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2025 GDP Growth	+5.2%
2026 GDP Growth Forecast:	+5.0%
2025 Export Growth:	+6.4%
2026 Export Growth Forecast:	+16.3%
2025 Unemployment Rate	3.0%
2026 Unemployment Rate Forecast:	3.0%
2025 Headline Inflation:	+1.4%
2026 Headline Inflation Forecast:	+2.0%
End-2025 OPR	2.75%
End-2026 OPR Forecast:	2.75%

Malaysia Industrial Production

Wary of headwinds in 2H26

- **The Industrial Production Index (IPI) rose +6.5% YoY in June (May: +8.5%), albeit below market expectations of +7.2%, led by firmer manufacturing output.**
- **Latest indicators suggest manufacturing momentum should remain firm in July.**
- **A moderation could become more pronounced towards year-end amid a high base and fading stockpiling support.**
- **Key risks include elevated production costs and potentially unfavourable US trade policy.**
- **We have revised our manufacturing growth forecast higher to +6.2% (previously: +4.5%).**

Manufacturing strength offsets mining weakness

IPI sustained its firm momentum at +6.5% YoY in June (May: +8.5%), although slightly below market expectations of +7.2%. The steady expansion was underpinned by firmer manufacturing output (+7.3%; May: +6.6%) and electricity production (+6.7%; May: +4.8%), partly offset by weaker mining output (+3.1%; May: +19.8%). On a month-on-month basis, IPI accelerated to +5.5% (May: +1.4%), reflecting still-firm industrial momentum.

Mining growth was weighed by a decline in petroleum output (-3.3% YoY; May: -0.7%) and a moderation in natural gas (+7.4%; May: +37.4%), partly as the low base effect from last year gradually eased. We expect mining activity to expand at a more moderate pace in the coming months as base effects normalise.

Domestic-oriented manufacturing gaining strength

Manufacturing remained the key growth driver, with its contribution to headline IPI growth rising to +5.6ppts (May: +5.1ppts). The export-oriented cluster maintained its firm momentum, expanding +7.6% YoY (May: +8.8%), supported by gains in "electric & electronic products" (+13.6%; May: +16.2%), "machinery & equipment" (+10.6%; May: +6.8%) and "plastics products" (+2.2%; May: +1.9%).

Meanwhile, the domestic-oriented cluster accelerated to +6.4% YoY (May: +2.0%), underpinned by stronger growth in "food processing products" (+6.3%; May: +3.7%), "basic pharmaceuticals, medicinal chemical & botanical products" (+6.4%; May: +2.5%) and "basic metals" (+8.2%; May: +7.3%). Despite the positive performance, we caution that growth in the domestic-oriented cluster remains inherently volatile.

E&E cushions near-term resilience

On a positive note, Malaysia's manufacturing PMI remained in expansionary territory at 50.7 in July (Jun: 50.7). Manufacturers ramped up production following stronger new orders, supported by firmer demand, new product launches and newly secured tenders. Thus, despite the expected unwinding of stockpiling activities, we expect domestic manufacturing momentum to remain firm in July.

Further out, growing chip applications across AI, EV and industrial segments should continue to underpin export-oriented manufacturing, particularly the E&E segment. Our positive view is supported by the latest robust nominal manufactured goods export performance, which surged +47.3% YoY in June. Meanwhile, domestic-oriented industries should provide additional support to overall industrial activity, underpinned by resilient domestic demand.

Headwinds in 2H26

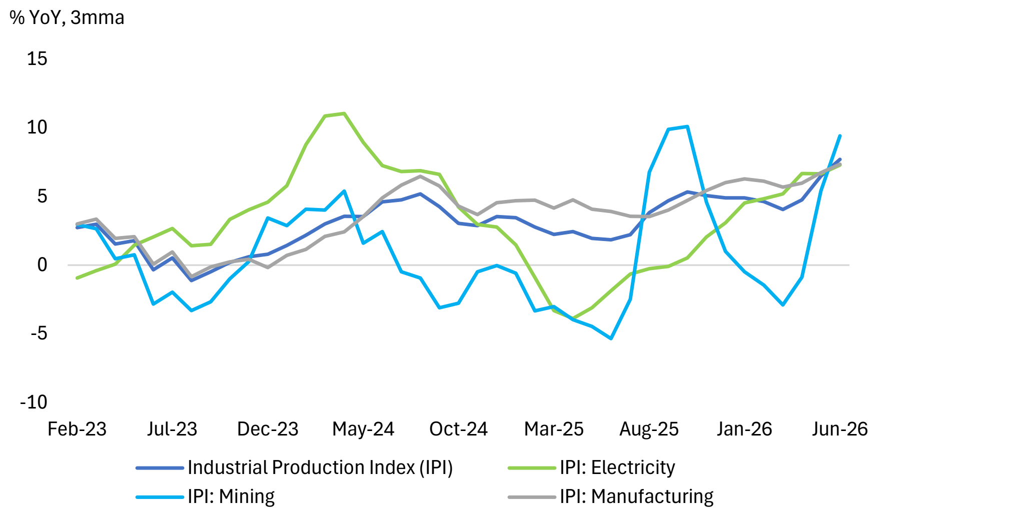
We remain cautiously optimistic on the domestic manufacturing outlook for 2H26. A moderation in industrial momentum could become more pronounced towards year-end, given the **high base from last year's strong 2H25 performance** and fading support from stockpiling activities. Notably, June manufacturing PMI indicated that firms' purchasing activity remained broadly flattish, suggesting that inventory frontloading is beginning to unwind.

Other key risks to Malaysia's manufacturing outlook include: i) **elevated material and logistics costs**, with PPI reaching a four-year high of +9.2% YoY in June; and ii) **potentially unfavourable US trade policy**, which could materially disrupt export-oriented production.

Manufacturing growth revised higher

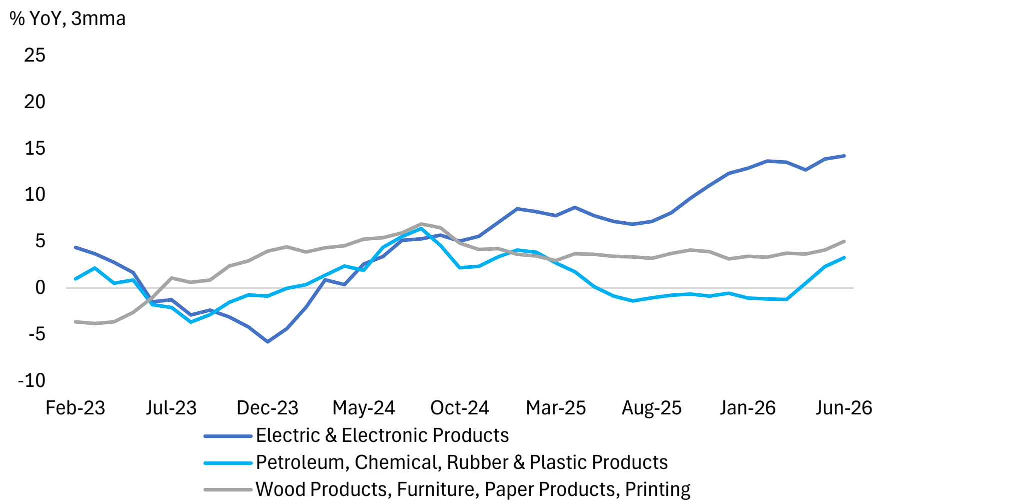
Manufacturing production expanded by a robust +7.4% YoY in 2Q26, reinforcing our expectation of a strong 2Q26 GDP performance ahead of the actual GDP release on 14 August. We forecast 2Q26 GDP growth at +5.8%, broadly in line with the advance estimate. Given the stronger-than-expected 1H26 growth, we recently raised our 2026 GDP growth forecast to +5.0% (previously +4.7%), alongside a corresponding **upward revision to our manufacturing growth forecast to +6.2%** (previously +4.5%).

Figure 1: Manufacturing output accelerated in June



Source: Department of Statistics, Apex Securities

Figure 2: E&E remained resilient in June



Source: Department of Statistics, Apex Securities

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.

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

As of **Wednesday, 12 Aug, 2026**, the analyst(s), whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:
(a) nil.