

ECONOMIC REVIEW | August 2023 Industrial Production Index

IPI Fell Smaller than Expected by -0.3%yoy in Aug-23

- IPI fell by -0.3%yoy in Aug-23. Malaysia's IPI fell again by -0.3%yoy (Jul-23: +0.7%yoy), which was mainly due to the weak manufacturing production, particularly lower production in the export-oriented sectors.
- Manufacturing sales continued to fall in Aug-23. Although sales value rose +5.8%mom to 5-month high of RM152.3b, manufactured goods sales continued to fall for the third month by -3.3%yoy in Aug-23.
- IPI to grow at +1.6% this year. We forecast IPI to grow slower at +1.6% this year (2022: +6.7%), a more moderate growth than we predicted earlier due to larger downward drag from weaker external demand.

IPI fell by -0.3%yoy in Aug-23. Malaysia's IPI fell again by -0.3%yoy after the 1-month rebounded to +0.7%yoy in Jul-23. It was not as sharp as our and market expectations, but the decline was in line with the sharper fall in external trade during the month. The decline in Aug-23 IPI was due to the weak manufacturing production (Aug-23: -0.6%yoy; Jul-23: -0.2%yoy), particularly lower production in the export-oriented sectors. Mining output growth eased to +0.1%yoy (Jul-23: +4.2%yoy) as the increased natural gas production was offset by weaker output of crude petroleum. Electricity generation, on the other hand, sustained positive growth (+1.9%yoy) for the 4th straight month on the back of higher electricity demand. In the months to come, we believe the performance of IPI will continue to be influenced by external trade performance given manufacturing output accounted for more than two-thirds of the IPI calculation but will be partly cushioned by the strength and sustained growth in domestic demand.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%*				YoY%			
	May-23	Jun-23	Jul-23	Aug-23	May-23	Jun-23	Jul-23	Aug-23
IPI	7.3	(1.7)	1.7	1.7	4.8	(2.2)	0.7	(0.3)
Mining	5.9	(5.0)	9.3	(6.4)	2.9	(6.4)	4.2	0.1
Manufacturing	7.7	(1.5)	(0.9)	4.0	5.1	(1.6)	(0.2)	(0.6)
Electricity	8.6	(1.8)	(2.0)	(0.7)	5.9	2.8	1.5	1.9

*MoM is seasonally adjusted

Source: Macrobond, DOSM, MIDFR

Industrial output rose further +1.7%mom from previous month. Based on seasonally adjusted data, Malaysia's industrial production continued to grow at +1.7%mom in Aug-23 (Jul-23: +1.7%yoy). The monthly increase was mainly due to rebound in manufacturing production, offsetting the negative growth in mining and electricity output. The sequential increase in manufacturing output was recorded in most products such as E&E, F&B, textiles, transport equipment and even processed petroleum and chemical products. For the mining sector, the reduced output was linked to the weaker extraction of crude petroleum and natural gas. Given the decline in Malaysia's manufacturing PMI in Sep-23, we could see subdued IPI growth to continue in Sep-23 amid concerns over still weak external demand. The Sep-23 PMI survey also highlighted despite improved sentiment among manufacturers anticipating for brighter demand outlook, the timing when demand will improve remained unclear.

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

	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23
IPI	3.6	3.2	(3.2)	4.8	(2.2)	0.7	(0.3)
Mining	(0.5)	0.8	(4.9)	2.9	(6.4)	4.2	0.1
Crude Petroleum	(0.3)	5.0	(0.9)	0.6	(4.5)	11.8	(3.3)
Natural Gas	(0.5)	(2.1)	(7.8)	4.5	(7.8)	(0.8)	2.6
Manufacturing	4.8	4.1	(3.0)	5.1	(1.6)	(0.2)	(0.6)
Food Products	12.2	7.2	(5.5)	10.3	2.2	3.5	3.9
Refined Petroleum Products	6.5	6.4	1.6	6.1	(10.8)	(10.1)	(7.5)
Chemicals & Chemicals Products	2.8	4.5	1.2	6.1	7.0	7.3	7.7
Rubber Products	(6.3)	(6.1)	(16.5)	(9.7)	(10.1)	(9.0)	(7.3)
Basic Metals	5.1	4.9	3.0	7.2	4.6	2.3	0.4
Electrical & Electronic Products	5.4	5.5	(2.3)	1.9	(3.6)	(1.6)	(3.5)
Computers & Peripheral Equipment	(5.4)	(4.6)	(9.2)	(6.4)	(10.3)	17.1	13.8
Machinery & Equipment	2.5	7.3	(3.1)	6.2	(3.0)	(3.9)	(4.8)
Motor Vehicles, Trailers & Semi-Trailers	9.5	9.8	(15.5)	16.1	(0.2)	11.9	3.8
Electricity	2.3	0.4	(0.4)	5.9	2.8	1.5	1.9

Source: Macrobond, MIDFR

Continued drop in export-oriented output... As expected, output for export-oriented sectors continued to fall by -2.6%yoy in Aug-23 (Jul-23: -2.7%yoy), in tandem with the weaker export performance during the month. Products like computer, electronics & optical; refined petroleum; rubber products; furniture; wood products; and even textiles also recorded negative growth as output of these products remained below last year. Meanwhile, electrical equipment, wearing apparels and chemical products continued to register higher output growth. Output for oils & fats also showed improvement, in line with the increased production of improving palm oil production. Although trade outlook in the latter part of the year may be supported by potential recovery in demand for semiconductors and other E&E products, we remain cautious that the uncertain and still weak external demand will limit production growth for the trade-oriented sectors.

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

	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23
IPI: Export-Oriented Industries	3.7	3.6	(3.5)	2.9	(3.9)	(2.7)	(2.6)
Computer, Electronic Products and Optical	6.4	6.0	(1.8)	0.5	(4.0)	(1.6)	(3.8)
Electrical Equipment	1.7	0.2	(5.2)	7.6	(0.3)	0.7	0.4
Chemicals and Chemical Products	2.8	4.5	1.2	6.1	7.0	7.3	7.7
Coke and Refined Petroleum Products	6.5	6.4	1.6	6.1	(10.8)	(10.1)	(7.5)
Vegetable & animal oils & fats	18.3	15.2	(6.7)	13.0	(3.7)	(2.3)	0.9
Textiles	(3.3)	(2.5)	(3.1)	(1.0)	(5.9)	(6.3)	(5.1)
Wearing Apparel	5.5	4.0	5.4	10.2	13.1	8.2	3.9
Wood and Wood Products	(2.5)	(8.8)	(9.9)	(1.4)	(3.8)	(3.3)	(1.2)
Furniture	(8.0)	(13.9)	(16.1)	0.2	(4.7)	(3.9)	(3.5)
Rubber Products	(6.3)	(6.1)	(16.5)	(9.7)	(10.1)	(9.0)	(7.3)

Source: DOSM, MIDFR

...offset by sustained rise in domestic-oriented production. Domestic-oriented sectors, in contrast, grew further at +4.2%yoy in Aug-23 (Jul-23: +6.0%yoy), sustaining growth for the 4th consecutive month. The

+4.0%yoy growth in construction-related output was supported by stronger output for non-metallic minerals and fabricated metals, in contrast to a more moderate output growth for iron & steel. Meanwhile, consumer related IPI growth moderated to +4.3%yoy, underpinned by among others increased production of F&B products, motor vehicles, transport equipment and tobacco products. Going forward, we foresee the expansion in domestic demand will continue to support output growth for domestic-oriented sectors.

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

	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23
IPI: Domestic-Oriented Industries	7.0	5.0	(2.1)	10.1	4.2	6.0	4.2
Construction (CO)	6.5	5.0	3.3	8.1	5.2	4.4	4.0
CO: Non Metallic Mineral	5.2	4.5	1.8	3.7	3.5	3.0	3.4
CO: Iron and Steel	5.1	4.9	3.0	7.2	4.6	2.3	0.4
CO: Fabricated Metal	8.5	5.5	4.8	11.9	6.7	6.9	7.2
Consumer (CS)	7.4	5.1	(4.9)	11.1	3.6	6.7	4.3
CS: Food Products	8.9	2.5	(4.9)	8.7	5.8	7.0	5.7
CS: Motor Vehicles, Trailers and Semi-Trailers	9.5	9.8	(15.5)	16.1	(0.2)	11.9	3.8
CS: Other Transport Equipment	5.5	1.9	0.7	7.2	6.8	3.9	2.2
CS: Beverages	(2.3)	(0.7)	(5.5)	11.1	1.7	1.9	0.2
CS: Tobacco Products	3.9	24.4	6.4	36.2	19.9	17.2	12.1
CS: Paper and Paper Products	5.6	3.4	1.4	6.9	2.0	1.7	3.3
CS: Others	5.0	0.9	0.5	8.5	0.9	1.1	0.5

Source: DOSM, MIDFR

Manufacturing sales continued to fall in Aug-23. Although sales value rose +5.8%mom to 5-month high of RM152.3b, manufactured goods sales continued to fall for the third month by -3.3%yoy in Aug-23. This was underpinned by continued declines in sales of refined petroleum products (-19.7%yoy), rubber gloves (-3.0%yoy) and chemicals & chemical products (-0.5%yoy). Sales of E&E components also weakened in line with weaker exports performance. In contrast, increased demand supported higher sales for motor vehicles (+16.0%yoy), computers & peripheral equipment (+10.9%yoy) and consumer electronics (+2.1%yoy). Going forward, we expect growing domestic spending to support manufacturing sales especially for domestic-oriented products.

Table 5: Manufacturing Sales (YoY%)

	MoM%			YoY%		
	Jun-23	Jul-23	Aug-23	Jun-23	Jul-23	Aug-23
Manufacturing Sales ¹	0.4	(2.4)	5.8	(4.0)	(3.0)	(3.3)
<i>Seasonally-adjusted month-on-month change (%)</i>	<i>(2.2)</i>	<i>(1.7)</i>	<i>1.3</i>	-	-	-
Refined Petroleum Products	(1.8)	(2.5)	10.8	(18.6)	(25.6)	(19.7)
Chemicals and Chemical Products	(1.6)	1.2	6.4	(1.8)	(0.7)	(0.5)
Rubber Gloves	(4.4)	(5.1)	(11.9)	(8.1)	(5.8)	(3.0)
Iron & Steel Products	(3.2)	(6.3)	18.4	12.9	13.3	1.2
Diodes, Transistor & Electronic Integrated Circuits Mic	17.2	(5.0)	3.1	0.4	3.9	(4.8)
Electrical Capacitor Resistor, Circuit Board & Display Comp	8.1	(13.3)	9.7	13.7	(0.5)	(2.3)
Computers & Peripherals Equipment	(3.9)	(1.5)	5.2	(5.1)	12.4	10.9
Consumer Electronics	2.2	7.6	7.1	1.3	5.7	2.1
Motor Vehicles	(9.7)	17.7	(7.3)	9.3	26.7	16.0

Source: Macrobond, DOSM, MIDFR

Global IPI continued to contract, but with signs of stabilization. Industrial production globally continued to be constrained in Aug-23 as IPI growth in most economies continued to fall. This is in line with the contraction

as signalled by the global manufacturing PMI which remained below 50 since Sep-22. Countries like Thailand, Singapore, Japan and even Malaysia recorded weaker IPI growth in Aug-23. South Korea and Taiwan also reported continued decline in IPI, but the decline in output was smaller in line with the recent stabilization (i.e. smaller contraction) in their exports. However, there are signs of improving industrial production as shown by the rebound to +0.2%yoy in the US, underpinned by improved manufacturing and mining output. India and the Philippines also recorded stronger expansion in IPI growth. Given the stabilization and no further weakening of IPI, this supports the better reading in global manufacturing PMI which increased to 49.0 in Aug-23 (Jul-23: 48.6) and to 49.1 in Sep-23. Although this suggests smaller fall in global manufacturing activities, manufacturers indicated weak overseas demand continued to affect purchasing and production activities.

Table 6: IPI for Selected Economies (YoY%)

	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23
Malaysia	2.0	3.6	3.2	(3.2)	4.8	(2.2)	0.7	(0.3)
Philippines	13.8	7.5	8.6	10.2	8.5	3.4	4.9	9.1
Thailand	(4.8)	(2.4)	(3.9)	(8.7)	(3.0)	(5.0)	(4.7)	(7.5)
Singapore	(2.8)	(9.5)	(3.9)	(6.4)	(10.5)	(6.4)	(1.1)	(12.1)
S. Korea	(13.4)	(8.2)	(7.6)	(9.1)	(7.6)	(6.0)	(8.1)	(0.5)
Taiwan	(23.6)	(10.0)	(16.0)	(22.6)	(15.7)	(17.2)	(15.5)	(10.5)
India	5.8	6.0	1.9	4.6	5.7	3.8	6.0	10.3
Japan	(2.8)	(0.6)	(0.8)	(0.7)	4.2	0.0	(2.3)	(3.8)
Euro area	0.6	2.0	(2.2)	0.5	(2.2)	(1.6)	(2.0)	n.a.
USA	1.5	0.9	0.2	0.3	0.0	(0.3)	(0.0)	0.2

*n.a.: not available

Source: Macrobond, MIDFR


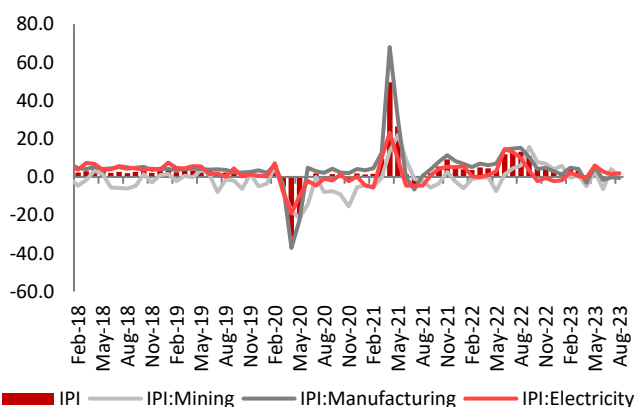
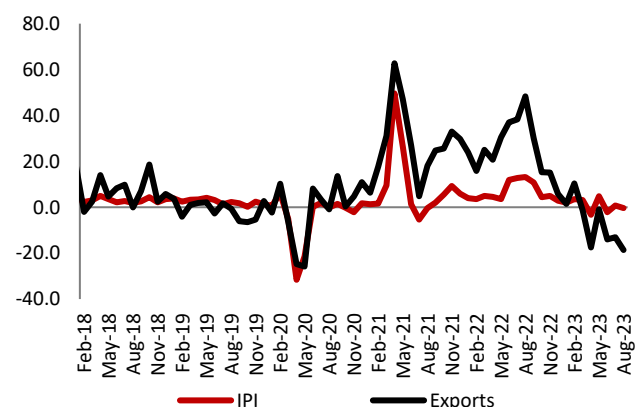
IPI to grow at +1.6% this year. We forecast IPI to grow slower at +1.6% this year (2022: +6.7%), a more moderate growth than we predicted earlier due to larger downward drag from weaker external demand. We remain concerned about the strength of final demand from major markets. Although IPI growth averaged at +1.1%yoy in first 8 months this year (8MCY22: +7.3%yoy), we expect resumption of China’s economic recovery and pick-up in global semiconductor sales among others will support regional production and trade outlook in the final quarter of 2023. On the other hand, with IPI growth stabilizing around +0.2%yoy in July-August 2023 (compared to -0.2%yoy decline in 2QCY23), we believe sustained rise in domestic spending and business activities will continue to support near-term IPI performance. 

Chart 1: IPI Performance by Sector (YoY%)



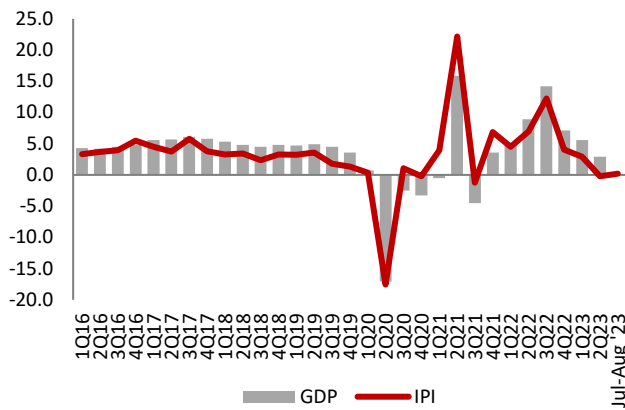
Source: Macrobond, MIDFR

Chart 2: IPI vs Exports (YoY%)



Source: Macrobond, MIDFR

Chart 3: IPI vs GDP (YoY%)



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