



FMM Business Conditions Survey 2H2025

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FMM is conducting the **28th FMM Business Conditions Survey** on performance in the second half of 2025 (2H2025) and outlook for first half of 2026 (1H2026).

As with the last 27 surveys since 2012, we are tracking the **FMM Business Conditions Index (FMM BCI)**, which measures members' feedback on their current and expected levels of business activity, local and export sales, production volume, capacity utilisation, capital investment, employment and cost of production.

Topical issues for this survey will focus on assessing manufacturers' views on the following:

- **Manpower Strategies**
- **Circular Economy**
- **Impact of United States Reciprocal Tariffs on Malaysian Exports (Post August 1, 2025)**
- **Sales and Service Tax (SST) Impact on Exports**
- **The Smart Technology Uptake Programme (Smart Tech Up)**
- **External Market Pressures and Regional Competitiveness**

FMM aims to obtain over 1,000 responses for this survey. We seek members' continued support and participation to ensure that the BCI is a **REPRESENTATIVE and ACCURATE index** of manufacturing business conditions and feedback on the current state of business and the economy and current challenges faced are reflective of the industry.

The survey will be conducted completely online. The questionnaire takes about ten to fifteen minutes to complete and can be accessed by scanning the **QR** code above OR online via this link: <https://tinyurl.com/FMMBCS2H2025Survey>.

This survey continues to be an important tool to collect members' feedback on the current and expected levels of business activities as well as on topical issues impacting the manufacturing sector. For instance, the last survey revealed the following:

- In 1H2025: the manufacturing sector's performance weakened as business activity, sales and production indices slipped from the earlier gains of 2024, weighed down by rising costs and fragile demand. Employment levels were largely stable, while investment activity eased slightly, reflecting continuity in operations but reduced appetite for expansion.
- Outlook for 2H2025: the outlook turns more challenging, with all major forward-looking indices falling further. Persistent cost pressures and softer demand expectations suggest that firms are shifting from cautious consolidation to a more defensive stance, prioritising efficiency and risk management over growth.
- The outlook for revenue is fragmented, with 39% forecasting growth (mainly modest at 1–10%), 27% expecting stability, and 34% anticipating declines, including 12% bracing for sharp contractions.
- For profits, sentiment tilts negative: only 32% expect gains (largely marginal at 1–5%), 21% foresee no change, while nearly half (47%) project declines, with 15% anticipating steep contractions.
- Top 5 challenges to business operations and growth in 2H2025: rising input costs, expansion of the Sales and Service Tax (SST), changes in global trade policies, electricity tariff restructuring and weak demand.

- Top 5 opportunities to business operations and growth in 2H2025: expansion of product portfolio, exporting to new countries, opportunities in new international markets, activity to rebound if costs and interest rates decline and leveraging on digital technologies, cloud and artificial intelligence (AI).
- Industry 4.0 Adoption:
 - Only 32% of firms have adopted Industry 4.0, with focus on System Integration (66%), IoT (47%) and Cloud Computing (39%).
- US Tariffs:
 - 37% face significant / major impacts with 13% report losses above 30%.
 - Almost half are diversifying exports while others are shifting supply chains and automating.
 - Tariffs remain a persistent cost and competitiveness challenge.
- SST Expansion:
 - Nearly half face significant impacts from the expansion; 11% report major disruptions.
 - 36% produce mixed goods, increasing compliance complexity; 17% unclear on classification.
 - Among key challenges faced are higher service costs (59%); exemption issues (35%); and Customs tariffs classification challenges (35%).
 - Respondents call for reintroduction of GST and urge exemptions, clarity and better guidance / support from government.
- New Electricity Tariff Revisions on Business Costs:
 - The electricity tariff revisions have pushed up business costs for most users, with HV categories most affected (up to 72%), while LV General shows relatively more stability.
 - By load factor, firms with mid-to-high usage (0.4–1.0) largely face cost increases, while very low load factors (<0.2) see mixed effects.
 - Most reported cost hikes fall within 3–15%, especially 3–5% (26%) and 8–10% (16%), while reductions, where present, were modest.
 - Energy Efficiency: Adoption is strongest in efficient lighting (46%), compressed air optimisation (29%), and power factor correction (23%). Future intent is high for advanced measures like high-efficiency motors (46%), compressed air optimisation (45%), and power factor correction (44%).
 - Renewable Energy: Current adoption is modest - Net Energy Metering (22%), Self-Consumption (14%), and Large-Scale Solar (12%) - but future intent is strong, with over 40% of respondents planning to adopt solar and grid-linked schemes.
- Artificial Intelligence:
 - Respondents show modest familiarity: 12% familiar, 55% somewhat, 33% not familiar.
 - Adoption still low, with only 26% having implemented AI.
 - Top uses include customer service / chatbots (40%), product development (36%), inventory (35%), and production optimisation (33%).
 - Benefits: Biggest gains: productivity (60%) and faster decision-making (57%).

The closing date of the survey is **February 14, 2026.**

Thank you for taking your valuable time off to complete the questionnaire.

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