9 May 2023

ECONOMIC REVIEW | Mar 2023 Industrial Production Index

IPI Grew +3.1%yoy in Mar-23, Higher than Market Forecast

- *Better-than-expected IPI in Mar-23. Malaysia's IPI growth was better than expected and sustained at +3.1%yoy in Mar-23 (Feb-23: +3.5%yoy; market consensus: +1%yoy), underpinned by higher manufacturing output and rebound in mining production.*
- *Value of manufacturing sales rose to 4-month high. Manufacturing sales grew at +8%yoy in Mar-23 (Feb-23: +10.3%yoy, sustaining the positive growth for 34th straight month since mid-2020 with the sales value rising to 4-month high on strong sales of E&E components, motor vehicles, refined petroleum and iron & steel.*
- *Maintain 2023 IPI growth forecast at +3.5%. We maintain our projection that Malaysia's IPI will continue to grow but at moderate pace of +3.5% in 2023 (2022: +6.7%). Increased domestic demand will help to cushion the drag from slower external demand. We still expect Malaysia, like other trading nations, will benefit from recovering demand from China.*

Better-than-expected IPI in Mar-23. Malaysia's IPI growth was better than expected and sustained at +3.1%yoy in Mar-23 (Feb-23: +3.5%yoy; market consensus: +1%yoy). The expansion was underpinned by higher manufacturing output (+4.1%yoy), such as refined petroleum, E&E and motor vehicles, and rebound in mining production (+0.8%yoy), with increased output for both crude oil and LNG. In contrast, electricity output fell by -0.3%yoy, signaling energy demand was slightly lower than a year ago. While the Mar-23 IPI reading was slightly better than our forecast and despite weaker exports during the month, we expected sustained IPI growth as we anticipated better business activities on the back of improved supply condition and easing cost pressures.

Table 1: Malaysia – Summary of Industrial Production Index

	MoM%*				YoY%			
	Dec-22	Jan-23	Feb-23	Mar-23	Dec-22	Jan-23	Feb-23	Mar-23
IPI	(2.0)	(2.4)	4.9	0.0	2.8	1.8	3.5	3.1
Mining	(0.8)	(0.4)	(1.1)	1.0	3.9	5.9	(0.5)	0.8
Manufacturing	(1.9)	(2.7)	6.4	(0.3)	3.0	1.3	4.8	4.1
Electricity	(1.0)	(4.3)	5.1	1.1	(2.2)	(4.3)	1.1	(0.3)

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

IPI was relatively unchanged from Feb-23. On the month-on-month change, the level of IPI in Mar-23 was technically unchanged from Feb-23 after adjusting to seasonal difference. Although the small decline -0.3%mom could have dragged down the overall IPI, this was cushioned by the rebound in mining output (+1%mom) as well as further rise in electricity generation (+1.1%mom). The weakness in manufacturing was in line with the manufacturing PMI survey which highlighted manufacturers limited production growth in view of subdued demand. This could continue in the following month as the sector's PMI remained below 50 (i.e. in contractionary trend) in Apr-23. The monthly increase in mining output was again driven increased production of crude petroleum as well as LNG.

KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES

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

	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
IPI	**10.8**	**4.4**	**4.9**	**2.8**	**1.8**	**3.5**	**3.1**
Mining	**15.7**	**7.6**	**7.0**	**3.9**	**5.9**	**(0.5)**	**0.8**
Crude Petroleum	7.1	4.6	4.6	4.2	8.0	(0.3)	5.0
Natural Gas	22.3	9.7	8.6	3.7	4.5	(0.5)	(2.1)
Manufacturing	**10.4**	**4.2**	**4.8**	**3.0**	**1.3**	**4.8**	**4.1**
Food Products	3.7	3.6	4.9	4.8	3.9	12.2	7.2
Refined Petroleum Products	15.4	10.6	1.6	3.4	11.0	6.5	4.4
Chemicals & Chemicals Products	4.2	0.2	4.9	0.4	1.0	2.8	4.5
Rubber Products	(8.6)	(8.4)	(9.0)	(8.1)	(8.8)	(6.3)	(6.1)
Basic Metals	1.3	1.8	1.4	(3.0)	(4.7)	5.1	4.9
Electrical & Electronic Products	15.5	8.7	12.1	7.2	0.4	5.4	6.4
Computers & Peripheral Equipment	9.8	(7.4)	(2.6)	(9.0)	(13.6)	(5.4)	(4.6)
Machinery & Equipment	12.9	0.4	4.3	10.3	1.3	2.5	7.3
Motor Vehicles, Trailers & Semi-Trailers	35.6	(5.7)	9.4	11.8	12.2	9.5	9.8
Electricity	**3.3**	**(2.2)**	**(0.5)**	**(2.2)**	**(4.3)**	**1.1**	**(0.3)**

Source: Macrobond, MIDFR

Relatively stronger growth for domestic-oriented production. IPI for the domestic-oriented sectors grew relatively stronger at +5%yoy in Apr-23, in contrast to +3.6%yoy rise for the export-oriented industries. Excluding beverages, production increased for almost all major sub-sectors in in the construction and consumer sectors. For the export-oriented sectors, higher output of E&E, chemicals, refined petroleum and oils & fats more than offset the reduced production of furniture, woods & wood products and rubber products. In particular, the sustained growth in automotive production continued to suggest better supply condition, which helped to boost car sales performance in the recent months. While businesses in the trade-oriented sectors may be more concerned about the uncertainties on the external front and softer overseas demand, increased domestic spending will continue to support domestic-oriented and consumption-related industries.

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

	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
IPI: Export-Oriented Industries	**10.1**	**5.0**	**5.1**	**2.7**	**0.6**	**3.9**	**3.6**
Computer, Electronic Products and Optical	16.7	10.3	14.1	7.6	0.8	6.4	7.1
Electrical Equipment	9.5	4.5	3.8	1.9	(2.8)	1.7	0.2
Chemicals and Chemical Products	4.2	0.2	4.9	0.4	1.0	2.8	4.5
Coke and Refined Petroleum Products	15.4	10.6	1.6	3.4	11.0	6.5	4.4
Vegetable & animal oils & fats	(2.7)	(1.4)	0.6	7.1	8.3	21.5	15.2
Textiles	5.5	1.3	(3.5)	(0.9)	(4.7)	(3.3)	(2.5)
Wearing Apparel	0.4	(8.1)	0.3	(2.8)	(1.5)	5.5	4.0
Wood and Wood Products	7.3	0.1	(11.6)	(12.8)	(14.5)	(2.5)	(8.8)
Furniture	10.5	(6.7)	(7.3)	(8.3)	(11.7)	(8.0)	(13.9)
Rubber Products	(8.6)	(8.4)	(9.0)	(8.1)	(8.8)	(6.3)	(6.1)

Source: DOSM, MIDFR

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

	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
IPI: Domestic-Oriented Industries	**11.2**	**2.5**	**4.3**	**3.8**	**2.7**	**7.0**	**5.0**
Construction (CO)	6.4	3.0	1.1	2.2	(0.6)	6.5	5.0
CO: Non Metallic Mineral	10.1	3.5	0.1	2.2	1.1	5.2	4.5
CO: Iron and Steel	1.3	1.8	1.4	(3.0)	(4.7)	5.1	4.9
CO: Fabricated Metal	7.3	3.5	1.6	5.6	0.4	8.5	5.5
Consumer (CS)	14.1	2.1	6.3	4.8	4.9	7.4	5.1
CS: Food Products	8.4	7.8	8.1	3.4	1.5	8.9	2.5
CS: Motor Vehicles, Trailers and Semi-Trailers	35.6	(5.7)	9.4	11.8	12.2	9.5	9.8
CS: Other Transport Equipment	7.6	12.1	2.9	2.6	0.4	5.5	1.9
CS: Beverages	11.8	1.1	5.4	0.7	(1.6)	(2.3)	(0.7)
CS: Tobacco Products	30.0	(28.1)	1.6	(12.4)	19.5	3.9	24.4
CS: Paper and Paper Products	9.9	2.5	0.3	2.4	2.2	5.6	3.4
CS: Others	3.1	0.4	5.4	2.7	1.0	5.0	0.9

Source: DOSM, MIDFR

Value of manufacturing sales rose to 4-month high. Manufacturing sales grew at +8%yoy in Mar-23 (Feb-23: +10.3%yoy, sustaining the positive growth for 34th straight month since mid-2020. The value of manufacturing sales rose to 4-month high following the monthly +7.6%mom jump to RM156.2b. The annual growth was supported by strong sales of E&E components, motor vehicles, refined petroleum and iron & steel products, while sales of consumer electronics and computers & peripherals continued to decline. Meanwhile, the monthly increase in Apr-23 was driven by almost all the major products except computers & peripherals. The sustained growth in manufacturing sales was more or less in line with robust consumer spending, as shown by the sustained double-digit rise in retail sales. Given positive labour market, improved supply condition, easing price pressures, we maintain our expectations the sales performance will continue to grow on the back of increased domestic spending activities.

Table 5: Manufacturing Sales (YoY%)

	MoM%			**YoY%**		
	Jan-23	Feb-23	Mar-23	Jan-23	Feb-23	Mar-23
Manufacturing Sales	**(5.4)**	**(1.9)**	**7.6**	**6.5**	**10.3**	**8.0**
Seasonally-adjusted month-on-month change (%)	*(3.9)*	*8.1*	*(0.5)*	-	-	-
Refined Petroleum Products	5.3	(23.4)	2.1	26.0	25.0	12.7
Chemicals and Chemical Products	(0.6)	(1.8)	6.0	1.7	2.0	2.6
Rubber Gloves	(0.9)	(7.2)	50.2	(9.6)	(7.9)	(7.8)
Iron & Steel Products	(0.6)	3.3	2.6	(3.9)	12.6	9.6
Diodes, Transistor & Electronic Integrated Circuits Mic	(14.5)	10.0	18.9	6.3	4.8	6.0
Electrical Capacitor Resistor, Circuit Board & Display Comp	(10.6)	25.8	13.9	28.5	42.6	42.2
Computers & Peripherals Equipment	2.1	9.7	(7.9)	(3.4)	(2.3)	(2.0)
Consumer Electronics	(5.5)	3.8	19.2	(16.7)	(5.6)	(5.5)
Motor Vehicles	(17.5)	(10.8)	13.5	23.2	18.7	33.5

Source: Macrobond, DOSM, MIDFR

Global production deteriorated in Mar-23. Global production activities were constrained in Mar-23 as IPI for most countries fell, in line with the slight decline in global manufacturing PMI to 49.6 (Feb-23: 49.9). While the US maintained positive IPI growth of +0.5%yoy albeit at much slower rate than previously, other countries especially in the East Asian countries registered declines in industrial output. Lower production in countries like South Korea, Taiwan and Singapore not only reflected the weak exports in recent months, the decline has been closely linked to the subdued global demand for manufactured goods. The same trend was observed in the SIA global semiconductor sales which fell by -21.3%yoy in 1QCY23 from a year ago after sales declined -8.7%qoq from 4QCY22. While China's recovery from the economic reopening did not contribute to the global demand in 1Q as initiatilly anticipated, manufacturing activities in China even returned back to contractionary territory in Apr-23 as PMIs reported by Caixin and NBS both fell to 49.5 (Mar-23: 50) and 49.2 (Mar-23: 51.9), respectively. We foresee the weakness in global manufacturing to persist in Apr-23 as the global manufacturing PMI was unchanged below 50 at 49.6.

Table 6: IPI for Selected Economies (YoY%)

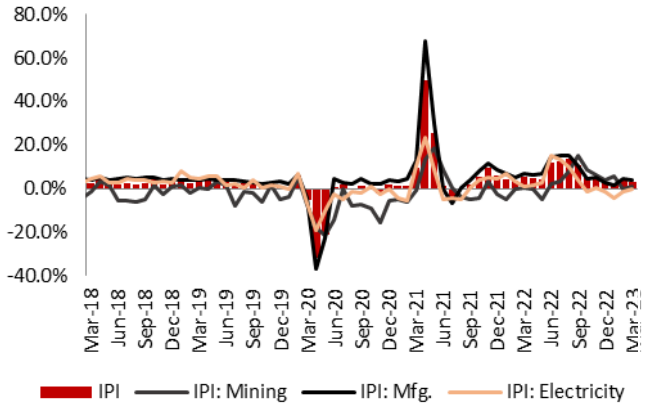
	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
Malaysia	13.2	10.8	4.4	4.9	2.8	1.8	3.5	3.1
Philippines	12.3	12.5	14.4	13.1	9.8	14.8	9.0	4.9
Thailand	14.6	3.0	(4.3)	(5.3)	(8.5)	(4.8)	(2.4)	(4.6)
Singapore	1.0	1.1	(0.6)	(3.7)	(3.5)	(3.1)	(9.7)	(4.2)
S. Korea	1.5	0.1	(2.7)	(5.5)	(10.5)	(13.4)	(8.0)	(7.6)
Taiwan	3.1	(4.6)	(4.3)	(5.5)	(8.0)	(21.0)	(7.7)	(14.5)
India	(0.7)	3.3	(4.1)	7.6	4.7	5.5	5.6	n.a.
Japan	5.8	9.6	3.0	(0.9)	(2.4)	(3.1)	(0.5)	(0.7)
Euro area	5.1	4.8	3.4	2.8	(2.3)	0.9	2.2	n.a.
USA	3.1	4.5	3.1	1.9	0.6	1.4	0.9	0.5

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

IPI signals sustained expansion in 1Q GDP. Despite concerns over slowing growth momentum, the recent economic indicators pointed to continued expansion in Malaysia's economic growth in 1QCY23. IPI registered a rise of +2.8%yoy in 1QCY23 (4QCY22: +4%yoy), backed by increased output in mining and manufacturing sectors, while electricity generation contracted for the second straight quarter. Given the confidence the economy will continue to grow, we believe this enabled BNM to proceed with its policy normalization by raising OPR back to pre-pandemic level of 3.00% at the monetary policy meeting last week.

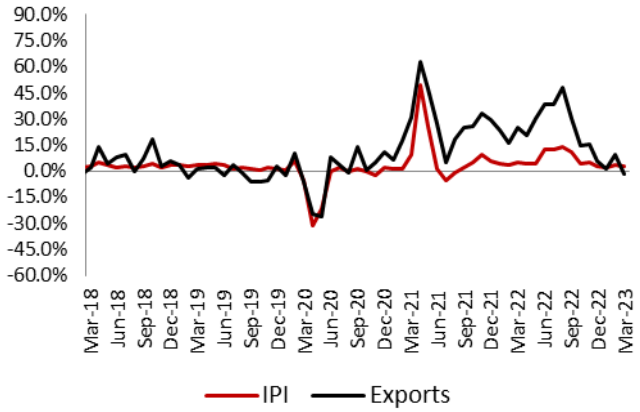
Maintain 2023 IPI growth forecast at +3.5%. We maintain our projection that Malaysia's IPI will continue to grow but at moderate pace of +3.5% in 2023 (2022: +6.7%). Despite the better-than-expected IPI reading in Mar-23, it was still in line with our expectation for a sustained IPI growth. Increased domestic demand will help to cushion the drag from slower external demand. We still expect Malaysia and other trading nations will benefit from recovering demand from China, although the spillover in the first 3 months this year has been rather limited. On the near-term outlook, we maintain a cautiously optimistic view because production activities may be constrained by the prolonged weakness in global demand (particularly for manufactured goods), escalation of geopolitical tensions, sticky inflation, and more significant slowdown in the global economy.

Chart 1: IPI Performance by Sector (YoY%)



Source: Macrobond, MIDFR

Chart 2: IPI vs Exports (YoY%)



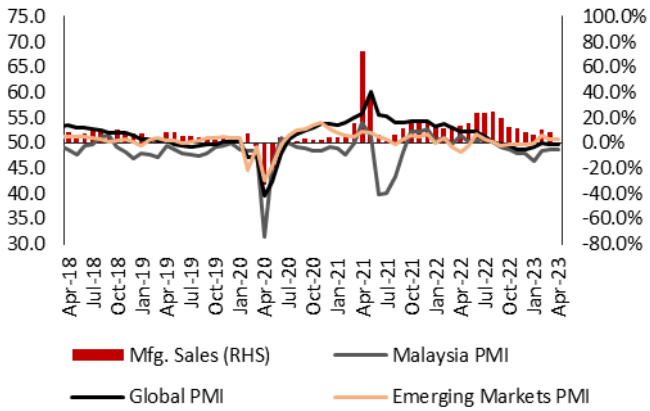
Source: Macrobond, MIDFR

Chart 3: IPI vs GDP (YoY%)



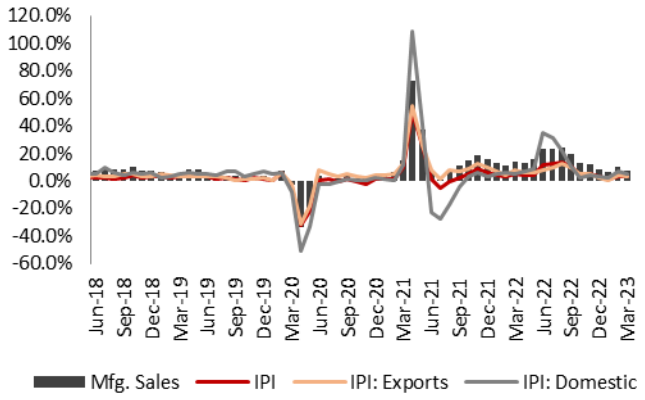
Source: Macrobond, MIDFR

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



Source: Macrobond, Bloomberg, MIDFR

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



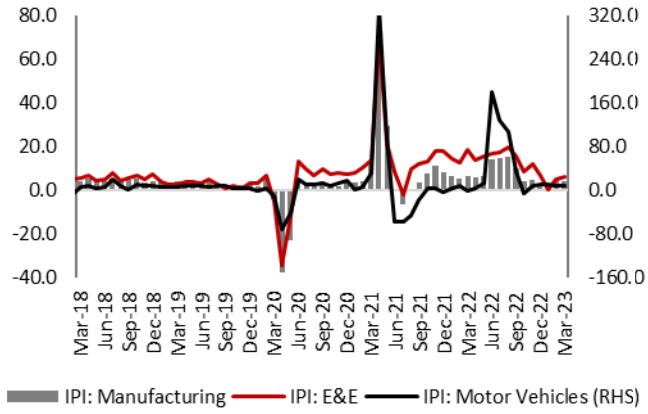
Source: Macrobond, DOSM, MIDFR

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



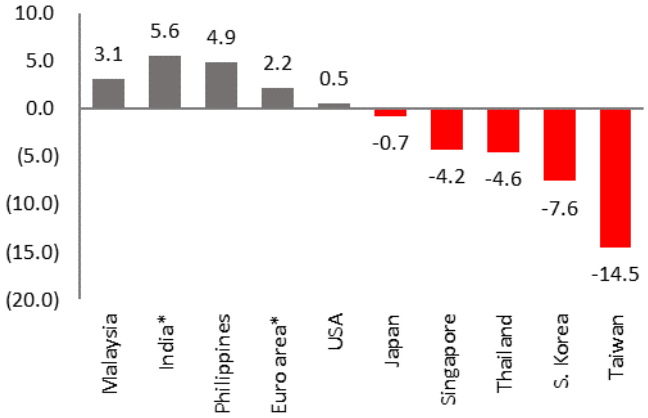
Source: Macrobond, MIDFR

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



Source: Macrobond, DOSM, MIDFR

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



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

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad 197501002077 (23878-X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878-X)). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein This document may not be reproduced, distributed or published in any form or for any purpose.