KERATAN AKHBAR

TARIKH : 9 FEBRUARI 2023
AKHBAR : THE STAR
MUKA SURAT : 3 (STARBIZ)

Subdued IPI for 2023

Subdued IPI for 2023

Slower global demand, still-high inflation the cause

ECONOMY

> *"On the other hand, we see China's reopening as a positive sign to cushion the impact from impending global economic slowdown."*
> AmBank Research

PETALING JAYA: After two years of relatively robust growth, Malaysia's industrial output (comprising manufacturing, electricity and mining production) is expected to enter a subdued phase in 2023 amid slower global demand and still-high inflation.

According to economists' projections, the industrial production index (IPI) growth could slow to around 3.5% and 3.7% this year from 6.9% in 2022 and 7.2% in 2021. The estimated number for 2023 not only reflected the moderation in external demand, but also the diminished low-base effect.

This also implied a moderation in the country's gross domestic product (GDP) growth for 2023.

TA Research in its report yesterday pointed out that the performance of the industrial output could be hampered by the weak global demand, as evidenced by the contraction in the Malaysian manufacturing purchasing manager index (PMI) for the fifth consecutive month in January 2023.

The S&P Global Malaysia manufacturing PMI fell to 46.5 last month from 47.8 in December 2022 on weak global market conditions and muted consumer demand.

"As such, IPI growth will remain moderate for the foreseeable future, at least through the first half of 2023. The conservative outlook is formulated after considering the effects of tightening financial conditions and the current slowdown in the global economy," TA Research explained.

"Moreover, the global semiconductor market is forecast to decline by a lower-single-digit figure in 2023, the second annual contraction since 2019. It will be mainly driven by the decline in disposable income caused by rising inflation and interest rates," it added.

TA Research projected that the IPI would grow at more moderate pace of 3.7% in 2023, and the GDP growth would slow to 4.5% this year from the 7.5% it estimated for 2022.

The Statistics Department on Tuesday revealed that the IPI in December 2022 grew at a lower rate of 3%, compared with 4.8% in the preceding month. That was the slowest growth pace since September 2021.

For the full year, the IPI growth stood at 6.9% in 2022, slightly lower than 7.2% in 2021. In 2020, the IPI shrunk 3.9% due to the Covid-19 pandemic fallout.

Meanwhile, MIDF Research said the IPI growth would likely moderate to 3.5% this year after factoring in moderation in external demand and the diminished low-base effect.

"Apart from sustained rise in domestic spending, we foresee production will grow further on the back of improved supply conditions, easing cost pressure and better supply of foreign workers," it said in its report.

"However, we remain cautious that this year's IPI outlook may be negatively impacted by sharper-than-expected fall in global demand, prolonged high inflation, and renewed risk of supply disruptions," it added.

AmBank Research noted industrial output was generally robust in 2022 but it expected the momentum to be affected by softening global economic activities in 2023 due to the cumulative effects from monetary policy tightening among major central banks.

"On the other hand, we see China's reopening as a positive sign to cushion the impact from impending global economic slowdown. On the domestic front, interest rate level remains accommodative hence we continue to see support coming from private consumption," it added.

AmBank Research forecast that 2023 GDP would grow 4.5%, slower than the 8.5%-9% it projected for 2022.

Hong Leong Investment Bank (HLIB) Research maintained its 2023 GDP growth forecast at 4%, as compared to a growth of 8.2% it estimated for 2022.

"In line with the still-bleak global outlook, Malaysia's industrial production is also expected to remain subdued going forward. Nevertheless, China's reopening is likely to provide some support to demand," HLIB Research said.