

## Malaysia

18 July 2025

### Mixed data keeps the door open for rate cuts

- The advance estimate of 2Q25 GDP was better than expected at 4.5% YoY, marking an improvement from 4.4% in 1Q25 (Consensus: 4.2%; OCBC: 3.9%).
- The services sector held fort while manufacturing sector output slowed, consistent with signs of faltering external demand. June export growth dropped further to -3.5% YoY from -1.1% in May.
- We see the data as mixed and maintain our 2025 GDP growth forecast of 3.9% YoY, suggesting a sharp slowdown to 3.5% in 2H25. This leaves the door open for another 25bp rate cut from Bank Negara Malaysia (BNM) in the coming months.

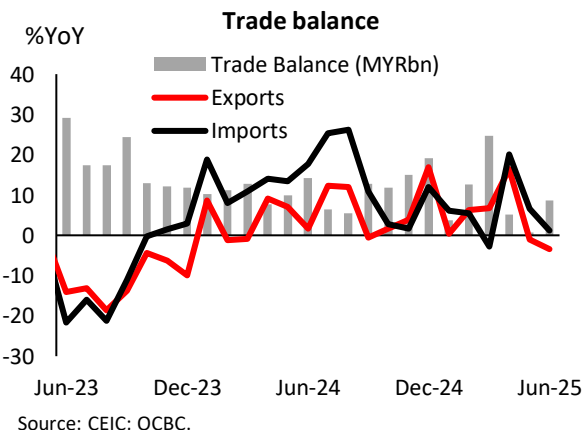
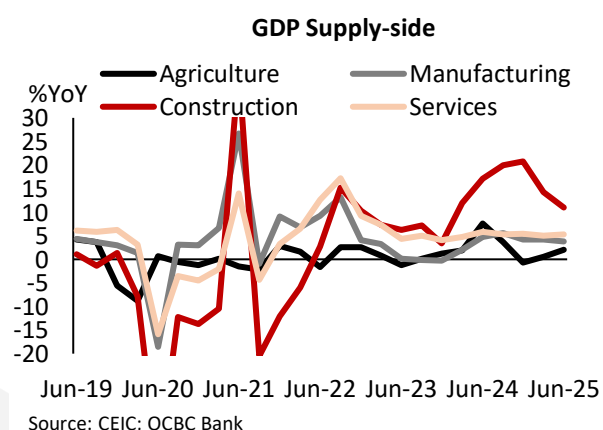
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The advance estimate of 2Q25 GDP growth showed that the economy expanded by a better than expected 4.5% YoY from 4.4% in 1Q25 (Consensus: 4.2%; OCBC: 3.9%). The growth outturn stood at 4.4% for 1H25.

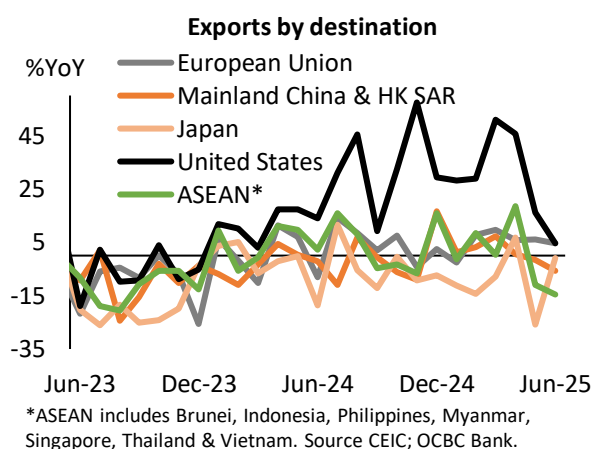
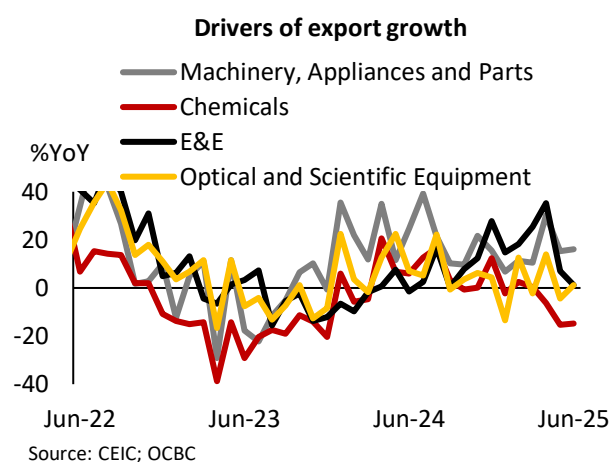
The details, available only from the supply-side, show that the services sector was the main driver of 2Q25 growth. Services GDP growth improved to 5.3% YoY from 5.0% in 1Q25, along with agriculture GDP growth of 2.0% from 0.6% in 1Q25. GDP growth in the construction sector slowed to 11.0% YoY from 14.2% in 1Q25 while growth in the manufacturing sector was lower at 3.8% YoY from 4.1% in 1Q25.



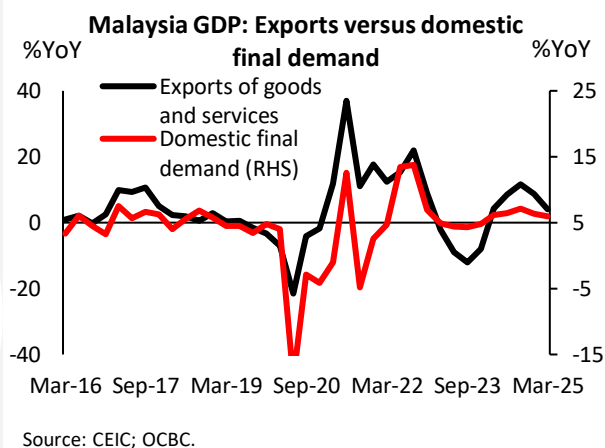
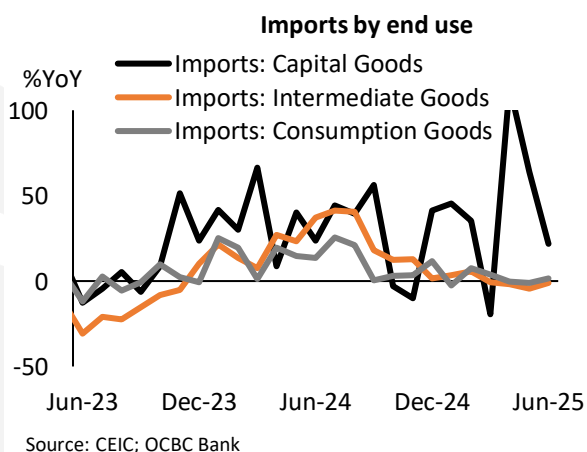
The weaker output in the manufacturing sector is consistent with signs of faltering external demand. The June trade data painted a lacklustre picture of external demand, with June export growth worsening further to -3.5% YoY from -1.1% in May. Import growth slowed to 1.2% YoY from 6.6% in May and the trade surplus, as a result, widened to MYR8.6bn from MR0.8bn in May.

Specifically, electrical and electronics (E&E) export growth slowed to 1.3% YoY from 7.1% in May, while exports of chemicals (-14.8% from -15.2%), LNG (-26.5% versus -11.0% in March), petroleum products (-28.1% from -28.6%) remained weak. These more than offset better export growth in the machinery/appliances (16.2% from 15.2%) and optical/scientific equipment (1.3% from -4.6%) categories.

By destination, export growth to US slowed to 4.7% YoY from 16.1% in May suggesting that the impact of frontloading is wearing off. Similar to month of May, weaker broader external demand conditions underscored by slowing exports to China, Japan, and ASEAN peers, weighed on exports.



For imports, by end use, the slowdown was largely due to weaker capital goods imports (21.8% YoY from 63.7% in May) while intermediate goods imports (-1.2% from -4.4%) remained weak. Consumer goods imports were higher by 1.6% YoY from -1.1% in May. Although capital goods imports tend to be volatile, import demand was relatively subdued underscored by consumption and intermediate goods imports. By destination, imports from China (12.6% YoY from 11.3%), the US (21.1% from 46.7%) and Korea (28.5% from -0.9%) were higher than peers such as Singapore (-14.6% from -11.5%) and Japan (-7.2% from -18.1%).



We view the data releases today as mixed despite the stronger-than-expected headline 2Q25 GDP print. The data suggests that external demand is weakening even amidst better domestic demand conditions. Our baseline remains for GDP growth to average 3.9% YoY in 2025, suggesting a sharp slowdown in growth to 3.5% in 2H25 from 4.4% in 1H25. This slowdown is largely premised on the payback from frontloading activities to the US and slowing domestic demand conditions. We estimate that ~USD2.5bn of exports per month were frontloaded from October 2024 through to May 2025; the effects of this frontloading fading are already visible in the June data.

As a small open economy, export growth and domestic final demand conditions tend to be procyclical and we expect that as the slowdown in external demand becomes more sustained, domestic demand will also slow. That said, we see domestic demand as remaining more resilient compared to previous episodes of external shock backed by ongoing reform efforts from the government to bolster investment spending through infrastructure development as well as schemes such as GEAR-uP, as well as continue with fiscal reforms, albeit with timelines delayed. In addition, initiatives such as the Johor-Singapore Special Economic Zone (JS-SEZ) provide opportunities for better spatial distribution of growth across the country while a concerted effort to broaden and diversify trading and investment partners via BRICS and GCC alliances will also provide some resilience.

Importantly, trade discussions are ongoing with the US. The discussions will be watched closely regarding not only overall reciprocal tariffs but also sector specific tariffs, particularly semiconductors. Regional peers such as Indonesia and Vietnam have struck deals to get lower tariffs of 19% and 20% (transshipments higher at 40%) compared to Malaysia's announced 25%. A favourable deal (i.e., tariff rates similar to Indonesia or Vietnam) could see external demand conditions stabilising and mitigating some downside risks to growth. On the flipside, limited clarity on exemptions and no change to the current tariff rate could exacerbate downside risks to growth.

Notwithstanding, we still see monetary policy as having room to further support growth in the coming months. We have pencilled in another 25bp rate cut from BNM for the remainder of the year. The benign inflation outlook remains supportive of additional monetary policy easing.

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