

ECONOMIC REVIEW | September 2023 Industrial Production Index

IPI Declined Further by -0.5%yoy in Sep-23 Dragged by Weak Mining Output

- IPI fell by -0.5%yoy in Sep-23. Malaysia's IPI contracted by -0.5%yoy in Sep-23 (Aug-23: -0.3%yoy), falling for the second month despite rebound in manufacturing output.
- Manufacturing sales value rose to 10-month high. The value of manufacturing sales rose +4.3%mom to RM158.7b in Sep-23, the highest in 10 months, supported by strong sales of iron & steel products, E&E components and consumer electronics. Nevertheless, the sales value was -1.9%yoy lower than a year ago.
- Despite the weaker-than-expected Sep-23 IPI reading, we maintain our forecast that IPI will grow at +1.6% this year (2022: +6.7%). We factored in some recovery in external demand in the final quarter of 2023.

IPI fell by -0.5%yoy in Sep-23. Malaysia's IPI contracted by -0.5%yoy in Sep-23 (Aug-23: -0.3%yoy), falling for the second month despite rebound in manufacturing output. The -0.5%yoy contraction in Sep-23 was similar to average market consensus polled by Bloomberg but lower than our expectation as we anticipated stronger IPI in view of better export performance. In particular, the decline in mining sector output (-5.2%yoy) was the main drag to the overall IPI in Sep-23 mainly because of sharper fall in natural gas output (-7.8%yoy). Manufacturing output, on the other hand, rebounded to a marginal growth of +0.4%yoy (Aug-23: -0.6%yoy), registering the first growth after 3 months of contraction. This was driven by sustained rise in domestic-oriented output and stabilization in E&E output. Electricity output also increased in Sep-23, growing faster at +2.5%yoy, on the back of increased electricity demand. We expect manufacturing output will improve further in the coming months, to be supported by recovering external demand as well as continued growth in domestic demand.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%*				YoY%			
	Jun-23	Jul-23	Aug-23	Sep-23	Jun-23	Jul-23	Aug-23	Sep-23
IPI	(1.7)	1.7	1.7	(2.8)	(2.2)	0.7	(0.3)	(0.5)
Mining	(5.0)	9.3	(6.4)	2.9	(6.4)	4.2	0.1	(5.2)
Manufacturing	(1.5)	(0.9)	4.0	(3.3)	(1.6)	(0.2)	(0.6)	0.4
Electricity	(1.8)	(2.0)	(0.7)	(0.7)	2.8	1.5	1.9	2.5

*MoM is seasonally adjusted

Source: Macrobond, DOSM, MIDFR

IPI fell -2.8%mom from previous month. Based on seasonally-adjusted data, Malaysia's IPI recorded a monthly decline of -2.8%mom in Sep-23 mainly due to lower output in the manufacturing and electricity sectors. Unlike the decline in year-on-year growth, mining output rose by +2.9%mom in Sep-23, a rather weak recovery after -6.4%mom decline in Aug-23. We noticed the weakness in manufacturing output was in line with the trend in manufacturing PMI, which fell to 46.8 in Sep-23 (Aug-23: 47.8). With the PMI reading remaining unchanged at 46.8 in Oct-23, weakness in the manufacturing sector could persist. However, on a positive note, the latest PMI survey continued to highlight improved sentiment, which rose to 6-month high, as local manufacturers expected better demand outlook.

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

	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23
IPI	3.2	(3.2)	4.8	(2.2)	0.7	(0.3)	(0.5)
Mining	0.8	(4.9)	2.9	(6.4)	4.2	0.1	(5.2)
Crude Petroleum	5.0	(0.9)	0.6	(4.5)	11.8	(3.3)	(1.4)
Natural Gas	(2.1)	(7.8)	4.5	(7.8)	(0.8)	2.6	(7.8)
Manufacturing	4.1	(3.0)	5.1	(1.6)	(0.2)	(0.6)	0.4
Food Products	7.2	(5.5)	10.3	2.2	3.5	3.9	5.1
Refined Petroleum Products	6.4	1.6	6.1	(10.8)	(10.1)	(7.5)	(7.7)
Chemicals & Chemicals Products	4.5	1.2	6.1	7.0	7.3	7.7	5.9
Rubber Products	(6.1)	(16.5)	(9.7)	(10.1)	(9.0)	(7.3)	(2.7)
Basic Metals	4.9	3.0	7.2	4.6	2.3	0.4	5.6
Electrical & Electronic Products	5.5	(2.3)	1.9	(3.6)	(1.6)	(3.5)	(2.0)
Computers & Peripheral Equipment	(4.6)	(9.2)	(6.4)	(10.3)	17.1	13.8	14.9
Machinery & Equipment	7.3	(3.1)	6.2	(3.0)	(3.9)	(4.8)	(4.9)
Motor Vehicles, Trailers & Semi-Trailers	9.8	(15.5)	16.1	(0.2)	11.9	3.8	2.6
Electricity	0.4	(0.4)	5.9	2.8	1.5	1.9	2.5

Source: Macrobond, MIDFR

Continued drop in export-oriented output... It was no surprise IPI for export-oriented sectors continued to decline albeit slower at -2.0%yoy in Sep-23 (Aug-23: -2.6%yoy), in line with continued contraction in exports. Sectors which recorded reduced output were computer, electronic & optical products; refined petroleum; textiles; wood & wood products; furniture; and rubber products. In contrast, output of chemical & chemical products, oils & fats and wearing apparels sustained positive growth during the month. Despite the still weak performance, we noticed the decline in output of electronic products slowed during the month, tracking the improvement in E&E exports. Manufacture of consumer electronics, computers & peripheral equipment and communication equipment also reported sustained increases in output during the month. This suggests further stabilization in manufacturing output for the trade-oriented sectors despite concerns about the strength of external demand.

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

	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Aug-23
IPI: Export-Oriented Industries	3.6	(3.5)	2.9	(3.9)	(2.7)	(2.6)	(2.0)
Computer, Electronic and Optical Products	6.0	(1.8)	0.5	(4.0)	(1.6)	(3.8)	(1.9)
Electrical Equipment	0.2	(5.2)	7.6	(0.3)	0.7	0.4	(0.3)
Chemicals and Chemical Products	4.5	1.2	6.1	7.0	7.3	7.7	5.9
Coke and Refined Petroleum Products	6.4	1.6	6.1	(10.8)	(10.1)	(7.5)	(7.7)
Vegetable & animal oils & fats	15.2	(6.7)	13.0	(3.7)	(2.3)	0.9	0.4
Textiles	(2.5)	(3.1)	(1.0)	(5.9)	(6.3)	(5.1)	(6.8)
Wearing Apparel	4.0	5.4	10.2	13.1	8.2	3.9	4.7
Wood and Wood Products	(8.8)	(9.9)	(1.4)	(3.8)	(3.3)	(1.2)	(3.8)
Furniture	(13.9)	(16.1)	0.2	(4.7)	(3.9)	(3.5)	(6.1)
Rubber Products	(6.1)	(16.5)	(9.7)	(10.1)	(9.0)	(7.3)	(2.7)

Source: DOSM, MIDFR

...offset by stronger growth in domestic-oriented output. Output for domestic-oriented sectors, in contrast, grew faster at +5.9%yoy (Aug-23: +4.2%yoy), sustaining growth for the 5th consecutive month. The main driver was the stronger 8%yoy growth in output of construction-related items, namely non-metallic minerals, iron & steel and fabricated metals. Meanwhile, growth for consumer products also picked up to +4.8%yoy, underpinned

by among others stronger production of F&B products, tobacco and paper products. Sustained rise in production of motor vehicles and transport equipment was also recorded in Sep-23, although the pace of growth was more moderate. Going forward, we believe domestic-oriented sectors will continue to benefit from growing domestic spending.

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

	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23
IPI: Domestic-Oriented Industries	5.0	(2.1)	10.1	4.2	6.0	4.2	5.9
Construction (CO)	5.0	3.3	8.1	5.2	4.4	4.0	8.0
CO: Non-Metallic Mineral	4.5	1.8	3.7	3.5	3.0	3.4	8.0
CO: Iron and Steel	4.9	3.0	7.2	4.6	2.3	0.4	5.6
CO: Fabricated Metal	5.5	4.8	11.9	6.7	6.9	7.2	9.6
Consumer (CS)	5.1	(4.9)	11.1	3.6	6.7	4.3	4.8
CS: Food Products	2.5	(4.9)	8.7	5.8	7.0	5.7	8.2
CS: Motor Vehicles, Trailers and Semi-Trailers	9.8	(15.5)	16.1	(0.2)	11.9	3.8	2.6
CS: Other Transport Equipment	1.9	0.7	7.2	6.8	3.9	2.2	1.9
CS: Beverages	(0.7)	(5.5)	11.1	1.7	1.9	0.2	0.6
CS: Tobacco Products	24.4	6.4	36.2	19.9	17.2	12.1	12.5
CS: Paper and Paper Products	3.4	1.4	6.9	2.0	1.7	3.3	3.4
CS: Others	0.9	0.5	8.5	0.9	1.1	0.5	0.7

Source: DOSM, MIDFR

Manufacturing sales value rose to 10-month high. The value of manufacturing sales rose +4.3%mom to RM158.7b in Sep-23, the highest in 10 months, supported by strong sales of iron & steel products, E&E components and consumer electronics. Removing the seasonal effect, the monthly growth was stronger at +1.7%mom (Aug-23: +1.3%mom). Compared to Sep-22, the sales value remained -1.9%yoy less than a year ago due to weak sales of refined petroleum, rubber gloves and E&E components. In contrast, motor vehicles, consumer electronics, computers & peripherals, and chemical products maintained positive growth during the month. We foresee increased domestic consumption will continue to support further improvement in manufacturing sales.

Table 5: Manufacturing Sales (YoY%)

	MoM%			YoY%		
	Jul-23	Aug-23	Sep-23	Jul-23	Aug-23	Sep-23
Manufacturing Sales ¹	(2.4)	5.8	4.3	(3.0)	(3.3)	(1.9)
<i>Seasonally adjusted month-on-month change (%)</i>	<i>(1.7)</i>	<i>1.3</i>	<i>1.7</i>	-	-	-
Refined Petroleum Products	(2.5)	9.2	(3.6)	(25.6)	(20.9)	(21.6)
Chemicals and Chemical Products	1.2	8.5	(5.9)	(0.7)	1.4	1.2
Rubber Gloves	(5.1)	(11.9)	4.4	(5.8)	(3.0)	(2.6)
Iron & Steel Products	(6.3)	18.4	23.9	13.3	1.2	5.0
Diodes, Transistor & Electronic Integrated Circuits Mic	(5.0)	3.1	9.2	3.9	(4.8)	(4.1)
Electrical Capacitor Resistor, Circuit Board & Display Comp	(13.3)	9.7	18.8	(0.5)	(2.3)	(0.1)
Computers & Peripherals Equipment	(1.5)	5.2	(37.0)	12.4	10.9	4.1
Consumer Electronics	7.6	7.1	17.3	5.7	2.1	8.4
Motor Vehicles	17.7	(7.3)	13.2	26.7	16.0	11.1

Source: Macrobond, DOSM, MIDFR

Global IPI remained weak despite signs of stabilization. Global production continued to be constrained in Sep-23 as economies reported lower industrial output albeit at slower pace. The downturn in the global manufacturing activities was also indicated by the global manufacturing PMI which remained below 50 (at 49.2) in Sep-23 (Aug-23: 49.0) for the 13th straight month. IPI in Thailand, Singapore and Taiwan improved as shown by the slower contraction, while production in South Korea registered the first growth in 12 months. In the US, despite strikes which affected production in the automotive sector, IPI growth was sustained at +0.1%yoy underpinned by higher manufacturing and mining output against reduction in production of utilities. In contrast, Japan's IPI fell for the third month at sharper rate of -4.6%yoy in Sep-23, in with the weak semiconductor sales in the country. As the global manufacturing PMI fell to 48.8 in Oct-23, with sharper fall in global manufacturing output. On that note, we believe the weakness in industrial output in most countries could persist into final quarter of the year amid still weak external demand and as companies continued to drawdown their existing inventories. On the positive side, we opine the expected turnaround in the E&E cycle would support to production outlook, on top of continued growth in domestic spending.

Table 6: IPI for Selected Economies (YoY%)

	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23
Malaysia	3.6	3.2	(3.2)	4.8	(2.2)	0.7	(0.3)	(0.5)
Philippines	7.5	8.6	10.2	8.5	3.4	4.9	9.1	n.a.
Thailand	(2.4)	(3.9)	(8.7)	(3.0)	(5.0)	(4.7)	(7.7)	(6.1)
Singapore	(9.4)	(3.8)	(6.3)	(10.5)	(6.1)	(0.2)	(11.6)	(2.1)
S. Korea	(8.2)	(7.6)	(9.1)	(7.6)	(6.0)	(8.1)	(0.7)	3.0
Taiwan	(10.0)	(16.0)	(22.6)	(15.7)	(17.2)	(15.5)	(10.8)	(6.7)
India	6.0	1.9	4.6	5.7	3.8	6.0	10.3	n.a.
Japan	(0.6)	(0.8)	(0.7)	4.2	0.0	(2.3)	(4.4)	(4.6)
Euro area	1.6	(2.2)	0.1	(2.5)	(1.5)	(2.0)	(5.4)	n.a.
USA	0.9	0.2	0.3	0.1	(0.4)	0.2	0.1	0.1

*n.a.: not available

Source: Macrobond, MIDFR

GDP growth to remain modest in 3QCY23. The trend in IPI growth points to faster 3QCY23 GDP, but only slight better than 2QCY23. IPI was unchanged (0%yoy) in 3QCY23, slight improvement from -0.3%yoy in 2QCY23. By sector, the improvement was supported by sustained growth in electricity generation (3QCY23: +2.0%yoy; 2QCY23: +2.8%yoy) and slower decline in mining output (3QCY23: -0.4%yoy; 2QCY23: -2.8%yoy), attributable to rebound in crude petroleum output and slower fall in natural gas output. Manufacturing output, which accounted slightly more than two-thirds of weightage in IPI calculation, fell marginally by -0.1%yoy in 3QCY23 (2QCY23: +0.1%yoy), the first quarterly contraction since 3QCY21. Based on the advance estimate of +3.3%yoy and the IPI performance, we expect the full-quarter GDP number for 3QCY23 will show moderate growth momentum continued in 2HCY23.


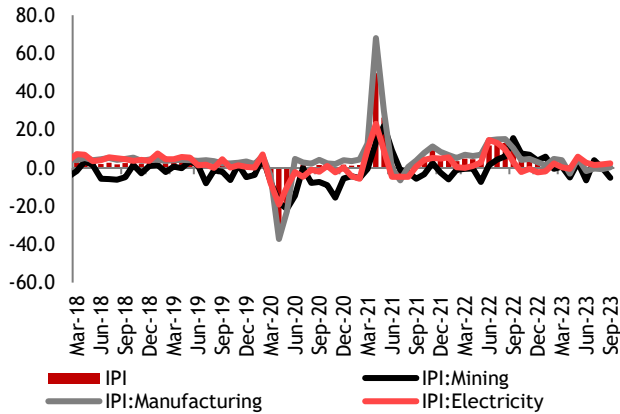
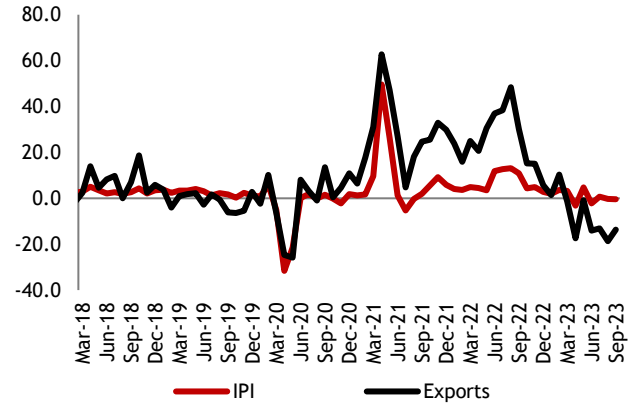
Maintain IPI growth forecast at +1.6% this year. Despite the weaker-than-expected Sep-23 IPI reading, we maintain our forecast that IPI will grow at +1.6% this year, relatively slower than last year (2022: +6.7%). We factored in some recovery in external demand, in view of turnaround in global E&E cycle, which would support better output growth in the final quarter 2023. Nevertheless, uncertainties on the external will be the key downside risk to IPI growth outlook, possibly constrained by sluggish demand from major trading partners and persistent weakness in global manufacturing activities. On the other hand, we are optimistic domestic-oriented businesses would increase production in view of sustained expansion in domestic demand. 

Chart 1: IPI Performance by Sector (YoY%)



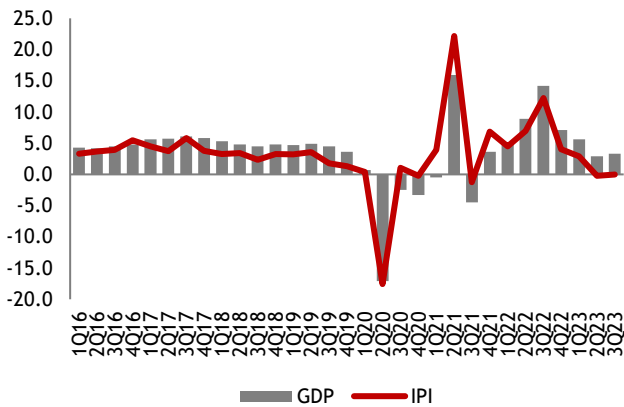
Source: Macrobond, MIDFR

Chart 2: IPI vs Exports (YoY%)



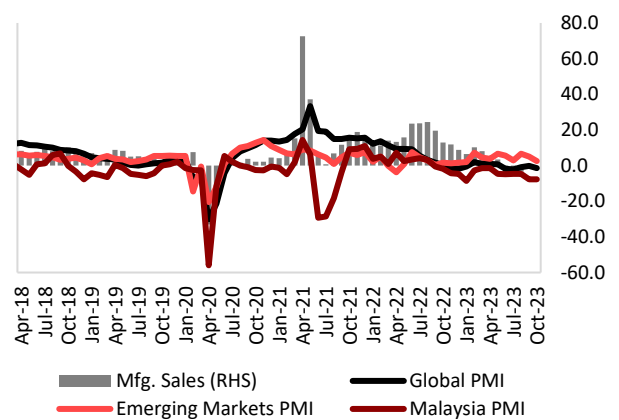
Source: Macrobond, MIDFR

Chart 3: IPI vs GDP (YoY%)



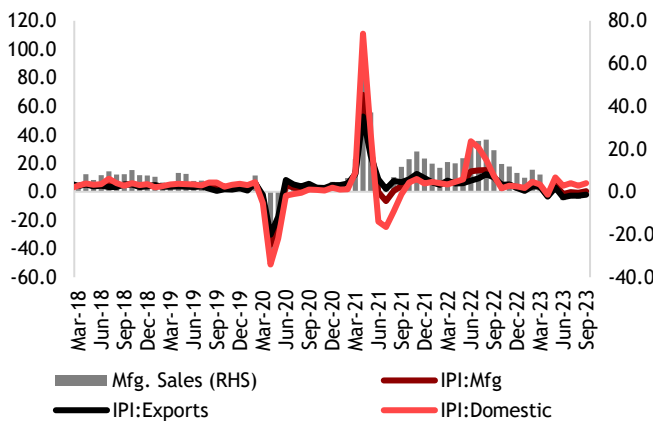
Source: Macrobond, MIDFR

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



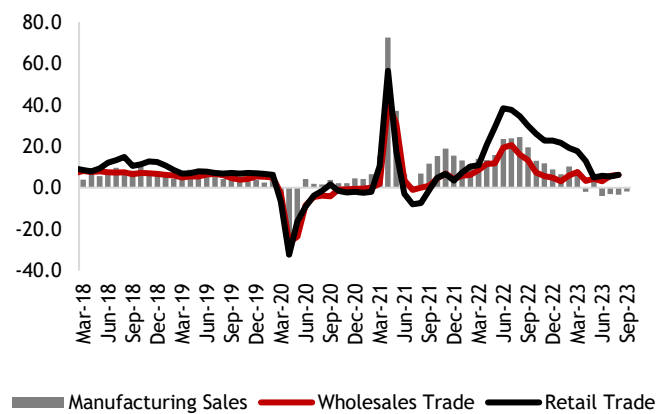
Source: Macrobond, Bloomberg, MIDFR

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



Source: Macrobond, DOSM, MIDFR

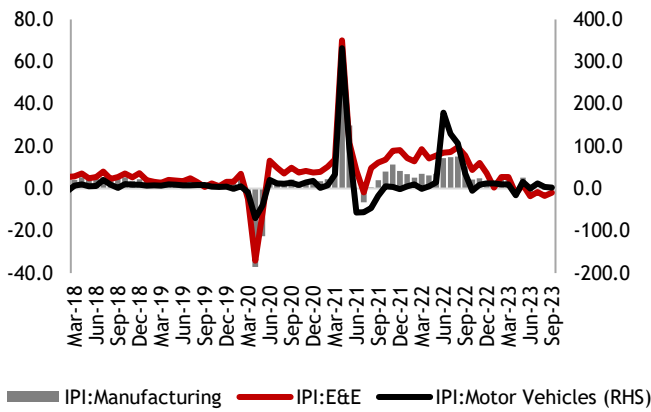
Chart 6: Mfg. Sales vs. Wholesale & Retail Trade (YoY%)



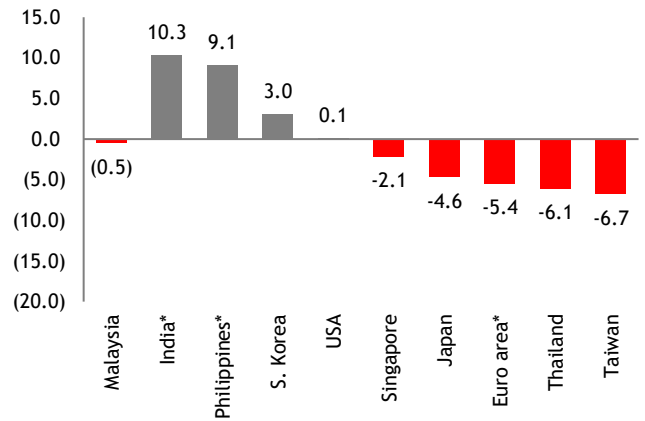
Source: Macrobond, MIDFR

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

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



Source: Macrobond, DOSM, MIDFR



* refers to latest available data for Jul-23

Source: Macrobond, MIDFR

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