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Global Economics & Market Strategy

Malaysia: An Upbeat Outlook on Malaysia's Industrial Production

- **We maintain our optimistic view of the manufacturing sector, underpinned by (1) a rosier global and domestic economic landscape, (2) a global technology upcycle and (3) an improvement in investment appetite.**
- **Our positive view is bolstered by restored confidence among Malaysia's manufacturers and improvement in investment appetite. The S&P Global Malaysia Manufacturing PMI rose to 50.2 points in May, marking the first rise in factory activities since August 2022.**
- **April's IPI increased by 6.1% YoY (March: 2.4% YoY) versus our in-house estimate of 3.8% YoY and Bloomberg consensus estimate of 6.5% YoY.**

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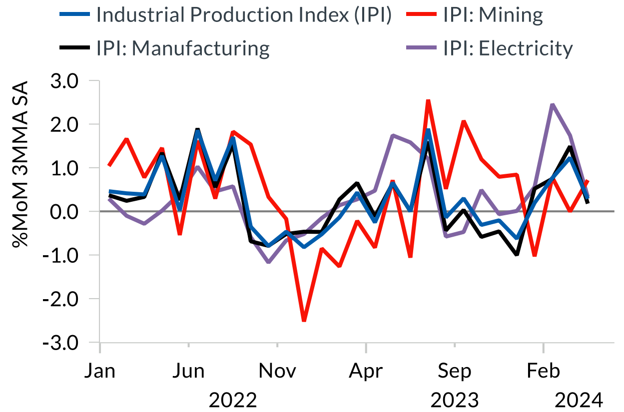
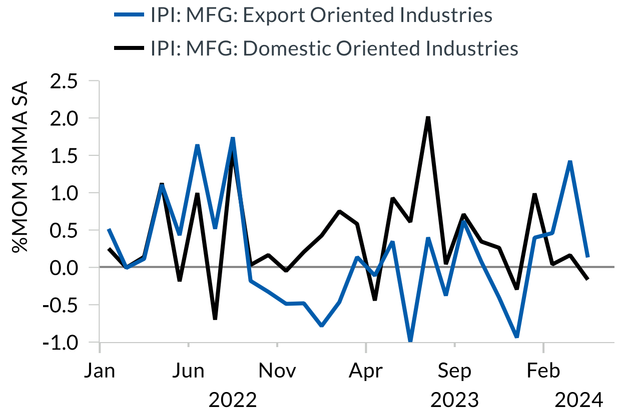
Figure 1: Malaysia saw some slowdown in April's manufacturing momentum...



Source: Macrobond, RHB Economics & Market Strategy

Figure 2: ... but export oriented industries have seen an uptick at end 1Q24



Source: Macrobond, RHB Economics & Market Strategy

Industrial Production to be Lifted by Improved Economic Landscape

We maintain our optimistic view of the manufacturing sector, underpinned by (1) a rosier global and domestic economic landscape, (2) a global technology upcycle and (3) an improvement in investment appetite. The manufacturing sector output has posted positive growth on a year-on-year (YoY) basis but a negative print in Month-on-Month (MoM). The ongoing developments, i.e., the positive economic dynamics of China and strengthened global semiconductor sales, reinforced our positive view of Malaysia's manufacturing sector and trade outlook.

Our positive view is bolstered by restored confidence among Malaysia's manufacturers and improvement in investment appetite. The S&P Global Malaysia Manufacturing PMI rose to 50.2 points in May from 49.0 points in April, marking the first rise in factory activities since August 2022. The output has rebounded following the decline in the prior 22 months, underpinned by renewed growth in new orders and export orders. The export orders rose the most over three years, lifted by strong demand from the US, Europe, the Middle East, and other parts of the Asia Pacific region. Malaysia's manufacturing sales rose by 5.7% YoY in April (March: 1.4% YoY), trending higher with overall industrial production activities.

As an export-oriented economy, Malaysia will benefit from China's ongoing economic recovery and rosier global economic landscape. The latest economic data in China, i.e. rebound in industrial profits and acceleration in fixed assets investments, has reinforced our above-consensus GDP growth expectation for the economy (RHB: 5.0% YoY, Bloomberg: 4.9% YoY). Further out, we stay bullish on ASEAN's external environment in 3Q24, on assumptions for US and China growth to accelerate further in the same period. As such, Malaysia's growth will likely stay underpinned by externally-facing industries, specifically its manufacturing and trade sectors.

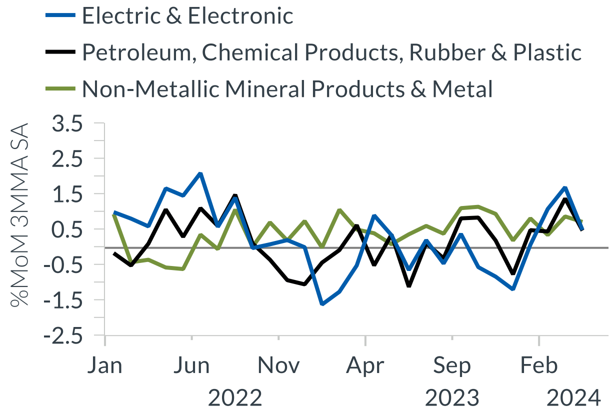
The current acceleration in the global technology cycle is expected to drive Malaysia's manufacturing sector activities and exports. The electrical and electronic (E&E) export momentum shows signs of sustained improvement in the first four months of the year. We expect the E&E exports to remain well supported by the strength in global E&E demand. The global semiconductor sales increased to 15.8% YoY in April and expanded by 1.1% MoM compared to the previous month. World Semiconductor Trade Statistics (WSTS) organisation has revised its Spring 2024 forecast upwards, projecting a 16.0% YoY growth in the global semiconductor market versus its former estimate of 13.1% YoY. By regions, the Americas and Asia Pacific regions are envisaged to see significant growth, with a strong positive growth of 25.1% YoY and 17.5% YoY, respectively.

Beyond the positive spill-over effects from the global economy, we opine that (1) higher commodity prices, (2) improving domestic confidence, and (3) healthy labour conditions may support Malaysia's growth dynamics. First, commodity-based sectors such as petroleum and petroleum-based products and non-metal mineral and metal products are expected to gain from higher commodity prices and likely spur manufacturing activities. Second, robust domestic consumption and investment activities in 2024 are also anticipated to support the manufacturing sector **-** robust imports of capital goods and rising business confidence suggest that manufacturers' and businesses' optimism are up. Further upsides on investment activities would emanate from business-friendly policies and the implementation of catalytic initiatives under the national master plans. Third, consumer spending is expected to remain robust amid healthy labour market conditions.

The IPI momentum (3MMA SA) remains positive for April, supported by continued strength in export-oriented industries. Looking at the month-on-month (MoM) seasonally adjusted basis, industrial output declined marginally by -0.27% in April (March: -0.2% MoM SA), dragged by lower manufacturing and electricity sub-category output. The manufacturing and electricity output decreased by -0.7% and -1.3% MoM SA, respectively, while the mining output expanded by 2.1% MoM SA.

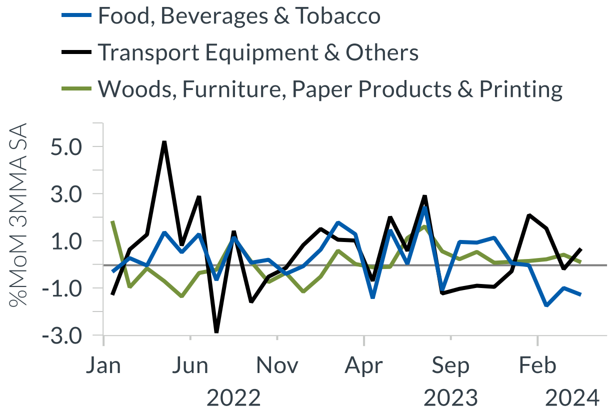
April's IPI increased by 6.1% YoY (March: 2.4% YoY) versus our in-house estimate of 3.8% YoY and Bloomberg consensus estimate of 6.5% YoY. The manufacturing sector output expanded by 4.9% YoY (March: 1.3% YoY), lifted by higher production of coke & refined petroleum products. Meanwhile, the growth of mining posted a vigorous growth of 10.0% YoY (March: 4.9% YoY), led by a double-digit increase in natural gas production (14.9 %YoY). Lastly, the electricity sector output softened to 7.6% YoY (March: 8.5% YoY).

Figure 3: Sectors such as E&E and petroleum-based products continued to see positive momentum…



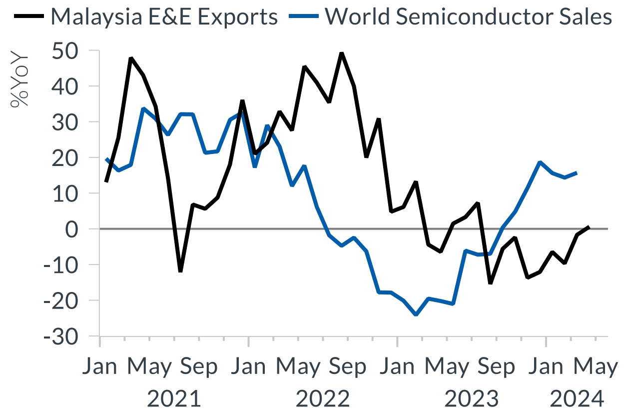
Source: Macrobond, RHB Economics & Market Strategy

Figure 4: … while some bottoming of momentum in key domestic-oriented industries is observed



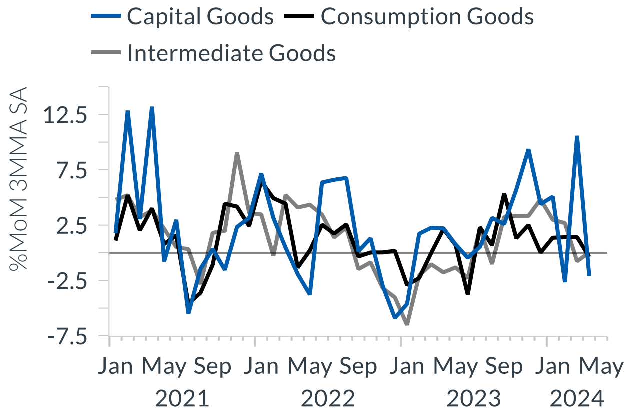
Source: Macrobond, RHB Economics & Market Strategy

Figure 5: The E&E exports would be buoyed by an uptrend in the global technology cycle



Source: Macrobond, RHB Economics & Market Strategy

Figure 6: Imports slowed, but the recent uptick in capital imports is positive for MY's MFG space



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