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ECONOMICS

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Malaysia

MCO-inflicted April IPI sinks to record low

The Industrial Production Index (IPI) slumped 32% y/y in April due to the impact of the movement control order (MCO) and global lockdowns amid the Covid-19 outbreak. This is the IPI's lowest level since the data was reported in 1984. The two consecutive months of poor IP data that fell by 18.4% turned out to be worse than during the global financial crisis when the IP fell by an average of 0.7% (mid-2007 till early 2009).

The manufacturing sector came under heavy pressure during April as lockdown measures, both domestic and overseas, had a considerable impact on demand. Exacerbating the situation was the shrinking mining output where global fuel demand dropped about 30% even after major oil producers, led by Saudi Arabia, agreed to slash production by nearly 10 million barrels per day (bpd). Brent and WTI averaged US$18.47 and US$16.55 per barrel respectively in April from US$32.01 and US$29.21 in March respectively.

Moving forward, with the easing to the conditional MCO, and now recovery MCO, added with the lifting of global lockdowns, these should bode well for the domestic economy. Besides, with domestic recovery measures in place, more stable global oil prices with Brent and WTI averaging at US$29.60 and US$28.80 per barrel respectively in May, renewed buying of palm oil by India, an expected modest uptick from E&E, cheap borrowing cost and loan moratorium, all these should provide some positive catalysts to growth.

With signs of stabilisation in May emerging following the sharp rise of the manufacturing PMI to 45.6 despite remaining in the contraction region, from the record-low 31.3 in April, these suggest that 3Q2020 should yield a modest positive growth after a brutal 2Q. The possibility for the full-year growth to hover around -1.1% to -2.0% remains pending no nasty surprises. The downside to growth could reach -5.0%.

- The Industrial Production Index (IP) fell sharply in April, plunging 32% y/y from March's -4.9% y/y. This is the worst reading since the data was reported in 1984. The drag in the IP came from all the sub-indices with manufacturing, mining and electricity shrinking by 37.2% y/y, 19.6% y/, and 19.2% y/y, respectively.

- The two consecutive months of poor IP data, which showed a contraction of 18.4%, turned out to be worse than during the global financial crisis (GFC) period. During this period, the IP only fell by an average of 0.7% (mid-2007 till early 2009). This recent data clearly showed the severity of Covid-19 on the economy following the MCO that came into force on 18 March to contain the virus spread.

- The manufacturing sector came under heavy pressure during April as lockdown measures, both domestic and overseas, had a considerable impact on demand. Domestic demand was hit hard by containment measures and production as many firms suffered due to business closures. Meanwhile, export demand collapsed as governments around the world took drastic action to prevent healthcare systems from being overwhelmed. This is reflected in the collapse of output by -37.2% y/y from -4.1% y/y in the previous month.

- In tandem with the drop in the IPI is the Markit Manufacturing Purchasing Managers' Index (PMI) that tumbled to 31.3 in April from 48.4 in March. Meanwhile, manufacturing sales dived 33.0% y/y in April versus -3.0% y/y in March.

- Exacerbating the domestic situation, the Producer Price Index (PPI) fell by 5.1% y/y in April from 1.9% y/y in March — having been hit by weak global demand due to the coronavirus pandemic. Together with the weak oil prices, this translated into margin pressures.

- The mining output in April slid by 19.6% y/y from -6.5% y/y in March. In April, fuel demand worldwide shrank about 30% even after major oil producers, led by Saudi Arabia agreed to slash production by nearly 10 million barrels per day (bpd). Brent and WTI averaged US$18.47 and US$16.55 per barrel in April from US$32.01 and US$29.21 in March due to the collapse of WTI crude price which went negative for the first time in history, closing at -US$37.63/bbl on 20 April 2020.

- Moving forward, with the easing to the conditional MCO, and now the recovery MCO, added with easing global lockdowns, these should bode well for the domestic economy. Besides, with domestic recovery measures in place, more stable global oil prices with Brent and WTI averaging at US$29.60 and US$28.80 per barrel respectively in May, renewed buying of palm oil by India, expected modest uptick from E&E, cheap borrowing cost and loan moratorium, all these should provide some positive catalysts to growth.

- With signs of stabilisation in May emerging following the sharp rise of the manufacturing PMI to 45.6 despite remaining in the contraction region, from the record-low 31.3 in April, these suggest that 3Q2020 should yield a modest positive growth after a brutal 2Q. The possibility for the full-year growth to hover around -1.1% to -2.0% remains pending no nasty surprises. The downside to growth could reach -5.0%.

Table 1: Key Industrial Production Data (y/y)

	Apr'19	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan'20	Feb	Mar	Apr
IP y/y	3.2	4.0	3.2	1.4	1.9	1.5	0.1	2.1	1.3	0.6	6.2	-4.9	-32.0
Mfg y/y	4.3	4.2	3.8	4.0	3.6	2.5	2.3	2.7	3.4	2.2	6.2	-4.1	-37.2
Mining y/y	-0.9	2.8	1.5	-7.5	-3.0	-2.6	-6.9	0.5	-4.9	-3.9	6.1	-6.5	-19.6
Electricity y/y	5.8	5.7	1.7	2.0	0.3	4.1	0.5	1.6	0.9	0.0	6.8	-7.0	-19.2
Mfg Sales y/y	6.8	6.7	5.3	6.0	4.5	2.9	2.4	2.5	3.9	2.4	7.6	-3.0	-33.0

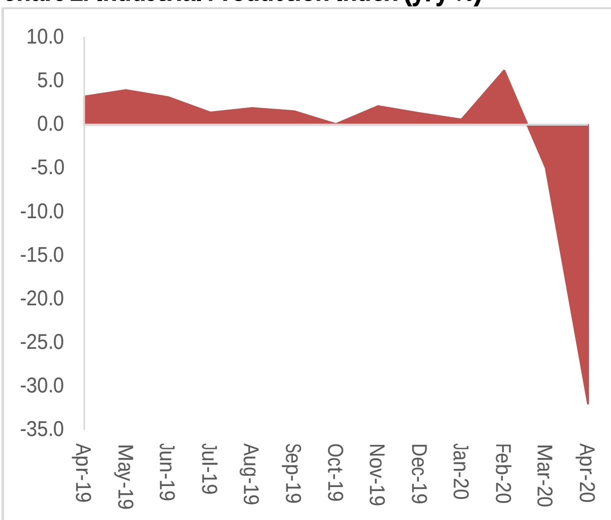
Source: CEIC/AmBank Research

Table 2: USD/MYR and PMI

	May'19	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan'20	Feb	Mar	Apr	May
RM/USD avg	4.171	4.162	4.124	4.188	4.185	4.188	4.159	4.149	4.080	4.163	4.296	4.355	4.342
RM/USD y/y	5.2	4.0	1.9	2.4	1.1	0.7	-0.7	-0.6	-0.9	2.2	5.3	5.9	4.1
PMI	48.8	47.8	47.6	47.4	47.9	49.3	49.5	50.0	48.8	48.5	48.4	31.3	45.6

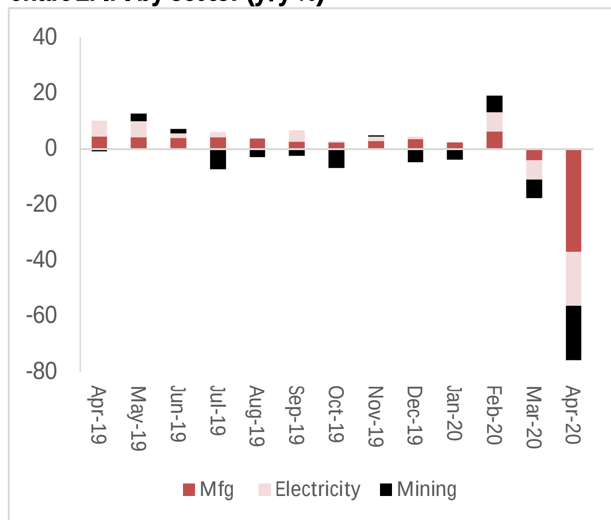
Source: CEIC/AmBank Research & - implies appreciation for the MYR

Chart 1: Industrial Production Index (y/y %)



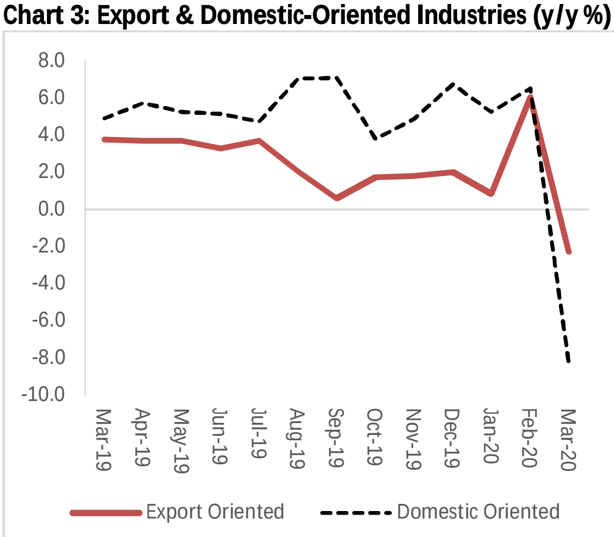
Source: CEIC/AmBank Research

Chart 2: IPI by Sector (y/y %)



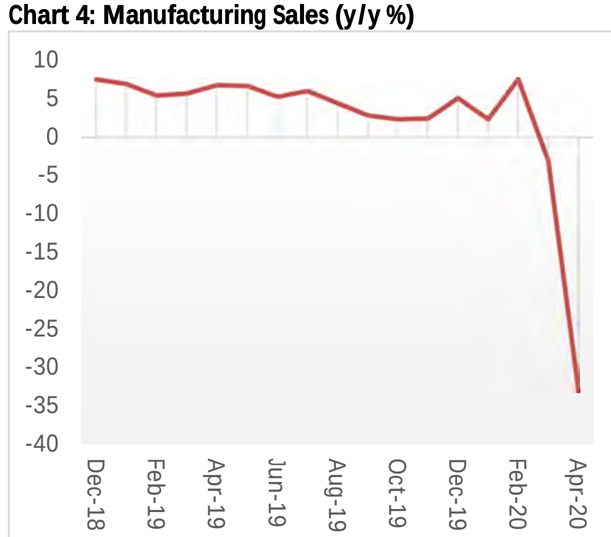
Source: CEIC/AmBank Research

Chart 3: Export & Domestic-Oriented Industries (y/y %)



Source: CEIC/AmBank Research

Chart 4: Manufacturing Sales (y/y %)



Source: CEIC/AmBank Research

Malaysia

Distributive trade expected to pick up after April gloom

April's distributive sales added to the list of record lows in the economy, plunging by 37.1% y/y from -5.7% y/y in March. The main drag was car sales, which plummeted by 92.5% y/y, wholesale trade by 26.3% y/y and retail trade by 32.4% y/y. This is not surprising given the fact that it is the full impact of the MCO, a move to contain the pandemic virus.

Looking ahead, distributive sales are expected to improve as the MCO and global lockdowns gradually ease, coupled with Penjana economic recovery measures and cheap borrowing cost. There is some anecdotal evidence of a modest pick-up in consumer spending. And with more easing of the MCO, possibilities of potential pent-up demand in big-ticket items as well as discretionary items cannot be ruled out.

- April's distributive sales added to the list of record lows in the economy, plunging by 37.1% y/y from -5.7% y/y in March. Distributive sales were hit hard by the containment measures as many firms suffered due to business closures.

- The downturn was largely fuelled by motor vehicles sales that dived by 92.5% y/y to 141 units from -15.3% y/y in March. It is not surprising as car dealerships and showrooms were not allowed to operate during the MCO. As a result, car loan applications, approvals and disbursements plummeted by 89.3% y/y (-87.3% m/m), 94.7% y/y (-93.2% m/m) and 95.9% y/y (-39.9% m/m) from 9.9% y/y (-24.6% m/m), 23.0% y/y (-19.1% m/m) and 34.8% y/y (-21.4% m/m) respectively in March. As a result of poor sales, motor vehicle production tanked by 99.5% to 275 units in April.

- Impacted by the MCO and lockdowns, both retail and wholesale sales decelerated to -32.4% y/y and -26.3% y/y in April from -6.6% y/y and -2.7% y/y in March, respectively. The disruption in the overall supply chain in domestic and abroad was reflected in the poor rate of loan applications, approvals and disbursements for this segment of business activities, down by 6.7% y/y, 11.5% y/y and 15.2% y/y respectively in April (+0.4% y/y, -21.8% y/y and -0.2% y/y in March).

- Looking ahead, distributive sales are expected to improve as the MCO and global lockdowns gradually ease, coupled with Penjana economic recovery measures and cheap borrowing cost. There is some anecdotal evidence of a modest pick-up in consumer spending. And with more easing of the MCO, possibilities for potential pent-up demand in big-ticket items as well as discretionary items cannot be ruled out.

Table 1: Distributive Trade Data (y/y %)

	Apr'19	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan'20	Feb	Mar	Apr
Wholesale Sales y/y	5.3	5.5	6.4	6.6	6.0	4.7	3.9	4.2	5.4	5.2	4.9	-2.7	-27.6
Retail Sales y/y	7.0	7.8	7.7	7.1	6.9	7.2	6.8	7.0	7.0	6.7	6.3	-6.6	-32.4
Motor Vehicles Sales y/y	2.2	9.1	-2.5	-1.7	1.1	4.4	3.7	3.0	4.5	1.0	3.5	-15.3	-92.5

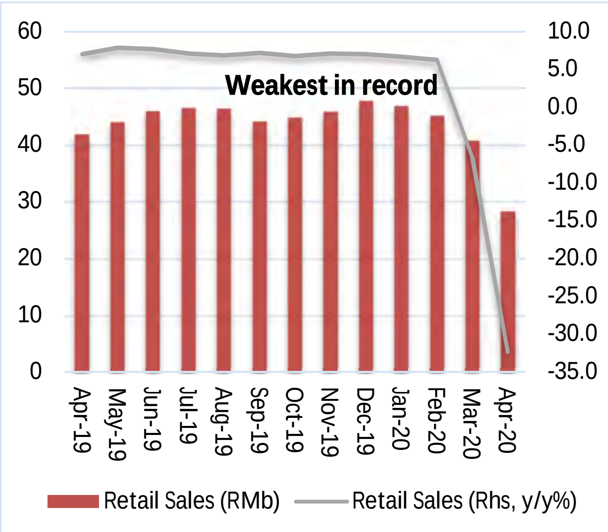
Source: CEIC/ AmBank Research

Table 2: Loan Growth (y/y%)

	Business Sector			Purchase of Vehicles: Passenger Car		
	Applied	Approved	Disbursed	Applied	Approved	Disbursed
Jan-19	-5.1	-7.2	13.6	-8.1	-0.9	-5.4
Feb-19	-20.3	5.8	14.8	-12.0	-9.7	-16.7
Mar-19	-8.0	11.4	-1.5	-15.3	10.4	6.3
Apr-19	10.5	1.2	3.4	-9.4	7.0	1.4
May-19	9.1	27.7	10.0	-6.8	16.7	38.6
Jun-19	-13.3	0.5	11.9	-47.3	-43.6	-24.8
Jul-19	13.5	17.8	-13.8	-32.3	-30.6	-17.6
Aug-19	10.9	4.4	2.2	-24.4	-28.6	-26.7
Sep-19	-11.3	-18.1	0.6	11.1	-0.5	-3.1
Oct-19	8.8	-23.2	-5.8	15.7	6.9	6.4
Nov-19	55.0	2.4	-12.9	34.0	20.2	16.2
Dec-19	0.3	10.5	-4.2	30.5	20.5	14.1
Jan-20	-9.5	6.6	0.6	-9.5	-1.2	5.6
Feb-20	51.5	31.3	-5.6	45.5	22.0	6.5
Mar-20	0.4	-21.8	14.6	-9.9	-23.0	-34.8
Apr-20	-6.7	-11.5	-0.2	-89.3	-94.7	-95.9

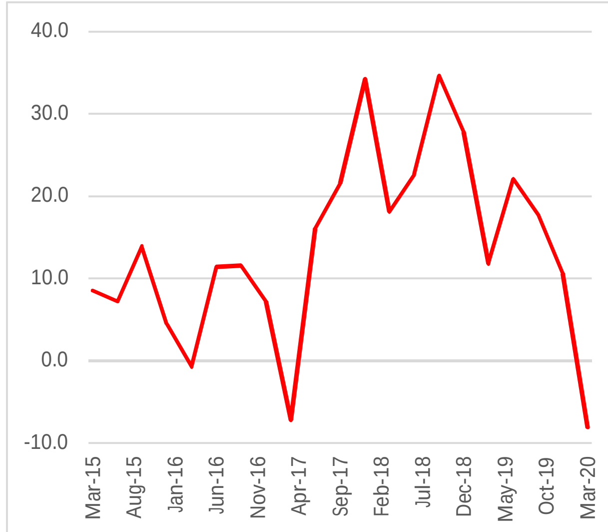
Source: CEIC/AmBank Research

Chart 1: Retail Sales (RM'bil and %)



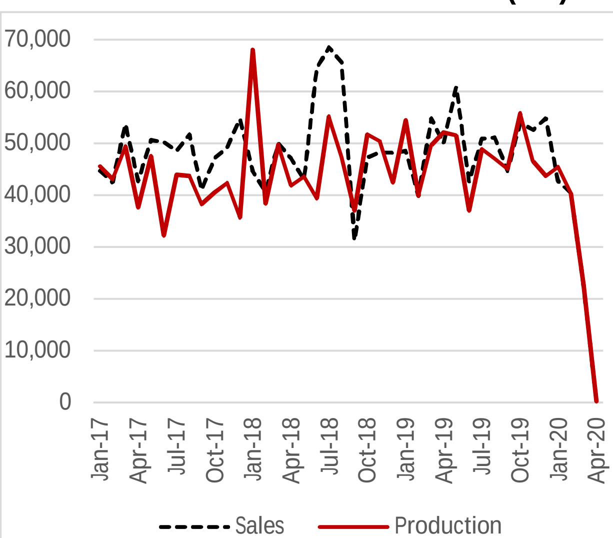
Source: CEIC/DOSM/AmBank Research

Chart 2: Business Tendency Survey (All Sectors)



Source: CEIC/DOSM/AmBank Research

Chart 3: Motor Vehicles Sales and Production (unit)



Source: CEIC/DOSM/AmBank Research

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