KERATAN AKHBAR

TARIKH : 13 DISEMBER 2022

AKHBAR : THE STAR

MUKA SURAT : 5 (STARBIZ)

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However, mining sector seen to support IPI

ECONOMY

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Yeah Kim Leng

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PETALING JAYA: Economists are anticipating the downturn in the industrial production index (IPI) to continue well into 2023, in line with forecasts of a looming global recession next year.

According to the statistics released by the Statistics Department, the IPI saw a sharp contraction in October to a 4.6% increase year-on-year (y-o-y) from a 10.8% y-o-y rise in September.

Sunway University professor of economics Yeah Kim Leng told *StarBiz* that the global economy is expected to enter into a more pronounced slowdown or at least a shallow recession next year.

"This is mainly due to the continued monetary tightening from the Federal Reserve (Fed).

"More interest rate hikes are expected to be implemented by the Fed to bring inflation under control.

"This will result in further contractionary pressure on global growth and our exports will be hit," he said.

Yeah noted that inflation rates in the United States are currently between 5% and 6% and still far from the targeted range of 2% to 3%.

"Therefore, we still have some way to go before the inflation trajectory will reach the desired levels.

"Although it is not mentioned, it is also understood that inflation levels will likely be around 3% to 4%, higher than pre-pandemic levels. Recovery in IPI levels will depend on whether there will be a reversal in interest rate hikes by the Fed," he said.

Going forward, Yeah opined that the mining sector will continue to provide support to the IPI.

"The only bright spot in the IPI is the mining sector. The oil and gas industry has shown a commendable performance, albeit seeing a slower growth," he said.

According to the Statistics Department, the growth of IPI during October was underpinned by the expansion in the mining (up by 8.6%) and manufacturing (up by 4.2%) sectors.

The electricity index fell by 1.9% y-o-y. In the mining sector, the natural gas index surged by 11.4% while the crude oil and condensate index increased by 4.8%.

Following a growth of 10.4% in September, the manufacturing sector saw a slowdown, posting only an increment of 4.2% for October.

Electrical and electronics products (up by 8.7%), petroleum, chemical, rubber and plastic products (up by 3.2%), along with non-metallic mineral products, basic metal and fabricated metal products (up by 3%) were the main sub-sectors that contributed to the growth.

The performance of the manufacturing sector in October was supported by both export-oriented industries (up by 5%) and domestic-oriented industries (up by 2.5%).

Malaysia University of Science and Technology economics professor Geoffrey Williams pointed out that there will not be much growth stimulus in 2023 and a gross domestic product of around 4% to 5% is expected.

"There will be slower domestic demand because the stimulus from government spending and Employees Provident Fund withdrawals will subside and there will be less of an effect from the opening up of the economy which caused a bounce back in 2022 from very low levels in 2021," he said.

Williams stated that the lack of growth stimulus may be better, as it is more sustainable and consistent with lower inflation which can provide a pause in interest rate hikes.

"The best scenario for 2023 is a stable, low inflation environment with no need for extra government stimulus or higher interest rates.

"The budget should, therefore, focus on creating a better, more competitive environment for companies to continue to recover and avoid pushing demand too much, which might cause overheating and inflation," he said.

Meanwhile, Centre for Market Education chief executive Carmelo Ferlito noted it may still be too early to pinpoint the growth trajectory of the IPI, as it is riding on the intensity of the global slowdown and the economic policies that the new government plans to implement.

"In terms of policies that may boost the IPI, the International Trade and Industry Ministry is playing an important role in trying to reverse the different policies that made Malaysia less appealing as an investment hub.

"Moreover, a fiscal reform which will bring about a lower income tax but better enforcement may be beneficial.

"The present government also needs to send out a clear signal that it will not interfere with the market process, unlike previous Cabinets, in order to create confidence and spur entrepreneurship," said Ferlito.