FEDERATION OF MALAYSIAN MANUFACTURING

PRESS RELEASE

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Manufacturing Under Pressure in 1H2026, Cautious Recovery Ahead

Kuala Lumpur, September 3, 2026 - The Federation of Malaysian Manufacturing (FMM) has released the findings of the 29th edition of its Business Conditions Survey for the first half of 2026. The results show that manufacturing conditions weakened after the stabilisation recorded in 2H2025, as softer domestic and export demand weighed on business activity, production and capacity utilisation, while production costs increased significantly.

The survey, conducted from July 15 to August 14, 2026, received 670 responses nationwide, of which 72% were small and medium enterprises based on full-time employment. It tracks actual performance in 1H2026 and expectations for 2H2026 through the FMM Business Conditions Index (FMM BCI), where a reading above the growth-neutral threshold of 100 indicates improvement and a reading below 100 indicates deterioration.

1H2026 PERFORMANCE: Business Conditions Weaken Amid Softer Demand and Higher Costs

Manufacturing conditions weakened in the first half of 2026 following the stabilisation recorded in the preceding six months. Softer domestic and export demand weighed on business activity, production and capacity utilisation, while significantly higher production costs added to operating pressures. Nevertheless, capital investment and employment remained relatively resilient, indicating that manufacturers maintained a cautious approach amid weaker demand and rising costs.

General business activity declined to 90 from 103 in 2H2025, while local and export sales fell to 82 and 85 from 94 and 93, respectively. Production volume and capacity utilisation each declined to 94 from 102. In contrast, the production cost index rose sharply to 163 from 146, with 69% of respondents reporting higher costs. Capital investment increased to 106 from 103, while employment improved marginally to the neutral level of 100 from 98.

OUTLOOK FOR 2H2026: Manufacturers Turn More Cautious

Manufacturers have become more cautious about the outlook for the second half of 2026. Expectations for business activity, domestic and export sales, production and capacity utilisation have been revised downwards, while cost pressures are expected to remain elevated. Investment and employment are nevertheless projected to remain relatively resilient, pointing to a subdued recovery constrained by weak demand and continued cost pressures.

The expected business activity index stands at 93, with local and export sales projected at 88 and 92, respectively. Production volume is expected at 99 and capacity utilisation at 98, both slightly below the neutral threshold. The production cost index is projected at 156, with 63% of respondents anticipating further cost increases. Capital investment and employment are expected to remain in positive territory at 107 and 104, respectively.

REVENUE OUTLOOK 2H2026: Modest and Uneven Growth Expected
Revenue expectations are cautiously positive, with 45% of respondents anticipating an increase, including 15% expecting growth of 1-5% and 14% expecting growth of 6-10%. A further 28% expect revenue to remain unchanged, while 27% anticipate a decline, including 8% expecting revenue to fall by more than 25%. The results point to modest and uneven revenue growth rather than a broad-based acceleration.

PROFIT OUTLOOK 2H2026: Margin Pressures Continue to Weigh on Earnings
Profit expectations are more subdued than revenue expectations. While 38% expect profits to increase, 38% anticipate a decline and 24% expect no change. Most anticipated gains are modest, with 18% projecting profit growth of 1-5%, while 12% expect profits to decline by more than 25%. The weaker profit outlook reflects the continued difficulty of passing higher operating costs on to customers.

BUSINESS CONFIDENCE - 2H2026: Firms More Confident About Their Own Prospects Than the Wider Economy
Manufacturers remain more positive about their own businesses than the broader operating environment. Some 32% expect conditions in their own companies to improve, compared with 20% anticipating deterioration. However, 31% expect conditions in their industry to deteriorate, while 46% foresee weaker global economic conditions and 38% anticipate deterioration in Malaysia's economic conditions. Technology deployment remains a relative bright spot, with 35% expecting improvement, although 36% expect end-consumer spending to weaken.

KEY BUSINESS CHALLENGES IN 2H2026: Input Costs and Geopolitical Risks Dominate
Higher raw material and intermediate input costs are the leading challenge, cited by 53% of respondents. This is followed by the West Asia conflict, Red Sea disruptions and higher war-risk costs at 45%, weak domestic and/or export demand at 33%, increasing competition at 31%, and difficulty passing higher costs on to customers and margin compression at 29%. Other concerns include energy and fuel costs at 28%, United States tariff and trade-policy changes at 26%, and exchange-rate volatility and imported inflation

KEY BUSINESS OPPORTUNITIES IN 2H2026: Efficiency, Product Upgrading and Market Development
Manufacturers are prioritising practical strategies to protect margins and strengthen competitiveness. Cost control and operational efficiency lead at 46%, followed by expanding product or service portfolios at 29%, growing sales to existing customers at 28%, and enhancing product quality, innovation and value-added capabilities at 28%. A further 26% are targeting specialised or higher-value niche products, while manufacturers also see opportunities in new domestic and export markets, automation, and digital technologies.

INDUSTRY 4.0 AND AI ADOPTION: Business Use of AI Outpaces Factory Transformation
Industry 4.0 adoption remains uneven, with 36% of respondents reporting implementation, down slightly from 38% in the previous survey. Among adopters, the most widely implemented technologies are system integration at 60%, artificial intelligence (AI) at 49%, Internet of Things (IoT) at 48%, cloud computing at 46%, autonomous robots at 41%, big data analytics at 38% and cybersecurity at 35%.

AI use is more widespread in general business operations, with 62% of respondents using AI software or productivity tools. Among these users, 83% use ChatGPT, followed by Gemini at 50%, Copilot at 47%, Claude AI at 25% and DeepSeek at 20%. This indicates that manufacturers are adopting accessible AI applications faster than undertaking deeper digital transformation of production processes.

GEOPOLITICAL RISKS: Supply, Logistics and Cost Pressures Remain Significant
Geopolitical developments have affected 96% of manufacturers at some stage. Among affected respondents, 74% report raw material shortages or cost increases, 72% face higher freight, logistics and shipping costs, and 44% report higher energy and fuel costs. While 40% say the impact has partially eased, 32% report that it remains at the same elevated level and 11% say it has worsened.

Manufacturers are responding by increasing stocks of critical raw materials, switching suppliers and sourcing countries, restructuring logistics arrangements and diversifying export markets. The most preferred Government measures are duty and tax exemptions for raw materials sourced from alternative origins at 56%, industrial fuel rebates at 40%, tariff reductions or accelerated trade agreements at 32%, and double tax deductions for crisis-related freight, war-risk insurance and rerouting costs at 30%.

GST REINTRODUCTION: Majority Support Reform to Address SST Cost Cascading
The current Sales and Service Tax (SST) system continues to create cost and competitiveness concerns. Some 60% report higher production costs from embedded taxes in the supply chain, while 59% cite unrecoverable taxes on business inputs. Compliance burdens are cited by 45%, regulatory uncertainty by 42%, higher export costs by 34% and reduced pricing competitiveness by 32%.

Against this background, 61% support reintroducing the Goods and Services Tax (GST) to replace SST. A rate of 3% is preferred by 41% of respondents, with 68% favouring a rate of 5% or below. The most important accompanying measures are timely refunds at 71%, clear input tax credit rules at 48%, simple compliance requirements for small and medium enterprises at 43%, and a clear transition and implementation framework at 40%.

RENEWABLE ENERGY ADOPTION: High Upfront Costs Continue to Constrain Investment
Renewable-energy adoption remains gradual. Net Energy Metering has the highest reported adoption at 20%, followed by Solar Accelerated Transition Action Programme at 17%, Self-Consumption and Green Electricity Tariff at 9% each, and Corporate Renewable Energy Supply Scheme and Battery Energy Storage Systems at 3% each. High upfront investment costs are the leading barrier, followed by long payback periods, budget constraints, unsuitable sites and policy uncertainty. Manufacturers favour greater financial incentives or grants at 68%, simpler approvals at 40%, clearer policy direction at 38% and low-interest financing at 35%.

HRD CORP TRAINING GRANT CONDITIONS: Greater Flexibility Needed for Operational Training Requirements

The revised Human Resource Development Corporation (HRD Corp) training grant conditions have hindered training planning for 44% of respondents. The 14-day advance approval requirement is the leading challenge at 56%, while 51% report difficulty arranging urgent or regulatory training, 45% cite reduced flexibility to change training arrangements and 36% anticipate a higher administrative workload. While the findings do not yet indicate a broad-based withdrawal from training, sufficient flexibility is needed to accommodate manufacturers' operational requirements.

PRE-BUDGET 2027 PRIORITIES: Manufacturers Seek Cost Relief and Support for Productive Investment

Manufacturers' priorities for Budget 2027 centre on reducing business costs while preserving the capacity to invest. Direct tax or duty relief for essential raw materials, machinery and production inputs leads at 46%, followed by lower corporate income tax, particularly for small and medium enterprises and mid-tier companies, at 43%. Energy-cost relief is supported by 30%, while 25% each seek faster tax refunds and double tax deductions for freight, logistics and insurance costs. A further 24% favour accelerated capital allowances for machinery, automation, digitalisation and energy-efficiency investments.

Overall, the survey indicates that manufacturers are entering 2H2026 with cautious expectations. Investment and employment remain relatively resilient, but softer demand, geopolitical uncertainty and elevated costs continue to constrain operating conditions and profitability. Policy measures that reduce immediate cost pressures while enabling investment in productivity, technology, skills, supply-chain resilience and renewable energy will be important to strengthen the manufacturing sector's competitiveness and support a more durable recovery.

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President, Federation of Malaysian Manufacturing

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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 13,540 member companies (4,270 direct and 9,270 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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