December IPI dips, silver lining on exports seen

Mixed reactions on external trade prospects

ECONOMY

By KEITH HIEW
keith.hsk@thestar.com.my

PETALING JAYA: While official industrial production numbers from December are reiterating a weak export trend, economists are notably displaying mixed reactions on Malaysia's external trade prospects.

December 2023 data from the Statistics Department showed that the Industrial Production Index (IPI) had dipped by 0.1% year-on-year (y-o-y), bucking the positive growth of two consecutive months in October and November.

The decrease was attributed to a y-o-y contraction in the manufacturing sector of 1.4%, although on the other hand, the mining and electricity sectors kept up positive momentum, registering 3.6% and 4.6%, respectively.

Perhaps more noteworthy is the fact that compared with November, December's IPI continued to decline by 1.3% against the 0.9% contraction seen the month before.

Despite Malaysia's chief statistician Datuk Seri Dr Mohd Uzir Mahidin attributing the slowdown to a persistent decrease in export-oriented industries, which dropped by 4.1% in the final month of 2023, some economists are seeing a light at the end of the tunnel.

Predicting a pickup in the global electronics cycle, Asean economist at HSBC Yun Liu believes that this could move the needle of growth, although she acknowledged that there could be a delay in the transmission impact to Malaysia's economy.

"This is also partly because Malaysia has seen a delayed hit to its electronics production and exports, around two quarters later than peers such as Singapore and Vietnam, which started as early as the last quarter of 2022," she told *StarBiz*.

Her comment on electronics production was reflected in Mohd Uzir's observation, who noted that December's IPI contraction was mainly attributable to the fall in the manufacture of computer and electronics products, as well as the manufacture of electrical equipment, among other types of goods.

The pullback has dragged Malaysia's export to a contraction of 10% y-o-y and 3.3% compared to November.

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Yun Liu

As the country waits for more green shoots from the global technology sector, Liu nevertheless believes Malaysia should remain as a primary beneficiary of the tech cycle recovery.

She pointed out: "After all, Malaysia is one of only two countries in Asean – the other being Singapore – to have foundries specialised in chip testing and assembly.

"Its impressive gains in lower-to mid-end chips also provides optimism for a stronger rebound when the trade tide turns."

Sharing Liu's sentiments, executive director and veteran economist at the Socio-Economic Research Centre, Lee Heng Guie, is also expecting a gradual exports recovery, estimating it at 4% in 2024, aided by an upturn in the technology sector as well as demand of chips for usage in electric vehicles and artificial intelligence globally.

On the flipside, with Malaysian exports being heavily influenced by China with it being Malaysia's largest trading partner, Lee continues to be wary about the strength of China's economic recovery, given the persistent sluggishness of its property sector.

Meanwhile, Mohd Uzir reported that production for domestic-oriented industries had on the contrary maintained a steady performance at 4.2% growth in December, against 5.8% in the previous month.

"The expansion was anchored mainly by the growth of 9.7% in the manufacture of fabricated metal products, followed by the manufacture of food processing products at 6.2%; and the manufacture of other non-metallic mineral products by 5.3%," he revealed.

Economist at Malaysia University of Science and Technology, Professor Geoffrey Williams opined that the IPI is showing continued weakness in the industrial sector, largely due to weak external demand, coupled with muted domestic investment.

Therefore, he reckoned that this would exert more pressure on private consumption as the main driver of growth this year.

"China's recovery is very weak and despite its official data, the underlying economy is still reeling from the lockdowns and the property crisis. It will remain weak in 2024," he forecast.

Summarising Malaysia's the IPI performance for 2023, Mohd Uzir reported that the IPI registered a marginal growth of 0.9% in 2023 as compared to 6.7% the year before, with the electricity, mining and manufacturing indices all posting positive growth rates.