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Q1 2025 GDP Growth Rate:		**+4.4%**
2025F GDP Growth Rate Target:	↓	**+4.2%**
Q1 2025 Headline Inflation:		**+2.1%**
2025F Headline Inflation Target:	↔	**+2.4%**
Q1 2025 USD/MYR:		**4.43**
End-2025 USD/MYR Target:	↔	**4.30**
Q1 2025 BNM OPR:		**3.0%**
End-2025 OPR Target:	↔	**3.0%**

Malaysia Q1 2025 GDP

Moderating Growth Outlook

Executive Summary

- **Malaysia's GDP expanded in Q1 2025 albeit at a moderated pace of 4.4% yoy, compared to 4.9% in the previous quarter, driven by sustained household spending, stable expansion in investment activities and solid external demand which propelled exports growth.**
- **On a quarter-on-quarter (qoq) seasonally adjusted basis, Malaysia's GDP rose 0.7% qoq in Q1 2025, recovering from -0.2% qoq in Q4 2024 on the back of improvement across all but the mining and quarrying sector.**
- **We project Malaysia's economy to expand at a more moderate rate of 4.2% yoy in 2025, a downward revision from the earlier estimate of 4.6% yoy. This adjustment reflects the anticipated impact of a baseline scenario involving a 10% reciprocal tariff, which could dampen global trade activity, disrupt supply chains, and lead to softer consumer spending and business investment.**

Malaysia's economic expansion moderated Q1 2025 at pace of 4.4% yoy, compared to 4.9% in the previous quarter, in line with advanced reading. The said growth was mainly propelled by three key factors namely (i) sustained household spending from the positive labour market conditions and supportive government-led policies to boost B40 household income, (ii) stable expansion in investment activities, and (iii) solid export growth which was backed by strong electrical and electronics (E&E) exports and tourism activities. While the economy remains on a positive trajectory, challenges such as weaker oil and natural gas output and contraction in palm oil output continues to weigh onto both the mining and agriculture sectors respectively.

Quarterly growth improved. On quarter-on-quarter (qoq) seasonally-adjusted basis, Malaysia's GDP improved by 0.7% qoq in Q1 2025, recovering from -0.2% qoq in Q4 2024. The improvement was largely boosted by all sectors except for the mining and quarrying sector which contracted -1.9% qoq (Q4 2024 rose 4.0% qoq) on decrease in decrease in crude oil & condensate and natural gas production. Notably, the manufacturing sector recovering 1.4% qoq vis-à-vis -1.2% qoq contraction in Q4 2024 due to improved global demand, while the construction sector also advanced 1.1% qoq (Q4 2024 contracted -0.2% qoq) on stronger performance across all sub-sectors. Meanwhile, the agriculture sector added 1.1% qoq (Q4 2024 contracted -2.8% qoq) on stronger fishing sub-sector. Elsewhere, the services sector added 0.7% qoq (Q4 2024 at 0.3% qoq) underpinned by improved wholesale & retail trade sub-sector.

Table 1: GDP by Expenditure Approach

	YoY %				
	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025
GDP	4.2	5.9	5.4	4.9	4.4
Government Consumption	7.4	1.9	6.0	4.0	4.3
Private Consumption	4.7	5.7	4.7	5.3	5.0
Net Export	4.6	6.1	5.2	8.7	4.1
Net Import	12.5	15.0	20.8	5.9	3.1
Investment	9.5	11.5	15.4	11.8	9.7

Source: BNM, Apex Securities

Table 2: GDP by Production Approach

	YoY %				
	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025
GDP	4.2	5.9	5.4	4.9	4.4
Agriculture	1.9	7.6	3.6	-0.7	0.6
Mining	4.3	2.7	-2.8	-0.7	-2.7
Manufacturing	2.1	4.7	5.6	4.2	4.1
Construction	11.9	17.2	20.0	20.7	14.2
Services	4.8	5.9	5.2	5.5	5.0

Source: BNM, Apex Securities

Sustained household spending. Private consumption continues to anchor growth, expanding by 5.0% yoy in Q1 2025 (Q4 2024: 5.3% yoy), supported by increased spending on restaurants and hotels, transport, clothing and footwear and communication. Meanwhile, government expenditure rose by 4.3% yoy, rising from 4.0% yoy in the previous quarter, driven by higher spending on supplies and services.

Investments remain steady. Gross Fixed Capital Formation (GFCF) eased to 9.7% yoy, compared to 11.8% yoy in the previous quarter. The expansion was primarily driven by the structure component, which grew by 13.4% (Q4 2024: 19.5%). Meanwhile, machinery & equipment rose 5.4% yoy (Q4 2024: 4.1% yoy), while other assets added 7.2% yoy as compared to 5.5% yoy in Q4 2024. By sector, private sector investments (79.8% share) increased by 9.2% (Q4 2024: 12.7% yoy), while public sector investments expanded by 11.6% yoy, up from 10.0% yoy in the previous quarter. Overall, GFCF moderated to 9.7% yoy in Q1 2025, from 11.8% yoy in Q4 2024.

Moderate external trade growth. On the external front, exports grew by 4.1% yoy (Q4 2024: 8.7% yoy), reflecting higher goods exports, particularly E&E components. Imports continued to rise, increasing by 3.1% yoy (Q4 2024: 5.9% yoy) due to higher goods imports.

GDP by Kind of Economic Activity

Services sector remains stable. The services sector continued its steady climb growing by 5.0% yoy in Q1 2025 (Q4 2024: 5.5%). The momentum was underpinned by strong performances in wholesale and retail trade which rose by 4.3% yoy (Q4 2024: 4.4% yoy). Transportation and storage sub-sector remained a strong growth of 9.5% yoy (Q4 2024: 10.7% yoy), while the business sub-sector growth held relatively steady at 7.7% yoy (Q4 2024: 7.8% yoy). Domestic spending remained as the key drive, bolstered by low unemployment rates which fell to 3.1% as of end-Mar 2025 and increased tourist expenditures following the by higher flight connectivity, visa exemptions as well as promotional activities leading to Visit Malaysia Year 2026. The sector remains the primary contributor to GDP, accounting for approximately 59.7% of total GDP.

Manufacturing sector holding well. The manufacturing sector growth eased marginally to 4.1% yoy (Q4 2024: 4.2%). In terms of sub-sector performances, electrical and electronic (E&E) and optical products segment expanded by 7.8% yoy in Q1 2025, up from 7.2% yoy in Q4 2024 on the back robust E&E activities. Likewise, the vegetable and animal oil gats and food processing registered 9.2% yoy growth (Q4 2024: 6.3% yoy). On the other hand, petroleum, chemical, rubber, and plastic products recorded a 2.6% yoy growth (Q4 2024: 3.1% yoy), while transport equipment, other manufacturing, and repair contracted by -8.0% yoy (Q4 2024: -3.4% yoy).

Mining and quarrying underperformed. Meanwhile, mining and quarrying sector remains downbeat, contracting deeper by -2.7% yoy in Q1 2025 as compared to a contraction of -0.7% yoy contraction in Q4 2024 on the back of weaker output. The sector's performance was impacted by a continued decline in crude oil & condensate, which contracted by -4.6% yoy (Q4 2024: -6.5% yoy). Natural gas growth also eased to 2.2% yoy (Q4 2024: 3.1% yoy). On a bright spot, other mining & quarrying and supporting services recorded improvement 1.5% yoy (Q4 2024: 0.3% yoy).

Agriculture recovered. The agriculture sector recorded marginal growth at 0.6% yoy in Q1 2025 (Q4 2024: -0.7% yoy) as the improvement from fishery and other agriculture subsectors mitigated the weaker palm oil segment. The oil palm sub-sector, which comprised 32.3% of the total agriculture sector, declined by -3.1% yoy in Q1 2025 (Q4 2024: 5.3% yoy), primarily due to weaker fresh fruit bunch production. Additionally, the forestry and logging sub-sector contracted by -10.5% yoy (Q4 2024: -1.5% yoy), further weighing on sector growth. However, the fishing sub-sector climbed 7.9% yoy (Q4 2024: 3.4% yoy), while other agriculture sub-sector rose 2.2% yoy (Q4 2024: 1.9% yoy).

Construction sector robust expansion also normalised. The construction sector continues to record double digit growth of 14.2% yoy (Q4 2024: 20.7% yoy). Growth was noticeable across all segments, particularly in non-residential buildings of 21.4% yoy (Q4 2024: 23.7% yoy), followed by specialised construction activities of 17.2% yoy (Q4 2024: 23.7% yoy). This reflects strong investor confidence and the government's commitment to infrastructure development. Multi-year projects under the Economy MADANI framework, including the National Energy Transition Roadmap (NETR) and the New Industrial Master Plan (NIMP) 2030 as well as the final stride under the 12th Malaysia Plan with development expenditure at RM86.0bn under Budget 2025, are anticipated to sustain growth momentum in 2025. Meanwhile, residential buildings growth eased to 16.6% yoy (Q4 2024: 30.2% yoy), while civil engineering grew by 5.2% yoy, down from 9.1% yoy in the previous quarter.

Economic Outlook

Resilient domestic consumption and robust trade to sustain Malaysia growth catalysts. Consumer spending is expected to anchor growth, supported by favourable labour market conditions with labour participants climbing to 70.7% in Mar 2025, while unemployment rate fell to 3.1% during the same period, which will propel domestic spending. We gather that retail trade expanded by 6.8% yoy in the January-March period, up from 6.1% yoy in Q4 2024, reflecting sustained consumer confidence. The festive season (Lunar New Year and Ramadan) along with government cash aids further contributed to an uptick in spending. Additionally, external trade played a key role, with net exports contributing positively to growth. Trade surplus jumped to RM24.7bn in Mar 2025 – the highest level in 21 months on the back of stronger exports of E&E products, especially semiconductor devices and integrated circuits (ICs) that is aligned with the projected 2025 growth of 11.2% yoy for global semiconductor sales by the World Semiconductor Trade Statistics (WSTS).

2025 economic outlook points to moderated yet resilient growth. Looking ahead, we trimmed Malaysia's economic growth forecast to **4.2%** in 2025 (from earlier projection of 4.6% yoy) taking into account of the impact from on-going trade tension between US and China as well as US and rest of the world. We expect the reciprocal tariff may impact global and domestic economies (including the US) as (i) higher goods and services prices which eventually passed on to end-users may erode consumers' purchasing power and translate to slower consumption-driven growth, (ii) potential supply chain disruptions and weakens global trade activities, and (iii) unpredictable trade policies may discourage investment spending. On a brighter note, domestic reformations, on-going infrastructure investments under the 12MP and sustained strong labour market along with increase cash aids to B40 community will remain supportive towards domestic consumption. Still, we caution that inflationary pressures stemmed from progressive subsidy rationalisation (RON 95 sometime in 2H 2025) may pose some challenges.

Sensitivity analysis. In Q1 2025, US is ranked as the second largest export market in Malaysia (apart from ASEAN) with total exports from MY to US stood at RM22.66bn – representing 15.2% of total market share of RM378.36bn of total exports during the quarter. Under the prevailing scenario, potential -5% decline in total trade activities could impact Malaysia's GDP by approximately 7 percentage points. With trade negotiations with US and the rest of the world (including China) are yielding positive progress lately, we expect a base case of 10% reciprocal tariff to hit Malaysia economy, resulting into projected 2025 GDP growth forecast of **4.2%**.

Table 3: Projected Malaysia GDP Growth Based on Tariff Sensitivity

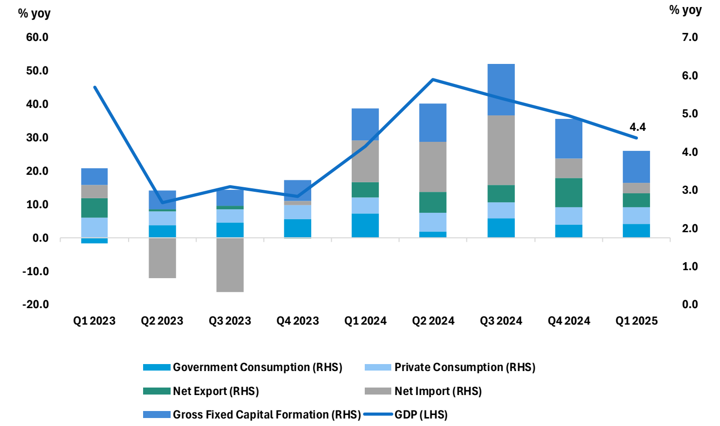
US Reciprocal Tariff / Projected Malaysia Total Exports in 2025 (RM m)	0%	5%	10%	15%	20%
1717.8	7.1%	6.4%	5.6%	4.8%	4.0%
1636.0	6.4%	5.6%	4.9%	4.1%	3.4%
1558.1	5.6%	4.9%	4.2%	3.4%	2.7%
1480.2	4.8%	4.1%	3.4%	2.8%	2.1%
1402.3	4.0%	3.4%	2.7%	2.1%	1.5%

Source: Apex Securities

Potential trade risk remains on the cards. While the reciprocal tariffs which hit global economies and Malaysia not being spared at a rate of 24% has taken a pause, we reckon that a base case assumption of 10% may pile some pressure towards external trade. Furthermore, global interest rate adjustments could influence capital flows and currency stability, affecting investment sentiments. Domestically, inflationary pressures remain amid subsidy retargeting particularly affecting the T15 income group, may impact discretionary spending though overall inflation is projected to remain manageable at **2.4%** in 2025.

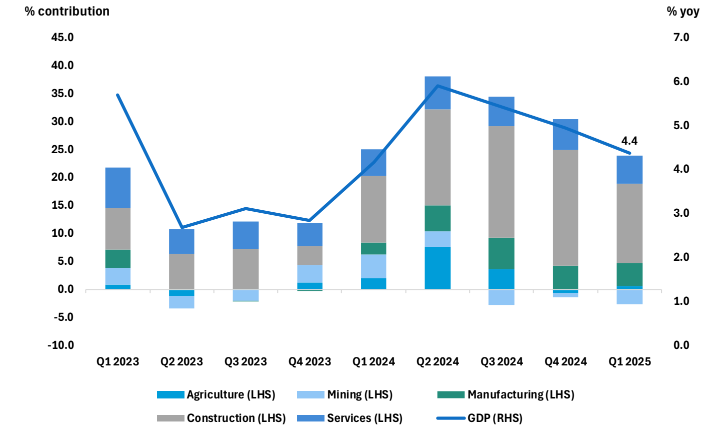
Local currency gaining momentum. The MYR appreciated +0.8% qoq to MYR/USD at RM4.435 as at end-Mar 2025. The appreciation was mainly due to expectations of narrowing interest rate differentials and positive economic fundamentals as a whole. Against the currencies of trading partners, the Ringgit nominal effective exchange rate (NEER) demonstrated resiliency, rising 0.01%, supported by steady economic improvements and positive impacts from domestic structural reformations. Looking ahead, we project the US Federal Reserve to deliver **two rate cuts** in 2025 to cushion the impact of tariffs in 2H 2025, while Bank Negara Malaysia is expected to keep Overnight Policy Rate (OPR) unchanged at 3.0% throughout 2025 as economic growth is projected to remain fairly stable and labour market remains resilient. Our 2025 year-end projection for USD/MYR remains unchanged at **4.30**.

Figure 1: GDP by expenditure (yoy)



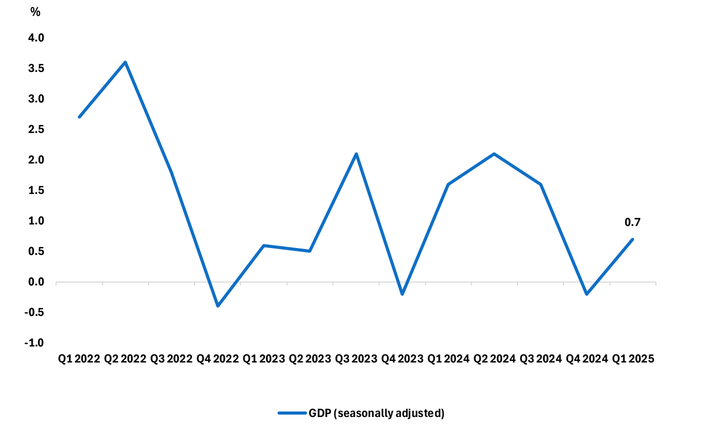
Source: Apex Securities

Figure 3: GDP by sector (yoy)



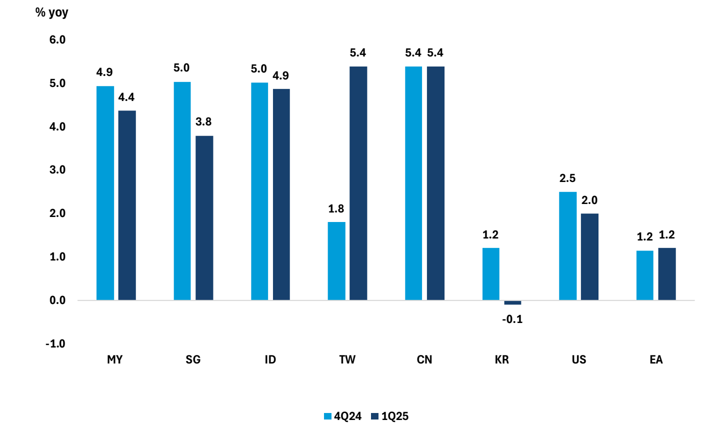
Source: Apex Securities

Figure 3: MY GDP growth rate, seasonally adjusted (qoq)



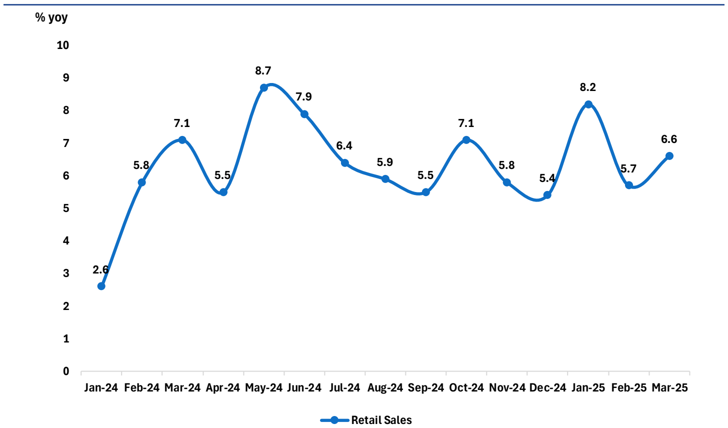
Source: Apex Securities

Figure 4: MY GDP vs selected countries



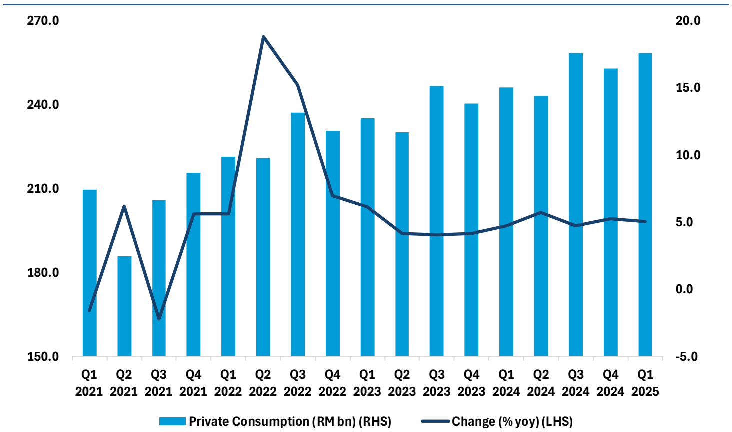
Source: Apex Securities

Figure 5: Malaysia retail sales growth improved by 6.6% yoy in Mar 25 ahead of Ramadan, thanks to government cash aid and festive deals



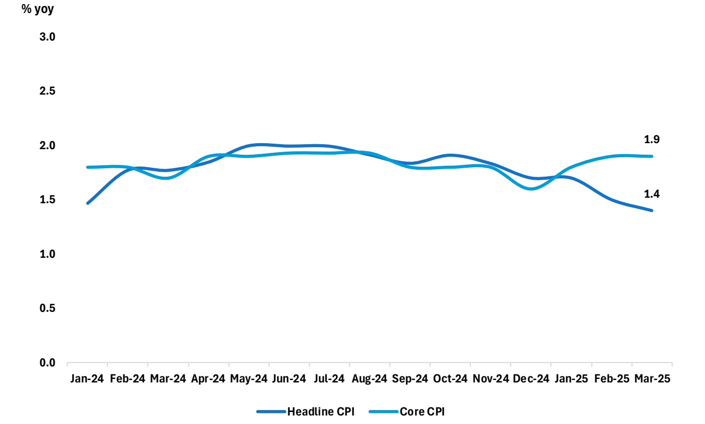
Source: Apex Securities

Figure 6: Private consumption climbed 5.0% yoy to RM259m in Q1 2025, from RM253m in Q4 2024



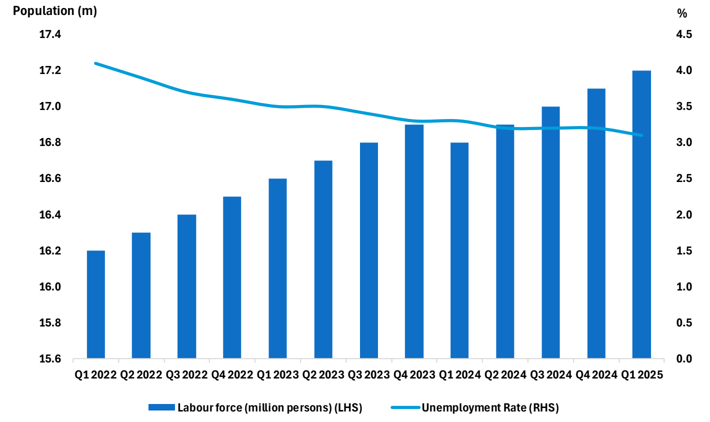
Source: Apex Securities

Figure 7:Headline CPI eased to an average of 1.5% yoy in Q1 2025, falling slightly below market expectations and Q4 2024 reading of 1.8% yoy



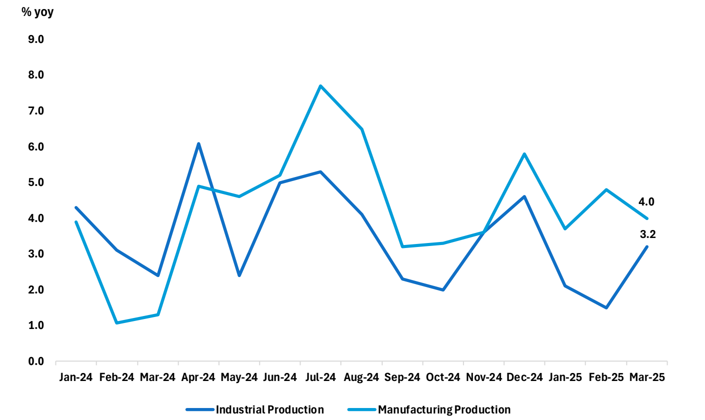
Source: Apex Securities

Figure 8: Unemployment rate remains low at 3.1% as at end Q1 2025 indicating robust economy with ample job opportunities and high workforce participation of 17.2m population



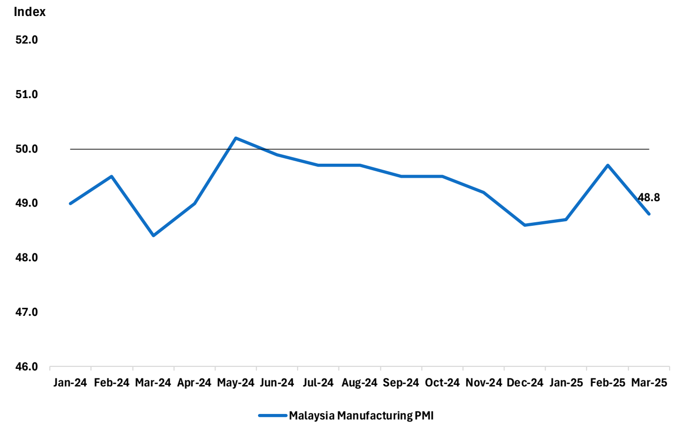
Source: Apex Securities

Figure 9: IPI expanded by 3.2% yoy in Mar 2025 (Feb 2025: 1.5%), marking the strongest growth in industrial activity in 2025



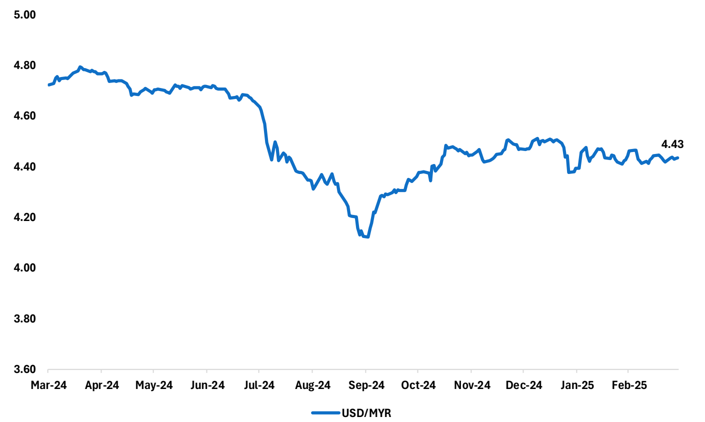
Source: Apex Securities

Figure 10: PMI remained weak at 48.8 in Mar 25, marking the tenth consecutive month of contraction amid declining output



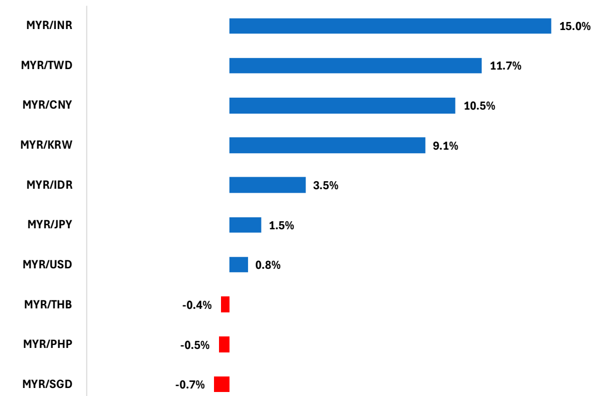
Source: Apex Securities

Figure 11: USD/MYR was rangebound between 4.35-4.50 before closing at 4.43 at end-Q1 2025



Source: Apex Securities

Figure 12: MYR appreciated against major currencies, but eased slightly against selected regional peers in Q1 2025



Source: Apex Securities

Recommendation Framework:
BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
*Capital gain

Sector Recommendations:
OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

ESG Rating Framework:
★★★★★ : Appraised with 3% premium to fundamental fair value
★★★★ : Appraised with 1% premium to fundamental fair value
★★★ : Appraised with 0% premium/discount to fundamental fair value
★★ : Appraised with -1% discount to fundamental fair value
★ : Appraised with -5% discount to fundamental fair value

As of **Monday, 19 May, 2025**, the analyst(s), whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:
(a) nil.