

## ECONOMIC REVIEW | March 2020 Distributive Trade

### First Contraction On Record Amid MCO

- *First contraction on record. Malaysia's distributive trade fell -5.7%yoy in Mar-20, first contraction since the start of the data in 2013. The fall was contributed by declining performances in all components: retail sales, wholesale trade and motor vehicles. Wholesale which accounted for the largest share of total distributive trade fell -2.7%yoy, followed by a larger drop in retail sales (-6.6%yoy) and motor vehicles (-15.3%yoy).*
- *Sinking retail sales in key countries. Retail sales in China slumped -16.6%yoy in Mar-20, however improved slightly from -15.8%yoy in the Jan-Feb 2020 period, indicating that consumers remain cautious amid fear of the pandemic. In overall, other key countries recorded weaker performance of retail sales in Mar-20. The US's retail sales plunged -5.8%yoy similar to all key ASEAN countries.*
- *We anticipate contraction for private consumption and services sector in 2020. Covid-19 pandemic is expected to stifle domestic demand as consumers reduce their economic activities and tight their purse string due to uncertainty over the near future. Consumption will be particularly curtailed as Rakyat stays home during RMO and substantial increase in unemployment in badly affected sectors such as hotel and aviation.*

**First contraction on record.** Malaysia's distributive trade fell -5.7%yoy in Mar-20, first contraction since the start of the data in 2013. The fall was contributed by declining performances in all components: retail sales, wholesale trade and motor vehicles. Wholesale which accounted for the largest share of total distributive trade fell -2.7%yoy, followed by a larger drop in retail sales (-6.6%yoy) and motor vehicles (-15.3%yoy). Such weak performance was primarily due to the two weeks of MCO in Mar-20 which caused Rakyat to stay home and halted business operations. Similarly, on monthly basis, all components registered negative growths. Moving forward, we foresee weaker performance in distributive trade as MCO have been extended until mid-May-20. Motor vehicles sales in particular will continue to be hit harder for a longer period of time as consumers change spending pattern from discretionary to necessity, avoiding purchases of big ticket items.

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

	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
<b>Distributive Trade</b>	110.6	111.3	111.7	115.8	114.8	109.0	103.2
YoY%	5.6	5.0	5.2	6.0	5.4	5.3	-5.7
MoM%	-1.6	0.5	1.0	0.4	-0.1	-0.6	-11.6
<b>Motor Vehicles</b>	11.7	12.6	12.7	12.4	12.3	11.2	10.7
YoY%	4.4	3.7	3.0	4.5	1.0	3.5	-15.3
MoM%	-4.7	3.5	0.1	-0.9	-0.3	-0.5	-15.4
<b>Wholesale Trade</b>	54.8	53.9	53.2	55.6	55.6	52.6	51.8
YoY%	4.7	3.9	4.2	5.4	5.2	4.9	-2.7
MoM%	0.4	-0.3	0.6	0.4	0.1	-0.7	-7.6
<b>Retail Trade</b>	44.1	44.8	45.9	47.8	46.8	45.2	40.7
YoY%	7.2	6.8	7.0	7.0	6.7	6.3	-6.6
MoM%	-0.7	0.3	1.0	0.7	0.3	-0.8	-14.4

Source: CEIC; MIDFR

Note: MoM is seasonally adjusted figures

**Higher unemployment rate affects consumption.** Unemployment rate soared to 3.9% in Mar-20 from 3.3% in Feb-20, in line with distributive trade performances particularly of retail sales. MCO has pushed substantial numbers of employees out of labor market as businesses especially SMEs who struggle to survive, started to retrench workers to cut costs. That would mean some Rakyat would not have income to spend, contributing less to consumption. With expectation on further uptick in unemployment rate moving forward, distributive trade performance is anticipated to be worse. In addition, more companies are applying paycuts to their employees, contributing to the estimate. Besides that, passenger movements continued to decline by double digit as tourists hold vacation plans due to Covid-19. Tourism activities are expected to continue flatten in upcoming months as the pandemic flared globally. Nevertheless, there are still some supportive factors of consumption such as low inflationary pressure, OPR cuts and government stimulus package. Some measures in the stimulus package such as loan moratorium, EPF withdrawal and cash assistance are pro-consumption, expected to provide some cushion to the overall negative impacts.

**Weaker performance to be seen in 2Q20.** For 1Q20, distributive sales pace eased sharply, in line with our expectations, expanding 1.6%yoy, the lowest rate so far. For 2Q20, we foresee further decline in distributive sales due to longer MCO. Retail sales in particular will be influenced by RMO and slowdown in passenger movements resulting from Covid-19. In addition, some impact could also be observed in automotive sales amid Covid-19 and political change in Malaysia, affecting market sentiment.


**Sinking retail sales in key countries.** Retail sales in China slumped -16.6%yoy in Mar-20, however improved slightly from -15.8%yoy in the Jan-Feb 2020 period, indicating that consumers remain cautious amid fear of the pandemic. In overall, other key countries recorded weaker performance of retail sales in Mar-20. The US's retail sales plunged -5.8%yoy similar to all key ASEAN countries. Meanwhile, Japan managed to record tepid growth of 0.4%yoy albeit at moderating pace. Looking ahead, we foresee retail sales to keep falling in upcoming months due to low consumer spending and tourist arrivals resulting from lockdowns and movement restrictions consequential to Covid-19 pandemic.

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

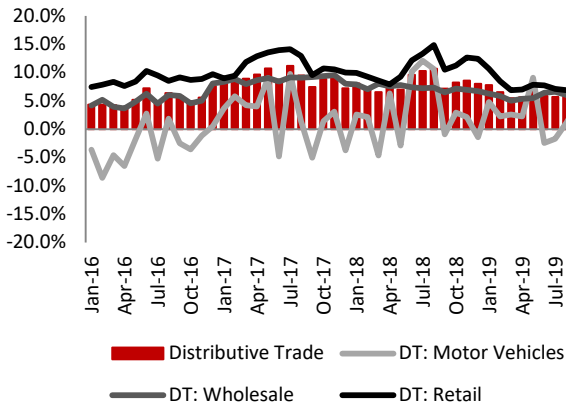
	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
Malaysia	7.2	6.8	7.0	7.0	6.7	6.3	(6.6)
Indonesia	0.7	3.6	1.3	(0.5)	(0.3)	(0.8)	(5.4)
Singapore	(2.1)	(4.3)	(4.4)	(3.5)	(5.6)	(8.4)	(13.3)
Thailand	(1.0)	(3.1)	(4.4)	(4.7)	(2.2)	0.4	n.a.
Vietnam	12.2	10.9	11.0	12.2	11.6	4.0	(5.4)
Japan	9.2	(7.0)	(2.1)	(2.6)	(0.4)	1.6	0.4
China	7.8	7.2	8.0	8.0	(20.5)	(20.5)	(15.8)
EU	3.1	2.4	2.4	3.2	3.5	n.a.	n.a.
US	4.0	3.3	3.3	5.6	4.9	4.5	(5.8)

Source: CEIC; MIDFR

Note: n.a. is not available

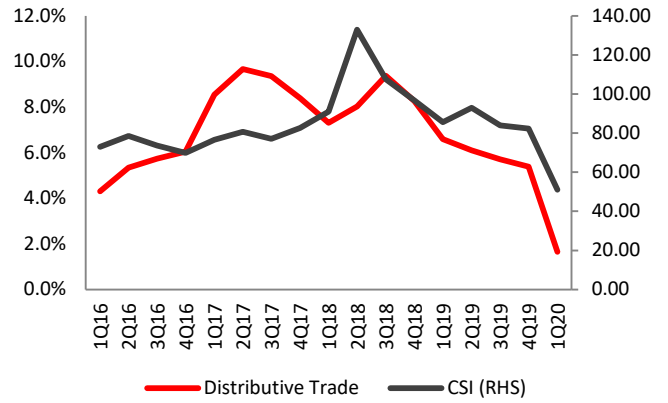
**We anticipate contraction for private consumption and services sector in 2020.** Covid-19 pandemic is expected to stifle domestic demand as consumers reduce their economic activities and tight their purse string due to uncertainty over the near future. Consumption will be particularly curtailed as Rakyat stays home during RMO and substantial increase in unemployment in badly affected sectors such as hotel and aviation. Nevertheless, low inflationary pressure, OPR cuts and huge economic stimulus package particularly through Rakyat-centric measures would be supportive to household spending and cushion some of the adverse impact of the outbreak. We foresee a marginal contraction in private consumption at -0.5%yoy, downward revision from initial estimate of 5.9%yoy (2019: 7.6%yoy). Similarly, services sector will decline by -1.6%yoy from 4.2%yoy initially estimated (2019: 6.1%yoy) dragged down by weak tourism activities. 

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



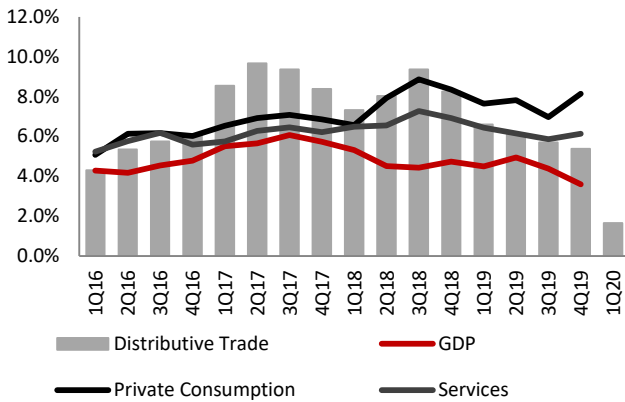
Source: CEIC; MIDFR

**Chart 2: DT (YoY%) vs Consumer Sentiment Index**



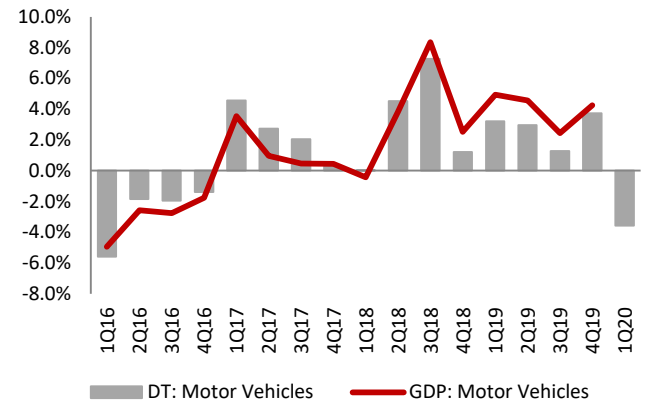
Source: CEIC; MAHB; MIDFR

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



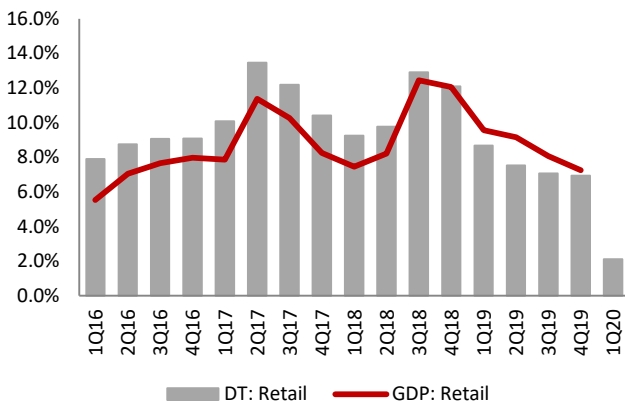
Source: CEIC; MIDFR

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



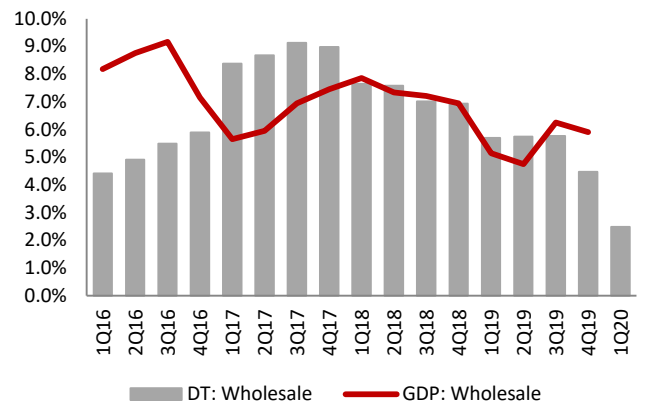
Source: CEIC; MIDFR

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



Source: CEIC; MIDFR

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



Source: CEIC; MIDFR

**MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad  
197501002077 (23878-X).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)**

## **DISCLOSURES AND DISCLAIMER**

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 - X)). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.