

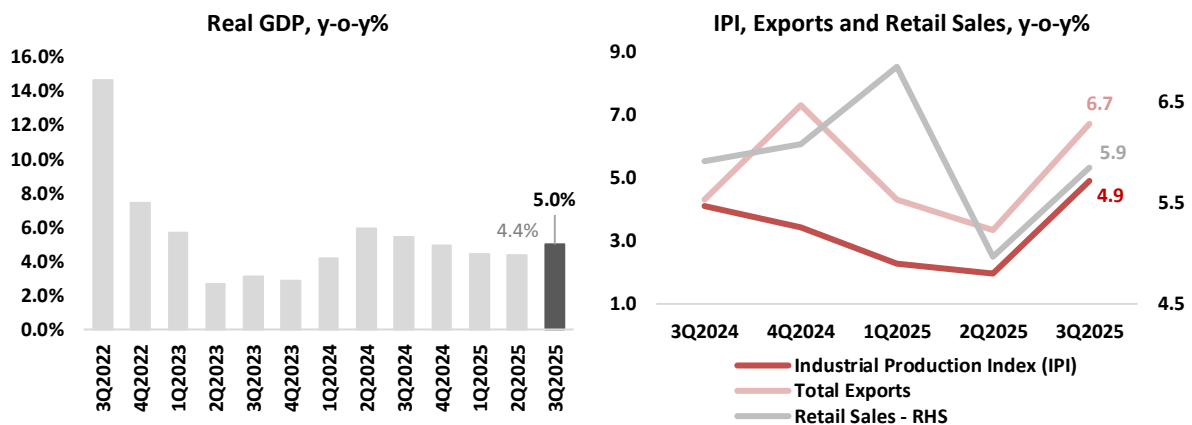
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3Q2025 GDP PREVIEW: GDP PROJECTION marginally BELOW ADVANCE ESTIMATE



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

- Malaysia's 3Q2025 GDP forecasted slightly below preliminary estimate.** Malaysian economy is expected to expand by 5.0% y-o-y in 3Q2025, marginally lower than the Department of Statistics Malaysia (DOSM) advance estimate of 5.2%, but above the 4.4% growth recorded in 2Q2025. The stronger growth momentum in 3Q2025 was largely driven by robust domestic demand, supported by healthy consumer spending and a favourable labour market. Private consumption remained the key growth driver, as reflected by a stronger 5.9% y-o-y growth in retail sales (2Q2025: 5.0%). Other components of distributive trade also registered solid gains, with wholesale trade rising 5.8% y-o-y (2Q2025: 5.1%) and motor vehicles sales expanding 3.3% y-o-y (2Q2025: 1.4%). The acceleration was partly contributed by government cash assistances programs, namely the Sumbangan Asas Rahmah (SARA) RM100 aid and the Phase 3 disbursement of the Sumbangan Tunai Rahmah (STR) in August. Meanwhile, a firm labour market, with the unemployment rate remaining steady at 3.0% continued to boost household spending. The tourism industry also provided a lift to retail activity, as tourist arrival surging to 2.63 million in July, the highest level since December 2016 (2.65 million). These development collectively point to strong private consumption growth in 3Q2025.
- Manufacturing activity experienced a modest recovery in the third quarter of 2025.** The Industrial Production Index (IPI) saw an uptick momentum in the third quarter, edging higher to 4.9% in 3Q2025 from 2.0% in 2Q2025. In addition, manufacturing output also showed slight improvement, growing by 4.0% in 3Q2025 from 3.9% in the previous quarter. Overall exports accelerated significantly, climbing 6.7% in 3Q2025, a marked increase from the 3.3% growth in the prior quarter. This strong performance was primarily driven by the E.U. and China. Exports to the E.U. nearly doubled to 11.6% in 3Q2025 from 5.5% in 2Q2025, and shipments to China rebounded robustly to 6.4%, reversing a 4.4% contraction. The only major dampener was the U.S. market, where export growth slumped drastically to 2.3% in 3Q2025 after a stellar 20.2% jump in 2Q2025. Malaysia's Manufacturing Purchasing Managers' Index (PMI) remained in

contraction territory in 3Q2025, registering 49.8 points, still below the neutral 50-point threshold but marking an improvement from 48.9 points in the previous quarter. However, the momentum softened again in October, with the PMI slipping to 49.5 points, suggesting that recovery in manufacturing activity remains tentative.

- Solid investment momentum is anticipated to bolster construction growth.** Thus far, Malaysia's gross fixed capital formation (GFCF) has been robust, accelerating by 12.1% y-o-y in 2Q2025 compared to 9.7% y-o-y in 1Q2025, amid increases across both private (2Q2025: 11.8% vs. 1Q2025: 9.2%) and public investments (2Q2025: 13.6% vs. 1Q2025: 11.6%). Key drivers of the investment uptrend, namely the rapid progress of multiyear development projects, higher realisation of approved investments, and consistent policy direction under key national master plans and the final year of the 12th Malaysia Plan (12MP), are expected to sustain investment momentum in 3Q2025. Investor confidence will also be reinforced by Malaysia's solid economic fundamentals and ongoing fiscal reforms, while easing uncertainties on the U.S.–Malaysia trade front should offer additional support despite lingering global policy volatilities. Consequently, GFCF is anticipated to maintain a firm footing in the third quarter, underpinning continued expansion in the construction sector, albeit at a slightly slower pace. The latest data show that the value of construction work done grew by 10.9% year-on-year in 3Q2025, moderating from 12.9% in 2Q2025 and marking its slowest growth since 4Q2023. Such performance was underpinned by slower growths across the special trade activities (3Q2025: 15.3% vs. 2Q2025: +22.2%), non-residential buildings (3Q2025: 10.0% vs. 2Q2025: +16.2%) and residential buildings (3Q2025: 11.6% vs. 2Q2025: +13.9%) subsectors while the civil engineering subsector accelerated by 8.9% in the same quarter (2Q2025: +7.5%). Looking ahead, the construction sector is expected to maintain its growth momentum, supported by sustained investment activity and the rollout of key infrastructure development projects. The global technology upcycle and the expansion of high-growth, high-value industries will further underpin sectoral strength, guided by the 13MP and broader MADANI policy initiatives.
- Malaysia's full-year GDP growth for 2025 is likely to be revised upward, supported by strong momentum in 3Q2025.** The strong growth recorded in 3Q2025, driven by resilient domestic demand, firmer industrial output, and a rebound in exports, is expected to push full-year growth above earlier projections, potentially reaching the upper bound of the official forecast range of 4.0% to 4.8%. Improved clarity on U.S. tariffs, which largely exclude Malaysia's key export products such as palm oil, rubber, cocoa, and pharmaceutical components, has strengthened sentiment among exporters. Additionally, with over 60% of Malaysia's semiconductor exports to the U.S. produced locally by American firms, the direct impact of the tariffs remains limited. This optimism, coupled with continued front-loading activities, was evident in export performance, which surged by 12.2% y-o-y in the final month of 3Q2025, marking a strong end to the quarter. Export growth was supported by notable expansion across major sectors, especially a 12.5% y-o-y rise in manufacturing exports (August: 1.5%) and a rebound in mining exports, which increased 4.3% y-o-y (August: -2.4%) after more than a year of negative performance. Significant gains in other mining segments, namely metalliferous ores and metal scrap (+163.1%) and condensates and other petroleum oil (+687.7%), helped offset continued contractions in crude petroleum (-17.3%) and natural gas (-13.2%) exports. Mining production also reported a double-digit growth in August (16.8%) and September (10.2%). Despite these positive developments, growth is expected to moderate in 4Q2025 as the full impact of the U.S. tariff hikes sets in and earlier front-loading activities taper off. Downside risks remain, particularly from persistent uncertainties in the global trade environment and ongoing geopolitical tensions, which could dampen overall economic performance. Furthermore, delays in adjusting to the new tariff structures may disrupt

supply chains and increase business costs. The recent rebound in mining-related exports is also unlikely to be sustained, as shipments of crude petroleum and liquefied natural gas continue to register negative growth.

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