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ECONOMIC REVIEW | November 2022 Distributive Trade

Bright Retail Trade Outlook Underpin by China Reopening

- *Distributive trade sales growth softened to 8-month low. Malaysia's distributive trade sales growth continued on double-digit expansion rate for 6-consecutive months, +13.9%yoy in Nov-22. By component, retail spending expanded strongly by +22.9%yoy, wholesale trade up by +5.6%yoy and motor vehicles sales by +17.2%yoy. The moderating growth rates is highly expected due to receding low-base effects. In addition, GE15 spending could be attributed to the continuous robust expenditure.*
- *Sanguine tourism outlook. Latest figure in Nov-22 saw the international passenger movements registered at 2.2 million, approximately 50.9% of Sep-19 levels. Sequential month growth rate of international passenger traffic continued since Mar-22. In Nov-22, the passenger traffic rose by +6.1%mom, thanks to both ASEAN and non-ASEAN tourists. 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 Nov-22, domestic destinations shares rose to 56.8% (2021: 81.5%) while international at 43.2% (2021: 18.4%) whereby 18.2% were non-ASEAN and 25% ASEAN.*
- *We keep 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%yoy in 11MCY22. Looking at the macro outlook and improving fundamentals, we forecast retail trade growth at +23.5% for 2022 and +10% for 2023.*

Distributive trade sales growth softened to 8-month low. Malaysia's distributive trade sales growth continued on double-digit expansion rate for 6-consecutive months, +13.9%yoy in Nov-22. By component, retail spending expanded strongly by +22.9%yoy, wholesale trade up by +5.6%yoy and motor vehicles sales by +17.2%yoy. The moderating growth rates is highly expected due to receding low-base effects. In addition, GE15 spending could be attributed to the continuous robust expenditure. On month-on-month basis, only retail sales registered positive growth of +0.7%. Looking ahead, we opine the upbeat momentum of domestic demand to continue in 2023 amid steady labour market, softening inflationary pressure and supportive economic policies.

Sanguine tourism outlook. Latest figure in Nov-22 saw the international passenger movements registered at 2.2 million, approximately 50.9% of Sep-19 levels. Sequential month growth rate of international passenger traffic continued since Mar-22. In Nov-22, the passenger traffic rose by +6.1%mom, thanks to both ASEAN and non-ASEAN tourists. 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 Nov-22, domestic destinations shares rose to 56.8% (2021: 81.5%) while international at 43.2% (2021: 18.4%) whereby 18.2% were non-ASEAN and 25% ASEAN. Moving forward, we expect airports passenger movements to improve in 2023 underpinned by borders reopening by China & Japan. 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)

	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22
Distributive Trade	**129.5**	**132.8**	**130.4**	**133.6**	**134.0**	**133.6**	**133.9**
YoY%	19.6	44.0	40.7	33.6	24.0	14.9	13.9
MoM%	1.2	2.5	(1.8)	2.5	0.3	(0.3)	0.2
Motor Vehicles	**13.9**	**16.1**	**14.1**	**16.5**	**16.3**	**15.4**	**15.7**
YoY%	20.1	1,642.8	597.7	183.3	51.2	8.9	17.2
MoM%	(9.6)	15.8	(12.5)	17.0	(1.2)	(5.5)	1.7
Wholesale Trade	**59.6**	**60.5**	**59.7**	**60.1**	**60.0**	**59.9**	**59.5**
YoY%	11.7	19.3	20.6	16.0	13.3	7.3	5.6
MoM%	0.9	1.6	(1.4)	0.7	(0.2)	(0.3)	(0.6)
Retail Trade	**56.0**	**56.2**	**56.6**	**57.0**	**57.7**	**58.3**	**58.7**
YoY%	29.2	38.4	37.5	34.5	30.0	26.0	22.8
MoM%	4.6	0.2	0.8	0.7	1.2	1.1	0.7

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

Consumer demand on strong ground. 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 11 months. Apart from stable inflation and steady job market, we foresee the revival of tourism activity is set to support Malaysia's retail trade spending in 2023. In particular, the reopening of China and Japan would benefit tourism in Asean region including Malaysia. With the upcoming retabling of Budget 2023, we believe cash handouts, bonuses and local spending incentices to be announced which will benefit overall consumers.

Table 2: Distributive Trade's Detailed Components Performance

	Share % Total DT		MoM%		YoY%	
	Nov-21	Nov-22	Oct-22	Nov-22	Oct-22	Nov-22
Motor Vehicles Sales (MVS)	**11.4**	**11.7**	**(5.5)**	**1.7**	**8.9**	**17.2**
MVS: Motor Vehicle	6.5	6.2	(9.5)	1.6	(9.3)	9.8
MVS: Motor Vehicle Maint. & Repair	1.3	1.6	1.3	1.5	62.4	40.6
MVS: Motor Vehicle Parts & Accessories	2.6	3.0	1.4	1.6	49.2	32.8
MVS: Motorcycles Maint. & Repair, Parts & Acc.	1.0	0.8	(9.9)	2.9	(2.1)	(5.8)
Wholesale Sales (WS)	**47.9**	**44.4**	**(0.3)**	**(0.6)**	**7.3**	**5.6**
WS: Fee or Contract Basis	0.8	0.8	4.2	3.6	17.9	14.7
WS: Agri Raw Meterials & Live Animals	4.0	3.8	(2.6)	(1.7)	11.8	9.4
WS: Food, Beverages & Tabacco	9.7	9.0	1.7	3.9	3.7	6.0
WS: Household Goods	9.3	9.3	2.5	(2.0)	18.8	14.4
WS: Machinery, Equipment & Supplies	4.0	3.6	(3.1)	1.0	3.6	3.9
WS: Others Specialised	18.8	16.5	(1.8)	(2.8)	3.1	0.1
WS: Non-Specialised	1.4	1.3	(0.4)	3.7	5.9	6.2

	Share % Total DT		MoM%		YoY%	
	Nov-21	Nov-22	Oct-22	Nov-22	Oct-22	Nov-22
Retail Sales (RS)	**40.7**	**43.9**	**1.1**	**0.7**	**26.0**	**22.8**
RS: Non-Specialised Stores	15.1	16.4	1.4	1.6	25.7	23.9
RS: Food, Beverages & Tobacco	2.6	2.6	1.0	1.9	14.7	14.4
RS: Automotive Fuel	3.3	4.0	1.1	1.4	40.1	40.9
RS: Information & Communication Equip	3.9	3.8	(0.7)	(0.9)	13.3	10.3
RS: Household Equip	5.2	5.2	0.8	(0.6)	19.1	14.8
RS: Cultural & Recreation Goods	2.1	2.0	(0.4)	(0.6)	8.2	5.9
RS: Others in Specialised Store	7.9	9.2	2.1	0.4	40.9	32.8
RS: Stalls & Markets	0.1	0.1	0.3	0.6	18.3	18.5
RS: Not in Stores, Stalls & Markets	0.5	0.5	0.2	0.4	19.0	10.8

Source: DOSM; MIDFR

American retail sales growth slowest since Dec-20. Despite of Black Friday and Cyber Monday, consumer spending momentum in the US moderated further on the back of elevated inflationary pressure and tightening monetary policy. Annual retail sales growth rate +6.5%yoy was the slowest since Dec-20 while -0.6%mom in Nov-22 was the largest drop so far in 2022. We expect the consumer spending trend to stay on weakening path a the Fed to stay on course raising interest rates to combat inflation risk. Across the globe, inflation is biting consumer spending in Euro Area which recorded another contraction rate -2.8%yoy. Prolonged elevated energy prices and gas supply threats are exacerbating the situation for the region. China's retail trade slashed further by -5.9%yoy, thanks to its zero-Covid policy. However, we foresee strong rebound in China's domestic trade activities as the government have remove and relax most of restrictive measures including the reopening of international borders. In Asean, retail trade outlook turns bright amid the return of Chinese travellers and lower inflationary pressure in 2023.

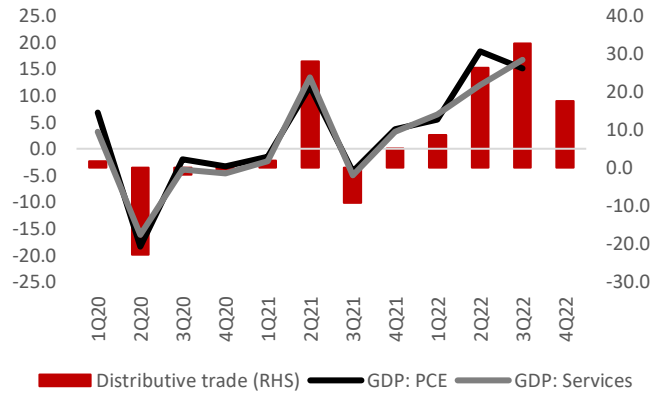
Table 3: Global Retail Sales (YoY%)

	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22
Malaysia	29.2	38.4	37.5	34.5	30.0	26.0	
Indonesia	2.9	4.1	6.2	4.9	4.6	3.7	1.3
Singapore	17.8	14.9	13.9	13.3	11.3	10.3	6.2
Thailand	13.6	12.7	18.0	22.3	12.5	(0.8)	
Vietnam	22.6	27.3	42.6	50.2	36.1	17.1	17.5
Taiwan	3.6	22.5	18.1	12.0	7.8	2.1	1.4
South Korea	0.7	(1.5)	(1.9)	2.4	(0.9)	(0.7)	(2.2)
China	(6.7)	3.1	2.7	5.4	2.5	(0.5)	(5.9)
Japan	3.7	1.5	2.4	4.1	4.8	4.4	2.6
Euro area	1.1	(2.8)	(0.8)	(1.4)	0.1	(2.6)	(2.8)
US	8.7	8.8	10.0	9.7	8.6	8.3	6.5

Source: Macrobond; MIDFR

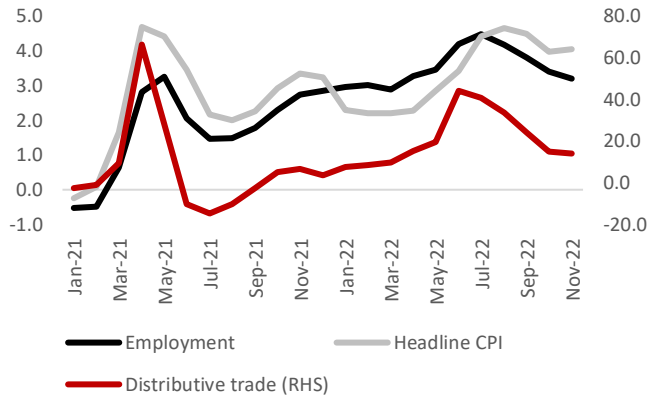
We keep our retail trade growth forecast to +23.5% for 2022. Malaysia's consumer spending is expanding strongly as reflected in retail trade sales growth of +24%yoy in 11MCY22. Looking at the macro outlook and improving fundamentals, we forecast retail trade growth at +23.5% for 2022 and +10% for 2023. We believe the pent-up demand will continue into this year underpinned by improving labour market, stable inflationary pressure, accommodative economic policies and uptick in tourism industry. Even though OPR is on the upward trajectory, we believe it would have minimal effect on domestic spending outlook.

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



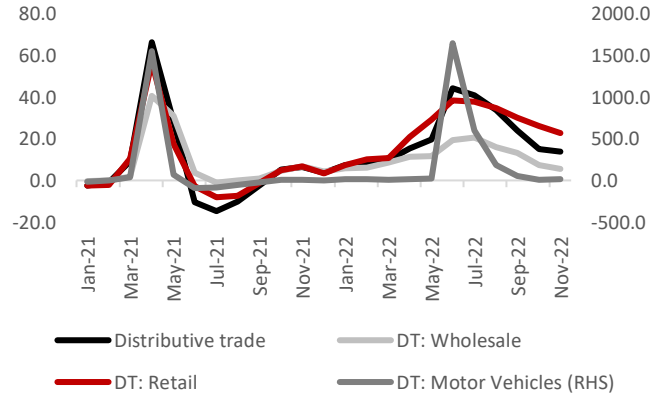
Source: DOSM; MIDFR

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



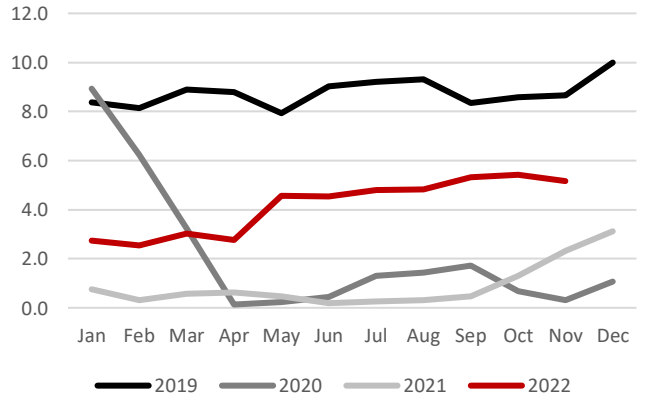
Source: DOSM; MIDFR

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



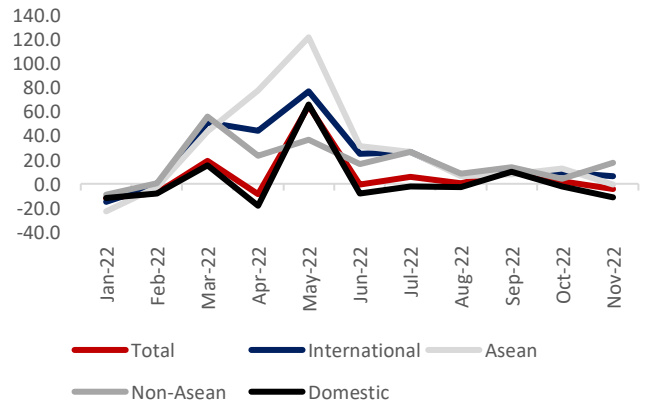
Source: DOSM; MIDFR

Chart 4: Airports Passenger Movements (Million Persons)



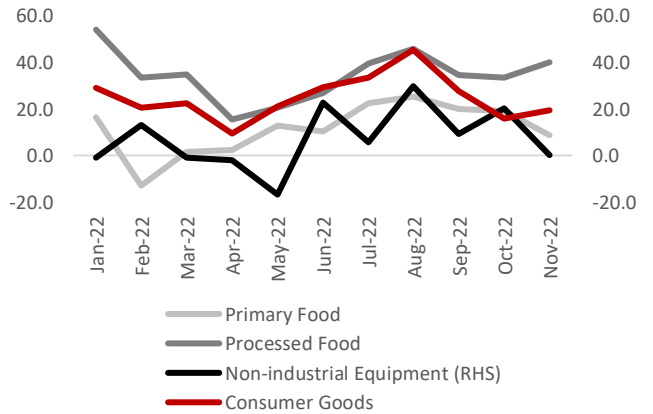
Source: MAHB; MIDFR

Chart 5: Airports Passenger Movements (MoM%)



Source: MAHB; MIDFR

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



Source: DOSM; MIDFR

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