AmBank Economics

#WhatWeThink

Malaysia 1Q2026 GDP: 1Q2026 GDP off to a strong start before softening in the upcoming quarters

12 May 2026

We anticipate the official 1Q2026 GDP data, due this Friday, to confirm robust growth of 5.4% y/y for the quarter, slightly higher than the advance estimate of 5.3%, slowing down from 6.3% recorded in the previous quarter.

Economic growth remained resilient despite external headwinds

Such compelling growth was bolstered by firmer domestic demand, with the labour market remaining encouraging, as evidenced by falling unemployment claims. Additionally, Malaysia's trade balance remains strong, as exports continued to outpace imports in 1Q2026. The country has recorded over 70 consecutive months of trade surplus since May 2020, signalling a strong external position despite adverse global conditions. Exports remained solid, driven by the electrical and electronic (E&E) sector, while import growth stayed firm, indicating sustained domestic demand.

Meanwhile, the latest coincident and leading indices seem promising, as both sustained y/y expansion, though near-term softened as seen in the m/m decline. The latest assessment showed that Malaysia is not turning down sharply; perhaps it is entering a softer growth phase in the upcoming months.

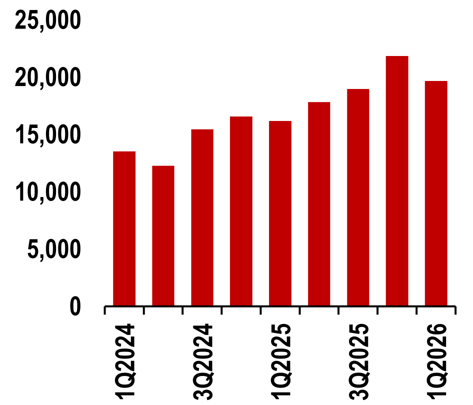
On the supply side, growth moderated across most sectors, including services, during the quarter. Although Malaysia's tourism sector recorded a strong performance, with international arrivals exceeding 10 million in 1Q2026, we believe the near-term outlook may warrant reassessment in light of the West Asia conflict. This is especially true when the Visit Malaysia Year 2026 (VMY2026) campaign has been extended to next year to strengthen the country's tourism promotion strategies. Furthermore, a prolonged West Asia conflict may weigh on the tourism sector by increasing transportation costs, as elevated jet fuel prices could translate into higher airfares, prompting more flight cancellations and weakening travel demand.

Upbeat 1Q2026 remains in line with our outlook

1Q2026 growth of above 5.0% aligns with our expectations and was already incorporated into our 4.5% full-year growth forecast. We had anticipated a strong start to 2026, underpinned by carry-over effects from 2025's GDP outperformance, alongside additional support to household consumption from civil servants' salary hikes in January and the one-off RM100 SARA handouts for all Malaysian adults distributed in February. The investment upcycle – driven by increased adoption of artificial intelligence (AI) and the continued development of industrial parks and economic zones – also remains intact.

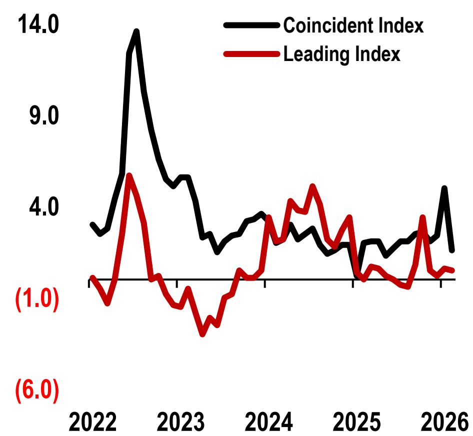
Looking ahead, however, we expect growth to moderate amid heightened global uncertainties. Key downside risks stem from ongoing conflicts in West Asia, which have resulted in prolonged closure of the Strait of Hormuz, disrupting

Exhibit 1: Loss of Employment (LOE), person



Sources: SOCSO, AmBank Economics

Exhibit 2: Composite Index, y/y%



Sources: DOSM, AmBank Economics

global supplies of oil, gas, metals and fertilisers, thereby weighing on growth and adding to inflationary pressures. In addition, some growth drivers are likely to ease, such as exports, as the frontloading impact begins to subside.

The impact of the war in West Asia will likely manifest as a lagged, supply-side shock. As such, we opine that the economy will see material effects only emerging from 2H2026. There is currently no immediate recession risk. Unlike past crises, the current environment remains relatively resilient despite the global oil supply crunch, but it is unlikely to persist. The key question is how long demand can withstand the drag from the global oil prices and supply shocks when real incomes and demand are under pressure.

On balance, while the pace of growth is expected to soften, the risk of a recession or a sharp downturn remains low in the near term. As such, we expect Bank Negara Malaysia (BNM) to maintain the Overnight Policy Rate (OPR) at 2.75% for the remainder of 2026.

Exhibit 3: GDP by supply side, y/y%

Growth (y/y %)	4Q25	1Q26F	
		AE	AmBank Economics Forecast
Services	6.3	5.4	5.5
Manufacturing	6.1	5.8	5.7
Mining	2.0	(1.1)	(2.8)
Agriculture	5.4	2.8	4.3
Construction	11.0	7.8	8.0
GDP	6.3	5.3	5.4

Sources: DOSM, AmBank Economics

Exhibit 4: GDP by demand side, y/y%

	4Q25	1Q26F
Domestic Demand	6.3	5.7
Private Consumption	5.3	5.2
Public Consumption	8.0	6.0
Private Investment	9.2	7.1
Public Investment	9.5	6.4
Exports	3.9	4.6
Imports	7.9	5.3
Net Exports	(45.8)	(3.8)

Sources: DOSM, AmBank Economics

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