

## ECONOMIC REVIEW | August 2019 Distributive Trade

### Distributive Trade To Gain Momentum as High Base Effect From Tax Holiday Period in 2018 Fades

- Distributive trade hit another new record high. Distributive trade continue to hit new record high at RM 114.2b in Aug-19. Wholesale and retail trade continued expanding but at moderating pace of 6.3%yoy and 6.7%yoy respectively. The 6.7%yoy growth in retail sales was the smallest gain in almost 4 years. However, rebounding motor vehicles sales to positive growth of 1.1%yoy following two consecutive months of negative growth offset the slight moderations observed in wholesale and retail.*
- Continuous positive sales in 3Q19. For 2Q19, distributive sales expanded at a slightly moderating pace of 6.1%yoy compared to 6.6%yoy in 1Q19. Moving forward, for the 3Q19, we foresee a continuous positive performance in distributive sales underpinned by low inflation, stable job market and supportive monetary and fiscal policy changes such as the OPR cut and stabilized retail fuel prices.*
- We maintain our forecast for private consumption & services sector at 7.5% & 6.5% respectively in 2019. Encouraging trend of distributive sales in 2018 is expected to continue in 2019 supported by economic conditions such as stable labor market, low inflationary pressure and upbeat tourism activities. In addition, the 25bsp rate cut by BNM could provide more support to the estimate.*

**Distributive trade hit another new record high.** Distributive trade continue to hit new record high at RM 114.2b in Aug-19. Wholesale and retail trade which accounted for the largest share of total distributive sales continued expanding but at moderating pace of 6.3%yoy and 6.7%yoy respectively. The 6.7%yoy growth in retail sales was the smallest gain in almost 4 years. However, rebounding motor vehicles sales to positive growth of 1.1%yoy following two consecutive months of negative growth offset the slight moderations observed in wholesale and retail hence causing the total distributive trade growth to inch upward to 5.8%yoy. Moving ahead, we foresee distributive trade growth to continue trending upward as the high base effect from tax holiday period last year fades.

**Table 1: Malaysia's Distributive Trade Summary (RM Billion)**

	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
<b>Distributive Trade</b>	<b>108.9</b>	<b>103.5</b>	<b>109.4</b>	<b>105.4</b>	<b>110.8</b>	<b>112.3</b>	<b>112.5</b>	<b>114.2</b>
YoY%	7.8	6.5	5.5	5.6	6.8	5.9	5.7	5.8
MoM%	(0.3)	(5.0)	5.8	(3.7)	5.1	1.4	0.2	1.4
<b>Motor Vehicles</b>	<b>12.2</b>	<b>10.8</b>	<b>12.6</b>	<b>12.3</b>	<b>13.4</b>	<b>12.7</b>	<b>13.6</b>	<b>13.6</b>
YoY%	4.8	2.3	2.6	2.2	9.1	(2.5)	(1.7)	1.1
MoM%	2.6	(11.7)	16.8	(2.0)	8.8	(5.4)	7.3	(0.1)
<b>Wholesale Trade</b>	<b>52.9</b>	<b>50.2</b>	<b>53.2</b>	<b>51.2</b>	<b>53.3</b>	<b>53.6</b>	<b>52.4</b>	<b>54.1</b>
YoY%	6.2	5.8	5.0	5.3	5.5	6.4	6.6	6.3
MoM%	0.2	(5.1)	6.1	(3.8)	4.2	0.6	(2.3)	3.3
<b>Retail Trade</b>	<b>43.9</b>	<b>42.5</b>	<b>43.6</b>	<b>41.9</b>	<b>44.1</b>	<b>46.0</b>	<b>46.5</b>	<b>46.4</b>
YoY%	10.6	8.5	6.9	7.0	7.8	7.7	7.1	6.7
MoM%	(1.8)	(3.0)	2.6	(4.0)	5.3	4.4	1.1	(0.2)

Source: CEIC; MIDFR

**Steady spending despite fragile external trade performance.** Exports declined marginally by -0.8%yoy in Aug-19 following a positive growth of 1.7%yoy in the previous month. Manufacturing exports which accounted for circa 84% of total exports grew by a tepid pace of 0.1%yoy. Hence, manufacturing sales advanced at a softer pace of 4.7%yoy (July-19: 6%yoy). However, employment growth in the sector maintained at 1.3%yoy while wage growth just edged down to 3.3%yoy hence not affecting spending significantly. Meanwhile, inflation rate which influence domestic demand was recorded at 1.5%yoy during the month mainly due to the low base effect resulting from the removal of GST last year.

**Continuous positive sales in 3Q19.** For 2Q19, distributive sales expanded at a slightly moderating pace of 6.1%yoy compared to 6.6%yoy in 1Q19. Moving forward, for the 3Q19, we foresee a continuous positive performance in distributive sales underpinned by low inflation, stable job market and supportive monetary and fiscal policy changes such as the OPR cut and stabilized retail fuel prices. In addition, higher passenger movement growth of 8%yoy in 3Q19 (2Q19: 5.2%yoy) are likely to be translated into steady growth for retail sales in this quarter. Nevertheless, high base effect from tax holiday period last year could influence the estimate.

**Table 2: Distributive Trade's Detailed Components Performance (YoY%)**

	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19
<b>Distributive Trade Sales</b>	8.4	7.3	8.0	9.4	8.3	6.6	6.1
<b>Wholesale Sales</b>	9.0	7.7	7.6	7.0	6.9	5.7	5.8
Wholesale Sales: Fee or Contract Basis	7.1	6.3	8.1	6.6	7.2	4.5	3.8
Wholesale Sales: Agri Raw Materials & Live Animals	10.3	8.4	1.6	(2.2)	(4.5)	3.7	5.4
Wholesale Sales: Food, Beverages & Tobacco	8.7	7.1	9.4	9.8	7.6	5.5	6.8
Wholesale Sales: Household Goods	5.2	6.8	8.2	8.6	8.4	6.4	6.1
Wholesale Sales: Machinery, Equipment & Supplies	7.2	6.3	5.5	2.1	2.3	1.9	2.1
Wholesale Sales: Others Specialised	11.6	8.9	8.4	8.2	9.4	6.8	6.3
Wholesale Sales: Non-Specialised	2.8	2.9	4.5	5.9	8.1	4.8	2.1
<b>Retail Sales</b>	10.4	9.2	9.8	12.9	12.1	8.6	7.5
Retail Sales: Non-Specialised Stores	11.2	10.0	11.1	15.1	14.9	10.4	8.6
Retail Sales: Food, Beverages & Tobacco	10.6	9.7	11.3	10.7	10.1	8.7	9.2
Retail Sales: Automotive Fuel	13.2	11.0	11.9	12.9	8.6	5.6	3.8
Retail Sales: Information & Communication Equip	5.5	4.7	4.2	6.7	6.8	5.0	4.4
Retail Sales: Household Equip	8.9	8.0	9.0	11.7	10.1	7.0	6.8
Retail Sales: Cultural & Recreation Goods	10.3	9.6	10.2	11.8	10.9	9.5	8.1
Retail Sales: Others in Specialised Store	11.9	10.4	10.0	14.5	14.2	9.9	8.8
Retail Sales: Stalls & Markets	9.7	7.4	5.0	5.9	7.7	8.3	8.9
Retail Sales: Not in Stores, Stalls & Markets	8.4	6.1	5.4	9.5	10.5	7.4	4.6
<b>Motor Vehicles Sales</b>	0.2	(0.2)	4.3	7.5	1.2	3.2	2.9
Motor Vehicles Sales: Motor Vehicle	(4.3)	(3.9)	3.5	7.7	(1.2)	1.9	1.5
Motor Vehicles Sales: Motor Vehicle Maint. & Repair	7.1	6.7	7.8	8.0	2.6	4.9	5.1
Motor Vehicles Sales: Motor Vehicle Parts & Accessories	6.2	4.2	4.4	7.5	4.6	4.3	4.5
Motor Vehicles Sales: Motorcycles Maint. & Repair, Parts & Acc.	4.7	2.1	4.9	5.2	4.8	5.8	3.9


Source: CEIC; MIDFR

**Japan's retail sales rebounded ahead of consumption tax hike.** Retail sales in Japan rebounded in Aug-19 to 2%yoy from -2%yoy recorded in Jul-19 as consumers might have started to advance their purchases ahead of the consumption tax hike to 10% scheduled in Oct-19. Retail sales in the country are expected to remain steady in upcoming month before start weakening in Oct-19 onwards. Besides that, retail sales in the US surged to 1-year-high of 4.1%yoy. The growth has been trending upwards for the past three months, partially attributable to rate cut. In contrast, China and some key ASEAN countries experienced moderations in their retail sales growth. China's retail trade continued to grow at softer pace of 7.5%yoy, the lowest gain in four months.

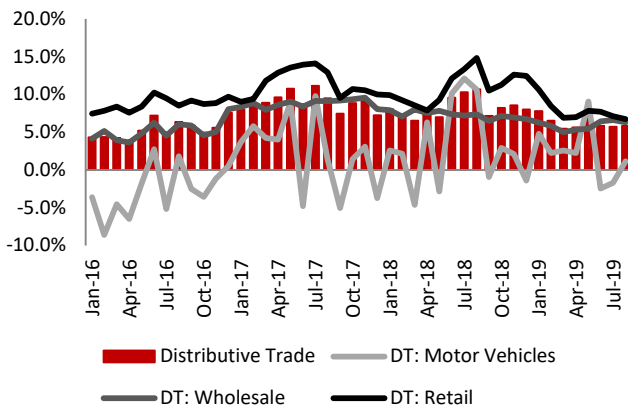
**Table 3: Global Retail Sales (YoY%)**

	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
Malaysia	8.5	6.9	7.0	7.8	7.7	7.1	6.7
Indonesia	9.1	10.1	6.7	7.7	(1.8)	2.4	1.1
Singapore	(9.8)	(0.9)	(1.9)	(2.0)	(8.9)	(1.7)	
Thailand	7.7	9.2	13.5	9.9	6.7	1.3	
Vietnam	11.5	13.5	13.3	12.4	11.7	12.0	11.7
Japan	0.6	1.0	0.4	1.3	0.5	(2.0)	2.0
China	-	8.7	7.2	8.6	9.8	7.6	7.5
EU	4.2	4.0	3.8	2.3	3.4	3.3	2.8
US	1.9	3.8	3.8	3.0	3.3	3.6	4.1

Source: CEIC; MIDFR

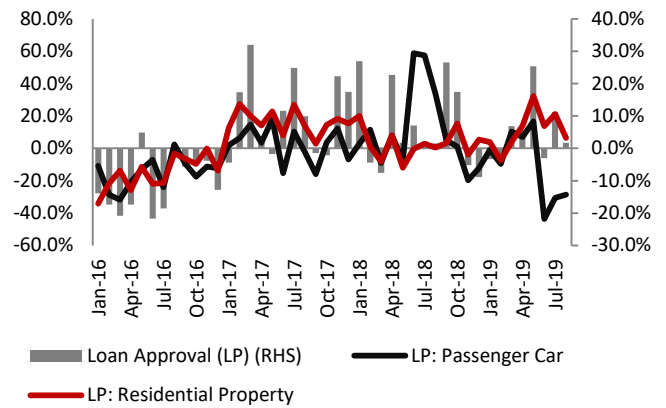
**We maintain our forecast for private consumption & services sector at 7.5% & 6.5% respectively in 2019.** Encouraging trend of distributive sales in 2018 is expected to continue in 2019 supported by economic conditions such as stable labor market, low inflationary pressure and upbeat tourism activities. In addition, the 25bsp rate cut by BNM could provide more support to the estimate. The strong momentum in distributive trade will translate into solid growth for private consumption and services sector thus will drive Malaysia's economy into a good position in 2019. As of 1H19, private consumption and services sector grew by 7.7%yoy and 6.3%yoy. 

**Chart 1: Distributive Trade Sales, DT (YoY%)**



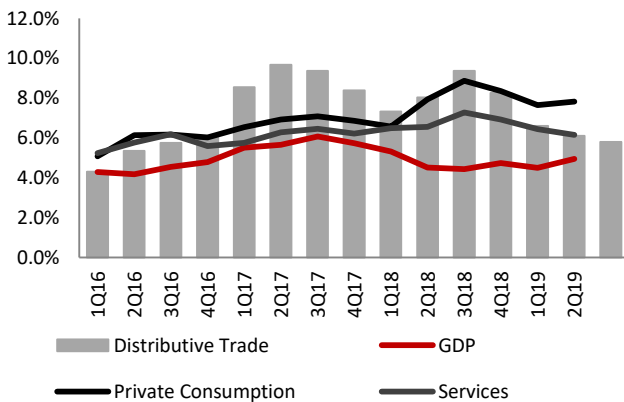
Source: CEIC; MIDFR

**Chart 2: Loan Approval (YoY%)**



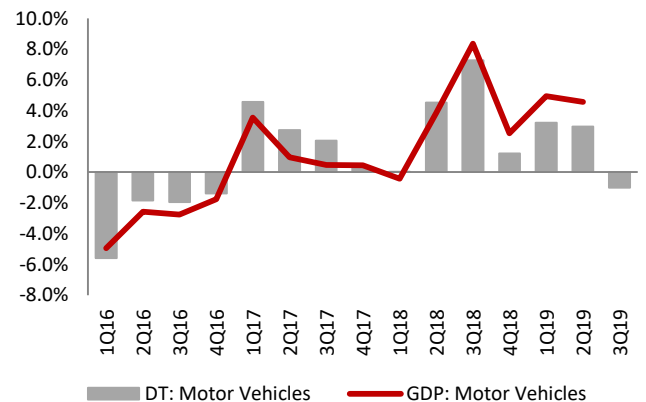
Source: CEIC; MAHB; MIDFR

**Chart 3: DT vs Private Consumption vs Services (YoY%)**



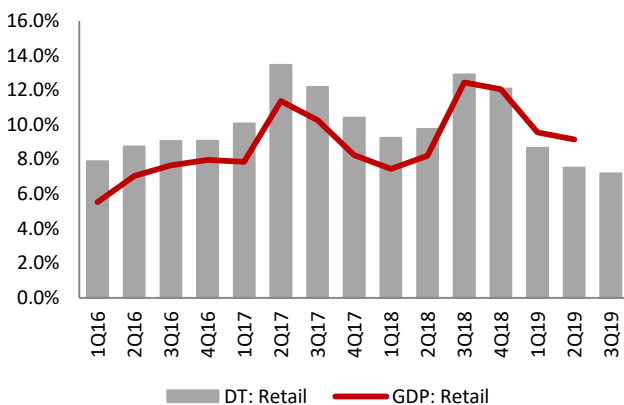
Source: CEIC; MIDFR

**Chart 4: Motor Vehicles: GDP vs DT (YoY%)**



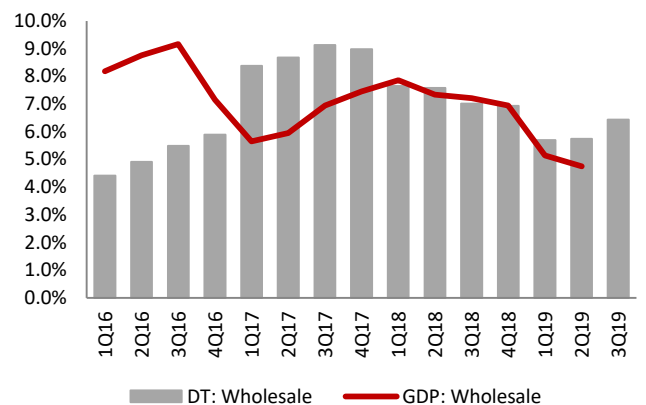
Source: CEIC; MIDFR

**Chart 5: Retail Trade: GDP vs DT (YoY%)**



Source: CEIC; MIDFR

**Chart 6: Wholesale Trade: GDP vs DT (YoY%)**



Source: CEIC; MIDFR

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