



From the Desk
of the
Chief Economist

BANK ISLAM

INDUSTRIAL OUTPUT CONTINUED TO POST A POSITIVE GROWTH DURING OCTOBER

10 DECEMBER 2021

ECONOMIC RESEARCH

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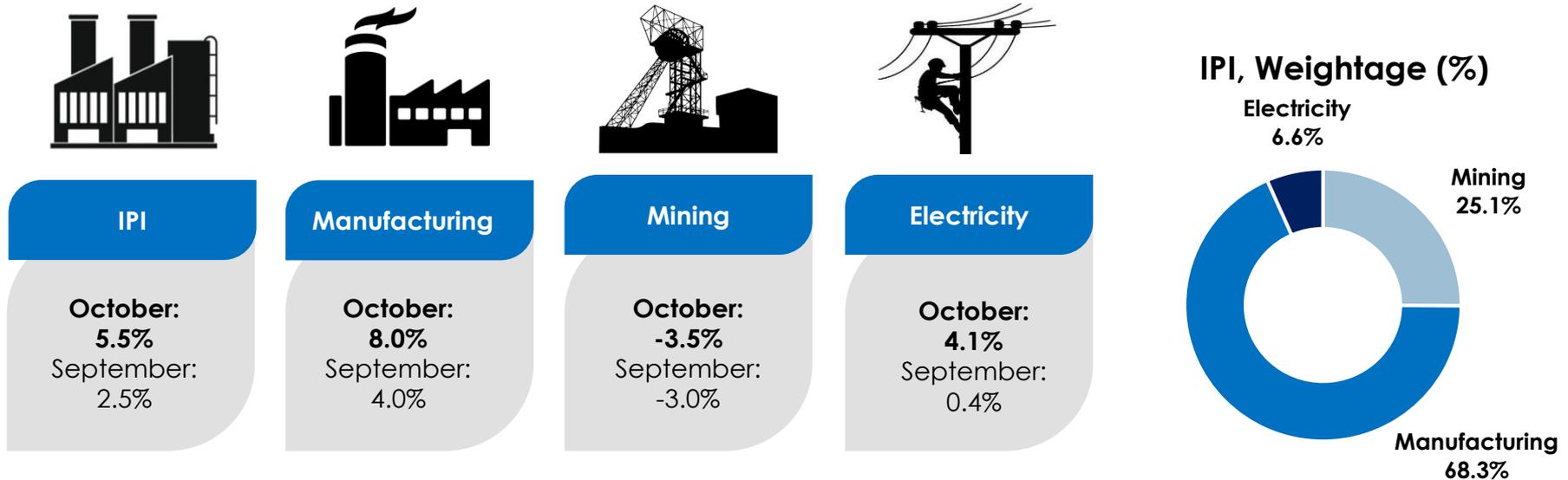
ADAM MOHAMED RAHIM

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NOR JANNAH ABDULLAH

RAJA ADIBAH RAJA HASNAN

IPI ROSE BY 5.5% IN OCTOBER

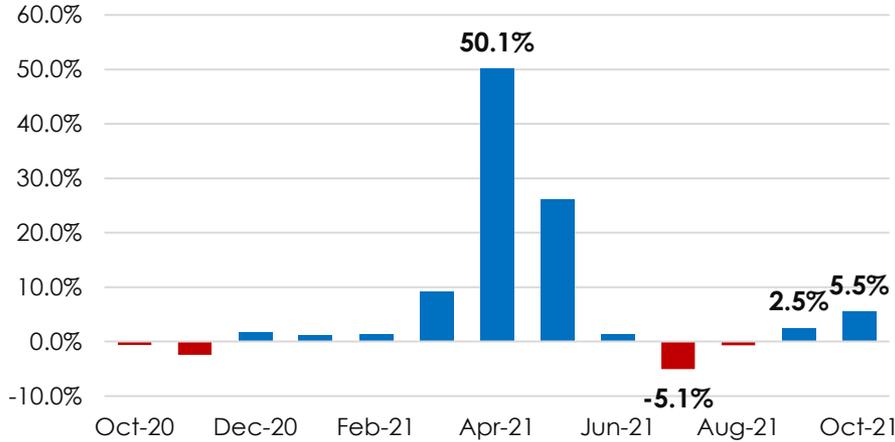


Sources: CEIC, DOSM

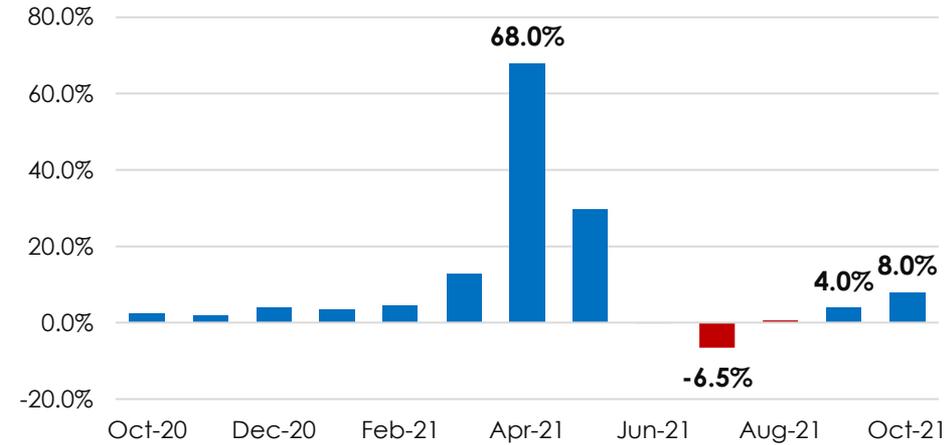
- ✓ Malaysia's Industrial Production Index (IPI) increased by 5.5% year-on-year (y-o-y) in October, marking its second straight-month of gains after rising by 2.5% in the previous month (**Bank Islam: 3.5%, Consensus: 3.8%**).
- ✓ The upturn was anchored by a further expansion seen in both the Manufacturing (October: 8.0% vs. September: 4.0%) and Electricity sector (October: 4.1% vs. September: 0.4%) in October. These sectors accounted for 74.9% of the total IPI.
- ✓ Meanwhile, the Mining sector continued to experience a downward trend, plummeting by 3.5% (September: -3.0%) during the month.

PRODUCTION OUTPUT FROM THE MINING SECTOR DECLINED FURTHER IN OCTOBER

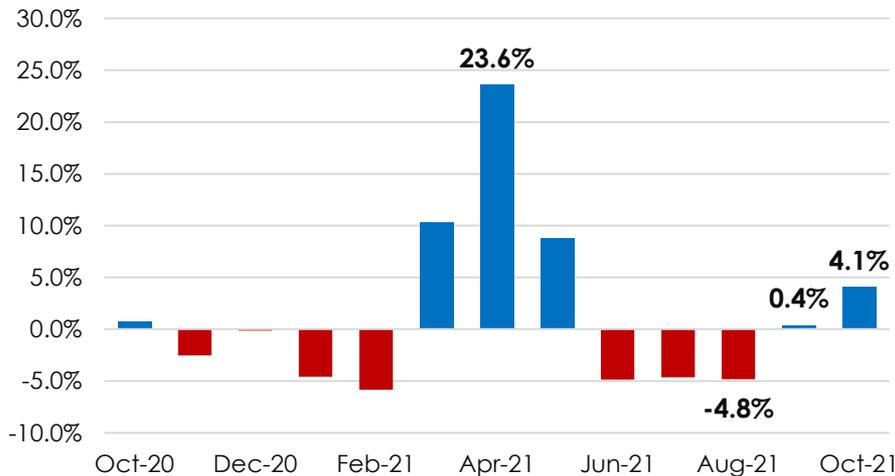
IPI, y-o-y%



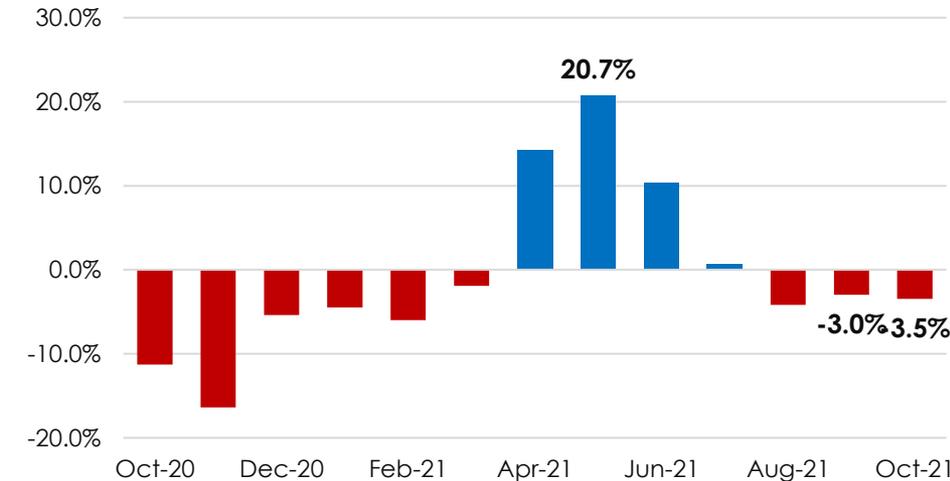
Manufacturing, y-o-y%



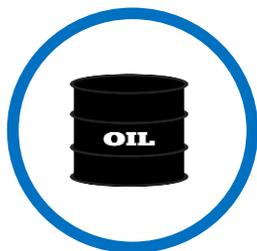
Electricity, y-o-y%



Mining, y-o-y%

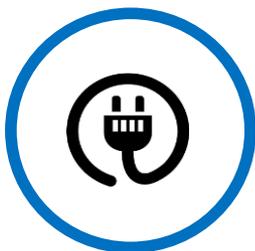


Source: CEIC



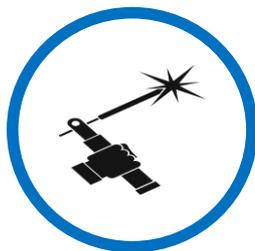
**Petroleum,
Chemical,
Rubber &
Plastic
Products**

**October:
6.3%
September:
6.1%**



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

**October:
13.6%
September:
12.3%**



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

**October:
3.5%
September:
-2.9%**



**Food,
Beverages &
Tobacco**

**October:
9.3%
September:
2.1%**



**Transport
Equipment &
Other
Manufactures**

**October:
4.4%
September:
-12.7%**



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

**October:
1.4%
September:
-5.2%**



**Textiles,
Wearing
Apparel,
Leather
Products &
Footwear**

**October:
3.1%
September:
-0.6%**

Sources: CEIC, DOSM

- ✓ Within the Manufacturing sector, all sub-sectors recorded a positive growth in October.
- ✓ The production of E&E products (October: 13.6% vs. September: 12.3%), Food, Beverages & Tobacco (October: 9.3% vs. September: 2.1%) and Petroleum, Chemical, Rubber & Plastic Products (October: 6.3% vs. September: 6.1%) were the main sub-sectors that contributed to the Manufacturing growth in October.
- ✓ This was followed by Transport Equipment & Other Manufacturers (October: 4.4% vs. September: -12.7%), Non-metallic Mineral Products, Basic Metal & Fabricated Metal Products (October: 3.5% vs. September: -2.9%), Textiles, Wearing Apparel, Leather Products & Footwear (October: 3.1% vs. September: -0.6%), as well as Wood Products, Furniture Paper Products & Printing (October: 1.4% vs. September: -5.2%) which rebounded in October after contracting in the previous month.

IPI RECOVERED IN 10M2021, SUPPORTED BY THE POSITIVE GROWTH IN MANUFACTURING, MINING AND ELECTRICITY

	Weight	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	10M2020	10M2021
IPI	100.0%	1.2%	1.5%	9.3%	50.1%	26.1%	1.4%	-5.1%	-0.7%	2.5%	5.5%	-5.2%	7.3%
Mining	25.1%	-4.5%	-6.0%	-1.9%	14.3%	20.7%	10.3%	0.6%	-4.2%	-3.0%	-3.5%	-10.2%	1.8%
-Crude Oil & Condensate	12.2%	-9.4%	-11.5%	-9.4%	2.7%	8.6%	6.3%	-3.5%	-11.0%	-7.7%	-10.2%	-12.0%	-5.0%
-Natural gas	12.9%	-0.5%	-1.6%	4.3%	23.9%	30.9%	13.4%	4.1%	1.6%	1.0%	2.0%	-8.7%	7.3%
Manufacturing	68.3%	3.5%	4.5%	12.7%	68.0%	29.8%	-0.2%	-6.5%	0.6%	4.0%	8.0%	-3.8%	9.4%
-Food, Beverages & Tobacco	8.6%	0.0%	-7.4%	7.2%	12.7%	0.7%	-6.4%	-10.9%	-6.6%	2.1%	9.3%	0.0%	-0.2%
-Textiles, Wearing Apparel, Leather Products & Footwear	1.3%	-0.8%	-1.0%	9.1%	230.6%	39.9%	-14.5%	-11.5%	-3.7%	-0.6%	3.1%	-15.3%	7.9%
-Wood Products, Furniture, Paper Products & Printing	4.6%	2.4%	0.9%	11.1%	212.6%	53.0%	-18.2%	-23.7%	-11.0%	-5.2%	1.4%	-9.3%	5.8%
-Petroleum, Chemical, Rubber & Plastic Products	20.6%	4.5%	8.9%	14.1%	37.5%	34.8%	19.0%	14.3%	14.0%	6.1%	6.3%	-1.9%	14.8%
-Non-Metallic Mineral Products, Basic Metal & Fabricated Metal Products	9.1%	-1.0%	-2.7%	8.0%	141.0%	49.4%	-21.3%	-27.6%	-13.0%	-2.9%	3.5%	-14.5%	3.0%
-Electrical & Electronic Products	18.2%	7.9%	10.3%	13.8%	70.1%	21.6%	8.4%	-1.7%	9.7%	12.3%	13.6%	1.0%	14.0%
-Transport Equipment & Other Manufactures	5.9%	-0.2%	3.2%	20.9%	275.2%	68.9%	-42.7%	-43.8%	-34.3%	-12.7%	4.4%	-8.3%	0.9%
Electricity	6.6%	-4.6%	-5.8%	10.3%	23.6%	8.8%	-4.8%	-4.6%	-4.8%	0.4%	4.1%	-4.1%	1.9%

Sources: CEIC, DOSM

- ✓ As for the Mining sector, the production of Crude Oil & Condensate dropped by 10.2% in October, extending the 7.7% fall in the previous month. Meanwhile, Natural Gas production expanded by 2.0% in October from a 1.0% growth in September.
- ✓ Cumulatively, total IPI rebounded by 7.3% in 10M2021 from a 5.2% contraction in same corresponding period last year, anchored by a recovery seen in the Manufacturing (10M2021: 9.4% vs. 10M2020: -3.8%) and the Mining sector (10M2021: 1.8% vs. 10M2020: -10.2%), as well as Electricity sector (10M2021: 1.9% vs. 10M2020: -4.1%).



Crude Oil & Condensate

October:
-10.2%
September:
-7.7%

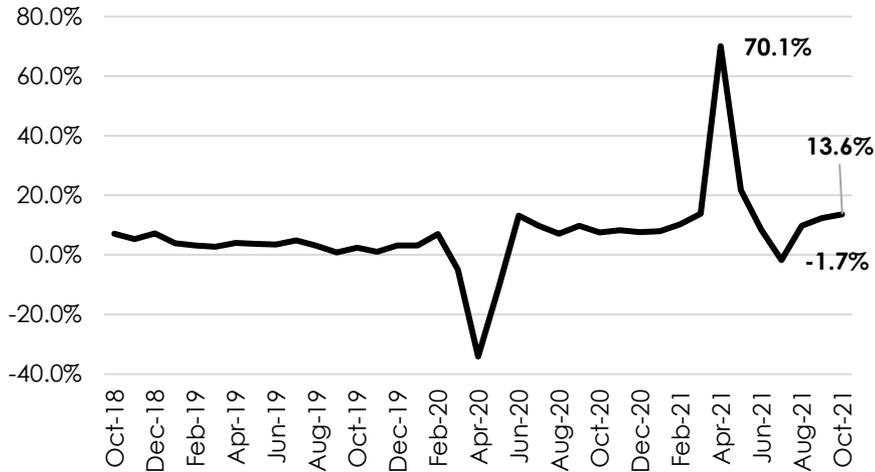


Natural Gas

October:
2.0%
September:
1.0%

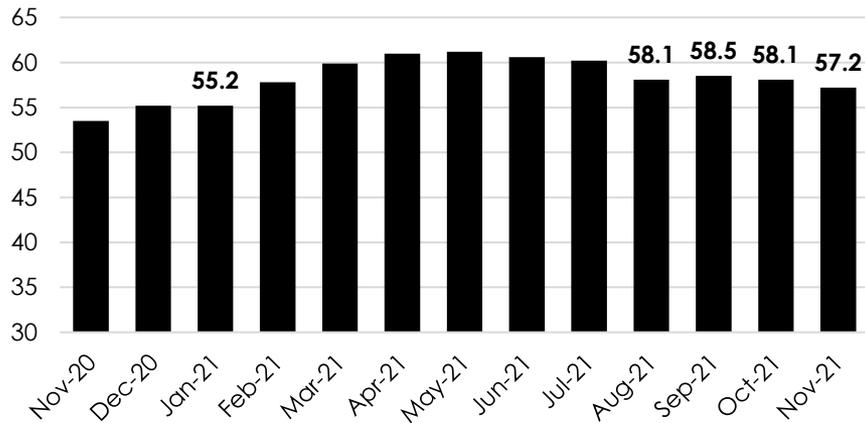
SUPPLY-SIDE DISRUPTIONS IMPEDED THE PRODUCTION OF ELECTRONIC GOODS

IPI: E&E Products, y-o-y%



Source: CEIC

IHS Markit Global Electronics PMI, points

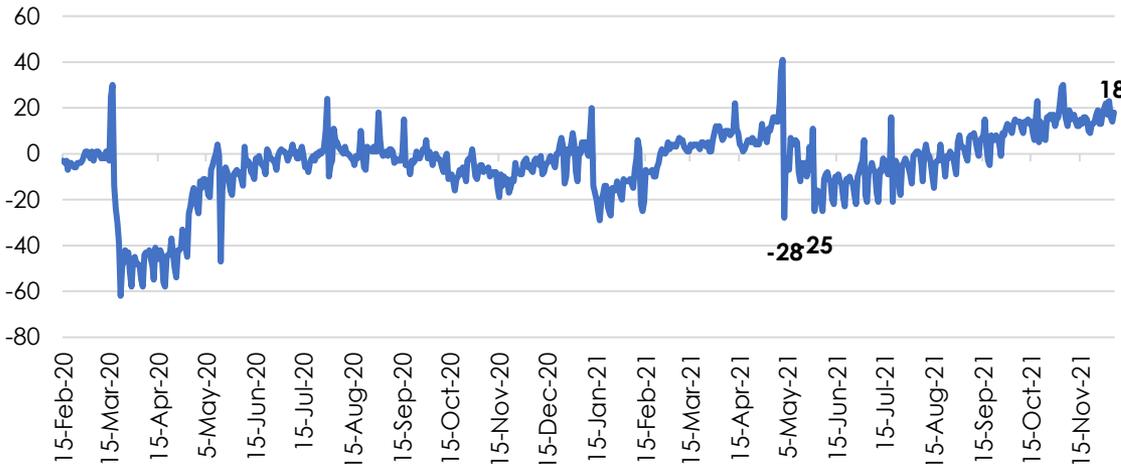


Source: IHS Markit

- ✓ Malaysia's production for E&E products continued to record robust performance in October, rising by 13.6% y-o-y from 12.3% in the preceding month supported by post-pandemic recovery.
- ✓ However, the ongoing supply shortages of raw materials and key components have held back production across the industry.
- ✓ The latest data from IHS Markit shows that the Global Electronics Purchasing Manager's Index (PMI) softened to 57.2 points in November (October: 58.1 points).
- ✓ This was due to supply-side disruptions which has weighed on the production of electronics goods as firms unable to complete the orders.
- ✓ Additionally, worrying trends were also seen in the new orders as demand strengthened further which caused supply routes to be clogged.
- ✓ Following this, we anticipate that the E&E sector would continue to be affected for a longer-than-expected period with waiting time for chip deliveries climbing above a healthy threshold of 9-12 weeks as of late.

LOOSENED MOVEMENT RESTRICTIONS LEAD TO HIGHER DEMAND FOR FOOD AND BEVERAGES

Google Mobility Trends For Malaysia at groceries and pharmacies, % change from the baseline



Source: Google Mobility Report as at 6 December 2021
 Note: The chart above shows the change in movements of people at groceries and pharmacies compared to the baseline (pre-pandemic period). A positive change from the baseline indicate more people are at a location than the pre-pandemic period. Meanwhile, a negative change from the baseline indicates that more people are staying away from a particular place compared to pre-pandemic periods.

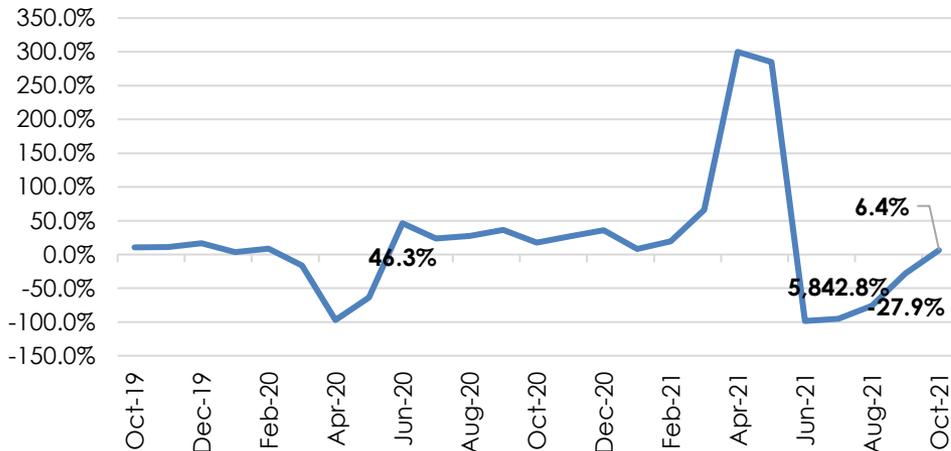
Standard operating procedures (SOPs) for social gatherings in states that are in Phase 4 of the National Recovery Plan (NRP)

1. Must ensure tables are set two metres apart.
2. Guests must maintain physical distancing of one metre.
3. Guests are encouraged to use gloves when taking food from the buffet section.
4. Guests will have to register via the MySejahtera contact tracing app when arriving.

- ✓ Following the resumption of interstate travel, people may have taken the opportunity to visit the family after months of not being able to do so.
- ✓ As such, it is reasonable to assume that people who host visitors at their home will prepare food for the guests.
- ✓ Therefore, we can observe from the Google Mobility Trends which showed that the movement at places such as groceries and pharmacies has improved.
- ✓ The number of visits to the groceries and pharmacies increased by 18.0% on 6 December 2021 compared to the baseline. This is an improvement considering the 28.0% drop seen on 13 May 2021.
- ✓ Apart from that, social gatherings such as weddings in states which are in Phase 4 of the NRP are allowed to be organised with strict adherence to the SOPs.
- ✓ With that in mind, the demand for food and beverages by catering businesses has risen, causing the production for such goods to also increase.

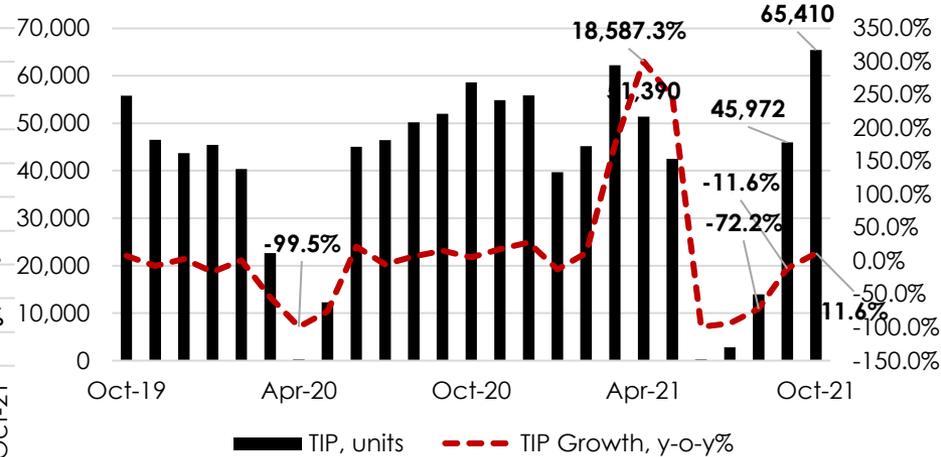
VEHICLE PRODUCTION IN OCTOBER IMPROVES AMID RELAXED MOVEMENT RESTRICTIONS

IPI: Manufacturing of Passenger Cars, y-o-y%



Sources: CEIC, DOSM

Total Industry Production (TIP), units

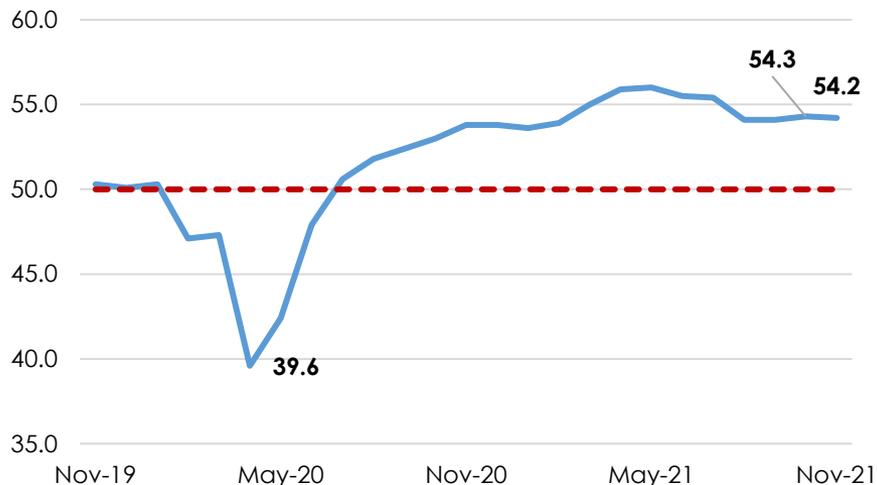


Source: Malaysian Automotive Association

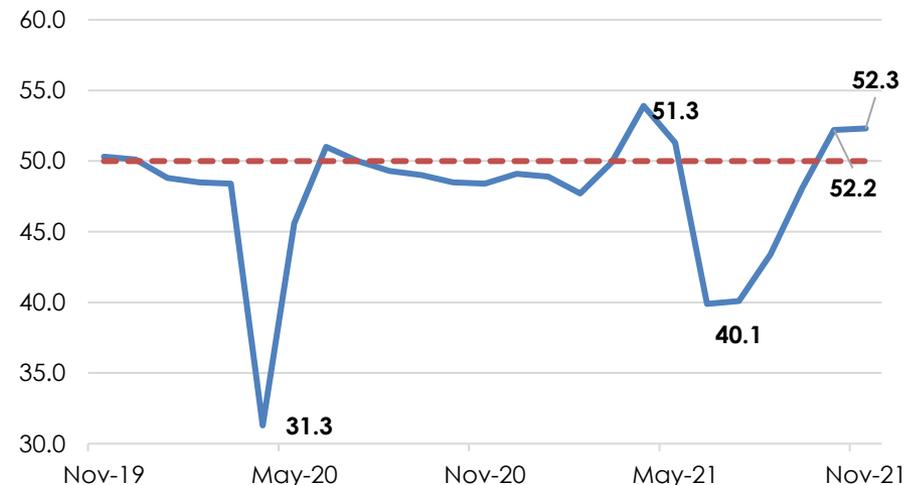
- ✓ The IPI for the manufacturing of passenger cars improved to record a 6.4% expansion in October (September: -27.9%).
- ✓ Likewise, the total industry production (TIP) of the automotive industry was up by 11.6% y-o-y at 65,410 units in October (September: 45,972 units), which is the highest monthly production volume since January 2018 that produced 68,002 units due to more relaxed movement restrictions during the month.
- ✓ On a Year-To-Date basis, the TIP was lower by 1.4% at 369,406 units in 10M2021 (10M2020: 374,494 units) as car manufacturing plants had to deal with restricted capacity during the series of lockdowns.
- ✓ Looking ahead, we opine that the extension of the sales tax holiday for passenger vehicles until 30 June 2022 from the previous 31 December 2021 expiry will lead to more consumers purchasing new vehicles. The current low financing rate environment should also be an additional catalyst to support the sales of passenger vehicles in the months to come.

- ✓ Global manufacturing activity took a breather in November as shown by the J.P. Morgan Global Manufacturing PMI during the same month which was lower at 54.2 points (October: 54.3 points). Notwithstanding this, Malaysia's Manufacturing PMI improved to hit 52.3 points in November (October: 52.2 points), the highest since April this year in light of the resumption of interstate travel effective from 11 October.
- ✓ The uptick in domestic travel following the relaxation of movement restrictions in October has led to a higher demand in manufactured products such as food & beverage as restaurants and hotel operators require more food supply to cater for visitors.
- ✓ Apart from that, the index for input and output prices under the J.P. Morgan Global Manufacturing PMI have retreated from the highest level so far this year to reach 71.5 points (October: 74.4 points) and 61.3 points (October: 63.7 points) respectively in November. Such trends provide a glimpse of hope that inflationary pressures are receding.

J.P. Morgan Global Manufacturing PMI, points

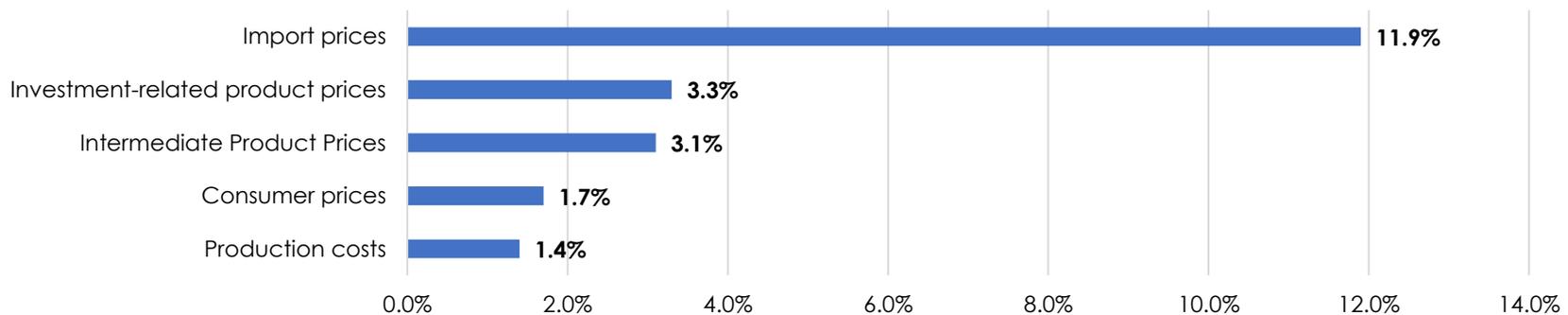


Malaysia's Manufacturing PMI, points



- ✓ However, the latest Omicron variant of the Covid-19 virus casts a huge concern for businesses worldwide.
- ✓ In the event that the Omicron variant hits important production hubs in Asian countries, the ongoing supply chain bottleneck may prolong and exert upward pressure on product prices.
- ✓ Other cost components such as transport costs represented by container freight rates could continue rising if there are more goods that need to be transported compared to the container ships available in the market.
- ✓ Higher freight levels are also threatening to undermine a recovery in global manufacturing. The reason being is that in the short to medium term, a 10.0% increase in container freight rates could lead to a cumulative contraction of around 1.0% in industrial production in the U.S. and the Euro area according to a study done by the United Nations Conference on Trade and Development (UNCTAD).
- ✓ On further scrutiny, the study done by UNCTAD also highlighted that production costs are expected to increase by 1.4% following the surge in container freight rates.
- ✓ Therefore, manufacturers can implement measures including dual sourcing and backing up production sites, inventory, and stocks, along with better risk management.
- ✓ All in all, **we reiterate our IPI growth projection of 7.0% for 2021 after a decline of 4.2% in 2020** as we opine that the reopening of the economy will necessitate more production activities. At the same time, we are flagging certain downside risks to our estimates such as the Omicron variant which could limit production if proven to be more dangerous than other variants.

Simulated impacts of container freight rate surges on prices for importers, consumer and firms



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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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