9 August 2022

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

Stronger Manufacturing Output Pushed IPI Growth to +12.1%yoy in Jun-22

- *IPI growth strengthened in Jun-22. Malaysia's IPI performance in Jun-22 was much better than expected as industrial output grew by +12.1%yoy (May-22: +4.1%yoy), returning to double-digit growth and the fastest expansion in 13 months. The stronger IPI was driven by the jump in manufacturing production (+14.5%yoy) and electricity generation (+14.1%yoy); and, rebound in mining sector output (+2.1%yoy).*
- *Manufacturing sales also grew faster in Jun-22. Sales in the manufacturing sector also registered stronger growth at +23.4%yoy in Jun-22, the fastest growth since May-21. The monthly sales value even rose to new record high at RM153.5b (May-22: RM142b). Sectors which recorded strong double-digit expansion in Jun-22 include E&E, motor vehicles, refined petroleum, iron & steel, and consumer electronics.*
- *Upgrade our forecast for IPI growth to +8.6% this year. We revise our projection for IPI growth to +8.2% this year (previous forecast: +4.3%). This takes into account the performance of industrial production in 1HCY22 and the low base effect from the lockdown last year. Thus far, local businesses have been increasing their activities on the back of improved outlook and post-Covid economic reopening this year.*

IPI growth strengthened in Jun-22. Malaysia's IPI performance in Jun-22 was much better than expected as industrial output grew by +12.1%yoy (May-22: +4.1%yoy), returning to double-digit growth and the fastest expansion in 13 months. The stronger IPI was driven by the jump in manufacturing production (+14.5%yoy) and higher electricity generation (+14.1%yoy). In addition, mining sector output rebounded (+2.1%yoy) during the month, mainly due to rebound in natural gas production and smaller contraction in crude petroleum output. While the level of production improved from May-22, we noticed the faster IPI growth in Jun-22 was also due to the low base effect. Consequently, output growth improved sharply for some sectors such as products from leather, tobacco, and glass as well as non-metallic mineral products and basic metals like iron & steel. These are several sectors which were negatively impacted by the imposition of full lockdown and tighter Covid-19 SOPs last year.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%*				YoY%					
	Mar-22	Apr-22	May-22	Jun-22	Mar-22	Apr-22	May-22	Jun-22	1Q22	2Q22
IPI	(0.7)	0.0	(2.9)	8.4	5.2	4.6	4.1	12.1	4.5	6.9
Mining	(2.1)	1.9	(4.4)	7.1	0.3	(0.1)	(4.9)	2.1	(1.8)	(1.1)
Manufacturing	0.1	(0.3)	(2.5)	8.9	6.9	6.2	6.9	14.5	6.3	9.3
Electricity	(0.3)	(1.1)	0.5	3.5	0.8	1.5	2.8	14.1	3.7	5.8

*MoM is seasonally adjusted
Source: CEIC, MIDFR

IPI was lower than previous month. Based on seasonally-adjusted data, companies in Malaysia increased their production higher than previous month, with the monthly IPI rebounding strongly to +8.4%mom (May-22: -2.9%mom). The improvement was broad-based as production in all key sectors recorded strong increases. Manufacturing output rebounded to +8.9%mom, backed by higher output for various sub-sectors namely E&E, machinery, motor vehicles, refined petroleum, chemicals and even food products. After two months

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of declines, mining sector output rose by +7.1%mom due to increased production of crude petroleum and natural gas. Higher electricity generation (+3.5%mom) also contributed to the monthly jump in Jun-22 IPI.

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

	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
IPI	**5.9**	**4.3**	**4.0**	**5.1**	**4.6**	**4.1**	**12.1**
Mining	**(2.6)**	**(5.1)**	**(0.4)**	**0.3**	**(0.1)**	**(4.9)**	**2.1**
Crude Petroleum	(6.4)	(13.9)	(4.3)	(6.8)	(0.8)	(6.7)	(2.4)
Natural Gas	0.2	1.6	2.6	5.7	0.3	(3.6)	5.5
Manufacturing	**8.4**	**6.8**	**5.2**	**6.9**	**6.2**	**6.9**	**14.5**
Food Products	10.7	7.0	6.2	4.0	3.2	4.2	1.1
Refined Petroleum Products	0.7	2.0	(1.4)	12.3	(1.0)	2.0	11.0
Chemicals & Chemicals Products	10.3	7.1	4.6	1.1	9.9	8.2	2.2
Rubber Products	(12.9)	(19.7)	(20.6)	(24.7)	(19.2)	(23.0)	(23.9)
Basic Metals	7.5	6.4	5.2	9.8	6.8	7.9	18.9
Electrical & Electronic Products	18.2	14.4	12.9	18.6	14.2	15.6	16.9
Computers & Peripheral Equipment	12.6	13.6	10.2	6.3	12.1	6.0	9.8
Machinery & Equipment	12.1	6.1	4.3	2.7	3.2	2.5	6.9
Motor Vehicles, Trailers & Semi-Trailers	(1.7)	5.0	9.9	(0.5)	5.1	14.4	179.3
Electricity	**4.7**	**6.9**	**3.6**	**0.8**	**1.5**	**2.8**	**14.1**

Source: CEIC, MIDFR

Stronger IPI growth for both export- and domestic-oriented sectors. Production for both export- and domestic-oriented industries rose faster at +8%yoy and +35.5%yoy, respectively, in Jun-22. For the export sector, production growth was underpinned by increased output of E&E, refined petroleum, woods, and furniture. Meanwhile, the jump in IPI for the domestic-oriented industries was driven mainly by higher output in consumer-oriented products especially motor vehicles and tobacco, mainly attributable to the low base effect. IPI for construction-oriented sector also improved, with faster growth in all sub-sectors i.e. non-metallic mineral products, iron & steel, and fabricated metal.

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

	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
IPI: Export-Oriented Industries	**9.6**	**6.7**	**4.8**	**7.8**	**5.8**	**6.1**	**8.0**
Computer, Electronic Products and Optical	19.0	16.0	13.8	20.5	16.6	18.9	19.4
Electrical Equipment	17.4	10.9	16.1	22.4	10.8	8.9	9.7
Chemicals and Chemical Products	10.3	7.1	4.6	1.1	9.9	8.2	2.2
Coke and Refined Petroleum Products	0.7	2.0	(1.4)	12.3	(1.0)	2.0	11.0
Vegetable & animal oils & fats	13.1	0.3	7.6	(4.9)	(7.8)	(6.7)	(10.2)
Textiles	7.9	8.4	6.4	5.2	4.1	3.5	3.7
Wearing Apparel	2.0	2.9	3.5	6.6	6.9	5.3	6.8
Wood and Wood Products	8.5	11.3	6.8	10.0	7.8	9.5	17.7
Furniture	0.9	5.1	4.0	9.7	16.7	9.6	24.6
Rubber Products	(12.9)	(19.7)	(20.6)	(24.7)	(19.2)	(23.0)	(23.9)

Source: DOSM, MIDFR

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

	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
IPI: Domestic-Oriented Industries	**5.7**	**7.0**	**6.1**	**5.1**	**6.9**	**8.8**	**35.5**
Construction (CO)	5.3	6.2	5.3	5.6	5.1	5.2	25.1
CO: Non Metallic Mineral	2.8	5.5	6.1	6.6	7.6	6.1	32.2
CO: Iron and Steel	7.5	6.4	5.2	9.8	6.8	7.9	18.9
CO: Fabricated Metal	6.1	6.7	4.8	2.1	1.9	3.0	24.8
Consumer (CS)	6.0	7.4	6.5	4.8	7.9	10.7	41.5
CS: Food Products	9.2	11.1	5.4	10.1	10.3	11.4	9.8
CS: Motor Vehicles, Trailers and Semi-Trailers	(1.7)	5.0	9.9	(0.5)	5.1	14.4	179.3
CS: Other Transport Equipment	2.5	1.7	3.7	2.5	6.7	9.6	15.1
CS: Beverages	9.0	7.7	8.1	7.1	10.7	9.9	60.0
CS: Tobacco Products	6.4	1.3	9.2	1.7	11.8	4.6	2,765.0
CS: Paper and Paper Products	12.4	14.6	6.2	4.9	8.0	7.4	10.5
CS: Others	4.3	1.6	6.9	4.2	2.3	10.8	41.0

Source: DOSM, MIDFR

Manufacturing sales also grew faster in Jun-22. Sales in the manufacturing sector also registered stronger growth at +23.4%yoy in Jun-22, the fastest annual growth since May-21. The monthly sales value even rose to new record high at RM153.5b (May-22: RM142b). Sectors which recorded strong double-digit expansion in Jun-22 include E&E, motor vehicles, refined petroleum, iron & steel, and consumer electronics. The growing manufacturing sales generally reflect the positive effect of economic reopening, increased consumer spending as well as improved business activities. We anticipate the outlook for manufacturing sales will remain positive as growth momentum, especially in the domestic economy, improved further in the latter part of the year.

Table 5: Manufacturing Sales (YoY%)

	MoM%			**YoY%**		
	Apr-22	May-22	Jun-22	Apr-22	May-22	Jun-22
Manufacturing Sales [1]	**2.3**	**(4.0)**	**8.1**	**13.2**	**15.7**	**23.4**
Seasonally-adjusted month-on-month change (%)	*3.8*	*(1.1)*	*6.9*	-	-	-
Refined Petroleum Products	19.0	5.3	23.9	23.2	26.5	59.2
Chemicals and Chemical Products	(21.8)	7.5	3.5	15.0	13.0	(0.5)
Rubber Gloves	(2.5)	(5.3)	(4.7)	(37.8)	(36.5)	(39.4)
Iron & Steel Products	(6.8)	(13.5)	(9.9)	8.9	15.2	34.2
Diodes, Transistor & Electronic Integrated Circuits Mic	(16.6)	(2.3)	15.8	41.7	44.1	44.1
Electrical Capacitor Resistor, Circuit Board & Display Comp	(15.5)	12.8	10.0	15.3	32.9	33.6
Computers & Peripherals Equipment	38.7	(30.5)	13.8	16.9	6.7	6.8
Consumer Electronics	(7.3)	(15.6)	4.6	25.1	10.8	13.5
Motor Vehicles	1.8	(8.3)	1.1	3.1	10.8	68.0

Source: CEIC, MIDFR

Global IPI registered moderate rise in Jun-22. The performance of global industrial output moderated in Jun-22, particularly in the advanced markets. US IPI rose at slower pace of +4.2%yoy, supported by higher output electrical equipment, appliances & components, but constrained by weaker output of durable goods such as primary metals, machinery and motor vehicles. In euro area, latest data shows IPI rebounded in May-22 after two months of contraction. In Asia, Japan's industrial production declined further by -3.1%yoy in Jun-22, mainly due to higher base although the level of output was higher than previous month. South Korea and Taiwan, on the other hand, reported slower IPI growth in Jun-22, as producers struggled with rising costs, shortages of materials and external uncertainties. In ASEAN, IPI growth improved for Malaysia, Philippines and Thailand, but moderated in Singapore. Looking at the global manufacturing PMI which fell to 51.1 in Jul-22 (Jun-22: 52.2), we expect global production to moderate further as manufacturers were concerned about rising input costs, potentially weaker demand outlook (due to high inflation and increasing borrowing costs), and the ongoing war in Ukraine.

Table 6: IPI for Selected Economies (YoY%)

	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
Malaysia	5.9	4.3	4.0	5.1	4.6	4.1	12.1
Philippines	19.6	16.3	77.6	369.4	6.1	8.0	9.8
Thailand	6.7	2.0	2.5	0.4	0.0	(2.0)	(0.1)
Singapore	16.7	0.6	13.5	3.8	4.9	10.4	2.2
S. Korea	7.1	4.3	6.4	3.7	3.6	7.4	1.4
Taiwan	8.7	8.4	9.5	2.4	6.4	4.1	0.7
India	1.0	2.0	1.2	2.2	6.7	19.6	n.a.
Japan	2.2	(0.8)	0.5	(1.7)	(4.9)	(3.1)	(3.1)
Euro area	1.8	(1.3)	1.6	(1.1)	(2.5)	1.6	n.a.
USA	3.7	2.9	7.0	4.9	5.6	4.8	4.2

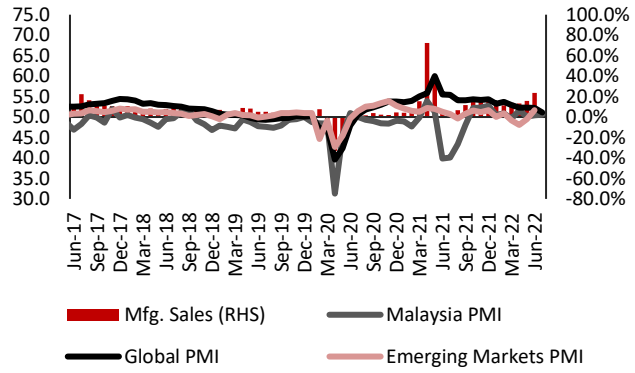
*n.a.: not available
Source: CEIC, MIDFR

Robust growth in Jun-22 points to stronger GDP growth in 2QCY22. As a result of the stronger-than-expected jump in Jun-22, IPI grew faster at +6.9%yoy in 2QCY22 (1QCY22: +4.5%yoy), driven by higher manufacturing and electricity output. Mining sector also registered some improvement as the decline in IPI slowed to -1.1%yoy during the quarter. In line with the stronger consumption following the economic reopening, the manufacturing sales also performed better in 2QCY22, rising by +17.4%yoy (1QCY22: +12.8%yoy). To a certain extent, the low base effect in 2QCY21 due to nationwide lockdown last year also boosted the production and sales performance in 2Q this year. This signals Malaysia will likely report stronger GDP growth in 2QCY22, better than 5%yoy growth in the earlier quarter.

Upgrade our forecast for IPI growth to +8.6% this year. We revise our projection for IPI growth to +8.2% this year (previous forecast: +4.3%), taking into account the recent strength in industrial production in 1HCY22 and the low base effect from the lockdown last year. Thus far, local businesses have been increasing their activities on the back of improved outlook and post-Covid economic reopening this year. Increased demand from both domestic and foreign markets will support production outlook, particularly looking at the strong exports of E&E, palm oil and petroleum products. Until now, we do not expect there will be another strict nationwide lockdown like last year. Therefore, we believe positive momentum will continue going into 2H of the year. We

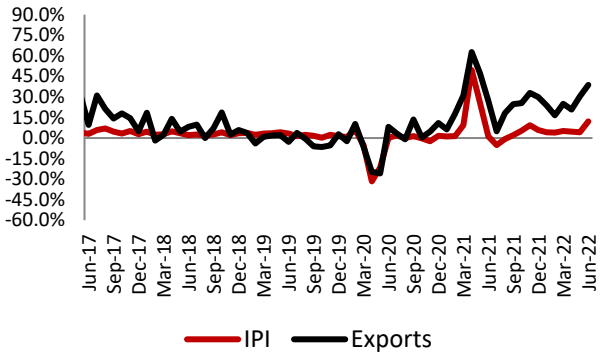
foresee the growing manufacturing output will continue as shown by the rise in Malaysia's manufacturing PMI to 50.6 in Jul-22 (Jun-22: 50.4). However, supply-side challenges such as shortages of materials and rising costs could affect production outlook for certain industries. For trade-oriented sectors, downside risks could also come from slowdown in major markets (like China and the US), escalation of geopolitical tension and ongoing war in Ukraine.

Chart 1: IPI Performance by Sector (YoY%)



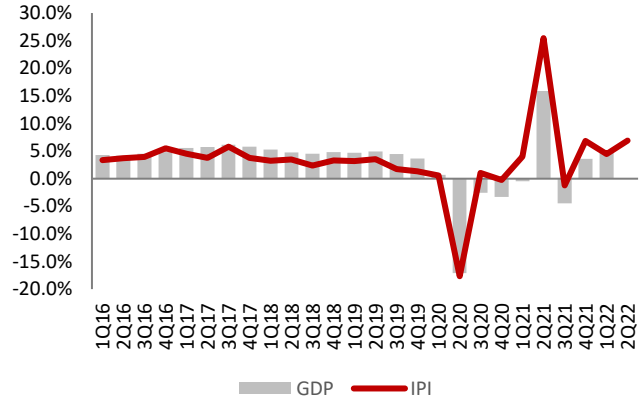
Source: CEIC, MIDFR

Chart 2: IPI vs Exports (YoY%)



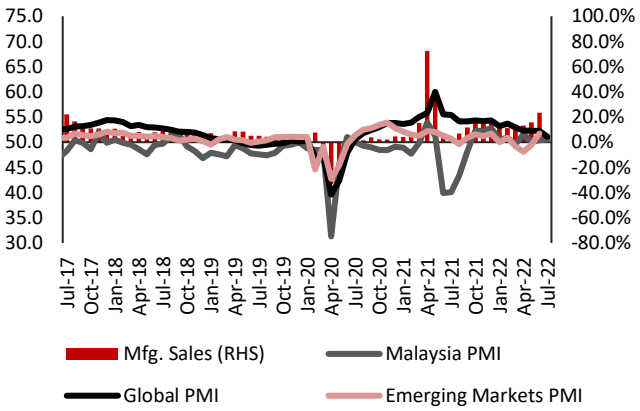
Source: CEIC, MIDFR

Chart 3: IPI vs GDP (YoY%)



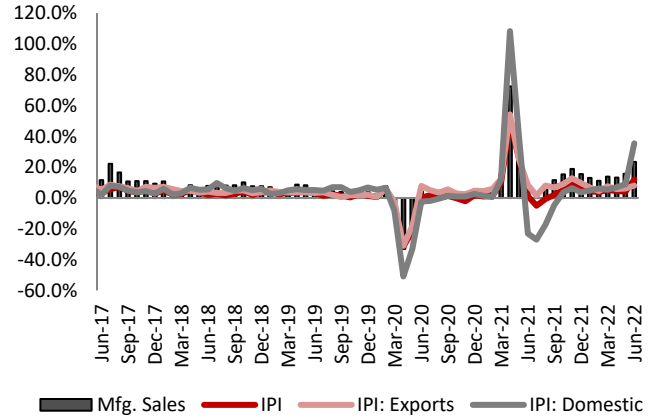
Source: CEIC, MIDFR

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



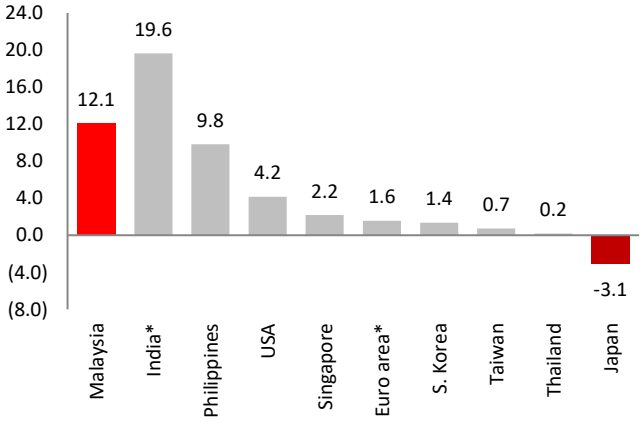
Source: Bloomberg, MIDFR

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



Source: CEIC, MIDFR

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



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

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