20 February 2023

ECONOMIC REVIEW | January 2023 External Trade

Exports Expanded Slower by +1.6%yoy in Jan-23, the Weakest Growth in 27 Months

- *Export growth moderated to +1.6%yoy in Jan-23. Export growth moderated to +1.6%yoy in Jan-22 (Dec-22: +5.9%yoy), below ours and market expectations. Although it marks the 29th consecutive month of growth, the Jan-23 export growth was the slowest since Nov-20. Thanks to stronger re-exports (+33.5%yoy) which offset the fall in domestic exports (-5.4%yoy), overall export growth remained in positives.*
- *Mining goods exports anchored growth in Jan-23. Looking at export performance by sector, mining goods exports maintained positive growth at +3.1%yoy, albeit slower than previous month (Dec-22: +31.6%yoy) on the back of increased exports of LNG, crude petroleum, and refined petroleum products.*
- *Exports fell to major destinations i.e. China and USA. By destination, exports to most major markets weakened in Jan-23. In particular, shipments to China fell further by -11.9%yoy, while exports to the US declined by -0.6%yoy.*
- *Maintain projection for both exports and imports this year. Despite weaker-than-expected trade figures in Jan-23, we decided to maintain our projection for both exports and imports to expand slower this year at +9.2%yoy and +9.5%yoy, respectively. The moderation in growth will reflect the effect of high base last year, but the positive growth indicates continued rise in external demand for E&E and commodities, particularly petroleum and palm oil.*

Total trade slowed to 11-month low. Malaysia's total trade stood at RM207.5b in Jan-23, slower than RM235.4b in Dec-22 as both exports and imports fell by -14.4%mom and -8.6%mom, respectively. Although the value of total trade was the lowest since 11 months, it has been sustained above RM200b Mar-22. Compared to Jan-22, total exports was still +1.9%yoy higher but it was the slowest growth since Dec-20. Given the sharper drop in exports, trade surplus shrank to RM18.2b (Dec-22: RM28.1b), only a 3-month low.

Export growth moderated to +1.6%yoy in Jan-23. Export growth moderated to +1.6%yoy in Jan-22 (Dec-22: +5.9%yoy), below ours and market expectations. Although it marks the 29th consecutive month of growth, the Jan-23 export growth was the slowest since Nov-20. Thanks to stronger re-exports (+33.5%yoy) which offset the fall in domestic exports (-5.4%yoy), overall export growth remained in positives. In particular, exports of petroleum products, LNG and even crude petroleum increased during the month, in contrast to slow growth in E&E exports and continued decline in exports of palm oil & palm oil products. Imports growth also moderated sharply to +2.3%yoy (Dec-22: +11.5%yoy), the slowest annual growth in 2 years and ending 23 straight months of double-digit growth since Feb-21. We believe the weaker import performance can be attributables to the effect of price correction because the latest available data (i.e. for Dec-22) indicates import volume was still higher than a year ago. On another note, the weaker import growth signals local businesses also turned more cautious on the short-term demand outlook.

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Imports by all types of end-use declined. Although the overall import growth remained on expansionary trend in Jan-23, we noticed imports for all major types of end-uses contracted from Jan-23. Despite strength in domestic spending, imports of consumption goods declined by -4.7%yoy (Dec-22: +16.2%yoy), the first contraction in more than 2 years. With demand seems to have slowed, imports of intermediate goods and capital capital goods also contracted by -3.9%yoy and -1.7%yoy, respectively. By sector, the rise in imports last month was driven largely (or approximately 86% of the growth) from purchases of crude petroleum, petroleum products, and transport equipment (including for the aviation and railway sectors); which more than offset the fall in imports of E&E components, chemicals & chemical products, and iron & steel products.

Table 1: Malaysia's External Trade Summary

	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23
Exports (RMb)	134.1	141.3	144.3	131.6	129.7	131.8	112.8
% YoY	38.0	48.1	30.1	14.9	15.1	5.9	1.6
% MoM	(8.2)	5.4	2.2	(8.8)	(1.5)	1.6	(14.4)
Imports (RMb)	118.5	124.2	112.6	113.5	107.9	103.6	94.7
% YoY	41.8	67.4	33.0	28.8	15.7	11.5	2.3
% MoM	(4.6)	4.8	(9.4)	0.8	(4.9)	(4.0)	(8.6)
Total Trade (RMb)	252.6	265.5	256.9	245.1	237.6	235.4	207.5
% YoY	39.8	56.6	31.4	21.0	15.4	8.3	1.9
% MoM	(6.5)	5.1	(3.2)	(4.6)	(3.1)	(0.9)	(11.8)
Trade Balance (RMb)	15.6	17.0	31.7	18.1	21.8	28.1	18.2
Import Components							
Intermediate (RMb)	61.8	66.4	58.6	60.7	59.3	54.4	48.6
% YoY	32.2	56.1	35.1	26.4	8.2	6.4	(3.9)
Capital (RMb)	11.1	11.0	10.2	11.8	11.7	9.8	9.9
% YoY	29.6	22.0	30.5	41.2	2.9	(2.9)	(1.7)
Consumption (RMb)	9.3	8.5	9.0	8.8	8.5	9.5	9.3
% YoY	33.2	42.2	28.2	21.6	23.9	16.2	(4.7)

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

Exports fell to major destinations i.e. China and USA. By destination, exports to most major markets weakened in Jan-23, either expanded at slower pace or even declined. In particular, shipments to China fell further by -11.9%yoy as China bought less palm oil & palm oil-based products, manufactures of metal, petroleum products, and iron & steel products. Despite China's economic reopening, we opine the weak trade to certain extent was due to the effect of CNY holiday which fell in Jan-23, compared to Feb-22 last year. Meanwhile, exports to the US also declined by -0.6%yoy, the first annual contraction after 17 consecutive months of expansion. The reduced shipments to the US was dragged down by lower exports of manufactured goods, particularly wood products, iron & steel products, rubber products and machinery, equipment & parts. By region, exports to the EU countries moderated sharply to a low single-digit of +1.4%yoy (Dec-22: +20.1%yoy) as increased exports of petroleum products and manufactures of metal offset the lower shipments of rubber and E&E

products. To ASEAN countries, export growth eased to +10.7%yoy, the slowest growth in 18 months but continued to be driven by demand for manunfactured and mining goods i.e. E&E components, crude petroleum, and petroleum products.

Table 2: Malaysia's Exports (YoY%)

	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23
Total Exports (RMb)	**146.0**	**134.1**	**141.3**	**144.3**	**131.6**	**129.7**	**131.8**
Re-exports (RMb)	**35.5**	**32.0**	**34.9**	**33.8**	**30.4**	**26.2**	**26.6**
Domestic Exports (RMb)	**110.6**	**102.1**	**106.4**	**110.5**	**101.2**	**103.5**	**105.2**
Exports by Key Country / Region							
China	9.8	21.6	8.0	3.2	9.0	(12.1)	(11.9)
USA	20.5	38.1	32.5	8.8	8.4	7.8	(0.6)
Japan	30.8	44.6	74.6	27.1	31.6	13.7	13.2
India	51.6	49.5	5.7	(9.8)	(2.2)	(8.4)	(30.6)
Hong Kong	41.4	57.1	30.4	18.5	26.0	(3.6)	4.0
Australia	37.7	29.4	120.1	37.0	59.1	28.4	27.8
EU	21.2	30.7	19.0	6.9	16.3	20.1	1.4
ASEAN	55.6	59.0	31.5	25.9	16.9	12.7	10.7
Singapore	57.1	55.5	29.1	27.6	36.3	23.1	19.0
Thailand	39.4	47.2	4.6	21.6	23.3	3.4	8.3
Indonesia	67.0	109.6	53.3	28.7	9.9	1.6	(1.8)
Vietnam	23.0	9.6	65.8	18.5	(25.2)	3.3	(7.9)
Philippines	74.8	33.0	21.1	15.5	(2.1)	(7.2)	1.6

Source: Macrobond, MIDFR

Mining goods exports anchored growth in Jan-23. Looking at export performance by sector, mining goods exports maintained positive growth at +3.1%yoy, albeit slower than previous month (Dec-22: +31.6%yoy) on the back of increased exports of LNG and crude petroleum. In addition, exports of refined petroleum products also sustained positive growth (+87.5%yoy; Dec-22: +66.4%yoy). Cumulatively, all these 3 products (i.e. LNG, crude petroleum, and refined petroleum products) contributed +7.7ppt to the Jan-23 export growth, and additional growth (or +1.9ppt) coming from E&E exports which grew more or less like in prior month (+4.7%yoy; Dec-22: +4.8%yoy).

Decline in manufacturing and agricultural goods exports. Although E&E exports maintained positive growth, overall manufactured goods exports declined marginally by -0.1%yoy, mainly due to continued fall in shipments of manufactures of metal (-34.9%yoy) and rubber products (-44.9%yoy). Agricultural goods also recorded negative export growth (-1.6%yoy), dragged down by continued weakness in exports of palm oil & and palm oil-based products (-22.7%yoy) which has been contracting since Oct-22. Furthermore, this can be explained by reduction in exports of palm oil & palm oil-based agricultural goods to a number of countries, especiallly India, China, Vietnam, Kenya, Saudi Arabia, Turkiye, and Italy. We maintain our view that the weak

palm oil exports were comparatively related to lower price effect (average CPO price in Jan-23: RM3,927.91/tonne; average in Jan-22: RM5,376.52/tonne).

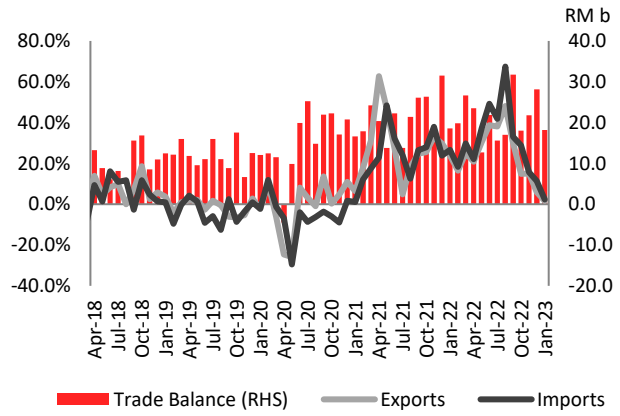
Table 3: Malaysia's Exports by Major Products (YoY%)

	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23
E&E	34.2	49.4	39.8	19.0	30.9	4.8	4.7
Machinery, Equipment & Parts	67.7	42.2	28.9	1.8	2.7	10.1	(11.9)
Optical & Scientific Equipment	36.3	44.0	32.2	13.7	18.1	11.0	6.6
Palm oil & palm oil-based products	26.5	39.5	9.7	(5.0)	(12.1)	(6.2)	(22.7)
Crude Petroleum	74.0	65.2	74.3	78.4	95.8	40.0	25.9
Petroleum Products	80.3	210.8	83.3	96.1	26.4	66.4	114.9
LNG	82.0	77.2	142.0	135.2	68.3	33.5	62.3
Rubber products	(52.1)	(50.2)	(45.7)	(45.7)	(46.5)	(42.1)	(44.9)

Source: Macrobond, MIDFR

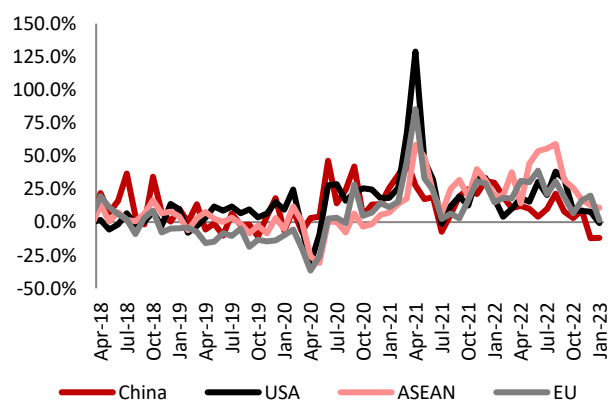
Maintain projection for both exports and imports this year. Despite weaker-than-expected trade figures in Jan-23, we maintain our projection for both exports and imports to expand slower this year at +9.2%yoy and +9.5%yoy, respectively. The moderation in growth will reflect the effect of high base last year, but the positive growth indicates continued rise in external demand for E&E and commodities, particularly petroleum and palm oil. As price effect has been affecting palm oil exports, we foresee the relatively lower oil prices will also affect mining goods exports at least until 1HCY23. Meanwhile, we believe Malaysia, like other trading nations, will benefit from the recovery in external demand from China, which is expected to increase as China reopens its economy after strict lockdowns last year. In addition, trade with FTA countries will also grow boosted by the ratification of RCEP and CPTPP. On the flip side, we keep a cautious view that trade outlook may be weaker than expected, constrained by possible downside risks such as protracted fall in global demand, elevated inflation, and escalation of geo-political tension and trade war.

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



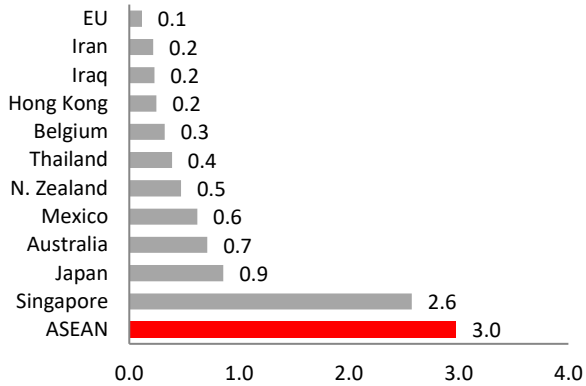
Source: Macrobond, MIDFR

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



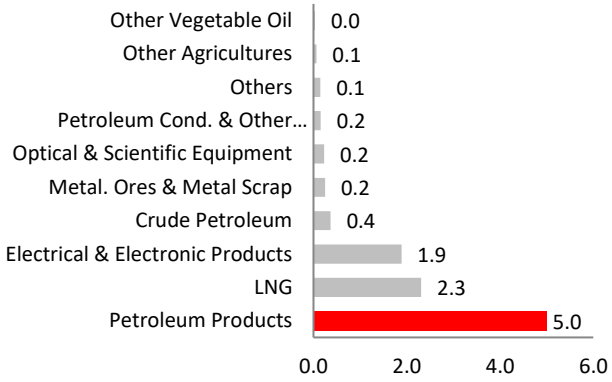
Source: Macrobond, MIDFR

Chart 3: %-point Contribution to Total Exports Growth in Jan-23 by Major Destination



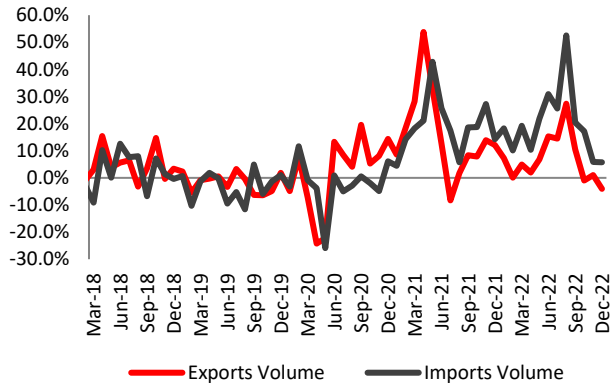
Source: Macrobond, MIDFR

Chart 4: %-point Contribution to Total Exports Growth in Jan-23 by Key Products



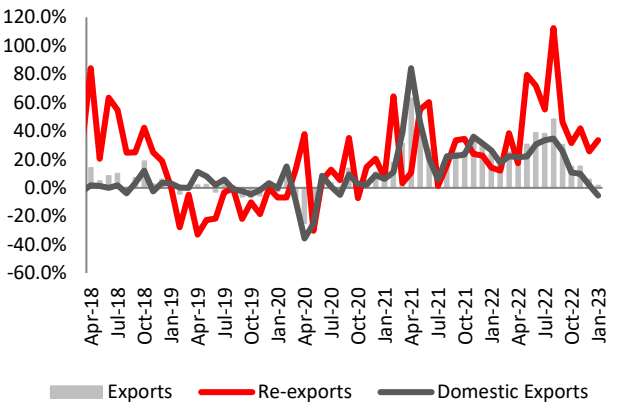
Source: Macrobond, MIDFR

Chart 5: Exports vs Imports Volume (YoY%)



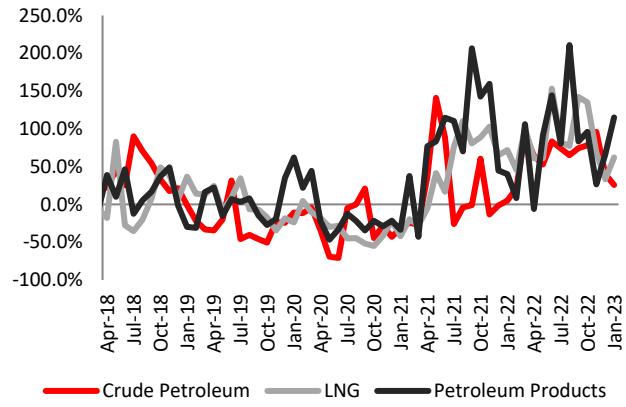
Note: Latest available data as of Dec-22
Source: Macrobond, MIDFR

Chart 6: Exports: Domestic vs Re-exports (YoY%)



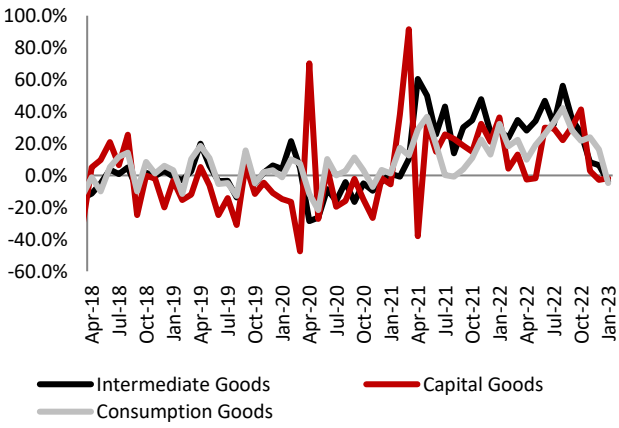
Source: Macrobond, MIDFR

Chart 7: Exports of Mining Goods (YoY%)



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

Chart 8: Imports of Goods by End Use (YoY%)



Source: Macrobond, MIDFR

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