

IPI posts big rise in June

KUALA LUMPUR: Economists have cautioned that domestic and global economic headwinds could result in Malaysia's industrial output growth slowing down in the second half of 2022.

This is despite the country's industrial production index (IPI) recording year-on-year (y-o-y) double-digit growth in June 2022.

Sunway University economics professor Yeah Kim Leng told StarBiz that June's IPI "has surprised on the upside and lifted the industrial output in the second quarter to a strong 6.9% y-o-y increase, up from 4.5% in the previous quarter."

Yeah pointed out that manufacturing continued to gather strength, expanding by 9.3% in the second quarter from 6.3% in the first quarter while the electricity sector, reflecting higher services and production activities, rose to 5.8% from 3.7%.

"With manufacturing and services accounting for slightly over 80% of gross domestic product (GDP), the strong industrial performance affirmed the strengthening economic recovery in the second quarter following the lifting of most pandemic restrictions on April 1," he said.

"The continuing improvement in the IPI suggests that GDP growth in the second quarter will likely hit 6% or higher," added Yeah.

However, he expects Malaysia's monthly industrial output growth to taper off gradually towards the year-end, with the global economy cooling sharply due to the Russia-Ukraine war, slowdown in China due to Covid-19 restrictions and aggressive monetary tightening in the United States and Europe.

"IPI growth may ease to 4% to 5% as the global economy cools in the second half," said Yeah.

Meanwhile, Centre for Market Education (CME) CEO Carmelo Ferlito told StarBiz that the June IPI data is good and can be a source of optimism.

However, Ferlito noted that the latest 2022 IPI data needs to be read under the right perspective, as 2021 was a year characterised by the longest lockdowns.

"These signals are positive but need to be considered also as a starting point within a context of a fragile recovery. Malaysia will not be exempted from the post-Covid inflationary crisis which was predicted by CME as early as May 2021," he said.

Ferlito added that brave measures such as a cut in government spending was very much needed and will have a contraction effect, but was absolutely necessary to put the country on the path of sustainable growth.

"We need a cut in government spending through restructuring the public administration.

"We need a tax reform which reintroduces the goods and services tax and a cut in the income tax, more liberalisations in the labour market and in all the requirements for both domestic and private investments (cutting red tape, etc).

“We need to shift the economic growth model from consumption to investments (and savings), in order to put Malaysia on a long-term sustainable growth path,” he said.

On the issue of international geopolitical tensions, Ferlito said he hoped that diplomacy would be at work to stop what is happening in the South China Sea and in Ukraine.

In June 2022, Malaysia’s IPI increased 12.1% y-o-y, due to output growth by the manufacturing (14.5% increase), electricity (14.1% increase) and mining sectors (2.1% increase).

The Statistics Department reported that the manufacturing sector’s output expansion in June followed a 6.9% y-o-y growth in May, adding that the main growth sub-sectors were transport equipment and other manufactured products (89.9%), electrical and electronics (16.9%) and non-metallic mineral products, basic metal and fabricated metal products (25.1%).

Also, the manufacturing sector’s domestic and export-oriented industries grew 35.5% and 8% respectively.

The increase in domestic-oriented industries was mainly supported by the manufacture of tobacco products (2,765%), manufacture of motor vehicles, trailers and semi-trailers (179.3%) and the manufacture of other non-metallic mineral products (32.2%).

The growth in export-based industries was contributed by the manufacture of coke and refined petroleum products (11%), manufacture of computer, electronics and optical products (19.4%) and manufacture of furniture (24.6%).

The mining sector’s output expansion in June was spearheaded by a 5.5% growth in the natural gas index.

Meanwhile, the crude oil and condensate index declined 2.4%.

For the second quarter of 2022, the IPI grew 6.9% y-o-y due to the increase in the manufacturing (9.3%) and electricity indexes (5.8%) while the mining index contracted 1.1%.

For the first half, the IPI expanded 5.7% y-o-y supported by the increase in the manufacturing (7.8%) and electricity indexes (4.7%) while the mining index shrank 1.4%.

<https://www.thestar.com.my/business/business-news/2022/08/10/ipi-posts-big-rise-in-june>