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Malaysia 2Q2025 GDP: Waning Frontloading Effects Amid Rising External Pressures

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We anticipate 2Q2025 GDP growth to come in at 4.3%, lower than the advance estimate by DOSM at 4.5%. The official data due this Friday is expected to confirm a steady 2Q2025 growth (1Q2025: 4.4%), supported by resilient household spending, higher tourist arrivals and export frontloading ahead of US tariffs.

Resilient spending continues to drive growth, while frontloading dissipates

Domestic demand has consistently been the main driver of economic growth, supported by a healthy labour market and moderate inflation, which together provide a conducive environment for expansion. Additionally, spending was further boosted by a rise in tourism, as the country recorded nearly 17 million international tourist arrivals in 5M2025, or about 20% increase compared to the same period in 2024.

On the external front, export growth was initially driven by exports frontloading to the US ahead of higher tariffs effective August 1st. However, this temporary boost lost momentum toward the end of the quarter. Malaysia's merchandise exports to the US slowed to 21.2% in 2Q2025 from 35.9% in 1Q2025. Subdued demand from other major trading partners, including China and the Eurozone, also weighed on exports. These economies are facing similar headwinds, with upcoming trade barriers dampening new export orders, which in turn curbed demand for intermediate goods sourced from Malaysia. Manufacturing activity slowed in tandem, with industrial production growth easing to 4.0% in 2Q2025 from 4.2% in 1Q2025.

External headwinds loom in 2H2025

The economic backdrop is set to become more challenging in 2H2025 and beyond as the US reciprocal tariffs come into force, imposing tariffs of between 10% to 50% globally. While Malaysia's competitive advantage will likely remain at status quo, producer suplus may take a hit in the early months of implementation. Risks are compounded by the potential extension of US tariffs to industry-specifics, which are currently exempt products such as semiconductors and pharmaceuticals. Any move to target semiconductors – whether through higher tariffs or non-tariff barriers, could be damaging for Malaysia, given that the US accounts for nearly 20% of its semiconductor exports. There could also be secondary effects as well. Moreover, shifts in global supply chain configurations driven by rising US protectionism may undermine investment and further weigh on growth. As Malaysia's economy is closely correlated with the US, downward pressure on the latter amid weaker labour market conditions may pose downside risks to Malaysia's growth prospects in 2H2025.

GDP Forecast by Expenditure:

Growth (% y/y)	1Q2025	2Q2025F*
GDP	4.4	4.3
Domestic Demand	6.0	5.8
Private Consumption	5.0	5.2
Public Consumption	4.3	5.1
Private Investment	9.2	7.4
Public Investment	11.6	8.4
Net Exports	19.6	(53.2)
- Exports	4.1	3.8
- Imports	3.1	6.9

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

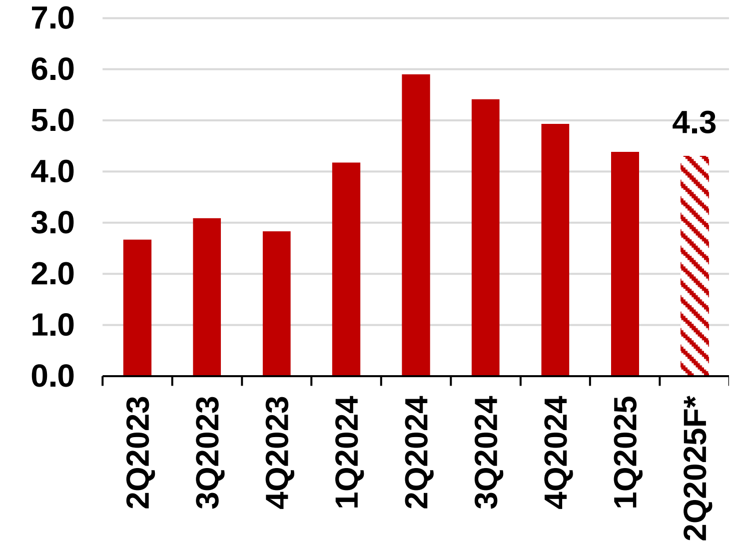
GDP Forecast by Production:

Growth (% y/y)	1Q2025	2Q2025F	
		AE*	AmBank Economics Forecast
GDP	4.4	4.5	4.3
Agriculture	0.6	2.0	3.0
Mining & Quarrying	(2.7)	(7.4)	(5.4)
Manufacturing	4.1	3.8	3.9
Construction	14.2	11.0	10.5
Services	5.0	5.3	5.0

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

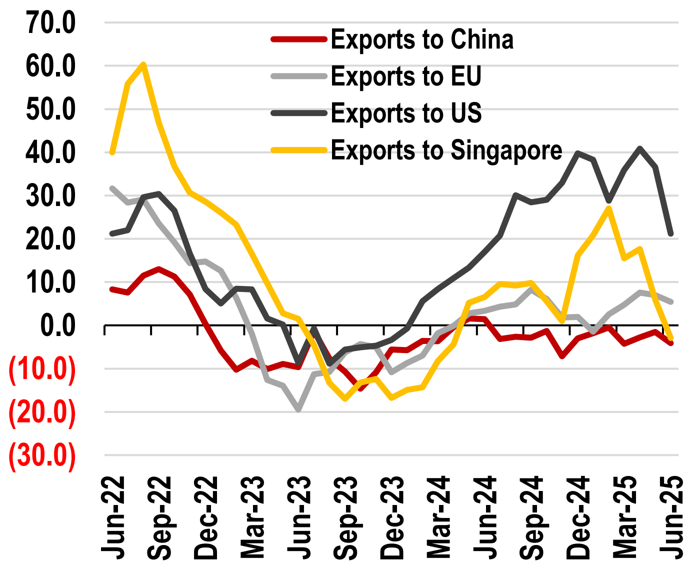
While external headwinds will likely cap growth momentum, domestic demand is expected to remain a key growth driver. Private consumption should stay resilient, underpinned by a healthy labour market, the July 25bp cut on Overnight Policy Rate (OPR) and continued government support measures, including the recently announced one-off RM100 cash assistance to all Malaysians aged 18 and above under the Sumbangan Asas Rahmah (Sara) programme.

Exhibit 1: Real GDP, 2Q2023 – 2Q2025, % 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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