



MALAYSIA: MONTHLY ECONOMIC UPDATE

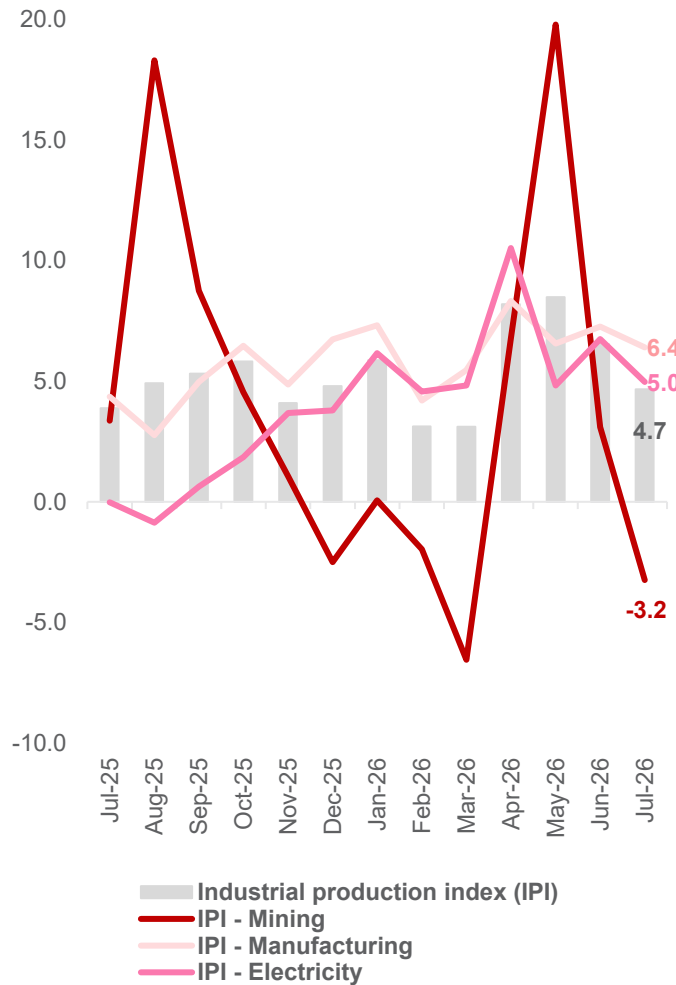
1 OCTOBER 2026

ECONOMIC RESEARCH

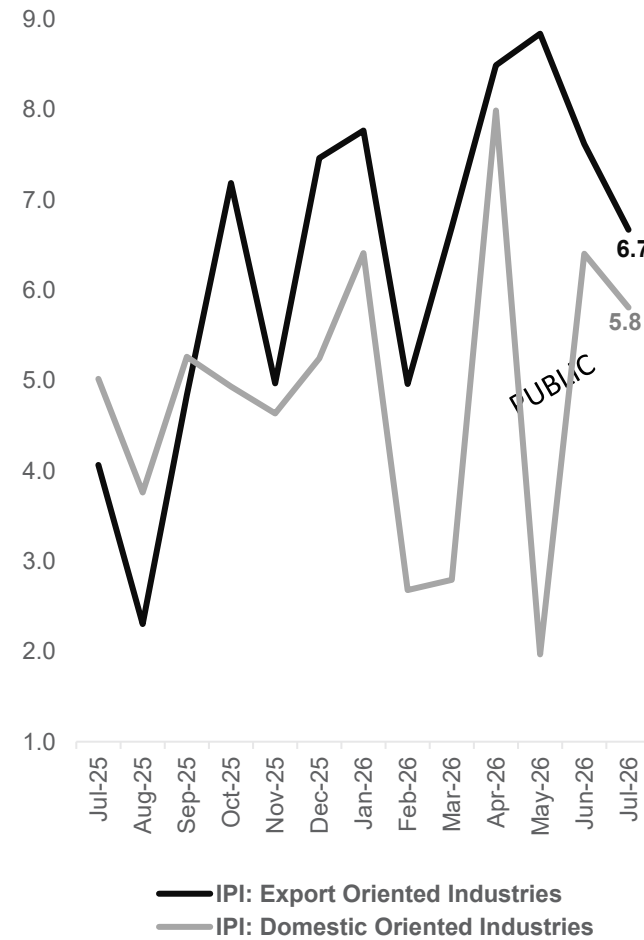
FARAH ZAZREEN ZAINUDIN

INDUSTRIAL ACTIVITY LOSES MOMENTUM DESPITE CONTINUED MANUFACTURING STRENGTH

Industrial Production Index (IPI), y-o-y%



Production in export and domestic oriented industries, y-o-y %



- **Malaysia's Industrial Production Index (IPI) growth moderated further to 4.7% y-o-y in July 2026** (June: 5.0%), signaling a gradual loss of momentum in industrial activity as growth softened across sectors.
- The moderation was primarily driven by the mining sector, which contracted by 3.2% y-o-y, reversing part of the strong gains recorded in previous months and weighing on overall industrial output. Meanwhile, electricity generation growth eased to 5.0% y-o-y (June: 6.7%), suggesting a moderation in energy demand.
- **Manufacturing output remained the principal driver of industrial activity, expanding by 6.4% y-o-y in July** and continued to outperform other components of the IPI. Growth in export-oriented industries moderated for a second consecutive month to 6.7% y-o-y (June: 7.6%), indicating a gradual normalization following the strong expansion seen in the past months. Similarly, domestic-oriented industries slowed to 5.8% y-o-y (June: 6.4%), pointing to softer momentum in domestic demand.
- **The E&E segment remained the key pillar of manufacturing growth**, expanding by 13.3% y-o-y and marking its tenth consecutive month of double-digit growth. This reflects robust global semiconductor demand, continued technology upgrading, and rising investments related to AI, data centres, cloud computing, and digital infrastructure.
- Looking ahead, manufacturing activity is expected to remain the primary engine of industrial growth, supported by the ongoing semiconductor upcycle, healthy investment inflows and the implementation of strategic industrial projects. Nevertheless, overall **IPI growth is likely to moderate in the coming quarters as the favourable base effects from the recovery in the mining sector fade and external headwinds become more pronounced.**
- Rising global energy costs and geopolitical uncertainties could also weigh on production activity, particularly among export-oriented manufacturers if global trade conditions weaken further. **While Malaysia's industrial sector remains supported by a strong E&E cycle and investment activity, the broadening moderation across mining, electricity and manufacturing suggests that industrial growth may have passed its peak pace and is entering a more sustainable phase of expansion.**

HEATMAP OF SECTORAL PRODUCTION

Component/Sub-component	Weight	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26
Industrial Production Index (IPI)	100.0	3.9	4.9	5.3	5.8	4.1	4.8	5.9	3.1	3.1	8.2	8.5	6.5	4.7
Mining	25.1	3.4	18.3	8.7	4.5	1.1	-2.5	0.1	-2.0	-6.5	6.8	19.8	3.1	-3.2
Electricity	6.6	0.0	-0.9	0.6	1.9	3.7	3.8	6.2	4.6	4.8	10.5	4.8	6.7	5.0
Manufacturing	68.3	4.4	2.8	5.0	6.5	4.9	6.7	7.3	4.2	5.5	8.3	6.6	7.3	6.4
Food, Beverages & Tobacco	8.6	8.1	3.4	8.7	10.6	8.0	11.2	12.2	5.7	9.1	8.9	-0.3	1.8	1.2
Textiles, Wearing Apparel, Leather & Footwear	1.3	-1.0	-1.0	1.5	1.5	1.0	2.4	2.7	-1.8	1.1	3.4	-0.4	0.0	0.7
Wood Products, Furniture, Paper Products, Printing	4.6	3.8	3.4	3.9	4.9	2.9	1.7	5.7	2.6	3.0	5.5	3.8	5.7	5.5
Petroleum, Chemical, Rubber & Plastic Products	20.6	-0.6	-1.1	-0.6	-0.3	-1.8	0.3	-1.8	-2.1	0.1	3.8	3.4	2.6	1.7
Non-Metallic Mineral, Basic Metal & Fabricated Metal	9.1	3.9	3.6	3.0	4.8	3.7	5.6	7.0	3.5	3.7	6.5	4.9	5.0	5.9
Electrical & Electronic Products	18.2	8.5	6.6	9.1	13.4	10.8	12.8	15.2	12.9	12.5	12.8	16.2	13.6	13.3
Transport Equipment & Other Manufactures	5.9	2.2	-1.7	4.6	0.1	2.4	3.5	3.8	-3.5	-2.9	10.7	-4.8	9.4	4.5
Export Oriented Industries	45.8	4.1	2.3	4.8	7.2	5.0	7.5	7.8	5.0	6.7	8.5	8.8	7.6	6.7
Domestic Oriented Industries	22.4	5.0	3.8	5.3	4.9	4.6	5.2	6.4	2.7	2.8	8.0	2.0	6.4	5.8

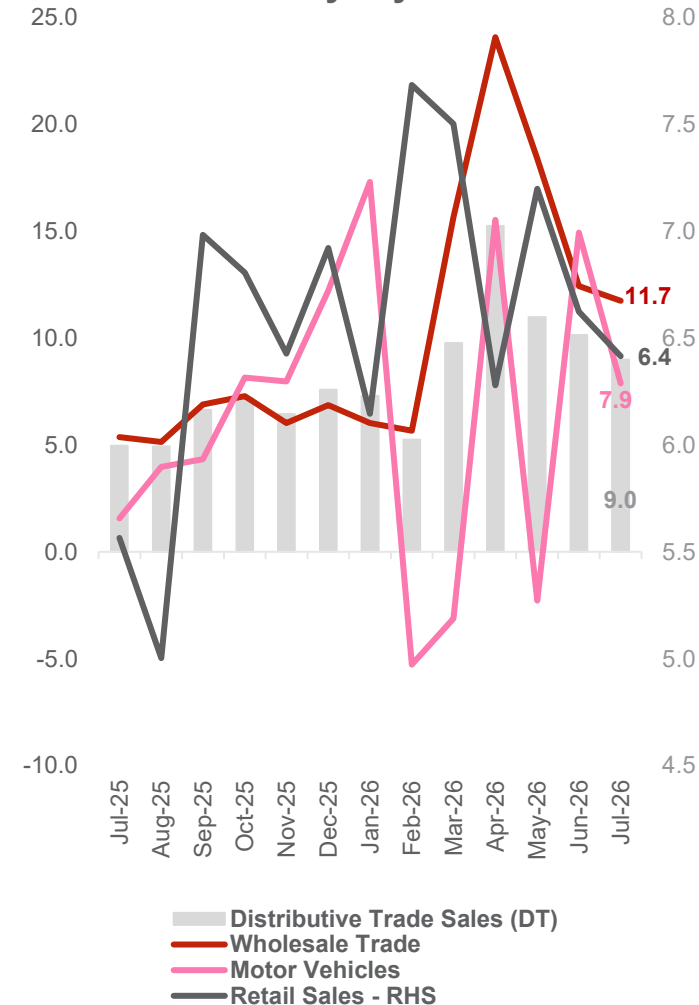


Sources: DOSM, CEIC Data, Bank Islam

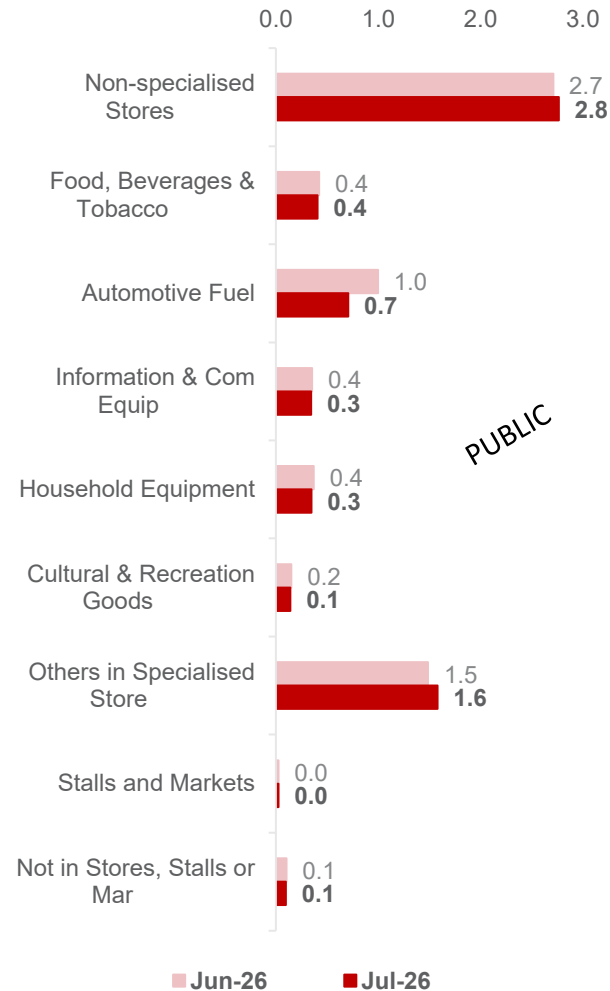
ECONOMIC RESEARCH

DISTRIBUTIVE TRADE GROWTH EASES AS CONSUMER SPENDING MOMENTUM MODERATES

Distributive Trade Sales, y-o-y %



Retail Sale by Segments, ppt



PUBLIC

- Malaysia's distributive trade expanded by 9.0% y-o-y in July 2026, remaining at a healthy level despite moderating from the stronger pace recorded in the past months. The easing trend suggests a gradual normalization in consumer and business spending activity following a period of remarkably strong demand, while underlying domestic consumption conditions remain broadly resilient.
- The moderation was broad-based across all major segments, reflecting a more measured pace of economic activity. Wholesale trade growth eased to 11.7% y-o-y (June: 12.4%), retail sales moderated to 6.4% y-o-y (June: 6.6%), while motor vehicle sales recorded a sharper slowdown to 7.9% y-o-y (June: 14.9%). The softer growth in vehicle sales likely reflects normalization following earlier strong purchases, alongside increasing consumer caution toward big-ticket spending commitments.
- Despite the moderation, retail activity continued to be supported by both essential and discretionary spending categories. Essential expenditure on non-specialised stores, automotive fuels and food-related purchases remained the key contributors, accounting for approximately 4.0 ppts of overall retail sales growth. At the same time, continued expansion in discretionary segments such as communication equipment, household goods, and specialized retail stores suggests that consumer confidence remains sufficiently intact to support non-essential purchases.
- Looking ahead, household consumption is expected to remain as main contributor of economic growth, although spending momentum may gradually soften amid rising cost pressures and a normalization in economic activity. The widening gap between relatively moderate consumer inflation and elevated producer costs suggests that businesses may face increasing pressure to pass higher input costs on to consumers.
- Nevertheless, the labour market's continued resilience and targeted government support should provide a buffer against downside risks to consumption. While distributive trade growth may moderate further from current levels, domestic demand is likely to remain supportive of overall economic growth, barring a significant deterioration in external conditions or a more pronounced increase in cost-of-living pressures.

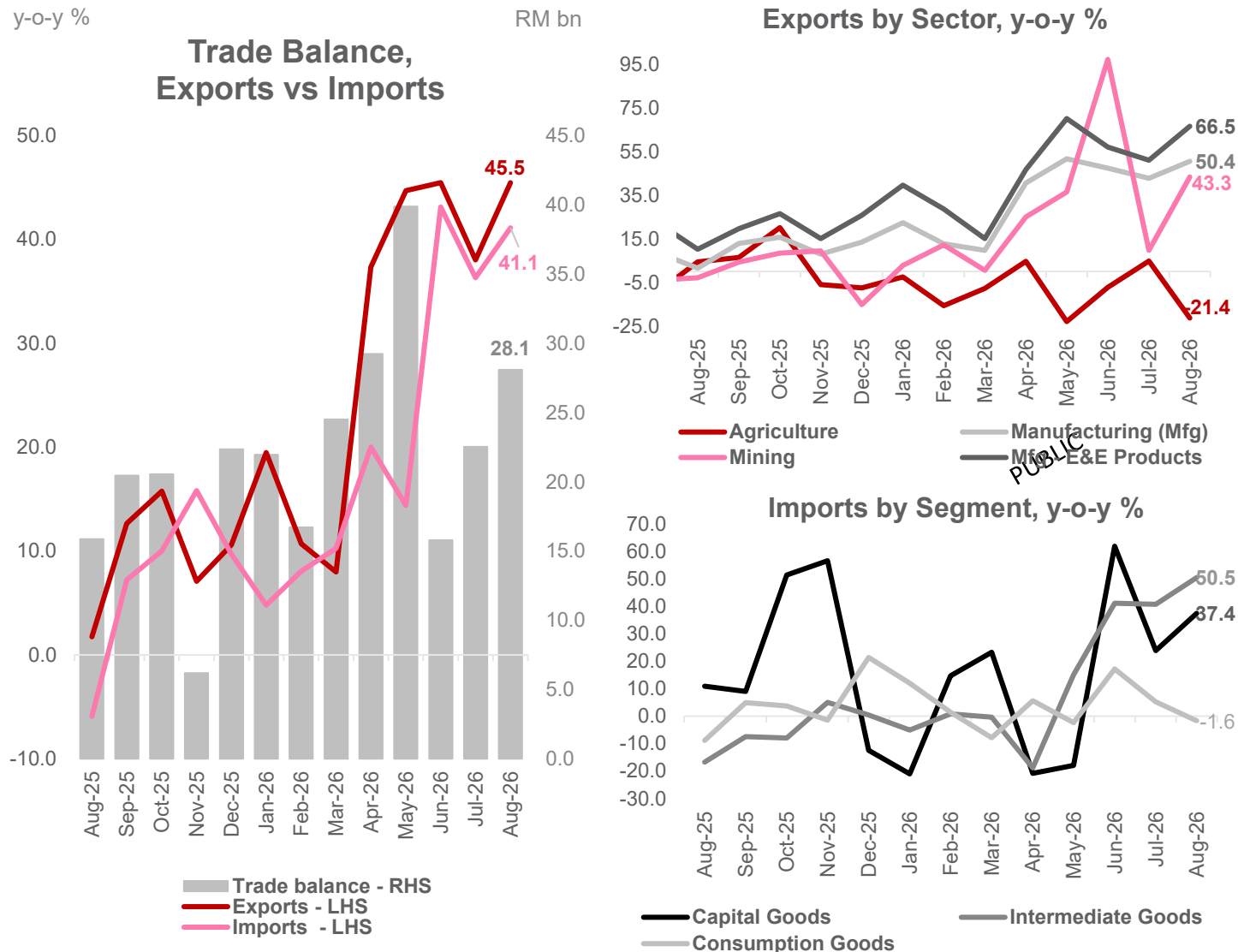
HEATMAP OF DISTRIBUTIVE TRADE

Component/Sub-component	Share	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26
Distributive Trade Sales	100.0	5.0	4.9	6.6	7.2	6.4	7.6	7.3	5.3	9.8	15.3	11.0	10.1	9.0
Motor Vehicles	12.2%	1.6	4.0	4.3	8.2	8.0	12.2	17.3	-5.3	-3.1	15.5	-2.3	14.9	7.9
Wholesale Trade	46.0%	5.4	5.1	6.9	7.3	6.0	6.9	6.0	5.7	15.7	24.1	18.4	12.4	11.7
Retail Trade	41.8%	5.6	5.0	7.0	6.8	6.4	6.9	6.1	7.7	7.5	6.3	7.2	6.6	6.4
Non-specialised Stores	16.2%	5.5	5.6	9.9	9.1	8.7	9.3	7.9	10.4	8.1	6.1	8.2	7.0	7.2
Food, Beverages & Tobacco	2.7%	6.1	5.5	6.2	6.9	6.3	6.5	5.6	7.7	7.9	5.8	7.2	6.6	6.4
Automotive Fuel	4.0%	6.6	5.3	7.0	7.2	6.7	7.4	7.0	6.2	10.6	12.5	12.8	10.8	7.5
Information & Com Equip	3.2%	3.3	3.1	4.2	6.5	4.9	5.9	3.9	4.1	5.9	3.7	3.5	4.7	4.3
Household Equipment	4.6%	3.6	2.6	2.5	2.8	3.0	3.1	3.3	4.3	4.1	3.5	3.4	3.2	3.1
Cultural & Recreation Goods	1.7%	3.0	3.1	4.6	4.3	4.1	3.9	4.2	3.0	2.7	3.8	4.1	3.7	3.3
Others in Specialised Store	8.8%	7.6	6.0	5.8	5.2	5.1	5.6	5.4	7.4	8.2	6.8	6.7	7.0	7.6
Stalls and Markets	0.1%	5.5	5.2	5.3	5.5	5.3	5.9	6.2	8.9	9.3	6.4	8.1	7.7	7.8
Not in Stores, Stalls or Mar	0.4%	5.1	5.0	9.2	8.6	7.2	9.1	9.0	8.2	8.5	8.8	9.8	10.0	9.3



Sources: DOSM, CEIC Data, Bank Islam

SEMICONDUCTOR BOOM CONTINUES TO POWER MALAYSIA'S EXTERNAL SECTOR



- Malaysia's external trade remained robust in August 2026, with **export growth accelerating to 45.5% y-o-y** from 36.3% in the preceding month. The strong performance was driven primarily by broad-based gains across major manufacturing sectors, particularly **E&E products**, which more than offset continued weakness in the agriculture segment. Agricultural exports contracted by 21.4% y-o-y, largely reflecting a sharp decline in palm oil exports (-31.3%).
- The **E&E sector remained the major contributor to export growth**, expanding by a strong 66.5% y-o-y (Jul: 51.0%). The sustained outperformance reflects continued global demand for semiconductors, supported by rapid investments in artificial intelligence, cloud computing and data-centre infrastructure. This suggests that **Malaysia continues to benefit from its strategic role within the regional electronics manufacturing and semiconductor supply chain**.
- External demand conditions remain highly supportive. **Global semiconductor sales surged by 135.1% y-o-y to USD146.8 billion in July 2026**, emphasizing the strength of the ongoing AI-driven technology cycle. The **Semiconductor Industry Association (SIA) expects global chip sales to exceed USD1.5 trillion in 2026**, highlighting the favourable demand environment facing Malaysia's E&E exporters. As a key participant in semiconductor assembly, testing and equipment manufacturing, Malaysia is well positioned to capture spillover benefits from the continued expansion of the global semiconductor ecosystem.
- On the import side, growth remained elevated at 41.1% y-o-y, led by intermediate goods (+50.5%) and capital goods (+37.4%). Importantly, the composition of imports points to continued production activity and business investment rather than a temporary demand-driven increase. Strong intermediate goods imports indicate that manufacturers are replenishing inputs to support future production, while capital goods imports suggest ongoing capacity expansion and technology upgrading.

HEATMAP OF MAJOR EXPORT PRODUCTS

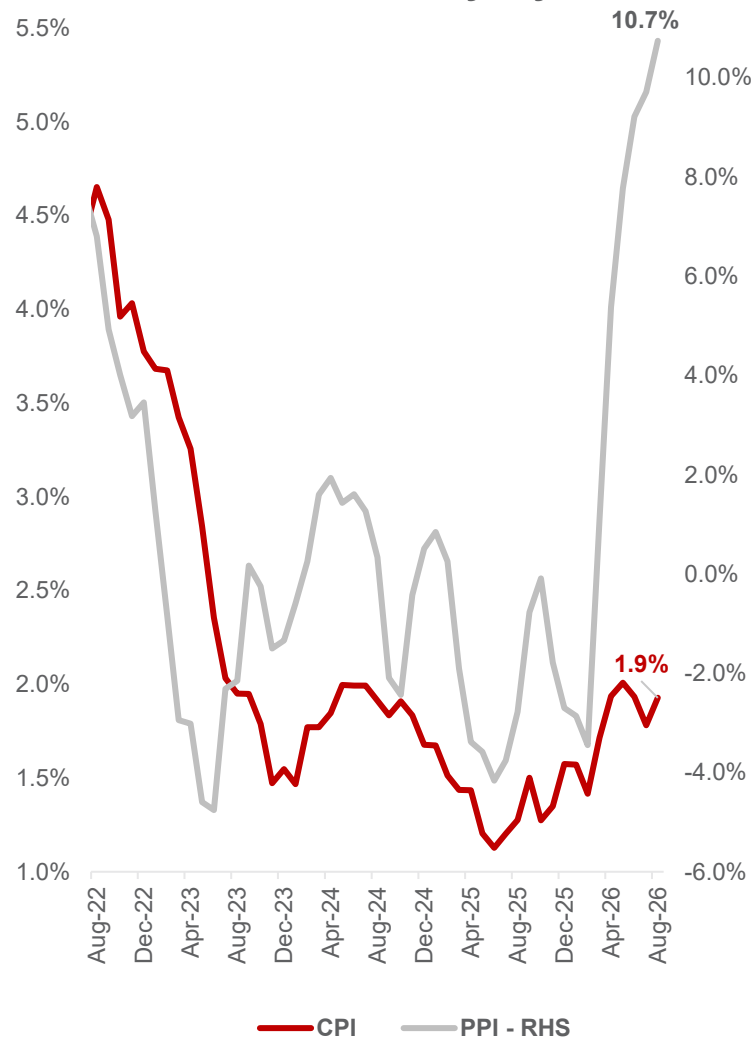
Top 10 Export Products	Share	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26
Total Exports	100.0	1.7	12.6	15.8	7.1	10.6	19.5	10.7	8.0	37.3	44.7	45.5	38.0	45.5
Electrical & Electronic Products	48.4%	10.1	19.5	26.5	15.0	25.8	39.5	28.5	15.1	46.6	70.0	57.0	51.0	66.5
Petroleum Products	5.8%	-17.6	11.6	-8.1	1.5	-18.9	-16.7	-23.5	23.5	70.2	76.4	55.6	26.9	21.7
Machinery, Equipment & Parts	4.5%	12.1	14.1	17.2	5.1	11.0	12.7	-0.2	2.1	26.5	15.4	18.4	41.4	27.8
Optical & Scientific Equipment	3.9%	14.7	16.7	31.6	33.7	20.6	36.4	42.9	29.3	49.5	45.0	42.8	36.1	23.5
Manufactures of Metal	3.5%	-5.7	2.4	23.8	8.4	2.8	5.4	-7.0	21.2	42.7	8.8	48.6	23.3	35.4
LNG	3.2%	-3.6	-11.6	-17.0	-11.8	-24.2	-5.5	-27.8	-17.4	6.8	107.9	83.3	14.1	51.8
Palm Oil & Palm Oil Based Agriculture Products	2.9%	9.7	8.6	23.8	-9.3	-8.4	-2.1	-12.8	-6.1	3.6	-24.6	-10.8	7.7	-25.0
Chemicals & Chemical Products	2.8%	-17.6	-16.6	-9.9	-14.8	-6.4	-7.8	-16.7	-20.1	25.1	1.8	6.6	1.4	-3.0
Palm Oil	2.1%	3.3	-1.3	23.1	-15.0	-12.7	-1.4	-16.5	-8.3	1.2	-29.4	-18.3	7.8	-31.3
Palm Oil Based Manufactured Products	1.9%	7.8	27.4	24.4	17.7	9.9	-4.5	-3.4	-5.2	19.1	15.9	20.2	24.2	4.7



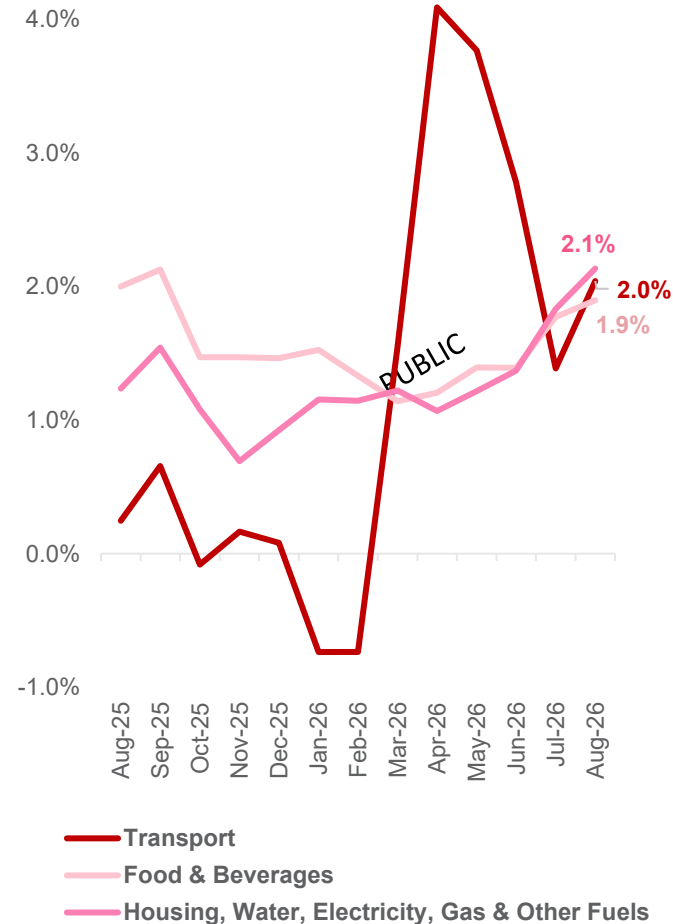
- The simultaneous strength in exports, intermediate goods imports and capital goods imports signals that the **manufacturing sector remains firmly embedded in the current global technology upcycle**. This provides a positive indication that export gains are being accompanied by investment activity, which could enhance productive capacity and support medium-term growth.
- The trade surplus widened to RM28.1 billion**, strengthening Malaysia's external position and providing an additional buffer against global volatility.
- Looking ahead, **export growth is likely to normalize from the current elevated growth as favourable base effects gradually fade**. Nevertheless, the underlying outlook remains constructive, supported by resilient global semiconductor demand, continued AI-related investments and sustained capital expenditure within the manufacturing sector.
- The key downside risks stem from escalating geopolitical tensions, renewed trade restrictions and a sharper-than-expected slowdown in major economies, which could disrupt global supply chains and moderate investment intentions**. However, Malaysia's entrenched position in the semiconductor value chain should continue to provide an important cushion against external headwinds.

INFLATION REMAINS CONTAINED DESPITE RISING UPSTREAM COST PRESSURES

CPI vs PPI, y-o-y %



Inflation by key sub-components, y-o-y%



- **Headline inflation edged higher to 1.9% y-o-y in August** (Jul: 1.8%), **driven mainly by food, housing & utilities, and transport costs**, while core inflation eased slightly to 1.7% (Jul: 1.8%), suggesting that underlying price pressures remain relatively contained.
- Food and utility costs continued to contribute to inflationary pressures during the month as **food-at-home inflation accelerated to 1.4% y-o-y** (Jul: 1.2%), while **food-away-from-home remained elevated at 2.5%**. Meanwhile, **electricity inflation rose sharply to 3.3% y-o-y** (Jul: 2.0%), reflecting the gradual pass-through of earlier increases in global energy costs.
- **Transport inflation strengthened further**, driven by higher public transport fares and rising fuel-related costs. **However, government intervention measures have helped prevent a broader escalation of transportation inflation** despite elevated global oil prices.
- Although consumer inflation remains relatively manageable, producer prices have risen substantially faster than consumer prices. **The widening gap between PPI (10.7% y-o-y) and CPI (1.9% y-o-y) suggests that businesses are absorbing a significant share of higher input costs**, which may eventually lead to greater cost pass-through to consumers if margins come under pressure.
- **We maintain our 2026 average inflation forecast at 2.0%**, supported by targeted subsidy programs, fuel price caps, price controls on essential goods, and expanded electricity bill protection measures. These initiatives continue to cushion households from external cost shocks and help anchor inflation expectations.
- **Nevertheless, risks remain tilted to the upside.** Further escalation in geopolitical tensions in the Middle East could disrupt global flows and push energy prices higher, while elevated commodity prices, supply chain disruptions and adverse weather conditions may exert additional pressure on food inflation. Furthermore, a potentially weaker Ringgit and any future subsidy rationalization could amplify imported inflation and strengthen cost pass-through to consumers.

HEATMAP OF CPI

Component	Weight	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26
Headline CPI	100.0	1.3	1.5	1.3	1.4	1.6	1.6	1.4	1.7	1.9	2.0	1.9	1.8	1.9
Food & Beverages	29.8	2.0	2.1	1.5	1.5	1.5	1.5	1.3	1.1	1.2	1.4	1.4	1.8	1.9
Alcoholic Beverages & Tobacco	1.9	0.4	0.3	0.3	2.4	2.5	2.5	2.6	2.7	2.8	2.8	2.8	2.7	2.8
Clothing & Footwear	2.7	-0.1	-0.2	-0.3	-0.1	0.1	0.0	0.0	-0.1	-0.1	-0.1	0.0	0.1	0.1
Housing, Water, Electricity, Gas & Other Fuels	23.2	1.2	1.5	1.1	0.7	0.9	1.2	1.1	1.2	1.1	1.2	1.4	1.8	2.1
Furnishings, Household Equipment & Maintenance	4.3	0.2	0.2	0.3	0.2	0.3	0.2	0.2	0.1	0.4	0.4	0.4	0.3	0.4
Health	2.7	1.1	1.3	1.5	1.5	1.5	1.4	1.2	1.4	1.4	1.2	1.2	1.1	1.3
Transport	11.3	0.2	0.7	-0.1	0.2	0.1	-0.7	-0.7	1.6	4.1	3.8	2.8	1.4	2.0
Information & Communication	6.6	-5.6	-4.5	-2.4	-1.3	0.9	0.7	0.5	1.4	2.0	2.1	2.4	3.4	2.6
Recreation, Sport and Culture	3.0	0.9	0.9	1.2	1.2	0.8	0.9	0.8	1.0	0.9	1.1	1.1	1.2	1.1
Education	1.3	2.4	2.4	2.4	2.6	2.8	3.2	2.8	2.5	2.4	2.2	2.1	2.0	1.9
Restaurants & Accommodation Services	3.4	3.5	3.3	3.4	3.4	3.1	3.0	2.5	2.6	2.6	2.5	2.6	2.0	2.1
Insurance & Financial Services	4.0	5.6	5.6	5.6	5.6	5.6	5.5	4.7	4.9	4.9	4.9	5.7	1.1	1.0
Personal Care, Social Protection & Misc. Goods & Services	5.8	4.0	4.8	6.0	5.6	5.7	6.6	6.9	7.0	4.8	4.8	3.4	2.9	3.2
Non-Food	70.2	0.9	1.1	1.1	1.2	1.6	1.6	1.5	2.1	2.3	2.3	2.2	1.8	1.9



Sources: DOSM, CEIC Data, Bank Islam

ECONOMIC RESEARCH

HEATMAP OF PPI

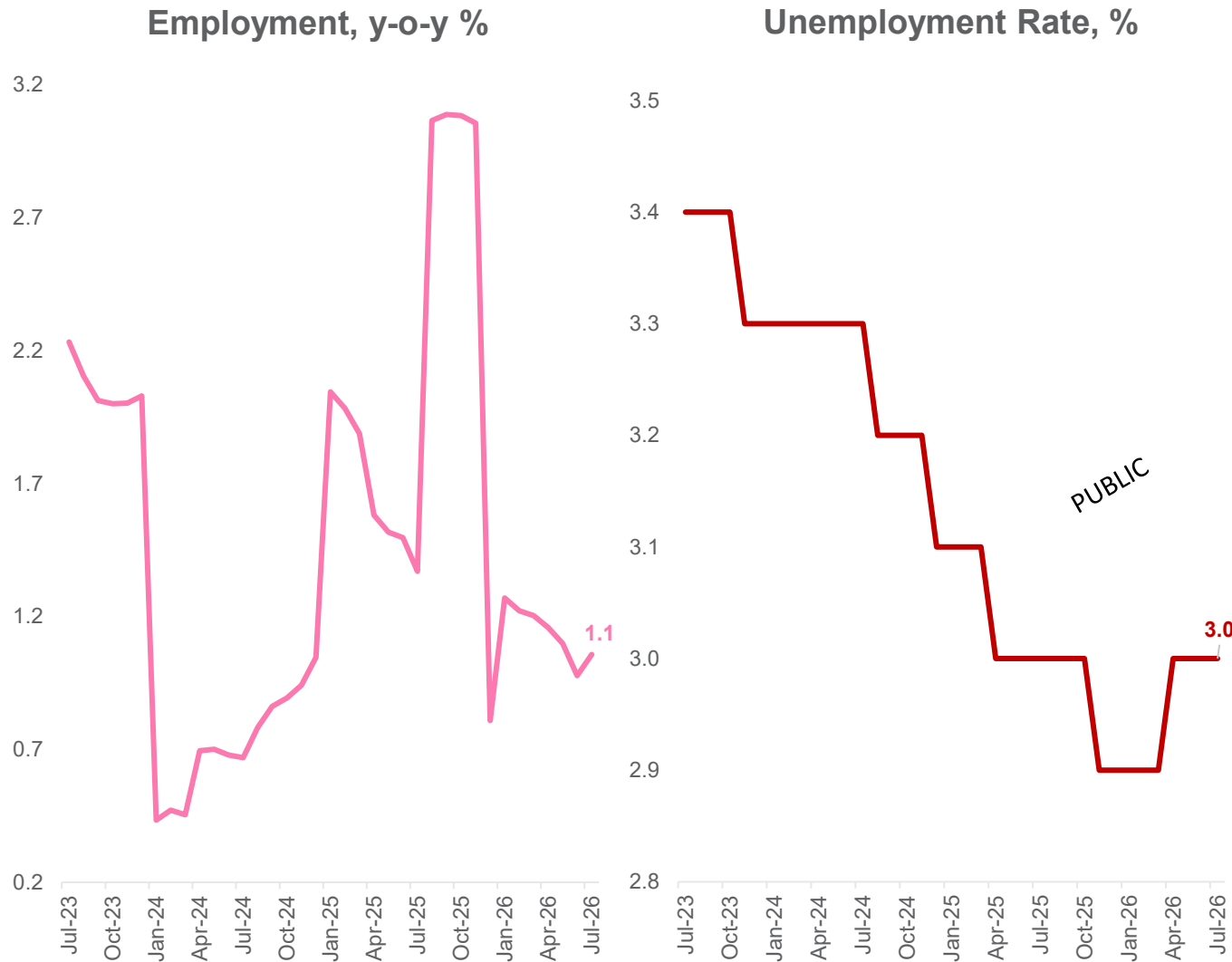
Component/Sub-component	Weight	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26
Producer Price Index	100.0	-2.8	-0.8	-0.1	-1.8	-2.7	-2.9	-3.4	1.1	5.4	7.8	9.2	9.7	10.7
Local Production By Sector														
Agriculture	6.7	7.3	7.8	2.7	-9.7	-12.1	-8.3	-8.7	-5.6	2.7	8.9	9.1	7.2	4.6
Mining	7.9	-3.4	1.1	-1.0	-7.2	-8.8	-11.7	-8.5	26.5	53.4	52.6	29.0	30.5	41.2
Manufacturing	81.6	-4.0	-2.1	-0.6	-0.6	-1.3	-1.7	-2.7	-0.8	1.1	3.5	7.2	8.2	8.8
Electricity & Gas	3.4	4.1	4.6	4.3	4.1	4.1	4.9	4.7	9.6	10.6	10.0	10.2	6.7	6.4
Water Supply	0.3	3.4	9.1	10.8	10.1	10.9	10.2	11.9	11.3	10.8	11.2	12.7	10.2	7.8
Local Production By Stage of Processing														
Crude Materials for Further Processing	16.4	-0.8	2.4	1.2	-6.2	-8.3	-7.5	-7.0	9.8	26.1	31.5	25.0	24.1	24.8
Foodstuffs and Feedstuffs	3.2	1.1	3.0	3.7	4.7	4.3	4.5	4.4	5.5	4.3	4.3	4.9	7.5	8.7
Non-food Materials	13.2	-1.1	2.3	0.6	-8.4	-11.0	-10.0	-9.5	10.7	31.2	38.1	29.8	27.9	28.5
Intermediate Materials Supplies and Components	56.1	-3.1	-1.2	-0.2	-1.1	-1.6	-2.3	-3.1	-1.3	0.8	3.0	7.4	8.4	9.6
Materials and Components for Manufacturing	29.6	-2.1	-1.2	0.1	-0.7	-2.1	-3.5	-4.2	-2.5	-0.5	1.6	4.5	5.7	5.5
Materials and Components for Construction	2.9	2.0	3.8	4.6	4.7	4.7	5.8	5.9	5.9	5.9	5.3	5.4	4.5	3.5
Processed Fuels and Lubricants	11.9	-8.6	-3.9	-3.7	-7.5	-6.7	-6.3	-9.3	-4.8	-0.7	3.7	13.9	13.8	20.0
Containers	0.6	-1.3	1.1	3.5	4.2	4.5	3.0	2.1	2.3	2.4	3.6	4.5	5.3	4.2
Supplies	11.2	-2.2	-0.4	1.3	2.5	2.7	2.7	2.8	3.5	4.4	5.7	9.7	11.7	13.0
Finished Goods	27.5	-3.4	-1.8	-1.0	-0.2	-0.7	-0.6	-1.1	-0.1	0.7	1.7	2.0	2.5	3.1
Finished Consumer Foods	3.5	0.8	1.4	2.1	1.4	0.7	0.5	0.5	0.7	-0.1	0.9	1.5	1.1	1.2
Finished Consumer Goods Excluding Foods	8.0	-1.0	-1.5	-1.0	-1.0	-1.0	-0.4	0.3	0.6	0.7	1.3	2.1	1.8	1.6
Capital Equipment	16.0	-5.6	-2.8	-1.8	-0.1	-1.1	-0.9	-2.3	-0.6	0.8	2.1	2.0	3.4	4.3



Sources: DOSM, CEIC Data, Bank Islam

ECONOMIC RESEARCH

LABOUR MARKET REMAINS SUPPORTIVE, THOUGH JOB CREATION LOSES MOMENTUM

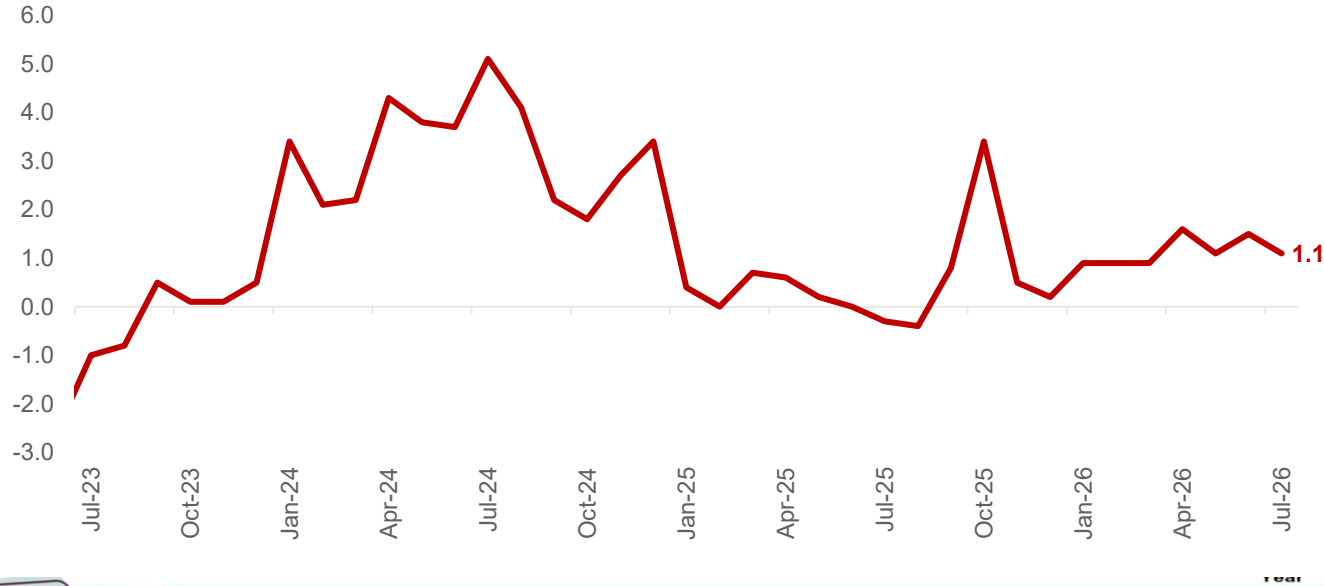


- Malaysia's labour market remained resilient in July, with the unemployment rate unchanged at 3.0%, consistent with full employment conditions. The labour market's resilience should continue to underpin household consumption and support overall domestic demand despite signs of broader economic moderation.
- However, employment growth showed signs of losing momentum, rising by just 0.1% m-o-m and 1.1% y-o-y to 16.8 million persons. While firms continue to retain existing workers, the slower pace of job creation suggests that businesses are becoming increasingly cautious in expanding their workforce amid softer external demand prospects and rising operating costs.
- The moderation in hiring intentions is also reflected in the latest DOSM Business Tendency Survey, where 78.3% of firms indicated plans to maintain current staffing levels. This suggests that employers remain confident enough to preserve employment but are adopting a more measured approach toward workforce expansion as economic uncertainties persist.
- Despite the moderation in hiring activity, the absence of widespread job losses suggests that businesses remain sufficiently confident in the demand outlook to retain existing workers. This should continue to support household income, consumption and overall domestic demand in the near term.
- Looking ahead, labour market conditions are expected to remain broadly stable, supported by ongoing economic activity, tourism-related industry, and investment-related projects. However, persistent cost pressures and a weaker external environment could weigh on business profitability, potentially leading firms to delay recruitment plans or moderate future workforce expansion.
- Overall, the labour market continues to act as a stabilising force for the economy, supported by low unemployment and limited labour shedding. However, the softer pace of employment growth and increasingly cautious hiring intentions suggest that labour demand is gradually normalising, warranting close monitoring as a potential early signal of broader economic moderation.

Sources: DOSM, CEIC Data, Bank Islam

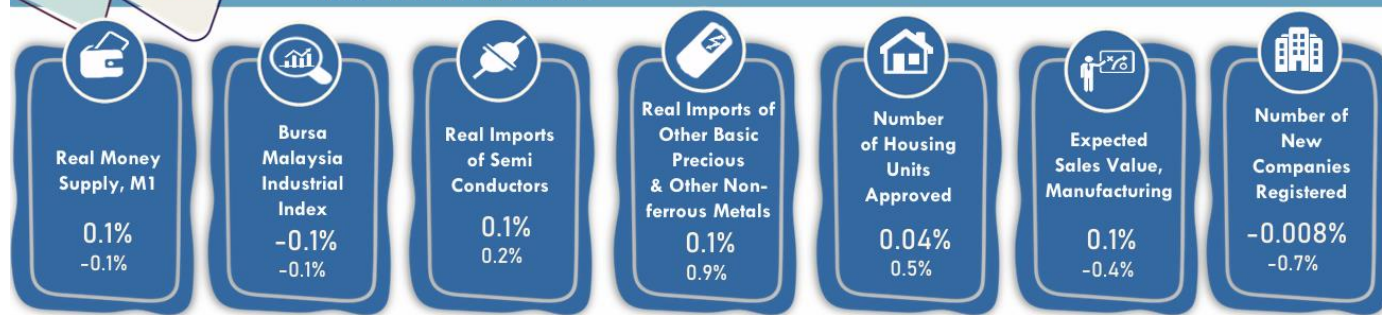
LEADING INDEX SUGGESTS GROWTH WILL CONTINUE BUT AT A MORE MODERATE PACE BANK ISLAM

Leading Index, y-o-y%



Leading Composite Index, Monthly Change (%)

Contribution of Each Component to the Percentage Change in the Leading Composite Index from the Previous Month

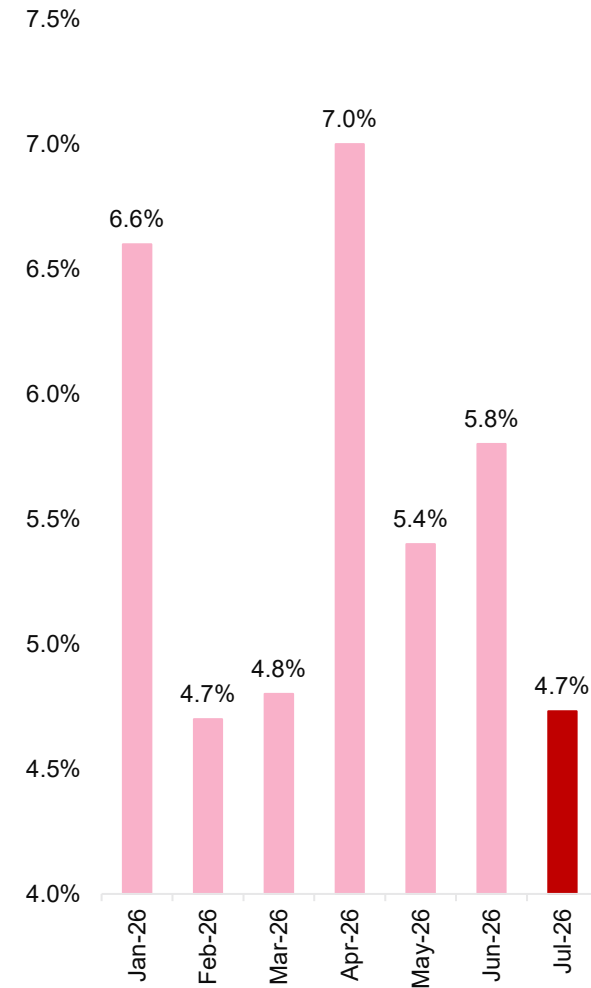


- Malaysia's Leading Index (LI) increased by 1.1% y-o-y in July, remaining in positive territory and suggesting that economic activity should continue expanding in the near term. However, the improvement remains relatively modest compared with the stronger readings observed in 2024, pointing to a more moderate pace of growth ahead rather than a renewed acceleration.
- On a month-on-month basis, the Leading Composite Index rose by 0.3%, matching the gain recorded in June. The increase was supported by real imports of semiconductors, manufacturing sales expectations, real imports of other basic precious and non-ferrous metals, housing approvals and monetary aggregates, indicating that investment and manufacturing-related activities continue to provide support to the growth outlook.
- Nevertheless, the composition of the index suggests that growth momentum is becoming more selective. **The slight decline in the Bursa Malaysia Industrial Index and the continued weakness in new company registrations indicate that businesses remain cautious amid an uncertain external environment and rising cost pressures.**
- The **sustained positive reading in semiconductor imports is particularly encouraging**, as it is consistent with the continued strength observed in Malaysia's E&E sector and ongoing investment related to AI, data centers, and digital infrastructure. This suggests that manufacturing should remain a key catalyst of growth in the coming quarters.
- At the same time, the relatively subdued pace of improvement in the Leading Index points to a gradual normalisation in economic activity following the stronger expansion recorded previously. **While there are no immediate signs of a sharp downturn, the index suggests that growth is likely to moderate toward a more sustainable pace as external demand normalises and base effects fade.**
- Overall, the index signals that Malaysia's growth outlook remains positive, but momentum is no longer accelerating. The indicators point to continued expansion in the near term, supported by manufacturing and investment activity, although increasing caution among businesses suggests that economic growth may gradually ease into next year.

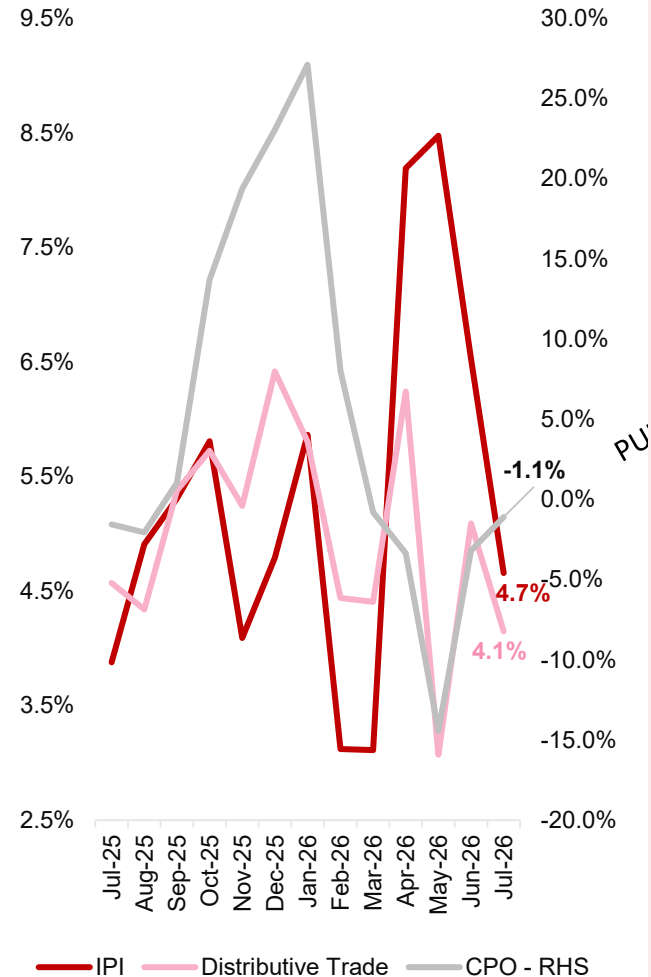
Sources: DOSM, CEIC Data, Bank Islam

JULY GDP GROWTH ESTIMATED AT 4.7% AS ECONOMIC MOMENTUM NORMALISES

Monthly GDP, y-o-y %



Main Production Index by Segment, y-o-y %



- Based on the broad-based moderation across major domestic economic indicators in July, apart from the external sector, **we estimate Malaysia's monthly GDP growth to ease to 4.7% y-o-y from 5.8% in June 2026**. The moderation suggests that the significantly strong growth momentum seen in recent months is gradually normalizing, particularly as domestic demand-related activities show signs of easing.
- Our estimate is derived from the Main Production Index (MPI), comprising the IPI, Distributive Trade Index (DTI), and crude palm oil (CPO) output.** The components are weighted according to their relative importance in Malaysia's economic structure and contribution to overall GDP.
- The moderation in economic activity was primarily driven by softer industrial and consumer-related activities. Based on our model, growth in the industrial production component slowed substantially to 4.7% y-o-y from 8.5% in June, while distributive trade growth moderated to 4.1% from 5.1% previously. This suggests that while economic activity remains expansionary, businesses and consumers may be becoming more cautious following a prolonged period of robust growth.
- The mining sector also appears to be entering a period of normalisation as favourable base effects continue to fade. The sharp recovery recorded over the past month is becoming difficult to sustain, implying that future growth rates are likely to moderate further. Meanwhile, CPO production showed some improvement in July, although output remained in contraction territory.
- In contrast, Malaysia's external sector continued to outperform. Strong demand for semiconductors and AI-related technologies globally has continued to support E&E exports, while Malaysia remains a key beneficiary of supply chain diversification strategies, particularly the China+1 trend. The strong export performance has therefore partially offset the moderation observed across domestic-oriented sectors.
- Nevertheless, **the increasing concentration of export growth within the E&E sector should be monitored carefully.** E&E products accounted for approximately 48.4% of Malaysia's total exports in August, highlighting the economy's growing dependence on a single sector. While this has been beneficial amid the current technology upcycle, it also increases vulnerability to external shocks. Any slowdown in global semiconductor demand, tighter U.S. trade restrictions, technology-related geopolitical tensions, or weaker growth among key trading partners could have a significant impact on Malaysia's export performance and broader economic outlook.

Sources: DOSM, CEIC Data, Bank Islam

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THANK YOU