



From the Desk  
of the  
**Chief Economist**

**BANK ISLAM**

# **IPI REBOUNDED BY 1.2% IN JULY**

**11 SEPTEMBER 2020**

## **ECONOMIC RESEARCH**

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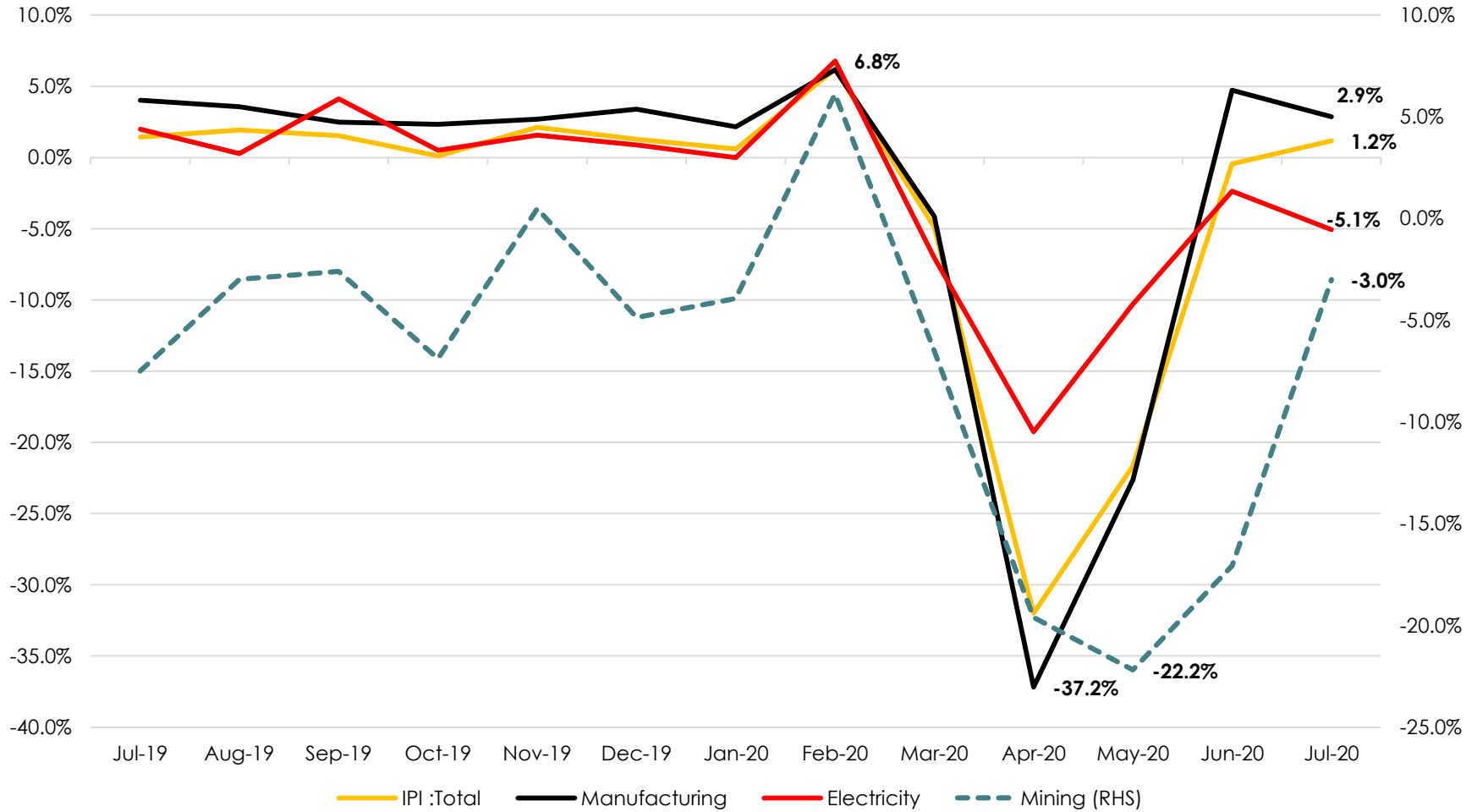
**NOR JANNAH ABDULLAH**

- ✓ Malaysia's Industrial Production Index (IPI) increased by 1.2% year-on-year (y-o-y) in July (June: -0.4%) after posted negative print for four straight months (Consensus: 1.0%, Bank Islam: 2.5%).
- ✓ The upturn was anchored by the Manufacturing which rose by 2.9% in July (June: 4.7%) while the Mining recorded slower contraction at 3.0% (June: -17.1%). As for Electricity, the production fell further by 5.1% in July from -2.4% in June.
- ✓ Within the Manufacturing sector, the Electrical & Electronic (E&E) sector recorded the largest increase in production among other sectors, expanding by 9.6% in July (June: 13.2%). This was followed by Transport Equipment & Other Manufacturers and Food, Beverages & Tobacco, growing by 9.0% (June: 10.7%) and 3.6% (June: 10.5%) in July.
- ✓ As for the Mining sector, Crude Petroleum (July: -1.2% vs. June: -21.1%) and Natural Gas (July: -4.4% vs. June: -13.5%) continued to fall, albeit at a slower pace.
- ✓ All in all, the industrial activities contracted by 7.4% during first seven months this year from a positive growth of 2.9% in 7M2019 as Covid-19 has caused massive output losses.

|  | Weight        | Jan-20       | Feb-20      | Mar-20       | Apr-20        | May-20        | Jun-20        | Jul-20       | 7M2019       | 7M2020       |
|--|---------------|--------------|-------------|--------------|---------------|---------------|---------------|--------------|--------------|--------------|
| <b>IPI</b>   | <b>100.0%</b> | <b>0.6%</b>  | <b>6.2%</b> | <b>-4.9%</b> | <b>-32.0%</b> | <b>-21.6%</b> | <b>-0.4%</b>  | <b>1.2%</b>  | <b>2.9%</b>  | <b>-7.4%</b> |
| <b>Mining</b>  | <b>25.1%</b>  | <b>-3.9%</b> | <b>6.1%</b> | <b>-6.5%</b> | <b>-19.6%</b> | <b>-22.2%</b> | <b>-17.1%</b> | <b>-3.0%</b> | <b>-1.0%</b> | <b>-9.7%</b> |
| Crude Petroleum  | 12.2%         | -5.9%        | -0.5%       | -7.1%        | -20.2%        | -22.2%        | -21.1%        | -1.2%        | -7.6%        | -11.4%       |
| Natural Gas  | 12.9%         | -2.3%        | 12.0%       | -6.0%        | -19.0%        | -22.2%        | -13.5%        | -4.4%        | 5.3%         | -8.3%        |
| <b>Manufacturing</b>   | <b>68.3%</b>  | <b>2.2%</b>  | <b>6.2%</b> | <b>-4.1%</b> | <b>-37.2%</b> | <b>-22.6%</b> | <b>4.7%</b>   | <b>2.9%</b>  | <b>4.0%</b>  | <b>-6.8%</b> |
| Food, Beverages & Tobacco  | 8.6%          | -5.5%        | 4.4%        | -9.8%        | -9.0%         | -2.5%         | 10.5%         | 3.6%         | 4.1%         | -1.4%        |
| Textiles, Wearing Apparel, Leather & Footwear                            | 1.3%          | 3.2%         | 6.7%        | -1.2%        | -73.8%        | -45.3%        | -9.6%         | -12.9%       | 5.2%         | -19.4%       |
| Wood, Furniture, Paper Products & Printing                               | 4.6%          | 3.0%         | 6.3%        | -6.1%        | -68.4%        | -39.2%        | 7.3%          | 0.8%         | 5.4%         | -13.5%       |
| Petroleum, Chemical, Rubber & Plastic                                    | 20.6%         | 3.6%         | 6.5%        | 3.6%         | -21.4%        | -22.2%        | 1.5%          | 1.5%         | 3.2%         | -3.8%        |
| Non-Metallic Mineral Products, Basic Mineral & Fabricated Metal Products | 9.1%          | 3.9%         | 6.2%        | -9.8%        | -62.7%        | -45.1%        | -14.2%        | -9.8%        | 4.2%         | -19.0%       |
| Electrical & Electronics Products  | 18.2%         | 3.2%         | 7.0%        | -4.9%        | -34.1%        | -11.2%        | 13.2%         | 9.6%         | 3.7%         | -2.3%        |
| Transport Equipment & Other Manufactures                                 | 5.9%          | 1.4%         | 4.9%        | -10.1%       | -69.3%        | -38.5%        | 10.7%         | 9.0%         | 6.4%         | -13.0%       |
| <b>Electricity</b>   | <b>6.6%</b>   | <b>0.0%</b>  | <b>6.8%</b> | <b>-7.0%</b> | <b>-19.3%</b> | <b>-10.3%</b> | <b>-2.4%</b>  | <b>-5.1%</b> | <b>4.6%</b>  | <b>-5.6%</b> |

Sources: CEIC, DOSM

## IPI, y-o-y%



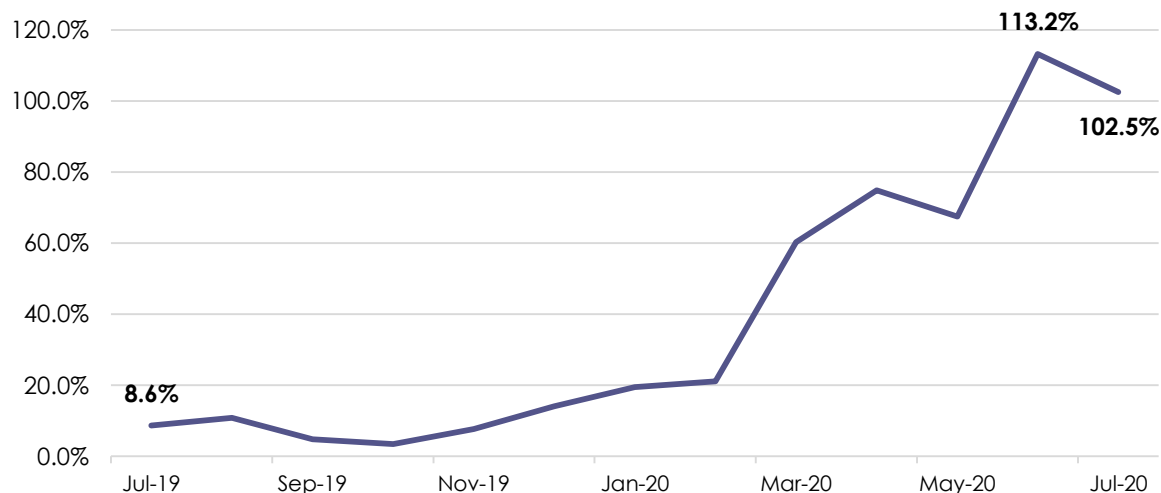
Source: CEIC, DOSM

- ✓ Malaysia's IPI recorded its first positive growth in July after enduring a series of contraction since March this year in light of the prolong Covid-19 pandemic. Today, Malaysia recorded 182 new cases of infections, which is the highest figure since 5 June 2020, suggesting economic recovery is going to be longer amid heightened uncertainties in the global economic activities moving forward.
- ✓ Apart from that, manufacturing sales eased by 1.9% y-o-y in July from 4.2% growth in the previous month, indicating slower demand conditions. This was in tandem with exports performance in the manufacturing industry which moderated by 4.7% y-o-y in July from strong expansion of 13.7% in the previous month.
- ✓ In addition, manufacturers sentiment has also deteriorated as reflected from the IHS Markit Malaysia Manufacturing Purchasing Manager's Index (PMI) in August. It fell to 49.3 points from 50.0 points previously due to weaker customer demand, notably in foreign markets, as well as deterioration in new export orders.
- ✓ Notwithstanding, there is still hope for Malaysian economy to progress as labour market continue to improve. The Unemployment Rate (UR) dropped to 4.7% in July from 4.9% in the previous month while the employment-to-total population ratio increased to 64.9% in July from 64.7% in June. These reflect that the economy is able to create employment amid Covid-19 pandemic globally.
- ✓ All in all, IPI is projected to fall by 7.5% this year from positive growth of 2.4% in 2019. Despite that, we anticipate the recovery in the industrial activities to be more pronounced in the later part of the year as the economy gradually reopen.

# HOW DID THE EQUITY MARKET REACT?

- ✓ The FBM KLCI snapped two straight days of losses as glove stocks were back on the uptrend on bargain hunting. The FBM KLCI closed 14.7 points or 1.0% higher at 1,504.9 on Friday. Index-linked glove makers Top Glove Corp Bhd and Hartalega Holdings Bhd were among the stocks that regained some of their lost ground.
- ✓ In regard to the July's IPI, the manufacturing of petroleum, chemical, rubber and plastic maintained the same growth rate of 1.5% y-o-y as the previous month. On further scrutiny, the IPI for rubber gloves grew above 100.0% on a yearly basis for the second straight month amid robust global demand of rubber gloves. For instance, Top Glove continued to witness robust glove demand as its sales lead time for nitrile glove is now more than 20 months until end of August 2021 from just 18 months in June 2020.
- ✓ Despite increased newsflow on potential discovery of a Covid-19 vaccine, glove usage globally will remain strong even in the event of a discovery of a Covid-19 vaccine, mainly due to increasing healthcare and hygiene awareness in developing countries.
- ✓ Overall, we view that rubber glove makers will continue to heavily influence the movement of the FBMKLCI as Top Glove and Hartalega make up 11% to 13% of the index's total market capitalisation.

**IPI for Manufacturing Rubber Gloves, y-o-y%**



# HOW DID THE EQUITY MARKET REACT?

- ✓ Another sector which was the darling among investors on Friday was the technology sector represented by the Bursa Technology Index which advanced 3.1%, making it the second largest gainer among sectors.
- ✓ In view of business continuity plans due to the Covid-19 pandemic, organizations are relying more on technology via virtual workplace solutions that help teams continue to collaborate, communicate, and operate as usual through remote work arrangements.
- ✓ Henceforth, the technology sector is a clear winner from this pandemic with cloud-based softwares, i.e. video conferencing solution providers being the most obvious one.
- ✓ With the need for cloud-based applications increasing under the new normal, the memory chip demand will follow suit. This is evident through the World Semiconductor Trade Statistics which is projecting a 15.0% y-o-y growth in global memory chip sales in 2020.
- ✓ Overall, this should help sustain the IPI for the manufacturing of E&E products which recorded the highest yearly increase of 9.6% in June among other components.

## World Semiconductor Trade Statistics Industry Forecast

| Components              | Amounts in USD (Billion) |               |               | Year-on-year Growth |             |             |
|-------------------------|--------------------------|---------------|---------------|---------------------|-------------|-------------|
|                         | 2019                     | 2020          | 2021          | 2019                | 2020        | 2021        |
| Discrete Semiconductors | 23.9                     | 22.3          | 23.6          | -0.9%               | -6.6%       | 5.7%        |
| Optoelectronics         | 41.6                     | 39.4          | 41.9          | 9.3%                | -5.1%       | 6.1%        |
| Sensors                 | 13.5                     | 13.2          | 13.9          | 1.2%                | -2.1%       | 4.6%        |
| Integrated Circuits     | 333.4                    | 351.1         | 373.0         | -15.2%              | 5.3%        | 6.3%        |
| -Analog                 | 54                       | 50.8          | 53.8          | -8.2%               | -5.8%       | 5.9%        |
| -Micro                  | 66.4                     | 68.2          | 69.1          | -1.2%               | 2.6%        | 1.4%        |
| -Logic                  | 106.5                    | 109.7         | 113.9         | -2.5%               | 2.9%        | 3.9%        |
| -Memory                 | 106.5                    | 122.4         | 136.1         | -32.6%              | 15.0%       | 11.2%       |
| <b>Total Sales</b>      | <b>412.4</b>             | <b>426.00</b> | <b>452.40</b> | <b>-12.0%</b>       | <b>3.3%</b> | <b>6.2%</b> |

Source: World Semiconductor Trade Statistics

# THANK YOU

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