

Stabilisation in 2H2025, Gradual Improvement Expected in 1H2026

Kuala Lumpur, March 17, 2026 – The Federation of Malaysian Manufacturing (FMM) has released the findings of the 28th edition of its Business Conditions Survey for the second half of 2025, which shows that Malaysia’s manufacturing sector stabilised in 2H2025 following the slowdown recorded earlier in the year. Operational indicators such as production and capacity utilisation improved modestly as firms adjusted to evolving business conditions, although demand recovery remained uneven and cost pressures continued to stay elevated.

Looking ahead to the first half of 2026, manufacturers expect a gradual improvement in operating conditions, though uncertainties surrounding demand and input costs are likely to continue tempering expansion. The survey, which drew 631 respondents nationwide and was conducted from January 12 to February 27, 2026, tracked business sentiment through the FMM Business Conditions Index (FMM BCI), covering both actual performance in 2H2025 and the outlook for 1H2026. As the survey was conducted before the outbreak of the current Iran–US–Israel conflict, the outlook findings do not take into account any subsequent impact of the war on Malaysian manufacturers.

2H2025 PERFORMANCE: STABILISATION EMERGES AFTER EARLIER WEAKNESS

The manufacturing sector recorded modest improvement in 2H2025 following the earlier slowdown, with key operational indicators showing signs of stabilisation. The general business activity index rose to 103 from 77 in 1H2025, while both production volume and capacity utilisation improved to 102, indicating that firms were gradually restoring operational stability. Capital investment also edged up to 103, while employment remained broadly stable at 98. However, the recovery remained uneven, as local sales (94) and export sales (93) stayed below the neutral threshold, reflecting fragile demand conditions, while production costs remained elevated at 146 despite some moderation. Overall, the findings suggest that the sector has entered a phase of stabilisation rather than broad-based recovery, with firms remaining cautious amid persistent cost pressures and uncertain demand.

OUTLOOK FOR 1H2026: CAUTIOUS OPTIMISM AS RECOVERY GRADUALLY BUILDS

Manufacturers are entering 1H2026 with cautious optimism, expecting gradual improvement in overall business conditions as the recovery continues to build. Forward-looking indicators for business activity, production and capacity utilisation are projected to strengthen further, with the business activity index expected at 104, production volume and capacity utilisation at 106, capital investment at 110 and employment at 106, suggesting a measured resumption of investment and hiring. However, demand conditions are expected to remain uneven, with local sales projected at 95 and export sales around 100, while production costs are expected to stay elevated at 150. Overall, the findings suggest that although operating conditions are improving, manufacturers remain prudent amid lingering demand uncertainty and persistent cost pressures.

REVENUE OUTLOOK 1H2026: Remains Moderately Positive – Manufacturers expect revenue conditions in 1H2026 to improve moderately, with 48% of respondents anticipating higher revenues compared with 2H2025, while 28% expect no change and 24% foresee declines. The outlook suggests a generally positive but measured recovery, as most firms expecting growth anticipate only incremental gains, with about 20% projecting revenue increases of 1–5% and 14% expecting 6–10% growth, while only a small share foresee stronger expansion. At the same time, the findings also point to continued fragility in demand across parts of the sector, with around a quarter of firms expecting revenue declines, including some anticipating significant reductions.

PROFIT OUTLOOK 1H2026: Remains Cautious Amid Margin Pressures – Manufacturers' profit expectations for 1H2026 remain more cautious than their revenue outlook, highlighting the continued strain of elevated costs on margins. About 41% of respondents expect profits to increase, while 26% foresee no change and 33% anticipate declines. Most expected gains are modest, with 22% projecting profit growth of 1–5%, while fewer firms expect stronger improvements. At the same time, nearly 8% of respondents foresee profit declines of more than 25%, indicating that margin pressures remain significant for a sizeable segment of manufacturers. Overall, the findings suggest that although sales prospects are improving, persistent cost pressures continue to limit the extent to which stronger revenues translate into higher profitability..

BUSINESS CONFIDENCE - 1H2026 vs 2H2025: Business Confidence Remains Cautiously Mixed in 1H2026 – Manufacturers expect a modest improvement in business confidence for 1H2026, although sentiment remains mixed across the broader operating environment. Firms are generally more positive about their own business conditions, with 39% anticipating improvement, reflecting expectations of gradual strengthening in internal operations. However, views on the manufacturing industry, domestic economy and consumer demand remain more balanced, suggesting that recovery is likely to be uneven and moderate. Sentiment on the global economy is notably more cautious, with a larger share expecting deterioration than improvement, highlighting continued uncertainty over external demand and international conditions. Against this backdrop, technology adoption stands out as a relative bright spot, with firms remaining optimistic about continued digitalisation and productivity-enhancing investments. Overall, the findings suggest that while manufacturers are cautiously positive about their own near-term prospects, wider economic uncertainties are likely to temper the pace of recovery.

KEY BUSINESS CHALLENGES IN 1H2026 REMAIN: COST, COMPETITION AND WEAK DEMAND – Manufacturers expect the main business challenges in 1H2026 to remain centred on rising input costs, intensifying competition and weak demand, which continue to constrain operations and growth. The most frequently cited concerns were cost pressures (56%), increasing competition (53%), weak demand (46%), difficulty attracting new customers (45%) and changes in global trade policies (43%), underscoring the combined impact of margin pressure and uncertain market conditions. In contrast, issues such as data security, RON95 subsidy rationalisation, financing access and foreign skilled labour were mentioned by relatively fewer respondents. Overall, the findings reinforce the broader survey picture of a sector that is stabilising but still facing an uneven recovery, with firms likely to remain cautious in their operating and investment decisions.

KEY BUSINESS OPPORTUNITIES IN 1H2026 CENTRE ON COST EFFICIENCY, PRODUCT EXPANSION AND EXPORT GROWTH – Manufacturers see the main opportunities in 1H2026 as improving cost efficiency, expanding product offerings and strengthening export market presence. The most frequently identified opportunities were cost control (61%) and expanding product portfolios (57%), reflecting firms' focus on operational efficiency and market competitiveness. Export-related opportunities also featured strongly, with 40% citing exports to new countries and 38% seeing scope to grow exports in existing markets, while 37% pointed to enhanced marketing efforts. Some firms also identified opportunities in digital technologies, AI and business innovation, though these were less widely cited. Overall, the findings suggest that manufacturers are prioritising practical growth strategies that improve resilience, competitiveness and market reach amid continued cost pressures and evolving demand conditions.

INDUSTRY 4.0 ADOPTION CONTINUES TO GAIN GROUND - Industry 4.0 adoption in manufacturing continued to improve in 2H2025, with 38% of respondents reporting implementation of Industry 4.0 technologies, up from 32% in 1H2025, indicating gradual progress in digital transformation across the sector. Among adopters, manufacturers are primarily focusing on foundational technologies that enhance connectivity and operational integration, with system

integration, IoT and cloud computing being the most widely implemented. Data-driven tools such as AI, big data analytics and cybersecurity are also gaining traction, while more advanced technologies such as autonomous robots, additive manufacturing, simulation, advanced materials and augmented reality remain less widely adopted. Overall, the findings suggest that manufacturers are taking a practical and staged approach to Industry 4.0, prioritising basic digital infrastructure and integration before moving towards more advanced technologies.

MANPOWER STRATEGIES IN 2026 FOCUS ON UPSKILLING, AUTOMATION AND TALENT PIPELINES – Manufacturers' manpower strategies for 2026 are centred on upskilling and reskilling existing employees, increasing automation and digitalisation, and strengthening talent pipelines through internships, industrial training and recruitment of TVET graduates. The strongest emphasis is on skills development, alongside efforts to reduce labour dependence through technology adoption, while some firms will continue to rely on foreign workers where local supply remains limited. Respondents also highlighted the importance of government support, particularly incentives for automation and digitalisation, reduced regulatory burdens, hiring incentives for local workers, clearer foreign worker policies and stronger support for training and TVET collaboration. Overall, the findings show that manufacturers are adopting a multi-pronged workforce strategy to improve capability, productivity and labour resilience.

CIRCULAR ECONOMY AND EXTENDED PRODUCER RESPONSIBILITY (EPR) AWARENESS IS EMERGING, BUT PREPAREDNESS REMAINS LIMITED - Awareness of circular economy practices among manufacturers is gradually increasing, but familiarity, adoption and regulatory readiness remain at an early stage. While 40% of respondents are somewhat familiar with the circular economy, only 6% are very familiar, and 54% have limited or no awareness. Adoption is still modest, with 16% already implementing circular economy practices, 23% in progress and 24% planning to do so, while 36% have yet to begin. Current efforts are mainly focused on basic measures such as waste reduction and resource efficiency (80%) and recycling or use of recycled materials (66%), with more advanced practices remaining less common.

Awareness of Extended Producer Responsibility requirements is also mixed, with only 16% aware of EPR regulations, while preparedness remains low as just 5% reported being well prepared. The main barriers cited were unclear regulations (55%), high implementation costs (52%), lack of supporting infrastructure (42%) and supply chain constraints (38%). Overall, the findings suggest that while momentum is beginning to build, clearer policy guidance, stronger industry support and better implementation infrastructure will be essential to help manufacturers scale up circular economy practices and prepare for future EPR obligations.

US RECIPROCAL TARIFFS: IMMEDIATE IMPACT LIMITED, BUT COMPETITIVENESS RISKS ARE EMERGING - The immediate impact of the United States reciprocal tariffs on Malaysian exporters has so far been mixed and relatively limited, with 49% of respondents reporting no material impact since the 19% tariff rate took effect in August 2025. However, early signs of strain are emerging, with 25% reporting margin compression, 21% facing reduced orders, 18% adjusting production or delivery schedules, and 8% experiencing cancellations or deferrals of US-linked orders. Indirect effects are also being felt along supply chains, as 22% of non-direct exporters reported reduced orders from customers serving the US market, while 19% faced requests for price reductions and 11% reported inventory build-up. At the same time, 34% of affected firms believe the tariffs have reduced Malaysia's price competitiveness, while 22% said the added costs cannot be fully passed on to buyers. Overall, while the immediate effects remain manageable for many firms, the findings point to rising competitiveness risks and continued uncertainty over the longer-term impact on Malaysian exports.

SST-RELATED EMBEDDED COSTS CONTINUE TO WEIGH ON EXPORT COMPETITIVENESS - The survey indicates that SST continues to undermine export competitiveness mainly through embedded supply chain costs, especially in logistics, freight, warehousing and other service-related inputs. More than half of respondents reported either a moderate (36%) or significant (16%) impact on export pricing and margins, while additional cost pressures also arise through local supplier pricing (51%), service tax on rental, leasing, maintenance and professional services (49%), and sales tax on raw materials or components used in export production (47%). Exporters using intermediaries face added administrative and cost challenges, particularly where SST relief is unclear or difficult to claim. Overall, the findings suggest that SST-related embedded costs continue to compress margins and weaken the competitiveness of Malaysian exporters in international markets.

SMART TECH UP AWARENESS AND UPTAKE REMAIN LIMITED - Awareness and participation in the Smart Technology Uptake Programme (Smart Tech Up) remain relatively low among manufacturers, with only 25% of respondents aware of the programme and just 23% of those aware having applied. Uptake appears to be constrained by several factors, including eligibility requirements (37%), the complexity of the application process and documentation (31%), lack of internal technical expertise (28%) and financial constraints related to matching contributions (24%). Overall, the findings suggest that while Smart Tech Up could support technology adoption and digital transformation, stronger outreach, simpler application procedures and more accessible programme conditions will be important to improve participation among manufacturing firms.

EXTERNAL MARKET PRESSURES AND REGIONAL COMPETITIVENESS: Stronger Ringgit, Rising Chinese Competition and Shifting ASEAN Supply Chains - Manufacturers continue to face growing external pressures from the stronger Ringgit, rising competition from Chinese products and shifting ASEAN supply chains. Half of respondents reported profit margin compression due to the stronger Ringgit, while many also faced weaker export price competitiveness and pressure to renegotiate prices. At the same time, Chinese competition is intensifying across both domestic and export markets, leading firms to focus on cost management, product differentiation and price adjustments to stay competitive. Within ASEAN, manufacturers see both competitive and complementary opportunities, with some increasing regional sourcing and partnerships. Overall, the findings suggest that firms are operating in a more complex external environment and are responding through a mix of cost control, market repositioning and selective regional diversification.



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FMM Advocates Transparency, Integrity, Accountability and No Corruption

About FMM

The Federation of Malaysian Manufacturing (FMM) (formerly known as Federation of Malaysian Manufacturers) has been the voice of the Malaysian manufacturing sector since 1968, advocating policies and initiatives that drive industrial growth, competitiveness and workforce development. Representing over 13,300 member companies (4,200 direct and 9,100 indirect) from the manufacturing supply chain, FMM is actively engaged with government and its key agencies at Federal, State and local levels. FMM is also well-linked with international organisations, Malaysian businesses and civil society. Apart from benefitting from

FMM's advocacy, FMM members enjoy value-added services including training, business networking and trade opportunities as well as regular information updates.

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