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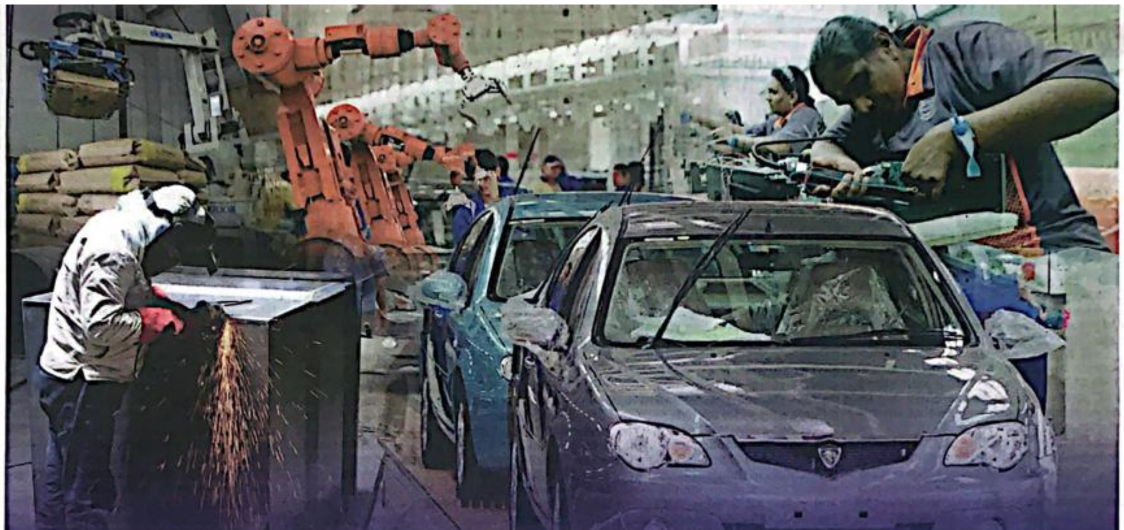
February IPI rises 3.6%



February IPI rises 3.6%

Increased manufacturing activity fuels growth

ECONOMY

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PETALING JAYA: Malaysia's Industrial Production Index (IPI) experienced a 3.6% year-on-year (y-o-y) growth in February this year, underpinned by accelerated activities in the manufacturing sector, the Statistics Department has revealed.

The growth in February was an improvement from the previous month, as January saw a modest IPI y-o-y expansion rate of 1.8%.

In an IPI statistics report published yesterday consisting of three sectors – mining, manufacturing and electricity – the department said the growth in February was led by manufacturing, whose output increased by 4.9% y-o-y, and the electricity sector, which saw production rise by 1.1% y-o-y after a 4.3% contraction in January.

On the other hand, the mining sector's output declined marginally by 0.5% y-o-y in February 2023, after registering a growth for eight consecutive months.

In a similar vein, the Statistics Department also revealed the somewhat sombre data showing that while production has increased y-o-y for January and February this year, the IPI has actually decreased month-on-month (m-o-m) from December, with February recording a 5.1% drop from January.

January itself saw production slowing down by 2.3% from December 2022.

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>
> Yeah Kim Leng

Datuk Seri Mohd Uzir Mahidin, chief statistician of the Statistics Department, explained that the y-o-y growth of the manufacturing sector was bolstered by the manufacture of vegetable as well as animal oils and fats production, which soared by 21.5% y-o-y, a significant improvement from January's 8.3% growth, and the manufacture of computer, electronics and optical products, which grew 6.4% y-o-y.

"In the meantime, the growth of the domestic-oriented industry outpaced national manufacturing expansion by registering 7% in February 2023.

"The increase was contributed by the positive momentum recorded in all groups except for the manufacture of beverages, which posted a decrease of 2.3% for the month in review," said Mohd Uzir.

He also pointed out that domestic manufacturing itself was propelled by the manufacture of fabricated metal products and food processing products, with each seeing a growth rate of 8.9% y-o-y and 8.5% y-o-y, respectively, before adding a sobering note that compared with January, February's manufacturing output had actually contracted by 3.9%.

Mohd Uzir further reported that electricity output rebounded to 1.1% y-o-y in February 2023 after recording a continuous contraction for four consecutive months.

However, the electricity index continued to weaken by 5.5% m-o-m as compared to the 3.4% deceleration recorded in January.

Comparing the first two months of 2023 to the same period of last year, the Statistics Department found that the IPI has expanded by 2.7% y-o-y.

Sunway University professor of economics Yeah Kim Leng told *StarBiz* that the third consecutive m-o-m decline in the February IPI signalled a weakening in the country's industrial output growth momentum.

"Despite the 3.6% y-o-y increase in February, up from 1.8% in January, we will have to brace for a slowdown in industrial output in the coming months, especially in the second half," he cautioned.

Yeah highlighted that with export-oriented manufacturing making up 46% of total IPI, Malaysia's decelerating industrial output growth momentum is reflective of the global slowdown that is being picked up in various economic indicators such as retail sales, consumer sentiment and unemployment.

On a brighter note, he said domestic-oriented manufacturing is expected to maintain its growth momentum on the back of sustained consumer spending and rising investment activities, and that first quarter (1Q23) gross domestic product (GDP) growth for the country should hover between 5% and 6%.

He added, "Private consumption especially on retail, hospitality and tourism-related spending, is being supported by steadily declining unemployment and an expansionary budget with increased social spending, especially on cash transfers to low-income households.

"Investments are also on the rise as evidenced by rising investment approvals."

Of particular interest, Coface Services South Asia-Pacific Pte Ltd economist Eve Barre told *StarBiz* that taking into account February's industrial production figures, 1Q23 GDP should reflect two phenomena: a slowdown in economic growth, and a decoupling of a slow export-driven economy from robust domestic demand.

She predicted that this would result in a two-speed economy with a faster-growing

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Private consumption main driver of growth this year

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services sector – which is also supported by the recovery in tourism – as compared to manufacturing.

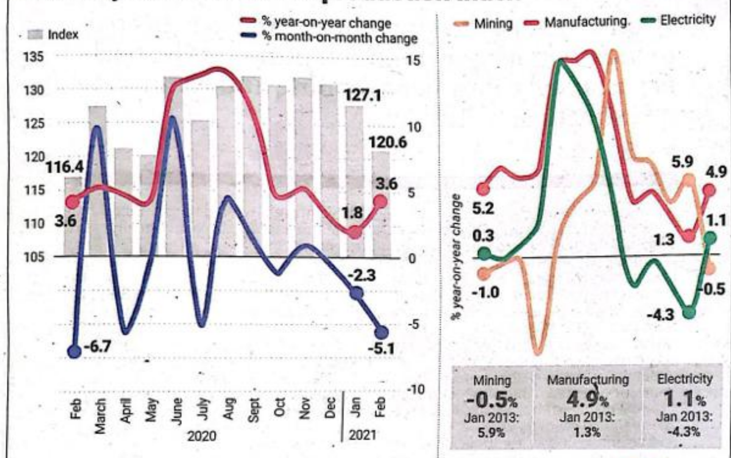
"After a growth of 7% in the final quarter of last year, Coface forecasts GDP growth to slow to 4.7% in the current quarter," she noted.

Largely echoing Yeah's sentiments, Barre said that global demand has remained sluggish, which would impact Malaysian industrial production, especially for export-oriented manufacturing activity.

"In addition, the poor demand outlook for electronics, which make up more than a quarter of Malaysia's manufacturing production, and lower energy prices could weigh on industrial production, both through manufacturing and mining output.

"There could be some improvement in the second half of the year if the global economic environment improves, particularly from key trading partners such as China, Singapore and the United States," she observed.

February 2023 industrial production index



Source: Statistics Department

TheStargraphics

Barre perceives the ongoing support by domestic demand to persist for Malaysia in the coming months, as the latest Purchasing Managers' Index (PMI) survey showed that overseas orders received by Malaysian manufacturers continued to decline in March, which should prevent a marked rebound in production.

"We expect private consumption to be the main driver of growth this year, supported by the reopening of the economy and a manageable inflation.

"However the slowdown in the global economy will still affect the Malaysian GDP. We expect growth to drastically slow from 8.7% in 2022 to around 4% in 2023," she projected.

Meanwhile, Centre for Market Education chief executive Camelo Ferlito opined that it was still too early to say if the m-o-m slowdown in Malaysia's industrial production was echoing the projected downturn in the global economy.

"The y-o-y data reflects the tail of problems from all the lockdowns imposed in 2020 and 2021, while with the m-o-m numbers we are referring to the more physiological data which are emerging as the economy normalises.

"We think that the evolution of the international scenario will tell us more on where industrial production will move," he said.

Elaborating on the contrasting contributions between the domestic and international sub-sectors, Ferlito believes economic recovery in Malaysia occurred later than many other countries globally due to its prolonged lockdown, and as such, it is to be expected that the domestic rebound now is more accelerated.

Separately, AmBank in a research report said it expects slower production going forward, as guided by recent information flow.

The manufacturing PMI has been under a contractionary level since September 2022, while the export-oriented segment, which accounted for around two-thirds of the manufacturing sector, has also been trending lower over the same period.

Overall, the research house said it expects the economy to grow at 4.5% for 2023, mainly supported by domestic factors.