

ECONOMIC REVIEW | May 2024 Industrial Production Index

IPI Continued to Expand Despite Moderating to +2.4%yoy in May-24

- IPI growth moderated to +2.4%yoy in May-24. Malaysia's IPI growth eased to +2.4%yoy in May-24 (Apr-24: +6.1%yoy), as a result of decline in mining output and slower growth in manufacturing output and electricity generation.
- Manufacturing sales grew further for the 5th straight month. Sales of manufacturing goods sustained the 5th month of growth since Jan-24, growing further at +5.5%yoy in May-24. The positive growth was consistent with the improved domestic spending as well as growing external demand.
- IPI growth projected to be higher at +4.2% in 2024. We reiterate our projection that IPI will grow stronger this year at +4.2% (2023: +0.7%) as we expect the pick-up in external demand will support higher production of various export products such as natural gas and E&E components.

IPI growth moderated to +2.4%yoy in May-24. Malaysia's IPI growth eased to +2.4%yoy in May-24 (Apr-24: +6.1%yoy), but still on expansionary since rebounding in the final quarter of last year. The moderation in the pace of growth in May-24 was steeper than markets and our expectations, given the higher base in May last year. By major sector, mining production declined by -6.9%yoy due to weaker crude petroleum (-1.9%yoy) and natural gas (-10.3%yoy) output. Meanwhile, manufacturing output growth was sustained at +4.6%yoy (Apr-24: +4.9%yoy), extending growth for the 6th straight month and underpinned by robust output of motor vehicles and computers & peripheral equipment as well as a rebound in output of E&E products. Electricity generation also moderated to +4.2%yoy, but the positive growth reflected growing electricity consumption. The continued expansion in IPI suggests momentum in the economy remained positive in the first 5 months with average IPI growth in 5MCY24 relatively stronger at +3.6%yoy compared to +1.9%yoy in 5MCY23.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%*				YoY%			
	Feb-24	Mar-24	Apr-24	May-24	Feb-24	Mar-24	Apr-24	May-24
IPI	1.3	(0.1)	(0.3)	1.7	3.1	2.4	6.1	2.4
Mining	1.9	(1.8)	2.1	(12.1)	8.1	4.9	10.0	(6.9)
Manufacturing	0.9	0.3	(0.7)	5.7	1.2	1.3	4.9	4.6
Electricity	4.7	(2.4)	(1.2)	2.4	10.9	8.5	7.8	4.2

* MoM is seasonally adjusted

Source: Macrobond, DOSM, MIDFR

IPI rebounded, growing +0.3%mom higher than Apr-24. On month-on-month basis, Malaysia's IPI rebounded after 2 months of contraction, growing by +1.7%mom in May-24 as shown by seasonally-adjusted data. The monthly growth reflected strong rebound in manufacturing output (+5.7%mom) and electricity generation (+2.4%mom). The growth more than offset the sharp pullback in mining output, which fell by -12.1%mom due to lower crude oil and natural gas production. The improved IPI was in line with the improvement in Malaysia's manufacturing PMI which rose to 50.2 in May-24, marking the first expansion in manufacturing activities in 21 months. Following the marginal drop in manufacturing PMI to 49.9 in Jun-24 which indicated activities remained more or less the same like in May-24, we expect the production activities would grow further as firms increased production to cope with growing demand.

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

	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24
IPI	(0.0)	4.3	3.1	2.4	6.1	2.4
Mining	4.1	5.0	8.1	4.9	10.0	(6.9)
Crude Petroleum	1.6	2.6	2.5	(0.7)	3.5	(1.9)
Natural Gas	5.9	6.6	11.9	8.9	14.9	(10.3)
Manufacturing	(1.4)	3.7	1.2	1.3	4.9	4.6
Food Products	5.6	4.4	(3.7)	(2.8)	4.5	4.5
Refined Petroleum Products	(4.6)	(3.0)	2.2	1.9	5.9	(5.5)
Chemicals & Chemicals Products	(1.1)	6.1	(2.8)	(4.0)	5.0	2.7
Rubber Products	(4.0)	8.5	6.4	2.6	7.7	6.2
Basic Metals	1.1	2.6	1.4	2.2	7.0	5.4
Electrical & Electronic Products	(6.7)	0.9	0.3	1.4	(0.8)	6.9
Computers & Peripheral Equipment	9.3	13.7	6.5	17.2	17.0	13.6
Machinery & Equipment	(1.6)	4.1	2.9	1.5	4.7	2.5
Motor Vehicles, Trailers & Semi-Trailers	(2.5)	12.1	2.9	(10.0)	20.2	10.3
Electricity	4.1	8.3	10.9	8.5	7.8	4.2

Source: Macrobond, MIDFR

Export-oriented IPI growth accelerated to +3.7%yoy... Stronger production in the export-oriented sectors contributed positively to the sustained growth in overall IPI in May-24. The IPI for export-oriented sectors even grew faster at +2.6%yoy (Mar-24: +0.5%yoy), with rebounds in E&E production and growing production for other commodities like chemicals & chemical products, oil & fats, textiles, furniture and rubber products. This is in line with the improvement in Malaysia's exports, which have returned back to positive growth in the recent months. With external demand is expected to continue growing, we believe the production of export products will continue to support IPI growth in the coming months.

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

	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24
IPI: Export-Oriented Industries	(4.1)	1.6	(0.2)	0.5	2.6	3.7
Computer, Electronic and Optical Products	(7.2)	0.4	0.3	2.1	(1.4)	8.5
Electrical Equipment	(7.6)	1.4	(2.2)	(3.0)	(1.7)	1.0
Chemicals and Chemical Products	(1.1)	6.1	(2.8)	(4.0)	5.0	2.6
Coke and Refined Petroleum Products	(4.6)	(3.0)	2.2	1.9	5.8	(5.5)
Vegetable & animal oils & fats	4.7	(2.6)	(13.5)	(13.4)	2.7	4.8
Textiles	(6.1)	0.6	0.1	1.4	4.8	8.0
Wearing Apparel	(2.2)	1.5	(6.7)	7.7	4.3	2.1
Wood and Wood Products	(3.0)	0.7	(4.4)	2.6	4.7	1.8
Furniture	8.5	10.7	6.6	12.6	13.1	5.9
Rubber Products	(4.0)	8.5	6.3	2.6	7.7	6.2

Source: DOSM, MIDFR

...while domestic-oriented sectors registered sustained but slower output growth. Despite extending output growth for the for the 13th consecutive month since May-23, IPI growth for the domestic-oriented sectors moderated to +6.4%yoy in May-24 (Apr-24: +9.5%yoy). For the construction-related sectors, the IPI growth eased to +7.1%yoy but continued to grow underpinned by increased production of iron & steel, fabricated metal and non-metallic mineral. Output of consumer-oriented products also grew slower at +6.1%yoy (Apr-24: +8.9%yoy). Nevertheless, sustained production growth was recorded across sectors such as motor vehicles, transport equipment and even foods & beverages. On the back of healthy job market, rising employment and increased tourist arrivals, we expect the growing domestic demand will support a positive IPI outlook for the domestic-oriented sectors going forward.

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

	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24
IPI: Domestic-Oriented Industries	4.2	8.0	4.1	3.1	9.5	6.4
Construction (CO)	6.0	7.9	5.4	7.5	10.7	7.1
CO: Non-Metallic Mineral	5.3	6.6	5.1	7.6	11.3	9.8
CO: Iron and Steel	1.1	2.6	1.4	2.2	7.0	5.3
CO: Fabricated Metal	9.7	11.9	8.4	11.0	12.8	6.5
Consumer (CS)	3.1	8.1	3.3	0.5	8.9	6.1
CS: Food Products	6.2	8.5	2.1	4.2	5.4	4.3
CS: Motor Vehicles, Trailers and Semi-Trailers	(2.5)	12.1	2.9	(10.0)	20.2	10.3
CS: Other Transport Equipment	(0.4)	5.2	4.2	2.8	3.6	6.6
CS: Beverages	6.7	7.2	3.7	6.2	5.6	4.7
CS: Tobacco Products	4.9	4.2	10.6	8.5	9.2	7.3
CS: Paper and Paper Products	5.8	6.9	3.6	0.8	3.4	1.2
CS: Others	6.1	1.9	1.4	3.8	5.2	2.5

Source: DOSM, MIDFR

Manufacturing sales grew further for the 5th straight month. Sales of manufacturing goods sustained the 5th month of growth since Jan-24, growing further at +5.5%yoy in May-24. The growth was consistent with the improved domestic spending as well as growing external demand. The data showed increased sales were recorded across different sectors, with double-digit growth in sales of motor vehicles, computers & peripherals, iron & steel, E&E components and consumer electronics. Sales of refined petroleum, however, continued to drop at even steeper pace of -17.6%yoy, marking the 12th consecutive month of declines. From the month-on-month perspective, the seasonal-adjusted data indicated the manufacturing sales performance even rose faster at +2.3%mom in May-24. Products which recorded monthly increases were E&E products, consumer electronics and motor vehicles; all these products generally rebounded from the declines in Apr-24. Looking at expanding exports and growing domestic spending, we foresee the demand outlook will remain positive and would translate into higher sales in the coming period.

Table 5: Manufacturing Sales (YoY%)

	MoM%			YoY%		
	Feb-24	Mar-24	Apr-24	Feb-24	Mar-24	Apr-24
Manufacturing Sales	8.4	(3.3)	1.1	1.4	5.7	5.5
<i>Seasonally adjusted month-on-month change (%)</i>	<i>1.0</i>	<i>1.1</i>	<i>2.3</i>	-	-	-
Refined Petroleum Products	6.1	6.1	(6.5)	(6.7)	(5.2)	(17.6)
Chemicals and Chemical Products	5.5	(3.0)	(1.5)	(3.0)	9.9	3.8
Rubber Gloves	43.4	0.8	(7.3)	2.6	6.6	4.4
Iron & Steel Products	6.0	(10.8)	(13.8)	7.7	14.7	11.0
Diodes, Transistor & Electronic Integrated Circuits Mic	25.2	(26.4)	13.1	2.3	2.2	11.7
Electrical Capacitor Resistor, Circuit Board & Display Comp	11.8	(18.6)	8.0	(7.8)	(11.3)	(0.0)
Computers & Peripherals Equipment	(2.1)	35.0	(15.6)	25.3	29.4	29.2
Consumer Electronics	9.0	(16.5)	25.0	(8.9)	(9.6)	10.8
Motor Vehicles	(4.4)	(6.2)	11.3	0.8	43.0	23.0

Source: Macrobond, DOSM, MIDFR

IPI continued to grow globally. IPI trends across economies remained in the positives in May-24, in line with better reading of the global manufacturing PMI which rose to 51.0 and indicated the strongest pace of expansion in nearly 2 years. In the US, increased production of utilities and mining contributed to the rebound in overall IPI growth to +0.1%yoy, the first growth after 4 months of contraction. Japan also reported the first IPI growth at

+0.3%yoy after experiencing 6 months of declines. The growth reflected among others higher production of motor vehicles, electrical machinery and ICT electronic equipment by Japanese firms. For the regional economies like Taiwan, South Korea, Singapore and the Philippines, increased output of semiconductors and E&E components contributed to the positive IPI growth in May-24. Thailand's IPI, on the other hand, recorded -1.5%yoy drop during the month weighed down by reduced car production. We continue to anticipate global production will continue to improve in line with the improved sales outlook and inventory restocking.

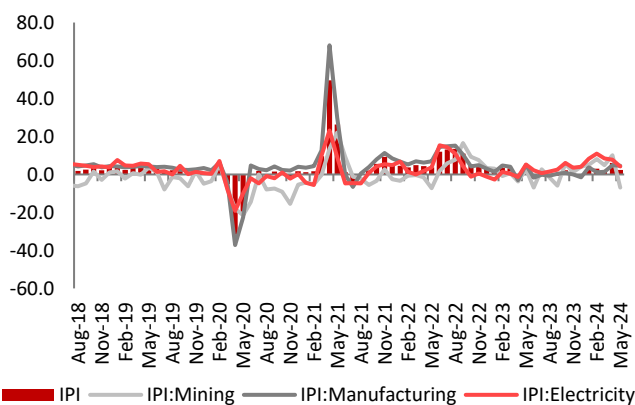
Table 6: IPI for Selected Economies (YoY%)

	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24
Malaysia	2.1	0.4	(0.0)	4.3	3.1	2.4	6.1	2.4
Philippines	0.7	2.1	2.3	(2.3)	1.2	(6.4)	5.7	2.2
Thailand	(2.5)	(1.5)	(4.7)	(2.9)	(2.8)	(4.9)	2.7	(1.5)
Singapore	6.8	0.1	(1.6)	0.7	4.5	(9.2)	(1.2)	2.9
S. Korea	2.0	6.1	6.3	12.9	4.6	1.0	6.2	3.5
Taiwan	(2.2)	(1.8)	(3.9)	15.6	(1.3)	4.2	14.5	16.1
India	11.9	2.5	4.4	4.2	5.6	5.4	5.0	n.a.
Japan	0.9	(1.6)	(1.1)	(1.5)	(3.9)	(6.2)	(1.8)	0.3
Euro area	(6.3)	(5.3)	0.2	(6.5)	(6.4)	(1.2)	(3.0)	n.a.
USA	(0.8)	(0.2)	0.8	(1.0)	(0.1)	(0.3)	(0.8)	0.1

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

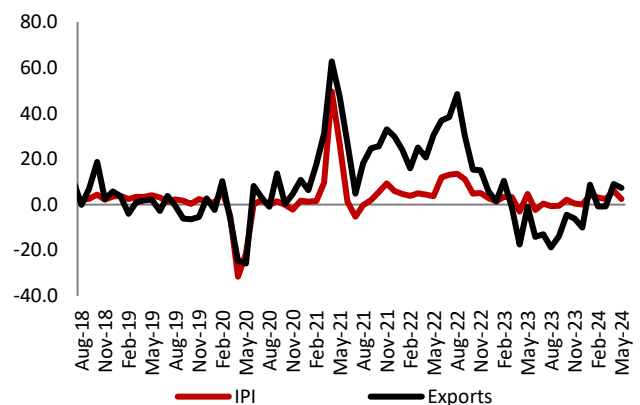
IPI growth projected to be higher at +4.2% in 2024. We reiterate our projection that IPI will grow stronger this year at +4.2% (2023: +0.7%). Our IPI growth projection was recently upgraded (as mentioned in our [2HCY24 Market Outlook](#)) as we expect the pick-up in external demand will support higher production of various export products such as natural gas and E&E components. Production of domestic-oriented products will also increase given the continued rise in domestic spending. However, we are monitoring closely any possible downside risks from the government's policy changes that could lead to higher inflation outlook and could negatively hurt consumer sentiment, their purchasing power and future spending plans. On another note, a significant reduction in final demand as a result of the high borrowing costs is another risk that could cause weaker trade and production outlook. 📉

Chart 1: IPI Performance by Sector (YoY%)



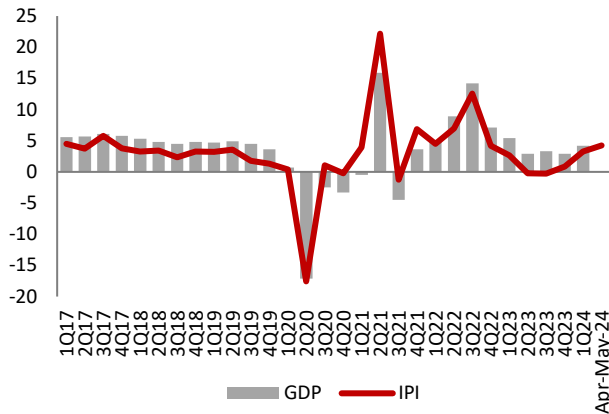
Source: Macrobond, MIDFR

Chart 2: IPI vs Exports (YoY%)



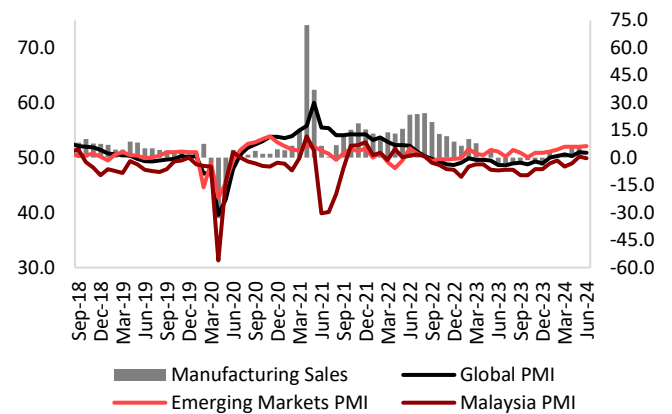
Source: Macrobond, MIDFR

Chart 3: IPI vs GDP (YoY%)



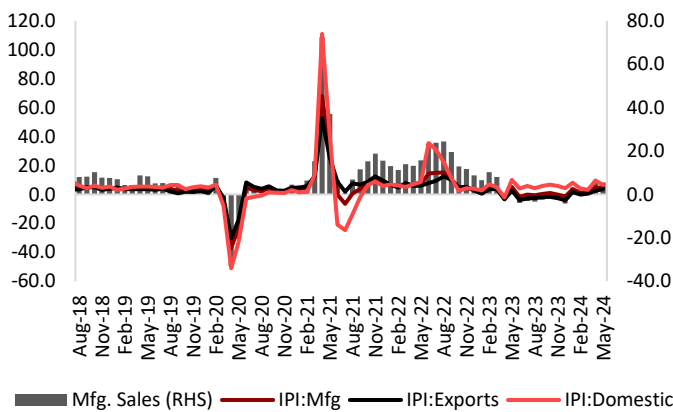
Source: Macrobond, MIDFR

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



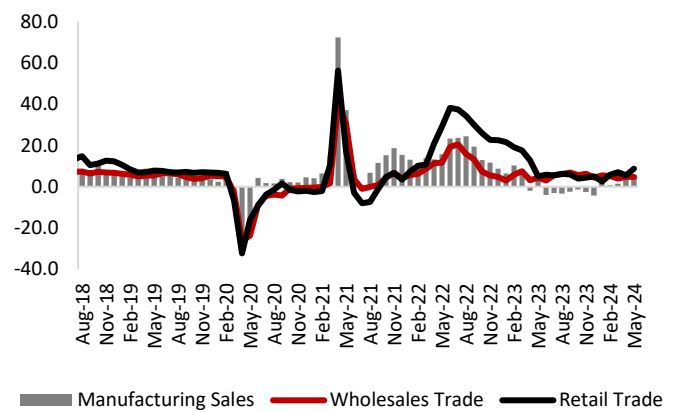
Source: Macrobond, Bloomberg, MIDFR

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



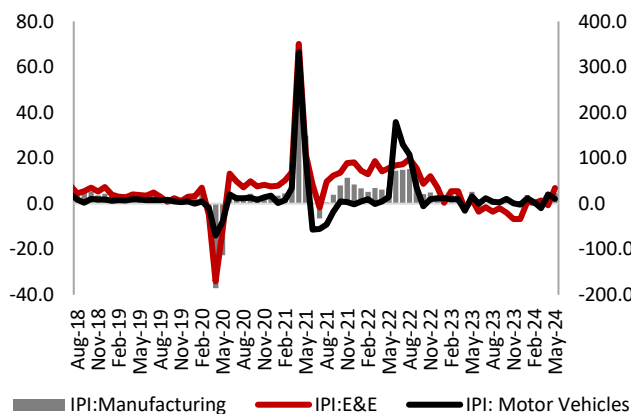
Source: Macrobond, DOSM, MIDFR

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



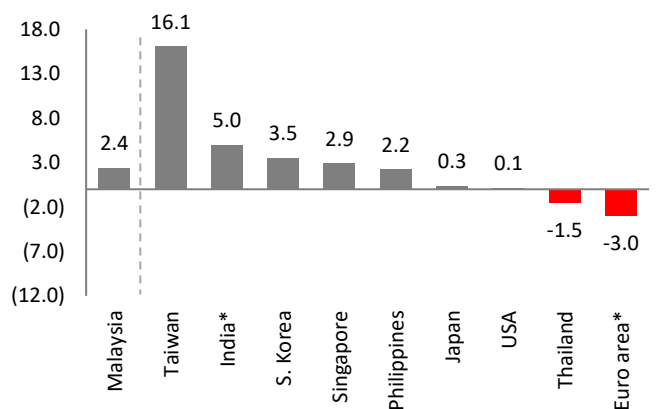
Source: Macrobond, MIDFR

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



Source: Macrobond, DOSM, MIDFR

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



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

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