

ECONOMIC REVIEW | September 2019 External Trade**External Trade Performance Weakens in 3Q19**

- *Export contraction fell to near the lowest rate in 3-years. In Sep-19, export contracted -6.8%yoy, the hardest fall since Oct-16. The second consecutive month of negative growth was due to weak performances in all major sectors. Manufacturing export which accounted for circa 85% of total exports contracted by -5.8%yoy. Similarly, export of mining and agriculture products declined by -15.2%yoy and 8.3%yoy respectively.*
- *Domestic export at 13-month low. Domestic export dropped further to -2.9%yoy, the lowest rate since Aug-18, partly attributed to the LNG export which has not fully recovered. Meanwhile, re-export which have low domestic value-added continued to decline at a higher rate of -22.4%yoy, against the recovery trend observed since May-19.*
- *2019 is a contraction for exports and imports. For the first nine months of the year, exports growth averaged at -1.1%yoy. In term of absolute value, monthly average of 2019 so far recorded at RM 80.9b which is still lower than RM 83.7b in 2018. In fact, we expect further drop in exports growth in Oct-19 due to high base effect factor. In addition, continuous decline in imports of capital and intermediate goods indicate weak prospects for future exports.*

Export contraction fell to near the lowest rate in 3-years. In Sep-19, export contracted -6.8%yoy, the hardest fall since Oct-16. The second consecutive month of negative growth was due to weak performances in all major sectors. Manufacturing export which accounted for circa 85% of total exports contracted by -5.8%yoy. Similarly, export of mining and agriculture products declined by -15.2%yoy and 8.3%yoy respectively. In contrast to export, imports growth rebounded to 2.4%yoy growth after three straight months of negative growth. Hence, trade surplus recorded at 13-month low of RM 8.3b.

Import of all three major components rebounded. Capital goods which constitute about 11% of total import recorded 7.3%yoy growth after three consecutive months of double digit negative growth. It is the highest gain registered since June-18. Similarly, intermediate goods which held the largest share of total import expanded by 11.1%yoy, the fastest rate in five months. Recovery in these two components signals brighter outlook for the manufacturing sector moving forward. Manufacturers are more optimistic on the future demand for its products and this could weigh on employment opportunities and future exports. Meantime, import of consumption goods also expanded by 15.1%yoy.

Table 1: Malaysia's External Trade Summary

	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
Exports (RMb)	84.0	85.2	84.1	76.2	88.0	81.4	77.7
% YoY	(0.5)	1.1	2.5	(3.1)	1.7	(0.8)	(6.8)
% MoM	26.2	1.4	(1.2)	(9.5)	15.5	(7.5)	(4.5)
Imports (RMb)	69.7	74.3	75.1	65.9	73.7	70.5	69.4
% YoY	(0.1)	4.4	1.4	(9.2)	(5.9)	(12.5)	2.4
% MoM	25.4	6.7	1.0	(12.2)	12.3	(4.4)	(1.6)
Total Trade	153.7	159.5	159.2	142.1	161.7	151.8	147.1
% YoY	(0.3)	2.6	2.0	(6.0)	(1.9)	(6.6)	(2.7)
% MoM	25.9	3.8	(0.2)	(10.8)	14.0	(6.1)	(3.1)
Trade Balance (RMb)	14.4	10.9	9.1	10.3	14.3	10.9	8.3
Import Components							
Intermediate (RMb)	38.0	40.7	42.6	38.4	38.9	39.0	39.9
% YoY	3.2	20.3	6.4	(2.5)	(3.4)	(13.9)	11.1
Capital (RMb)	8.4	8.9	9.3	7.2	8.4	8.1	7.9
% YoY	(11.8)	5.7	(5.9)	(23.6)	(13.9)	(31.0)	7.3
Consumption (RMb)	5.9	6.6	6.6	5.6	6.4	6.2	5.9
% YoY	10.6	18.9	10.9	(5.4)	(5.0)	(12.8)	15.1

Note: MoM is non-seasonally adjusted figure

Source: CIEC, MIDFR

Domestic export at 13-month low. Domestic export dropped further to -2.9%yoy, the lowest rate since Aug-18, partly attributed to the LNG export which has not fully recovered. Meanwhile, re-export which have low domestic value-added continued to decline at a higher rate of -22.4%yoy, against the recovery trend observed since May-19. The ratio of re-export to total export recorded at 16.3% (for every RM1 value of exports, approximately 16sen of it is re-export). The outlook for re-export activities is indeed gloomy for the remaining of the year in the event of multiple headwinds including trade tensions and slowing global economy, in addition to the higher base effects.

Export to ASEAN at above 4-year low. Malaysia's exports to ASEAN, which constituted about 28% of total exports, fell further to -8.6%yoy, the lowest rate recorded since Apr-15, owing to lower shipment of E&E products. Sales to all major ASEAN countries fell during the month. For instance, exports to Singapore and Philippines declined for second consecutive month at a sharper rate. In fact, exports to Indonesia which grew for the first time last month after a year of negative growths, fell into negative territory again. Similarly, exports to our largest trading partner, China, fell further to 3%yoy. In contrast, exports to the US expanded by 6.6%yoy, continuing its positive momentum for the sixth consecutive month.

Table 2: Malaysia's Exports (YoY%)

	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
Total Exports (RMb)	84.0	85.2	84.1	76.2	88.0	81.4	77.7
Re-exports (RMb)	15.2	13.5	12.5	12.2	17.9	13.4	12.7
Domestic Exports (RMb)	68.8	71.7	71.6	63.9	70.1	67.9	65.0
Exports by Key Country / Region							
China	11.8	(6.9)	(2.2)	(12.0)	3.8	(2.8)	(3.0)
USA	(3.6)	3.1	11.7	8.8	7.9	6.8	6.6
Japan	(11.3)	7.7	7.5	(13.5)	(6.3)	2.4	(1.7)
India	(3.0)	6.7	43.1	22.1	(14.9)	18.4	10.6
Hong Kong	(11.5)	0.1	3.4	(25.0)	2.5	(15.4)	(26.5)
Australia	2.9	4.2	(13.0)	(10.5)	(14.8)	(27.4)	(19.5)
EU	(5.0)	(8.6)	(6.3)	1.0	(2.8)	5.3	(10.8)
ASEAN	1.3	7.2	4.7	(0.2)	1.8	(1.2)	(8.6)
Selected ASEAN							
Singapore	(6.9)	11.3	2.6	(0.9)	3.1	(7.2)	(11.7)
Thailand	15.6	1.2	7.3	(4.0)	(2.4)	(8.3)	(4.3)
Indonesia	(9.4)	(3.0)	(12.4)	(4.2)	(11.2)	10.3	(11.8)
Vietnam	16.7	16.9	5.8	(17.0)	6.4	24.6	(5.4)
Philippines	0.7	(0.7)	39.9	51.2	17.0	(1.8)	(4.2)

Source: CIEC, MIDFR

Sales of E&E products are at more than 6-year low. Exports of E&E products which holds circa 40% share of total exports shrunk by -12.2%yoy, the biggest fall since Feb-13 amid slowing global economy and trade tension, which had dampened demand. Similarly, other major products including crude petroleum and palm oil & its products also posted declines. Sales of palm oil & its products are expected to be low relatively in 4Q19 amid winter season which can easily solidify palm oil and users will opt for substitutes. Meanwhile, sales of LNG continued declining but at an improving rate of -1.8%yoy.

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

	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
E&E	(1.9)	3.9	0.5	(6.0)	4.5	(7.4)	(12.2)
Machinery, Equipment & Parts	(9.0)	0.8	14.9	(10.9)	6.0	7.6	6.9
Optical & Scientific Equipment	19.2	19.5	3.8	(4.9)	(2.3)	(12.3)	12.8
Petroleum Products	26.2	11.6	(14.9)	(2.4)	2.8	7.0	(13.4)
Crude Petroleum	(33.5)	(34.6)	(20.0)	31.7	(45.7)	(40.0)	(45.8)
LNG	17.2	26.3	(5.2)	5.5	31.3	(11.2)	(1.8)
Palm oil & palm oil based agriculture products	(13.7)	(16.7)	17.5	3.0	(11.8)	23.3	(9.4)

Source: CIEC, MIDFR

Cloudy outlook for 4Q19. In line with our expectation, exports growth for 3Q19 registered negative growth of -1.9%yoy (2Q19: -0.4%yoy). Looking ahead to the 3Q19, exports performance is expected to be quite vulnerable especially with the uncertainty over trade tensions. In addition, higher base effect particularly in Oct-18 would influence the overall performance in 4Q19. Nevertheless, we expect commodity-based sector products particularly LNG exports to offset the less favourable impact from trade war in 2H19. Based on our regional partner, Vietnam's trade performance in Oct-19, exports contracted marginally by -0.8%yoy, the first fall in eight months. In regards to manufacturing condition and activity, global manufacturing PMI inched up to 49.7 but still under 50 expansion points while those of emerging economies continued to recover to 51 points, indicating a slightly better outlook for the sector.


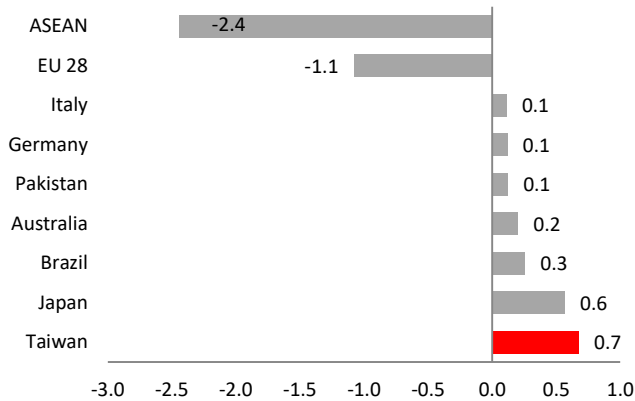
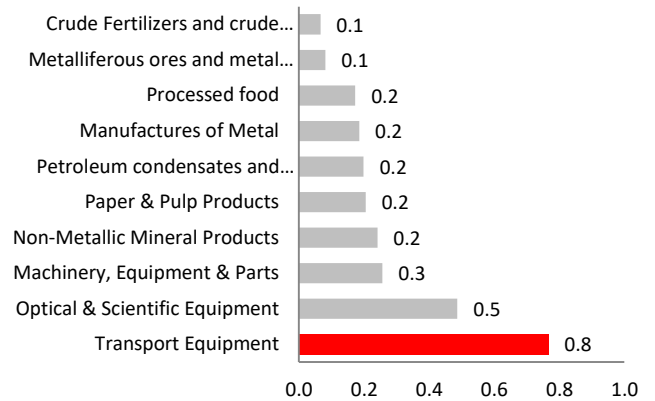
2019 is a contraction for exports and imports. For the first nine months of the year, exports growth averaged at -1.1%yoy. In term of absolute value, monthly average of 2019 so far recorded at RM 80.9b which is still lower than RM 83.7b in 2018. In fact, we expect further drop in exports growth in Oct-19 due to high base effect factor. In addition, continuous decline in imports of capital and intermediate goods indicate weak prospects for future exports. With faltering trade globally derive from rising protectionism and loss of momentum in some major economies, especially in Europe, we do not foresee a huge comeback in 2H19. 

Chart 1: % Contribution to Exports Growth by Destination



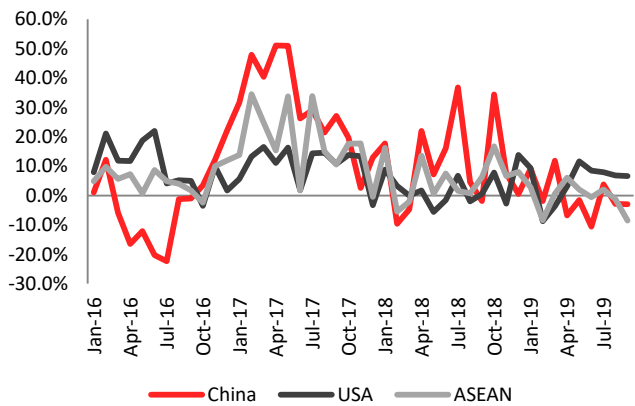
Source: CEIC; MIDFR

Chart 2: % Contribution to Exports Growth by Products



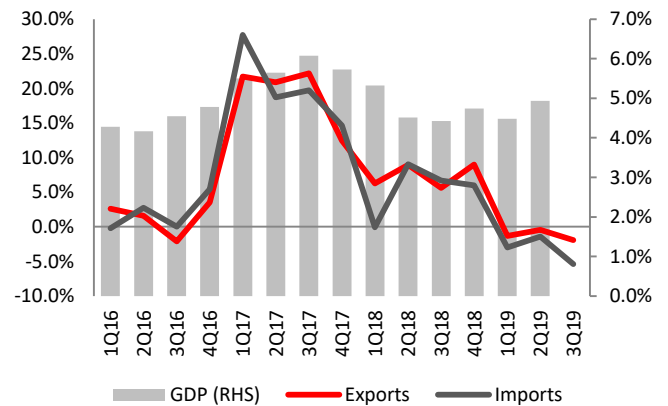
Source: CEIC; MIDFR

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



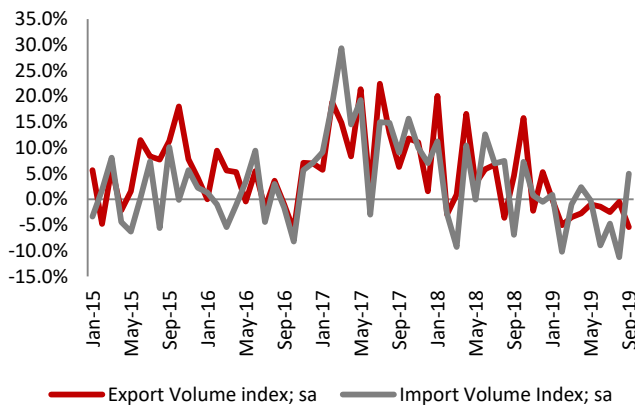
Source: CEIC; MIDFR

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



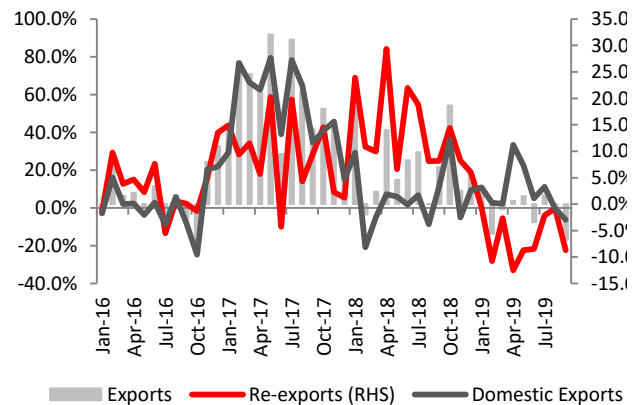
Source: CEIC; MIDFR

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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