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ECONOMIC REVIEW | October 2022 Distributive Trade

Retail Trade Remains Resilient Despite Inflation Concerns

- *Distributive trade sales growth softened to 5-month low. Malaysia's distributive trade sales growth continued on double-digit expansion rate for 5-consecutive months, +15.2%yoy in Oct-22. By component, retail spending expanded strongly by +26%yoy, wholesale trade up by +7.3%yoy and motor vehicles sales by +11.2%yoy. The moderating growth rates is highly expected due to receding low-base effects.*
- *Total international passenger movements surpassed 2 million. The last time international passenger hit above 2 million mark was Feb-20. Latest figure in Oct-22 saw the passenger movements registered at 2.1 million, approximately 48.9% of Sep-19 levels.*
- *We upgrade our retail trade growth forecast to +23.5% for 2022. Malaysia's consumer spending is expanding strongly as reflected in retail trade sales growth of +24.2%yoy in 10MCY22. Looking at the macro outlook and improving fundamentals, we raise our retail trade growth forecast from +17.6% to +23.5% for this year. We believe the pent-up demand will continue until end of this year underpinned by domestic economy reopening, improving labour market, and stable inflationary pressure.*

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Total international passenger movements surpassed 2 million. The last time international passenger hit above 2 million mark was Feb-20. Latest figure in Oct-22 saw the passenger movements registered at 2.1 million, approximately 48.9% of Sep-19 levels. Sequential month growth rate of international passenger traffic continued since Mar-22. In Oct-22, the passenger traffic rose by +9.6%mom, thanks to both Asean and non-Asean tourists as well as domestic passengers. 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 Oct-22, domestic destinations shares skid to 61.1% (2021: 81.5%) while international at 38.9% (2021: 18.4%) whereby 14.8% were non-Asean and 24.1% Asean. Moving forward, we expect airports passenger movements to improve in 4QCY22 underpinned by borders reopening by Japan and stay on gradual recovery mode in 2023, harping on the reopening of China. The recovery towards 2019 level is still a long journey despite the international borders reopening by Malaysia. Our house view is that the earliest for passenger traffic to reach 2019's level only by 2024.

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

	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
Distributive Trade	**128.0**	**129.5**	**132.8**	**130.4**	**133.6**	**134.0**	**133.9**
YoY%	15.2	19.6	44.0	40.7	33.6	24.0	15.2
MoM%	3.4	1.2	2.5	(1.8)	2.5	0.3	(0.1)
Motor Vehicles	**15.4**	**13.9**	**16.1**	**14.1**	**16.5**	**16.3**	**15.7**
YoY%	11.3	20.1	1,642.8	597.7	183.3	51.2	11.2
MoM%	(7.7)	(9.6)	15.8	(12.5)	17.0	(1.2)	(3.5)
Wholesale Trade	**59.0**	**59.6**	**60.5**	**59.7**	**60.1**	**60.0**	**59.9**
YoY%	11.5	11.7	19.3	20.6	16.0	13.3	7.3
MoM%	3.1	0.9	1.6	(1.4)	0.7	(0.2)	(0.3)
Retail Trade	**53.6**	**56.0**	**56.2**	**56.6**	**57.0**	**57.7**	**58.3**
YoY%	20.9	29.2	38.4	37.5	34.5	30.0	26.0
MoM%	7.4	4.6	0.2	0.8	0.7	1.2	1.1

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

Retail trade remained firm. Despite inflationary pressure, Malaysia's retail sales remained resilient with persistently recording positive month-on-month growth since Mar-22. The sequential monthly growth trends for overall distributive trade, wholesale and motor vehicles are mixed for the past 10 months. Excluding food inflation, overall price increase in Malaysia remains stable and supportive for consumer spending. On top of that, continuously improving labour market adds to the firm retail trade activities. We expect the retail spending to stay on expansionary path especially with inflation outlook to stay low underpinned by appreciation of Ringgit, better global & domestic supply condition and subsidies support from the government.

Table 2: Distributive Trade's Detailed Components Performance

	Share % Total DT		MoM%		YoY%	
	Oct-21	Oct-22	Sep-22	Oct-22	Sep-22	Oct-22
Wholesale Sales (WS)	**48.0**	**44.7**	**(0.2)**	**(0.3)**	**13.3**	**7.3**
WS: Fee or Contract Basis	0.8	0.8	1.4	4.2	27.5	17.9
WS: Agri Raw Meterials & Live Animals	4.0	3.9	1.5	(2.6)	16.0	11.8
WS: Food, Beverages & Tabacco	9.6	8.7	0.7	1.7	3.8	3.7
WS: Household Goods	9.2	9.5	0.5	2.5	21.9	18.8
WS: Machinery, Equipment & Supplies	4.0	3.6	1.3	(3.1)	11.1	3.6
WS: Others Specialised	19.0	17.0	(1.7)	(1.8)	13.9	3.1
WS: Non-Specialised	1.3	1.2	0.5	(0.4)	6.6	5.9
Retail Sales (RS)	**39.8**	**43.5**	**1.2**	**1.1**	**30.0**	**26.0**
RS: Non-Specialised Stores	14.8	16.1	1.3	1.4	31.9	25.7
RS: Food, Beverages & Tobacco	2.6	2.5	0.7	1.0	15.7	14.7
RS: Automotive Fuel	3.3	4.0	1.4	1.1	44.4	40.1
RS: Information & Communication Equip	3.9	3.8	0.6	(0.7)	15.9	13.3
RS: Household Equip	5.1	5.3	0.4	0.8	23.1	19.1

RS: Cultural & Recreation Goods	2.1	2.0	0.5	(0.4)	11.6	8.2
RS: Others in Specialised Store	7.5	9.2	1.9	2.1	43.4	40.9
RS: Stalls & Markets	0.1	0.1	0.5	0.3	20.2	18.3
RS: Not in Stores, Stalls & Markets	0.4	0.5	0.9	0.2	21.3	19.0
Motor Vehicles Sales (MVS)	**12.2**	**11.8**	**(1.2)**	**(3.5)**	**51.2**	**11.2**
MVS: Motor Vehicle	7.8	6.4	(2.7)	(5.9)	40.4	(5.7)
MVS: Motor Vehicle Maint. & Repair	1.1	1.6	1.5	1.3	80.2	62.4
MVS: Motor Vehicle Parts & Accessories	2.3	3.0	1.7	1.4	65.8	49.2
MVS: Motorcycles Maint. & Repair, Parts & Acc.	1.0	0.8	(2.8)	(9.9)	53.3	(2.1)

Source: DOSM; MIDFR

American retail sales growth at 6-month low. Consumer spending momentum in the US moderated to +8.3%yoy in Oct-22, the slowest gain since May-22 on the back of elevated inflationary pressure and tightening monetary policy. We expect further hikes in the American interest rate as core PCE inflation remains above targeted rate amid steady job market. Across the globe, inflation is biting consumer spending in euro area which recorded another contraction rate -2.7%yoy. Prolonged elevated energy prices and gas supply threats are exacerbating the situation for the region. China's retail trade also turns negative, thanks to its zero-Covid policy. In Asean, retail spending continued to stay robust with Singapore and Vietnam expanded at double-digit rate while retail sales growth in Indonesia moderated to 5-month low following 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%)

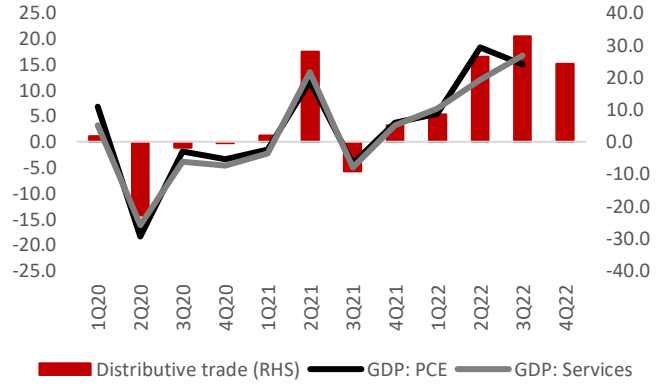
	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
Malaysia	20.9	29.2	38.4	37.5	34.5	30.0	26.0
Indonesia	8.5	2.9	4.1	6.2	4.9	4.6	3.7
Singapore	12.1	17.8	14.9	13.9	13.3	11.3	10.4
Thailand	11.3	13.6	12.7	18.0	22.3	12.4	n.a.
Vietnam	12.1	22.6	27.3	42.6	50.2	36.1	17.1
Taiwan	4.7	3.6	22.5	18.1	12.0	7.8	2.1
South Korea	0.4	0.7	(1.5)	(1.9)	2.4	(0.7)	n.a.
China	(11.1)	(6.7)	3.1	2.7	5.4	2.5	(0.5)
Japan	3.1	3.7	1.5	2.4	4.1	4.8	4.3
Euro area	5.1	1.1	(2.9)	(0.8)	(1.4)	0.0	(2.7)
US	7.8	8.7	8.8	10.0	9.7	8.6	8.3

Source: Macrobond; MIDFR

We upgrade our retail trade growth forecast to +23.5% for 2022. Malaysia's consumer spending is expanding strongly as reflected in retail trade sales growth of +24.2%yoy in 10MCY22. Looking at the macro outlook and improving fundamentals, we raise our retail trade growth forecast from +17.6% to +23.5% for this year. We believe the pent-up demand will continue until end of this year underpinned by domestic economy reopening, improving labour market, and stable inflationary pressure. Even though OPR is on the upward

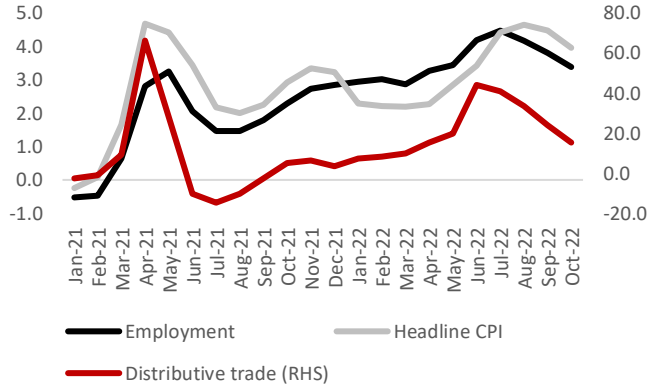
trajectory, we believe it would have minimal effect on domestic spending outlook. Current OPR at 2.75% still below 2019's level of 3.00%. We believe Malaysia's monetary policy is on normalisation process rather than tightening path, possibly to reach the 3.00% by early 2023.

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



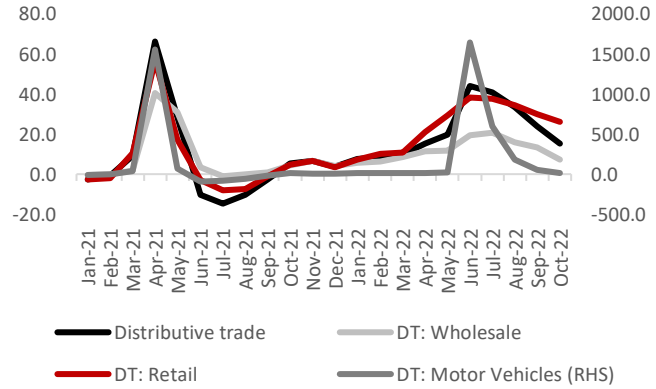
Source: DOSM; MIDFR

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



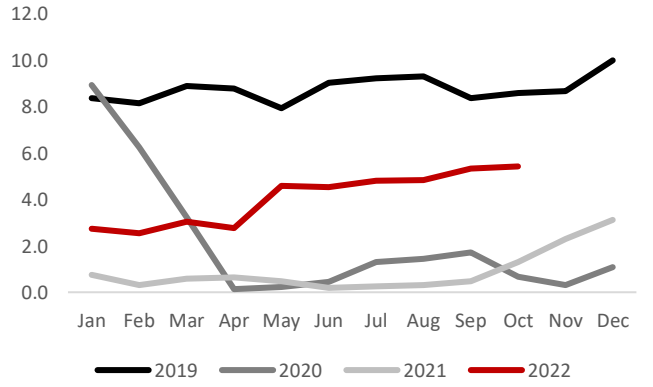
Source: DOSM; MIDFR

Chart 3: Distributive Trade Sales by Component (YoY%)



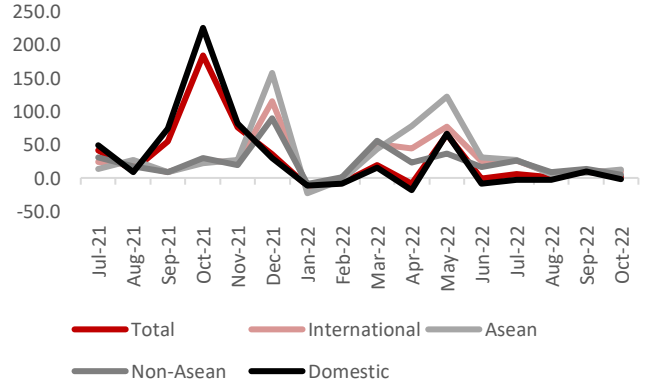
Source: DOSM; MIDFR

Chart 4: Airports Passenger Movements (Million Persons)



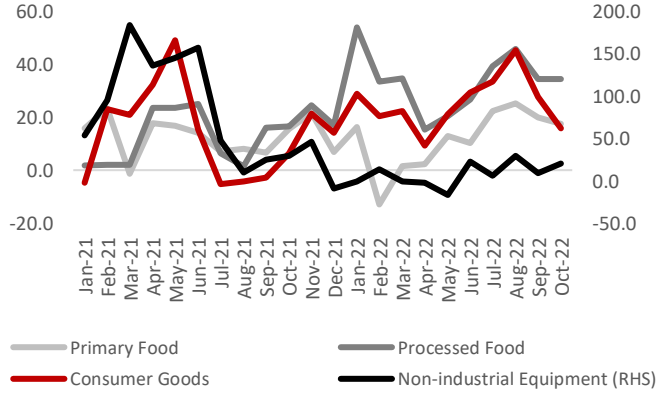
Source: MAHB; MIDFR

Chart 5: Airports Passenger Movements (MoM%)



Source: MAHB; MIDFR

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



Source: DOSM; MIDFR

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