

Macro Note

Malaysia: 1Q25 advance GDP flags further moderation

Monday, 21 April 2025

Global Economics & Markets Research
GlobalEcoMktResearch@uobgroup.com
www.uob.com.sg/research

Julia Goh
Senior Economist
julia.gohml@uob.com.my

Loke Siew Ting
Economist
jasrine.lokest@uob.com.my

- Based on the latest 1Q25 advance GDP release, Malaysia's economy grew by 4.4% y/y last quarter, extending its moderation for three quarters in a row (4Q24: 5.0%, 3Q24: 5.4% and 2Q24: 5.9%) and marking the slowest growth in a year. The outturn undershot our preliminary forecast and Bloomberg consensus of 4.8%. The 1Q25 final GDP data will be released on 16 May, together with the 1Q25 current account numbers.
- The deceleration in 1Q25 advance GDP growth was primarily due to a larger decline in the mining & quarrying sector amid a softer expansion across services, manufacturing, and construction industries. The agriculture sector staged a modest growth rebound to 0.7% but insufficient to cushion the drag from other sectors. Decent festive demand and disbursement of government's cash handouts were key factors of holding up overall GDP growth momentum particularly for the services sector in 1Q25.
- Beyond 1Q25, Malaysia's growth outlook will be contested by the impact of intensifying global trade war, risks of a hard landing in major economies, and greater financial volatility amid ongoing domestic fiscal reform agenda. We have, on 4 Apr, cut our 2025 GDP growth forecast for Malaysia to 4.0% (from 4.7%) after the US' reciprocal tariff announcement (details in [report](#)). That said, our base case remains that there is no outright recession, Malaysia's inflationary pressure will be contained, and domestic financial stability is preserved despite volatile global markets. This allows Bank Negara Malaysia (BNM) to keep a wait-and-see approach, leaving the overnight policy rate (OPR) unchanged at 3.00% for now.

1Q25 advance GDP hits slowest pace in a year

Based on the latest 1Q25 advance GDP release, Malaysia's economy grew by 4.4% y/y last quarter, extending its moderation for three quarters in a row (4Q24: 5.0%, 3Q24: 5.4% and 2Q24: 5.9%) and marking the slowest growth in a year. The outturn undershot our preliminary forecast and Bloomberg consensus of 4.8%. On a non-seasonally adjusted basis, real GDP contracted by 3.7% q/q in 1Q25 (4Q24: +2.7%), the most since 1Q23. The 1Q25 final GDP data will be released on 16 May, together with the 1Q25 current account numbers.

The deceleration in 1Q25 advance GDP growth was primarily due to a larger decline in the mining & quarrying sector amid a softer expansion across services, manufacturing, and construction industries.

- **Services sector** registered a 5.2% y/y gain (4Q24: +5.5%), which was primarily underpinned by consumer-related services activities such as wholesale & retail trade, transport & storage, and information & communication sub-sectors. This

came on decent festive demand and disbursement of government's cash handouts during the quarter.

- **Manufacturing sector** growth eased to 4.2% (from 4.4% in 4Q24), supported by higher export-oriented production including electronics & electrical (E&E) and optical products, as well as refined petroleum, chemical, rubber & plastic products. Vegetable, animal oils & fats and food processing output also recorded an improvement last quarter.
- **Construction sector** recorded a smaller double-digit growth of 14.5% (4Q24: +20.7%) as a result of moderate growth across all segments, led by specialized construction activities and residential buildings.
- **Agriculture sector** staged a marginal positive growth rebound to 0.7% (4Q24: -0.5%), mainly driven by increased output of fishing & other agriculture sub-sectors, which helped to offset the persistent weakness in oil palm sub-segment.
- **Mining & quarrying sector** contracted for the third consecutive quarter and at a steeper pace of 4.9% (4Q24: -0.9%). It also marked the biggest decline since 4Q20, as a result of lower production of both crude oil & condensate and natural gas.

Trade war fallout dims growth outlook

Beyond 1Q25, Malaysia's growth outlook will be contested by the impact of intensifying global trade war, risks of a hard landing in major economies, and greater financial volatility amid ongoing domestic fiscal reform agenda. We have, on 4 Apr, cut our 2025 GDP growth forecast for Malaysia to 4.0% (from 4.7%) after the US' reciprocal tariff announcement (details in [report](#)). Export-oriented manufacturing, construction, private investment, and business-related services (i.e. logistic & storage, wholesale, and credit financing) activities are expected to bear the brunt of the potential fallout from the US tariffs. The Malaysian authorities have also indicated that they are assessing the impact of the US levies and reviewing their economic growth forecast of 4.5%-5.5% for this year. However, any revision in the official growth target will only be made after the authorities gather more information and certainty on the tariff situation.

At this juncture, the global environment and trade conditions remain fluid despite US President Trump suspending high reciprocal tariffs on all non-retaliating countries for 90 days and imposing a 10% baseline tariff rate instead. The escalation in Trump's trade war with China, considerations of other sector-specific tariffs (i.e. semiconductor, pharmaceutical, lumber, and critical minerals) by the Trump administration under the Section 232, and the outcome of bilateral negotiations within the 90-day moratorium period continues to cast uncertainty. Many companies around the world have hit their own pause button on orders, holding off on production and investment decisions to re-evaluate their supply chains and production lines, as well as revamp their business models. This signals that Trump's tariff policy has started to harm the global economy, trade, and investments.

Malaysia's government prepares to dispatch its officials to Washington on 24 Apr to initiate dialogue on the 24% reciprocal tariffs imposed on Malaysia. The authorities have repeatedly stressed that Malaysia will not introduce retaliatory tariffs on US goods but opts for talks to lower tariffs and expand exemptions. At home, to cushion the potential fallout from the US tariffs, the government plans to:

- ramp up trade safeguard measures (including the establishment of the National Geo-economic Command Centre or NGCC, imposing anti-dumping

and countervailing duties) to shield domestic industries from redirected exports or excess supply dumping stemming from global trade tensions;

- intensify market diversification and target the exports of electronic, petroleum products, palm oil and processed food at new and emerging markets, particularly those in the now-10-member BRICS group as well as those in South America and Africa;
- deepen bilateral and multilateral trade ties as well as South-South cooperation;
- accelerate economic reforms to strengthen domestic supply chains, enhance the resilience and adaptability of export businesses amid global uncertainties; and
- consider the proposal from domestic industry players on the postponement of implementing some fiscal reform agenda (i.e. fuel subsidy rationalization, mandatory EPF contribution for foreign workers, expansion of services and sales tax (SST), and multi-tier foreign worker levy) that will further add pressure to business operating costs as businesses need to brace for stiffer price competition and margin compression following the escalation of trade war.

In sum, our base case remains that there is no outright recession, Malaysia's inflationary pressure will be contained, and domestic financial stability is preserved despite volatile global markets. This allows Bank Negara Malaysia (BNM) to keep a wait-and-see approach, leaving the overnight policy rate (OPR) unchanged at 3.00% for now. Our view is also affirmed by BNM Governor Datuk Seri Abdul Rasheed Ghaffour, who said on 9 Apr that the central bank is looking beyond monetary policy to weather the fallout from US President Donald Trump's duties, and that the country is entering the tariff disputes from a position of strength. He added that policymakers have policy tools to mitigate the impact of sweeping US levies, and that monetary policy is not the best tool and cannot resolve trade wars.

Our forecast for BNM rates

Source: Global Economics & Markets Research

%	As of 18 Apr	2Q25	3Q25	4Q25	1Q26
Overnight Policy Rate	3.00	3.00	3.00	3.00	3.00
Statutory Reserve Requirement	2.00	2.00	2.00	2.00	2.00

Real GDP growth by sector, 2023-2025F

*Total may not add up to 100% due to rounding and exclusion of import duties components.

AE = Advance Estimate

Source: DOSM, BNM, UOB Global Economics & Markets Research

Component	% Share 2024*	2025F									
		2023	2024	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25 (AE)	BNM	UOB
Agriculture	6.3	0.7	3.1	1.9	1.7	7.3	4.0	(0.5)	0.7	2.2	1.8
Mining	6.0	0.5	0.9	3.5	5.7	2.7	(3.9)	(0.9)	(4.9)	(0.8)	(3.0)
Manufacturing	23.2	0.7	4.2	(0.3)	1.9	4.7	5.6	4.4	4.2	3.9	3.5
Construction	4.0	6.1	17.5	3.6	11.9	17.3	19.9	20.7	14.5	11.0	9.3
Services	59.3	5.1	5.4	4.1	4.8	5.9	5.2	5.5	5.2	5.7	4.8
Real GDP	100.0	3.6	5.1	2.9	4.2	5.9	5.4	5.0	4.4	4.5 - 5.5	4.0

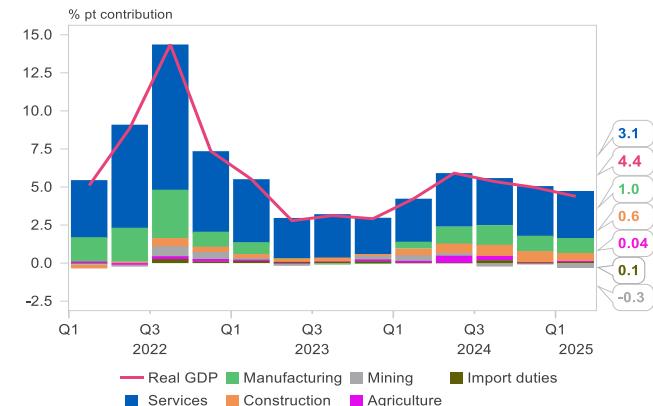
1Q25 advance GDP growth decelerated to 4.4% y/y

Source: Macrobond, UOB Global Economics & Markets Research



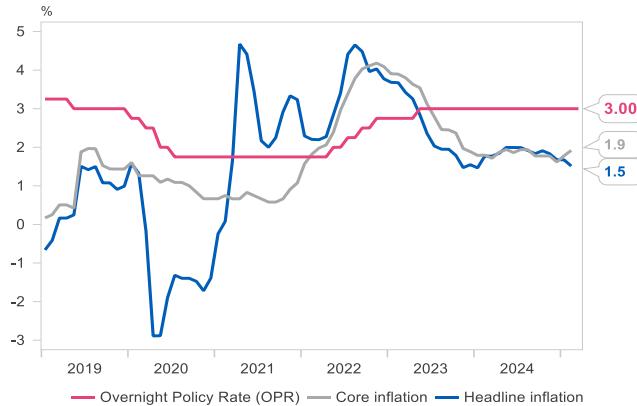
All but agriculture sector posted weaker performance in 1Q25

Source: Macrobond, UOB Global Economics & Markets Research



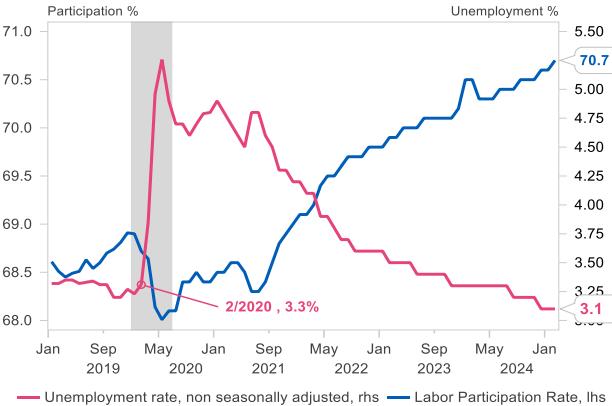
Inflation moderated to 1.5% in Feb

Source: Macrobond, UOB Global Economics & Markets Research



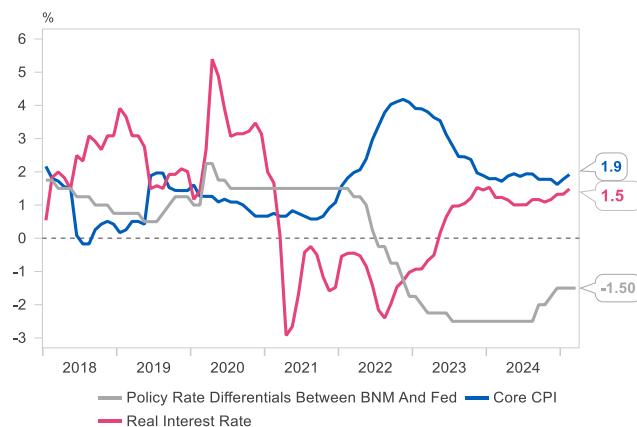
Unemployment rate steadied at 3.1% in Feb

Source: CEIC, MIER, UOB Global Economics & Markets Research



Interest-rate differential with US rates

Source: Macrobond, UOB Global Economics & Markets Research



MYR volatility likely to persist in the face of tariff uncertainty

Source: Macrobond, UOB Global Economics & Markets Research



Disclaimer

This publication is strictly for informational purposes only and shall not be transmitted, disclosed, copied or relied upon by any person for whatever purpose, and is also not intended for distribution to, or use by, any person in any country where such distribution or use would be contrary to its laws or regulations. This publication is not an offer, recommendation, solicitation or advice to buy or sell any investment product/securities/instruments. Nothing in this publication constitutes accounting, legal, regulatory, tax, financial or other advice. Please consult your own professional advisors about the suitability of any investment product/securities/ instruments for your investment objectives, financial situation and particular needs.

The information contained in this publication is based on certain assumptions and analysis of publicly available information and reflects prevailing conditions as of the date of the publication. Any opinions, projections and other forward-looking statements regarding future events or performance of, including but not limited to, countries, markets or companies are not necessarily indicative of, and may differ from actual events or results. The views expressed within this publication are solely those of the author's and are independent of the actual trading positions of United Overseas Bank Limited, its subsidiaries, affiliates, directors, officers and employees ("UOB Group"). Views expressed reflect the author's judgment as at the date of this publication and are subject to change.

UOB Group may have positions or other interests in, and may effect transactions in the securities/instruments mentioned in the publication. UOB Group may have also issued other reports, publications or documents expressing views which are different from those stated in this publication. Although every reasonable care has been taken to ensure the accuracy, completeness and objectivity of the information contained in this publication, UOB Group makes no representation or warranty, whether express or implied, as to its accuracy, completeness and objectivity and accept no responsibility or liability relating to any losses or damages howsoever suffered by any person arising from any reliance on the views expressed or information in this publication.