12 December 2022

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

More Moderate IPI Growth in Oct-22 Due to Slower Expansion in Manufacturing and Mining Output

- *IPI growth moderated to +4.6%yoy. Malaysia's IPI growth softened to +4.6%yoy in Oct-22, the slowest growth since May-22 but remained in positives for 14th consecutive month. The softer IPI growth reflects slower rise in production activities in manufacturing and mining sectors, as well as reduced electricity generation.*
- *Manufacturing sales sustained double-digit growth albeit at slower pace. Manufacturing sales still sustained double-digit growth for 14th straight month, albeit relatively slower rate at +12.9%yoy in Oct-22 (Sep-22: +19.5%yoy). On month-on-month basis, value of manufacturing sales fell by -3%mom after adjusting to seasonal difference.*
- *We keep IPI growth forecast for 2022 at +6%. Based on the latest PMI survey, Malaysia's manufacturing sector activities weakened further in Nov-22 as the PMI fell to 47.9 (Oct-22: 48.7) as manufacturers indicated weaker orders and slower output growth. As of Oct-22, IPI growth has been averaging at +7.5% for the first 10 months this year. Overall, we maintain our projection for IPI growth unchanged at +6% for this year.*

IPI growth moderated to +4.6%yoy. Malaysia's IPI growth softened to +4.6%yoy in Oct-22 (Sep-22: +10.8%yoy), the slowest growth since May-22 but remained in positives for 14th consecutive month. The moderating trend is more or less in line with our expectations following moderation in export performance and weaker manufacturing PMI reading. The softer IPI growth in Oct-22 reflects slower rise in production in manufacturing and mining sectors, as well as reduced electricity generation. Manufacturing output growth slowed to +4.2%yoy, but continued to be driven by rising output of refined petroleum, E&E and food products. Meanwhile, higher production of crude oil and LNG contributed to +8.6% growth in mining output; while weaker electricity output indicated slower energy demand in Oct-22. The moderate growth in Oct-22 not only explained by lower IPI than Sep-22, but also due to higher base in Oct-21. Continued IPI growth also indicates positive growth momentum following the reopening of the economy this year, and businesses continued to increase production as economic activities normalize.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%*				YoY%			
	Jul-22	Aug-22	Sep-22	Oct-22	Jul-22	Aug-22	Sep-22	Oct-22
IPI	(3.9)	1.6	0.7	(3.7)	12.5	13.5	10.8	4.6
Mining	(2.7)	0.2	6.3	(6.0)	3.2	8.0	15.0	8.6
Manufacturing	(6.4)	4.3	(0.5)	(3.1)	14.9	15.2	10.4	4.2
Electricity	(4.2)	0.0	(1.1)	(1.0)	13.2	9.9	4.1	(1.9)

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

All sectors recorded reduced output compared to Sep-22. Based on seasonally-adjusted data, overall IPI fell by -3.7%mom from prior month, with decreased output recorded in all major sectors. In particular, manufacturing fell for the second straight month, likely suggests manufacturers adjusting to signs of weakening demand amid easing pressures in global supply chain. Mining sector output also fell, likely affected by LNG supply

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disruption as reported by the national oil company during the month. Meanwhile, the decline in electricity generation reflects weaker energy consumption in line with weaker industrial production. As demand outlook is expected to slow, we anticipate IPI growth could soften further in the final few months of 2022.

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

	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
IPI	**4.6**	**4.1**	**12.1**	**12.5**	**13.5**	**10.8**	**4.6**
Mining	**(0.1)**	**(4.9)**	**2.1**	**3.2**	**8.0**	**15.0**	**8.6**
Crude Petroleum	(0.8)	(6.7)	(2.4)	(8.6)	8.0	7.2	4.8
Natural Gas	0.3	(3.6)	5.5	12.6	8.0	21.0	11.4
Manufacturing	**6.2**	**6.9**	**14.4**	**14.9**	**15.2**	**10.4**	**4.2**
Food Products	3.2	4.2	0.1	5.2	7.6	3.7	3.6
Refined Petroleum Products	(1.0)	2.0	11.0	5.7	12.8	15.4	10.6
Chemicals & Chemicals Products	9.9	8.2	2.2	4.0	4.6	4.2	0.2
Rubber Products	(19.2)	(23.0)	(23.9)	(17.5)	(10.6)	(8.6)	(8.4)
Basic Metals	6.8	7.9	18.9	22.0	11.4	1.3	1.8
Electrical & Electronic Products	14.2	15.6	16.9	17.3	19.6	15.5	8.7
Computers & Peripheral Equipment	12.1	6.0	9.8	8.9	11.8	9.8	(7.4)
Machinery & Equipment	3.2	2.5	6.9	15.8	14.6	12.9	0.4
Motor Vehicles, Trailers & Semi-Trailers	5.1	14.4	179.3	129.9	107.1	35.6	(5.7)
Electricity	**1.5**	**2.8**	**15.4**	**13.2**	**9.9**	**4.1**	**(1.9)**

Source: Macrobond, MIDFR

Moderation in both domestic- and export-oriented sectors. Moderation in IPI growth was recorded in both export-oriented (Oct-22: 5%yoy; Sep-22: +10.1%yoy) and domestic-oriented IPI (Oct-22: +2.5%yoy; Sep-22: +11.2%yoy). In line with export trend, output growth for E&E and refined petroleum moderated, while production of wearing apparels, furniture and rubber products fell during the month. Meanwhile, the domestic-oriented sectors reported weaker IPI growth, reflecting slower IPI for construction goods and F&B as well as reduced motor vehicle output. This suggests continued pressure in the automotive market as production weakened again. Although external demand slowdown will likely hurt export-oriented sectors, we expect continued growth in domestic spending and increased activities in construction sector will support domestic-oriented sectors.

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

	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
IPI: Export-Oriented Industries	**5.8**	**6.1**	**7.8**	**9.5**	**12.4**	**10.1**	**5.0**
Computer, Electronic Products and Optical	16.6	18.9	19.4	18.4	21.5	16.7	10.3
Electrical Equipment	10.8	8.9	9.7	10.9	10.6	9.5	4.5
Chemicals and Chemical Products	9.9	8.2	2.2	4.0	4.6	4.2	0.2
Coke and Refined Petroleum Products	(1.0)	2.0	11.0	5.7	12.8	15.4	10.6
Vegetable & animal oils & fats	(7.8)	(6.7)	(12.5)	(2.3)	5.0	(2.7)	(1.5)
Textiles	4.1	3.5	3.7	10.7	9.7	5.5	1.3
Wearing Apparel	6.9	5.3	6.9	9.8	2.5	0.4	(8.1)
Wood and Wood Products	7.8	9.5	17.7	42.4	13.1	7.3	0.1
Furniture	16.7	9.6	24.6	52.2	40.9	10.5	(6.7)
Rubber Products	(19.2)	(23.0)	(23.9)	(17.5)	(10.6)	(8.6)	(8.4)

Source: DOSM, MIDFR

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

	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
IPI: Domestic-Oriented Industries	**6.9**	**8.8**	**35.5**	**30.9**	**22.5**	**11.2**	**2.5**
Construction (CO)	5.1	5.2	25.1	23.9	13.6	6.4	3.0
CO: Non Metallic Mineral	7.6	6.1	32.2	34.7	16.7	10.1	3.5
CO: Iron and Steel	6.8	7.9	18.9	22.0	11.4	1.3	1.8
CO: Fabricated Metal	1.9	3.0	24.7	18.2	13.0	7.3	3.5
Consumer (CS)	7.9	10.7	41.5	34.9	27.8	14.1	2.1
CS: Food Products	10.3	11.4	9.8	10.2	9.2	8.4	7.8
CS: Motor Vehicles, Trailers and Semi-Trailers	5.1	14.4	179.2	129.9	107.1	35.6	(5.7)
CS: Other Transport Equipment	6.7	9.6	15.0	22.1	6.5	7.6	12.1
CS: Beverages	10.7	9.9	59.9	50.9	14.9	11.8	1.1
CS: Tobacco Products	11.8	4.6	2,763.5	2,699.2	2813.6	30.0	(28.1)
CS: Paper and Paper Products	8.0	7.4	10.5	14.0	12.2	9.9	2.5
CS: Others	2.3	10.8	41.0	46.7	21.3	3.1	0.4

Source: DOSM, MIDFR

Manufacturing sales sustained double-digit growth albeit at slower pace. Manufacturing sales still sustained double-digit growth for 14th straight month, albeit relatively slower rate at +12.9%yoy in Oct-22 (Sep-22: +19.5%yoy). The continued growth was supported by strong sales of refined petroleum products and E&E components, which offset lower sales of consumer electronics, computers & peripherals, motor vehicles, and rubber gloves. On month-on-month basis, manufacturing sales fell by -3%mom after adjusting to seasonal difference, with downward drags from reduced sales of E&E products, consumer electronics, chemical products, and refined petroleum. Although motor vehicle sales picked up further on the back of months of backlogs, the level of sales in Oct-22 was -7.6%yoy less than October last year. We opine manufacturing sales will continue to grow on the back of robust domestic spending and easing supply constraints.

Table 5: Manufacturing Sales (YoY%)

	MoM%			YoY%		
	Aug-22	Sep-22	Oct-22	Aug-22	Sep-22	Oct-22
Manufacturing Sales [1]	**6.1**	**2.7**	**(1.8)**	**24.4**	**19.5**	**12.9**
Seasonally-adjusted month-on-month change (%)	*4.8*	*0.6*	*(3.0)*	-	-	-
Refined Petroleum Products	2.7	(2.7)	(2.1)	59.6	60.6	56.0
Chemicals and Chemical Products	6.3	(5.8)	(4.2)	10.1	8.1	2.4
Rubber Gloves	(14.5)	4.0	4.0	(20.3)	(16.3)	(5.3)
Iron & Steel Products	32.5	19.4	(1.3)	9.2	(0.8)	(0.4)
Diodes, Transistor & Electronic Integrated Circuits Mic	12.5	8.4	(3.8)	42.3	42.2	30.0
Electrical Capacitor Resistor, Circuit Board & Display Comp	11.7	16.2	(11.5)	22.5	21.4	30.8
Computers & Peripherals Equipment	6.6	(32.8)	47.0	22.3	20.8	(7.3)
Consumer Electronics	10.9	10.5	(13.9)	12.6	13.8	(8.5)
Motor Vehicles	1.2	18.1	7.0	29.8	11.5	(7.6)

Source: Macrobond, DOSM, MIDFR

IPI growth started to turned negative in some countries. Looking at the trends in IPI growth, momentum in global production activities slowed in Oct-22. Firstly, global manufacturing dropped to 49.4 in Oct-22 (Sep-22: 49.8). Secondly, we noticed IPI started to fall in selected economies, such as Thailand, Taiwan, South Korea and Singapore. Like Malaysia, IPI growth in the US and Japan also registered a more moderate growth in Oct-22. This signals output growth slowed down as new orders softened. The latest global manufacturing PMI also suggests the weakening trend will continue as the index fell further to 48.8 in Nov-22, with countries reporting slowing growth in new orders and production. Taking into account the weaker growth in China following prolonged lockdowns and strict Covid policy, we expect this would exacerbate the weaker momentum in regional production and trade activities particularly in the final two months of 2022. In addition, we expect global businesses will also make adjustment in anticipation for weaker demand outlook following aggressive policy tightening in major economies.

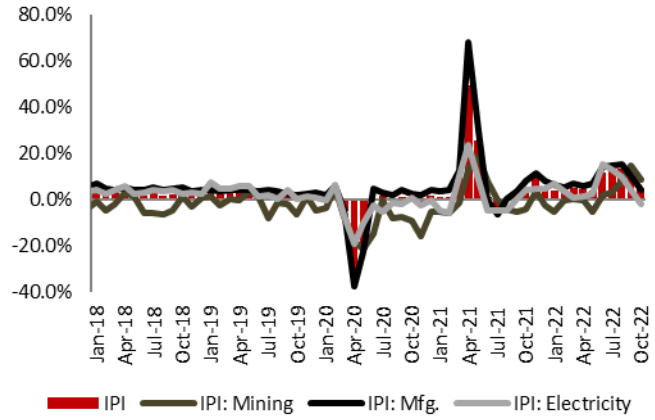
Table 6: IPI for Selected Economies (YoY%)

	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
Malaysia	4.6	4.1	12.1	12.5	13.6	10.8	4.6
Philippines	7.6	8.0	8.3	10.6	11.8	12.0	12.7
Thailand	(0.0)	(2.0)	(0.2)	6.4	14.9	3.3	(3.7)
Singapore	5.3	10.8	3.1	1.4	0.8	1.6	(0.8)
S. Korea	3.6	7.4	1.3	1.5	1.5	0.7	(1.1)
Taiwan	6.4	4.1	0.5	1.6	3.3	(4.5)	(3.6)
India	6.7	19.7	12.6	2.2	(0.7)	3.1	n.a.
Japan	(4.9)	(3.1)	(2.8)	(2.0)	5.8	9.6	3.7
Euro area	(2.5)	1.6	2.1	(2.5)	2.8	4.9	n.a.
USA	5.3	4.4	3.9	3.9	3.8	5.0	3.3

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

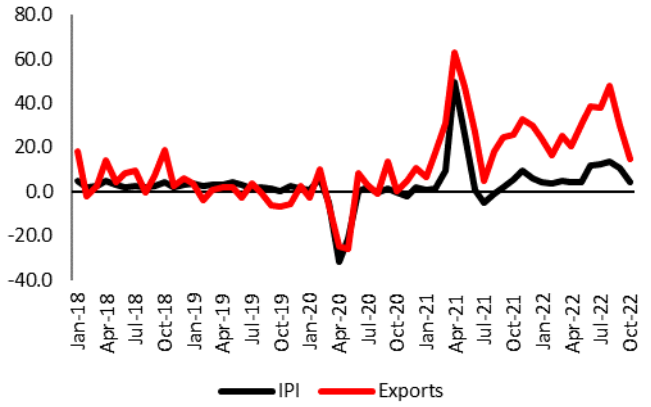
We keep IPI growth forecast for 2022 at +6%. Based on the latest PMI survey, Malaysia's manufacturing sector activities weakened further in Nov-22 as the PMI fell to 47.9 (Oct-22: 48.7) as manufacturers indicated weaker orders and slower output growth. Due to concerns over slowing external demand, we keep a cautiously optimistic view on the near-term production outlook. In addition, there still concern over possible recession risk especially in advanced economies as demand condition is expected to soften going into next year as a result of aggressive policy tightening by major central banks. As of Oct-22, IPI growth has been averaging at +7.5% for the first 10 months this year. In view of slowing exports and production in regional countries and signs of weaker demand from major trading partners, we opine IPI growth to continue moderating in the near term. In contrast, we expect growing domestic demand will continue to support production in domestic-oriented sectors. Overall, we maintain our projection for IPI growth unchanged at +6% for this year.

Chart 1: IPI Performance by Sector (YoY%)



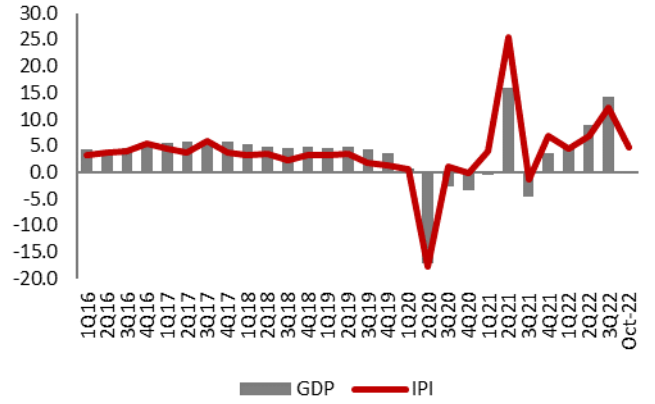
Source: Macrobond, MIDFR

Chart 2: IPI vs Exports (YoY%)



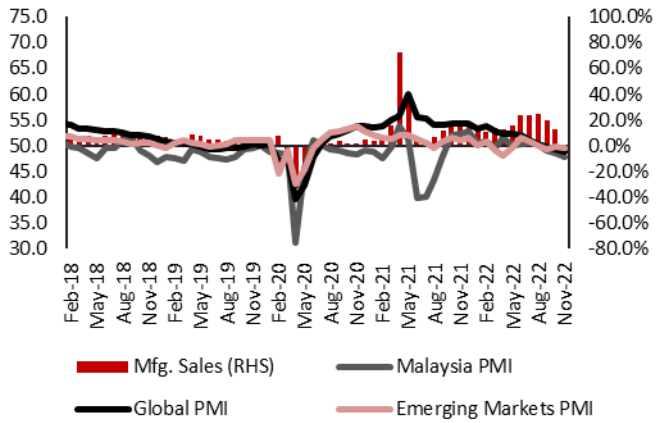
Source: Macrobond, MIDFR

Chart 3: IPI vs GDP (YoY%)



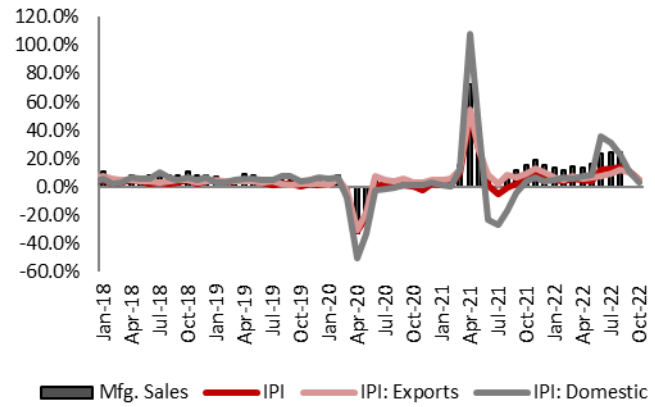
Source: Macrobond, MIDFR

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



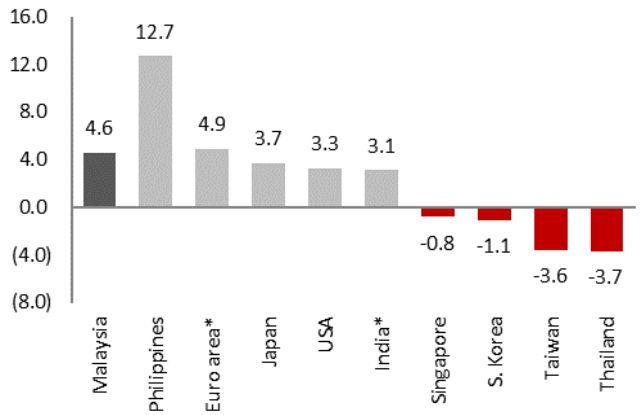
Source: Macrobond, Bloomberg, MIDFR

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



Source: Macrobond, DOSM, MIDFR

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



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

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