19 April 2023

ECONOMIC REVIEW | March 2023 External Trade

Malaysia's Exports Declined by -1.4%yoy in Mar-23, the First Contraction in 31 Months

- *Total trade dropped -1.6%yoy. Malaysia's total trade recorded -1.8%yoy drop in Mar-23, the first contraction since the post-pandemic recovery in international trade in late 2020.*
- *Exports fell for the first time in 31 months. Malaysia finally recorded -1.4%yoy decline in exports in Mar-22, attributable to lower domestic exports (-4.1%yoy) vs. sustained growth in re-exports (+10.3%yoy).*
- *Reduced shipments to China and regional countries. By destination, weaker exports were recorded to China (-6.2%yoy), Japan (-6%yoy), and ASEAN (-3.4%yoy).*
- *Decline in E&E exports. Exports of manufactured goods fell by -0.4%yoy, dragged down by lower E&E exports (-4.4%yoy), but partly cushioned by higher exports of petroleum products (+32.1%yoy).*
- *Revise down our 2023 growth forecast for exports to +6.2% and imports to +6.4%. Taking into account much higher base effect and lower-than-expected 1QCY23 performance, we revise down our projection for exports and imports. We now predict exports to grow at +6.2% and imports to grow at +6.4% in 2023.*

Total trade dropped -1.6%yoy. Malaysia's total trade recorded -1.8%yoy drop in Mar-23, the first contraction since the post-pandemic recovery in international trade in late 2020. Nevertheless, the monthly trade value jumped +13.5%mom after 6 straight months on a decline and remained above RM200b since Mar-22. The monthly increase was attributable to both higher exports (+15.5%mom) and imports (+11.1%mom). Given the larger rise in exports, the monthly trade surplus widened to RM26.7b (Feb-23: RM19.6b), only +0.2%yoy higher than March last year. For the first 3 months of 2023, the surplus shrank to RM64.4b, -5.2%qoq smaller than 4QCY22 and -0.9%yoy less than 1QCY22. The lower surplus was mainly due to relatively higher import growth.

Exports fell for the first time in 31 months. Malaysia finally recorded -1.4%yoy decline in exports in Mar-22 (Feb-23: +9.8%yoy), the first contraction in 31 months. The decline was slightly sharper than ours and market consensus as we predict the high base effect and limited upside support from China's economic recovery will translate into weak year-on-year growth. The decline was also attributable to lower domestic exports (-4.1%yoy), in contrast to sustained growth in re-exports (+10.3%yoy). The weak exports was also explained by the -4.4%yoy decline in E&E exports (share: 39% of total exports) after 20 straight months of expansion, on top of the continued fall in palm oil & palm-oil based products (-14.4%yoy) and rubber products (-29.5%yoy). The drop in exports of these commodities more than offset the sustained rise in exports of (refined) petroleum products (+32.1%yoy) and LNG (+11.4%yoy). Relative to Feb-23, exports actually rose sequentially by +15.5%mom, mainly driven by higher shipments of E&E, palm oil & palm oil products, machinery & equipment as well as opticial & scientific equipment. We opine the lower commodity prices contributed to the high-base effect, with Brent crude oil and CPO prices hovering - USD79.21pb (Mar-22: USD112.46pb) and RM4,061/tonne (Mar-22: RM6,814/tonne), which were -29.6%yoy and -40.4%, respectively, lower than last year. We foresee the relatively

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lower commodity prices will likely influence trade performance in the next few months before the effect diminishes in 2HCY23.

Table 1: Malaysia's External Trade Summary

	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
Exports (RMb)	144.3	131.6	129.7	131.8	112.7	112.3	129.7
% YoY	30.1	14.9	15.1	5.9	1.4	9.8	(1.4)
% MoM	2.1	(8.8)	(1.5)	1.6	(14.5)	(0.3)	15.5
Imports (RMb)	112.4	113.5	107.9	103.6	94.5	92.7	103.0
% YoY	32.8	29.1	15.6	11.5	2.2	12.4	(1.8)
% MoM	(9.5)	1.0	(4.9)	(4.0)	(8.8)	(1.9)	11.1
Total Trade (RMb)	256.7	245.1	237.6	235.4	207.2	205.0	232.7
% YoY	31.3	21.1	15.3	8.3	1.8	11.0	(1.6)
% MoM	(3.3)	(4.5)	(3.1)	(0.9)	(12.0)	(1.1)	13.5
Trade Balance (RMb)	31.8	18.1	21.8	28.1	18.1	19.6	26.7
Import Components							
Intermediate (RMb)	58.6	60.7	59.3	54.4	48.4	48.8	53.8
% YoY	35.1	26.4	8.2	6.4	(4.2)	2.9	(8.7)
Capital (RMb)	11.8	11.7	9.8	9.9	9.7	7.9	9.8
% YoY	30.5	41.2	2.9	(2.9)	(1.9)	(0.3)	3.5
Consumption (RMb)	8.8	8.5	9.5	9.3	8.2	7.0	9.3
% YoY	28.2	21.6	23.9	16.2	(4.8)	1.0	6.2

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

Relatively faster fall -1.8%yoy in imports… The higher base effect also translated into relatively sharper fall of -1.8%yoy in imports (Feb-23: +12.4%yoy), in contrast to the monthly rebound of +15.5%mom from the previous month. By product, the lower imports was due to reduced purchases of among others crude petroleum (-36.4%yoy), chemicals & chemical products (-9.4%yoy), and palm oil & palm products (-47%yoy). This more than offset the increased imports of petroleum products (+21.8%yoy) and transport equipment (+39.5%yoy). Again, we view the sharp fall in imports of resource-based products was also due to the effect of lower commodity prices. By end-use, the downward drag to overall imports was mainly from decreased imports of intermediate goods (-8.7%yoy) vis-à-vis stronger purchases of capital (+9.8%yoy) and consumption (+9.3%yoy) goods.

…and price effect will constrain import growth. Similar to exports, we opine that the relatively lower commodity prices could dampen imports growth in the current quarter, and this would add into the reduced cost pressures as shown in downward trend in PPI and the declines in import prices. For example, in Feb-23, the unit value for imports of crude materials dropped by -1.1%yoy, marking the first decline since Sep-20; while the unit value for imports of animal and vegetables oils declined by -6.3%yoy, the second consecutive month of contraction. This translates into slower rise of +4.6%yoy in overall import unit value in Feb-23, the slowest

inflation since Jun-21. In contrast, import volume rebounded in Feb-23 to +7.7%yoy from the -2.8% decline in Jan-23, which was the first decline in more than 2 years.

Reduced shipments to China and regional countries. By destination, weaker exports were recorded to China (-6.2%yoy), which was the fourth month of decline; Japan (-6%yoy); and ASEAN (-3.4%yoy). The lower exports to China was mainly due to reduced E&E exports, while to Japan the drag was from reduced exports of manufactures of metal and wood products. Meanwhile, despite the strong exports of petroleum products, decrease in exports of E&E and petroleum condensates & other petroleum oil contributed to the reduced demand from neighboring ASEAN countries. Exports to the EU countries weakened further, falling sharper by -5.3%yoy, mainly due to reduced shipments of E&E and rubber products. In contrast, Malaysia's exports to the US continued to grow at +7.5%yoy largely driven by the strong E&E exports, while exports to Australia strengthened further on the back of increased shipments of crude and processed petroleum products.

Table 2: Malaysia's Exports (YoY%)

	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
Total Exports (RMb)	**144.3**	**131.6**	**129.7**	**131.8**	**112.7**	**112.3**	**129.7**
Re-exports (RMb)	**33.8**	**30.4**	**26.2**	**26.6**	**26.6**	**24.8**	**27.2**
Domestic Exports (RMb)	**110.4**	**101.2**	**103.5**	**105.2**	**86.0**	**87.4**	**102.5**
Exports by Key Country / Region							
China	8.0	3.2	9.0	(12.1)	(11.9)	(6.0)	(6.2)
USA	32.5	8.8	8.4	7.8	(0.7)	18.7	7.5
Japan	74.6	27.1	31.6	13.7	13.2	8.3	(6.0)
India	5.7	(9.8)	(2.2)	(8.4)	(30.7)	(9.8)	0.9
Hong Kong	30.4	18.5	26.0	(3.6)	4.0	25.1	9.5
Australia	120.1	37.0	59.1	28.4	27.8	20.0	37.2
EU	19.0	6.9	16.3	20.1	1.4	(2.2)	(5.3)
ASEAN	31.5	25.9	16.9	12.7	10.7	14.8	(3.4)
Singapore	29.1	27.6	36.3	23.1	19.0	27.7	3.1
Thailand	4.6	21.6	23.3	3.4	8.3	6.5	(3.7)
Indonesia	53.3	28.7	9.9	1.6	(1.8)	13.3	17.9
Vietnam	65.8	18.5	(25.2)	3.3	(7.9)	(32.3)	(29.4)
Philippines	21.1	15.5	(2.1)	(7.2)	1.6	32.5	(18.3)

Source: Macrobond, MIDFR

Decline in E&E exports. By sector, exports of manufactured goods fell by -0.4%yoy, dragged down by lower E&E exports (-4.4%yoy), the first contraction in 20 months. More than 90% of the decline was due to weaker exports of semiconductor, which accounted nearly two-thirds of 65.7% of total E&E exports in Mar-23. The small decline in manufacturing exports was partly cushioned by the continued rise in petroleum products exports (+32.1%yoy) due to strong demand from countries such as Australia, Singapore, and Indonesia. Greater access and promotion also saw higher shipments of petroleum products to markets such as Nigeria, Belgium, Arigentina and Mozambique. While we are monitoring closely the impact of weak global manufacturing activity on Malaysia's

manufacturing exports, we foresee continued growth would come from increased exports of refined petroleum products.

Lower commodity prices affect crude oil exports... As explained above, we opine the lower crude oil prices translated into lower exports of crude petroleum (-4.8%yoy), dragging the overall exports of mining goods to -3.5%yoy lower than last year. LNG, on the hand, recorded 23th month of growth at +11.4%yoy, backed by increased demand from Japan, China and Thailand.

...as well as palm oil and rubber exports. Continued decline in agricultural goods exports (-10.8%yoy) was linked to the further drops in exports palm oil (-14.4%yoy) and natural rubber (-26.9%yoy). On the back of the lower rubber prices and reduced demand, exports of rubber products declined further by -29.5%yoy for the 19th consecutive month since Sep-21. The detailed statistics of palm oil exports shows the major contributor to the decline was due to smaller shipments to Iran, China, Netherlands, Philippines, Pakistan and Egypt. The weakness would persist for now given the current price levels remaining below last year.

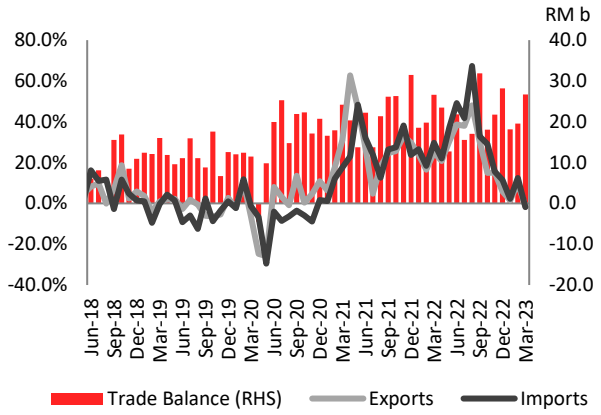
Table 3: Malaysia's Exports by Major Products (YoY%)

	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
E&E	39.8	19.0	30.9	4.8	4.9	11.8	(4.4)
Machinery, Equipment & Parts	28.9	1.8	2.7	10.1	(12.5)	5.0	11.1
Optical & Scientific Equipment	32.2	13.7	18.1	11.0	3.6	6.6	12.7
Palm oil & palm oil-based products	9.7	(5.0)	(12.1)	(6.2)	(22.7)	(14.9)	(14.4)
Crude Petroleum	74.3	78.4	95.8	40.0	25.9	50.6	(4.8)
Petroleum Products	83.3	96.1	26.4	66.4	114.9	86.3	45.8
LNG	142.0	135.2	68.3	33.5	62.3	32.9	11.4
Rubber products	(45.7)	(45.7)	(46.5)	(42.1)	(44.9)	(35.5)	(29.5)

Source: Macrobond, MIDFR

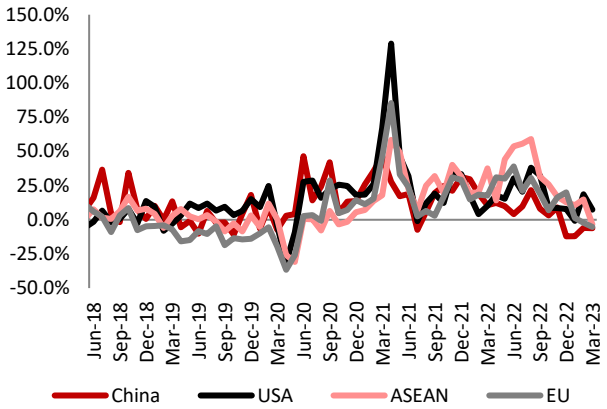
Revise down our 2023 growth forecast for exports to +6.2% and imports to +6.4%. Taking into account much higher base effect and lower-than-expected 1QCY23 performance, we revise down our projection for exports and imports. We predict exports growth to moderate to +6.2% (previous forecast: +9.2%; 2022: +25%) and imports to grow at +6.4% (previous forecast: +9.5%; 2022: +31.3%). The downward revision in exports reflects our assumption that the anticipated boost from China's economic reopening will be delayed, but we still expect recovering demand from China to positively impact Malaysia's trade later this year. In general, we maintain a cautiously optimistic view that trade will continue to grow but the outlook can be constrained by elevated inflation, higher borrowing costs, and factors affecting supply (such as geo-political tension or trade disruptions) that will result in even weaker global demand. Meanwhile, the positive growth in imports indicates increased purchases of foreign goods on the back of rising domestic spending and investment activities.

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



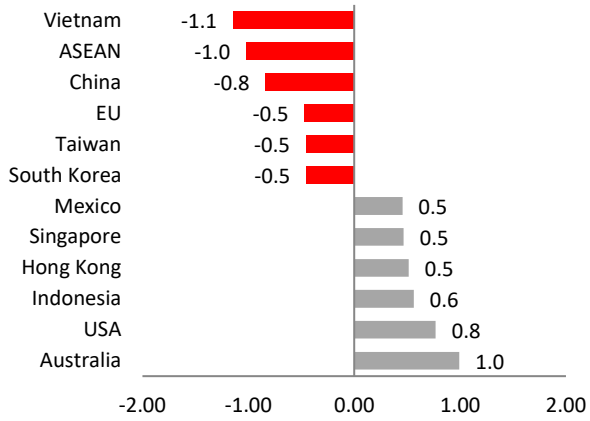
Source: Macrobond, MIDFR

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



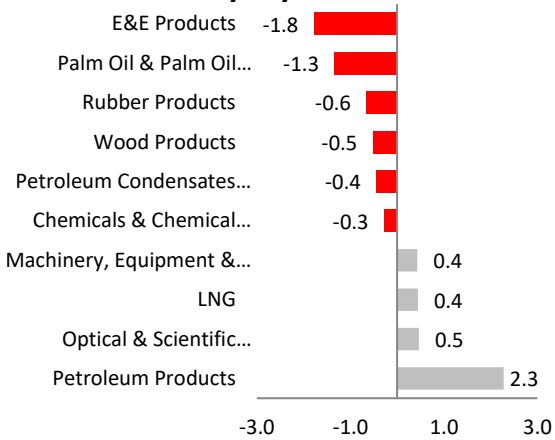
Source: Macrobond, MIDFR

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



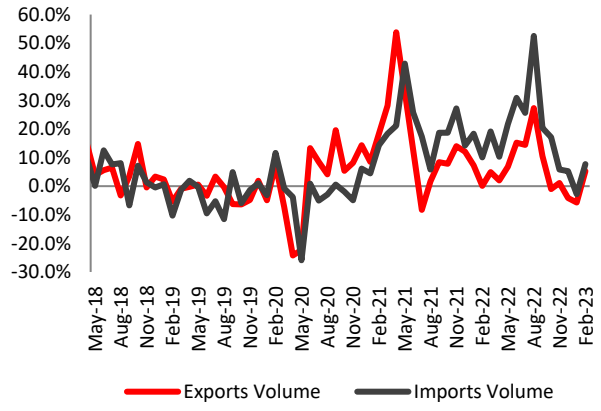
Source: Macrobond, MIDFR

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



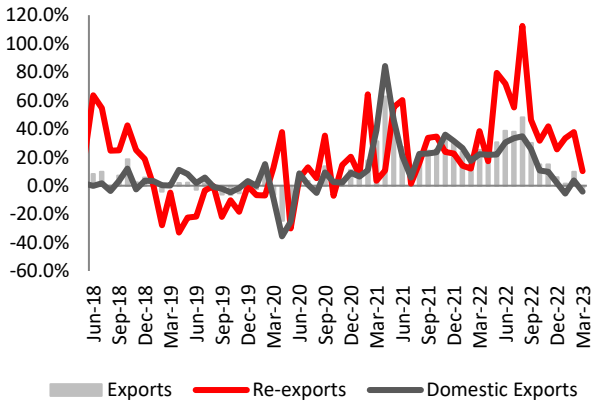
Source: Macrobond, MIDFR

Chart 5: Exports vs Imports Volume (YoY%)



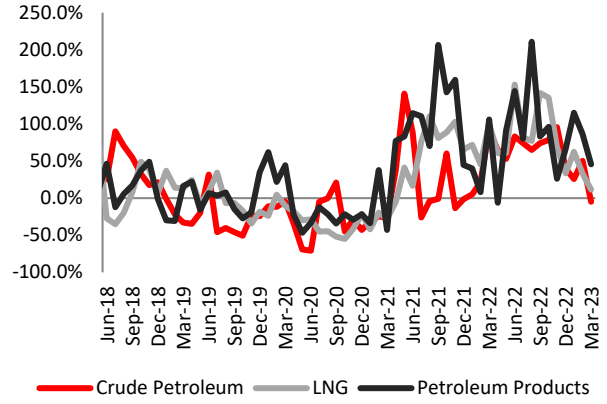
Note: Latest available data as of Feb-23
Source: Macrobond, MIDFR

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



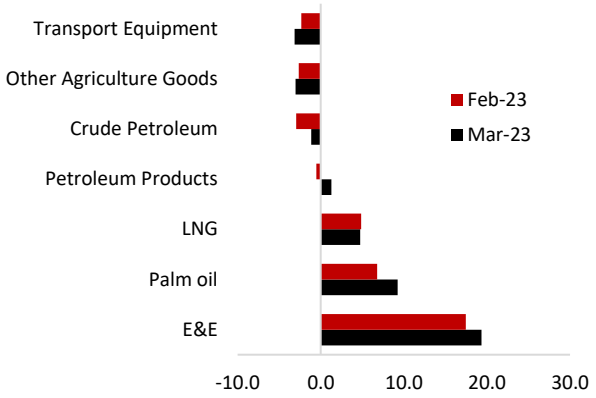
Source: Macrobond, MIDFR

Chart 7: Exports of Mining Goods (YoY%)



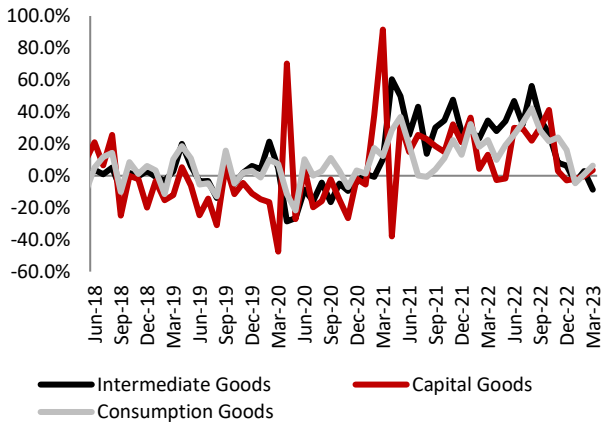
Source: Macrobond, MIDFR

Chart 8: Trade Balance for Selected Products (RM b)



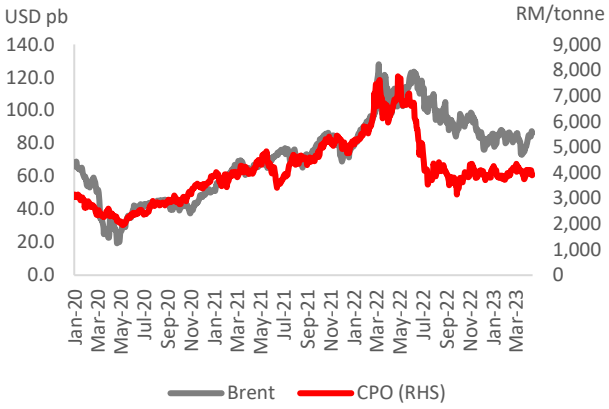
Source: Macrobond, MIDFR

Chart 9: Imports of Goods by End Use (YoY%)



Source: Macrobond, MIDFR

Chart 10: Price of Brent Crude Oil and CPO



Source: Bloomberg, MIDFR

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