

9 April, 2024

Moderation in Malaysia's Manufacturing Sector

- Malaysia's IPI increased by 3.1%
- Manufacturing slowdown offset by faster gains in electricity and mining
- Manufacturing sector's sales value rose moderately by 0.7%
- Manufacturing sector employment increased slightly by 0.6%.
- Despite moderation, manufacturing is still anticipated to improve in 2024

Overview

Table 1: Summary of Malaysian IPI

Growth (YoY)	2023	Dec-23	Jan-24	Feb-24
IPI	0.9	-0.1	4.3	3.1
- Manufacturing	0.7	-1.4	3.7	1.2
- Mining	0.8	3.6	5.0	8.1
- Electricity	2.5	4.6	8.3	10.9

Source: DOSM, BIMB Securities

Malaysia's Industrial Production Index (IPI) rose to 3.1% in February. Moderation primarily resulted from slower output growth in the Manufacturing sector, which expanded by 1.2% (Jan: 3.7 %). However, the Mining and Electricity sectors continued to accelerate, with growth rates of 8.1% (Jan: 5.0%) and 10.9% (Jan: 8.3%), respectively. Compared to the previous month, the IPI saw a decline of 6.3%, marking a shift from the positive growth (Jan: 2.0%).

The Manufacturing sector's output grew by 1.2% YoY, following a growth rate of 3.7% in January. The increased in the Manufacturing output was supported by domestic-oriented industries, which expanded by 3.8% YoY (Jan: 8.0%). The growth in domestic-oriented industries was mainly propelled by the Manufacture of fabricated metal products, except machinery & equipment, which saw an 8.4% increase. This was followed by a 5.1% growth in the Manufacture of other non-metallic mineral products, and a 2.9% increase in the Manufacture of motor vehicles, trailers & semi-trailers. Compared to the previous month, domestic-oriented industries experienced a decline of 7.5% (Jan: 4.9%).

In the meantime, the export-oriented industries returned to negative territory with a mild contraction of 0.1% YoY in February (Jan: +1.6%). The contraction was mainly due to the decrease in the Manufacture of vegetable & animal oils & fats (-13.5%); the Manufacture of chemicals & chemical products (-2.8%); and the Manufacture of electrical equipment (-2.2%). This was consistent with the country's export performance, which registered a downturn of negative 0.8% in February after experiencing positive growth in the preceding month. In a month-on-month comparison, the export-oriented industries slipped by 5.7% after recording a slight growth of 0.2% in January.

Table 2: Manufacturing Components

Growth (YoY)	2023	Dec-23	Jan-24	Feb-24
F&B	5.4	5.7	4.6	-3.1
Textile, Wearing App. and Others	1.1	-2.3	2.1	-2.3
Woods Products and Others	0.0	3.7	6.1	1.9
Petroleum, Chemical and Others	-0.9	-2.7	2.5	1.5
Non-Metallic Products and Others	5.2	6.0	7.9	5.4
E&E	-1.7	-6.7	0.9	0.3
Transport Equipment and Others	4.1	-0.5	8.9	3.0
MANUFACTURING	0.7	-1.4	3.7	1.2

Source: DOSM, BIMB Securities

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The Mining sector continued its upward trend, expanding to 8.1% (Jan: 5.0%). The increase was driven by double-digit growth of 11.9% in Natural Gas production (Jan: 6.6%), while Crude Oil & Condensate output maintained steady growth at 2.5% (Jan: 2.6%). However, compared to January 2024, the Mining index declined by 6.9%, contrasting with the positive 3.1% registered in the previous month.

Table 3: Mining Components

Growth (YoY)	2023	Dec-23	Jan-24	Feb-24
Petroleum Oils & Conden.	2.1	1.6	2.6	2.5
Natural Gas	0.0	5.6	6.6	11.9
MINING	0.8	3.6	5.0	8.1

Source: DOSM, BIMB Securities

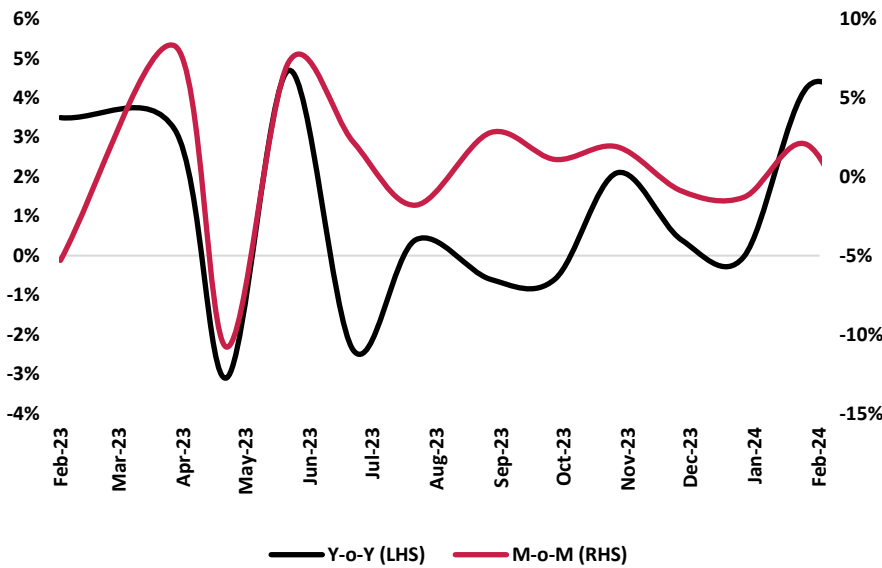
Electricity generation accelerated at a faster pace of 10.9% in February (Jan: 8.3%) However, the Electricity sector declined by 4.5% MoM, following a positive growth of 2.0% in January.

Table 4: Electricity Component

Growth (YoY)	2023	Dec-23	Jan-24	Feb-24
ELECTRICITY	2.5	4.6	8.3	10.9

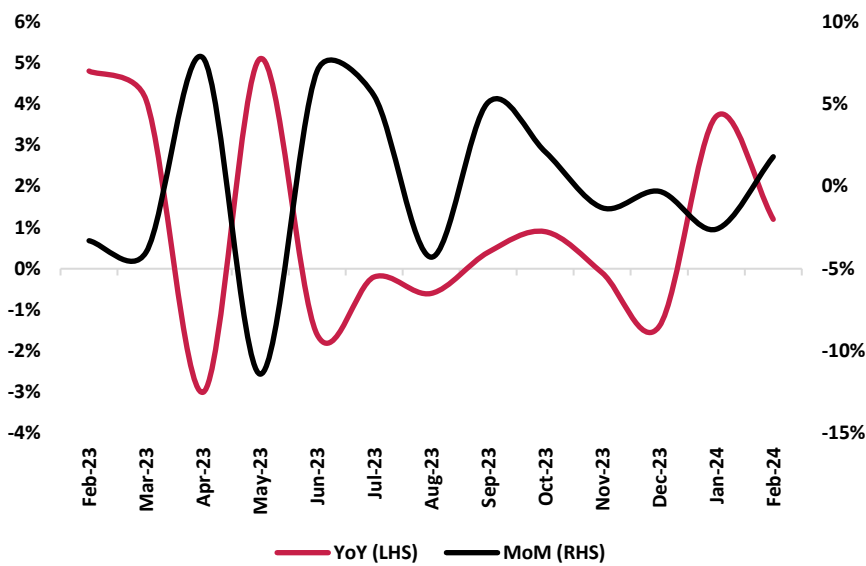
Source: DOSM, BIMB Securities

Chart 1: Malaysia Monthly IPI (Feb 2023 – Feb 2024)



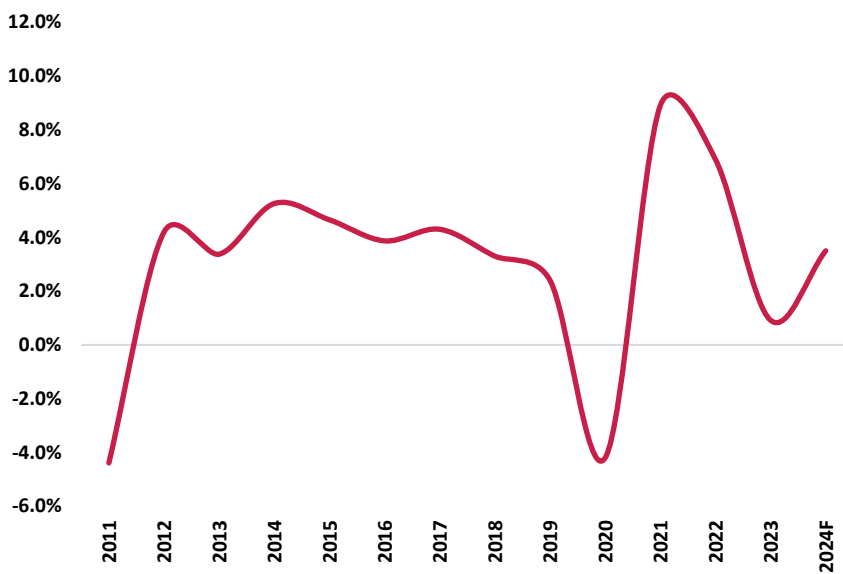
Source: DOSM, BIMB Securities

Chart 2: Malaysia IPI: Manufacturing Sector (Feb 2023 – Feb 2024)



Source: DOSM, BIMB Securities

Chart 3: Malaysia IPI (2011 - 2024F)



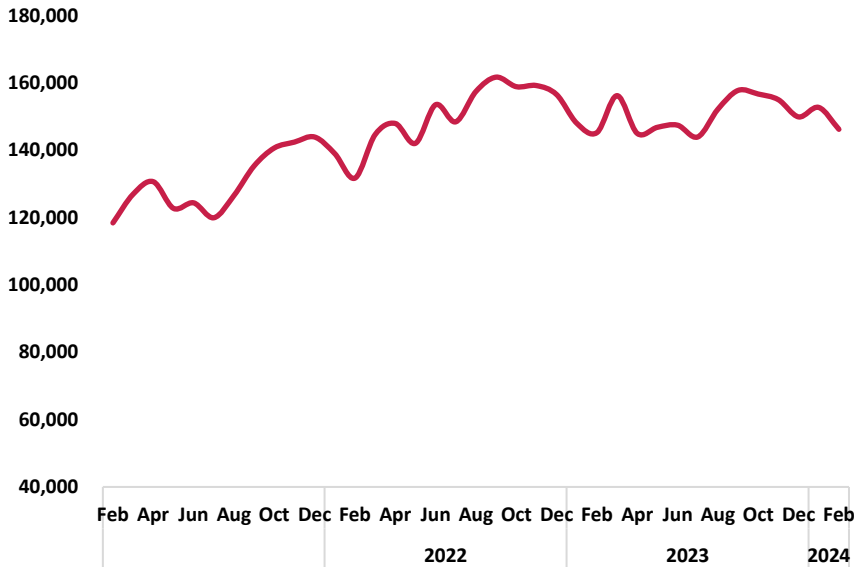
Source: DOSM, BIMB Securities

The Manufacturing sector's sales value saw a slight increase of 0.7% to RM146.2bn in February (Jan: 3.2%). The increase was driven by growth in the Transport equipment & other manufactures sub-sector at 7.3%, as well as the Non-metallic mineral products, basic metal & fabricated metal products sub-sectors, which grew by 5.7%. At the same time, the sales value of the Electrical & electronics products sub-sector, which represented 34.1% of the total sales, increased by 1.3%. Compared to the preceding month, the sales value of the Manufacturing sector decreased by 4.3% compared to the RM152.7 bn recorded in January, which had experienced an uptick of 1.9%.

The sales value of export-oriented industries which represented 69.6% of total sales declined by 1.3% YoY in February (Jan: 0.1%), largely attributable to the continuous contraction in the Manufacture of coke & refined petroleum products, which registered a negative 8.8%. Additionally, the Manufacture of vegetable & animal oils & fats; and the Manufacture of chemicals & chemical products slipped by 6.0% and negative 2.6%, respectively. As compared

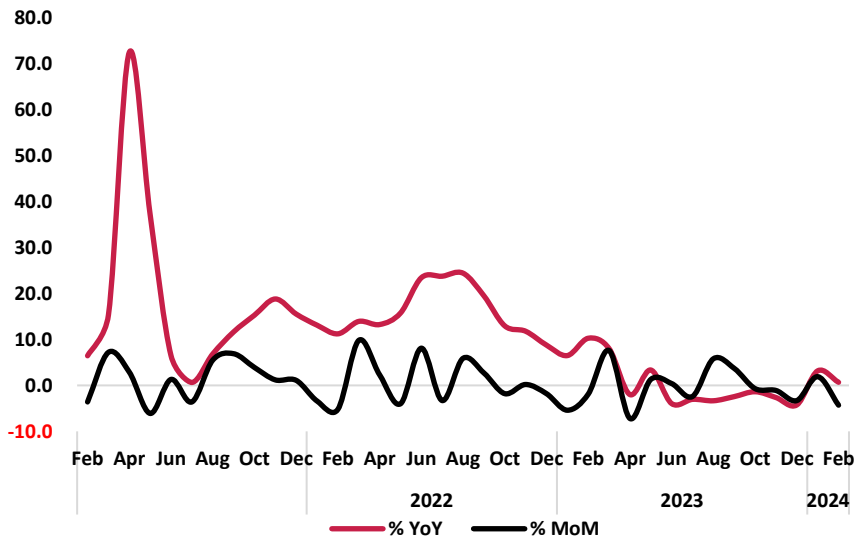
to the preceding month, the sales value of export-oriented industries dropped by 3.6% after recording a positive growth of 1.7% per cent in January 2024. In the meantime, the momentum of sales value for domestic-oriented industries remained positive, expanding by 5.6% YoY in February 2024 (Jan: 10.8%). The expansion was primarily bolstered by the increases registered in the Manufacture of fabricated metal products, except machinery & equipment (9.1%); Manufacture of motor vehicles, trailers & semi-trailers (9.0%); and Manufacture of food processing (5.2%). As compared to the previous month, the sales value of domestic-oriented industries decreased by 5.8% as compared to the positive 2.3% recorded in January.

Chart 4: Manufacturing sales value (RM'mn)



Source: Department of Statistics, BIMB Securities

Chart 5: Manufacturing Sales Growth (%)



Source: Department of Statistics, BIMB Securities

Steady manufacturing employment. The Manufacturing sector employed 2.37mn workers in February, marking a 0.6% increase compared to the 2.35mn persons employed in February 2023. The increase was primarily contributed by the Food, beverages & tobacco sub-sector at 4.3%, followed by the Textile, wearing apparel, leather & footwear sub-sector at 1.7%, and the Non-metallic mineral products, basic metal & fabricated metal products sub-sector at

1.4%. On monthly basis, the number of employees in this sector continued to decline, with a drop of 0.3% (Jan: -0.1%)

Table 5: Manufacturing Sector Employment & Salaries

	Sep	Oct	Nov	Dec	Jan	Feb
Number of employees	2,372,752	2,378,238	2,377,383	2,374,557	2,372,913	2,365,000
% YoY	2.4	2.5	2.1	1.7	1.3	0.6
% MoM	0.7	0.2	-0.04	-0.1	-0.1	-0.3
Salaries & Wages (RM'bn)	8,135	8,146	8,149	8,744	8,350	8,243
% YoY	3.2	3.4	3.3	2.1	2.0	1.0
% MoM	1.7	0.1	0.0	7.3	-4.5	-1.3
Sales value per employee (RM)	66,864	65,879	65,193	63,121	64,353	61,820
% YoY	-4.2	-3.7	4.7	-5.8	1.8	0.04
% MoM	3.5	-0.9	-1.0	-3.2	2.0	-3.9

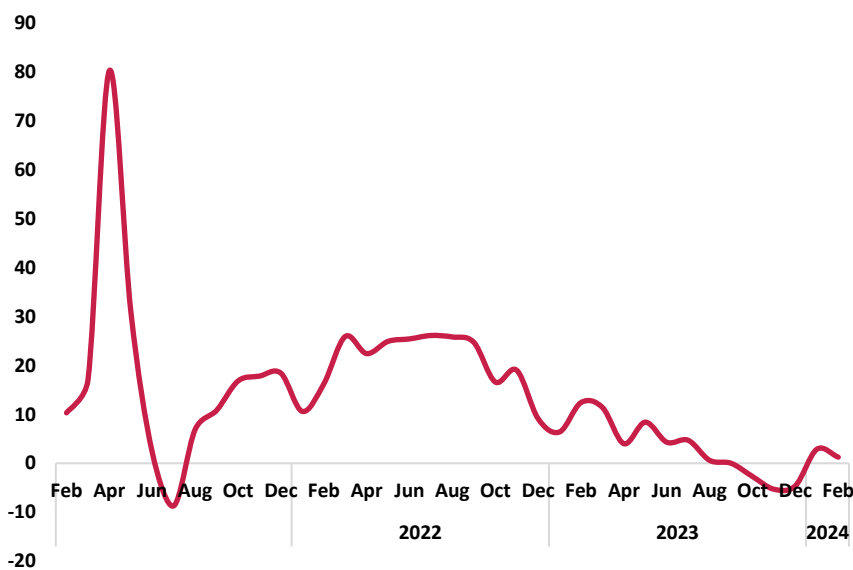
Source: Department of Statistics, BIMB Securities

Outlook

Looking forward, we anticipate sustained growth in the domestically oriented sector despite potential challenges in external demand affecting monthly production rates in the first half of 2024. The recent reading aligns with declines in major economies like Vietnam, Japan, Thailand, Taiwan, and the US. South Korea's industrial production growth also slowed in February 2024. Recent data shows moderation, with increased production expected in domestic sectors due to heightened consumer confidence. However, export demand may face challenges from slower global growth and geopolitical tensions. Our 2024 IPI forecast remains at 3.5%.

Manufacturing sales increased by 0.7% to RM146.2bn in February, down from the 3.2 YoY growth seen in January. This corresponds with the IPI's moderation, mainly due to slower output growth in manufacturing. Malaysian manufacturers expressed hope for future improvement while also voicing concerns about lingering demand weakness. Despite the PMI easing (Feb: 48.4; Jan: 49.5), a gradual production recovery is anticipated in 2024. China's strong March factory activity may impact Malaysia with a lag of 1-2 quarters. Nonetheless, caution remains due to global trade's vulnerability to geopolitical tensions, supply chain disruptions, and commodity price uncertainties. Still, recovery is expected in 2024.

Chart 6: Sales of E&E subsector (% YoY)



Source: Department of Statistics, BIMB Securities

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BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
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HOLD	Share price may fall within the range of +/- 10% over the next 12 months
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