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#WhatWeThink

Malaysia 1Q2025 GDP: Steady Growth, Slowing Momentum, Rising Risks

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Considering the latest stream of economic data, **we maintain our earlier estimate that Malaysia's GDP growth for 1Q2025 will come in at 4.3%, slightly below the advance estimate of 4.4%.** Overall, the official figures due this Friday are expected to confirm a moderation from the 5.0% expansion recorded in the previous quarter, considering the shorter working days during 1Q2025 due to multiple festive holidays. The moderating growth momentum also reflects snippets of heightened global trade policy uncertainty ahead of the US tariff announcement on April 2.

Firm domestic demand continues to drive growth, the external sector remains supported by frontloading

Private consumption likely continued its solid performance, as indicated by encouraging retail trade growth, which averaged 6.9% in 1Q2025, up from 6.1% in 4Q2024. This was underpinned by festive demand and a healthy labour market, with the unemployment rate staying at a pre-pandemic low of 3.1%. Government measures, including salary adjustments for civil servants, the continued disbursement of targeted cash transfers and an increase in the minimum wage, also helped support household spending. However, with the services index growing at a more moderate pace of 5.2% compared to 6.1% in the previous quarter amid lower motor vehicle sales, we expect private consumption growth to ease slightly to 4.6% in 1Q2025 from the 4.9% recorded in 4Q2024.

Private investment remained robust, supported by the continued implementation of development projects. Nonetheless, momentum likely slowed from the 12.7% growth seen in 4Q2024, with some investment activity possibly delayed due to trade-related uncertainty. This is consistent with slower, albeit still double-digit growth in the construction sector.

On the external front, frontloading activity anticipating higher US tariffs helped sustain the trade surplus during the quarter. Merchandise export growth averaged 4.4% in 1Q2025, driven by a strong 35.9% increase in shipments to the US, though this was slightly lower than the pace recorded in 4Q2024. This is broadly in line with the manufacturing industrial production index (IPI), which also marked a moderation to 4.2% from 4.6% in the previous quarter.

Downward revision to our 2025 full-year GDP growth forecast

Given the softer-than-expected 1Q2025 GDP outcome – relative to our initial assumptions when the full-year forecast was set – and the growing downside risks to growth stemming from recent external developments, **we are revising our 2025 full-year GDP growth forecast to 3.8%, down from 4.6% previously**. While growth is expected to hold up relatively well in 2Q2025 as frontloading activity continues, momentum is likely to slow further in the 2H2025,

GDP Forecast by Expenditure

Growth (% y/y)	4Q2024	1Q2025F*
GDP	5.0	4.3
Domestic Demand	6.1	4.5
Private Consumption	4.9	4.6
Public Consumption	3.3	2.4
Private Investment	12.7	8.5
Public Investment	10.0	(7.0)
Net Exports	57.6	38.7
- Exports	8.5	4.8
- Imports	5.7	2.6

**Forecast by AmBank Economics*
Sources: Department of Statistics Malaysia (DOSM), AmBank Economics

GDP Forecast by Production

Growth (% y-o-y)	4Q2024	1Q2025	
		AE	AmBank Economics Forecast
GDP	5.0	4.4	4.3
Agriculture	(0.5)	0.7	0.7
Mining & Quarrying	(0.9)	(4.9)	(3.2)
Manufacturing	4.4	4.2	4.1
Construction	20.7	14.5	14.3
Services	5.5	5.2	4.9

AE- Advance estimate by DOSM
Sources: DOSM, AmBank Economics

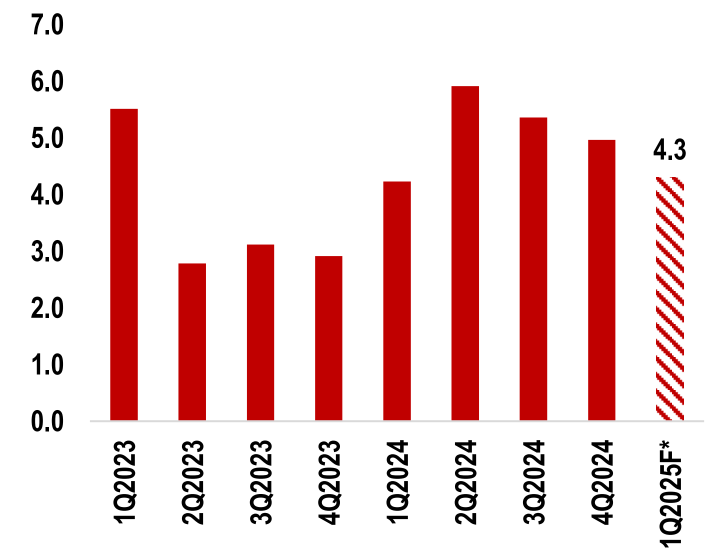
particularly after the 90-day US reciprocal tariff pause ends in July 2025 and the full impact of higher US tariffs begins to set in.

On that note, we believe that it is arduous for Malaysia and the US to clinch a meaningful economic/trade deal given the very tight timeframe. Trade negotiations are typically bureaucratic and lengthy due to the need to carefully consider intra-governmental and industry feedback and requests, particularly when non-trade barriers are involved. As seen in the US-UK deal last week, small concessions may be possible as a starting point, but the flat 10% tariff will likely remain in place.

Overall, a sharp slowdown or recession is highly unlikely. The recent 90-day truce in US-China trade tensions provides some relief and suggests that talks between both major economies will continue to avoid further escalation. Our full-year forecast remains subject to both upside and downside risks. A successful outcome from ongoing trade-related negotiations between the US and its trading partners, including Malaysia, could result in an upside risk to our latest forecasts. Conversely, further downward adjustments may be necessary if the tariffs inflict deeper and more prolonged economic damage.

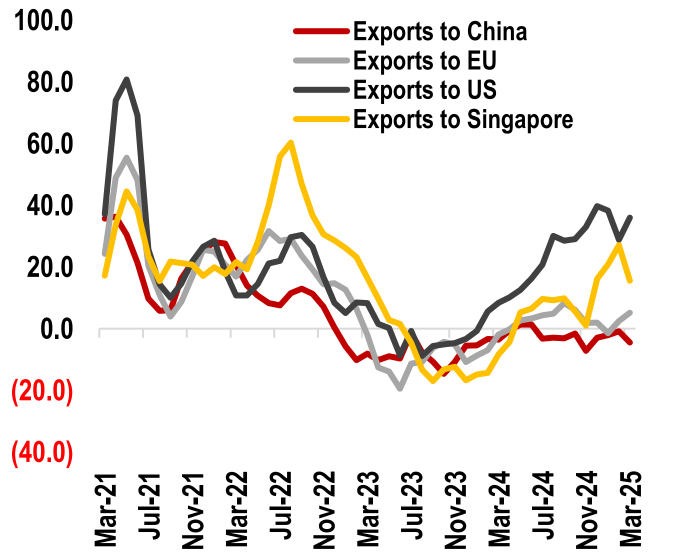
As highlighted in our 2025 Macroeconomic Outlook report, **we stand firm in leaning toward an Overnight Policy Rate (OPR) cut by Bank Negara Malaysia (BNM) in 2H2025**, in view of the anticipated slowdown in growth momentum moving forward. A rate cut could materialise as early as the next Monetary Policy Committee (MPC) meeting, which coincides with the end of the 90-day US tariff pause.

Exhibit 1: Real GDP, 1Q2023 – 1Q2025, % y/y



*Forecast by AmBank Economics
Sources: DOSM, AmBank Economics

Exhibit 2: Merchandise exports, % y/y, 3-month moving average



Sources: DOSM, AmBank Economics

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