

MIER Monthly Macro

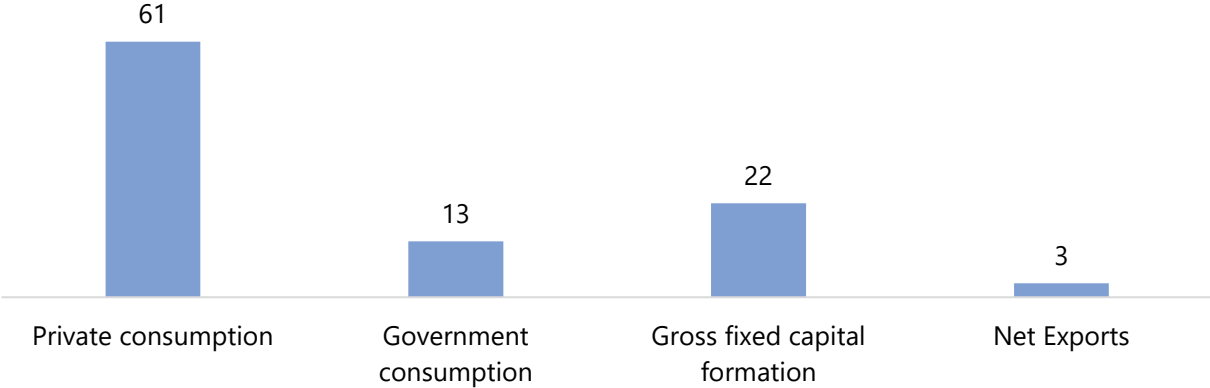
June 2026

MIER Monthly Macro Outlook – June 2026

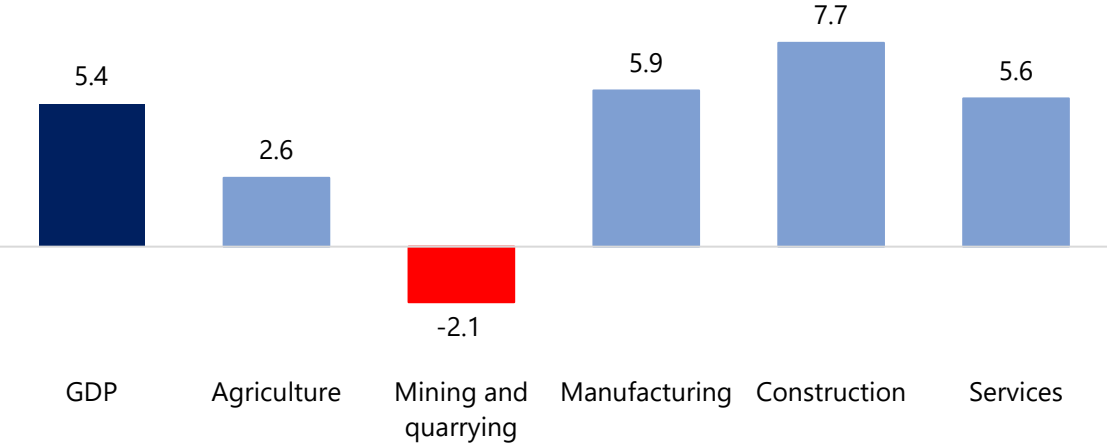
- **The economy continues to grow steadily**, with Q1 GDP expanding by 5.4% year-on-year (YoY), driven mainly by strong domestic demand. **Consumer spending** remained healthy, supported by low unemployment rate and government measures to boost consumption. Investments was steady underpinned by robust infrastructure spending particularly for data centres. **Exports remained robust**, particularly in the electrical and electronics (E&E) sector.
 - On the supply side, **manufacturing remained resilient** (5.9% YoY), supported by demand for E&E products related to artificial intelligence (AI) and data centres. The services sector also remained supportive while expanding by 5.6%. Growth in agriculture eased due to lower palm oil production, while the mining sector contracted due to weaker oil and gas output.
 - **SME loans** to the manufacturing and wholesale and retail trade sectors have continued to grow since February, when the conflict began, reflecting ongoing support from the financial sector.
 - The **strong demand for E&E products** from the United States (US) has boosted Malaysia's external position amid tariff uncertainties. Growth in trade is driven not only by the US technology sector but also by broad-based increases in trade across nearly all of Malaysia's major trading partners.
- However, sustainability of the US **tech-driven investment boom**, reflected in elevated technology stock valuations, will depend on how quickly the conflict with Iran is resolved. While Wall Street remains optimistic, many parts of the broader US economy continue to show signs of weakness. If the conflict persists, economic pressures on American households and businesses could intensify, potentially undermining the current tech-led expansion. Any significant slowdown in the US economy would, in turn, weigh on global growth.
 - **Inflation** is broadening as rising transportation costs drive up prices across a wider range of goods and services. For producers, raw material costs rose by 26.1% YoY in April, and these higher costs are likely to be passed on to consumers in the coming months. It is early days, but a notable early **policy support in action** can be witnessed **in Sarawak** where inflation in April was notably subdued compared to other states.
 - **Unemployment** remains low. Progress in addressing structural challenges in the labour market is understandably gradual and requires adjustment from both the supply and demand sides, as reflected in the significantly higher number of semi-skilled jobs created compared to skilled jobs. These challenges will take time to address, but progress must be evident at every data collection point.

Growth supported by domestic demand and exports

Expenditure Components as Percentage of 2025 GDP



Q1 2026 GDP Growth by Economic Activity (%YoY)



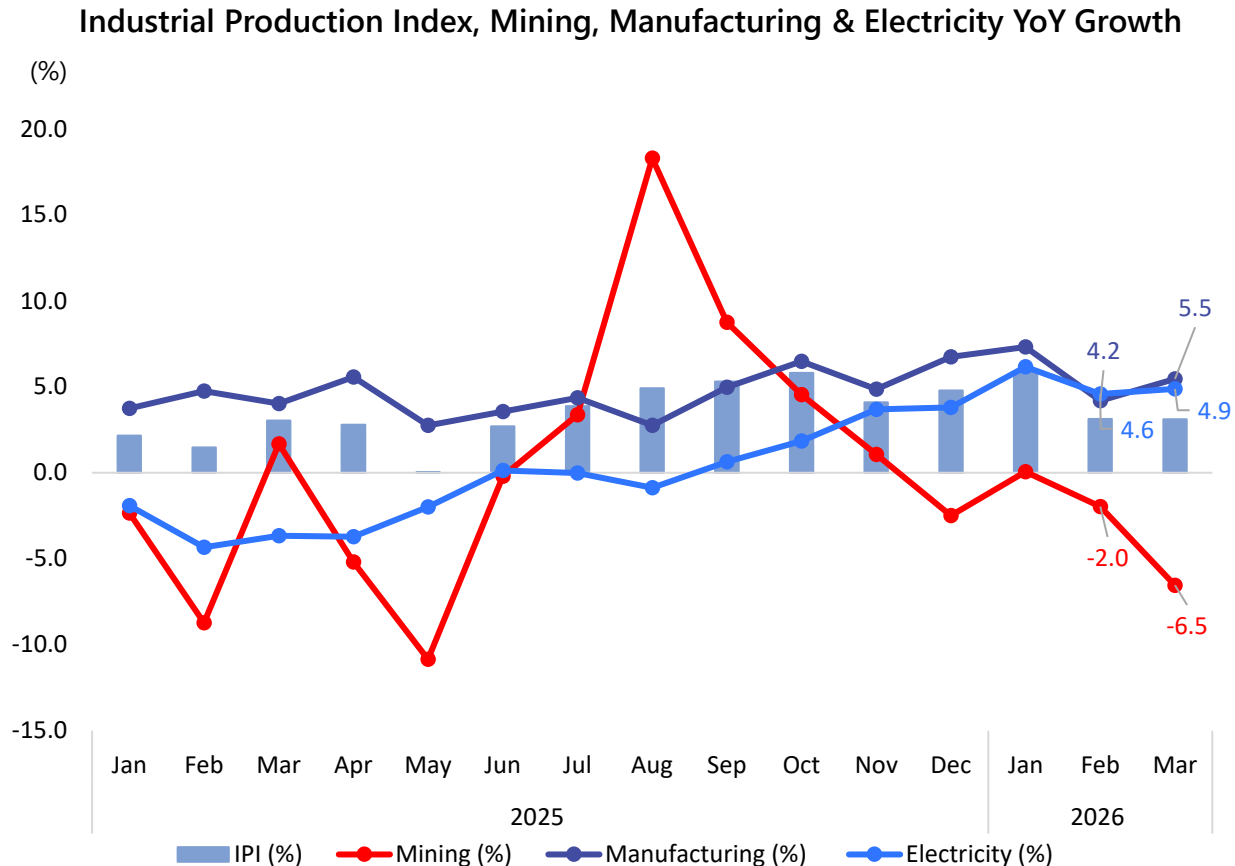
Source: DOSM, Quarterly National Accounts Gross Domestic Product, Q1 2026

Private consumption drives domestic demand

- Private consumption** rose 4.7% YoY in Q1 2026 supported by low unemployment and government measures to boost consumption. Exports grew 5.2% on strong demand for E&E products. Private consumption represents 61% of Malaysia’s GDP, while the export sector is more than two-thirds of the economy at 68%.
- Gross fixed capital formation rose 7.3% underpinned by robust infrastructure spending particularly for data centres. While government spending and capital formation have been supportive of growth, the dynamic drivers of the economy remain private consumption and exports.
- By economic activity, **manufacturing** (22% of 2025 GDP) and **services** (57%) are the main drivers of growth. Agriculture (8%) and construction (4%) have remained steady. Mining (7%) contracted by 2.1% YoY in Q1 2026 due to lower oil and gas output.



Higher electricity output on increased demand for power across the industrial and domestic sectors



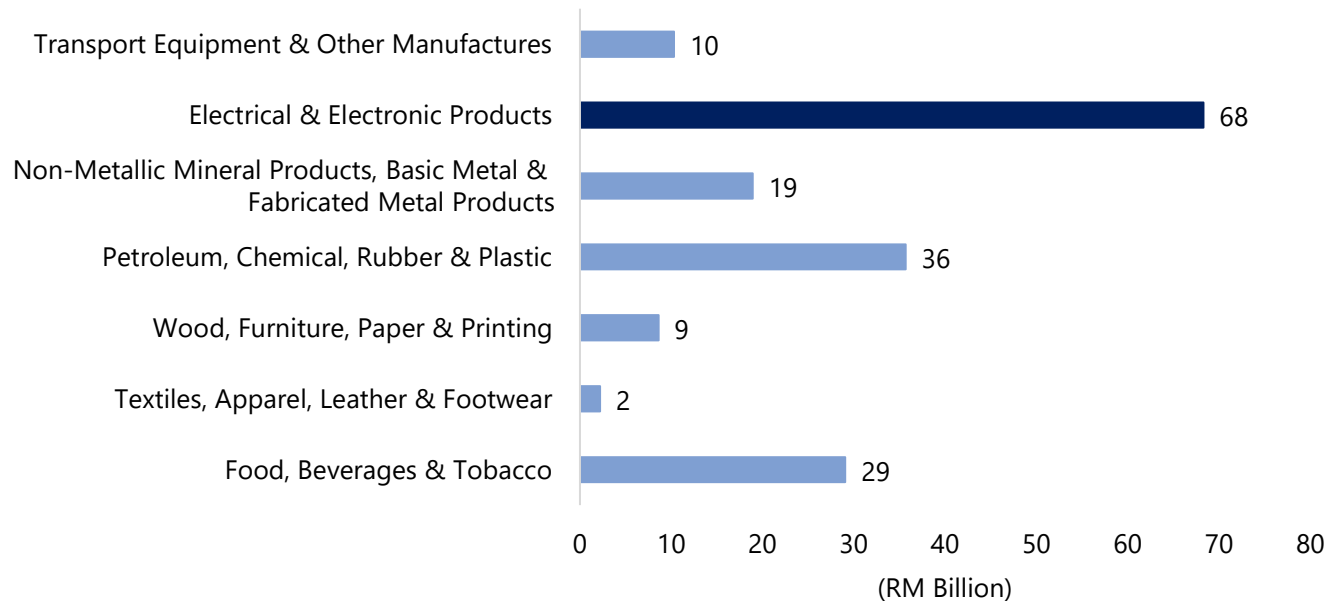
Source: DOSM, *Index of Industrial Production Report, March 2026*

Manufacturing output continues to be supportive of growth

- **Malaysia's industrial output** held steady in March 2026, matching February's annual growth pace of 3.1% on year-on-year basis.
- Manufacturing and electricity sector cushion mining slump as 5.5% expansion in manufacturing and a 4.9% rise in electricity generation did the lifting to offset a deepening 6.5% drop in mining output.
- Manufacturing output grew 5.5% driven by a 6.7% acceleration in export-oriented electronics production, whereas the mining sector contracted 6.5% due to declining natural gas, crude oil, and condensate outputs.

E&E products lead the way in Malaysia's manufacturing sales

Sales Value of Manufacturing Sector, March 2026

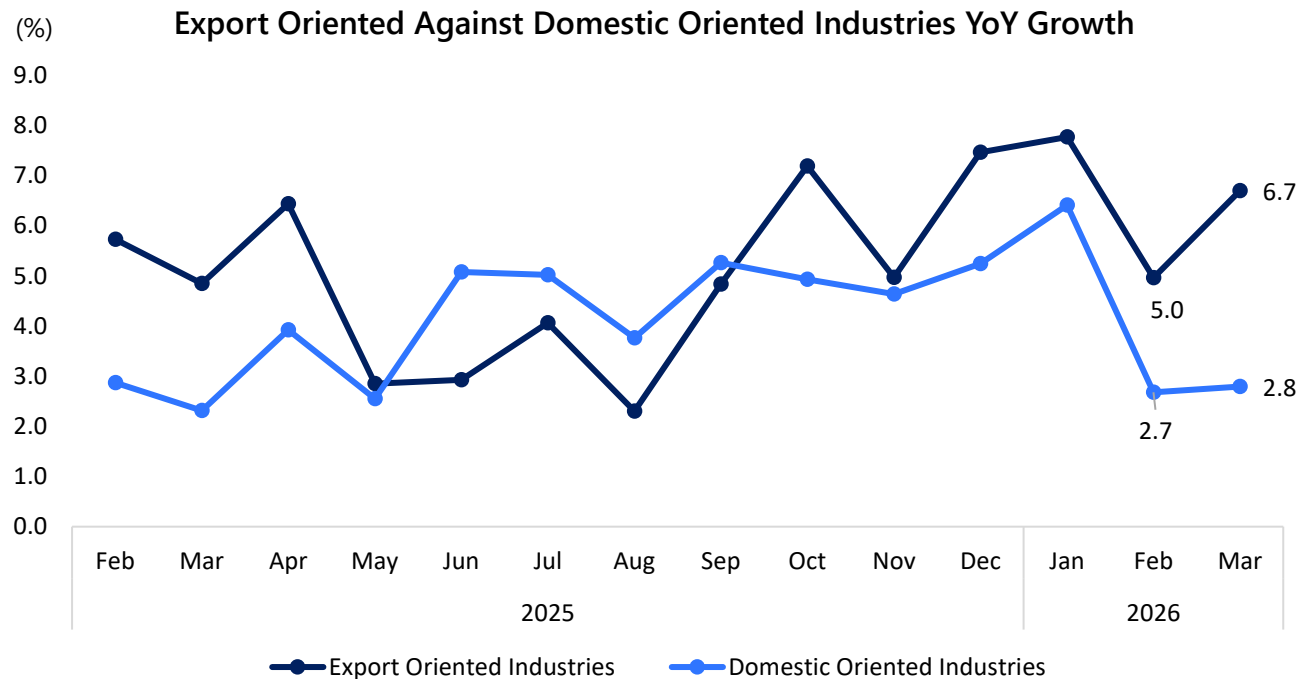


Source: DOSM, *Monthly Manufacturing Statistics Report, March 2026*

Buoyant semiconductor (export) & food & beverages (domestic demand) sectors

- E&E generated RM68.31 billion in sales value in March 2026, contributing to 39.5% share of Malaysia's total manufacturing output
- In line with the rapid rise in global demand for E&E, sales value for E&E grew by a RM7.23 billion in a single month, leaping from RM61.08 billion in February and bringing the year-on-year growth rate to 13.3%.
- Food and beverages sector which accounts for 16.8% of manufacturing, also showed robust growth at 7.8%, valued at RM29 billion.

A widening gap as global orders power ahead while local consumer demand gets stuck in low gear

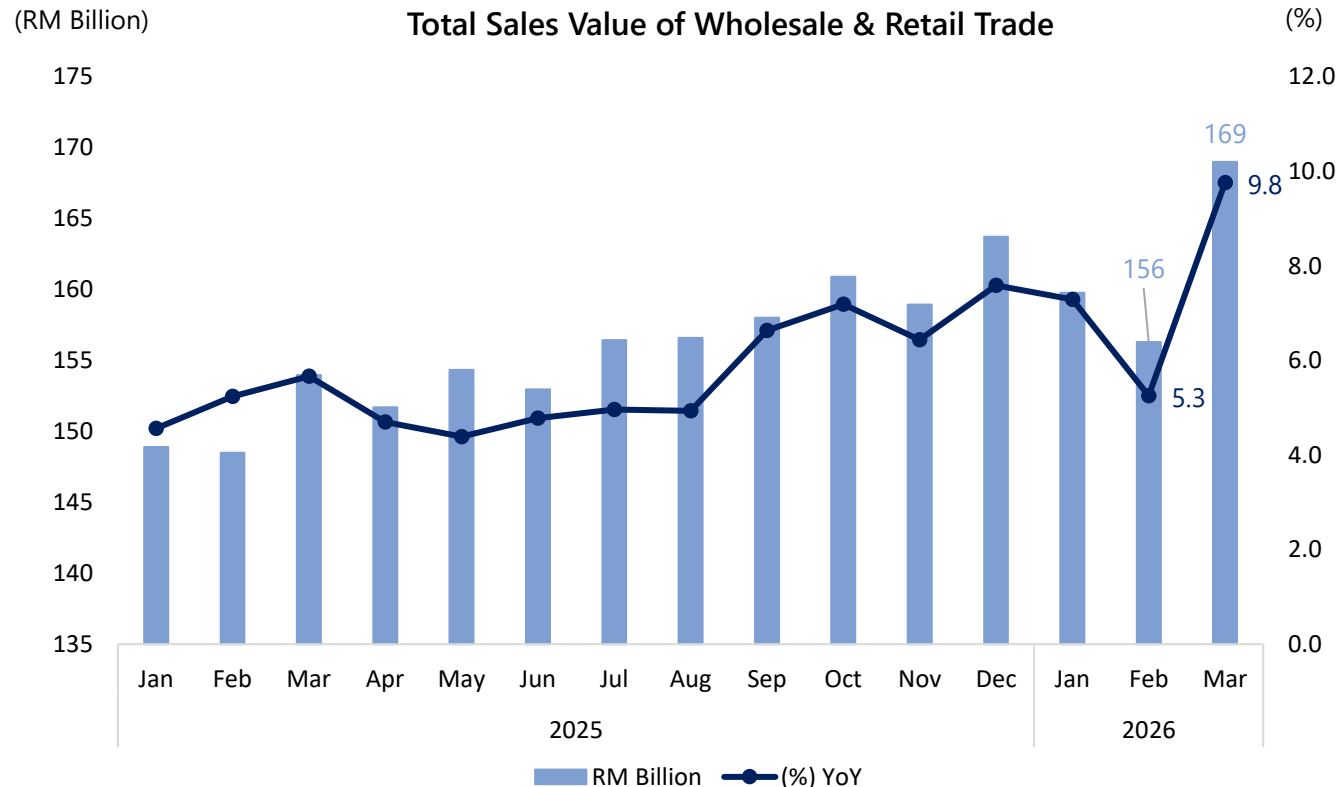


Source: DOSM, *Monthly Manufacturing Statistics Report, March 2026*

Export surge drives manufacturing split as domestic sectors stall

- Manufacturing momentum was driven entirely by overseas demand as export-oriented industries bounced back to 6.7% YoY growth, while domestic-focused manufacturing stalled flat at a weaker 2.8%.
- The real engine behind the export surge was the E&E sector, which shot up by a massive 12.5% YoY.
- Local infrastructure and transport sectors lacked strength, with petroleum and chemical products flatlining at 0.1% and transport equipment dropping by 2.9%, keeping domestic growth firmly capped.

Record wholesale and retail trade sales value ahead of a more challenging environment

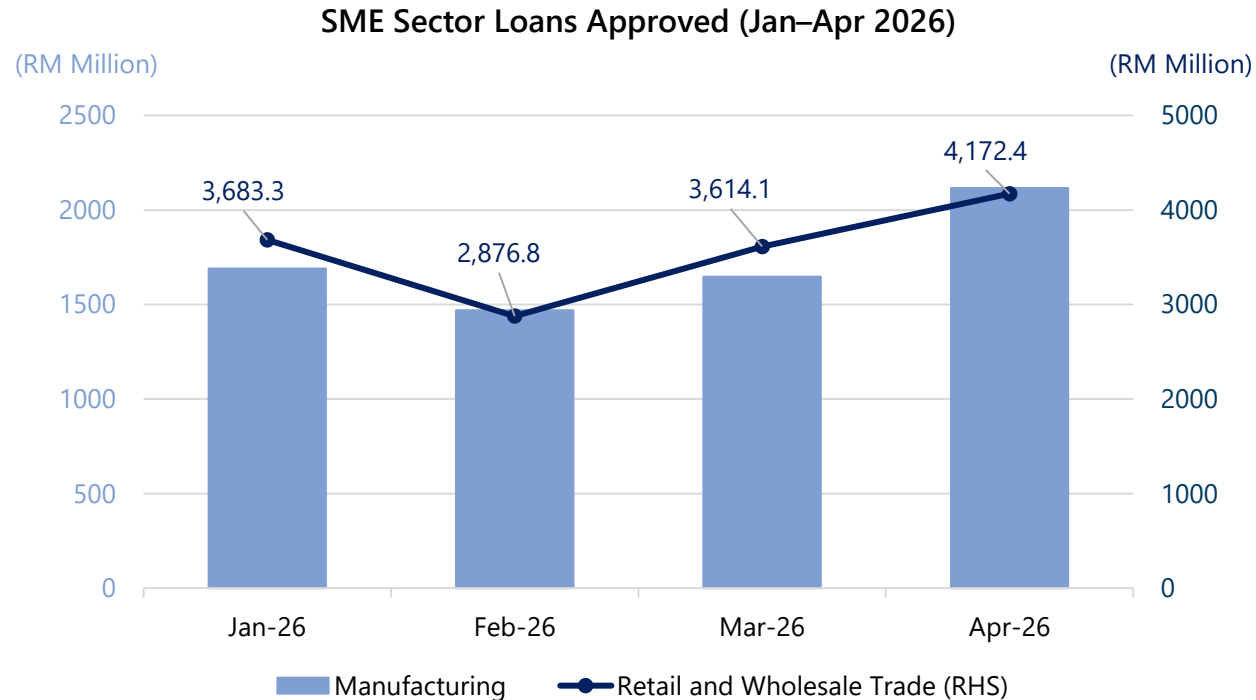


Source: DOSM, *Performance of Wholesale & Retail Trade Report, March 2026*

Wholesale and retail trades were lifted by Hari Raya spending

- **Total trade sales value made a strong rebound** in March by hitting an all-time high of RM169 billion. This translates to a 9.8% YoY jump, which was partly driven by a 15.7% surge in the wholesale sector.
- **The robust wholesale trade** sales value was supported by festive season demand for household and food products. A 32.0% spike in specialised trade like petroleum and construction materials, triggered by the geopolitical tensions in the West Asia also contributed to the bumper March sales value figures.
- **Retail trade** sales value was up by 7.5% as the government's special Aidilfitri assistance to civil servants and festive season deals led to higher consumer purchases in physical stores and online.

SMEs in the manufacturing, wholesale and retail sectors remain supported by the financial system

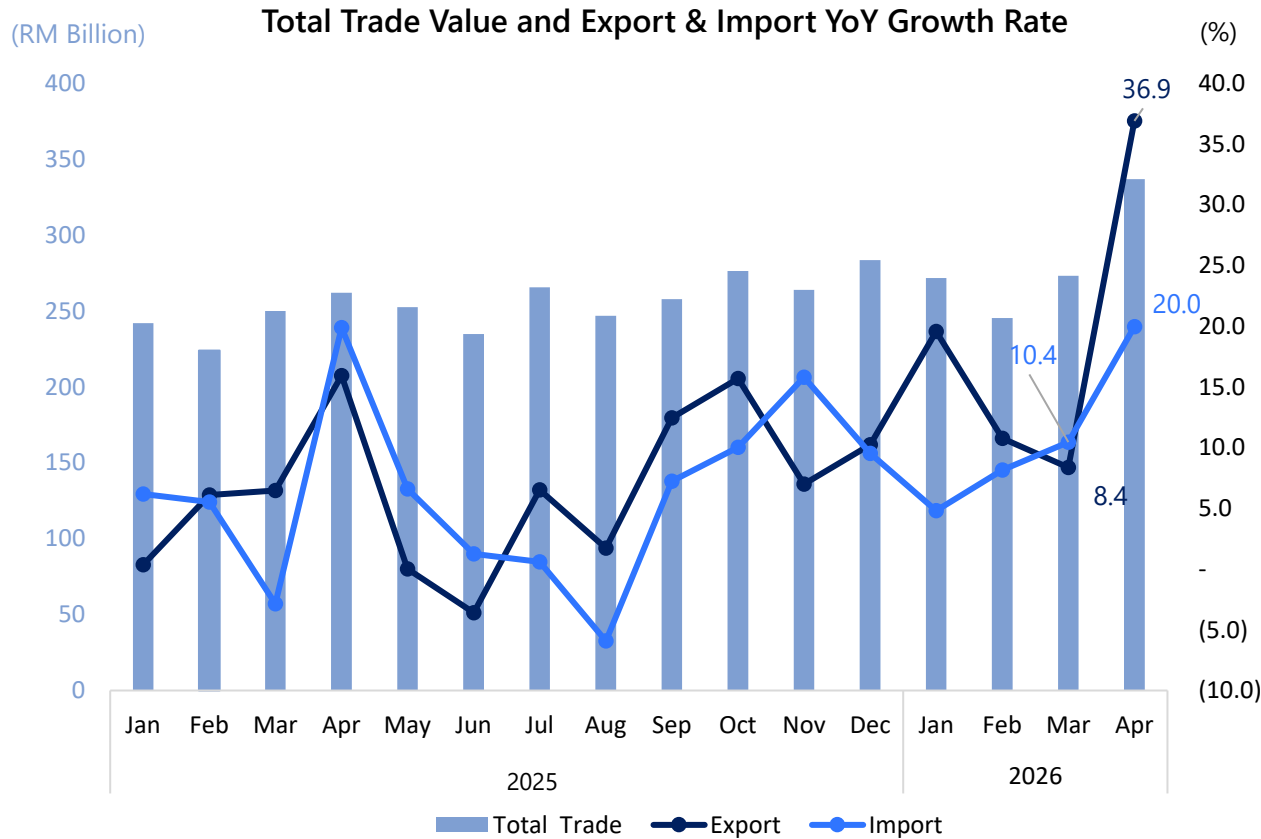


Source: Bank Negara Malaysia, *Monthly Statistics April*

Approved loans to SME expanded since February

- **Totals approved loans** to SMEs is 12.4% higher in April compared to a year ago indicating the financial system's continued confidence in the economy.
- **Approved SME loan growth** in the wholesale and retail trade industries rose by 12.9% in April from a year ago, suggesting that banks remain confident in the resilience of these sectors despite uncertainties surrounding the conflict.
- **The manufacturing sector has also been supported** as external demand for manufactured goods continue to be buoyant. Loans to SMEs in the manufacturing sector was 6.1% higher in April than a year ago.

Total international trade continue to expand after a record year in 2025

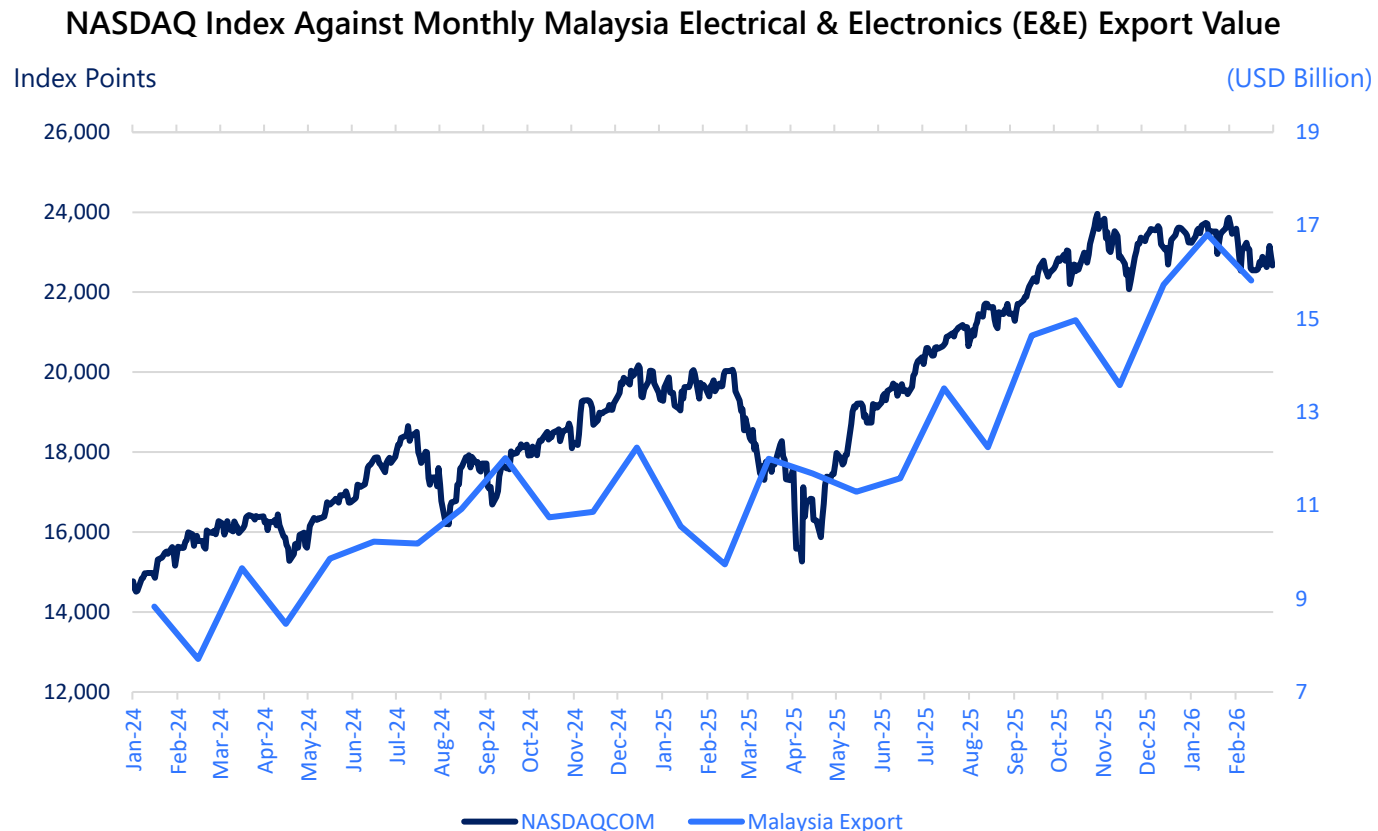


Source: DOSM, Monthly External Trade Statistics Report, May 2026

Export growth has been driven by E&E but trades to non-US partners are also expanding

- Malaysia's total trade** rose 28.6% YoY to record an unprecedented RM336.7 billion in April 2026, marking the highest annual growth rate seen in three years.
- Outbound shipments peaked at RM182.74 billion, driving total export growth up to 36.9% due to robust global demand for E&E products, which reached RM88.16 billion and accounted for 54.4% of total exports.
- While exports to the US rose 39% YoY in April, exports to other **major trading partners also recorded strong growth**, including Singapore (+23.2%), China (+39.2%), the EU (+43.5%), Taiwan (+86.0%), Hong Kong (+67.8%), Thailand (+30.9%), Viet Nam (+65.0%), and South Korea (+62.2%).
- Driven by this goods export rally, the monthly trade surplus reached RM28.75 billion, lifting the first-quarter national **current account surplus** to RM15.2 billion (about 3% of GDP).

Malaysia's E&E exports is highly correlated with US tech performance



Source: Federal Reserve Bank of ST. Louis ; DOSM

E&E exports remain robust but concerns over US tech valuation is rising

- The divergence characteristic of a **K-shaped economy in the US** continues to deepen, with tech valuations soaring even as indicators from the real economy point to a more subdued outlook.
- The investment in tech and especially data center has been a boon for Malaysian exporters even in the midst of tariff uncertainty last year. So far this year, the trend has continued with ever higher tech valuations.
- Rich tech valuations may not be bubbly if they are supported by broad-based economic expansion rather than a narrow concentration of gains. Yet the **prolonged conflict in West Asia** continues to add layers of geopolitical and economic uncertainty. The longer these tensions remain unresolved, the more acute the risks become.

Resilience of AI investment boom and E&E exports is increasingly dependent on a peaceful resolution of West Asia crisis



- Narrow tech-led growth
- Risk buildup
- Unorderly correction
- Broader based tech-led growth
- Stronger consumer sentiment
- Lower inflationary pressure
- Real wage growth
- **Contingent upon war on Iran ending in near term**
- Deterioration in real economy
- Higher inflation for longer
- Subdued real wage growth
- Low consumer confidence
- Higher treasury rates, financial market risks



- Domestic demand and export growth, particularly in the E&E sector, are expected to be the main drivers of growth in 2026.
- However, these foundations could be undermined by a prolonged war on Iran.
- In addition, as pressures continue to build in the real economy of the US, the risk of a broader economic slowdown increases.
- Such a downturn would not only weaken external demand but could also trigger financial market corrections, with spillover effects on the global economy.

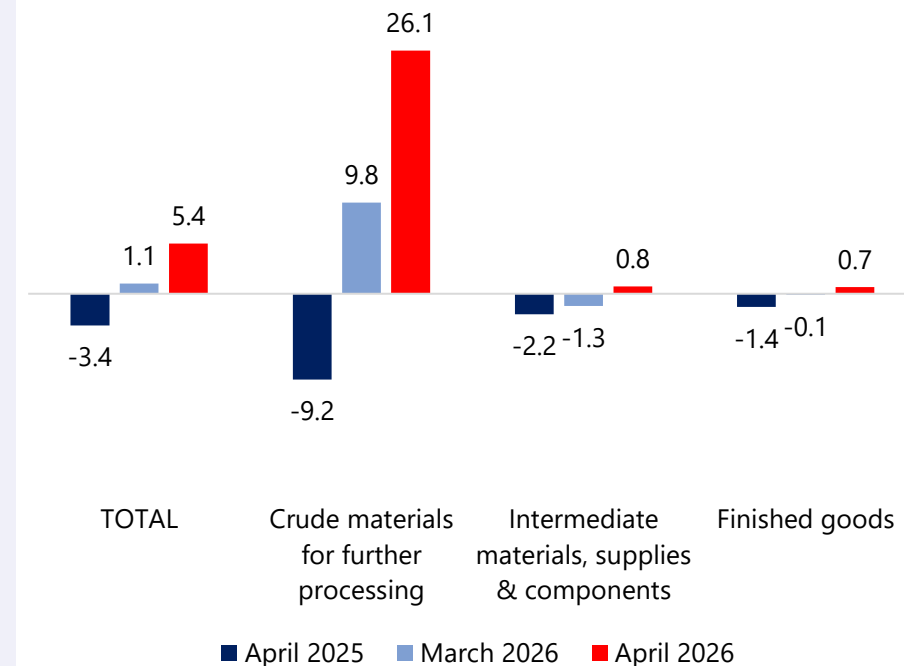
Rising raw material costs signal consumer goods inflation ahead

- **Producer Price Index (PPI)** recorded its **highest increase** since August 2022, accelerating to 5.4% YoY in April 2026, up from 1.1% in the previous month. This spike is largely attributed to surging crude oil and petroleum-related prices, which have intensified production cost pressures and raised concerns regarding potential price pass-through to consumers.
- When raw material prices rise, manufacturing costs increase. This creates a domino effect throughout the value chain, as producers pay more for materials and components. To maintain profit margins and cover higher production costs, manufacturers eventually pass these costs on to consumers.
- Despite these mounting cost pressures as **crude materials** for further processing spiked by 26.1% YoY in April; yet, cost pressures moderated significantly through the supply chain, with intermediate materials, supplies, and components rising by 0.8%, and **finished goods inflation remained modest** at a marginal 0.7%.
- The contrast between the sharp rise in raw material costs and the stability of the finished goods index shows that the ripple effect of producer price hikes into the retail market has been largely absorbed at the production stage thus far but manufacturers are not expected to be able to maintain this in the long run.

PPI surged to 5.4% in April, steepest in 44 months

Crude materials rose significantly to 26.1% while intermediate materials and finished goods indices remained modest.

PPI Local Production by Stage of Processing, Malaysia (%YoY)

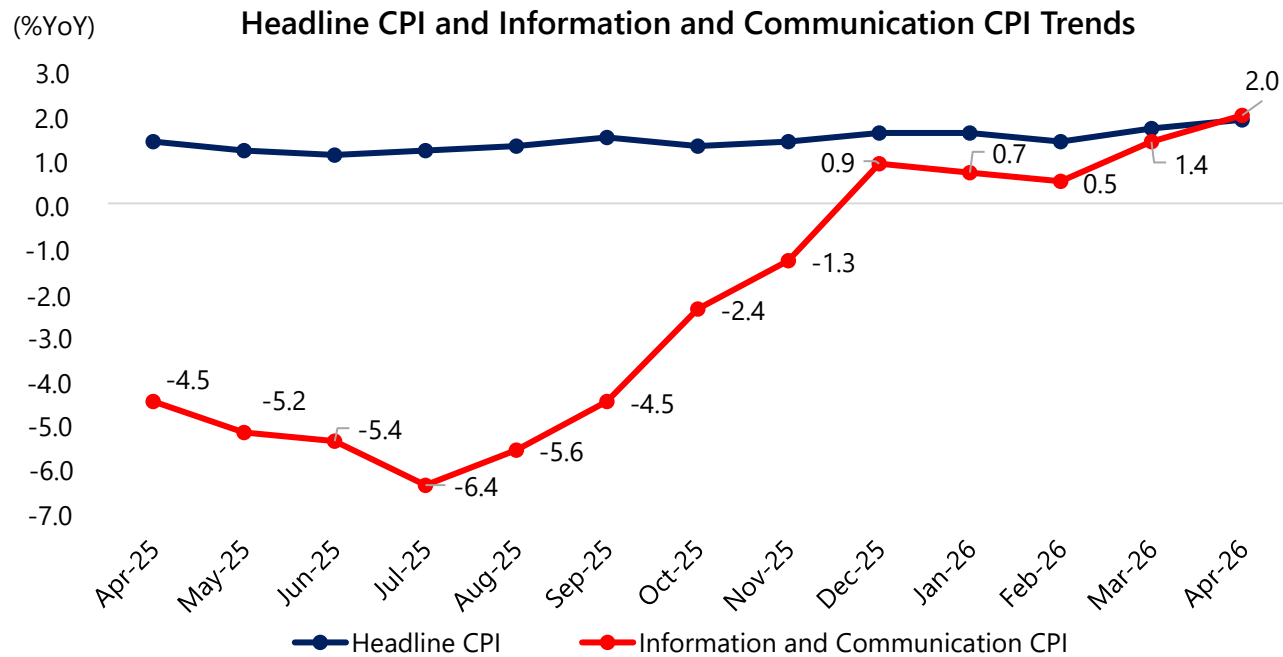


Source: DOSM, *Production Price Index Local Production April 2026*

Consumer price pressure in April has extended beyond the pump

- April headline CPI rose to +1.9% from a year ago, up from +1.7% in March. This steady uptick is driven by the energy price hikes and supply chain disruptions that have persisted since previous month.

Information and Communication CPI Reverses Deflationary Trend and Surpasses Headline CPI in April 2026.



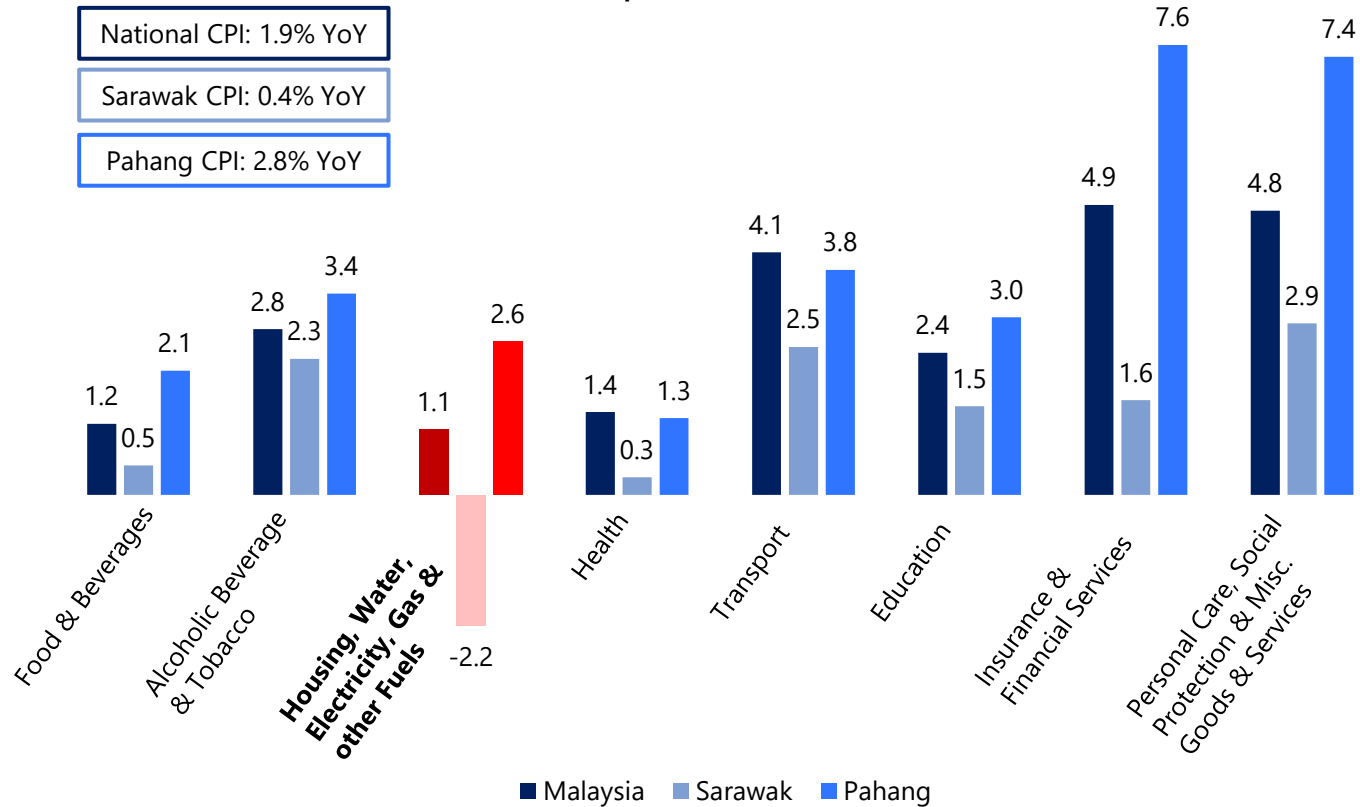
Source: DOSM, Consumer Price Index Report: April 2026

Raising costs across transport and digital sectors

- **Transport:** This remains the most significant pressure point, surging to +4.1% (+1.6% in March) from a year ago. Inflation from transport are adding costs beyond the petrol pump, now impacting other components within the CPI basket.
- **Information and Communication:** Inflation accelerated to +2.0% (up from +1.4% in March). Although digital services are often perceived as virtual, they rely on physical infrastructure (eg. fleet fueling, cell tower maintenance & hardware logistics). These rising operational costs are being passed on to consumers. For context, inflation in this category was just +0.5% in February, prior to the full economic impact of current disruptions.
- This broader inflation trend within the CPI basket is widely expected but is still important to monitor to understand the dynamics and transmission mechanism of inflation. With directly impacted components such as transport, insurance, eating out and personal care showing higher than overall CPI increase, the government must be relieved that **food and beverages**, only increased by 1.2%.

Proactive state-level fiscal intervention has created an early buffer for Sarawak consumers

Comparative CPI by Selected Expenditure Group: Malaysia, Sarawak & Pahang (Apr 2026, %YoY)



National CPI: 1.9% YoY
 Sarawak CPI: 0.4% YoY
 Pahang CPI: 2.8% YoY

April's CPI reveals a stark divergence in state inflation, primarily driven by targeted state utility interventions.

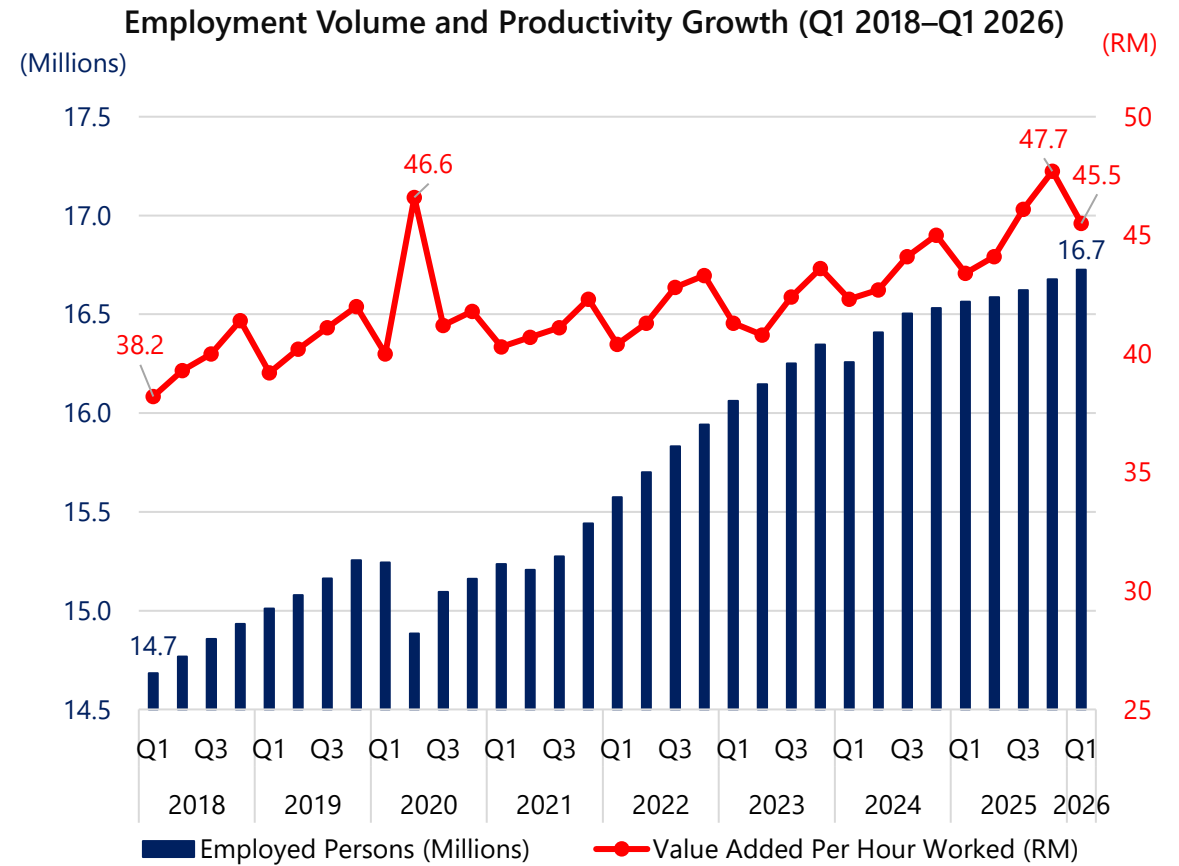
- At state level, Pahang recorded inflation was at +2.8% YoY, whereas **Sarawak maintains the lowest national inflation rate** at +0.4%.
- Although Sarawak's low inflation is broad-based across most consumer categories, the Bantuan Khas Elektrik Sarawak (BKES), which provides a 25% electricity discount starting from April to December, has significantly tempered price pressures in April. While national **Housing, Water, Electricity, Gas & other Fuels** inflation rose by +1.1%, Sarawak's fiscal intervention resulted in a deflation of 2.2% in the same category.

Source: DOSM, Consumer Price Index Report: April 2026

Labour market remained resilient in Q1 2026 amid gradual progress on structural challenges

- Malaysia's labour market remained resilient in the first quarter of 2026, with **unemployment rate** remaining at multi-year low of 2.9%.
- The economy recorded a quarterly growth of 5.4%, supported by an expanding workforce where the number of employed persons rose by 1.0% from a year ago (0.3% QoQ) to reach 16.73 million persons. Labour productivity measured by value added per hour worked increased by 4.8% YoY to RM45.50 per hour.
- While the economy continues to generate a high volume of new job vacancies, demand remains heavily skewed toward **semi-skilled labour**, which accounted for 64.1% of all new jobs created in the first quarter, compared to 26.1% for skilled and 9.7% for low-skilled roles.
- Skills-related underemployment** (employed person with tertiary education but working in semi-skilled and low-skilled occupations) marginally declined but the absolute number of affected individuals remains high at 1.93 million. As of 2026 Q1, more than one-third (35.2%) of the tertiary-educated workforce are affected.

Over the past eight years, the workforce has expanded by 13.6%, while simultaneously improving labour productivity by 19.1%.



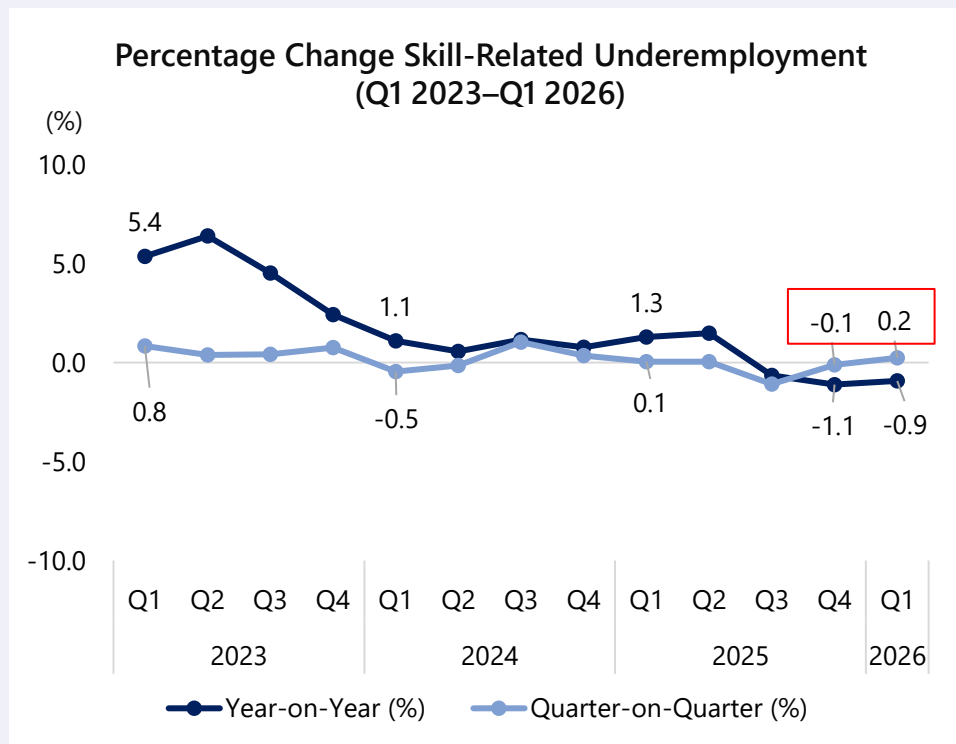
Source: DOSM, Labour Market Review Q1 2026

Broad-based labour absorption despite semi-skilled dominance

- Positive momentum is evident in time-related underemployment, which declined by 15.0% YoY (-21.7 thousand persons) to 123.3 thousand, resulting in an underemployment rate of 0.7%. This is a steady improvement from 0.8% in the previous quarter and 0.9% in the same quarter last year.
- Although time-related figures have improved, the reduction in skills-related underemployment remains modest, declining by only -0.9% YoY (-18.2 thousand persons). Despite this marginal progress, the absolute number of affected individuals remains high at 1.93 million. As of 2026 Q1, more than one-third (35.2%) of the tertiary-educated workforce continues to occupy roles that fail to fully utilise their specialised qualifications.
- This indicate a critical structural mismatch: although the labour market is absorbing workers, it is not yet generating sufficient high-value professional roles to match the output of tertiary institutions.

Persistent skills mismatch hinders high-value growth

While the YoY trend shows a long-term improvement in reducing skill-related underemployment, the QoQ reveals a slight reversal, with a marginal +0.2% increase in Q1 2026 following a -0.1% contraction in the previous quarter.

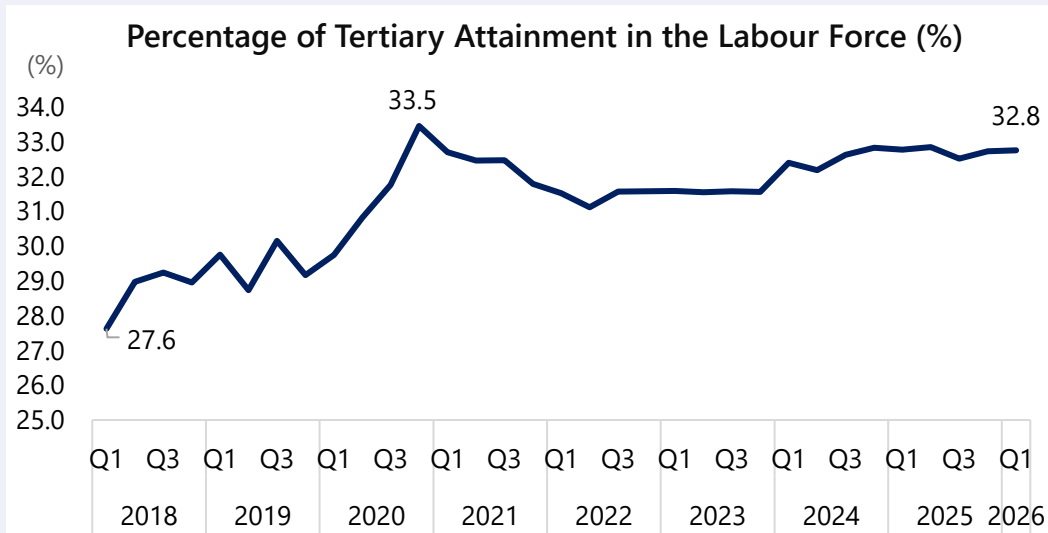


Source: DOSM, *Labour Market Review Q1 2026*

Tertiary enrollment steadily increasing but structural issues are multi-dimensional

The labour force is progressively becoming more trained and qualified, with tertiary education attainment among workers steadily increasing to 32.8% in Q1 2026. However, this progress must be accompanied by measures to improve education quality, reform labour market policies, particularly those affecting entry-level wages, and promote the creation of high-paying, quality jobs.

Tertiary education attainment in the workforce grew by nearly 19% over the past eight years.

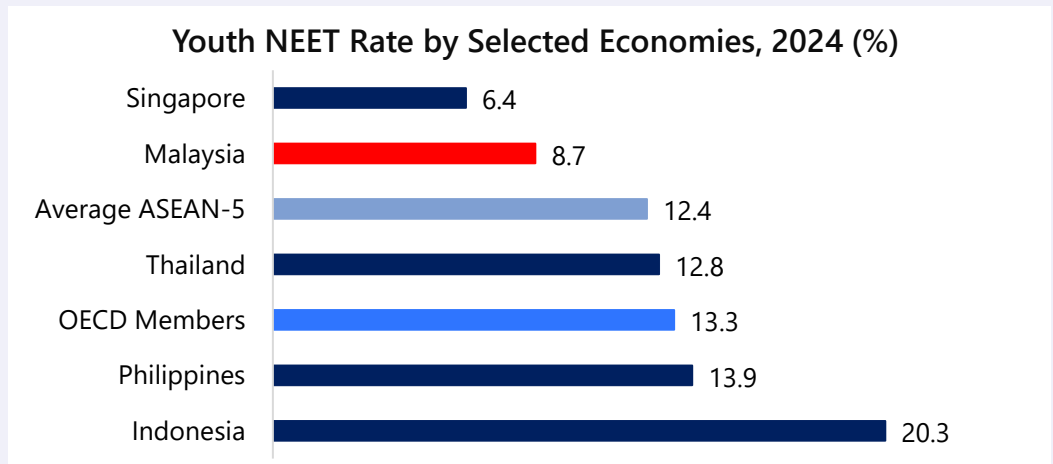


Source: DOSM, *Labour Market Review Q1 2026*

Malaysia's low NEET rate suggest progress but continued effort needed

In 2024, Malaysia's youth NEET (Not in Education, Employment, or Training) rate for those aged 15–24 stood at 8.7%, significantly lower than the global average of 19.9% reported by the International Labour Organisation, the OECD average of 13.3%, and the ASEAN-5 average of 12.4%. Further aligning academic and skills development with the needs of the economy will help accelerate the transition of young people into high-value professional roles, including those within the TVET pathway.

Malaysia's youth participation in education and employment outperforms both the ASEAN-5 average and OECD benchmarks.



Source: DOSM, *Labour Market Review Q1 2026*; World Bank Data



Copyright © 2026 Malaysian
Institute of Economic Research.
All rights reserved.