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INFORMATION**



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To: CEO / Directors / Managing Directors / Finance / Business Development / Sales Managers

FMM Business Conditions Survey 2H2025 - RESULTS

The Federation of Malaysian Manufacturing (FMM) is pleased to publish the findings of the 28th biannual survey of business conditions in the manufacturing sector for the second half of 2025 (2H2025). The findings were successfully released to the media via a press conference on March 17, 2026. We are pleased to enclose a copy of the [survey findings](#) for your reference and record.

The survey revealed that manufacturing activity stabilised in the second half of 2025 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. However, demand recovery remains uneven, with both domestic and export sales continuing to lag while cost pressures remain elevated:

- **General business activity:** The index rebounded from 77 in 1H2025 to 103 in 2H2025, indicating a return to slight expansion. More firms reported improved activity (30%), while those recording declines fell to 28%, suggesting that manufacturers are stabilising after the earlier slowdown.
- **Local sales:** The index rose from 69 to 94, showing some recovery in domestic demand, though it remained below the neutral level. About 24% reported higher sales, while 30% recorded declines, indicating that demand is improving but still fragile.
- **Exports:** The export index increased from 77 to 93, reflecting modest improvement but still remaining below equilibrium. Around 22% of respondents saw higher export sales, while 29% reported declines, pointing to stabilisation amid continued global uncertainty.
- **Production volume:** The index recovered from 83 to 102, showing that production returned to slight expansion. More firms reported higher output (29%), while fewer recorded declines (27%), in line with improving operating conditions.
- **Capacity utilisation:** The index climbed from 80 to 102, reflecting better utilisation as production improved. While nearly half of respondents reported no change, the results suggest operating conditions have strengthened, though spare capacity remains in parts of the sector.
- **Production costs:** The index eased from 158 to 146, indicating that cost pressures moderated slightly but remained elevated. More than half of respondents (55%) still reported higher costs, continuing to weigh on profit margins.
- **Capital investment:** The index edged up from 102 to 103, suggesting that investment was broadly maintained. Most firms kept spending unchanged, reflecting continued caution despite slightly firmer sentiment.
- **Employment:** The index improved marginally from 97 to 98, indicating broadly stable labour market conditions. Most firms maintained workforce levels, with only limited hiring and reductions.

Looking ahead, manufacturers expect gradual improvement in operating conditions, although uncertainties surrounding demand and input costs may continue to temper expansion. Overall, manufacturers appear cautiously optimistic about the near-term outlook while maintaining prudent operational strategies amid persistent uncertainties:

- **General business activity:** The index is projected to improve to 104 in 1H2026, indicating moderate expansion. About 26% of respondents expect higher activity, while 51% foresee stable conditions and 23% anticipate declines, reflecting cautious optimism.



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- **Local sales:** The index is expected to remain subdued at around 95, suggesting that domestic demand recovery will stay uneven despite some stabilisation.
- **Export sales:** The index is projected at around 100, pointing to broadly stable external demand, though global uncertainties continue to temper stronger growth expectations.
- **Production:** The index is forecast to rise to around 106, indicating that manufacturers expect production activity to strengthen further in the coming months.
- **Capacity utilisation:** The index is also projected at around 106, suggesting a gradual improvement in operating conditions as activity picks up.
- **Costs:** The index is expected to ease to around 150, but cost pressures will remain elevated. About 58% of respondents still expect higher costs, showing that input inflation remains a key challenge.
- **Capital investment:** The index is projected to improve to around 110, indicating that firms are gradually resuming investment, although expansion plans remain cautious.
- **Employment:** The index is expected to rise to around 106, suggesting modest improvement in hiring sentiment as firms cautiously expand workforce plans.

Topical issues covered in the survey revealed the following key findings:

- **Outlook for revenue growth is more positive** for 1H2026, with 48% of respondents expecting higher revenues, 28% anticipating no change and 24% projecting declines, indicating moderate improvement though growth expectations remain measured rather than strong.
- **For profits, sentiment has improved but remains cautious**, with 41% expecting gains, 26% no change and 33% declines, as cost pressures continue to weigh on margins.
- **Business confidence remains cautiously mixed for 1H2026**, with firms expecting modest improvement in their own operations and technology adoption, but remaining guarded on the broader industry, global economy and consumer demand.
- **Top 5 challenges** to business operations and growth in 1H2026: rising input costs, increasing competition, weak demand, difficulty in attracting new customers, and changes in global trade policies.
- **Top 5 opportunities** to business operations and growth in 1H2026: cost control, expansion of product portfolios, exports to new countries, growing exports in existing markets, and enhanced marketing efforts, with digital technologies, cloud and AI also seen as important enablers.
- **Industry 4.0 adoption in manufacturing rose to 38%**, up from 32%, with firms focusing mainly on system integration, IoT and cloud computing as part of their digital transformation efforts.
- **Manufacturers' manpower strategies for 2026 are centred on upskilling and reskilling existing employees, increasing automation and digitalisation, expanding internships and industrial training, and strengthening recruitment pipelines** for TVET graduates, while some firms continue to rely on foreign and contract workers; key government support sought includes incentives for automation, reduced regulatory burdens, hiring incentives for locals, clearer foreign worker policies, and stronger support for training and TVET collaboration.
- **Awareness of circular economy practices and Extended Producer Responsibility (EPR) is gradually increasing among manufacturers, but adoption remains at an early stage** and preparedness for EPR compliance is still limited. Current efforts are focused mainly on waste reduction, resource efficiency and recycling, while unclear regulations, high implementation costs, infrastructure gaps and supply chain constraints remain the main barriers to wider implementation.
- **The immediate impact of the United States reciprocal tariffs on Malaysian exporters appears moderate so far**, with nearly half of respondents reporting no material effect. However, some firms are already facing margin compression, reduced orders, production and delivery adjustments, and indirect supply chain spillovers, while growing concerns over price competitiveness suggest that the fuller impact may emerge more clearly over time as global sourcing patterns adjust.
- **The Sales and Service Tax (SST) continues to affect export competitiveness through embedded supply chain costs, especially service-related inputs such as logistics, freight, warehousing and other operational services.** While some exporters view the impact as manageable, many report margin compression, with the burden appearing more pronounced for firms exporting indirectly through intermediaries due to difficulties in obtaining relief and navigating current SST rules.
- **Awareness and uptake of the Smart Technology Uptake Programme (Smart Tech Up) remain limited** among manufacturers, with low participation driven mainly by lack of awareness, eligibility constraints, application complexity, limited technical capacity and financial barriers.
- **External Market Pressures and Regional Competitiveness:**
 - Stronger Ringgit: **The stronger Ringgit has mainly compressed manufacturers' profit margins and weakened export price competitiveness**, with most firms responding by absorbing costs, adjusting export prices or stepping up currency risk management.
 - Competition from Chinese products: **Rising competition from Chinese products is intensifying price pressure and eroding market share in both domestic and export markets**, prompting firms to focus on cost efficiency, product differentiation and higher-value segments.
 - ASEAN supply chain positioning: **Manufacturers view ASEAN as both a source of competition and a strategic production network**, with many firms increasing sourcing, partnerships and regional engagement as supply chains continue to evolve.

FMM would like to thank all members who took the time to respond and give their valuable feedback. The next survey would be in June/July 2026. FMM members' support and continued participation would ensure that the Business Conditions Index (BCI) is representative and accurate monitor of business condition trends in the manufacturing sector.

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