

Malaysia

20 June 2025

Weak May trade data highlights growth risks

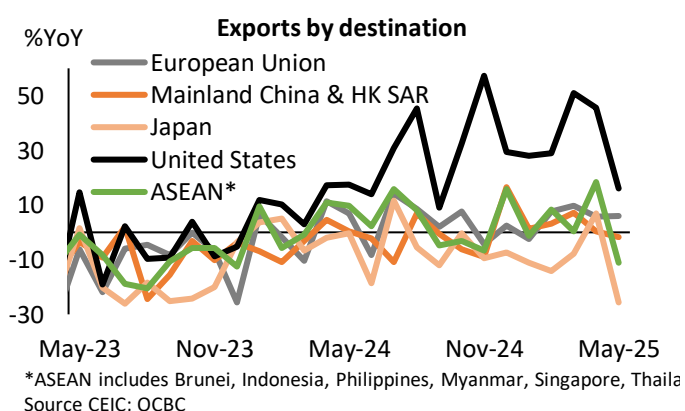
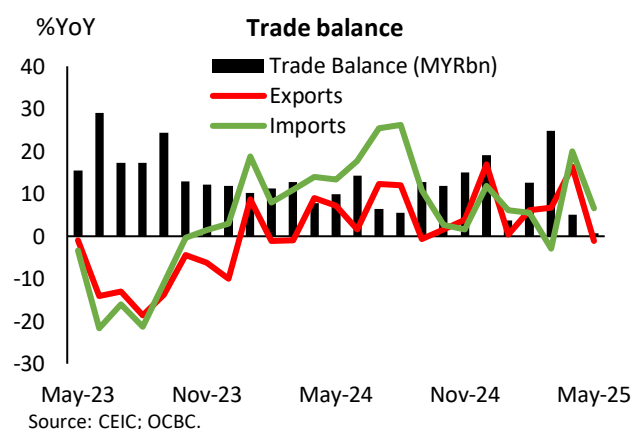
- The May trade data disappointed expectations, as export growth fell to -1.1% YoY from 16.4% in April while import growth slowed to 6.6% YoY from 20.0%.
- The trade surplus narrowed sharply to MYR0.8bn in May from MYR5.1bn in April. We see a non-negligible risk that the monthly trade balance could slip into a deficit in 2H25, albeit temporarily.
- We continue to expect a cumulative 50bps in rate cuts from BNM in 2H25, with the balance of risks to our 2025 GDP growth forecast of 4.3% YoY tilted to the downside.

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The May trade data disappointed expectations. Export growth fell to -1.1% YoY in May from 16.4% in April (Consensus: 7.5%; OCBC: 7.6%) while import growth slowed to 6.6% YoY from 20.0% in April (Consensus: 9.0%; OCBC: 2.0%). As a result, the trade surplus narrowed sharply to MYR0.8bn from MYR5.1bn in April.

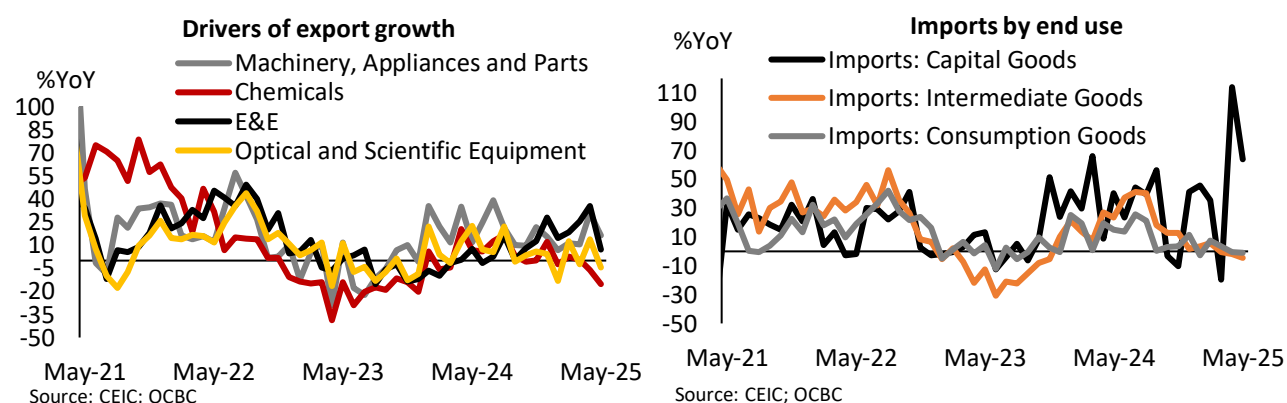


The details suggest that frontloading of exports to the US may be shifting to a lower gear while the weakness in broader external demand conditions is becoming more pronounced. Admittedly, this is a single month's print, and it remains to be seen if these patterns sustain in the coming months. Notwithstanding, we see a non-negligible risk that the monthly trade balance could slip into a deficit in 2H25, albeit temporarily.

Export growth to the US moderated to 16.1% YoY from 45.6% in April. While exports to other major destinations, including Mainland China (-4.3% YoY from 1.7%), Japan

(-25.7% from 6.8%) and ASEAN-7¹ (-11.0% from 18.5%), dropped sharply in May compared to April.

By products, electrical and electronics (E&E) export growth slowed to 7.0% YoY in May from 35.3% in April; this is similar to machinery, appliances and parts (16.4% YoY from 31.0%). Growth of exports of other major products such as rubber (-20.3% YoY from -7.8% in April), LNG (-42.2% from 6.7%), crude petroleum (-28.9% from -8.5%) and optical & scientific equipment (-4.5% YoY from 14% in April) contracted in May compared to April.



On the import front, the slowdown was broad-based across products and markets. Although import growth from the US slowed to 46.7% YoY from 111.8% in April, it remained robust, nonetheless. Imports from Mainland China also held up, rising by 11.3% YoY compared to 20.6% in April while imports from most other destinations slowed sharply relative to the previous month. By end-use, capital goods imports growth at 63.7% YoY was slower compared to 113.9% in April but was resilient, even as consumer (-1.1% YoY from -0.4%) and intermediate (-4.4% from -1.7%) goods imports dropped in May compared to April.

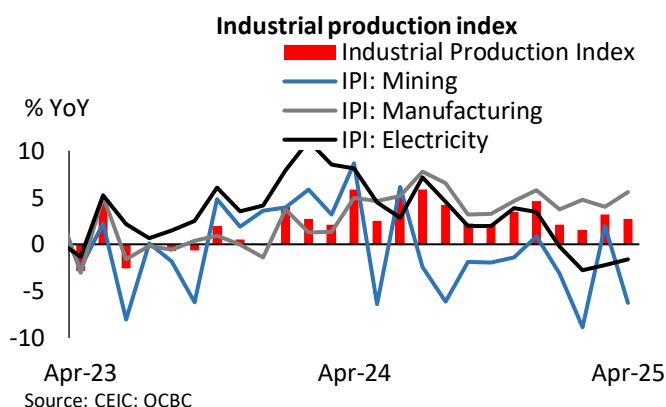
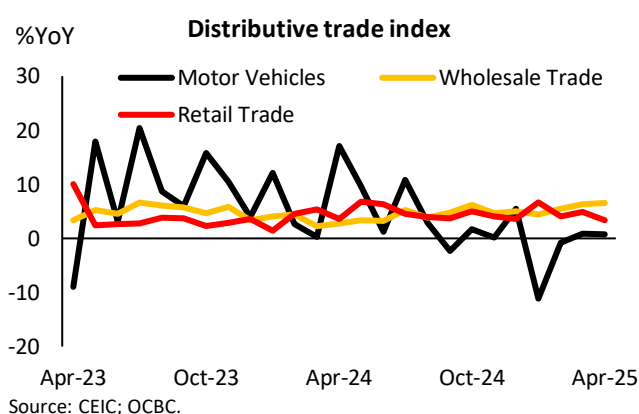
The balance of risks to our 2025 GDP growth forecast of 4.3% are to the downside. The extent of the downside will be clarified once there is an official agreement on reciprocal tariffs with the US as well as US imposed sector specific tariffs on semiconductors. PM Anwar did note on 19 June that trade negotiations with the US are progressing well. The Investment, Trade and Industry Minister Zafrul Aziz and Second Finance Minister Amir Hamzah Azizan are in Washington meeting with US officials.

In the interim, the incoming data has turned more mixed. Even with the sharp drop in May export growth, the average of April and May export growth at 7.2% YoY was higher than 4.4% in 1Q25. Similarly, import growth was also higher at 13.0% YoY in April-May 2025 from 2.8% in 1Q25. This suggests that the net export contribution

¹ ASEAN-7 includes Brunei, Indonesia, Philippines, Myanmar, Singapore, Thailand & Vietnam.

to headline GDP could be lower in 2Q25 compared to 1Q25 based on April and May data.

On the domestic side, growth in wholesale trade remained resilient in April (5.5% YoY from 5.7% in March) while retail sales slowed sharply (4.7% YoY from 6.6% in March). Similarly, even as headline industrial production growth slowed to 2.7% YoY in April from 3.2% in March, the manufacturing sector output remained strong (5.6% from 4.0% in March).



In terms of monetary policy implications, we continue to expect a cumulative 50bps in rate cuts from BNM in 2H25. The question is whether the weaker data is enough for BNM to pull the trigger on rate cuts at its 9 July meeting. It is a close call, in our view. We will closely monitor market moves and policy announcements in the lead up to the 9 July MPC meeting.

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