GDP Growth Eased to +5.4%yoy, Still Driven by Resilient Domestic Demand

1QCY26 Economic Review: National Account



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Economic Review

- Malaysia's GDP growth moderated to +5.4%yoy in the 1QCY26 (4QCY26: +6.2%yoy), marginally higher than the advance estimate (+5.3%yoy) as well as market and our expectations. The moderation was seen across all sectors and type of expenditures, but domestic demand remained the major contributor to economic growth.
- On the demand side, private consumption grew slower at +4.6%yoy (4QCY25: +5.8%yoy) and government spending also increased moderately at +4.1%yoy (4QCY25: +9.3%yoy). The expansion in gross fixed capital formation also eased to +7.3%yoy (4QCY25: +9.3%yoy), but still points to encouraging investment activities.
- On the supply side, services growth slowed to +5.6%yoy (4QCY25: +6.2%yoy) and construction sector growth moderated further to +7.7%yoy (4QCY25: +10.9%yoy). Manufacturing sector experienced only a marginal easing to +5.9%yoy (4QCY25: +6.0%yoy). Meanwhile, growth for the agriculture sector slowed to +2.6%yoy (4QCY25: +5.7%yoy), while mining sector contracted by -2.1%yoy (4QCY25: +1.4 %yoy).
- We maintain our projection for 2026 GDP growth to moderate to +4.2% (2025: +5.2%), as the near-term growth outlook could be constrained by downside risks such as higher inflation and possibility of weaker external demand. On the domestic front, growth prospects may be weighed down by weaker sentiment, higher inflation and supply disruptions.

GDP moderated to +5.4%yoy in 1QCY26, marginally higher than expected

Malaysia's GDP growth moderated to +5.4%yoy in the 1QCY26 (4QCY26: +6.2%yoy), marginally higher than the advance estimate (+5.3%yoy). This also exceeded the market consensus (+5.3%yoy) and our estimate (+5.1-5.3%yoy). The full-quarter growth performance saw a broad-based moderation across all sectors compared to the previous quarter, with slower expansion in the services sector (+5.6%yoy; 4QCY26: +6.2%yoy) and mining and quarrying sector returning to contraction (-2.1%yoy; 4QCY25: +1.4%yoy). During the quarter, broad based moderation was also seen across all types of expenditure, as private consumption expenditure eased to +4.6%yoy (4QCY25: +5.8%yoy) and government consumption grew slower at +4.1%yoy (4QCY25: +6.6%yoy). Similarly, gross fixed capital formation (GFCF) also moderated to +7.3%yoy (4QCY25: +9.3%yoy), but the sustained growth still points to encouraging investment activities.

Domestic demand continued to anchor growth but remained cautious due to higher inflation risk

The sustained rise in domestic economic activities remained a key factor to anchor Malaysia's economic growth above +5.0% in 1QCY26. Of the total GDP, +4.8ppt (or about 89%) of the growth in 1QCY26 was supported by the sustained rise in domestic demand. Although real exports also contributed positively by +3.5ppt, the contribution from net exports was only +0.6ppts taking into account the -2.9ppt drag from real imports.

We maintain our expectation for sustained growth in investment activity, bolstered by the steady progression of multi-year projects and the strategic rollout of catalytic initiatives under national master plans. This outlook is further supported by the accelerated realisation of previously approved investments. However, sustained growth in domestic demand is expected to remain the primary engine of Malaysia's economic expansion, but we remain cautious on the possibility of higher inflation stemming from the energy crisis that may act as a drag.

Bolstered by domestic resilience, the economy is well-positioned to navigate external headwinds such as cooling global trade and heightened geopolitical tensions. Furthermore, the burgeoning recovery in tourism, characterised by rising arrivals and robust per-capita spending, is expected to provide a significant tailwind for the services and retail sectors. However, we take note that the trade outlook remains cautious as the prospect of sector-specific semiconductor tariffs emerges as a significant downside risk. Such measures could disrupt Malaysia's high-value manufacturing activities, potentially stalling momentum in the semiconductor industry and dampening the nation's broader economic prospects.

Activities weakened from previous quarter, but flat after adjusting to seasonal factor

On a quarter-on-quarter basis, Malaysia's GDP contracted by -4.4%qoq in the 1QCY26 (4QCY25: +3.3%qoq). All the sectors contracted across the board, with the agriculture, forestry & fishing (–10.4%qoq; 4QCY25: -7.2%qoq) and the construction sector (-1.1%qoq; 4QCY25: -1.9%qoq) contracting for the second consecutive quarter. Meanwhile, the easing was also attributable to the contraction of the services sector (-3.9qoq%; 4QCY25: +4.1%qoq), manufacturing (-3.8%qoq; 4QCY26: 3.8%qoq), and mining & quarrying (-6.8%qoq (4QCY25: 9.2%qoq).

On the demand side, there were sequential declines in both government consumption and investments, in contrast to improvement in private consumption and investments. Together with reduction in inventories, the domestic demand contracted by -6.3%qoq (4QCY25: +5.6%qoq). In terms of investment, private investment grew by +25.7%qoq (4QCY25: -17.3%qoq), but public investment declined by -38.0%qoq (4QCY25: 70.3%qoq). Finally, real exports contracted by -3.8%qoq (4QCY25: +1.4%qoq), but not as steep as -6.6%qoq decline (4QCY25: +4.7%qoq) in real imports.

Based on seasonally adjusted data, the quarterly GDP growth was flat (4QCY25: +1.4%qoq), as increases in private consumption, GFCF, and exports were offset by lower government spending. From industry perspective, the flat growth was attributable to drags from lower growth in agriculture, mining and construction were balanced by the continued growth in services and manufacturing sectors.

Net exports contributed positively to 1Q GDP growth

Net exports contributed positively (+0.6ppt) to 1QCY26 GDP growth, with the real trade balance expanded by +13.5%yoy (4QCY25: -32.9%yoy) compared to 1QCY25. Real exports posted an expansion of +5.2%yoy (4QCY25: +6.3%yoy), albeit at a softer pace. Shipments of goods remain resilient with steady demand for E&E products, optical & scientific equipment, and palm oil manufactured products. Services exports also remained strong, thanks to the resilience in tourism activity. In contrast, the rise in imports was relatively slower at +4.6%yoy (4QCY25: +9.0%yoy). Firms were likely to halt or reduce purchases in light of rising commodity prices and supply chain disruptions stemming from Middle East tensions. Going forward, we are still cautious that strong imports, particularly for capital goods, would keep the goods trade surplus subdued. In addition to tariffs imposed by the US, softer external demand poses downside risks to the export outlook. On balance, this could keep net exports a drag on growth for another year.

Current account surplus widened, mainly due to higher trade surplus

In 1QCY26, Malaysia's current account surplus expanded to +RM15.2b (4QCY25: +RM3.3b), attributable to the higher trade surplus and lower deficits in primary income balance. The overall goods and services surplus expanded to +RM40.0b (4QCY25: +RM29.5b) driven by higher goods surplus of +RM33.6b (4QCY25: +RM24.3b). Services trade surplus also expanded to +RM6.5b (4QCY25: +RM5.3b), supported by a resilient tourism activity at the start of Visit Malaysia Year 2026 (VMY2026). In terms of the income account, the deficit in the primary account narrowed further to -RM20.9b (4QCY25: -RM23.1b). In contrast, the deficit in secondary income account widened to -RM4.0b (4QCY25: -RM3.7b). With the higher current account surplus, the ratio to GDP jumped to +3.0% (4QCY25: +0.5%). This is still within a normal trend for the ratio to increase towards +2.0-3.0% in the early part of the year. We foresee the ratio for 2026 could remain below +2.0% for the fourth straight year if imports remain robust, on the back of sustained rise in investment activities.

Services sector continues to lead supply-side expansion

On the supply-side:

- **Services**: Growth expanded by +5.6%yoy (4QCY25: +6.2%yoy), above the advance estimate of +5.4%yoy and our expectation of +5.2%yoy. Sector performance was anchored by Wholesale & Retail Trade, which grew +4.8%yoy (4QCY25: +5.7%yoy). Additionally, the Information & Communication and Transportation & Storage sub-sectors maintained steady growth at +8.1%yoy and +8.5%yoy, respectively (4Q25: +8.8% for both)
- **Construction**: The sector moderated further to +7.7%yoy (4QCY25: +10.9%yoy), marginally lower than the advance estimates of +7.8%yoy and our expectation of +8.5-9.0%yoy. This was fuelled by double-digit growth in Specialised Construction Activities (+15.9%yoy; 4Q25: +13.6%yoy). Additionally, the Non-residential Buildings sub-sector moderated by +10.1%yoy (4QCY25: +17.6%yoy).
- **Manufacturing**: Sector growth marginally softened to +5.9%yoy (4QCY25: +6.0%yoy), though slightly above our expectation and advance estimate of +5.8%yoy. This expansion was primarily driven by the Electrical, Electronic & Optical Products segment, which expanded by +12.8%yoy (4QCY25: +12.7%yoy).
- **Agriculture**: Output rose by +2.6%yoy (4QCY25: +5.7%yoy), slightly higher than our expectation of +2.0%yoy, but lower than advance estimate of +2.8%yoy. Growth was primarily driven by the Oil Palm sub-sector, which expanded to +5.5%yoy (4QCY25: +16.2%yoy), and the Livestock sub-sector, which saw a notable acceleration to +8.7%yoy (4QCY25: +2.7%yoy).
- **Mining**: Output contracted by -2.1%yoy (4QCY25: +1.4%yoy), higher than our expectation for a sharper decline of -2.8%yoy, but lower than advance estimate of -1.1%yoy. The sector was weighed down by contractions in Crude Oil & Condensate, which fell -4.2%yoy (4QCY25: -4.1%yoy), and Natural Gas, which declined -2.1%yoy (4QCY25: -0.9%yoy).

Steady growth across most economies

Economic growth across economies was generally steady in 1QCY25, with several countries recording higher growth. The US economy expanded at an annualised rate of +2.0%qoq (4QCY25: +0.5%qoq), whereas on a year-to year basis, growth increased by +2.78%yoy (4QCY25: +2.0%yoy). The expansion was driven by resilient consumer spending, a surge in business investment, higher exports, and a rebound in government spending. China's economy expanded by +5.0%yoy in 1QCY26 (4QCY25: +4.5%yoy), recording the highest reading in three quarters, underpinned by a resilient export performance. Meanwhile, the UK economy rose by +1.1%yoy (4QCY25: +1.0%yoy) whereas Euro area's growth moderated to +0.8%yoy (4QCY25: +1.3%yoy). The overall performance across Asia was mixed: stronger growth was recorded in Indonesia (+5.6%yoy), South Korea (+3.6%yoy), and Taiwan (+13.7%yoy), whereas growth slowed in Singapore (+4.6%yoy), Philippines (+2.8%yoy).

Expect GDP growth to moderate this year

We maintain our projection for 2026 GDP growth at +4.2% (2025: +5.2%). Although the sustained growth will be underpinned by continued expansion in domestic economic activities alongside still resilient exports, the outlook could be constrained by downside risks, namely higher inflation and possibility of weaker external demand. External trade could slow as final demand may be affected by the global energy price shocks and slower production disrupted by higher input costs and shortages of petroleum-related products, amid ongoing tensions in the Middle East. In addition, tighter US trade policies, particularly widening of new tariffs on the semiconductor industry, also pose downside risks to Malaysia's E&E exports. On the domestic front, growth prospects may also face headwinds from softer consumer and business sentiment, as well as higher inflation (due to increased cost pressures) and supply disruptions.

Table 1: Summary of GDP by Expenditure Approach

	Quarterly Basis (QoQ %)					Year-on-Year (YoY %)				
	1Q25	2Q25	3Q25	4Q25	1Q26	1Q25	2Q25	3Q25	4Q25	1Q26
GDP	(3.6)	1.2	5.4	3.3	(4.4)	4.4	4.6	5.3	6.2	5.4
Domestic Demand	(3.6)	4.3	1.7	5.6	(6.3)	5.1	6.9	4.2	8.0	5.0
Private Consumption	2.7	(0.2)	5.8	(2.6)	2.4	4.8	5.1	5.8	5.6	4.7
Govt. Consumption	(23.5)	(0.8)	10.2	27.3	(23.0)	2.7	5.7	5.8	6.6	4.1
Private Investment	27.9	11.0	(7.0)	(17.3)	25.7	9.1	11.7	7.4	9.2	7.8
Public Investment	(37.3)	(10.6)	14.8	70.3	(38.0)	11.6	13.5	7.5	9.5	5.3
Real Exports	(2.8)	1.6	6.1	1.4	(3.8)	4.3	4.5	4.6	6.3	5.2
Real Imports	(2.7)	6.3	0.7	4.7	(6.6)	5.2	7.9	3.0	9.0	4.6
Net Exports	(3.9)	(67.3)	264.4	(41.4)	62.5	(7.9)	(58.3)	32.2	(32.9)	13.5

Note: QoQ is non-seasonally adjusted
Source: Macrobond, MBSBR

Table 2: Summary of GDP by Supply-Side Approach

	QoQ%			YoY%		
	3Q25	4Q25	1Q26	3Q25	4Q25	1Q26
GDP	**5.4**	**3.3**	**(4.4)**	**5.3**	**6.2**	**5.4**
Agriculture, Forestry & Fishing	**13.3**	**(7.2)**	**(10.4)**	**0.2**	**5.7**	**2.6**
Rubber	31.2	(15.8)	(6.8)	(11.1)	(32.0)	(25.0)
Oil Palm	15.0	5.2	(30.3)	(0.7)	16.2	5.5
Livestock	12.4	(4.0)	2.8	2.3	2.7	8.7
Other Agriculture	9.8	(19.2)	9.3	1.3	1.0	1.5
Forestry & Logging	5.7	(6.6)	(10.4)	1.2	7.5	3.8
Marine Fishing	23.6	(23.4)	13.7	(0.4)	(8.8)	(9.4)
Aquaculture	12.9	(16.0)	(18.1)	(3.5)	(5.7)	(1.0)
Mining & Quarrying	**8.7**	**9.2**	**(6.8)**	**9.4**	**1.4**	**(2.1)**
Crude Oil	(1.8)	9.4	(10.1)	7.1	4.1	(4.2)
Natural Gas	12.9	8.1	(4.2)	11.8	(0.9)	(2.1)
Others	31.0	14.4	(9.1)	5.3	4.6	4.9
Manufacturing	**4.7**	**3.8**	**(3.8)**	**4.1**	**6.0**	**5.9**
Vegetable & Animal Oils & Fats	(0.8)	20.1	(27.3)	1.1	12.0	11.5
Food Processing	9.8	(6.8)	(9.0)	9.7	8.8	8.0
Beverages	0.9	2.1	(18.0)	13.2	11.4	10.5
Tobacco Products	(37.8)	10.2	19.7	1.9	2.6	2.8
Textile & Wearing Apparel	5.7	3.7	0.5	(1.4)	0.7	0.0
Leather Products	(21.7)	(11.8)	28.6	7.1	8.4	5.1
Wood Products	13.6	(3.4)	(2.6)	3.1	2.4	3.5
Paper Products	12.0	(17.8)	10.1	(1.9)	(2.6)	(1.2)
Printing	(3.1)	30.8	2.3	8.2	7.5	8.8
Refined Petroleum Products	10.9	(3.1)	(3.0)	(0.3)	(1.9)	(1.8)
Chemicals & Chemical Products	15.0	0.6	(8.6)	(0.4)	1.8	(0.3)
Rubber Products	11.9	(5.6)	(27.9)	(0.8)	(1.2)	(2.0)
Plastic Products	46.3	(25.2)	(9.0)	(0.7)	(1.3)	(1.9)
Non-Metallic Mineral Products	2.7	3.5	1.3	(0.2)	0.7	3.8
Basic Metals	0.4	1.4	(16.5)	6.4	7.3	5.1
Fabricated Metal Products	(5.2)	7.8	5.9	4.8	6.7	5.7
Machinery & Equipment	6.1	(6.6)	37.3	8.5	9.7	5.4
Computers & Peripheral Equipment	31.6	(8.5)	(19.6)	4.0	2.8	(2.2)
Electrical Equipment	(21.3)	31.4	(16.2)	8.5	13.1	2.8

Electronic Compo & Boards, Com Equip and Elect	5.4	6.3	15.3	9.1	13.9	15.6
Medical, Precision & Optical, Watches & Clocks	11.0	30.7	(39.9)	5.5	14.4	16.2
Motor Vehicles & Transport Equipment	(17.8)	31.9	(33.8)	0.5	1.3	(3.4)
Furniture	(31.1)	18.6	24.4	9.0	7.2	5.0
Other Mfg and Repair & Installation and Equipment	36.9	(2.5)	(20.9)	4.3	4.1	5.7
Construction	**8.8**	**(1.9)**	**(1.1)**	**11.7**	**10.9**	**7.7**
Residential	11.2	(4.0)	(4.8)	12.0	4.7	3.9
Non-Residential	6.0	16.9	(14.7)	11.2	17.6	10.1
Civil Engineering	14.6	(13.0)	6.3	13.1	6.6	0.7
Special Trades	3.8	(4.9)	8.9	10.5	13.6	15.9
Services	**4.3**	**4.1**	**(3.9)**	**5.3**	**6.2**	**5.6**
Electricity & Gas	0.8	2.2	(3.5)	(0.3)	3.0	5.0
Water, Sewerage and Waste Management	4.3	(0.4)	(5.0)	3.5	3.5	1.3
Wholesale Trade	12.6	0.4	(11.5)	6.1	6.5	6.0
Retail Trade	1.6	10.9	(5.0)	4.3	4.6	4.7
Motor Vehicles	28.5	1.0	(25.3)	2.5	8.2	1.1
Food & Beverage	2.6	2.6	(0.4)	8.1	8.6	6.2
Accommodation	3.6	5.6	0.9	13.8	14.2	13.5
Transportation & Storage	0.8	4.5	0.2	8.2	8.8	8.5
ICT	3.4	0.9	2.3	8.5	8.8	8.1
Finance	(1.2)	0.8	(0.6)	(1.8)	0.7	(0.2)
Insurance	(5.5)	2.4	15.9	(2.5)	0.1	1.4
Real Estate	4.7	1.7	0.2	6.8	8.0	7.6
Business Services	1.6	1.4	1.2	8.1	7.3	6.4
Private Health	3.1	4.8	0.5	8.9	10.3	10.5
Private Education	2.1	0.9	3.7	7.4	7.1	8.5
Other Services	3.6	0.7	0.8	6.2	6.1	5.3
Govt. Services	5.5	9.4	(8.9)	5.8	6.3	5.9
Import Duties	**3.8**	**7.0**	**(9.0)**	**16.6**	**19.6**	**29.2**

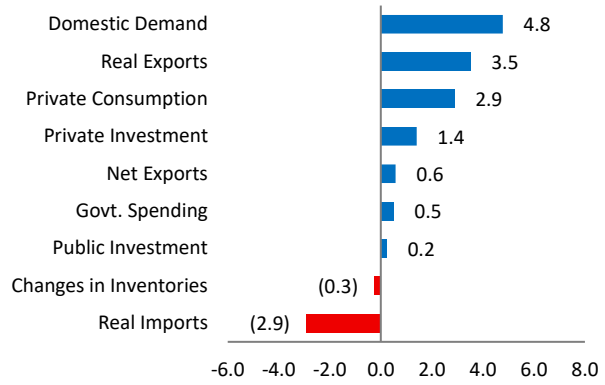
Source: DOSM, Macrobond, MBSBR

Table 4: GDP Growth by Selected Economies (YoY%)

	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26
Malaysia	6.0	5.5	5.0	4.4	4.6	5.3	6.2	5.4
Indonesia	5.0	4.9	5.0	4.9	5.1	5.0	5.4	5.6
Philippines	6.4	5.2	5.3	5.4	5.5	4.0	3.0	2.8
Thailand	2.3	3.0	3.3	3.1	2.8	1.2	2.5	n.a.
Singapore	4..8	7.0	5.3	4.5	5.4	4.5	5.7	4.6
China	4.7	4.6	5.4	5.4	5.2	4.8	4.5	5.0
Taiwan	4.9	4.2	3.8	5.5	8.0	7.6	12.7	13.7
South Korea	2.3	1.5	1.2	0.0	0.6	1.8	1.6	3.6
Japan	(0.7)	0.8	1.2	1.8	1.2	0.6	0.1	n.a.
UK	0.9	1.4	1.9	1.8	1.4	1.3	1.0	1.1
Euro area	0.5	0.9	1.3	1.6	1.6	1.4	1.3	0.8
US	3.0	2.8	2.4	2.0	2.1	2.3	2.0	2.7
QoQ%, annualized	*3.6*	*3.3*	*1.9*	*(0.6)*	*3.8*	*4.4*	0.5	*2.0*

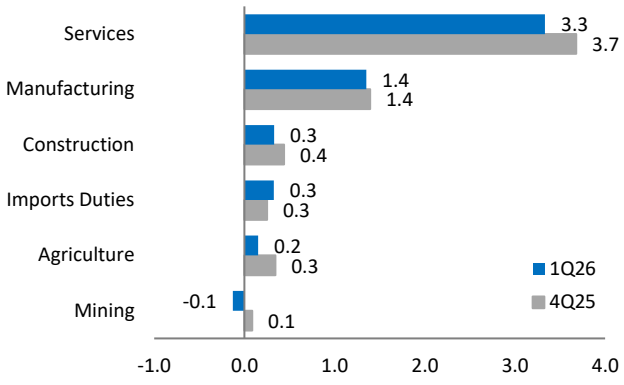
Source: DOSM, Macrobond, MBSBR

Chart 1: Contribution by Expenditure Components to 1QCY26 GDP Growth (%-point)



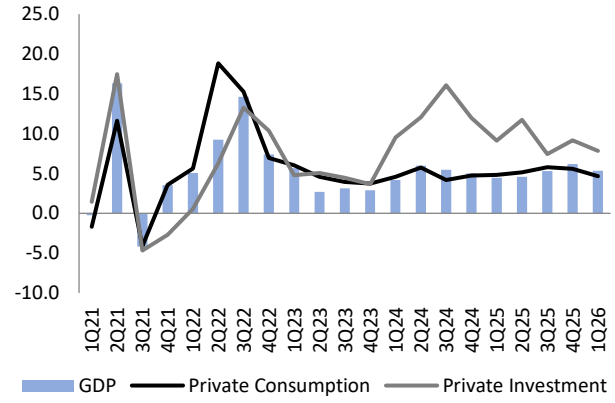
Source: Macrobond, MBSBR

Chart 2: Contribution by Supply-Side Components to 1QCY26 GDP Growth (%-point)



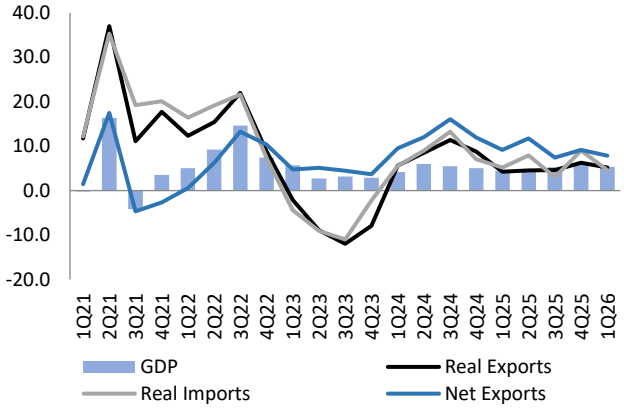
Source: Macrobond, MBSBR

Chart 3: GDP vs Private Sector (YoY%)



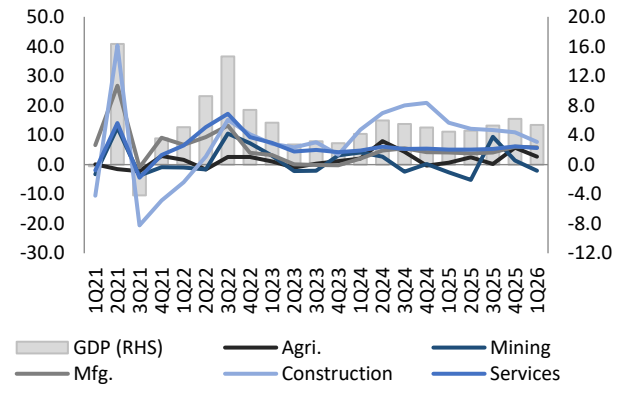
Source: Macrobond, MBSBR

Chart 4: GDP vs External Trade (YoY%)



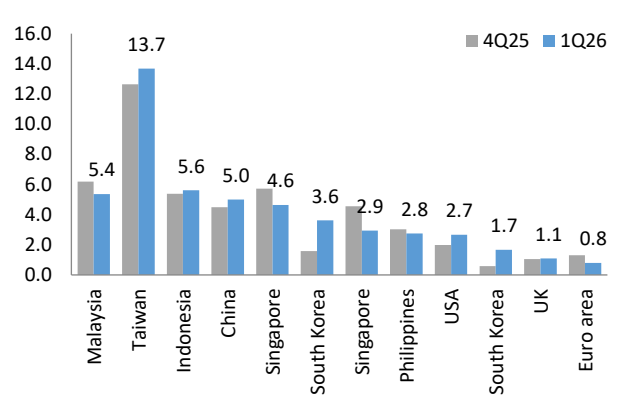
Source: Macrobond, MBSBR

Chart 5: GDP by Supply-Side (YoY%)



Source: Macrobond, MBSBR

Chart 6: GDP Growth for Selected Countries (YoY%)



Source: Macrobond, MBSBR

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