

## ECONOMIC REVIEW | April 2020 Distributive Trade

### Return in Spending is Likely, Buoyed By Easing Monetary & Fiscal Policies

- *Record decline in distributive trade. Malaysia's distributive trade slumped to a record low of -36.6%yoy in Apr-20, manifesting the impact of a full month of MCO. The MCO caused Rakyat to stay home and halted business operations. All three major components contracted by double digit with motor vehicles chalked the hardest drop. Wholesale which accounted for the largest share of total distributive trade fell -26.3%yoy. Similarly, retail sales and motor vehicles declined -32.4%yoy and -93.2%yoy respectively.*
- *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 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.*

**Record decline in distributive trade.** Malaysia's distributive trade slumped to a record low of -36.6%yoy in Apr-20, manifesting the impact of a full month of MCO. The MCO caused Rakyat to stay home and halted business operations. All three major components contracted by double digit with motor vehicles chalked the hardest drop. Wholesale which accounted for the largest share of total distributive trade fell -26.3%yoy. Similarly, retail sales and motor vehicles declined -32.4%yoy and -93.2%yoy respectively. Large drop in motor vehicles sales was largely expected as consumers avoid purchases of big ticket items amid ongoing crisis. Moving forward, we foresee better performance in distributive trade as MCO have been relaxed in phases.

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

	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
<b>Distributive Trade</b>	<b>111.3</b>	<b>111.7</b>	<b>115.8</b>	<b>114.8</b>	<b>109.0</b>	<b>103.2</b>	<b>66.3</b>
YoY%	5.0	5.2	6.0	5.4	5.3	-5.7	-36.6
MoM%	0.5	1.0	0.4	-0.1	-0.6	-11.6	-8.8
<b>Motor Vehicles</b>	<b>12.6</b>	<b>12.7</b>	<b>12.4</b>	<b>12.3</b>	<b>11.2</b>	<b>10.7</b>	<b>0.9</b>
YoY%	3.7	3.0	4.5	1.0	3.5	-15.3	-93.2
MoM%	3.5	0.1	-0.9	-0.3	-0.5	-15.4	-26.1
<b>Wholesale Trade</b>	<b>53.9</b>	<b>53.2</b>	<b>55.6</b>	<b>55.6</b>	<b>52.6</b>	<b>51.8</b>	<b>37.1</b>
YoY%	3.9	4.2	5.4	5.2	4.9	-2.7	-26.3
MoM%	-0.3	0.6	0.4	0.1	-0.7	-7.6	-5.5
<b>Retail Trade</b>	<b>44.8</b>	<b>45.9</b>	<b>47.8</b>	<b>46.8</b>	<b>45.2</b>	<b>40.7</b>	<b>28.3</b>
YoY%	6.8	7.0	7.0	6.7	6.3	-6.6	-32.4
MoM%	0.3	1.0	0.7	0.3	-0.8	-14.4	-8.8

Source: CEIC; MIDFR

Note: MoM is seasonally adjusted figures

**Frail foreign & industrial activities.** In Apr-20, Malaysia's exports dived -23.8%yoy, the hardest fall since Sep-09. In line, IPI slumped -32%yoy, the steepest fall on record as all sub-indexes recorded double digit drop. Weak export and production reflect low business and that would affect employment and wage growth which deteriorates consumer sentiment, eventually curb spending. Unemployment is expected to soar higher in Apr-20 from 3.9% in Mar-20 as continuous MCO pushed substantial numbers of employees out of labor market. Higher retrenchment is expected in SMEs in particular given the severe reduction in economic activities. SMEs account for 98.5% of the total business establishments and 65.3% of the total employment in Malaysia. This has affected distributive trade performances. Besides that, passenger movements continued to decline by almost 100% in Apr-20 as Malaysia shut borders and tourists hold vacation plans due to Covid-19. 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 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.

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

	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
<b>Distributive Trade Sales</b>	<b>9.4</b>	<b>8.3</b>	<b>6.6</b>	<b>6.1</b>	<b>5.7</b>	<b>5.4</b>	<b>1.6</b>
<b>Wholesale Sales</b>	<b>7.0</b>	<b>6.9</b>	<b>5.7</b>	<b>5.8</b>	<b>5.7</b>	<b>4.5</b>	<b>2.4</b>
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
<b>Retail Sales</b>	<b>12.9</b>	<b>12.1</b>	<b>8.6</b>	<b>7.5</b>	<b>7.0</b>	<b>6.9</b>	<b>2.1</b>
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
<b>Motor Vehicles Sales</b>	<b>7.5</b>	<b>1.2</b>	<b>3.2</b>	<b>2.9</b>	<b>1.1</b>	<b>3.7</b>	<b>(4.0)</b>
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 all key countries posted contraction in Apr-20 as Covid-19 forced people to stay home, businesses were closed and country borders were shut. The US's retail sales plunged by a double digit of -21.6%yoy similar to all key ASEAN countries. Japan also experienced same downward trend albeit at single digit (-9.2%yoy). Meanwhile, China's retail sales recorded softer fall of -7.9%yoy as economic activities have been resumed in Apr-20 after two months of draconian lockdown. Looking ahead, China's performance is likely to be echoed by rest of the key countries as restrictions are being lifted up in phases, globally.

**Table 2: Global Retail Sales (YoY%)**

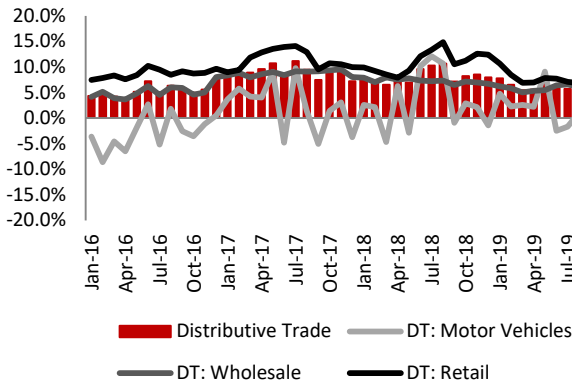
	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
Malaysia	6.8	7.0	7.0	6.7	6.3	(6.6)	(32.4)
Indonesia	3.6	1.3	(0.5)	(0.3)	(0.8)	(4.5)	(11.8)
Singapore	(4.3)	(4.4)	(3.5)	(5.8)	(8.4)	(13.3)	(40.5)
Thailand	(3.1)	(4.4)	(4.6)	(2.1)	(1.0)	(20.5)	n.a.
Vietnam	10.9	11.0	12.2	11.6	4.0	(5.4)	(23.4)
Japan	(7.0)	(2.1)	(2.6)	(0.4)	1.6	0.2	(9.2)
China	7.2	8.0	8.0	(20.5)	(20.5)	(16.6)	(7.9)
EU	1.7	2.6	2.8	3.1	3.1	(8.6)	(19.6)
US	3.3	3.3	5.6	4.9	4.5	(5.7)	(21.6)

Source: CEIC; MIDFR

Note: n.a. is not available

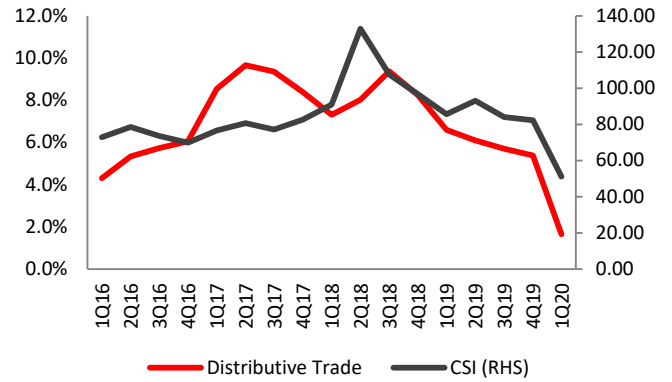
**We anticipate contraction for private consumption and services sector in 2020.** Covid-19 pandemic is expected to stifle domestic demand as consumers reduce their economic activities and tight their purse string due to uncertainty over the near future. Consumption will be particularly curtailed as 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%)**



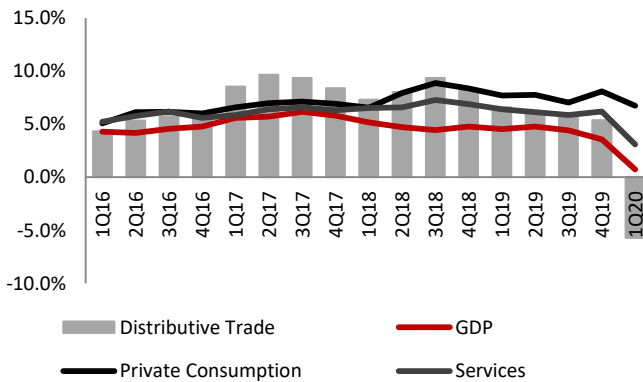
Source: CEIC; MIDFR

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



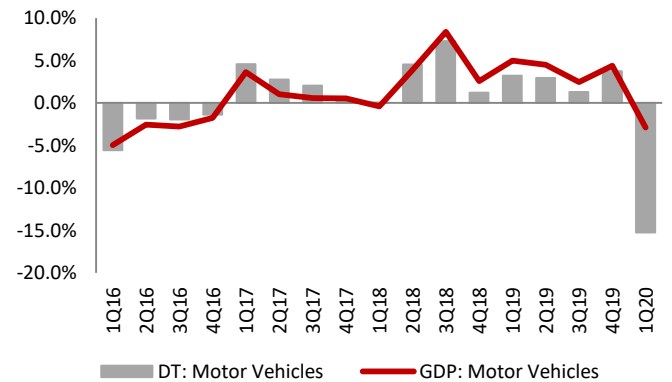
Source: CEIC; MAHB; MIDFR

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



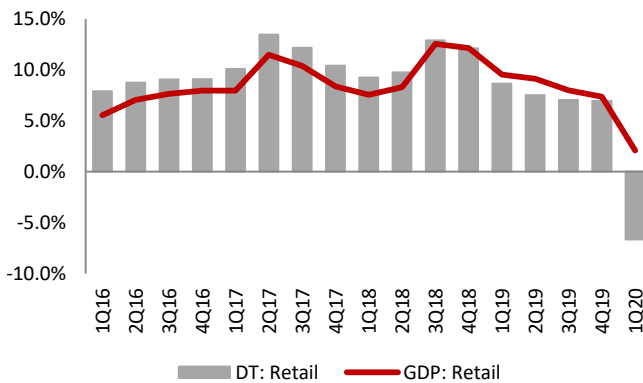
Source: CEIC; MIDFR

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



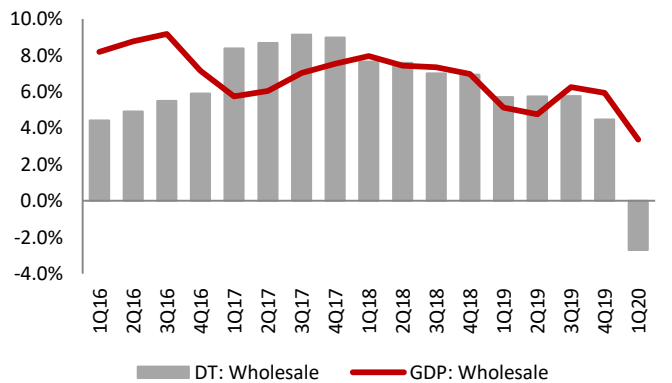
Source: CEIC; MIDFR

**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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