

Economic growth expected to ease in second half

PETALING JAYA: Most economists expect Malaysia's economy to moderate in the second half of this year (2H26), viewing this as a normalisation from the strong 1H26 performance rather than a broad-based deterioration in economic fundamentals.

TA Research said in a note that less favourable base effects should mechanically temper headline growth, but resilient domestic demand, continued expansion in services and manufacturing, tourism activity and ongoing investment should keep the economy on a healthy growth trajectory.

It forecasts gross domestic product (GDP) growth of 5.1% in 2026 (2025: 5.2%), underpinned by strong growth of 5.7% in 1H26, before moderating to around 4.6% in 2H26.

"Risks to the outlook remain centred on geopolitical developments, global demand conditions and inflationary pressures," TA Research said.

An economist told *StarBiz* that he too was expecting growth to moderate in the coming quarters, mostly due to a base effect.

"On its own, we are expecting the economy to still remain on a healthy trajectory," he said.

TA Research noted that Malaysia's economy expanded strongly by 6% year-on-year (y-o-y) in second quarter of financial year 2026 (2Q26), above the Statistics

Department's estimate of 5.8% y-o-y and in line with its expectation for growth to approach 6%.

"The pace accelerated from 5.4% y-o-y in 1Q26, supported by resilient domestic activity and stronger external demand," it added.

It said manufacturing should remain one of the key growth drivers in 2H26, although growth is expected to normalise from the strong 1H26 performance.

"The purchasing managers' index or PMI remains above the 50-point threshold, while sustained semiconductor demand should continue to support export-orientated industries," it said.

It noted July exports could remain firm, underpinned by global demand for electronics and artificial intelligence-related components, although a clearer assessment will emerge following the release of Malaysia's July trade data on Aug 20.

"Construction should also remain supportive, backed by ongoing infrastructure, non-residential and investment-related projects, with growth expected to moderate more gradually after the strong 1H26," said TA Research.

Apex Securities Research in its note to clients, said its 2026 GDP forecast of plus 5% y-o-y implies growth moderating to plus 4.4% in 2H26, partly reflecting a high

base effect from strong 2H25 growth.

Apex Securities said the drag from Middle East tensions may become more visible in 2H26 as the risk shifts from supply disruption to persistent cost pressures, which could increasingly weigh on production and investment.

"While businesses have largely mitigated supply risks through alternative suppliers, Bank Negara Malaysia noted that these come at higher prices, with the producer price index rising to a four-year high of plus 9.2% in June," it said.

It said economic momentum may also soften as earlier frontloading and stockpiling activities unwind, adding that Malaysia's July manufacturing PMI showed firms' purchasing activity remained broadly flat despite higher new orders, suggesting that inventory front-loading is beginning to fade.

Phillip Capital Research, which is a little more upbeat than most of its peers, said on the whole, the domestic economy had demonstrated greater resilience than expected despite persistent external uncertainties.

"With stronger-than-expected manufacturing and external trade performance, alongside resilient domestic demand, we see the balance of risks to our GDP forecast shifting to the upside," it said in a report.