GLOBAL MARKETS RESEARCH

Malaysia

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July industrial production beats expectations

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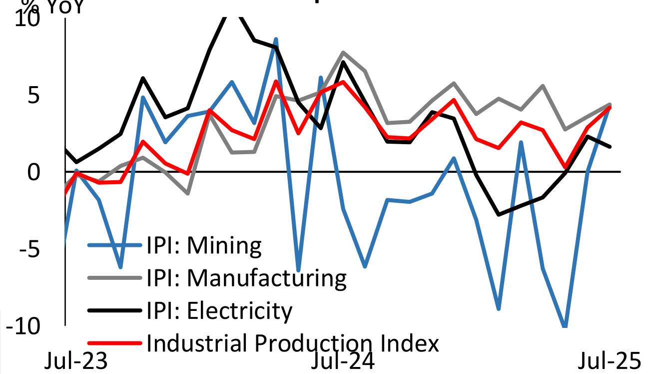
- Industrial production (IP) growth was higher than expected at 4.2% YoY (Consensus: 2.8%; OCBC: 3.0%) in July from 2.9% in June.
- The growth was supported mainly by the manufacturing (4.4% from 3.6%) and the mining (4.3% YoY from 0.0% in June) sectors.
- We will monitor the impact of the tariffs on economic activity for August data onwards to assess the balance of risks to our 2025 GDP growth forecast of 3.9%.

Industrial production (IP) growth was higher than expected at 4.2% YoY (Consensus: 2.8%; OCBC: 3.0%) in July from 2.9% in June. On a month-on-month seasonally adjusted basis, IP grew 3.1% in July from 2.6% in June.

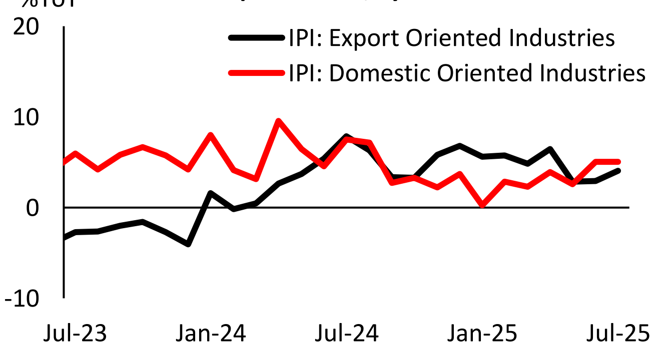
The growth was supported mainly by the manufacturing (4.4% from 3.6%) and the mining (4.3% YoY from 0.0% in June) sectors. Electricity IP growth slowed to 1.6% from 2.3% in June. Within the mining sector, the crude oil and condensate index drove improvements (July: +1.0%; June: -3.2%). For the manufacturing sector, E&E IP improved to 8.5% YoY from 6.4% in June along with furniture IP growth of 11.1% YoY from 9.8% in June. By orientation, export-oriented IP growth picked up to 4.1% YoY from 2.9% in June while domestic oriented IP was stable at 5.0% compared to 5.1% in June.

Industrial production index



Source: CEIC; OCBC Bank

Industrial production, by orientation



Source: CEIC; OCBC.

The strength of July IP growth remains broadly consistent with the frontloading activities of firms to step up production ahead of the implementation of reciprocal tariffs on 7 August. We expect IP growth to moderate to an average of 0.5% YoY from August-December 2025 from 2.4% in January-July 2025. We will closely monitor the impact of the tariffs on economic activity for August data onwards to assess the balance of risks to our full year 2025 GDP growth forecast of 3.9% YoY. For 2026, our GDP growth forecast remains 3.8% YoY.

BNM kept its policy rate unchanged at its 4 September meeting at 2.75%. The tone of the statement was notably less dovish than its previous statement on 9 July. The subsequent statements from BNM Governor noted that the 9 July 25bp rate cut could support the economy for the rest of 2025 and into 2026. This suggests that BNM will remain on hold at its 6 November meeting. We still, however, expect another 25bp from BNM in 1H26 given our expectations of slower growth in 2H25 and 2026.

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