

ECONOMIC REVIEW | July 2019 Distributive Trade

Slim Moderation in Distributive Trade Growth Due to High Base Effect From Tax Holiday Period in 2018

- *Distributive trade hit another new record high. Distributive trade continue to hit new record high at RM 112.5b in July-19. Motor vehicles sales declined by -1.7%yoy but improved from a larger negative growth of -2.5%yoy in June-19. Retail trade continued expanding but at a slightly lower pace of 7.1%yoy (June-19: 7.7%yoy). The moderation could be attributed to the higher base effect resulted from June-August tax holiday period last year.*
- *Continuous positive sales in 3Q19. For 2Q19, distributive sales expanded at a slightly moderating pace of 6.1%yoy compared to 6.6%yoy in 1Q19. Moving forward, for the 3Q19, 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 forecast 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 25bsp rate cut by BNM could provide more support to the estimate.*

Distributive trade hit another new record high. Distributive trade continue to hit new record high at RM 112.5b in July-19. Motor vehicles sales declined by -1.7%yoy but improved from a larger negative growth of -2.5%yoy in June-19. Retail trade continued expanding but at a slightly lower pace of 7.1%yoy (June-19: 7.7%yoy). The moderation could be attributed to the higher base effect resulted from June-August tax holiday period last year which caused consumers to ramp up their spending. Motor vehicles and retail sales growth were the highest (double digit growth) during the tax holiday period compared to rest of the months of 2018. In contrast, wholesale trade which constitutes about 48% of total distributive trade advanced by 6.4%yoy in July-19, the fastest pace so far this year.

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

	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
Distributive Trade	109.3	108.9	103.5	109.4	105.4	110.8	112.3	112.5
YoY%	8.0	7.8	6.5	5.5	5.6	6.8	5.9	5.7
MoM%	2.9	(0.3)	(5.0)	5.8	(3.7)	5.1	1.4	0.2
Motor Vehicles	11.9	12.2	10.8	12.6	12.3	13.4	12.7	13.6
YoY%	(1.4)	4.8	2.3	2.6	2.2	9.1	(2.5)	(1.7)
MoM%	(3.2)	2.6	(11.7)	16.8	(2.0)	8.8	(5.4)	7.3
Wholesale Trade	52.7	52.9	50.2	53.2	51.2	53.3	53.6	52.4
YoY%	6.7	6.2	5.8	5.0	5.3	5.5	6.4	6.6
MoM%	3.3	0.2	(5.1)	6.1	(3.8)	4.2	0.6	(2.3)
Retail Trade	44.7	43.9	42.5	43.6	41.9	44.1	46.0	46.5
YoY%	12.4	10.6	8.5	6.9	7.0	7.8	7.7	7.1
MoM%	4.2	(1.8)	(3.0)	2.6	(4.0)	5.3	4.4	1.1

Source: CEIC; MIDFR

Moderating spending despite rebound in foreign activities. Exports growth grew by 1.7%yoy in July-19, reversing negative growth of -3.1%yoy registered in the previous month. Manufacturing exports which accounted for more than 80% of total exports rebounded by 3.8%yoy (June-19: -5%yoy). Hence, manufacturing sales advanced by 6%yoy (June-19: 5.3%yoy). In line with this, employment growth in the sector inched up to 1.3%yoy and wage growth rose to 3.4%yoy. Meanwhile, inflation rate which influence domestic demand recorded at 1.4%yoy during the month mainly due to the low base effect resulting from the removal of GST last year.

Continuous positive sales in 3Q19. For 2Q19, distributive sales expanded at a slightly moderating pace of 6.1%yoy compared to 6.6%yoy in 1Q19. Moving forward, for the 3Q19, 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, average passenger movement growth of 8.2%yoy in the first two months of 3Q19 (2Q19: 5.2%yoy) are likely to be translated into steady growth for retail sales in this quarter. Nevertheless, high base effect from tax holiday period last year could influence the estimate.

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

	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19
Distributive Trade Sales	8.4	7.3	8.0	9.4	8.3	6.6	6.1
Wholesale Sales	9.0	7.7	7.6	7.0	6.9	5.7	5.8
Wholesale Sales: Fee or Contract Basis	7.1	6.3	8.1	6.6	7.2	4.5	3.8
Wholesale Sales: Agri Raw Materials & Live Animals	10.3	8.4	1.6	(2.2)	(4.5)	3.7	5.4
Wholesale Sales: Food, Beverages & Tobacco	8.7	7.1	9.4	9.8	7.6	5.5	6.8
Wholesale Sales: Household Goods	5.2	6.8	8.2	8.6	8.4	6.4	6.1
Wholesale Sales: Machinery, Equipment & Supplies	7.2	6.3	5.5	2.1	2.3	1.9	2.1
Wholesale Sales: Others Specialised	11.6	8.9	8.4	8.2	9.4	6.8	6.3
Wholesale Sales: Non-Specialised	2.8	2.9	4.5	5.9	8.1	4.8	2.1
Retail Sales	10.4	9.2	9.8	12.9	12.1	8.6	7.5
Retail Sales: Non-Specialised Stores	11.2	10.0	11.1	15.1	14.9	10.4	8.6
Retail Sales: Food, Beverages & Tobacco	10.6	9.7	11.3	10.7	10.1	8.7	9.2
Retail Sales: Automotive Fuel	13.2	11.0	11.9	12.9	8.6	5.6	3.8
Retail Sales: Information & Communication Equip	5.5	4.7	4.2	6.7	6.8	5.0	4.4
Retail Sales: Household Equip	8.9	8.0	9.0	11.7	10.1	7.0	6.8
Retail Sales: Cultural & Recreation Goods	10.3	9.6	10.2	11.8	10.9	9.5	8.1
Retail Sales: Others in Specialised Store	11.9	10.4	10.0	14.5	14.2	9.9	8.8
Retail Sales: Stalls & Markets	9.7	7.4	5.0	5.9	7.7	8.3	8.9
Retail Sales: Not in Stores, Stalls & Markets	8.4	6.1	5.4	9.5	10.5	7.4	4.6
Motor Vehicles Sales	0.2	(0.2)	4.3	7.5	1.2	3.2	2.9
Motor Vehicles Sales: Motor Vehicle	(4.3)	(3.9)	3.5	7.7	(1.2)	1.9	1.5
Motor Vehicles Sales: Motor Vehicle Maint. & Repair	7.1	6.7	7.8	8.0	2.6	4.9	5.1
Motor Vehicles Sales: Motor Vehicle Parts & Accessories	6.2	4.2	4.4	7.5	4.6	4.3	4.5
Motor Vehicles Sales: Motorcycles Maint. & Repair, Parts & Acc.	4.7	2.1	4.9	5.2	4.8	5.8	3.9

Source: CEIC; MIDFR

Mixed performances globally. Some key countries recorded improvement in retail sales while others vice-versa. Retail sales growth in China moderated to three-month low of 7.6%yoy in July-19 as sales slowed for home appliances and building materials. In addition, sales dropped for automobiles and oil products. In contrast, Japan's retail sales fell by -2%yoy, the worst drop in almost four years. Retail sales in the country are expected to remain weak moving forward especially from Oct-19 onwards as Japan will complete a two-stage doubling of its consumption tax rate to 10% in that month. The first part of the rise was enacted in Apr-14 from 5% to latest's 8%. Meanwhile, the US retail sales growth inched up to a three-month high of 3.4%yoy. Among ASEAN countries, retail sales in Indonesia rebounded by 2.4%yoy from one-and-a-half year low of -1.8%yoy recorded in Jun-19. Vietnam also recorded better growth compared to previous month.

Table 3: Global Retail Sales (YoY%)

	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
Malaysia	10.6	8.5	6.9	7.0	7.8	7.7	7.1
Indonesia	7.2	9.1	10.1	6.7	7.7	(1.8)	2.4
Singapore	7.6	(9.7)	(0.8)	(1.9)	(2.0)	(8.9)	
Thailand	9.7	7.7	9.2	13.5	9.8	8.0	
Vietnam	14.0	11.5	13.5	13.3	12.4	11.7	12.0
Japan	0.6	0.6	1.0	0.4	1.3	0.5	(2.0)
China	-	-	8.7	7.2	8.6	9.8	7.6
EU	3.1	4.1	4.1	3.8	2.2	3.3	3.3
US	2.6	1.9	3.8	3.8	3.0	3.3	3.4

Source: CEIC; MIDFR


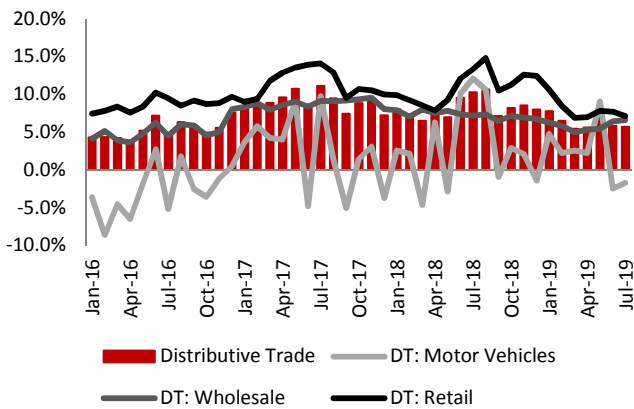
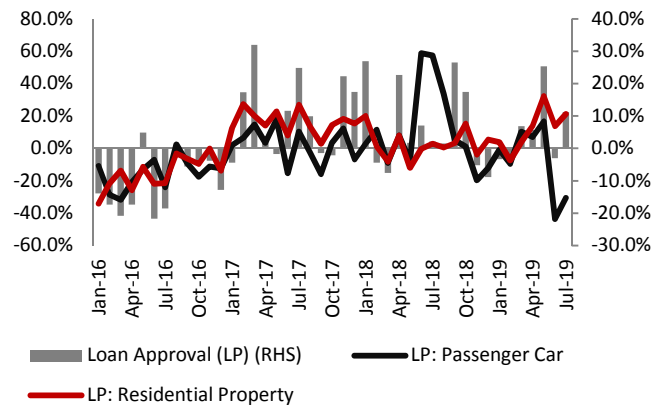
We maintain our forecast for private consumption & services sector at 7.5% & 6.5% respectively in 2019. Encouraging trend of distributive sales in 2018 is expected to continue in 2019 supported by economic conditions such as stable labor market, low inflationary pressure and upbeat tourism activities.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

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



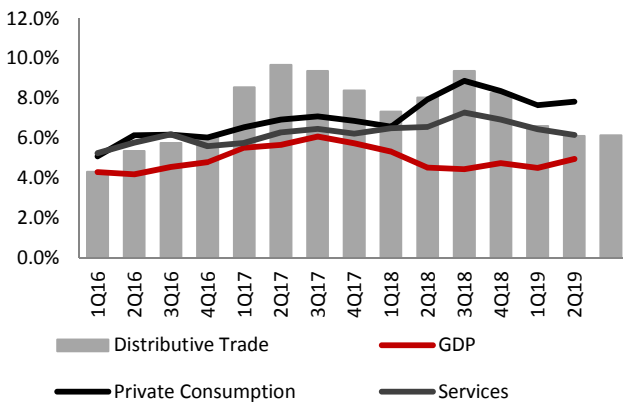
Source: CEIC; MIDFR

Chart 2: Loan Approval (YoY%)



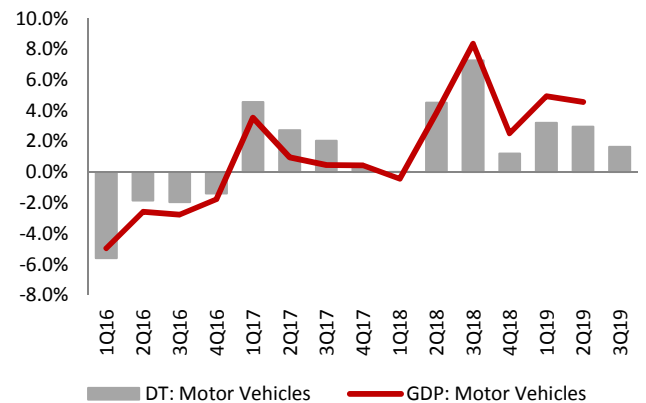
Source: CEIC; MAHB; MIDFR

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



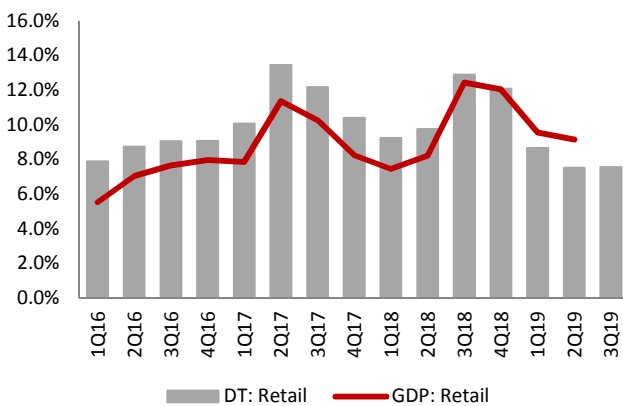
Source: CEIC; MIDFR

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



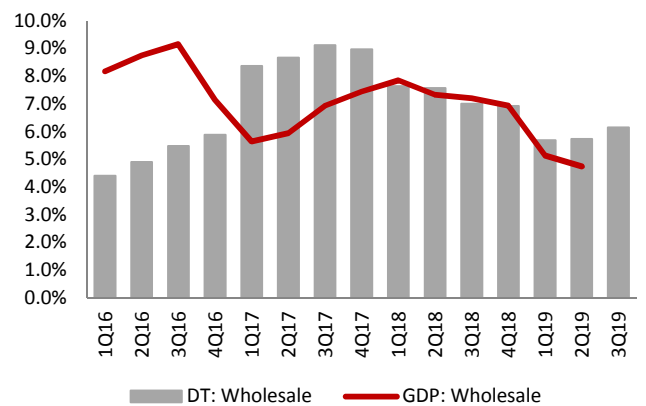
Source: CEIC; MIDFR

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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