

## ECONOMIC REVIEW | October 2019 Distributive Trade

### Weakening Distributive Trade Growth Signals the Need for a Support Measures

- Retail trade growth rate at multi year low. Distributive trade increased by 5%yoy in Oct-19 but at the slowest pace since Oct-16 due to softer growth in all major components. Wholesale trade, the biggest contributor to the total distributive sales registered three-and-a-half year low growth of 3.9%yoy. Similarly, retail trade growth fell back to below 7%yoy, the lowest yoy expansion since Oct-15 while motor vehicle sales increased at a moderating pace of 3.7%yoy.*
- 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 anticipate continuous moderation for private consumption and services sector in 2020. Encouraging trend of distributive sales in 2019 is expected to continue in 2020. However, expectation on rising inflationary pressure and slightly easing employment on top of currency risk could stifle domestic demand.*

**Retail trade growth rate at multi year low.** Distributive trade increased by 5%yoy in Oct-19 but at the slowest pace since Oct-16 due to softer growth in all major components. Wholesale trade, the biggest contributor to the total distributive sales registered three-and-a-half year low growth of 3.9%yoy. Similarly, retail trade growth fell back to below 7%yoy, the lowest yoy expansion since Oct-15 while motor vehicle sales increased at a moderating pace of 3.7%yoy. The easing pattern of distributive trade being observed since Jun-19, provide an early evidence on weakening domestic demand. The moderation in the period of Jun-19 to Aug-19 could be attributed to the high base effect from tax holiday period last year. However, the latest two months figures continued the moderating trend gradually.

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

	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
<b>Distributive Trade</b>	<b>109.4</b>	<b>105.4</b>	<b>110.8</b>	<b>112.3</b>	<b>112.5</b>	<b>114.1</b>	<b>110.6</b>	<b>111.3</b>
YoY%	5.5	5.6	6.8	5.9	5.7	5.8	5.6	5.0
MoM%	5.8	(3.7)	5.1	1.4	0.2	1.4	(3.0)	0.6
<b>Motor Vehicles</b>	<b>12.6</b>	<b>12.3</b>	<b>13.4</b>	<b>12.7</b>	<b>13.6</b>	<b>13.6</b>	<b>11.7</b>	<b>12.6</b>
YoY%	2.6	2.2	9.1	(2.5)	(1.7)	1.1	4.4	3.7
MoM%	16.8	(2.0)	8.8	(5.4)	7.3	(0.1)	(14.4)	8.0
<b>Wholesale Trade</b>	<b>53.2</b>	<b>51.2</b>	<b>53.3</b>	<b>53.6</b>	<b>52.4</b>	<b>54.0</b>	<b>54.8</b>	<b>53.9</b>
YoY%	5.0	5.3	5.5	6.4	6.6	6.0	4.7	3.9
MoM%	6.1	(3.8)	4.2	0.6	(2.3)	3.0	1.6	(1.7)
<b>Retail Trade</b>	<b>43.6</b>	<b>41.9</b>	<b>44.1</b>	<b>46.0</b>	<b>46.5</b>	<b>46.5</b>	<b>44.1</b>	<b>44.8</b>
YoY%	6.9	7.0	7.8	7.7	7.1	6.9	7.2	6.8
MoM%	2.6	(4.0)	5.3	4.4	1.1	(0.1)	(5.0)	1.6

Source: CEIC; MIDFR

**Flimsy exports affect spending despite low inflation.** In Oct-19, export contraction registered at -6.7%yoy, unchanged from previous month's lowest rate in near 3 years. The third 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 -4.5%yoy. In tandem, manufacturing sales registered near 3-year low growth in the same month. Weak export and sales mean low business and that would affect growth of employment and wage in the sector which deteriorate consumer sentiment. Eventually, it curb spending. Nevertheless, inflation rate which also influence domestic demand maintained 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 on top of upbeat tourism activities could influence the estimate.

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

	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19
<b>Distributive Trade Sales</b>	7.3	8.0	9.4	8.3	6.6	6.1	5.7
<b>Wholesale Sales</b>	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
<b>Retail Sales</b>	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
<b>Motor Vehicles Sales</b>	(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 log biggest drop in 4 years after tax hike.** Japan's retail sales growth collapsed to -7.1%yoy in Oct-19 from a towering growth of 9.2%yoy in the previous month. This was the first contraction in 3 months since the growth rebounded in Aug-19 and the highest decline in sales since Apr-15, mostly dragged by the big ticket items. This was heavily caused by the sales tax hike. However, there was less sign of domino effect from the falling retail sales, as consumer confidence rebounded and the inflation rate stayed constant. Besides that, most of other key economies such as the US and China logged sales moderation in Oct-19. The duo's retail sales had been trending downward in the recent months. In contrast, Indonesia recorded higher growth in retail sales during the month, mainly driven by increased sales of food and auto parts. Ongoing global expansionary monetary policy practices would be supportive to consumption moving forward.

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

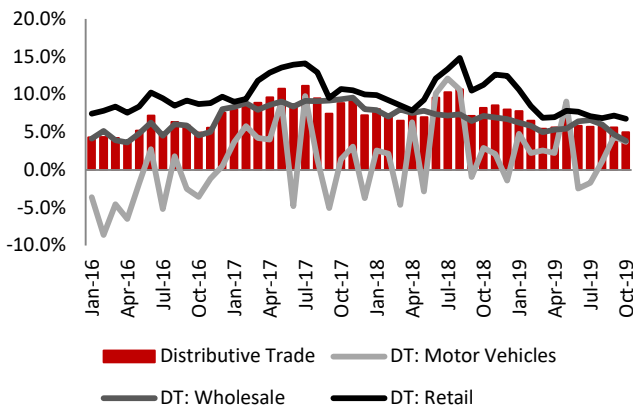
	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
Malaysia	7.0	7.8	7.7	7.1	6.9	7.2	6.8
Indonesia	6.7	7.7	(1.8)	2.4	1.1	0.7	3.6
Singapore	(1.7)	(2.0)	(8.9)	(1.5)	(4.0)	(2.2)	(4.3)
Thailand	13.5	10.0	6.9	0.3	(3.8)	(0.0)	
Vietnam	13.3	12.4	11.7	12.0	11.7	12.2	10.9
Japan	0.4	1.3	0.5	(2.0)	1.8	9.2	(7.1)
China	7.2	8.6	9.8	7.6	7.5	7.8	7.2
EU	3.8	2.3	3.4	3.4	3.2	3.0	2.2
US	3.8	3.0	3.3	3.5	4.4	4.1	3.1

Source: CEIC; MIDFR

**We anticipate continuous moderation for private consumption and services sector in 2020.**

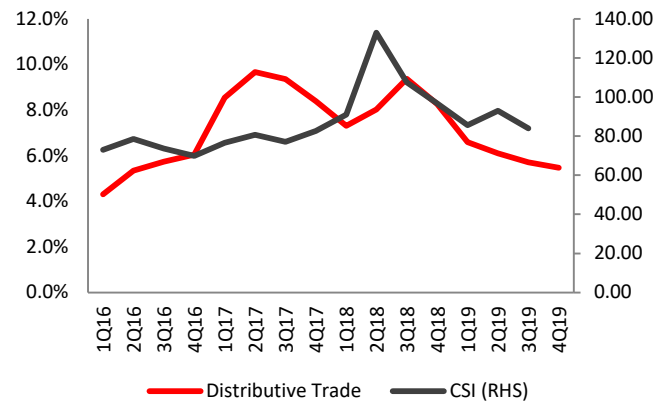
Encouraging trend of distributive sales in 2019 is expected to continue in 2020. However, expectation on rising inflationary pressure and slightly easing employment on top of currency risk could stifle domestic demand. Hence, we foresee private consumption and services sector to grow at a slightly softer pace of 6.5%yoy and 5.8%yoy (7.5%yoy and 6.1%yoy estimated in 2019) respectively in 2020. 

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



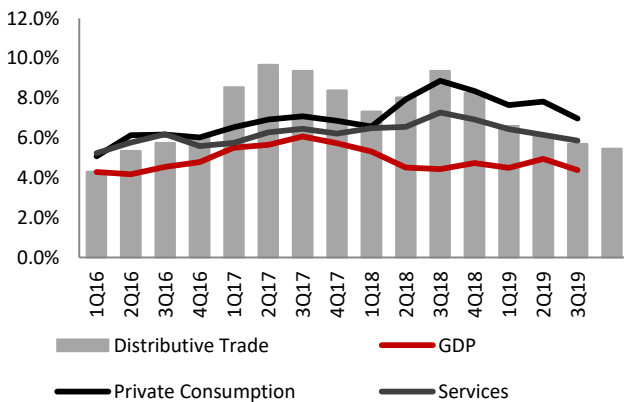
Source: CEIC; MIDFR

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



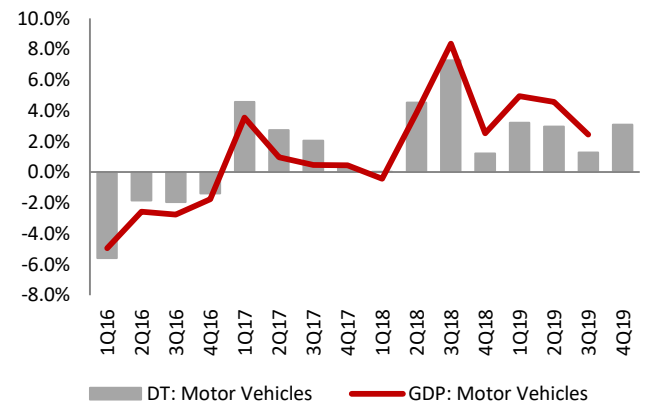
Source: CEIC; MAHB; MIDFR

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



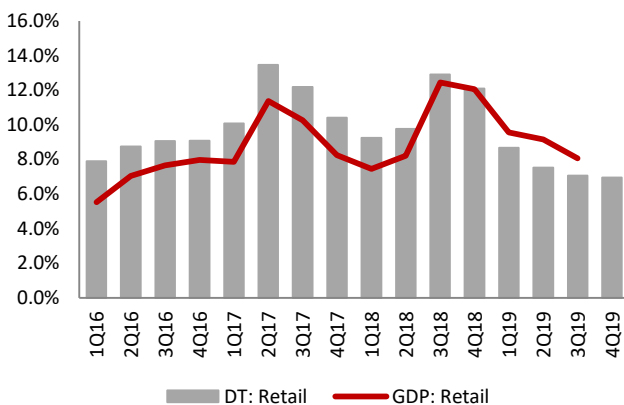
Source: CEIC; MIDFR

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



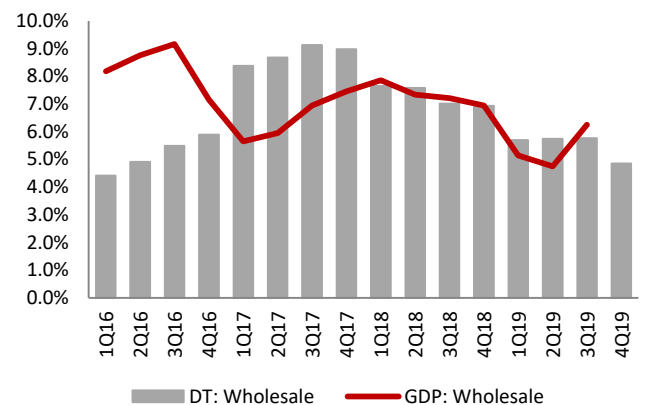
Source: CEIC; MIDFR

**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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