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ECONOMIC REVIEW | July 2022 Industrial Production Index

IPI Sustained Double-Digit Growth at +12.5%yoy in Jul-22

- *Sustained IPI growth in Jul-22. Malaysia's IPI growth was sustained at +12.5%yoy in Jul-22 (Jun-22: +12.1%yoy), the fastest growth since May-21. The IPI growth in Jul-22 was supported by the higher growth in manufacturing (+14.9%yoy) and mining (+3.2%yoy) output. Electricity generation, however, moderated to +13.2%yoy, indicating slower rise in energy consumption in Jul-22.*
- *Manufacturing sales rose by +23.8%yoy Jul-22. Sales performance for the manufacturing sustained double-digit growth at +23.8%yoy in Jul-22, the fastest annual growth in 14 months. The growth was backed by increased sales of consumer electronics, refined petroleum, iron & steel, motor vehicles and E&E components.*
- *IPI to grow at +6% this year. We revise our projection for IPI growth lower to +6% this year (previous forecast: +8.2%) as we now anticipate a more moderate IPI growth in the latter part of the year. Overall, we foresee continued expansion in domestic economic activities will continue to support production outlook. We still expect increased foreign demand to drive production in export-oriented sectors.*

Sustained IPI growth in Jul-22. Malaysia's IPI growth was sustained at +12.5%yoy in Jul-22 (Jun-22: +12.1%yoy), the fastest growth since May-21. Although the growth was not as fast was we expected, the IPI growth in Jul-22 was supported by the higher growth in manufacturing (+14.9%yoy) and mining (+3.2%yoy) output. Increase in manufacturing IPI was underpinned by higher output of E&E, basic metals, machinery and food products, the stronger mining IPI growth was mainly driven by higher output of natural gas. Electricity generation, however, moderated to +13.2%yoy, indicating slower rise in energy consumption in Jul-22. Overall, we see sustained IPI growth as indication of growing business and production activities, in line with better prospects particularly for the domestic economy on the back of economic reopening. In addition, the growing production was also backed by sustained growth in external demand, following more robust external trade performance so far this year.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%*				YoY%			
	Apr-22	May-22	Jun-22	Jul-22	Apr-22	May-22	Jun-22	Jul-22
IPI	0.0	(2.9)	8.4	(3.9)	4.6	4.1	12.1	12.5
Mining	1.9	(4.4)	7.1	(2.7)	(0.1)	(4.9)	2.1	3.2
Manufacturing	(0.3)	(2.5)	8.8	(6.4)	6.2	6.9	14.4	14.9
Electricity	(1.1)	0.5	4.6	(4.2)	1.5	2.8	15.4	13.2

*MoM is seasonally adjusted
Source: CEIC, MIDFR

IPI was lower than previous month. Based on seasonally-adjusted data, production activity in Jul-22 was -3.9%mom less than previous month with broad-base declines in all major sectors. Manufacturing output contracted by -6.4%mom dragged down by lower output of E&E, chemical products, motor vehicles and refined petroleum. After a rebound in Jun-22, mining output declined again by -2.7%mom mainly due to reduced

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production of crude petroleum. Following the decline in industrial production, electricity generation also dropped by -4.2%mom and contributed to the monthly decline in Jul-22 IPI.

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

	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
IPI	**4.3**	**4.0**	**5.1**	**4.6**	**4.1**	**12.1**	**12.5**
Mining	**(5.1)**	**(0.4)**	**0.3**	**(0.1)**	**(4.9)**	**2.1**	**3.2**
Crude Petroleum	(13.9)	(4.3)	(6.8)	(0.8)	(6.7)	(2.4)	(8.6)
Natural Gas	1.6	2.6	5.7	0.3	(3.6)	5.5	12.6
Manufacturing	**6.8**	**5.2**	**6.9**	**6.2**	**6.9**	**14.4**	**14.9**
Food Products	7.0	6.2	4.0	3.2	4.2	0.1	5.2
Refined Petroleum Products	2.0	(1.4)	12.3	(1.0)	2.0	11.0	5.7
Chemicals & Chemicals Products	7.1	4.6	1.1	9.9	8.2	2.2	4.0
Rubber Products	(19.7)	(20.6)	(24.7)	(19.2)	(23.0)	(23.9)	(17.5)
Basic Metals	6.4	5.2	9.8	6.8	7.9	18.9	22.0
Electrical & Electronic Products	14.4	12.9	18.6	14.2	15.6	16.9	17.3
Computers & Peripheral Equipment	13.6	10.2	6.3	12.1	6.0	9.8	8.9
Machinery & Equipment	6.1	4.3	2.7	3.2	2.5	6.9	15.8
Motor Vehicles, Trailers & Semi-Trailers	5.0	9.9	(0.5)	5.1	14.4	179.3	129.9
Electricity	**6.9**	**3.6**	**0.8**	**1.5**	**2.8**	**15.4**	**13.2**

Source: CEIC, MIDFR

Continued rise in export-oriented sectors, but some moderation in domestic-oriented IPI. Production for export-oriented industries rose faster at +9.4%yoy in Jul-22 (Jun-22: +7.8%yoy) underpinned by stronger output of electrical equipment, textiles, woods, furniture and chemical products. In particular, output growth of computer, electronic products and optical maintained double-digit growth (albeit slower at +18.4%yoy) for the 12th consecutive month. For the domestic-oriented industries, IPI continued to grow but relatively slower at +31%yoy (Jun-22: +35.5%yoy), attributable to moderation in output for both construction (mainly fabricated metal) and consumer (particularly motor vehicles) sub-sectors. While the pick-up in construction sector activities will help to drive demand for construction materials, we expect local producers will continue to increase production of consumer goods in view of growing domestic demand and increased tourist arrivals.

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

	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
IPI: Export-Oriented Industries	**6.7**	**4.8**	**7.8**	**5.8**	**6.1**	**7.8**	**9.4**
Computer, Electronic Products and Optical	16.0	13.8	20.5	16.6	18.9	19.4	18.4
Electrical Equipment	10.9	16.1	22.4	10.8	8.9	9.7	10.8
Chemicals and Chemical Products	7.1	4.6	1.1	9.9	8.2	2.2	3.9
Coke and Refined Petroleum Products	2.0	(1.4)	12.3	(1.0)	2.0	11.0	5.7
Vegetable & animal oils & fats	0.3	7.6	(4.9)	(7.8)	(6.7)	(12.5)	(2.3)
Textiles	8.4	6.4	5.2	4.1	3.5	3.7	10.7
Wearing Apparel	2.9	3.5	6.6	6.9	5.3	6.9	9.8
Wood and Wood Products	11.3	6.8	10.0	7.8	9.5	17.7	42.4
Furniture	5.1	4.0	9.7	16.7	9.6	24.6	52.1
Rubber Products	(19.7)	(20.6)	(24.7)	(19.2)	(23.0)	(23.9)	(17.4)

Source: DOSM, MIDFR

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

	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
IPI: Domestic-Oriented Industries	**7.0**	**6.1**	**5.1**	**6.9**	**8.8**	**35.5**	**31.0**
Construction (CO)	6.2	5.3	5.6	5.1	5.2	25.1	23.9
CO: Non Metallic Mineral	5.5	6.1	6.6	7.6	6.1	32.2	34.7
CO: Iron and Steel	6.4	5.2	9.8	6.8	7.9	18.9	22.0
CO: Fabricated Metal	6.7	4.8	2.1	1.9	3.0	24.7	18.2
Consumer (CS)	7.4	6.5	4.8	7.9	10.7	41.5	34.9
CS: Food Products	11.1	5.4	10.1	10.3	11.4	9.8	10.2
CS: Motor Vehicles, Trailers and Semi-Trailers	5.0	9.9	(0.5)	5.1	14.4	179.2	129.9
CS: Other Transport Equipment	1.7	3.7	2.5	6.7	9.6	15.0	22.0
CS: Beverages	7.7	8.1	7.1	10.7	9.9	59.9	50.9
CS: Tobacco Products	1.3	9.2	1.7	11.8	4.6	2763.5	2700.5
CS: Paper and Paper Products	14.6	6.2	4.9	8.0	7.4	10.5	14.0
CS: Others	1.6	6.9	4.2	2.3	10.8	41.0	46.7

Source: DOSM, MIDFR

Manufacturing sales rose by +23.8%yoy Jul-22. Sales performance for the manufacturing sustained double-digit growth at +23.8%yoy in Jul-22, the fastest annual growth in 14 months. Apart from the lower base in Jul-21, the sustained growth was backed by increased sales of consumer electronics, refined petroleum, iron & steel, motor vehicles and E&E components. Compared to Jun-22, manufacturing sales was lower by -6.8%mom after seasonal adjustment, which signaled weaker spending in Jul-22. While we anticipate the outlook for manufacturing sales will remain positive on the back of economic reopening and continued improvement in job market, we are also monitoring closely on the possible softening of demand due to increased inflation, rising borrowing costs and reduced policy supports.

Table 5: Manufacturing Sales (YoY%)

	MoM%			**YoY%**		
	May-22	Jun-22	Jul-22	May-22	Jun-22	Jul-22
Manufacturing Sales [1]	**(4.0)**	**8.1**	**(3.3)**	**15.7**	**23.4**	**23.8**
Seasonally-adjusted month-on-month change (%)	*(1.1)*	*6.9*	*(6.8)*	-	-	-
Refined Petroleum Products	5.3	23.9	6.7	26.5	59.2	51.8
Chemicals and Chemical Products	7.5	3.5	3.9	13.0	(0.5)	(2.7)
Rubber Gloves	(5.3)	(4.7)	(7.4)	(36.5)	(39.4)	(32.0)
Iron & Steel Products	(13.5)	(9.9)	(6.6)	15.2	34.2	30.9
Diodes, Transistor & Electronic Integrated Circuits Mic	(2.3)	15.8	(8.2)	44.1	44.1	28.0
Electrical Capacitor Resistor, Circuit Board & Display Comp	12.8	10.0	(1.0)	32.9	33.6	28.3
Computers & Peripherals Equipment	(30.5)	13.8	(16.9)	6.7	6.8	6.5
Consumer Electronics	(15.6)	4.6	3.2	10.8	13.5	74.5
Motor Vehicles	(8.3)	1.1	1.6	10.8	68.0	28.9

Source: CEIC, DOSM, MIDFR

Sustained growth in global IPI in Jul-22. We view growth in global industrial output was sustained in Jul-22, particularly with stronger expansion in regional countries. US IPI was sustained albet marginally slower

+3.9%yoy, supported by increased output of automotive products, E&E, chemicals, and energy. While IPI growth grew faster in South Korea and Taiwan, Japan also registered improvement as IPI declined slower backed by increased production of machinery, selected E&E components and transport equipment. In ASEAN, IPI growth continued to improve in Malaysia, Philippines and Thailand, but moderated further in Singapore. Looking at the global manufacturing PMI which fell to 50.3 in Aug-22 (Jul-22: 51.1), we opine global IPI growth will be moderate as manufacturers indicated slower output and orders as well as employment.

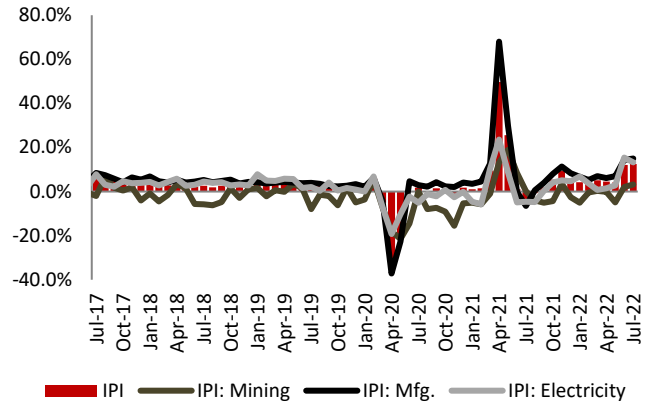
Table 6: IPI for Selected Economies (YoY%)

	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
Malaysia	4.3	4.0	5.1	4.6	4.1	12.1	12.5
Philippines	14.9	77.2	368.5	5.4	6.8	8.3	10.6
Thailand	1.9	2.5	(0.0)	0.0	(1.8)	0.1	7.1
Singapore	0.6	13.4	3.8	4.8	10.2	2.6	0.6
S. Korea	4.3	6.4	3.7	3.6	7.5	1.3	1.5
Taiwan	8.4	9.5	2.4	6.4	4.1	0.5	1.1
India	2.0	1.2	2.2	6.7	19.6	12.3	n.a.
Japan	(0.8)	0.5	(1.7)	(4.9)	(3.1)	(2.8)	(1.8)
Euro area	(1.3)	1.7	(1.1)	(2.5)	1.6	2.4	n.a.
USA	2.9	6.9	4.8	5.3	4.4	4.0	3.9

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

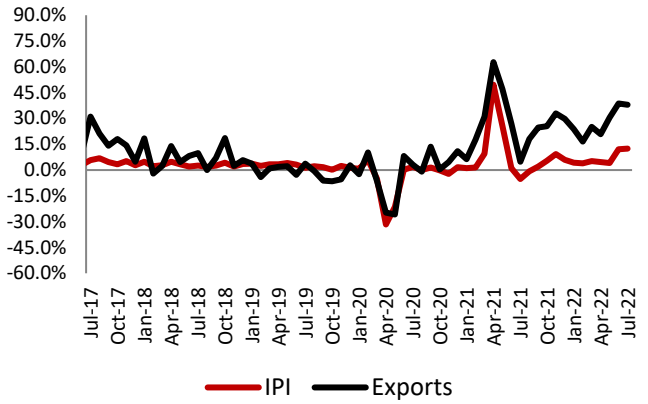
IPI to grow at +6% this year. We revise our projection for IPI growth lower to +6% this year (previous forecast: +8.2%) as we now anticipate a more moderate IPI growth in the latter part of the year. While Malaysia's manufacturing PMI remained above 50 at 50.3 in Aug-22 (Jul-22: 50.6), the slowdown in global economy in Aug-22 as shown by the latest PMI report suggests a softer outlook for external demand. Moreover, slowing sales performance in Jul-22 also signals moderate growth in domestic spending. In other words, while we expect IPI to continue growing, the near-term outlook would be constrained by possible softening of final demand, in addition to challenges in global supply chain and increased production costs. Overall, we foresee continued expansion in domestic economic activities on the back of economic reopening will continue to support production outlook. Despite signs of more moderate outlook, we still expect increased foreign demand especially for E&E and commodities to drive production in export-oriented sectors.

Chart 1: IPI Performance by Sector (YoY%)



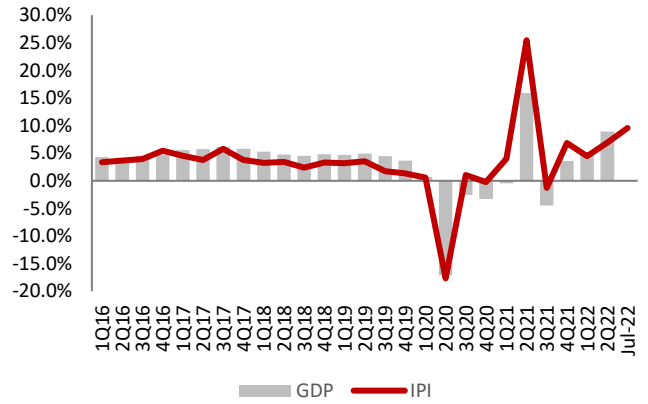
Source: CEIC, MIDFR

Chart 2: IPI vs Exports (YoY%)



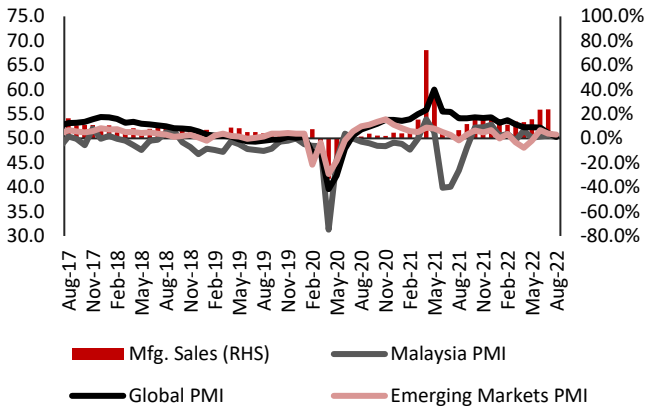
Source: CEIC, MIDFR

Chart 3: IPI vs GDP (YoY%)



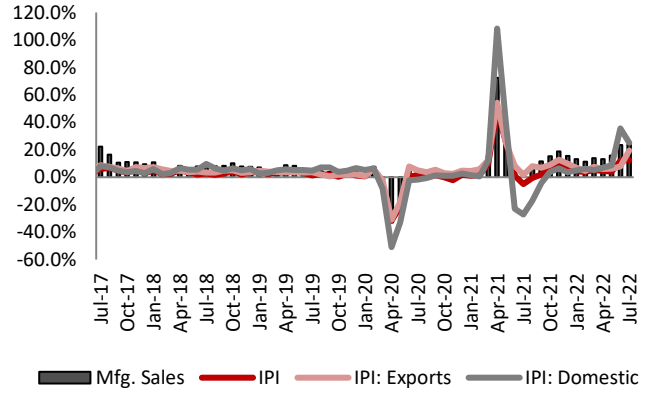
Source: CEIC, MIDFR

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



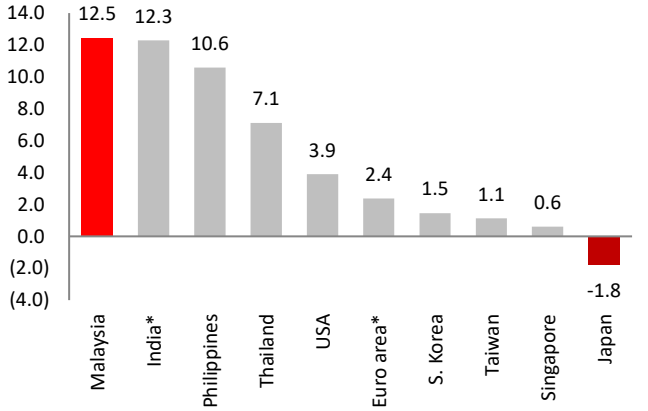
Source: Bloomberg, MIDFR

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



Source: CEIC, MIDFR

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



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

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