

ECONOMIC REVIEW | September 2019 Distributive Trade

3-Year Low Distributive Trade Gain Signals GDP Growth Moderation in 3Q19

- Retail sales growth at 3-month high. Retail trade which accounted for the second largest share of total distributive sales returned to above 7% growth in Sep-19. Similarly, motor vehicles sales expanded further to 4.4%yoy, fastest pace since May-19. In contrast, wholesale trade, the biggest contributor to the total distributive sales registered near 3-year low growth of 4.7%yoy. That caused overall distributive trade to perform moderately at 5.6%yoy despite the absence of high base effect from tax holiday period last year.*
- Higher growth of distributive sales in 4Q19. For 3Q19, distributive sales expanded at a moderating pace of 5.7%yoy, the lowest rate in three years compared to 6.1%yoy in 2Q19. Moving forward, for the 4Q19, 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 forecasts 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 25bps OPR rate cut by BNM could provide more support to the estimate.*

Retail sales growth at 3-month high. Retail trade which accounted for the second largest share of total distributive sales returned to above 7% growth in Sep-19. Similarly, motor vehicles sales expanded further to 4.4%yoy, fastest pace since May-19. In contrast, wholesale trade, the biggest contributor to the total distributive sales registered near 3-year low growth of 4.7%yoy. That caused overall distributive trade to perform moderately at 5.6%yoy despite the absence of high base effect from tax holiday period last year.

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

	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
Distributive Trade	103.5	109.4	105.4	110.8	112.3	112.5	114.1	110.6
YoY%	6.5	5.5	5.6	6.8	5.9	5.7	5.8	5.6
MoM%	(5.0)	5.8	(3.7)	5.1	1.4	0.2	1.4	(3.0)
Motor Vehicles	10.8	12.6	12.3	13.4	12.7	13.6	13.6	11.7
YoY%	2.3	2.6	2.2	9.1	(2.5)	(1.7)	1.1	4.4
MoM%	(11.7)	16.8	(2.0)	8.8	(5.4)	7.3	(0.1)	(14.4)
Wholesale Trade	50.2	53.2	51.2	53.3	53.6	52.4	54.0	54.8
YoY%	5.8	5.0	5.3	5.5	6.4	6.6	6.0	4.7
MoM%	(5.1)	6.1	(3.8)	4.2	0.6	(2.3)	3.0	1.6
Retail Trade	42.5	43.6	41.9	44.1	46.0	46.5	46.5	44.1
YoY%	8.5	6.9	7.0	7.8	7.7	7.1	6.9	7.2
MoM%	(3.0)	2.6	(4.0)	5.3	4.4	1.1	(0.1)	(5.0)

Source: CEIC; MIDFR

Fragile external trade performances starts to bite spending. In Sept-19, export contraction fell to the lowest rate in near 3 years. 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. In tandem, manufacturing sales registered near 3-year low growth in the same month. Moreover, spending was influenced by employment growth in the sector which remained at 1.3%yoy with wage growth advanced at a softer pace of 2.8%yoy, the lowest since Feb-17. Meanwhile, inflation rate which impact domestic demand was recorded at 1.1%yoy, the lowest in four months.

Higher growth of distributive sales in 4Q19. For 3Q19, distributive sales expanded at a moderating pace of 5.7%yoy, the lowest rate in three years compared to 6.1%yoy in 2Q19. Moving forward, for the 4Q19, 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, expenses for festivals such as Deepavali and Christmas besides singles' day sales and other year-end sales could influence the estimate. Looking at the passenger movements growth of 10%yoy in Oct-19, the highest rate since June-18, we opine it will be translated into a better growth for retail sales in upcoming month.

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

	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19
Distributive Trade Sales	7.3	8.0	9.4	8.3	6.6	6.1	5.7
Wholesale Sales	7.7	7.6	7.0	6.9	5.7	5.8	5.7
Wholesale Sales: Fee or Contract Basis	6.3	8.1	6.6	7.2	4.5	3.8	4.1
Wholesale Sales: Agri Raw Materials & Live Animals	8.4	1.6	(2.2)	(4.5)	3.7	5.4	5.2
Wholesale Sales: Food, Beverages & Tobacco	7.1	9.4	9.8	7.6	5.5	6.8	6.5
Wholesale Sales: Household Goods	6.8	8.2	8.6	8.4	6.4	6.1	6.3
Wholesale Sales: Machinery, Equipment & Supplies	6.3	5.5	2.1	2.3	1.9	2.1	2.8
Wholesale Sales: Others Specialised	8.9	8.4	8.2	9.4	6.8	6.3	6.1
Wholesale Sales: Non-Specialised	2.9	4.5	5.9	8.1	4.8	2.1	2.6
Retail Sales	9.2	9.8	12.9	12.1	8.6	7.5	7.0
Retail Sales: Non-Specialised Stores	10.0	11.1	15.1	14.9	10.4	8.6	8.1
Retail Sales: Food, Beverages & Tobacco	9.7	11.3	10.7	10.1	8.7	9.2	9.6
Retail Sales: Automotive Fuel	11.0	11.9	12.9	8.6	5.6	3.8	3.4
Retail Sales: Information & Communication Equip	4.7	4.2	6.7	6.8	5.0	4.4	3.5
Retail Sales: Household Equip	8.0	9.0	11.7	10.1	7.0	6.8	6.4
Retail Sales: Cultural & Recreation Goods	9.6	10.2	11.8	10.9	9.5	8.1	7.3
Retail Sales: Others in Specialised Store	10.4	10.0	14.5	14.2	9.9	8.8	8.2
Retail Sales: Stalls & Markets	7.4	5.0	5.9	7.7	8.3	8.9	7.9
Retail Sales: Not in Stores, Stalls & Markets	6.1	5.4	9.5	10.5	7.4	4.6	4.8
Motor Vehicles Sales	(0.2)	4.3	7.5	1.2	3.2	2.9	1.1
Motor Vehicles Sales: Motor Vehicle	(3.9)	3.5	7.7	(1.2)	1.9	1.5	(1.3)
Motor Vehicles Sales: Motor Vehicle Maint. & Repair	6.7	7.8	8.0	2.6	4.9	5.1	5.6
Motor Vehicles Sales: Motor Vehicle Parts & Accessories	4.2	4.4	7.5	4.6	4.3	4.5	3.5
Motor Vehicles Sales: Motorcycles Maint. & Repair, Parts & Acc.	2.1	4.9	5.2	4.8	5.8	3.9	3.2

Source: CEIC; MIDFR

Japan's retail sales rose the most since 2014 ahead of consumption tax hike. Retail sales in Japan accelerated to 9.1%yoy in Sep-19 from 1.8%yoy recorded in Aug-19 as consumers rushed with their purchases, especially on big-ticket items such as cars, ahead of the scheduled consumption tax hike to 10% in Oct-19. The hike is seen as an important measure to tackle the country's heavy public debt which is at more than twice of its economy. Hence, retail sales in the country are expected to weaken in upcoming months. Besides that, key economies such as China also recorded higher growth in sales. China's retail sales had been trending downward for the past two months. Meanwhile, the US experience a moderation in their retail sales growth in Sep-19, reversing its upward trend for the past three months.

Table 3: Global Retail Sales (YoY%)

	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
Malaysia	6.9	7.0	7.8	7.7	7.1	6.9	7.2
Indonesia	10.1	6.7	7.7	(1.8)	2.4	1.1	0.7
Singapore	(0.7)	(1.7)	(2.0)	(8.9)	(1.5)	(4.1)	
Thailand	9.2	13.5	10.0	6.7	0.3	(3.0)	
Vietnam	13.5	13.3	12.4	11.7	12.0	11.7	12.2
Japan	1.0	0.4	1.3	0.5	(2.0)	1.8	9.1
China	8.7	7.2	8.6	9.8	7.6	7.5	7.8
EU	4.1	3.8	2.2	3.4	3.4	3.2	3.3
US	3.8	3.8	3.0	3.3	3.5	4.4	4.1

Source: CEIC; MIDFR


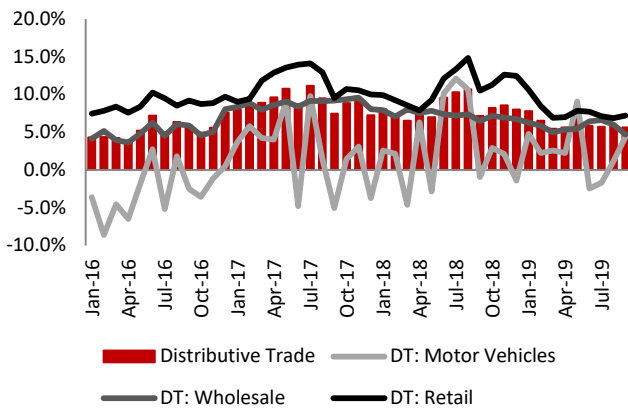
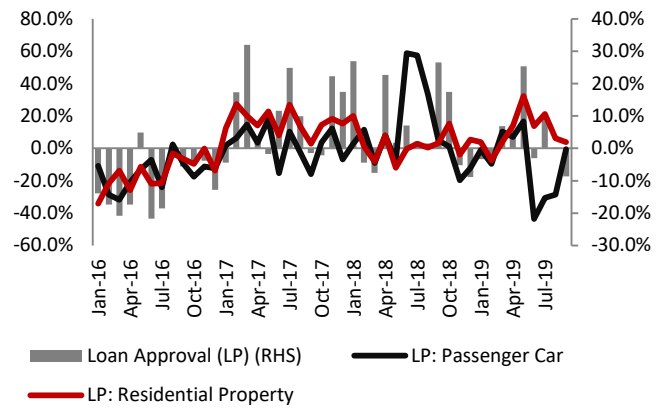
We maintain our forecasts for private consumption & services sector at 7.5% & 6.5% respectively in 2019. Encouraging trend of distributive sales in 2018 is expected to continue in 2019 supported by economic conditions such as stable labor market, low inflationary pressure and upbeat tourism activities. In addition, the 25bps OPR 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%)



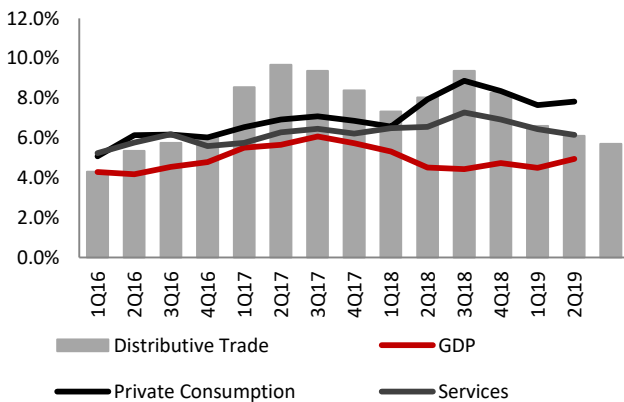
Source: CEIC; MIDFR

Chart 2: Loan Approval (YoY%)



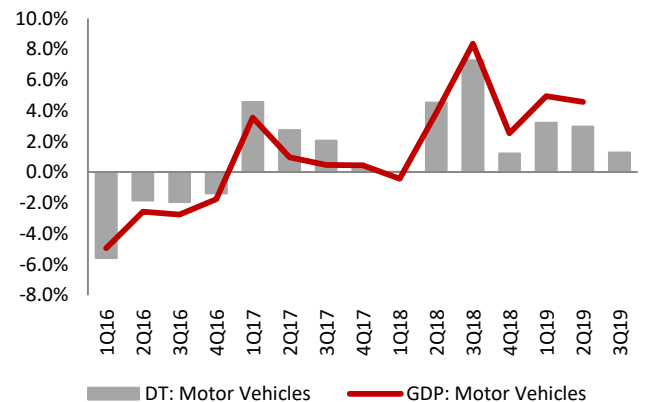
Source: CEIC; MAHB; MIDFR

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



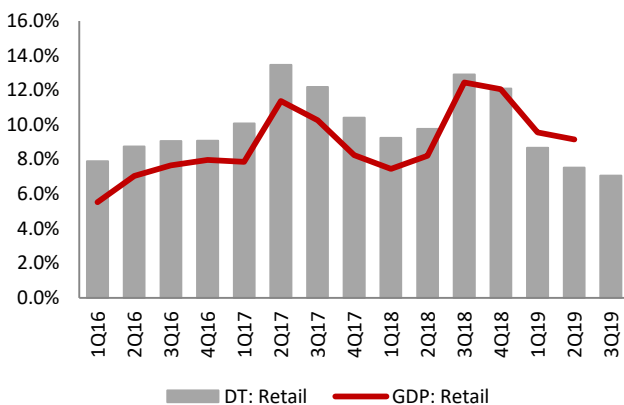
Source: CEIC; MIDFR

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



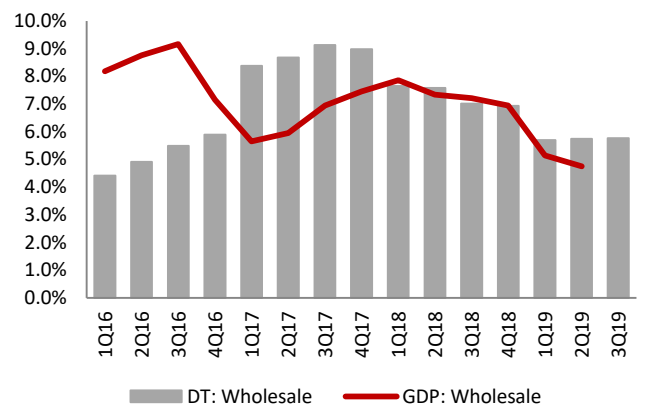
Source: CEIC; MIDFR

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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