



From the Desk
of the
Chief Economist

BANK ISLAM

IPI CONTRACTED BY 2.2% IN NOVEMBER 2020

11 JANUARY 2021

ECONOMIC RESEARCH

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IPI

November:
-2.2%
October:
-0.5%



Manufacturing

November:
2.0%
October:
2.4%



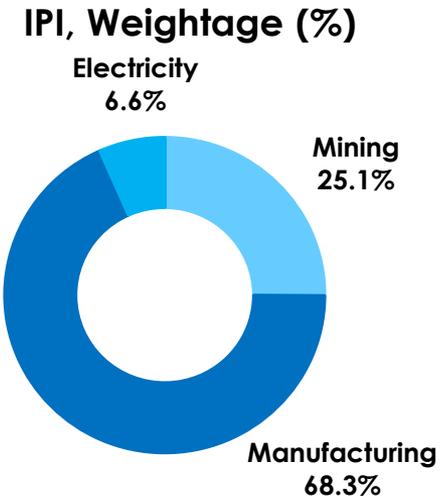
Mining

November:
-15.4%
October:
-10.6%



Electricity

November:
-2.5%
October:
0.8%

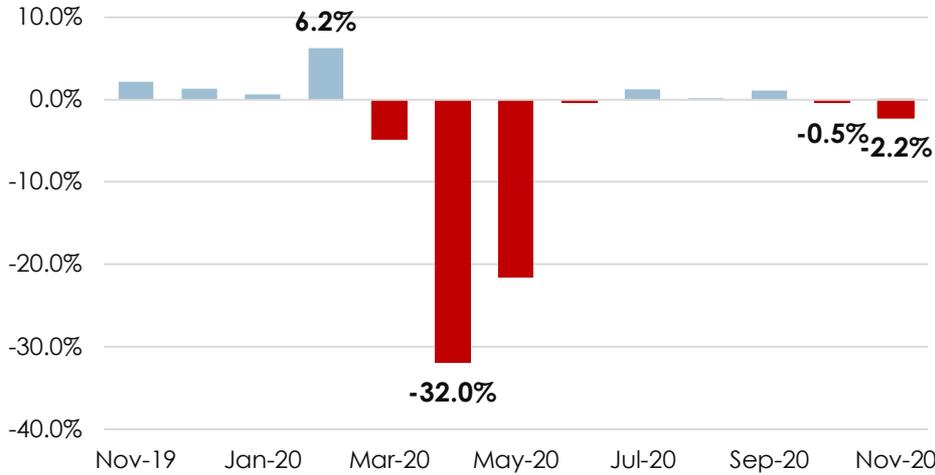


Sources: CEIC, DOSM

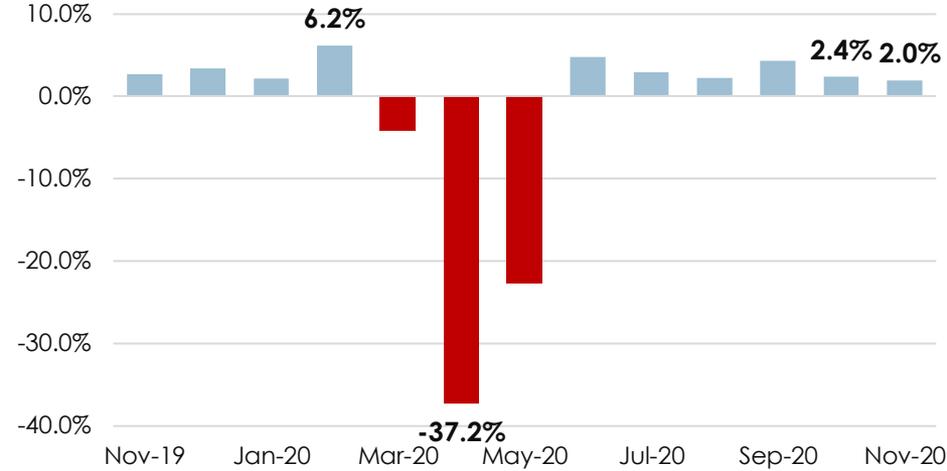
- ✓ Malaysia's Industrial Production Index (IPI) contracted by 2.2% year-on-year (y-o-y) in November 2020, extending the 0.5% fall in October (Consensus: 0.1%, Bank Islam: 0.2%).
- ✓ The deterioration in IPI was mainly attributed by the decline in production activities of Electricity (November: -2.5% vs. October: 0.8%), as well as Mining (November: -15.4% vs. October: -10.6%) sector.
- ✓ Meanwhile, the production activities in Manufacturing sector continued to expand by 2.0% in November, though slightly lower as compared to a 2.4% growth recorded in the previous month. This has cushioned the overall downturn of total index during November last year.

MINING SECTOR PRODUCTION ACTIVITIES – 9 MONTHS OF CONTRACTION

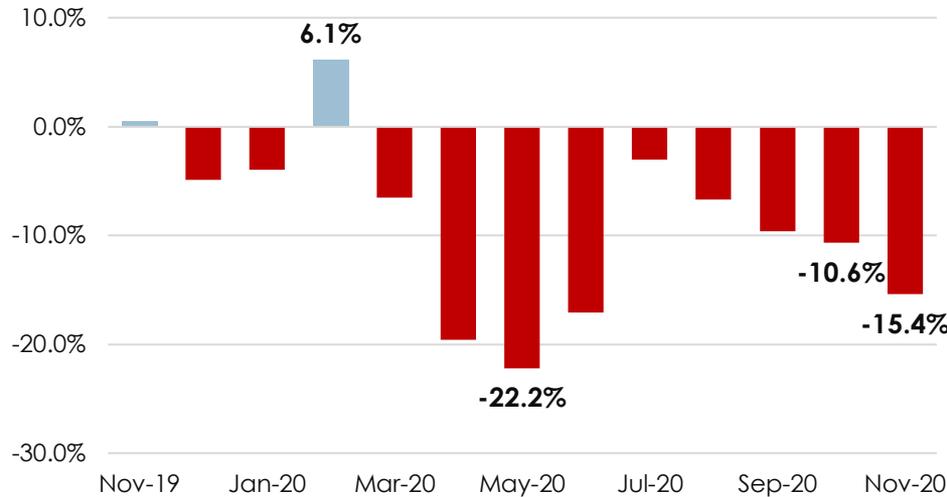
IPI, y-o-y%



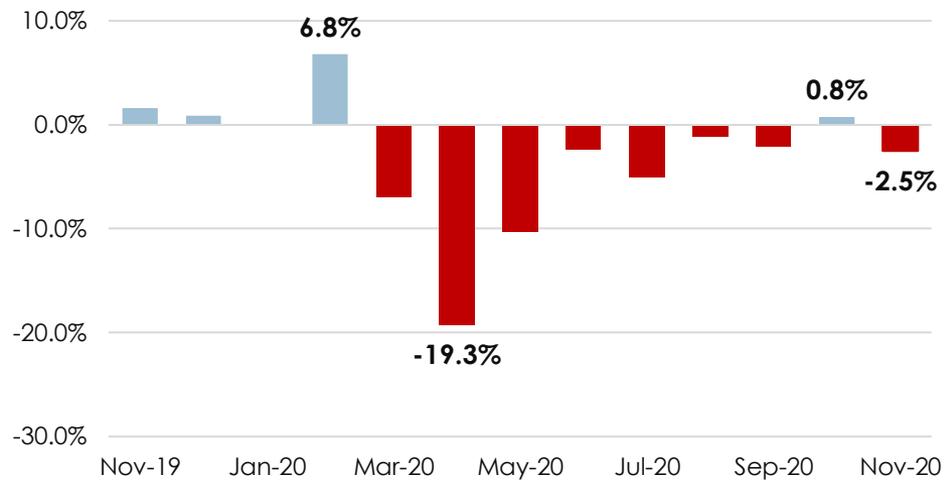
Manufacturing, y-o-y%

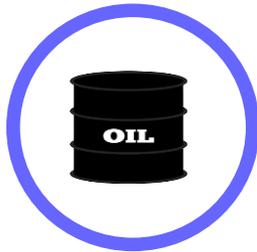


Mining, y-o-y%



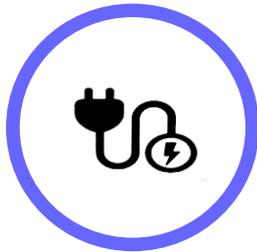
Electricity, y-o-y%





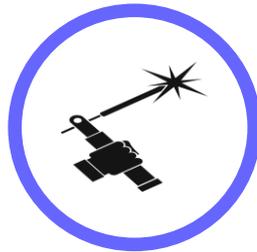
**Petroleum,
Chemical,
Rubber &
Plastic**

**November:
2.0%
October:
1.9%**



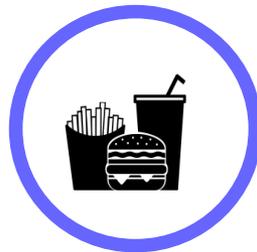
**Electrical &
Electronics
Products
(E&E)**

**November:
8.3%
October:
7.5%**



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

**November:
-3.0%
October:
-2.2%**



**Food,
Beverages &
Tobacco**

**November:
-8.7%
October:
-3.4%**



**Transport
Equipment &
Other
Manufacturers**

**November:
6.5%
October:
3.5%**



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

**November:
2.3%
October:
1.5%**



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

**November:
-4.0%
October:
-2.6%**

Sources: CEIC, DOSM

- ✓ Within the Manufacturing sector, the E&E (November: 8.3% vs. October: 7.5%) and Petroleum, Chemical, Rubber & Plastic products (November: 2.0% vs. October: 1.9%) production remained as the engine of growth during November. These products accounted for 38.8% of the total IPI.
- ✓ This was followed by the Transport Equipment & Other Manufacturers and Wood, Furniture, Paper Products & Printing, which increased by 6.5% (October: 3.5%) and 2.3% (October: 1.5%) respectively in November.
- ✓ Nonetheless, the production for Non-Metallic Mineral Products, Basic Metal & Fabricated Metal Products (November: -3.0% vs. October: -2.2%) and Textile, Wearing Apparel, Leather & Footwear (November: -4.0% vs. October: -2.6%) continued to record negative growth in November.

THE INDUSTRIAL PRODUCTION WAS IN CONTRACTIONARY LEVEL FOR THE SECOND STRAIGHT MONTH

	Weight	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	11M2019	11M2020
IPI	100.0%	-0.4%	1.2%	0.2%	1.0%	-0.5%	-2.2%	2.4%	-4.8%
Mining	25.1%	-17.1%	-3.0%	-6.7%	-9.6%	-10.6%	-15.4%	-1.8%	-10.1%
-Crude Oil & Condensate	12.2%	-21.1%	-1.2%	-5.0%	-9.7%	-12.6%	-15.8%	-7.1%	-19.2%
-Natural gas	12.9%	-13.5%	-4.4%	-8.0%	-9.5%	-9.0%	-15.1%	3.2%	-17.4%
Manufacturing	68.3%	4.7%	2.9%	2.2%	4.3%	2.4%	2.0%	3.6%	-3.3%
-Food, Beverages & Tobacco	8.6%	10.5%	6.3%	4.8%	4.9%	-3.4%	-8.7%	3.2%	-0.8%
-Textiles, Wearing Apparel, Leather & Footwear	1.3%	-9.6%	-12.9%	-11.0%	-4.1%	-2.6%	-4.0%	5.3%	-14.2%
-Wood, Furniture, Paper Products & Printing	4.6%	7.3%	0.8%	-2.5%	2.3%	1.5%	2.3%	5.4%	-8.2%
-Petroleum, Chemical, Rubber & Plastic	20.6%	1.5%	1.5%	1.7%	3.2%	1.9%	2.0%	2.9%	-1.6%
-Non-Metallic Mineral, Basic Metal & Fabricated Metal Products	9.1%	-14.2%	-9.8%	-6.3%	-3.9%	-2.2%	-3.0%	4.0%	-13.4%
-Electrical & Electronic Products	18.2%	13.2%	9.8%	7.1%	9.8%	7.5%	8.3%	3.0%	1.7%
-Transport Equipment & Other Manufactures	5.9%	10.7%	4.8%	3.5%	4.5%	3.5%	6.5%	6.0%	-6.9%
Electricity	6.6%	-2.4%	-5.0%	-1.1%	-2.1%	0.8%	-2.5%	3.5%	-4.0%

Sources: CEIC, DOSM

- ✓ As for the Mining sector, the production of Crude Oil and Condensate has been declining for 23 consecutive months in November, falling by 15.8% from -12.6% in the preceding month. In addition, Natural Gas dropped by 15.1% in November from 9.0% contraction previously.
- ✓ Cumulatively, industrial production activities plunged by 4.8% during 11M2020 as compared to a 2.4% growth in the same period last year, largely affected by lower factory production amid the resurgence of Covid-19 infections in Malaysia and the implementation of Movement Control Order (MCO) and Conditional MCO.



Crude Oil & Condensate

November:
-15.8%
October:
-12.6%



Natural Gas

November:
-15.1%
October:
-9.0%

Rig Count - Worldwide vs. Asia



Source: Baker Hughes

- ✓ The total number of rigs worldwide saw a slight increase to 669 rigs in November 2020 (November 2019: 1,096 rigs).
- ✓ Likewise, the total number of rigs in Asia declined to 164 rigs in November 2020 (November 2019: 220 rigs), in line with the lower production of crude petroleum.
- ✓ As such, it was no surprise that the sub-index of Crude Oil and Condensate under the industrial production index registered a substantial 15.8% y-o-y drop in November 2020.
- ✓ In the near term, conditions are likely to remain the same for the Crude Oil and Condensate sub-index as the total worldwide rig count has declined further to 665 in December 2020 from 669 in previous month while the number of rigs in Asia remained unchanged for the same month.

- ✓ Back in December 2020, the OPEC+ initially agreed to increase output by 500,000 barrels per day (bpd) and adjust production cuts to 7.2 million bpd from 7.7 million bpd previously. The latest outcome of the OPEC+ meeting on 5 January 2021 indicated that the OPEC+ will now lift oil production by 75,000 bpd over January levels, leading to a smaller output cut of 7.125 million bpd in February. March will also see a further reduction in production cuts to 7.05 million bpd. More importantly, Saudi Arabia voluntarily planned to cut an additional 1.0 million bpd in February and March above its current quota, all while OPEC's allies (Russia and Kazakhstan) get to ramp up production. Therefore, the OPEC+ will reduce output to a tune of 8.125 million bpd and 8.05 million bpd in February and March respectively.
- ✓ Specifically for Malaysia, the country's crude oil production has been slashed by 102,000 barrels per day (bpd) from 595,000 bpd to 493,000 bpd from January to March 2021.
- ✓ As such, production of Malaysia's crude oil is expected to remain sluggish in the next few months especially with Petronas is planning to conduct the decommissioning of wells and facilities with the peak slated to be in 2022 amidst the current challenging operating climate.

OPEC+ Production Cuts ('000 barrels per day (bpd))

Country	Jan-21		Feb-21		Mar-21	
	Cut in Production ('000 bpd)	Required Production ('000 bpd)	Cut in Production ('000 bpd)	Required Production ('000 bpd)	Cut in Production ('000 bpd)	Required Production ('000 bpd)
Malaysia	-102	493	-102	493	-102	493
OPEC+	-7,200	36,653	-7,125	36,728	-7,050	36,803
OPEC+ combined with Saudi Arabia's additional output cut	-7,200	36,653	-8,125	36,728	-8,050	36,803

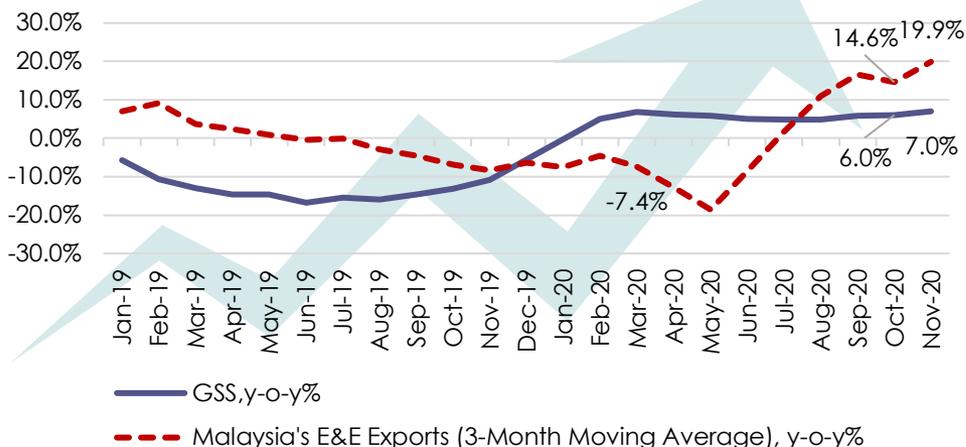
Source: OPEC

Petronas Outlook For Decommissioning Of Facilities and Wells

Type of Facilities	2020	2021	2022	2023
Subsea Facilities	5	0	0	0
Floaters	1	0	2	1
Platform	0	0	1	3
Wells	15	18	24	29
Conductor Removal	0	0	51	10
Total	21	18	78	43

Source: Petronas Activity Outlook 2021-2023

Global Semiconductor Sales (GSS) vs. Malaysia's E&E Exports



Sources: WSTS, DOSM

- ✓ Despite the drag by the mining sector, there is a silver lining from the E&E related products which are likely to ride an imminent upcycle. This is indicated by the positive growth of Global Semiconductor Sales (GSS), higher by 7.0% y-o-y in November 2020 (October 2020: 6.0%) as compared to -10.8% in November 2019.
- ✓ Under further scrutiny, Asia Pacific and Others saw a 6.5% y-o-y increase in semiconductor sales in November 2020.
- ✓ According to the World Semiconductor Trade Statistics (WSTS), the semiconductor products are likely to grow higher by 8.4% in 2021 from an estimated 5.1% in 2020, supported by the increase in Integrated Circuits (2021F: 8.3% vs. 2020E: 6.4%), Optoelectronics (2021F: 10.2% vs. 2020E: -2.6%), Discrete Semiconductors (2021F: 7.2% vs. 2020E: -1.2%) and Sensors (2021F: 7.8% vs. 2020E: 7.4%).

World Semiconductor Trade Statistics

	Amounts (USD million)			Y-o-y%		
	2019	2020E	2021F	2019	2020E	2021F
Americas	78,619	93,343	102,164	-23.7%	18.7%	9.5%
Europe	39,816	36,452	38,543	-7.3%	-8.4%	5.7%
Japan	35,993	35,759	37,841	-9.9%	-0.6%	5.8%
Asia Pacific	257,879	267,590	290,854	-8.8%	3.8%	8.7%
Total World (USD million)	412,307	433,145	469,403	-12.0%	5.1%	8.4%
Discrete Semiconductors	23,881	23,593	25,292	-0.9%	-1.2%	7.2%
Optoelectronics	41,561	40,481	44,628	9.3%	-2.6%	10.2%
Sensors	13,511	14,515	15,642	1.2%	7.4%	7.8%
Integrated Circuits	333,354	354,556	383,840	-15.2%	6.4%	8.3%
-Analog	53,939	53,954	58,578	-8.2%	0.0%	8.6%
-Micro	66,440	67,744	68,444	-1.2%	2.0%	1.0%
-Logic	106,535	113,419	121,507	-2.5%	6.5%	7.1%
-Memory	106,440	119,440	135,311	-32.6%	12.2%	13.3%
Total Products (USD million)	412,307	433,145	469,403	-12.0%	5.1%	8.4%

World Semiconductor Trade Statistics According to Geographic Location

Year-on-year Sales	Nov-19	Nov-20	Year-on-year Change
Americas	7.5	8.5	12.5%
Europe	3.4	3.3	-0.6%
Japan	3.1	3.3	5.1%
China	13.0	13.9	6.5%
Asia Pacific and Others	9.8	10.5	6.5%
Total	36.9	39.4	7.0%

Source: WSTS

PRODUCTION OF RUBBER GLOVES REMAINED RESILIENT

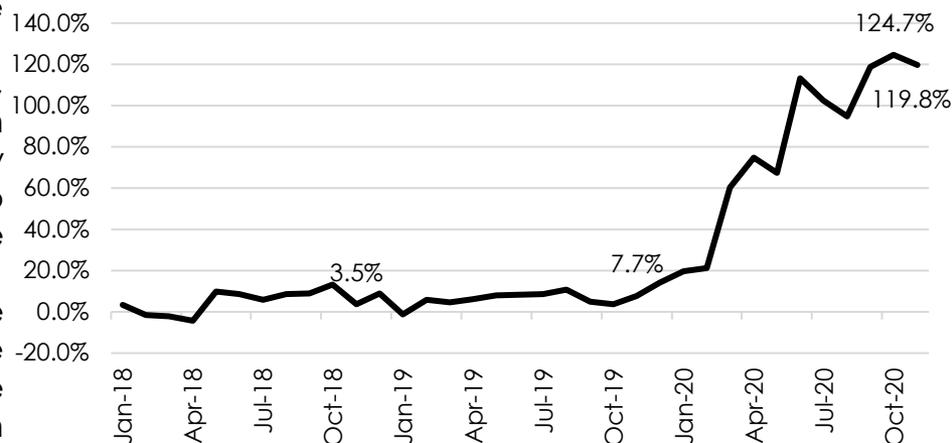
- ✓ The IPI for manufacturing rubber gloves jumped by 119.8% in November (October: 124.7%).
- ✓ Malaysia's rubber glove production in November increased by 63.9% y-o-y (October: 65.7%), marking the tenth consecutive month of y-o-y gains of above 40.0%.
- ✓ Meanwhile on a month-on-month (m-o-m) basis, production of rubber gloves rose by 53.6k pairs in November (October: 599.9k), following the temporary closure of factories of rubber glove makers such as Top Glove and Hartalega after their workers were found to be infected with Covid-19.
- ✓ Nevertheless, the smaller m-o-m increase in rubber glove production in November indicates that perhaps some smaller players such as Rubberex could have filled in the supply gap. In the long run, new entrants such as Mah Sing Group and Vizione into the rubber glove industry could support any shortfall in the larger rubber glove makers.

List of Rubber Glove Makers That Experienced Covid-19 within their workers

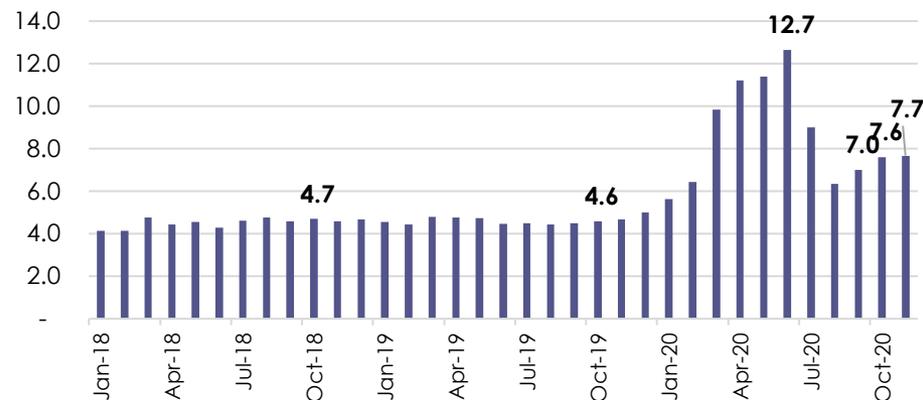
Company	No. of Cases	Remarks
Kossan	563 (8.0% of total workforce)	- Temporarily suspended operations at one of its plant in Klang and resumed operations in stages starting from 21 December 2020.
Hartalega	35 (0.4% of total workforce)	- Some production lines were temporarily shut down. The capacity loss is estimated to be less than 0.5% of annual output.
Top Glove	5,147 (58.0% of total workforce)	- Ceased operations in 28 factories in Klang for 4 weeks from 17 November.

Sources: Various media sources
ECONOMIC RESEARCH

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



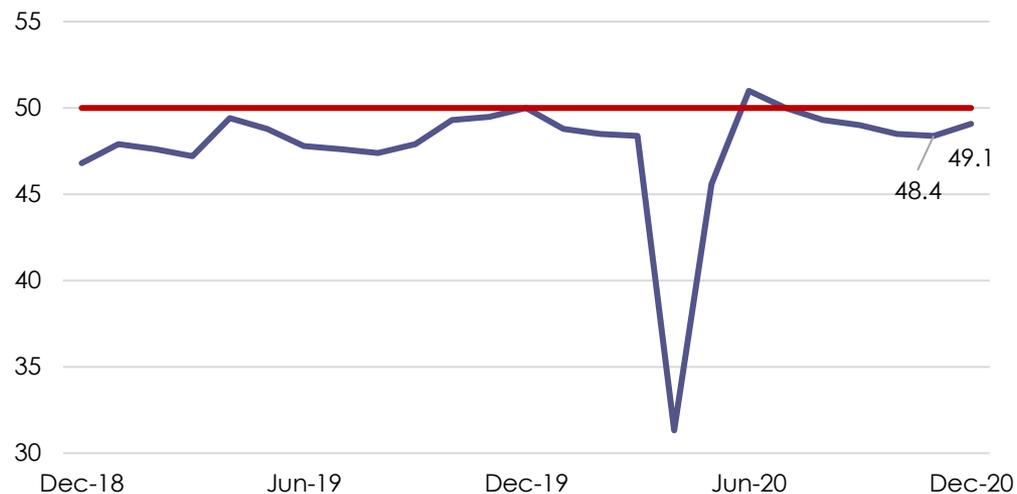
Malaysian Rubber Glove Production (Billion Pairs)



Sources: DOSM, CEIC

- ✓ On a broader scale, the J.P. Morgan Global Manufacturing PMI rose remained unchanged at 53.8 points in December compared to a month ago. Meanwhile, Malaysia's Manufacturing PMI in December hit a four-month high of 49.1 points, increasing from 48.5 points in the previous month. This indicates an improvement in the health of Malaysia's manufacturing sector.
- ✓ Perhaps, this was a result of the year-end festive season which saw higher demand for manufactured goods. Moreover, the easing in movement restrictions whereby interstate travel was allowed probably led to the increase in demand for food and beverages at resorts and tourist spots.
- ✓ All in all, we project **IPI to drop by 5.0% in 2020 from a positive growth of 2.4% in 2019 before recovering to a tune of above 4.0% in 2021** in light of the expected pickup in economic activity, barring any unforeseen circumstances from the pandemic.
- ✓ Following the recent announcement by the Prime Minister regarding the re-imposition of a MCO for six states, businesses in the manufacturing, construction, services, trade and distribution, agriculture and commodities sectors are allowed to operate within those states. Henceforth, the impact towards manufacturing activity may not be as bad compared to the MCO imposed in March 2020.

Malaysia's Manufacturing PMI, points



THANK YOU

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