11 April 2023

ECONOMIC REVIEW | **February 2023 Industrial Production Index**

Industrial Production Expanded Faster by +3.6%yoy in Feb-23

- *IPI grew faster in Feb-23. Malaysia's IPI rose faster and better-than-expected at +3.6%yoy in Feb-23 (Jan-23: +1.8%yoy), underpinned by stronger manufacturing output (+4.9%yoy) and rebound in electricity generation (+1.1%yoy).*
- *Manufacturing sales grew at double digit again. Manufacturing sales growth also accelerated to +10.3%yoy in Feb-23. The increase was backed by higher sales of refined petroleum products, E&E components, iron & steel, chemical products, and motor vehicles.*
- *Maintain forecast, IPI to grow at 3.5% this year. The +2.7%yoy growth in the first two months 2023 was below but still close to our projection. As such, we maintain our projection that overall IPI will register a more moderate growth of +3.5% this year (2022: +6.7%).*

IPI grew faster in Feb-23. Malaysia's IPI rose faster and better-than-expected at +3.6%yoy in Feb-23 (Jan-23: +1.8%yoy), underpinned by stronger manufacturing output (+4.9%yoy) and rebound in electricity generation (+1.1%yoy). Although the IPI growth was slightly above our forecast, we anticipated for the stronger expansion in view of higher export growth and better manufacturing PMI during the month. The details showed that the increase in manufacturing output was driven by higher output of various products, among others E&E, chemicals, food products and basic metals. Meanwhile, the rebound in electricity output reflected higher energy demand during the month, reflective of increased business and manufacturing activities. Mining output, however, fell due to weaker output of both crude petroleum and LNG.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%*				YoY%			
	Nov-22	Dec-22	Jan-23	Feb-23	Nov-22	Dec-22	Jan-23	Feb-23
IPI	1.6	(2.0)	(2.4)	4.9	4.9	2.8	1.8	3.6
Mining	(1.2)	(0.8)	(0.4)	(1.1)	7.0	3.9	5.9	(0.5)
Manufacturing	2.0	(1.9)	(2.7)	6.5	4.8	3.0	1.3	4.9
Electricity	0.2	(1.0)	(4.3)	5.1	(0.5)	(2.2)	(4.3)	1.1

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

Rebound after 2 monthly declines. In terms of month-on-month change, seasonally-adjusted IPI recorded a rebound, rising +4.9%mom after 2 straight months of monthly contraction. The increase in Feb-23 was the fastest monthly jump since Jun-22, driven mainly by higher manufacturing and electricity output. This signals some stabilization in the manufacturing sector because the better PMI reading in Feb-23 also pointed to improvement in output and new orders. On the other hand, mining output remained weak, having declined for the fifth consecutive month, due to lower output of crude petroleum and LNG.

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

	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23
IPI	**13.2**	**10.8**	**4.4**	**4.9**	**2.8**	**1.8**	**3.6**
Mining	**6.1**	**15.7**	**7.6**	**7.0**	**3.9**	**5.9**	**(0.5)**
Crude Petroleum	4.5	7.1	4.6	4.6	4.2	8.0	(0.3)
Natural Gas	7.2	22.3	9.7	8.6	3.7	4.5	(0.5)
Manufacturing	**15.2**	**10.4**	**4.2**	**4.8**	**3.0**	**1.3**	**4.9**
Food Products	7.6	3.7	3.6	4.9	4.8	3.9	13.3
Refined Petroleum Products	12.8	15.4	10.6	1.6	3.4	11.0	6.5
Chemicals & Chemicals Products	4.6	4.2	0.2	4.9	0.4	1.0	2.8
Rubber Products	(10.6)	(8.6)	(8.4)	(9.0)	(8.1)	(8.8)	(6.3)
Basic Metals	11.4	1.3	1.8	1.4	(3.0)	(4.7)	5.1
Electrical & Electronic Products	19.6	15.5	8.7	12.1	7.2	0.4	5.4
Computers & Peripheral Equipment	11.8	9.8	(7.4)	(2.6)	(9.0)	(13.6)	(5.4)
Machinery & Equipment	14.6	12.9	0.4	4.3	10.3	1.3	2.5
Motor Vehicles, Trailers & Semi-Trailers	107.1	35.6	(5.7)	9.4	11.8	12.2	9.5
Electricity	**9.8**	**3.3**	**(2.2)**	**(0.5)**	**(2.2)**	**(4.3)**	**1.1**

Source: Macrobond, MIDFR

Pick-up in both export- and domestic-oriented IPI. IPI for export-oriented sectors rose faster at +3.9%yoy in Feb-23, matching the stronger exports growth, following stronger output of E&E, chemicals, oil & fats, and wearing apparels. The increase more than offset the decline in other products i.e. woods, furniture and rubber products. Similarly, IPI for domestic-oriented sector also grew faster at +7%yoy, the strongest in 5 months. It was mainly led by higher production of consumer products such as food products, transport equipment and paper. In addition, construction-related IPI also picked up with rebound in iron & steel production and stronger output of fabricated metal and non-metallic mineral. We foresee the continued demand for E&E and commodities will drive exports and trade-oriented output, while the continued rise in domestic spending, as shown by the double-digit grpwoth retail sales, will support outlook for the domestic-oriented industries.

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

	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23
IPI: Export-Oriented Industries	**12.4**	**10.1**	**5.0**	**5.1**	**2.7**	**0.6**	**3.9**
Computer, Electronic Products and Optical	21.5	16.7	10.3	14.1	7.6	0.8	6.4
Electrical Equipment	10.6	9.5	4.5	3.8	1.9	(2.8)	1.7
Chemicals and Chemical Products	4.6	4.2	0.2	4.9	0.4	1.0	2.8
Coke and Refined Petroleum Products	12.8	15.4	10.6	1.6	3.4	11.0	6.5
Vegetable & animal oils & fats	5.0	(2.7)	(1.4)	0.6	7.1	8.3	21.5
Textiles	9.7	5.5	1.3	(3.5)	(0.9)	(4.7)	(3.3)
Wearing Apparel	2.5	0.4	(8.1)	0.3	(2.8)	(1.5)	5.5
Wood and Wood Products	13.1	7.3	0.1	(11.6)	(12.8)	(14.5)	(2.5)
Furniture	40.9	10.5	(6.7)	(7.3)	(8.3)	(11.7)	(8.0)
Rubber Products	(10.6)	(8.6)	(8.4)	(9.0)	(8.1)	(8.8)	(6.3)

Source: DOSM, MIDFR

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

	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23
IPI: Domestic-Oriented Industries	**22.5**	**11.2**	**2.5**	**4.3**	**3.8**	**2.7**	**7.0**
Construction (CO)	13.6	6.4	3.0	1.1	2.2	(0.6)	6.5
CO: Non Metallic Mineral	16.7	10.1	3.5	0.1	2.2	1.1	5.2
CO: Iron and Steel	11.4	1.3	1.8	1.4	(3.0)	(4.7)	5.1
CO: Fabricated Metal	13.0	7.3	3.5	1.6	5.6	0.4	8.5
Consumer (CS)	27.8	14.1	2.1	6.3	4.8	4.9	7.4
CS: Food Products	9.2	8.4	7.8	8.1	3.4	1.5	8.9
CS: Motor Vehicles, Trailers and Semi-Trailers	107.1	35.6	(5.7)	9.4	11.8	12.2	9.5
CS: Other Transport Equipment	6.5	7.6	12.1	2.9	2.6	0.4	5.5
CS: Beverages	14.9	11.8	1.1	5.4	0.7	(1.6)	(2.3)
CS: Tobacco Products	2813.6	30.0	(28.1)	1.6	(12.4)	19.5	3.9
CS: Paper and Paper Products	12.2	9.9	2.5	0.3	2.4	2.2	5.6
CS: Others	21.3	3.1	0.4	5.4	2.7	1.0	5.0

Source: DOSM, MIDFR

Manufacturing sales grew at double digit again. Manufacturing sales growth also accelerated to +10.3%yoy in Feb-23. The increase was backed by higher sales of refined petroleum products, E&E components, iron & steel, and chemical products. In addition, motor vehicle sales continued to grow at double-digit on the back of strong demand and improved supply condition. Sales of other products such as computers & peripherals, consumer electronics, and rubber gloves fell at slower pace. Thanks to the lower base, the year-on-year growth was stronger than previous month and back to double-digit growth. On monthly basis, seasonally-adjusted sales of manufacturing goods grew by +8.1%mom, a strong rebound after 2 months of contraction. It was driven by stronger sales of E&E components, consumer electronics, computers & peripherals, and iron & steel. The increase in manufacturing sales was in line with robust consumer spending, as shown by the sustained double-digit growth in retail sales. We foresee sales will continue to grow in coming months on the back of increased domestic consumption, better supply, easing cost and inflationary pressures, as well as positive employment (and income) growth.

Table 5: Manufacturing Sales (YoY%)

	MoM%			**YoY%**		
	Dec-22	Jan-23	Feb-23	Dec-22	Jan-23	Feb-23
Manufacturing Sales	**(1.7)**	**(5.4)**	**(1.9)**	**8.8**	**6.5**	**10.3**
Seasonally-adjusted month-on-month change (%)	*(2.9)*	*(3.9)*	*8.1*	-	-	-
Refined Petroleum Products	(11.3)	5.3	(23.6)	25.4	26.0	24.7
Chemicals and Chemical Products	5.5	(0.6)	(1.8)	1.1	1.7	2.0
Rubber Gloves	(4.9)	(0.9)	(7.2)	(9.7)	(9.6)	(7.9)
Iron & Steel Products	(2.5)	(0.6)	3.3	(0.1)	(3.9)	12.6
Diodes, Transistor & Electronic Integrated Circuits Mic	0.9	(14.5)	10.0	17.0	6.3	4.8
Electrical Capacitor Resistor, Circuit Board & Display Comp	(11.4)	(10.6)	15.4	11.5	28.5	30.8
Computers & Peripherals Equipment	8.0	2.1	9.7	(3.0)	(3.4)	(2.3)
Consumer Electronics	(13.7)	(5.5)	3.8	(10.8)	(16.7)	(5.6)
Motor Vehicles	(0.4)	(17.5)	(13.1)	17.6	23.2	15.6

Source: Macrobond, DOSM, MIDFR

Weak global production despite some improvement. Although global factory activities improved in Feb-23 as global manufacturing PMI increased to 49.9 in Feb-23 (Jan-23: 49.1), countries reported still weak IPI readings. With the exception of Singapore, IPI for most East Asian countries (namely, Japan, South Korea, Taiwan, and Thailand) declined at slower rate, while Malaysia and Philippines continued to register positive IPI growth. In the US, industrial output growth eased further to +0.3%yoy, the slowest expansion in 2 years dragged down by lower manufacturing and utility output vis-à-vis higher mining output. Looking at regional IPIs, the positive effect from China's reopening for regional countries was still limited given the continued weakness in regional trade numbers. With the latest global manufacturing PMI falling slightly to 49.6 in Mar-23, this suggests global manufacturing activities was little changed last month.

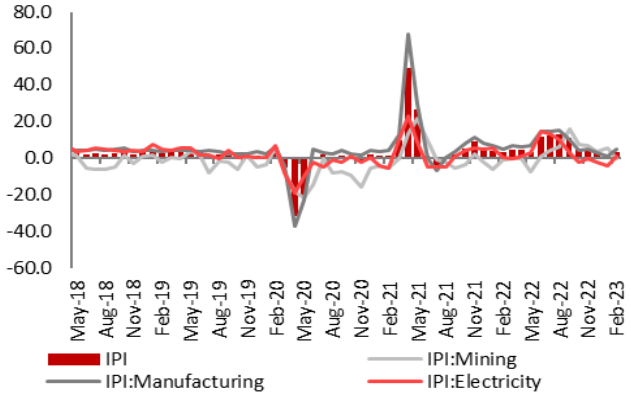
Table 6: IPI for Selected Economies (YoY%)

	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23
Malaysia	12.7	13.2	10.8	4.4	4.9	2.8	1.8	3.6
Philippines	12.3	12.6	12.7	14.6	13.3	9.5	16.0	11.1
Thailand	6.0	14.6	3.0	(4.3)	(5.3)	(8.5)	(4.8)	(2.7)
Singapore	1.7	0.9	1.0	(0.7)	(3.9)	(3.5)	(3.1)	(8.9)
S. Korea	2.6	1.5	0.1	(2.7)	(5.5)	(10.5)	(13.0)	(8.1)
Taiwan	1.7	3.1	(4.6)	(4.3)	(5.5)	(8.0)	(21.0)	(8.7)
India	2.2	(0.7)	3.3	(4.1)	7.3	4.7	5.2	n.a.
Japan	(2.0)	5.8	9.6	3.0	(0.9)	(2.4)	(3.1)	(0.6)
Euro area	(0.7)	5.1	4.9	3.3	2.9	(2.2)	0.7	n.a.
USA	3.0	3.1	4.5	3.1	1.8	0.7	1.0	0.3

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

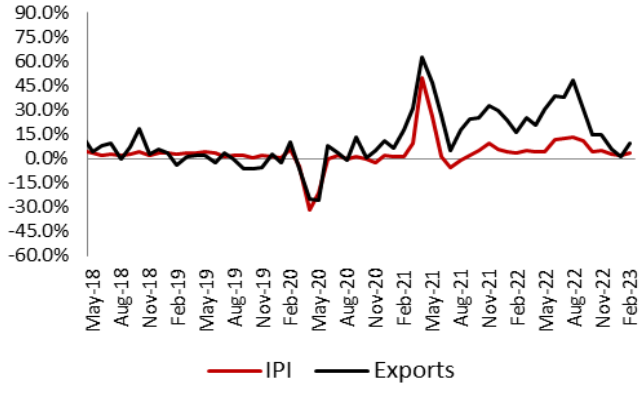
Maintain forecast, IPI to grow at 3.5% this year. The +2.7%yoy growth in the first two months 2023 was below but still close to our projection. As such, we maintain our projection that overall IPI will register a more moderate growth of +3.5% this year (2022: +6.7%). Apart from diminished low-base effect, we priced in slower IPI growth in view of moderating external demand. While Malaysia stands to gain from China's economic recovery, trade and production outlook may be constrained by weaker-than-expected global demand and escalation of geo-political and trade tensions. Nevertheless, we project production will continue to expand on the back of growing domestic demand.

Chart 1: IPI Performance by Sector (YoY%)



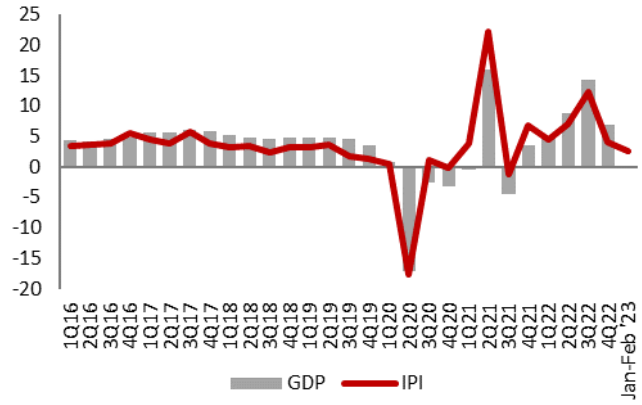
Source: Macrobond, MIDFR

Chart 2: IPI vs Exports (YoY%)



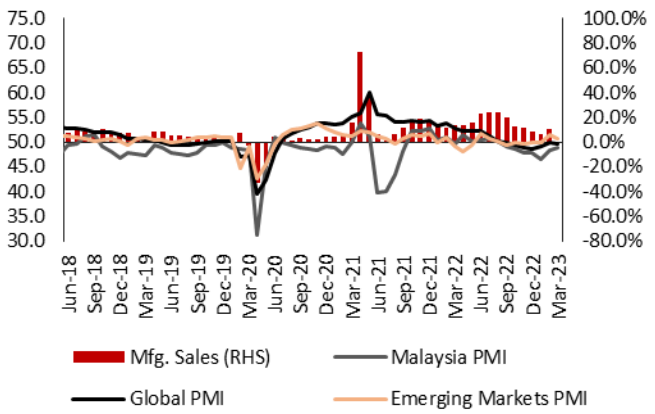
Source: Macrobond, MIDFR

Chart 3: IPI vs GDP (YoY%)



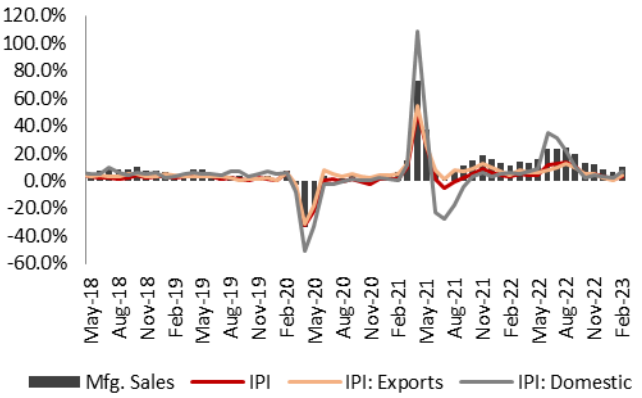
Source: Macrobond, MIDFR

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



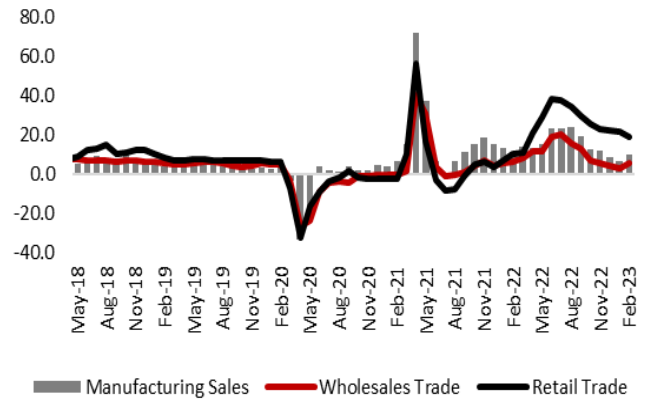
Source: Macrobond, Bloomberg, MIDFR

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



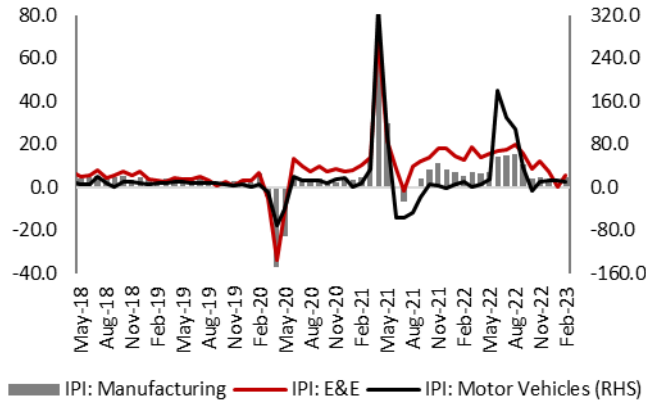
Source: Macrobond, DOSM, MIDFR

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



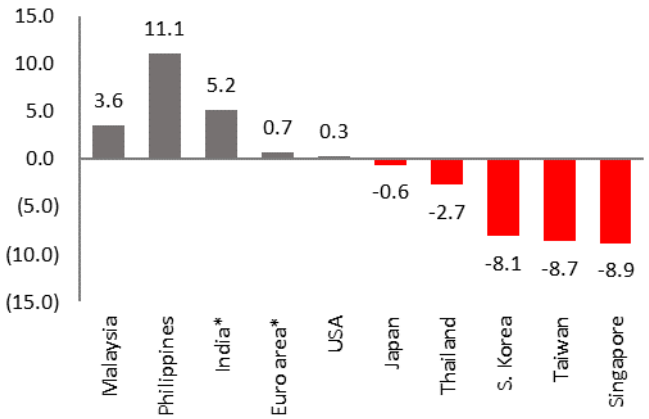
Source: Macrobond, MIDFR

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



Source: Macrobond, DOSM, MIDFR

Chart 8: Global IPI in Feb-23 (YoY%)



* refers to latest available data for Jan-23
Source: Macrobond, MIDFR

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