Malaysia's GDP Growth Expected to Ease Slightly to +4.3%yoy in 2QCY25

Economic Review: 2QCY25 National Account Preview



Author

MBSB Research
research@midf.com.my

Economic Review

- Domestic demand will remain as the main driver of Malaysia's economic growth in 2QCY25, on the back of healthy labour market and still mild inflation. We anticipate private consumption will continue to grow in 2QCY25.
- External demand could be drag on 2Q GDP growth because net exports of goods decreased by -56.3%yoy during the quarter, attributable to stronger imports and slower export growth. Continued growth in exports of services will limit the overall reduction in the net export's contribution to GDP growth.
- We estimate that the full-quarter growth for the services and construction sectors in 2QCY25 will be slower than the advance estimates of +5.3%yoy and +11.0%yoy, respectively. In contrast, the manufacturing sector will likely grow slightly faster than the advance estimate, while the decline in the mining sector output will be less steep.
- Taking into accounting the recent indicators and updates, we opine the full-quarter GDP growth for 2QCY25 will be slightly slower at +4.3%yoy (1QCY25: +4.4%yoy). As a highly open economy, we opine the external uncertainties remain as the downside risk that could derail Malaysia's growth outlook.

Domestic spending to remain as main growth driver

Domestic demand will remain as the main driver of Malaysia's economic growth in 2QCY25, on the back of healthy labour market and still mild inflation. We anticipate private consumption will continue to grow in 2QCY25, based on the sustained albeit relatively slower growth in retail trade moderated to +5.0%yoy (1QCY25: +6.9%yoy). More people secured jobs during the quarter as reflected by the positive employment growth (+2.9%yoy; 1QCY25: +3.0%yoy) which continued to surpass the labour force growth (+2.7%yoy; 1QCY25: +2.8%yoy) and resulted in reduced number of unemployment (-4.6%yoy; 1QCY25: -5.0%yoy). Consequently, the unemployment rate fell further to 3.0%, the lowest in 10 years. Meanwhile, inflation remained low and stable as the headline CPI eased further to +1.3%yoy in 2QCY25 (1QCY25: +1.5%yoy). The underlying demand pressures remained stable and under control with the core CPI hovering around +1.8%yoy (1QCY25: +1.9%yoy). We continue to expect Malaysia's positive growth outlook this year will be underpinned by the continued growth in household and business spending, cushioning the potential downside risks from external uncertainties.

External trade to weigh down on 2Q growth

External demand could drag on 2Q GDP growth because net exports of goods decreased by -56.3%yoy (1QCY25: +12.1%yoy) during the quarter. This is attributable to stronger imports (2QCY25: +9.0%yoy; 1QCY25: +2.8%yoy) mainly due to the surge in capital goods imports, which offset the decline in intermediate goods imports (2QCY25: -2.5%yoy; 1QCY25: +2.7%yoy). Export growth also eased (2QCY25: +3.4%yoy; 1QCY25: +4.3%yoy) on the back of weaker shipments of mining goods and fading boost from front-loading activities. Looking at the higher arrivals of foreign tourists, we expect the continued growth in exports of services will limit the overall reduction in the net exports' contribution to GDP growth.

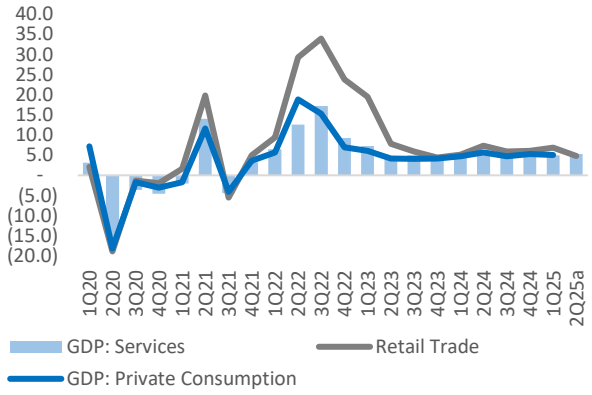
Services and construction not as fast as previously estimated

We estimate that the full-quarter growth for the services sector in 2QCY25 will be slightly lower than the advance estimate of +5.3%yoy (1QCY25: +5.0%yoy). Nevertheless, the sustained expansion in the services sector reflects the growth fundamentals from increased domestic consumption on the back of healthy labour market, increased tourist arrivals and milder inflationary pressures. Meanwhile, our calculation indicates that the construction sector growth will also record a more moderate 2Q growth than the advance estimate of +11.0%yoy, given the slower growth in the value of work done (2QCY25: 12.9%yoy; 1QCY25: +16.6%yoy). In contrast, taking into account the latest IPI performance in Jun-25, we foresee full-quarter GDP data will show the manufacturing sector growing slightly faster than the advance estimate (of +3.8%yoy), while the decline in the mining sector output will not be as steep as -7.4%yoy in the advance estimate, thanks to better LNG production in Jun-25. The agriculture sector likely experienced a rebound from the -0.7%yoy contraction in 1QCY25, mainly due to higher production in the plantation industry.

Expect 2QCY25 GDP growth slightly lower than advance estimate

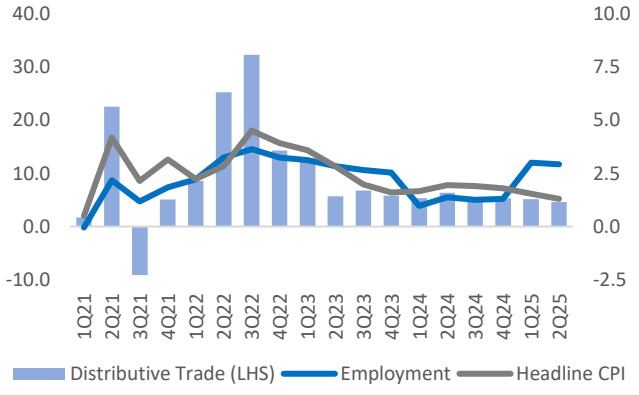
Taking into accounting the recent indicators and updates, we opine the full-quarter GDP growth for 2QCY25 will be slightly slower at +4.3%yoy (1QCY25: +4.4%yoy). The sustained above +4.0% economic growth, however, is supported by increased domestic spending while net exports could be a drag to the quarterly GDP growth. We foresee Malaysia's economy will continue to grow in the coming quarters, boosted by the recent OPR cut and fiscal measures. The US tariff rate at 19%, while it is lower than previously announced, could still pose a downward drag on the final demand, particularly from the US. As a highly open economy, we opine the external uncertainties, be it from global trade or geopolitical tensions, remain as the downside risk that could derail Malaysia's growth outlook.

Chart 1: Private Consumption vs Retail Trade and GDP: Services (YoY%)



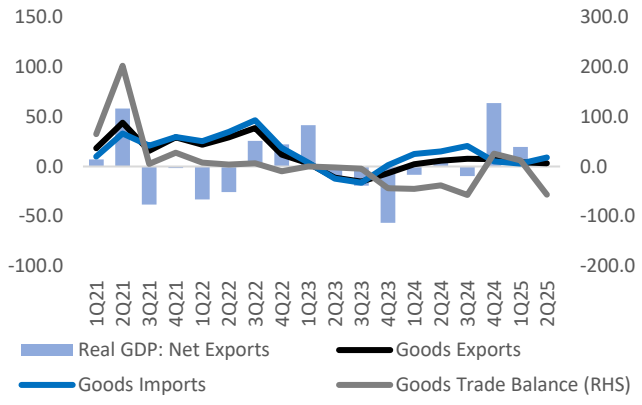
Source: Macrobond, MBSBR

Chart 2: Distributive Trade vs. CPI and Employment (YoY%)



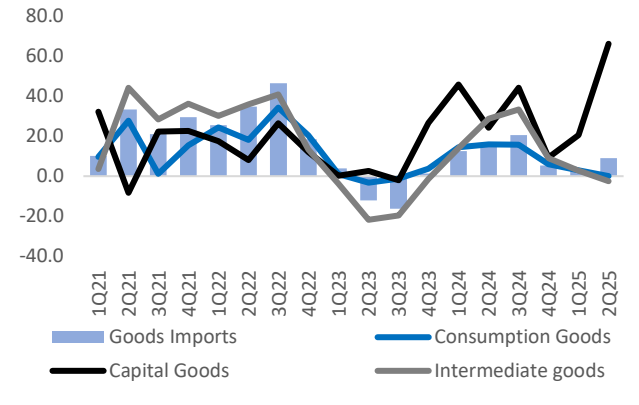
Source: Macrobond, MBSBR

5Chart 3: GDP vs. External Trade of Goods (YoY%)



Source: Macrobond, MBSBR

Chart 4: Imports of Goods by End-Use (YoY%)



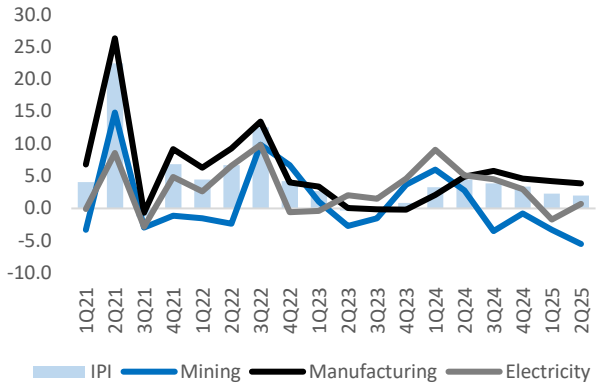
Source: Macrobond, MATRADE, MBSBR

Chart 5: IPI: Manufacturing vs. GDP: Manufacturing (YoY%)



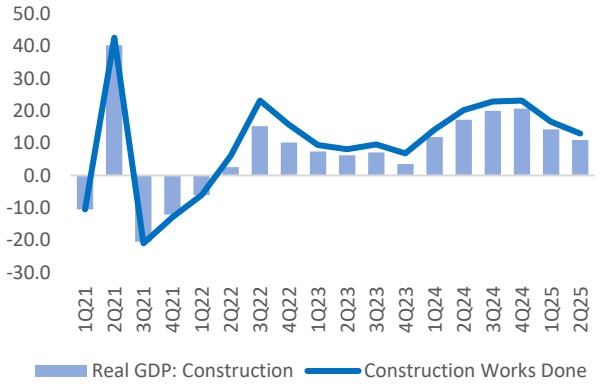
Source: DOSM, MBSBR

Chart 6: IPI by Major Sector (YoY%)



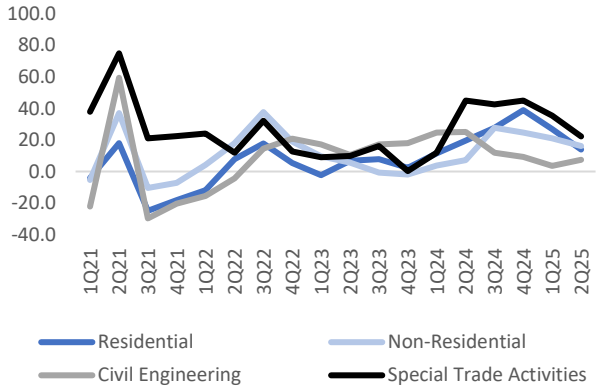
Source: DOSM, MBSBR

Chart 7: Real GDP: Construction vs. Construction Works Done (YoY%)



Source: DOSM, MBSBR

Chart 8: Construction Works Done by Segments (YoY%)



Source: DOSM, MBSBR

Table 1: Selected-Macroeconomic Data Updates

YoY% Unless Stated Otherwise	1Q24	2Q24	3Q24	4Q24	1Q25	1Q25
Distributive Trade (DT)	5.4	6.4	5.1	5.3	5.2	4.6
DT: Wholesale Trade	4.9	4.5	4.3	5.0	5.5	5.2
DT: Retail Trade	5.2	7.4	5.9	6.1	6.9	5.0
DT: Motor Vehicles	8.2	10.2	5.1	3.7	(1.8)	1.4
IPI	3.0	4.5	4.1	3.4	2.3	2.0
IPI: Mining	4.3	2.6	(3.5)	(0.8)	(3.3)	(5.5)
IPI: Manufacturing	2.1	4.9	5.8	4.5	4.2	3.9
IPI: Electricity	9.1	5.1	4.6	3.1	(1.7)	0.7
Manufacturing Sales	1.8	5.7	6.6	4.4	4.0	4.0
Gross Exports of Goods	2.2	5.9	7.8	7.3	4.3	3.4
Domestic Exports	5.5	11.8	12.4	8.8	4.6	(0.5)
Re-Exports	(9.0)	(12.5)	(7.2)	3.8	3.9	21.8
Gross Imports of Goods	12.5	15.1	20.5	5.3	2.8	9.0
Trade Balance (RM Billion)	34.6	32.4	26.0	46.0	41.0	14.5
Employment	1.0	1.4	1.3	1.3	3.0	2.9
Unemployment	(5.6)	(6.3)	(5.6)	(4.7)	(5.0)	(4.4)

Unemployment Rate (%)	3.3	3.2	3.2	3.2	3.1	3.0
Headline CPI Inflation	1.7	1.9	1.9	1.8	1.5	1.3
Core CPI Inflation	1.8	1.9	1.9	1.7	1.9	1.8
USDMYR, Average	4.72	4.73	4.46	4.40	4.45	4.31
USDMYR, End-period	4.73	4.72	4.12	4.47	4.44	4.21
Brent Oil (USD per barrel), Average	81.77	85.03	78.71	74.01	74.97	66.73
CPO (RM per tonne), Average	3,983	4,039	3,989	4,840	4,724	4,056

Source: Macrobond, Bloomberg, MBSBR

MBSB RESEARCH (formerly known as MIDF Research) is part of
MBSB Investment Bank Berhad (formerly known as MIDF Amanah Investment Bank)
(Bank Pelaburan) (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MBSB INVESTMENT BANK BERHAD (formerly known as MIDF Amanah Investment Bank Berhad) 197501002077 (24878-X).

It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MBSB INVESTMENT BANK BERHAD (formerly known as MIDF AMANAH INVESTMENT BANK BERHAD) makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MBSB INVESTMENT BANK BERHAD (formerly known as MIDF AMANAH INVESTMENT BANK BERHAD).

The directors, employees and representatives of MBSB INVESTMENT BANK BERHAD (formerly known as MIDF AMANAH INVESTMENT BANK BERHAD) may have an interest in any of the securities mentioned and may benefit from the information herein. Members of the MBSB Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein This document may not be reproduced, distributed or published in any form or for any purpose.