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ECONOMIC REVIEW | June 2022 Distributive Trade

Expecting Stronger GDP Growth Amid Robust Domestic Spending in 2QCY22

- *Distributive trade sales surged to more than +40%yoy. Malaysia's distributive trade sales expanded by +44.0%yoy in Jun-22, fastest pace in 14-month. By component, retail spending expanded strongly by +38.4%yoy, wholesale trade up by +19.3%yoy and motor vehicles sales skyrocketed. The high growth rates are widely expected due to low-base effects as Malaysia faced another tight nationwide lockdown in Jun-21. We expect the low-base effects will continue to be seen in Jul-22 until Sep-22.*
- *As for 2QCY22, distributive trade sales grew by +26.3%yoy (1QCY22: +8.6%yoy), indicating stronger GDP growth in the second quarter. Most notably, domestic demand continued to stay on an uptrend among others contributed by improving labour market, stable inflationary pressure, further reviving of domestic economy including international borders reopening and special EPF withdrawals in Apr-22.*
- *We upgrade our retail trade forecast to 17.6% for 2022. Malaysia's consumer spending is expanding strongly as reflected in retail trade sales growth of +19.1%yoy in 1HCY22. Looking at the macro outlook and improving fundamentals, we raise our retail trade forecast from +10.5% to +17.6% for this year.*

Distributive trade sales surged to more than +40%yoy. Malaysia's distributive trade sales expanded by +44.0%yoy in Jun-22, fastest pace in 14-month. By component, retail spending expanded strongly by +38.4%yoy, wholesale trade up by +19.3%yoy and motor vehicles sales skyrocketed. The high growth rates are widely expected due to low-base effects as Malaysia faced another tight nationwide lockdown in Jun-21. We expect the low-base effects will continue to be seen in Jul-22 until Sep-22. However, the domestic spending trend remained firm as sequential month continued to record positive growth, +2.5%mom for overall trade. As for 2QCY22, distributive trade sales grew by +26.3%yoy (1QCY22: +8.6%yoy), indicating stronger GDP growth in the second quarter. Most notably, domestic demand continued to stay on an uptrend among others contributed by improving labour market, stable inflationary pressure, further reviving of domestic economy including international borders reopening and special EPF withdrawals in Apr-22. Looking ahead, we opine the upbeat momentum of domestic demand to continue in 2HCY22 particularly driven by stable overall price growth and lower unemployment rate.

International passenger traffic keep on increasing. Sequential month growth rate of international passenger traffic remained on double digit rate since Mar-22. In Jun-22, the passenger traffic rose by +25.2%mom with Asean and non-Asean rose by +31.1%mom and +16.5%mom respectively. However, total passenger traffic dipped slightly by -0.7%mom as domestic passenger declined by -8.3%mom. Pre-pandemic, 50.7% of Malaysia's airports passenger traffic contributed by international travel, 25.0% by Asean and 25.7% by non-Asean destination. As of Jun-22, domestic destinations continued to dominate at 71.5% (2021: 81.5%) while international at 28.5% (2021: 18.4%) whereby 10.9% were non-Asean and 17.6% Asean. The recovery towards 2019-level is still a long journey despite the international borders reopening by Malaysia. Some of major countries

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such as China and Japan continue to limit international passenger movements. Moving forward, we expect airports passenger movement to stay on gradual recovery mode in 2HCY22 particularly driven by further improvement in domestic flights and slight uptick in international arrivals. Our house view is that the earliest for passenger traffic to reach 2019's level only by 2024.

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

	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
Distributive Trade	**120.6**	**120.2**	**117.2**	**123.8**	**128.0**	**129.5**	**132.8**
YoY%	3.6	7.5	8.5	9.8	15.2	19.6	44.0
MoM%	2.6	(0.4)	(2.5)	5.6	3.4	1.2	2.5
Motor Vehicles	**14.6**	**12.6**	**12.5**	**16.7**	**15.4**	**13.9**	**16.1**
YoY%	2.2	17.0	12.5	11.1	11.3	20.1	1,642.8
MoM%	8.9	(13.3)	(0.7)	32.9	(7.7)	(9.6)	15.8
Wholesale Trade	**57.6**	**58.6**	**55.9**	**57.2**	**59.0**	**59.6**	**60.5**
YoY%	4.1	5.7	6.2	8.6	11.5	11.7	19.3
MoM%	2.2	1.7	(4.7)	2.5	3.1	0.9	1.6
Retail Trade	**48.5**	**49.0**	**48.8**	**49.9**	**53.6**	**56.0**	**56.2**
YoY%	3.5	7.3	10.2	10.8	20.9	29.2	38.4
MoM%	1.3	1.0	(0.4)	2.2	7.4	4.6	0.2

Source: CEIC; MIDFR
Note: MoM is non-seasonally adjusted figures

Maximising SST exemption on motor vehicles. As SST exemption ended in Jun-22, we saw solid increase in motor vehicles sales, +28.6%mom. Other sub-components namely parts & accessories, maintenance & repair and motorcycles maintenance & repair registered positive month-on-month increase. Retail and Wholesale trade maintained recording positive MoM% for 4-consecutive month despite of inflation risk concern.

Table 2: Distributive Trade's Detailed Components Performance

	Share % Total DT		MoM%		YoY%	
	Jun-21	Jun-22	May-22	Jun-22	May-22	Jun-22
Wholesale Sales (WS)	**55.0**	**45.6**	**0.9**	**1.6**	**11.7**	**19.3**
WS: Fee or Contract Basis	0.8	0.8	1.1	(0.3)	12.0	43.4
WS: Agri Raw Meterials & Live Animals	5.0	3.9	4.0	(3.1)	17.7	13.6
WS: Food, Beverages & Tabacco	11.2	8.5	(0.2)	1.0	7.4	9.4
WS: Household Goods	10.1	9.3	(1.5)	3.6	22.1	32.6
WS: Machinery, Equipment & Supplies	4.4	3.7	2.0	3.7	10.1	22.9
WS: Others Specialised	21.9	18.1	1.8	1.7	8.8	18.7
WS: Non-Specialised	1.6	1.2	0.2	0.8	3.8	9.7
Retail Sales (RS)	**44.0**	**42.3**	**4.6**	**0.2**	**29.2**	**38.4**
RS: Non-Specialised Stores	16.1	15.4	4.4	(1.1)	36.3	38.4
RS: Food, Beverages & Tobacco	3.0	2.5	2.7	(0.6)	19.5	21.5
RS: Automotive Fuel	2.7	3.9	10.1	(0.4)	54.6	107.0
RS: Information & Communication Equip	4.6	3.8	2.9	(2.4)	6.1	17.2

	Share % Total DT		MoM%		YoY%	
	Jun-21	Jun-22	May-22	Jun-22	May-22	Jun-22
RS: Household Equip	5.9	5.3	3.1	(0.3)	21.3	28.5
RS: Cultural & Recreation Goods	2.3	2.0	1.3	1.0	20.1	27.0
RS: Others in Specialised Store	8.8	8.8	5.6	4.6	30.8	44.3
RS: Stalls & Markets	0.2	0.1	5.1	1.5	24.0	26.9
RS: Not in Stores, Stalls & Markets	0.5	0.5	5.4	0.8	27.0	30.9
Motor Vehicles Sales (MVS)	**1.0**	**12.1**	**(9.6)**	**15.8**	**20.1**	**1,642.8**
MVS: Motor Vehicle	0.4	6.7	(16.7)	28.6	9.3	2,430.2
MVS: Motor Vehicle Maint. & Repair	0.2	1.5	0.8	2.6	37.4	1,211.2
MVS: Motor Vehicle Parts & Accessories	0.4	2.9	0.6	1.5	34.3	1,026.2
MVS: Motorcycles Maint. & Repair, Parts & Acc.	0.1	1.0	(9.5)	9.6	23.2	1,693.8

Source: CEIC; MIDFR

Mixed reactions by global retail sales. Despite of monetary policy tightening and inflationary pressure, retail sales growth in the US grew by +8.4%yoy in Jun-22, fastest pace in 4-month. China saw the return to positive growth in retail spending amid easing of containment measures in some key cities. Euro Area and South Korea saw contraction in retail trade amongst others due to inflationary pressure. Domestic spending in Euro Area is expected to see modest trend especially after ECB tightened its monetary policy by 50bps in Jul-22, the first rate hike in more than a decade. Looking ahead, we expect inflationary pressure to ease off slightly as there are signs of correction in global commdotiy prices.

Table 3: Global Retail Sales (YoY%)

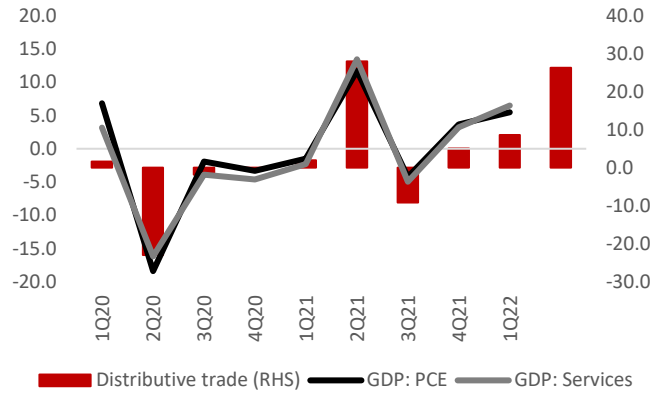
	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
Malaysia	3.5	7.3	10.2	10.8	20.9	29.9	
Indonesia	13.8	15.2	12.9	9.3	8.5	2.9	4.1
Singapore	6.7	12.0	(3.5)	8.8	12.1	17.8	14.8
Thailand	12.2	13.1	7.8	3.9	10.9	13.1	
Vietnam	1.1	1.3	3.1	9.4	12.1	22.6	27.3
Taiwan	3.7	6.3	0.2	5.5	4.7	2.7	22.5
South Korea	6.8	4.7	1.6	2.1	0.4	0.7	(1.5)
China	1.7	0.0	6.7	(3.5)	(11.1)	(6.7)	3.1
Japan	1.2	1.1	(0.9)	0.7	3.1	3.7	1.5
Euro area	2.4	8.5	5.1	1.9	4.2	0.4	(3.7)
US	16.8	13.8	17.7	7.1	7.8	8.2	8.4

Source: CEIC; MIDFR

We upgrade our retail trade forecast to 17.6% for 2022. Malaysia's consumer spending is expanding strongly as reflected in retail trade sales growth of +19.1%yoy in 1HCY22. Looking at the macro outlook and improving fundamentals, we raise our retail trade forecast from +10.5% to +17.6% for this year. We believe the pent-up demand will continue until end of this year underpin by improving labour market, stable inflationary pressure and domestic economy reopenning. Even though OPR is on the upward trajectory, we believe it would

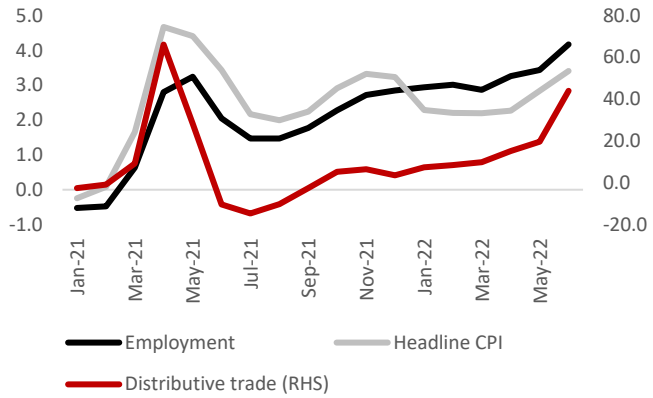
have minimal effect on domestic spending. OPR is set to reach 2.50~2.75% by end of this year, still below 2019's level of 3.00%. We believe Malaysia's monetary policy is on normalisation process rather than tightening path, possibly to reach the 3.00% by middle of next year.

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



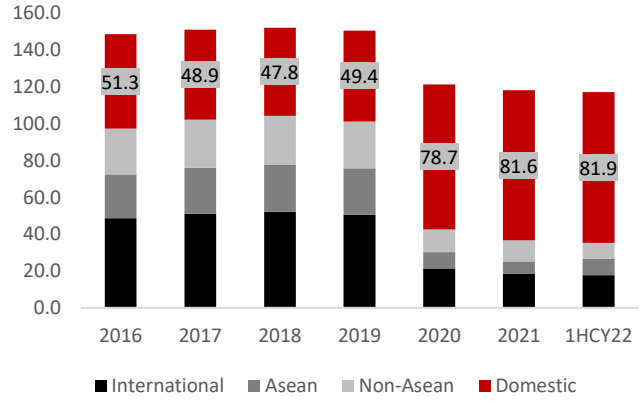
Source: CEIC; MIDFR

Chart 2: DT vs. CPI vs. Employment (YoY%)



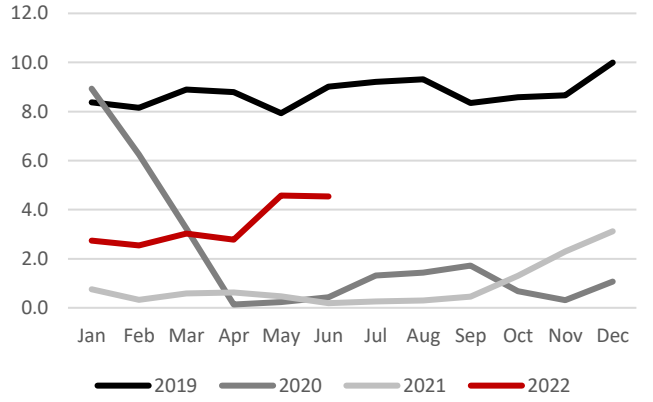
Source: CEIC; MIDFR

Chart 3: Composition of Airports Passenger Movements (Share %)



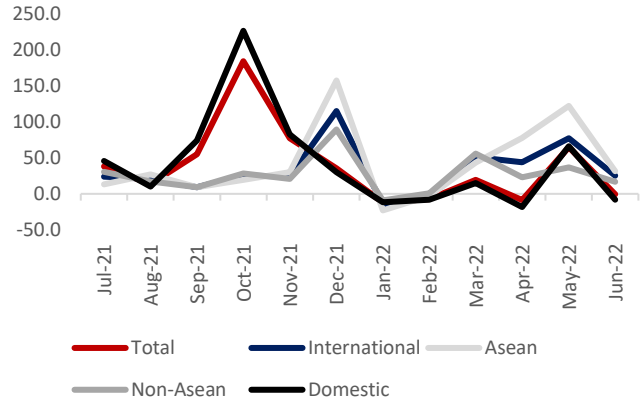
Source: CEIC; MIDFR

Chart 4: Airports Passenger Movements (Million Persons)



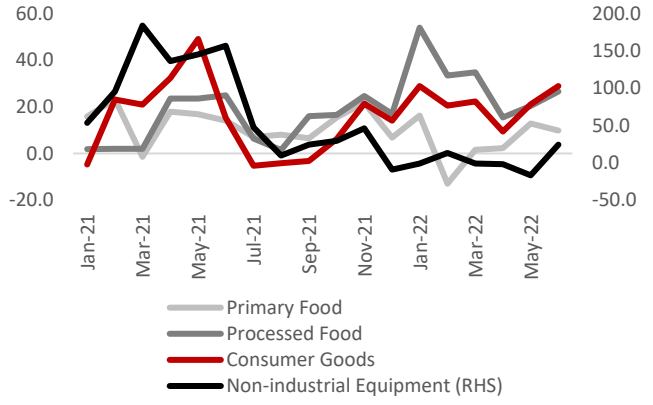
Source: CEIC; MIDFR

Chart 5: Airports Passenger Movements (MoM%)



Source: CEIC; MIDFR

Chart 6: Components of imported consumption goods (YoY%)



Source: CEIC; MIDFR

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