18 December 2022

ECONOMIC REVIEW | December 2022 External Trade

Despite Moderating to Single-Digit Growth in Dec-22, Exports Jumped by 25% in 2022

- *External trade moderated to single-digit in Dec-22. Malaysia's external trade continued to grow albeit moderating to single-digit growth in Dec-22. Exports growth moderated to +6%yoy (Nov-22: +15.1%yoy), the slowest expansion since Jul-21, dragged by weakness in shipments to China and palm oil exports. The continued growth in overall exports, however, was driven mainly by increased E&E exports.*
- *Increased demand petroleum products and E&E products. More than half of the exports growth in Dec-22 was contributed by petroleum products. Robust demand for E&E, which has been one of the major contributors to Malaysia's exports growth this year, added +1.9ppt or one-third of the exports growth during the month.*
- *We forecast exports and imports to grow at +9.2% and +9.5% in 2023, respectively. Taking into account the high base from the strong expansion last year, we project export and import growth to moderate to +9.2% (2022: 25%) and +9.5% (2022: +31.3%), respectively, this year. We expect continued rise in demand for E&E and commodities to continue driving Malaysia's exports, while sustained rise in domestic spending and business activities will support import outlook, going forward.*

External trade moderated to single-digit in Dec-22. Malaysia's external trade continued to grow albeit moderating to single-digit growth in Dec-22. Total trade grew by +8.6%yoy in Dec-22, more normalized growth and the first single-digit growth since Jan-21. Exports growth also moderated to +6%yoy (Nov-22: +15.1%yoy), the slowest expansion since Jul-21. While the moderation was in line with ours and market expectation, there was a drag from weaker shipments to China and palm oil exports. The continued growth in overall exports, however, was driven mainly by increased E&E exports. Although re-exports maintained double-digit growth (Dec-22: +25.5%yoy; Nov-22: +41.9%yoy), weaker growth in domestic exports at +2%yoy (Nov-22: +9.8%yoy) was mainly due to higher base effect. Imports also grew at more moderate pace, slowing to +12%yoy (Nov-22: +15.7%yoy), the slowest expansion in 23 months. In line with continued expansion in domestic spending, we noticed import growth continued to surpass exports growth since Sep-21 and even throughout 2022. This suggests the post-pandemic recovery in domestic economic activities continues to support strong imports. Trade balance improved to RM27.8b in Dec-22 (Nov-22: RM21.8b) as exports rose +1.7%mom and imports fell by -3.5%mom from previous month.

2022 marks second year of double-digit growth in external trade. For the whole 2022, exports surged by +25%, sustaining double-digit yearly growth for the second year (2021: +26.1%yoy). Factors that supported the robust export growth last year was mainly due to strong demand for E&E products, and also thanks to diversified export products Malaysia also gained from external demand for commodities particularly crude oil and petroleum products, LNG and palm oil & palm oil-based products. To a certain extent, the robust growth in commodity exports was also boosted by higher commodity prices, while growing exports of manufactured goods reflect improved easing constraints on the global supply chain. Imports, on the other hand, grew by +31.3%, stronger than +23.3% expansion in 2021. This indicates the full reopening of the economy resulted in continued strong recovery in purchases of foreign-made intermediate goods (+29.3%) and consumption goods (+24.1%). Recovery in investment activities also saw increased imports of capital goods (+15.9%). The value of total trade rose to new high at RM2.85 trillion last year, surging by +27.8% from 2021.

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Stronger imports of consumption goods. While imports growth moderated to +12%yoy in Dec-22, this can be attributable to the slower growth in purchases of intermediate and capital goods as firms slowed down production and investment in response to softer demand outlook, as indicated in recent PMI report. On the other hand, stronger imports of consumption goods (+23.6%yoy) which suggests domestic spending remained strong in the final month last year. By major sector, approximately 72.1% of import growth in Dec-22 was contributed by imports of petroleum products (+5.1ppt) and crude petroleum (+3.6ppt). This followed by increased imports of transport equipment which contributed another +1.6ppt to overall import growth, in line with robust demand and backlog of orders in the auto sector. Meanwhile, agriculture imports were broadly unchanged from Dec-21 because the weaker imports of palm oil products and natural rubber were offset by increased imports of other agriculture products, other vegetable oil and seafood, highlighting dependency on imported food sources. We expect correction in commodity prices and stronger ringgit will help to ease imported cost, but sustained growth in domestic spending will continue to drive imports of consumption goods.

Table 1: Malaysia's External Trade Summary

	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	2022
Exports (RMb)	134.1	141.3	144.3	131.6	129.7	131.9	1,551.7
% YoY	38.0	48.1	30.1	14.9	15.1	6.0	25.0
% MoM	(8.2)	5.4	2.2	(8.8)	(1.5)	1.7	
Imports (RMb)	118.5	124.2	112.6	113.5	107.9	104.1	1,296.6
% YoY	41.8	67.4	33.0	28.8	15.7	12.0	31.3
% MoM	(4.6)	4.8	(9.4)	0.8	(4.9)	(3.5)	
Total Trade (RMb)	252.6	265.5	256.9	245.1	237.6	236.0	2,848.4
% YoY	39.8	56.6	31.4	21.0	15.4	8.6	27.8
% MoM	(6.5)	5.1	(3.2)	(4.6)	(3.1)	(0.7)	
Trade Balance (RMb)	15.6	17.0	31.7	18.1	21.8	27.8	255.1
Import Components							
Intermediate (RMb)	64.4	61.8	66.4	58.6	60.7	59.3	705.7
% YoY	46.8	32.2	56.1	35.1	26.4	8.2	29.3
Capital (RMb)	11.1	11.0	10.2	11.8	11.7	9.8	120.3
% YoY	29.9	29.6	22.0	30.5	41.2	2.9	15.9
Consumption (RMb)	9.3	8.5	9.0	8.8	8.5	9.5	104.1
% YoY	25.8	33.2	42.2	28.2	21.6	23.9	24.1

Note: MoM is non-seasonally adjusted figure
Source: Macrobond, MIDFR

Exports to China dropped in Dec-22. By destination, the moderation in exports growth in Dec-22 was attributable to downward drag from decline in shipments to China, first monthly fall after 16 straight months of expansion. Despite China's government's decision to reopen its economy in Dec-22, this reflects the adverse effect of lockdowns and strict Covid policy finally affecting Malaysia's exports particularly E&E, other manufactured goods and primary palm oil products. Lower shipments of E&E also contributed to reduced exports to Hong Kong, while exports to India fell largely explained by lower exports of palm oil agriculture products. Exports to the US was more or less sustained, driven by demand for E&E and petroleum products. Exports growth to Japan also moderated to +13.7%yoy, but continued to be driven by mining commodities i.e. LNG and crude petroleum. By region, exports to EU shows a pick-up, growing faster at +20.1%yoy in Dec-22 on the back of strong demand for manufactured goods (namely, transport equipment, petroleum products, and manufactures of metal, and E&E) as

well as exports of primary palm oil products. Meanwhile, shipments to ASEAN countries expanded at +12%yoy, the slowest growth in 17 months, generally underpinned by growing shipments of E&E products, petroleum products and crude petroleum.

Table 2: Malaysia's Exports (YoY%)

	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	2022
Total Exports (RMb)	**134.1**	**141.3**	**144.3**	**131.6**	**129.7**	**131.9**	**1,241.0**
Re-exports (RMb)	32.0	34.9	33.8	30.4	26.2	26.6	229.0
Domestic Exports (RMb)	102.1	106.4	110.5	101.2	103.5	105.3	1,221.4
Exports by Key Country / Region							
China	9.8	21.6	8.0	3.2	9.0	(12.1)	9.4
USA	20.5	38.1	32.5	8.8	8.4	7.9	17.5
Japan	30.8	44.6	74.6	27.1	31.6	13.7	29.6
India	51.6	49.5	5.7	(9.8)	(2.2)	(8.4)	21.0
Hong Kong	41.4	57.1	30.4	18.5	26.0	(3.6)	24.6
Australia	37.7	29.4	120.1	37.0	59.1	28.4	41.5
EU	21.2	30.7	19.0	6.9	16.3	20.1	21.8
ASEAN	55.6	59.0	31.5	25.9	16.9	12.9	31.8
Singapore	57.1	55.5	29.1	27.6	36.3	23.1	33.7
Thailand	39.4	47.2	4.6	21.6	23.3	4.7	26.2
Indonesia	67.0	109.6	53.3	28.7	9.9	1.6	43.1
Vietnam	23.0	9.6	65.8	18.5	(25.2)	3.3	17.6
Philippines	74.8	33.0	21.1	15.5	(2.1)	(7.2)	24.6

Source: Macrobond, MIDFR

Table 3: Malaysia's Exports by Major Products (YoY%)

	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	2022
E&E	34.2	49.4	39.8	19.0	30.9	4.7	30.2
Machinery, Equipment & Parts	67.7	42.2	28.9	1.8	2.7	10.7	21.2
Optical & Scientific Equipment	36.3	44.0	32.2	13.7	18.1	10.5	20.8
Palm oil & palm-oil based products	26.5	39.5	9.7	(5.0)	(12.1)	(6.9)	27.1
Crude Petroleum	74.0	65.2	74.3	78.4	95.8	46.3	71.7
Petroleum Products	80.3	210.8	83.3	96.1	26.4	66.4	69.4
LNG	82.0	77.2	142.0	135.2	68.3	33.5	78.0
Rubber products	(52.1)	(50.2)	(45.7)	(45.7)	(46.5)	(42.4)	(55.5)

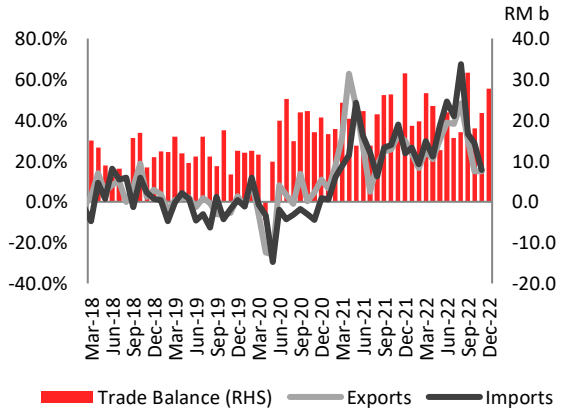
Source: Macrobond, MIDFR

Increased demand petroleum products and E&E products. More than half of the exports growth in Dec-22 was contributed by petroleum products. Continued expansion in E&E exports, which has been one of the major contributors to Malaysia's exports growth this year, added +1.9ppt or one-third of overall exports growth during the month. E&E exports was supported by sustained growth in delivery of semiconductors and telecommunication equipment. Following rising demand for petroleum product and E&E, manufacturing exports continued to expand at +4.6%yoy in Dec-22, albeit moderating from +15% growth in Nov-22. Manufacturing exports alone contributed nearly two-thirds of Dec-22 exports growth. Meanwhile, mining sector exports rose by +31.6%yoy as with double-

digit expansion in both LNG and crude petroleum exports. Agriculture exports, in contrast, fell by -0.2%yoy which reflects lower exports of primary palm oil products, sawn timber & moulding, and seafood, relative to Dec-21.

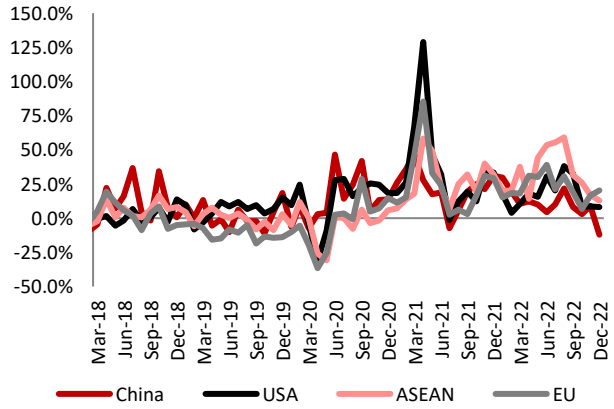
We forecast exports and imports to grow at +9.2% and +9.5%, respectively. Taking into account the high base from the strong expansion last year, we project export and import growth to moderate to +9.2% (2022: 25%) and +9.5% (2022: +31.3%), respectively, this year. We expect continued rise in demand for E&E and commodities to continue driving Malaysia's exports, while sustained rise in domestic spending and business activities will support import outlook going forward. On another note, we anticipate positive effect on exports from the ratification of trade agreements i.e. Regional Comprehensive Economic Partnership (RCEP) and Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Nevertheless, we caution on the possible drag to global trade and production activities given the expected slowdown in global growth, particularly in the advanced economies. Escalation of geo-political tension, trade war and renewed pressure on global supply chain could also negatively affect trade outlook. Moderating this, we expect reopening of China's economy will help to boost global growth outlook and contribute to improved external demand from within Asia.

Chart 1: Exports & Imports (YoY%) vs Trade Balance (RM b)



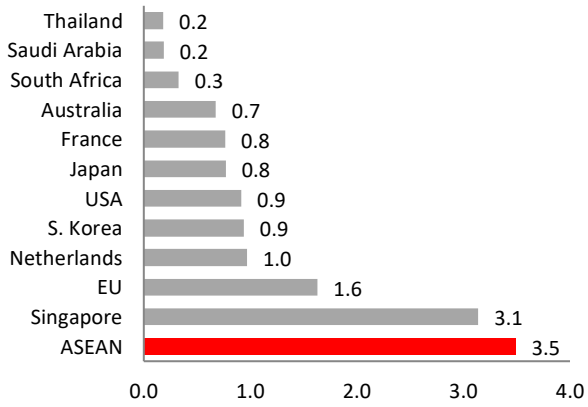
Source: Macrobond, MIDFR

Chart 2: Exports Growth by Major Destination (YoY%)



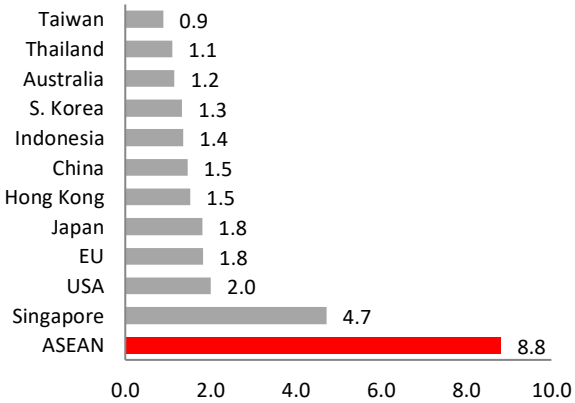
Source: Macrobond, MIDFR

Chart 3: %-point Contribution to Total Exports Growth in Dec-22 by Major Destination



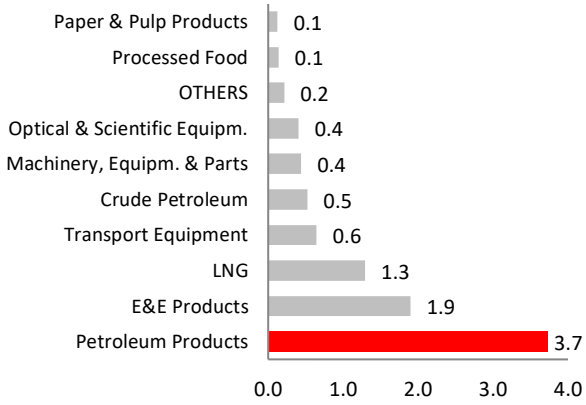
Source: Macrobond, MIDFR

Chart 4: %-point Contribution to Total Exports Growth for Full-Year 2022 by Major Destination



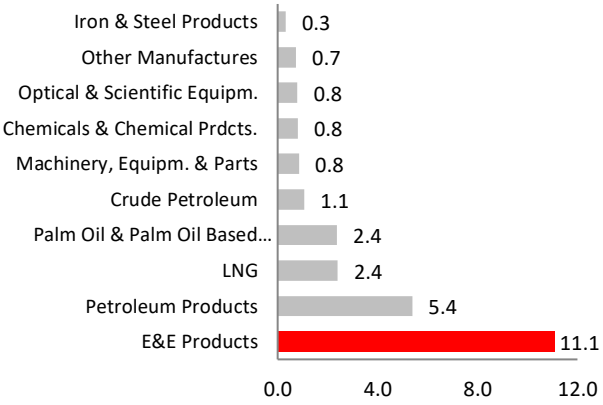
Source: Macrobond, MIDFR

Chart 5: %-point Contribution to Total Exports Growth in Dec-22 by Key Products



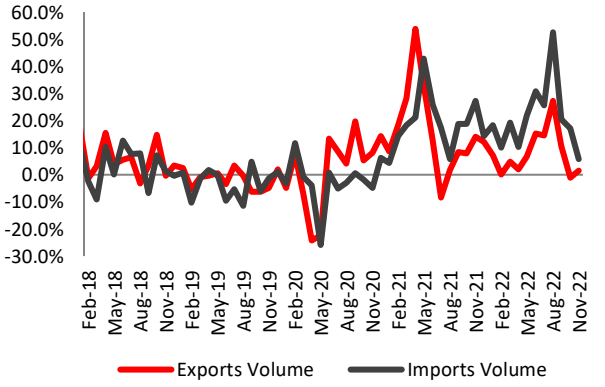
Source: Macrobond, MIDFR

Chart 6: %-point Contribution to Total Exports Growth for Full-Year 2022 by Key Products



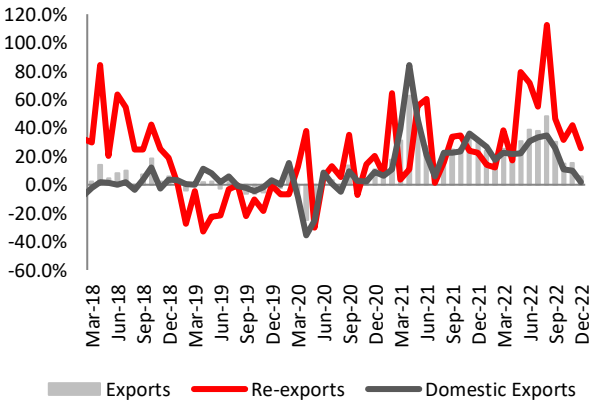
Source: Macrobond, MIDFR

Chart 7: Exports vs Imports Volume (YoY%)



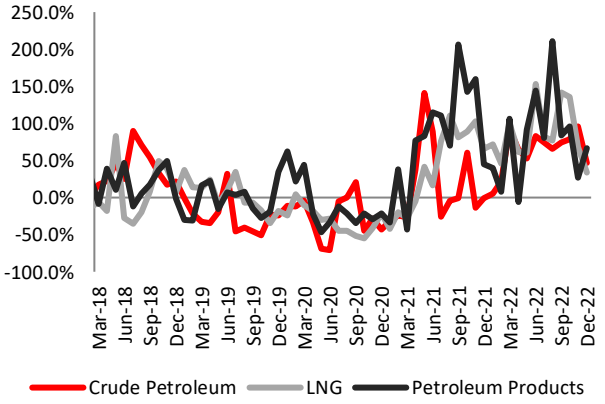
Note: Latest available data as of Nov-22
Source: Macrobond, MIDFR

Chart 8: Exports: Domestic vs Re-exports (YoY%)



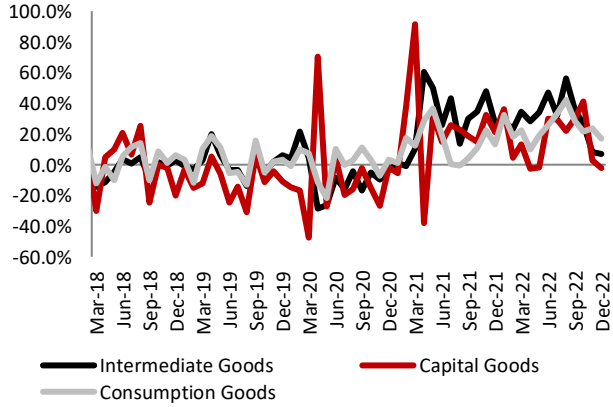
Source: Macrobond, MIDFR

Chart 9: Exports of Selected Mining Goods (YoY%)



Source: Macrobond, MIDFR

Chart 10: Imports of Goods by Use (YoY%)



Source: Macrobond, MIDFR

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