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ECONOMIC REVIEW | January 2023 Distributive Trade

Malaysia's Consumer Demand Remains Resilient

- *Domestic trade still on sturdy pace. Malaysia's distributive trade sales grew by +12.4%yoy in the first month of 2023, marking the 10th straight months of double-digit growth rate. All components except wholesale trade posted strong double-digit expansion. Excluding price effects, seasonally adjusted volume of distributive trade growth hit 9-month low at +5.2%yoy, mainly dragged by contraction of -3.5%yoy in wholesale trade. Motor vehicles and retail trade rose by +10.2%yoy and +13.8%yoy respectively in Jan-23.*
- *Signs of moderation spotted. As compared to previous year, Malaysia's consumers among others were boosted by EPF withdrawals and vehicle sales tax exemption. Henceforth, we expect a moderation in the retail trade growth amid high base effects. Elevated cost of living pressure and higher interest rate levels are among key downside risks to the consumer growth. We notice month-on-month basis retail trade sales decelerated to 11-month low at +0.2%mom while seasonally-adjusted volume fell by -1.9%mom, the largest drop in 3-month.*
- *We keep retail trade growth forecast at +8.9% for 2023. Considering macroeconomic outlook and improving domestic fundamentals, we are optimistic that retail trade growth able to touch +8.9% 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.*

Domestic trade still on sturdy pace. Malaysia's distributive trade sales grew by +12.4%yoy in the first month of 2023, marking the 10th straight months of double-digit growth rate. All components except wholesale trade posted strong double-digit expansion. Sales of motor vehicles increased by +20.1%yoy while wholesale trade inched up by +3.1%yoy, the weakest gain since Oct-21. Reflecting effects of pent-up demand, retail trade sales surged by +21.7%yoy. Excluding price effects, seasonally adjusted volume of distributive trade growth hit 9-month low at +5.2%yoy, mainly dragged by contraction of -3.5%yoy in wholesale trade. Motor vehicles and retail trade rose by +10.2%yoy and +13.8%yoy respectively in Jan-23. Looking ahead, we opine the upbeat momentum of domestic demand to continue in 2023 underpin by steady labour market, softening inflationary pressure, pick-up in tourism activities and supportive economic policies.

Monitoring China's reopening effects. The first month of 2023 saw the international passenger movements registered at 2.8 million, approximately 62.5% of Jan-19 levels. Due to seasonality factor, end of year-end holidays caused contractionary growth in Jan-23. The passenger traffic declined by -2.9%mom, ASEAN tourists down by -9.1%mom whereas non-ASEAN tourists increased by +5.8%mom. We opine this could be partially attributed by China's reopenning. 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 Jan-23, domestic destinations shares rose to 55.6% (2022: 71.7%) while international at 44.4% (2022: 28.1%) whereby 12% were non-ASEAN and 16.1% 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

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international borders reopening by Malaysia. 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)

	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23
Distributive Trade	**130.4**	**133.6**	**134.0**	**133.6**	**134.3**	**137.3**	**135.1**
YoY%	40.7	33.6	24.0	14.9	14.2	13.8	12.4
MoM%	(1.8)	2.5	0.3	(0.3)	0.5	2.3	(1.6)
Motor Vehicles	**14.1**	**16.5**	**16.3**	**15.4**	**16.0**	**17.5**	**15.2**
YoY%	597.7	183.3	51.2	8.9	19.8	20.3	20.1
MoM%	(12.5)	17.0	(1.2)	(5.5)	4.0	9.3	(13.4)
Wholesale Trade	**59.7**	**60.1**	**60.0**	**59.9**	**59.5**	**60.3**	**60.4**
YoY%	20.6	16.0	13.3	7.3	5.6	4.7	3.1
MoM%	(1.4)	0.7	(0.2)	(0.3)	(0.6)	1.4	0.1
Retail Trade	**56.6**	**57.0**	**57.7**	**58.3**	**58.7**	**59.5**	**59.6**
YoY%	37.5	34.5	30.0	26.0	22.8	22.7	21.7
MoM%	0.8	0.7	1.2	1.1	0.7	1.2	0.2

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

Signs of moderation spotted. As compared to previous year, Malaysia's consumers among others were boosted by EPF withdrawals and vehicle sales tax exemption. Henceforth, we expect a moderation in the retail trade growth amid high base effects. Elevated cost of living pressure and higher interest rate levels are among key downside risks to the consumer growth. We notice month-on-month basis retail trade sales decelerated to 11-month low at +0.2%mom while seasonally-adjusted volume fell by -1.9%mom, the largest drop in 3-month. On a flip side, we opine further recovery of labour market, softening inflation rate, pick-up in tourism activities led by China's tourists and supportive economic policies will bolster the household consumption and retail trade spending for this year.

Table 2: Distributive Trade's Detailed Components Performance

	Share % Total DT		MoM%		YoY%	
	Jan-22	Jan-23	Dec-22	Jan-23	Dec-22	Jan-23
Motor Vehicles Sales (MVS)	**10.5**	**11.2**	**9.3**	**(13.4)**	**20.3**	**20.1**
MVS: Motor Vehicle	5.1	5.7	13.8	(23.4)	24.8	25.0
MVS: Motor Vehicle Maint. & Repair	1.6	1.7	4.5	0.4	30.9	16.8
MVS: Motor Vehicle Parts & Accessories	3.0	3.1	3.9	0.3	27.3	15.9
MVS: Motorcycles Maint. & Repair, Parts & Acc.	0.8	0.8	2.7	(3.3)	(29.8)	12.1
Wholesale Sales (WS)	**48.7**	**44.7**	**1.4**	**0.1**	**4.7**	**3.1**
WS: Fee or Contract Basis	0.8	0.8	3.4	(4.1)	15.0	9.5
WS: Agri Raw Meterials & Live Animals	3.9	3.9	7.2	(4.3)	18.2	12.8
WS: Food, Beverages & Tabacco	9.8	9.3	1.1	3.5	6.1	7.6
WS: Household Goods	9.8	9.5	(1.8)	4.4	7.6	8.6

	Share % Total DT		MoM%		YoY%	
	Jan-22	Jan-23	Dec-22	Jan-23	Dec-22	Jan-23
WS: Machinery, Equipment & Supplies	4.1	3.5	2.7	(6.0)	2.7	(4.0)
WS: Others Specialised	19.0	16.4	1.7	(1.3)	(0.3)	(2.8)
WS: Non-Specialised	1.4	1.2	(0.1)	(1.5)	5.9	2.6
Retail Sales (RS)	**40.7**	**44.1**	**1.2**	**0.2**	**22.7**	**21.7**
RS: Non-Specialised Stores	15.2	16.8	2.0	1.4	24.7	24.6
RS: Food, Beverages & Tobacco	2.6	2.7	2.2	2.5	16.0	17.5
RS: Automotive Fuel	3.2	4.1	1.6	0.9	44.4	45.0
RS: Information & Communication Equip	3.9	3.7	0.2	(1.3)	9.8	6.4
RS: Household Equip	5.2	5.2	(0.8)	0.2	12.6	10.9
RS: Cultural & Recreation Goods	2.2	1.9	0.1	(2.1)	3.9	0.4
RS: Others in Specialised Store	7.9	9.1	1.2	(1.7)	30.7	29.1
RS: Stalls & Markets	0.1	0.1	0.7	0.9	17.8	19.8
RS: Not in Stores, Stalls & Markets	0.5	0.5	0.8	(1.6)	11.4	10.9

Source: DOSM; MIDFR

Retail spending in the US remained robust. Consumer spending in the US still on upbeat momentum despite tightening monetary policy and elevated prices pressure. Annual retail trade growth hit 3-month high at +6.4%yoy while monthly basis touched +3%mom, the fastest gain since Mar-21. The uptick trend is in line with consumer confidence level which reflected in The University of Michigan consumer sentiment. We believe the resilience of American job market keep the consumption momentum going. For instance, non-farm payroll increased by 311K in Feb-23 (Market estimates: 225K) and jobless rate at 3.6%, slightly higher than 54-year low registered in Jan-23. Across the globe, retail trade still on contractionary in Eurozone due to geopolitical uncertainty, elevated energy prices and higher interest rate in the region. We foresee strong rebound in China's domestic trade activities in 2023 underpin by the reopening of domestic economy and international borders.

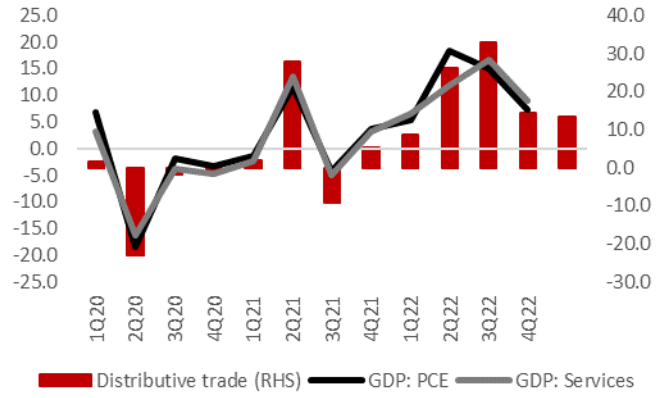
Table 3: Global Retail Sales (YoY%)

	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23
Malaysia	37.5	34.5	30.0	26.0	22.8	22.7	21.7
Indonesia	6.2	4.9	4.6	3.7	1.3	0.7	(0.6)
Singapore	14.3	13.4	11.3	10.7	6.8	7.7	(0.8)
Thailand	18.0	22.3	12.5	(0.6)	4.6	(0.4)	
Vietnam	42.6	50.2	36.1	17.1	17.5	17.1	20.0
Taiwan	18.1	12.0	7.8	2.1	1.8	9.4	4.2
South Korea	(1.9)	2.4	(0.9)	(0.7)	(2.1)	(2.5)	0.7
China	2.7	5.4	2.5	(0.5)	(5.9)	(1.8)	
Japan	2.4	4.1	4.8	4.4	2.5	3.8	6.3
Euro area	(0.7)	(1.3)	0.1	(2.6)	(2.5)	(2.8)	(2.3)
USA	10.0	9.7	8.4	8.0	5.9	5.9	6.4

Source: Macrobond; MIDFR

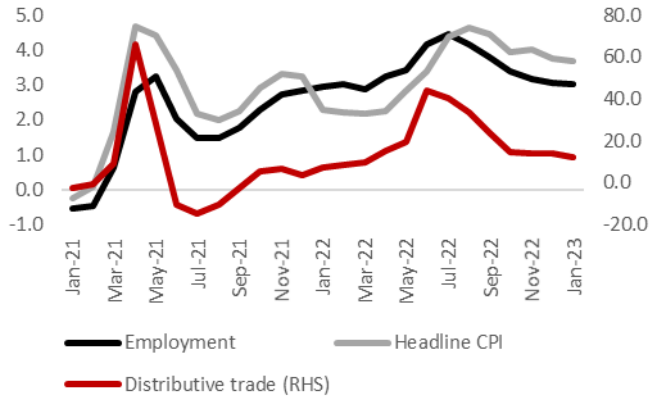
We keep retail trade growth forecast at +8.9% for 2023. Considering macroeconomic outlook and improving domestic fundamentals, we are optimistic that retail trade growth able to touch +8.9% for 2023. We believe the pent-up demand will continue into this year underpinned by improving labour market, stable inflationary pressure, accommodative economic policies and uptick in tourism industry. Even though OPR is closer to normalised rate of 3.00%, we believe it would have minimal effect on domestic spending outlook.

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



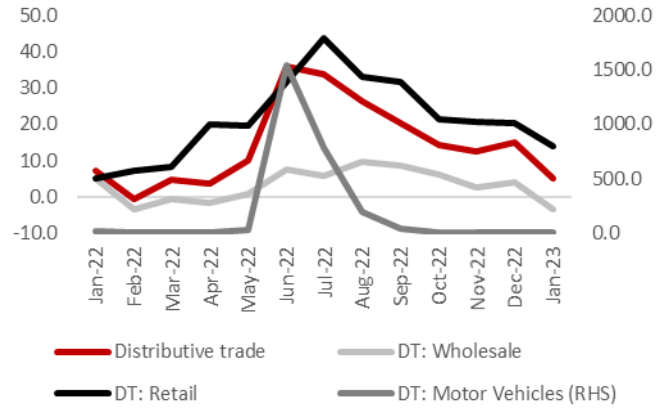
Source: DOSM; MIDFR

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



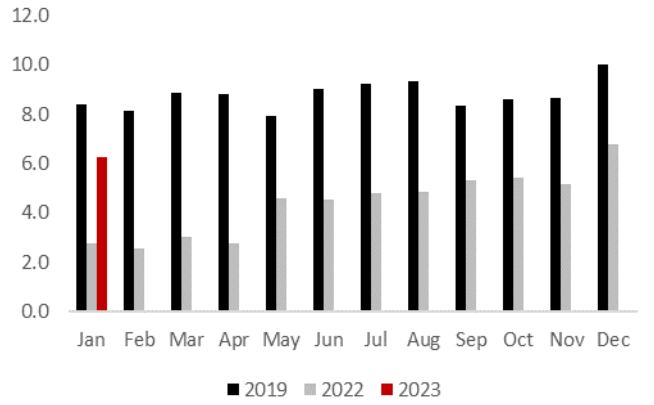
Source: DOSM; MIDFR

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



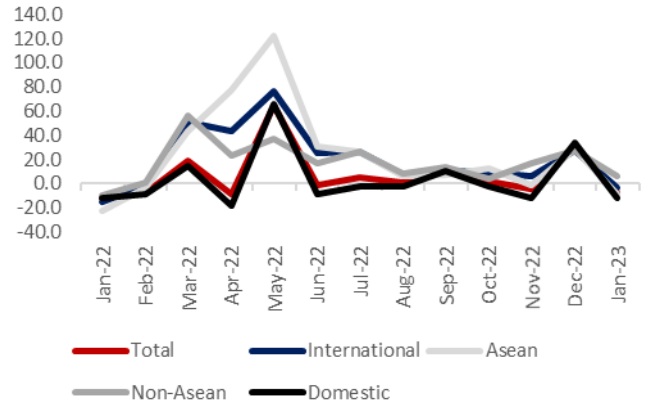
Source: DOSM; MIDFR

Chart 4: Airports Passenger Movements (Million Persons)



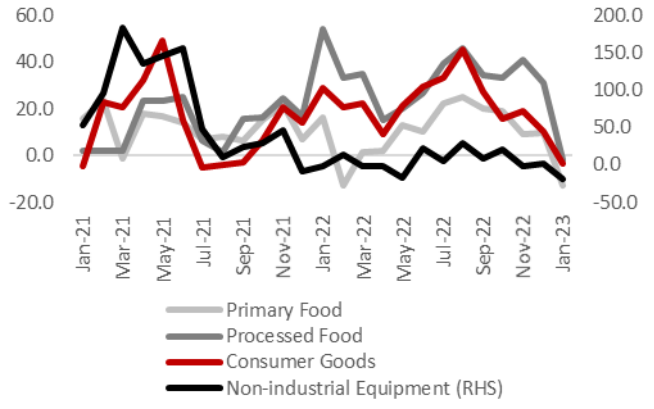
Source: MAHB; MIDFR

Chart 5: Airports Passenger Movements (MoM%)



Source: MAHB; MIDFR

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



Source: DOSM; MIDFR

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