

IPI to slow this year after surpassing expectations

Impact of US tariffs to be felt more acutely in 2026

ECONOMY

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PETALING JAYA: The industrial production index (IPI), which beat consensus expectations in December, is expected to lose its momentum this year, amid more pronounced impact from US tariffs and external headwinds on exports.

December 2025's IPI further expanded by 4.8% year-on-year (y-o-y), exceeding Bloomberg's median poll estimates of 4.5% y-o-y. This was largely supported by the manufacturing sector which grew by 6.7% y-o-y from 4.9% y-o-y in November.

Within the manufacturing sector, industries such as electrical and electronics (E&E), food, beverages and tobacco as well as non-metallic mineral, basic metal and fabricated metal products saw a higher growth of 12.8%, 11.2% and 5.6%, respectively.

Further breakdown also showed that export-oriented industries, which accounted for 45.8% of the total IPI weight, rose by 7.5% y-o-y in December from 5% y-o-y previously, suggesting the sector has been benefitting from improving global demand, said Bank Muamalat Malaysia Bhd head of economics, market analysis and social finance Mohd Afzanizam Abdul Rashid.

Nonetheless, Mohd Afzanizam cautioned the IPI is likely to see some slowdown in 2026, as the impact of US tariffs is expected to be felt more acutely this year.

"Already businesses in the United States have been complaining about the rising cost of doing business due to the tariffs, and US consumers are also feeling the pinch as businesses have started to pass along the additional costs to their customers. This will have an impact on demand from the United States," he told *StarBiz*.

IFAST Capital research analyst Kevin Khaw Khai Sheng said the strong manufacturing growth underpinning December 2025's IPI performance was driven by front-loading activities.

However, he cautioned that front-loading impact is expected to fade from the first quarter of 2026 (1Q26) onwards, leading to a decline in IPI growth this year.

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tor was another factor supporting IPI growth in December, as the manufacture of computer, electronic and optical products recorded strong growth.

"However, with memory prices currently quite elevated, this could eat into the margins of semiconductor players that rely on memory inputs, and it is just a matter of time before Malaysia, being part of the global semiconductor supply chain, feels the impact," he said.

Khaw projects the country to see an IPI growth of about 3% to 4% this year from 5% to 6% last year.

That said, Khaw viewed the slowdown in IPI as more of a normalisation trend, given that the 2025 figures were exceptionally strong.

In the meantime, Malaysia's producer price index is still on a downtrend, sliding by 2.7% y-o-y in December 2025, following a 1.8% y-o-y and 0.1% y-o-y decrease in November and October, respectively, though economists are of the view that it is near its trough.

Khaw said the divergence between the PPI and IPI is mainly due to lower input costs like crude oil and crude palm oil.

Evidently, the mining sector posted a 2.5% and 8.8% drop in December's IPI and PPI, respectively. Notably, the natural gas index fell by 7.9% in December, from 1% in November, which affected the mining sector.

"The lower raw material costs give the manufacturers the leeway to supply more, hence increasing their output volumes, which then translates to a higher IPI," he said.

Khaw said the divergence between the PPI and IPI is expected to persist in the near term, at least until 1Q26, particularly because it remains to be seen whether

input materials will see a spike in prices, given the uncertainty over a potential geopolitical shock on energy prices or a rebound in China's demand for raw materials.

"Until we see these two scenarios happen, the PPI will continue to be sluggish.

"Moreover, we do not rule out the possibility that the US government will continue to provide additional catalysts or injections into the economy, especially with the upcoming US midterm elections in November.

"As for China, with February being their Lunar New Year, inventory levels are already at very high levels. Moving forward, we still need to observe whether the Chinese will continue their stockpiling activities. If they do, this may likely boost our IPI," he said.

Meanwhile, IPPFA Sdn Bhd director of investment strategy and country economist Mohd Sedek Jantan said domestically, December's industrial production and manufacturing data point to firmer underlying momentum heading into 2026, reinforcing confidence in growth quality despite their lagged nature.

In general, Mohd Afzanizam said businesses are still cautious but at the same time, remain hopeful that the economy would be able to withstand the impact from the US tariff.

He added the persistent appreciation of the ringgit against the US dollar has helped the businesses, especially those who have been importing the raw materials from abroad.

"In a nutshell, 2026 should still be a good year for businesses. But they need to be mindful of the costs associated with labour, global supply chain rewiring and the uncertainties over trade policies," he said.