

## ECONOMIC REVIEW | October 2023 Industrial Production Index

### IPI Rebounded to Grow at +2.7%yoy in Oct-23

- IPI fell by -0.5%yoy in Sep-23. Malaysia's IPI rose by +2.7%yoy in Oct-23 (Sep-23: -0.5%yoy), returning back to growth after 2 months of marginal declines, attributable to rebound in mining sector output.
- Manufacturing sales also fell slower in Oct-23. Although the value of manufacturing sales stood at RM156.7b in Oct-23, the second highest (after Sep-23) in 11 months. However, the sales performance remained below a year ago, albeit falling slower at -1.4%yoy (Sep-23: -2.4%yoy).
- We forecast IPI growth to grow at +1.1% this year. We forecast IPI growth will be around +1.1% (previous forecast: +1.6%) for this year. We are cautious that weak external trade will continue to affect IPI growth.

**IPI fell by -0.5%yoy in Sep-23.** Malaysia's IPI rose by +2.7%yoy in Oct-23 (Sep-23: -0.5%yoy), returning back to growth after 2 months of marginal declines. The Oct-23 IPI growth was stronger than market's and our expectations, in line with the better export performance. A large share of output growth in Oct-23 was attributable to rebound in mining sector output (Oct-23: +8.7%yoy; Sep-23: -5.2%yoy), underpinned by higher production of both crude petroleum and natural gas. Manufacturing output and electricity also recorded stronger output growth, rising by +0.9%yoy (Sep-23: +0.4%yoy) and +5.8%yoy (Sep-23: +2.5%yoy), respectively. The stronger electricity generation pointed to higher energy demand in line with growing economic activities. As expected, the stronger manufacturing output was mainly due to higher production in domestic-oriented sectors, although export-oriented sectors also reported slower IPI declines. We believe this will continue as growing demand from domestic and external markets will support IPI growth going forward.

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

	MoM%*				YoY%			
	Jul-23	Aug-23	Sep-23	Oct-23	Jul-23	Aug-23	Sep-23	Oct-23
<b>IPI</b>	1.7	1.7	(2.8)	0.5	0.7	(0.3)	(0.5)	2.7
Mining	9.3	(6.4)	2.9	10.3	4.2	0.1	(5.2)	8.7
Manufacturing	(0.9)	4.0	(3.3)	(1.7)	(0.2)	(0.6)	0.4	0.9
Electricity	(2.0)	(0.7)	(0.7)	2.3	1.5	1.9	2.5	5.8

\* MoM is seasonally adjusted

Source: Macrobond, DOSM, MIDFR

**Surge in mining output led to sequential rebound in IPI.** Based on seasonally-adjusted data, Malaysia's IPI also recorded a monthly rebound to +0.5%mom in Oct-23 mainly supported by +10.3%mom surge in mining sector output, with robust growth in both output of natural gas and crude petroleum. Electricity generation also rebounded to +2.3%mom, the strongest monthly increase since May-23. Manufacturing output, however, remained weak, falling further by +1.7%mom as external demand (particularly lower output of E&E products) remained a drag to the sector's performance. This was not surprising given the trend in manufacturing PMI, which remained at 46.8 in Oct-23 and continued to highlight continued contraction in overall manufacturing activities. However, with external trade is expected to continue improving (from the recent lows) and the latest manufacturing PMI signaled slower contraction in Nov-23, we believe production activities will grow further in the coming months.

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

	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
<b>IPI</b>	<b>(3.2)</b>	<b>4.8</b>	<b>(2.2)</b>	<b>0.7</b>	<b>(0.3)</b>	<b>(0.5)</b>	<b>2.7</b>
<b>Mining</b>	<b>(4.9)</b>	<b>2.9</b>	<b>(6.4)</b>	<b>4.2</b>	<b>0.1</b>	<b>(5.2)</b>	<b>8.7</b>
Crude Petroleum	(0.9)	0.6	(4.5)	11.8	(3.3)	(1.4)	10.2
Natural Gas	(7.8)	4.5	(7.8)	(0.8)	2.6	(7.8)	7.6
<b>Manufacturing</b>	<b>(3.0)</b>	<b>5.1</b>	<b>(1.6)</b>	<b>(0.2)</b>	<b>(0.6)</b>	<b>0.4</b>	<b>0.9</b>
Food Products	(5.5)	10.3	2.2	3.5	3.9	5.1	6.5
Refined Petroleum Products	1.6	6.1	(10.8)	(10.1)	(7.5)	(7.7)	(4.0)
Chemicals & Chemicals Products	1.2	6.1	7.0	7.3	7.7	5.9	6.2
Rubber Products	(16.5)	(9.7)	(10.1)	(9.0)	(7.3)	(2.7)	(1.4)
Basic Metals	3.0	7.2	4.6	2.3	0.4	5.6	2.5
Electrical & Electronic Products	(2.3)	1.9	(3.6)	(1.6)	(3.5)	(2.0)	(3.9)
Computers & Peripheral Equipment	(9.2)	(6.4)	(10.3)	17.1	13.8	14.9	24.5
Machinery & Equipment	(3.1)	6.2	(3.0)	(3.9)	(4.8)	(4.9)	(1.8)
Motor Vehicles, Trailers & Semi-Trailers	(15.5)	16.1	(0.2)	11.9	3.8	2.6	10.6
<b>Electricity</b>	<b>(0.4)</b>	<b>5.9</b>	<b>2.8</b>	<b>1.5</b>	<b>1.9</b>	<b>2.5</b>	<b>5.8</b>

Source: Macrobond, MIDFR

**Slower fall in export-oriented output.** In line with the slower fall in exports, IPI for export-oriented sectors also registered smaller decline of -1.5%yoy in Oct-23 (Aug-23: -2.6%yoy). Sectors which recorded stronger output growth were chemicals & chemical products, oils & fats, wearing apparels and furniture. In addition, slower fall in output of refined petroleum, textiles and rubber products also helped to mitigate the sharper fall in output of E&E products. We expect pick-up in external trade will translate into better output for trade-oriented sectors, mainly because we noticed recent data pointed to gradual recovery in external trade performance, in line with regional trends. We view this as a sign of stabilization in external trade and we expect production will be supported by the external trade recovery from the recent lows this year.

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

	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
<b>IPI: Export-Oriented Industries</b>	<b>(3.5)</b>	<b>2.9</b>	<b>(3.9)</b>	<b>(2.7)</b>	<b>(2.6)</b>	<b>(2.0)</b>	<b>(1.5)</b>
Computer, Electronic and Optical Products	(1.8)	0.5	(4.0)	(1.6)	(3.8)	(1.9)	(4.3)
Electrical Equipment	(5.2)	7.6	(0.3)	0.7	0.4	(0.3)	(2.5)
Chemicals and Chemical Products	1.2	6.1	7.0	7.3	7.7	5.9	6.2
Coke and Refined Petroleum Products	1.6	6.1	(10.8)	(10.1)	(7.5)	(7.7)	(4.0)
Vegetable & animal oils & fats	(6.7)	13.0	(3.7)	(2.3)	0.9	0.4	2.7
Textiles	(3.1)	(1.0)	(5.9)	(6.3)	(5.1)	(6.8)	(5.9)
Wearing Apparel	5.4	10.2	13.1	8.2	3.9	4.7	6.2
Wood and Wood Products	(9.9)	(1.4)	(3.8)	(3.3)	(1.2)	(3.8)	1.7
Furniture	(16.1)	0.2	(4.7)	(3.9)	(3.5)	(6.1)	5.1
Rubber Products	(16.5)	(9.7)	(10.1)	(9.0)	(7.3)	(2.7)	(1.4)

Source: DOSM, MIDFR

**Domestic-oriented output grew faster in Oct-23.** Output for domestic-oriented sectors, in contrast, continued to grow faster at +6.7%yoy in Oct-23 (Sep-23: +5.8%yoy), sustaining growth for the 6th consecutive month. In particular, stronger growth was recorded in the consumer-oriented sectors, which grew by +7.4%yoy (Sep-23: +4.8%yoy). The pace of growth was the strongest in 5 months, underpinned by higher production of among others motor vehicles and F&B products. Output for construction-related sectors, however, moderated to

+5.6%yoy (Sep-23: +7.8%yoy) due to slower growth in output of iron & steel, fabricated metal and non-metallic mineral products. We foresee the sustained rise in domestic spending will continue to support production outlook for the domestic-oriented sectors.

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

	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
<b>IPI: Domestic-Oriented Industries</b>	<b>(2.1)</b>	<b>10.1</b>	<b>4.2</b>	<b>6.0</b>	<b>4.2</b>	<b>5.8</b>	<b>6.7</b>
Construction (CO)	3.3	8.1	5.2	4.4	4.0	7.8	5.6
CO: Non Metallic Mineral	1.8	3.7	3.5	3.0	3.4	8.0	6.5
CO: Iron and Steel	3.0	7.2	4.6	2.3	0.4	5.6	2.5
CO: Fabricated Metal	4.8	11.9	6.7	6.9	7.2	9.0	6.8
Consumer (CS)	(4.9)	11.1	3.6	6.7	4.3	4.8	7.4
CS: Food Products	(4.9)	8.7	5.8	7.0	5.7	8.2	9.4
CS: Motor Vehicles, Trailers and Semi-Trailers	(15.5)	16.1	(0.2)	11.9	3.8	2.6	10.6
CS: Other Transport Equipment	0.7	7.2	6.8	3.9	2.2	1.9	1.7
CS: Beverages	(5.5)	11.1	1.7	1.9	0.2	0.6	5.0
CS: Tobacco Products	6.4	36.2	19.9	17.2	12.1	12.5	9.9
CS: Paper and Paper Products	1.4	6.9	2.0	1.7	3.3	3.4	4.6
CS: Others	0.5	8.5	0.9	1.1	0.5	0.7	3.6

Source: DOSM, MIDFR

**Manufacturing sales also fell slower in Oct-23.** Although the value of manufacturing sales stood at RM156.7b in Oct-23, the second highest (after Sep-23) in 11 months. However, the sales performance remained below a year ago, falling slower at -1.4%yoy (Sep-23: -2.4%yoy). The overall weakness from the year-on-year perspective was due to reduced sales of refined petroleum, E&E and rubber gloves; albeit sustained growth in sales for other sectors like motor vehicles, consumer products, iron & steel, computers & peripheral equipment, and chemical & chemical products. From month-on-month perspective, sales were -1.5%mom lower than Sep-23 based on the seasonally-adjusted data, mainly due to weaker sales of consumer electronics, E&E and even chemicals & chemical products. Monthly declines in these sectors more than offset the strong surge in production of computers & peripheral equipment and motor vehicles. The sales performance more or less reflected the same trends in IPI, and therefore we foresee sales to improve going forward in line with sustained growth in domestic spending and recovery in external demand.

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

	MoM%			YoY%		
	Aug-23	Sep-23	Oct-23	Aug-23	Sep-23	Oct-23
<b>Manufacturing Sales <sup>1</sup></b>	<b>5.7</b>	<b>3.7</b>	<b>(0.7)</b>	<b>(3.3)</b>	<b>(2.4)</b>	<b>(1.4)</b>
<i>Seasonally-adjusted month-on-month change (%)</i>	<i>1.3</i>	<i>1.1</i>	<i>(1.5)</i>	-	-	-
Refined Petroleum Products	9.2	(3.6)	1.8	(20.9)	(21.6)	(18.4)
Chemicals and Chemical Products	8.5	(5.9)	(1.9)	1.4	1.2	3.6
Rubber Gloves	(11.9)	4.4	2.6	(3.0)	(2.6)	(2.1)
Iron & Steel Products	18.4	23.9	(1.7)	1.2	5.0	4.6
Diodes, Transistor & Electronic Integrated Circuits Mic	3.1	7.5	(9.1)	(4.8)	(5.6)	(10.8)
Electrical Capacitor Resistor, Circuit Board & Display Comp	9.7	10.0	(9.7)	(2.3)	(7.5)	(5.6)
Computers & Peripherals Equipment	5.2	(34.7)	42.3	10.9	7.8	4.3
Consumer Electronics	7.1	14.1	(12.9)	2.1	5.4	6.7
Motor Vehicles	(7.3)	13.2	21.2	16.0	11.1	25.8


Source: Macrobond, DOSM, MIDFR

**Global IPI improved in Oct-23.** From global perspective, IPI growth in most countries continued to grow or registered slower contraction in their IPIs. This was contrast to the decline in global manufacturing PMI to 48.8 (Sep-23: 49.1), which signaled faster decline in global manufacturing activities. In the US, IPI fell faster by -0.7%yoy in Oct-23 due to sharper fall in manufacturing output such as finished consumer goods and business equipment, which more than offset the output growth in mining and utilities. In contrast, Japan’s IPI rebounded to grow at +0.9%yoy, the first growth in 4 months, supported by increased output of E&E, machinery and motor vehicles. Other countries like Singapore, Malaysia, Philippines and South Korea also recorded positive IPI growth during the month. IPI in Taiwan, on the other hand, fell at slower pace during the month following the slower fall in manufacturing output. Similarly, Thailand reported slower contraction in IPI in Oct-23, but with significant declines in manufactures of computers & peripherals, E&E and iron & steel, among others. We expect production to improve in view of the increased global manufacturing PMI to 49.1 in Nov-23. In particular, turnaround in the global E&E sales shall lend support to regional trade and manufacturing activities to grow in the coming months.

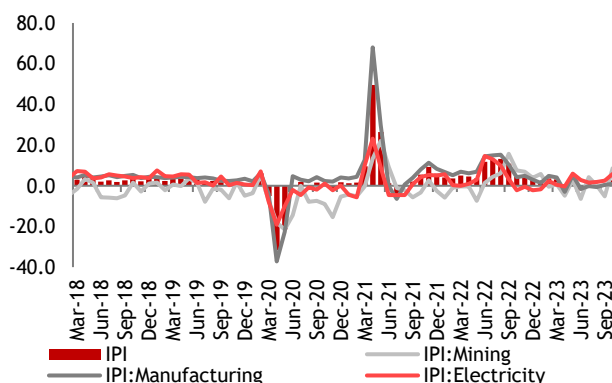
**Table 6: IPI for Selected Economies (YoY%)**

	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
Malaysia	3.2	(3.2)	4.8	(2.2)	0.7	(0.3)	(0.5)	2.7
Philippines	9.0	9.6	8.1	2.4	4.1	7.4	9.6	1.3
Thailand	(3.9)	(8.7)	(3.0)	(5.0)	(4.7)	(7.7)	(6.3)	(4.3)
Singapore	(3.8)	(6.3)	(10.4)	(6.1)	(0.2)	(12.7)	(1.1)	7.4
S. Korea	(7.6)	(9.1)	(7.6)	(6.0)	(8.1)	(0.8)	2.9	1.1
Taiwan	(16.0)	(22.6)	(15.7)	(17.2)	(15.5)	(10.8)	(6.9)	(2.3)
India	1.9	4.6	5.7	3.8	6.0	10.3	5.8	n.a.
Japan	(0.8)	(0.7)	4.2	0.0	(2.3)	(4.4)	(4.4)	0.9
Euro area	(2.1)	0.0	(2.6)	(1.5)	(2.0)	(5.4)	(6.5)	n.a.
USA	0.2	0.3	0.1	(0.4)	0.1	0.1	(0.2)	(0.7)

\*n.a.: not available  
Source: Macrobond, MIDFR

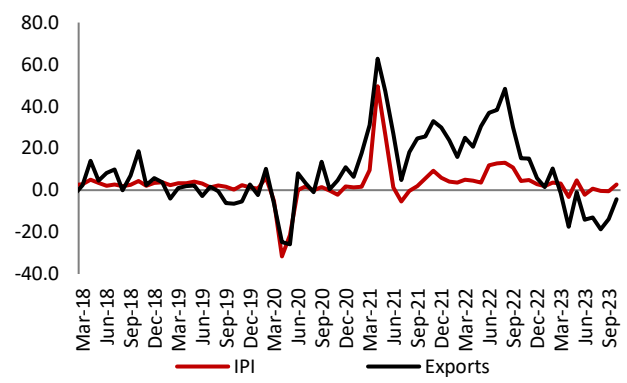
**We forecast IPI growth to grow at +1.1% this year.** We forecast IPI growth will be around +1.1% (previous forecast: +1.6%) for this year, not to far off from the average IPI growth of +1.1%yoy in the first 10 months of 2023. We remain cautious that the weakness in external trade will continue affect IPI growth in the coming months as we view downside risks could come from uncertaines in external trade performance, given the recent geopolitical risks and anticipated slowdown in final demand from the advanced economies. Nevertheless, we are optimistic domestic-oriented businesses will continue to grow, benefiting from sustained growth in domestic spending activities. 

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



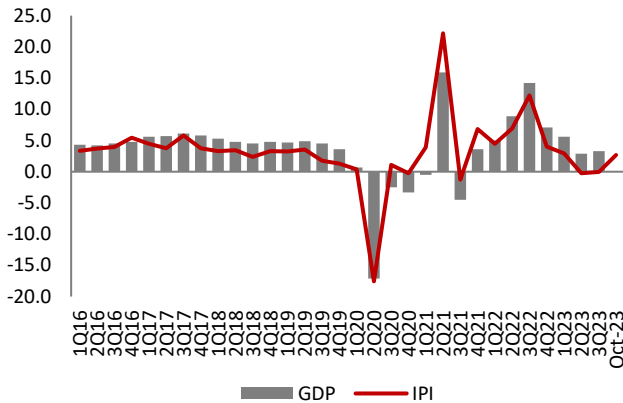
Source: Macrobond, MIDFR

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



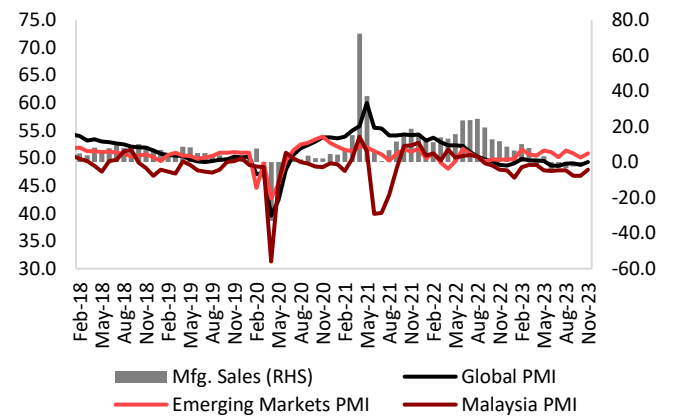
Source: Macrobond, MIDFR

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



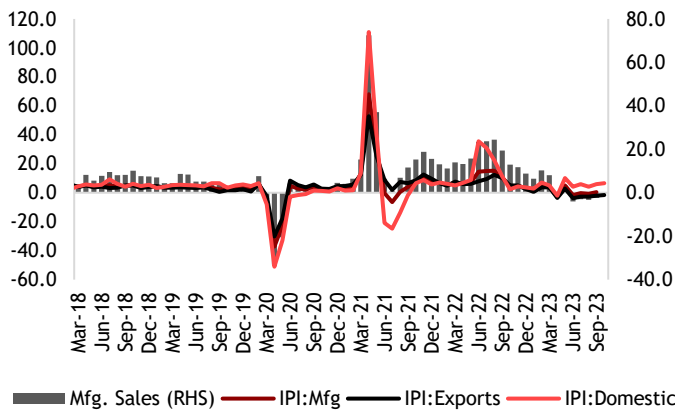
Source: Macrobond, MIDFR

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



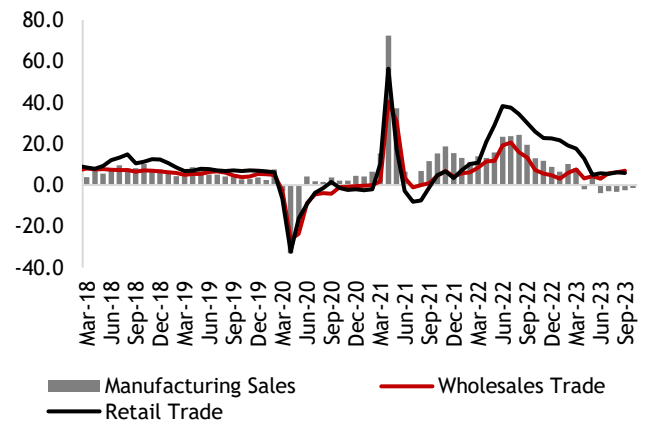
Source: Macrobond, Bloomberg, MIDFR

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



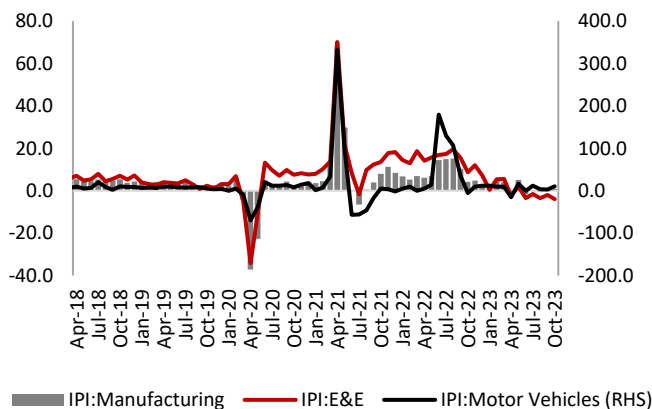
Source: Macrobond, DOSM, MIDFR

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



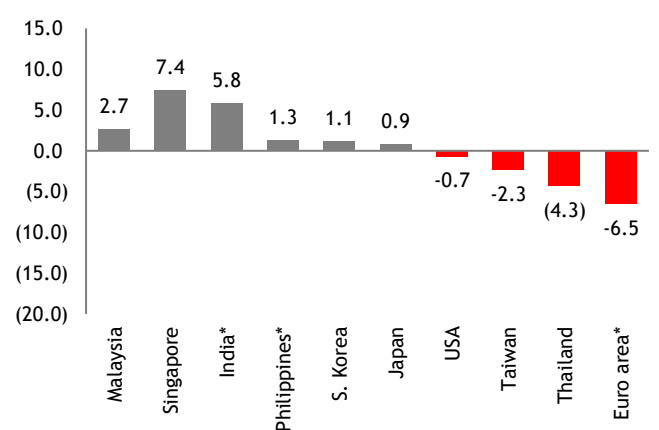
Source: Macrobond, MIDFR

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



Source: Macrobond, DOSM, MIDFR

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



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

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