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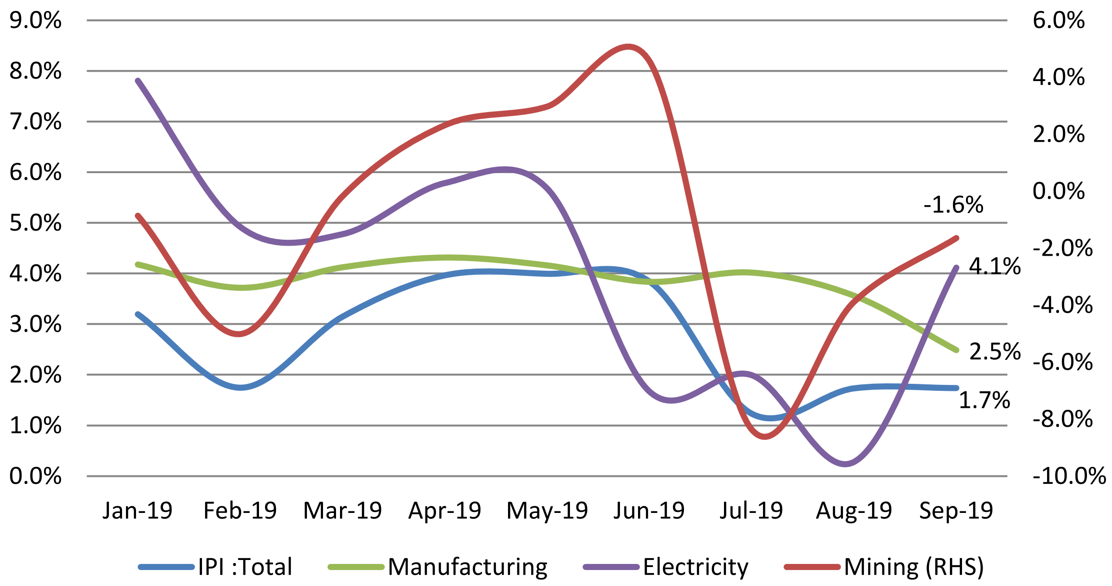
IPI growth sustained at 1.7% in September

Facts

- Malaysia's Industrial Production Index (IPI) maintained at 1.7% year-on-year (y-o-y) in September (August: 1.7%, Consensus: 1.7%, Bank Islam: 1.0%). This was mainly attributed by the moderation in manufacturing sector of 2.5% growth in September (August: 3.6%) while electricity index accelerated to 4.1% in September from 0.3% growth in the preceding month. In contrast, mining sector continued to decline by 1.6% (August: -3.9%) during September led by 4.7% (August: -9.5%) declined in crude petroleum output.
- Meanwhile, manufacturing sector has been negatively affected by rising trade protectionism. This can be seen from the moderation in Electrical & Electronics (E&E) Products (September: 0.8% vs. August: 3.1%), Petroleum, Chemical, Rubber & Plastic Products (September: 2.1% vs. August: 3.0%), Food, Beverages & Tobacco (September: 1.5% vs. August: 2.4%), as well as Non- Metallic Mineral Products, Basic Mineral & Fabricated Metal Products (September: 3.8% vs. August: 4.1%). These products accounted for 56.5% of total IPI. Nevertheless, higher growth was registered in Transport Equipment & Other Manufacturers (September: 6.3% vs. August: 5.9%) and Wood Products, Furniture, Paper Products, Printing (September: 5.8% vs. August: 5.6%).
- For the 3Q2019, industrial production recorded a modest performance at 1.6%, slower from 2.4% growth in the same quarter last year. Cumulatively, IPI grew by an average of 2.7% in 9M2019. This was slightly lower as compared to 2.9% in 9M2018. In a nutshell, production activities are slowing in the industrial sector.

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



Source: CEIC

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

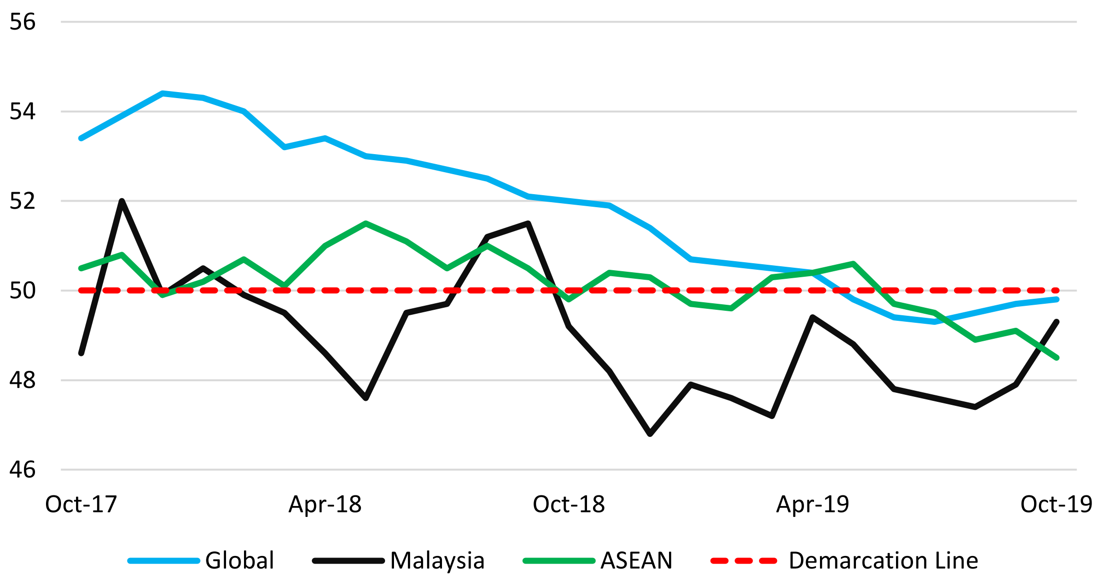
	Weight	May-19	Jun-19	Jul-19	Aug-19	Sep-19	3Q2018	3Q2019	9M2018	9M2019
IPI	**100.0%**	**4.0%**	**3.8%**	**1.2%**	**1.7%**	**1.7%**	**2.4%**	**1.6%**	**2.9%**	**2.7%**
Mining	**25.1%**	**3.0%**	**4.6%**	**-8.4%**	**-3.9%**	**-1.6%**	**-5.3%**	**-4.7%**	**-3.0%**	**-1.1%**
Crude Petroleum	12.2%	-2.0%	-3.7%	-22.7%	-9.5%	-4.7%	-1.8%	-12.8%	-1.7%	-6.0%
Natural Gas	12.9%	7.6%	13.0%	7.3%	1.2%	1.1%	-8.4%	3.1%	-4.3%	3.4%
Manufacturing	**68.3%**	**4.2%**	**3.8%**	**4.0%**	**3.6%**	**2.5%**	**4.8%**	**3.4%**	**4.9%**	**3.8%**
Food, Beverages and Tobacco	8.6%	4.4%	3.8%	0.8%	2.4%	1.5%	1.9%	1.6%	4.5%	3.6%
Textiles, Wearing Apparel, Leather Products and Footwear	1.3%	5.8%	5.5%	5.8%	6.0%	4.0%	2.9%	5.3%	4.5%	5.2%
Wood Products, Furniture, Paper Products, Printing	4.6%	6.5%	4.7%	5.6%	5.6%	5.8%	6.2%	5.7%	4.7%	5.5%
Petroleum, Chemical, Rubber and Plastic Products	20.6%	3.2%	3.0%	3.4%	3.0%	2.1%	3.8%	2.8%	4.1%	3.1%
Non-Metalic Mineral Products, Basic Mineral and Fabricated Metal Products	9.1%	3.8%	4.8%	4.4%	4.1%	3.8%	5.0%	4.1%	5.1%	4.2%
Electrical and Electronics Products	18.2%	3.7%	3.5%	4.9%	3.1%	0.8%	6.0%	2.9%	5.8%	3.3%
Transport Equipment and Other Manufactures	5.9%	6.9%	5.6%	5.8%	5.9%	6.3%	7.6%	6.0%	5.2%	6.3%
Electricity	**6.6%**	**5.7%**	**1.7%**	**2.0%**	**0.3%**	**4.1%**	**4.2%**	**2.1%**	**4.0%**	**4.1%**

Source: CEIC

Our view

The latest IPI series indicates that production activities have been quite timid amid slowing economic conditions globally. Manufacturing production has been affected the most, registering the lowest reading since December 2015. This was also in tandem with the J.P. Morgan Global Manufacturing Purchasing Manager's Index (PMI), which contracted for six straight months since May (October: 49.8 points vs. September: 49.7 points). Similarly, Malaysia's Manufacturing PMI stayed below the 50-point benchmark in September at 49.3 points from 47.9 points in the preceding month. Albeit improving, the index has been below the 50-pont demarcation line for 13 months consecutively since October last year, indicating weaker business sentiment among the manufacturers resulting from protracted period of softer demand.

Chart 2: Global Manufacturing PMI (points)



Source: Bloomberg

Despite that, there seems to be a ray of hope in the manufacturing sector especially for the E&E related products. According to the International Data Corporation (IDC) survey, global shipment for smartphones rebounded albeit marginally to 0.8% year-on-year (y-o-y) in the 3Q2019 from 2.3% contraction in the previous quarter. This reflects that the smartphone shipments activities have recovered from the seventh straight quarter of slump. In terms of volume, the total shipments increased from 355.6 million in 3Q2018 to 358.3 million in 3Q2019. This was led by Huawei which rose by 28.2% to 66.6 million units, followed by Samsung (8.3%, 78.2 million units), and Oppo (4.1%, 31.2 million units). This suggests that the overall smartphones' sales have been healthy although the global market conditions are still plagued with trade uncertainties. On a similar note, the pace of decline on the Global Semiconductor Sales (GSS) is gradually narrowing to 14.6% y-o-y in September from -15.2% in the previous month. As such, demand for semiconductor component appears to be on the rise which could signals Malaysia's E&E exports would follow similar path given the positive coefficient of correlation of 76%.

Table 2: Worldwide Quarterly Smartphone Top 5 Company Shipments, 3Q2019 and 3Q2018 (millions of units)

Company	3Q2019 Shipments (million)	3Q2019 Market Share	3Q2018 Shipments (million)	3Q2018 Market Share	Annual Growth (y-o-y)
Samsung	78.2	21.8%	72.2	20.3%	8.3%
Huawei	66.6	18.6%	52	14.6%	28.2%
Apple	46.6	13.0%	46.9	13.2%	-0.6%
Xiaomi	32.7	9.1%	33.8	9.5%	-3.3%
Oppo	31.2	8.7%	30	8.4%	4.1%
Others	103	28.7%	120.7	34.0%	-14.7%
Total	**358.3**	**100.0%**	**355.6**	**100.0%**	**0.8%**

Source: IDC

Apart from that, the recent announcement by the Bank Negara Malaysia (BNM) to cut the Statutory Reserve Requirement (SRR) from 3.5% to 3.0% should helped improve business sentiments. Such move indicates that the central bank will provide additional liquidity to the banking system to the tune of RM7.4 billion based on our estimates. To some degree, the latest measures also indicates the BNM resolve to ensure economic growth would remain stable in the face of external threat. In that sense, the case for lower OPR in 2020 is highly likely. The only question is the timing and the quantum for the reduction.

In light of the latest IPI outturn, **we are penciling in 4.3% growth for the 3Q2019 GDP (2Q2019: 4.9%), which will be announced on 15 October.** We expect the private consumption would moderate in line with the weak sentiments while private investment would remain lethargic given the economic uncertainties.