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# ECONOMICS

**In this report:**

**Malaysia – Double-digit contraction of IP and distributive sales**

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## Malaysia

### Double-digit contraction of IP and distributive sales

Industrial production (IP) fell by double digits for the second straight month in May, dropping by 22.1% y/y due to the decrease in all three components of the index. Likewise, distributive sales fell 23.8% y/y, dragged by both retail and wholesale sales, which slipped by 16.2% y/y and 23.6% y/y respectively.

Despite the double-digit contractions, more importantly the drop is seen softening as a result of the growing relaxation of the movement control order (MCO) domestically and lockdowns in many countries. It should potentially provide a positive impetus to economic growth.

Assuming there is no second wave of the virus infections, the economy should start to improve in 2H2020 at a modest pace. On that note, our base case growth for 2020 is around -2% with the downside at -5%. Still, the economic growth in 2Q2020 is expected to report the worst contraction after a 0.7% growth in 1Q2020 where our preliminary estimation suggests a contraction of between 10% and 13%.

- Industrial Production (IP) fell by double digits for the second straight month. The IP in May contracted by 22.1% y/y from -32% y/y in April due to the decrease in all three components of the index. Manufacturing dropped by 23.2% while the mining and electricity segments declined 22.2% and 10.3% respectively.
- The drag in manufacturing activities in May 2020 came from non-metallic mineral products, basic metal and fabricated metal products, which tumbled by 45.1%. Besides, lacklustre activities were seen from transport equipment and other manufactures (-38.5%) and also petroleum, chemical, rubber and plastic products (-24.3%).
- The output in the mining sector shrank 22.2% in May 2020 from -19.6% in April. The deterioration was due to the decrease in crude oil and condensate index at 22.2% from -20.2% in April.
- With the contraction of IP gradually easing although still at double digits as a result of the growing relaxation of the MCO and lockdowns in many countries, it should potentially provide a positive impetus to the economic growth.
- This is further supported by a narrower fall in distributive sales. In May, although distributive sales still recorded -23.8% y/y, it had eased compared to April's -36.6% y/y. Both retail and wholesale sales dwindled by 16.2% y/y and 23.6% y/y respectively from -26.3% y/y and -32.4% y/y in April as demand from household resumed.

- Still, the economic growth in 2Q2020 is expected to report the worst contraction after a 0.7% growth in 1Q2020. Preliminary estimation suggests the contraction could be between 10% and 13%. Assuming there is no relapse of the virus infections, the economy should start to improve in 2H2020 at a modest pace. On that note, our base case growth for 2020 is around -2% with the downside at -5%.

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

	May'19	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan'20	Feb	Mar	Apr	May
IP y/y	4.0	3.2	1.4	1.9	1.5	0.1	2.1	1.3	0.6	6.2	-4.9	-32.0	-22.1
Mfg y/y	4.2	3.8	4.0	3.6	2.5	2.3	2.7	3.4	2.2	6.2	-4.1	-37.2	-23.2
Mining y/y	2.8	1.5	-7.5	-3.0	-2.6	-6.9	0.5	-4.9	-3.9	6.1	-6.5	-19.6	-22.2
Electricity y/y	5.7	1.7	2.0	0.3	4.1	0.5	1.6	0.9	0.0	6.8	-7.0	-19.3	-10.3
Mfg Sales y/y	6.7	5.3	6.0	4.5	2.9	2.4	2.5	3.9	2.4	7.6	-3.0	-33.0	-19.8

Source: CEIC/AmBank Research

**Table 2: USD/MYR and PMI**

	Jun'19	Jul	Aug	Sep	Oct	Nov	Dec	Jan'20	Feb	Mar	Apr	May	Jun
RM/USD avg	4.162	4.124	4.188	4.185	4.188	4.159	4.149	4.080	4.163	4.296	4.355	4.342	4.275
RM/USD y/y	4.0	1.9	2.4	1.1	0.7	-0.7	-0.6	-0.9	2.2	5.3	5.9	4.1	2.7
PMI	47.8	47.6	47.4	47.9	49.3	49.5	50.0	48.8	48.5	48.4	31.3	45.6	51.0

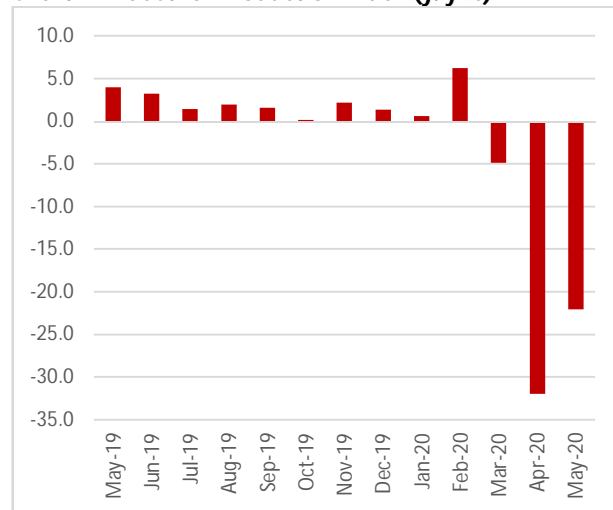
Source: CEIC/AmBank Research & - implies appreciation for the MYR

**Table 3: Distributive Trade Data (y/y %)**

	May'19	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan'20	Feb	Mar	Apr	May
Wholesale Sales y/y	5.5	6.4	6.6	6.0	4.7	3.9	4.2	5.4	5.2	4.9	-2.7	-26.3	-23.6
Retail Sales y/y	7.8	7.7	7.1	6.9	7.2	6.8	7.0	7.0	6.7	6.3	-6.6	-32.4	-16.2
Motor Vehicles Sales y/y	9.1	-2.5	-1.7	1.1	4.4	3.7	3.0	4.5	1.0	3.5	-15.3	-93.2	-49.5

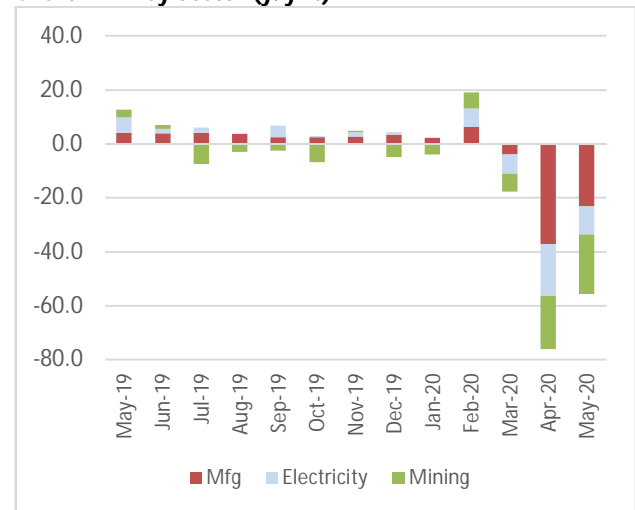
Source: CEIC/ AmBank Research

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



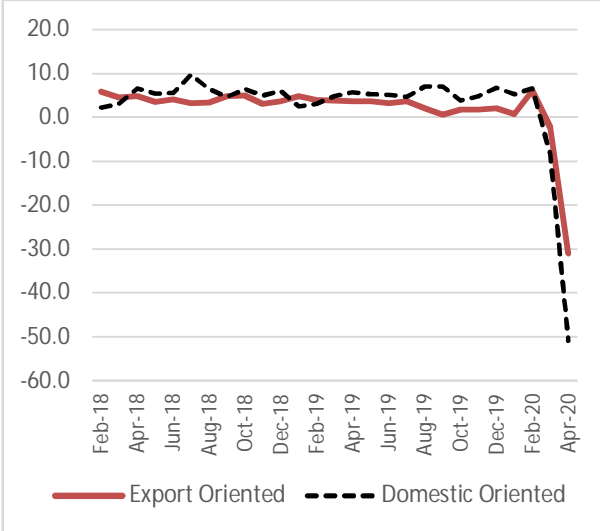
Source: CEIC/AmBank Research

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



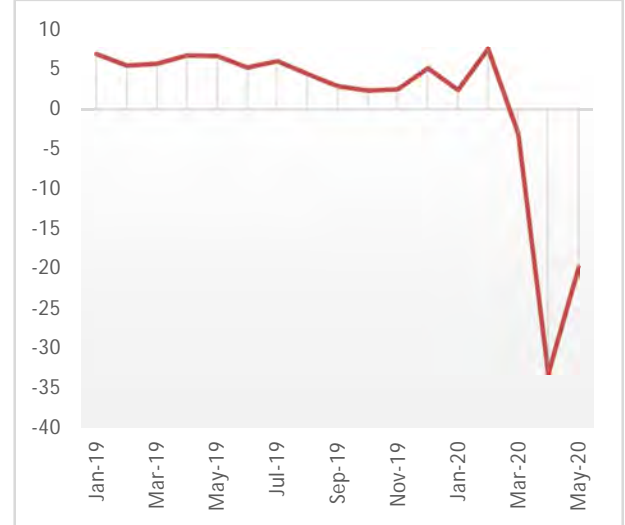
Source: CEIC/AmBank Research

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



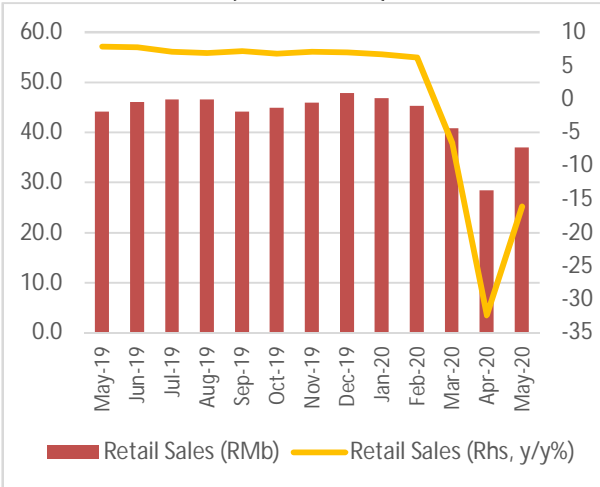
Source: CEIC/AmBank Research

**Chart 4: Manufacturing Sales (y/y %)**



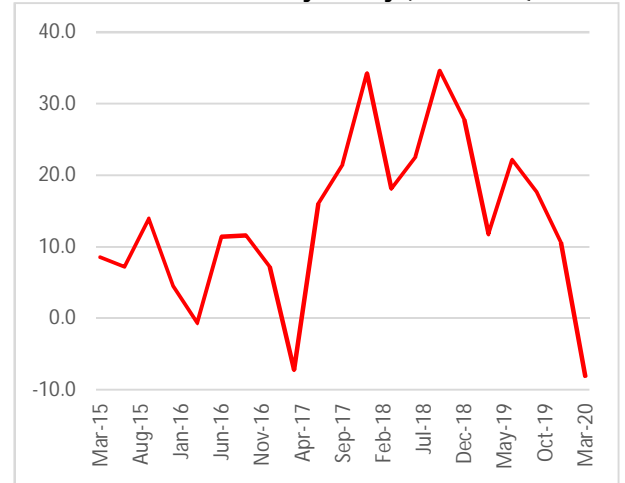
Source: CEIC/AmBank Research

**Chart 5: Retail Sales (RM'bil and %)**



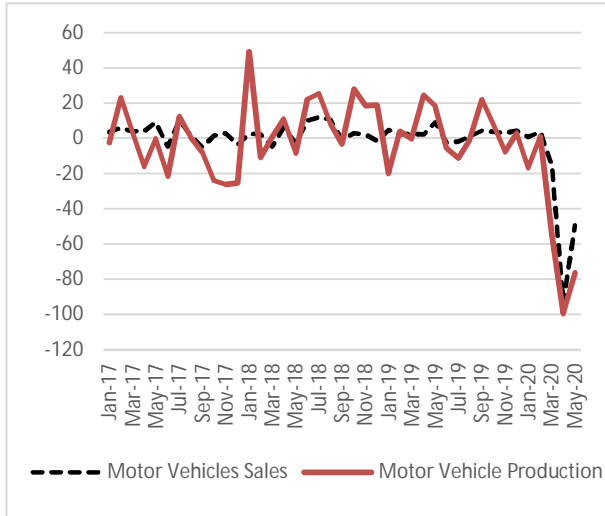
Source: CEIC/AmBank Research

**Chart 6: Business Tendency Survey (All Sectors)**



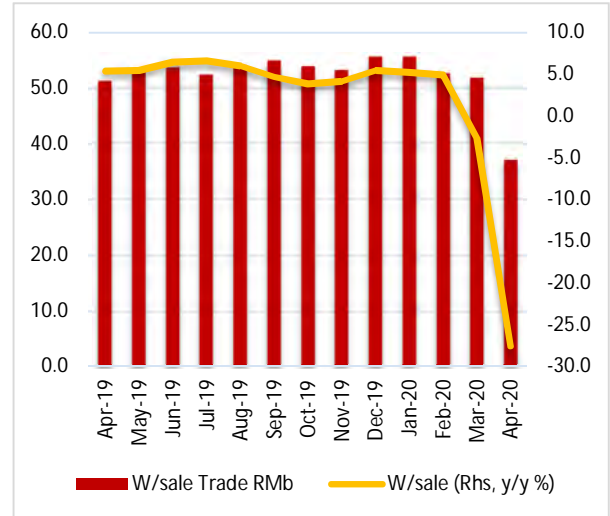
Source: CEIC/AmBank Research

**Chart 7: Motor Vehicles Sales and Production (unit)**



Source: CEIC/AmBank Research

**Chart 8: Wholesale Trade (RM'bil and %)**



Source: CEIC/AmBank Research

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