

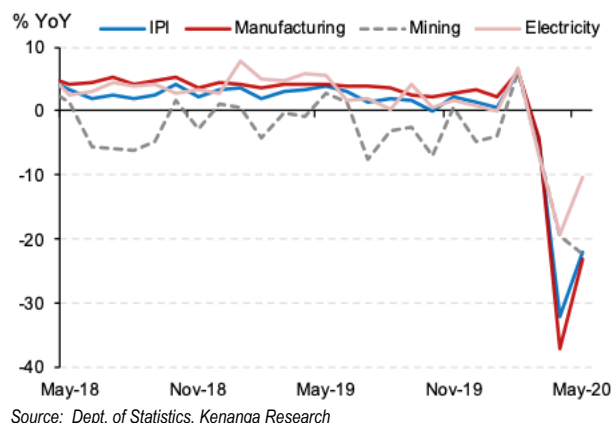
10 July 2020

# Malaysia Industrial Production

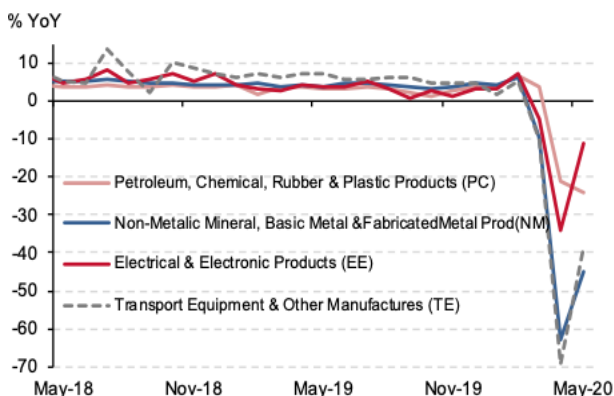
Softer growth contraction in May as factories resumed operations

- Growth contraction in the Industrial Production Index (IPI) eased in May, beating expectation (-22.1% YoY; house estimate: -38.6%; consensus: -29.0%; Apr: -32.0%)**
  - Mainly due to the relaxation of restrictions on business activities following the implementation of the Conditional Movement Control Order (CMCO) on 4<sup>th</sup> May. As a result, MoM IPI rebounded to a record high (18.2%; Apr: -30.5%).
  - 3-mma: sharpest fall on record (-19.5%; Apr: -10.6%).
- Manufacturing index registered a smaller drop (-23.2%; Apr: -37.2%), similar to the trend in manufacturing sales (-19.8%; Apr: -33.0%)**
  - Led by a softer contraction in the production of electrical & electronic products (-11.2%; Apr: -34.1%), transport equipment & other manufactures (-38.5%; Apr: -69.3%) and non-metallic mineral, basic metal & fabricated metal products (-45.1%; Apr: -62.7%).
  - MoM: marked a sharp turnaround (25.9%; Apr: -35.8%).
- Mining index headed further down, matching the decline back in May 2011 (-22.2%; Apr: -19.6%), largely due to a high base effect**
  - Broad-based slowdown, led by a larger fall in extraction of crude oil and natural gas (-22.2; Apr: -19.6%). As high base effect dissipates and oil price recovers on a broader reopening of the global economy, we expect the contraction in mining output to ease.
  - MoM: recorded a marginal expansion (0.4%; Apr: -19.1%), in line with the modest improvement in global oil price (USD32.4/barrel; Apr: USD26.6).
- Electricity index fell by less (-10.3; Apr: -19.3%) as factories resumed operations**
  - Expected to rebound further in the coming months as the nation entered another phase of economic reopening under the implementation of the Recovery MCO (RMCO) on 10th June.
- In line with the lifting of business restriction measures, we expect at least a moderate recovery for industrial production in the near term.**
  - The implementation of the RMCO, stimulus injection under the short-term economic recovery plan (PENJANA), additional monetary easing by the BNM and favourable domestic COVID-19 development are expected to uplift consumer and business sentiment, translating into a gradual improvement in domestic demand and businesses operations, albeit partially capped by broad weakness in external demand.
  - While the relaxation of MCO may have brought some improvement in the manufacturing sector, the impact of COVID-19 pandemic to hit the hardest on the services sector as the fate of air travel and tourism remained bleak. Hence, we maintain our GDP growth estimate of -7.5% for the 2Q20 (1Q20: 0.7%). Similarly, for 2020, we retain our projection of a 7.7% contraction (2019: 3.6%) in the manufacturing production index, consistent with the expected decline in GDP (-2.9%; 2019: 4.3%) for this year.

Graph 1: Industrial Production Growth Trend

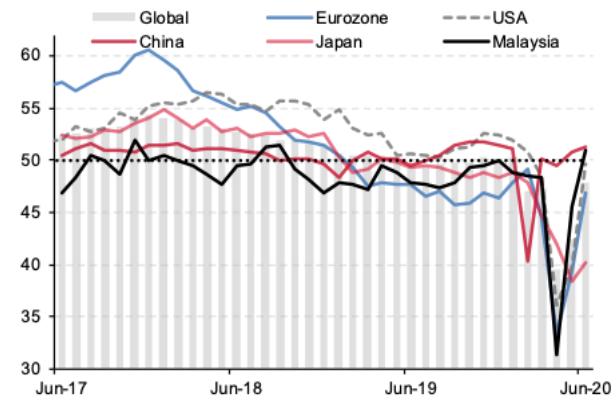


Graph 2: Manufacturing Growth Trend by Sub-Sector



Source: Dept. of Statistics, Kenanga Research

Graph 3: Global Manufacturing PMI Trend



Source: IHS Markit, Bloomberg, Kenanga Research

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**Table 1: Malaysia Industrial Production Trend (2015=100)**

	Weight		2017	2018	2019	May-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20
<b>IPI</b>	<b>100.00</b>	<b>% YoY</b>	<b>4.4</b>	<b>3.1</b>	<b>2.3</b>	<b>4.0</b>	<b>2.1</b>	<b>1.3</b>	<b>0.6</b>	<b>6.2</b>	<b>-4.9</b>	<b>-32.0</b>	<b>-22.1</b>
		<b>% YoY SA</b>	<b>4.4</b>	<b>3.1</b>	<b>2.3</b>	<b>4.0</b>	<b>2.0</b>	<b>1.3</b>	<b>0.5</b>	<b>6.0</b>	<b>-4.8</b>	<b>-31.8</b>	<b>-22.1</b>
		<b>% MoM</b>				3.2	-1.0	0.7	0.6	-6.7	-0.2	-30.5	18.2
		<b>3mma</b>				3.4	1.2	1.2	1.3	2.6	0.4	-10.6	-19.5
<b>Manufacturing</b>	<b>65.89</b>	<b>% YoY</b>	<b>6.1</b>	<b>4.8</b>	<b>3.6</b>	<b>4.2</b>	<b>2.7</b>	<b>3.4</b>	<b>2.2</b>	<b>6.2</b>	<b>-4.1</b>	<b>-37.2</b>	<b>-23.2</b>
		<b>% YoY SA</b>	<b>6.1</b>	<b>4.7</b>	<b>3.7</b>	<b>4.2</b>	<b>2.7</b>	<b>3.4</b>	<b>2.1</b>	<b>6.1</b>	<b>-4.1</b>	<b>-37.2</b>	<b>-23.2</b>
		<b>% MoM</b>				3.1	-2.6	1.2	0.4	-6.6	-1.0	-35.8	25.9
		<b>3mma</b>				4.2	2.5	2.8	2.8	3.8	1.3	-12.1	-21.4
<b>Mining</b>	<b>28.92</b>	<b>% YoY</b>	<b>0.4</b>	<b>-2.1</b>	<b>-2.0</b>	<b>2.8</b>	<b>0.5</b>	<b>-4.9</b>	<b>-3.9</b>	<b>6.1</b>	<b>-6.5</b>	<b>-19.6</b>	<b>-22.2</b>
		<b>% MoM</b>				3.8	4.9	-0.9	0.8	-7.5	2.6	-19.1	0.4
<b>Electricity</b>	<b>5.19</b>	<b>% YoY</b>	<b>2.6</b>	<b>3.7</b>	<b>3.3</b>	<b>5.7</b>	<b>1.6</b>	<b>0.9</b>	<b>0.0</b>	<b>6.8</b>	<b>-7.0</b>	<b>-19.3</b>	<b>-10.3</b>
		<b>% MoM</b>				2.4	-2.8	0.5	2.4	-4.5	-0.8	-13.3	13.7

Source: Dept. of Statistics, Kenanga Research, 3mma= 3-month moving average (YoY growth)

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