8 November 2022

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

# IPI Points to Faster GDP Growth in 3QCY22

- *IPI maintained double-digit growth in Sep-22. Malaysia's IPI growth maintained double-digit expansion for the fourth straight month in Sep-22, albeit at relatively slower pace of +10.8%yoy. While the moderation tracks the moderate growth in manufacturing and electricity output, mining output recorded firmer growth (+15%yoy), driven by sustained growth in crude oil production and stronger LNG output.*
- *Manufacturing sales reached new monthly high in Sep-22. Manufacturing sales recorded sustained double-digit growth of +19.5%yoy in Sep-22 (Aug-22: +24.4%yoy), with the value of manufacturing sales reaching new monthly high at RM161.7b.*
- *Maintain IPI growth forecast for 2022 at +6%. Although growing exports and domestic consumption will be positive for IPI outlook, we keep our projection for 2022 IPI growth unchanged at +6% in view of uncertainties from external developments.*

**IPI maintained double-digit growth in Sep-22**. Malaysia's IPI growth maintained double-digit expansion for the fourth straight month in Sep-22, albeit at relatively slower pace of +10.8%yoy. Although this is somewhat below our expectation, the growth was slightly higher than +10.3% predicted by market consensus (+10.3%yoy) While the moderation tracks the moderate growth in manufacturing and electricity output, mining output recorded firmer growth (+15%yoy), driven by sustained growth in crude oil production and stronger LNG output. The moderation in IPI growth was more or less expected given the diminishing low base effect. For the first 9 months in 2022, IPI grew by +7.9%yoy (2021: +7.2%), underpinned by sustained growth in manufacturing output (+7.9%yoy) and stronger electricity output (+6.3%yoy). So far, the continued IPI growth reflects the pick-up in business activities following economic reopening and amid growing domestic consumption.

**Table 1: Malaysia – Summary of Industrial Production Index**

| | MoM%* | | | | YoY% | | | |
|---|---|---|---|---|---|---|---|---|
| | Jun-22 | Jul-22 | Aug-22 | Sep-22 | Jun-22 | Jul-22 | Aug-22 | Sep-22 |
| **IPI** | 8.4 | -3.9 | 1.6 | 0.7 | 12.1 | 12.5 | 13.5 | 10.8 |
| Mining | 7.1 | -2.7 | 0.2 | 6.3 | 2.1 | 3.2 | 8.0 | 15.0 |
| Manufacturing | 8.8 | -6.4 | 4.3 | -0.5 | 14.4 | 14.9 | 15.2 | 10.4 |
| Electricity | 4.6 | -4.2 | 0.0 | -1.1 | 15.4 | 13.2 | 9.9 | 4.1 |

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

**A strong jump in mining output as we anticipated.** Based on seasonally-adjusted data, IPI grew by +0.7%mom from Aug-22, backed by a strong the jump in mining output. This is in line with our expectation that the resumption of oil & gas production at the oilfields in Sabah waters (as discussed in our thematic report). On the other hand, manufacturing and electricity registered monthly output declines of -0.5%mom and -1.1%mom, respectively. While the lower electricity output reflects weaker electricity usage during the month, the weaker manufacturing output was due to monthly reduction in production of refined petroleum, rubber products, transport equipment, and computers & peripheral equipment. Nevertheless, we expect manufacturing output to

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increase supported by domestic consumption. Mining sector output, on the other hand, could be impacted in Oct-22 by the unexpected circumstances affecting oil & gas production in Bintulu, Sarawak.

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

| | Mar-22 | Apr-22 | May-22 | Jun-22 | Jul-22 | Aug-22 | Sep-22 |
|---|---|---|---|---|---|---|---|
| **IPI** | **5.1** | **4.6** | **4.1** | **12.1** | **12.5** | **13.5** | **10.8** |
| **Mining** | **0.3** | **-0.1** | **-4.9** | **2.1** | **3.2** | **8.0** | **15.0** |
| Crude Petroleum | -6.8 | -0.8 | -6.7 | -2.4 | -8.6 | 8.0 | 7.2 |
| Natural Gas | 5.7 | 0.3 | -3.6 | 5.5 | 12.6 | 8.0 | 21.0 |
| **Manufacturing** | **6.9** | **6.2** | **6.9** | **14.4** | **14.9** | **15.2** | **10.4** |
| Food Products | 4.0 | 3.2 | 4.2 | 0.1 | 5.2 | 7.6 | 3.7 |
| Refined Petroleum Products | 12.3 | -1.0 | 2.0 | 11.0 | 5.7 | 12.8 | 15.4 |
| Chemicals & Chemicals Products | 1.1 | 9.9 | 8.2 | 2.2 | 4.0 | 4.6 | 4.2 |
| Rubber Products | -24.7 | -19.2 | -23.0 | -23.9 | -17.5 | -10.6 | -8.6 |
| Basic Metals | 9.8 | 6.8 | 7.9 | 18.9 | 22.0 | 11.4 | 1.3 |
| Electrical & Electronic Products | 18.6 | 14.2 | 15.6 | 16.9 | 17.3 | 19.6 | 15.5 |
| Computers & Peripheral Equipment | 6.3 | 12.1 | 6.0 | 9.8 | 8.9 | 11.8 | 9.8 |
| Machinery & Equipment | 2.7 | 3.2 | 2.5 | 6.9 | 15.8 | 14.6 | 12.9 |
| Motor Vehicles, Trailers & Semi-Trailers | -0.5 | 5.1 | 14.4 | 179.3 | 129.9 | 107.1 | 35.6 |
| **Electricity** | **0.8** | **1.5** | **2.8** | **15.4** | **13.2** | **9.9** | **4.1** |

Source: Macrobond, MIDFR

**More moderate growth in domestic-oriented sectors**. The sustained but relatively moderate IPI growth in Sep-22 was the same trends in the IPIs for both export-oriented output (+10.1%yoy; Aug-22: +12.4%yoy) and domestic-oriented industries (Sep-22: +11.2%yoy; Aug-22: +22.5%yoy). For export sectors, sectors which recorded double-digit growth include refined petroleum; computers, electronic products & optical; and furniture. Meanwhile, the robust IPI growth for the domestic-oriented sectors was mainly for the consumer market, namely motor vehicles, tobacco and beverages. We anticipate pick-up in construction works and arrival of foreign labour will eventually support the output of construction materials. Moreover, continued rise in external demand for E&E and commodities will drive growth for export-oriented sectors, although there are growing talks about weakening external demand.

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

| | Mar-22 | Apr-22 | May-22 | Jun-22 | Jul-22 | Aug-22 | Sep-22 |
|---|---|---|---|---|---|---|---|
| **IPI: Export-Oriented Industries** | **7.8** | **5.8** | **6.1** | **7.8** | **9.5** | **12.4** | **10.1** |
| Computer, Electronic Products and Optical | 20.5 | 16.6 | 18.9 | 19.4 | 18.4 | 21.5 | 16.7 |
| Electrical Equipment | 22.4 | 10.8 | 8.9 | 9.7 | 10.9 | 10.6 | 9.5 |
| Chemicals and Chemical Products | 1.1 | 9.9 | 8.2 | 2.2 | 4.0 | 4.6 | 4.2 |
| Coke and Refined Petroleum Products | 12.3 | (1.0) | 2.0 | 11.0 | 5.7 | 12.8 | 15.4 |
| Vegetable & animal oils & fats | (4.9) | (7.8) | (6.7) | (12.5) | (2.3) | 5.0 | (2.7) |
| Textiles | 5.2 | 4.1 | 3.5 | 3.7 | 10.7 | 9.7 | 5.5 |
| Wearing Apparel | 6.6 | 6.9 | 5.3 | 6.9 | 9.8 | 2.5 | 0.4 |
| Wood and Wood Products | 10.0 | 7.8 | 9.5 | 17.7 | 42.4 | 13.1 | 7.3 |
| Furniture | 9.7 | 16.7 | 9.6 | 24.6 | 52.2 | 40.9 | 10.5 |
| Rubber Products | (24.7) | (19.2) | (23.0) | (23.9) | (17.5) | (10.6) | (8.6) |

Source: DOSM, MIDFR

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

| | Mar-22 | Apr-22 | May-22 | Jun-22 | Jul-22 | Aug-22 | Sep-22 |
|---|---|---|---|---|---|---|---|
| **IPI: Domestic-Oriented Industries** | **5.1** | **6.9** | **8.8** | **35.5** | **30.9** | **22.5** | **11.2** |
| Construction (CO) | 5.6 | 5.1 | 5.2 | 25.1 | 23.9 | 13.6 | 6.4 |
| CO: Non Metallic Mineral | 6.6 | 7.6 | 6.1 | 32.2 | 34.7 | 16.7 | 10.1 |
| CO: Iron and Steel | 9.8 | 6.8 | 7.9 | 18.9 | 22.0 | 11.4 | 1.3 |
| CO: Fabricated Metal | 2.1 | 1.9 | 3.0 | 24.7 | 18.2 | 13.0 | 7.3 |
| Consumer (CS) | 4.8 | 7.9 | 10.7 | 41.5 | 34.9 | 27.8 | 14.1 |
| CS: Food Products | 10.1 | 10.3 | 11.4 | 9.8 | 10.2 | 9.2 | 8.4 |
| CS: Motor Vehicles, Trailers and Semi-Trailers | (0.5) | 5.1 | 14.4 | 179.2 | 129.9 | 107.1 | 35.6 |
| CS: Other Transport Equipment | 2.5 | 6.7 | 9.6 | 15.0 | 22.1 | 6.5 | 7.6 |
| CS: Beverages | 7.1 | 10.7 | 9.9 | 59.9 | 50.9 | 14.9 | 11.8 |
| CS: Tobacco Products | 1.7 | 11.8 | 4.6 | 2,763.5 | 2,699.2 | 2,813.6 | 30.0 |
| CS: Paper and Paper Products | 4.9 | 8.0 | 7.4 | 10.5 | 14.0 | 12.2 | 9.9 |
| CS: Others | 4.2 | 2.3 | 10.8 | 41.0 | 46.7 | 21.3 | 3.1 |

Source: DOSM, MIDFR

**Manufacturing sales reached new monthly high in Sep-22.** Manufacturing sales recorded sustained double-digit growth of +19.5%yoy in Sep-22 (Aug-22: +24.4%yoy), with the value of manufacturing sales reaching new monthly high at RM161.7b. The Sep-22 growth was driven by robust sales of refined petroleum products, electronic components, and consumer electronics. Compared to Aug-22, manufacturing sales was higher in Sep-22 by +0.6%mom based on seasonally-adjusted data, with increased demand for iron & steel products, motor vehicles, and electrical components, among others. The stronger motor vehicle sales was in line with the higher total industry volume (or TIV) reported by the automotive industry on the back strong demand for new vehicles. With the stronger sales, this pointed towards sustained growth in consumer spending during 3QCY22, as manufacturing sales rose faster at +22.5%yoy (2QCY22: +17.4%yoy).

**Table 5: Manufacturing Sales (YoY%)**

| | MoM% | | | YoY% | | |
|---|---|---|---|---|---|---|
| | Jul-22 | Aug-22 | Sep-22 | Jul-22 | Aug-22 | Sep-22 |
| **Manufacturing Sales** [1] | **(3.3)** | **6.1** | **2.7** | **23.8** | **24.4** | **19.5** |
| *Seasonally-adjusted month-on-month change (%)* | *(6.8)* | *4.8* | *0.6* | - | - | - |
| Refined Petroleum Products | 6.7 | 2.7 | (2.7) | 51.8 | 59.6 | 60.6 |
| Chemicals and Chemical Products | 2.2 | (1.6) | (1.0) | 4.7 | 4.0 | 1.5 |
| Rubber Gloves | (7.4) | (14.5) | 4.0 | (32.0) | (20.3) | (16.3) |
| Iron & Steel Products | (6.6) | 32.5 | 19.4 | 30.9 | 9.2 | (0.8) |
| Diodes, Transistor & Electronic Integrated Circuits Mic | (8.2) | 12.5 | 8.4 | 28.0 | 42.3 | 42.2 |
| Electrical Capacitor Resistor, Circuit Board & Display Comp | (1.0) | 11.7 | 16.2 | 28.3 | 22.5 | 21.4 |
| Computers & Peripherals Equipment | (16.9) | 6.6 | (32.8) | 6.5 | 22.3 | 20.8 |
| Consumer Electronics | 3.2 | 10.9 | 10.5 | 74.5 | 12.6 | 13.8 |
| Motor Vehicles | 1.6 | 1.2 | 18.1 | 28.9 | 29.8 | 11.5 |

Source: Macrobond, DOSM, MIDFR

**Most countries recorded positive IPI growth, with signs of softer demand.** Most economies maintained positive IPI growth albeit several countries (such as Thailand, South Korea and Singapore) experienced moderate and subdued growth. The US, in particular, shows more resilience despite series of large rate hikes by the Fed and businesses continued to increase production in Sep-22. On the other hand, Taiwan and India recorded declines in industrial output for the latest month as manufacturing output declined. Meanwhile, the global PMI signals slowing global manufacturing activities as the index fell to 49.4 in Oct-22, the lowest reading since June 2020, following declines in euro area and China, and slower expansion in the US and other emerging countries.

**Table 6: IPI for Selected Economies (YoY%)**

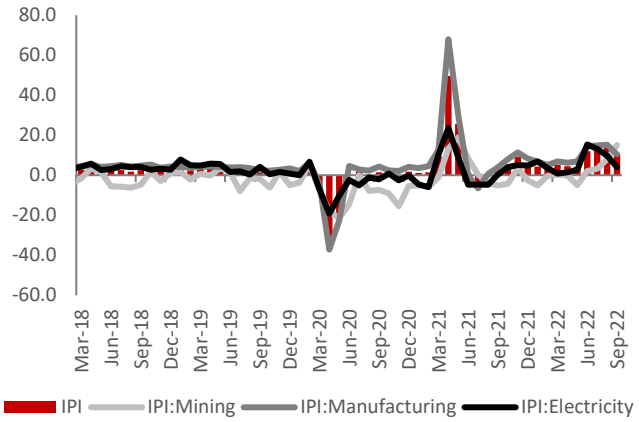
| | Mar-22 | Apr-22 | May-22 | Jun-22 | Jul-22 | Aug-22 | Sep-22 |
|---|---|---|---|---|---|---|---|
| Malaysia | 5.1 | 4.6 | 4.1 | 12.1 | 12.5 | 13.6 | 10.8 |
| Philippines | 369.8 | 5.3 | 6.7 | 8.1 | 11.0 | 11.8 | 10.0 |
| Thailand | 0.4 | (0.0) | (2.0) | (0.2) | 6.4 | 14.9 | 3.4 |
| Singapore | 3.7 | 4.7 | 10.2 | 2.5 | 1.2 | 0.4 | 0.9 |
| S. Korea | 3.7 | 3.6 | 7.5 | 1.4 | 1.5 | 1.5 | 0.8 |
| Taiwan | 2.4 | 6.4 | 4.1 | 0.5 | 1.6 | 3.3 | (4.8) |
| India | 2.2 | 6.7 | 19.7 | 12.7 | 2.2 | (0.8) | n.a. |
| Japan | (1.7) | (4.9) | (3.1) | (2.8) | (2.0) | 5.8 | 9.8 |
| Euro area | (1.0) | (2.3) | 1.2 | 2.1 | (2.3) | 2.5 | n.a. |
| USA | 4.8 | 5.3 | 4.4 | 3.9 | 3.9 | 3.9 | 5.3 |

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

**IPI points to stronger GDP growth.** Although Sep-22 data has been relatively less than our estimate, the average IPI growth shows growth momentum continued to strengthen in the three months to Sep-22 following broad improvements in all sectors, including a rebound in mining sector output. Together with more robust expansion in manufacturing sales in 3QCY22, both indicators pointed to stronger GDP growth in 3QCY22. We estimate 3QCY22 GDP growth would be around +12.5%yoy (2QCY22: +8.9%yoy). Based on Bloomberg poll (so far), market consensus for Malaysia's 3QCY22 GDP growth ranges between +10.0%yoy to +13.6%yoy.

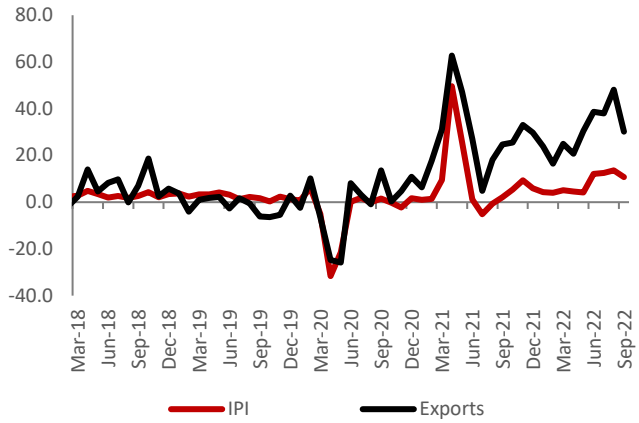
**Maintain IPI growth forecast for 2022 at +6%.** Based on the latest PMI survey, Malaysia's manufacturing sector activities experienced sharper declines in Oct-22 (48.7; Sep-22: 49.1), particularly dragged down by weaker new orders and slower external demand. Therefore, we remain cautious on the production outlook due to concerns over global slowdown and recession risk especially in advanced economies following aggressive policy tightening by major central banks. Although growing exports and domestic consumption will be positive for IPI outlook, we keep our projection for 2022 IPI growth unchanged at +6%.

**Chart 1: IPI Performance by Sector (YoY%)**



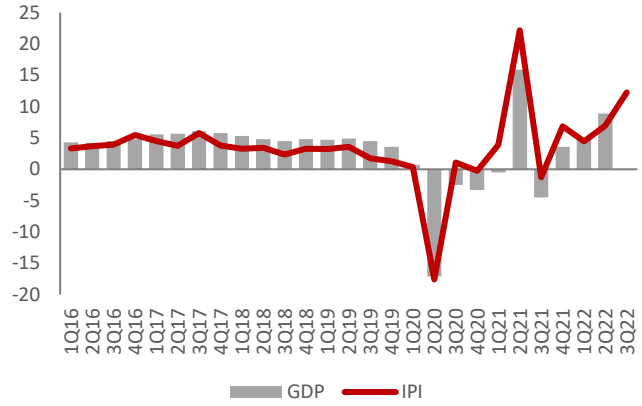

Source: Macrobond, MIDFR

**Chart 2: IPI vs Exports (YoY%)**



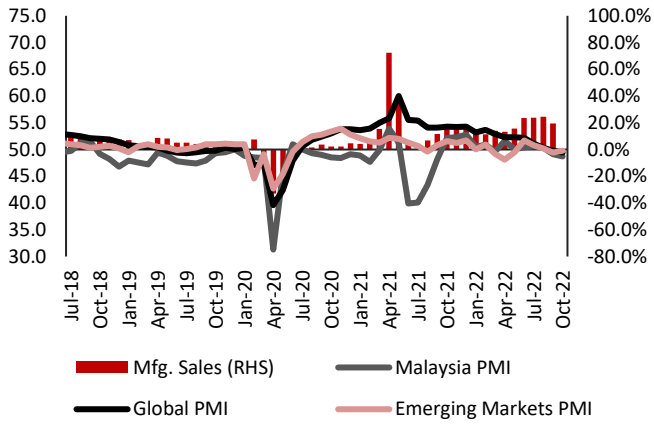

Source: Macrobond, MIDFR

**Chart 3: IPI vs GDP (YoY%)**



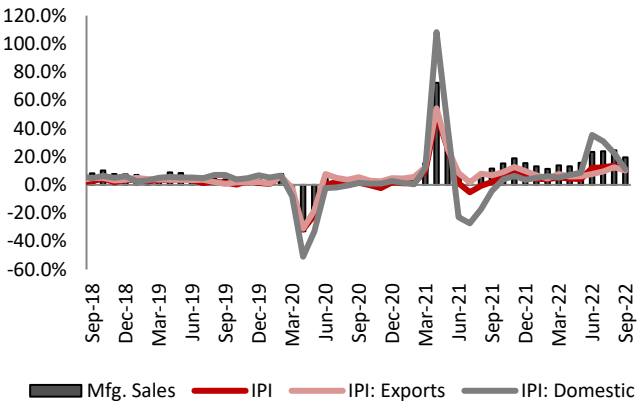

Source: Macrobond, MIDFR

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



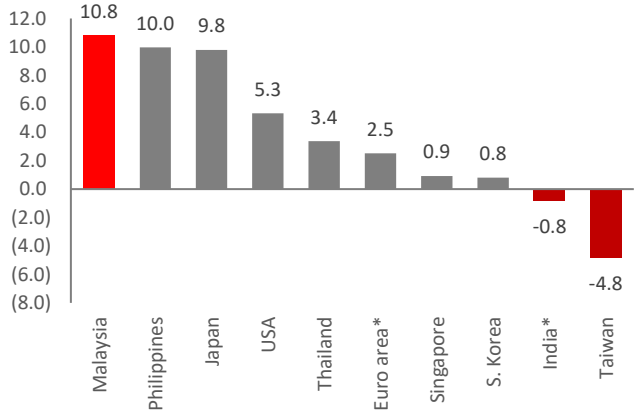

Source: Bloomberg, MIDFR

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




Source: Macrobond, DOSM, MIDFR

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




* refers to latest available data for Aug-22
Source: Macrobond, MIDFR

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