



From the Desk
of the
Chief Economist

BANK ISLAM

IPI MARKS ITS FIRST CONTRACTION IN EIGHT MONTHS DURING JULY

10 SEPTEMBER 2021

ECONOMIC RESEARCH

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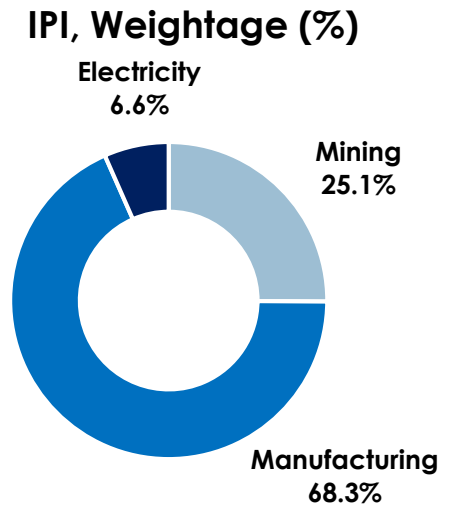
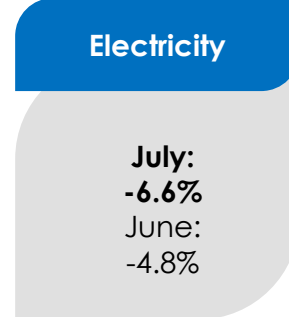
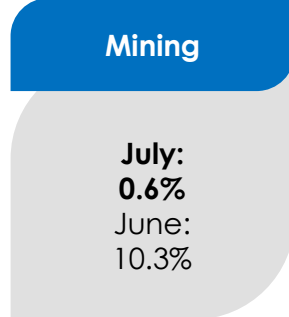
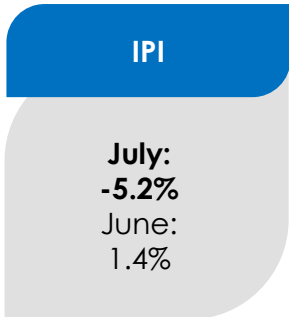
ADAM MOHAMED RAHIM

SHAFIZ BIN JAMALUDDIN

NOR JANNAH ABDULLAH

RAJA ADIBAH RAJA HASNAN

IPI DECLINED BY 5.2% IN JULY

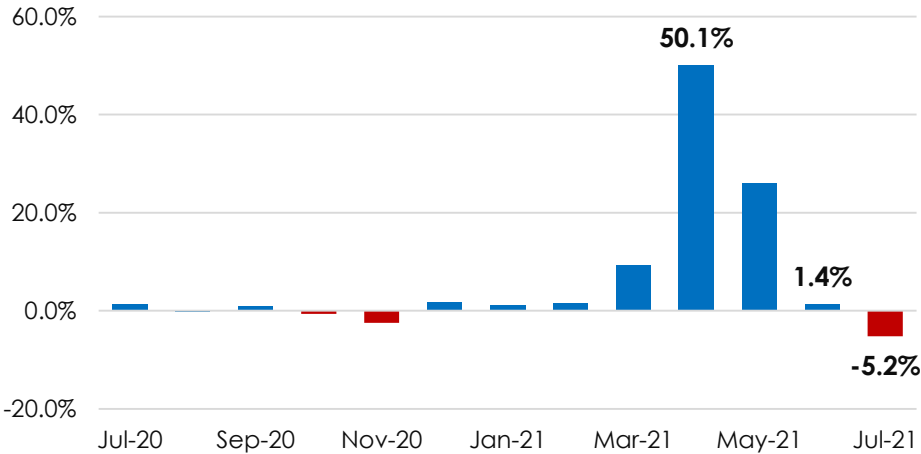


Sources: CEIC, DOSM

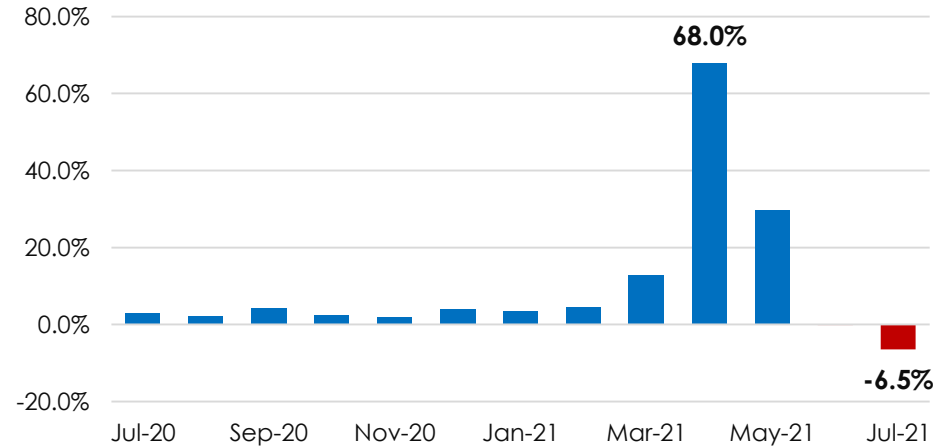
- ✓ Malaysia's Industrial Production Index (IPI) contracted by 5.2% in year-on-year (y-o-y) in July from a 1.4% growth in the previous month (Consensus: -1.9%).
- ✓ The downturn was mainly underpinned by the Manufacturing and Electricity sectors which plummeted by 6.5% (June: -0.2%) and 6.6% (June: -4.8%) during July. These sectors contributed a sizeable share of 74.9% towards the total IPI during July.
- ✓ Meanwhile, the Mining sector moderated by 0.6% in July from a 10.3% expansion in the preceding month.

MINING THE ONLY SECTOR RECORDED A POSITIVE GROWTH DURING JULY, THOUGH AT A SOFTER PACE

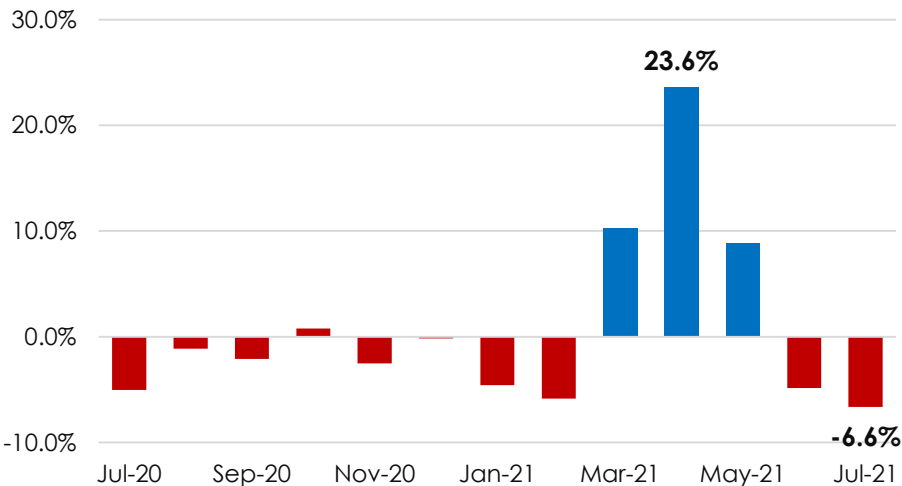
IPI, y-o-y%



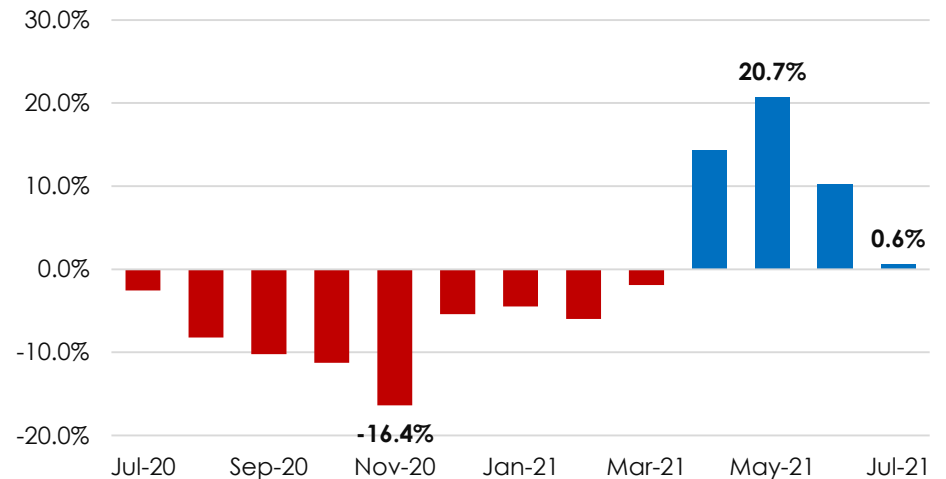
Manufacturing, y-o-y%



Electricity, y-o-y%

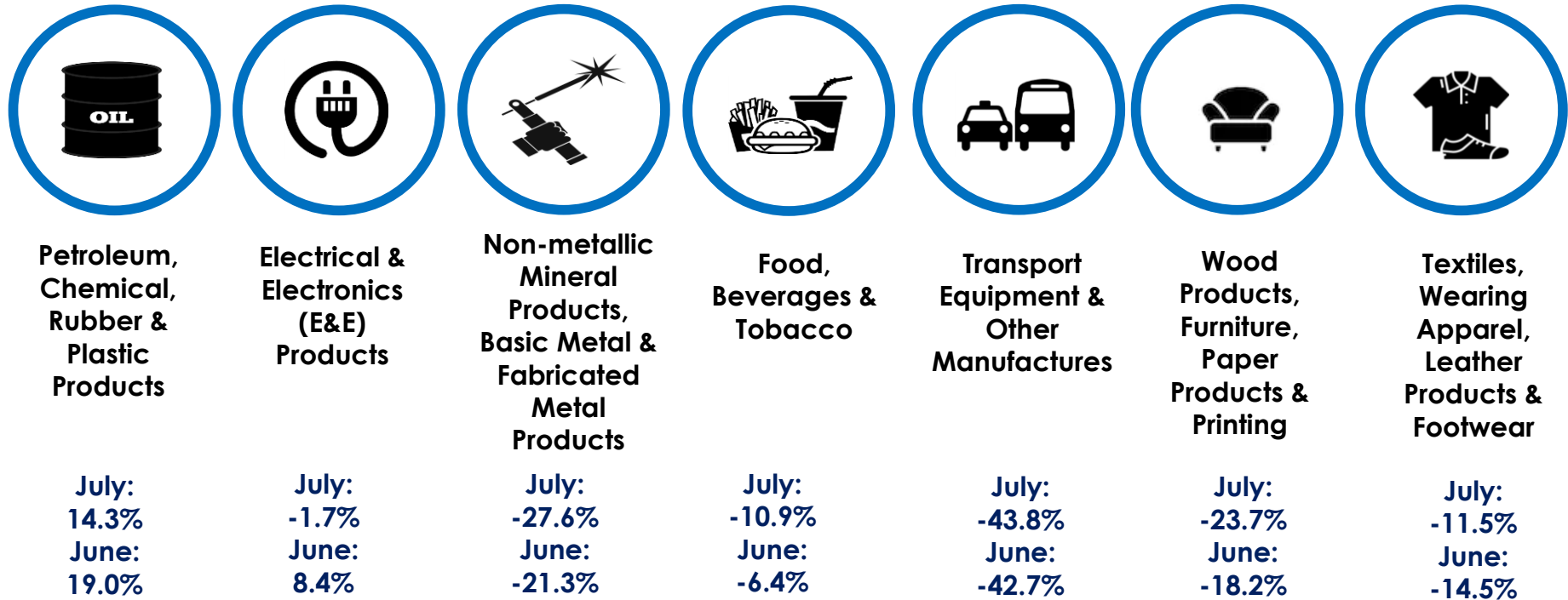


Mining, y-o-y%



Source: CEIC

MOST OF MANUFACTURING SUB-SECTORS RECORDED A NEGATIVE GROWTH DURING JULY



Sources: CEIC, DOSM

- ✓ Within the Manufacturing sector, almost all sub-sectors recorded a negative production growth, led by Transport, Equipment & Other Manufactures (July: -43.8% vs. June: -42.7%), Non-metallic Mineral Products, Basic Metal & Fabricated Metal Products (July: -27.6% vs. June: -21.3%) and Wood Products, Furniture, Paper Products & Printing (July: -23.7% vs. June: -18.2%) during July.
- ✓ Meanwhile, production of Petroleum, Chemical, Rubber & Plastic Products, which constitutes the largest share of the total production at 20.6% eased by 14.3% in July from a 19.0% expansion in the previous month. Apart from that, E&E Products dropped by 1.7% in July (June: 8.4%), marking its first contraction since June last year.

IPI RECOVERED IN 7M2021, SUPPORTED BY THE POSITIVE GROWTH IN MANUFACTURING, MINING AND ELECTRICITY

	Weight	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	7M2020	7M2021
IPI	100.0%	-2.4%	1.7%	1.2%	1.5%	9.3%	50.1%	26.1%	1.4%	-5.2%	-7.5%	9.6%
Mining	25.1%	-16.4%	-5.4%	-4.5%	-6.0%	-1.9%	14.3%	20.7%	10.3%	0.6%	-10.4%	3.9%
-Crude Oil & Condensate	12.2%	-15.8%	-9.0%	-9.4%	-11.5%	-9.4%	2.7%	8.6%	6.3%	-3.6%	-12.9%	-3.0%
-Natural gas	12.9%	-15.1%	-2.5%	-0.5%	-1.6%	4.3%	23.9%	30.9%	13.4%	4.1%	-8.2%	9.6%
Manufacturing	68.3%	2.0%	4.1%	3.5%	4.5%	12.7%	68.0%	29.8%	-0.2%	-6.5%	-6.8%	12.0%
-Food, Beverages & Tobacco	8.6%	-8.7%	-7.9%	0.0%	-7.4%	7.2%	12.7%	0.7%	-6.4%	-10.9%	-1.0%	-1.0%
-Textiles, Wearing Apparel, Leather Products & Footwear	1.3%	-4.0%	1.3%	-0.8%	-1.0%	9.1%	230.6%	39.9%	-14.5%	-11.5%	-19.4%	12.0%
-Wood Products, Furniture, Paper Products & Printing	4.6%	2.2%	3.3%	2.4%	0.9%	11.1%	212.6%	53.0%	-18.2%	-23.7%	-13.5%	11.3%
-Petroleum, Chemical, Rubber & Plastic	20.6%	2.0%	7.7%	4.5%	8.9%	14.1%	37.5%	34.8%	19.0%	14.3%	-3.8%	17.7%
-Non-Metallic Mineral, Basic Metal & Fabricated Metal Products	9.1%	-2.4%	-1.3%	-1.0%	-2.7%	8.0%	141.0%	49.4%	-21.3%	-27.6%	-19.0%	6.6%
-Electrical & Electronic Products	18.2%	8.3%	7.6%	7.9%	10.3%	13.8%	70.1%	21.6%	8.4%	-1.7%	-2.3%	15.1%
-Transport Equipment & Other Manufactures	5.9%	6.5%	8.4%	-0.2%	3.2%	20.9%	275.2%	68.9%	-42.7%	-43.8%	-13.6%	9.1%
Electricity	6.6%	-2.5%	-0.2%	-4.6%	-5.8%	10.3%	23.6%	8.8%	-4.8%	-6.6%	-5.6%	2.5%

Sources: CEIC, DOSM

- ✓ As for the Mining sector, the production of Crude Oil & Condensate declined by 3.6% in July after increasing by 6.3% in the preceding month. Meanwhile, Natural Gas grew moderately to a single-digit of 4.1% in July (June: 13.4%).
- ✓ Cumulatively, total IPI registered a positive growth of 9.6% in 7M2021 from a 7.5% contraction in same period last year, anchored by the growth seen in Manufacturing (7M2021: 12.0% vs. 7M2020: -6.8%), Mining (7M2021: 3.9% vs. 7M2020: -10.4%), as well as Electricity (7M2021: 2.5% vs. 7M2020: -5.6%).



Crude Oil & Condensate

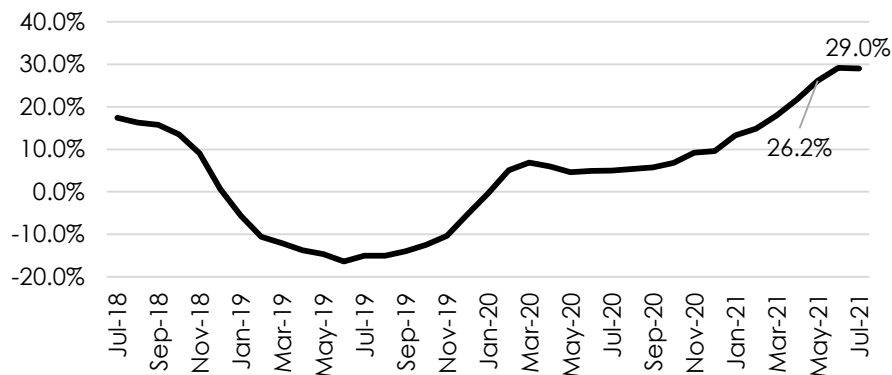
July:
-3.6%
June:
6.3%



Natural Gas

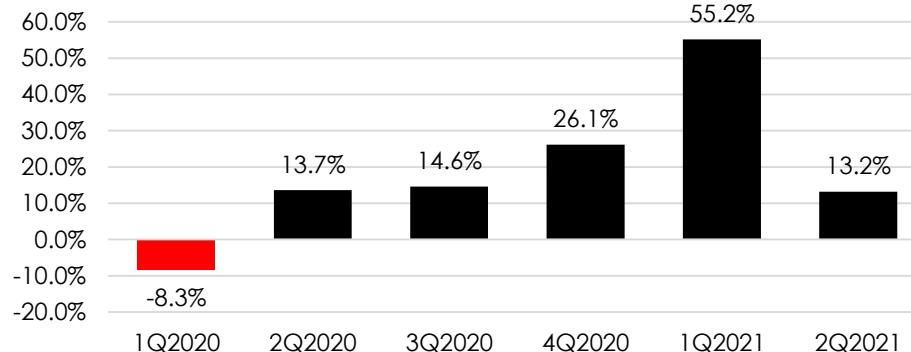
July:
4.1%
June:
13.4%

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



Source: Semiconductor Industry Association (SIA)

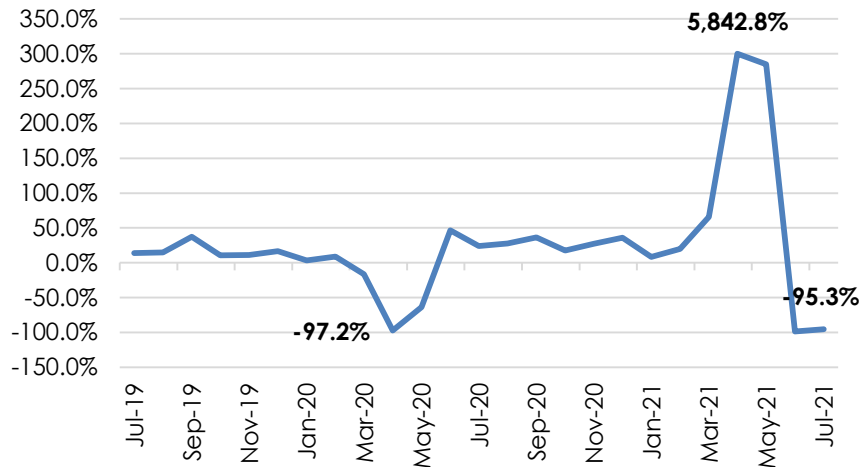
Worldwide Traditional Personal Computer (PC) Shipments, y-o-y%



Source: IDC

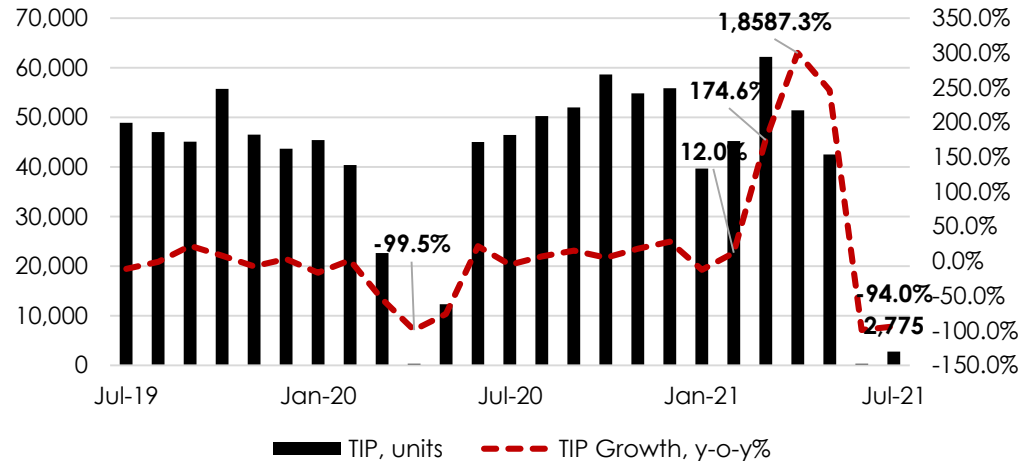
- ✓ Although Penang which is known as Malaysia's semiconductor powerhouse transitioned into Phase 2 of the NRP on 7 July, the manufacturing of E&E products took a breather as highlighted earlier. This was despite the Global Semiconductor Sales (GSS) which continued to record a double-digit growth at 29.0% y-o-y in July (June: 29.1%) following higher adoption of technology alongside Covid-19 pandemic.
- ✓ Similarly, latest data from the International Data Corporation (IDC) showed that the worldwide Personal Computer (PC) shipments continued to record a significant increase during 2Q2021 at 13.2% (1Q2021: 55.2%) driven by growth centered around work from home and remote learning needs.
- ✓ According to a new forecast from the IDC Worldwide Quarterly Personal Computing Device Tracker, worldwide shipments of PCs are expected to grow by 14.2% to 347.0 million units in 2021 compared to 275.0 million units which represented a 4.8% increase in 2020.
- ✓ We view that the rise in demand for semiconductors in many sectors such as electric vehicles and smartphones has reached an extent that manufacturers have become unable to meet the high volume demanded, straining the supply chain ecosystem.
- ✓ To illustrate this, restoring the supply and demand balance will take time as the turn around time of semiconductor takes an average of 12 weeks and it can take up to 14-20 weeks to complete for advanced processes to produce a finished chip.
- ✓ Therefore, we anticipate the supply shortage of semiconductor would persist for a longer period of time following surge in demand for electronic products.

IPI: Manufacturing of Passenger Cars



Sources: CEIC

Total Industry Production (TIP), units



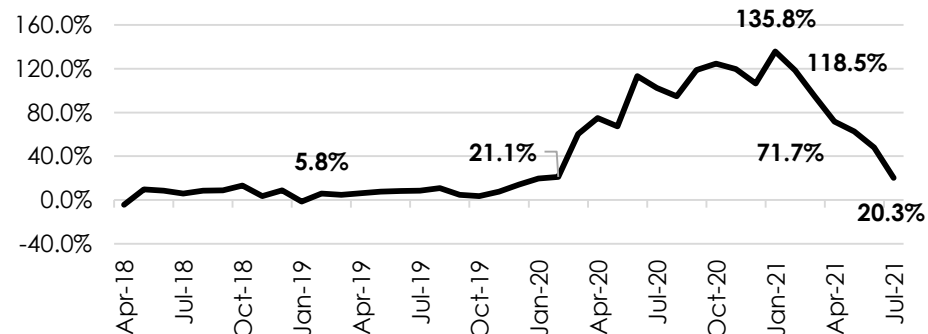
Sources: Malaysia Automotive Association (MAA), CEIC

- ✓ Likewise, other sectors such as the automotive industry continued to be adversely affected particularly by the complete shutdown of factory operations in the enhanced movement control order (EMCO) states and localities such as Selangor and Kuala Lumpur.
- ✓ With that, the IPI growth for the manufacturing of passenger cars remained in a negative territory of 95.3% y-o-y in July (June: -98.6%). The Total Industry Production (TIP) of the automotive industry followed suit to slump by 94.0% y-o-y in July (June: -99.4%) to reach 2,775 units compared to 276 units in the preceding month.
- ✓ Effective from 16 August, the government mentioned that sales and distribution centres for cars together with shops selling car accessories were allowed to be visited by fully vaccinated individuals for states under Phase 1 of the National Recovery Plan (NRP), Non-essential manufacturing sectors including the manufacturing of automobiles were also given the leeway to raise the working capacity based on fully vaccinated workers.
- ✓ Furthermore, the latest transition of Kuala Lumpur, Putrajaya and Selangor from Phase 1 to Phase 2 of the NRP will increase human mobility, enabling fully vaccinated car buyers to visit sales centres located in other districts. This will then indirectly stoke higher production amid strengthening demand for automobiles.
- ✓ These factors mentioned above will altogether bode well for the automotive industry in the coming months.

RUBBER GLOVE PRODUCTION HITS THE LOWEST POINT SINCE DECEMBER LAST YEAR

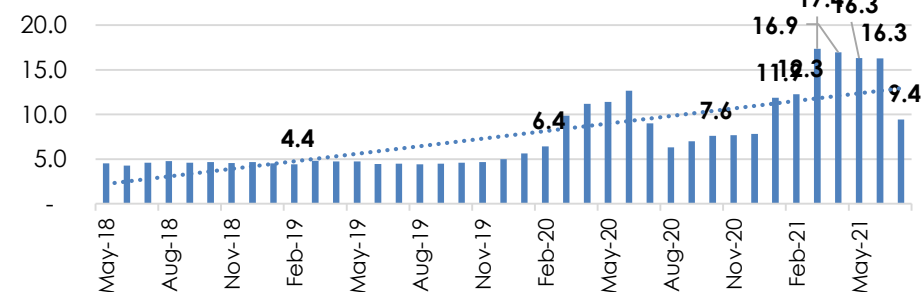
- ✓ The slower IPI growth for manufacturing rubber gloves of 20.3% y-o-y in July (June: 48.0%) coincided with the 4.6% increase in Malaysia's rubber glove production during the same month compared to 28.6% expansion in the previous month.
- ✓ In terms of absolute value, Malaysia's rubber glove production reached only 9.4 billion pairs of rubber gloves during July (June: 16.3 billion pairs), the lowest number of pairs manufactured since December last year. The decline in the number of rubber gloves produced was partly attributable to the EMCO which was imposed in certain localities in Selangor and Kuala Lumpur during the first half of July.
- ✓ It just so happens that most of the rubber glove manufacturing plants of major rubber glove companies are located in areas placed under EMCO, namely Sepang and Klang. These companies were then not able to operate their manufacturing plants during the EMCO period.
- ✓ Nevertheless, we view this slowdown in rubber glove production to be temporary amid the loosening of operating restrictions depending on the number of fully vaccinated workers, Moreover, the high possibility of the Covid-19 to be declared as an endemic will continue to warrant high standards of hygiene practices across business sectors.

IPI: Manufacturing Rubber Gloves, y-o-y growth (%)



Sources: DOSM, CEIC

Malaysian Rubber Glove Production (Billion Pairs)



Sources: DOSM, CEIC

Location Of Rubber Glove Manufacturing Plants

Company	Location of Production Plant	Area under EMCO
Hartalega	Kawasan Perindustrian Tanjung, Sepang, Selangor	Yes
Top Glove	Meru, Klang, Selangor	Yes
Supermax	Meru, Klang, Selangor	Yes
Kossan	Meru, Klang, Selangor	Yes

Source: Various

- ✓ In the immediate term, we envision that the IPI will begin showing a narrower contraction in August before expanding in the following months as the government relaxed restrictions for fully vaccinated workers for industries such as manufacturing and quarrying starting from 16 August and is applicable to states under Phase 1, 2 and 3 of the NRP.
- ✓ On further scrutiny, the leeway to expand working capacity will be subject to the number of fully vaccinated workers. For instance, a factory that has 80.0% to 100.0% of its workers fully vaccinated are allowed to operate at 100.0% working capacity.
- ✓ With the Public-Private Partnership Industrial Immunisation Programme (PIKAS) already fully vaccinating 654,316 or 86.7% of manufacturing sector workers registered as at 30 August, factories will be able to ramp up production as more workers are fully vaccinated,
- ✓ Besides relaxation for manufacturing industries, the loosening of restrictions for fully vaccinated individuals also covered tourism activities within the same state. Other business sub-sectors such as electrical & electronics stores, home goods & kitchen equipment stores, furniture stores, clothing, fashion & accessories and sports equipment are also allowed to operate .
- ✓ The higher scale of tourism activities is may indirectly lead to higher demand of manufactured goods such as toiletries, bed sheets and food products.
- ✓ Visits to the outlets for the abovementioned sub-sectors by fully vaccinated individuals could spur higher demand for retail goods which is also good for the manufacturing of goods for the retail sector.

Working Capacity Allowed For Manufacturing Industry For States Under Phase 1,2 And 3 Of The NRP

Rate of Fully Vaccinated Workers	Working Capacity Allowed
80.0% to 100.0%	100.0%
60.0% to 79.0%	80.0%
40.0% to 59.0%	60.0%

Source: Prime Minister's Office

Public-Private Partnership Covid-19 Industry Immunisation Programme (PIKAS) Statistics As At 30 August 2021

Number of workers vaccinated with first dose under PIKAS	899,718
Number of workers fully vaccinated under PIKAS	654,316
% of workers vaccinated with first dose under PIKAS	96.0%
% of workers fully vaccinated under PIKAS	86.7%

Source: Ministry of International Trade and Industry

- ✓ Notwithstanding this, 55.0% of manufacturers surveyed had their orders cancelled due to their inability to deliver, while 40.0% had their 2H2021 order contracts reviewed due to lockdowns and manpower capacity restrictions on business and operations according to the latest Federation of Malaysian Manufacturers (FMM)-Malaysian Institute of Economic Research (MIER) Business Conditions Survey 1H2021 released on 1 September.
- ✓ The possibility to revisit the reviewed contracts amid the loosened restrictions remain uncertain. If contracts remain as it is without any amendment considering the latest relaxations of restrictions, production activities could still likely face some headwinds in the coming months, causing the expected business conditions index (2H2021: 60.0 points vs. 1H2021: 65.0 points) compiled under the FMM-MIER Business Conditions Survey 1H2021 to come into reality.
- ✓ In addition, costs of production may rise if supply chain bottlenecks do not ease if the threat from the Delta variant continues to impact businesses locally and globally. To illustrate this, manufacturers reeling from shortages of key components and higher raw material and energy costs are being forced into bidding wars to get space on vessels, pushing freight rates to records and prompting some exporters to raise prices or simply cancel shipments altogether. In fact, the forward looking cost of production index under the FMM-MIER Business Conditions Survey 2021 exhibits a slight rise to 166.0 points in 2H2021 from 165.0 points in 1H2021.
- ✓ Taking these matters into account, we reiterate our **IPI growth forecast of 6.3% for 2021 after declining by 4.2% in 2020.**

FMM-MIER Business Conditions Index Values

Indicators	Actual	Expected
Breakdown	1H2021	2H2021
Business Conditions	65.0	60.0
Local Sales	56.0	51.0
Export Sales	71.0	68.0
Production Volume	61.0	62.0
Capacity Utilisation	59.0	60.0
Capital Investment	78.0	81.0
Number of Employees	82.0	87.0
Cost of Production	165.0	166.0

Source: FMM-MIER Business Conditions Survey 1H2021

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