13 March 2023

ECONOMIC REVIEW | January 2023 Industrial Production Index

IPI Growth Moderated to +1.8%yoy in Jan-23, the Slowest Growth in 17 Months

- *IPI growth at the slowest pace since Sep-21. Malaysia's IPI growth slowed further to +1.8%yoy in Jan-23 (Dec-22: +2.8%yoy), slightly below our forecast and market consensus. The Jan-23 IPI growth, which was the slowest in 17 months, was due to weaker manufacturing output and reduction in electricity generation.*
- *Softer manufacturing sales. Manufacturing sales experienced another month of moderation, growing at +6.5%yoy which was the weakest annual growth since Aug-21. This can be attributable to slower sales which dropped -2.9%mom from previous month, with the seasonally-adjusted sales value decreasing to RM144.8b which was the lowest in 11 months.*
- *Maintain forecast, IPI to grow at 3.5% this year. Despite the slightly weaker-than-expected Jan-23 data, we maintain our projection that overall IPI growth to moderate to +3.5% this year from +6.7% growth last year. We priced in slower IPI growth taking into account absence of low-base effect and softer external demand this year.*

IPI growth at the slowest pace since Sep-21. Malaysia's IPI growth slowed further to +1.8%yoy in Jan-23 (Dec-22: +2.8%yoy), slightly below our forecast and market consensus. Nevertheless, the moderating trend was expected in view of the subdued export growth and below-50 manufacturing PMI reading in Jan-23. The Jan-23 IPI growth, which was the slowest in 17 months, was due to weaker manufacturing output (+1.3%yoy) and reduction in electricity generation (-4.3%yoy). Apart from declines in production of rubber products, basic metals, and computer & peripheral equipment, the slower manufacturing output reflected weaker growth in output of E&E, machinery equipment, and food products. Meanwhile, reduced electricity output indicated lower energy demand during the month. On the other hand, mining output was stronger in Jan-23 following higher output of crude petroleum and LNG. This was also similar the trend in external trade, which saw stronger exports of petroleum products during the month.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%*				YoY%			
	Oct-22	Nov-22	Dec-22	Jan-23	Oct-22	Nov-22	Dec-22	Jan-23
IPI	(2.7)	1.6	(2.0)	(2.4)	4.4	4.9	2.8	1.8
Mining	(4.0)	(1.2)	(0.8)	(0.4)	7.6	7.0	3.9	5.9
Manufacturing	(2.3)	2.0	(1.9)	(2.7)	4.2	4.8	3.0	1.3
Electricity	(0.4)	0.2	(1.0)	(4.3)	(2.2)	(0.5)	(2.2)	(4.3)

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

Another month IPI lower than previous month. From month-on-month perspective, industrial production fell again by by -2.4%mom (Dec-22: -1.6%mom) from the previous month, dragged down by lower production in all major sectors. While the data has been adjusted to seasonal effect i.e. Chinese New Year holiday, the continued fall particularly in manufacturing and electricity generation reflects the weakness in

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business activity as shown by the sharper fall in manufacturing PMI to 46.5, which was the lowest level in 17 months. This shows local producers were more concerned with signs of weaker new orders, including decline in overseas demand. The cautiousness was also reflected in the sharper moderation in imports in Jan-23, although the PMI survey actually indicated manufacturers remained optimistic that demand conditions will improve in the next 12 months. For the mining IPI, the sector's sequential decline for the fourth consecutive month was due to weaker production of crude petroleum, in contrast to the monthly increase in of LNG output.

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

	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23
IPI	**12.7**	**13.2**	**10.8**	**4.4**	**4.9**	**2.8**	**1.8**
Mining	**4.4**	**6.1**	**15.7**	**7.6**	**7.0**	**3.9**	**5.9**
Crude Petroleum	(5.5)	4.5	7.1	4.6	4.6	4.2	8.0
Natural Gas	12.0	7.2	22.3	9.7	8.6	3.7	4.5
Manufacturing	**14.9**	**15.2**	**10.4**	**4.2**	**4.8**	**3.0**	**1.3**
Food Products	5.2	7.6	3.7	3.6	4.9	4.8	3.9
Refined Petroleum Products	5.8	13.1	15.6	10.7	1.3	3.2	11.0
Chemicals & Chemicals Products	4.0	4.6	4.2	0.2	4.9	0.4	1.0
Rubber Products	(17.5)	(10.6)	(8.6)	(8.4)	(9.0)	(8.1)	(8.8)
Basic Metals	22.0	11.4	1.3	1.8	1.4	(3.0)	(4.7)
Electrical & Electronic Products	17.3	19.6	15.5	8.7	12.1	7.2	0.4
Computers & Peripheral Equipment	8.9	11.8	9.8	(7.4)	(2.6)	(9.0)	(13.6)
Machinery & Equipment	15.8	14.6	12.9	0.4	4.3	10.3	1.3
Motor Vehicles, Trailers & Semi-Trailers	129.9	107.1	35.6	(5.7)	9.4	11.8	12.2
Electricity	**13.1**	**9.8**	**3.3**	**(2.2)**	**(0.5)**	**(2.2)**	**(4.3)**

Source: Macrobond, MIDFR

Sharper moderation in export-oriented IPI. In line with slower exports, growth in IPI for export-oriented sectors slowed to +0.6%yoy in Jan-23, the slowest expansion since returning to growth in post-pandemic recovery from Jun-22. Thanks to higher production of petroleum products and oils & fats, the growth remained in positives which more than offset the weaker growth in E&E output and declines in output of other export sectors such as furniture, woods products, textiles, and wearing apparels. IPI for domestic-oriented sector also grew at slower pace of +2.7%yoy (Dec-22: +3.8%yoy), underpinned by sustained production of consumer products such as motor vehicles, food products, tobacco, and paper. However, construction-related output was a downward drag during the month, particularly because decline in iron & steel production. While we expect China's recovery following the economic reopening to be a positive support to trade-oriented sector, we remain cautious on the drag from weak manufactured goods exports on the back of slowing global demand with major central banks to continue raising their policy interest rates. Nevertheless, we expect the increased in domestic spending from local consumers and higher tourist arrivals will likely support production for domestic- and consumer-oriented products.

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

	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23
IPI: Export-Oriented Industries	**9.5**	**12.4**	**10.1**	**5.0**	**5.1**	**2.7**	**0.6**
Computer, Electronic Products and Optical	18.4	21.5	16.7	10.3	14.1	7.6	0.8
Electrical Equipment	10.9	10.6	9.5	4.5	3.8	1.9	(2.8)
Chemicals and Chemical Products	4.0	4.6	4.2	0.2	4.9	0.4	1.0
Coke and Refined Petroleum Products	5.7	12.8	15.4	10.6	1.6	3.4	11.0
Vegetable & animal oils & fats	(2.3)	5.0	(2.7)	(1.4)	0.6	7.1	8.3
Textiles	10.7	9.7	5.5	1.3	(3.5)	(0.9)	(4.7)
Wearing Apparel	9.8	2.5	0.4	(8.1)	0.3	(2.8)	(1.5)
Wood and Wood Products	42.4	13.1	7.3	0.1	(11.6)	(12.8)	(14.5)
Furniture	52.2	40.9	10.5	(6.7)	(7.3)	(8.3)	(11.7)
Rubber Products	(17.5)	(10.6)	(8.6)	(8.4)	(9.0)	(8.1)	(8.8)

Source: DOSM, MIDFR

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

	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23
IPI: Domestic-Oriented Industries	**30.9**	**22.5**	**11.2**	**2.5**	**4.3**	**3.8**	**2.7**
Construction (CO)	23.9	13.6	6.4	3.0	1.1	2.2	(0.6)
CO: Non Metallic Mineral	34.7	16.7	10.1	3.5	0.1	2.2	1.1
CO: Iron and Steel	22.0	11.4	1.3	1.8	1.4	(3.0)	(4.7)
CO: Fabricated Metal	18.2	13.0	7.3	3.5	1.6	5.6	0.4
Consumer (CS)	34.9	27.8	14.1	2.1	6.3	4.8	4.9
CS: Food Products	10.2	9.2	8.4	7.8	8.1	3.4	1.5
CS: Motor Vehicles, Trailers and Semi-Trailers	129.9	107.1	35.6	(5.7)	9.4	11.8	12.2
CS: Other Transport Equipment	22.1	6.5	7.6	12.1	2.9	2.6	0.4
CS: Beverages	50.9	14.9	11.8	1.1	5.4	0.7	(1.6)
CS: Tobacco Products	2699.2	2813.6	30.0	(28.1)	1.6	(12.4)	19.5
CS: Paper and Paper Products	14.0	12.2	9.9	2.5	0.3	2.4	2.2
CS: Others	46.7	21.3	3.1	0.4	5.4	2.7	1.0

Source: DOSM, MIDFR

Softer manufacturing sales. Manufacturing sales experienced another month of moderation, growing at +6.5%yoy which was the weakest annual growth since Aug-21. This can be attributable to slower sales which dropped -2.9%mom from previous month, with the seasonally-adjusted sales value decreasing to RM144.8b which was the lowest in 11 months. This was a result of monthly declines in E&E components, consumer electronics, motor vehicles, rubber gloves, and iron & steel. From the annual perspective, the sustained year-on-year growth since Jun-20 was driven by strong sales of refined petroleum products, motor vehicles, and some E&E components. The growth offset the continued weakness in sales of consumer electronics, rubber gloves, and computers & peripheral equipment. Going forward, we forecast manufacturing sales will continue to grow on the back of easing supply constraints, backlog of orders and sustained growth in domestic demand.

Table 5: Manufacturing Sales (YoY%)

	MoM%			YoY%		
	Nov-22	Dec-22	Jan-23	Nov-22	Dec-22	Jan-23
Manufacturing Sales	**0.2**	**(1.7)**	**(5.4)**	**11.8**	**8.8**	**6.5**
Seasonally-adjusted month-on-month change (%)	*2.0*	*(2.9)*	*(2.9)*	-	-	-
Refined Petroleum Products	(4.8)	(11.3)	5.3	32.1	25.4	26.0
Chemicals and Chemical Products	6.6	5.5	(0.6)	5.3	1.1	1.7
Rubber Gloves	(5.2)	(4.9)	(0.9)	(9.9)	(9.7)	(9.6)
Iron & Steel Products	0.7	(2.5)	(0.6)	2.0	(0.1)	(3.9)
Diodes, Transistor & Electronic Integrated Circuits Mic	(7.6)	0.9	(14.5)	23.4	17.0	6.3
Electrical Capacitor Resistor, Circuit Board & Display Comp	5.1	(11.4)	(10.6)	42.6	11.5	28.5
Computers & Peripherals Equipment	(8.3)	8.0	2.1	(1.3)	(3.0)	(3.4)
Consumer Electronics	5.2	(13.7)	(5.5)	(5.3)	(10.8)	(16.7)
Motor Vehicles	30.7	(0.4)	(17.5)	10.5	17.6	23.2

Source: Macrobond, DOSM, MIDFR

Global production still weakened, despite some improvement in some countries. Global manufacturing PMI rose to 49.1 in Jan-23 (Dec-22: 48.7), indicating slower contraction in global manufacturing activities. IPI declined faster in Taiwan, South Korea, Japan, and Singapore. In line with the weak regional trend, Malaysia registered slower IPI growth during the month. US industrial output grew at moderate pace +0.8%yoy, the slowest growth in 23 months mainly due weak manufacturing output and decline utility generation. In contrast, Philippines and India recorded stronger IPI growth, indicating signs of stabilization. Meanwhile, Thailand reported slower fall in IPI, but remained in negative territory for the fourth straight month as production in the country was impacted by weaker exports. Looking at the latest trend, the positive effect from China's reopening has yet to boost production activities in regional East Asian countries, while the continued tightening by the Fed had caused IPI growth to moderate further in the US. Perhaps the positive will be visible in the coming months, as global PMI finally returned to 50 in Feb-23 after 5 months of contraction. Moreover, the more encouraging developments in Europe could be a less drag to the global economy. Nevertheless, the international trade and production could be negatively affected by weaker demand from the US as the Fed keeping its hawkish stance.

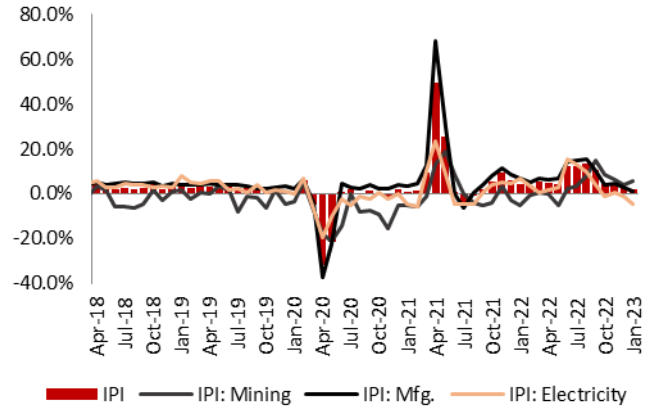
Table 6: IPI for Selected Economies (YoY%)

	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23
Malaysia	3.6	11.8	12.7	13.2	10.8	4.4	4.9	2.8	1.8
Philippines	6.7	7.8	12.3	12.6	12.7	14.6	13.3	9.5	15.4
Thailand	(2.0)	(0.2)	6.4	14.9	3.3	(4.0)	(5.1)	(8.5)	(4.3)
Singapore	10.7	3.0	1.4	0.6	0.7	(1.0)	(4.1)	(2.6)	(2.7)
S. Korea	7.4	1.3	1.5	1.5	0.6	(1.2)	(5.5)	(10.5)	(12.7)
Taiwan	4.2	0.7	1.8	3.1	(4.6)	(4.3)	(5.5)	(8.0)	(20.5)
India	19.6	12.6	2.2	(0.7)	3.3	(4.2)	7.3	4.3	5.2
Japan	(3.1)	(2.8)	(2.0)	5.8	9.6	3.0	(0.9)	(0.8)	(3.1)
Euro area	1.6	2.2	(2.5)	2.6	5.1	3.4	2.8	(1.7)	n.a.
USA	4.4	3.7	3.6	3.5	4.7	3.2	2.0	1.1	0.8

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

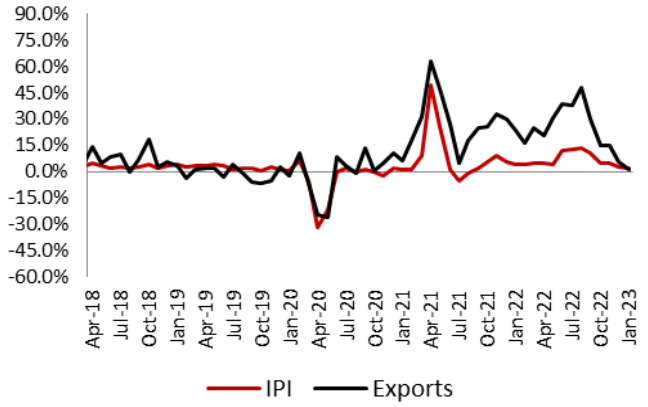
Maintain forecast, IPI to grow at 3.5% this year. Despite the slightly weaker-than-expected Jan-23 data, we maintain our projection that overall IPI growth to moderate to +3.5% this year from +6.7% growth last year. Production will continue to grow to cope with increasing demand, both from domestic and export markets. Domestic demand will remain key, given the continued double-digit growth in retail sales (Jan-23: +21.7%yoy; Dec-22: 22.7%yoy). Nevertheless, we priced in slower IPI growth taking into account absence of low-base effect and softer external demand this year. Still, we foresee exports and production outlook to benefit from continued demand for E&E components and petroleum products, on top of the expected positive effect from reopening of China's economy. On the other hand, we remain cautious that weaker-than-expected global demand and regional production network could be the downward drag to Malaysia's IPI outlook this year.

Chart 1: IPI Performance by Sector (YoY%)



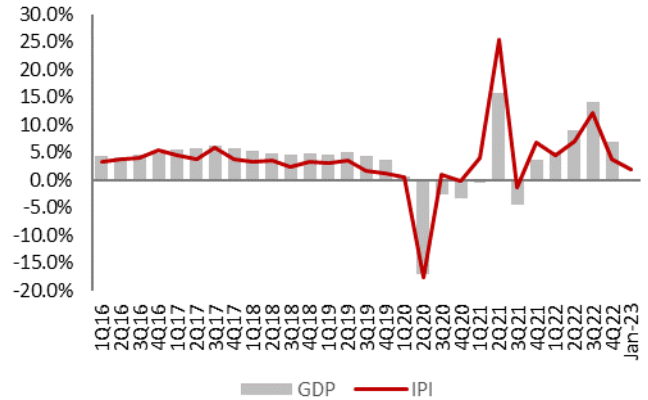
Source: Macrobond, MIDFR

Chart 2: IPI vs Exports (YoY%)



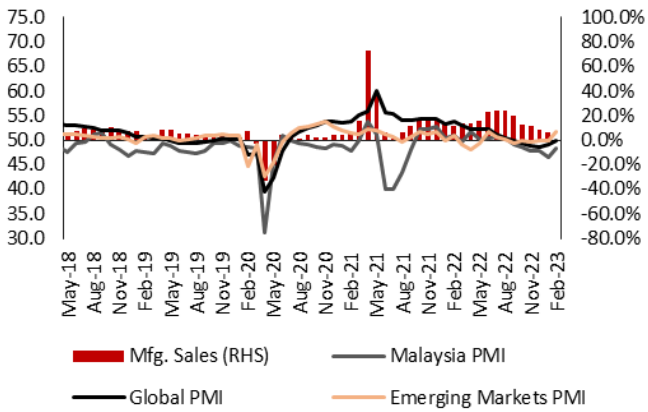
Source: Macrobond, MIDFR

Chart 3: IPI vs GDP (YoY%)



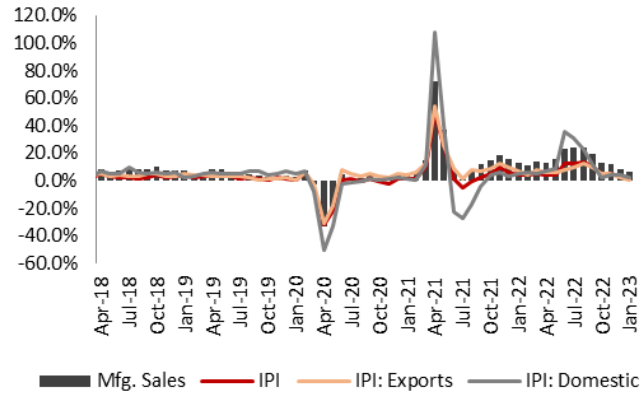
Source: Macrobond, MIDFR

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



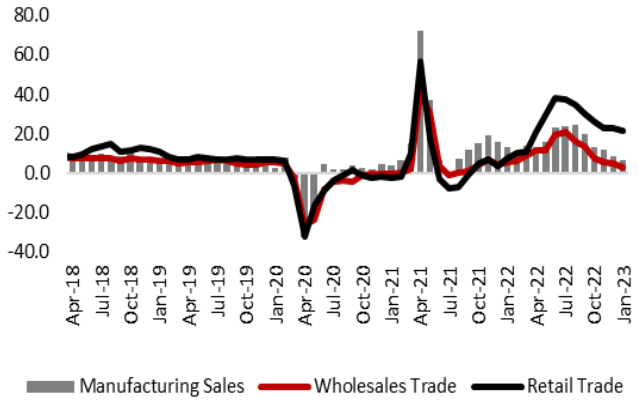
Source: Macrobond, Bloomberg, MIDFR

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



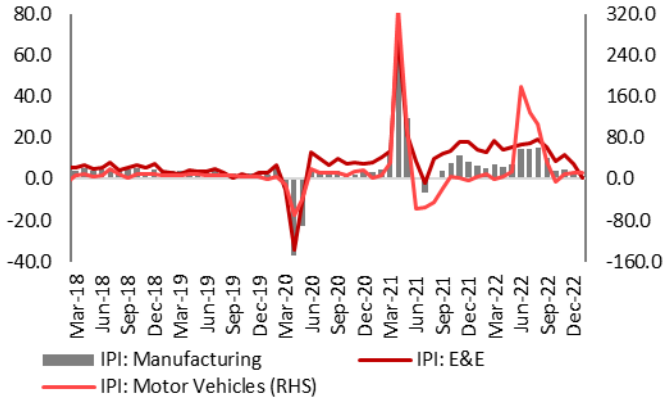
Source: Macrobond, DOSM, MIDFR

Chart 6: Mfg. Sales vs. Wholesale & Retail Trade (YoY%)



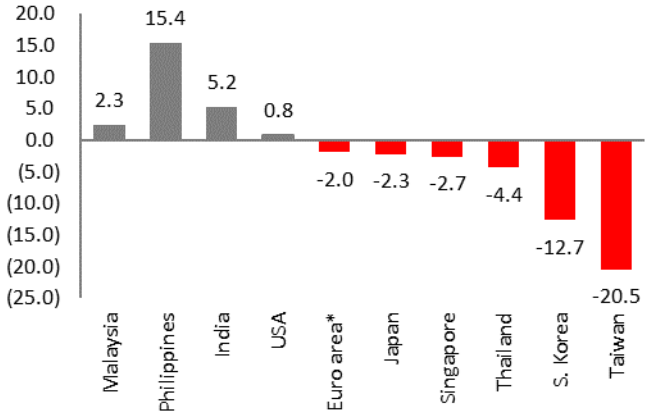
* refers to latest available data for Nov-22
Source: Macrobond, MIDFR

Chart 7: IPI: Mfg. vs IPI: Motor Vehicles & IPI:E&E (YoY%)



Source: Macrobond, DOSM, MIDFR

Chart 8: Global IPI in Dec-22 (YoY%)



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

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