

## ECONOMIC REVIEW | June 2019 External Trade

### Exports Growth at 4-Month Low amid Multiple Headwinds

- *Trade surplus returns to above RM 10b mark despite falling exports. Trade surplus increased to RM 10.3b in June-19 from the first time in this year at below RM 10b in May-19 as imports fell harder than exports. Both exports and imports growth plunged to negative territory of -3.1%yoy and -9.2%yoy respectively after maintaining positive growth in the previous two months. Such weak external trade performances could be the result of multiple headwinds took place during the month.*
- *Domestic exports still solid. Domestic exports expanded by 1.7%yoy, the lowest in three months but still above last year average of 0.8%. The seventh consecutive months of positive growth indicates a good momentum for this year and provides brighter outlook for GDP growth in 2Q19 as domestic exports involve high value-added activities. In contrast, re-exports which have low domestic value-added contracted for the fifth consecutive month at -22.3%yoy.*
- *We reiterate our forecast exports growth to average 3.6% in 2019. Due to higher base effects and continuous signs of faltering trade globally derive from rising protectionism and a loss of momentum in some major economies, especially in Europe, we foresee exports growth to moderate further at 3.6% this year (2018: 6.7%), unchanged from our earlier forecast. The moderating pace is consistent with global commodity prices, expectation of a slight slowdown in overall business performance on top of the uncertainty over trade conflicts.*

**Trade surplus returns to above RM 10b mark despite falling exports.** Trade surplus increased to RM 10.3b in June-19 from the first time in this year at below RM 10b in May-19 as imports fell harder than exports. Both exports and imports growth plunged to negative territory of -3.1%yoy and -9.2%yoy respectively after maintaining positive growth in the previous two months. Such weak external trade performances could be the result of multiple headwinds took place during the month. June-19 was the first full month of US tariff on Chinese imports after the truce and US ban on Huawei, both deteriorate global sentiment. Sector wise, manufacturing and agriculture exports contracted by -5%yoy and -0.8%yoy respectively. In contrast, mining exports rebounded sharply to a double digit positive growth of 15.4%yoy (May-19: -10.9%yoy).

**Intermediate goods purchases fell again.** Imports of intermediate goods which constitute about 58% of total imports contracted by -2.5%yoy after recorded positive growth in the previous three months. In a similar note, both imports of capital and consumption goods declined by -23.6%yoy and -5.4%yoy respectively. Weak intermediate and capital spending signal that manufacturers are not optimistic on the future demand for its products attributable to growing external risks especially trade wars which points to declining activity and deteriorating confidence in the industry. This could weigh on employment opportunities and future exports. Looking ahead, imports are likely to remain weak, in line with the latest PMI of July-19 which extended its contractionary trends to 47.6.

**Table 1: Malaysia's External Trade Summary**

	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
<b>Exports (RMb)</b>	<b>83.5</b>	<b>85.4</b>	<b>66.6</b>	<b>84.0</b>	<b>85.2</b>	<b>84.1</b>	<b>76.2</b>
% YoY	5.1	3.1	(5.3)	(0.5)	1.1	2.5	(3.1)
% MoM	(1.6)	2.2	(22.0)	26.2	1.4	(1.2)	(9.5)
<b>Imports (RMb)</b>	<b>72.9</b>	<b>73.9</b>	<b>55.5</b>	<b>69.7</b>	<b>74.3</b>	<b>75.1</b>	<b>65.9</b>
% YoY	1.0	1.0	(9.4)	(0.1)	4.4	1.4	(9.2)
% MoM	(5.4)	1.4	(24.8)	25.4	6.7	1.0	(12.2)
<b>Total Trade</b>	<b>156.4</b>	<b>159.3</b>	<b>122.1</b>	<b>153.7</b>	<b>159.5</b>	<b>159.2</b>	<b>142.1</b>
% YoY	3.2	2.1	(7.2)	(0.3)	2.6	2.0	(6.0)
% MoM	(3.4)	1.9	(23.3)	25.9	3.8	(0.2)	(10.8)
<b>Trade Balance (RMb)</b>	<b>10.7</b>	<b>11.5</b>	<b>11.1</b>	<b>14.4</b>	<b>10.9</b>	<b>9.1</b>	<b>10.3</b>
<b>Import Components</b>							
<b>Intermediate (RMb)</b>	<b>39.4</b>	<b>37.5</b>	<b>31.9</b>	<b>38.0</b>	<b>40.7</b>	<b>42.6</b>	<b>38.4</b>
% YoY	2.8	(0.8)	(2.8)	3.2	20.3	6.4	(2.5)
<b>Capital (RMb)</b>	<b>9.5</b>	<b>9.0</b>	<b>6.6</b>	<b>8.4</b>	<b>8.9</b>	<b>9.3</b>	<b>7.2</b>
% YoY	(21.8)	(3.3)	(14.9)	(11.8)	5.7	(5.9)	(23.6)
<b>Consumption (RMb)</b>	<b>6.6</b>	<b>6.5</b>	<b>4.6</b>	<b>5.9</b>	<b>6.6</b>	<b>6.6</b>	<b>5.6</b>
% YoY	5.7	3.3	(11.6)	10.6	18.9	10.9	(5.4)

*Note: MoM is non-seasonally adjusted figure*

Source: CIEC, MIDFR

**Domestic exports still solid.** Domestic exports expanded by 1.7%yoy, the lowest in three months but still above last year average of 0.8%. The seventh consecutive months of positive growth indicates a good momentum for this year and provides brighter outlook for GDP growth in 2Q19 as domestic exports involve high value-added activities. In contrast, re-exports which have low domestic value-added contracted for the fifth consecutive month at -22.3%yoy. Meanwhile, the ratio of re-exports to total exports was recorded higher at 16.1% (for every RM1 value of exports, approximately 16sen of it is re-exports). Re-exports activities are expected to remain weak throughout the year mainly due to higher base effects besides external headwinds.

**Exports to the US positive, to China negative.** Malaysia's exports to the US (10% share) expanded by 8.8%yoy, moderating from 11.7%yoy growth recorded in the preceding month. Meanwhile, exports to China (13.2% share) continued to register negative growth at a faster rate of -12%yoy, the worst since Aug-16. By region, exports to ASEAN (28.6% share) registered trivial decline at -0.2%yoy. Among ASEAN countries, shipments decreased to all key countries except Philippines. Shipments to Philippines soared by 51.2%yoy, the highest growth since Sep-15 in line with its 'Build, Build, Build' campaign. Meanwhile, exports to EU rebounded to a positive territory of 1%yoy after three consecutive months of negative growth.

**Table 2: Malaysia's Exports (YoY%)**

	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
<b>Total Exports (RMb)</b>	<b>83.5</b>	<b>85.4</b>	<b>66.6</b>	<b>84.0</b>	<b>85.2</b>	<b>84.1</b>	<b>76.2</b>
<b>Re-exports (RMb)</b>	<b>14.4</b>	<b>17.5</b>	<b>10.5</b>	<b>15.2</b>	<b>13.5</b>	<b>12.5</b>	<b>12.2</b>
<b>Domestic Exports (RMb)</b>	<b>69.2</b>	<b>67.9</b>	<b>56.2</b>	<b>68.8</b>	<b>71.7</b>	<b>71.6</b>	<b>63.9</b>
<b>Exports by Key Country / Region</b>							
China	(0.5)	9.1	(1.6)	11.8	(6.9)	(2.2)	(12.0)
USA	13.5	9.4	(8.9)	(3.6)	3.1	11.7	8.8
Japan	(6.4)	(5.0)	(2.9)	(11.3)	7.7	7.5	(13.5)
India	20.0	(0.6)	(4.9)	(3.0)	6.7	43.1	22.1
Hong Kong	25.6	(7.3)	(13.8)	(11.5)	0.1	3.4	(25.0)
Australia	21.7	(10.3)	(0.4)	2.9	4.2	(13.0)	(10.5)
EU	(4.9)	4.3	3.7	(5.0)	(8.6)	(6.3)	1.0
ASEAN	7.3	3.4	(7.8)	1.3	7.2	4.7	(0.2)
<b>Selected ASEAN</b>							
Singapore	12.2	5.4	(2.9)	(6.9)	11.3	2.6	(0.9)
Thailand	9.7	17.1	(4.1)	15.6	1.2	7.3	(4.0)
Indonesia	(9.3)	(13.8)	(24.7)	(9.4)	(3.0)	(12.4)	(4.2)
Vietnam	5.1	(8.6)	(20.5)	16.7	16.9	5.8	(17.0)
Philippines	8.0	(7.6)	3.4	0.7	(0.7)	39.9	51.2

Source: CIEC, MIDFR


**Sales of E&E decline; crude petroleum rebound.** Exports of E&E products which holds 37% share of total exports declined by -6%yoy, second negative growth so far this year after the first one in Mar-19. Sales of other major products including machinery, equipment & parts and optical & scientific equipment also contracted. Nevertheless, exports of crude petroleum rebounded strongly to 31.7%yoy growth, marking the first positive growth of this year. Similarly, outbound shipments of LNG rebounded to 5.5%yoy from -5.2%yoy in the previous month. Meanwhile, sales of palm oil & its products still maintain on positive note but at a moderating pace mainly benefiting from the preferential tariff agreement with India. Sales of palm oil & its products to India (Malaysia's biggest palm oil buyer) rose rapidly by 257.7%yoy.

**Table 3: Malaysia's Exports by Major Products (YoY%)**

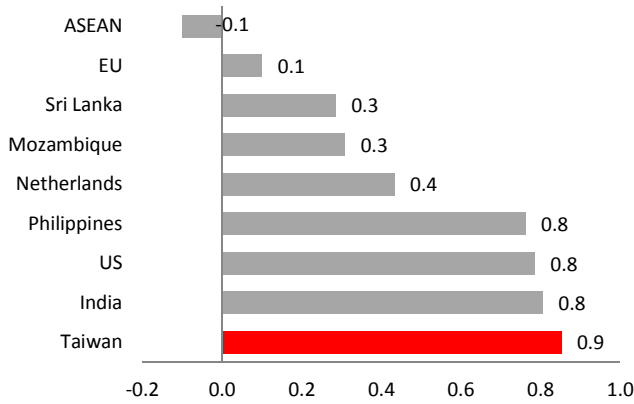
	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
E&E	14.2	8.2	4.9	(1.9)	3.9	0.5	(6.0)
Machinery, Equipment & Parts	7.4	(1.5)	(6.6)	(9.0)	0.8	14.9	(10.9)
Optical & Scientific Equipment	14.6	7.1	(17.4)	19.2	19.5	3.8	(4.9)
Petroleum Products	(18.4)	(24.1)	(32.6)	26.2	11.6	(14.9)	(2.4)
Crude Petroleum	17.5	(1.1)	(21.8)	(33.5)	(34.6)	(20.0)	31.7
LNG	(2.7)	37.5	8.6	17.2	26.3	(5.2)	5.5
Palm oil & palm oil based agriculture products	(27.2)	(19.5)	(16.9)	(13.7)	(16.7)	17.5	3.0

Source: CIEC, MIDFR

**Cloudy outlook for 3Q19.** In line with our expectation, exports growth for 2Q19 register positive growth but at a tepid pace of 0.2%yoy (1Q19: -0.9%yoy). However, for the 1H19, exports growth averaged at -0.4%yoy. Looking ahead to the 3Q19, exports performance is expected to be quite vulnerable especially with the latest abrupt decision by Trump to impose 10% tariff on a further USD 300b worth imports from China which would mean that all trade with China will subject to new taxes. With the new tariffs in place, it could add more risks to the global economy including Malaysia due to the supply chain factor. Based on our regional partners' trade performance in July-19, Vietnam's exports grew 9.3%yoy while South Korea's shrunk -11%yoy. This could provide cues on what to expect from Malaysia's exports in upcoming month. In regards to manufacturing condition and activity, global manufacturing PMI still positioned under 50 points while those of emerging economies recovered to 50.1 points.

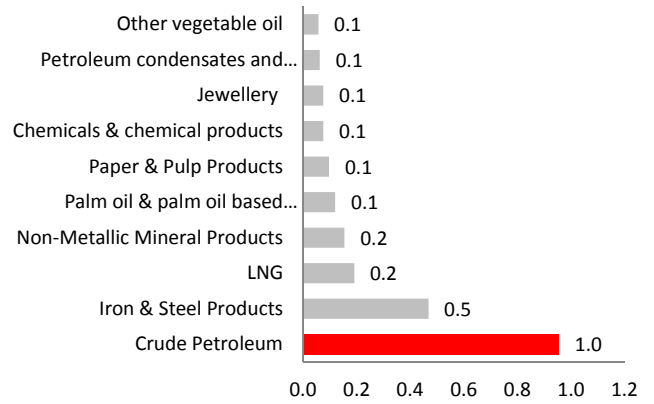
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**Chart 1: % Contribution to Exports Growth by Destination**



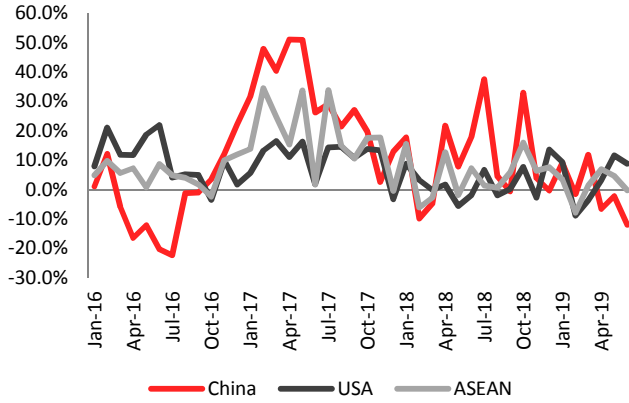
Source: CEIC; MIDFR

**Chart 2: % Contribution to Exports Growth by Products**



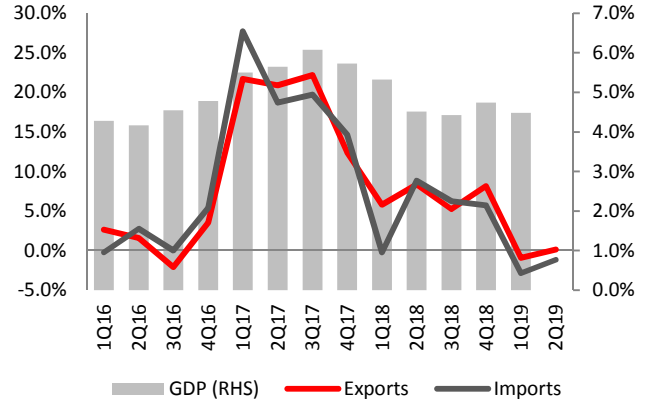
Source: CEIC; MIDFR

**Chart 3: Exports Growth (YoY%) by Major Destination**



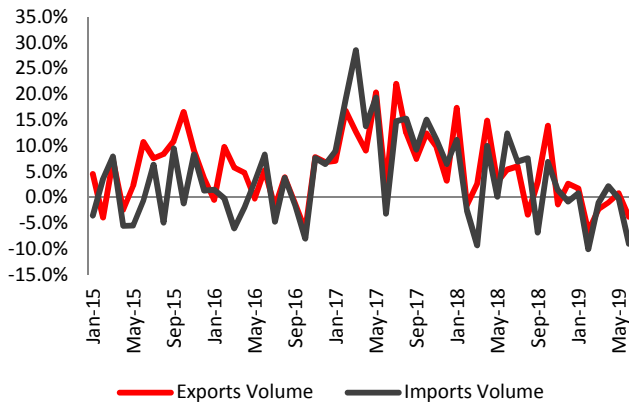
Source: CEIC; MIDFR

**Chart 4: External Trade vs GDP, (YoY%)**



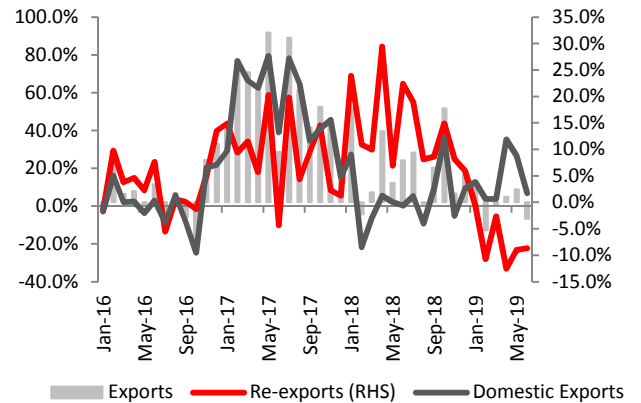
Source: CEIC; MIDFR

**Chart 5: Exports vs Imports Volume (YoY%)**



Source: CEIC; MIDFR

**Chart 6: Total Exports: Domestic vs Re-exports (YoY%)**



Source: CEIC; MIDFR

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