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Decoding the Impact of Trump's Liberation Day Tariffs

17 April 2025

Jan-Mar 2025

World Economic Outlook Update

THE GLOBAL ECONOMIC PATH AHEAD IS “ROUGH AND FOGGY”

- **A major global slowdown looms.** High frequency indicators suggest that global growth continued in Q1 2025, albeit highly cautious about its near-term direction amid a looming risk of the Trump’s “Liberation Day” tariffs-induced full-blown trade war could push the global economy into a sharp downturn.

- In Q1 2025, global manufacturing and services Purchasing Managers' Indices (PMIs) remained in expansionary territory for three consecutive months. Trade activity surged between November 2024 and January 2025 as businesses stockpiled goods ahead of the anticipated tariffs. Notably, the semiconductor sector has recorded robust double-digit growth for 15 consecutive months in February. However, commodity prices have remained volatile. A combination of global recession fears, Trump's tariffs and the OPEC+ decision to accelerate production hikes has not sent oil prices crashing. Gold prices have reached record highs due to safe-haven demand amid the tariffs rout and also hedging against inflation.

- **Trump’s “Liberation Day” tariffs spark the risk of a full-blown trade war.** Trump’s Liberation tariffs – a baseline tariff of 10% will take effect on 5 April 2025, and selected countries will face a total additional tariff of up to 50% with effect from 9 April 2025 – have reignited concerns of a global economic slowdown, shattering already fragile investor confidence. On 9 April 2025, Trump abruptly announced that country-specific “reciprocal” tariffs would be “paused” for 90 days to allow the negotiation process. With the exception of China, all US trading partners would continue to face 10% baseline tariffs. As of 13 April 2025, the tit-for-tat tariffs between the US and China are currently tagging at 125% tariff on the US goods and 245% on China goods.

- Tariffs action and retaliation among major economies have fuelled concerns about a full-blown trade war uncertainty, causing extreme volatility and ripple effects on the financial markets worldwide, oil and commodities markets. Tariffs can severely disrupt global supply chains, increase cost of raw materials and push up consumer inflation, pushing the global economy toward stagflation (low growth and high inflation), and in the worst case, can cause a global recession.

  (a) The **United States:** The US economy, at the epicentre of the escalating trade tensions, will bear the full brunt of the tariffs war’s impact. Many business leaders believe the US economy is already in a significant downturn.

  The US’s GDP increased by 2.4% annualised qoq in Q4 2024 (3.1% in Q3). While consumer spending grew by a robust 4.0% pace and government spending decelerated to +3.1%, trade was a drag on growth and gross private domestic investment slumped by 5.6%. In February 2025, both industrial production and retail sales recorded growth for three consecutive months. However, manufacturing PMI fell back into contraction territory in March after two months of expansion, while the services PMI saw a notable decline.

  Following the punitive tariffs imposed on goods coming into the US, consumers and businesses will likely encounter higher inflation and increased business costs, resulting in lower spending, output and capital spending. It is reckoned that a lot of trade-loaded and consumers’ front purchases, as well as businesses, have built strategic inventories, and the price and demand shocks will eventually dent domestic demand and investment spending. The US recession risks are now ‘uncomfortably high”, with the probability of a recession rising to 60% chance within the next 6-12 months.

(b) **Euro Area:** The eurozone economy grew modestly by 0.9% in 2024 (+0.2% qoq in Q4 2024), aided by lower inflation and a reduction in interest rate (2.50% in March 2025, 3.00% as at end-2024, and 4.00% as at end-2023). The growth prospect is at risk of a downward revision due to Trump's 20% tariff on the EU exports. Weaker trade, confidence, and investment are now dominating the euro area's growth outlook, boosting expectations for the European Central Bank (ECB) to accelerate its rate-cutting cycle. Inflation risks take a back seat for now.

(c) **Japan:** The Japanese economy ended 2024 with a modest GDP growth of 0.1%, supported by a recovery in 2H 2024 (+0.6% qoq in Q4 2024). In Jan-Feb 2025, the industrial sector posted positive growth in Jan-Feb, but retail sales have contracted for two consecutive months, ending a 34-month expansion streak. Business confidence deteriorated in Q1 2025 for the first time in four quarters. Concerns are mounting that Japan, which has already been sluggish due in part to sharp inflation, could slip into a sharp economic downturn if a downturn in exports stemming from the US tariffs weighs on corporate performance and hinders wage growth. The tariffs come at a time when the pace of wage growth could outpace that of price hikes.

(d) **China:** China's GDP growth of 5.4% in Q1 2025 was better than expected. Retail sales in March rose by 5.9% yoy, industrial output expanded by 7.7%. The urban unemployment rate slipped to 5.2% in March, following a two-year high of 5.4% in February. Fixed asset investment grew 4.2% in Q1. However, the drag from real estate worsened within fixed asset investment, down by 9.9% as of March, while infrastructure and manufacturing investment picked up pace.

Despite an upbeat economic performance in Q1, growth is expected to pace slower in the quarters ahead as the escalating tit-for-tat tariffs war between China and the US will knock down exports, consumption and investment. China, still reeling from the property slump, faces further economic headwinds from a combined 145% tariff on its goods exporting to the US. Pressures have been building on the government to release more forceful stimulus measures to prop up domestic consumption while reducing reliance on exports and investment. Exports contributed nearly a quarter of China's GDP in 2024. Stabilising the housing market will be crucial to bolstering domestic demand as the prolonged real estate slump has dented consumers' willingness to spend. The government has announced a CNY300 billion issuance of ultra-long-term special bonds aimed at boosting consumption and modernising industries.

- **Upside risks to global expectations and monetary policy path**. Since 2H 2024, major global central banks have lowered their policy rate amid moderating headline inflation. However, a combination of the US tariffs policy and retaliation actions could also pose upside risks to inflation expectations. Trade tensions, supply chain disruptions, and increased inputs cost may affect consumer prices (due to cost pass-through) not only through the direct effect of increases in import prices, but also indirectly due to increases in the prices of domestically produced goods triggered by higher input costs.

- Rising inflation expectations, slowing economic growth and a rise in unemployment would force the Fed to choose between fighting inflation and maintaining a steady labour market. Even though the Fed signalled that it would cut rates twice this year, the Fed Chairman warned that tariff inflation could be more persistent. This could limit the central bank from cutting the rate faster and more, even if the economic growth slows.

Global Economic and Monetary Conditions

Real GDP growth (%, Y-o-Y)

	2023	2024	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025F (IMF)	2025F (WB)
World	3.3	3.2	N/A	N/A	N/A	N/A	3.3	2.7
United States	2.9	2.8	2.9	3.0	2.7	2.5	2.7	2.3
Euro Area	0.4	0.9	0.5	0.5	1.0	1.2	1.0	1.0
China	5.2	5.0	5.3	4.7	4.6	5.4	4.6	4.5
Japan	1.5	0.1	-0.7	-0.7	0.7	1.1	1.1	1.2
India	9.2		8.4	6.5	5.6	6.2	6.5	6.7
Malaysia	3.6	5.1	4.2	5.9	5.4	5.0	4.7	4.5
Singapore	1.8	4.4	3.2	3.4	5.7	5.0	2.5	N/A
Indonesia	5.0	5.0	5.1	5.1	5.0	5.0	5.1	5.1
Thailand	2.0	2.5	1.7	2.3	3.0	3.2	2.9	2.9
Philippines	5.5	5.7	5.8	6.4	5.2	5.2	6.1	6.1
Vietnam	5.1	7.1	6.0	7.3	7.4	7.6	6.1	6.6

Note: *World GDP growth for 2023-2024E by IMF; Annual GDP for India is on fiscal year basis; N/A = Not applicable or not available*

Source: *Officials (unadjusted data except quarterly GDP for Euro Area); IMF (World Economic Outlook (WEO), World Bank (Global Economic Prospects)*

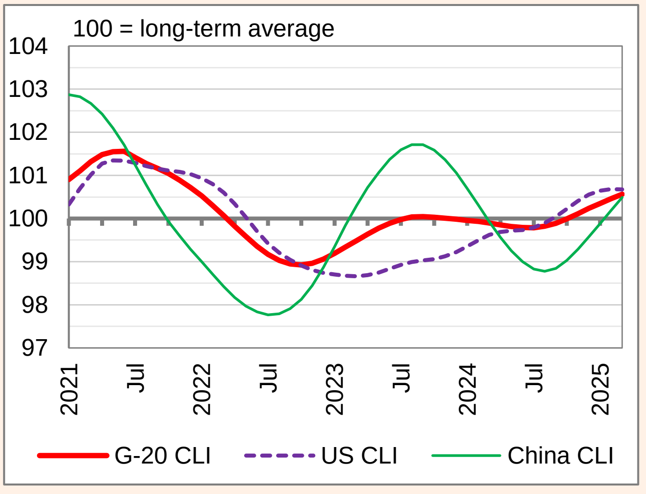
Policy rate (%)

End-period of	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025 (15/4)	2025 F
US, FED Federal Funds Rate	0.25-0.50	0.50-0.75	1.25-1.50	2.25-2.50	1.50-1.75	0.00-0.25	0.00-0.25	4.25-4.50	5.25-5.50	4.25-4.50	4.25-4.50	3.75-4.00
Euro Area, ECB Deposit Facility	-0.30	-0.40	-0.40	-0.40	-0.50	-0.50	-0.50	2.00	4.00	3.00	2.50	2.00
Japan, BOJ Overnight Call Rate	0.00-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.25	0.50	0.75
China, PBC 1-Year Loan Prime Rate	4.35	4.35	4.35	4.35	4.15	3.85	3.80	3.65	3.45	3.10	3.10	3.00
UK, BOE Bank Rate	0.50	0.25	0.50	0.75	0.75	0.10	0.25	3.50	5.25	4.75	4.50	3.75
Australia, RBA Cash Rate	2.00	1.50	1.50	1.50	0.75	0.10	0.10	3.10	4.35	4.35	4.10	3.35
India, RBI Policy Repo Rate (LAF)	6.75	6.25	6.00	6.50	5.15	4.00	4.00	6.25	6.50	6.50	6.00	6.00
Korea, BOK Base Rate	1.50	1.25	1.50	1.75	1.25	0.50	1.00	3.25	3.50	3.00	2.75	2.75
Malaysia, BNM Overnight Policy Rate	3.00	3.00	3.00	3.25	3.00	1.75	1.75	2.75	3.00	3.00	3.00	3.00
Indonesia, BI BI-Rate	7.50	4.75	4.25	6.00	5.00	3.75	3.50	5.50	6.00	6.00	5.75	5.50
Thailand, BOT 1-Day Bilateral Repo Rate	1.50	1.50	1.50	1.75	1.25	0.50	0.50	1.25	2.50	2.25	2.00	2.00
Philippines, BSP Target RRP Rate	4.00	3.00	3.00	4.75	4.00	2.00	2.00	5.50	6.50	5.75	5.50	5.25

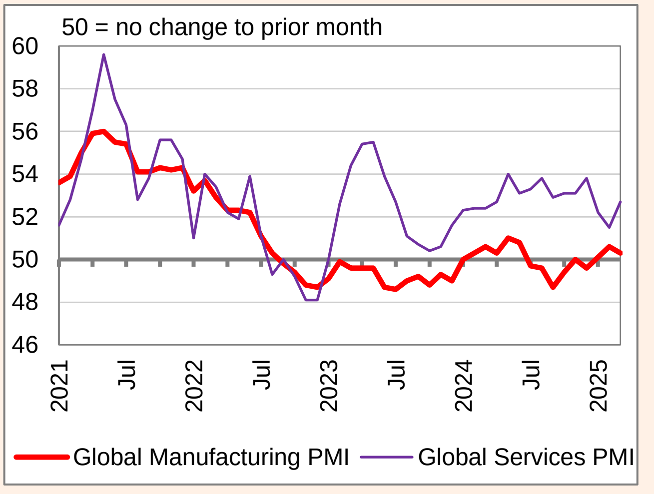
Source: *Officials; SERC*

Global Current and Forward Indicators

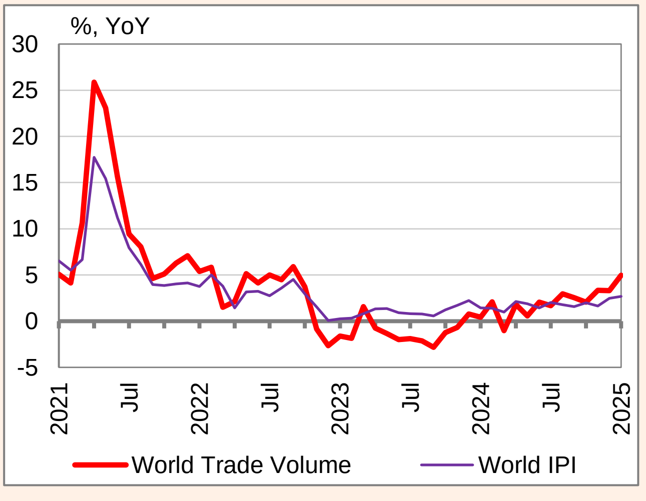
OECD composite leading indicators signal a potential turning in US economy



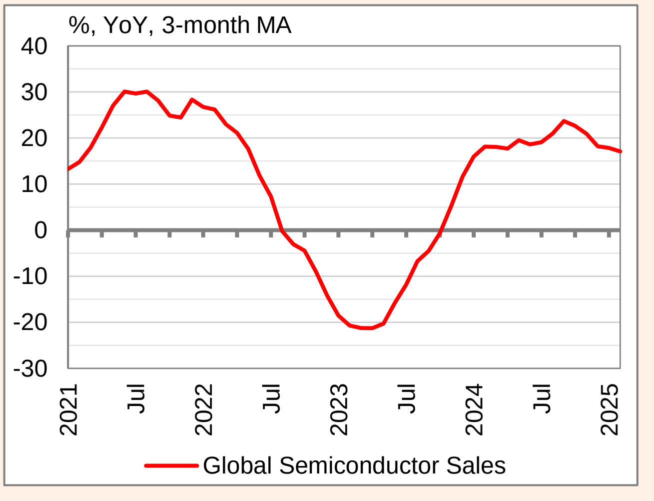
Global manufacturing PMI stayed above 50-pt for three months in a row in Q1



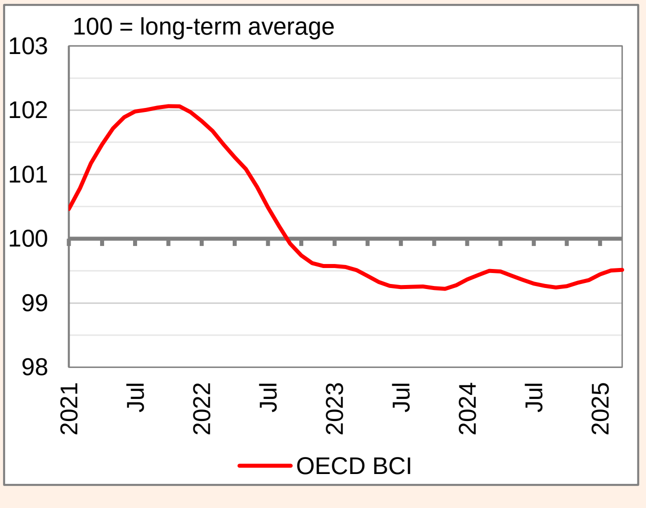
Global trade volume growth accelerated, likely driven by front-loaded shipments



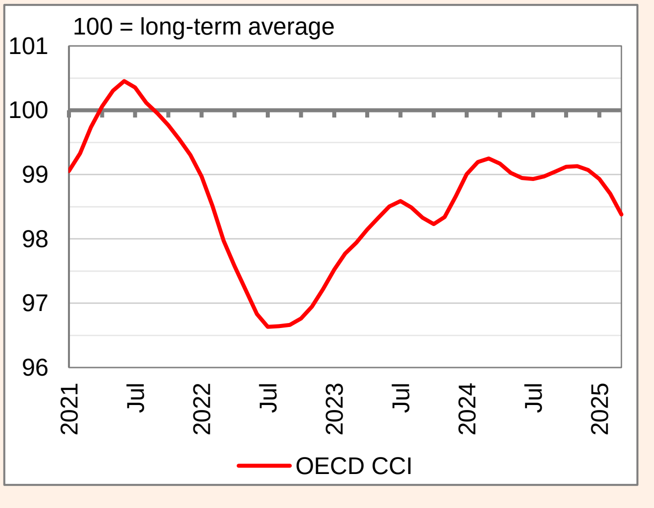
Global semiconductor sales continued to deliver double-digit growth



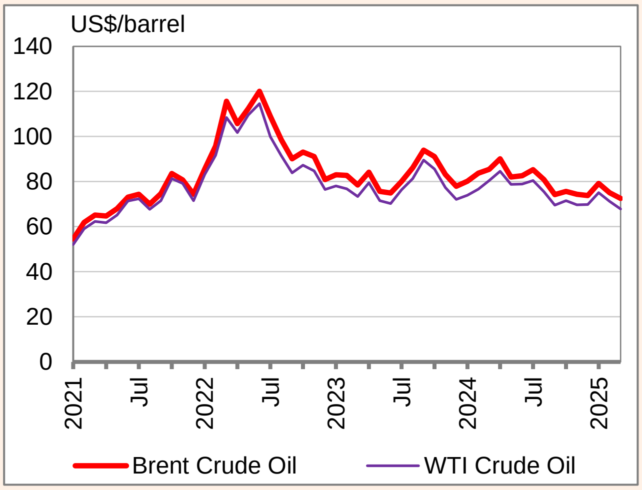
OECD Business Confidence Index



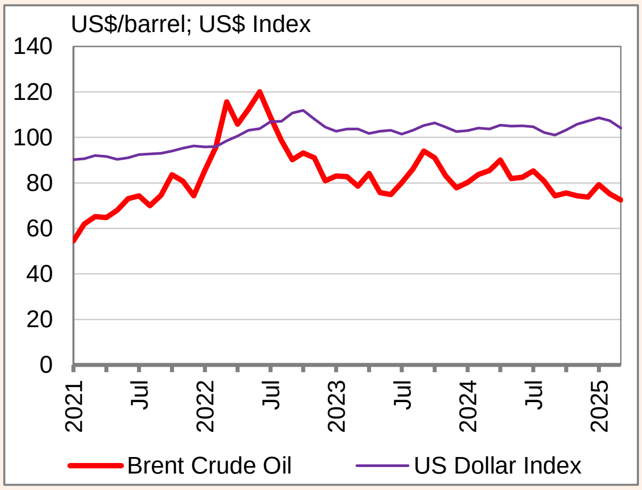
OECD Consumer Confidence Index



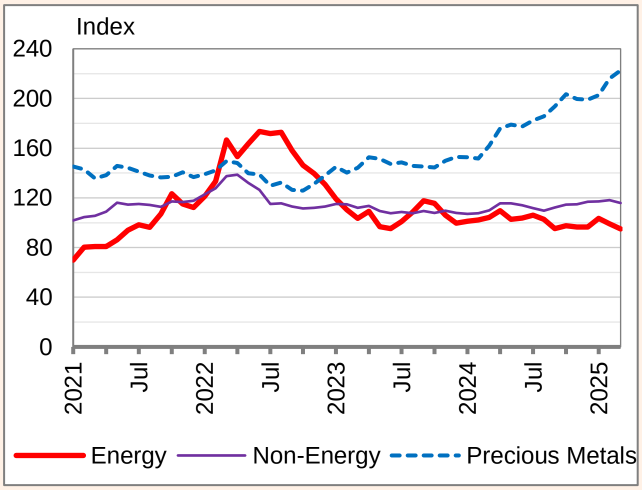
Weaker demand and OPEC+ production hike weigh on crude oil prices



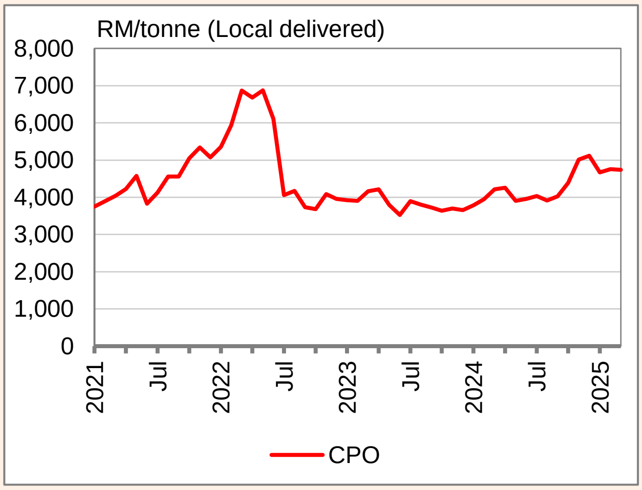
Brent crude oil price vs. the US dollar index



Gold prices hits record high, exceeding USD3,000/oz



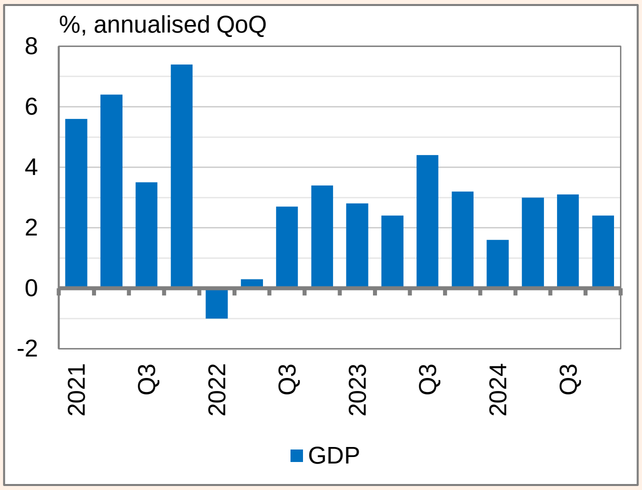
Crude palm oil prices hold steady above RM4,000/tonne



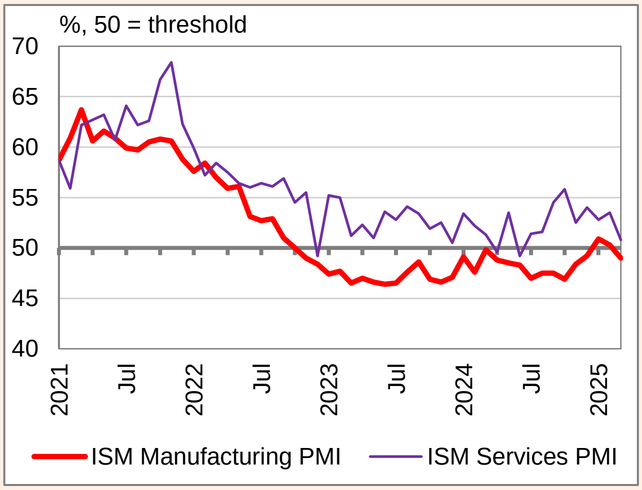
Source: Organisation for Economic Co-operation and Development (OECD); S&P Global; CPB Netherlands Bureau for Economic Policy Analysis; Semiconductor Industry Association (SIA); World Bank; The Wall Street Journal; Malaysian Palm Oil Board (MPOB)

The US – All eyes on tariff negotiations

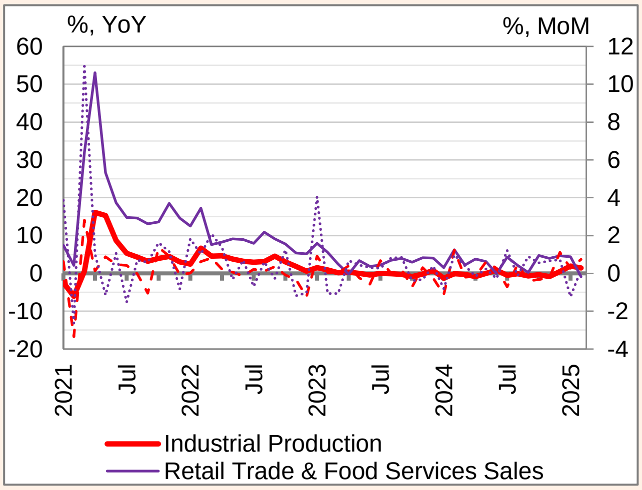
The US economy, reliant on consumption, may face tariff headwinds



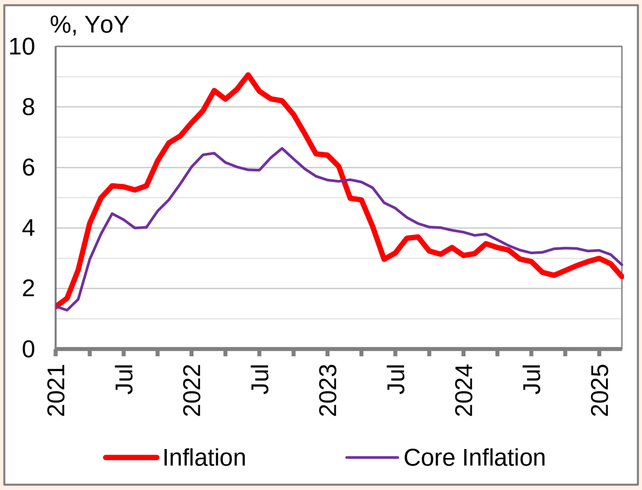
Manufacturing PMI contracted in Mar after two months of expansion



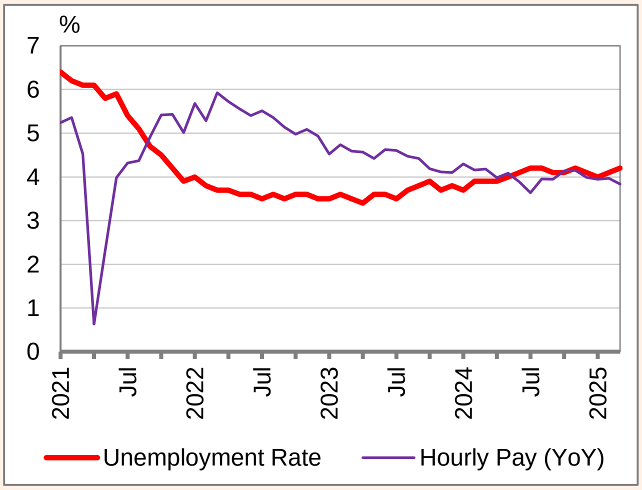
Industrial production grew for three straight months in Feb



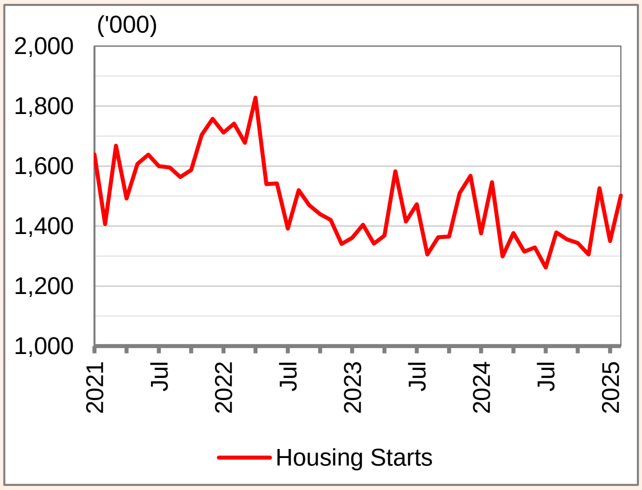
Inflationary risks intensify as Trump's tariffs take effect



Labour market remains intact amid a small uptick in unemployment rate



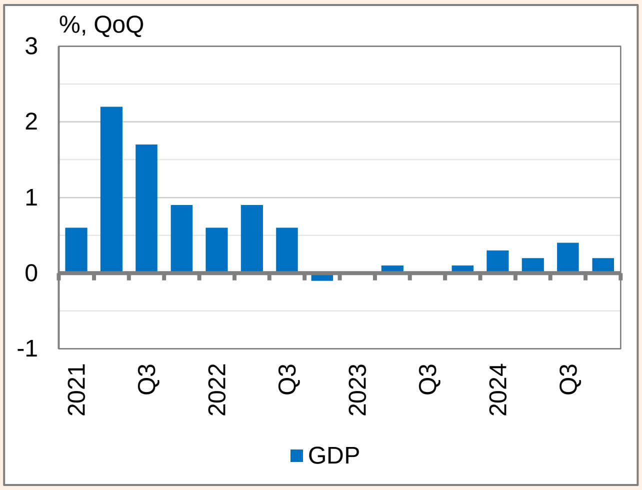
Housing starts were uneven



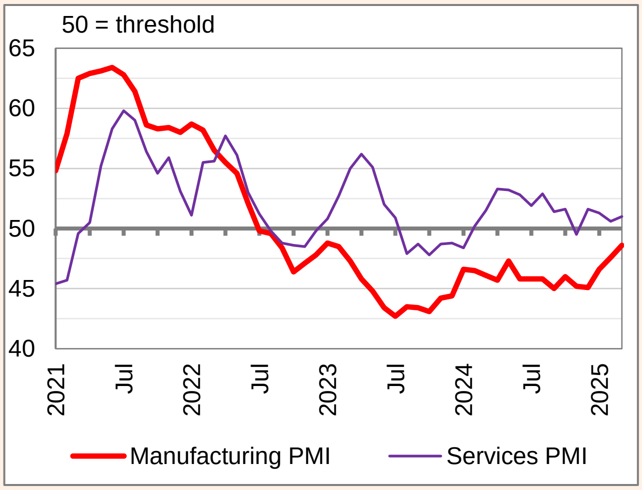
Source: Bureau of Economic Analysis (BEA); Institute for Supply Management (ISM); Federal Reserve System; US Census Bureau; US Bureau of Labor Statistics

Euro Area – Tariff tensions dim growth outlook

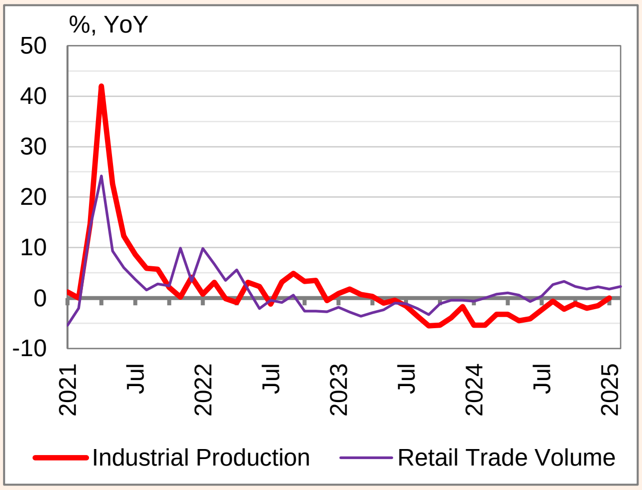
Eurozone economic growth presented a modest growth in Q4 2024



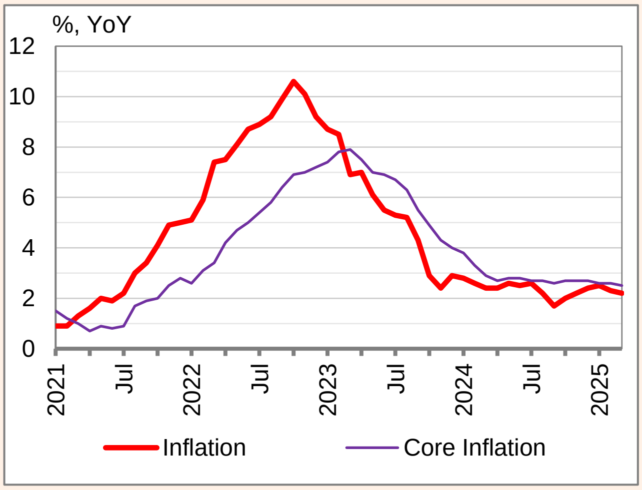
Manufacturing PMI signalled softest decline since Jan 2023



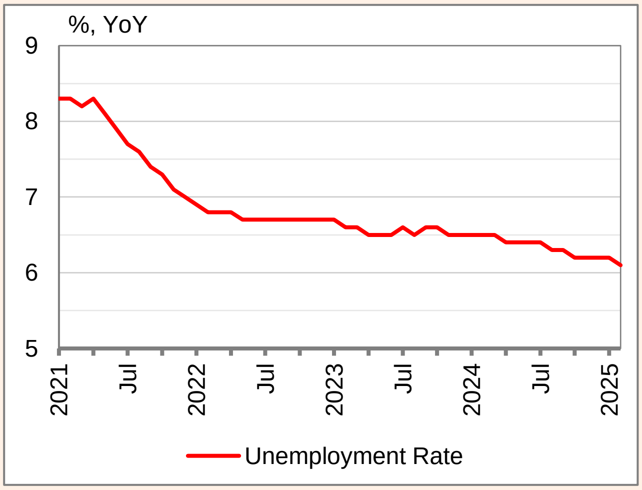
Industrial production showed some recovery amid steady retail sales growth



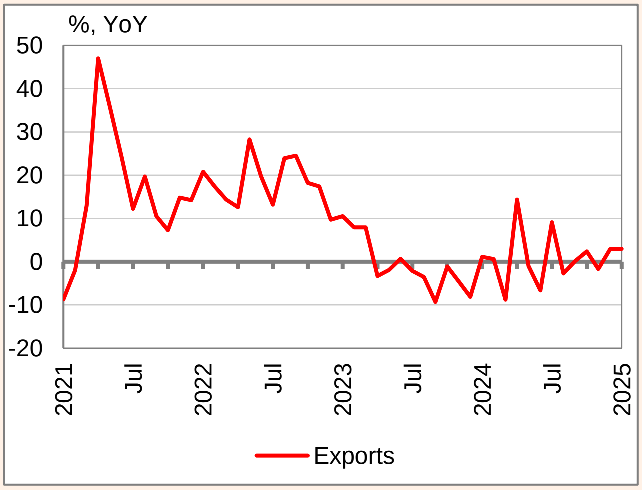
Inflation faces upside risks from retaliation



Jobless rate at new record low of 6.1% in Feb 2025



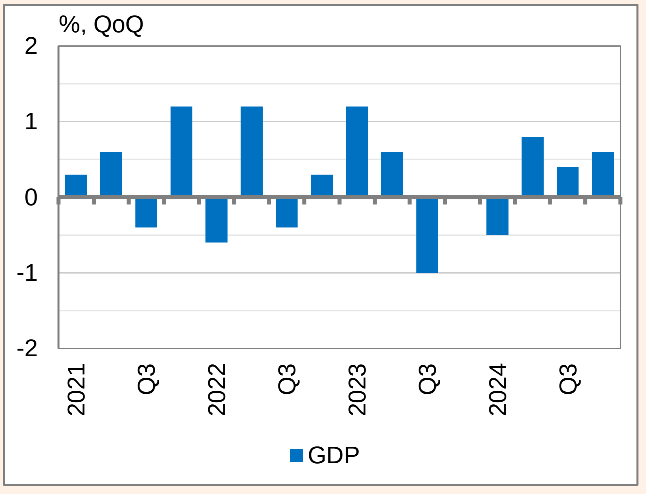
Export outlook dims due to the tariffs impact



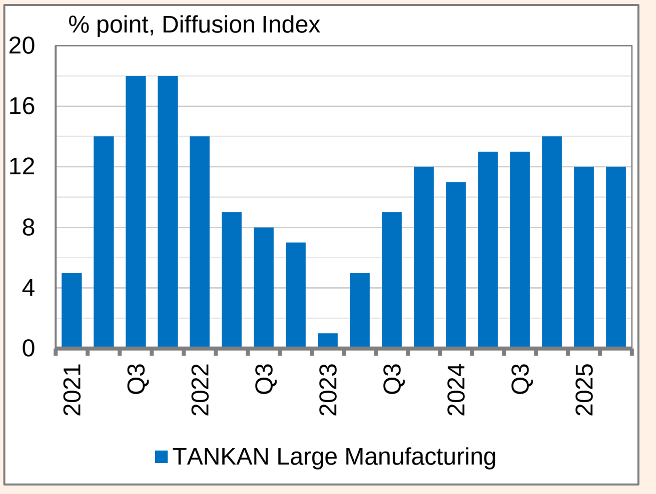
Source: Eurostat; S&P Global

Japan – Balancing between growth & inflation

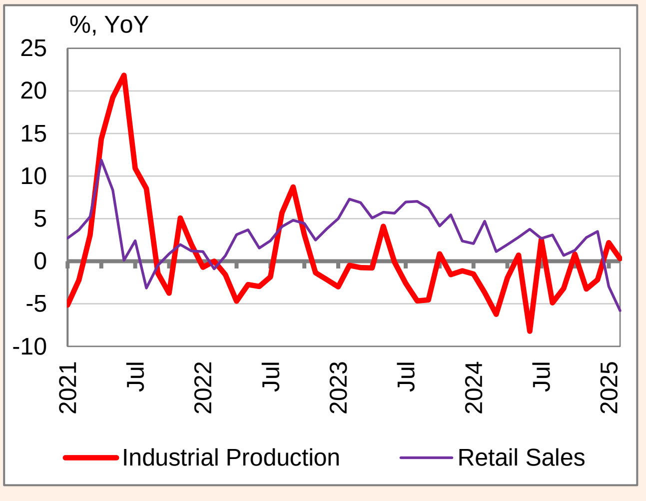
The Japanese economy supported by recovery in 2H 2024



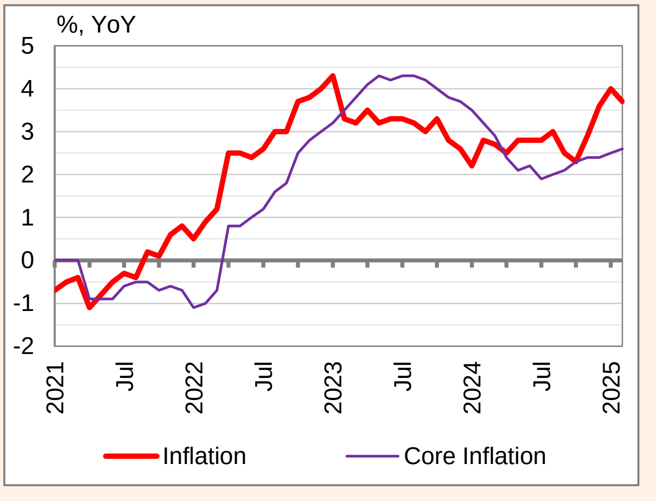
TANKAN survey signals first deterioration since Q1 2024



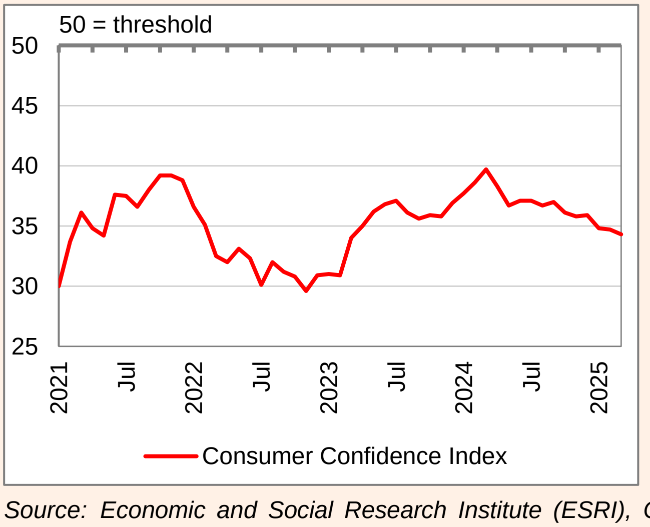
Retail sales contracted sharply for two consecutive months in Jan-Feb



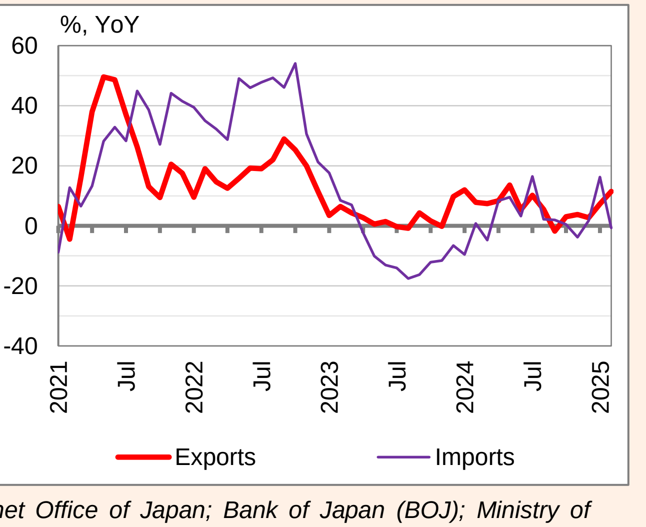
Tariffs set to weaken yen, driving inflation further upward



Consumer confidence has weakened further



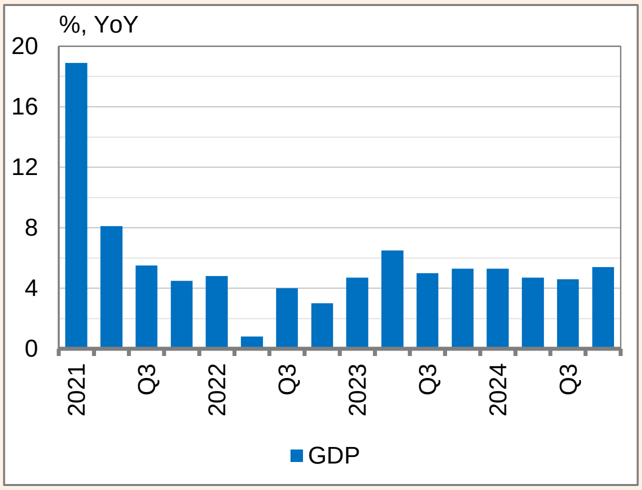
Exports grew for five straight months in Feb, aided by front-loaded shipments



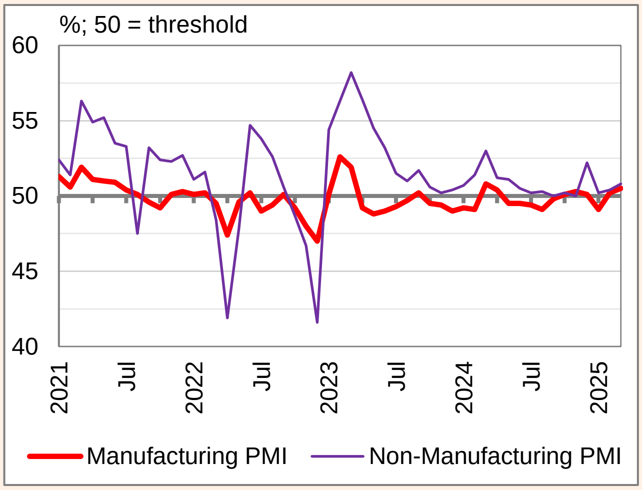
Source: Economic and Social Research Institute (ESRI), Cabinet Office of Japan; Bank of Japan (BOJ); Ministry of Economy, Trade and Industry (METI), Japan; Statistics Bureau, Japan; Japan Customs

China – Full-blown trade war with the US

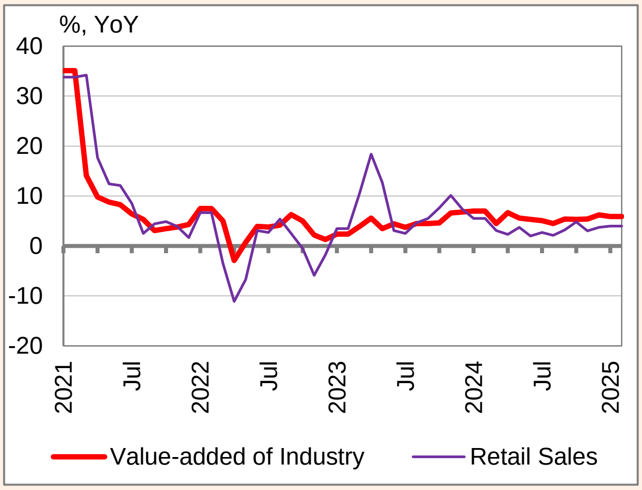
China's economy to grow by 5% in 2025 amid downside risks from a trade war



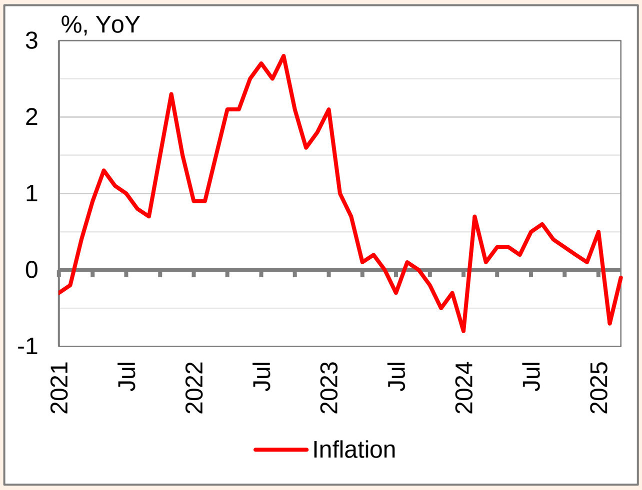
Manufacturing and services PMIs signal expansion ahead



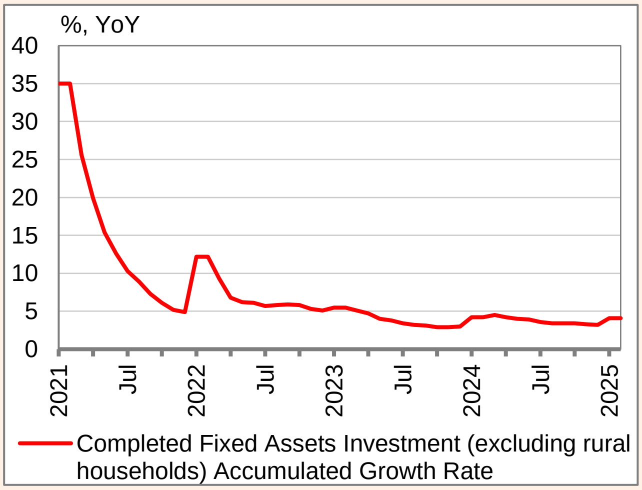
Industrial production and retail sales growth remained steady



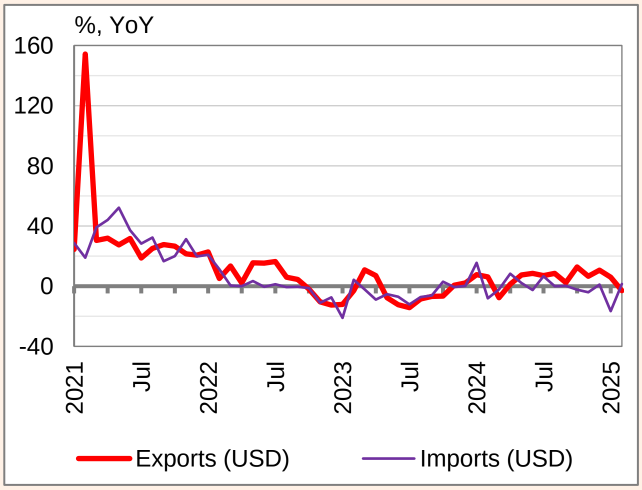
Deflation in Feb-Mar, particularly food prices



Fixed investment growth for Jan-Feb trailed previous years



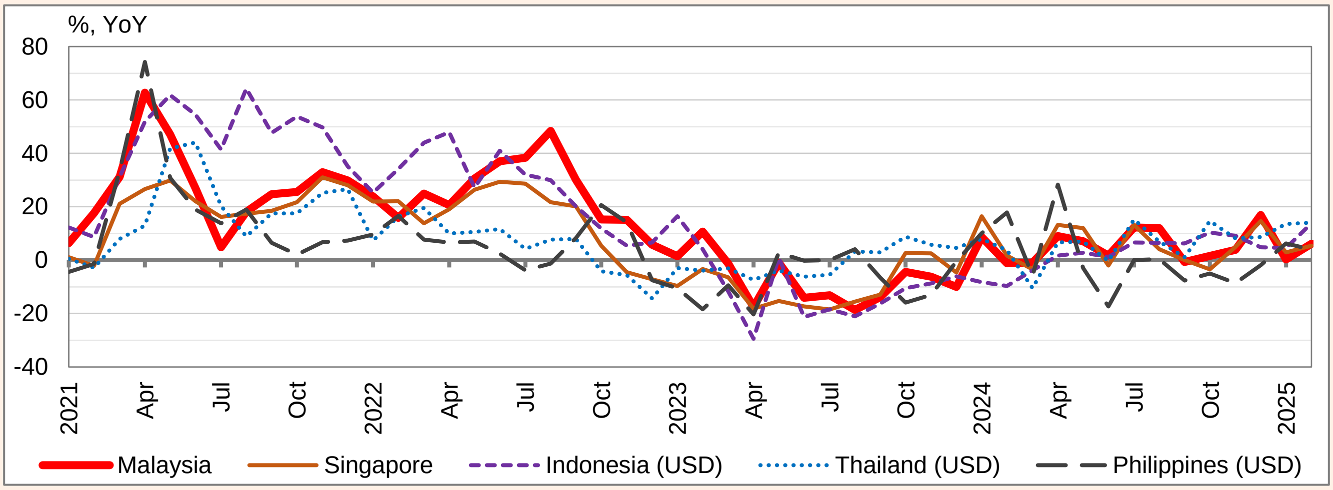
Export sector to be hit hard amid a full-blown trade war with US



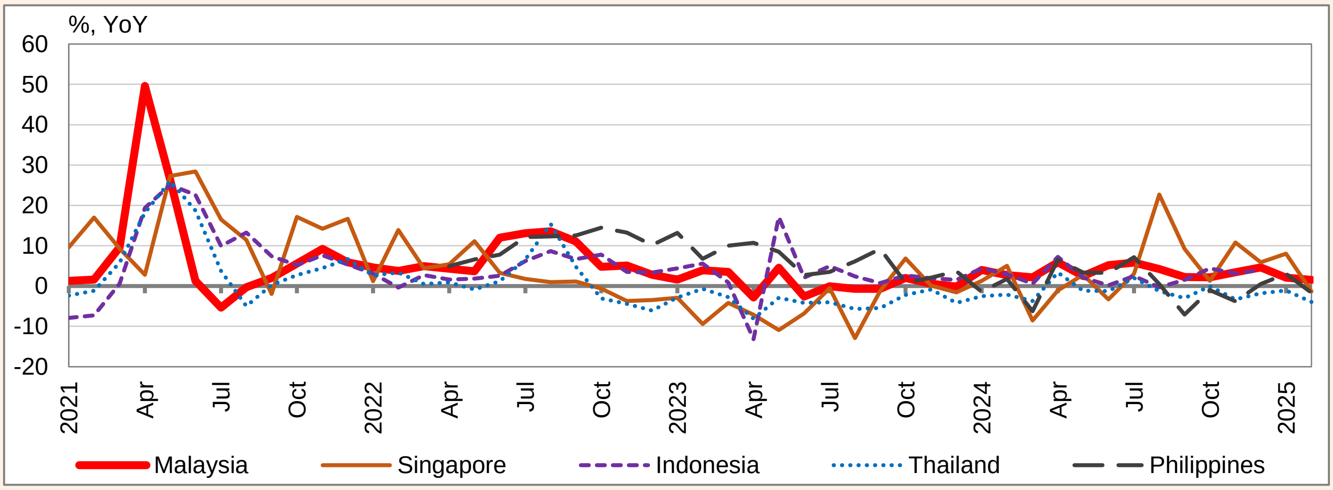
Source: National Bureau of Statistics of China; General Administration of Customs, China

ASEAN Key Economic Indicators

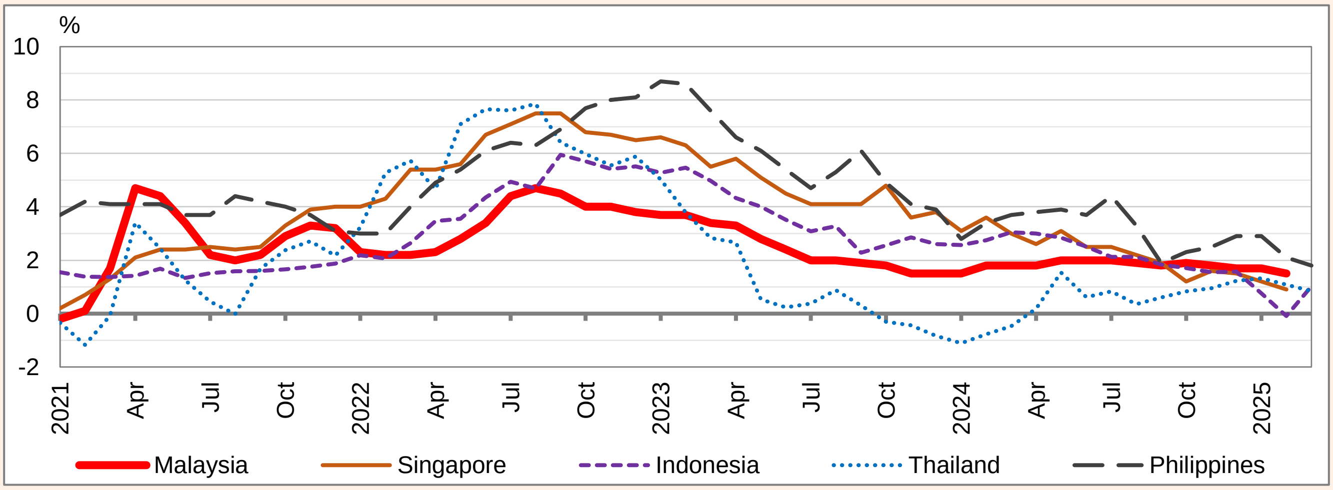
Export growth trend



Industrial production growth trend



Inflation trend



Source: Department of Statistics, Malaysia; Singapore Department of Statistics; Statistics Indonesia; Bank Indonesia; Office of Industrial Economics, Thailand; Ministry of Commerce, Thailand; Philippine Statistics Authority

Note: Industrial production growth for the Philippines only showed from April 2022 due to exceptional data prior to that.

Navigating Tariffs Tension-Induced Disruption on Malaysia

- **A commendable economic performance in 2024.** Malaysia is in a position of strength to face the impact of tariffs, which is expected to widen globally due to Trump's Liberation Day tariffs on all countries, with China hitting the hardest. Real GDP grew stronger by 5.1% in 2024 (3.6% in 2023), albeit displaying slowing momentum in 2H 2024. The growth was supported by the services and manufacturing sectors, as well as robust contribution from the construction sector. Domestic demand underpinned the growth, with private consumption and investment growing by 5.1% and 12.3%, respectively.

- **Positive momentum continues in 2025.** Bank Negara Malaysia (BNM) has maintained positive economic assessment with GDP growth sustaining at 4.5%-5.5% in 2025. Sustained domestic demand, investment upcycle, and export recovery will be the key drivers. However, the unprecedented tariffs announcement dubbed as Trump's "Liberation Day" on 2 April has escalated the Trump "Make America Great Again (MAGA)" into a full-blown trade war, with far-reaching implications on global trade flows, economic growth, and global supply chains. Despite a 90-day pause on country-specific tariffs, broad tariff measures, especially the tit-for-tat tariffs of China and the US, would strain global trade and economic growth.

- The Government is currently assessing the impact and may revise its growth estimates (4.5%-5.5%). We have revised our GDP growth forecast downwards from 5.0% to 4.0% for now, subject to the outcome of negotiations following a 90-day pause and any additional restrictive trade measures by the US, along with potential retaliatory actions by affected countries.

- **High frequency data showed a mixed performance.** High-frequency data in the first three months of 2025 suggests continued growth estimated 4.0%-4.5% yoy in Q1 2025. In Jan-Feb 2025, exports increased by 3.1% yoy, supported by the front-loaded shipments. Industrial production grew modestly by 1.8%, weighed down by declining output in the mining and electricity segments. Retail and wholesale trade grew by an average of 7.0% and 5.1%, respectively, while motor vehicle sales declined by 3.9%.

- **Festive demand lifts up consumer spending.** The Chinese New Year and Hari Raya Aidilfitri celebrations are expected to help holding up private consumption, supported by higher minimum wage starting in February and salary adjustments for public servants. The Government has disbursed two phases of Sumbangan Tunai Rahmah (STR) payments amounting to RM4.0 billion in Q1, benefitting 9 million recipients. Additionally, RM900 million was allocated as a special allowance in late-March, reaching more than 2 million public servants and pensioners. Starting 1 April, Sumbangan Asas Rahmah (SARA) was expanded to cover 5.4 million recipients (from 700,000 previously), with a monthly disbursement of RM50-RM100 for purchasing basic necessities. All these cash aids will continue to support household spending, particularly among the lower-income group, providing some buffer against rising living costs amid ongoing global uncertainties.

- **Labour market conditions remained healthy.** The number of unemployed persons continued to decline, with the unemployment rate registering 3.1% in the first two months of 2025, the lowest reading since 2015, albeit partially influenced by statistical methodology adjustments. The labour force participation rate rose to 70.7% in February, in tandem with the minimum wage increase to RM1,700 effective February 2025.

- **Risks to inflation are tilted to the upside.** Headline inflation stood at 1.5% in February 2025 (1.7% in January), with most categories showing stable prices trend. Core inflation edged up to 1.9% (1.8% in January). Nonetheless, upward pressures on prices could come from domestic policy measures related to fuel subsidies rationalisation and potential hike in electricity tariffs. The trade war-induced disruptions of the supply chains could result in higher inputs cost and final goods, which may eventually pass on to consumer prices.

Decoding Trump's "Armageddon" Tariffs: What's the economic impact on Malaysia?

- Barely three months after returning to the White House, US President Donald Trump has imposed tariffs from universal baseline tariffs to country-specific tariffs on goods from Canada, Mexico, and China, which have sparked retaliatory tariffs.
- Tariffs action and retaliation among major economies have fuelled concerns about a full-blown trade war uncertainty, putting the world stock markets on the edge of extreme volatility. It can severely disrupt global supply chains, increase cost of raw materials and push up consumer inflation, pushing the global economy toward stagflation (low growth and high inflation), and in the worst case, can cause a global recession. China, still reeling from the property slump, faces further economic headwinds from a 34% tariff. The US economy, at the epicentre, will bear the full brunt of the tariffs war impact, with the probability of a recession rising to a nearly 50% chance within the next 6-12 months.
- On 2 April 2025, the Trump administration has unveiled the Reciprocal tariffs plan under the International Emergency Economic Power Act of 1977 (IEEPA), which President Donald Trump has dubbed it "Liberation Day", a moment to roll out a set of tariffs on imports from other countries, so as to liberate the US from a reliance on foreign goods.
- On 9 April 2025, Trump announced that country-specific "reciprocal" tariffs would be "paused" for 90 days to allow the negotiation process. With the exception of China, all US trading partners would continue to face 10% baseline tariffs.
- The US Census Bureau data for 2024 showed that the US has incurred a trade deficit of USD24.8 billion with Malaysia (contributing 2.1% of the US total trade deficit), placing Malaysia on the 14th spot in a "Dirty 15" list of nations that accounted for the bulk of trade imbalances with the US. However, the Department of Statistics Malaysia (DOSM) indicated that Malaysia has recorded a trade surplus of RM72.4 billion (USD15.8 billion), showing a discrepancy of USD9.0 billion. Hence, a reconciliation of this statistical discrepancy is necessary to derive the "implied" tariff rates on Malaysia.
- It must be noted that the trade deficit is also due to a significant number of US-based semiconductor companies operating in Malaysia for decades, contributing to our role as a major semiconductor exporter to the US. Malaysia is a key player in semiconductor testing and packaging, contributing 13% of global semiconductor testing and packaging and being the world's sixth-largest semiconductor exporter.

- Though Malaysia's average Most-Favoured-Nation (MFN) applied tariff rate was 5.6%; 7.4% for agricultural products and 5.3% for non-agricultural products in 2023, the United States Trade Representative (USTR) has derived that Malaysia is currently applying an average of 47% tariff (includes currency manipulation and trade barriers) on the US goods to Malaysia. This raises eyebrows on the basis of the calculation, and the formula is fundamentally flawed. Notably, Malaysia was removed from the US Treasury Department monitoring list for currency manipulation as of November 2024.

- The US has hit Malaysia with a 24% tariff on imported goods into the US with effect from 9 April 2025. It is lower compared to China's 34%, in addition to 20% imposed earlier, Vietnam (46%), Thailand (36%), Indonesia (32%), and Taiwan (32%), but higher than Singapore's 10% and Philippines (17%).

- How's the impact on Malaysia? Malaysia's external sector will face a daunting challenge ahead given the disruptive impact of the tariffs on supply chains, global demand, and business operational costs. The impacted industries are electrical and electronic products (excluding semiconductor), machinery and equipment, optical and scientific equipment, rubber products, furniture products, and palm oil.

- In 2024, the US was the third largest trading partner of Malaysia, accounting for 11.3% of Malaysia's total trade (9.5% in 2021-2023; 9.0% in 2016-2020). It was Malaysia's second largest exports destination (13.2% share); and the US was Malaysia's third largest importer (9.2% share). In February 2025, the US had displaced China as Malaysia's largest exports market (14.8% share).

- More than half of Malaysia's exports to the US are electronics and electrical products (54.6%), machinery and equipment (14.5%), optical and scientific equipment (9.0%), rubber and rubber products (3.9%), furniture products (3.5%), palm oil and palm oil products (1.4%) and plastics and plastic products (1.3%), iron and steel products (1.0%), iron and steel (1.0%), and aluminium and products (0.8%).*

- Under the reciprocal tariffs, the exclusion of smartphones, laptops, semiconductors and other electronics under expanded scope in Annex II (RM72.9 billion or 36.7% of total exports to the US) provides relief to Malaysia and the semiconductor players. Similar exclusions were given to a list of products, including wood products, copper and copper products, energy products, and pharmaceuticals, which collectively recorded RM5.6 billion of exports or 2.8% of total exports to the US in 2024.

- Nonetheless, there is a caveat which states that "all articles that may become subject to duties pursuant to future actions under section 232 of the Trade Expansion Act of 1962". This means that the threat of industry-specific duties is still lingering, and tariffs are not off the table. So, the big question is ultimately where do the tariffs start or end?

- The US remains one of major foreign investors in Malaysia. It ranked second in terms of gross FDI in 2024; the fourth largest investor in terms of FDI stock at end-2024. Approved US investment in the manufacturing sector was ranked between 2nd and 9th placing during 2017-2024, with total approved investment ranging between RM1.1 billion (9th placing in 2017) and RM18.1 billion (2nd largest investor in 2023). In 2024, the US ranked third in terms of total approved investments with foreign participation in various sectors, recording RM29.7 billion or 17.4% of total foreign investment by immediate source.

** General approximation of product category based on HS code at 2-digit level, not an exact representation.*

- We draw comfort that the US authorities said that tariffs can be lowered if any trading partner takes significant steps to remedy the non-reciprocal trade arrangements and align sufficiently with the US on economic and national security matters. Trump said he would be open to negotiating with other countries about the duties.

- We welcome the Ministry of Investment, Trade and Industry (MITI)'s stance of not considering retaliatory tariffs, instead will actively engage with the US authorities in addressing the impact of reciprocal tariff.

- Malaysia will utilise the Trade and Investment Framework Agreement (TIFA) to seek reciprocal trade gains and pursue a Technology Safeguards Agreement with the US to facilitate high-tech cooperation in semiconductors, aerospace, and digital economy sectors. We call for a more collaborative approach to address the trade imbalance, emphasising engagement and seeking reasonable solutions through consultations and joint efforts.

- In addition to leveraging on existing bilateral and multilateral trade arrangements (RCEP, CPTPP and ASEAN-China FTA) to expand trade, the Government has to speed up the Malaysia-European Union Free Trade Agreement (MEUFTA) negotiation, Free Trade Agreement between Malaysia and the Gulf Cooperation Council (GCC), and consider to negotiate a Free Trade Agreement with the US to soften the impact of tariffs.

- Malaysia's small open economy (2024: total trade to GDP ratio of 149.1%; gross exports to GDP ratio of 78.1% and exports share to the US of 13.2%), will inevitably be affected by the US tariffs and global trade tensions via the trade, income, financial and investment channels. Our economy is still highly vulnerable to tariffs war shock in major economies as China and the US and EU accounted a combined exports share of 33.3% in 2024.

- Overall, the direct and indirect impact of bilateral trade tariffs and global tensions on Malaysia's export performance is largely dependent on the substitutability of the affected products, price elasticity of demand, reconfiguration of supply chains and production, transhipment and Malaysian firms' products' cost and price competitiveness.

- On the trade channel, higher tariffs reduce the competitiveness of our products in the US market by raising their prices and lowering demand for our products, which decreases their export potential. While Malaysia will enjoy lower tariffs advantage compared to other countries, and benefit from some trade diversion, global trade tensions are expected to slow down demand and economic growth by disrupting trade flows, raising costs, and impacting supply chains, potentially leading to reduced investment and consumer spending. Companies' profit margins could be squeezed due to price competition to offset the impact of higher tariffs.

- On the income channel, lower exports demand would result in lower production, and would impact the employment and income of workers in the export-oriented industries, which will bear the bigger brunt of the tariffs impact. Lower employment and income will weigh on household spending.

- On the investment channel, firms could adopt a cautious approach to capacity expansion due to concerns about the impact of higher tariffs and lower export orders on their profitability. Our estimated private investment growth of 11.5% in 2025 (12.3% in 2024) is revised lower to 10.0% to reflect investors' and businesses' cautious sentiment on the tariffs impact. The financial volatility induced by global trade tensions and economic slowdown could negatively impact wealth creation.

- Pencilling the tariffs shock in this prevailing moderate global growth and heightened global uncertainty, we have revised our 2025's GDP growth estimate to 4.0% from 5.0% previously to reflect the impact of tariffs on exports and its spillover effect on domestic consumption and investment.

- With exports at risk, domestic demand will continue to anchor growth this year, supported by fiscal and targeted income measures as well as accommodative interest rate. Appropriate policies are crucial to manage supply, demand and price shocks.

- Domestic-oriented industries such as services, construction, domestic sales-driven manufacturing and agriculture sector will be relatively insulated from the tariffs shock as they apply only to physical exported goods. Nevertheless, weak exports can lead to a negative spillover effect, potentially weighing on business and investor sentiment, which can manifest in reduced spending and investment.

- Given considerable external uncertainties, any changes in domestic policies pertaining to fuel subsidies rationalisation, multi-tier levy, and electricity tariffs have to be carefully calibrated to avoid disruptive adjustment to businesses, which have been inundated with increased operational costs.

- We expect Bank Negara Malaysia will wait to assess the impact of tariffs on economic growth before making any policy decisions, potentially including interest rate adjustments if domestic growth is under threat to below 4% and domestic demand falters.

- In ensuring Malaysia remains resilient and in better position to benefit and mitigate risks from its trade openness, our industries must continue to move up the value chain, focusing technology and innovation, re-strategising suppliers and value chains, diversifying our export products and markets, enhancing investment ecosystem and attracting quality investments that would raise overall economic complexity and create high-value jobs. Malaysia must continue to proactively pursue multilateral and bilateral trade pacts with other economies.

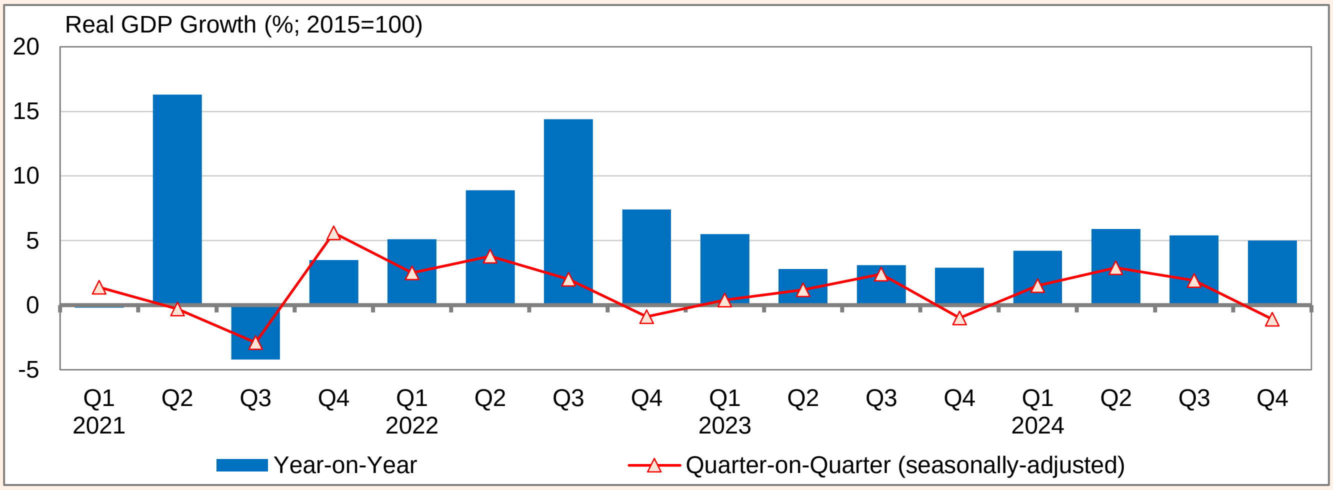
Real GDP growth (%, Y-o-Y)

Economic Sector [% share to GDP in 2024]	2023	2024	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025F (SERC)	2025F (BNM)
By kind of economic activity								
Agriculture [6.3%]	0.7	3.1	1.7	7.3	4.0	-0.5	2.0	2.2
Mining & Quarrying [6.0%]	0.5	0.9	5.7	2.7	-3.9	-0.9	-0.3	-0.8
Manufacturing [23.2%]	0.7	4.2	1.9	4.7	5.6	4.4	3.3	3.9
Construction [4.0%]	6.1	17.5	11.9	17.3	19.9	20.7	11.0	11.0
Services [59.3%]	5.1	5.4	4.8	5.9	5.2	5.5	4.5	5.7
By type of expenditure								
Private Consumption [60.7%]	4.7	5.1	4.7	6.0	4.8	4.9	4.4	5.6
Public Consumption [13.1%]	3.3	4.7	7.3	3.6	4.9	3.3	5.5	4.9
Private Investment [16.5%]	4.6	12.3	9.2	12.0	15.5	12.7	10.0	10.1
Public Investment [4.8%]	8.6	11.1	11.5	9.1	14.4	10.0	5.8	6.4
Exports of Goods and Services [68.2%]	-8.1	8.5	5.2	8.4	11.8	8.5	3.0	6.5
Imports of Goods and Services [63.9%]	-7.4	8.9	8.0	8.7	13.5	5.7	3.9	6.6
Overall GDP	**3.6**	**5.1**	**4.2**	**5.9**	**5.4**	**5.0**	**4.0**	**4.5-5.5**

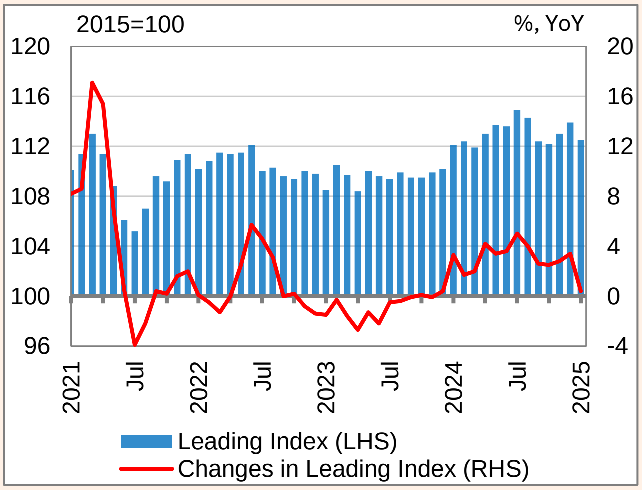
Source: Department of Statistics, Malaysia (DOSM); BNM; SERC estimates and forecast

Spotlight on the Malaysian Economy

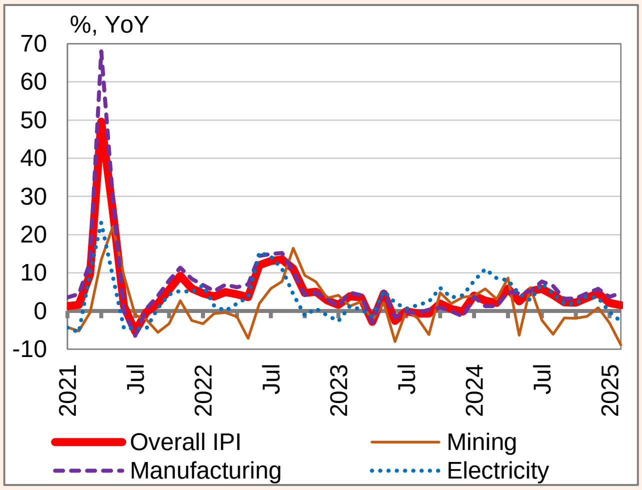
Malaysia's GDP increased by 5.1% in 2024, in line with the official estimation. For 2025, BNM projected it to expand between 4.5% and 5.5%.



Leading Index (LI) indicates the economy remains on a positive trajectory

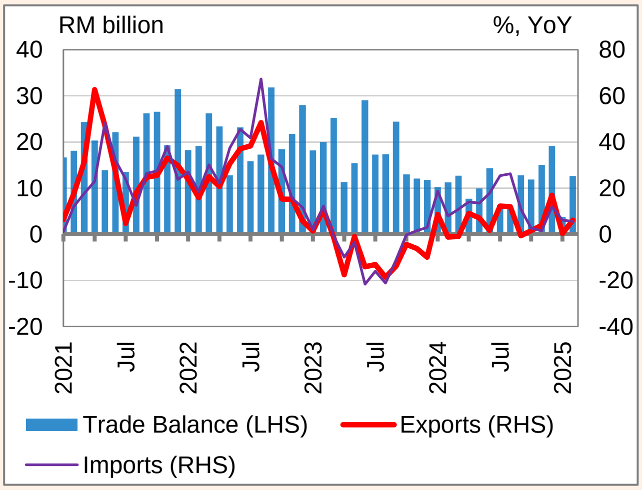


Mining and electricity output contracted for two continuous months in Feb

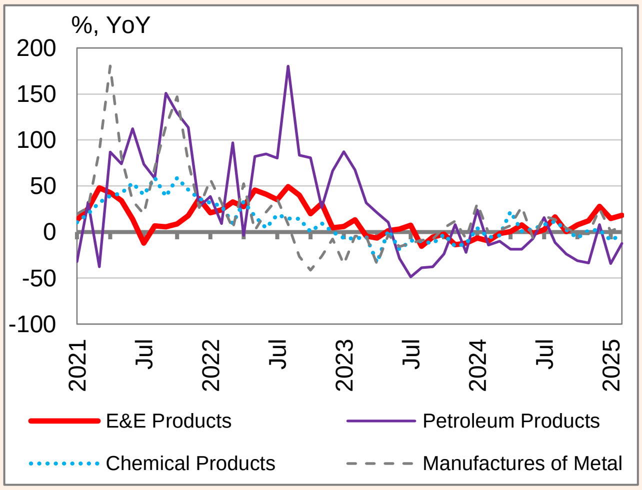


External Sector

Exports may be aided by front-loaded demand in the short-term

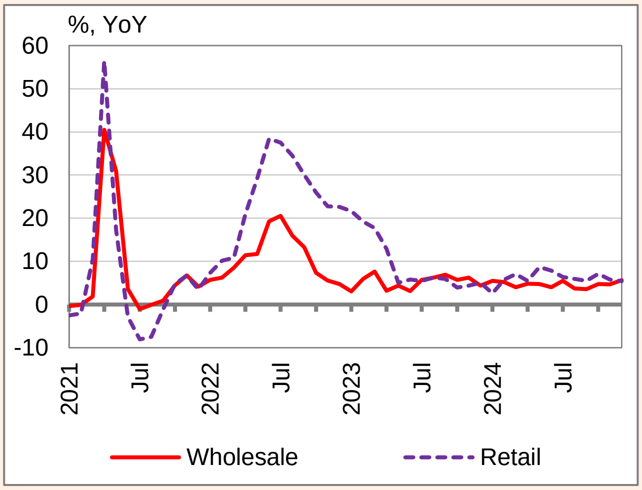


Exports by major products

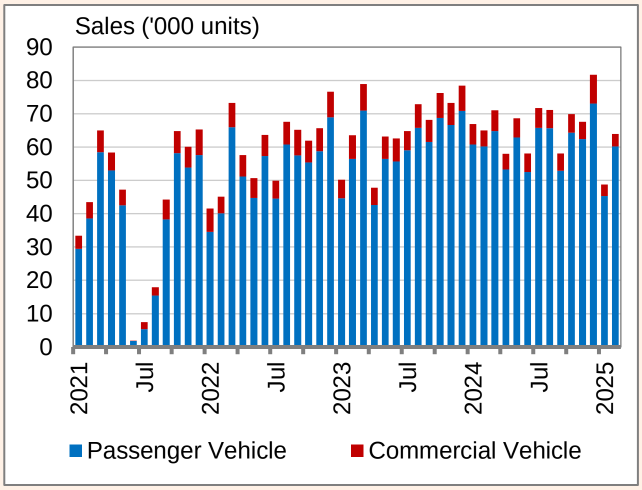


Domestic Demand

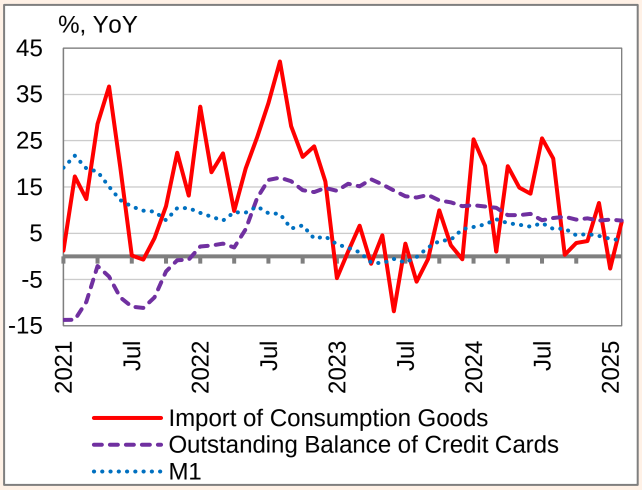
Wholesale and retail activities remain resilient



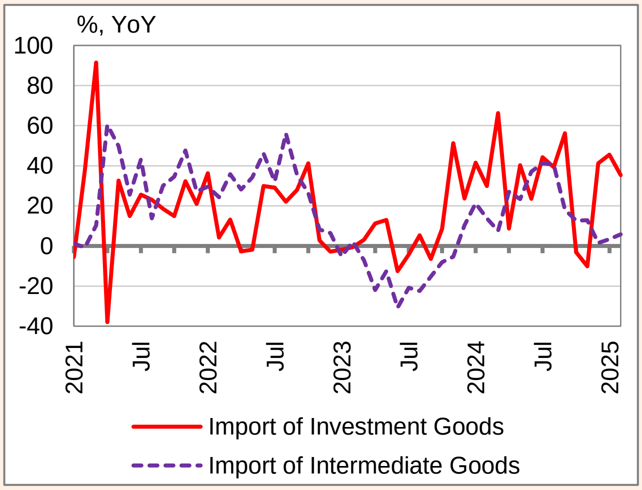
MAA targeted annual sales of 780,000 units in 2025



Selected private consumption indicators

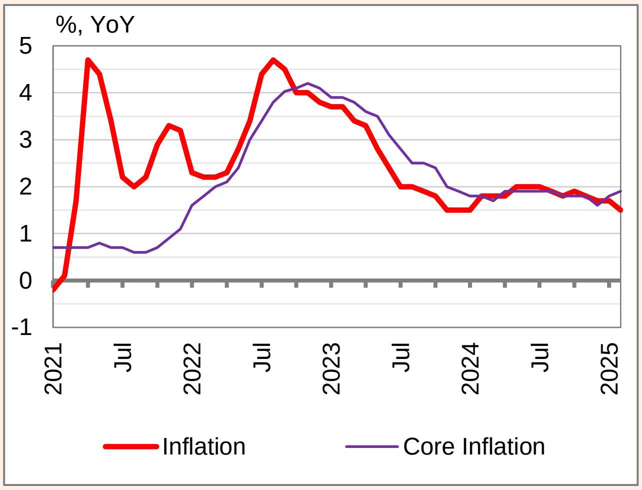


Selected private investment indicators

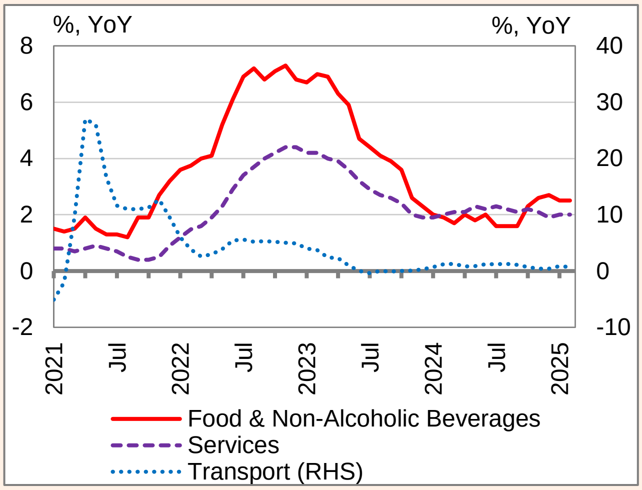


Price Indicators and Labour Market

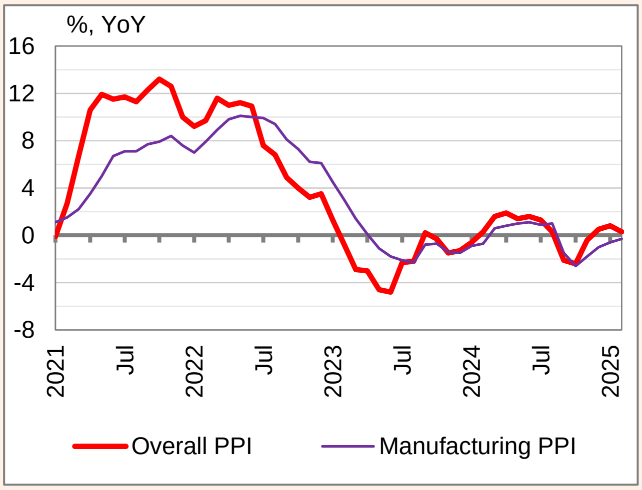
Inflation rate eased to 13-month low at 1.5% in Feb; core inflation climbed higher



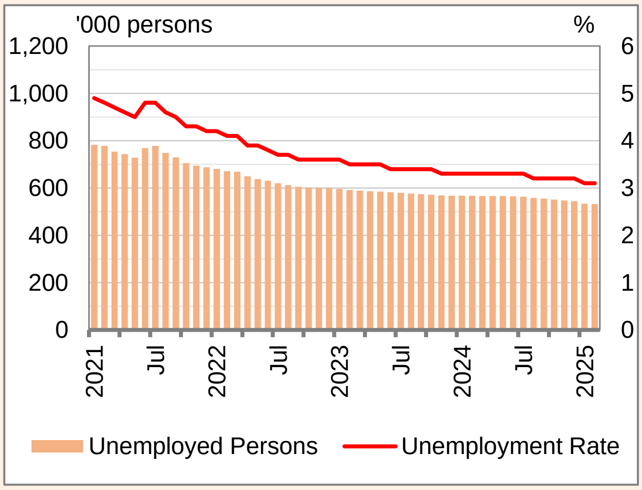
Food and services prices remained firm while transport prices were flat



Producer prices showed moderate increases

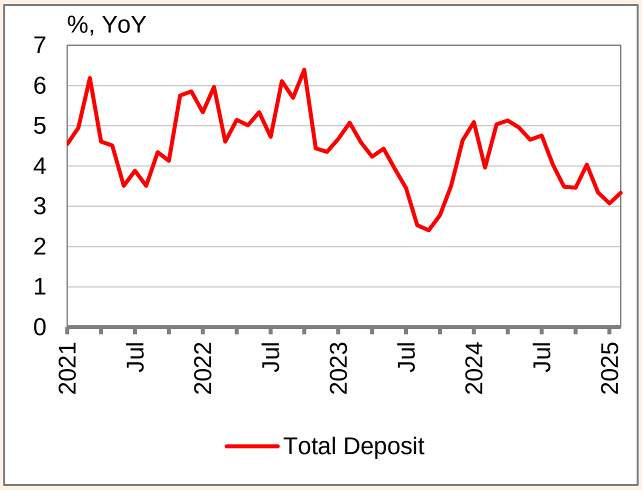


Unemployment rate at 3.1% in Feb, the lowest since 2015

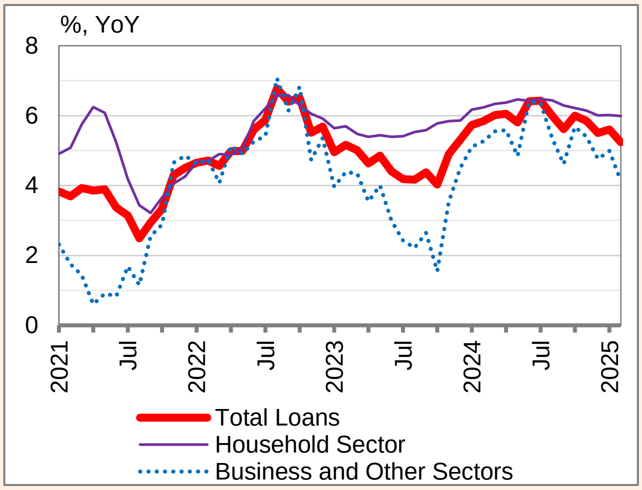


Banking and Financial Indicators

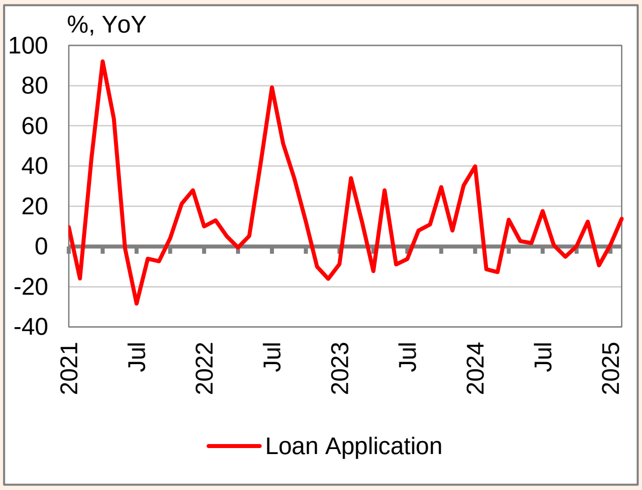
Banking deposit growth moderated since 2H 2024



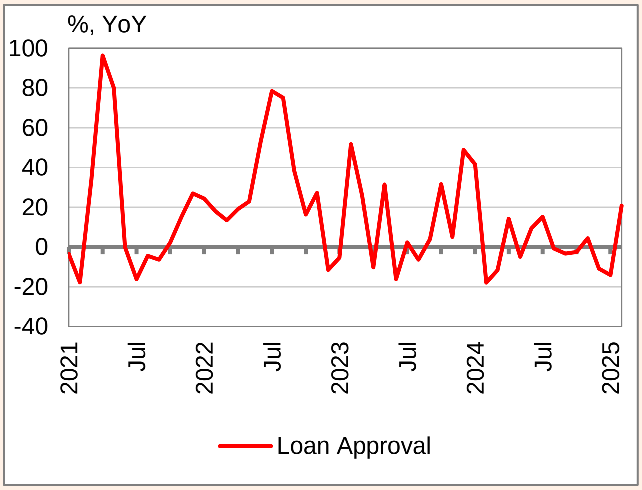
Overall loan growth has moderated, especially for the business sector



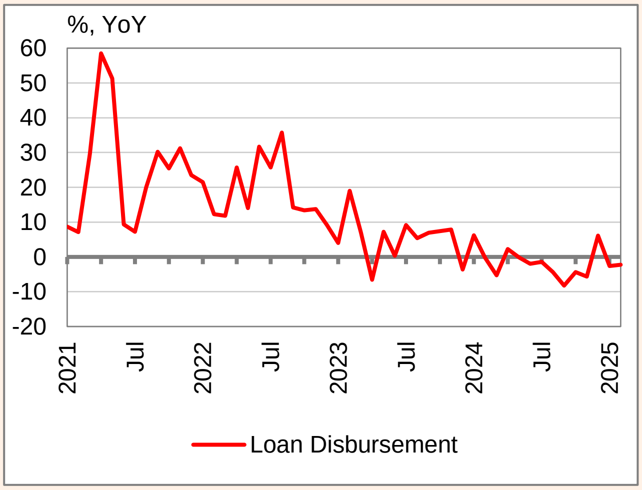
Loan applications growth



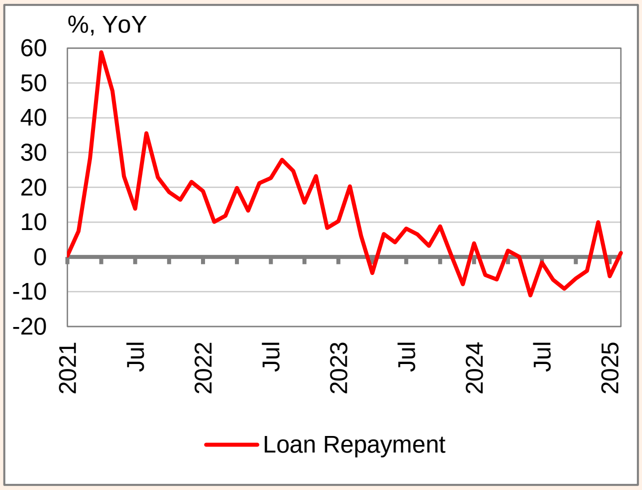
Loan approvals growth



Loan disbursements growth

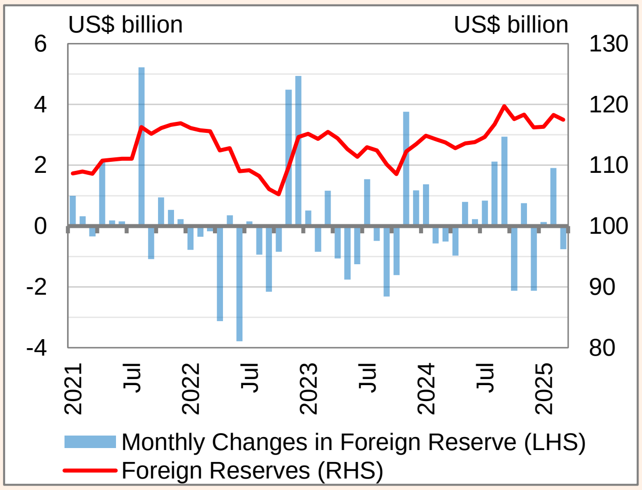


Loan repayments growth

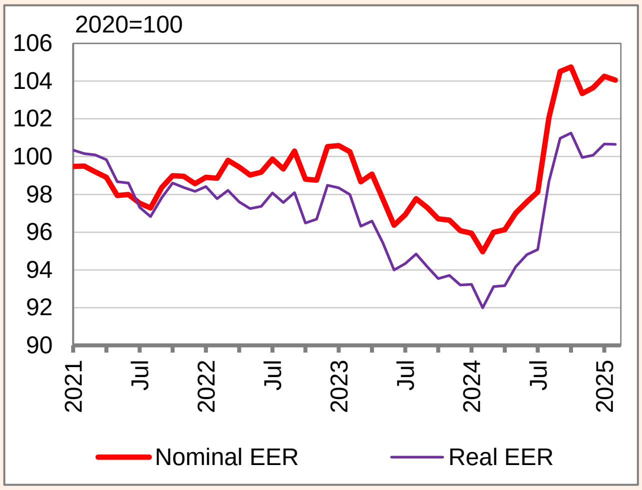


Note:: Loan data from July 2022 onwards was revised and expanded based on the latest requirements with more accurate data definition and reporting methodology. Outstanding loan excludes DFI.

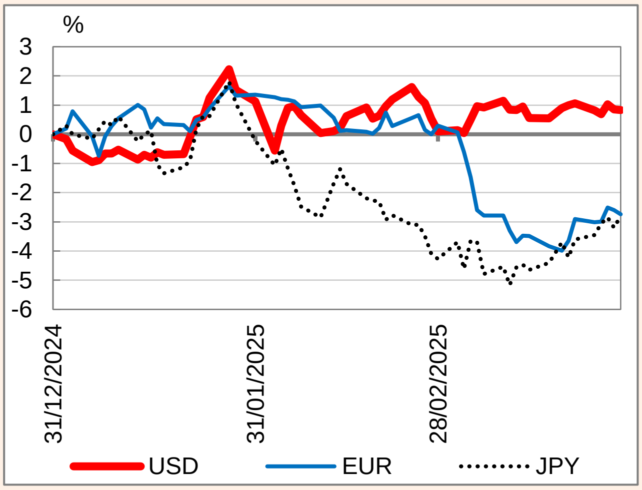
Foreign reserves accumulated to reach USD117.5 billion as at end-Mar



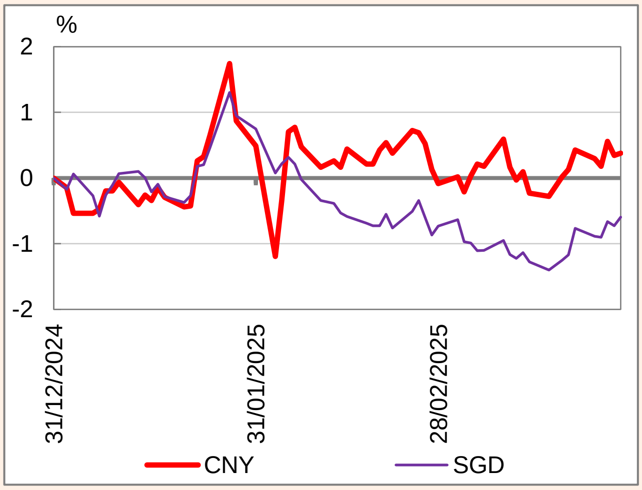
Ringgit's Effective Exchange Rate (EER)



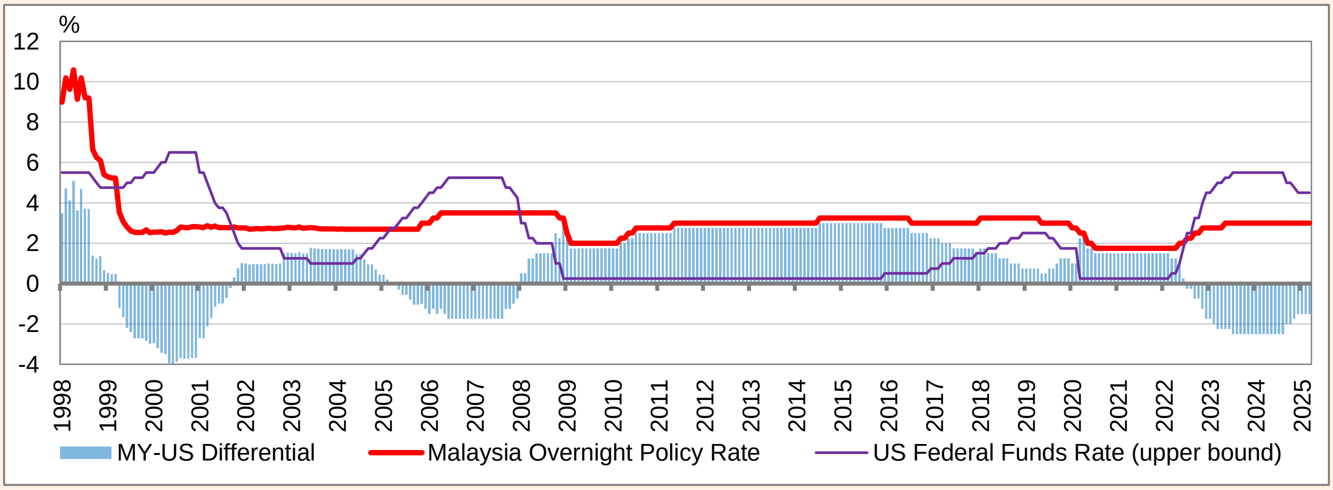
The Ringgit against the US dollar, euro, and Japanese yen (vs. end-2024)



The Ringgit against the Chinese renminbi and Singapore dollar (vs. end-2024)



Malaysia-US's interest rate differentials



Source: Department of Statistics, Malaysia (DOSM); Malaysian Institute of Economic Research (MIER); Bank Negara Malaysia (BNM); Bank for International Settlements; Federal Reserve

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About SERC

The Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM)'s Socio-Economic Research Centre (SERC Sdn. Bhd.) was established as an independent and non-profit think tank on 19 October 2010. Officiated by YAB Prime Minister on 28 April 2011, SERC is funded by ACCCIM SERC Trust.

SERC is tasked with carrying out in-depth research and analysis on a wide range of economic, business and social issues in support of the formulation of public policies to shape Malaysia's national socio-economic and industrial development agenda.

The organization will identify and explore issues and future trends that impact domestic economic and business environments. It will also focus on sharing knowledge and promoting public understanding of socio-economic issues of national importance.

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