

## Global Markets Research

### Malaysia - Economics

# Decent start to 2026 despite geopolitical upheavals

**Final 1Q GDP growth was revised a tad higher but still marked a moderation to 5.4% y/y**

**Moderation in domestic demand growth was cushioned by a rebound in net exports**

**Looming challenges; but resilient growth and well-contained inflation shall keep OPR steady**

#### Summary

The final reading of 1Q26 GDP confirmed a moderation in the Malaysian economy to 5.4% y/y as expected (4Q: 6.2% y/y revised), although the pullback is lesser than the initial estimate of 5.3% y/y from the advanced print. This put a halt to two consecutive quarters of pick-up seen in the second half of last year, as economic activities reverted to more normal pace (prior to the outbreak of the Middle East conflict) after disruptions from US trade policies in earlier part of last year. Tentative signs of the war impact was also noticeable in the monthly GDP, which pulled back month after month through 1Q, from a 17-month of 7.1% y/y in December (Figure 2). On a seasonally adjusted quarterly basis, growth softened for the 2<sup>nd</sup> straight quarter to -0.01% q/q in 1Q (4Q: +1.4% q/q).

The slower growth witnessed in 1Q was due to slower domestic demand, as a result of slower increases across the board from both the public and private sectors, as well as from both consumption and investment. Growth in domestic demand tapered off to 5.2% y/y in 1Q (4Q: +6.6% y/y) while net exports turned positive again, witnessing a 13.5% y/y increase in 1Q (4Q: -32.9% y/y revised) as a result of much quicker imports growth vis-à-vis slower growth in exports – Figure 4.

#### Slower growth across the board; saved by a rebound in net export

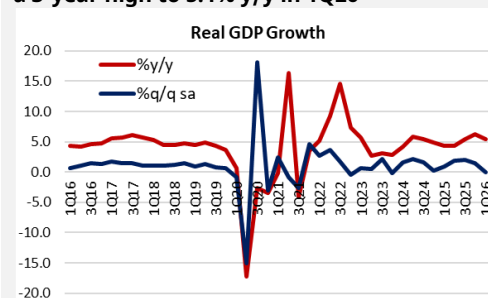
Expansion in domestic demand moderated again in 1Q (+5.2% vs +6.6% y/y), marking its slowest growth pace in nine quarters. Private sector economic activities tapered off to 5.4% y/y during the quarter, from the 6.3% y/y increase seen in 4Q of last year, while the government sector also registered slower growth (+4.4% vs +7.5% y/y) – Figure 5. The easier growth was broadly seen in both consumption and investment, a sign of pullback from both the household and business sectors. That said, positive labour market conditions and continued policy support continued to underpin growth in private consumption, while continued capex on machinery & equipment and structures investment supported growth in private investment.

On the contrary, net exports turned positive again in 1Q26 (+13.5% y/y), a turnaround from the 32.9% y/y decline in 4Q25, as the pullback in exports growth (+5.2% vs +6.3% y/y) was smaller than the slowdown in imports growth (+4.6% vs 9.0% y/y). Exports growth was supported by E&E exports, which offset the weaker exports of crude petroleum, LNG and agriculture products. Meanwhile, imports growth moderated across the board, from capital to intermediate and consumption goods.

#### Broad deceleration in all sectors; mining contracted

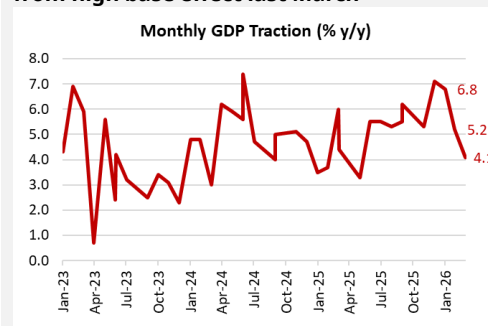
On the supply side (Figure 6), all sectors reported slower expansion except for mining, which declined 2.1% y/y in 1Q (4Q: +1.4% y/y), dragged by weaker oil and gas output. Despite the moderation, the services and manufacturing

**Figure 1: Real GDP growth pulled back from a 3-year high to 5.4% y/y in 1Q26**



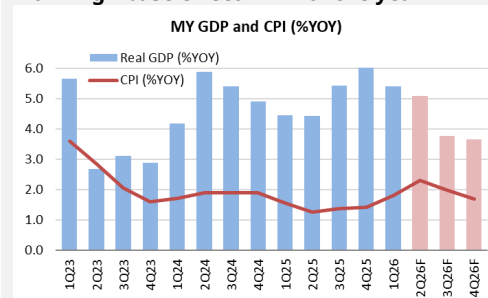
Source: DOSM, BNM

**Figure 2: Growth is losing steam month after month in 1Q, to 4.1% y/y in March taking the hit from the Middle East war and distortion from high base effect last March**



Source: DOSM, BNM

**Figure 3: Expect further moderation ahead as the geopolitical-related fallout starts to filter through in addition to the distortion from high base effect in 2H of the year**



Source: DOSM, HLBB Global Markets Research

sectors continued to anchor growth. Resilient growth in business-related and government services were the main growth drivers for services while manufacturing was driven by sustained expansion in E&E and AI-related production. Meanwhile, special trade and non-residential activities supported the construction sector while the slower increase in value-added agriculture was dampened by normalization in production after the strong yield in 4Q25.

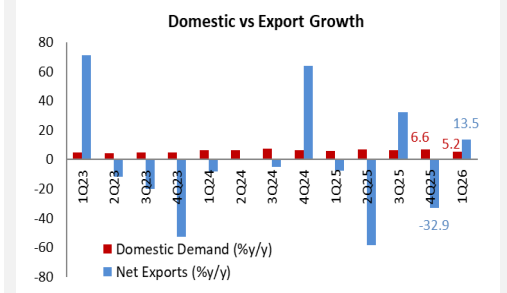
**Outlook**

The outlook going forward remains uncertain clouded by geopolitical development and to a lesser extent, trade policies. The Middle East conflict has been going on for 2.5 months now. While there are no signs of any significant escalation, there are no signs of a near term end either, although there appears to be some positive headlines coming out from President Trump-Xi meeting in Beijing.

The Strait of Hormuz remained closed and energy and supplies of some goods and raw materials are running low and will have greater repercussions on global supply chains if the closure of the Strait is further prolonged. It will also take time, estimated at 3-6 months, for supply chains to normalize when the Strait eventually reopens. On the inflation front, in addition to the first wave of energy-driven spike in inflation in March, the spillover and chain effect from higher energy, transport, and input costs will filter through the system and become more evident in 2Q and in subsequent quarters,

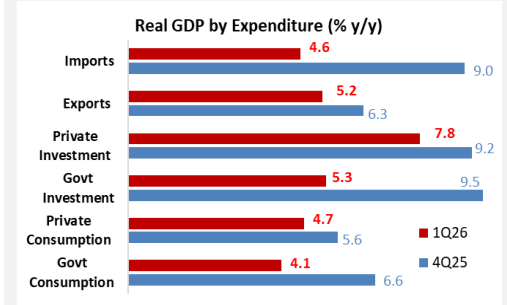
That said, we hold on to our cautiously optimistic view that Malaysia will emerge from this geopolitical upheaval relatively unscathed compared to its peers and energy-dependent importing countries, riding on its position as a net energy exporter as well as continued AI-related tech expansion. On the domestic front, sound labour market, continuous implementation of investment projects, ongoing targeted government policy support, as well as tourism activities, will continue to underpin growth in the Malaysian economy. We therefore maintain our view that the Malaysian economy will continue to grow at a more moderate pace of 4.6% this year. Resilient growth, coupled with expectation for well-contained inflation (house view: 1.9%), are expected to support the case for BNM to keep OPR unchanged at 2.75% for the rest of the year to support growth.

**Figure 4: Slower growth in domestic demand was cushioned by a rebound in net exports**



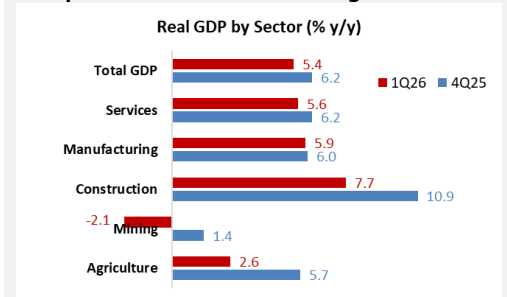
Source: DOSM, BNM

**Figure 5: Broad easing in domestic sectors; slower imports growth vis-à-vis exports growth the savior**



Source: DOSM, BNM

**Figure 6: Easier growth across all sectors except for contraction in mining**



Source: DOSM, BNM

**Malaysia Key Economic Metrics**

	2024												2025												2026				
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar		
Real GDP	4.8	4.8	4.2	3.0	6.2	5.9	5.6	7.4	4.7	4.0	5.0	5.1	4.7	3.5	3.7	6.0	4.4	3.3	5.5	5.5	5.3	5.5	6.2	5.3	7.1	6.8	5.2	5.4	4.1
Monthly Real GDP	3.4	2.1	2.3	4.4	3.8	3.7	5.2	4.2	1.8	2.5	2.8	3.4	0.4	0.1	0.7	0.5	0.3	0.1	-0.3	-0.3	0.8	3.4	0.2	0.1	0.6	0.5			
Leading indicator	8.7	-0.8	-0.9	9.1	7.1	1.7	12.3	12.0	-0.6	1.6	3.9	16.9	0.3	6.2	6.8	16.4	-1.1	-3.5	6.5	1.7	12.2	15.7	7.0	10.2	19.6	10.7	8.3		
Exports	18.7	8.0	12.5	15.5	13.4	17.8	25.4	26.2	10.9	1.7	1.6	11.9	6.2	5.5	-2.8	20.0	6.6	1.3	0.6	-5.9	7.3	10.0	15.8	9.5	4.8	8.2	10.4		
Imports	10.2	11.2	12.7	7.7	10.0	14.3	6.4	5.5	12.8	11.9	15.3	19.2	3.7	12.6	24.8	5.2	0.8	8.6	14.6	15.9	19.9	20.4	6.1	22.1	22.0	16.7	24.6		
Trade balance (RMbn)	4.3	3.1	2.4	6.1	2.4	5.0	5.3	4.1	2.3	2.0	3.6	4.6	2.1	1.5	3.2	2.7	0.3	2.9	4.2	4.8	5.7	6.0	4.3	4.8	5.9	3.1	3.1		
Industrial production	3.7	1.2	1.3	4.9	4.6	5.2	7.7	6.5	3.2	3.3	4.6	5.8	3.7	4.8	4.0	5.6	2.8	3.6	4.4	2.8	5.0	6.5	4.9	6.7	7.3	4.2	5.5		
Manufacturing production	2.0	1.0	0.7	1.2	1.1	1.8	2.4	1.5	1.2	1.7	1.8	1.7	1.5	2.0	1.8	2.4	1.5	1.6	2.3	1.8	2.0	2.4	1.9	2.5	2.8	2.0	2.2		
Wages (manufacturing)	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.2	3.2	3.2	3.2	3.1	3.1	3.1	3.1	3.0	3.0	3.0	3.0	3.0	3.0	3.0	2.9	2.9	2.9	2.9	2.9		
Unemployment rate (%)	5.5	5.2	4.0	4.8	4.7	4.0	5.5	3.7	3.6	4.8	4.7	5.7	4.9	5.8	5.7	5.5	4.7	5.2	5.4	5.1	5.9	7.3	6.0	6.9	6.0	5.7	15.7		
Wholesale trade	2.6	5.8	7.1	5.5	8.7	7.9	6.4	5.9	5.5	7.1	5.8	5.4	8.2	5.7	6.6	4.7	4.9	5.4	5.6	5.0	7.0	6.8	6.4	6.9	6.1	7.7	7.5		
Retail trade	36.4	6.6	-8.6	29.5	14.0	-5.6	14.4	2.0	-13.6	-3.8	-4.5	3.6	-22.7	0.1	5.1	1.5	-2.5	-5.2	-4.5	0.4	0.3	6.4	5.8	13.2	28.4	0.3	-11.4		
Passenger car sales	1.5	1.8	1.8	1.8	2.0	2.0	2.0	1.9	1.8	1.9	1.8	1.7	1.7	1.5	1.4	1.4	1.2	1.1	1.2	1.3	1.5	1.3	1.4	1.6	1.6	1.4	1.7		
CPI	-0.6	0.3	1.6	1.9	1.4	1.6	1.3	0.3	-2.1	-2.4	-0.4	0.5	0.8	0.3	-1.9	-3.4	-3.6	-4.2	-3.8	-2.8	-0.8	-0.1	-1.8	-2.7	-2.9	-3.4	1.1		
PPI																													

Source: BNM; DOSM; HLBB Global Markets Research

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