhile, the Novel Coronavirus (2019-nCoV) outbreak in Wuhan City of Hubei Province, China could potentially exacerbated the IPI growth momentum in the immediate terms.

Wuhan was the epicenter of Coronavirus outbreak and plays a significant role in the supply chain of electronics industry. The lengthening of Lunar New Year holiday and lockdown of the cities have halted the production activities of key industries. Thus, the plant shutdown could affect the supply chain of the related businesses such as the semiconductor industry. This could cause disruption in the overall productions of electronic products and overall shipments of major companies such as Apple and Samsung.

Already, data on global smartphones have not been forthcoming. According to the International Data Corporation (IDC), the worldwide smartphone shipments fell by 1.1% y-o-y% in 4Q2019 after registered a positive growth of 0.8% in 3Q2019. By the same token, the smartphone shipment volumes have declined to 368.8 million in 4Q2019 from 373.1 million in the same period last year. Deteriorating demand from China was the main underpinning factor as consumers have adopted a wait-and-see attitude in anticipation for cheaper 5G devices to be launched sometime this year.

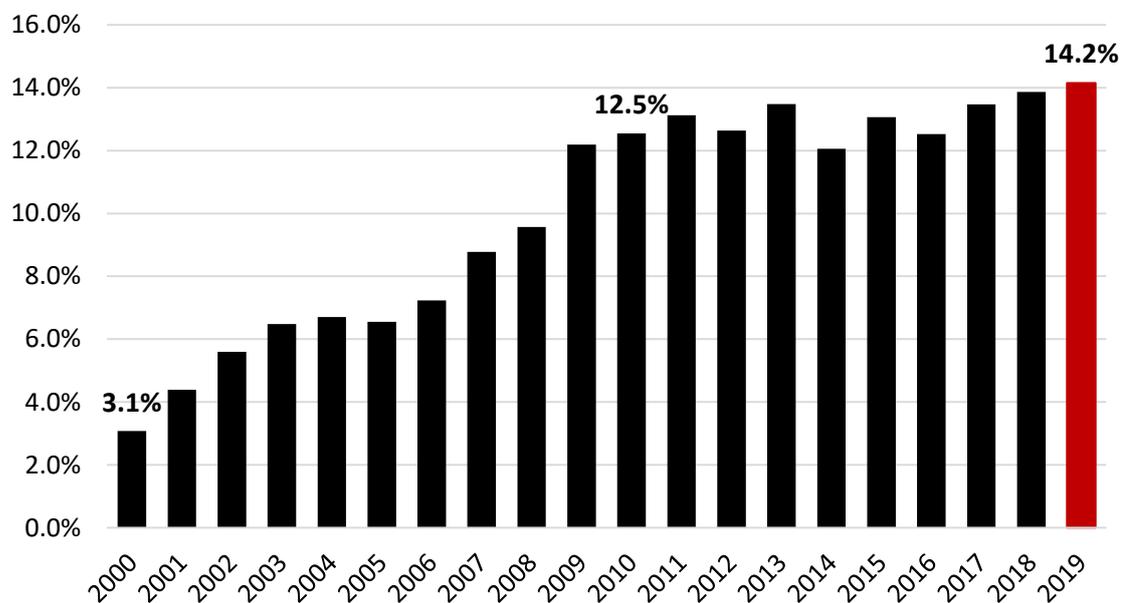
Chart 2: IDC Worldwide Smartphone Shipment (y-o-y %)



Source: CEIC, DOSM, Bank Islam

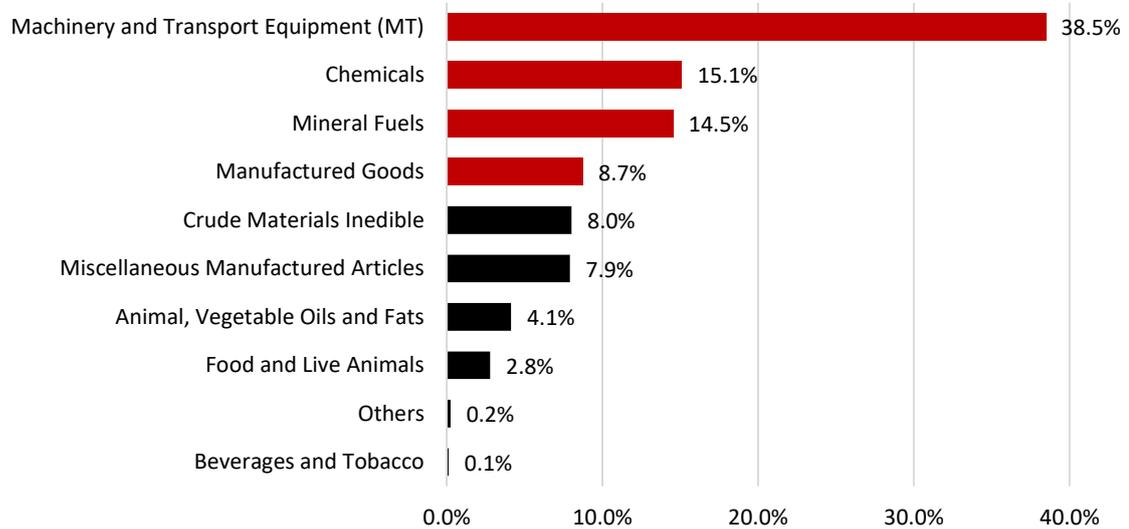
As such, Malaysia is deemed vulnerable to China's economy via the trade channel. The share of Malaysia's exports to China stood at 14.2% in 2019, higher from 3.1% in 2000 (See Chart 3). The main exports products to China include Machinery & Transport Equipment (MT), Chemicals, Mineral Fuels, as well as Manufactured Goods which accounted for 76.1% of total exports to China (See Chart 4). Therefore, should Coronavirus outbreak become protracted, it could undermine China's growth and the rest of the world.

Chart 3: Exports to China in 2019 (Weightage %)



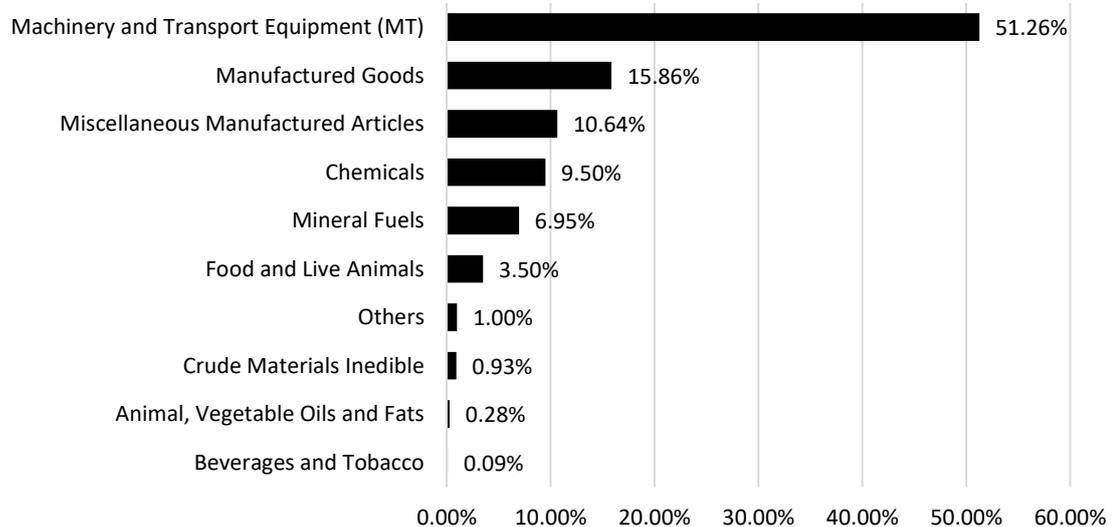
Source: CEIC, DOSM

Chart 4: Exports to China in 2019 (%)



Source: CEIC, DOSM

Chart 5: Imports from China in 2019 (%)



Source: CEIC, DOSM

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