

## ECONOMIC REVIEW | February 2024 Industrial Production Index

# IPI Growth Eased to +3.1%yoy in Feb-24 with Slower Rise in Manufacturing Output

- IPI growth moderated to +3.1%yoy in Feb-24. Malaysia's IPI registered a sustained but slower growth of +3.1%yoy in Feb-24 (Jan-24: +4.3%yoy). All major sectors expanded, but the moderation in overall IPI growth closely tracked the slower growth of +1.2%yoy (Jan-24: +3.7%yoy) in manufacturing output.
- Manufacturing sales rose slower in Feb-24. Although the sales value of manufacturing products dropped to 7-month low of RM146.2b in Feb-24, this translated into slower annual growth of +0.7%yoy (Feb-24: +3.7%yoy). The growth was contributed by higher sales of motor vehicles; computers & peripherals; rubber gloves and iron & steel products.
- IPI would grow faster at +3.7% this year. We maintain our projection that Malaysia's IPI will grow stronger at +3.7% this year (2023: +1.1%). Malaysia stands to gain from the pick-up in external demand and improvement in global manufacturing activities.

**IPI growth moderated to +3.1%yoy in Feb-24.** Malaysia's IPI registered a sustained but slower growth of +3.1%yoy in Feb-24 (Jan-24: +4.3%yoy), growing for the second straight month. The pace of growth was stronger than ours and market expectations; we anticipated IPI growth to moderate given the weaker external trade performance in Feb-24. All major sectors recorded sustained growth, but the moderation in overall IPI growth closely tracked the slower growth of +1.2%yoy (Jan-24: +3.7%yoy) in manufacturing output. Mining sector output grew faster at +8.1%yoy, which was the strongest growth in 16 months. The growth was mainly underpinned by the +11.9%yoy surge in natural gas output and increased production of crude petroleum. Electricity generation also recorded stronger growth of +10.9%yoy, the fastest growth in 1.5 years which also reflected higher electricity demand and consumption. Despite the moderate growth in Feb-24, we maintain our expectations that IPI will grow stronger this year on the back of external demand recovery as well as growing domestic demand. Looking at the stronger IPI growth of +3.7%yoy in Jan-Feb-24 (4QCY23: +0.8%yoy), this supports our expectations that growth momentum had picked up in the recent quarter.

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

	MoM%*				YoY%			
	Nov-23	Dec-23	Jan-24	Feb-24	Nov-23	Dec-23	Jan-24	Feb-24
<b>IPI</b>	(0.4)	(1.5)	2.6	1.2	0.4	(0.0)	4.3	3.1
Mining	(3.5)	0.5	(0.1)	1.9	1.2	4.1	5.0	8.1
Manufacturing	0.2	(1.9)	3.3	0.9	(0.1)	(1.4)	3.7	1.2
Electricity	(1.0)	(0.2)	2.9	4.7	3.5	4.1	8.3	10.9

\* MoM is seasonally adjusted

Source: Macrobond, DOSM, MIDFR

**IPI increased +1.2%mom from Jan-24.** Compared to the previous month, Malaysia's IPI grew for the second month in Feb-24 albeit at slower pace of +1.2%mom (Jan-24: +2.6%mom) after adjusting to the seasonal effect. The sustained monthly growth was backed by increases in all major sectors: mining (+1.9%mom), manufacturing (+0.9%mom), and electricity (+4.7%mom). The slower growth in manufacturing output, in particular, was in line with the better manufacturing PMI reading which rose to 49.5 in Feb-24 (Jan-24: 49.0). As we indicated previously, this signalled stabilisation in the overall manufacturing activities and encouraging sentiment among local manufacturers on the future demand outlook, as reported in the PMI report.

We remain cautious that the recovery in the manufacturing output remains fragile as the latest manufacturing PMI fell to 48.4 in Mar-24 due to weaker new orders and production. On another note, we expect energy demand to increase further as activities in Malaysia's economy continue to grow. Mining output will also grow, benefiting from the growing external demand.

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

	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
<b>IPI</b>	<b>(0.6)</b>	<b>2.1</b>	<b>0.4</b>	<b>(0.0)</b>	<b>4.3</b>	<b>3.1</b>
<b>Mining</b>	<b>(5.8)</b>	<b>5.7</b>	<b>1.2</b>	<b>4.1</b>	<b>5.0</b>	<b>8.1</b>
Crude Petroleum	(3.8)	3.2	(0.2)	1.6	2.6	2.5
Natural Gas	(7.2)	7.6	2.3	5.9	6.6	11.9
<b>Manufacturing</b>	<b>0.4</b>	<b>0.9</b>	<b>(0.1)</b>	<b>(1.4)</b>	<b>3.7</b>	<b>1.2</b>
Food Products	5.1	6.5	9.6	5.6	4.4	(4.8)
Refined Petroleum Products	(7.7)	(4.0)	(1.8)	(4.6)	(3.0)	2.6
Chemicals & Chemicals Products	5.9	6.2	2.6	(1.1)	6.1	(2.8)
Rubber Products	(2.7)	(1.4)	(0.5)	(4.0)	8.5	6.4
Basic Metals	5.6	2.5	4.3	1.1	2.6	1.4
Electrical & Electronic Products	(2.0)	(3.9)	(6.8)	(6.7)	0.9	0.3
Computers & Peripheral Equipment	14.9	24.5	26.4	9.3	13.7	6.5
Machinery & Equipment	(4.9)	(1.8)	3.5	(1.6)	4.1	2.9
Motor Vehicles, Trailers & Semi-Trailers	2.6	10.6	0.4	(2.5)	12.1	2.9
<b>Electricity</b>	<b>2.5</b>	<b>6.1</b>	<b>3.5</b>	<b>4.1</b>	<b>8.3</b>	<b>10.9</b>

Source: Macrobond, MIDFR

**Marginal decline in export-oriented output.** In line with the weaker export performance, IPI for the export-oriented sectors fell marginally by -0.1%yoy in Feb-24 (Jan-24: +1.6%yoy) dragged down by weaker production of oil & fats; wearing apparels; wood & wood products; chemical & chemical products; and electrical equipment. On the other hand, the marginal decline can be explained by higher output of computer, electronics and optical products; petroleum products; furniture; and rubber products. In the coming months, we are sanguine that export-oriented production will expand as Malaysia stands to benefit from the recovery in global trade and production activities.

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

	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
<b>IPI: Export-Oriented Industries</b>	<b>(2.0)</b>	<b>(1.6)</b>	<b>(2.7)</b>	<b>(4.1)</b>	<b>1.6</b>	<b>(0.1)</b>
Computer, Electronic and Optical Products	(1.9)	(4.3)	(8.6)	(7.2)	0.4	0.3
Electrical Equipment	(0.3)	(2.5)	(1.0)	(7.6)	1.4	(2.2)
Chemicals and Chemical Products	5.9	6.2	2.5	(1.1)	6.1	(2.8)
Coke and Refined Petroleum Products	(7.7)	(4.0)	(1.8)	(4.6)	(3.0)	2.6
Vegetable & animal oils & fats	0.4	2.7	7.8	4.7	(2.6)	(13.5)
Textiles	(6.8)	(5.9)	(4.8)	(6.1)	0.6	0.1
Wearing Apparel	4.7	6.2	3.3	(2.2)	1.5	(6.7)
Wood and Wood Products	(3.8)	1.7	(1.9)	(3.0)	0.7	(4.4)
Furniture	(6.1)	4.8	5.2	8.5	10.7	6.6
Rubber Products	(2.7)	(1.4)	(0.5)	(4.0)	8.5	6.4

Source: DOSM, MIDFR

**Sustained albeit moderate growth in domestic-oriented output.** The output growth for domestic-oriented sectors continued to increase albeit at slower pace of +3.8%yoy in Feb-24, extending growth for the 10 months in a row in line with growing domestic demand. Both IPI growth for the construction- and consumer-related sectors moderated to +5.4%yoy and +2.8%yoy, respectively. Major sub-sectors for both industries registered

positive growth during the month. Production of F&B and motor vehicles as well as transport equipment, for example, continued to expand on the back of sustained rise in retail trade and higher spending on motor vehicles. Similarly, the sustained growth in production of iron & steel, non-metallic minerals and fabricated metals was generally in line with the growing progress in the construction activities. Going forward, we maintain our expectations that domestic-oriented companies will increase production in view of growing domestic consumption and expanding business activities.

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

	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
<b>IPI: Domestic-Oriented Industries</b>	<b>5.8</b>	<b>6.7</b>	<b>5.8</b>	<b>4.2</b>	<b>8.0</b>	<b>3.8</b>
Construction (CO)	7.8	5.6	7.1	6.0	7.9	5.4
CO: Non Metallic Mineral	8.0	6.6	6.9	5.3	6.6	5.1
CO: Iron and Steel	5.6	2.5	4.3	1.1	2.6	1.4
CO: Fabricated Metal	9.0	6.8	8.9	9.7	11.9	8.4
Consumer (CS)	4.8	7.4	5.0	3.1	8.1	2.8
CS: Food Products	8.2	9.4	10.8	6.2	8.5	0.4
CS: Motor Vehicles, Trailers and Semi-Trailers	2.6	10.6	0.4	(2.5)	12.1	2.9
CS: Other Transport Equipment	1.9	1.7	2.0	(0.4)	5.2	4.2
CS: Beverages	0.6	5.0	4.3	6.7	7.2	3.8
CS: Tobacco Products	12.5	10.0	3.8	4.9	4.2	10.6
CS: Paper and Paper Products	3.4	4.7	8.1	5.8	6.9	3.6
CS: Others	0.7	3.7	2.8	6.1	1.9	1.4

Source: DOSM, MIDFR

**Manufacturing sales rose slower in Feb-24.** Although the sales value of manufacturing products dropped to 7-month low of RM146.2b in Feb-24, this translated into slower annual growth of +0.7%yoy (Feb-24: +3.7%yoy). The growth was contributed by higher sales of motor vehicles; computers & peripherals; rubber gloves and iron & steel products. In contrast, several products like refined petroleum, E&E components and chemicals recorded lower sales compared to the same month last year. Despite the lower sales in Feb-24, the seasonal-adjusted data indicated another month of growth at +3.6%mom due to increases in sales of iron & steel as well as E&E products. With the performance of manufacturing sales closely influenced by exports and overall IPI, we expect manufacturing sales will grow further in the coming months due to pick-up in the E&E trade and growing domestic consumption.

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

	MoM%			YoY%		
	Dec-23	Jan-24	Feb-24	Dec-23	Jan-24	Feb-24
<b>Manufacturing Sales <sup>1</sup></b>	<b>(3.3)</b>	<b>1.9</b>	<b>(4.3)</b>	<b>(4.2)</b>	<b>3.2</b>	<b>0.7</b>
<i>Seasonally-adjusted month-on-month change (%)</i>	<i>(4.0)</i>	<i>4.3</i>	<i>3.6</i>	<i>-</i>	<i>-</i>	<i>-</i>
Refined Petroleum Products	(16.5)	10.6	(11.5)	(24.8)	(21.0)	(8.8)
Chemicals and Chemical Products	1.2	9.7	(9.1)	(4.5)	5.3	(2.6)
Rubber Gloves	(4.8)	8.6	(7.9)	(1.2)	8.2	7.4
Iron & Steel Products	(3.9)	(2.9)	5.3	8.4	5.9	7.9
Diodes, Transistor & Electronic Integrated Circuits Mic	4.2	(10.2)	14.5	(11.1)	(6.6)	(2.8)
Electrical Capacitor Resistor, Circuit Board & Display Comp	(11.5)	(1.6)	17.8	(12.8)	(3.9)	(10.1)
Computers & Peripherals Equipment	6.3	14.0	11.9	3.4	15.5	17.8
Consumer Electronics	(13.8)	(4.8)	2.6	0.1	0.9	(0.3)
Motor Vehicles	(5.5)	1.5	(17.5)	5.1	29.4	19.6

Source: Macrobond, DOSM, MIDFR

**Mixed IPI performance in Feb-24 across economies.** Industrial production registered a mixed performance in Feb-24 as some countries reported negative IPI growth while other economies reported still positive albeit slower IPI growth. In other words, production remained weak for some countries even though the global manufacturing PMI increased to 50.3 in Feb-24, indicating the second consecutive month of expansion after 16 months of declines. In the US, IPI registered another marginal decline by -0.2%yoy as the continued fall in manufacturing output more than offset the growth in mining output and utility generation. In Japan, IPI fell faster by -3.4%yoy as the increased output of electronic parts & devices was unable to counter the weakness in the production of motor vehicles, transport equipment, various machinery, and ICT equipment. In the regional countries, IPI declined in Taiwan (due to lower mining and manufacturing output) and Thailand (among others due to reduced output of apparels, food products and rubber & plastic products). Like Malaysia, South Korea recorded sustained but moderate IPI growth of +4.8%yoy, in line with the higher manufacturing output and capacity utilization. Singapore, on the other hand, recorded stronger IPI growth in Feb-24 boosted by rebound in biomedical engineering output and electronics as well as higher output of chemicals. Broadly we expect global production to improve given the continued improvement in the global manufacturing PMI which climbed further to 50.6 in Mar-24. We maintain our expectations that international trade recovery mainly the increased global E&E sales will contribute to stronger IPI growth this year.

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

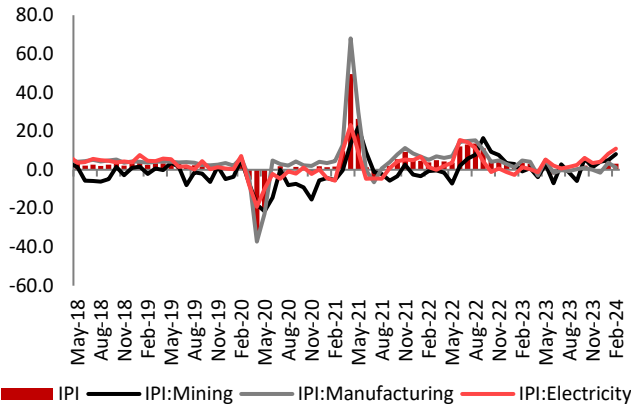
	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
Malaysia	(0.6)	(0.6)	2.1	0.4	(0.0)	4.3	3.1
Philippines	5.5	9.1	0.2	1.5	2.2	0.9	n.a.
Thailand	(5.9)	(5.9)	(2.5)	(1.5)	(4.7)	(2.9)	(2.8)
Singapore	(12.9)	(1.2)	6.8	0.1	(1.9)	0.6	3.8
S. Korea	1.3	4.8	2.0	6.1	6.3	12.9	4.8
Taiwan	(10.9)	(6.9)	(2.2)	(1.8)	(3.9)	15.6	(1.1)
India	10.3	6.2	11.7	2.4	3.8	3.8	n.a.
Japan	(4.7)	(4.5)	0.9	(1.6)	(1.1)	(1.5)	(3.4)
Euro area	(5.1)	(6.9)	(6.3)	(5.3)	0.2	(6.7)	n.a.
USA	(0.1)	(0.2)	(0.8)	(0.1)	1.2	(0.3)	(0.2)

\*n.a.: not available

Source: Macrobond, MIDFR

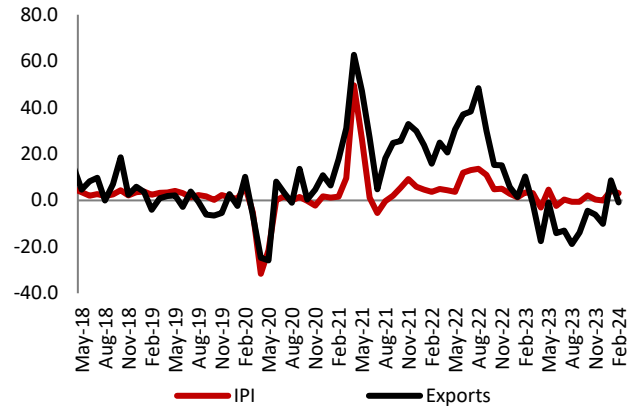
**IPI would grow faster at +3.7% this year.** We maintain our projection that Malaysia's IPI will grow stronger at +3.7% this year (2023: +1.1%). Malaysia stands to gain from the pick-up in external demand and improvement in global manufacturing activities. Firms will also increase production to cope with growing demand from the domestic market. Despite optimism that growth will pick up this year, we closely monitor several downside risks which could constrain IPI growth this year. These include the possibility of weak growth in major economies such as China and the US, potential surge in commodity prices and disruptions to the global supply chain from re-escalations in geopolitical tensions, and the adverse effects of tight monetary policy on final demand particularly from the advanced markets. 

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



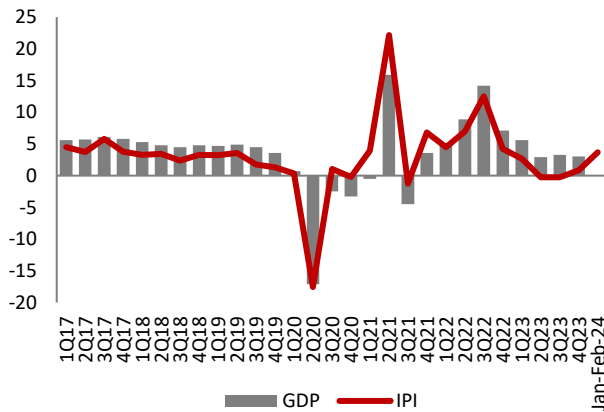
Source: Macrobond, MIDFR

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



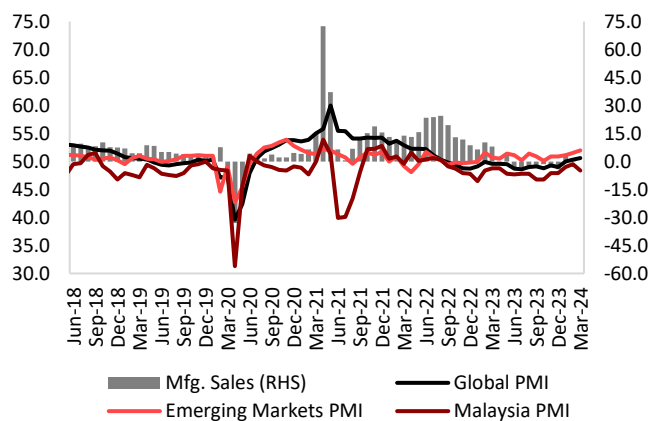
Source: Macrobond, MIDFR

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



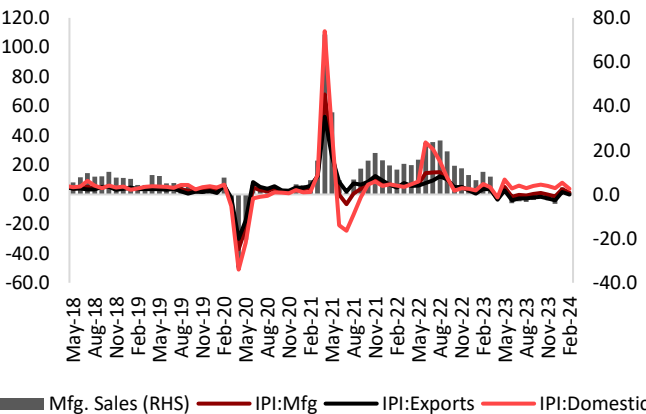
Source: Macrobond, MIDFR

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



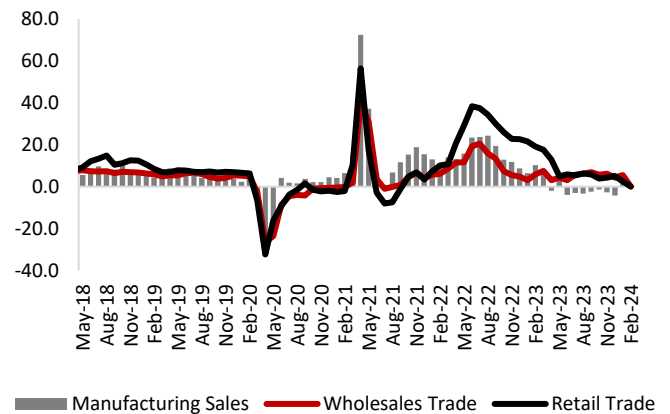
Source: Macrobond, Bloomberg, MIDFR

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



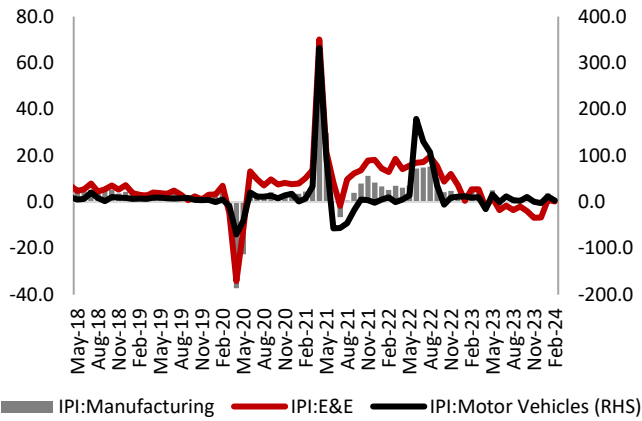
Source: Macrobond, DOSM, MIDFR

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



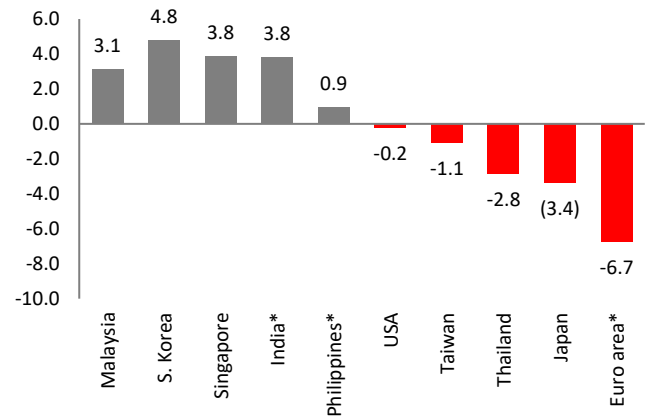
Source: Macrobond, MIDFR

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



Source: Macrobond, DOSM, MIDFR

**Chart 8: Global IPI in Feb-24 (YoY%)**



\* refers to the latest available data for Jan-24  
Source: Macrobond, MIDFR

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