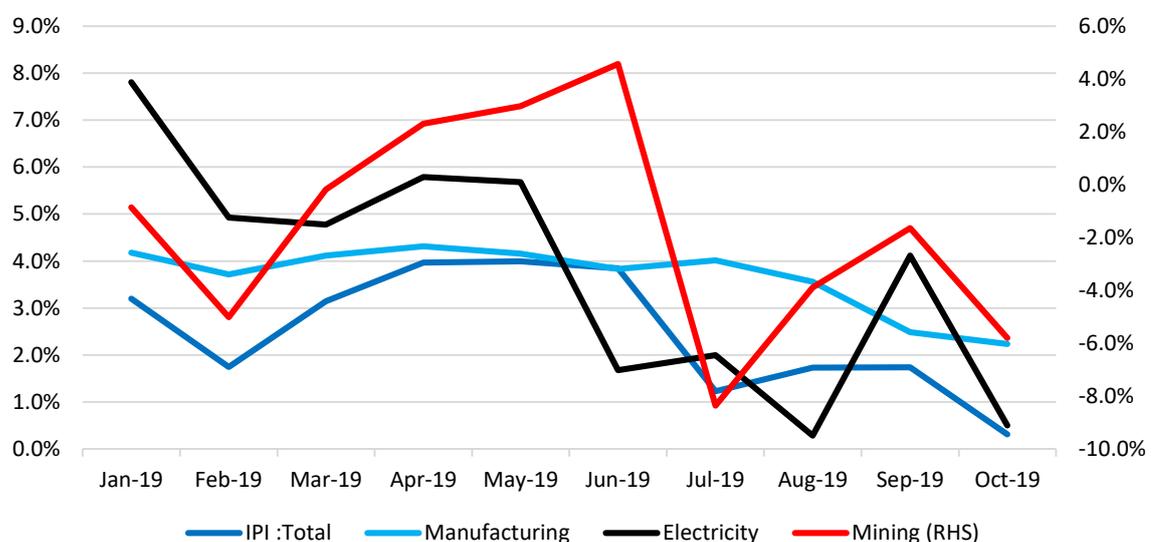


IPI grew marginally by 0.3% in October

Facts

- Malaysia's Industrial Production Index (IPI) growth softened by 0.3% year-on-year (y-o-y) in October after expanding by 1.7% in September. This was mainly underpinned by moderation in Manufacturing (October: 2.2% vs. September: 2.5%) and Electricity (October: 0.5% vs. September: 4.1%) while Mining (October: -5.8% vs. September: -1.6%) plummeted further during October.
- Within manufacturing sector, slower production growth was seen in Petroleum, Chemical, Rubber & Plastic Products (October: 1.0% vs. September: 2.1%), Non-Metallic Mineral Products, Basic Mineral & Fabricated Metal Products (October: 3.1% vs. September: 3.8%), Food, Beverages & Tobacco (October: 0.8% vs. September: 1.5%), Wood Products, Furniture, Paper Products, Printing (October: 4.6% vs. September: 5.8%) and Transport Equipment & Other Manufacturers (October: 4.3% vs. September: 6.3%). These products accounted for 48.8% of total IPI.
- On the contrary, production growth for Electrical & Electronic (E&E) and Textile, Wearing Apparel, Leather Products & Footwear were higher during October, growing by 2.4% (September: 0.8%) and 5.4% (September: 4.0%) respectively.
- Within the Mining sub-indices, the Crude Petroleum and Natural Gas continued to fall by 5.1% (September: -4.7%) and 6.3% (September: 1.1%) respectively in October, weighing on the overall IPI growth.
- For the 10M2019, industrial production recorded a modest growth of 2.5% from 3.1% in the same period last year.

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



Source: CEIC

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

	Weight	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	10M2018	10M2019
IPI	100.0%	3.8%	1.2%	1.7%	1.7%	0.3%	3.1%	2.5%
Mining	25.1%	4.6%	-8.4%	-3.9%	-1.6%	-5.8%	-2.7%	-1.6%
Crude Petroleum	12.2%	-3.7%	-22.7%	-9.5%	-4.7%	-5.1%	-1.7%	-5.9%
Natural Gas	12.9%	13.0%	7.3%	1.2%	1.1%	-6.3%	-3.6%	2.3%
Manufacturing	68.3%	3.8%	4.0%	3.6%	2.5%	2.2%	4.9%	3.6%
Food, Beverages and Tobacco	8.6%	3.8%	0.8%	2.4%	1.5%	0.8%	4.3%	3.3%
Textiles, Wearing Apparel, Leather Products and Footwear	1.3%	5.5%	5.8%	6.0%	4.0%	5.4%	4.2%	5.2%
Wood Products, Furniture, Paper Products, Printing	4.6%	4.7%	5.6%	5.6%	5.8%	4.6%	4.8%	5.4%
Petroleum, Chemical, Rubber and Plastic Products	20.6%	3.0%	3.4%	3.0%	2.1%	1.0%	4.1%	2.9%
Non-Metallic Mineral Products, Basic Mineral and Fabricated Metal Products	9.1%	4.8%	4.4%	4.1%	3.8%	3.1%	5.1%	4.0%
Electrical and Electronics Products	18.2%	3.5%	4.9%	3.1%	0.8%	2.4%	5.9%	3.2%
Transport Equipment and Other Manufactures	5.9%	5.6%	5.8%	5.9%	6.3%	4.3%	5.7%	6.1%
Electricity	6.6%	1.7%	2.0%	0.3%	4.1%	0.5%	3.8%	3.7%

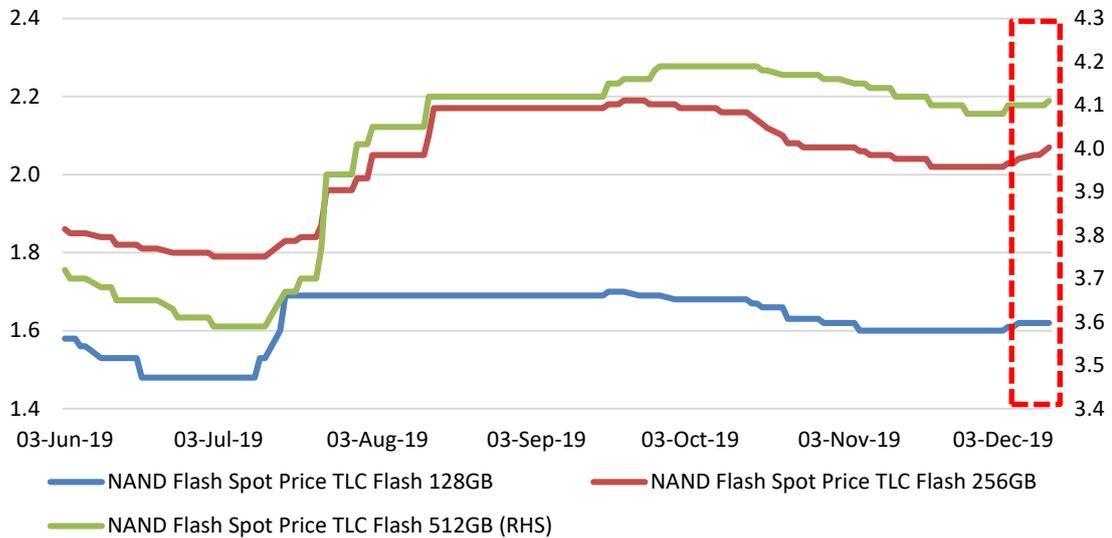
Source: CEIC

Our view

The latest IPI performance reflects that the production activities have shifted into lower gear led by contraction in the mining sector as well as moderate growth in manufacturing and electricity sub-indices. Nevertheless, there seems to be a silver lining on the horizon despite the somber mode globally. Such notion was premised on the latest Global Semiconductor Sales (GSS) which has been declining at a slower pace from -14.6% in September to -13.1% in October. In addition, the NAND Flash Spot Price TLC Flash 256GB has picked up from USD2.02 on 29 November 2019 to USD2.07 on 12 December 2019. Such trend suggests that semiconductor industries could turned around next year especially in the context of 5G network rollout. The emerging trend could translate into higher demand for new devices that 5G enabled which could, in turn, lead to higher E&E production. Apart from that, the electricity tariff for the non-domestic users (commercial and industrial) will be reduced by 0.55 cent per kilowatt (kWh) from RM2.55 per kWh, commencing 1 January 2020 until 30 June 2020. This could result in lower operational costs among the manufacturers.

All in all, we remained wary on the IPI growth prospects in view of the uncertainty over global growth backdrop next year. Already, we have seen manufacturers have been very mindful in taking new hires, judging from the total employment growth in the manufacturing sector which continue to moderate from 1.2% in September to 1.0% in October. Against such backdrop, we foresee **IPI growth to moderate at around 1.7% in 2020 from an estimated growth of 2.3% in 2019.**

Chart 2: NAND Price (USD)



Source: Bloomberg

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