MIER Monthly Macro

August 2026

Malaysian Institute of
Economic Research

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MIER Monthly Macro Outlook – August 2026

- Advance estimates indicate that Malaysia's GDP grew by **5.8%** in the second quarter, up from **5.4%** in the previous quarter and above expectations. MIER projects that **strong first-half growth momentum will support full-year GDP growth of 5.2%**, above Bank Negara Malaysia's earlier forecast range of 4.0% to 5.0%.

- Although **AI-driven export growth** has received considerable attention for supporting stronger-than-expected economic growth, resilient domestic demand has remained the economy's key source of stability. Amid the global energy crisis and heightened uncertainty regarding its effects on inflation and broader economic conditions, **household consumption has remained resilient**, supported by well-targeted policy interventions.

- **Resilient domestic demand** has helped growth to remain intact as **consumer spending continues to benefit from policy support**. The BUDI MADANI programme kept the price of RON95 petrol at RM1.99 per litre for eligible recipients despite higher global oil prices, helping to cushion household living costs.

- **Export growth has remained strong**, supported by robust global demand for AI-related spending, which lifted the trade balance to a record surplus in the first half of 2026. E&E export growth has also been geographically broad-based, extending beyond the U.S. to economies closely integrated into the global AI supply chain.

- Strong economic growth and resilience have improved living standards in Malaysia**. Maintaining this progress will require reforms** to boost productivity, expand opportunities, and strengthen the education system, as highlighted during MIER's recent dialogue with the OECD.

- **Producer price inflation increased** sharply in the first half of the year, rising from -2.9% YoY in January to 9.2% in June as cost pressures strengthened across the economy. However, **consumer inflation remained moderate** as policy measures helped contain the pass-through of higher energy prices and protect households from rising living costs.

- The **release of global oil reserves** has helped mitigate the impact of the energy crisis by cushioning the upward pressure on oil prices. However, as these **reserves are gradually depleted**, a prolonged conflict in the Middle East could test the resilience of global energy supply buffers.

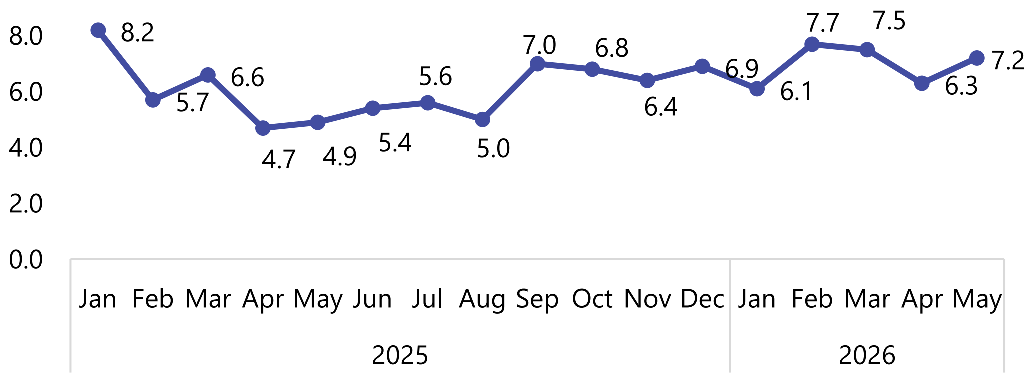
- **The labour market remains resilient**, with low unemployment and steady job creation. However, **wage growth has remained modest**, particularly in the manufacturing sector, where **compensation of employees (CE) has grown only slowly in recent years** despite strong performance driven by the semiconductor industry.

Q2 GDP: Robust domestic spending and export performance underpin strength

Quarterly GDP Performance

Economic Activity	Quarterly GDP Performance by Economic Activity		Percentage Share to GDP	
	Q1	Q2	Q1	Q2
Services	5.6	5.4	59.9	59.5
Manufacturing	5.9	7.5	23.1	23.4
Agriculture	2.6	-3.7	5.6	5.6
Mining & Quarrying	-2.1	10.2	5.7	5.6
Construction	7.7	6.6	4.4	4.3

Sales Value Retail Trade YoY (%)

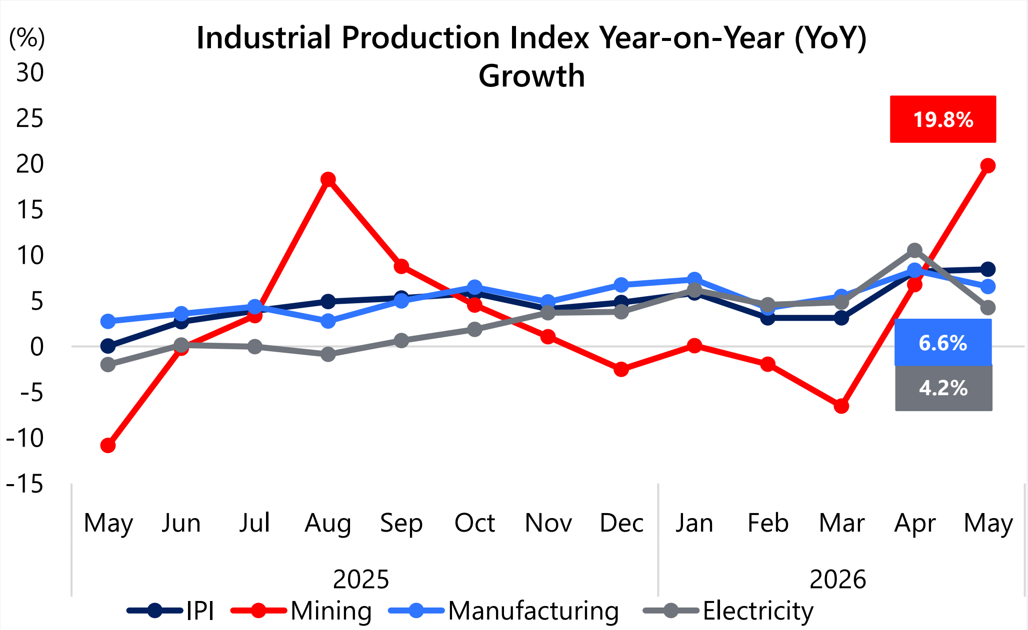


Source: DOSM, *Advance Gross Domestic Product: 2Q 2026*

GDP growth for 2026 is projected at 5.2%

- Despite uncertainty in the global economic outlook, advance estimates show that Malaysia's GDP grew by **5.8%** in the second quarter, up from 5.4% in the previous quarter.
- MIER projects that **strong first-half growth momentum will support full-year GDP growth of 5.2%,** above Bank Negara Malaysia's earlier forecast range of 4.0% to 5.0%.
- The services sector expanded by **5.4% YoY in Q2 2026.** Services is the largest sector in the economy making up **59.5% of Malaysia's GDP**. Growth was primarily driven by the wholesale and retail trade supported by resilient domestic demand.
- **Retail sales remained resilient**, reflecting sustained household spending amid a stable labour market and continued government support measures.
- **Manufacturing** expanded by 7.5% YoY compared to 5.9% YoY in the previous quarter as exports benefited from global AI related demand.

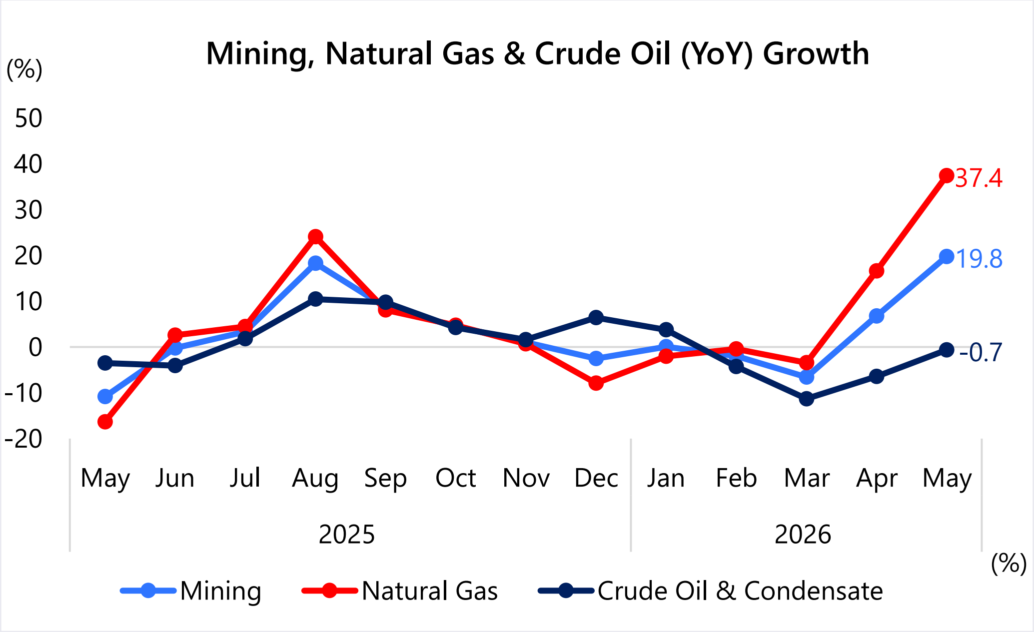
Industrial Production: Manufacturing continues to underpin industrial output



Source: DOSM, Index of Industrial Production Report, May 2026

- **Industrial output remained robust** in May, with the IPI up 8.4% from a year earlier. This is led by mining which rose 19.8%, with almost all of the gains coming from natural gas, while crude oil component dipped slightly.
- **Manufacturing held steady at 6.6%**, driven by E&E equipment and component production. Meanwhile, Electricity grew 4.2% in May 2026, down from a very strong 10.5% in April.

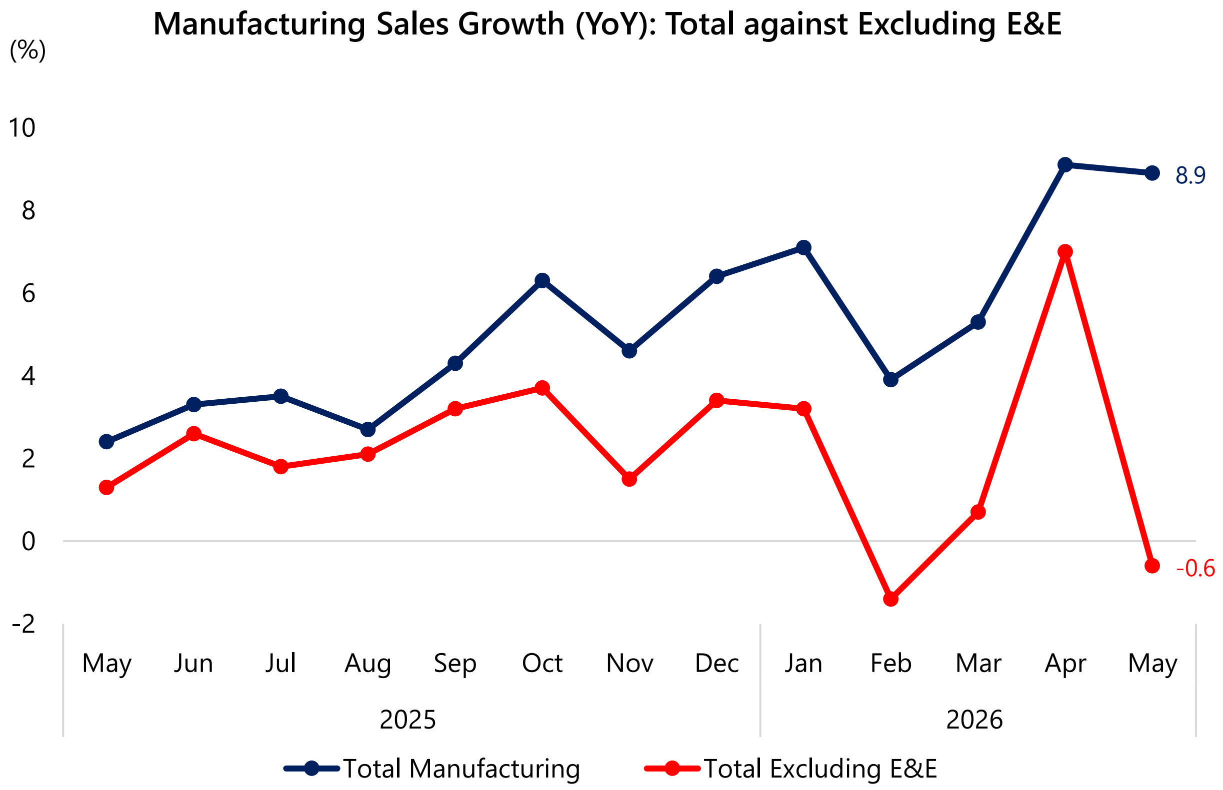
Natural gas output supported by global energy demand



Source: DOSM, Index of Industrial Production Report, May 2026

- The surge in mining output was driven by natural gas production, which jumped to 37.4% in May.
- This extends the sector's upward trajectory since March, supported by elevated global energy demand and supply disruptions stemming from the ongoing global energy crisis.

Manufacturing: Growth almost exclusively driven by E&E



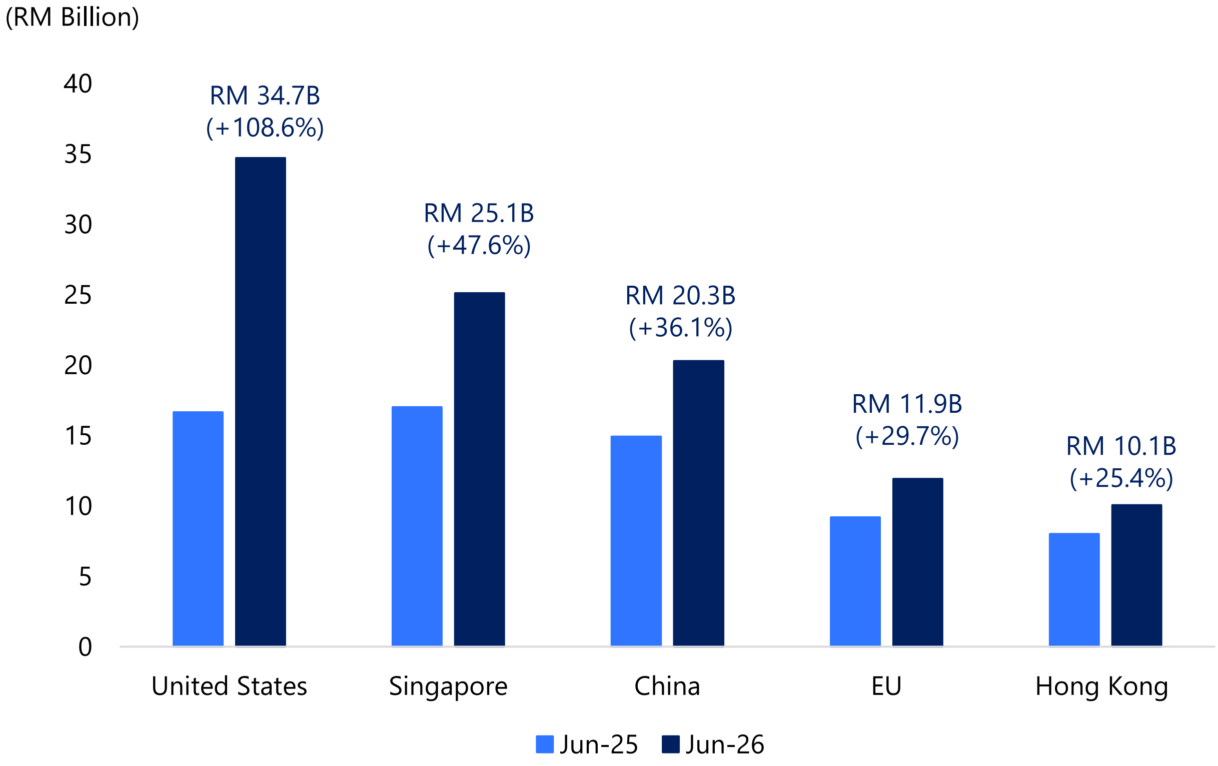
Source: DOSM, Manufacturing Report, July 2026

Electronics accounted for most of the sector's recent growth

- **Headline manufacturing sales rose by 8.9% in May**, but excluding E&E, the rest of manufacturing shrank by 0.6%.
- **E&E products sub-sector expanded by 26.4% in May 2026**, significantly outpacing the broader manufacturing sector. Meanwhile, **export-oriented manufacturing sales rose 12.5%** as continued strength in global semiconductor demand, fuelled by AI-related investments, remains a key tailwind for the E&E sector.
- E&E made up 40.7% of manufacturing sales in May. The highest share for the past 2 years. Thus, the growth in manufacturing sales increasingly reflects the performance of a single sub-sector.
- Sales for domestic-oriented manufacturing industries however only rose by 0.2% in May, further diverging from the upward trend in export-oriented industry.

External Trade: US emerges as Malaysia's main export destination, outpacing regional partners

Malaysia Key Export Destination: June 2025 Against June 2026



Source: DOSM, Monthly Trade Report, June 2026

E&E exports drives record first-half trade surplus

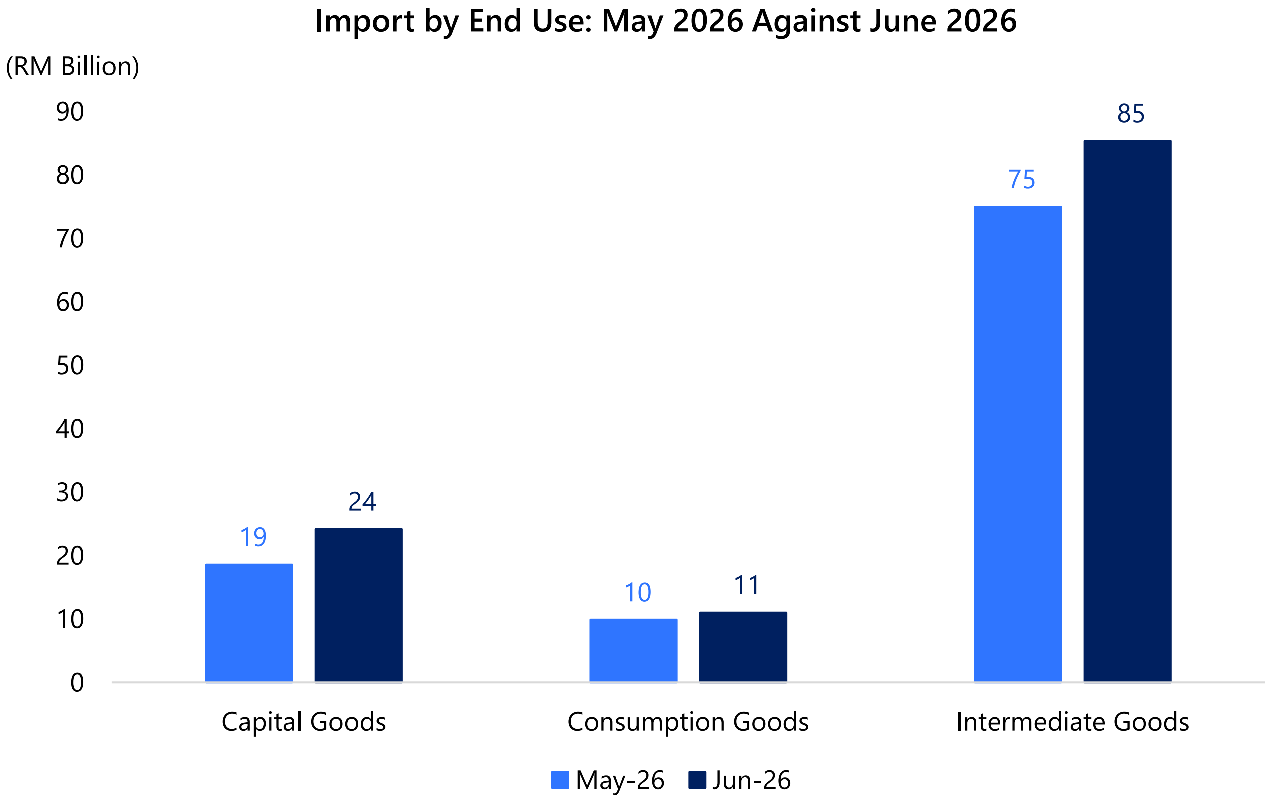
- **Malaysia's total trade expanded by 22.4% YoY in the first half of 2026** to RM1.8 trillion (up from RM1.47 trillion in 1H 2025). **Exports expanded 27.5% to RM971.5 billion**, while imports grew 16.9% to RM824.4 billion, widening the trade surplus to RM147.1 billion.

- Monthly exports expanded 45.4% YoY to RM177.89 billion in June. Shipments to the U.S. grew 108.6% YoY to RM34.71 billion (up from RM16.64 billion in June 2025), elevating the US to become Malaysia's leading export destination outpacing major regional trade partners.

- **Growth in US shipments was concentrated in the E&E sector**, which generated RM14.00 billion (+137.9% YoY).

- AI-driven demand is supporting Malaysia's exports growth beyond the US market. Exports to Singapore surged 47.6% year-on-year in May, driven primarily by higher shipments of E&E products, which increased by RM6.1 billion, or 74.8%.

Growth in imports reflects industrial re-tooling and tech capacity expansion



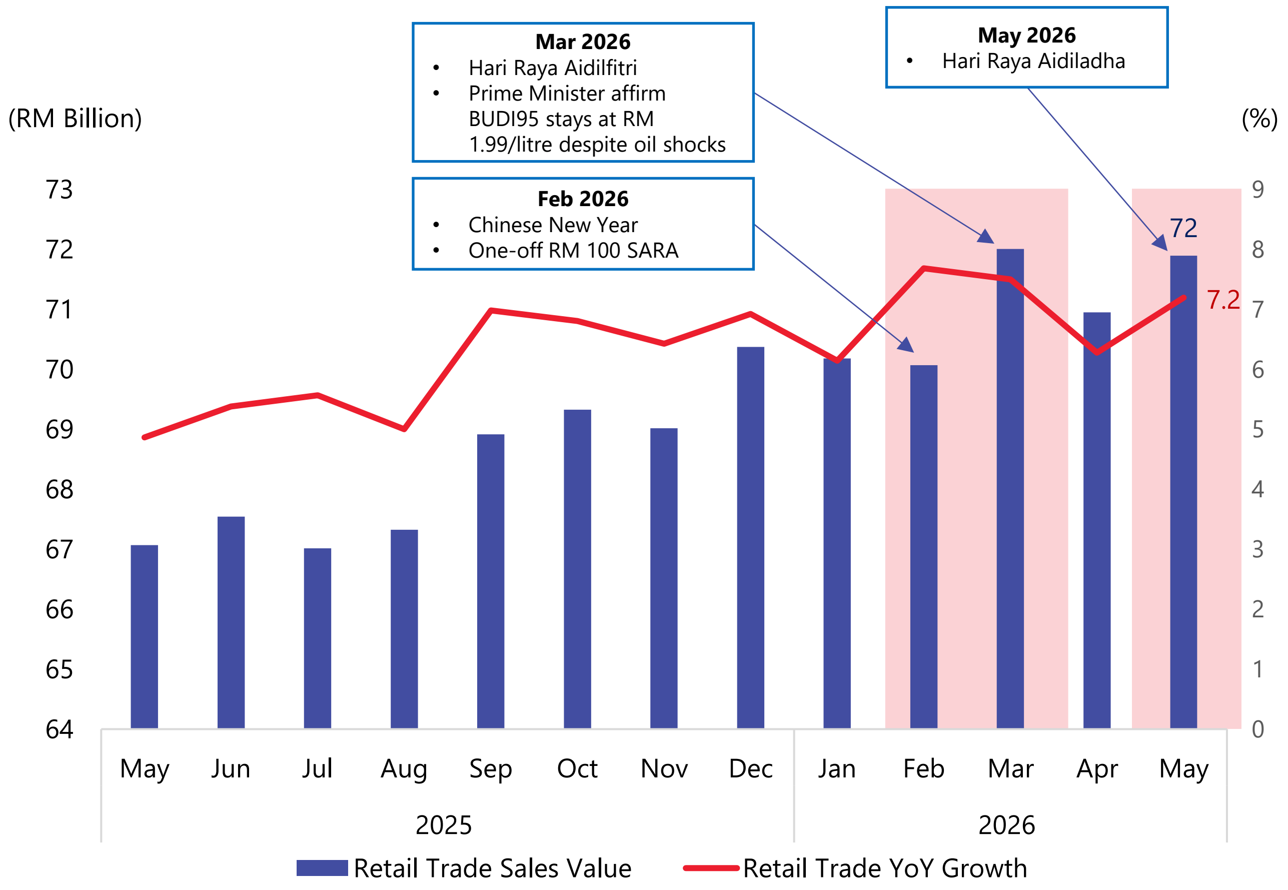
Source: DOSM, Monthly Trade Report, June 2026; Malay mail (July 2026); The Edge (July 2026)

Strong industrial production boosts demand for intermediary goods imports

- **June monthly imports accelerated 43.9% YoY to RM163 billion** (up from RM143.1 billion in May 2026). This increase aligns with broader industrial output momentum reported across domestic manufacturing sectors.
- **Growth was led by industrial production needs rather than household consumption**, with Intermediate Goods reaching RM85.37 billion and Capital Goods rising to RM24.17 billion. Key inflows included E&E, petroleum products, machinery, metals, and transport equipment.
- June import expansion was primarily anchored by higher inflows from China (RM43.7B), Singapore (RM21.8B), followed by the US (RM15.3B), Taiwan (RM13.4B), South Korea (RM10.6B), and the EU (RM10.0B)

Trade Sales: Steady consumption keeps growth fundamentals intact

Retail Trade Sales Value & YoY Growth



Source: DOSM, Wholesale and Retail Trade Report, May 2026; The Star (Mar 2026); The Edge (July 2026); News Nav (July 2026)

Retail trade underpins stable growth as consumers continue to spend

- **Resilient domestic demand** has helped growth fundamentals to remain intact despite geopolitical tensions and energy-price volatility.
- **Total sales reached RM171.3 billion in May**, up 11.0% YoY. Wholesale rose to RM80.8 billion (18.4% increase), while retail sales grew to RM71.9 billion (7.2% increase), largely reflecting real spending as volume grew 4.4%. Motor vehicles eased 2.3% to RM18.6 billion on softer new-vehicle sales.
- **Consumer spending continue to benefit from policy support and festive season sales.** The BUDI MADANI programme kept the price of RON95 petrol at RM1.99 per litre for eligible recipients despite higher global oil prices, helping to cushion household living costs. In addition, the government's one-off RM100 SARA assistance, distributed to around 22 million adults starting February, provided a further boost to consumer spending.

Continuing reforms for Malaysia's future: Key takeaways from the MIER dialogue on OECD Malaysia Country Report

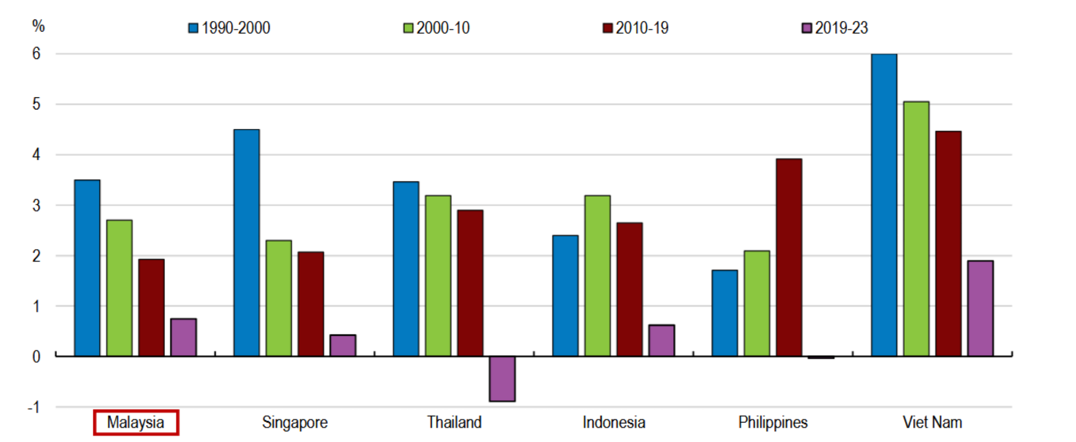
- The OECD suggested **Education reforms** should prioritise improving learning outcomes by strengthening teaching quality, enhancing teacher development and incentives, and expanding access to early childhood education. At the same time, aligning technical and vocational education and training (TVET) with industry needs and granting schools and universities greater autonomy, supported by clear accountability, would help develop a more skilled and productive workforce.

- **Social protection system** should be enhanced by preparing for population ageing through a multi-pillar pension framework and expanding coverage to informal and gig workers who are not adequately protected under existing contributory schemes.

- **Climate resilience** could be improved by implementing a coordinated national adaptation strategy, improving access to climate-risk data, and expanding disaster risk financing. Over the longer term, a gradual transition from broad fuel subsidies to carbon pricing, accompanied by targeted support for vulnerable groups, would support both climate and fiscal objectives.

- **Fiscal sustainability** can be strengthened by broadening the tax base, and implementing targeted subsidy reforms. These measures would help contain long-term debt pressures arising from population ageing and rising public expenditure while supporting compliance with the Fiscal Responsibility Act.

Annual Growth Rate of GDP per Worker (%)



Note: Annual average growth rates. Labour productivity is defined as GDP per worker. The cut-off year for the latest decade is 2019 so as to minimise the distortion entailed by the 2020 COVID-19 shock.
Source: Asian Productivity Organisation, APO Productivity database 2025.

StatLink https://stat.link/75ao6s

- **Productivity growth** has moderated in recent years as regulatory complexity and persistent skills shortages continue to weigh on business performance and innovation, particularly among SMEs.

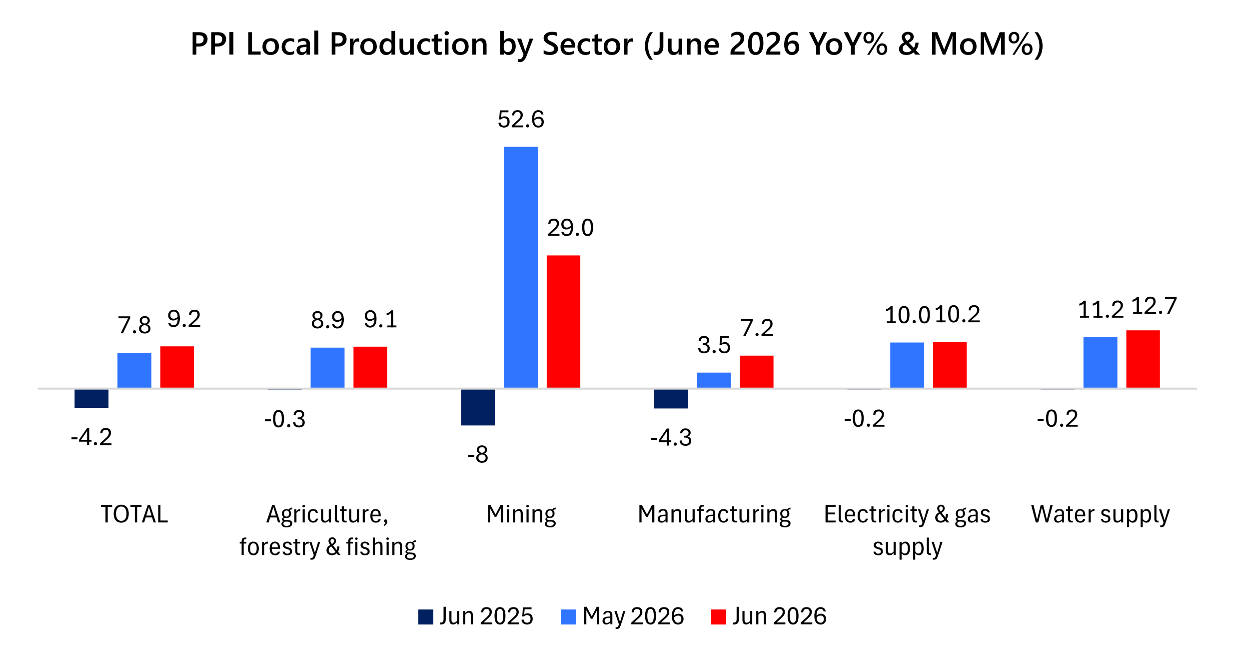
- Further efforts to streamline regulations, reduce compliance costs, and facilitate technology adoption would support firm expansion, strengthen productivity growth, and help sustain improvements in living standards amid demographic ageing.

For further information, please find report on dialogue in our website

Producer Prices: Headline accelerates from -2.9% in January to 9.2% in June 2026

- Total producer price inflation recorded an unbroken monthly acceleration, surging sharply from **-2.9% YoY in January to peak at 9.2% in June** as input cost pressures turned entirely positive across all economic sectors.
- This sharp increase was mainly driven by **manufacturing sector** as growth more than doubled over the quarter, reaching **7.2% in June.**
- The **Mining sector** also kept overall input costs high, surging **29%** due to higher costs of crude oil extraction. However, raw material costs dropped by -11.6% compared to previous month indicating the volatile nature of global oil prices.

Broad-based cost pressures as energy prices adds to input prices

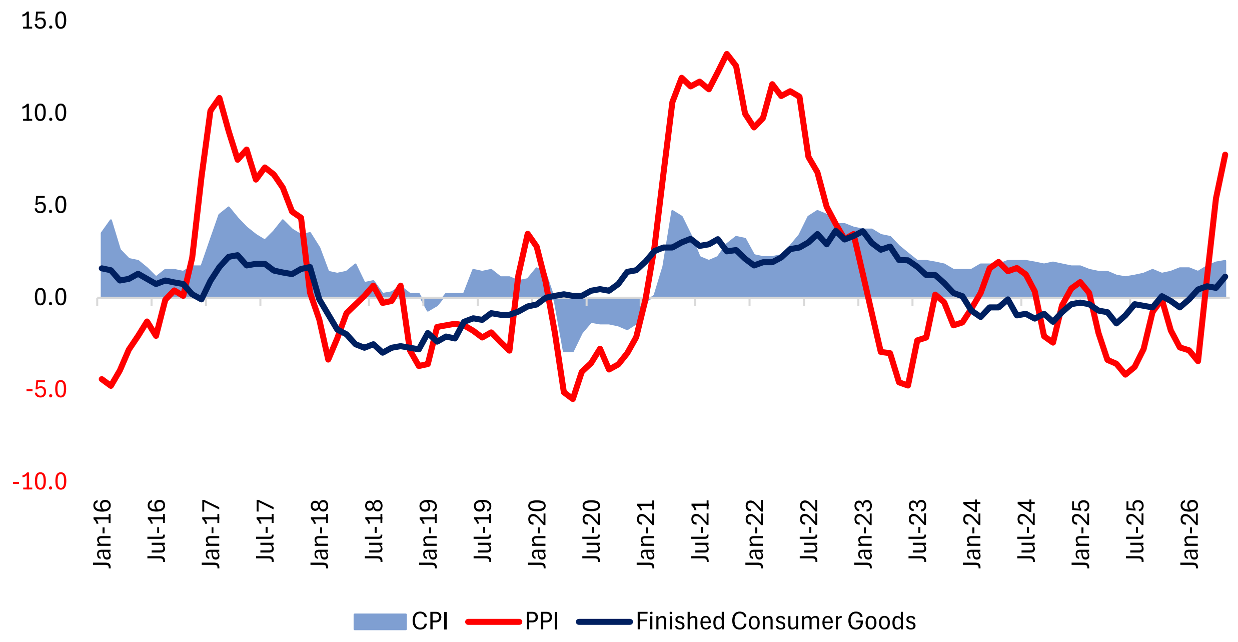


Source: DOSM, *Production Price Index Local Production June 2026*

- Cost increases extended across the entire economy, supported by double-digit spikes in **Water Supply (+12.7%)** and **Electricity & Gas (+10.2%)**, alongside a steady **+9.1%** rebound in **Agriculture**.

Elevated producer costs do not always translate into persistent consumer inflation

Producer, Consumer and Finished Consumer Goods Indices (YoY %)

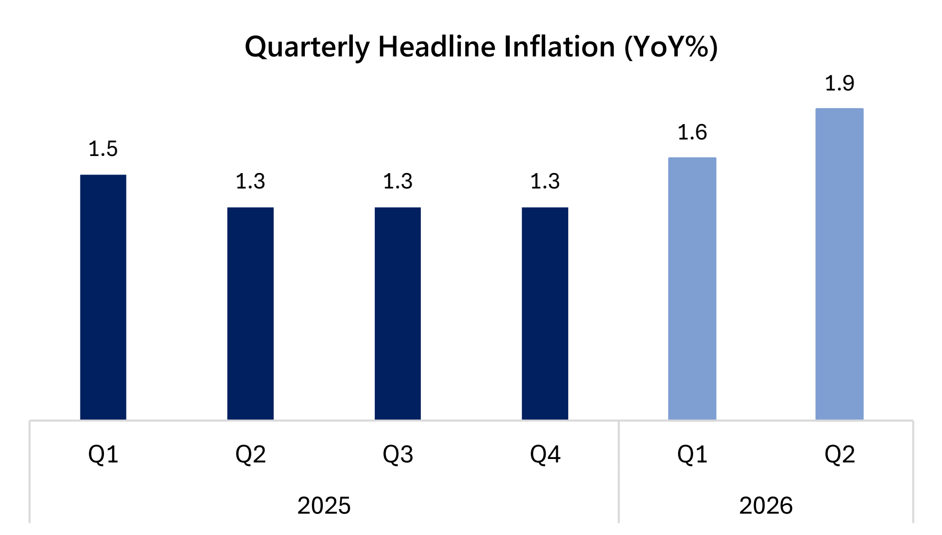


Source: DOSM, Producer Price Index, Consumer Price Index (various years)

Incomplete pass-through and market absorption help protect consumers

- While headline PPI surged to 9.2% in June, **consumer price inflation (CPI) and finished goods remain stable and muted**, displaying a disconnect between factory gate pressures and retail prices.
- Producer prices are highly sensitive to raw energy and commodity shocks, but these spikes tend to fade as they move down the supply chain due to **incomplete cost pass-through** and **government policy interventions**.
- Manufacturers and intermediate producers bear a large share of higher input costs as long as they can to maintain market competitiveness, protect market share and keep demand steady.
- This helps to shield final consumers from sharp upstream price swings and keeps consumer inflation far more stable and muted compared to production inflation fluctuations.

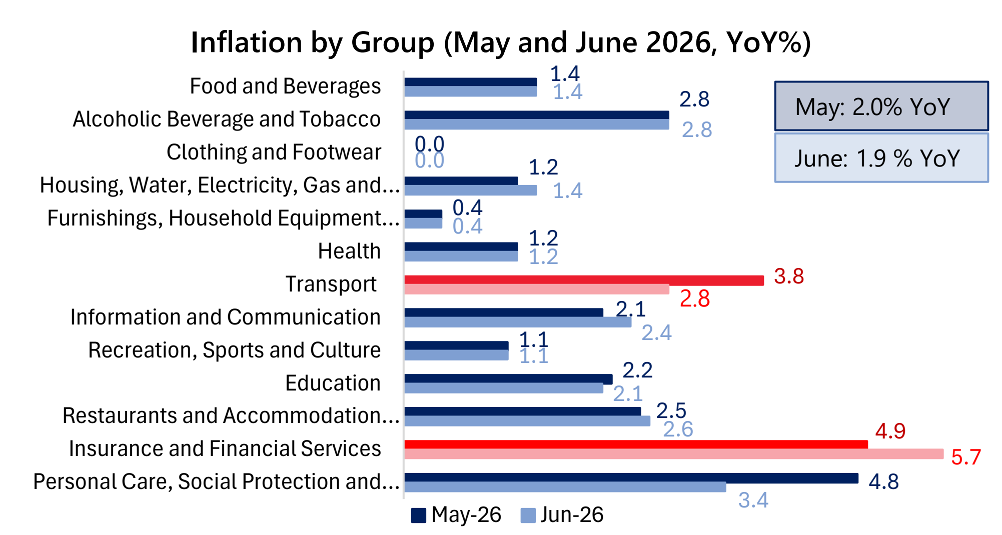
Q2 CPI: Headline rose to 1.9% driven primarily by Transport and Services segment



Source: DOSM, *Consumer Price Index Report: June 2026;* BNM, Quarterly Bulletin (various)

- **Average headline inflation for Q2 2026 rose to 1.9%** (compared to **1.6%** in Q1), reflecting a higher year-on-year price level across the quarter.
- This acceleration was led primarily by **Transport** (surging to 3.6% in Q2 from 0.0% in Q1) alongside sustained increases in **Information & Communication** (2.1% vs. 0.8% in Q1) and **Insurance & Financial Services** (5.2% vs. 5.0% in Q1).

While June CPI print eased to 1.9% from 2.0%

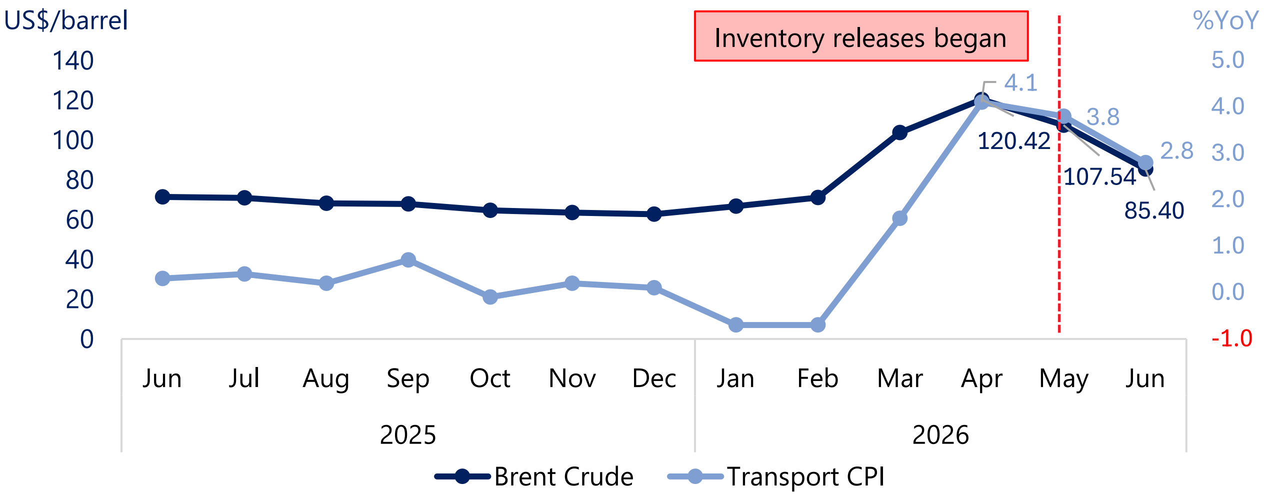


Source: DOSM, *Consumer Price Index Report: June 2026*

- Despite the quarterly rise, monthly price momentum eased as headline inflation ticked down from **2.0% in May to 1.9% in June**.
- The moderation in headline inflation was primarily attributable to a slowdown in transport inflation, which decelerated from 3.8% to 2.8%, driven by lower retail fuel inflation, particularly for RON97 petrol and diesel.

International crude prices moderated by release of reserves

Global Crude Price Movements and Domestic Transport CPI Trends



Source: DOSM, *Consumer Price Index Report: June 2026;* International Energy Agency, *Oil Market Report – July 2026*

- Following the severe supply disruptions and peak Brent at **US$120.42 per barrel in April** 2026, global energy markets moderated as major economies deployed emergency reserves.

- According to IEA, coordinated actions successfully injected short-term supply and pushed average Brent down to **US$85.40 per barrel by June**.

- The OECD reserve stock **fell by 62 million barrel in June** (with 44 million barrels coming directly from government stock releases), alongside a 37 million barrels draw in non-OECD crude stocks led by China.

Policy interventions has helped cushioned impact on households

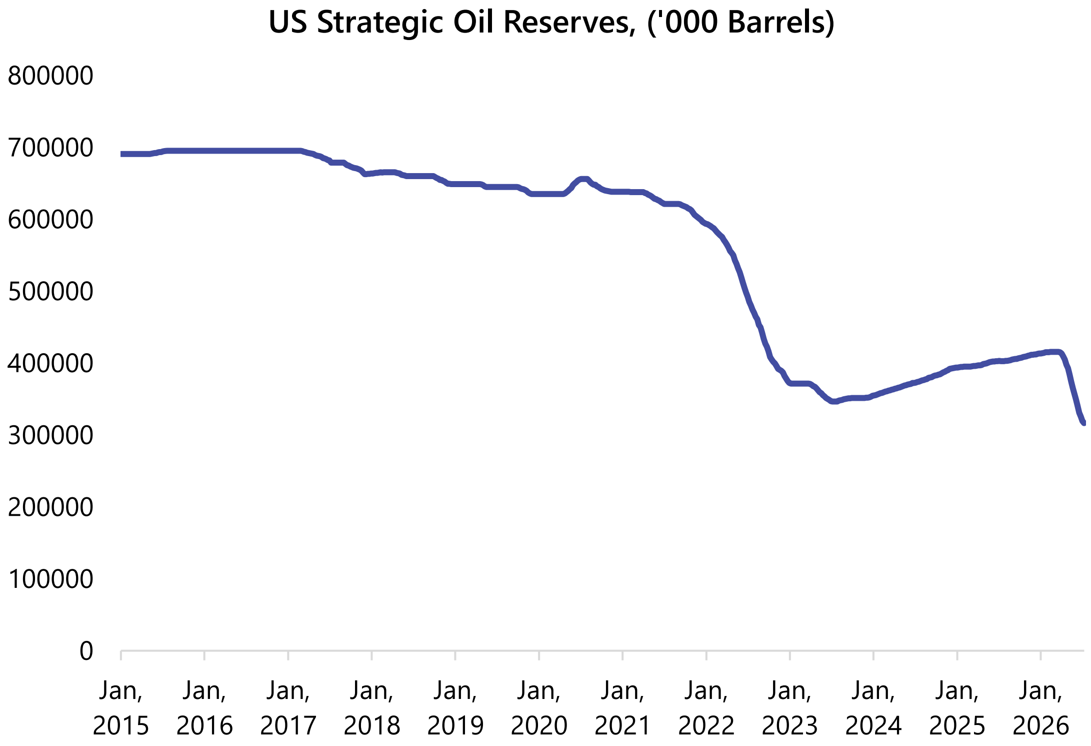
- The drop in global oil prices quickly flowed through to domestic costs, helping Malaysia's Transport CPI ease from **3.8% YoY** in May down to **2.8% YoY** in June.

- As global oil prices retreated, domestic retail fuel prices fell in tandem. Unsubsidised **RON95** dropped from an April peak of **RM4.00 per litre** down to **RM3.69 per litre** in June, while **Peninsula Diesel** declined from **RM5.92 per litre** down to **RM4.50 per litre**.

- As fuel prices have been kept stable by policy interventions (BUDI95 and the upcoming BUDI Diesel), consumers have so far been largely insulated from wild price swings.

- The drop in global crude prices delivered immediate fiscal relief to the government by reducing the heavy subsidy burden accumulated since the April peak.

Oil reserves have buffered energy crises, but inventory drawdowns warrant close monitoring



Source: U.S. Energy information Administration

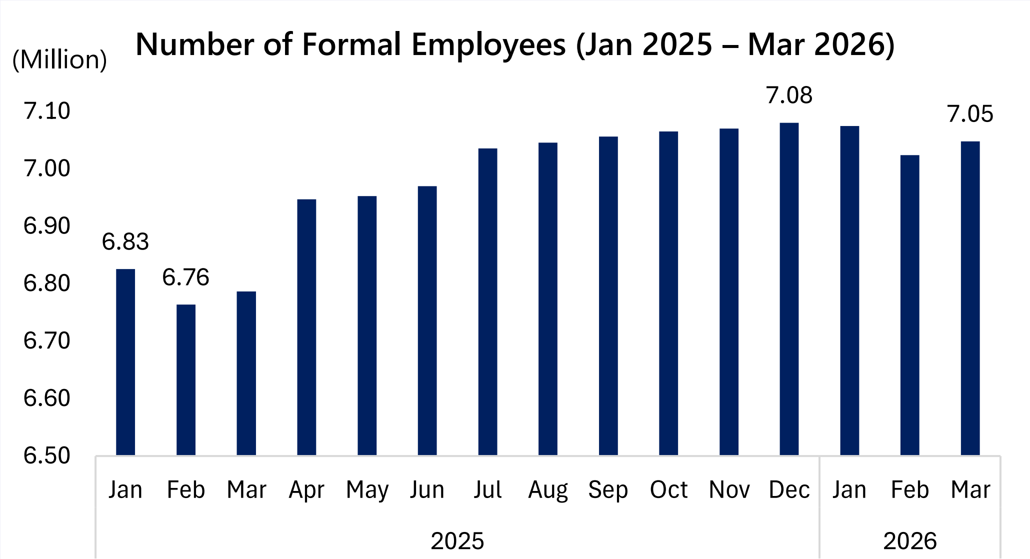
Flare up in conflict put buffers to test

- Between **March and May 2026**, an estimated **4 million barrels per day (bpd) oil market deficit**, resulting from disruptions affecting around **14 million bpd of global oil supply**, was largely absorbed through the release of commercial inventories and strategic petroleum reserves. Significant drawdowns from China's commercial stockpiles and government emergency reserves played a key role in cushioning the supply shock, thereby limiting price volatility and supporting market stability. [1]

- For the **US**, the **Strategic Petroleum Reserve (SPR) has fallen to around 316.5 million barrels**, the lowest level since 1983. Although the U.S. Department of Energy states this remains well above the technical minimum operating level (around 70 million barrels), the reserve has less flexibility than in previous crises and replenishment is expected to take some years.

[1] https://www.imf.org/en/blogs/articles/2026/07/15/the-oil-market-absorbed-the-war-shock-but-buffers-are-running-low

Labour Market: Robust expansion in total formal employment



Source: DOSM, *Employee Wages Statistics (Formal Sector) Report First Quarter 2026*

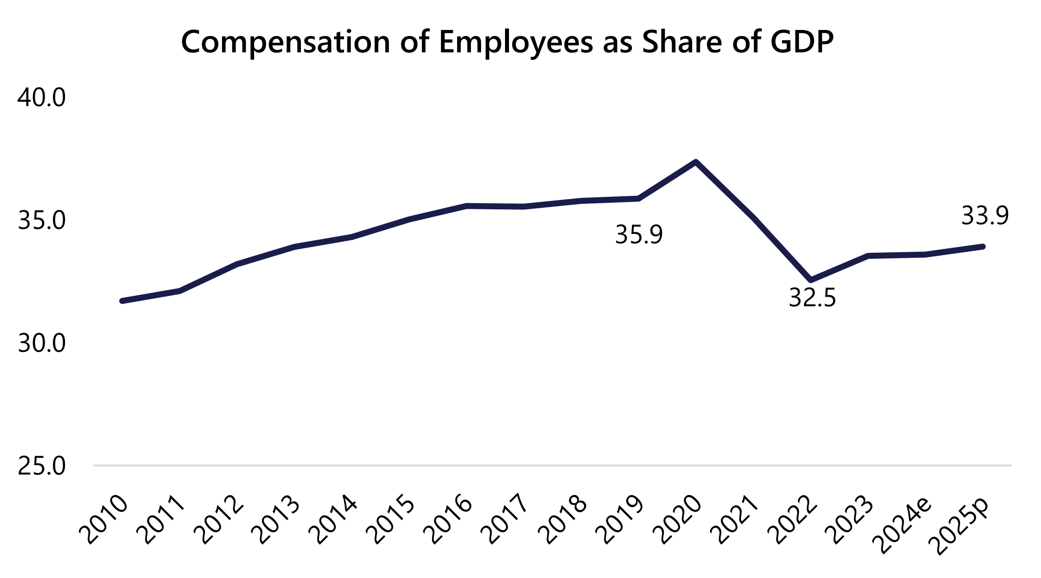
- **Total formal sector employment expanded from 6.83 million** in January 2025 to **7.05 million** by March 2026, hitting a peak of 7.08 million in December 2025 (with a seasonal dip to **6.76 million** in February 2025).
- The labour market maintained a steady expansion pace, with total formal headcounts demonstrating consistent year-on-year growth around **3.8%** through Q1 2026.

However, wage growth has been tepid

Source: DOSM, *Employee Wages Statistics (Formal Sector) Report First Quarter 2026*

- Despite employment expansion, national median monthly wage stood flat at **RM3,027** in March 2026 compared to **RM3,064** in January 2025.
- Following a year-end peak of RM3,167 in December 2025 (after reaching a trough of RM2,845 in May 2025), nominal wage growth has continued to lag behind employment growth.

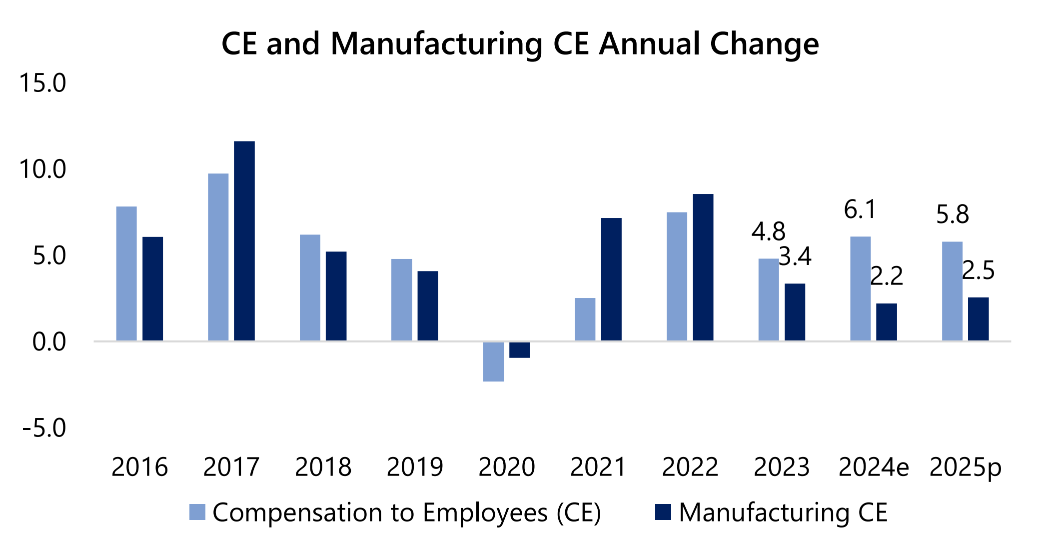
CE as share of GDP has not returned to pre-COVID levels



Source: DOSM, *Gross Domestic Product, Income Approach 2025*

- **Compensation to employees'** recovery post-COVID has been **tepid** with CE making up 32.5% of GDP in 2022 and only rising to 33.9% in 2025.
- The post-COVID trend growth in CE as a share of GDP has also been weaker than in the pre-COVID period, underscoring the challenges of fostering a higher-productivity, higher-wage labour market.

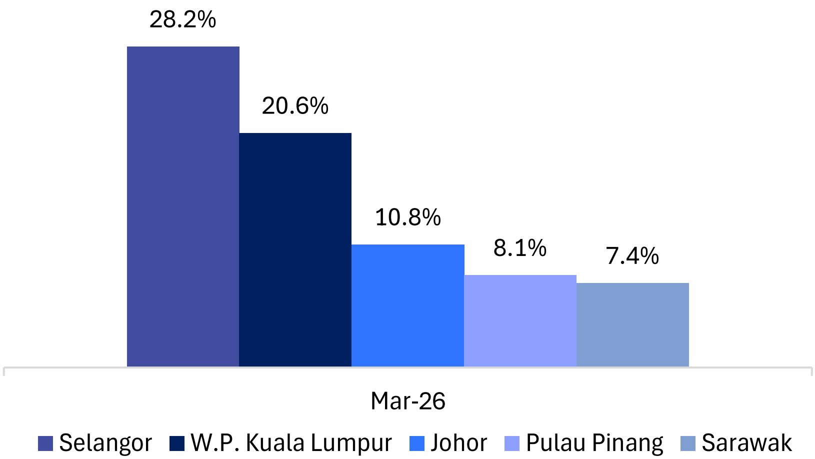
Growth in manufacturing CE has been lagging in the AI age



Source: DOSM, *Gross Domestic Product, Income Approach 2025*

- Despite the manufacturing sector's substantial contribution to record levels of industrial production and exports, **employee compensation has exhibited relatively weak growth in recent years.**
- This development warrants closer attention from policymakers as Malaysia advances up the production value chain while seeking to raise workers' incomes through the creation of higher-quality employment opportunities.

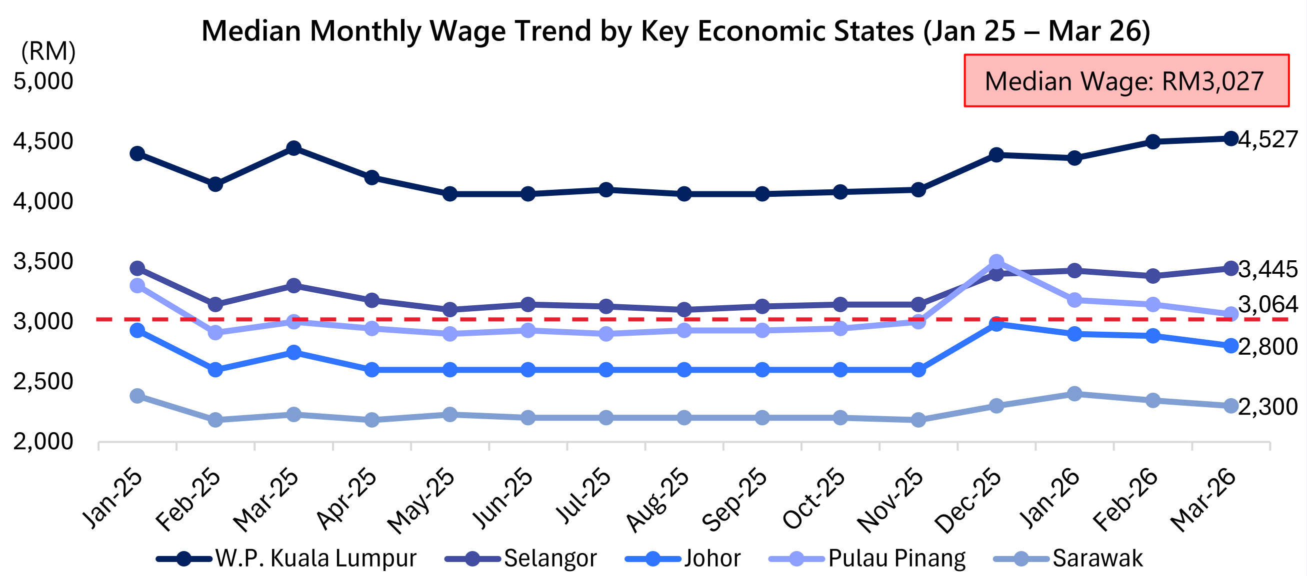
Labour market structure: Workforce concentrated in few economic hubs



Source: DOSM, *Employee Wages Statistics (Formal Sector) Report First Quarter 2026*

- Formal employment is heavily skewed towards two primary economic hubs, with **Selangor** holding **28.2%** of the workforce (~1.99M workers) and **W.P. Kuala Lumpur** holding **20.6%** (~1.45M workers).
- Regional industrial and resource centres form the remainder of the major workforce base, led by **Johor** at **10.8%**, **Pulau Pinang** at **8.1%**, and **Sarawak** at **7.4%**.

Median monthly earnings reveal stark geographical divide



Source: DOSM, *Employee Wages Statistics (Formal Sector) Report First Quarter 2026*

- Only three jurisdictions exceed the national median wage of **RM3,027** as of March 2026: **W.P. Kuala Lumpur** (**RM4,527**), **Selangor** (**RM3,445**), and **Pulau Pinang** (**RM3,064**) reflecting concentration in employment in higher value economic activities in manufacturing and services.
- Regional economic hubs such as Sarawak continue to record relatively low average incomes, at RM2,300, reflecting an employment structure that remains concentrated in lower value-added activities and a pronounced urban–rural income divide.