

ECONOMIC REVIEW | January 2019 Distributive Trade

Domestic Spending Remains Upbeat Buoyed by Firm Labor Market and Low Inflationary Pressure

- *Domestic spending remains solid. Distributive trade grew 7.8%yoy in Jan-19 as motor vehicle sales bounced back with 4.8%yoy rise and retail sales sustained its double digit growth for the eight consecutive months. Wholesale trade increased at a moderating pace of 6.2%yoy.*
- *Low inflation, stable labor market and upbeat industrial activities. Among others, solid domestic demand in Malaysia is supported by key fundamental factors such as low inflationary pressure, full-employment condition and upbeat momentum in industrial activities. Consumer price index contracted -0.7%yoy in the first month of 2019 mainly attributed to deflationary pressures from the transport component. Consumers appeared to benefited from the deflation that occurred in Jan-19 as reflected in the uptick sales of motor vehicles during the month.*
- *We estimate private consumption and services sector to grow at 7.5% and 6.2% respectively in 2019. Encouraging trend of distributive sales in 2018 is expected to continue for 2019 supported by economic conditions such as strengthening labor market including more job creation and wage growth on top of upbeat tourism activities. 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.*

Domestic spending remains solid. Distributive trade grew 7.8%yoy in Jan-19 as motor vehicle sales bounced back with 4.8%yoy rise and retail sales sustained its double digit growth for the eight consecutive months. Wholesale trade increased at a moderating pace of 6.2%yoy. Looking ahead, we view continuous solid domestic demand in 2019 to be underpinned by stable job market, wage growth, low inflationary pressure and steady economic growth.

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

	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Distributive Trade	106.1	106.5	107.9	104.7	106.0	106.2	109.3	108.9
YoY%	9.6	10.3	10.7	7.2	8.2	8.6	8.0	7.8
MoM%	2.3	0.3	1.3	(2.9)	1.2	0.2	2.9	(0.3)
Motor Vehicles	13.0	13.9	13.5	11.2	12.1	12.3	11.9	12.2
YoY%	10.1	12.1	10.6	(0.9)	2.9	2.1	(1.4)	4.8
MoM%	5.8	6.5	(2.8)	(17.1)	8.7	1.3	(3.2)	2.6
Wholesale Trade	50.4	49.2	50.9	52.4	51.9	51.0	52.7	52.9
YoY%	7.4	7.2	7.4	6.5	7.2	6.9	6.7	6.2
MoM%	(0.3)	(2.5)	3.6	2.9	(0.9)	(1.6)	3.3	0.2
Retail Trade	42.7	43.4	43.5	41.2	42.0	42.9	44.7	43.9
YoY%	12.1	13.3	14.8	10.5	11.2	12.6	12.4	10.6
MoM%	4.5	1.7	0.1	(5.3)	2.0	2.1	4.2	(1.8)

Source: CEIC; MIDFR

*MoM is seasonally adjusted figures

Low inflation, stable labor market and upbeat industrial activities. Among others, solid domestic demand in Malaysia is supported by key fundamental factors such as low inflationary pressure, full-employment condition and upbeat momentum in industrial activities. Consumer price index contracted -0.7%yoy in the first month of 2019 mainly attributed to deflationary pressures from the transport component. Consumers appeared to benefited from the deflation that occurred in Jan-19 as reflected in the uptick sales of motor vehicles during the month. Meanwhile, unemployment rate remained at 3.3%yoy and employment increased 2.2%yoy in Jan-19 thanks to continuous expansion in IPI and exports by 3.2%yoy and 3.1%yoy respectively. Moving forward, we expect domestic spending to stay on upward trajectory buoyed by stable job market and continuous expansion in industrial activities in 2019.

Distributive sales to remain steady in 1Q19. For 4Q18, distributive sales expanded 8.3%yoy compared to 9.4%yoy recorded in 3Q18. For 1Q19, we foresee a continuous positive performance in distributive sales buoyed by low inflation, stable job market and supportive policy changes such as stabilized retail fuel prices. Looking at the passenger movements growth of 5.4% in Feb-18, the highest since Jun-18, we opine it will boost the growth for retail sales in upcoming month. Furthermore, Chinese New Year spending will add to the estimate.

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

	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
Distributive Trade Sales	9.7	9.3	8.4	7.3	8.0	9.4	8.3
Wholesale Sales	8.7	9.1	9.0	7.7	7.6	7.0	6.9
Wholesale Sales: Fee or Contract Basis	8.0	9.2	7.1	6.3	8.1	6.6	7.2
Wholesale Sales: Agri Raw Materials & Live Animals	10.2	8.2	10.3	8.4	1.6	(2.2)	(4.5)
Wholesale Sales: Food, Beverages & Tobacco	9.6	9.9	8.7	7.1	9.4	9.8	7.6
Wholesale Sales: Household Goods	6.5	5.6	5.2	6.8	8.2	8.6	8.4
Wholesale Sales: Machinery, Equipment & Supplies	8.8	6.1	7.2	6.3	5.5	2.1	2.3
Wholesale Sales: Others Specialised	9.4	11.9	11.6	8.9	8.4	8.2	9.4
Wholesale Sales: Non-Specialised	3.4	3.5	2.8	2.9	4.5	5.9	8.1
Retail Sales	13.5	12.2	10.4	9.2	9.8	12.9	12.1
Retail Sales: Non-Specialised Stores	15.3	13.1	11.2	10.0	11.1	15.1	14.9
Retail Sales: Food, Beverages & Tobacco	14.0	10.8	10.6	9.7	11.3	10.7	10.1
Retail Sales: Automotive Fuel	16.2	14.0	13.2	11.0	11.9	12.9	8.6
Retail Sales: Information & Communication Equip	9.8	9.2	5.5	4.7	4.2	6.7	6.8
Retail Sales: Household Equip	10.5	9.2	8.9	8.0	9.0	11.7	10.1
Retail Sales: Cultural & Recreation Goods	7.8	8.8	10.3	9.6	10.2	11.8	10.9
Retail Sales: Others in Specialised Store	15.1	14.9	11.9	10.4	10.0	14.5	14.2
Retail Sales: Stalls & Markets	10.4	9.6	9.7	7.4	5.0	5.9	7.7
Retail Sales: Not in Stores, Stalls & Markets	8.7	8.5	8.4	6.1	5.4	9.5	10.5
Motor Vehicles Sales	2.5	1.9	0.2	(0.2)	4.3	7.5	1.2
Motor Vehicles Sales: Motor Vehicle	(0.1)	(1.1)	(4.3)	(3.9)	3.5	7.7	(1.2)
Motor Vehicles Sales: Motor Vehicle Maint. & Repair	7.5	7.0	7.1	6.7	7.8	8.0	2.6
Motor Vehicles Sales: Motor Vehicle Parts & Accessories	6.5	5.9	6.2	4.2	4.4	7.5	4.6
Motor Vehicles Sales: Motorcycles Maint. & Repair, Parts & Acc.	2.8	4.6	4.7	2.1	4.9	5.2	4.8

Source: CEIC; MIDFR

A good start of the year. In overall, key economies registered higher growth for retail sales in Jan-19. Retail sales of the world's largest economy grew by 2.3%yoy (Dec-18: 1.6%yoy). Meanwhile, Singapore's retail sales bounced back in Jan-19 after two straight months of declines. The expansion was mainly driven by motor vehicles sales which grew to 20.0%yoy (-20.7%yoy in Dec-18). In contrast, Japan's retail sales growth slowed to below 1%yoy, the weakest gain since May-18 as sales eased for machinery & equipment, fuel and medicine & toiletry. Most of the countries are counting on households and companies to boost the economy as the global trade spat continues to weigh on exports. However, slowing global demand is expected to cause a gradual slowdown in overall consumer spending. In essence, low inflationary pressure and stable labour market will provide the key growth catalyst for domestic demand.

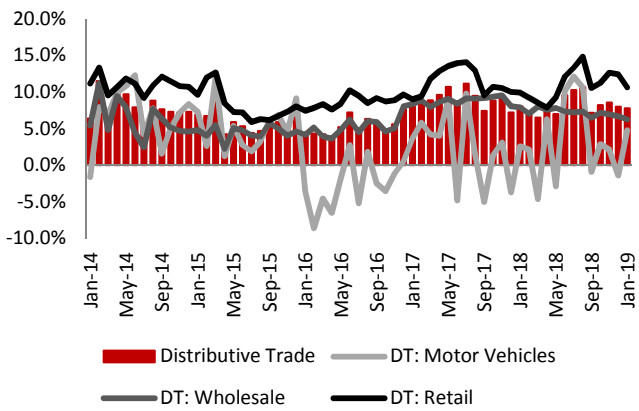
Table 3: Global Retail Sales (YoY%)

	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Malaysia	14.8	10.5	11.2	12.6	12.4	10.6
Indonesia	6.1	4.8	2.9	3.4	7.7	7.2
Singapore	(0.5)	1.7	0.5	(1.9)	(5.9)	7.7
Thailand	16.6	10.0	20.0	13.0	11.3	
Vietnam	11.8	11.2	12.5	18.6	9.4	14.0
Japan	2.7	2.2	3.6	1.4	1.3	0.6
China	4.0	3.7	3.8	3.4	3.3	
EU	4.4	3.2	4.5	3.5	2.1	3.2
US	6.4	4.0	4.6	4.0	1.6	2.3

Source: CEIC; MIDFR

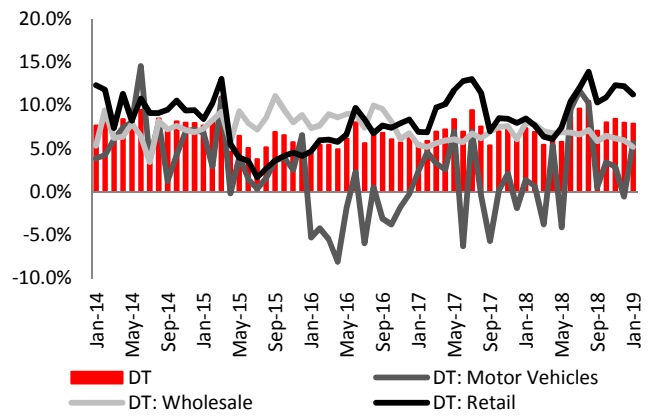
We estimate private consumption and services sector to grow at 7.5% and 6.2% respectively in 2019. Encouraging trend of distributive sales in 2018 is expected to continue for 2019 supported by economic conditions such as strengthening labor market including more job creation and wage growth on top of upbeat tourism activities. 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. Moreover, clearer direction of the economy and supportive policies such as targeted petrol subsidy with RON95 capped at RM2.08 per litre will pave the path for domestic consumption to rise steadily throughout the year. 

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



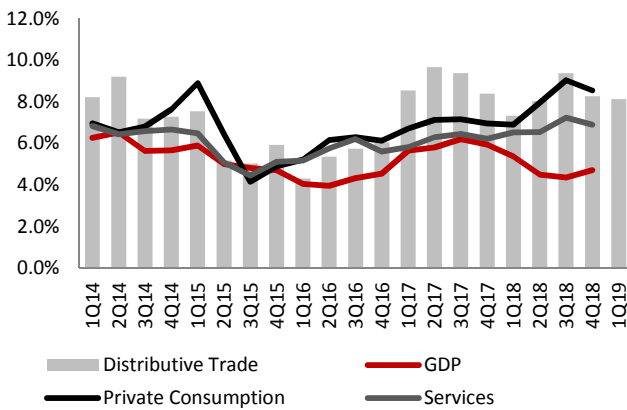
Source: CEIC; MIDFR

Chart 2: Distributive Trade Volume, DT (YoY%)



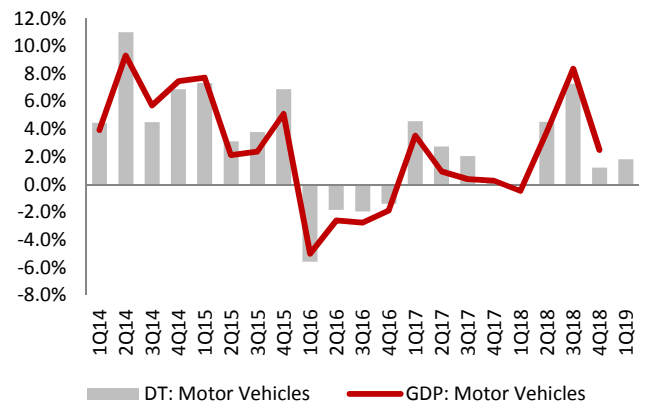
Source: CEIC; MAHB; MIDFR

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



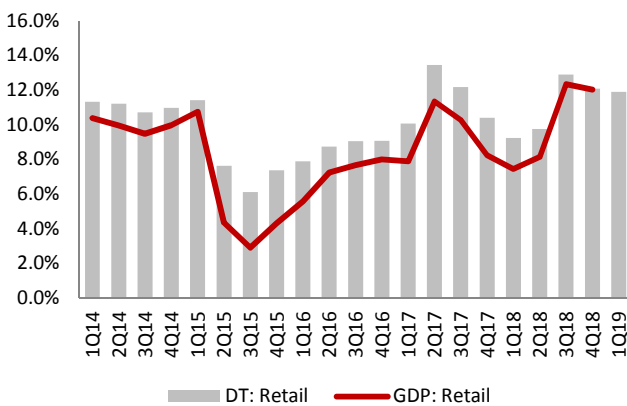
Source: CEIC; MIDFR

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



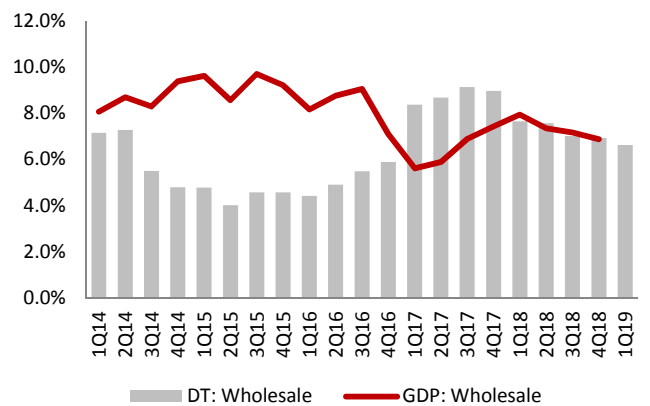
Source: CEIC; MIDFR

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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