Malaysia's GDP Expanded by +6.0%yoy in 2Q26, Exceeding Advance Estimate

2QCY26 Economic Review: National Account



Author

MBSB Research
research@mbsb.com

Economic Review

- Malaysia's GDP growth accelerated to +6.0%yoy in 2QCY26 (1QCY25: +5.4%yoy), marginally higher than the advance estimate and our expectation. The stronger growth was driven by higher growth in the services and manufacturing sectors, in addition to the rebound in mining output, and stronger domestic spending.
- Of the total GDP, +3.7ppt (or about 61%) of the growth in the 2QCY26 was contributed by the sustained growth in domestic demand. A larger part of the domestic demand contribution was from private consumption (+2.9ppt; 1QCY26: +2.9ppt). Meanwhile, the positive contribution from net exports increased to +2.4ppt (1QCY26: +0.6ppt).
- On the supply side, the services sector expanded faster by +5.9%yoy (1QCY26: +5.6%yoy), higher than the advance estimate. Manufacturing sector growth accelerated to +7.3%yoy (1QCY26: +5.9%yoy), in line with the robust external performance. Mining sector growth rebounded to +9.2%yoy (1QCY26: -2.4%yoy), driven by rebound in natural gas production. Construction growth moderated to +6.5%yoy (1QCY26: +7.7%yoy), while agriculture sector contracted -3.7%yoy (1QCY26: +2.6%yoy).
- We upgrade our projection for Malaysia's 2026 GDP growth to +5.1% (previous forecast: +4.5%; 2025: +5.2%), taking into account the robust growth in 1HCY26 on the back of resilient external trade performance. We remain cautious that Malaysia's economic outlook may be constrained by several downside risks, such as escalation in geopolitical tensions, prolonged trade and supply disruptions, higher inflation, tighter trade rules and potentially weaker final demand.

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

Malaysia's GDP growth accelerated to +6.0%yoy in 2QCY26 (1QCY25: +5.4%yoy), marginally higher than the advance estimate (+5.8%yoy) and our expectation (+5.9%yoy). The stronger growth was driven by higher growth in the services and manufacturing sectors, in addition to the rebound in mining output. From the demand side, the stronger growth was anchored by increased domestic spending (+5.2%yoy; 1QCY26: +4.6%yoy), with stronger spending by both the private sector (+4.8%yoy; 1QCY26: +4.7%yoy) and the government (+7.6%yoy; 1QCY26: +4.6%yoy). Gross fixed capital formation (GFCF), however, recorded a more moderate growth of +4.6%yoy (1QCY26: +7.3%yoy), the slowest expansion in 17 quarters.

Domestic demand anchor intact, though inflation risk warrant caution

The sustained rise in domestic economic activities remained a key factor to anchor Malaysia's economic growth above +5.0% in the 2QCY26. Of the total GDP, +3.7ppt (or about 61%) of the growth in the 2QCY26 was contributed by the sustained growth in domestic demand. This, however, was lower compared to the larger contribution of +4.8ppt (or about 89%) in 1QCY26 GDP growth. A larger part of the domestic demand contribution was from private consumption (+2.9ppt; 1QCY26: +2.9ppt), followed by government spending (+0.9ppt; 1QCY26: +0.5ppt), private investment (+0.8ppt; 1QCY26: +1.4ppt) and public investment (+0.3ppt; 1QCY26: +0.2ppt). Meanwhile, there was a larger downward drag from change in inventories (-1.3ppt; 1QCY26: -0.3ppt) as the size of inventory buildup in 2QCY26 was smaller than in 2Q last year.

We expect domestic demand will remain the primary driver of Malaysia's GDP expansion; however, we remain cautious regarding inflation risks tied to the energy crisis, which could moderate growth momentum. Bolstered by domestic resilience, the economy is well-positioned to navigate external headwinds such as cooling global trade and heightened

geopolitical tensions. Additionally, the steady recovery in tourism, supported by increasing arrivals and robust visitor spending, should offer strong support to the services and retail sectors. Conversely, we maintain a cautious view on the trade front, where the threat of sector-specific semiconductor tariffs remains a key downside risk to external demand. In addition, we take note of the possibility that the government is considering higher STR and SARA aid in the upcoming budget, which could provide future domestic demand support. Events such as F1 formula attracting more foreign visitors will also provide boost to domestic economic activities in the latter part of the year.

All sectors except mining rebounded from the previous quarter

On a quarter-on-quarter basis, Malaysia's GDP growth rebounded to +1.9%qoq (1QCY26: -4.4%qoq). All the sectors, except mining industry, recovered and expanded from the declines in the previous quarter. Based on the seasonally adjusted data, GDP actually picked up to +2.5%qoq (1QCY26: +0.0%qoq), underpinned by increased activities in all sectors except agriculture. From demand side, the quarterly increase was supported by stronger private consumption and investment activities as well as recovery in the government spending. Real export also picked up to +12.7%qoq (1QCY26: +0.3%qoq), and real imports saw a sharper turnaround, rising by +13.3%qoq (1QCY26: -2.8%qoq). The improvement in external trade activities to a certain extent were driven by inventory buildup by companies to ensure stable and uninterrupted supply amid concerns over the stability of supply chains with the ongoing geopolitical tensions and disruptions to international trade.

Larger contribution from net exports

The positive contribution to GDP growth from net exports increased to +2.4ppt (1QCY26: +0.6ppt), mainly due to the lower base effect as the size of real trade balance of goods & services actually shrank to +RM15.8b (1QCY26: +RM20.4b), but higher than +RM5.9b in 2Q last year. Real export growth accelerated to +17.0%yoy (1QCY26: +5.2%yoy), driven by strong shipments of manufactured goods, namely E&E and petroleum products, and sustained rise in services exports (+2.3%yoy; 1QCY26: +2.3%yoy). Real import growth also jumped to +13.9%yoy (1QCY26: +4.6%yoy), as both imports of goods and services surged to +13.5%yoy (1QCY26: +5.1%yoy) and +15.8%yoy (1QCY26: +2.7%yoy), respectively. Sustained growth in external demand could drive Malaysia's exports in the coming quarters could keep net exports contributing positively to overall GDP growth. On the other hand, the sustained rise in imports would limit the upside boost from net exports.

Current account shrank due to wider deficit in primary income account

In 2QCY26, Malaysia's current account surplus narrowed to +RM10.8b (1QCY26: +RM15.2b), attributable mainly to the wider deficit in primary income account. Although the goods & services trade surplus was virtually unchanged (+RM40.1b; 1QCY26: +RM40.0b), the widening of goods trade surplus by +RM7.1b was offset by the -RM7.1b fall in services trade balance, which turned to deficit (-RM0.7b; 1QCY26: +RM6.4b). The deficit in primary income account widened to -RM27.2b (1QCY26: -RM20.9b), while the secondary income account registered a smaller deficit of -RM2.1b (1QCY26: -RM4.0b). With the lower current account surplus, the ratio of current account balance to GDP shrank to +2.0% (1QCY26: +3.0%). We foresee the ratio could be stay within the +2.0-3.0% of GDP, given the robust external performance but may be limited by the sustained deficits in the primary and secondary income accounts.

Services sector continues to lead supply-side expansion

On the supply-side:

- **Services:** Growth expanded by +5.9%yoy (1QCY26: +5.6%yoy), above the advance estimate of +5.2 and our expectation 5.4%. Sector performance was anchored by real estate, which grew by +10.0%yoy. Additionally, accommodation grew by +9.7%yoy, moderating from +13.5%yoy in 1QCY26. Private health growth also eased to +9.3%yoy (1QCY26: +10.5%yoy).
- **Construction:** The sector moderated further to +6.5%yoy (1QCY26: +7.7%yoy), marginally lower than the advance estimates of +6.6%yoy and our expectation of +8.0%. The slower growth was recorded in special trades (+10.4%yoy; 1QCY26: +15.9%yoy) and the non-residential sub-sector (+9.6%yoy; 1QCY26: +10.1%yoy).
- **Manufacturing:** Growth accelerated to a solid pace of +7.3%yoy (1QCY26: +5.9%yoy), below the advance estimate of +7.5%yoy and our estimate of +7.4%yoy. The expansion was primarily driven by electronic components & boards and

communication equipment by +17.0%yoy (1QCY26: +15.6%yoy), in line with the robust external performance.

- **Mining:** Growth rebounded to +9.2%yoy (1QCY26: -2.1%yoy), in line with our expectation but lower than the advance estimate of +10.2%. The recovery was supported by the rebound in natural gas (+19.3%yoy; 1QCY26: -2.1%yoy), while crude oil continued to fall albeit at a slower pace (-3.6%yoy; 1QCY26: -4.2%yoy).
- **Agriculture:** The sector recorded a decline of -3.7%yoy (1QCY26: +2.6%yoy), steeper than our estimate of -2.9%yoy but matching with the advance estimate. The contraction was attributable mainly to the decline of oil palm (-9.5%yoy) and forestry & logging (-10.6%yoy), among others.

Steady growth across economies

Economic growth across major economies remained generally steady in 2QCY26, with several countries sustaining resilient momentum. The US economy expanded at an annualised rate of +1.5%qoq (1QCY26: +2.1%qoq), driven by resilient consumer spending and strong business fixed investment. The slower growth, however, reflects the larger drag from net trade (due to higher imports) and weaker government spending. China's economy expanded by +4.3%yoy in 2QCY26 (1QCY26: +5.0%yoy), underpinned by strong export performance in tech and industrial hardware. Meanwhile, the UK economic growth accelerated to +1.2%yoy (1QCY26: +1.1%yoy), and euro area growth improved to +1.0%yoy (1QCY26: +0.4%yoy). The overall performance across Asia was mixed: strong expansion continued in Taiwan (+12.9%yoy), Indonesia (+5.3%yoy), Singapore (+5.9% yoy), and South Korea (+3.7%yoy), whereas growth slowed further in the Philippines (+2.3% yoy).

Upgrade 2026 GDP projection

We upgrade our projection for Malaysia's 2026 GDP growth to +5.1% (previous forecast: +4.5%; 2025: +5.2%), taking into account the robust growth in 1HCY26. The stronger-than-expected growth mainly reflects the upside boost from pick-up in external trade, on the back of strong demand for E&E products as well as petroleum products. Overall, we expect the continued rise in domestic demand would continue to anchor Malaysia's sustainable economic growth, underpinned by increased tourism activity and higher income with inflation remained generally under control. While the macroeconomic outlook remains encouraging, we expect the growth momentum will be relatively slower in 2H due to fading base effect, amid challenges from supply disruptions and higher cost pressures. Moreover, as an open economy, Malaysia's economy remains susceptible to several downside risks such as escalation in geopolitical tensions, prolonged trade and supply disruptions, higher inflation, tighter trade rules and potentially weaker final demand.

Table 1: Summary of GDP by Expenditure Approach

	Quarterly Basis (QoQ %)					Year-on-Year (YoY %)				
	2Q25	3Q25	4Q25	1Q26	2Q26	2Q25	3Q25	4Q25	1Q26	2Q26
GDP	**1.2**	**5.4**	**3.3**	**(4.4)**	**1.9**	**4.6**	**5.3**	**6.2**	**5.4**	**6.0**
Domestic Demand	4.3	1.7	5.6	(6.3)	3.1	6.9	4.2	8.0	5.0	3.7
Private Consumption	(0.2)	5.8	(2.6)	2.4	(0.6)	5.1	5.8	5.6	4.7	4.8
Govt. Consumption	(0.8)	10.2	27.3	(23.0)	(1.0)	5.7	5.8	6.6	4.1	7.6
Private Investment	11.0	(7.0)	(17.3)	25.7	10.5	11.7	7.4	9.2	7.8	4.3
Public Investment	(10.6)	14.8	70.3	(38.0)	(10.0)	13.5	7.5	9.5	5.3	6.3
Real Exports	1.6	6.1	1.4	(3.8)	13.1	4.5	4.6	6.3	5.2	17.0
Real Imports	6.3	0.7	4.7	(6.6)	15.7	7.9	3.0	9.0	4.6	13.9
Net Exports	(67.3)	264.4	(41.4)	62.5	(22.6)	(58.3)	32.2	(32.9)	13.5	168.5

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

Table 2: Summary of GDP by Supply-Side Approach

	QoQ%			YoY%		
	4Q25	1Q26	2Q26	4Q25	1Q26	2Q26
GDP	**3.3**	**(4.4)**	**1.9**	**6.2**	**5.4**	**6.0**
Agriculture, Forestry & Fishing	**(7.2)**	**(10.4)**	**2.2**	**5.7**	**2.6**	**(3.7)**
Rubber	(15.8)	(6.8)	(7.3)	(32.0)	(25.0)	(4.5)
Oil Palm	5.2	(30.3)	7.2	16.2	5.5	(9.5)
Livestock	(4.0)	2.3	(6.8)	2.7	8.2	2.9
Other Agriculture	(19.2)	9.3	4.3	1.0	1.5	1.1
Forestry & Logging	(6.6)	(10.4)	1.0	7.5	3.8	(10.6)
Marine Fishing	(23.4)	14.1	(13.9)	(8.8)	(9.1)	(7.0)
Aquaculture	(16.0)	(18.1)	28.5	(5.7)	(1.0)	(0.2)
Mining & Quarrying	**9.2**	**(6.8)**	**(1.3)**	**1.4**	**(2.1)**	**9.2**
Crude Oil	9.4	(10.1)	(0.2)	4.1	(4.2)	(3.6)
Natural Gas	8.1	(4.2)	2.0	(0.9)	(2.1)	19.3
Others	14.4	(9.1)	(21.7)	4.6	4.9	6.7
Manufacturing	**3.8**	**(3.8)**	**2.7**	**6.0**	**5.9**	**7.3**
Vegetable & Animal Oils & Fats	20.1	(27.3)	11.9	12.0	11.5	(3.1)
Food Processing	(6.8)	(9.0)	14.0	8.8	8.0	6.1
Beverages	2.1	(18.0)	27.6	11.4	10.5	7.7
Tobacco Products	10.2	19.7	27.5	2.6	2.8	4.5
Textile & Wearing Apparel	3.7	0.5	(8.7)	0.7	0.0	0.5
Leather Products	(11.8)	28.6	17.2	8.4	5.1	4.1
Wood Products	(3.4)	(2.6)	(3.1)	2.4	3.5	3.6
Paper Products	(17.8)	10.1	2.8	(2.6)	(1.2)	4.2
Printing	30.8	2.3	(18.2)	7.5	8.8	6.1
Refined Petroleum Products	(3.1)	(3.0)	0.4	(1.9)	(1.8)	4.6
Chemicals & Chemical Products	0.6	(8.6)	(3.1)	1.8	(0.3)	2.5
Rubber Products	(5.6)	(27.9)	33.0	(1.2)	(2.0)	1.4
Plastic Products	(25.2)	(9.0)	3.0	(1.3)	(1.9)	2.6
Non-Metallic Mineral Products	3.5	1.3	(1.9)	0.7	3.8	5.6
Basic Metals	1.4	(16.5)	26.6	7.3	5.1	7.7
Fabricated Metal Products	7.8	5.9	(3.6)	6.7	5.7	4.3
Machinery & Equipment	(6.6)	37.3	(19.8)	9.7	5.4	9.1
Computers & Peripheral Equipment	(8.5)	(19.6)	4.3	2.8	(2.2)	1.0
Electrical Equipment	31.4	(16.2)	19.1	13.1	2.8	3.1
Electronic Compo & Boards, Com Equip and Elect	6.3	15.3	(9.4)	13.9	15.6	17.0
Medical, Precision & Optical, Watches & Clocks	30.7	(39.9)	36.6	14.4	16.2	19.1
Motor Vehicles & Transport Equipment	31.9	(33.8)	45.3	1.3	(3.4)	4.3
Furniture	18.6	24.4	4.5	7.2	5.0	6.3
Other Mfg and Repair & Installation and Equipment	(2.5)	(20.9)	0.7	4.1	5.7	6.3
Construction	**(1.9)**	**(1.1)**	**1.0**	**10.9**	**7.7**	**6.5**
Residential	(4.0)	(4.8)	2.9	4.7	3.9	4.7

Non-Residential	16.9	(14.7)	3.8	17.6	10.1	9.6
Civil Engineering	(13.0)	6.3	(4.6)	6.6	0.7	1.1
Special Trades	(4.9)	8.9	2.6	13.6	15.9	10.4
Services	**4.1**	**(3.9)**	**1.5**	**6.2**	**5.6**	**5.9**
Electricity & Gas	2.2	(3.5)	7.7	3.0	5.0	7.1
Water, Sewerage and Waste Management	(0.4)	(5.0)	5.0	3.5	1.3	3.7
Wholesale Trade	0.4	(11.5)	4.9	6.5	6.0	4.8
Retail Trade	10.9	(5.0)	(2.7)	4.6	4.7	4.1
Motor Vehicles	1.0	(25.3)	10.8	8.2	1.1	7.5
Food & Beverage	2.6	(0.4)	0.5	8.6	6.2	5.4
Accommodation	5.6	0.9	(0.7)	14.2	13.5	9.7
Transportation & Storage	4.5	0.2	1.4	8.8	8.5	7.0
ICT	0.9	1.4	2.4	8.8	7.2	8.3
Finance	0.8	(0.6)	3.8	0.7	(0.2)	2.7
Insurance	2.4	19.2	(7.2)	0.1	4.3	7.0
Real Estate	1.7	0.2	3.1	8.0	7.6	10.0
Business Services	1.4	1.2	1.4	7.3	6.4	5.6
Private Health	4.8	0.5	0.6	10.3	10.5	9.3
Private Education	0.9	3.7	(0.7)	7.1	8.5	6.1
Other Services	0.7	0.8	(1.0)	6.1	5.3	4.1
Govt. Services	9.4	(8.9)	1.4	6.3	5.9	6.5
Import Duties	**7.0**	**(9.0)**	**18.3**	**19.6**	**29.2**	**19.5**

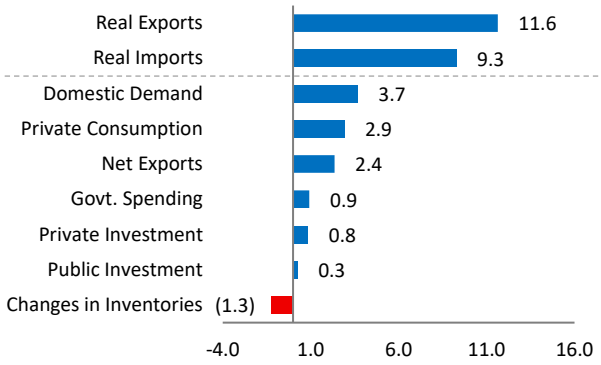
Source: DOSM, Macrobond, MBSBR

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

	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26
Malaysia	5.5	5.0	4.4	4.6	5.3	6.2	5.4	6.0
Indonesia	4.9	5.0	4.9	5.1	5.0	5.4	5.6	5.3
Philippines	5.2	5.3	5.4	5.5	4.0	3.0	2.8	2.3
Thailand	3.0	3.3	3.1	2.8	1.2	2.5	2.8	n.a.
Singapore	7.0	5.3	4.5	5.4	4.5	5.7	6.3	5.9
China	4.6	5.4	5.4	5.2	4.8	4.5	5.0	4.3
Taiwan	4.2	3.8	5.5	8.0	7.6	12.7	14.6	12.9
South Korea	1.5	1.2	0.0	0.6	1.8	1.6	3.6	3.7
Japan	0.9	0.6	1.5	2.0	0.5	0.2	0.6	n.a.
UK	1.4	1.9	1.8	1.4	1.3	1.0	1.1	1.2
Euro area	0.9	1.3	1.6	1.6	1.4	1.3	0.5	1.0
US	2.8	2.4	2.0	2.1	2.3	2.0	2.7	2.1
QoQ%, annualized	*3.3*	*1.9*	*(0.6)*	*3.8*	*4.4*	0.5	*2.1*	*1.5*

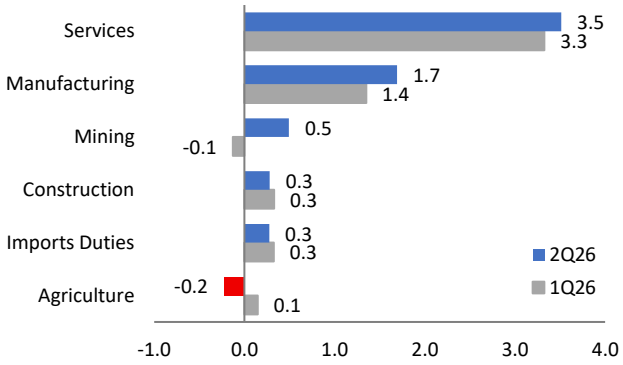
Source: DOSM, Macrobond, MBSBR

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



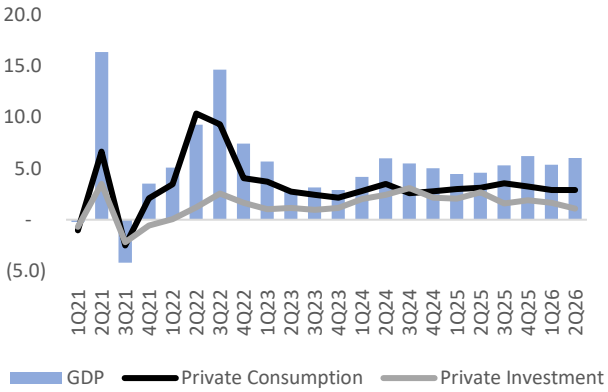
Source: Macrobond, MBSBR

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



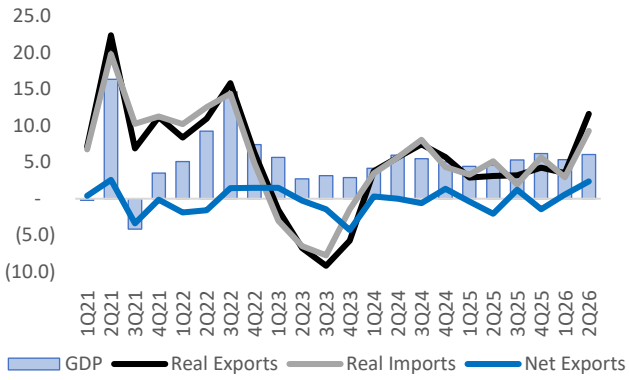
Source: Macrobond, MBSBR

Chart 3: GDP vs Private Sector (YoY%)



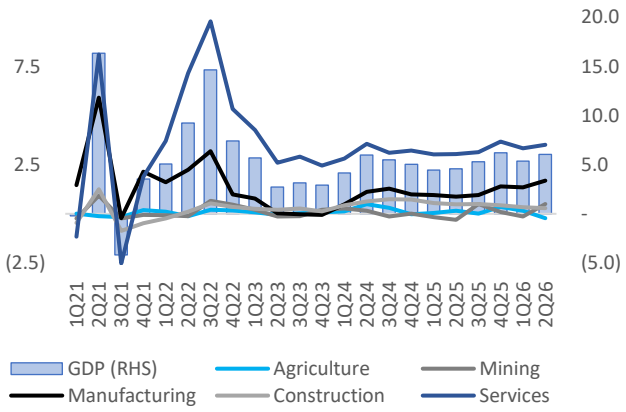
Source: Macrobond, MBSBR

Chart 4: GDP vs External Trade (YoY%)



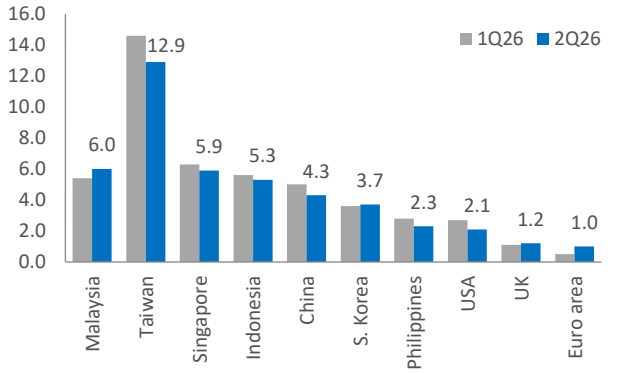
Source: Macrobond, MBSBR

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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