

## ECONOMIC REVIEW | July 2023 Industrial Production Index

### IPI Rebounded to +0.7%yoy in Jul-23, Better than Expected

- IPI growth rebounded to +0.7%yoy in Jul-23. Malaysia's IPI growth rebounded back to positive growth +0.7%yoy in Jul-23 (Jun-23: -2.2%yoy) following rebound in mining output and slower fall in manufacturing production. The official number was somewhat higher than ours and market expectations as we anticipated IPI performance will remain subdued but better than Jun-23, in view of exports recording relatively slower in Jul-23.
- Manufacturing sales fell further for the 2nd month. The value of manufactured goods sales fell further for the second month by -3%yoy in Jul-23 (Jun-23: -4%yoy), as total sales dropped to 14-month low of RM144b. Reduced sales were reported for refined petroleum products (-25.6%yoy), rubber gloves (-5.8%yoy), chemicals & chemical products (-0.7%yoy) and electrical equipment (-0.5%yoy).
- Maintain IPI growth forecast at +2.2% for this year. We maintain our IPI forecast for 2023 at +2.2% (2022: +6.7%), anticipating a more moderate growth in production activities in line with expected moderation in Malaysia's GDP growth this year. For the first 7 months, IPI growth already moderated to +1.2%yoy (7MCY22: +6.4%yoy), mainly due to slower growth in manufacturing output (7MCY23: +1.4%yoy; 7MCY22: 8.8%yoy).

**IPI growth rebounded to +0.7%yoy in Jul-23.** Malaysia's IPI growth rebounded back to positive growth +0.7%yoy in Jul-23 (Jun-23: -2.2%yoy) following rebound in mining output and slower fall in manufacturing production. The official number was somewhat higher than ours and market expectations as we anticipated IPI performance will remain subdued but better than Jun-23, in view of exports recording relatively slower in Jul-23. In particular, the rebound in mining output (+4.2%yoy) was mainly underpinned by a strong surge in crude petroleum production. Electricity generation sustained positive growth (+1.5%yoy), reflecting higher energy consumption during the month. Moreover, manufacturing output registered smaller decline (-0.2%yoy), supported by smaller decline in E&E output and stronger output of motor vehicles, chemicals & chemical products and computers & peripheral equipment. We noticed that lower base in Jul-22 contributed to the stronger-than-expected IPI reading in Jul-23 given the non-seasonally adjusted IPI was -1.8%mom lower than the previous month.

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

	MoM%*				YoY%			
	Apr-23	May-23	Jun-23	Jul-23	Apr-23	May-23	Jun-23	Jul-23
<b>IPI</b>	(5.5)	7.3	(1.7)	1.7	(3.2)	4.8	(2.2)	0.7
Mining	(4.4)	5.9	(5.0)	9.3	(4.9)	2.9	(6.4)	4.2
Manufacturing	(6.0)	7.7	(1.5)	(0.9)	(3.0)	5.1	(1.6)	(0.2)
Electricity	(1.5)	8.6	(1.8)	(2.0)	(0.4)	5.9	2.8	1.5

\*MoM is seasonally adjusted

Source: Macrobond, DOSM, MIDFR

**Industrial output rebounded to +1.7%mom in Jul-23.** Based on seasonally-adjusted data, Malaysia's industrial production rebounded to grow at +1.7%mom in Jul-23 (Jun-23: -1.7%yoy). The monthly increase was

mainly due to rebound in mining output, manufacturing and electricity output was lower than Jun-23. We believe local manufacturers continued to be cautious in their production plans as reported in PMI in response to softer exports orders. Given the weakness in global manufacturing and trade, we anticipate the external slowdown will continue to affect Malaysia's near-term production outlook.

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

	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
<b>IPI</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>0.7</b>
<b>Mining</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>	<b>4.2</b>
Crude Petroleum	8.0	(0.3)	5.0	(0.9)	0.6	(4.5)	11.8
Natural Gas	4.5	(0.5)	(2.1)	(7.8)	4.5	(7.8)	(0.8)
<b>Manufacturing</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>	<b>(0.2)</b>
Food Products	3.9	12.2	7.2	(5.5)	10.3	2.2	3.5
Refined Petroleum Products	11.0	6.5	6.4	1.6	6.1	(10.8)	(10.1)
Chemicals & Chemicals Products	1.0	2.8	4.5	1.2	6.1	7.0	7.3
Rubber Products	(8.8)	(6.3)	(6.1)	(16.5)	(9.7)	(10.1)	(9.0)
Basic Metals	(4.7)	5.1	4.9	3.0	7.2	4.6	2.3
Electrical & Electronic Products	0.4	5.4	5.5	(2.3)	1.9	(3.6)	(1.6)
Computers & Peripheral Equipment	(13.6)	(5.4)	(4.6)	(9.2)	(6.4)	(10.3)	17.1
Machinery & Equipment	1.3	2.5	7.3	(3.1)	6.2	(3.0)	(3.9)
Motor Vehicles, Trailers & Semi-Trailers	12.2	9.5	9.8	(15.5)	16.1	(0.2)	11.9
<b>Electricity</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>	<b>1.5</b>

Source: Macrobond, MIDFR

**Output in export-oriented sectors continued to fall...** Looking at further breakdown, output in export-oriented sectors contracted further by -1.6%yoy in Jul-23 (Jun-23: -4.9%yoy), in line with the continued decline in Malaysia's total exports during the month. Despite a rebound and a rather weak growth in electrical equipment output and stronger growth in production of chemical products, other export-oriented sub-sectors reported lower production. Refined petroleum, textiles, oils & fats, wood products, furniture, rubber products and computer & electronic were among sub-sectors that reported lower output relative to Jul-22, albeit the pace of decline was not as sharp as in the previous month. Exports of textiles, on the other hand, declined for the 9th straight month since Nov-22, with the -6.3%yoy contraction in Jul-23 was the largest drop since Oct-20.

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

	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
<b>IPI: Export-Oriented Industries</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>	<b>(2.7)</b>
Computer, Electronic Products and Optical	0.8	6.4	6.0	(1.8)	0.5	(4.0)	(1.6)
Electrical Equipment	(2.8)	1.7	0.2	(5.2)	7.6	(0.3)	0.7
Chemicals and Chemical Products	1.0	2.8	4.5	1.2	6.1	7.0	7.3
Coke and Refined Petroleum Products	11.0	6.5	6.4	1.6	6.1	(10.8)	(10.1)
Vegetable & animal oils & fats	8.3	18.3	15.2	(6.7)	13.0	(3.7)	(2.3)
Textiles	(4.7)	(3.3)	(2.5)	(3.1)	(1.0)	(5.9)	(6.3)
Wearing Apparel	(1.5)	5.5	4.0	5.4	10.2	13.1	8.2
Wood and Wood Products	(14.5)	(2.5)	(8.8)	(9.9)	(1.4)	(3.8)	(3.3)
Furniture	(11.7)	(8.0)	(13.9)	(16.1)	0.2	(4.7)	(3.9)
Rubber Products	(8.8)	(6.3)	(6.1)	(16.5)	(9.7)	(10.1)	(9.0)

Source: DOSM, MIDFR

**...against stronger growth in domestic-oriented IPI.** Domestic-oriented sectors, in contrast, grew faster at +6%yoy in Jul-23 (Jun-23: +4.2%yoy). The relatively stronger growth reflected the strength in domestic economic activities which cushioned the effect of external slowdown on Malaysia's economy. In particular, sectors which cater more to domestic consumption such as food products, beverages and motor vehicles recorded stronger expansion. As a result, consumer-related IPI rose faster at +6.7%yoy (Jun-23: +3.6%yoy). On the other hand, products such as non-metallic minerals and iron & steel contributed to the moderate growth in construction-related IPI (Jul-23: +4.4%yoy; Jun-23: +5.2%yoy). We expect production in domestic-oriented sectors will continue to support overall IPI growth in the coming months, while external demand slowdown will continue to be a downward drag.

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

	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
<b>IPI: Domestic-Oriented Industries</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>	<b>6.0</b>
Construction (CO)	(0.6)	6.5	5.0	3.3	8.1	5.2	4.4
CO: Non Metallic Mineral	1.1	5.2	4.5	1.8	3.7	3.5	3.0
CO: Iron and Steel	(4.7)	5.1	4.9	3.0	7.2	4.6	2.3
CO: Fabricated Metal	0.4	8.5	5.5	4.8	11.9	6.7	6.9
Consumer (CS)	4.9	7.4	5.1	(4.9)	11.1	3.6	6.7
CS: Food Products	1.5	8.9	2.5	(4.9)	8.7	5.8	7.0
CS: Motor Vehicles, Trailers and Semi-Trailers	12.2	9.5	9.8	(15.5)	16.1	(0.2)	11.9
CS: Other Transport Equipment	0.4	5.5	1.9	0.7	7.2	6.8	3.9
CS: Beverages	(1.6)	(2.3)	(0.7)	(5.5)	11.1	1.7	1.9
CS: Tobacco Products	19.5	3.9	24.4	6.4	36.2	19.9	17.2
CS: Paper and Paper Products	2.2	5.6	3.4	1.4	6.9	2.0	1.7
CS: Others	1.0	5.0	0.9	0.5	8.5	0.9	1.1

Source: DOSM, MIDFR

**Manufacturing sales fell further for the 2nd month.** The value of manufactured goods sales fell further for the second month by -3%yoy in Jul-23 (Jun-23: -4%yoy), as total sales dropped to 14-month low of RM144b. Reduced sales were reported for refined petroleum products (-25.6%yoy), rubber gloves (-5.8%yoy), chemicals & chemical products (-0.7%yoy) and electrical equipment (-0.5%yoy). Nevertheless, the declines were partly offset by stronger sales of iron & steel products, motor vehicles, consumer electronics and (rebound in) computer & peripherals. Going forward, we expect sales especially for more domestic-oriented products to benefit from sustained rise in domestic spending.

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

	MoM%			YoY%		
	May-23	Jun-23	Jul-23	May-23	Jun-23	Jul-23
<b>Manufacturing Sales <sup>1</sup></b>	<b>1.3</b>	<b>0.4</b>	<b>(2.4)</b>	<b>3.3</b>	<b>(4.0)</b>	<b>(3.0)</b>
<i>Seasonally-adjusted month-on-month change (%)</i>	<i>(5.8)</i>	<i>5.5</i>	<i>(2.2)</i>	-	-	-
Refined Petroleum Products	7.5	(1.8)	(2.5)	2.7	(18.6)	(25.6)
Chemicals and Chemical Products	4.3	(1.6)	1.2	4.8	(1.8)	(0.7)
Rubber Gloves	(5.4)	(4.4)	(5.1)	(8.4)	(8.1)	(5.8)
Iron & Steel Products	(10.9)	(3.2)	(6.3)	5.1	12.9	13.3
Diodes, Transistor & Electronic Integrated Circuits Mic	3.4	17.2	(5.0)	(0.7)	0.4	3.9
Electrical Capacitor Resistor, Circuit Board & Display Comp	(4.3)	8.1	(13.3)	15.7	13.7	(0.5)
Computers & Peripherals Equipment	(3.9)	(1.5)	(3.9)	12.3	(5.1)	12.4

Consumer Electronics	2.0	2.2	7.6	3.7	1.3	5.7
Motor Vehicles	29.5	(9.7)	17.7	22.3	9.3	26.7

Source: Macrobond, DOSM, MIDFR


**Broad weakness in global IPI continued in Jul-23.** Industrial production globally remained weak in Jul-23 as economies reported negative IPI growth, consistent with below-50 manufacturing PMIs. Unlike South Korea and Japan which reported weaker IPI growth, the decline in IPI for other countries (such as Taiwan, Thailand, Singapore and US) was slower than the previous month. Weaker production in Japan (-2.5%yoy) was due to lower production of machinery and E&E components. In the US, IPI declined at slower pace of -0.2%yoy, attributable to better output of motor vehicles, mining output and electricity. Taiwan's IPI continued to register double-digit decline (-15.2%yoy), falling for 14th straight month, dragged down mainly by reduced manufacturing and mining sector output. With the recent data showing global manufacturing PMI rising to 49.0 in Aug-23 (Jul-23: 48.7), we opine the weakness in global production will continue in the coming months as manufacturers mostly indicated adjusting hiring and production to weaker demand. This marks global manufacturing remaining in contractionary trend (i.e. below 50) for 12 months in a row since Sep-22.

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

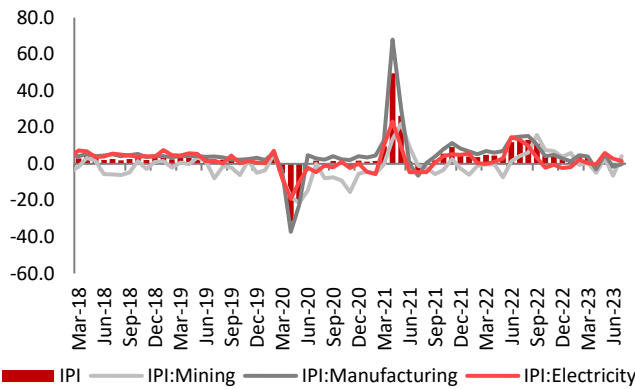
	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
Malaysia	2.8	2.0	3.6	3.2	(3.2)	4.8	(2.2)	0.7
Philippines	10.2	14.2	8.2	5.9	7.8	9.6	4.2	5.7
Thailand	(8.5)	(4.8)	(2.4)	(3.9)	(8.7)	(3.0)	(5.0)	(4.4)
Singapore	(3.5)	(2.9)	(9.6)	(4.0)	(6.5)	(10.6)	(6.6)	(0.9)
S. Korea	(10.5)	(13.4)	(8.2)	(7.6)	(9.1)	(7.6)	(5.9)	(8.0)
Taiwan	(11.4)	(23.6)	(10.0)	(16.0)	(22.6)	(15.7)	(16.6)	(15.2)
India	5.1	5.8	6.0	1.9	4.5	5.3	3.7	n.a.
Japan	(2.2)	(2.8)	(0.6)	(0.8)	(0.7)	4.2	0.0	(2.5)
Euro area	(2.4)	0.6	2.0	(2.1)	0.5	(2.3)	(1.7)	n.a.
USA	0.6	1.5	0.9	0.2	0.3	(0.0)	(0.8)	(0.2)

\*n.a.: not available

Source: Macrobond, MIDFR

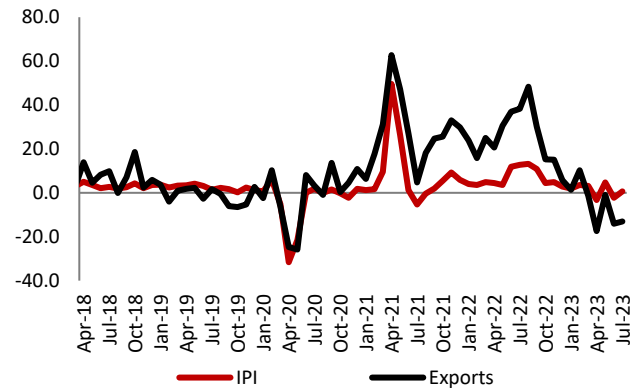
**Maintain IPI growth forecast at +2.2% for this year.** We maintain our IPI forecast for 2023 at +2.2% (2022: +6.7%), anticipating a more moderate growth in production activities in line with expected moderation in Malaysia's GDP growth this year. For the first 7 months, IPI growth already moderated to +1.2%yoy (7M CY22: +6.4%yoy), mainly due to slower growth in manufacturing output (7M CY23: +1.4%yoy; 7M CY22: 8.8%yoy). Trade-oriented manufacturers will continue to adjust output growth in response to weaker external demand. Although we are concerned that weaker global demand will continue to influence IPI in 2H CY23, we project some growth in local production benefiting from sustained growth in domestic demand. In addition, possible turnaround in global E&E trade and stronger pick-up in China's economic recovery will also be positive to IPI outlook. 

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



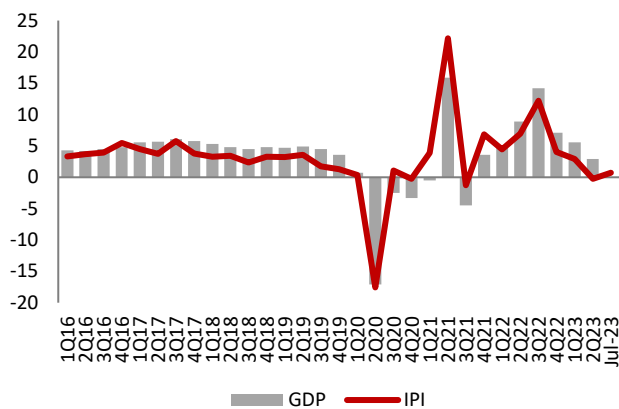
Source: Macrobond, MIDFR

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



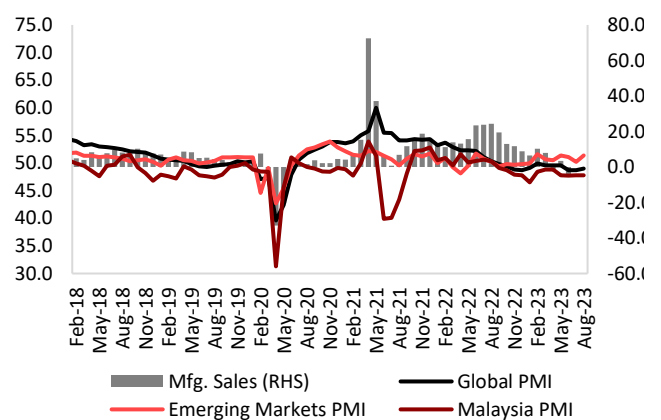
Source: Macrobond, MIDFR

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



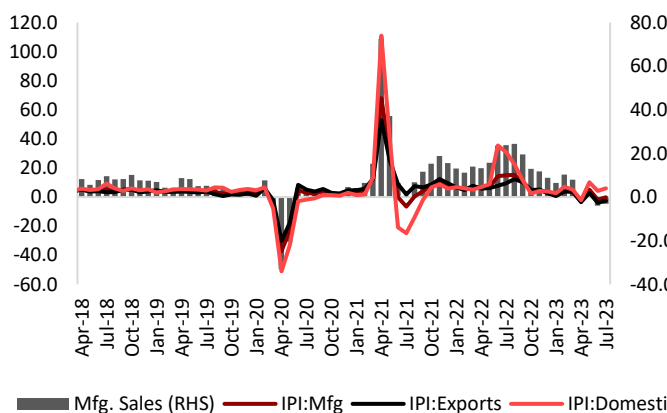
Source: Macrobond, MIDFR

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



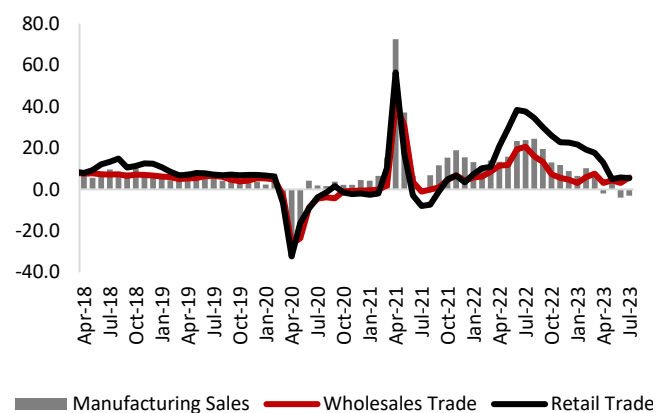
Source: Macrobond, Bloomberg, MIDFR

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



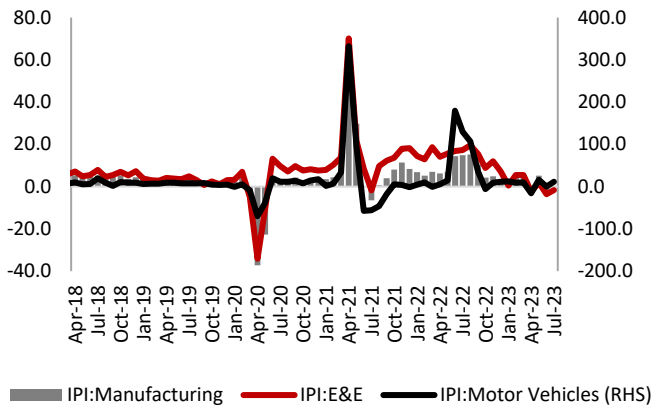
Source: Macrobond, DOSM, MIDFR

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



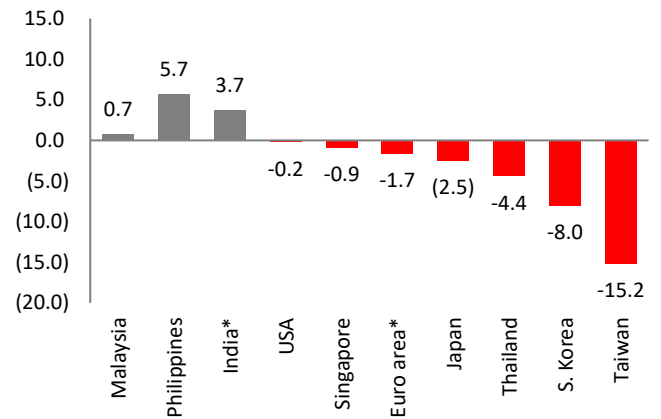
Source: Macrobond, MIDFR

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



Source: Macrobond, DOSM, MIDFR

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



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

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