

ECONOMIC REVIEW | May 2023 Industrial Production Index

IPI Growth Beat Market Expectations amid Stronger Domestic-Oriented Output

- *IPI rebounded to +4.7%yoy in May-23. Malaysia's IPI performance improved by +4.7%yoy in May-23, fastest growth rate since Dec-22 and significantly above market expectations of +0.5%yoy. The recovery was largely contributed by the turn around in manufacturing output, which rose by +5.1%yoy and increased electricity generation. The increased electricity generation reflected higher energy consumption on the back of pick-up in business activities.*
- *Improved output from both export- and domestic-oriented sectors. The details showed export-oriented IPI picked up to +2.8%yoy in May-23. Domestic-oriented IPI expanded by +10.1%yoy, highest growth rate in 8-month, backed by higher output of consumer-related products (such as F&B and motor vehicles) as well as construction-related items (e.g. iron & steel and fabricated metal).*
- *IPI growth forecast at +2.2% for 2023. In view of the overall still tepid global trade performance, we revised our IPI growth lower to +2.2% from our initial projection of +3.5%. We foresee the continuous robustness in domestic demand to continue supporting domestic-driven sectors but trade-oriented sectors will continue to tread cautiously due to sluggish overseas demand.*

IPI rebounded to +4.7%yoy in May-23. Malaysia's IPI performance improved by +4.7%yoy in May-23, fastest growth rate since Dec-22 and significantly above market expectations of +0.5%yoy. The recovery was largely contributed by the turn around in manufacturing output, which rose by +5.1%yoy and increased electricity generation. The increased electricity generation reflected higher energy consumption on the back of pick-up in business activities. In addition, mining sector output expanded by +2.9%yoy thanks to higher productions of both LNG and crude petroleum. Looking at the rebound in manufacturing sector production, we foresee the improved production was an indication of improved business activities which was previously affected by the Hari Raya holidays. Furthermore, the strength in domestic demand remains key driver to support local production activities in contrast to concerns over slowing external demand.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%*				YoY%			
	Feb-23	Mar-23	Apr-23	May-23	Feb-23	Mar-23	Apr-23	May-23
IPI	4.9	0.0	(5.6)	7.4	3.5	3.2	(3.3)	4.7
Mining	(1.1)	1.0	(4.4)	5.9	(0.5)	0.8	(4.9)	2.9
Manufacturing	6.4	(0.3)	(6.0)	7.7	4.8	4.1	(3.0)	5.1
Electricity	5.1	1.8	(3.0)	9.4	1.1	0.4	(2.0)	5.0

*MoM is seasonally adjusted

Source: Macrobond, DOSM, MIDFR

Production picked up from the lows in Apr-23. From the month-to-month perspective, production activities improved in May-23 rising by +7.4%mom from -5.6%mom in Apr-23 after adjusting for seasonal difference. All sectors generally recorded higher production as workers returned to work and businesses, and resumed production after the Hari Raya holidays in Apr-23. Nevertheless, we believe manufacturers are more cautious on its production plans in view of the softer demand particular on the external front. While commodity sector was hit

by both lower prices and slower demand, the E&E sector in particular was impacted by the continued decline in external demand. Demand for gadgets and electronics dropped as more workers returned back to work in office. 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%)

	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23
IPI	4.9	2.8	1.8	3.5	3.2	(3.3)	4.7
Mining	7.0	3.9	5.9	(0.5)	0.8	(4.9)	2.9
Crude Petroleum	4.6	4.2	8.0	(0.3)	5.0	(0.9)	0.6
Natural Gas	8.6	3.7	4.5	(0.5)	(2.1)	(7.8)	4.5
Manufacturing	4.8	3.0	1.3	4.8	4.1	(3.0)	5.1
Food Products	4.9	4.8	3.9	12.2	7.2	(5.5)	10.3
Refined Petroleum Products	1.6	3.4	11.0	6.5	6.4	1.6	5.9
Chemicals & Chemicals Products	4.9	0.4	1.0	2.8	4.5	1.2	6.1
Rubber Products	(9.0)	(8.1)	(8.8)	(6.3)	(6.1)	(16.5)	(13.7)
Basic Metals	1.4	(3.0)	(4.7)	5.1	4.9	3.0	7.2
Electrical & Electronic Products	12.1	7.2	0.4	5.4	5.5	(2.3)	2.5
Computers & Peripheral Equipment	(2.6)	(9.0)	(13.6)	(5.4)	(4.6)	(9.2)	(6.4)
Machinery & Equipment	4.3	10.3	1.3	2.5	7.3	(3.1)	6.2
Motor Vehicles, Trailers & Semi-Trailers	9.4	11.8	12.2	9.5	9.8	(15.5)	16.4
Electricity	(0.5)	(2.2)	(4.3)	1.1	0.4	(2.0)	5.0

Source: Macrobond, MIDFR

Improved output from both export- and domestic-oriented sectors. The details showed export-oriented IPI picked up to +2.8%yoy in May-23, in tandem to the better export performance in the same month. Sectors like E&E, computers and oil & fats were the main contributors, registering stronger output during the month. Domestic-oriented IPI expanded by +10.1%yoy, highest growth rate in 8-month, backed by higher output of consumer-related products (such as F&B and motor vehicles) as well as construction-related items (e.g. iron & steel and fabricated metal). While the outlook in export-oriented production may be constrained by the subdued growth in external demand, we foresee domestic-oriented production is expected to gain and benefit from sustained growth in domestic spending activities.

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

	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23
IPI: Export-Oriented Industries	5.1	2.7	0.6	3.7	3.6	(3.6)	2.8
Computer, Electronic Products and Optical	14.1	7.6	0.8	6.4	6.0	(1.8)	1.4
Electrical Equipment	3.8	1.9	(2.8)	1.7	0.2	(5.2)	6.4
Chemicals and Chemical Products	4.9	0.4	1.0	2.8	4.5	1.2	6.1
Coke and Refined Petroleum Products	1.6	3.4	11.0	6.5	6.4	0.9	5.9
Vegetable & animal oils & fats	0.6	7.1	8.3	18.3	15.2	(6.7)	13.0
Textiles	(3.5)	(0.9)	(4.7)	(3.3)	(2.5)	(3.1)	(1.0)
Wearing Apparel	0.3	(2.8)	(1.5)	5.5	4.0	5.4	10.2
Wood and Wood Products	(11.6)	(12.8)	(14.5)	(2.5)	(8.8)	(9.9)	(1.4)
Furniture	(7.3)	(8.3)	(11.7)	(8.0)	(13.9)	(16.1)	0.2

Rubber Products	(9.0)	(8.1)	(8.8)	(6.3)	(6.1)	(16.5)	(13.7)
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Source: DOSM, MIDFR

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

	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23
IPI: Domestic-Oriented Industries	4.3	3.8	2.7	7.0	5.0	(2.1)	10.1
Construction (CO)	1.1	2.2	(0.6)	6.5	5.0	3.3	8.1
CO: Non Metallic Mineral	0.1	2.2	1.1	5.2	4.5	1.8	3.7
CO: Iron and Steel	1.4	(3.0)	(4.7)	5.1	4.9	3.0	7.2
CO: Fabricated Metal	1.6	5.6	0.4	8.5	5.5	4.8	11.9
Consumer (CS)	6.3	4.8	4.9	7.4	5.1	(4.9)	11.1
CS: Food Products	8.1	3.4	1.5	8.9	2.5	(4.9)	8.7
CS: Motor Vehicles, Trailers and Semi-Trailers	9.4	11.8	12.2	9.5	9.8	(15.5)	16.4
CS: Other Transport Equipment	2.9	2.6	0.4	5.5	1.9	0.7	7.2
CS: Beverages	5.4	0.7	(1.6)	(2.3)	(0.7)	(5.5)	11.1
CS: Tobacco Products	1.6	(12.4)	19.5	3.9	24.4	6.4	36.2
CS: Paper and Paper Products	0.3	2.4	2.2	5.6	3.4	1.4	6.9
CS: Others	5.4	2.7	1.0	5.0	0.9	0.5	8.5

Source: DOSM, MIDFR

Sales of manufactured goods picked up again. Manufacturing sales also rebounded to +3.3%yoy in May-23. The pick-up in sales were driven by better demand for consumer electronics, computers, electronic components, and motor vehicles. Sales of manufactured goods recorded a monthly jump of +5.5%mom (Apr-23: -5.8%mom), particularly underpinned by increased sales of motor vehicles, electronic components, consumer electronics and iron & steel products. Moving into 2HCY23, we expect weak sales growth for export-oriented products while steady uptick for domestic-oriented products amid resilient domestic demand.

Table 5: Manufacturing Sales (YoY%)

	MoM%			YoY%		
	Mar-23	Apr-23	May-23	Mar-23	Apr-23	May-23
Manufacturing Sales ¹	7.6	(7.2)	1.3	8.0	(2.0)	3.3
<i>Seasonally-adjusted month-on-month change (%)</i>	<i>(0.5)</i>	<i>(5.8)</i>	<i>5.5</i>	-	-	-
Refined Petroleum Products	3.7	4.5	7.2	14.5	0.6	2.4
Chemicals and Chemical Products	6.0	(14.5)	4.3	2.6	(0.9)	4.8
Rubber Gloves	50.2	(3.0)	(0.8)	(7.8)	(8.3)	(4.0)
Iron & Steel Products	6.2	(16.2)	(10.9)	13.5	2.1	5.1
Diodes, Transistor & Electronic Integrated Circuits Mic	18.9	(26.3)	2.8	6.0	(6.3)	(1.4)
Electrical Capacitor Resistor, Circuit Board & Display Comp	9.0	(15.3)	(5.1)	36.1	36.4	14.7
Computers & Peripherals Equipment	(7.9)	30.7	(15.4)	(2.0)	(7.7)	12.3
Consumer Electronics	19.2	(15.8)	2.0	(5.5)	(14.2)	3.7
Motor Vehicles	13.5	(33.9)	29.5	33.5	(13.4)	22.3

Source: Macrobond, DOSM, MIDFR

Production still subdued globally. Pessimistic global IPI outlook as the global manufacturing PMI remained below 50-demarkation line for the 3-straight months. The weakness mainly reflected manufacturers slowing their production and purchases in reaction to softer demand. In line with this, we noticed IPI in major economies showed little growth or contraction with the US recording a dismal growth of +0.2%yoy in May-23, while production in regional economies like Singapore, Taiwan, South Korea and Thailand continued to decline i.e. still below a year ago. Japan was an exception as its production bounced back to +4.7%yoy growth after 6 straight months of decline, attributable to better output of machineries, information & communication electronics equipment, consumer electronics and motor vehicles. Similarly China also registered increased IPI in May-23, but the pace of growth moderated to +3.5%yoy (Apr-23: +5.6%yoy), a rather disappointing development as slower production underscored concerns of slowing recovery. Given the decline in global manufacturing PMI to 48.8 in Jun-23, this indicates the contraction in global manufacturing activities would persist into 2HCY23 as external demand is expected to remain subdued.

Table 6: IPI for Selected Economies (YoY%)

	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23
Malaysia	4.4	4.9	2.8	1.8	3.5	3.2	(3.3)	4.7
Philippines	14.5	13.2	9.9	15.0	9.1	6.6	10.1	10.3
Thailand	(4.3)	(5.3)	(8.5)	(4.8)	(2.4)	(3.9)	(8.7)	(3.1)
Singapore	(0.6)	(3.7)	(3.5)	(3.0)	(9.6)	(3.7)	(6.5)	(10.8)
S. Korea	(2.7)	(5.5)	(10.5)	(13.4)	(8.2)	(7.6)	(9.0)	(7.3)
Taiwan	(8.1)	(9.1)	(11.4)	(23.6)	(10.0)	(16.0)	(22.6)	(15.7)
India	(4.1)	7.6	5.1	5.8	5.8	1.7	4.2	n.a.
Japan	3.1	(1.4)	(2.2)	(2.8)	(0.6)	(0.8)	(0.7)	4.7
Euro area	3.3	3.0	(2.3)	0.7	2.1	(2.1)	0.7	n.a.
USA	3.1	1.9	0.6	1.5	0.8	0.2	0.4	0.2

*n.a.: not available

Source: Macrobond, MIDFR


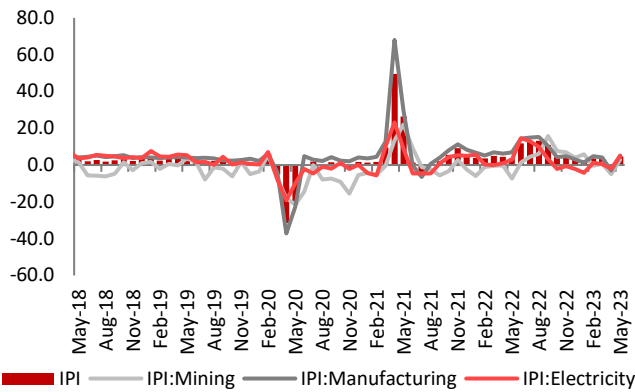
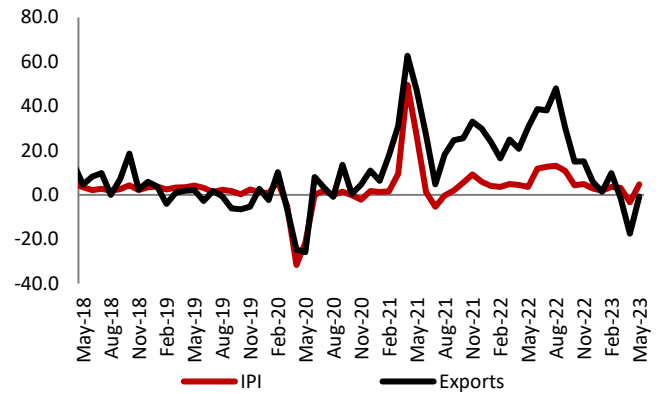
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Chart 1: IPI Performance by Sector (YoY%)



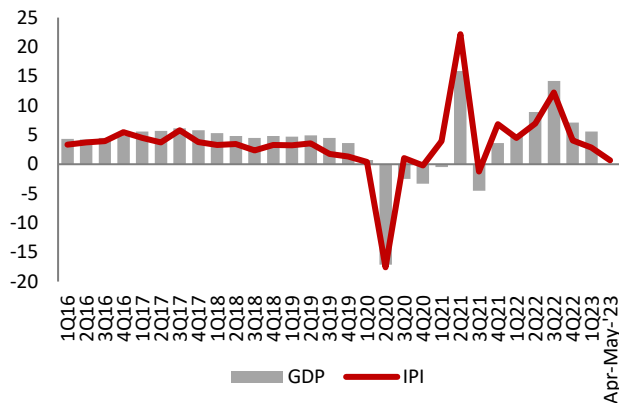
Source: Macrobond, MIDFR

Chart 2: IPI vs Exports (YoY%)



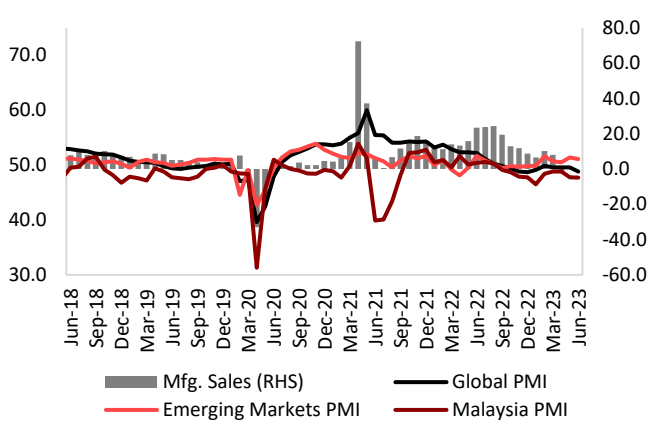
Source: Macrobond, MIDFR

Chart 3: IPI vs GDP (YoY%)



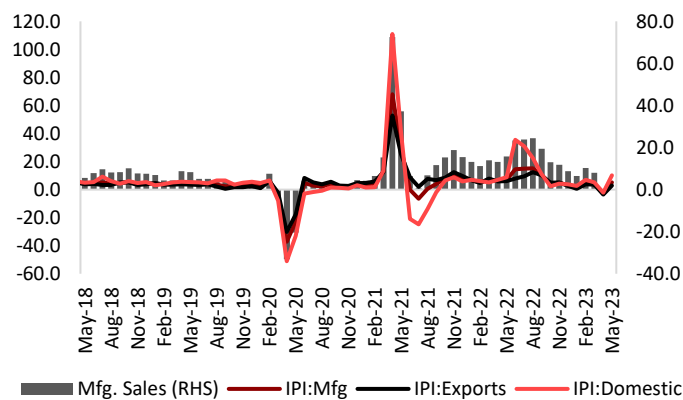
Source: Macrobond, MIDFR

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



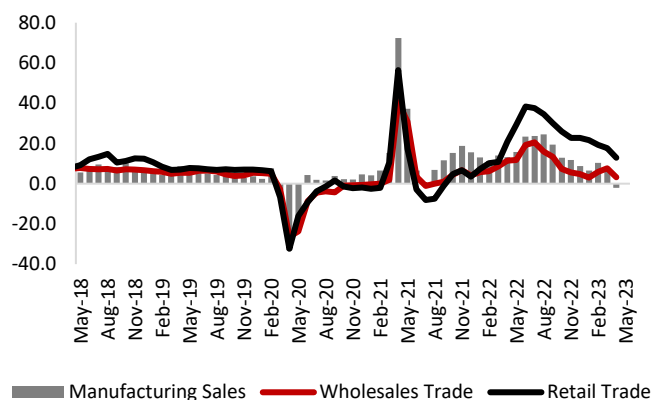
Source: Macrobond, Bloomberg, MIDFR

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



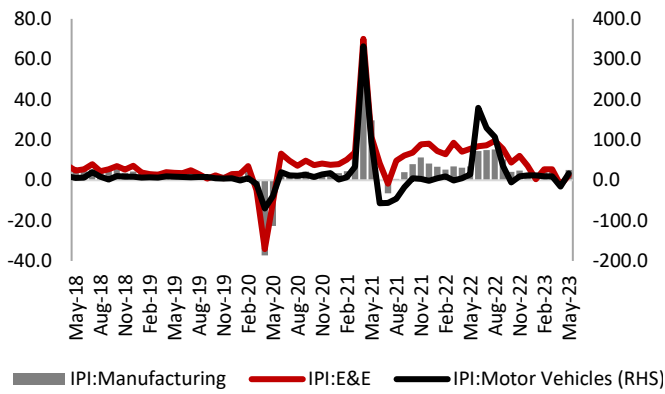
Source: Macrobond, DOSM, MIDFR

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



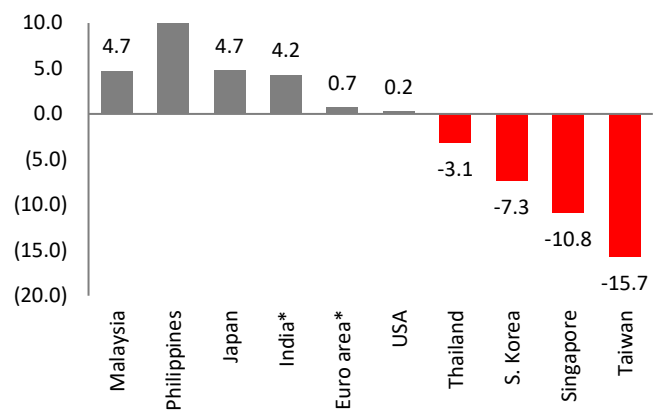
Source: Macrobond, MIDFR

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 Apr-23
Source: Macrobond, MIDFR

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