



From the Desk
of the
Chief Economist

BANK ISLAM

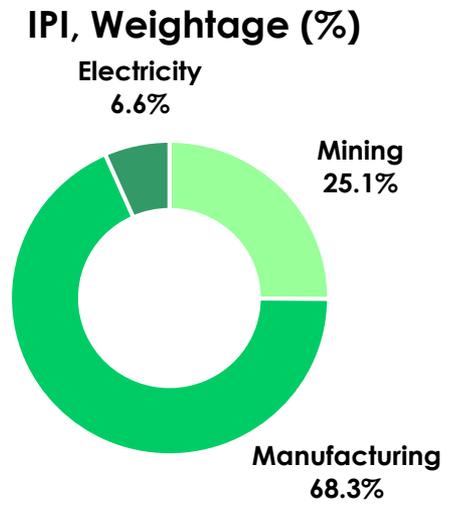
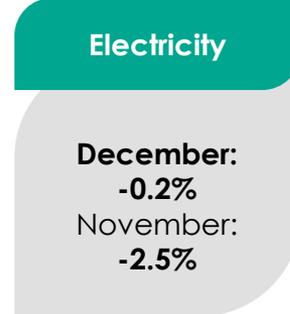
IPI CONTRACTED BY 4.2% IN 2020 – FIRST DROP SINCE GLOBAL FINANCIAL CRISIS IN 2009

8 FEBRUARY 2021

ECONOMIC RESEARCH

**DR. MOHD AFZANIZAM ABDUL RASHID
ADAM MOHAMED RAHIM
SHAFIZ BIN JAMALUDDIN
NOR JANNAH ABDULLAH**

IPI RECOVERED IN DECEMBER 2020 – SUPPORTED BY MANUFACTURING SECTOR

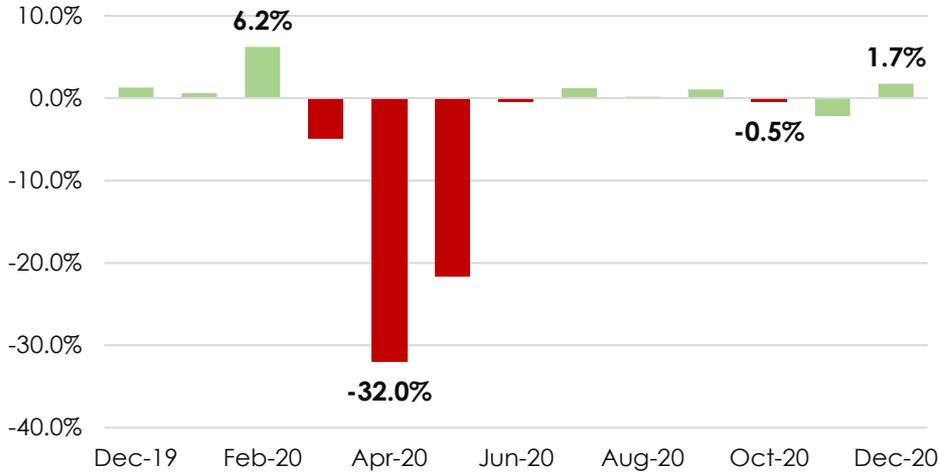


Sources: CEIC, DOSM

- ✓ Malaysia's Industrial Production Index (IPI) rebounded by 1.7% in year-on-year (y-o-y) in December 2020 from 2.2% contraction in the previous month (Consensus: -1.0%, Bank Islam: -0.5%).
- ✓ The growth was mainly contributed by the Manufacturing sector, which expanded by 4.1% in December 2020 after a 2.0% increase in the preceding month. The Manufacturing sector formed a sizeable share of 68.3% of total IPI in December 2020.
- ✓ Meanwhile, the Mining and Electricity sector continued to decline though at a softer pace of 5.4% and 0.2% in December 2020 respectively from -15.4% and -2.5% in the month before.

MINING SECTOR PRODUCTION ACTIVITIES – 10 MONTHS OF CONTRACTION

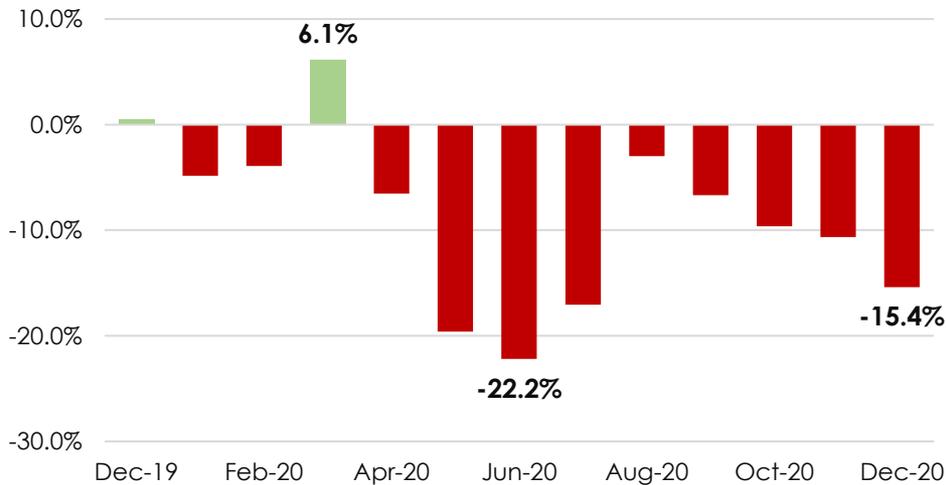
IPI, y-o-y%



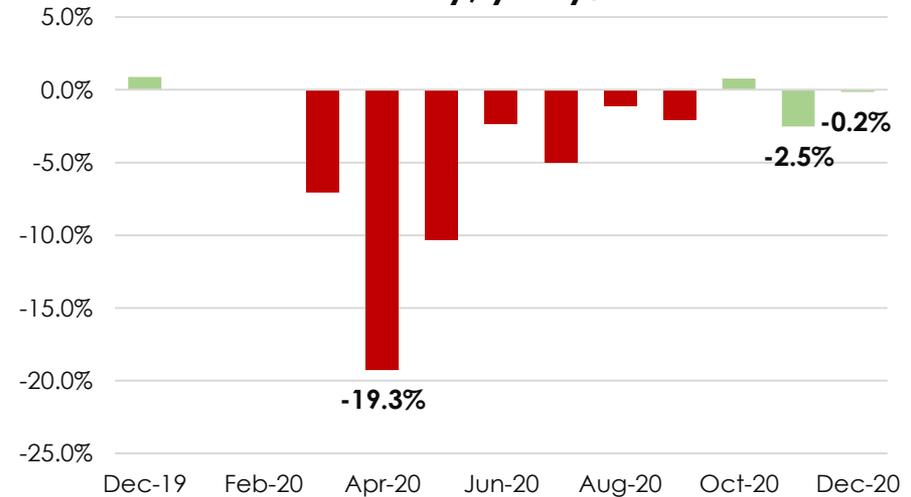
Manufacturing, y-o-y%



Mining, y-o-y%



Electricity, y-o-y%





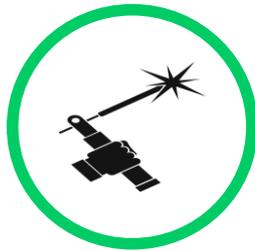
**Petroleum,
Chemical,
Rubber &
Plastic**

**December:
7.7%**
**November:
2.0%**



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

**December:
7.6%**
**November:
8.3%**



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

**December:
-1.4%**
**November:
-2.4%**



**Food,
Beverages &
Tobacco**

**December:
-7.9%**
**November:
-8.7%**



**Transport
Equipment &
Other
Manufactures**

**December:
8.4%**
**November:
6.5%**



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

**December:
3.3%**
**November:
2.2%**



**Textile, Wearing
Apparel,
Leather &
Footwear**

**December:
1.3%**
**November:
-4.0%**

Sources: CEIC, DOSM

- ✓ Within the Manufacturing sector, Petroleum, Chemical, Rubber & Plastic products (December 2020: 7.7% vs. November 2020: 2.0%) and Transport Equipment & Other Manufactures (December 2020: 8.4% vs. November 2020: 6.5%) production remained as the anchor of growth. Apart from that, E&E sub-sector increased modestly by 7.6% in December 2020 from an 8.3% growth previously. These sub-sectors accounted for 44.7% of the total IPI in December 2020.
- ✓ This was followed by Wood, Furniture, Paper Products & Printing sub-sector (December 2020: 3.3% vs. November 2020: 2.2%) and Textile, Wearing Apparel, Leather & Footwear sub-sector (December 2020: 1.3% vs. November 2020: -4.0%) during December last year.
- ✓ However, the production of Food, Beverages & Tobacco (December 2020: -7.9% vs. November 2020: -8.7%) and Non-metallic Mineral Products, Basic Metal & Fabricated Metal Products (December 2020: -1.4% vs. November 2020: -2.4%) continued to record a negative growth in December 2020.

	Weight	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	3Q2020	4Q2020	2019	2020
IPI	100.0%	0.2%	1.0%	-0.5%	-2.2%	1.7%	0.8%	-0.3%	2.3%	-4.2%
Mining	25.1%	-6.7%	-9.6%	-10.6%	-15.4%	-5.4%	-6.5%	-10.5%	-2.0%	-9.7%
-Crude Oil & Condensate	12.2%	-5.0%	-9.7%	-12.6%	-15.8%	-9.0%	-5.4%	-12.5%	-7.1%	-11.1%
-Natural gas	12.9%	-8.0%	-9.5%	-9.0%	-15.1%	-2.5%	-7.3%	-8.9%	2.6%	-8.5%
Manufacturing	68.3%	2.2%	4.3%	2.4%	2.0%	4.1%	3.1%	2.8%	3.6%	-2.7%
-Food, Beverages & Tobacco	8.6%	4.8%	4.9%	-3.4%	-8.7%	-7.9%	5.3%	-6.7%	2.9%	-1.4%
-Textiles, Wearing Apparel, Leather & Footwear	1.3%	-11.0%	-4.1%	-2.6%	-4.0%	1.3%	-9.3%	-1.8%	5.3%	-12.8%
-Wood, Furniture, Paper Products & Printing	4.6%	-2.5%	2.3%	1.5%	2.2%	3.3%	0.2%	2.4%	5.4%	-7.2%
-Petroleum, Chemical, Rubber & Plastic	20.6%	1.7%	3.2%	1.9%	2.0%	7.7%	2.1%	3.9%	2.9%	-0.8%
-Non-Metallic Mineral, Basic Metal & Fabricated Metal Products	9.1%	-6.3%	-3.9%	-2.2%	-2.4%	-1.3%	-6.7%	-2.0%	4.1%	-12.4%
-Electrical & Electronic Products	18.2%	7.1%	9.8%	7.5%	8.3%	7.6%	8.9%	7.8%	3.0%	2.2%
-Transport Equipment & Other Manufactures	5.9%	3.5%	4.5%	3.5%	6.5%	8.4%	4.3%	6.1%	5.9%	-5.7%
Electricity	6.6%	-1.1%	-2.1%	0.8%	-2.5%	-0.2%	-2.8%	-0.6%	3.3%	-3.7%

Sources: CEIC, DOSM

- ✓ As for the Mining sector, the production of Crude Oil & Condensate sub-sector has been declining for 24 consecutive months in December 2020, falling by 9.0% from -15.8% in the preceding month. In addition, the Natural Gas sub-sector dropped by 2.5% in December 2020, slower than 15.1% contraction in the previous month.
- ✓ On a quarterly basis, the IPI dropped by 0.3% in 4Q2020 from an increase of 0.8% in September quarter.
- ✓ Cumulatively, industrial production activities plummeted by 4.2% in 2020 as compared to a 2.3% growth in 2019, largely affected by the Covid-19 pandemic amid the implementation of Movement Control Order (MCO) and Conditional MCO.



Crude Oil & Condensate

December:
-9.0%

November:
-15.8%

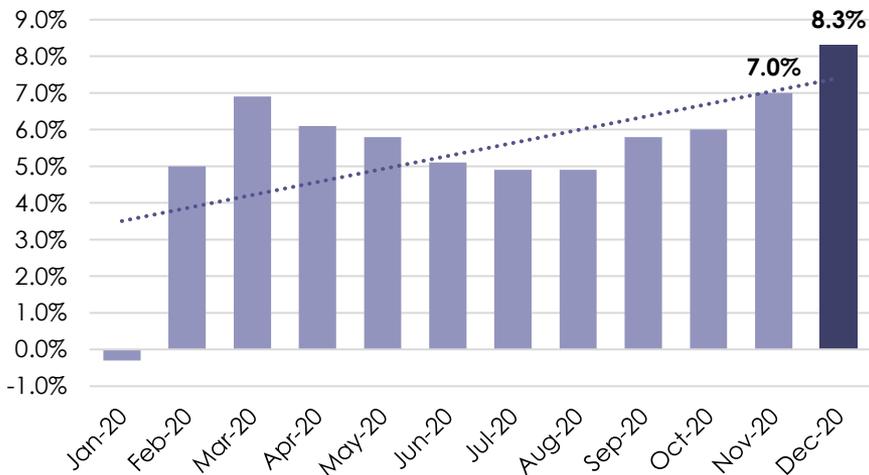


Natural Gas

December:
-2.5%

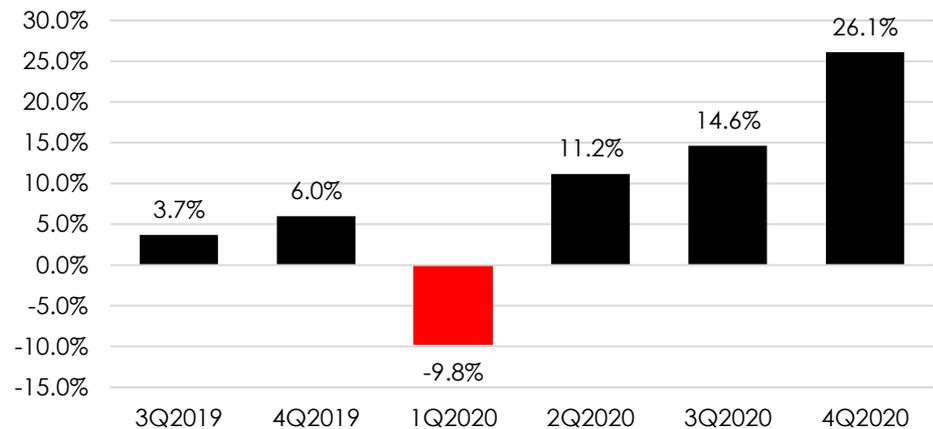
November:
-15.1%

Global Semiconductor Sales (GSS), y-o-y%



Source: Semiconductor Industry Association (SIA)

Worldwide Traditional Personal Computer (PC) Shipments, y-o-y%

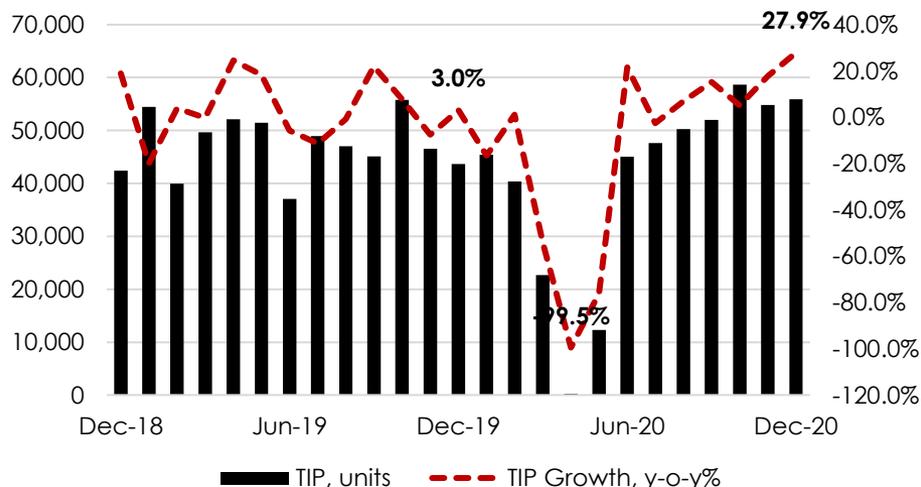


Source: International Data Corporation (IDC)

- ✓ Demand is surging for laptops, cloud computing, network peripherals, as well as components along the supply chain amid shift in work culture in the wake of the re-imposition of Covid-19 lockdowns since early 2020.
- ✓ In light of this, the Global Semiconductor Sales (GSS) continued to expand by 8.3% y-o-y in December last year (November 2020: 7.0% y-o-y), marking the eleventh straight month of increase.
- ✓ Similarly, the worldwide traditional PC (inclusive desktops, notebooks and workstations) shipments remain on fire for three consecutive quarters with a 26.1% growth recorded in 4Q2020 (3Q2020: 14.6%) as companies rushed to build virtual offices as Covid-19 infections continue to remain heightened in many parts of the world.
- ✓ According to the International Data Corporation (IDC), the gaming PCs and monitor sales reached all-time highs while Chrome-based devices were expanding beyond educational needs into the consumer market. As such, we believe that the E&E production growth still has a way to go driven by emerging technologies such as 5G, Artificial Intelligence (AI) and Internet of Things (IoT).

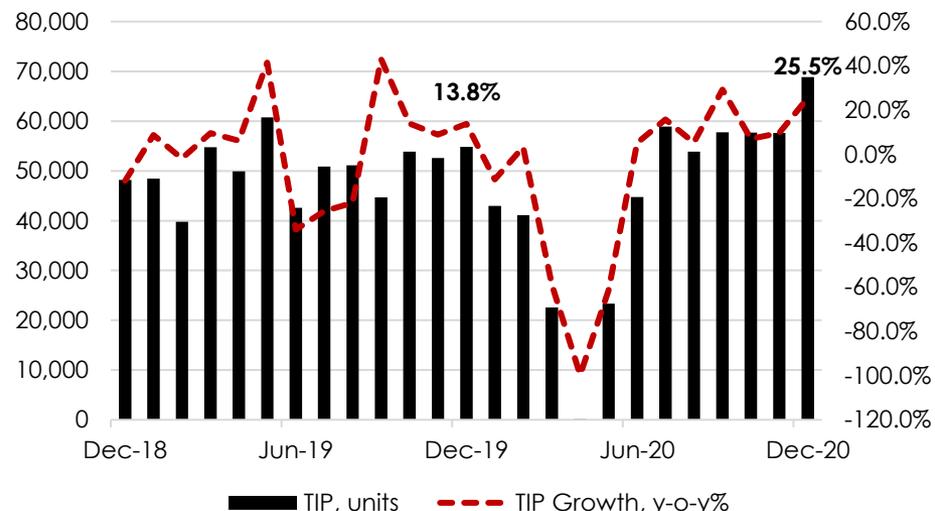
TRANSPORT EQUIPMENT & OTHER MANUFACTURES WAS ANOTHER CONTRIBUTOR TO THE GROWTH IN MANUFACTURING IPI

Total Industry Production (TIP), units



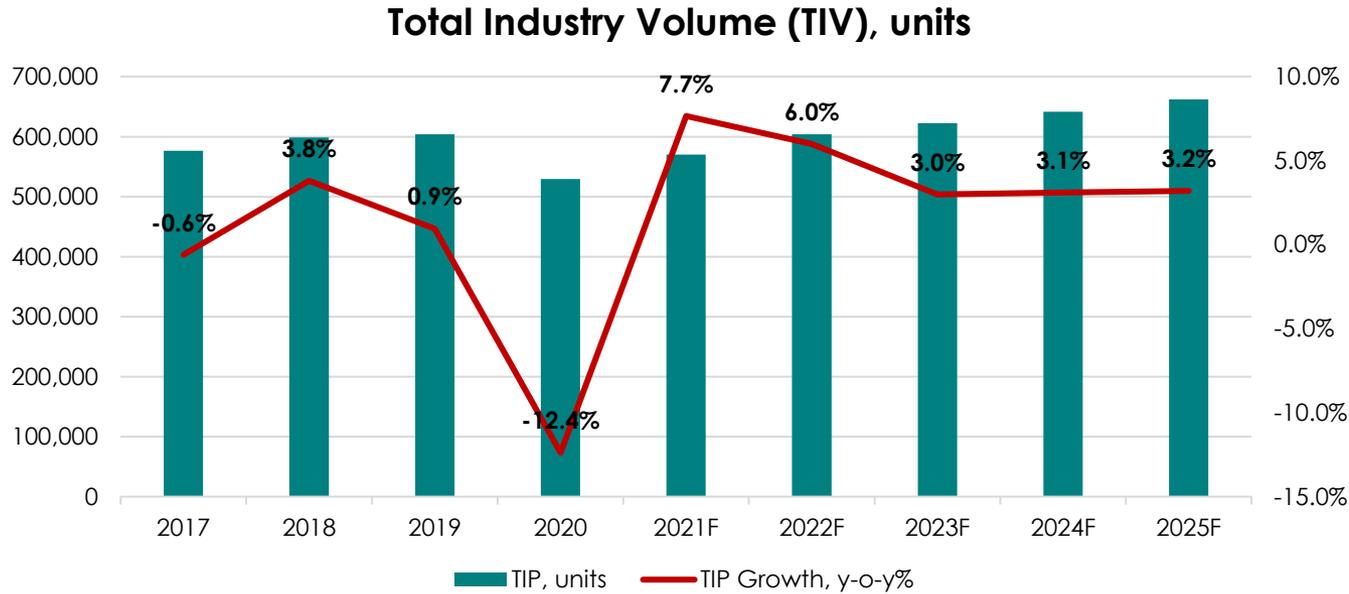
Sources: Malaysia Automotive Association, CEIC

Total Industry Volume (TIV), units



Sources: Malaysia Automotive Association, CEIC

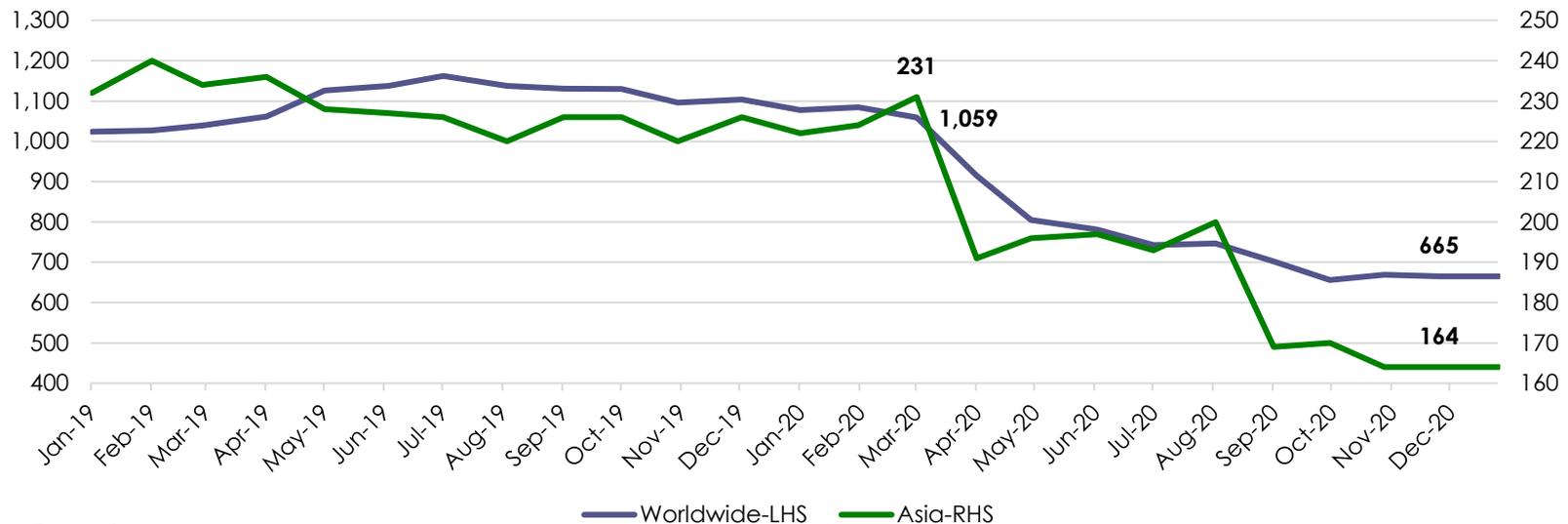
- ✓ Another sub-sector which was a bellwether for the manufacturing IPI in December 2020 was the Transport Equipment & Other Manufactures which grew by 8.4% (November 2020: 6.5%). On further scrutiny, the Motor Vehicles and Passenger Cars component of the Motor Vehicles, Trailers & Semi Trailers sub-sector saw their IPIs increase by 35.1% to 136.6 (November 2020: 26.3%) and 35.9% to 139.2 (November 2020: 27.1%) in December 2020 respectively.
- ✓ This was mainly attributable to the 27.9% growth (November 2020: 17.9%) in total industry production (TIP) to 55,860 units in December 2020, marking the fifth consecutive month of growth.
- ✓ The strong TIP growth in December was in line with the growth in total industry volume (TIV) of 25.5% (November 2020: 9.5%), driven by year-end sales campaigns and more importantly, as consumers rushed to benefit from the tax holiday which was earlier scheduled to end on 31 December 2020. Recall that the decision by the government to extend the sales tax exemption until June 2021 only came towards the final week of December 2020.
- ✓ On a 12-month cumulative basis, the TIP was down by 15.1% in 2020 compared to the 1.2% increase in 2019 as May 2020 was the main drag for the year, declining by nearly 100.0% amid the impact of the movement control order.



Sources: Malaysia Automotive Association, CEIC

- ✓ While January 2021 will see some hiccups in terms of TIP and TIV due to the MCO 2.0 and the floods in certain states of Malaysia, we opine that the manufacturing IPI for Transport Equipment & Other Manufactures will be higher in 2021.
- ✓ The Malaysia Automotive Association has forecasted a 7.7% annual growth in terms of TIV for 2021 (2020: -12.4%).
- ✓ The reason being is not only due to continuation of the sales tax exemption incentive for passenger vehicles under PENJANA package until 30 June 2021 which will lead to higher sales and production, but also due to lower hire purchase loan profit rates.
- ✓ Other factors include a shift to private car usage from mass transport on concerns over social distancing.

Rig Count - Worldwide vs. Asia



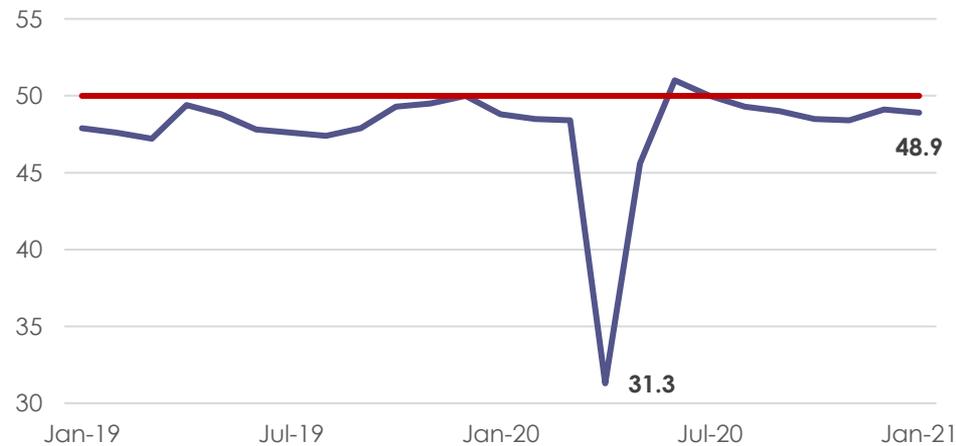
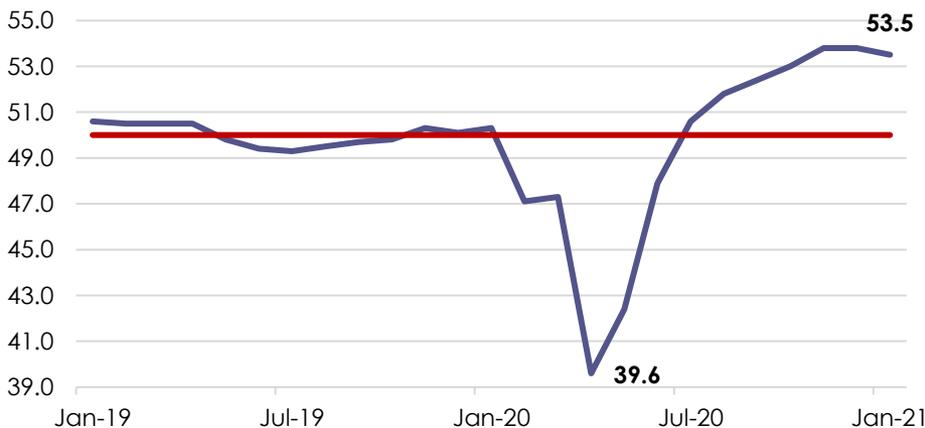
Source: Baker Hughes

- ✓ Production activities in the oil and gas space have been lacklustre for a protracted period. This was reflected by the persistent decline in the number of oil rigs.
- ✓ The total number of rigs worldwide saw a slight decrease to 665 rigs in December 2020 (November 2020: 669 rigs). In comparison to a year ago, the total worldwide rig count stood at 1,104 rigs in December 2019.
- ✓ Meanwhile, the total number of rigs in Asia remained unchanged at 164 rigs in December 2020 (November 2020: 164 rigs), in line with sluggish production activity.
- ✓ As such, it was no surprise that the IPI of the Crude Oil & Condensate sub-sector was down by 9.0% in December 2020 (November 2020: -15.8%).
- ✓ Additional production cuts to a tune of 1.0 million barrels per day by Saudi for February and March 2021 could keep oil output at bay in the next few months.

- ✓ Taking note that the manufacturing sector contributes nearly 70.0% of the IPI's weight, manufacturing sales have gained momentum with a 4.5% increase in December 2020 (November 2020: 2.1%), the highest growth since March 2020, indicating improving demand conditions. This was also in tandem with exports performance in the manufacturing sector which grew by 12.4% in December 2020 from an 8.2% expansion in the previous month.
- ✓ The J.P. Morgan Global Manufacturing PMI stood at 53.5 points in January 2021 (December 2020: 53.8 points), marking seven straight months of expansion. In contrast, Malaysia's Manufacturing PMI inched lower to 48.9 points in January 2021 from 49.1 points in December 2020 due to the impact of MCO 2.0 that may have seen a slowdown in domestic demand for manufactured goods. Therefore, a contraction in IPI in January 2021 is inevitable.
- ✓ All in all, we project **IPI to recover by 3.2% this year after declining by 4.2% in 2020** due to a low base effect and the anticipated economic traction in the second half of 2021 should the vaccination campaign roll out smoothly. The low interest rate environment could also spur businesses to continue financing expansions in their activities.

JP Morgan Global Manufacturing PMI, points

Malaysia Manufacturing PMI, points



Source: Bloomberg

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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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