MIER Monthly Macro

September 2026

Malaysian Institute of
Economic Research

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MIER Monthly Macro – September 2026

- Malaysia's GDP **accelerated to 6.0% in the second quarter of 2026**, up from 5.4% in the first quarter and lifting first-half growth to 5.7%. GDP reached **RM445.9 billion in Q2** with growth broad-based across all supply and demand side component with a strong rebound in Mining & Quarrying (9.2%), and led by a **17.0% surge in exports**, resilient private consumption (4.8%).

- **Industrial output stayed firm and broad-based**, with the Industrial Production Index rising **6.5% YoY in June 2026** and gains across every sector. Manufacturing led at 7.3%, anchored by **electronics and optical products at 14.9%**, while motor vehicle output surged 12.6% and basic metals expanded 8.2%.

- **Manufacturing sales strengthened expanding at 9.8% YoY to RM177.0 billion in June**, (8.9% in May). **E&E remained the primary driver, surging 18.7%** and accounting for 38.9% of total sales value, while non-electronic manufacturing turned around to grow 4.8%. Capacity utilisation also increased across the board to 83.7% in Q2, **led by E&E at 85.3%.**

- **Exports climbed to a record RM193.6 billion in July 2026**, contributing to a trade surplus of RM22.5 billion. Growth was geographically broad-based as **exports to the United States jumped 79.8% to RM33.2 billion**, China rose 30.2% and Taiwan nearly doubled, while **ASEAN remained the largest regional market at RM56.1 billion**.

- **Producer price inflation** expanded continuously from **2.9% YoY in January to 9.7% YoY in July**, driven by domestic exposure to volatile global energy. Amid the continuous input price pressures, consumer inflation continue to remain modest as **headline CPI eased by -0.1 percentage point to 1.8% YoY in July 2026** (down from 1.9% YoY in June).

- In the labour market, **steady workforce expansion and employment growth** has helped maintain private consumption in the Malaysian economy. However, long term economic dynamism will hinge on improving **labour productivity** which has been showing only **modest gains** in recent years.

- **Multifactor Productivity figures suggest divergence in sectoral productivity performance**, with Services (110.1) and Manufacturing (104.7) exceeding the 2015 baseline, supported by digital adoption and higher-value activities, while Mining & Quarrying (78.4) and Agriculture (83.5) remained below the baseline, reflecting slower productivity gains in resource-based sectors.

- As widely expected, **Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 2.75%** at its September 2026 Monetary Policy Committee meeting. The monetary policy stance, which has taken on a slightly more hawkish tone.

Strong growth momentum from first quarter continued into the second quarter

6.0%
Q2 2026

5.7%
1H 2026

RM 445.9 B
Q2 2026

Source: DOSM, GDP 2Q 2026

Q2 2026 GDP expands 6.0% supported by export surge and domestic demand

- Growth accelerated to 6.0% in Q2 2026 up from 5.4% in Q1, lifting first half growth to 5.7%.
- Malaysia's strong GDP growth was driven by a **17.0% surge in exports**, supported by robust global demand for **E&E products and AI-related products**, alongside **solid public spending growth of 7.6%**.
- **Private final consumption expenditure** rose by 4.8% as compared to 4.7% in the preceding quarter, as consumer spending continue to be supported by targeted government interventions.
- From the supply side, the **Manufacturing sector grew by 7.3% in Q2 2026**, accelerating from **5.9% in Q1 2026**. The improvement was driven by strong growth across all subsectors, particularly **E&E and Optical Products**, which grew by **14.4%**. Meanwhile, Petroleum, Chemical, Rubber and Plastic Products rebounded by 3.2%, while Non-metallic Mineral, Basic Metal and Fabricated Metal Products grew by 5.5%.
- The **Mining and Quarrying sector recorded a strong rebound in Q2 2026**, expanding by **9.2%**, compared with a **2.1% contraction in Q1 2026**. The improvement was mainly driven by a significant recovery in the Natural Gas subsector, which surged 19.3%, following a 2.1% contraction in Q1.

Broad-based growth across sectors

Supply side — by economic sector

Sector (annual %)	Q1 2026	Q2 2026	Change
Mining & quarrying	**-2.1**	**9.2**	▲
Manufacturing	**5.9**	**7.3**	▲
Construction	**7.7**	**6.5**	▼
Services	**5.6**	**5.9**	▲
Agriculture	**2.6**	**-3.7**	▼

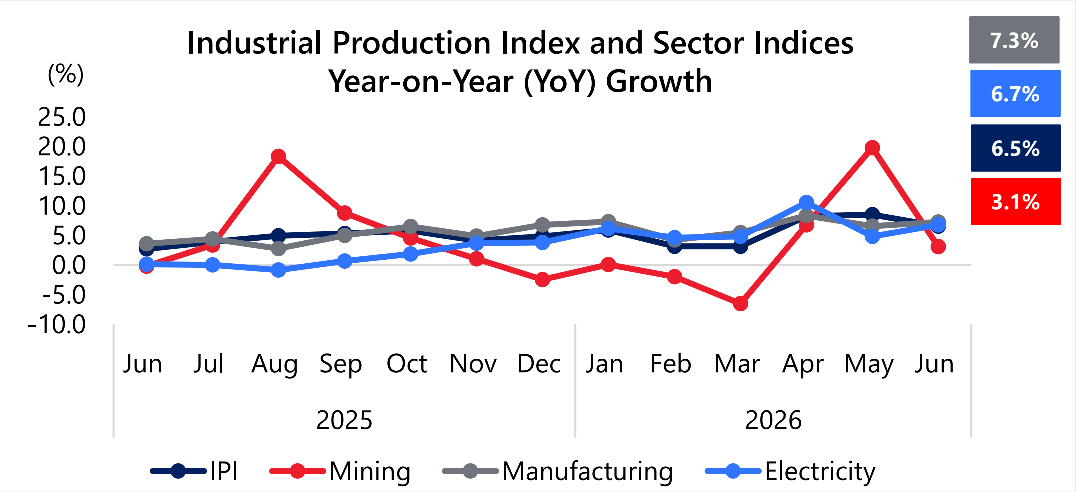
Demand side — by type of expenditure

Expenditure (annual %)	Q1 2026	Q2 2026	Change
Exports	5.2	**17.0**	▲
Imports	4.6	**13.9**	▲
Government spending	4.1	**7.6**	▲
Private consumption	4.7	**4.8**	▲
Investment (GFCF)	7.3	**4.6**	▼

Source: DOSM, GDP 2Q 2026

- **Supply Side:** Overall economic growth in Q2 2026 was driven by expansions across key production sectors, led by robust growth in Services, Manufacturing, and a strong rebound in Mining & Quarrying, which offset contractions in Agriculture.
- **Demand Side**: Overall economic growth in Q2 2026 was driven by solid momentum across aggregate expenditure components, led by resilient Private Final Consumption Expenditure, further boosted by a sharp recovery in Net Exports.

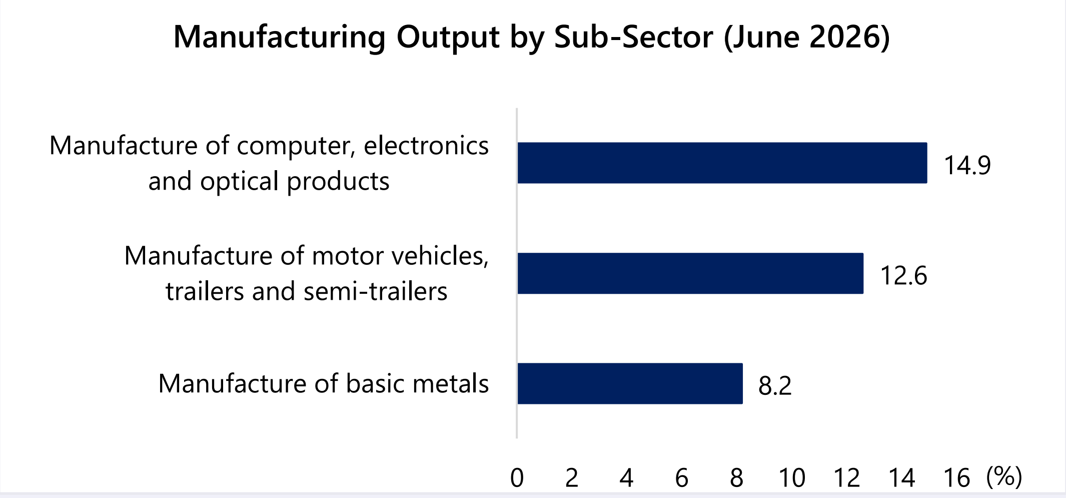
Industrial output steady led by robust E&E demand



Source: DOSM, IPI Report, June 2026

- Output remained firm and broad based. The Industrial Production Index rose 6.5% YoY in June 2026, with gains across every sector.
- Manufacturing led, anchored by E&E. The sector expanded 7.3%, with export-oriented industries up 7.6%. The strength came mainly from electronics and optical products at 14.9%
- Mining eased to 3.1% from a 19.8% surge in May as the natural gas boost faded, while electricity generation rose to 6.7%, shifting momentum toward steadier sources.

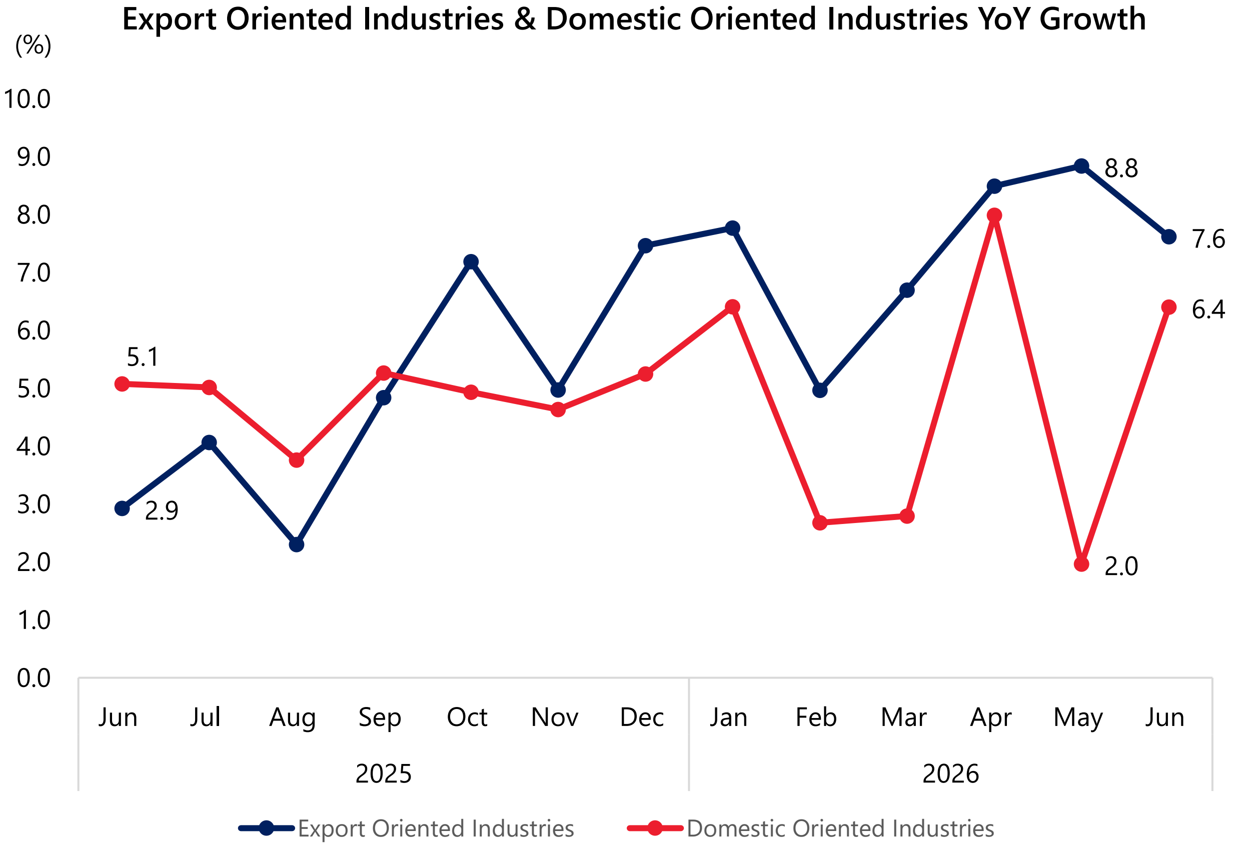
Electronics and automotive drive manufacturing



Source: DOSM, IPI Report, June 2026; Malaysian Automotive Association vehicle data, June 2026

- Strong global demand for semiconductors and a resilient automotive market remained key drivers of manufacturing growth, with E&E output expanding by 14.9% on stronger semiconductor demand, while motor vehicle production increased by 12.6%, supported by a 32.4% surge in car production in June.
- Broad-based growth across both export and domestic markets supported a strong 7.3% expansion in the manufacturing sector, with basic metals growing by 8.2%, driven by sustained demand from the construction and downstream manufacturing sectors.

Domestic industries rebounded in June on stronger local auto production and metals output



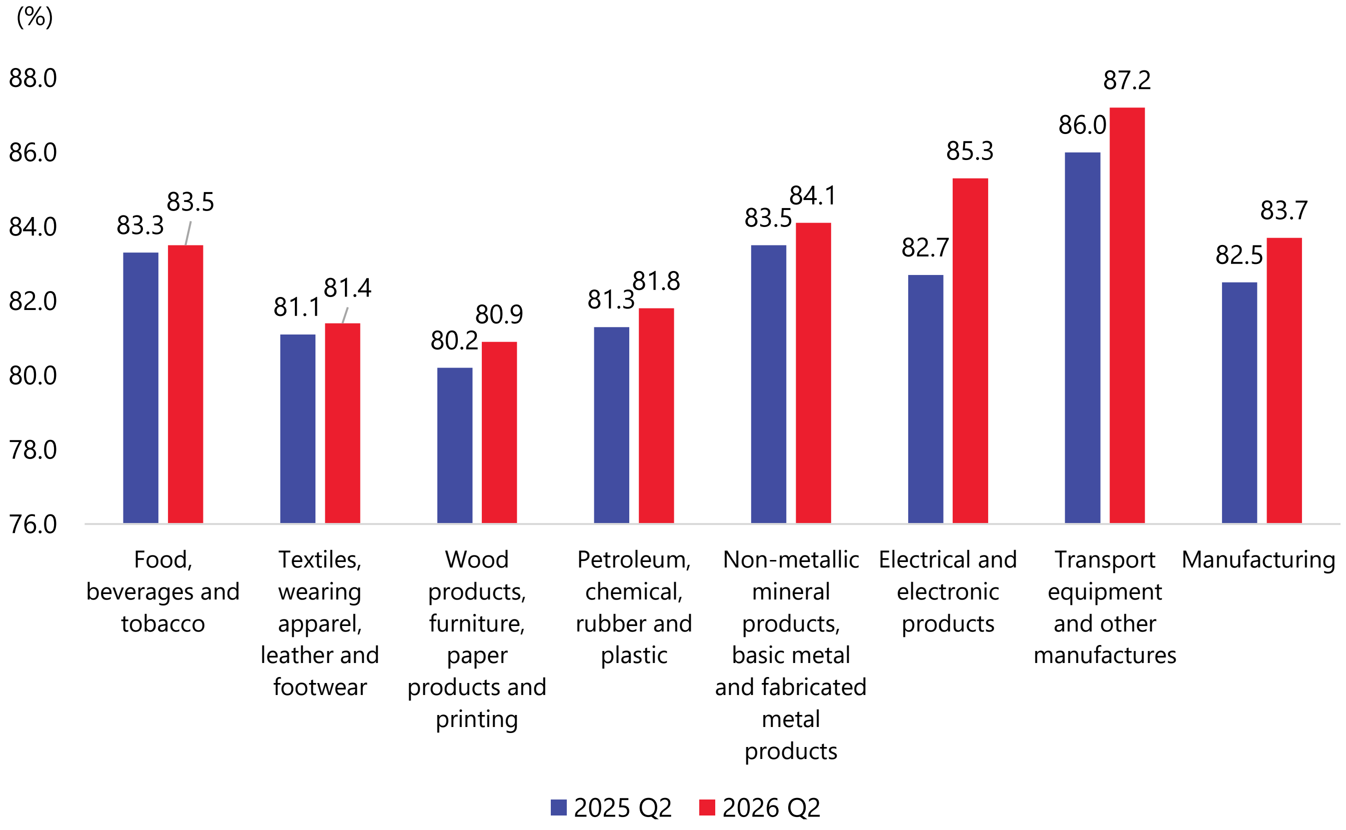
Source: DOSM, IPI Report, June 2026; The Star, "IPI up 6.5% in June 2026", 11 August 2026

Elevated demand for E&E products continue to support industrial output

- Domestic-oriented industries **rebounded strongly in June 2026**, with growth accelerating to **6.4% from 2.0% in May**. The recovery was driven mainly by **motor vehicle manufacturing**, which grew by **12.6%**, and basic metals output, which increased by 8.2%.
- **Export-oriented industries remained the main driver of manufacturing growth**, expanding by **7.6% in June.** Strong global demand for E&E and optical products continued to support export momentum, with the sector recording 14.9% growth.
- Manufacturing output grew by **7.3% year-on-year in June 2026**, accelerating from **6.6% in May**. Growth was mainly driven by E&E products (13.6%), Transport Equipment and Other Manufactures (9.4%), and Petroleum, Chemical, Rubber & Plastic products (2.6%).
- The generation of Electricity increased by 6.7% as activities in the manufacturing sector continue to boost demand.

Capacity utilisation strengthened across the board in the second quarter 2026

Manufacturing Industry Capacity Utilisation by Sub-Sector

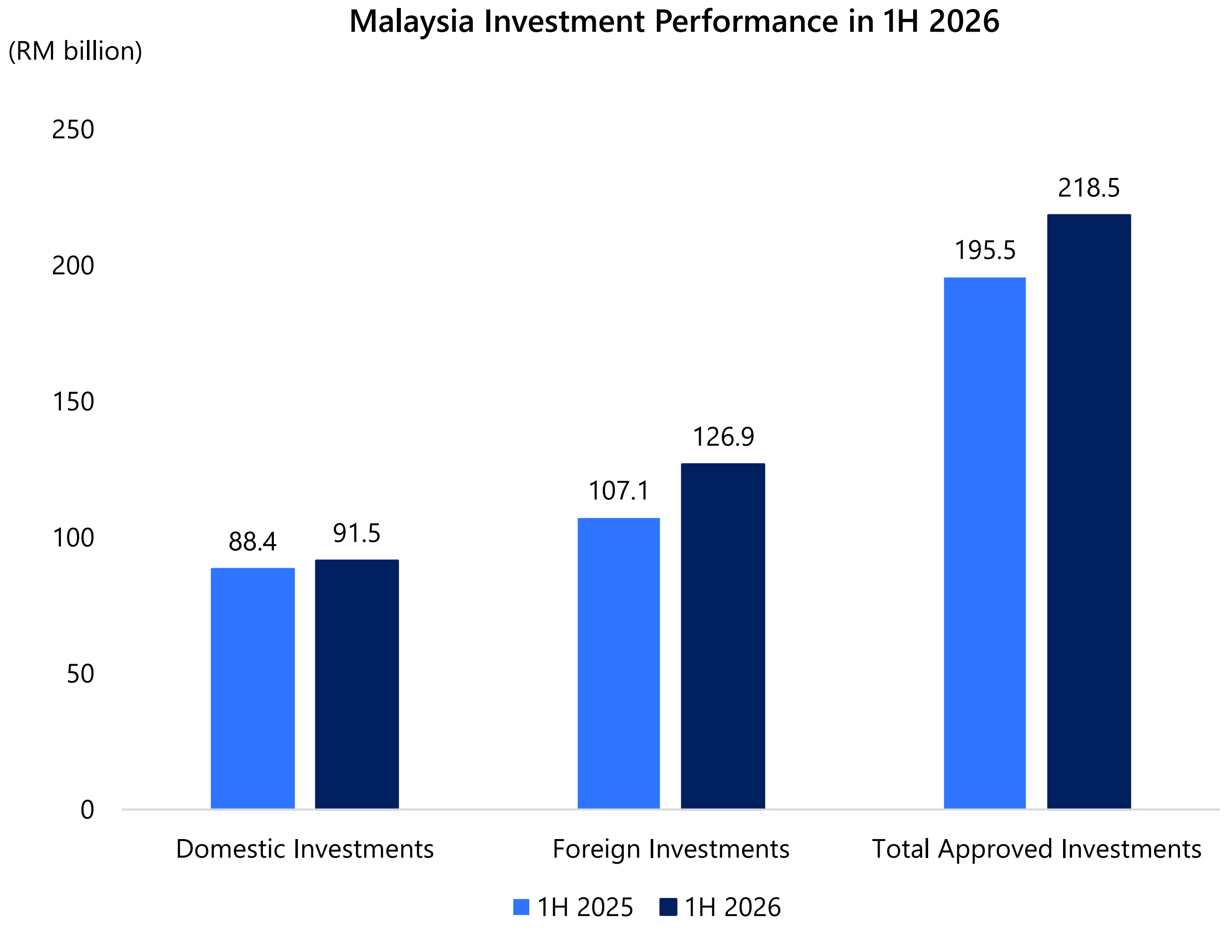


Source: DOSM, Manufacturing Capacity Utilisation 2Q

Electronics led a broad-based rise in factory activity

- **Manufacturing capacity utilisation reached 83.7% in Q2 2026**, rising 1.2 percentage points from 82.5% a year earlier. The gains were widely shared, with all seven subsectors operating at a higher utilisation rate than in the second quarter of 2025.
- E&E products recorded the strongest improvement, climbing 2.6 percentage points to 85.3%, in line with firm global demand for semiconductors.
- Transport equipment and other capacity utilisation manufactures recorded at the highest rate of 87.2%, up 1.2 percentage points YoY.
- The weakest increases were recorded in consumer-oriented industries, with capacity utilisation for food, beverages and tobacco rising slightly by 0.2 percentage points to 83.5%, while textiles, apparel, leather and footwear increased by 0.3 percentage points to 81.4%.

Foreign investment constitute larger share of approved investments

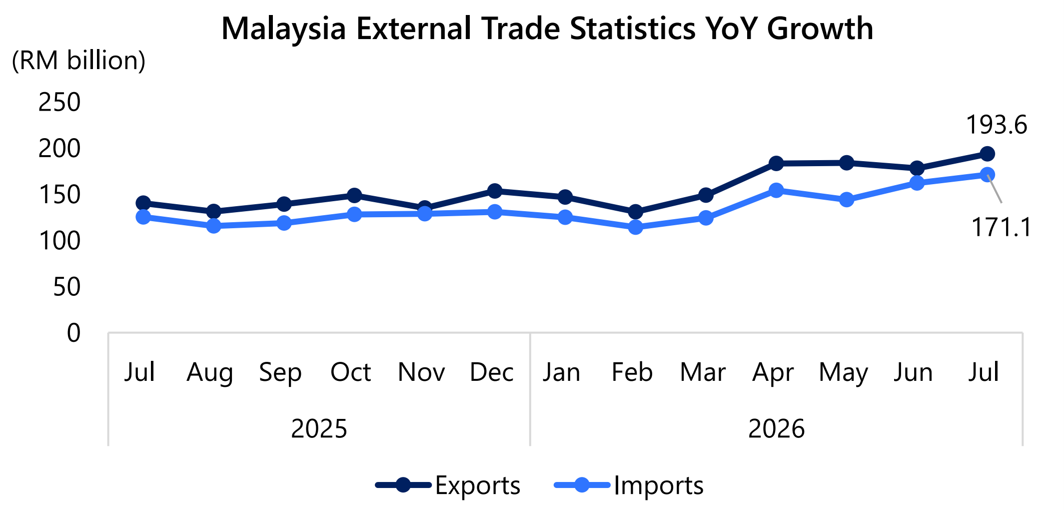


Source: MIDA, Malaysia Investment Performance Report, 1H 2026

Strong investor confidence and sustained investment momentum in 1H 2026

- Total approved investments reached RM218.5 billion in the first half of 2026, expanding 11.8% from RM195.5 billion recorded in the same period last year.
- Foreign investments surged 18.5% YoY to RM126.9 billion compared to RM107.1 billion in the first half of 2025.
- Foreign capital accounted for 58% of total approved investments, highlighting strong investor confidence in Malaysia and reflecting foreign companies' commitment to establish and expand long-term projects and facilities in the country.
- Domestic investments posted steady growth, rising 3.5% YoY to RM91.5 billion from RM88.4 billion in the previous year.

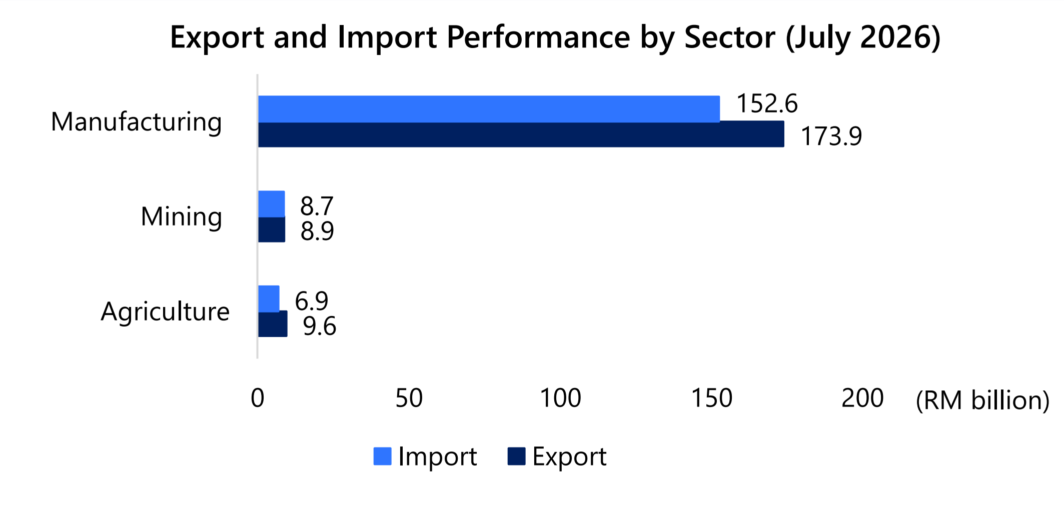
Trade momentum strengthens as exports again hit a record high



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

- Exports climbed to a record RM193.6 billion in July 2026, capping a steady upward trend, driven mainly by strong global demand for electrical and electronic products.
- Imports increased to RM171.1 billion, driven by higher purchases of intermediate goods, components and production inputs supporting Malaysia's export-oriented manufacturing sector. Despite the rise in imports, Malaysia maintained a trade surplus of RM22.5 billion.

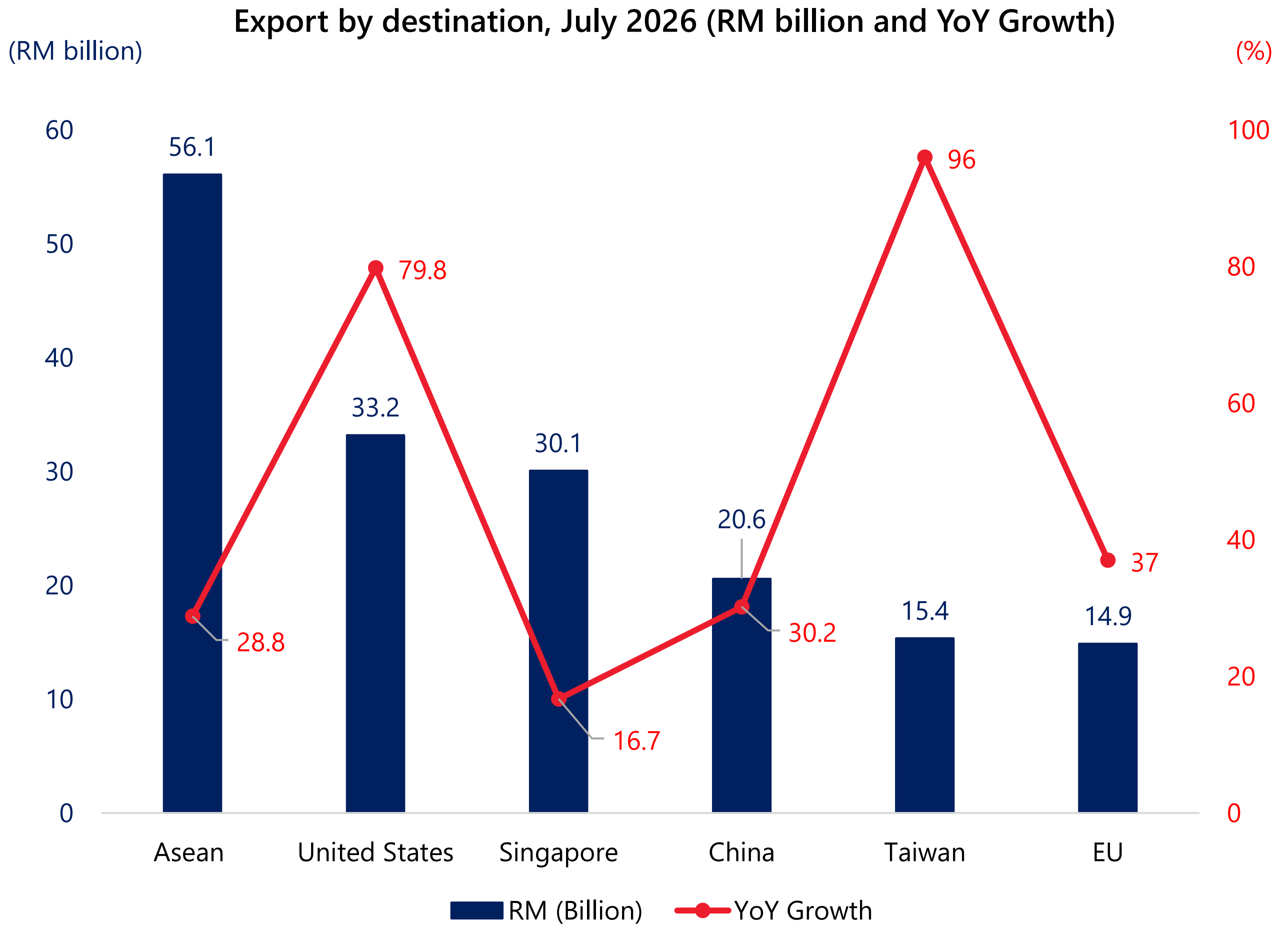
Manufacturing and E&E drive trade surplus



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

- Total trade grew by 37.3% to RM364.7 billion in July, an increase of RM99.0 billion. Meanwhile, the trade surplus rose by 51.9% to RM22.5 billion, up from RM14.8 billion in the same period last year.
- Exports of manufactured goods grew strongly by 42.6% to RM173.9 billion, accounting for 89.8% of total exports. The growth was mainly driven by E&E products (+51.0%), other manufactures (+216.0%), and machinery, equipment and parts (+41.6%).

Export growth surged across key markets led by United States and Taiwan

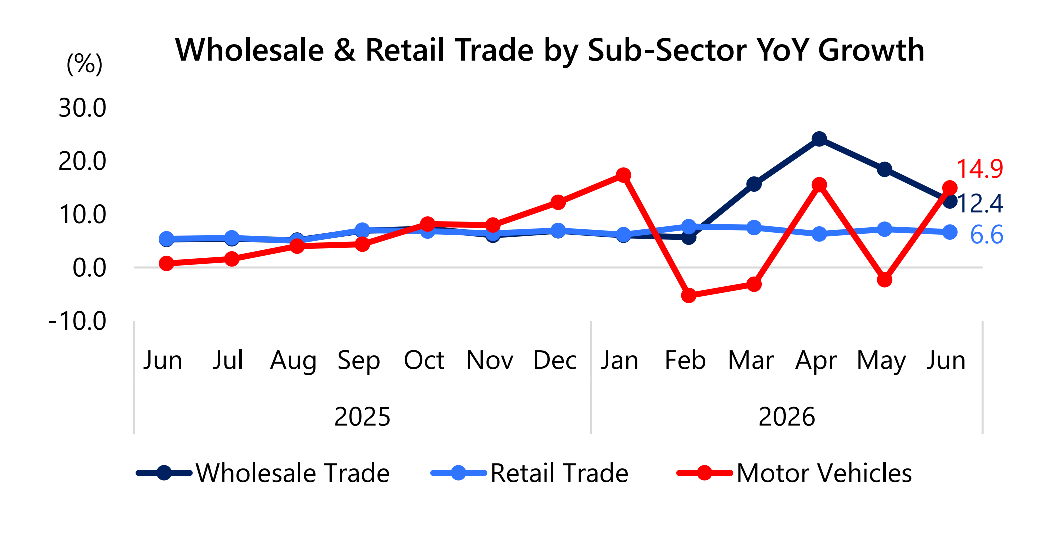


Source: DOSM, External Trade Report, July 2026; The Star, "Malaysia's total trade surges 37% in July 2026"

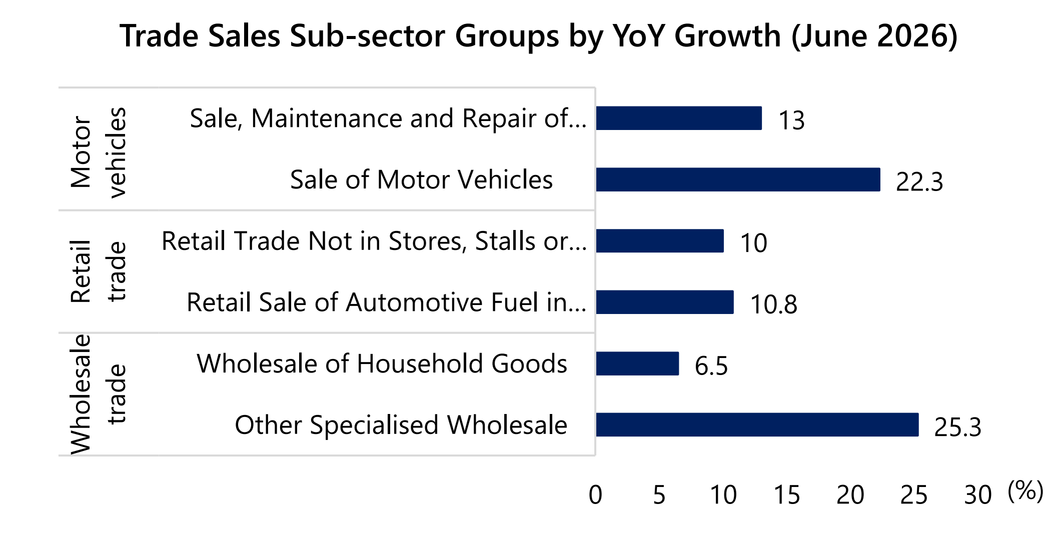
Strong demand from major trading partners anchored export expansion

- Exports to the United States, Malaysia's largest export destination, surged 79.8% year-on-year to RM33.2 billion in July 2026.
- Exports to China reached a record high, rising 30.2% to RM20.6 billion on robust demand for electrical and electronic products and metalliferous ores and metal scrap. Shipments to Taiwan nearly doubled to a record RM15.4 billion, driven almost entirely by electrical and electronic products.
- ASEAN remained the largest regional market, with exports growing 28.8 per cent to RM56.1 billion. This was underpinned by strong shipments of electrical and electronic products as well as machinery, equipment and parts.
- Re-exports now make up 27% of total export volume, meaning over one in four dollars of exported goods involves no local manufacturing or processing.

Trade sales reached RM168.5 billion, with motor vehicles and other specialised wholesale providing most of the lift



Source: DOSM, Performance of Wholesale and Retail Trade, June 2026



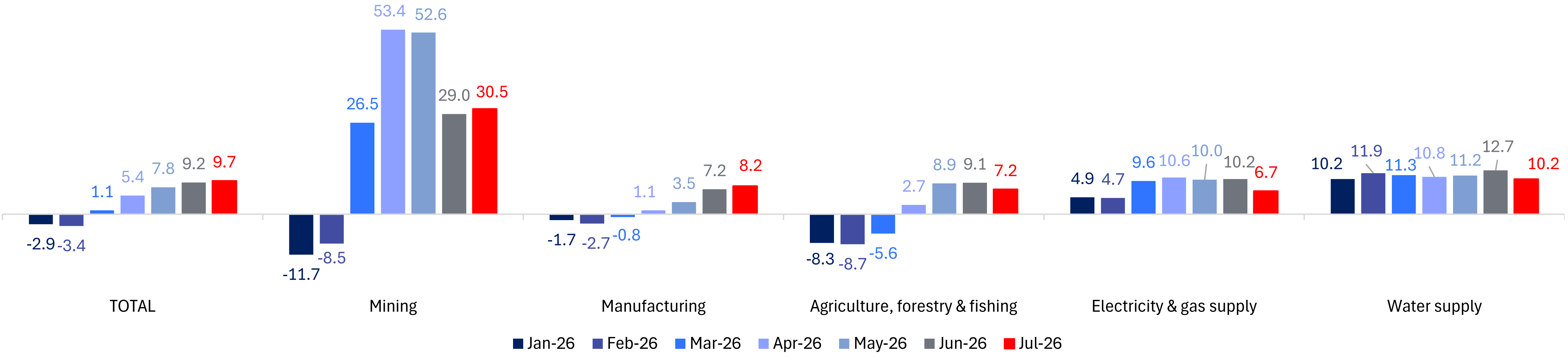
Source: DOSM, Performance of Wholesale and Retail Trade, June 2026

- Total wholesale and retail trade sales reached RM168.5 billion in June 2026, supported by positive growth across all subsectors, led by motor vehicles at 14.9%, followed by wholesale trade at 12.4% and retail trade at 6.6%.
- Wholesale trade has slowed from its April peak of 24.1% but remains strong, while retail trade has stayed steady at around 5%–8%, supported by a firm labour market and mild 1.9% inflation. Motor vehicle sales remained more volatile, mainly due to the timing of new model launches and deliveries.

- **Motor vehicles**: Growth in motor vehicle sales led the sub-sector at 22.3%. 13.2% rise in the volume index confirms real unit growth rather than a price effect.
- **Retail trade**: automotive fuel (10.8%) and retail trade not in stores, stalls or markets (10.0%) were the leading groups, the latter reflecting the continued shift to online and non-store channels.
- **Wholesale trade**: other specialised wholesale grew fastest of all groups at 25.3%, while household goods grew a steadier 6.5%.

Producer Prices: Upstream inflation surges to 9.7% YoY in July as imported energy prices permeates into local supply chains

PPI Local Production by Sector, Jan–Jul 2026 (YoY%)

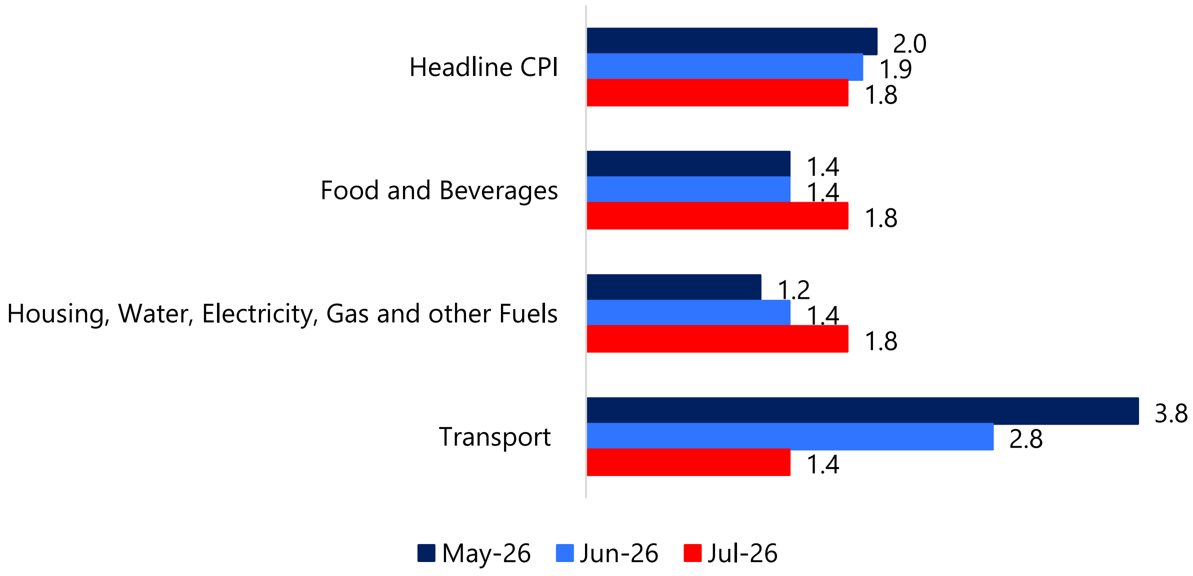


Source: DOSM, *Production Price Index Local Production* (various months)

- **Local producer price inflation** expanded continuously from **-2.9% YoY in January to 9.7% YoY in July**, driven by domestic exposure to volatile global energy prices.
- **Energy-intensive sectors absorbed global fuel shocks directly and immediately**, driving elevated growth in **Mining at 30.5% YoY in July** (crude petroleum extraction at +39.6%) and **Manufacturing at 8.2% YoY** (refined petroleum products at +30.4%).
- **Secondary cost transmission** gradually trickled into farm-level operations as higher diesel, transport, and petrochemical feedstock costs pushed **Agriculture PPI** from an early-year contraction of **-8.7% YoY in February to 7.2% YoY in July**.
- **Regulated tariff structures buffered utilities**, kept **Electricity & Gas (6.7% YoY)** and **Water Supply (10.2% YoY)** within predictable baselines, insulating downstream producers from a broader overhead shock.

Consumer Inflation: July CPI softens further to 1.8% from 1.9% in June

Headline CPI and Sub-Group Movements, May–July 2026 (%YoY)



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

Transport price momentum cools while Food & Utility costs gradually increase

- At the consumption end, **Malaysia's headline CPI eased by -0.1 percentage point to 1.8% YoY in July 2026** (down from 1.9% YoY in June), maintaining a gradual disinflationary trajectory since May.
- **Food & Beverages CPI ticked up by +0.4 percentage points to 1.8% YoY** (up from 1.4% in June), driven by surges in meat and vegetable sub-components.
- **Housing, Water, Electricity, Gas & Other Fuels CPI increased by +0.4 percentage points to 1.8% YoY** (up from 1.4% in June) due to revised electricity surcharges.
- **Transport inflation decelerated by -1.4 percentage points to 1.4% YoY** (down from 2.8% in June), serving as the primary driver pulling down headline inflation.

Transport inflation eased as additional domestic subsidies help buffer global fuel price surges

- Transport CPI dropped **1.4 percentage points to 1.4% YoY** (down from 2.8% in June), directly reflecting the stabilising effect of targeted fuel subsidies on consumer price indexes.

- Maintaining the **RM1.99/litre** ceiling for RON95, absorbed a price differential of up to **RM2.21/litre** when market-driven unsubsidised RON95 spiked to **above RM4.00/litre**.

- The July 1 expansion of BUDI Diesel (capping prices at **RM2.10–RM2.15/litre**) insulated **~700,000 private vehicle owners** nationwide, protecting 400,000 owners in Peninsular Malaysia alongside 300,000 across Sabah, Sarawak, and Labuan.

- While unsubsidised market diesel fluctuated dramatically up to a peak of **RM6.72/litre**, fixed domestic subsidy ceilings completely decoupled everyday retail fuel costs from global energy market volatility.

Price of Petroleum and Diesel

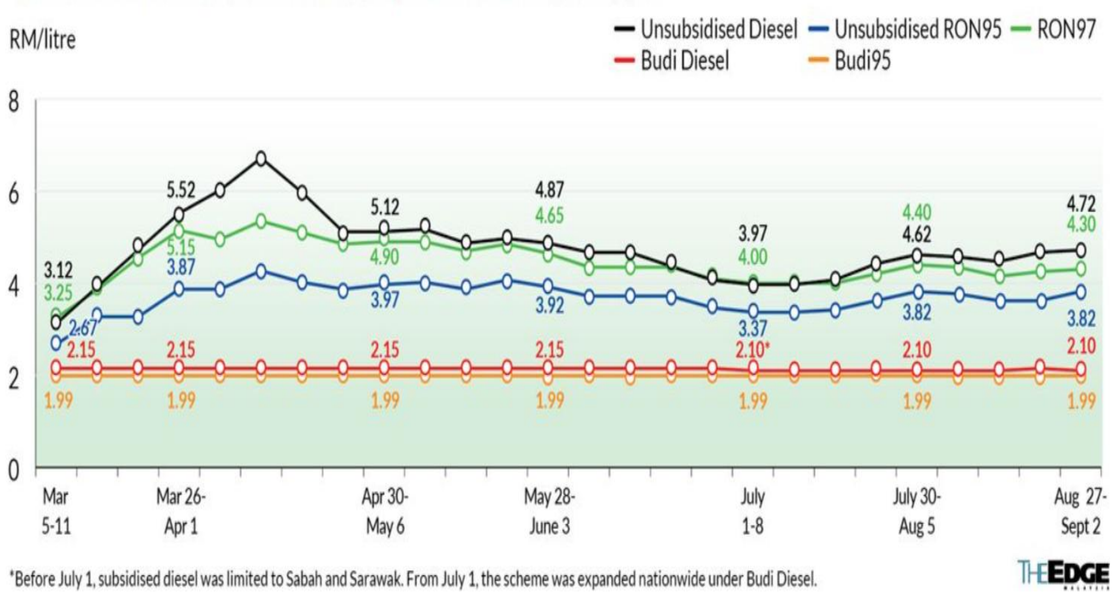
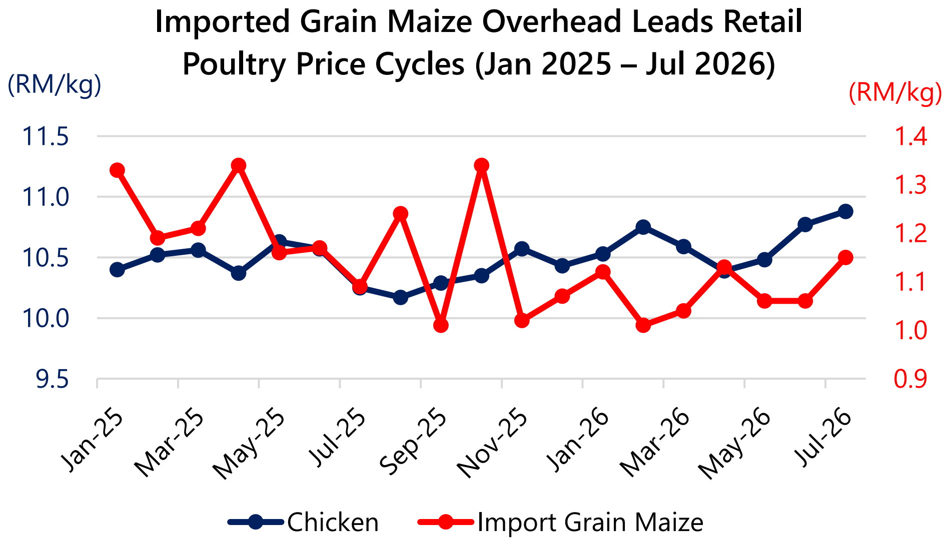


Image Source: The Edge

Food inflation climbed due to surging poultry and fresh vegetable costs



Source: DOSM, *Consumer Price Index Report* (various months); *Monthly External Trade Statistics* (various months)

- **Food and Beverages** CPI accelerated to **1.8% YoY in July** (June: 1.4%). This uptick was driven primarily by **meat inflation climbing to 3.2% YoY** (led by standard chicken reaching RM10.88/kg) and **fresh produce swinging to 1.0% YoY**, such as a sharp spike in tomatoes (+19.6%), Chinese kale (+10.4%), lettuce (+9.5%), etc.

[1] https://ceomorningbrief.theedgemalaysia.com/2026/1203/

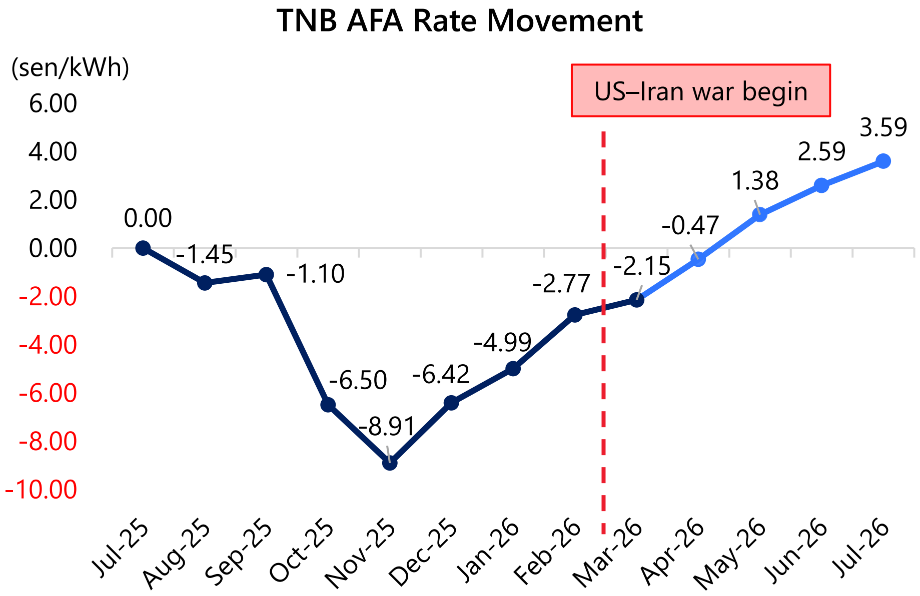
High import dependency exposes food security risks, driving push to reduce grain maize import dependence

- Rising retail poultry prices directly reflect farm-gate feed overheads. As **Malaysia relies 100% on imported grain maize** (2.5 million tonnes valued at RM3 billion annually) [1] and 100% on imported soybeans, the poultry industry, which is the country's most vital livestock sector, remains exposed to **severe price volatility** driven by **climate-driven supply disruptions (El Niño)** and **exchange rate fluctuations** in US dollar-denominated commodities.

- With **blanket subsidies for chicken and eggs phased out**, fluctuations in global feed costs are increasingly transmitted to **household food expenses**. Under the government's approach of conducting **periodic subsidy reviews**, sustained increases in feed costs could contribute to higher consumer prices and cost-of-living pressures, while increasing the need for the government to assess **targeted or temporary market interventions** when necessary.

- To mitigate feed cost pass-through to poultry prices, **MARDI launched commercial cultivation of local grain maize varieties** (MZ1&MZ2), introducing the technology needed to grow feed locally. Targeting an initial **3% to 4% domestic demand coverage** by next year with plans to scale to 30% [1], this initiative is aimed at stabilising poultry production costs, ultimately easing retail prices for chicken and eggs. In turn, this allows the government during periodic reviews to **redirect saved subsidy funds toward struggling sectors like paddy and fisheries**.

Utility costs creep to 1.8% as global energy pressures elevate AFA rates



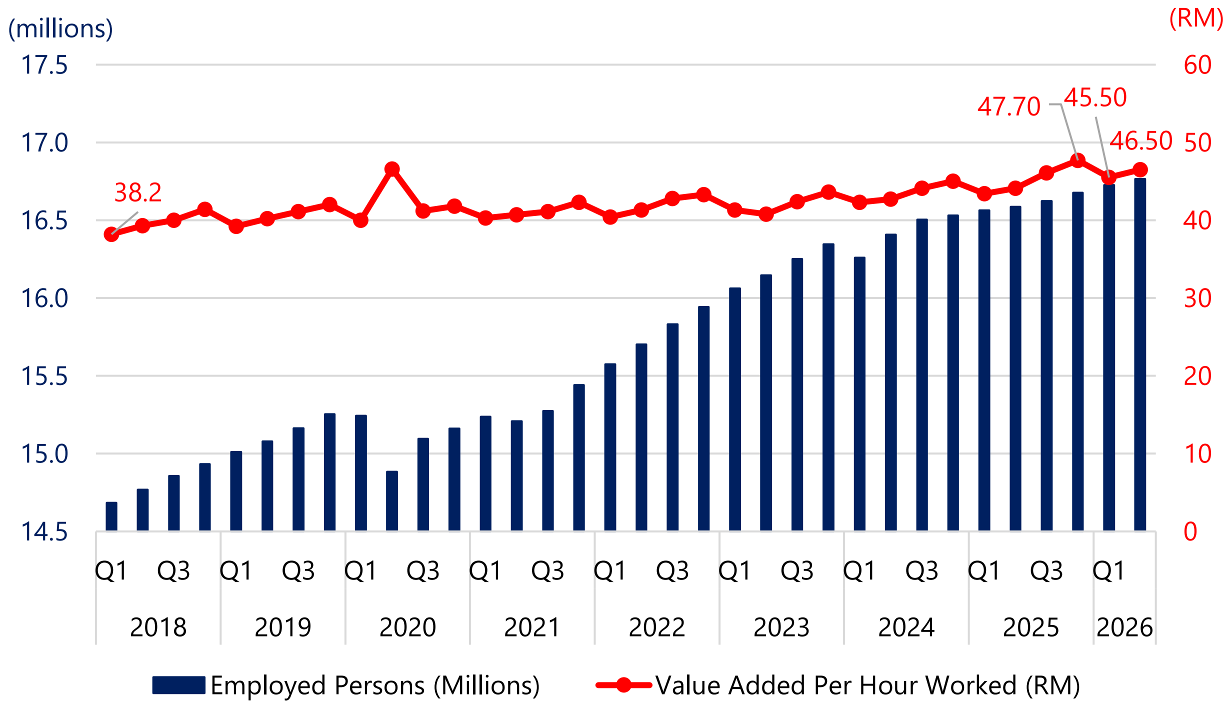
Source: TNB, *Automatic Fuel Adjustment*

Sarawak's electricity subsidy insulate residents, thus remained as the lowest state level inflation rate

- Housing, Water, Electricity, Gas & Other Fuels CPI expanded by **+0.4 percentage points to 1.8% YoY in July** (June: 1.4%), extending a continuous upward climb from 1.1% in February 2026.
- Peninsular electricity tariffs adjust monthly via the Automatic Fuel Adjustment (AFA) mechanism, driven by **global fuel prices, foreign exchange rates, and actual generation cost true-ups**. Escalations from the US–Iran conflict directly inflated generation costs, shifting Peninsular AFA rates from a **-2.15 sen/kWh rebate in March** to a **+3.59 sen/kWh surcharge in July** for high-tier domestic users (>600 kWh).
- In contrast, state policy neutralised global energy spillovers in Sarawak through it's **Bantuan Khas Elektrik Sarawak 2026** which provides a **25% electricity bill discount** from April to December 2026, benefiting **714,000 households**.
- Supported by the targeted state government's financial relief initiative, **Sarawak recorded lowest state level inflation rate at 0.3% YoY in July**, decoupling significantly from the 1.8% national average.

Labour Force: Steady workforce expansion and employment growth

Total Employment Volume and Productivity Growth (Q1 2018–Q2 2026)



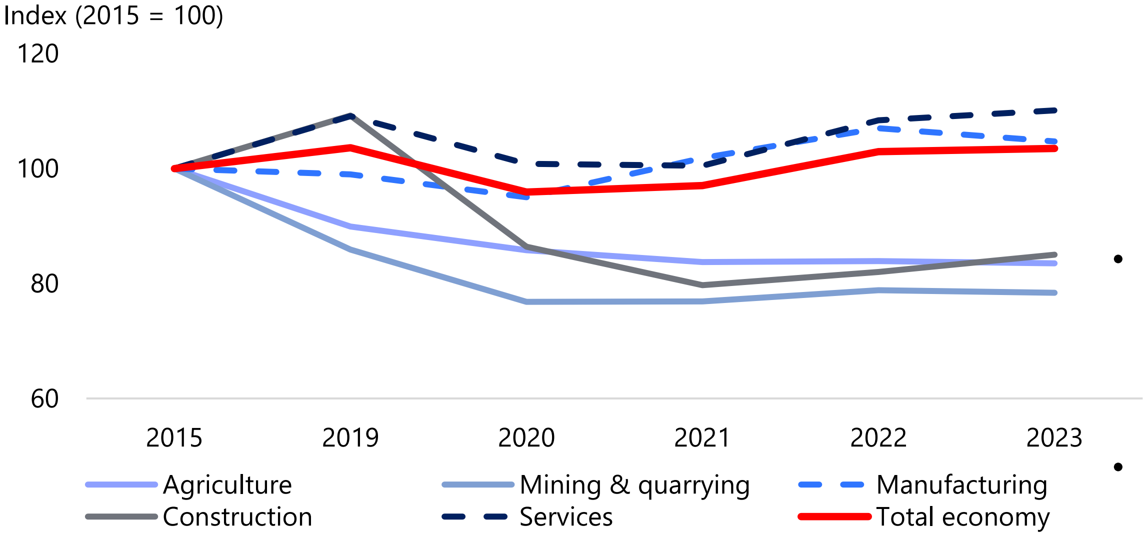
Source: DOSM, *Labour Market Review Q2 2026*

- Over the past eight years, total employed persons expanded steadily from **14.7 million in Q1 2018** to **16.8 million in Q2 2026**, reflecting consistent growth in workforce size.

Hourly labour productivity growth however, has remained relatively modest

- Malaysia's national unemployment rate remained **steady at 3.0% in Q2 2026**, with **509.7 thousand unemployed persons**, while **195.7 thousand job vacancies** indicated sustained labour demand and a relatively dynamic job market.
- Despite expanding employment, hourly labour productivity (value-added per hour worked) has experienced only modest growth, moving from **RM38.20 in 2018 to a peak of RM47.70 in late 2025 before settling at RM46.50 in Q2 2026.**
- This sustained divergence suggests that **Malaysia's productivity growth remains constrained**, with the economy continuing to absorb workers into labour-intensive activities while facing challenges in transitioning towards **higher-value, productivity-driven growth**.

Services and Manufacturing with digital adoption drive MFP efficiency while Primary sectors and Construction lag



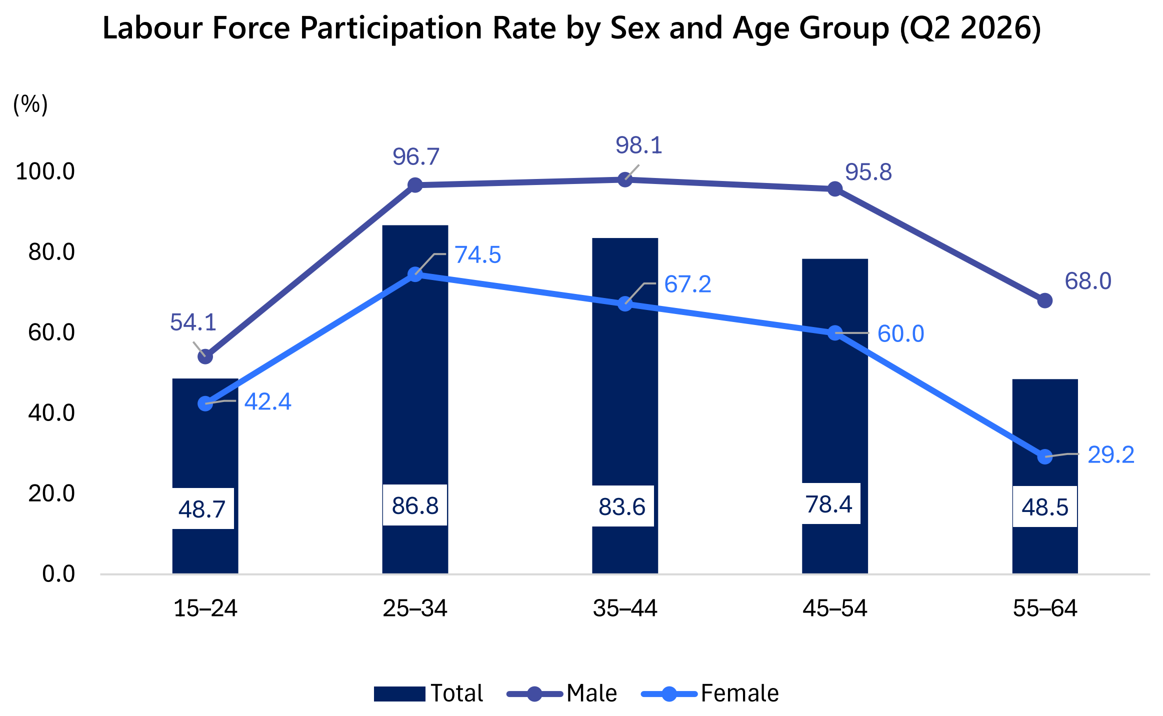
Source: DOSM, *Labour Market Review Q2 2025*

Multifactor Productivity

Sectors	2015	2017	2019	2021	2022	2023
Agriculture	100.0	94.3	89.9	83.7	83.9	83.5
Mining & quarrying	100.0	93.2	85.9	76.9	78.8	78.4
Manufacturing	100.0	99.2	99.0	101.8	107.0	104.7
Construction	100.0	109.5	109.2	79.7	82.0	85.0
Services	100.0	104.2	109.1	100.5	108.4	110.1
Total Economy	**100.0**	**101.9**	**103.6**	**97.0**	**102.9**	**103.5**

- Unlike standard hourly productivity, Multifactor Productivity (MFP) measures how efficiently all combined inputs (i.e., labour, capital, energy, and materials, and purchased services) generate output. Instead of tracking how many more workers or machines are added, **MFP isolates how much smarter and technologically advanced the production process itself has become**.
- In the latest data available (2023), MFP performance shows a sharp split across sectors, with **Services (110.1)** and **Manufacturing (104.7)** outperforming their 2015 baselines through digital adoption and higher-value upgrading.
- Traditional resource-based drivers sectors lagging in terms of productivity growth with **Mining & Quarrying (78.4)** and **Agriculture (83.5)** remaining deeply below the reference baseline as they rely on resource extraction rather than technological process enhancement.
- The **total economy MFP index increased modestly to 103.5**, suggesting that Malaysia's economic expansion continues to rely significantly on **physical capital accumulation**, including infrastructure and data centres, while broader gains from **technological and productivity improvements** remain relatively limited.

Prime-age male participation approaches full capacity



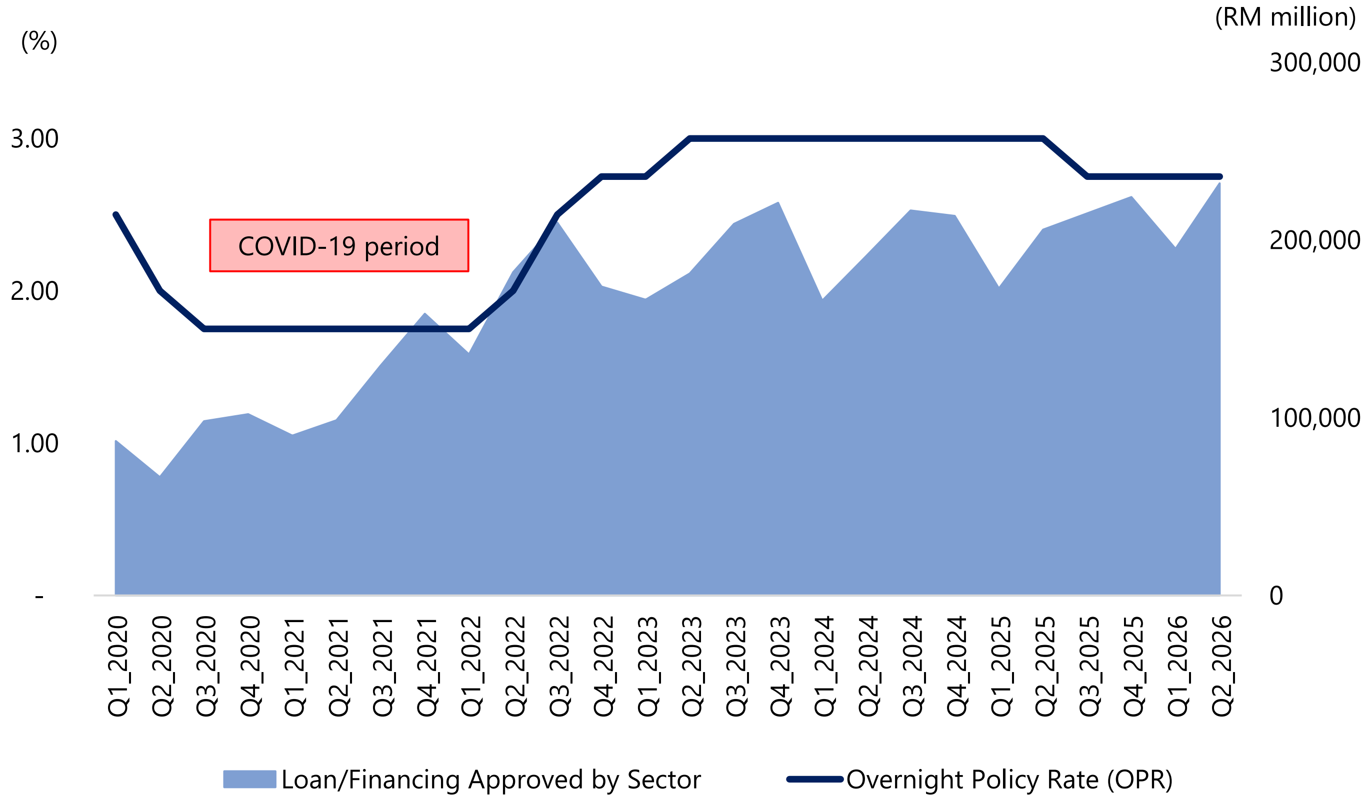
Source: DOSM, *Labour Force Report Q2 2026*

However, drop in female workforce limits national human capital

- Male LFPR remains near saturation (**95.8%–98.1% across ages 25–54**), whereas female participation drops steadily from **74.5% (25–34)** to **60.0% (45–54)**.
- Workforce departures during family-formation years result in a permanent loss of tertiary-educated women from formal employment.
- Expanding workforce volume without addressing female talent retention and structured re-entry limits Malaysia's ability to transition into high-value economic activities.
- While Malaysia's labour market absorbs job volume, lifting the productivity ceiling requires shifting policy from quantitative hiring toward resolving skill underemployment and retaining female talent.

Credit conditions remain supportive, providing room for future rate hike

OPR and Total Financing Approved by Banking System (Q1 2020–Q2 2026)



CPI remain manageable but external inflationary pressures persist

- As widely expected, Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 2.75% at its September 2026 Monetary Policy Committee meeting.

- The latest Monetary Policy Statement slightly hawkish tone reflects stronger growth prospects and continued cost pressures. However, BNM has room to monitor developments in growth and inflation before committing to a firmer stance.

- BNM notes that despite elevated costs and resilient economic growth, the pass-through to consumer prices has remained contained, supported by domestic policy measures, stable demand conditions and limited wage pressures despite strength in the external sector.

- However, ongoing geopolitical uncertainties, particularly the Middle East conflict, and elevated global commodity prices continue to pose upside risks to costs and inflation.