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Global Markets Research

Malaysia - Economics

1Q25 GDP growth eased to 4.4% y/y as expected

Continued albeit slower expansion in both domestic demand and net exports

Domestic demand will continue to anchor growth in 2025; cushioning external fallout

Downside growth risks from trade and policy uncertainties open the door for an OPR cut

Summary

The final 1Q25 GDP growth print was maintained at +4.4% y/y (4Q24: +4.9% y/y revised), as per the advanced reading released a month ago, largely within ours as well as market expectations. This marked its third straight quarters of moderation, and its slowest in a year, in line with our view that growth momentum has already begun to taper off even before the onset of higher tariffs and trade uncertainties. Despite this, the seasonally adjusted quarterly growth showed a rebound from 4Q24's 0.2% q/q contraction to an increase of +0.7% q/q in 1Q25, while monthly GDP showed a commendable uptick to +6.0% y/y in March, from the +3.5% and +3.6% y/y increase seen in January and February respectively (Figure 2), spurred by a sharp pick-up in services for the month of March (+6.7% vs +3.7% y/y in February) and a rebound in mining (+2.1% vs -7.9% y/y). This offset the slower growth in manufacturing (+4.1% vs +4.8% y/y in February), which also pointed to little pre-tariff frontloading activities in our view.

More moderate growth from both the domestic and external fronts

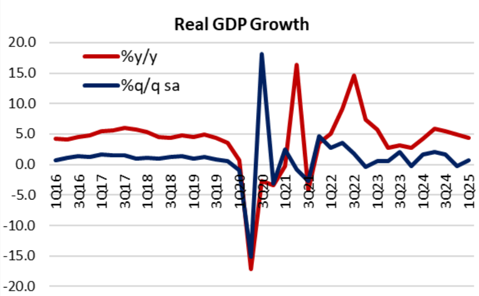
Domestic demand continued to expand albeit at a slower pace for the 2nd consecutive quarter, by 6.0% y/y in 1Q25 (4Q24: +6.4% y/y). Growth was nonetheless still at resilient levels, as the slower growth in private sector activities (+5.9% vs +6.6% y/y) was mitigated by the faster growth seen in the public sector (+6.2% vs +5.8% y/y). Both government spending (+4.3% vs +4.0% y/y) and investment (+11.6% vs +10.0% y/y) registered quicker growth during the quarter in review. On the contrary, both private consumption (+5.0% vs +5.3% y/y) and investment (+9.2% vs +12.7% y/y) saw slower increases (Figure 5). Positive labour market conditions and policy support (increases in minimum wages and civil servant salary) continued to underpin the expansion in consumer spending while realization of new and existing projects continued to support growth in private investment.

1Q25 GDP growth was also supported by continued positive net exports, albeit slower at +19.6% y/y (4Q24: +63.6% y/y). Exports of goods and services grew at a slower pace of 4.1% y/y in 1Q25 (4Q24: +8.7% y/y), but still outpaced the growth in imports (+3.1% vs +5.9% y/y), keeping net exports positive.

Broadly softer growth on the supply side too except for the rebound in agriculture

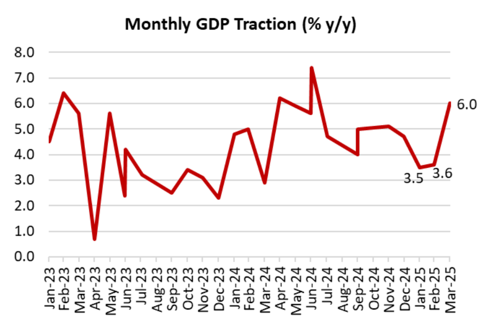
On the supply side (Figure 6), all sectors witnessed softer growth with the exception of the agriculture sector, which saw a turnaround in1Q25 thanks to stronger growth in the fishery and other agriculture subsectors, which offset the contraction in oil palm production. The mining sector was the only sector which saw its value-added contracted (-2.7% vs -0.7% y/y), dragged by lower oil and natural gas output. That said, the services and manufacturing sectors continued to be the main growth pillars. Growth in the services sector was underpinned by higher growth in government services and retail related

Figure 1: Softening growth traction even before the onset of restrictive trade policies



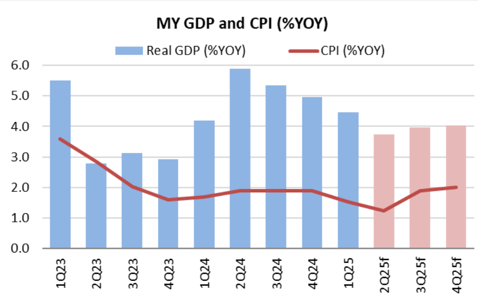
Source: DOSM, BNM

Figure 2: Notable pick-up in growth momentum to +6.0% y/y in March, its best in eight months



Source: DOSM, BNM

Figure 3: Foresee increasing downside growth risk ahead; inflation outlook to remain well-contained



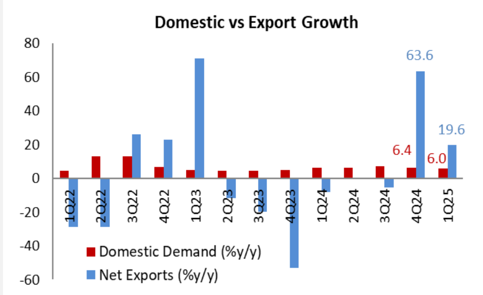
Source: DOSM, HLBB Global Markets Research services, while export-oriented sectors led by E&E supported growth in the manufacturing sector. The construction sector continued to record double-digit growth for the 5th consecutive quarter, albeit at a slower pace of 14.2% y/y in 1Q25 (4Q24: +20.7% y/y), attributable to continued robust growth from the non-residential and special trade subsectors.

Outlook

The road ahead will remain bumpy and uncertain. Global growth outlook has deteriorated post tariff announcements and will be highly susceptible to further progress in trade negotiations and the eventual outcomes, which are still evolving and nothing has been cast in stone yet. We remain hopeful that the 10% base tariff will stay for most other economies, and that the US-China tariffs may still have room for further reductions (or at least maintained at the current 10% and 30% rate) after the expiry of the respective 90-day truces. That said, tariff rates remain the highest in modern era and damage to trade flows and disruption to global supply chain have already been done (hence impact on 2Q growth outlook) and would require some time to normalize even if the tariff rates are maintained at the base/ negotiated low levels eventually. In addition, we remain wary over sector-specific trade restrictions including semiconductors, auto, iron & steel, and pharmaceuticals.

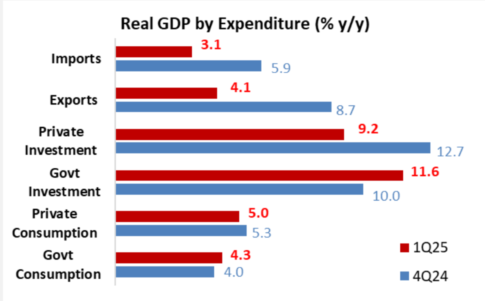
Judging from slower growth outlook in the world economy (IMF has downgraded 2025 global growth outlook by 0.5ppt to 2.8%), and the sharp downgrade in world trade by WTO to a 0.2% contraction, we believe Malaysia, being an open economy, will directly and indirectly be impacted. Given increasing downside risks to growth arising from uncertainties and impending global fallout from the trade disputes, we now foresee a softer growth prospect for the Malaysian economy in the region of 3.8-4.3% for 2025, down from the 4.5-5.0% projection earlier. Despite the downgrade, we remain cautiously optimistic that sustained domestic demand underpinned by resilient consumer spending will continue to anchor growth, helping cushion the adverse impact and risks from a slower world economy and global trade. We also believe BNM would stand ready to act in the 2H of the year to support growth should downside growth risks materialize, as signalled by the slight dovish tilt in its latest May monetary policy statement. We therefore maintain our view for one 25bps OPR cut in the second half of 2025, and as early as July.

Figure 4: More moderate growth in domestic demand and smaller net exports gain as expected



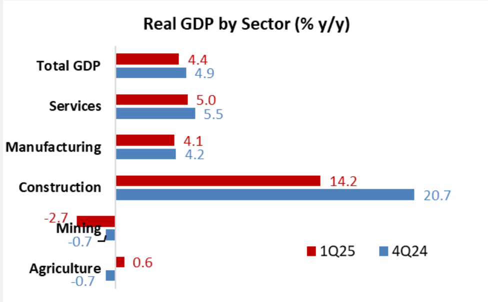
Source: DOSM, BNM

Figure 5: Faster growth in the public sector helped cushion slower growth in the private sector and net exports



Source: DOSM, BNM

Figure 6: Slower growth across the board except for the contraction in mining and rebound in agriculture



Source: DOSM, BNM

Malaysia Key Economic Metrics

2023												2024												2025			
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	
		5.7			2.7			3.1			2.8			4.2			5.9			5.4			4.9			4.4	Real GDP
4.3	6.9	5.9	0.7	5.6	2.4	4.2	3.2	2.5	3.4	3.1	2.3	4.8	4.8	3.0	6.2	5.9	5.6	7.4	4.7	4.0	5.0	5.1	4.7	3.5	3.6	6.0	Monthly Real GDP
-1.8	0.4	-1.2	-2.7	-1.1	-2.1	-1.0	-0.5	-0.2	-0.1	-0.1	0.4	3.4	2.1	2.3	4.4	3.8	3.7	5.2	4.2	1.8	2.5	2.8	3.4	0.4	0.0		Leading indicator
1.6	9.8	-1.4	-17.4	-0.9	-14.1	-13.1	-18.7	-13.8	-4.5	-6.1	-10.1	8.7	-0.8	-0.9	9.1	7.1	1.7	12.3	12.0	-0.6	1.6	3.9	16.9	0.3	6.2	6.8	Exports
2.2	12.4	-1.8	-11.1	-3.7	-18.7	-15.9	-21.2	-11.1	-0.3	1.5	2.9	18.7	8.0	12.5	15.5	13.4	17.8	25.4	26.2	10.9	1.7	1.6	11.9	6.2	5.5	-2.8	Imports
18.1	19.6	26.7	12.8	15.7	25.6	17.1	17.2	24.4	12.9	12.2	11.8	10.2	11.2	12.7	7.7	10.0	14.3	6.4	5.5	12.8	11.9	15.3	19.2	3.7	12.6	24.7	Trade balance (RMbn)
1.8	3.5	3.2	-3.3	4.8	-2.2	0.7	-0.3	-0.5	2.4	0.6	-0.1	4.3	3.1	2.4	6.1	2.4	5.0	5.3	4.1	2.3	2.0	3.6	4.6	2.1	1.5	3.2	Industrial production
1.3	4.8	4.1	-3.0	5.1	-1.6	-0.2	-0.6	0.4	0.9	-0.1	-1.4	3.7	1.2	1.3	4.9	4.6	5.2	7.7	6.5	3.2	3.3	4.6	5.8	3.7	4.8	4.0	Manufacturing production
4.0	4.6	4.2	4.0	4.0	3.0	2.9	3.0	3.2	3.4	3.3	2.1	2.0	1.0	0.7	1.2	1.1	1.8	2.4	1.5	1.2	1.7	1.8	1.7	1.5	2.0	1.8	Wages (manufacturing)
3.6	3.5	3.5	3.5	3.5	3.4	3.4	3.4	3.4	3.4	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.2	3.2	3.2	3.2	3.1	3.1	3.1	3.1	Unemployment rate (%)
3.1	5.9	7.6	3.2	4.4	3.1	5.7	6.2	6.9	5.7	6.2	4.4	5.5	5.2	4.0	4.8	4.7	4.0	5.5	3.7	3.6	4.8	4.7	5.7	4.9	5.8	5.7	Wholesale trade
21.7	19.2	17.7	12.9	5.0	5.8	5.5	6.3	5.9	3.9	4.4	5.0	2.6	5.8	7.1	5.5	8.7	7.9	6.4	5.9	5.5	7.1	5.8	5.4	8.2	5.7	6.6	Retail trade
30.8	43.1	7.7	-16.9	26.1	-2.4	32.9	8.1	2.5	23.8	13.4	2.9	34.9	4.4	-8.7	28.7	14.0	-5.8	11.5	-0.1	-14.0	-6.3	-6.2	3.1	-27.0	0.1	2.2	Passenger car sales
3.7	3.6	3.4	3.3	2.8	2.4	2.0	2.0	1.9	1.8	1.5	1.5	1.5	1.8	1.8	1.8	2.0	2.0	2.0	1.9	1.8	1.9	1.8	1.7	1.7	1.5	1.4	CPI
1.3	-0.8	-2.9	-3.0	-4.6	-4.8	-2.3	-2.2	0.2	-0.3	-1.5	-1.3	-0.6	0.3	1.6	1.9	1.4	1.6	1.3	0.3	-2.1	-2.4	-0.4	0.5	0.8	0.3	-1.9	PPI

Note: Figures are %YOY unless otherwise stated

Source: BNM; DOSM; HLBB Global Markets Research

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