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2025 GDP Growth	**+5.2%**
2026 GDP Growth Forecast:	**+5.0%**
2025 Export Growth:	**+6.6%**
2026 Export Growth Forecast:	**+26.2%**
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

Resilience amid headwinds

- **The Industrial Production Index (IPI) moderated to +4.7% YoY in July (Jun: +6.5%), below consensus of +5.6%, led by a sharp decline in mining.**
- **The AI-driven tech upcycle supports our broad optimism on the manufacturing outlook.**
- **We expect manufacturing activity to remain relatively firm in 2H26, ruling out a sharp deterioration at this juncture.**
- **Key downsides include a high base effect from last year, elevated producer cost pressure, uncertain US trade policy and haze conditions.**
- **We keep our 2026 manufacturing growth forecast at +6.2% YoY (YTD: +6.5%; 2025: +4.5%).**

July print below expectations

IPI growth moderated to +4.7% YoY in July (Jun: +6.5%), undershooting market expectations of +5.6%. The softer print was driven by a contraction in mining (-3.2%; Jun: +3.1%), while manufacturing (+6.4%; Jun: +7.3%) and electricity output (+5.0%; Jun: +6.7%) slowed. On a month-on-month basis, IPI declined by 2.0% MoM, partly reflecting the seasonal moderation typically observed in July.

Mining sector a drag

Mining fell on a sharp decline in petroleum (-13.1% YoY; Jun: -3.3%) and a slowdown in natural gas (+3.6%; Jun: +7.4%) output, resulting in a 0.6ppt drag on headline IPI growth (Jun: +0.5ppts). While the mining sector could benefit from elevated energy prices, we expect domestic mining activity to remain moderate in the coming months as base effects normalise.

Manufacturing remained the key growth driver, though moderating slightly to +6.4% YoY (Jun: +7.3%). The export-oriented cluster maintained its steady momentum, expanding +6.7% (Jun: +7.6%), supported by “electric & electronic products” (+13.3%; Jun: +13.6%), “machinery & equipment” (+14.6%; Jun: +10.6%) and “wearing apparel” (+2.8%; Jun: +0.2%), consistent with the improving external backdrop over the past year.

Meanwhile, the domestic-oriented cluster eased to +5.8% YoY (Jun: +6.4%). Softer momentum in “motor vehicles, trailers & semi-trailers” (+4.2%; Jun: +12.6%), “transport equipment” (+1.2%; Jun: +3.1%) and “paper & paper products” (+4.1%; Jun: +6.3%) was partly offset by firmer “food processing products” (+7.2%; Jun: +6.3%) and “basic pharmaceuticals, medicinal chemical & botanical products” (+8.3%; Jun: +6.4%).

Robust tech demand remains the key anchor

The sustained strength in the external sector reinforces our broad optimism on the manufacturing outlook. In particular, the AI-driven technology upcycle should continue to lift Malaysia’s export-oriented segment, which accounts for c.46% of total manufacturing output. The Semiconductor Industry Association (SIA) projected global semiconductor sales to remain robust, reaching USD1.5tn in 2026 (2025: USD800bn) and USD1.9tn in 2027.

Steady outlook despite headwinds

Malaysia’s manufacturing PMI remained in expansion territory at 50.2 in August (July: 50.7). However, new orders continued to grow only marginally, contributing to a moderation in production. In addition, manufacturers reported that sufficient stock holdings led them to scale back buying activity. This reinforces our earlier view that the recent strength in industrial activity, partly driven by frontloading, is likely to wane in 2H26. Nonetheless, **we expect manufacturing activity to remain relatively firm, ruling out a sharp deterioration at this juncture.**

Other key downsides to Malaysia’s industrial production outlook include: i) **high base from last year’s strong 2H25 performance**; ii) **elevated cost pressure for producers**; iii) **potentially**

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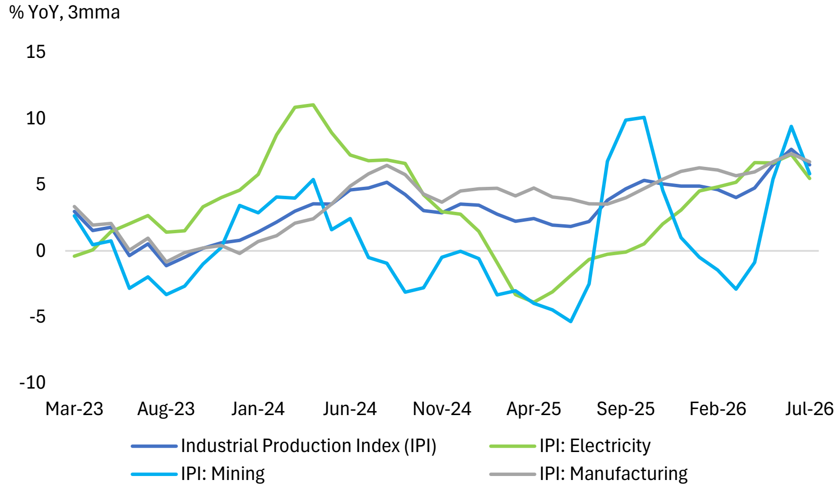
unfavourable US trade policy; and to a lesser extent iv) **haze conditions**, which could disrupt logistics and lengthen raw material lead times.

Maintain growth forecast

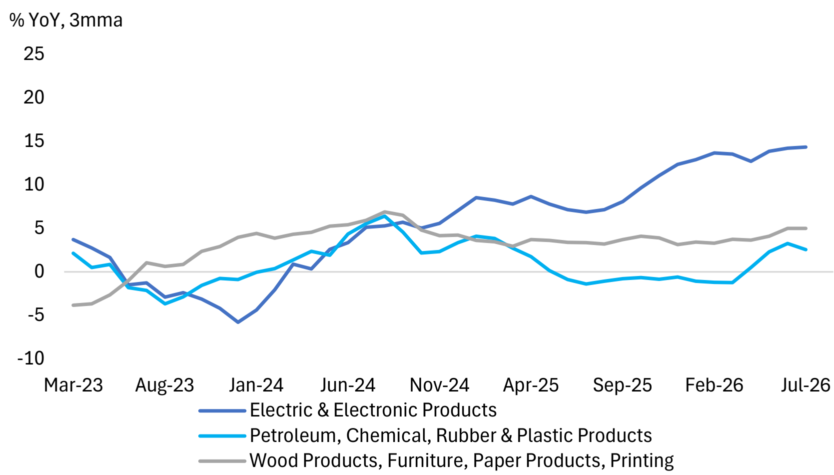
Manufacturing production grew at a solid +6.5% year-to-date. We thus **maintain our 2026 manufacturing growth forecast at +6.2% YoY** (2025: +4.5%), reflecting a steady albeit moderating production trend in 2H26 amid a more challenging and uncertain macro environment. We also maintain our 2026 GDP forecast at +5.0% (2025: +5.2%).

Figure 1: Mining output declined in July



Source: Department of Statistics, Apex Securities

Figure 2: E&E remained resilient in July



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

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(a) nil.

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