



From the Desk
of the
Chief Economist

BANK ISLAM

IPI CONTRACTED AT A SLOWER PACE IN AUGUST

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ECONOMIC RESEARCH

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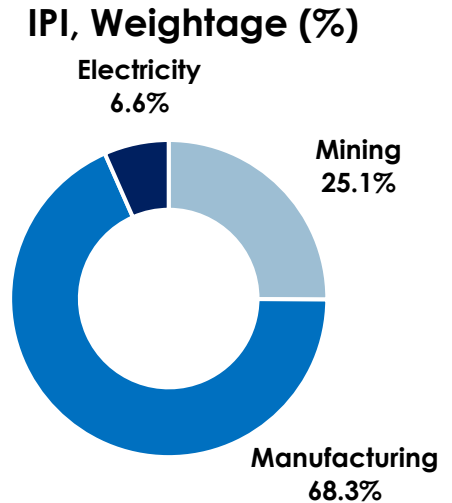
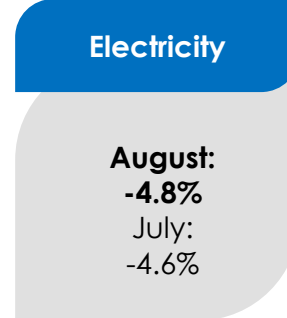
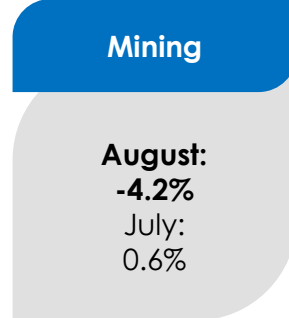
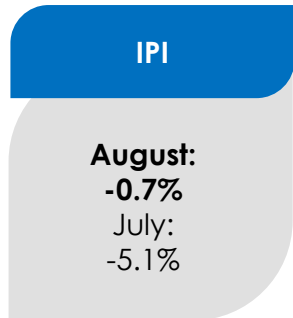
ADAM MOHAMED RAHIM

SHAFIZ BIN JAMALUDDIN

NOR JANNAH ABDULLAH

RAJA ADIBAH RAJA HASNAN

IPI DROPPED BY 0.7% IN AUGUST

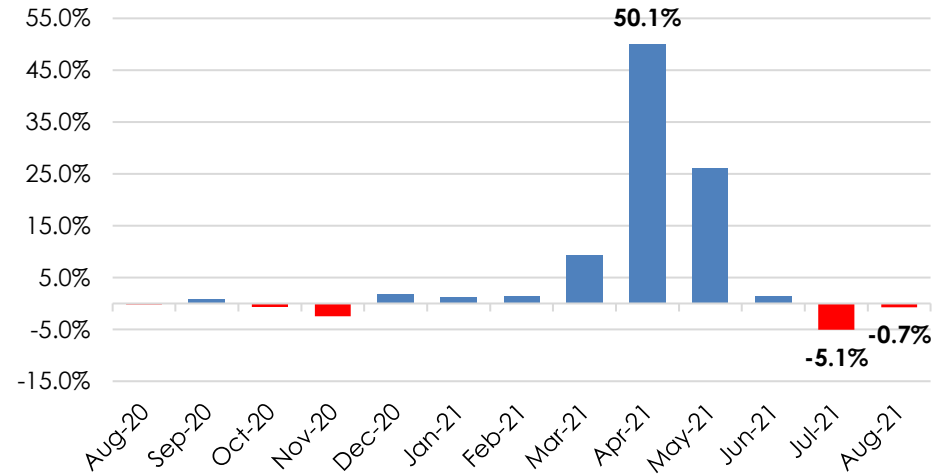


Sources: CEIC, DOSM

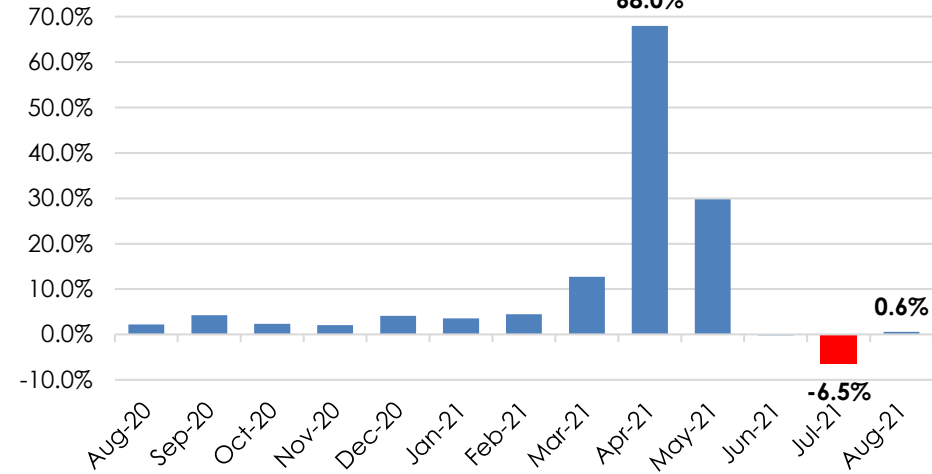
- ✓ Malaysia's Industrial Production Index (IPI) shrank marginally by 0.7% year-on-year (y-o-y) in August (July: -5.1%) (**Consensus: 1.0%, Bank Islam: XX**)
- ✓ The fall was mainly influenced by the decline in both Mining (August: -4.2% vs. July: 0.6%) and Electricity (August: -4.8% vs. July: -4.6%) during the month.
- ✓ Meanwhile, the contraction in the IPI was capped by the Manufacturing sector which rebounded by 0.6% in August after contracting by 6.5% in the previous month. This sector accounted for 68.3% of total IPI.

THE MINING SECTOR RECORDED ITS FIRST CONTRACTION SINCE APRIL DURING THE MONTH OF AUGUST

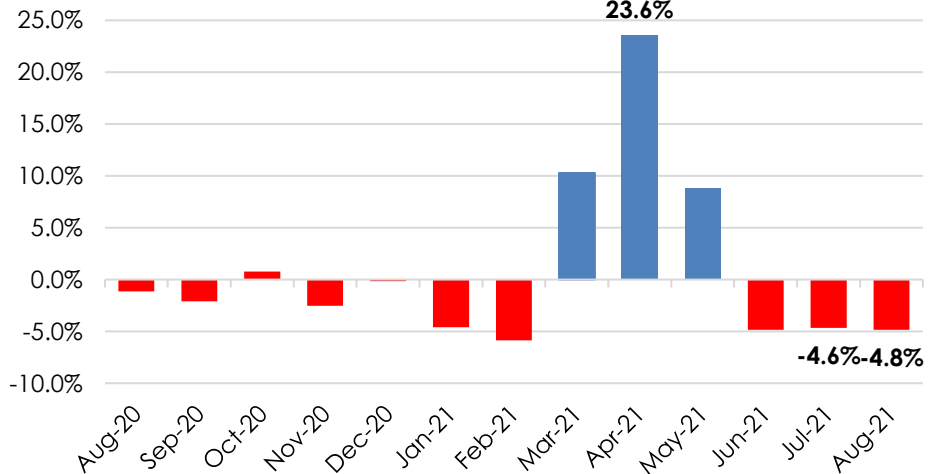
IPI, y-o-y%



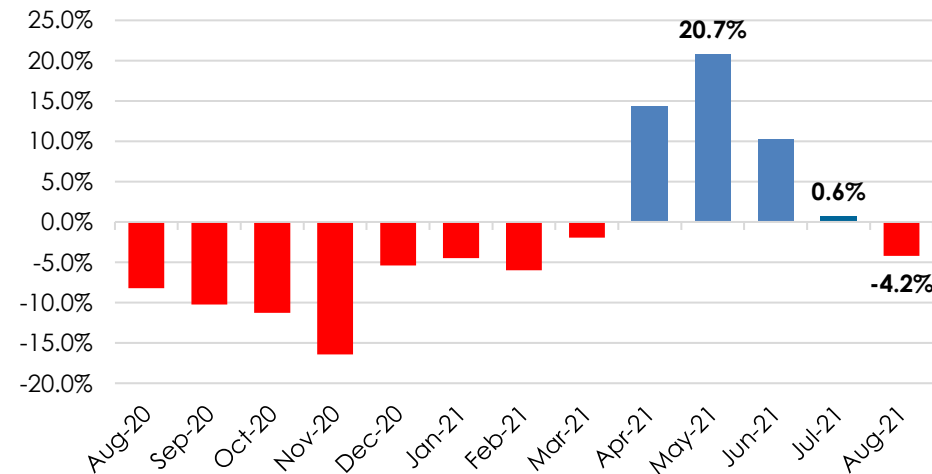
Manufacturing, y-o-y%



Electricity, y-o-y%



Mining, y-o-y%



Source: CEIC

MANUFACTURING SECTOR CONTINUES TO SUPPORT PRODUCTION ACTIVITIES



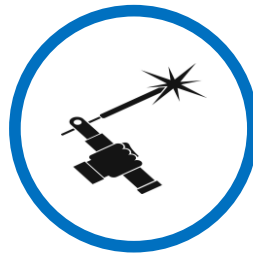
**Petroleum,
Chemical,
Rubber &
Plastic
Products**

**August:
15.2%
July:
14.3%**



**Electrical &
Electronics
(E&E)
Products**

**August:
8.6%
July:
-1.7%**



**Non-metallic
Mineral
Products,
Basic Metal &
Fabricated
Metal
Products**

**August:
-13.0%
July:
-27.6%**



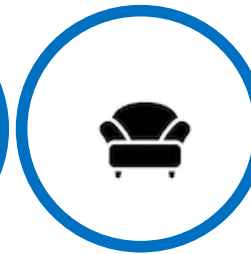
**Food,
Beverages &
Tobacco**

**August:
-6.7%
July:
-10.9%**



**Transport
Equipment &
Other
Manufactures**

**August:
-34.3%
July:
-43.8%**



**Wood
Products,
Furniture,
Paper
Products &
Printing**

**August:
-11.0%
July:
-23.7%**



**Textiles,
Wearing
Apparel,
Leather
Products &
Footwear**

**August:
-5.2%
July:
-11.5%**

Sources: CEIC, DOSM

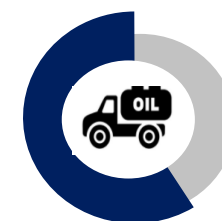
- ✓ Within the Manufacturing sector, Petroleum, Chemical, Rubber & Plastic Products increased by 15.2% in August, extending a gain of 14.3% in the preceding month. Meanwhile, Electrical & Electronics (E&E) Products rebounded by 8.6% during the month after declining by 1.7% in July.
- ✓ Be that as it may, some sub-sectors still recorded a negative production growth albeit at a slower pace, led by Transport, Equipment & Other Manufactures (August: -34.3% vs. July: -43.8%), Non-metallic Mineral Products, Basic Metal & Fabricated Metal Products (August: -13.0% vs. July: -27.6%) and Wood Products, Furniture, Paper Products & Printing (August: -11.0% vs. July: -23.7%) in August.

IPI GROWTH REMAINS IN THE POSITIVE TERRITORY DURING 8M2021

	Weight	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	8M2020	8M2021
IPI	100.0%	1.2%	1.5%	9.3%	50.1%	26.1%	1.4%	-5.1%	-0.7%	-6.6%	8.2%
Mining	25.1%	-4.5%	-6.0%	-1.9%	14.3%	20.7%	10.3%	0.6%	-4.2%	-10.1%	3.0%
Extraction of Crude Petroleum Oils & Condensates	12.2%	-9.4%	-11.5%	-9.4%	2.7%	8.6%	6.3%	-3.6%	-11.0%	-12.1%	-4.0%
Natural Gas	12.9%	-0.5%	-1.6%	4.3%	23.9%	30.9%	13.4%	4.1%	1.6%	-8.4%	8.7%
Manufacturing	68.3%	3.5%	4.5%	12.7%	68.0%	29.8%	-0.2%	-6.5%	0.6%	-5.7%	10.4%
Food, Beverages & Tobacco	8.6%	0.0%	-7.4%	7.2%	12.7%	0.7%	-6.4%	-10.9%	-6.7%	-0.2%	-1.8%
Textiles, Wearing Apparel, Leather Products & Footwear	1.3%	-0.8%	-1.0%	9.1%	230.6%	39.9%	-14.5%	-11.5%	-5.2%	-18.4%	9.7%
Wood Products, Furniture, Paper Products & Printing	4.6%	2.4%	0.9%	11.1%	212.6%	53.0%	-18.2%	-23.7%	-11.0%	-12.1%	8.1%
Petroleum, Chemical, Rubber & Plastic Products	20.6%	4.5%	8.9%	14.1%	37.5%	34.8%	19.0%	14.3%	15.2%	-3.1%	17.3%
Non-metallic Mineral Products, Basic Metal & Fabricate	9.1%	-1.0%	-2.7%	8.0%	141.0%	49.4%	-21.3%	-27.6%	-13.0%	-17.4%	3.8%
Electrical & Electronics Products	18.2%	7.9%	10.3%	13.8%	70.1%	21.6%	8.4%	-1.7%	8.6%	-1.0%	14.2%
Transport Equipment & Other Manufactures	5.9%	-0.2%	3.2%	20.9%	275.2%	68.9%	-42.7%	-43.8%	-34.3%	-11.3%	2.4%
Electricity	6.6%	-4.6%	-5.8%	10.3%	23.6%	8.8%	-4.8%	-4.6%	-4.8%	-5.0%	1.7%

Sources: CEIC, DOSM

- ✓ As for the Mining sector, the production of Crude Oil & Condensate declined further by 11.0% in August (July: -3.6%) whereas production of Natural Gas continued to soften by 1.6% (July: 4.1%) during the month.
- ✓ Cumulatively, total IPI registered a positive growth of 8.2% in 8M2021 from a 6.6% contraction in same period last year, driven by the growth seen in Manufacturing (8M2021: 10.4% vs. 8M2020: -5.7%), Mining (8M2021: 3.0% vs. 8M2020: -10.1%), as well as Electricity (8M2021: 1.7% vs. 8M2020: -5.0%)



Crude Oil & Condensate

August:
-11.0%
July:
-3.6%

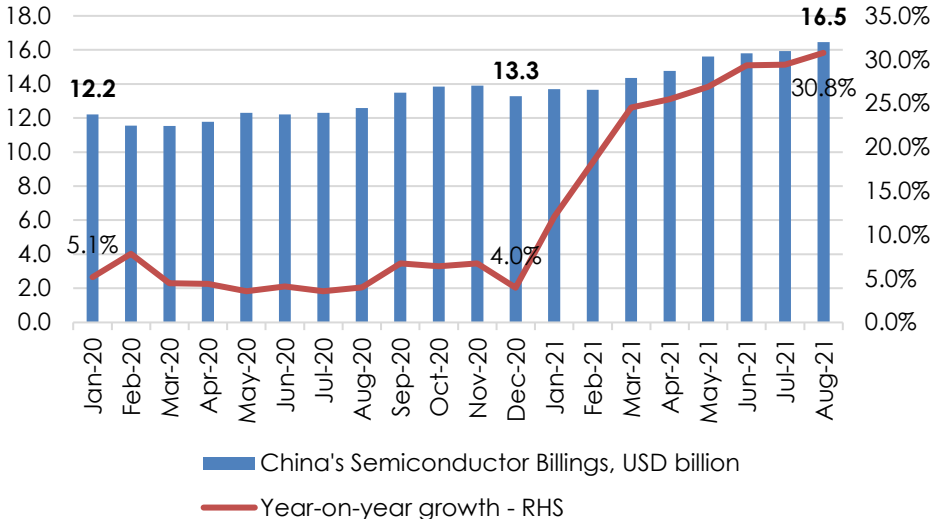


Natural Gas

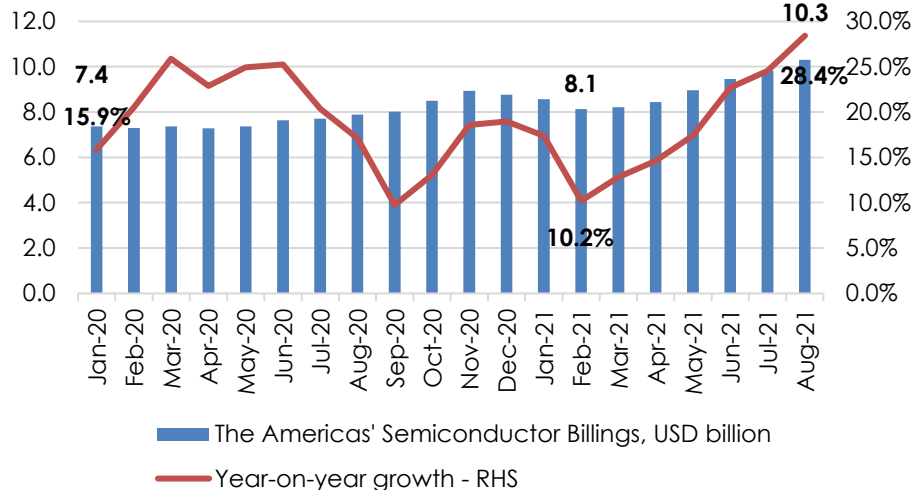
August:
1.6%
July:
4.1%

PRODUCTION OF E&E REBOUNDED IN LIGHT OF HIGHER WORKING CAPACITY

China's Semiconductor Billings, USD billion



The Americas' Semiconductor Billings, USD billion



Source: Semiconductor Industry Association (SIA)

- ✓ The growth in the IPI of manufacturing E&E products coincided with the leeway to expand working capacity based on vaccination rates of workers. In addition, the data released by the SIA showed that semiconductor billings in China and the Americas continued to grow in August to the tune of 30.8% (July: 29.4%) and 28.4% (July: 24.6%) respectively.
- ✓ We opine that the growth in demand for electrical appliances might have led to the growth in China's semiconductor billings in August. This was despite the drop in China's National Bureau of Statistics (NBS) Manufacturing Purchasing Managers' Index (PMI) to 50.1 points and 49.6 points in August and September respectively from 50.4 points in July, possibly coming from the delay in shipments of intermediate goods and components as the world rushes to source supplies in the wake of stronger global demand.
- ✓ Moving forward, Chinese manufacturers including the E&E factories may face headwinds as Chinese government officials forced factories in provinces such as Guangdong and Jiangsu at the end of September to curtail operation hours or shut down temporarily as the government tries to limit energy use.
- ✓ Notwithstanding this, neighbouring Taiwan which headquarters six out of the top 10 electronics manufacturers in the world (Foxconn, Pegatron, Quanta, Compal, Wisitron and Inventec) could help fill in the void and sustain the overall demand for chips, which will bode well for the production of semiconductors by Malaysia.

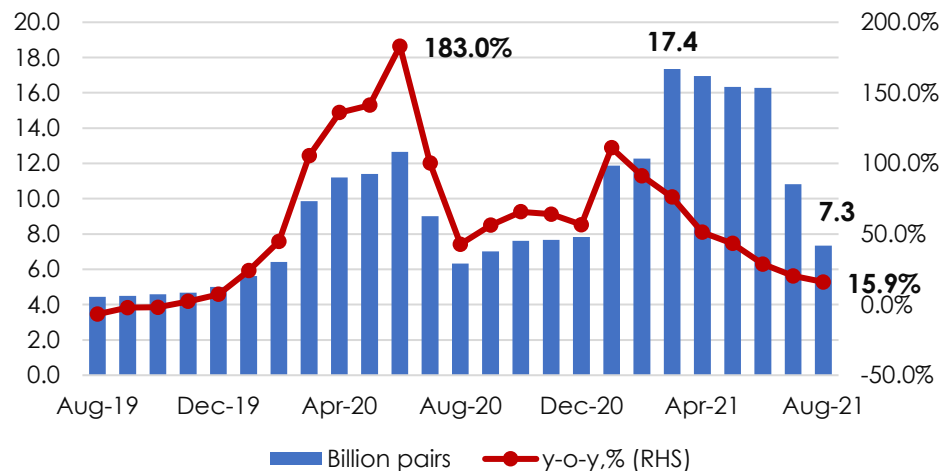
- ✓ Rubber gloves have been one of the essential personal protective equipment to contain the fast-spreading virus of Covid-19 which struck the world in early 2020.
- ✓ However, we can see that the demand for rubber gloves has been normalising following an accelerated rollout of Covid-19 vaccination globally together with the anticipation that the spread of the pandemic will be controlled.
- ✓ This was in tandem with Malaysia's industrial production for rubber gloves which has been growing at a moderate pace of 12.7% in August (July: 20.3%) as compared to a 135.8% expansion during January this year.
- ✓ Apart from that, we believe the market is currently experiencing a phase of inventory adjustment following the skyrocketed demand over the past 16 months since the pandemic started last year.
- ✓ Moving forward, we anticipate that lower average selling prices (ASPs), as well as intensified competition coming from China will weigh down on Malaysia's rubber glove production.

IPI: Manufacturing Rubber Glove, y-o-y%



Sources: DOSM, CEIC

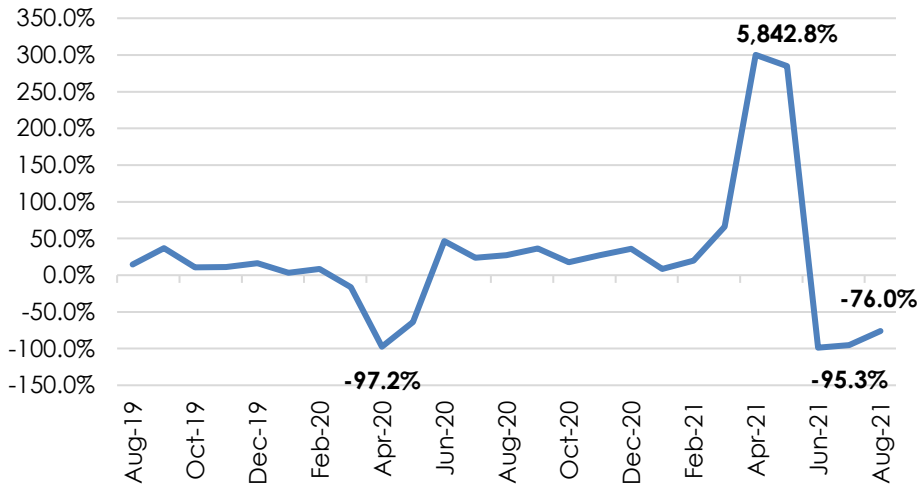
Malaysian Rubber Glove Production, Billion Pairs



Sources: DOSM, CEIC

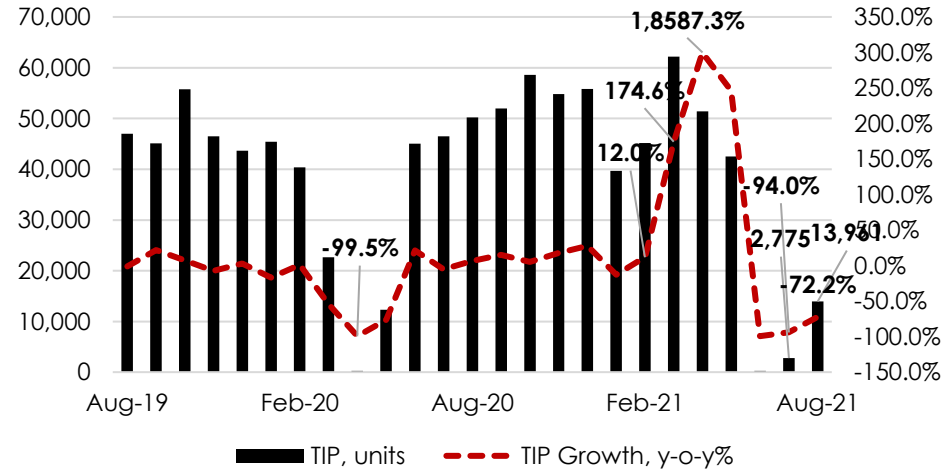
THE AUTOMOTIVE SECTOR SEES A SMALLER DECLINE IN PRODUCTION AMID LOOSENED RESTRICTIONS

IPI: Manufacturing of Passenger Cars, y-o-y%



Sources: CEIC, DOSM

Total Industry Production (TIP), units



Sources: Malaysian Automotive Association (MAA), CEIC

- ✓ Other sectors such as the automotive industry showed an improvement by recording a narrower contraction in IPI growth for the manufacturing of passenger cars of 76.0% in August (July: -95.3%).
- ✓ Vehicle manufacturing was allowed to resume operations since mid-August, but operating capacity was subject to the percentage of workers being fully vaccinated. Coupled with only a half month of production at best, August's Total Industry Production (TIP) was still down 72.2% y-o-y at 13,961 units (July: 2,775 units). Nevertheless, it represented a 403.1% month-on-month (m-o-m) increase against a weak lockdown-impacted July production.
- ✓ We expect production to expand further in the near-term given support from the tax holiday which runs till year-end and following the reopening of showrooms nationwide. The Total Industry Volume (TIV) is projected by the Malaysian Automotive Association to rebound by 21.0% in 2022F (2021F: -5.6%) assuming no further disruptions amid higher expected consumer spending.
- ✓ The downside risk to the automotive sector would be the peoples' tendency to spend on items or services that were not widely available during the previous lockdowns such as travel and leisure.

- ✓ As human mobility picks up following the lifting of the interstate travel ban effective from 11 October, we opine that there would be positive spill over effects towards the production activities in the country.
- ✓ For example, the resumption of domestic flights in addition to allowing Malaysians to travel without the MyTravelPass scheme will likely lead to a higher demand for maintenance, repair and overhaul (MRO) activities for aircrafts in Malaysia. With more MRO activities carried out, manufacturing of parts and components for aircraft will inevitably rise.
- ✓ Even on a global scale, the reopening of international borders will benefit the MRO sector as almost 70.0% of the composite wing parts for the Airbus A320 are being supplied from more than 240 companies in Malaysia.
- ✓ Looking at another angle, the pickup in the tourism and leisure sector is set to boost the production of food and beverages as restaurant operators and hoteliers require more supply of food and beverages to cater guests.
- ✓ On the flip side of things, the clampdown on energy usage in factories in some parts of China could dent production of goods, leading to a slowdown in demand for intermediate goods imported from Malaysia especially semiconductors. This is expected to exacerbate the current supply chain bottleneck faced globally, giving rise to higher inflationary pressure on producer prices.
- ✓ A risk of a surge in Covid-19 cases following the reopening of state borders could lead to a series of targeted lockdowns that may impact certain localities. It would be more unfortunate if the localities housed factories of manufacturers, limiting production activities.
- ✓ Taking these matters into account, **we reiterate our IPI growth forecast of 6.3% for 2021 after declining by 4.2% in 2020.**

Malaysian Companies Involved In Producing Aerospace Products



Source: National Aerospace Industry Coordinating Office

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An aerial photograph of a city skyline at sunset, with a prominent pink bar at the bottom. The sky is filled with soft, golden light and scattered clouds. The city features numerous high-rise buildings, with a particularly tall, slender skyscraper on the left. A highway with traffic is visible in the foreground, winding through the city. The overall mood is warm and serene.

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