8 July 2022

ECONOMIC REVIEW | **May 2022 Industrial Production Index**

IPI Continued to Grow in May-22 Supported by Higher Manufacturing and Electricity Output

- *IPI growth in May-22 was slower than expected. Malaysia's IPI growth moderated further to +4.1%yoy in May-22 (Apr-22: +4.6%yoy), lower than our and market's expectations. Mining sector output fell sharper (-4.9%yoy) because of reduced production of crude oil and natural gas. Overall, the IPI growth in May-22 was supported by stronger manufacturing output (+6.9%yoy) and electricity generation (+2.7%yoy).*
- *More robust growth in manufacturing sales. Manufacturing sales grew faster at +15.7%yoy in May-22, the highest annual growth in 5 months. Higher sales growth was recorded for refined petroleum products, E&E, iron & steel, and motor vehicles, but sales of computers and consumer electronics grew at slower pace.*
- *No change to 2022 IPI growth forecast. Growing domestic spending and sustained rise in foreign demand especially for E&E and other manufactured goods will support production to grow in coming months. However, several risks such as rising price pressures and prolonged supply constraints could adversely affect final demand and production outlook. For now, we maintain our forecast for IPI growth this year at +4.3% (2021: +7.2%).*

IPI growth in May-22 was slower than expected. Malaysia's IPI growth moderated further to +4.1%yoy in May-22 (Apr-22: +4.6%yoy), lower than our and market's expectations. The moderation in IPI growth was mainly due to sharper decline in mining sector output (-4.9%yoy) because of reduced production of crude oil and natural gas. Overall, the IPI growth in May-22 was supported by stronger manufacturing output (+6.9%yoy) and electricity generation (+2.7%yoy). Manufacturing production grew faster, driven by increased output of E&E, motor vehicles and basic metals. Meanwhile, stronger electricity output reflects higher consumption of electricity in line with improved domestic economic activity on the back of further reopening of the economy and relaxation of Covid-19 restrictions. For the first 5 months of 2022, IPI rose by +4.4%yoy.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%*				YoY%			
	Feb-22	Mar-22	Apr-22	May-22	Feb-22	Mar-22	Apr-22	May-22
IPI	5.2	(0.8)	0.1	(3.0)	4.0	5.2	4.6	4.1
Mining	8.6	(2.1)	1.9	(4.4)	(0.4)	0.3	(0.1)	(4.9)
Manufacturing	4.0	0.1	(0.3)	(2.5)	5.2	6.9	6.2	6.9
Electricity	2.5	(0.3)	(1.1)	0.5	3.6	0.8	1.5	2.7

*MoM is seasonally adjusted
Source: CEIC, MIDFR

IPI was lower than previous month. Based on seasonally-adjusted data, production was lower than previous month, with IPI falling by -3%mom (Apr-22: +0.1%mom). This was primarily due to larger decline in manufacturing production (-2.5%mom) and lower mining output (-4.4%mom). Looking at the continued fall in manufacturing output, we remain concerned that rising cost of production and supply constraints will continue to affect future production activity. In contrast, electricity output rebounded and increased by +0.5%mom after 2 months of decline, as reopening of the economy led to increased demand for electricity.

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

	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22
IPI	**9.4**	**5.9**	**4.3**	**4.0**	**5.1**	**4.6**	**4.1**
Mining	**3.5**	**(2.6)**	**(5.1)**	**(0.4)**	**0.3**	**(0.1)**	**(4.9)**
Crude Petroleum	(4.6)	(6.4)	(13.9)	(4.3)	(6.8)	(0.8)	(6.7)
Natural Gas	10.0	0.2	1.6	2.6	5.7	0.3	(3.6)
Manufacturing	**11.3**	**8.4**	**6.8**	**5.2**	**6.9**	**6.2**	**6.9**
Food Products	13.5	10.7	7.0	6.2	4.0	3.2	4.2
Refined Petroleum Products	15.6	0.7	2.0	(1.4)	12.3	(1.0)	2.0
Chemicals & Chemicals Products	9.9	10.3	7.1	4.6	1.1	9.9	5.8
Rubber Products	(10.9)	(12.9)	(19.7)	(20.6)	(24.7)	(19.2)	(20.1)
Basic Metals	6.3	7.5	6.4	5.2	9.8	6.8	7.9
Electrical & Electronic Products	17.8	18.2	14.4	12.9	18.6	14.2	15.5
Computers & Peripheral Equipment	8.2	12.6	13.6	10.2	6.3	12.1	9.7
Machinery & Equipment	18.6	12.1	6.1	4.3	2.7	3.2	2.5
Motor Vehicles, Trailers & Semi-Trailers	3.5	(1.7)	5.0	9.9	(0.5)	5.1	14.4
Electricity	**5.1**	**4.7**	**6.9**	**3.6**	**0.8**	**1.5**	**2.8**

Source: CEIC, MIDFR

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

	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22
IPI: Export-Oriented Industries	**12.5**	**9.6**	**6.7**	**4.8**	**7.8**	**5.8**	**6.1**
Computer, Electronic Products and Optical	17.9	19.0	16.0	13.8	20.5	16.6	18.7
Electrical Equipment	16.4	17.4	10.9	16.1	22.4	10.8	8.9
Chemicals and Chemical Products	9.9	10.3	7.1	4.6	1.1	9.9	5.8
Coke and Refined Petroleum Products	15.6	0.7	2.0	(1.4)	12.3	(1.0)	2.0
Vegetable & animal oils & fats	10.7	13.1	0.3	7.6	(4.9)	(7.8)	(6.7)
Textiles	11.1	7.9	8.4	6.4	5.2	4.1	3.5
Wearing Apparel	2.4	2.0	2.9	3.5	6.6	6.9	5.3
Wood and Wood Products	12.5	8.5	11.3	6.8	10.0	7.8	9.5
Furniture	1.4	0.9	5.1	4.0	9.7	16.7	9.6
Rubber Products	(10.9)	(12.9)	(19.7)	(20.6)	(24.7)	(19.2)	(20.1)
IPI: Domestic-Oriented Industries	**8.8**	**5.7**	**7.0**	**6.1**	**5.1**	**6.9**	**8.7**
Construction (CO)	7.6	5.3	6.2	5.3	5.6	5.1	5.2
CO: Non Metallic Mineral	3.6	2.8	5.5	6.1	6.6	7.6	6.1
CO: Iron and Steel	6.3	7.5	6.4	5.2	9.8	6.8	7.9
CO: Fabricated Metal	11.8	6.1	6.7	4.8	2.1	1.9	3.0
Consumer (CS)	9.7	6.0	7.4	6.5	4.8	7.9	10.5
CS: Food Products	15.7	9.2	11.1	5.4	10.1	10.3	11.4
CS: Motor Vehicles, Trailers and Semi-Trailers	3.5	(1.7)	5.0	9.9	(0.5)	5.1	14.4
CS: Other Transport Equipment	3.2	2.5	1.7	3.7	2.5	6.7	9.6
CS: Beverages	12.4	9.0	7.7	8.1	7.1	10.7	9.9
CS: Tobacco Products	5.2	6.4	1.3	9.2	1.7	11.8	4.6
CS: Paper and Paper Products	19.5	12.4	14.6	6.2	4.9	8.0	4.7
CS: Others	6.4	4.3	1.6	6.9	4.2	2.3	10.8

Source: DOSM, MIDFR

Stronger IPI growth for both export- and domestic-oriented sectors. IPI for both export- and domestic-oriented industries rose faster at +6.1%yoy and +8.7%yoy in May-22 (Apr-22: +5.8%yoy and +6.9%yoy), respectively. For the export sector, production growth was underpinned by increased output of E&E, refined petroleum products, and chemical products, among others. Stronger IPI growth was in tandem with robust exports growth in May-22. For the domestic-oriented industries, the strengthening of output growth was driven particularly by consumer-oriented products such as foods, motor vehicles, and beverages. The IPI growth for construction-oriented sector was generally sustained, with faster growth in output of iron & steel and fabricated metal. For the coming months, we anticipate growing demand and increased consumer spending will continue to support production outlook for both export- and domestic-oriented sectors.

More robust growth in manufacturing sales. The value of manufacturing sales grew faster at +15.7%yoy in May-22 (Apr-22: +13.2%yoy), the fastest annual growth in 5 months. Higher sales were recorded for refined petroleum products as further reopening of the economy led to increased mobility and higher spending on travels. Sales of E&E, iron & steel, and motor vehicles also strengthened in May-22, while sales of computers and consumer electronics grew at slower pace. Compared to the previous month, the level of manufacturing sales was actually lower (-4%mom) due to reduced purchases of computers, consumer electronics, iron & steel products, and even motor vehicles. In other words, the stronger annual growth in manufacturing sales was attributable to lower base effect. Overall, with sales continued to grow for the 24th month in a row, this shows continued improvement in demand and consumption activity. We foresee sales will continue to grow as companies gain from increased spending and further reopening of the economy.

Table 4: Manufacturing Sales (YoY%)

	MoM%			YoY%		
	Mar-22	Apr-22	May-22	Mar-22	Apr-22	May-22
Manufacturing Sales	**9.8**	**2.3**	**(4.0)**	**13.9**	**13.2**	**15.7**
Refined Petroleum Products	13.2	19.0	5.3	35.5	23.2	26.5
Chemicals and Chemical Products	3.1	(21.8)	7.5	2.3	15.0	13.0
Rubber Gloves	50.0	(2.5)	(5.3)	(35.2)	(37.8)	(36.5)
Iron & Steel Products	5.5	(6.8)	(13.5)	17.1	8.9	15.2
Diodes, Transistor & Electronic Integrated Circuits Mic	17.4	(16.6)	(2.3)	52.8	41.7	44.0
Electrical Capacitor Resistor, Circuit Board & Display Comp	14.2	(15.5)	12.8	16.7	15.3	32.9
Computers & Peripherals Equipment	(8.2)	38.7	(30.5)	1.2	16.9	6.7
Consumer Electronics	19.1	(7.3)	(15.6)	24.6	25.1	10.8
Motor Vehicles	0.9	1.8	(8.3)	1.1	3.1	10.8

Source: CEIC, MIDFR

Global IPI continued to grow in May-22 but with challenges. Looking at the IPI performance by economy, IPI for most countries that we monitor remained in the positives as production activity continued to grow. IPI in the US rose further despite the growth moderated to +5.4%yoy in May-22. Similarly, Taiwan's industrial output expanded but at slower pace of +4.5%yoy. Meanwhile, IPI for other regional countries like Philippines, Singapore, and South Korea grew faster in line with the better global supply chain condition. With the exception of Japan and

Thailand, IPI continued to fall in May-22 although the rate of contraction for Japan was not as sharp as in Apr-22. Going forward we expect continued growth in the global production activity, with robust demand for manufactured goods particularly E&E and parts & components. However, the latest PMI survey suggests ongoing supply challenges continued to affect producers globally, and consequently the global manufacturing PMI declined marginally to 52.2 in Jun-22 (May-22: 52.3) which is the lowest reading since Aug-20. On the other hand, there will be reduced drag to the global supply chain as China reopens its economy after recent Covid-19 lockdown.

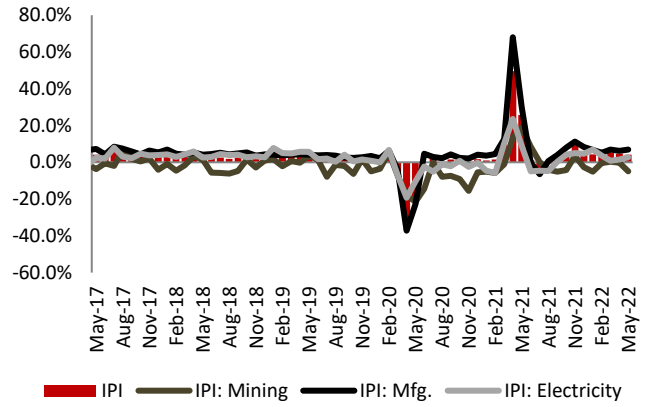
Table 5: IPI for Selected Economies (YoY%)

	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22
Malaysia	9.4	5.9	4.3	4.0	5.1	4.6	4.1
Philippines	30.0	19.9	17.4	82.4	372.3	7.6	8.9
Thailand	3.8	6.6	1.9	2.5	(0.1)	(0.0)	(1.9)
Singapore	14.2	16.7	2.3	17.5	5.4	6.4	13.8
S. Korea	6.7	7.1	4.3	6.4	3.7	3.5	7.3
Taiwan	11.5	8.7	8.4	9.5	2.4	6.4	4.5
India	1.0	1.0	2.0	1.5	2.2	7.1	n.a.
Japan	4.8	2.2	(0.8)	0.5	(1.7)	(4.9)	(2.8)
Euro area	(1.3)	1.8	(1.5)	1.8	(0.5)	(2.0)	n.a.
USA	5.0	3.7	2.9	7.1	4.9	6.1	5.4

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

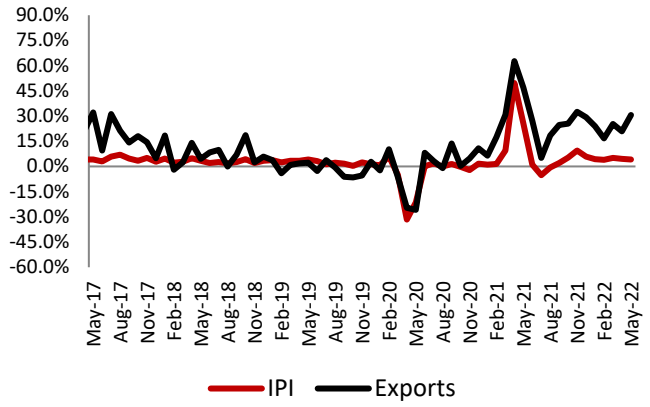
No change to 2022 IPI growth forecast. Although May-22 IPI growth was not as high as we estimated, growing domestic spending and sustained rise in foreign demand especially for E&E and other manufactured goods will support production to grow in coming months. Spending activity in the domestic economy will improve further following reopening of the economy and relaxation of Covid-19 SOPs. However, several risks such as rising price pressures and prolonged supply constraints could adversely affect final demand and production outlook. Apart from worsening of global supply chain given the uncertainty from ongoing war in Ukraine and amid ongoing shortage of materials and inputs, possible slowdown in major economies such as the US and European countries can be a more significant drag to the global growth. Based on the latest manufacturing PMI which increased marginally to 50.4 in Jun-22 (May-22: 50.1), activities in Malaysia's manufacturing sector were slightly better last month with stabilization in production on the back of continued growth in new orders. For now, we maintain our forecast for IPI growth this year at +4.3% (2021: +7.2%).

Chart 1: IPI Performance by Sector (YoY%)



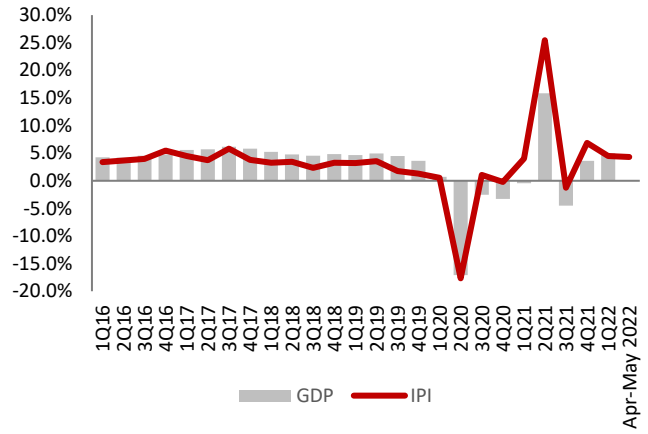
Source: CEIC, MIDFR

Chart 2: IPI vs Exports (YoY%)



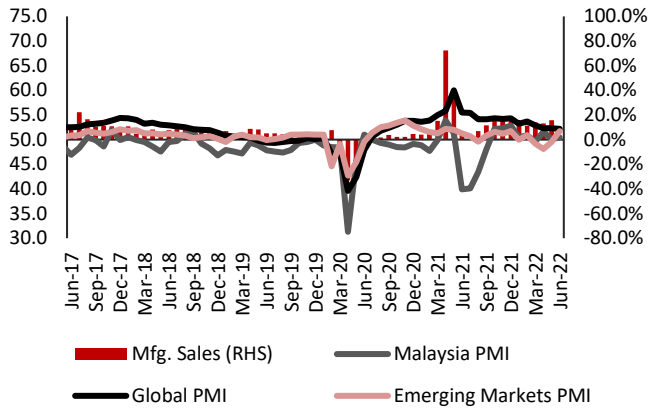
Source: CEIC, MIDFR

Chart 3: IPI vs GDP (YoY%)



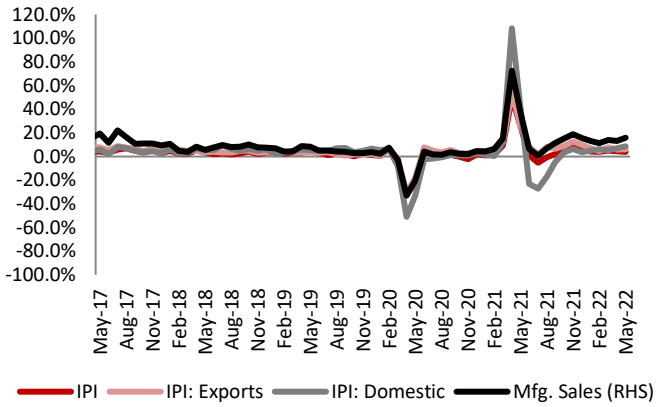
Source: CEIC, MIDFR

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



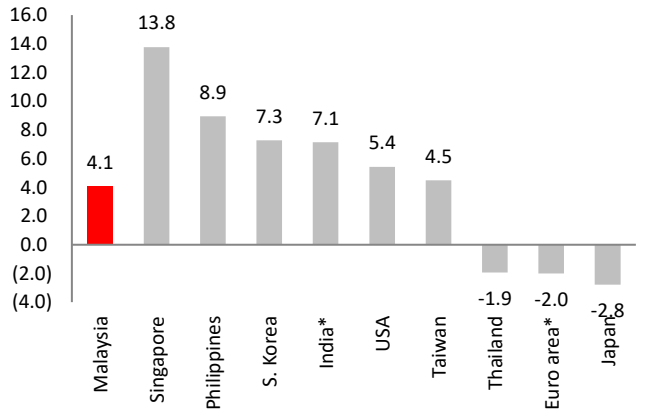
Source: Bloomberg, MIDFR

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



Source: CEIC, MIDFR

Chart 6: Global IPI in May-22 (YoY%)



* refers to the latest available data in Apr-22
Source: CEIC, MIDFR

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