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MACRO WATCH
Monday, May 19, 2025
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BNM 1Q 2025 GDP Report

Selective Opportunities Amid Global Uncertainty

Malaysia's economy began 2025 on a stronger footing than many had anticipated, recording 4.4% year-on-year GDP growth in Q1, underpinned by resilient domestic demand, firm investment activity, and a temporary export surge driven by front-loaded shipments to the United States. This growth recovery from the prior quarter's contraction highlights the economy's structural strength, though challenges remain on the horizon.

In another development, Bank Negara Malaysia (BNM) is likely to revise Malaysia's GDP projection for 2025 to be lower than the official 4.5% to 5.5% target set in March but do not expect it to be lower than 4%. The central bank cites uncertainty in global trade, softening external demand, and volatile commodity markets as key reasons for the adjustment. Yet, BNM also emphasized that Malaysia's domestic fundamentals remain solid, with consumer spending, services, infrastructure projects, and tourism driving sustained growth. Official forecast revision will be released in 1–2 months, awaiting better clarity on global trade developments (esp. U.S.-China). BMN are cautious about downgrading growth too sharply; risks are present but underlying domestic demand remains resilient.

Key concern in it economic outlook is uncertainty, not just the tariffs themselves. While the U.S.-China tensions are real, their impact on Malaysia remains limited for now, with possible upside from trade diversion. The narrative of "economic doom" is overblown — external demand is softer, but Malaysia's diversified export base and ongoing reforms provide resilience.

BNM has chosen to maintain the Overnight Policy Rate (OPR) at 3.00%, asserting a neutral and data-dependent monetary policy stance. The central bank also reduced the Statutory Reserve Requirement (SRR) from 2% to 1% in mid-May—a move framed as an operational liquidity measure, not a signal of monetary easing. These policy decisions reflect BNM's strategy of supporting economic momentum while guarding against inflationary risks and external volatility.

In this environment, Malaysia presents itself not as a broadly undervalued market, but as a market of selective opportunity. With macro conditions in flux, sectors like electrical & electronics (E&E), furniture, rubber gloves, tourism, consumer goods, infrastructure, and financial services offer pockets of upside driven by trade diversion, resilient domestic demand, and policy support.

Economic Performance: Domestic Demand Anchors Growth

Private consumption rose by **5.0%**, supported by solid labor market fundamentals, wage gains, and targeted policy measures like cash transfers and minimum wage hikes. On the investment front, both public and private capital formation saw double-digit growth, with major infrastructure rollouts and increased domestic participation leading the charge.

Export growth, though modest at **+4.1%**, received a significant lift from the **front-loading of U.S.-bound shipments** of electrical and electronics (E&E) products—Malaysia's key export engine. The services sector led production-side growth, while construction surged by **14.2%**, reflecting ongoing project momentum. Mining, in contrast, continued to weigh on GDP due to weak oil and gas output.

Policy Moves and Trade Developments: Managing the Crosswinds

Bank Negara Malaysia (BNM) has adopted a data-dependent yet supportive policy stance. The **Overnight Policy Rate (OPR) remains at 3.00%**, reflecting a neutral posture. The central bank remains focused on achieving a balance between growth and inflation, especially with inflation still subdued:

- **Headline inflation** eased to **1.5%**.
- **Core inflation** edged up to **1.9%**, driven by rental costs.

Inflation is expected to remain **under 3%**, with potential upside risks from:

- The gradual **RON95 fuel subsidy rationalization**.
- **Global commodity prices**.
- Exchange rate pass-through effects.

In a move to manage long-term liquidity, BNM cut the **Statutory Reserve Requirement (SRR) from 2% to 1%**, injecting **RM19 billion** into the banking system to facilitate credit growth and financial intermediation.

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Crucially, Malaysia has benefitted from a **90-day reprieve on impending U.S. tariffs**, with the threat of a 24% duty on selected exports delayed until **July 8, 2025**. During this window, exporters face only a 10% baseline tariff, preserving Malaysia's cost advantage and allowing for strategic positioning in global trade.

Sectoral Bright Spots: Trade Diversion, Tourism, and Infrastructure

Electronics and Export Manufacturing: The Trade Truce Advantage

Malaysia's E&E sector—representing over **60% of exports to the U.S.**—has been a direct beneficiary of the trade truce. March 2025 exports to the U.S. surged by **+50.8% YoY**, reflecting a rush to ship products before tariffs rise. Malaysia's relative advantage over Chinese producers (facing 30% duties) is pushing global buyers to reallocate orders to Malaysian firms, reinforcing its position as a key "China-plus-one" manufacturing hub.

Other manufacturing segments, including **furniture**, **gloves**, and **medical devices**, are also enjoying a reprieve. Furniture exports to the U.S.—a sector where Malaysia holds a 60% share—are recovering, with producers racing to fulfill paused orders. Similarly, rubber glove makers are leveraging their competitive edge over Chinese counterparts.

Commodities: Oil, Palm Oil, and Resources Find Stability

While the oil and gas sector contracted in Q1, normalization in output is expected to lift activity in Q2. A stable global oil demand outlook and a weaker ringgit are tailwinds for local energy exporters. Palm oil also stands to benefit indirectly from stronger Malaysia–China trade ties and increased Chinese demand amid softening U.S.–China tensions.

Consumer & Domestic Economy: Steady and Supportive

Private consumption remains Malaysia's most dependable growth engine. Wage growth, low inflation (1.5% headline), and accommodative monetary policy have created a conducive environment for household spending. Retail trade and consumer-facing industries are expected to post **mid-single-digit growth** in Q2.

The **tourism sector**, bolstered by returning Chinese and ASEAN travelers, is on an upswing. Summer travel and regional holidays are expected to drive tourist arrivals higher, benefitting airlines, hotels, and leisure-linked businesses. With a favorable exchange rate and improved connectivity, tourism is emerging as a key growth pillar.

Construction and Financial Services: Riding the Investment Wave

Construction activity is accelerating, backed by both government and private investment. Key projects in infrastructure, housing, and industrial development are progressing rapidly. Malaysia's role as ASEAN chair in 2025 has also catalyzed upgrades in transit and facilities.

Meanwhile, the financial sector remains stable. Ample liquidity, bolstered by the SRR cut, and targeted SME financing programs are sustaining credit flows. While potential OPR cuts may narrow bank margins, higher loan volumes and stronger asset quality are expected to cushion the impact.

Equity Market Outlook: Rotation Toward Strength

After a shaky start to the year, the FBM KLCI has shown signs of stabilization. Investors are now repositioning toward sectors with clearer earnings visibility and macro tailwinds:

- **Technology and E&E**: Benefitting from trade diversion and global reshoring.
- **Consumer & Retail**: Backed by resilient demand and fiscal support.
- **Tourism & Hospitality**: Enjoying strong recovery momentum.
- **Construction & Infrastructure**: Fuelled by investment spending and project rollout.

Banking stocks remain **defensive**, while commodity-linked counters may rally if global prices stabilize. Investor sentiment could improve further if the U.S.–Malaysia tariff negotiation yields a favorable outcome before July.

Risks and Policy Watchpoints

Risks to the outlook include:
- Re-escalation of U.S.–China trade tensions.
- Failure to reach a U.S.–Malaysia tariff resolution.
- Commodity price volatility.
- Delays in investment execution or project rollouts.

However, **policy buffers**—including fiscal space, monetary flexibility, and a diversified trade network—provide resilience. Malaysia is also actively deepening economic ties with China and ASEAN to mitigate overexposure to Western markets.

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Navigating Through Fragility with Flexibility

Malaysia's economy stands at a delicate yet promising juncture. Despite external uncertainties, the dual engines of export momentum and domestic resilience are keeping growth on track. Policymakers are acting decisively, and key sectors are capitalizing on temporary windows of opportunity.

A Market of selective opportunity. By aligning with sectors poised to benefit from trade dynamics, domestic strength, and policy support, investors can find solid ground amid the global volatility. Rather than taking a blanket bullish stance on the entire market, the prudent approach is to focus on quality companies in sectors backed by clear catalysts and supportive trends. By zeroing in on those industries enjoying trade diversion gains, strong domestic demand, tourism recovery, or infrastructure momentum – and confirmed by solid fundamentals – investors can **capture the upside in Malaysia's selective opportunities** while managing the risks of global uncertainty. This targeted approach aligns with the idea of Malaysia as a market of selective opportunity: the real value lies in picking the winners riding structural tailwinds, not in indiscriminate broad-market bets.

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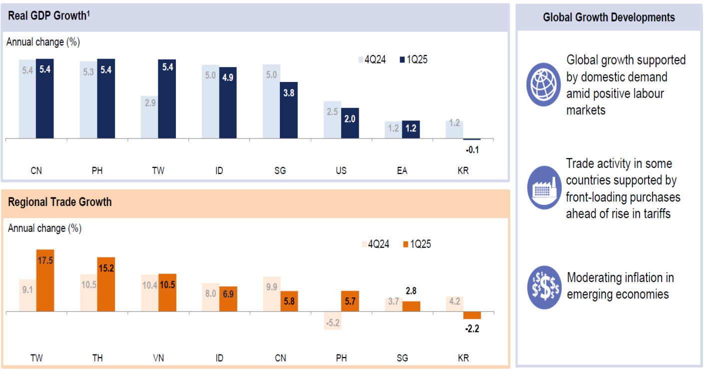
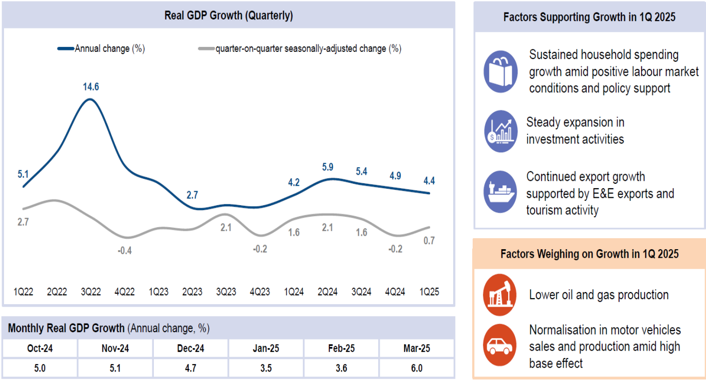
Appendix

Table 1: Continued Global Growth in 1Q25



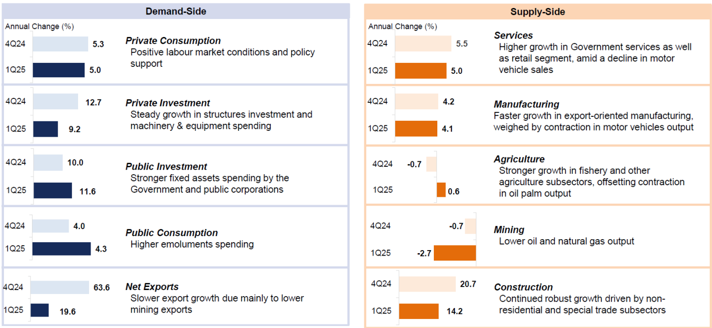
Source: BNM

Table 2: Economy expanded further in 1Q 2025



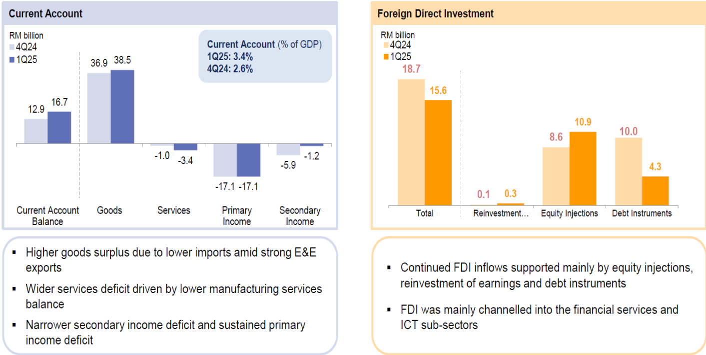
Source: BNM

Table 3: Growth Underpinned by Expansion in Demand and Sectors



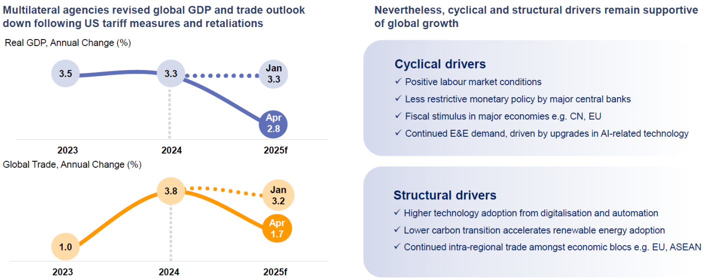
Source: BNM

Table 4: Large Currenr Account Surplus with continued FDI inflows



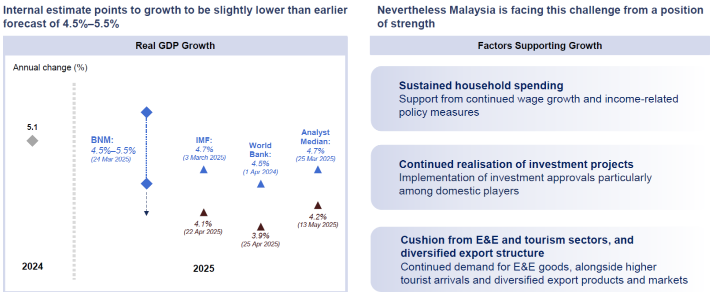
Source: BNM

Table 5: Uncertain Global Environment



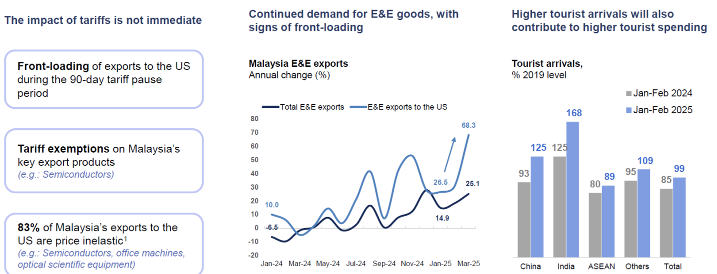
Source: BNM

Table 6: Malaysian Economy affected in changes in global trade but resilient domestic demand will anchor growth



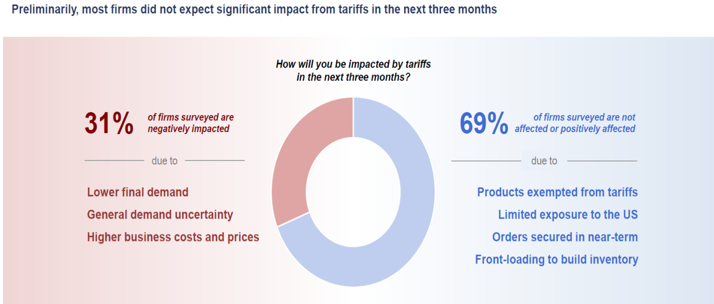
Source: BNM

Table 7: Impact of tariffs may be delayed with E&E and Tourism providing cushion



Source: BNM

Table 8: Engagement with Firms suggests negative impact from tariff could be limited in short-term



Source: BNM

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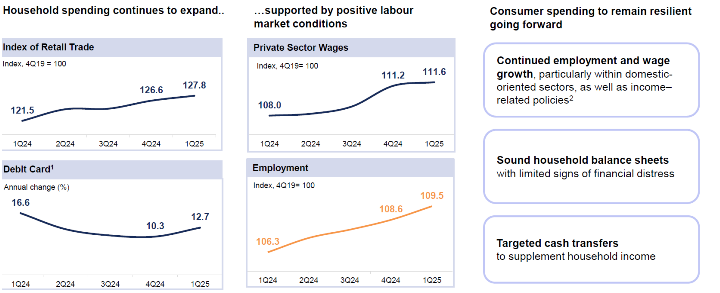
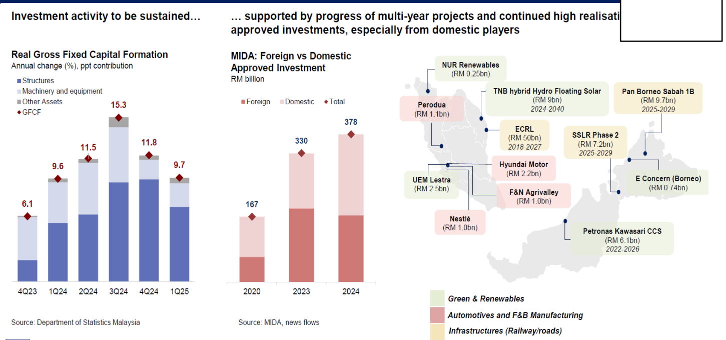
Table 9: Household Spending anchors growth



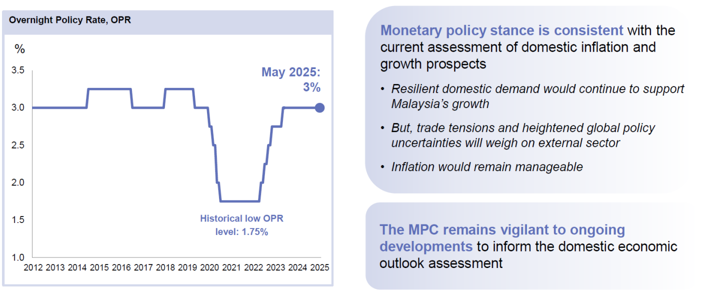
Source: BNM

Table 10: Investment growth underpinned by forthcoming investment intentions



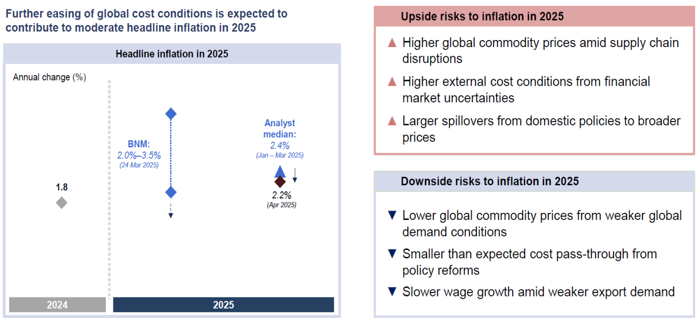
Source: BNM

Table 11: OPR maintained at 3% at May MPC meeting



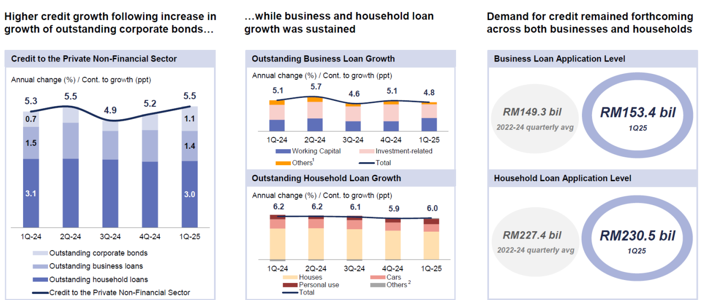
Source: BNM

Table 12: Inflation outlook projected to remain moderate



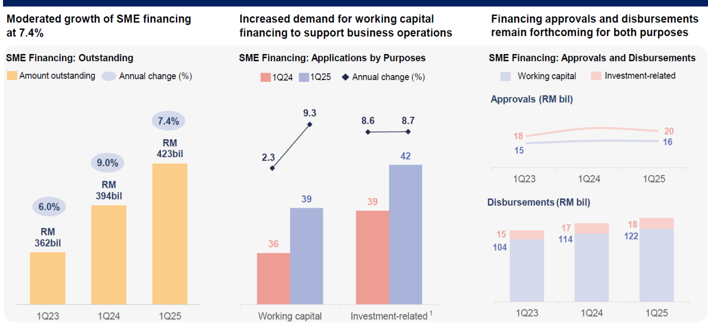
Source: BNM

Table 13: Credit growth increased



Source: BNM

Table 12: Banks



Source: BNM

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