

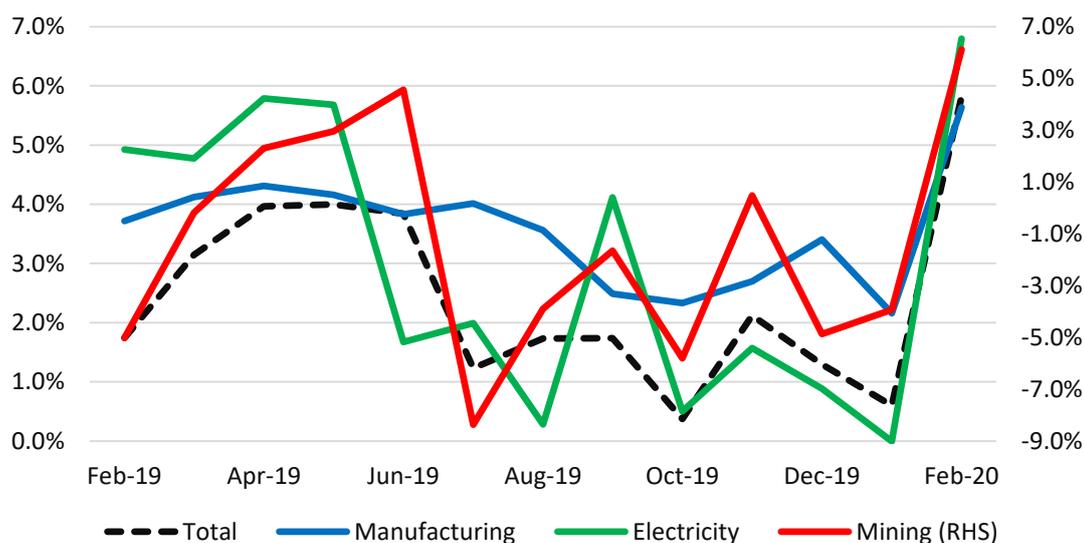
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## IPI accelerated to 5.8% in February

### Facts

- Malaysia's Industrial Production Index (IPI) increased significantly by 5.8% year-on-year (y-o-y) in February from 0.6% growth in the preceding month (Consensus: 0.9%, Bank Islam: 1.9%). This was mainly attributed by robust growth in Manufacturing (February: 5.6% vs. January: 2.2%) and Electricity (February: 6.8% vs. January: 0.0%). Apart from that, Mining rebounded by 6.1% in February from 3.9% contraction in the previous month.
- Within manufacturing sector, all sub-indices posted a positive growth during February, led by Textile, Wearing Apparel, Leather Products & Footwear (February: 6.7% vs. January: 3.2%), Petroleum, Chemical, Rubber & Plastic Products (February: 6.3% vs. January: 3.6%) and Wood Products, Furniture, Paper Products, Printing (February: 6.3% vs. January: 3.0%). This was followed by Non-Metallic Mineral, Basic Metal & Fabricated Metal Products (February: 6.2% vs. January: 3.9%), Electrical & Electronic (E&E) Products (February: 5.1% vs. January: 3.2%) and Transport Equipment & Other Manufactures (February: 4.9% vs. January: 1.4%). Meanwhile, Food, Beverages & Tobacco improved by 4.5% in February from -5.5% in January.
- Within the Mining sub-indices, Natural Gas posted a stellar performance, rising by 12.0% in February from 2.3% reduction in the January. However, Crude Petroleum declined by 0.5% in February, moderating from 5.9% fall during January.
- Cumulatively, industrial production edged up by 3.0% in the first two months of 2020. This was higher as compared to 2.5% growth in the same period last year.

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



Source: CEIC

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

	Weight	Nov-19	Dec-19	Jan-20	Feb-20	2M2019	2M2020
<b>IPI</b>	<b>100.0%</b>	<b>2.1%</b>	<b>1.3%</b>	<b>0.6%</b>	<b>5.8%</b>	<b>2.5%</b>	<b>3.0%</b>
<b>Mining</b>	<b>25.1%</b>	<b>0.5%</b>	<b>-4.9%</b>	<b>-3.9%</b>	<b>6.1%</b>	<b>-2.8%</b>	<b>0.6%</b>
-Crude petroleum	12.2%	-3.3%	-6.6%	-5.9%	-0.5%	-3.2%	-3.4%
-Natural gas	12.9%	3.7%	-3.4%	-2.3%	12.0%	-2.5%	4.2%
<b>Manufacturing</b>	<b>68.3%</b>	<b>2.7%</b>	<b>3.4%</b>	<b>2.2%</b>	<b>5.6%</b>	<b>4.0%</b>	<b>3.8%</b>
-Food, Beverages and Tobacco	8.6%	2.2%	0.6%	-5.5%	4.5%	4.3%	-0.8%
-Textiles, Wearing Apparel, Leather and Footwear	1.3%	6.4%	4.9%	3.2%	6.7%	4.5%	4.9%
-Wood Products, Furniture, Paper Products, Printing	4.6%	5.5%	4.9%	3.0%	6.3%	5.6%	4.6%
-Petroleum, Chemical, Rubber and Plastic Products	20.6%	2.7%	3.6%	3.6%	6.3%	2.8%	4.9%
-Non-Metallic Mineral, Basic Metal and Fabricated Metal Products	9.1%	3.7%	4.6%	3.9%	6.2%	4.4%	5.0%
-Electrical and Electronic Products	18.2%	1.1%	3.1%	3.2%	5.1%	3.5%	4.1%
-Transport Equipment and Other Manufactures	5.9%	4.5%	4.7%	1.4%	4.9%	6.7%	3.0%
<b>Electricity</b>	<b>6.6%</b>	<b>1.6%</b>	<b>0.9%</b>	<b>0.0%</b>	<b>6.8%</b>	<b>6.4%</b>	<b>3.2%</b>

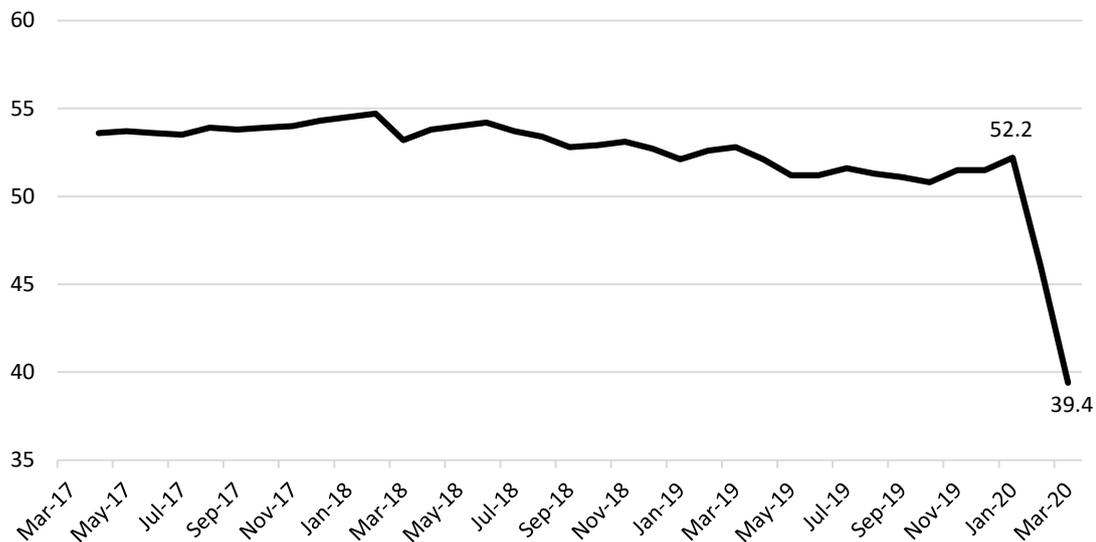
Source: CEIC

### Our view

This is another positive surprises after Malaysian exports grew more than expected in February. (Export grew by double digits at 11.8% in February). Lower base in the February is seen to be the plausible explanation for the sharp rise in IPI. Meanwhile, manufacturers across the globe have been experiencing a topsy-turvy ride following various measures undertaken by the authorities to contain the rapid spread of Covid-19. These measures have led production activities to be more restrictive as many factories have been forced to shut down their operations. On that account, we believe that the 5.8% growth in February could be transitory. As such, we foresee the IPI could fall in light of the Movement Control Order (MCO) which commenced on 18 March 2020.

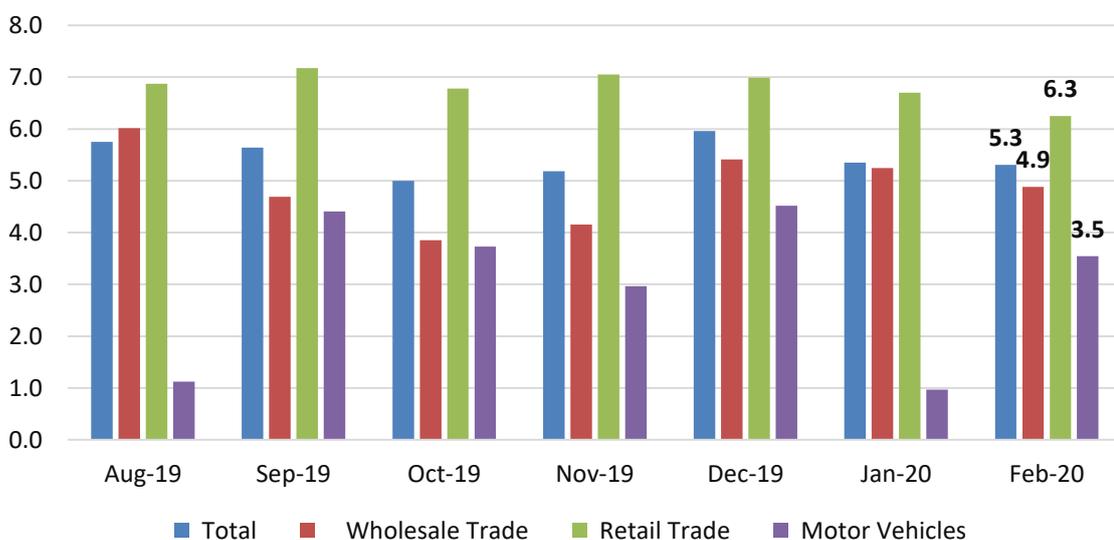
The recent J.P Morgan Global Composite Purchasing Manager's Index (PMI) has plummeted to below 40.0 points during March (March: 39.4 points vs. February: 46.1 points). This demonstrates that the business sentiment has nosedived, mainly due to increase in new Covid-19 cases which have surpassed 1.7 million (1,776,310 cases, 108,807 death) as of 12 April. On the local front, Malaysia's IHS Markit Manufacturing PMI has also slipped to 48.4 points in March (February: 48.5 points), accompanied by the dip in global exports orders as Covid-19 pandemic has dented global demand conditions, as well as disruption in the supply chain especially for raw material procurement. On top of that, firms were under pressure as new orders had reduced sharply and delivery delays for inputs had distorted the production schedules.

**Chart 2: J.P. Morgan Global Composite PMI, points**



Source: IHS Markit

**Chart 3: Wholesale & Retail Trade, y-o-y%**



Source: DOSM

In addition, sluggish demands following weakening economic conditions had dampened domestic sales performance. This has been reflected in moderate growth in Wholesale and Retail Trade which grew modestly to 5.3% year-on-year (y-o-y) in February (January: 5.4%). The softer growth was mainly attributed by Retail sector which grew by 6.3% in February from 6.7% in January. Meanwhile, moderate growth was seen in Wholesale Trade which recorded 4.9% growth during February as compared to 5.2% in the preceding month.

Furthermore, the knock-on effects from Covid-19 could further impede the economic growth following the MCO and social distancing measures. According to the latest survey by the Department of Statistics Malaysia (DOSM), the Covid-19 pandemic has resulted 70.0% of the employee in agriculture and 46.7% of the industrial workers to experience decline in monthly income. Apart from that, 21.9% of agriculture workers and 6.7% of industrial workers have lost their job while another 13.5% industrial employees were offered unpaid leave. The impact are multifold – loss of income, unemployment and businesses are operating at below normal capacity.

In light of these evidence, we have revised our IPI for this year from 1.7% growth to -5.9% (2019: 2.4%) contraction in 2020. We could see sharp decline, perhaps at double digit pace in March, April and May as MCO and social distancing measures are expected to have significant bearing to the economic activities.

**Table 2: Effect of Covid-19 outbreak on employee by industry**

Industry	Effect of COVID-19 outbreak (%)						
	Work from home	Half paid leave	Unpaid leave	Lost job	Number of working hour has reduced	Number of working hour has increased	No impact
<b>Agriculture</b>	<b>21.9</b>	<b>1.2</b>	<b>6.7</b>	<b>21.9</b>	<b>33.3</b>	<b>1.3</b>	<b>13.7</b>
Agriculture and plantation	23.5	1.1	5.9	21.1	33.7	1.2	13.6
Farming	12.9	3.0	10.9	19.8	29.7	2.0	21.8
Forestry and logging	23.5	5.9	17.6	11.8	29.4	5.9	5.9
Fishing	13.9	0.9	8.7	33.0	33.0	1.7	8.7
<b>Industrial</b>	<b>51.4</b>	<b>8.1</b>	<b>13.5</b>	<b>6.7</b>	<b>12.8</b>	<b>1.1</b>	<b>6.5</b>
Mining and quarrying	69.8	1.2	9.3	6.8	7.4	2.5	3.1
Manufacturing	47.6	10.6	15.0	4.2	13.9	1.0	7.5
Electricity, gas, steam and air conditioning supply	54.7	4.7	7.2	5.3	17.1	1.5	9.5
Water supply; sewerage, waste management and remediation activities	48.0	5.5	9.8	5.5	23.0	0.8	7.4
Construction	54.9	6.6	15.6	11.8	7.4	0.8	3.0
<b>Service</b>	<b>44.8</b>	<b>3.8</b>	<b>10.6</b>	<b>15.0</b>	<b>16.9</b>	<b>1.5</b>	<b>7.4</b>
Wholesale and retail trade; repair of motor vehicles and motorcycles	26.0	6.5	15.2	14.3	27.0	1.4	9.7

Industry	Effect of COVID-19 outbreak (%)						
	Work from home	Half paid leave	Unpaid leave	Lost job	Number of working hour has reduced	Number of working hour has increased	No impact
Transportation and storage	25.9	3.9	10.2	18.7	30.3	2.4	8.5
Accommodation	21.8	8.6	22.2	14.6	21.2	2.7	9.0
Food service	17.0	3.2	19.1	35.4	18.8	1.3	5.1
Information and communication	70.7	1.7	4.3	4.4	7.5	2.2	9.1
Financial and insurance/ takaful	59.2	1.0	3.1	4.4	23.4	1.5	7.4
Real estate activities	61.0	3.4	7.9	13.0	11.1	0.7	2.9
Professional, scientific and technical activities	67.9	3.0	5.3	3.9	12.8	1.0	6.1
Administrative and support service activities	63.0	2.5	6.1	4.5	15.8	1.1	7.0
Education	59.2	5.8	11.7	11.2	6.9	1.2	4.0
Human health and social work activities	30.3	3.0	9.7	9.7	23.5	4.4	19.4
Arts, entertainment and recreation	34.1	4.5	11.7	38.0	7.0	0.7	3.9
Other service activities	41.8	5.2	12.7	18.0	15.0	0.8	6.4

Source: DOSM

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