

## ECONOMIC REVIEW | April 2023 Industrial Production Index

# IPI Fell -3.3%yoy in Apr-23, the First Contraction in 20 Months

- *First decline for IPI in 20 months. Malaysia's IPI recorded the first decline since Aug-21, falling by -3.3%yoy in Apr-23 (Mar-23: +3.2%yoy) with contraction recorded in all major sectors.*
- *Manufacturing sales declined for the first time in 35 months. Manufacturing sales fell -2%yoy in Apr-23 (Mar-23: +8%yoy), marking the first year-on-year contraction since Jun-20 due to reduced sales of consumer electronics, computers, electronic components, rubber gloves and even motor vehicles.*
- *Maintain 2023 IPI growth forecast at +3.5%. As the negative IPI growth in Apr-23 was generally in line with our expectation, we make no changes to our full-year projection that Malaysia's IPI will expand at moderate pace of +3.5% in 2023 (2022: +6.7%).*

**First decline for IPI in 20 months.** Malaysia's IPI recorded the first decline since Aug-21, falling by -3.3%yoy in Apr-23 (Mar-23: +3.2%yoy) with contraction recorded in all major sectors. Mining dropped by -4.9%yoy due to lower production of both LNG and crude oil. Meanwhile, manufacturing sector output contracted by -3%yoy, dragged down by among others weaker production of E&E products, F&B and motor vehicles. Moreover, the decline in electricity generation by -2%yoy also contributed to the weaker IPI during the month. Although the decline in IPI exceeded market consensus, it was more or less in line with our projection as we priced in weaker external demand given the sharper-than-expected fall in exports. Meanwhile, we view the weaker output of consumer products to a certain extent to a temporary slowdown due to the effect of Hari Raya holidays.

**Table 1: Malaysia – Summary of Industrial Production Index**

	MoM%*				YoY%			
	Jan-23	Feb-23	Mar-23	Apr-23	Jan-23	Feb-23	Mar-23	Apr-23
<b>IPI</b>	(2.4)	4.9	0.0	(5.6)	1.8	3.5	3.2	(3.3)
Mining	(0.4)	(1.1)	1.0	(4.4)	5.9	(0.5)	0.8	(4.9)
Manufacturing	(2.7)	6.4	(0.3)	(6.0)	1.3	4.8	4.1	(3.0)
Electricity	(4.3)	5.1	1.8	(3.0)	(4.3)	1.1	0.4	(2.0)

\*MoM is seasonally adjusted

Source: Macrobond, DOSM, MIDFR

**Production was lower than Mar-23.** From the month-to-month perspective, the level of production in Apr-23 was -5.6%mom less than Mar-23 after adjusting to seasonal differences. In other words, while Hari Raya holidays may have contributed to the weaker business activity, the adjusted numbers indicated industrial production during the month was weaker than usual, with declines in all major sectors i.e. manufacturing, mining and electricity. We view this as part of businesses adopting a cautious strategy to adjust production, as highlighted in the manufacturing PMI survey, in anticipation of demand to remain soft, particularly with the less encouraging performance on the external front. Sequentially, as manufacturing production slowed to +3.4%yoy in 1QCY23 (4QCY22: +4%yoy), we noticed the rate of capacity utilization in the manufacturing sector also dropped to 79.6% (4QCY22: 80.2%), with reduction observed in E&E, chemical, textiles and F&B industries.

**Table 2: Changes in IPI Major Industries (YoY%)**

	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23
<b>IPI</b>	<b>4.4</b>	<b>4.9</b>	<b>2.8</b>	<b>1.8</b>	<b>3.5</b>	<b>3.2</b>	<b>(3.3)</b>
<b>Mining</b>	<b>7.6</b>	<b>7.0</b>	<b>3.9</b>	<b>5.9</b>	<b>(0.5)</b>	<b>0.8</b>	<b>(4.9)</b>
Crude Petroleum	4.6	4.6	4.2	8.0	(0.3)	5.0	(0.9)
Natural Gas	9.7	8.6	3.7	4.5	(0.5)	(2.1)	(7.8)
<b>Manufacturing</b>	<b>4.2</b>	<b>4.8</b>	<b>3.0</b>	<b>1.3</b>	<b>4.8</b>	<b>4.1</b>	<b>(3.0)</b>
Food Products	3.6	4.9	4.8	3.9	12.2	7.2	(5.5)
Refined Petroleum Products	10.6	1.6	3.4	11.0	6.5	6.4	0.9
Chemicals & Chemicals Products	0.2	4.9	0.4	1.0	2.8	4.5	1.2
Rubber Products	(8.4)	(9.0)	(8.1)	(8.8)	(6.3)	(6.1)	(16.5)
Basic Metals	1.8	1.4	(3.0)	(4.7)	5.1	4.9	3.0
Electrical & Electronic Products	8.7	12.1	7.2	0.4	5.4	5.5	(2.3)
Computers & Peripheral Equipment	(7.4)	(2.6)	(9.0)	(13.6)	(5.4)	(4.6)	(9.2)
Machinery & Equipment	0.4	4.3	10.3	1.3	2.5	7.3	(3.1)
Motor Vehicles, Trailers & Semi-Trailers	(5.7)	9.4	11.8	12.2	9.5	9.8	(15.5)
<b>Electricity</b>	<b>(2.2)</b>	<b>(0.5)</b>	<b>(2.2)</b>	<b>(4.3)</b>	<b>1.1</b>	<b>0.4</b>	<b>(2.0)</b>

Source: Macrobond, MIDFR

**Sharper drop in export-oriented output.** The IPI breakdown shows production activity in the export-oriented sectors fell sharper at -3.6%yoy vis-à-vis -2.1%yoy contraction for the domestic-oriented industries. The decline for export-oriented IPI was also the first contraction in the post-pandemic recovery since mid-2020, following reduced output for rubber and wood products, furniture, E&E, computers and oil & fats. For the domestic-oriented sectors, the drag was mainly from consumer-oriented products i.e. F&B and motor vehicles, while output for construction-related items like iron & steel and fabricated metal continued to expand. We believe the weakness in external demand will constrain outlook for the export-oriented sectors. On the other hand, we opine the softer output of consumer products will be a temporary slowdown as domestic spending activities are expected to be supported by positive job market conditions and rising income.

**Table 3: Changes in IPI for Export-Oriented Industries (YoY%)**

	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23
<b>IPI: Export-Oriented Industries</b>	<b>5.0</b>	<b>5.1</b>	<b>2.7</b>	<b>0.6</b>	<b>3.7</b>	<b>3.6</b>	<b>(3.6)</b>
Computer, Electronic Products and Optical	10.3	14.1	7.6	0.8	6.4	6.0	(1.8)
Electrical Equipment	4.5	3.8	1.9	(2.8)	1.7	0.2	(5.2)
Chemicals and Chemical Products	0.2	4.9	0.4	1.0	2.8	4.5	1.2
Coke and Refined Petroleum Products	10.6	1.6	3.4	11.0	6.5	6.4	0.9
Vegetable & animal oils & fats	(1.4)	0.6	7.1	8.3	18.3	15.2	(6.7)
Textiles	1.3	(3.5)	(0.9)	(4.7)	(3.3)	(2.5)	(3.1)
Wearing Apparel	(8.1)	0.3	(2.8)	(1.5)	5.5	4.0	5.4
Wood and Wood Products	0.1	(11.6)	(12.8)	(14.5)	(2.5)	(8.8)	(9.9)
Furniture	(6.7)	(7.3)	(8.3)	(11.7)	(8.0)	(13.9)	(16.1)
Rubber Products	(8.4)	(9.0)	(8.1)	(8.8)	(6.3)	(6.1)	(16.5)

Source: DOSM, MIDFR

**Table 4: Changes in IPI for Domestic-Oriented Industries (YoY%)**

	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23
<b>IPI: Domestic-Oriented Industries</b>	<b>2.5</b>	<b>4.3</b>	<b>3.8</b>	<b>2.7</b>	<b>7.0</b>	<b>5.0</b>	<b>(2.1)</b>
Construction (CO)	3.0	1.1	2.2	(0.6)	6.5	5.0	3.3
CO: Non Metallic Mineral	3.5	0.1	2.2	1.1	5.2	4.5	1.8
CO: Iron and Steel	1.8	1.4	(3.0)	(4.7)	5.1	4.9	3.0
CO: Fabricated Metal	3.5	1.6	5.6	0.4	8.5	5.5	4.8
Consumer (CS)	2.1	6.3	4.8	4.9	7.4	5.1	(4.9)
CS: Food Products	7.8	8.1	3.4	1.5	8.9	2.5	(4.9)
CS: Motor Vehicles, Trailers and Semi-Trailers	(5.7)	9.4	11.8	12.2	9.5	9.8	(15.5)
CS: Other Transport Equipment	12.1	2.9	2.6	0.4	5.5	1.9	0.7
CS: Beverages	1.1	5.4	0.7	(1.6)	(2.3)	(0.7)	(5.5)
CS: Tobacco Products	(28.1)	1.6	(12.4)	19.5	3.9	24.4	6.4
CS: Paper and Paper Products	2.5	0.3	2.4	2.2	5.6	3.4	1.4
CS: Others	0.4	5.4	2.7	1.0	5.0	0.9	0.5

Source: DOSM, MIDFR

**Manufacturing sales declined for the first time in 35 months.** Manufacturing sales fell -2%yoy in Apr-23 (Mar-23: +8%yoy), marking the first year-on-year contraction since Jun-20. Reduced sales were recorded in sectors such as consumer electronics, computers, electronic components, rubber gloves and even motor vehicles. Compared to Mar-23, sales of manufactured goods fell by -5.8%mom on seasonally adjusted basis due to sharp double-digit declines in, among others, motor vehicles, electronic components, consumer electronics and iron & steel products. As observed in IPI, we opine the shorter working days due to Hari Raya holidays partly contributed to the reduced sales in Apr-22. Given the weak Apr-23 numbers, sales outlook looks slower than projected with expectations for sales performance to remain soft the latter part of the year. Nevertheless, we still expect the resilience in domestic spending will help to cushion the impacts of external slowdown.

**Table 5: Manufacturing Sales (YoY%)**

	MoM%			YoY%		
	Feb-23	Mar-23	Apr-23	Feb-23	Mar-23	Apr-23
<b>Manufacturing Sales</b>	<b>(1.9)</b>	<b>7.6</b>	<b>(7.2)</b>	<b>10.3</b>	<b>8.0</b>	<b>(2.0)</b>
<i>Seasonally-adjusted month-on-month change (%)</i>	<i>8.1</i>	<i>(0.5)</i>	<i>(5.8)</i>	-	-	-
Refined Petroleum Products	(23.4)	3.7	4.5	25.0	14.5	0.6
Chemicals and Chemical Products	(1.8)	6.0	(14.5)	2.0	2.6	(0.9)
Rubber Gloves	(7.2)	50.2	(3.0)	(7.9)	(7.8)	(8.3)
Iron & Steel Products	3.3	6.2	(16.2)	12.6	13.5	2.1
Diodes, Transistor & Electronic Integrated Circuits Mic	10.0	18.9	(26.3)	4.8	6.0	(6.3)
Electrical Capacitor Resistor, Circuit Board & Display Comp	25.8	9.0	(15.3)	42.6	36.1	36.4
Computers & Peripherals Equipment	9.7	(7.9)	30.7	(2.3)	(2.0)	(7.7)
Consumer Electronics	3.8	19.2	(15.8)	(5.6)	(5.5)	(14.2)
Motor Vehicles	(10.8)	13.5	(33.9)	18.7	33.5	(13.4)

Source: Macrobond, DOSM, MIDFR

**Global production still subdued in Apr-23.** Industrial production for many economies were subdued in Apr-23, in line with the slight contraction in global manufacturing PMI which remained at 49.6. The US recorded a

dismal growth of +0.1-0.2%yoy in the recent 2 months, the weakest growth in the last 26 months. Malaysia joined other regional countries like Taiwan, South Korea, Thailand, Singapore and Japan to record negative IPI growth during the month. The weakness in global production activity and weaker-than-expected recovery in China following its economic reopening at end last year. We foresee this soft demand to continue as companies expressed reduced optimism on sales outlook and highlighted concerns that soft demand would continue and will likely affect near-term production outlook. Malaysia's manufacturing PMI fell further to 47.8 in May-23, as production eased further on the back of moderating demand.

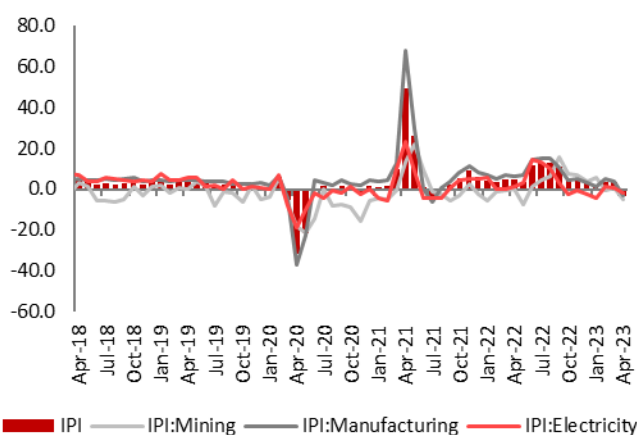
**Table 6: IPI for Selected Economies (YoY%)**

	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23
Malaysia	10.8	4.4	4.9	2.8	1.8	3.5	3.1	(3.3)
Philippines	12.6	14.5	13.2	10.0	15.2	8.9	6.0	10.7
Thailand	3.0	(4.3)	(5.3)	(8.5)	(4.8)	(2.4)	(3.9)	(8.1)
Singapore	1.1	(0.6)	(3.7)	(3.5)	(3.0)	(9.6)	(3.8)	(6.9)
S. Korea	0.1	(2.7)	(5.5)	(10.5)	(13.4)	(8.2)	(7.6)	(8.9)
Taiwan	(8.5)	(8.1)	(9.1)	(11.4)	(23.6)	(10.0)	(16.0)	(22.9)
India	3.3	(4.1)	7.6	4.7	5.5	5.6	1.1	n.a.
Japan	9.6	3.0	(0.9)	(2.4)	(3.1)	(0.5)	(0.6)	(0.3)
Euro area	4.9	3.3	2.8	(2.4)	0.7	2.1	(2.1)	n.a.
USA	4.5	3.1	1.9	0.6	1.5	0.8	0.1	0.2

\*n.a.: not available  
Source: Macrobond, MIDFR

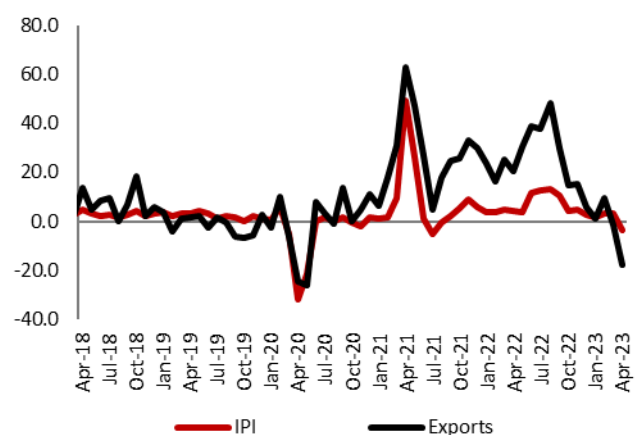
**Maintain 2023 IPI growth forecast at +3.5%.** As the negative IPI growth in Apr-23 was generally in line with our expectation, we make no changes to our full-year projection that Malaysia's IPI will expand at moderate pace of +3.5% in 2023 (2022: +6.7%). Sustained domestic demand will support domestic-driven sectors, in contrast to a more cautious approach by trade-oriented sectors to manage production in anticipation of soft overseas demand. With uncertainties and downside risks mainly coming from the external front, we are monitoring closely the strength of China's economic recovery, the effects of geopolitical and trade tensions between US and China, as well as the trend in global inflation which could translate into continued weakness in external demand. 📈

**Chart 1: IPI Performance by Sector (YoY%)**



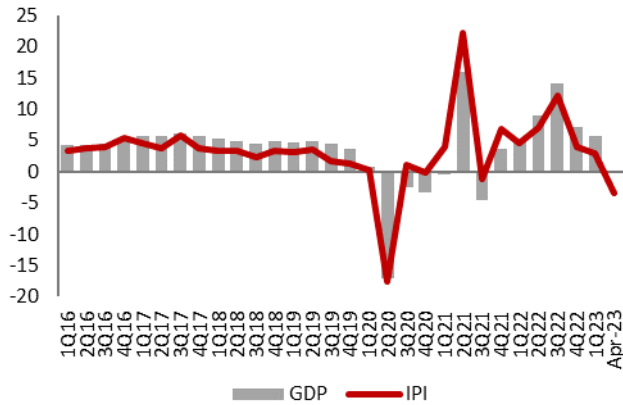
Source: Macrobond, MIDFR

**Chart 2: IPI vs Exports (YoY%)**



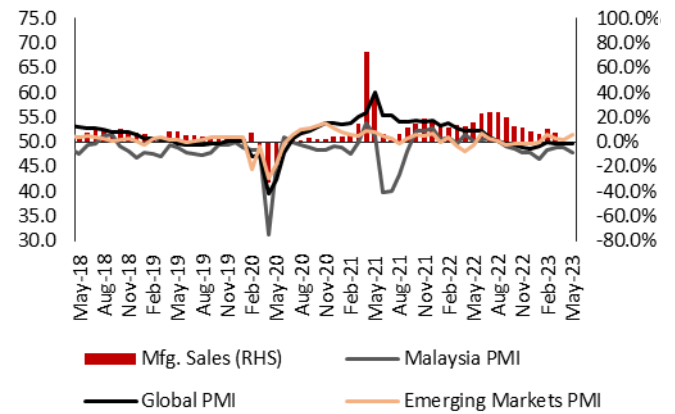
Source: Macrobond, MIDFR

**Chart 3: IPI vs GDP (YoY%)**



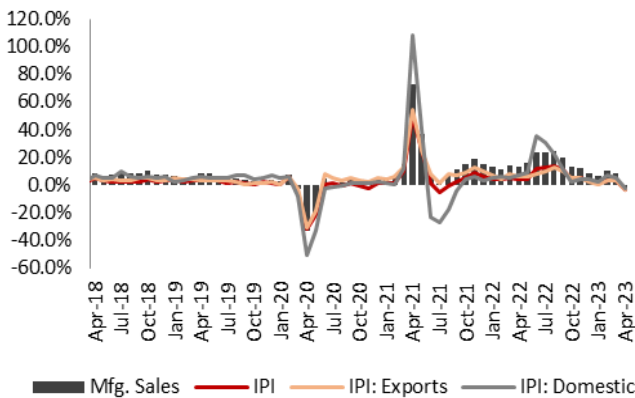
Source: Macrobond, MIDFR

**Chart 4: Mfg. Sales (YoY%) vs PMI (Points)**



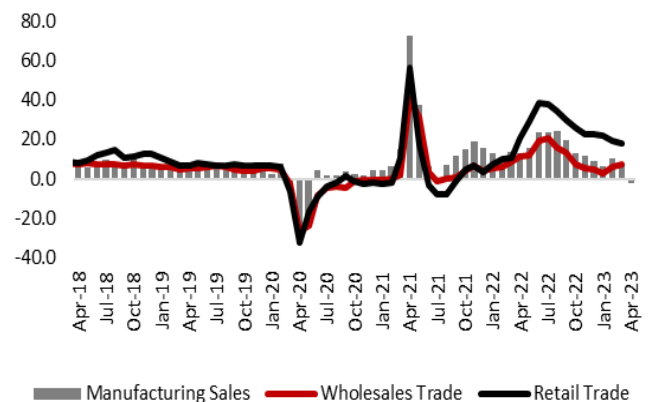
Source: Macrobond, Bloomberg, MIDFR

**Chart 5: IPI & Mfg. Sales (YoY%)**



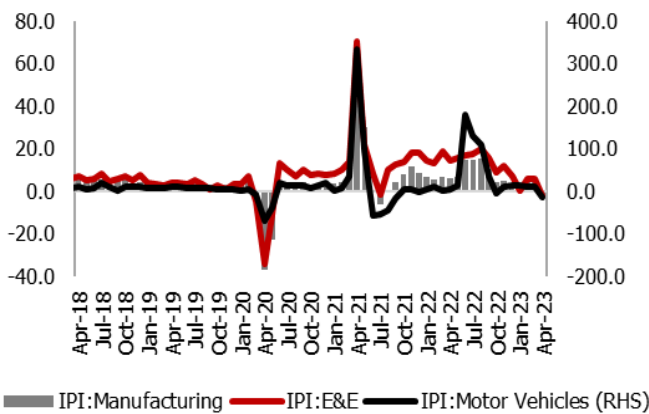
Source: Macrobond, DOSM, MIDFR

**Chart 6: Mfg. Sales vs. Wholesale & Retail Trade (YoY%)**



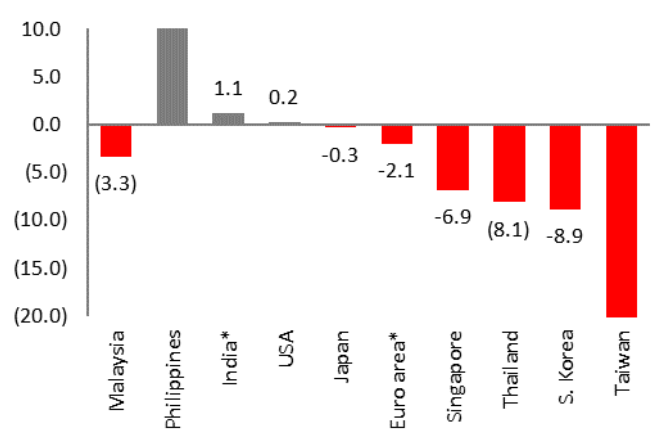
Source: Macrobond, MIDFR

**Chart 7: IPI: Mfg. vs IPI: Motor Vehicles & IPI:E&E (YoY%)**



Source: Macrobond, DOSM, MIDFR

**Chart 8: Global IPI in Apr-23 (YoY%)**



\* refers to latest available data for Mar-23  
Source: Macrobond, MIDFR

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