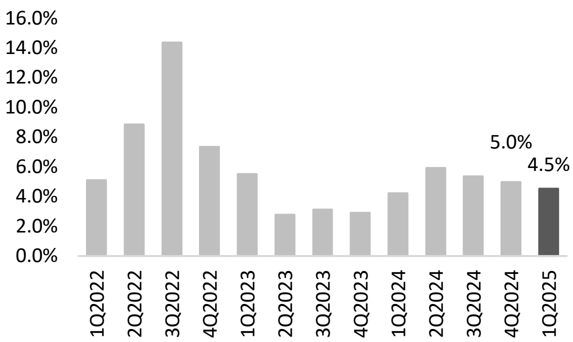
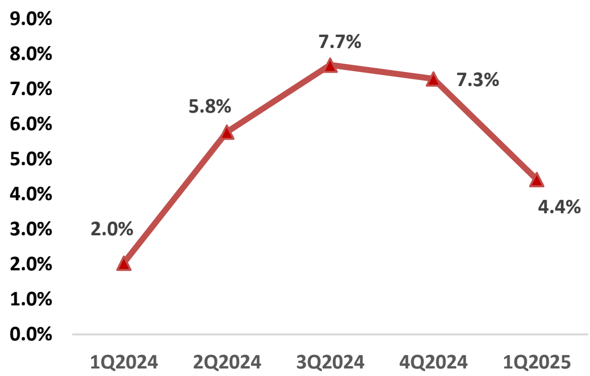
Imran Nurginias Ibrahim | Chief Economist | inurginias@bankislam.com.my
Farah Zazreen Zainudin | Economist | fzazreen@bankislam.com.my
Nor Lyana Zainal Abidin | Economist | nlyanaz@bankislam.com.my
Khayrin Farzana Fazli | Economist | kfarzana@bankislam.com.my

# 1Q2025 GDP PREVIEW: ECONOMIC GROWTH BEATS ADVANCE ESTIMATE, BUT GLOBAL TRADE RISKS WEIGH ON OUTLOOK

**Real GDP, y-o-y%**




**Total exports, y-o-y%**




*Sources: Department of Statistics Malaysia (DOSM), Bank Islam*

- **1Q2025 GDP growth expected to marginally exceed DOSM's Preliminary Estimate.** Private consumption is expected to remain resilient in 1Q2025, as evidenced by the strong 6.8% y-o-y growth in retail sales (4Q2024: 6.1%). A robust labour market, reflected in the unemployment rate easing to 3.1% after holding steady at 3.2% for three consecutive quarters, continues to underpin household spending. Seasonal demand related to festive celebrations such as Chinese New Year and Hari Raya also contributed to stronger consumption activity. Additionally, the upward revision in the minimum wage from RM1,500 to RM1,700 effective February 2025, along with the civil servant salary adjustments implemented at end-2024, is expected to further support consumer sentiment and spending in the near term. The disbursement of Phase 1 of the Sumbangan Tunai Rahmah (STR) on January 22 also contributed to economic momentum. Nevertheless, a slowdown in exports, dragged by slower performance in the manufacturing sector (6.0%; 4Q2024: 16.7%) is likely to weigh on overall economic activity. As such, we anticipate the economy to moderate to 4.5% growth in 1Q2025, down from 5.0% in the previous quarter, but marginally higher than DOSM's advance estimate of 4.4%.

- **Downside risks stemming from global trade uncertainties could dampen the growth of Malaysia's manufacturing sector in the first three months of 2025.** The slowdown in the Industrial Production Index (IPI) for manufacturing underscores this, as it eased to 4.2% in the first quarter of 2025, down from 4.5% in the preceding quarter. Adding to this, the Manufacturing PMI was 48.6 in April and 48.8 in March, both figures indicating a continued contraction in the sector as they are below the 50-point expansion mark. External demand remained robust, driving a 4.4% expansion in exports in 1Q2025 despite a deceleration from the previous quarter's 7.3%, Exports to the U.S. remained strong at 36.5% growth in 1Q2025, albeit a moderation from the 39.1% in 4Q2024. Similarly, exports to the European Union continued their positive trend, accelerating to 5.1% growth in 1Q2025 from 1.9% in the preceding quarter. In contrast, exports to China saw a continued downturn, worsening to a 4.3% contraction in 1Q2025 from a 2.9% decline in 4Q2024.

- **Sustained investment momentum is anticipated to bolster the construction sector's solid trajectory.** Despite a slight moderation, the sector is expected to mark another quarter of solid performance, underpinned by the rapid progress in a myriad of infrastructure development projects as well as the roll out of others. Latest figures highlighted a still booming landscape with construction work done accelerating by 16.6% on an annual basis in 1Q2025 (4Q2024: +23.1%) amid double-digit expansions across special trade activities (1Q2025: +35.5% vs. 4Q2024: +44.9%), residential buildings (1Q2025: +27.0% vs. 4Q2024: +38.9%) and non-residential buildings (1Q2025: +21.0% vs. 4Q2024: +24.6%) subsectors. Such performance is driven by the higher realisation of approved investments on both the public and private fronts. Private investment activities are supported by the favourable landscape, multifaceted incentives and accommodative government initiatives laid by the MADANI documents such as the National Energy Transition Roadmap and the New Industrial Master Plan 2030. Meanwhile, public sector investment growth is attributed to the rapid progress on multi-year infrastructure projects in the final year of the Twelfth Malaysia Plan. Coupled with the investment upcycle as reported by Bank Negara Malaysia (BNM), significant headway are seen in multiple ongoing key projects such as the Light Rapid Transit(LRT) 3, Rapid Transit System Link (RTS Link) between Johor Bahru and Singapore, the East Cost Rail Link (ECRL), the Pan-Borneo Highway projects and the Sabah-Sarawak Link Road. Moving forward, we expect the positive investment momentum to be sustained amid increased investor confidence surrounding the cohesiveness of government policies as well as rosier prospects following the revitalization of Malaysia's strategic partnership with China.

- **Looking ahead, Malaysia's GDP growth is expected to moderate further in 2Q2025, weighed down by persistent global uncertainties, particularly the elevated risk of a slowdown in global trade following the imposition of higher tariffs.** While the reciprocal tariff on Malaysian imports into the U.S. has been temporarily reduced to 10% from 24% previously effective April, the trade outlook remains fragile. Notably, the enforcement of the 24% tariff has been deferred from 9 April 2025 to 8 July 2025, offering temporary relief. However, risks will remain elevated if a comprehensive trade agreement is not reached between the Malaysian government and U.S. authorities. Despite the temporary tariff truce offering some short-term relief, the lack of a permanent resolution continues to weigh on Malaysia's trade prospects. Exporters, particularly in key industries such as electronics and commodities, remain vulnerable to potential policy reversals, renewed tariff escalation, and broader trade-related uncertainty. These risks could disrupt trade flows, weaken investor confidence, and pose a drag on the broader economic recovery. Despite these external headwinds, the domestic economy is expected to remain relatively resilient, underpinned by firm domestic demand, supportive fiscal measures, and a stable labor market. Overall, while internal demand provides a buffer, external risks dominate the downside. We maintain our 2025 GDP growth forecast at 4.4%, a moderation from 5.1% in 2024, in line with expectations of softer export performance and a cautious global economic backdrop.