

Global Markets Research

Malaysia - Economics

Sustained growth for the Malaysian economy in 2Q25

Faster expansion in domestic demand neutralized the drag from negative net exports

Downside growth risks prevail amid lingering trade uncertainties and expiry of trade truce

Full year GDP growth forecast upgraded to 4.0-4.5%; OPR pause view remains

Summary

The final reading showed the Malaysian economy expanded at a steady pace of 4.4% y/y in 2Q25 (1Q: +4.4% y/y), a slight downgrade from the advanced estimate of +4.5% y/y. This came in a largely in line with expectations (+4.5% market consensus and +4.3% ours). Growth was entirely driven by domestic demand as a result of better growth across both the private and public sectors, and spanning from consumption to investment. This more than offset the contraction in net exports, hit by tariff uncertainties.

We also saw favourable growth momentum with growth picking up commendably from +0.7% q/q in 1Q to +2.1% q/q in 2Q, its best quarter-on-quarter growth pace in a year. In addition, monthly GDP registered a marked improvement from +3.3% y/y in May to +5.5% y/y in June (Figure 2), believed to be due to a second round of frontloading ahead of the expiry of the 90-day trade truce in end-July.

More robust growth in domestic demand; net exports turned negative

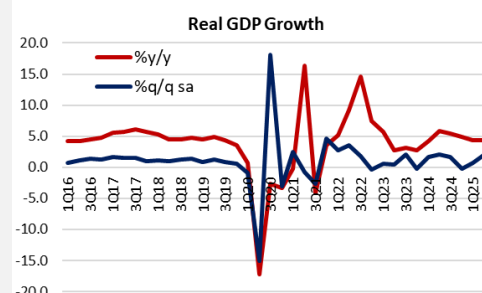
Domestic demand remained firmly in the driver seat, and expanded at a faster pace of +7.0% y/y in 2Q (1Q: +6.0% y/y). This was driven by higher growth from both the private (+6.8% vs +5.9% y/y) and public (+8.1% vs +6.2% y/y) sectors. Higher household spending on the back of a healthy labour market coupled with increases in minimum wages and civil servants pay hikes, drove private consumption growth up from +5.0% to +5.3% y/y in 2Q. (Figure 5). Private investment also registered a more robust growth of 11.8% y/y in 2Q (1Q: +9.2% y/y), thanks to continued investment on structures and machinery and equipment. On the public side, the faster growth in consumption was driven by higher spending on emoluments and supplies & services. Meanwhile, investment from the government sector was shored up by stronger capex spending by public corporations.

On the contrary, net exports turned negative again (-72.6% vs +19.6% y/y) for the first time in three quarters, exerting a massive drag on 2Q GDP growth. This was a result of a much faster increase in imports (+6.6% vs +2.6% y/y) due to a jump in capital imports. Comparatively, exports grew at a much slower pace of 2.6% y/y (1Q: +4.1% y/y), dampened by mining-related exports.

Mixed sectoral performance; services and agriculture outshone others

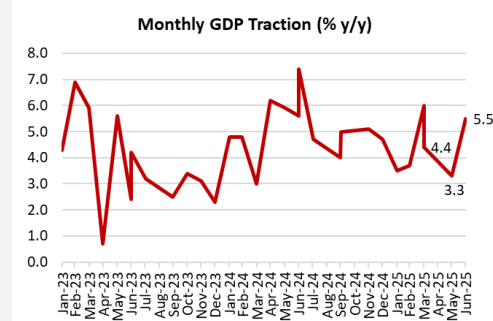
On the supply side by sectoral breakdown (Figure 6), the services sector remained the key growth catalysts growing 5.1% y/y in 2Q (1Q: +5.0% y/y), thanks to sustained growth in consumer-related services sectors and government services. Agriculture saw quicker growth for the 2nd straight quarter, driven by higher growth in oil palm production. Meanwhile, growth in the manufacturing sector softened to 3.7% y/y in 2Q (1Q: +4.1% y/y), amid steady growth in domestic-oriented sectors but slower growth in the export-oriented clusters in the wake of tariff uncertainties. The construction sector

Figure 1: Robust domestic demand helped spur quicker q/q growth to a one-year high at 2.1% and sustain y/y growth at 4.4%



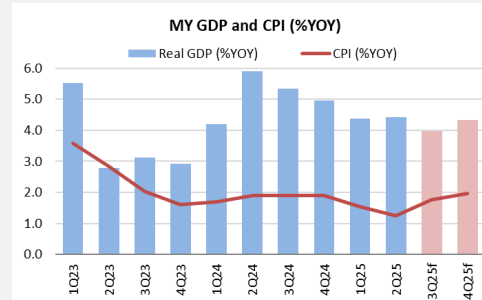
Source: DOSM, BNM

Figure 2: Growth picked up commendably in June amid another round of boost from trade truce



Source: DOSM, BNM

Figure 3: Downside growth risks prevail; inflation to tick higher but remain well-contained in 2H2025



Source: DOSM, HLBB Global Markets Research

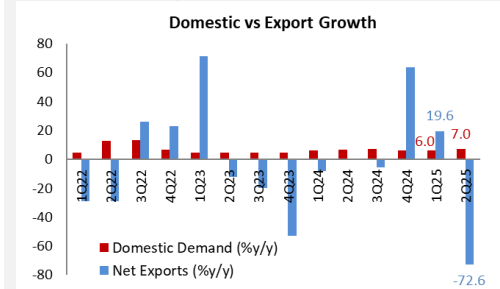
continued to see double-digit growth pace, albeit slower at 12.1% y/y (1Q: +14.2% y/y), supported by continued growth in non-residential, residential and special trade subsectors. The mining remained the only sector contracting, and for the 4th straight quarter, no thanks to lower oil and natural gas production due to planned maintenance activities.

Outlook

Going forward, uncertainties prevail even though recent economic indicators show most economies saw less severe hits from the tariff hikes, thanks to the 90-day trade truce that has helped curtail the impact on trade flows, economic activities as well as inflation. This has certainly offered some much needed reprieves, no matter how brief it was, now that the reciprocal tariffs (mostly negotiated lower), have taken effect on 7-August, with the exception of China which got another 90 days extension to 10-November. As a result of the lesser than expected weakening in economic activities in 2Q, IMF has upgraded its projection for world economic growth to 3.0% (+0.2ppt) for 2025 and 3.1% (+0.1ppt) for 2026. The bulk of the upgrades in 2025 were from emerging economies (+0.4ppt to 4.1%) while growth projection for advanced economies was lifted by just 0.1ppt to 1.5%. In line with our observation, inflation forecasts have been downgraded from 4.3% to 4.2% for 2025, as a result of the downgrade in inflation outlook in emerging economies, amid expectations of more muted spillover effects from higher tariffs, firstly due to the trade truce, and secondly, due to softer demand condition, in our view.

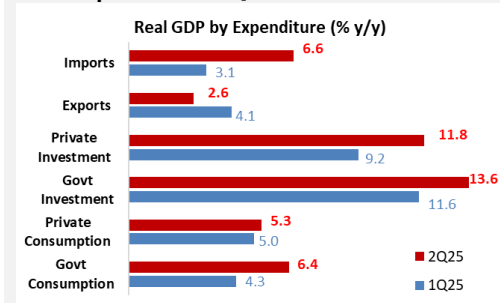
While the Malaysian economy has stayed resilient and expanded by 4.4% in the first half of the year, we remain vigilant over downside risks going forward as wait-and-see stance among both consumers and businesses, as well as lagged economic fallouts, not only from the tariff rollouts, but also tariff uncertainties, will continue to build up in the system. Sectoral tariffs especially on semiconductors, which accounts for 26% of Malaysia's total exports (40% for E&E exports), remained a wild card. We therefore maintain our view for growth to moderate albeit at a slower pace to 4.0-4.5% in 2025 (2024: 5.1%), an upgrade from prior estimate of 3.8-4.3%. Given the still resilient growth outlook and subdued inflation (full year average of 1.6%), we maintain our view for BNM to stay on hold at 2.75% for the rest of the year, after the expected 25bps cut in July.

Figure 4: Domestic demand continued underpinning growth in 2Q; neutralizing the massive net exports drag



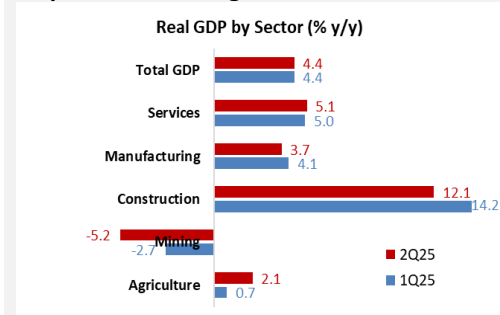
Source: DOSM, BNM

Figure 5: Encouraging improvement in domestic demand after the cautious tariff-induced pullback in 1Q



Source: DOSM, BNM

Figure 6: Mixed performance across sectors; quicker growth in services and agriculture helped sustain GDP growth in 2Q



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	Apr	May	Jun	
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	3.7	6.0	4.4	3.3	5.5	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	0.1	0.7	0.6	0.0		Monthly Real GDP
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	16.4	-1.1	-3.5	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	20.0	6.6	1.2	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	24.8	5.2	0.8	8.6	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	2.7	0.3	3.0	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	5.6	2.8	3.6	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	2.4	1.5	1.6	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	3.1	3.1	3.1	3.1	3.1	3.0	3.0	3.0	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	5.5	4.7	5.2	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	4.7	4.9	5.4	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	1.0	-3.2	-5.2	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	1.9	1.8	1.9	1.8	1.7	1.7	1.7	1.5	1.4	1.4	1.2	1.1	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	-3.4	-3.6	-4.2	PPI

Note: Figures are %YOY unless otherwise stated

Source: BNM; DOSM; HLBB Global Markets Research

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