

08 April 2024

Global Economics & Market Strategy

Malaysia: Maintaining Our Positive View on Manufacturing Activities

- ◆ We maintain our optimistic view for the manufacturing sector on the back of rosier trade outlook. We observe an improving momentum in Malaysia’s IP year-to-date.
- ◆ We are bullish on the prospect of export-oriented industries such as E&E, petroleum and petroleum-based products, as well as metal goods production amid stronger external demand.
- ◆ February’s IPI printed 3.1% YoY (January: 4.3% YoY), stronger than our in-house estimate of 2.1% YoY and Bloomberg consensus estimate of 1.8% YoY.

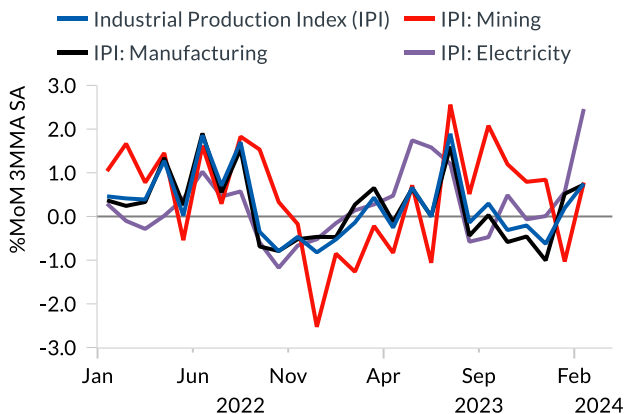
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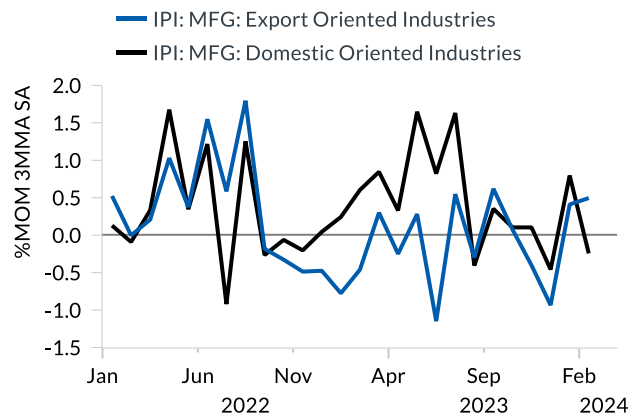
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Figure 1: IPI momentum persist on February on %MoM sa basis...



Source: Macrobond, RHB Economics & Market Strategy

Figure 2: ...which is supported by export-oriented industries



Source: Macrobond, RHB Economics & Market Strategy

Manufacturing Sector to be Supported by Export Oriented Sectors

We maintain our optimistic view of the manufacturing sector on the back of a rosier trade outlook. We observe an improving momentum in Malaysia's IP year-to-date. Notwithstanding the weaker MoM % print of industrial production index (IPI) data in February, the slowdown could be due to shorter working days during the Lunar New Year break. Hence, the marginal taper of YoY % and MoM % prints may be due to seasonal factors rather than being reflective of Malaysia's industrial production activities. Malaysia will also benefit from the ongoing recovery of the global economy, led by (1) the improvement in exports by regional economies, (2) China's economic recovery, (3) and resilient US data, especially in its consumption and labour patterns.

We maintain our optimistic outlook for the global economy in 2024, whereby we expect a continued economic recovery in key markets such as the US, China and selected ASEAN economies. The export market in Malaysia is expected to benefit from a positive spillover effect amid improved trade performance and manufacturing activities in major economies. We have upgraded our full-year US GDP forecast to 2.5% in 2024 against our prior 2.1% forecast handle pencilled in 2023. High-frequency US-centric economic data continue to suggest an improving growth momentum backdrop, as observed from the resilient labour, consumer confidence and retail sales. Our growth forecast for China is maintained at 5.0% for 2024, with the growth acceleration backdrop backed by improvement in China's PMI, CNY loans, trade and retail sales data. In ASEAN, our RHB leading indices suggest that GDP growth momentum will accelerate into 2Q24 with the pace to be continued into 2H24, supported by externally facing industries.

We believe that the manufacturing sector will be Malaysia's key engine of growth in the next decade. In the medium-long term, we see immense potential for progress towards these high-value segments, such as semiconductor manufacturing, advanced electronics (such as artificial intelligence), medical & pharmaceutical-related and renewable energy technologies. We see five key growth potentials in Malaysia's electrical & electronics (E&E) sector: (1) drive to attract more inward foreign direct investment (FDI), (2) development of essential supply chain capabilities, (3) adoption of key digital capabilities, (4) support of SMEs and start-ups in tomorrow's industries, and (5) skill & re-skill of its workforce. For more details, please read our [latest thematic report](#) on Malaysia's E&E sector.

Meanwhile, in the year ahead, we remain positive about the prospect of export-oriented industries such as E&E, petroleum and petroleum-based products, and metal goods production amid stronger external demand. In particular, E&E is expected to be driven by re-acceleration in the global technology cycle and higher demand from major trade partners. Commodity-based sectors such as petroleum and petroleum-based products, as well as non-metal mineral and metal products, are expected to gain from higher commodity prices as well.

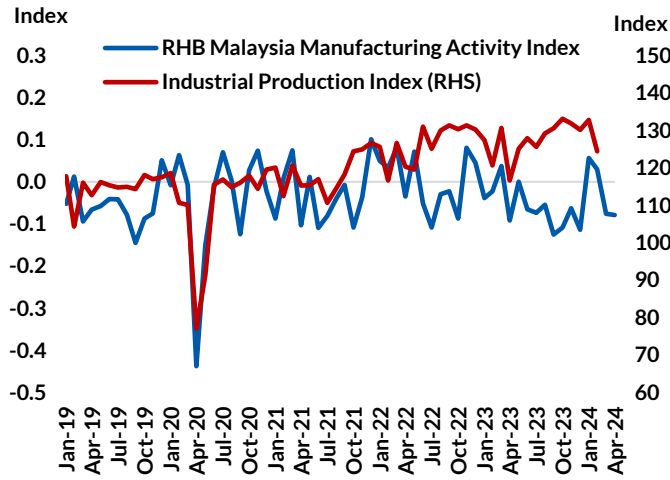
Lastly, robust domestic consumption and investment activities in 2024 are also anticipated to support the manufacturing sector. Increased imports of capital and intermediate goods, as well as rising business confidence, suggest that manufacturers' optimism is supported. Further upsides on investment activities would emanate from business-friendly policies and incentives focusing on priority sectors, i.e. technology, tourism, and agriculture, as well as those with export capacity. Meanwhile, consumer spending is expected to remain robust amid healthy labour market conditions.

The important data stemming from today's release will be from the acceleration of Malaysia's IPI momentum (3MMA SA). We observe that the momentum has risen to 0.75% MoM SA (3MMA) in February 2024, against January's +0.2% MoM SA (3MMA). Malaysia saw a broad recovery in its key industrial production sectors, specifically manufacturing, mining and electricity. This is also seen in tandem with the improvement in the IPI momentum for the export-oriented sectors (Figures 1 & 2). Looking at the month-on-month (MoM) seasonally adjusted basis, industrial output increased by 1.24% in February (January: 2.55% MoM SA). Separately, note that the S&P Global Malaysia Manufacturing decreased to 48.4 points in March versus 49.5 points in February. Both new orders and output levels moderated at a steeper pace compared to the previous month. Meanwhile, the input cost rose the most in 3 months amid currency weakness and higher prices for raw materials.

February's IPI printed 3.1% YoY (January: 4.3% YoY), stronger than our in-house estimate of 2.1% YoY and Bloomberg consensus estimate of 1.8% YoY. In the YoY term, the manufacturing sector output is on a slower pace by 1.2% YoY, following a growth of 3.7% YoY in January amid lower production of vegetable & animal oils & fats, chemicals & chemical products, and electrical equipment. Meanwhile, the mining sector output increased by 8.1% (January: 5.0%) due to the expansion of crude oil and natural gas output. Lastly, the electricity sector output advanced by 10.9% (January: 8.3%). Meanwhile, manufacturing sales surged by 0.7% YoY in January (January: 3.2% YoY).

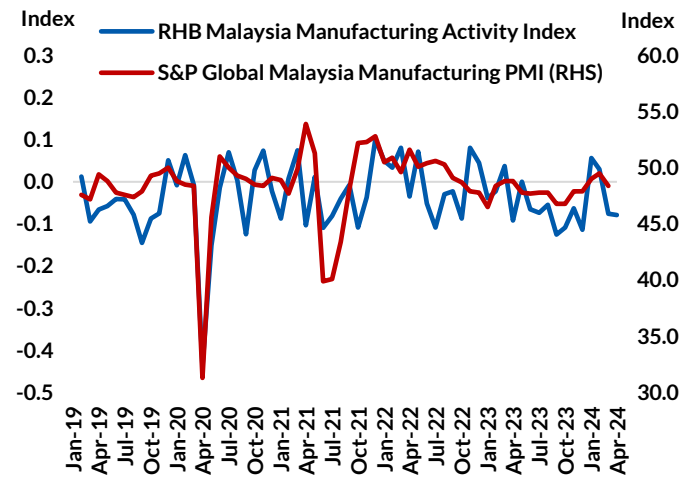
08 April 2024

Figure 3: The lower prints in IPI and manufacturing activity is...



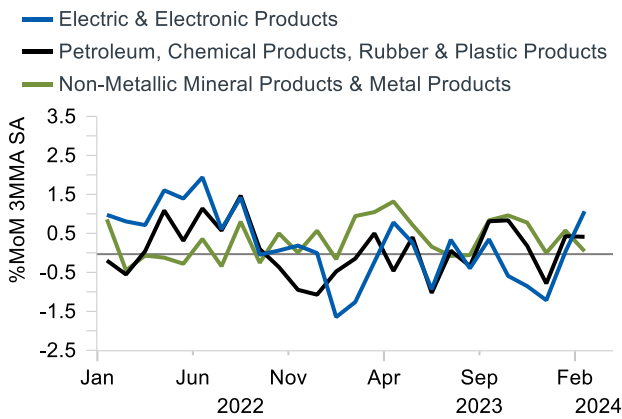
Source: Spaceknow, CEIC, RHB Economics & Market Strategy

Figure 4: ... due to shorter working days during the Lunar New Year break



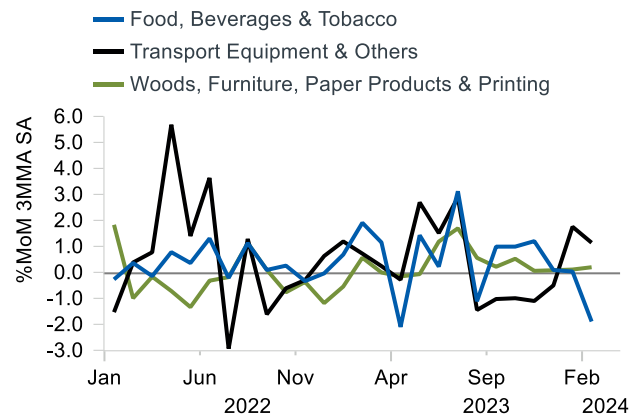
Source: Spaceknow, CEIC, RHB Economics & Market Strategy

Figure 5: Improvement across major export-oriented sectors such as E&E and commodity based...



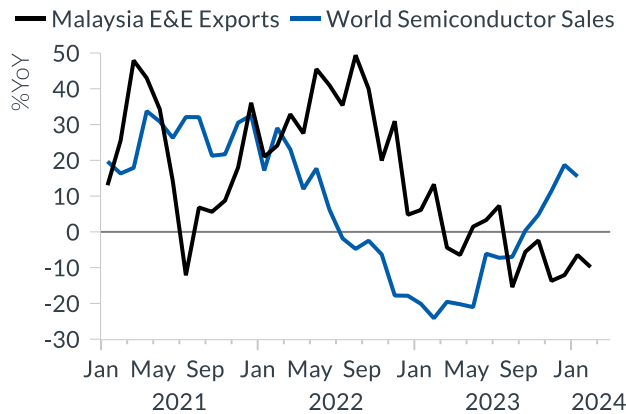
Source: Macrobond, RHB Economics & Market Strategy

Figure 6: ...while domestic-oriented sectors are slowing down



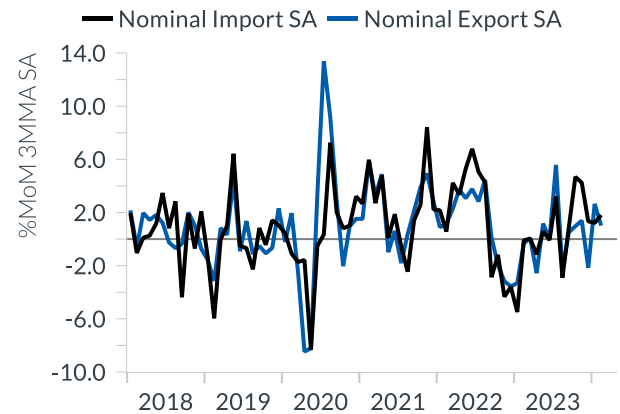
Source: Macrobond, RHB Economics & Market Strategy

Figure 7: Semiconductor sales to trend higher...



Source: Macrobond, RHB Economics & Market Strategy

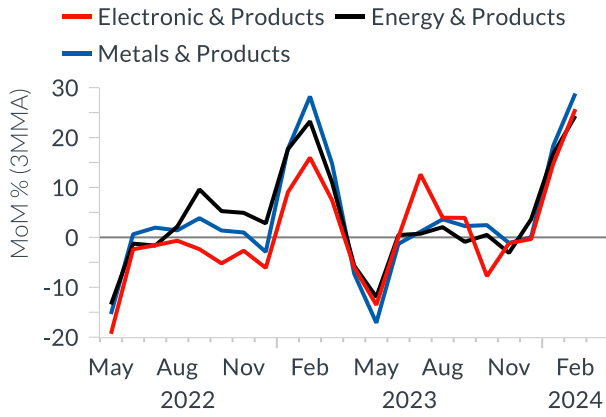
Figure 8: ... while external trade momentum is up



Source: Macrobond, RHB Economics & Market Strategy

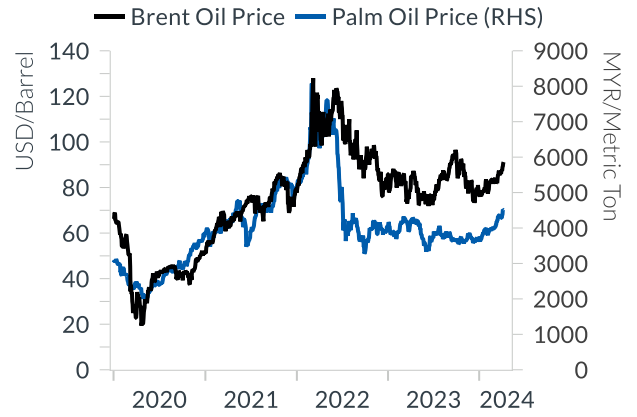
08 April 2024

Figure 9: China's imports of metals and electronics already on the mend



Source: RHB Economics & Market Strategy

Figure 10: Commodity based exports to be supported by higher commodity prices



Source: Macrobond, RHB Economics & Market Strategy

08 April 2024

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