13 October 2022

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

Higher Manufacturing Output Contributed to Stronger Growth in Aug-22

- *More robust IPI performance in Aug-22. Malaysia's IPI growth accelerated to +13.6%yoy, the fastest in 15 months. This was better than our estimate mainly because of the stronger growth in manufacturing output (+14.9%yoy), in line with the stronger exports performance. Mining (+8%yoy) and electricity (+10%yoy) sectors also registered robust output growth.*
- *Manufacturing sales also picked in Aug-22. Manufacturing sales also registered stronger growth in Aug-22 (+24.4%yoy; Jul-22: +23.8%yoy). This was driven by higher sales of refined petroleum products, electronic components, motor vehicles and computers.*
- *Maintain 2022 IPI growth forecast at +6%. Although the Aug-22 IPI growth was better than expected, we keep our projection for IPI growth this year at 6%. We foresee IPI will record a more moderate growth the latter part of the year.*

More robust IPI performance in Aug-22. Malaysia's IPI growth accelerated to +13.6%yoy, the fastest in 15 months. This was better than our estimate mainly because of the stronger growth in manufacturing output (+14.9%yoy), in line with the stronger exports performance. Furthermore, mining (+8%yoy) and electricity (+10%yoy) sectors also registered robust output growth, driven by higher crude oil & LNG output and stronger electricity consumption. The pick-up in IPI growth signals stronger production activities in July-August 2022, indicative of a robust GDP growth in 3QCY22. This also showed business activities including production continued to grow on the back of increasing demand, both domestic and external.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%*				YoY%			
	May-22	Jun-22	Jul-22	Aug-22	May-22	Jun-22	Jul-22	Aug-22
IPI	(2.9)	8.4	(3.9)	1.7	4.1	12.1	12.5	13.6
Mining	(4.4)	7.1	(2.7)	0.2	(4.9)	2.1	3.2	8.0
Manufacturing	(2.5)	8.8	(6.4)	4.3	6.9	14.4	14.9	15.2
Electricity	0.5	4.6	(4.2)	0.2	2.8	15.4	13.2	10.0

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

Monthly rebound from lower production in Jul-22. Based on seasonally-adjusted data, IPI rebounded in Aug-22 to grow at +1.7%mom with increases recorded in all major sectors. Manufacturing output was the major contributor, expanding at +4.3%mom, attributable to higher output of E&E products, chemical products, motor vehicles, refined petroleum, food products and basic metals. Mining output registered a marginal increase of +0.2%mom mainly due to increased crude petroleum output. As we highlighted in our thematic report, we foresee improved output will support Malaysia's mining sector growth this year, which also benefited from elevated global commodity prices. Lastly, the monthly rebound in IPI was also contributed by higher electricity generation, although the growth was also minimal (+0.2%mom).

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

	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
IPI	**4.0**	**5.1**	**4.6**	**4.1**	**12.1**	**12.5**	**13.6**
Mining	**(0.4)**	**0.3**	**(0.1)**	**(4.9)**	**2.1**	**3.2**	**8.0**
Crude Petroleum	(4.3)	(6.8)	(0.8)	(6.7)	(2.4)	(8.6)	8.0
Natural Gas	2.6	5.7	0.3	(3.6)	5.5	12.6	8.0
Manufacturing	**5.2**	**6.9**	**6.2**	**6.9**	**14.4**	**14.9**	**15.2**
Food Products	6.2	4.0	3.2	4.2	0.1	5.2	7.1
Refined Petroleum Products	(1.4)	12.3	(1.0)	2.0	11.0	5.7	14.1
Chemicals & Chemicals Products	4.6	1.1	9.9	8.2	2.2	4.0	4.6
Rubber Products	(20.6)	(24.7)	(19.2)	(23.0)	(23.9)	(17.5)	(10.6)
Basic Metals	5.2	9.8	6.8	7.9	18.9	22.0	11.4
Electrical & Electronic Products	12.9	18.6	14.2	15.6	16.9	17.3	19.2
Computers & Peripheral Equipment	10.2	6.3	12.1	6.0	9.8	8.9	11.8
Machinery & Equipment	4.3	2.7	3.2	2.5	6.9	15.8	14.6
Motor Vehicles, Trailers & Semi-Trailers	9.9	(0.5)	5.1	14.4	179.3	129.9	107.1
Electricity	**3.6**	**0.8**	**1.5**	**2.8**	**15.4**	**13.2**	**10.0**

Source: CEIC, MIDFR

Stronger export-oriented IPI, but further moderation in domestic-oriented IPI. The stronger IPI growth in Aug-22 was driven by faster growth in export-oriented output (+12.4%yoy; Jul-22: +9.5%yoy) such as electronics, petroleum products, vegetable oil, chemical products and furnituretextiles, woods, furniture and chemical products. In contrast, IPI for the domestic-oriented industries moderated further albeit still at double-digit pace (+22.5%yoy; Jul-22: +30.9%yoy). The slower growth was recorded in both construction- and consumer-oriented sub-sectors e.g. iron & steel and F&B products. This also suggests a more normalized growth in domestic-oriented IPI which has been driven by the positive effect from the post-pandemic economic reopening and increased consumer spending on the back of relaxation of Covid-19 SOPs. We expect to see this to continue as the base effect which boosted growth for motor vehicles and tobacco diminishes in the coming months.

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

	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
IPI: Export-Oriented Industries	**4.8**	**7.8**	**5.8**	**6.1**	**7.8**	**9.5**	**12.4**
Computer, Electronic Products and Optical	13.8	20.5	16.6	18.9	19.4	18.4	21.5
Electrical Equipment	16.1	22.4	10.8	8.9	9.7	10.9	6.5
Chemicals and Chemical Products	4.6	1.1	9.9	8.2	2.2	4.0	4.6
Coke and Refined Petroleum Products	(1.4)	12.3	(1.0)	2.0	11.0	5.7	14.1
Vegetable & animal oils & fats	7.6	(4.9)	(7.8)	(6.7)	(12.5)	(2.3)	4.0
Textiles	6.4	5.2	4.1	3.5	3.7	10.7	9.7
Wearing Apparel	3.5	6.6	6.9	5.3	6.9	9.8	2.5
Wood and Wood Products	6.8	10.0	7.8	9.5	17.7	42.4	13.1
Furniture	4.0	9.7	16.7	9.6	24.6	52.2	40.9
Rubber Products	(20.6)	(24.7)	(19.2)	(23.0)	(23.9)	(17.5)	(10.6)

Source: DOSM, MIDFR

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

	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
IPI: Domestic-Oriented Industries	**6.1**	**5.1**	**6.9**	**8.8**	**35.5**	**30.9**	**22.5**
Construction (CO)	5.3	5.6	5.1	5.2	25.1	23.9	13.6
CO: Non Metallic Mineral	6.1	6.6	7.6	6.1	32.2	34.7	16.7
CO: Iron and Steel	5.2	9.8	6.8	7.9	18.9	22.0	11.4
CO: Fabricated Metal	4.8	2.1	1.9	3.0	24.7	18.2	13.0
Consumer (CS)	6.5	4.8	7.9	10.7	41.5	34.9	27.9
CS: Food Products	5.4	10.1	10.3	11.4	9.8	10.2	9.1
CS: Motor Vehicles, Trailers and Semi-Trailers	9.9	(0.5)	5.1	14.4	179.2	129.9	107.1
CS: Other Transport Equipment	3.7	2.5	6.7	9.6	15.0	22.1	0.4
CS: Beverages	8.1	7.1	10.7	9.9	59.9	50.9	27.3
CS: Tobacco Products	9.2	1.7	11.8	4.6	2,763.5	2,699.2	2,813.6
CS: Paper and Paper Products	6.2	4.9	8.0	7.4	10.5	14.0	12.2
CS: Others	6.9	4.2	2.3	10.8	41.0	46.7	21.3

Source: DOSM, MIDFR

Manufacturing sales also picked in Aug-22. Manufacturing sales also registered stronger growth in Aug-22 (+24.4%yoy; Jul-22: +23.8%yoy). This was driven by higher sales of refined petroleum products, electronic components, motor vehicles and computers. From seasonally-adjusted month-on-month perspective, manufacturing sales rebounded from -6.8% decline in Jul-22 and grew by +4.8%mom. Spending activity was more robust in Aug-22, resulting in stronger purchases of consumer electronics and chemical products as well as rebounds in sales of E&E products, iron & steel, and computers & peripherals. In view of sustained rise in domestic spending as shown in retail and wholesale trade performance, we opine the growing demand to continue driving manufacturing sales growth in coming months.

Table 5: Manufacturing Sales (YoY%)

	MoM%			YoY%		
	Jul-22	Aug-22	Aug-22	Jun-22	Jul-22	Aug-22
Manufacturing Sales [1]	**8.1**	**(3.3)**	**6.1**	**23.4**	**23.8**	**24.4**
Seasonally-adjusted month-on-month change (%)	*6.9*	*(6.8)*	*4.8*	-	-	-
Refined Petroleum Products	23.9	6.7	3.2	59.2	51.8	60.3
Chemicals and Chemical Products	3.5	3.9	5.0	(0.5)	(2.7)	(5.1)
Rubber Gloves	(4.7)	(7.4)	(14.5)	(39.4)	(32.0)	(20.3)
Iron & Steel Products	(9.9)	(6.6)	32.5	34.2	30.9	9.2
Diodes, Transistor & Electronic Integrated Circuits Mic	15.8	(8.2)	12.5	44.1	28.0	42.3
Electrical Capacitor Resistor, Circuit Board & Display Comp	10.0	(1.0)	11.7	33.6	28.3	22.5
Computers & Peripherals Equipment	13.8	(16.9)	6.6	6.8	6.5	22.3
Consumer Electronics	4.6	3.2	10.9	13.5	74.5	12.6
Motor Vehicles	1.1	1.6	1.2	68.0	28.9	29.8

Source: Macrobond, DOSM, MIDFR

Sustained and more robust IPI growth in other economies. Other economies like Taiwan, Thailand, Japan, euro area and Thailand also registered stronger IPI growth in Aug-22. Although the global PMI declined in Aug-

22, the IPI growth indicated more resilience in business activities. Even Singapore, South Korea and the US recorded sustained growth albeit the pace of growth was slower than Jul-22. We opine the improvement in supply chain will support IPI growth in the coming months, although the outlook may be constrained by elevated input prices and potential slowdown in global demand.

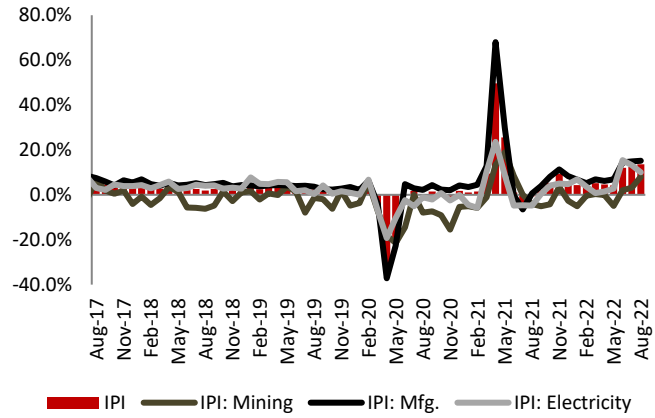
Table 6: IPI for Selected Economies (YoY%)

	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
Malaysia	4.0	5.1	4.6	4.1	12.1	12.5	13.6
Philippines	77.1	370.0	5.5	6.8	8.0	10.6	11.0
Thailand	2.5	(0.1)	0.0	(1.8)	0.2	7.4	15.9
Singapore	13.4	3.8	4.8	10.2	2.6	0.8	0.5
S. Korea	6.4	3.7	3.6	7.5	1.4	1.5	1.0
Taiwan	9.5	2.4	6.4	4.1	0.5	1.6	3.7
India	1.2	2.2	6.7	19.7	12.7	2.2	(0.8)
Japan	0.5	(1.7)	(4.9)	(3.1)	(2.8)	(2.0)	5.1
Euro area	1.6	(1.0)	(2.5)	1.6	2.1	(2.5)	2.5
USA	6.9	4.8	5.3	4.4	4.0	3.8	3.7

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

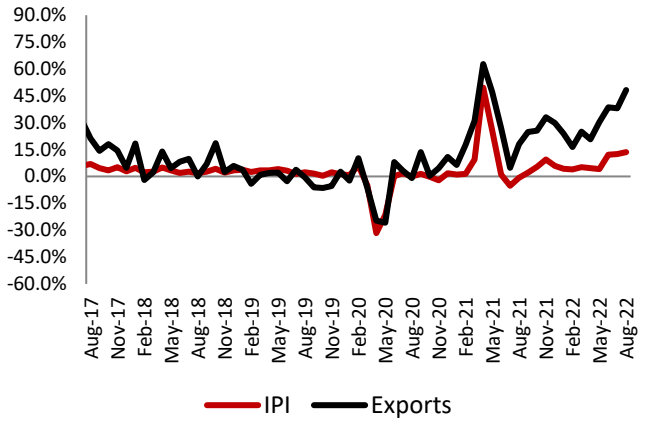
Maintain 2022 IPI growth forecast at +6%. Although the Aug-22 IPI growth was better than expected, we keep our projection for IPI growth this year at 6%. We foresee IPI will record a more moderate growth the latter part of the year due to the diminishing low base effect. In particular, Malaysia's manufacturing PMI recently fell to 49.1 in Sep-22 (Aug-22: 50.3) as local firms began to slow production and purchases on the back of softer demand. Thus far, there is resilience in Malaysia's economy as economic activities continued to grow supported by both domestic spending as well as sustained expansion in external demand. In other words, there may be an upside surprise to IPI and growth outlook in the near term if demand from within and outside Malaysia continued to grow robustly. Nevertheless, as an open economy, we believe Malaysia will likely be impacted by any significant slowdown in international trade and global production activities.

Chart 1: IPI Performance by Sector (YoY%)



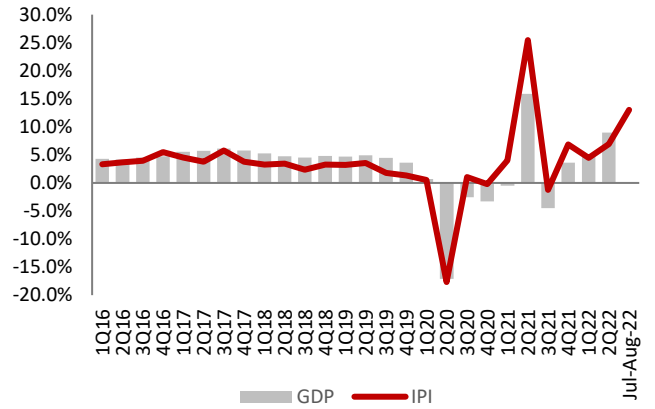
Source: Macrobond, MIDFR

Chart 2: IPI vs Exports (YoY%)



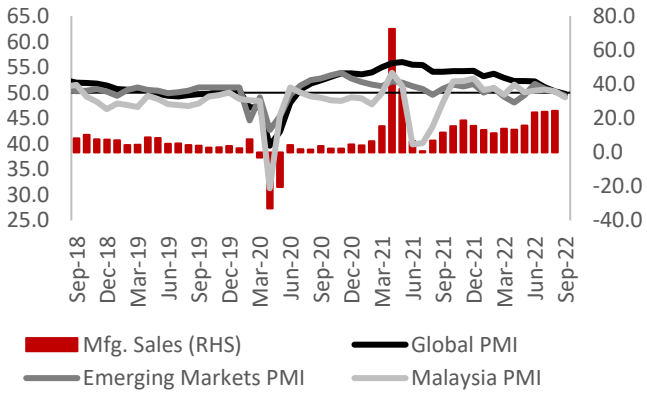
Source: Macrobond, MIDFR

Chart 3: IPI vs GDP (YoY%)



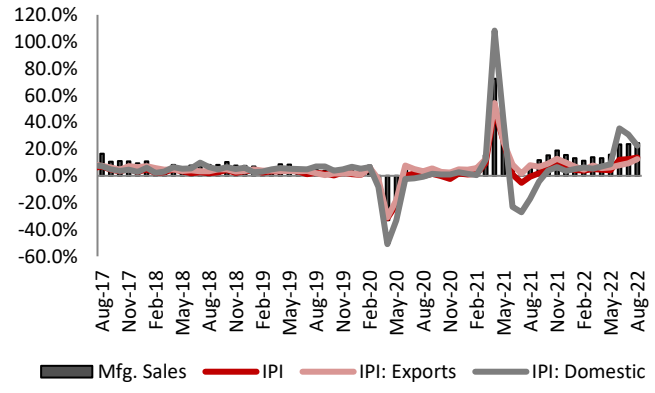
Source: Macrobond, MIDFR

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



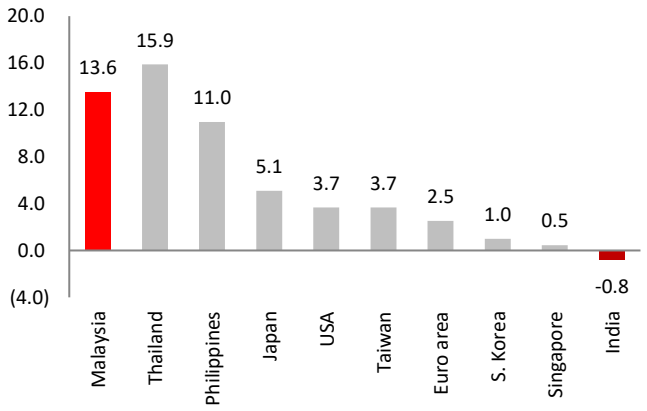
Source: Bloomberg, MIDFR

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



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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