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Assessing Malaysia's Middle Class: Patterns of Income, Occupation, and Household Expenditure

*By **Yeong Qiao Tong** (Research Intern, Socioeconomics and Statistics Programme)*[1]

Executive Summary

- International comparisons underscore that Malaysia's middle class presently shares similar vulnerabilities with other economies. Like the "squeezed middle" in the United States and OECD countries, Malaysia's M40 exhibits declining financial security and rising inequality risks.

- Malaysia's middle class faces growing pressures. Despite rising absolute incomes, the pace of growth has slowed while household expenditure has risen sharply, outpacing inflation, with spending increasingly allocated to essentials such as housing, transport, and food, alongside new necessities such as internet access, smartphones, and digital services.

- The resilience of Malaysia's middle class is increasingly determined by occupational structure, as it is predominantly composed of skilled and semi-skilled workers. Accordingly, this analysis adopts the occupational pyramid since that offers a more strategic analytical framework, prompting a reconsideration of middle-class development beyond the conventional B40/M40/T20 income categorization.

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1. Introduction

Malaysia's middle-income class, referred to as M40, comprises households with a monthly income ranging from RM5,250 to RM11,819, accounting for 40% of the population. This group is widely regarded as a key driver of the nation's economic growth due to its large population; it makes a crucial contribution to domestic consumption and human capital development. Consumption has been consistently increasing over the past decades. Private consumption accounted for 60.7% of GDP in 2024 (MOE, 2025). Within this, the M40 group contributed 40% of total private consumption, followed by the T20 group at 37% and the B40 group at 22%.

The middle class is a social classification broadly reflecting the ability to lead a comfortable life (Kharas and Gertz, 2010). The middle class generally has stable and solid job security, and relatively comfortable retirement prospects, with enough discretionary income to spend on leisure and vacations.

Nevertheless, in the Malaysian context, a considerable share of middle-income households does not perceive themselves as genuinely belonging to the middle class.

The 13th Malaysia Plan (13MP) 2026-2030 aims to raise the floor and ensure improved quality of life and increased income opportunities for Malaysians as the country transforms into a high-income nation. In this context, advancing the middle class is particularly critical because this is the group that needs support for continual skills upgrading and access to education opportunities in AI, STEM and technology leapfrogging.

This paper examines the income and expenditure profiles of the middle class relative to the upper class. In addition, it explores the occupational framework as an alternative lens of analysis, thereby prompting a reconsideration of middle-class development beyond the conventional B40/M40/T20 income categorisation.

2. The Middle Class: Definitions and Global Perspectives

The concept of the middle class has been evolving over time. Originating in Europe during the transition from feudalism to capitalism, the bourgeoisie—merchants, artisans, and professionals—emerged as distinct from both the nobility and the peasantry. Today, defining the middle class has become more complicated. Relative measures include households earning 75–125% of median income or those between the 20th and 80th percentiles, while the OECD adopts a broader 75–200% range. In developing economies, definitions often use absolute thresholds, such as \$1.90–\$10 or \$10–\$100 per day (PPP). On a macro scale, the World Bank categorises entire economies by income levels, with some analyses focusing on risks such as the "middle-income trap."

1. United States

The U.S. middle class has steadily eroded, marked by shrinking income shares and widening inequality. Census data show its share of income fell from 40.4% in 1996 to 38.0% in 2012, while top earners pulled further ahead. Pew Research (2015, 2016) found that by 2014, middle-class incomes were 4% lower than in 2000, and wealth had dropped 28% since 2001. OECD (2019) reported similar challenges across advanced economies, citing globalization, technology, rising housing costs, and weak safety nets as key pressures.

2. Southeast Asia

ASEAN's middle class is expanding rapidly and may comprise two-thirds of the global middle class by 2030 (OECD, 2021). Yet, many households remain clustered at the lower end of the range, vulnerable to shocks such as job loss, health costs, or natural disasters (IMF, 2022). Inequality patterns vary: while moderating in countries like Vietnam and Thailand, it remains high in the Philippines. Structural barriers—including education, geography, and initial income—limit upward mobility, and wealth gains often concentrate in urban or skilled groups.

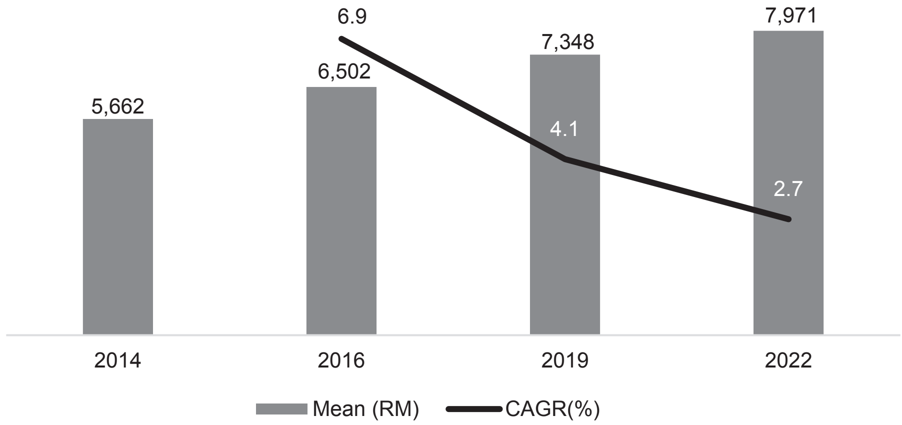
3. Malaysia

Malaysia's middle class is expanding but remains fragile. The World Bank (2025) highlights persistent inequality, limited mobility, and disparities across states, education levels, and ethnic groups. The Khazanah Research Institute (2024) argues that the B40/M40/T20 categories oversimplify reality, with only the top 30% displaying consistent middle-class consumption. Many so-called "middle-class" households remain vulnerable, trading off essentials for aspirational goods. Micro-level studies further show fragmented social protection and divergent lifestyles; educated households shift away from traditional displays of wealth, while others prioritize visible consumption (Rodrigo, 2016; Soon, 2022).

3. Income dynamics of Malaysia's middle-class households

The income dynamics of Malaysia's M40 group demonstrate both upward mobility and structural transformations. Between 2014 and 2022, mean household income rose steadily from approximately RM5,700 to RM8,000, reflecting sustained improvements in absolute income levels. Nevertheless, the compound annual growth rate (CAGR) shows a clear downward trend, indicating that although households are earning more, the pace of income growth has moderated over time.

Figure 1: Mean income of M40 households, 2014-2022 and CAGR



Source: Household Income Survey Report, 2014;2016;2019;2022.

At the same time, there is an upward shift in income thresholds, from RM4360-9619 in 2016 to RM4,850–10,959 in 2019 and further to RM5,250–11,819 in 2022 for M40 households, illustrating the widening of the income brackets of this group. Parallel to this widening, the number of households within the M40 category has expanded significantly, rising from 2.78 million in 2016 to 2.91 million in 2019 and further to 3.16 million in 2022. The rate of household growth accelerated from approximately 1.6 percent annually in the 2016–2019 period to 2.8 percent annually between 2019 and 2022. This expansion underscores the increasing proportion of Malaysian households that are attaining middle-class status, thereby strengthening the demographic weight of the M40.

Table 1: Number of households and threshold by household income class

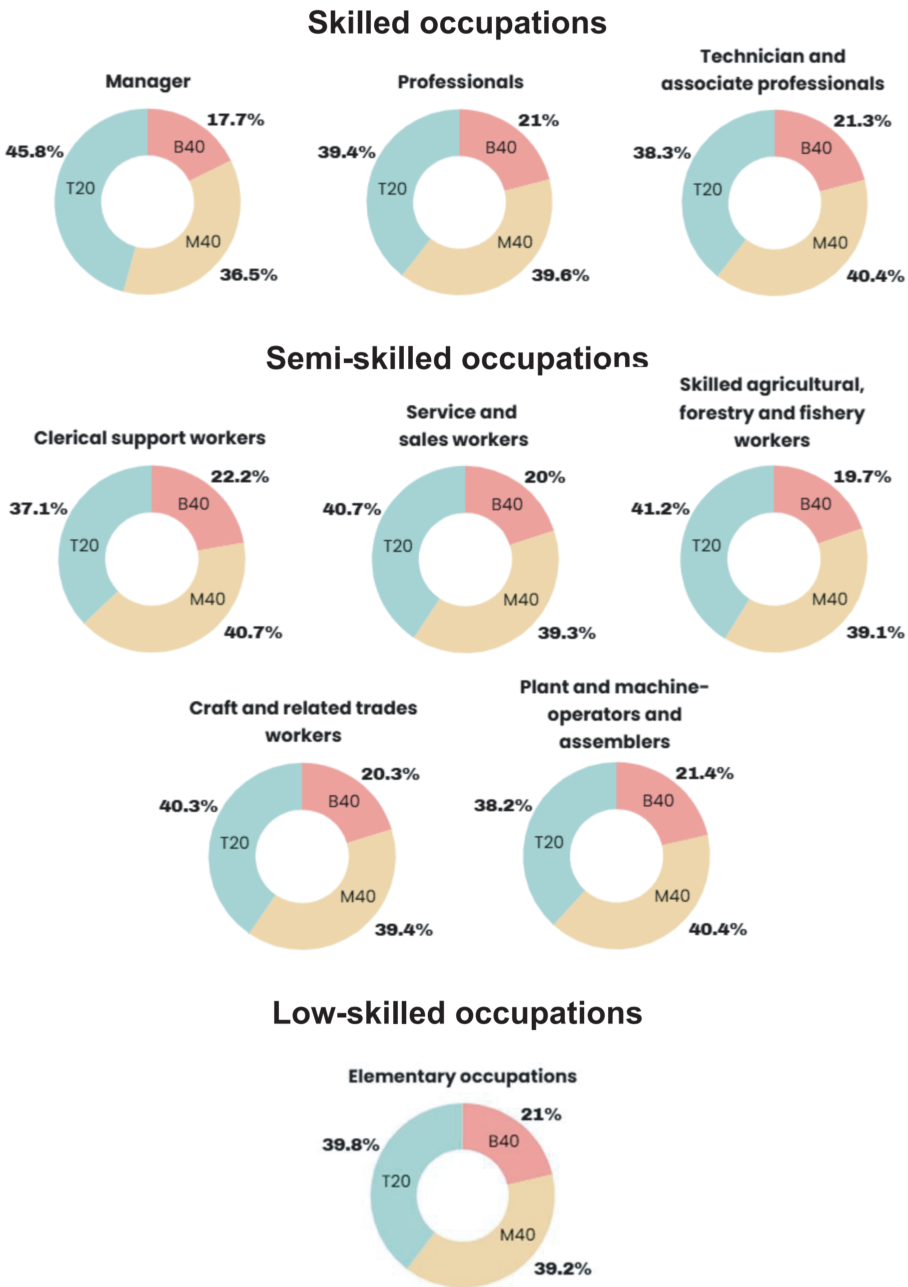
Group	Year	Households (million)	Threshold (RM)
T20	2016	1.39	≥ 10,959
	2019	1.46	≥ 10,959
	2022	1.58	≥ 11,819
M40	2016	2.78	4360 - 9619
	2019	2.91	4,850 – 10,959
	2022	3.16	5,250 – 11,819
B40	2016	2.78	< 4,360
	2019	2.91	< 4,850
	2022	3.16	< 5,250

Source: Household Income Survey Report, 2014;2016;2019;2022.

To conclude, these findings suggest that the widening of Malaysia's middle class has been driven more by the increasing number of households transitioning into the M40 group than by robust income growth within the group itself. While income levels have risen, the deceleration of growth rates points to emerging structural challenges in sustaining upward mobility. This has important implications for policymakers, as it highlights the need to focus not only on expanding middle-class participation but also on enhancing income growth and resilience within the M40 segment to ensure long-term socioeconomic stability.

4. Economic activities in shaping middle-income class

In 2022, the M40 group held about 36–41% of income share across most occupations, highlighting its structural role in Malaysia's workforce. This group is largely structured by skilled and semi-skilled workers, and is most represented among technicians and associate professionals (40.4%), clerical support workers (40.7%), and plant and machine operators (40.4%). This underscores the M40's function as both a stabilizer of the middle class and a key driver of income distribution in the economy.



5. Household consumption expenditure in Malaysia

Consumption expenditure refers to the portion of income spent on private consumption of goods and services, which plays an important role in accelerating the domestic economy. In Malaysia, household consumption expenditure is monitored and published by the Department of Statistics Malaysia (DOSM). Following the United Nations Statistics Division (UNSD), there are 13 detailed Classification of Individual Consumption According to Purpose (COICOP) categories as displayed in Figure 2.

The composition of household consumption expenditure across various income classes shows that in general, housing, water, electricity, gas and other fuels make up the largest share of household expenditure, accounting for at least one-fifth of the total expenditure. Lower-income groups tend to spend more compared to other income groups. For instance, households in the bottom 10% of the income group spent 27.7% of their total expenses on this category, while households within 50-70 income deciles used about 22% of their expenses.

Figure 2: Composition of household consumption expenditure by income class, Malaysia, 2022

Source: Household Expenditure Survey Report Malaysia (HIES), DOSM, 2022

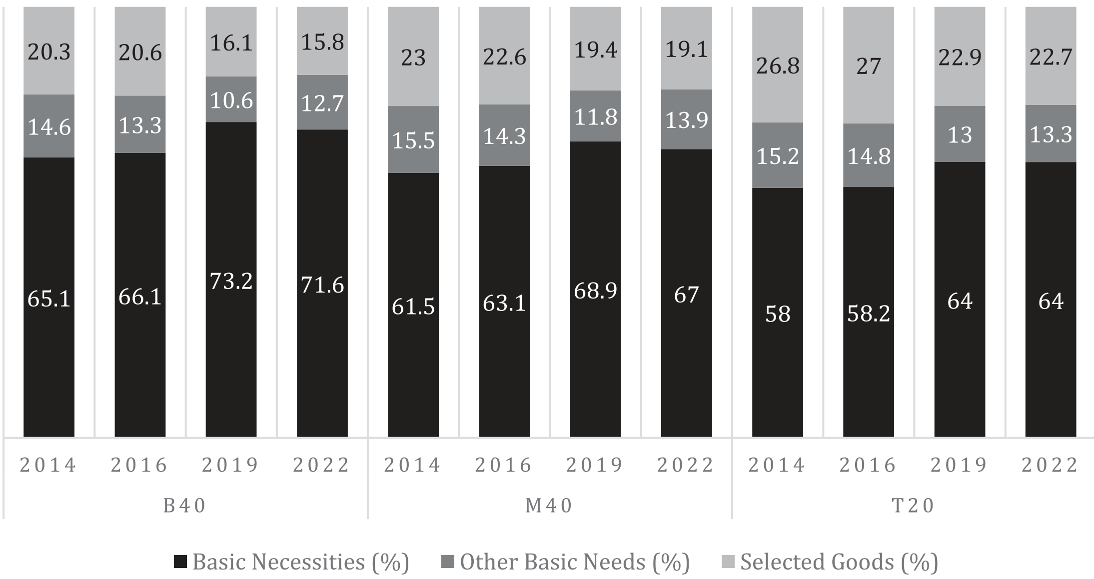
Expenditure Patterns of Middle-Income Households

Within the COICOP categories, the DOSM has further classified them into three main goods baskets, which are basic necessities, other basic necessities, and selected goods. Basic necessities comprise categories (1, 4, 7, and 11), covering food, housing, transport, and restaurants; other basic necessities include categories (3, 6, 8, and 10), which refer to clothing, health, communication, and education; while selected goods include alcohol and tobacco (2), furnishings (5), recreation (9), insurance (12), and personal care (13).

Overall, there is an upwards trend across all groups in basic necessities, but a downwards trend for other basic needs and for selected goods. This indicates that regardless of income-group, households are increasingly constrained by the rising cost of living, reallocating their expenditure towards essentials. The impact is most severe for B40 households, whose budgets are overwhelmingly dominated by basic necessities, leaving little room for savings or upward mobility.

Besides, M40 households are increasingly experiencing "middle-class fragility" as they struggle to balance rising necessities with aspirations for higher living standards. While the T20 may have retained greater flexibility in their spending, even they have reduced allocations for discretionary goods. These patterns highlight the widening financial pressures faced by households and underscore the importance of policies aimed at alleviating the burden of essential expenses.

Figure 3: Percentage of monthly household consumption expenditure, 2014-2022



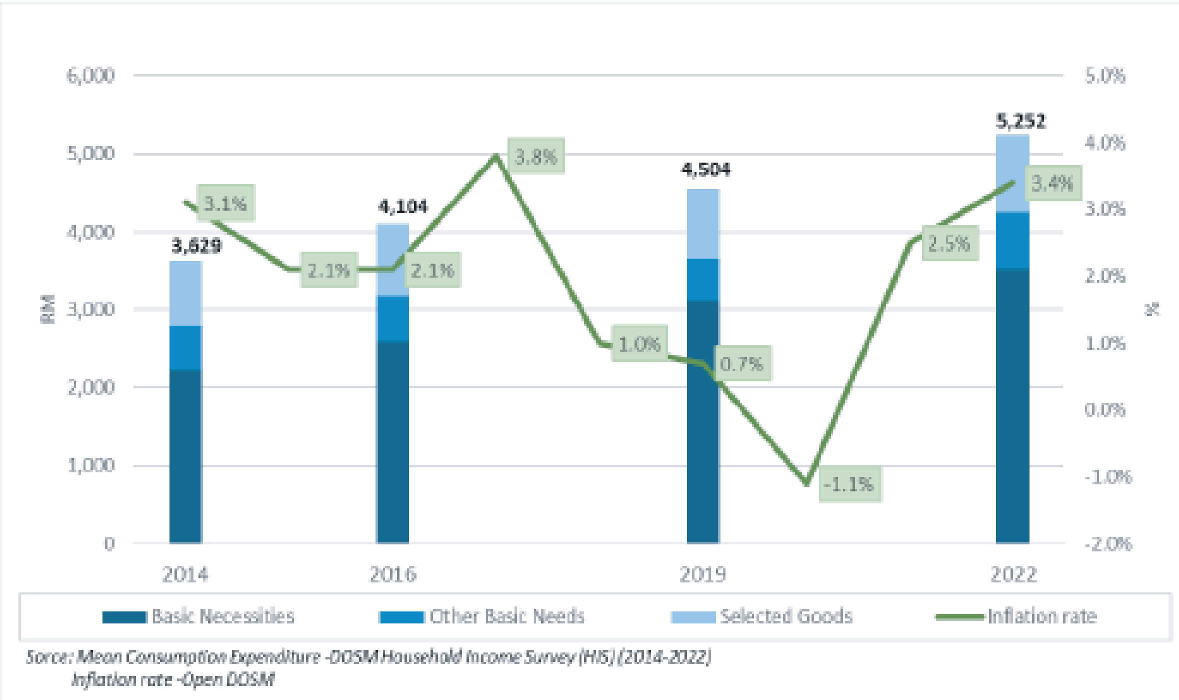
Source: Percentage of monthly household consumption expenditure, DOSM Household Expenditure Survey (HIS) (2014-2022)

In considering the overall percentage of household consumption expenditure, Figure 4 illustrates the mean of total monthly consumption expenditure for M40 households from 2014 to 2022. It shows a steady upwards trend from RM3,629 in 2014 to RM5,525 in 2022 with the inflation rate fluctuating during the period. In 2016, household expenditure rose slightly, from RM3,629 to RM4,104, showing a steady and healthy increase in line with the stable inflation rate among 2015 and 2016 (2.1%). This suggests that spending growth was driven more by gradual improvements in income and consumption capacity rather than sharp price changes.

In 2018, Malaysia's inflation rate experienced a sharp decline, falling from 3.8% in 2017 to 1.0% in 2018, before continuing downward to –1.1% in 2020. This trend was likely driven by the abolishment of the Goods and Services Tax (GST) and the reintroduction of the Sales and Services Tax (SST) in September 2018. The decline was broad-based across all major expenditure categories, with the most significant drop observed in the transport basket, which fell from 13.2% in 2017 to 1.5% in 2018—a decrease of 11.7 percentage points. This was followed by personal care, social protection, and miscellaneous goods and services (–2.6%), as well as food and beverages and recreation, sport, and culture, both of which declined by 2.3%. The inflation rate rebounded in 2021, largely driven by post-pandemic phenomena.

Although inflation rates were comparable in 2014 (3.1%) and 2022 (3.4%), household expenditure rose sharply from RM3,629 to RM5,252. This divergence highlights a shift in spending patterns, with rising costs driven not only by prices but also by new essentials such as internet services, smartphones, and digital platforms like e-hailing and food delivery. Additionally, increasing education fees and mounting household debt have further intensified the financial pressures faced by Malaysian households.

Figure 4: Mean consumption expenditure by M40 households and inflation rate, 2014-2022



Source: Mean Consumption Expenditure -DOSM Household Income Survey (HIS) (2014-2022) Inflation rate -Open DOSM

6. Conclusion and Recommendations

Malaysia's middle class, particularly the M40, has expanded in size but remains fragile. Rising household numbers reflect upward transitions, yet income growth has slowed while expenditure has surged due to higher costs of essentials, digital services, education fees, and rising debt. Occupationally, the middle class is concentrated in skilled and semi-skilled work, underscoring both its centrality and vulnerability within the economy.

Policy Recommendations

1. Boost income growth and resilience through productivity-linked wages and industrial upgrading.
2. Strengthen social protection by expanding healthcare, unemployment coverage, and retirement savings.
3. Address cost of living pressures via affordable housing, regulation of education fees, and targeted relief for middle-income households.
4. Adopt dual frameworks that combine income (B40/M40/T20) with occupational classification for more precise policymaking.
5. Promote upward mobility by investing in STEM, AI, and vocational skills to enable transitions into higher-value occupations.

In sum, strengthening the resilience of the middle class is vital for Malaysia's socioeconomic stability and for growth out of the middle-income trap.

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