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ECONOMIC REVIEW | March 2024 Industrial Production Index

Stronger IPI Growth Supports More Encouraging Economic Growth in 1QCY24

- *Malaysia's IPI extended its expansionary growth into the 3rd consecutive month, advancing +2.4%yoy in Mar-24 (Feb-24: +3.1%yoy). Despite the softer pace of growth than the previous month, the advance still surpassed market expectations of +2.0%yoy as all major sectors sustained its growth trend.*
- *Sales of manufacturing goods rose faster at +1.4%yoy in Mar-24 (Feb-24: +0.7%yoy), pushing the monthly sales value to a 16-month high of RM158.4b. The growth was attributable to increased demand for computers & peripherals; iron & steel products; and rubber gloves.*
- *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%). We foresee business outlook will continue to remain positive anticipating domestic spending to continue growing and external demand to recover this year.*

IPI growth moderated to +2.4%yoy in Mar-24. Malaysia's IPI extended its expansionary growth into the 3rd consecutive month, advancing +2.4%yoy in Mar-24 (Feb-24: +3.1%yoy). Despite the softer pace of growth than the previous month, the advance still surpassed market expectations of +2.0%yoy as all major sectors sustained its growth trend. However, the overall moderation in industrial production was due to a notable slowdown in growth of the mining sector at +4.9%yoy (Feb-24: +8.1%yoy), mainly due to the lower production of crude petroleum. Electricity generation grew by +7.8%yoy, moderating from 1.5-year high of +10.9%yoy growth registered in Feb-24. In contrast, the manufacturing sector advanced slightly faster at +1.3%yoy against +1.2%yoy in the previous month. The faster pace of manufacturing production growth was buoyed by the rebound in production of refined petroleum products and sustained expansion of E&E production. Although growth was more moderate in Mar-24, we continue to expect stronger IPI growth this year, supported by the recovery in external demand and increasing domestic demand. Looking at the stronger IPI growth of +3.3%yoy in 1QCY24 (4QCY23: +0.8%yoy), this was in line with the stronger growth momentum during the quarter as indicated in the advance GDP estimate, which rose by +3.9%yoy (4QCY23: +3.0%yoy).

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%*				YoY%			
	Dec-23	Jan-24	Feb-24	Mar-24	Dec-23	Jan-24	Feb-24	Mar-24
IPI	(1.5)	2.6	1.3	(0.2)	(0.0)	4.3	3.1	2.4
Mining	0.5	(0.1)	1.9	(1.8)	4.1	5.0	8.1	4.9
Manufacturing	(1.9)	3.3	0.9	0.3	(1.4)	3.7	1.2	1.3
Electricity	(0.2)	2.9	4.7	(3.1)	4.1	8.3	10.9	7.8

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

IPI contracted -0.2%mom. Against the previous month, Malaysia's IPI declined by -0.2%mom (Feb-24: +1.3%mom), ending 2 straight months of expansion. The contraction was mainly due to the decline in mining sector and electricity production at -1.8%mom (Feb-24: +1.9%mom) and -3.1%mom (Feb-24: +4.7%mom), respectively. Manufacturing production growth also moderated to +0.3%mom (Feb-24: +0.9%mom). The slower growth in manufacturing output was in line with the PMI reading which declined to 48.4 in Mar-24 (Feb-24: 49.5). However, manufacturing PMI rose to 49.0 in Apr-24, indicating a softer deterioration of the sector and general stabilisation in the manufacturing activities. Nevertheless, we remained cautious of the sector outlook as business sentiment fell to an 8-month low on muted demand conditions. On another note, we anticipate a further rise in energy demand as activities in Malaysia's economy continue to expand. Additionally, mining output is expected to increase, supported by the growing external demand.

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

	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
IPI	**2.1**	**0.4**	**(0.0)**	**4.3**	**3.1**	**2.4**
Mining	**5.7**	**1.2**	**4.1**	**5.0**	**8.1**	**4.9**
Crude Petroleum	3.2	(0.2)	1.6	2.6	2.5	(0.7)
Natural Gas	7.6	2.3	5.9	6.6	11.9	8.9
Manufacturing	**0.9**	**(0.1)**	**(1.4)**	**3.7**	**1.2**	**1.3**
Food Products	5.1	6.5	9.6	5.6	4.4	(3.7)
Refined Petroleum Products	(7.7)	(4.0)	(1.8)	(4.6)	(3.0)	2.2
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
Electricity	**6.1**	**3.5**	**4.1**	**8.3**	**10.9**	**7.8**

Source: Macrobond, MIDFR

Stronger export-oriented output… Despite the sustained declined in exports, output in the export-oriented sectors rebounded to +0.5%yoy in Mar-24 (Feb-24: -0.1%yoy). The growth was driven by increased production of coke & refined petroleum products; wearing apparels; furniture; woods; computer, electronic & optical products; and rubber products. In contrast, output of electrical equipment and chemical products fell at relatively sharper pace at -3.0%yoy and -4.0%yoy, respectively. In addition, oils & fats production continued to fall at double-digit rate, in line the sluggish palm oil exports. In general, we expect production for the export markets will grow this year, benefiting from the external demand recovery.

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

	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
IPI: Export-Oriented Industries	**(1.6)**	**(2.7)**	**(4.1)**	**1.6**	**(0.1)**	**0.5**
Computer, Electronic and Optical Products	(4.3)	(8.6)	(7.2)	0.4	0.3	2.0
Electrical Equipment	(2.5)	(1.0)	(7.6)	1.4	(2.2)	(3.0)
Chemicals and Chemical Products	6.2	2.5	(1.1)	6.1	(2.8)	(4.0)
Coke and Refined Petroleum Products	(4.0)	(1.8)	(4.6)	(3.0)	2.6	1.9
Vegetable & animal oils & fats	2.7	7.8	4.7	(2.6)	(13.5)	(13.3)
Textiles	(5.9)	(4.8)	(6.1)	0.6	0.1	1.4
Wearing Apparel	6.2	3.3	(2.2)	1.5	(6.7)	7.7
Wood and Wood Products	1.7	(1.9)	(3.0)	0.7	(4.4)	2.6
Furniture	4.8	5.2	8.5	10.7	6.6	12.6
Rubber Products	(1.4)	(0.5)	(4.0)	8.5	6.4	2.6

Source: DOSM, MIDFR

…but slower rise in production of domestic-oriented products. The moderation in overall IPI growth was explained by the slower output growth in the domestic-oriented sectors, which rose by +3.1%yoy. Nevertheless, the IPI growth for these sectors remained in the positives for the 11th straight month, in line with growing domestic demand. Construction-related industries recorded stronger output growth of +7.5%yoy, particularly fabricated metals (+11.1%yoy) and non-metallic minerals (+7.6%yoy). In contrast, the lower production of motor vehicles (-10%yoy) was the major drag to the consumer-oriented industries, where the growth of +0.5%yoy was the weakest pace in 11 months. Meanwhile, output of other sectors which also cater to the consumer needs, such as foods & beverages and transport equipment, continued to grow during the month. Despite the moderate growth, we expect the sustained growth in the domestic demand will continue to support positive production outlook for the domestic-oriented sectors.

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

	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
IPI: Domestic-Oriented Industries	**6.7**	**5.8**	**4.2**	**8.0**	**3.8**	**3.1**
Construction (CO)	5.6	7.1	6.0	7.9	5.4	7.5
CO: Non Metallic Mineral	6.6	6.9	5.3	6.6	5.1	7.6
CO: Iron and Steel	2.5	4.3	1.1	2.6	1.4	2.2
CO: Fabricated Metal	6.8	8.9	9.7	11.9	8.4	11.1
Consumer (CS)	7.4	5.0	3.1	8.1	2.8	0.5
CS: Food Products	9.4	10.8	6.2	8.5	0.4	4.2
CS: Motor Vehicles, Trailers and Semi-Trailers	10.6	0.4	(2.5)	12.1	2.9	(10.0)
CS: Other Transport Equipment	1.7	2.0	(0.4)	5.2	4.2	2.8
CS: Beverages	5.0	4.3	6.7	7.2	3.8	6.2
CS: Tobacco Products	10.0	3.8	4.9	4.2	10.6	8.5
CS: Paper and Paper Products	4.7	8.1	5.8	6.9	3.6	0.7
CS: Others	3.7	2.8	6.1	1.9	1.4	3.8

Source: DOSM, MIDFR

Manufacturing sales rose faster in Mar-24. Sales of manufacturing goods rose faster at +1.4%yoy in Mar-24 (Feb-24: +0.7%yoy), pushing the monthly sales value to a 16-month high of RM158.4b. The growth was attributable to increased demand for computers & peripherals; iron & steel products; and rubber gloves. Sales of motor vehicles also increased but at a more moderate pace of +0.8%yoy. However, sales for other products like refined petroleum, E&E components and chemicals & chemical products continued to fall from a year ago. Compared to Feb-24, the seasonal-adjusted data indicated the sales performance in Mar-24 increased at a slower pace of +1.0%mom, with increases recorded in most products excluding motor vehicles. We expect manufacturing sales will grow further in the coming months on the back of growing domestic spending and recovery in the E&E market.

Table 5: Manufacturing Sales (YoY%)

	MoM%			YoY%		
	Jan-24	Feb-24	Mar-24	Jan-24	Feb-24	Mar-24
Manufacturing Sales [1]	**1.9**	**(4.3)**	**8.3**	**3.2**	**0.7**	**1.4**
Seasonally-adjusted month-on-month change (%)	*4.3*	*3.6*	*1.0*	-	-	-
Refined Petroleum Products	10.6	(11.5)	6.1	(21.0)	(8.8)	(6.7)
Chemicals and Chemical Products	9.7	(9.1)	5.5	5.3	(2.6)	(3.0)
Rubber Gloves	8.6	(7.9)	43.4	8.2	7.4	2.6
Iron & Steel Products	(2.9)	5.3	6.0	5.9	7.9	7.7
Diodes, Transistor & Electronic Integrated Circuits Mic	(10.2)	14.5	20.3	(6.6)	(2.8)	(1.7)
Electrical Capacitor Resistor, Circuit Board & Display Comp	(1.6)	17.8	11.8	(3.9)	(10.1)	(7.8)
Computers & Peripherals Equipment	14.0	11.9	12.1	15.5	17.8	43.5
Consumer Electronics	(4.8)	2.6	9.0	0.9	(0.3)	(8.9)
Motor Vehicles	1.5	(17.5)	(4.4)	29.4	19.6	0.8

Source: Macrobond, DOSM, MIDFR

Global IPI remained mixed in Mar-24. Although global manufacturing PMI rose to 20-month high at 50.6 in Mar-24, IPI trends across economies looked rather mixed. In the US, the monthly rise +0.4%mom in Apr-24 kept the IPI to be the same (against Apr-24), an improvement from two months of annual contraction. It was underpinned by increased manufacturing output which offset the reduced output in the mining and utilities industries. In Japan, despite the better-than-expected monthly rise in IPI by +3.8%mom in Mar-24 (due to stronger output of machinery, motor vehicles and electronic parts), the output level remained below last year for with the -6.7%yoy decline was the 5th consecutive month of declines and the steepest fall since Sep-20. Unlike Malaysia, other ASEAN countries namely Singapore, Thailand and the Philippines recorded reduced IPI during the month. For Singapore, the declines were in seen various major industries like electronics, biomedical manufacturing, and transport engineering. In Thailand, the major declines were in automotive products and computers & peripherals. Reduced output of transport equipment, non-metallic mineral products and rubber & plastic products were among the drag to production in the Philippines. Taiwan, on other hand, reported rebounded in IPI to +4.0%yoy, driven by higher output in the manufacturing and utility sectors. Although the latest global manufacturing PMI fell to 50.3 in Apr-24, new orders and output continued to grow albeit at slower pace. Following sluggish performance last year, we maintain our expectations that global production activities will grow this year as companies restock its inventories and in anticipation of growing demand.

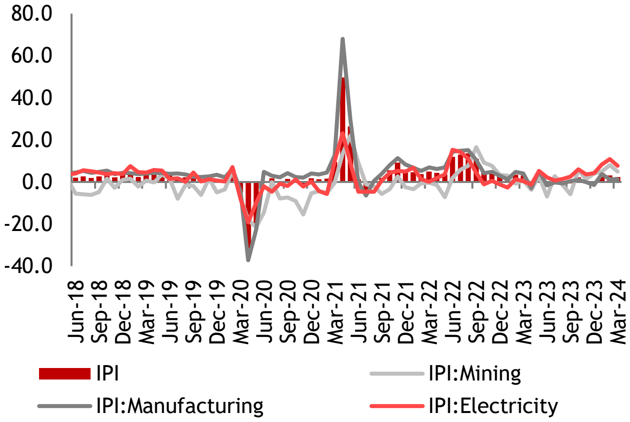
Table 6: IPI for Selected Economies (YoY%)

	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
Malaysia	(0.6)	(0.6)	2.1	0.4	(0.0)	4.3	3.1	2.4
Philippines	6.1	9.2	0.7	2.1	2.1	1.8	5.7	(1.7)
Thailand	(5.9)	(5.9)	(2.5)	(1.5)	(4.7)	(2.9)	(2.8)	(5.1)
Singapore	(12.9)	(1.2)	6.8	0.1	(1.6)	0.8	4.4	(9.2)
S. Korea	1.3	4.8	2.0	6.1	6.3	12.9	4.6	0.7
Taiwan	(10.9)	(6.9)	(2.2)	(1.8)	(3.9)	15.6	(1.1)	4.0
India	10.9	6.4	11.9	2.5	4.2	4.1	5.7	n.a.
Japan	(4.7)	(4.5)	0.9	(1.6)	(1.1)	(1.5)	(3.9)	(6.7)
Euro area	(5.0)	(6.8)	(6.2)	(5.2)	0.2	(6.6)	(6.4)	n.a.
USA	(0.1)	(0.2)	(0.8)	(0.1)	1.1	(0.7)	(0.3)	0.0

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

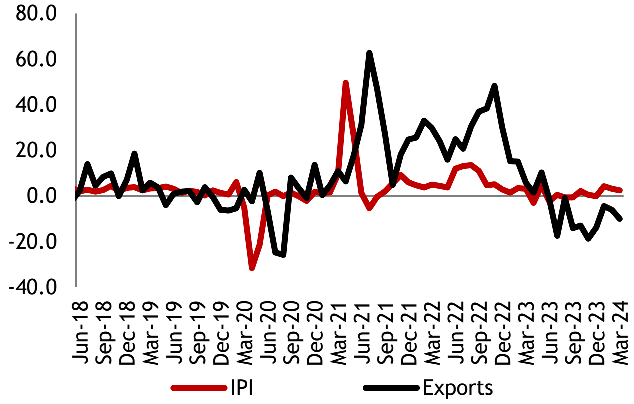
IPI would grow faster at +3.7% this year. We maintain our projection that Malaysia's IPI will grow stronger at +3.7% this year (2023: +1.1%). We foresee business outlook will continue to remain positive anticipating domestic spending to continue growing and external demand to recover this year. Despite optimism that growth will pick up this year, we remain cautious over several downside risks such as weak growth in major economies (e.g. China and the US), continued pressures from higher-than-expected inflation and potential disruptions to the global supply chain in view of the ongoing geopolitical tensions. These external developments could adversely affect the outlook for global trade and production activities.

Chart 1: IPI Performance by Sector (YoY%)



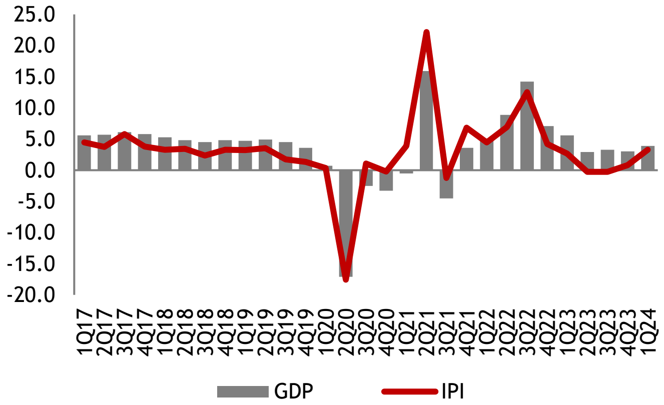
Source: Macrobond, MIDFR

Chart 2: IPI vs Exports (YoY%)



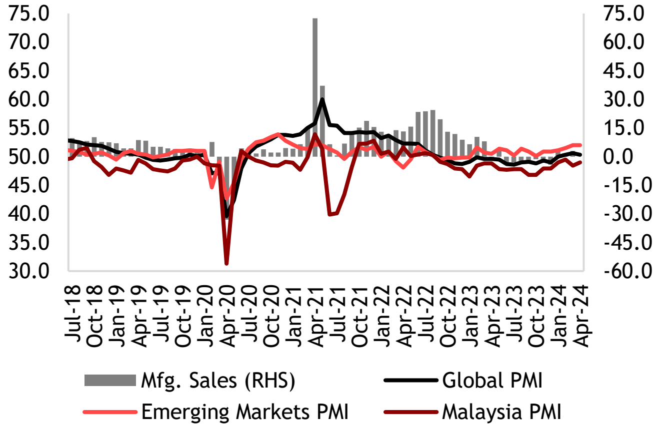
Source: Macrobond, MIDFR

Chart 3: IPI vs GDP (YoY%)



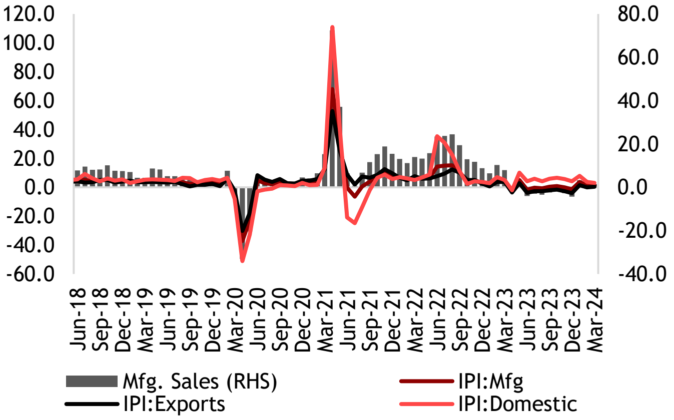
Note: 1QCY24 GDP data refers to advance estimate
Source: Macrobond, MIDFR

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



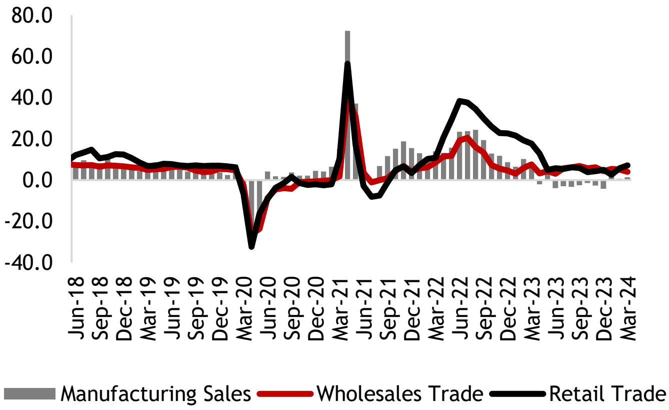
Source: Macrobond, Bloomberg, MIDFR

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



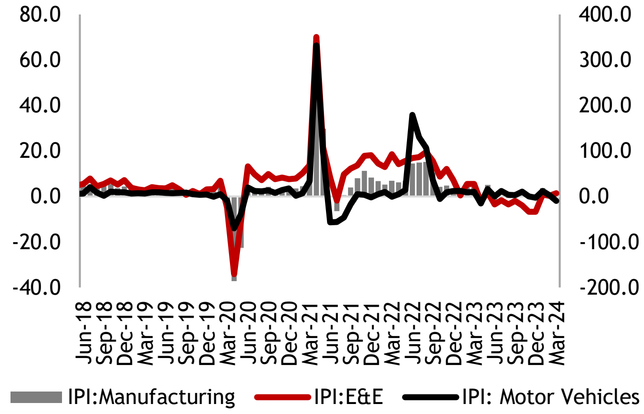
Source: Macrobond, DOSM, MIDFR

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



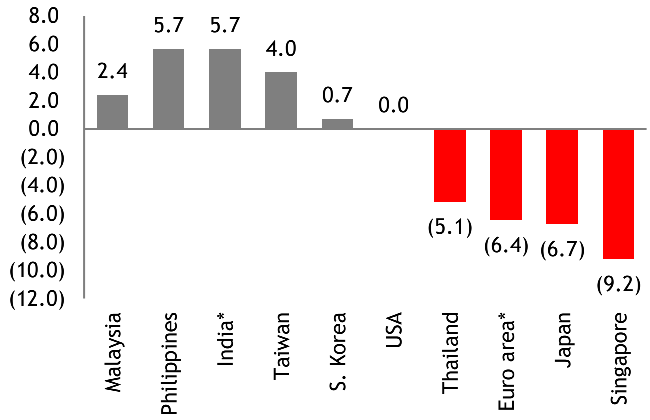
Source: Macrobond, MIDFR

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 Feb-24
Source: Macrobond, MIDFR

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