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2025 GDP Growth	+5.2%
2026 GDP Growth Forecast:	+4.7%
2025 Export Growth:	+6.4%
2026 Export Growth Forecast:	+8.1%
2025 Unemployment Rate	3.0%
2026 Unemployment Rate Forecast:	3.0%
2025 Headline Inflation:	+1.4%
2026 Headline Inflation Forecast:	+2.1%
End-2025 OPR	2.75%
End-2026 OPR Forecast:	2.75%

## Malaysia Industrial Production

### Supply resilience supports outlook, but risks remain

- The Industrial Production Index (IPI) accelerated to a 3.5-year high of +8.2% YoY in April (Mar: +3.1%), above consensus of +4.5%, led by firmer manufacturing output.
- The IPI strength largely reflects ongoing inventory accumulation among manufacturers, which should continue to support resilient manufacturing activity in 2Q26.
- We remain cognisant of the rising downside risks in 2H26, particularly if the Middle East conflict persists.
- We keep our 2026 manufacturing growth forecast at +4.5% YoY (YTD: +6.3%; 2025: +4.5%).

### Broad-based strength lifts headline IPI

IPI accelerated to a 3.5-year high of +8.2% YoY in April (Mar: +3.1%), beating market expectations of +4.5%. The stronger print was driven by firmer manufacturing production (+8.3%; Mar: +5.5%) and a rebound in mining (+6.8%; Mar: -6.5%), while electricity output strengthened further (+10.5%; Mar: +4.8%). On a month-on-month basis, IPI declined by 3.4%, reflecting seasonal moderation as April is typically a weaker month, with an average decline of 7.2% over the past five years.

### Manufacturing remains the bright spot

Manufacturing remained the key growth anchor, contributing +5.6ppts to headline IPI growth (Mar: +2.1ppts). The export-oriented cluster recorded another strong month, consistent with the +36.9% YoY surge in April nominal exports. Output in the export-oriented cluster rose +8.5% (Mar: +6.7%), supported by gains in "coke & refined petroleum products" (+4.2%; Mar: +2.4%), "electrical equipment" (+5.2%; Mar: +3.0%) and "machinery & equipment" (+7.7%; Mar: +3.8%).

Meanwhile, the domestic-oriented cluster accelerated to +8.0% YoY (Mar: +2.8%), underpinned by broad-based improvements across the cluster, including "food processing products" (+8.6%; Mar: +7.2%), "basic pharmaceuticals, medicinal chemical and botanical products" (+5.3%; Mar: -0.7%) and "basic metals" (+7.2%; Mar: +4.5%).

### Inventory frontloading cushions near-term resilience

The strength in April's IPI data largely reflects ongoing inventory accumulation among manufacturers amid concerns over supply disruptions stemming from the Middle East conflict. The stockpiling activities suggest that firms have been proactively mitigating supply risks, consistent with our view that Malaysia's supply chain resilience remains intact for now (refer to our "[Malaysia Supply Chain Holds Up](#)" report). Our channel checks further indicate that supply risks remain manageable, with no signs of broad-based disruptions across key sectors.

We also noted some indications that manufacturers have extended their stockpiling activities through 2Q26. Malaysia's May manufacturing PMI reported that firms increased their purchasing activity for the second straight month in May, which effectively helped to limit the decline in input inventories. Thus, **the extension of frontloading activities should continue to support resilient manufacturing production and business activity in 2Q26**. Furthermore, sustained strength in E&E exports remains the key anchor for Malaysia's export-oriented manufacturing sector.

### Still room for caution in 2H26

That said, we remain cognisant of the rising downside risks in 2H26. The **support from current front-loaded demand is likely to gradually ease**, leading to a moderation in production in the coming months. Furthermore, manufacturers face two key risks: **i) rising material and logistics costs**, with PPI reaching a near four-year high of 5.4% YoY in April; and **ii) prolonged supply disruptions** that materially disrupt production.

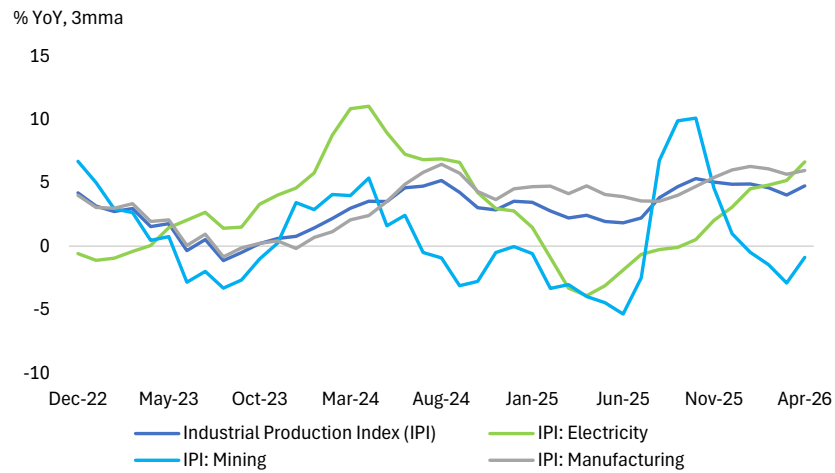
Nonetheless, reports that the US and Iran have reached an agreement to end the conflict and reopen the Strait of Hormuz are a positive development. While details of the agreement remain

limited, the signing is reportedly expected on 19 June in Switzerland. A successful implementation of the deal could help ease supply-side concerns and support resilient manufacturing activities in Malaysia.

### Maintain growth forecast for now

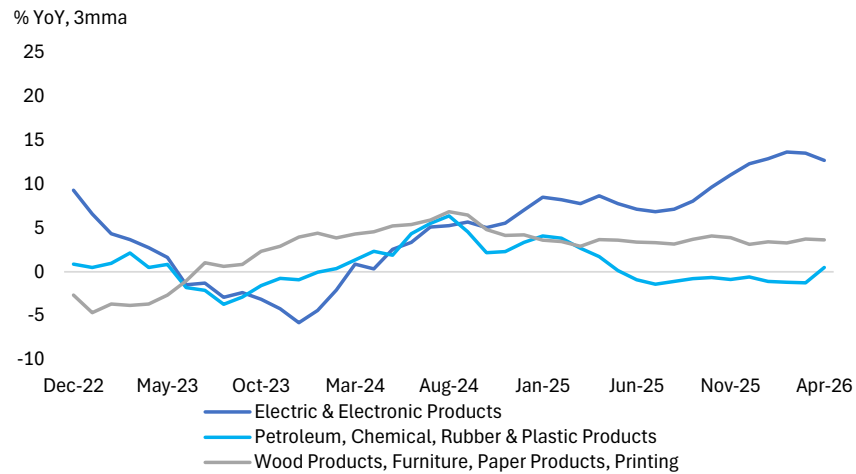
Manufacturing production grew at a solid +6.3% year-to-date. For now, we **maintain our 2026 manufacturing growth forecast at +4.5% YoY** (2025: +4.5%), as production growth is expected to moderate once the current frontloading cycle begins to unwind. Meanwhile, we closely monitor the details of the US-Iran agreement, particularly the timing of the reopening of the Strait of Hormuz.

**Figure 1: Manufacturing output rose in April**



Source: Department of Statistics, Apex Securities

**Figure 2: E&E remained resilient in April**



Source: Department of Statistics, Apex Securities

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#### Recommendation Framework:

**BUY:** Total returns\* are expected to exceed 10% within the next 12 months.

**HOLD:** Total returns\* are expected to be within +10% to -10% within the next 12 months.

**SELL:** Total returns\* are expected to be below -10% within the next 12 months.

**TRADING BUY:** Total returns\* are expected to exceed 10% within the next 3 months.

**TRADING SELL:** Total returns\* are expected to be below -10% within the next 3 months.

\*Capital gain + dividend yield

#### Sector Recommendations:

**OVERWEIGHT:** The industry defined by the analyst is expected to exceed 10% within the next 12 months.

**NEUTRAL:** The industry defined by the analyst is expected to be within +10% to -10% within the next 12 months.

**UNDERWEIGHT:** The industry defined by the analyst, is expected to be below -10% within the next 12 months.

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#### ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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(a) nil.

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