IPI EXTENDS GAINS IN SEPTEMBER

9 NOVEMBER 2021

ECONOMIC RESEARCH

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IPI INCREASED BY 2.5% IN SEPTEMBER

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IPI

September:
2.5%
August:
-0.7%

Manufacturing

September:
4.0%
August:
0.6%

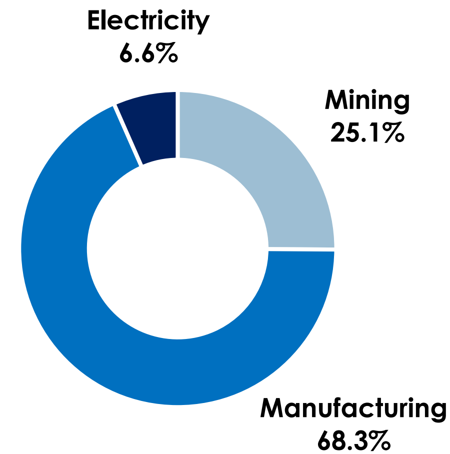
Mining

September:
-3.0%
August:
-4.2%

Electricity

September:
0.4%
August:
-4.8%

IPI, Weightage (%)



Sources: CEIC, DOSM

- ✓ Malaysia's Industrial Production Index (IPI) rebounded by 2.5% year-on-year (y-o-y) in September after a contraction of 0.7% in the previous month. **(Consensus: 1.9%, Bank Islam: 1.8%)**
- ✓ The expansion of the IPI was attributable to the gains seen in both Manufacturing (September: 4.0% vs. August: 0.6%) and Electricity (September: 0.4% vs. August: -4.8%) in September. These sectors accounted for 74.9% of total IPI.
- ✓ Meanwhile, Mining sector shrank marginally by 3.0% (August: -4.2%) during the month.

MANUFACTURING ACTIVITIES MARKED A STRONGER GAIN OF 4.0% IN SEPTEMBER

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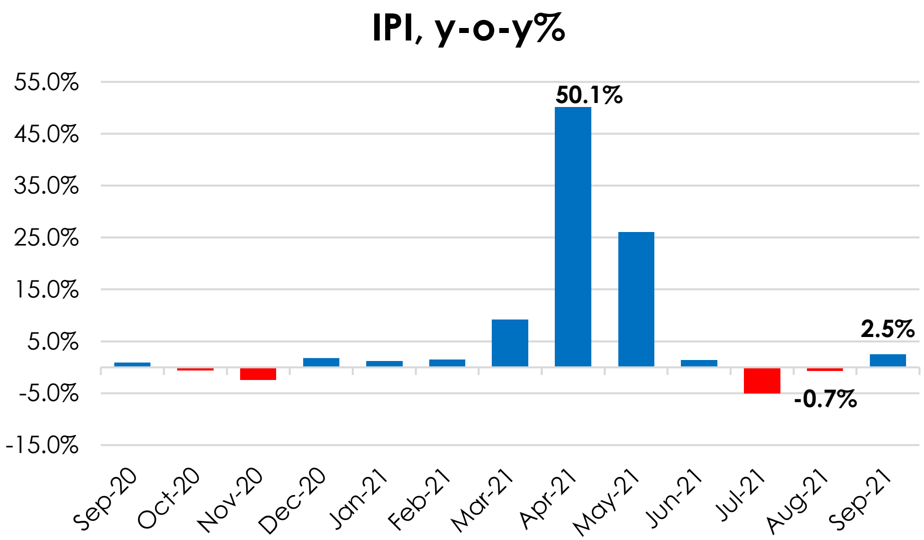

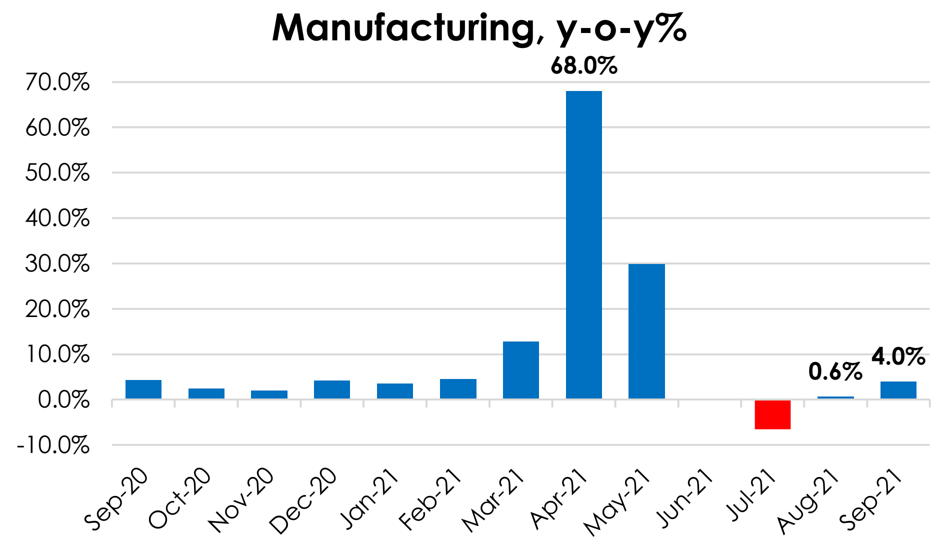

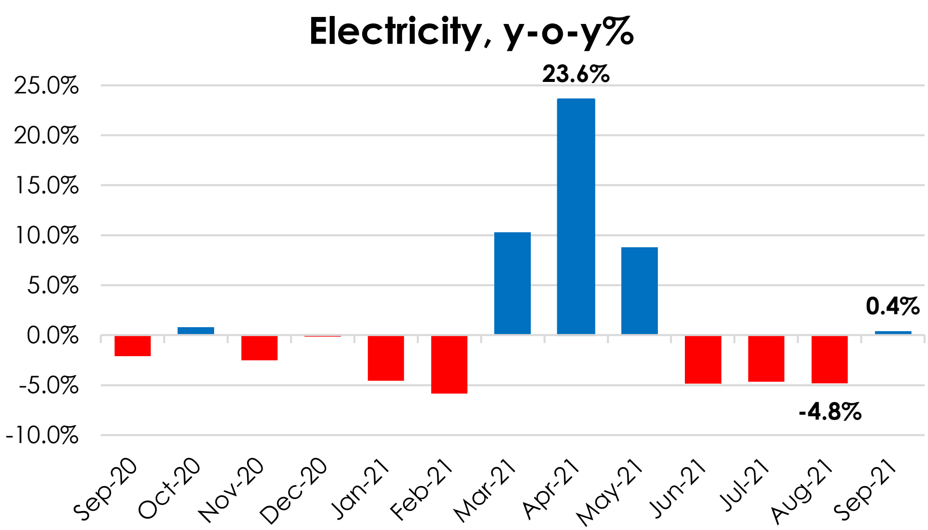

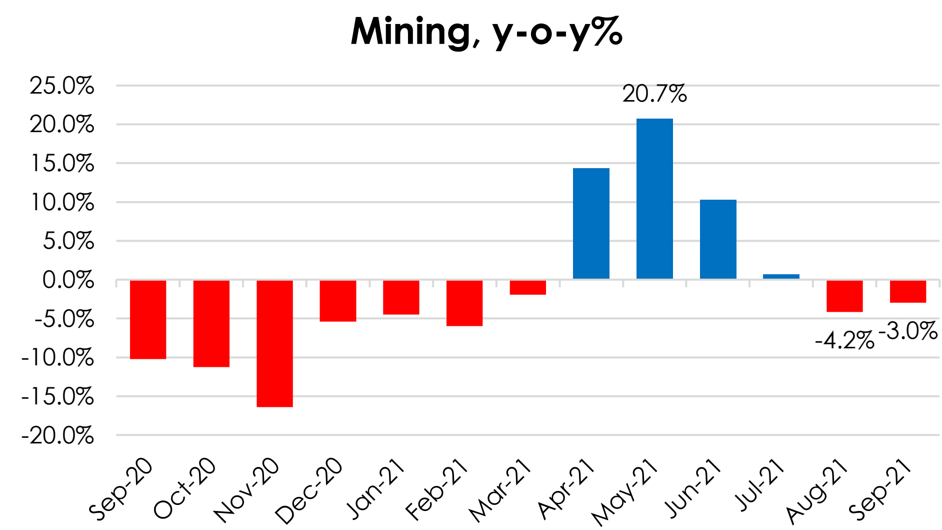

Source: CEIC

FOOD, BEVERAGES & TOBACCO RECORDED A POSITIVE GROWTH AFTER CONTRACTING THREE STRAIGHT MONTH SINCE JUNE

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Petroleum, Chemical, Rubber & Plastic Products	Electrical & Electronics (E&E) Products	Non-metallic Mineral Products, Basic Metal & Fabricated Metal Products	Food, Beverages & Tobacco	Transport Equipment & Other Manufactures	Wood Products, Furniture, Paper Products & Printing	Textiles, Wearing Apparel, Leather Products & Footwear
September: 6.1%	**September: 12.3%**	**September: -2.9%**	**September: 2.1%**	**September: -12.7%**	**September: -5.2%**	**September: -0.6%**
August: 14.0%	**August: 9.7%**	**August: -13.0%**	**August: -6.6%**	**August: -34.3%**	**August: -11.0%**	**August: -3.7%**

Sources: CEIC, DOSM

- ✓ Within the Manufacturing sector, Petroleum, Chemical, Rubber & Plastic Products moderated by 6.1% in September after increasing by 14.0% in the preceding month. Electrical & Electronics (E&E) Products further increased by 12.3% (August: 9.7%) in September whereas Food, Beverages and Tobacco rebounded by 2.1% following a contraction of 6.6% in the previous month.
- ✓ On the other hand, some sub-sectors such as Transport, Equipment & Other Manufactures (September: -12.7% vs. August: -34.3%), Wood Products, Furniture, Paper Products & Printing (September: -5.2% vs. August: -11.0%), Non-metallic Mineral Products, Basic Metal & Fabricated Metal Products (September: -2.9% vs. August: -13.0%), as well as Textiles, Wearing Apparel, Leather Products & Footwear (September: -0.6% vs. August: -3.7%) still recorded a negative growth in the month of September albeit at a slower pace.

IPI RECOVERED IN 9M2021, SUPPORTED BY THE POSITIVE GROWTH IN MINING, MANUFACTURING AND ELECTRICITY

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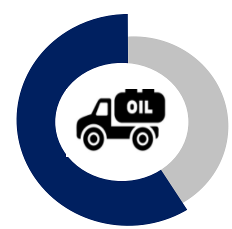
	Weight	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	2Q2021	3Q2021	9M2020	9M2021
IPI	**100.0%**	**1.2%**	**1.5%**	**9.3%**	**50.1%**	**26.1%**	**1.4%**	**-5.2%**	**-0.7%**	**2.5%**	**22.6%**	**-1.1%**	**-5.8%**	**7.6%**
Mining	**25.1%**	**-4.5%**	**-6.0%**	**-1.9%**	**14.3%**	**20.7%**	**10.3%**	**0.6%**	**-4.2%**	**-3.0%**	**15.1%**	**-2.2%**	**-10.1%**	**2.3%**
Crude Oil & Condensate	12.2%	-9.4%	-11.5%	-9.4%	2.7%	8.6%	6.3%	-3.6%	-11.0%	-7.7%	5.9%	-7.5%	-12.0%	4.4%
Natural Gas	12.9%	-0.5%	-1.6%	4.3%	23.9%	30.9%	13.4%	4.1%	1.6%	1.0%	22.6%	2.3%	-8.6%	7.9%
Manufacturing	**68.3%**	**3.5%**	**4.5%**	**12.7%**	**68.0%**	**29.8%**	**-0.2%**	**-6.5%**	**0.6%**	**4.0%**	**26.3%**	**-0.7%**	**-4.5%**	**9.6%**
Food, Beverages & Tobacco	8.6%	0.0%	-7.4%	7.2%	12.7%	0.7%	-6.4%	-10.9%	-6.6%	2.1%	1.9%	-5.1%	0.4%	-1.3%
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%	39.6%	-5.1%	-16.8%	8.5%
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%	39.2%	-13.2%	-10.5%	6.4%
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%	29.3%	11.4%	-2.4%	15.9%
Non-metallic Mineral Products, Basic Metal & Fabricatec	9.1%	-1.0%	-2.7%	8.0%	141.0%	49.4%	-21.3%	-27.6%	-13.0%	-2.9%	33.4%	-14.4%	-15.9%	2.9%
Electrical & Electronics Products	18.2%	7.9%	10.3%	13.8%	70.1%	21.6%	8.4%	-1.7%	9.7%	12.3%	27.2%	6.6%	0.2%	14.1%
Transport Equipment & Other Manufactures	5.9%	-0.2%	3.2%	20.9%	275.2%	68.9%	-42.7%	-43.8%	-34.3%	-12.7%	40.0%	-30.4%	-9.5%	0.4%
Electricity	**6.6%**	**-4.6%**	**-5.8%**	**10.3%**	**23.6%**	**8.8%**	**-4.8%**	**-4.6%**	**-4.8%**	**0.4%**	**8.6%**	**-3.1%**	**-4.7%**	**1.6%**

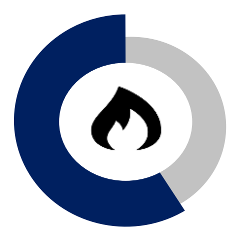
Sources: CEIC, DOSM

- ✓ As for the Mining sector, the production of Crude Oil & Condensate declined slightly by 7.7% in September (August: -11.0%) whereas Natural Gas recorded a softer growth of 1.0% (August: 1.6%) during the month.
- ✓ On a quarterly basis, the total IPI contracted by 1.1% in 3Q2021 after increasing by 22.6% in 2Q2021, attributable to the drop in the performance of Mining (3Q2021: -2.2% vs. 2Q2021: 15.1%), Manufacturing (3Q2021: -0.7% vs. 2Q2021: 26.3%) and Electricity (3Q2021: -3.1% vs. 2Q2021: 8.6%). As for 9M2021, the total IPI registered a positive growth of 7.6% from a 5.8% contraction in 9M2020, steered by the growth seen in Mining (9M2021: 2.3% vs. 9M2020: -10.1%), Manufacturing (9M2021: 9.6% vs. 9M2020: -4.5%), as well as Electricity (9M2021: 1.6% vs. 9M2020: -4.7%).



Crude Oil & Condensate

September: -7.7%
August: -11.0%



Natural Gas

September: 1.0%
August: 1.6%

GLOBAL DEMAND FOR E&E PRODUCTS REMAIN STURDY

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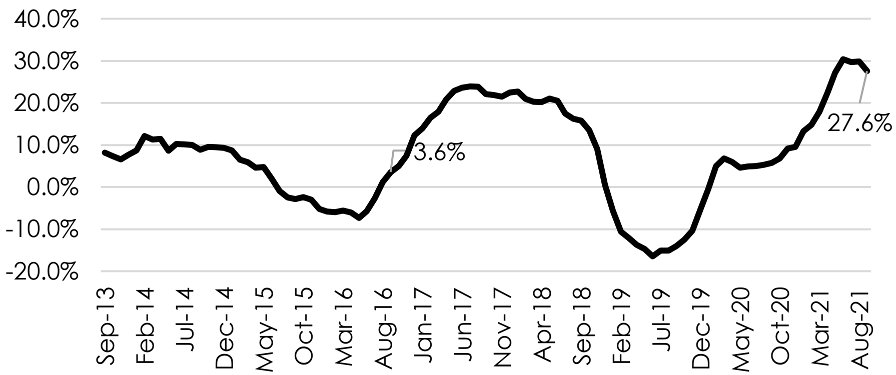
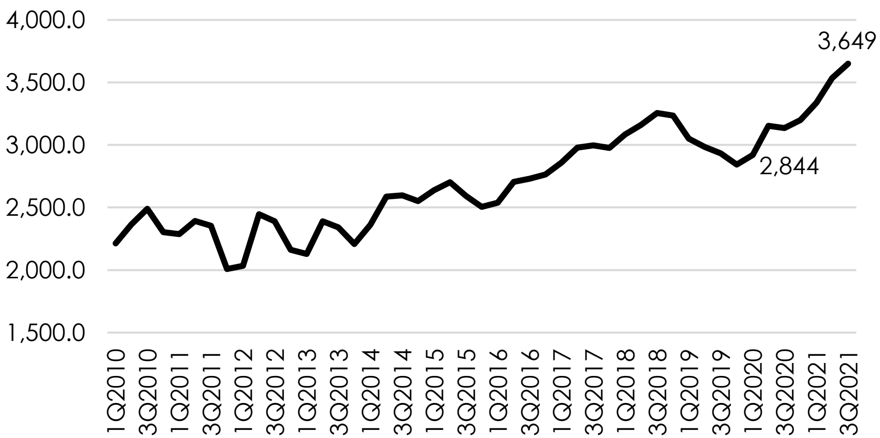
Global Semiconductor Sales (GSS), y-o-y%



Source: Semiconductor Industry Association (SIA)

Global Silicon Wafer Shipments, Million of Square Inches (MSI)



Source: semi.org

- ✓ The GSS continued to record a stellar performance, registering a double-digit growth of 27.6% y-o-y in September (August: 29.9%).
- ✓ On a quarterly basis, the semiconductor shipments reached an all-time high of USD141.2 billion in 3Q2021 (2Q2021: USD131.0 billion), representing a 27.6% y-o-y growth compared to the 26.7% growth recorded in the preceding quarter.
- ✓ Additionally, the global silicon wafers which are a fundamental building material for the majority of semiconductors also grew significantly by 16.4% y-o-y to 3,649.0 MSI in 3Q2021 after rising by 12.1% (2Q2021: 3,534.0 MSI) in the preceding quarter.
- ✓ The outperformance was mainly due to the ongoing high global demand for semiconductors, as well as the industry players' efforts to ramp up production amid global chips shortage.
- ✓ Furthermore, the growth momentum for silicon wafer shipments are foreseen to persist in the longer run as many new fabrications (fabs) will be constructed in the next few years to cater the demand for chips.
- ✓ On the other hand, the introduction of the Creating Helpful Incentives to Produce Semiconductors for America Act (CHIPS for America Act), a bipartisan legislation that would invest tens of billions of dollars in semiconductor manufacturing incentives and research initiatives over the next 5-10 years would strengthen and sustain the U.S. leadership in chip technology. Therefore, it would affect and shape local industries.
- ✓ Following this, the local semiconductor players need to inject new innovations in enhancing the value chain of the industry to ensure competitiveness as technological developments are moving at a drastic pace.

PRODUCTION FOR RUBBER GLOVE CONTRACTED IN SEPTEMBER

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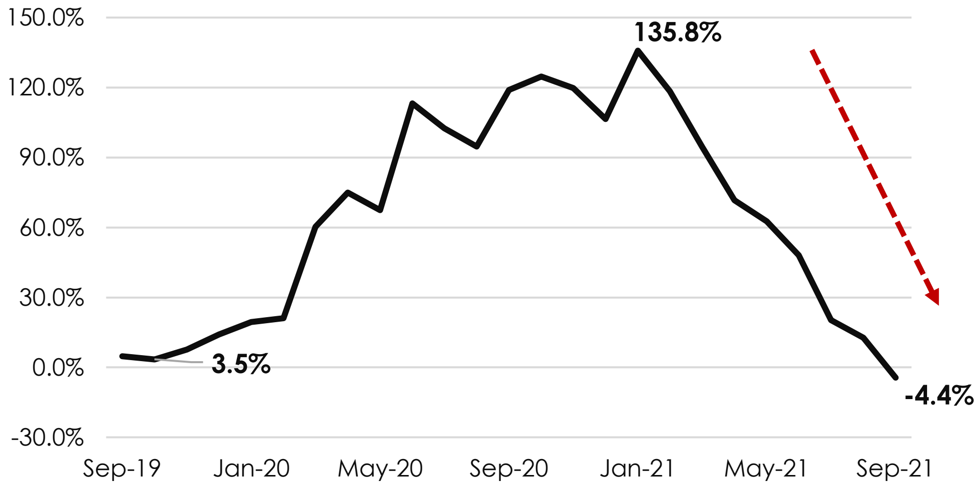
IPI: Manufacturing Rubber Glove, y-o-y%



Sources: DOSM, CEIC

Companies that have been banned by the US Customs and Border Protection (CBP):

Companies
Smart Glove Corp Sdn Bhd
Supermax Corp Berhad
Top Glove Corp Berhad – ***the ban has been lifted in October 2021***
Sime Darby Plantation Bhd
FGV Holdings Bhd

Sources: Various news

- ✓ As vaccination rates are increasing globally, we can see that the demand for rubber gloves has been slowing down as compared to the earlier phase of the pandemic.
- ✓ This was in tandem with Malaysia's IPI for manufacturing rubber gloves which plummeted by 4.4% in September (August: 12.7%), the first contraction since January 2019.
- ✓ On further scrutiny, Malaysia's rubber glove production moderated by 0.8% y-o-y to 7.1 billion pairs in September from 7.3 billion pairs in the previous month.
- ✓ Apart from that, stiff competition from China and an expectation of lower average selling price (ASP) have also affected the rubber glove industry.
- ✓ Moving forward, we anticipate that the production of rubber glove in Malaysia may face hurdles as the U.S. customs authorities have banned imports from Malaysia's rubber glove makers over alleged forced labour practices. Recently, Smart Glove has been the fifth Malaysian company to face such a ban in the past 15 months.

THE IPI OF ELECTRICITY MARKED ITS FIRST GROWTH AFTER THREE MONTHS OF CONTRACTION

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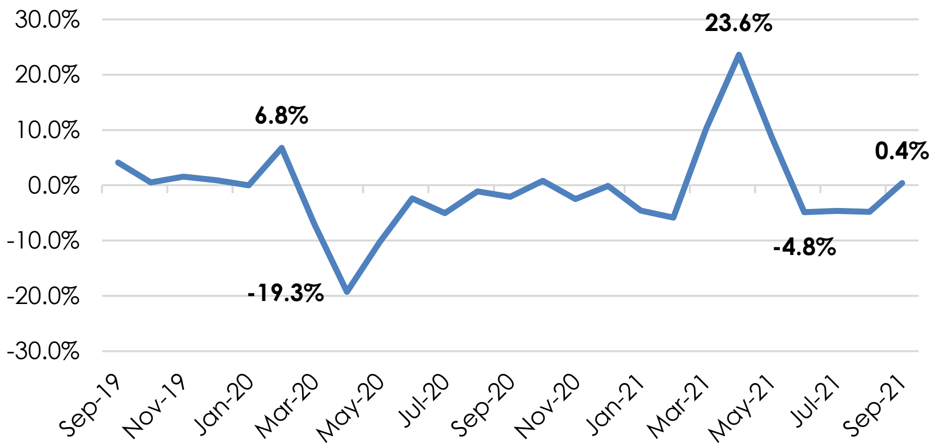
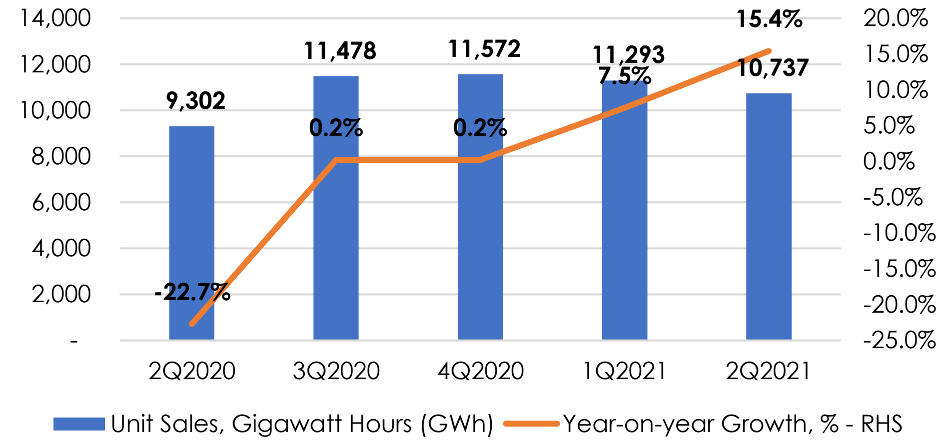
IPI: Electricity, y-o-y %



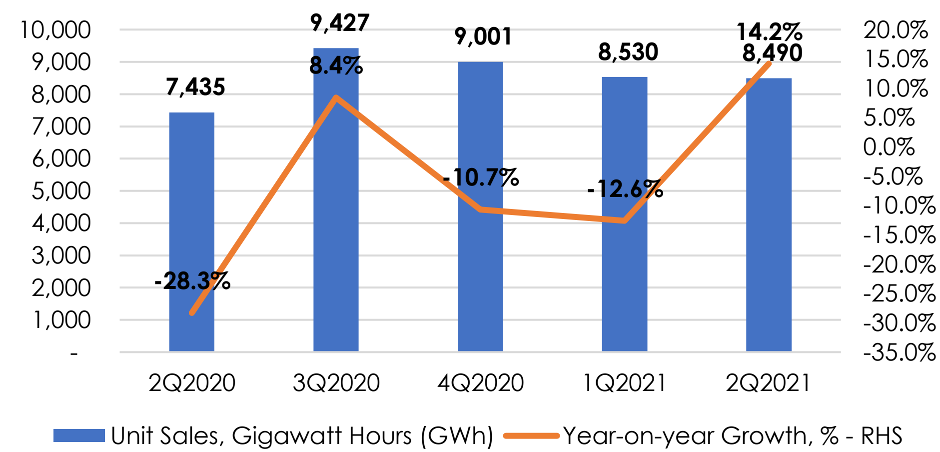
Sources: DOSM, CEIC

Tenaga Nasional Berhad's Electricity Demand For The Industrial Sector, GWh



Source: Tenaga Nasional Berhad

Tenaga Nasional Berhad's Electricity Demand For The Commercial Sector, GWh



Source: Tenaga Nasional Berhad

- ✓ The IPI of Electricity grew by 0.4% y-o-y in September (August: -4.8%), marking its first expansion after three straight months of contraction.
- ✓ The growth in electricity generation in September was inevitable amid the gradual relaxation of movement restrictions which began in August. The higher number of fully vaccinated individuals meant that working capacity can be ramped up.
- ✓ Even prior to the loosening of movement restrictions in August, Tenaga Nasional Berhad's (TNB) electricity demand for the industrial (2Q2021: 15.4% vs. 1Q2021: 7.5%) and commercial sector (2Q2021: 14.2% vs. 1Q2021: -12.6%) has been exhibiting some growth.
- ✓ As such, we foresee strong electricity demand to continue into 3Q2021 and also 4Q2021 for TNB in light of wider reopening of the economy.

AN UPSIDE POTENTIAL LIES FOR OIL PRODUCTION IN THE COMING MONTHS

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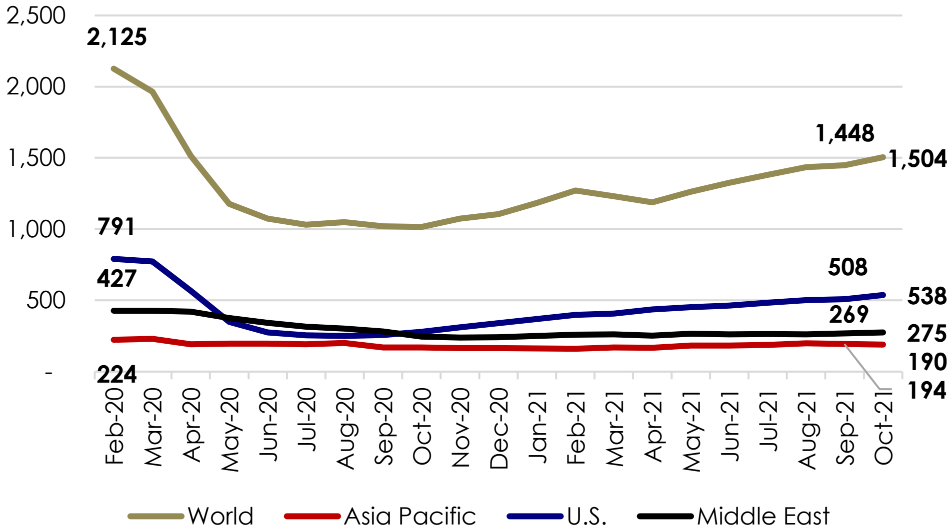
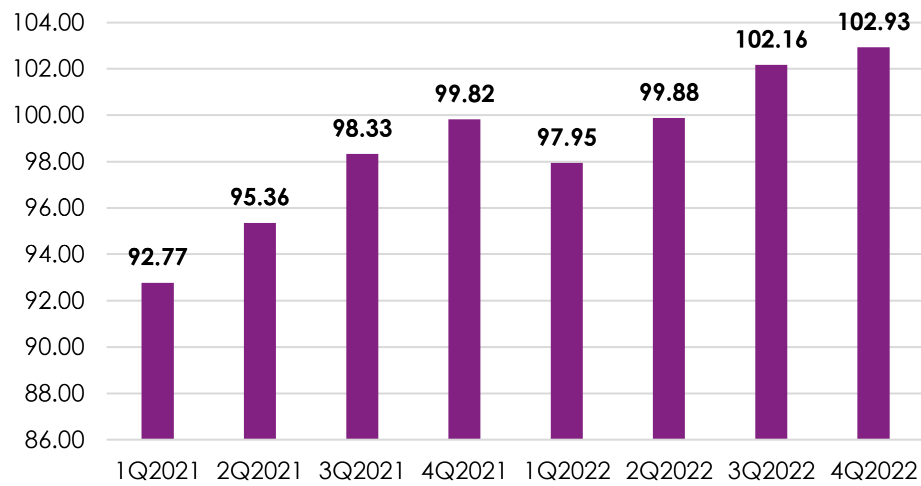


Source; Baker Hughes

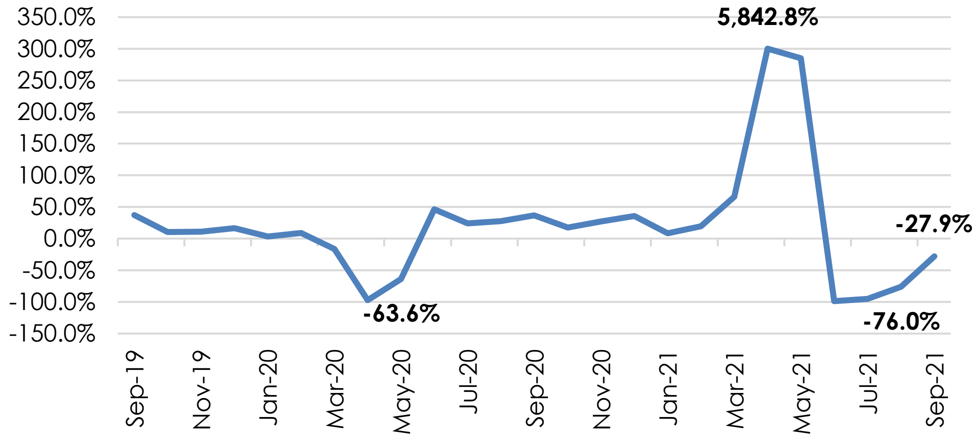


Source: OPEC

- ✓ The IPI for the mining of crude petroleum experienced a softer decline of 7.7% in September (August: -11.0%). This augurs well with the total number of rigs worldwide reached 1,504 rigs in October this year (September: 1,448 rigs) compared to 1,016 rigs in October last year.
- ✓ The Organization of the Petroleum Exporting Countries (OPEC) projected that overall oil demand may reach an average of 99.82 million barrels per day (bpd) in 4Q2021 compared to 98.33 million bpd in 3Q2021 as international travel picks up with more countries gradually opening borders, fuelling the demand for jet fuel.
- ✓ Based on data from the Official Aviation Guide (OAG), the current scheduled airline capacity for January 2022 stands at 400 million seats, which would represent a 62.0% y-o-y increase from the same period in 2021, signalling that the aviation industry is undergoing recovery.
- ✓ On the domestic front, there is a likelihood that Petronas may accelerate capital expenditures in 4Q2021 to make up for the underinvestment during the onset of the pandemic while expediting production activities to take advantage of the firm Brent crude oil price which has breached the USD80 per barrel mark.

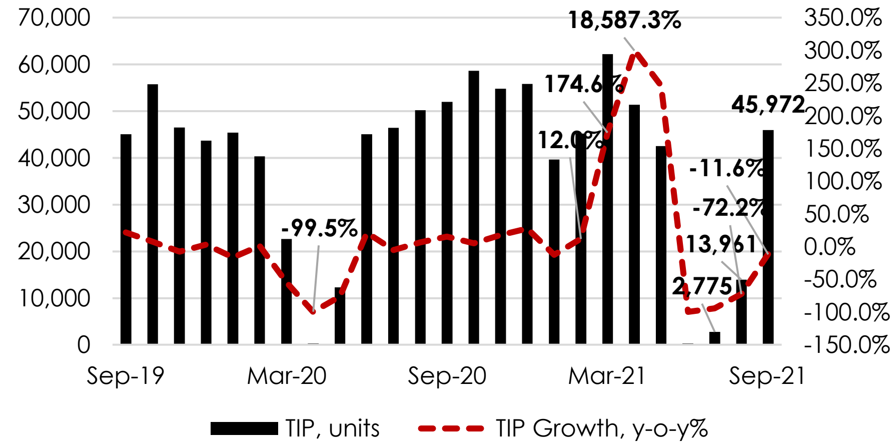
VEHICLE PRODUCTION IN SEPTEMBER RECORDS A NARROWER DECLINE AMID INCREASED WORKING CAPACITY

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



Sources: CEIC, DOSM

Total Industry Production (TIP), units

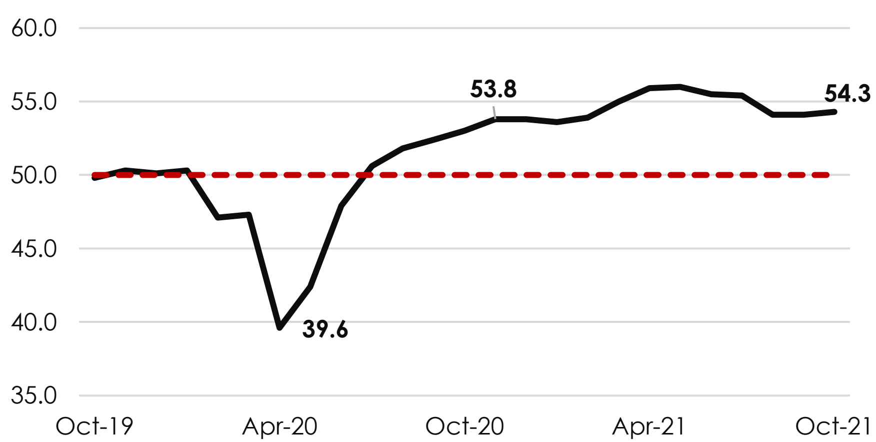


Source: Malaysian Automotive Association

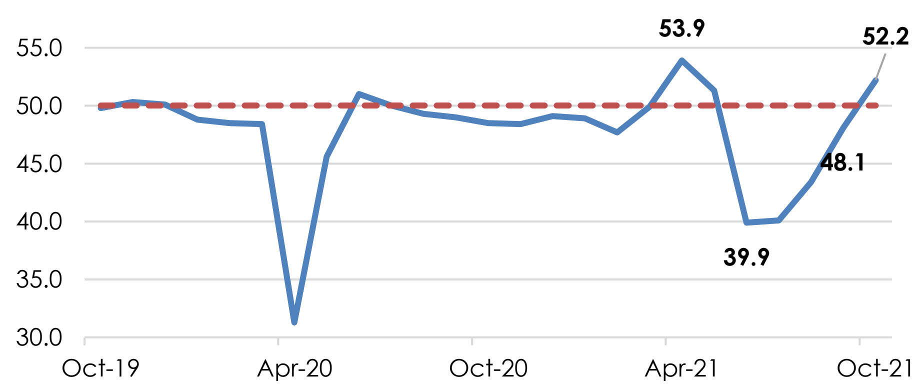
- ✓ The IPI for the manufacturing of passenger cars saw a smaller decline of 27.9% in September (August: -76.0%). Likewise, the Total Industry Production (TIP) of the nation's automotive industry also recorded a narrower decline of 11.6% in September (August: -72.2%) to reach 45,972 units in the same month (August: 13,961 units).
- ✓ On further scrutiny, the production of commercial vehicles jumped by 69.0% y-o-y in September (August: -53.4%) compared to passenger vehicles which declined to the tune of 14.8% in September (August: -73.1%). This implies that business are gradually expanding through the need of more vehicles to accommodate their operations.
- ✓ Moving forward, the complete reopening of auto retailing should accommodate further build-up of outstanding bookings in our opinion, underpinned by the tax holiday which has been extended until 30 June 2022.
- ✓ In fact, latest news from Perodua indicated that October this year also saw the highest ever number of vehicles made with 29,803 units produced within the month which was manufactured beyond Perodua's current production capacity. It could be the case that Perodua has managed its network of suppliers and also manpower effectively to mitigate the issue of supply chain shortages.
- ✓ Even in terms of vehicle sales, Perodua registered a sale of 27,858 units of vehicles in October (September: 14,160 units), which surpassed the previous record of 26,848 vehicles sold in October last year.
- ✓ The achievement by Perodua mentioned above underscores the importance of optimally reconfiguring their overall productions in the wake of the global supply chain disruptions.

- ✓ Global manufacturing activity picked up slightly in October as shown by the J.P. Morgan Global Manufacturing Purchasing Managers' Index (PMI) during the same month which reached 54.3 points (September: 54.1 points). Likewise, Malaysia's Manufacturing PMI improved to hit 52.2 points in October (September: 48.1 points), the highest since April this year.
- ✓ As such, we foresee that the IPI still has room to grow in October especially with more movement restrictions being relaxed such as the lifting of the interstate travel ban effective from 11 October.
- ✓ Notwithstanding this, we remain cognisant of the risks from the supply chain disruption which continues to linger. Manufacturers commonly noted that sustained supply chain disruptions and delivery delays had held back a stronger recovery, while material and container shortages led to a sharp acceleration in cost inflation.
- ✓ For instance, the index for input and output prices under the J.P. Morgan Global Manufacturing PMI, stood at 74.4 points (September: 71.2 points) and 63.7 points (September: 60.9 points) respectively in October, the highest point reached so far this year.
- ✓ Perhaps, manufacturers are still cautiously bringing up their rehiring activity back to pre-pandemic levels as infection risks continue to be a concern especially with the new AY.4.2 Delta sub-variant of the Covid-19 virus.
- ✓ All in all, we are now forecasting an **IPI growth of 7.0% (previously 6.3%) for 2021 after a decline of 4.2% in 2020 as we opine that the wider reopening of the economy will necessitate more production activities while flagging certain** downside risks to our estimates such as supply chain shortages and also difficulty in rehiring workers.

J.P. Morgan Global Manufacturing PMI, points



Malaysia's Manufacturing PMI, points



 Source: IHS Markit

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