MIER Monthly Macro

July 2026

Malaysian Institute of
Economic Research

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- **Global growth prospects remain broadly resilient** despite the intermittent escalation and de-escalation of the conflict in the Middle East. While the conflict continues to pose downside risks to global growth, sustained de-escalation would be welcomed as it would support improving trade conditions and reinforce the ongoing recovery in global trade driven by tech demand.

- **Malaysia's economic resilience** is expected to be sustained, underpinned by resilient domestic demand and continued strength in exports, which will remain the principal drivers of growth. Indicators of production and sales, both for domestic and export sectors, suggest growth momentum remain intact in Q2 2026.

- **Domestic economy** continues to show strength as sales value across wholesale and retail trade reached RM175 billion in April 2026, expanding 15.3% YoY; the fastest annual growth recorded in more than a year and a marked step up from 9.8% in March.

- **External trade continued to perform strongly**, driven by robust export growth across Malaysia's major export destinations. Exports to the United States nearly doubled in May compared with a year earlier, while shipments to other key trading partners also recorded double-digit growth, underscoring resilient external demand and competitiveness of Malaysian exports.

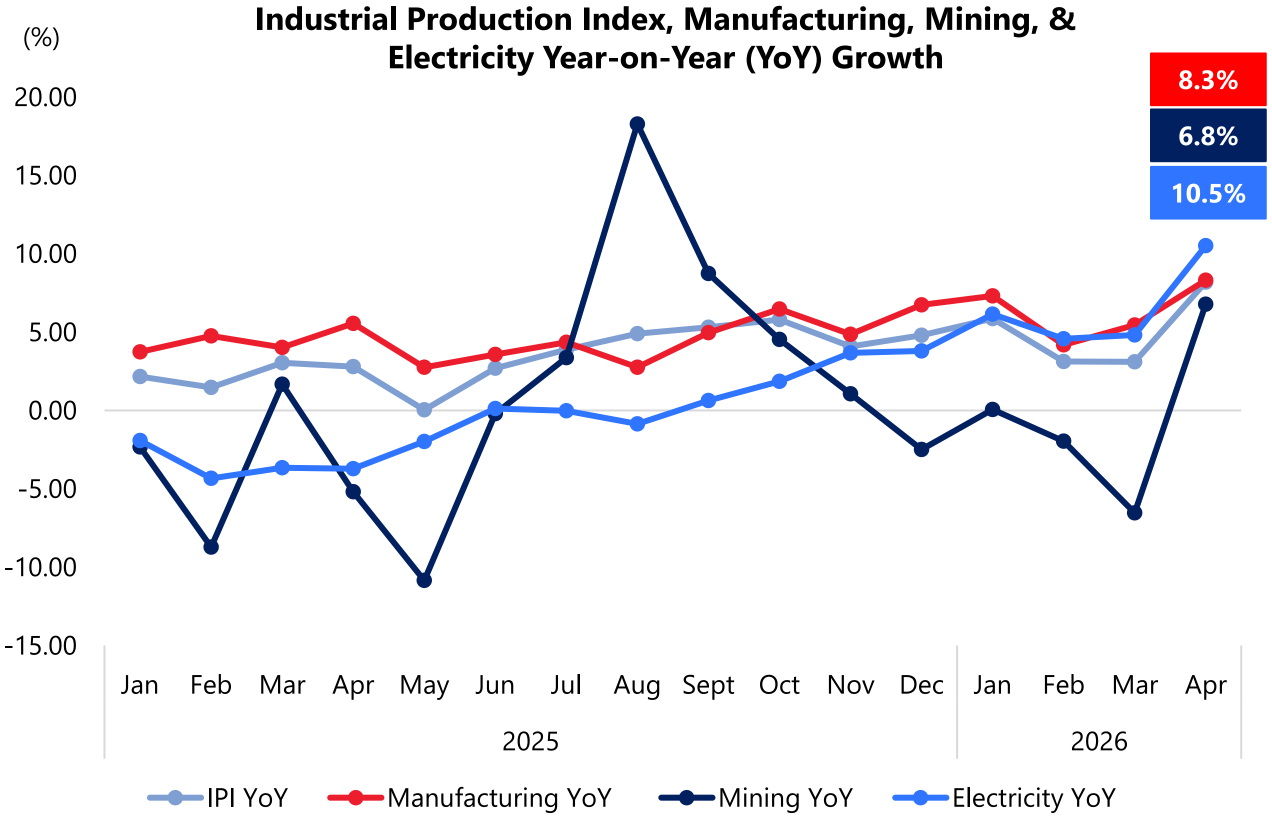
- **Tourism Malaysia's quick pivot** towards regional source markets has supported resilient tourism demand, led by a sharper increase in arrivals from China, alongside continued growth from key regional markets including Japan and Australia.

- **Inflation rose modestly to 2.0%** YoY in May with the food and beverage component rising to 1.4% while transport component climbed down to 3.8% from 4.1% previously.

- **Producer Price Index (PPI) rose 7.8% YoY in May 2026**, accelerating from 5.4% in the previous month and recording its strongest increase since August 2022.

- **Unemployment rate** edged up 0.1 percentage points to 3.0% in April. The labour market has been steady and in the manufacturing sector, output value per worker has been rising. Translating these gains into higher wages will be essential to strengthening domestic demand, attracting higher-skilled talent, and supporting Malaysia's transition towards a high-value, high-income economy.

Robust industrial production continues



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

Broad-based growth lifted output to its fastest pace in a year

- **A broad-based expansion:** After a slow start to the year, Malaysia's factories, mines and power plants all shifted up a gear in April. Industrial output grew 8.2% from a year earlier more than double the 3.1% pace of February and March, and the fastest in roughly a year.
- **All engines firing at once:** Every sector pulled in the same direction; manufacturing rose 8.3% and electricity 10.5%, while mining swung back to +6.8% growth after shrinking 6.5% in March.
- **Demand at home and abroad:** The gains were not led by exports alone; export-oriented industries grew 8.5% while domestic-oriented ones rose by 8.0%.

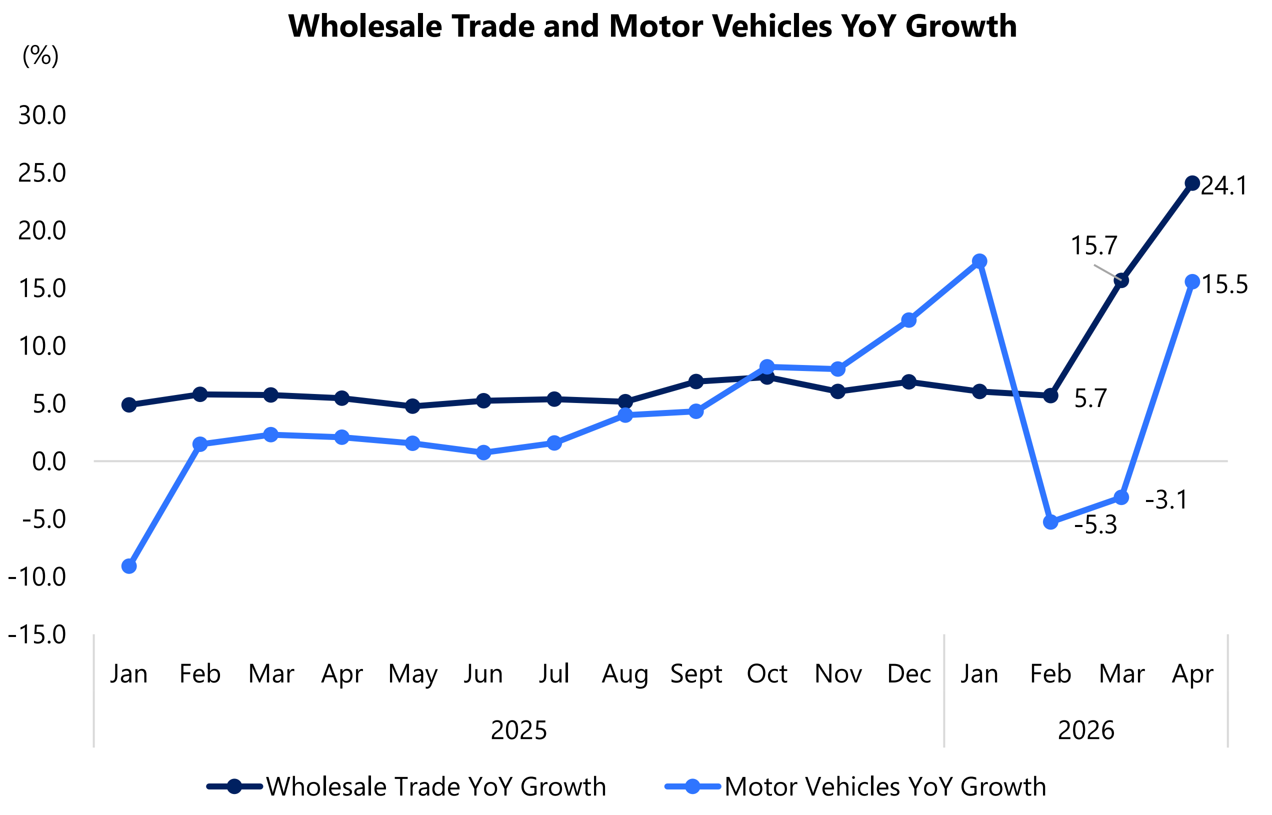
Wholesale & Retail Trade sales hit RM175 billion, up 15.3% YoY

Source: DOSM, *Performance of Wholesale and Retail Trade Report, April 2026*

Resilient domestic demand on show in April

- **Sales value across wholesale & retail trade reached RM175 billion in April 2026**, expanding 15.3% YoY; the fastest annual growth recorded in more than a year and a marked step up from 9.8% in March.
- The momentum was broad-based, with all three sub-sectors contributing. Wholesale trade led at 24.1%, followed by motor vehicles at 15.5% and retail trade at 6.3%.
- April marks the second month in a row of rising sales, after the dip in January and February, pointing to an improvement in trade activity.

Wholesale and Motor Vehicles sales strong in April

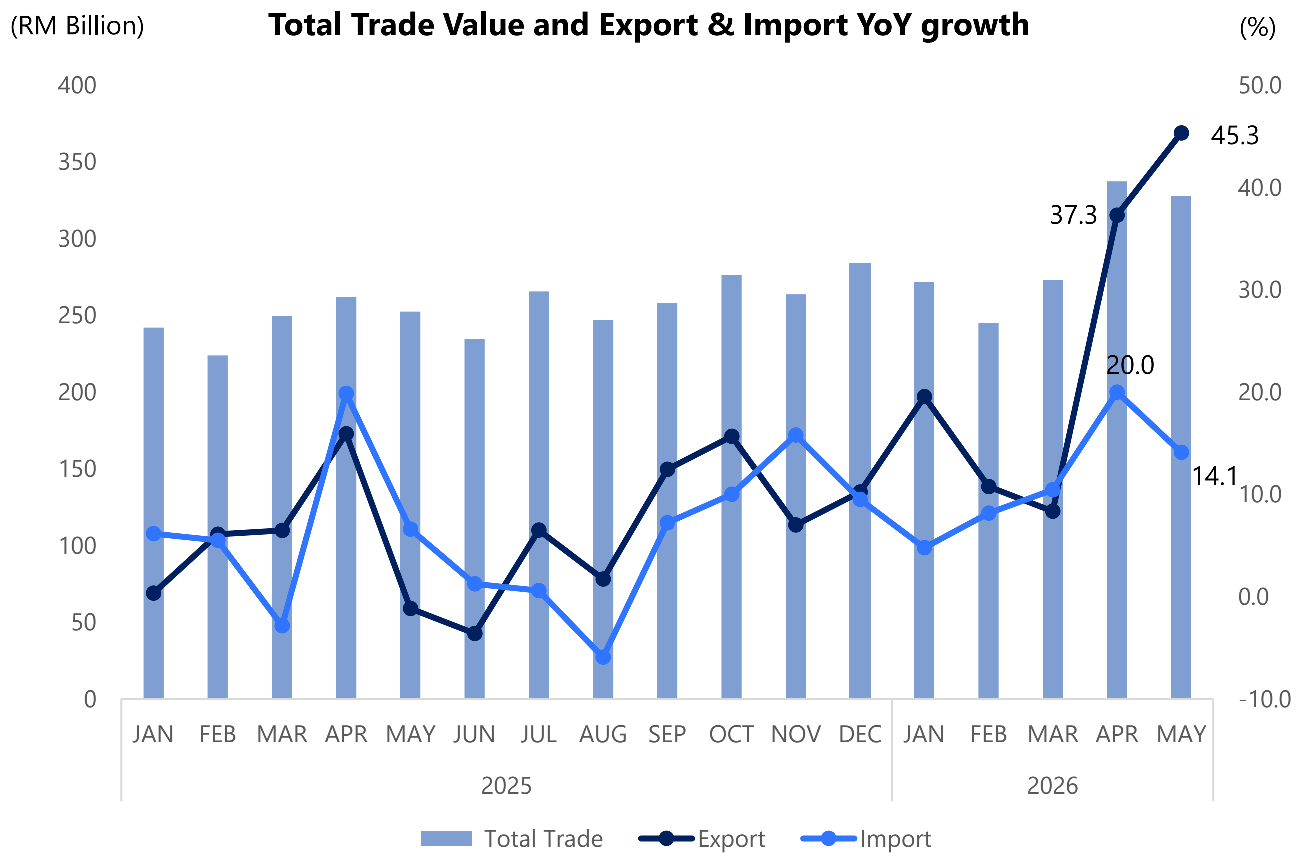


Source: DOSM, *Performance of Wholesale and Retail Trade Report, April 2026*

Double digit growth in wholesale trade for second consecutive month

- Wholesale trade and motor vehicle sales climbed to their strongest reading of the year in April. Wholesale rose to RM83.5 billion (+24.1% YoY) and motor vehicles to RM20.4 billion (+15.5%).
- Wholesale was lifted mainly by other specialised wholesale (+52.0%), which covers petroleum and construction materials, with support from wholesale on a fee or contract basis (+12.5%) and agricultural raw materials & live animals (+11.7%).
- After previous two months of contraction, motor vehicle sales rebounded in April driven by clearing backlog and new vehicle models. The recovery was led by sale, maintenance & repair of motorcycles and components (+38.7%) and sale of motor vehicles (+18.1%), while maintenance & repair of motor vehicles grew a steadier 9.9%.

May total trade value climbs nearly 30% YoY to RM327.6 Billion



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

Exports surged 45% on the back of E&E

- **Total trade reached RM327.6 billion in May**, almost 30% more than the same month last year, as strong export performance continue in 2026.
- Total exports surged to a record RM184 billion in May 2026, marking a robust YoY expansion of (+45.3%). This performance was predominantly driven by Electrical & Electronic (E&E) products, which jumped (+70.5%) to add (+RM37.9 billion). Further supporting the momentum were Petroleum Products, which grew by (+74.2%) over the same period on higher global fuel prices.
- Imports rose to 14.1% coming mainly from the parts and materials that factories use to make other goods (intermediate goods, +14.4%), led by components for the electronics industry.

The United States powered May's export surge

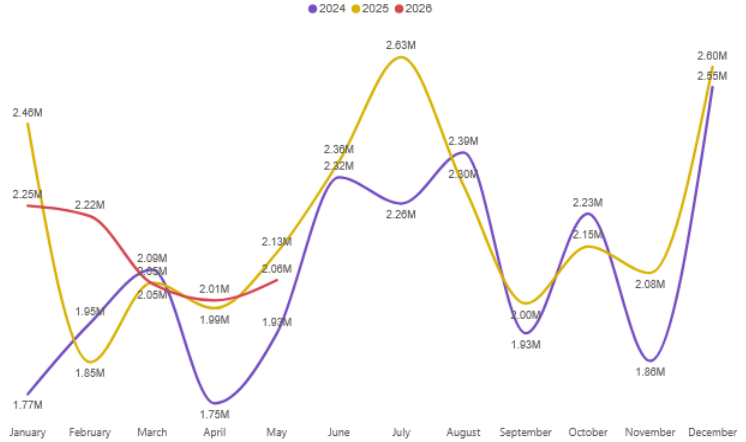
Source: DOSM, *External Trade Statistics Report, May 2026*

While exports to other trade partners are growing too

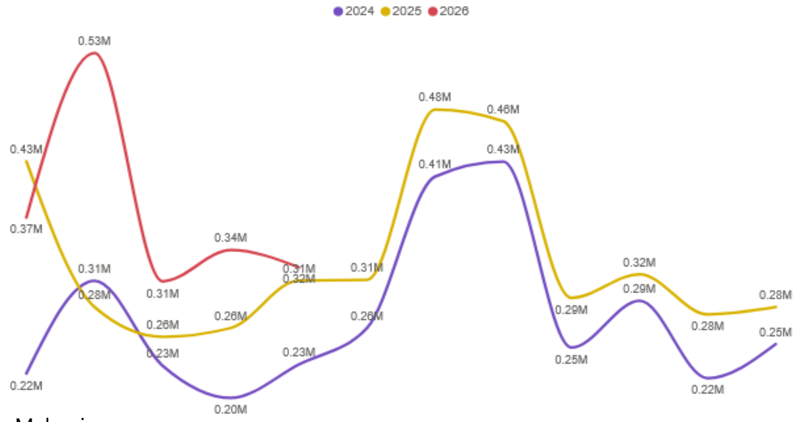
- **Broad-based export growth with major trading partners**. Trade to all major export destinations grew with largest partners US, Singapore, China, and the European Union registering double digit growth.
- The US led the way. Shipments to the US nearly doubled to RM36.9 billion (+97.7% YoY), lifting it past Singapore and China to become Malaysia's largest export market. Electrical & electronic products did most of the work (+RM13.5 billion; +119.5%).
- The US (RM36.9 billion; 20.1% share) and Singapore (RM25.6 billion; 13.9%) together took about a third of Malaysia's exports. China followed at RM19.2 billion; 10.5%, while European Union (RM 15 billion; 8.2%) and Hong Kong (RM14 billion; 7.4%).

Tourism industry resilient amid Middle East conflict

Tourist Arrival to Malaysia



Tourist Arrival from China



Source: Tourism Malaysia

Regional tourism remain strong ahead of summer holidays months

- **Tourist arrivals to Malaysia** has been robust year-to-date as **Tourism Malaysia's quick pivot** to focus on regional tourists keep the Visit Malaysia 2026 arrival targets within reach.
- According to the Tourism Ministry, **arrivals from the Asia Pacific region** rose 35% to 15.2 million between January and May this year. This is led by tourist from **China with more than 10 million arrivals** in the same period.
- Arrivals from Japan and Australia are also higher than in previous years, suggesting regional tourism remain relatively supported despite higher fuel costs.
- The conflict in Middle East may have disrupted some flight transiting in key travel hubs such as Dubai and Qatar. However, European tourist arrivals from January to May remain relatively unchanged from previous year.

The pace of producer price inflation continues to accelerate

- **Producer Price Index (PPI) recorded its highest increase** since August 2022, accelerating to **7.8% YoY in May 2026**, up from 5.4% YoY in the previous month. This surge is driven by higher energy cost, which has not only increased production costs but is now feeding into finished goods prices.

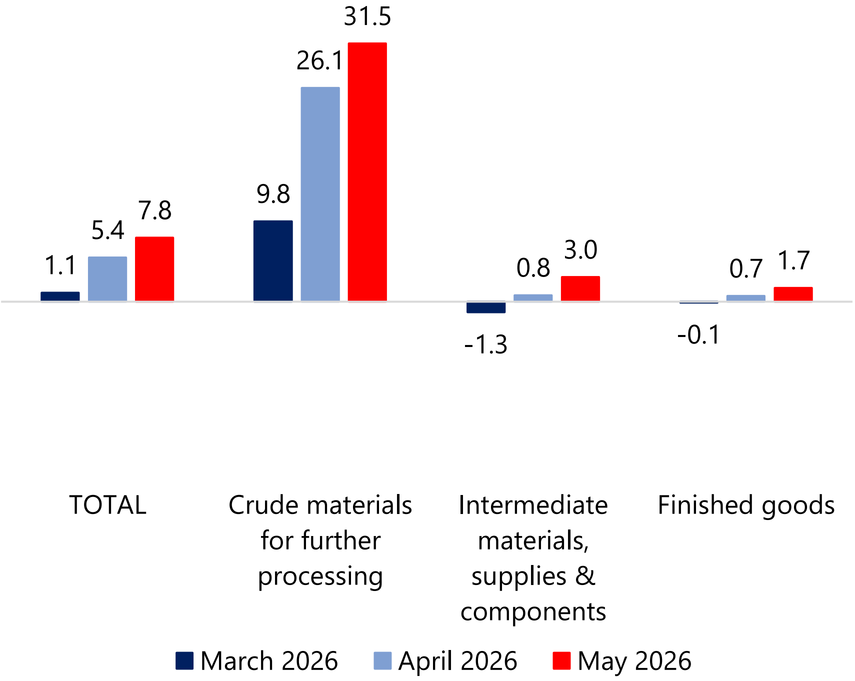
- **Upward pressure is clearly migrating through the supply chain**, moving beyond crude materials. While crude materials for further processing spiked to 31.5% YoY, this pressure is broadening: intermediate materials rose by 3.0% YoY, and finished goods inflation accelerated to 1.7% YoY.

- The higher finished good prices may signal that the 'absorption phase' may be ending. Manufacturers are finding it increasingly **difficult to shield consumers** from pressure costs; consequently, a more direct impact on retail price levels is anticipated in the coming months.

PPI surged further to 7.8% in May

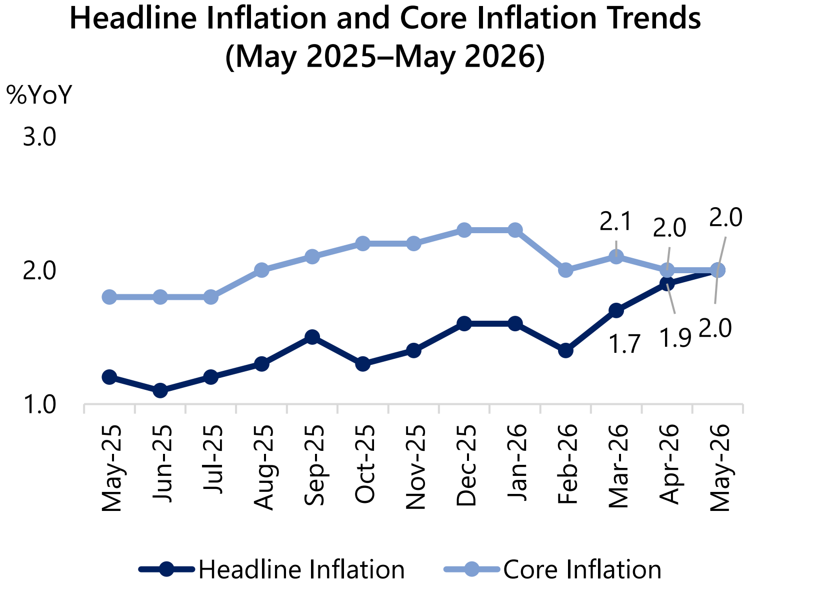
Crude materials continued to climb, reaching 31.5%, while intermediate materials and finished goods saw increases of 3.0% and 1.7%, respectively.

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



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

Inflation rate rises to 2.0% in May

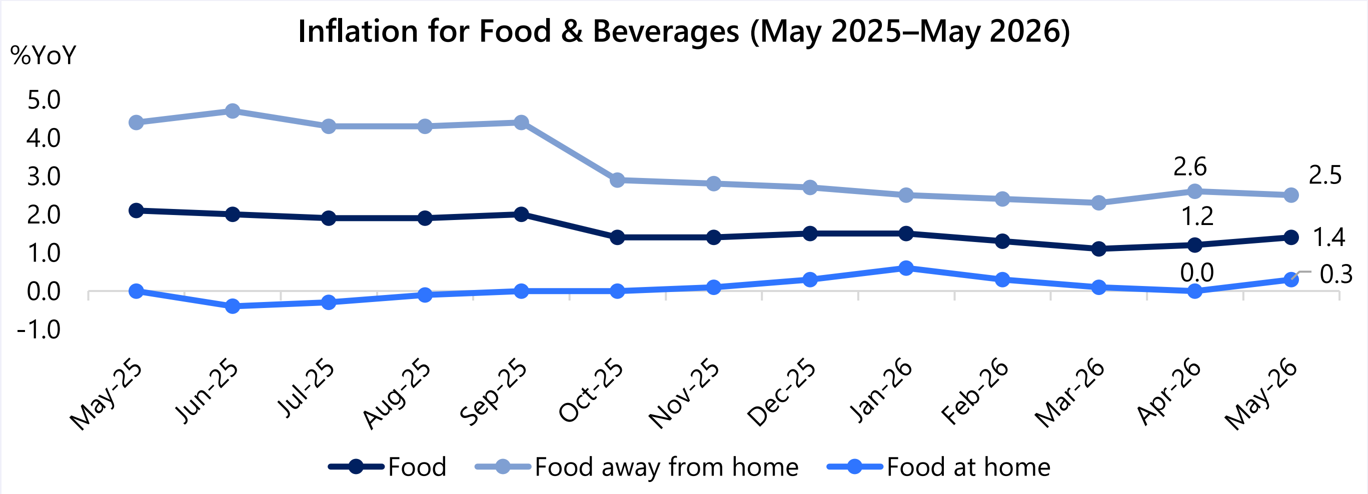


Source: DOSM, *Consumer Price Index Report: May 2026*

- Both headline and core inflation (excludes volatile items such as fresh food and energy) converged at 2.0% in May. This alignment suggests that while headline inflation has risen due to higher fuel costs input into electricity and food, core inflation remains stable.

Driven by upstream cost pass-throughs in essential consumption basket

- **Food & Beverages:** The F&B inflation rate edged up to 1.4% YoY in May 2026, compared to 1.2% in April. Within the basket, 160 out of 247 items (64.8%) recorded price increases relative to May 2025, driven largely by a 0.3% uptick in "Food at home" costs. Conversely, "Food away from home" inflation softened slightly to 2.5%.
- **Transportation:** Inflation moderated to 3.8% YoY in May (from 4.1% YoY in April), driven by lower costs in vehicle purchases (-0.2% YoY) and transport services (-1.3% YoY). These savings helped offset higher fuel-related operating costs, which rose by 4.2%. Despite higher transport costs, overall inflation would have been more pronounced without the BUDI95 scheme, which continues to shield consumers from global fuel price volatility.



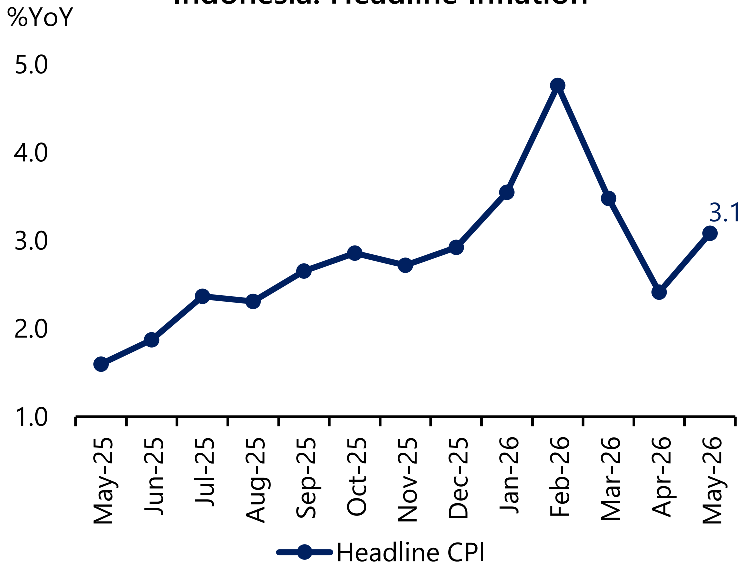
Source: DOSM, *Consumer Price Index Report: May 2026*

May 2026 inflation overview: selected regional trends and Malaysia’s relative stability

China: Headline Inflation

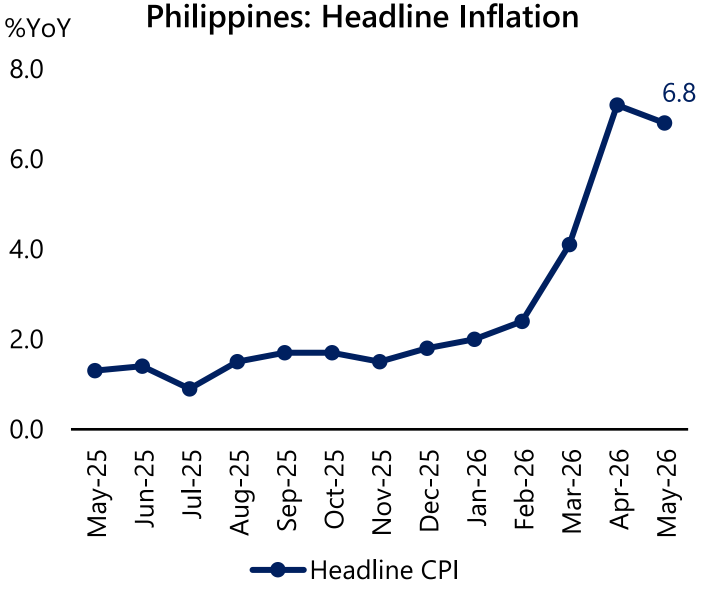
Source: National Bureau of Statistics of China, CPI (various months)

Indonesia: Headline Inflation



Source: Badan Pusat Statistik – Statistics Indonesia, CPI (various months)

Philippines: Headline Inflation



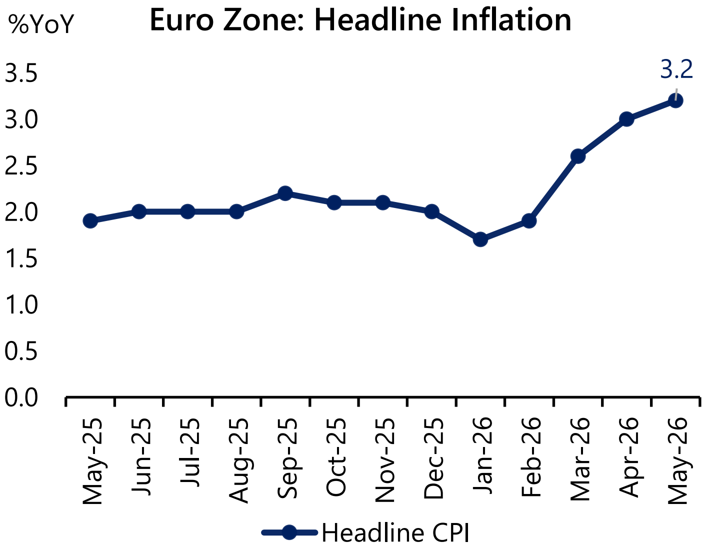
Source: Philippine Statistics Authority, CPI & Inflation Rate (various months)

China: China’s inflation held steady at 1.2% in May 2026 as deflationary pressure linger in the Chinese economy. Non-food inflation rose to 1.9% (up from 1.8% in April), primarily driven by a 5.4% increase in transport costs, which offset the slight easing in clothing (1.4%) and healthcare (2.1%).

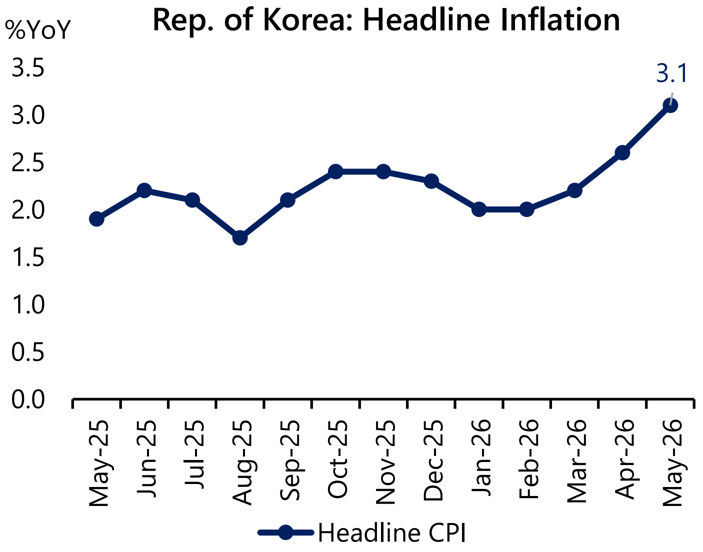
Indonesia: Inflation climbed to 3.1% in May 2026, rising from 2.4% in the previous month. This acceleration was largely shaped by elevated price pressures in the food and transport sectors, which recorded growth rates of 4.9% and 1.6%, respectively.

Philippines: Despite a slight deceleration to 6.8% in May 2026 (down from 7.2% in April), inflation remains elevated. Key upward pressures stemmed from food and non-alcoholic beverages (5.7%), housing and utilities (7.8%), and health services (4.1%).

May 2026 inflation overview: selected regional trends and Malaysia’s relative stability



Source: Eurostat, Euro Indicators



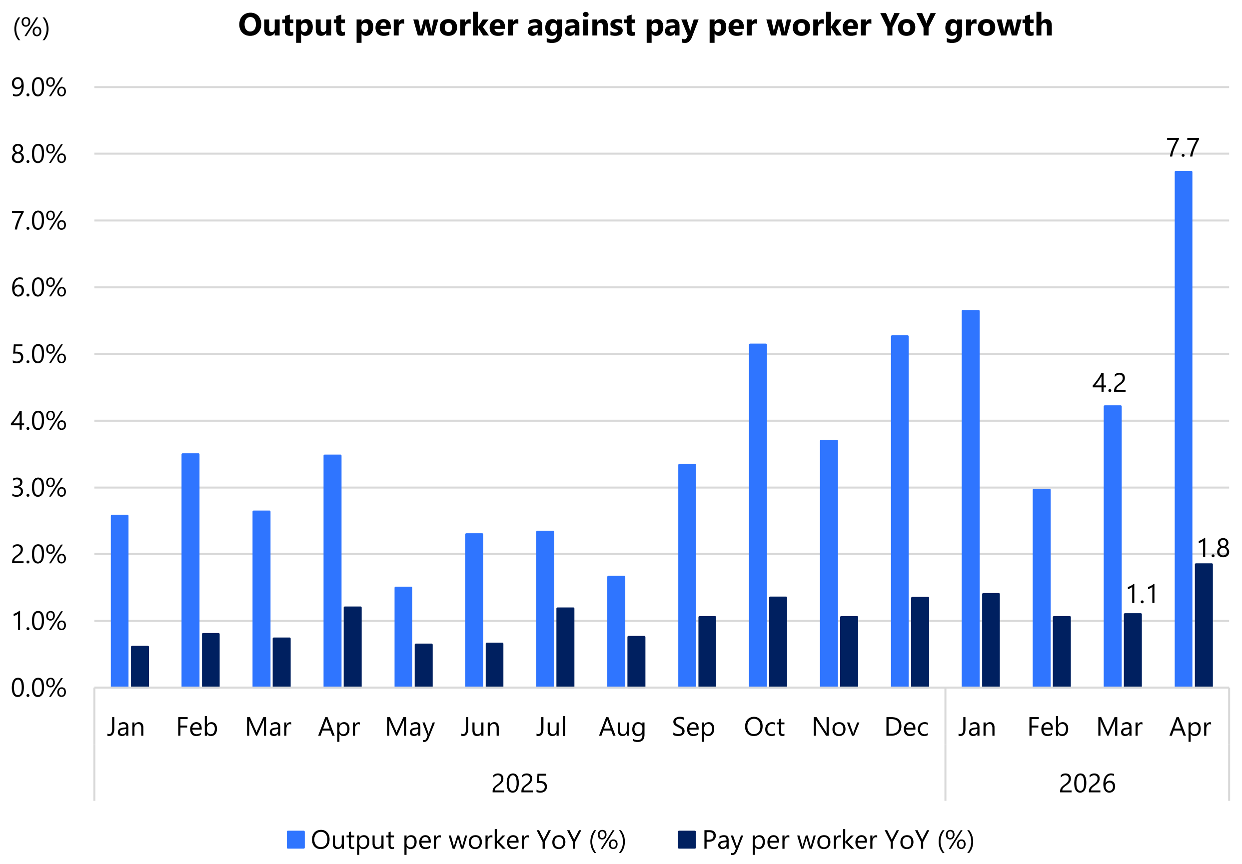
Source: Ministry of Data and Statistics, *Consumer Price Survey* (various months)

Malaysia in Perspective: At 2.0% in May 2026, Malaysia maintains a more stable inflation trajectory compared to regional peers. This stability reflects effective domestic supply management and targeted price controls, which have shielded the economy from the volatility in energy and service costs impacting international markets.

Euro Zone: Inflation rose to 3.2% in May 2026, up from 3.0% in April. This increase was primarily driven by energy costs, which surged to 10.8%. While service-sector inflation accelerated to 3.5% (up from 3.0% in April), inflationary pressures for food, alcohol, and tobacco moderated to 1.9% (down from 2.4% in April).

Republic of Korea: Inflation rose to 3.1% in May 2026, up from 2.6% in April. The increase was primarily driven by higher petroleum prices and holiday-related service costs. While core inflation reached 2.5%, the headline rate was moderated by 0.6 percentage points due to government fuel tax reductions.

Low unemployment reflects a resilient labour market, but wage growth remains modest



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

Unemployment rate inched slightly higher in April

- **The unemployment rate edged up** 0.1 percentage points to 3.0% in April. Total employed persons reached 16.82 million, a growth trend sustained by a recovering manufacturing sector and continued consumption growth in services, which maintain momentum despite external headwinds and energy-related cost pressures.
- While sales indicators point to higher output per worker especially in the manufacturing sector, wage growth has been lagging. Sales per employee increased by 7.7% year-on-year to a record RM71,993 in April, as total manufacturing sales expanded by 9.1% despite employment growing by only 1.2%, indicating substantially higher output per worker.
- While these productivity gains have yet to be fully reflected in wages, they provide scope for stronger and more sustainable wage growth over time. With inflation remaining contained and labour productivity continuing to improve, translating these gains into higher wages will be essential to strengthening domestic demand, attracting higher-skilled talent, and supporting Malaysia's transition towards a high-value, high-income economy.