

Economic Focus

1Q26 GDP: Sustained growth momentum

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- **Strong 1Q26 GDP growth of 5.4% y-o-y on steady momentum in domestic spending**
- **We maintain a cautiously constructive view with GDP growth projected at 4.5% for 2026**
- **Relatively well-positioned to weather the energy supply disruption better than many of its Asian peers**

Continued expansion in domestic demand

Malaysia's economy grew 5.4% y-o-y but was flat q-o-q on a seasonally adjusted (SA) basis in 1Q26 (4Q25: +6.2% y-o-y; +1.4% SA q-o-q). This was higher than the advance estimate released earlier. The strong 1Q26 GDP performance was largely attributed to the sustained expansion in domestic demand (+5.2%) and firm net exports (+13.5% vs -7.9% in 1Q25). It is noteworthy that continued export growth driven by the strong expansion in AI spending boom helped to cushion the impact from geopolitical conflicts.

Sustained household spending and investment activities

Domestic consumption in 1Q26 was supported by sustained expansion in the labour market. The unemployment rate remained at an 11-year low of 2.9% in Mar 2026, alongside a historic high labour force participation rate. In addition, private sector nominal wage growth stood at a three-year high of 4.1% in 1Q26 (4.1% in 4Q25) given the tight labour market. Unsurprisingly, strong household spending remains the cornerstone of Malaysia's growth driver as reflected in firm discretionary spending. Meanwhile, 1Q26 capital expenditure grew at a healthy pace of 7.3% y-o-y (4Q25: +9.3%), reflecting the positive impact arising from record-high approved investments in 2023-2025 and various government-led strategic developments. On the other hand, government expenditure increased by 4.1% (4Q25: +6.6%) on steady supplies and services spending.

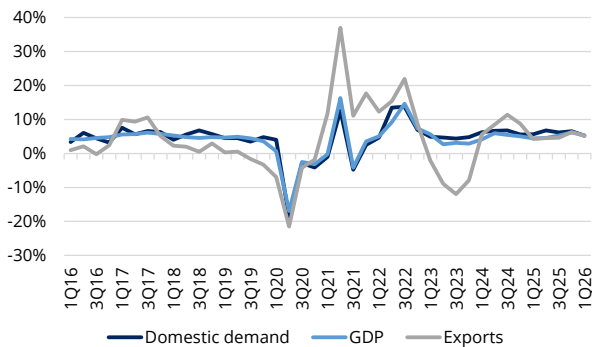
Riding on well-diversified economic structure

Within the Services sector (60% of 1Q26 GDP; +5.6% y-o-y), the Wholesale & Retail Trade sub-sector rose by 4.8% y-o-y (5.7% in 4Q25) while Transportation and Storage sub-sector growth remained steady at 8.5% y-o-y (8.8% in 4Q25). Meanwhile, the Construction sector grew 7.7% y-o-y (vs 10.9% in 4Q25) after two years of double-digit growth with some major infrastructure projects nearing completion. The Manufacturing sector maintained firm growth momentum at 5.9% y-o-y in 1Q26 (4Q25: 6.0%), driven by a three-year high expansion of 15.6% y-o-y in the E&E industry (4Q25: 13.9%). Nevertheless, the Agriculture sector posted a subdued 2.6% y-o-y growth in 1Q26 with normalised oil palm production while the Mining sector declined 2.1% y-o-y due to weaker hydrocarbon output.

In a position of strength to navigate external shocks from Middle East

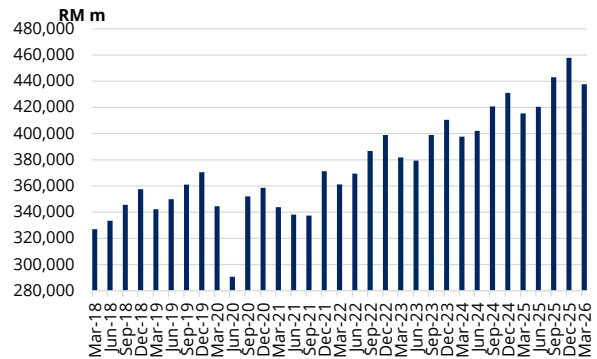
We remain cautiously constructive on Malaysia's economic outlook and maintain our 2026 GDP growth of 4.5% in anticipation of weaker growth momentum in the coming months due to sharp increases in energy and commodity prices as well as supply chain disruptions from the Middle East. Nevertheless, Malaysia is relatively well-positioned to weather the disruption better than many of its Asian peers given its status as a net energy exporter. We believe Malaysia's strong fundamentals anchored by firm domestic demand and a diversified export base will continue to underpin the economy's resilience. Key downside risks include a prolonged Middle East conflict, slowdown among key trading partners, higher cost of living and lower-than-expected commodity production.

1Q26 GDP grew 5.4% y-o-y on firm domestic demand



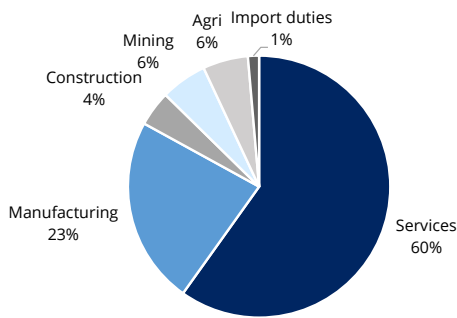
Source: Department of Statistics, AllianceDBS

Quarterly real GDP (RMm): Sustained y-o-y expansion



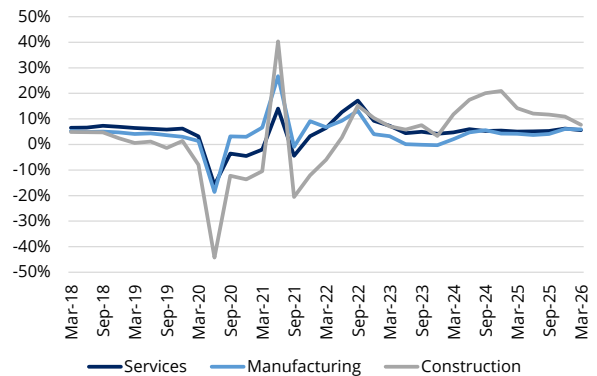
Source: Department of Statistics, AllianceDBS

Supply side: Composition of 1Q26 GDP



Source: Department of Statistics, AllianceDBS

Supply side: Y-o-y GDP growth by sector



Source: Department of Statistics, AllianceDBS

Supply side: Breakdown of y-o-y GDP growth

	2025					
	share	1Q25	2Q25	3Q25	4Q25	1Q26
Services	59.5%	5.1%	5.1%	5.3%	6.2%	5.6%
Manufacturing	23.0%	4.2%	3.7%	4.1%	6.0%	5.9%
Agriculture	6.1%	0.7%	2.5%	0.2%	5.7%	2.6%
Mining	5.7%	-2.6%	-5.2%	9.4%	1.4%	-2.1%
Construction	4.3%	14.2%	12.1%	11.7%	10.9%	7.7%
GDP		4.4%	4.6%	5.3%	6.2%	5.4%

Source: Department of Statistics, AllianceDBS

Demand side: Breakdown of y-o-y GDP growth

YoY %	2025					
	share	1Q25	2Q25	3Q25	4Q25	1Q26
Domestic Demand	96%	5.6%	6.8%	6.2%	6.6%	5.2%
Private Consumption	61%	4.8%	5.1%	5.8%	5.6%	4.7%
Private Investment	17%	9.1%	11.7%	7.4%	9.2%	7.8%
Public Consumption	13%	2.7%	5.7%	5.8%	6.6%	4.1%
Public Investment	5%	11.6%	13.5%	7.5%	9.5%	5.3%
Net exports	3%	-7.9%	-58.3%	32.2%	-32.9%	13.5%
GDP		4.4%	4.6%	5.3%	6.2%	5.4%

Source: Department of Statistics, AllianceDBS

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