

ECONOMIC REVIEW | May 2020 Distributive Trade**Consumption Is Picking up but Economic Contraction in 2Q20 Is Inevitable**

- *Signs of recovery. Malaysia's distributive trade declined for the second consecutive month in May-20 albeit at softer pace of -23.8%yoy. All three major components recorded lower fall with retail sales chalking the fastest improvement. Retail sales declined by -16.2%yoy, halved than previous's month fall. Similarly, motor vehicles contracted -49.5%yoy, significant improvement compared to Apr-20.*
- *Weaker performance to be seen in 2Q20. For 1Q20, distributive sales pace eased sharply, 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 MCO 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.*
- *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 reduce outside activities 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.*

Signs of recovery. Malaysia's distributive trade declined for the second consecutive month in May-20 albeit at softer pace of -23.8%yoy. All three major components recorded lower fall with retail sales chalking the fastest improvement. Retail sales declined by -16.2%yoy, halved than previous month's fall. Similarly, motor vehicles contracted -49.5%yoy, significant improvement compared to Apr-20. Meanwhile, wholesale which accounted for the largest share of total distributive trade continued recording fall above -20%. Better performances for the month were in line with relaxation of MCO in Malaysia starting May-20. We foresee the figures to get even better in upcoming months as most of the economic activities have resumed. Motor vehicle sales in particular will be buoyed by sales tax exemption for both locally assembled and imported passenger cars as highlighted in PENJANA.

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

	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20
Distributive Trade	111.7	115.8	114.8	109.0	103.2	66.9	84.4
YoY%	5.2	6.0	5.4	5.3	-5.7	-36.6	-23.8
MoM%	1.0	0.4	-0.1	-0.6	-11.6	-33.6	25.5
Motor Vehicles	12.7	12.4	12.3	11.2	10.7	0.8	6.8
YoY%	3.0	4.5	1.0	3.5	-15.3	-93.2	-49.5
MoM%	0.1	-0.9	-0.3	-0.5	-15.4	-92.3	700.5
Wholesale Trade	53.2	55.6	55.6	52.6	51.8	37.7	40.7
YoY%	4.2	5.4	5.2	4.9	-2.7	-26.3	-23.6
MoM%	0.6	0.4	0.1	-0.7	-7.6	-24.8	6.5
Retail Trade	45.9	47.8	46.8	45.2	40.7	28.3	36.9
YoY%	7.0	7.0	6.7	6.3	-6.6	-32.4	-16.2
MoM%	1.0	0.7	0.3	-0.8	-14.4	-29.8	31.4

Source: CEIC; MIDFR

Note: MoM is seasonally adjusted figures

Frail foreign & industrial activities. In May-20, Malaysia's exports dived further by -25.5%yoy in May-20, the hardest fall since May-09 while IPI recorded lower contraction of -22.1%yoy (Apr-20: -32%oyoy). Progress in IPI as economy reopens in stages could have raised consumer sentiment as most of the employees return to work. Furthermore, low inflationary pressure, OPR cuts and the Government stimulus package remain supportive to consumption. 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. Nevertheless, unemployment rate could remain high for the near months as businesses adjust to their new production levels which may result in more retrenchment, limiting a speedy rebound in consumption.

Weaker performance to be seen in 2Q20. For 1Q20, distributive sales pace eased sharply, 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 MCO 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. For the first two month of 2Q20, distributive trade growth averaged at -30.2%yoy and likely to end the quarter on negative note. This inclines towards significant contraction in GDP for 2Q20 as private consumption is the biggest contributor to Malaysian economy.

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

	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Distributive Trade Sales	9.4	8.3	6.6	6.1	5.7	5.4	1.6
Wholesale Sales	7.0	6.9	5.7	5.8	5.7	4.5	2.4
Wholesale Sales: Fee or Contract Basis	6.6	7.2	4.5	3.8	4.1	4.3	4.0
Wholesale Sales: Agri Raw Materials & Live Animals	(2.2)	(4.5)	3.7	5.4	5.2	(3.3)	(5.2)
Wholesale Sales: Food, Beverages & Tobacco	9.8	7.6	5.5	6.8	6.5	5.7	4.2
Wholesale Sales: Household Goods	8.6	8.4	6.4	6.1	6.3	5.5	3.3
Wholesale Sales: Machinery, Equipment & Supplies	2.1	2.3	1.9	2.1	2.8	3.0	(0.8)
Wholesale Sales: Others Specialised	8.2	9.4	6.8	6.3	6.1	5.4	3.4
Wholesale Sales: Non-Specialised	5.9	8.1	4.8	2.1	2.6	3.6	2.9
Retail Sales	12.9	12.1	8.6	7.5	7.0	6.9	2.1
Retail Sales: Non-Specialised Stores	15.1	14.9	10.4	8.6	8.1	8.3	5.1
Retail Sales: Food, Beverages & Tobacco	10.7	10.1	8.7	9.2	9.6	8.4	6.0
Retail Sales: Automotive Fuel	12.9	8.6	5.6	3.8	3.4	3.9	(2.7)
Retail Sales: Information & Communication Equip	6.7	6.8	5.0	4.4	3.5	3.6	1.0
Retail Sales: Household Equip	11.7	10.1	7.0	6.8	6.4	5.1	(1.4)
Retail Sales: Cultural & Recreation Goods	11.8	10.9	9.5	8.1	7.3	6.3	(0.7)
Retail Sales: Others in Specialised Store	14.5	14.2	9.9	8.8	8.2	8.5	1.3
Retail Sales: Stalls & Markets	5.9	7.7	8.3	8.9	7.9	8.6	6.8
Retail Sales: Not in Stores, Stalls & Markets	9.5	10.5	7.4	4.6	4.8	8.1	7.3
Motor Vehicles Sales	7.5	1.2	3.2	2.9	1.1	3.7	(4.0)
Motor Vehicles Sales: Motor Vehicle	7.7	(1.2)	1.9	1.5	(1.3)	3.5	(6.4)
Motor Vehicles Sales: Motor Vehicle Maint. & Repair	8.0	2.6	4.9	5.1	5.6	4.3	(0.9)
Motor Vehicles Sales: Motor Vehicle Parts & Accessories	7.5	4.6	4.3	4.5	3.5	3.8	(1.2)
Motor Vehicles Sales: Motorcycles Maint. & Repair, Parts & Acc.	5.2	4.8	5.8	3.9	3.2	4.0	(1.4)

Source: CEIC; MIDFR

Unison fall in retail sales. Retail sales in most of the key countries continued to decline in May-20 suggesting a prolonged impact of the Covid-19. Despite that, some countries recorded softer fall while Vietnam managed to rebound to positive territory of 1%yoy after two consecutive months of negative growths. Retail sales in most of the advanced economies and China fell at a lower pace. China's retail sales remained in negative territory for the fifth straight months but on a steady improving trend with the latest decline registered at -3%yoy. Meanwhile, retail trade in other ASEAN countries such as Indonesia and Singapore fell harder. Most of the restrictions were only started to be lifted in stages in end of May-20. Hence, looking ahead, we opine the performances will improve gradually in line with the easing movement controls. Low interest rate environment and stimulus packages being implemented by the countries will provide more support to the estimate.

Table 2: Global Retail Sales (YoY%)

	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20
Malaysia	7.0	7.0	6.7	6.3	(6.6)	(32.4)	(16.2)
Indonesia	1.3	(0.5)	(0.3)	(0.8)	(4.5)	(16.9)	(20.6)
Singapore	(4.4)	(3.5)	(5.9)	(8.4)	(13.5)	(40.3)	(52.1)
Thailand	(4.3)	(4.6)	(2.1)	(0.9)	(12.3)	(28.1)	n.a.
Vietnam	11.0	12.2	11.6	4.0	(5.4)	(23.4)	1.0
Japan	(2.1)	(2.6)	(0.4)	1.6	0.2	(9.5)	(7.7)
China	8.0	8.0	(20.5)	(20.5)	(16.6)	(7.9)	(3.0)
EU	2.6	2.8	3.1	3.0	(8.3)	(19.4)	(5.4)
US	3.3	5.6	4.9	4.5	(5.6)	(19.9)	(6.1)

Source: CEIC; MIDFR

Note: n.a. is not available


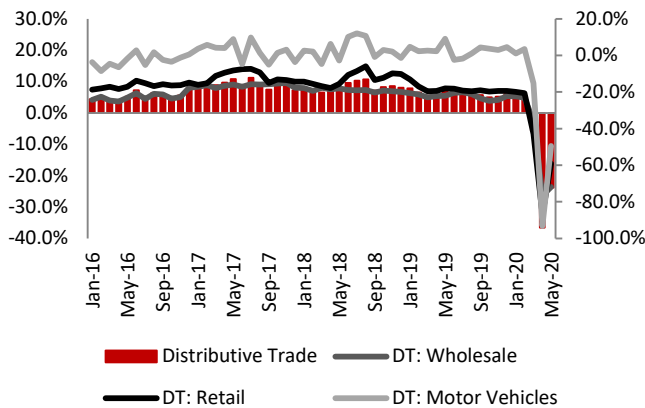
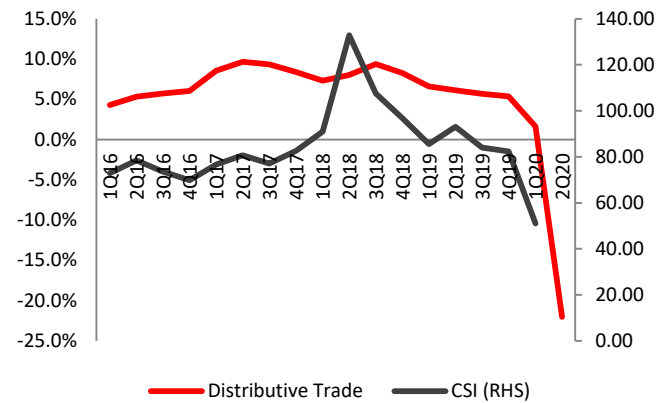
We anticipate contraction for private consumption and services sector in 2020. Covid-19 pandemic is expected to stifle domestic demand as consumers reduce their economic activities and tight their purse string due to uncertainty over the near future. Consumption will be particularly curtailed as Rakyat reduce outside activities 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. Similarly, services sector will decline by -1.6%yoy dragged down even more by weak tourism activities. 

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



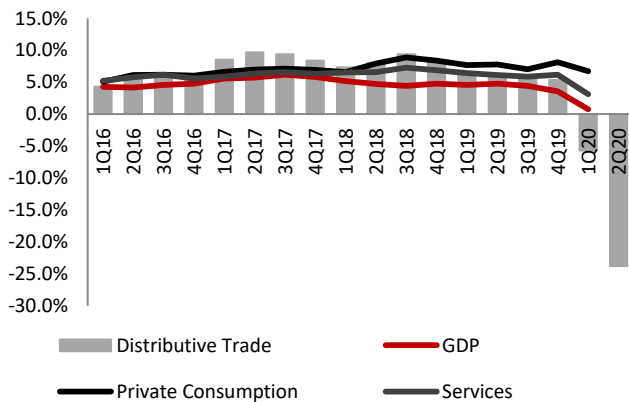
Source: CEIC; MIDFR

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



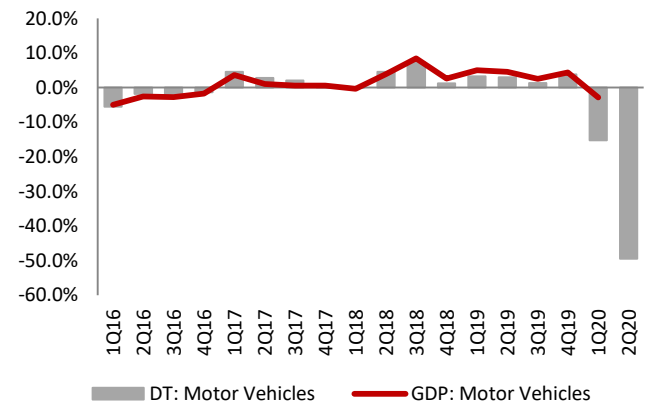
Source: CEIC; MAHB; MIDFR

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



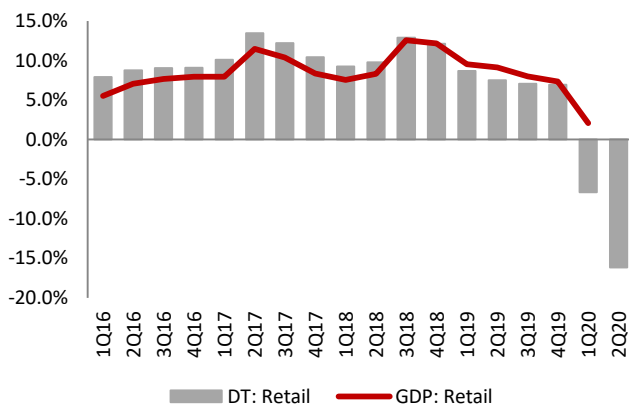
Source: CEIC; MIDFR

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



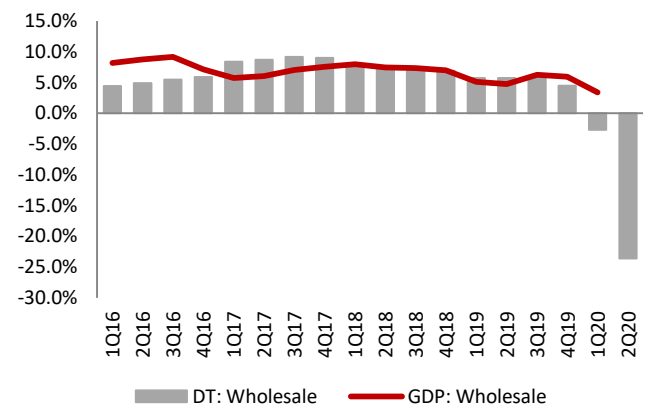
Source: CEIC; MIDFR

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



Source: CEIC; MIDFR

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



Source: CEIC; MIDFR

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