# MIER Monthly Macro

November 2026

Malaysian Institute of
Economic Research

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# MIER Monthly Macro – November 2026

- **Advance Q3 GDP estimates** indicate the economy **expanded by 5.3%** YoY in Q3 2026, suggesting underlying growth drivers are still intact amid emerging concerns over slowdown in global tech investments. Growth continued to be **supported by external demand** and **steady domestic consumer spending.** With cumulative growth of 5.5% over the first nine months, **MIER maintains its GDP growth forecast at 5.0% for 2026.**

- Overall growth was **supported by the Manufacturing, Services, and Construction sectors**, alongside an **Agricultural rebound** driven by a **seasonal recovery in palm oil** and livestock output. **Lower production of crude oil and natural gas** led to contraction in the Mining and Quarrying sector.

- **Industrial production remained strong**, growing 5.0% YoY in August, supported by manufacturing and electricity demand. **Manufacturing growth was led by E&E**, with export-oriented industries outperforming domestic-oriented industries. However, the sector's heavy reliance on E&E leaves it exposed to fluctuations in global technology demand. The demand for E&E also boosted trade, with **exports surging 54.5% YoY** in September 2026, led by shipments to the United States.

- While lagged output and trade data remain robust, October saw a **sharp correction in US AI-related stocks**, with leading names such as Intel and SanDisk reportedly losing up to 40% of their market value. Growing concerns over stretched valuations and rising political opposition highlight the need for the AI sector to translate investment into **measurable productivity gains and broader economic returns** to sustain investor confidence.

- **Spending** by households and firms **remain steady** as an indicator of wholesale and retail trades continued to grow in August with growth recorded across all subsectors. Wholesale trade was supported by higher fuel prices while retail trade remained steady as consumers continued to spend at moderate pace.

- Producer prices **accelerated** but consumer inflation **remains contained**. The PPI rose 12.0% YoY in September 2026, **driven by a surge in mining on higher crude oil prices** while headline inflation eased to 1.8% on **lower utility costs.**

- The **labour market remained resilient**, with unemployment easing to 2.9% in August 2026 from 3.0% in July. However, structural challenges persist, with 41.7% of tertiary-educated jobseekers in semi-skilled or low-skilled occupations, highlighting **persistent skills mismatches and a shortage of higher-paying jobs.**

- **Budget 2027** seeks to balance fiscal consolidation with measures to cushion cost-of-living pressures, support households and MSMEs, and stimulate higher-value investment. With the **fiscal deficit targeted to decline to 3.3% of GDP**, priorities include strengthening human capital, accelerating AI and digitalisation, raising productivity and improving governance to support more sustainable and inclusive growth.

- The **minimum wage increase to RM2,000** under Budget 2027 is expected to benefit around two million workers and support household consumption. However, the narrowing minimum-to-median wage gap may further **compress education and experience premia.** Sustained **productivity growth and movement up the value chain** are essential to support a more sustainable, higher-value growth model.

# Budget 2027: Balancing between lifting the floor and raising the ceiling while maintaining fiscal discipline

- Budget 2027 **seeks to balance immediate socio-economic support with longer-term structural transformation**. While household assistance and tax measures support consumption and business activity, greater emphasis on skills, AI adoption, innovation and green investment reflects the need to move Malaysia beyond a low-cost labour-driven growth model. The objective is to translate these allocations into higher productivity, better-paying jobs and a more competitive economy.

- **Household income and consumption:** Personal income tax relief will increase from RM9,000 to RM12,000, alongside a one-percentage-point tax reduction for the RM70,000–RM150,000 income bracket, supporting M40 disposable income. Meanwhile, RM16 billion in STR and SARA allocations will help preserve lower-income households' purchasing power and sustain domestic consumption.

- **Wages and labour market transformation:** The minimum wage will increase to RM2,000 per month from June 2027, alongside a RM2,500 entry-level salary benchmark for graduates. These measures support wage growth but also reinforce the need to raise productivity and move towards higher-value economic activities.

- **Skills development and human capital:** Allocations of RM8 billion for TVET and RM3 billion for HRD Corp training programmes address skills mismatches and strengthen workforce readiness, particularly in response to technological change and growing AI adoption.

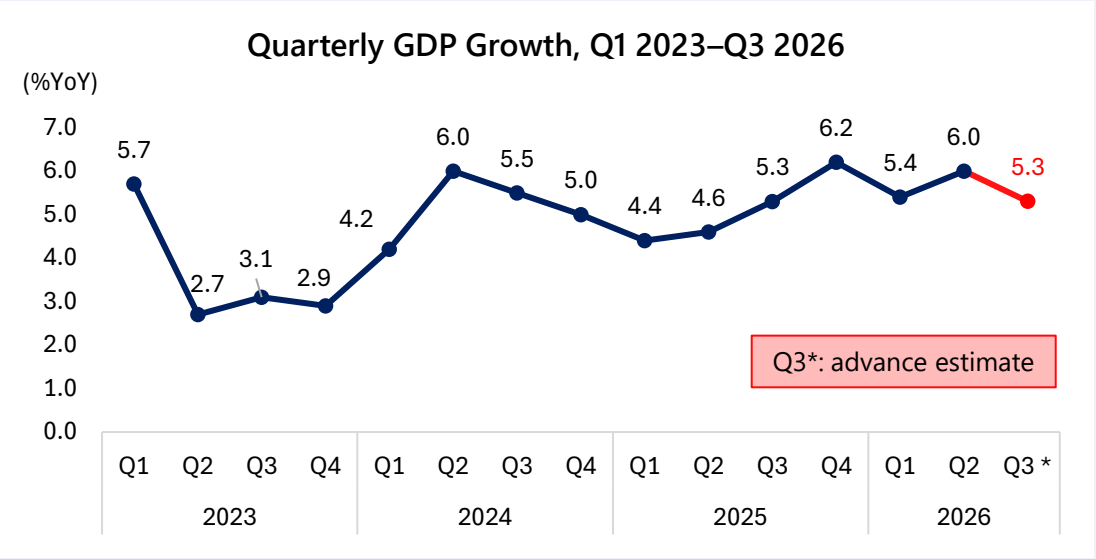
- **MSME support and business investment:** A one-percentage-point reduction in MSME income tax rates, to 14% and 16%, will ease business costs and improve cash flow for reinvestment and employment retention. Support for first-time homebuyers, including full stamp duty exemptions on property transfers up to RM500,000 and RM20 billion in SJKP guarantees, will also stimulate housing demand and related economic activity.

- **Social protection and financial inclusion:** Enhanced EPF incentives and SOCSO coverage for GIG workers extend social protection to a growing segment of the workforce, supporting greater financial security and more inclusive economic participation.

- **AI, technology and innovation:** The RM30 million allocation to MDEC for AI automation and RM6 billion for R&D&C signal a stronger push towards technology adoption, innovation and higher-value industries. The challenge will be translating these investments into measurable productivity gains and broader economic spillovers.

- **Energy transition and export competitiveness:** RM15 billion for grid upgrades, solar investments and the RM1 billion KWAP Climate Fund support energy transition and strengthen the investment environment. These initiatives are increasingly important for maintaining export competitiveness amid rising sustainability requirements, including the EU's CBAM.

# Growth momentum intact as Q3 GDP expanded by 5.3%

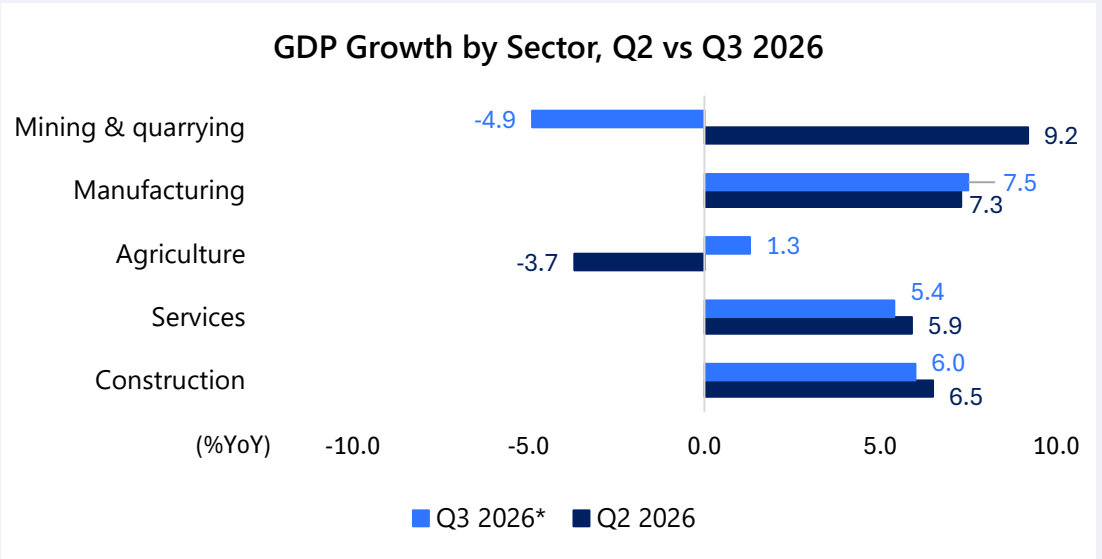



Source: DOSM, Advance GDP Estimates, Q3 2026

- Malaysia's Q3 advance estimates GDP showed the economy **expanded by 5.3% YoY** (RM466.4 billion), moderating from 6.0% in Q2. Growth was supported by expansion in the Services, Manufacturing and Construction sectors. While the Agriculture sector rebounded, the Mining and quarrying sector contracted.
- **Cumulative 9-month growth reached 5.5% YoY (RM1,350.0 billion)**, outpacing the same period in 2025 (4.8% YoY; RM1,279.1 billion) and 2024 (5.2% YoY; RM1220.7 billion).
- The recent **moderation in US technology sector sentiment** came late in the year and is unlikely to materially alter the full-year outlook. We therefore maintain our 2026 GDP growth forecast at 5.0%.

*Q3 GDP is an advance estimate based on July–August data and may be revised.

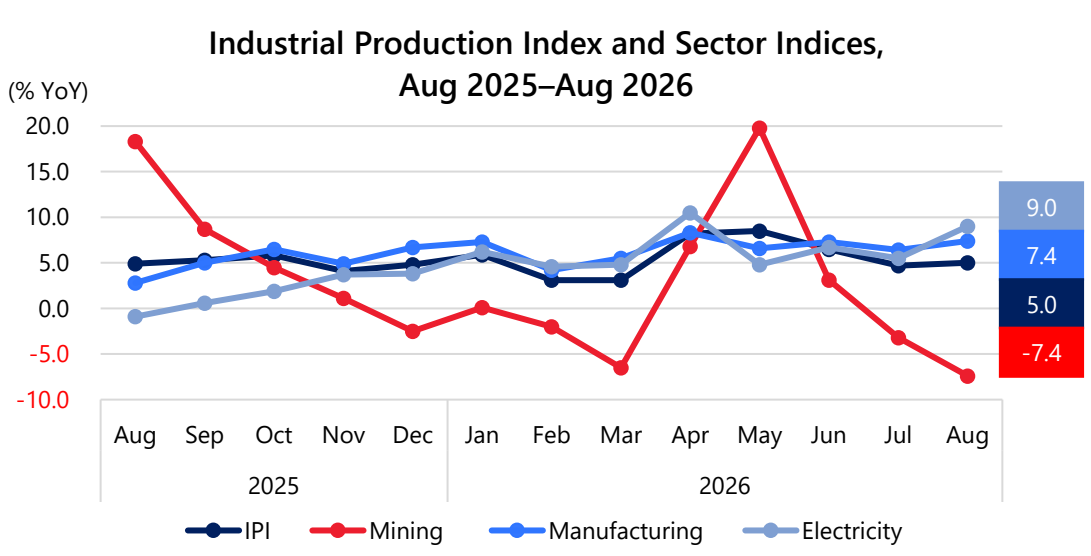
# Services sector remain supportive as consumers continue to spend




Source: DOSM, Advance GDP Estimates, Q3 2026

- **Manufacturing anchored expansion at 7.5% YoY** (Q2: 7.3%) supported by export-oriented industries, particularly electrical, electronic & optical products and chemical, rubber and plastic products.
- **Services sector remain robust, growing 5.4% YoY** (Q2: 5.9%), as supportive policies help consumers maintain spending. Growth was mainly driven by wholesale and retail trades, information and communication and finance and insurance sectors.
- **Agriculture rebounded to 1.3% YoY** (Q2: -3.7%), on a recovery in Crude Palm Oil output during peak Q3 harvest cycle and livestock growth.
- **Construction moderated to 6.0% YoY** (Q2: 6.5%) while **Mining and Quarrying contracted 4.9% YoY** (Q2: +9.2%) on lower crude oil and natural gas production.

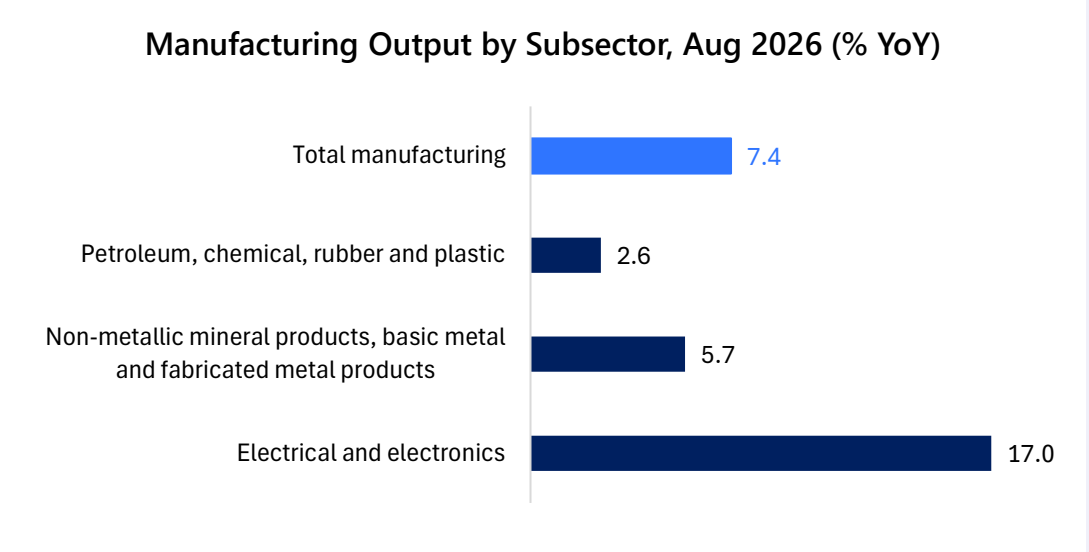
# Industrial production sustains growth in Q3




Source: DOSM, IPI Report, August 2026

- The Industrial Production Index (IPI) **expanded by 5.0% YoY in August** 2026 (July: 4.7% YoY), running parallel to the advance Q3 GDP estimate baseline.
- Sectoral output volume aligned with quarterly GDP metrics, led by **Manufacturing (+7.4% YoY)** and **Electricity (+9.0% YoY)**, while the **Mining index contracted 7.4% YoY**.
- **Mining output volatility remained pronounced**, swinging from +19.8% in May to -7.4% in August, acting as the **primary drag on aggregate industrial performance**.

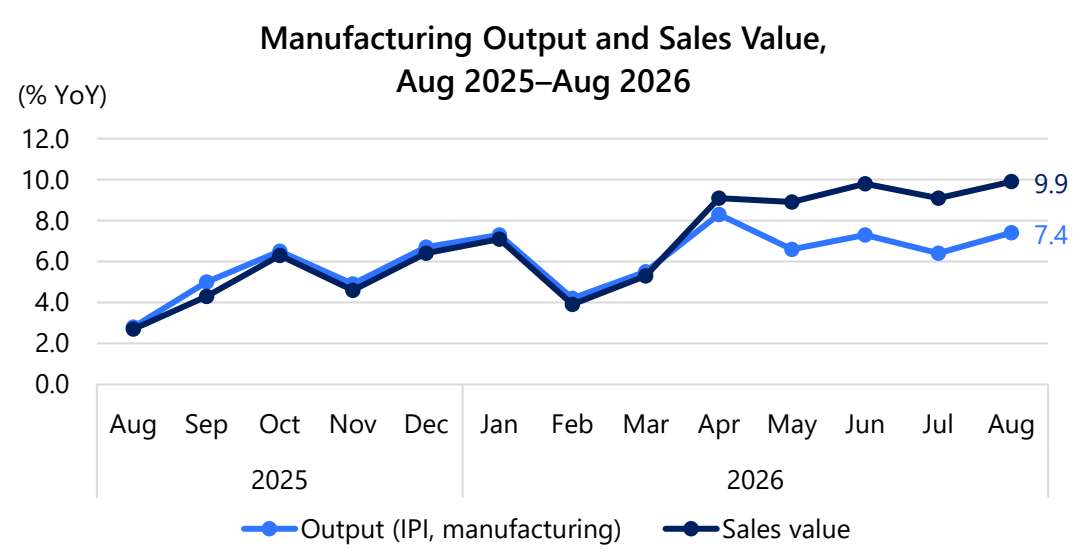
# Export-oriented factories lead Manufacturing output growth




Source: DOSM, IPI Report, August 2026. Output growth by subsector, August 2026.

- Manufacturing volume expansion (+7.4% YoY) was **led by Electrical & Electronics (+17.0% YoY)**, outpacing non-metallic minerals (+5.7%) and petroleum, chemical, rubber and plastic products (+2.6%).
- Manufacturing production exhibits a two-speed growth pattern: **export-oriented industries expanded 9.1% YoY** (led by computer and optical products at +18.8%), whereas **domestic-oriented industries grew a modest 3.9% YoY**.
- Overall **manufacturing capacity utilisation rose to 84.1% YoY** (July: 83.2%), indicating elevated plant operations to fulfil external demand.

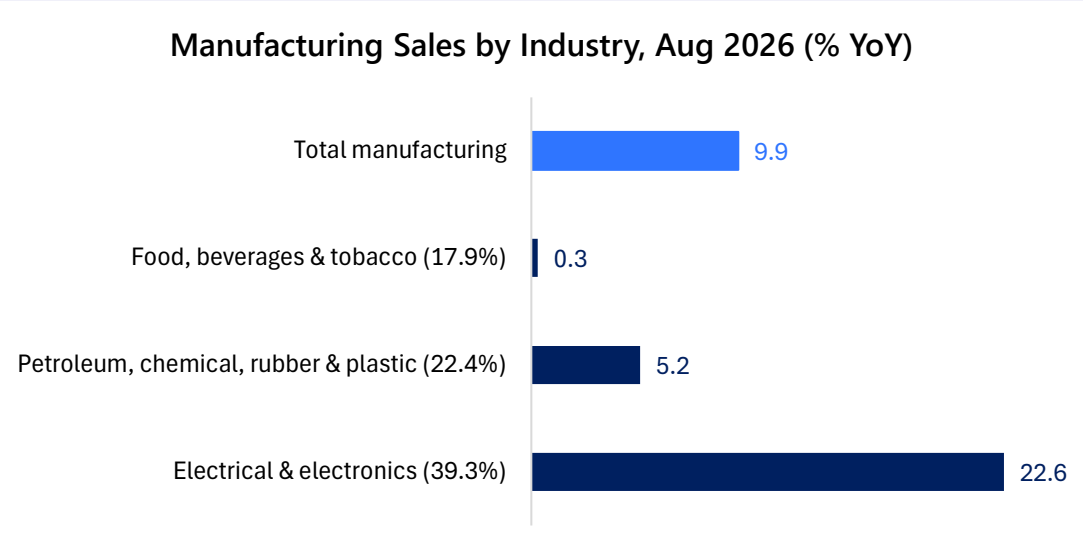
# Manufacturing sales rose 9.9% YoY to RM185.0 billion




Source: DOSM, IPI Report and Monthly Manufacturing Statistics, August 2026

- **Manufacturing sales value expanded 9.9% YoY to RM185.0 billion** in August 2026, maintaining a **faster growth pace than physical manufacturing output volume (+7.4% YoY)**.
- Revenue growth remains anchored in external markets, with **export-oriented industries accounting for 73.6%** of total manufacturing sales value.
- **E&E sales expanded 22.6% YoY** to represent 39.3% of total manufacturing sales, maintaining its position as the **primary growth driver**.

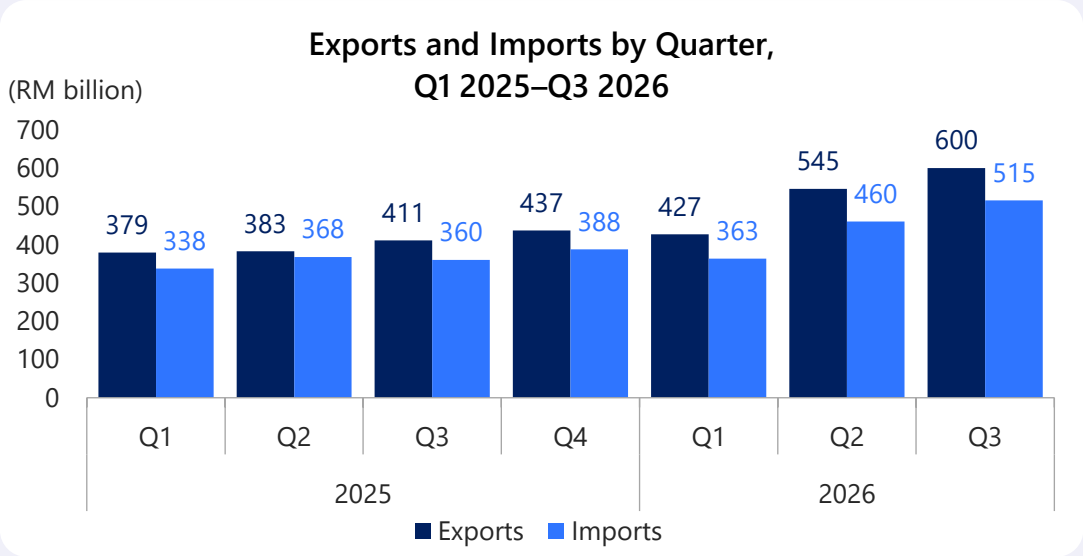
# However, Manufacturing sales are narrowly driven by E&E tech demand




Source: DOSM, Monthly Manufacturing Statistics, August 2026. Brackets: share of sales.

- The continuous gap between nominal sales growth (+9.9%) and physical IPI volume (+7.4%) points to **higher selling prices and a possible shift toward higher-value products**.
- **Growth remains narrow across non-tech subsectors**: Petroleum, chemical, rubber & plastic grew 5.2%, while Food, beverages & tobacco managed only 0.3%.
- **Heavy reliance on E&E** exposes overall manufacturing sales to fluctuations in global technology demand, despite the sector's gradual movement up the value chain. This vulnerability is particularly relevant as confidence in the sustainability of US AI infrastructure investment begins to waver.

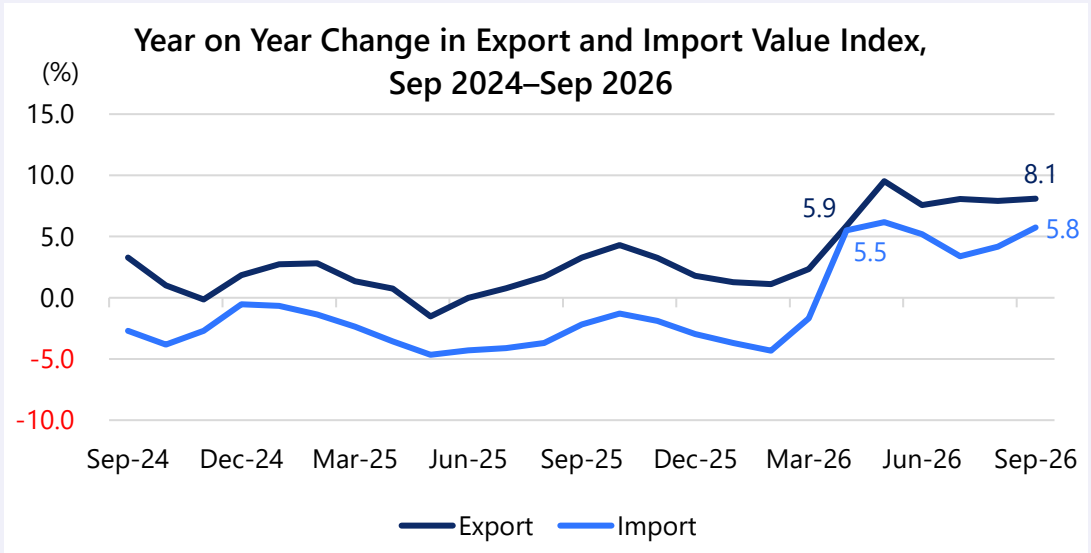
## Exports surged 54.5% YoY in September




Source: DOSM, External Trade Statistics (provisional), September 2026

- **Gross exports reached RM215.1 billion in September** (+54.5% YoY), lifting **Q3 total exports to RM599.7 billion** (+46.0% YoY) **against imports of RM515.4 billion** (+43.3% YoY) to yield an RM84.3 billion trade surplus.
- **E&E shipments constituted 57.5% of total September exports** (+69.2% YoY), with the **United States as the top export destination** (RM38.0 billion; +89.9% YoY).
- Export growth value (+45.4% YoY in August) significantly outpaced physical manufacturing volume growth (+7.4% in August), driven by higher global selling prices and a shift toward higher-value products.

## Investments in E&E must be sustained despite emerging headwinds

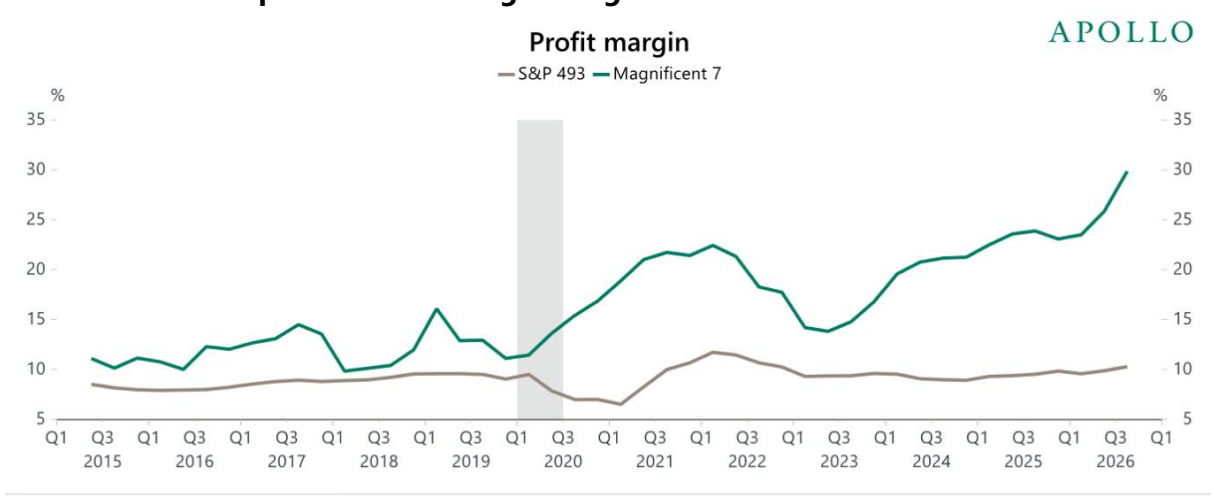



Source: DOSM, External Trade Statistics (provisional), September 2026

- Thanks to the **AI-driven investment cycle, Malaysia's external trade strengthened significantly in January–September 2026**, with total trade rising 30.1% to RM2.9 trillion. Exports grew 34.0%, outpacing import growth of 25.7%, resulting in a 115.7% increase in the trade surplus to RM232.4 billion.
- E&E products accounted for slightly more than half of total exports in September, highlighting Malaysia's heavy reliance on the sector. As investors **reassess AI-related investments** amid **rising political headwinds in the US**, E&E exports to the US may moderate in the coming months. Nevertheless, Malaysia must sustain investments in infrastructure and technological capabilities to move further up the value chain and strengthen the resilience of its manufacturing base.

# AI infrastructure spending may moderate in Q4 as markets reassess investment commitments

**Corporate Profit Margin: Magnificent 7 vs Rest of S&P 500**




Sources: Bloomberg, Macrobond, Apollo Chief Economist

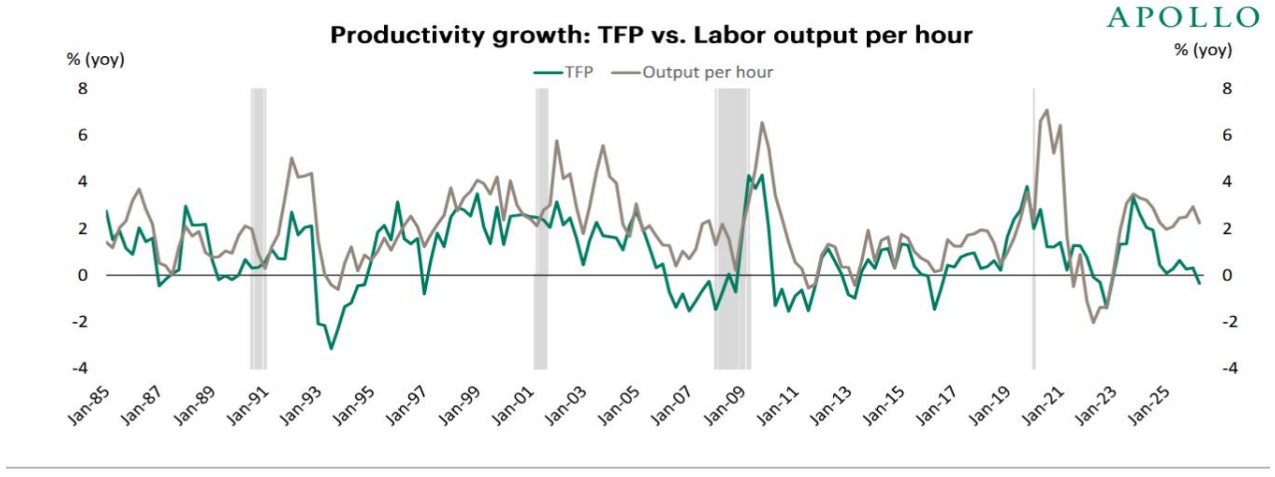



Chart Source: Apollo Asset Management, https://www.apollo.com/wealth/insights-news/insights/daily-spark/no-signs-of-ai-payoff-outside-the-tech-sector

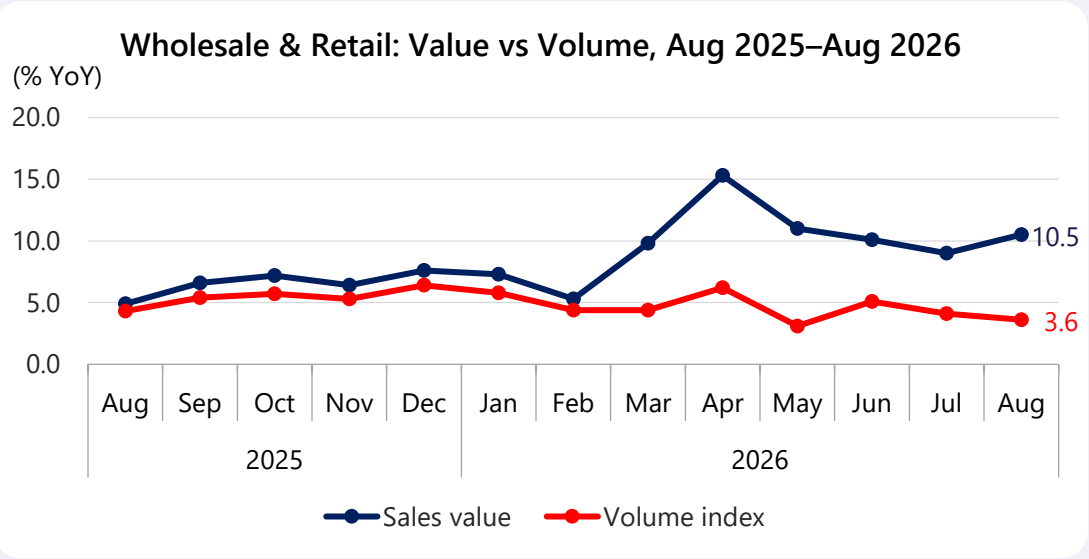
# Economic gains have been highly concentrated in AI sector

- Financial markets **reassessed AI-driven valuations** in the final weeks of October, amid disappointing earnings guidance from major technology companies, including Intel and Google. Commentary by Apollo Chief Economist Torsten Slok further highlighted how strong growth in technology stocks, particularly the Magnificent Seven, may have masked the **relative weakness of the broader non-AI economy**.

- Despite substantial investments, there is little evidence that AI has translated into higher revenue per employee, improved profit margins or productivity gains among the broader S&P 493 companies. AI spending is increasingly viewed by mainstream corporations as a cost rather than a source of growth.

- The sustainability of the AI trade will ultimately depend on whether **businesses outside the technology** sector can translate cheaper AI capabilities into higher revenues, productivity and profitability. So far, the benefits remain concentrated in a relatively small segment of the economy, raising questions about the sustainability of AI-driven equity market valuations.

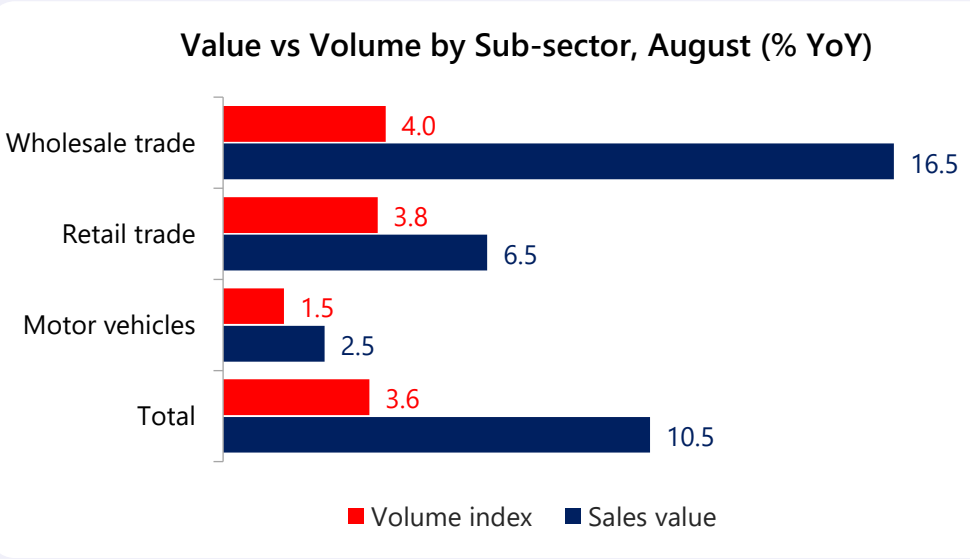
# Wholesale and retail trade remain supportive of growth




Source: DOSM, Performance of Wholesale & Retail Trade, August 2026

- **Wholesale and retail trade sales value rose 10.5% YoY** to RM173.0 billion in August (+1.5% MoM), **whereas the physical volume index grew by 3.6% YoY** (-0.5% MoM).
- **Wholesale trade sales value expanded 16.5% YoY** (volume: +4.0% YoY), attributed to the growth of Other Specialised Wholesale (+35.6% YoY).
- **Retail trade sales value maintained steadily at 6.5%** (volume: +3.8% YoY), while **motor vehicle sales value rose 2.5% YoY** (volume: +1.5% YoY).

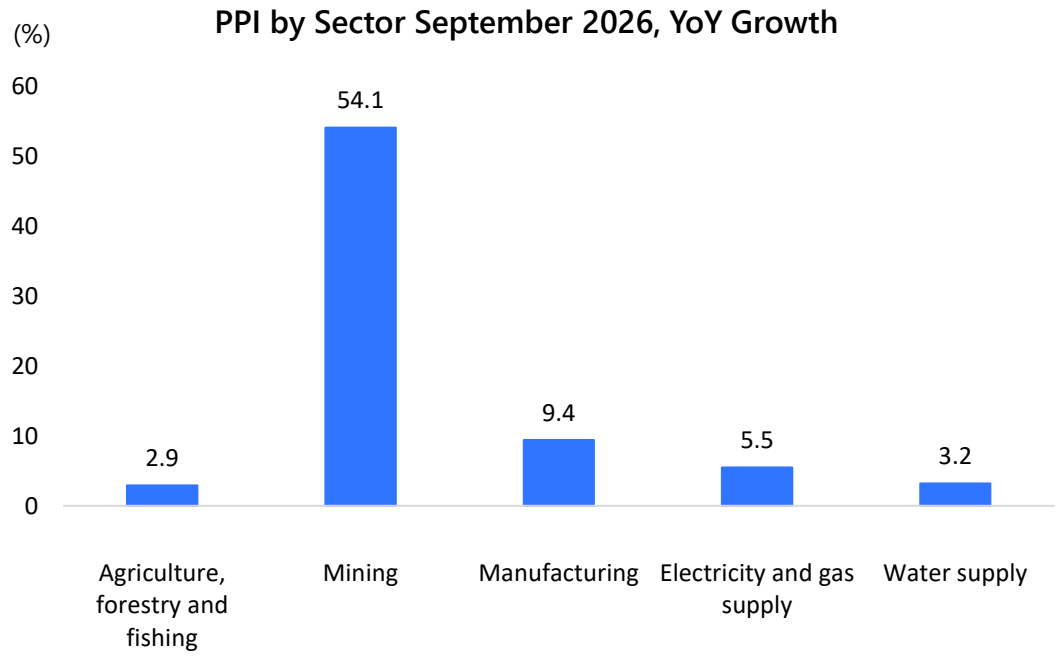
# Trade growth driven more by prices than volume

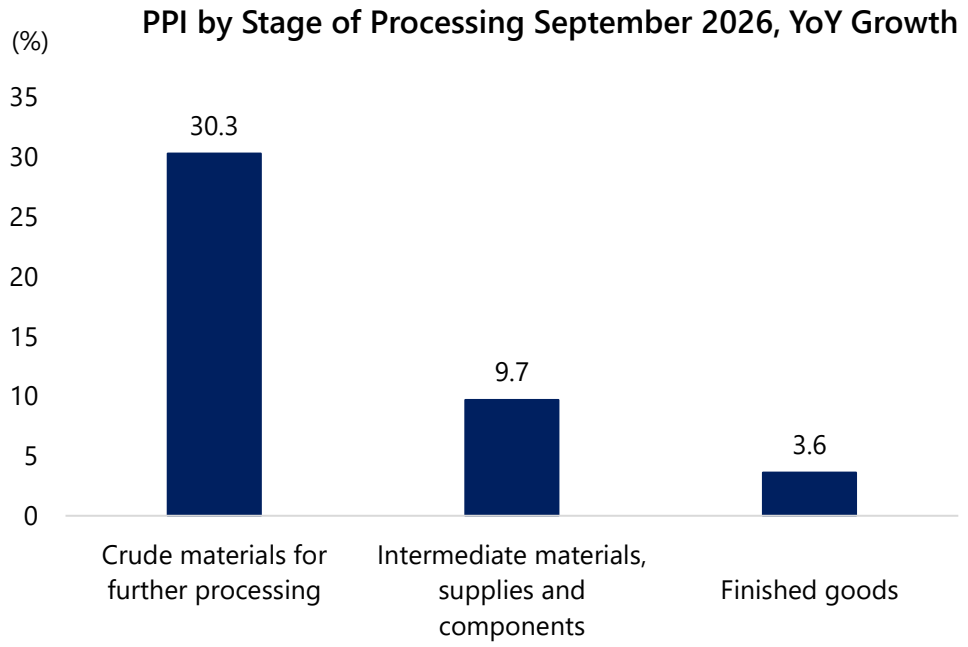



Source: DOSM, Performance of Wholesale & Retail Trade, August 2026. August 2026 YoY.

- A persistent divergence between sales value (+10.5%) and volume index (+3.6%) since March confirms that nominal trade expansion is **driven primarily by price level increases** rather than **expanded unit transaction volume**.
- Wholesale value acceleration reflects **higher pass-through prices in petroleum products, diesel, and LPG**, elevating top-line trade turnover.
- However, **household retail demand remains stable**, with volume growth of around 3.8%, suggesting that consumer purchasing power continues to expand at a moderate pace, **consistent with the inflation and labour market trends** discussed in this report.

# Producer prices accelerated to 12.0% in September on higher crude oil prices



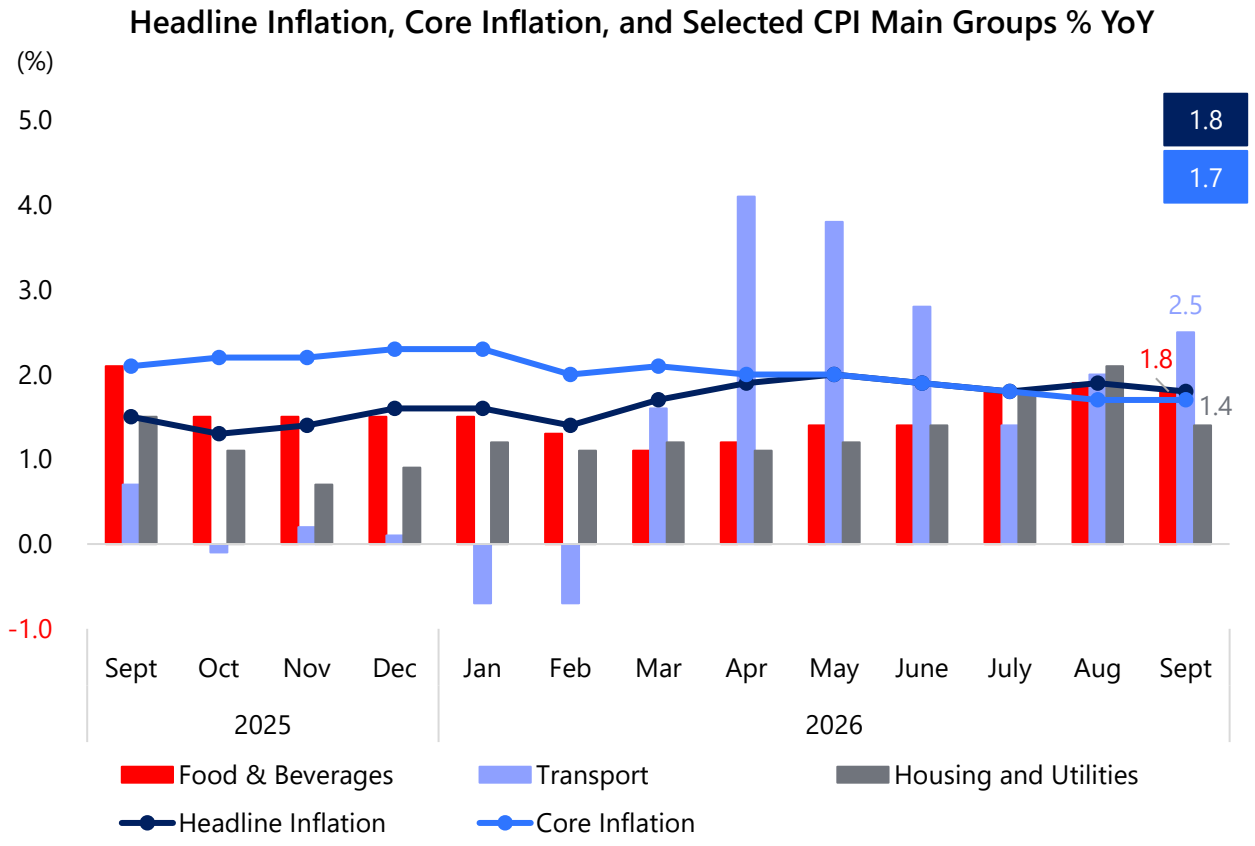

Source: DOSM, Producer Price Index Local Production, September 2026

- Input costs continue to exert upward pressure on production prices, while energy prices remain elevated amid ongoing volatility in the Middle East. The **Producer Price Index (PPI) rose 12.0% in September** 2026 (August 2026: 10.7%). On a **month-on-month basis**, the PPI **increased by 1.6%** (August 2026: 1.0%), while **third-quarter growth accelerated to 10.8%** (Q2 2026: 7.4%).

- Mining remained the **main driver, surging by 54.1%** (August 2026: 41.2%) as the **extraction of crude petroleum rose 74.2%.** Manufacturing increased by 9.4% (August 2026: 8.8%), supported by coke and refined petroleum products which rose 35.0%.

- Price pressures **remain concentrated at the early stages of production** as **crude materials rose 30.3%** (August 2026: 24.8%), compared with 9.7% for intermediate materials and 3.6% for finished goods. The pass-through to consumer prices remains moderate. However, sustained increases in input costs will add to manufacturers' production costs and place further pressure on the government's fiscal position.

# Consumer prices however, moderated in September on lower utility costs

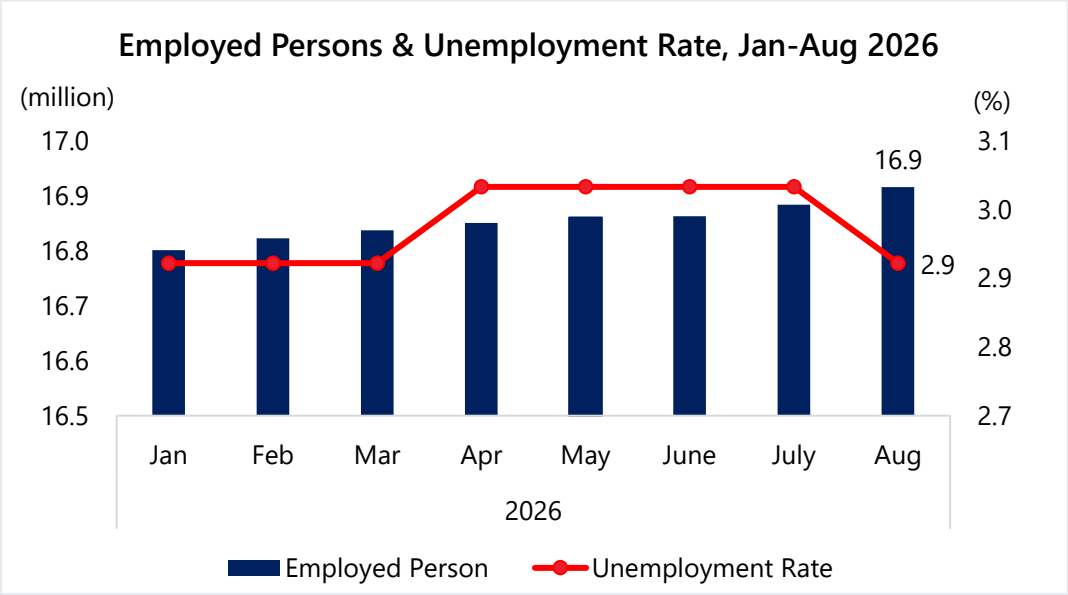



Source: DOSM, CPI Monthly Report, September 2026; Bernama, Higher Bill Protection to Benefit Over Eight Million Domestic Users, September 2026

# Inflation remains contained as AFA adjustments take effect

- **Headline inflation eased to 1.8%** in September 2026 (August 2026: 1.9%). **Core inflation remained unchanged at 1.7%**, as consumer spending continues to exert upward price pressure.
- The moderation was **driven by Housing and Utilities, which eased to 1.4%** (August 2026: 2.1%) **following the expansion of electricity bill relief for domestic users in Peninsular Malaysia,** which raised the Automatic Fuel Adjustment (AFA) exemption limit from 600 kWh to 800 kWh per month.
- **Transport inflation rose to 2.5%** (August 2026: 2.0%), as the **cost of operating personal transport equipment increased by 2.7%** (August 2026: 1.8%). Based on weekly retail prices, RON97 averaged RM4.66 per litre in September 2026. However, the impact on households has been cushioned by the BUDI95 programme.
- Inflation is expected to **remain contained for the remainder of 2026**, although fuel-related transport costs and rising raw material costs remain a concern.

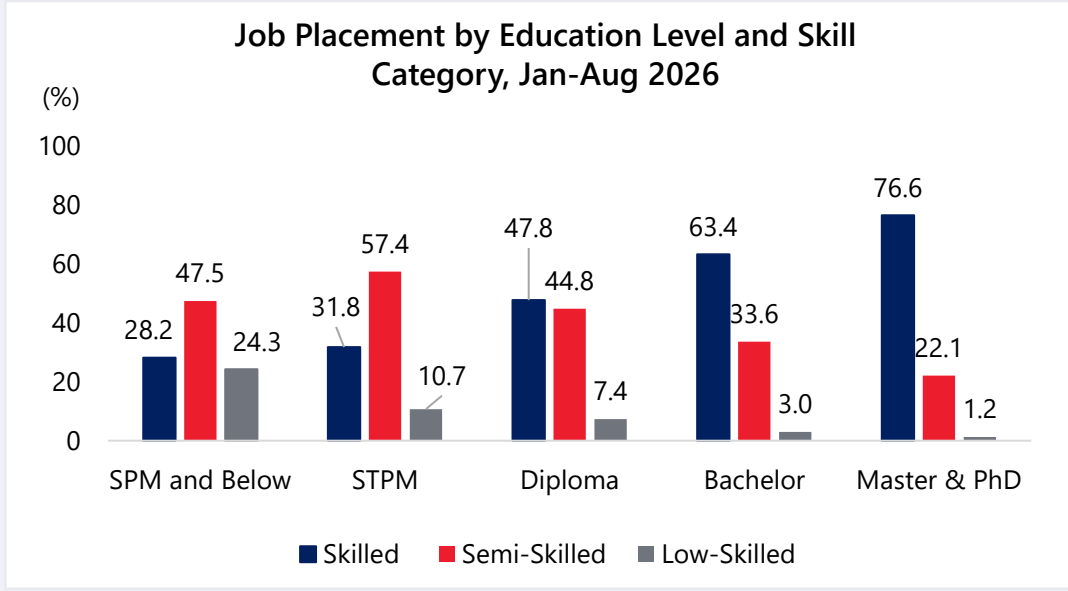
## Gradual improvements in labour market continues




Source: DOSM, Labour Force Statistics Report, August 2026

- The labour market is expected to **sustain its gradual positive trajectory** for **the remainder of 2026**, continuing to support economic growth.
- **Employed persons rose to 16.87 million in August 2026** (July 2026: 16.85 million), a **marginal increase of 0.2%** on month-on-month basis.
- The unemployment rate **eased to 2.9% in August 2026** (July 2026: 3.0%), as the **number of unemployed persons fell** to 511,600.
- The labour force participation rate **edged up to 71.0%** (July 2026: 70.9%), **reflecting continued strength in the labour market.**

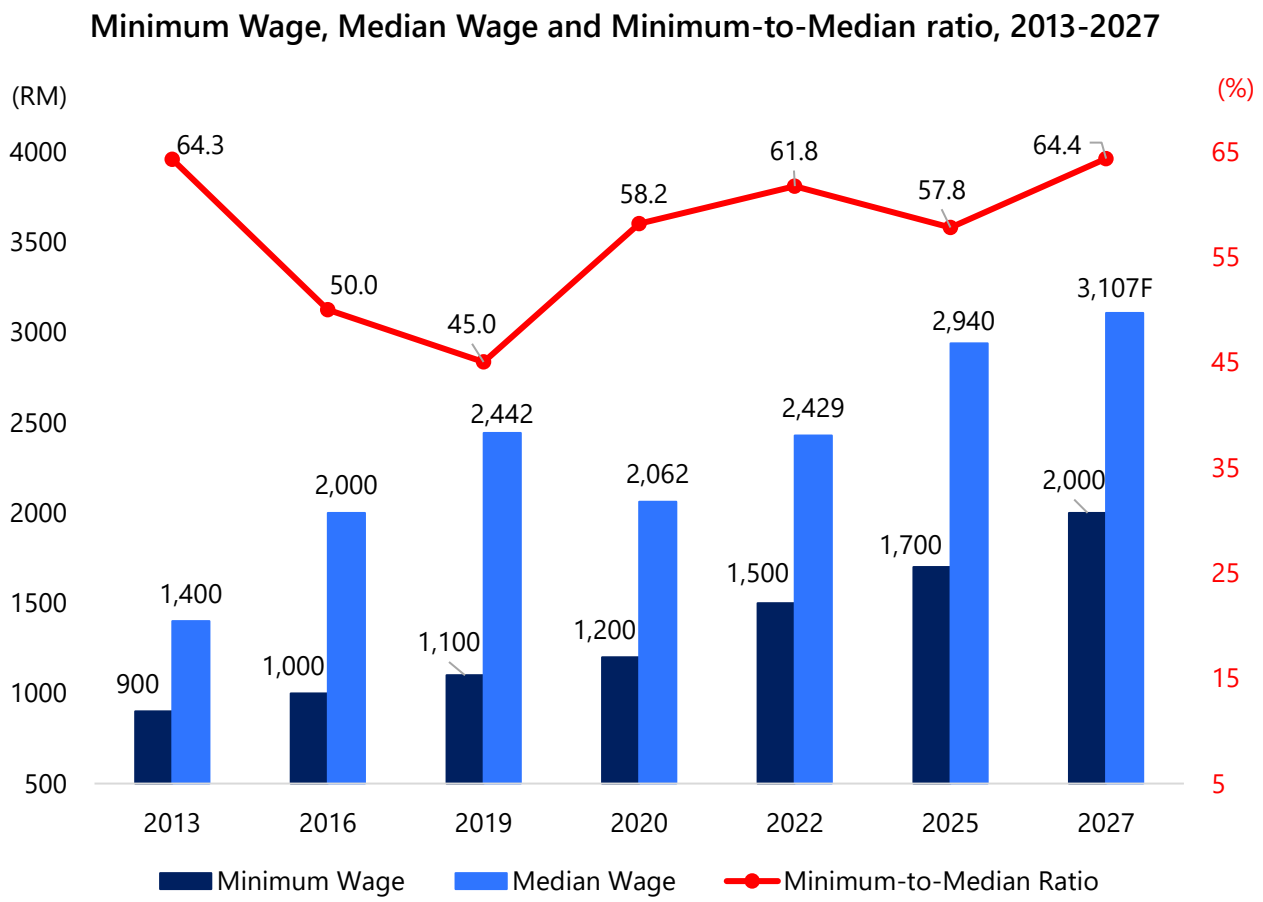
## But structural challenges remain as skills mismatch persists among graduates




Source: PERKESO, Labour Market Exchange (LMX) Job Placement, Jan-Aug 2026

- Despite a resilient labour market, **skills mismatch remains a key concern** as **41.7% of tertiary-educated jobseekers** placed **in semi-skilled or low-skilled occupations** by PERKESO between January and August this year.
- **Diploma holders were the most affected**, with **52.2% placed in jobs below their level of qualification**, mostly as clerical support workers with 22.3% and service and sales workers with 13.3%.
- Among bachelor's degree holders, **more than one in three (36.6%)** were placed in semi-skilled or low-skilled occupations, with **clerical support roles alone accounting for 21.1%** of degree-holder placements.

# Minimum and median wage gaps getting narrower




Source: Ministry of Human Resources, Minimum Wages Order; DOSM, Salaries & Wages Survey Report; Ministry of Finance, Budget 2027; New Straits Times, Excessive Minimum Wage Increase Could Lead to Cost Shock for Businesses October 2026; The Edge Malaysia, Raising Minimum Wage Exposes Policy Flaws, October 2026; MIER calculations

Note:
F = Forecast
ACCCIM = Associated Chinese Chambers of Commerce and Industry of Malaysia

# Higher wage floor supports consumption but raises cost pressures

- The **minimum wage will increase to RM2,000** as announced in Budget 2027, **with a proposed RM2,500 minimum wage for semi-skilled workers and graduates**. **Around two million workers earned below RM2,000 per month** in September 2025, indicating that the adjustment is expected to raise **household incomes and support private consumption.**

- **However,** exempting MSMEs risks **creating a two-tier wage structure that could divide the labour market** allowing otherwise comparable workers to receive different statutory wage protection depending on their employer's size or turnover. It could also weaken incentives for productivity upgrading in some establishments. The wage policy alone won't address this issue. It requires a complementary industrial policy to support the creation of higher-paying jobs.

- The narrowing gap between minimum and median wages helps reduce wage inequality but may also contribute to **wage compression**, weakening incentives for education and skills development. **Sustained productivity growth** is therefore essential to support wage progression and preserve returns to skills and experience.

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