7 February 2024

**ECONOMIC REVIEW | December 2023 Industrial Production Index**

# IPI Fell Marginally by -0.1%yoy in Dec-23 Due to Continued Weakness in Export-Oriented Sectors

- *IPI fell marginally -0.1%yoy in Dec-23. Malaysia's IPI registered marginal contraction of -0.1%yoy in Dec-23 (Nov-23: +0.6%yoy). The weaker IPI was due to sharper fall in output in the export-oriented sectors such as electrical equipment, refined petroleum products and chemicals.*
- *Manufacturing sales decreased faster in Dec-23. Sales of manufactured goods fell at faster at -4.2%yoy in Dec-23, with shaper drop in sales of refined petroleum and chemicals & chemical products.*
- *IPI growth to strengthen to +3.7% in 2024. For 2024, we foresee recovery in external demand and global manufacturing activities will support IPI to grow stronger at +3.7% (2023: +0.9%).*

**IPI fell marginally -0.1%yoy in Dec-23**. Malaysia's IPI registered marginal contraction of -0.1%yoy in Dec-23 (Nov-23: +0.6%yoy), below ours and market expectations. The weaker IPI was due to sharper fall in output in the export-oriented sectors such as electrical equipment, refined petroleum products and chemicals. As we expected, the trend closely followed the weaker export performance in the same month because manufacturing contributed more than two-thirds of the IPI calculation. By major sectors, the decline in IPI in Dec-23 was largely due to sharper output declines in the manufacturing sector (Dec-23: -1.4%yoy; Nov-23: -0.1%yoy) such as motor vehicles, apart from continued reduction in the production of E&E and petroleum products. In contrast, the drop was almost offset by the stronger growth in mining output (+3.6%yoy) and electricity generation (+4.6%yoy). For the mining sector, sustained output growth was underpinned by stronger growth in natural gas production. The higher electricity generation continued to suggest electricity consumption continued to grow annually for the 8th consecutive month. With the weaker-than-expected growth in Dec-23, IPI only grew moderately by +0.9% in 2023 (2022: +6.7%), slightly below our estimate of +1.1%. Nevertheless, we expect IPI growth will improve this year on the back of sustained growth in domestic demand and recovery in external trade.

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

| | MoM%* | | | | YoY% | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Sep-23 | Oct-23 | Nov-23 | Dec-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 | 2022 | 2023 |
| **IPI** | **(2.8)** | **0.3** | **(0.2)** | **(2.6)** | **(0.5)** | **2.4** | **0.6** | **(0.1)** | **6.7** | **0.9** |
| Mining | 2.9 | 9.0 | (6.4) | 0.9 | (5.2) | 7.4 | 1.9 | 3.6 | 2.2 | 0.8 |
| Manufacturing | (3.3) | (1.7) | 1.0 | (3.2) | 0.4 | 0.9 | (0.1) | (1.4) | 8.2 | 0.7 |
| Electricity | (0.9) | 2.5 | (1.1) | (0.8) | 2.3 | 5.8 | 4.3 | 4.6 | 3.6 | 2.5 |

* MoM is seasonally adjusted
Source: Macrobond, DOSM, MIDFR

**Larger -2.6%mom decline from previous month.** Based on the seasonally adjusted data, Malaysia's IPI fell sharper by -2.6%mom in Dec-23 due to contraction in manufacturing output (-3.2%mom) and electricity generation (-0.8%mom). The monthly reduction in manufacturing output was recorded in various sub-sectors such as E&E, motor vehicles, basic metals, refined petroleum products and F&B. In contrast, mining sector output rebounded by +0.9%mom from higher output of both crude oil and natural gas. Looking at the higher manufacturing PMI which increased to 49.0 in Jan-24 (Dec-23: 47.9), we foresee IPI growth will improve given the stabilisation (i.e. slower fall) in manufacturing activities as well as continued optimism among local manufacturers on the demand outlook, as reported in the PMI report. Moreover, energy demand will continue to grow, supported by growing business activities and domestic consumption.

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

| | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 | 2023 |
|---|---|---|---|---|---|---|---|
| **IPI** | **0.7** | **(0.3)** | **(0.5)** | **2.4** | **0.6** | **(0.1)** | **0.9** |
| **Mining** | **4.2** | **0.1** | **(5.2)** | **7.4** | **1.9** | **3.6** | **0.8** |
| Crude Petroleum | 11.8 | (3.3) | (1.4) | 7.2 | 2.1 | 1.6 | 2.1 |
| Natural Gas | (0.8) | 2.6 | (7.8) | 7.6 | 1.7 | 5.0 | (0.1) |
| **Manufacturing** | **(0.2)** | **(0.6)** | **0.4** | **0.9** | **(0.1)** | **(1.4)** | **0.7** |
| Food Products | 3.5 | 3.9 | 5.1 | 6.5 | 9.6 | 5.6 | 5.4 |
| Refined Petroleum Products | (10.1) | (7.5) | (7.7) | (4.0) | (1.8) | (4.6) | (1.2) |
| Chemicals & Chemicals Products | 7.3 | 7.7 | 5.9 | 6.2 | 2.6 | (1.1) | 4.2 |
| Rubber Products | (9.0) | (7.3) | (2.7) | (1.4) | (0.5) | (4.0) | (6.9) |
| Basic Metals | 2.3 | 0.4 | 5.6 | 2.5 | 4.3 | 1.1 | 3.0 |
| Electrical & Electronic Products | (1.6) | (3.5) | (2.0) | (3.9) | (6.8) | (6.7) | (1.4) |
| Computers & Peripheral Equipment | 17.1 | 13.8 | 14.9 | 24.5 | 26.4 | 9.3 | 4.7 |
| Machinery & Equipment | (3.9) | (4.8) | (4.9) | (1.8) | 3.5 | (1.6) | (0.2) |
| Motor Vehicles, Trailers & Semi-Trailers | 11.9 | 3.8 | 2.6 | 10.6 | 0.4 | (2.5) | 4.9 |
| **Electricity** | **1.5** | **1.9** | **2.3** | **5.8** | **4.3** | **4.6** | **2.5** |

Source: Macrobond, MIDFR

**Sharper fall in trade-oriented production...** In line with the weaker export performance, IPI for export-oriented sectors continued to fall faster at -4.1%yoy in Dec-23 (Nov-23: -2.7%yoy). The decline in Dec-23 was the 7th straight month of drop and the steepest contraction in the post-pandemic period since the recovery in Jun-20. Apart from continued fall in the E&E output, lower production was recorded across various industries such as chemicals & chemical products, petroleum products, textiles, apparel, wood & wood products and even rubber products. We foresee pick-up in the export-oriented output from the low levels in 2023 will support IPI growth this year on the back of external demand recovery. With countries like South Korea, Taiwan and Japan already reporting improved exports, we expect Malaysia's exports will also pick up and rebound on the back of improving external demand.

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

| | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 | 2023 |
|---|---|---|---|---|---|---|---|
| **IPI: Export-Oriented Industries** | **(2.7)** | **(2.6)** | **(2.0)** | **(1.6)** | **(2.7)** | **(4.1)** | **(1.1)** |
| Computer, Electronic and Optical Products | (1.6) | (3.8) | (1.9) | (4.3) | (8.6) | (7.2) | (2.0) |
| Electrical Equipment | 0.7 | 0.4 | (0.3) | (2.5) | (1.0) | (7.6) | (0.8) |
| Chemicals and Chemical Products | 7.3 | 7.7 | 5.9 | 6.2 | 2.5 | (1.1) | 4.2 |
| Coke and Refined Petroleum Products | (10.1) | (7.5) | (7.7) | (4.0) | (1.8) | (4.6) | (1.6) |
| Vegetable & animal oils & fats | (2.3) | 0.9 | 0.4 | 2.7 | 7.8 | 4.7 | 4.4 |
| Textiles | (6.3) | (5.1) | (6.8) | (5.9) | (4.8) | (6.1) | (4.7) |
| Wearing Apparel | 8.2 | 3.9 | 4.7 | 6.2 | 3.3 | (2.2) | 4.6 |
| Wood and Wood Products | (3.3) | (1.2) | (3.8) | 1.7 | (1.9) | (3.0) | (4.5) |
| Furniture | (3.9) | (3.5) | (6.1) | 4.8 | 5.2 | 8.5 | (4.6) |
| Rubber Products | (9.0) | (7.3) | (2.7) | (1.4) | (0.5) | (3.9) | (7.1) |

Source: DOSM, MIDFR

**...and slower but sustained growth in domestic-oriented output.** The sustained growth in output for domestic-oriented sectors supported overall IPI growth in Dec-23 and countered the weak output in export-oriented sectors. Although the pace of growth moderated further to +4.2 (Nov-23: +5.8%yoy), domestic-oriented production has been growing for the 8th consecutive month. Both the construction and consumer sectors recorded slower IPI growth at +6%yoy and +3.1%yoy, respectively. Slower growth in the consumer sector was partly due to reduced output of motor vehicles and transport equipment. Going forward, we continue to expect domestic-oriented companies will increase production this year to cope with growing domestic consumption.

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

| | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 | 2023 |
|---|---|---|---|---|---|---|---|
| **IPI: Domestic-Oriented Industries** | **6.0** | **4.2** | **5.8** | **6.7** | **5.8** | **4.2** | **4.9** |
| Construction (CO) | 4.4 | 4.0 | 7.8 | 5.6 | 7.1 | 6.0 | 5.2 |
| CO: Non Metallic Mineral | 3.0 | 3.4 | 8.0 | 6.6 | 6.9 | 5.3 | 4.5 |
| CO: Iron and Steel | 2.3 | 0.4 | 5.6 | 2.5 | 4.3 | 1.1 | 3.0 |
| CO: Fabricated Metal | 6.9 | 7.2 | 9.0 | 6.8 | 8.9 | 9.7 | 7.1 |
| Consumer (CS) | 6.7 | 4.3 | 4.8 | 7.4 | 5.0 | 3.1 | 4.8 |
| CS: Food Products | 7.0 | 5.7 | 8.2 | 9.4 | 10.8 | 6.2 | 5.8 |
| CS: Motor Vehicles, Trailers and Semi-Trailers | 11.9 | 3.8 | 2.6 | 10.6 | 0.4 | (2.5) | 4.5 |
| CS: Other Transport Equipment | 3.9 | 2.2 | 1.9 | 1.7 | 2.0 | (0.4) | 2.7 |
| CS: Beverages | 1.9 | 0.2 | 0.6 | 5.0 | 4.3 | 6.7 | 1.8 |
| CS: Tobacco Products | 17.2 | 12.1 | 12.5 | 10.0 | 3.8 | 4.8 | 13.9 |
| CS: Paper and Paper Products | 1.7 | 3.3 | 3.4 | 4.7 | 8.1 | 5.9 | 4.1 |
| CS: Others | 1.1 | 0.5 | 0.7 | 3.7 | 2.8 | 6.1 | 2.7 |

Source: DOSM, MIDFR

**Manufacturing sales decreased faster in Dec-23.** Sales of manufactured goods contracted at a faster pace of -4.2%yoy in Dec-23. The contraction in Dec-23 was the sharpest since the post-pandemic recovery in Jun-20 and marked the 7th consecutive month of decline. Sales dropped faster for refined petroleum and chemicals & chemical products, with little change in sales of consumer electronics compared to a year ago. Sales growth for computers & peripherals slowed to +3.4%yoy, the slowest growth in 6 months. Motor vehicle sales continued to grow by +5.1%yoy, the 8th straight month albeit growing at more moderate pace. Compared to the previous month, manufacturing sales fell steeper at -4.0%mom (Nov-23: -0.2%mom) based on seasonally adjusted data, with lower sales of various products such as petroleum products, electrical equipment, consumer electronics, and motor vehicles. Computers, electronic components, and chemicals & chemical products, in contrast, registered monthly increases during the month. We expect manufacturing sales to improve in line with the improvement in external demand, on top of continued growth in domestic demand. Sales of E&E products, chemicals & chemical products and refined petroleum are among the products which will benefit from higher external demand. For 2023, manufacturing sales only grew marginally by +0.2%, a sharp moderation from +15.8% expansion in the previous year. The moderation was broadly consistent with more moderate economic growth, partly due to the absence of the low-base effect from the pandemic-induced lockdowns, and weaker external demand last year.

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

| | MoM% | | | YoY% | | | |
|---|---|---|---|---|---|---|---|
| | Oct-23 | Nov-23 | Dec-23 | Oct-23 | Nov-23 | Dec-23 | 2023 |
| **Manufacturing Sales** [1] | **(0.7)** | **(1.1)** | **(3.3)** | **(1.4)** | **(2.6)** | **(4.2)** | **0.2** |
| *Seasonally adjusted month-on-month change (%)* | *(1.5)* | *(0.2)* | *(4.0)* | - | - | - | - |
| Refined Petroleum Products | 1.8 | (6.7) | (16.7) | (18.4) | (20.0) | (24.9) | (10.1) |
| Chemicals and Chemical Products | (1.9) | 2.4 | 1.2 | 3.6 | (0.5) | (4.5) | (1.3) |
| Rubber Gloves | 2.6 | (4.4) | (4.8) | (2.1) | (1.3) | (1.2) | (5.8) |
| Iron & Steel Products | (1.7) | 5.9 | (3.9) | 4.6 | 9.9 | 8.4 | 6.7 |
| Diodes, Transistor & Electronic Integrated Circuits Mic | (9.1) | (10.8) | 4.2 | (10.8) | (13.9) | (11.1) | (2.9) |
| Electrical Capacitor Resistor, Circuit Board & Display Comp | (9.7) | (2.7) | (11.5) | (5.6) | (12.7) | (12.8) | 8.4 |
| Computers & Peripherals Equipment | 42.3 | (7.7) | 6.3 | 4.3 | 5.0 | 3.4 | 2.2 |
| Consumer Electronics | (12.9) | (1.2) | (13.8) | 6.7 | 0.2 | 0.1 | (1.5) |
| Motor Vehicles | 19.7 | 16.6 | (5.5) | 24.3 | 10.9 | 5.1 | 15.0 |

Source: Macrobond, DOSM, MIDFR

**Production declined in Dec-23 for several economies.** The sluggishness in global production activities continued in Dec-23 as several economies reported further contraction in industrial production. The weakness was also indicated by lower global manufacturing PMI, which dropped to 49.0 (Nov-23: 49.3), as manufacturing activities globally contracted sharper. In the US, IPI rebounded and grew at +1.0%yoy due to higher production in the manufacturing and mining sectors. Sustained growth in South Korea's IPI was also due to stronger manufacturing output, in line with the improved export performance. Japan, on the other hand, reported another month of IPI contraction albeit slower pace of -0.7%yoy. Like Malaysia, regional countries like Thailand, Singapore and Taiwan reported sharper fall in IPI. In Thailand, sectors which registered lower output were automotive products, computers & peripherals, and foods. For Singapore, the IPI decline in Dec-23 was mainly due to lower output in biomedical engineering, mainly pharmaceuticals. In Taiwan, output fell faster in the mining and manufacturing industries as well as water supply. We expect production to improve in Jan-24 as the recent global PMI reports indicated stabilisation in manufacturing activities for many economies, which led to the index for the global market rising to 50.0, the highest level in nearly 1.5 years. We also expect a turnaround in the global E&E market, as shown by the improvement in global semiconductor sales in 4QCY23, will lead to higher global IPI in 2024.

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

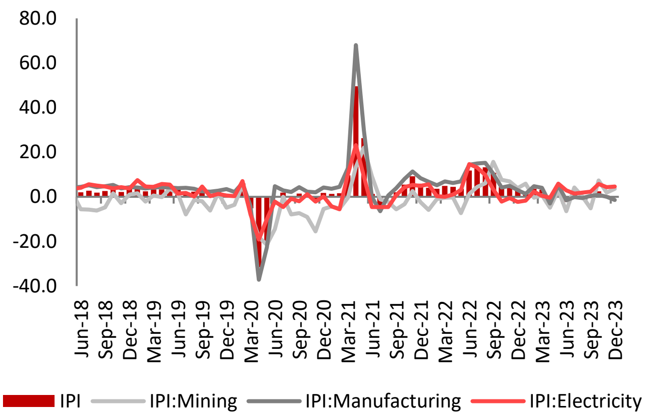
| | Jun-23 | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 | 2023 |
|---|---|---|---|---|---|---|---|---|
| Malaysia | (2.2) | 0.7 | (0.3) | (0.5) | 2.4 | 0.6 | (0.1) | 0.9 |
| Philippines | 2.2 | 3.5 | 6.2 | 9.6 | 0.7 | 2.0 | n.a. | n.a. |
| Thailand | (5.0) | (4.7) | (7.7) | (6.3) | (4.3) | (4.6) | (6.3) | (5.1) |
| Singapore | (6.8) | (0.6) | (13.0) | (1.2) | 6.8 | 0.0 | (2.5) | (4.3) |
| S. Korea | (6.0) | (8.1) | (0.8) | 3.0 | 0.8 | 5.5 | 6.2 | (3.8) |
| Taiwan | (17.2) | (15.5) | (10.8) | (6.9) | (2.3) | (2.5) | (4.0) | (12.3) |
| India | 3.8 | 6.0 | 10.3 | 6.2 | 11.7 | 2.4 | n.a. | n.a. |
| Japan | 0.0 | (2.3) | (4.4) | (4.4) | 1.1 | (1.4) | (0.7) | (1.1) |
| Euro area | (1.6) | (2.0) | (5.4) | (6.4) | (5.8) | (6.5) | n.a. | n.a. |
| USA | (0.4) | 0.1 | 0.0 | (0.2) | (0.9) | (0.6) | 1.0 | 0.2 |

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

**Growth momentum improved in 4QCY23.** Despite the modest GDP growth of +3.4%yoy based on the advance estimate, stronger IPI growth of +1.0%yoy (3QCY23: +0%yoy) indicates growth momentum picked up during the quarter. However, we believe external trade (of goods) remained a downward drag which contributed negatively to economic growth in the final quarter of 2023. At least, the nominal data shows the weakness in external trade was attributable to a lower surplus in the trade of goods, as a result of both weak exports and a relatively smaller fall in imports. Nevertheless, we expect a turnaround in the external trade will result in improving growth momentum in the coming quarters.

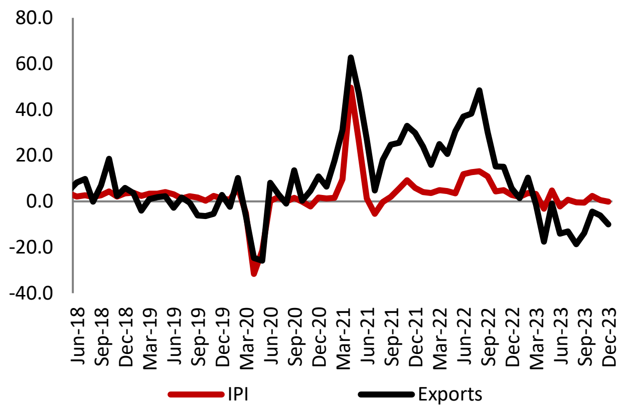
**IPI growth to strengthen to +3.7% in 2024.** The moderate IPI growth in 2023 was expected due to the weakness in the trade-oriented industries. For 2024, we foresee recovery in the external demand and global manufacturing activities will support Malaysia's IPI to grow stronger at +3.7% (2023: +0.9%). Continued growth in domestic demand will also support IPI growth this year. We are optimistic looking at the stabilisation in manufacturing activities in Jan-24 as reported by the recent PMI reports. However, we are still concerned that IPI growth this year may be weighed down by downside risks such as sluggish economic recovery in China and possible recession in the US. Moreover, companies may relook at production plans if global trade activities are affected by worsening geopolitical tension and disruptions to trade flows.

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



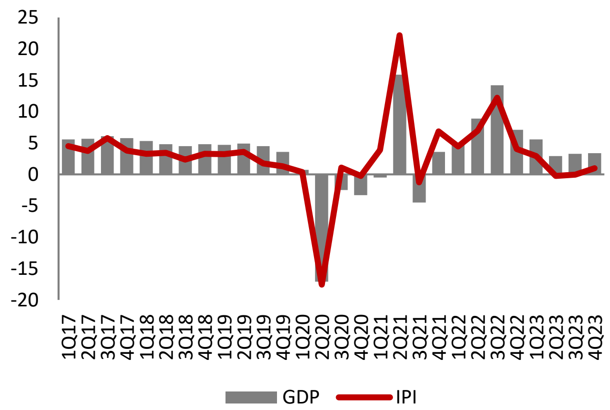

Source: Macrobond, MIDFR

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



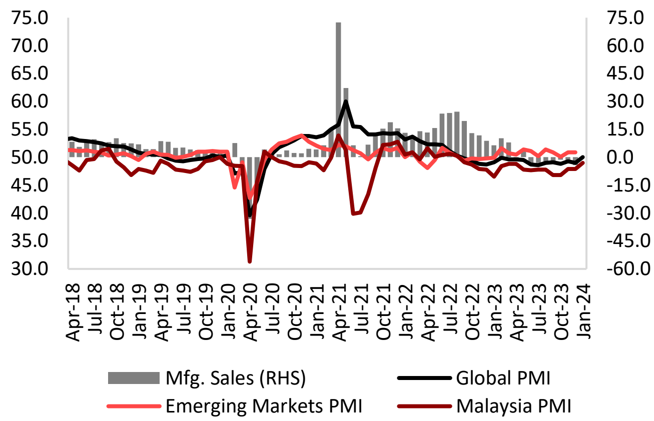

Source: Macrobond, MIDFR

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



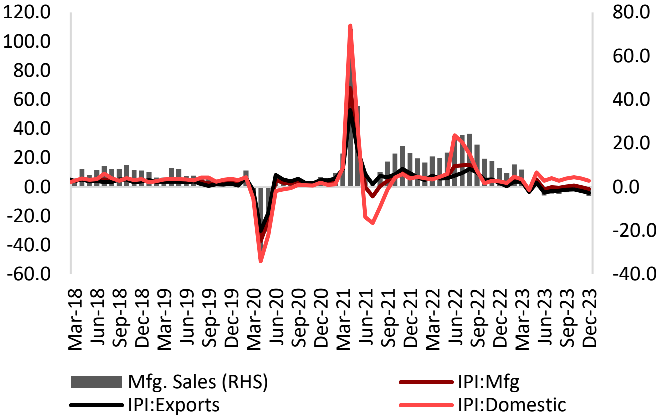

Source: Macrobond, MIDFR

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



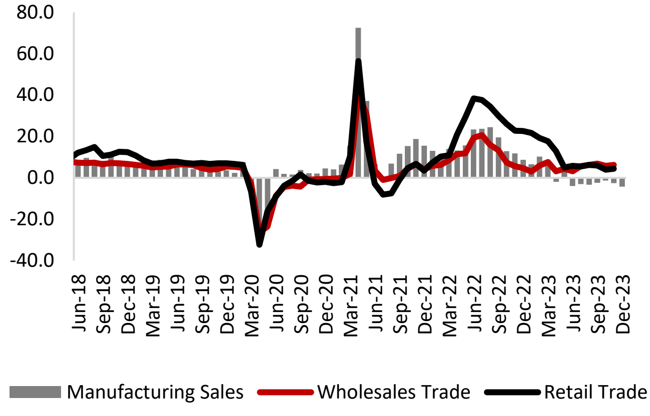

Source: Macrobond, Bloomberg, MIDFR

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



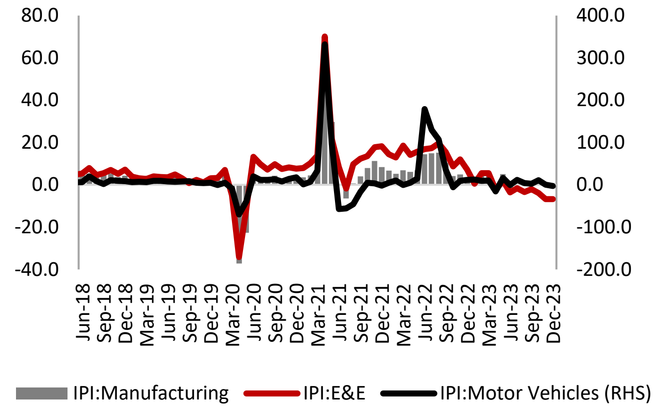

Source: Macrobond, DOSM, MIDFR

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



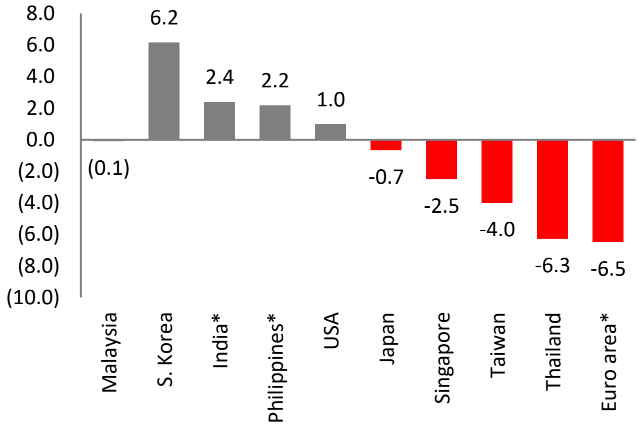

Source: Macrobond, MIDFR

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




Source: Macrobond, DOSM, MIDFR

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




* Refers to latest available data for Nov-23
Source: Macrobond, MIDFR

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