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Concerns about June IPI to be mitigated by **positive numbers** in other sectors

ECONOMY

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PETALING JAYA: Projections on economic growth in the second quarter (2Q23) are split after the country's Industrial Production Index (IPI) for June 2023 showed a year-on-year contraction of 2.2%.

The Statistics Department released its findings for June yesterday and the slowdown was in contrast to the 4.7% y-o-y expansion the country experienced the month before.

The silver lining was that on a month-on-month (m-o-m) comparison, the IPI for June grew by 2.2%.

Chief statistician Datuk Seri Mohd Uzir Mahidin attributed June's y-o-y contraction to respective production downtrends in both the manufacturing and mining industries of 1.6% and 6.4%, while the output of the electricity sector also moderated to 2.8% as against the 5.9% recorded in May.

Economics professor for Malaysia University of Science and Technology Geoffrey Williams believes, as do many who have been following Malaysia's economic trends over the past three years, that the concern is not new.

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>
> Carmelo Ferlito

"The IPI data for June confirms the general weakness of manufacturing, which has been trending down y-o-y since August last year.

"The monthly data has been volatile this year and although it was positive by 2.2% in June compared to May, growth was slower than the previous m-o-m data which was 7.3%," he told *StarBiz*.

Despite opining that the moderating IPI may soften GDP numbers for 2Q23, Williams added that it has been a general easing trend that has gone on for some time with production in the petrol, chemical and rubber industries, similar to the electrical and electronic or E&E sector.

Elaborating, Mohd Uzir said the deterioration in manufacturing production in June was influenced primarily by the 3.9% decline in export-oriented industries, after registering a growth of 2.8% the preceding month.

He pointed out that June saw the second manufacturing contraction in export-oriented industries within the year, following the initial decline in April, before saying: "The decline in export-oriented industries in June was mainly due to a decrease in the manufacture of (petroleum) coke and refined petroleum products by 10.8% y-o-y; as well as the manufacture of computer, electronics and optical products which decelerated by 4%."

While the contraction was also in tandem with the country's export performance which dropped 14.1% in June, Mohd Uzir said a similar situation was experienced by numerous countries globally, which are grappling with uneven external demand for goods, thus impacting the performance of their export-oriented industries in June 2023.

In contrast and as anticipated, he said domestic-oriented industries continued to expand, albeit at a slower rate of 4.1% against the 10.1% registered in May.

This was underpinned by the an increase in the manufacture of fabricated metal products by 6.7% y-o-y and a 5.8% growth in the creation of food-processing products.

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Country on track for a 5% GDP expansion rate in 2Q23

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Commenting further on exports, Williams predicted that global economic headwinds that have been expected all year are looking like extending for the rest of the year.

In the meantime, while maintaining the optimism that Malaysia's 2Q23 GDP would be similar to the first quarter's commendable 5.6%, Centre for Market Education chief executive Carmelo Ferlito is of the opinion that Malaysia is still experiencing mixed signals following the lockdown chaos and the resultant fluctuations in the global supply chain.

Having said that, he believes that worries over June's slowing IPI should be mitigated by the high influence of the mining sector, before adding the reminder that global demand and supply mechanics are still readjusting in the current post-lockdown transitionary period.

"However, we have good signals in Malaysia from the Madani Economy and the re-stressing of the importance of being open to international trade. Malaysia needs to rebuild its manufacturing basis in the perspective of also looking at new potential export partners," he told *StarBiz*.

Underlining his expectation of there being minimal changes in the country's 2Q23 GDP performance, Ferlito believes Malaysians should not be excessively concerned over the IPI contraction that he said are "physiological fluctuations".

Meanwhile, echoing Ferlito's view, an economist with a Singaporean bank is confident the country is still on track to achieve a 5% GDP expansion rate for 2Q23, which means the average expansion over the first six months of the year would still be north of 5%.

"We see recurring trends still persisting, and while domestic consumption may not be sustainable over the long term and ideally we would like exports to firm up in the second half of the year, Malaysia should still hit 5% for 2Q23, buoyed again by the domestic factor," she said.

Aside from the marginal y-o-y slide in the IPI, the Statistics Department also perhaps more notably unveiled a similar decrease of the manufacturing sector sales value to RM147.4bil for June, representing a y-o-y decline of 4%.

Mohd Uzir said the reduction came on the back of a more encouraging 3.3% growth for May, while saying that June's lower number was primarily driven by the contraction in the food, beverage and tobacco sub-sector, which saw sales decrease by 14.6%, marking three consecutive months of double-digit declines.

"In addition, the deterioration was also attributable to the contraction in sales by 12.4% in the petroleum, chemical, rubber and plastic sub-sectors. On a month-on-month comparison, however, the overall sales value increased marginally by 0.4% against the RM146.bil recorded in May 2023," he reported.

Keeping in line with the weaker export theme, the Statistics Department said the sales value of export-oriented industries, which accounted for 73% of total sales, dropped by 7.4% y-o-y in June after registering a marginal increase of 0.1% in May 2023.

The department said the decrease was mainly due to curtailed sales numbers from the vegetable and animal oils segment; petroleum coke refined petroleum products sub-sector; and the rubber products segment. But domestic-oriented industries continued to cushion the decline in sales value by sustaining a positive trajectory since September 2021, growing by 6.8% y-o-y in June, after May saw a double-digit expansion of 12.5%.