

## ECONOMIC REVIEW | June 2023 Industrial Production Index

# IPI Fell -2.2%yoy in June-23 Due to Weaker Mining and Manufacturing Output

- *IPI growth turned back to negative. Malaysia's IPI growth weakened more than expected in Jun-23, falling by -2.2%yoy (May-23: +4.8%yoy) because of reduced output in mining and manufacturing sectors.*
- *Major drag from weaker output in export-oriented sectors. Decline in IPI for the export-oriented sectors was the major contributor to decline in production in Jun-23. In contrast, domestic-oriented IPI rose further albeit at moderate pace of +4.2%yoy, backed by increased output in both construction and consumer products.*
- *Maintain 2023 IPI growth forecast at +2.2%. For now, we maintain our IPI forecast for 2023 at +2.2% (2022: +6.7%) as we anticipate production and therefore overall economic growth to moderate this year. Despite the projected positive growth, we remain cautious that the outlook may be weaker than anticipated.*

**IPI growth turned back to negative.** Malaysia's IPI growth weakened more than expected in Jun-23, falling by -2.2%yoy (May-23: +4.8%yoy) because of reduced output in mining and manufacturing sectors. Although we anticipated weaker IPI in view of sharper fall in exports, the pace of decline was sharper than ours and market forecast. Mining output dropped by -6.4%yoy as production for both crude petroleum and natural gas declined during the month. Manufacturing output fell by -1.6%yoy due to reduction in export-oriented output such as refined petroleum, rubber products, computer & peripherals equipment, and machinery & equipment. We believe sustained rise in electricity generation (Jun-23: +2.8%yoy; May-23: +5.9%yoy) indicates energy demand continued to grow in Jun-23.

**Output fell -1.7%mom from May-23.** On month-to-month basis, industrial production was -1.7%mom lower than previous month (May-23: +7.3%yoy) after adjusting to seasonal difference. All sectors registered lower production. We expect the weakness particularly in mining and manufacturing sectors will continue to follow more or less similar trend in export performance. In addition, the recent PMI for the manufacturing sector also indicated businesses scaled back production and hirings in reaction to softening demand. Broadly, if production continues to decline, this will affect outlook for both energy demand and electricity output.

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

|               | MoM%*  |        |        |        | YoY%   |        |        |        |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
|               | Mar-23 | Apr-23 | May-23 | Jun-23 | Mar-23 | Apr-23 | May-23 | Jun-23 |
| <b>IPI</b>    | (0.1)  | (5.5)  | 7.3    | (1.7)  | 3.2    | (3.2)  | 4.8    | (2.2)  |
| Mining        | 1.0    | (4.4)  | 5.9    | (5.0)  | 0.8    | (4.9)  | 2.9    | (6.4)  |
| Manufacturing | (0.3)  | (6.0)  | 7.7    | (1.5)  | 4.1    | (3.0)  | 5.1    | (1.6)  |
| Electricity   | 0.6    | (1.5)  | 8.6    | (1.8)  | 0.4    | (0.4)  | 5.9    | 2.8    |

\*MoM is seasonally adjusted

Source: Macrobond, DOSM, MIDFR

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

|  | Dec-22       | Jan-23       | Feb-23       | Mar-23     | Apr-23       | May-23     | Jun-23       |
|--|--------------|--------------|--------------|------------|--------------|------------|--------------|
| <b>IPI</b>                               | <b>2.8</b>   | <b>2.0</b>   | <b>3.6</b>   | <b>3.2</b> | <b>(3.2)</b> | <b>4.8</b> | <b>(2.2)</b> |
| <b>Mining</b>                            | <b>3.9</b>   | <b>5.9</b>   | <b>(0.5)</b> | <b>0.8</b> | <b>(4.9)</b> | <b>2.9</b> | <b>(6.4)</b> |
| Crude Petroleum                          | 4.2          | 8.0          | (0.3)        | 5.0        | (0.9)        | 0.6        | (4.5)        |
| Natural Gas                              | 3.7          | 4.5          | (0.5)        | (2.1)      | (7.8)        | 4.5        | (7.8)        |
| <b>Manufacturing</b>                     | <b>3.0</b>   | <b>1.3</b>   | <b>4.8</b>   | <b>4.1</b> | <b>(3.0)</b> | <b>5.1</b> | <b>(1.6)</b> |
| Food Products                            | 4.8          | 3.9          | 12.2         | 7.2        | (5.5)        | 10.3       | 2.2          |
| Refined Petroleum Products               | 3.4          | 11.0         | 6.5          | 6.4        | 1.6          | 6.1        | (10.8)       |
| Chemicals & Chemicals Products           | 0.4          | 1.0          | 2.8          | 4.5        | 1.2          | 6.1        | 7.0          |
| Rubber Products                          | (8.1)        | (8.8)        | (6.3)        | (6.1)      | (16.5)       | (9.7)      | (10.1)       |
| Basic Metals                             | (3.0)        | (4.7)        | 5.1          | 4.9        | 3.0          | 7.2        | 4.6          |
| Electrical & Electronic Products         | 7.2          | 0.4          | 5.4          | 5.5        | (2.3)        | 1.9        | (3.6)        |
| Computers & Peripheral Equipment         | (9.0)        | (13.6)       | (5.4)        | (4.6)      | (9.2)        | (6.4)      | (10.3)       |
| Machinery & Equipment                    | 10.3         | 1.3          | 2.5          | 7.3        | (3.1)        | 6.2        | (3.0)        |
| Motor Vehicles, Trailers & Semi-Trailers | 11.8         | 12.2         | 9.5          | 9.8        | (15.5)       | 16.1       | (0.2)        |
| <b>Electricity</b>                       | <b>(2.2)</b> | <b>(1.7)</b> | <b>2.3</b>   | <b>0.4</b> | <b>(0.4)</b> | <b>5.9</b> | <b>2.8</b>   |

Source: Macrobond, MIDFR

**Major drag from weaker output in export-oriented sectors...** Decline in IPI for the export-oriented sectors was the major contributor to decline in production in Jun-23. This was attributable to weaker production of various products such as E&E components, furniture, rubber products, woods, furniture, textile and oil & fats. Output of refined petroleum products also declined compared to a year ago, marking the first annual contraction after 13 months of growth between May-22 to May-23. The only product which saw output continued to grow stronger was chemicals & chemicals products, sustaining growth for 31 straight months since Dec-20.

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

|   | Dec-22     | Jan-23     | Feb-23     | Mar-23     | Apr-23       | May-23     | Jun-23       |
|---|------------|------------|------------|------------|--------------|------------|--------------|
| <b>IPI: Export-Oriented Industries</b>    | <b>2.7</b> | <b>0.6</b> | <b>3.7</b> | <b>3.6</b> | <b>(3.5)</b> | <b>2.9</b> | <b>(3.9)</b> |
| Computer, Electronic Products and Optical | 7.6        | 0.8        | 6.4        | 6.0        | (1.8)        | 0.5        | (4.0)        |
| Electrical Equipment                      | 1.9        | (2.8)      | 1.7        | 0.2        | (5.2)        | 7.6        | (0.3)        |
| Chemicals and Chemical Products           | 0.4        | 1.0        | 2.8        | 4.5        | 1.2          | 6.1        | 7.0          |
| Coke and Refined Petroleum Products       | 3.4        | 11.0       | 6.5        | 6.4        | 1.6          | 6.1        | (10.8)       |
| Vegetable & animal oils & fats            | 7.1        | 8.3        | 18.3       | 15.2       | (6.7)        | 13.0       | (3.7)        |
| Textiles                                  | (0.9)      | (4.7)      | (3.3)      | (2.5)      | (3.1)        | (1.0)      | (5.9)        |
| Wearing Apparel                           | (2.8)      | (1.5)      | 5.5        | 4.0        | 5.4          | 10.2       | 13.1         |
| Wood and Wood Products                    | (12.8)     | (14.5)     | (2.5)      | (8.8)      | (9.9)        | (1.4)      | (3.8)        |
| Furniture                                 | (8.3)      | (11.7)     | (8.0)      | (13.9)     | (16.1)       | 0.2        | (4.7)        |
| Rubber Products                           | (8.1)      | (8.8)      | (6.3)      | (6.1)      | (16.5)       | (9.7)      | (10.1)       |

Source: DOSM, MIDFR

**...domestic-oriented IPI grew further but at moderate pace.** As expected, higher output in the domestic-oriented sectors helped to cushion the impact of slowdown in export sectors. The domestic-oriented IPI rose further but at moderate pace of +4.2%yoy (May-23: +10.1%yoy), backed by increased output in both construction and consumer industries. Increased output of iron & steel products, fabricated metal and non-metallic minerals contributed to the sustained growth in construction IPI. Meanwhile, for the consumer sectors, despite the relatively weaker production of motor vehicles, output for other products such as F&B and transport equipment

continued to grow. We expect this trend will continue as weakness in global demand will continue to affect export-oriented sectors, cushioned by increased production of domestic-oriented products.

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

|  | Dec-22     | Jan-23     | Feb-23     | Mar-23     | Apr-23       | May-23      | Jun-23     |
|--|------------|------------|------------|------------|--------------|-------------|------------|
| <b>IPI: Domestic-Oriented Industries</b>       | <b>3.8</b> | <b>2.7</b> | <b>7.0</b> | <b>5.0</b> | <b>(2.1)</b> | <b>10.1</b> | <b>4.2</b> |
| Construction (CO)                              | 2.2        | (0.6)      | 6.5        | 5.0        | 3.3          | 8.1         | 5.2        |
| CO: Non Metallic Mineral                       | 2.2        | 1.1        | 5.2        | 4.5        | 1.8          | 3.7         | 3.5        |
| CO: Iron and Steel                             | (3.0)      | (4.7)      | 5.1        | 4.9        | 3.0          | 7.2         | 4.6        |
| CO: Fabricated Metal                           | 5.6        | 0.4        | 8.5        | 5.5        | 4.8          | 11.9        | 6.7        |
| Consumer (CS)                                  | 4.8        | 4.9        | 7.4        | 5.1        | (4.9)        | 11.1        | 3.6        |
| CS: Food Products                              | 3.4        | 1.5        | 8.9        | 2.5        | (4.9)        | 8.7         | 5.8        |
| CS: Motor Vehicles, Trailers and Semi-Trailers | 11.8       | 12.2       | 9.5        | 9.8        | (15.5)       | 16.1        | (0.2)      |
| CS: Other Transport Equipment                  | 2.6        | 0.4        | 5.5        | 1.9        | 0.7          | 7.2         | 6.8        |
| CS: Beverages                                  | 0.7        | (1.6)      | (2.3)      | (0.7)      | (5.5)        | 11.1        | 1.7        |
| CS: Tobacco Products                           | (12.4)     | 19.5       | 3.9        | 24.4       | 6.4          | 36.2        | 19.9       |
| CS: Paper and Paper Products                   | 2.4        | 2.2        | 5.6        | 3.4        | 1.4          | 6.9         | 2.0        |
| CS: Others                                     | 2.7        | 1.0        | 5.0        | 0.9        | 0.5          | 8.5         | 0.9        |

Source: DOSM, MIDFR

**Manufacturing sales fell again in Jun-23.** Sales of manufactured goods fell by -4%yoy in Jun-23, mainly due to the high base last year. Although the sales value increased to RM147.4b or +0.4%mom higher than RM146.8b in May-23, the value of sales was lower than RM153.5b in Jun-22. The annual decline was a result of reduced sales of among others rubber gloves, computers & peripheral equipment, and chemicals & chemical products. Other products such as refined petroleum, iron & steel, electronic components, consumer electronics and motor vehicles registered positive sales growth. Despite the weaker sales in Jun-23, we still expect manufactured goods sales to pick up in 2HCY23 backed by increased consumer spending amid positive job market conditions and moderating inflation.

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

|   | MoM%         |            |              | YoY%         |            |              |
|---|--------------|------------|--------------|--------------|------------|--------------|
|   | Apr-23       | May-23     | Jun-23       | Apr-23       | May-23     | Jun-23       |
| <b>Manufacturing Sales</b> <sup>1</sup>                     | <b>(7.2)</b> | <b>1.3</b> | <b>0.4</b>   | <b>(2.0)</b> | <b>3.3</b> | <b>(4.0)</b> |
| <i>Seasonally-adjusted month-on-month change (%)</i>        | <i>(5.8)</i> | <i>5.5</i> | <i>(2.2)</i> | -            | -          | -            |
| Refined Petroleum Products                                  | 4.5          | 7.5        | (1.8)        | 14.5         | 0.6        | 2.4          |
| Chemicals and Chemical Products                             | (14.5)       | 4.3        | (1.6)        | (0.9)        | 4.8        | (1.8)        |
| Rubber Gloves   | (3.0)        | (5.4)      | (4.4)        | (8.3)        | (8.4)      | (8.1)        |
| Iron & Steel Products                                       | (16.2)       | (10.9)     | (3.2)        | 2.1          | 5.1        | 12.9         |
| Diodes, Transistor & Electronic Integrated Circuits Mic     | (26.3)       | 3.4        | 17.2         | (6.3)        | (0.7)      | 0.4          |
| Electrical Capacitor Resistor, Circuit Board & Display Comp | (15.3)       | (4.3)      | 8.1          | 36.4         | 15.7       | 13.7         |
| Computers & Peripherals Equipment                           | 30.7         | (15.4)     | (3.9)        | (7.7)        | 12.3       | (5.1)        |
| Consumer Electronics  | (15.8)       | 2.0        | 2.2          | (14.2)       | 3.7        | 1.3          |
| Motor Vehicles  | (33.9)       | 29.5       | (9.7)        | (13.4)       | 22.3       | 9.3          |

Source: Macrobond, DOSM, MIDFR

**Global production contracted in Jun-23.** Global production remained weak in Jun-23 as IPI growth remained in the negatives for many economies in line with the below 50, consistent with the global manufacturing PMI (at which remained below 50. The US reported -0.4%yoy decline in IPI in Jun-23 due to lower output of finished goods, particularly consumer goods. Japan's IPI growth also turned back to negatives due to weaker output of commodity-based products (such as iron & steel, chemicals, and petroleum & coal) and electronic components & devices. Meanwhile, sharper output decline in various major industries contributed to Taiwan's IPI falling for 13 straight months since June last year. Similarly, the level of production in regional countries like Thailand and Singapore also remained below a year ago since Oct-22. With global manufacturing PMI remaining unchanged at 48.7 in Jun-23 and Jul-23, we opine the weakness in global production will continue in the coming months as manufacturers are cautious on production and hiring plans in response to softer demand and new orders.

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

|             | Nov-22 | Dec-22 | Jan-23 | Feb-23 | Mar-23 | Apr-23 | May-23 | Jun-23 |
|-------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Malaysia    | 4.9    | 2.8    | 2.0    | 3.6    | 3.2    | (3.2)  | 4.8    | (2.2)  |
| Philippines | 13.2   | 9.9    | 15.0   | 9.1    | 6.6    | 10.1   | 10.3   | n.a.   |
| Thailand    | (5.3)  | (8.5)  | (4.8)  | (2.4)  | (3.9)  | (8.7)  | (3.0)  | (5.2)  |
| Singapore   | (3.7)  | (3.5)  | (2.9)  | (9.6)  | (3.9)  | (6.4)  | (10.5) | (4.9)  |
| S. Korea    | (5.5)  | (10.5) | (13.4) | (8.2)  | (7.6)  | (9.1)  | (7.6)  | (5.6)  |
| Taiwan      | (9.1)  | (11.4) | (23.6) | (10.0) | (16.0) | (22.6) | (15.7) | (16.6) |
| India       | 7.6    | 5.1    | 5.8    | 6.0    | 1.7    | 4.5    | 5.2    | n.a.   |
| Japan       | (1.4)  | (2.2)  | (2.8)  | (0.6)  | (0.8)  | (0.7)  | 4.2    | (0.4)  |
| Euro area   | 3.0    | (2.4)  | 0.7    | 2.2    | (2.0)  | 0.4    | (2.1)  | n.a.   |
| USA         | 1.9    | 0.6    | 1.5    | 0.9    | 0.2    | 0.5    | 0.0    | (0.4)  |

\*n.a.: not available

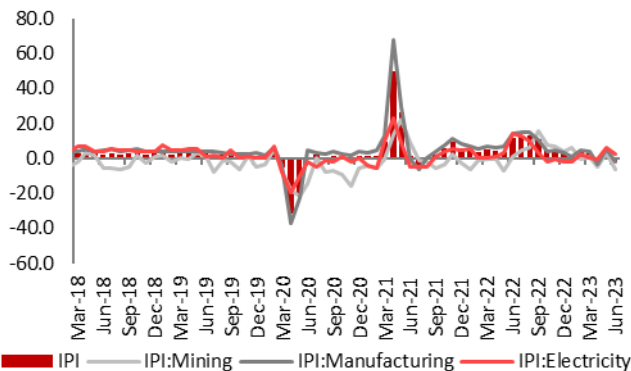
Source: Macrobond, MIDFR

**IPI signals GDP growth to moderate in 2QCY23.** Looking at the trend in IPI growth which slowed and fell by -0.3%yoy in 2QCY23 (1QCY23: +2.9%yoy; 4QCY23: +4%yoy), we expect GDP growth will moderate in 2QCY23. Despite the marginal decline, the contraction in IPI during the quarter was the first fall after rebounding from the sharp -17.6%yoy fall in 2QCY20 at the height of first pandemic-induced movement control. By sector, mining production contributed to the decline as the sector's IPI dropped by -2.8%yoy (1QCY23: +2.1%yoy), while manufacturing IPI registered a small increase of +0.1%yoy (1QCY23: +3.4%yoy) and electricity generation grew faster at +2.8%yoy (1QCY23: +0.3%yoy). We opine the commodity price correction led to reduced urgency to make purchase like before as countries rebuilt their reserves. Moreover, manufacturers were more cautious on production planning due to concerns over near-term demand outlook and in view of softer new orders. While the slower production may likely result in slower investment and business spending, we expect it will be offset by rising consumer spending and recovery in services exports, and these will be factors that will support Malaysia's GDP growth in 2QCY23.

**Maintain 2023 IPI growth forecast at +2.2%.** For now, we maintain our IPI forecast for 2023 at +2.2% (2022: +6.7%) as we anticipate production and therefore overall economic growth to moderate this year. Despite the projected positive growth, we remain cautious that the outlook can be weaker than anticipated, considering IPI growth having slowed to +1.3%yoy in 1HCY23 (2HCY22: 5.4%yoy) which was closely linked to the weaker

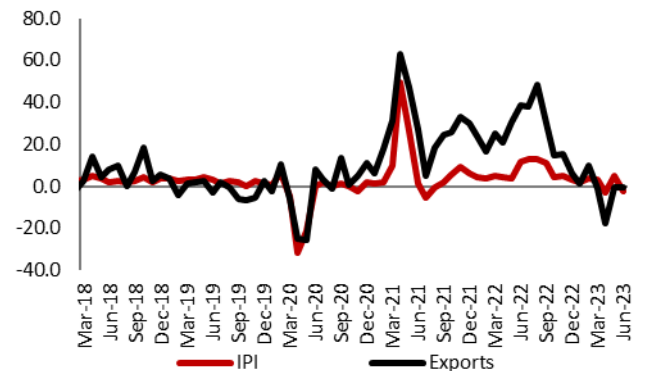
output in mining and export-oriented sectors. On that note, we foresee weak external demand and global manufacturing activities will continue to affect IPI outlook. However, resilience in domestic demand will lend support to the overall demand outlook this year. Although easing cost pressure and better supply condition would result in less disruptions to stability of supply, we view several risks may constrain production outlook such as more significant decline in external demand, elevated inflation (which could affect spending plans and therefore final demand), and renewed rise in cost of production. 📈

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



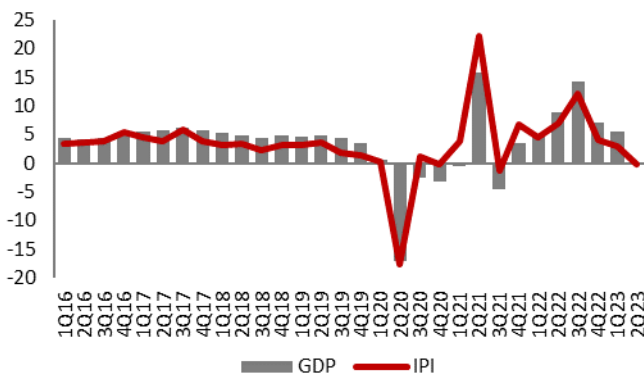
Source: Macrobond, MIDFR

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



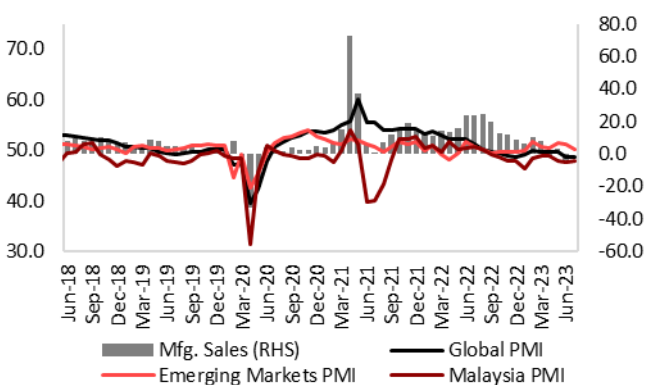
Source: Macrobond, MIDFR

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



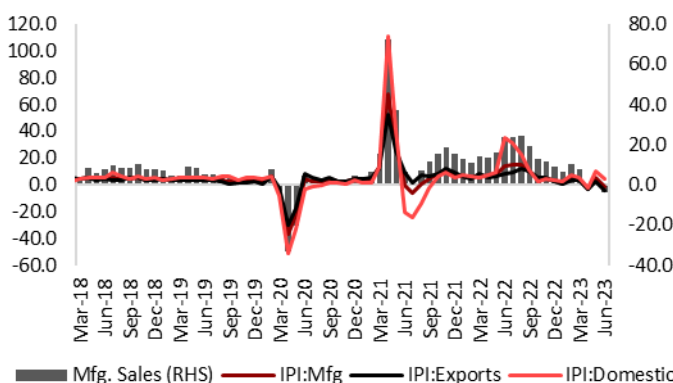
Source: Macrobond, MIDFR

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



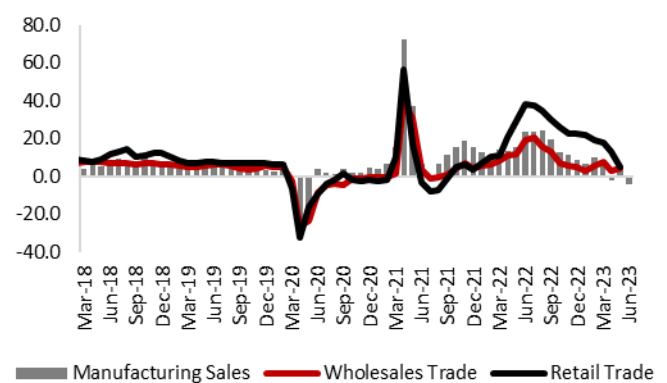
Source: Macrobond, Bloomberg, MIDFR

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



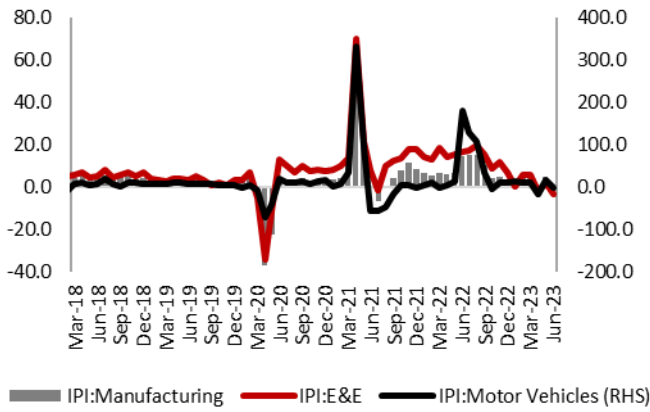
Source: Macrobond, DOSM, MIDFR

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



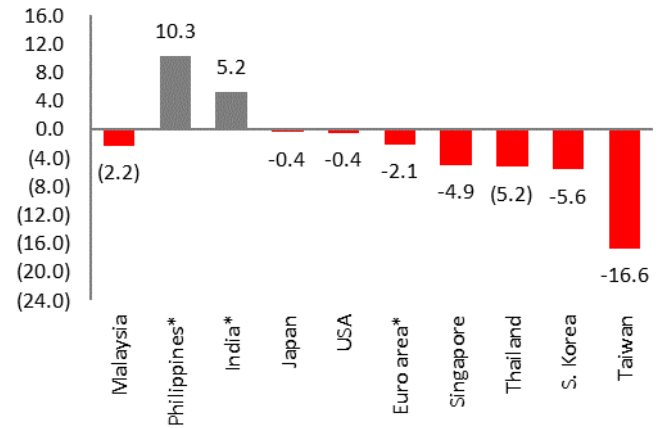
Source: Macrobond, MIDFR

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



Source: Macrobond, DOSM, MIDFR

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



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

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