

Research Team
(603) 7890 8888
research.dept@apexsecurities.com.my

2Q25 advance GDP Growth:	+4.5%
2025 GDP Growth Forecast:	+4.2%
5M25 Headline Inflation:	+1.5%
2025 Headline Inflation Forecast:	+1.9%
BNM OPR:	2.75%
End-2025 OPR Forecast:	2.75%

Malaysia 2Q25 GDP Advance Estimate

Growth beats expectations at +4.5% YoY

- Malaysia's economy expanded by 4.5% YoY in 2Q25 (1Q25: +4.4%), beating expectations and lifted by robust services activity amid festive season and school holidays. However, the slowdown in manufacturing points to weakness in external trade.
- Growth momentum is expected to be supported by resilient household spending, investments in multi-year infrastructure projects, and BNM's recent 25-bp rate cut in July. Nonetheless, we see risks building from external uncertainties and impending fiscal reform measures that could weigh on consumption and investment decisions.
- We expect a more pronounced slowdown in the external sector in 2H25 as US tariffs come into effect in August and frontloading activity begins to fade. Another key risk to watch is the outcome of US-Malaysia trade talks and whether the final tariff rate will be reduced from the currently set 25%.
- Despite the stronger-than-expected 2Q25 GDP print, we maintain our full-year GDP forecast at 4.2%. Growth is expected to moderate to 4.0% in 2H25 (1H25e: +4.4%) amid a softer global trade environment.

Stronger-than-anticipated economic activity in 2Q25

Malaysia's economy expanded by 4.5% YoY in 2Q25 (1Q25: +4.4%), according to the advance GDP estimate released by the Department of Statistics Malaysia (DoSM), exceeding both our projection and Bloomberg consensus of 4.2%. On a QoQ basis, the economy grew at 1.0% (1Q25: -3.5%), marking a return to sequential growth following a contraction in the previous quarter. The final 2Q25 GDP data is scheduled for release on 15 Aug 2025 and will offer more detail on the expenditure and production breakdown.

Robust services lifted the growth

On a YoY basis, the performance of supply side components was mixed. Services led the growth, expanding at a faster pace of 5.3% in 2Q25 (1Q25: +5.0%), supported by festive-related spending during Hari Raya celebrations and school holidays. The agriculture sector rose by 2.0% (1Q25: +0.6%), driven by the oil palm sub-sector. Meanwhile, construction sector maintained its double-digit growth at 11.0% (1Q25: +14.2%), driven by continued activity in non-residential buildings, albeit at a slower pace. In contrast, mining sector contracted by 7.4% (1Q25: -2.7%) due to weaker crude oil and natural gas sub-sectors. Growth in the manufacturing sector moderated to 3.8% (1Q25: +4.1%), weighed by a slowdown in trade activity.

Domestic demand expected to hold up, but risks building up

Private consumption is expected to remain the main growth anchor, supported by a resilient labour market, with the unemployment rate holding at a 10-year low of 3.0% in May 2025. Policy support measures including the RM1,700 minimum wage hike effective February and RM13bn in targeted cash aid (SARA and STR) continue to support lower-income households. Meanwhile, the recovery in tourism will also provide a boost to the broader economy.

Investment activity will remain supported by multi-year infrastructure projects such as the ECRL and Pan Borneo Highway, the GEAR-up programme aimed at mobilising government-linked investments into "high-growth, high-value" industries, and the Johor-Singapore Special Economic Zone (JS-SEZ). The recent BNM 25-bp OPR cut in July will provide further tailwinds to the domestic economy.

That said, downside risks are rising. Fiscal reform measures such as SST expansion and potential RON95 fuel subsidy rationalisation in 2H25 could dampen real disposable income and consumer sentiment. Coupled with external uncertainties, these risks may weigh on consumer spending and investment decisions.

External sector to weigh on growth in 2H25

We think Malaysia's external sector will face renewed headwinds in 2H25 with the implementation of US tariffs scheduled for August. Higher tariff cost may weigh on US demand for Malaysia's goods, particularly in the E&E and manufacturing segments. We may also see the frontloading activities begin to wane, which may result in a more pronounced slowdown in the external sector in 2H25.

We continue to monitor the ongoing US-Malaysia trade talks and whether Malaysia can successfully negotiate a lower tariff rate from the currently set 25%. Our base case is a tariff rate between 15-19%, following a likely positive agreement. On a positive note, the sustained demand for E&E alongside the technology upcycle will help cushion the tariff impact, barring potential introduction of new tariffs targeting E&E products.

Keep GDP forecast unchanged for now

Despite the upside surprise in 2Q25, we maintain our full-year GDP growth forecast at **4.2%**. Growth is expected to moderate to 4.0% in 2H25 (1H25e: +4.4%) amid softer global trade environment. Risks to the outlook remain tilted to the downside, stemming from the magnitude and timing of fiscal reforms, the final outcome of US tariff negotiations, and the strength of global demand.

Table 1: GDP by Production Approach

	% share	% YoY						
	2024	2023	2024	2Q24	3Q24	4Q24	1Q25	2Q25A
GDP	100	3.5	5.1	5.9	5.4	4.9	4.4	4.5
Agriculture	6.3	0.2	3.1	7.6	3.6	-0.7	0.6	2.0
Mining	6.0	0.5	0.9	2.7	-2.8	-0.7	-2.7	-7.4
Manufacturing	23.1	0.7	4.2	4.7	5.6	4.2	4.1	3.8
Construction	4.0	6.0	17.5	17.2	20.0	20.7	14.2	11.0
Services	59.4	5.1	5.3	5.9	5.2	5.5	5.0	5.3

Source: Department of Statistics, 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 + dividend yield

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

Disclaimer: The report is for internal and private circulation only and shall not be reproduced either in part or otherwise without the prior written consent of Apex Securities Berhad. The opinions and information contained herein are based on available data believed to be reliable. It is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered by this report.

Opinions, estimates and projections in this report constitute the current judgment of the author. They do not necessarily reflect the opinion of Apex Securities Berhad and are subject to change without notice. Apex Securities Berhad has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

Apex Securities Berhad does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against Apex Securities Berhad. Apex Securities Berhad may from time to time have an interest in the company mentioned by this report. This report may not be reproduced, copied or circulated without the prior written approval of Apex Securities Berhad.

As of **Monday, 21 Jul, 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.
