



From the Desk
of the
Chief Economist

BANK ISLAM

MALAYSIA'S THREE-MONTH IPI GROWTH STREAK SNAPPED IN OCTOBER ON MINING SLUMP

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ECONOMIC RESEARCH

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

MANUFACTURING SECTOR PRODUCTION ACTIVITIES SOFTENED IN OCTOBER



IPI

October:
-0.5%
September:
1.0%



Manufacturing

October:
2.4%
September:
4.3%



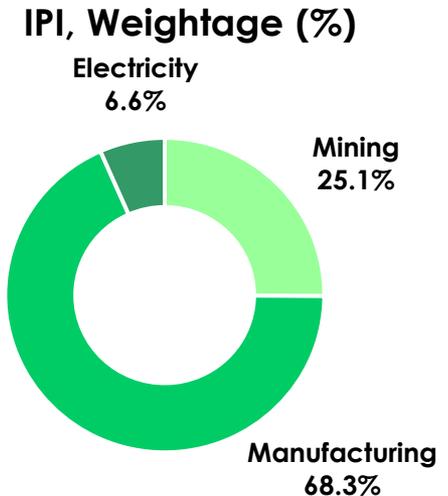
Mining

October:
-10.6%
September:
-9.6%



Electricity

October:
1.0%
September:
-2.1%



Sources: CEIC, DOSM

- ✓ Malaysia's Industrial Production Index (IPI) contracted by 0.5% year-on-year (y-o-y) in October from a 1.0% growth in September (Consensus: 0.2%, Bank Islam: -1.6%).
- ✓ The fall was mainly contributed by the Mining sector which continued to decline by 10.6% in October from -9.6% in the previous month.
- ✓ A further drop in the IPI was somewhat prevented by the Manufacturing sector which grew modestly by 2.4% in October (September: 4.3%). Recall that the Manufacturing sector forms a sizeable share of 68.3% of the total IPI.
- ✓ Interestingly, the production activities in Electricity sector rebounded by 1.0% in October (September: -2.1%) after enduring a series of contractions since March this year.

MANUFACTURING SECTOR STILL RECORDED POSITIVE GROWTH



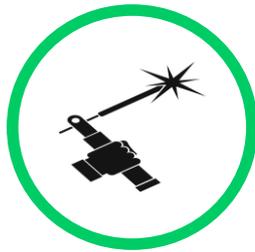
**Petroleum,
Chemical,
Rubber &
Plastic**

**October:
1.7%**
**September:
3.2%**



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

**October:
8.1%**
**September:
9.8%**



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

**October:
-2.6%**
**September:
-3.9%**



**Food,
Beverages &
Tobacco**

**October:
-3.4%**
**September:
4.9%**



**Transport
Equipment &
Other
Manufacturers**

**October:
3.5%**
**September:
4.5%**



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

**October:
1.5%**
**September:
2.3%**



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

**October:
-2.6%**
**September:
-4.1%**

Sources: CEIC, DOSM

- ✓ Within the Manufacturing sector, the E&E (October: 8.1% vs. September: 9.8%) and Petroleum, Chemical, Rubber & Plastic products (October: 1.7% vs. September: 3.2%) production remained as the anchor of growth, despite increasing at a modest pace in October. 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 grew moderately by 3.5% (September: 4.5%) and 1.5% (September: 2.3%) respectively in October.
- ✓ Nonetheless, the production for Non-Metallic Mineral Products, Basic Metal & Fabricated Metal Products (October: -2.6% vs. September: -3.9%) and Textile, Wearing Apparel, Leather & Footwear (October: -2.6% vs. September: -4.1%) continued to drop albeit at a slower pace.

THE INDUSTRIAL PRODUCTION OF THE MINING SECTOR WAS STILL CONTRACTING

	Weight	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	10M2019	10M2020
IPI	100.0%	-21.6%	-0.4%	1.2%	0.2%	1.0%	-0.5%	2.4%	-5.1%
Mining	25.1%	-22.2%	-17.1%	-3.0%	-6.7%	-9.6%	-10.6%	-2.0%	-9.5%
-Crude Oil & Condensate	12.2%	-22.2%	-21.1%	-1.2%	-5.0%	-9.7%	-12.6%	-7.6%	-10.8%
-Natural gas	12.9%	-22.2%	-13.5%	-4.4%	-8.0%	-9.5%	-9.0%	3.2%	-8.4%
Manufacturing	68.3%	-22.6%	4.7%	2.9%	2.2%	4.3%	2.4%	3.7%	-3.8%
-Food, Beverages & Tobacco	8.6%	-2.5%	10.5%	6.3%	4.8%	4.9%	-3.4%	3.3%	0.0%
-Textiles, Wearing Apparel, Leather & Footwear	1.3%	-45.3%	-9.6%	-12.9%	-11.0%	-4.1%	-2.6%	5.2%	-15.3%
-Wood, Furniture, Paper Products & Printing	4.6%	-39.2%	7.3%	0.8%	-2.5%	2.3%	1.5%	5.4%	-9.3%
-Petroleum, Chemical, Rubber & Plastic	20.6%	-22.2%	1.5%	1.5%	1.7%	3.2%	1.7%	2.9%	-2.0%
-Non-Metallic Mineral, Basic Metal & Fabricated Metal Products	9.1%	-45.1%	-14.2%	-9.8%	-6.3%	-3.9%	-2.6%	4.0%	-14.5%
-Electrical & Electronic Products	18.2%	-11.2%	13.2%	9.8%	7.1%	9.8%	8.1%	3.2%	1.1%
-Transport Equipment & Other Manufactures	5.9%	-38.5%	10.7%	4.8%	3.5%	4.5%	3.5%	6.1%	-8.3%
Electricity	6.6%	-10.3%	-2.4%	-5.0%	-1.1%	-2.1%	1.0%	3.7%	-4.1%

Sources: CEIC, DOSM

- ✓ As for the Mining sector, the production of Crude Oil and Condensate has recorded 22 straight months of decline in October, falling by 12.6% from -9.7% in the preceding month. In addition, Natural Gas dropped by 9.0% in October, slower than the 9.5% contraction previously.
- ✓ Cumulatively, industrial production activities plummeted by 5.1% during 10M2020 as compared to the 2.4% growth in the same period last year, largely affected by the Covid-19 pandemic amid the implementation of movement control order (MCO) and conditional movement control order (CMCO).



Crude Oil & Condensate

October:
-12.6%
September:
-9.7%

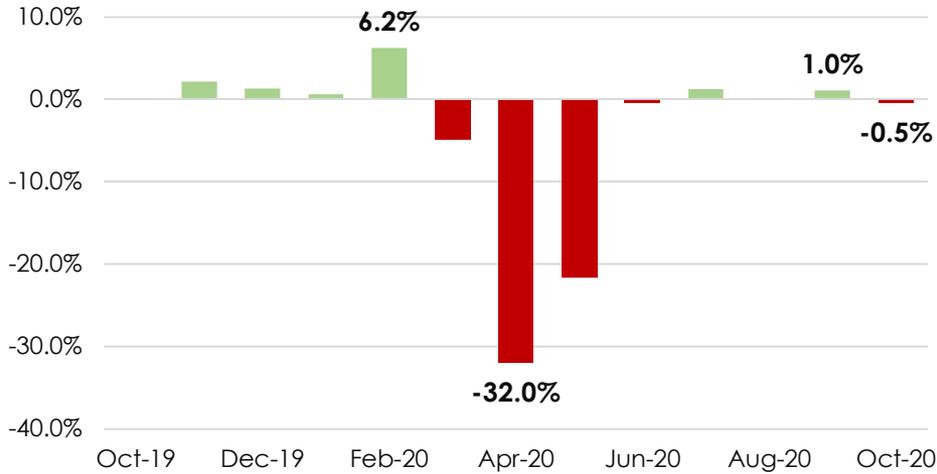


Natural Gas

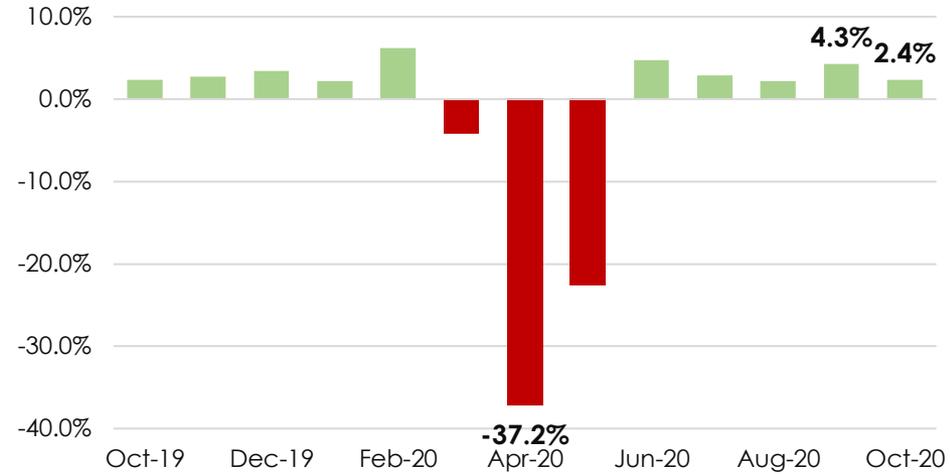
October:
-9.0%
September:
-9.5%

MINING SECTOR PRODUCTION ACTIVITIES – 8 MONTHS OF CONTRACTION

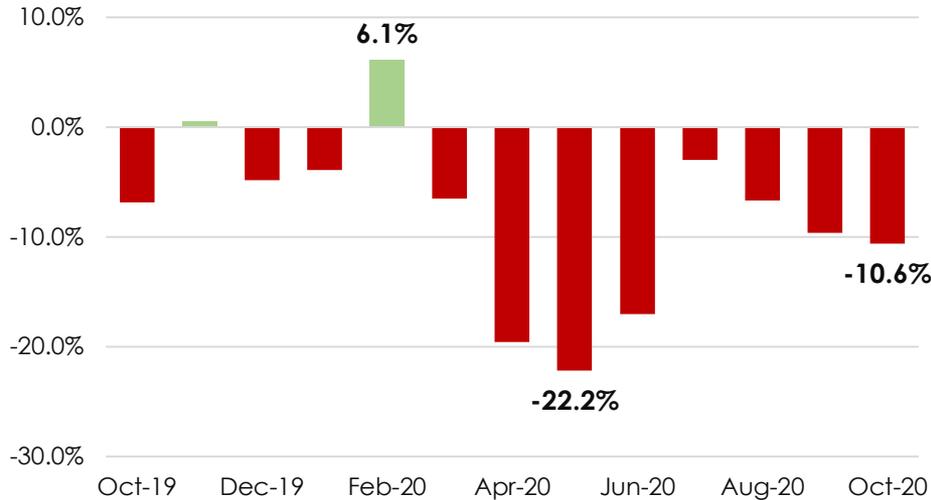
IPI, y-o-y%



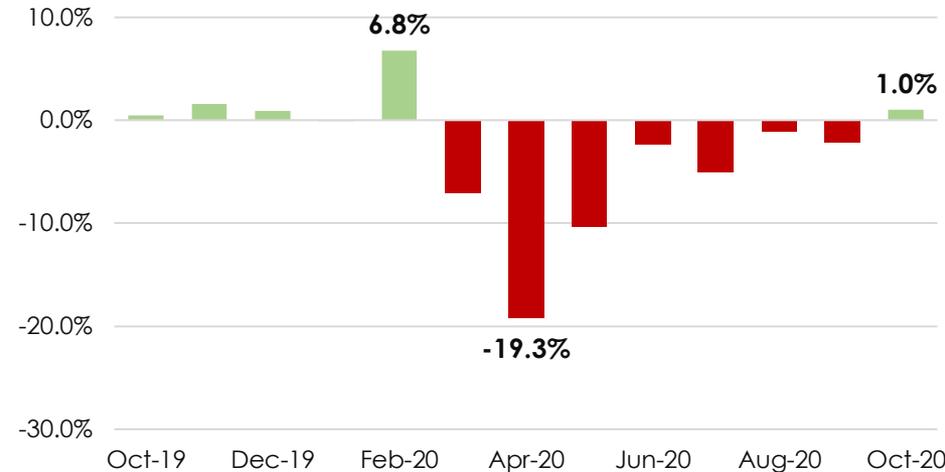
Manufacturing, y-o-y%



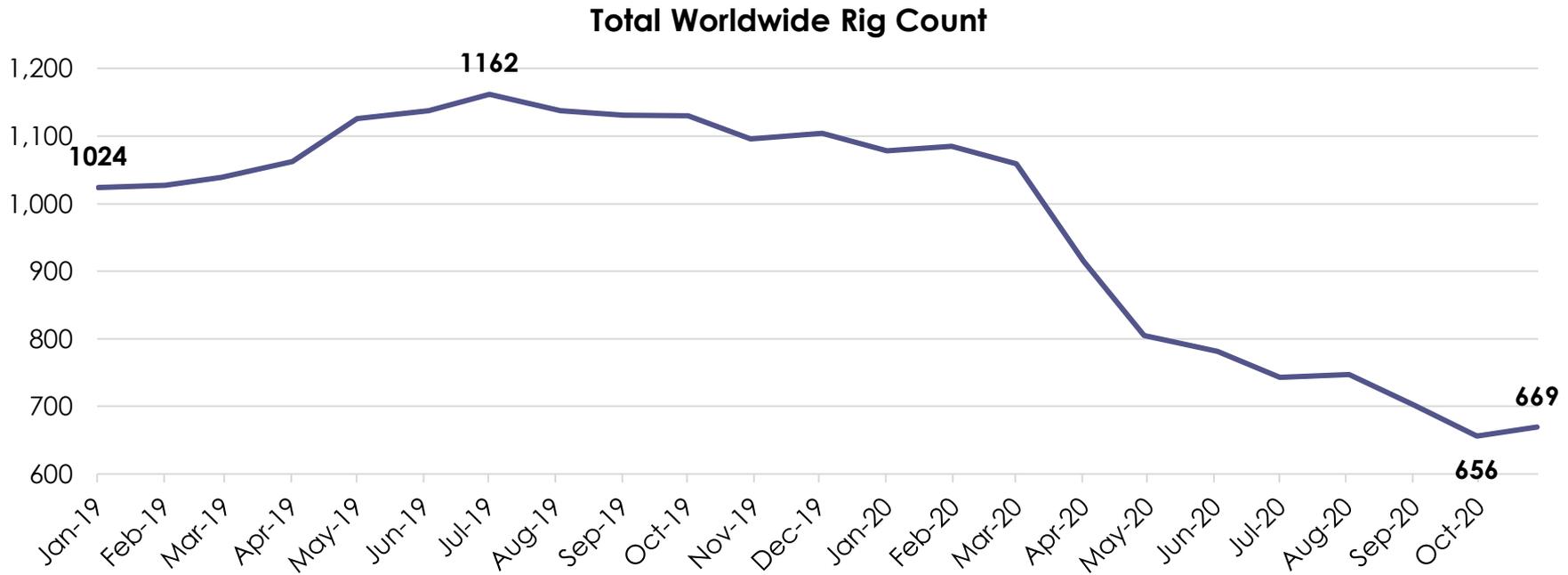
Mining, y-o-y%



Electricity, y-o-y%



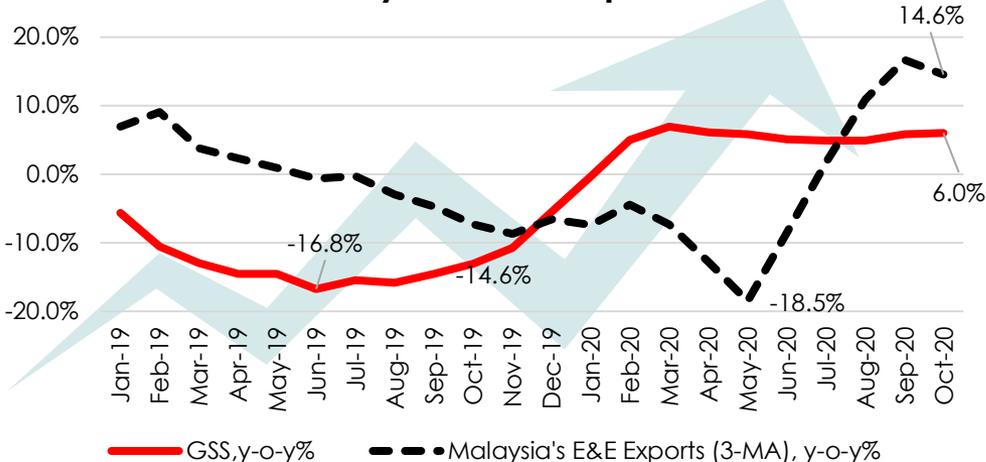
WORLDWIDE RIG COUNT DROPPED IN OCTOBER



Sources: Baker Hughes

- ✓ In line with the lower production of crude petroleum, the total number of rigs worldwide dropped to 656 rigs in October 2020 from 1,104 rigs in the same period last year.
- ✓ Although an accelerating Covid-19 vaccine race has raised hopes for a quicker economic rebound seen by a slight increase in rig count to 669 in November 2020, a recovery in demand may only be rampant in the 2H2021. The reason being is that resurgence of the Covid-19 infections and lockdowns in places such as the US and Europe may likely remain through 1Q2021 if not 2Q2021.

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



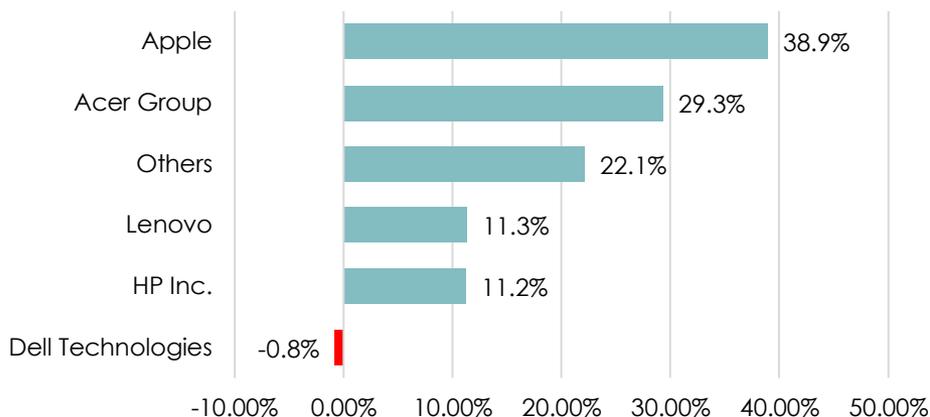
✓ Despite the drag by the mining sector, there is a silver lining from the E&E related products which are likely to ride an imminent upcycle as indicated by the positive growth of Global Semiconductor Sales (GSS), higher by 6.0% y-o-y in October 2020 (September 2020: 5.8%) as compared to -16.8% in June 2019.

✓ According to the World Semiconductor Trade Statistics (WSTS), the semiconductor products are likely to grow higher by 8.4% next year from an estimated 5.1% this year, 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%).

	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%

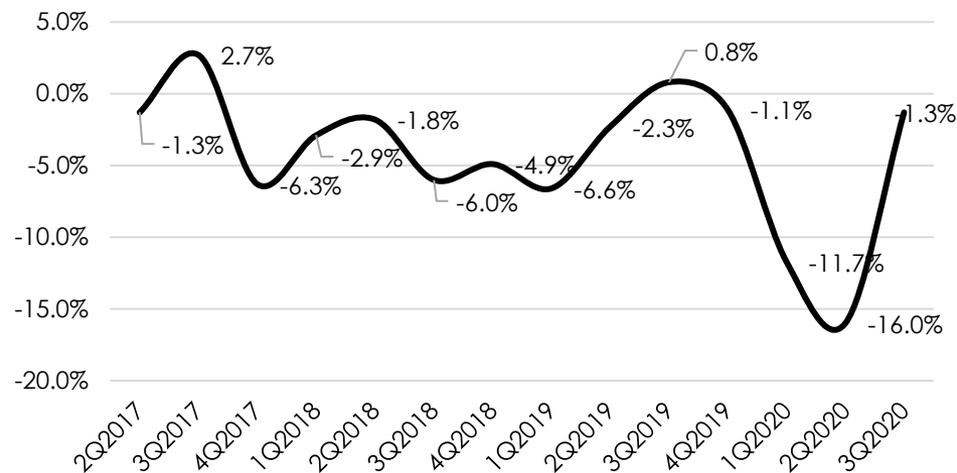
Source: WSTS

Worldwide Traditional PC Shipment, y-o-y%



Source: IDC

Global Smartphone Shipment, y-o-y%

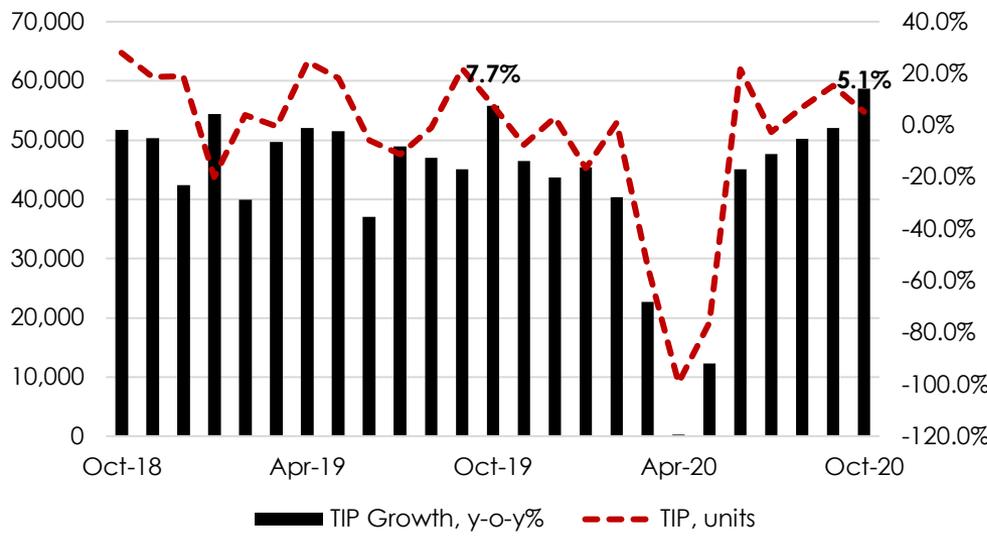


Source: IDC

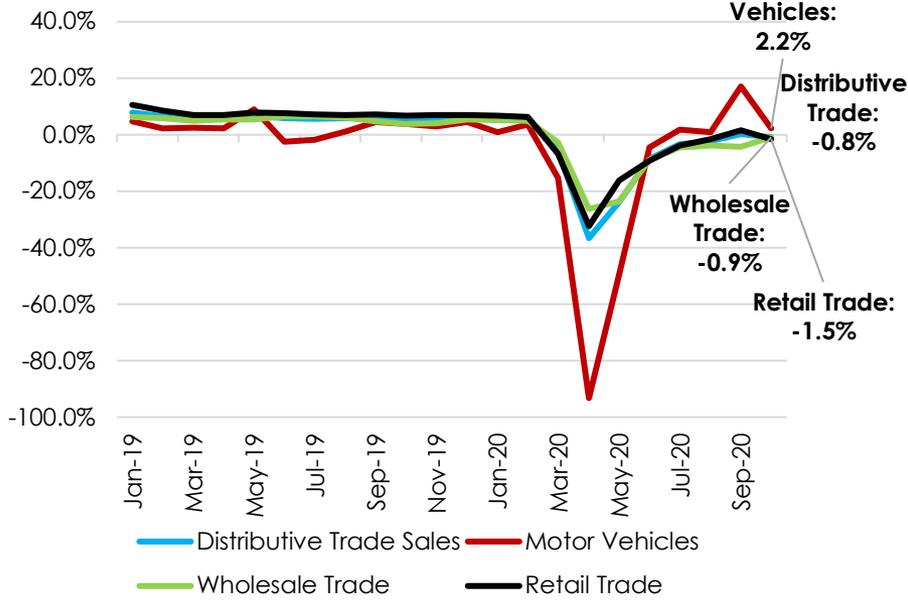
- ✓ As the global pandemic rages on and many countries around the world enter the new wave of Covid-19 infections, continuity of business and online schooling remain at the forefront of every economy.
- ✓ This has led to a double-digit growth in the traditional PC market, comprised of desktops, notebooks and workstations, as global shipments grew 14.6% y-o-y to 81.3 million units in 3Q2020 (2Q2020: 11.2%).
- ✓ Apart from that, the worldwide smartphone shipment also recorded a smaller decrease of 1.3% y-o-y in 3Q2020 after it fell steeply by 16.0% in 2Q2020 and 11.7% in 1Q2020.
- ✓ In addition, the upcycle of the semiconductor sector will also be driven by the rollout of 5G network across key cities which will be accelerated by the growing number of 5G enabled devices, as well as development of Internet of Things (IoT), Artificial Intelligence (AI) and Electric Vehicles (EVs).
- ✓ As such, these should bode well for local E&E players moving forward.

HIGHER TOTAL INDUSTRY PRODUCTION CONTRIBUTED TO THE STRONGER IPI OF TRANSPORT EQUIPMENT & OTHER MANUFACTURES

Total Industry Production (TIP)



Distributive Trade, y-o-y %



Sources: Malaysia Automotive Association, CEIC

Sources: DOSM, CEIC

- ✓ On further scrutiny, the manufacturing of passenger cars recorded the highest growth of 17.5% amongst other categories such as Motor Vehicles, Trailers & Semi-Trailers within the Transport Equipment & Other Manufactures sub-sector which grew by 3.5% y-o-y.
- ✓ This was mainly attributable to the 5.1% growth (September: 15.3%) in total industry production (TIP) to 56,831 units in October 2020, marking the third consecutive month of growth. As such, the growth in distributive trade of motor vehicles sales followed suit to reach 2.2% (September: 17.1%).
- ✓ However, this was inadequate to offset the contraction in wholesale trade and retail trade by 0.9% (September: -4.2%) and 1.5% (September: 1.6%) respectively, causing the overall distributive trade to be lower by 0.8% (September: 0.3%). Wholesale trade was largely dragged by other specialised trade (October: -6.1% vs. September: -14.2%) while retail trade was pulled down by automotive fuel (October: -9.6% vs. September -7.1%). The continued downward movement was largely expected due to CMCO 2.0 effective from October 2020 to November 2020 as an effort to contain the resurgence in the number of Covid-19 cases in the country which remain elevated.

PRODUCTION OF RUBBER PRODUCTS CONTINUED TO SOAR

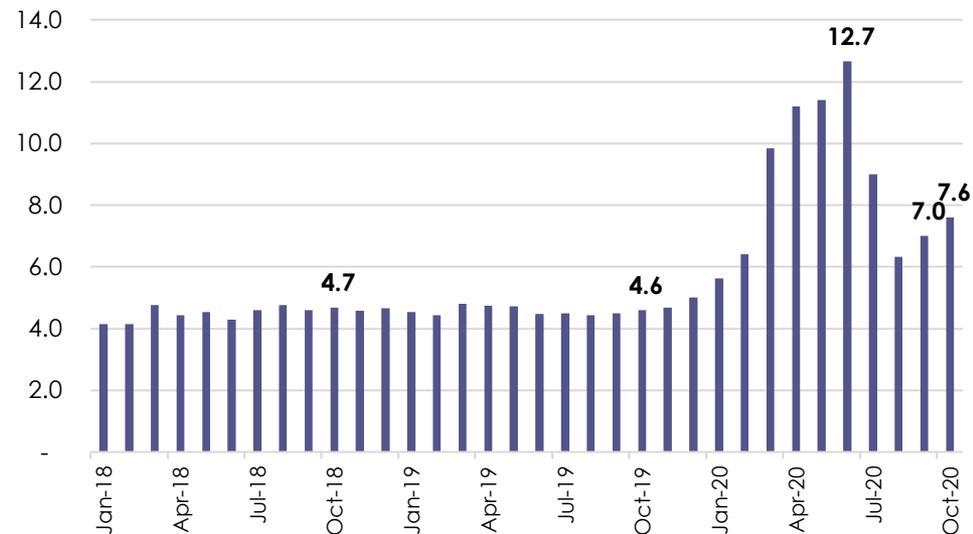
- ✓ The resurgence of Covid-19 infections across the globe continued to push demand for rubber gloves.
- ✓ Malaysia's rubber glove production in October increased by 65.7% y-o-y (September: 56.2%), marking the ninth consecutive month of y-o-y gains of above 40.0%. This brings the 10M2020 rubber glove production to 87.1 billion pairs which is 90.5% (10M2019: 1.7%) higher than the 45.7 billion pairs produced in the same period last year.
- ✓ Therefore, it was no surprise that the IPI for manufacturing rubber gloves jumped by 120.6% in October (September: 119.0%).
- ✓ On the corporate level, Top Glove achieved a sales revenue of RM4.8 billion in the quarter ended 30 November 2020 which was 294.0% higher than a year ago. Profit-after-tax for the same period also surged by 20.0x to RM2.4 billion from the same period last year, translating to a 50.0% margin underpinned by high utilisation levels which amplified production efficiency, as well as higher average selling prices (ASPs) in line with market pricing.

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



Sources: DOSM, CEIC

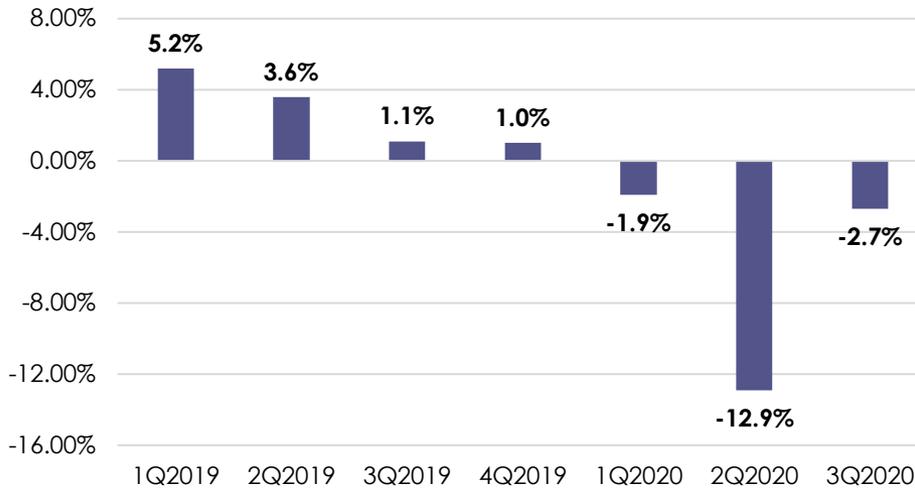
Malaysian Rubber Glove Production (Billion Pairs)



Sources: DOSM, CEIC

WORK FROM HOME ARRANGEMENTS PARTIALLY CONTRIBUTED TO HIGHER ELECTRICITY PRODUCTION

**Tenaga Nasional Berhad (Peninsula)
Electricity Demand Growth, y-o-y %**



Sources: Tenaga Nasional Berhad

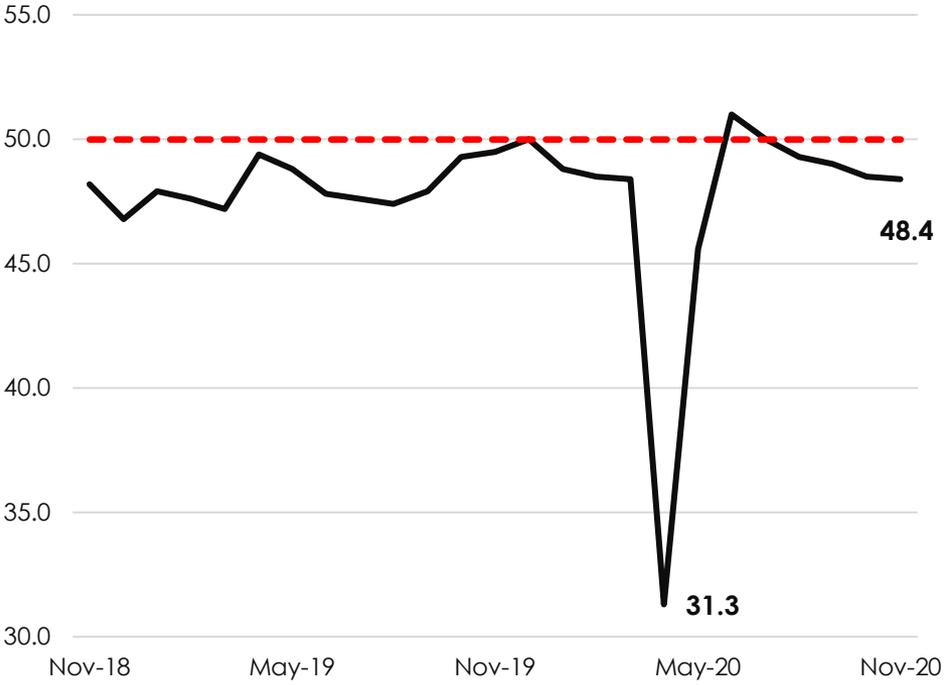
- ✓ As mentioned earlier, the production activities in Electricity rebounded by 1.0% in October (September: -2.1%) after enduring series of contraction since March this year.
- ✓ Referring to the electricity demand (Peninsula) growth of Tenaga Nasional Berhad (TNB), it saw a narrower decline in 3Q2020 of 2.7% (2Q2020: -12.9%) amid resumption of economic activities.
- ✓ As for the monthly electricity consumption for private and public installation, the month of September 2020 continued to see a smaller contraction of 0.8% (August: -2.7%). Meanwhile, domestic and public lighting continued to a higher increase in electricity consumption in September 2020. Therefore, October 2020 is highly likely to see a higher growth as more people were working from home following the resumption of the CMCO.

Growth, y-o-y %	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	9M2019	9M2020
Electricity Consumption: Private & Public Installation	-0.5%	4.6%	-9.4%	-21.0%	-10.7%	-4.8%	-4.4%	-2.7%	-0.8%	2.9%	-5.7%
-Industrial, Commercial & Mining	-2.0%	5.2%	-13.3%	-29.2%	-25.0%	-8.3%	-7.3%	-5.1%	-2.8%	1.6%	-10.0%
-Domestic & Public Lighting	4.7%	2.4%	5.1%	6.5%	39.6%	6.7%	5.9%	5.3%	6.3%	7.2%	9.2%

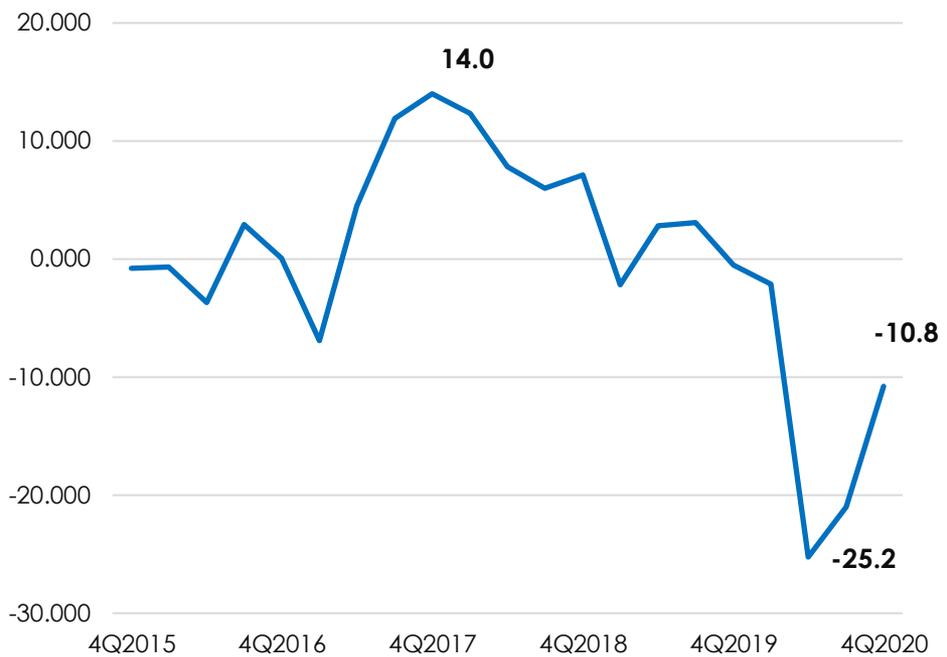
Sources: DOSM, CEIC

- ✓ On a broader scale, the J.P. Morgan Global Manufacturing PMI rose from 53.0 points in October to a 33-month high of 53.7 points in November. In contrast, Malaysia's Manufacturing PMI (refer to next page) in November declined to 48.4 points from 48.5 points in the previous month as the CMCO had scaled down production activities.
- ✓ Perhaps, this was a result of the temporary shutdown of Top Glove's 20 factories in Klang while another 8 had to operate at a capacity of only 10.0% to 20.0%. The 28 affected facilities in Meru represent about half of Top Glove's total production capacity. Meanwhile, its work dormitories in Klang and surrounding areas were placed under an Enhanced Movement Control Order (EMCO) from 17 November to 30 November. This followed a report that more than 1,000 employees of Top Glove were tested positive for Covid-19 in November.
- ✓ Notwithstanding this, rubber glove production has a weightage of only 1.2% out of the total IPI. Henceforth, the impact to the total IPI will be minimal and temporary as there has only been one major factory shutdown so far and Top Glove is expecting its Klang factories to be fully operational around the third or final week of December.
- ✓ Moreover, business prospects (seen through the business tendency survey on the next page) are expected to improve in 4Q2020 as reported by the Department of Statistic Malaysia (DOSM). Businesses have seen signs of recovery and forecasted a better performance in 4Q2020, though still feeling pessimistic (4Q2020: -10.8% vs. 3Q2020: -21.0%)
- ✓ All in all, we project **IPI to drop by 5.0% this year 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. The recent increase in Brent crude oil price to hit USD50 per barrel is also an indication that factory activities could steadily increase. Any delay in the Covid-19 vaccine distribution would spell a downside risk to production activities.

Manufacturing Purchasing Manager's Index (PMI), points



Business Tendency Survey: Confidence Indicators for All Sectors, %



Sources: CEIC, DOSM

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