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ECONOMIC REVIEW | August 2022 Distributive Trade

Strong Distributive Trade Sales Hinted Robust 3QCY22 GDP Growth Ahead

- *Retail spending remained on upward trajectory. Malaysia's distributive trade sales growth continued on double-digit expansion rate for 4-consecutive months, +41.0%yoy in Jul-22. By component, retail spending expanded strongly by +37.5%yoy, wholesale trade up by +20.6%yoy and motor vehicles sales by +613.8%yoy. The high growth rates were widely expected due to low-base effects as Malaysia faced another tight nationwide lockdown in Jul-21.*
- *International passenger movements continued on increasing trend. Sequential month growth rate of international passenger traffic remained on double digit rate since Mar-22. 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 Jul-22, domestic destinations continued to dominate at 66.6% (2021: 81.5%) while international at 34.0% (2021: 18.4%) whereby 13.0% were non-Asean and 21.0% Asean.*
- *We forecast retail trade growth at 17.6% for 2022. Malaysia's consumer spending is expanding strongly as reflected in retail trade sales growth of +21.6%yoy in 7MCY22. Looking at the macro outlook and improving fundamentals, we project retail trade growth 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.*

Robust domestic spending continues. Malaysia's distributive trade sales growth continued on double-digit expansion rate for 5-consecutive months, +33.7%yoy in Aug-22. By component, retail spending expanded strongly by +34.5%yoy, wholesale trade up by +16.0%yoy and motor vehicles sales by +185.3%yoy. The high growth rates were widely expected due to low-base effects as Malaysia faced another tight nationwide lockdown in Jul-21 until Sep-21. However, domestic spending particularly retail trade remained in strong momentum as sequential month continued to record positive growth, +0.7%mom. Robust domestic spending among others were driven by stable inflationary pressure, improving labour market and accommodative monetary as well as fiscal policies. Looking ahead, we opine the upbeat momentum of domestic demand to continue in 3QCY22 amid strong economic fundamentals and low-base effects.

International passenger movements remained uptrend. Sequential month growth rate of international passenger traffic continued since Mar-22. In Aug-22, the passenger traffic rose by +7.1%mom, thanks to both Asean and non-Asean tourists. Total passenger traffic grew marginally by +0.6%mom despite of contraction in domestic passenger by -2.7%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 Aug-22, domestic destinations shares skid to 63.8% (2021: 81.5%) while international at 36.2% (2021: 18.4%) whereby 14.0% were non-Asean and 22.2% Asean. 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. In addition, we expect better pick-up in Oct-22 onwards especially with the reopening of Japanese

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borders. The recovery towards 2019-level is still a long journey despite the international borders reopening by Malaysia. Borders of China still closed, among the challenging factor. 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)

	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
Distributive Trade	**117.1**	**123.8**	**128.0**	**129.5**	**132.8**	**130.4**	**133.7**
YoY%	8.4	9.8	15.2	19.6	44.0	40.7	33.7
MoM%	(2.6)	5.7	3.4	1.2	2.5	(1.8)	2.6
Motor Vehicles	**12.5**	**16.7**	**15.4**	**13.9**	**16.1**	**14.1**	**16.6**
YoY%	11.6	11.1	11.3	20.1	1,642.8	597.7	185.3
MoM%	(1.4)	33.9	(7.7)	(9.6)	15.8	(12.5)	17.8
Wholesale Trade	**55.9**	**57.2**	**59.0**	**59.6**	**60.5**	**59.7**	**60.1**
YoY%	6.2	8.6	11.5	11.7	19.3	20.6	16.0
MoM%	(4.7)	2.5	3.1	0.9	1.6	(1.4)	0.7
Retail Trade	**48.8**	**49.9**	**53.6**	**56.0**	**56.2**	**56.6**	**57.0**
YoY%	10.2	10.8	20.9	29.2	38.4	37.5	34.5
MoM%	(0.4)	2.2	7.4	4.6	0.2	0.8	0.7

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

Motor vehicles shares returned to pre-pandemic levels. 12.4% of distributive trade sales contributed by motor vehicle purchases in Aug-22, more than double the rate recorded in the same month of last year. Pre-pandemic levels for average motor vehicle sales share is 11.5%. In general, Malaysia's consumer spending remained solid as reflected in the positive month-on-month growth in retail trade sales. Only sales of household equipment and automotive fuel saw trivial contraction during the month. We opine the strong economic fundamentals especially declining jobless rate and stable inflation rate will continue to support Malaysia's consumer spending in 2HCY22 and 2023.

Table 2: Distributive Trade's Detailed Components Performance

	Share % Total DT		MoM%		YoY%	
	Aug-21	Aug-22	Jul-22	Aug-22	Jul-22	Aug-22
Wholesale Sales (WS)	**51.8**	**45.0**	**(1.4)**	**0.7**	**20.6**	**16.0**
WS: Fee or Contract Basis	0.8	0.7	(5.1)	1.2	32.5	23.9
WS: Agri Raw Meterials & Live Animals	4.7	4.0	4.5	(2.7)	17.8	12.7
WS: Food, Beverages & Tabacco	10.7	8.5	(0.5)	0.8	7.2	5.9
WS: Household Goods	9.7	9.3	0.6	(0.4)	35.0	27.9
WS: Machinery, Equipment & Supplies	4.3	3.7	(4.4)	3.5	20.0	14.5
WS: Others Specialised	20.2	17.6	(3.3)	1.4	22.0	16.8
WS: Non-Specialised	1.5	1.2	(0.4)	2.4	10.8	9.9
Retail Sales (RS)	**42.3**	**42.6**	**0.8**	**0.7**	**37.5**	**34.5**
RS: Non-Specialised Stores	15.4	15.7	1.5	1.1	39.1	37.1

	Share % Total DT		MoM%		YoY%	
	Aug-21	Aug-22	Jul-22	Aug-22	Jul-22	Aug-22
RS: Food, Beverages & Tobacco	2.8	2.5	0.4	0.3	20.5	18.1
RS: Automotive Fuel	3.4	3.9	1.8	(1.0)	73.7	54.0
RS: Information & Communication Equip	4.3	3.8	1.1	1.3	17.5	17.5
RS: Household Equip	5.5	5.2	(0.6)	(0.3)	28.8	27.9
RS: Cultural & Recreation Goods	2.2	2.0	0.7	0.4	26.3	18.7
RS: Others in Specialised Store	8.1	8.8	(0.2)	1.3	47.1	45.7
RS: Stalls & Markets	0.2	0.1	0.4	0.2	26.6	23.5
RS: Not in Stores, Stalls & Markets	0.5	0.5	1.0	0.7	30.5	28.7
Motor Vehicles Sales (MVS)	**5.8**	**12.4**	**(12.5)**	**17.8**	**597.7**	**185.3**
MVS: Motor Vehicle	3.1	7.1	(21.2)	35.7	431.5	206.3
MVS: Motor Vehicle Maint. & Repair	0.9	1.5	1.7	(1.0)	1,062.3	134.2
MVS: Motor Vehicle Parts & Accessories	1.7	2.9	1.2	(1.2)	911.6	135.2
MVS: Motorcycles Maint. & Repair, Parts & Acc.	0.2	0.9	(15.8)	7.7	692.9	471.2

Source: DOSM; MIDFR

Inflationary pressure bite consumer spending in Euro Area. Inflation is biting consumer spending as reflected in Euro Area which recorded contraction rate for three-consecutive months. With the recent decision by the OPEC+, prolong elevated energy prices will add more salt on wound in the region. On a flip side, retail spending in the US remained strong ignoring inflation risk and tightening monetary policy by the Fed. Hence, this will lead the central bank to further tighten its policy rate in the upcoming meetings. China's retail trade activity stayed on uptick trend amid easing in containment measures and supportive monetary policy. In Asean, retail spending continued to stay robust with Singapore and Vietnam expanded by double-digit rate while Indonesia is expected to record slower consumer spending growth particularly dragged by higher domestic retail fuel prices starting in Sep-22. Even though global jobless rate on downward trends, risks stemming from inflation and tightening monetary policy in many economies would weigh down global economic activities in the medium term.

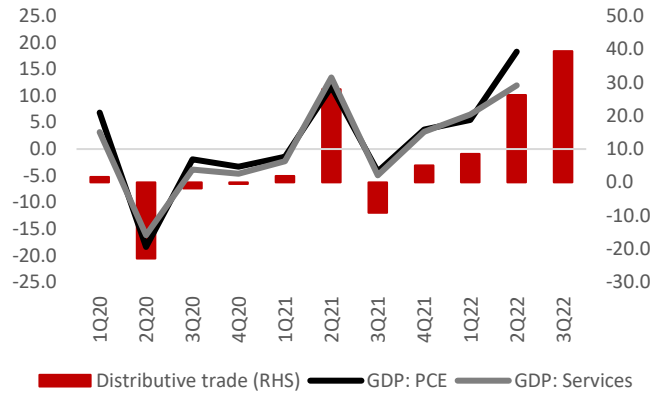
Table 3: Global Retail Sales (YoY%)

	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
Malaysia	10.2	10.8	20.9	29.2	38.4	37.5	34.5
Indonesia	12.9	9.3	8.5	2.9	4.1	6.2	4.9
Singapore	(3.5)	8.8	12.1	17.8	14.9	13.9	13.0
Thailand	7.9	3.9	11.0	13.4	12.1	17.6	
Vietnam	3.1	9.4	12.1	22.6	27.3	42.6	50.2
Taiwan	0.2	5.5	4.7	3.6	22.5	18.1	12.0
South Korea	1.6	2.1	0.4	0.7	(1.5)	(1.9)	2.3
China	6.7	(3.5)	(11.1)	(6.7)	3.1	2.7	5.4
Japan	(0.9)	0.7	3.1	3.7	1.5	2.4	4.1
Euro area	5.1	1.8	4.4	0.7	(3.0)	(1.2)	(2.0)
US	17.7	7.1	7.8	8.7	8.8	10.1	9.2

Source: MACROBOND; MIDFR

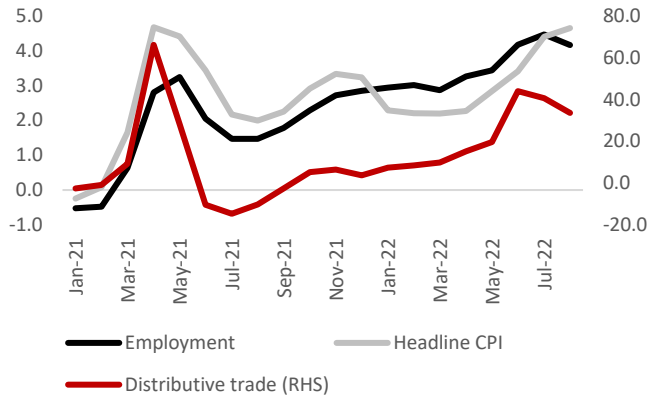
We keep retail trade growth forecast at +17.6% for 2022. Malaysia's consumer spending is expanding strongly as reflected in retail trade sales growth of +21.3%yoy in 8MCY22. Looking at the macro outlook and improving fundamentals, we project retail trade growth to +17.6% for this year. We believe the 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 2.75% 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 early of 2023.

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



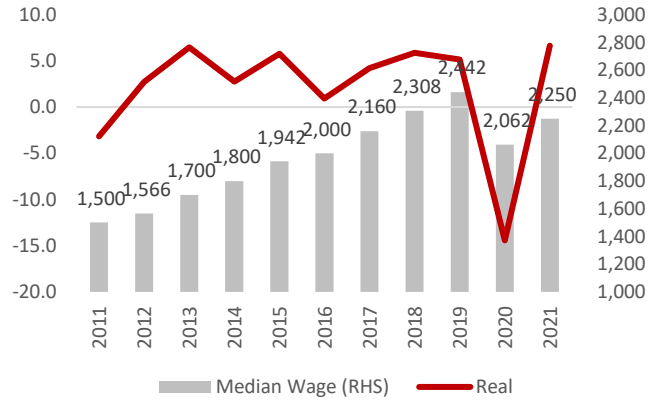
Source: DOSM; MIDFR

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



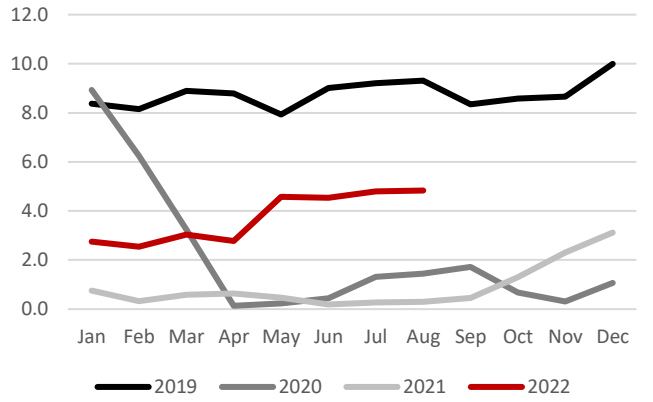
Source: DOSM; MIDFR

Chart 3: Median Wage (RM per month) vs. Real Wage Growth (YoY%)



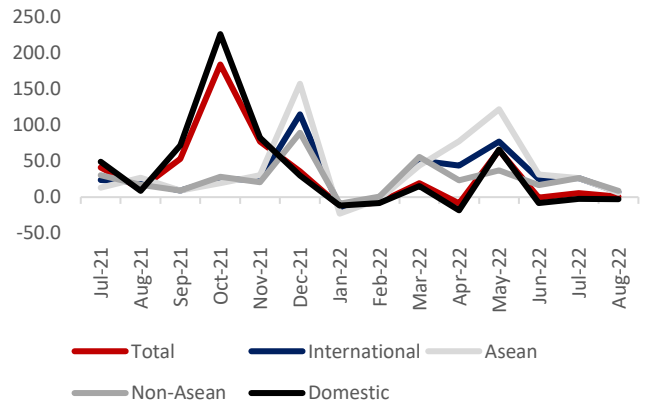
Source: DOSM; MIDFR

Chart 4: Airports Passenger Movements (Million Persons)



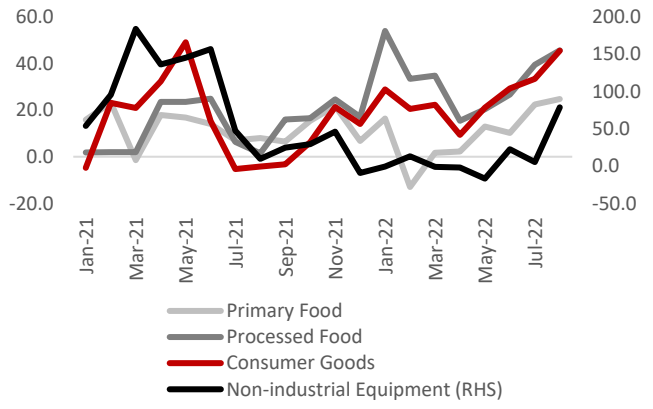
Source: MAHB; MIDFR

Chart 5: Airports Passenger Movements (MoM%)



Source: MAHB; MIDFR

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



Source: DOSM; MIDFR

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